



**DATE:** November 9, 2016  
**TO:** Board of Commissioners  
**FROM:** Kimberly Branam, Executive Director  
**SUBJECT:** Report Number 16-58

Approving Amended Terms of a Commercial Property Redevelopment Loan to WGP Apartments LLC for Redevelopment of a Certain Property in the Lents Town Center Urban Renewal Area in an Amount Not to Exceed \$9,090,955

#### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7217

#### **ACTION DESCRIPTION**

The following action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the PDC Executive Director to negotiate and execute an amended loan agreement for increased PDC financing for a 64-unit, mixed-income residential project (Project) on PDC-owned property at SE 91<sup>st</sup> Avenue and SE Reedway Street in the Lents Town Center Urban Renewal Area (URA) (see Attachments A and B). The action will authorize a Commercial Property Redevelopment Loan (Development Loan) of up to \$9,090,955 to WGP Apartments LLC, a special purpose entity formed by ROSE Community Development Corporation (ROSE CDC) and Home Forward, conditioned upon PDC review and approval of standard underwriting protocols. If approved, this action would increase PDC's commitment to the Project by \$2,148,961.

#### **BACKGROUND AND CONTEXT**

The ROSE CDC Project is part of the first phase of PDC's disposition and investment strategy in the Lents Town Center pursuant to the Lents Five-Year Action Plan (Action Plan). Consistent with the Action Plan, PDC issued a solicitation for disposition and development of several of its Lents Town Center properties, including the subject property. On June 24, 2015, the PDC Board approved actions moving forward three major neighboring developments resulting from the PDC solicitation: the Asian Health & Services Center project; the Oliver Station project with Palindrome Communities, LLC; and, the 9101 project, originally in partnership with Williams/Dame and Associates, Inc. On February 10, 2016, the PDC Board approved actions increasing PDC's financial contribution for each of those projects based primarily on increases in construction costs and decreased availability of certain capital sources identified as a result of further design, construction cost estimating, and preliminary underwriting from other funding sources. ROSE CDC has now advanced the design and due diligence of its Project and identified a similar need for increased resources. If approved, this action represents PDC's final contribution toward the Project.

In aggregate, PDC will invest significant resources in these four first-phase projects. As evidenced by the historic lack of private investment, public funding is critical to leveraging private investment in the Lents

Town Center. Should all four projects be completed as currently contemplated, their mix of market rate, mixed-income, and affordable housing and retail, office, and community space will help create the vibrant, mixed-use, active Lents Town Center that has long been a goal for Lents stakeholders, PDC, and the City of Portland.

On November 18, 2015, the PDC Board through Resolution No. 7153 authorized the negotiation and execution of a Disposition and Development Agreement, a Predevelopment Loan of up to \$1,064,500, and a Development Loan with ROSE CDC of up to \$6,941,994. Since November 2015, ROSE CDC has closed on its Predevelopment Loan with PDC and created a special purpose entity with Home Forward for the Project, WGP Apartments LLC. The development team is nearing completion of all property-related due diligence and has completed design development for the Project. The team received and reviewed cost estimates from the construction contractor. WGP Apartments LLC has submitted applications and received preliminary commitments from funding sources.

Since PDC Board approval in November 2015, design and setback requirements reduced the buildable area and the building layout was redesigned. As a result, the number of rental apartment units was reduced from 68 to 64. The project will include 26 units restricted to residents with income levels up to 100 percent median family income (MFI), 21 units restricted to 80 percent MFI, 16 restricted to 30 percent MFI, and one unit for an on-site property manager.

Project uses, primarily through construction cost increases and some higher development costs, have risen approximately \$4,180,000. WGP Apartments LLC has identified increased Project sources other than PDC and Portland Housing Bureau (PHB) loans of \$1,310,000 through additional anticipated senior debt leverage, new grant funds, and increased waivers and incentives. The resulting funding gap is \$2,870,000, which the development team has requested be met by increased PDC and PHB funding on a pro rata basis, or approximately \$2,150,000 from PDC and \$720,000 from PHB, respectively.

Following are the original sources and uses for the Development Loan that the PDC Board approved at the November 18, 2015, meeting and the current sources and uses including increased PDC investment:

Sources	Original	Current
U.S. Housing & Urban Development Section 221(d)(4) Loan	\$ 7,075,000	\$ 7,830,800
PDC Loan	\$ 6,941,994	\$ 9,090,955
PHB Loan	\$ 2,075,000	\$ 2,816,320
Grants	\$ 400,000	\$ 747,100
Waivers, Exemptions, & Incentives	\$ 167,440	\$ 353,885
Deferred Developer Fee	\$ 475,000	\$ 475,000
Developer Equity	\$ 250,000	\$ 250,000
<b>Total Sources</b>	<b>\$ 17,384,434</b>	<b>\$ 21,564,060</b>
Uses		
Land	\$ 910,000	\$ 882,869
Hard Construction Costs (incl. contingency)	\$ 12,196,869	\$ 15,796,760
Soft Costs	\$ 2,907,315	\$ 3,263,139
Contingency	\$ 100,000	\$ 345,068
Operating Reserves	\$ 495,250	\$ 501,224
Developer Fee	\$ 775,000	\$ 775,000
<b>Total Uses</b>	<b>\$ 17,384,434</b>	<b>\$ 21,564,060</b>

PDC staff recommends conditional approval of increased PDC project funding by \$2,148,961. Such approval is anticipated to give confidence to the development team that PDC intends to complement

the financial support received from other sources. If approved, the Project would be able to move forward according to the following estimated milestones:

Disposition and Development Agreement Executed	November 2016
Building Permit 'Ready to Issue'	February 2017
Closing	February 2017
Construction Complete	March 2018

### **PUBLIC PARTICIPATION AND FEEDBACK**

While there has been no formal public outreach process regarding the proposed increased funding to the Project, PDC staff maintains regular contact with local stakeholders and community groups, including the Lents Neighborhood Association, to provide ongoing updates about the Project and the other three Lents Town Center redevelopment projects underway. Community advocates have expressed their strong desire to see all of the projects move forward on schedule, provided changes including increased funding for the four projects do not compromise other shared PDC and community priorities in the Lents Town Center, particularly the redevelopment of the PDC-owned property at SE 92nd Avenue and Harold Street.

### **BUDGET AND FINANCIAL INFORMATION**

The Lents Town Center URA fiscal year (FY) 2016-17 Adopted Budget and Five-Year Forecast, as shown in Attachment C, reflects dated estimates in project costs in the Commercial Property Lending line item. Staff is concurrently providing recommended FY 2016-17 Adopted Budget revisions to the PDC Board for consideration at its November 9, 2016, meeting that reflect the necessary adjustments. These changes include an increase to line of credit draws in FY 2016-17 and an increase to the Commercial Property Lending line item in FY 2016-17. This will be offset by decreases in line of credit and Commercial Property Lending in future projected years.

It is important to note that this PDC Board action, coupled with the 9101 project development changes, may impact the timing and availability of funds for other priorities identified in the Action Plan. In particular, any projects that would be funded through the Commercial Property Lending activity would be on hold until FY 2017-18, at the earliest, extending the Action Plan implementation by approximately three years. Priority projects impacted by this change include the PDC-owned property at SE 92nd Avenue and Harold Street and the Architectural Iron Products building and property located adjacent to the MAX station on Foster Road; development of both sites has been identified as a key priority by the community.

### **RISK ASSESSMENT**

Risks related to this PDC Board action include:

- **Pre-Property Conveyance**
  - **ROSE CDC may terminate the transaction prior to closing.** There is a risk that ROSE CDC, after completing due diligence funded entirely by PDC, will terminate the transaction. The ramification of this risk is potential loss of the Predevelopment Loan amount. This is only partially mitigated by assignment of the predevelopment work product and contracts to PDC, some of which could be utilized for another development on the PDC-owned site.

- **Project costs may continue to increase.** As designs are finalized, Project costs are refined, and other capital sources provide formal commitments, there is a high probability that the feasibility of the Project may depend upon more significant support from existing sources or new sources. Through this approval, the PDC Board has indicated to ROSE CDC and WGP Apartments LLC that this amended Development Loan commitment represents the final PDC contribution to the Project.
- **ROSE CDC may not secure other funding commitments.** ROSE CDC expects to secure additional funding in the form of a senior loan through the U.S. Housing and Urban Development Section 221 (d) 4 program. The ramification of this risk is loss of the Predevelopment Loan amount plus potential failure to close.
- **Post Property Conveyance**
  - **ROSE CDC may fail to construct after conveyance of the Property.** PDC retains a right to repurchase the Property for the same sale price under such circumstances.
  - **Rents may not increase sufficiently to service the Development Loan or generate a cash flow return to PDC as anticipated.** Repayment of the Development Loan is cash flow-dependent which is dependent upon future economic conditions and constrained by the restricted rent structure of the Project. Consequently, this risk is significant. This risk is only partially mitigated by PDC's second lien position on the property.

#### **ALTERNATIVE ACTIONS**

The PDC Board may elect to specify alternative terms for the proposed authorization or reject the proposal in its entirety and direct PDC staff to discontinue the disposition process.

#### **ATTACHMENTS**

- A. Aerial and Property Photos
- B. Project Renderings
- C. Lents Town Center URA FY 2016-17 Financial Summary

**Aerial and Property Photos**



Project Location



View from SE 91st Avenue, looking east



**Project Renderings**



  CARLETON HART  
ARCHITECTURE

WOODY GUTHRIE PLACE



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ARCHITECTURE

WOODY GUTHRIE PLACE

**URA Financial Summary**

**Financial Summary  
Five-Year Forecast**

<u>Lents Town Center URA Fund</u>	<u>Revised FY 2015-16</u>	<u>Adopted FY 2016-17</u>	<u>Forecast FY 2017-18</u>	<u>Forecast FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>
<b>Resources</b>						
Beginning Fund Balance	18,589,745	17,066,817	249,609	4,057,406	5,500,042	19,567,946
<b>Revenue</b>						
Fees and Charges	50,300	31,211	31,462	3,539	4,107	3,390
Interest on Investments	61,040	51,118	665	1,607	8,938	72,951
Loan Collections	209,149	122,117	172,490	187,830	301,365	158,002
TIF - Short Term Debt	9,990,000	9,990,000	10,989,000	10,087,961	10,304,003	-
TIF - Long Term Debt	0	6,700,000	26,000,000	-	11,989,114	-
Property Sales	0	1,203,000	180,000	-	1,345,000	-
Rent and Property Income	61,025	109,545	58,874	58,874	2	1
Reimbursements	82,500	73,056	81,593	81,593	81,593	81,593
<b>Total Revenue</b>	<b>10,454,014</b>	<b>18,280,047</b>	<b>37,514,084</b>	<b>10,421,404</b>	<b>24,034,122</b>	<b>315,937</b>
<b>Total Resources</b>	<b>29,043,759</b>	<b>35,346,864</b>	<b>37,763,693</b>	<b>14,478,810</b>	<b>29,534,164</b>	<b>19,883,883</b>
<b>Requirements</b>						
<b>Administration</b>						
A00029-Debt Management-LTC	19,327	20,000	20,000	20,000	20,000	20,000
<b>Administration Total</b>	<b>19,327</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
<b>Economic Development</b>						
<b>Traded Sector</b>						
A00113-Business Development-LTC	20,000	20,000	20,000	20,000	20,000	20,000
A00380-Lean Manufacturing-LTC	30,000	30,000	30,000	30,000	30,000	30,000
<b>Community Economic Development</b>						
A00121-Community Development-LTC	50,000	50,000	50,000	50,000	50,000	50,000
<b>Business Lending</b>						
A00208-BL -General-LTC	700,100	700,300	700,300	700,300	700,300	300,300
<b>Economic Development Total</b>	<b>800,100</b>	<b>800,300</b>	<b>800,300</b>	<b>800,300</b>	<b>800,300</b>	<b>400,300</b>
<b>Housing</b>						
A00159-Home Repair Projects-LTC	500,000	-	-	-	-	-
A00161-Home Buyer Assistance-LTC	500,000	-	-	-	-	-
A00170-Affordable Housing-LTC	202,475	11,953,402	13,571,255	3,280,913	4,165,000	4,371,849
A00180-PHB Staff & Admin-LTC	592,365	-	-	-	-	-
<b>Housing Total</b>	<b>1,794,840</b>	<b>11,953,402</b>	<b>13,571,255</b>	<b>3,280,913</b>	<b>4,165,000</b>	<b>4,371,849</b>
<b>Infrastructure</b>						
<b>Parks</b>						
A00239-Walker Stadium-LTC	200,000	-	-	-	-	-
A00240-Leach Botanical Grdns-LTC	41,334	1,890,989	-	-	-	-
<b>Transportation</b>						
A00243-Foster-52nd to 82nd-LTC	740,000	1,200,000	-	-	-	-
A00244-Lents Entryway-LTC	12,641	-	-	-	-	-
<b>Infrastructure Total</b>	<b>993,975</b>	<b>3,090,989</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Property Redevelopment</b>						
<b>Real Estate</b>						
A00325-Lents Little Lge Fld-LTC	7,375	7,500	7,500	7,500	7,500	-
A00326-Bakery Block-LTC	290,787	106,000	95,937	95,937	95,937	95,937
A00327-LTC II Parking Lot-LTC	7,840	8,200	8,200	8,200	8,200	-
A00328-MetroAuto Whisl WLot-LTC	66,620	9,500	9,500	-	-	-
A00329-MetroAuto Bldg & Lot-LTC	351	50	50	50	50	50
A00330-ArchctIronPrdctBldg-LTC	212,100	12,100	12,100	12,100	12,100	-
A00332-Real Estate Mgmt-LTC	69,883	33,000	33,000	33,000	33,000	33,000
<b>Commercial Property Lending</b>						
A00365-CPRL-General-LTC	4,502,000	15,515,000	15,515,000	1,001,000	1,001,000	1,001,000
<b>Redevelopment Strategy</b>						
A00323-LTC Town Ctr Redev-LTC	100,000	-	-	-	-	-
A00331-Project Development-LTC	100,000	200,000	150,000	150,000	150,000	150,000
<b>Redevelopment Grants</b>						
A00130-CLG-General-LTC	450,000	250,000	250,000	250,000	250,000	250,000
A00137-DOS-General-LTC	75,000	150,000	150,000	150,000	150,000	150,000

**Financial Summary  
 Five-Year Forecast**

<u>Lents Town Center URA Fund</u>	<u>Revised FY 2015-16</u>	<u>Adopted FY 2016-17</u>	<u>Forecast FY 2017-18</u>	<u>Forecast FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>
A00145-SIP-General-LTC	300,000	600,000	600,000	600,000	600,000	600,000
A00149-GFGP-General-LTC	125,000	125,000	125,000	125,000	125,000	125,000
Property Redevelopment Total	6,306,956	17,016,350	16,956,287	2,432,787	2,432,787	2,404,987
<b>Total Program Expenditures</b>	<b>9,915,198</b>	<b>32,881,041</b>	<b>31,347,842</b>	<b>6,534,000</b>	<b>7,418,087</b>	<b>7,197,136</b>
Personnel Services	561,370	391,560	350,902	358,630	371,576	379,379
<b>Total Fund Expenditures</b>	<b>10,476,568</b>	<b>33,272,601</b>	<b>31,698,744</b>	<b>6,892,630</b>	<b>7,789,663</b>	<b>7,576,515</b>
Interfund Transfers - Indirect Charges	1,500,374	1,824,654	2,007,543	2,086,138	2,176,555	2,239,541
Contingency	17,066,817	249,609	4,057,406	5,500,042	19,567,946	10,067,827
<b>Total Fund Requirements</b>	<b>29,043,759</b>	<b>35,346,864</b>	<b>37,763,693</b>	<b>14,478,810</b>	<b>29,534,164</b>	<b>19,883,883</b>