DATE: March 8, 2017
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 17-09

Authorizing the Terms of an Option to Purchase Agreement to Convey 0.99 Acres of Real Property in the Interstate Corridor Urban Renewal Area to Transition Projects, Inc.

BOARD ACTION REQUESTED
Adopt Resolution No. 7229

ACTION DESCRIPTION
This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will approve the terms and conditions (Term Sheet) whereby the PDC Executive Director shall execute an Option to Purchase Agreement (Agreement) between PDC and Transition Projects, Inc. (TPI), for the conveyance of a property located at 2221 N. Argyle Way (Property), located in the Interstate Corridor Urban Renewal Area (URA). A map of the Property can be found in Attachment A. Upon execution of the Agreement, TPI intends to secure financing and construct 72 units of affordable, permanent housing for individuals who are transitioning from, or are at risk of, homelessness, and veterans (Project). The Project’s location will provide residents with access to transportation, commercial, and recreational services – all of which are essential elements of successful housing for low-income, formerly homeless, residents. Assuming full funding can be secured, TPI intends to break ground on the Property in 2018.

The purchase price for the Property shall be established by an appraisal of the highest and best use of the Property. In February 2016, a market positioning and pricing analysis estimated the value of the Property at $1,339,523.

At the March 8, 2017 PDC Board meeting, staff, will also discuss a distinct, near-term use permit for the Property that will allow for a different user to use the Property to provide temporary shelter known as a Tiny House Community. This use permit, which does not require PDC Board approval, would allow for a 12-month temporary use prior to the permanent TPI Project.

BACKGROUND AND CONTEXT

Property Description. The Property is an irregularly shaped, unimproved 43,287 square feet (0.99 acres) lot. The south end of the site slopes away from N. Argyle Way. A retaining wall defines the east property line. Access to the site is from an unimproved cul-de-sac on the west side of the site. The site is zoned R1.

History. On May 11, 2011, the PDC Board approved Resolution No. 6872, authorizing the acquisition of four properties, referred to as the Nelson Sites, for a total purchase price of $3,657,000. The purpose of this acquisition was to promote and stimulate commercial revitalization within the Kenton business
district. Three of the four properties were improved with buildings. PDC leases the buildings to tenants including Spar-Tek Industries, which manufactures production machinery, and Figure Plant, a design and fabrication studio.

In December 2015, PDC, in coordination with TriMet, commissioned the “Argyle Properties Development Study,” which recognized major constraints on the Property due to topography, adjacent industrial parking lots, and poor pedestrian connectivity to the heart of the Kenton business district.

**Housing and Homelessness Crisis.** Portland is experiencing a crisis of housing affordability and homelessness. Homeless service providers identified the Property as a desirable site for temporary and permanent housing for people exiting homelessness. There are both a permanent transitional housing proposal and a temporary housing proposal for the Property.

**Project.** The Project is comprised of 72 studios and single-room occupancy (SRO) units. The SRO units are designed in groups of six units that share a common kitchen and bathrooms (see Attachment B for a Project Site Plan and Attachment C for a Project Aerial Rendering). The site design includes three small buildings of two pods each, for a total of 36 SRO units. The studios, manager’s unit, and a large community room are in a separate three-story elevator building. All of the units at the Project will be affordable to persons earning no more than 60 percent median family income.

Based upon a cohousing model and employing a modular system of prefabricated units, the Project is designed to: reduce upfront and operating costs; make optimal use of available land; promote a sense of community among residents; and provide a replicable model of cost-effective housing to serve low-income individuals across Oregon.

In December 2016, TPI, in its efforts to advance the Project towards reality, executed a letter of intent for TPI to acquire the adjacent Ferguson property and to cooperate to vacate a dead-end unimproved right-of-way. In January 2017, Meyer Memorial Trust awarded TPI a $500,000 capital grant for the Project. Even with this momentum, TPI will need more than a year to secure approximately $11,200,000 necessary to finance, design, and permit the Project.

**Option to Purchase Agreement.** Key terms of the Agreement include:

- Within 120 days of execution of the Agreement, the Purchase Price for the Property shall be established by an appraisal commissioned by PDC and conducted by an appraiser mutually agreed upon by the parties.
- The Agreement term shall be 545 days.
- TPI accepts responsibility for the environmental condition of the Property and for compliance with all environmental laws.
- TPI will construct 72 units of housing for low income people exiting homelessness.

**Temporary Shelter.** The City of Portland, the Joint Office of Homeless Services, Catholic Charities, and the Village Coalition have proposed a temporary “Tiny House Community” on the Property. Fourteen tiny houses were designed by local professional architects and students of the Portland State University architecture program and then constructed at various sites, including two at the ReBuilding Center. The tiny houses were displayed at the Pacific Northwest College of Art in December 2016 and now are being stored on PDC property in the Oregon Convention Center URA. The Tiny House Community would operate on the Property for a minimum of 12 months. Catholic Charities will manage the Tiny House Community under a contract with the Joint Office of Homeless Services. Services to residents will include permanent housing placement assistance, integrated case management, addiction treatment referrals, and mental health treatment referrals. PDC will grant the City of Portland a use permit. Use permits and leases of less than five years do not require PDC Board approval.
COMMUNITY AND PUBLIC BENEFIT

The Project will provide 72 units of much-needed housing for low-income individuals for a period of 99 years. TPI will comply with and implement PDC’s Equity and Green Building policies.

PUBLIC PARTICIPATION AND FEEDBACK

TPI met twice with the land use committee of the Kenton Neighborhood Association (KNA) in February 2016. A letter from the land use committee chair states that the committee believes the proposal does not contradict revitalization efforts in Kenton. The committee would like to reengage with TPI as the proposal moves closer to being realized.

The proponents of the Tiny House Community have also engaged the neighborhood. A charrette was held in January 2017, and information about the proposal is on the KNA website. KNA is expected to take a formal position on the proposal at its general meeting in March 2017.

BUDGET AND FINANCIAL INFORMATION

The Adopted Fiscal Year (FY) 2016-17 Interstate URA Budgets and Five Year Forecasts includes funds for ongoing ownership and maintenance of the Property (see Attachment B). Upon execution of the Agreement and subsequent progress by TPI to secure funding for the Project, the forecast would be revised to reflect anticipated proceeds from sale of the property.

RISK ASSESSMENT

Entering into the Agreement creates minimal risks, as PDC is selling the Property at fair market value and does not have financial resources at risk. Risks related to these PDC Board actions include:

1. TPI may terminate the transaction prior to closing. There is a risk that TPI, after completing due diligence, will terminate the transaction.
2. TPI may fail to construct after conveyance of the Property. TPI will have to demonstrate to PDC’s satisfaction that the Project is fully financed, and PDC will retain a right to repurchase the Property for the same sale price should TPI fail to construct the Project.

ALTERNATIVE ACTIONS

The PDC Board may elect to specify alternative terms or reject the proposal in its entirety and direct PDC staff to discontinue the disposition process.

ATTACHMENTS

A. Property Map
B. Project Site Plan
C. Project Aerial Rendering
D. Interstate Corridor URA Financial Summary
PROPERTY MAP

2221 N. Argyle Way
Proposed Design - Aerial View from North
# Interstate Corridor URA Financial Summary

## Financial Summary

### Five-Year Forecast

<table>
<thead>
<tr>
<th>Interstate URA Fund</th>
<th>Revised FY 2016-17</th>
<th>Forecast FY 2017-18</th>
<th>Forecast FY 2018-19</th>
<th>Forecast FY 2019-20</th>
<th>Forecast FY 2020-21</th>
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<tbody>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Beginning Fund Balance</td>
<td>25,175,511</td>
<td>20,241,604</td>
<td>2,934,243</td>
<td>1,382,337</td>
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<td><strong>Revenue</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Fees and Charges</td>
<td>4,961</td>
<td>4,498</td>
<td>4,374</td>
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<td>Interest on Investments</td>
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<td>41,662</td>
<td>622</td>
<td>812</td>
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<td>Loan Collections</td>
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<td>390,606</td>
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<td>345,199</td>
<td>103,557</td>
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<td><strong>TIF - Short Term Debt</strong></td>
<td>18,981,000</td>
<td>18,985,972</td>
<td>18,665,851</td>
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<td><strong>TIF - Long Term Debt</strong></td>
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<td>9,000,000</td>
<td>2,200,000</td>
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<td><strong>Property Sales</strong></td>
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<td><strong>Rent and Property Income</strong></td>
<td>265,246</td>
<td>304,209</td>
<td>305,161</td>
<td>306,137</td>
<td>307,138</td>
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<td><strong>Reimbursements</strong></td>
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<td>84,644</td>
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<td><strong>Total Revenue</strong></td>
<td>20,262,785</td>
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<td>19,723,754</td>
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<td><strong>Total Resources</strong></td>
<td>46,438,296</td>
<td>38,945,195</td>
<td>24,480,265</td>
<td>21,106,091</td>
<td>60,750,732</td>
</tr>
</tbody>
</table>

### Requirements

- **Administration**
  - A00261-Debt Management-ISC: 22,532
  - Administration Total: 22,532

- **Economic Development**
  - Traded Sector
    - A00114-Business Development-ISC: 5,000
    - A00381-Lean Manufacturing-ISC: 50,000
  - Community Economic Development: 26,000
  - A00105-NPI & Main St Network-ISC: 60,000

- **Business Lending**
  - A00209-Bl-General-ISC: 650,200
  - Economic Development Total: 7,900,200

- **Housing**
  - A00171-Affordable Housing-ISC: 17,878,902
  - Housing Total: 17,878,902

- **Infrastructure**
  - Parks
    - A00246-Braddock-ISC: 0
  - Transportation
    - A00248-Killingworth Streetscape-ISC: 75,000
  - Lombard Investment-ISC: 1,226,965
  - Infrastructure Total: 1,301,985

- **Property Redevelopment**
  - Real Estate
    - A00305-Nelson Bldg-NCSC-ISC: 700,693
    - A00336-Spark Tek Building-ISC: 73,287
    - A00397-Avyline Lo-ISC: 6,700
    - A00339-Studebaker Building-ISC: 10,066
    - A00340-Reid House-ISC: 6,652
  - A00342-Real Estate Mgmt-ISC: 17,500

- **Commercial Property Lending**
  - A00360-CPRL-General-ISC: 1,879,172
  - Redevelopment Strategy
    - A00333-MLK Alzata-ISC: 734,375
  - A00341-Project Development-ISC: 20,000

- **Redevelopment Grants**
  - A00131-Clg-General-ISC: 760,000
  - A00132-SCTR-General-ISC: 24,000
  - A00146-SIP-General-ISC: 350,000
  - A00150-CFOA-General-ISC: 0
  - A00302-Property Investment Program (PIF) Grant-ISC: 700,000

- **Property Redevelopment Total**: 5,284,485
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<th>Forecast FY 2019-20</th>
<th>Forecast FY 2020-21</th>
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<tr>
<td>Total Program Expenditures</td>
<td>25,278,104</td>
<td>33,291,605</td>
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<td>Contingency</td>
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<td>1,362,337</td>
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<td>41,037,647</td>
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<tr>
<td>Total Fund Requirements</td>
<td>46,439,296</td>
<td>38,945,195</td>
<td>24,480,265</td>
<td>21,106,091</td>
<td>60,750,732</td>
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