PDC | PORTLAND DEVELOPMENT COMMISSION
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DATE: October 8, 2013

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 13-40

Authorizing the Third Amendment to the Disposition and Development Agreement with Vanport Partners, LLC, Allowing Condominium Owners at Vanport Square to Lease More Than 50 Percent of Their Unit's Space

BOARD ACTION REQUESTED

Adopt Resolution No. 7027

ACTION DESCRIPTION

The proposed third amendment to the Vanport Square Disposition and Development Agreement (DDA) would allow condominium owners to lease more than 50 percent of their condominium space with the approval of the Portland Development Commission (PDC) Executive Director. If the lease on the square footage above 50 percent of the total condominium space results in a designated surplus to the condominium owner, then the surplus will be shared with PDC as defined in the proposed amendment to the DDA.

BACKGROUND AND CONTEXT

Vanport Square Phase I is a 36,000 square foot (sf) commercial condominium project on NE Martin Luther King, Jr. Boulevard between NE Sumner and NE Emerson streets in the Interstate Corridor Urban Renewal Area (ICURA) (see map and photo in Attachment A). Vanport Square is a key component of PDC revitalization efforts on this commercial corridor. The redevelopment consists of 16 independent commercial condominium units in two buildings, a 21,000 sf renovation of the former Marco Machine Works, and a newly-constructed, 15,000 sf three-story building on 1.6 acres. The redevelopment was financed primarily with a $6,500,000 PDC Commercial Property Redevelopment Loan and $2,000,000 in New Markets Tax Credit Equity provided by Wells Fargo Bank. The majority of the units are owned by women and/or minority entrepreneurs. Listed below are important project milestones:

- The DDA was executed on April 14, 2006;
- The land and building were transferred to the developers, Vanport Partners, LLC, on September 29, 2006; and
- Construction ended on March 15, 2008.

The goals and public benefits realized by the project are as follows:

- Wealth creation opportunities for local, woman, and minority owned businesses;
- Catalytic investment on a critical commercial corridor in NE Portland;
- Well-designed, high quality, sustainable (LEED Gold) development;
- Retail and service opportunities for the community;

- Creation and retention of at least 75 jobs; and
- Enhanced public space (courtyard) and pedestrian environment.

The second phase of the Vanport Square project was completed in December 2012 and consisted of 10 single family homes along NE Garfield Street, adjacent and to the west of phase one. The second phase was completed by a different developer, Lisac Brothers Construction, Inc. The third phase of the Vanport Square project (MLK South) is envisioned to be a commercial development on the block immediately to the south of Vanport Square phase one between NE Alberta and NE Sumner streets. PDC expects to come to the PDC Board of Commissioners (Board) in fall 2013 to provide an update on the status of this third phase development.

As stated above, a key goal of the phase one project was to provide long-term wealth creation opportunities for local, woman, and minority owned businesses. In order to prevent units from being owned by real estate investors seeking rental income, a clause was placed in the DDA that required a restrictive covenant on the title of each condominium unit preventing condominium owners from leasing more than 50 percent of their space as long as their New Markets Tax Credit financed real estate acquisition loan was in place. However, changing business circumstances for some owners and the nature of the project's financing necessitate the proposed DDA amendment.

Cascade Energy (Cascade), the owner of a 5,000 sf condominium space at Vanport Square is requesting to lease 100 percent of its space at Vanport Square. Cascade is a success story. When it first occupied its space at Vanport Square in 2008, it leased 50 percent of its space on a short term basis, holding it in reserve for future growth. Since then, Cascade has experienced explosive growth and has had to occupy their entire Vanport Square condominium and lease additional space at the PDC-sponsored Heritage Building on NE Martin Luther King, Jr. Boulevard. In order to consolidate operations and have room for more growth, Cascade has signed a lease to be the anchor tenant in Beam Development's Eastside Exchange project in the Central Eastside Urban Renewal Area. Without the proposed DDA amendment, Cascade would have to leave half of its space at Vanport vacant in order to comply with the DDA and restrictive title covenant.

In addition to Cascade, two other Vanport Square condominium owners have requested permission to lease their entire units due to business or personal circumstances.

Vanport Square owners purchasing a condominium were required to obtain financing through PDC and New Markets Tax Credit equity-funded real estate loan. The loans each have a term of 30 years broken into a 10- and 20-year periods. Resale, transfer, and full repayment of loans are strictly limited during the first 10-year period due to New Markets Tax Credit requirements. Repayment of the loan is not allowed in this first 10-year period but resale to another business is allowed with PDC's permission. However, any new buyer must assume the balance of the real estate loan. Since these units were purchased at the top of the real estate cycle in 2007, 2008, and 2009 and the current real market value of many units would not exceed the balance of the New Markets Tax Credit real estate loan, leasing appears the only viable option for commercial condominium owners that no longer have use for the space, until the market recovers or the New Markets Tax Credit financing structure limiting repayment ends in 2018. At that time, the condominium owners could repay their loans and would be free to sell or lease as they choose.

The proposed DDA amendment would allow, at PDC Executive Director's discretion, condominium owners to lease more than the currently allowed 50 percent of total space. In exchange for allowing a greater share of their units to be leased, PDC is proposing an amendment provision that would permit PDC to share in a designated monetary surplus on the portion of the lease above 50 percent of the unit's total size. Staff believes this to be equitable since PDC provided loan funds to the project at a reduced interest rate of three percent. The designated monetary surplus would be defined as lease payments exceeding the sum of the real estate loan debt service plus any tenant improvement loan debt service. PDC would share 50 percent of any surplus as defined above and illustrated in Attachment C, Monetary Surplus Sharing Example.

COMMUNITY AND PUBLIC BENEFIT

Amending the DDA to reflect changing business circumstances will allow Vanport Square to continue to thrive and contribute to commercial revitalization and job creation along a key commercial corridor.

PUBLIC PARTICIPATION AND FEEDBACK

Given the nature of this proposed change, no formal public outreach was conducted. However, staff discussed this proposal with Jeana Woolley, partner in Vanport Partners, LLC, and developer of Vanport Square, and several owners of Vanport Square condominium units and they support this amendment.

BUDGET AND FINANCIAL INFORMATION

There is no monetary expenditure associated with this amendment except the cost of staff time. A conservative estimate on potential revenue from the two to three businesses that would utilize this amendment total less than $10,000 per year to PDC (see the ICURA budget in Attachment B).

RISK ASSESSMENT

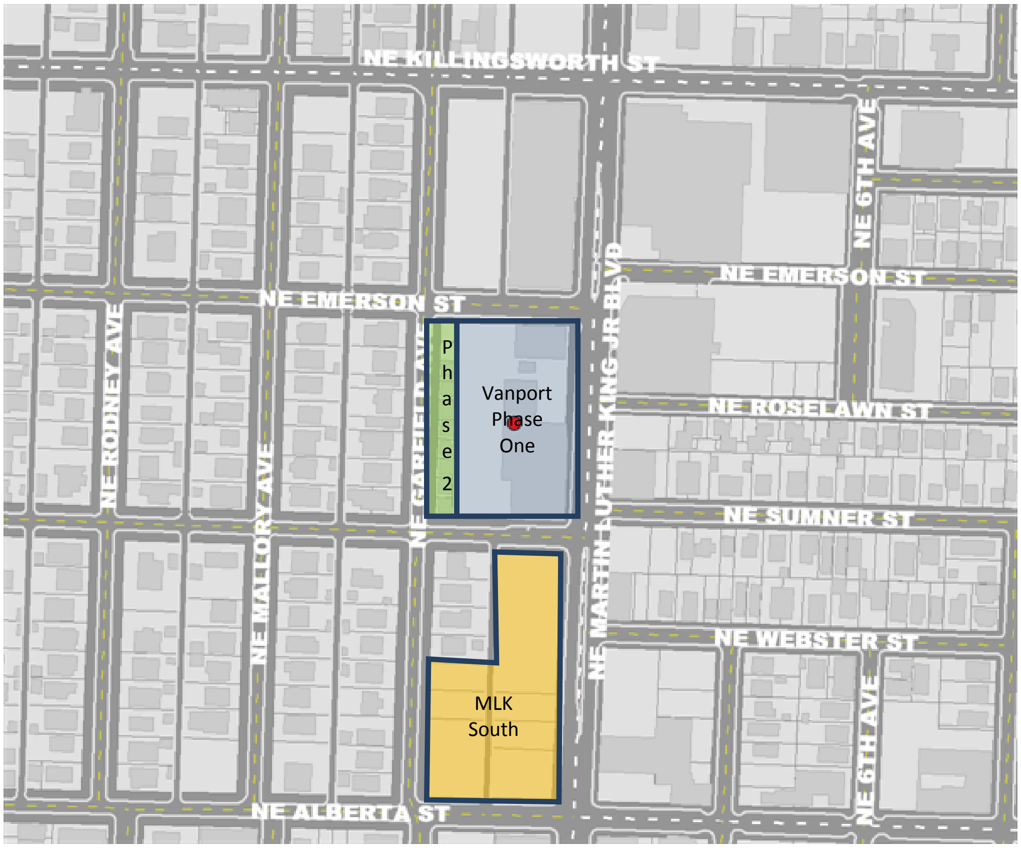
The primary risk is that owners who no longer occupy their condominium space would gain a financial benefit from the low cost public financing of the project. This risk is mitigated by PDC requiring a sharing in any monetary surplus resulting from permitting increased leasing.

ALTERNATIVE ACTIONS

The Board can reject this amendment or choose to alter its terms and conditions.

ATTACHMENTS

A. Vanport Square Phase One and Two, MLK South Project Map and Photograph
B. Urban Renewal Area (URA) Financial Summary
C. Monetary Surplus Sharing Example



Phase One Commercial; Phase Two Housing; Future MLK South

Vanport Square looking north on NE MLK

URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised-3 FY 2012-13	Adopted FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
Interstate Corridor URA						
Resources						
Beginning Fund Balance	7,316,861	6,753,143	711,523	1,358,624	307,242	483,904
Interest on Investments	30,000	30,000	30,000	30,000	30,000	30,000
Loan Collections	6,000,000	303,678	256,423	365,747	261,150	971,574
Long Term Debt	0	3,500,000	1,750,000	0	0	0
Property Income	211,580	574,998	210,000	210,000	210,000	210,000
Reimbursements	61,573	0	0	0	0	0
Short Term Debt	10,936,644	10,242,243	10,739,568	11,488,500	11,488,500	11,488,500
Total Resources	**24,556,658**	**21,404,062**	**13,697,514**	**13,452,871**	**12,296,892**	**13,183,978**

Monetary Surplus Sharing Example

The following is a hypothetical example of the surplus sharing calculation:

Hypothetical Example:

Total square footage (sf) of condominium unit	5,000 sf
PDC approves leasing of 100% of condominium unit	5,000 sf
Monthly Rent = $18 per sf / 12 X 5,000	$7,500
Monthly Condo Loan Debt Service	$3,000
Monthly Tenant Improvement Loan Debt Service	$2,000
Total Debt Service = $3,000 + $2,000	$5,000
Total Monthly Payments $7,500 less Total Debt Service $5,000	$2,500
Proportion of $2,500 allocable to portion leased in excess of 50%	$1,250
PDC 50% share of excess	$625 per month