

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** May 14, 2008

**TO:** Board of Commissioners

**FROM:** Bruce A. Warner, Executive Director

**SUBJECT:** Report Number 08-55  
Purchase and Sale Agreement with Developer to be Selected by the U.S. General Services Administration for Sale of a Leasehold Interest at Cascade Station

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6576

#### ACTION SUMMARY

This action will authorize the Executive Director to execute a Purchase and Sale Agreement (PSA) for the sale of the Portland Development Commission's (PDC's) leasehold interest in approximately eight (8) acres of land at Cascade Station for the development of approximately 135,000 square feet of office space for the regional headquarters for the Federal Bureau of Investigation (FBI).

On October 24, 2007, the PDC Board of Commissioners (Board) approved execution of an Option Agreement with the United States General Services Administration (GSA) for the subject property. GSA is the federal government's agency responsible for procuring and securing office and other space for other federal agencies, including the FBI, who will eventually be the sole tenant of the buildings to be constructed on the site. The Option Agreement was executed effective October 31<sup>st</sup>, 2007.

Execution of this PSA was a requirement contained in the Option Agreement. The PSA specifies in greater detail the responsibilities of the parties, the conditions precedent to closing, and other provisions of the transaction not included in the Option Agreement.

On November 29, 2007, GSA issued a Solicitation for Offers seeking a development team to acquire the leasehold interest from PDC for the subject property, to develop the buildings and to lease the property back to GSA under a long term lease. In March 2008, GSA short-listed the offerors to five (5). These five were asked to give specific proposals to GSA which are due to GSA this fall. GSA is expected to select a development team and issue a lease award for the project by October 31, 2008. Following selection, GSA will assign the Option Agreement to the selected Developer who will proceed to close the transaction with PDC and commence development of the site. Closing is expected to occur by January 2009.

The Option Agreement and PSA provide for the Purchase Price to be \$9.50 square foot for a total of approximately \$3,310,560. This Purchase Price reflects the fair market value of the property based on an updated MAI appraisal dated April 21, 2008 and an Opinion of Value

from PDC's brokers dated November 1, 2007. A Summary of the proposed terms and conditions of this transaction is provided in Attachment A.

## **PUBLIC BENEFIT**

The Airport Way Urban Renewal Area (URA) has reached its maximum indebtedness limit and can no longer issue new tax increment bonds. Sale of this leasehold interest to GSA's selected developer will result in an estimated \$3.3 million in program income that can be re-programmed in the Airport Way URA Fund and spent on economic development efforts in the URA such as Quality Jobs Program loans and Economic Opportunity Fund grants. It will also result in the construction of an estimated \$50 million in new office space and a structured parking garage.

The project will house approximately 200 full time jobs, jobs that exceed PDC's Quality Jobs criteria. These jobs are currently located in Portland and their relocation here will be a consolidation and retention of two or more facilities in the metro area. If this site were not made available to GSA, it is possible that GSA might be forced to a site outside of the City due to GSA's siting requirements necessitating a 100-foot setback from all adjacent rights-of-way.

Because the development of the project will be funded from federal funds, the selected developer will be required to adhere to applicable federal programs including the payment of prevailing wages and the workforce and hiring goals for minority, women and disadvantaged enterprises.

As the tenant is a governmental entity, this project is not eligible for PDC financial assistance under the Quality Jobs and Economic Opportunity Programs.

### **This action will support the following PDC goals:**

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

## **PUBLIC PARTICIPATION AND FEEDBACK**

The Columbia Corridor Association (CCA) is very supportive of PDC's efforts in Airport Way, including our ongoing business finance activities and our development at Cascade Station. On March 18, 2005, PDC staff presented the proposed Cascade Station development agreement amendments and revisions to the Portland International Center Plan District to the CCA Board of Directors. The CCA voted to support the proposed changes.

On February 15, 2008, PDC staff briefed the CCA on all activities in the Airport Way Urban Renewal Area, including the proposed sale of PDC's leasehold interest in this site to the GSA for the FBI Headquarters and received no objections from the CCA Board members.

The Cascade Station property is not included within any neighborhood association and residential uses are prohibited at Cascade Station.

## **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

The proposed sale of leasehold interests and new development at Cascade Station is consistent with the goals and objectives of the Airport Way Urban Renewal Plan, adopted by the PDC Board and City Council in 1986. The URA was formed primarily for job creation, and Goal 5D specifically calls for the promotion of job-producing uses of Airport property which includes Cascade Station. Cascade Station was envisioned as a high density commercial project providing high quality jobs to Portland area residents.

The proposed development at Cascade Station, including new office space such as the one being proposed was also codified in the Cascade Station/Portland International Center Plan District code amendments to the City of Portland Zoning Code, adopted by the Portland City Council in February 1999, and amended by the Portland City Council on February 17, 2005.

## **FINANCIAL IMPACT**

The proposed sale will be for approximately \$3,310,000. This sales price is supported by an independent MAI Appraisal performed by PGP Valuation and an Opinion of Value by PDC's broker, the Grubb & Ellis Company, both completed in January 2007. Net proceeds to PDC after sales commissions and closing costs will be approximately \$3,100,000. The attached Resolution also authorizes the Executive Director to make adjustments to the Purchase Price of up to 5% based on the findings of the Buyer's due diligence review or other issues and to extend the schedules by up to a total of four (4) months, if he deems it necessary.

It is noted that, because the tenant of this space will be a Federal agency, they will be tax exempt. However, staff feels that this is offset by the extraordinarily high value of construction (estimated to be approximately \$50 million) and the quality jobs that will result. Also, there will be no financial incentives or PDC financing involved in this project.

The sale of this leasehold interest as proposed was reviewed and supported by the PDC's Investment Committee on May 8, 2007.

The Airport Way URA FY 2006-07 Adopted Budget and Forecast is attached to this Report as a Financial Summary (Attachment C).

## **RISK ASSESSMENT**

There is little or no risk to PDC in executing this PSA. Also, because PDC still controls approximately 28 acres of land beyond this proposed sale, there are no lost opportunity costs.

## **WORK LOAD IMPACT**

There is nominal additional staff work load impact since most of the necessary documents needed to close this transaction have already been negotiated by PDC, GSA and the Port of Portland (Port). Project staff from the Development, Economic Development, and Legal departments are coordinating on the project.

## **ALTERNATIVE ACTIONS**

The Board could elect to not approve the PSA or to modify the terms of the PSA. If the latter is chosen, staff would attempt to reach another agreement with GSA and, if successful, would return to the Board at a later date. If the parties did not enter into the PSA, the property would be sold under the terms of the Option Agreement, which is legally binding between the parties.

## **CONCURRENCE**

This proposed action is in furtherance of the development of the Cascade Station property, which has received wide support from PDC's public and private partners, including the Port, TriMet, and the Columbia Corridor Association. PDC's interdepartmental Airport Way Team has discussed and supports this transaction.

## **BACKGROUND**

Cascade Station is a 120-acre section of land located at the southwest corner of the intersection of Interstate 205 and Airport Way and within the Airport Way Urban Renewal Area. The property is owned by the Port.

In 1999, a proposal came together for the development of much of the Port's property by the Airport, including Cascade Station (known as the Portland International Center) with a mix of retail, hotel and office uses. Perhaps more importantly to the City and the Port, the plan also included extending light rail through the property, directly to the airport terminal. As part of the negotiations for this project, the Port granted PDC development rights to the 120 acres at Cascade Station in exchange for PDC's financial commitment to the construction of the light rail line to the Airport. PDC subsequently assigned these development rights to Cascade Station Development Company, LLC (CSDC) in return for, among other things, an Assignment Fee Payment Agreement (Junior Obligation) executed by CSDC in favor of PDC in the amount of \$14 million.

In February, 1999, City Council adopted the 1999 Cascade Station/Portland International Center Plan District (1999 Plan District), which essentially established the zoning for the proposed development. The 1999 Plan District provided guidelines regarding allowable development rights and design standards for development of the property.

On June 11, 1999, PDC executed a Development Agreement with CSDC which provided for the application of design standards, maximum development rights, plan approval processes, and PDC's goals for employment in the Airport Way URA via the Quality Jobs Program.

On February 17, 2005, the 1999 Plan District was amended with the intention of reviving development interest at Cascade Station. Development rights for the property were modified to allow, among other uses, up to three larger-format retailers. These anchor tenants are expected to provide the necessary customer draw that would spur the rest of the smaller retail to move forward, as well as the office and hotel uses.

On June 22, 2005, the Board approved a number of items relating to the development at Cascade Station including a First and Second Amended Development Agreement, which

modified the development rights for the property to agree with the amended Plan District, and approval processes for development at Cascade Station. At that meeting, the Board also approved a Restructure Agreement which reassigned development rights to 36 of the 120 acres of land at Cascade Station to PDC as full satisfaction of the Junior Obligation.

On December 14, 2005, the Board authorized the execution of a Traffic Mitigation Agreement with the Port and CSDC, for the funding of design and construction costs of offsite street improvements associated with development at Cascade Station.

On July 13, 2006, the transactions closed and PDC took control of the 36 acres. Construction of the IKEA store and the entire retail center commenced in August. IKEA opened in July 2007 and is being followed by the rest of the shopping center as each individual retail space is finished. In addition to the retail development, one hotel and 2 office buildings are under construction with completion scheduled for this summer, and two other hotels are in for permits. These will begin construction this summer will be completed by mid 2009.

In August 2006, PDC staff issued a Request For Proposals (RFP) from brokerage firms to market the 36 acres. The Grubb & Ellis Company was recommended by the Evaluation Committee following review of the submittals and interviews of two short-listed firms. On October 25, 2006, the Board authorized execution of a Professional Services Contract with Grubb & Ellis.

After receiving updated appraisal information and preparing a marketing package, Grubb & Ellis began soliciting potential buyers in the Spring of 2007. On April 10, 2007, the GSA submitted a proposed Option Agreement for the acquisition of a portion of PDC's holdings at Cascade Station. Over the ensuing five months, PDC staff and GSA representatives negotiated the terms and conditions of the Agreement which was approved by the Board on October 24, 2007, and executed effective October 31, 2007. The Board Report and the Option Agreement both provided for staff returning to the Board for approval of a Purchase and Sale Agreement, which is the purpose of this Board action.

**ATTACHMENTS:**

- A. Summary of Proposed Terms and Conditions
- B. Project Summary and Map
- C. Airport Way URA FY 2006-07 Adopted Budget and Forecast

- CC:**
- L. Bowers, Interim Director of Development
  - B. Allen, Senior Development Manager
  - D. Elott, Interim General Counsel
  - J. Jackley, Executive Operations Manager

**SUMMARY OF PROPOSED TERMS AND CONDITIONS**  
**SALE OF LEASEHOLD ESTATE TO GENERAL SERVICES ADMINISTRATION'S**  
**SELECTED DEVELOPER**

Site: Approximately 8 acres in Parcel A, Cascade Station

Proposed Use: Office Building of approximately 135,000 square feet; surface and structured parking; associated site improvements

Purchase Price: \$9.50 per square foot, or \$3,310,560; subject to adjustment up to 5% based on survey and findings from due diligence

Brokerage Fee: 5% of Purchase Price split evenly between participating Brokers

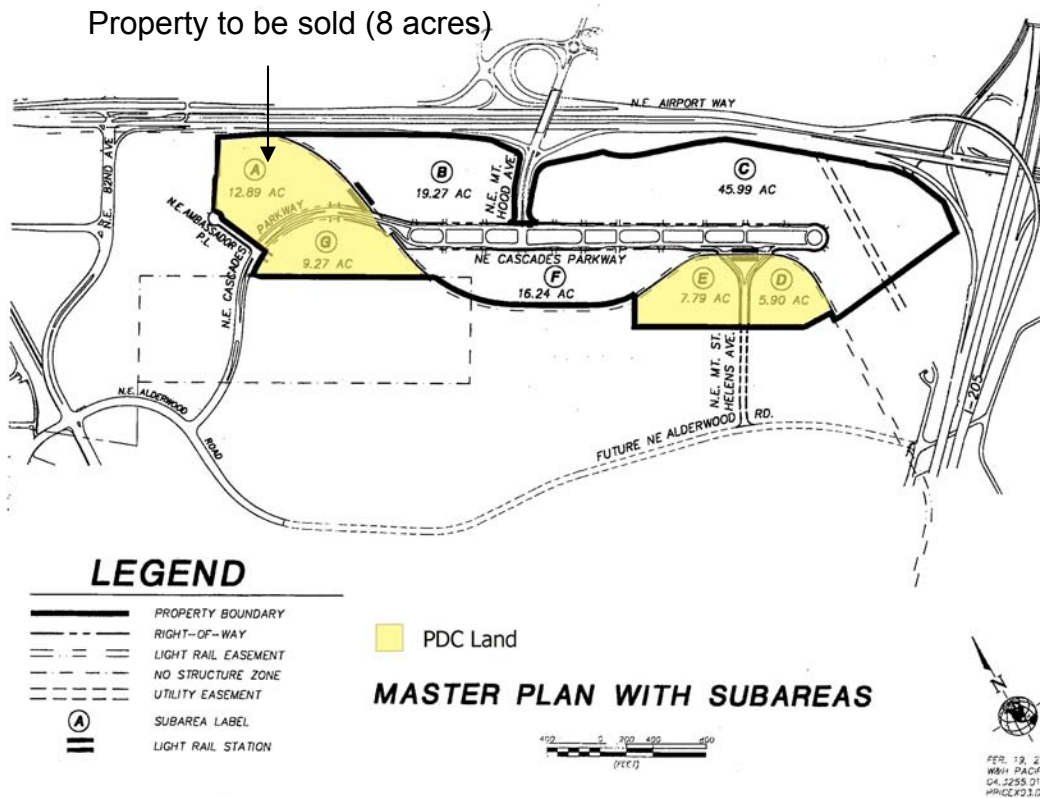
Assignability: GSA will have assigned the Option Agreement to a private developer selected through a national Request for Proposals process. The developer will be obligated to abide by the terms and conditions of the Purchase and Sale Agreement (PSA)

PSA Term: The Outside Closing Date for this transaction is January 31, 2009

Other: Developer will be required to adhere to applicable federal workforce and hiring programs including DBE contracting, wage rates, etc.

### PROJECT SUMMARY

- Project Name:** PDC-controlled property at Cascade Station
- Description:** Sale of approximately 8 acres (a portion of Parcel A below)
- Location:** NE Airport Way, between NE Mt. Hood Avenue and NE 82<sup>nd</sup> Ave.
- URA:** Airport Way
- Current Phase:** Purchase & Sale Agreement
- Next Milestone:** Developer Selection by GSA
- Completion Target:** Closing of this transaction is anticipated to occur not later than January 31, 2009. Construction of the project will likely take 14 to 18 months thereafter
- Outcome:** 135,000 s.f. Office development on Parcel A, in two buildings with structured parking
- Site/Project Map:** Map of Cascade Station Master Plan with PDC Sub Areas:



## URA FINANCIAL SUMMARY

### Financial Summary

#### Fund Summary - Five-Year Budget Projections

	<i>FY 2006-07 Revised Budget</i>	<i>FY 2007-08 Adopted Budget</i>	<i>FY 2008-09 Forecast</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>
<b>Airport Way URA</b>						
<b>Resources</b>						
Beginning Fund Balance	5,870,091	5,813,131	0	0	0	0
Interest - City Invest Pool	150,000	64,000	0	0	0	0
Loans - Interest Earned	9,247	9,247	0	0	0	0
Loans - Principal Collection	9,247	9,247	0	0	0	0
<b>Total Fund Resources</b>	<b>6,038,585</b>	<b>5,895,625</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Requirements</b>						
<b>Project Expenditures (does not include Personal Services or Indirect Cost)</b>						
<b>Development</b>						
11004 - AW Cascade Station	615,000	190,000	0	0	0	0
11014 - AW Land Acquisition & Dev	745,000	750,000	0	0	0	0
11015 - AW Subdistrict B Pre-Dev	0	25,000	0	0	0	0
11019 - AW Community Outreach	2,000	2,000	0	0	0	0
<b>Development Total</b>	<b>1,362,000</b>	<b>967,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Economic Development</b>						
70014 - AW Business Finance	2,498,000	2,500,000	0	0	0	0
70229 - AW Business Retention	203,257	203,000	0	0	0	0
<b>Economic Development Total</b>	<b>2,701,257</b>	<b>2,703,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Central Services</b>						
59157 - AW Debt Management	0	3,000	0	0	0	0
<b>Central Services Total</b>	<b>0</b>	<b>3,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Finance</b>						
57157 - AW Debt Mgmt & Finance	16,814	0	0	0	0	0
<b>Finance Total</b>	<b>16,814</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Project Expenditures</b>	<b>4,080,071</b>	<b>3,673,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Indirect Cost	1,056,640	1,050,202	0	0	0	0
<b>Total Fund Expenditures</b>	<b>5,136,711</b>	<b>4,723,202</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Contingency	901,874	1,172,423	0	0	0	0
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>6,038,585</b>	<b>5,895,625</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>