

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: October 27, 2010

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number No. 10-97

Commercial Property Redevelopment Loan to 14th & Everett Investors, LLC (Meier & Frank Warehouse Project)

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6831

ACTION SUMMARY

This action will authorize an \$8,105,000 Commercial Property Redevelopment Loan to 14th & Everett Investors, LLC, to assist with the cost of rehabilitation of 1417 NW Everett Street, the former Meier & Frank Warehouse, in the River District Urban Renewal Area (URA). The renovated property will accommodate the North American headquarters of Vestas-American Wind Technology, Inc. (Vestas). Some exceptions to Portland Development Commission (PDC) loan program guidelines will be required for this loan. The PDC loan will not be closed until the final construction drawings and final construction contracts have been reviewed and approved by PDC.

The rehabilitation of the four-story Meier & Frank Warehouse building will add a fifth floor and an atrium space for all floors (with the exception of the second floor, which will be used for vehicle parking). When completed, the building will provide approximately 133,258 net rentable square feet of office space, plus storage space and the above-mentioned parking. Seismic improvements will bring the building up to current City building code, as well as provide needed strengthening for the fifth floor addition. The developer plans green and sustainable features to earn LEED Platinum certification, including a solar array on the roof, a 150,000-gallon water collection tank in the basement, operable windows, and mechanical systems that are expected to operate at least 50 percent more efficiently than required by current building code.

PUBLIC BENEFIT

The project provides a unique opportunity to stimulate the redevelopment of the historic Meier & Frank Warehouse building into a refurbished five-story office building containing four floors of office space and one floor of parking using hydraulic parking stackers totaling 183 parking spaces. The design has received conditional approval from the National Parks Service for meeting the Standards for Rehabilitation as it relates to historic preservation.

The retention and expansion of Vestas North American headquarters operations was identified as a PDC Urban Development Department (UDD) Tier 1 Project in 2009 as part of implementing the City of Portland Economic Development Strategy. Vestas is an international leader in the wind industry, one of three Clean Technology (CleanTech) clusters UDD has focused on developing in the region. Vestas will retain 396 jobs in Portland and plans to add a minimum of 100 jobs within five years. This will help solidify the long-term position of Vestas as a Portland-based company while further enhancing the city's reputation as a global Clean Tech leader. In addition, according to an economic input/output model, there will be 270 direct construction jobs and 162 indirect and induced jobs.

The project will produce positive financial impacts, through increased business taxes and income taxes for the City, Multnomah County, and the State of Oregon.

This action will support the following PDC goals:

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

PUBLIC PARTICIPATION AND FEEDBACK

There has been extensive public feedback directly related to the project itself.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

This project represents a unique opportunity to advance the City's Economic Development Strategy. This action will contribute to the retention of approximately 400 Portland jobs at a prominent Clean Tech firm, as well as bring an anticipated 100 additional jobs after five years of operations on site.

In addition to the significant job retention and expansion aspects of this project, it will also achieve redevelopment goals of the River District URA by revitalizing a property which is currently vacant and in disrepair.

The developer is required to comply with PDC's Business and Workforce Equity Policy, the Green Building Policy, and prevailing wage. The developer and a representative from the general contractor have met with PDC already to discuss the program requirements and reporting necessary, and are prepared to comply with the requirements.

FINANCIAL IMPACT

The Commercial Property Redevelopment Loan program is designed to assist private partners with redevelopment, new development, and tenant improvements that encourage property revitalization and wealth creation within URAs. The project must demonstrate a

significant public purpose, which can include redevelopment of blighted sites or buildings, preservation of historic buildings, and implementation of transit-oriented development.

Commercial Property Redevelopment Loan	
Loan Amount	\$8,105,000
URA	River District
Purpose	Rehabilitation of the historic Meier & Frank Warehouse into the North American headquarters for Vestas
Loan Fee	None
Interest Rate	0%
Term	Construction Loan: the earlier of 24 months or the commencement of lease payments under the Vestas lease Permanent Loan: 15 year term
Payments	none until maturity
Collateral	Second deed of trust on the property
Guarantor	none
Total Project Cost	\$66,329,276 plus Vestas investment
Leverage Ratio	\$1 : \$7.2 (excludes Vestas investment)
Program Guideline Exceptions	see summary below

The loan program guidelines provide that Commercial Property Redevelopment Loans will fill financial gaps, assuming that the developer will contribute equity and secure other commercial financing. Financing for the project comes from significant owner equity, a senior loan, a historic tax equity investment, and the requested PDC loan. Vestas will make a significant investment for highly specialized technical equipment in addition to tenant improvement allowance, State of Oregon incentive, and furniture, fixtures and equipment.

Exceptions to some loan program guidelines will be required for this loan. A summary of the guideline exceptions appear in the table below.

	Loan Program Guidelines	Requested for this loan
Loan Amount	maximum of \$2 million	\$8.105 million
Term	Construction: up to 24 months Permanent: up to 10 years	Construction: the earlier of 24 months or the commencement of lease payments Permanent: 15 years
Payments	Construction: interest-only Permanent: principal & interest	Construction: none Permanent: none

Vestas has signed a 15-year lease for the entire Meier & Frank Warehouse with the property owner 14th & Everett Investors, LLC, and its parent company (Vestas Wind Systems A/S) has guaranteed the lease obligations. The proposed loan term, interest rate, and no payments for 15 years reflect that the value of the PDC loan has been passed on to Vestas as a reduction in base rent in their lease agreement

There will need to be an amendment to the River District URA FY 2010-11 Budget, currently scheduled for action at the December 8 PDC Board of Commissioners (Board) meeting, to include the \$8,105,000 Commercial Property Redevelopment Loan. Resources for this loan will need to be brought forward from programs currently identified in the Five-Year Budget and Forecast. Options include Business Finance program funds and Redevelopment Loan program funds.

RISK ASSESSMENT

The property will be leased to a single tenant, Vestas-American Wind Technology, Inc. Vestas entered into a fifteen year lease with 14th & Everett Investors, LLC. The financial success of the project depends on the lease revenue from Vestas to provide sufficient cash flow to cover required debt service, operating costs, and other obligations. If market forces or other financial developments cause Vestas to reduce operations or leave Portland, there is a slight risk that the debt service might not be satisfied.

This risk is mitigated by a guaranty of all of Vestas' lease obligations by its parent company, Vestas Wind Systems A/S. In addition, Vestas will make a significant investment for highly specialized technical equipment, further evidence of Vestas' long-term commitment to Portland.

Repayment of PDC's loan will require refinancing the property (or other infusion of capital) at year fifteen. There is a risk that the developer or Vestas, if it exercises its purchase option, will not be able to obtain sufficient financing to take out PDC's debt.

WORK LOAD IMPACT

In the UDD, the Central City Division, in conjunction with the Business & Industry Division, has allocated staffing associated for this real estate project.

ALTERNATIVE ACTIONS

Alternative actions would be for the PDC Board not to approve the \$8,105,000 Commercial Property Redevelopment Loan or propose a different loan structure.

CONCURRENCE

The State of Oregon, Mayor Adams, and the City's Office of Management and Finance were all consulted on the development of the project. Discussions related to this project began in July 2008, with recessionary economic conditions putting the project on hold until early 2010.

The Oregon Business Development Department has agreed to provide a \$1,000,000 Governor's Strategic Reserve Fund grant.

The loan request was reviewed by PDC's internal Loan Review Committee on October 5, 2010, and the members recommended approval of the loan by the Board.

BACKGROUND

The redevelopment of this property for Vestas' North American headquarters provides a unique opportunity to achieve redevelopment goals of the River District URA and the City's Economic Development Strategy, in collaboration between the Central City and Business and Industry teams in the UDD.

The property was built in 1927 to remove the shipping and receiving operations from the Meier & Frank storefront in downtown Portland, and was listed on the National Register of Historic Buildings in 2001 as the Meier & Frank Delivery Depot. It was designed by the Portland architecture firm Sutton & Whitney in the 'Half-Modern' style, characterized by classical forms and composition but lacking in ornamentation. A recent prior owner intended to convert the building into a telecommunications switching facility (a 'telecom hotel'), but the required improvements were never completed. It was sold to Gerding Edlen Development in 2007, which later transferred and assigned its interest to 14th & Everett Investors, LLC.

14th & Everett Investors, LLC was organized in October 2007 to acquire, redevelop, and operate the property. There are 16 investors in 14th & Everett Investors, LLC, and no ownership share will exceed 15.72% after projected capital has been added (this will occur prior to or at the closing of the loans for the project). Most of the investors are entities representing local Portland or northwest individuals. M&F Historic Partners, LLC (M&F) is the Manager and Development Manager of 14th & Everett Investors, LLC. M&F is also an investor, and the managers of M&F are Mark Edlen and Kelly Saito, who are principals at Gerding Edlen Development.

Approval of this loan will allow for the renovation of a vacant building on the National Register of Historic Buildings. The rehabilitation will allow the former warehouse to be used for commercial office tenants and automated parking. The project will implement transit-oriented development, as it is located less than a half mile from a streetcar stop.

ATTACHMENTS:

- A. River District URA Fund – Five Year Budget Summary
- B. Site Map and Project Rendering

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URA FINANCIAL SUMMARY**Financial Summary****Fund Summary - Five-Year Budget Projections**

	Revised FY 2009-10	Adopted FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14	Forecast FY 2014-15
River District URA						
Resources						
Beginning Fund Balance	24,932,236	11,093,548	427,241	10,197,355	225,375	139,190
Fees and Charges	0	0	0	0	0	0
Interest on Investments	150,000	100,000	50,000	50,000	50,000	50,000
Loan Collections	1,800,000	456,741	456,741	435,310	424,595	417,971
Property Income	2,029,155	1,016,000	1,016,000	1,016,000	1,016,000	1,016,000
Reimbursements	125,000	125,000	0	0	100,000	0
TIF Proceeds	37,162,800	45,454,500	51,753,992	46,344,915	55,091,425	24,545,586
Total Resources	66,199,191	58,245,789	53,703,974	58,043,580	56,907,395	26,168,747
Requirements						
Program Expenditures						
Business and Industry						
Community Economic Development						
H79020 Business Finance	0	1,125,000	912,500	912,500	912,500	912,500
High Growth						
H79020 Business Finance	0	1,125,000	912,500	912,500	912,500	912,500
Industry Cluster						
H79020 Business Finance	595,000	2,250,000	1,825,000	1,825,000	1,825,000	1,825,000
H79023 Materials Lab	100,000	0	1,000,000	0	0	0
Business and Industry Total	695,000	4,500,000	4,650,000	3,650,000	3,650,000	3,650,000
Housing						
Multi-Family - Rental Housing						
H12030 Fairfield Apartments	470,000	930,000	167,971	167,971	167,971	167,971
H32138 Pearl Family Housing	12,000,000	7,000,000	0	0	0	0
H37937 RAC - Access Center	16,200,000	13,500,000	0	0	0	0
H37938 Blanchet House Redev	265,000	1,885,000	0	0	0	0
H37940 New Avenues for Youth	1,200,000	0	0	0	0	0
H80036 Yards at Union Station	552,000	4,137,971	0	0	0	0
H89030 Affordable Rental Housing	500,000	0	0	0	4,000,000	9,000,000
Portland Housing Bureau						
H28025 Administration	117,414	0	0	0	0	0
Housing Total	31,304,414	27,452,971	167,971	167,971	4,167,971	9,167,971
Infrastructure						
Facilities						
H60020 Union Station	219,484	5,235,192	2,726,178	6,500	6,500	6,500
Parks						
H13119 Neighborhood Park (The Fields)	350,000	1,000,000	4,000,000	0	0	0
Transportation						
H11233 Public Site Improvements	0	764,663	0	0	0	0
H11234 Westside Burnside-Couch Couplet	30	300,000	800,000	0	0	0
H11263 RD Public Site Improvements	479,000	0	0	0	0	0
H13137 Streetcar Loop Project	10,463,000	4,500,000	0	0	0	0
H13138 Streetcar LID	0	0	0	550,000	0	0
Infrastructure Total	11,511,514	11,799,855	7,526,178	556,500	6,500	6,500
Revitalization						
Redevelopment						
H10221 Transit Mall Revitalization	40,000	0	0	0	0	0
H10226 Meier & Frank	5,000	0	0	0	0	0

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Financial Summary**Fund Summary - Five-Year Budget Projections**

	Revised FY 2009-10	Adopted FY 2010-11	Forecast FY 2011-12	Forecast FY 2012-13	Forecast FY 2013-14	Forecast FY 2014-15
Redevelopment						
H11244 One Waterfront Place	106,000	6,000	4,006,000	4,506,000	6,000	6,000
H12101 Downtown Retail Strategy	27,500	450,000	750,000	750,000	250,000	0
H12102 Downtown Retail Strategy Projects	45,000	0	0	0	0	0
H12145 Blocks A&N	0	2,000	0	0	0	0
H13104 Centennial Mills Redevelopment	354,000	569,000	9,404,000	2,800,000	200,000	0
H13115 Station Place Garage/Parcels	378,700	378,700	378,700	378,700	378,700	378,700
H13143 RD Environmental	124,000	100,000	0	0	100,000	0
H22500 Post Office	100,000	518,500	4,018,500	30,018,500	29,518,500	18,500
H27001 Storefront Grants	300,000	300,000	300,000	300,000	300,000	300,000
H27050 DOS Grants	75,000	75,000	75,000	75,000	75,000	75,000
H28030 Redevelopment Loan Projects	50,000	3,200,000	4,312,500	4,312,500	4,312,500	3,312,500
H60021 10th and Yamhill Redevelopment	140,000	250,000	0	0	3,750,000	4,000,000
H60027 Broadway Corridor	18,500	0	0	0	0	0
H60029 Block 25	14,000	14,000	0	0	0	0
H80037 Grove Apartments	295,155	75,000	75,000	75,000	0	0
H96121 Property Amendments	3,821,566	0	0	0	0	0
Revitalization Operations						
H13142 RD Project Management	5,000	0	0	0	0	0
Revitalization Total	5,899,421	5,938,200	23,319,700	43,215,700	38,890,700	8,090,700
Administration						
Executive						
H92110 Westside/Central City Study	442,874	150,000	0	0	0	0
Finance						
H98001 Debt Management	50,000	50,000	50,000	50,000	50,000	50,000
Administration Total	492,874	200,000	50,000	50,000	50,000	50,000
Total Program Expenditures	49,903,223	49,891,026	35,713,849	47,640,171	46,765,171	20,965,171
Personal Services	1,086,995	1,089,702	1,285,699	1,715,046	1,683,546	754,746
Debt Service	0	650,000	650,000	650,000	650,000	669,686
Transfers - Indirect	4,115,425	5,498,256	4,928,511	6,574,344	6,453,594	2,893,194
PHB Staff/Admin	0	689,564	928,560	1,238,644	1,215,894	545,094
Total Fund Expenditures	55,105,643	57,818,548	43,506,619	57,818,205	56,768,205	25,827,891
Contingency	11,093,548	427,241	10,197,355	225,375	139,190	340,856
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	66,199,191	58,245,789	53,703,974	58,043,580	56,907,395	26,168,747

SITE MAP and PROJECT RENDERING

