

DATE: October 14, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-59

Authorizing the Executive Director to Execute a Purchase and Sale Agreement to Convey 0.39 Acres of Real Property in the Interstate Corridor Urban Renewal Area to Geza Development, LLC, for \$415,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7146

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to execute a Purchase and Sale Agreement (PSA) between PDC and Geza Development, LLC (Buyer), for the conveyance of the C&M Motors site (Property), a 16,837 square foot (SF) PDC-owned parcel located at 6931 NE Martin Luther King, Jr. Boulevard in the Interstate Corridor Urban Renewal Area (URA) (see Attachment A) for the purchase price of \$415,000. Buyer intends to relocate their residential construction firm to this site to operate their business.

BACKGROUND AND CONTEXT

In 2003, C&M Motors BMW & Mercedes Benz, LLC (Borrower), a minority-owned auto repair and used parts business located in northeast Portland, was evicted from space it had rented for 25 years at 7617 NE Martin Luther King, Jr. Boulevard. In order to continue operating in northeast Portland, the Borrower applied to PDC for financial assistance to purchase and renovate the Property, which was then owned by the Multnomah County Tax Assessor's Office and was severely dilapidated. Subsequently, in 2010, Multnomah County informed the Borrower that they were in default of their contract. PDC negotiated a payoff with Multnomah County and accepted a deed in lieu of foreclosure for the Property from the Borrower in return for writing off the Borrower's outstanding loan balance of \$416,430. Since PDC took title to the Property in 2011, it has remained unoccupied.

On February 11, 2015, PDC staff briefed the PDC Board on the agency's real estate assets and the PDC Board directed staff to dispose of the Property through direct marketing. PDC posted signage on the Property in April 2015 and marketed its sale for a period of approximately 90 days, ending on June 5, 2015. PDC received three offers ranging from \$250,000 to \$375,000. Due to their long-standing interest in acquiring the property, the fact that they were the highest of the three offers, and their proposed use was most consistent with the PDC 2015-2020 Strategic Plan, the Buyer was selected for exclusive negotiations and subsequently agreed to a purchase price of \$415,000. The Buyer will be purchasing the Property "as-is" to include the presence of some qualified hazardous building material as well as several property line encroachment issues.

The key terms of the negotiated PSA include:

- Purchase price of \$415,000;
- “As-Is” sale;
- Earnest money payment of \$5,000;
- 30 Day Inspection Period;
- Closing within 60 days of the Effective Date;
- Closing subject to 80 percent lender financing;
- PDC will place a covenant in the deed that will prohibit the development of market-rate housing on the site for a period of five years; and
- PDC will place a covenant in the deed that will obligate the owner or future owners to adhere to PDC’s Equity and Green Building policies.

COMMUNITY AND PUBLIC BENEFIT

After purchasing the Property, the Buyer intends to relocate their residential construction business to the site. The business has nine full-time employees and is indirectly responsible for an average of 40 additional sub-contractor jobs per project. Sale of the Property will help deliver on the PDC 2015-2020 Strategic Plan priority to “increase equitable opportunities by growing small and promising new business ventures, commercializing research, and supporting real estate ownership and development that fosters wealth creation within communities of color and low-income neighborhoods.”

As condition of the sale, a covenant will be placed in the deed to the Property that will prohibit the development of market-rate housing on the site for a period of five years. This will ensure that the Buyer operates a business on the Property for five years and maintains it as a commercial, job-oriented use. After the five-year period expires, the Buyer may continue to operate a business on site or redevelop it within the allowed parameters of the zoning code, which include commercial and residential uses.

Other public benefits include activating a long-vacant site on a major commercial corridor and returning the Property to tax rolls after many years of being exempt. Over the long-term, PDC’s Equity Policy and Green Building Policy will apply to future redevelopment and reuse.

BUDGET AND FINANCIAL INFORMATION

The Interstate Corridor URA Fiscal Year (FY) 2015-16 Adopted Budget includes a low estimate of anticipated sales proceeds from this proposed transaction (see Attachment B). The FY 2015-16 Revised 1 Budget will increase this estimate to \$410,000. The difference in gross/net proceeds represents transactional costs.

RISK ASSESSMENT

Entering into this PSA creates minimal risks, as PDC is selling the Property “as-is” and does not have financial resources at risk. There is a risk that Buyer will terminate the transaction during the 30-day due diligence period, which is within their rights according to the PSA. A related risk is that Buyer will terminate the transaction subsequent to the end of the Closing Period. This risk is mitigated by Buyer providing a \$5,000 earnest money payment; this payment is non-refundable after the end of the due diligence period.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct PDC staff to incorporate new terms into the PSA;

- Direct PDC staff to renegotiate specific terms and conditions;
- Reject the proposal in its entirety and direct PDC staff to continue marketing the Property; or
- Reject the proposal in its entirety and direct PDC staff to discontinue the disposition process.

ATTACHMENTS:

- A. Property Summary
- B. Interstate Corridor URA FY 2015-16 Financial Summary

PROJECT SUMMARY

Property Name: C&M Motors

Description: 0.39-acre parcel zoned Mixed Commercial with overlays

Location: NE Martin Luther King, Jr. Boulevard & NE Bryant Street

URA: Interstate Corridor

Disposition Method: Direct marketing

Next Milestone: Purchase & Sale Agreement execution

Closing Target: December 2015

Outcome: Conveyance of the Property to Geza Development, LLC (Buyer) for \$415,000. Buyer will relocate its business operations and offices to the existing improvements. Buyer will be restricted from redeveloping the site for a period of five years.

Aerial Photo



6931 NE Martin Luther King, Jr. Boulevard

Street View



Looking southwest from NE Martin Luther King, Jr. Boulevard

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
Interstate Corridor URA						
Resources						
Beginning Fund Balance	15,550,161	19,815,852	11,017,190	10,001,433	13,435,342	16,467,498
Fees and Charges	5,800	2,200	1,500	1,500	1,500	1,500
Interest on Investments	72,000	59,448	33,052	30,004	40,306	49,402
Loan Collections	446,444	280,999	198,041	338,329	325,246	372,785
Property Income	171,776	1,008,536	303,280	304,209	305,161	306,137
Reimbursements	40,349	63,529	84,029	84,644	85,277	85,930
Short Term Debt	11,488,500	18,981,000	16,387,943	17,465,055	18,515,806	18,981,000
Total Resources	27,775,030	40,191,564	28,025,035	28,225,174	32,708,438	36,264,250
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101370 Debt Management-ISC	39,966	41,466	22,532	22,532	22,532	22,532
Total Administration	39,966	41,466	22,532	22,532	22,532	22,532
Business Development						
Business Lending						
L00200370 BL -Modifications-INT	150	0	0	0	0	0
L00210370 BL -General-INT	650,000	8,651,000	650,500	650,500	650,500	650,500
Small Business & Community Dev						
B55710370 NPI & Main St Network-ISC	50,000	50,000	50,000	50,000	50,000	50,000
B55800370 Business Development-ISC	5,000	5,000	5,000	5,000	5,000	5,000
B55900370 Community Development-ISC	25,000	25,000	25,000	25,000	25,000	25,000
Traded Sector Business Dev						
T01069370 Lean Manufacturing-ISC	50,000	50,000	50,000	50,000	50,000	50,000
Total Business Development	780,150	8,781,000	780,500	780,500	780,500	780,500
Housing						
PHB Housing						
H15410370 Home Repair Projects-ISC	527,928	500,000	500,000	500,000	500,000	500,000
H15420370 Home Buyer Assistance-ISC	786,614	1,000,000	500,000	500,000	500,000	500,000
H15430370 Affordable Rental Hsg-ISC	211,628	4,914,986	7,250,000	6,800,000	7,792,304	1,800,000
H15440370 Beech St Apartments-ISC	0	182,893	0	0	0	0
H15900370 PHB Staff & Admin-ISC	422,137	1,330,877	1,325,055	1,064,651	1,157,221	508,688
Total Housing	1,948,307	7,928,756	9,575,055	8,664,651	9,949,525	3,308,688
Infrastructure						
Parks						
N37017415 Dawson Park-ISC-Adm	200,000	0	0	0	0	0
N37017315 Bridgeton-ISC-Adm	0	0	1,500,000	0	0	0
N37017515 Small Scale Improv-ISC-Adm	0	603,000	0	0	0	0
Transportation						
N37037715 Killingsworth Stscape-ISC-Adm	50,000	2,950,000	0	0	0	0
N37037815 Lombard Investment-ISC-Adm	100,000	2,200,000	0	0	0	0
N37037615 Denver Streetscape-ISC-Adm	48,400	0	0	0	0	0
Total Infrastructure	398,400	5,753,000	1,500,000	0	0	0
Property Redevelopment						
Commercial Property Redevelopm						
P37060515 Reiss House-ISC-Adm	9,211	8,611	0	0	0	0
P37090015 Project Development-ISC-Adm	20,000	20,000	20,000	20,000	20,000	20,000
P37060415 C&M Motors Lot-ISC-Adm	147,443	4,724	0	0	0	0

Financial Summary

Fund Summary - Five-Year Budget Projections

	Revised FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
Commercial Property Redevelopment						
P37050215-MLK Alberta-ISC	85,000	10,000	579,600	190,855	199,553	200,858
P37054815-Kenton Redev Dtnw-ISC-Adm	85,000	65,000	0	0	0	0
P37060125-Nelson Bldg-Indust-ISC-Adm	521,865	703,187	68,187	68,187	68,187	68,187
P37060145-Spar-Tek Building-ISC-Adm	34,891	24,885	24,885	24,885	24,885	24,885
P37060155-Argyle Lot-ISC-Adm	7,273	3,430	3,430	3,430	3,430	3,430
P37060215-3620 NE MLK Prkng-ISC-Adm	9,381	9,700	9,700	9,700	9,700	9,700
P37060415-C&M Motors Lot-ISC-Adm	147,443	4,724	0	0	0	0
P37060515-Reiss House-ISC-Adm	9,211	8,611	0	0	0	0
P37090015-Project Development-ISC-Adm	20,000	20,000	20,000	20,000	20,000	20,000
P37092015-Real Estate Mgmt-ISC-Adm	14,886	15,290	5,000	5,000	5,000	5,000
Commercial Real Estate Lending						
R01100370-CPRL-General-ISC	500,000	2,472,000	2,002,000	1,277,000	1,277,000	1,277,000
Community Redevelopment Grants						
G01100370-CLG-General-ISC	300,000	300,000	300,000	300,000	300,000	300,000
G02100370-DOS-General-ISC	100,000	100,000	100,000	100,000	100,000	100,000
G03100370-SIP-General-ISC	500,000	500,000	500,000	500,000	500,000	500,000
G04100370-GFGP-General-ISC	100,000	100,000	100,000	100,000	100,000	100,000
Property Redevelopment Total	2,434,950	4,336,627	3,712,602	2,598,857	2,607,555	2,608,860
Total Program Expenditures	5,601,773	26,840,849	15,590,689	12,066,540	13,360,112	6,720,580
Personnel Services	461,957	491,371	558,090	585,994	615,294	646,059
Transfers - Indirect	1,895,448	1,842,154	1,874,823	2,137,298	2,265,536	2,197,570
Total Fund Expenditures	7,959,178	29,174,374	18,023,602	14,789,832	16,240,942	9,564,209
Contingency	19,815,852	11,017,190	10,001,433	13,435,342	16,467,496	26,700,041
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	27,775,030	40,191,564	28,025,035	28,225,174	32,708,438	36,264,250