

# The Belmont Dairy

Portland, Oregon

Project Type: Mixed-Use/Multi-Use

Case No: CO30007

Year: 2000



## **SUMMARY**

A 141,000-square-foot, transit-oriented mixed-use building on two city blocks in southeast Portland, Oregon. The mixed-income project is built on the former site of a dairy built in 1929. Today, the development features 85 apartments built atop street-level retail stores, including a restaurant, a hair salon, and a 20,000-square-foot grocery. The project was constructed as a "green" development and incorporates recycled materials, water-saving shower heads, extra insulation, and skylights. In addition, more than 90 percent of the construction debris on the site was recycled.

## **FEATURES**

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- Mixed-income development
- Infill development
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- Public/private partnership
- Historic preservation

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## SPECIAL FEATURES

- Mixed-use development
- Mixed-income development
- Infill development
- Public/private partnership
- Historic preservation

#### **OWNER**

Belmont Diary, LLC c/o Shields Obletz Johnsen, Inc. 115 NW First Avenue, Suite 400 Portland, Oregon 97209 503-242-0084

# PROJECT MANAGER

Shields Obletz Johnsen, Inc. 115 NW First Avenue, Suite 400 Portland, Oregon 97209 503-242-0084

#### **ARCHITECT**

GBD Architects, Inc. 920 SW Third Avenue, Suite 4000 Portland, Oregon 97204 503-224-9656

#### GENERAL DESCRIPTION

Belmont Diary is a pioneering mixed-use, transit-oriented inner-city redevelopment. It is one of the first projects that Metro, the regional government body responsible for planning, was able to use as an example of Portland's new 2040 growth plan. Located in close-in southeast Portland, Belmont Diary is the first large-scale infill development built in the business district and on a main street. The project manager, Shields Obletz Johnsen, began negotiations to buy the property in 1993 and purchased it in 1995.

The project features high-density apartments built above ground-floor commercial storefronts; both offices and retail stores have no setback from the wide, tree-lined sidewalks, creating a pleasant pedestrian experience. Easy bus and bike access to downtown gives residents maximum mobility, and customers can either walk or drive to Zupan's, the anchor grocery store.

Market-rate live/work lofts were built above the renovated commercial space in the existing industrial building, while affordable units are incorporated in new construction. The result is an award-winning cornerstone of community revitalization efforts that sets an unprecedented example of public/private cooperation. Belmont Dairy won the Governor's Livability Award in 1997.

#### THE SITE AND DEVELOPMENT PROCESS

The 2.5-acre site covers almost two city blocks. Phase I encompasses the retail and multifamily components, built on 1.25 acres. Phase II of the project, for-sale rowhouses, was built on the block directly north, between southeast Alder and Morrison.

Purchased in 1929 by Carnation Farm Products, the dairy once was a major ice cream distributor to the Portland School District. In 1989 the Beverage Company of the Northwest purchased the property, but in 1990 production was discontinued and the company declared bankruptcy. Control of the site was taken over by a trustee who negotiated the sale with Shields Obletz Johnsen.

The primary risk at the outset was environmental contamination. The site also had suffered from neglect, standing vacant for years before redevelopment began. Environmental consultants were called in by the trustee to secure three environmental remediation bids, which ranged from a low of \$250,000 to a high of \$1,200,000. The developer then secured its own bids, and working closely with the Oregon Department of Environmental Quality (DEQ), developed an approved cleanup plan and completed the cleanup for a cost of \$170,000.

The site included fifteen underground storage tanks containing gasoline and heating oil that had leaked, PCBs in several electric transformers, and more than 60 miles of asbestos-wrapped pipes. During construction, "hot spots" were discovered and further remediation was required. Lead paint was removed from the steel trusses inside the lofts.

The project was built under Portland General Electric's "Earth Smart" program, which takes a holistic approach to building energy-efficient and environmentally sensitive buildings. As a result, energy efficiency in the apartments exceeds the current energy code. Skylights were added to increase natural lighting, while water-saving shower heads, extra insulation, and insulated steel doors save an estimated \$1,980 annually in energy costs for the project.

More than 90 percent of the construction debris was recycled, including more than 2,200 tons of wood, concrete, and metal waste. Recycled plastic bottles were used to make the new carpeting that was put into some of the units, and cellulose insulation made of recycled newspaper was used in the ceiling and walls.

## **APPROVALS**

Because of Belmont's size and the scope, its impact on the surrounding neighborhood was substantial. As a first step in receiving approval from the city, the developer worked with neighborhood groups to develop a plan that was acceptable to the entire community. Large-scale rezoning in southeast Portland was the primary reason for the area's increased desirability, but Belmont area residents and merchants, in cooperation with the developer, formed the revitalization plan for the neighborhood. The positive relationship between the developer and the community made approvals easier to obtain and helped in marketing the project.

# FINANCING

At the time traditional lenders had no rent comparables for Belmont Dairy, and questions existed as to whether renters would pay the loft rental rate of \$1,300 and whether they would be willing to forgo a parking space. Because no single private lender would accept the significant financing risk, a consortium of lenders was used to finance the \$14 million development cost. A permanent take-out loan of \$4.6 million was arranged with Network forOregon Affordable Housing (NOAH), and Bank of America provided a \$4.6 million construction loan; in addition, \$7.2 million in tax credit bonds was issued by the city of Portland as a bridge loan. These privately placed bonds are in place until Fannie Mae makes an equity investment of \$8.3 million at the end of six operating years.

The city of Portland was instrumental in the financing of Belmont Dairy; city loans included a Livable City Housing Council loan for \$600,000 and a community development block grant loan of \$750,000 that applied to soft housing

costs only. Two state of Oregon transit-oriented development (CMAQ-TOD) loans for public improvements, one for \$175,000 and one for \$125,000, were used to widen the eight-foot-wide sidewalk to a pedestrian-friendly 13 feet while adding curb extensions and street trees.

A key component of the financing was Fannie Mae's agreement to make an \$8.3 million equity contribution—representing its purchase of low-income housing tax credits and other tax benefits related to the project—in the sixth year of operation to pay off the tax credit bonds. Developer equity was provided by venture capitalist First Amherst Development Group of New York. The Belmont Limited Partnership consists of Belmont Dairy, LLC, as the general partner and Fannie Mae as the limited partner.

#### **PLANNING**

The Belmont Dairy is Portland's first large-scale, mixed-use neighborhood development. The site originally was zoned for light-industrial use, but the zoning was changed to storefront commercial to encourage mixed-use development.

Although there was a 45-foot height limit, the developers requested an adjustment to accommodate four stories of housing over a one-level parking garage. A 51-foot-tall building was required, and even that height could be achieved only by partially submerging the parking garage.

## **DESIGN**

Belmont Dairy was designed as a high-density residential and commercial mixed-use redevelopment compatible with nearby neighborhood retail and residential buildings. Developers saved 40,000 square feet of the original 80,000 square feet of buildings, helping to retain the historical link to the site's past. Ground-floor storefront windows shaded by industrial-style awnings extend from floor to ceiling. Brightly covered banners hang from the second-story lofts announcing Belmont Dairy to all who pass by.

#### MARKETING

The lofts feature 18- to 22-foot ceilings, large windows, French doors, designer kitchens, and mezzanine space. Sizes range from 780 to 1,500 square feet, with an average unit size of 1,185 square feet. The spacious apartments include extra-large windows, nine-foot ceilings, and ample closet space. All tenants enjoy access to a large, landscaped interior courtyard.

Of the 85 total apartments, 66 units target individuals earning less than 60 percent of the area median income, while the remainder are market rate. This means that a single person earning \$22,000 annually would pay \$570 for a one-bedroom affordable apartment. Initial leaseup exceeded the developer's projections, and vacancy currently is less than 1 percent.

## **TENANTS**

The anchor commercial tenant for Belmont Dairy is Zupan's, a full-service specialty grocery store that has served as a catalyst for the district's revitalization. Sweetwater's Restaurant relocated to Belmont Dairy with an existing customer base but has quickly built new business from the surrounding neighborhood. A hair salon and insurance company round out the small-shop tenants.

## EXPERIENCE GAINED

- Conflicts can arise between residential and commercial uses when developing a mixed-use project. Diesel trucks have created one such conflict by parking outside residents' bedroom windows to make early-morning deliveries to the restaurant and retailers. The restaurant also created a noise issue when it began to provide sidewalk service; this was resolved by restricting outside dining and drinking to before 10:00 p.m.
- Tenants also complained about Zupan's smoke detectors, which sounded false alarms; the detectors therefore
  were changed to heat-sensitive sensors. And a fan on top of the building that created noise for loft tenants
  was retrofitted. While there were unanticipated challenges, the developer has worked with area residents and
  commercial tenants to find win/win solutions. The project has continued to enjoy high occupancy and low
  turnover rates

# PROJECT DATA

# AND USE INFORMATION

Site area: 1.25 acres

# Gross building area

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Use	Gross square feet	
Retail	27,000	
Residential	93,500	
Parking	20,500	
Total	141,000	

Retail gross leasable area (GLA): 25,150 square feet Residential: 73,126 square feet

Unit type	Floor area (square feet)	Range of initial rents
Studio	759	\$450
One-bedroom	629–739	\$520–573
One-bedroom	675–988	\$620–684
Loft	764–1,389	\$830–1,320

Tenant classification	Number of stores	Total GLA (square feet)
Food service	1	2,737
Personal services	1	939
Insurance	1	1,306
Grocery	1	20,168
Total		25,150

Percent of GLA occupied: 100 percent

Annual rents: Approximately \$9 to \$16 per square foot.

Average annual sales (Grocery store): Approximately \$450 per square foot. Average length of lease: 5 to 20 years.

## DEVELOPMENT COST INFORMATION

Site acquisition cost: \$350,000

Site improvement costs Excavations/grading: \$70,000 Sewer/water/drainage: 105,000 Paving/curbs/sidewalk: 71,000 Landscaping/irrigation: 50,000

Construction fee/general conditions: 723,000

Demolition: 265,000 Total: \$1,285,000

Construction costs: \$6,315,000

Soft costs

Architecture/engineering: \$500,000 Project management: 310,000

Marketing: 45,000 Legal/accounting: 370,000 Taxes/insurance: 38,000 Title fees: 30,000

Construction interest/fees: 200,000

Total: \$1,493,000

Other costs

Predevelopment costs: \$50,000 Leasing documents: 900,000 Financing fees: 150,000 Bridge financing: 2,527,000 Developer fees: 500,000 Building permits: 34,000 Furniture/fixtures/art: 33,000 Miscellaneous: 45,000

Reserves: 318,000 Total: \$4,557,000

Total development cost: \$14,000,000

# DEVELOPMENT SCHEDULE

Site purchased: September 1995 Planning started: September 1994 Construction started: November 1995 Sales/leasing started: July 1996 Project completed: October 1996

#### **DIRECTIONS**

From Portland Airport: I-205 to I-84 west. Take 42nd Avenue exit. Make left on NE Halsey, then left on NE 39th. Then make right on SE Belmont to SE 33rd Avenue.

Driving time: 10 to 15 minutes in non-peak traffic.

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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI-the Urban Land Institute.

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The loft apartments range from 1,000 to 1,400 square feet and feature 22-foot ceilings, a mezzanine, and French balconies.



The generously sized one- and two-bedroom affordable apartments feature large windows and nine-foot ceilings.



The "Eyesore on Belmont" served as a milk and ice cream manufacturing plant for more than 80 years before being abandoned and turned over to a bankruptcy court.



The industrial portion of the project was converted to live/work loft apartments.



The transformed milk and ice cream plant is now Belmont Dairy, the anchor of a revitalized Belmont District.



Along Belmont Street, storefronts provide views into a European-style specialty grocer, while loft apartments overlook the street.



Sixty-six new affordable apartments share a parking garage with the retail space and 19 loft apartments.