



DATE: December 15, 2021
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 21-36
Update on the Lents Town Center Phase 2 Redevelopment Project

BRIEF DESCRIPTION OF INFORMATION ITEM

No action is requested; information only.

At the December 15, 2021, Prosper Portland Board of Commissioners (Board) meeting, staff will provide an update on redevelopment of Lents Town Center Phase 2, a mixed-income redevelopment project in the Lents Town Center tax increment finance (TIF) district (see a Site Map Conceptual Site Plan in Attachment A). Staff will be joined by representatives of Palindrome Communities (Palindrome), the developer Prosper Portland selected for the project, to discuss project status and accomplishments to date.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

Redevelopment of Lents Town Center Phase 2 advances multiple goals of Prosper Portland's Strategic Plan, including creating vibrant communities and corridors; advancing affordability and neighborhood solutions; and connecting through communication, engagement, and community partnership:

- Redevelopment of a long vacant 2.9-acre site;
- Creation of housing units resulting in approximately 400 additional residents;
- A mix of residential units, including two- and three-bedroom "family-size" flats and townhomes;
- Approximately 15 inclusionary housing units for households earning 60 percent or less of median family income (MFI);
- Responsive to community interests for a mixed-income, mixed-use neighborhood;
- Extension of the SE 92nd Ave. street frontage from SE Foster Rd. to SE Harold St., a distance of approximately 1,000 feet.

BACKGROUND AND CONTEXT

Lents Town Center Five-Year Action Plan. On May 28, 2014 through Resolution No. 37075, Portland City Council approved the Lents Town Center Five-Year Action Plan (Action Plan), articulating a set of investment priorities and actions for Prosper Portland and its bureau partners at the City of Portland (Environmental Services, Housing, Planning & Sustainability, Parks & Recreation). Among other priorities, the Action Plan called for "game changing" redevelopment along SE 92nd Avenue and for the activation of Prosper Portland-owned properties in Lents Town Center. Over a two-year community engagement process to inform the Action Plan, the Lents community provided extensive input through

four open houses with more than 300 attendees and staff targeted outreach to communities of colors and renters.

Lents Town Center Phase 1. In 2014, Prosper Portland released a Request for Interest (RFI) to solicit proposals from development partners for seven acres of Prosper Portland-owned and privately-owned properties in the Lents Town Center. As a result of the RFI, Prosper Portland moved forward with the following four redevelopment projects (and development partners), collectively known as Lents Town Center Phase 1:

1. Oliver Station (Palindrome)
2. Lents Commons (9101 Foster LLC)
3. Woody Guthrie Place (ROSE Community Development)
4. Asian Health & Service Center (same)

Now complete, these four projects have added 263 apartments to the Lents Town Center at the following affordability levels:

Lents Town Center Phase 1 – Housing Summary		
	Units	% of Phase 1
Affordable Housing Units at 30% Median Family Income (MFI)	22	8%
Affordable Housing Units at 60% MFI	135	51%
Workforce Housing Units at 80% - 100% MFI	47	18%
Market Rate Housing	57	22%
Manager's Units	2	1%
Total	263	100%

In addition, the Lents Town Center Phase 1 projects have collectively provided more than 30,000 square feet of office space and 30,000 square feet of ground floor commercial space both at market rate and enrolled in Prosper Portland's Affordable Commercial Tenanting Program.

Lents Town Center Phase 2. In May 2017, Prosper Portland entered into a nonbinding Memorandum of Understanding with Palindrome to advance Lents Town Center Phase 2. From fall 2018 through winter 2019, Prosper Portland, in partnership with Palindrome, conducted an extensive public engagement process with the broader Lents community. In response to stakeholder feedback and in alignment with the Lents Action Plan, Lents Town Center Phase 2 has three components:

1. Bakery Blocks, including rehabilitation of the existing commercial building and creation of a public plaza;
2. Redevelopment of Block F with multifamily, regulated affordable housing;
3. Redevelopment of the 92nd and Harold property (92/H) with multifamily, mostly market-rate rental housing.

The remainder of this report will focus on the 92/H development with just brief updates on the Bakery Blocks and Block F components of the project.

Bakery Blocks. As of this report, Palindrome through its affiliate Generation Partners, has submitted all information necessary for final building permits and is awaiting approval from the Bureau of Development Services to begin construction on the Bakery Blocks/plaza component of the project. Once begun, construction is expected to take eight to ten months. As required by agreements with Prosper Portland, the plaza will be open to the public and will host the Lents Farmers Market. The former carpet store building will house, among other things, the Lents Tool Library or other community/non-profit uses.

Block F. As described in the annual intergovernmental agreement (IGA) with Portland Housing Bureau (PHB), Prosper Portland will transfer the 0.59-acre Block F site at the southeast corner of SE 92nd Avenue and SE Harold Street to PHB at no cost. PHB will in turn make Block F available for construction of housing affordable to households earning up to 60 percent MFI through a future Notice of Funding Availability. As of this report, PHB has not set a solicitation timeline.

92/H. On August 14, 2019, through Resolution No. 7328, the Prosper Portland Board authorized the Executive Director to, among other things, negotiate and execute a Disposition and Development Agreement (DDA) and Ground Lease (GL) with Palindrome for 92/H in accordance with the Term Sheet. Due to changes in real estate market triggered by the COVID pandemic, Palindrome has somewhat altered its plans for redevelopment of the site as those were envisioned in the original Term Sheet, DDA and GL. Other than the timeline for construction the most significant change in the DDA has been to the number of residential units and the phasing approach as shown in the table below:

	Original Plan	COVID-Adjusted Plan
Total Residential Units	244	218
Total Residential Units in 92/H first phase	139	170
Total Residential Units in 92/H second phase	105	48

Palindrome’s financial obligations as reflected in the Ground Lease are unchanged from the those previously approved by the Prosper Portland Board. The most significant are:

- Ground Lease term:
 - 99 years;
- Ground Lease payments:
 - Lease Year 1: \$188,490;
 - Lease Year 2: \$188,490;
 - Lease Year 3: \$376,980;
- Ground Lease payment escalation:
 - Three percent starting in year four;
- Deferred Ground Lease payment:
 - Cash flow dependent for year one – 15;
 - Any deferred payments paid out of available cash flow starting in year 16;
- Property reversion:
 - To Prosper Portland at end of term;
 - In case of default:
 - Option for mortgagees to obtain new lease; or
 - Prosper can relet or take the property back including improvements.

The DDA obligations begin on the Execution Date, i.e., the date the DDA is signed. The DDA requires option payments of \$10,000/quarter for each of the first and second phases, starting on the Execution Date (each phase’s option payments are creditable to the ground lease rent for that phase). Once Palindrome has performed any remaining due diligence and obtained its land use approvals for the first phase, the parties will close on the first phase and execute the Ground Lease for that phase. The Closing Date for the first phase is currently anticipated to be no later than December 31, 2022. After the closing of the first phase, Palindrome is obligated to commence construction of that phase and will continue to

make option payments of \$10,000/quarter for toward the second phase. Once Palindrome has obtained its land use approvals for the second phase, then the parties will close on that as well and execute the second phase Ground Lease, obligating Palindrome to commence construction. The DDA requires that the second phase closing occur within three years after the first phase closing, except if extended by Prosper Portland and Palindrome. Palindrome has stated that it fully expects to make the lease payments from the operating income of the project.

Palindrome has indicated the total project cost of the first phase will be approximately \$43,000,000; the budget for the second phase will be determined at a later date.

EQUITY IMPACT

The Lents Town Center Phase 2 project includes a comprehensive set of public benefits, largely informed by the results of public engagement with a focus on housing, open space, commercial space, and equitable development. The 92/H development will be subject to Prosper Portland’s Construction Business and Workforce Equity Policy and Green Building Policy (in place at the time of the original approval of this transaction). In addition, 92/H is subject to the City’s Inclusionary Zoning requirements which is expected to result in the production of approximately 15 affordable units for the project.

COMMUNITY PARTICIPATION AND FEEDBACK

In fall 2018, Prosper Portland contracted with public engagement consultants Jeanne Lawson and Associates and the City Office of Community & Civic Life’s Community Engagement Liaisons to implement a robust community engagement process that would inform Lents Town Center Phase 2. Prosper Portland’s goal for the engagement process was to hear from community members, with a specific focus on East Portland communities of color, about their priorities for housing, open space, commercial space, and equitable development. The engagement process included four In-Language Focus Groups, two Community Conversations, one In-Person Open House and one Web-Based Open House. Community feedback informed Prosper Portland’s and Palindrome’s decisions about the development program and public benefits.

BUDGET AND FINANCIAL INFORMATION

Staff negotiated the 92/H transaction with an explicit focus on being consistent with the agency’s Financial Sustainability Plan. As such, it will provide a long-term source of revenue through the ground lease which is expected to result in a net present value of approximately \$4.5M (6% discount rate) over the 99-year term.

RISK ASSESSMENT

1. **There is a risk that Palindrome does not close on the 92nd and Harold redevelopment project.** Palindrome might terminate the transaction for one or both phases either due to inability to secure the financing or equity investment, project costs being too high, etc. This risk is somewhat mitigated by Palindrome’s significant development experience and intention to invest significant amounts of their own equity. Nevertheless, if economic conditions change and Palindrome cannot perform, the property will revert to Prosper Portland. This risk is somewhat mitigated by the nominal option payments that are proposed to be paid periodically until closing on each phase of financing, and the ability of Prosper Portland to solicit new developer proposals for the 92/H property if the Palindrome terminates.
2. **Payments on the 92nd and Harold ground lease are dependent upon future market conditions, particularly residential rental rates in Lents Town Center and inflation rates on project operating expenses.** There is a risk that net operating income will be lower than projected and

payments on the ground lease will be affected and returns to Prosper Portland would be delayed. This risk is somewhat mitigated by the fact that there is a long (15-year) cash flow payment period when payments would not be in default, and ultimately a catch-up payment if the project is refinanced/recapitalized. Upon payment default after the cash flow payment period expires, it is assumed that payments would be continued by the mortgage lender or the property would revert to Prosper Portland through a ground lease termination.

ATTACHMENTS

- A. Site Map and Conceptual Site Plan

SITE MAP



CONCEPTUAL SITE PLAN



92/H First Phase

92/H Second Phase