

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: December 14, 2011

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 11-71

Authorize the Third Amendment to Disposition and Development Agreement for Station Place Redevelopment with Hoyt Street Properties and a Parking Lease for One Hundred Parking Stalls in the Station Place Garage with Pearl Hotel Investors

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6909

Adopt Resolution No. 6910

ACTION SUMMARY

The first resolution will authorize Amendment 3 to the Disposition and Development Agreement for Station Place Redevelopment (Station Place DDA) as it affects Station Place Lot 4, also known as Parcel 3. Station Place Lot 4 (Lot 4) was conveyed to Hoyt Street Properties (HSP) on April 26, 2004, as part of the trade of land for the Fields Neighborhood Park. Amendment 3 would make the following changes to the Station Place DDA:

- Changes the Scope of Development from residential with 30 units affordable to households at 120 percent Median Family Income (MFI) to allow a hotel use.
- Adds requirement to comply with PDC's Green Building Policy.
- Adds requirement to comply with PDC's current version of the Business and Workforce Equity Policy.
- Changes the Schedule of Performance with an estimated Construction Commencement date of October 1, 2013.
- Acknowledges PDC's approval to assign the DDA from HSP to Pearl Hotel Investors, LLC (PHI).

As part of Amendment 3, HSP has agreed to extend the repurchase right for affordable housing as set forth in the Amended and Restated Agreement between the City of Portland and Hoyt Street Properties, LLC (HSP DA) for two additional years until September 8, 2014. This obligation is described in Section V.D.3 of the HSP DA. In addition, HSP agrees that under the Hoyt Street Yards DA, its affordable housing obligation shall be increased by 30 for-rent or for-sale housing units affordable to households at or below 120 percent of MFI.

The second resolution will authorize a ten-year lease with four ten-year extensions with PHI for 100 parking stalls in the Station Place Garage to service the proposed hotel that PHI seeks to develop. This lease will generate an estimated \$1.5 million in revenue to PDC for the initial 10-year term, with potential for equal or greater revenue for subsequent extensions.

PUBLIC BENEFIT

The following public benefits would be achieved:

1. Business Amenity: The North Pearl Neighborhood lacks a hotel to service nearby businesses in need of a hotel to cater to business visitors and contractors. The proposed hotel would provide a much needed amenity for the neighborhood.
2. Job Creation: During construction, the hotel will generate an estimated 200 construction jobs. The proposed hotel will be operated by Marriott Corporation, and during operation, will employ approximately 67 full time workers.
3. Business and Workforce Equity Policy. Amendment 3 requires compliance with PDC's Business and Workforce Equity Policy.
4. Green Building: The Station Place DDA was executed prior to the adoption of PDC's Green Building policy. Amendment 3 requires compliance with PDC's Green Building Policy.
5. Increased Public Revenue:
 - a. *Lodging Taxes*: The proposed hotel is anticipated to generate annual lodging taxes of approximately \$1,000,000, based on the current tax rate of 11.5 percent.
 - b. *Property Taxes*: The improved land is estimated to generate an additional \$385,000 in property taxes annually.
 - c. *City Fees and Permits*: The proposed development will generate an estimated \$1,966,000 in fee and permit revenue to the city.
 - d. *Parking Revenue*: Staff has negotiated a 10-year lease with four 10-year extensions for 100 parking stalls in the Station Place Garage which will generate revenue of approximately \$105,600 annually for that garage in the first three years. The Station Place Garage is currently at about 55 percent peak occupancy and is owned by PDC.
6. Affordable Housing: The affordable housing program associated with Station Place Lot 4 was meant to serve a limited number of households at 120 percent MFI. Although this obligation will be eliminated, Hoyt Street will extend PDC's repurchase right for affordable housing under the Amended and Restated Agreement between the City of Portland and Hoyt Street Properties, LLC for two additional years, until

2014. This repurchase right will give the Portland Housing Bureau the opportunity to seek out a project that could serve a more diverse income mix. In addition, HSP agrees that under the Hoyt Street Yards DA, its affordable housing obligation shall be increased by 30 for-rent or for-sale housing units affordable to households at or below 120 percent of MFI.

This action will support the following PDC goals:

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

PUBLIC PARTICIPATION AND FEEDBACK

Due to the low risk and financial implication of this project and minimal potential for controversy, there was no public participation sought as part of this amendment. The design and concept of the revised scope of development was presented by the development team to the Pearl District Neighborhood Association Land Use Committee on November 15, 2011.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

- River District Urban Renewal Plan (1998): The proposed hotel would provide a much needed business amenity for the North Pearl Neighborhood and service nearby employers, thus supporting the following goals of the River District Urban Renewal Area Plan:
 - *Goal 3:* To become a community of distinct neighborhoods.
 - *Goal 6:* To enhance the economy and functional efficiency of the city.
- Portland Development Commission Strategic Plan (2010): The development of a hotel catering to business visitors in the North Pearl District would reinforce the following objectives:
 - *Jobs:* The Central City is the economic and employment core of the region. .
 - *Investment:* The Central City is a magnet for ongoing public and private investment to drive employment, enhance quality of life and generate taxes.

FINANCIAL IMPACT

Amendment 3: There is no public funding for the hotel.

Parking Lease: The proposed parking lease will carry a ten-year term with four ten-year extensions with PHI for 100 parking stalls in the Station Place Garage to serve the proposed hotel. This lease will result in \$105,600 in parking revenue to PDC for the first year and will be subject to annual increases based on neighborhood market rates. The lease proposed for approval specifies that annual increases cannot be less than three percent or more than

six percent. For the initial 10-year term the revenue is estimated to amount to \$1.5 million unless PDC chooses to exercise its right to reduce the number of spaces in the third and fifth years of the lease. This revenue is not currently budgeted in outgoing years for the River District Urban Renewal Area.

RISK ASSESSMENT

Amendment 3: As there is no PDC financing involved in either the previous workforce housing program or the revised hotel program, the risk to PDC investment is minimal. HSP owns Lot 4. If HSP, or its assignee, does not commence construction of a hotel in accordance with the Schedule of Performance (as defined in the DDA Amendment) then PDC has the right to reinstate the Station Place DDA housing affordability requirements on Lot 4.

PDC's right to re-enter and re-sell the property will terminate as of the date that a building permit is issued for the construction of a hotel on Lot 4. Previously this right terminated as of the date the developer obtained a Certificate of Completion from PDC.

Parking Lease: The following factors have been considered in the parking lease:

- If hotel development does not proceed: The parking agreement will terminate automatically if the hotel project has not obtained a Certificate of Occupancy by January 1, 2015.
- Market changes in parking rates: Parking rates are subject to annual increases based on comparable market rates of the neighborhood. Annual increases cannot be less than 3 percent or more than 6 percent.
- If redevelopment of garage occurs: In the event of a planned demolition and/or redevelopment of the Station Place Garage, PDC, or its successor, has the right in year 18 to terminate the agreement with two years notice.
- Parking garage capacity in outgoing years: The Station Place Parking Garage is currently at 55 percent peak occupancy. In order to have the ability to free up additional parking for future developments, changes in the number of parking spaces have been arranged as follows:
 - From year 1 – 3, 100 spaces.
 - At 3 years, PDC has right to reduce to 80 spaces.
 - At 5 years, PDC has right to reduce to 70 spaces.
 - At every 10-year renewal option, PHI will be guaranteed 70 spaces and parties can mutually agree to increase or reduce spaces.
 - Parties acknowledge that for any of the events above, the shared use of parking could be considered.

WORK LOAD IMPACT

Work required of PDC is built into existing staff work plans and no new staff is required.

ALTERNATIVE ACTIONS

The Board could elect to not approve one or both resolutions, or could direct staff to negotiate changes to one or both resolutions.

CONCURRENCE

The Executive Committee of the Portland Housing Bureau (PHB) has reviewed this proposal and supports the change of use of Station Place Lot 4 given that the repurchase right for affordable housing with HSP is extended to the year 2014 and that HSP agrees that its affordable housing obligation shall be increased by 30 for-rent or for-sale housing units affordable to households at or below 120 percent of on the remaining Hoyt Street land in the River District URA. Attachment C is a letter of support from the Portland Housing Bureau.

On October 14, 2011, the PDC Financial Investment Committee forwarded a recommendation to approve Amendment 3 to the Station Place DDA.

BACKGROUND

Station Place Lot 4 (referred as Parcel 3 in the DDA) was conveyed to HSP for \$4,054,840.00 on April 26, 2004, and was part of a land trade for a piece of property part of the Fields Neighborhood Park. HSP is under contract to sell the property to PHI for the development of a hotel to serve business visitors.

Station Place Lot 4 was one of four properties involved in the Station Place DDA and subsequent Amendment 1 (executed June 1, 2003) and Amendment 2 (executed May 3, 2004). The original Station Place DDA was executed September 27, 2002 and was a four party DDA amongst PDC; Hoyt Street Properties, LLC (HSP); Station Place, LLC (REACH); and H. Williams Advisors, Inc (HWA).

The Station Place DDA involved the following properties (identified in Attachment A):

- Station Place Lot 1 (Parcel 1a) – Conveyed to REACH for the development of affordable senior housing, Station Place Tower
- Station Place Lot 2 (Parcel 1b) – Originally to be conveyed to REACH, later conveyed to Soneed, LLC (Ziba)
- Station Place Lot 3 (Parcel 2) – Station Place Parking Garage, owned by PDC, with HWA as fee developer
- **Station Place Lot 4 (Parcel 3)** – Currently vacant, unimproved property conveyed to HSP for the development of at least 175 condominiums, of which 30 are to be affordable to households at 120 percent MFI or lower, specifically without PDC subsidy. This requirement was modified in Amendment 2 to the Station Place DDA by allowing a rental development to substitute for a condominium development stipulating that future negotiations between PDC and HSP could determine the scope of a rental housing development and its affordability component, and would result in another amendment to the DDA.

As part of Amendment 3, HSP agrees to modify two provisions under the Amended and Restated Agreement between the City of Portland and Hoyt Street Properties, LLC in order to provide for workforce and affordable housing opportunities within the district. First, HSP has agreed to extend the City's repurchase right under the Amended and Restated Agreement between the City of Portland and Hoyt Street Properties, LLC for two additional years, until 2014. This repurchase right included as part of the Amended and Restated Agreement will give the City of Portland an additional opportunity in 2014 to purchase a property that could be developed to serve a more diverse income mix.

Furthermore, Section V.A. of the HSP DA clarifies the parties' intent to cooperate to meet housing affordability goals on the 34 acres of land primarily located between NW 10th and 12th in the northern end of the Pearl District. (This area does not include Lot 4). HSP agrees to increase its affordable housing obligation by 30 for-rent or for-sale housing units affordable to households at or below 120 percent of MFI on the remaining Hoyt Street land in the River District URA.

PHI desires to lease 100 parking stalls at Station Place Garage to service the hotel for one ten-year term and up to four ten-year extensions thereafter. By allowing up to 50 years of available parking, the parking agreement is coterminous with the management agreement with the hotel operator. The stalls will be unmarked throughout the garage and will be leased at market rate, subject to annual increases based on the rate for monthly parking passes in the neighborhood. Annual increases cannot be less than 3 percent and not more than 6 percent. In order to ensure flexibility for future development, PDC has the right to reduce spaces to no less than 80 spaces at year three and to 70 spaces at year five. The parties will mutually agree to increase or reduce the number of spaces at every 10-year extension.

ATTACHMENTS:

- A. River District Financial Summary
- B. Project Summary
- C. Letter of Support – Portland Housing Bureau

URA FINANCIAL SUMMARY

Five-Year Forecast Project Requirements

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
River District URA						
Resources						
Beginning Fund Balance	12,157,166	6,602,768	11,907,767	1,865,107	1,273,770	1,030,219
Interest on Investments	100,000	30,000	100,000	0	0	0
Loan Collections	456,741	450,000	500,000	500,000	500,000	500,000
Property Income	1,016,000	582,348	582,348	582,347	582,349	582,348
Reimbursements	125,000	200,000	428,562	200,000	200,000	200,000
TIF Proceeds	46,523,874	50,450,100	20,314,110	37,024,952	56,327,237	46,300,387
Total Fund Resources	60,378,781	58,315,216	33,830,787	40,172,406	58,883,356	48,612,954
Requirements						
Program Expenditures						
Administration						
Finance Admin						
H98001 Debt Management	70,000	50,000	50,000	50,000	50,000	50,000
Strategic Planning/Policy & Prgm Dvlpmt						
H92110 Westside/Central City Study	150,000	0	0	0	0	0
Administration Total	220,000	50,000	50,000	50,000	50,000	50,000
Business Development						
Business Lending						
H79020 Business Finance	1,250,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Cluster Industry Development						
H72026 Cluster Development	0	200,000	0	0	0	0
H79023 Design Forum/PDX	0	1,000,000	0	0	0	0
H79100 Site Recruitment	0	71,250	71,250	71,250	0	0
Business Development Total	1,250,000	3,271,250	2,071,250	2,071,250	2,000,000	2,000,000
Housing						
PHB Housing						
H12030 Fairfield Apartments	430,000	500,000	0	0	0	0
H32138 Pearl Family Housing	7,000,000	0	0	0	0	0
H37937 RAC - Access Center	10,329,607	16,046,927	0	0	0	0
H37938 Blanchet House Redev	200,000	4,020,700	0	0	0	0
H37940 New Avenues for Youth	9,190	0	0	0	0	0
H80036 Yards at Union Station	0	3,982,438	0	0	0	0
H89030 Affordable Rental Housing	0	1,227,314	0	4,000,000	9,000,000	3,500,000
Housing Total	17,968,797	25,777,379	0	4,000,000	9,000,000	3,500,000
Infrastructure						
Parks						
H13119 Neighborhood Park (The Fields)	400,000	1,550,000	4,130,000	0	0	0
H13120 Neighborhood Park SDC Credit	0	400,000	0	0	0	0
Public Facilities						
H13138 Streetcar LID	0	0	500,000	0	0	0
H80020 Union Station	826,500	1,706,500	5,446,500	6,500	6,500	6,500
H80034 Community Facilities	78,000	0	0	0	0	0
Transportation						
H11233 Public Site Improvements	177,000	0	0	0	0	0
H13137 Streetcar Loop Project	11,523,396	0	0	0	0	0
Infrastructure Total	13,004,896	3,656,500	10,076,500	6,500	6,500	6,500
Property Redevelopment						
Commercial Real Estate Lending						
H28030 Redevelopment Loan Projects	3,200,000	2,080,000	3,800,000	3,800,000	4,000,000	4,000,000
Community Redevelopment Grants						
H27001 Storefront Grants	300,000	300,000	300,000	300,000	300,000	300,000
H27050 DOS Grants	75,000	75,000	75,000	75,000	75,000	75,000
Property Redevelopment						

Five-Year Forecast Project Requirements

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
H11244 One Waterfront Place	6,000	7,000	6,000	6,000	6,000	6,000
H12101 Downtown Retail Strategy	450,000	500,000	500,000	250,000	250,000	250,000
H12145 Blocks A&N	20,000	32,300	32,300	32,300	32,300	32,300
H13104 Centennial Mills Redevelopment	569,000	472,000	2,868,000	5,268,000	3,068,000	8,000
H13112 North Pearl District Plan	0	500,000	0	0	0	0
H13115 Station Place Garage/Parcels	378,700	233,147	223,147	223,147	223,147	223,147
H13143 RD Environmental	100,000	65,000	75,000	0	0	0
H22500 Post Office	518,500	420,000	5,000,000	8,000,000	20,000,000	30,000,000
H28032 Vestas	8,100,000	0	0	0	0	0
H80021 10th and Yamhill Redevelopment	250,000	0	0	3,750,000	9,200,000	0
H80027 PNCA	6,000	750,000	0	0	0	0
H80029 Block 25	14,000	0	0	0	0	0
H80031 Block 11	150,000	0	0	0	0	0
H80032 Horse Barn Relocation	0	750,000	1,250,000	0	0	0
H80037 Grove	130,000	2,707,850	0	0	0	0
Property Redevelopment Total	14,267,200	8,892,297	14,129,447	21,704,447	37,154,447	34,894,447
Total Program Expenditures	46,710,893	41,647,426	26,327,197	27,832,197	48,210,947	40,450,947
Personal Services	877,300	1,062,225	1,320,823	3,501,959	1,735,594	1,456,234
Transfers - Indirect	5,498,256	3,204,879	3,633,153	6,840,843	6,653,111	5,582,231
PHB Staff/Admin	689,564	492,919	684,507	723,637	1,253,485	1,051,725
Total Fund Expenditures	53,776,013	46,407,449	31,965,680	38,898,636	57,853,137	48,541,137
Contingency	6,602,768	11,907,767	1,865,107	1,273,770	1,030,219	71,817
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	60,378,781	58,315,216	33,830,787	40,172,406	58,883,356	48,612,954

PROJECT SUMMARY

- Project Name:** Station Place Lot 4 (Parcel 3)
- Description:** Vacant Land
- Location:** NW 9th Avenue and NW Marshall Street – NE Corner
- URA:** River District
- Current Phase:** Review of revised proposal
- Next Milestone:** Execution of DDA Amendment and Parking Agreement
- Completion Target:** June 30, 2015
- Outcome:** Program change from housing to hotel; Ten year parking lease with four (4) ten-year extensions for 100 parking stalls in the Station Place Garage

Site/Project Map:





CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

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December 2, 2011

Scott Andrews
Chair
Portland Development Commission
222 NW Fifth Ave
Portland, OR 97209

Dear Chair Andrews:

The Portland Housing Bureau supports the proposed third amendment to the Station Place Disposition and Development Agreement (DDA) dated September 27, 2002 among the Portland Development Commission (PDC), Hoyt Street Station Place, LLC and H. Williams Advisors, Inc., as amended.

Among other things, the third amendment would transfer the remaining affordable housing obligation under the DDA to other land in the Pearl District and allow for the development of a hotel on the site known as Station Place- Parcel 3. This new commercial development will add to the economic vitality of the area, increase the local tax base, and provide construction and permanent jobs for Portland residents.

Thank you and the PDC staff for your efforts to advance our jointly held goals for economic prosperity, jobs, and quality housing for all Portland residents.

Sincerely,

A handwritten signature in black ink, appearing to read "Traci Manning", is written over a horizontal line.

Traci Manning
Director
Portland Housing Bureau