

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: February 27, 2008
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 08-31
Burnside Bridgehead – Completion of Key Action Items

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

None – information only.

SUMMARY

The purpose of this report is to provide the Portland Development Commission (PDC) Board of Commissioners (Board) with a briefing on the completion of key actions items intended to advance the Burnside Bridgehead Project (Project) into the next phase of redevelopment. At the October 10, 2007, PDC Board meeting, the Board requested that PDC staff and Opus Northwest (Opus), the selected Project developer, report back to the Board near the expiration of Memorandum of Understanding (MOU) Amendment Five and discuss the progress made with regard to the key action items (as outlined to the Board at that time).

At the October 10, 2007, PDC Board meeting, the Board approved (Resolution No. 6515) a list of key action items to redirect the Project given changes in the real estate market and site conditions. This Resolution also authorized the Executive Director to extend the MOU for up to twelve additional months if PDC staff and Opus successfully complete the key action items. The MOU Amendment Five expired on December 31, 2007. The MOU Amendment Six was executed on December 28, 2007 to extend the agreement with Opus until February 28, 2008. The purpose of this Amendment is to provide additional time for PDC staff to receive feedback from the Board prior to executing an Amendment for an additional twelve months.

Based on the analysis completed to date, PDC staff recommends: 1) Proceeding with pre-development activities to get the property “shovel-ready” (e.g. demolition of existing buildings); 2) Implementing the Eastside Burnside-Couch Couplet and Portland Streetcar projects; and, 3) Continuing marketing the property to prospective tenants seeking an office or retail anchor (including a corporate headquarter user) as market conditions evolve over the next twelve months.

BACKGROUND

Following the October 10, 2007, PDC Board meeting, PDC staff and Opus began implementation of seven key action items intended to move the Project into the next phase of redevelopment. Based on the analysis completed for the Project since October 10, 2007, PDC staff recommends a modification of the Project approach in accordance with the Market

Assessment and current real estate market conditions, without compromising the Project vision. It is now apparent that the Project must be led with an office or retail anchor tenant (including a corporate headquarter user) instead of residential condominiums as earlier proposed (February 2005). Despite this change in Project approach, PDC staff will strive to implement the mixed use vision for the site with office, retail, flex space and residential uses while acknowledging that a major site user may require some future modifications to the development program. During this time, PDC staff will continue to work diligently to develop a project in close coordination with the community and commit to patiently waiting for the right project for the community to evolve given real estate market conditions.

The following are key next steps for the Project: pursuing tenants including an office or retail anchor tenant; proceeding with pre-development activities (e.g. demolition of existing buildings) to make the site as shovel-ready for redevelopment as possible; focusing efforts to implement the Eastside Burnside-Couch Couplet and the Portland Streetcar; and, developing a branding strategy for the project that helps to differentiate the site creating a buzz that highlights this unique redevelopment opportunity.

Outlined below is a status update on the seven key action items completed by PDC staff and Opus by December 31, 2007 which have directed the change in approach for the Project.

Action Item #1: Development Specialists Roundtable Event

Description: During the MOU period, Opus and PDC will sponsor a roundtable discussion with development specialists to re-examine the market viability of the proposed development program and develop strategies for securing a project tenant(s). Invitees will include technical experts in the field of real estate development, with special knowledge in Portland's Central City and/or with large scale, mixed use projects.

Status: **Completed.** A total of ten real estate development professionals from throughout the Pacific Northwest attended an all-morning work session on December 5, 2007, along with seven additional professionals that attended to observe and/or provide particular expertise to help guide the discussion (including three PDC Commissioners); five PDC and Opus Northwest Project team members also attended. For a summary of the proceedings refer to Attachment D, Development Specialists Roundtable Summary.

The group's preferred Project approach:

- Proceed with pre-development activities (such as demolition of existing improvements in 2008) to make the site as shovel-ready for redevelopment as possible;
- Focus efforts to implement the Eastside Burnside-Couch Couplet and the Portland Streetcar; and,
- Continue to market the property to prospective tenants seeking a retail anchor or corporate headquarter user, but be prepared to be patient as real estate market conditions evolve.

PDC staff and Opus have used this feedback to reformulate the development program and the pursuit of tenants for the Project.

Action Item #2: Re-examine Affordable Housing Type and Mix

Description: During the MOU period, PDC will re-examine the type and mix of affordable housing (affordable rental vs. affordable ownership) based on findings from the roundtable discussion (described in #1 above) and the market analysis (described in #3 below).

Status: Completed. PDC Housing staff prepared a memorandum based on their analysis of the appropriate type and mix of affordable housing for the Project site. Refer to Attachment E, Housing Analysis – Type and Mix Memorandum. The Project's success depends on a dense development with new supportive amenities. Since high density condominium towers are not feasible in the foreseeable future given the significant downturn in the market, leading the project only with lower density (wood frame) affordable housing will not provide the necessary densities to support new area amenities that will help create a vibrant, urban environment. The funding gap at the Bridgehead would be significantly higher given the necessity for increased density requiring steel and concrete construction with underground parking. In summary, it was recommended that unless a significant market rate residential component is developed on the site that Urban Renewal Area (URA) housing resources be refocused on rehabilitation of existing low-income rental units and/or lower density affordable homeownership in other areas of the URA.

Action Item #3: Hire a Broker

Description: As soon as possible, Opus will hire a broker that specializes in commercial and mixed-use projects. Other development expertise may be added to the project team if determined to be necessary by PDC and Opus. Refer to Attachment F for a letter from Opus describing the status of tenant pursuits for the Project (as of December 31, 2007) dated December 20, 2007.

Status: Completed. Opus has hired CB Richard Ellis (CBRE) to provide retail and office brokerage services for the Project. Broker Trevor Kafoury will take the lead on pursuing office tenants and Mark Strabic at CBRE will lead the pursuit for retail tenants. The CBRE team attended the Development Specialists Roundtable event held on December 5, 2007. For more information about CBRE please visit: <http://www.mba-pdx.com/mba/members/CBEllis.html>.

Action item #4: Obtain Independent Market Assessment

Description: During the MOU period, PDC will commission an independent market analysis for the Bridgehead property to assess the viability of specific land uses at the site. Opus will use this information to re-visit the overall master plan for the property and come up with a revised site plan.

Status: Completed. Johnson Gardner was hired by PDC in October 2007 to develop an independent market analysis. Their final report was issued in December 2007. Refer to Attachment G, Market Assessment Executive Summary.

Provided below is a summary of key conclusions.

- The site is challenging due to the slope, current lack of site access, physical and psychological barriers on all sides that contribute to an "island" effect.
- The office market is strengthening, but a lot of square footage will become available over the next two years. High density, Class A office space is envisioned at the site, but the Central Eastside is an untested market. The site works well for a corporate campus due to high visibility, airport access and access to a young, creative workforce.
- Residential condominiums are not currently feasible given the downturn in the market. The residential rental market is fairly strong but a lot of units will be available over the next two years; this area would command lower rents than the Pearl, Downtown, or South Waterfront despite similarities in construction costs.
- Large format retailers are critical to retail development at this location to draw visitors that will utilize smaller retailers at the site.

- Since the site is isolated, the development will need to have a mix of development uses.
- Parking management between the uses will be necessary for the success of the project.
- Maintaining adequate access to the site and the availability of parking is critical for the retail component.

Action Item #5: Continue Public Outreach

Description: During the MOU period, Opus and PDC together will work in close coordination with Central Eastside stakeholders to gauge the desires of the community. Stakeholders include the Burnside Bridgehead Citizens Advisory Committee members (Bridgehead CAC), the Central Eastside Urban Renewal Advisory Committee (CES URAC), the Central Eastside Industrial Council (CEIC), the Hosford Abernathy Neighborhood Association (HAND), the Buckman Community Association (Buckman), and Kerns Neighborhood Association (Kerns).

Status: **Completed and ongoing.** PDC convened the Bridgehead CAC on December 11, 2007, and January 15, 2008, to discuss implementation of the action items and project status, and receive feedback. Over the past several months, Opus Northwest also briefed Buckman and HAND on the Project.

Action Item #6: Develop and Implement a Marketing and Media Strategy

Description: During the MOU period, PDC and Opus will jointly develop and implement a marketing and media strategy aimed at:

- Getting the word out that the project is ready to proceed through such venues as press releases, a Burnside Bridgehead project website, and other marketing strategies that are determined to be appropriate.
- Seeking interested parties to come forward with ideas or proposals.
- Clarifying PDC's role and the availability of financial and other incentives.
- Identifying potential means of branding the development.

Status: **Completed and ongoing.** Please refer to Attachment H, Marketing and Media Strategy Overview.

Action Item #7: Vacate Building Tenants and Prepare Plans for Site Clearance

Description: During the MOU period, PDC will complete the process of vacating the Convention Plaza building, and will prepare plans for site clearance, environmental remediation and demolition of all buildings on the site for as soon as reasonably possible in 2008.

Status: **Completed.** All of the Convention Plaza building tenants have been successfully relocated except for eight tenants; all tenants will have vacated the building by the end of April 2008. On December 12, 2007, the PDC Board approved a Resolution settling the only condemnation action against the Convention Plaza tenants, with Verizon Wireless, and authorized a lease allowing them to relocate on Block 69 of the Bridgehead site. Verizon is currently in the process of constructing replacement facilities on an adjacent parking lot at the Project site.

The demolition of existing improvements on the site is expected to begin in spring 2008 with removal of the building along NE Martin Luther King Jr. Boulevard which was occupied by the Ararat Bakery. With Board support for this Report and recommendation, demolition of the Convention Plaza building will be scheduled for summer 2008. Environmental remediation will occur in conjunction with demolition activities.

ATTACHMENTS:

- A. Site Map
- B. CES URA Financial Analysis
- C. Burnside Bridgehead Project Background
- D. Development Specialists Roundtable Summary
- E. Housing Analysis – Type and Mix Memorandum
- F. Letter from Opus re: status of tenant pursuits (December 20, 2007)
- G. Market Assessment Executive Summary
- H. Marketing and Media Strategy Overview

- CC:** C. Twete, Development Department Director
K. Selley, Development Manager
M. Baines, General Counsel
J. Jackley, Executive Operations Manager

Site Map



URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>FY 2006-07 Revised Budget</i>	<i>FY 2007-08 Adopted Budget</i>	<i>FY 2008-09 Forecast</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>
Central Eastside URA						
Resources						
Beginning Fund Balance	1,451,708	975,731	730,775	1,824,494	420,000	420,000
Interest - City Invest Pool	25,000	25,000	25,000	25,000	25,000	25,000
Loans - Principal Collection	17,064	53,206	53,206	53,206	46,230	32,686
Real Property Sales	0	0	9,000,000	0	0	0
Rent and Property Income	279,000	0	0	0	0	0
Tax Increment - L-T Debt	3,606,985	6,845,000	4,560,000	6,234,386	5,038,474	5,285,628
Tax Increment - S-T Debt	2,685,000	3,119,817	3,169,485	3,150,698	5,094,484	3,278,583
Total Fund Resources	8,064,757	11,018,754	17,538,466	11,287,784	10,624,188	9,041,897
Requirements						
Project Expenditures (does not include Personal Services or Indirect Cost)						
Development						
10039 - CES-Redevelopment	307,000	0	0	0	0	0
10041 - CES Streetcar Construction	0	0	0	0	2,000,000	2,000,000
10044 - CES Burns/Couch Couplet	280,000	100,000	4,000,000	6,020,000	0	0
10048 - Eastbank Park/Holman Bldg	643,000	15,000	0	0	0	0
10051 - Washington Monroe Demo	300,000	0	0	0	0	0
10052 - Washington Monroe	0	3,815,000	0	0	0	0
10060 - Redevelpmt Loan Fund (Seismic)	0	300,000	300,000	300,000	300,000	300,000
10070 - Sidewlk/Rtes to River Plan/Des	75,000	250,000	250,000	0	250,000	250,000
10071 - Burnside Bridgehead - Reloc	0	1,325,000	0	0	0	0
10072 - Burnside Bridgehead: Developme	0	210,000	6,400,000	0	0	0
Development Total	1,605,000	6,015,000	10,950,000	6,320,000	2,550,000	2,550,000
Economic Development						
10021 - CES Storefront Grants	98,068	50,000	50,000	50,000	50,000	50,000
10023 - Industrial Storefronts	0	50,000	50,000	50,000	50,000	50,000
70007 - CES Seismic Loans	2,377,000	0	0	0	0	0
70017 - CES Business Finance	1,565,783	2,000,000	2,000,000	1,000,000	1,000,000	1,000,000
70247 - CES Business Retention	0	50,000	50,000	50,000	50,000	50,000
Economic Development Total	4,040,851	2,150,000	2,150,000	1,150,000	1,150,000	1,150,000
Housing						
33423 - Affordable Homeownership	0	100,000	500,000	750,000	0	600,000
80021 - CES Workforce Rental Housing	0	0	0	500,000	1,250,000	0
80022 - Low Income Comm FacilitieS	0	0	0	0	500,000	1,500,000
80028 - Affordable Rental Housing	0	35,000	500,000	500,000	3,000,000	1,000,000
Housing Total	0	135,000	1,000,000	1,750,000	4,750,000	3,100,000
Central Services						
59167 - CES Debt Management	0	9,195	9,655	10,137	10,644	11,176
Central Services Total	0	9,195	9,655	10,137	10,644	11,176
Finance						
57153 - CES Debt Mgmt & Finance	18,757	0	0	0	0	0
Finance Total	18,757	0	0	0	0	0
Total Project Expenditures	5,664,608	8,309,195	14,109,655	9,230,137	8,460,644	6,811,176
Indirect Cost	1,434,418	1,978,784	1,581,445	1,660,519	1,743,544	1,830,721
Total Fund Expenditures	7,099,026	10,287,979	15,691,100	10,890,656	10,204,188	8,641,897
Contingency	965,731	730,775	420,000	420,000	420,000	400,000
Ending Fund Balance	0	0	1,427,366	-22,872	0	0
Total Requirements	8,064,757	11,018,754	17,538,466	11,287,784	10,624,188	9,041,897

Burnside Bridgehead Project Background

Importance of Project

The Burnside Bridgehead project is envisioned as a high density, mixed-use development on approximately four acres of land located at the northwest corner of Martin Luther King, Jr. Boulevard and East Burnside Street (refer to Attachment B). The project is expected to catalyze other redevelopment efforts in the Central Eastside and generate up to 20% of the future property tax revenue needed for urban renewal investments in the Central Eastside Urban Renewal Area. The project is highly complex because of its scale and the integration of multiple land uses, including market rate and affordable housing, office, retail, flexible work space and structured parking.

Selection of Developer

Opus submitted a proposal in February 2005 for the Burnside Bridgehead project. On April 27, 2005, the Board approved the selection of Opus as the developer for the Bridgehead site. Their decision was based, in part, on Opus' "deep pockets" and its demonstrated ability to obtain financing for a large scale, mixed-use project such as this one, but also because of the relatively small amount of subsidy requested (as compared to the other proposers). Outlined below is Opus' proposed development program at the time of Board approval.

527 Housing Units – including 135 affordable units @ 50% Median Family Income
120,000 SF Retail
100,000 SF Flexible Work Space - lease or ownership
24,000 SF Office

Recent Market Changes

Since the selection of Opus by the Board, the real estate market has changed dramatically. The absorption rate for residential condominiums has slowed significantly, in some cases, to a crawl (nationally and locally) despite continuing low interest rates. Even at the peak of the condominium market, there was greater risk in developing condominiums in the Central Eastside given that it is an untested market with a predominance of low and moderate-income housing stock and a focus as an employment center and not a neighborhood. For these reasons, and because the local office market has strengthened, Opus has discussed decreasing the amount of market rate condominium product and increasing the square footage of office uses to be developed at the Bridgehead. A formal change to the development program has not yet been enacted although community stakeholders have been apprised of the potential for program changes and have expressed their support.

Execution of Memorandum of Understanding

PDC and Opus executed a Memorandum of Understanding (MOU) in March 2006. Since that date, the Executive Director has amended the MOU four (4) times, in part, to allow more time for pre-development work to be completed to provide certainty that the development can proceed. Some of the key pre-development tasks include the Eastside Couplet funding strategy, Eastside Couplet design through the project, impacts

assessment of the proposed Combined Sewage Overflow easement, and the NE Third Avenue street vacation. The MOU has also been extended to provide Opus with more time to complete their project due diligence. Some of their key tasks include studying the viability of structured parking as it relates to potential increases in office square footage (to offset the potential reduction in condominium product) and the market demand for condominium product as well as for securing a tenant for the project (as described in more detail below). The MOU now expires on October 21, 2007.

Public Outreach

PDC continues to work with the Burnside Bridgehead Citizen Advisory Committee (CAC) to keep its members engaged in the project and provide opportunities for feedback. The CAC now meets on a quarterly basis and will continue to do so until the project is constructed. The CAC remains supportive of the Bridgehead project and understands that changes to the development program may be necessary given market forces.

The Central Eastside Urban Renewal Advisory Committee (CES URAC) remains supportive of the Bridgehead project. They are, however, also concerned about the timing of redevelopment because the Bridgehead project was intended to generate future tax revenues that are needed for other investments in the district.

Summary of Current Status of the Bridgehead Project

Over the past year, Opus' primary focus has been to secure a tenant or tenants that would commit to a significant amount of square footage, thereby providing the level of financial certainty that is a pre-requisite for the project to obtain private financing. Originally, Opus had planned for the project to be "anchored" by the residential condominiums since, at the time, those were relatively easy to finance and the market was strong. However, today that market has all but evaporated and Opus has been looking at other "anchor" options.

During this time, Opus has also completed their site due diligence, preliminary project design and cost estimating, has participated in extensive public outreach to community stakeholders, and has actively pursued a range of different tenants to anchor the project. Over the past nine months, Opus has focused most of their efforts on attracting Columbia Sportswear to the site because of the importance of landing a tenant of this caliber. However, with Columbia Sportswear's recent announcement that it is not relocating to Portland, Opus has now expanded its tenant search. During this time, Opus also negotiated a Letter of Intent (LOI) with Pacific Coast Fruit to provide Columbia Sportswear with the additional site area needed for future expansion. The LOI provides a no-cost 90-day option period on the property. The LOI has not yet been executed.

PDC staff and Opus have been working together for the past 18 months on a series of pre-development projects that are necessary to prepare the site for redevelopment. These projects, summarized below, have been challenging and time-consuming, and it has taken nearly 18 months to bring them to resolution.

Key pre-development projects include:

1. Eastside Burnside-Couch Couplet Engineering Design and Funding Strategy.
Developing a funding strategy was critical for providing certainty that the Couplet

- would be constructed since it will provide the Bridgehead project with the necessary transportation access and capacity. After extensive work with a number of public and private partners, a funding plan is now in place for the engineering and construction of the Couplet through the Bridgehead Project. This package includes an estimated \$5.6 million from the Portland Office of Transportation through their System Development Charge fund, \$250,000 from the Oregon Department of Transportation, \$4.8 million in Federal Appropriations, \$3 million from the Metropolitan Transportation Improvement Program and up to \$10.1 million in Tax Increment Revenue from the Central Eastside URA. Additionally, determining the final street alignment through the project was necessary for demonstrating the feasibility of the Bridgehead design. In August 2007, the final street alignment was engineered. Construction will begin in winter 2008-09 and is expected to be completed by summer 2010.
2. Zoning Map Amendment. The four-block Bridgehead redevelopment site has been successfully rezoned from General Industrial (IG1) to Central Employment (EX), making possible the high density, mixed use project that is envisioned on the property. However, one-block at the north end of the site will remain IG1, which has required Opus to move the proposed affordable housing to another location on the Bridgehead project site that is zoned EX. This change required the reduction of the proposed number of affordable units from 135 units to approximately 85 units.
 3. Negotiation and Removal of Easements. All easements hindering development have either been removed or are near resolution. Railroad easements have been removed from title and negotiations are being finalized for the removal of Oregon Department of Transportation (ODOT) easements, granting of a new ODOT easement for future I-84 ramp expansion and granting of a new easement for the Combined Sewage Overflow Project. PDC staff anticipate executing all necessary documents by spring 2008.
 4. Skateboard Park Land Subdivision and Dedication. To preserve the popular Burnside Skateboard Park located under the Burnside Bridge, PDC has subdivided a portion of the Bridgehead property and has dedicated the land to the City of Portland.
 5. Skateboard Park Good Neighbor Agreement. PDC has negotiated a Good Neighbor Agreement with Burnside Skateboard Park representatives to ensure a productive working relationship during all phases of project development as well as beyond project completion.
 6. Environmental Mitigation. PDC has begun the process to remove all identified Underground Storage Tanks and any associated contaminated soils in coordination with the Oregon Department of Environmental Quality by summer 2008.
 7. Street Vacation. Work is continuing with the Portland Office of Transportation on the proposed street vacation of portions of NE Third Avenue and E. Burnside Street. The vacation will facilitate the Eastside Couplet construction project as well as the Bridgehead redevelopment. PDC expects completion of the vacation

process by spring 2008. This task needs to be finalized for Opus to proceed with final design.

8. Convention Plaza. Renegotiation of all tenant leases has been completed, allowing demolition of the site to begin anytime after December 31, 2007. PDC has also exercised eminent domain to acquire the leasehold interest held by a Verizon cell tower and has subsequently negotiated a new lease on the north portion of the site between the freeway ramps.

Today, all of the pre-development approvals and entitlements are nearly in place. PDC and Opus are now prepared to proceed with planning for site clearance and demolition of the Convention Plaza building in the spring 2008.

Three options for moving forward the Bridgehead Project (refer to Attachment A for Site Map) were presented to the PDC Board at the October 11, 2007, PDC Board meeting, which are described below.

Option 1: Extend the MOU until December 31, 2007, to provide additional time for PDC staff and Opus to implement key action items intended to redirect the redevelopment effort given changed market and site conditions.

Option 2: Allow the MOU to expire and put the project on-hold until the Central Eastside real estate market strengthens.

Option 3: Allow the MOU to expire, update the market feasibility analysis, and begin a new process to solicit developer interest.

The PDC Board provided feedback supporting Option 1 as described above and voted in favor of a Resolution No. 6515 that approved a series of key action items intended to redirect the Project given changes in the real estate market and site conditions. Implementation of the seven key action items is described below.

Burnside Bridgehead Development Specialists Roundtable Summary

Held December 5, 2007

Sponsored by PDC and Opus Northwest

Background

The Burnside Bridgehead Redevelopment is envisioned as a high density, mixed use project. It is located at the gateway to the Central Eastside and Portland's downtown and will serve as a catalyst for other redevelopment in the area. The site includes approximately four acres of land in Portland's Central City, located at the northwest corner of Martin Luther King Jr. Boulevard and East Burnside Street.

The Burnside Bridgehead Redevelopment is critical to the future success of the Central Eastside Urban Renewal Area. The Redevelopment is expected to generate up to 20% of the future property tax revenues needed for future urban renewal investments.

Opus Northwest was selected as the Burnside Bridgehead developer by the Portland Development Commission (PDC) Board in April 2005. At that time, Opus' proposed development program assumed that market rate condominiums would lead the redevelopment and help finance the other project components such as office and retail. Since that time, the real estate market has changed considerably with the condominium market significantly declining and the office market strengthening. For this reason, it is necessary to consider changes to the development program and expand the range of strategies for seeking key project tenants.

The PDC and Opus Northwest Burnside Bridgehead Redevelopment team sponsored a Development Specialists Roundtable Event on December 5, 2007. The purpose was to brainstorm ideas for moving forward the Burnside Bridgehead redevelopment project. Observations provided by participating professionals were intended to be used to update the development program and secure key project tenant(s).

Participants

Development Specialists were selected based on the extent and breadth of their experience developing similar high density, urban projects. The participants represented commercial brokers active throughout the Pacific Northwest as well as developers actively engaged in projects in multiple West Coast markets, from Seattle to Los Angeles to Phoenix. All participants volunteered their time for the entire four-hour event, including Doug Oblatz (Shiels Oblatz Johnson) the event facilitator.

Provided below is a list of the Development Specialists that participated in this event.

Doug Oblatz, Shiels Oblatz Johnson
Steve Wells, Trammell Crow Company
Dike Dame, Williams & Dame Development
Robert Holmes, THG LLC
Mark Fitkin, CB Richard Ellis
Chris Kopka, Downtown Development Group
Tom Kemper, KemperCo LLC

In addition to the Development Specialists noted above, several other Roundtable participants were included to both observe and/or provide expertise to help guide the discussion. These participants included the following individuals.

Mark Rosenbaum, PDC Commission Chair *
Sal Kadri, PDC Commissioner
Bertha Ferran, PDC Commissioner *
Cheryl Twete, PDC Development Department Director
Tim Holmes, Central Eastside Industrial Council President, Citizen Advisory Committee Chair
Jerry Johnson, Johnson Gardner (author of market analysis)
Gary Larson, Mulvanny G2 (project architect)
Pam Neal, PDC Economic Development Department
Trevor Kafoury, CB Richard Ellis (project office broker)
David Demeers, CB Richard Ellis (project retail broker)
Marc Strabic, CB Richard Ellis (project retail broker)
* In attendance for only a short portion of the event.

The Opus and PDC Burnside Bridgehead Redevelopment team members also participated, which included the following individuals.

John Bartell, Opus Northwest
Brian Bennett, Opus Northwest (Project Manager)
Bruce Allen, PDC
Kia Selley, PDC (Project Manager)
Trang Lam, PDC

Key Conclusions

Opportunities

- Four-acres of vacant land within Portland's Central City
- Ability to develop buildings with larger floorplates than possible in downtown Portland
- Visibility for a corporate office user or retail anchor
- Views to downtown, the Convention Center towers and Mt. Hood
- Access to a young, educated, creative workforce
- Relatively easy access to the Portland Airport
- Plans for improved site access with the Burnside-Couch Couplet (spring 2010) bifurcating the site and the Portland Streetcar (early 2011) stopping at the site

Constraints

- The site is currently an "island" challenged by physical and psychological barriers at the north and west with the I-84 and I-5 ramps, at the east with Martin Luther King Jr. Boulevard and Grand Avenue, and at the south with the Burnside Bridge and Industrial Area.
- The site and immediate area currently lack the amenities that are required to support residential and commercial development. The lack of dense neighborhood retail limits the project's ability to attract small retailers that would be seen as amenities to residential and office users.
- Access to regional transportation (via most freeways and Light Rail Transit) is inconvenient.
- High density (vertical) development (consistent with the project vision) requires the majority of the parking to be developed in phase I as structured parking, which significantly increases the costs of the phase I and complicates the allocation of those costs across to development uses. Significant public subsidy may be required to develop all of the necessary parking early on.

Development Program

- The site will need to be developed with the right mix of uses to create the necessary amenities to sustain the development and make it a vibrant, urban environment.
- Unless the site is developed as a corporate office campus, a retail anchor is the only use that can lead the development. This will probably require a large format retailer to generate the trips needed to draw visitors and other smaller retailers due to the site constraints (noted above).
- The ban on large format retailers should be reconsidered (despite the Big Box Prohibition on the site) since there may be specific retailers that are complimentary to the neighborhood and generally accepted by the majority of the stakeholders in the area. The retailer could provide needed goods and services for area businesses and residents and would provide a destination draw to activate the smaller retailers. This anchor could jump-start redevelopment in the area.
- The site may work well for a corporate campus or major office user; however, while the office market in Portland is strengthening, there will soon be an excess supply since several large office projects are under development in downtown Portland and the Pearl District. Additionally, financing high density office space will require it to be class “A”, which is an untested market in the Central Eastside. Similarly, spec office space cannot be developed at this location because the area lacks amenities and is an untested market.
- The site is less attractive for residential development due to a lack of nearby amenities. The condominium market has significantly declined therefore making this type of development infeasible at this time. The residential rental market has strengthened, although there is an inventory of units in more attractive locations, such as South Waterfront, downtown and the Pearl District, that will command higher rents and create serious competition for rentals at the Bridgehead. Affordable housing, particularly if it is not vertical, high density, cannot lead the project.
- Site users could include institutional (such as Portland Community College), medical campus (clinic/office), hotel or a fitness facility, which will all require significant amounts of parking. Possible auxiliary uses that could be incorporated to increase the vibrancy and community significance of the development include a farmers market or a public market. These uses may help activate the development but cannot lead the development and may require public subsidy.
- Parking is critical for making the office and retail uses work. The high cost of parking, since it will need to be structured, will drive the project and largely dictate which uses that can locate at the site so as to maximize the parking. Developing the amount of structured parking that is currently needed for the high density mixed use vision will require additional public subsidy, beyond the \$6.4M currently budgeted. For example: a corporate office user will need a significant amount of parking during the day which could be used during the evening hours by an entertainment venue or hotel.

Timing

- Phasing of the development will be necessary. Some aspects of the development cannot be phased, such as the parking, but one or more blocks may need to be developed in the future to create a mix of uses that are feasible given the current real estate market. For example, Block 76 at the corner of Martin Luther King Jr. Boulevard and Burnside Street may need to be developed in the future.
- PDC could act as the master developer by retaining ownership of certain blocks until they are developed and carrying the costs of certain aspects of the project including subsidizing the public structured parking for development early on.
- If the City and community want this project to move forward in the near term to generate tax revenues for the urban renewal area, a large format retail anchor will need to be considered and the amount of public subsidy may need to increase.
- The City and community will need to recalibrate their expectations as to the timing of development if they are to achieve a development outcome that is more consistent with the original high density mixed use vision as well as be open to some modifications based on market realities.

Case Study Examples Noted

South Waterfront

Since South Waterfront was virtually a blank slate before redevelopment began, its success was only possible with the Tram, Portland Streetcar and major tenant, Oregon Health Sciences University, as anchors for the district.

Pearl District

The success of the Pearl District was based on the fact that the area has some “bones” or a framework upon which future development could build. The District already had a sense of place.

Cascade Station

The success of Airport Way was based on securing key retail anchor tenants that attracted visitors who would also patronize the smaller retail tenants in the development and support the office uses.

Next Steps

The PDC and community have three choices for approaching the redevelopment at the Bridgehead site with Opus. Option 3 was noted as the preferred approach.

1. Develop the site with a retail anchor (preferably large format) and increase public subsidy for construction of the necessary structured parking.
2. Decrease the envisioned density of the project and develop a smaller scale project that may be easier to lease with smaller tenants.
3. Proceed with pre-development activities (such as demolition in 2008) to make the site as “shovel-ready” for redevelopment as possible. Focus efforts to implement the Eastside Burnside-Couch Couplet and the Portland Streetcar. Continue to market the property seeking a possible retail anchor or corporate headquarter user, but be prepared to be patient as market conditions evolve.

*Investing in
Portland's Future*



**PORTLAND DEVELOPMENT COMMISSION
INTERNAL MEMORANDUM**

DATE: January 10, 2008

TO: Andy Wilch, Housing Director
Cheryl Twete, Development Director

COPY: Bruce Allen, Sr. Development Manager

FROM: Leah Greenwood, Housing Policy and Development Manager
Kia Selley, Central Eastside Development Manager

SUBJECT: Burnside Bridgehead Housing Analysis – Type & Mix

In October 2007, the Commission extended the Memorandum of Understanding with Opus to provide the time to implement key action items to determine how best to redirect the redevelopment effort given changed market and site conditions. One of the specific key actions was to re-examine the type and mix of affordable housing (affordable rental vs. affordable ownership).

The following assessment and recommendation is based on findings from an updated Market Analysis prepared by Johnson Gardner (December 2007) for PDC and a Development Specialists Roundtable Event held on December 5, 2007 sponsored by PDC and Opus Northwest.

As described in the Johnson Gardner Market Analysis, the Burnside Bridgehead property is somewhat isolated requiring the project as a whole to have a mix of uses that change the nature of the area. For any project to be successful, there will need to be a sufficient density of development to create that change therefore, a “one-off” approach to development will not be successful. This poses some challenges with residential development on the properties.

The initial development proposal (February 2005) for the Bridgehead site included 527 housing units, of which 135 were intended to be affordable. Later, the number of affordable units was reduced to 85 since PDC was not able to acquire as much land as earlier envisioned. The market rate condominium units were proposed in two high-rise towers and the 85 units of affordable rental housing in 5-over-1 wood frame construction. This proposal provided sufficient density to create a mixed-use residential neighborhood and development at levels high enough to take advantage of the views. Leading the project with residential development also provided the opportunity to create a critical mass of population that would draw retail and other commercial tenants to the site,

creating a vibrant urban environment with all of the necessary supportive amenities. With the significant decline in the condominium market, this development proposal and approach is no longer feasible, at least in the foreseeable future.

Some key points from the Developers Roundtable and Market Study included:

1. **Site Access:** The width and amount of traffic on Martin Luther King Jr. Boulevard and Grand Avenue are major physical and psychological barriers restricting access to the site. While the Streetcar will increase site access, a residential project would essentially be an island without new supportive amenities (whether market or affordable).
2. **Residential Density:** A substantial density of residential development is necessary to support neighborhood supporting retail that would be a draw to the project for other tenants and visitors. Leading with a lower density rental or homeownership project will not provide the critical densities to support area amenities that are needed to create a vibrant urban environment.
3. **Housing Market:** The condominium market has significantly declined making market rate development infeasible, at least in the foreseeable future. Given the current lack of nearby amenities, this is a challenging development site even in a strong residential real estate market. The views are great if you get up above six stories, but this does not support a more affordable wood/steel frame construction type to respond to the projected sales and rental rates achievable on the site. The Johnson Gardner Market Analysis deems condominiums infeasible and market rate rental housing feasible at up to \$1.55/sq.ft. This price point could not be achieved with new construction at this site due to the higher density development (that is envisioned and necessary for success), ground floor retail and structured parking needed at the site. Further, the Market Analysis notes that while costs for construction on the east and west sides of the river are the same, eastside projects cannot command the rents or purchase prices that are possible in South Waterfront, Downtown or the in the Pearl District.

In addition to the Roundtable and Market Study, staff looked at how affordable homeownership could be achieved at the site. For instance, could the Killingsworth Station project be replicated at the Burnside Bridgehead? Some key factors to consider: Killingsworth Station is a lower density project with 54 units in a 3-over-1 construction type. This project requires approximately \$3.8 million in construction financing from PDC with approximately \$2.2 million remaining as permanent gap financing. The development goals for the Burnside Bridgehead are much higher density both due to urban design and necessity for creating a critical mass of development to support a positive residential environment. In addition, Killingsworth Station has surface parking while any residential development at the Burnside Bridgehead would need structured parking.

These two issues combined dramatically increase the construction cost and therefore the subsidy required to create affordable homeownership on the Burnside Bridgehead site. Per the adopted Tax Increment Financing for Affordable Housing policy and the forecasted budget in the Central Eastside, less than \$3.0 million is projected for affordable homeownership.

Recommendations:

Burnside Bridgehead: This project is not an ideal location for housing and does not provide the greatest level of public benefit in terms of the cost per unit to develop affordable housing. We recommend the following:

- PDC eliminate a requirement for any residential component, and specifically affordable housing, in the project.
- If the project proceeds with a significant market rate residential component, then reassess requirements for affordable housing (rental or homeownership).

Housing Strategy: Multiple opportunities exist throughout the district to achieve affordable rental and ownership housing at locations that are more cost effective and in locations with better residential amenities. We recommend the following:

- Focus affordable rental housing resources on preservation/rehabilitation/upgrade of existing rental housing (i.e. Clifford Apartments); and,
- Focus lower density affordable homeownership in areas of the district such as along 12th Avenue, Belmont, Morrison or at Washington Monroe, or higher density affordable homeownership in areas along Grand and south of Stark.
- Increase staff involvement in the management of Washington Monroe predevelopment and analysis activities related to the development of new affordable homeownership with a goal of readying a feasible development for a construction start in fiscal year 2010/2011.



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December 20, 2007

Kia Selley
Portland Development Commission
222 NW 5th Avenue
Portland, OR 97209

RE: Bridgehead Prospects

Dear Kia:

Opus NW continues to actively market the Burnside Bridgehead project through our extensive relationship with the brokerage community. In addition to our direct efforts to identify and land an anchor tenant for our project, we have hired CB Richard Ellis to market our project to both office users and retail users. CBRE will be assembling marketing material in coordination with the branding effort PDC and Opus will be initiating. CBRE will ensure that the brokerage community and potential prospects are fully aware of the opportunities at the Bridgehead site.

Since our talks with Columbia Sportswear's Corporate Headquarters concluded, we have been in discussions with multiple tenants that have shown interest in locating to the Bridgehead Site. The specifics (name and size) of the various prospects have been previously disclosed with PDC staff throughout our discussions but are not listed below due to the confidential nature of these discussions. Should individual commissioners be interested in the specifics of the prospects, this information could be shared in a confidential manner.

Our current efforts have focused on large tenants that can anchor the project but we have also had discussions with smaller tenants that would add to the project's size and flavor. The prospect list is as follows:

- A major corporate headquarters is currently examining the possibility of relocating to the site. They are an office user currently located in the greater Portland metropolitan market. This user would likely take a very large portion of the site. We have provided conceptual designs for this tenant and are in what we would consider the early stages of our discussion. PDC staff was present at presentations and has been fully briefed on the current status of our discussions. The tenant is still considering its options including locating in the suburbs as a less expensive alternative.
- A major retailer has shown significant interest in the site. Conceptual designs have been created by the tenant. This tenant is large enough to anchor the project and has provided an urban store design consistent with our desire to leave all ground floor retail space available for smaller shop space that ultimately creates the overall look and feel of the project. This destination retailer as an anchor would attract significant interest from smaller users that would locate on the plaza level. The user does not preclude future development of high-rise towers and additional parking. As is often the case with large users looking to locate in the area, the high cost of structured parking is a deterrent. While opponents of the “big box” development at the site previously indicated that this tenant would be acceptable in the district, it is apparent that a public discussion would be advisable to ensure stakeholder acceptance. Opus NW has no intention to pursue this tenant without PDC’s blessing.
- Opus NW will be touring with a smaller destination retailer within the next 30 days. The Tenant’s interest level is not yet known.
- A major tenant in excess of 100,000 square feet may consider the bridgehead location but discussions are premature.
- A major tenant of approximately 100,000 square feet was introduced to the project but determined a downtown location would not be desirable due to the high cost of parking their employees. They have since decided not to relocate at this time.
- A small local company has indicated an interest in relocating their corporate headquarters to the Burnside Bridgehead. This tenant did not wish to begin discussions until early 2008.
- A local brokerage house has introduced our site to a hotel group. The group has indicated an interest in touring the site.
- A cultural user was introduced to the site. Substantive discussions will likely not occur until an anchor tenant is identified.
- Two entertainment based retailers have shown interest in the site. Again, substantive discussions will likely not occur until an anchor tenant is identified.

As always, we will keep PDC's staff advised of our current and future discussions. We are bullish on our current prospects and will continue in our efforts to add to the list and land our anchor tenant.

Sincerely,

A handwritten signature in blue ink, consisting of two stylized 'B's followed by a horizontal line that ends in a small flourish.

Brian Bennett
Sr. Real Estate Manager

Market Assessment Executive Summary

I. KEY CONCLUSIONS

The Burnside Bridgehead project represents a highly complicated development on a key site for Portland's Close-In Eastside. The site is difficult physically, with significant grade differentials and transportation requirements. In addition, the final configuration of the Burnside/Couch couplet as well as construction timing will substantively impact the project. The site is located physically between much more established locations for residential and commercial development, and achievable pricing and market depth at the site are unusually uncertain as a result.

The local real estate market is in flux, with Portland's Central City dealing with a rapid softening of the condominium market. While the rental apartment market is strong with good prospects, rents on the eastside are currently below what is necessary to justify urban densities in most instances. The office market is also strong, but there is a significant amount of new supply in the pipeline in arguably better locations. The retail market has been solid in the area, and the site is well located to appeal to a large and affluent market in the Central City and Close-in Eastside. The following is a brief summary of current market conditions by prospective use types at the Burnside Bridgehead site.

Rental Apartments

The fundamentals of the rental apartment market are outstanding, with strong demand expected and current rent levels largely below replacement cost. We are expecting that achievable rents will be rising on the order of 20% overall within the Portland metropolitan area and in the Central City. The relationship between rent levels and ownership housing prices is at a historic low in the Portland metropolitan area, indicating a strong environment for rent growth.

The primary target market for quality, upscale rental product in a central location is young professional singles and couples with no children. This target market tends to be similar to the young professionals that are potential condominium buyers, except they tend to be either, younger and lower income, or are new to the area and looking for temporary housing as they begin searching for ownership properties. As income levels rise, the likelihood of a quick turnover also increases. Our recommendation with respect to unit mix would include a relatively high proportion of medium to larger one and two bedroom units, consistent with the anticipated young professional market.

We expect that current achievable pricing at the Bridgehead site would be in the range of \$1.50 to \$1.55 per square foot. If market introduction is assumed in 2009, achievable lease rates could be in the \$1.75 per square foot range. Establishing achievable lease rates on this site is problematic, as there are no direct comparables available. Despite solid fundamentals, a number of projects are either under construction or planned in the Close-In Eastside or Central City that will seriously test the depth of the market. Many of these projects are anticipated to command rents well in excess of \$2.20 per square foot, but any weakness in the market west of the Willamette could impact pricing on the eastside.

Office Space

The speculative office market in Portland metropolitan area is also enjoying strong fundamentals, with continuing employment growth fueling a corresponding demand for office space. The subject site is located between the Lloyd District and traditional CBD, in an area with only limited space and no Class A space to-date. The Lloyd District is probably the most relevant market for establishing achievable pricing at the subject site. As of November 2007, the district had an estimated 2.5 million square feet of Class A and Class B office space, with an estimated vacancy rate of only 4.9%. The average lease rate in the area was \$20.11 per square foot full service.

Based on the comparables surveyed, we would expect achievable lease rates to be in the range of \$25 to \$28 per square foot full service, with triple net rents in the \$20 to \$24 range. Depending upon the final development scheme, the site may offer outstanding visibility and exposure. A key for this project will be obtaining a significant pre-lease commitment, as it is not adjacent to an established office concentration and is unlikely to be seen as a strong site for speculative development.

Based on recent trends and employment forecasts, the office component of the development should face favorable market conditions upon entry. It should be noted that the local employment picture is less positive than it was last year, and any reduction in employment growth will be reflected in reduced office demand. There are four office developments committed in Portland's CBD, which will likely address pent up demand from the current expansion cycle. As a result, significant office space development will likely require attracting a major tenant.

While somewhat isolated, the site enjoys excellent visibility and scale for a downtown location. These attributes have the potential to appeal to a major campus type development for a firm looking for a substantial amount of space and high local visibility.

Retail Space

The retail component of this project is seen as requiring a regional or at least a community draw, necessitating a certain scale of development. We would expect the project to require at least one retail tenant with the ability to draw regionally. As the development will likely utilize structured parking, the ability to sustain a significant "dwell time", or length of stay, will be key. Structured parking is seen as having a greater cost in terms of time expenditure, and the associated activity needs to be adequate in draw and amenity to justify this increased cost. On-street parking will be required for some tenants requiring convenience trips.

Our analysis indicates that prospective tenant types would include general merchandise stores and building supplies/home improvement, health care products and electronic supplies. While the area has several areas of indicated retail opportunity, the site is challenged vis-à-vis alternative locations in the trade area. Lloyd Center represents the major regional retail concentration in the area. Access to the site is good for a broad trade area, but the site suffers somewhat with respect to regional access. The site is located at the western edge of a Close-in Eastside trade area, and the Willamette River serves as a major barrier to the attractive demographic west of the River.

The retail mix in the project can serve to bolster the viability of other land use types, particularly residential or office uses. Retail tenant types that provide an amenity for these other uses would be desirable, and probably necessary.

General

The success of this project will depend upon a complementary relationship between the range of uses on the site. As this area is somewhat isolated, the development as a whole will need to establish a marketable mix of uses that is perceived to change the nature of the area. The overall scale of the development will provide a substantial level of free marketing support. Parking management will be a key issue with respect to the success of the project. The residential components of the project will require secure parking with direct access. Maintaining adequate access to and availability of parking for the retail component of the project will be critical throughout the day and week. Peak demand will also be a challenge based on the limited access points to the parking, particularly at the end of the business day. Event parking can provide a significant revenue stream, but care must be taken to maintain adequate parking for all uses throughout the operational period.

**Burnside Bridgehead Redevelopment
Marketing & Media Strategy Overview
December 2007**

The Portland Development Commission (PDC) and Opus Northwest (Opus) are partners in the implementation of the Burnside Bridgehead Marketing and Media Strategy and will closely coordinate on all efforts; however, PDC or Opus may take the lead on tasks due to the skills required or financial investment necessary. Provided below is an overview of marketing and media outreach **actions** intended to move forward the Burnside Bridgehead Project into the next phase of redevelopment.

Action	Responsible Party	Status	Comments
Communications Strategy			
1. Prepare and release informational video on YouTube.	PDC	Completed	PDC continues to promote video.
2. Provide project updates to key media outlets (i.e. Oregonian, DJC, Business Journal, Hollywood Star, SE Examiner).	PDC	Ongoing	
3. Develop press releases based on key project milestones.	PDC	Ongoing	
4. Continue outreach efforts with Central Eastside community including Bridgehead Citizen Advisory Committee, Central Eastside Industrial Council, Central Eastside Urban Renewal Advisory Committee, and neighborhood organizations.	PDC-Opus	Ongoing	Opus to take lead on communications with neighborhood organizations.
Prospecting Strategy			
1. Hire broker specializing in office and retail tenants.	Opus	Completed	CB Richard Ellis hired. Trevor Kafoury leading office tenant search and Mark Strabic leading retail tenant search.
2. Determine retail and office target markets and industries	Opus	In-progress	Opus to work with PDC to ensure compatibility of target markets and industries with Central Eastside.
3. Determine ideal floor plate sizes	Opus	In-progress	
4. Distribute marketing materials to brokers and potential tenants of targeted markets and industries using CBRE National platform	Opus	Ongoing	CB Richard Ellis to take lead for team.
5. Make strategic calls to all major tenants in region over 20,000 SF.	Opus - PDC	Ongoing	CB Richard Ellis to take lead for team.

Action	Responsible Party	Status	Comments
Prospecting Strategy (continued)			
6. Advertise in industry periodicals and at industry events (i.e. Urban Land Institute).	Opus - PDC	In-progress	Ad being prepared; to be released following completion of branding.
7. Attend industry events (i.e. conferences, seminars) to market site.	Opus - PDC	Ongoing	Opus team members attended the International Council of Shopping Centers in October 2007.
8. Create project website based on branding for prospective tenants.	Opus	On-hold	Requires branding to be completed.
9. Update project renderings based on committed project tenants and/or branding.		On-hold	Requires tenant(s) to be secured and Conceptual Design and branding to be completed.
10. Develop sales office for presentations and pre-construction tours.	Opus	On-hold	To be completed at the beginning of project construction.
11. Work with PDC Economic Development staff on project leads and incentives packages.	PDC	Ongoing	
Branding Strategy			
1. Hire branding firm to develop brand for project.	Opus	In-progress	Completion 2-15-08.
2. Conduct project research to determine distinct characteristics of project by reviewing historical information and conducting interviews.	Opus	On-hold	Requires hiring of branding firm.
3. Create the “look and feel” with logo, color palette, new project name.		On-hold	Requires hiring of branding firm.
4. Roll-out new project brand.	Opus	On-hold	Requires hiring of branding firm.