



DATE: November 18, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-67

Approving the Terms of a Predevelopment Loan, a Development and Disposition Agreement, and a Commercial Property Redevelopment Loan to ROSE Community Development Corporation for Redevelopment of a Certain Property in the Lents Town Center Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 7153

ACTION DESCRIPTION

The following three actions by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the PDC Executive Director to negotiate and execute an agreement for the development and disposition of PDC-owned property and financing in the Lents Town Center Urban Renewal Area (URA) for a mixed-income residential project by:

1. Authorizing a Predevelopment Loan (Predevelopment Loan) of up to \$1,064,500 to ROSE Community Development Corporation (ROSE CDC).
2. Authorizing the negotiation and execution of a Development and Disposition Agreement (DDA) with ROSE CDC for the conveyance of 0.75 acres of real property located on the southeast corner of the intersection of SE Reedway Street and 91st Avenue (the Property) (see an aerial and site photos in Attachment A). Execution of the DDA is conditioned upon terms that are in accord with the Summary of Terms and Conditions.
3. Authorizing a Permanent Commercial Property Redevelopment Loan (Development Loan) of up to \$6,941,994 to ROSE CDC conditioned upon PDC review and approval of standard underwriting protocols.

The planned development (the Project) is the construction of a mixed-income housing development to include a total of 68 rental apartment units. Of these, 28 of the units will be restricted to residents with income levels up to 100 percent median family income (MFI), 22 units will be restricted to 80 percent MFI, 17 will be restricted to 30 percent MFI, and one unit will be dedicated to an on-site property manager. There will be 23 associated parking spaces.

The ROSE CDC Project is part of the first phase of PDC's larger disposition and investment strategy in the Lents Town Center. At its June 24, 2015, meeting, the PDC Board approved actions moving three other major developments forward on neighboring parcels: 1) Asian Health and Service Center, Inc., 2) Palindrome Communities, LLC, and 3) Williams/Dame and Associates, Inc. If the PDC Board approves the resolution to move forward with the ROSE CDC Project, PDC will still own significant, redevelopable sites in the Lents Town Center that will increase in value and appeal as a result of the first phase projects.

In aggregate, PDC will invest significant resources in these four first-phase projects. As evidenced by the long-term lack of private investment, public funding is critical to leveraging private investment in the Lents Town Center. Should all four projects be completed as currently contemplated, their mix of market rate, mixed-income, and affordable housing, retail, office, and community space will help create the vibrant, mixed-use, active Lents Town Center that has long been a goal for Lents stakeholders, PDC, and the City of Portland (City).

Following are estimated milestones for the proposed ROSE CDC Project:

| | |
|----------------------------------|---------------|
| DDA Terms Approved | November 2015 |
| Predevelopment Loan Approval | November 2015 |
| Due Diligence Reports Complete | February 2016 |
| Schematic Design Complete | April 2016 |
| Design Review Initiated | June 2016 |
| DDA Executed | August 2016 |
| Building Permit 'Ready to Issue' | December 2016 |
| Closing | February 2017 |
| Construction Complete | April 2018 |

BACKGROUND AND CONTEXT

The Lents neighborhood is one of the largest, oldest, and most ethnically diverse communities in Portland. Since 1998, PDC has invested more than \$90,000,000 in infrastructure and facilities, redevelopment, business development, transportation, and affordable housing, along with countless hours of dedicated public participation on advisory committees. While much of the hoped-for retail amenities, residential density, job growth, and private investment have been slow to materialize, the financial, technical advisory, and community outreach investments have laid solid groundwork on which to build out the vision for Lents.

Lents Town Center Five-Year Action Plan. In May 2014, the Portland City Council adopted the Lents Town Center Five-Year Action Plan (Action Plan) which lays out a strategy for the next five years that focuses investments where they will have the most impact, ensures existing residents and businesses benefit, and takes some calculated risks. The Action Plan requires collaboration among public and private sectors as well as non-profit partners. It builds upon previous plans and efforts for this neighborhood, including the 1998 Lents Town Center URA Plan (amended 2008), the 2009 Lents Town Center Redevelopment Feasibility Study, the 2010 Lents Business District Strategy, and the 2011-13 Foster/Lents Integration Partnership. The proposed action is consistent with desired outcomes of all of these strategies.

Lents Request for Information (RFI). In an effort to advance neighborhood centers, commercial corridors, and affordable housing, all focal points of the Action Plan, PDC staff issued an RFI in October 2014 for the disposition and development of multiple PDC-owned parcels in the Lents Town Center. PDC received nine proposals and selected four in January 2015, including ROSE CDC's mixed-income housing project proposal.

With the Lents Town Center URA sunsetting in 2020, these requested PDC Board actions may serve as the final, critical push of activity in this district. A PDC conditional commitment at this time is also considered a necessary step to induce financial participation on the part of other financial partners. While the real estate market in the Lents Town Center URA is improving, current lease rates do not adequately return capital sources required to fund new construction. Preliminary pro forma indicate that there is a significant gap in the economic and financial feasibility of the Project. ROSE CDC would be exposing itself to undue risk and probable losses if it were to proceed before there is certainty that PDC funding, including the permanent financing, will be available to fill that gap. PDC’s role as gap financier is critical, and ROSE CDC would be unable to proceed with the project in Lents Town Center but for PDC’s involvement. ROSE CDC is unlikely to move forward with predevelopment work if feasibility remains a significant issue. Consequently, this set of actions is intended to demonstrate PDC’s support, which will in turn provide certainty to ROSE CDC and the Project.

Predevelopment Loan Terms & Conditions

PDC staff recommends that PDC fund all tax increment-eligible, pre-approved predevelopment expenses through a \$1,064,500 Predevelopment Loan. In the event that the Project is deemed infeasible and does not move forward, the Predevelopment Loan would be forgiven. If the Project advances, the Predevelopment Loan will be repaid from/made a part of the Development Loan.

Proposed Disposition and Development Terms & Conditions

PDC staff recommends that the PDC Board approve the negotiation and execution of a DDA in substantial accord with the Summary Terms and Conditions which will be subject to the review of PDC’s General Counsel prior to execution.

Development Loan Terms & Conditions

PDC staff is also recommending conditional approval of a Development Loan for construction and permanent financing, which would give confidence to ROSE CDC of PDC’s commitment to a project which would otherwise not be feasible. If approved, PDC would provide a Development Loan in the amount of \$6,941,994 in accordance with the loan terms. The Development Loan represents 40 percent of the total project cost, which is anticipated to be approximately \$17,400,000. ROSE CDC expects to secure \$7,075,000 in the form of senior financing guaranteed by the U.S. Department of Housing and Urban Development (HUD), \$725,000 equity and deferred developer fees, and a \$2,075,000 loan from the Portland Housing Bureau (PHB), as well as \$567,440 in other City grants and subsidies.

| Capital Stack | Amount |
|---|---------------------|
| Senior Debt (HUD Section 221(d)(4)) | \$7,075,000 |
| PDC Loan | \$6,941,994 |
| PHB Loan | \$2,075,000 |
| Metro Transit Oriented Development Grant and Systems Development Charge Waivers | \$567,440 |
| Developer Equity and Deferred Fees | \$725,000 |
| Total | \$17,384,434 |

The Development Loan is conditioned upon PDC review and approval of standard underwriting protocols. The Development Loan structure and underwriting will be reviewed by the PDC Financial Investment Committee and General Counsel prior to finalization. The Summary Terms and Conditions include unique provisions for cash flow-dependent repayment of the Development Loan.

COMMUNITY AND PUBLIC BENEFIT

Lents Town Center Five-Year Action Plan. These actions would further multiple key objectives of the Action Plan, including stimulating development for the Lents Town Center and the construction and preservation of mixed-income housing.

Jobs. The Project will provide temporary construction jobs in the Lents Town Center, in addition to adding residential households that support neighborhood businesses.

Equity Goals. ROSE CDC will comply with PDC’s Equity Policy requirements for participation of minority-owned, women-owned, and emerging small businesses and shall use apprentices and women, minorities, and disadvantaged individuals in the construction workforce, as provided by the Business and Workforce Equity Program requirements.

Green Building. ROSE CDC will comply with PDC’s Green Building Policy, which requires Leadership in Energy & Environmental Design Gold certification.

Prevailing Wage. The Project shall be considered a “public work,” subject to Oregon’s Prevailing Wage Law (Oregon Revised Statutes 279C.800 to 279C.870) and the administrative rules adopted thereunder.

Community Benefits. ROSE CDC will comply with a Regulatory Agreement with PHB to report on all restricted units consisting of affordable units at 30 percent MFI, workforce units at or below 80 percent MFI, and workforce units at or below 100 percent MFI. In addition, ROSE CDC will comply with equity-based programs to implement PDC’s Equity Policy and specific measures designed to mitigate community impacts through public participation and reduce temporary impacts caused by construction activities.

Financial Return. The DDA structure has the potential to repay the Development Loan after expenses, reserves, and deferred fees are satisfied. The potential repayment of the Development Loan is dependent upon positive Project cash flow in future years which is not certain.

PUBLIC PARTICIPATION AND FEEDBACK

PDC employed an aggressive marketing campaign to generate public and developer interest in the RFI. Aside from the standard social media, website presence, and media release, PDC staff held two investor walking tours (open to the public) and an open house on November 5, 2014. In addition, PDC staff installed on-site advertisements and conducted an online survey to test market ideas for needed neighborhood services.

PDC staff worked with a stakeholder evaluation committee (Evaluation Committee) to select the final proposals. The Evaluation Committee included City bureau partners from the Lents Action Plan (PHB and the Bureau of Planning and Sustainability) as well as four Lents community members (including representatives from the Neighborhood Economic Development Leadership Group, Lents Neighborhood Association, and Lents Grown), and the Mayor’s Office. The Evaluation Committee’s final recommendation was to enter into exclusive negotiations with four of the nine proposal teams. PDC staff has subsequently organized “developer breakfast” meetings to inform local community stakeholder groups, as well as periodic updates to the Lents Neighborhood Association, including a public open house on October 27, 2015. Moving forward, ROSE CDC will participate in a public feedback process coordinated by PDC, following approval of the Predevelopment Loan.

BUDGET AND FINANCIAL INFORMATION

The Lents Town Center URA fiscal year (FY) 2015-16 Adopted Budget and Five-Year Forecast currently include adequate funds for these proposed actions (see Attachment B).

RISK ASSESSMENT

Risks related to these PDC Board actions include:

1. **ROSE CDC may terminate the transaction prior to closing.** There is a risk that ROSE CDC, after completing due diligence funded entirely by PDC, will terminate the transaction. The ramification of this risk is potential loss of the Predevelopment Loan amount.
2. **ROSE CDC may not secure other funding commitments.** ROSE CDC expects to secure additional funding in the form of a senior loan under the HUD 221 (d) 4 program. The ramification of this risk is loss of the Predevelopment Loan amount plus potential failure to close.
3. **ROSE CDC may fail to construct after conveyance of the Property.** PDC retains a right to repurchase the Property for the same sale price under such circumstances.
4. **Rents may not increase sufficiently to service the Development Loan or generate a cash flow return to PDC as anticipated.** Repayment of the Development Loan is cash flow dependent which is dependent upon future economic conditions and constrained by the restricted rent structure of the Project. Consequently, this risk is significant. This risk is only partially mitigated by the second lien position on the property.

ALTERNATIVE ACTIONS

The PDC Board may elect to specify alternative terms for any or all of the proposed authorizations or reject the proposal in its entirety and direct PDC staff to discontinue the disposition process.

ATTACHMENTS

- A. Aerial and Property Photos
- B. Lents Town Center URA FY 2015-16 Financial Summary

Aerial and Property Photos



Aerial Outline



View from SE 91st Avenue, looking east

URA Financial Summary

Five-Year Forecast Program Requirements

| | Revised- 3 FY 2014-15 | Adopted FY 2015-16 | Forecast FY 2016-17 | Forecast FY 2017-18 | Forecast FY 2018-19 | Forecast FY 2019-20 |
|---|--------------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|
| Lents Town Center URA | | | | | | |
| Resources | | | | | | |
| Beginning Fund Balance | 15,409,526 | 14,689,015 | 12,190,722 | 72,330 | 859,889 | 4,515,145 |
| Fees and Charges | 6,624 | 1,500 | 534 | 530 | 529 | 529 |
| Interest on Investments | 48,000 | 44,067 | 36,572 | 217 | 2,580 | 13,545 |
| Loan Collections | 440,000 | 492,687 | 133,062 | 133,061 | 133,062 | 246,596 |
| Long Term Debt | 0 | 0 | 3,300,000 | 15,500,000 | 0 | 27,291,301 |
| Property Income | 56,941 | 60,875 | 1,754,166 | 240,875 | 60,875 | 3,537,873 |
| Reimbursements | 4,273 | 80,200 | 80,200 | 80,200 | 80,200 | 80,200 |
| Short Term Debt | 8,991,000 | 9,990,000 | 9,990,000 | 10,989,000 | 10,989,000 | 3,163,169 |
| Total Resources | 24,956,364 | 25,358,344 | 27,485,246 | 27,016,213 | 12,126,135 | 38,848,358 |
| Requirements | | | | | | |
| Program Expenditures | | | | | | |
| Administration | | | | | | |
| Financial Administration | | | | | | |
| A45101360 Debt Management-LTC | 32,413 | 32,413 | 20,000 | 20,000 | 20,000 | 20,000 |
| Total Administration | 32,413 | 32,413 | 20,000 | 20,000 | 20,000 | 20,000 |
| Business Development | | | | | | |
| Business Lending | | | | | | |
| L00210360 BL-General-LTC | 250,000 | 700,100 | 700,100 | 700,100 | 700,100 | 700,100 |
| L00200360 BL-Modifications-LTC | 500 | 0 | 0 | 0 | 0 | 0 |
| Small Business & Community Dev | | | | | | |
| B55800360 Business Development-LTC | 10,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| B55900360 Community Development-LTC | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Traded Sector Business Dev | | | | | | |
| B15100360 Cluster Development-LTC | 10,000 | 0 | 0 | 0 | 0 | 0 |
| T01069360 Lean Manufacturing-LTC | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Total Business Development | 350,500 | 800,100 | 800,100 | 800,100 | 800,100 | 800,100 |
| Housing | | | | | | |
| PHB Housing | | | | | | |
| H15410360 Home Repair Projects-LTC | 226,003 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| H15420360 Home Buyer Assistance-LTC | 591,241 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| H15430360 Affordable Rental Hsg-LTC | 0 | 24,324 | 5,700,000 | 5,400,000 | 600,000 | 2,100,000 |
| H15900360 PHB Staff & Admin-LTC | 595,004 | 592,365 | 679,402 | 745,255 | 895,913 | 900,000 |
| Total Housing | 1,412,248 | 1,616,689 | 7,379,402 | 7,145,255 | 2,495,913 | 4,000,000 |
| Infrastructure | | | | | | |
| Parks | | | | | | |
| N36011515 Walker Stadium-LTC | 0 | 200,000 | 0 | 0 | 0 | 0 |
| N36012515 Leach Botanical Grdns-LTC | 270,000 | 1,770,000 | 0 | 0 | 0 | 0 |
| Transportation | | | | | | |
| N36031525 Foster-Woodstock-LTC-Adm | 51,600 | 0 | 0 | 0 | 0 | 0 |
| N36031535 122nd-Holgate/Ramona-LTC-Adm | 950,000 | 0 | 0 | 0 | 0 | 0 |
| N36031545 Foster-52nd to 82nd-LTC-Adm | 100,000 | 640,000 | 1,200,000 | 0 | 0 | 0 |
| N36032015 Lents Entryway-LTC-Adm | 6,250 | 0 | 0 | 0 | 0 | 0 |
| N36031415 Street/Sidewalks LID-LTC-Adm | 60,000 | 0 | 0 | 0 | 0 | 0 |
| Total Infrastructure | 1,437,850 | 2,610,000 | 1,200,000 | 0 | 0 | 0 |
| Property Redevelopment | | | | | | |
| Commercial Property Redevelopm | | | | | | |
| P36060935 Metro Auto Bldg & Lot-LTC-Adm | 7,709 | 4,709 | 4,709 | 4,709 | 4,709 | 4,709 |
| P36092015 Real Estate Mgmt-LTC-Adm | 23,579 | 23,479 | 22,679 | 22,679 | 2,000 | 2,000 |

Five-Year Forecast Program Requirements

| | Revised- 3 FY 2014-15 | Adopted FY 2015-16 | Forecast FY 2016-17 | Forecast FY 2017-18 | Forecast FY 2018-19 | Forecast FY 2019-20 |
|--|--------------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|
| P36061015 ArchtctIronPrdctBldg-LTC-Adm | 13,904 | 209,229 | 9,229 | 9,229 | 9,229 | 9,229 |
| P36060925 MetroAuto Whisl VLot-LTC-Adm | 6,697 | 50,500 | 5,500 | 0 | 0 | 0 |
| P36060615 LTC II Parking Lot-LTC-Adm | 7,666 | 7,840 | 7,840 | 7,840 | 7,840 | 7,840 |
| P36060335 Bakery Block-LTC-Adm | 1,018,964 | 94,544 | 94,544 | 94,544 | 94,544 | 94,544 |
| P36060325 Lents Little Lge Fld-LTC-Adm | 4,375 | 4,375 | 4,375 | 4,375 | 4,375 | 4,375 |
| P36055015 Foster Road Redev-LTC-Adm | 20,000 | 0 | 0 | 0 | 0 | 0 |
| P36050915 LTC Town Ctr Redev-LTC-Adm | 100,000 | 100,000 | 100,000 | 50,000 | 50,000 | 50,000 |
| P36050815 SE 92nd Redev-LTC-Adm | 25,000 | 0 | 0 | 0 | 0 | 0 |
| P36090015 Project Development-LTC-Adm | 49,500 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Commercial Real Estate Lending | | | | | | |
| R01100360 CPRL-General-LTC | 2,500,000 | 4,502,000 | 15,002,000 | 15,002,000 | 1,002,000 | 1,002,000 |
| Community Redevelopment Grants | | | | | | |
| G01100360 CLG-General-LTC | 800,000 | 450,000 | 250,000 | 250,000 | 250,000 | 250,000 |
| G02100360 DOS-General-LTC | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| G03100360 SIP-General-LTC | 560,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| G04100360 GFGR-General-LTC | 50,000 | 125,000 | 125,000 | 125,000 | 125,000 | 125,000 |
| Total Property Redevelopment | 5,262,394 | 6,046,676 | 16,100,876 | 16,045,376 | 2,024,697 | 2,024,697 |
| Total Program Expenditures | 8,495,405 | 11,105,878 | 25,500,378 | 24,010,731 | 5,340,710 | 6,844,797 |
| Personal Services | 407,292 | 561,370 | 385,556 | 404,834 | 425,075 | 446,329 |
| Transfers - Indirect | 1,364,652 | 1,500,374 | 1,526,982 | 1,740,759 | 1,845,205 | 1,789,849 |
| Total Fund Expenditures | 10,267,349 | 13,167,622 | 27,412,916 | 26,156,324 | 7,610,990 | 9,080,975 |
| Contingency | 14,689,015 | 12,190,722 | 72,330 | 859,889 | 4,515,145 | 29,767,383 |
| Ending Fund Balance | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Requirements | 24,956,364 | 25,358,344 | 27,485,246 | 27,016,213 | 12,126,135 | 38,848,358 |