

Capital Improvement Grant Program Exception Application

Applicant and Owner:

Willow Mixed Use SPE, LLC

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email: landonhattan@gmail.com

For Review by:

Attn: Sheri Wahrgren, Assistant Director, Community Planning and Development

Urban Renewal Department, City of Salem

Development Summary

The subject site and project involve a proposed Mixed-Use development, providing approximately 1,500 sq. ft. of commercial leasable space at the ground floor, and 49 multifamily dwellings, providing across 4 floors of the building. A wide range of unit mixes will provide appropriate housing options for a varied tenant mix, ranging from studios, to 1, 2, and 3 bedroom units. This site will include continuous public accessibility with ADA compliant sidewalks, ADA units per code, and an elevator to provide access to all floors. EV Charging stations will be provided at private parking stalls, and tenants will enjoy access to a small private interior courtyard, positioned within the interior of the “U” shaped building footprint. All units will be provided full EnergyStar appliance packages, conditioned interior air, and building security features including security cameras, a lockable courtyard gate, an interior enclosed trash enclosure, parking lot lighting, and secure exterior doors.

Applicant’s Statement

On behalf of the ownership group of the development, Willow Mixed Use SPE, LLC we would like to respectfully submit a request for an exception to the maximum funding amount for the Capital Improvement Grant Program. Our work to date has encompassed cohesive and productive coordination with the design team, which is comprised of a group of local talented engineers, architects, and consultants whose work has yielded a thoughtfully designed development outcome, with great effort to achieve conformance to the City of Salem’s Mixed Use-I Development standards, as well as achieve a development that is contextually appropriate to the surroundings.

Coordination with the City of Salem spans back to September of 2024, where a Pre-Application meeting was conducted to review preliminary project documents and gather each respective municipal department’s feedback in order to guide the later design phases.

We are collectively appreciative of the availability of municipal incentives and programs that aid in bringing such projects to viability. Salem’s need for all forms of housing is well-documented, and is a cause that is well-worth any form of strategic partnership that favors an adequate supply of housing representative to the need in our community. In 2014, the City of Salem conducted a Housing Needs Analysis, with the purpose of developing strategies to provide enough land to meet Salem’s housing needs through 2035 and to inform policy decisions related to residential land. Amongst other findings, the report documented a 207-acre deficit of land for multifamily housing (2,897 dwelling units)

As part of a response to the HNA, through Our Salem project, the City redesignated land to accommodate Salem's projected housing needs, including more land for multifamily housing. As part of the Our Salem Project, amendments were adopted within the Salem Revised Code to allow high density housing within the

Mixed Use zones of Salem's urban core. The subject site is emblematic of such housing solutions brought to the public through the outcomes of the Our Salem Project, in response to the acute housing need that exists in today's environment.

This proposed development also includes ground-level commercial space, meeting Salem's Development standards with awnings, vaulted ground level ceilings, and extensive storefront glass facing Willow St. NE and High St. NE, representing an investment in Salem's Urban core through the development of one of the last sizable vacant land sites in the downtown core. We recognize the opportunity to apply for an Exception to the Capital Improvement Grant Program as a critical step to ensure the project is best positioned to provide a quality Mixed-Use contribution to Salem's downtown Urban Core, while also allowing the site to handle the mix of Development and Economic headwinds present in the current local and economic environment.

Assessment of Qualification

The Mandatory Requirements of the Capital Improvement Grant Program Exception are outlined below, including a statement by the applicant demonstrating how this development meets the criteria.

Mandatory Requirements:

- 1) Project must meet a minimum of two Capital Improvement Grant Program Objectives listed below:
 - a) New Construction
 - i) Applicant's response: This project is a new construction project proposed to break ground in Q2 of 2025. This criteria is met.
 - b) Mixed-Use; including housing
 - i) Applicant's response: The proposed development is within the existing MU-I zoning, and has been designed to provide for a development plan that reflects the City of Salem's MU-I development standards. As is typical in such Mixed Use applications, this proposed development features demisable ground level retail space, allocated towards the Public Right of way along High St. NE, and Willow St. NE. This criteria is met.
- 2) 4:1 Leverage of Private / Public Funds; and
 - a) Applicant's Response: With a total project cost of approximately \$12,200,000, the development will be reliant upon private financing from a first position mortgage in an amount anticipated to be approximately \$7,500,000. The applicant is requesting a total of \$749,000 in Capital Improvement grand funds, which would equate to a Private / Public proportion of 10:1. This criteria is met.
- 3) Project must meet one of the following "Other Criteria"

Other Criteria:

- A. NA
- B. Project is characterized as blight as follows; 1) raw land or building that has been vacant for more than 5 years; or building has been designated as a derelict building by City of Salem, or
 - a. Applicant's response: This site contains approximately 0.35 acres of raw land, as well as 0.17 acres of land that contains a vacant single family home in disrepair. The majority of the site, which is exposed to high traffic and pedestrian activity levels is also currently exposed to significant activity from the City's houseless population, attracting undesirable contents and activity on occasion. Vagrant activity has been ongoing on the private property, requiring police and compliance resources due to the derelict condition of the existing structure. The existing home is vacant and uninhabitable, containing years of accumulated deferred maintenance and trash that has accumulated beyond a level that provides either a living solution or a public enjoyment. Criteria 3(b) is met.
- C. Housing
 - a. Applicant's response: This proposed development includes the provision of 49 dwelling units, including a mix of studio, 1, 2, and 3 bedroom units to a wide variety of tenants. Criteria 3(c) is met through the significant portion of this development proposal being new housing supply.

Applicant Statement:

Willow Mixed Use SPE, LLC is applying for an exception to the maximum funding of the Capital Improvement Grant Program, as the project faces increased financial pressures, and is reliant upon a measure of Urban Renewal Support beyond the base program allotment.

Reasons for Funding Requests:

Construction Cost Increases & Market Volatility:

As of April 7, 2025, a series of tariffs have been implemented that place additional economic pressures on many sectors, including construction and development. These tariffs are in addition to remaining macroeconomic pressures still present in the marketplace spanning back to COVID, and the resultant inflationary period that has been sustained. Producer Price Index (PPI) Final Demand Indices that track pricing changes across the construction industry, with reasonable attribution to whole building costs. Inflationary pressures have been present across residential construction looking back since 2020, with inflation applied to residential structures reaching a record setting 15.8% in 2022. Coupled with heightened interest rates for new construction projects, this creates an already difficult phase of the economic cycle to produce new housing, or any new construction development that relies upon private markets and requires a competitive economic return to substantiate the risk taken. Recent tariff legislation only heightens such pressures, as the White House has now released additional reciprocal tariffs in addition to the “Liberation Day” tariff of 10% universally on all imported goods. It is anticipated that a simplified impact to construction materials due to the tariff situation will cause volatility across sectors. Most notably, there is anticipated to be 15-25% price increases across lumber, gypsum, and insulation material categories, among others.

Blight and Site-Specific Cost Burdens:

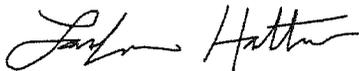
This project will require asbestos surveying, asbestos abatement, utility abandonment, and demolition activities prior to development, which places a burden on the project due to the additional steps necessary prior to construction beginning. Through the process of early design, it has been identified that a ½ street improvement will be required along Willow St. NE, and utility improvements, taps, tie-ins, and franchise utility infrastructure will all need to be achieved to allow for municipal approvals for the proposed development. Recent statewide requirements through the Climate Friendly and Equitable Communities program have triggered increased requirements regarding electrical charging readiness, and Green Stormwater infrastructure improvements to be integrated into the engineered design of the site. While productive and progressive, all such outcomes require additional project costs. Further, the unlawful activity due to the attraction of the vacant derelict home has become cumbersome and resource intensive to continuously lock and secure, as the project team awaits municipal approvals. Significant architectural and civil engineering costs are required on the front end of the project to meet the state and municipal code requirements, placing further burden upon the viability of the project in the entitlement phase.

Construction Financing:

Many new construction loan products use the Secured Overnight Financing Rate as an index, which has increased approx. 3% in the last 5 years. Lenders have become more stringent, and further heightening lending requirements based upon debt yield, Debt Service Coverage Ratio (DSCR), reserve, and liquidity requirements that far outpace those of recent years. As interest rates and lending metrics increase, the capital reserve allocation begins to have a significant impact on the project as it represents a higher proportional cost in the capital stack, requiring more equity, constraining NOI, and putting pressure on the ability for such projects to not only pass underwriting requirements, but also deliver adequate return for developers and owners without diluting the economics of the project to the degree where projects are no longer viable. As Debt Service increases, it further decreases the amount that lenders will lend on a project, thus creating a further need for projects to explore other funding sources within the capital stack to move projects towards a feasible path to construction. This project has been received well by the lending institution that intends to provide construction financing, however the loan commitment is contingent upon a \$749,000 UR grant in the capital stack.

We thank the Urban Renewal Department for the consideration of funds to be allocated to the Willow & Creekside Mixed Use project, and are committed to bringing this project to our community.

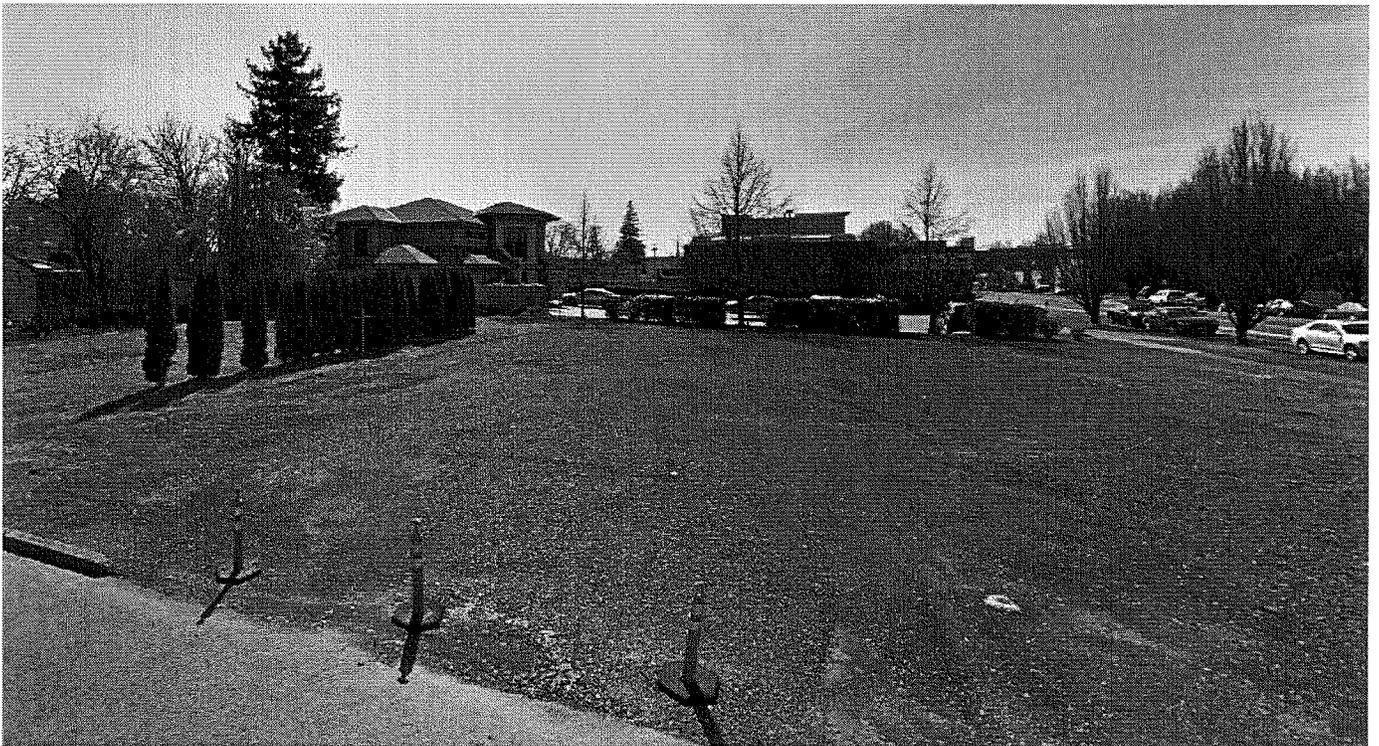
Sincerely,



Landon Hattan, on behalf of the Willow Mixed Use SPE, LLC Project Team

- Architect: LIFT Architecture: Salem Oregon
- Civil Engineer: Seven Oaks Engineering: Silverton, OR
- Landscape Architect: Laurus Designs: Silverton, OR
- Land Use Consultant: Creswell HLDGS: Salem, OR
- Builder: Skyline Builders: Salem, OR

Existing Conditions:



Proposed Building Rendering:

