

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: May 14, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-55
First Amendment of Agreement for Disposition and Development of PDC-Owned Property Located at 1101-1139 SW Jefferson Street (Jefferson West Apartments) with E&F Properties, LLC

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6701

ACTION SUMMARY

On February 28, 2007, the PDC Board of Commissioners adopted Resolution No. 6440 authorizing a Disposition and Development Agreement (DDA) with E&F Properties, LLC (E&F) for the purchase and redevelopment of the Portland Development Commission (PDC) owned Jefferson West Apartments (Jefferson West) as a high-rise, market-rate, residential mixed-use development, with ground floor commercial space and underground parking (the Project). The property is in the South Parks Urban Renewal Area.

Recent conversations between E&F and potential lenders and partners have resulted in E&F's request for minor modifications to the DDA to facilitate the development including the following most significant changes.

1. Limits PDC's discretion in approving loan(s) that the developer may enter into to finance the Project by providing pre-approval for any mortgage with terms similar to typical mortgages for similar projects in Portland, Oregon issued at the same time.
2. Clarifies requirements for substantial completion for the Project, which are conditions precedent for PDC furnishing the developer with a Certificate of Completion for the Project.
3. Clarifies the Exhibit C – Scope of Development for the Project to expressly allow market-rate housing.
4. Modifies the Exhibit B – Schedule of Performance to extend the due dates for several design development tasks required pre-conveyance; however, the critical closing, construction and completion dates are not altered by this amendment.

PUBLIC BENEFIT

The changes to the DDA will not result in any foreseeable change in the public benefits from those identified in the PDC Board Report No. 07-22 recommending approval of the DDA:

- Remove barriers to further redevelopment on adjacent and/or nearby property;
- Achieve market-rate and/or workforce housing goals;
- Preserve and strengthen existing cultural resources Downtown;
- Improve the retail and pedestrian environment;
- Leverage other public investments in transportation (streetcar), development (Museum Place, Safeway, Eliot Tower, St. Francis), cultural (Portland Art Museum), and community resources (YWCA).

This action will support the following PDC goals:

- Sustainability and Social Equity
- Health Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

In September 2005, PDC engaged Resolutions NW, a nonprofit agency providing mediation services, to help mediate the concerns of neighboring property owners regarding operation of the Jefferson West. Subsequently, a stakeholder group, including representatives from the Downtown Neighborhood Association, nearby property owners, nearby business owners, and nearby residential tenants, was formed leading to the development of a Good Neighbor Agreement, which was entered into by PDC and these stakeholders on August 30, 2006.

PDC continues to engage stakeholder groups in activities related to the Property. Given the minor nature of these amendments, no public participation has been solicited for this Amendment.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The proposed Project is a high-rise, market-rate, residential mixed-use development, with ground floor commercial space and underground parking. The project is consistent with:

- The Urban Renewal Plan for the recently expired South Park Blocks Urban Renewal Area which calls for the creation of new housing for middle income households;
- The PDC Strategic Plan which calls for PDC to maintain a responsive redevelopment strategy and to revitalize blighted areas through strategic partnerships;
- The Downtown Retail Strategy which calls for development of 2,500 market rate housing units support the downtown retail core; and
- The Portland Comprehensive Plan and the Central City Plan which call for the construction of new housing units in the Central City.

FINANCIAL IMPACT

There is no financial impact to PDC by approval of this Amendment. The DDA establishes a purchase price of \$1,930,000 for the Property based on its appraised market value (see Background section below). E&F will pay this purchase price to PDC at conveyance of the Property in November 2012.

RISK ASSESSMENT

There is minimal risk associated with this action. This action does not modify critical dates of the schedule of performance (start and complete construction), nor does it modify any financial terms of the DDA. The proposed action marginally decreases the risk to PDC of E&F's inability to implement the project and the schedule required by the DDA.

WORK LOAD IMPACT

No additional staff work load is required by this action.

ALTERNATIVE ACTIONS

If this Amendment of DDA is not approved, then the DDA with E&F will remain unchanged and in full force and effect and, pursuant to which, PDC agrees to convey and E&F agrees to acquire the property for redevelopment as a market-rate mixed-use project, upon the terms and conditions set forth in the DDA.

CONCURRENCE

PDC Investment Committee

BACKGROUND

PDC acquired the Jefferson West located at 1101-1139 SW Jefferson Street in July, 2001. Acquired pursuant to the City's Housing Preservation Ordinance, PDC's goal was to retain the affordable housing and its Project Based Section 8 rent subsidy contract with the U.S. Department of Housing and Urban Development as an important resource serving very low-income individuals in Downtown Portland.

At the time the Property was acquired, PDC staff identified three issues that impacted its prospects for long-term preservation:

- The property was identified as a key redevelopment site, with significant potential for market-rate housing development;
- The building was functionally obsolete, in poor structural condition, and its configuration was not conducive to efficient operations; and
- Neighborhood stakeholders were concerned that its poor condition and challenging operations posed an impediment to the area's revitalization.

A PDC commissioned feasibility study for the property determined that construction of a new replacement housing project on a nearby site would be the most cost-effective and least disruptive manner to facilitate preservation of the project's affordable units.

In June 2004, PDC received an unsolicited proposal from E&F asking to explore the opportunities to provide replacement housing for the Jefferson West on property owned by E&F on the same block, 50 feet to the north, on SW 11th Avenue. The proposed replacement site was then occupied by an office building leased to the NW Film Center and a 24-car commercial parking lot. In September 2005, PDC staff issued a solicitation of interest (SOI) to determine whether interest existed on the part of South Park Block Urban Renewal Area property owners, to provide new replacement low-income housing for the Jefferson West and to, subsequently, redevelop the Property. E&F responded to the SOI and PDC staff entered into informal discussions with E&F. In January, 2006, PDC staff briefed the PDC Board of Commissioners on the disposition and replacement strategy for the Jefferson West and the Executive Director subsequently approved exclusive negotiations with E&F for development of replacement low-income housing for the Jefferson West and redevelopment of the Property. In February 2007, the PDC Board of Commissioners approved a DDA with E&F to redevelop the Property as a market-rate, residential mixed-use project. PDC and E&F entered into the DDA, dated April 30, 2007, which included the following key aspects:

- Transfer of the Property to E&F is conditioned on E&F's receipt of a certificate of occupancy for the Jeffrey Apartments, replacement housing for the Jefferson West;
- PDC will relocate all eligible tenants from the Jefferson West Apartments into the Jeffrey Apartments;
- PDC will provide relocation benefits to all eligible tenants in the Jefferson West Building;
- No PDC funding is required for the Project; and
- PDC will sell the Property to E&F for \$1,930,000, the fair market value of \$2,430,000 (as established by PGP Valuation on May 25, 2006) less a \$500,000 adjustment for the cost to abate environmental contamination and demolish the existing structure on the Property (PDC's third-party estimate of the cost to abate all environmental contamination and demolish the existing structure was a range of costs from \$575,413 to \$754,633).

In May 2007, E&F began work on the Jeffrey Apartments, an 80-unit replacement project for the Jefferson West Apartments. Development cost for the Jeffrey Apartments was \$16.60 Million, of which PDC provided financing in the amount of \$9.15 Million. The Jeffrey Apartments was completed in June 2008, tenant relocation completed by PDC, and the Jefferson West is vacant.

ATTACHMENTS:

- A. URA Financial Summary
- B. Project Summary

URA FINANCIAL SUMMARY

Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
South Park Blocks URA						
Resources						
Beginning Fund Balance	13,467,948	0	15,477,218	10,453,652	7,177,973	3,901,940
Interest - City Invest Pool	775,000	500,000	0	0	0	0
Loans - Interest Earned	350,000	350,000	0	0	0	0
Loans - Principal Collection	1,050,000	350,000	0	0	0	0
Real Property Sales	0	2,000,000	1,800,000	0	0	0
Tax Increment - L-T Debt	35,295,000	34,320,000	258,634	342,321	341,967	342,328
Tax Increment - S-T Debt	1,197,701	0	0	0	0	0
Total Fund Resources	52,135,649	37,520,000	17,535,852	10,795,973	7,519,940	4,244,268
Requirements						
Project Expenditures (does not include Personal Services or Indirect Cost)						
Development						
11912 - SPB Park Ave Redevel	5,799,543	1,500,000	0	0	0	0
11913 - SPB 10th & Yamhill	500,000	0	0	0	0	0
12101 - SPB Retail Loan Program	691,000	500,000	0	0	0	0
12206 - SPB Pre Development	20,670	0	0	0	0	0
12210 - SPB Park Block 5	1,367,000	2,800,000	0	0	0	0
12217 - SPB Univ District	461,696	0	2,150,000	0	0	0
12219 - SPB Seismic Loans	1,000,000	0	0	0	0	0
60003 - SPB Transit Mall Redevel Loan Pr	500,000	460,000	0	0	0	0
60004 - SPB PSU/CAT Redevel	0	2,000,000	0	0	0	0
60013 - SPB Signage & Lighting	100,000	0	0	0	0	0
Development Total	10,439,909	7,260,000	2,150,000	0	0	0
Economic Development						
10239 - SPB Business Retention	100,000	0	0	0	0	0
12222 - SPB Storefront Grants	304,437	215,000	0	0	0	0
70015 - SPB Business Finance	2,400,000	925,000	0	0	0	0
Economic Development Total	2,804,437	1,140,000	0	0	0	0
Housing						
12026 - MFH - Fountain Place Prsv	361,533	0	0	0	0	0
12027 - SPB Jeffrey/Jeff West	5,626,000	840,000	0	0	0	0
12030 - SPB Fairfield Preservation	6,000	0	0	0	0	0
12035 - Martha Washington	3,870,000	2,370,000	430,000	0	0	0
32128 - SPB Rental/Preservation	200,000	0	3,700,000	0	0	0
32701 - SPB Community Facility	200,000	0	0	0	0	0
34510 - SPB Section 8 Preservation	0	7,000,000	0	3,000,000	3,000,000	2,000,000
60007 - SPB Clay Towers	500,000	0	0	0	0	0
Housing Total	10,763,533	10,210,000	4,130,000	3,000,000	3,000,000	2,000,000
Central Services						
59158 - SPB Debt Management	50,000	100,000	0	0	0	0
Central Services Total	50,000	100,000	0	0	0	0
Executive						
60001 - SPB Westside/Central City	202,209	70,000	40,000	0	0	0
Executive Total	202,209	70,000	40,000	0	0	0
Total Project Expenditures	24,260,088	18,780,000	6,320,000	3,000,000	3,000,000	2,000,000
Personal Services	31,791	0	0	0	0	0
Indirect Cost	4,148,739	3,262,782	762,200	618,000	618,000	412,000
Total Fund Expenditures	28,440,618	22,042,782	7,082,200	3,618,000	3,618,000	2,412,000
Contingency	3,000,000	15,477,218	10,453,652	7,177,973	3,901,940	1,832,268
Ending Fund Balance	20,695,031	0	0	0	0	0
Total Requirements	52,135,649	37,520,000	17,535,852	10,795,973	7,519,940	4,244,268

PROJECT SUMMARY

- Project Name:** Jefferson West
- Description:** In exchange for the development of affordable housing (the Jeffrey) to house the Jefferson West tenants, and after payment of \$1.93 million dollars to PDC, E&F Properties, LLC to acquire the PDC-owned Jefferson West by November 2012 for demolition and redevelopment as market rate housing in a mixed-use high-rise structure with parking. Unit count is unknown at this time.
- Location:** 16,000 square foot site at 1101-1139 SW Jefferson
- URA:** South Park Blocks
- Current Phase:** The Jeffrey Apartments is complete, Jefferson West tenants are relocated, Jefferson West is vacant and subject to DDA with E&F Properties, LLC
- Next Milestone:** By May 2011, E & F Properties to provide Development Program and Concept Documents
- Completion Target:** Construction start by November 2012 and completion by October 2014



The Jefferson West Apartments