

DATE: January 13, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-03

Authorizing the Terms of a Purchase and Sale Agreement to Convey 0.23 Acres of Real Property in the Downtown Waterfront Urban Renewal Area to Toyoko Inn Economy Hotel Planning and Development Co. Ltd. for \$1,024,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7162

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will approve the terms and conditions (Term Sheet) whereby the PDC Executive Director shall execute an Agreement for a Purchase and Sale (PSA) between PDC and Toyoko Inn Economy Hotel Planning and Development Co. Ltd. (Buyer) for the conveyance of 209 SW Oak Street (Property), a 10,000 square foot PDC-owned parcel located in the Downtown Waterfront Urban Renewal Area (URA). The Purchase Price of \$1,024,000 represents the net of the Buyer's market offer that assumed no encumbrances, less the estimated cost of complying with the Property's encumbrances (the most significant of which relates to a lease obligation for parking rights, as further discussed below). The Buyer is purchasing the Property to construct an approximately 300- to 400-room hotel that will serve as its first West Coast location (Project).

BACKGROUND AND CONTEXT

The subject Property and the two adjacent properties that comprise the block were formerly known as the "Police Block" (see Attachment A for a Project Description). Buildings on the Police Block included the City Jail Annex as well as the Police and Fire Department offices. The City of Portland vacated the entire block in 1984, and in 1985 declared the vacant block (consisting of eight tax lots) surplus and sold it in 1985.

The historic building on the southeast quarter of the Police Block – the former Police Headquarters building – was placed on the National Register of Historic Places and renovated into an office building. In 1997, two floors of above-ground parking were built on the northern half of the block facing SW Pine Street (owned by R.G. Investments), and above those two floors of parking the Westshore Apartments (subsidized affordable housing) were built by Pine Street Investors. At the time of that development, a 99-year lease with two 99-year extensions was encumbered on the parking garage that remained under the former City Jail Annex at the southwest corner of the block.

The PDC Board, through Resolution No. 5874, authorized acquisition of the remaining southwestern quarter block (the City Jail Annex), the Property, on June 19, 2002, with the intention of disposing of the

Property for housing development. Through 2010, PDC's efforts to redevelop the site as housing together with the parking garage encumbrance were unsuccessful. As part of those efforts, the City Jail Annex building and related underground parking garage were demolished in 2005 in preparation for redevelopment. In the 2010 Assignment and Assumption Agreement between PDC and the new Portland Housing Bureau (PHB), PHB declined to accept the Property as an asset so it remained with PDC for disposition. Following demolition, PDC's parking encumbrance obligations have been satisfied through annual reimbursement payments and an anticipated one time investment for structured parking replacement; this is reflected in the Downtown Waterfront URA's SW 3rd and Oak budget line item (see Attachment B).

In February 2015, the PDC Board directed PDC staff to initiate direct marketing of the Property for sale. PDC staff conducted a 60-day marketing period, which included posting signage on the property as well as online advertisements at websites such as CoStar and LoopNet. PDC collected and reviewed all three offers up until the deadline of June 6, 2015. Based upon feasibility of proposals, PDC staff negotiated a non-binding Letter of Intent with Buyer, which is the largest hospitality operator in Japan, with more than 240 hotels, the majority of which are located in Japan. The Buyer's concept is a limited service "modern Japanese inn" targeting business travelers. As noted, this Project would be the company's first West Coast location.

COMMUNITY AND PUBLIC BENEFIT

The proposed transaction will have a number of community benefits, including:

- The Property will provide new hotel accommodations and activity just to the south of the Old Town/Chinatown community;
- The Project will complete the street frontage of SW Oak Avenue, providing an active and commerce-friendly streetscape adjacent to the downtown retail core;
- The Project will promote both construction and permanent jobs;
- The Project represents a success in attracting foreign direct investment from Japan, which is a key part of PDC's international business development strategy;
- The Property will be developed as a privately-owned commercial building that will generate approximately \$300,000 per year in property tax revenues;
- Sale of the Property will provide PDC with resources to invest in future projects in the Downtown Waterfront URA, including activities contemplated in the Old Town/Chinatown Action Plan; and
- PDC's Equity and Green Building policies will apply to this transaction.

PUBLIC PARTICIPATION AND FEEDBACK

There was no public participation specific to this proposed transaction.

BUDGET AND FINANCIAL INFORMATION

The Downtown Waterfront URA Fiscal Year (FY) 2015-16 Approved Budget and Five Year Forecast currently includes funds for ongoing property management and reimbursement payments for the Property together with a one-time estimated cost associated with parking replacement (see Attachment B). The Approved Budget does not anticipate conveyance of the Property in FY 2015-16; therefore, the FY 2015-16 Budget and Five Year Forecast will need to be amended in winter 2016 to acknowledge net closing proceeds of approximately \$1,015,000. The minor difference between the negotiated PSA figure and the closing proceeds represents transactional costs.

RISK ASSESSMENT

Entering into this PSA creates minimal risks and would remove PDC's ongoing annual reimbursement payment obligation related to parking replacement should the property and related encumbrances transfer. The primary risk for PDC is that the proposed Project would not be realized in accordance with the terms of the PSA as follows:

1. **Buyer May Terminate the Transaction.** There is a risk that Buyer will terminate the transaction during the 30-day due diligence period. This is within their rights according to the PSA. A related risk is that Buyer will terminate the transaction subsequent to the end of the due diligence period but prior to closing. This risk is mitigated by Developer providing a \$250,000 earnest money payment; this payment is non-refundable after the end of the due diligence period.
2. **Buyer May Not Redevelop the Property Successfully.** There is a risk that Buyer will not succeed in developing the Property as a hotel and in a manner that addresses the parking encumbrance, as stipulated in the PSA. This risk is partially mitigated by a provision that permits PDC to repurchase the Property at the same price if the Buyer does not commence construction within two years of closing.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct PDC staff to incorporate new terms into the Term Sheet;
- Direct PDC staff to renegotiate specific terms and conditions;
- Reject the proposal in its entirety and direct PDC staff to remarket the Property; or
- Reject the proposal in its entirety and direct PDC staff to discontinue the disposition process.

ATTACHMENTS

- A. Project Summary
- B. Downtown Waterfront URA 2015-16 Financial Summary

PROJECT SUMMARY

Project Name: SW 3rd and Oak
Description: 0.23-acre vacant parcel
Location: 209 SW Oak Street, bounded by SW 3rd Avenue, SW Oak Street, Police Headquarters Office Building, and Westshore Apartments
URA: Downtown Waterfront
Current Phase: Disposition
Next Milestone: PSA Execution, beginning of Due Diligence
Completion Target: June 2018
Outcome: Toyoko Inn Economy Hotel



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
Downtown Waterfront URA						
Resources						
Beginning Fund Balance	14,416,731	16,397,236	11,035,759	7,875,605	8,291,581	5,646,146
Fees and Charges	250	6,000	2,800	2,800	2,800	2,800
Interest on Investments	60,000	30,000	10,000	10,000	0	0
Loan Collections	2,294,229	321,487	2,275,437	3,296,476	289,382	29,226
Property Income	2,734,764	2,490,035	2,571,510	69,885	68,260	66,635
Reimbursements	15,200	15,200	15,200	15,200	15,200	15,200
Total Resources	19,521,174	19,259,958	15,910,706	11,269,966	8,667,223	5,760,007
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101320 Debt Management-DTW	4,501	4,501	8,000	8,000	8,000	8,000
Total Administration	4,501	4,501	8,000	8,000	8,000	8,000
Business Development						
Business Lending						
L00210320 BL -General-DTW	100,000	100,100	100,100	100,100	100,100	100,100
Small Business & Community Dev						
B55005320 OT/CT Action Plan-DTW	75,000	65,000	65,000	0	0	0
Total Business Development	175,000	165,100	165,100	100,100	100,100	100,100
Housing						
PHB Housing						
H15430320 Affordable Rental Hsg-DTW	0	1,717,345	254,565	0	0	0
Total Housing	0	1,717,345	254,565	0	0	0
Infrastructure						
Parks						
N32010015 Chinese Garden-DTW	0	638,000	0	0	0	0
Transportation						
N32030015 Dtn Retail Infra-DTW-Adm	0	500,000	1,500,000	0	0	0
Total Infrastructure	0	1,138,000	1,500,000	0	0	0
Property Redevelopment						
Commercial Property Redevelopm						
P32053635 Old Town Lofts-Prkng-DTW-Adm	29,948	10,045	10,045	10,045	10,045	10,045
P32053625 Old Town Lofts-Accel	337,707	31,800	31,800	31,800	31,800	31,800
P32056515 RiverPlace Marina-DTW-Adm	20,000	15,200	15,200	15,200	15,200	15,200
P32060115 Block 8 - L-DTW-Adm	1,014,688	0	0	0	0	0
P32060415 SW 3rd & Taylor Lot-DTW-Adm	19,100	0	0	0	0	0
P32060515 One Waterfront South-DTW-Adm	8,960	4,600	4,600	0	0	0
P32060615 SW 3rd & Oak-DTW-Adm	78,015	73,432	2,873,432	0	0	0
P32052215 CC 2035-DTW-Adm	9,186	0	0	0	0	0
Commercial Real Estate Lending						
R01100320 CPRL-General-DTW	100,000	3,951,000	2,001,000	2,001,000	2,001,000	1,000
Community Redevelopment Grants						
G01100320 CLG-General -DTW	111,000	100,000	100,000	100,000	100,000	100,000
G02100320 DOS-General-DTW	100,000	50,000	50,000	50,000	50,000	50,000
G03100320 SIP-General-DTW	373,000	200,000	200,000	200,000	200,000	200,000
Total Property Redevelopment	2,201,604	4,436,077	5,286,077	2,408,045	2,408,045	408,045
Total Program Expenditures	2,381,105	7,461,023	7,213,742	2,516,145	2,516,145	516,145