



November 16, 2017

President Anan Abu-Tabab and  
Members of the Village Board of Trustees  
Village of Oak Park<sup>1</sup>  
123 Madison St.  
Oak Park, IL 60302

SUBJ: PURCHASE PRICE OF VILLAGE OWNED PARCEL AT 932-946 MADISON STREET, OAK PARK, IL

Dear Pres. Abu-Tabab and Members of the Village Board of Trustees,

With this letter, Lexington Homes is offering \$965,000 for the referenced property, upon which Lexington is proposed to construct 21 new townhomes. This is down from our initial offer of \$1,050,000 for a number of reasons. I had outlined those reasons in detail in an earlier email to staff, but inadvertently forgot to include them in this letter. Below is a summary of the reasons why Lexington has reduced its offering price for the referenced property. I will be in attendance at the Board meeting for which this matter is scheduled to discuss it in detail, and answer any questions you may have. The offer will be subject to all of the conditions outlined in a separate Redevelopment Agreement, which was prepared by the Village Attorney, and which will be signed by both Lexington Homes and the Village of Oak Park, if you so vote.

Here are the reasons behind our reduction:

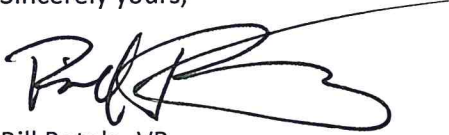
1. Vertical cost of construction rose from bid prices averaging \$222,336, to \$248,806, or \$26,470, which is 11.9%. Increase due to 3 factors:
  - a. Lumber cost increase beyond control of builders, caused by increase in tariff amounts imposed on Canadian lumber by US government. This cost increases average over 20% and are not negotiable.
  - b. The increased cost of enhanced exterior elevations to incorporate contemporary design details strongly suggested by Village officials and their architectural consultant.
  - c. An inflation factor over the life of the project, using the past 24 months as a baseline.
2. Permit fees were initially estimated at \$3,000, but actually came in at an average of \$8,057. When we do our initial estimates, we simply use recent examples from other communities. At this point in our estimation of costs, we do not even begin our detailed due diligence on fees, and don't usually do that until our architecture is far along, otherwise we end up doing the same research multiple times. We simply can't afford that time with our limited resources.
3. The cost of the end units ultimately came in at @ \$15,000 higher than initially estimated due to significantly increased details on the ends of the buildings, which were deemed too plain by reviewing authorities.

Without some relief from the Village fees, our profit margin is calculated to fall below 25%. That is the threshold number for Lexington, below which we will not consider moving forward on a project. Typically, we target a minimum of a 30% gross margin. Margin, by the way, does not mean profit. Out of the margin covers all of our costs, which include: indirect costs, sales and marketing expenses, administrative overhead (salaries/benefits, etc), corporate overhead, model area costs,

and bank fees and interest. These total just under 20%, 19.66% to be more precise. So, with a 25% margin, we end up with a profit of slightly over 5%. For a project that will generate a total value of over \$10 million, Lexington simply will not lay out that amount of capital unless the returns approach that 5% threshold. Without the land price reduction \$84,500, our profit margin slips down to 4.6%. The deal just starts to look very thin.

I hope this sufficiently explains Lexington's rationale for the land price reduction. We remain very excited about the prospect of joining the community of developers working towards enhancing the already high quality community that is the Village of Oak Park.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Bill Rotolo', with a long, sweeping horizontal line extending to the right.

Bill Rotolo, VP  
Lexington Homes