

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: May 14, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number No. 09-56
First Amendment to Agreement for Disposition and Development of Property in the Interstate Corridor Urban Renewal Area with Killingsworth Station, LLC.

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6702

ACTION SUMMARY

This Action will authorize the Executive Director to execute the First Amendment to Agreement for Disposition and Development of Property in the Interstate Corridor Urban Renewal Area (the "First Amendment") with Killingsworth Station, LLC to, among other things, revise the unit mix and construction schedule of the previously approved project.

As a result of the First Amendment, the resultant development will be a high-quality, four-story, residential mixed-use, transit-oriented building with approximately 57 unit residential condominiums, approximately 9,000 square feet of ground floor commercial space and significant sustainable building features (collectively, the "Project" or "Killingsworth Station").

AMENDMENTS TO THE DDA

Summary of Changes:

	Original	Amendment	Change
Program	48 one-bedroom units 6 two-bedroom units 54 total units	54 one-bedroom units 3 two-bedroom units 57 total units	+ 6 units - 3 units + 3 units
Affordable Program	33 affordable units (80% MFI)	34 affordable units (80% MFI)	+ 1 unit
PDC Funding	Up to \$5,120,000	Up to \$5,120,000	No change
Commencement of Construction	March 1, 2009	March 1, 2010	1 year

Current challenges in the residential condominium market, including the oversupply of unsold market-rate units and the difficulty in obtaining construction financing for new residential condominium projects, have caused a delay in the Killingsworth Station project schedule, necessitating a First Amendment to the DDA with Killingsworth Station, LLC.

In summary, the First Amendment allows for:

- A one year extension for commencement of construction, to March 1, 2010;
- A reduction in the number of two-bedroom units, to be replaced by one-bedroom units, which, pursuant to the existing DDA, will be sold at a price point within reach of most first-time homebuyers.

Both changes will more favorably position the project for construction financing as the market improves. The changes also lower PDC's repayment risk on its construction financing, as smaller, one-bedroom units priced below \$200,000 are more likely to sell in the current market.

PDC's overall financial participation in the transaction remains unchanged. The developer's commitment to meeting, and exceeding where possible, PDC's workforce training, construction, and MWESB contracting policies also remain unchanged.

The developer and his design team have continued to actively work on the project. The contract architect submitted plans for building permit approval in December, 2008, with approvals anticipated by late spring 2009. The developer's approach is to ready the project for development in anticipation of improving market conditions. The extended timeline does not preclude, upon mutual agreement by PDC and the developer, an acceleration of the project schedule to take advantage of more favorable financing and market conditions that may arise earlier than the construction commencement date afforded under the amended schedule of performance. The developer continues to work with local banks to position the project to secure construction financing.

PUBLIC BENEFIT

The Project is anticipated to achieve the following objectives:

- Provides 57 new ownership housing units, 34 of which will be sold at prices affordable to households earning 80% of MFI;
- Activates the ground floor of a major transit node by providing approximately 9,000 square feet of neighborhood serving retail / commercial space;
- Provides wealth creation opportunities to neighborhood residents, local small businesses and entrepreneurs through for-sale commercial condominiums;
- Utilizes innovative green design and construction techniques;
- Provides multiple opportunities for Minority Women and Emerging Small Business (MWESB) participation in the project. Good faith effort to meet and/or exceed the 20% of total Project cost goal for MWESB participation.

This action will support the following PDC goals:

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

PUBLIC PARTICIPATION AND FEEDBACK

Staff meets regularly with the Interstate Corridor Urban Renewal Advisory Committee (ICURAC), updating the Committee on the status of this project.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Redevelopment of the Property at this Interstate transit node supports the following plans and strategies:

Interstate Corridor Urban Renewal Area Plan (ICURA): The adopted ICURA Plan stipulates as a general principle the goal of optimizing light rail investment through the creation of catalyst projects near light rail stations. The plan also supports increasing the number of ownership opportunities for current and future residents and supporting expanded services, business and employment opportunities.

Redevelopment of the Property supports additional plans and strategies that have been noted in previous board reports to PDC's Commission, the last of which occurred on July 9, 2008 (Board Report 08-100).

FINANCIAL IMPACT

PDC financial participation remains unchanged from the previously adopted Board Resolution No. 6620, approving a revised DDA with Killingsworth Station, LLC (Board Report 08-100).

RISK ASSESSMENT

The First Amendment to the DDA provides for a reduction in 3 two-bedroom units, replaced by an additional 6 one-bedroom units. This reduction will reduce the project's market risk, as smaller 1-bedroom units are more favorable in the current market. It will also reduce the project's financing risk, and therefore mitigate PDC's risk of being repaid on gap construction financing.

The First Amendment to the DDA also provides for an extended commencement of construction to March 1, 2010. This extension will allow PDC and the developer to monitor market conditions over the next year and to take advantage of signs of an improving market. Commencing construction as the market is showing signs of improving will again reduce PDC's repayment risk on its construction financing.

PDC is at risk of a prolonged holding period should financing not materialize. This risk is mitigated by the 1-year extension. Should the developer not be able to secure construction financing in that time frame, the Commission retains the right to terminate the DDA and pursue alternative development options for the site. The developer has significant out of pocket expenses incurred to date, creating a strong incentive to begin construction during this timeframe.

WORK LOAD IMPACT

The Project has been incorporated into corresponding staff work plans.

ALTERNATIVE ACTIONS

The Board could elect not to authorize the amended DDA and provide for the DDA to expire on July 27, 2009; or the board could direct revisions to the proposed DDA. A decision to let the DDA expire would result in significant delays in the development of the property, given challenges in the current real estate market.

CONCURRENCE

The conceptual/preliminary financing package was vetted and approved by PDC's Loan Review Committee on June 26, 2008. The DDA amendments were approved by PDC's Investment Committee on April 28, 2009.

The development concept has also received design review approval by the Bureau of Development Services.

BACKGROUND

In 2003, PDC assembled the 32,000 square foot Killingsworth Station Site at the northeast corner of North Interstate Avenue and North Killingsworth Street in the Interstate Corridor URA for the development of mixed-use, transit oriented housing (the Project). PDC purchased the properties from 2000 to 2003 for a total of \$1,100,000.

In January, 2004, a project development team that included KemperCo, Innovative Housing Inc., and Peninsula Community Development, was selected through a Request for Proposal (RFP #02-21) process. Citing rising construction costs and market risks, the lead developer on the team, KemperCo, withdrew from the project in November, 2005.

In April, 2006, PDC released a second request for proposals (RFP #05-40) for the redevelopment of the Killingsworth Station Site requiring a minimum of 40 ownership housing units and retail space. It also required that at least 35 percent of the units be affordable to households at 100 percent of median family income (MFI) and 15 percent of the units affordable at 80 percent of MFI. The RFP required a mixture of one and two bedroom units.

In August 2006, pursuant to a public participation and selection advisory process that included stakeholders from the Interstate Corridor Urban Renewal Advisory Committee (ICURAC) and adjacent neighborhood associations, PDC selected Winkler Development Corporation (WDC). WDC's original proposal included 42 1-bedroom units, six 2-bedroom units and three 3-bedroom units for a total of 51 units, with 9,227 square feet of ground floor retail. On August 23, 2006, the Board of Commissioners authorized the Executive Director to enter into exclusive negotiations with WDC for the development and disposition of the Killingsworth Station Site through Resolution 6386.

Since that time, Staff worked closely with WDC to conduct detailed due diligence and financial feasibility analysis for the project. On November 14, 2007, the Commission was briefed on the current status of the Killingsworth Station project (Board Report 07-137). At that meeting, staff shared some preliminary conclusions with regards to a forthcoming appraisal's determinations of land value and market sales. The Commission instructed staff to conduct further financial analysis and due diligence on the project and to return to the Commission with the analysis prior to their consideration of the Killingsworth Station Disposition and Development Agreement (DDA) in early January, 2008.

On January 23, 2008, PDC's Board approved Resolution No. 6553 authorizing the Executive Director to execute a DDA with Killingsworth Station, LLC. At that time, staff anticipated the total permanent subsidy for the project to equal roughly \$3,340,000. The original DDA, approved on January 23, 2008, went unsigned by PDC and Killingsworth Station, LLC, once it became apparent from the receipt of higher than expected preliminary sub-contractor bids that the development budget was inadequate to fund the project.

On July 9, 2008, PDC's Board approved Resolution No. 6620 authorizing the Executive Director to execute a revised DDA with Killingsworth Station, LLC, reflecting a revised total permanent subsidy of \$5,120,000 (figure includes the value of the land).

Since that time, staff has been monitoring residential condominium market conditions and negotiating with the developer amendments to the DDA in light of the deteriorating real estate and lending market for residential condominiums. Notwithstanding the deteriorating market, the developer has continued to move forward with the project through the completion of contract documents and the submittal and payment of building permits in order to position the project as "shovel-ready."

ATTACHMENTS:

- A. URA Financial Summary
- B. Project Summary

URA FUND SUMMARY

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>
Interstate Corridor URA						
Resources						
Beginning Fund Balance	2,526,737	528,171	918,839	774,599	539,000	170,684
Interest - City Invest Pool	40,000	40,000	20,000	20,000	20,000	0
Loans - Interest Earned	79,840	60,120	53,559	1,156,384	46,897	38,748
Loans - Principal Collection	552,000	710,120	53,559	1,156,384	46,897	38,748
Real Property Sales	600,000	1,120,000	2,511,000	0	0	0
Reimbursement	1,272	0	0	0	0	0
Rent and Property Income	4,617	0	0	0	0	0
Tax Increment - L-T Debt	7,133,047	21,847,566	7,992,000	6,493,500	3,196,800	4,995,000
Tax Increment - S-T Debt	5,889,075	5,994,000	5,078,737	5,704,600	5,994,000	5,994,000
Total Fund	16,826,588	30,299,977	16,627,694	15,305,467	9,843,594	11,237,180

Requirements

Project Expenditures (does not include Personal Services or Indirect Cost)						
Development						
19018 - Interstate Redevelopment	199,606	291,000	481,000	1,521,000	870,000	870,000
19019 - Interstate DOS Program	271,247	300,000	300,000	300,000	300,000	300,000
19020 - Interstate Streetscape Improve	2,169,944	4,872,000	2,581,000	300,000	0	800,000
19021 - Interstate Trans Improvements	190,066	150,000	75,000	75,000	75,000	175,000
19023 - Interstate Community Liv.	300,000	300,000	300,000	300,000	300,000	300,000
19038 - Interstate Parks	1,011,000	815,000	755,000	1,005,000	505,000	505,000
19048 - Downtown Kenton Redev	25,000	100,000	800,000	1,500,000	700,000	700,000
19049 - IC Redevelopment Loan Program	400,000	400,000	400,000	400,000	400,000	400,000
Development Total	4,566,863	7,228,000	5,692,000	5,401,000	3,150,000	4,050,000
Economic Development						
19026 - IC Storefront Grants	540,333	400,000	400,000	400,000	400,000	400,000
70019 - IC Business Finance	1,725,000	1,350,000	1,385,000	1,850,000	1,750,000	1,750,000
70257 - IC Business Retent & Asst	80,900	20,000	50,000	0	0	0
70275 - Killingsworth Block Fin Asst	0	0	900,000	0	0	0
70556 - IC Community Ec Dev	0	275,000	0	0	0	0
Economic Development Total	2,346,233	2,045,000	2,735,000	2,250,000	2,150,000	2,150,000
Housing						
19025 - IC Aff Rental Housing	200,000	970,000	1,500,000	1,500,000	502,000	502,000
31043 - Interstate Home Repair	555,618	500,000	300,000	300,000	300,000	300,000
33419 - Interstate Homebuyer Asst	400,000	450,000	450,000	450,000	450,000	450,000
33431 - IC Aff Homeownership Dev	566,577	1,290,423	500,000	500,000	500,000	500,000
34606 - Killingsworth Block	450,000	4,760,000	706,000	996,000	0	0
34612 - Patton Park Aff. Rental Hsg	1,415,000	3,055,000	0	0	0	0
34613 - Shaver Green	1,036,556	1,063,444	0	0	0	0
37919 - IC Hsg Policy/Planning	31,902	5,000	5,000	5,000	5,000	5,000
37928 - Vanport Phase II Housing	79,255	0	0	0	0	0
37931 - IC HAP Aff Hmownrshp/Acq	0	2,511,000	0	0	0	0
37932 - IC HAP Aff Ownrshp/Rehab	0	550,000	0	0	0	0
Housing Total	4,734,908	15,154,867	3,461,000	3,751,000	1,757,000	1,757,000
Central Services						
59148 - IC Debt Management	17,655	18,537	19,464	20,438	21,459	22,532
Central Services Total	17,655	18,537	19,464	20,438	21,459	22,532
Executive						
60040 - IC Eastside/Central City Plan	0	75,000	75,000	0	0	0
Executive Total	0	75,000	75,000	0	0	0
Total Project Expenditures	11,665,659	24,521,404	11,982,464	11,422,438	7,078,459	7,979,532
Operating Transfers Out	600,000	642,259	0	0	0	0

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>
Interstate Corridor URA						
Indirect Cost	3,001,460	4,217,475	3,870,631	3,344,029	2,594,451	2,916,447
Total Fund Expenditures	15,267,119	29,381,138	15,853,095	14,766,467	9,672,910	10,895,979
Contingency	1,559,469	918,839	774,599	539,000	170,684	341,201
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	16,826,588	30,299,977	16,627,694	15,305,467	9,843,594	11,237,180

PROJECT SUMMARY

Project Name: Killingsworth Station

Description: The Project includes approximately 57 residential condominium units, 54 one-bedroom units, and 3 two-bedroom units (the "Project"). Approximately 60% of the Project (34 units) will be affordable to individuals earning no more than 80 percent of MFI. The remaining 23 units will be sold at market rates. Approximately 9,000 square feet of ground floor retail space will be marketed as commercial condominiums to promote wealth creation and entrepreneurship opportunities for local and other small business owners. The Project includes approximately 16 one-car garages and approximately 34 on-site surface parking spaces for a total of approximately 50 parking spaces.

Location: Northeast corner of North Interstate Avenue and North Killingsworth Street

URA: Interstate Corridor URA

Current Phase: Completion of contract design documents

Next Milestone: Securing of building Permits

Completion Target: Spring 2011

Site/Project Map:

