

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: November 10, 2010
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 10-105
Centennial Mills Redevelopment – Status Update

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

None – information only.

SUMMARY

This report provides an update on progress made on negotiations for the redevelopment of Centennial Mills, including a summary of the proposed development vision, development challenges, project budget and financeability, anticipated schedule, and alternative actions.

The Portland Development Commission (PDC) selected LAB Holdings, LLC (LAB) as the preferred developer for the project in March 2008, following a two-step competitive solicitation and extensive public involvement process. Staff is in the process of negotiating a Disposition and Development Agreement (DDA) with LAB, and anticipates presenting it to the PDC Board of Commissioners (Board) for approval in early 2011.

Centennial Mills is located at 1362 NW Naito Parkway, in the River District Urban Renewal Area (RDURA). A map of the property, currently owned by PDC, is included as Attachment A.

BACKGROUND

Planning Context:

In 2000, PDC acquired the 4.74-acre parcel for the purpose of creating open space, as recommended in the 1995 River District Plan. However, the recommendation to demolish the complex was met with opposition from historic preservation, neighborhood, and city stakeholders. As a result, in 2005 City Council adopted Resolution No. 36320 directing PDC to halt demolition and work with the Bureau of Planning and community stakeholders to develop a more comprehensive plan for Centennial Mills.

The resulting Centennial Mills Framework Plan (Plan) recommended redevelopment of the site in accordance with five key redevelopment principles: include a signature riverfront open space; represent the historic significance, character, or function of the site; create a dynamic, lasting, and unique waterfront destination; connect to the River District, surrounding city, and region; and develop in an ecologically, economically, and culturally sustainable manner. The plan was approved by City Council in October 2006 and by the PDC Board in December 2006.

Pursuant to the Plan, in early 2007 PDC initiated a two-phased Request for Qualifications (RFQ) / Request for Proposals (RFP) seeking a qualified development team and proposal that best meets the Plan's objectives. PDC received nine RFQ proposals, three of which were selected to submit to the subsequent RFP. Following extensive public outreach and a recommendation by a stakeholder Evaluation Committee, the Board approved the Executive Director's recommendation to select LAB as the preferred developer in March 2008.

Development Vision:

LAB's development concept, SEED, is proposed to be a regional recreation and social amenity that combines culinary and healthy sustainable living elements. The vision emphasizes Centennial Mills' historic use, and creates a new public space that celebrates Portland's agricultural heritage as well as its current standing as a culinary beacon within the country.

LAB's proposal includes approximately 145,000 sf of commercial development, including active ground floor uses on the wharf level, and flexible commercial space on the upper levels. Approximately 30 percent of the 4.75-acre site is additionally preserved for open space. The project will promote sustainability, healthy living, and entrepreneurship through its tenant selection (such as local and non-franchised businesses, outdoor recreational retailers, "green" goods and services, healthy dining options and wellness facilities) and ongoing day-to-day operations (environmental awareness events, organic produce markets, support of local artists and craftspeople, etc). The project will be designed as a place of gathering, inviting residents and visitors alike to participate in the activities of the site, and will be a resource for the community both naturally (river access and riverfront park) and in the project offerings (activities, retailers, restaurants, and services). As noted in further detail in the Plan & Strategy Implementation section below, the proposed redevelopment also supports a number of adopted plans and strategies, including the Portland Economic Development Strategy.

Since selection, the LAB team has completed additional site due diligence and schematic designs, funded in part by predevelopment loans and grants from PDC. The schematic design calls for the dismantling and reuse of portions of the buildings currently on site. Minimal new materials are to be used and no new buildings are proposed in the redevelopment. It is also intended that iconic historic elements, such as the water tower and wharf, will be retained.

Project Budget:

Construction cost estimates and negotiation of any PDC investment are still in the early stages. Preliminary estimates indicate total project costs of \$45.8 million (not including undetermined site acquisition costs). An early estimate of gap financing needs is \$8.6 million. Significant drivers for the need for public investment include the restoration of the wharf for greenway connectivity and structural support, and seismic improvements to the restored warehouses and grain elevators. The project pro forma also assumes the utilization of \$3 million in New Market Tax Credits and \$2 million in Historic Tax Credits. LAB has had preliminary discussions with national financial institutions and local brokers, and has revised their pro forma to reflect input received, as well as incorporate identified cost savings opportunities.

The above estimates assume, but do not include, the relocation of the Mounted Patrol Unit facility (\$3 million estimated), and construction of the pedestrian bridge linking the project to the Fields Park across Naito Parkway (\$5 million estimated). These items directly impact the feasibility of the project, and would be completed as separate (but related) projects from LAB's renovation of Centennial Mills.

The Adopted FY 2010-11 RDURA Budget and Four Year Forecast currently includes \$12,973,000 for Centennial Mills and the Pedestrian Bridge.

Project Schedule:

Staff is in the process of negotiating a DDA with LAB, and anticipates presenting it to the Board for approval in early 2011. LAB will commence design development work, obtainment of design review approvals, and preparation of construction documents and bidding, upon approval of the DDA. The binding commitment of a DDA will also better enable LAB to seek commitments from lenders and tenants.

Due to the significant lead time required for the obtainment of City land use approvals for non-conforming uses in the greenway setback, and State and Federal permits for in-water work necessary for the repair of the wharf, PDC is pursuing these now with assistance from the LAB team. Staff expects to obtain the permits and approvals by summer 2011.

Construction is currently anticipated to commence in mid-2012 and be completed by late 2013.

Redevelopment Challenges:

PDC staff and the LAB team are addressing a number of hurdles to be overcome in order to proceed with the redevelopment of Centennial Mills, including the following:

Financial Market: Current market risks include the potential lack of sufficient private financing for the project and sufficient commercial market to generate enough lease revenue to support debt. However, LAB has met with several national lenders and local brokers, and modified their pro forma according to consistent input received from multiple parties. This includes modifying projected rents to be consistent with the current market for the desired tenant mix, and adjusting cap rates to meet lender requirements. LAB also has a proven track record with similar retail-based projects with successful ongoing project holding and operations, including over 20 years experience in innovative retail and commercial real estate projects such as The LAB, The CAMP, and SoBeCa District developments in Costa Mesa, California.

Mounted Patrol Unit (MPU) Relocation: The MPU currently leases space in the complex at no cost. The current term expires on December 31, 2015, and they have the option to extend for an additional five years. At minimum, the MPU will need to be relocated during construction due to the extensive demolition and construction to occur on site. Permanent relocation of the facility may be advisable due to the incremental increase in costs for permanent vs. temporary relocation; and the ability to free up additional rentable square footage in the existing complex. Permanent relocation also may provide for an interim use, and ultimately a second phase of development, on the parcel currently occupied by the outdoor paddock. Staff will be initiating discussions with MPU representatives regarding site needs and appropriate locations, assessing the costs of temporary and permanent relocation, and initiating discussions with staff in the Mayor's office regarding future funding of the MPU operations.

Greenway Land Use Approvals: PDC staff is working with the LAB team, land use consultants, and a land use attorney to pursue necessary City land use approvals for the rehabilitation of the existing structures in the greenway setback. A Greenway Goal Exception, approved by City Council, is likely necessary for the commercial portions of the project within the setback. The Greenway Trail is proposed to be extended on the existing wharf level, and staff is working to confirm that this does not require additional reviews or approvals. Preliminary conversations with Bureau of Development Services staff have been constructive and the preparation of

applications materials is underway. Assuming support from City Council, staff anticipates obtaining the approvals by July 2011.

Army Corps of Engineers (COE) and Division of State Lands (DSL) Permits: State and Federal permits are required for the in-water work necessary for the repair of the support structure under the wharf and portions of the buildings. Staff has presented project details to the Streamlining Team (convened by the City and comprised of COE, DSL, and other State and Federal agency representatives with jurisdiction over in-water work) and has received favorable feedback. Initial concerns raised by the Streamlining Team were addressed, and staff is preparing application materials for submission at their direction. Assuming the applications are approved, staff anticipates obtaining the permits by August 2011.

Public Investment: As described in the Project Budget section above, significant public investment is required for the redevelopment of Centennial Mills, and additional investment is required for the construction of the Pedestrian Bridge and temporary or permanent relocation of the MPU. However, as described in the Alternative Actions section below, a comparable investment would be required for the demolition of the complex. As PDC is the owner of the property, and the building poses significant safety risks, action and the corresponding public investment is required.

The estimated total PDC investment need, including the Pedestrian Bridge and relocation of the MPU, is approximately \$16.6 million. The Adopted FY 2010-11 RDURA Budget and Four Year Forecast currently includes a total of \$12,973,000 for these projects. At the same time, there is increasing pressure on the River District budget due to other project demands and anticipated decreasing revenues.

Pedestrian Bridge and Fields Park: Redevelopment of Centennial Mills is physically tied via a pedestrian bridge to the adjacent Fields Park, a partnership project between PDC and the Bureau of Parks and Recreation (Parks). Approximately three acres in size, Fields Park is situated at the northwest corner of NW 11th Avenue and NW Overton Street. The completion of construction documents for the park is underway. Construction is scheduled to commence by June 2011, and be completed by May 2012.

The Pedestrian Bridge is important in providing connectivity between the Fields Park, surrounding neighborhood, the river, and greenway trail – increasing access to Centennial Mills as a public destination. Fields Park will be constructed to accommodate the future construction of the Pedestrian Bridge. The construction of the bridge will be coordinated with the redevelopment of Centennial Mills.

The PDC staff managing these projects are coordinating to negotiate roles and responsibilities between PDC, Parks, and LAB for design, construction, ownership, operations, and on-going maintenance needs.

Plan & Strategy Implementation:

Redevelopment of Centennial Mills furthers the implementation of several plans and strategies, including:

River District Plan (1995) and River District Urban Renewal Plan (1998): In 2000, PDC acquired the Centennial Mills site pursuant to recommendations of these plans.

City Council Resolution #36320 (2005) and Centennial Mills Framework Plan (2006): As noted under the Planning Context section of this report, City Council, by resolution, directed PDC to halt demolition and work with stakeholders and the Bureau of Planning to develop a more comprehensive plan for Centennial Mills. The Plan has provided the five key redevelopment principles guiding project planning.

Portland Development Commission Strategic Plan 2010 (Strategic Plan): The Strategic Plan emphasizes five goals, further detailed by key outcomes and actions. The redevelopment of Centennial Mills supports the Vibrant Central City goal, and the following outcomes and actions:

- Regional Asset: The Central City is a global and regional destination which offers unique urban amenities, opportunities and experiences.
 - Action: Enhance and strengthen the recreational and cultural distinctiveness of the Central City.
- Great Places: Central City is a shining example of walkable urbanism because of the number of unique areas that encourage people to work, play and especially live in the core.
 - Action: Continue to promote dense urban living in the Central City core.

Portland Economic Development Strategy (2009): Redevelopment of Centennial Mills supports the three primary tenants of the Economic Development Strategy:

- *Generate robust job growth by maximizing the opportunities to produce and sell products and services for existing, emerging and relocating businesses;*
- *Maintain a leadership position in sustainability by constantly striving to produce an innovative urban setting that fosters creativity and invention; and*
- *Achieve broad-based prosperity by equalizing opportunity and stimulating business activity in neighborhoods throughout the city.*

Specifically, the project furthers the following Objectives and Actions:

- *Objective 1.1 Cluster Strategy – Clean Tech and Sustainable Industries*
 - *Action 1.1.3: Expand demand for energy efficiency products and services through investment in retrofits of existing building stock.*
- *Objective 2.2: Enhance the vitality and distinctiveness of the Central City to showcase our sustainable way of life and attract creative class talent.*
 - *Action 2.2.1: Invest in catalytic Westside redevelopment projects, including Post Office, Centennial Mills, PSU, Con-Way and Goose Hollow.*
- *Objective 3.1: Build the capacity of local entrepreneurs to innovate and compete in the global economy through the establishment of an economic gardening program.*

The redevelopment of Centennial Mills may also support additional objectives and actions depending on the ultimate tenant selection, including opportunities for cluster businesses. Additionally, the Economic Development Strategy further notes the importance of maintaining a vibrant Central City and supporting entrepreneurial activity:

- *Portland's Central City is a destination of choice by the creative class due to its edgy, unpredictable character and compact, connected urban experience. While the character of the Central City may be attributed to the unique history of the region and its people, the city plays a critical role in maintaining the unique attributes of the Central City by investing in signature projects, continuing a tradition of smart urban planning, fostering an attractive retail environment and providing support for arts and culture. Portland is facing a critical moment in the evolution of its Central City and has the opportunity to ensure that the Central City remains a unique place for residents and visitors alike for*

future generations. Maintaining the character and appeal of the Central City is critical to achieving the objectives of this strategy. There is strong evidence that talented workers are increasingly concentrating in places that have a high quality of life and possess that hard-to-define “cool” factor. Because innovation depends on the ready availability of talent, companies as well as local economies can only prosper if they have access to ample supply of talented workers.

- *Over 95 percent of Portland’s businesses have fewer than 50 employees, and nearly three-quarters of net new jobs in Portland are created by small business. In addition, the metropolitan area is one of the most active regions in the U.S. for entrepreneurial activity as measured by monthly new business formations.*

Alternative Actions:

Questions have been raised regarding the current feasibility and desirability of the project. As described above, efforts are underway to address the feasibility of the project. Extensive public outreach has also been conducted throughout the project, often resulting in over-capacity crowds. Public interest, and support for LAB’s development vision, has been significant since the initial selection process. However, the following summarizes potential alternative actions the Board could consider:

Demolish Centennial Mills: In 2004, PDC explored the costs for demolition of Centennial Mills. As noted in the Planning Context section above, there was significant opposition to the demolition of the complex and ultimately City Council passed a resolution to halt this action and further explore redevelopment opportunities. A review of the 2004 preliminary cost estimates indicates the demolition of Centennial Mills and replacement of the MPU facility on site could cost approximately \$12.5 – 14.9 million. The resulting development would result in a park with the retention of the MPU and potentially some iconic elements from the Centennial Mills complex. However, a comprehensive review of necessary State and Federal permits and updated City land use requirements has not been completed, and could impact the cost and resulting development footprint. Staff recommends against pursuing this alternative due to the lack of stakeholder and City Council support, and because the required investment is comparable to that required for LAB’s proposal, but would not result in the equivalent job creation and generation of property tax revenues. Additionally, Fields Parks is already slated for development directly across the street.

Postpone development negotiations and/or seek another development partner: The Board may elect to postpone or cease negotiations with LAB, in hopes of waiting until market conditions improve or seeking a different development opportunity. It should be noted however that PDC and LAB entered into a Memorandum of Understanding with a binding clause for exclusive negotiations, which expires on December 31, 2010. Staff recommends against pursuing this alternative for the following reasons:

- The existing conditions of Centennial Mills require that redevelopment or other extensive stabilizing measures be taken in the near future.
- Seeking another development opportunity, potentially through another solicitation process, would significantly delay development and raise questions regarding PDC’s commitment to its development partners.
- LAB was selected as the preferred developer through an extensive nationwide competitive solicitation process, and their proposal has received extensive public support.
- The building configuration does not readily lend itself to use by large employers and is better configured for small tenant opportunities.

- Construction is currently slated to begin in mid-2012, potentially allowing for some improvement in market conditions.
- The required public investment is largely attributed to the preservation of the wharf and seismic improvements. These costs would be applicable to other development opportunities.

Public Benefits:

Ultimately, the redevelopment of the Centennial Mills complex as proposed will provide the following public benefits:

- Eliminates blight and blighting influences through replacement of vacant property and retrofit of vacated buildings with new commercial uses, including new retail and flex-office space that will create new jobs;
- Supports implementation of the Portland Economic Development Strategy, including maintaining and strengthening a vibrant Central City, growing the region's target industry clusters, and providing entrepreneurial opportunities;
- Advances a taxable project that has a total estimated development investment of approximately \$46 million and creates an estimated 500 construction jobs;
- Affords a significant opportunity to preserve the historic fabric of the iconic Centennial Mills buildings while providing significant public access and connectivity to and along the riverfront;
- Creates a regional destination attracting visitors to the waterfront, showcasing local small businesses, and leading to further redevelopment in the north Pearl District area through a concentration of retail uses with landmark architecture; and
- Implements PDC's Business and Workforce Equity Policy, PDC's Green Building Policy, and State of Oregon Prevailing Wage Rates.

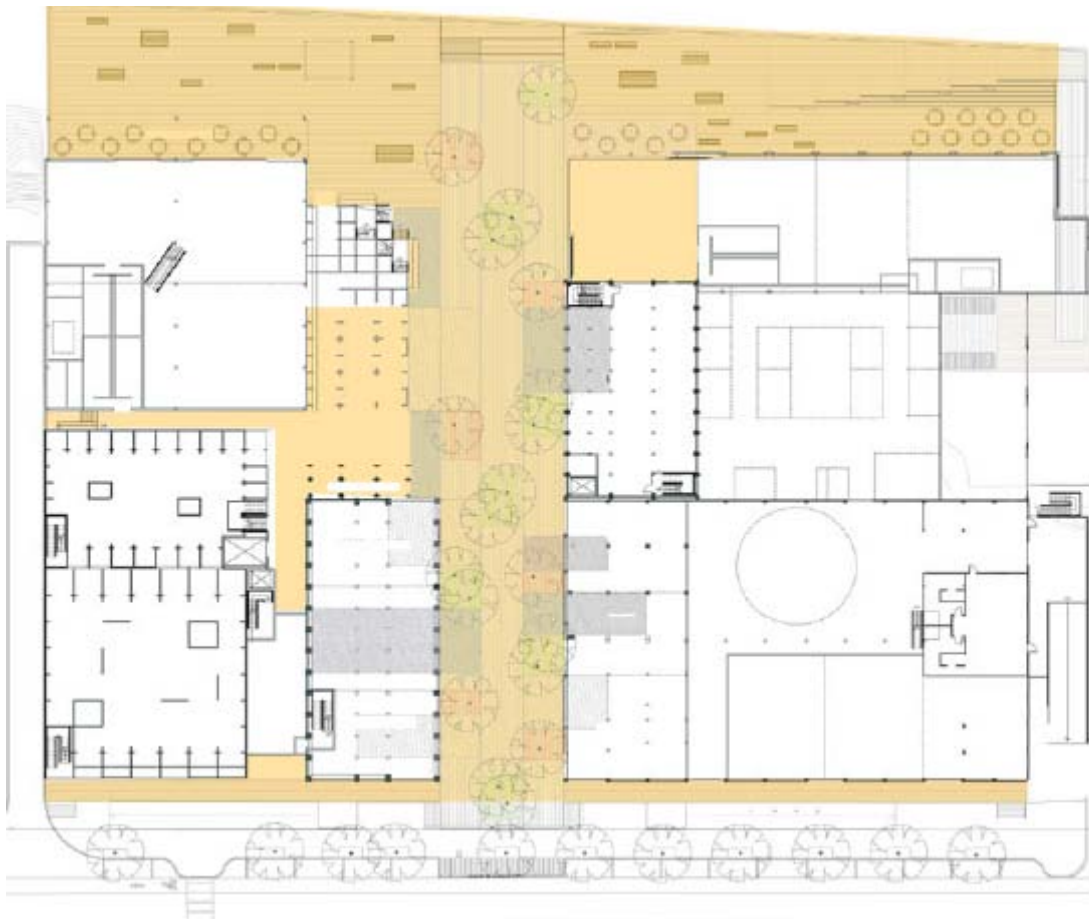
ATTACHMENT:

- A. Existing Site Plan, Proposed Ground Floor Plan, and Proposed Site Context

Existing Site Plan:



Proposed Ground Floor Plan:



Proposed Site Context with Greenway Tail, Pedestrian Bridge & Fields Park:

