



Staff Report

File #: 21-262

Version: 1

Date: 6/28/2021

Item #:

TO: Urban Renewal Agency Board
THROUGH: Steve Powers, Executive Director
FROM: Kristin Retherford, Urban Development Director

SUBJECT:

Riverfront-Downtown Urban Renewal Capital Improvement Grant Program Exception for DD Salem Center Two, LLC (former Nordstrom Building)

Ward(s): Ward 1
Board Member(s): Stapleton
Neighborhood(s): CANDO
Result Area(s): Strong and Diverse Economy

ISSUE:

Shall the Urban Renewal Agency approve an exception to the maximum grant amount for the Riverfront-Downtown Urban Renewal Area (RDURA) Capital Improvement Grant Program for a total grant award of \$749,999 for a mixed-use housing project to be developed by DD Salem Center Two, LLC at 420 Center Street, the former Nordstrom Building location?

RECOMMENDATION:

Approve an exception to the maximum grant amount for the RDURA Capital Improvement Grant Program for a total grant award of \$749,999 for a mixed-use housing project to be developed by DD Salem Center Two, LLC at 420 Center Street, the former Nordstrom Building location.

SUMMARY:

Agency Board action is needed to approve a grant in the amount of \$749,999 as an exception to the maximum grant amount \$300,000, which is the maximum amount that can be approved by the Director under program guidelines, to partially fund the costs to construct a mixed-use project, including 162 rental housing units at 420 Center Street.

FACTS AND FINDINGS:

DD Salem Center Two, LLC submitted a letter on May 19, 2021, (Attachment 1) requesting an

exception to the Capital Improvement Grant Program maximum grant amount. The proposed project is a redevelopment of the currently vacant former Nordstrom building located at the SE corner of Center Street. Total project costs are estimated to be \$25M. The grant funds will contribute to the estimated \$3M-\$3.5M in additional costs that will be incurred to move this development forward which are the result of increased construction costs for lumber, steel, pipe and roofing materials, significant structural fill after demolition and costs associated with meeting the new energy code requirements. Infill sites like this are more costly to redevelop than raw land sites due to demolition costs and the constraints of constructing in a developed downtown environment.

The redevelopment plan includes the demolition of the existing building, replacing it with new construction of a 5-story, urban mixed-use building consisting of 162 rental units, ground floor commercial space and approximately 32 on-site parking spaces. The developer of the project, Deacon Development, has experience in project development and construction of similar housing projects.

The design of the building will include a lobby, rooftop deck, resident community room for gatherings, pet area, dog wash and bike repair, storage and wash station.

The residents will be encouraged to use alternative modes of transportation. The lobby will be equipped with a large screen monitor for the purpose of displaying TransitScreen. TransitScreen displays 24/7 real-time arrival information for nearby trains (Amtrak), buses (Cherriots), ridesharing systems (Uber, Lyft) and carsharing companies (Zipcar). The system also gives walking distance and walking times to neighborhood businesses.

At this time, the grant exception criteria do not require that projects include housing, affordable housing, or sustainable elements. With an eye towards sustainability, this project is being designed to encourage the use of alternative modes of transportation. It also supports reductions in greenhouse gas emission by constructing housing on a previously-developed site in the city core near transit service rather than greenfield construction on the fringes of the city. Additionally, while the community needs more subsidized affordable housing units, more multi-family housing is needed at all levels of affordability to meet housing demands and the shortage of multi-family housing in the community. Encouraging and incentivizing units in the downtown corridor will provide housing in close proximity to major employers and transit, and provide increased economic support for downtown businesses.

The Riverfront-Downtown Urban Renewal Plan, Section 1105, Core Area Redevelopment, identifies grants as an eligible project for funding.

The proposed project will provide an additional rental housing option in downtown Salem.

DD Salem Center Two, LLC members include:

- Steve Deacon, Manager
- Deacon Development, LLC, consisting of Steve Deacon, Richard Smith, Pete Snook, Members

- Steve D. Deacon Revocable Trust, consisting of
 - The RDS Trust
 - John C. Clouse Family Trust
 - Brett R. Mykrantz Trust
 - Bradford Howe
 - 325 Investments, LLC (Pete Snook)
 - Elgin Laizure
 - Ryan Schera
 - Ian Lewallen
 - Elizabeth Heredia
 - Eric Kneeland

The DD Salem Center Two, LLC project meets the Capital Improvement Grant Program Exception Criteria for projects requesting more than \$300,000, which is the maximum grant allowed under the Director's approval within the program guidelines.

If approved, the FY 2020-2021 Capital Improvement Grant Program Budget of \$2.9M will be reduced by \$749,999.

BACKGROUND:

The Nordstrom store closed in 2018 and since that time there have changes in the retail industry due to increased on-line shopping and most recently impacts as a result of the pandemic.

On May 8, 2017, the Agency Board approved the "Exception Criteria" (Attachment 2) to determine eligibility for grant requests greater than \$300,000. DD Salem Center Two, LLC project meets the following Capital Improvement Grant Program Exception criteria:

Mandatory Requirements

- 1) *Project must meet a minimum of two Capital Improvement Grant Program Objectives:*

DD Salem Center Two, LLC satisfies this requirement through the following two Capital Improvement Grant Program Objectives:

- New Construction
- Mixed-Use, including housing

- 2) *4:1 Leverage of Private/Public Funds*

DD Salem Center Two, LLC satisfied the 4:1 Leverage of Private/Public Funds based on the following analysis:

Estimated Total Project Cost:	\$25M+
City Funding Request:	\$749,999
Leverage:	\$33.25:1

- 3) *Project must meet one of the "Other Criteria"*

DD Salem Center Two, LLC satisfies the "Other" criteria of:

- Project is characterized as blight due to its length of vacancy and non-feasibility for adaptive reuse.

DD Salem Center Two, LLC will be required to provide funding commitments from lenders or investors to cover the costs not covered by the grant as a condition of grant disbursement. With approval of this grant exception, this project will re-energize a currently blighted building in an area north of downtown, which is currently struggling with a large amount of vacancy due to the closure of the JC Penney and TJ Maxx stores.

All grants are conditioned upon a qualified contractor and meeting all of the City of Salem's building requirements.

Sheri Wahrgren
Downtown Revitalization Manager

Attachments:

1. DD Salem Center Two, LLC Grant Exception Request Letter
2. Capital Improvement Grant Program Exception Criteria