

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: January 13, 2010
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 10-07
King /Parks Disposition

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6762

ACTION SUMMARY

This action will authorize the Executive Director to enter into a disposition and development agreement (Agreement) with Piedmont Community Developers, LLC for the redevelopment of PDC-owned property at 6431-6445 NE Martin Luther King, Jr. Blvd in the Oregon Convention Center Urban Renewal Area.

PDC will provide construction loans to the project of up to \$2,100,000 in phase 1 and up to \$1,050,000 in phase 2. Permanent subsidy from tax increment financing funds will be \$1,450,000 in phase 1. In phase 2, PDC will provide up to \$350,000 in second mortgage funds. All construction loan funding is subject to PDC Loan Committee approval. PDC will transfer the property to the developer and grant the value of the land to the project providing conditions of the disposition and development agreement are met. The appraised value of the property without development restrictions is \$1,000,000.

PUBLIC BENEFIT

Redevelopment in the project's first phase will create sixteen townhomes that will be affordable to families making 60%-80% of area median family income. These townhomes will be made permanently affordable through the Proud Ground land trust model. At the proposed average selling price of approximately \$160,000, there are no comparable units available in the vicinity. The units will give moderate income families the opportunity to live in a new home, constructed to high sustainable standards at a convenient location less than four miles from downtown Portland.

The second phase will create approximately 6,600 square feet of ground floor commercial space and eight additional residential units. All phase 2 units, both commercial and residential, will be condominiums. New commercial space will help enliven this underdeveloped part of NE Martin Luther King, Jr. Blvd. The entire project represents an additional PDC investment on the Boulevard directly across from the successful Henry V project. While the eight residential units in phase 2 will not be as deeply affordable as the phase 1 units, it is anticipated they will sell to families earning 100-120% of area median family income, an income group that has limited options in this part of the city.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

At the end of 2005 and prior to the release of the project's request for proposals, PDC staff organized a nine member citizen advisory committee (CAC) made up of community members and subject matter experts. The CAC helped formulate the RFP and evaluated developer responses to it. The CAC met twice to go over the RFP and once to consider the RFP's single response. The CAC met again (twice) to review design changes made by the developer in response to feedback on the original proposal. In addition, Piedmont Community Developers representatives met with homeowners in the adjacent Probasco Estates development.

In addition to the CAC and project neighbors, Piedmont Community Developers and/or PDC staff have also discussed the project with the Piedmont and Woodlawn Neighborhood Associations. In total there have been eleven public meetings either with the citizen advisory committee, or neighborhood stakeholders. In addition, PDC staff has presented proposals to the Oregon Convention Center Urban Renewal Advisory Committee and MLK Advisory Committee. Generally, feedback has been positive or at worst neutral from these groups. Where changes have been suggested, especially by the CAC and the project neighbors, the project design/program has been altered in keeping with those suggestions.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Originally adopted in 1989, the Oregon Convention Center Urban Renewal Area Plan, focused nearly exclusively on the geographic area surrounding the Convention Center itself. As a result, even through its many amendments, the Plan does not robustly layout goals specific to the Martin Luther King Jr. Boulevard corridor. The plan does, however, incorporate the goals of the Albina Community Plan (ACP). Those that apply to this project include:

- Focus on key commercial nodes, particularly those along N.E. Martin Luther King Jr. Boulevard;
- Promote ownership by residents in the Albina Community;
- Improve the image and function of Martin Luther King Jr. Boulevard;
- Encourage housing to be built in areas zoned for residential and mixed use.

In addition to the goals above, the ACP contains the following applicable "objectives:"

- Improve the quality and quantity of housing for Albina residents. Provide a variety of housing types for households of all sizes and incomes;
- Add 3,000 new housing units to the Albina Community Plan Study Area over the next twenty years [1993-2013];
- Provide opportunities for home ownership for Albina residents. Emphasize infill development that accommodates owner-occupancy and is compatible with the surrounding neighborhood.

Finally, both the Piedmont and Woodlawn Neighborhood plans contain language that is generally supportive of the type of development proposed:

- Support multi-dwelling and mixed commercial development along portions of Martin Luther King Jr. Boulevard [Piedmont];
- Support the creation and growth of neighborhood commercial nodes in Woodlawn.

FINANCIAL IMPACT

PDC has budgeted sufficient financial resources for both phases of the project. PDC Phase 1 financing, which comes exclusively from the Housing Department budget, includes a \$300,000 pre-development loan, a \$1,450,000 construction loan (loan B) and a second \$650,000 construction loan (loan A. The Loan A amount includes \$300,000 to pay off the pre-development loan.). Loan B will be forgiven pro rata as each phase 1 townhome sells to income qualified buyers and with Proud Ground land trust resale restrictions in place. All of loan A will be repaid from unit sales, however, \$350,000 of the repayment proceeds will be reused in phase 2 as loan D (see below).

PDC's phase 2 budget includes a \$700,000 construction loan from the Urban Development Department (loan C) and a \$350,000 construction loan from the Housing Department (loan D). Loan C will stay in the project until the commercial condominium units sell or the project is refinanced at year fifteen, whichever is early. The current plan is either to repay loan D from residential unit sales or convert the loan to down payment assistance loans (DPAL's) in favor of the residential unit buyers. The choice made will depend on the market conditions at the time.

All other funding for the project will come from either private sources, non-PDC government grants/waivers/rebates, or developer equity.

It is expected that all phase 1 residential units will receive Portland's 10 year tax abatement. The commercial units and potentially the phase 2 residential units, however, are expected to pay property taxes. Because the OCCURA is a type III district, there is no impact to PDC's budget from additional tax generating real estate development. Any and all new real estate taxes generated benefit other taxing jurisdictions.

RISK ASSESSMENT

Private sector financing or the lack thereof represents the most important risk to the project at this time. Without a private sector construction loan the project could not proceed.

Piedmont Community Developers is mitigating this risk by leveraging past project successes. The principals of PCD were also the principals behind the very successful, PDC-sponsored Pardee Commons project. That project used an approximately \$1M construction loan from Albina Community Bank. Success at Pardee Commons has made ACB amenable to PCD's King/Parks loan request. At King/Parks, ACB has tentatively committed to loaning \$1.3M, in the bank's mind, more or less a recycling of the Pardee Commons construction loan.

To get to this, however, PCD took care in scoping particular project elements. Most important was to break the project into two phases. In the first phase all units will be attached townhomes. Often this dictates a condominium structure. At King/Parks, however, PCD will create individual subdivided lots for each of the sixteen townhomes. Developing the property with single family residences avoids the current difficulty in obtaining condominium construction and mortgage financing. Putting the more difficult to finance mixed-use portion of the project into a second, later phase, has also helped to mitigate the risk associated with construction financing. Of course, even with these well thought out mitigation strategies it is still possible that the project won't receive private sector construction financing or that potential homebuyers won't be able to secure mortgages.

In a phase 1 worst case scenario where units have been built, but remain unsold after the term of the senior construction loan, the risk to PDC is that the construction lender would foreclose, thereby taking possession of the units and voiding PDC's resale restrictions. In a phase 2 worst case scenario, the senior construction lender could also foreclose on the property and thereby take possession of both the residential and commercial units. In phase 2 however, there is the additional risk that if the commercial units end up being for lease, that market rents are lower than pro forma rents. In this case, the commercial space would be "upside down." To avoid foreclosure by the senior lender, the project would require operating subsidy from PDC to remain financially viable.

The phase 1 absorption risk is significantly mitigated by the fact that the units will be sold at prices well below market; approximately \$70,000 to \$95,000 below market according to PDC's November 2009 appraisal. As the phase 1 senior construction lender will be financing less than 50% of the project cost, at most eight units will need to sell to defease the construction loan. Given PDC's experience with the similar Pardee Commons project, the expectation is that this level of absorption will be readily achieved (Pardee Commons was marketed through Proud Ground as King/Parks will be and each of the ten units had multiple reservations within one month of being offered for sale. As Pardee Commons just received its certificate of occupancy in October 2009, unit sales have yet to close and therefore there is no experience in the conversion of reservations to closed sales.)

Phase 2 is not scheduled to begin construction until 2012, sufficiently far in the future that market conditions can not be accurately estimated. Therefore, as PDC considers the phase 2 construction loans, the developer will be asked to provide evidence for current sales price and lease rate assumptions. At that time, if PDC determined the phase to be infeasible, PDC could choose not to make the phase 2 loans. As further mitigation for potential risks in phase 2, PDC will retain title to the property (once subdivided). In addition to withholding loans from PCD on phase 2, PDC would have the option of selecting a different developer for the phase.

WORK LOAD IMPACT

This Project has been incorporated into corresponding staff work plans.

ALTERNATIVE ACTIONS

The Board could direct staff to negotiate different terms or conditions relative to the disposition and development agreement including different financing and phasing strategies. Such strategies could materially affect PCD's interest and/or ability to pursue the project.

The Board could choose not to authorize the disposition and development agreement. This would effectively terminate the current deal, meaning PDC would be faced with decisions about how and whether to pursue an alternate disposition strategy for the property.

CONCURRENCE

PDC's Investment Committee recommended approval of the disposition and development agreement on October 28, 2009.

PDC's Loan Committee will review construction financing upon application.

BACKGROUND

History

In 2002 when PDC added the King/Parks parcels to the urban renewal area through the twelfth amendment to the OCCURA plan, the intention was to redevelop the site with a moderate density housing project that would act as a catalyst for the northern portions of NE Martin Luther King Jr., Blvd. Even before the parcels were included in the boundaries, in 2000 and 2001, PDC had begun planning for the redevelopment of the property. At that time, the idea was to create a full-block development to include the current King/Parks parcels, plus all the parcels on the west side of the site between NE Portland Blvd. (now Rosa Parks Way) and NE Highland St. To that end PDC engaged SERA architects to work with the community to create a comprehensive and integrated plan for the entire block. The conceptual design that emerged, dubbed Piedmont Place, showed a row of townhomes on the west side of the block, plus two large (3-4 story) mixed use buildings with ground floor retail on NE Martin Luther King, Jr. Blvd. at both the Portland Blvd. and Highland St. corners.

PDC began implementation of the plan by acquiring parcels on the west side of the site. Those were followed by the acquisition of property at 6431-6435 NE Martin Luther King, Jr. Blvd. However, the development team from whom PDC had acquired the west side parcels changed direction and decided to develop those parcels themselves. PDC transferred the west side parcels back to the original developers in 2003 where they subsequently completed the 15 townhomes that exist there now. PDC completed assembly of the east side of the block by acquiring 6445 NE Martin Luther King, Jr. Blvd. in 2004. Between 2004 and 2007, existing buildings were demolished and site contamination was remediated. The Oregon Department of Environmental Quality issued a "No Further Action" letter for the properties in November 2007.

Request for Proposals

In April 2006 PDC released a request for proposals (RFP) for redevelopment of the site. In drafting the RFP, PDC staff considered the original Piedmont Place concept design as well as the plans created through the MLK Boulevard Development Opportunity Strategy. At that time it was determined that the original Piedmont Place designs were probably beyond the scope of what the market and PDC's available subsidy could support. Therefore, while the RFP required the development of housing, either rental or ownership, as well as some ground floor commercial space, it didn't require adherence to the Piedmont Place design.

PDC received one response to the RFP, that from Walsh Investment Company, headed by Tom Walsh, Sr. with Tom Walsh, Jr. as a partner. Walsh originally proposed a mixed-use building with approximately 10,000 square feet of ground floor commercial space and 57 residential condominiums on the upper three floors. The proposal also included 71 covered parking spaces. Both PDC staff and the project's citizen advisory committee, viewed this proposal unfavorably. However, in discussions with Walsh after the close of the RFP, PDC determined that 1) despite problems with the original proposal, Walsh was a qualified and desirable development partner; and 2) Walsh's willingness to significantly alter the proposed design/program represented an inducement for PDC to continue work with the team. In short, it made more sense to redesign the existing proposal with a qualified development partner than to re-solicit, especially given that PDC received only a single response to the original RFP. In determining this, PDC sent Walsh "back to the drawing board" to redesign the project both to meet PDC subsidy availability and community desires for a more neighborhood-friendly building.

During the redesign process, Tom Walsh, Sr. retired, turning the project over to his son Tom Walsh, Jr. who has been leading the project ever since through his own company Cityhouse Builders.

King/Parks project

A principal emphasis of Tom Walsh, Jr.'s redesign/reprogramming of the project was to create a project that was financially feasible and acceptable to stakeholders. In conjunction with Ankrom Moisan Architects, the project was redesigned to diminish the mass of the original proposal while creating a number of townhome units on the west side of the property that would more closely mirror the existing units on NE Garfield Ave. Somewhat ironically, the redesign showed mixed-use commercial buildings on NE Martin Luther King, Jr. Blvd. at the corners on Highland St. and Portland Blvd., very similar to the original SERA Architects Piedmont Place design. The project that emerged and the one the disposition and development agreement memorializes includes 16 attached townhomes, 8 residential "loft-style" units, and approximately 6,600 square feet of ground floor commercial space. All residential townhomes will be made permanently affordable through the Proud Ground land trust model to families earning 60%-80% of area median family income. The ground floor commercial space will be condominiumized to allow the units to be sold should there be demand. Otherwise, the developers plan to hold the commercial units until they can be refinanced, currently projected in year 15 of the project. Conceptual designs are shown in Attachment B.

ATTACHMENTS:

- A. URA Financial Summary
- B. Project Summary

URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2008-09	Revised FY 2009-10	Forecast FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14
Convention Center URA						
Resources						
Beginning Fund Balance	7,379,028	5,363,115	135,621	191,823	256,836	0
Fees and Charges	2,500	0	0	0	0	0
Interest on Investments	125,000	160,000	110,000	100,000	150,601	0
Loan Collections	251,232	220,665	195,232	188,302	179,332	0
Property Income	1,050,000	126,000	4,000,000	0	0	0
Reimbursements	70,000	0	0	0	0	0
TIF Proceeds	7,392,600	12,787,200	3,396,600	7,117,875	3,715,403	0
Transfers In	642,259	0	0	0	0	0
Total Resources	16,912,617	18,656,980	7,837,453	7,598,000	4,302,172	0
Requirements						
Program Expenditures						
Business and Industry						
Community Economic Development						
H72030 Community Econ Development	150,000	250,000	250,000	300,000	350,000	0
General Business Assistance						
H79020 Business Finance	900,000	1,060,851	550,000	250,000	300,000	0
H79022 Business Retention	100,000	50,000	0	0	0	0
Target Industries						
H79020 Business Finance	250,000	100,000	0	100,000	100,000	0
Business and Industry Total	1,400,000	1,460,851	800,000	650,000	750,000	0
Housing						
Multi-Family - For Sale						
H19032 King/Parks Affordable Housing	299,752	500,000	625,000	625,000	0	0
H80003 Lloyd Cascadian Phase II	1,200	3,000	0	0	0	0
H80010 Fremont Housing	140,000	140,000	0	0	0	0
H80026 Grant Warehouse - Affordable Housing	100,000	300,000	1,600,000	0	0	0
Multi-Family - Rental Housing						
H80002 MFH - 2nd and Wasco	1,600	5,000	0	0	0	0
H80042 OCC Miracles Club	1,400,000	3,285,000	0	0	0	0
H80043 Rose Qtr Afford Rental Housing	800,000	1,244,100	0	0	0	0
H89030 Affordable Rental Housing	223,417	0	800,000	0	0	0
H89049 McCoy Apartments Rehab	0	500,000	0	0	0	0
Plans and Strategies - Housing						
H37921 Lloyd Hsg Policy/Planning	3,800	0	0	0	0	0
Portland Housing Bureau						
H28025 Administration	0	72,267	158,129	151,782	88,674	0
Housing Total	2,969,769	6,049,367	3,183,129	776,782	88,674	0

PROJECT SUMMARY

- Project Name:** King/Parks
- Description:** Phase 1: 16 townhomes permanently affordable at 60%-80% MFI.
Phase 2: 8 residential loft style units priced at market rate.
Phase 2: Approximately 6,600 square feet of ground floor commercial space in three buildings.
- Location:** 6431-6445 NE Martin Luther King, Jr. Blvd.
- URA:** Oregon Convention Center
- Current Phase:** Phase 1, 16 residential townhomes only (plus necessary infrastructure)
- Next Milestone:** Complete property subdivision
- Completion Target:** Phase 1 construction complete by November 2011. No completion date has been set for phase 2 because of market uncertainty.
- Outcome:** See “description” above.
- Site/Project Map:**



Conceptual Rendering (looking northwest)



Model (looking southwest)

