

# PDC

## PORTLAND DEVELOPMENT COMMISSION

### Report to the Board of Commissioners

Report No. 05-107

October 12, 2005

**THROUGH:** Bruce A. Warner, Executive Director  
Cheryl L. Twete, Director of Development

**FROM:** John W. Southgate, Development Manager

**SUBJECT:** Authorize Executive Director to Enter into Purchase & Sale Agreement and Loan Agreements with Assurety Northwest for the Sale and Development of Property owned by the Commission in the Lents Town Center Urban Renewal Area

#### **EXECUTIVE SUMMARY**

#### **BOARD ACTION REQUESTED**

- X Approve Resolution
- X Accept Report

#### **SUMMARY**

Assurety Northwest ("Assurety") proposes to purchase a 77,000 square foot PDC-owned parcel along SE Foster Boulevard (Site Map attached as Attachment A) within the Lents Town Center Urban Renewal Area. Assurety intends to redevelop the property with 30,000 square feet of commercial space in two phases, each phase consisting of a 15,000 square foot building. Phase I would be constructed in 2006; Phase II construction would start no later than three years after Phase I construction begins. Assurety would occupy 12,000 square feet of the first building; the balance of Phase I and all of Phase II are intended to be office/retail lease space

This project would represent the first major new commercial investment in the Lents Town Center Urban Renewal Area. The site is currently vacant.

The proposed resolution accompanying this report would authorize the Executive Director to enter into the agreements necessary to conclude this transaction. These will likely include a Purchase & Sale Agreement to sell the property to Assurety in two phases, and Loan Agreements to provide second position financing in the amount of up to \$1,481,000, including a land sale contract of \$770,000 and a cash loan of \$711,000. The land sale price would be \$10 per square foot (a recent appraisal values the property at \$14.50 per square foot). Final loan amounts and terms would be subject to final underwriting and Loan Committee review. This action also contemplates a master lease of not more than 3,000 square feet of the

first building and not more than 3,000 square feet of the second building, the term of each lease not to exceed one year. In addition, PDC financial assistance will include approximately \$310,000 in a Quality Jobs Program Forgivable Loan and Economic Opportunity Fund Grant (precise amount of QJP/EOF funds to be determined by the job account, average salary, and total investment amount).

### **RELATIONSHIP TO PLANS**

The proposal is supportive of core goals of the Lents Town Center Urban Renewal Plan, such as Goal C, “Revitalization of Commercial Areas”. That goal states in part, “Invest public funds and work in partnership with commercial property owners to increase the vitality and economic health of commercial areas...” The proposal also supports economic development goals in the Urban Renewal Plan, by providing new business investment and job creation – Assurety currently employs 45, with an average salary of about \$50,000.

### **PUBLIC BENEFIT**

The proposal affords several substantive public benefits. These benefits include the generation of annual tax increment revenues along with the generation of both permanent and construction jobs. Perhaps the most substantive benefit lies in the fact that this project would represent the first major new commercial development in the Town Center area since formation of the URA in 1998. Many of our community partners, particularly on the Lents URAC, have been hopeful for years that the formation of the URA would result in the successful revitalization of the Town Center area. This project represents an important step in realizing that goal.

### **FINANCIAL IMPACT/FEASIBILITY**

The FY 2005-06 Adopted Budget and Forecast includes \$3,350,000 (Development Department Project 12209) and \$310,000 (Economic Development Department Program 70018) available for Assurety Northwest. If the Commission approves this project, redevelopment funding may be needed earlier than expected; this could be accomplished as part of the budget amendment process. The Lents URA has sufficient debt capacity for this budget amendment and for the project financing proposed. The project would generate \$770,000 in land sale proceeds that are unbudgeted and expenditures of approximately \$2,202,000.

	FY 2005-06	FY 2006-09	Total	
<b>Resources:</b>				
Sale of Land	-	770,000	770,000	
<b>Total Resources</b>	-	770,000	<b>770,000</b>	
<b>Requirements:</b>				
Phase I Loan (3%, 30 year)	-	1,481,000	1,481,000	a
Programs: QJP & EOF Forgivable Loans	-	310,000	310,000	b
Predevelopment	75,000	-	75,000	c
Environmental Remediation	100,000	-	100,000	
<b>Contingency:</b>				
Rent Guarantee, 3,000sqft - Phase 1		36,000	36,000	d
<b>Total Requirements &amp; Contingency</b>	175,000	1,827,000	<b>2,002,000</b>	
<b>FY 05-06 Adopted Budget: (available for this project)</b>				
Development	100,000	3,250,000	<b>3,350,000</b>	
Economic Development	-	310,000	<b>310,000</b>	

- a. Approximately \$1,481,000 in PDC secondary loan for Phase I (includes a \$770,000 land sale contract which would be incorporated in the loan but would not constitute an actual cash outlay). Terms: 3%, 30 years; no interest accrual or payments until 5 years after closing of Phase I; debt service would begin September, 2011
- b. Approximately \$310,000 in Economic Development Quality Jobs Program (QJP) and Economic Opportunity Fund (EOF)
- c. Approximately \$175,000 for environmental remediation and other predevelopment
- d. One-year leaseback provision of 3,000 square feet of Phase I; calculated at the proposed lease rate (\$12 per square foot), this represents a potential financial commitment of \$36,000

*Note that these figures are preliminary. It is possible as we perform final underwriting on the project (assuming Commission approval), and as the developer engages in design development and refined cost estimates, these figures will change. Staff does not necessarily anticipate this occurring, but notes we are in a fluid environment in terms of construction costs and interest rates.*

*Note also that, contrary to Assurety's initial proposal to PDC (see Attachment C – Initial Proposal Comparison), the actions before the Commission do not constitute any financial obligation with regard to the construction of the Phase II building, other than a commitment to lease no more than 3,000 square feet at a market rate rent. Under the proposed terms and conditions, Assurety would be obligated to begin*

*construction no later than three years after Phase I construction start, i.e. September 2009. Assurety's original proposal called for a financial commitment to Phase II construction, and also allowed for Assurety to begin construction on this building as late as 2012.*

The Fiscal Year 2005-2006 Adopted Budget and Five-Year Forecast for the Lents Town Center URA is attached as Attachment B, Financial Summary.

### **WORK LOAD IMPACT**

This project is on the PDC Project priority list and in existing staff work plans. The project entails staff from multiple departments, including Development, Economic Development, Finance, Housing, Legal, and Real Estate.

### **ALTERNATIVE ACTIONS**

PDC has several options with respect to Assurety's proposal:

- Accept Assurety's initial proposal, as summarized in Attachment C.
- Counter the proposal with deal terms other than the terms set forth herein.
- Reject the proposal in its entirety and instead opt to dispose of the property in another manner, such as a competitive solicitation (Request for Proposals, or Direct Marketing).

### **IMPLICATIONS IF NO ACTION TAKEN**

If PDC takes no action, Assurety will most likely abandon its pursuit of the PDC property and instead look at other locations, very possibly outside of the City of Portland and almost certainly outside of the Lents area. PDC would thereby forego the jobs and the private investment this project represents. It would also further perpetuate the status of this property as a vacant, "blighted" property in the heart of the Town Center.

### **PUBLIC PARTICIPATION AND FEEDBACK**

The Lents URAC and other key leaders in the Lents community have been briefed on Assurety's proposal. They are supportive of PDC's negotiating exclusively with Assurety instead of soliciting other proposals through a broader process. They are also pleased at the prospect of this new company bringing well-paying jobs to Lents. They look forward to participating in the early stages of the design process, so that they can help inform Assurety about their goals and expectations for the revitalization of the Town Center.

## CONCURRENCE

This project represents a collaboration between Development and Economic Development staff. The entire inter-departmental Lents team has been briefed on the project, as has the inter-agency Lents Technical Advisory Committee.

## INTERNAL REVIEW

	By:	Comment:
X Finance	Mark Murray	_____
X Legal	Matt Baines	_____
X Policy	David Nemo	_____

## **BACKGROUND**

PDC acquired the site, as well as other properties in the Lents Town Center, through a series of transactions taking place in the late 1990s and early in the new decade. PDC's ultimate intention in acquiring these properties was and remains to sponsor the revitalization of the town center area through new private mixed use development. PDC attempted to assemble several blocks *in their entirety* (including the block which the subject site occupies). However, lacking the power of eminent domain, PDC was not successful in assembling the entire blocks in question. After several concerted efforts to assemble these blocks (done at the urging of many members of the Lents URAC), the Commission directed staff to cease these efforts in 2004.

In 2000, PDC issued a Request for Proposals (RFP), soliciting development proposals for the subject site (i.e. the PDC-owned portion of the block bounded by SE Foster, Reedway, 88<sup>th</sup>, and 91<sup>st</sup>). This RFP process culminated in the selection of a developer team led by the Morrison Company, with ROSE CDC (Community Development Corporation) as a junior partner. The Morrison team proposed a mixed use project entailing approximately 30,000 square feet of speculative commercial lease space, five moderately priced for-sale townhomes, and 24 units of affordable rental housing, the latter component to be developed by ROSE (using 9% Low Income Housing Tax Credits).

Construction of the commercial component of the Morrison project was contingent on securing project financing, which Morrison failed to secure. As a result, the Disposition & Development Agreement (DDA) between PDC and the partnership was terminated, and ROSE constructed its rental housing project as a stand-alone project. Morrison subsequently sued PDC, and that lawsuit was settled in July 2005, when the Commission approved a settlement payment of \$240,000.

Assurety (acting through its broker) approached PDC informally, early in 2005, about the possibility of relocating its headquarters to Portland, and more specifically to Lents. PDC staff informed Assurety about PDC-owned properties, and Assurety indicated an interest in the subject site. PDC staff also informed Assurety about the lawsuit with Morrison.

PDC decided to forego formal negotiations with Assurety at that time, pending resolution of the lawsuit. Once the lawsuit was resolved, the Executive Director decided to enter into exclusive negotiations with Assurety in early August, 2005, acting on the recommendation of PDC's Investment Committee. Subsequently, on October 4, 2005 the Investment Committee reviewed and endorsed the general terms and conditions as set forth herein.

Assurety's initial offer varies from the deal terms set forth in this report's attachments. Attachment C compares Assurety's offer with the deal which is before the Commission. The primary distinction relates to Phase II. Assurety's proposal entailed a commitment of a loan and terms for Phase II similar to Phase I. In addition, Assurety's proposal set a deadline for Phase II construction start as late as 2012 (or within one year of completion of the 205 MAX line, whichever comes first). Assurety's proposal also would require PDC to master lease the entire Phase II Building (15,000 square feet) for one year, at \$18 per square foot.

The deal set forth herein would require a construction start no later than three years after Phase I construction start (i.e., 2009). In addition, the deal terms do not include any financial commitment to Phase II other than an agreement to lease no more than 3,000 square feet of Phase II.

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**BOARD ACTION TAKEN**