

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: April 23, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-45
Revise Terms of Leasehold Purchase and Sale Agreement with Barry Real Estate Companies for Sale of a Leasehold Interest at Cascade Station

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6694

ACTION SUMMARY

This action will authorize the Executive Director to execute a revised Leasehold Purchase and Sale Agreement (PSA) for the sale of Portland Development Commission's (PDC's) leasehold interest in approximately eight (8) acres of land at Cascade Station in the Airport Way Urban Renewal District. The site to be sold will accommodate the new regional headquarters of the Federal Bureau of Investigation (the Project).

PDC entered into an Option Agreement with the General Services Administration (GSA) for the site on October 31, 2007. On May 14, 2008, the PDC Board of Commissioners (Board) authorized execution of a Purchase & Sale Agreement with the to-be-selected developer. After a lengthy selection process, GSA named the Barry Real Estate Companies (Barry) of Atlanta, GA as its developer with local subcontractors, engineers, and others on the team. Barry will be responsible for the design, construction and financing of the Project, will own the improvements and will lease them back to GSA.

Securing financing for the project has been made significantly more difficult due to current economic conditions and a tightening of the credit market to the extent that Barry cannot meet the Project schedule as originally contemplated in the Option Agreement and the PSA. Therefore, it is necessary to revise the PSA prior to execution to allow for additional time to secure the necessary entitlements and approvals necessary for the financing to close. The revisions to the PSA move the scheduled Closing Date to May 29, 2009 and allow for Barry to extend the Outside Closing Date to be not later than September 30, 2009, provided that Barry makes a \$50,000 payment into escrow (which payment would be non-refundable but applicable to the Purchase Price) for each two-month period after May 2009 that they wish to extend closing. Barry is agreeable to this change and is prepared to execute the revised PSA.

A summary of the proposed terms and conditions of this transaction, including these proposed revisions, is provided in Attachment A.

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 GSA's selected developer will result in an estimated \$3.1 million in program income that can be re-programmed in the Airport Way URA Fund and spent on economic development efforts in the URA, such as Quality Jobs Program loans and Economic Opportunity Fund grants. It will also result in the construction of an estimated \$75 million in new office space and a structured parking garage.

The project will house approximately 210 full time jobs, jobs that exceed PDC's Quality Jobs criteria. These jobs are currently located in Portland and their relocation here will be a consolidation and retention of two or more facilities in the metro area. If this site were not made available to GSA, it is possible that GSA might be forced to a site outside of the City due to GSA's siting requirements necessitating a 100-foot setback from all adjacent rights-of-way.

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.

As the tenant is a governmental entity, this project is not eligible for PDC financial assistance under the Quality Jobs and Economic Opportunity Programs.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- 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 20, 2009, PDC staff briefed the CCA on all activities in the Airport Way URA, including the proposed sale of PDC's leasehold interest in this site to the GSA for the FBI Headquarters which was supported by those CCA Board members present.

The Cascade Station property is not included within any neighborhood association and residential uses are prohibited at Cascade Station.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The proposed sale of leasehold interests and new development at Cascade Station is consistent with the goals and objectives of the Airport Way Urban Renewal Plan, adopted by the PDC 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 property 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 \$3,298,145.40. 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 January 2007. Net proceeds to PDC after sales commissions and closing costs will be approximately \$3,100,000. The attached Resolution also authorizes the Executive Director to make adjustments to the Purchase Price of up to 5% based on the findings of the Buyer's due diligence review or other issues and to extend the schedules by up to a total of two (2) months, if he deems it necessary.

The sale of this leasehold interest as proposed was reviewed and supported by the PDC's Investment Committee on May 8, 2007. These proposed revisions to the terms and conditions of the Leasehold Purchase and Sale Agreement were reviewed and supported by the Investment Committee on March 2, 2009.

The Airport Way URA FY 2008-09 Adopted Budget and Forecast is attached to this Report as a Financial Summary (Attachment B).

RISK ASSESSMENT

There is little or no risk to PDC in executing this revised PSA. Also, because PDC still controls approximately 28 acres of land beyond this proposed sale, there are no lost opportunity costs.

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 of Portland (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 modified PSA or to modify its terms in other ways. If the latter is chosen, staff would attempt to reach another agreement with GSA and Barry, and, if successful, would 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 of Portland, TriMet, and the Columbia Corridor Association. PDC's interdepartmental Airport Way Team has discussed and supports this transaction.

On March 3, 2009, 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 of Portland (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 million.

On June 22, 2005, the Board approved a number of items relating to the 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 million 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 acquired a 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, one hotel and two office buildings have been completed and opened; two other hotels and one other office building are under construction; and, a Target store is scheduled to open this fall.

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.

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 the Barry Real Estate Companies (Barry) to be their developer for the project. GSA then assigned the Option Agreement to Barry and Barry exercised it effective January 30, 2009.

During ensuing meetings between Barry and PDC in February and March, it became apparent that, due to 1) delays in GSA's selection process, and 2) the impact of the national economy on the ability to secure real estate financing, it would be impossible to meet the required April 30, 2009 date for closing the transaction.

Following the recommendation of PDC's Investment Committee, staff is recommending that the Board revise the terms 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 BARRY REAL ESTATE COMPANIES

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: \$9.50 per square foot, or \$3,298,145.40

Brokerage Fee: 5% of Purchase Price split evenly between participating Brokers

Assignability: GSA assigned Option Agreement to Barry Real Estate Companies on January 30, 2009 with PDC's consent. The developer will be obligated to abide by the terms and conditions of the Leasehold Purchase and Sale Agreement (PSA)

PSA Term: Scheduled Closing Date: May 29, 2009. Outside Closing Date: September 30, 2009, provided that Barry makes a payment of \$50,000 into escrow for each two-month beyond May 2009 that they wish to extend closing. Said payments to be non-refundable but applicable to the Purchase Price.

Other: Developer will be required to adhere to applicable federal workforce and hiring programs including DBE contracting, wage rates, etc.

URA FINANCIAL SUMMARY

AIRPORT WAY URA - Five-Year Budget Planning by Project for FYs 2010-2014

Resources	Adopted FY 2008-09	2008-09 Actuals* July-Dec	AMENDED 2008-09 BUDGET	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total
	3130 Loan Fees	0	950	0	0	0	0	0	0
3310 Loans - Principal Collection	16,956	15,280	16,956	16,956	16,956	13,467	13,467	13,467	74,313
3320 Loans - Interest Earned	16,956	17,931	16,956	16,956	16,956	13,467	13,467	13,467	74,313
3340 Reimbursement	5,000	3,454	5,000	5,000	5,000	5,000	5,000	5,000	25,000
3710 Interest - City Invest Pool	100,000	54,184	100,000	70,000	70,000	50,000	40,000	40,000	270,000
3810 Real Property Sales	3,000,000	0	3,000,000	1,500,000	2,000,000	0	3,000,000	0	6,500,000
3999 Beginning Fund Balance	1,931,218	4,929,607	4,929,607	6,005,855	5,854,787	6,235,329	4,912,695	6,585,853	29,594,519
Total Fund	5,070,130	5,021,405	8,068,519	7,614,767	7,963,699	6,317,263	7,984,629	6,657,787	36,538,145

Requirements

Project Expenditures (These do not include Personal Services or Indirect Cost)

Development	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total			
11004 AW Cascade Station Devel	350,000	40,829	175,000	316,500	290,000	270,000	265,000	200,000	1,341,500
11014 AW Riverside Pkwy Industr Pk Dev	260,000	20,999	85,000	250,000	250,000	0	0	0	500,000
11015 AW Subdistrict B Pre-Dev	25,000	0	25,000	0	0	0	0	0	0
11019 AW Community Outreach	2,000	45	2,000	2,000	2,000	2,000	2,000	2,000	10,000
Development Total	637,000	61,873	287,000	568,500	542,000	272,000	267,000	202,000	1,851,500
Economic Development									
70014 AW Business Finance	1,400,000	94,518	800,000	800,000	800,000	800,000	800,000	800,000	4,000,000
70229 AW Business Retention	200,000	50	20,000	75,000	75,000	75,000	75,000	75,000	375,000
70759 AW Target Industry Devel	100,000	0	20,000	20,000	20,000	20,000	20,000	20,000	100,000
Economic Development Total	1,700,000	94,568	840,000	895,000	895,000	895,000	895,000	895,000	4,475,000
Central Services									
59157 AW Debt Management	3,000	1,716	3,000	3,150	3,308	3,473	3,647	3,647	17,225
Central Services Total	3,000	1,716	3,000	3,150	3,308	3,473	3,647	3,647	17,225
Total Project Expenditures	2,340,000	158,157	1,130,000	1,466,650	1,440,308	1,170,473	1,165,647	1,100,647	6,343,725
Total All Personal Svcs & Indirect Costs	1,012,934	504,349	932,663	293,330	288,062	234,095	233,129	220,129	1,268,745
Total Fund Expenditures	3,352,934	662,506	2,062,663	1,759,980	1,728,370	1,404,568	1,398,776	1,320,776	7,612,470
Contingency	1,717,196	0	6,005,855	5,854,787	6,235,329	4,912,695	6,585,853	5,337,011	28,925,675
Ending Fund Balance	0	0	0	0	0	0	0	0	0
Total Requirements	5,070,130	662,506	8,068,519	7,614,767	7,963,699	6,317,263	7,984,629	6,657,787	36,538,145

*Please note that the 2008-09 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.

PROJECT SUMMARY

Project Name: PDC-controlled property at Cascade Station

Description: Sale of approximately 8 acres (a portion of Parcel A below)

Location: NE Airport Way, between NE Mt. Hood Avenue and NE 82nd Ave.

URA: Airport Way

Current Phase: Purchase & Sale Agreement

Next Milestone: Closing NLT September 30, 2009 **Completion Target:** Construction of the project will likely take 18 months after closing

Outcome: 135,000 s.f. Office development on Parcel A, in two buildings with structured parking

Site/Project Map: Map of Cascade Station Master Plan with PDC Sub Areas:



