

DATE: October 29, 2014
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 14-45

Authorizing a Purchase and Sale Agreement to Convey 0.80 Acres of Real Property in the River District Urban Renewal Area to Williams/Dame & Associates, Inc., for \$5,500,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7079

ACTION DESCRIPTION

This action will authorize the Portland Development Commission (PDC) Executive Director to execute an Agreement for Purchase and Sale (PSA) between PDC and Williams/Dame & Associates, Inc. (Developer), for the conveyance of Station Place Lot 5 (Property), a 34,808 square foot (SF) PDC-owned parcel, for the consideration of \$5,500,000. The Developer is purchasing the Property to construct a nine-story office building with ground-floor retail totaling approximately 170,000 square feet. Parking will be accommodated through leased spaces in the existing PDC-owned Station Place Parking Garage. The Property is located in the River District Urban Renewal Area (RDURA) at the northeast corner of NW Northrup Street and NW 9th Avenue (see Attachment A).

BACKGROUND AND CONTEXT

Station Place Redevelopment Site. The Property is a part of the Station Place Redevelopment Site (Station Place), which consists of seven lots (Lots 1 – 7) comprising 9.05 acres located along NW 9th Avenue from NW Lovejoy Street to NW Naito Parkway. PDC acquired the Property from the Portland Terminal Railroad Company on October 30, 1987, as part of a larger 30-acre Union Station purchase, which was subsequently partitioned into seven separate parcels, including the Property. Previous PDC dispositions and subsequent developments include the Residence Inn, the Ziba headquarters building, Station Place Parking Garage, and the Station Place senior housing project.

Recent History. The Property, which is located within the Central City Plan District and zoned Central Employment (EX) with a design overlay (d), has been maintained by PDC as an unimproved parcel, secured by fencing, and on occasion permitted or leased to various construction staging users.

Environmental Conditions. Historical investigations conducted on the Station Place properties identified arsenic, lead, and benzo(a)pyrene contamination in soil at concentrations exceeding direct contact screening levels. In May 2003, the Oregon Department of Environmental Quality issued a Record of Decision that outlines the remedial actions required to mitigate the contamination located on the Station Place properties.

It is anticipated that the costs to remediate the property for its currently contemplated use are approximately \$700,000. PDC will assume responsibility for these costs, per the PSA.

On June 30, 2014, PDC received an unsolicited proposal from the Developer to purchase the Property and develop a mixed office/retail building for the higher of \$3,750,000 or appraised value. The transaction also proposes an associated 40-year lease of 99 parking stalls. After posting a public notice of intent to sell the property and receiving no material comments or objections to the proposed disposition, PDC elected to proceed with direct negotiations of a PSA. As detailed in the PSA, PDC and the Developer agree that the development of Lot 5 should be restricted to an office/retail development use. In order to help determine a sale price for the property, both PDC and the Developer each contracted out for independent appraisals of Lot 5. Both appraisers were directed to create a “Highest and Best Use” appraisal, which, given current real estate development market conditions, translates to market-rate housing, and an appraisal that assumes office/retail use only. A summary of the appraisals is listed below:

Highest and Best Use Appraised Value		Restricted to Office Use Appraised Value	
G&A Valuation	Integra Appraisal	G&A Valuation	Integra Appraisal
\$6,960,000	\$5,400,000	\$4,175,000	\$3,500,000

The negotiated purchase price of \$5,500,000 represents 79 percent of the highest and best value, and 132 percent of the restricted value, based on the G&A Valuation appraisals. Because the PSA requires the Developer to develop an office project, the most appropriate valuation to consider is the restricted value. The Developer is willing to pay more than restricted value for two reasons: 1) The Developer owns transferable development rights from an adjacent property that can be applied to Lot 5; and 2) By leasing parking at the Station Place Parking Garage, the Developer will not need to provide structured parking on site at Lot 5. The final negotiated sales price of \$5,500,000 accounts for the added value of the development rights and the parking lease.

The key terms of the negotiated PSA include:

- Purchase price of \$5,500,000;
- A parking lease agreement which gives the development owner the right to lease 99 spaces in PDC’s Station Place Parking Garage for a period of 40 years, at the same rate charged to the general public;
- Developer to provide PDC an earnest money payment of \$200,000, which is non-refundable following the 150-day due diligence period and applicable to the purchase price;
- Closing to occur within 12 months of the expiration of the due diligence period, not including two 60-day extension options. Each 60-day extension option will require an additional fee of one percent of the purchase price. Neither of the extension fees is refundable nor applicable to the purchase price;
- Developer must commence construction within 24 months of the closing date. PDC reserves the right to repurchase the Property if this requirement is not met;
- As was with the sale by PDC of the adjacent Station Place Lot 4, PDC is responsible for environmental remediation of the Property, which is estimated to be approximately \$700,000; and
- Developer will assign to PDC all unused parking development entitlements from the Property.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing the PSA include:

- PDC is requiring that the Property be developed as an office building, with ground floor retail, in order to help further stimulate the Portland economy and provide space for new and expanding businesses.
- The Project will activate the street frontages of both NW Northrup Street and NW 9th Avenue, providing an active and pedestrian-friendly streetscape at the northern gateway to the Pearl District;
- The Project will promote both construction and permanent employment jobs in the RDURA;
- The Property will provide commercial space in the RDURA and further establishes the Pearl District as an attractive and vibrant place to do business;
- The Property will be redeveloped as a privately-owned commercial building that is estimated to generate approximately \$250,000 per year in property tax revenues;
- The additional 99 leased parking stalls will increase Station Place Parking Garage revenue by approximately \$240,000 year.
- PDC's Equity and Green Building policies will apply to this transaction; and
- Development of the Property will further implement the River District Urban Renewal Plan.

PUBLIC PARTICIPATION AND FEEDBACK

PDC issued a formal Notice of Intent to Negotiate Purchase and Sale of the Property on July 11, 2014. Twenty days were allowed for public comment; no material comments were received.

BUDGET AND FINANCIAL INFORMATION

The RDURA fiscal year (FY) 2014-15 Approved Budget and Five Year Forecast currently include funds for ongoing ownership and maintenance of the Property (see Attachment B). The Approved Budget does not anticipate conveyance of the Property in FY 2014-15. The following revisions to the FY 2014-15 Budget and Five Year Forecast include:

- \$200,000 security deposit will be realized in FY 2014-15. This budget must be amended to reflect this additional revenue.
- Closing proceeds of approximately \$5,500,000 will be added to the FY 2015-16 budget forecast.
- PDC's obligation to pay for environmental remediation (estimated at \$700,000) will be included in the Five Year Forecast. This requirement will appear as a line item in the FY 2015-16 budget.

RISK ASSESSMENT

Entering into this PSA creates minimal risks, as PDC is selling the Property and does not have financial resources at risk beyond the costs of environmental remediation. 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 150-day due diligence period. This is within their rights according to the PSA. 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 \$200,000 earnest money payment; this payment is non-refundable after 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 developing the Property as an office/retail complex, as stipulated in the PSA. This

risk is mitigated by a provision that permits PDC to repurchase the property if the Developer does not commence construction within two years of closing.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct staff to incorporate new terms into the PSA;
- Direct staff to renegotiate specific terms and conditions; or
- Reject the proposal in its entirety and direct staff to discontinue the disposition process.

ATTACHMENTS

- A. Project Summary
- B. RDURA FY 2014-15 Financial Summary

PROJECT SUMMARY

- Project Name:** Station Place Lot 5 Purchase and Sale Agreement
- Description:** 0.80-acre vacant parcel zoned Central Employment with Design Review Overlay (EXd)
- Location:** NW Northrup Street & NW 9th Avenue
- URA:** River District
- Current Phase:** Disposition
- Next Milestone:** Purchase and Sale Agreement Execution
- Completion Target:** October 2014
- Outcome:** Conveyance of Station Place Lot 5 to Williams/Dame & Associates, Inc., for \$5,500,000 to develop a commercial office/retail building consistent with the River District URA Plan and existing zoning, proposed to be approximately 170,000 SF office building with ground-floor retail.

Aerial Photo



Building Rendering



River District 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	3,367,147	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	8,938,091	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 Dtn 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