DATE: May 14, 2009
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 09-58
First Amendment to Disposition and Development Agreement with StarTerra LLC for Blocks 47 and 49

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6704

ACTION SUMMARY

This resolution authorizes the Executive Director of the Portland Development Commission (PDC) to execute a First Amendment to the Disposition and Development Agreement (DDA) with StarTerra LLC (Developer). The First Amendment will: (1) extend the Schedule of Performance due dates for the Phase I tasks by 18 months, including extending the due date for the closing/conveyance of the Block 49 parcel from PDC to Developer, from December 31, 2009, to June 30, 2011; and (2) include a new requirement for the Developer to provide written quarterly progress reports to PDC.

On May 28, 2008, the PDC Board of Commissioners (Board) adopted Resolution No. 6594, authorizing the Executive Director to enter into a DDA for redevelopment of PDC property located at Blocks 47 and 49 of Holladay's Addition in the Oregon Convention Center (OCC) Urban Renewal Area (URA) with StarTerra LLC. The DDA was subsequently executed on August 1, 2008. Approval of this action will amend that DDA.

The DDA states that, subject to certain conditions precedent, including requirements for the Developer to provide 50 percent and final Construction Plans and Specifications, secure land use approvals and building permits, and provide documentation of required financing, the conveyance of the Block 49 parcel from PDC to the Developer for Phase I shall take place no later than December 31, 2009.

On March 26, 2009, the Developer submitted a written request (Attachment C) to PDC to amend the Schedule of Performance for the Phase I component of the project on Block 49 due to adverse economic conditions that have hindered the ability of the Developer to meet the obligations in accordance with the Schedule of Performance. The Developer requested the Phase I Task 17 due date be extended from December 31, 2009, to October 31, 2012, and that up to 12 additional months be added to the timeline at the Executive Director's discretion if both parties agree that substantial progress is being made.

Staff and the Developer have agreed to extend the timeline by 18 months, as proposed in the resolution.
PUBLIC BENEFIT

The primary benefit of this action is to increase the potential for this important redevelopment to succeed. Extending the timeline to allow an additional 18 months for the completion of Phase I will increase the opportunity for the Developer to comply with the Schedule of Performance by allowing the Developer additional time to identify the needed tenants and obtain financing for the project. The economic recession and financial crisis that has occurred over the past 12 months was unforeseen when the DDA was executed and has, through no fault of the Developer, resulted in an uncertain time for companies to be planning for future employment levels and related relocations and future space needs. In addition, credit markets have also tightened during this time period, which has resulted in increased pre-leasing requirements and increased difficulty in obtaining financing. Extending the timeframe of the Phase I schedule will provide additional time to allow the credit markets to normalize while providing increased confidence to potential investors and tenants that the project can succeed.

Otherwise, the terms of the DDA remain the same and will provide the following benefits:

- Development of long-vacant and underutilized parcels adjacent to the Oregon Convention Center;
- Additional pedestrian and commercial activity in the area, and with the completion of Phase II, additional visitor, tourist amenities and entertainment venues;
- Increased transit ridership on the adjacent MAX and bus lines;
- Opportunities for increased Central City employment, which is emerging as an important component of the City's economic development strategy. Phase I includes approximately 300,000 square feet (SF) of Class A commercial space; and Phase II includes 100,000 – 300,000 SF of retail space;
- Opportunities for housing in Phase II: at least 200 units of housing;
- Substantially increased tax revenue; roughly estimated at $28 million over the first ten years; and
- Compliance with PDC’s Green Building and Business Equity policies.

This action will support the following PDC goals:

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

PUBLIC PARTICIPATION AND FEEDBACK
PDC staff provided an update and briefing on the status of the project and the request to extend the Phase I timelines to the OCC Urban Renewal Advisory Committee (URAC) on April 29, 2009.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The redevelopment of Blocks 47 and Block 49 supports the following goals:

   - “Goal 3 - Create opportunities within the area for businesses to expand and service the convention trade.”
   - “Goal 5 - Upgrade the setting and environment of the area to reflect the best of Portland to visitors; encouraging extended convention stays, return visits and business recruitment to Oregon.”

2. OCC Blocks Development Plan (2006)
   The OCC Blocks Plan is an action plan for the sixteen blocks adjacent to the Oregon Convention Center, including Blocks 47 and 49, adopted by the PDC Board on May 10, 2006. The Plan addresses the significant development potential of these critical blocks adjacent to the OCC and anticipated Convention Center Headquarters Hotel. The OCC Blocks Plan emphasizes implementation of specific development components that integrate the area as part of the Central City and represent the attributes and values of the people who live and conduct business in the region.

   Block 49 was identified in the Plan as a catalytic mixed-use building with ground floor commercial. In general, the Plan envisions a broad mix of uses, with a portion of the uses focused on entertainment, and with housing as a viable use on the upper floors throughout the study area.

3. Lloyd District Housing Strategy (2002)
   - Goal 2: Housing Affordability
     Increase the range of affordability of housing in the District, prioritizing housing opportunities to meet demand not currently serviced by existing housing options.
   - Goal 4: Job and Housing Balance
     Encourage housing development supportive of job growth and increase the balance of housing units available to employees

4. PDC Strategic Plan Key Actions (2007)
   - Revitalize blighted areas through strategic partnerships and property acquisitions (Strategy 1).
     One of PDC’s core missions is to facilitate the redevelopment of underutilized or contaminated land. This is accomplished by removing barriers and facilitating partnerships. The redevelopment partnership between the Developer and PDC provides an opportunity to redevelop vacant and underutilized property at a key location.
   - Invest to grow Portland’s future revenue base (Strategy 4).
     Improved property values and the development of other taxable assets results in revenues that support Portland’s educational, health, safety, social and recreational
services. This redevelopment proposal will replace vacant and underutilized property with greater, denser development, resulting in a great increase in taxable assets.

The Developer will comply with PDC’s Green Building Policy and Business Equity and Workforce Equity Programs. The Developer has also agreed to make a good faith effort to hire and procure from the local community for services and contracting opportunities.

FINANCIAL IMPACT

The proposed amendment will not create any significant financial impacts. PDC will not incur additional expenses as a result of the amendment. While the amendment will extend the closure/conveyance of Block 49 and related Phase I tasks by 18 months, the DDA anticipates PDC financing the purchase price of the property through a loan, and that the loan can be forgiven, in whole or in part, based upon the Developer’s satisfaction of Performance Measures. The amendment moves these financial transactions and any repayments already contemplated in the DDA out by 18 months.

The purchase price specified in the DDA for Block 49 is $3.6 million, which was the appraised value of the parcel in November 2007. At the time the DDA was executed, there was a 23 month gap between when the November 2007 appraisal was conducted and December 2009 date specified for the closure/conveyance of Block 49. Extending the due date for the closure/conveyance of Block 49 increases the length of time between when the appraisal was conducted and the conveyance takes place by 18 months, for a total duration of 41 months (approximately 3½ years). This increases the potential for the purchase price of the parcel as specified in the DDA to vary significantly at the time of closure/conveyance.

To the extent the Developer satisfies the Performance Measures sufficiently for the entire loan to be forgiven, the variance between the appraised value and the purchase price at the time of closure/conveyance would not have a material financial impact. However, if the appraised value of Block 49 increases significantly between December 2009 and June 2011 and the Performance Measures are not satisfied, the result could be for PDC to essentially sell the parcel to the Developer for considerably less than the fair market value at the time of closure/conveyance.

To date, PDC has spent $248,639 to move the power lines off of Block 49. This expenditure was anticipated in the DDA and PDC budget.

The total value of Phases I and II is estimated at approximately $500 million. Were PDC to forgive the entire value of the loans for Phases I and II, its contribution to the entire project would be approximately one percent.

RISK ASSESSMENT

Extending the timeline by 18 months creates the potential for the Developer to not proceed as quickly as they might with a shorter timeframe. Staff believes the Developer has acted diligently and in good faith and that this extension is necessary to overcome the unprecedented economic conditions. In addition, the Developer has made significant investments in predevelopment activities, securing entitlements, and property acquisitions, which provides an incentive to move forward on the project promptly. Nevertheless, to address this risk and to assure the Developer continues to act diligently and in good faith, the amended DDA includes a requirement for the Developer to submit written quarterly
progress reports documenting the Developer’s efforts to tenant, finance, and complete the
design of the project.

As described above under FINANCIAL IMPACT above, one risk to extending the Phase I
Schedule of Performance by 18 months is the potential for the purchase price of Block 49,
which is based on the appraised value from November 2007, to vary considerably from the
fair market value of the property upon closure/conveyance. The original DDA based the
purchase price of Block 49 on the November 2007 appraisal and locked in that price through
December 2009, a two year period. Amending the DDA to extend the Phase I schedule by
18 months will lock in the purchase price between appraisal and conveyance for a 3 ½ year
period. For comparative purposes, the DDA Schedule of Performance also locks in the
purchase price for Block 47 based on the November 2007 appraisal and calls for the Phase
II closure/conveyance to occur on June 30, 2014, a 6 ½ year period between appraisal and
conveyance. Amending the contract for an additional 18 months will extend the gap
between Block 49 appraisal and closure from two years to 3 ½ years, but this gap between
appraisal and conveyance is still considerably less than the equivalent gap for Block 47.

Since the DDA has already been executed and other terms of the DDA are not being
changed, the other material risks with the terms of this agreement have already been
considered and addressed in the executed DDA.

WORK LOAD IMPACT

Authorization to amend the DDA will extend the Phase I due dates by 18 months. This will
likely result in modest decrease in the near term workload for PDC staff. This change in
workload should not result in a need to modify staffing levels.

ALTERNATIVE ACTIONS

The Board could decide to either (1) not amend the DDA; or (2) to extend the DDA for a
greater or lesser duration than recommended by staff.

If the Board decides to not amend the DDA or to extend it for a lesser duration, this will
increase the potential for the Developer to fail to adhere to the Schedule of Performance
and to default on the DDA. The Developer has requested the extension because they are
not confident they will be able to meet the Schedule of Performance due to poor economic
and market conditions. The Schedule of Performance requires the Developer to provide a
Final Construction Budget by December 11, 2009, and documentation of required financing
by December 17, 2009, as well as other requirements relating to the completion of the
construction documents during the month of December 2009. Any default by the Developer
to not adhere to the Schedule of Performance, or any other material provision of the DDA,
shall be addressed through the terms outlined in the DDA.

A decision by the Board to extend the DDA for a duration greater than 18 months may
increase opportunities for the Developer to secure tenants and financing. However, it will
also tie the redevelopment of Blocks 47 and 49 further to this redevelopment concept
without any certainty the Developer will succeed.

CONCURRENCE
The Investment Committee reviewed and recommended approval of this DDA amendment on April 13, 2009.

BACKGROUND

In 1991, PDC purchased two properties directly north of the Oregon Convention Center: all of Block 49 and a 13,500 SF portion of Block 47 for $1,718,895. The acquisition was the first step in gaining site control of several blocks for a Convention Center Headquarters Hotel. The City’s vision for the hotel on the site was to help fulfill policies and objectives in the Comprehensive Plan, Economic Development Policy, Central City Plan and the Oregon Convention Center Urban Renewal Area Plan.

Upon the collapse of discussions for the remaining privately owned parcels that would have made up that Headquarters Hotel site, PDC sought alternative uses for the properties in its ownership. In 1999, PDC entered into a DDA with the Metropolitan Exposition and Recreation Committee (MERC) that contemplated the construction of a structured parking lot to support the Convention Center Expansion. This DDA eventually expired and no action occurred on the site. In the absence of imminent development for Block 47, PDC commissioned landscaping for the site in 2001 to improve its aesthetics.

In 2005, StarTerra, LLC secured options from private parties to purchase a 2.9 acre site located between Blocks 47 and 49, with the exclusion of the Burgerville parcel (See Attachment B). This site consisted of the 2.5 acre Peters property and the 0.41 acre Byrne property. It then entered into a purchase agreement for the Peters property and paid $4.46 million toward the purchase price. In late 2005, the Developer proposed exclusive negotiations with PDC to develop the PDC property together with its adjacent site as a large-scale mixed-use development. The PDC Investment Committee authorized exclusive negotiations with the Developer because the Developer’s site is adjacent to PDC property, and the Developer proposed an aggressive redevelopment plan that met several urban renewal objectives. The redevelopment of this site, located between the Oregon Convention Center and the proposed Headquarters Hotel site and the Rose Quarter, represents tremendous catalytic potential, which could bring employment, entertainment, and housing to this underutilized and visible assemblage of land. In June 2006, PDC and the Developer signed a Memorandum of Understandings (MOU), which served as a guiding document for concept development and performance obligations.

On May 28, 2008, the PDC Board authorized the Executive Director to enter into a negotiated DDA with the Developer (Resolution No. 6594). The DDA between PDC and the Developer was executed on August 1, 2008.

Since that time, the Developer has closed on a major portion of the Phase II property known as the Peters property for a total of $10.75 million and executed a Right of First Offer Agreement with PDC on that property in accordance with the DDA. The Developer continues to have an option to purchase the Byrne property and has expended approximately $150,000 in earnest money for that property. The Developer has also spent approximately $100,000 in pre-development costs, continued marketing the Phase I development to potential tenants, and been in discussions with financing partners and investors.
PDC has subsequently contracted with Pacific Power to relocate an existing, above ground, 115-kilovolt high-voltage electric transmission line from the Block 49 parcel. PDC has expended $248,639 to complete that work.

In accordance with the DDA, the PDC Loan Committee approved a $200,000 predevelopment loan to the Developer on November 13, 2008, and that loan was closed on December 29, 2008. The purpose of the loan is to assist the Developer with schematic drawings and engineering analysis for Phase II.

**ATTACHMENTS:**

- A. Oregon Convention Center URA Budget Summary
- B. Project Summary and Site Map
- C. Request for extension on Conveyance of PDC’s Block 49 parcel
URA FINANCIAL SUMMARY

CONVENTION CENTER URA - Five-Year Budget Planning by Project for FYs 2010-2014

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<th>Resources</th>
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<th>2009-09 Actuals July-Dec</th>
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Total Fund: 18,476,774 12,452,267 16,912,871 12,655,115 2,116,740 119,856,310 5,113,188 0 0 0

*Please note that the 2009-09 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. (Revised 2-11-09)
PROJECT SUMMARY

Project Name: Blocks 47 and 49

Description: Disposition and Development Agreement with StarTerra LLC for a mixed-use redevelopment project.

The Developer plans to build a two-phase, large-scale, mixed-use development. Phase I, Block 49, will be a 300,000 gross square foot Class A office tower with 450 parking stalls and limited ground floor retail. Phase II, which includes Block 47, is proposed to include housing, retail, underground parking, office and a small hotel.

Location: Blocks 47 and 49, directly north of the Oregon Convention Center, located between NE 1st Avenue and NE Martin Luther King, Jr. Blvd, and between NE Multnomah Street and NE Holladay Street.

URA: Oregon Convention Center

Current Phase: Phase I is proposed to be a speculative office tower and construction is estimated to begin in 2011.

Next Milestone: Closing/Conveyance of Block 49 Parcel to Developer

Completion Target: July 1, 2014

Outcome: Substantial redevelopment of vacant and underutilized site in prominent location adjacent to Oregon Convention Center, MAX light rail, and Rose Quarter.

Site/Project Map:
March 26, 2009

Mr. Steven Shain
Portland Development Commission
222 NW Fifth Street
Portland, OR 97209

SUBJECT: Request for extension on Conveyance of PDC’s Block 49 parcel

Dear Steve:

As you know, the Schedule of Performance for the Phase I Component of the Convention District project attached to the Disposition and Development Agreement dated August 1, 2008 (“DDA”) states that, subject to certain conditions precedent, the conveyance of the Block 49 parcel from PDC to the Developer shall take place no later than December 31, 2009. The DDA was approved by the PDC Board of Commissioners at its May 28 meeting.

Prior to and since that time, our team has been working tirelessly to get 100 Multnomah designed, leased, financed and under construction. However, since around the middle of last year, the national and global economic climate has fallen into a state that has not been seen since the 1930s. Preservation of cash and elimination of any unnecessary capital expenditures is the new mantra, with everyone, from potential tenants in the building, to lenders and other capital-providers, adjusting their business plans accordingly.

While it is no secret that this downturn is severely impacting our efforts, we have not let up on this project, and have accomplished a great deal since we executed the DDA:

- In this extraordinary climate, we successfully sourced, negotiated and closed on an acquisition loan. We also extended our working capital lines to continue our efforts on the project.
- In January of this year, we closed on the major portion of the Phase II property – the Peters parcel. We have executed the Right of First Offer Agreement with PDC on that property in accordance with our responsibilities under the DDA.
- We are working very diligently to stabilize this asset over the short term by executing short-term leases on the existing buildings.
- While the universe of potential tenants has certainly got smaller, we are still identifying and aggressively pursuing targets that would be ideal tenants in 100 Multnomah.
- We are in discussions with joint-venture partners and investors for the project.
• We have coordinated with PDC staff to relocate the existing 150KV high voltage line off the Block 49 property and remove the associated easement from title.

• We are working diligently to get Phase II moving. This Phase has a much longer timeline, primarily due to the need to construct the parking component first. We are currently designing the parking structure, and exploring all options for financing, knowing that if that is solved, the rest of the project becomes much easier to execute.

Moving forward, we will be working on a number of fronts to bring the Convention District to reality.

• We applaud the efforts of everyone involved in working with Vestas Wind Systems to expand their presence in the City. We will continue to coordinate closely with PDC’s Economic Development Department and the Mayor’s Economic Development staff to market the project and identify similar tenant opportunities.

• We will continue to cultivate the expressions of interest in financing the project from our existing lending relationships.

• We will continue to refine the efficiency and features of the building to make it more attractive for leasing.

• We have been very clear about the fact that the parking component is an economic drag on Phase II. As pointed out above, we are in the design phase of this component, and will continue to work to make that structure as efficient as possible. We are already in discussions with potential JV partners and investors for the various components of Phase II. We will continue these discussions and aggressively seek additional partners and investors.

At this point, our discussions with potential partners on 100 Multnomah are being hampered by the need to convey that property by no later than the end of this year. While we all want to be optimistic about our chances of getting under construction soon, we need to be realistic about how long that may take. It is for this reason that we request that this date be extended to October 31, 2012, and also request that, at the Executive Director’s discretion, an additional up to twelve months be added to the timeline if both parties agree that substantial progress is being made. We appreciate your partnership in this project, and look forward to continuing our relationship and making this exciting project a reality.

Very truly yours,

Barry Schlesinger
Manager/Member StarTerra, LLC

cc: Wayne Rembold
    Bryan Powell, Esq.