

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: May 14, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-59
Amend Disposition of PDC-owned property at the southwest corner of SE Pardee St. and SE 122nd Ave. (R335502) in the Lents Town Center Urban Renewal Area

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6580

ACTION SUMMARY

This action will authorize amending the disposition and development agreement between Pardee Partners, LCC and the Portland Development Commission for the PDC-owned property at SE Pardee St. and SE 122nd Ave.: 1) increase PDC's construction loan by \$200,000; and 2) extend the schedule of performance to accommodate delays associated with private construction financing.

PUBLIC BENEFIT

The Pardee Commons redevelopment project will achieve the following objectives:

- Provides ten plus one new housing units, all of which will be sold at prices affordable to households earning 50%-70% of area median family income;
- Preserves public investment by insuring all homes will be kept affordable in perpetuity through restrictive covenants;
- Utilizes an innovative common-green-centered site layout that implements the city of Portland's new common-green zoning regulations;
- Utilizes green and sustainable features in all homes;
- Minority Women and Emerging Small business participation in the project.

This action will support the following PDC goals:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

No additional public participation activities were carried out for this action.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Lents Town Center Urban Renewal Plan: The Lents Town Center Urban Renewal Plan says that action should be taken to: “help develop a range of housing types (e.g. single family detached, single family attached and multi family) and densities that are affordable to households with a range of incomes and which increase neighborhood livability.”

Lents Housing Strategy: The Lents Housing Strategy has benchmarks for the development of up to 300 new homeownership units.

Outer Southeast Community Plan: The City of Portland’s Outer Southeast Plan contains a number of objectives related to the proposed project:

- Construct 14,000 new housing units in the Outer Southeast Community Plan area by 2015;
- Stimulate production of new housing units by both private and nonprofit housing producers to accommodate expected population growth;
- Increase opportunity for building more single-family housing in outer southeast neighborhoods;
- Promote construction of attached housing designed to be owner-occupied to accommodate smaller households;
- Preserve and increase the supply of housing affordable to households below the median income.

FINANCIAL IMPACT

PDC will participate financially in the project in two significant ways: 1) Provide a \$700,000 construction loan (in practice two separate loans for the total amount will be made). This amount has increased by \$200,000 over the approved disposition and development agreement due to less favorable terms from Pardee Partners' private construction lender. As in the approved DDA, \$500,000 of the construction loan will convert to grants to individual homebuyers upon home purchase and upon proof that such homebuyers meet affordability criteria. However, the additional \$200,000 will be repaid to PDC upon sale of the residential units. All funds are contained in PDC's current year budget; 2) Convey the land to Pardee Partners and take back a promissory note. Once units are sold and housing affordability targets are met, PDC will forgive the note, thereby granting the value of the land. The appraised value of the land is \$270,000. The total value of PDC's permanent cash and land grants equals \$770,000. It is not anticipated that PDC will receive program revenues from this project.

RISK ASSESSMENT

Principal risks involve Pardee Partners inability to bring the project to fruition. The DDA provides certain design, finance and permitting milestones. There is a risk that Pardee Partners may meet certain milestones, but be unwilling or unable to complete all milestone activities.

There is also a potential absorption risk which would be reflected in completed but unsold units. Absorption risk is reduced by the fact that the units will be sold at prices significantly below market prices. In addition to the price component of absorption risk, there is also a buyer credit-worthiness risk. Given that units must be sold to families between 50% and 70% median family income, there is a risk such families will not qualify for loans and/or that loans may be available but only with unfavorable terms. To mitigate these risks, the DDA allows for the income range of buyers to increase to 80% median family income, if there are insufficient buyers at lower incomes.

Potential risks are addressed in the DDA by, but not limited to, PDC's reversionary rights

WORK LOAD IMPACT

This Project has been incorporated into corresponding staff work plans.

ALTERNATIVE ACTIONS

The Board could elect not to authorize the increase in the size of the construction loan by \$200,000 which could mean the project would not come to fruition or that Pardee Partners would have to begin the process of seeking a new private construction lender which would further delay the project. The Board could also elect not to authorize the extension of the project schedule. This would mean that Pardee Partners could not meet its performance

obligations contained in the authorized DDA giving PDC the right to, among other things, terminate the agreement.

The Board could elect not to authorize the disposition and development agreement, which would retain the Property in PDC's real estate portfolio as a vacant parcel.

CONCURRENCE

Development concept has been reviewed, with no significant objections, by the Bureau of Development Services.

BACKGROUND

DDA Amendment 1

Pardee Partners, LLC has diligently pursued its obligations as contained in the December 12, 2007 disposition and development agreement, including design, permits and private construction financing. During the course of construction loan negotiations, Albina Community Bank (ACB) informed Pardee Partners that it was willing to lend only up to \$1M. With the apparent support of ACB, Pardee Partners had originally submitted a request for \$1.2M. The original request fell well within ACB's typical lending ratios. However, after extended negotiations, and due in part to the current lending environment, ACB informed Pardee Partners of its desire to reduce the size of its loan. Based on this turn of events (and the delay it caused), Pardee Partners requested an increase in PDC's construction financing from \$500,000 to \$700,000 and an extension in the original schedule of performance by approximately two and a half months.

In practice, there will be two construction loans one for the increased \$200,000 which will be repaid to PDC upon sale of the residential units, and the other for \$500,000 which will convert to grants as specified in the original DDA. The grant of the value of the land, \$270,000, remains unchanged from the original DDA.

ATTACHMENTS:

- A. URA Financial Summary
- B. Project Summary

CC: K. Kalevor, Acting Director of Housing
K. Dinkelspiel, Senior Project Coordinator
D. Elliot, Acting General Counsel
J. Jackley, Executive Operations Manager

URA FINANCIAL SUMMARY

Housing	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
31209 - Lents Liv Home Rehab	300,000	50,000	0	0
32109 - Lents Aff Rental Housing	225,000	5,890,000	0	0
32110 - Pardee Homeownership Housing*	500,000	0	0	0
32131 - Lents REACH Home Rehab	125,000	125,000	0	0
33409 - Lents SAM's	0	0	0	0
33418 - Lents New Homeowner Development	2,114,651	0	0	0
33424 - Lents Homebuyer Assistances	600,000	250,000	250,000	101,432
37920 - Lents Hsg Policy/Planning	4,904	5,000	0	0
60010 - Foster School Housing Development	0	0	2,000,000	0
NEW - Scattered Site Homeownership Acquis	0	2,700,000	0	0
NEW - Scattered Site Homeownership Indirect Costs	0	650,000	0	0
Housing Total	3,922,555	9,670,000	2,250,000	101,432

*This is the January 2008 budget draft. Staff has submitted a request to increase this item by \$200,000 in the proposed 2008/09 budget.

PROJECT SUMMARY

Project Name: Pardee Street Homeownership Project
Description: SECTION 15 1 S 2 E; TL 3400 0.37 ACRES
Location: SE Pardee St. and SE 122nd Ave.
URA: Lents
Current Phase: Permitting
Next Milestone: Pardee Partners to provide Final Construction Plans and Specifications and Project Budget, May 30, 2008
Completion Target: February 27, 2009
Outcome: Ten plus one units of permanently affordable housing for families earning between 50% and 70% median family income.

Site/Project Map:

