

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: August 13, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-110
Authorization to enter into a Purchase & Sales Agreement
for the Grove Hotel

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6630

ACTION SUMMARY

This action will authorize the Executive Director to execute a Purchase and Sales Agreement with the Housing Authority of Portland (HAP) for the purchase of the Grove Hotel. The Grove Hotel is a 70-unit single room occupancy (SRO) hotel with first floor commercial spaces at 401-439 West Burnside Street on an 11,000 square foot lot.

The Purchase and Sales Agreement (PSA) provides for the purchase of the Grove Hotel by PDC upon satisfactory resolution of the appeal of the River District amendment expanding the district and increasing the maximum indebtedness. The time required for the resolution of the appeal is unknown but may be one to two years. The purchase price is currently \$3,468,752 million dollars, equal to the existing loan from PDC to HAP, and will increase periodically from now until the time of closing. Earnest money deposits applied to the purchase price will be paid in installments and will cover the periodic price increases. After the final resolution of the appeal allowing the implementation of the amended River District, PDC will take title by forgiving the \$3,468,752 dollar loan to HAP. The final sales price, which is date dependent, will not exceed \$3,750,000 dollars.

The purchase of the Grove Hotel by PDC will provide control of a strategic parcel that may be part of a longer term development plan for adjacent property on blocks 32 and 33 between West Burnside, Northwest Davis Street, Northwest Fourth Avenue and Northwest Fifth Avenue. Attachment "B" provides site information including site maps for the Grove Hotel and blocks 32 and 33. This adjacent development is expected to impact the Grove site in three to four years.

PUBLIC BENEFIT

This action meets affordable housing goals and longer-term economic development goals of PDC.

A. Housing

1. A deteriorated housing resource traditionally available for very low income individuals has been temporarily preserved while permanent replacement housing is built by HAP over the Resource Access Center on PDC-owned block "U" located between Northwest Broadway and Sixth Avenue and Irving and Hoyt Streets; and
2. Central City Concern's Housing Rapid Response (HRR) program and the Bridgeview program are able to provide housing and uninterrupted delivery of services critical to at-risk populations.

B. The longer term goals of the development proposed for the adjacent property on blocks 32 and 33 will be facilitated by controlling the Grove Hotel site including:

1. Sustainability – project will attain LEED Silver and strive for LEED Gold certification;
2. Transit Orientated Development – mixed-use, residential and neighborhood service commercial development that offer connections to the new Light Rail transit corridor and future streetcar access with the Burnside-Couch Couplet;
3. Prevailing Wages – project will meet the appropriate residential and commercial wage requirements from BOLI;
4. Design – high-quality building materials and systems, mixed use modern design appropriate with cultural heritage of the neighborhood, incorporate small retailers along transit edge;
5. Workforce/ Affordable Housing – a mixed-income building with some units affordable to downtown workforce;
6. Job Creation – office and retail component will serve to bring both workers and customers to Chinatown;
7. New Destination Retail/ Catalyst Project – recruitment of Asian grocer will spur additional investment from local and outside investors while creating a destination retail store from surrounding neighborhoods;
8. Parking Potential – underground parking will service neighborhood during the day and nighttime entertainment district.

This action will support the following PDC goals:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

The Grove Hotel has historically been known as a property needing attention. The state of disrepair was the subject of numerous newspaper articles and public discussions culminating in the purchase by HAP in November 2007 with financing by PDC. Immediately focusing on life/safety issues, HAP managed a renovation program that addressed the most egregious of the building's conditions with the goal of a temporary extension of the building's useful life. Tenants, abutting property owners, and housing advocates have been pleased with the results. The most recent newspaper article describing the massive makeover of the Grove Hotel and public feedback was in *The Oregonian* on July 31, 2008 and is included as Attachment "C".

In late 2007, numerous public meetings and discussions were held in Old Town/Chinatown regarding the siting of the Resource Access Center (RAC), a facility to provide comprehensive services to the homeless along with associated housing. In those discussions, attention sometimes focused on the Grove Hotel. Some community stakeholders felt that the purchase of the Grove Hotel by HAP and the simultaneous search for a site for the RAC in close proximity to the Grove would permanently establish an unusually high number of housing units targeted at very low income individuals within a several block area vital for the development of Old Town / Chinatown. PDC, HAP and the City's Bureau of Housing and Community Development (BHCD) have responded to this concern by removing any long term affordable housing restriction on the Grove Hotel site and stipulating that some of the units to be developed in association with the RAC will be permanent replacement housing for the Grove Hotel.

The development of adjacent property on blocks 32 and 33 will determine the future of the Grove Hotel site and considerable public participation is expected.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Ten Year Plan to End Homelessness (10-year Plan), adopted by City Council on December 21, 2005 (Resolution No. 36367), includes the intent to create new resource space to provide homeless people with quick and direct access to programs that move them directly into permanent housing. Assisting the HRR to locate at the Grove for three years and facilitating the continued operation of the Bridgeview is aligned with this plan.

Acquisition of the Grove Hotel has been considered by PDC in the past and is recommended in the Burnside Couch Catalyst Development Study. The Catalyst Development Study is an economic impact analysis companion to the Burnside Transportation and Urban Design Plan, Phase II, and was a joint study by both PDC and Portland Office of Transportation.

The Old Town / Chinatown Visions Plan was adopted by PDC in December 1997 and promoted the utilization of under-utilized parcels for a mix of housing for different income

levels, along with commercial and retail uses. The ultimate reuse strategy for the combined property on block 32 and 33 furthers this plan and is facilitated by the PDC acquisition of the Grove site.

FINANCIAL IMPACT

Total Impact

A loan to the Housing Authority of Portland was closed in the spring of 2008 providing \$3,468,752 million dollars for HAP's acquisition and renovation expenses. PDC will acquire the Grove by effectively forgiving this debt and making earnest money deposits to pay for periodic price increases from now until the time of closing. Funds are required for these deposits and to cover expenses for the anticipated term of ownership including potential capital expenditures, operating expenses, and tenant relocation. This additional funding requirement is estimated at \$600,000 and is included in the three year River District budget forecast beginning in FY 08-09.

It is anticipated that the property will eventually be sold for the then-appraised market value, currently \$2.6 million dollars. The overall financial impact of the Grove Hotel purchase, holding, leasing, tenant relocation, and sale is expected to be an expenditure of approximately \$1.5 million dollars.

\$3,468,752	existing mortgage / loan made to HAP from FY07-08 budget
600,000	anticipated expenses over three years
<u>-2,600,000</u>	<u>anticipated sales price based on current appraisal</u>
\$1,468,752	TIF expenditure

Current understanding of Urban Renewal Area (URA) regulations is that the proceeds of a property sale accrue to the URA in which a property is located. Because of the recent URA boundary changes, most of the funding to the Grove Hotel was from the Downtown Waterfront (DTW) URA and the sale will occur when the property is in the amended River District. Therefore, the ultimate financial impact on the River District may be approximately \$2 million dollars of income and the ultimate financial impact to DTW may be an expenditure of approximately \$3.5 million dollars.

River District

\$ 600,000	holding expenses over three years
- <u>2,600,000</u>	<u>anticipated sales price based on current appraisal</u>
-\$2,000,000	net proceeds to River District (income)

Downtown Waterfront

\$3,468,752	existing mortgage / loan made to HAP from FY07-08 budget
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During the term of the Purchase and Sales Agreement, staff intends to explore ways in which a more equitable return of capital to the URAs might be accomplished. This will include the possibility of relieving HAP of its debt obligation by taking title subject to the existing debt. This may allow sales proceeds to be credited to the DTW debt obligation rather than as sales proceeds credited to the River District URA budget.

RISK ASSESSMENT

Urban Renewal Area Amendments

On June 25, 2008, the City Council passed several resolutions amending URAs including two amendments pertaining to the Grove Hotel. The DTW URA was amended decreasing the size of the district. The River District URA was amended to expand the size of the district from 300 to 350 acres, raise the maximum debt load from \$225 million to \$550 million, and increase the district's life span. After the boundary changes, the Grove Hotel was no longer located in DTW but was in the expanded River District.

On July 15, 2008, a Notice of Intent to Appeal the River District amendment (the Appeal) was filed by some members of the public. This legal challenge to the RD amendment impacts the Grove Hotel transaction. PDC has responded to this legal challenge by proposing an extended term for the Purchase and Sales Agreement (PSA). Instead of closing the transaction immediately, the PSA provides for the acquisition of the property by PDC upon a satisfactory resolution of the Appeal.

Other Risks

The relationship between the Grove Hotel purchase by PDC and the successful operation of a number of housing and social services programs in the Central City is described in the background section of this report. One of these programs, the Housing Rapid Response (HRR) program run by Central City Concern (CCC) is moving into the Grove Hotel to allow the Bridgeview program to remain at the Golden West. Over the next three years, the Bridgeview will be working to find a permanent home. The HAP-owned development "University Place", located at 1510 SW 13th Avenue, is the site under consideration for this use. There is a risk that after three years there will not be a permanent site for the Bridgeview and/or that PDC will be asked to provide unbudgeted funding in order to establish a home for the Bridgeview. PDC and HAP are working to develop a plan for the renovation of University Place that will include a home for the Bridgeview.

There is a risk that integrating the current SRO tenants with the program environment of the HRR program may be difficult for current tenants. Upon acquisition, PDC will work to relocate any tenant interested in moving from the property.

There is a risk that the intended adjacent development on blocks 32 / 33 will not occur as planned. It could move more quickly or more slowly than anticipated resulting in scheduling or funding issues that will need to be managed in future years.

The Grove Hotel is a contributing structure in the Chinatown/Japantown historic district. Ownership by PDC may increase the difficulty of demolishing the property which may ultimately be the preferred long-term development plan of the owners of blocks 32 / 33.

There is a recorded regulatory agreement on the Grove Hotel that was required as part of the affordable housing renovation loan to HAP from PDC. This regulatory agreement and the Intergovernmental Agreement between HAP, PDC, and the City related to the RAC stipulates that the very low income replacement housing to be developed by HAP over the RAC on block U will be the replacement housing for the Grove units. There is a slight risk that the RAC units will not be developed as intended and the Grove Hotel would remain subject to affordability restrictions.

WORK LOAD IMPACT

The work load impact for the Housing Department has already been included in work planning. There will be an increased work load for the Real Estate Section required by this acquisition. The property will need to be overseen when acquired by PDC and both residential and commercial relocation will be likely.

ALTERNATIVE ACTIONS

PDC could decide not to purchase the Grove Hotel. HAP would remain in ownership notwithstanding the working arrangement between PDC, HAP, and the City as negotiated in late 2007 by then City Councilor Erik Sten; and PDC would not gain control of the site with the goal of facilitating adjacent development opportunities.

CONCURRENCE

The PDC project team for the block 32/32 development, headed by Senior Project Coordinator, Ross Plambeck, is in concurrence with the purchase as are the owners of adjacent property on blocks 32 and 33. BHCD, CCC, and HAP are in concurrence.

BACKGROUND

For many years, CCC occupied office space and approximately 40 SRO units at the Rich Hotel for the HRR program. The HRR program provides housing and support services for chronically homeless individuals with a history of arrest. In early 2007, the owners of the Rich Hotel asked CCC to vacate its lease at the Rich. As a result, CCC took steps to move into a building it owned, the Golden West. CCC sent notice to the occupant of that building, the Bridgeview, to vacate the Golden West. The Bridgeview program operates under grants from the County and utilizes approximately 40 SRO units over a commercial first floor at the Golden West for the treatment and housing of individuals with mental disabilities. Because the Bridgeview provides a critical service and did not have an alternative location, the CCC intention to move to the Golden West by displacing the Bridgeview caused dissension in the advocate community.

At this time, the Grove Hotel was put on the market. The Grove was a substandard building that had historically housed very low income people for short- or long term tenancies with few barriers to occupancy.

In response to these situations, a "downtown development strategy" was negotiated by then City Councilor Erik Sten and representatives of BHCD, PDC, HAP, CCC, County, and the Bridgeview program. The strategy consisted of a series of actions that would result in uninterrupted service delivery by critical social service programs providing housing and services to at-risk populations in the Central City including the following:

1. CCC agreed to allow the Bridgeview to remain at the Golden West for a period of approximately three years to allow time for a permanent site to be developed for the Bridgeview,
2. HAP agreed to take title to the Grove Hotel for a 4-5 month period to manage a limited renovation of the building focused on live/safety issues,
3. PDC agreed to provide TIF loan funds to reimburse HAP for the acquisition and the renovation expenses,
4. PDC staff agreed to work towards a purchase of the property from HAP in order to control the property for future redevelopment and relieve HAP of its ownership after the renovations were complete,

5. CCC agreed to move the HRR program into the Grove, after the renovations were complete, delaying its occupancy of the Golden West for approximately three years, and
6. HAP and PDC agreed to work toward a permanent home for the Bridgeview at University Place.

The City of Portland has a “no net loss” policy related to affordable housing. All divisions of the city strive to ensure that the affordable housing opportunities available to Portland residents are maintained as the City is redeveloped and improved. The Grove Hotel has historically been used as housing occupied by very low income households. The Intergovernmental Agreement (IGA) between HAP, PDC and BHCD that relates to the RAC development is currently being negotiated. That IGA, along with the Grove Regulatory Agreement, will stipulate that the historic use of the Grove Hotel for very low income households will be satisfied by the TIF-funded HAP housing to be constructed over the RAC on block U.

ATTACHMENTS:

- A. URA Financial Summary (expanded River District)
- B. Project Summary
- C. July 31, 2008 article from *The Oregonian*

CC: K. Kalevor, Interim Housing Director
J. Warner, Sr. Development Manager
B. Shaw, Sr. Project Coordinator
D. Elott, Acting General Counsel
J. Jackley, Executive Operations Manager

ATTACHMENT A: URA FINANCIAL SUMMARY



Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
River District URA						
Resources						
Beginning Fund Balance	10,316,420	10,550,506	10,277,571	211,899	1,032,771	237,278
Interest - City Invest Pool	300,000	50,000	50,000	50,000	50,000	50,000
Loans - Interest Earned	285,000	335,000	335,000	335,000	335,000	335,000
Loans - Principal Collection	300,000	2,290,000	290,000	290,000	290,000	290,000
Real Property Sales	1,500,000	0	0	0	0	0
Reimbursement	200,000	1,025,000	125,000	125,000	125,000	0
Rent and Property Income	0	200,000	200,000	200,000	200,000	200,000
Tax Increment - L-T Debt	0	27,219,465	48,951,000	13,986,000	22,018,279	14,485,500
Tax Increment - S-T Debt	10,112,492	13,986,000	13,986,000	12,202,544	13,803,900	9,621,427
Total Fund Resources	23,013,912	55,655,971	74,214,571	27,400,443	37,854,950	25,219,205

Requirements

Project Expenditures (does not include Personal Services or Indirect Cost)

Development						
10225 - RD Retail Loan Program	200,000	600,000	750,000	750,000	750,000	515,000
10226 - Meler&Frank Redevelopment	3,000,000	0	0	0	0	0
10227 - RD Historic Preservation	75,000	0	0	0	0	0
10234 - RD Park Ave Redev	100,000	0	0	0	0	0
11263 - RD Public Site Imprv	250,000	250,000	0	0	0	0
11264 - RD Burns/Couch Trans	500,000	1,100,000	0	0	0	0
13104 - RD Centennial Mill	800,000	585,000	4,560,000	5,775,000	0	0
13112 - RD North Pearl Planning	200,000	200,000	0	0	0	0
13113 - RD One Waterfront	500,000	4,000,000	4,000,000	0	0	0
13115 - RD Station Place Redev	50,000	0	0	0	0	0
13117 - RD Dev Loan Program	500,000	0	0	0	0	0
13119 - RD Neighborhood Park	500,000	350,000	4,900,000	0	0	0
13135 - RD Seismic Loans	350,000	0	0	0	0	0
13136 - RD DOS Program	100,000	0	0	0	0	0
13137 - RD Eastside Streetcar Connect	0	7,500,000	5,000,000	4,500,000	0	0
13138 - RD Post Office	2,750,000	1,200,000	2,550,000	2,000,000	25,500,000	0
13143 - RD Environmental	125,000	0	0	0	0	0
13144 - RD Pedestrian Bridge	150,000	0	0	0	0	0
60005 - RD Transit Mall Redev	500,000	0	0	0	0	0
60017 - RD Signage & Lighting	88,000	0	0	0	0	0
60020 - Union Station Mgt & Crit Impr	0	725,000	3,150,000	4,325,000	0	0
60021 - RD 10th & Yamhill	0	4,000,000	4,000,000	0	0	0
60024 - RD Multnomah County	0	0	0	0	0	10,000,000
60026 - RD Satellite Districts	0	0	0	0	500,000	4,500,000
Development Total	10,738,000	20,510,000	28,910,000	17,350,000	26,750,000	15,015,000
Economic Development						
13088 - RD Storefront Grants	401,499	350,000	150,000	150,000	150,000	150,000
70003 - RD Business Finance Tools	2,673,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
70013 - RD Business Retention	107,000	0	0	0	0	0
70753 - RD Target Industry Devel	0	0	0	2,000,000	3,000,000	3,000,000
Economic Development Total	3,181,499	1,450,000	1,250,000	3,250,000	4,250,000	4,250,000
Housing						
32129 - RD Rental/Preservation	128,143	9,000,000	3,750,000	0	0	0
37923 - RD Hsg Policy/Planning	10,000	0	0	0	0	0
37926 - RD HSP Affordable Rental Hsg	0	500,000	0	0	1,000,000	0
37927 - RD Station Place - Lot 5	250,000	0	0	0	0	0
37935 - Yards at Union Station	0	3,700,000	0	0	0	0

Financial Summary

Fund Summary - Five-Year Budget Projections

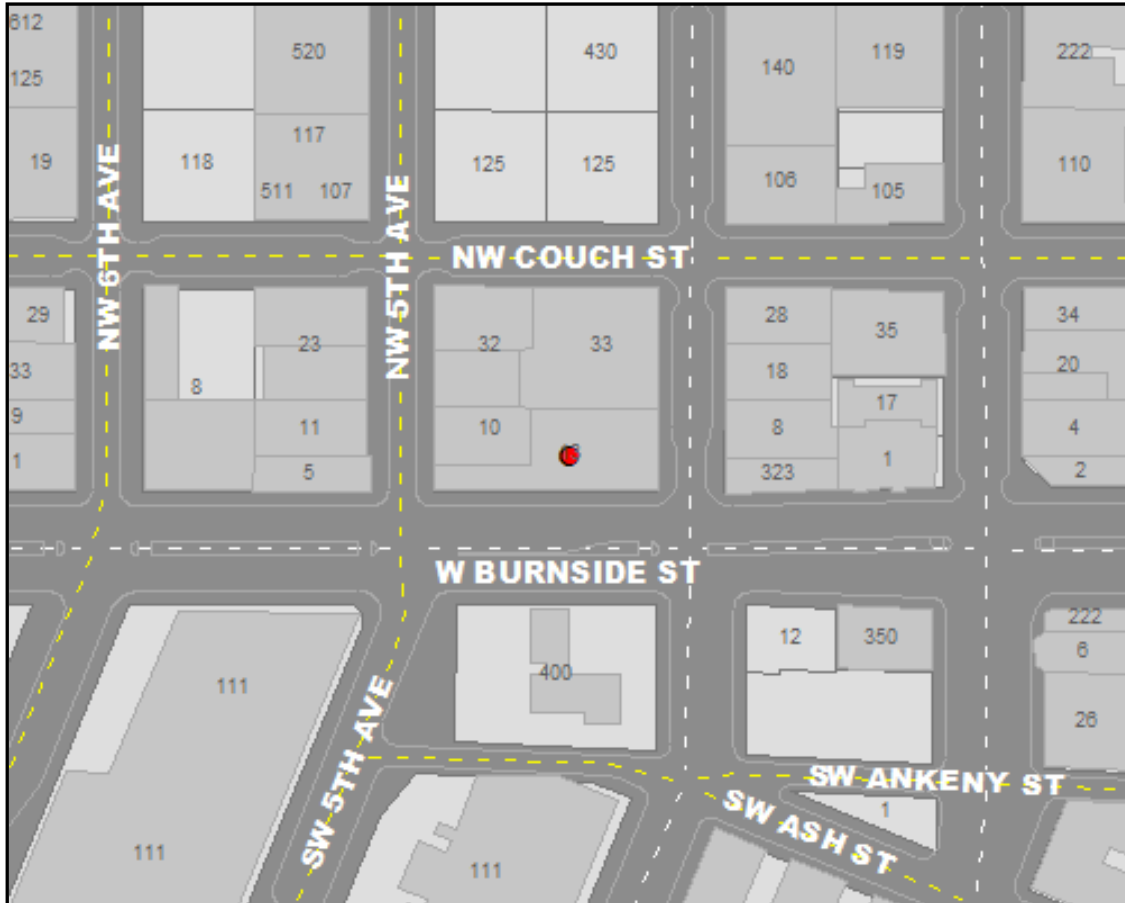
	<i>Revised FY 2007-08</i>	<i>Adopted FY 2008-09</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
River District URA						
37937 - Access Center/Aff Hsg	0	750,000	27,250,000	0	0	0
37938 - Blanchet House Redev	0	1,000,000	1,000,000	0	0	0
37939 - Fairfield Preservation	0	0	2,000,000	0	0	0
37940 - New Avenues For Youth	0	1,200,000	0	0	0	0
60014 - RD Affordable Homeownership	500,000	0	3,900,000	0	0	0
60015 - RD Community Facilities	600,000	0	0	0	0	0
60027 - Grove Apartments	0	300,000	150,000	150,000	0	0
Housing Total	1,488,143	16,450,000	38,050,000	150,000	1,000,000	0
Central Services						
59156 - RD Debt Management	50,000	50,000	50,000	50,000	50,000	50,000
Central Services Total	50,000	50,000	50,000	50,000	50,000	50,000
Executive						
60002 - RD Westside/Central City	202,209	233,000	175,000	0	0	0
Executive Total	202,209	233,000	175,000	0	0	0
Total Project Expenditures	15,659,851	38,683,000	68,435,000	20,800,000	32,050,000	19,315,000
Personal Services	31,791	0	0	0	0	0
Indirect Cost	2,499,164	6,685,400	5,567,672	5,567,672	5,567,672	5,567,672
Total Fund Expenditures	18,190,806	45,378,400	74,002,672	26,367,672	37,617,672	24,882,672
Contingency	1,200,000	10,277,571	211,899	1,032,771	237,278	336,533
Ending Fund Balance	3,623,106	0	0	0	0	0
Total Requirements	23,013,912	55,655,971	74,214,571	27,400,443	37,854,950	25,219,205

ATTACHMENT B: PROJECT SUMMARY

Project Name: The Grove Hotel
Description: Mixed-use residential SRO apartment building
Location: 401-439 West Burnside Street, Portland 97209
URA: former Downtown Waterfront / current amended River District
Current Phase: Purchase and Sales Agreement
Next Milestone: Acquisition after resolution of the appeal of amended River District
Completion Target: Acquire before February 2010 and hold until the proposed development of blocks 32 and 33 is realized at which time property may be sold for inclusion in that development.

Site/Project Map:





Aerial Site Map from Portlandmaps.com



Street frontage looking NE from the SE corner at the intersection of W. Burnside and SW 5th Ave

ATTACHMENT C: JULY 31, 2008 article from *The Oregonian*

After facelift, hotel ready to go to work

by Stephen Beaven, *The Oregonian*
Thursday July 31, 2008, 12:00 AM



Stephanie Yao / *The Oregonian*

Debra Blehm, a resident of the Grove Hotel for 13 years, is happy with renovations that include new paint, floors and sinks. Though the Grove is eventually set to be torn down to make way for a mixed-use project, it's expected to provide transitional housing for the next several years. The cage at the front desk of the Grove Hotel has been removed, and you can smell the paint as soon as you enter the unfinished lobby from West Burnside Street.

Construction crews are completing work on the ground-floor offices this month, and soon the once-blighted 70-room residential hotel will officially reopen as crisis housing for Central City Concern. The Housing Authority of Portland bought the Grove late last year as part of an ongoing effort by the city and advocates for the homeless to upgrade low-income residential hotels on the west side. The Grove has a limited future, thanks to embryonic plans for a residential/retail development that will require its demolition.

But for the next several years, the massive makeover will provide dozens of homeless people with emergency transitional housing. It's also a big upgrade for the two dozen residents who have remained throughout the renovation. They have better lighting, sinks in the restrooms, new floors and responsible management.

"It's cleaner now," says Debra Blehm, who has lived at the Grove for 13 years. "I think that's the biggest difference." The Grove, at [421 W. Burnside](#), had been owned for nearly six decades by the family of Morris Hasson and has a long and gritty history as one of the city's most notorious low-income hotels. Cockroaches skittered across the floors. Garbage piled up in the rooms. City inspectors found more than 480 code violations, and Commissioner Randy Leonard called the living conditions inhumane.

So, Leonard and Erik Sten, his former colleague on the City Council, put together a deal in which the Housing Authority would buy the Grove for \$1.8 million and be reimbursed by the Portland Development Commission. The PDC is also paying for the \$875,000 renovation, which started in February.



Stephanie Yao / The Oregonian

The Grove, at 421 W. Burnside, once was notorious for filth and other problems. There were 33 people living at the Grove when it was sold. Since then, four have moved with the help of the Housing Authority. Five left after lease violations.

The remaining residents are welcome to stay as long as they want, says Traci Manning, the chief operating officer for Central City Concern. The rest of the rooms will be used for the agency's Housing Rapid Response program, which provides temporary housing for people living on the street. "It's designed to be transitional," Manning says. "People get stabilized and ideally move on to something better."

Residents in the program, currently housed at a building at Northwest Second Avenue and Couch Street, will work with case managers and take classes to prepare them to

move into more permanent quarters.

Central City Concern will manage the building for the Housing Authority, but it's unclear how long the partnership will last.

Ultimately, the Housing Authority will transfer ownership of the building to the PDC so it can be part of a two-phase mixed-use project. The first phase of the development is expected to include an Uwajimaya Asian grocery and about 140 affordable apartments on the block north of the Grove. The second phase could include a mix of office and retail space.

The low-income housing will be replaced at the Housing Authority's resource access center, which will be built on a block between Northwest Broadway and Sixth Avenue and Irving and Hoyt streets.

But even though the Grove's life span is limited, it was an important project, given the dearth of quality housing for the poor, says Mike Andrews, the Housing Authority's director of development and community revitalization.

"Being able to have those 70 units available for three to five years is no small thing," he says.