



DATE: August 13, 2014
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 14-35

Authorizing a Purchase and Sale Agreement to Convey 0.25 Acres of Real Property in the River District Urban Renewal Area to Grove Hotel Partners LLC for \$630,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7070

ACTION DESCRIPTION

This action will authorize the Portland Development Commission (PDC) Executive Director to execute an Agreement for Purchase and Sale of Property (PSA) between PDC and Grove Hotel Partners LLC (Developer) for the conveyance of the Grove Hotel Property (Property), an 11,000 square foot (SF) PDC-owned parcel with a 25,570 SF building, for the consideration of \$630,000. The Property is located in the River District Urban Renewal Area (RDURA) on West Burnside Street between NW Fourth Avenue and NW Fifth Avenue (see project summary in Attachment A) and within the Old Town/Chinatown neighborhood.

The Developer proposes to renovate the Property to develop a 52-room, 107-bed lifestyle hotel (Project). The Project will include a restaurant and other retail spaces on the ground floor to enhance the gateway to the Old Town/Chinatown neighborhood.

BACKGROUND AND CONTEXT

Acquisition of the Property by PDC was authorized by the PDC Board of Commissioners (Board) in August 2008 through an agreement with the Housing Authority of Portland (now Home Forward) to preserve housing opportunities and maintain uninterrupted service delivery to at-risk and homeless individuals, as well as for its long-term redevelopment potential. The title transferred to PDC in April 2010. The building has been vacant since March 2011 and will remain vacant in accordance with a Stipulated Agreement with the City of Portland as a waiver to the requirement to correct substantial code violations until the building title is transferred to a private developer for adaptive reuse and renovation.

2010-12 Exclusive Negotiations. In 2010, representatives of Goldsmith Holdings, LLC, owners of property adjacent to the Property, approached PDC with a proposal to form a new entity to acquire and rehabilitate the Property into a youth hostel. PDC entered into exclusive negotiations with Grove Hotel Property (GHP) in late 2010. GHP planned to renovate the Property to accommodate a 152-bed youth hostel and, on the ground floor, a 2,000 SF restaurant and seven retail spaces. PDC and GHP entered into a Disposition and Development Agreement (DDA) in August 2011. The DDA terminated on December 30, 2012, due to the financial infeasibility of the GHP's proposed project.

Old Town/Chinatown Five-Year Action Plan. In late 2013, PDC initiated work on the Old Town/Chinatown Five-Year Action Plan (Action Plan) in recognition that economic momentum and revitalization have not been sustained in Old Town/Chinatown. The Action Plan is a comprehensive community development initiative to create a safe, vibrant, economically healthy neighborhood. Early in the planning process community stakeholders identified the following top priorities: addressing public safety and livability; balancing residential incomes through the introduction of new middle-income units and preservation of existing affordable housing units; investing in rehabilitation of historic buildings; embracing and enhancing the area's unique culture, history, and identity; and promoting economic vitality. The Action Plan was adopted by Portland City Council on August 6, 2014.

The Action Plan includes 13 key actions identified to achieve the following three strategic objectives:

1. Attract new neighborhood investment to activate key properties and improve district connectivity;
2. Promote business vitality by increasing employment and retail activity; and
3. Align resources and build local capacity for improving district livability.

Renovating the Property will be a significant and crucial step in implementing the Action Plan by revitalizing a gateway property into the Old Town/Chinatown neighborhood.

2014 Request for Proposals. PDC issued a Request for Proposals (RFP) on February 5, 2014, to solicit development proposals for the Property. PDC received 11 proposals which were reviewed by an Evaluation Team consisting of PDC staff and three community members, including Raymond Cheng, an architect active in the Old Town/Chinatown neighborhood; Brian Emerick, an architect, Old Town/Chinatown business owner, and Chair of the Historic Landmarks Commission; and Paul Verhoeven, Executive Director of the Portland Saturday Market. With the recommendation of the Evaluation Committee, the PDC Executive Director selected the Eagle Point Hotel Partners and Naito Development team as the preferred developer. PDC and the Eagle Point Hotel Partners and Naito Development team entered into a Memorandum of Understanding on June 15, 2014, which set forth the mutual understandings and intentions to complete a series of due diligence scope items while negotiating the terms of a binding PSA. Eagle Point Hotel Partners and Naito Development subsequently formed Grove Hotel Partners LLC for the purposes of acquiring and renovating the Property.

Project. The Developer anticipates renovating the existing Property to become a 52-room, 107-bed lifestyle hotel. The renovation will include a restaurant and other retail spaces on the ground floor.

The key terms of the negotiated PSA include:

- Purchase price of \$630,000 for the Property, which represents a fair market value transaction. The Purchase Price is higher than a PDC-commissioned July 2014 appraisal value;
- PDC to provide no investment or financial assistance for development of the Property;
- Developer to have a 60-day due diligence period;
- Developer to provide PDC an earnest money payment of 10 percent (\$63,000) due at the end of the diligence period and which is generally non-refundable;
- Developer may elect not to proceed with the transaction if the title or other conditions of the Property are determined to be unacceptable to Developer during the due diligence period;
- Closing to occur within 60 days of the end of the due diligence period;
- Developer accepts responsibility for environmental condition of the Property and for compliance with all environmental laws;
- Developer must commence construction on the Property consistent with the Old Town/Chinatown Action Plan and RDURA Plan within 24 months of Closing ; and
- PDC has a right to repurchase the Property for the original purchase price if Developer does not commence construction within 24 months of Closing.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing the PSA include:

- The Project will rehabilitate a highly-visible vacant and blighted building located at the gateway to Old Town/Chinatown, as called for in the Old Town/Chinatown Action Plan;
- The Property will be renovated without direct financial assistance from PDC with a hotel use that will create 24/7 activity;
- The Project will eliminate PDC's ongoing expenses for management and maintenance of the Property;
- The Project will result in a renovated, privately-owned building that is estimated to generate about \$86,000 per year in property tax revenues and in excess of \$200,000 per year in Transient Lodging Taxes; and
- The Developer will implement and comply with PDC's Equity Policy and Green Building Policy.

PUBLIC PARTICIPATION AND FEEDBACK

PDC has conducted outreach for the Action Plan where disposition of this Property and other PDC-owned properties has been discussed at multiple meetings. Community members of the Evaluation Team provided a report on the selection of the Developer to the Old Town/Chinatown Community Association Land Use Committee in May 2014; subsequently, Developer representatives presented their development plans to the same committee in June 2014. Stakeholders generally support the Developer's redevelopment plans and have consistently supported activation of ground floor uses and increases in the level of activity and diversity of uses in the neighborhood.

BUDGET AND FINANCIAL INFORMATION

The fiscal year (FY) 2014-15 River District Proposed Budget and Five Year Forecast currently include funds for ongoing ownership and maintenance of the Property (see Attachment B). The proposed PSA anticipates that PDC will convey the Property to the Developer by December 2014. Revisions to the budget will be made to reflect both the income from the sale of the Property and the discontinuation of ongoing ownership and maintenance costs as a result of the sale.

RISK ASSESSMENT

Entering into this PSA creates minimal risks, as PDC is selling the Property at fair market value and does not have financial resources at risk. 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 60-day due diligence period. This is a standard business practice and a common risk in most commercial real property sales, provided that the term of the due diligence period is reasonable, which it is here. 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 10 percent (\$63,000) non-refundable earnest money payment at the end of the due diligence period as well as by closing to occur within 60 days of 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 redeveloping the Property. Subsequent to the end of the due diligence period but prior to closing, this risk is mitigated by the earnest money payment which PDC will retain if the transaction does not close. Subsequent to closing, this risk is further mitigated by (a) Developer

paying PDC the purchase price in cash at closing, and (b) PDC retaining a repurchase right in the event Developer does not commence construction within two years of the effective date.

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. RDURA Financial Summary

PROJECT SUMMARY

Project Name: Grove Hotel Property Purchase and Sale Agreement

Description: 0.25-acre parcel including vacant, three-story, 27,570 square foot building

Location: Central City at West Burnside Street between NW 4th and NW 5th avenues

URA: River District

Current Phase: Disposition

Next Milestone: Closing/Conveyance

Completion Target: December 2014

Outcome: Conveyance of Grove Hotel Property to Grove Hotel Partners LLC for renovation of the existing building for a 52-room, 107-bed lifestyle hotel with ground floor retail uses



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised-3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
River District URA						
Resources						
Beginning Fund Balance	38,290,152	24,128,634	911,920	1,901,504	18,448,618	6,227,963
Fees and Charges	23,000	935	10,961	1,124	2,737	1,910
Interest on Investments	200,000	0	0	0	0	0
Intergovernmental Revenues	1,790,946	1,322,413	1,322,413	0	0	0
Loan Collections	2,899,564	8,110,789	3,108,070	2,956,649	3,392,019	3,013,874
Long Term Debt	0	10,100,000	21,000,000	61,387,874	0	2,605,785
Property Income	3,387,147	2,110,930	1,593,440	1,593,440	1,593,440	1,593,440
Reimbursements	1,030,000	860,000	0	0	0	0
Short Term Debt	25,000,000	19,078,701	22,342,241	6,159,442	18,669,280	12,412,918
Total Resources	72,600,809	65,712,402	50,289,045	74,000,033	42,106,094	25,855,890
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101330 Debt Management-RVD	52,000	65,000	65,000	65,000	65,000	65,000
Total Administration	52,000	65,000	65,000	65,000	65,000	65,000
Business Development						
Business Lending						
L00210330 BL -General-RIV	0	500,000	500,000	500,000	500,000	500,000
L02100330 BIF-General-RVD	301,000	0	0	0	0	0
L02110330 BIF-Cluster Group-Budget-RVD	500,000	0	0	0	0	0
Small Business & Community Dev						
B55005330 OT/CT Action Plan-RVD	0	125,000	125,000	125,000	0	0
Traded Sector Business Dev						
T01069330 Lean Manufacturing-RVD	12,500	0	0	0	0	0
B15100330 Cluster Development-RVD	37,500	50,000	50,000	50,000	50,000	50,000
B55005330 OT/CT Action Plan-RVD	80,000	0	0	0	0	0
Total Business Development	931,000	675,000	675,000	675,000	550,000	550,000
Housing						
PHB Housing						
H15135330 The Medford-RVD	0	1,476,000	0	0	0	0
H15136330 Erickson-Fritz-RVD	0	5,894,702	0	0	0	0
H15137330 The Abigail-RVD	0	8,936,091	2,800,000	0	0	0
H15430330 Affordable Rental Hsg-RVD	0	850,000	4,751,409	7,200,000	2,500,000	1,200,000
H15900330 PHB Staff & Admin-RVD	689,077	818,911	1,140,081	819,756	753,533	1,228,468
H15930330 Fairfield Apartments-RVD	19,391	50,000	50,000	50,000	0	0
H15951330 Yards at Union Station-RVD	220,000	0	0	0	0	0
Total Housing	928,468	18,025,704	8,741,490	8,069,756	3,253,533	2,428,468
Infrastructure						
Parks						
N33011915 Nbrhd Prk(The Fields)-RVD-Adm	470,992	0	0	0	0	0
Public Facilities						
N33022015 Union Station Grant-RVD-Adm	1,650,017	1,725,017	1,653,017	3,500,500	0	0
Transportation						
N33033415 Pearl District Cir-RVD-Adm	395,700	1,779,465	0	0	0	0
Total Infrastructure	2,516,709	3,504,482	1,653,017	3,500,500	0	0
Property Redevelopment						
Commercial Property Redevelopm						

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
P33050115 Dwn Retail Strat-RVD-Adm	195,000	30,000	30,000	30,000	0	0
P33060525 Station Place Lot 5-RVD-Adm	12,842	4,000	4,000	4,000	4,000	4,000
P33092015 Real Estate Mgmt-RVD-Adm	0	2,000	0	0	0	0
P33091015 Public Outreach-RVD-Adm	2,000	0	0	0	0	0
P33060815 Old Fire Station Mgmt-RVD-Adm	88,047	51,247	0	0	0	0
P33060715 One Waterfront North-RVD-Adm	4,187	7,187	7,187	7,187	7,187	7,187
P33060615 Block R-RVD-Adm	6,750	8,750	8,750	8,750	8,750	8,750
A45997330 Superfund-RVD	0	25,000	0	0	0	0
P33060535 Station Place Lot 7-RVD-Adm	28,149	0	0	0	0	0
P33050015 Post Office-RVD-Adm	500,000	500,000	0	10,000,000	10,000,000	9,000,000
P33060415 Centennial Mills-RVD-Adm	104,256	1,143,713	43,713	43,713	43,713	43,713
P33060315 Grove Hotel-RVD-Adm	44,499	43,037	37,237	37,237	37,237	37,237
P33050415 Centennial Mills Rdv-RVD-Adm	75,000	1,070,000	14,000,000	0	0	0
P33060115 Block Y-RVD-Adm	16,044	45,100	45,100	45,100	45,100	45,100
P33055115 Multnomah County-PDV-Adm	26,948,460	0	0	0	0	0
P33054315 RD Enviro-RVD-Adm	600,000	200,000	0	0	0	0
P33052815 PNCA Contract-RVD	135,000	0	0	0	0	0
P33052715 PNCA-RVD-Adm	22,000	0	0	0	0	0
P33052215 CC 2035-RVD-Adm	75,977	70,064	0	0	0	0
P33052115 10th & Yamhill Redev-RVD-Adm	0	0	3,250,000	10,000,000	0	0
P33060215 Union Station-RVD-Adm	1,917,805	1,258,689	1,108,689	1,108,689	1,108,689	1,108,689
P33060545 Station Place Prkng-RVD-Adm	260,855	261,320	248,820	248,820	248,820	248,820
Commercial Real Estate Lending						
R01100330 CPRL-General-RVD	7,803,000	30,720,000	9,350,000	12,000,000	11,000,000	2,000,000
Community Redevelopment Grants						
G01100330 CLG-General-RVD	0	100,000	0	0	0	0
G02100330 DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G03100330 SIP-General-RVD	300,000	300,000	300,000	300,000	300,000	300,000
Total Property Redevelopment	39,239,871	35,940,107	28,533,496	33,933,496	22,903,496	12,903,496
Total Program Expenditures	43,668,048	58,210,293	39,668,003	46,243,752	26,772,029	15,946,964
Personal Services	693,481	561,819	2,237,909	2,427,892	2,383,226	1,974,615
Transfers - Indirect	4,110,646	6,028,370	6,481,629	6,879,771	6,722,876	5,483,082
Total Fund Expenditures	48,472,175	64,800,482	48,387,541	55,551,415	35,878,131	23,404,661
Contingency	24,128,634	911,920	1,901,504	18,448,618	6,227,963	2,451,229
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	72,600,809	65,712,402	50,289,045	74,000,033	42,106,094	25,855,890