

Meeting Notes
Moving Forward Milwaukie: Developer Roundtable #2
Milwaukie Public Safety Building, 3200 SE Harrison St
January 23, 2014, 11:00am-1:00pm

Attendees

Developers and Real Estate Professionals

- Gordon Jones
- Colleen Colleary – [Kidder Matthews](#)
- Sara Daley – [Kidder Matthews](#)
- Brad Malsin – [Beam Development](#)
- David Hassin - [Terraforma](#)
- Peter Michaelson
- Roy Kim – [Central Bethany Development](#)
- Gene Dieringer – Dieringer Properties
- Pat Dieringer – Dieringer Properties
- Phillip Hanshew – [Colliers](#)
- Kevin Cavanaugh – [Cavanaugh + Cavanaugh](#)
- Jessy Olson – [Guardian Real Estate Services LLC](#)
- Lisa LaManna – [Pate LaManna Commercial](#)
- Kira Cadore – [Rembold Companies](#)
- Matt Brown – [Williams and Dame/Loci, Inc.](#)
- Peter Andrews – [Melvin Mark](#)
- Rennie Dunn – [Apex Real Estate Partners](#)
- Lindsay Murphy – [Apex Real Estate Partners](#)
- Mary Hanlon – [Hanlon Development & Consulting](#)
- Jeff Edinger – [Tokola Properties, Inc.](#)
- Bill Bach – [Trammel Crow Company](#)

City of Milwaukie

- Jeremy Ferguson – Mayor of Milwaukie
- Bill Monahan – City Manager
- Steve Butler – Community Development Director
- Denny Egner – Planning Director
- Ryan Marquardt, Senior Planner
- Li Alligood, Associate Planner/Project Manager

Consultants

- Nick Popenuk, Project Manager – ECONorthwest

- Abe Farkas – ECONorthwest
- John Fregonese – Fregonese Associates
- Tessa Krebs - ECONorthwest

Welcome and Overview of Meeting Agenda

Mayor Jeremy Ferguson welcomed the attendees and provided an overview of activities in Milwaukie, including infrastructure investments, undergrounding of wires downtown, the quiet zone, and growing interest in citizen boards, committees, and commissions.

Steve Butler provided an overview of the Moving Forward Milwaukie project. It is action-oriented, and the objectives are to have good things happen in core. What barriers does the City need to eliminate, and how can it incentivize developers to come? Money is tight, so we cannot throw around a lot of money. What can we do as a community to help developers succeed in Milwaukie?

Market Study overview

Nick Popenuk, ECONorthwest, went over the preliminary pro formas and Milwaukie market study via PowerPoint presentation.

Ongoing downtown projects:

- The City has received two major state grants to build Riverfront Park; construction will begin in June/July 2014. These phases will include a new boat ramp, regrading, etc. – a total of \$2.5 million of work over this summer.
- Connectivity from the downtown to Riverfront Park is primarily at signalized intersections along McLoughlin. There is the possibility of an underpass from South Downtown to the south end of Riverfront Park as part of the Kellogg-for-Coho initiative.

Rental and vacancy rates:

- The average multifamily rent in Milwaukie is around \$1.20 – 1.25 per sf. The range was from \$0.90 to \$1.55 per sf.
- Vacancy rates for industrial, office, and retail were all pretty good - around 5-6%. No residential vacancy rates were available.
- The total absorption for industrial, office, and retail is 110,000 sf. of absorption per year over the last decade, but most of that (~107,000 sf.) is industrial.

Opportunity Sites Discussion

Texaco Site

Site details:

- The current zoning allows for 4 stories (as long as residential uses are included). Any use.
- The site is free of contamination.
- It is about 1 acre

Attendees felt that retail would not work on the site due to its location at a busy intersection.

Dark Horse Site

Site details:

- Dark Horse is staying in Milwaukie but is interested in adaptive reuse of existing buildings at Main and Jefferson and locating in a new building
- They own the land, and there is potential for consolidation with other property owners on the block
- The light rail station is 4 blocks south of the site. Many attendees were not familiar with the location of the light rail station.

Triangle Site

Site details:

- The developable area of the Triangle Site is about 9,000 sf.

Murphy Site

Site details:

- It is adjacent to a Housing Authority of Clackamas Housing development (Hillside Park and Hillside Manor).
- It is 6.5 acres, and does not include the southeast corner (32nd and Harrison), which is developed with a convenience store.
- It is free of contamination.

McFarland Site

Site details:

- Private property, willing to sell or lease. Interested in anything.
- The SE parcel is contaminated and cannot have residential.

Question about trying to develop both downtown and central Milwaukie.

- The commercial development in central Milwaukie has obviously already diluted downtown, but to have all this development happen now, wouldn't it dilute it more?
- These are sites that are all ready for development. What is right thing?
- The problem in downtown is that there is so much zoned commercial, that there is no density downtown to get commercial really going. It may be impossible already.
- We are hoping central will appeal to a different audience. So, the question is, what are the strengths of downtown? And of central Milwaukie? We don't want to compete against ourselves.

Development concepts

General Discussion

John Fregonese, Fregonese Associates, presented draft development concepts for each opportunity site via PowerPoint presentation.

- The City is not trying to get one development, but rather a package of development options that the zoning would permit. City of Milwaukie does not want to be a developer, but want to incentivize a developer to come in and create his or her own design.

Nick Popenuk discussed the financial considerations of each concept, and asked for developer feedback on four questions:

1. What are the measures of financial return that are most important to developers?
2. What are the benchmarks for success?
3. What are challenges for new development in an area without many recent comps?
4. How do you obtain financing for pioneering projects in areas where your expected rents are above current market average?

Measures of financial return:

- 10-Year Rate of Return: Retail shopping center currently under construction - cost of construction, without land cost, is \$180-210/sf. including TI allowances, commissions, etc. Exit is an 18% leverage return on a long term hold over 10 years. (LM)
- Cash-on-cash return: Try to get to a preferred return of 8% cash-on-cash, and try to double that for a 10-year return. I just look for long term holds. I would need other folks to join me and develop nearby with long term holds. (KC)

- Larger, central Milwaukie sites are in line with the goals of Milwaukie as being a nice place to live. Downtown is nice infill. You can do new construction in this area and get double the rents that is customary in getting lower rent.

Financing challenges in an area without comps:

- The appraisers kill it. They only look at comps, and don't look outside the box. The second issue is to get national credit tenants¹ to get higher rents. Those types of tenants are required to get those rents.
- Look at retail much differently in a mixed-use project. I can underwrite the retail space at first, and then escalate it. Also, a credit tenant requires dedicated parking. So, if I am going to rely on on-street parking, a lot of times that won't work. For mixed-use projects, the retail doesn't necessarily have to pencil out, but we have to build up to market rate rents. However, the residential must advance; this would be a 6% return on cost at the bottom threshold. Someone has to take a risk. Probably has to put more equity in to the deal.
- More important than the discussion about returns and money is what does the city want? A lot of us are coming from outside of the city. The City must concentrate on the product and what is going to fit here. The city has to incent whoever will develop. No one will invest unless there is real backing and incentives from the City. It is very cost-effective for Dark Horse to stay where they are. How are we going to incent them to invest in the city and pay more rent? Fundamental issues that the city must invest in development to change the city.
- I am not excited to look at pro formas. I get more excited if others will come and develop and if the energy gets going. Milwaukie is the same as it did 10 years ago. I want to talk about energy, and not talk about cap rates.
- Milwaukie has the historic buildings, but need to find out all the tools like enterprise zones, tax abatements, etc. Just get the first group of people. Need patient capital, not risk-averse people.
- If tax-credit affordable housing for seniors is the only way to get housing built here, that is a problem. If you can't get \$1.85-\$1.90/sf., it is really hard to sell to investor and get a 6% return work.
- We use a lot of New Market Tax Credits, historic tax credits, other creative credits. Without an angel investor who is committed to this community to help build, it is hard to imagine

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. Typically, credit tenants are national chains (Definition from www.investorwords.com).

anyone coming. Milwaukie is where Portland was 20 years ago. There is potential, but how do we get momentum going here? What is the catalyst of activity?

- The importance of the pro formas is that they show a large gap. There has to be a number of strategies in play to make an investment work.
- If you are getting up over 120 units, institutional investors won't come out to Milwaukie. The scaling is too big. I don't see how anyone would want to spend that much capital. Should be 40-50 units at most.

Market demand:

- For outsiders, "why Milwaukie?" is the question. We don't know the depth of the office user and residential pools. Who will move and work here? Where is the demand? I asked about the absorption rates. There is a full city block you could develop [the Texaco Site], but where is the demand?
- It usually starts with redevelopment and not new buildings. Unless you identify and create a place that will incentivize others to put money into it, it is going to take below \$18/sf to incent people to be the first to develop. We are talking about getting people who are starting out and growing businesses to come to Milwaukie, before you can get larger businesses to come here, until there is critical mass in downtown.
- If you get downtown hopping, it will feed the whole area. We are looking at building multi-family in downtown. However, we are running up against the low market rent. Trying to get an active art space there, but we have run into issues with the zoning and parking permits. The reality is that the 60% rents are the market rents in this area. Need to reduce the SDCs
- Can't look at what the demand is, you have to create the demand.
- The City has resources, but the ideas must be backed by demand or a need that isn't being met, or that are being squeezed out of urban Portland. To sell the idea of building in Milwaukie, developers need compelling data behind the ideas, and that is more important than the actual ideas.
- No offices would want to come here, not any time soon. The cheap, \$14/sf. rent would be the only reason to come. New construction could not offer that.
- It is possible to build something attractive here, there is potential.
- Similar to the Kenton neighborhood, there are commercial property owners who wouldn't move and people moved there because they could afford it there. We are looking at renovating places, not building new places.

- You will have more success with tilt-up, concrete flex space on McFarland or Murphy than anything else at \$8.50/sf, triple-net.
- Milwaukie can market that it is a really nice place to live that is reasonably priced. But, there is no clear sense of objective. They don't need developers coming in and raising the prices, but need to make it an affordable, holistic place to live.
- All major Portland communities started with organic retail growth. Figure out what the best assets are; I think it is the waterfront. McLoughlin is the biggest problem: 4-lane road with fast speed is a detriment.
- The problem is you can't get anything on the other side with the river there. McLoughlin is like Macadam, it seems so bleak, but it is more of a perception than the reality. The reality is that the method to cross over to the river will be figured out. The important thing is that no matter what kind of people that will be populating these buildings is a range of different people.

Opportunities:

- All businesses coming to Oregon want to be in Portland. They are overpaying for cool space in the central eastside.
- You would get someone who wants to get out of the business tax environment. Tell developers what is out there and let people be creative. Be as flexible as possible in this market. Being an open, flexible place to develop is more unique than anything else. [Industrial] absorption is high.
- Everyone talks about where the industrial flex space is? There is no place in Portland. Can Milwaukie create a creative place for this group of people and businesses?
- Milwaukie could target creative production of central eastside.
- The local industrial space is shrinking. There is only 1.8 million sf. in the greater MSA, and almost all of it is on the west side. There might be some momentum in this area, but not heavy density. There is demand for it.

Demographics:

- Milwaukie is like a middle-class Lake Oswego.
- When looking at the demographics, age matters here. The older population, these are people who have a similar lifestyle to hipsters (public transportation, like coffee shops), but are older. That is who is here.
- The older hipsters and senior populations can be adjacent to each other.

- Just looking at the total population, the daytime population needs to grow or expand the regular population. If you have a high senior population, embrace that community. Also have a new light rail, so the young folks want public transportation. You could build a hip, trendy atmosphere on the MAX line. There is room for infill and vertical development in the downtown area.

Housing types:

- Workforce housing, this could also act as senior housing. It is different enough, but is not common here.
- Senior housing in Central Milwaukie by Providence, but it must be affordable.
- Small, independent living for seniors is attractive. There is a segment of the older population that doesn't want big senior housing living. You would need a subsidy here, though.

Texaco Site

General comments:

- There must be something to draw people to the city. This must be viewed as a viable place to live and build here.
- The focus should be on adaptive reuse and a variety of product types. Then, eventually have enough momentum to build.
- Smaller, bite-sized buildings are what would go there.
- I would do multiple buildings with breeze ways and plaza. Not enough demand to fill all this.
- There will be the Adams Street connector and plaza in South Downtown. No point in talking about more open space.
- Four stories [on McLoughlin] is blocking off downtown. It is too high.
- The project on Mississippi (Tupelo Alley) has different heights, but it is porous and doesn't block off Mississippi to the residential neighborhood behind it. That is what I see happening here.
- Have to have 2-3 story rowhouse type, otherwise you can't get efficient parking there.
- Don't limit the height to only allow less than 5 stories. Max out the zoning because it could happen in the future. It can go vertical over time, but not now.

- Don't harm the charm of downtown. I could sell this housing to bike-oriented families.

Parking:

- You must have parking here.
- On-site is important for residential; you must have it here. No parking just makes it much more difficult to sell to an investor.
- This is not Portland, people must have parking.

Graham Site

Adaptive reuse:

- Most of the trendy restaurants want patio space.
- The question still is why would they come to downtown Milwaukie?
- In order to develop a Main St. downtown, it starts with food and activates the neighborhood.
- You need density for food carts.
 - Food carts also breed density.

Murphy Site

Appropriate uses:

- No buffer from the rail line is needed. Need a new building with cheap rent.
- Assisted living and phased care may be possible.
- Market is a business who wants a cheap, 30,000 sf. building that wants to get out of their place in Portland.
- Office would get a premium. It's going to be more office, light manufacturing. Flex space user wants to own. They want a single-story, flex building, office build out.
- The road to the east must look nice because it is going into a residential area.
- SW 72nd has a business park that is similar to what would go here.
- Do something that is smaller, glass, could be office or industrial. Could target bike manufacturers. This is a good alternative for them.

Other:

- The first move is to go to Dark Horse, incent them to build a headquarters, do whatever it takes. Build a showplace, and show what can happen here.
- Then renovate the other Dark Horse properties. Dark Horse has all this property that they can't do anything with.
- Dark Horse has to find the money; they are primed for iconic Dark Horse showcase. Dark Horse will draw a lot of activity.

Final Thoughts

- We have had these same conversations from 20 years ago. There was talk about redeveloping the Junior High School [Waldorf School]. I believe that was a missed opportunity. That should be vital part of the city. The Masonic Lodge could be redeveloped into a brewpub. The city has done great with the waterfront. Needs to be another grocer downtown. Getting to river could be improved. The old historic properties are key to renovate.
- It starts downtown with renovating the historic buildings. Make it affordable so that people are compelled to come here. People want to own property for cheap and are being squeezed out of Portland.
- The charming ingredients are here. It is off the radar, but the city is ready.
- Every city has started with small, nice retailer in renovated spaces. It is the easiest and has the most impact.
- Market rate senior housing will not work on the Murphy site, it is too expensive. Income is too low here. The city needs to let development community know the vision and supports developers and their vision. Then, give a message of developer-friendly environment. Then, first couple projects need to make as much money as possible, which will make others come. On the Texaco site, on McLoughlin I would put a two or three-story office building and maybe have Dark Horse go there. Then, on Main St. have a 5-story building with river views.
- Create an icon with Dark Horse, and to follow-up with that. There is also a conflict with low income, low density, what comes first? It is hard, but both need to be tackled at same time.
- Waive SDCs for a year or two and things will happen.
- Industrial or flex space would be feasible on both central properties right away. Industrial land inventory could create jobs and get businesses.

- City needs to help with SDC waivers. Let zoning be open and not strict, let market decide. This will generate more options.
- Need help from the city. Celebrate Dark Horse. The economics are just too low for office and retail.
- There is no compelling reason for ground up, mixed-use to happen until things that people are saying in this meeting start to happen. The bigger stuff needs to wait. Transformative, small projects will start.
- Tell the market about sites and the more flexibility, the better.
- It always starts with organic growth. Milwaukie needs to identify what they want to represent.
- Focus on the industrial, flex like the Old Salt Marketplace [in northeast Portland]. I don't see the hip, cool people moving to Milwaukie. So rather focus on senior population and employment.
- What we look for in these situations is a long-term investor. Make sure that everyone else downtown is invested. What tools can we give other businesses in downtown to improve the overall make-up of the downtown? Important for the City to provide a tool chest.
- The city needs to say what is good about Milwaukie and what it already is. Is it a safe place? What are the aspects of Milwaukie that are already here? Make it developer-friendly for owner-occupied or developers.
- This is not a real estate problem here, but how to build on what and who is already here. Dark Horse is one, but there are others. Bob's Red Mill is expanding here. How do we get someone like them to establish downtown? Kenton didn't just build up because someone just decided to, but it was people who are going places and doing stuff close by. Milwaukie was nice, and now the light rail is a game-changer. Look at who is committed to this area and wants to be here. Who can flow into downtown and make things happen?