The Water Tower
BOMA Workshop
Summer 2013

Frank Tea
Michael Gum
Mitch Powell
Morgan Brakken
Noshad Rahimi
Robert Pile
Travis Meinhold

BOMA International
The Water Tower
Portland State University
SITE OVERVIEW

• John’s Landing neighborhood
• Four acre lot, two parcels
  • Water Tower Building
  • Bailey Building
  • 163,834 total sf
  • 80% office, 20% retail
• Owned by Melvin Mark
SITE OVERVIEW

SW SWEENEY ST

SW CORBETT AVE

SW MACADAM AVE

SW BOUNDARY ST

5331 SW Macadam Ave, Portland, OR

BAILEY BUILDING

THE WATER TOWER
EXISTING CONDITIONS
EXISTING CONDITIONS
SITE HISTORY

- 1903: Constructed by the B.P. John Furniture Company
- 1970s: Converted to retail
- 1990s: Begins gradual decline
- 2000s: Extensive renovation of property
- 2008: Purchased by Melvin Mark
- 2013: Water Tower building is 100% leased
ZONING & LAND USE

- Storefront Commercial (CS) zoning
- Macadam Plan District design overlay (d)
- 2:1 FAR
- 45’ max height, 35’ avg; need adjustment
- 50% min building coverage, 75% max
- Reduced development limits
### DEMOGRAPHICS

<table>
<thead>
<tr>
<th></th>
<th>5 Mile</th>
<th>1 Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>386,637</td>
<td>10,890</td>
</tr>
<tr>
<td>2012-2017 Growth</td>
<td>6.3%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Avg. HHI</td>
<td>$68,000</td>
<td>$87,000</td>
</tr>
<tr>
<td>% HH &gt; $50K</td>
<td>49%</td>
<td>61%</td>
</tr>
<tr>
<td>BA of Higher</td>
<td>51%</td>
<td>65%</td>
</tr>
</tbody>
</table>

### Demographic Summary of Johns Landing and Other Portland Areas

<table>
<thead>
<tr>
<th>Demographic/TOD Indicator</th>
<th>John's Landing</th>
<th>Pearl</th>
<th>Hawthorne</th>
<th>Mississippi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita Income</td>
<td>$52,190</td>
<td>$40,318</td>
<td>$33,339</td>
<td>$18,012</td>
</tr>
<tr>
<td>Percent with College or Graduate Degree</td>
<td>62%</td>
<td>50%</td>
<td>57%</td>
<td>24%</td>
</tr>
<tr>
<td>White Collar Employment</td>
<td>83%</td>
<td>70%</td>
<td>76%</td>
<td>55%</td>
</tr>
</tbody>
</table>

*Source: ESRI Business Analyst Online, US Census, Leland Consulting Group, CH2M Hill. Most data is for 2010.*
MARKET CONDITIONS

<table>
<thead>
<tr>
<th></th>
<th>OFFICE</th>
<th>RETAIL</th>
<th>RESIDENTIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland Vacancy</td>
<td>10.50%</td>
<td>5.50%</td>
<td>3.55%</td>
</tr>
<tr>
<td>Portland Ave. Asking Rent</td>
<td>$19.77 FSG</td>
<td>$16.00 NNN</td>
<td>$1.04 FSG</td>
</tr>
<tr>
<td>John’s Landing Vacancy</td>
<td>8.80%</td>
<td>3.50%</td>
<td>2.80%</td>
</tr>
<tr>
<td>John’s Landing Avg. Asking Rent</td>
<td>$21.38</td>
<td>$22.00</td>
<td>$1.35</td>
</tr>
</tbody>
</table>

- John’s Landing is a premier suburban business corridor
- Portland has second lowest **office** vacancy in US, behind San Francisco
- Low **retail** vacancies and high average rents indicate demand for new supply
- New **apartment** projects in the John’s Landing pipeline, but no new inventory
GOALS & OBJECTIVES

• Replace outdated infrastructure
• Increase density and development capacity
• Maintain view corridors
• Activate evenings and weekends
• Improve neighborhood services and uses
• Enhance open space
PROGRAM

WEST BUILDING
AREA: 8,750 SF
TOTAL SF: 35,000 SF
OFFICE
TOTAL SF: 35,000 SF
BELOW GRADE PARKING
TOTAL SF: 8,750SF

SOUTHEAST BUILDING
AREA: 31,000 SF
TOTAL SF: 155,600 SF
RESIDENTIAL
TOTAL SF: 89,600 SF
BELOW GRADE PARKING
TOTAL SF: 86,000SF

EXISTING BUILDING
MIXED-USE TENANTS
AREA: 50,991 SF
TOTAL SF: 101,982 SF

SOUTHWEST BUILDING
AREA: 11,000 SF
TOTAL SF: 37,150 SF
OFFICE
TOTAL SF: 26,150 SF
RETAIL
TOTAL SF: 11,000 SF

SW CORBETT AVE
SW SWEENEY ST
SW MACADAM AVE
SW BOUNDARY ST

N

PORTLAND STATE UNIVERSITY

BOMA International

THE WATER TOWER
PARKING

• 316 to 370 total spaces
• Improve:
  – parking efficiencies
  – traffic flow
  – parking infrastructure
• New ratios:
  – 3:1,000 sf – Retail
  – 2:1,000 sf – Office
  – 0.75/unit – Residential
PHASING

- Multi-phase development
- January 2015 construction start
- Summer 2018 completion

<table>
<thead>
<tr>
<th>Scope</th>
<th>Months</th>
<th>Start</th>
<th>End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start Predevelopment</td>
<td>12</td>
<td>1/1/14</td>
<td>12/31/14</td>
</tr>
<tr>
<td>1 - Demolish Annex</td>
<td>1</td>
<td>1/1/15</td>
<td>1/31/15</td>
</tr>
<tr>
<td>2 - Construct New Annex</td>
<td>10</td>
<td>2/1/15</td>
<td>11/30/15</td>
</tr>
<tr>
<td>3 - Demolish Bailey</td>
<td>1</td>
<td>12/1/15</td>
<td>12/31/15</td>
</tr>
<tr>
<td>4 - Demolish Garage</td>
<td>1</td>
<td>1/1/16</td>
<td>1/31/16</td>
</tr>
<tr>
<td>5 - Construct Garage</td>
<td>7</td>
<td>2/1/16</td>
<td>8/31/16</td>
</tr>
<tr>
<td>6 - Construct Coffee Shop</td>
<td>4</td>
<td>9/1/16</td>
<td>12/31/17</td>
</tr>
<tr>
<td>7 - Construct Apartments</td>
<td>9</td>
<td>9/1/16</td>
<td>5/31/17</td>
</tr>
<tr>
<td>8 - Construct Bailey</td>
<td>14</td>
<td>6/1/17</td>
<td>8/1/18</td>
</tr>
</tbody>
</table>
RETAIL LEASING RECOMMENDATIONS
RETAIL LEASING RECOMMENDATIONS

New SW Building:
• Pharmacy (6,000 sf)
• Bike Shop (1,600 sf)
• Micro-Restaurants (3,400)

New Water Tower Co-Tenancy:
• Grocery (8,726 sf, replace Pier 1)
• Brewpub (6,341 sf, replace Szechuan Chef)
To: Travis Meinhold, Portland State University
From: Dan Bozich, Green Zebra Grocery
CC:
Date: August 16, 2013
Re: Letter of potential tenant interest in 5331 SW Macadam - Water Tower Building

Travis,
Per our conversation and emails, and my review of your market analysis data, I believe that the aforementioned site may be of interest to Green Zebra Grocery in our next wave of stores.

The Educational attainment of local residents, demographics, residential densities, signalized intersection, traffic counts, close proximity to the ever changing south waterfront district and ample off street parking are amongst the positive attributes of this site.

Furthermore the history of the water tower and it’s significance in the Johns Landing Trade area could help build a very compelling case on why this would be the site to pursue within this trade area.

Best of luck on this project.

Sincerely,

Dan J. Bozich (exclusively representing Green Zebra Grocery)
Urban Works Real Estate
SITE DESIGN & ARCHITECTURE
VIEW FROM SE CORNER
FINANCIAL ANALYSIS

• Payoff and defease existing debt
FINANCIAL ANALYSIS

• Payoff and defease existing debt
• Refinance Water Tower structure
FINANCIAL ANALYSIS

• Payoff and defease existing debt
• Refinance Water Tower structure
• Construction loan
FINANCIAL ANALYSIS

• Payoff and defease existing debt
• Refinance Water Tower structure
• Construction loan
• EB5 equity
FINANCIAL ANALYSIS

• Payoff and defease existing debt
• Refinance Water Tower structure
• Construction loan
• EB5 equity

- Federal Immigrant Investor Program
- Investments of $500K or $1 million
- Target Employment Area (TEA)
- Minimal expected returns, typically 5 years
- Water Tower will utilize fewer than available job investment $, thus minimizing risk to investors
FINANCIAL ANALYSIS

• Payoff and defease existing debt
• Refinance Water Tower structure
• Construction loan
• EB5 equity
• Permanent loan to cover entire site
FINANCIAL ANALYSIS

• Payoff and defease existing debt
• Refinance Water Tower structure
• Construction loan
• EB5 equity
• Permanent loan to cover entire site
• Stabilized project will double current NOI
FINANCIAL ANALYSIS

• Payoff and defease existing debt
• Refinance Water Tower structure
• Construction loan
• EB5 equity
• Permanent loan to cover entire site
• Stabilized project will double current NOI
• Anticipated sale in 2026
## FINANCIAL ANALYSIS

### CONSTRUCTION LOAN

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Development Cost</td>
<td>$43,587,709</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$32,690,782</td>
</tr>
<tr>
<td>LTC</td>
<td>75%</td>
</tr>
<tr>
<td>Rate</td>
<td>5.25</td>
</tr>
<tr>
<td>Equity Required</td>
<td>$11,632,470</td>
</tr>
</tbody>
</table>
## FINANCIAL ANALYSIS

<table>
<thead>
<tr>
<th>USES:</th>
<th>SOURCES:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Land</td>
</tr>
<tr>
<td>$2,030,000</td>
<td>$2,030,000</td>
</tr>
<tr>
<td>Existing Debt</td>
<td>New Loan on WT</td>
</tr>
<tr>
<td>$14,700,000</td>
<td>$14,107,025</td>
</tr>
<tr>
<td>Construction Costs</td>
<td>Construction Loan</td>
</tr>
<tr>
<td>$41,557,709</td>
<td>$31,955,239</td>
</tr>
<tr>
<td></td>
<td>EB5 Equity</td>
</tr>
<tr>
<td></td>
<td>$8,500,000</td>
</tr>
<tr>
<td></td>
<td>MM Equity</td>
</tr>
<tr>
<td></td>
<td>$1,695,445</td>
</tr>
<tr>
<td>Total Uses</td>
<td>Total Sources</td>
</tr>
<tr>
<td>$58,287,709</td>
<td>58,287,709</td>
</tr>
</tbody>
</table>
FINANCIAL ANALYSIS

• NOI on Costs (2019) – 7.30%
• Levered IRR – 22.01%
• Cash on Cash Return – 9.20%
FINANCIAL ANALYSIS

- NOI on Costs (2019) – 7.30%
- Levered IRR – 22.01%
- Cash on Cash Return – 9.20%

- MM Equity Payback (yrs) – 6.4
- MM Equity IRR – 37%
FINANCIAL ANALYSIS

• NOI on Costs (2019) – 7.30%
• Levered IRR – 22.01%
• Cash on Cash Return – 9.20%

• MM Equity Payback (yrs) – 6.4
• MM Equity IRR – 37%

• Yearly Average Cash Flow (2014-2026) - $1,296,437
• Net Cash at Sale (2026) - $31,084,948
ACKNOWLEDGEMENTS & QUESTIONS

Special Thanks To:

BOMA
Melvin Mark
Kali Bader
PSU Center for Real Estate
And all others who have contributed
ALTERNATIVE REDEVELOPMENTS

Option 1: Leave Site As Is

PROS:

• Successfully performing asset
• Existing financial debt
• Zoning concerns
• Minimal disruption to current users

CONS:

• Lack of off-hour activity
• Outdated infrastructure
• Insufficient services & amenities
• Extensive surface parking
ALTERNATIVE REDEVELOPMENTS

Option 2: No Residential

**PROS:**
- New Bailey, Annex & coffee shop
- Reduces cost & timeline
- Sufficient parking ratios

**CONS:**
- Concern for retail visibility
- Strong multi-family rental market
- Reduced yearly cash flow potential