DATE: August 13, 2008

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 08-105
Leasehold Purchase and Sale Agreement with the Canterbury Group, Inc. for Sale of a Leasehold Interest at Cascade Station

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6626

ACTION SUMMARY

This action will authorize the Executive Director to execute a Leasehold Purchase and Sale Agreement (PSA) for the sale of Portland Development Commission’s (PDC’s) leasehold interest in approximately two (2) acres of land at Cascade Station in the Airport Way Urban Renewal District. The Buyer is the Canterbury Group, Inc., developers and owners of a number of hotels in the city. On this site at Cascade Station, Canterbury will develop a hotel with 85 – 110 rooms. The brand of hotel will be from an “approved” list established by PDC and agreed to by the Canterbury Group.

The PSA provides for the Purchase Price to be $10.00 per square foot for a total of approximately $871,200. The final size of the parcel to be sold may be adjusted by the Buyer by up to 10,000 square feet in which case, the Purchase Price would be adjusted accordingly. If the full 10,000 square feet were to be added to the site, the Purchase Price would be $921,000. This $10.00 per square foot Purchase Price reflects the fair market value of the property based on an Opinion of Value from PDC’s brokers dated November 1, 2007 and updated MAI appraisal dated May 1, 2008. 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 and can no longer issue new tax increment bonds. Sale of this leasehold interest to the Canterbury Group will generate between approximately $812,000 and $912,000 in net proceeds which may be subsequently used by PDC as 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 $17 million hotel.

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 supportive of PDC’s efforts in Airport Way, including our ongoing business finance activities and PDC’s efforts to stimulate 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. This sale is fully consistent with that Plan District.

PDC staff continues to brief the CCA on activities in the Airport Way Urban Renewal Area, including the proposed sale of PDC’s leasehold interests at Cascade Station.

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

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The proposed sale of PDC’s 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 to add value to Portland’s tax base. 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 hotels 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.

The proposed action has been taken through the Commission’s Disposition Process and is supported by the PDC Investment Committee.

FINANCIAL IMPACT

The proposed sale will be for $871,200 (as may be adjusted by up to 10,000 square feet at $10.00 per square foot). This sales price is supported by an Opinion of Value by PDC’s broker, the Grubb & Ellis Company, dated November 1, 2007 and an independent MAI Appraisal performed by PGP Valuation dated May 1, 2008. Net proceeds to PDC after sales commissions and closing costs will be approximately $812,000. 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.

The sale of this leasehold interest as proposed was reviewed and supported by PDC’s Investment Committee on June 25, 2008.
The Airport Way URA FY 2008-09 Adopted Budget and Forecast is attached to this Report as a Financial Summary (Attachment B).

RISK ASSESSMENT

There is little or no risk to PDC in executing this PSA. Also, because PDC still controls approximately 26 acres of land beyond this proposed sale, there are no lost opportunity costs in the event the Buyer backs out of the transaction. Finally, because PDC will require evidence of a commitment of construction financing from a lending institution prior to closing, it is unlikely that the proposed hotel will not proceed in accordance with the schedule of performance.

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, the Canterbury Group, Inc. 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 the Canterbury Group, Inc. and, if successful, would return to the Board at a later date.

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 of Portland, TriMet and the Columbia Corridor Association. PDC’s interdepartmental Airport Way Team has discussed and supports this transaction. On June 25, 2008, PDC’s Investment Committee reviewed and supported the terms and conditions of this PSA.

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 Resolution No. 6263 that addressed 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 (Resolution No. 6263) 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 approved Resolution No. 6315 authorizing 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 acquired a leasehold interest in the 36 acres. Construction of the IKEA store and the entire retail center commenced in August 2006. 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, three hotels and 2 office buildings are under construction with completion scheduled for this fall.

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 four 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 spring 2007.

On October 31, 2007, the Board entered into an Option Agreement with the U.S. General Services Administration for the sale of our leasehold interests in an eight acre site at Cascade Station. And, on May 14, 2008, the Board approved Resolution No. 6576, a Purchase and Sale
Agreement (PSA) for the GSA transaction, which is now expected to close escrow in January 2009.

On May 2, 2008, the Canterbury Group, Inc. submitted a Proposal to Lease two (2) acres in Parcel E at Cascade Station. On June 25, 2008, PDC’s Investment Committee reviewed and approved the negotiated terms and conditions of this PSA.

ATTACHMENTS:

A. Summary of Proposed Terms and Conditions
B. Airport Way URA FY 2008-09 Adopted Budget and Forecast
C. Project Summary and Map
D. Schematic Site Plan of Proposed Sale Area

CC: L. Bowers, Interim Development Department Director
    S.B. Allen, Sr. Development Manager
    T. Lam, Project Coordinator
    D. Elott, Interim General Counsel
    J. Jackley, Executive Operations Manager
SUMMARY OF PROPOSED TERMS AND CONDITIONS

SALE OF LEASEHOLD ESTATE TO THE CANTERBURY GROUP, INC

Site: Approximately 2 acres in Parcel E, Cascade Station

Proposed Use: Hotel with up to 110 rooms; surface parking; associated site improvements

Purchase Price: $10.00 per square foot, or $871,200; subject to adjustment of up to an additional 10,000 square feet of site at the same rate as needed to improve site functionality. A $75,000 initial earnest money deposit is required

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

Assignability: The Canterbury Group, inc. 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 March 15, 2009. Buyer may extend this date in up to two (2) 3-month increments with the deposit of and additional $25,000 deposit for each. Closing subject to the submittal of a financing commitment from a lender.

Other: PDC agrees to execute a non-competition agreement for 15 years agreeing not to sell property in the same parcel to another hotel developer and to grant a first right of refusal to Buyer for 15 years thereafter
# URA Financial Summary

## Financial Summary

### Fund Summary - Five-Year Budget Projections

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Airport Way URA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>6,473,166</td>
<td>1,931,218</td>
<td>1,717,190</td>
<td>1,845,911</td>
<td>2,042,307</td>
<td>2,222,148</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest - City Invest Pool</td>
<td>60,340</td>
<td>100,000</td>
<td>20,000</td>
<td>5,000</td>
<td>1,500</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans - Interest Earned</td>
<td>9,247</td>
<td>16,956</td>
<td>16,956</td>
<td>16,956</td>
<td>13,467</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans - Principal Collection</td>
<td>9,247</td>
<td>16,956</td>
<td>16,956</td>
<td>16,956</td>
<td>13,467</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Contracts</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Property Sales</td>
<td>0</td>
<td>3,000,000</td>
<td>3,000,000</td>
<td>3,000,000</td>
<td>3,000,000</td>
<td>3,000,000</td>
<td>3,000,000</td>
<td>3,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Reimbursement</td>
<td>2,545</td>
<td>5,000</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Fund Resources</strong></td>
<td>6,564,545</td>
<td>5,070,130</td>
<td>4,776,108</td>
<td>4,884,823</td>
<td>5,070,741</td>
<td>5,287,148</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Requirements</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Expenditures (does not include Personal Services or Indirect Cost)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11004 - AW Cascade Station Devel</td>
<td>322,750</td>
<td>350,000</td>
<td>316,500</td>
<td>290,000</td>
<td>270,000</td>
<td>265,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11014 - AW Riverside Pkwy Industr Pk Dev</td>
<td>458,006</td>
<td>260,000</td>
<td>250,000</td>
<td>250,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11015 - AW Subdistrict B Pre-Dev</td>
<td>25,000</td>
<td>25,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11019 - AW Community Outreach</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Total</td>
<td>808,864</td>
<td>637,000</td>
<td>558,500</td>
<td>542,000</td>
<td>272,000</td>
<td>267,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70014 - AW Business Finance</td>
<td>2,500,000</td>
<td>1,400,000</td>
<td>1,400,000</td>
<td>1,400,000</td>
<td>1,650,000</td>
<td>1,900,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70229 - AW Business Retention</td>
<td>200,000</td>
<td>200,000</td>
<td>150,000</td>
<td>150,000</td>
<td>150,000</td>
<td>150,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70759 - AW Target Industry Devel</td>
<td>0</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Development Total</td>
<td>2,760,500</td>
<td>1,700,000</td>
<td>1,650,000</td>
<td>1,650,000</td>
<td>1,900,000</td>
<td>2,150,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>59157 - AW Debt Management</td>
<td>3,000</td>
<td>3,000</td>
<td>3,150</td>
<td>3,308</td>
<td>3,473</td>
<td>3,647</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Services Total</td>
<td>3,000</td>
<td>3,000</td>
<td>3,150</td>
<td>3,308</td>
<td>3,473</td>
<td>3,647</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Project Expenditures</td>
<td>3,572,164</td>
<td>2,340,000</td>
<td>2,221,650</td>
<td>2,195,308</td>
<td>2,175,473</td>
<td>2,420,647</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect Cost</td>
<td>1,061,163</td>
<td>1,012,034</td>
<td>708,547</td>
<td>647,208</td>
<td>613,120</td>
<td>650,561</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Fund Expenditures</td>
<td>4,633,327</td>
<td>3,352,034</td>
<td>2,930,197</td>
<td>2,842,516</td>
<td>2,788,593</td>
<td>3,080,208</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingency</td>
<td>1,931,218</td>
<td>1,717,196</td>
<td>1,845,911</td>
<td>2,042,307</td>
<td>2,282,148</td>
<td>2,205,940</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Requirements</strong></td>
<td>6,564,545</td>
<td>5,070,130</td>
<td>4,776,108</td>
<td>4,884,823</td>
<td>5,070,741</td>
<td>5,287,148</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PROJECT SUMMARY

Project Name: PDC-controlled property at Cascade Station
Description: Sale of approximately 2 acres (a portion of Parcel E below)
Location: NE Cascades Parkway and NE Mt. St. Helens Avenue
URA: Airport Way
Current Phase: Purchase and Sale Agreement
Next Milestone: Design Review Process
Completion Target: Closing of this transaction is anticipated to occur between March and September 2009. Construction of the project will likely take 12 to 14 months thereafter
Outcome: Hotel development (85 – 110 rooms) on a portion of Parcel E
Site/Project Map: Map of Cascade Station Master Plan with PDC Sub Areas

Property to be sold (approx. 2 acres)