

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: May 28, 2008`

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-71
Disposition and Development Agreement with StarTerra, LLC for Blocks 47 and 49 in the Oregon Convention Center Urban Renewal Area

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6594

ACTION SUMMARY

The Portland Development Commission (PDC) has been negotiating exclusively with StarTerra, LLC (Developer) for the disposition and redevelopment of PDC-owned property located at Blocks 47 and 49 in the Oregon Convention Center Urban Renewal Area (OCC URA) since November 2005. StarTerra, LLC controls a large parcel of property between the two PDC parcels (Attachment B), and it has proposed a mixed-use redevelopment of the entire assemblage. The property is located directly north of the Oregon Convention Center.

The Developer plans to build a two-phase, large-scale, mixed-use development. Phase I, Block 49, will be a 350,000 gross square foot office tower with 450 parking stalls and limited ground floor retail. The Phase I design received approval from the Portland Design Commission in December 2007. Phase I is scheduled to close no later than December 2009.

The Developer continues to refine the program for Phase II, a portion of which includes Block 47. The conceptual program includes 200-400 residential units, 100,000-300,000 square feet (sf) of retail with a portion focused on entertainment venues and a structured parking garage. Project complexity and market forces continue to influence the programming for the site, but the Disposition and Development Agreement (DDA) will stipulate a refined and updated Scope of Development and financial feasibility to be demonstrated prior to closing on Block 47. Currently, Phase II is scheduled to close no later than June 2014. See Attachment C for a project schedule.

On April 23, 2008, staff briefed the PDC Board of Commissioners (Board) about the DDA deal points and structure. Approval of the DDA is required by the Board. Approval of this DDA will clear the way for the developers to market the development for tenants and financing.

PUBLIC BENEFIT

Fulfillment of this DDA will provide the following public benefits:

- Development of long-vacant and underutilized parcels adjacent to the Oregon Convention Center
- Additional pedestrian and commercial activity in the area, and with the completion of Phase II, additional visitor, tourist amenities and entertainment venues
- Increased transit ridership on the adjacent MAX and bus lines
- Opportunities for jobs in Phase I: approximately 300,000 sq. ft. of commercial space and Phase II: 100,000-300,000 sq. ft. of retail
- Opportunities for housing in Phase II: at least 200 units of housing
- Substantially increased tax revenue; roughly estimated at \$28 million over first 10 years.
- Compliance with PDC's Green Building and Business Equity policies

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 Developer has presented the development concept to multiple stakeholder groups. All have been supportive of the redevelopment of the site, and the design of the Phase I office tower.

June 2007	Lloyd District Community Association Board
June 2007	Lloyd District Transportation Management Association Board
August 2007	Lloyd District Community Association
September 2007	Oregon Convention Center Urban Renewal Advisory Committee

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The redevelopment of Blocks 47 and Block 49 supports the following goals:

1. Oregon Convention Center Urban Renewal Plan (1989)
 - *“Goal 3 - Create opportunities within the area for businesses to expand and service the convention trade.”*
 - *“Goal 5 - Upgrade the setting and environment of the area to reflect the best of Portland to visitors; encouraging extended convention stays, return visits and business recruitment to Oregon.”*
2. OCC Blocks Development Plan (2006)

The OCC Blocks Plan is an action plan for the sixteen blocks adjacent to the Oregon Convention Center – including Blocks 47 & 49 adopted by the PDC Board on May 10,

2006. The Plan addresses the significant development potential of these critical blocks adjacent to the OCC and anticipated Convention Center Headquarters Hotel. The OCC Blocks Plan emphasizes implementation of specific development components that integrate the area as part of the Central City and represent the attributes and values of the people who live and conduct business in the region.

Block 49 was identified in the Plan as a catalytic mixed-use building with ground floor commercial. In general, the Plan envisions a broad mix of uses, with a portion of the uses focused on entertainment, and with housing as a viable use on the upper floors throughout the study area.

3. Lloyd District Housing Strategy (2002)

Goal 2: Housing Affordability

Increase the range of affordability of housing in the District, prioritizing housing opportunities to meet demand not currently serviced by existing housing options.

Goal 4: Job and Housing Balance

Encourage housing development supportive of job growth and increase the balance of housing units available to employees

4. PDC Strategic Plan Key Actions (2007)

- *Revitalize blighted areas through strategic partnerships and property acquisitions (Strategy 1).*

One of PDC's core missions is to facilitate the redevelopment of under-utilized or contaminated land. This is accomplished by removing barriers and facilitating partnerships. The redevelopment partnership between the Developer and PDC provides an opportunity to redevelop vacant and underutilized property at a key location.

- *Invest to grow Portland's future revenue base (Strategy 4).*

Improved property values and the development of other taxable assets results in revenues that support Portland's educational, health, safety, social and recreational services. This redevelopment proposal will replace vacant and underutilized property with greater, denser development, resulting in a great increase in taxable assets.

The Developer will comply with PDC's Green Building Policy and Business Equity and Workforce Equity Programs. The Developer has also agreed to make a good faith effort to hire and procure from the local community for services and contracting opportunities.

FINANCIAL IMPACT

PDC will have no out of pocket expenses except for \$300,000 to move power lines off the site. The developer has asked for subsidy from PDC. However the only substantial resource available in this urban renewal area is the land value of Blocks 47 and 49 (see Attachment A URA Financial Summary). PDC proposes to finance the land at appraised value (November 14, 2007 fair market appraisal by PGP Valuation Inc.: Block 47 - \$1.475M, Block 49 - \$3.2M), with loan forgiveness available if construction of Phase II begins, financial need is proven and performance measures are met within ten years of the close of Block 49. These performance measures, described in Attachment E, are financial

incentives for the provision of public benefits such as PDC's target industries, workforce housing, local retail, public art, and increased bicycle parking. The use of performance measures to forgive the loan is innovative for PDC and staff considers this DDA a pilot project for this kind of financial structure.

The total value of Phases I and II is estimated at approximately \$500,000,000. Were PDC to forgive the entire value of the loan, its contribution to the entire project would be approximately 1%.

RISK ASSESSMENT

PDC entered into exclusive negotiations with the Developer in 2005, because Developer has holdings adjacent to that owned by PDC and based on a single phase development proposal encompassing the entire PDC and Developer assemblage. Last year, the Developer determined that the original concept was no longer feasible and asked that the project be broken into two phases, Phase I (involving Block 49) and Phase II (involving Block 47). This proposal creates a risk to PDC that Phase II may never be developed. In such event, PDC would retain its ownership of the Block 47 parcel.

To mitigate this risk, the DDA proposes that PDC retain a first right of opportunity on the Developer's Phase II holdings so that it may acquire the property and proceed with Phase II development in the event the Developer cannot. The first right of opportunity is terminated when the Developer begins construction on Phase II. Although PDC will have a right of first opportunity on the Developer's Phase II holdings (if and when Developer closes on its purchase of those properties), PDC may not have funds available in the OCC URA to purchase the holdings under the offered terms, and may not be able to identify a suitable Developer to which to assign the purchase rights. Furthermore, even if PDC did have funds or a suitable Developer available, the right of first opportunity will not give PDC the power to force the sale of the holdings to PDC or its assignee. Instead, the Developer could simply hold the properties indefinitely.

To further mitigate the risk that the Phase II will not be developed PDC has provided a financial incentive for the Developer to complete the Phase II (See Attachment E) in the form of loan forgiveness when performance measures are met for either Phase I or Phase II. Loan forgiveness is not available if Phase II doesn't commence (via closing on Block 47) within five years of the close of Block 49.

Because of the complexity of development and the amount of equity required to get both phases off the ground, the Developer has asked for a deviation to standard DDA language in two significant areas. The first regards one of the requirements of closing on PDC parcels 47 and 49). Usually, PDC requires that *all* building permits be issued prior to property closing. However, because the Developer wishes to move as quickly as possible from design to construction he has asked that one of PDC's condition to close be changed to such time as permits for excavation and foundation have been issued and construction drawings are at least 50%, or greater if required by the construction lender. PDC is comfortable with this request because it is unlikely that the Developer will cease construction once foundations have been poured and because the construction lender will require that construction drawings be significantly completed before closing its loan. This proposed language can be found in DDA Sections 1.6.1 (a) (1) and 1.7.1(a) (1).

The second area concerns the DDA assignment provisions. PDC's DDAs usually restrict or greatly limit the terms of assignment of interest in the DDA from the Developer to another party, usually requiring the Developer to retain a controlling interest (from a financial and management standpoint) in the development project or the Board must amend the DDA if there is a change in such interest. However, this project's size and complexity will require outside development and/or financial partners for completion and the Developer wants as much flexibility as possible to attract these partners and would like to get approval from PDC as soon as possible. Moreover, these partners may wish to obtain a larger ownership or controlling interest in Phase II than the Developer. Therefore, the Developer has requested that, under certain circumstances, it be able to assign the DDA interest to another party with the written consent of the Executive Director rather than return to the Board. This proposed language can be found in Section 5.1 and 5.2. PDC believes that the participation of a third party in the development of Phases I or II may be helpful in seeing that the project is completed within the DDA schedule and is therefore comfortable with this proposal.

The Schedule of Performance for Phase I requires that the Block 49 property transaction close by December 31, 2009. Any extensions to this schedule would require a return to the PDC Board for approval. The Developer has until September 2014 to close on Block 47. However, because the Phase II Scope of Develop is only conceptual at this point, the Developer must return to the PDC Board for approval of an updated Scope of Development prior to Block 47 closing.

WORK LOAD IMPACT

All work done on this DDA will be performed by PDC staff. This project is included in the Development Department's Work Plan for this and subsequent fiscal years. This is a major project which will impact staff's ability to work on other URA and department projects.

ALTERNATIVE ACTIONS

PDC entered into exclusive negotiations with the developer for the redevelopment of the entire 4-acre assemblage. In exchange for this exclusive right, PDC has required oversight of both phases I and II, including development on property that is exclusively in private ownership.

If PDC does not approve this DDA, PDC could dispose of Block 49 by public solicitation. It could do the same for Block 47, or it could partner with the Developer for development of Block 47 at a later date. There is a downside to this action, which is that development of Phase I would be delayed. Additionally, the Developer has spent considerable money completing the design on the Phase I building. This was done at the Developer's risk; however, the Developer could feel he had proceeded in good faith and negotiated a DDA that the PDC Board would approve.

CONCURRENCE

PDC and Portland Office of Transportation have discussed the need for local streets to be included in Phase II. The Developer is interested in the City agreeing to use its power of eminent domain to bring one of its existing lessees to the table to negotiate a buy-out in

order to construct a local street. PDC wishes to leave these discussions between the Developer and the Office of Transportation.

The Investment Committee (IC) has considered this disposition deal terms several times over the last few years, including exclusive negotiations. The latest IC approval occurred on February 21, 2008.

The Loan Committee considered the terms of the Note for the Blocks 47 and 49 on April 17, 2008 and approved these terms, provided that the applicant provides, prior to closing of both Blocks 47 and 49, a more complete financial submittal, including updated pro forma and construction costs, final equity contribution, a commitment from a senior lender, and evidence of substantial lease-up.

Additionally, the Loan Committee believes that Phase I is aggressive, given the current leasing and lending climate. However, the DDA offers the Developer until December 31, 2009 to close on Phase I to mitigate this risk.

This project has been discussed at several Oregon Convention Center URA Team meetings and project staff has specifically discussed performance measures with Economic Development and Housing staff.

BACKGROUND

History and Context

In 1991, PDC purchased two properties directly north of the Oregon Convention Center: all of Block 49 and a 13,500 sf portion of Block 47 for \$1,718,895. The acquisition was the first step in gaining site control of several blocks for a Convention Center Headquarters Hotel. The City's vision for the hotel on the site was to help fulfill policies and objectives in the Comprehensive Plan, Economic Development Policy, Central City Plan and the Oregon Convention Center Urban Renewal Area Plan.

Upon the collapse of discussions for the remaining privately owned parcels that would have made up the Headquarters Hotel site, PDC sought alternative uses for the properties in its ownership. In 1999, PDC entered into a DDA with the Metropolitan Exposition and Recreation Committee (MERC) that contemplated the construction of a structured parking lot to support the Convention Center Expansion. This DDA eventually expired and no action occurred on the site. In the absence of imminent development for Block 47, PDC commissioned landscaping for the site in 2001 to improve its aesthetics.

In 2005, StarTerra, LLC secured an option from a private party to purchase a 2.7 acres site at 300 NE Multnomah (See Attachment A). It then entered into a purchase agreement for the property with that party. Currently, under a purchase and sale agreement, the Developer has paid \$4.46M toward the land (approximately 42% of the total purchase price) and has an agreement to complete the purchase in January 2009. The date to close on the purchase and sale agreement has been extended twice, with significant additional funds placed at risk. The current agreement includes ongoing monthly payments that apply to the purchase price. In late 2005, the Developer proposed exclusive negotiations with PDC to develop the PDC property together with its adjacent site as a large-scale mixed-use development. Since that time, the

Developer has gained control of another parcel adjacent to its holding. The Developer owns all the land between NE Multnomah and NE Holladay streets, NE 2nd and NE MLK Jr. Blvd. except for PDC's Block 47 and Burgerville's site.

The PDC Investment Committee authorized exclusive negotiations with the Developer because the Developer's site is adjacent to PDC property, and the Developer proposed an aggressive redevelopment plan that met several urban renewal objectives. The redevelopment of this site, next to the Oregon Convention Center and close to the proposed Headquarters Hotel site, represents tremendous catalytic potential, which could bring employment, entertainment, and housing to this underutilized and visible assemblage of land. In June 2006, PDC and the Developer signed a Memorandum of Understandings (MOU), which served as a guiding document for concept development and performance obligations. While the MOU expired on March 31, 2008, both parties have committed to work toward the completion of a DDA for the properties.

ATTACHMENTS:

- A. OCC URA Financial Summary
- B. Project Summary
- C. Gantt Chart
- D. Financial Terms
- E. Loan Timeline
- F. DDA Attachment K-1, Performance Measures
- G. Oregonian Article
- H. Phase I Photo Simulation

CC: L. Bowers, Interim Development Department Director
S. King, Development Manager
D. Elott, Interim General Counsel
J. Jackley, Executive Operations Manager

**ATTACHMENT A
 URA FINANCIAL SUMMARY**

Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>FY 2008-09 Proposed</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
Convention Center URA						
Resources						
Beginning Fund Balance	8,500,611	545,535	500,121	37,230	14,030	3,784
Budgeted Transfers	600,000	1,242,259	0	0	0	0
Interest - City Invest Pool	62,213	25,000	10,000	10,000	10,000	10,000
Loans - Interest Earned	20,957	97,616	97,616	97,616	94,151	89,666
Loans - Principal Collection	53,206	97,616	97,616	97,616	94,151	89,666
Real Property Sales	1,800,000	2,900,000	2,500,000	0	0	0
Reimbursement	70,000	70,000	0	0	0	0
Rent and Property Income	101,986	130,000	0	0	0	0
Tax Increment - L-T Debt	5,604,198	7,149,842	4,230,277	5,484,509	2,627,369	1,471,526
Tax Increment - S-T Debt	1,615,774	2,711,525	1,974,545	255,430	863	0
Total Fund Resources	18,228,945	14,969,393	9,410,175	5,982,401	2,840,564	1,664,642

Requirements

Project Expenditures (does not include Personal Services or Indirect Cost)

Development

16212 - OCC Community Outreach	20,000	20,000	20,000	20,000	20,000	10,000
16217 - Lloyd Area Planning	20,000	0	0	0	0	0
16230 - Lloyd Trans Improve/Streetcar	150,000	0	0	0	0	0
16231 - OCC Streetcar Construction	1,500,000	1,750,000	1,000,000	0	0	0
16237 - HQ Hotel	200,000	4,100,000	0	0	0	0
16241 - OCCURA DOS Program	153,450	125,000	125,000	125,000	125,000	125,000
25525 - MLK Jr Blvd Improvements	550,000	50,000	0	0	0	0
25533 - Vanport Redevelopment	330,000	0	0	0	0	0
25535 - 3934 NE MLK Renovation	453,103	0	0	0	0	0
25536 - 3510 NE MLK Fremont Redev	237,117	0	0	0	0	0
25537 - MLK Jr Blvd Gateway Imprvmnts	100,000	150,000	500,000	0	0	0
25605 - MLK Jr Blvd Commercial SiteDev	50,000	5,000	0	0	0	0
25606 - Lloyd Commercial Develop	40,000	20,000	10,000	0	0	0
25607 - MLK Jr Blvd Action Pln Implmnt	20,000	10,000	10,000	10,000	10,000	10,000
25608 - OCC Redevelopment Loan Progra	942,668	700,000	2,000,000	1,000,000	0	0
25610 - Bee Car Rental Redevelopment	7,000	7,000	0	0	0	0
25611 - OCC Blk 47/49 Redevel	0	300,000	0	0	0	0
Development Total	4,773,338	7,237,000	3,665,000	1,155,000	155,000	145,000

Economic Development

25521 - OCC Storefront Grants	438,482	250,000	250,000	250,000	250,000	250,000
70016 - OCC Business Finance	2,300,000	1,000,000	1,000,000	500,000	250,000	250,000
70241 - OCC Business Retention	117,298	100,000	100,000	100,000	50,000	50,000
70268 - OCC Business Development	500,000	0	0	0	0	0
70551 - OCC Community Ec Dev	0	500,000	500,000	500,000	500,000	500,000
70751 - OCC Target Industry Devel	0	100,000	100,000	100,000	100,000	100,000
Economic Development Total	3,355,780	1,950,000	1,950,000	1,450,000	1,150,000	1,150,000

Housing

19032 - Piedmont Place/Affordable Hsg	1,593,050	350,000	0	0	0	0
25203 - North OCC Housing	11,677	0	0	0	0	0
37921 - Lloyd Hs Policy/Planning	10,000	5,000	0	0	0	0
80002 - MFH - 2nd and Wasco	1,800	0	0	0	0	0
80003 - Lloyd Cascadian Phase II	1,100	0	0	0	0	0
80006 - MFH Lloyd Opportunities	176,960	0	0	0	0	0
80007 - OCC Affordable Rental Housing	1,039,023	0	0	2,000,000	900,000	0
80010 - Fremont Housing	140,000	0	0	0	0	0
80026 - Grant Warehouse/Affordable Hsg	2,100,000	0	0	0	0	0
80029 - Affordable Homeownership	950,000	0	0	0	0	0

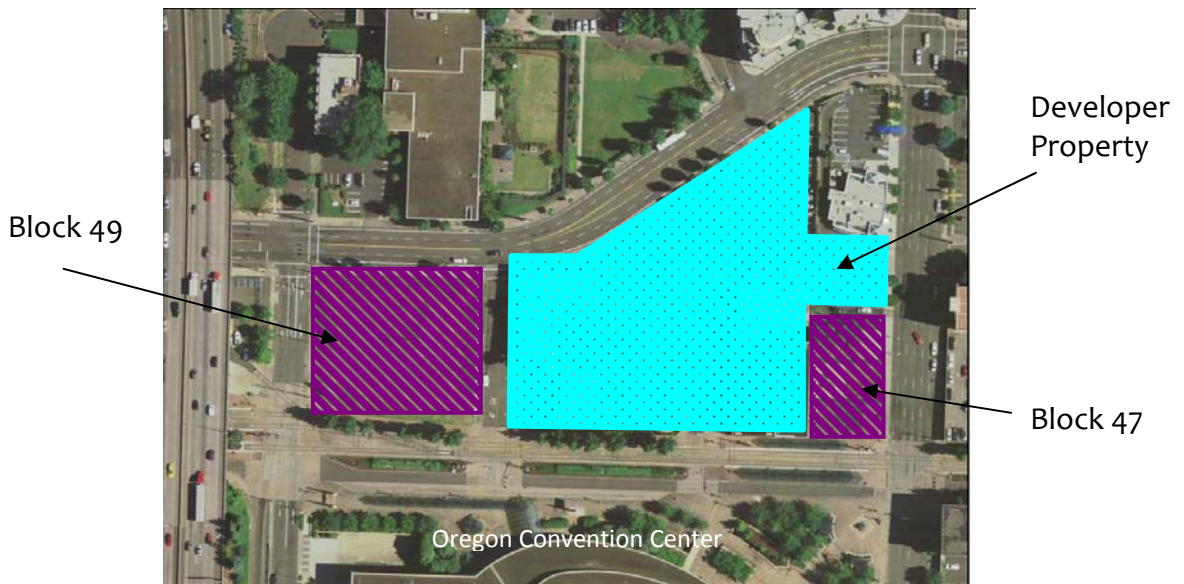
Financial Summary

Fund Summary - Five-Year Budget Projections

	<i>Revised FY 2007-08</i>	<i>FY 2008-09 Proposed</i>	<i>FY 2009-10 Forecast</i>	<i>FY 2010-11 Forecast</i>	<i>FY 2011-12 Forecast</i>	<i>FY 2012-13 Forecast</i>
Convention Center URA						
80042 - Miracles Club	0	1,500,000	1,600,000	0	0	0
Housing Total	6,023,410	1,855,000	1,600,000	2,000,000	900,000	0
Central Services						
59163 - OCC Debt Management	23,540	24,717	25,953	27,250	28,613	30,044
Central Services Total	23,540	24,717	25,953	27,250	28,613	30,044
Executive						
60039 - OCC Eastside/Central City Plan	0	100,000	0	0	0	0
Executive Total	0	100,000	0	0	0	0
Total Project Expenditures	14,176,068	11,166,717	7,240,953	4,632,250	2,233,613	1,325,044
Indirect Cost	3,507,342	3,302,555	2,131,992	1,336,121	603,167	339,170
Total Fund Expenditures	17,683,410	14,469,272	9,372,945	5,968,371	2,836,780	1,664,214
Contingency	545,535	500,121	37,230	14,030	3,784	428
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	18,228,945	14,969,393	9,410,175	5,982,401	2,840,564	1,664,642

ATTACHMENT B PROJECT SUMMARY

- Project Name:** Block 47/49
- Description:** The Developer plans to build a two-phase, large-scale, mixed-use development. Phase I, Block 49, will be a 350,000 gross square foot office tower with 450 parking stalls and limited ground floor retail. Phase II, which includes Block 47, is proposed to include housing, retail, underground parking, office and a small hotel.
- Location:** Blocks 47 and 49, directly north of the Oregon Convention Center.
- URA:** Oregon Convention Center
- Current Phase:** Phase I is proposed to be a speculative office tower and construction is estimated to begin January 2010.
- Next Milestone:** DDA signing
- Completion Target:** Block 49 (Phase I) closing proposed by December 2009; Block 47 (Phase II) closing proposed by September 2014.
- Outcome:** Substantial redevelopment of vacant and underutilized site in prominent location.
- Site/Project Map:**



ATTACHMENT D
FINANCIAL TERMS

The Developer has requested that PDC finance the land, with deferred payments, to attain project feasibility. Additionally, the Developer requested that PDC consider financial participation by financing the land and forgiving the loan value. Since the program for Phase II is still conceptual, PDC is reluctant to forgive a loan for the value of the land without a concrete program and pro forma. The terms for land financing are outlined below.

Phase I (Block 49)

- 1. Loan Amount:** \$3,600,000.
- 2. Term and Payment Structure:**
 - a. 15-year Loan term commencing at Closing on the Block 49 Parcel with monthly payments based on a 30 year amortization schedule. Any unpaid principal and interest shall be due and payable at the end of year 15.
 - b. Deferred loan payments during the Block 49 Construction Period and Block 49 Stabilization Period. Deferred loan payments will continue until the 10th anniversary of the Closing on the Block 49 Parcel (the “Forgiveness Determination Date”) if, on or prior to the end of the Block 49 Stabilization Period, Developer (i) receives a Certificate of Completion for the Phase I Component from PDC and (ii) Closes on the Block 47 Parcel. Payment deferral is conditioned on no default under the Agreement or with respect to the Loan.
 - Block 49 Construction Period: Commencing at Closing on the Block 49 Parcel and continuing for 24 months (Block 49 Construction Period may be extended up to 12 additional months, in 6 month increments)
 - Block 49 Stabilization Period: Commencing at the end of the Block 49 Construction Period and continuing for 24 months
- 3. Interest Rate:** Zero Percent (0%) during the period in which loan payments are deferred. Three percent (3%) at all other times.
- 4. Forgiveness:** On the Forgiveness Determination Date, PDC shall forgive all or a portion of the Loan principal, as determined in accordance with Exhibit K-2, if (a) no default has occurred under the Agreement or with respect to the Loan and (b) Developer, on or prior to the end of the Block 49 Stabilization Period, (i) received a Certificate of Completion for the Phase I Component from PDC and (ii) Closed on the Block 47 Parcel. Any portion of the Loan not forgiven shall be repaid, with interest, as described above.
- 5. Collateral:** Secured by a subordinate lien on Block 49.

Phase II (Block 47)

- 1. Loan Amount:** \$1,475,000.
- 2. Term and Payment Structure:**
 - a. 15-year Loan term commencing at Closing on the Block 47 Parcel with monthly payments based on a 30 year amortization schedule. Any unpaid principal and interest shall be due and payable at the end of year 15.
 - a. Deferred loan payments during the Block 47 Construction Period and Block 47 Stabilization Period. **[Deferred]** loan payments will continue until the Forgiveness Determination Date if, on or prior to the end of the Block 49 Stabilization Period, Developer (i) receives a Certificate of Completion for the Phase I Component from PDC and (ii) Closes on the Block 47 Parcel. Payment deferral is conditioned on no default under the Agreement or with respect to the Loan.
 - Block 47 Construction Period: Commencing at Closing on the Block 47 Parcel and continuing for 36 months (Block 47 Construction Period may be extended up to 12 additional months, in 6 month increments)
 - Block 47 Stabilization Period: Commencing at the end of the Block 47 Construction Period and continuing for 24 months
- 3. Interest Rate:** Zero Percent (0%) during the period in which loan payments are deferred. Three percent (3%) at all other times.
- 4. Forgiveness:** On the Forgiveness Determination Date, PDC shall forgive all or a portion of the Loan principal, as determined in accordance with Exhibit K-2, if (a) no default has occurred under the Agreement or with respect to the Loan and (b) Developer, on or prior to the end of the Block 49 Stabilization Period, (i) received a Certificate of Completion for the Phase I Component from PDC and (ii) Closed on the Block 47 Parcel. Any portion of the Loan not forgiven shall be repaid, with interest, as described above.
- 5. Collateral:** Secured by a subordinate lien on Block 47.

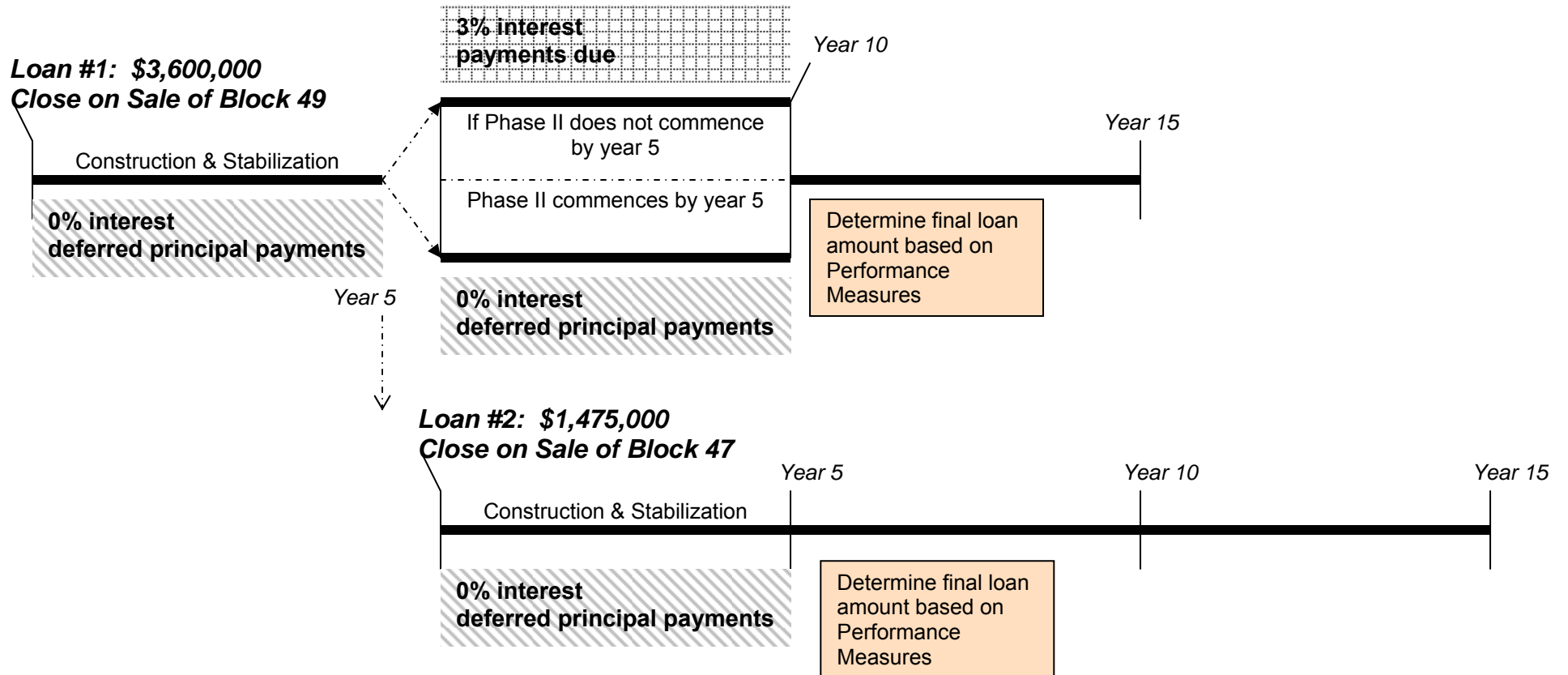
To provide financial assistance as well as to enhance the likelihood that Phase II will be constructed, staff developed and evaluated a series of Performance Measures that require the inclusion of public benefits and achievement of PDC goals as a means for forgiving the loan (Attachment F). Staff identified Performance Measures as a unique tool to stimulate development using available resources in the URA (land). Performance Measures require a desired outcome on a completed Phase II be achieved before the loan for the PDC land will be forgiven. Since the Phase II program of this project is yet to be finalized, the Developer has the opportunity to incorporate these measures in project design and tenant recruitment. In the event Phase II begins construction and the Developer provides a Phase II pro forma demonstrating a lack of financial feasibility acceptable to PDC within established return parameters for, PDC

would use these Performance Measures to determine the value of any loan forgiveness for Phase I (Block 49) land. Additionally, if a sufficient number of Performance Measures are met, forgiveness may be applied to the loan for the Phase II (Block 47) land. Performance Measures may apply to components in Phase I and/or Phase II as specified in Attachment F.

The total amount forgiven may exceed the cost of the land for Block 49, in which case, the loan (or a portion of) for Block 47 would be forgiven. Forgiveness will be determined upon the 10th anniversary of the closing of the Block 49 parcel. Based on performance, the Developer may qualify for loan forgiveness of up to a total of \$5.075M (not to exceed the total fair market appraised value of PDC land, appraised November 2007). Loan forgiveness will not be given for some Performance Measures in the event City zoning bonus is received for those same measures. Program components may qualify for only one performance measure. Some or all performance measures may be met. The proposed Performance Measures identify the Department Directors to settle any disputes regarding the satisfaction of the intent for deductions.

ATTACHMENT E

LOAN TIMELINE



ATTACHMENT F
EXHIBIT K-1 TO DDA

LOAN FORGIVENESS PERFORMANCE MEASURES

Repayment of the PDC loans for the purchase of Block 47 and Block 49 will be forgiven, in whole or in part, based on Developer’s satisfaction of one or more of the following Performance Measures on or before the Forgiveness Determination Date. No loan forgiveness will be provided for satisfaction of a Performance Measure for which a City zoning bonus is received. A particular use may qualify for only one performance measure. Some or all Performance Measures may be met. The appropriate PDC Departmental Director shall make the final determination on the satisfaction of a Performance Measure in the event of a dispute. Any forgiveness will be applied first to the Block 49 loan until that loan has been entirely forgiven and then to the Block 47 loan.

Prerequisite: No loan forgiveness will be provided unless Developer provides PDC with a pro forma demonstrating a lack of financial feasibility for the Phase II Component, as verified by PDC analysis and consistent with PDC’s customary return parameters.

	Objective	Goal	Value	Calculation	Maximum Loan Forgiveness	Phase	Monitoring Notes
1	Recruit and lease to regional or independent retailers	10% retail mix = locally owned, non-franchise	\$20 per square foot of tenant space	If 10% target is met, then 20 x SF = up to maximum	\$425,000	Phase I or Phase II	Seven year lease required
2	Reduce parking	<ul style="list-style-type: none"> ▪ Reduced employee and resident structured parking (at least 100 spaces below code) for both Phase I and Phase II ▪ Encourage all tenants to join the Lloyd Transportation Management Association 	\$ 2,500 per eliminated space	If number of stalls for Phase I and Phase II = code allowance – 100, then \$2500 for each stall under code allowance will be credited.	\$500,000	Phase I and Phase II	Phase I & II, taken together.

3	Tenants represent target industry clusters	Tenant with employers representing the PDC's Economic Development target industries	\$28/SF	28 x SF of rentable space leased to tenants in target industries	\$3,500,000	Phase I or Phase II	Targets include: High Tech, Sustainable, Creative Design and Metals Businesses themselves may qualify for PDC's assistance programs.
4	Demonstrate Northwest/Cascadian Experience theme	Recruit retail tenants that support outdoor recreation, healthy and active lifestyles, and fitness; Recruit tenants that showcase the products and industries of the Pacific Northwest	\$20 per square foot of tenant space	20 x SF = up to maximum	\$2,000,000	Phase I or Phase II	Seven year lease required
5	Provide housing units	10% of total housing units in Project at maximum 120% MFI		Based on pro forma demonstrating financial need	\$2,000,000	Phase II	Minimum 20 units; 10 year affordability period for rental. This forgiveness credit would be issued in lieu of a direct loan. For ownership or rental housing.
6	Provide affordable housing units	10% of total housing units in Project at 60%-100% MFI		Based on pro forma demonstrating financial need	\$3,000,000		Minimum 20 units; 60-year affordability period This forgiveness credit would be issued in lieu of a direct loan. For ownership or rental housing.

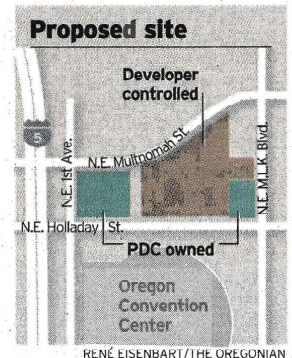
7	Visitor/tourist oriented	<ul style="list-style-type: none"> ▪ Hotel of \leq 200 rooms <hr/> <ul style="list-style-type: none"> ▪ Restaurant serving at least two meals daily (i.e. lunch/dinner) ▪ Full-service spa ▪ Museum ▪ Entertainment venue ▪ Food/wine market ▪ Wine bar or brew pub ▪ Retail ▪ Visitor Center 	<p>Hotel \$1000/room</p> <hr/> <p>\$20/ per square foot of tenant space</p>	<p>1000 x number of rooms = up to maximum</p> <hr/> <p>20 x SF = up to maximum</p>	<p>\$200,000</p> <hr/> <p>\$2,000,000</p>	Phase I or Phase II	<p>Seven year lease required (except hotel).</p> <p>Uses must be open evenings and/or weekends.</p>
8	Open space	<p>Visible and accessible from Multnomah, MLK or Holladay – on ground plane</p> <p>Minimum of 2500 sf. Includes seating for general public. Open to public between 7 am and 8 pm.</p> <p>Public easement in perpetuity. Privately maintained.</p>	<p>\$109/SF (2007 appraised value of Block 47)</p>	<p>SF open space dedicated by public easement x appraised value</p>	<p>\$300,000</p>	Phase II	<p>Water features may count for open space bonus.</p> <p>Must be beyond code requirements.</p> <p>Must be dedicated by public easement.</p> <p>Should avoid shadows during much of the day.</p>
9	Public art Lloyd District Art Plan and OCC Vision Plan	<p>Use of public art in conformance with plans.</p>	<p>Dollar for dollar match</p>		<p>\$150,000</p>	Phase I or Phase II	<p>Cannot be used with zoning bonus; must meet requirements of Title 33.510.210.C.6 b-f.</p> <p>Must be in RACC ownership and must be</p>

							exterior art.
10	Bike parking	Extra bike storage = %50 beyond code	\$100,000		\$100,000	Phase II	Beyond code and bonus
	TOTAL REDUCTIONS				\$14,175,000		
	MAXIMUM POSSIBLE				\$ 5,075,000		
<p>If the Developer meets every performance measure, they have the opportunity to achieve incentive reductions of \$14,175,000; however, the reduction is capped at the total value of the PDC financing for the land (\$5.075M).</p>							

A livelier doorstep for center



This image shows the 100 Multnomah office building proposed by developers Barry Schlesinger and Wayne Rembold.



A PDC deal promises offices, entertainment for convention area

By DYLAN RIVERA
THE OREGONIAN

The Portland Development Commission is on the cusp of a deal that could transform the Oregon Convention Center's front door into a vibrant entertainment destination, making good on decades of dreams for the area.

The redevelopment agency wants to join with a team of local developers to create a four-acre high-rise entertainment district that would kick off with construction of a 19-story office building later this year.

Called 100 Multnomah, the \$133 million tower would rise next to Interstate 5, with commanding views of downtown Portland.

Following that, developers and the agency see the potential for a \$400 million restaurant- and entertainment-heavy cluster of buildings at the Northeast Martin Luther King Boulevard-Holladay Street intersection, where there is the convention center MAX stop and not much else.

"It is not a good front door to our convention center," said Sara King, project

manager for the PDC.

In uncertain economic times, the developers are hoping to catch what may be the tail end of a downtown-area employment boom that has fueled construction of several office buildings.

Details of a proposed pact between the PDC and the developers came up Wednesday at the PDC board of directors meeting. As early as May 14, the board could vote to finalize a development agreement that would sell public land to the developers in exchange for commitments to build a

dense urban hub and enliven the area.

The redevelopment agency owns about 1.25 acres of land just north of the convention center, on two small parcels. A joint venture of local developers Barry Schlesinger and Wayne Rembold has a contract to buy 2.7 acres between those pieces.

Sensing that they could accomplish more with a unified site, the developers and the PDC have been in talks since 2005 about some sort of joint development.

Please see **CENTER** Page D2

Center: Joining lots makes doing project easier

Continued from Page D1

Putting the parcels together will allow more flexibility in meeting public goals than if the land were developed bit by bit, King said.

"You may be able to put in open space where you couldn't on a smaller site," she said. "You get the right uses in the right space."

Terms of the deal would have the PDC agree to sell its land to StarTerra, a joint venture of the

Rembold and Schlesinger families, for \$5 million, the value listed in a November 2007 appraisal. But the PDC would finance the sale, loaning StarTerra the purchase price, and charging no interest during construction and 3 percent thereafter, King said, "acknowledging that this is a risky and ambitious project at a somewhat challenging time."

The office building makes up the first phase of the project. The entertainment hub along King Boulevard would come in a second phase, with conditions that would force the developer to return to the development commission for approval of second-phase plans.

The PDC also would require the developer to produce at least 200 housing units in the second phase, and it would forgive as much as the entire \$5 million loan if the developer meets a va-

riety of public goals. Those include building open space, less parking than code requires and leasing to tourism-oriented tenants that would boost the convention center.

The downtown-area office market has been red hot in recent years, with two high-rise buildings under construction in the downtown core and a few smaller ones in the Pearl District. The 100 Multnomah building will bring 320,000 square feet of office space, with 450 parking spaces inside the building. With a ratio of 1.4 spaces per 1,000 square feet, it would offer more parking than most downtown buildings, but less than the 2 per 1,000 allowed in the Lloyd District. The builders also plan a bike hub, offering showers and storage for employees that work in the building, and potentially the public.

Michael Holzgang, an office broker with Colliers International, said the 100 Multnomah project will offer views of downtown, proximity to MAX light rail and incomparable visibility for any company that can put its name on the building, which would hover over one of the busiest sections of Interstate 5 in the region.

"The Lloyd District has proven to have a critical mass of some good strong tenants and a high occupancy rate and in the future to continue growing the tenant base, they really need to have some new product," said Holzgang, who is not involved in the project. Brokers with Capacity Commercial Group are representing the developers in talks with potential office tenants.

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ATTACHMENT H
PHASE I PHOTO SIMULATION

