



Project Facts & Team

Project Location

141 East 4th Street,
St. Paul, MN 55101

Project type

Residential & Commercial

Site size

380,000 Square Feet

Website

www.pioneerendicott.com

Development Team

RCTG Development, LLC.
Comprised of:

Richard Pakonen - Owner /
Developer

Clinton Blaiser - Owner /
Property Manager

Tim Prinsen - Broker

George Zeller - Broker

Architects

Pioneer: Solon Spencer
Beman

Endicott: Cass Gilbert

Remodel: Pope Architects

Construction Manager

Crowe Construction
Management

Historic Consultant

Amy Lucas - Landscape
Research, LLC.

*Some preserve history. Others make it.
AT PIONEER ENDICOTT, WE'RE DOING BOTH.*

Project Summary

The Pioneer Endicott is a residential and commercial mixed cultural landmark of the St. Paul Skyline. The project has been redeveloped on a 380,000-square-foot lot of three buildings. The 16-story Pioneer building and the two Endicott buildings were bought in 2011 and restoration began in July 2012. Historic renovation and restoration continued over the course of two years, with the building opening in 2014. The buildings were converted from office use to 234 market-rate luxury rental units and more than 30,000 square feet of commercial space on both the first and second levels. The project incorporated retail wine and spirits, a locally owned chocolate shop, the Project Space gallery for the Minnesota Museum of American Art and will eventually house the Minnesota Museum of American Art completed gallery which will be the anchor for the Pioneer Endicott. Future plans for the commercial space include development into a brew-house bar leased by 12welve Eyes Brewing, as well as a restaurant that is currently negotiating lease terms.





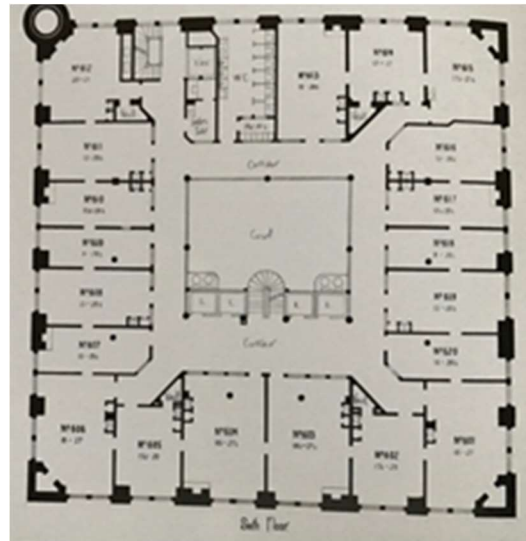
Pioneer-Endicott History

The Pioneer-Endicott is technically three buildings that have been merged to become one overall redevelopment project. In 1988, St. Paul businessmen and the Pioneer Press executives formed a company with \$400,000 in capital to erect a new office building for the newspaper. They purchased the site at the northeast corner of Fourth Street and Robert Street in St. Paul for \$156,000. The original 12-story Pioneer Press building was designed by Chicago architect, Solon Beman, in the Victorian style and it would be the tallest office building in the Twin Cities and the highest west of Chicago. Grand opening of the new Pioneer Press Building was November 1889. Over 40,000 people attended the reception – the largest popular gathering ever assembled in the history of the State of Minnesota. It was touted as “the greatest newspaper building mother earth carries.” The full height atrium (or rotunda) at the heart of the building became one of St. Paul’s great architectural spectacles, and is now among the last of its era in the United States.

Boston brothers William and Henry Endicott purchased the two prime pieces of downtown property next to the Pioneer building for \$485,000. The Endicott complex was designed by the famous St. Paul architect, Cass Gilbert, in Renaissance

Revival, and was the earliest commercial building of the Revival style in St. Paul. The building received a lot of publicity because it was very advanced for its time. It was completed in June of 1890 and in 1895 Cass Gilbert won a competition to design the new Minnesota State Capitol. The Endicott Building is a six-story building that wraps the Pioneer Building. It was originally separated from the Pioneer Building by narrow alleys.

By 1891 the rental space provided quarters for more than 20 attorneys, 17 real estate dealers, 10 insurance agencies, three investment firms and two banks (the newspaper’s offices occupied the remaining three spaces).



In 1904, a tornado with 180-mile-per-hour winds damaged the Pioneer Press and Endicott buildings. Watson P. Davidson, a St. Paul real estate businessman, would purchase the Pioneer Press Building when the Pioneer Press got acquired by the St. Paul Dispatch. In 1910, four more floors were added to the Pioneer Press building raising it to its current height of 16 floors and in 1911, one story was added, extending the Endicott Building. There were several businesses that operated

out of the Pioneer Building, such as a commercial radio station and Economic Laboratories, which was founded there in 1923 (later the company would change its name to become Ecolab, Inc.). In 1941, the Davidson family purchased the Endicott complex.



In 1967, the first downtown skyway bridge was completed across Fourth Street between Pioneer-Endicott and the Federal Courts Building. The second floor of Pioneer-Endicott was altered to accommodate the new skyway. In the same year, the Jackson Street Parking Ramp was added to the Pioneer-Endicott complex.

On July 10, 1974, the Pioneer and Endicott became the first commercial buildings in St. Paul to be listed on the National Register of Historic Places.

In 1979, the Davidsons sold the Pioneer-Endicott to a group of investors from St. Paul and later was acquired by First National Bank of St. Paul in 1981 to provide office space for its computer operations. In 1983, a major \$9 million renovation of the Pioneer-Endicott and Jackson Street Ramp was completed by the original construction

company that built the Pioneer in 1888-1889, George Grant Construction Company. This renovation included extensive interior remodeling and restoration of the Pioneer Building's original entry on Robert Street.

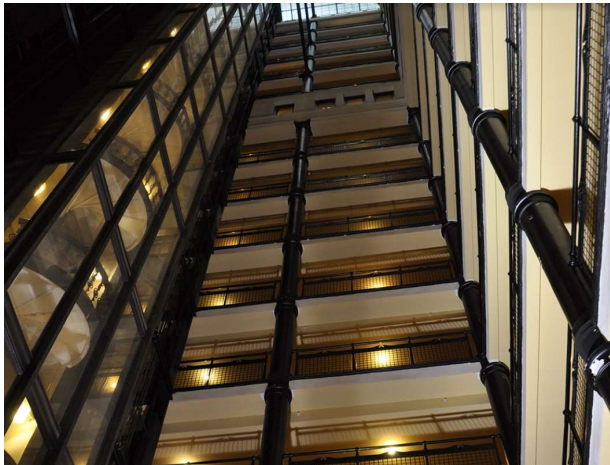
First National Bank's successor, U.S. Bank, moved out of the Pioneer-Endicott leaving the complex with few tenants. New owners acquired the complex in 2007, but the building became vacant in 2008. In 2009 these owners made repairs to the buildings and tore down some chimneys without obtaining approval from the St. Paul Heritage Preservation Commission. In 2011, the buildings were still vacant.

In 2011, St. Paul developers Rich Pakonen, Clint Blaiser, Tim Prinsen and George Zeller (operating as RCTG Development, LLC) along with their investor / lender partners PNC Bank, The Private Bank, Bridgewater Bank, Enhanced Credit Partners and Sunrise Bank purchased the Pioneer-Endicott complex for \$1.1 million and the adjoining Jackson Street Ramp for \$1.5 million.



Development Team

The development team on the Pioneer Endicott is made up of four individuals, who are well seasoned in real estate development and investment, and the primary project sponsors. Together these four developers formed RCTG Development, LLC--the ownership entity of the Pioneer Endicott. These four developers hired out the services from a number of other contractors, attorneys, accountants, and consultants. A brief discussion of the four developers, as well as a few of the key consulting firms are summarized below.



Rich Pakonen, is the primary owner and developer on the Pioneer Endicott. Rich is the founder of PAK Properties, a St. Paul-based real estate investment and development company. Rich started his company after graduating from St. Olaf College in 1990 and earning an MBA from the University of Minnesota in 1993. He began his career in real estate working as the Administrator of a skilled nursing facility. Rich then moved into investment and development of various types of housing, including for-sale condominiums, market-rate and low-income apartments, and assisted living facilities. Rich has also completed rehabilitations of four historic buildings in the St. Paul market.

Clint Blaiser is the second largest shareholder in RCTG Development, LLC. Clint started his career in real estate at the age of 15, during high school, working maintenance and caretaking at a 50-unit apartment building. After college, he began work with a local property management group as an Asset Manager. In 1992, he founded Halvorson and Blaiser Group, Ltd., a property management and real estate investing company. Initially focusing on a turning around inner-city apartment buildings, the firm now manages of 2,000 apartments in the Twin Cities area. Clint began investing with Rich Pakonen in 2000, and two own a separate property management firm together called RC Enterprises, LLC.

Tim Prinson and George Zeller are the final two developers that make up RCTG Development, LLC team. Tim is a Senior Vice President and commercial real estate broker for Colliers International. He has over 20 years of experience in commercial brokerage and investment. George Zeller is a commercial loan broker and a managing member of the mortgage banking group with Colliers International. George has more than 17 years of real estate and finance experience in the placement of commercial real estate debt and equity.

These four individuals are the Pioneer Endicott's sponsor principals, and form RCTG Development, LLC, the ownership entity.

Their ownership interests are as follows:

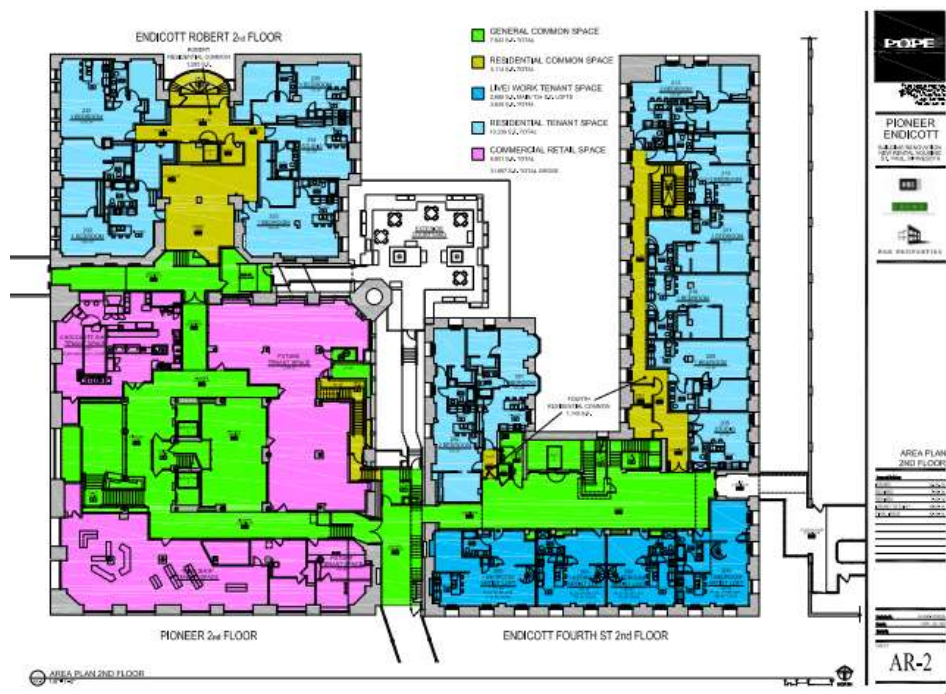
Rich Pakonen: 45%
Clint Blaiser: 25%
Tim Prinson: 15%
George Zeller: 15%

The development team enlisted the assistance of many firms to complete the rehabilitation of the Pioneer Endicott, however, three firms were key to the project's overall success. The first to note is the architecture firm for the project: Pope Architects. Pope Architects is a locally based, Minnesota firm, with a staff of more than 70 highly skilled designers and architects. The company was founded in 1974 by the father-son team of Bob and Jon Pope. During design of the Pioneer Endicott, Pope Architects paid careful attention to the historical features of the buildings, specifically the decorative plaster ceilings and Italian marble floors. Designing modern luxury apartments inside former office buildings more than 100 years old was no easy task, but Rich Pakonen notes that the firm performed spectacularly. Pope Architects provided feasibility studies, architecture designs, and interior layouts on the project.

Secondly, the construction management company on the Pioneer Endicott was Crowe Construction Management. The local construction management firm was established in 1859,

and works with projects as small as commercial tenant build-outs to projects as large as ground-up new construction. The property has previous experience working with PAK Properties, and has also worked on a number of other historic rehabilitation projects.

Finally, a third key player in the development consulting team was Landscape Research, LLC. This firm focuses on cultural resource preservation and is based in St. Paul. The firm is comprised of three principals, one of which is Amy Lucas, who worked extensively with RCTG Development on the Pioneer Endicott project. Ms. Lucas has been a cultural resource consultant since 2006, focusing on National Register nominations, federal historic tax credit certification, and preservation plans. Prior to Landscape Research LLC, she was a City Planner to the Heritage Preservation Commission for the City of Minneapolis. Landscape Research was instrumental in guiding the development team through the rigorous federal historic tax credit design, certification, and approval process.



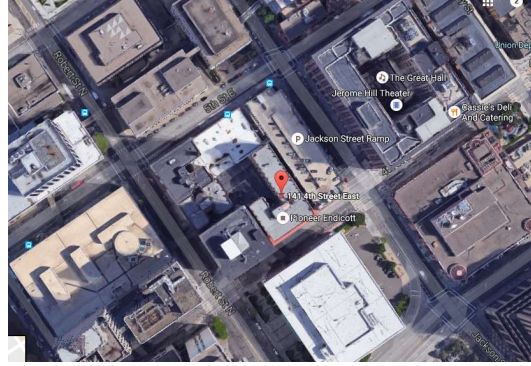
Site Plan - Floor 2

Developer's Vision

In 2010, the four developers were given the opportunity to acquire the Pioneer-Endicott buildings. It was a difficult time for purchasing any property for redevelopment. The properties had an interesting history but the rough economic situation combined with downtown St. Paul's reputation as being less than vibrant made it difficult to foresee a successful future for the empty, distressed and unheated buildings. The development team decided to bet on this redevelopment project because of the amazing building complex and it being surrounded by a strong community of dedicated leaders, elected officials, business organizations, and residents. To quote Rich Pakonen, "the odds were in their favor".

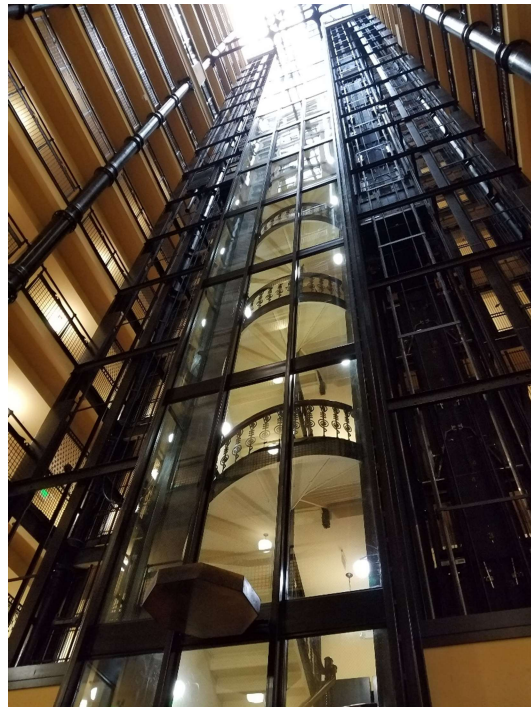
The high level goal of the project was to build top notch housing that would be able to survive the downturn, and preserve the original construction while simultaneously installing the amenities of a brand-new building with high-quality renovation. And it was clear when talking with Rich - they had a passion and still do to build the best, love the city of St. Paul, and have had great partners throughout the project.

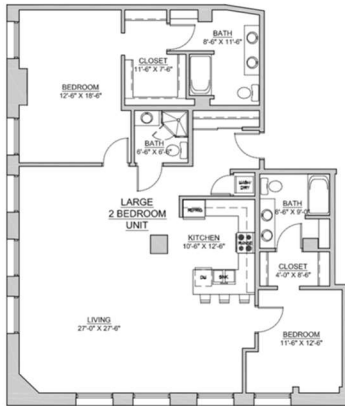
Since its grand opening in 1889, the Pioneer Endicott has been a cultural landmark of the St. Paul skyline. It has survived fires, tornadoes and several periods of urban renewal. For decades, the city's newsmakers and tastemakers called the location home, making it the business heart of St. Paul. Times may change but history doesn't. That's why the owners are committed to ensuring that the Pioneer Endicott not only remains an important part of St. Paul's past, but is also the driving heartbeat of its future.



Project Description and Site Plan

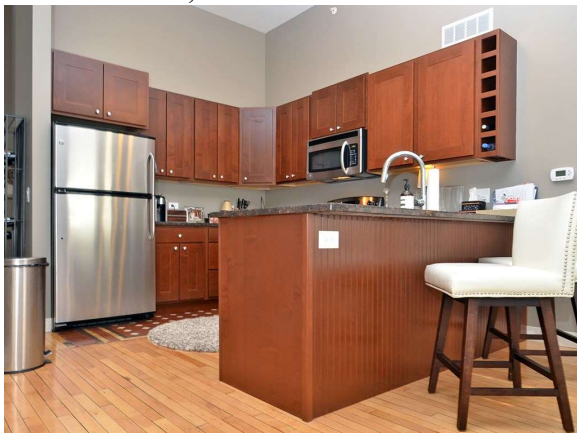
The Pioneer-Endicott houses 234 luxury rental apartments. There is also 30,000 square feet of commercial space on the first and second floors occupied by a chocolate shop, wine seller, and the Minnesota Museum of American Art. The developers wanted to get retail tenants that are more of an amenity to the building and the project paid for the build-outs of the chocolate shop and the liquor store. Today the buildings share mechanical systems and a modern second floor skyway which runs through the buildings.





UNITS 1120, 1220,
1320, 1420, 1520,
1620
± 1,623 SF

Apartments. Located on floors three through the 16th floor, the Pioneer Endicott houses 234 market-rate rentals; studios, 1-bedroom, and 2-bedroom. The floor plans range from studio apartments as small as 366 square feet to 1,700-square-foot units with two bedrooms, two baths and a den. The initial rental was \$865 to \$3,200 per month featuring modern kitchens and baths along with high ceilings, large windows and wood floors that were original building features. Much of the rental market was directed at professionals in their 20s and 30s. Pakonen stated, "about 25 percent of the units were intentionally built as two-bedrooms because they thought there would be a market for the baby boomer demographic - focusing on women, age 55." There are 86 one-bedroom units, 83 two-bedroom units, 57 studios and 8 artist lofts.



The amenities are extensive. There is a fitness center on the main level with state-of-the-art equipment and it was built up so residents would still have a view, but high enough so they wouldn't be 'on display' as they work out.



Legacy Chocolates. With their mantra being a chocolate renaissance, Legacy Chocolates is locally owned by passionate producers and purveyors of chocolate dedicated to restoring the fine craft of real chocolate. They are committed to the production of fresh, handmade, nutritious, high quality chocolate at affordable prices. Our intent is to have everyone know about, and fall in love with the earth's most perfect food - REAL chocolate. They designed the St. Paul store in a fashion that enables customers and passersby to view all the products from being made from start to finish – including all beverages, baking, and chocolate. Legacy Chocolates is located on the second floor of the Pioneer Endicott and has been leasing about 2,000 square feet since December 2014.



Revival Wine, Beer and Spirits. The liquor store which occupies about 2,200 square feet also on the second floor, opened in May of 2014. The name of the liquor store ‘Revival’ was named after the building’s architectural style, Romanesque Revival, and touts the message - ‘where wine meets art’. The store is heavy on craft beers and the continued emerging artisan distillery world.

Minnesota Museum of American Art. The Minnesota Museum of American Art is one of the oldest visual arts organizations in Minnesota, with roots going back to the 19th century. It was founded in 1894 as the St. Paul School of Fine Arts and in 1927 began collecting works of art for instructional purposes. In the 1950s the Museum started a robust program of exhibitions. It was renamed the Minnesota Museum of Art in 1969 and became a leading presence in the on the Twin Cities art scene. In 1992 the Museum added “American” to its name to reflect its increasing focus on national and regional art. The Museum moved to the Pioneer Endicott in 2012 and occupies the first floor. They currently occupy a smaller space and when enough money is raised to build out the rest of the museum it will

occupy approximately 22,000. As their innovative programming and connections with new audiences continue to grow, they thought it was time to change to a friendly acronym that captures the dynamism and future plans: “The M” which stands for Museum and Minnesota. Museum-goers will patronize the upstairs retail. The ‘Project Space’ gallery occupies the principal corner at Fourth and Robert Streets and it is projected that the entire gallery will be added to the rest of the vacant space on the first floor in 2017, becoming the anchor to the building and project.



Incoming Brewery & Restaurant. Plans are in place for a brewery and restaurant to go in on the reserved area on the second floor which would complete the commercial space. At the time of writing, 12welve Eyes Brewing had been confirmed as the brewery tenant, but ownership was still in the process of negotiating the lease for the restaurant tenant.

Parking. Jackson Street Ramp is an amenity offered to the tenants of Pioneer Endicott tenants. The parking ramp offers 400 parking spots which are not assigned. The parking is used during the business day to bring in people who work in St. Paul and need parking, and is typically available during the evening hours for tenants of the Pioneer Endicott.

Market Analysis

Commercial SF	36,685
Residential SF	189,522
Average SF	810
Total Units	234

Residential

Gross Rents - Residential	3,502,408	Rents PSF	1.54
Vacancy (Stabilized 2014)	(175,120)	Vacancy	5%
Utility Reimbursement	256,120		
Other Revenue (Expense), net	27,884		
Subtotal - Residential	3,611,291		

Commercial

Gross Rents - Commercial	528,759	Rents PSF	14.41
Vacancy (Stabilized 2014)	(105,752)	Vacancy	20%
Subtotal - Commercial	423,007		
Total Revenue	4,034,298		

Operating Expenses (Stabilized 2014)	(1,715,182)	Exp per res. Unit	7,330
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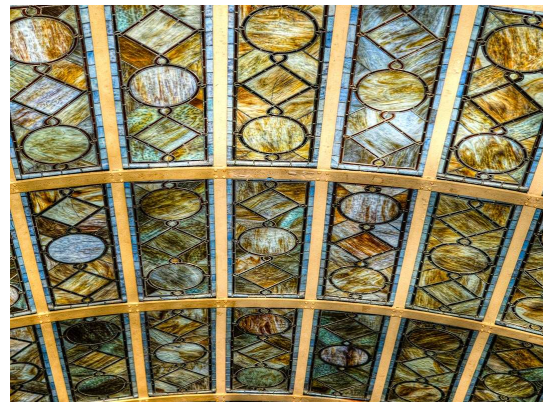
Net Operating Income	2,319,116	Exp per res. SF	9.05
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Planning and Entitlement Issues

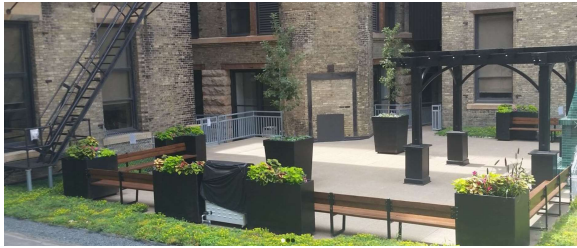
With any major rehabilitation of a historic building, planning issues always arise. While the Pioneer Endicott buildings were already on the National Historic Register, building plans still had to be submitted and approved before and during the construction period. To begin, full building and construction plans had to be approved by the Minnesota State Historic Preservation Office (SHPO) before the project could be started. Once these plans were approved, they were then forwarded onto the National Park Service for federal approval. This process took over six months and required a number of revisions to the plans before eventually the development team was granted approval.

Once the demolition and construction was underway, new information was learned and additional revisions to the plans had to be made. There were a total of 11 amendments to the site plan, one had to be made each time the construction management and development teams found a new historical element. These revisions were brought back to the State Preservation Office and National Park Service for approval before construction work on that particular area in question could be continued. An example of this was the interior flooring of the buildings, as there were a number of layers of carpeting, concrete, and asbestos covering the original wood and marble flooring. When original plans were submitted, the flooring was not known to have been historic. However, once the layers of carpeting were removed, the development team had to stop demolition and take pictures to submit to SHPO and the National Park Service, and wait to be given direction and approval on preservation plans for the original wood and mosaic tile flooring that had been revealed.

Another notable planning and development issue that had to be considered was the conversion from an historic office building to a residential apartment building. Aside from the challenges that came with rehabilitating an historic building, the development team had to consider current residential building code. The City of St. Paul would treat that project just as any other apartment building rehabilitation, with some limited latitude granted for the historic consideration. As an example, the city was able to grant variances to some of the residential building code governing the large 16-story atrium in the center of the Pioneer building. As an indoor space, the atrium would normally require a one-hour fire barrier between floors under current city code. However, given the historic nature of the atrium, the development team and the city collaborated to come up with a solution that would allow the atrium to stay open between floors. The development team proposed the use of a high velocity venting system that would be installed on the 3rd floor and the 16th floor. The massive exhaust fan would pump air into 3rd floor and out the 16th floor. The city was able to designate the atrium as outdoor space and approved the venting system to satisfy fire code. As discussed below, when two fires occurred in the project, the venting system worked perfectly and damage to the buildings was contained and limited.



Building Designs and Green Features



Green Roof / Garden

The project developers collaborated with a private consulting firm to design and build a 2,500 square foot rooftop plaza, which included a green roof. The plaza and roof provide stormwater management while maintaining an attractive and multi-functional outdoor space. This space will be open to tenants and patrons of the incoming brewery and restaurant. Consultants assisted the development team in working with the Capitol Region Watershed District to obtain a \$15,000 grant. The plaza was completed in June 2015.

Impact of the Development

4th Street Market. St. Paul's Lowertown has become a major attraction for residents of, and tourists to, the Twin Cities. The area features the St. Paul Saints' CHS Field, historic buildings including The Pioneer Endicott, as well as a farmer's market and award-winning restaurants. With so many attractions and the light rail creating easy access via public transportation, there has been a push in recent years to make 4th Street more pedestrian friendly and limiting car traffic. This concept is supported by building owners, managers, and small businesses in the Lowertown neighborhood of St. Paul, and has been named the "4th Street Market District." This concept is in the process of becoming a reality with the support of the City of St. Paul. Creating a car-free street will allow for increased foot traffic and encourage economic development. There is a huge potential for



increased retail, incorporation of public art, and improved connections between attractions for residents, employees, and visitors. The presence and restoration of the Pioneer Endicott is one major reason the project is moving forward.

RETAIL. Since the Green Line light rail was introduced on 4th Street, the use of the road has changed. Parking is no longer allowed and the one-way street traffic has been reduced to one lane. There are now significantly more pedestrians walking and biking along and in the street. Closing off the road to car traffic would allow restaurants and bars to be open to the sidewalks. Retail kiosks could also be incorporated to the market district and enliven the area with a variety of saleable goods. Additionally, there already exists a Saturday morning Farmers’ Market. This retail space could be expanded physically down 4th Street, and with more foot and bike traffic, the market could be open an additional day during the week. Complementing this retail would be the Pioneer Endicott’s chocolate shop, wine and spirits retailer, and the building’s future brewery and restaurant tenants.

PUBLIC ART. Beautifying the area along 4th Street would be an additional opportunity that the Market District will create. Lighting and public art for more than a one mile stretch would add attraction to the area. Artists from the Twin Cities would be given a place to present and show art. Local landmarks along the street could also be highlighted, as well as interactive. This kind of involvement would help to develop and strengthen the arts community, and create a greater interest and appreciation for the arts community in St. Paul. A major piece of this public art attraction will be showcased by the Pioneer Endicott’s major tenant, the Minnesota Museum of American

Art. With the MMAA occupying the space on the main level of the Pioneer Endicott, the museum will have access to floor-to-ceiling windows along 4th Street to display its pieces.

Project Financing

The Pioneer Endicott was purchased, and the construction financed, using what one of the developers called “duct tape financing.” In total, the project utilized the services of seven financing sources: PNC Bank, The Private Bank, Sunrise Bank, Bridgewater Bank, Anchor Bank, Enhanced Historic Credit Partners, and PNC Investment Company. The total development project budget was \$56 million, however, this was increased once it became clear the City of St. Paul would provide tax increment financing. These additional funds allowed the developers to cover the costs of the streetscape and green rooftop construction.

Source of Financing:

Federal Tax Credit Equity:	\$10,965,474
Managing Member/State Tax Credit Equity:	\$8,889,293
Permanent Loan:	\$26,500,000
Abatement Grant:	\$1,200,000
RCTG / TIF Loan:	\$2,130,000
Cash Flow from Operations:	\$13,910,606
Developer Fee Deferral:	\$5,445,905

Permanent Financing

The permanent loan on the project was provided by The Private Bank and Trust Company. This bank is a regional lender and provided \$25.5 million of senior construction financing at a variable interest

rate of 3.25% over LIBOR, and \$26.5 million of permanent financing at 2.25% over LIBOR. The eventual refinance was at approximately a 50% loan to value.

Bridge Construction Loan

This construction loan was provided by Bridgewater Bank. Bridgewater is also a regional lender, and the bank provided \$11.2 million of bridge construction financing at a variable interest rate of 0.50% over prime for a 60-month term. This loan made possible the state and federal tax credits, which were provided to the development team and PNC Investment Company at the time of completion. Rich Pakonen and Clint Blaiser have less than a 1% minority interest in Bridgewater, but are not officers/directors and have no management or decision-making authority. Once the tax credits were issued this loan could be repaid and repayment occurred on January 2015.

Subordinate Financing

The development team of RCTG Development, LLC provided \$2.13 million of subordinate construction financing. This financing was possible via a \$2.13 million loan from Anchor Bank, a regional lender unaffiliated with any project sponsor, and monetized through tax increment financing from the City of St. Paul.

Investors

One of the key investors in the Pioneer Endicott project was PNC Investment Company, LLC (PNCIC). This company is a subsidiary of PNC Financial Services Group, Inc., a large US bank. With total assets exceeding \$345 billion, PNCIC invests nationwide in projects that generate federal historic rehabilitation tax credits and was the sole federal tax credit investor in the project. PNCIC produced over \$1 million of

equity for the investment group and about \$7 million in federal historic tax credits.

Another key investor in the project was EHCP Minnesota Fund, LLC (EHCP). This is a fund managed by Enhanced Historic Credit Partners, a regional investment company that has invested more than \$375 million in 185 historic real estate projects throughout the Midwest. EHCP was the sole state credit investor, and provided roughly \$6 million from state historic tax credits to the Pioneer Endicott project. EHCP acted as both an investor and broker with the state credits. Once the fund raised the \$6 million, it then was allocated a certificate, which the fund eventually sold off.

Final Underwriting

The Pioneer Endicott project was underwritten to a *base case* cash-on-cash return of 5.90% (excluding tax credits). If project income exceeded expectations, the *upside case* cash-on-cash return was projected to be significantly higher at 9.39% (again, excluding tax credits). Upon inclusion of the state and federal tax credits, the cash-on-cash returns become significantly higher, however, to limit public exposure of the development team, these rates of return are not stated in this paper.

Master Lease

Structuring a tax credit deal post-purchase can be extremely complicated. It is important to protect the tax credit investor from any potential liability the building presents, while also ensuring the tax credit investor is part owner to meet IRS regulations for historic tax credit investment. The primary liability concern for both ownership and the investor is mortgage loan foreclosure. Foreclosure presents a serious and significant risk in historic tax credit

projects. The risk is significant because a foreclosure would result in total recapture of unvested tax credits to the investor. Investors and owners protect against this risk through the master tenant partnership (Master Tenant).

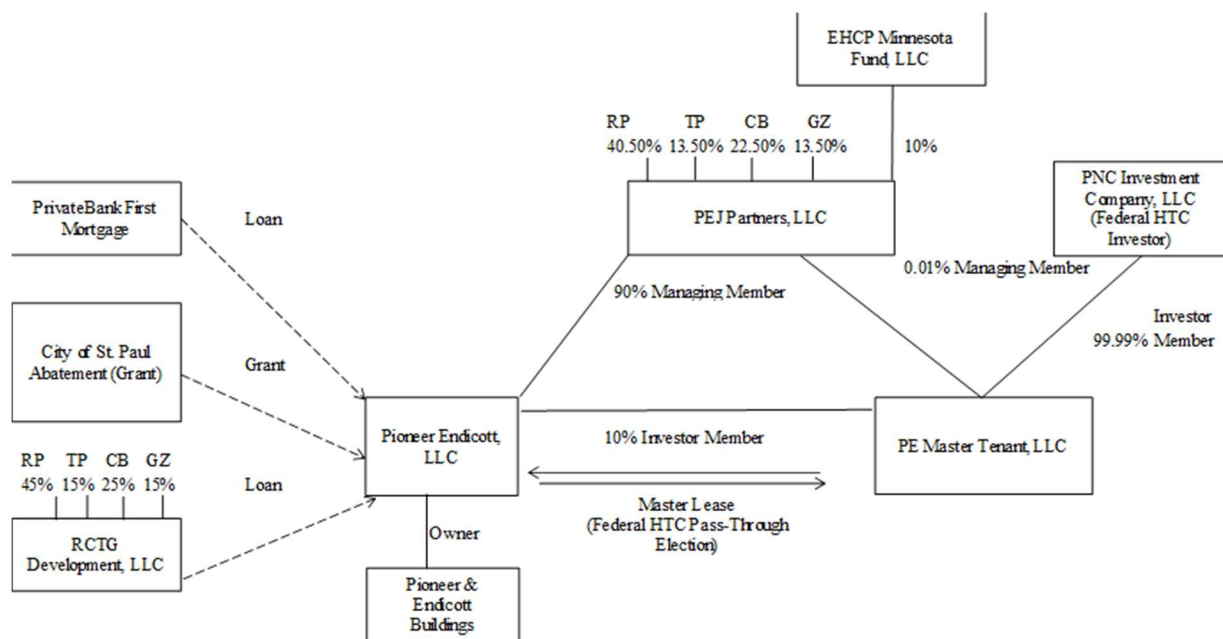
As a partner in the Master Tenant, tax credit investors very often require a Master Tenant and a landlord (the owner / borrower) to negotiate “nondisturbance protections.” These protections and then negotiated with lenders and ensure that the tax credit investor, and now Master Tenant, is protected should a foreclosure occur. However, as part of this protection, the Master Tenant must still maintain its lease agreement and must still be current on payment.

In the case of the Pioneer Endicott, PNC Investment Company was 99.99% of the Master Tenant. PNCIC also required the Master Tenant have notice and cure rights for loan defaults. This would allow PNCIC the option to prevent a foreclosure themselves should the owner default on the mortgage. These protections were

negotiated with The Private Bank and Trust Company as the first mortgage lender to the project.

To maintain federal tax credit eligibility PNCIC must also be a part owner in the project ownership structure. To meet IRS code, PNCIC only needed to maintain ownership rights of at least 10%. As can be seen below in the diagram, PNCIC was a 99.99% member in the PE Master Tenant, LLC company, while also having a 10% ownership share in Pioneer Endicott, LLC. Though complicated and convoluted, the ownership entity was audited by the IRS in 2015 and received a “no further action necessary” letter in October 2016, meaning the IRS had no concerns over the ownership structure and no recapture of the federal tax credits would be necessary.

Received development fee and overhead of approximately \$6.6 million (approximately 13.5% of development costs) for development services rendered over three years (2011-2014).



RP: Richard S. Pakonen
 TP: Timothy J. Prinsen
 CB: Clinton T. Blaiser
 GZ: George A. Zeller

Current Operations

RC LLC is the property manager for the project pursuant to a terminable contract providing for a market-based fee of 5% of gross revenues. RC LLC manages 2,000 other rental units. RC Enterprises, LLC (“RC LLC”) is owned by Rich Pakonen and Clint Blaiser. The overall financial performance of the building has been within 10% of projection. At the time of this writing, the occupancy is roughly 95%. The commercial tenants, Legacy Chocolate and Revival Wine and Spirits support this occupancy and cater to the tenant demographic.

An interesting business decision with regard to the commercial tenants has been the intentional vacancy of roughly 25,000 square feet of commercial space. Ownership has signed a lease agreement for this space with the Minnesota Modern Art Museum. Unfortunately, the museum is in the process of raising funds and is not financially capable of moving into the space at this time. Pak Properties recognizes this financial hurdle and has decided to leave this space vacant until the museum is ready. This is of course an opportunity cost to ownership, however, they believe in the long-term, having an art museum in the Pioneer Endicott will be one more reason people will want to live here. As Rich says,

“No one knows the address of your building; they know what you live above. Tenants will be able to say, I live above a museum!”

As for the attached parking ramp, financial performance is exceeding projections. The ramp receives both daytime and nighttime revenue. Tenants of the building use the ramp for parking at night, and the ramp is open for those commuting into downtown St. Paul for work. This means the ramp is never empty and always generating revenue. The overhead costs are very minor, as the only expenses are for two cleaning staff, service that runs the video security and emergency system, and the costs to operate the automated check-out service.

The biggest operational struggles to date have been the two fires in the building. These two major fires have caused over \$1.5 million in damage, which of course had a major negative impact on performance. The two fires were each accidental--the first fire was caused by a welder working the rooftop deck and the second by a tenant moving into an apartment and leaving a moving box on the stove. While ownership carries the best in property insurance coverage available for the building, there are still out-of-pocket costs associated with such events.

Interviewees:

Rich Pakonen, PAK Properties, RCTG

Jon Peterson, Partner, Winthrop and Weinstein, Legal Work

Marc Scafidi, Equity Officer, PNC Bank

Jeff Ballenthin, Accountant

Alissa Kellogg, PAK Properties, Project Manager

Significant Timeline for the Pioneer-Endicott

February 1888	Solon Beman hired to design Pioneer Press Building
June 1888	Cass Gilbert designing Endicott Complex
November 1889	Grand opening of Pioneer Press Building
June 1890	Endicott Complex Completed
August 1904	Tornado damages Pioneer Press and Endicott Buildings
1909	Pioneer Press gets acquired by St. Paul Dispatch and moves offices out of the building. Watson Davidson buys the Pioneer building
1910	Four floors added to Pioneer Building, raising height to sixteen stories
1911	One-story addition to Endicott Building
1941	Davidson and his family acquire the Endicott complex
1967	First downtown St. Paul skyway bridge completed between Pioneer-Endicott and new Federal Courts Building
1967	Jackson Street Ramp added to the Pioneer-Endicott complex
1971	Downtown's second skyway bridge links Pioneer-Endicott to First National Bank complex across Robert Street
1974	Pioneer and Endicott become first commercial buildings in St. Paul to be listed on the National Register of Historic Places
1981	First National Bank of St. Paul acquires Pioneer-Endicott
1983	\$9 million renovation of Pioneer-Endicott and Jackson Street Ramp completed
2003	U.S. Bank moves its operations out of the Pioneer-Endicott
2007	New owners acquire Pioneer-Endicott
2009	Owners of Pioneer-Endicott make building repairs and tear down several chimneys without approval from the St. Paul Heritage Preservation Commission
2011	St. Paul developers Richard Pakonen, Clinton Blasier, George Zeller and Tim Prinsen purchase Pioneer-Endicott complex for \$1.1 million and adjoining Jackson Street Ramp
2012	Renovations begin on Pioneer-Endicott complex into 234 rental apartments, commercial space and a new home for the Minnesota Museum of American Art
End 2013	80% of rental units completed and more than 2/3 leased
End 2013	The Project Space gallery of the Minnesota Museum of American Art moved into street-level space at the Pioneer Building
2014	Pioneer Endicott apartment units completed
May 2014	Revival Wine & Spirits opens
December 2014	Legacy Chocolate opens