



DATE: January 13, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-02

Authorizing an Option Agreement to Convey 2.01 Acres of Real Property in the North Macadam Urban Renewal Area to BRIDGE Northwest Development for \$11,000,000 and a Special Authority Grant to BRIDGE Northwest Development for \$8,960,000

BOARD ACTION REQUESTED

Adopt Resolution No. 7161.

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to execute an Option Agreement for Purchase and Sale of Property (Option Agreement) between PDC and BRIDGE Northwest Development (Developer) for the conveyance of RiverPlace Parcel 3 (Property), a 2.01-acre PDC-owned site in the North Macadam Urban Renewal Area (URA). In addition to authorizing the Option Agreement, which includes a sales price of \$11,000,000 reflecting the Property's appraised fair market value, the PDC Board is being asked to approve a Special Authority Grant from PDC to Developer for \$8,960,000 to compensate for Developer's agreement to incorporate affordable housing into the project and to reimburse Developer for incremental environmental costs. The Property is bounded by SW River Parkway, SW Moody Street, PacifiCorp's Lincoln Substation, and SW Harbor Drive in downtown Portland's RiverPlace neighborhood (see project summary in Attachment A).

Developer plans to construct a mixed-use development including approximately 365 residential units, ground floor retail, and 165 on-site parking stalls for the residential units and retail space (Project). A total of 203 of the residential units will be affordable to households with 0 to 60 percent Median Family Income (MFI) and of those, 90 units will be affordable to households with 0 to 30 percent MFI – in alignment with Portland City Council (City Council) Resolution No. 37118 adopted April 1, 2015, as part of their approval of the North Macadam URA Plan amendment. The remaining 162 units will be market rate.

In addition to PDC's Special Authority Grant, the Portland Housing Bureau (PHB) will provide \$19,000,000 in North Macadam URA tax increment financing (TIF) affordable housing set-aside funds as a cash-flow dependent loan to Developer to support the provision of the affordable housing units, and PHB has received a tentative commitment from Home Forward for ten Veterans Affairs Supportive Housing Vouchers and up to 70 Section 8 Housing Choice Vouchers to be project-based to support the services and operations associated with affordable housing.

BACKGROUND AND CONTEXT

Property Description. The 87,637 square foot Property is located in the RiverPlace neighborhood, immediately south and east of Portland’s downtown core within the North Macadam URA. The Property was acquired by PDC in June 1985 as part of a larger 16.4-acre property exchange agreement between PDC and Pacific Power & Light (PP&L) (now PacifiCorp) for the redevelopment of waterfront parcels in exchange for the relocation of the PP&L substation to property adjacent to SW Moody Avenue and the Marquam Bridge. The Property is vacant, relatively flat, 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), and has a maximum allowed height of 150 feet. A Portland Streetcar stop is immediately to the north of the site on SW River Parkway. Following is a description of properties in the immediate vicinity of Parcel 3:

- To the south is Lot 4, owned by PDC with a perpetual easement to PacifiCorp for the operation of an electrical power substation that services downtown Portland.
- To the north is Lot 8, sold by PDC to RiverPlace Partners II in 2014 for development of a 203-room Hyatt House Hotel, which is currently under construction. The PDC Board approved this market rate transaction in August 2012.
- To the north and northeast is the RiverPlace residential community, including The Strand. Development of those properties was completed between 1985 and 2007 as a result of various PDC public-private partnership efforts.
- To the east and northeast across SW Moody Avenue is a Marriott Residence Inn and office uses.

The RiverPlace Development Strategy (Strategy), approved by the PDC Board in July 1997, specified high-quality, mixed-use private development on the remaining developable parcels in the project area, including the Property. Subsequent to the adoption of the Strategy, the neighborhood has largely been completed, including the completion of The Strand in 2004, the extension of the Portland Streetcar to RiverPlace in 2005, and the completion of the MAX Orange Line in 2015.

Disposition. PDC, in partnership with PHB, issued a Request for Proposals (RFP) on April 9, 2015, to solicit development proposals from qualified developers to redevelop the Property with a mixed-use project including a minimum of 200 housing units affordable to households with 0 to 60 percent MFI, and with a minimum of 90 of those units to be affordable to households at 0 to 30 percent MFI. PDC received three proposals which were reviewed according to the Evaluation Criteria listed in the RFP. Upon the Evaluation Committee’s recommendation, the PDC Executive Director selected the Developer as the preferred developer.

Environmental Conditions. PDC has conducted environmental investigations on the Property and determined that subsurface soil contamination is present. The Property is enrolled in the Oregon Department of Environmental Quality Voluntary Cleanup Program and PDC has prepared a Contaminated Media Management Plan (CMMP) to guide environmental remediation efforts.

The estimated incremental increased costs of construction required to implement the CMMP will be held in escrow to reimburse Developer for such increased costs. As indicated during the solicitation process, PDC has agreed to fund the incremental environmental costs associated with this work up to \$1,260,000 which will be held in escrow. Any unspent escrow funds will be returned to PDC.

Option Agreement. The key terms of the Option Agreement include:

- Developer will have the option to purchase the Property for a purchase price of \$11,000,000, which represents a fair market valuation according to a November 2015 appraisal assuming a “highest and best use” development, rather than a development that included affordable housing;

- PDC will provide Developer a Special Authority Grant for \$8,960,000 consisting of up to \$1,260,000 to reimburse Developer for incremental environmental costs and \$7,700,000 to reduce the net purchase price to \$3,300,000. Based upon the Project pro forma and other offers received through the disposition process, the net purchase price of \$3,300,000 is considered fair given the requirement to provide the 203 affordable residential units;
- Developer must develop the Property consistent with the North Macadam URA Plan and zoning regulations and include a minimum of 200 residential units affordable to households with 0 to 60 percent MFI, and for a minimum of 90 of those units to be affordable to households with 0 to 30 percent MFI;
- Developer's due diligence period will be the later of (a) completion of the federal Housing and Urban Development (HUD) environmental review or (b) 120 days;
- Developer to exercise the option and provide PDC a non-refundable earnest money payment of five percent (\$165,000) within the later of (a) completion of the HUD environmental review or (b) 150 days;
- 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 15 months of the effective date unless extended by Developer by providing a payment that will be non-refundable and not applicable to the purchase price;
- Developer accepts responsibility for environmental condition of the Property and for compliance with all environmental laws. \$1,260,000 will be held in escrow to reimburse Developer for incremental environmental costs associated with implementing the CMMP during construction. Unspent escrow funds will be returned to PDC;
- Developer must commence construction on the Property by September 2017 as committed to in City Council Resolution No. 37118;
- PDC has a right to repurchase the Property for the original net purchase price if Developer does not commence construction by September 30, 2017; and
- Developer will comply with and implement PDC's Equity and Green Building policies.

COMMUNITY AND PUBLIC BENEFIT

Public benefits of executing the Option Agreement include:

- The Project will result in the provision of 203 affordable housing units and contribute toward achieving affordable housing goals in the North Macadam URA and will provide housing and services for homeless veterans;
- The Project will activate a vacant site with a mixed-use building that will attract residents and retail uses to the area;
- The Developer will comply with and implement PDC's Equity and Green Building policies; and
- The PHB loan will trigger the obligation to pay prevailing wage for the affordable housing aspect of the Project. Developer may seek from the State of Oregon Bureau of Labor and Industries a waiver of the prevailing wage rate obligation for the remainder of the market rate components of the Project.

PUBLIC PARTICIPATION AND FEEDBACK

These proposed actions are the culmination of significant public outreach. During the process to amend the North Macadam URA Plan between 2014 and 2015, PDC conducted extensive stakeholder outreach regarding North Macadam URA priorities and received feedback across neighborhood and business associations; the affordable housing community; the Portland Planning and Sustainability Commission; and City Council. The particular development program, project benefits, and objectives pursued via

these transactions reflect stakeholder feedback during that process and as memorialized in City Council Resolution No. 37118.

In addition, community members participated in the Evaluation Committee which recommended selection of the Developer. PDC and PHB staff have partnered with Developer to conduct outreach for the disposition of the Property, including meetings with and presentations to the Strand Condominium Homeowners Association and the RiverPlace Planned Community Association. Stakeholders generally support Developer's redevelopment plans. Community interests primarily relate to parking availability and impacts as well as the integration between the affordable housing, social services, and adjacent residences. Community members will have the opportunity to comment on the Project's design as the Property is located in a Design Review overlay district and will be subject to approval by the Portland Design Commission. The Strand Condominium Homeowners Association has appointed a liaison to communicate with Developer through this process.

BUDGET AND FINANCIAL INFORMATION

The fiscal year 2015-16 North Macadam Revised Budget and Five Year Forecast currently includes \$19,000,000 in TIF set-aside funds to be provided by PHB to support the provision of the 203 affordable rental housing units at the Property; additionally, \$8,960,000 for the Special Authority Grant is included as a Housing appropriation. The Special Authority Grant, which is not counted toward the City of Portland's (City) TIF Set-Aside Policy for Affordable Housing, is netted via income shown through the sale of the property (see Attachment B). Of note, \$3,300,000 of the \$11,000,000 in sale proceeds will be allocated to the PDC Business Management Fund based on the amount of sales proceeds in excess of the North Macadam TIF investment in the Project. The Option Agreement terms anticipate that PDC will convey the Property to Developer no later than September 2017; accordingly, the discontinuation of ongoing costs as a result of the Option Agreement will be reflected in a future budget amendment.

RISK ASSESSMENT

Risks related to these PDC Board actions include:

1. **Developer May Terminate the Transaction.** There is a risk that Developer will terminate the transaction during the due diligence period causing potential schedule delay to the 2017 construction start timeline. However, 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. PDC is not providing any predevelopment financing and, therefore, does not have any financial resources at risk.

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 \$165,000 earnest money payment that will generally be non-refundable at 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 three years of the effective date.
3. **Developer May Not Provide Required Affordable Housing.** There is a risk that Developer will not develop and offer for rent the required affordable housing units. This risk is mitigated by conditions of the PHB financing which will require Developer to execute a 60-year regulatory

agreement at financial closing prior to construction and disbursement of the PHB funds that limits maximum rent by unit type, as well as place monitoring and reporting requirements on the Project. PHB's financing will also include remedies in the event of default after construction. The Project is also anticipated to include federal tax credits to support provision of the affordable housing units. Default during the first 15 years by Developer will result in recapture penalties to Project investors. Federal tax credit monitoring and compliance is accomplished through and any penalties assessed by the Internal Revenue Service. Beyond that period the State of Oregon monitors compliance for an extended use period of at least another 15 years, for a total of 30 years of tax credit-related monitoring. Finally, the Project is anticipated to request an exemption from the City for System Development Charges, which provides additional regulatory rent restrictions that run with the land for 60 years.

ALTERNATIVE ACTIONS

The PDC Board could decide to:

- Direct PDC staff to incorporate new terms or changes to the terms and conditions into the Option Agreement and/or Special Authority Grant;
- Direct PDC staff to renegotiate specific terms and conditions; or
- Terminate the disposition process.

ATTACHMENTS

- A. Project Summary
- B. North Macadam URA Financial Summary

PROJECT SUMMARY

Project Name: RiverPlace Parcel 3 Option Agreement

Description: 2.01-acre vacant parcel

Location: Bounded by SW River Parkway, SW Moody Street, PacifiCorp Lincoln Substation, and SW Harbor Drive

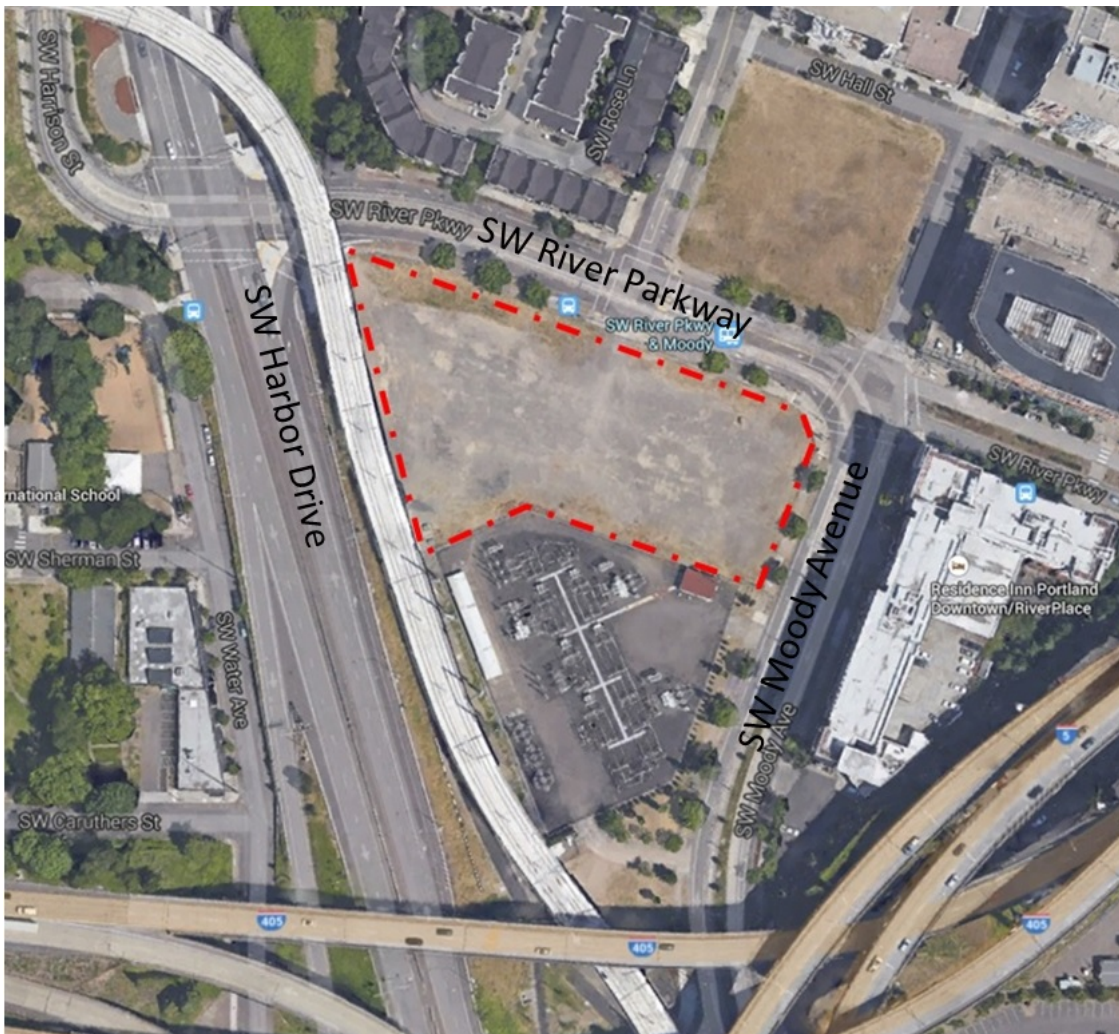
URA: North Macadam

Current Phase: Disposition

Next Milestone: Closing/Conveyance

Completion Target: September 2016

Outcome: Conveyance of RiverPlace Parcel 3 to BRIDGE Housing for development of a mixed-use development including 203 housing units affordable to households at 0 to 60 percent MFI, of which 90 will be affordable to households at 0 to 30 percent MFI.



URA Financial Summary

Five-Year Forecast Program Requirements

	Revised 1 FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
North Macadam URA					
Resources					
Beginning Fund Balance	9,185,550	5,304,928	171,865	3,229,400	60,735
Interest on Investments	20,000	30,000	30,000	30,000	0
Loan Collections	27,239	27,238	12,387	0	0
Long Term Debt	0	12,300,000	0	0	0
Miscellaneous	17,000	17,000	17,000	17,000	17,000
Property Income	7,939,062	236,062	236,062	236,062	236,062
Short Term Debt	1,740,000	6,993,000	7,544,732	7,675,295	8,361,841
Total Resources	18,928,851	24,908,228	8,012,046	11,187,757	8,675,638
Requirements					
Program Expenditures					
Administration					
Financial Administration					
A45101325 Debt Management-NMC	5,740	20,000	20,000	20,000	20,000
Total Administration	5,740	20,000	20,000	20,000	20,000
Housing					
PHB Housing					
H15430325 Affordable Rental Hsg-NMC	2,000,000	17,000,000	200,000	200,000	200,000
H15440325 Parcel 3-NMC	7,700,000	0	0	0	0
H15450325 Parcel 3-Remediation-NMC	1,260,000	0	0	0	0
Total Housing	10,960,000	17,000,000	200,000	200,000	200,000
Infrastructure					
Parks					
N32511815 Central Dist Greenway-NMC-Adm	0	0	0	0	100,000
Transportation					
N32534215 Bond Avenue-NMC	700,000	1,450,000	2,400,000	3,650,000	0
N32530615 Central Dist Infra-NMC-Adm	166,000	0	0	0	0
Total Infrastructure	866,000	1,450,000	2,400,000	3,650,000	100,000
Property Redevelopment					
Commercial Property Redevelopm					
P32592015 Real Estate Mgmt-NMC-Adm	78,316	3,316	3,316	3,316	3,316
P32560135 South Wifmt Lot 3-NMC-Adm	5,616	5,616	5,616	5,616	5,616
P32552315 N Distr Partnershp-NMC-Adm	0	2,500,000	0	0	0
P32552215 CC 2035-NMC-Adm	10,640	0	0	0	0
P32550515 Eco District-NMC-Adm	2,500	0	0	0	0
P32550315 PSU-Sch of Bus Comm-NMC	0	2,000,000	0	0	0
P32550015 Lincoln Station-NMC	0	0	0	5,000,000	4,600,000
P32560155 RiverPlace Prkng -NMC-Adm	46,196	46,196	46,196	46,196	46,196
Commercial Real Estate Lending					
R01100325 CPRL-General-NMC	0	500,000	500,000	500,000	500,000
Total Property Redevelopment	143,268	5,055,128	555,128	5,555,128	5,155,128
Total Program Expenditures	11,975,008	23,525,128	3,175,128	9,425,128	5,475,128
Personal Services	243,207	197,636	207,518	217,894	228,789
Transfers - Indirect	995,937	1,013,599	1,400,000	1,494,000	1,439,480
Total Fund Expenditures	13,214,152	24,736,363	4,782,646	11,127,022	7,143,397
Contingency	5,714,699	171,865	3,229,400	60,735	1,532,241
Ending Fund Balance	0	0	0	0	0
Total Requirements	18,928,851	24,908,228	8,012,046	11,187,757	8,675,638