



DATE: September 10, 2014
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 14-38

Authorizing a Purchase and Sale Agreement to Convey 0.67 Acres of Real Property in the Downtown Waterfront Urban Renewal Area to Gerding Edlen Development for \$2,600,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7073

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 Gerding Edlen Development (Developer) for the conveyance of Block 8L (Property), a 29,100 square foot (SF) PDC-owned parcel, for the consideration of \$2,600,000, less the necessary costs of environmental remediation and archaeological investigation and data recovery, currently estimated at approximately \$965,000. The Property is located in the Downtown Waterfront Urban Renewal Area (DTWFURA) and is bounded by NW Naito Parkway, NW Davis Street, NW 1st Avenue, and NW Couch Street (see project summary in Attachment A) in downtown Portland's Old Town/Chinatown neighborhood.

The Developer plans to construct a six-story, \$37 million mixed-used building that will include approximately 80,000 SF of office space, 5,000 SF of retail space, and 60 residential units (Project).

If approved, this action will be consistent with two PDC interests: (1) to convey the Property to Developer at market rate to be developed without any PDC financial assistance; and (2) to implement the Old Town/Chinatown Five-Year Action Plan.

BACKGROUND AND CONTEXT

Acquisition. The Property is located in downtown Portland's Old Town/Chinatown neighborhood and the Skidmore/Old Town National Historic Landmarks district. PDC acquired the Property in January 2005 for the Portland Bureau of Fire & Rescue (City) to relocate Fire Station #1. PDC transferred ownership to the City in February 2005. The City subsequently decided to not relocate Fire Station #1 due to cost increases. PDC re-acquired the Property from the City in April 2007.

The Property is underutilized. A 75-space surface parking lot is located on the northern half block of the Property. PDC has a contract with City Center Parking to manage the surface parking lot. Over the past two years, the parking lot has generated approximately \$225,000 in annual net operating income. The southeast quarter block of the Property is undeveloped. The Oregon Mountain Community (OMC)

Building, formerly located on this portion of the Property, was empty upon PDC's acquisition of the Property and demolished in 2010.

Old Town/Chinatown Five-Year Action Plan. In 2013 PDC initiated work on the Old Town/Chinatown Five-Year Action Plan (Action Plan) in recognition that economic momentum and revitalization have not been sustained in Old Town/Chinatown. The Action Plan, which was accepted by the Portland City Council on August 6, 2014, is a comprehensive community development initiative to create a safe, vibrant, economically healthy neighborhood. Early in the planning process community stakeholders identified the following top priorities: addressing public safety and livability; balancing residential incomes through the introduction of new middle-income units and preservation of existing affordable housing units; investing in rehabilitation of historic buildings; embracing and enhancing the area's unique culture, history and identity; and promoting economic vitality.

The Action Plan includes thirteen key actions identified to achieve the following three strategic objectives:

1. Attract new neighborhood investment to activate key properties and improve district connectivity;
2. Promote business vitality by increasing employment and retail activity; and
3. Align resources and build local capacity for improving district livability.

Redeveloping Block 8L will be a significant step in implementing the Action Plan by converting a vacant and underused PDC-owned property into a mixed-use development, generating private investment and attracting employees and residents to the neighborhood.

Disposition. PDC issued a Request for Interest (RFI) on August 16, 2013 to solicit statements of interest from qualified developers to acquire the Property at market rate and complete its development without PDC investment or financial assistance in accordance with the DTWFURA Plan and zoning regulations. PDC received two statements of interest which were reviewed according to the Evaluation Criteria listed in the RFI, and the PDC Executive Director ultimately selected the Developer as the preferred developer. Key factors in the selection process was Developer's stated intent to develop the entire property in a single phase, a development program that includes both residential and commercial uses that will activate the site 24/7, the intent to acquire the Property at fair market value, and the strength of the Developer's experience. PDC and Developer signed a Memorandum of Understanding (MOU) on April 14, 2014 which set forth the due diligence tasks and intentions to negotiate the terms of a binding PSA.

Environmental Conditions. PDC has conducted numerous environmental investigations on the Property since 2003 and entered the Property into the Oregon Department of Environmental Quality's (DEQ) Independent Cleanup Program. The environmental concerns associated with the Property consist of contaminated groundwater in the northeast corner due to a subsurface release of petroleum hydrocarbons on the north-adjacent property and soil contaminated with arsenic, lead, and polycyclic aromatic hydrocarbons.

A Revised Remedial Action Plan (RAP) outlining the current remedy for the Property has been approved by the DEQ. The selected remedy will be implemented during construction by the Developer and includes: (1) installation of a vapor barrier and venting system below any structure constructed on the northeast portion of the Property; (2) capping soil contamination in place to prohibit exposure; (3) off-site disposal of impacted soil generated during construction; and (4) institutional controls to ensure the long-term integrity of the remedy and worker protection.

The estimated incremental increased costs of construction required to comply with the RAP will be held-back in escrow to reimburse Developer for such increased costs. PDC estimates the incremental environmental costs associated with this work to be approximately \$615,000.

Archaeological Conditions. In 2011 an inadvertent discovery of archaeological artifacts occurred below the basement of the adjacent Oregon College of Oriental Medicine (OCOM) (the former Globe Hotel) during renovation of that building. The artifacts were associated with the early settlement of Chinatown and Japantown in the mid- to late 1800s and early 1900s. Subsequent analysis and testing of the archaeological site resulted in a determination in 2013 of the site's eligibility for the National Register of Historic Places. Although the archaeological site is not known to be located on the Property, consultation with the State Historic Preservation Office (SHPO) indicates there is a high probability for archaeological artifacts to be present on the Property.

To address archaeological conditions consistent with Oregon Revised Statutes 358.905-961 and minimize the potential costs and delays during construction, Developer will conduct a Phase I and, as needed, Phase II archaeological survey and a Phase III data recovery on the Property during the due diligence period. Developer will coordinate the findings and recommendations of this work with the SHPO. During construction, Developer will be required to conduct excavation and construction activities consistent with the recommendations generated by the Phase I and Phase II work and consultation with the SHPO. The cost for this work is estimated to not exceed \$350,000. This is a low-confidence cost estimate as actual costs will be highly dependent upon the amount, type, and significance of archaeological artifacts found on the Property both during the due diligence and construction periods. PDC will reimburse Developer for any archaeological costs incurred through establishment of a \$350,000 escrow holdback account. As with the environmental escrow holdback, PDC staff will provide oversight to ensure the work conducted is necessary and according to best practices to minimize expenses and will review and approve reimbursement of invoices submitted by Developer.

Project Description. Developer anticipates construction of a six-story, \$37 million mixed-use building with approximately 129,000 gross SF including about 80,000 SF of office space, 5,000 SF of retail space, and 60 residential units. Building amenities will include a fitness room and roof deck available to all building tenants and residents, a common room available to building residents, and an improved accessway between the Project and OCOM that will include seating, landscaping, lighting, and other improvements to make the space inviting and safe. Developer does not anticipate constructing any vehicular parking as part of the Project. Developer plans to work with the City of Portland Bureau of Transportation to secure access to parking spaces in the 410-space Smart Park garage located across Davis Street. Developer has secured Letters of Intent (LOI) from Ankrom Moisan, a Portland-based architectural firm, to occupy at least 40,000 SF of the office space on the third and fourth floors, and the University of Oregon (UO) to occupy approximately 10,000 SF of the ground floor space. The UO plans to locate its Executive Masters of Business Administration program and Masters of Sports Product Management program in the building, which will activate the space six days a week. Ankrom Moisan is a member of the Portland clean tech cluster, while the UO Sports Product Management program is supportive of Portland's athletic and outdoor cluster.

The residential units will be located on the fifth and sixth floors. The units will be a mix of studios, one-bedroom, and two-bedroom apartments. The Developer plans for some of these units to be eligible for the Multiple-Unit Limited Tax Exemption program administered by the Portland Bureau of Housing.

Purchase and Sale Agreement. The key terms of the PSA, which are attached as an exhibit to the resolution, include:

- Purchase price of \$2,600,000 for the Property, which represents a fair market valuation according to a June 2014 appraisal, less certain environmental/archaeological costs described below;
- PDC to provide no investment or financial assistance for development of the Property;
- Developer to have a 60-day due diligence period;
- Developer to provide PDC an earnest money payment of ten percent (\$260,000) within ten days of execution of the PSA, which will generally not be refundable after the expiration of the due diligence period;
- Developer may elect not to proceed with the transaction if the title or other conditions of the Property are determined to be unacceptable to Developer during the due diligence period;
- Closing to occur within 60 days of the end of the due diligence period;
- Developer accepts responsibility for environmental condition of the Property and for compliance with all environmental laws. An escrow holdback of \$615,000 will be held to reimburse Developer for incremental environmental costs associated with implementing the RAP during construction;
- Developer to conduct a Phase I and, as needed, Phase II and Phase III archaeological surveys, evaluation, and data collection and coordinate findings and recommendations with the SHPO during the due diligence period. Developer to conduct excavation and construction activities in accordance with SHPO recommendations developed during the Phase I and II work. An escrow holdback of \$350,000 will be held to reimburse Developer for incremental archaeological costs associated with conducting the archaeological survey, analysis, and data collection consistent with SHPO recommendations;
- Developer will assign parking rights for the Project to PDC for potential development of public parking to serve the neighborhood at other nearby locations;
- Developer must commence construction on the Property consistent with zoning regulations and DTWFURA Plan, currently anticipated to be a six-story, 129,000 gross square foot mixed-use building, within 36 months of the execution of the PSA;
- PDC has a right to repurchase the Property for the original purchase price if Developer does not commence construction within 36 months of execution of the PSA; and
- Developer will comply with and implement PDC's Equity Policy and Green Building Policy.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing the PSA include:

- The disposition will generate approximately \$1.6 million in land sale proceeds;
- The Property will be redeveloped without direct financial assistance from PDC;
- The Project will redevelop a vacant property with a mixed-use building which will result in approximately \$37 million of private investment, attract employees and residents to the area;
- In its first full year of operations the Project is estimated to generate approximately \$400,000 to 487,000 per year in property tax revenues. The range is due to Developer having applied for a tax abatement for a portion of the housing; and
- The Developer will comply with and implement PDC's Equity Policy and Green Building Policy.

PUBLIC PARTICIPATION AND FEEDBACK

PDC has conducted outreach for the Action Plan where disposition of this Property and other PDC-owned properties has been discussed at multiple meetings. Community members Doreen Binder and

Daniel Deutsch participated in the Evaluation Committee which recommended selection of the Developer. PDC staff and the Developer have provided periodic updates on the Project status to the Old Town/Chinatown Community Association Land Use Committee. The Developer has actively engaged adjacent property owner OCOM, the Portland Business Alliance, and the City of Portland Office of Neighborhood Involvement crime prevention staff in the design of the accessway located between the Property and OCOM. Stakeholders generally support the Developer's redevelopment plans and have consistently supported increases in the level of activity and diversity of uses in the neighborhood. Some community members have expressed concern with a shortage of parking in the neighborhood. The community will have opportunity to comment on the Project's design as the Property is located in a Design Review overlay district and will be subject to Historic Landmarks Commission design review approval.

BUDGET AND FINANCIAL INFORMATION

The fiscal year (FY) 2014-15 Downtown Waterfront Proposed Budget and Five Year Forecast currently include funds for ongoing ownership and maintenance of the Property (see Attachment B). The PSA terms anticipate that PDC will convey the Property to the Developer no later than January 2015. Revisions to the budget will be made to reflect both the income from the sale of the Property and the discontinuation of ongoing revenues and costs as a result of the PSA.

RISK ASSESSMENT

Entering into this PSA creates minimal risks, as PDC is selling the Property at 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 60-day due diligence period. This is a standard business practice and a common risk in most commercial real property sales, provided that the term of the due diligence period is reasonable, which it is here.

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 \$260,000 in earnest money payments that will generally be non-refundable at the end of the due diligence period as well as by closing to occur within 4 months of the effective date.

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 which PDC will retain if the transaction does not close. 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. DTWFURA Financial Summary

PROJECT SUMMARY

- Project Name:** Block 8L Purchase and Sale Agreement
- Description:** 0.67-acre vacant parcel with northern half-block containing a 75-space surface parking lot
- Location:** Bounded by NW Naito Parkway, NW Davis Street, NW 1st Avenue, and NW Couch Street
- URA:** Downtown Waterfront
- Current Phase:** Disposition
- Next Milestone:** Closing/Conveyance
- Completion Target:** January 2016
- Outcome:** Conveyance of Block 8L to Gerding Edlen Development for development according to DTWFURA Plan and zoning, currently anticipated to be a six-story, 129,000 gross SF mixed-use building.



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
<u>Downtown Waterfront URA</u>						
Resources						
Beginning Fund Balance	13,926,476	10,998,336	2,075,764	52,603	667,691	2,603,048
Fees and Charges	4,267	2,295	915	10,591	16,088	1,115
Interest on Investments	63,000	60,000	30,000	10,000	10,000	0
Loan Collections	495,480	408,905	163,010	1,886,929	2,862,605	198,664
Property Income	328,200	1,760,669	20,560	20,560	20,560	20,560
Reimbursements	15,200	15,200	15,200	15,200	15,200	15,200
Total Resources	14,832,623	13,245,405	2,305,449	1,995,883	3,592,124	2,839,487
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101320 Debt Management-DTW	8,000	8,000	8,000	8,000	8,000	8,000
Total Administration	8,000	8,000	8,000	8,000	8,000	8,000
Business Development						
Business Lending						
L00210320 BL -General-DTW	0	425,000	135,000	715,000	425,000	425,000
L02100320 BIF-General-DTW	100,000	0	0	0	0	0
L02110320 BIF-Cluster Group-Budget-DTW	50,000	0	0	0	0	0
Small Business & Community Dev						
B55005320 OT/CT Action Plan-DTW	0	65,000	65,000	65,000	0	0
Total Business Development	150,000	490,000	200,000	780,000	425,000	425,000
Housing						
PHB Housing						
H15430320 Affordable Rental Hsg-DTW	0	1,717,345	0	0	0	0
H15900320 PHB Staff & Admin-DTW	0	0	254,565	0	0	0
Total Housing	0	1,717,345	254,565	0	0	0
Property Redevelopment						
Commercial Property Redevelopm						
P32053635 Old Town Lofts-Prkng-DTW-Adm	8,521	29,948	10,045	10,045	10,045	10,045
P32050115 Dtn Retail Strat -DTW-Adm	30,000	0	0	0	0	0
P32052115 Block 8 Redev-DTW-Adm	10,000	0	0	0	0	0
P32080515 One Waterfront South-DTW-Adm	3,600	4,600	0	0	0	0
P32052215 CC 2035-DTW-Adm	51,301	0	0	0	0	0
P32080615 SW 3rd & Oak-DTW-Adm	70,396	73,432	0	0	0	0
P32053625 Old Town Lofts-Retail	31,800	334,600	31,800	31,800	31,800	31,800
P32080415 SW 3rd & Taylor Lot-DTW-Adm	10,500	9,132	0	0	0	0
P32080115 Block 8 - L-DTW-Adm	21,824	49,111	0	0	0	0
P32056615 RiverPlace Marina-DTW-Adm	15,000	15,200	15,200	15,200	15,200	15,200
P32054415 One Waterfront Pl-DTW-Adm	2,700	0	0	0	0	0
P32054115 3rd & Oak Parking Obl-DTW-Adm	0	1,400,000	1,447,000	0	0	0
Commercial Real Estate Lending						
R01100320 CPRL-General-DTW	2,350,000	6,000,000	0	0	0	0
Community Redevelopment Grants						
G01100320 CLG-General -DTW	0	100,000	0	0	0	0
G02100320 DOS-General-DTW	50,000	50,000	50,000	24,000	24,000	12,000
G03100320 SIP-General-DTW	200,000	200,000	200,000	200,000	200,000	200,000
Total Property Redevelopment	2,855,642	8,266,023	1,754,045	281,045	281,045	269,045

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
Total Program Expenditures	3,013,642	10,481,368	2,216,610	1,069,045	714,045	702,045
Personal Services	187,199	119,226	9,300	67,598	71,745	101,867
Transfers - Indirect	633,446	569,047	26,936	191,549	202,386	282,864
Total Fund Expenditures	3,834,287	11,169,641	2,252,846	1,328,192	988,176	1,086,776
Contingency	10,998,336	2,075,764	52,803	667,691	2,603,948	1,752,711
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	14,832,623	13,245,405	2,305,449	1,995,883	3,592,124	2,839,487