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DATE: November 13, 2013

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 13-46

Authorizing a Disposition and Development Agreement to Convey 1.79 Acres of Real Property in the Interstate Corridor Urban Renewal Area to Majestic Realty Company for $502,160

BOARD ACTION REQUESTED

Adopt Resolution No. 7033

ACTION DESCRIPTION

This proposed action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to execute a Disposition and Development Agreement (DDA) between PDC and Majestic Realty Company (MRC) for the conveyance of MLK-South (Property), a 1.79 acre PDC-owned parcel, to MRC for the consideration of $502,160. MRC is proposing to construct an urban retail shopping center consisting of approximately 20,000 square feet of gross leasable area in two separate buildings. The project will contain an anchor grocery store in one building and commercial/retail lease space to house between four to 10 businesses in the other building. There will be approximately 100 parking spaces with access proposed from Alberta, Sumner, and Garfield streets. The Property is located in the Interstate Corridor Urban Renewal Area (URA) and is bounded by NE Martin Luther King, Jr. Blvd. (MLK Blvd.), NE Alberta, NE Garfield, and NE Sumner streets (see Attachment A for a map of the Property).

This action implements the Albina Community Plan (ACP), the King Neighborhood Commercial Development Strategy (Strategy), and the City of Portland's (City's) Neighborhood Economic Development Strategy by creating an opportunity for new commercial development that will activate a prominent intersection in a URA and provide goods and services requested and sought by neighborhood residents.

BACKGROUND AND CONTEXT

The Property (as well as the full block to the north) was assembled in multiple parcel acquisitions beginning in 1997, following the ACP goal of assembling land along commercial corridors to bring employment and needed goods and services to the northeast community. One action identified in the ACP was to "revive commerce on NE Martin Luther King, Jr. Blvd. by fostering the development of strong commercial nodes at key intersections." Following this direction, in 2000, PDC and the community developed the Strategy which outlined a development vision and concept for new, multi-phased commercial and residential development between NE Alberta and NE Killingsworth streets. Two phases of development have been completed to date; the action before the Board will complete the implementation of the Strategy, as summarized below.

Phase I: Vanport Square

Vanport Square Phase I is a 36,000 square foot commercial condominium project on MLK Blvd. between NE Sumner and NE Emerson streets completed in 2008 by Vanport Partners, LLC. The project consists of 16 independent commercial condominium units in two buildings (a 21,000 square foot renovation of the former Marco Machine Works and a newly-constructed 15,000 square foot three-story building). At its October 8, 2013, meeting, the Board took action on an amendment to the DDA between PDC and Vanport Square, providing flexibility to condominium owners to lease their units.

Phase II: Vanport Housing

The second phase of the Vanport Square project was completed in December 2012 and consisted of 10 single family homes along NE Garfield Street, adjacent and to the west of Phase I. The second phase was completed by a different developer, Lisac Brothers Construction, Inc. All units have been sold.

Phase III: Martin Luther King, Jr. Blvd-South (MLK-South)

The third phase of the Vanport Square project, since renamed MLK-South, is envisioned to be a commercial development on the block immediately to the south of Vanport Square between NE Alberta and NE Sumner streets. There have been multiple attempts and proposals over the past eight years to redevelop the Property yet none has moved forward. The Property has significant redevelopment challenges in that there is a public easement (which cannot be built upon) that runs through the middle from north to south, and limits the size of any future building footprint. In addition, the Property sits between a busy thoroughfare (MLK Blvd.) and a residential neighborhood street (Garfield Street), so traffic, access, and parking all pose constraints and must be addressed with its future redevelopment.

In 2011, on behalf of then-Mayor Sam Adams, PDC released the Grocery Store Request for Information (RFI). The purpose of the RFI was to bring grocers to areas that the City Bureau of Planning and Sustainability designated as underserved. This Property is located within one of those underserved areas. In late 2011, MRC approached PDC stating its interest and ability to secure a highly desired grocery store as an anchor for the site. MRC is headquartered in southern California and holds a diverse portfolio of over 70,000,000 square feet of industrial, office, and retail space. MRC is unique in that they retain ownership of their projects over the long term; they stay involved with the leasing, management, and maintenance of the project long after it is constructed.

In late June 2012, based on MRC's extensive experience and relationship with an anchor grocer, PDC and MRC entered into a 60-day Memorandum of Understanding (MOU). During this period, MRC was tasked with performing a market/demographic analysis, conceptual site programming, and obtaining a letter of intent from the anchor grocer tenant. The MOU expired in late August 2012 without MRC obtaining a formal letter of intent.

In March 2013, MRC provided PDC with a letter of intent signed by a prominent national grocer, clarifying its interest in entering into a long-term lease and locating a new store on the Property. PDC subsequently entered into a 60-day MOU in May 2013 with the intent of working in earnest toward a specific set of deliverables and a DDA. The anchor tenant required that its identity and interest remain under strict confidentiality until the land purchase was certain and it had negotiated the terms of a lease.

During this period, MRC was tasked to further investigate the development concept, costs, and schedule of the project to include the grocer as an anchor tenant. In addition, MRC investigated the possibility of purchasing the three remaining privately held residences along Garfield Street to allow for a larger developable area and better program and design to accommodate pedestrian and car access. (PDC owns and leases the other residence on the block, which is part of this proposed disposition.) MRC approached the private homeowners, but negotiations were unsuccessful and the current site plan does not include these parcels.

The PDC and MRC worked closely together to finalize a detailed project budget and pro forma, outlining projected costs, revenues, expenses, fees, and returns for the project. Accommodating the design and parking needs of the anchor grocer tenant drove the concept plan and program, along with the restrictions presented by the public easement described above. The proposed low-density build out of the site (two one-story buildings and over 100 surface parking spaces) coupled with local and anchor lease rate caps, generate a revenue stream unable to support new construction without a land sale subsidy.

An appraisal commissioned in December 2012 set the "As-Is Market Value" of the Property at $2,870,000, stating that the highest and best use of the subject site is a mixed-use development with retail and residential uses. Development of a full-service grocery on the site means that the property cannot be used for the current appraised highest and best use. To accommodate the neighborhood's deep, longstanding desire to locate a full-service grocery on the site, and to respond to the City's grocery store RFI that identified the need for a grocery in this specific neighborhood, PDC is proposing to subsidize the land sale and sell the Property for $502,160.

The PDC further based the decision to subsidize the land on the fact that the grocer that MRC is bringing to anchor the site is highly desired by neighbors and nearby businesses and its location at the site is expected to increase the traffic and profitability of nearby business on MLK Blvd. and NE Alberta Street. MRC is not requesting financing from PDC for the project and is contributing over $2,000,000 in equity towards the construction of the $8,000,000 project. MRC is accepting a below-market projected return of six percent on cost and 30 percent on equity invested after 10 years of cash flow.

Disposition and Development Agreement

The key terms of the negotiated DDA (attached to Resolution) include:

- Purchase price of $502,160;
- PDC is not providing any direct financial assistance for redevelopment of the Property;
- MRC to provide PDC $75,000 earnest money deposit within five days of the Effective Date, and non-refundable at the end of the Due Diligence Period;
- MRC may elect not to proceed with the transaction if matters are not acceptable to MRC at the end of 30-day Due Diligence Period;
- Closing to occur within eight months of the Effective Date;
- Prior to closing, MRC must have:
    - All land use approvals and permits secured, with no appeals filed
    - All financing necessary to construct the project has closed or MRC has obtained commitments for such financing
    - PDC approval of final project budget, which shall be an updated and revised estimate of sources and uses of funds, cash flow, and budget
    - Evidence of necessary equity commitments
    - Registered the project for Leadership in Energy and Environmental Design (LEED) Silver certification
- MRC to construct two privately-owned buildings which will be a total of approximately 20,000 square feet and 100 parking spaces.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing this DDA include:

- The Property will be redeveloped with an anchor grocer (a use long sought and coveted by neighborhood residents) and retail space for lease to neighborhood-serving businesses that will activate the nearby blocks and potentially catalyze further redevelopment along MLK Blvd. and NE Alberta Street;
- MRC is investing more than $2,000,000 of its own funds to bring this project to fruition;
- The project is estimated to generate more than $87,000 per year in property tax revenues;
- PDC's Equity Policy will apply to the construction of the project, ensuring fair and equitable opportunities for Portland's diverse populations and expanding competition in the market;
- PDC's Green Building Policy will apply, ensuring that the building is LEED Silver certified;
- Oregon Prevailing Wage Law will apply to construction of the project; and
- Development of the Property will complete PDC's involvement in the redevelopment of two full blocks at a key commercial corridor, as called for in the ACP and the Strategy.

PUBLIC PARTICIPATION AND FEEDBACK

With implementation of the Strategy, PDC convened a citizen advisory committee to serve as the project's public involvement vehicle. That committee was active until 2008, when an earlier attempt to develop this Property fell through. By the time PDC entered into a MOU with MRC, most of the committee members were no longer living in the neighborhood, so it was not reconvened. In addition, the confidentiality requested by the proposed anchor grocer tenant made it difficult for MRC to publicly discuss the project.

Staff at PDC has been in regular contact with Vanport Square business liaisons Jeana Woolley (Vanport Square developer) and Adam Milne (owner, Old Town Pizza) about negotiations with MRC. In spring 2013, PDC staff attended the King Neighborhood Association meeting to update the neighborhood about project negotiations and to give high-level information about the proposed program. PDC staff also communicated with the King Neighborhood Association in September 2013 about project status and DDA negotiations.

Immediately following the approval of the DDA, MRC intends to meet with neighbors and community stakeholders. The DDA requires that MRC communicate with the King Neighborhood Association and Vanport Square businesses prior to submitting plans to the City for design review approval. The intent is to ensure that the community is able to weigh in and voice any concerns related to the project design with time for MRC to take these into consideration prior to submitting its application.

BUDGET AND FINANCIAL INFORMATION

The Interstate Corridor URA fiscal year (FY) 2013-14 Adopted Budget currently includes funds for disposition-related expenses as well as site maintenance, but no revenue from the sale of the Property. Since the proposed action includes a sale price and no PDC grants or loans, the budget will be amended to be consistent with the terms of the DDA. This action will provide PDC with approximately $500,000 in additional financial resources which can be invested in other projects and programs. This is included as a proposed change in the FY 2013-14 Budget Amendment No. 1.

RISK ASSESSMENT

Entering into this DDA creates minimal risks for PDC. The primary risk for PDC is that the proposed development will not be realized in accordance with the terms of the DDA and that the conditions prior to closing (as listed above), may not be achieved. During this time period, PDC will not be able to consider other development opportunities for the site. The DDA does, however, require that MRC close on the property within 30 days after the issuance of all land use and building permits, and after PDC has received all of the required closing items.

ALTERNATIVE ACTIONS

The Board could decide to:

- Direct staff to incorporate new terms or changes to the terms and conditions into the DDA;
- Direct staff to renegotiate specific terms and conditions; or
- Terminate the disposition process.

ATTACHMENTS

A. Property Map
B. Project Summary
C. Interstate Corridor URA Financial Summary

Property Map

Project Summary

Project Name: Majestic Realty Company Disposition and Development Agreement

Description: 1.79-acres made up of eight vacant parcels (72,931 square feet) and one parcel with a residence (5,000 square feet) zoned Central Employment with Design Review Overlay (EXd).

Location: NE Martin Luther King, Jr. Blvd. and NE Alberta Street

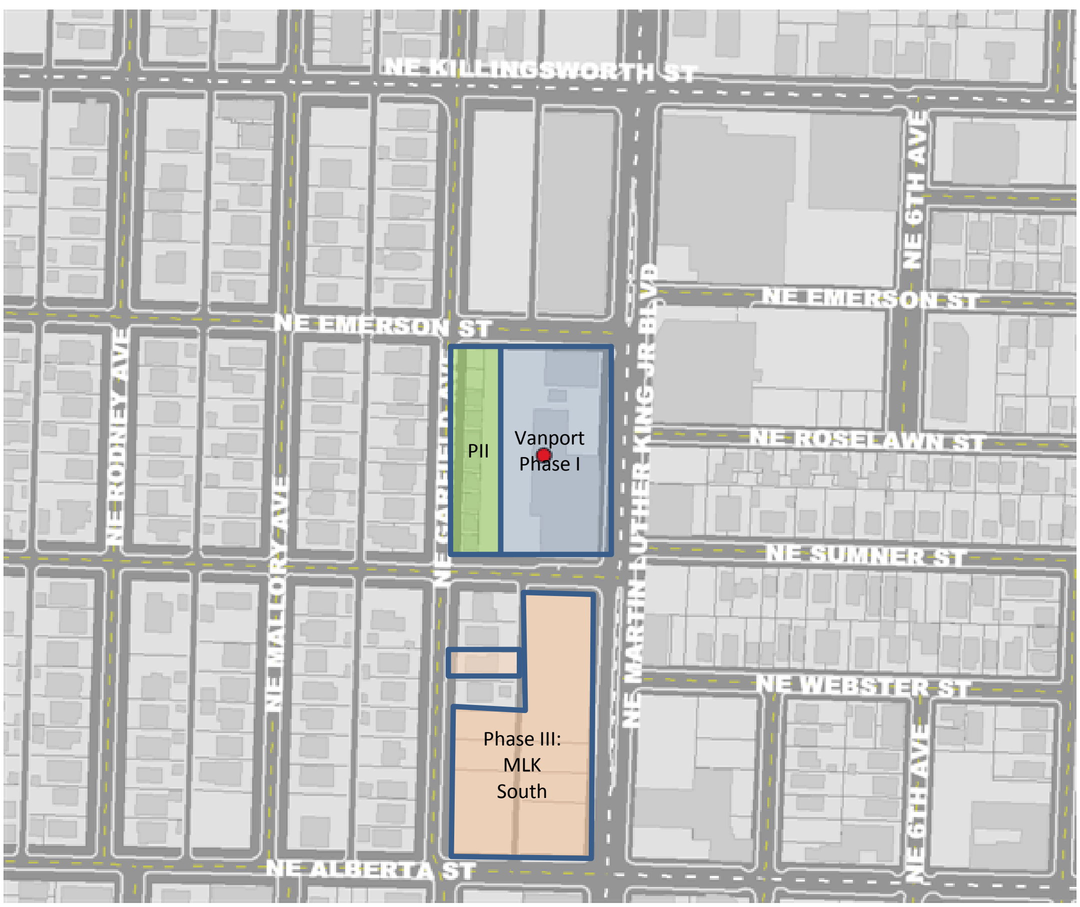
URA: Interstate Corridor Urban Renewal Area

Current Phase: Disposition

Next Milestone: Closing/Conveyance

Completion Target: Closing by July 1, 2014; Construction Complete by May 2015

Outcome: Conveyance of MLK-South to Majestic Realty Company for the development of an urban retail center anchored by a grocery store, a building with space for lease to four to ten businesses, and +/- 100 surface parking spaces.



Phase I Commercial; Phase II Housing; Phase III Anchor Grocer + Retail Center

Interstate Corridor URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised-3 FY 2012-13	Adopted FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
Interstate Corridor URA						
Resources						
Beginning Fund Balance	7,316,861	6,753,143	711,523	1,358,624	307,242	483,904
Interest on Investments	30,000	30,000	30,000	30,000	30,000	30,000
Loan Collections	6,000,000	303,678	256,423	365,747	261,150	971,574
Long Term Debt	0	3,500,000	1,750,000	0	0	0
Property Income	211,580	574,998	210,000	210,000	210,000	210,000
Reimbursements	61,573	0	0	0	0	0
Short Term Debt	10,936,644	10,242,243	10,739,568	11,488,500	11,488,500	11,488,500
Total Resources	**24,556,658**	**21,404,062**	**13,697,514**	**13,452,871**	**12,296,892**	**13,183,978**