



PROSPER
PORTLAND
Building an Equitable Economy

DATE: October 11, 2023
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 23-32

Approving the Terms of a Special Authority Loan to Shortstack Mississippi, LLC, in an Amount Not to Exceed \$3,500,000 for Redevelopment of Real Property Located at 1017 N Revere Street: Approving an Exemption to the Construction Business Workforce Equity Policy

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7505

This action by the Prosper Portland Board of Commissioners (Board) will authorize the Executive Director to make a special authority loan (Loan) to Shortstack Mississippi, LLC (Borrower) in the amount of up to \$3,500,000, at an interest rate of 6.36 percent during construction and 4.36 percent during the permanent period, for development and management of a 36-unit project including regulated affordable and middle-income market rate apartments located at 1017 N. Revere Street (Project). A site map can be found in Attachment A. This action will also exempt the Borrower from the Workforce Training and Hiring Program component of Prosper Portland's Construction Business Workforce Equity Policy with specific performance conditions committed to as part of the Loan.

STRATEGIC ALIGNMENT AND OUTCOMES

This action will deliver on several Advance Portland objectives, most notably by:

- Address housing production across a continuum of affordability including middle income housing along and near to commercial corridors; and
- Exploring and expanding production methods that can streamline and increase completion of workforce housing.

BACKGROUND AND CONTEXT

Over the past few years, the Borrower has developed Shortstack as a replicable, mass timber housing model designed as a kit of parts intended for replicability across sites, the ability to shrink and grow based on different site specifications, and with a focus on "missing middle" infill housing affordable to households earning 60 to 100 percent of area median income (AMI).

The Project is located on a 15,000 square foot lot zoned Residential Multi-Dwelling 1 (M1) located near the Mississippi commercial district in north Portland. There is currently an unoccupied single-family residence located on site which was vacant at the time the Borrower purchased the property in 2021. The location is well connected to transit, schools, daycare, employment, parks, grocery stores, and community services.

The Borrower intends to develop and manage the Project as a 36 unit mixed-income, multifamily building with the following unit and affordability mix. Sixty percent of the units will be affordable at 60 percent AMI and 40 percent of the units will be affordable at or above 80 percent AMI. Prosper Portland’s investment focuses on the non-regulated, middle-income units while leveraging affordable housing investments in the 60 percent AMI units. With more than 50 percent of units as three-bedroom apartments, the unit mix is intended to meet community need for family housing, with full unit size breakdown as follows:

Units	60% - 80 % AMI (Restricted)	80%+ AMI (Unrestricted)
One-bedroom	8	0
Two-bedroom	8	0
Three-bedroom	13	7
Total	29	7

The Borrower anticipates closing on financing by late 2023 and beginning construction in 2024 with units to rent and stabilization in 2026. Below is a “sources and uses” statement for the Project:

Construction Sources	Amount
Borrower Equity	\$1,586,977
Oregon Housing & Community Services	\$3,500,000
Stearns Bank	\$5,000,000
The Oregon Community Foundation	\$500,000
Metro Transit Oriented Development Grant	\$200,000
Prosper Portland Loan	\$3,500,000
Total	\$14,286,977

Construction Uses	Amount
Land Costs	\$1,216,625
Hard Costs	\$9,670,687
Soft Costs	\$2,170,864
Financing Costs	\$1,228,801
Total	\$14,286,977

Prosper Portland’s Loan will begin as a construction loan and convert to a 20-year permanent loan upon Project stabilization. During the term of construction, Loan interest will be 6.36 percent, while the permanent interest rate will be 4.36 percent based on the 10-year Treasury Note Yield at the time of underwriting.

The construction loans from Stearns Bank and The Oregon Community Foundation will be paid off at conversion to permanent debt. Payoff and permanent debt will come from a proposed \$5,500,000 loan from Network for Oregon Affordable Housing. The Oregon Housing and Community Services loan is structured as a zero percent interest shared first-lien loan for the initial 20-year affordability period and will be considered “satisfied” at year 20 when the affordability restrictions are extended another 20 years. Prosper Portland will be in third lien position based on the financial stack largely coming from affordable housing financing and related regulated performance requirements.

EQUITY IMPACT

This action will advance economic equity through investments that promote inclusive growth and provide access to affordable and middle-income housing units with a focus on families. As noted, this action will exempt the Borrower from the Workforce Training and Hiring Program component of Prosper

Portland’s Construction Business Workforce Equity Policy (CBWE Policy); the Borrower will, however, comply with Business Equity Program requirements.

Given the nature and scale of the Project (lower density, more than 60 percent of the units regulated affordable housing), the Borrower has communicated the Project is exempt from Oregon Prevailing Wage and they will not be able to fully comply with workforce equity requirements. Challenges to compliance include the Project size; an executed bid with a general contractor and many subcontractors; the need to manage costs in light of regulated affordable units; and schedule delay impacts from potential rebidding.

The Borrower and its general contractor have agreed to the following actions below in support of the CBWE Policy:

- Require construction trade partners to register as State training agents or get as far along in the process as possible understanding that each program has a different set of requirements and timing. These efforts are intended to expand the list of trade partners engaged in workforce programs and will prepare these subcontractors such that they’re ready to engage in workforce training on future projects. The Borrower has provided a list of trades and training programs that meet the thresholds for this project.
- While not tracking apprenticeship hours due to the early nature of the subcontractors engaging with training programs, the Borrower will track hours worked on site by minority and women workers. In lieu of the LCPtracker reporting system, it will internally track hours worked on the Project by those who self-identify as women and/or minority workers, with a target of meeting the Workforce Training and Hiring Program aspirational goals of 30 percent minority and 15 percent women workers.
- Work with Prosper Portland compliance staff to deliver measurable outcomes with the goal of preparing subconsultants working on the Project to engage with training and pre-apprenticeship programs and to be better ready to bid on future public or public-private partnership projects.

Staff are drafting significant changes to the Commercial Property Redevelopment Loan guidelines and anticipate seeking Prosper Portland Board consideration and approval in late 2023. The goal is to create new financial commercial real estate loan products (from acquisition to construction to permanent financing) to fill identified gaps in the market, particularly on smaller projects and within historically underserved communities, while also contributing to Prosper Portland’s long-term financial sustainability. Staff anticipate that the Green Building Policy and CBWF Policy will also likely need to be amended to fully implement the new loan products while not compromising policy goals.

COMMUNITY PARTICIPATION AND FEEDBACK

Staff have not conducted any specific public outreach related to this action. However, the fiscal year 2023-24 budget development process included extensive public outreach through meetings with the agency’s Community Budget Committee and other stakeholders, including through TIF district focused engagement. As part of that engagement process, stakeholders reviewed and provided feedback on potential Strategic Investment Fund priorities, including increasing the availability of funds for citywide working capital and commercial real estate loans.

As noted above, staff are drafting significant changes to the Commercial Property Redevelopment Loan guidelines and anticipate seeking Prosper Portland Board consideration and approval in late 2023. The proposed changes are based on input received as part of the Strategic Investment Fund discussions with industry partners and community input on access to capital needs and gaps in the market. In the meantime, staff are seeking approval of the loan to Borrower as a Special Authority Loan while these revised guidelines are in development.

Last year, Shortstack partnered with Swinerton, Timberlab, and National Association of Minority Contractors to host a training on how to develop small-plex mass timber housing. The collaboration was designed to create opportunities for minority contractors in the emerging mass timber construction industries and to solidify new partnerships on Shortstack housing projects.

BUDGET AND FINANCIAL INFORMATION

There are sufficient resources in the fiscal year FY 2023-24 Revised Budget in the Strategic Investment Fund Property Redevelopment appropriation to disburse this Loan (see Attachment B). However, the specific project line item proposed will include a recommended technical adjustment in the Revised 2 Budget, transferring budget from the Acquisition/Perm project line item to match the amount of this Loan.

The Project return overall is less than the target return identified for the Strategic Investment Fund in the updated Financial Sustainability Plan, which was modeled to have an average interest rate of six percent for the portfolio. However, based on the structure of the Loan, interest payments over the first five years align to cash return targets anticipated in the Financial Sustainability Plan.

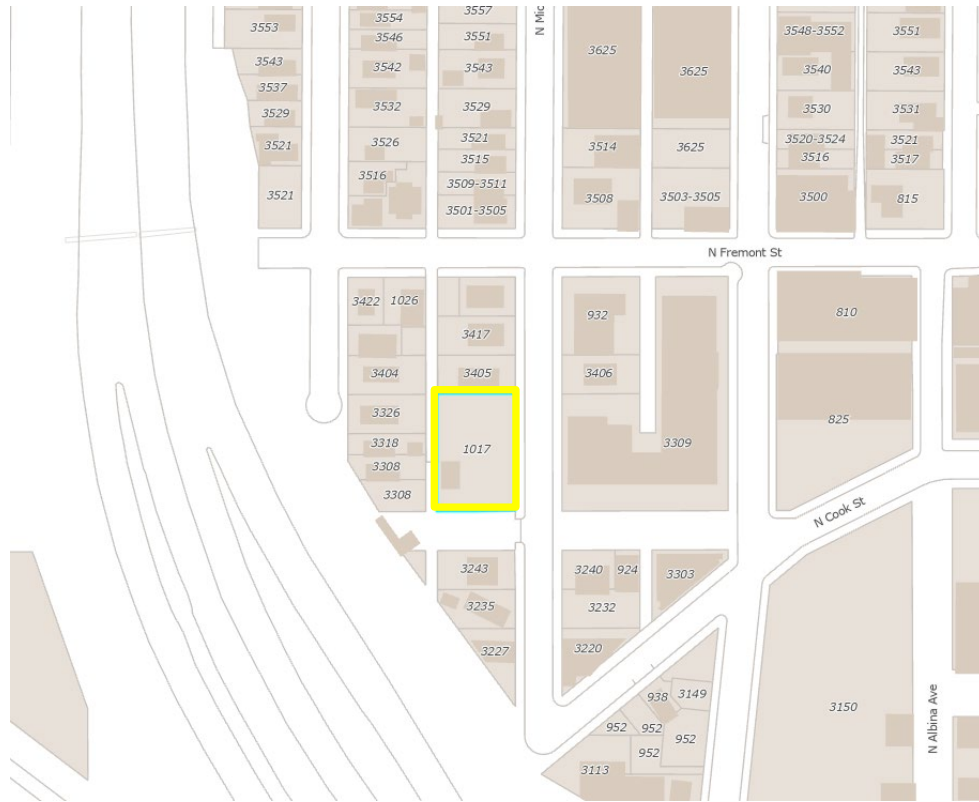
RISK ASSESSMENT

While there is a risk that the Borrower will be unable to repay the loan, staff have reviewed personal financial statements and consumer credit reports and will require personal guaranties from (1) Shortstack Developer, LLC, (2) Jessica Ledesma, and (3) Anna Mackay, as well as a trust deed on the subject property.

ATTACHMENTS

- A. Site Map
- B. Strategic Investment Fund Budget

SITE MAP



1017 N Revere Street

STRATEGIC INVESTMENT FUND BUDGET

Strategic Investment Fund	Revised FY 2022-23	Revised FY 2023-24
Resources		
Beginning Fund Balance	5,033,844	4,378,998
Revenue		
Fees and Charges	3,573	50,000
Interest on Investments	10,260	33,922
Loan Collections	402,348	116,008
Miscellaneous	350,000	0
Transfers In	3,091,200	45,000,000
Total Revenue	3,857,381	45,199,930
Total Resources	8,891,225	49,578,928
Requirements		
Economic Development		
Community Economic Development		
A00448-NPI Opportunity Fund	425,729	310,292
A00639-Construction Tech Assist-WTH	125,000	175,000
Business Lending		
A00217-SBLF-General-SBL	750,100	7,700,000
A00218-Working Capital-WCF	250,200	0
Economic Development Total	1,551,029	8,185,292
Property Redevelopment		
Commercial Property Lending		
A00750-Predev/Construction Loans-RELF	0	3,200,000
A00751-Acquisition/Perm Loans-RELF	0	3,800,000
Real Estate Predevelopment		
A00752-NOI Fund-NOI	0	10,000,000
Property Redevelopment Total	0	17,000,000
Total Program Expenditures	1,551,029	25,185,292
Personnel Services	46,974	190,651
Total Fund Expenditures	1,598,003	25,375,943
Interfund Transfers - Indirect Charges	23,024	164,633
Interfund Transfers - Cash Transfers	2,891,200	1,000,000
Contingency	4,378,998	23,038,352
Total Fund Requirements	8,891,225	49,578,928