

**DATE:** April 9, 2013  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 13-11  
Authorizing the Executive Director to Execute a Leasehold Purchase and Sale Agreement with Station Hospitality, LLC for the Sale of a Leasehold Interest to Unimproved Real Property at Cascade Station in the Airport Way Urban Renewal Area at a Sale Price of Up to \$806,100

**BOARD ACTION REQUESTED**

Adopt Resolution No. 6999

**ACTION DESCRIPTION**

This action will authorize the Executive Director to execute a Leasehold Purchase and Sale Agreement (PSA) for the sale of Portland Development Commission's (PDC) leasehold interest in approximately two acres of land at Cascade Station in the Airport Way Urban Renewal Area (URA). The buyer is Station Hospitality, LLC (Buyer), whose partners are developers and owners of a number of hotels in the city. On this site at Cascade Station, Buyer will develop a hotel with between 85 to 110 rooms (Project). The brand of hotel will be from an approved list established by PDC and agreed to by the Buyer.

The PSA provides for the purchase price to be \$8.30 per square foot for a total of approximately \$723,100. The final size of the parcel to be sold may be adjusted by the Buyer by up to 10,000 square feet, in which case, the purchase price would be adjusted accordingly. If the full 10,000 square feet were to be added to the site, the purchase price would be approximately \$806,100. A term sheet summarizing the proposed terms and conditions of this transaction is provided in Attachment A.

**BACKGROUND AND CONTEXT**

In 1999, PDC partnered with TriMet, the City of Portland (City), the Port of Portland (Port), and the 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. PDC provided \$14 million in urban renewal funding in support of the light rail extension and also provided \$14 million to the entity formed by the Bechtel Corporation, the Cascade Station Development Company, LLC (CSDC) to help fund the public infrastructure at Cascade Station (streets and sidewalks, drainage improvements, lighting, etc.). As a condition of the infrastructure funding, the Bechtel Corporation pledged repayment to PDC once the cash flow reached a certain defined level after the other investors were paid off.

However, because of the economic slowdown in 1999 to 2002, which adversely affected retail and other commercial development, and the zoning limitations placed on Cascade Station by the City, which prohibited any retail user of more than 60,000 square feet, the project stalled and no development took place for the next six years. Furthermore, since PDC was at the bottom of a series of revenue waterfalls,

and as property management expenses continued during this period with no income, it became apparent that PDC would not likely see a return of its funding for many years.

In 2005, the Trammell Crow Company (Trammel Crow), a limited partner in CSDC, approached PDC, the Port, and the City with a plan to jumpstart the development. Key to doing this was the City's agreement to relax the zoning provisions that restricted any anchor tenants, which would be absolutely necessary to attract the 20 to 25 planned smaller tenants. PDC decided to partner with Trammell Crow and the Port to do so, but only under the condition that PDC's \$14 million be repaid through the restructure, or that PDC was provided \$14 million worth of development rights to a portion of the real estate holdings at Cascade Station. Trammell Crow elected to transfer development rights to 36 acres of the 120-acre site to PDC. The appraised value of those 36 acres was at least \$14 million. The land that PDC took down is zoned for office and/or hotel uses only; retail was, and remains, a prohibited use on the PDC parcels. The actual mechanism for each of these transactions takes the form of a sale of PDC's development rights to an 85-year, pre-paid ground lease (with a 14-year option to extend) with the Port. Because this term is well beyond the useful life of most buildings, and well beyond typical development financing, the appraisal community treats these transactions as if they were fee transactions.

On August 13, 2008, the Commission approved Resolution #6626 authorizing the sale of a leasehold interest of a different parcel of PDC's land at Cascade Station to the Canterbury Group, Inc. (Canterbury Group) which also proposed a hotel development on said property; however, shortly before closing, the Canterbury Group was forced to pull out of that project as the recession took hold and commercial financing became unavailable.

In fall 2012, representatives of the Canterbury Group returned to PDC staff with a request to acquire a different leasehold interest from PDC under a Limited Liability Company named Station Hospitality, LLC, and PDC staff worked with them to document the proposed terms and conditions of a proposed sale, whose terms and conditions are summarized in the term sheet found in Attachment A. A preliminary site plan for the proposed development is shown in Attachment B.

The Grubb and Ellis brokerage firm (G & E) was listing agent for this property from 2006 through 2012 and was in place when the Buyer began discussions with PDC. As such, G & E will be entitled to any brokerage commissions paid. The property is currently represented by CBRE.

#### **COMMUNITY AND PUBLIC BENEFIT**

The Airport Way URA has reached its maximum indebtedness and can no longer issue new tax increment bonds. Sale of this leasehold interest to the Buyer will generate between approximately \$607,000 and \$760,000 in net proceeds (after title insurance and real estate commissions are paid) which may be subsequently used by PDC as income that can be re-programmed in the Airport Way URA Fund and spent on economic development efforts in the district including business loans, lean consulting assistance, etc. Ultimately, the Project will result in an estimated \$12 million in new taxable improvements on the site.

#### **PUBLIC PARTICIPATION AND FEEDBACK**

The Columbia Corridor Association (CCA) is supportive of PDC's efforts in the URA, including ongoing business finance activities and PDC's efforts to stimulate development at Cascade Station. This sale is fully consistent with the uses and other requirements of the Plan District.

#### **BUDGET AND FINANCIAL INFORMATION**

There is no public funding or public subsidy associated with this transaction. The proposed sale will be for \$8.30 per square foot or \$871,200 (as may be adjusted by up to 10,000 square feet at \$8.30 per

square foot). This \$8.30 per square foot purchase price reflects the fair market value of the property based on an MAI appraisal by Colliers International dated April 2012.

The sale of this leasehold interest as proposed was reviewed and supported by PDC's Finance Investment Committee on August 14, 2012.

The Airport Way URA FY 2012-13 Revised Budget and Forecast is attached to this Report as a Financial Summary (Attachment C).

#### **RISK ASSESSMENT**

There is little or no risk to PDC in executing this PSA since the leasehold estate will not be transferred to the Buyer until 100 percent of the non-refundable purchase price is deposited in escrow. Also, because PDC still controls approximately 26 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 project will not proceed in accordance with the schedule of performance.

#### **ALTERNATIVE ACTIONS**

The PDC Board of Commissioners (Board) could elect to reject this proposed transaction, or could require changes to the terms and conditions being recommended by staff. If changes are required, staff will attempt to negotiate those with the Buyer and report back to the Board.

#### **ATTACHMENTS**

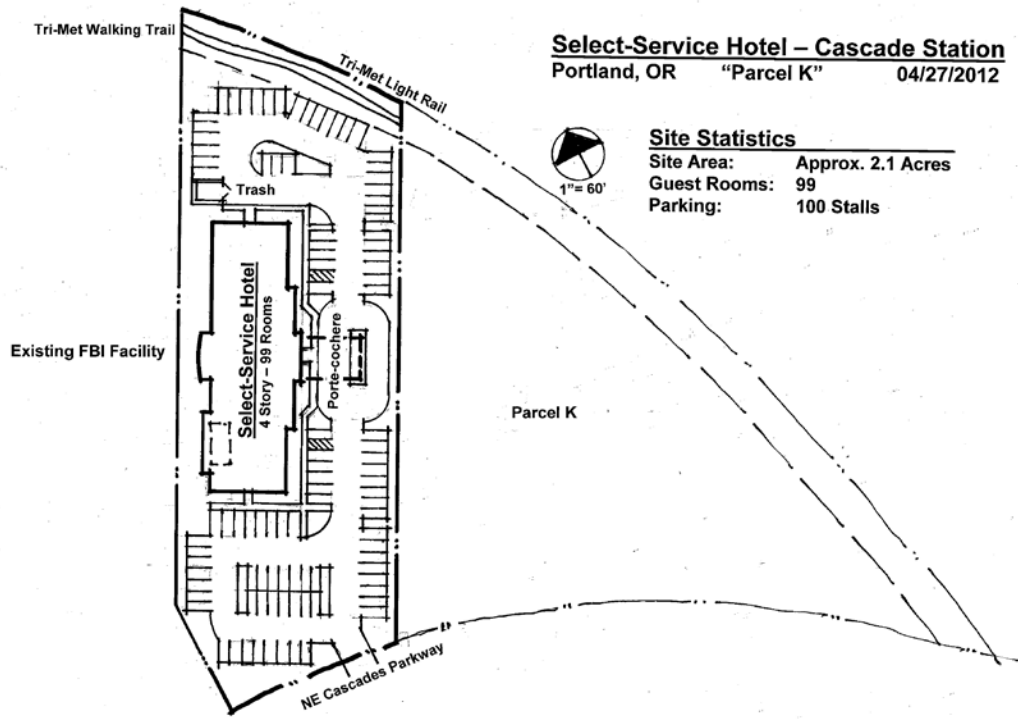
- A. Term Sheet
- B. Preliminary Site Plan
- C. URA Financial Summary

**TERM SHEET**  
**CASCADE STATION – PORTION OF PARCEL K**

<b>Issue</b>	<b>Recommended Terms</b>
Site Location/Size	Western portion of Parcel K (2 acres, or approx. 87,120 sf; adjustable by up to 10,000 sf)
Proposed Use	Hotel with approx. 100 rooms; Parking at 1 space per room.
Purchase Price	\$8.30 per square foot per MAI appraisal. Gross: \$723,096, plus adjustments, if any.
Brokerage Commission	5% to Grubb & Ellis. If there is a participating Buyer broker, the Commission is split 50/50.
Earnest Money (EM)	\$75,000 EM Deposit required at execution of PSA. EM Deposit is refundable w/in 120 days if Buyer deems title to be unacceptable for any reason. EM Deposit goes non-refundable after 120 days but is applicable to the Purchase Price if Closing occurs. It is forfeited to PDC upon failure to close by the Closing Date.
Permitted Exceptions	TBD
Closing Date	NTE one year following execution of PSA.
Conditions to Closing	Standard conditions plus Developer ability to market rooms with “Park and Fly” feature.*
Extensions to Closing Date	Buyer may extend the Closing Date for up to an additional 6 months with the payment of 1% of the Purchase Price per month. Said payments are non-refundable and are NOT applicable to the Purchase Price.

\*Park and Fly condition may be waived by Buyer

**PRELIMINARY SITE PLAN**



**URA FINANCIAL SUMMARY**

**Five-Year Forecast Program Requirements Detail**

	Revised FY 2012-13	Draft FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
<b>Airport Way URA</b>						
<b>Resources</b>						
Beginning Fund Balance	3,886,064	2,208,292	1,935,493	3,544,463	2,860,963	5,239,800
Interest on Investments	25,000	10,000	10,000	10,000	10,000	10,000
Loan Collections	50,000	176,935	176,936	176,935	176,935	231,234
Property Income	0	759,000	2,315,844	0	3,058,371	1,097,712
<b>Total Resources</b>	<b>3,961,064</b>	<b>3,154,227</b>	<b>4,438,273</b>	<b>3,731,398</b>	<b>6,106,269</b>	<b>6,578,546</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101385 Debt Management-APW	22,532	3,647	3,647	3,647	3,647	3,647
<b>Total Administration</b>	<b>22,532</b>	<b>3,647</b>	<b>3,647</b>	<b>3,647</b>	<b>3,647</b>	<b>3,647</b>
<b>Business Dev</b>						
<b>Business Lending</b>						
L02100385 BIF-General-APW	300,000	100,000	150,000	150,000	150,000	150,000
L02110385 BIF-Cluster Group-Budget-APW	0	295,000	250,000	250,000	250,000	250,000
<b>Traded Sector Business Dev</b>						
T01069385 Lean Manufacturing-APW	30,000	30,000	30,000	30,000	30,000	30,000
B15100385 Cluster Development-APW	100,000	25,000	25,000	25,000	25,000	25,000
B15102385 Site Recruitment-APW	14,250	0	0	0	0	0
<b>Total Business Dev</b>	<b>444,250</b>	<b>450,000</b>	<b>455,000</b>	<b>455,000</b>	<b>455,000</b>	<b>455,000</b>
<b>Property Redev</b>						
<b>Commercial Property Redevelopm</b>						
P38550425 Cascade Stn-Prol D-APW-Adm	14,033	3,046	3,046	3,046	0	0
P38550435 Cascade Stn-Prol E-APW-Adm	13,735	2,748	2,748	2,748	2,748	2,748
P38550445 Cascade Stn-Prol G-APW-Adm	15,475	4,488	4,488	4,488	4,488	4,488
P38550455 Cascade Stn-Prol A-K-APW-Adm	13,081	2,094	2,094	0	0	0
P38551415 Riverside Prkwy 1&2-APW-Adm	302,500	52,500	2,500	0	0	0
P38560015 Project Development-APW-Adm	0	30,000	30,000	30,000	30,000	30,000
P38591015 Public Outreach-APW-Adm	10,000	5,000	5,000	5,000	5,000	5,000
P38550415 Cascade Station-APW-Adm	342,000	200,000	200,000	200,000	200,000	200,000
<b>Total Property Redev</b>	<b>710,824</b>	<b>299,876</b>	<b>249,876</b>	<b>245,282</b>	<b>242,236</b>	<b>242,236</b>
<b>Total Program Expenditures</b>	<b>1,177,606</b>	<b>753,523</b>	<b>708,523</b>	<b>703,929</b>	<b>700,883</b>	<b>700,883</b>
Personal Services	94,604	146,663	40,058	39,799	39,627	39,626
Transfers - Indirect	480,562	318,548	145,229	126,707	126,159	126,159
<b>Total Fund Expenditures</b>	<b>1,752,772</b>	<b>1,218,734</b>	<b>893,810</b>	<b>870,435</b>	<b>866,669</b>	<b>866,668</b>
Contingency	2,208,292	1,935,493	3,544,463	2,860,963	5,239,600	5,711,878
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>3,961,064</b>	<b>3,154,227</b>	<b>4,438,273</b>	<b>3,731,398</b>	<b>6,106,269</b>	<b>6,578,546</b>