

April 9, 2009

Mr. William Malinen
City Manager
City of Roseville
2660 Civic Center Drive
Roseville, MN 55113

RE: Hagen Ventures, LLC

Dear Mr. Malinen:

Fredrikson & Byron represents Hagen Ventures, LLC, the fee owner of the real estate located at 2785 Fairview Avenue North, in Roseville (the "Hagen property"). I am writing this letter to make a claim for the damage to the Hagen property caused by the conduct of the City of Roseville, and to suggest a resolution to this matter that may benefit both parties.

BACKGROUND

The Hagen family, through Hagen Ventures, has leased the real estate to various tenants as a truck terminal, a truck maintenance facility, and a distribution facility since 1988. Given its central location and its access to the interstate system, the Hagen property is an ideal site for a truck terminal, a truck maintenance facility, and a distribution facility. Unfortunately, the Hagen property is also located in the heart of the area that was proposed for the ill-fated Twin Lakes Redevelopment project. For over 20 years, the Hagen property has had to live in the shadow of the various iterations of plans for the Twin Lakes Redevelopment Area.

In 2006, however, the City replaced the shadow hanging over the Hagen property with a hammer. On April 12, 2006, in connection with the Twin Lakes project, the City of Roseville served Hagen Ventures and its tenants with a condemnation petition, and with notice of intent to acquire the Hagen property pursuant to Minn. Stat. § 117.042. In simple terms, the City informed Hagen's tenants that the Hagen property was being acquired through the power of eminent domain, and notified Hagen's tenants that they would need to vacate the premises and relocate their operations to other locations. Not surprisingly, several of Hagen's tenants took the City at its word. Faced with a property that was going to be acquired, both Mayfield Transfer and Twin Cities Carriers left the Hagen property.

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The Hagens may have been able to weather the loss of their tenants if the City of Roseville had followed through with their condemnation proceeding. Under that scenario, the Hagens would have received just compensation for the taking of their real estate. But the City did not follow through. Instead, the City decided not to use the quick-take process to obtain title and possession to the Hagen property. To make matters worse, the City refused to participate in a commissioners hearing for the matter, and the Hagens were left in limbo for all of 2006. Finally, in January of 2007, the City dismissed its condemnation proceeding.

In essence, the City pulled the rug out from the Hagen family. First, the City caused several of the Hagens' tenants to leave. Next, the City refused to pay just compensation for the taking. Finally, the City changed its mind regarding the condemnation and left the Hagens with a partially vacant truck terminal, truck maintenance and distribution facility. The City's conduct, specifically its decision to file a condemnation action, and its subsequent decision to abandon that proceeding, has substantially damaged the Hagen property. Under Minnesota law, we believe that the City is liable for the damage it caused.

THE HAGENS' CLAIM FOR DAMAGE

There are several possible methods that could be used to quantify the damage caused to the Hagen property. The simplest method is to simply quantify the rent that has been lost as a result of the City's conduct. In 2005, the year before the City instructed the tenants to leave, Hagen received \$401,992 in gross rent. But for the City's conduct, the Hagens expect that they would have been able to receive that amount, or more, in 2006, 2007, 2008, and 2009.

They have not received those amounts. Instead, they received \$303,595 in 2006, \$292,393 in 2007 and \$301,000 in 2008. The Hagens anticipate that they will receive less than \$300,000 in rent in 2009. As a direct result of the City's conduct, the Hagens have lost over \$410,000 in rent. In addition, the Hagen family was forced to incur additional consulting expenses, not all of which have been reimbursed. If this matter proceeds to litigation, the Hagens will seek to recover at least the \$410,000 that they lost in rent, plus the additional expenses that they were forced to incur as a result of the City's conduct.

But that amount is not likely to fairly compensate the Hagens for their loss. They did not only lose rent in 2006 through 2009, rather, the ability of the property to generate rent has been substantially harmed. The cloud of uncertainty caused by the City's conduct continues to hang over the property. As a result the Hagens are not able to obtain market rent for their property, and they are having great difficulty finding tenants for their property.

A more appropriate manner to calculate the damage to the Hagen property may be to conduct an income approach, both before the City forced the tenants to leave, and one that considers the Hagen property's current ability to generate rent. In short, because the Hagen

property's ability to generate rent has been substantially affected by the City's conduct, the value of the Hagen property has been dramatically reduced. I am confident that a basic income approach applied to the before and after condition will justify a claim of damage in excess of \$1 million. If we are forced to bring a suit to recover the damage, I believe that the Hagens' claim for compensation will approach, or even exceed, \$1 million.

THE HAGENS' PROPOSAL TO RESOLVE THIS CASE

As I understand it, City staff and the Hagens have been discussing the possibility of the City acquiring the entire Hagen property, or a portion of the Hagen property, since September of 2008. In connection with these discussions, the City hired Dan Dwyer to appraise the Hagen property.

In late March of this year, staff indicated that the City was no longer interested in purchasing the entire Hagen property. Rather, the City is only interested in purchasing the right-of-way necessary for Twin Lakes Boulevard, and that the City was willing to pay the Hagens \$1 million for that property.

The City's tentative proposal is unacceptable. Not only does the proposal fail to provide the Hagens with any compensation for the damage to the property caused by the City's conduct in 2006 and 2007, Mr. Dwyer's appraisal underestimates the value of the land and the impact of the loss of the right-of-way on the value of the remaining property.

As I see it, there are three ways to resolve this matter. First, the City could do the right thing. In 2006, the City represented to the Court, the Hagens, and the Hagens' tenants that it needed to acquire the Hagen property. The property remains at an ideal location, both for Twin Lakes Boulevard, and for future development. By paying the Hagens fair market value for the entire property (excluding the impact of the Twin Lakes project on the value of the Hagen property) the City would make the Hagens whole. In prior negotiations, the Hagens indicated that they would accept \$3.3 million for the property (the property was appraised at \$3.1 million in 2003.) The Hagens will – against my recommendation – stand by this proposal until April 30, 2009.

Through this arrangement, the City will obtain the right-of-way necessary to construct Twin Lakes Boulevard. In addition, the City will gain control over land that ultimately will be redeveloped. If and when redevelopment occurs, the City will be in a better position. Finally, by purchasing the entire property, the City will avoid the Hagen's claim for damages resulting from the City's conduct in 2006 and 2007.

Second, the City could acquire the right-of-way necessary to construct Twin Lakes Boulevard. In order for this option to work, however, the City must pay the Hagens a fair price for the right-of-way, and provide fair compensation caused by the City's conduct in 2006 and

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2007. I would recommend, given the circumstances, that my client accept \$1.5 million as compensation for the acquisition of the right-of-way and as full and final settlement of their damage claim.

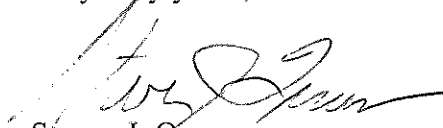
Under this option, the City will get the right-of-way that it needs. The City will also avoid the expense and risk associated with the Hagens' claim for damage. The Hagens will receive compensation for the land that is being sold, and they will also receive compensation for the damage that was caused by City's conduct. Although this option is not perfect, it will permit the parties to move forward.

Third, there is a fundamental dispute regarding the amount that the City should pay for the Twin Lakes Boulevard right-of-way. To resolve that dispute, the City could simply commence a condemnation proceeding to acquire the right-of-way. The condemnation petition would be, in a sense, friendly, as the Hagen family will stipulate to public purpose and necessity. Through the condemnation process, the system will establish the amount of just compensation that should be paid for the taking.

The Hagen family has suffered enough. Not only has the City's conduct with respect to the Twin Lakes project diminished the value of the Hagen property, the Hagen family has also been subjected to a great deal of stress as this matter has unfolded.

The Hagen family would like nothing more than to put this matter behind them, and hopes the City is willing to help them make that happen. After you have had an opportunity to review this letter, please give me a call. If we do not hear from you regarding this matter by April 30, 2009, I will have no choice but to commence an action on behalf of the Hagen family to recover the damages caused by the City's actions.

Very truly yours,



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cc: Bob and Janet Hagen
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