

DATE: June 24, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-47

Approving the Terms of a Predevelopment Loan, a Development and Disposition Agreement, and a Commercial Property Redevelopment Loan to Palindrome Communities, LLC, for Redevelopment of a Certain Property in the Lents Town Center Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 7133

ACTION DESCRIPTION

The following three actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the PDC Executive Director to negotiate and execute an agreement for the development and disposition of PDC-owned property and financing in the Lents Town Center (Lents TC) Urban Renewal Area (URA) for a mixed-use project by:

1. Authorizing a Commercial Property Redevelopment Loan (Predevelopment Loan) of up to \$1,315,000 to Palindrome Communities, Inc. (Palindrome).
2. Authorizing the negotiation and execution of a Development and Disposition Agreement (DDA) with Palindrome for the conveyance of 1.07 acres of real property located on the northwest corner of the intersection of SE Foster Road and 92nd Avenue (the Property). Execution of the DDA is conditioned upon terms that are in accord with the Summary of Terms and Conditions.
3. Authorizing a Commercial Property Redevelopment Loan (Development Loan) of up to \$5,130,000 to Palindrome conditioned upon PDC review and approval of standard underwriting protocols.

The planned development (the Project) is the construction of a mixed-use development, including affordable residential units, ground floor commercial space, and associated parking spaces. In addition to the PDC-owned property, Palindrome intends to acquire two additional properties, commonly known as New Copper Penny and Chevron Station as part of the Project (see an aerial and site photos in Attachment A).

The Palindrome Project is part of the first-phase of PDC's larger disposition and investment strategy in the Lents TC URA. At the June 24, 2015, meeting, the PDC Board will also be asked to approve actions moving two other major initiatives forward, both of them mixed-use redevelopment projects being proposed by Asian Health and Service Center, Inc., and Williams/Dame and Associates, Inc. PDC will still own significant, redevelopable sites in the Lents TC URA that will increase in value and appeal from the first-phase projects.

In aggregate, staff is proposing to invest significant resources in these three first-phase projects and feel strongly that public funding is critical to leveraging private investment that will, collectively, dramatically transform the Lents TC URA. Should all three projects be completed as currently contemplated, their mix of market rate and affordable housing, retail, office, and community space will help create the vibrant, mixed-use, active Lents TC that has long been a goal for Lents stakeholders, PDC, and the City of Portland (City).

Following are estimated milestones for the proposed Palindrome Project:

DDA Terms Approved	June 2015
Predevelopment Loan Approval	June 2015
Due Diligence Reports Complete	August 2015
Schematic Design Complete	September 2015
Design Review Initiated	November 2015
DDA Executed	January 2016
Building Permit Received	August 2016
Closing	August 2016
Construction Complete	November 2017

BACKGROUND AND CONTEXT

The Lents neighborhood is one of the largest, oldest, and most ethnically diverse communities in Portland. While the actions defined in the Lents TC URA Plan (1998) continue to be implemented, many of the hoped-for retail amenities, residential density, job growth, and private investment have yet to materialize. The \$90,000,000 of public investments in City infrastructure and facilities, redevelopment, business development, transportation, and affordable housing – along with the countless hours of dedicated public participation on advisory committees – have laid solid groundwork on which to realize this vision.

Lents Town Center Five-Year Action Plan. In May 2014, the Portland City Council adopted the Lents Town Center Five-Year Action Plan (Action Plan) which lays out a strategy for the next five years that focuses investments where they will have the most impact, ensures existing residents and businesses benefit, and takes some calculated risks. The Action Plan requires collaboration among public and private sectors as well as non-profit partners. It builds upon previous plans and efforts for this neighborhood, including the 1998 Lents TC URA Plan (amended 2008), the 2009 Lents TC Redevelopment Feasibility Study, the 2010 Lents Business District Strategy, and the 2011-13 Foster/Lents Integration Partnership. The proposed action is consistent with desired outcomes of all of these strategies.

Lents Request for Information (RFI). In an effort to advance Neighborhood Centers, Commercial Corridors, and Affordable Housing, all focal points of the Action Plan, PDC staff issued an RFI in October 2014 for the disposition and development of multiple PDC-owned parcels in the Lents TC URA. PDC received nine proposals and selected four in January 2015, including Palindrome’s mixed-use project proposal.

With the Lents TC URA sun setting in 2020, these requested PDC Board actions may serve as the final, critical push of activity in this district. A PDC conditional commitment at this time is also considered a necessary step to induce financial participation on the part of other financial partners. While the real estate market in the Lents TC URA is improving, current lease rates do not adequately return capital sources required to fund new construction. Preliminary pro forma indicate that there is a significant gap in the economic and financial feasibility of the Project. Palindrome would be exposing themselves to undue risk and probable losses if they were to proceed before there is certainty that PDC funding, including the permanent financing, will be available to fill that gap. PDC’s role as gap financier is critical, and Palindrome would be unable to proceed with the project in the Lents TC URA but for PDC’s involvement. Palindrome is unlikely to move forward with predevelopment work if feasibility remains a significant issue. Consequently, this set of actions is intended to demonstrate PDC’s support, which will in turn provide certainty to Palindrome and the Project.

Predevelopment Loan Terms & Conditions

PDC staff recommends that PDC fund all tax increment-eligible, pre-approved predevelopment expenses through a \$1,315,000 Predevelopment Loan. In the event that the Project is deemed unfeasible and does not move forward, the Predevelopment Loan would be forgiven.

Proposed Disposition and Development Terms & Conditions

PDC staff recommends that the PDC Board approve the negotiation and execution of a DDA, which will be subject to the review of PDC’s General Counsel prior to execution.

Development Loan Terms & Conditions

PDC staff is also recommending conditional approval of a Development Loan for construction financing, which would give confidence to Palindrome of PDC’s commitment to a project that would otherwise not be feasible. If approved, PDC would provide a Development Loan in the amount of \$5,130,000. The Development Loan represents 13 percent of the total project cost, which is anticipated to be approximately \$40,000,000. Palindrome expects to secure \$8,000,000 in the form of tax-exempt bonds, a \$4,000,000 senior loan, a \$12,000,000 loan from the Portland Housing Bureau (PHB), and a \$7,900,000 in Low Income Housing Tax Credit (LIHTC) equity.

Capital Stack	Palindrome (Residential)	Palindrome (Commercial)
Senior Debt	\$8,000,000 (Bonds)	\$4,000,000
PDC Loan		\$5,130,000
PHB Loan	\$12,000,000	
Low Income Tax Credit	\$7,900,000	
Developer Equity	\$2,780,000	\$310,000
Total	\$30,680,000	\$9,440,000

The PDC Development Loan is conditioned upon PDC review and approval of standard underwriting protocols. The PDC Development Loan structure and underwriting will be reviewed by the PDC Financial Investment Committee and General Counsel prior to finalization. The Summary Terms and Conditions include unique provisions for cash flow-dependent repayment of the PDC Development Loan.

COMMUNITY AND PUBLIC BENEFIT

Lents Town Center Five-Year Action Plan. These actions would further multiple key objectives of the Action Plan, including stimulating development for the Lents TC URA and the construction and preservation of affordable housing.

District Identity. The Project will provide new services that increase the vitality of the Lents TC, complement existing businesses, align with the Lents Grown identity, and implement the Business District Development Strategy.

Jobs. The Project will provide temporary construction jobs and permanent commercial spaces for employment opportunities and new services in the Lents TC, in addition to adding residential households that support neighborhood businesses.

Equity Goals. Palindrome will comply with PDC’s Equity Policy requirements for participation of minority-owned, women-owned, and emerging small businesses and shall use apprentices and women, minorities, and disadvantaged individuals in the construction workforce, as provided by the Business and Workforce Equity Program requirements.

Green Building. Palindrome will comply with PDC’s Green Building Policy, which requires Leadership in Energy & Environmental Design Gold certification.

Prevailing Wage. The Project shall be considered a “public work,” subject to Oregon’s Prevailing Wage Law (Oregon Revised Statutes 279C.800 to 279C.870) and the administrative rules adopted thereunder.

Community Benefits. Palindrome will comply with a Community Benefits Agreement that details additional requirements in exchange for the requested public investment. These include equity-based programs to implement PDC’s Equity Policy, specific measures designed to mitigate community impacts through public participation, and reducing temporary impacts cause by construction activities. One such identified benefit is the generation of commercial affordability for neighborhood business tenants. In order to establish this benefit, PDC may seek to lease not more than 4,000 square feet of the commercial space in the Project at an agreed upon 10 percent discount to market rates charged on the non-anchor square-footage that is not PDC-leased.

Financial Return. The DDA structure has the potential to generate a revenue sharing benefit for PDC after expenses, deferred fees, and debt are satisfied. The potential benefit is dependent upon positive Project cash flow in future years.

PUBLIC PARTICIPATION AND FEEDBACK

PDC employed an aggressive marketing campaign to generate public and developer interest in the RFI. Aside from the standard social media, website presence, and media release, PDC staff held two investor walking tours (open to the public) and an open house on November 5, 2014. In addition, PDC staff installed on-site advertisements, and conducted an online survey to test market ideas for needed neighborhood services.

PDC staff worked with a stakeholder evaluation committee to select the final proposals. The evaluation committee included City bureau partners from the Lents Action Plan – PHB and the Bureau of Planning and Sustainability – as well as four Lents community members (including representatives from the Neighborhood Economic Development Leadership Group, Lents Neighborhood Association, and Lents Grown) and the Mayor’s Office. The committee’s final recommendation was to enter exclusive negotiations with four of the nine proposal teams. PDC staff has subsequently organized monthly “developer breakfast” meetings to inform local community stakeholder groups, as well as periodic updates to the Lents Neighborhood Association. Moving forward, Palindrome will participate in a public

feedback process coordinated by PDC, following approval of the Predevelopment Loan, including a public open house in fall 2015 and other community involvement.

BUDGET AND FINANCIAL INFORMATION

The Lents TC URA fiscal year 2015-16 Adopted Budget and Five Year Forecast currently include adequate funds for these proposed actions (see Attachment B).

RISK ASSESSMENT

Risks related to these PDC Board actions include:

1. **Palindrome may terminate the transaction prior to closing.** There is a risk that Palindrome, 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.
2. **Palindrome may not secure other funding commitments.** Palindrome expects to secure additional funding in the form of Tax Exempt Bonds and LIHTC. The ramification of this risk is potential failure to close.
3. **Palindrome 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.
4. **Rents may not increase sufficiently to service the Development Loan or generate a cash flow return to PDC as scheduled or anticipated.** The Development Loan and potential revenue payments are cash flow dependent, which, in turn, are dependent upon future economic conditions. This risk is partly mitigated by the second lien position on the property.

ALTERNATIVE ACTIONS

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

ATTACHMENTS

- A. Aerial and Property Photos
- B. Lents TC URA Financial Summary

Aerial and Property Photos



View from Woodstock Boulevard, Looking Northeast

Lents TC URA Financial Summary

Five-Year Forecast Program Requirements

	Revised- 3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
Lents Town Center URA						
Resources						
Beginning Fund Balance	15,409,526	14,689,015	12,190,722	72,330	859,889	4,515,145
Fees and Charges	6,624	1,500	534	530	529	529
Interest on Investments	48,000	44,067	36,572	217	2,580	13,545
Loan Collections	440,000	492,687	133,062	133,061	133,062	246,596
Long Term Debt	0	0	3,300,000	15,500,000	0	27,291,301
Property Income	56,941	60,875	1,754,156	240,875	60,875	3,537,873
Reimbursements	4,273	80,200	80,200	80,200	80,200	80,200
Short Term Debt	8,991,000	9,990,000	9,990,000	10,989,000	10,989,000	3,163,169
Total Resources	24,956,364	25,358,344	27,485,246	27,016,213	12,126,135	38,848,358
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101360...Debt Management-LTC	32,413	32,413	20,000	20,000	20,000	20,000
Total Administration	32,413	32,413	20,000	20,000	20,000	20,000
Business Development						
Business Lending						
L00210360...BL -General-LTC	250,000	700,100	700,100	700,100	700,100	700,100
L00200360...BL -Modifications-LTC	500	0	0	0	0	0
Small Business & Community Dev						
B55800360...Business Development-LTC	10,000	20,000	20,000	20,000	20,000	20,000
B55900360...Community Development-LTC	50,000	50,000	50,000	50,000	50,000	50,000
Traded Sector Business Dev						
B15100360...Cluster Development-LTC	10,000	0	0	0	0	0
T01069360...Lean Manufacturing-LTC	30,000	30,000	30,000	30,000	30,000	30,000
Total Business Development	350,500	800,100	800,100	800,100	800,100	800,100
Housing						
PHB Housing						
H15410360...Home Repair Projects-LTC	226,003	500,000	500,000	500,000	500,000	500,000
H15420360...Home Buyer Assistance-LTC	591,241	500,000	500,000	500,000	500,000	500,000
H15430360...Affordable Rental Hsg-LTC	0	24,324	5,700,000	5,400,000	600,000	2,100,000
H15900360...PHB Staff & Admin-LTC	595,004	592,365	679,402	745,255	895,913	900,000
Total Housing	1,412,248	1,616,689	7,379,402	7,145,255	2,495,913	4,000,000
Infrastructure						
Parks						
N36011515...Walker Stadium-LTC	0	200,000	0	0	0	0
N36012515...Leach Botanical Grdns-LTC	270,000	1,770,000	0	0	0	0
Transportation						
N36031525...Foster-Woodstock-LTC-Adm	51,600	0	0	0	0	0
N36031535...122nd-Holgate/Ramona-LTC-Adm	950,000	0	0	0	0	0
N36031545...Foster-52nd to 82nd-LTC-Adm	100,000	640,000	1,200,000	0	0	0
N36032015...Lents Entryway-LTC-Adm	6,250	0	0	0	0	0
N36031415...Street/Sidewalks LID-LTC-Adm	60,000	0	0	0	0	0
Total Infrastructure	1,437,850	2,610,000	1,200,000	0	0	0
Property Redevelopment						
Commercial Property Redevelopm						
P36060935...Metro Auto Bldg & Lot-LTC-Adm	7,709	4,709	4,709	4,709	4,709	4,709
P36092015...Real Estate Mgmt-LTC-Adm	23,579	23,479	22,679	22,679	2,000	2,000

Five-Year Forecast Program Requirements

	Revised-3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
P36061015 ArchtctIronPrdctBldg-LTC-Adm	13,904	209,229	9,229	9,229	9,229	9,229
P36060925 MetroAuto Whisl VLot-LTC-Adm	6,697	50,500	5,500	0	0	0
P36060615 LTC II Parking Lot-LTC-Adm	7,666	7,840	7,840	7,840	7,840	7,840
P36060335 Bakery Block-LTC-Adm	1,018,964	94,544	94,544	94,544	94,544	94,544
P36060325 Lents Little Lge Fld-LTC-Adm	4,375	4,375	4,375	4,375	4,375	4,375
P36055015 Foster Road Redev-LTC-Adm	20,000	0	0	0	0	0
P36050915 LTC Town Ctr Redev-LTC-Adm	100,000	100,000	100,000	50,000	50,000	50,000
P36050815 SE 92nd Redev-LTC-Adm	25,000	0	0	0	0	0
P36090015 Project Development-LTC-Adm	49,500	100,000	100,000	100,000	100,000	100,000
Commercial Real Estate Lending						
R01100360 CPRL-General-LTC	2,500,000	4,502,000	15,002,000	15,002,000	1,002,000	1,002,000
Community Redevelopment Grants						
G01100360 CLG-General-LTC	800,000	450,000	250,000	250,000	250,000	250,000
G02100360 DOS-General-LTC	75,000	75,000	75,000	75,000	75,000	75,000
G03100360 SIP-General-LTC	560,000	300,000	300,000	300,000	300,000	300,000
G04100360 GFGR-General-LTC	50,000	125,000	125,000	125,000	125,000	125,000
Total Property Redevelopment	5,262,394	6,046,676	16,100,876	16,045,376	2,024,697	2,024,697
Total Program Expenditures	8,495,405	11,105,878	25,500,378	24,010,731	5,340,710	6,844,797
Personal Services	407,292	561,370	385,556	404,834	425,075	446,329
Transfers - Indirect	1,364,652	1,500,374	1,526,982	1,740,759	1,845,205	1,789,849
Total Fund Expenditures	10,267,349	13,167,622	27,412,916	26,156,324	7,610,990	9,080,975
Contingency	14,689,015	12,190,722	72,330	859,889	4,515,145	29,767,383
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	24,956,364	25,358,344	27,485,246	27,016,213	12,126,135	38,848,358