



**DATE:** April 16, 2014  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 14-09

Authorizing a Purchase and Sale Agreement to Convey 0.31 Acres of Real Property in the Central Eastside Urban Renewal Area to The Fair-Haired Dumbbell, LLC for \$1,160,000

### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7042

### **ACTION DESCRIPTION**

This action will authorize the Portland Development Commission (PDC) Executive Director to execute an Agreement for Purchase and Sale of Property and Right of Purchase (PSA) between PDC and The Fair-Haired Dumbbell, LLC (Developer), for the conveyance of Burnside Bridgehead Block 76E (Property), a 13,566 square foot (SF) PDC-owned parcel, for the consideration of \$1,160,000. The Property is located in the Central Eastside Urban Renewal Area (CESURA) at the northwest corner of East Burnside Street and NE Martin Luther King, Jr. Boulevard (see Attachment A, Project Summary).

The Developer intends to develop two connected office buildings containing 63,700 SF of gross building area, 52,300 SF of total net leasable area (40,000 SF office, 7,000 SF retail, and 5,300 SF common area) and approximately 38 parking spaces (Project).

### **BACKGROUND AND CONTEXT**

Burnside Bridgehead Property. The Burnside Bridgehead Property, which consists of Blocks 67, 68, 76, and portions of Blocks 69 and 75, was acquired by PDC between 1998 and 2006 for the purposes of implementing a multi-block mixed-use redevelopment project. The Burnside Bridgehead Property is located within Portland's Central City, immediately across the Willamette River from the Central Business District.

Block 76E. The Property is located in the southeast quadrant of the Burnside Bridgehead Property (see map in Attachment A), at the foot of the Burnside Bridge bounded by East Burnside Street, NE Martin Luther King, Jr. Boulevard, and NE Couch Street. Block 76 was formerly a full city block owned by PDC before the East Burnside-Couch Couplet was constructed. The alignment of NE Couch Street was routed through Block 76 as part of that project, which divided Block 76 roughly in half. The Property is zoned Central Employment with Design Overlay (EXd).

2004 Request for Proposals. PDC issued a Request for Proposals on August 16, 2004, to solicit development proposals for the Burnside Bridgehead Property. PDC selected Opus Northwest, LLC (Opus) as the preferred developer and entered into a Memorandum of Understanding (MOU) with Opus on March 8, 2006. The development program proposed by Opus changed over time in response to market conditions, and the PDC Board of Commissioners (Board) decided to allow the MOU to expire in 2008 without entering into a development agreement with Opus.

2010 Framework Plan and Request for Interest. Following the expiration of the MOU with Opus, PDC initiated preparation of the Burnside Bridgehead Framework Plan (Framework Plan), which was adopted by the PDC Board on May 26, 2010. The Framework Plan established a strategic design approach for the redevelopment of the Burnside Bridgehead Property involving development in smaller increments and by more than a single developer. As the first step toward implementing the Framework Plan, PDC issued a Request for Interest (RFI) on July 15, 2010 seeking offers from qualified development teams to purchase and redevelop portions of the Burnside Bridgehead Property.

The PDC received a total of ten statements of interest in response to the RFI, including two statements submitted by Cavanaugh + Cavanaugh, LLC<sup>1</sup> (Cavanaugh) that were specific to Block 76. Cavanaugh initially expressed interest in pursuing an office project on Block 76W and a residential project on Block 76E. Cavanaugh subsequently refined the development concept and proposed to pursue an office development on Block 76E and PDC and Guerrilla Development entered into a MOU on June 17, 2013. The MOU set forth the mutual understandings and intentions to complete a series of due diligence scope items while negotiating the terms of a binding PSA. The MOU expired March 17, 2014.

Project. Developer anticipates constructing a six-story, \$14,300,000 office building referred to as The Dumbbell. The 64,000 SF building is planned to contain approximately 40,000 SF of office space, 7,000 SF of ground-floor retail, and 38 parking spaces. Developer is expecting to “crowdfund” a portion of the financing for the project through Fundrise, which offers an opportunity for community members to invest in and share the financial benefits of new developments.

The key terms of the negotiated PSA, which is an exhibit to the resolution, include:

- Purchase price of \$1,160,000 for 13,566 SF of real property, which represents a fair market value transaction based on a July 2013 appraisal;
- The purchase price may be reduced by up to \$30,000 to compensate Developer for incremental environmental costs if Developer is required by the City of Portland to excavate to provide below-grade parking;
- PDC to provide no investment or financial assistance for development of the Property;
- Developer to provide PDC an earnest money payment of five percent (\$58,000) due within five days of the effective date, and generally non-refundable following the due diligence period;
- Developer may elect not to proceed with the transaction if matters are unacceptable to Developer at end of 60-day due diligence period;
- Closing to occur within 30 days of PDC’s completion of a right-of-way vacation process, which is expected to take six to nine months and no later than February 14, 2015;
- Developer may request an extension to closing of up to 90 days, accompanied by an additional five percent (\$58,000) non-refundable earnest money payment, if the proceeds of the Fundrise offering are not yet available to Developer;
- Developer accepts responsibility for environmental condition of the Property and for compliance with all environmental laws;
- Developer must commence construction on the Property consistent with the CESURA Plan, Framework Plan, and zoning within three years of the effective date;
- Developer may not commence construction until PDC has certified the proposed development complies with the CESURA and Framework Plans; and

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<sup>1</sup> Kevin Cavanaugh is the principal of Cavanaugh + Cavanaugh, LLC, Guerrilla Development, and The Fair-Haired Dumbbell, LLC.

- PDC has a right to repurchase the Property if Developer does not commence construction within three years of the effective date.

### **COMMUNITY AND PUBLIC BENEFIT**

Public benefits of executing the PSA include:

- Land sale proceeds of \$1,160,000 to PDC, which will subsequently be available for investment in other CESURA economic development initiatives;
- A project developed without direct financial assistance from PDC that provides office space to small businesses and entrepreneurs in the CESURA and further establishes Central Eastside’s “Produce Row” as an attractive and vibrant place to do business;
- The Property will be redeveloped with a privately-owned office building that is estimated to generate about \$200,000 per year in property tax revenues; and
- Development of the Property will further implement the Framework Plan and build upon other recent accomplishments, including completion of the Eastside Burnside-Couch Couplet in 2010, completion of the Eastside Portland Streetcar Loop in 2012, and completion of the Eastside Exchange building renovation in 2013.

Since this is a market rate transaction, neither the Equity Policy nor the Green Building Policy will apply. However, Developer has committed to tracking utilization of Certified Firms during Project construction and to working with PDC’s Director of Communications and Social Equity to expand contracting opportunities.

### **PUBLIC PARTICIPATION AND FEEDBACK**

The Framework Plan was prepared with the advice and consultation of a 15-member Citizen Advisory Committee (CAC). The Framework Plan set the stage for redevelopment of the entire four-block area. Three members of the CAC served on the evaluation panel that selected Developer as the preferred developer for Block 76.

Subsequent to execution of the MOU, Developer has conducted outreach to the community primarily through the Fundrise campaign. That effort has yielded more than \$3,000,000 in “Test the Waters” equity pledges from more than 700 individuals. In addition, Developer participated in a Design Advice Request hearing with the Portland Design Commission at which members of the public had an opportunity to provide input and feedback.

Generally, stakeholders have been supportive of PDC’s implementation of the Framework Plan and the planned development on Block 76E. Development projects are currently advancing on all of the Burnside Bridgehead parcels.

### **BUDGET AND FINANCIAL INFORMATION**

The CESURA fiscal year (FY) 2013-14 Revised Budget, FY 2014-15 Requested Budget, and Five Year Forecast currently includes funds for ongoing ownership, maintenance, and disposition of the entire Burnside Bridgehead Property (see Attachment B). The proposed PSA anticipates that PDC will receive the earnest money payment in FY 2013-14 and the balance of the purchase price in FY 2014-15. Currently, all proceeds from the sale are reflected in the FY 2014-15 Requested Budget. The FY 2013-14 Revised Budget and future versions of the FY 2014-15 budget will be updated to be consistent with the terms of the PSA.

### **RISK ASSESSMENT**

Entering into this PSA creates minimal risks, as PDC is selling the Property for fair market value and does not have financial resources at risk. The primary risk for PDC is that the proposed development would not be realized in accordance with the terms of the PSA as follows:

1. Developer May Terminate the Transaction. There is a risk that Developer will terminate the transaction during the 60-day due diligence period. This risk is relatively minor, is a standard business practice, and cannot be mitigated. A related risk is that Developer 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 five percent (\$58,000) earnest money payment within five days of the effective date which is non-refundable after the end of the due diligence period.
2. Developer May Not Redevelop the Property Successfully. There is a risk that Developer will not succeed in redeveloping the Property. Subsequent to the end of the due diligence period but prior to closing, this risk is mitigated by the earnest money payment. Subsequent to closing, this risk is further mitigated by (a) Developer paying PDC the purchase price in cash at closing, and (b) PDC retaining a repurchase right in the event Developer does not commence construction within three years of the effective date.
3. Developer May Not Develop the Property as Anticipated. There is a risk the Developer may develop something other than the proposed Project on the Property. The PSA does not require the development of a specific use or design, only development that is consistent with the Framework Plan, zoning regulations, and the CESURA Plan. PDC has not required a specific use or design because (a) PDC is not investing any financial resources in the Project and is selling the Property at fair market value; and (b) a wide range of uses consistent with the Framework Plan, zoning regulations, and the CESURA Plan will be beneficial to the neighborhood. To ensure the Project complies with the Framework Plan, the Developer will be required to deliver to PDC sufficient documentation that verifies the Project complies with all five principles of the Framework Plan.

### **ALTERNATIVE ACTIONS**

The Board could decide to:

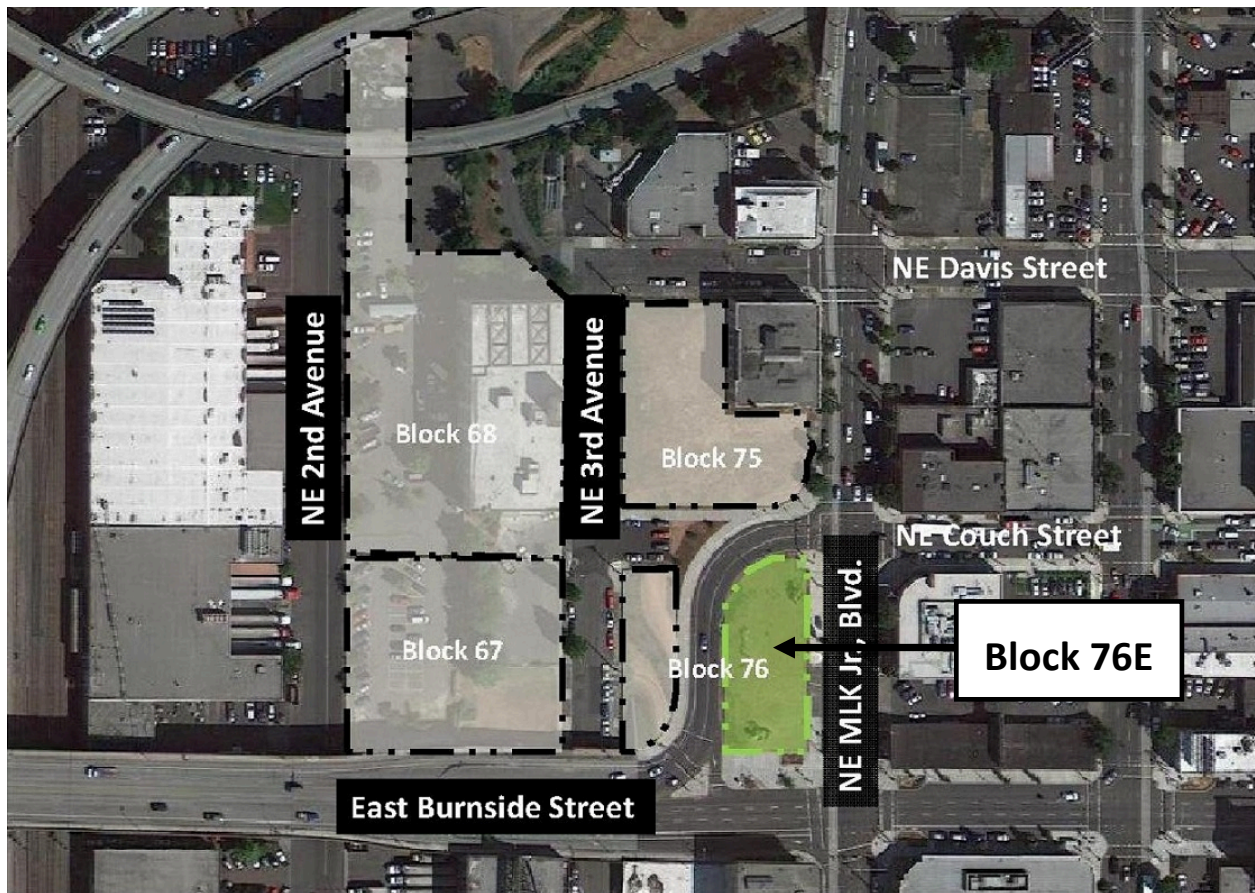
- Direct staff to incorporate new terms or changes to the terms and conditions into the PSA;
- Direct staff to renegotiate specific terms and conditions; or
- Terminate the disposition process.

### **ATTACHMENTS**

- A. Project Summary
- B. Urban Renewal Area (URA) Financial Summary

### PROJECT SUMMARY

- Project Name:** Burnside Bridgehead Block 76E Purchase and Sale Agreement
- Description:** 0.31-acre vacant parcel zoned Central Employment with Design Review Overlay (EXd).
- Location:** Central City at East Burnside Street, NE Martin Luther King, Jr. Boulevard, and NE Couch Street
- URA:** Central Eastside
- Current Phase:** Disposition
- Next Milestone:** Closing/Conveyance
- Completion Target:** October 2014
- Outcome:** Conveyance of Burnside Bridgehead Block 76E to The Fair-Haired Dumbbell, LLC for a mixed-use development consistent with the CESURA Plan, the Burnside Bridgehead Framework Plan, and zoning, currently anticipated to be a 64,000 SF office building with ground-floor retail.



**URA Financial Summary**

**Five-Year Forecast Program Requirements Detail**

	Revised- 1 FY 2013-14	Draft FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
<b>Central Eastside URA</b>						
<b>Resources</b>						
Beginning Fund Balance	4,899,209	6,699,373	2,883,921	819,949	1,575,644	2,668,540
Interest on Investments	10,000	10,000	10,000	5,000	5,000	5,000
Loan Collections	206,094	797,816	135,276	132,593	844,025	270,789
Property Income	1,656,000	1,116,810	6,000	6,000	6,000	251,000
Short Term Debt	2,997,000	2,997,000	4,890,046	3,892,145	2,239,734	0
<b>Total Resources</b>	<b>9,768,303</b>	<b>11,620,999</b>	<b>7,925,243</b>	<b>4,855,687</b>	<b>4,670,403</b>	<b>3,193,329</b>

**Requirements**

**Program Expenditures**

**Administration**

**Financial Administration**

A45101355 Debt Management-CES

18,000 18,000 18,000 18,000 18,000 18,000

**Total Administration**

**18,000 18,000 18,000 18,000 18,000 18,000**

**Business Dev**

**Business Lending**

L02100355 BIF-General-CES

300,000 300,000 300,000 300,000 300,000 300,000

**Traded Sector Business Dev**

B15100355 Cluster Development-CES

50,000 50,000 50,000 50,000 50,000 50,000

B55806355 CES Entrepreneurial District-C

150,000 150,000 150,000 150,000 0 0

T01089355 Lean Manufacturing-CES

30,000 0 0 0 0 0

**Total Business Dev**

**530,000 500,000 500,000 500,000 350,000 350,000**

**Infrastructure**

**Parks**

N35514815 Eastbank/Asset Trsfr-CES-Adm

25,813 8,813 8,813 8,813 8,813 8,813

**Public Facilities**

N35525215 Community Center-CES-Adm

0 0 0 985,000 0 0

**Total Infrastructure**

**25,813 8,813 8,813 993,813 8,813 8,813**

**Portland Hsg Bureau**

**PHB Housing**

H15430355 Affordable Rental Hsg-CES

0 800,000 2,300,000 0 0 0

H15900355 PHB Staff & Admin-CES

40,619 115,429 338,003 149,531 97,123 0

**Total Portland Hsg Bureau**

**40,619 915,429 2,638,003 149,531 97,123 0**

**Property Redev**

**Commercial Property Redevelopm**

P35557215 Burnside Bridgehd Rdv-CES-Adm

102,700 0 0 0 0 0

P35550115 ODOT Blocks-CES-Adm

100,000 0 0 0 0 0

P35580015 Festival Parking Lot-CES

28,160 28,160 28,160 28,160 28,160 28,160

P35550215 Strategic Site Redev-CES

0 5,000,000 2,000,000 0 0 0

P35591015 Public Outreach-CES-Adm

2,000 2,000 2,000 2,000 2,000 2,000

P35552215 CC 2035-CES-Adm

35,610 0 0 0 0 0

P35560215 240 NE MLK Parking-CES-Adm

2,550 2,550 2,550 2,550 2,550 2,550

P35560185 Block75-Fmnr Ararat-CES-Adm

3,500 0 0 0 0 0

P35560175 Block67-Fmnr Brdgprt-CES-Adm

84,475 0 0 0 0 0

P35560145 Block76-Fmnr Unocal-CES-Adm

1,181 1,181 0 0 0 0

P35560125 Block76-Fmnr Fishbels-CES-Adm

347 347 0 0 0 0

**Commercial Real Estate Lending**

R03100355 Comm Energy Eff Retro-CES

100,000 0 0 0 0 0

R01100355 CPRL-General-CES

600,000 600,000 600,000 600,000 600,000 600,000

**Community Redevelopment Grants**

**Five-Year Forecast Program Requirements Detail**

	Revised- 1 FY 2013-14	Draft FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
G02100355 DOS-General-CES	100,000	100,000	100,000	100,000	100,000	100,000
G03100355 SIP-General-CES	300,000	300,000	300,000	300,000	300,000	300,000
<b>Total Property Redev</b>	<b>1,460,523</b>	<b>6,034,238</b>	<b>3,032,710</b>	<b>1,032,710</b>	<b>1,032,710</b>	<b>1,032,710</b>
<b>Total Program Expenditures</b>	<b>2,074,955</b>	<b>7,476,480</b>	<b>6,197,526</b>	<b>2,694,054</b>	<b>1,506,646</b>	<b>1,409,523</b>
Personal Services	338,927	237,788	229,222	150,361	129,045	177,828
Transfers - Indirect	655,048	1,022,810	678,546	435,628	368,172	499,686
<b>Total Fund Expenditures</b>	<b>3,068,930</b>	<b>8,737,078</b>	<b>7,105,294</b>	<b>3,280,043</b>	<b>2,003,863</b>	<b>2,087,037</b>
Contingency	6,699,373	2,883,921	819,949	1,575,644	2,666,540	1,106,292
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>9,768,303</b>	<b>11,620,999</b>	<b>7,925,243</b>	<b>4,855,687</b>	<b>4,670,403</b>	<b>3,193,329</b>