

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: April 23, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-46
Terminate Leasehold Purchase and Sale Agreement with the Canterbury Group, Inc. for Sale of a Leasehold Interest at Cascade Station; Return Earnest Money Deposit and Closing Extension Payment

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6695

ACTION SUMMARY

This action authorizes the Executive Director to terminate a Leasehold Purchase and Sale Agreement (PSA) for the sale of Portland Development Commission's (PDC's) leasehold interest in approximately 2.2 acres of land at Cascade Station in the Airport Way Urban Renewal District, and to return the \$75,000 Earnest Money Deposit and the check representing the \$25,000 Closing Extension Payment to the Buyer. The form of Termination Agreement is attached as Exhibit A to the Resolution.

The Buyer is the Canterbury Group, Inc. (Canterbury), developers and owners of a number of hotels in the city. The PSA was executed effective September 15, 2008. Canterbury had planned to develop a hotel with 85 to 110 rooms; however, current economic conditions have made it impossible to secure financing for the project in the foreseeable future. While PDC is under no obligation to return the Earnest Money Deposit pursuant to the executed PSA, staff is requesting the PDC Board of Commissioners (Board) authorization to do so given the fact that Canterbury pursued the project in good faith and that neither Canterbury or staff could have reasonably contemplated the severity of the credit crunch when the Deposit was originally filed in September 2008. Canterbury submitted the Closing Extension Payment to retain the option to proceed with project while it was still attempting to arrange project financing, however, staff agreed that PDC would not cash said check and would instead hold it until the Board determined how it desired to proceed. Accordingly, staff is also requesting Board authorization to return to Canterbury the check representing the \$25,000 Closing Extension Payment.

PUBLIC BENEFIT

The proposed action will have no public benefits or detriments.

PUBLIC PARTICIPATION AND FEEDBACK

The proposed action has not been discussed outside of PDC.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Not Applicable.

FINANCIAL IMPACT

If closing had occurred, the sale of the property would have generated approximately \$900,000 in program income that could have been made available to plug back in to ongoing economic development efforts in the District. Given current economic conditions, it is likely that the property may not attract another buyer for some time, however, when conditions improve, the property will be sold and the revenues made available then.

Until the sale occurs, there are nominal property management expenses that will continue to be incurred.

RISK ASSESSMENT

There is no risk associated with the proposed action.

WORK LOAD IMPACT

There is nominal impact on work load resulting from the proposed action.

ALTERNATIVE ACTIONS

The Board has two primary alternatives should it elect NOT to terminate the PSA. These are:

- 1) Extend the Outside Closing Date with the understanding that, until economic conditions improve, closing cannot occur and that this could last well into 2010; or
- 2) Allow the Buyer to close on the acquisition of the property WITHOUT having construction or permanent financing in place which comes with the risk that the site might not be developed.

CONCURRENCE

The proposed action is supported by the Internal Project Team and was endorsed by PDC's Investment Committee on March 24, 2009.

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 Urban Renewal Area (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 May 2, 2008, the Canterbury Group, Inc. submitted a Proposal to Lease two (2) acres in Parcel E at Cascade Station. On June 25, 2008, PDC's Investment Committee reviewed and approved the negotiated terms and conditions of this PSA and on August 13, 2008, the Board authorized its execution. The PSA was executed effective September 15, 2008.

Following execution of the PSA, the US economy began its significant deterioration leading to the freezing of the credit market and the effective shutdown of construction and permanent financing for real estate development projects. In spite of this, the Canterbury Group continued to work on pre-development activities hoping that they would be able to secure financing and proceed with the project. However, by February 2009, it became apparent that they would likely not be able to finance the project for 12 – 24 months, perhaps longer.

Staff examined all available options, but decided to recommend to the Board that PDC terminate the agreement and return Canterbury's Earnest Money Deposit and Closing Extension Payment. Staff then will continue to work with Canterbury to see if the project could be put back together later, but would not be locked in to an exclusive arrangement with them.

ATTACHMENTS:

- A. Summary of Terms and Conditions
- B. Airport Way URA FY 2008-09 Adopted Budget and Forecast
- C. Project Summary and Map
- D. Site Location at Cascade Station

SUMMARY OF TERMS AND CONDITIONS
SALE OF LEASEHOLD ESTATE TO THE CANTERBURY GROUP, INC

Site: Approximately 2.2 acres in Parcel E, Cascade Station

Proposed Use: Hotel with up to 110 rooms; surface parking; associated site improvements

Purchase Price: \$10.00 per square foot, or \$971,200 with a \$75,000 initial Earnest Money Deposit is required

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

Assignability: Subject to PDC approval

Other Terms: Outside Closing Date: March 15, 2009 with two (2) 3-month extensions at \$25,000 each. Closing subject to the submittal of a financing commitment from a lender.

Other: PDC to execute a non-competition agreement for 15 years agreeing not to sell property in the same parcel to another hotel developer and to grant a first right of refusal to Buyer for 15 years thereafter

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

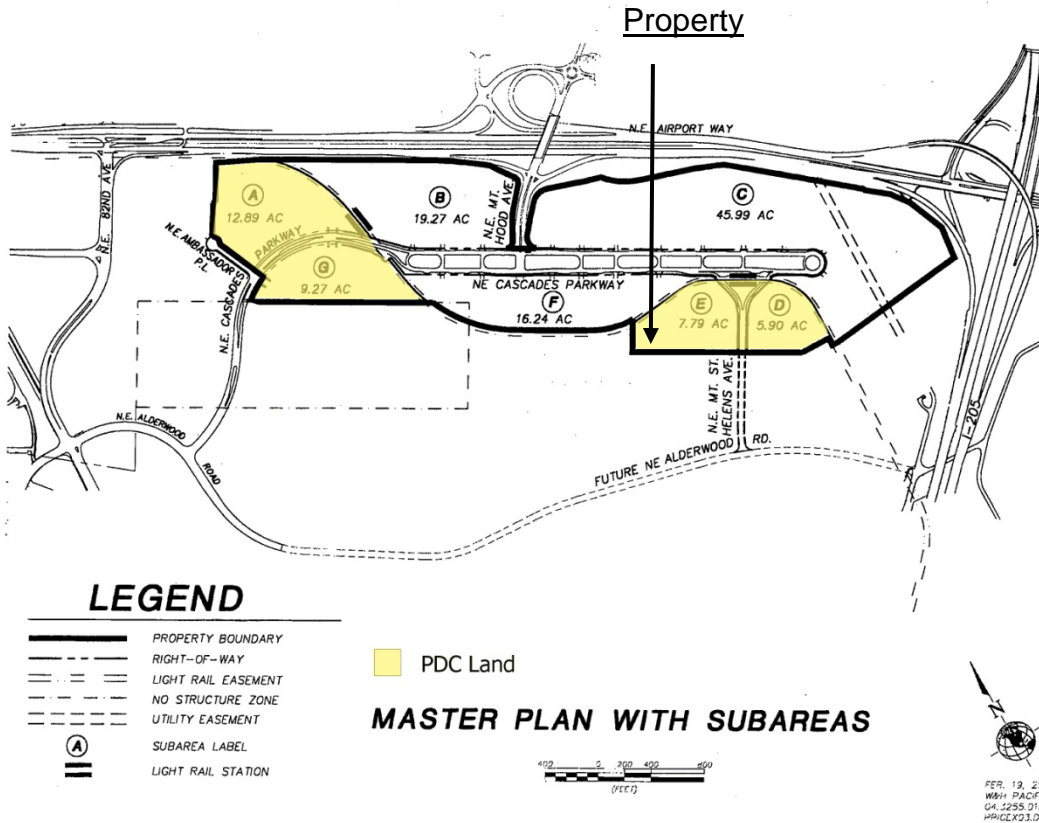
Project Expenditures (These do not include Personal Services or Indirect Cost)

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 2.2 acres (a portion of Parcel E below)
- Location:** NE Cascades Parkway and NE Mt. St. Helens Avenue
- URA:** Airport Way
- Current Phase:** Terminate Purchase & Sale Agreement; Refund Earnest Money Deposit and return check representing Closing Extension Payment
- Site/Project Map:** Map of Cascade Station Master Plan with PDC Sub Areas



SITE LOCATION AT CASCADE STATION

