

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** May 12, 2010

**TO:** Board of Commissioners

**FROM:** Bruce A. Warner, Executive Director

**SUBJECT:** Report Number 10-47  
Portland FBI Headquarters Project – Authorize Assignment of Rights and Obligations to Acquire Leasehold Interest in PDC Property at Cascade Station and Authorize Execution of an Amended Leasehold Purchase & Sale Agreement

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6793

#### ACTION SUMMARY

This action will authorize the Executive Director to approve the assignment of all development rights and obligations for the Portland Federal Bureau of Investigation (FBI) Project from the existing Developer, the Barry Real Estate Companies (Barry), to PH NARA, LLC, an entity controlled by the Molasky Group (Molasky) of Las Vegas, NV, and to execute an Amended Leasehold Purchase and Sale Agreement (PSA) for the sale of Portland Development Commission's (PDC) leasehold interest in the property. The property consists of approximately eight (8) acres of land at Cascade Station in the Airport Way Urban Renewal District. The leasehold estate to be sold will accommodate the new regional headquarters of the FBI (the Project). It will result in an investment by the developer of approximately \$65 million, the construction of a new 135,000 office building and 220-space parking garage, and the retention of approximately 210 jobs in the city of Portland

The proposal, as preliminarily negotiated by staff, would allow for the proposed assignment to Molasky and PDC would sell its leasehold interest in the parcel for \$3,242,000. After receiving a \$750,000 payment at closing, PDC would finance a portion of the land sales price at favorable terms and defer payment on another portion to help bridge the financial gap created by the depressed value of real estate and increased cost of private financing due to the recession. Without assigning the project to Molasky and without restructuring the financing as described herein, the project will not happen.

A summary of the proposed terms and conditions of this transaction is provided on Attachment A, attached hereto.

#### PUBLIC BENEFIT

The Airport Way Urban Renewal Area (URA) has reached its maximum indebtedness limit and can no longer issue new tax increment bonds. Sale of this leasehold interest to Molasky will result in the receipt of \$750,000 by PDC at closing, plus an estimated \$3,025,000 additional loan proceeds over the next 20 years – the minimum term of the

General Services Administration (GSA) sub-lease. These revenues can then be re-programmed in the Airport Way URA Fund and spent on economic development efforts in the URA, including small business loans for business expansions, remodeling, and new construction. It will also result in a \$65 million investment for the new office building and structured parking garage.

The project will house approximately 210 full-time jobs, jobs that will exceed PDC's Quality Jobs criteria. If this site were not made available to GSA, it is likely that GSA would be forced to find a site outside of the city due to GSA's siting requirements, which necessitate a 100-foot setback from all adjacent rights-of-way. There are few, if any, other sites in Portland that can meet this requirement.

Because the Project will house a federal agency, the developer will be required to adhere to applicable federal programs including the payment of prevailing wages and the workforce and hiring goals for minority, women, and disadvantaged enterprises. The building will be LEED certified.

Finally, since the buildings will be privately-owned, the project will pay property taxes to all of the taxing jurisdictions which are estimated to grow from approximately \$500,000 annually in 2012, to over \$900,000 annually in year 2030.

**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**

The Columbia Corridor Association (CCA) is very supportive of PDC's efforts in Airport Way, including our ongoing business finance activities and our 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.

On February 19, 2010, PDC staff again briefed the CCA on all activities in the Airport Way URA, including the proposed sale of PDC's leasehold interest in this site for the Project. The proposal was strongly supported by those CCA Board members present as a vehicle to creating short- and long-term employment opportunities in the district during construction of the complex and the subsequent operations of the facility.

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 the leasehold interest and new development at Cascade Station is consistent with the goals and objectives of the Airport Way Urban Renewal Plan, which was adopted by the PDC Board of Commissioners (Board) and City Council in 1986. The URA was formed primarily for job creation, and Goal 5D specifically calls for the promotion of job-producing uses of Airport properties, which includes Cascade Station. 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 office space 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.

## **FINANCIAL IMPACT**

The proposed sale will be for \$3,242,000. This sales price is supported by an independent MAI Appraisal performed by PGP Valuation and an Opinion of Value by PDC's broker, the Grubb & Ellis Company, both completed in July 2009. Staff has not obtained an updated appraisal since Molasky has agreed to retain the original Purchase Price even though regional real estate values for office properties have declined by approximately 20 to 30 percent since the recession started in late 2008. As described in the "Summary of Proposed Terms and Conditions", staff is recommending that PDC help finance the sale of the land at a reduced interest rate and defer a portion of the acquisition cost to partially offset the lost value of the real estate.

Net proceeds to PDC after the payment of the 5 percent sales commission and closing costs will be approximately \$3,608,000 (in 2010 dollars) which includes the down payment on the land, and principal and interest on the land loan and deferral (see "Summary of Proposed Terms and Conditions").

The sale of this leasehold interest as originally proposed was reviewed and supported by the PDC's Investment Committee (IC) on May 8, 2007; the proposed sale of the leasehold interest to Barry was reviewed and supported by the IC on March 2, 2009; and the assignment to Molasky under the revised terms and conditions described herein was reviewed and supported by the IC on March 30, 2010.

The Airport Way URA Revised Requested Budget/Five-Year Forecast is attached to this Report as a Financial Summary (Attachment B).

## **RISK ASSESSMENT**

Staff will be requesting that the Port of Portland (Port), as underlying landowner of the property, approve the assignment of PDC's Ground Lease for the Property to Molasky with a full release of responsibility and liability from the Port. If they agree, there is little or no risk to PDC in proceeding accordingly. However, if the Port will not agree to the assignment with release, staff is requesting authority to negotiate either an assignment without release from the Port, or authorization to enter into a sub-lease directly with Molasky for the term of

the GSA lease. Under this scenario, PDC would potentially be exposed to some risk of the developer going into default of the terms of the lease; however, staff believes that the risk is minimal inasmuch as the project lender will take any and all steps necessary to prevent a default. Nevertheless, under an assignment without release, or a sublease scenario, staff will require the developer to make lease administration payments, in addition to land acquisition payments, to offset the potential exposure that PDC may have.

There is certainly the risk that this transaction will not be realized given the shaky state of the real estate industry and the general unavailability of real estate financing. However, the developer has provided a copy of a lender commitment for all three FBI projects, including Portland.

Finally, because PDC controls approximately 28 acres of land beyond this proposed sale, there will have been no lost opportunity costs if the project doesn't proceed.

### **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, GSA, and the 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 assignment or desire to make modifications to the terms and conditions of the transaction. If the latter is chosen, staff would attempt to reach another agreement with the Port, GSA, and Molasky, and 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, TriMet, and the CCA. PDC's interdepartmental Airport Way Team has discussed and supports this transaction.

On March 30, 2010, PDC's Investment Committee met and reviewed the proposed changes to this transaction and endorsed them.

## **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.

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 \$14,000,000.

On June 22, 2005, the Board approved a number of items relating to restructuring the then-stalled 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 \$14,000,000 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 re-acquired the 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, three hotels and two office buildings have been completed.

On April 10, 2007, the GSA submitted a proposed Option Agreement for the acquisition of a portion of PDC's holdings at Cascade Station. Over the ensuing five months, PDC staff and GSA representatives negotiated the terms and conditions of the Agreement which was approved by the Board on October 24, 2007, and executed effective October 31, 2007.

After a lengthy Request for Proposals selection process, GSA named Barry as its developer with local subcontractors, engineers, and others on the team. Barry would be responsible for the design, construction, and financing of the Project, and then lease it to GSA for an initial 20-year term for occupancy by the regional headquarters of the FBI.

On May 14, 2008, the Board approved the form of a Leasehold Purchase and Sale Agreement for the project.

In January 2009, GSA notified PDC that they had selected Barry to be their developer for the project. GSA then assigned the Option Agreement to Barry and Barry exercised it effective January 30, 2009.

On April 23, 2009, the Board approved revised terms to the PSA which provided for a closing date not later than September 30, 2009. However, with the effective collapse of the real estate markets during this period, Barry found itself significantly over-extended and was unable to secure financing for the Project. Barry had three other GSA projects under contract, none of which was able to proceed for this reason.

During ensuing meetings between Barry and PDC, it became apparent that, due to the impact of the national economy on the ability to secure real estate financing and the increased cost of doing so, Barry would not be able to proceed with the Project.

In November 2009, Molasky approached Barry with a proposal to acquire the rights from Barry to four GSA projects that Barry was under contract on, including Portland's. Molasky demonstrated a very strong financial position and provided evidence of a financing commitment

allowing it to proceed with the projects. Molasky successfully got the first and largest of the four, a new National Archives and Records Center in St. Louis, Missouri, under construction in December 2009. They approached PDC in January 2010 with a proposal to acquire the Project leasehold rights.

With the introduction of Molasky as the proposed developer, and after a series of meetings with them, as well as undertaking due diligence review of various related documents, staff is recommending that the Board approve the assignment of development rights to Molasky and that they modify the terms and conditions of the Leasehold Purchase and Sale Agreement accordingly.

**ATTACHMENTS:**

- A. Summary of Terms and Conditions of PSA
- B. Airport Way URA Financial Summary
- C. Project Summary and Maps

## SUMMARY OF TERMS AND CONDITIONS

### SALE OF LEASEHOLD ESTATE TO PH NARA, LLC (MOLASKY)

Site:	8 acres in Parcel A, Cascade Station
Proposed Use:	Office Building of approximately 135,000 square feet; surface and structured parking; associated site improvements
Purchase Price:	\$3,242,000, or approx. \$9.34 per square foot
EM. Deposits:	\$100,000 at execution of documents; non-refundable, but applicable to Purchase Price
Cash at Closing:	\$650,000
Land Finance:	PDC will carry a \$1,500,000, 20-year land loan, at 2% interest (payments approx. \$91,059/year)
Deferral:	\$992,000 payment deferred until end of GSA base lease term (20 yrs); accruing 2% interest. Total payment due: \$1,204,406
Collateral:	Personal Guarantees from Molasky affiliates (individuals, trusts and/or/LLCs) and alternative real estate, if possible
Brokerage Fee:	5% of Purchase Price (\$162,100) split evenly between participating Brokers
Form of Assignment:	PDC will seek Port of Portland's approval of an Assignment With Port Release. Alternatively, Executive Director may proceed with an Assignment Without Port Release, or a direct Sub-Lease with Molasky provided Molasky pays PDC a Lease Administration Fee to cover potential costs.
PSA Term:	Anticipated Closing Date: May 31, 2010. Outside Closing Date: June 30, 2010
Other:	Developer will be required to adhere to applicable federal workforce and hiring programs including DBE contracting, wage rates, etc.

**URA FINANCIAL SUMMARY**

**Five-Year Forecast Project Requirements**

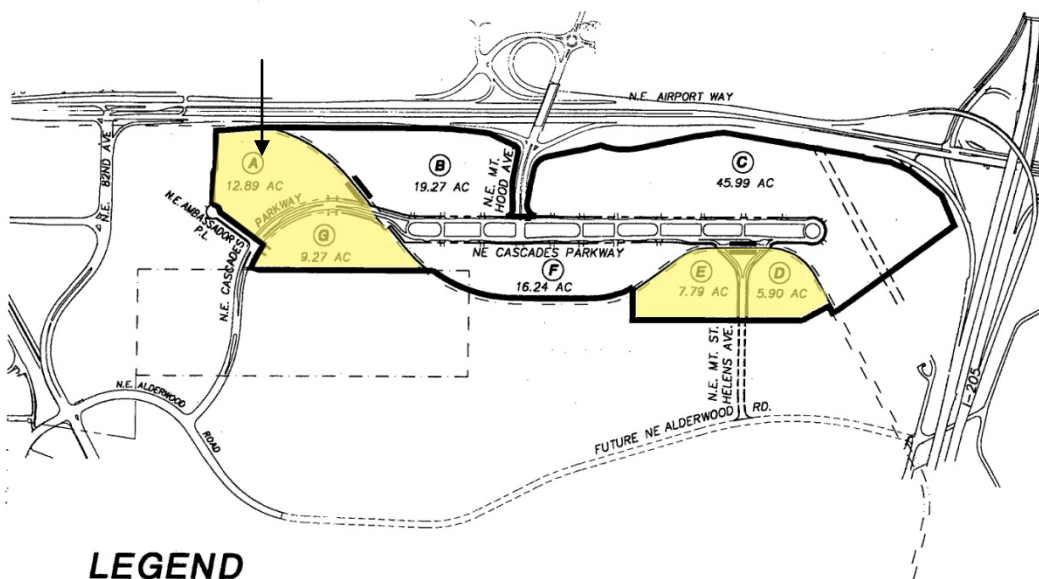
	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
<b>Airport Way URA</b>						
<b>Resources</b>						
Beginning Fund Balance	4,010,482	4,565,667	3,552,156	3,068,411	2,557,351	2,008,208
Interest on Investments	15,000	18,000	24,000	21,000	17,000	14,000
Loan Collections	87,627	87,627	77,823	53,716	19,633	19,633
Property Income	2,300,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Reimbursements	5,000	5,000	5,000	5,000	5,000	5,000
<b>Total Fund Resources</b>	<b>6,418,109</b>	<b>5,676,294</b>	<b>4,658,979</b>	<b>4,148,127</b>	<b>3,598,984</b>	<b>3,046,841</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Executive</b>						
H60044 AW Plan Amendment	30,000	0	0	0	0	0
<b>Administration Total</b>	<b>30,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Business and Industry</b>						
<b>General Business Assistance</b>						
H79020 Business Finance	20,000	0	0	0	0	0
<b>High Growth</b>						
H79020 Business Finance	0	400,000	400,000	400,000	400,000	400,000
<b>Industry Cluster</b>						
H11014 Riverside Pkwy Indstrl Park Dev	250,000	250,000	0	0	0	0
H72026 Cluster Development	0	50,000	50,000	50,000	50,000	50,000
H79020 Business Finance	800,000	600,000	600,000	600,000	600,000	600,000
H79022 Business Retention	75,000	20,000	20,000	20,000	20,000	20,000
<b>Business and Industry Total</b>	<b>1,145,000</b>	<b>1,320,000</b>	<b>1,070,000</b>	<b>1,070,000</b>	<b>1,070,000</b>	<b>1,070,000</b>
<b>Debt Service</b>						
<b>Debt Service</b>						
h98001 Debt Management	3,150	3,308	3,473	3,647	3,647	3,647
<b>Debt Service Total</b>	<b>3,150</b>	<b>3,308</b>	<b>3,473</b>	<b>3,647</b>	<b>3,647</b>	<b>3,647</b>
<b>Infrastructure</b>						
<b>Parks</b>						
H11017 Tree Planting	10,000	0	0	0	0	0
<b>Infrastructure Total</b>	<b>10,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Revitalization</b>						
<b>Community Outreach - Revitalization</b>						
H11601 Community Outreach	2,000	2,000	2,000	2,000	2,000	2,000
<b>Redevelopment</b>						
H11004 Cascade Station	200,000	250,000	250,000	250,000	250,000	250,000
H11602 Property Management	811	0	0	0	0	0
<b>Revitalization Total</b>	<b>202,811</b>	<b>252,000</b>	<b>252,000</b>	<b>252,000</b>	<b>252,000</b>	<b>252,000</b>
<b>Total Program Expenditures</b>	<b>1,390,961</b>	<b>1,575,308</b>	<b>1,325,473</b>	<b>1,325,647</b>	<b>1,325,647</b>	<b>1,325,647</b>
Personal Services	146,469	137,863	63,623	63,631	63,631	63,631
Transfers - Indirect	315,012	410,967	201,472	201,498	201,498	201,498
<b>Total Fund Expenditures</b>	<b>1,852,442</b>	<b>2,124,138</b>	<b>1,590,568</b>	<b>1,590,776</b>	<b>1,590,776</b>	<b>1,590,776</b>
Contingency	4,565,667	3,552,156	3,068,411	2,557,351	2,008,208	1,456,065
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>6,418,109</b>	<b>5,676,294</b>	<b>4,658,979</b>	<b>4,148,127</b>	<b>3,598,984</b>	<b>3,046,841</b>



### PROJECT SUMMARY

- Project Name:** PDC-controlled property at Cascade Station
- Description:** A Leasehold Sale of approximately 8 acres (a portion of Parcel "A" below, otherwise known as Parcel "J")
- Location:** NE Airport Way, between NE Mt. Hood Avenue and NE 82<sup>nd</sup> Ave.
- URA:** Airport Way
- Current Phase:** Approval of Assignment of Lease Rights and an Amended Leasehold Purchase & Sale Agreement
- Next Milestone:** Closing anticipated by June 30, 2010
- Completion Target:** Construction of the project will likely take 18 months after closing with occupancy estimated to occur in December, 2011
- Outcome:** 135,000 s.f. Office development on Parcel A, in two buildings, with structured parking for 220 vehicles
- Site/Project Map:** Map of Cascade Station Master Plan with PDC Sub Areas:

#### Property to be Sold (8 acres) within Parcel A



#### LEGEND

- PROPERTY BOUNDARY
- RIGHT-OF-WAY
- LIGHT RAIL EASEMENT
- NO STRUCTURE ZONE
- UTILITY EASEMENT
- SUBAREA LABEL
- LIGHT RAIL STATION

PDC Land

#### MASTER PLAN WITH SUBAREAS



FEB. 19, 2011  
 WSP: PACIFIC  
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Property to be Sold – Parcel "J"

