



**DATE:** April 8, 2015  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 15-22

Authorizing a Purchase and Sale Agreement to Convey 0.80 Acres of Real Property in the River District Urban Renewal Area to Williams/Dame & Associates, Inc., for \$7,400,000

#### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7107

#### **ACTION DESCRIPTION**

This action will authorize the Portland Development Commission (PDC) Executive Director to execute an Agreement for Purchase and Sale (PSA) between PDC and Williams/Dame & Associates, Inc. (Developer), for the conveyance of Station Place Lot 5 (Property), a 34,808 square foot (SF) PDC-owned parcel, for the consideration of \$7,400,000. The Developer is purchasing the Property to construct a nine-story office building with ground-floor retail, totaling approximately 204,000 SF. Parking will be accommodated through a combination of 80 stalls constructed on site and 99 leased spaces in the existing PDC-owned Station Place Parking Garage. The Property is located in the River District Urban Renewal Area (URA) at the northeast corner of NW Northrup Street and NW 9th Avenue (see Project Summary in Attachment A).

#### **BACKGROUND AND CONTEXT**

**Station Place Redevelopment Site.** The Property is a part of the Station Place Redevelopment Site (Station Place), comprising 9.05 acres located along NW 9th Avenue from NW Lovejoy Street to NW Naito Parkway. PDC acquired the Property on October 30, 1987, as part of a larger 30-acre Union Station purchase, which was subsequently partitioned into separate parcels, including the Property. Previous PDC dispositions and subsequent developments include the Residence Inn, the Ziba headquarters building, Station Place Garage, and a Station Place senior housing project.

**Recent History.** The Property, which is located within the Central City Plan District and zoned Central Employment (EX) with a design overlay (d), has been maintained by PDC as an unimproved parcel, secured by fencing, and on occasion permitted or leased to various users.

**Environmental Conditions.** Historical investigations conducted on the Station Place properties identified arsenic, lead, and benzo(a)pyrene contamination in soil at concentrations exceeding direct contact screening levels. In May 2003, the Oregon Department of Environmental Quality issued a Record of Decision (ROD) that outlines the remedial actions required to mitigate the contamination located on the Station Place properties.

It is anticipated that the costs to remediate the Property for its currently contemplated use are approximately \$700,000. PDC will assume responsibility for these costs, per the PSA.

### **DISPOSITION PROCESS**

On June 30, 2014, PDC received an unsolicited proposal from the Developer to purchase the Property and develop an office building with ground-floor retail. The proposal also involved an associated 40-year lease of 99 parking stalls in the nearby Station Place Garage. Lease rates for the parking stalls would be equivalent to the rate charged to the public.

After posting a public notice of intent to sell the property and receiving no material comments or objections to the proposed disposition, PDC elected to proceed with direct negotiations of a PSA. As detailed in the PSA, PDC and the Developer agreed that the development of the Property should be restricted to an office/retail use. In order to ensure the competitiveness of the Developer's proposed sale price, PDC elected to list the Property with a broker for 30 days to solicit additional offers. The marketing materials made clear that the responses were to be restricted to office/retail development only, and that Developer would be provided the opportunity to match the highest offer received. At the conclusion of the marketing period, PDC selected an offer from Trammell Crow and provided Developer the opportunity to match; Developer has since provided its notice of intent to match within the prescribed response period. PDC will be obligated to pay a transactional fee of three percent (\$222,000) at closing.

### **TRANSACTION SPECIFICS**

The negotiated purchase price of \$7,400,000 represents 106 percent of the 'highest and best' value, based on a July 2014 G&A Valuation appraisal.

The key terms of the negotiated PSA include:

- Purchase price of \$7,400,000;
- A parking lease agreement, running with the land, which gives the Developer the right to lease 99 spaces in PDC's Station Place Parking Garage for a period of 40 years, at the same rate charged to the public;
- Developer to provide PDC an earnest money payment of \$200,000, which is non-refundable following the 150-day due diligence period and applicable to the purchase price;
- Closing to occur within 12 months of the expiration of the due diligence period, not including two 60-day extension options. Each 60-day extension option will require an additional fee of \$74,000. Neither of the extension fees are refundable nor applicable to the purchase price. The extension options may not be exercised unless Developer has submitted application to the Bureau of Development Services (BDS) Design Review Committee (DRC) within 13 months of signing the PSA;
- Developer must commence construction within 24 months of the closing date. PDC reserves the right to repurchase the Property if this requirement is not met;
- Similar to previous Station Place dispositions, PDC shall be responsible for environmental remediation of the Property, which is estimated to be approximately \$700,000; and
- Developer will assign to PDC all unused parking development entitlements from the Property.

### **COMMUNITY AND PUBLIC BENEFIT**

Public benefits of executing the PSA include:

- PDC is requiring that the Property be developed as an office building, with ground floor retail, in order to help further stimulate the Portland economy and provide space for new and expanding

businesses. According to CoStar Reports, office net absorption for Portland's central business district was 211,016 SF during 2014;

- The Project will activate the street frontages of both NW Northrup Street and NW 9th Avenue, providing an active and pedestrian-friendly streetscape at the northern gateway to the Pearl District;
- The Project will promote both construction and permanent employment jobs in the River District URA;
- The Property will provide commercial space in the River District URA and further establishes the Pearl District as an attractive and vibrant place to do business;
- The Property will be developed as a privately-owned commercial building that will generate approximately \$250,000 per year in property tax revenues;
- The additional 99 leased parking stalls will increase Station Place Garage stabilized revenue by approximately \$240,000 in year one.
- PDC's Equity Policy will apply to this transaction; and
- Development of the Property will further implement the River District Urban Renewal Plan.

#### **PUBLIC PARTICIPATION AND FEEDBACK**

PDC issued a formal Notice of Intent to Negotiate Purchase and Sale of the Property on July 11, 2014. Twenty days were allowed for public comment; no material comments were received.

#### **BUDGET AND FINANCIAL INFORMATION**

The River District URA fiscal year (FY) 2014-15 Revised Budget and Five Year Forecast currently include funds for ongoing ownership and maintenance of the Property (see Attachment B). The Revised Budget does not anticipate conveyance of the Property in FY 2014-15. The following revisions to the FY 2014-15 Budget and Five Year Forecast include:

- Closing proceeds of approximately \$7,400,000 will be added to the FY 2015-16 budget forecast. The difference in gross/net proceeds represents brokerage fees and transactional costs.
- PDC's obligation to pay for environmental remediation (estimated at \$700,000) will be included in the Five Year Forecast. This requirement will appear as a line item in the FY 2015-16 budget.

#### **RISK ASSESSMENT**

Entering into this PSA creates minimal risks, as PDC is selling the Property and does not have financial resources at risk beyond the costs of environmental remediation. 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 150-day due diligence period. This is within their rights according to the PSA. 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 \$200,000 earnest money payment; this payment 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 developing the Property as an office/retail complex, as stipulated in the PSA. This risk is partially mitigated by a provision that requires application to the BDS DRC within 13 months of the effective date, and another provision that permits PDC to repurchase the property if the Developer does not commence construction within two years of closing.

**ALTERNATIVE ACTIONS**

The PDC Board could decide to:

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

**ATTACHMENTS**

- A. Project Summary
- B. River District URA 2014-15 Financial Summary

### PROJECT SUMMARY

- Project Name:** Station Place Lot 5 Purchase and Sale Agreement
- Description:** 0.80-acre vacant parcel zoned Central Employment with Design Review Overlay (EXd)
- Location:** NW Northrup Street & NW 9th Avenue
- URA:** River District
- Current Phase:** Disposition
- Next Milestone:** Purchase & Sale Agreement Execution
- Outcome:** Conveyance of Station Place Lot 5 to Williams/Dame & Associates, Inc., for \$7,400,000 to develop a commercial office/retail building consistent with the River District URA Plan and existing zoning, proposed to be approximately 204,000 SF office building with ground-floor retail & above-ground parking.

**Aerial Photo:**



**Building Rendering:**



**River District URA Financial Summary**

**Five-Year Forecast Program Requirements Detail**

	Revised- 2 FY 2014-15	Requested FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
<b>River District URA</b>						
<b>Resources</b>						
Beginning Fund Balance	49,258,181	24,453,729	17,658,338	17,586,380	7,367,948	1,881,993
Fees and Charges	16,900	6,000	1,324	2,937	2,110	2,110
Interest on Investments	200,000	0	0	0	0	0
Intergovernmental Revenues	1,983,620	1,983,620	0	0	0	0
Loan Collections	14,664,000	927,653	505,486	1,015,420	741,870	432,174
Long Term Debt	0	21,000,000	39,380,465	5,000,000	1,000,000	0
Property Income	2,769,168	1,600,290	9,597,540	1,597,540	5,244,420	1,593,440
Reimbursements	918,311	0	0	0	0	0
Short Term Debt	20,472,169	18,362,631	7,070,697	14,876,231	15,654,541	16,607,383
<b>Total Resources</b>	<b>90,282,349</b>	<b>68,333,923</b>	<b>74,213,850</b>	<b>40,078,508</b>	<b>30,010,889</b>	<b>20,517,100</b>

**Requirements**

**Program Expenditures**

**Administration**

**Financial Administration**

A45101330 Debt Management-RVD

67,655 65,000 65,000 65,000 65,000 65,000

**Total Administration**

**67,655 65,000 65,000 65,000 65,000 65,000**

**Business Development**

**Business Lending**

L00210330 BL -General-RIV

50,000 500,000 500,000 500,000 500,000 500,000

**Small Business & Community Dev**

B55005330 OT/CT Action Plan-RVD

155,000 145,000 125,000 0 0 0

**Traded Sector Business Dev**

B15100330 Cluster Development-RVD

50,000 50,000 50,000 50,000 50,000 0

**Total Business Development**

**255,000 695,000 675,000 550,000 550,000 500,000**

**Housing**

**PHB Housing**

H15137330 The Abigail-RVD

9,254,109 0 0 0 0 0

H15430330 Affordable Rental Hsg-RVD

0 14,817,490 8,069,756 3,253,533 2,428,468 0

H15900330 PHB Staff & Admin-RVD

858,960 0 0 0 0 0

H15930330 Fairfield Apartments-RVD

46,738 0 0 0 0 0

H15931330 Hoyt Street-RVD

1,402,138 0 0 0 0 0

H15136330 Erickson-Fritz-RVD

2,804,275 0 0 0 0 0

**Total Housing**

**14,366,220 14,817,490 8,069,756 3,253,533 2,428,468 0**

**Infrastructure**

**Parks**

N33011915 Nbrhd Prk(The Fields)-RVD-Adm

9,170 0 0 0 0 0

**Public Facilities**

N33022015 Union Station Grant-RVD-Adm

2,461,889 2,461,889 3,500,500 0 0 0

**Transportation**

N33033415 Pearl District Cir-RVD-Adm

1,841,465 0 0 0 0 0

**Total Infrastructure**

**4,312,524 2,461,889 3,500,500 0 0 0**

**Property Redevelopment**

**Commercial Property Redevelopm**

P33050115 Dtnw Retail Strat-RVD-Adm

30,000 30,000 30,000 0 0 0

A45997330 Superfund-RVD

25,000 0 0 0 0 0

P33050215 4th and Burnside-RVD

1,559,862 0 0 0 0 0

P33060525 Station Place Lot 5-RVD-Adm

21,300 4,000 4,000 0 0 0

P33092015 Real Estate Mgmt-RVD-Adm

8,069 2,000 2,000 2,000 2,000 2,000

**Five-Year Forecast Program Requirements Detail**

	Revised- 2 FY 2014-15	Requested FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
P33060815 Old Fire Station Mgmt-RVD-Adm	80,086	17,747	0	0	0	0
P33060715 One Waterfront North-RVD-Adm	16,083	7,187	7,187	0	0	0
P33050015 Post Office-RVD-Adm	250,000	500,000	10,000,000	10,000,000	14,000,000	0
P33060545 Station Place Prkng-RVD-Adm	278,165	248,820	248,820	248,820	248,820	248,820
P33060415 Centennial Mills-RVD-Adm	3,883,713	1,000,000	12,766,287	0	0	0
P33060315 Grove Hotel-RVD-Adm	43,037	0	0	0	0	0
P33052115 10th & Yamhill Redev-RVD-Adm	50,000	3,250,000	1,750,000	0	0	0
P33060615 Block R-RVD-Adm	10,550	8,750	8,750	8,750	8,750	0
P33050315 Broadway Corridor-RVD	65,000	0	0	0	0	0
P33060215 Union Station-RVD-Adm	1,541,484	1,108,689	1,108,689	1,108,689	1,108,689	1,108,689
P33052215 CC 2035-RVD-Adm	175,990	0	0	0	0	0
P33052715 PNCA-RVD-Adm	7,907	0	0	0	0	0
P33052815 PNCA Contract-RVD	9,049	0	0	0	0	0
P33054315 RD Enviro Reimb-RVD	1,000	0	0	0	0	0
P33060115 Block Y-RVD-Adm	48,404	45,100	45,100	45,100	45,100	45,100
<b>Commercial Real Estate Lending</b>						
R01100330 CPRL-General-RVD	18,220,000	20,450,000	12,000,000	11,000,000	3,000,000	2,000,000
<b>Community Redevelopment Grants</b>						
G01100330 CLG-General-RVD	138,000	100,000	100,000	100,000	100,000	0
G02100330 DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G03100330 SIP-General-RVD	308,000	300,000	300,000	300,000	300,000	300,000
<b>Total Property Redevelopment</b>	<b>26,870,499</b>	<b>27,172,293</b>	<b>38,470,833</b>	<b>22,913,359</b>	<b>18,913,359</b>	<b>3,804,609</b>
<b>Total Program Expenditures</b>	<b>45,871,898</b>	<b>45,211,672</b>	<b>50,781,089</b>	<b>26,781,892</b>	<b>21,956,827</b>	<b>4,369,609</b>
Personal Services	552,505	567,223	595,584	625,363	656,832	689,463
Transfers - Indirect	6,028,370	4,898,690	5,250,797	5,303,305	5,515,437	5,736,055
<b>Total Fund Expenditures</b>	<b>52,452,773</b>	<b>50,675,585</b>	<b>56,627,470</b>	<b>32,710,560</b>	<b>28,128,896</b>	<b>10,795,127</b>
Contingency	37,829,576	17,658,338	17,586,380	7,367,948	1,881,993	9,721,973
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>90,282,349</b>	<b>68,333,923</b>	<b>74,213,850</b>	<b>40,078,508</b>	<b>30,010,889</b>	<b>20,517,100</b>