

Meeting Notes
Moving Forward Milwaukie: Developer Roundtable #1
Milwaukie City Hall, 10722 SE Main St
September 17, 2013, 9:00am-12:00pm

Attendees

Developers:

- Matt Brown – [Williams & Dame](#)
- Greg Specht – [Specht Development](#)
- Mary Hanlon – [Hanlon Development](#)
- David Hassin – [Terraforma](#)
- Dwight Unti – [Tokola Properties](#)
- Jodi Enos – [Northwest Housing Alternatives](#)

City of Milwaukie:

- Jeremy Ferguson, Mayor
- Steve Butler, Community Development Director
- Li Alligood, Project Manager - Associate Planner
- Ryan Marquardt, Senior Planner

Consultants:

- Nick Popenuk, Project Manager - ECONorthwest
- Scott Fregonese, Project Manager – Fregonese Associates
- Abe Farkas - ECONorthwest
- Tessa Krebs – ECONorthwest
- John Fregonese – Fregonese Associates
- Leila Amman – Fregonese Associates

Other:

- Meganne Steele, Metro
- Megan Gibb, Metro

Downtown Opportunity Sites

- **Large-scale Challenges**
 - Low rental rates and housing prices in Milwaukie
 - Can't build anything with current retail rates (Mary)
 - Median housing prices are so low. Cannot see how anyone can build without financial incentives. Current rents will not yield high-quality new development. (Mary)

- Rents low and vacancy rates low, which is an anomaly. Older units bringing down rent rates. (Jodi)
- “Affordable” housing prices are the same as median housing prices in Milwaukie. Residents of affordable housing are workforce people. (Mary)
- Question from Nick: What would the rental rate have to be for development here to pencil out?
 - Rates would have to be around \$25/sq. ft. or more for commercial. (Dwight)
 - Yield on cost: 8%. Just depends on what you build, what the permit costs. 8% is probably the floor. If you’ve got a credit tenant¹ and employment use you might be able to get below that. (Greg)
- High construction costs with low rental rates create a gap; need financial tools available to fill it. (Matt)
- Private property owners sometimes want to hold out; that is dangerous. The danger of a “legacy” project for private property owners is that they’ll hold out to be the last person in to make the most money. City cannot bank on getting a lot of money from developing these sites. (Matt)
- Scattered Nature of Properties
 - Any project will be pioneering. Scattered nature of properties could be a challenge to create your own market. Can’t set the tone for the neighborhood. They’re infill projects, so you’re counting on the stuff around them. Would be better if all sites next to each other. (Matt)
- Existing Buildings in Downtown
 - I think it’s great that the City is looking into these. I always felt Milwaukie had a sense of place and community. I’m not a new construction, large developer. But I do understand the ability to rent or sell at market rate is critical. If I look at the stuff I’ve been involved in: medium-density infill in close-in neighborhoods in Portland. Looking into cool, hip, interesting lots around the central core. That will bring in the interesting retail that services those individuals, and helps to buoy the core. Look at Mississippi District, young families move in, then retail and coffee shops move in, and then lease rates come up. Mississippi was \$12 per SF, and now Trammell Crow built something new and the rents are equivalent to the Pearl. It’s a groundswell – residential and retail drive each other and will help to drive up rental rates. Existing buildings: working with owners to bring in services. Have

¹ A tenant with the size and financial strength worthy enough of being rated as an investment grade by one of three major credit agencies: Fitch, Moody’s, or Standard & Poor’s. An investment grade rating is seen as a good sign that the tenant will be able to pay rent, even in economic downturns or specific market slumps. (Definition from www.investorwords.com).

people want to buy houses and property downtown. Opportunities to do new construction are greater after that. (David)

- **Larger-scale Opportunities**

- Good template with streetscape, good bones of the community. Riverfront shows creativity and that you are seriously interested in the development of downtown. (David)
- Opportunity for mix of generations. Milwaukie older residents want to stay and be a part of community. Urban living for long-time residents. They can afford the higher prices/rates. (Dwight)

- **Opportunities and Challenges for each of the sites**

- Site 1: Texaco (McLoughlin & Harrison)
 - Most potential for development if both parking lot properties [including the Texaco Site and the City-owned half block on McLoughlin south of Jackson St] could be developed together. This would be the first site to develop. (Matt)
 - Capitalize on large piece of land and the fact that City owns it and doesn't have to purchase. (Greg)
 - You're adjacent to the North Main Village. That is strength of the site. (Matt)
 - Visible from McLoughlin Blvd. for attracting people driving through. Proximity and view of the riverfront. (David)
 - There's mass there that works. Having said that, that's a big project for Milwaukie, that's a lot of money. (Greg)
- Site 2: Cash Spot (McLoughlin & Washington)
 - Concern about private owner on northeast corner of property. Ideally, would want to develop the entire property, but not impossible. (Greg)
 - Isolated right now from others. (Matt)
 - Grade is very attractive. A lot easier to develop parking structure on that site. (Matt)
 - Proximity to the light rail, access to the river, next to the lake. You have a great opportunity to get people to the water. (David)
- Site 3: Triangle (21st & Lake)
 - Potential for a one-story building such as service retail, food vendors, coffee, etc. (Matt)
 - I love the small retail that collects around transit. People get off and buy their bread and vegetables. (David)
 - Need to know what ridership at station will be before know exactly what type of retail to put there. (Matt)

- Suggest that the City waive all fees, give land to someone to do something really cool and unique. (Greg)
- Drawbacks: Not the size as shown on the map. It's about 1/3 of that. Can't do it right away. Not good for mixed-use. (Matt)
- MAX
 - Concern about lack of parking at the Main St. station. (Matt)
 - Residential around the MAX will drive ridership. I wonder how light rail works when you don't have parking? Do you need more residential within walking distance from light rail station? (David)
- Site 4: Dark Horse Properties (21st between Jefferson and Monroe)
 - Good that it is owned by just one person, which makes it easier to deal with, but bad that it faces a lumberyard and concern about the price of the property. (Greg)
 - Need activation of retail on both sides. (Mary)
 - Lumber yard isn't necessarily a killer, but why would people go back there? I think it's a mixed-use. (Mary)
- Site 5 is to be determined.
- **Uses for the sites**
 - Mixed-Used
 - I would have all mixed use here. (David)
 - If you're going to do it in a mixed-use format, we find it hard to get financing if office is 15% or more of the proposed revenue. We've created some micro spaces for garage storefront. It's 365 SF. I wish we had 10 of them. (Dwight)
 - Grocery store
 - Challenging economic formula. Downtown grocer would work, 5,000 SF or less, but still full-service, however small. Not going to get a trendy, organic store like New Seasons or Trader Joe's. We look at grocery stores as a loss leader to attract residential, similar to how clubhouses used to function in gated communities. (Dwight)
 - City could build and lease to grocer. (Greg)
 - Starting to see more small grocery stores. Green Zebra. (David)
 - Ground-floor retail
 - Will also be a loss leader, but attracts renters to the area and consequently residential development. If you've got 100+ units on the site, you can afford to carry the ground floor retail for a while. You'll need to carry it for the first 5-years. You need those amenities. (Matt)

- Will create a cool street life with interesting businesses. If you can't shop, residents won't want to live in a downtown area. (David)
- Housing: senior or for younger renters
 - My experience is that Milwaukie is competing against other areas with mixed-use development. The young people are mobile and can live anywhere they want. On the flip side, when you look at Milwaukie, you have quite a few people who are older. You're going to lose these people if you can't provide them with senior housing. The solution is: gated parking, elevator service. You need a welcoming environment where they can feel safe and secure. (Dwight)
- Affordable urban project style: tuck-under parking, 2-story does make it cheaper to build. A 1:1 ratio of parking to housing unit. (Dwight)
- Office capacity
 - Part of mixed-use building, but not the center point. Just finishing a 35,000 SF project in NW. We tried small spaces (450-700 SF), very autonomous with their own bathrooms and HVAC systems. Ones that have character and historic feeling. People like autonomy. But it cost us more to develop those smaller spaces. But they leased quickly, and the lease rates are \$30 (modified NNN). (David)
 - Hard to get financing with more than 15% of revenue being generated from commercial space. (Greg)

Central Milwaukie Opportunity Sites

- **Surrounding Amenities**
 - Milwaukie Marketplace developed in 1989; LA company is the owner. Functions for residential shopping: Albertsons, Starbucks, discount shopping stores. (Mayor)
 - Transit: bus on 32nd frequent service. #75 to Hollywood, City of Milwaukie. 31st will go to frequent once Max is in. 28 is local bus route. (Mayor)
- **Opportunities and Challenges for Each of the sites**
 - Site 6: McFarland
 - Background
 - 7.5 acres
 - Surrounded by residential, retail and railroad tracks. Property used to be fence-post treatment plant. (Mayor)
 - Still trying to contact the McFarland property owner (from Tacoma, WA) for an interview. (Nick)
 - Current zoning: Residential (Ryan)
 - McFarland is probably a seller, not a developer. (Greg)

- Uses
 - Housing
 - Housing logical, but interconnect with retail. Potential to create a grid with both. Good parallel to a project in Alexandria, VA. (Mary)
 - City's feeling about more affordable housing is that as long as its good, then it is fine. City doesn't want more development like the other affordable housing units North of the Murphy site – built in the 1940s [Hillside Park and Hillside Manor]. (Mayor)
 - Property is on the back end of retail, but people will drive to it anyway. (Mary)
 - A pedestrian overpass might be needed, but that would be expensive. It could just not be any way connected to the shopping center, but totally separate. (David)
 - McFarland is better for housing than the Murphy site, because you've got the retail right there. (Greg)
- Industrial
 - There is no rail spur. (Mayor)
 - If a spur could be put in, it could attract an industrial company. (Greg)
 - Distribution or manufacturing plant that uses rail – Wilsonville is a good example of similar uses. Industrial use is a viable market. Industrial land values: \$5-8 per foot in area. (Greg)
 - There are significant cost efficiencies with bigger buildings. (Greg)
 - The City will get a lot of flack for industrial property development. Could market it as generating jobs in the area, especially light industrial. Not really high paying, most warehouse jobs are "family wage" but not "high end" and low employment density. (Greg)
- Flex Space
 - Could see potential for industrial use, but also little spaces. Flex space for entrepreneurs that are lower cost. Could be appealing to business looking for lower rental rates, but their own space. (David)
 - It's hard to get a yield that works if its 100% warehouse space, so getting some office mix improves the yield. (Greg)
- Potential Challenges
 - Noise
 - The City is implementing a quiet zone in this area. (Mayor)
 - If train is quiet zone, then not a big problem. Noise impediment is not that big of deal. (Matt)
 - In so many places, there is residential right next door to rail. (David)

- Remediation issue: it is not a brownfield, and no further action is required per DEQ (NFA). More information is needed, but good news that there is NFA associated with property. (Nick)
- Land values around the region for industrial uses are \$5 to \$6 per SF, with a high end of \$8 per SF. (Greg)
- Depends on the occupancy in these submarkets. Rent levels are trending up around the region. But if you're building speculative product, you need to underwrite it. Need to underwrite with absorption with an 8/8.5% [related to the 8% yield discussed earlier]. (Greg)
- Difficult to get public subsidy on light industrial projects. (Greg)
- o Site #7: Murphy
 - Background
 - 6 acres
 - Met with Steve Butler and Bill Monahan. I figured we would go through the huge rezoning exercise on our own. And now we're going to go through it together with the City. (Greg)
 - Former saw mill. Current zoning is funky, but would like to change. To the north of property are a low-rise, housing authority property from the 1940s and a tower from the 1960s. (Ryan)
 - Providence Hospital is not interested in purchasing the space, but we would like to talk more with them. Murphy will do whatever – lease or sell. Murphy does not own corner lot on Harrison and 32nd and that piece is not available for sale. (Greg)
 - Next to the train line - UP main line. A proposed high-speed rail could add 6-12 trains a day that would begin in a few years. The proposal would double-track this line. This is part of the quiet zone. (Mayor)
 - Uses
 - Industrial
 - o Industrial land should not be converted to other uses. Can see this property as light or medium industrial with employment. City should make the property attractive for industrial employer. Probably not a residential or retail site. Worth somewhere around \$5-7 per SF. (Greg)
 - o Reduce minimum FAR. Similar situation on another 6-acre spot near west side light rail. Industrial buildings taking up 40% of land area is barely ok, but is better to be less. (Greg)
 - o I wish that Murphy was a good retail site, so that we could get \$25 per SF, but it's not. (Greg)
 - Medical Related

- Some kind of senior housing or medical facility. Doctor offices are also close-by. Does Providence have interest in campus expansion? Because it is on a bus route and adjacent to Clackamas County low-income site. (Mayor)
- It could be a senior housing site, and it could be a low-income housing site. (Greg)
- Potential Challenges
 - You would need minimum parking ratio of 2.5 or 3.0 per 1,000 SF for industrial. many jurisdictions don't like parking. We own a 50-acre park on the light rail line in Beaverton. Six acres right next to a light rail station that's still vacant. (Greg)

Riverfront Park

- **Plans:** build amphitheater, boat access and visitor parking (Mayor).
- **Wastewater treatment:** fund is in place that will be used to purchase trees, plants, and ways to hide plant. Also will use money for odor control to reduce smell on waterfront. The problem is primarily with the residents to the south of the facility. Noise abatement as well. There is no odor problem in downtown (Mayor).

What is Already In Milwaukie

- **Health Care:** Providence Hospital about a mile away from Downtown; across the street from affordable housing units on 32nd Ave. (Steve)
- **Demographics:** Although the numbers show an aging population, the trend seems to be younger population, primarily from the influence of the Waldorf school relocation, which is bringing higher incomes and families with school-aged children. The Waldorf parents are either moving to Milwaukie or coming to drop off kids. Many young people are trying to come to Portland from around the country. Young people are starting to look for places to settle down with lower house prices and shorter commute to Portland. (Steve)
- **Waldorf School:** Relocated to Milwaukie in 2006. Parents serve on Council and government boards, and want to be a part of the community. The school has 125 K-12 students. (Mayor)
- **Grocery:** Old Albertsons was at 32nd and Harrison [site of the Public Safety Building], now is on the east side of 224 near the McFarland site. Safeway is NE of the Albertsons; on the same side of 224. (Mayor)

Personal Interest in Any Site

- This has been very useful. It's great information. I think you're asking the right questions, rather than handing people a completed plan. Land prices must be higher. And you'll still have a five-year loss leader. The City is in a good position because they own land, so they are in a much stronger position to build something. The

barriers of government support, zoning, and community reaction have been overcome, but still barriers in low rates. (Mary)

- Potentially interested in sites 1 and 2. Would be more interested if his firm did not have to put out a bunch of money into an RFP, but rather be selected by the City based on qualifications and work with City to get what is best. Biggest concern is how the process will unfold and must see 100% commitment from government. (Dwight)
- Potentially personally interested if get help with financial tools. The cost to develop depends on the standard of the building and what they can get in rents. Right now in Milwaukie, there is a gap and how can we fill that gap? Need tools available to fill the gap. Developers will not extend themselves to fill the entire gap. What are the tools I can work with to reduce that? You won't get all the way there, and there will still be some risk from the developer. The City is doing a good job at demonstrating political will with private sector. I would agree with Dwight to select someone on qualifications rather than a detailed and costly RFP. I would ask for RFQ and not RFP. Select someone based on qualifications and give them a period of time to put together a deal. (Matt)
- In other jurisdictions, bureaus skew the whole project. The City must be in communication with the bureaus to make the process smoother. Needs commitment from government and availability of tool box is very important. Look for solutions, not problems. (David)
- Solution to permitting. Efficient permitting does not mean you should be too lenient; goal should be efficiency, objective, predictable, but also stringent. (Matt)

Suggestions/Questions for ECONW

- Pay design firms \$15,000 to \$20,000 to come up with specific idea for site. (Greg)
 - Fregonese will make 2-3 alternatives for each site. Construction and developer costs, floor plans, parking plans. Fregonese: take best site and that's the one that the City can get detailed architectural designs for. (John)
- What are the highest retail rents? (Dwight)
 - Nick to follow-up.
- Market study: where are flex rates for light industrial on Hwy. 224, what is market like for that area? (Greg)
 - ECO to include in market study
- What is the demand for industrial space? (Greg)

Suggestions to City of Milwaukie

- Tools to use

- Tools that City should consider: Transit oriented development (TOD) easement program, reduction in traffic impact fees, waivers of permits, land write-down, urban renewal area (URA), and SDC reduction tools. (Dwight)
- City needs to get fee waivers, expedited land use, permit processing and other ways to get private developers to come in. (Greg)
- Reduced SDCs and expedited permitting. (David)
- Is it valuable to see quotes from City Council to back up work from staff? (Mayor)
 - Actions are the most important, not the quotes. Must get support from community, because elected leaders change. Analysis is in understanding the will of the community, to bring private sector and development to the community. (Matt)
 - Quotes are great! Regulatory process is important, too. Framework is in place on the ground. (Greg)