

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: February 10, 2010

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 10-18

Authorize Sale of a Permanent Easement to DP Partners Portland I, LLC, in the Amount of \$279,235, to Accommodate a Parking Lot for LaCrosse Footwear Inc.

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6771

ACTION SUMMARY

This action will authorize the Portland Development Commission's (PDC) Executive Director to sell a Permanent Easement on an approximately 75-foot wide strip of land along the eastern edge of what is currently Lots 1 and 2 (a total of 1.17 acres) in the PDC-owned Riverside Parkway Corporate Center (RPCC) to DP Partners Portland I, LLC (DP Industrial). The purpose of the sale is to allow for the construction of a surface parking lot of approximately 128 parking spaces to facilitate the relocation and expansion of LaCrosse Footwear Inc. (LaCrosse) to the adjacent building, which was built by DP Industrial in 2008. This transaction is conditioned upon the commitment by LaCrosse to lease approximately 60,000 square feet in DP Industrial's building under the terms and conditions described in the proposed Easement, Exhibit "A" to the attached Resolution.

LaCrosse is one of the leading companies in PDC's "Activewear" Industry Cluster which is one of the key elements of the recently-adopted Economic Development Strategy. As such, staff is working to structure this deal to ensure that the company not only stays in Portland, but expands and continues its national and international successes. LaCrosse will utilize the 60,000 square feet to manufacture a variety of footwear products, including boots for our US military troops, work shoes, and a number of shoe lines that are sold internationally. LaCrosse will bring approximately 200 employees to the site and is expected to grow to approximately 250 employees, operating in two shifts, by the end of the year.

PUBLIC BENEFIT

The sale of this easement will help create new development and bring new jobs to the Airport Way Urban Renewal Area (AWURA). DP Industrial and LaCrosse will undertake and complete the tenant improvements to unoccupied shell space in DP Industrial's building located at 18201 NE Portal Way. These improvements, along with a significant investment in new fixtures and equipment, are estimated to cost approximately \$2,000,000. DP

Industrial will also develop the adjacent parking lot, which is estimated to cost approximately \$765,000. These two facilities will be taxable and the property and business taxes will flow to the City of Portland (City), the County, and other taxing jurisdictions. It is anticipated that there will be approximately 250 new and relocated jobs on the site within one year following completion of the improvements.

Finally, because the AWURA has reached its maximum allowed indebtedness, it is unable to sell any additional tax increment bonds for programs and projects. Land sale proceeds from the disposition of PDC-owned property, such as this project, are therefore the only source of income to the district. These proceeds can be re-used in the district in the form of small business loans and grants.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

The Columbia Corridor Association, which has oversight responsibility for the entire Columbia Corridor area (Corridor), previously endorsed PDC's job retention and recruitment efforts in Airport Way as well as our acquisition, planning, development, and marketing of the RPCC Industrial Park. This proposed sale is consistent with their endorsements.

There are no neighborhood associations in the Urban Renewal District nor is there an Urban Renewal Advisory Committee.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

This project is fully consistent with the goals and objectives of the Airport Way Urban Renewal Plan, adopted by the PDC Board of Commissioners (Board) and City Council in 1986 (Ordinance 158500). RPCC was envisioned as a high density industrial project providing high quality jobs to Portland area residents.

More recently, this project is fully consistent with the goals and objectives of the recently-adopted Economic Development Strategy and furthers PDC's objectives to support the expansion of companies that are part of our Activewear Cluster.

FINANCIAL IMPACT

The easement is being sold to DP Industrial at its appraised value of \$5.50 per square foot (the appraised value of the fee simple estate) based on an appraisal by Integra Realty Resources dated July 21, 2009. With an area of approximately 1.17 acres (50,770 square feet), the gross sales proceeds are approximately \$279,235. After deduction of the 5-

percent brokerage fee and closing costs, net revenues to PDC would be approximately \$260,000.

However, in order to help make this project feasible inasmuch as the costs of this transaction will be passed on directly to LaCrosse, DP Industrial has applied for a Deferred Tax Increment Fund Loan to finance an estimated 85% of the land, development, and soft costs. This loan request was approved by PDC's Loan Review Committee on January 26, 2010. This means that approximately 15% of the sales price will be realized at closing, the balance will be realized as the loan is repaid.

RISK ASSESSMENT

One requirement staff has imposed on DP Industrial is that they record a "No Build Public Access Easement" over the parking lot and obtain a building code appeal, which will allow the parking lot to also serve as the code-required building setback. This is important to PDC because it will have the net effect of allowing the parking lot and the required setback to be combined, thereby allowing the same density of development on the balance of Lots 1 and 2 as would be possible without the parking lot. The City has allowed this to occur numerous times; however, final approval requires approval of an appeal of the Zoning Code. This cannot happen until an applicant applies for building permits. The terms of the easement include a provision whereby the easement can be converted to a fee interest in the future if and when the lot lines on Lots 1 and 2 are adjusted and the easement area matches a newly created lot.

The development consultants, Group Mackenzie, are confident that this will be processed as usual, but, in the unlikely event that it is not approved, the project could be delayed or cancelled.

Other than this possibility, there is very little risk associated with this transaction. Group Mackenzie has completed the design and received the necessary assurances from the City that it is permit-ready. The estimated costs for the construction of the parking lot came from the construction contractor, Perlo McCormack, based on pricing by their subcontractors. And the proposed loan by PDC to DP Industrial will be secured by a first trust deed on the parking lot as well as a guarantee from the parent company, Dermody Properties, LLC, with significant assets in Utah and other states.

WORK LOAD IMPACT

There is nominal impact on PDC's workload. PDC outside legal staff worked with DP Industrial's attorney to prepare the easements and other documents, and a PDC Loan Closer will handle all escrow matters.

ALTERNATIVE ACTIONS

The Board could elect to not authorize the sale of this easement or to modify its terms and conditions. If different terms and conditions were to be desired by the Board, staff would attempt to renegotiate those terms with DP Industrial and LaCrosse and return to the Board accordingly.

CONCURRENCE

This proposed action is in furtherance of the development of RPCC, which has received wide support from PDC's public and private partners including the Port of Portland, TriMet, and the Columbia Corridor Association.

PDC's Investment Committee recommended that the Executive Director forward this action to PDC Commissioners on January 12, 2010. It is supported by the Urban Development Department and the Airport Way Internal Team. It is also noted that this complex project demonstrates a high degree of collaboration between numerous sections in PDC, including Business Finance, Real Estate, Business & Industry, and our Economic Development Activewear Cluster Team.

BACKGROUND

In 2000, in an effort to spur new development with high density employment and quality jobs, PDC sought to acquire land in the Airport Way area that could be reserved for users that met PDC's jobs goals and objectives. This initiative was intended to make sure that high quality users still had opportunities to locate in the Corridor as opposed to being forced to locations outside of the city for lack of available sites. PDC also targeted Quality Jobs Program resources to qualifying parties as a further incentive to attract them to this area.

In April 2001, PDC and the Panattoni Development Company (Panattoni) entered into an Option to Purchase Agreement for the property now called RPCC. The terms of the option agreement provided that 1) Panattoni would assign an option for a portion of what is now the RPCC property to PDC, 2) PDC would acquire the entire site, 3) PDC would retain Panattoni to design and build the necessary infrastructure, and 4) Panattoni would be granted an option to purchase parcels back to be made available to companies meeting PDC's Quality Jobs criterion.

PDC acquired the property in January 2002 and Panattoni commenced building the streets and infrastructure immediately thereafter. Panattoni marketed the property through a local real estate company, and late in 2002 sold the first lot to the Portland Hospital Services Corporation, which completed its new facility in 2003.

In May 2005, PDC authorized execution of a contract with the Grubb & Ellis Company to provide brokerage services to PDC. Since then, they have been leading the marketing of the property.

In August 2006, Grubb & Ellis brought to staff an offer by DP Industrial to purchase the entire 33 acres of PDC-owned property at RPCC. Headquartered in Reno, Nevada, DP Industrial is a private developer with an established portfolio of 18,000,000 square feet of industrial space throughout the country, with projects focused in California, Nevada, Indiana, Pennsylvania, and Georgia. On June 27, 2007, DP Industrial closed on the acquisition of Lots 3, 4, and 5 at Riverside Parkway and built their 265,000 square foot facility, named Logisticourt. This building is currently approximately 60% leased. The LaCrosse deal will bring that to 83%.

In September 2009, PDC closed on another sale to Morgan Distributing, LLC (Morgan). DP Industrial is currently constructing Morgan's 105,000 square foot facility with an opening scheduled for June 2010.

ATTACHMENTS:

- A. URA Financial Summary
- B. Project Summary
- C. Proposed Parking Lot Layout

URA FINANCIAL SUMMARY

Financial Summary

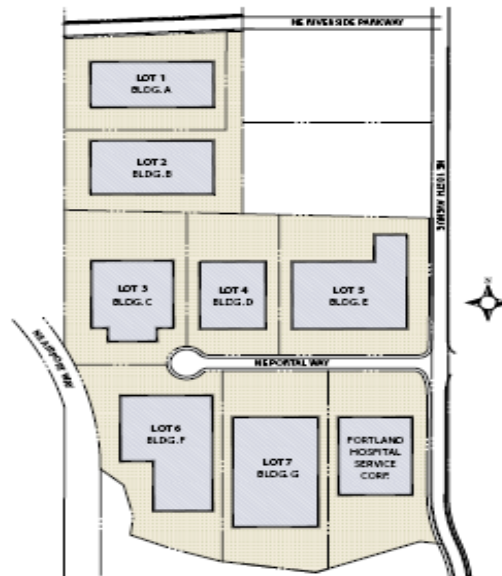
Fund Summary - Five-Year Budget Projections

	Revised FY 2008-09	Revised FY 2009-10	Forecast FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14
<u>Airport Way URA</u>						
Resources						
Beginning Fund Balance	4,929,607	4,010,482	6,606,604	6,987,146	5,664,512	7,337,670
Interest on Investments	100,000	70,000	70,000	50,000	40,000	40,000
Loan Collections	33,912	33,912	33,912	26,934	26,934	26,934
Property Income	3,000,000	5,400,000	2,000,000	0	3,000,000	0
Reimbursements	5,000	5,000	5,000	5,000	5,000	5,000
Total Resources	8,068,519	9,519,394	8,715,516	7,069,080	8,736,446	7,409,604
Requirements						
Program Expenditures						
Business and Industry						
General Business Assistance						
H11015 Subdistrict B Pre-Development	25,000	0	0	0	0	0
H79020 Business Finance	20,000	20,000	20,000	20,000	20,000	20,000
Target Industries						
H11014 Riverside Pkwy Indstrl Park Dev	85,000	250,000	250,000	0	0	0
H79020 Business Finance	800,000	800,000	800,000	800,000	800,000	800,000
H79022 Business Retention	20,000	75,000	75,000	75,000	75,000	75,000
Business and Industry Total	950,000	1,145,000	1,145,000	895,000	895,000	895,000
Revitalization						
Community Outreach - Revitalization						
H11601 Community Outreach	2,000	2,000	2,000	2,000	2,000	2,000
Redevelopment						
H11004 Cascade Station	175,000	316,500	290,000	270,000	265,000	200,000
Revitalization Total	177,000	318,500	292,000	272,000	267,000	202,000
Administration						
Finance						
H98001 Debt Management	3,000	3,150	3,308	3,473	3,647	3,647
Administration Total	3,000	3,150	3,308	3,473	3,647	3,647
Total Program Expenditures	1,130,000	1,466,650	1,440,308	1,170,473	1,165,647	1,100,647
Personal Services	199,486	146,469	97,941	79,592	79,263	74,843
Internal Expenditures	733,177	315,012	190,120	154,502	153,865	145,285
Total Fund Expenditures	2,062,663	1,928,131	1,728,369	1,404,567	1,398,775	1,320,775
Contingency	6,005,856	7,591,263	6,987,146	5,664,512	7,337,670	6,088,828
Ending Fund Balance	0	0	1	1	1	1
Total Requirements	8,068,519	9,519,394	8,715,516	7,069,080	8,736,446	7,409,604

PROJECT SUMMARY

- Project Name:** Sale of Easement at Riverside Parkway Corporate Center for a Parking Lot for LaCrosse Footwear Inc.
- Description:** 128-space parking lot, including lighting and landscaping, on a 1.17 acre strip of land over the eastern edge of Lots 1 & 2 in the PDC-owned Riverside Parkway Corporate Center (RPCC) in the Airport Way URA
- Location:** Southwest corner of NE Riverside Parkway and NE 185th Avenue
- URA:** Airport Way
- Current Phase:** Sale of Easement
- Next Milestone:** Finalize design, obtain permits, and commence construction
- Completion Target:** July 2010
- Outcome:** Relocation and expansion of LaCrosse Footwear’s facilities in the Logisticourt Building in RPCC

Riverside Parkway Corporate Center CONCEPTUAL BUILDING AND SITE PLANS



Lot #	Building Options	Site Area	Building Area	% Coverage
Lot 1	Building A	4.0 Acres	64,000 SF	37.0%
Lot 2	Building B	4.2 Acres	75,000 SF	41.0%
Lot 3	Building C	4.8 Acres	70,000 SF	33.5%
Lot 4	Building D	3.4 Acres	50,000 SF	33.5%
Lot 5	Building E	5.4 Acres	97,500 SF	41.4%
Lot 6	Building F	5.38 Acres	135,200 SF	57.7%
Lot 7	Building G	5.38 Acres	102,000 SF	45.5%
Portland Hospital (completed)		4.72 Acres	65,250 SF	33.0%

Flexible building and site areas.

PROPOSED PARKING LOT LAYOUT

