DATE: March 11, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-26
Extension of Assurety Northwest Phase II Construction Start Date

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED
Adopt Resolution No. 6679

ACTION SUMMARY
Due to a weak economy and difficult lending environment, this action will grant Lents Town Center II, LLC (Assurety Northwest) up to a three-year extension for the construction start date of the second phase of the Assurety Northwest development in the Lents Town Center Urban Renewal area in the form of three, one-year extensions reviewable annually and at the sole discretion of the Portland Development Commission’s (PDC’s) Executive Director. The PDC Board of Commissioners (Board) originally authorized the Assurety Northwest Purchase and Sale Agreement, loan terms, and project schedule on October 12, 2005 (Resolution No. 6296). The proposed change would amend the construction schedule in the Lents Town Center II, LLC Loan Agreement.

PUBLIC BENEFIT
Granting an extension to the start of construction for the second phase of the project will give Assurety Northwest the ability, when economic conditions improve, to build on the success of the first phase by potentially adding up to 30 quality jobs and $2.5 million in private investment.

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 Lents Town Center Urban Renewal Advisory Committee fully supports the Assurety Northwest commercial project and the proposed extension to the Phase II construction schedule.
COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Assurety Northwest commercial project is supportive of the core goals of the Lents Town Center Urban Renewal Plan, such as Goal C, “Revitalization of Commercials Areas”. That goal states in part, “Invest public funds and work in partnership with commercial property owners to increase the vitality and economic health of commercial areas…”

Assurety Northwest has not, at this time, requested construction financing from PDC for the second phase of the project; therefore, it has not been determined whether or not they will be required to comply with PDC’s Construction Wage, Green Building, or Business Equity policies on the second phase of the project.

FINANCIAL IMPACT

To facilitate the development, PDC has subdivided the property into two parcels corresponding to the two phases of the project. Two separate loans were made to limited liability companies (LLC’s) owned by Assurety Northwest that also correspond to the two phases. The first PDC loan, to Lents Town Center I, LLC, totaled $1,170,000 and was used to finance the land acquisition and partial building expense. The total project cost to Assurety Northwest for Phase I was approximately $5 million. The second PDC loan, to Lents Town Center II, LLC was for Phase II land acquisition and totaled $316,000. The term for both loans is 30 years, 3% amortization, with principal, interest and the first payment deferred for five years. The first payment on both loans will be due on February 1, 2012.

The Phase II Loan Agreement requires that Assurety Northwest provide PDC with a construction schedule for Phase II by March 15, 2009 and begin construction by September 15, 2009. If Assurety Northwest does not meet this schedule, the Phase II Loan Agreement gives PDC the right of reentry on the Phase II property. If PDC exercises this right, PDC would be obligated to repay Assurety Northwest for site improvements made on the Phase II site and this amount is capped at $250,000.

A potential consequence of deferring the start of Phase II would be to prevent PDC from receiving potential excess cash flow payments as described in the Agreements. However, in the current economic environment, Assurety Northwest is not in a position to move forward with Phase II, therefore PDC would not receive any excess cash flow payments for Phase II regardless of whether or not an extension is granted.

Under the proposed Agreement modification, PDC would still begin to receive the monthly Phase I loan payment of $4,933 and the monthly Phase II loan payment of $1,332 beginning on February 1, 2012, regardless of a one-, two- or three-year extension on the Phase II project.

RISK ASSESSMENT

If the Board chooses not to grant an extension to the construction schedule, PDC has the right to reenter and take control of the Phase II property. In this event, PDC would be required to reimburse Assurety Northwest for approximately $250,000 of improvements made to the site primarily in the form of a parking lot and landscaping. These improvements make the property “shovel ready” for the second phase of the Assurety Northwest project or,
in the event of reentry, for a new developer. However, in the current economic environment another developer stepping forward to complete the project appears to be low. The basis for this analysis is the lack of private or public projects moving forward at this time. Granting Assurety Northwest up to three, one year extensions is a low risk option. If the economy improves, or an anchor tenant for the second phases materializes before the full three years, PDC can choose not to grant an extension. Assurety Northwest has indicated that they would quickly move forward on the second phase when economic conditions improve.

WORK LOAD IMPACT

This project entails the involvement of PDC staff from the Urban Development, Legal, Finance and Central Services departments. There is no significant impact on other projects.

ALTERNATIVE ACTIONS

The Board can deny the extension or modify the terms and conditions. If the Board denies the request, Assurety Northwest would be in default of the terms of the Phase II loan agreement and PDC would have the right to retake possession of the Phase II property and reimburse Assurety Northwest for up to $250,000 for improvements to the property.

CONCURRENCE

PDC staff in the Urban Development, Finance and Legal departments concurs with the requested Board action to extend the Phase II construction start date. The PDC Loan Review Committee approved this modification to the Lents Town Center II, LLC Loan Agreement at the January 15, 2009 meeting date.

BACKGROUND

On October 12, 2005, the PDC Board authorized the PDC Executive Director to enter into a Purchase & Sale Agreement (P&S) and Loan Agreements (Agreements) with Lents Town Center I, LLC and Lents Town Center II, LLC (Assurety Northwest) for the sale of 77,000 square feet of PDC-owned property at the 8900 block of SE Foster Road in the Lents Town Center Urban Renewal Area (see Attachment B for project map). Assurety Northwest is a financial services company that was based in Gresham and was interested in moving its headquarters to Lents, bringing over 50 quality jobs to Portland paying in excess of $50,000 per year on average.

The Agreements call for Assurety Northwest to construct at least 30,000 s.f. of office and retail space in two phases. The first phase, a 22,000 s.f. mixed-use building, with Assurety Northwest occupying approximately 11,000 s.f. on the second floor and approximately 11,000 s.f. of retail on the first, was completed in December 2007 (see Attachment B). The retail component of the Phase I project is 70% leased at this time. The Agreements require Assurety Northwest to begin construction on the second phase by September 15, 2009. If Assurety Northwest fails to meet this schedule, PDC has the right of reentry for the Phase II property.
This project represents the first significant new commercial development in the Lents area in several years. Assurety Northwest has requested a three-year extension to the construction start date for the second phase due to a downturned economic environment. PDC staff concurs that an extension is warranted, but recommends that the extensions be granted on a year-by-year basis based on PDC’s sole evaluation of economic conditions.

ATTACHMENTS:

A. URA Financial Summary
B. Project Summary
## URA FINANCIAL SUMMARY

### LENTS TOWN CENTER URA - Five-Year Budget Planning by Project for FYs 2010-2014

<table>
<thead>
<tr>
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### Requirements

**Project Expenditures (These do not include Personal Services or Indirect Cost)**

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*Please note that the 2008-09 Actuals data only shows revenue and expenditures which have been entered into Lawson as of December 31, 2008.

These numbers DO NOT show or represent any encumbrances, since encumbrances may or may not spend in the current fiscal year.
**PROJECT SUMMARY**

**Project Name:** Assurety Northwest Phase II

**Description:** A 10,000 square foot commercial development

**Location:** On the 8900 block on SE Foster Road

**URA:** Lents Town Center

**Current Phase:** Phase I is complete and over 80% occupied

**Next Milestone:** Begin Construction of Phase II

**Completion Target:** September 2011 (assuming an extension)

**Outcome:** Added jobs, tax base and commercial space in Lents

**Site/Project Map:**

Phase I & Phase II Plan

[Diagram showing Phase I and Phase II plans with labels and location details]
Assurety NW Phase I Building

Assurety NW Project Location