

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** May 28, 2008

**TO:** Board of Commissioners

**FROM:** Bruce A. Warner, Executive Director

**SUBJECT:** Report Number 08-69  
PDC Acquisition of 20 Single Family Residences from the Housing Authority of Portland

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6592

#### ACTION SUMMARY

This action authorizes the Executive Director to purchase twenty single-family homes currently owned by the Housing Authority of Portland (HAP) for \$3,944,400. These properties are located in the Interstate Corridor (nine homes) and Lents Town Center (eleven homes) Urban Renewal Areas. The purchase amount is based on fair market value determined by appraisals conducted in January 2008, minus a five percent bulk purchase discount.

Upon acquisition, the properties will be renovated to a 15-year free maintenance standard and will include sustainable rehab methods. The property will ultimately be sold to a qualifying first-time homebuyer at or below 100% of area median income. PDC's staff is developing a recommended disposition plan and will return to the Board for consideration and approval.

#### PUBLIC BENEFIT

In addition to supporting PDC's homeownership goals, acquisition of these properties will further facilitate implementation of the following PDC initiatives: Operation HOME including first-time homebuyer and minority home ownership goals, the development of green building criteria in a renovation environment; partnerships with community organizations to bridge the minority homeownership gap; and Minority/Women/Emerging/Small Business (MWESB) contracting

The properties are currently rental properties that are in fair to average condition. Once these properties are renovated, we hope the homes will become catalyst for home improvements and renovations in the neighborhood.

#### **This action will support the following PDC goals:**

- Develop healthy neighborhoods
- Provide access to quality housing

- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

## **PUBLIC PARTICIPATION AND FEEDBACK**

Public participation through Operation HOME identified the need for quality affordable ownership housing to achieve the initiative's goal of bridging the minority homeownership gap. Acquisition, renovation, and resale of these homes meet the objectives of investing public funds to create wealth building and homeownership opportunities in the city.

Many community organizations; African American Alliance for Homeownership, Hacienda, the Latino Home Initiative, Portland Housing Center, Native American Youth Association, among others are very supportive of this project. This project has been presented to the Lents Town Center Urban Renewal Advisory Committee and the Interstate Urban Renewal Advisory Committee and it was well received.

## **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

The Housing objective of the 1998 Lents Town Center Urban Renewal Plan states its goals and objectives to "Help provide new and rehabilitated housing units suitable for households with a range of incomes and needs, recognizing the value of existing affordable housing stock. Create housing opportunities that allow Lents residents of all ages and income levels to remain the community. The *Lents Neighborhood Plan* (1998) supports the preservation of existing housing and retaining affordability.

Interstate Corridor guiding principles include; the development and implementation of programs that address potential displacement of current residents (renters and homeowners), including non-citizens, so that they may remain in their homes and neighborhoods. Increase equity-building ownership opportunities (including a variety of housing options, e.g. condominiums and lofts), especially for existing renters, through programs such as shared appreciation mortgages, community land trust, down payment assistance, as well as more conventional financing methods. Educate existing residents about these programs with a thorough outreach program. Preserve and rehabilitate the existing housing stock and maintain its affordability through the use of different financing tools and technical assistance.

The purchase of HAP's scattered sites also helps achieve the following PDC and Housing Department Strategic Goals:

- Develop and implement housing strategies that reflect community and neighborhood goals
- Provide incentives and/or financial assistance products to achieve 20,000 unit/household production goals
- Increase homeownership rate by at least one percent from year 2000 to 2011
- Increase minority homeownership by 1,500 by 2011

- Assist 3,000 first time home buyers by 2011
- Facilitate development/rehabilitation of moderate and market rate housing
- Repair 800 ownership units by 2011
- Provide wealth creation opportunities

## **FINANCIAL IMPACT**

PDC has budgeted \$6,411,000 for this project (\$3,061,000 in the Interstate Corridor and \$3,350,000 in the Lents Town Center URA.) PDC is paying a discounted price (5% off fair market value) of \$3,944,400 for the acquisition of the 20 properties. Staff estimates and additional \$1,000,000 in renovation (\$50,000 average per property); contingency of \$116,000 (20%); due diligence costs of \$68,000 (\$3,400 per property); and holding/closing/costs of sale \$245,000.

PDC, through licensed appraisers, conducted an “as completed” appraisal based on preliminary scopes of work drafted by PDC staff. Based on these appraisals there will be a deficit between the acquisition costs and the estimated value of the properties. On average the difference is about \$31,000 which is considered sunken cash, left in the project.

## **RISK ASSESSMENT**

The primary risks associated with going forward with this project are cost overruns, time of completion, market conditions for home sales and environmental liability. If we do not go forward, there is a risk of losing affordable housing units to the open market which would likely be purchased as investment properties and continued to be used as rentals.

This project provides a unique opportunity. Staff recommends going forward and will mitigate each of the associated risks as follows:

1. **Cost Over-runs:** The rehab budgets for each of the properties has been created by staff experienced in homebuilding/renovating estimates. They have been performing these kinds of estimates for years in connection with NHP loan programs. The “as is” as well as the “as built” appraisal reports, licensed home inspector reports and environmental assessments were part of the information staff used to estimate the cost to rehab calculations. In addition, the budget includes a 20% hard costs contingency for each property. The appraisals were used to estimate the sales price and time needed to sell the homes for budgeting purposes. Finally, HAP will be relocating the occupants prior to the sale to PDC so PDC has no liability for these costs.
2. **Time of Completion:** The projects will be reviewed each week by the NHP department to be sure the properties are on schedule. Personal inspections will be performed to insure work is progressing.
3. **Market conditions:** Since these homes are in the most basic, starter home price range, sales should not be as negatively impacted by the softening real estate market. In addition, the homebuyer assistance resources will make these homes more attractive to our target market. Staff will proactively qualify and seek prospective borrowers before the homes come on the market.

4. Environment risk: Staff has performed an environmental due diligence review for each of the properties in light of a limited budget. This costs approximately \$3,400 per home. HAP removed all underground leaking tanks and remedied all resulting soil contamination to EPA standards. While the PDC environmental investigation is through, it is not all inclusive. Rather, it reflects reasonable efforts to establish a clean site. Beyond this, there is always a highly unlikely risk that an unknown environmental condition could result in future liability.

## **WORK LOAD IMPACT**

PDC's Neighborhood Housing Program staff will manage the renovation and disposition process in coordination with real estate, finance, economic development, housing, legal and profession services staff. The work load impact of this acquisition and resulting renovation and disposition may result in additional staffing requirements or consultant services in the Lents Town Center and Interstate Urban Renewal Areas.

## **ALTERNATIVE ACTIONS**

The PDC Board of Commissioners could deny this acquisition request resulting in forfeiture of \$100,000 earnest money and missing key opportunities to provide quality affordable ownership housing, develop green renovation criteria, create partnerships with community organizations and industry professionals for the benefit of first-time homebuyers, and provide MWESB contractor opportunities,.

## **CONCURRENCE**

Acquisition negotiations and specific terms were approved by the Investment Committee. The PDC Lents Town Center and Interstate Urban Renewal Teams discussed the project and support the project goals. However, the Teams note the expenditures result in fewer funds for other projects.

## **BACKGROUND**

The Housing Authority of Portland (HAP) has evaluated its public housing portfolio and developed a long-term preservation strategy for this critical housing. HAP has three primary preservation objectives:

- Replace "scattered-site" public housing units that are inherently inefficient to operation with more efficient housing stock.
- Address unmet and unfunded capital needs across the portfolio.
- Bring back unused public housing subsidy or "banked" units to increase the current public housing supply.

To support these objectives, HAP has decided to liquidate most of its scattered site public housing portfolio and use the proceeds from the sale to address capital maintenance needs

and build replacement rental housing. This total portfolio includes 142 units in 133 properties scattered throughout the city, 24 of which are single-family homes located in the Lents and Interstate Urban Renewal Areas.

## **PDC GOALS**

New affordable ownership development in the city has been limited to condos or skinny homes with limited yards. HAP's scattered site properties are mostly single family size residences with good size yards, which are not readily available in the city at affordable prices. The acquisition of these properties provides an exceptional opportunity for PDC to impact its homeownership goals, and retain what is currently affordable rental housing as affordable ownership housing.

This project also provides unique opportunities to PDC to address general agency goals and be a catalyst for future home renovation standards. The acquisition of these properties helps achieve the following goals:

Minority homeownership – Operation HOME is the City/PDC's initiative to bridge the minority homeownership gap. This initiative is a partnership of public, private, and non-profit entities with a focus of reaching out to the communities of color in a manner that resonates with them and increases minority homeownership. Through a Public Participation Plan PDC will work with Operation HOME partners to ensure communities of color are notified and have equal access to purchase these properties.

Sustainability – PDC's goal is to support the intent and application of the Green Building Policy of the city through advocating and incorporating sustainable and green building practices. While Green Building criteria has been established for new development, this project will allow PDC to experiment with green building standards in a rehab environment.

MWESB – PDC strives to ensure that MWESB contractors have equal access to contracting opportunities in its construction projects. With the goal of maximizing MWESB contracting participation while minimizing project costs, staff is analyzing contracting options.

## **PORTFOLIO ANALYSIS**

Housing department staff evaluated the entire HAP scattered site portfolio for possible acquisition. Due to funding constraints, the focus was narrowed to those single family detached properties located in the Lents and Interstate Urban Renewal Areas. Appraisals and licenses home inspections were completed on each of the homes. NHP construction staff also inspected each of the homes and developed a scope of work to rehabilitate the units to a 15-year maintenance free standard. Written reports were completed on each property, including external and aerial photos.

PDC also conducted a limited Phase 1 environmental review. Through this process a geophysical on the entire exterior of each building was done, including sidewalks to identify existing or abandoned underground storage tanks or any other subsurface anomalies. Also, a historical review of each site including adjacent uses was completed. HAP as its current owner was interviewed. In addition, a hazardous building investigation was made at each unit through a limited hazardous building survey of internal and accessible spaces.

Once due diligence was finalized, staff removed four properties of the 24 listed for acquisition. These properties were removed for one or more of the following reasons:

- Located in a flood zone
- Zone commercial and close to a major intersection and not conducive to other development opportunities.
- Amount of subsidy needed to make the home affordable is greater than the others

Overall, the portfolio appears to be generally well maintained. Each has minimal landscaping and out-of-date kitchens and baths. For planning purposes staff estimates the per unit rehab costs will range from \$50,000 to bring the properties up to a 15-year maintenance free standard. This standard was selected to ensure that the first-time homebuyer that purchases the unit is able to maintain homeownership over time.

The remaining twenty properties listed for acquisition will be purchased through a phasing process.

### **PUBLIC PARTICIPATION PROCESS**

PDC staff is in the process of developing a public participation plan for this project with the following goals:

1. Involve key stakeholders and partners on the development and execution of the marketing plan to reach the greatest number of homebuyers of color
2. Create a high level of interest within the public, media, URA's, PDC Commission and elected officials on the multiple facets of the project and the benefit to community.
3. Coordinate with non-profit stakeholders, realtors and lending institutions to refer mortgage ready homebuyers to PDC for the purchase of the properties.
4. Effectively engage community organizations to maximize the involvement for minority contractors

This plan will ensure public participation throughout the process; from contracting, to community outreach, to disposition and best practices/results.

### **NEXT STEPS**

1. Funds have been allocated for this project. If the Board approves the purchase of these properties, the acquisition will be done in phases. Following is the proposed acquisition schedule:

<u>BUNDLE CLOSINGS</u>	<u>ANTICIPATED CLOSING DATE</u>
<u>Bundle Closing #1</u> <u>5 properties</u>	<u>July 31, 2008</u> <u>Interstate URA</u>
<u>Bundle Closing #2</u> <u>4 properties</u>	<u>October 31, 2008</u> <u>Interstate URA</u>
<u>Bundle Closing #3</u> <u>5 properties</u>	<u>January 31, 2009</u> <u>Lents URA</u>
<u>Bundle Closing #4</u> <u>3 properties</u>	<u>March 31, 2009</u> <u>Lents URA</u>
<u>Bundle Closing #5</u> <u>3 properties</u>	<u>June 30, 2009</u> <u>Lents URA</u>

2. Staff will be finalizing the contracting and disposition plans which will be brought to the Board for approval.

**ATTACHMENTS:**

- A. Lents Town Center Financial Summary
- B. Interstate Corridor Financial Summary
- C. Map of HAP properties in the Interstate URA
- D. Map of HAP properties in the Lents Town Center URA

**CC:** Komi Kalevor, Acting Housing Director  
Shelly Haack, Senior Housing Manager  
D. Elot, General Counsel  
J. Jackley, Director of Communications & Business Equity

### Lents Town Center Financial Summary

#### Lents Town Center - Fund 360 (With Amendment\*)

	Current Yr.	Three Year Budget Forecast and Total					Total
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	
<b>Resources</b>							
Beginning Fund Balance	3,677,407	1,226,204	1,038,500	2,994,419	0	0	5,259,123
Base Tax Increment Debt Proceeds	10,530,300	17,432,092	6,703,229	0	0	0	24,135,321
Amendment: Projected Additional Resources*	0	6,398,233	5,030,875	15,959,044	16,575,497	16,926,722	60,890,371
Other Resources	271,980	266,471	2,966,471	266,471	0	0	3,499,413
<b>Total Resources</b>	<b>14,479,687</b>	<b>25,323,000</b>	<b>15,739,075</b>	<b>19,219,934</b>	<b>16,575,497</b>	<b>16,926,722</b>	<b>93,784,228</b>

<b>Requirements</b>							
<b>Development</b>							
12209 - LTC Town Center Redev	2,696,000	1,825,000	1,698,000	2,126,642	0	0	5,649,642
12212 - LTC Johnson Creek Indust Area Revit	75,000	175,000	0	0	0	0	175,000
12213 - LTC DOS/Comm Corridor Revit	100,000	500,000	400,000	0	0	0	900,000
13125 - LTC Parks Public Improvement	1,033,000	211,000	0	0	0	0	211,000
26714 - LTC Streets/Sidewalks Paving LID	50,000	0	0	0	0	0	0
26715 - LTC Neigh Transport Impvts	375,000	800,000	440,000	0	0	0	1,240,000
60008 - LTC SE 92nd Redev	100,000	200,000	1,100,000	0	0	0	1,300,000
60009 - LTC School Infrastructure Improv.	60,000	640,000	0	0	0	0	640,000
<b>Development Total</b>	<b>4,489,000</b>	<b>4,351,000</b>	<b>3,638,000</b>	<b>2,126,642</b>	<b>0</b>	<b>0</b>	<b>10,115,642</b>

<b>Economic Development</b>							
70018 - LTC Business Finance	1,600,000	1,100,000	270,000	511,432	0	0	1,881,432
70101 - LTC Storefront Grants	338,382	200,000	70,000	100,000	0	0	370,000
70251 - LTC Business Retention	137,000	100,000	0	0	0	0	100,000
70758 - LTC Target Industry Dev	0	0	0	0	0	0	0
70558 - LTC Community Ec Dev	0	0	0	0	0	0	0
<b>Economic Development Total</b>	<b>2,075,382</b>	<b>1,400,000</b>	<b>340,000</b>	<b>611,432</b>	<b>0</b>	<b>0</b>	<b>2,351,432</b>

<b>Housing</b>							
31209 - Lents Liv Home Rehab	300,000	50,000	0	0	0	0	50,000
32109 - Lents Aff Rental Housing	225,000	5,890,000	0	0	0	0	5,890,000
32110 - Pardee Homeownership Housing	500,000	0	0	0	0	0	0
32131 - Lents REACH Home Rehab	125,000	125,000	0	0	0	0	125,000
33409 - Lents SAM's	0	0	0	0	0	0	0
33418 - Lents New Homeowner Development	2,114,651	0	0	0	0	0	0
33424 - Lents Homebuyer Assistances	600,000	250,000	250,000	101,432	0	0	601,432
37920 - Lents Hsg Policy/Planning	4,904	5,000	0	0	0	0	5,000
60010 - Foster School Housing Development	0	0	2,000,000	0	0	0	2,000,000
37929 - LTC Scattered Site Homeownrshp Acquis	0	2,700,000	0	0	0	0	2,700,000
37930 - LTC Scattered Site Homeownrshp Indirect	0	650,000	0	0	0	0	650,000
<b>Housing Total</b>	<b>3,922,555</b>	<b>9,670,000</b>	<b>2,250,000</b>	<b>101,432</b>	<b>0</b>	<b>0</b>	<b>12,021,432</b>



### Interstate URA Financial Summary

#### Financial Summary

#### Fund Summary - Five-Year Budget Projections

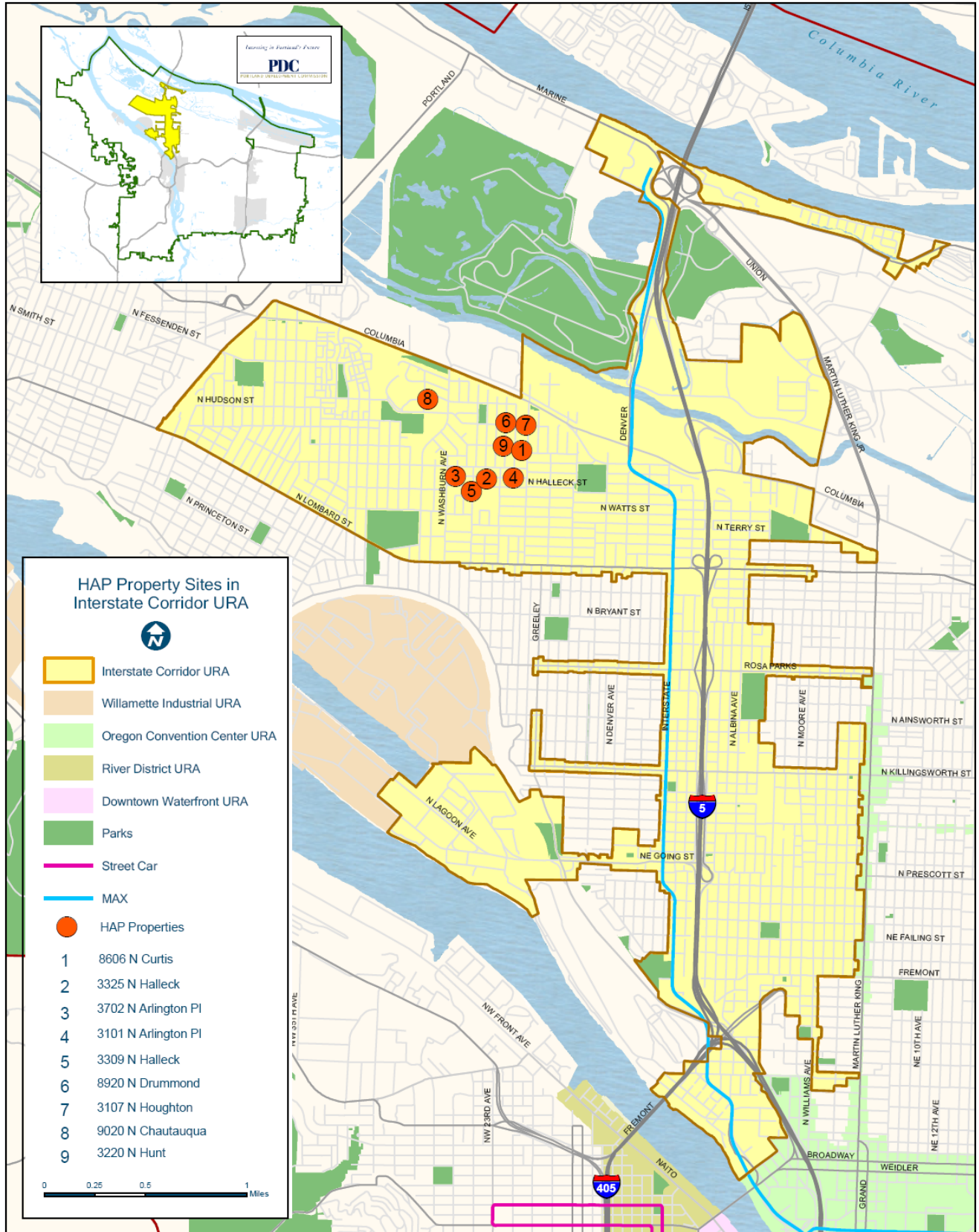
	<i>Revised FY 2007-08</i>	<i>Approved FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
<b>Interstate Corridor URA</b>						
<b>Resources</b>						
Beginning Fund Balance	2,526,737	259,211	919,914	259,061	580,774	112,558
Interest - City Invest Pool	40,000	40,000	20,000	20,000	20,000	0
Loans - Interest Earned	79,840	60,120	53,559	1,156,384	46,897	38,748
Loans - Principal Collection	552,000	710,120	53,559	1,156,384	46,897	38,748
Real Property Sales	600,000	1,120,000	2,511,000	0	0	0
Reimbursement	1,272	0	0	0	0	0
Rent and Property Income	4,617	0	0	0	0	0
Tax Increment - L-T Debt	7,133,047	19,692,217	7,492,500	6,993,000	3,096,900	4,995,000
Tax Increment - S-T Debt	5,889,075	5,994,000	5,061,624	5,762,412	5,994,000	5,994,000
<b>Total Fund Resources</b>	<b>16,826,588</b>	<b>27,875,668</b>	<b>16,112,156</b>	<b>15,347,241</b>	<b>9,785,468</b>	<b>11,179,054</b>

#### Requirements

Project Expenditures (does not include Personal Services or Indirect Cost)

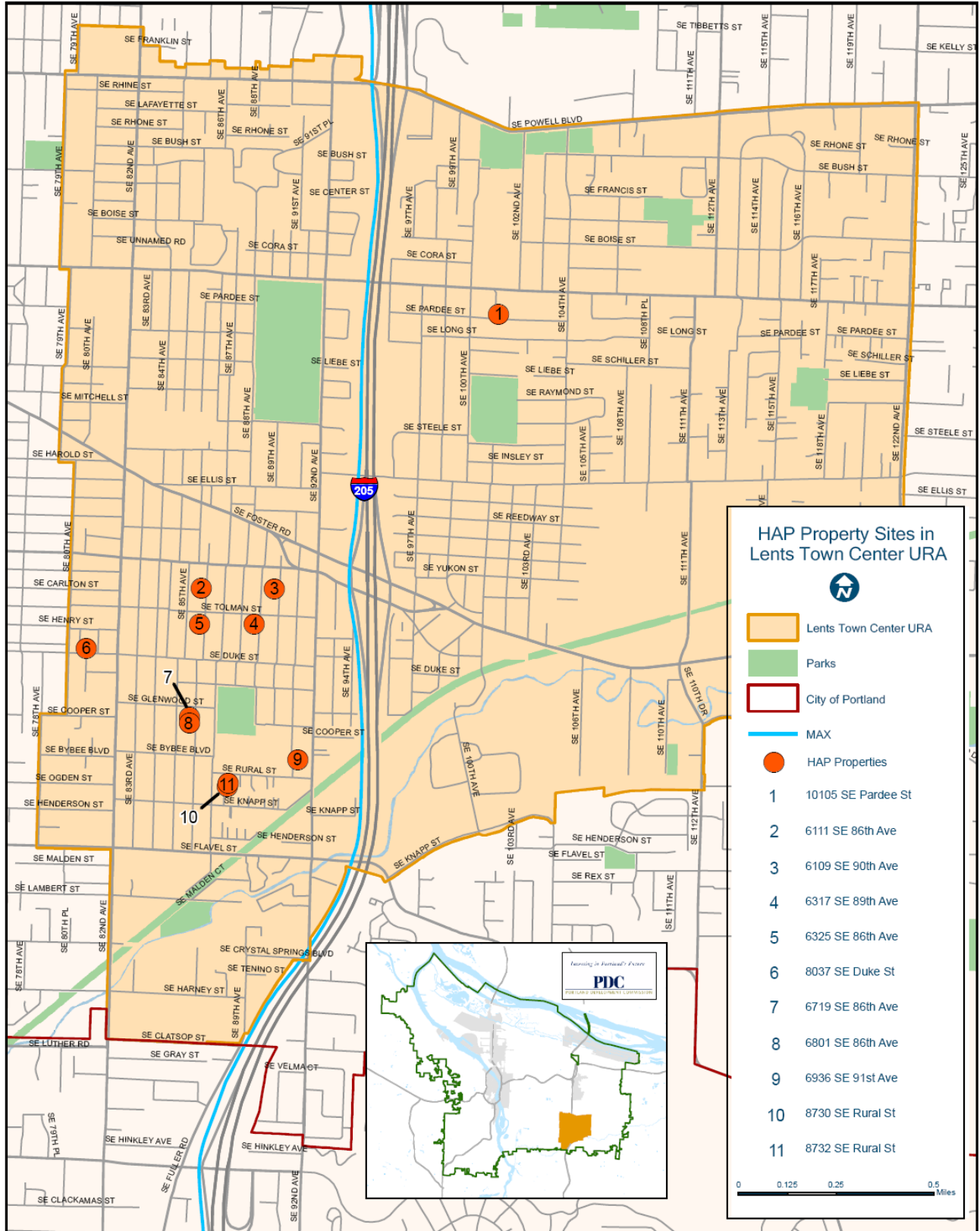
<b>Development</b>						
19018 - Interstate Redevelopment	314,608	291,000	481,000	1,521,000	870,000	870,000
19019 - Interstate DOS Program	271,247	300,000	300,000	300,000	300,000	300,000
19020 - Interstate Streetscape Improve	2,949,944	4,092,000	2,581,000	300,000	0	800,000
19021 - Interstate Trans Improvements	190,066	150,000	75,000	75,000	75,000	175,000
19023 - Interstate Community Liv.	300,000	300,000	300,000	300,000	300,000	300,000
19038 - Interstate Parks	1,271,000	440,000	755,000	1,005,000	505,000	505,000
19048 - Downtown Kenton Redev	25,000	100,000	800,000	1,500,000	700,000	700,000
19049 - IC Redevelopment Loan Program	400,000	400,000	400,000	400,000	400,000	400,000
<b>Development Total</b>	<b>5,721,863</b>	<b>6,073,000</b>	<b>5,692,000</b>	<b>5,401,000</b>	<b>3,150,000</b>	<b>4,050,000</b>
<b>Economic Development</b>						
19026 - IC Storefront Grants	540,333	400,000	400,000	400,000	400,000	400,000
70019 - IC Business Finance	1,725,000	1,350,000	1,385,000	1,850,000	1,750,000	1,750,000
70257 - IC Business Retent & Asst	80,900	20,000	50,000	0	0	0
70275 - Killingsworth Block Fin Asst	0	0	900,000	0	0	0
70556 - IC Community Ec Dev	0	275,000	0	0	0	0
<b>Economic Development Total</b>	<b>2,346,233</b>	<b>2,045,000</b>	<b>2,735,000</b>	<b>2,250,000</b>	<b>2,150,000</b>	<b>2,150,000</b>
<b>Housing</b>						
19025 - IC Aff Rental Housing	200,000	970,000	1,500,000	1,500,000	502,000	502,000
31043 - Interstate Home Repair	455,618	500,000	300,000	300,000	300,000	300,000
33419 - Interstate Homebuyer Asst	500,000	450,000	450,000	450,000	450,000	450,000
33431 - IC Aff Homeownership Dev	801,577	1,290,423	500,000	500,000	500,000	500,000
34606 - Killingsworth Block	215,000	3,640,000	706,000	996,000	0	0
34612 - Crown Motel Aff. Rental Hsg	1,000,000	3,470,000	0	0	0	0
34613 - Shaver Green	1,451,556	648,444	0	0	0	0
37919 - IC Hsg Policy/Planning	31,802	5,000	5,000	5,000	5,000	5,000
37928 - Vanport Phase II Housing	79,255	0	0	0	0	0
37931 - IC HAP Aff Hmownrshp/Acq	0	2,511,000	0	0	0	0
37932 - IC HAP Aff Ownrshp/Rehab	0	550,000	0	0	0	0
<b>Housing Total</b>	<b>4,734,308</b>	<b>14,034,867</b>	<b>3,461,000</b>	<b>3,751,000</b>	<b>1,757,000</b>	<b>1,757,000</b>
<b>Central Services</b>						
59148 - IC Debt Management	17,655	18,537	19,464	20,438	21,459	22,532
<b>Central Services Total</b>	<b>17,655</b>	<b>18,537</b>	<b>19,464</b>	<b>20,438</b>	<b>21,459</b>	<b>22,532</b>
<b>Executive</b>						
60040 - IC Eastside/Central City Plan	0	75,000	75,000	0	0	0
<b>Executive Total</b>	<b>0</b>	<b>75,000</b>	<b>75,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Project Expenditures</b>	<b>12,820,659</b>	<b>22,246,404</b>	<b>11,982,464</b>	<b>11,422,438</b>	<b>7,078,459</b>	<b>7,979,532</b>
Operating Transfers Out	600,000	642,259	0	0	0	0

**LOCATION OF HAP PROPERTIES IN THE INTERSTATE URA**



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**LOCATION OF HAP PROPERTIES IN THE LENTS TOWN CENTER URA**



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