

DATE: 2.15.19

TO: Grace Memorial Episcopal Church Vestry

FROM: Grace Campus Development Committee

SUBJECT: Letter of Agreement with Quad Inc., and PHAME

The Grace Campus Development Committee recommends to the Vestry that we enter into a six-month pre-development Letter of Agreement with Quad Inc., and PHAME with the hope that it will lead to a development contract at the end of six months.

This would entail that we forego sending an RFP (Request for Proposals) to the Development Community at this time (although we could return to that strategy if an arrangement with Quad Inc. and PHAME could not be secured).

Following is the Grace Campus Development Committee's thinking regarding exploring the possibility of Quad Inc. as the developer of Grace Commons as opposed to sending out an RFP. First, we provide a review of some of our work to date.

History

Through our explorations of the past couple of years, we have done something substantially similar to an RFP. The purpose of an RFP is to find out the interest in the development community toward our project and to examine various proposals. We've done that by kicking the tires on multiple partners. So this is by no means a scenario in which we are marrying the first person we dated or buying the first house or car that we looked at. Below you will see outlined the various types of developers and the conversations we have had with them.

For-Profit: These developers charge development fees, but make most of their money charging top market rate rents to generate cash flow or they flip their developments to large investors. Their model is high rent/low cost. Grace talked to Holladay Park Plaza two years ago regarding the possibility that they might expand their facilities to the Grace block. While Holladay Park Plaza is non-profit, they more closely fit in the for-profit category in how they look at development. Holladay Park Plaza was interested in building large rental units with service packages affordable to only higher income seniors, and proposed that any inclusionary housing fee payment due to the City would be deducted from Grace's land value. We found that our motivations and goals were not

aligned and decided to instead consider a development of affordable housing because of the great need in our city.

Some for-profit developers also participate in affordable housing projects, usually becoming active when the market rate projects are no longer feasible, and exiting when the market rate profitability returns. Their mission is to make a profit and optimize the developer fee they are receiving, while minimizing the risk to their company.

We talked with Community Development Partners, a for-profit developer new to the Portland market from Los Angeles. Some ethical and reputational concerns were raised about their business dealings, and we elected not to pursue. CDP introduced us to Tim Carpenter and EnGage which runs an arts program for seniors, but because Engage works exclusively with CDP, our discussions went no further.

An additional for-profit developer we interviewed was Hugh Development. Hugh Development had completed one project to date with Concordia College. While working with them may have fulfilled some of the social equity objectives of Grace, their lack of experience was a concern. They had assembled a team of consultants for the interview who had not worked together previously. And they did not have significant risk capital to expend, indicating they would be pursuing predevelopment sources from local government. We were concerned about their capacity to take on a large and complicated project.

Non-Profit Developers: These developers make their money from their development fees because affordable housing developments don't generate profitable cash flows. Developers in this category include REACH, NW Housing Alternatives, Innovative Housing and Central City Concern. The Grace project is more complicated than most affordable housing projects because it is mixed use, includes a long-term lease as opposed to a property purchase and requires monetizing the value of the land to include new Grace facilities. Our own conversations to date with potential developers and our consultant Ross Cornelius' experience in the development arena suggest that our imagined project would likely be more complicated than most non-profits would typically pursue.

From Ross: Prior to my engagement with Grace over two years ago, I learned that REACH Community Development had previously talked with Grace representatives about the project, and elected to pass, citing their belief that the project would take a

long time before coming to fruition. This agreed with my experience that non-profit developers typically look for sites that are close to “shovel ready,” have minimal mixed-use components, and involve an uncomplicated ownership structure in which they have total control of the development and on-going operations of the project.

Discovering that the Grace Community has one of these non-profit special-needs developers within its parish, with the track record of successful affordable development, available risk capital to spend, and unique rental subsidy resources unavailable to others, was a pleasant surprise in our developer search. Working with QUAD Inc. provides the added advantage of engaging with a developer with a unique understanding of Grace’s long-standing relationships, Episcopal culture and mission/values, with a willingness to operate cooperatively with the long-term parties to the project.

Non-profit developers like REACH, Northwest Housing Alternatives and Innovative Housing are mission-based organizations which develop affordable housing for low income tenants, often linking the project with social service agencies to support the tenants served. They create a ‘pipeline’ of projects to create development fee income to support their own staff and operations. Others, like Central City Concern, Cascadia Behavioral and QUAD Inc. focus on developing affordable housing for the specific populations they serve. All put early capital at risk to complete the development, and access public and private funds to complete the financing.

Public Developers:

- Portland Housing Bureau. We made a proposal to PHB last year to participate in the PHB Bond Measure. In the end we were not considered. Specifically, the bond attorney didn’t want to enter into a long-term lease and overall, they felt our project was too complicated.

- Home Forward (Housing Authority). We talked to Home Forward before we explored the PHB opportunity. At the time they were concentrating their attention on building properties in the East County Gresham Area. More recently they approached us with the possibility of our providing the affordable housing component to a proposed development by the O’Brien Group in the Lloyd area. It appears that the O’Brien Group is not ready to begin work on their property, and we don’t know if they will be interested when they do, so this option is off the table.

The Basis of Our Current Recommendation

This brings us back to our recommendation to enter into a six-month exclusive period to explore a relationship with Quad Inc. as the developer of the Grace Commons Project. We feel that if it can be worked out, Quad Inc. would be a superior partner for our undertaking for the following reasons:

1. Quad Inc., Grace, GI and PHAME are aligned in our Values, Outreach, Mission, and Purpose. Our recognition of the importance of having a strong match in mission and values has grown in the course of the history sketched above.
2. PHAME is included in the Letter of Agreement because their participation will entail a very different approach over the next 6 months than we would take if they chose not to participate. For instance, with PHAME participating, we will pursue having our block become part of the Lloyd Urban Renewal Area and we would also seek funding from Prosper Portland. Our fund-raising efforts would also take a much different turn for ground floor funding than it would without them.
3. Curt Germundson is the Executive Director of Quad Inc., a member of and treasurer for Grace, and also on the Grace Campus Development Committee. These dual interests in Quad Inc. and Grace do give rise to a potential conflict of interest, but have been fully disclosed and can be managed consistent with Grace's Conflict of Interest Policy. The upside of these dual interests is that Curt understands the complexity of our project and is committed to the mission-driven aims of this project for Grace.
4. Quad Inc. has development funds on hand that would be needed for early costs in the development process (something that is not true for many other non-profit developers).
5. Quad Inc. would enhance the project by either bringing 20 of their current tenants from their original housing project, Meyer's Court, or from their 400-person waiting list. These renters would come with rental vouchers, which would help in the economic viability of the project. With these vouchers, the occupant pays 1/3 of their income toward rent and the voucher pays the balance to bring the rent to market rate. There are two principal benefits for having access to these vouchers:

- They will allow us to more effectively compete for the Metro Bond money for affordable housing which prioritizes the money for people at 30% of AMI (Area Median Income) or below. The Quad Inc. renters would fit into this category.
- Other renters in the project would be paying below market rate rents but may not fall into the 30% of AMI, or even if they do, they may lack a voucher. Voucher subsidies are paid directly to the landlord, so they offer the possibility of an ongoing revenue source for Grace, which is a vital concern for the long-term sustainability of the overall project.
- Note: In general, rental vouchers are difficult to obtain. Plus, in Portland, vouchers come through Home Forward, and they currently have no new vouchers to distribute so this is a unique opportunity to bring vouchers to our project.

5. We expect the Metro Bond money to become available in late 2019 or early 2020. Partnering with Quad Inc. now will give us time to prepare and to be ready to apply as soon as the NOFA (Notice of Funding Availability) is made.

6. Quad Inc. would also be able to manage the affordable housing once it is built. They currently manage their housing projects and provide services to the Quad Inc. tenants. They plan to extend these services to other residents in the future.

For all these reasons, we recommend entering into a 6-month pre-development Letter of Agreement with Quad Inc. and PHAME

With Best Regards,
Grace Campus Development Committee