

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** January 14, 2009

**TO:** Board of Commissioners

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

**SUBJECT:** Report Number 09-07

Resolution authorizing the Executive Director to consent to assignment of an existing lease on PDC-owned property located at 2650 NW Upshur Street (the "Property") and to execute a Deed of Trust as grantor on the Property to enable the preservation of an affordable housing project.

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6664

#### ACTION SUMMARY

Authorizes the Executive Director to consent to assignment of a lease and execute a trust deed as a grantor on PDC-owned property located at 2650 NW Upshur. The Trust Deed will secure Northwest Housing Alternatives ("NHA") repayment of a loan in the amount of \$2,075,000 provided by Network for Oregon Affordable Housing ("NOAH") to provide Interim Acquisition Financing. The trust deed will secure the entire NOAH loan. This action will put PDC's interest in the property at risk but PDC will not be directly liable on the loan to NHA.

#### PUBLIC BENEFIT

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

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

- 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

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 7/5/78) to work with Tom Walsh to develop housing on PDC owned land in the Thurman/Vaughn Corridor. This action enables the preservation of affordable housing in an underserved part of the city

## **FINANCIAL IMPACT**

No direct financial impact. See discussion under risk assessment for PDC's risk.

## **RISK ASSESSMENT**

If NHA defaults on its loan from NOAH, NOAH will be entitled to foreclose on PDC's interest in the property if PDC fails to cure the default. PDC is unlikely to be able to cure a default because the Property is not within an urban renewal area and PDC's resources available for expenditure outside urban renewal areas are extremely limited.

## **WORK LOAD IMPACT**

There are sufficient resources within the Housing Department to process this request

## **ALTERNATIVE ACTIONS**

The Board may withhold approval. This will jeopardize preserving the affordable housing project.

## **CONCURRENCE**

PDC staff has conferred with the Bureau of Housing and Community Development in evaluating the proposal.

## **BACKGROUND**

Upshur House Apartments are located in Northwest Portland at 2650 NW Upshur Street. The project consists of five townhouse style apartment buildings which house 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 House, LTD. (Tom Walsh and Co, General Partner). On 12/11/79 the PDC approved Resolution No. 2799 authorizing the Commission to enter a 60 year land lease with a Walsh-related entity for the sum of \$2,500 per year with the stipulation that Walsh develop affordable housing on the site. Per the PDC real estate department the lessee has been paying as agreed on the lease. Upshur House, LTD and PDC entered into the lease on 2/29/80 and there are approximately 31 years left on the term. At the time of the initial construction financing, PDC joined with Upshur House, LTD. to execute a Deed of Trust in favor of Oregon Housing and Community Services (OHCS).

Upshur is an expiring Section 8 project and Northwest Housing Alternatives (NHA) has entered in to a Memo of Understanding to purchase the improvements as part of a larger portfolio. NHA has requested that PDC consent to the assignment of the lease from Upshur House, Ltd. to a NHA controlled entity. The existing Section 8 contract expires in 2010, and after acquisition, NHA will go through the process of applying to HUD for an extension of the contract. NHA will also be putting together a package to finance the rehabilitation of the project to ensure its long term viability, as well as taking out the NOAH interim acquisition financing. It is anticipated that this financing will include a commercial construction and permanent loan as well as Low Income Housing Tax Credits. Additional changes to the

existing lease may be required when the financial structure of the rehabilitation is finalized in 2010.

Upshur Apartments is anticipated to be acquired concurrently as part of a portfolio with interim financing to be provided by the Network for Oregon Affordable Housing (NOAH). OHCS has earmarked \$900,000 of gap funds specifically for the acquisition of this portfolio. In addition, the current owner has agreed to take a note back in an amount equal to any remaining gap.

Upshur's land lease structure creates security difficulties for NOAH. In order to provide acquisition financing for the project, NOAH is requiring that PDC grant a lien on PDC's fee simple interest in the Property to secure NHA's repayment of the NOAH loan, identical to the structure on the existing OHCS loan. This action effectively grants NOAH a lien on the property. If NHA defaults on the loan, NOAH will be entitled to foreclose on PDC's interest in the property if PDC fails to cure the default. PDC is unlikely to be able to cure a default because the property is not within an urban renewal area and PDC's resources available for expenditure outside urban renewal areas are extremely limited. The projected Loan to Value (LTV) ratio for the NOAH loan is 1.25:1. This high LTV is due to NOAH's reliance on an appraisal based on restricted rents at current HUD Section 8 levels. The NOAH loan matures on July 29<sup>th</sup> 2011.

Assignment of the lease with PDC consent and PDC's execution of the Trust Deed for interim financing are both allowed for under the existing lease. PDC's existing rights under the lease will be preserved, subject to the rights of NOAH under the Trust Deed.

**ATTACHMENTS:**

- A. December 11 1979 PDC Commission Resolution (#2799) authorizing lease to enable the development of Upshur Apartments
- B. February 29 1980 lease between PDC and Upshur House, LTD.