

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: September 9, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-107
Acquisition of Real Property at 5716 SE 92nd Ave.

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6736

ACTION SUMMARY

This action will authorize the Portland Development Commission (PDC) to acquire the real property and improvements located at 5716 SE 92nd Avenue (the Property), comprised of three lots in the middle of the Lents Town Center, from property owner Lents Town LLC., for the purchase price of \$2,100,000.

The Property is located on the east side of SE 92nd Avenue, two blocks south of SE Foster Road and bounded by the PDC-owned SE 92nd Avenue and SE Harold site, Interstate 205, and SE Ramona Street (see the Project Summary on Attachment B). The Property consists of three parcels that total 1.32 acre in size. The site contains an existing retail-warehouse building with 33,133 square feet of gross building area, 25,568 square feet of gross leasable area, and asphalt parking that can accommodate 41 automobiles. The zoning code designation for the Property is Central Employment with a design overlay (EXd).

PUBLIC BENEFIT

Acquisition of the Property will further facilitate implementation of the Lents Town Center revitalization strategy by redeveloping, or causing redevelopment of, blighted and/or underutilized land and buildings to help create jobs, business, and housing opportunities. Revitalizing the Lents Town Center has been a high priority for the community since the adoption of the Outer Southeast Community Plan and the inception of the Lents Town Center Urban Renewal Area (URA) in 1998.

The Property occupies a key location along SE 92nd Street and is adjacent to PDC's SE 92nd Avenue and SE Harold Street mixed-use redevelopment project (the 92/H Project). The 92/H Project is currently in the initial phase of the planning and community input stage and was presented to the PDC Board of Commissioners (the Board) at the August 12, 2009, Board meeting as an informational item. The 92/H Project is adjacent to the MAX Green line and transit station (see Attachment B) and is envisioned to be a three and one-half acre mixed-use redevelopment that will serve as an important catalyst for the Lents Town Center.

The acquisition of the Property offers the potential to combine the building and site with the 92/H Project, creating one large seamless transit-oriented development adjacent to the light rail stop. The acquisition will give PDC the ability to control the future of the buildings, insuring compatibility with the 92/H Project, and adding to the mix of retail and service businesses in the Lents Town Center.

The acquisition and redevelopment of the northern portion of the Property may also provide for the possibility of extending SE Reedway to the east through the parking lot (Attachment B) to intersect a potential future north/south road bisecting the 92/H Project, thus providing increased circulation and connectivity.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

Public participation in the adoption of the 1998 Lents Town Center URA Plan and Amendment #1 (the Plan) identified the need for property acquisitions from willing sellers to achieve the objectives of the Plan. Acquisition of the site meets the objective of investing public funds to increase the vitality and economic health of commercial areas within the area.

The Lents Town Center Urban Renewal Advisory Committee (URAC) and the Lents Neighborhood Association have been informed of this acquisition.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Plan specifically authorizes property acquisition from willing sellers for rehabilitation or redevelopment of the property to achieve the goals of the Plan. The Plan supports the goals and policies of the *Outer Southeast Community Plan* (1996) stated in Community Wide Goals ED12, “consider maintaining an accessible inventory on vacant and redevelopable commercial sites,” a policy “to foster the development of a Lents Town Center that attracts employment opportunities, residential density, and recreational activities while reducing adverse environmental impacts,” and objectives for “assembling land for development around the I-205/Foster interchange.” The *Lents Neighborhood Plan* (1998) supports the Plan in Policy 7 to “restore Lents identity as a friendly, safe, attractive neighborhood for everyone in our historic community.”

FINANCIAL IMPACT

The Property owner’s original asking price was \$2,500,000. The purchase amount was negotiated based on a fair market appraisal conducted by Integra Realty Resources - Portland (dated February 18, 2009). The appraisal estimated the value at \$1,900,000. PDC

staff and the Property owner negotiated a purchase price of \$2,100,000. Staff believes the \$200,000 above the appraised value is warranted given the key location of the Property in the Lents Town Center. In addition to the purchase price, PDC will be obligated to pay relocation expenses for any tenant who is required to vacate and/or remove personal property from the premises after the acquisition is complete. PDC's relocation obligation is estimated at approximately \$70,000. Furthermore, if PDC moves forward with re-tenanting the building, an additional \$95,000 may be needed for various environmental abatement and miscellaneous building repairs.

There are currently five tenants leasing space; the following table summarizes the lease terms.

Tenant	Space leased (s.f.)	Base Rent / per month	Terminates	Notes
Ararat Bakery	22,000	\$4,285 (3.50% annual escalation)	11/30/2016	2 extensions of 5 years each;
American Tower (cell tower north site)	2,420	\$552	5/7/2012	3 extensions of 5 years each
Verizon Wireless (cell tower south site)	1,600	\$874	11/7/2011	2 terms of 5 years each
The Floor Store	7,500	\$1,750	ended	Currently month-to-month
Veenhuizen Painting	3,800	\$1,000	12/31/09	Will convert to month-to-month

Current total monthly base rent is \$8,461 or \$101,532 annually. Net of non-reimbursable expenses, PDC would receive approximately \$98,000 annually in net operating income from the building.

The Ararat Bakery is an Armenian bakery, grocery store, restaurant and night club that was relocated from the Central Eastside URA to the Lents Town Center to make way for the planned Burnside Bridgehead redevelopment and to place the Ararat Bakery closer to its desired customer base. The Ararat Bakery has received \$600,000 in PDC financial assistance in the form of tenant improvement and working capital loans. The relocation of the Ararat Bakery to Lents is facilitating the revitalization of Lents Town Center and PDC wishes to assure retention of the Ararat Bakery as a long term tenant in the building.

The cell tower leases do not interfere with plans to re-tenant and redevelop portions of the site. Furthermore, these leases would be difficult and costly to terminate, with an estimated cost of over \$1 million dollars. Therefore, staff plans to retain the cell tower tenants.

The expiration of The Floor Store and Veenhuizen Painting leases provide PDC with the opportunity to re-tenant and re-develop the northern portion of the site adjacent to the 92/H Project (Attachment B) in a manner that would complement the 92/H Project and add neighborhood retail and services to the Lents Town Center. In the interim, staff proposes retaining these tenants on a month-to-month basis.

RISK ASSESSMENT

A Phase 1 Environmental Site Assessment dated June 2009 by GRI Corporation indicated that further investigation was warranted due to a potential underground storage tank for oil, cesspools, drywells, an elevator site, and a historic dry cleaner to the south of the Property. A Phase 2 Environmental Assessment was subsequently initiated in August 2009 and preliminary findings indicate no groundwater contamination and only minor soil impacts due to an underground storage tank with estimated clean-up costs of \$15,000. Cesspool, elevator pit and drywells do not appear to have any significant environmental issues. A Hazardous Building Materials Assessment by PSI Environmental dated June 2009 identified an estimated \$20,000 to \$30,000 of cleanup, principally asbestos, which is typical of buildings of this age, none of which pose an imminent danger to human health. Therefore, staff believes the overall risk of environmental issues is low. A Building Inspection/Condition Report by Emerald Inspection indicated that some repairs to the existing structure will be necessary to continue tenancy, principally roof and minor electrical; these costs are estimated at \$65,500. It is anticipated that the building repairs and environmental remediation costs will be recovered by lease payments during the holding period.

Staff estimates a holding time of two to four years for the site. This corresponds to the estimated redevelopment time frame for the 92/H Project. However, if poor economic conditions delay the redevelopment of 92/H Project site, the holding period could be longer.

As part of PDC's due diligence investigations, PDC staff has determined, based on information provided by the Property owner's representative and the Ararat Bakery, that as of August 31, 2009, the Ararat Bakery has an outstanding account balance of approximately \$8,184.00 (excluding base rent and expenses for September). There is a risk that the current tenant could continue to be in arrears or future tenants fall behind in rent payments. This may result in reduced operating income to PDC and a lower resale value of the Property.

The Property is encumbered by one utility easement and two access easements associated with the cell tower leases. There is no intention, at this time, to renegotiate or relocate the cell towers. When redevelopment options associated with the 92/H Project are considered in the next year, it may be desirable to review the access easement locations and, if warranted, to renegotiate and relocate their locations. However, PDC staff has determined that redevelopment of the Property or the 92/H Project are not dependent on relocation of the easements.

WORK LOAD IMPACT

Existing PDC Urban Development Department staff will manage the disposition, property management, and redevelopment process in coordination with Real Estate, Finance, Housing, Legal, and Professional Services staff.

ALTERNATIVE ACTIONS

The PDC Board could decline to approve the acquisition of the property at 5716 SE 92nd Avenue, in which case the Board could also direct staff to renegotiate the terms of the transaction.

CONCURRENCE

Acquisition negotiations and specific terms were approved by the PDC Investment Committee in August 2009. The PDC Lents Town Center URA Team, Lents URAC, and Lents Neighborhood Association discussed and support the acquisition.

BACKGROUND

This action will support the Lents Town Center revitalization and redevelopment efforts set forth in the 1998 Lents URA Plan and Amendment #1. Staff has been active in seeking acquisition opportunities that fit the vision of the town center as a transit-oriented development opportunity given the arrival of light rail, scheduled for completion in fall 2009. In addition, the neighborhood is designated as a Town Center under Metro's 2040 Regional Growth Plan, which calls for appropriate densities and urban amenities as the area redevelops.

The current negotiations were initiated by the property owners when they listed their property for sale and PDC responded. Negotiations and the appraisal process have proceeded quickly and a mutually agreeable price and terms have been set. Due diligence activities are completed with results outlined above. Redevelopment with a commercial and/or mixed-use commercial/office/residential project is planned for the 92/H and this site, based on the Plan.

Upon acquisition, PDC will continue to lease the space to the existing tenants, keeping Ararat, Verizon, and American Tower as long-term tenants and the two tenants on the northern portion on a month-to-month basis pending redevelopment of that portion of the building. PDC will attempt to coordinate future redevelopment efforts of this site with the development of the 92/H project, possibly selling the site to the future developers of 92/H, in order to maximize revitalization efforts for commercial and/or mixed-commercial/residential uses as set forth in the Lents Town Center Plan. PDC may also dedicate a portion of the site to the Portland Bureau of Transportation to extend SE Reedway into the site and connect to a future street running north and south through the 92/H redevelopment.

ATTACHMENTS:

- A. URA Financial Summary
- B. Project Summary and Site Maps

URA FINANCIAL SUMMARY

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2008-09	Adopted FY 2009-10	Forecast FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14
Lents Town Center URA						
Resources						
Beginning Fund Balance	2,218,657	426,735	565,833	638,627	675,706	640,238
Fees and Charges	0	0	0	0	0	0
Interest on Investments	250,000	24,240	65,219	66,905	66,590	66,692
Loan Collections	121,782	278,100	88,100	94,758	101,534	100,000
Property Income	270,000	0	2,600,000	0	0	0
Reimbursements	0	0	0	0	0	0
Tax Increment Proceeds	12,335,086	20,049,948	12,953,475	18,215,416	17,386,408	18,203,661
Total Resources	15,195,525	20,779,023	16,272,627	19,015,706	18,230,238	19,010,591
Requirements						
Program Expenditures						
Business & Industry						
Community Economic Development						
72030 Community Econ Development	0	250,000	250,000	400,000	500,000	500,000
General Business Assistance						
79020 Business Finance	500,000	1,100,000	1,100,000	1,300,000	1,400,000	1,500,000
79022 Business Retention	100,000	100,000	100,000	100,000	100,000	100,000
Business & Industry Total	600,000	1,450,000	1,450,000	1,800,000	2,000,000	2,100,000
Housing						
Multi-Family - For Sale						
32110 122nd and Pardee	978,000	0	0	0	0	0
33418 New Homeowner Dev	396,173	0	0	600,000	0	1,000,000
33438 ROSE/PCLT Homeownership	0	100,000	0	0	0	0
33441 Dahlia Commons Homeownership	0	675,000	0	0	0	0
33442 Habitat for Humanity #3	200,000	230,000	0	0	0	0
Multi-Family - Rental Housing						
60010 Foster School Housing Dev	0	0	0	0	0	0
89015 Rental Rehabilitation Projects	0	200,000	0	0	0	0
89030 Affordable Rental Housing	1,400,000	2,300,000	1,900,000	2,200,000	4,000,000	2,000,000
Plans and Strategies - Housing						
37914 Housing Policy/Planning	5,000	0	0	0	0	0
Portland Housing Bureau						
28025 Administration	0	161,596	468,720	549,900	527,400	553,284
Single-Family - Home Repair						
32131 REACH Home Rehabilitation	125,000	125,000	125,000	150,000	150,000	0
89010 Home Repair Projects	250,000	250,000	250,000	300,000	300,000	550,000
Single-Family - Homebuyer Assistance						
37929 Scat Site Homeownership Acq HAP	2,181,527	0	0	0	0	0
37930 Scat Site Home Rehab & Subs HAP	50,000	1,308,473	0	0	0	0
89020 Home Buyer Assistance	1,500,000	900,000	200,000	700,000	700,000	800,000
Housing Total	7,085,700	6,250,069	2,943,720	4,499,900	5,677,400	4,903,284

Financial Summary

Fund Summary - Five-Year Budget Projections

		Revised	Adopted	Forecast	Forecast	Forecast	Forecast
		FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Infrastructure							
Facilities							
60009	LTC Public Facilities	50,600	620,000	0	0	0	0
Parks							
13125	Parks Public Improvements	1,021,000	135,000	95,000	40,000	100,000	269,000
Transportation							
26714	Streets/Sidewalks LID	20,000	500,000	500,000	0	0	0
26715	Neighborhood Trans Safety Improvements	428,000	2,000,000	2,600,000	1,800,000	1,000,000	2,000,000
Infrastructure Total		1,519,600	3,255,000	3,195,000	1,840,000	1,100,000	2,269,000
Revitalization							
Redevelopment							
12209	LTC Town Cntr Redevelopment	1,825,000	3,537,000	3,075,000	3,585,000	2,200,000	2,100,000
12212	Johnson Creek Industrial Area Revitalization	100,000	80,000	100,000	100,000	1,900,000	2,000,000
27001	Storefront Grants	300,000	300,000	300,000	400,000	400,000	400,000
27050	DOS Grants	300,000	100,000	100,000	100,000	100,000	200,000
28030	Redevelopment Loan Projects	0	1,000,000	900,000	300,000	300,000	300,000
60008	SE 92nd Redevelopment	74,729	375,000	500,000	2,900,000	1,200,000	350,000
60050	Foster Road Redevelopment	0	0	300,000	0	0	0
60051	122nd Corridor Redevelopment	0	40,000	300,000	0	0	0
60052	LTC Comm Livability Grants	0	200,000	250,000	300,000	300,000	300,000
60053	LTC Station Area Redevelopment	0	75,000	75,000	0	0	1,000,000
Revitalization Total		2,599,729	5,707,000	5,900,000	7,685,000	6,400,000	6,650,000
Administration							
Finance							
98001	Debt Management	10,000	10,000	10,000	10,000	10,000	10,000
Administration Total		10,000	10,000	10,000	10,000	10,000	10,000
Total Program Expenditures		11,815,029	16,672,069	13,498,720	15,834,900	15,187,400	15,932,284
Personal Services		743,511	960,874	416,640	488,800	468,800	491,808
Indirect Cost		2,489,865	2,510,596	1,718,640	2,016,300	1,933,800	2,028,708
Total Fund Expenditures		15,048,405	20,143,539	15,634,000	18,340,000	17,590,000	18,452,800
Contingency		147,120	635,484	638,627	675,706	640,238	557,791
Ending Fund Balance		0	0	0	0	0	0
Total Requirements		15,195,525	20,779,023	16,272,627	19,015,706	18,230,238	19,010,591

PROJECT SUMMARY

Project Name: Acquisition of Real Property at 5716 SE 92nd Avenue
Description: Retail/Warehouse building 33,000 sf on 1.32 acres of land
Location: 5716 SE 92nd Avenue in Lents
URA: Lents Town Center
Current Phase: Board approval of Purchase & Sale Agreement
Next Milestone: Close transaction
Completion Target: November 5, 2009
Outcome: Re-tenanting and redevelopment of building and site
Site/Project Map:



View of building looking south on SE 92nd Avenue

5716 SE 92nd Site Map



5716 SE 92nd (Acquisition Site)

92 / Harold Redevelopment Site

5716 SE 92nd Site Map



5716 SE 92nd (Acquisition Site)