



**PROSPER**  
**PORTLAND**  
Building an Equitable Economy

**DATE:** June 27, 2018  
**TO:** Board of Commissioners  
**FROM:** Kimberly Branam, Executive Director  
**SUBJECT:** Report Number 18-31

Authorizing an Option to Sublease 13.7 Acres of Leased Property in the Airport Way Urban Renewal Area to Trammell Crow Portland Development Inc.

### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7283

This action by the Prosper Portland Board of Commissioners (Board) will authorize the Executive Director to execute an Option Agreement (Option) for a Sublease of Land (Sublease) between Prosper Portland and Trammell Crow Portland Development, Inc. (Trammell Crow) for Parcels D and E of Cascade Station (Property); see a Property Description and Aerial in Attachment A. Trammell Crow aims to construct approximately 300,000 to 400,000 square feet of build-to-suit commercial office.

### **STRATEGIC PLAN ALIGNMENT AND OUTCOMES**

This action will deliver on the Prosper Portland 2015-2020 Strategic Plan by i) growing quality jobs, ii) targeting expansion and recruitment of private employers in the Columbia Corridor, iii) providing equitable construction and contracting opportunities, and iv) implementing strategic disposition of Prosper Portland real estate that achieves both development and long-term financial sustainability objectives.

### **BACKGROUND AND CONTEXT**

In 1999, Prosper Portland partnered with TriMet, the City of Portland (City), the Port of Portland (Port), and Bechtel Corporation to extend light rail to the Portland International Airport and to facilitate the development of a major retail, hotel, and office development on approximately 120 acres of Port-owned property at what is now known as Cascade Station. The Port ground leased the 120 acres to a joint venture developer, including Bechtel Corporation, to build Cascade Station. Prosper Portland provided \$14,000,000 in urban renewal funding in support of the light rail extension and also provided a \$14,000,000 loan to help fund the public infrastructure at Cascade Station, including streets, sidewalks, drainage improvements, lighting, etc. As a condition of the infrastructure funding, the developer pledged repayment to Prosper Portland once the cash flow reached a certain defined level after other investors were paid off.

Because of the economic slowdown from 1999 to 2002 which adversely affected retail and other commercial development, as well as zoning limitations which prohibited any retail user of more than 60,000 square feet, the Cascade Station redevelopment project stalled and no development took place for a number of years. In 2005, the developer approached Prosper Portland, the Port, and the City with a plan to restructure the development requirements and financing. Thereafter, a comprehensive

agreement was reached which included i) a change in zoning requirements and ii) a restructure of the \$14,000,000 in debt owed to Prosper Portland. In satisfaction of the debt, the developer assigned its leasehold rights to 36 acres of the 120-acre site to Prosper Portland.

Since acquisition in July 2006, Prosper Portland has disposed of approximately 13 of the 36 acres, including dispositions of leasehold rights that have resulted in the development of the FBI Building, Holiday Inn, and Cook Security Group headquarters. Prosper Portland still owns approximately 23 acres in Cascade Station, including the 13.7 acres proposed to be optioned to Trammell Crow. With this Option and Sublease authorization, Prosper Portland will have remaining 9.3 acres of leasehold rights at adjacent Cascade Station Parcel G.

Prosper Portland has had great difficulty disposing of the Property due partially to the limited market for the permitted uses. Prosper Portland has marketed the Property since 2006 and has not received any legitimate offers in the past 12 years. Trammell Crow, which has successfully developed other office property in Cascade Station, approached Prosper Portland in 2017 and commenced discussions about Prosper Portland granting them an option on the subject property with the intent to develop the properties with build-to-suit office uses that will support increased job growth within Cascade Station.

This action will authorize the Executive Director to enter into a three year Option. If exercised, Trammell Crow will enter into an approximately 65 year Sublease of the Property according to the terms described below. During the three year Option term, Trammell Crow will pay Prosper Portland a series of non-refundable Option payments of up to \$240,000, which are not applicable to the Sublease rental obligations.

If the Option is exercised, Trammell Crow will sublease the Property, at a rental rate which will equal the greater of five percent of the effective gross revenue generated on the Property by Trammell Crow during the preceding month or \$500 per acre. The minimum base rent of \$500 per acre escalates ten percent every five years during the sublease term. Since Prosper Portland pays no rent to the Port under its Master Lease, 100 percent on the income from the Trammell Crow sublease will be retained by Prosper Portland. If the Option is exercised, Trammell Crow will sublease the Property, at a rental rate which will equal the greater of five percent of the effective gross revenue generated on the Property by Trammell Crow during the preceding month or \$500 per acre. The minimum base rent of \$500 per acre escalates ten percent every five years during the Sublease Term. Since Prosper Portland pays no rent to the Port under its master lease, 100 percent on the income from the Trammell Crow Sublease will be retained by Prosper Portland.

This is the first Prosper Portland land transaction in Cascade Station that is in the form of a long term lease rather than as an outright assignment of Prosper Portland's ground leasehold interest, as the goal of realizing both near term job growth and longer term ongoing, regular income to the agency delivers on the Financial Sustainability Plan.

#### **EQUITY IMPACT**

Prosper Portland's Social Equity Policy, including the Business and Workforce Equity programs, will apply to this transaction.

#### **COMMUNITY PARTICIPATION AND FEEDBACK**

There was no public participation specific to this proposed transaction. However, Prosper Portland has discussed the proposed transaction with the Port, which is supportive. In addition, the Columbia

Corridor Association is supportive of Prosper Portland’s efforts in Airport Way URA, including efforts to stimulate development at Cascade Station.

**BUDGET AND FINANCIAL INFORMATION**

The Airport Way URA Fiscal Year (FY) 2018-19 Approved Budget and Five Year Forecast currently include funds for ongoing ownership and maintenance of the Property (see Attachment B). The Approved Budget does not anticipate receiving Option payments over the subsequent three years or any future Sublease revenues, and therefore the Budget and Five Year Forecast will need to be amended to acknowledge Option payment proceeds of approximately \$240,000.

**RISK ASSESSMENT**

Entering into this Option creates the following minimal risks:

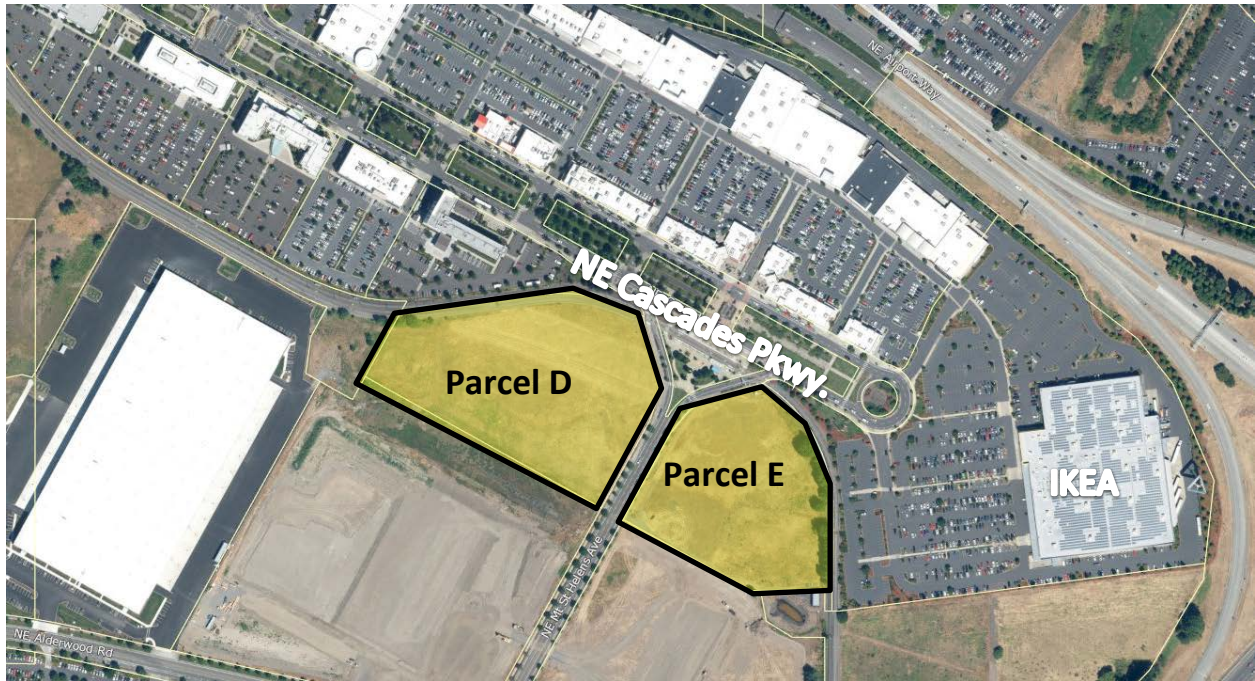
1. Trammell Crow may terminate the Option without cost during the 180-day due diligence period.
2. Trammell Crow will have three years exclusive right to attempt to develop the property, during which time Prosper Portland will not be able to market the property. While Trammell Crow may terminate the Option at any time before the end of three years, Trammell Crow will be required to pay a series of non-refundable option payments up to \$240,000.

**ATTACHMENTS**

- A. Property Description and Aerial
- B. URA Financial Summary

**Property Description and Aerial**

**Name:** Parcel D & E  
**Acreage:** 13.7  
**URA:** Airport Way



**URA Financial Summary**

**Financial Summary  
 Five-Year Forecast**

<u>Airport Way URA Fund</u>	<u>Revised 2 FY 2017-18</u>	<u>Approved FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>	<u>Forecast FY 2021-22</u>	<u>Forecast FY 2022-23</u>
<b>Resources</b>						
Beginning Fund Balance	5,044,502	5,673,553	4,681,205	5,357,342	6,374,510	7,812,217
<b>Revenue</b>						
Fees and Charges	813	913	362	762	-	-
Interest on Investments	65,882	10,000	10,000	-	-	-
Loan Collections	52,942	77,504	77,504	77,504	77,504	77,504
Property Sales	994,532	-	1,566,667	1,566,667	1,566,667	-
<b>Rent and Property Income</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>225,000</b>	<b>225,000</b>
<b>Total Revenue</b>	<b>1,114,169</b>	<b>88,417</b>	<b>1,654,532</b>	<b>1,644,932</b>	<b>1,869,170</b>	<b>302,504</b>
<b>Total Resources</b>	<b>6,158,671</b>	<b>5,761,970</b>	<b>6,335,737</b>	<b>7,002,274</b>	<b>8,243,680</b>	<b>8,114,721</b>
<b>Requirements</b>						
<b>Administration</b>						
A00032-Debt Management-APW	7,821	7,821	7,821	7,821	7,821	7,821
<b>Administration Total</b>	<b>7,821</b>	<b>7,821</b>	<b>7,821</b>	<b>7,821</b>	<b>7,821</b>	<b>7,821</b>
<b>Traded Sector</b>						
A00116-Business Development-APW	0	25,000	25,000	-	-	-
A00383-Lean Manufacturing-APW	55,000	30,000	30,000	-	-	-
<b>Business Lending</b>						
A00211-BL -General-APW	0	200,000	-	200,000	-	-
<b>Economic Development Total</b>	<b>55,000</b>	<b>255,000</b>	<b>55,000</b>	<b>200,000</b>	<b>-</b>	<b>-</b>
<b>Property Redevelopment</b>						
<b>Real Estate</b>						
A00349-Cascade Station-APW	169,311	537,311	537,311	37,311	37,311	30,000
A00350-Cascade Stn-Prcl G-APW	41,300	44,300	44,300	44,300	44,300	15,000
A00351-Cascade Station-Prcl K-APW	15,000	-	-	-	-	-
A00353-Real Estate Mgmt-APW	46,600	46,600	46,600	46,600	46,600	-
<b>Property Redevelopment Total</b>	<b>272,211</b>	<b>628,211</b>	<b>628,211</b>	<b>128,211</b>	<b>128,211</b>	<b>45,000</b>
<b>Total Program Expenditures</b>	<b>335,032</b>	<b>891,032</b>	<b>691,032</b>	<b>336,032</b>	<b>136,032</b>	<b>52,821</b>
Personnel Services	38,538	60,246	28,269	28,803	29,233	29,654
<b>Total Fund Expenditures</b>	<b>373,570</b>	<b>951,278</b>	<b>719,301</b>	<b>364,835</b>	<b>165,265</b>	<b>82,475</b>
Interfund Transfers - Indirect Charges	111,548	129,487	259,095	262,929	266,198	269,651
Contingency	5,673,553	4,681,205	5,357,342	6,374,510	7,812,217	7,762,595
<b>Total Fund Requirements</b>	<b>6,158,671</b>	<b>5,761,970</b>	<b>6,335,737</b>	<b>7,002,274</b>	<b>8,243,680</b>	<b>8,114,721</b>