Winter 2011

The Lloyd 700 Superblock: NAIOP Real Estate Development Workshop

Portland State University
The Lloyd 700 Superblock
PSU/NAIOP Workshop
Agenda

• Site Description & Ownership

• The Site in Context: A Closer Look at the Lloyd District

• Development Program and Principles

• Scheme I

• Scheme II
Agenda

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- Scheme II
The Lloyd 700 Superblock: One of the Most Attractive Redevelopment Opportunities within the Lloyd District and Ashforth’s Holdings

**Area Map**

- Site is located in the Lloyd District
- Neighboring uses: Lloyd Center Tower, Lloyd Center Mall, MAX line, DoubleTree Hotel and Streetcar (proposed)
- Zoning: CXd

**Site Details**

- Site covers an area the size of four city blocks
- Site currently contains the Lloyd 700 office building and associated three level parking structure
- Base FAR allowance: 12:1, max. height: 250’
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A Place of Commerce & Entertainment

**Office Core**
- More than 2.5 million sq. ft of office space
- Three of the top 25 largest office buildings in the city
- Several large anchor tenants

**Oregon Convention Center**
- Largest convention center in Oregon at 1 million sq. ft
- Includes more than 250,000 sq. ft of exhibit space and Portland’s largest ballroom
- Hosts more than 400 events generating more than $525 million in activity

**Lloyd Center Mall**
- One of Oregon’s largest malls at 1.4 million sq. ft
- Generates approx. 12 million visits per year
- Covers an area the size of 45 football fields
A Transportation Hub

Two Freeways, Three MAX lines

- I5: Two off-ramps, one on-ramp, less than 1 mile from site
- I84: One off ramp, one on-ramp, less than 0.5 miles from site
- Fare-less Square: Red, blue and yellow MAX lines

Coming Soon: Streetcar

- Streetcar loop coming late 2011
- Stops at Lloyd 700 Superblock
- Expected to contribute towards lowering car commuters in the district to < 45%.
A District in Transition

1960s…

- Development started in the 1920s with Ralph Lloyd
- Lloyd purchased more than 170 lots in the district, working on his vision over three decades
- Lloyd family focus turns to retail. Largest mall in the country is completed in 1960.

…Through 2011

- The District has continued to attract large investments (e.g. OCC, Rose Quarter etc)
- Plenty of vacant lots and development opportunities remain
Looking Ahead…

100 NE Multnomah, Headquarters Hotel…

- 19-story, 320,000 sq. ft office and retail tower
- 600-room hotel, public private partnership
- Cosmopolitan Tower Apts. (Joe Weston)
- NE Holladay to become pedestrian-only

...Jumptown

- Transformation into a “world-class” mixed-use sports and entertainment district
- Historic renovation of the Dude Ranch
- Construction of a 10-story mixed use building with 110 housing units
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Development Program & Principles for the Lloyd 700 Superblock

- Capitalize on District momentum and become a catalyst for development
- Become a connector between sites in the District
- Develop site as an amenity unto itself and beyond

Mixed Use Development Centered Around a Plaza

Distribution of Proposed Uses

- Apartments
- Office
- Retail/Dining
- Plaza
- Parking

Square Feet
The District has been Primed for Housing, Site Offers Great Views

**Plenty of Amenities to Support Housing**

- Pedestrian improvements along NE Holladay
- Streetcar has a track record of boosting housing development (e.g. Pearl)
- Lots to do: movie theaters, Rose Quarter, shopping, Eastbank Esplanade etc.

**Unmatched Views**

- Site is elevated, offering unmatched views of river, mountain and city
- Views unlikely to be obstructed by future development (Ashforth owns surrounding properties)
- Residents likely to pay a premium for stunning views
Market Dynamics Favorable for Development of Apartments

Low Vacancy in the District

- Merrick: 5%
- Lloyd Place: 4%
- Cornerstone: 6%
- Tupelo Alley: 0%

Not Much Coming to Market as Tidal Wave of Renters Looms

<table>
<thead>
<tr>
<th>Year</th>
<th>Portland</th>
<th>Multnomah Co.</th>
<th>Washington Co.</th>
<th>Clackamas County</th>
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<td>606</td>
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<td>2010</td>
<td>263</td>
<td>312</td>
<td>152</td>
<td>35</td>
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</tbody>
</table>

- Number of permits issued in 2010 a fraction of annual average in the preceding ten years
- Renters within one mile of the site account for 71% of households, compared to 43% throughout Multnomah County
- The number of Echo Boomers aged 25-44 are the largest generation to reach adulthood in the nation’s history

Source: Johnson Reid

Source: Joint Center For Housing Studies (Harvard University), Metro Multifamily Housing Association
Meeting the Need for Luxury Apartments on the East-Side

**Luxury Residence on Par with West-Side**

- Fill market niche: currently no luxury apartments in the area
- On-site amenities, secured parking, high-end finishes
- Rents comparable with Ladd Tower, Indigo @12W

**Target Market**

- **East-Side Empty-Nesters**
  - Long-time east-side residents likely have a preference to remain on the east-side

- **Corporate Housing**
  - Short-term labor assignments on the rise as employers remain reluctant to hire. Limited corporate housing available in District

- **Urban Professionals**
  - Alternative to Pearl District. Offers shorter commutes for east-side employees (e.g. Adidas)
The Lloyd District Office Core: a Strong, Supply-Constrained Market

Absorption

Lloyd District Class A Office Net Absorption, 2005-2010

- No new supply in 10 years!
- Very little tenant turnover, high retention rates

Vacancy

Vacancy Rates for City Center Office Markets, 2005-2010

- Consistently lower vacancy rates in the Lloyd District than elsewhere
- Vacancy rates did not spike in Lloyd District during economic downturn

Source: CBRE
Various Scenarios Expected to Spur Growth for Office Space

Tenants Wanting to Consolidate Space

- Knowledge Learning Corp leases space in three buildings throughout the District (ditto for Integra)

- Only five buildings in CBD currently offer more than 20,000 contiguous space

- Ability to accommodate consolidation provides competitive advantage e.g. “Koin Tower Lands Wells Fargo Advisers”

Tenants Needing More Space to Support Growth

Industry Employment Forecast, Multnomah/Wash. Co, 2008-2018

- Education and Health Services
- Professional and Business Services
- Leisure and Hospitality
- Government
- Trade, Transport and Utilities

Current Lloyd District Tenants

Source: Oregon Employment Dept.
Capitalize on Existing Strong Retail Traffic

Lloyd Center Mall Ranks Among the Largest Retail Centers

Gross Leasable Sq. Ft for Leading Retail Centers in Oregon

- At 1.4 million sq. ft, Lloyd Center Mall essentially ties Clackamas TC for first place in the state
- The mall attracts more than 12 million visits each year

Successful Retailers on the Periphery of the Mall

- Several retailers located on the periphery of the mall have benefited from mall traffic
Potential for Big Box Retail Tenant

Target is Actively Looking for Urban Space

- Target recently announced plans to open smaller format stores in urban areas
- Lloyd 700 Superblock provides superior (freeway) access and more retail traffic than other sites in town (e.g. Galleria)

Target Can Meet the Need for Groceries and General Merchandise

- New Target store formats feature stronger focus on groceries and convenience items
- Plenty of demand expected from employees in office core and proposed apartment tower
More Retail Tenants:

- Leading provider of health-care on-demand (growth industry)
- Has stores at many major malls in the city except Lloyd Center
- Daycare would be great amenity for office core and proposed apartment tower
- KLC, operator of KinderCare, already leases space from Ashforth Pacific
- Aggressive expansion plans for Portland
- Pressure to defend market share against Umpqua Bank
- Umpqua has several branches in Lloyd District, Chase has none
There is a Dearth of Casual Dining Options in the Office Core

Number of Office Employees And Dining Options In The Area

For more than 7,000 office employees looking for a casual dining venue, Stanford’s is the only viable option*

* Some office buildings provide basic cafeteria services
A Casual Dining Restaurant At The L700 Site Would Reduce Lunch Travel-Time For ALL Offices In The Area

Walking to lunch at Stanford’s is really only an option for some office towers

A comparable restaurant at L700 would make casual dining accessible to **twice as many** office workers.
<table>
<thead>
<tr>
<th>Brand</th>
<th>Rationale</th>
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<tbody>
<tr>
<td><strong>Owner of Portland City Grill</strong> also successfully operates Stanford’s and Newport Seafood Grill in the area. May be keen to preserve local market share. A “Lloyd Center Grill” would add to the branding value of the site.</td>
<td></td>
</tr>
<tr>
<td><strong>Laurelwood</strong> has been exploring a number of expansion concepts, opening a new pub in Battle Ground WA in 2009 and launching a “beer outlet” within the Rose Garden Arena in 2010.</td>
<td></td>
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<tr>
<td><strong>California Pizza Kitchen</strong></td>
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Expanding across the west coast, but has no presence on central east-side of the city. Prefers mall-vicinity e.g. Bridgeport Village/Clackamas TC. Nearest existing branch is located 10 miles from the site.
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Main Program Elements

- Large Format Retail ............... 80,710sf
- Multi-tenant Retail .................. 40,716sf
- Office .................................. 306,000sf
- Residential ...................... 151 units, 119,000sf
- Public Plaza
- Below and Above Ground Parking... 1340 stalls
**Financial Costs**

- Project Costs ............ $208m
- Equity ...................... $83m
- Loan to value ............ 60%
- Going in Cap Rate ....... 6.1%
- Terminal Cap Rate ...... 7.0%
- Levered IRR ............... 11.2%
- ROE Year 9 ............... 7.94%
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Scheme II: A Low Risk, Phased, More Traditional Development

• Office
  – 301,750 rentable
• Residential
  – 210 luxury rental units
• Supportive Retail
  – 59,700 SF
• Parking
  – 1,158 new (1,377 total)

• More flexible program
• Smaller floorplates, reduces dependency on large-space office users
• Project can be developed in phases, according to market factors
Scheme II: Program

- **Office**
  - 17 levels
- **Residential**
  - 23 levels
- **Supportive Retail**
  - Ground floor
- **Parking**
  - 4 levels res
  - 6 levels office/retail
Scheme II: Pedestrian Oriented
Scheme II: Residential
Scheme II: Ground Level Retail, Wrapped-Around Parking/Office
Scheme II: A 24-Hour Amenity
Scheme II: Construction Costs and Returns

- Total Construction Cost: $201.4 million
- 60% LTV
- Required Equity: $80.5 million
- Going-in Cap @ 6.19%
- Terminal (Yr 10) @ 7.00%
- ROE (Yr 10) 8.30%
- Levered IRR 11.71%