

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: May 14, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-58
Second Amendment to the Memorandum of Understanding with RiverPlace Partners II, LLC for Development of RiverPlace Parcel 8.

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6579

ACTION SUMMARY

This action will authorize the Executive Director to execute the Second Amendment to the Memorandum of Understanding (MOU) to extend the termination date and to extend the deadline to submit a Disposition and Development Agreement (DDA) for Portland Development Commission (PDC) Board of Commissioners (Board) approval with RiverPlace Partners II, LLC (RPP II) by an additional twelve months for the purchase and redevelopment of certain PDC-owned property located at the northeast corner of SW River Parkway and SW River Drive in the North Macadam Urban Renewal Area known as RiverPlace Parcel 8.

The Memorandum of Understanding between PDC and RiverPlace Partners is currently in effect until May 19, 2008. With this extension, the MOU would be in effect until May 19, 2009. This extension will provide time to evaluate new programs and market conditions, explore and identify interested program parties, and negotiate the DDA. This Second Amendment will include milestones that identify actions to be completed to move the project forward.

These milestones, as included in the Second Amendment to the MOU (Attachment A), are as follows:

- Obtain Letters of Interest from an authorized representative of a hotel or other commercial development entity no later than September 1, 2008, which describes the nature, scope and time-frame for the development contemplated for the site.
- Enter into an agreement for a hotel or similar commercial development no later than December 1, 2008.
- Begin negotiation of DDA with PDC no later than February 19, 2009.
- Execute DDA no later than May 19, 2009.

In addition, recognizing the uniqueness of this project in that in addition to RiverPlace Parcel 8 it includes a First Right of Offer on RiverPlace Parcel 3, the Second Amendment to the MOU includes an Option Fee of \$47,000 (1% of the appraised value of the land (Integra,

November 2006)) paid to PDC no later than February 19, 2009. This Option Fee is non-refundable but will be credited towards the purchase price at closing.

PUBLIC BENEFIT

Public benefits of moving forward with negotiations to complete the DDA include:

- The disposition of RiverPlace Parcel 8 will generate \$4.7M in land sale proceeds.
- No direct financial assistance from PDC is included in the redevelopment of the project. As such, PDC programs are not applicable to the project. However, RPP II has agreed to participate in PDC's M/W/ESB Good Faith Effort Program, Workforce Training and Hiring Program, Construction Wage Policy, and Green Building Policy. RPP II has also agreed to become a signatory to the South Waterfront Project Apprenticeship Agreement and related Contractor Requirements related to workforce diversity strategies.
- Redevelopment completes the final phase of the brownfield redevelopment of RiverPlace Parcel 8. Environmental cleanup on RiverPlace Parcel 8 was completed in 2006, and was partially funded by an EPA clean-up grant.
- RiverPlace Parcel 8 is one of two remaining vacant parcels in RiverPlace. Its development enhances and protects PDC's investment in RiverPlace over the last 20 years.

This action will support the following PDC goals:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

A public meeting was held on November 28, 2007, with the RiverPlace Planned Community Association and the RiverPlace Condo Board. At this meeting, the development team presented the development concept for RiverPlace Parcel 8 and received comments from the community which included comments on the proposed design, questions regarding timeline, and encouragement to move forward. . The community was supportive of the development of one of the last undeveloped parcels in RiverPlace. Additional meetings will be held as the negotiations continue.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Disposition and redevelopment of RiverPlace Parcel 8 will implement goals of the North Macadam Urban Renewal Plan, the RiverPlace Development Strategy, the Development Department Strategic Plan, and the PDC Mission. In particular, the project will support the

primary goal of the North Macadam Urban Renewal Plan, to render the North Macadam Area as a viable employment and neighborhood center with necessary housing, infrastructure, transportation, and neighborhood-supportive businesses, amenities, and services. The project will also support specific goals of the North Macadam Urban Renewal Plan including revitalization of the riverfront and vacant and underutilized land, support of transit stations and existing adjacent neighborhoods, as well as the redevelopment of brownfields.

In addition, disposition and redevelopment of RiverPlace Parcel 8 will support Development Department Goal #10 and PDC Organizational Outcome #6 to implement urban renewal plans and redevelop vacant, blighted or underutilized land to help create jobs, businesses, and housing opportunities.

FINANCIAL IMPACT

The DDA includes no direct financial assistance from PDC or the City for the project. The sale price of RiverPlace Parcel 8 is \$4.7M, the appraised value of the land (Integra, November 2006).

The North Macadam Urban Renewal Area (URA) FY07-08 Approved Budget provides sufficient funds to undertake the RiverPlace Parcel 8 disposition. For additional financial information on the North Macadam URA, please refer to Attachment A.

RISK ASSESSMENT

No direct financial assistance is requested by RPP II. The development concept included in the proposal is for-sale residential units and ground floor commercial. The for-sale residential market could further decline, slowing sales and potentially putting the financial capacity of the proposed project at risk. The extended deadline for negotiating a DDA provides the opportunity to refine the program and reevaluate market conditions. Not extending the MOU provides an opportunity to reissue another RFP and/or direct market the property to interested parties. However, with the current market conditions, it is unclear if another RFP would generate interest and no direct market candidates have been identified at this time.

WORK LOAD IMPACT

The disposition of RiverPlace Parcel 8 has been included in the Department Work Plan and is a Tier 1 project and is included in existing staff work plans.

ALTERNATIVE ACTIONS

Board approval is required to authorize the Executive Director to enter into a DDA with RPP II. The Board may elect not to authorize the Executive Director to extend the deadline to enter into a DDA with RPP II nor amend the MOU to extend the termination date. If not extended, PDC will need to reissue a RFP on the project and pursue another development team.

CONCURRENCE

The request to extend the deadline has been reviewed and approved by PDC's North Macadam Urban Renewal team and the RiverPlace Parcel 8 Disposition Team,

BACKGROUND

RiverPlace Parcel 8 is located in the RiverPlace community, immediately south of Portland's downtown core within the North Macadam URA. The property is located on the corner of SW River Drive and SW River Parkway and is surrounded by a mix of residential, retail and office uses. To the north of the RiverPlace Parcel 8 is the Parcel 1 redevelopment project (The Strand), which is currently under construction, and to the south of the property is the new Portland Streetcar stop. RiverPlace Parcel 8 is one of the last remaining undeveloped parcels in this highly visible riverfront community.

RiverPlace Parcel 8 was acquired by PDC pursuant to a property exchange agreement with Pacific Power & Light. The Portland City Council directed purchase and redevelopment of several properties in the South Waterfront Redevelopment Area, an area commonly known as RiverPlace.

RiverPlace Parcel 8 is one square city block (1.11 acres) located at the corner of SW River Drive and SW River Parkway within the RiverPlace neighborhood (Lot 200 of Map 1S1E03CD, Parcel No. R238253). The property is relatively flat.

RiverPlace Parcel 8 had asbestos-contaminated concrete demolition buried on-site from the Lincoln Steam Plant demolition (1990's). An environmental site assessment on the property has been completed pursuant to a 1988 Consent Agreement (No. ECSR-NEW-88-04) between PDC and the State of Oregon Department of Environmental Quality (DEQ). A fully executed Easement & Equitable Servitude (E&ES) for SWF Lot 8 was recorded on September 14, 2007. The E&ES supersedes the prior ACM deed restriction and imposes only a deed restriction on the remaining asbestos-containing material (ACM) that is in the private alley/roadway and allows greater flexibility to handle the ACM under the approved management plan. DEQ issued a No Further Action Determination on the property on September 20, 2007.

The property is zoned Central Commercial (CX) with a Floor Area Ratio (FAR) of 4:1 (an additional 3:1 FAR is available if bonus FAR requirements are met). The allowed height is 150 feet.

Onder Development Company / Williams & Dame Development was the sole respondent to the RFP, which closed on April 6, 2007. In May 2007, per Resolution No. 6484, PDC selected RPP II (Onder Development Company / Williams & Dame Development Inc) as the developer of RiverPlace Parcel 8 and authorized the Executive Director to enter into exclusive negotiations with the selected developer for the redevelopment of RiverPlace Parcel 8. This Resolution also directed that an MOU be entered into by August 21, 2007, and a DDA by December 19, 2007.

In August 2007, PDC and RPP II entered into a MOU regarding the development of the project. The MOU required, among other things, that the parties execute a DDA before the termination date of December 19, 2007. Due to changing market conditions, RPP II and PDC are

discussing alternative programs for the property. In December, the Board authorized the First Amendment to the MOU, which extended the termination date and deadline for entering into a DDA until May 19, 2007.

ATTACHMENTS:

- A. North Macadam URA Financial Summary
- B. Project Summary and Map
- C. Odevco letter requesting extension, 4/24/08

CC: L. Bowers, Interim Development Department Director
G. Moyle, Sr. Project Coordinator
D. Elott, Interim General Counsel
J. Jackley, Executive Operations Manager

URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2007-08	FY 2008-09 Proposed	FY 2009-10 Forecast	FY 2010-11 Forecast	FY 2011-12 Forecast	FY 2012-13 Forecast
North Macadam URA						
Resources						
Beginning Fund Balance	1,027,912	0	0	0	0	0
Grants - Federal Except HCD	752,000	0	0	0	0	0
Interest - City Invest Pool	50,000	50,000	50,000	50,000	50,000	0
Other Contracts	282,504	290,402	298,526	306,880	315,472	0
Real Property Sales	5,000,000	4,700,000	0	0	0	0
Tax Increment - L-T Debt	12,962,557	11,988,000	0	0	7,173,851	3,498,500
Tax Increment - S-T Debt	3,323,230	2,009,708	3,277,889	8,017,548	12,291,061	7,992,450
Contingency	0	0	400,927	143,696	1,232,678	398,732
Total Fund Resources	23,398,203	19,037,110	4,027,322	8,518,124	21,063,062	11,887,682
Requirements						
Project Expenditures (does not include Personal Services or Indirect Cost)						
Development						
10510 - N Mac Implement Coord	50,000	50,000	50,000	50,000	50,000	50,000
10511 - N Mac Trans Planning	331,167	0	0	0	0	0
10512 - N Mac Dev Agreements	104,049	45,000	45,000	45,000	0	0
10514 - N Mac Strategic Opp Fund	0	0	0	0	4,500,000	2,000,000
10516 - C.D. Greenway Implem. Strategy	25,000	0	0	0	0	0
10518 - C.D. Greenway Design & Const	500,000	3,500,000	0	0	0	0
10521 - N Mac Tram	1,423,829	0	0	0	0	0
10532 - Cntrl Dist Infrastructure	1,848,000	913,000	0	0	0	0
10536 - SWF Neighborhood Park	800,000	3,400,000	0	0	0	0
10537 - Gibbs St. Pedestrian Bridge	0	578,000	0	0	0	0
10540 - NMac New Initia-Parks and Gway	0	0	0	0	2,000,000	2,000,000
10541 - NMac New Initiatives-Transport	0	0	0	0	3,252,200	0
11060 - RivPl Environ Parc1 The Strand	115,825	8,000	2,000	0	0	0
11061 - RiverPlace Lot8 Environ	16,000	0	0	0	0	0
11062 - RiverPlace Lot8 Parcel Dev	40,000	0	0	0	0	0
11063 - RiverPlace Lot 3 ReDev	93,088	0	10,000	0	0	0
11069 - RiverPl Dev Parcel1 & Gen	76,664	1,500	0	0	0	0
11080 - RiverPlace Property Mgmt	10,000	10,000	10,000	10,000	15,000	15,000
11081 - Harbor Naito Plan/Redev	75,000	0	0	0	0	0
11082 - NMAC Temporary Greenway Trail	0	0	0	50,000	0	0
Development Total	5,108,422	8,505,500	117,000	155,000	9,817,200	4,065,000
Economic Development						
70008 - NMAC New Initiative - Jobs	0	0	0	0	2,000,000	2,000,000
70217 - NMAC Bioscience Devel Strategy	1,100,000	700,000	700,000	700,000	500,000	0
Economic Development Total	1,100,000	700,000	700,000	700,000	2,500,000	2,000,000
Housing						
10525 - NMAC Affordable Rental Housing	0	0	0	0	3,278,800	2,635,917
10543 - NMAC Blk 49 Aff Rental Housing	8,000,000	8,000,000	0	0	0	0
10544 - NMAC Blk 33 Mixed Use Aff Hsg	300,000	441,000	0	3,362,989	0	0
33433 - NMAC Affordable Homeownership	0	0	0	0	2,000,000	0
Housing Total	8,300,000	6,441,000	0	3,362,989	5,278,800	2,635,917
Central Services						
59162 - NMAC Debt Management	15,080	15,834	16,626	17,457	18,330	0
Central Services Total	15,080	15,834	16,626	17,457	18,330	0
Total Project Expenditures	14,523,502	15,662,334	833,626	4,235,446	17,614,330	8,700,917
Debt Service	8,000,000	0	0	0	0	0
Indirect Cost	2,874,701	2,973,849	3,050,000	3,050,000	3,050,000	3,050,000
Total Fund Expenditures	23,398,203	18,636,183	3,883,626	7,285,446	20,664,330	11,750,917
Contingency	0	400,927	143,696	1,232,678	398,732	136,765

Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>FY 2008-09 Proposed</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
<u>North Macadam URA</u>						
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	23,398,203	19,037,110	4,027,322	8,518,124	21,063,062	11,887,682

PROJECT SUMMARY

- Project Name:** RiverPlace Parcel 8
- Description:** Mixed-use redevelopment of PDC owned property in RiverPlace with residential units and ground floor retail
- Location:** NE Corner of SW River Parkway and SW River Drive
- URA:** North Macadam
- Current Phase:** Request for Proposals, Developer Selection
- Next Milestone:** Negotiate Memorandum of Understanding and Disposition and Development Agreement with Selected Developer
- Completion Target:** DDA signed December 2007
- Outcome:** Construction initiated Fall 2008
- Site/Project Map:**



Odevco
1100 NW Glisan S. 300
Portland, Oregon 97209

April 24, 2008

Geraldene Moyle, Project Manager
Portland Development Commission
222 NW Fifth Avenue
Portland, Or 97209

Dear Ms. Moyle,

Onder Development Co., as managing partner of RiverPlace Partners II (RPPII) respectfully requests an extension of the Memorandum of Understanding (MOU) between the Portland Development Commission and RPPII re Parcel 8 in RiverPlace.

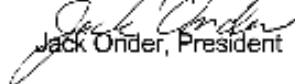
Our original proposal was to develop an 11 story condominium project on the property. However, it became clear that the project was no longer feasible due to changes in the housing markets and uncertainty in the financial markets. In December, 2007 the PDC Commission granted an extension of the MOU until May 19, 2008.

The present extension has allowed us the time to actively pursue the alternative of developing a hotel on the property. During this extension we have received serious interest from several financially strong groups and hotels that have confidence in the Portland market and are interested in working with us to develop this site. We have also been meeting regularly with PDC staff to update them on the progress we have made. However, more time is required to work with these parties, conduct the due diligence on the site, negotiate an agreement and secure financing commitments.

In this challenging economic environment we continue to believe that a hotel is the best and most feasible use for Parcel 8. A hotel will further activate the RiverPlace neighborhood and this portion of the waterfront. It will take full advantage of the streetcar and the future light rail extension as well the hospitality synergies of the RiverPlace area.

We are excited about this opportunity and believe that it is in our collective best interests to allow sufficient time to continue working with PDC staff and take advantage of this positive market interest in the Parcel 8 site.

Onder Development Co.


Jack Onder, President