

Winter 2015

The Exchange: NAIOP Real Estate Development Workshop

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THE EXCHANGE

A VIBRANT COMMUNITY IN THE HEART OF PORTLAND



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A: Financial Model

1: EXECUTIVE SUMMARY

For this proposal, we assumed the position of respondents to the RFP that PSU will be releasing for the subject property. This proposal begins with an overview of the context of the site historically, spatially. We analyze the neighborhood and features that will help make the development fit within the broader context. Then, we analyze the outlook for each property type and make assumptions about achievable rents, occupancies, etc. Then, we determine what the vision of the development will be based on the foregoing analysis. Finally, we apply that vision to create a development program and determine financial feasibility. We gladly present The Exchange, a vibrant community in the heart of Portland.

2: NEIGHBORHOOD CONTEXT

We begin with some establishing context. Here are five things to know about the neighborhood:

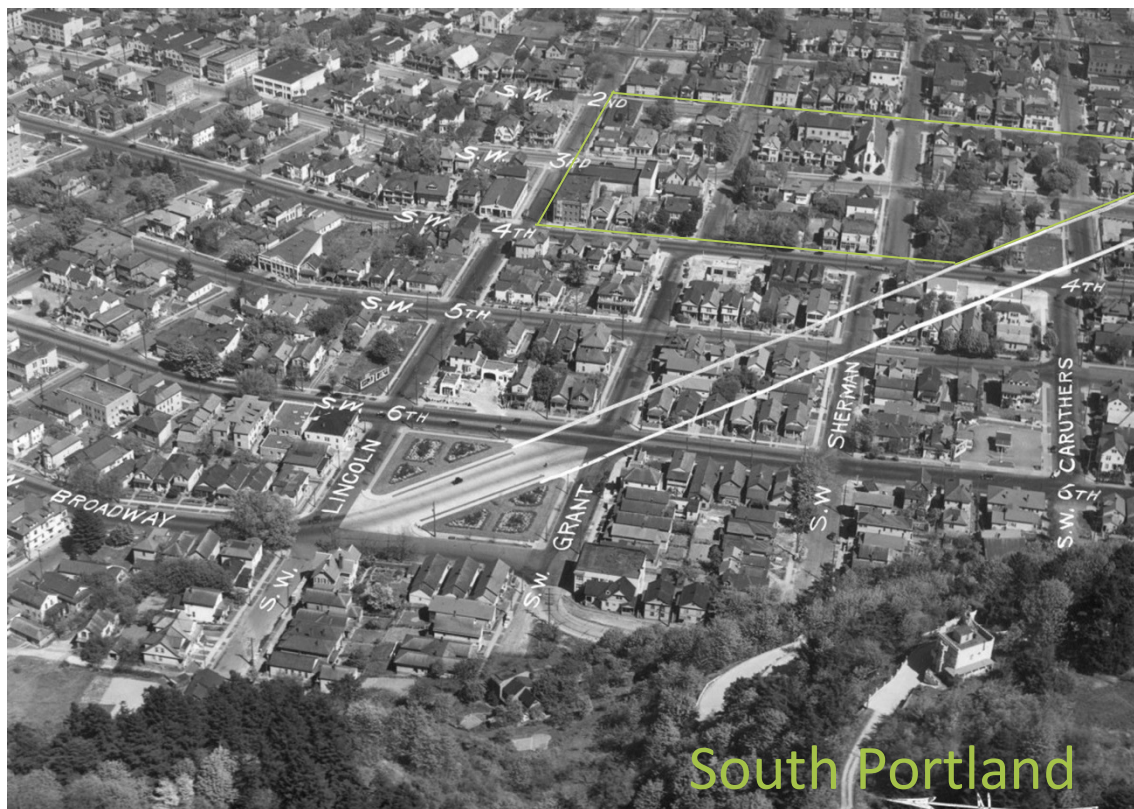
1. History
 - a. South Portland
 - b. South Auditorium Urban Renewal
 - c. Halprin Open-Space Sequence
2. PSU & University District
3. MAX Orange line
4. Innovation Quadrant
5. Proposed Green Loop

HISTORY

SOUTH PORTLAND

Where the subject site is located today was originally known as South Portland. Based on information provided by SW Neighborhoods, Inc. and writings by Polina Olsen, it was a very international and multicultural neighborhood and the first home to many immigrants, especially Italians, Jewish and Russians. Over time, as they acclimated to their new country, many began to move out of the South Portland to newer

neighborhoods like Ladd's Addition, Laurelhurst and Northwest Portland, leaving their parents behind in South Portland. As new immigrants arrived, they still settled in this neighborhood for its affordability and proximity to work and downtown. Those who could, however, did move on, and by the mid-20th century, the City of Portland targeted the area for its first experiment with Urban Renewal. In 1958, the citizens of Portland voted to create the South Auditorium Urban Renewal District, destroying 54 blocks. In all, the City through the newly established Portland Development Commission, acquired 303 parcels, demolished 382 buildings and relocated 1,575 residents and 232 businesses. In all, 83.5 acres would be purchased, condemned and bulldozed.



1: This aerial image shows the subject's neighborhood as it looked in 1938. The subject is located at the corner of SW 4th & Lincoln and outlined in green. What would become the alignment of I-405 is outlined in white. (Image credit: City of Portland Archives).

SOUTH AUDITORIUM URBAN RENEWAL DISTRICT

“Sometimes progress depends on destruction.” — Oregon Journal, 1962

Designed by Skidmore, Owens, & Merrill, the South Auditorium District was laid out as a collection of classic mid-century superblocks with a mix of tall residential and office buildings. Notably, all of the vehicular circulation was removed with the exception of SW Harrison in the middle of the district and SW Lincoln at the southern edge of the district. In its place, an open space network of pedestrian paths was created, anchored by three parks designed by landscape architect Lawrence Halprin, which we will discuss on the following page.

The urban fabric set forth in the South Auditorium District is still the urban fabric of the subject neighborhood today and important to understand, for it is quite unique among the districts in Portland’s Central City. The relative richness of green spaces and open spaces is a true gem and, coupled with the pedestrianized nature of the district, arguably its most defining characteristic. At the same time, the lack of much vehicular circulation makes the district challenging for some uses, such as retail for which access and visibility are critical.

In many respects, the district has been in a time warp, largely unchanged since its big redesign half a century ago, as development energy has moved on to downtown, the Pearl, South Waterfront, Northwest, and the Central Eastside.

We are encouraged to see small signs of recovery. In the last development cycle, two of the three Harrison residential towers were repositioned as condos. Also, Gerding Edlen proposed the Cyan Pdx as residential condo, before later converting to rental apartments. Under the leadership of John Russell and, the Halprin Open-Space Sequence, which we will discuss momentarily, has begun to be refreshed, with new benches, lawns, and improved lighting at night. University Pointe, a significant new student housing building, came online at the south end of the district last year. The former Cambia/Regence office building at 100 SW Market has been recently repositioned as creative office, in another indication of new investments starting to be made in the district. With the arrival of MAX in September 2015 and multiple projects now proposed in the district, we are encouraged that this is a neighborhood on the ascent.



2: The South Auditorium District is readied for the construction of the Portland Center.
Image credit: Halprin Conservancy.

HALPRIN OPEN-SPACE SEQUENCE

“We experience ourselves as dancers through awareness of our movements, and our city through awareness of our movements within it.”

– Anna Halprin

The single most defining characteristic of the subject’s neighborhood is the Halprin Open-Space Sequence. Designed by landscape architect Lawrence Halprin and Associates, the series is comprised of three parks or plazas (pictures of which appear on the next page), each connected to the other by a pedestrian path. In each is a fountain, inspired by the High Sierra’s spring cascades. Halprin intended for these fountains to be places where water and people should interact. The image of Lovejoy Fountain at right is a great illustration of this. Noted architectural critic Randy Gragg noted in an interview with an international podcast that, “Larry’s plazas made the city safe for play.”

Reviewing archival images, there is a sense of joy that is readily apparent on the faces of the people. In more recent years, the Halprin Open-Sequence has seemed abandoned and underappreciated. In 2001, what started as a tree trimming project grew into the Halprin Landscape Conservancy, founded by John Russell and two landscape architects. Today, on the eve of the open space’s 50th anniversary next year, there are plans to revitalize these special open spaces. The wood structure at Lovejoy Fountain was rebuilt in 2014 and Pettygrove Park is slated for a full restoration in 2015. The adjacent property owners have even established a voluntary local improvement district for long-term maintenance and restoration of the plazas. From a development perspective, to have these offsite improvements and amenities is invaluable.

“The space is choreographed for movement with nodes for quiet contemplation, action and in action, hard and soft, yin and yang.”

– Lawrence Halprin



3: People enjoying Lovejoy Fountain. Image source: City of Portland Archives.



1
Source Fountain.



2
Lovejoy Fountain.



3
Pettygrove Park.



4: The Halprin Open-Space Sequence is a series of three parks connected by pedestrian pathways denoted in green here. (Image credit: Google Earth Pro).

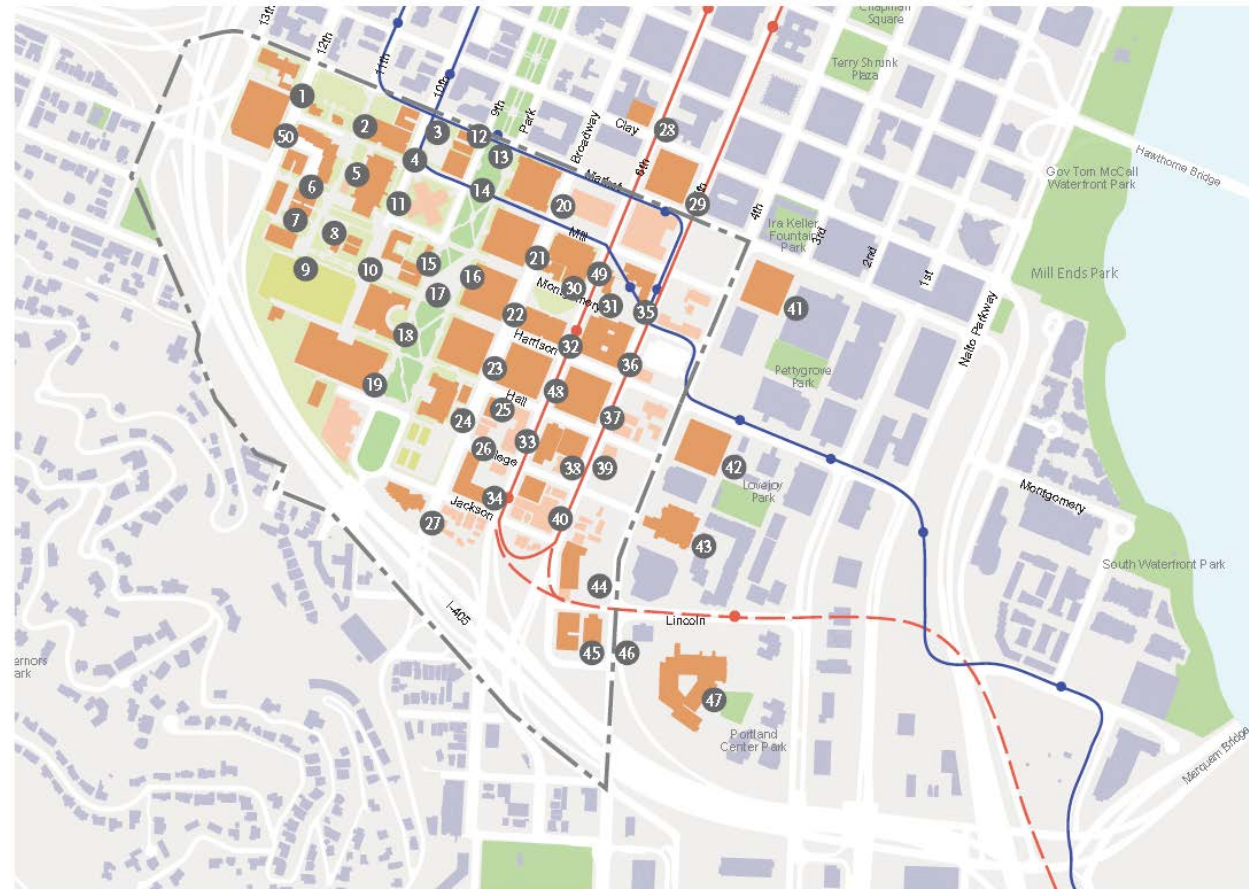
PORTLAND STATE UNIVERSITY (PSU) AND THE UNIVERSITY DISTRICT

“Let Knowledge Serve the City”

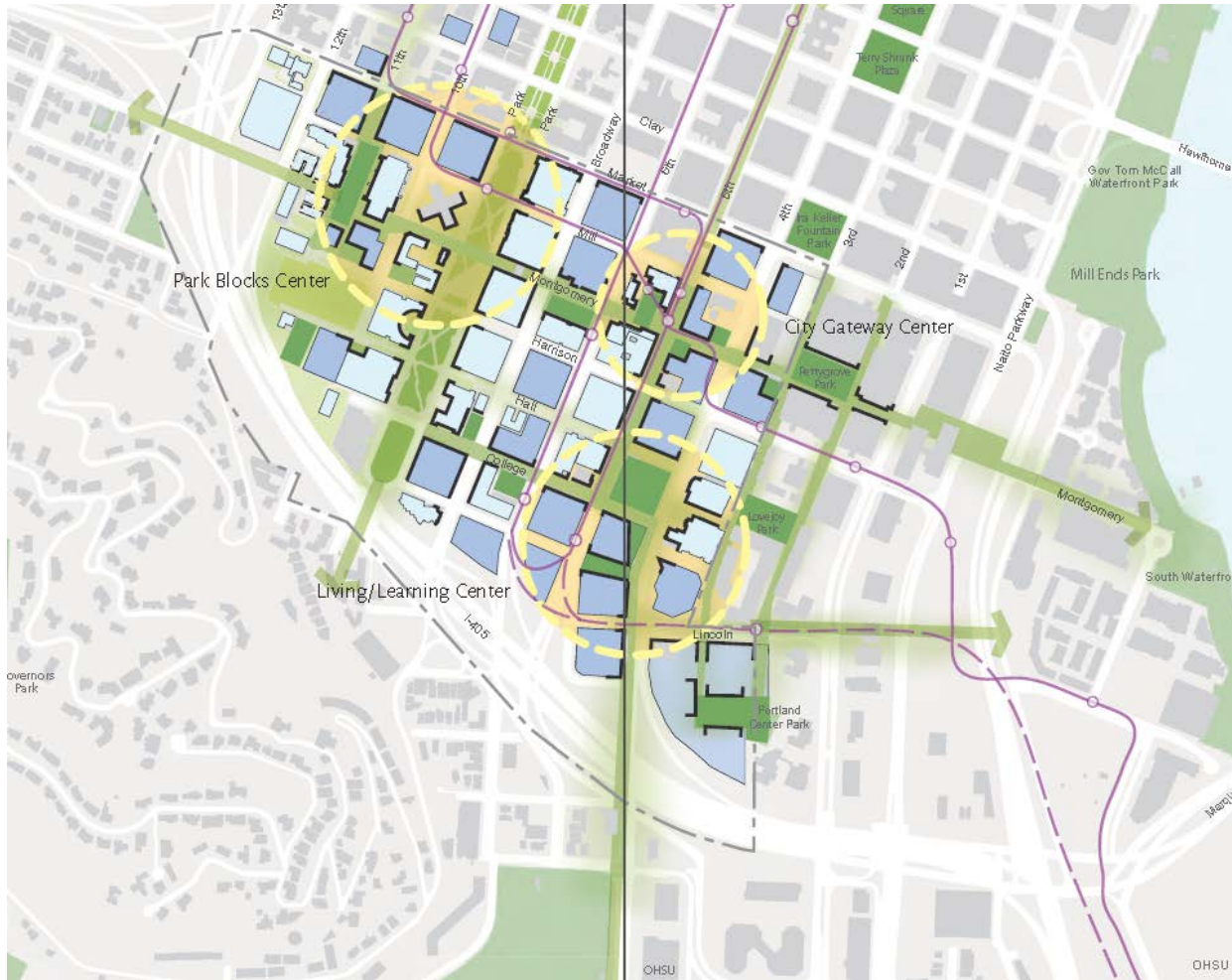
As Oregon’s urban research university, Portland State University’s presence as an institutional anchor in the University District is significant and a major strength to the subject site. At right is a map of the PSU campus, which primarily covers the area south of Market Street and west of 4th Avenue.

The University is a growing economic engine, with an economic impact in excess of \$1.4 billion. Its enrollment has also grown, up 26% since 2002 (refer to graph of historical enrollment on the next page). PSU forecasts its long-term enrollment to be in the range of 32-36,000.

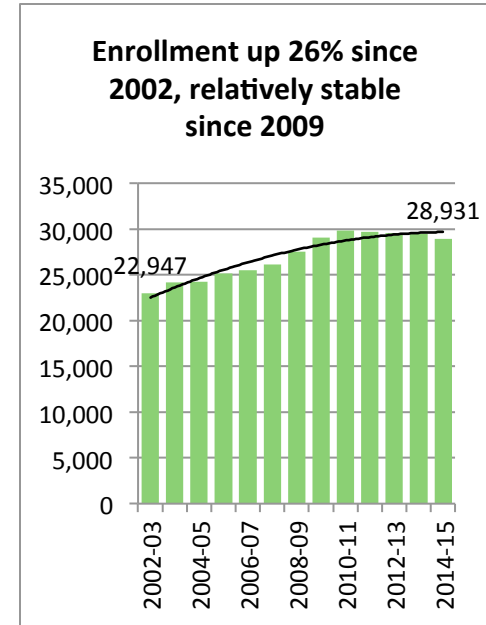
To support this growth, the University recently completed a strategic University District Framework Plan to help guide future development of its campus. As part of this process, PSU identified three centers where it intends to focus most of its early redevelopment (Park Blocks Center, City Gateway Center, and Living/Learning Center), which are identified on the map on the following page. Each has a unique focus. Most relevant to the subject site is the Living/Learning Center, which is anticipated to accommodate a significant amount of housing for students (not necessarily PSU-developed, owned or managed), as well as some academic space. The University currently only provides housing for approximately 7% of its residents.



5: PSU campus map | Image credit: Portland State University District Framework Plan, June 2010.



7: Three centers for early redevelopment. | Image credit: Portland State University District Framework Plan, June 2010.



6: Data source: Portland State University Office of Research and Institutional Planning.

Three student enrollment scenarios

Growth scenario	2008*	2019	2034
OUS projection	24,000	27,400	32,300
Historic projection	24,000	28,600	36,100
40/40/20	24,000	33,600	48,600

* Projections were completed using Fall 2008 enrollment, current enrollment is higher

8: Data source: Portland State University District Framework Plan, June 2010

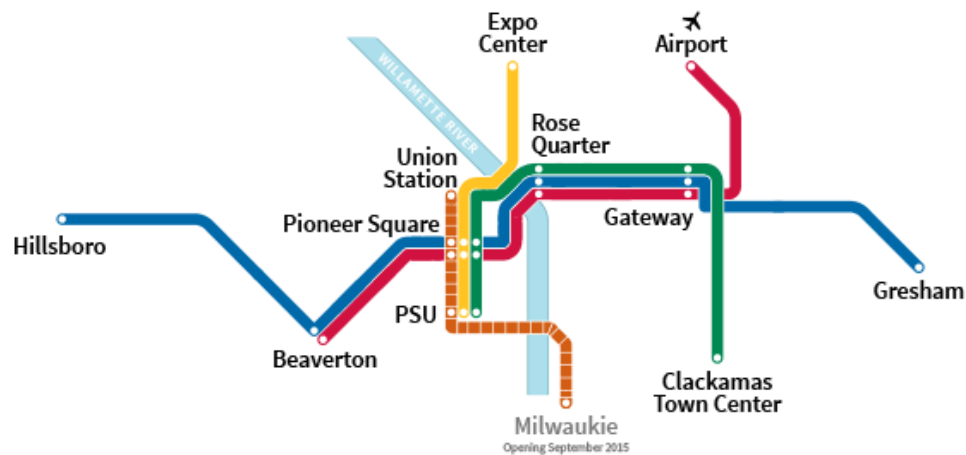
MAX ORANGE LINE



9: The new Lincoln St/SW 3rd Ave station is immediately adjacent to the subject property and will provide one-stop connectivity to South Waterfront and the downtown Transit Mall. Image credit: TriMet.



10: When it starts service in September 2015, the Portland-Milwaukie Light Rail Transit line will add 7.3 miles and 10 new stations to the regional MAX system, including a station adjacent to the subject property. Image courtesy of TriMet.



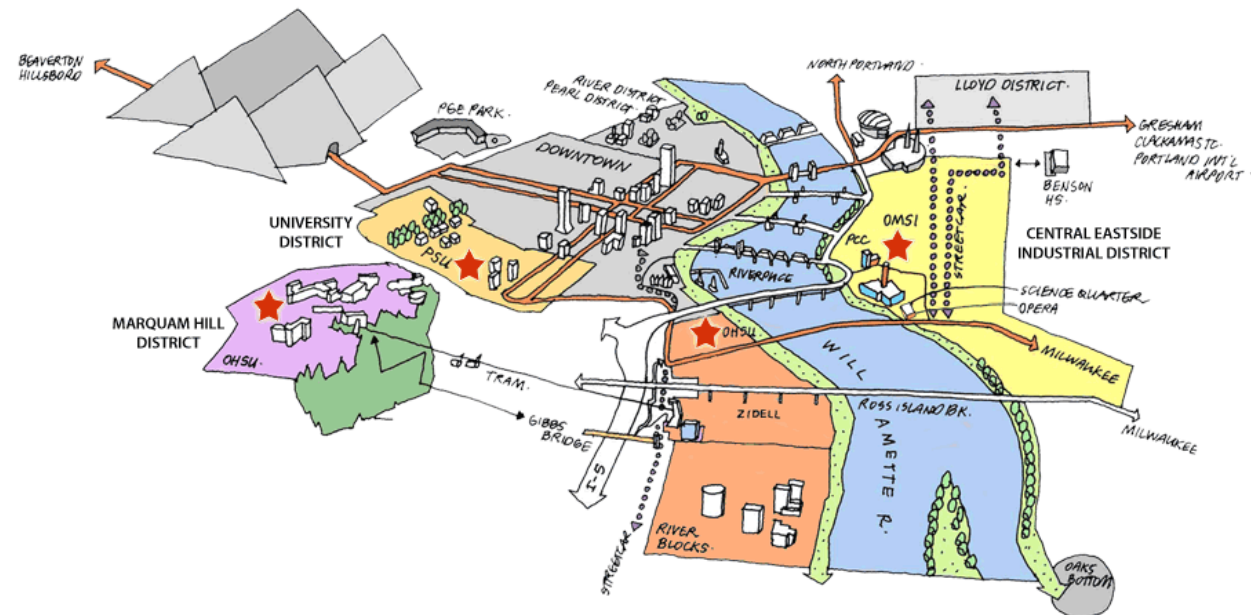
11: TriMet MAX light rail system provides regional connectivity. Image courtesy of TriMet.

INNOVATION QUADRANT

The Innovation Quadrant (pictured nearby) is a concept that has grown out of the City of Portland's economic development strategy, which aims to create 10,000 jobs in the next five years and lay the foundation to build the most sustainable economy in the world. Focused around its targeted industry clusters of Clean Tech and Sustainable Industries, Advanced Manufacturing, Apparel, and Software, the City "intends to expand exports, support the innovation efforts of higher education institutions, and align workforce development to match the skills needed in sustainable industries." (source: <http://www.pdxinnovation.com/iq.html>).

The Innovation Quadrant is anchored by four major institutions on both sides of the Willamette River: Oregon Health & Science University (OHSU) and Portland State University (PSU) on the west side and the Oregon Museum of Science and Industry (OMSI) and Portland Community College (PCC) on the east side.

By encouraging and enabling enhanced connectivity and collaboration between these higher-education institutions, workforce development providers and the private sector located in the four quadrants, the Innovation Quadrant, if fully realized, has the potential to be a major driver in the Central City. Together, the four districts of the quadrant are projected to grow by approximately 30,000 jobs and 11,000 households over the next 25 years.



12: This sketch illustrates the concept of the Innovation Quadrant and the adjacencies and potential synergies between OHSU, PSU, OMSI and PCC. Image credit: <http://www.pdxinnovation.com/>

Given the subject's location adjacent to PSU and anticipated proximity by transit to South Waterfront (one stop) and the Central Eastside (two stops), it is relevant to understand this larger context for the opportunities it may afford in the redevelopment of the University Place site. OHSU is moving forward with plans for its next two buildings (nearly 1 million square feet) at South Waterfront and Zidells have their own plans. There is a lot of activity in the Central Eastside, too. With the opening of the Tillicum Crossing bridge in September 2015, we will begin to see if this results in even more activity together.

GREEN LOOP

Envisioned as an easy and smooth pathway through the Central City's parks and open spaces, the "Green Loop" is a 6-mile walking and biking path that invites residents, employees and visitors to experience Portland's urban core in an entirely new way. – City of Portland Central City 2035 Draft March 2015

The Green Loop is a new idea that the City of Portland is advancing as part of its Central City 2035 update of its Comprehensive Plan.

As the visual at right illustrates, it would provide a new circulation option around the Central City for pedestrians and recreational cyclists alike. It would help to connect, link and activate destinations in multiple Central City neighborhoods.

While still conceptual, it is worth being aware of at this stage for a couple reasons:

- It is anticipated to pass right by or potentially through the subject site.
- The draft implementation timeline is near term (2-5 years) and may coincide with the redevelopment timeframe for the University Place site.
- It has the potential to provide an additional amenity to our site, as well as enhance access and activation of the site.

By embracing the Green Loop early, we may be able to influence its specific alignment near our site and ensure that it benefits our development program.



13: This rendering illustrates the Green Loop concept. Image credit: Portland Monthly, April 2, 2014.

Rio de Salon/Madrid, ESP



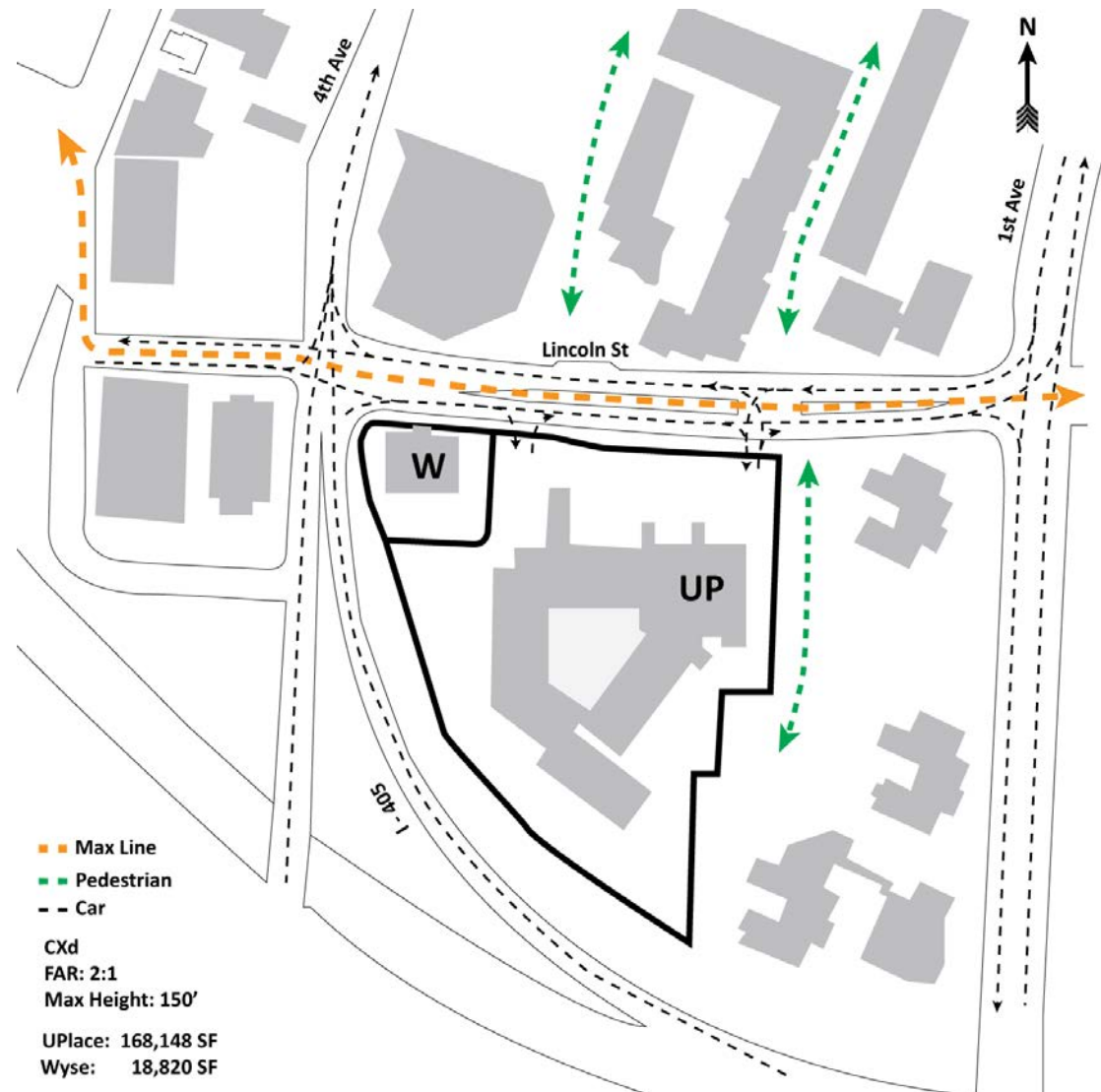
14: A conceptual example from Madrid, Spain. Image credits: City of Portland Bureau of Sustainability

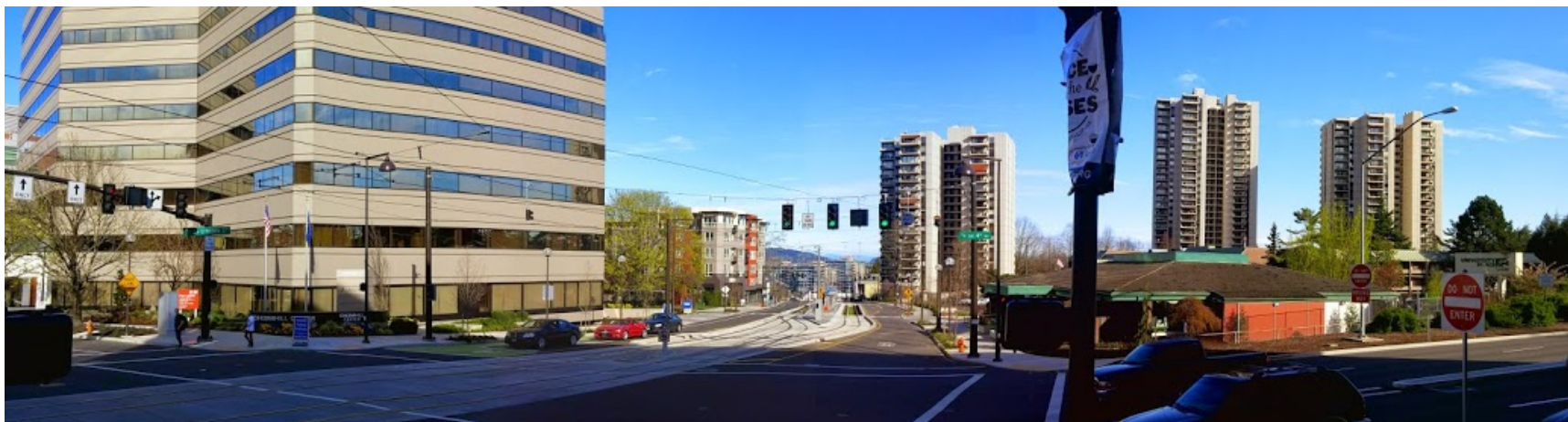
3: SITE DESCRIPTION

PHYSICAL

The University Place parcel is irregularly shaped and contains 168,148 square feet, or 3.86 acres. The site is bounded to the north by Lincoln Street, to the east by a group of condo towers, and to the south and west by Interstate 405. A small parcel at the northeast corner, which we call the “Wyse” parcel, is *not* owned by PSU. Combining the two parcels would create a more efficient layout on which to build; the width would be roughly equal to two city blocks.

A steep drop between the south end of the parcel and the highway helps to lessen the audiovisual impact of highway traffic. There is also a significant grade downward from west to east so that the northeast corner is the lowest point of the site.





A view of the site from SW 4th Ave and Lincoln St. There is a small retail store on the corner. Residential towers loom over the east side of the parcel. Office buildings primarily occupy space north of the site.

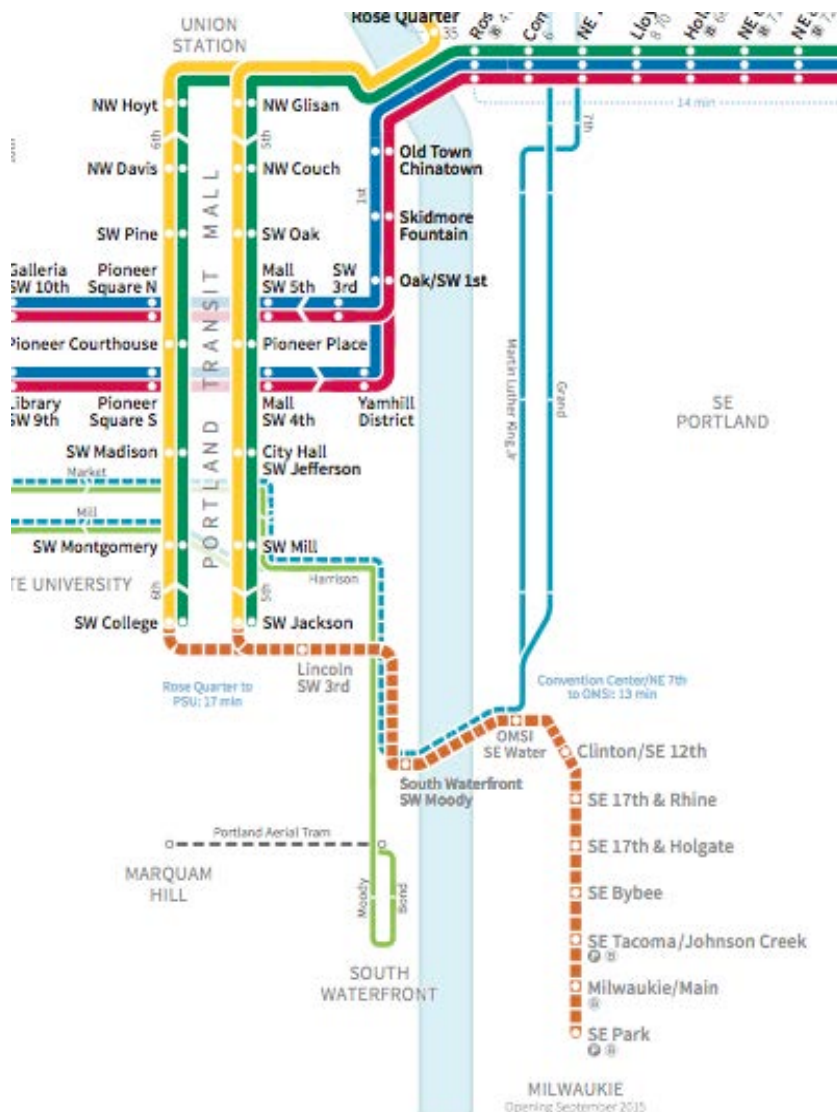


The existing hotel is set back from the street. This creates a dead space that is unattractive to pedestrians. The wires and solar panels for the light rail line are also not very visually pleasing.



The space dedicated to the light rail line is vacant when the rail is not coming through. This large vacant space deters pedestrians and inhibits vehicle traffic.

TRANSPORTATION & ACCESS



Source: Tri-Met

The site is well served by public transit. The site abuts Lincoln Station, a stop along the newly created Orange Line, which is scheduled to open in September 2015. The Orange line runs from Milwaukie, across the Tillikum Crossing, and through the South Waterfront to Lincoln Station; then it connects to the Yellow Line, which heads through downtown toward Union Station and the Expo Center. The nearest streetcar stop is three blocks away. The streetcar runs through South Waterfront and heads toward the Pearl District, with stops near the Portland Art Museum along the way. Bus lines also serve Lincoln Station and connect the Barbur and Macadam corridors to downtown and the inner east side.

Although Lincoln Station will bring many daily visitors by public transit, it also deters many visitors who use personal vehicles and restricts access by truck. Travelers heading northbound on 4th Avenue cannot cross the I-405 off-ramp to access the site. Also, there is only one point of access at a stoplight for those heading westbound on Lincoln Street. Finally, because the train stop restricts the turning radius, large trucks will not be able to enter the site unless a significant amount of space is dedicated to truck access in redevelopment.



IMPROVEMENTS

The main improvement on the PSU-owned parcel is the University Place Hotel. The triangular building has a gross area of almost 120,000 SF, which includes 235 rooms, a restaurant, and 8,000 SF of conference space. There is a pool and seating area in the interior courtyard and surface parking around the exterior.

The smaller northwest parcel, which we call the Wyse parcel, has a 4,600 SF retail store. The University Place parcel is encumbered by an access easement benefitting the Wyse parcel.



ZONING

Currently, the site falls within both the Central City Plan District and the South Auditorium Plan District. The allowed FAR in both districts is 2:1. Although the Central City district allows bonus FAR for certain features, the South Auditorium district does not. The West Quadrant Plan, adopted in 2015, calls for a high maximum FAR for the site up to 4:1. The maximum height for the site is currently 150 feet, but the West Quadrant plan calls for a height increase. It is very likely that by the time any development is proposed for the site, the FAR and maximum height will be increased. Parking at the site is somewhat restricted. Any parking is subject to Central City Parking Review, and only 20 spaces of surface parking are allowed. No parking is allowed within 100 feet of the light rail line. There is no minimum-parking requirement.



The retail building on the "Wyse" parcel

4: INTERESTED PARTIES

PSU

PSU currently owns the subject parcel and operates the hotel with its own employees. PSU purchased the property in 2004 for \$19,700,000, the majority of which PSU still owes in the form of state issued bonds. In the event of a sale of the property, PSU will need to retire that debt. As noted earlier, the University Place Hotel does earn a positive NOI, but cannot cover its annual debt service. Other university funds must be used to cover the balance of the debt service.

PSU will be issuing an RFP for development of the site to the open market in the next couple months. Discussions with the Campus Planning Department revealed that some people at PSU believe the school should hold onto the property, essentially land-banking the site, since it is a large parcel of land in downtown Portland near the school. Others believe the property is a money drain requiring the use unrelated funds to pay for the debt service and should be sold. There are other potential public-private partnership deals, such as ground leasing, that the university may be interested in, but exactly what type of deal structure would be favored could not be identified.

Discussions provided more guidance as to which building uses PSU would find helpful. Some professors admitted that they do not refer visitors to the University Place Hotel because of its condition. Presumably, professors and staff would be more likely to refer visitors to an upgraded hotel product. Campus Planning indicated that PSU would be interested in a development that included an upgraded hotel conference space than currently exists. Also, Campus Planning took a survey of all the school departments, and only two expressed any interest in potentially relocating their departments to office space at the University Place site: the School of Education and the College of Arts. However, both of these schools do not currently have the financial means to build and relocate to a new building. The general sentiment from the other schools is that it is too far from the central campus to be a desirable location. Despite this sentiment, PSU currently rents office space in nearby buildings for classes. Newer product may prove more attractive to departments in those buildings.



PDC

PDC entered into a Disposition and Development Agreement (DDA) with PSU for the University Place Hotel site in 2004, and then subsequently replaced it with a new DDA in 2014. The 2014 DDA outlines the goals and requirements for the development of the University Place Site. According to the 2014 DDA, PDC will provide \$13 million in Tax Increment Financing funds for redevelopment if PSU issues an RFP for development of the site by June of 2015. The 2014 DDA timeline calls for the selection of a development partner by 2016 and construction completion by 2020. The DDA requires that HUD be consulted for the feasibility of including affordable housing and the use of PDC special programs (the use of MWESB contractors, workforce training, and meeting LEED standards). Finally, the development must add \$66 million of taxable value to the property tax rolls; if the development's assessed value is less than \$66



million, but more than \$14.8 million, then a proportionate share of the \$13 million will be made available. In the event that PSU sells the site outright to a private developer, the funds will be transferable to the development partner. The \$13 million is a key incentive for the development of the University Place site; however, we evaluated our development proposal without the use of these funds, as they will not be available until after construction is started and possibly even completed.

NEIGHBORS

The site is located in the Portland Downtown Neighborhood and overseen by the Portland Downtown Neighborhood Association (PDNA). It would be useful to involve the PDNA as early as possible to ensure that the development proposal meets the needs of the neighborhood. We will seek their input and support throughout the development process.



Other key neighbors are the residents at the adjacent American Plaza Tower Condominiums. These towers contain approximately 300 condominium units and are just to the East of the site with great views of the city, the west hills, and the mountains to the east. The American Plaza Towers are primarily occupied by an older population, which has been keeping a close eye on what happens to the University Place Hotel site. They are especially concerned with preserving their views and the peacefulness of the area. Although a “Good Neighbor Agreement” with the American Plaza Towers has expired and is no longer in effect, it will be important to engage these neighbors and gain their support of our development proposal to avoid opposition.

CITY OF PORTLAND

Finally, the City has an interest in meeting its development objectives as outlined in the Comprehensive Plan. The site is currently under review as part of the city’s Comprehensive Plan update, which will likely include changes to the zoning requirements of the University Place site. Both the FAR and maximum height are anticipated to be increased. The timing of these changes are not precisely known at this time, but are expected to be enacted within one or two years from now. Ultimately the development of this site will need to meet the planning, zoning, and design review requirements set forth by the City of Portland. Working closely with the city will be important in order to gain the necessary entitlements for development in a timely fashion.



5: MARKET ANALYSIS

For the market analysis, we begin with a look at the economy on a national and local scale. Then, we provide a snapshot of the current demographic composition of the neighborhood. With this background, we take a deeper look at the trends for each possible use. Those uses that are included in the proposed development receive the most attention.

GENERAL ECONOMIC TRENDS

NATIONAL TRENDS

The national economy continues to improve and maintain its momentum of job growth. Consumer spending and business investment is expected to grow over the next 12 to 18 months. US GDP reported a 2.2% better than expected end to the 4th quarter 2014. National unemployment this year has decreased two tenths of a percentage point from 5.7% to 5.5%. As trending nationally, leisure, hospitality, healthcare, retail, and construction continue to demonstrate growth yet the service industry continues to outperform other sectors.

Young professionals are driving transit-orientated development in major urban centers across the nation. According to a fall 2014 Cushman & Wakefield report, young professionals are choosing to live without a car and within walking distance to great transit connections in order to have access to a variety of amenities and consumer choices. TOD research reveals increases in property values, rising apartment rents, and overall economic development resulting in the revitalization of business corridors that are not situated within CBD cores. The Portland Business Journal reported that the national apartment industry and its 36 million residents contributed some \$1.3 trillion to the U.S. economy, supporting 12.3 million jobs across the country in 2013.

STATE TRENDS

Oregon's recovery picked up momentum in 2013 and 2014, and this momentum is expected to continue into 2015. Oregon is about halfway back to full employment and is outpacing the nation overall. Oregon's statewide unemployment rate dropped to 6.3% in January this year, which was a decrease from 6.7% in December. Oregon's economy shows signs of normal labor market dynamics and job growth remained relatively strong throughout 2014 and this cycle is expected for another two years per Oregon Employment Department. According to the Portland Business Journal, Oregon is getting national and international attention as a safe haven for investor capital due to economic health and meeting a metro lifestyle demand of livability and unique branding mostly focused on the Portland area.

REGIONAL TRENDS

The regional economic outlook for the Portland Metro Area has improved as well. The unemployment rate for the Portland-Vancouver-Hillsboro MSA during the same time period had gone from 6.8 percent at the end of 2013 to 6.4 percent at the end of 2014. Multnomah County Unemployment rate currently 6.3% down from high of 11.3% 2009.

Today's rental boom locally and across the nation has influenced a trend towards urban living. Due to a robust apartment market and construction \$7B has been brought to the region due to apartment construction, operations, and resident spending according to the Portland Business Journal dated March 24, 2015. The Portland metro region has the fastest growing sector of young educated professionals, which is accounted for fueling the Portland economy like an engine. Also the large cohort of baby boomers share a market preference of living in multigenerational urban neighborhoods is currently trending nationally, regionally, and locally (Realtor mag 3/19/2015). Portland has become a vibrant city center, which is predicted to spur further development and downtown revitalization.

DEMOGRAPHICS

According to fourth quarter 2014 data provided by Costar and the Census, there are about 430,000 residents within five miles of the site, with an anticipated growth rate of 7% between 2014 and 2019. The average household income is strong at \$79,525 with 55.3% of households earning over \$50,000. Renters represent just under half of the population, and the median age is 37 within this radius.

The residents within a one-mile radius of the site are younger, denser, and less affluent. Also, the population in this radius will increase faster than the larger area. The current population of 23,263 is anticipated to grow almost 10% between 2014 and 2019 (Costar). The unemployment rate in this area is just over 9%. Those residents who are employed generally do not have as much discretionary income as those in the larger area, though. The 1-mile average household income lags the 5-mile average by about \$12,000; only 42% of households earn over \$50,000. Since the downtown area is more dense than the surrounding suburbs, it is not surprising that the percentage of renters increases in the 1-mile proximity to about 75%. Within one mile of the site, the population gets younger, with a median age of 34. The average household size is only about 1.5 within one mile.

Consumer spending patterns within a one-mile radius indicate that 10% of total spending is spent on groceries (food at home), 10% on food away from home, and 4% on entertainment and alcoholic beverages. Consumer spending patterns within five miles were nearly identical. These patterns and emphasis on groceries, food and entertainment both informed and help support the site's planned programming.

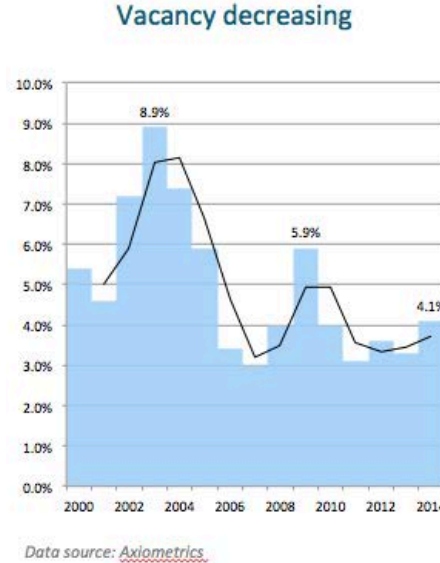
MULTIFAMILY

For the multifamily market analysis, we first estimate demand within the primary market area around downtown Portland. Then, we analyze the current pipeline and determine whether the estimated demand will be absorbed. Finally, we provide comparable product that guided our proposed unit mix and pricing.

DEMAND

As described above, after decades of suburbanization, Americans have been returning to cities in recent years. For the past several years, the urban population of Portland has grown faster than many of the suburban areas. According to the PSU Population Research Center and The Barry Apartment Reports, the City of Portland population increased about 10% from 2006 to 2014, adding at least 55,000 people. According to the U.S. Census Bureau, the Portland population increased 1.5% per year from 2010 to 2013. Currently, there is no indication that the recent population growth will significantly slow.

The neighborhoods in the primary market area (PMA) for market rate apartments include those within a 1-mile radius: Downtown, Goose Hollow, Old Town-Chinatown, and South Portland. These neighborhoods have grown faster than average at about 2.5% annually. These neighborhoods include about six Census tracts and have a rental percentage of about 77%. As of the 2013 American Community Survey (ACS), the PMA had a total population of about 24,500 and 18,870 rented units. Using the historic growth rate, we estimate that the population for the PMA will grow by 4,00 residents by 2020, adding about 3,000 renters.



2013				
Tract	Population	% Rented	Rented Units	
106	3,133	90%	2,820	
52	4,311	85%	3,664	
55	2,498	85%	2,123	
56	4,235	88%	3,727	
57	3,758	68%	2,555	
59	6,526	61%	3,981	
Total/Average	24,461	77.15%	18,870	

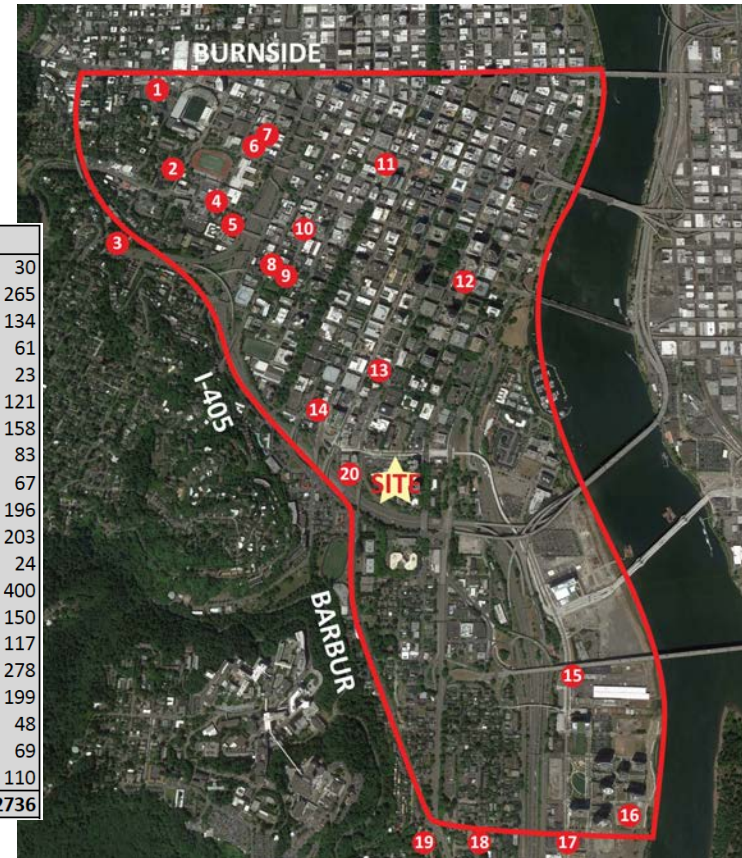
Source: 2013 ACS

SUPPLY

According to the Barry Apartment Report, Metro Report and various online resources, there are about 2,700 units in the pipeline within a 1-mile radius. About 800 units are under construction and 1,900 are proposed.

The difference between the 2,700-unit pipeline and 2,900 added residents leads us to believe that the apartment market will absorb the additional supply. The table to the right demonstrates the effect of 800 additional units by 2016 and 2,700 units by 2018. Finally, the 2020 projection includes the units in this proposal. Vacancy never exceeds 6.7% despite the large supply pipeline. The high growth rate and low vacancy for the PMA lead us to believe that absorption will in fact be much higher.

Multifamily Pipeline	
1. 2161 SW Yamhill	30
2. Block 7 (MAC Club) - SW 20th & Main St	265
3. Jefferson St Flats - 2040 SW Jefferson St	134
4. Jefferson Apt - 1450 SW Jefferson St	61
5. Columbia Apt - 1423 SW Columbia St	23
6. Taylor Apt - 15th & Taylor St	121
7. Lincoln Place Apt - 1500 SW Taylor St	158
8. Clay Apt - 1500 SW 12th Ave	83
9. Market St Apt - 1115 SW Market St	67
10. Jefferson Apt - 11th and Jefferson St	196
11. Park Ave West - 760 SW 9th Ave	203
12. Jefferson Hotel (+Apt) - 202 SW Jefferson	24
13. Core Campus - 325 SW Harrison St	400
14. The Beacon - 1951 SW 6th Ave	150
15. Zidell Apt #2 - 3000 SW Moody Ave	117
16. Block 37 - 3700 SW River Pkwy	278
17. Block 43 - 3850 SW Moody Ave	199
18. Kings Hill Apt - 3916 SW Corbett Ave	48
19. 3939 SW Viewpoint	69
20. 2221 SW 4th	110
TOTAL	2736



Multifamily market area with 20 projects under construction or proposed.

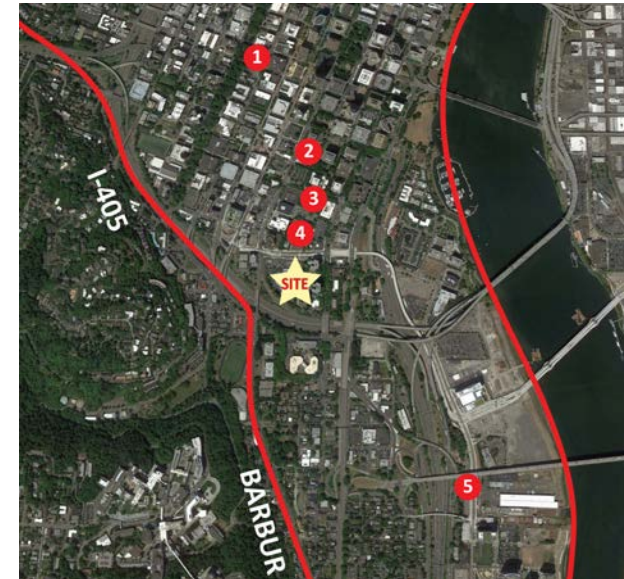
Year	Population	Units		
		Rented	Supply	Vacancy
2014	25,075	19,559	20,373	4.0%
2016	26,329	20,536	21,211	3.2%
2018	27,645	21,563	23,109	6.7%
2020	29,027	22,641	23,509	3.7%

Vacancy projections using current pipeline and historic population growth

COMPARABLE PRODUCT

We analyzed four comparable multifamily properties within the competitive market area to obtain current rental rates, amenities, unit mix, and occupancy. We found the average rental rates in the immediate market area currently range from \$2.20/SF to \$2.82/SF. Although it is geographically located the farthest from our site, we consider the Emery to be the closest competitor and the best predictor of performance. The Emery is relatively new and was built to similar standards and finish as our proposed product.

	1. Ladd Tower (2009)		2. Cyan (2009)		3. Harrison Tower (1965)		4. Linc 245 (1999)		5. Emery (2013)	
	SF	\$/SF	SF	\$/SF	SF	\$/SF	SF	\$/SF	SF	\$/SF
Studio/Other	514	\$2.65	688	\$1.92	1,250	\$2.18	474	\$2.74	465	\$2.62
1 Bed	711	\$2.78	660	\$2.47	647	\$2.58	750	\$2.00	539	\$2.56
2 Bed	1,124	\$2.71	1,084	\$2.35	1,840	\$1.88	1,067	\$1.99	813	\$2.51
Average		\$2.70		\$2.24		\$2.17		\$2.04		\$2.56



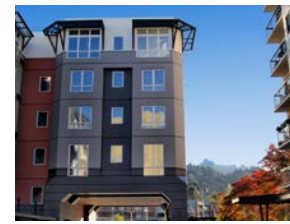
1. Ladd Tower



2. Cyan



3. Harrison Tower



4. Linc 245



5. Emery

SENIOR HOUSING

DEMAND

Traditionally, demand for senior housing is determined by calculating the market penetration, which is defined as the existing inventory within a specific area divided by the area's total supply of senior households. According to Dixon Hughes Goodman, penetration rates for independent senior housing between 5 and 10% are acceptable, but less than 5% is preferable. Additionally, acceptable market saturation rates are between 15 and 25%, but less than 15% is preferable. For this analysis, we assume a PMA roughly equivalent to the area depicted below.

	2000		2009		2013		2009/2000		2013/2000	
	% Total	% Change	% Total	% Change	% Total	% Change	% Change	% Change	% Change	
Total Population:	105,544	100.0%	109,676	100.0%	125,165	100.0%	3.9%	14.1%	18.6%	
Under 5 Years	3,793	3.6%	4,409	4.0%	4,615	3.7%	16.2%	4.7%	21.7%	
5 to 9 Years	3,477	3.3%	3,287	3.0%	4,024	3.2%	-5.5%	22.4%	15.7%	
10 to 14 Years	3,457	3.3%	2,897	2.6%	3,282	2.6%	-16.2%	13.3%	-5.1%	
15 to 17 Years	2,085	2.0%	1,859	1.7%	2,366	1.9%	-10.8%	27.3%	13.5%	
18 to 24 Years	12,928	12.2%	10,761	9.8%	13,675	10.9%	-16.8%	27.1%	5.8%	
25 to 34 Years	27,033	25.6%	30,484	27.8%	32,987	26.4%	12.8%	8.2%	22.0%	
35 to 44 Years	17,076	16.2%	17,483	15.9%	20,273	16.2%	2.4%	16.0%	18.7%	
45 to 54 Years	16,462	15.6%	14,789	13.5%	14,519	11.6%	-10.2%	-1.8%	-11.8%	
55 to 64 Years	8,208	7.8%	12,947	11.8%	15,636	12.5%	57.7%	20.8%	90.5%	
65 to 74 Years	4,867	4.6%	5,387	4.9%	8,403	6.7%	10.7%	56.0%	72.7%	
75 to 84 Years	4,177	4.0%	3,259	3.0%	3,699	3.0%	-22.0%	13.5%	-11.4%	
85 Years and over	1,981	1.9%	2,114	1.9%	1,686	1.3%	6.7%	-20.2%	-14.9%	

Source: SocialExplorer, US Census Bureau

Portland is a relatively young city with a small proportion of seniors; however, the number of senior age group households (65 and older) has seen significant growth recently. According to data obtained from the census and ACS, the total number of households in the PMA grew by almost 12% between 2000 and 2013 and the 65 and older population grew by over 25% during the same period. Furthermore, we determined there were 4,974 income and age qualified households in the PMA. Between 2007 and 2010 as well as between 2010 and 2013, the number of age and income qualified households grew 7.7% and 8.6% respectively. Assuming a similar growth rate of 8% between 2013 and 2016, which we feel is a conservative, we expect a total of 5,372 age and income qualified households in the PMA. We also expect the younger senior age groups, 55-64 years old, to see similar significant population growth. In fact, between 2000 and 2103, the 55-64 year old population grew by over 90% and the 65-74 year old population grew by 72.7% within the PMA. These age groups are clearly growing at a faster rate then the population as a whole and gaining market share within the PMA.

Aside from new demand and turnover demand, we considered the pent-up demand and included it in our analysis. We estimate there are an additional 84 units of pent-up demand, which is the difference between total units in the PMA at the current 99% occupancy rate and a conservative standard average occupancy rate of 93%. Assuming we add 130 senior housing units to the market, we calculated the project penetration rate to be 3.01%. We also calculated the market saturation rate to be 9.39%. Both the project penetration rate and market saturation rate indicate that there is strong demand for senior housing the market could support more units. The high occupancy rates and rent growth in the PMS support this conclusion as well.

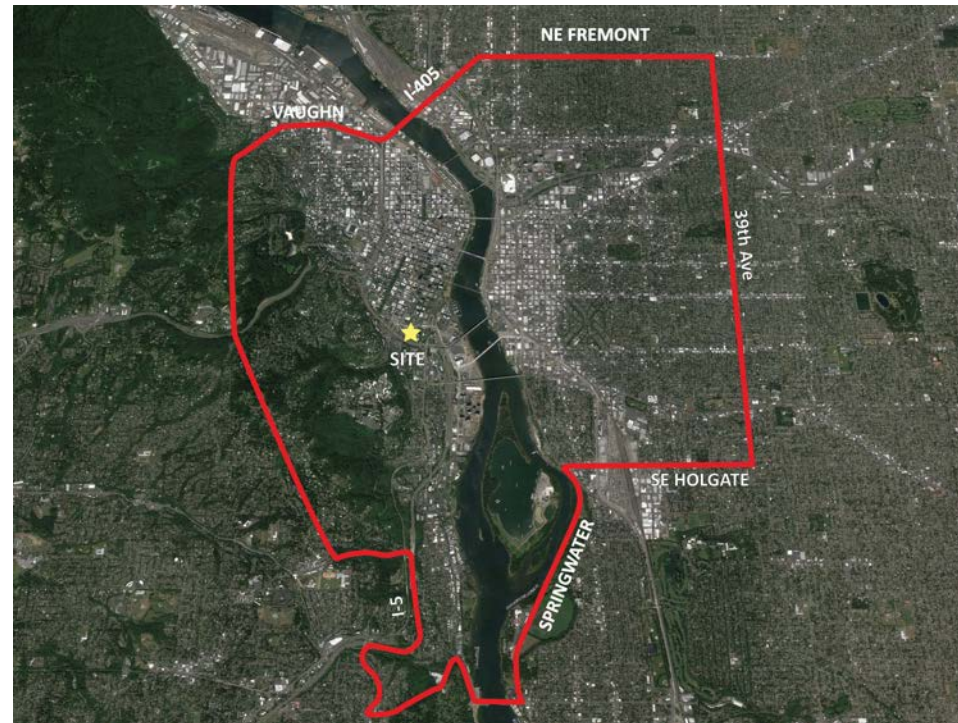
SUPPLY

According to NIC, the average occupancy rate nationwide for senior housing is 90.5% and rent growth is 2.3%. That is compared to an average occupancy rate of 95% and 2.6% rent growth for independent senior living in Portland. The occupancy rate in the PMA is currently 99%, much higher than both the Portland and national average. This indicates that the central Portland market is underserved and there is likely some pent-up demand. Additionally, there are currently no new senior housing projects planned or under construction in the PMA that we are aware of.

A combination of data from REIS and Johnson Economics was used to determine competition within the competitive market area as depicted in the map to the right (approximately a 3 mile area surrounding the site). This data was also used to determine rents, rent trends, occupancy rates, unit size, unit mix, and amenities. Within the CMA, six senior housing properties were analyzed consisting of a total of 1,414 units with an average occupancy rate of approximately 99%. Half of the properties have continuing care with an entrance fee, while the others are choice based

independent housing with no entrance fees. Three of the properties were built in the 1960's and two opened within the last 8 years. There are a total of 1,672 units in the primary market area including properties not analyzed. Average rent, unit size, and unit mix is summarized in the chart below.

Although there is sufficient demand for senior housing in the PMA, we decided to include senior-oriented market rate apartments in the development program rather than traditional independent living or continuing care because it fits in better with our development objectives and vision. The target market will consist of the younger, more mobile, senior population between the ages of 55 and 74 including empty nesters and retirees who want to live in an active urban setting with a mix of surrounding uses. The apartments will not be age restricted and will not provide the traditional senior living services, but include unit sizes, unit mix, amenities, and finishes that cater to the empty nesters and retirees. Rental rates and absorption for the senior oriented market rate apartments will be similar to that of traditional market rate apartments. However, we expect to achieve slightly higher rents due to the amenities specific to the senior market. We used our analysis of market rate apartments to derive the achievable rents and absorption.



STUDENT HOUSING

DEMAND

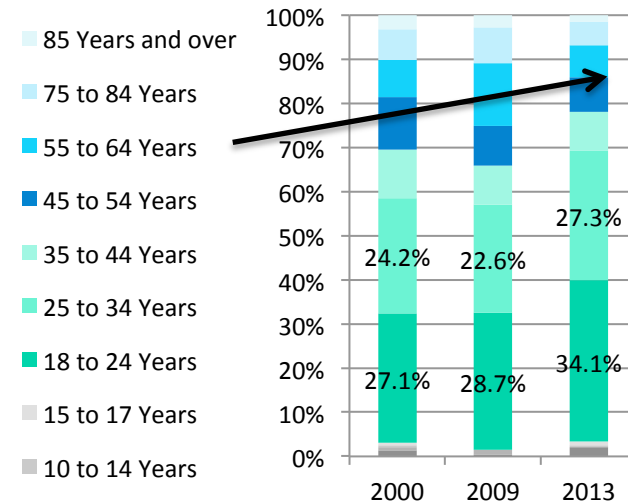
The primary demand driver for student housing, whether student-oriented market rate apartments, traditional student housing, or otherwise, is PSU. The university currently has capacity to house just over 7% of students on campus with current occupancy at 100% including some overflow students being housed at the University Place Hotel. According to Campus Planning, PSU currently owns and operates just over 2,000 units of student housing while the overall population of PSU is over 28,000 students. Although the PSU enrollment has been stagnant the past few years, it is projected to grow in the coming years. One PSU projection expects enrollment to grow by approximately 10,000 students by 2035. Student housing occupancy is generally full with demand outpacing supply. In fact, the University Place Hotel is used to house students that PSU cannot provide on campus housing for. Average rent for on campus student housing and older multifamily properties including CHNW is considerably less than that of student oriented market rate housing and the newer traditional private student housing.

An important factor affecting on campus housing at PSU (and other universities located in downtown areas of major cities) is that students have a wide variety of off campus housing nearby or with an easy commute on mass transit, making on campus housing less critical. PSU has a stated goal to house 20% of students on campus, but is currently far from reaching that goal, which means they rely on the private apartment market to meet student housing needs. Students presumably rent a large percentage of nearby market rate apartment units.

We also studied the demographics of students living in campus housing and compared that to the overall student population to see what kind of students desired to live on campus. Based on data provided by Campus Planning, the vast majority of students living on campus are under the age of 25 (89%) and the majority are either freshman or sophomores (61%). These are a greater percentage of the overall student population where 54% are under the age of 25 and 43% are either freshman or sophomores. The average age of students living on campus is 22 and the average age of all PSU students is 26. Based on this information, as one might expect, the students that desire on campus housing are primarily the younger students.

The two census tracts that PSU and University Place reside (56 and 57) are indicative of a large student population. The 18-34 year old age groups account for more than 61% of the total population and have grown significantly in the last few years. Between 2009 and 2013, the 18-34 year old age groups grew by 62% while the total population grew by 36%, indicating the younger population is gaining market share. Presumably, part of this increase was a result of the

Population by age cohort (2000-2013)



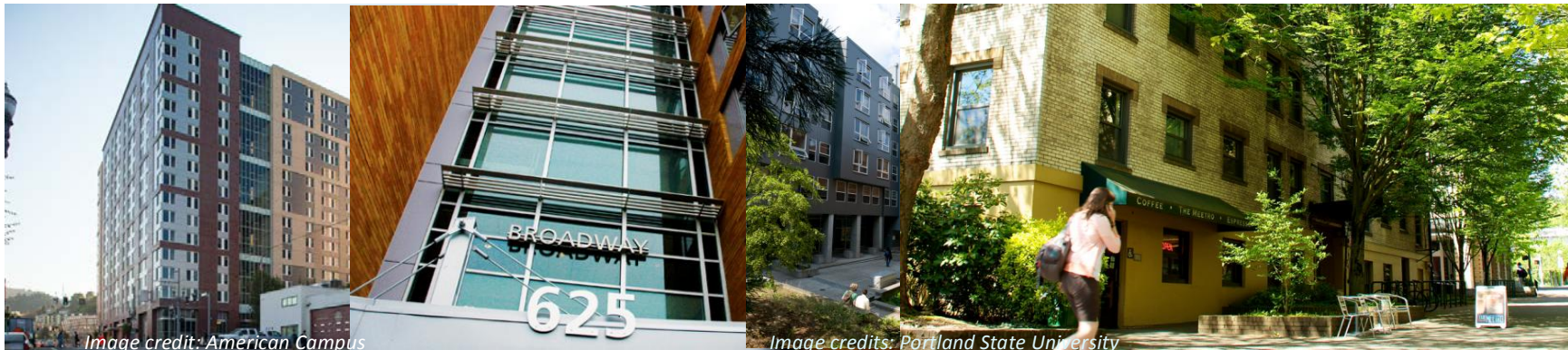
Source: Social Explorer, US Census (Census tracts 56-57)

recession, but its still indicative that this age cohort is growing considerably and needs housing. Another important fact is that just under 80% of residents in this area are renters, which is much higher than the average in Portland.

SUPPLY

There is a healthy supply of off-campus multifamily housing with the addition of some new product recently. According to a 2012 student housing survey completed by PSU, there are over 3,000 privately owned student housing and market rate units within approximately one half-mile of PSU. This includes the recently completed University Pointe and the student housing owned by College Housing Northwest (CHNW). The rent for the newer student housing projects is considerably higher than that of the older product in the study area including the CHNW units. In general, demand has been strong for this product with high occupancy rates and rising rents.

There are currently about 800 apartment units under construction and another 1,900 proposed in close-in SW Portland including Downtown, Goose Hollow, and SW Waterfront. This includes market rate multifamily apartments as well as the Hub at Portland, a 400-unit student-housing tower at 4th and Harrison (similar product type to University Pointe), which will likely include a grocery store at ground level. This pipeline will add a significant number of housing units near PSU; however, it only accounts for 9% of the overall pipeline in the Portland metro area.





COMPARABLE PRODUCT

The University Place Hotel site is located within just a block away from the PSU campus making it in an ideal location for student housing. In evaluating the viability of student housing we analyzed three student housing projects including the MW8 and University Pointe near PSU as well as the Courtside Skybox in Eugene. These are all new student housing projects that are privately owned. Analogous to the multifamily rental market as a whole, all types of student housing are in high demand with low vacancy rates and rents trending higher.

The target market for student

housing on the University Place site consists of the students that are least likely to live on campus and most underserved by current student housing at PSU. This includes the older students and upperclassmen as well as the affluent foreign student population. With over 28,000 students, even if only a quarter of those choose to live within a 1/2-mile of the campus, that is still 7,000 students, which exceeds the current and future supply, including both on and off-campus housing. Enrollment is also likely to grow, making demand for student housing even greater. The site's prime location and the development of an active, urban, mixed-use project will set these units apart from the rest of the market and make the student housing rental product an attractive option for development.



1. University Pointe



2. MW8



3. Courtside Skybox (Eugene)

	1. University Pointe	2. MW8	3. Courtside Skybox (Eugene)
Year:	2013	2013	2010
Units:	282	54	123
Beds:	978	147	400
Avg. Rent/Bed:	\$800	\$690	\$620
Avg. Rent/SF:	\$2.82	\$2.82	\$2.25

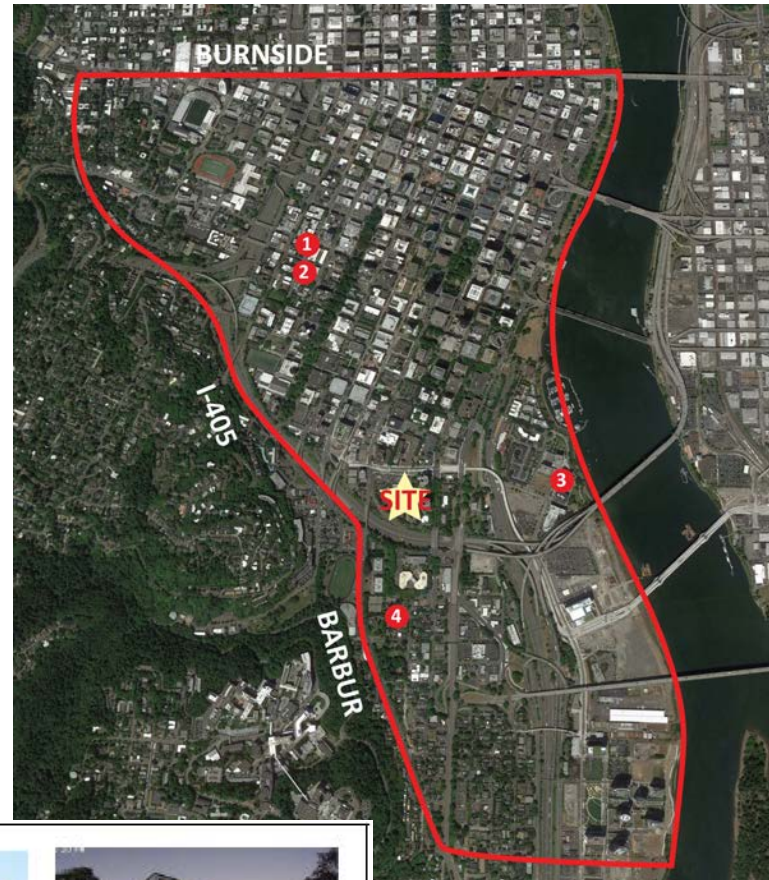
CONDO





DEMAND

Condo ownership has started to pick up steam since the Recession. In 2012 condo sales were selling well below asking prices. The condo market is still healing from the years of overbuilding within the CBD. Using the same PMA as the apartment market above, we calculated an additional 900 ownership residents by 2020.

SUPPLY

Sales prices for existing inventory average about \$350/SF within the PMA. This sale price per square foot does not cover the cost to build new competitive product and provide an attractive return. In addition to finance constraints, developer exposure is an issue still needing to be mitigated possible by means of a new insurance product that is termed “wrap around” for post construction coverage. Therefore, condos are not in our development plan at this time. Ideally, our phasing plan would allow for a transition to condo development for the later residential buildings should prices rise before breaking ground.



			
1. SW Jefferson \$164,900 \$340/SF	2. SW 11th \$278,000 \$308/SF	3. SW River Dr \$300,000 \$374/SF	4. SW Meade \$426,000 \$358/SF

RETAIL

DEMAND

Nationally, the retail market ended strong in 2014. Sales climbed 4.2% as low gas prices contributed to an increase in consumer spending. Colliers reports retail real estate transactions above pre-recession levels, and the future looks bright for the sector for 2015.

From 2008 to 2013 Portland has been the city with the fastest-growing GDP of major metros throughout the U.S. Supply limits and lack of new development are keeping vacancies low at 4.9%. Colliers reports that the currently the demand for grocery-anchored space exceeds supply according to the 4th quarter report. Online shopping at this time is not deterring retail success, for metropolitan residents enjoy socializing in an urban settings rich in amenities while being consumers.

Consumer spending patterns within a one-mile radius indicate that 10% of total spending is spent on groceries (food at home), 10% on food away from home, and 4% on entertainment and alcoholic beverages. Consumer spending patterns within five miles were nearly identical. The food and beverage market has opportunities for further retail of grocery stores, supermarkets, and convenience stores in addition to beer, wine and liquor stores. These patterns and emphasis on groceries, food and entertainment both informed and help support the site's planned programming.

SUPPLY

Within the site area and other submarkets there is little new construction. Most new construction is clustered new developments by big employers such as NIKE. According to Colliers, the low absorption of the Lloyd District is reflected in its low quoted rates at \$14.00/SF. The Portland CDB submarket has the highest rents quoted at \$22.10 SF. A new grocery store is planned at the bottom of the Core Campus project (mapped in multifamily CMA, above) just a few blocks up the Halprin Sequence from the site.

As in the case of miscellaneous retail stores, demand has been oversupplied except in the category of gift, novelty and souvenir stores with just a small dollar amount of approximately \$388,730. These statistics reveal why the area is experiencing retail challenges and needs further analysis and community effort to mitigate challenges and design strategies to help support business economic development in relation to the current competitive retail business climate and capture future demand.

The site has a very low vehicle and pedestrian traffic count compared to the rest of the area. The low traffic count is predominantly due to the natural barriers of the surrounding freeways I-5 and I-405 that inhibit circulation as well as the presence of the light rail line. Although the light rail line may add some daily visitors, we expect the subject site to be a poor location for retail. Therefore, the only retail that is planned is a restaurant to service the hotel and surrounding residents and perhaps a coffee shop in a future office building.

OFFICE

PORTLAND OFFICE MARKET

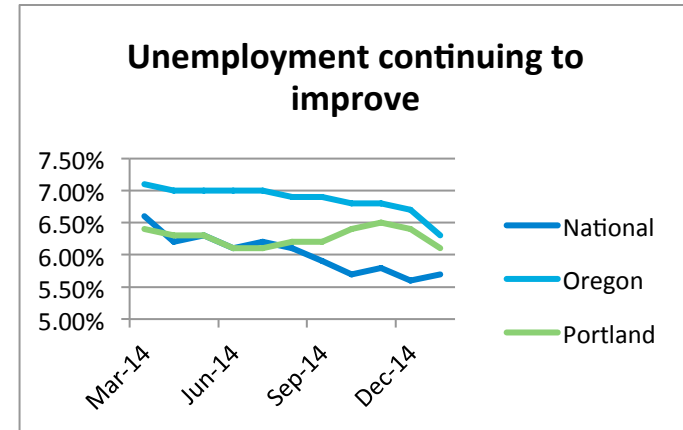
The Portland office market continues to enjoy strong fundamentals and remains a superior value compared to other west coast markets like Seattle and San Francisco (both from an occupant and investor perspective). Unemployment also continues to trend downward and was reported at 6.1% for January 2015 (see chart at right for trend over the past year).

Portland’s office market saw just over 1.3 million square feet of net absorption in 2014, nearly twice the 10-year historical average, contributing to vacancy rates that are at a 15-year low. The Central City saw net absorption of approximately 675,000 according to JLL research. The market has seen four consecutive years of above average demand while new space deliveries have remained below average. According to JLL, the Portland office market now boasts the second lowest vacancy rate of all major US markets, trailing only New York. Demand for office space continues to be driven by technology firms, which are accounting for between one quarter and one third of all leasing activity. Urban locations continue to be preferred, with the Central City and Close In Eastside capturing 67% of demand according to JLL.

While Portland has historically been a market of small tenants, research by JLL indicates the average size of Portland office tenants has increased 20% to just over 8,000 SF. In addition, there have been a number of larger leases signed recently. In terms of future demand, JLL is currently tracking more than 3.2 million square feet of tenants in the market with average size requirements of over 21,000 SF.

Rents are continuing to increase, especially for larger and premium spaces. CBD Class A rents increased 5.2% in 2014 according to JLL and are approaching the \$30/SF mark with the highest asking rents now at \$38/SF Full Service. Driven by strong creative demand, Class B rents are up 6.5% year-over-year. Rental rates for the Central City average \$26.24/SF and vacancy in the Central City is 7.4%.

Portland’s overall vacancy rate has been improving every year since 2010 and ended 2014 at 9.6% (JLL). CoStar, using slightly different data, concludes 8.1% vacancy for 2014Q4. It is expected to further improve in 2015Q1; it is already lower in the Central City (7.4%, 2014Q4 per JLL research).



Source: BLS

SOUTH OF MARKET (SOMA) OFFICE SUBMARKET

The South of Market (SoMa) submarket has approximately 2.3 million square feet of office space based on CoStar data obtained for this submarket. The map nearby at right illustrates the boundaries of the submarket and, as a mixed-use district, highlights the primary office buildings. Very little new product has been delivered in the district; the median age of the existing office product is 1969, though some have been renovated more recently. Floor plates average 18,452 SF and SoMa tenants benefit from more generous parking ratios than elsewhere in the Central City (based on our analysis of data obtained from CBRE, the SoMa average is 1.48/1,000 SF).

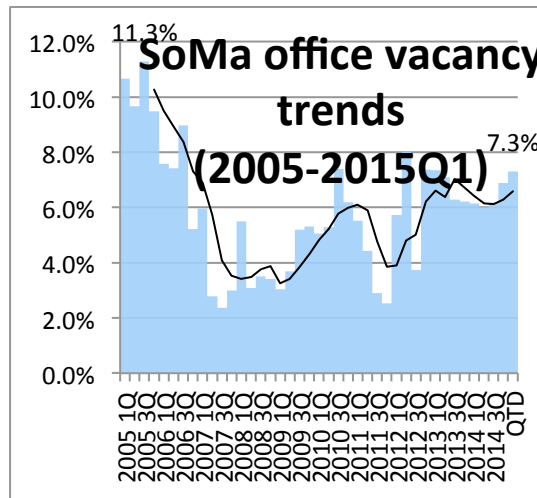
There are some large users in the district – Cambia/Regence, CH2MHill, and Portland State University among them – and new users coming into the district such as energy consulting firm Ecova, which moved its Portland office into SoMa in February 2015 (approximately 29,000 SF). A review of leasing activity reported in CoStar indicates over 56,000 of office leases signed in the last 12 months (through early March 2015), indicating actual absorption of almost 5,000 SF per month.



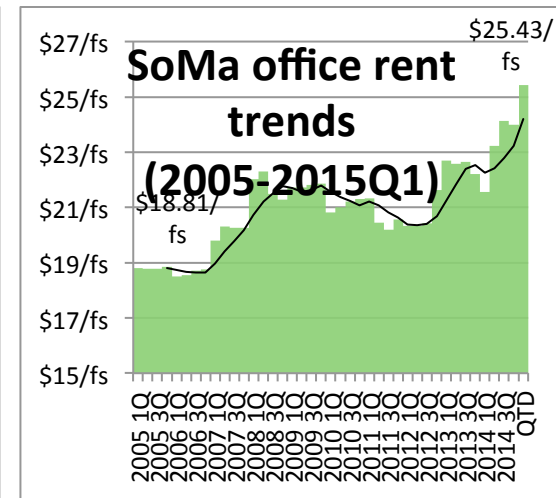
South of Market (SoMa) office submarket

The two charts nearby provide a summary of historical vacancy and rental rate trends in the SoMa office market over the past decade (2005-2015Q1) based on an analysis of CoStar data for properties in this submarket. The uptick in vacancy for 2015Q1 shown in the chart is primarily concentrated in one building, 200 Market. More broadly, vacancy in the SoMa submarket appears to be inline with or slightly better than the broader Central City (7.6% at year-end 2014 per JLL).

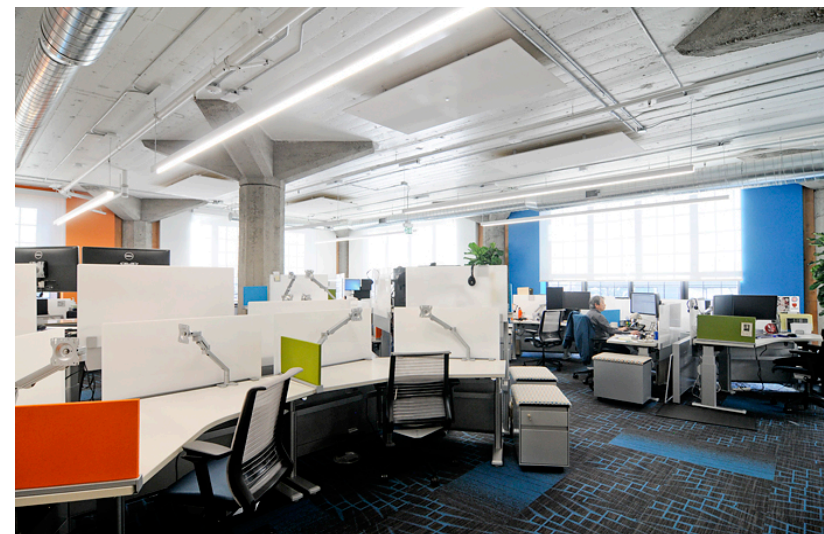
As with the broader Portland office market, rents in SoMa have been increasing from an average rate of approximately \$19/SF Full Service in 2005 to approximately \$25/SF Full Service at the start of 2015, but remain below the levels being achieved in the CBD and the Central Eastside and below the rates necessary to support new construction.



Source: CoStar



Source: CoStar



Viewpoint | Image credit: Sam Tenney/Daily Journal of Commerce

COMPARABLE PRODUCT

Here are selected SoMa office comparables and the average rental rate being achieved at each building, based on data obtained from CBRE.

While rental rates are increasing in SoMa, the district has not been able to capitalize on the market’s demand shift to creative office space in recent years due to the nature of much of the existing space inventory. The lobby of CH2M Hill was recently renovated, and the former Cambia/Regence building at 100 SW Market has recently been repositioned as premium creative office. Based on our conversations with brokers, developers, and market participants, we believe that there is an opportunity for SoMa to target and attract these creative users over the mid-term with new, authentic, highly differentiated product that could command a sufficient rent premium to current SoMa legacy rental rates to support the cost of new construction. eBay has significantly expanded its Portland outpost in the 5th Avenue Building a few blocks north of SoMa and, as availability continues to tighten in the core CBD and desirable Central Eastside, it is plausible that technology firms and other users who value the strategic role real estate can play in in brand identity and recruiting and retaining talent may locate in SoMa if the right product were to exist.



Building name	Address	Class	Built	Renovated	Net rentable SF	Parking ratio	Occupancy	Avg. rent
1. 200 Market Building	200 SW Market St	A	1973	1989	363,072	1.87	89.8%	\$27.95 FSG
2. 2300 First Avenue Plaza	2300 SW First Ave	B	1968		23,530	2.00	70.0%	23.50 FSG
3. CH2M Hill Parkside Center	2020 SW 4th Ave	A	1982	1990	221,000	2.00	92.5%	26.50 FSG
4. Harrison Square	1800 SW 1st Ave	A	1973	1992	182,000	1.33	98.9%	22.52 FSG
5. Portland Center	150-220 SW Harrison St	B	1967	2009	17,421	1.50	85.3%	18.00 NNN
6. Riviera Plaza	1618 SW First Ave	B	1967	2000	137,295	2.50	81.1%	22.94 FSG
7. The 100 at Park Square	100 SW Market St	B	1969	2014	97,643	1.00	30.0%	N/A FSG
8. 2000 SW First Ave	2000 SW First Ave	B	1965	1996	48,892	2.00	96.1%	19.50 FSG

Source: CBRE

According to the March 2015 draft City of Portland Economic Opportunity Analysis (EOA), the Central Eastside and Lower Albina districts, which have a strong demand for building space, only have enough buildable land to cover 72% of the projected demand. The report notes that “additional capacity should be

targeted to the specific demand opportunities of this “incubator” geography” and the site in SoMa may be well positioned to capitalize on this need over the mid-term.

Furthermore, SoMa is well-located to benefit from the Innovation Quadrant and potential synergies with PSU and OHSU, and spillover opportunities from Zidell’s plans at South Waterfront just a stop away. The site also has additional attributes of excellent freeway access and visibility off I-405, which may prove valuable as an increasing number



Former Cambia/Regence building being marketed as “premium creative office”



Refreshed lobby at CHM2Hill / Parkside Center

of tenants are looking for signage rights as part of their Central City leasing deals (witness the increasing number of signs appearing on building facades in downtown – Panic, Jama, eBay, Smarsh, and more).

Based on office market comparables, data from CBRE, CoStar, and conversations with various market participants, we believe a rental rate of \$22-24/SF NNN will be achievable in the mid-term.

PROJECTS IN THE PIPELINE

There are no known new office projects currently in the pipeline in the SoMa submarket. One adaptive reuse project was recently completed in SoMa:

1. **The 100 Park Square**, 100 SW Market Street (97,644 NRSF) – Clarion Partners/W3 Partners. Former tenant and owner Regence Blue Cross/Blue Shield/Cambia moved out of the building, consolidating its executive functions into 200 Market and its Cambia Health Solutions unit into upgraded space in the adjacent Woolworth building. Clarion Partners acquired the building, built in 1969, and has completely gutted and repositioned it and is now marketing it as premium creative office space. To date, one tenant has been signed, Ecova, for two of the seven floors. Ecova moved into its space in February 2015. Terms have not been disclosed but 2014 media accounts indicate the development team was hoping to achieve rents in the \$30-40/SF range.

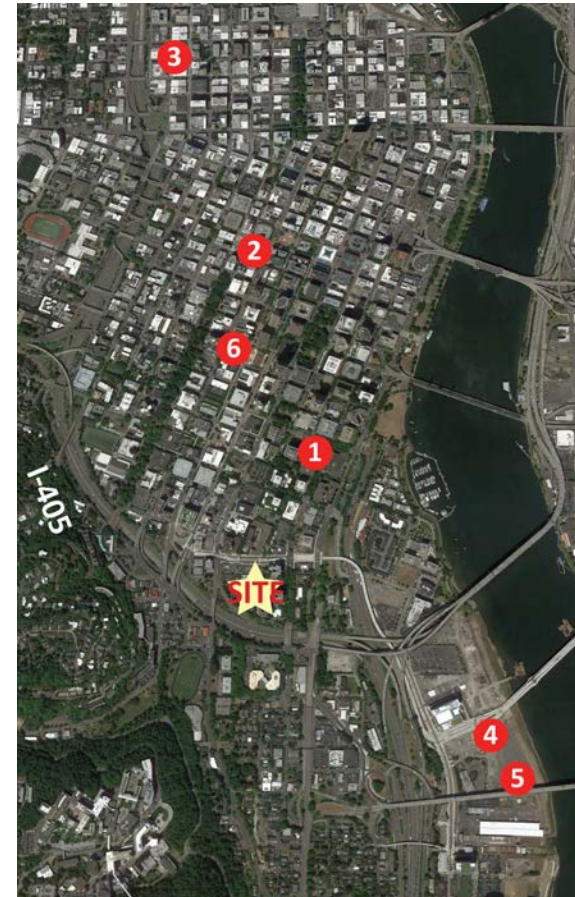
Given the lack of other new product in the SoMa submarket, we also considered the CBD, South Waterfront and Pearl districts, where a few projects are either under construction or proposed.

NEW CONSTRUCTION

2. **Park Avenue West**, SW Park Avenue and 9th (221,380 NRSF) – TMT Development
3. **Pearl West**, NW 14th & Irving Street (155,465 NRSF) – Walt Bowen’s BPM Real Estate
4. **Zidell Office Building #1**, SW Moody near Tillicum Crossing bridge (246,000 NRSF) – ZRZ Realty Company
5. **Zidell Office Building #2**, SW Moody near Ross Island bridge (113,000 NRSF) – ZRZ Realty Company

ADAPTIVE REUSE

6. **Former The Oregonian Headquarters**, 1320 SW Broadway (165,000 NRSF) – Urban Renaissance Group/Clarion Partners



INSTITUTIONAL

Portland State University (PSU) is believed to be the largest single user of space in the SoMa/University District. During the 10 years ending 2008, the University built more than 550,000 SF of additional space on campus, nearly doubling its instructional space. Its existing footprint now totals approximately 1.7 million square feet.

CURRENT DEMAND

The University's own analysis, however, suggests that to meet the needs of *current* enrollment levels, its space needs exceed 2.1 million net assignable square feet (*Portland State University District Framework Plan, June 2010*). The table nearby summarizes its current space needs by use type. Over half of the space needs are characterized as General Use, which includes a broad range of student-life spaces such as assembly and exhibition space, dining facilities, lounges and retail space, student union space, meeting rooms and other support spaces.

Further analysis suggests that the University has a more acute need for classroom space than may initially appear from this table. Specifically, the University's analysis indicates that there is a mismatch between the size of available classrooms and the demand for larger instructional spaces. Classrooms with capacity for fewer than 45 students are underutilized relative to Oregon University System standards, in contrast to larger instructional spaces. Thus, it appears there is demand for additional larger instructional spaces that can accommodate over 45 students.

Current space needs at Portland State University*

Use	Existing floor area (NASF)	Total space needs (NASF)	Surplus (Shortfall)
Classroom space	155,841	173,066	(17,225)
Laboratory space	134,360	124,755	9,605
Research laboratory	128,705	160,881	(32,176)
Office space	343,273	403,377	(60,104)
Library, study, media space	102,569	171,232	(68,663)
Recreation & athletics	91,177	137,930	(46,753)
General use	170,457	409,295	(238,838)
Support space	97,069	79,027	18,042
Health space	3,723	17,225	(13,502)
Residential space	464,235	443,925	20,310
Total	1,691,409	2,120,713	(429,304)

* examines current conditions and does not include PSU's goals for additional housing, enrollment expansion or research growth

Data source: Portland State University District Framework Plan, June 2010

FUTURE DEMAND

Based on the Portland State University District Framework Plan, if PSU enrollment increases to 36,000 as forecast, the University will need to build or acquire more than 4 million gross square feet of additional space over the next 30 years. This includes approximately 7,000 additional beds and 150,000 assignable square feet of laboratory space, though actual needs may be different and dependent upon funding and other factors. The table at right summarizes the University's potential long-term space needs. Note that in addition to the space it anticipates building or acquiring, the University forecasts nearly 3 million gross square feet of additional space being developed by the private sector. Of this, approximately one-third is anticipated to be housing.

Future space needs at PSU

PSU non-residential	2,600,000	
PSU residential	1,600,000	
Sub-total, PSU¹	4,200,000	59%
Private non-residential	1,900,000	
Private residential	1,000,000	
Sub-total, private²	2,900,000	41%
Total³	7,100,000	100%

1. Includes 600,000 GSF (15%) allocated for parking at 0.5 spaces/1,000 GSF for academic use
2. Includes 600,000 GSF (20%) allocated parking at 0.7 spaces/1,000 GSF for private use
3. Includes approximately 760,000 GSF replacement

Data source: PSU District Framework Plan, June 2010

RENTS

While the University generally prefers to own its space, it does currently lease space at multiple properties.

Based on conversations with Portland State University Campus Planning, the University's current leases range from about \$24/SF to \$30/SF Full Service. Space around the University District is understood to be in the range of \$25-27/SF NNN.

POTENTIAL INSTITUTIONAL TENANTS AND SIZE

In our research, we identified four potential PSU-related units that may be candidates for new institutional space as part of the redevelopment of the University Place site:

- **OHSU/PSU School of Public Health:** A relatively new joint initiative with OHSU, this school is currently pursuing its accreditation and, as such, its space needs are still fluid. From what we understand, the working assumption is approximately 40-50,000 square feet, which could be located on OHSU's Schnitzer North (South Waterfront) campus or, given the school's joint OHSU/PSU lineage, be an apt academic anchor to a potential redevelopment of the University Place site, conveniently located one MAX stop from OHSU and a short walk from the rest of the PSU campus.
- **PSU Business Accelerator:** Currently located off campus (0.9 miles south and a 17-19 minute walk from the Business and Engineering buildings on campus according to Google Maps), we believe this incubator could become even more successful if it were on campus and could leverage adjacencies more fully for its entrepreneurs and high-growth companies.
- **PSU School of Art + Design:** Currently scattered across multiple locations with a primary facility nearby, the University Place site might be a nice option to consolidate and co-locate the various art school programs and create real synergies.

- **PSU University Technology Services:** Currently leasing the majority of a 53,202 SF office building across 4th Avenue from the University Place site, the University may have an interest in relocating this unit upon its lease maturity in 2021.

Regardless of specific tenant, a minimum floor plate of 15,000 SF is desired.

PROJECTS IN THE PIPELINE

The University is expected to break ground in August 2015 on a \$60 million School of Business Administration building expansion. According to the June 2014 RFP, it is expected to add approximately 42,000 SF and modernize and upgrade the existing structure. The new building will triple the school's space and add



New Business School

The University is renovating its School of Business Administration starting in August.

25 project and team rooms, a full auditorium, five industry-specific centers, and several common spaces. It is scheduled to open in August 2017. The University also has plans to upgrade its aging Stott Center into a “lively campus landmark for academics, the arts, and athletics” through a \$44 million public/private campaign. Plans for the renovated building include 30,000 SF for health and physical education classes as well as a new 5,500-seat venue.



Viking Pavilion

The University's outdated athletics facility will soon be remodeled.

HOSPITALITY

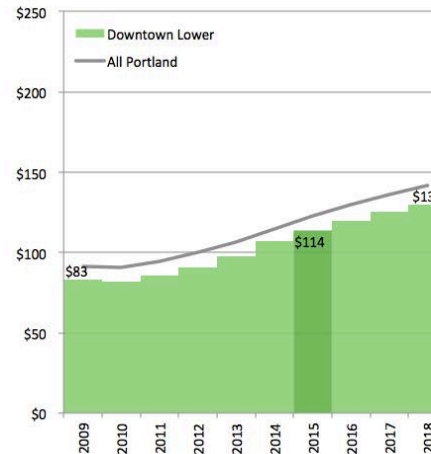
DEMAND

Hospitality demand continues to grow year over year in Portland. According to data compiled by Dean Runyan Associates, visits to Portland in January 2015 were up by 40% from 2014. Hotel spending in Portland has risen consistently since the downturn and will likely reach \$2 billion annually by 2016. Demand growth is expected to slow, dropping from about 4% year over year to about 2% year over year. According to a study by Longwoods International, the average age of a visitor to the greater Portland area was 42 in 2013, while over 41% of visitors to Portland were between the ages of 25 and 44. Therefore, a competitive hotel should appeal to younger visitors.

SUBMARKET TRENDS

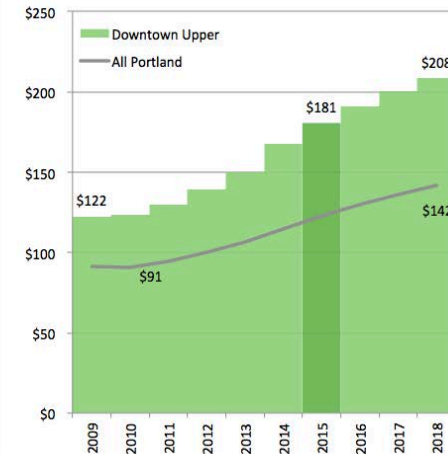
The downtown submarket is very strong. According to PKF Hospitality Research, room revenue increase is competitive with central cities across the nation, and only Denver, San Francisco, and San Diego are expected to see stronger markets in 2015. The upper priced product, such as Hilton, Marriott, and boutique hotels, reached 82% annual occupancy during 2014. Average daily rate (ADR) grew 11.3% to about \$165, and RevPAR grew 11% to about \$138. Lower priced hotels, such as La Quinta and Econolodge, also grew to an average occupancy around 75%, ADR of \$107, and RevPAR of \$80.

Downtown Lower ADR

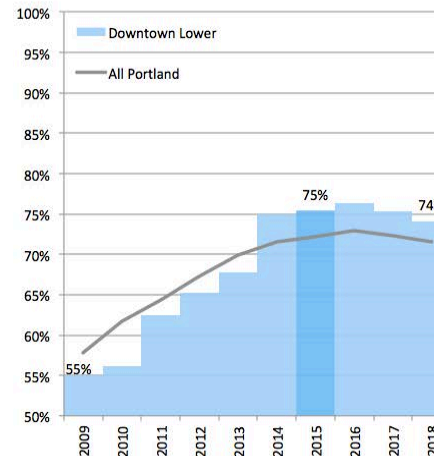


Source: PKF

Downtown Upper ADR

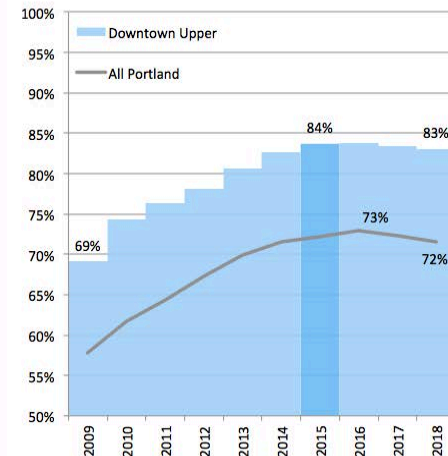


Downtown Lower occupancy



Source: PKF

Downtown Upper outperforming



SUPPLY

There are 1,383 rooms in the downtown pipeline. If we consider the contentious Convention Center Hotel, the total increases to almost 2,000 rooms. Given the projected demand growth of 4% until 2016 and 2% thereafter, we can expect occupancy to stay above 80% annually until this new supply comes online. Then, the average occupancy will drop to about 74% by 2020 for upper priced hotels and about 65% for lower-priced hotels. Despite the large amount of supply, 74% occupancy is still good for the hotel industry. Additionally, our proposal calls for a reduction in inventory of about 90 rooms, so the overall new supply will be lower than currently projected. If the proposed hotel performs somewhere between upper and lower-priced hotels, it should have a stabilized occupancy of about 72% and an ADR of about \$165.

1. Canopy by Hilton	299
2. Society Hotel	36
3. Grove Hotel	52
4. Woodlark/Cornelius	150
5. Pioneer Building	140
6. AC Marriott	204
7. Curio by Hilton	299
8. Hyatt House	203
TOTAL ROOMS	1383



COMPARABLE PRODUCT

From the existing supply we surveyed many of the hotels within one mile of the site. The luxury hotels in this sample represent the upper boundary of achievable rates. It is unlikely that the subject site will be able to support a luxury hotel because it is too far from downtown retail destinations. We believe Hotel Rose is a reasonable comparator to our proposed hotel. It has a similar number of rooms and has relatively lower pricing than luxury hotels. There are economy hotels nearer to the site, but we believe many university visitors would be dissatisfied with the quality of these hotels. There is space for something above economy and below luxury that we believe the proposed hotel fills well.

The existing University Place Hotel has underperformed historically. We believe this is because the hotel is outdated. Furthermore, it is run by a public entity. A newly built product that is run by an established hotel operator should perform closer to market average.



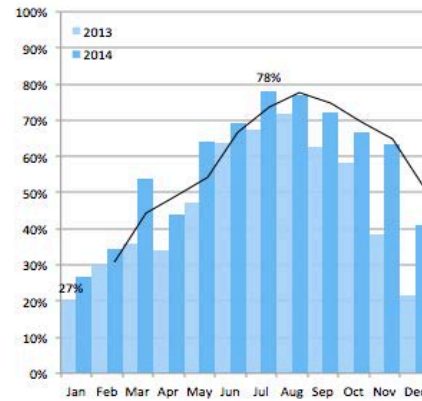
Hotel	# Rooms	Low Season				High Season			
		Mid-Week		Weekend		Mid-Week		Weekend	
		Basic	Deluxe	Basic	Deluxe	Basic	Deluxe	Basic	Deluxe
1. Downtown Marriott	503	\$239	\$359	\$239	\$259	\$259	\$359	\$249	\$329
2. Modera	174	\$239	\$319	\$259	\$339	\$349	\$439	\$349	\$439
3. Heathman	150	\$202	\$269	\$193	\$260	\$278	\$341	\$287	\$350
4. Nines	331	\$229	\$259	\$229	\$259	\$483	\$510	\$399	\$429
5. Hilton Portland	782	\$209	\$234	\$209	\$234	\$229	\$259	\$229	\$249
6. Riverplace	248	\$166	\$283	\$238	\$355	\$517	\$634	\$417	\$554
7. Rose	140	\$170	\$242	\$170	\$242	\$278	-	\$278	-
8. Econolodge	20	\$84	\$94	\$84	\$94	\$159	\$169	\$159	\$169
9. Travelodge	40	\$51	\$55	\$51	\$55	\$161	\$186	\$161	\$186

UNIVERSITY PLACE HOTEL

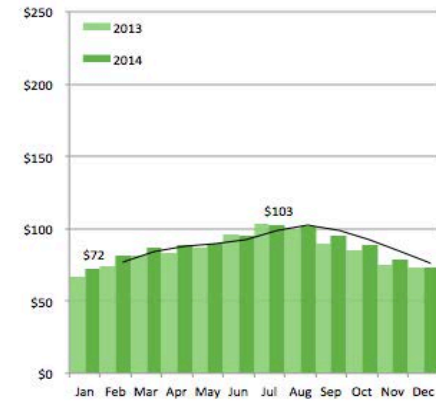
The University Place Hotel has underperformed over the past few years relative to comparable product. We believe that this is due to the fact that the building is aging. Anecdotally, we know that professors and staff do not refer guests to this hotel. They would, however, refer guests to a newer, better building. Online reviews support the notion that the main deterrent to repeat visitors is the quality of the building. Therefore, a replacement hotel should perform much closer to the downtown market average.

This assumption is also supported by the recent surge in occupancy and ADR. PSU recently began a push to improve hotel performance, and from 2013 to 2014, occupancy rose from 46% to 57%. Occupancy for January 2015 alone was 47% compared to 26% for January 2014. At this rate of improvement, the hotel should be performing at market average within a few years.

Seasonal occupancy
(2014 average: 57% vs. 75-83%)



Seasonal ADR
(2014 average: \$88 vs. \$107-168)



University Place Hotel performance, Source: Portland State University



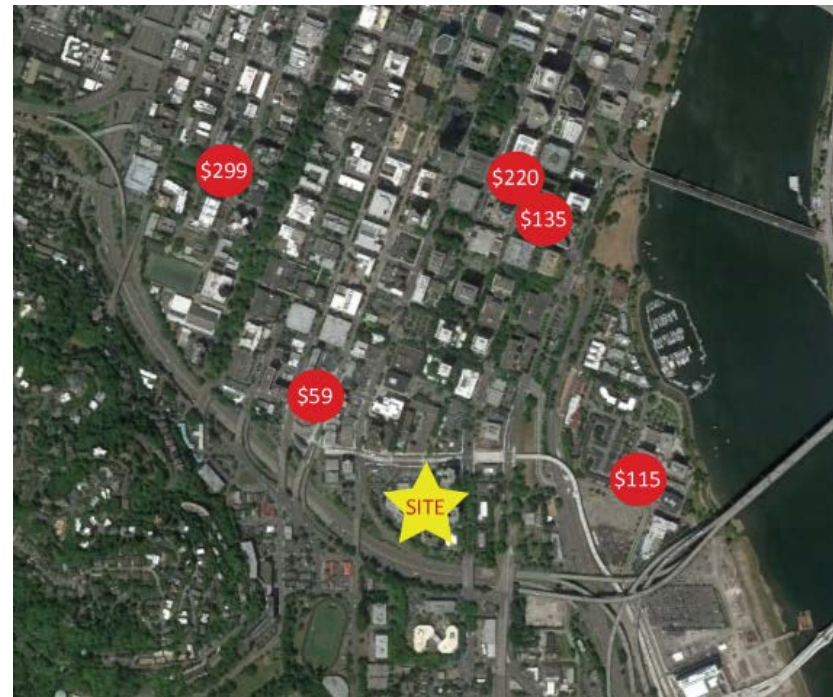
Built in the 1960s, the existing University Place Hotel is reminiscent of suburban product with wrap-around, surface parking and exterior corridors.

RAW LAND

Raw land is hard to come by in the downtown submarket. Raw land comps provided by tax rolls and Costar hover around \$115/SF for larger parcels and \$200/SF or higher for smaller parcels. The weighted average based on the comp set mapped at the right is \$118/SF.

The subject parcel is not raw land. It has a functional hotel on it that must be considered as well. If anything close to the density called for in the development vision is to be achieved, the hotel must be demolished. The cost to demolish the hotel must be factored into the land value. Also reducing the value of the parcel significantly is the lack of access from three sides. Because the parcel is deep and can only be accessed from the north, efficient building footprints are more difficult to achieve. Therefore, we believe the value of the land is below the weighted average. We assume a purchase price of about \$100/SF for the subject parcel, which would retire the remaining debt held by PSU for the parcel.

As for the Wyse parcel, we assume a purchase price of about \$125/SF. The purchase price reflects the smaller size of the parcel and its value to the efficient development of the University Place parcel. Arguably, the current owner would recognize the value of the corner lot and the impediment that the access easement poses to development and hold out for a premium price. However, if the owner is unreasonable, we could develop around the Wyse parcel in such a way that the Wyse parcel would actually be worth less per square foot than we are offering. Therefore, we feel that \$125/SF is a reasonable price.



6: CHALLENGES & OPPORTUNITIES

STRENGTHS

- **Transit:** Proximity to rail, bus and streetcar allows for multi-modal transportation to key locations in Portland.
- **Open Space:** There is a series of open spaces to the north of the site that help increase walkability.
- **Size:** The size of the parcel allows for a new, mixed-use development.

OPPORTUNITIES

- **View corridors:** Because the site is bounded by the highway, views to the south and west are very good. Mt. Hood is still visible to the east.
- **PSU Anchor:** PSU is a stable anchor for hotel visits and student/faculty renters.
- **TIF funds:** \$13m may be available for redevelopment of the site.

WEAKNESSES

- **Transit:** The presence of the light rail stop restricts vehicular access to the site.
- **Circulation:** The site is challenged by poor vehicular access and an inefficient shape that restricts internal circulation.
- **Highway Proximity:** The sight and sound of the highway may make the site less attractive than those closer to the city center.

THREATS

- **Competition:** Numerous projects are in the pipeline in the market area. Zidell Yards is a huge unknown factor that could help or hurt the development.
- **Neighbors:** The neighbors are notorious for opposing development in the area.
- **Interest Rates:** It is likely that interest rates will increase by the time that the project is being financed.

7: DEVELOPMENT VISION AND OBJECTIVES

The Exchange is a vibrant and dignified community in the heart of downtown Portland. It combines open meeting space with private dwelling space. It encourages interaction and the free exchange of ideas. It is also a place of health and wellness. While the project is financially competitive with other market developments, it also incorporates the following key components setting it apart from other developments.

SUSTAINABILITY

Both PSU and PDC place sustainability as high priority and we plan to do the same with respect to the development of the University Place site. The PDC DDA notes that projects receiving PDC funds must meet certain green building requirements and we intend to follow through on those objectives, even if not required to do so. Specifically, PDC requires new construction projects to meet the standard for LEED Silver Certification. All of our buildings will meet this standard at a minimum. We will also engage the SOMA Ecodistrict for their suggestions, concerns, and input. The following is a list of some of the specific sustainable features to be included in the University Place development.

- All buildings LEED certified.
- Green roofs will be used to filter and control stormwater. Flow through planters and bioswales will also be used for stormwater management. These sustainable features will increase the community’s green infrastructure, which also a SOMA Ecodistrict goal.
- High efficiency mechanical and electrical systems to reduce energy use. This includes the use of task lighting and occupancy sensors, LED lighting where possible, heat recovery ventilators, and economizers on HVAC equipment to provide fresh air.
- Low flow plumbing fixtures to reduce the amount of water consumed.
- Optimize sunlight exposure and shading to use and control natural light.
- Low VOC materials.
- Use of native plants to reduce irrigation use.
- Waste management and recycling during construction.

URBAN DESIGN AND DENSITY

The Exchange will be a vibrant community utilizing urban design principles and density. It will incorporate diverse architectural styles, pedestrian walkways, community gathering areas, and quiet green spaces. All of the parking will be located below grade to allow for maximum use of the property. The Exchange will consist of a mix of synergistic uses and variable building heights. It will be pedestrian and bike friendly and make take advantage of the new light rail on Lincoln Street. All of these are important principles guiding the development program and fit in well with the desires of the city and PSU.

HEALTH AND WELLNESS

The Exchange is a place designed for health and wellness. With the pedestrian friendly corridors and the plentiful open spaces, residents are encouraged to be auto-mobile rather than relying on automobiles. The Exchange has fitness centers, green spaces, a bocci ball court, a community garden, an extension of the Halprin paths, plazas for community events and activities, and plenty of bike parking. The extreme convenience of public transit allows residents and visitors to ditch their cars and be in the world, even while traveling. The Exchange will also be a place where people of different ages can meet and interact but also have some time among their peers when they want to. The mixed-use office building is designed to allow students to facilitate interaction between students and professionals. The proximity of empty nester housing to market rate allows for interactions across age groups.

INCORPORATE EXISTING AMENITIES

There are a few notable amenities in the area creating great opportunities. The Halprin Sequence is located directly across Lincoln Street, the new max line runs adjacent to the site, the PSU campus is a block away, SW Waterfront is one light rail stop away, downtown is within walking distance, a food cart pod is right down the street, and the views from the site are amazing. The Exchange aims to take advantage of these amenities and incorporate them in the development.

RETIRE PSU DEBT

PSU currently owes approximately \$16.7 million on the University Place site. When PSU disposes of the property, this debt must be retired. In order to do this we strived to produce the greatest residual land value while also meeting the other development objectives.

8: PROGRAMMING & SITE PLAN

DEVELOPMENT PROGRAM

The Exchange will feature a complimentary mix of uses including hospitality, housing, employment, education, and open space. With this development we are striving to create a unique community with a mix of uses and architectural variety with both density and open spaces. The development will provide community-gathering areas, encourage social interaction, and promote a healthy, active lifestyle.

The program includes the following:

- Underground parking garage with 363 spaces.
- 145-room hotel with a 5,000 SF restaurant and 5,000 SF of conference space.
- 197-unit, market-rate apartment building.
- 120-unit, empty-nester oriented building.
- Mixed-use building consisting of 60,000 gross SF of office space, 44,000 SF of institutional space, and 152 units of student housing.
- A total of approximately 600,000 GSF (3.2 total FAR)

PHASING

Because the University Place site is quite large and will be built over a period of 4-5 years, we plan to phase the construction with the goal of opening components of the project at different times. During construction we will stagger each building in phase 1 so they open at different intervals. This will allow us to start earning revenue before the entire project is completed and maintain flexibility to make changes during construction in response to changes in the market. There are two primary phases to the construction process, and all construction should be completed by year five. Construction of phase 2 will start approximately 16 months after phase 1.

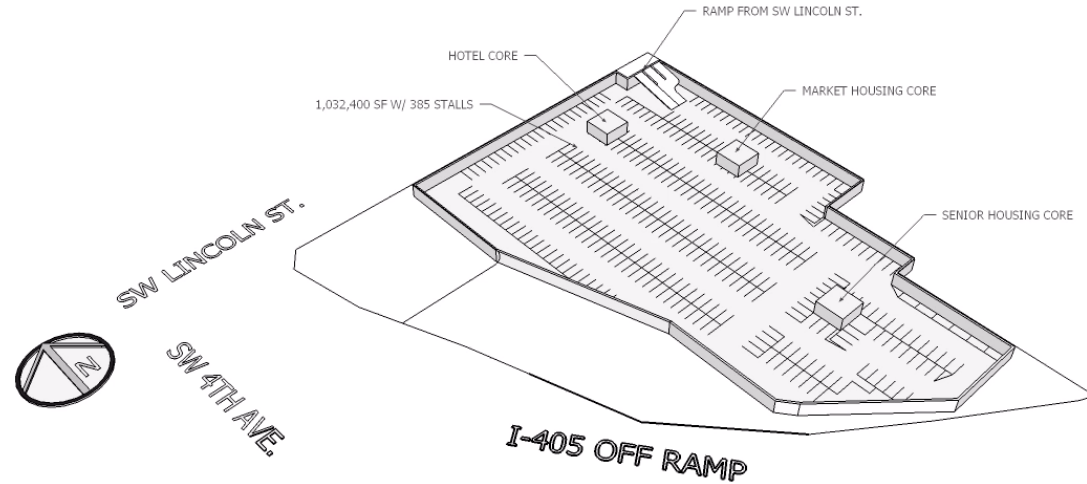
Phasing Plan	2016	2017	2018	2019	2020
Phase 1					
Negotiate with PSU	Yellow				
Purchase Property		Yellow			
Phase 1 Design and Entitlement		Green			
Garage Construction			Green		
Hotel Construction				Cyan	
Res 1 Construction				Cyan	
Res 2 Construction					Cyan
Phase 2					
PSU Acquires Wyse Property		Yellow			
Design and Entitle Western Porion of Site			Orange	Orange	
Constuction of Commercial/Institutional/Student Housing				Orange	Orange

PHASE 1

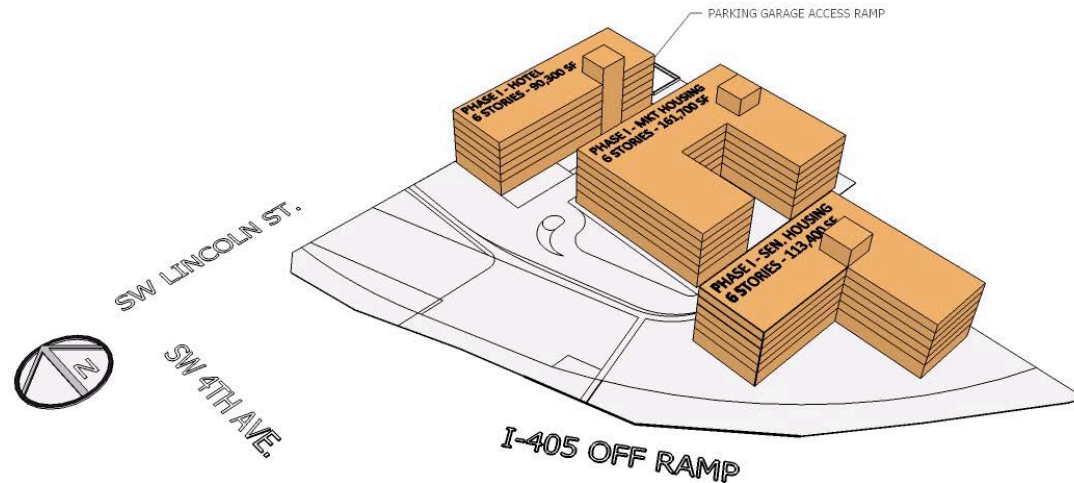
In the first phase, we will construct the below grade parking garage, the 145-unit hotel, and the two residential buildings to the south of the hotel in that order. The below grade parking will support both the hotel and two residential buildings, with the entrance ramp at the low point on the southeast corner.

We start with the hotel at the street to allow the hotel to open before completing construction of the residential buildings. Likewise, the first residential building will be completed and open before the second. The spaces between the buildings will serve as extensions of the Halprin open space and are designed to be primarily pedestrian; however, fire trucks will be able to fit in the corridors in case of emergency.

During this phase, the western portion of the site behind the Wyse building will be used for construction access and laydown area.



Phase 1a: Construction garage with elevator corridors



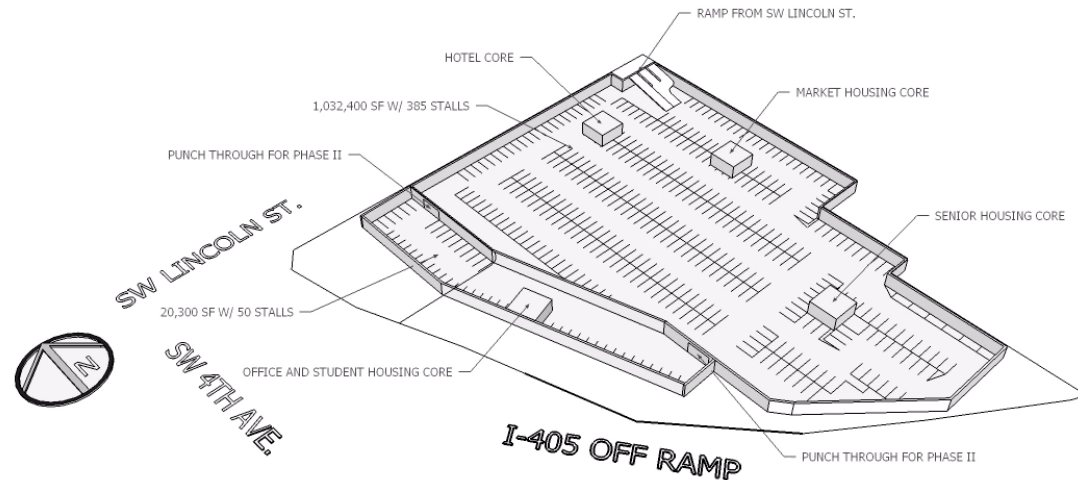
Phase 2b: Construction hotel, then north residential, then south residential

PHASE 2

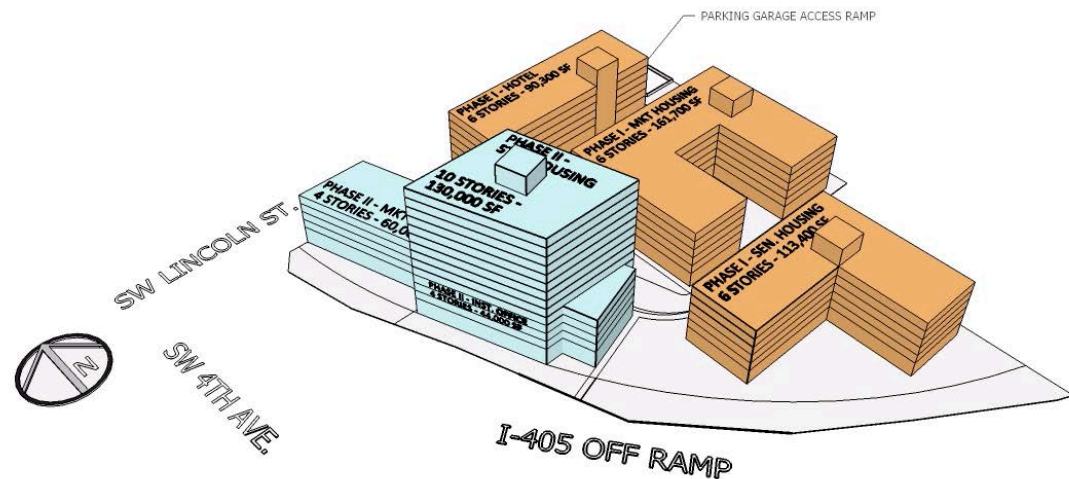
First we will demolish the Wyse building and punch through the west side of the garage to add the elevator corridors for the office and institutional/student components as well as any parking spaces that are necessary.

Then, we will construct the mixed-use building. The mixed-use building will contain office space opening to the corner of 4th and Lincoln as well as a small coffee shop on the corner to serve area employees on their way to work. Below the office space will be the institutional component, which will open to the interior courtyard and have a separate elevator from the market office. Above the office space will be student housing.

Finally, we will complete the open spaces between the office building and other components and complete the green loop that will run along the south and west side of the parcel.



Phase 2a: Extend garage to the west and add elevator corridors.



Phase 2b: Construct mixed-use office/institutional/student and finish open spaces and bike loop.

COMPONENT: HOTEL



The first component of **phase 1** will be a mid-sized hotel. In order to activate Lincoln Street, we need a use that can accommodate the light rail and attract daytime and nighttime visitors. The site is not good for general retail, so we proposed a hotel. Most flag brands would not blend well with such a restaurant, so we wanted something boutique. However, luxury and boutique hoteliers would likely require a bit better location. Therefore, the compromise is a “branded boutique,” such as Andaz by Hyatt or Indigo by IHG. Andaz may be a bit too high-end for the site, so it is aspirational, but the Andaz Savannah fits the neighborhood well. Local inspiration is taken from Modera, Ace, and Hotel Rose. The hotel, like all buildings in Phase I, will have six floors. It will have an arcaded first floor to accommodate vehicle drop-off, and valets will park cars in the garage below. On the roof will be a combination of deck space and sedum to capture rainwater.

Target Market: Being so close to PSU, the hotel will target people visiting Portland for PSU related activities as well as friends and family of PSU students.

UNIT MIX	% of Rooms	SF	Count
1 King	48%	295	70
2 Double	48%	348	70
Special	4%	500	5
TOTAL	100%	47,150	145



Proposed hotel view from Lincoln Street.



Our target is a “branded boutique,” such as this Andaz in Savannah.



The Andaz Savannah has a bright, airy restaurant that is a great space to meet.



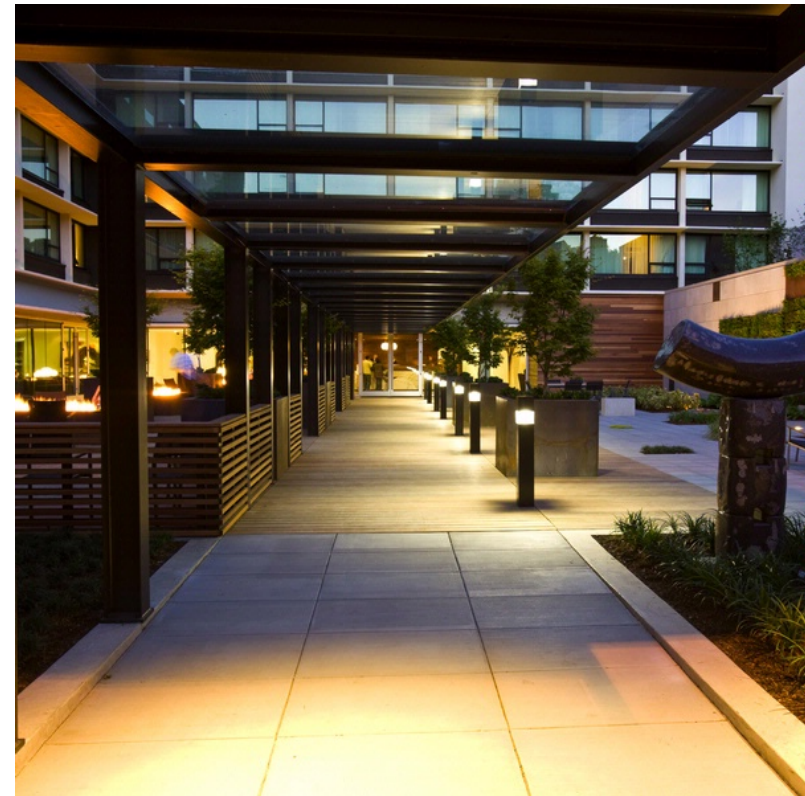
The Indigo Madrid has a breathtaking rooftop deck.



Views from the proposed hotel are not bad either.

COMPONENT: RESTAURANT

To further encourage nightlife in the development and the surrounding neighborhood, we added a restaurant within the hotel along with a patio. The restaurant will be adjacent to an interior courtyard between the hotel and first apartment building. The restaurant will serve hotel guests, nearby residents, PSU students and faculty, and office tenants. We are envisioning a Clyde Common or Nel Centro like restaurant and setting.



COMPONENT: RESIDENTIAL 1

The Marie APARTMENTS

The next program element in **Phase 1** is the first of two apartment buildings, which will include 197 units at an average of \$2.56 per SF. The building is U-shaped to make efficient use of the space and to provide an interior courtyard. Maintaining the theme of open space, the courtyard is going to be a place for recreation and socialization.



Target Market: urban professionals as well as PSU students, faculty, and staff are the target market for this apartment building. The unit mix, sizes, and amenities are geared toward this market. Amenities will include a community lounge and kitchen, bike storage and repair room, fitness facility and outdoor BBQ area

UNIT MIX	% of Rooms	SF	Count	\$/SF	Rent
Studio	24%	502	48	\$2.61	\$1,310
1 Br/1Ba	51%	653	100	\$2.58	\$1,685
2 Br/2Ba	25%	980	49	\$2.51	\$2,460
TOTAL	100%	698	197	\$2.56	\$1,786

The Marie APARTMENTS



The Marie APARTMENTS



COMPONENT: RESIDENTIAL 2

The Anna APARTMENTS

The final component of **Phase 1** is a smaller residential building, which will consist of 120 units with an average rent of \$2.46 per SF. This building is an L-shape, again to make efficient use of the irregularly-shaped space. This component will be a bit more secluded and contain more green space; the green space is more secluded so that the residents can socialize with their peers.



Target Market: empty nesters, retirees, and baby boomers will be the target for this apartment building. To meet this market, we propose slightly larger units with slightly higher-quality finishes. Amenities will include a community kitchen, rooftop lounge, fitness facility, pet wash station, bocci ball court or community garden, secured storage and a guest suite. The units are slightly larger but cost less per square foot than those in the first apartment building.

UNIT MIX	% of Rooms	SF	Count	\$/SF	Rent
Studio	13%	545	16	\$2.53	\$1,379
1 Br/1Ba	52%	720	62	\$2.48	\$1,786
2 Br/2Ba	35%	1020	42	\$2.43	\$2,479
TOTAL	100%	802	120	\$2.46	\$1,974

The Anna APARTMENTS



COMPONENT: MIXED-USE OFFICE, INSTITUTIONAL, STUDENT HOUSING

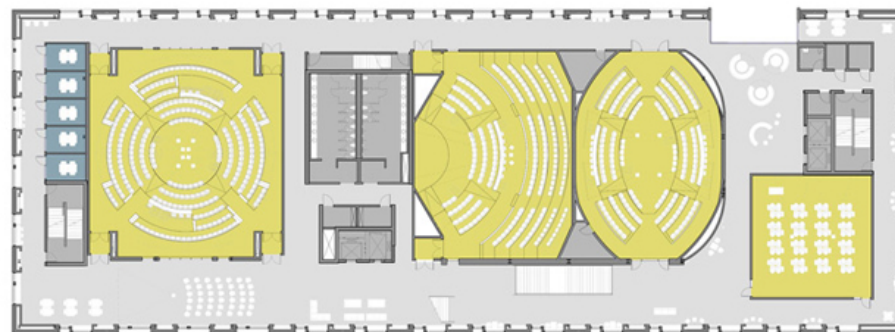
Moving on to **Phase 2**, we will punch through the western portion of the garage and add spaces and elevator cores as necessary. Then, we will construct the mixed-use building. The goal of this component is to provide a strong connection with PSU and create an office intersection at 4th and Lincoln where there are 2 existing, adjacent office buildings. We also aim to build on and enhance the innovation quadrant. We would be remiss if we didn't include student housing on a site within such close proximity to the PSU campus. Therefore, the mixed-use building will include a student-housing tower above the institutional space capitalizing on the large student population in the area as well as giving the site some height and additional density, both of which are strong desires of PSU and the city.



COMPONENT: INSTITUTIONAL



The institutional space will include the first 2 floors of the entire floor plate of the west portion of the site and will be built with input from PSU to best meet their needs. Currently, there are 2 or 3 academic departments at PSU looking for new space and according to an analysis done by PSU there is also a need for larger classrooms. We also believe this would be an ideal location for the PSU business incubator, which is currently located off site. The planned gross square footage of the institutional portion will be about 44,000; however, we could build up to 190,000SF if desired. The entrance to this portion will be from the interior courtyard and possibly from the path on the western edge of the parcel.



COMPONENT: OFFICE

ink.

INNOVATION
NETWORKED

The market rate office will be positioned above the institutional use and will occupy about 60,000 gross square feet. The office space will be open and bright with high ceilings. With a unique and flexible design, we plan to target creative firms and other users that value brand identity and talent recruitment.



COMPONENT: STUDENT HOUSING

Finally, the taller portion will consist of student housing. The proposed unit mix is in the chart to the left. The unit mix will include studios, 1s, 2s, 3s, and 4 bedroom units rented by the bed. Rental rates will be competitive with other nearby privately owned student housing built in the recent past. Amenities include a community lounge, study room, fiber internet and Wifi, a media and game room, and bike storage. We believe this building will stand as a prominent gateway into the SoMA neighborhood, and having the building as the second phase allows for flexibility to change with the market.

UNIT MIX	% of Rooms	SF	Count	\$/SF	Rent/Unit	Rent/Bed
Studio	15%	425	22	\$2.85	\$1,211	\$1,211
1 Br/1Ba	15%	515	22	\$2.75	\$1,416	\$1,416
2 Br/2Ba	25%	650	38	\$2.60	\$1,690	\$845
3 Br/ 2Ba	25%	890	38	\$2.53	\$2,252	\$751
4 Br/2Ba	20%	980	30	\$2.55	\$2,499	\$625
TOTAL	100%	724	150	\$2.60	\$1,884	\$798



A
ASCENT
STUDENT
LIVING



COMPONENT: OPEN SPACE

Open and green spaces and gathering areas are important pieces of this development. With these spaces, we aim to create a lively, active community that the residents can enjoy. In order to do this, we plan to extend the Halprin sequence through the site, hold public events such as art fairs, live music, outdoor movies, and provide a community garden. There will be a plaza near the restaurant patio as well as quieter spaces toward the south end of the parcel.

We intend for each of the buildings to have green roofs and some mixture of rooftop deck space. Amenities such as rooftop decks are becoming commonplace for development in the city. The residential decks will have the benefit of views of Mount Hood around the existing towers. A green loop will run around the back end of the project with the intention to eventually connect with the green loop outlined in the city comprehensive plan update.



COMPONENT: PARKING

The underground parking garage is designed to be one large, efficient floor plate accommodating 363 vehicles and over 637 bikes. Using normal, unshared parking ratios, we would require over 450 parking stalls; however, using a shared parking model, we are able to save almost 100 spaces and \$3 million. The garage will have a single entrance ramp at the northeast corner of the parcel. We expect to sell the parking garage and have it operated as a Smart Park.

Unshared Parking Stall Requirements				Shared Parking - Weekday Use						Shared Parking - Weekend Use					
Use	Quantity	Ratio	Stalls	1am-7am		7am-6pm		6pm-7am		1am-7am		7am-6pm		6pm-7am	
				Use	Stalls	Use	Stalls	Use	Stalls	Use	Stalls	Use	Stalls	Use	Stalls
Hotel units	145	0.4 per room	58	100%	58	55%	32	100%	58	100%	58	55%	32	100%	58
Residential 1	197	0.5 per unit	99	100%	99	60%	59	100%	99	100%	99	75%	74	95%	94
Residential 2	120	1 per unit	120	100%	120	60%	72	100%	120	100%	120	75%	90	95%	114
Retail	5,000	4 per 1,000sf	20	20%	4	70%	14	100%	20	30%	6	75%	15	100%	20
Office	60,000	1.0 per 1,000sf	60	5%	3	100%	60	5%	3	0%	-	15%	9	0%	-
Institutional	44,000	1.0 per 1,000sf	44	5%	2	100%	44	5%	2	0%	-	15%	7	0%	-
Student Housing	152	0.40 per unit	61	100%	61	60%	36	100%	61	100%	61	75%	46	95%	58
TOTAL			461		347		317		363		343		272		343



Unshared Parking Stall Requirements		Bike Parking - Long Term		Bike Parking - Short Term	
Use	Quantity	Ratio	Stalls	Ratio	Stalls
Hotel units	145	0 per unit	-	0.4 per unit	58
Residential 1	197	1 per unit	197	1 per 20 units	10
Residential 2	120	1 per unit	120	1 per 20 units	6
Retail	5,000	0 per 1,000sf	-	1 per 1,000sf	5
Office	60,000	0 per 1,000sf	-	1 per 4,000sf	2
Institutional	44,000	0 per 1,000sf	-	1 per 1,000sf	4
Student Housing	152	1.5 per unit	228	1 per 20 units	8
TOTAL			545		92

	Stalls	Cost
Unshared	461	\$22,845,000
Actual Needed	363	\$17,968,000
Saved	99	\$4,877,000
Bike Costs	637	\$1,578,177
TOTAL SAVINGS		\$3,298,823

9: DEAL STRUCTURE

This sources and uses table demonstrates the equity and debt requirements as well as a summary of the costs of the project. We assume that most of the acquisition costs will be paid with equity before using debt.

Sources				Uses			
Phase	Type	Description	Amount	Phase	Type	Description	Amount
1	Equity	Developer equity	10%	4,629,358	Land	Site acquisition - University Place	\$16,844,800
	Equity	Institutional equity	90%	41,664,226	Land	Site acquisition - Wyse parcel	1,996,100
	Debt				Land	Demolition - University Place	765,440
	Debt	Parking		0	Land	Demolition - Wyse parcel	29,811
	Debt	Hotel		21,332,084	Hard Cost	Parking	12,705,000
	Debt	Apartment North		32,515,394	Hard Cost	Hotel	15,348,000
	Debt	Apartment South		25,885,608	Hard Cost	Apartment north	25,755,000
					Hard Cost	Apartment south	18,260,000
2	Equity	Developer equity	10%	2,039,144	Hard Cost	Hard cost contingency	7,004,020
	Equity	Institutional equity	90%	18,351,739	Soft cost	Interest reserve	5,225,000
	Debt	Office/Institutional		45,319,940	Soft Cost	Operating deficit reserve	325,000
					Soft cost	Soft costs - general	18,422,200
					Soft Cost	Soft cost contingency	773,250
					Hard Cost	Office/academic/student housing	50,637,000
					Hard Cost	Hard cost contingency	
					Soft Cost	Interest reserve	3,436,762
				Soft Cost	Operating deficit reserve	200,000	
				Soft Cost	Soft costs - general	13,438,200	
				Soft Cost	Soft cost contingency	571,910	
Total sources			\$191,737,493	Total uses			\$191,737,493

10: FINANCIAL PERFORMANCE

The project will have an average return on cost (ROC) of 8.05%. Phase I will have a lower ROC, but enough to get financed at 6.9%. This is because we must acquire all of the land and build most of the parking before breaking ground on Phase II. Phase II has a ROC of about 10%, which reflects the reduced basis in the land and parking garage. The parking will be financed through the construction costs of the buildings and then sold separately. The difficulty in creating a deal model for this proposal is that the parking and land must be financed up front with only the value of the buildings in Phase I. Therefore, Phase I has a lower return but this is made up for in Phase II, when the parking structure and mixed-use building are sold with a lower cost basis.

	Hotel	Residential 1	Residential 2	Institutional/Office/ Student	Parking
CX LTC	61%	67%	63%	63%	0%
Cap Rate	7.30%	5.50%	5.50%	6.30%	7%
Stabilized NOI	\$2,559,850	\$2,926,385	\$2,033,869	\$4,531,994	\$641,922
Building Value	\$35,308,278	\$53,207,000	\$36,979,440	\$72,508,050	\$9,170,327
CX Cost Excluding Parking & Land	\$26,129,550	\$37,506,100	\$31,395,650	\$65,710,762	\$16,399,220
CX Cost Incl. Parking & Land	\$34,610,364	\$49,907,538	\$37,583,548	\$68,482,762	-

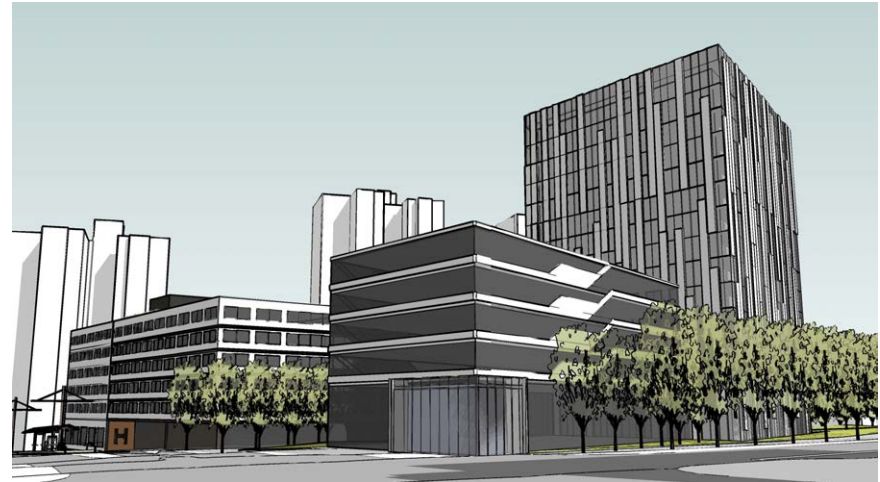
The total loan to cost is about 65%, and about \$66 million of equity will be required. The exhibits attached to the end of this report show the annual cash flows of each component. Not surprisingly, the residential buildings have the highest return on cost, and the mixed-use office building has the lowest, independent of parking and land costs. Therefore, it was imperative that we use Phase I to cover the extra cost of land acquisition to get the project started. If the PDC incentives ever materialize, the second phase could have more density or better amenities.

The blended equity IRR for the project is 13.7%, which we found by taking the net present value of the individual cash flows after financing from each property. The average annualized cash yield for the project is the positive equity cash flows less negative equity cash flows divided by the equity required and divided by 10, which is the number of years from construction start to disposition of the office/institutional/student building.

Project Metrics	
Phase I ROC	6%
Phase II ROC	10%
Blended Levered IRR	13.70%
AVG Annualized CashYield	8%

11: CONCLUSION

This development presented many challenges, but also a few opportunities. We were guided by a desire to create a community and stratify all interested parties to the extent possible. To do this we often made decisions about the program that would otherwise be less than the ideal market stance. However, we believe that we have created a proposal that is realistic as well as idealistic.



Above: view of The Exchange from SW 4th Ave and Lincoln St.



Left: View of The Exchange from Lincoln St.

12: ACKNOWLEDGMENTS

A number of individuals graciously devoted their time to help guide us in this effort. We would like to thank those individuals.

- Casey Davidson, HFF
- Mark Desbrow, Greenlight Development)
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- Felicia Williams, Downtown Neighborhood Association
- Daniel A. Nowell, GBD Architects Inc.
- Tara Stevenson, Wells Fargo
- Shelby Matson, University Place Hotel
- Noel Johnson, Killian Pacific

13: DEVELOPMENT TEAM



Adam Boehm is an MRED candidate and holds a BS in Construction Management from Cal Poly San Luis Obispo. He is also a project manager for a construction management firm. Prior to that, he worked as a construction manager specializing in retail tenant improvements throughout the U.S. and Canada. He has more than 9 years of experience in the industry.

Jason Wald is an MRED candidate and holds a BA in Literary Studies from the University of Texas at Dallas and a JD from Lewis and Clark Law School. Jason is a member of the Oregon State Bar and an intern with CrowdStreet. Prior to that, he worked as a site acquisition specialist in the wireless industry and as a professional classical guitarist.



Jurie Lewis is an MRED candidate and holds a BS in Liberal Studies with a minor in Spanish from Portland State University. Jurie has been a Realtor and Principal Broker with Real Estate by Jury for 14 years. Jurie is the recipient of the Norris & Stevens scholarship.

Bob Sassa is an MRED candidate and holds a BS in Economics from Portland State University. Bob has taught the Uniform Standards of Professional Appraisal Practice and valuation courses for 12 years and has worked as a state certified general appraiser for over 15 years.



Bryce Payne is an MRED candidate and holds an MBA from the University of Oregon and an HBA in Computer Science and HBS in Business Administration from Oregon State University. He is also Vice President and Relationship Manager with HomeStreet Bank Commercial Real Estate. Bryce has over a decade of experience in commercial real estate and finance and has previously held positions with C.E. John Company, Inc., Wells Fargo, and Autodesk. Bryce is the recipient of the Mark & Ann Edlen Family Real Estate Scholarship and the Robert W. Nelson CCIM Scholarship.