



PROSPER
PORTLAND
Building an Equitable Economy

DATE: November 13, 2024
TO: Board of Commissioners
FROM: Shea Flaherty Betin, Interim Executive Director
SUBJECT: Report Number 24-55

Approving the Terms of a Commercial Property Loan to Oregon Casket Redevelopment, LLC, in an Amount Not to Exceed \$7,000,000 for Acquisition, Rehabilitation, and Conversion of a Commercial Building into Residential Apartments at 403 NW 5th Avenue

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7588

This action by the Prosper Portland Board of Commissioners (Board) will authorize the Executive Director to provide a Commercial Property Loan with exceptions (Loan) to Oregon Casket Redevelopment, LLC (Borrower) in an amount of up to \$7,000,000, at an interest rate of three percent, for development and management of 32 studios, two live/work apartments, and one commercial space (Project), located at 403 NW 5th Avenue (Property). A Site Map can be found in Attachment A.

STRATEGIC ALIGNMENT AND OUTCOMES

This action will deliver on several Advance Portland objectives, most notably by:

- Increasing mixed-income housing in subdistricts with a lack of residential use and an imbalanced mix of uses (Objective 3.1), including office-to-residential conversion incentives; and
- Addressing housing production across a continuum of affordability (Objective 3.8).

The Property is located in Old Town/Chinatown, Portland's oldest neighborhood, and this action delivers on the Old Town/Chinatown Action Plan (Action Plan), approved in 2014 and extended in 2019. This Action Plan continues to outline district investment priorities to create a safe, vibrant, and economically healthy neighborhood, while maintaining and enhancing the unique character of the district. The Project will help deliver on those objectives.

The Prosper Portland Board adopted new Commercial Property Loan Program Guidelines on March 13, 2024. Under these guidelines, the proposed Loan would be considered for property acquisition and construction financing with the following exceptions: (a) the loan amount is \$2,000,000 more than the maximum loan amount of \$5,000,000 set forth in the guidelines; (b) the interest rate of three percent interest rate is lower than guidelines (ten-year treasury + margin); and (c) the 15-year maturity exceeds the five-year construction maximum.

BACKGROUND AND CONTEXT

The Property, known as the Oregon Casket Building, is currently vacant and on the City of Portland (City's) list of unsafe buildings pursuant to Chapter 29.40 of the City Code. The building is currently

being considered by the Oregon State Historic Preservation Office to determine eligibility as a historic resource. Once the State completes its review, the Borrower will apply to list it with the National Parks Service.

The Oregon Casket Company was formed by John Pettis Finley in Portland in 1897. In the 1890s, caskets were made of high-quality Oregon mill lumber, making the company one of the largest dealers of undertakers’ supplies in the western United States. A prominent building in its day, the Casket Building was only the second local building to rise to five stories. The other was the New Grand Central Hotel at the southeast corner of NW 3rd Avenue and Flanders Street, an 1892 quarter-block building with ground-floor retail that was demolished in 1978. As noted, the Property is in the process of being added to the National Register of Historic Places.

In 2013, the current Property owner, Oregon Casket, LLC (Michael E. Menashe, LLC, or the Seller) purchased the building for \$125,000. That same year, Prosper Portland invested \$12,000 in the form of a Development Opportunity Services (DOS) grant, and in 2014 provided a \$73,050 predevelopment loan to the current owner. The DOS grant explored the feasibility for adaptive reuse to attract creative-type commercial tenants and concluded that a project of that type would not generate a sufficient return on equity to justify the level of investment required to rehabilitate the subject property. The Borrower believes that converting the use to housing and taking advantage of Historic Rehabilitation Tax Credits (HRTC), will allow them to purchase the property, rehabilitate it, and profitably lease the housing rental units.

Because of the building’s deteriorated condition, the acquisition cost has been negotiated at \$100,000, with HRTC benefitting the Seller, which will allow the building owner to claim 20 percent of qualified rehabilitation expenditures over five years. This is approximately equivalent to \$1,640,000. (The exact HRTC amount will depend on the costs that will qualify as “qualified rehabilitation expenditures.”)

As noted, the Borrower plans to purchase the building and convert it into 34 residential units and one commercial space. In compliance with the City’s Inclusionary Housing Program requirements, seven of the 34 units will rent at or below 80 percent area median income (AMI). The other 27 units will be leased at market rates, which are anticipated to fall between 80 and 120 percent AMI.

While the Project is in very early stages of design, total estimated development costs are anticipated to be \$9,516,847 (approximately \$380 per square foot), with \$8,209,726 budgeted for construction costs, including structural reinforcement, BOLI compliance, and a five percent contingency. Staff will work with the Borrower to determine if the contingency should be increased given where the Project is in design.

Sources and Uses for the Project are outlined as follows:

Sources		Uses	
Cash Equity	\$ 2,091,847	Acquisition	\$ 100,000
Developer Fee	\$ 425,000	Permits & Fees	\$ 127,472
Prosper Portland Loan	\$ 7,000,000	Professional Fees	\$ 459,649
		Financing Costs	\$ 195,000
		Developer Fee	\$ 425,000
		Renovation	\$ 8,209,726
TOTAL	\$ 9,516,847	TOTAL	\$ 9,516,847

EQUITY IMPACT

The Project is subject to Prosper Portland’s Green Building and Construction Business and Workforce Equity policies and will advance economic equity through investment in workforce housing in the district.

COMMUNITY PARTICIPATION AND FEEDBACK

Staff meet regularly with representatives from the Old Town Community Association (OTCA), a joint neighborhood and business association focused on enhancing the wellbeing and improving opportunities for residents and businesses in the district. The OTCA was instrumental in the development of the Action Plan which identifies market rate housing as a top priority. The OTCA Board has expressed support for the Oregon Casket Building conversion and an investment of Action Plan resources.

BUDGET AND FINANCIAL INFORMATION

There are sufficient resources in the fiscal year (FY) 2024-25 River District TIF Fund Budget (see Attachment B).

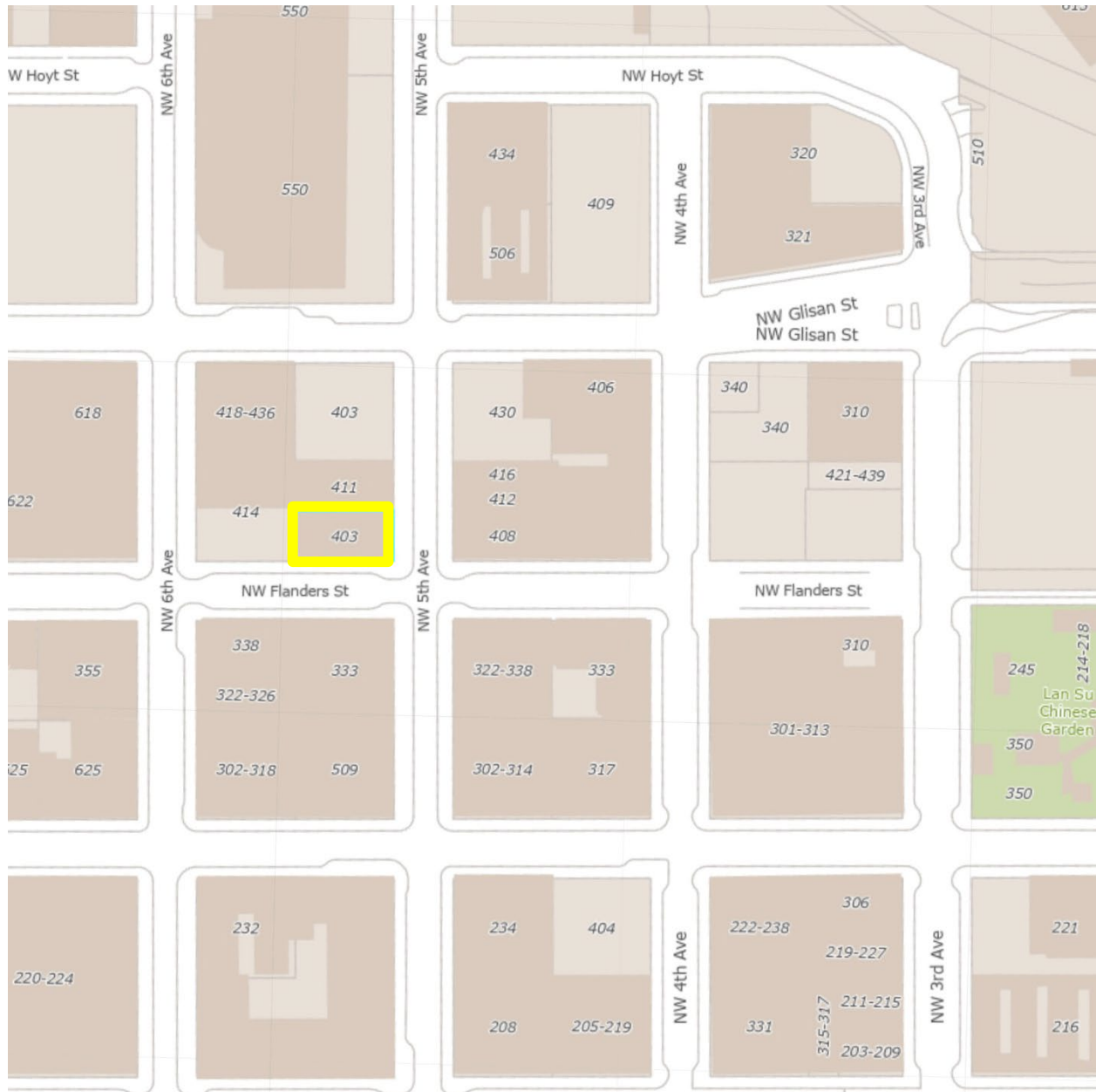
RISK ASSESSMENT

While there is a risk that the Borrower will be unable to repay the loan, staff has analyzed the project pro forma, financial projections, and will require corporate guaranties as well as a trust deed on the Property in first position. Staff reviewed the Property appraisal and there is a risk that the collateral value may be lower than the Loan amount. The proposed value upon stabilization is \$8,850,000 and is composed of three values: the appraiser’s indicated value of \$6,200,000, plus the \$2,240,000 value of Prosper Portland’s beneficial financing terms, plus the \$410,000 value of tax abatement.

ATTACHMENTS

- A. Site Map
- B. River District TIF Fund Budget

SITE MAP



403 NW 5th Avenue

RIVER DISTRICT TIF FUND BUDGET

River District TIF Fund	Revised FY 2023-24	Rev 1 FY 2024-25	Forecast FY 2025-26	Forecast FY 2026-27	Forecast FY 2027-28	Forecast FY 2028-29
Resources						
Beginning Fund Balance	44,021,189	35,065,010	20,741,883	22,971,322	20,505,442	18,890,289
Revenue						
Interest on Investments	880,424	334,102	348,792	345,297	284,987	244,424
Loan Collections	128,081	0	0	0	0	0
Miscellaneous	1,375	0	0	0	0	0
Property Sales	0	1,300,000	6,400,000	0	125,000	0
Rent and Property Income	2,904,189	3,334,184	2,237,362	2,246,219	2,284,248	2,284,248
Reimbursements	71,434	14,956	0	0	0	0
Transfers In	15,334,134	25,990,656	0	0	0	0
Total Revenue	19,319,637	30,973,898	8,986,154	2,591,516	2,694,235	2,528,672
Total Resources	63,340,826	66,038,908	29,728,037	25,562,838	23,199,677	21,418,961
Requirements						
Administration						
A00025-Debt Management-RVD	2,500	0	0	0	0	0
Administration Total	2,500	0	0	0	0	0
Economic Development						
Business Lending						
A00204-BL -General-RVD	873,536	1,873,507	0	0	0	0
Economic Development Total	873,536	1,873,507	0	0	0	0
Housing						
A00166-Affordable Housing-RVD	2,565,778	4,403,779	0	0	0	0
Housing Total	2,565,778	4,403,779	0	0	0	0
Infrastructure						
Parks						
A00232-Nbrhd Prk(The Fields)-RVD	645	550	555	560	565	0
Transportation						
A00770-USPS LID-RVD	0	750,000	750,000	750,000	750,000	750,000
Public Facilities						
A00718-Chinatown Gate-RVD	300,000	300,000	0	0	0	0
Infrastructure Total	300,645	1,050,550	750,555	750,560	750,565	750,000
Property Redevelopment						
Commercial Property Lending						
A00361-CPRL-General-RVD	1,000,000	1,539,558	0	0	0	0
Real Estate Management						
A00276-Post Office-RVD	511,696	264,400	264,400	264,400	264,400	264,400
A00278-4th and Burnside-RVD	42,767	35,967	35,967	35,967	35,967	35,967
A00279-Broadway Corridor-RVD	-3,181	0	0	0	0	0
A00285-Block Y-RVD	115,606	111,327	111,327	111,357	144,016	147,286
A00286-Union Station-RVD	1,624,855	1,917,400	0	0	0	0
A00288-Centennial Mills-RVD	630,548	620,681	0	0	0	0
A00290-Station Place Prkng-RVD	1,027,085	836,892	892,106	912,232	934,563	958,917
A00291-Block R-RVD	62,029	62,029	55,832	56,469	57,106	57,106
A00292-One Waterfront North-RVD	1,334	0	0	19,652	19,652	19,652
A00293-Old Fire Station Mgmt-RVD	37,286	37,286	37,286	0	0	0
A00558-RD Small Lots - 9th & Naito-RVD	12,322	12,322	0	0	0	0
A00587-Block 25-RVD	32,543	34,548	34,548	34,548	34,548	34,548
A00691-Post Office Garage-RVD	415,909	655,561	681,873	692,318	721,129	733,766
Real Estate Predevelopment						
A00186-Fairfield Commercial-RVD	0	157,627	0	0	0	0
A00276-Post Office-RVD	21,287,978	500,000	0	0	0	5,000,856
A00278-4th and Burnside-RVD	492,292	492,936	0	0	0	0
A00279-Broadway Corridor-RVD	1,077	0	0	0	0	0
A00293-Old Fire Station Mgmt-RVD	133,693	133,693	0	0	0	0
A00587-Block 25-RVD	150,000	150,000	0	0	0	0
A00620-Post Office Grant-RVD	13,613	13,613	0	0	0	0
A00682-USPS Legal-RVD	52,751	26,574	0	0	0	0
Real Estate Disposition						
A00286-Union Station-RVD	75,000	30,713	0	0	0	0
A00288-Centennial Mills-RVD	125,000	118,229	375,000	0	0	0
A00293-Old Fire Station Mgmt-RVD	205,000	205,000	0	0	0	0
Redevelopment Strategy						
A00038-Superfund-RVD	79,200	264,800	0	0	0	0
A00276-Post Office-RVD	133,840	128,201	0	0	0	0
A00279-Broadway Corridor-RVD	310,924	301,133	0	0	0	0
A00517-Old Town Action Plan Investments-RVD	12,066,092	24,849,621	0	0	0	0
A00687-OTAP-PI-RD	0	272,000	0	0	0	0
Redevelopment Grants						
A00390-Community Livability Grant-RVD	320,000	236,866	0	0	0	0
A00497-Prosperity Investment Program (PIP) Grant-RVD	615,217	625,172	0	0	0	0
Property Redevelopment Total	41,572,476	34,634,149	2,488,339	2,126,943	2,211,381	7,252,498
Total Program Expenditures	45,314,935	41,961,985	3,238,894	2,877,503	2,961,946	8,002,498
Personnel Services	474,176	1,341,053	1,500,000	914,716	550,000	247,788
Total Fund Expenditures	45,789,111	43,303,038	4,738,894	3,792,219	3,511,946	8,250,286
Interfund Transfers - Indirect Charges	5,630,174	1,793,987	2,017,821	1,265,177	797,442	408,814
Interfund Transfers - Cash Transfers	0	200,000	0	0	0	0
Contingency	11,921,541	20,741,883	22,971,322	20,505,442	18,890,289	12,759,861
Total Fund Requirements	63,340,826	66,038,908	29,728,037	25,562,838	23,199,677	21,418,961