

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: April 23, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-47
Option Agreement with the Trammell Crow Company for Sale of a Leasehold Interest at Cascade Station

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6696

ACTION SUMMARY

This action will authorize the Executive Director to execute an Option Agreement (Option) for the sale of Portland Development Commission's (PDC's) leasehold interest in approximately 4.89 acres of land at Cascade Station in the Airport Way Urban Renewal District. The Buyer will be the Trammell Crow Company (TCC), or a separate single-purpose entity established by TCC for this purpose. On this site at Cascade Station, which is immediately adjacent to the proposed site for the new FBI Regional Headquarters, TCC is proposing to develop another federal office building for the General Services Administration (GSA), consisting of approximately 37,000 square feet, if GSA accepts a proposal from TCC. In order to pursue GSA, TCC needs to have a binding commitment from PDC to sell the property. If TCC does not reach agreement with GSA for the project, the Option with PDC will terminate.

The Option provides for the Purchase Price to be up to \$10.00 per square foot for a total of up to approximately \$2,130,000. 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. The final Purchase Price, however, may be adjusted at the discretion of the Executive Director by up to 10% based on findings, including updated valuation information, during the Due Diligence period. 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 TCC would generate up to \$2 million 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 \$9 million new office building with an estimated ninety (90) jobs.

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 (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 URA, 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 of Commissioners (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 of new, Class A office space at Cascade Station was 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 PDC's Disposition Process and is supported by PDC's Investment Committee.

FINANCIAL IMPACT

The proposed sale will be for up to \$2,130,000 (\$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 up to approximately \$2,000,000. The attached Resolution also authorizes the Executive Director, as his discretion, to make adjustments to the Purchase Price of up to 10% based on the findings of the Buyer's due diligence review or other issues, including updated valuation information, and to extend the schedules by up to a total of four (4) months, if he deems it necessary. This provision is requested given the current volatility in the office real estate office caused by national economic conditions and will allow the Executive Director to seek updated opinions of value or review other appraisals in establishing the final Purchase Price.

The sale of this leasehold interest as proposed was reviewed and supported by PDC's Investment Committee on March 31, 2009.

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 23 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 office building 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, TCC and the Port of Portland (Port). Project staff from the Urban Development and Legal departments are coordinating on the project.

ALTERNATIVE ACTIONS

The Board could elect to not approve the Option or to modify its terms. If the latter is chosen, staff would attempt to reach another agreement with TCC and, if successful, 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 March 31, 2009, 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 URA. The property is owned by the Port of Portland (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.

On June 22, 2005, the Board approved a number of items relating to the development at Cascade Station including a First and Second Amended Development Agreement, a Restructure Agreement and a Traffic Mitigation Agreement. Also at that meeting, the Board approved the assignment back to PDC of the development rights to 36 of the 120 acres in exchange for the \$14 million Junior Obligation. These 36 acres are now being marketed and sold for job-generating commercial and office developments to generate program income which is reinvested back into the district.

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 by the summer of 2008, the remaining retail center was fully built out. In addition to the retail development, one hotel and two office buildings have been completed and opened; two other hotels and one other office building are under construction; and, a Target store is scheduled to open this fall.

In October 2008, the Trammell Crow Company submitted a proposal to lease approximately 4.89 acres of land in Parcel A at Cascade Station. On March 31, 2009, PDC's Investment Committee reviewed and approved the negotiated terms and conditions an Option which is attached as Exhibit A to the attached Resolution.

ATTACHMENTS:

- A. Summary of Terms and Conditions of Option
- B. Airport Way URA FY 2008-09 Adopted Budget and Forecast
- C. Project Summary and Map

SUMMARY OF TERMS AND CONDITIONS

SALE OF LEASEHOLD ESTATE TO TRAMMELL CROW COMPANY

Site:	4.89 acres in Parcel A, Cascade Station
Proposed Use:	Office Building of approximately 37,000 square feet; surface parking; associated site improvements
Purchase Price:	\$10.00 per square foot, or \$2,130,084; subject to adjustment at the discretion of the Executive Director of up to 10% based on findings from due diligence and/or updated valuation information
Brokerage Fee:	5% of Purchase Price split evenly between participating Brokers
Assignability:	Subject to PDC approval. The developer will be obligated to abide by the terms and conditions of this Option and a subsequent Leasehold Purchase and Sale Agreement (PSA)
Option Term:	Six month Initial Option Period; if selected, an additional six month Option Period Extension granted with payment of \$25,000 Earnest Money Deposit. Closing Anticipated: approx. June 2010.
Other:	Developer will be required to adhere to applicable federal workforce and hiring programs including DBE contracting, wage rates, etc.

URA FINANCIAL SUMMARY

AIRPORT WAY URA - Five-Year Budget Planning by Project for FYs 2010-2014

Resources	Adopted	2008-09	AMENDED	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total
	FY 2008-09	Actuals* July-Dec	2008-09 BUDGET						
3130 Loan Fees	0	950	0	0	0	0	0	0	0
3310 Loans - Principal Collection	16,956	15,280	16,956	16,956	16,956	13,467	13,467	13,467	74,313
3320 Loans - Interest Earned	16,956	17,931	16,956	16,956	16,956	13,467	13,467	13,467	74,313
3340 Reimbursement	5,000	3,454	5,000	5,000	5,000	5,000	5,000	5,000	25,000
3710 Interest - City Invest Pool	100,000	54,184	100,000	70,000	70,000	50,000	40,000	40,000	270,000
3810 Real Property Sales	3,000,000	0	3,000,000	1,500,000	2,000,000	0	3,000,000	0	6,500,000
3999 Beginning Fund Balance	1,931,218	4,929,607	4,929,607	6,005,855	5,854,787	6,235,329	4,912,695	6,585,853	29,594,519
Total Fund	5,070,130	5,021,405	8,068,519	7,614,767	7,963,699	6,317,263	7,984,629	6,657,787	36,538,145

Requirements

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

Development	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total			
11004 AW Cascade Station Devel	350,000	40,829	175,000	316,500	290,000	270,000	265,000	200,000	1,341,500
11014 AW Riverside Pkwy Indstr Pk Dev	260,000	20,999	85,000	250,000	250,000	0	0	0	500,000
11015 AW Subdistrict B Pre-Dev	25,000	0	25,000	0	0	0	0	0	0
11019 AW Community Outreach	2,000	45	2,000	2,000	2,000	2,000	2,000	2,000	10,000
Development Total	637,000	61,873	287,000	568,500	542,000	272,000	267,000	202,000	1,851,500
Economic Development									
70014 AW Business Finance	1,400,000	94,518	800,000	800,000	800,000	800,000	800,000	800,000	4,000,000
70229 AW Business Retention	200,000	50	20,000	75,000	75,000	75,000	75,000	75,000	375,000
70759 AW Target Industry Devel	100,000	0	20,000	20,000	20,000	20,000	20,000	20,000	100,000
Economic Development Total	1,700,000	94,568	840,000	895,000	895,000	895,000	895,000	895,000	4,475,000
Central Services									
59157 AW Debt Management	3,000	1,716	3,000	3,150	3,308	3,473	3,647	3,647	17,225
Central Services Total	3,000	1,716	3,000	3,150	3,308	3,473	3,647	3,647	17,225
Total Project Expenditures	2,340,000	158,157	1,130,000	1,466,650	1,440,308	1,170,473	1,165,647	1,100,647	6,343,725
Total All Personal Svcs & Indirect Costs	1,072,934	504,349	932,663	293,330	288,062	234,095	233,129	220,129	1,268,745
Total Fund Expenditures	3,352,934	662,506	2,062,663	1,759,980	1,728,370	1,404,568	1,398,776	1,320,776	7,612,470
Contingency	1,717,196	0	6,005,855	5,854,787	6,235,329	4,912,695	6,585,853	5,337,011	28,925,675
Ending Fund Balance	0	0	0	0	0	0	0	0	0
Total Requirements	5,070,130	662,506	8,068,519	7,614,767	7,963,699	6,317,263	7,984,629	6,657,787	36,538,145

*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:** PDC-controlled property at Cascade Station
- Description:** Sale of leasehold rights to approximately 4.89 acres (a portion of Parcel A below)
- Location:** NE Airport Way, between NE Mt. Hood Avenue and NE 82nd Ave.
- URA:** Airport Way
- Current Phase:** Option Agreement
- Next Milestone:** Execute Option estimated: May 1, 2009. Closing estimated: June 2010
- Completion Target:** Construction of the project will likely take 12 - 18 months after closing
- Outcome:** Approx. 37,000 s.f. office development on Parcel A
- Site/Project Map:** Map of Cascade Station Master Plan with PDC Sub Areas:

