

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: July 22, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-88
Providing a \$19,000,000 loan to the Nurture 247 Limited Partnership for the Pearl Family Housing Project in the River District URA

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6724

ACTION SUMMARY

This action will authorize a \$19,000,000 loan to Nurture 247 Limited Partnership (or affiliated entity) for the Pearl Family Housing Project in the River District Urban Renewal Area (URAC). This mixed-use project delivers 138 units of affordable rental housing, primarily family-sized units (60 two-bedroom and 70 three-bedroom), with 12,000 square feet of ground floor community space. Of the \$19 million, \$7 million is in the budget forecast for Fiscal Year (FY) 2010-11 and is subject to appropriation by the Commission in its FY 2010-11 budget.

PUBLIC BENEFIT

- 1) The site is close to public transportation;
- 2) The building will contain green building features;
- 3) Affordable family sized units in the Pearl District, 60 two-bedroom and 70 three-bedroom;
- 4) Portland Public Schools is expected to lease half of the ground floor for lower grades;
- 5) Generates an estimated 282 temporary construction jobs, and a total of 541 temporary jobs associated with various aspects of the project during its 18 month construction period;
- 6) Generates 5 new permanent housing operations jobs.
- 7) Generates \$8,017,780 in real estate taxes throughout the PDC assistance period; which is roughly twice that of the existing use of the property, despite abating the taxes on the affordable housing portion of the project.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

The developer, Ed McNamara has made several presentations to the River District URAC, and has received the informal support of the URAC Central Portland Families (formerly River District Families). The Pearl Family Housing project has been presented to the Pearl District Neighborhood Association, the North Pearl District Plan Advisory Group and the new River District URAC. At all of the presentations the project has received strong support for its design and responsiveness to community plans. The Pearl Family Housing Project went through the “Design Advice” session with the Design Commission, and received Design Commission approval. Potential renters said they wanted two and three bedroom units with community space and play space at a reasonable price. The neighborhood association and planning groups said they wanted to attract families to the neighborhood to enhance diversity. They also said they wanted a building design that supports community and sustainability.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The 1999 River District Housing Strategy (adopted by the City Council and PDC in 1994, as revised in 1999, and amended in 2008 Board Resolution 6587), the 2001 Pearl District Plan, and the 2008 North Pearl District Plan (adopted by the City Council in 2008, Ordinance #182319 as amended) all identified family housing as key redevelopment objectives. The 1999 River District Housing Implementation stated that although current data indicate that few families are choosing to live in the district today, to the extent possible, families with children should be encouraged to locate in the River District.

In 2006 the City Council adopted the Schools/Family Housing Initiative (Ordinance 36404) which created tools to keep households in the City in order to create stability and diversity in our neighborhoods and schools.

The project supports PDC’s Strategic Plan to “contribute to Portland’s livability by facilitating the development of housing opportunities for residents of all income levels.” This project helps close the gap revealed in the 2006 Housing Implementation Strategy Report for the 50-80% MFI demographic in this URA.

BOLI commercial rates are the prevailing wage rate for the project. In addition, the project will comply with Minority, Women and Emerging Small Business (M/W/ESB) and workforce diversity goals as described in the Business & Workforce Equity Policy (as revised and adopted by PDC Board Resolution 6667).

FINANCIAL IMPACT

The financial assistance for this project is set forth in the proposed budget for the River District URA in FYs 2009-11. The \$12 million to be allocated in FY 2009-10 is contained in the adopted PDC budget, and the \$7 million to be allocated in FY 2010-11 is in the PDC budget forecast, neither approved nor adopted, and will therefore need to be committed subject to appropriation. The budget and forecast was developed based on expected cash flow requirements for the project.

RISK ASSESSMENT

Key Risks and Mitigating Factors:

Risk type	Mitigation
Standard construction risk	<ul style="list-style-type: none"> • Performance bond required. • Close monitoring by PDC construction coordinator assists in risk mitigation both during design and change order oversight. • Walsh Construction is a large contractor with substantial experience in construction of this type
Financing risk <ul style="list-style-type: none"> • Interest rate risk –moderate • Tax credit equity – low • Tax abatement approval - low 	<p>The bond rates for senior construction and permanent funding may change until the rates are locked. Proceed to commitment/closing quickly to lock in the rate on senior financing. Possibly purchase a “swaption” instrument to mitigate risk with more certainty – cost \$375,000.</p> <p>Staff has requested flexibility in structuring required PDC debt payment schedule in order to allow some room for changing rates.</p> <p>Disarray in the credit markets has created unpredictability on the investor (tax credit equity) side of the equation. In order to minimize this risk for themselves, the senior permanent lender has co-bid the tax credit equity piece in order to assure themselves of a closing.</p> <p>Require approval of the tax abatement prior to closing. Structure 15 years to get to the possibility of a non-profit acquiring the project.</p>
Market risk	<p>The community spaces are essentially pre-leased. The Portland Public Schools commitment is a matter of public record.</p> <p>PDC staff has already received calls from potential tenants wanting to get on the waiting list for an apartment. The need for affordable family-sized housing in this URA is well-documented.</p> <p>Unit rents are significantly below market.</p>
Operating risk <ul style="list-style-type: none"> • Residential – low 	Residential: <ul style="list-style-type: none"> • Low market risk and 7% vacancy loss • Conservative revenue escalation (2%)

<ul style="list-style-type: none">• Community - moderate	<p>Commercial:</p> <ul style="list-style-type: none">• The project was underwritten so that the bond repayment could be covered out of residential net operating income if needed.• The Portland Public schools lease runs for five years. Getting a signed lease is proving to be a challenge currently and it is unknown whether this will materialize. If it does not, the project will need to be reconfigured.• 10% vacancy allowed for.
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WORK LOAD IMPACT

The work required to implement this action included in existing staff work plans and will not require any additional FTE.

ALTERNATIVE ACTIONS

The Board may withhold approval and/or revise the terms and conditions of providing this financial assistance. This places an existing \$1 million predevelopment loan to the project at risk which is due either 12/14/09 or at the close of the project's construction/permanent financing. It may be possible to reconfigure the project on the existing site if needed to avoid a write-off.

CONCURRENCE

Loan Review Committee has reviewed the proposed terms and conditions of financing, as well as noted exceptions to guidelines, and has recommended approval of the requested financing.

BACKGROUND

The Project is a full block construction on a 40,000 Square foot (SF) site bounded by NW 13th and 14th and NW Quimby and Raleigh and will deliver 138 units of affordable housing. The site is two blocks from "The Fields" park which is slated for construction in the fall of 2009, four blocks from the new Safeway grocery store, and 3-5 blocks from the Portland Streetcar. There are, or will be, three parks within several blocks of the project. Parking is included in the rent for each apartment.

In considering the Pearl Family Housing project, an evaluation of the costs of developing the site as homeownership was performed. Leaving development costs unchanged (in all likelihood these costs would increase) and providing 60% MFI homeownership affordability levels, reveals that the developer would need to locate gap financing or subsidy for the remaining \$26 million in costs after sale of the units. PDC does not have \$26 million available to contribute. There is at minimum a \$7 million shortfall if the project were homeownership.

One of the key advantages of the site is that it is located in census tract 51, a Qualified Census Tract, so it attracts a bonus of 30% in additional tax credit equity. Bonus equity lowers the PDC subsidy. This site attracts \$2.9 million to the project's sources which otherwise would need to be additional PDC gap financing.

The Project will be a 6-story building above one level of underground parking, which offers 119 underground and 10 above ground parking spaces (42,156 sf) and underground bike parking as well. Affordable rental units are primarily family-friendly 2 and 3 bedroom sizes, consisting of 8 one-bedroom 60 two-bedroom and 70 three-bedroom units. Ground floor community spaces are to be leased to: the Portland Public Schools for 6 classrooms for younger grades as an extension to the Chapman School, and office space for the Zimmerman Community Center which will also utilize the building's community space for various activities and classes.

Proposed Unit Mix and Affordability:

Unit type	Count	MFI ¹	Maximum monthly gross rents (including an allowance for utilities)
One BR	8	60%	\$759 (\$55)
Two BR	60	60%	\$939 (\$48)
Three BR	70	60%	\$1,059 (89)
Total Units	138		

Sustainability and energy efficiency have figured strongly in the design of this LEED Silver project, which will feature a heat recovery system, solar hot water heating system, rooftop photovoltaic panels to generate electricity for elevators and hallway lights. Also featured in the project's design are: a 31,000 sq. eco roof with an outdoor terrace, and a system for harvesting rainwater.

The developer's proposal for the project included an intention for the project to convert to a limited equity co-operative after the tax credit compliance period expires. The equity investor will not approve a 138 common share general partner in the tax credit structure. Since the project cannot become a co-op until the tax credit compliance period is completed, a period of fifteen years, a condition of the loan is that the developer will provide a plan, a timeline, and a budget for the limited equity co-operative prior to conversion to permanent financing. Because this possible limited equity co-operative may be a non-profit entity, an additional condition of the loan requires the equity investor to leave the possibility of a standard non-profit exit from the tax credit partnership in the partnership agreement language from the beginning. This would allow a non-profit owner to be admitted to the partnership, take ownership and exit the tax credit structure with a debt plus taxes price instead of having to pay market price for the property.

Tax abatement

The sponsor has applied for tax abatement for a period of thirty years, for which the project qualifies according to Section 3.104 of the Portland City Code. Without the abatement, the project would not be financially feasible as affordable housing.

¹ The project sponsor has requested consideration of allowing one of the one-bedroom and one of the two-bedroom units being available for employees of the project. They would be unregulated units as to rent levels. This is ultimately City Council's decision to make, but it is possible that one each of the one and two-bedroom units would not be regulated at 60%, pending City Council's decision.

The Developer of the project is Ed McNamara, whose experience includes positions as the former Executive Director of REACH Community Development and of the Neighborhood Partnership Fund, Director of Real Estate Development for Prendergast and Associates, Inc., and the Director of Community Revitalization at the Housing Authority of Portland. Mr. McNamara has a successful development history focusing on affordable housing. Prior projects with which PDC has experience are the mixed use Sitka Apartments (210 units), the Pearl Court Apartments (199 units), and Buckman Heights (144 units).

PDC Financing Structure

Type:	HDSL fixed payment with additional cash flow feature		
Amount:	\$19,000,000		
Term:	60 years		
Amortization:	Year 1 - 5, no payment, then Year 6-15 –fixed payment \$43,005 plus 50% excess cash flow, then Year 16-60 -fixed payment \$243,005 plus 50% excess cash flow		
Repayment/Interest Rate:	Year 1-15 - 0% Year 16-30 - 0.50% Year 31-60 – 1%		
Guarantor:	None		
Collateral:	Subordinate deed of trust		
Funding Source:	\$12,000,000 in FY 2009-10, \$7,000,000² in FY 2010-11		
Disbursement:	PDC will disburse in a front-loaded manner with a 5% retainage of the contractor’s contract amount held back until no later than 75 days after construction lien waivers or releases		
Project Cost Savings:		Hard costs	Soft Costs
	Borrower	75%	-
	PDC	25%	100%
Priority Payments (in order of priority):	Investor services fee – beginning at \$6,900 and escalating at 10% every five years thereafter Deferred developer fee Partnership Management fee – beginning at \$30,000 and escalating at 10% every five years thereafter		
Recourse:	Full recourse during construction, non-recourse thereafter		

² The \$7,000,000 FY 2010-11 amount is in the budget forecast but needs to be committed subject to appropriation.

Sources and Uses (permanent):

		Per housing unit (138)	Per person (507)	Per sq. ft (193,866)
USES:				
Acquisition Costs	7,338,930	53,180	14,475	
Construction Costs	32,343,375	234,372	63,794	166
Development Costs	9,371,672	67,910	18,484	
Developer and Consulting Fees	4,250,000	30,797	8,383	
Total Uses:	53,303,977	386,259	105,136	275
SOURCES:				
		Per housing unit (138)	Per person (507)	Per sq. ft (193,866)
Tax-exempt bonds	15,496,574	112,294	30,565	
LITHC equity	12,973,219	94,008	25,588	
PDC	19,000,000	137,681	37,475	
Def dev fee	2,350,000	17,029	4,635	
ETO, BETC, Qwest (grants)	1,125,369	8,155	2,220	
BES/GIF funds for ecoroof	302,130	2,189	596	
Other (OHCS)	1,044,750	7,571	2,061	
SDC waiver	1,011,935	7,332	1,996	
Total Sources:	53,303,977	386,259	105,136	275

Closing Conditions:

1. Receipt of tax abatement for a minimum of the fifteen year tax credit compliance period.
2. Borrower must provide all requested due diligence documentation including but not limited to final budgets, final plans and specifications, and any service agreements prior to closing.
3. Final GMP construction contract acceptable to PDC prior to closing.
4. All conditions for the issuance of required permits met prior to closing.
5. Borrower agrees to execute PDC replacement cost and capital improvement reserve and asset management agreements prior to occupancy.
6. Evidence of commitment of remaining funding sources except for grant sources which require evidence only of application, such as BETC.
7. Receipt of final partnership agreement, reviewed and agreed to by PDC, by closing.
8. Allow for a non-profit exit from the tax credit partnership (debt plus taxes) so that a non-profit does not have to pay market rate to acquire the property. If investor approval of this is withheld, require this as a condition of PDC's approval to transfer to a subsequent owner.
9. Executed lease agreement for the Portland Public schools community space at closing.

Other Conditions:

1. BOLI commercial rates are the prevailing wage rate for the project.
2. The project will comply with MW/ESB requirements
3. Executed lease agreements for the remainder of the community space at conversion to permanent financing.
4. Develop a plan, a timeline, and a budget for the limited equity co-operative prior to conversion to permanent financing.

Exceptions to Guidelines:

1. Loan term exceeds 30 years
2. PDC pay in is more rapid than pari parsu
3. Sponsor is requesting forward commitment of FY 2010-11 funding as requirement by bond issuer/buyer, subject to appropriation.
4. LTV of 1.83:1 exceeds 1:1

ATTACHMENTS:

- A. River District URA Financial Summary
- B. Project Summary

URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2008-09	Approved FY 2009-10	Forecast FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14
River District URA						
Resources						
Beginning Fund Balance	16,879,294	19,895,181	3,136,550	7,301,967	4,377,217	2,993,467
Fees and Charges	0	0	0	0	0	0
Interest on Investments	50,000	1,000,000	200,000	50,000	50,000	50,000
Loan Collections	625,000	1,300,000	300,000	300,000	300,000	300,000
Property Income	200,000	200,000	200,000	200,000	200,000	200,000
Reimbursements	1,452,500	125,000	125,000	125,000	0	0
Tax Increment Proceeds	18,766,327	17,582,400	50,416,817	0	0	0
Total Resources	37,973,121	40,102,581	54,378,367	7,976,967	4,927,217	3,543,467
Requirements						
Program Expenditures						
Business & Industry						
General Business Assistance						
79020 Business Finance	1,100,000	2,100,000	3,100,000	0	0	1,100,000
Business & Industry Total	1,100,000	2,100,000	3,100,000	0	0	1,100,000
Housing						
Multi-Family - Rental Housing						
32138 Pearl Family Housing	0	12,000,000	7,000,000	0	0	0
37937 Access Center - Afford Housing	850,000	0	0	0	0	0
37938 Blanchet House Redev	465,000	0	0	0	0	0
37940 New Avenues for Youth	0	1,200,000	0	0	0	0
80036 Yards at Union Station	50,000	0	0	0	0	0
80037 Grove Apartments	500,000	0	0	0	0	0
89030 Affordable Rental Housing	900,000	500,000	4,000,000	0	0	0
Portland Housing Bureau						
28025 Administration	0	62,297	751,640	0	0	0
Housing Total	2,765,000	13,762,297	11,751,640	0	0	0
Infrastructure						
Facilities						
60020 Union Station	725,000	0	0	0	0	0
Parks						
13119 Neighborhood Park	350,000	2,450,000	2,450,000	0	0	0
Transportation						
11233 Public Site Improvements	0	200,000	0	0	0	0
11234 Westside Burnside - Couch Couplet	1,100,000	0	0	0	0	0
11263 RD Public Site Improvements	250,000	0	0	0	0	0
13137 Streetcar Loop Project	2,100,000	10,400,000	4,500,000	0	0	0
Infrastructure Total	4,525,000	13,050,000	6,950,000	0	0	0

PROJECT SUMMARY

- Project Name:** Pearl Family Housing
- Description:** This mixed-use project delivers 138 units of affordable rental housing, primarily family-sized units (60 two-bedroom and 70 three-bedroom), with 12,000 square feet of ground floor community space.
- Location:** The Project is a full block construction on a 40,000 Square foot (SF) site bounded by NW 13th and 14th and NW Quimby and Raleigh
- URA:** River District
- Current Phase:** Development Loan
- Completion Target:** September 2009
- Outcome:** Affordable family sized units in the Pearl District, 60 two-bedroom and 70 three-bedroom

Site/Project Map:



