

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: December 13, 2006
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 06-130
Third and Oak Appraisal Status

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

None – Information only

SUMMARY

PDC recently entered into a contract with Day Appraisal Company, Inc. to perform an appraisal of PDC-owned property at S.W. Third Avenue and Oak Street in the Downtown Waterfront Urban Renewal Area – site of a proposed high-rise, mixed-use condominium project (Oak Tower).

Mr. Jim Barclay, MAI, of Day Appraisal Company, Inc., will be available at the Board Meeting to discuss the status of the appraisal.

BACKGROUND

On October 25, 2005, the Board authorized entering into a disposition and development agreement (DDA) with TCR Pacific Northwest VII, Inc. (TCR) to redevelop a vacant, blighted PDC-owned property at S.W. Third Avenue and Oak Street in the Downtown Waterfront Urban Renewal Area for Oak Tower (the Project), a proposed high-rise, mixed-use condominium project.

The July 15, 2005 appraisal of the property prepared by PGP Valuation, Inc. determined that fair market value of the property using a land residual approach to be a negative value because of encumbrances on the property and a requirement to meet affordable housing and housing density goals required by PDC as part of the project. The draft DDA authorized PDC to transfer the property to TCR for no cost.

On April 24, 2006, the Bureau of Labor and Industry (BOLI) sent PDC a letter outlining what it would take to bring the transaction within the “no public funds” exemption provided in ORS 279C.810(2)(b) which would have the effect of exempting the Oak Tower project proposed by Trammell Crow Residential from the prevailing wage law requirements. The letter specified that BOLI would select an independent appraiser for the developer (or PDC) to employ and that the appraisal instructions would be developed jointly with developer (or PDC).

Day Appraisal Company, Inc. was recommended by BOLI and subsequently selected by PDC. Following are the appraisal instructions, which were jointly developed by BOLI and PDC.

**Appraisal Instructions
SW Third and Oak Property**

1. The scope of work is to prepare four copies of a narrative Complete Summary Appraisal for the following described real property (the "Property") located at SW Third and SW Oak Street site in the City of Portland, County of Multnomah, State of Oregon, in conformance with USPAP, State of Oregon and PDC guidelines:

Lots 5 and 6, Block 30, CITY OF PORTLAND, in the City of Portland, County of Multnomah and State of Oregon, together with all easements appurtenant thereto.

2. The report shall establish the fair market value based on the highest and best use of the Property with consideration to zoning, allowable floor area ratio, current development trends, and existing encumbrances listed as exceptions to title including the following:

Parking Lease

Under a Parking Lease dated December 12, 1997, RG Investments, LLC, leases the garage that existed under the Property for \$1.00 per year for 99 years beginning in 1997 with two 99-year renewal options.

Basement Lease

A separate Basement Lease dated December 12, 1997 has the same term as the Parking Lease above and describes conditions for construction of a future building on the Property. The Lease requires an expansion of the basement area if the footprint of the new building exceeds the existing basement area and to provide usable space in the basement of the future building equivalent to the usable space that was previously available.

Basement Renovation Agreement

An Agreement Regarding Basement Renovation and Other Matters, Dated December 12, 1997, sets forth terms and conditions of the redevelopment of the existing basement leased to RG Investments, LLC. Among other conditions, it requires the owner of the new building on the Property to pay for the cost of (1) replacing the 32 parking spaces that formerly existed in the basement of the Property; (2) removing and sealing the windows and finishing the exterior and interior walls on the west side of the Police Headquarters Building; and (3) paying for interfering with 32 parking spaces currently existing in the building for a period of one year from the start of construction at current rates for parking in the adjacent garage.

Garbage and Recycling Easement

An Easement Agreement, dated December 12, 1997 obligates the owner of a future building on the Property to provide a portion of the ground floor of the future building for placement of dumpsters and recycling containers, and

transport carts for use by the adjacent Police Headquarters Building owners and tenants.

3. The report shall also include a comparative analysis of the appraisal methodologies and resulting differences in value in two previous appraisals of the Property conducted by PGP Valuation Inc. dated January 7, 2002 and July 15, 2005, respectively.
4. If the appraiser determines that a residual land value analysis would also be appropriate for the Property, the appraiser shall report the value they regard to be most appropriate considering all relevant factors that influence value.
5. The report will conform to the following standards:
 - Identify and describe the real estate being appraised;
 - State the real property interest being appraised;
 - Define the value to be estimated;
 - State the effective date of the appraisal and the date of the report;
 - State the extent of the process of collecting, confirming and reporting data;
 - State all assumptions and limiting conditions that affect the analyses, opinions and conclusions;
 - Describe the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions and conclusions;
 - Describe the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate;
 - Explain and support the exclusion of any of the usual valuation approaches;
 - Describe any other additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from the specific guidelines of Standard 1 (USPAP SR1);
 - Describe the physical characteristics of the property being appraised;
 - Include a statement of the known and observed encumbrances;
 - Include title and ownership information;
 - Include at least a three year sales history of the property;
 - Consider and describe the location, zoning, the present use of the real estate;
 - Describe comparables, including describing all relevant physical, legal, and economic factors such as parties to the transaction, source and method of financing, and verification by a party involved in the transaction; and
 - Include a signed certificate in accordance with USPSP Standard Rule 2-3.
6. The report is to be addressed to John Warner, Portland Development Commission, 222 NW Fifth Avenue, Portland, OR 97209-3859.

CC: A. Wilch, Housing Director
J. Warner, Senior Development Manager
M. Baines, General Counsel
L. Sundstrom, Central Services Director