



**DATE:** August 15, 2012  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 12-23  
Authorizing the Executive Director to Execute an Agreement for Purchase and Sale of Property with RiverPlace Partners II to Convey 1.12 Acres of Real Property in the North Macadam Urban Renewal Area for \$5,250,000

### **BOARD ACTION REQUESTED**

Adopt Resolution No. 6958

### **ACTION DESCRIPTION**

This action will authorize the Executive Director to execute an Agreement for Purchase and Sale of Property (PSA) between the Portland Development Commission (PDC) and RiverPlace Partners II (RPP II) for the conveyance of RiverPlace Parcel 8 (Property), a 1.12 acre PDC-owned parcel, to RPP II for the consideration of \$5,250,000. The Property is located in the North Macadam Urban Renewal Area (NMURA) at the northeast corner of the SW River Parkway and SW River Drive intersection (See Attachment A, Project Summary).

This action reflects two key PDC interests: (1) to convey the property to RPP II at market rate to be developed without any PDC financial assistance since PDC's role in setting the framework for redevelopment of the Property and the RiverPlace neighborhood is largely complete; and (2) to support PDC's initiative of disposing of non-strategic properties. PDC is undertaking a comprehensive review of its currently held real estate assets to identify those properties with revenue potential and non-strategic need, together with those properties PDC will continue to hold.

### **BACKGROUND AND CONTEXT**

RiverPlace Parcel 8 is located in the RiverPlace neighborhood within the NMURA, immediately south of Portland's downtown core. RiverPlace Parcel 8 was acquired by PDC in 1985 pursuant to a property exchange agreement with Pacific Power & Light for the redevelopment of waterfront parcels in exchange for the relocation of the substation to property adjacent to SW Moody Avenue and the Marquam Bridge. The Property is vacant, relatively flat, and zoned Central Commercial (CX) with a Floor Area Ratio (FAR) of 4:1 (an additional 3:1 FAR is available if bonus FAR requirements are met). The allowed height is 150 feet.

The RiverPlace Development Strategy, approved by the PDC Board in July 1997, specified high-quality, mixed-use private development on the remaining developable parcels in the RiverPlace Project Area, including RiverPlace Parcel 8. Subsequent to the adoption of the plan, the neighborhood has largely

been completed, including The Strand Condominiums in 2004 and the extension of the Portland Streetcar to RiverPlace in 2005.

The Property is enrolled in the Oregon Department of Environmental Quality (DEQ) Voluntary Cleanup Program as asbestos-contaminated material (ACM) was buried on the site from the Lincoln Steam Plant demolition. Environmental cleanup, including removal of approximately 4,730 tons of ACM, was substantially complete in December 2006. A minor amount of ACM remains under the private street on the east side of the Property. On September 14, 2007, an Easement and Equitable Servitudes (E&ES) for the Property, which delineated restrictions on disturbance of the remaining ACM and groundwater use, was recorded with Multnomah County. DEQ issued a Conditional No Further Action Determination for the Property on September 20, 2007.

In 2006, PDC issued a Request for Proposals (RFP) to solicit development proposals for the Property. PDC received one response from Onder Development and Williams & Dame Development and, in 2007, entered into a MOU with River Place Partners II, LLC (RPP II), whose members are Onder Development Company and Williams & Dame Development, Inc. The MOU called for the property to be purchased by RPP II for \$4.7 million (the fair market value at the time) and developed as a mixed-use residential building. RPP II and PDC subsequently evaluated alternative programs for the Property. The MOU expired in 2009 as development of the Property was deemed to be not feasible at the time by RPP II. PDC retained the \$100,000 earnest money deposit provided by RPP II as required by the RFP.

The Property currently generates approximately \$1,000 per month in revenues to PDC pursuant to agreements PDC has with the adjacent property owners regarding the operation and shared revenues from adjacent privately-owned streets and on street parking. It is anticipated these agreements would be transferred to RPP II concurrent with conveyance of the Property.

In February 2012, PDC issued a Request for Offers (RFO) with the objective of selling the property at market rate, without PDC investment or financial assistance, to be developed in accordance with the NMURA plan and zoning regulations. PDC received three responses from (1) RiverPlace Partners II (RPP II); (2) Valeo; and (3) Naito Development/Winkler Development/Sycan Development. The offer submitted by RPP II was selected by the Executive Director and staff was authorized to enter into negotiations with RPP II leading to a Purchase and Sale Agreement (PSA). The principals of RPP II are local developers Dike Dame and Jack Onder.

The RPP II offer included a proposal to lease up to 80 of the 100 parking spaces in the RiverPlace Parking Garage (RPG). PDC staff has confirmed with RPP II that its overall development proposal is not dependent upon leasing the parking spaces from the RPG and that alternative parking solutions are possible. This issue will be further evaluated by RPP II during the Due Diligence Period.

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

- Purchase price of \$5.25 million, which is higher than the March 2012 \$5,170,000 appraised value of the Property;
- PDC to provide no investment or financial assistance for redevelopment of the Property;
- RPP II to provide PDC an earnest money deposit of five percent (\$262,500) due within five days of the Effective Date, and non-refundable at the end of the Due Diligence Period;
- RPP II may elect not to proceed with the transaction if matters are unacceptable to RPP II at end of 90-day Due Diligence Period;
- Closing to occur within 90 days of conclusion of Due Diligence Period;

- RPP II may exercise three 30-day closing extensions at \$30,000 per extension with extension payments non-refundable and not applicable to purchase price;
- RPP II accepts responsibility for all environmental contamination on the Property, including the known ACM located under the private street which the Property encompasses. An escrow holdback of \$100,000 will be held for any incremental cost for management or disposing of any contaminated soils requiring removal within the existing curb line of the Property within six months of the commencement of construction as long as the development does not require excavation beyond 12 feet in depth;
- RPP II must commence construction of the Property consistent with the NMURA Plan and zoning within 32 months of the Effective Date, currently anticipated to be a 205-room hotel to be operated by Hyatt;
- PDC has the right to repurchase the Property until RPP II has (1) committed funding in an amount equal to or greater than \$25 million and (2) has commenced construction; and
- If RPP II desires to pursue leasing of parking spaces in the RPG, RPP II must prepare a Parking Plan that provides PDC with the information necessary to evaluate the request, including parking utilization, turnover, rates, and management plan for joint use of the parking spaces by the public and hotel patrons.

#### **COMMUNITY AND PUBLIC BENEFIT**

Public benefits of executing the PSA include:

- The disposition of RiverPlace Parcel 8 will generate \$5.25 million in land sale proceeds and will reduce PDC's ongoing ownership and maintenance costs;
- The Property will be privately redeveloped without direct financial assistance from PDC; it is currently anticipated to be a hotel that is estimated to generate approximately \$440,000 per year in property tax revenues and \$480,000 per year in transient lodging tax revenues; and
- Development of the Property, which is one of two remaining vacant parcels in RiverPlace, will capitalize on and enhance PDC's investments in RiverPlace made over the past 20 years.

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

Community outreach was conducted during the 2006 and 2009 disposition efforts. At that time, area stakeholders were generally favorable to redevelopment of the property consistent with adjacent uses and quality of adjacent development.

In 2012, outreach associated with the disposition of the property has included communicating with and providing opportunities for feedback from the North Macadam Urban Renewal Advisory Committee (NMURAC), the RiverPlace Planned Community (RPPC) Board of Directors, and the owners or designated managers of the adjacent Strand Condominiums and David Evans and Associates building with whom PDC has operating agreements regarding the private roadways.

The NMURAC and other stakeholders have generally been supportive of redeveloping Parcel 8. Recent specific feedback received has included:

- General support for the proposed hotel development and selected development team;
- A request for the development team to join the RPPC to facilitate communications and a smooth transition in ownership from PDC;

- Concern with the proposed lease by the hotel of parking spaces in the RiverPlace Parking Garage (RPG); since the spaces in the garage were initially intended to be available as public parking, some stakeholders perceive there is a shortage of available public parking in the vicinity, and nearby businesses have made investments based upon the availability of the public parking spaces in the RPG; and
- A request to be informed of, and to have the opportunity to comment on, the specific design features of the proposed development as the design is advanced.

RPP II has agreed to join the RPPC, and this is a requirement of the negotiated PSA. In addition, RPP II will be required to conduct public outreach, including at least one meeting with the Strand Board and the RPPC Board to present the parking plan and receive feedback.

Regarding potential RPG use, if during due diligence RPP II decides to pursue leasing of RPG parking spaces, RPP II will prepare a Parking Plan as previously detailed. PDC staff will compare this Parking Plan and any request against current RPG operations and requirements to identify if RPG use is feasible.

The community will have opportunity to comment on the project’s design as the Property is located in a Design Review overlay district and will be subject to Design Review approval. As part of the negotiated PSA, RPP II will be required to participate in a Design Advice Request (DAR) with the Design Commission as a condition precedent to closing. The public will have the opportunity to participate in subsequent Design Review approval processes as well.

**BUDGET AND FINANCIAL INFORMATION**

The NMURA FY 2012-13 Approved Budget includes funds for ongoing ownership and maintenance of the Property as well as anticipated revenues from the on-street parking agreement (see Attachment B, URA Financial Summary). This action will reduce PDC’s ongoing ownership and maintenance costs in future years and will eliminate the collection of parking revenues.

This action will provide PDC with approximately \$5,250,000 in additional financial resources which will be held in a Committed Fund Balance during the Repurchase Period and can be invested in other projects and programs subject to subsequent PDC Board approval. Included in the \$2.7 million costs during holding, PDC has invested approximately \$1.2 million directly in environmental remediation in the Property, and has apportioned other neighborhood-wide PDC costs to the Property. As noted in the table below, PDC will more than recover the acquisition and holding costs of the Property through this PSA.

	<b>PDC Costs and Revenues</b>	<b>PDC Costs</b>	<b>PDC Revenues</b>	<b>PDC Costs minus Revenues</b>
Sunk Cost/ Revenue	Purchase price paid for acquisition	\$57,401	\$0	\$57,401
	Other costs during holding, including remediation	\$2,721,538	\$0	\$2,721,538
	Holding costs/revenues to date	\$8,699	\$112,254	(\$103,555)

	<b>PDC Costs and Revenues</b>	<b>PDC Costs</b>	<b>PDC Revenues</b>	<b>PDC Costs minus Revenues</b>
	Other costs/revenues during holding period	\$0	\$0	\$0
Estimated Cost/ Revenue	Estimated costs/revenues to maintain until proposed disposition	\$1,000	\$12,000	(\$11,000)
	Estimated total disposition and development costs to PDC	\$0	\$0	\$0
	Estimated total disposition and development revenues to PDC	\$0	\$5,250,000	(\$5,250,000)
	Total	\$2,788,638	\$5,374,254	(\$2,585,616)

The NMURAC FY 2012-13 Approved Budget does not include the \$5.25 million in revenues from the sale of the Property as these negotiations have been under way concurrent with the development of the budget. The proceeds of this sale will be reserved as Committed Fund Balance as long as the repurchase right is in effect and will be programmed for expenditure in future budgets.

**RISK ASSESSMENT**

Entering into this PSA creates minimal risks for PDC since PDC does not have financial resources at risk. Nevertheless, the PSA creates the following risks:

1. **RPP II May Terminate the Transaction.** There is a risk that RPP II will terminate the transaction during the Due Diligence Period. This risk is relatively minor, is a standard business practice, and cannot be mitigated.

A related risk is that RPP II will terminate the transaction subsequent to the end of the Due Diligence Period but prior to Closing. This risk is mitigated by RPP II providing PDC a five percent (\$262,500) Earnest Money Deposit within five days of the Effective Date which is non-refundable after the end of the Due Diligence Period.

2. **RPP II May Not Redevelop the Property Successfully.** There is a risk that RPP II will not succeed in redeveloping the Property. Subsequent to the end of the Due Diligence Period but prior to Closing, this is mitigated by the Earnest Money Deposit. Subsequent to Closing, this risk is further mitigated by (a) RPP II paying PDC the Purchase Price in cash at Closing; and (b) PDC retaining a repurchase right until RPP II has committed funding of at least \$25 million and has commenced construction.
3. **RPP II May Not Raise the EB-5 Equity.** RPP II is proposing to raise 100 percent of the equity through the Employment-Based Immigration: Fifth Preference (EB-5) Program created by Congress in 1990 to stimulate the U.S. economy through job creation and capital investment by

foreign investors. The EB-5 Program is administered by the United States Citizen and Immigration Services (USCIS). There is a risk that RPP II will be unsuccessful in raising this equity. This risk is partially mitigated by the PSA requirement for RPP II to have raised \$8 million in committed funding prior to Closing, and for PDC to retain a repurchase right until RPP II has \$25 million in committed funding.

4. **RPP II May Not Develop the Property as Anticipated.** There is a risk that RPP II may develop something other than a hotel on the property. Although the currently anticipated development plan is for a 205-room hotel, neither the RFO nor the resulting PSA require the development of a specific use, only development that is consistent with the zoning regulations and NMURA Plan. PDC has specifically not restricted the use because (a) this is no longer a strategic property; (b) PDC is not investing any financial resources in the project and is selling the Property at fair market value; and (c) a wide range of uses is consistent with the zoning regulations and NMURA Plan and will be beneficial to the neighborhood. To mitigate against a non-taxable use of the Property, the PSA states that the Deed shall contain a condition restricting the Property to a taxable use until June 30, 2020.
  
5. **Unknown Environmental Conditions.** There is a risk that contaminated soils requiring removal will be found within the existing curb line. This risk has been mitigated by (a) prior environmental investigations and remedial actions taken by PDC to the point of having received a Conditional No Further Action Determination; (b) requiring RPP II to conduct a Phase I Environmental Site Assessment of the Property during the Due Diligence Period; and (c) the escrow holdback not to exceed \$100,000 for management and removal of contaminated soils within the existing curb line within six months of the commencement of construction if the development of the Property does not involve excavation beyond 12 feet in depth.

#### **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. URA Financial Summary: NMURA FY 2012-13 Approved Budget

### PROJECT SUMMARY

**Project Name:** RiverPlace Parcel 8 Purchase and Sale Agreement

**Description:** 1.12-acre vacant parcel zoned Central Commercial (CX).

**Location:** Northeast corner of SW River Drive and SW River Parkway in the RiverPlace neighborhood at the south end of the Portland Central Business District

**URA:** North Macadam

**Current Phase:** Disposition

**Next Milestone:** Closing/Conveyance

**Completion Target:** February 2013

**Outcome:** Conveyance of RiverPlace Parcel 8 to RiverPlace Partners II for development according to NMURA Plan and zoning, currently anticipated to be a 205-room hotel





**URA Financial Summary**

**Five-Year Forecast Project Requirements Detail**

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
<b>North Macadam URA</b>						
<b>Resources</b>						
Beginning Fund Balance	7,956,775	2,345,962	2,672,449	386,146	5,145	2,775
Fees and Charges	315,472	324,309	333,397	343,341	353,641	364,251
Interest on Investments	25,000	23,460	26,724	3,861	51	28
Loan Collections	166,935	128,882	128,882	128,882	128,882	128,882
Long Term Debt	3,750,000	19,500,000	0	0	0	562,892
<b>Property Income</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>
Short Term Debt	6,325,513	5,772,048	2,818,943	1,444,738	1,499,946	6,713,451
<b>Total Fund Resources</b>	<b>18,554,695</b>	<b>28,109,661</b>	<b>5,995,395</b>	<b>2,321,968</b>	<b>2,002,665</b>	<b>7,787,279</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101325 Debt Management-NMC	32,000	20,000	20,000	20,000	20,000	20,000
<b>Administration Total</b>	<b>32,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
<b>Business Dev</b>						
<b>Cluster Industry Development</b>						
B15102325 Site Recruitment-NMC	14,250	32,000	32,000	0	0	0
B15701325 Bio-Tech Build-Out-NMC	575,000	0	0	0	0	0
<b>Business Lending</b>						
L02100325 BIF-General-NMC	700,000	500,000	500,000	400,000	285,000	430,000
<b>Business Dev Total</b>	<b>1,289,250</b>	<b>532,000</b>	<b>532,000</b>	<b>400,000</b>	<b>285,000</b>	<b>430,000</b>
<b>Infrastructure</b>						
<b>Parks</b>						
N32511815 Central Dist Greenway-NMC-Adm	3,752,025	0	0	0	0	0
N32512615 Caruthers Park-NMC-Adm	367,161	0	0	0	0	0
N32514015 New Init - Parks & Gr-NMC-Adm	0	0	0	0	0	2,000,000
<b>Public Facilities</b>						
N32520115 Life Science Parking-NMC-Adm	0	0	1,703,625	0	0	0
<b>Transportation</b>						
N32530215 Light Rail-NMC-Adm	0	10,000,000	0	0	0	0
N32530315 South Portal Design-NMC-Adm	400,000	0	0	0	0	0
N32530415 N Dist Infra Conduit-NMC-Adm	300,000	0	0	0	0	0
N32530515 EcoDistrict Conduit-NMC-Adm	250,000	0	0	0	0	0
N32530615 Central Dist Infra-NMC-Adm	166,000	0	0	166,000	166,000	83,000
N32530715 Trans Strategy Dev-NMC-Adm	0	50,000	0	0	0	0
N32533715 Gibbs St Ped Bridge-NMC-Adm	578,000	0	0	0	0	0
N32534115 Trans Initiatives-NMC-Adm	0	50,000	50,000	50,000	50,000	2,000,000
<b>Infrastructure Total</b>	<b>5,813,186</b>	<b>10,100,000</b>	<b>1,753,625</b>	<b>216,000</b>	<b>216,000</b>	<b>4,083,000</b>
<b>Portland Hsg Bureau</b>						
<b>PHB Housing</b>						
H15430325 Affordable Rental Hsg-NMC	0	0	0	0	0	1,600,000
H15900325 PHB Staff & Admin-NMC	353,877	365,904	69,515	75,564	74,364	154,912
H15943325 Affordable Veterans Hsg-NMC	6,750,000	12,550,164	1,250,000	0	0	0
<b>Portland Hsg Bureau Total</b>	<b>7,103,877</b>	<b>12,916,068</b>	<b>1,319,515</b>	<b>75,564</b>	<b>74,364</b>	<b>1,754,912</b>
<b>Property Redev</b>						
<b>Commercial Property Redevlopnm</b>						
A35401325 Central City 2035-NMC	21,235	0	0	0	0	0
P32550515 Eco District-NMC-Adm	150,000	0	0	0	0	0
P32552215 CC 2035-NMC-Adm	0	116,221	0	0	0	0
P32556215 RiverPlace Lot 8 Rdv-NMC-Adm	50,000	0	0	0	0	0
P32556315 RiverPlace Lot 3 Rdv-NMC-Adm	50,000	35,000	0	0	0	0
P32558015 RiverPlace Prop Mgmt-NMC-Adm	15,000	0	0	0	0	0



Five-Year Forecast Project Requirements Detail

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
P32590015 Project Development-NMC-Adm	50,000	500,000	500,000	400,000	285,000	430,000
<b>Commercial Real Estate Lending</b>						
RD1100325 CPRL-General-NMC	225,000	0	0	0	0	0
<b>Community Redevelopment Grants</b>						
GD2100325 DOS-General-NMC	50,000	0	0	0	0	0
G03100325 SIP-General-NMC	100,000	0	0	0	0	0
<b>Property Redev</b>						
<b>Total</b>	<b>711,235</b>	<b>651,221</b>	<b>500,000</b>	<b>400,000</b>	<b>285,000</b>	<b>430,000</b>
<b>Total Program Expenditures</b>	<b>14,949,548</b>	<b>24,219,289</b>	<b>4,125,140</b>	<b>1,111,564</b>	<b>880,364</b>	<b>6,717,912</b>
Personal Services	486,932	387,418	364,778	296,239	275,166	255,622
Debt	0	0	0	0	0	0
Transfers - Indirect	772,253	830,505	1,119,331	909,020	844,360	784,386
PHB Staff/Admin	0	0	0	0	0	0
<b>Total Fund Expenditures</b>	<b>16,208,733</b>	<b>25,437,212</b>	<b>5,609,249</b>	<b>2,316,823</b>	<b>1,999,890</b>	<b>7,757,920</b>
Contingency	2,345,962	2,672,449	386,146	5,145	2,775	29,359
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>18,554,695</b>	<b>28,109,661</b>	<b>5,995,395</b>	<b>2,321,968</b>	<b>2,002,665</b>	<b>7,787,279</b>