Winter 2011

The Lloyd 700 Superblock: NAIOP Real Estate Development Workshop

Portland State University

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

Area Map

Site Details

• 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 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

Mixed Use Development Centered Around a Plaza

- 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

Distribution of Proposed Uses

<table>
<thead>
<tr>
<th>Category</th>
<th>Square Feet</th>
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<tbody>
<tr>
<td>Apartments</td>
<td></td>
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<tr>
<td>Office</td>
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<tr>
<td>Retail/Dining</td>
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<tr>
<td>Plaza</td>
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<tr>
<td>Parking</td>
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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%

Source: Johnson Reid

Not Much Coming to Market as Tidal Wave of Renters Looms

- 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: 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

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

Vacancy

- 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

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

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.
### Possible Credit Dining Tenants/Restaurateurs

<table>
<thead>
<tr>
<th>Brand</th>
<th>Rationale</th>
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| ![Portland City Grill](image1.png) | Owner of Portland City Grill 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. |
| ![Laurelwood Premium Co.](image2.png) | To make its mark in a city like Portland, the Lloyd Center needs its own brew-pub. Laurelwood 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. |
| ![California Pizza Kitchen](image3.png) | 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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Ground Floor:
- Large Retail: 33,930 sf
- Multi-Tenant: 34,115 sf
- Multi-Tenant Res.: 6,600 sf
- Plaza Food Carts: 4-6 stalls

Level 2:
- Large Retail: 40,780 sf
- Large Retail Total: 80,709 sf

Office - 15 Levels, 306,000 sf rentable
- Ground Floor: Lobby and Service: 10,650 sf
- Level 2: Parking Lobby and Service: 6,575 sf
- Level 3-17: Typ. floor 20,400 sf rentable

Residential - 14 Lvs, 151 Units, 119,412 sf rent
- Ground Floor: Lobby and Service, 5,230 sf
- Level 2-13: 1 Typ. floor rentable, 9,891 sf, 12 units
  - (4) Studio
  - (6) 1 Bedroom
  - (2) 2 Bedroom
- Level 14 Penthouse: Amenity unit, recreation room and outdoor terrace
  - Rentable floor: 9,735
  - (4) 1 BR
  - (3) 2 BR

Parking - 1319 total new stalls
- Ground Floor: Plaza Surface: 60 Stalls
- Level 2-3: Structured Above Ground: 169
- Level 1: Below grade parking: 1265, 175 existing
  - Exclusive residential included at 151 stalls
Level 3

Parking Level 1 & 2 sim

Level 2

Parking Level 3

Retail - 2 levels: 121,425 sf total
Ground Floor:
- Large Retail: 33,930 sf
- Multi-Tenant: 34,115 sf
- Multi-Tenant Res.: 6,600 sf
- Plaza Food Carts, 4 to 8 stalls
Level 2:
- Large Retail: 46,780 sf
- Large Retail Total: 80,709 sf

Office - 15 levels, 306,000 sf rentable
Ground Floor:
- Lobby and Service: 10,650 sf
Level 2:
- Parking Lobby and Service: 6,575 sf
Level 3-7:
- Typ. floor: 20,400 sf rentable

Residential - 14 Lvs, 151 Units, 119,412 sf rent
Ground Floor:
- Lobby and Service: 5,280 sf
Level 2-13:
- Typ. floor rentable, 9,391 sf, 12 units
  (4) Studio
  (5) 1 Bedroom
  (2) 2 Bedroom
Level 14 Penthouse:
- Amenity unit, recreation room
  and outdoor terrace
Rentable floor: 9735
(4) 1 BR
(3) 2 BR

Parking - 1319 Total new stalls
Ground Floor:
- Plaza Surface: 60 Stalls
Level 2-3:
- Structured Above Ground: 169
Level P1-P3:
- Below grade parking: 1285, 176 existing
- Exclusive residential included at 151 stalls
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%