EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6837

ACTION SUMMARY

This action will authorize the Portland Development Commission (PDC) Executive Director to enter into a Disposition and Development Agreement (DDA) with Globe Hotel LLC, a development team of the Oregon College of Oriental Medicine (OCOM), Beam Development (Beam), and Globe Building. The DDA defines the terms and conditions for the sale of PDC-owned property located at 88 NW Couch (the Property) and historic rehabilitation of the Globe Hotel located on the Property for OCOM’s new campus headquarters (the Project). The authorization of this DDA will further the implementation of the Ankeny Burnside Development Framework through the redevelopment of a contributing building in the Skidmore Old Town National Landmark Historic District and by moving a vibrant educational institution into Old Town Chinatown (OTCT).

Additionally, this action will authorize PDC’s financial participation in the Project in a total aggregate amount not to exceed $6,224,000, including a Commercial Property Redevelopment Loan (CPRDL): Construction Loan in the amount of $745,000, a CPRDL: Real Estate Loan in the amount of $2,234,000, a CPRDL: Bridge Loan in the amount of $2,500,000 until OCOM’s present campus is sold, and a CPRDL: Predevelopment Loan in the amount of $745,000. PDC has already approved and disbursed $200,000 in predevelopment loan funds. This action will authorize an additional $545,000 to complete construction documentation and permitting. The predevelopment loan will be repaid from the first construction draw for the project. Total Project cost is $16,167,518, with PDC financing comprising 34 percent. The twelve-month construction period will commence once financing for the project has closed. Construction will commence in early 2011 due to difficulty in securing sufficient allocation of New Market Tax Credits (NMTC) for the project’s financing structure.

The rehabilitated Globe Hotel will result in approximately 39,580 square feet (sf) of leasable space, including the addition of a fifth floor, with OCOM occupying 38,360 sf, or 97 percent of the building. The remaining 1,220 sf is reserved for an active ground floor retail tenant. OCOM will also be providing a space on the ground floor that will be available for community use and will allow neighborhood and community groups to use the space.
PUBLIC BENEFIT

The Project continues the revitalization of OTCT, complementing investment in the Mercy Corps and University of Oregon projects, as well as the public investment in Waterfront Park and under the Burnside Bridge.

Upon its relocation to the building, OCOM will bring approximately 265 full-time graduate-level students into the District. OCOM will expand their program offerings in the new transit-oriented facility where it is expected that the student body will grow to over 360 students within five years. The Project will bring 60 full-time and 95 part-time jobs to OTCT.

OCOM’s current clinic facility at its suburban campus accommodates approximately 24,000 annual patient visits. With an expanded clinic facility and urban location, OCOM anticipates an increase in annual patient visits to its new location, providing valuable healthcare services to the immediate district and greater urban community. OCOM has existing relationships with community based organizations to provide free acupuncture and herbal medicine to the disadvantaged. Relocation into OTCT will build upon these relationships.

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

The development team has provided ongoing briefings to the OTCT Neighborhood Association, and OTCT Land Use group. The most recent Project briefing was provided to the OTCT Land Use Committee in April 2009 where the group re-iterated strong support for the Project. Public input gathered from the OTCT neighborhood has resulted in the Project retaining active ground floor uses, and a community accessible gathering space also on the ground floor. The OTCT neighborhood has provided strong support for the Project moving forward over a period of nearly three years.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

There is a long history calling for improvements in OTCT, dating back to the Downtown Plan adopted by City Council in 1972 and through the Downtown Waterfront Urban Renewal Area (URA) Plan (1974) and the Central City Plan adopted by City Council in 1988. Specific goals of the Downtown Waterfront URA Plan include:

Goal a. - Eliminate blight and deterioration

Goal c. - Encourage private conservation, rehabilitation and development both within and adjacent to the area

Goal e. - Encourage land uses which will help create a well balanced physical and economic environment.

The Ankeny Burnside Development Framework was the result of a joint effort with the Bureau of Planning subsequent to the Downtown Waterfront Development Opportunities Project (2003). The intent of the Framework was to refine the Development Opportunities Project to a finer grain of detail and achieve revitalization in Ankeny Burnside leading up to the close out of the Downtown Waterfront URA. Key goals of the priority implementation strategy include:

- Develop Catalytic Opportunity Sites
- Support Saturday Market move into Waterfront Park
- Improve the Public Realm
- Revise the Regulatory Framework (Historic Design Guideline Update & Height Recommendations)

The Project will comply with PDC’s Business and Workforce Equity Policy and with the Bureau of Labor and Industries (BOLI) Prevailing Wage requirements.

**FINANCIAL IMPACT**

The sale of the Property is for Fair Market Value as determined by an appraisal completed by PGP Valuation on May 6, 2010. No comparable sales have prompted an update to the appraised value according to PGP Valuation. PDC has structured four loans to assist with the development of the Project. PDC’s participation includes a $745,000 loan for predevelopment costs, a $745,000 loan for construction costs, a $2.234 million loan for acquisition of the land and easement, and a $2.5 million bridge loan for construction costs. The bridge loan will be repaid from net sales proceeds of OCOM’s current building in the Gateway neighborhood. The predevelopment loan will be repaid from the first construction draw for the Project. The total PDC investment was approved by the PDC Investment Committee, and all loan terms were subject to review and recommendation by the PDC Loan Review Committee and approval by the PDC Executive Director.

It is anticipated that the loans will be structured as follows:

<table>
<thead>
<tr>
<th>Loan</th>
<th>Commercial Property Redevelopment Loan: Predevelopment Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>Globe Hotel LLC</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$745,000 (up from $200,000)</td>
</tr>
<tr>
<td>Purpose</td>
<td>Predevelopment activities</td>
</tr>
<tr>
<td>Loan Fee</td>
<td>None (same as previous)</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Predevelopment Loan: 1% (same as previous)</td>
</tr>
<tr>
<td>Term</td>
<td>Until June 30, 2011, or upon property conveyance, whichever is sooner. Loan will be repaid by proceeds from a $745,000 Commercial Property Redevelopment loan at property conveyance if project moves forward or potentially forgiven by Loan Committee if project proves infeasible. (previously loan due December 2010)</td>
</tr>
<tr>
<td>Payments</td>
<td>No payments, interest on outstanding balance accrues and is added to loan balance. (same as previous)</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Collateral</td>
<td>PDC ownership of the work product. (PDC owns Globe Hotel property) (same as previous)</td>
</tr>
<tr>
<td>Guarantor</td>
<td>None</td>
</tr>
<tr>
<td>Exception Requested</td>
<td>Loan amount above $200,000 and term above 24 months.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan</th>
<th>Commercial Property Redevelopment Loan: Construction Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>OCOM</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$745,000</td>
</tr>
<tr>
<td>Purpose</td>
<td>Seismic upgrade of building</td>
</tr>
<tr>
<td>Loan Fee</td>
<td>None</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Mini-Permanent Loan: 2%</td>
</tr>
<tr>
<td>Term</td>
<td>Seven years, until end of New Markets Tax Credit period structure unwinds</td>
</tr>
<tr>
<td>Payments</td>
<td>Monthly interest only payments during seven year term of loan. Principal balance due in full at the end of seven year term.</td>
</tr>
<tr>
<td>Collateral</td>
<td>Collateral Assignment of OCOM loan to Investment Fund</td>
</tr>
<tr>
<td>Guarantor</td>
<td>None</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan</th>
<th>Commercial Property Redevelopment Loan: Real Estate Land and Easement Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>OCOM</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$2,234,000</td>
</tr>
<tr>
<td>Purpose</td>
<td>Acquisition of building and land ($1,950,000); permanent easement ($246,000) and lot line adjustment ($38,000) PGP Valuation 5/6/2010</td>
</tr>
<tr>
<td>Loan Fee</td>
<td>None</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Mini-Permanent Loan: 2%</td>
</tr>
<tr>
<td>Term</td>
<td>Seven years, until end of New Markets Tax Credit period; structure unwinds with option to extend 15 years after end of New Markets Tax Credit period structure.</td>
</tr>
<tr>
<td>Payments</td>
<td>Monthly interest only payments during seven year term of loan. 50% of principal balance ($1,117,000) due in full at the end of seven years with remaining 50% balance fully amortized over 15 years at 2% or 50% of principal balance plus $500,000 ($1,617,000) due at the end of seven years and remaining $617,000 loan balance forgiven.</td>
</tr>
<tr>
<td>Collateral</td>
<td>Collateral Assignment of OCOM leverage loan to Investment Fund</td>
</tr>
<tr>
<td>Guarantor</td>
<td>None</td>
</tr>
<tr>
<td>Exception Requested</td>
<td>Security in loan Investment Fund only; Loan exceeds $2 million; Term potentially exceeds 10 years</td>
</tr>
<tr>
<td>Loan</td>
<td>Commercial Property Redevelopment Loan: Bridge Loan</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>Borrower</td>
<td>OCOM</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Purpose</td>
<td>Fund a portion of OCOM’s equity contribution to project until sale of OCOM’s property at 10525 SE Cherry Blossom Lane, Portland</td>
</tr>
<tr>
<td>Loan Fee</td>
<td>None</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>2%</td>
</tr>
<tr>
<td>Term</td>
<td>Principal balance due on sale of current OCOM property or at the end of the New Markets Tax Structure end in seven (7) years.</td>
</tr>
<tr>
<td>Payments</td>
<td>No payments, interest accrues to principal balance.</td>
</tr>
<tr>
<td>Collateral</td>
<td>First position deed of trust on the OCOM property located at 10525 SE Cherry Blossom Lane, Portland</td>
</tr>
<tr>
<td>Guarantor</td>
<td>None</td>
</tr>
</tbody>
</table>

Other public financing in the Project includes NMTC and Historic Tax Credit (HTC) equity of $6.08 million, as well as a Metro Transit Oriented Development grant for $200,000.

Leverage Ratio Private Funds / PDC Funds = 10.2 Million / 5.5 Million = 1.85 / 1.00

The PDC Downtown Waterfront URA Budget has sufficient resources identified in Fiscal Year 2010-11 (see Attachment A).

**RISK ASSESSMENT**

The availability of NMTC equity has become an issue of significant concern in the final stages of underwriting for this Project. The National Development Council (NDC) has been working with PDC and the development team to secure sufficient NMTC allocation. Only $7 million of the required $15 million in allocation has been provided by NDC to date. PDC and the development team continue to search for the remaining NMTC allocation, so that it does not materially change PDC’s participation in the Project. This issue could result in a three month delay in construction commencement to late March 2011, once a new round of NMTC’s are authorized and allocated to Community Development Entities. The NDC has promised to increase their allocation $10 million upon award of the new round of NMTC’s. Albina Bank’s Board is also considering contributing $7 million of their 2010 round of NMTC’s to the deal, with a final determination expected no later than November 5, 2010. PDC staff will apprise the Board of Commissioners (Board) of the vote results at or before the November 10 PDC Board Meeting.

PDC is providing a bridge loan to facilitate the transaction, with OCOM’s building in the Gateway neighborhood as the collateral. If the building does not sell for a minimum of $2.5 million plus accrued interest at 3.5 percent, there is the possibility of a shortfall for the bridge loan repayment. PDC Loan Review Committee will need to consider an alternative repayment structure if the building sells for less than the bridge loan amount. PDC will have the authority to deny sales of the building that are lower than the amount of the outstanding bridge loan plus accrued interest, a condition which will be outlined in the bridge loan documents.
The additional predevelopment loan will be unsecured until the project closes in early 2011. If the project does not close, PDC is at risk for the repayment of the predevelopment loan. If the project closes, PDC will no longer be exposed to this risk because the predevelopment loan will be fully repaid from the first construction draw for the Project.

WORK LOAD IMPACT

This Project is incorporated into the work plans of existing PDC staff.

ALTERNATIVE ACTIONS

The PDC Board could choose not to approve the DDA, thereby cancelling the Project and retaining the Globe Hotel in PDC ownership. An alternative disposition plan would need to be established if this action were taken. The Board could also choose to reduce the amount of PDC financial assistance in this Project, requiring the development team to find additional funding which could delay or ultimately terminate the Project.

CONCURRENCE

The PDC Investment Committee recommended approval of the negotiated DDA to the Executive Director on April 23, 2010. The PDC Loan Review Committee recommended to the Executive Director approval of the loans outlined in the term sheet above on August 10, 2010. The PDC Loan Review Committee further recommended to the Executive Director the approval of up to $545,000 additional pre-development funding to complete construction documentation and permitting within the 2010 calendar year in order to maintain momentum on the Project.

BACKGROUND

PDC purchased the Property in 2005 for $2.1 million as part of a larger transaction for the entire Block 8 under a stipulated judgment and settlement agreement with the H. Naito Corporation for the planned Fire Station #1 relocation. The Globe Hotel is a contributing historic structure on the southwest quarter of the block. The remaining three-quarters of the block contain a building to be de-constructed in preparation for other development opportunities and a parking lot on the northern half of the block. Plans to move Fire Station #1 changed in summer 2006 due to escalating costs for the new facility. Block 8 was still considered a catalytic development opportunity site in the Ankeny Burnside Development Framework. During the remainder of 2006 and into 2007 the University of Oregon and Mercy Corps proceeded with commitments to relocate to the Ankeny Burnside area of OTCT, further contributing to the development momentum underway in the district. The relocation of Portland Saturday Market proceeded during 2007-2009 to facilitate development in the area adjacent to the Skidmore Fountain Building (Mercy Corps’ new headquarters), and to provide a long term home to the market in OTCT.

PDC and the City engaged several alternative medicine providers in fall 2007 to determine whether there was interest in creating an alternative medicine cluster in OTCT. OCOM had been considering a move to OTCT for some time, and the Globe Hotel was of particular interest
to OCOM due to the proximity to transit, the amenities in the Central City including Waterfront Park and the Japanese American Historical Plaza, as well as the proximity to the community based organizations with whom it has ongoing relationships with. In the fall of 2008, PDC Investment Committee recommended and the PDC Executive Director authorized staff to proceed with exclusive negotiations with Beam and OCOM for the Globe Hotel.

PDC has been working with the OCOM / Beam development team for nearly three years amidst significant obstacles including the deterioration of the economy and credit markets which have necessitated a higher than average level of financial participation in this Project. In September of 2008, the PDC Investment Committee authorized PDC staff to proceed with negotiating terms including $745,000 for seismic upgrades to the former Globe Hotel building. The PDC Executive Director, upon recommendation from the PDC Loan Review Committee, in October of 2008, authorized a $200,000 predevelopment loan to Beam for architectural and engineering work. This predevelopment loan has been drawn down for the intended purpose and will be fully repaid at closing. Due to delays in obtaining the full NMTC allocation, the PDC Loan Review Committee recommended to PDC’s Executive Director the advancement of up to $545,000 in additional pre-development funding. This predevelopment loan will be fully repaid at closing.

As the development team continued to seek commercial financing for the Project, it became apparent that the financial gap was larger than anticipated. The commercial financing will be acquired from US Bank in the form of a leveraged NMTC loan of $3.2 million and NMTC and HTC equity of $6.08 million, leaving a gap of $2.234 million. In response, the PDC project team in November 2009 was granted approval from Investment Committee to proceed with negotiating terms including an additional $2.234 million in the Globe Project in the form of a real estate loan, subject to Loan Review Committee review and recommendation.

OCOM’s equity contribution to the Project is $2.5 million. The source of this equity is the sale of their current campus on SE Cherry Blossom Drive near the Adventist Hospital in the Gateway neighborhood. US Bank stated that without a bridge loan for the OCOM equity contribution, US Bank would not move forward with the underwriting phase. Therefore, in April 2010 the PDC project team requested from the Investment Committee the ability to extend a bridge loan of $2.5 million to the Project financing structure, subject to Loan Review Committee review and recommendation. The bridge loan will be repaid from net sales proceeds of the current building. An appraisal of the OCOM campus by PGP Valuation dated May 18, 2010, places the fair market value of the property at $3.09 million.

During the past three years OCOM has engaged with the neighborhood, participated and hosted community events, and demonstrated a strong civic presence in the OTCT neighborhood. The addition of OCOM to the neighborhood serves to further the goals of the Ankeny / Burnside Development Framework, and complements the development which has already happened in the immediate vicinity.

ATTACHMENTS:
A. Downtown Waterfront URA Budget Summary
B. Easement Diagram
C. Project Summary
# URA FINANCIAL SUMMARY

## Financial Summary

### Fund Summary - Five-Year Budget Projections

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### Downtown Waterfront URA

#### Resources

- **Beginning Fund Balance:** 13,859,083
- **Fees and Charges:** 0
- **Interest on Investments:** 100,000
- **Loan Collections:** 925,799
- **Miscellaneous:** 0
- **Property Income:** 6,245,694
- **Reimbursements:** 273,843
- **TIF Proceeds:** 0
- **Transfers In:** 0

**Total Resources:** 21,404,419

#### Requirements

- **Program Expenditures**
  - **Business and Industry**
    - **Community Economic Development**
      - **H70020 Business Finance:** 750,000
    - **High Growth**
      - **H70020 Business Finance:** 145,753
      - **Industry Cluster**
        - **H70020 Business Finance:** 88,000
  - **Housing**
    - **Multi-Family - Rental Housing**
      - **H80039 333 Oak:** 200,000
      - **H80030 Affordable Rental Housing:** 300,000
    - **Portland Housing Bureau**
      - **H2025 Administration:** 70,911
  - **Infrastructure**
    - **Facilities**
      - **H80034 Community Facilities:** 0
      - **Parks**
        - **H10215 Ankeny/Burnside Public Improvements:** 2,183,956
    - **Transportation**
      - **H10221 Transit Mall Revitalization:** 100,000
      - **H11234 Westside Burnside-Couch Couplet**
  - **Reinvitalization**
    - **Community Outreach - Revitalization**
      - **H11601 Community Outreach:** 5,000
  - **Redevelopment**
    - **H10214 Block 8 Redevelopment:** 82,000
    - **H11244 One Waterfront Place:** 10,000
    - **H12101 Downtown Retail Strategy:** 11,500
    - **H13005 RiverPlace Marina Lease:** 14,549
    - **H16306 Block 33:** 10,000
    - **H27001 Storefront Grants:** 450,000
    - **H27050 DOS Grants:** 24,000

**Total Expenditures:** 2,349,738

**Total Resources:** 21,404,419

**Excess:** 19,054,681

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November 10, 2010 Page 1 of 2
## Financial Summary

### Fund Summary - Five-Year Budget Projections

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</tr>
</thead>
<tbody>
<tr>
<td>H28030 Redevelopment Loan Projects</td>
<td>96,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>H28040 Downtown Parking Program</td>
<td>16,000</td>
<td>6,000</td>
<td>6,000</td>
<td>6,000</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>H80037 Grove Apartments</td>
<td>3,273,597</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>H80041 3rd and Oak Parking Obligation</td>
<td>64,140</td>
<td>65,900</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
<td>1,100</td>
</tr>
<tr>
<td><strong>Revitalization Total</strong></td>
<td><strong>4,097,286</strong></td>
<td><strong>6,259,223</strong></td>
<td><strong>1,129,600</strong></td>
<td><strong>4,929,600</strong></td>
<td><strong>1,029,600</strong></td>
<td><strong>829,600</strong></td>
</tr>
</tbody>
</table>

|                         | Administration     |                    |                     |                     |                     |                     |
|                         | Executive          |                    |                     |                     |                     |                     |
|                         | H92110 Westside/Central City Study | 175,994          | 15,000              | 0                   | 0                   | 0                   |
|                         | Finance            |                    |                     |                     |                     |                     |
|                         | H96001 Debt Management | 16,864           | 8,000               | 8,000               | 8,000               | 8,000               |
|                         | Administration Total | 192,878          | 23,000              | 8,000               | 8,000               | 8,000               |

### Total Program Expenditures

- **8,203,566**
- **7,332,223**
- **2,436,057**
- **4,937,600**
- **1,037,600**
- **2,586,957**

### Personal Services

- **450,562**
- **271,209**
- **67,730**
- **177,753**
- **37,353**
- **93,130**

### Transfers - Indirect

- **1,437,241**
- **1,377,538**
- **336,300**
- **681,380**
- **143,189**
- **357,000**

### PHB Staff/Admin

- **0**
- **0**
- **63,361**
- **128,378**
- **26,978**
- **67,261**

### Total Fund Expenditures

- **10,191,790**
- **8,080,979**
- **2,924,348**
- **5,925,120**
- **1,245,120**
- **3,194,348**

### Contingency

- **11,302,930**
- **6,752,963**
- **4,817,455**
- **228,460**
- **264,763**
- **510,881**

### Ending Fund Balance

- **0**
- **0**
- **0**
- **0**
- **0**
- **0**

### Total Requirements

- **21,494,410**
- **15,733,933**
- **7,741,803**
- **6,153,580**
- **1,500,883**
- **3,615,220**
PROJECT SUMMARY

Project Name: Globe Hotel / OCOM DDA
Description: Renovation of a contributing historic structure in the Skidmore Old Town district for the campus headquarters of the Oregon College of Oriental Medicine.
Location: 88 NW Couch
URA: Downtown Waterfront
Current Phase: Disposition
Next Milestone: Construction Start – March 2011
Completion Target: November 2011
Outcome: Seismic upgrade and renovation of an historic building, job creation, alternative medicine provider in central city.

Site/Project Map: