

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: April 14, 2010

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 10-33
Sale of PDC-owned property located at 2650 NW Upshur Street to a Northwest Housing Alternatives (NHA) controlled entity.

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6783

ACTION SUMMARY

This action authorizes the sale of PDC-owned property located at 2650 NW Upshur (“Property”) to an entity controlled by Northwest Housing Alternatives (“NHA”) for \$50,000. The sale will enable an NHA controlled entity to obtain rehabilitation and permanent financing necessary for the preservation of the affordable housing project located on the Property. An NHA controlled entity currently leases the Property from PDC under a long term lease that expires in 2040 and that provides for nominal lease payments to PDC of \$2,500 per year. NHA had originally requested a 70-year extension of the remaining lease term to 2110. Rather than extend the lease term, PDC proposed to sell the Property to avoid the risks of continued long-term ownership of property effectively controlled by another entity and with respect to which PDC would receive only nominal annual lease payments. The Property is not located in an urban renewal area.

PUBLIC BENEFIT

This action will ensure the long term financial viability of an affordable housing project in an underserved area of Northwest Portland containing 30 rental units.

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

Not applicable. This is an existing affordable housing project

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Thurman/Vaughn Corridor Improvement Plan was adopted by City Council in August, 1977, and called for new housing to be built on vacant land between NW 26th Ave. and NW 28th Place. City Council directed PDC through Resolution 32137 (adopted July 5, 1978) to work with Tom Walsh to develop housing on PDC owned land in the Thurman/Vaughn Corridor. Pursuant to that resolution, PDC leased the land on a long-term basis to a Tom Walsh controlled entity, which constructed and operated affordable housing on the site. An NHA controlled entity acquired the leasehold interest of the Tom Walsh entity in 2009 in anticipation of rehabilitating the affordable housing. PDC approved the assignment of the lease agreement to the NHA controlled entity through Resolution No. 6664 (adopted JANUARY 14, 2009) with 30 years currently remaining on the lease term. This action enables the preservation of the affordable housing on the site, which is located in an underserved part of the city, and supports the adopted city housing policy of preserving expiring Section 8 rental assisted projects.

FINANCIAL IMPACT

PDC will receive \$50,000 for the sale of the property, which equates to the present value of the existing annual lease payment of \$2,500 per year over a term of 100 years. The City of Portland Assessor's office estimated the real market value of the land at \$1,069,900 as of March 22, 2010, which does not account for the existing 30 year lease term and rent restrictions. Since this property was purchased and held in the Housing and Community Development Contract Fund, all proceeds from the sale will be returned as program income to the Bureau of Housing.

RISK ASSESSMENT

This action will eliminate the opportunity for PDC to redevelop the site for a different use at the expiration of the existing lease period. Given the fact that the site is outside of a URA and there is no PDC funding source available to assist with potential redevelopment of this site in the future, the risk is considered low.

WORK LOAD IMPACT

There are sufficient staff resources within the Housing and Legal Departments to process this request

ALTERNATIVE ACTIONS

The Board may withhold approval for the sale, and continue under the current lease structure which has 30 years remaining, and evaluate redevelopment opportunities at the end of the lease term. This action would be unacceptable to the Low Income Housing Tax Credit (LIHTC) Investor and Construction and Permanent lenders and would make the rehabilitation and preservation of the project unfeasible.

Alternately, the Board could approve extending the lease term by 70 years to an expiration date of 2110 which would meet the LIHTC Investor and the other project lender

requirements. However, the project lenders would all require encumbrances of approximately \$8,000,000 to be recorded against PDC's fee interest in the property which, together, would substantially dilute, if not effectively eliminate, PDC's economic interest in the Property. This action is not recommended due to the risks of continued long-term ownership of property effectively controlled by another entity and with respect to which PDC would receive only nominal annual lease payments. The Property is not located in an urban renewal area.

CONCURRENCE

PDC staff has conferred with the Portland Housing Bureau in evaluating the proposal. PDC's investment committee has reviewed this action and recommended approval of the sale.

BACKGROUND

Upshur House Apartments are located in Northwest Portland at 2650 NW Upshur Street. The project consists of five townhouse style apartment buildings for low-income families in a mix of 8 one-bedroom units, 12 two-bedroom units, and 10 three-bedroom units. PDC owns a fee simple interest in the land beneath the project, which is leased to project owner Upshur Renewal LLC. (Northwest Housing Alternatives, Managing Member).

On December 11, 1979, the Board approved Resolution No. 2799 authorizing the PDC to enter a 60 year land lease with Upshur House, LTD (Tom Walsh and Co., General Partner) for the sum of \$2,500 per year with the stipulation that Walsh develop affordable housing on the site. Upshur House, LTD and PDC entered into a 60 year Land Lease on February 29, 1980 and there are approximately 30 years left on the term.

On January 14, 2009, the Board approved Resolution No. 6664 authorizing the transfer of the land lease to Upshur Renewal LLC to facilitate the sale of the housing project to a Northwest Housing Alternatives (NHA) controlled entity in order to assist with the preservation of affordable housing. Upshur Renewal LLC acquired the housing project on April 4, 2009 utilizing acquisition financing from NOAH. Upshur is an expiring Section 8 project and NHA purchased the project as part of a strategy to preserve the affordable units. The existing Section 8 contract expires in July 2010, and NHA has gone through the process of applying to HUD for a 20 year extension of the contract.

NHA has also put together \$8 million of financing to fund the rehabilitation of the project and ensure its long term viability, as well as taking out the NOAH interim acquisition financing. The financial package includes a Wells Fargo construction loan, permanent financing from NOAH, Tax Credit Assistance Program (TCAP) financing from Oregon Housing and Community Services (OHCS), Section 108 financing from the Portland Housing Bureau, and Low Income Housing Tax Credit (LIHTC) Equity from Enterprise Community Investment, Inc. The sale of the property enables NHA to meet lender requirements that encumbrances be recorded against the property.

An alternative structure of continuing under the existing land lease was explored and is not recommended due to the fact that the LIHTC equity investor would require the lease term be extended by 70 years, and the project lender's would require trust deeds of approximately \$8 million and regulatory encumbrances be recorded against PDC's fee interest in the property. PDC's lack of a funding source available to cure defaults under loan documents, as well as a lack of control over property operations deems a higher level of implied risk that can be avoided through transferring the property at this time.

Attorneys from NHA and Enterprise Community Investment are working through tax issues related to the Low Income Housing Tax Credits to determine the purchasing entity for the property.