

Attachment 1

City of Salem
Urban Renewal Agency
350 Commercial Street NE
Salem, OR 97301

RE: Request for an exception to the maximum funding of the Capital Improvement Grant Program

To Whom It May Concern,

Deacon Development, LLC is applying for an exception to the maximum funding of the Capital Improvement Grant Program. The following document outlines the project and how it meets the requirements for the exception.

Project Description: The proposed project represents a redevelopment of the paid public parking lot at 277 High Street NE. The subject site was originally the Old Salem City Hall until it was demolished in 1972. After that, it served as a parking lot and drive-thru for the adjacent First National Bank Building until 2016, when the bank was demolished, and the subject site was converted to a paid public parking lot.

Deacon Development currently has the subject property under contract to purchase but does not own the real property yet. The current redevelopment plan is to close on the purchase of the property around May of 2024 when the necessary funding sources have been secured and final permits are ready to be paid for and pulled.

The current redevelopment plan is to demolish the existing parking lot and replace it with a new 6-story urban mixed-use building. The building will consist of 98 apartment units. In addition, the ground floor will have seven commercial live/work units with street-front access for the business owners/residents. The current site plan provides for 29 on-site parking spaces.

The project is also planning to bring affordable living units to downtown Salem, by setting aside and designating 15% of units as affordable living units. This would also allow the project to be eligible for the Multi-Unit Housing Tax Incentive Program (MUHTIP) which is a critical component to making the project economically feasible and financeable in current capital markets.

Apartment Units: The apartment units themselves will consist of stainless-steel kitchen appliances, in-unit washers and dryers, luxury vinyl plank flooring, quartz countertops and quality hardware, fixtures, and finishes. Many of the units will have exterior balconies as well. There will be a balanced mix of urban studios, one-bedroom, and two-bedroom units with different layouts within each unit type.

Common Areas: The common areas will consist of a lobby with a mix of lounge seating and conversation areas as well as informal laptop work seating. The 6th floor will have a community lounge with an outdoor deck for outdoor gatherings and cooking. Additional services such as a pet area waste station, parcel delivery and storage system, bike storage, a bike repair station, and a bike/dog wash. A fitness center for the residents is also being planned adjacent to the lobby.

- Resident Community Room: The community room will offer residents and their guests an indoor space for gatherings and events. It will also provide the property manager with space to hold monthly events aimed at residents getting to know their neighbors and building community within the building. The room will be equipped with WiFi, a large-screen television, a sound system, and kitchen appliances to support large community gatherings and events.
- Community Deck: The top floor community deck will provide residents and guests with an outdoor gathering space with spectacular views of downtown Salem and amenities such as an outdoor grill, fire pit, and lounge seating. We're also considering having a small outdoor community garden for the residents if we can fit it into the design.
- Alternative Modes of Transportation: To accommodate bicyclists, the building will be equipped with ample bike storage, a bike repair station, and a bike wash.
- In addition, to encourage and to make it easy for residents to use alternative modes of transportation, the lobby will be equipped with a large screen monitor for the purpose of displaying TransitScreen (<https://actionfigure.ai/>) TransitScreen displays 24/7 real-time arrival information for nearby trains (Amtrak), buses (Chariots), bicycle and electric scooter sharing systems (Lime, Bolt and Spin), ridesharing systems (Uber, Lyft) and carsharing companies (Zipcar). It also displays nearby neighborhood businesses (coffee shops, post office, etc.) and gives the walking distance and walking time to each.

Funding Amount Requested: \$749,999

Reasons for Funding: The total projected costs for this project are \$27,470,679. There are several reasons why grant funding is needed and is being requested for this project. The reasons are outlined below:

- **Construction Cost Increases:** Due to various reasons, over the past few years, the construction industry has experienced steep increases in construction material prices and labor costs. Since the start of 2021, construction costs have increased ~ 32% on average through the second quarter of this year in the Portland metro area (Mortenson Cost Index). No relief appears to be in sight as material supply chains continue to trend towards de-globalization, and the trade and skilled labor markets continue to be undersupplied for the construction industry.
- **Energy Code Price Increases:** The new 2021 Oregon Energy Efficiency Specialty Code (OEESC), based on ASHRAE Standard 90.1 - 2019, has been adopted and is now mandatory. These new energy code requirements are estimated to add an additional cost of approximately \$4,600 per apartment unit to the project, while not increasing market rental rates, further exacerbating the funding gap for the project.
- **Construction Financing:** Construction loan interest rates have increased ~ 150% in the last 10 months. This means loan interest costs for development projects have also increased 150% this year. For a project like this, that amounts to an estimated additional cost of \$1.1 million in construction loan interest.
- **Capital Markets:** The current condition of the capital markets requires developers to contribute approximately 15-20% more in equity for development projects than has been historically required. This means most development projects in today's environment are not economically feasible and won't move forward without local funding support and/or other local incentives that make the project financially viable with lenders and capital providers. This proposed development project falls into that category.

Eligibility: The project meets several Capital Improvement Grant Program Objectives to be eligible for the grant and the amount exception. The objectives and how the project meets them are detailed below:

- **New Construction:** This building is new construction. The anticipated construction start date is August of 2024, with an estimated completion date in March of 2025.
- **Mixed-Use, including Housing:** As stated above, the project includes approximately 98 apartment units. Additionally, the ground floor will have seven commercial live/work units and approximately 26 on-site parking spaces.
- **Alley Improvements:** The project will include alley improvements to the public right of way at Wexford Alley. This includes widening Wexford Alley to accommodate for future

two-way traffic and resurfacing the alley, resetting its future useful life for the benefit of the public.

- **4:1 Leverage of Private/Public Funds:** The project will require approximately \$27,470,679 of total funding. Approximately \$18,700,000 (68.07%) will come from the Construction Loan, \$8,020,680 (29.20%) will come from Equity, and \$749,999 (2.73%) would come from the Capital Improvement Grant Program. This is a 36:1 leverage ratio of Private/Public Funds.
- **Housing:** The planned development will provide needed housing to downtown Salem to further meet the objectives outlined and evidenced in the Salem Housing Needs Analysis, specifically the need for additional multi-family housing where a deficit of developable land for that use currently exists.

We appreciate the opportunity to work with the City of Salem on this exciting new project in Downtown, and thank you for your consideration.

Sincerely,



Ian Lewallen
Deacon Development, LLC