

DATE: September 10, 2014
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 14-39
Approving a Sublease Agreement for the Portland Development Commission-Leased Property and Site Improvements of up to \$1,249,000 at Cascade Station in the Airport Way Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 7074

ACTION DESCRIPTION

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) would authorize i.) The execution of an approximately 10-year (plus four five-year extension options) absolute net sublease agreement (Lease) between Cascade Station Corporate Center 1 (CSCC) and PDC; and ii.) The expenditure of up to \$1,249,000 for construction of a 150-stall surface parking lot on a portion of Parcel G Cascade Station (Site) in the Airport Way Urban Renewal Area (URA) (see Attachment A). PDC has a long-term ground lease with the Port of Portland on this parcel. If approved, these actions will allow Wells Fargo Bank, a tenant in the adjacent office building, to support approximately 285 family wage jobs, many new to Portland, at the facility.

Once the parking lot is completed, CSCC will be responsible for all its operating and maintenance costs. PDC will receive annual absolute net rent of 8.75 percent of the total project costs (including land valued at approximately \$559,000) plus a 7.5 percent increase each five year period. Using the currently estimated \$1,808,000 total project costs results in an initial annual absolute net rent of \$158,200.

PDC Board approval is required for any commercial lease agreement for a term of more than five years (including any option period) and for expenditures in excess of \$500,000.

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 from 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. 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, but only under the condition either 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 acquired is zoned for office and/or hotel uses only; retail was and remains a prohibited use on the PDC parcels.

COMMUNITY AND PUBLIC BENEFIT

The lease enables Wells Fargo to bring approximately 285 family wage jobs to the Airport Way URA and provides PDC with approximately \$160,000 in annual revenue to assist in future economic development activities in the district.

PUBLIC PARTICIPATION AND FEEDBACK

There was no public participation specific to this proposed transaction. However, the Columbia Corridor Association (CCA) is supportive of PDC's efforts in Airport Way URA, including efforts to stimulate development at Cascade Station.

BUDGET AND FINANCIAL INFORMATION

Total hard and soft costs to construct the parking lot are estimated at \$1,249,000 as follows:

Construction:	\$ 886,500
Design:	\$ 59,500
Permitting:	\$ 40,400
Legal & Insurance:	\$ 41,600
Development Coordination:	\$ 106,000
Contingency:	<u>\$ 115,000</u>
Hard & Soft Costs Subtotal:	\$1,249,000
Land (58,806 sq.ft. @ 9.50/sq.ft.)	<u>\$ 559,000</u>
Total Estimated Project Costs:	\$1,808,000

Project costs shall be revised per actual costs including final land square footage utilized. The initial lease rate shall be 8.75 percent of total project costs, currently estimated at \$158,200 assuming \$1,808,000 in total project costs. Lease rate will increase 7.5 percent every five years and the lease is absolute net to PDC (the tenant pays all costs of operation of the site). The term of the lease is approximately 10 years with four five-year options to renew. Additional details and other terms are outlined in Exhibit A to the Resolution.

The Airport Way URA Fiscal Year (FY) 2014-15 Budget is attached to this Report as a Financial Summary (see Attachment C). Approval of this project will require that the budget for the Airport Way URA be revised for complete coverage of the costs.

RISK ASSESSMENT

Although the lease is between PDC and CSCC, it is co-terminus with a lease between CSCC and Wells Fargo. Wells Fargo is one of the top financial institutions in the U.S. In the event Wells Fargo does not exercise a renewal option, the parking lot has been designed to support a future office building as illustrated on the attached site plan Attachment A.

ALTERNATIVE ACTIONS

The PDC Board could elect to reject this proposed transaction or could require changes to the proposed terms and conditions. If changes are instructed staff will pursue negotiations of those with the CSCC and report back to the Board.

ATTACHMENTS

- A. Project Summary and Aerial
- B. Site Plan
- C. URA Financial Summary

Project Summary and Aerial

Project Name: Cascade Station - Parcel G, Sublease Agreement

Description: 56,806 square foot parking area

Location: NE Cascades Parkway

URA: Airport Way

Current Phase: Sublease Negotiation

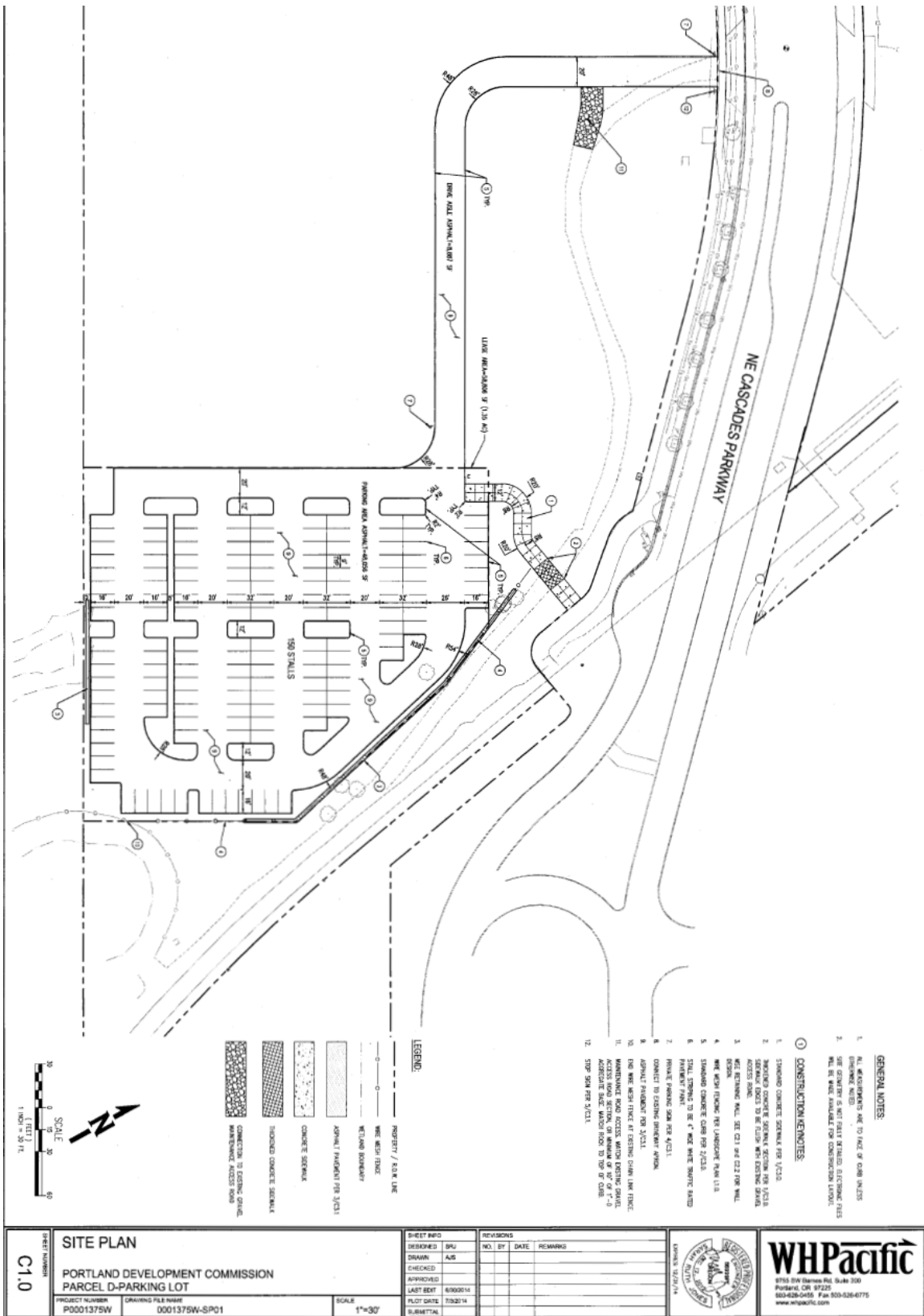
Next Milestone: Sublease Execution / Begin Construction

Completion Target: December 2014

Outcome: Execute sublease of proposed 150-stall surface parking lot in the AWURA. Construction of proposed parking lot will commence immediately after sublease documents are executed.



Site Plan



<p>SITE PLAN</p> <p>PORTLAND DEVELOPMENT COMMISSION</p> <p>PARCEL D-PARKING LOT</p> <p>PROJECT NUMBER: P0001375W DRAWING FILE NAME: 0001375W-SP01</p>	<p>SCALE: 1"=30'</p>	<p>SHEET INFO</p> <p>DESIGNED: SPJ DRAWN: AJS CHECKED: APPROVED: LAST DATE: 6/30/14 PLOT DATE: 7/31/14 SUBMITTAL:</p>	<p>REVISIONS</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>NO.</th> <th>BY</th> <th>DATE</th> <th>REMARKS</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	NO.	BY	DATE	REMARKS						<p>8755 SW Stevens Ave. Suite 300 Portland, OR 97225 503-626-0458 Fax: 503-626-6775 www.whpacific.com</p>
		NO.	BY	DATE	REMARKS								
<p>C1.10</p>													

URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised- 3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
Airport Way URA						
Resources						
Beginning Fund Balance	3,948,379	4,309,894	2,612,667	2,683,717	5,112,964	5,574,820
Fees and Charges	92	481	487	490	920	635
Interest on Investments	10,000	10,000	10,000	10,000	10,000	10,000
Loan Collections	176,935	85,435	86,607	87,012	163,538	112,853
Property Income	1,633,325	0	759,000	3,058,371	1,097,712	0
Total Resources	5,768,731	4,405,810	3,468,761	5,839,590	6,385,134	5,698,308
Requirements						
Program Expenditures						
Administration						
Financial Administration						
A45101385 Debt Management-APW	10,000	3,647	3,647	3,647	3,647	3,647
Total Administration	10,000	3,647	3,647	3,647	3,647	3,647
Business Development						
Business Lending						
L00210385 BL -General-AIR	0	400,000	400,000	400,000	400,000	400,000
L02100385 BIF-General-APW	100,000	0	0	0	0	0
L02110385 BIF-Cluster Group-Budget-APW	295,000	0	0	0	0	0
Traded Sector Business Dev						
T01069385 Lean Manufacturing-APW	30,000	30,000	30,000	30,000	30,000	30,000
B15100385 Cluster Development-APW	25,000	25,000	25,000	25,000	25,000	25,000
Total Business Development	450,000	455,000	455,000	455,000	455,000	455,000
Property Redevelopment						
Commercial Property Redevelopm						
P38550435 Cascade Stn-Prcl E-APW-Adm	26,546	32,950	32,950	32,950	32,950	32,950
P38550445 Cascade Stn-Prcl G-APW-Adm	281,438	946,509	33,509	33,509	33,509	33,509
P38550455 Cascade Stn-Prcl A-K-APW-Adm	26,514	24,603	24,603	24,603	24,603	24,603
P38551415 Riverside Prkwy 1&2-APW-Adm	219,503	0	0	0	0	0
P38590015 Project Development-APW-Adm	30,000	30,000	30,000	30,000	30,000	30,000
P38591015 Public Outreach-APW-Adm	5,000	5,000	5,000	5,000	5,000	5,000
P38550425 Cascade Stn-Prcl D-APW-Adm	21,120	28,197	28,197	0	0	0
Total Property Redevelopment	610,121	1,067,259	154,259	126,062	126,062	126,062
Total Program Expenditures	1,070,121	1,525,906	612,906	584,709	584,709	584,709
Personal Services	87,335	38,291	44,180	37,019	59,045	85,284
Transfers - Indirect	301,381	228,946	127,958	104,898	166,560	236,817
Total Fund Expenditures	1,458,837	1,793,143	785,044	726,626	810,314	906,810
Contingency	4,309,894	2,612,667	2,683,717	5,112,964	5,574,820	4,791,498
Ending Fund Balance	0	0	0	0	0	0
Total Requirements	5,768,731	4,405,810	3,468,761	5,839,590	6,385,134	5,698,308