

**DATE:** June 26, 2013  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 13-28  
Authorizing a Purchase and Sale Agreement to Convey 0.61 Acres of Real Property in the Central Eastside Urban Renewal Area to Block 75, LLC for \$2,260,000

**BOARD ACTION REQUESTED**

Adopt Resolution No. 7014

**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 Block 75, LLC (Developer) for the conveyance of Burnside Bridgehead Block 75 (Property), a 26,570 square foot PDC-owned parcel, for the consideration of \$2,260,000. The Property comprises three quarters of the block and is located in the Central Eastside Urban Renewal Area (CESURA) at the northwest corner of NE Martin Luther King, Jr. Boulevard and NE Couch Street (see Attachment A, Project Summary).

The Developer intends to develop two mixed-use buildings comprised of office and ground floor retail, work/live units, and market rate apartments (Project).

**BACKGROUND AND CONTEXT**

**Burnside Bridgehead Property.** The Burnside Bridgehead Property, which consists of Blocks 67, 68, 76, and portions of Blocks 69 and 75, was acquired by PDC between 1998 and 2006 for the purposes of implementing a multi-block, mixed-use redevelopment project. The Burnside Bridgehead Property is located within Portland's Central City, immediately across the Willamette River from the Central Business District.

**Block 75.** The Property is located in the northeast quadrant of the Burnside Bridgehead Property. The Property is bounded by NE Martin Luther King, Jr. Boulevard, NE 3rd Avenue, NE Davis Street, and NE Couch Street. PDC owns three quarters of the block. PDC does not own the Union Arms Apartments which is situated on the northeast quarter of the block. The Property is zoned EXd, Central Employment with Design Review overlay. PDC has removed underground storage tanks from the Property and does not anticipate environmental conditions will affect redevelopment efforts.

**2004 Request for Proposals.** PDC issued a Request for Proposals on August 16, 2004, to solicit development proposals for the Burnside Bridgehead Property. PDC selected Opus Northwest, LLC (Opus) as the preferred developer and entered into a Memorandum of Understanding (MOU) with Opus on March 8, 2006. The development program proposed by Opus changed over time in response to market conditions, and the PDC Board of Commissioners (Board) decided to allow the MOU to expire in 2008 without entering into a development agreement with Opus.

**2010 Framework Plan and Request for Interest.** Following the expiration of the MOU with Opus, PDC initiated preparation of the Burnside Bridgehead Framework Plan (Framework Plan), which was adopted by the PDC Board on May 26, 2010. The Framework Plan established a strategic design approach for the redevelopment of the Burnside Bridgehead Property involving development in smaller increments and by more than a single developer. As the first step toward implementing the Framework Plan, PDC issued a Request for Interest (RFI) on July 15, 2010, seeking offers from qualified development teams to purchase and redevelop portions of the Burnside Bridgehead Property.

PDC received a total of 10 statements of interest in response to the RFI, including one from Beam Development (Beam) that was specific to the Property. An evaluation committee consisting of PDC staff and citizen stakeholders evaluated the statements in accordance with the criteria listed in the RFI. Beam was identified as the preferred development partner for the Property and PDC staff was authorized by the Executive Director to enter into an MOU with Beam. The MOU between Beam and PDC, executed July 29, 2011, set forth the mutual understandings and intentions to complete a series of due diligence scope items while negotiating the terms of a binding PSA. Beam subsequently formed a partnership with Urban Development Partners (UDP) to bring greater capacity and resources to the project. The MOU terminates on July 23, 2013.

**Block 75, LLC.** Developer is a partnership between Beam and UDP. Beam brings its expertise in creative office and UDP has a portfolio of inner eastside recently constructed apartment projects. Developer anticipates constructing two mixed-use buildings on the site in two phases. Phase One is expected to be built on the southern half-block, which will include ground floor commercial, work/live units above the commercial space, and apartments above the work/live. Phase One will likely be seven stories and approximately 100,000 square feet (SF). Phase Two is anticipated to be a mix of ground floor commercial, office, and apartments on the northwest quarter-block. Phase Two will likely be seven stories and approximately 60,000 SF.

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

- Purchase price of \$2.26 million for 26,570 SF of real property;
- PDC to provide no investment or financial assistance for redevelopment of the Property;
- Developer to provide PDC an earnest money deposit of ten percent (\$226,000) due within five days of the effective date, and non-refundable at the end of the due diligence period;
- Developer may elect not to proceed with the transaction if matters are unacceptable to Developer at end of 60-day due diligence period;
- Closing to occur within 90 days of conclusion of due diligence period;
- Developer accepts responsibility for environmental condition of the Property;
- Developer must commence construction of the Property consistent with the CESURA Plan, Framework Plan, and zoning within three years of the effective date;
- Developer may not commence construction until PDC has certified the proposed development complies with the CESURA and Framework Plans; and
- PDC has the right to repurchase the Property until Developer has commenced construction.

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

Public benefits of executing the PSA include:

- Land sale proceeds of \$2.26 million to PDC;
- A project developed without direct financial assistance from PDC that provides affordable work/live space to early-stage entrepreneurs in the CESURA; and
- A project that addresses all five principles of the Framework Plan in the following ways:

- *Site as Potential:* The development will be phased, balancing land uses and development densities with market reality.
- *Site as Attainable:* The Project will provide office, retail, a mix of unit sizes of apartments, and work/live that will offer spaces at various price points to various types of users. The Project will also be designed with durable construction types and finishes to minimize operating costs, which will benefit the long-term sustainability of the project.
- *Site as Productive:* The Project incorporates a mix of work/live units into the project that will be designed for individuals who live and work in the same space. The Project will also incorporate some creative office space and the Developer aims to lease to a co-working tenant in one of the ground floor commercial spaces.
- *Site as Sustainable:* Developer intends to pursue a Leadership in Energy and Environmental Design (LEED) Silver certification.
- *Site as Vibrant:* The Project will consist of a mix of uses – creative office, work/live, apartments, residential, and retail – that will add to both daytime and nighttime activity in the district.

### **PUBLIC PARTICIPATION AND FEEDBACK**

The Framework Plan was prepared with the advice and consultation of a 15-member Citizen Advisory Committee (CAC) and set the stage for redevelopment of the entire four-block area. Three members of the CAC served on the evaluation panel that selected Developer as the preferred developer for the Property. Since that time, PDC staff has been working with Developer to refine the scope of the project and agree to terms of a Disposition and Development Agreement. PDC staff has periodically provided updates on the status of the Burnside Bridgehead projects to the Central Eastside Urban Renewal Advisory Committee (CESURAC) and project stakeholders.

Generally, project stakeholders have been supportive of the planned development, especially in regard to the fact that PDC will not be providing any financing for the Project. The development team partners, Beam and UDP, have a reputation for leading and executing successful developments in the CESURA that address community goals for the neighborhood.

### **BUDGET AND FINANCIAL INFORMATION**

The CESURA fiscal year (FY) 2013-14 Approved Budget assumes \$1.656 million in revenue from the sale of properties at the Burnside Bridgehead. Since the proposed action includes a \$2.26 million purchase price and no PDC grants or loans, the budget will be amended to be consistent with the terms of the PSA. This land sale will provide PDC with approximately \$2.26 million in additional financial resources which can be invested in other projects and programs.

The budget also includes funds for ongoing PDC ownership costs and maintenance until FY 2015-16 and an allocation of funds for disposition-related costs for all Burnside Bridgehead properties (see Attachment B).

### **RISK ASSESSMENT**

**1. Developer May Terminate the Transaction.** There is a risk that the Developer 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 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 PDC a 10 percent (\$226,000) earnest money deposit within five days of the effective date which 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 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) Developer paying PDC the purchase price in cash at closing, and (b) PDC retaining a repurchase right until Developer has commenced construction.

**3. Developer May Not Develop the Property as Anticipated.** There is a risk that the Developer may develop something other than the proposed Project on the property. The PSA does not require the development of a specific use, only development that is consistent with the Framework Plan, zoning regulations, and the CESURA Plan. PDC has specifically not restricted the use because (a) PDC is not investing any financial resources in the project and is selling the Property at fair market value; and (b) a wide range of uses consistent with the Framework Plan, zoning regulations, and the CESURA Plan will be beneficial to the neighborhood. To ensure the Project complies with the Framework Plan, the Developer will be required to deliver to PDC sufficient documentation that verifies the Project complies with the five principles of the Framework Plan.

#### **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

### Project Summary

<b>Project Name:</b>	Burnside Bridgehead Block 75 Purchase and Sale Agreement
<b>Description:</b>	0.61-acre vacant parcel zoned Central Employment with Design Review Overlay (EXd)
<b>Location:</b>	Between NE Couch Street and NE Davis Street and between NE Martin Luther King, Jr. Boulevard and NE 3rd Avenue
<b>URA:</b>	Central Eastside
<b>Current Phase:</b>	Disposition
<b>Next Milestone:</b>	Closing/Conveyance
<b>Completion Target:</b>	Early December 2013
<b>Outcome:</b>	Conveyance of Burnside Bridgehead Block 75 to Developer for a mixed-use development consistent with the CESURA Plan, the Burnside Bridgehead Framework Plan, and zoning, currently anticipated to be a mixed-use project with commercial, work/live units, and market rate apartments



**URA Financial Summary**

**Five-Year Forecast Program Requirements Detail**

	Revised-2 FY 2012-13	Approved FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
<b>Central Eastside URA</b>						
<b>Resources</b>						
Beginning Fund Balance	3,153,893	3,147,882	5,046,873	6,501,176	6,997,444	7,827,959
Interest on Investments	10,000	10,000	10,000	10,000	5,000	5,000
Loan Collections	730,056	206,094	299,927	229,771	225,904	988,946
<b>Property Income</b>	<b>2,331,000</b>	<b>1,656,000</b>	<b>1,116,810</b>	<b>791,000</b>	<b>0</b>	<b>0</b>
Short Term Debt	2,775,975	2,997,000	2,997,000	3,996,000	3,905,514	3,641,676
<b>Total Resources</b>	<b>9,000,924</b>	<b>8,016,976</b>	<b>9,470,610</b>	<b>11,527,947</b>	<b>11,133,862</b>	<b>12,463,581</b>

**Requirements**

<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101355 Debt Management-CES	20,000	18,000	18,000	18,000	18,000	18,000
<b>Total Administration</b>	<b>20,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>
<b>Business Dev</b>						
<b>Business Lending</b>						
L02100355 BIF-General-CES	200,000	300,000	300,000	300,000	300,000	300,000
<b>Small Business &amp; Community Dev</b>						
T01100355 OMEP-General-CES	25,000	0	0	0	0	0
B55606355 CES Entrepreneurial District-C	50,000	0	0	0	0	0
<b>Traded Sector Business Dev</b>						
T01069355 Lean Manufacturing-CES	0	30,000	0	0	0	0
B55606355 CES Entrepreneurial District-C	0	150,000	150,000	150,000	150,000	0
B15100355 Cluster Development-CES	50,000	50,000	50,000	50,000	50,000	50,000
B15102355 Site Recruitment-CES	38,000	0	0	0	0	0
<b>Total Business Dev</b>	<b>363,000</b>	<b>530,000</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>	<b>350,000</b>
<b>Infrastructure</b>						
<b>Parks</b>						
N35514815 Eastbank/Asset Trsfr-CES-Adm	40,000	0	0	0	0	0
<b>Public Facilities</b>						
N35525215 Community Center-CES-Adm	0	0	0	0	985,000	0
<b>Transportation</b>						
N35534315 New Water Ave-CES-Adm	250,000	0	0	0	0	0
<b>Total Infrastructure</b>	<b>290,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>985,000</b>	<b>0</b>
<b>Portland Hsg Bureau</b>						
<b>PHB Housing</b>						
H15900355 PHB Staff & Admin-CES	46,106	40,619	115,429	338,003	149,531	97,123
H15430355 Affordable Rental Hsg-CES	0	0	900,000	2,300,000	0	0
<b>Total Portland Hsg Bureau</b>	<b>46,106</b>	<b>40,619</b>	<b>1,015,429</b>	<b>2,638,003</b>	<b>149,531</b>	<b>97,123</b>
<b>Property Redev</b>						
<b>Commercial Property Redevelopm</b>						
P35572195 Conv Plaza Offc Bldg-CES-Adm	65,996	0	0	0	0	0
P35550115 ODOT Blocks-CES-Adm	0	100,000	0	0	0	0
P35591015 Public Outreach-CES-Adm	11,000	2,000	2,000	2,000	2,000	2,000
P35552215 CC 2035-CES-Adm	33,428	0	0	0	0	0
P35560185 Block75-Fmr Ararat-CES-Adm	5,977	2,329	2,329	2,329	0	0
P35560175 Block67-Fmr Brdgprt-CES-Adm	3,000	0	0	0	0	0
P35560165 Block76-S Sliver-CES-Adm	4,800	0	0	0	0	0
P35560145 Block76-Fmr Unocal-CES-Adm	1,181	1,181	1,181	0	0	0
P35560125 Block76-Fmr Fishels-CES-Adm	347	347	347	0	0	0

### Five-Year Forecast Program Requirements Detail

	Revised-2 FY 2012-13	Approved FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
P35557215 Burnside Bridgehd Rdv-CES-Adm	50,000	102,700	0	0	0	0
P35592015 Real Estate Mgmt-CES-Adm	20,000	50,000	10,000	10,000	10,000	10,000
<b>Commercial Real Estate Lending</b>						
R01100355 CPRL-General-CES	2,980,000	600,000	600,000	600,000	600,000	600,000
R03100355 Comm Energy Eff Retro-CES	0	100,000	0	0	0	0
<b>Community Redevelopment Grants</b>						
G02100355 DOS-General-CES	100,000	100,000	100,000	100,000	100,000	100,000
G03100355 SIP-General-CES	450,000	300,000	300,000	300,000	300,000	300,000
<b>Total Property Redev</b>	<b>3,725,729</b>	<b>1,358,557</b>	<b>1,015,857</b>	<b>1,014,329</b>	<b>1,012,000</b>	<b>1,012,000</b>
<b>Total Program Expenditures</b>	<b>4,444,835</b>	<b>1,947,176</b>	<b>2,549,286</b>	<b>4,170,332</b>	<b>2,664,531</b>	<b>1,477,123</b>
Personal Services	555,891	367,879	93,677	86,146	153,844	111,455
Transfers - Indirect	852,316	655,048	326,471	274,025	487,528	360,414
<b>Total Fund Expenditures</b>	<b>5,853,042</b>	<b>2,970,103</b>	<b>2,969,434</b>	<b>4,530,502</b>	<b>3,305,903</b>	<b>1,948,992</b>
Contingency	3,147,882	5,046,873	6,501,176	6,997,444	7,827,959	10,514,589
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>9,000,924</b>	<b>8,016,976</b>	<b>9,470,610</b>	<b>11,527,947</b>	<b>11,133,862</b>	<b>12,463,581</b>