

The Central Eastside's skyscraper

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B67 will be a landmark for the city of Portland. "The responsibility to do it right is tremendous," said Adrian Boly, vice president of development for Guardian Real Estate Services. "You don't get a lot of opportunities to add something to the cityscape that will define it."

In the coming weeks, Andersen Construction will begin erecting the first floors of B67: a 21-story glassy tower in Portland's exact geographical center. When finished, the 284-unit building will be one of the most visible landmarks in the city; however, as multifamily competition increases, one question remains: Will the development be able to generate the income necessary to justify the elevated costs of high-rise construction?

Humble beginnings

When developer Jeff Pickhardt first set his sights on the Burnside bridgehead, he wasn't quite sure what to make of it. Not many people were.

"I think at that point in time people were still scratching their heads and wondering if it was an opportunity or not," said Pickhardt, principal of Hood River-based Key Development, which is co-managing development of B67 with Guardian.

That was 2011, and after two years of searching for development sites in Portland, Pickhardt was considering whether to respond to an open request from the city to redevelop one of its long-vacant parcels. In addition to possessing a severe slope and irregular position next to the Burnside Bridge, the site was where a massive mixed-use development failed in 2008. The city rallied by refocusing on smaller, bite-size projects.

As such, Pickhardt's original proposal for B67 considered a small, mid-rise apartment building on just a portion of Block 67. The concept was soon dwarfed, however, by the site's location and high-density zoning. By the time Pickhardt's design team, Skylab Architecture, presented plans to the Portland Design Commission, the project had morphed into a full-blown tower.

"We want the tower to take on the qualities of the sky as much as possible," Skylab principal architect Jeff Kovel said during that April 2013 meeting.

Commissioners were intrigued, but challenged by the ambitious concept. Then it was refined repeatedly over the following year. Renderings now feature an angular tower that bleeds into the sky as it climbs over a landscaped, mountain-shaped podium.

Around the same time as that first design commission hearing, Pickhardt was also consulting Guardian about a mid-rise apartment project in Hood River. That development never got off the ground, but as the two companies collaborated, their attention turned increasingly to Block 67 and a potential partnership.

Key Development would bring its experience working

in public-private partnerships; Guardian, its expertise managing roughly 13,000 units across five states. Guardian brought another critical component to the union: the ability to leverage large sums of institutional capital.

"The determination was made that this could be an iconic project, and a very large project – something that could redefine the skyline," Boly said.

Market window of opportunity

Last spring, Guardian launched a capital campaign to finance what by then was an \$85 million project.

Portland's multifamily market had all of the right ingredients for investors: a budding population, job growth, rent growth, and historically low vacancy levels. Accordingly, more than 7,000 new apartment units are expected to come online in 2015 and again in 2016 – more than double the metro area's average annual absorption rate, according to Johnson Economics.

Jerry Johnson, a principal at Johnson Economics, doesn't think the market will have any trouble absorbing those units. But if the pace continues into 2017 and beyond, he said, occupancies could start to decline. That will raise the stakes for landlords.

"Cycles get mature, and then they get a little ... ripe, and then a little over-ripe," said Johnson, who was contracted by the development team to analyze whether B67 would work financially. "I just think this is a market where people really have to be on their game. If you're entering now, you have to have a good product niche, and you have to know where you stack up against your competition because you will have competition."

The challenge for B67 will be its Pearl-District-level prices in an unproven location in the Central Eastside. Most units will be studios or one-bedroom apartments in 10 different floor plans; each will rent for between \$1,200 and \$2,000 a month. Additionally, 20 percent of the building will be reserved for individuals making 60 percent of the area's median family income or less.

Fortunately for B67, Johnson said some mid-rise apartments in the Central Eastside are already obtaining rents between \$2.20 and \$2.40 per square foot. Not much more is needed to justify high-rise construction, and Johnson is bullish on B67.

"The Central Eastside is getting great rents right now," he said. "For a lot of the younger wealthy, the east side is the new hip place to be; the Pearl is where your dentist lives – I was told that by a developer once."



Adrian Boly, left, and Tom Brenneke of Guardian Real Estate Services stand in front of the B67 project site at the Burnside bridgehead. The firm is co-developing the project with Key Development. (Sam Tenney/DJC)

Banking on a solid location

B67 is backed by a 60 percent senior loan from the Bank of the Ozarks, a 25 percent mezzanine loan from Cornerstone Real Estate Advisers, and roughly 15 percent in equity investments from high-net-worth individuals. Scott Magoffin, an associate at Cornerstone, said part of the appeal of the Central Eastside is its gritty, industrial vibe compared to the "glitz and glam" of the Pearl.

"We all could be wrong that this is a desirable location at those rent levels, but access to the downtown area is as good as it gets without being down there," Magoffin said. "... I feel I'd rather be the first and really only tower – Class A tower – on the east side than the 10th or 11th in the Pearl."

The 21-story Hassalo on Eighth development will technically have that distinction when it's completed later this year, but Magoffin thinks the location and amenities offered at B67 will give it an edge. In addition to on-site retailers and restaurateurs (such as a new distillery), B67 will have luxuries like a pet exercise area and a full-service day spa.

Pickhardt also sees those amenities playing a big role in the building's performance, despite market demand. "There is clearly a demand for (the project)," he said. "Nevertheless, our approach to this project has been one where we assume that that may not be the case. And if that's not the case and there is an oversupply of apartments, then we would insist that the product we put out there is as good as it can possibly be so we're positioned well to compete."

B67's best amenity, arguably, is its unobstructed views of the city. Before construction started, Boly said that one of the contractors flew a small drone 250 feet above the site to give the team an idea of what to expect from the roofline. The results were unparalleled.

"There won't be anything like it," Boly said.