

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: July 27, 2011

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 11-60
Authorize Loan and Disposition and Development Agreement with Grove Hostel Property, LLC

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6898

ACTION SUMMARY

This action will authorize a Disposition and Development Agreement (DDA) with Grove Hostel Property LLC (GHP), under which GHP will convert the Grove Hotel at 401-439 West Burnside Street, formerly a 70-unit Single Residential Occupancy (SRO) hotel, into to a 158-bed youth hostel with a 2,000 square foot restaurant and bar on the ground floor, and seven small retail spaces leased to tenants providing useful goods and services to the hostel guests (Project). Ace Group International, LLC, the umbrella entity over the Ace Hotel brand, will operate the youth hostel and restaurant, and lease the ground floor retail. The new Asian themed hostel, adjacent to the Chinatown Gateway, will serve as a catalytic landmark for the continuing revitalization of Old Town Chinatown.

Goldsmith Holdings LLC, the adjacent property owner and owner of the remainder of Block 32, has a controlling interest in GHP. The sale of the Grove Hotel to the abutting property owner, Goldsmith Holdings LLC, will provide for a single ownership for a full block redevelopment in the future. Block 32 is the second phase of a two block catalytic redevelopment strategy that proposes to first develop the northerly adjacent Block 33 as a mixed-use project with Block 32 following thereafter.

This action will also authorize a \$2.465 million loan to GHP to finance a portion of the costs of the Project, as contemplated by the DDA. In the construction of the Project, GHP is required to comply with PDC's Business and Workforce Equity Policy and PDC's Green Building Policy and to pay State of Oregon Prevailing Wage Rates. Although PDC's Green Building Policy requires that the Project achieve LEED Silver for Commercial Interiors, GHP is aiming for LEED Gold for Commercial Interiors.

PUBLIC BENEFIT

The Project will have a significant impact on the revitalization of Old Town Chinatown. The building is completely vacant now, in disrepair and burdened with many outstanding code

violations. The renovation will result in a more highly utilized building, attract young creative tourists to the area and support an active pedestrian environment. The hostel will be centrally located, accessible to public transportation, and close to many bars, nightclubs and restaurants that make it a prime location for visitors. As a building directly adjacent to the Old Town Chinatown gate, it will provide an iconic symbol of the neighborhood's revitalization.

A catalytic project for Old Town Chinatown in the near term, the Project will create significant benefit for the neighborhood. The proposed youth hostel will draw new visitors to the historic neighborhood that will, in turn, draw discretionary income to the existing neighborhood businesses. The operator, Ace Group International, LLC, is a nationally known brand that caters to a young, creative class clientele. The ground floor commercial will remain active throughout the day, unlike many businesses in the immediate vicinity which have a nighttime clientele focus. The Ace Hotel is recognized for the active retail environment and economic impact it generates in its current neighborhood locations, such as the West End neighborhood in Portland and in Midtown Manhattan, New York. The attraction of young, creative tourists to the area supports Objective 2.2 of the Economic Development Strategy- Enhance the vitality and distinctiveness of the Central City to showcase our sustainable way of life and attract creative class talent. Finally, in constructing the Project, Developer will be required to comply with PDC's Business and Workforce Equity Policy and PDC's Green Building Policy, and pay State of Oregon Prevailing Wage Rates.

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

This Project was presented to the River District URAC on June 14, 2011, and the Old Town Chinatown Neighborhood Association on June 7, 2011. Both groups support the Project and welcome new investment to Old Town Chinatown in the near term.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

- Amended and Restated River District Urban Renewal Plan (2009):
 - *Goal 3: To become a community of distinct neighborhoods.* By helping to revitalize Old Town Chinatown, the proposed youth hostel will aid in reinforcing the distinctiveness and economic vitality of the neighborhood.
 - *Goal 4: To enhance the best of what exists.* Located directly adjacent to the Chinatown gate, this project will help highlight the uniqueness of Old Town Chinatown by drawing attention to the signature entry into Old Town Chinatown, thus reinforcing the historic fabric of the neighborhood.

- *Goal 5: To strengthen connections between the River District and its neighbors.* Both the location and proposed use for the Grove Hotel will create natural connections to adjacent neighborhoods. Located on lower Burnside, spanning the transit mall, the future youth hostel will have easy and quick access to downtown, the Central Eastside, the Lloyd District, and the western neighborhoods of the Central City. Visitors staying at the Grove Hostel will tend to explore nearby neighborhoods and districts, thus creating a natural economic connection to the River District's neighbors.
- Portland Development Commission Strategic Plan (2010): The rehabilitation of the Grove Hotel 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.
 - *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.
- Portland Economic Development Strategy (2009):
 - Objective 2.2: Enhance the vitality and distinctiveness of the Central City to showcase our sustainable way of life and attract creative class talent.
 - The Project will be marketed and targeted to the creative class and therefore supports Objective 2.2 of the Portland Economic Development Strategy. The Portland Economic Development Strategy notes the importance of maintaining a vibrant Central City, *"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.*

FINANCIAL IMPACT

PDC will use the Commercial Property Redevelopment Loan program (CPRL program) to provide a portion of the financing for the property redevelopment in addition to significant equity from GHP and a loan from Advantis Credit Union (Advantis). The CPRL program is designed to assist private partners with redevelopment, new development and tenant improvements that encourage property revitalization and wealth creation within URAs. The project must demonstrate a significant public purpose, which can include preservation of historic buildings, implementation of transit-oriented development, supportive of job growth or job retention, integration of sustainable and green building practices, and advancement of social equity.

PDC will provide a \$2.465 million CPRL for the acquisition and renovation of the Grove Hotel, in accordance with the DDA, structured as detailed in the table below. The sales price of the property will be its Fair Market Value of \$765,000 as determined by an appraisal updated by Integra Realty Resources in October 2010. The cost to renovate the Grove Hotel and bring the project to stabilization is projected at \$4.17 million (including the property acquisition cost). A previously approved \$150,215 PDC predevelopment loan will be repaid from loan proceeds at closing. An as-built appraisal of the project is on order, and closing of the PDC loan will be contingent on a Loan to Value that does not exceed 100%.

Commercial Property Redevelopment Loan	
Loan Amount	\$2,465,000 Delegated program authority to the Executive Director is \$2,000,000.
Purpose	Rehabilitation of the Grove Hotel into a youth hostel with ground floor commercial space
Loan Fee	1.0%
Interest Rate	Construction loan : 4.25% Permanent loan (first 12 months): 4.25% Permanent loan (next 24 months): 5.50% Permanent loan (all later years): 7.00%
Term	Construction loan (construction period): 6 months plus 2 3-month extensions Construction loan (stabilization period) : 24 months Accrued interest will be capitalized to the loan balance at the end of the deferral period Permanent loan: amortized over 20 years, due when the senior loan matures (projected October 2021)
Payments	Construction loan (construction period) : payments are deferred Construction loan (stabilization period) : for 12 months, payments are deferred, next 12 months payments are interest-only Permanent loan: principal and interest based on a 20-year amortization
Reserve Requirement	GHP will be required to fund a Furniture, Fixtures and Equipment Reserve GHP will be required to fund a Debt Service Reserve
Collateral	Trust deed on the subject property, junior to senior loan
Guarantors	Guaranties from David & Katherine Gold and Howard & Linda Davis. The aggregate ownership interest of David & Katherine Gold and Howard & Linda Davis is greater than that of John and Janet Jay, who are not providing personal guaranties.
Leverage	1:.69, which is less than the program guideline minimum of 1:1, <i>see below</i>

The \$1 million Advantis loan and \$705,837 equity resources are the maximum available for the project, which resulted in the leverage of 1:.69. Advantis was the only lender willing to provide long-term financing for the Project, and \$1 million was the maximum they were willing to lend after assessment of the Project risk. The Advantis loan is conditioned on senior lien position and minimum debt service coverage of 1.15 (among other

requirements). The Advantis loan will allow a year of interest-only payments to allow for construction and stabilization, followed by nine years of principal and interest payments.

Per Attachment A, the River District Fiscal Year 2011-2 approved budget has \$2.7 million allocated for the Grove.

RISK ASSESSMENT

PDC assumes significant financial risk for this Project as the major funding resource, particularly since the PDC loan will be secured by a subordinate lien. However, the risks will be mitigated by commitments from GHP and conservative operating projections. Although not all GHP members are providing a personal guarantee, the risks are mitigated by the members that are providing personal guarantees. Also, the GHP guarantors have strong personal financials and excellent credit history.

GHP is contributing significant equity to the Project, and has agreed to cover increased Project costs above the project budget for up to \$300,000 with additional equity contributions. The \$300,000 estimate derives from an assumed \$300,000 costs savings in the construction budget from competitive bidding. Therefore, GHP has agreed to contribute up to \$300,000 additional equity if those savings do not materialize or other Project costs increase.

The operating projections for the Grove Hostel were built on conservative room revenue assumptions, and experience from other Ace Hotel projects informed assumptions for expenses and other revenue sources. A market study completed by Tungsten Partners in 2010 assumed the hostel could achieve an average 70 percent occupancy rate and an average rate of \$38.24 per bed after a three year stabilization period, based on its central location and because a complete lodging, retail, food and beverage experience will be offered. After the same three year stabilization period, GHP projects occupancy of 56 percent and an average rate of \$34.61 per bed, with conservative future growth. GHP is leasing the retail spaces to tenants that reflect Portland's local food and creative culture. Lease negotiations are underway for all of the spaces. The DDA requires that the Grove Hotel be operated as a youth hostel for a period of 10 years after PDC issues its Certificate of Completion, unless PDC consents to another use.

The PDC predevelopment loan is unsecured and if the Project financing does not close, PDC is at risk for the repayment of the predevelopment loan. If the loan is not repaid with proceeds from the Project construction financing, full repayment is due on December 30, 2012. PDC also has the option to forgive this loan if GHP and PDC agree that the Project is not financially feasible (among other conditions).

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 not to authorize the DDA or the loan or might recommend changes to the DDA or loan terms. The Board could also choose to reduce the amount of PDC financial assistance for this Project, requiring the development team to find additional funding which could delay or ultimately terminate the Project.

The Commission could elect to hold the property and engage in an alternative solicitation process.

CONCURRENCE

On July 12, 2011, the Financial Investment Committee forwarded a recommendation to approve the DDA and \$2.465 million loan for the acquisition and rehabilitation of the Grove Hotel.

BACKGROUND

The Grove Hotel is a 3-story building adjacent to the Chinatown Gateway, located in the Portland New Chinatown/Japantown Historic District (Chinatown Historic District). The ground floor storefronts housed many Chinese and Japanese establishments as well as long-term non-Asian businesses. The upper floors of the Grove Hotel have operated as a 70-unit residential hotel from its inception. The building is considered to be contributing to the Chinatown Historic District because of its association with the Asian ethnic community and the architectural firm that designed renovations in 1930.

After years of disrepair, neglect, and increasing criminal activity, the City of Portland targeted the site for clean-up. On September 27, 2007, the City asked the Housing Authority of Portland (HAP) (now known as Home Forward) to purchase and rehabilitate the building, with the Portland Development Commission (PDC) to provide funding.

Responding to this request, HAP took possession on November 28, 2007, and completed renovation of the building, correcting most of the code violations on the residential portion of the building. PDC provided a \$3.48 million loan to HAP, from the Downtown Waterfront Urban Renewal Area (the URA then encompassing the Grove Hotel), to finance the renovation. Central City Concern (CCC) began leasing The Grove Hotel for their Housing Rapid Response (HRR) Program on September 1, 2008, with the understanding that CCC would terminate the lease once a new home for the HRR program was secured.

HAP retained ownership of the Grove Hotel during the resolution of the River District URA plan legal appeal which, when resolved, extended the boundary of the River District Urban Renewal Area to include the Grove Hotel. PDC acquired the Grove Hotel in March 2010 (authorized by Resolution 6630). As part of the purchase price, the River District URA assumed HAP's obligations under the original \$3.48 million loan issued by Downtown Waterfront URA and paid an additional \$242,000 in earnest money to compensate HAP for holding Grove Hotel during the term of the River District appeal, yielding a total acquisition cost of \$3.71 million. As documented in a regulatory agreement signed by the City of Portland and PDC in February 2010, 70 of the 130 new units in Bud Clark Commons (formerly known as the Resource Access

Center) will serve as replacement housing for the very low-income units that will be lost when redevelopment of The Grove Hotel occurs. PDC has successfully relocated all of the remaining residential tenants and CCC's lease terminated on September 15, 2010.

The property has been appraised three times in preparation for PDC's acquisition and disposition of the Grove Hotel. In June 2008, the property was valued at \$2.6 million, assuming it was a potential shell or redevelopment property (not low-income housing) and the building remodel was complete. In May 2010, the property was valued at \$1.1 million, and the appraisers explained the change was due to the steep decline in real estate values and because the expected remodel of the ground floor was not completed. That appraisal was updated in October 2010 and the property was valued at \$765,000; the value of \$963,000 was reduced for the cost to repair fire damage and correct code violations.

Development Concept and Feasibility

As shown in the property map in Attachment A, the Grove Hotel is located on an L-shaped 11,000 square foot parcel that limits the feasibility of redevelopment. Moreover, the property shares a party wall agreement with the Goldsmith Blocks to the north. An appraisal completed by Integra on April 23, 2010, states, "The shape of the parcel limits the utility of the site for many kinds of development: half of the Burnside Street frontage has a depth of only 30 feet, which restricts its adaptability. On the other hand, if the site were assembled with adjoining property immediately north of the shallow portion of the site, it would be a more desirable development site."

Acknowledging full block ownership would eventually allow for the highest and best use of the site, PDC Executive Director authorized exclusive negotiations with David Gold, managing partner of Grove Hostel Property, LLC and Goldsmith Holdings, LLC (owner of the remainder of the block on which the Grove Hotel is located). Mr. Gold brought forth a proposal for the operation of youth hostel until market conditions are potentially favorable for a full block redevelopment.

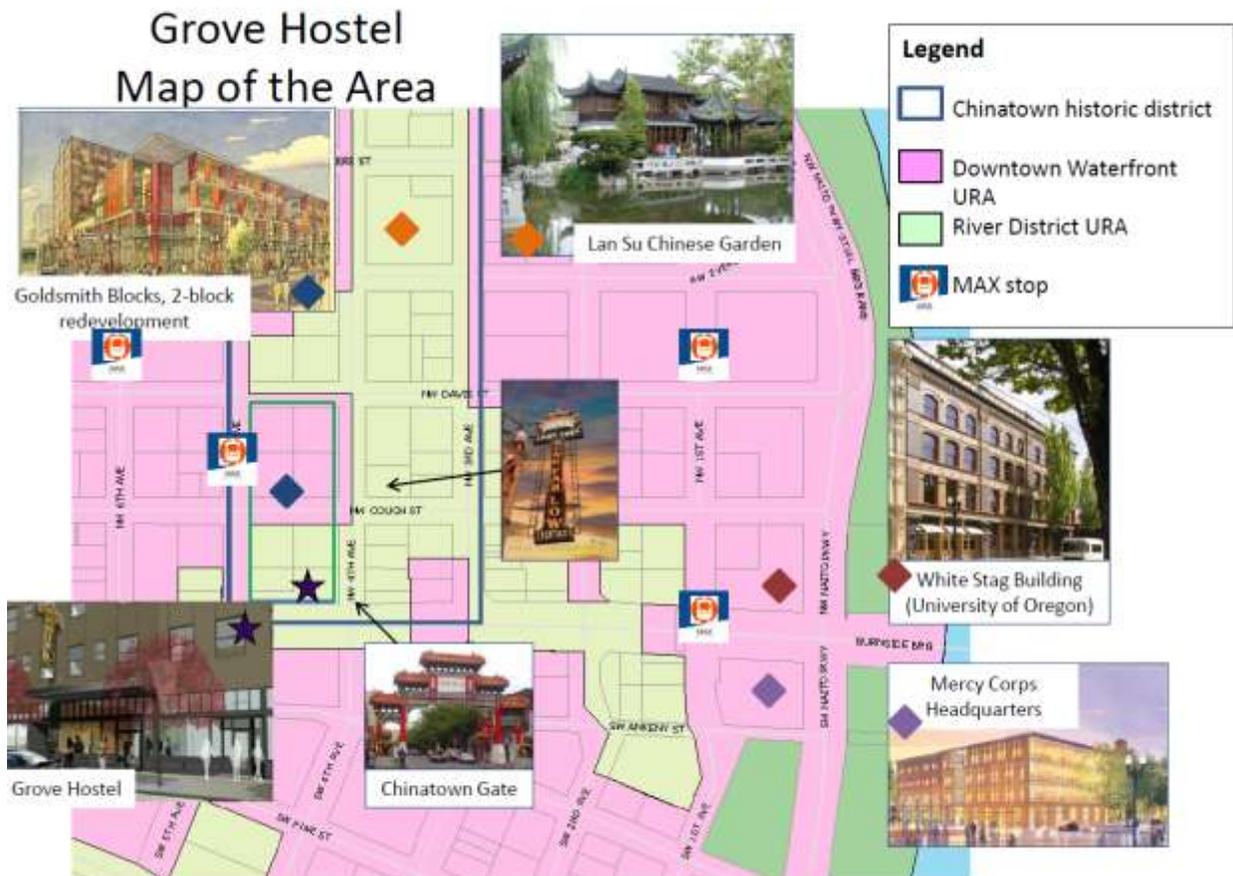
Grove Hostel Property LLC proposes a renovation of the residential portion of the Grove Hotel to accommodate a youth hostel use, while preserving most of the commercial square footage on the ground floor. The program for the proposed development includes a 158-bed youth hostel, a 2,000 square foot restaurant and bar on the ground floor, and seven small retail spaces leased to tenants providing useful goods and services to the hostel guests. PDC has entered into exclusive negotiations with the members of the Grove Hostel Property, LLC, and proposes to sell the property for its current appraised value of \$765,000, and provide financing for the property acquisition and \$1.7 million of the redevelopment costs. The redevelopment loan will provide long-term financing for a \$150,215 predevelopment loan from PDC (approved on November 10, 2010, and closed December 31, 2010). The proposed redevelopment is innovative, given the project concept proposed by GHP, but a feasibility study performed by Tungsten Partners and financial analysis performed by GHP indicate the Project is financially feasible.

ATTACHMENTS:

- A. Project Summary
- B. URA Financial Summary

PROJECT SUMMARY

- Project Name:** Grove Hotel
- Description:** Conversion and renovation of a former 60-room Single Room Occupancy to a 158-bed hostel with over 8,000 square feet of ground floor commercial
- Location:** 401-439 West Burnside Street
- URA:** River District
- Current Phase:** Disposition and Development Agreement (DDA) Negotiations
- Next Milestone:** DDA Approval
- Completion Target:** February 2012
- Outcome:** Renovation of a vacant, underutilized, and blighted building.
- Site/Project Map:**



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	426,562	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						
H08001 Debt Management	70,000	50,000	50,000	50,000	50,000	50,000
Strategic Planning/Policy & Prgrm Dvlpmnt						
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
H60020 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
H60021 10th and Yamhill Redevelopment	250,000	0	0	3,750,000	9,200,000	0
H60027 PNCA	6,000	750,000	0	0	0	0
H60029 Block 25	14,000	0	0	0	0	0
H60031 Block 11	150,000	0	0	0	0	0
H60032 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