



DATE: June 4, 2014
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 14-21

Authorizing a Purchase and Sale Agreement to Convey 0.19 Acres of Real Property in the Central Eastside Urban Renewal Area to Block 76, LLC, for \$336,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7054

ACTION DESCRIPTION

This action will authorize the Portland Development Commission (PDC) Executive Director to execute an Agreement for Purchase and Sale of Property (PSA) between PDC and Block 76, LLC (Developer), for the conveyance of Burnside Bridgehead Block 76W (Property), an 8,414 square foot (SF) PDC-owned parcel, for the consideration of \$336,000. The Property is located in the Central Eastside Urban Renewal Area (CESURA) at the northeast corner of East Burnside Street and NE 3rd Avenue (see project summary in Attachment A).

The Developer proposes to develop a 20,000 SF commercial building that will activate the street frontages of both NE Couch Street and NE 3rd Avenue and enhance the gateway to and pedestrian-friendly character of the Burnside Bridgehead (Project). As part of site development, the Developer will need to install temporary shoring and other measures to address a Slope Easement placed on the Property when the East Burnside-Couch Couplet was constructed and also to avoid impacts to Burnside Bridge support structures located on the Property.

BACKGROUND AND CONTEXT

Burnside Bridgehead Property: The Burnside Bridgehead Property, which consists of Blocks 67, 68, 76, and portions of Blocks 69 and 75, was acquired by PDC between 1998 and 2006 for the purposes of implementing a multi-block, mixed-use redevelopment project. The Burnside Bridgehead Property is located within Portland's Central City, immediately across the Willamette River from the Central Business District.

Block 76W: The Property is located in the southeast quadrant of the Burnside Bridgehead Property. The Property is located at the foot of the Burnside Bridge and is bounded by East Burnside Street, NE Couch Street, and NE 3rd Avenue. Block 76 was formerly a full city block owned by PDC before the East Burnside-Couch Couplet was constructed in 2009. The alignment of NE Couch Street was routed through Block 76 as part of that project, which divided Block 76 roughly in half. The Property is zoned Central Employment with Design Overlay (EXd). The development potential of the Property is limited by its small size, shape, and limited access related to the Couch Street alignment, as well as by the Slope Easement and Burnside Bridge structural support described below.

Slope and Slope Easement: The Property has a cross slope of approximately 20 to 30 percent that is partially the result of grading associated with the construction of westbound NE Couch Street through Block 76. NE Couch Street is supported on the Property by a mechanically stabilized earthen wall that relies in part on the sloped soil on the Property for structural support. In 2009, PDC conveyed to the City of Portland a Slope Easement that extends over approximately 60 to 70 percent of the Property for this purpose. The Slope Easement states that in the event PDC elects to redevelop the Property, PDC will “ensure the structural stability of the public way.”

Burnside Bridge Structural Support: The Property was previously developed with a building that had a partial basement below grade abutting the Burnside Bridge. When plans were made to demolish this building, PDC coordinated with Multnomah County to assure the demolition would cause no adverse impacts to the Burnside Bridge. When the building was demolished, part of the building slab closest to the Burnside Bridge was left in place and three steel pipe braces were installed for support of the northern retaining wall of the bridge. The braces are supported on a spread footing to replace the support lost from the demolished buildings. A berm of compacted structural fill was constructed along the base of the retaining wall around the braces to provide further support of the retaining wall. Redevelopment of the Property must be completed so as to not cause impacts to these structures or the Burnside Bridge.

2004 Request for Proposals: PDC issued a Request for Proposals (RFP) on August 16, 2004, to solicit development proposals for the Burnside Bridgehead Property. PDC selected Opus Northwest, LLC (Opus), as the preferred developer and entered into a Memorandum of Understanding (MOU) with Opus on March 8, 2006. The development program proposed by Opus changed over time in response to market conditions, and the PDC Board of Commissioners (Board) decided to allow the MOU to expire in 2008 without entering into a development agreement with Opus.

2010 Framework Plan and Request for Interest: Following the expiration of the MOU with Opus, PDC initiated preparation of the Burnside Bridgehead Framework Plan (Framework Plan), which was adopted by the PDC Board on May 26, 2010. The Framework Plan established a strategic design approach for the redevelopment of the Burnside Bridgehead Property involving development in smaller increments and by more than a single developer. As the first step toward implementing the Framework Plan, PDC issued a Request for Interest (RFI) on July 15, 2010, seeking offers from qualified development teams to purchase and redevelop portions of the Burnside Bridgehead Property.

PDC received a total of 10 statements of interest in response to the RFI, including two statements that were specific to Block 76W. Two of the other responders subsequently expressed interest in Block 76W. On June 4, 2013, PDC issued an RFP to the four development teams that had expressed interest in Block 76W. PDC received one proposal from Key Development Corporation. Key Development Corporation had previously entered into a Disposition and Development Agreement (DDA) with PDC to develop the adjacent Block 67 and saw opportunities to develop on both sides of NE 3rd Avenue and provide a pedestrian connection to the Burnside Bridge. PDC and Key Development Corporation subsequently entered into a MOU for Block 76W on October 21, 2013, which set forth the mutual understandings and intentions to complete a series of due diligence scope items while negotiating the terms of a binding PSA. The MOU expires July 21, 2014.

Geotechnical and Structural Evaluation Study: During the term of the MOU, one of the Developer’s responsibilities was to prepare a Geotechnical and Structural Evaluation Study to examine the requirements and incremental costs associated with addressing the Slope Easement and the below-grade Burnside Bridge support structures. The completed study recommended a soldier pile shoring system for the east side of the Property, and cantilevered shoring for the southern wall of the building adjacent to the Burnside Bridge. The study concluded the Developer would incur extraordinary geotechnical costs of approximately \$361,000 as a result of these measures.

Project: The Developer anticipates constructing a three-story, \$6,400,000 building that will contain approximately 20,000 SF of commercial space, for which there are not yet any committed tenants.

The key terms of the negotiated PSA, which is an exhibit to the resolution, include:

- Purchase price of \$336,000 for 8,414 SF of real property, which represents a fair market value transaction based on a July 2013 appraisal;
- The purchase price payment will be held in escrow and from this holdback account Developer will be reimbursed for extraordinary geotechnical costs by drawing down up to the entire purchase price amount as the extraordinary geotechnical costs are incurred;
- At capital events occurring within five years of project completion, Developer shall pay to PDC 10 percent of the property value that exceeds the certified total project costs, not to exceed \$336,000;
- PDC to provide no investment or financial assistance for development of the Property;
- Developer to provide PDC an earnest money payment of 10 percent (\$33,600) due within 10 days of the effective date, and generally non-refundable following the due diligence period;
- Developer may elect not to proceed with the transaction if title condition is unacceptable to Developer at end of 30-day due diligence period;
- Closing to occur within 90 days of the effective date;
- Developer accepts responsibility for environmental condition of the Property and for compliance with all environmental laws;
- Developer must commence construction on the Property consistent with the CESURA Plan, Framework Plan, and zoning within three years of the effective date;
- Developer may not commence construction until PDC has certified the proposed development complies with the CESURA Plan, Framework Plan, Portland Bureau of Transportation, and Multnomah County requirements related to the Slope Easement and Burnside Bridge; and
- PDC has a right to repurchase the Property for the original purchase price if Developer does not commence construction within three years of the effective date.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing the PSA include:

- The Project will activate the street frontages of both NE Couch Street and NE 3rd Avenue, providing an active and pedestrian-friendly streetscape at the gateway to the Burnside Bridgehead;
- The Project will include a publicly-accessible stairway connecting the Burnside Bridge to NE 3rd Avenue, which will enhance pedestrian and bicycle circulation to and from the Burnside Bridgehead properties;
- The Property will be redeveloped without direct financial assistance from PDC with a building that provides commercial space in the CESURA and further establishes Central Eastside's "Produce Row" as an attractive and vibrant place to do business;
- The Property will be redeveloped with a privately-owned commercial building that is estimated to generate about \$55,000 per year in property tax revenues;
- Development of the Property will further implement the Framework Plan and build upon other recent accomplishments, including completion of the Eastside Burnside-Couch Couplet in 2010, completion of the Eastside Portland Streetcar Loop in 2012, and completion of the Eastside Exchange building renovation in 2013; and
- PDC's Equity Policy and Green Building Policy will apply to this transaction.

PUBLIC PARTICIPATION AND FEEDBACK

There was no formal public participation related to the proposed PSA; however, staff has conducted extensive community outreach related to the Burnside Bridgehead planning and property dispositions. The Framework Plan was prepared with the advice and consultation of a 15-member Citizen Advisory Committee (CAC). The Framework Plan set the stage for redevelopment of the entire four-block area. Three members of the CAC served on the evaluation panel that selected Developer as the preferred developer for Block 76.

The Developer presented development plans for both Block 67 and 76W to the Central Eastside Industrial Council (CEIC) in April 2014. The response was favorable toward the development of both blocks. Some members of the CEIC are concerned about a perceived shortage of parking in the vicinity but recognize that Developer is providing approximately 270 parking spaces as part of the combined Block 67/76W developments.

Generally, stakeholders have been supportive of PDC's implementation of the Framework Plan and the planned development on Block 76W. Development projects are currently advancing on all of the Burnside Bridgehead parcels.

BUDGET AND FINANCIAL INFORMATION

The CESURA fiscal year (FY) 2013-14 Revised Budget, FY 2014-15 Proposed Budget, and Five Year Forecast currently include funds for ongoing ownership, maintenance, and disposition of the remaining PDC-owned Burnside Bridgehead properties (see Attachment B). The Proposed Budget anticipates conveyance of the Property will occur in FY 2014-15 and PDC's ongoing ownership expenses will end at that time. The proposed PSA anticipates that PDC will hold the payment for the purchase price in escrow, drawn down by the Developer as extraordinary geotechnical costs are incurred. No revisions to the FY 2013-14 Revised Budget are anticipated as a result of the PSA.

RISK ASSESSMENT

Entering into this PSA creates minimal risks, as PDC is selling the Property for fair market value and does not have financial resources at risk. The primary risk for PDC is that the proposed development would not be realized in accordance with the terms of the PSA as follows:

1. **Developer May Terminate the Transaction:** There is a risk that Developer will terminate the transaction during the 30-day due diligence period. This risk is relatively minor, is a standard business practice, and cannot be mitigated.

A related risk is that Developer will terminate the transaction subsequent to the end of the due diligence period but prior to closing. This risk is mitigated by Developer providing a 10 percent (\$33,600) earnest money payment within 10 days of the effective date; this payment is non-refundable after the end of the due diligence period.

2. **Developer May Not Redevelop the Property Successfully:** There is a risk that Developer will not succeed in redeveloping the Property. Subsequent to the end of the due diligence period but prior to closing, this risk is mitigated by the earnest money payment. Subsequent to closing, this risk is further mitigated by (a) Developer paying PDC the purchase price in cash at closing, and (b) PDC retaining a repurchase right in the event Developer does not commence construction within three years of the effective date.

ALTERNATIVE ACTIONS

The Board could decide to:

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

ATTACHMENTS

- A. Project Summary
- B. CESURA Financial Summary

PROJECT SUMMARY

- Project Name:** Burnside Bridgehead Block 76W Purchase and Sale Agreement
- Description:** 0.19-acre vacant parcel zoned Central Employment with Design Overlay EXd
- Location:** Central City at East Burnside Street, NE Couch Street, and NE 3rd Avenue
- URA:** Central Eastside
- Current Phase:** Disposition
- Next Milestone:** Closing/Conveyance
- Completion Target:** September 2014
- Outcome:** Conveyance of Burnside Bridgehead Block 76W to Block 76, LLC, for a commercial building consistent with the CESURA Plan, the Burnside Bridgehead Framework Plan, and zoning, currently anticipated to be a 20,000 SF office building with ground-floor retail and a publicly-accessible stairway connecting the Burnside Bridge to NE 3rd Avenue



URA Financial Summary

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2013-14	Proposed FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
Central Eastside URA Fund						
Resources						
Beginning Fund Balance	4,899,209	7,570,898	4,095,975	629,892	601,331	628,044
Fees and Charges	7,332	14,622	2,479	2,430	15,469	4,963
Interest on Investments	34,000	10,000	10,000	5,000	5,000	5,000
Loan Collections	206,094	797,816	135,276	132,593	844,025	270,789
Property Income	2,443,000	1,214,810	6,000	6,000	6,000	251,000
Short Term Debt	2,997,000	2,997,000	2,997,000	2,997,000	776,854	0
Total Resources	10,586,635	12,605,146	7,246,730	3,772,915	2,248,679	1,159,796
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101355-Debt Management-CES	10,000	18,000	18,000	18,000	18,000	18,000
Administration Total	10,000	18,000	18,000	18,000	18,000	18,000
Business Development						
Business Lending						
L02100355-BIF-General-CES	50,000	300,000	300,000	150,000	0	0
Traded Sector Business Dev						
B15100355-Cluster Development-CES	50,000	50,000	50,000	50,000	0	0
B55606355-CES Entrepreneurial District-C	25,000	150,000	150,000	150,000	0	0
T01069355-Lean Manufacturing-CES	30,000	0	0	0	0	0
Business Development Total	155,000	500,000	500,000	350,000	0	0
Housing						
PHB Housing						
H15430355-Affordable Rental Hsg-CES	0	550,000	1,800,000	0	0	0
H15900355-PHB Staff & Admin-CES	40,619	127,677	152,871	110,695	71,899	0
Housing Total	40,619	677,677	1,952,871	110,695	71,899	0
Infrastructure						
Parks						
N35514815-Eastbank/Asset Trsfr-CES-Adm	25,813	25,113	25,113	25,113	25,113	25,113
Public Facilities						
N35525215-Community Center-CES-Adm	0	0	0	985,000	0	0
Infrastructure Total	25,813	25,113	25,113	1,010,113	25,113	25,113
Property Redevelopment						
Commercial Property Redevelopment						
P35550115-ODOT Blocks-CES-Adm	100,000	0	0	0	0	0
P35550215-Strategic Site Redev-CES	0	5,000,000	2,000,000	0	0	0
P35552215-CC 2035-CES-Adm	100,000	0	0	0	0	0
P35557215-Burnside Bridgehd Rdv-CES-Adm	102,700	0	0	0	0	0
P35560125-Block76-Fmr Fishels-CES-Adm	4,010	4,250	0	0	0	0
P35560135-Block76-Fmr Rcvry-CES-Adm	2,387	2,400	0	0	0	0
P35560145-Block76-Fmr Unocal-CES-Adm	14,320	1,181	0	0	0	0
P35560175-Block67-Fmr Brdgprt-CES-Adm	7,375	3,000	0	0	0	0
P35560185-Block75-Fmr Ararat-CES-Adm	3,500	0	0	0	0	0

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2013-14	Proposed FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
P35560215-240 NE MLK Parking-CES-Adm	6,050	6,050	2,550	2,550	2,550	0
P35580015-Festival Parking Lot-CES	28,160	74,660	74,660	74,660	74,660	0
P35591015-Public Outreach-CES-Adm	2,000	2,000	2,000	2,000	2,000	0
P35592015-Real Estate Mgmt-CES-Adm	0	4,000	4,000	4,000	4,000	0
Commercial Real Estate						
Lending						
R01100355-CPRL-General-CES	975,000	600,000	600,000	600,000	600,000	200,000
Community Redevelopment						
Grants						
G02100355-DOS-General-CES	100,000	100,000	100,000	100,000	100,000	32,710
G03100355-SIP-General-CES	300,000	300,000	300,000	300,000	300,000	100,000
Property Redevelopment Total	1,745,502	6,097,541	3,083,210	1,083,210	1,083,210	332,710
Total Program Expenditures	1,976,934	7,318,331	5,579,194	2,572,018	1,198,222	375,823
Personnel Services	383,755	237,788	263,605	154,894	111,283	51,506
Transfers - Indirect	655,048	953,052	774,039	444,672	311,130	141,748
Total Fund Expenditures	3,015,737	8,509,171	6,616,838	3,171,584	1,620,635	569,077
Contingency	7,570,898	4,095,975	629,892	601,331	628,044	590,719
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	10,586,635	12,605,146	7,246,730	3,772,915	2,248,679	1,159,796