Summer 2018

HIO Landing, Hillsboro, Oregon

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CAVU PARTNERS

HIO LANDING

HILLSBORO AIRPORT REDEVELOPMENT PROPOSAL

PORTLAND STATE UNIVERSITY

SUMMER 2018 WORKSHOP

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

PORT OF PORTLAND
Possibility. In every direction.

Portland State UNIVERSITY

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INTRODUCTION

The Master of Real Estate Development (MRED) program at the Portland State University School of Business is a graduate program that combines disciplines that include urban planning, environmental studies, finance, and real estate. On a biannual basis, teams of MRED students are provided a site and tasked with creating a development concept with consultants from planning, architecture, construction, and finance. NAIOP has sponsored the project and provided a venue to present the student development concepts and ideas to an audience of regional real estate professionals.

For the Summer 2018 cohort of MRED graduates, NAIOP has selected the 950-acre Hillsboro Airport as the site for a development concept. The Hillsboro Airport is the second busiest airport in the state of Oregon and is currently operated by the Port of Portland. The Port of Portland is currently updating their Airport Master Plan to plan for new commercial and industrial uses at their underutilized properties, while maintaining compatibility with current and future airport operations.

ACKNOWLEDGEMENTS

We offer our appreciation to Jerry Johnson, Jason Karam, and Dr. Gerry Mildner for their guidance and assistance in bringing our project to life.

We would like to thank the following professionals who have graciously taken the time to share their knowledge and expertise with us.

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Andrew Crampton - Planner, City of Hillsboro

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EXECUTIVE SUMMARY

At CAVU Partners, our name explains our approach: the ceiling and visibility are unlimited. We see past the clouds to limitless potential.

CAVU Partners recognizes the Hillsboro Airport has a rich history in local aviation, and we want to celebrate that history. Our design strategy will incorporate aviation-inspired themes throughout the site. Our adaptive reuse of existing buildings will bring new while ensuring HIO's historical roots will never be forgotten. Our mix of uses transforms the site into an inviting location for businesses, airport patrons, and the community.

HIO Landing's concept introduces logical, flexible development parcels with an enhanced street grid. Our design allows for slower traffic speeds that are pedestrian scaled. Our flexible circulation network provides on-street parking and open spaces that link the airport to the MAX station, creating a seamless link from train to plane.

CAVU's phasing strategy, approach to adding value incrementally, and highly flexible buildings provide the a range of development program options and financial opportunities. A flexible site with flexible buildings can adapt to different and evolving market conditions over time. HIO Landing's tenants celebrate the best of Hillsboro's economy, and the development both works and plays.

CAVU realistically addresses the Port of Portland's financial, social, and development objectives, and our design delivers creative solutions and opportunities at each level. The HIO airport was established in 1928 and re-established 90 years later as HIO Landing in 2018.

Fly high, stay local

Fly high, stay local

TEAM PROFILE

Alex Annand is a Senior Commercial Real Estate Appraiser at BBG. Alex has over five years of experience valuing all types of properties throughout the Pacific Northwest. He is a graduate from the University of Oregon and will complete his MRED degree in September 2018.

Melissa Beh has a Master's degree in English Literature from Weber State University and will graduate with her MRED degree in September 2018. She also has experience in political consulting from her time living in Washington DC, and currently works for CBRE on their Nike account. Melissa was drawn to the Portland State's MRED program due to her interest in how real estate development shapes cities and communities.

Marcus Bush moved to Portland from the San Diego region to pursue his Master's in Real Estate Development. His professional experience includes working as an Urban/Community Planner for a private consulting firm and several public agencies in the San Diego region. In addition, Marcus has also served as Chair of the National City Planning Commission and on the local Chamber of Commerce Board of Directors.

Marcela Harden is an intern at the State of Oregon Department of Administrative Services. Marcela has a Bachelor's degree from Willamette University, and will graduate with her MRED degree in September 2018. Marcela sees real estate as an intersection of business and the built environment as well as an opportunity to solve complex challenging problems, while also helping to make responsible financial and social decisions for the community. She is excited to embark on new opportunities in the real estate industry.

Kelly Redden moved from San Diego to PSU's MRED program after serving as an Engineer in the U.S. Marine Corps. She completed a graduate fellowship at National Defense University in Washington, DC while serving on active duty. Kelly has worked in project management, contracts, and acquisitions for military and federal government clients. She will complete her MRED degree in September 2018. Kelly will reside in Washington, D.C. and pursue a career as a Commercial Real Estate Broker.

Ryan Winterberg-Lipp is a Senior Development Project Manager at Human Solutions, an affordable housing non-profit. Before undertaking the MRED, Ryan was a Senior City Planner for the City of Denver, working on transit-oriented development projects and both long-range and implementation planning. She has a Masters of City and Regional Planning from the University of North Carolina at Chapel Hill, and will complete the MRED degree in September 2018.

STAKEHOLDERS

GUIDING PRINCIPALS AND APPROACH

PUBLIC PARTNERS

PORT GOALS FOR PRIVATE DEVELOPMENT

STAKEHOLDERS

GUIDING PRINCIPLES AND APPROACH

At CAVU Partners, our name explains our approach: the ceiling and visibility are unlimited. We see past the clouds to limitless potential. We leverage our team's breadth and depth of experience to deliver community-building projects that stand the test of time and cultivate a place's innate assets and opportunities. At CAVU, we seek to understand the community first, knowing that our role is to use our expertise to deliver great places that provide a space to soar.

With a long-term development horizon, CAVU creates lasting value for our development partners and community. With HIO Landing, we'll bring this unlimited potential and enduring commitment to create Hillsboro's next great place.

CAVU PARTNERS

PUBLIC PARTNERS

While any private development contemplated on publicly-owned land is a public-private partnership at a basic level, this site and its surrounding context include multiple public partners who will shape the project's potential and help create shared value. The Hillsboro Airport's ownership history highlights these robust community partnerships; before the Port of Portland took over operations of the airport in 1966, it was owned by the City of Hillsboro after its purchase from private ownership.

PORT OF PORTLAND

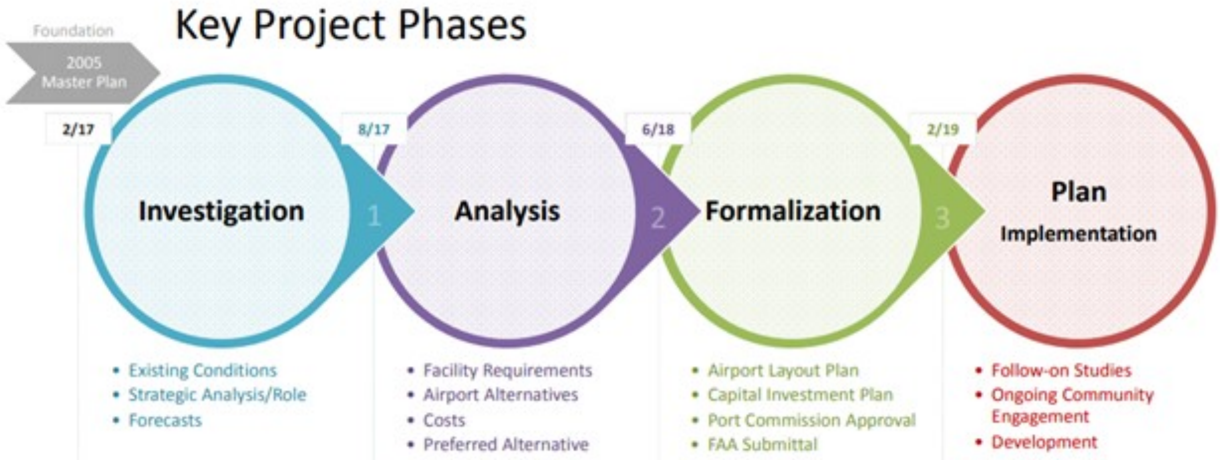
The ongoing update to the Port of Portland's Hillsboro Airport Master Plan is the impetus to exploring private development opportunities and informing potential scenarios. In 2017, the Port of Portland began an 18-24 month effort to update the existing 2005 Hillsboro Airport Master Plan, a 20-year regulatory document required by the Oregon Department of Aviation that plans future growth and development for the airport.

As the Port nears completion of the major recommendations from the 2005 Plan, the goal of the update is to "provide the framework needed to guide future airport development that will cost effectively satisfy aviation demand, while considering potential environmental and socioeconomic impacts." The Master Plan update will include potential non-aviation uses that complement existing airport operations while defining the most efficient airport facilities.

The Master Plan's geography covers the entirety of Port-owned lands, and HIO Landing, located in the area known as the "Cornell Subarea," is south of the airport's runways. In this subarea, the Master Plan will propose a new, relocated airport terminal, relocation of the Hillsboro Aero Academy flight school to a new facility on the airport's northern edge, and the potential for new mixed-use development along the airport's south side as airport facilities shift north. HIO Landing proposes development in this area. Notably, the Evergreen Subarea, located to the north of the runways, is contemplated for heavier industrial and distribution development on larger acreage as part of the master planning process.

Cornell Subarea Map from Port Master Plan Presentation

The Master Planning process is guided by an 18-member Planning Advisory Committee, with representatives from various public agencies, community groups, and special interests. The Plan is expected to be finalized in the summer of 2019.



Port Master Plan Project Timeline

As any landowner, the Port of Portland will require a financial return on their land offered for private development; in this instance, land owned by the Port will be developed under a long-term ground lease scenario, since the Port is precluded from selling its land by the Federal Aviation Administration.

In addition, however, as a public entity intended to "connect people and passengers with the world, drive economic growth, and improve the region's quality of life," the Port values equity and inclusion as non-financial metrics of success. In February 2018, the Port approved a Social Equity Policy that prioritizes the commitment to social equity for historically underserved communities with a goal of creating a "prosperous, equitable, and livable region."

The future redevelopment of the Hillsboro Airport creates opportunities to not only advance the Port's goals for economic development, but also promote social equity. The Port will be able to operationalize these social equity goals through its own operations along with inclusive private development that creates authentic, relevant opportunities. Specific Port goals for private development are explained in further detail later.

WASHINGTON COUNTY

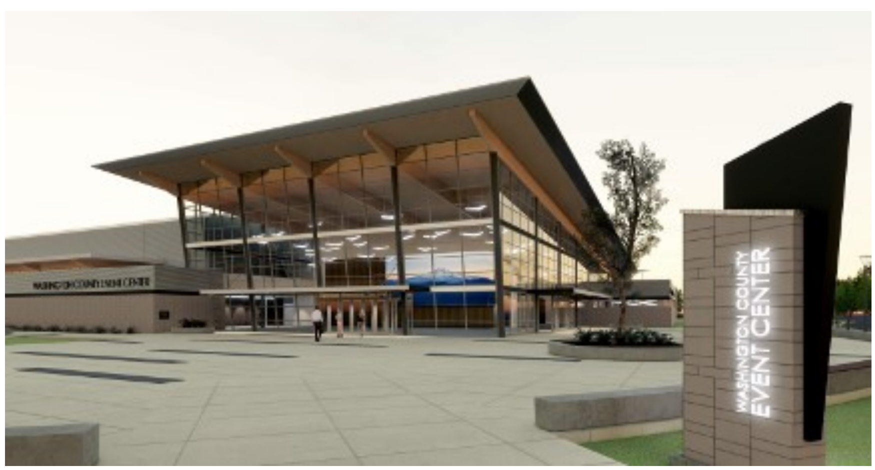
Washington County owns approximately 60 acres of land to the south of the Hillsboro Airport, home to the Washington County Fair Complex and future location of the Washington County Event Center. Tualatin Valley pioneers held the first Washington County Fair in October 1854, and the fairgrounds has expanded and moved several times over its history.

In its permanent location, the Washington County Fair currently operates over a three-day weekend annually, and will soon expand the event to five days in 2019. The County's properties are used for fair events, concerts, and surface parking during the event. The historic Fair Complex buildings and grounds are used throughout the year for other community and private events, including dog shows, concerts, craft shows, RV shows, job fairs, and corporate events.

In late 2018, Washington County will begin construction of a community Event Center near the Fair Complex/ Hillsboro Airport MAX station located at the southern end of the Fairgrounds property. The Event Center will

Ownership surrounding the Hillsboro Airport

provide space for year-round events, including conferences, trade shows, private parties, and community events in a modern facility. The Event Center will include over 91,000 square feet of space with 40,000 square feet of exhibition space and a 14,000-square foot state-of-the-art conference center, complete with a catering kitchen, concessions, and offices.



Future Washington County Event Center

The facility will include an outdoor exhibit area on the west that opens into the interior grounds of the Fair Complex. The new venue will offer various room configurations sized to accommodate consumer shows, conferences and trade shows, corporate meetings and seminars, banquets and receptions, fundraisers, festivals, spectator events and a variety of community uses.

When the Event Center is operational in 2020, Washington County officials estimate that the facility will be occupied seven days a week. County staff have received booking inquiries as early as summer 2018, including requests from Intel for meeting facilities.

With an aging historic facility, the Washington County Fairgrounds will undertake an update to their master plan in 2019 to plan for the areas outside of the Event Center. The master plan update will reinforce a long-term recommendation for a hotel on 34th Avenue, across from the Event Center, if hotel demand is not satisfied by existing facilities. The County has also identified the desire for a small restaurant at the southwest corner of 34th Avenue and Cornell Road to support on-site dining, while maintaining a sense of openness and homage to the fair's agricultural heritage.

Development of Fairgrounds properties for uses that do not support fair operations is precluded by Oregon state statute. HIO Landing's development area therefore does not include Fairgrounds property, but will compliment both outdoor events and the vitality of the future Event Center by providing a supportive mix of uses, amenities for patrons, and reinforcing the connection to the MAX station that serves the area.

CITY OF HILLSBORO

The City of Hillsboro provides policy guidance to the Hillsboro Airport master planning process and reinforces citywide goals in the context of the site's development. The 2035 Hillsboro Comprehensive Plan and City leadership identify the Port properties north of Cornell Avenue as a job-creating opportunity. Port-owned properties south of Cornell are viewed as supportive of the Fairgrounds complex, and maintaining a sense of agricultural openness at the historic Fairgrounds is important as a preservation opportunity in the growing city.

PORT GOALS FOR PRIVATE DEVELOPMENT

The Hillsboro Airport Master Plan draft articulates several intentions for long-term development at the site, including efficiency, flexibility, incremental phasing, and affordability. These intentions are implemented in multiple ways.

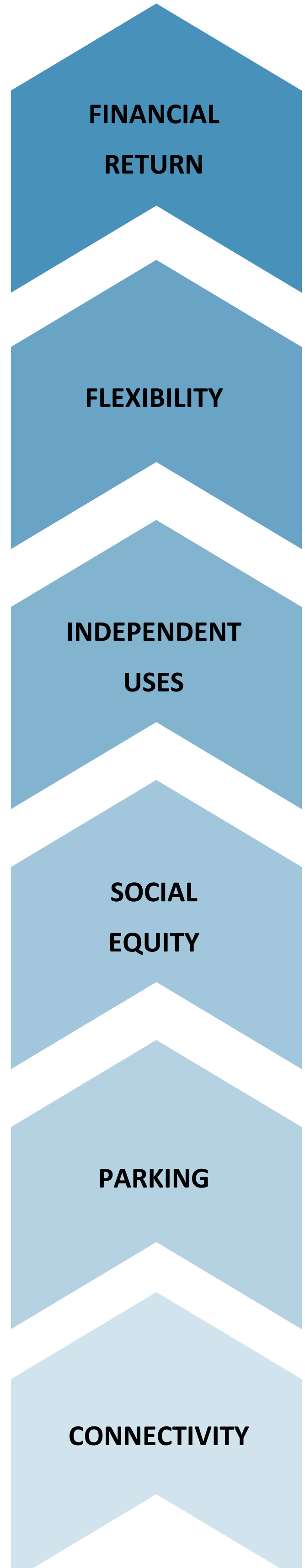
The Port's main goals for the redevelopment of this site are to generate their desired rate of return on the value of their ground leased land and encourage economic development. However, beyond purely financial goals, they seek to achieve other objectives that are more challenging to quantify. Additionally, the articulated goals may require some tradeoffs to achieve a balanced development plan that suits multiple needs while being financially realistic.

A flexible development plan that responds to changing needs over time is critical. With a long-term horizon to achieve the Master Plan's 20-year buildout, a development plan must respond in turn. Private development must generate a strong enough return for a private developer for the Port to profit at their desired rate of return.

In order for a developer to achieve this rate, the Port's acknowledges that the site may require commercial uses that benefit from the frontage from Cornell. However, given that the Hillsboro Airport does not have commercial air service, these uses would need to be complementary to the airport while being independently financially viable, generating a customer base largely independent from the airport. While retail-oriented visibility along Cornell Road is an asset, the Port is committed to economic development and job creation that will not be achieved by retail uses alone.

Social equity is a goal of the Port's recently adopted strategic plan, but this goal has yet to be fully operationalized. HIO Landing will serve as a pilot to test the implementation of various social equity strategies, and the Port may be willing to negotiate incentives and favorable terms for development partners that deliver on inclusivity. The Hillsboro community is not able to experience private aviation at the airport, so the Port desires viewing opportunities for the public. Opening the Hillsboro Airport site to the public and providing opportunities for public activity is an important aspect of social equity and inclusivity.

Regarding the site, the Port would look to private development op-



portunities to help alleviate parking challenges. With a future goal of 700 parking spaces for airport uses, the efficient phasing and siting of surface parking will be important to provide enough to serve the development, but not hinder multimodal goals and result in unnecessary expense and impervious surface.

Connectivity to regional transportation and integration with the Washington County Fairgrounds and Event Center are also important goals, while infusing private development with aviation-inspired elements. A gateway view into the airport at the intersection of 34th Avenue and Cornell Road is shared by multiple public partners, and pulling buildings back from the corner would provide space for a plaza at the corner or additional infrastructure improvements.

CAVU Partners intends to implement many of these goals and will make additional recommendations to achieve additional goals and to a greater extent through partnerships and shared investment.

THE SITE

HISTORY

CURRENT USES

PRIVATE DEVELOPMENT OPPORTUNITY

THE SITE

HILLSBORO AIRPORT HISTORY

In 1928, Dr. Elmer H. Smith purchased the 100-acre airport from the Hawthorne Estate and constructed 2,000 feet of runways in rural farmland. In 1938, the “Smith Airport” opened to the public as the Portland Hillsboro Airport (HIO). The airport predates most of the nearby growth that has occurred over the decades. Norman “Swede” Ralston and Ed Ball were pioneers of Hillsboro aviation and bought the airport into prominence.

In 1940, Ralson constructed one of the first wooden hangers to support budding pilots. That same year, Ball, one of the first airport instructors, joined forces with Ralson to open the first businesses at the airport. The Ball-Ralston Flying Service, which later became Aero Air, served as a home for pilot lessons and plane tours. Lessons were administered on dirt runways for $1.00 and tours were offered for $2.50. In 1942, the runways were paved by the Civil Aeronautics Authority, garnishing excitement for a strong aviation community in Washington County.

Ralston and Ball in 1952

Hillsboro Airport in the 1940s

The City of Hillsboro purchased the airport in 1965. It was determined that $891,500 was required to complete an expansion and needed repairs. Since City resources were insufficient to maintain the airfield, the Hillsboro City Council transferred the title of the 950-acre airport to the Port of Portland in 1966. With federal assistance, the Port constructed two parallel taxiways, acquired additional land for approach protection, and installed fencing.

In the 80 years since the airport opened to the public, the community and the airport have changed dramatically. The airport is defined as a reliever airport, an FAA-designated general aviation airport. It serves a wide variety of non-commercial aircraft operations with over 240,000 operations per year, making it the second busiest airport in Oregon, second to Portland International Airport.

While the airport does not have commercial service, it hosts the largest number of based aircraft and the longest runway of all general aviation airports in Oregon. Approximately 1,100 Intel employees fly from HIO everyday as part of their corporate air service to national offices, and Nike's corporate jets are hangared at HIO's eastern edge.

Today, the Hillsboro airport serves 25 businesses for general aviation and flight training. Entities include local corporate flight departments and shuttles, charter services, air ambulance, maintenance and repair services, the Aero Academy, and a U.S. Customs and Border Protection office for international flights. Hillsboro Airport companies provide an estimated 1,472 jobs, and approximately 700 of those jobs are located at the airport facility. A recent study indicated that the Hillsboro Airport generated $107.4 million in business revenue annually, making it a significant driver of Hillsboro's economy. Additionally, Hillsboro Aviation instructs students from 75 countries, reflective of Washington County's diversity.

Hillsboro Airport in the 1950s

Hillsboro Airport in the 1950s

Aerial view of the Hillsboro Airport in 2018

ATP Flight School hangar

ATP Flight School aviation building

CURRENT USES

The Hillsboro Airport development site currently includes eight buildings, seven are located north of Cornell Road on the main Airport site. The area north of Cornell Road includes a 38,000 square foot hangar and a 8,900 square foot aviation building currently occupied by the ATP Flight School. This tenant's lease is set to expire in 2019, and they will vacate the premises. Additionally, there are two buildings leased by Hillsboro Aero Academy, which will remain for at least the next eight years, per the terms of an existing lease. The continuation of Hillsboro Aero Academy's occupancy after this period is uncertain, and there may be a future need to reclaim some of this area as an FAA reserve.

The Port's two-story, 24,600 square foot terminal building is also located in this area. The terminal will be relocated upon construction of a new terminal, north of current site. The apron will shift north with the relocation of the terminal. There are a number of small tenants leasing space within the terminal building, and the current facility exceeds Port needs. Some of these small tenants will vacate with the move, and some airport-related tenants, like the U.S Customs office, will be moved into the new terminal facility when it is completed.

Airport terminal building

Airport terminal building with apron

Front façade of the airport terminal with tenants

Airway Science for Kids building

Classic Aircraft Aviation Museum

Dedication sign on the Airway Science Building

The Classic Aircraft Aviation Museum and Airway Science for Kids buildings are located to the west of the main airport area, and these sites are not included in the project area. These older buildings date back to early Hillsboro Airport operations, and will be part of a Port initiative to highlight aviation sciences and the airport's history through a future Learning Campus.

The Classic Aircraft Aviation Museum started in 1998 as a free museum. The aircraft at the museum are maintained in operable flying conditions or are in the process of restoration. The Museum conducts tours and host exhibitions throughout the year, to include hosting local school groups and tours during the Oregon Air Show. In 1940, "Swede" Ralston built the first wooden hangar which sits near the airport's entrance on Cornell Road. It hosts the Airways Science for Kids program serving disadvantaged youth. Dana McCullough, daughter of the late Ralston, created the Hillsboro Airport History project to showcase vintage airport photographs and preserve the airport's legacy years from 1928 to 1980.

While this area is not within HIO Landing's site, our development's uses, adaptive reuse of buildings, and aviation-themed design elements, and enhanced public realm will support the Port's future efforts to enliven this area and create a place for the community.

A two-story, 55,000 square foot Comfort Inn hotel is located on the southern site. Built in 1984 as a Red Lion motel, the improvements are currently in substandard condition and do not meet Choice Hotel's flag standards, lacking an elevator and plagued by maintenance challenges.

The site is currently ground leased to the hotel's owner, BHG Hotels, and operation of the hotel will cease on June 20, 2019. The Port and Comfort Inn operator mutually agreed to terminate the lease two years early with the substantial capital needs for renovation and Port desire for a new, modern hotel.

The ground lease specifies that the building will be demolished by the lessee upon Port direction, and the Port will exercise this option. The hotel will be demolished by the end of October 2019. The Port reports that there has been substantial industry interest in this site for a new hotel in past years, but the site has not been available until recently.

Comfort Inn Hotel

A facility known as the “mushroom,” the Airport’s original airplane fueling station, is currently located to the north of the existing terminal, on the apron. The mushroom has been decommissioned, and will remain in place as the facilities shift around it. It will be located in the Port’s future surface parking area as the area is redeveloped, and the Port is interested in highlighting it as a homage to historic aviation operations. While the mushroom is not located on HIO Landing’s project site, our development concept supports the mushroom’s reuse and compliments it as a landmark.

Comfort Inn Hotel

The Mushroom fueling terminal

COMMUNITY CONTEXT

NEIGHBORHOOD CONTEXT

PLANNING CONTEXT

CONSTRAINTS AND ASSUMPTIONS

COMMUNITY CONTEXT

NEIGHBORHOOD CONTEXT

The neighborhood surrounding the Hillsboro Airport and project site is largely suburban and characterized by lower density housing to the west and south, with a mix of single-family housing and campus-style office to the east, and agricultural lands to the north planned for future industrial uses. The airport is immediately adjacent to the Washington County Fairgrounds Complex to the south which contains large expanses of open space, original agricultural buildings, and the future Event Center and associated parking areas.

Washington County Fairgrounds property looking north

The vast majority of the retail uses within a one-mile radius of the airport are suburban strip retail consisting of corporate chain with food and beverage including national brands such as Little Caesar's, Burger King, Dominos, McDonalds, and Starbucks. Few local food and dining establishments within that one-mile radius exist. Bars and breweries such as the Dugout and Ambacht Brewing, can be found within this one-mile.

However, no retailers exist within ¼ mile, the distance that is typically a 5-10 minute walk for pedestrians. This ¼ mile distance is key for airport customers and employees who also require retail amenities and have to travel outside of the area to find them. Retail at HIO Landing addresses this service gap and prevents the retail "leakage" to areas outside the airport. Additionally, HIO Landing's retail provides an authentic, local retail experience that is lacking in the neighborhood.

Transit

Fair Complex/Hillsboro Airport MAX Station

One of the key advantages of the project site is the proximity and access to local and regional transit that connects to major destinations and employment centers for the Portland Metropolitan area. Metropolitan Area Express (MAX) Light Rail Service is located 0.5 miles south of the airport at the Blue Line Fair Complex/Hillsboro Airport MAX Station which provides connections to Downtown Portland and Gresham to the east with 15-minute headways. The stop includes access to a Park and Ride, a surface parking lot with 392 spaces.

Future Red Line service that currently terminates in Beaverton is planned to expand to service the Hillsboro Airport by 2023, providing the direct light rail access to the Portland International Airport. The Hillsboro Airport station will be served with 7-minute headways after the expansion, made possible by improving tracks and switches in east Portland, adding signals and placing an operator break facility at the Fair Complex/Hillsboro Airport MAX Station. The high-frequency, all-day MAX service will connect the project area to the region, and is a particular asset for employers at HIO Landing and the Hillsboro Airport along with visitors for special events.

MAX Blue Line map of Hillsboro

In addition to light rail service, the airport is served by two inter-city bus line: route #46-North Hillsboro, and Route #48-Cornell. Route #46-North Hillsboro provides weekday service between Hillsboro Transit Center, the Fair Complex/Hillsboro Airport MAX Station, and Hillsboro Library, along 1st, Glencoe, Evergreen, 15th, Griffin Oaks, 25th, Cornell, 34th, Brookwood and Dawson Creek. Route #48-Cornell operates weekdays and Saturdays between Hillsboro Transit Center, Hillsboro Airport/Fair Complex, Tanasbourne, Cedar Mill, and Sunset Transit Center, along Cornell, Cedar Hills, and Barnes.

ROAD ACCESS

Freeway access to Highway 26 is located on NW Brookwood Parkway approximately 2.5 miles northeast of the airport and HOI Landing, providing easy regional access. Cornell Road is a major 6-lane thoroughfare that connects Downtown Hillsboro east to the communities of Orenco Station, Tanasbourne, Cedar Mill, and terminating in Northwest Portland. HIO Landing has particularly good visibility along Cornell Road with almost 1,200 feet of road frontage.

High visibility from Cornell Road adjacent to the site

According to a Port study, Cornell Road had 34,349 westbound and eastbound trips per day in 2016, offering extraordinary access, but conversely presenting a pedestrian realm challenge given the auto-oriented context. HIO Landing's site and building design mitigates this busy street frontage by providing a pedestrian-scaled environment away from Cornell Road and softening the Cornell frontage with landscaping.

BICYCLE AND PEDESTRIAN ACCESS

Bikeways are currently provided on several arterials and collectors within the City, forming a basic bikeway network, including a bike lane on Cornell Road. However, Cornell Road a highly traveled auto street, and as the City updates the Transportation System Plan, safety improvements such as barriers and protected bike lanes may be considered as part of future planning efforts. Bike facilities are not provided to the Hillsboro Airport MAX station along 34th Avenue, and the route is popular with aviation students and Airport employees.

Sidewalks are provided on many of the arterial and collector roadways with the most important existing pedestrian needs in Hillsboro being connectivity of a system of walkways with a quarter mile grid that provides access to key activity centers such as parks, schools, retail, and transit. According to Walkscore.com, the Hillsboro Airport has a Walk Score of 37 out of 100, which makes it a car-dependent neighborhood that lacks pedestrian connectivity to neighborhood amenities including shopping, parks, schools, and entertainment. Additionally, the intersection of Cornell Road and 34th Avenue is a six-lane arterial that is currently a barrier to safe, convenient crossing for pedestrians.

HIO Landing's site is located on both sides of this intersection, and improving this connection is important for not only the success of our project, but the safety of area employees, visitors, and residents. CAVU Partners values multimodal access, and we will coordinate with the Washington County Fairgrounds, City of Hillsboro, and Port of Portland to enhance the area's regional multimodal connectivity through intersection improvements and a connected system of open spaces and walkways that provide a continuous route from the Hillsboro Airport to the MAX station. We hope to provide authentic opportunities for area residents, employers, and visitors, and safe, comfortable, and convenient pedestrian and bike connections are critical.

PLANNING CONTEXT

COMPREHENSIVE PLAN AND ZONING

The Hillsboro Comprehensive Plan was adopted in November 2017 to guide the growth and development of the City of Hillsboro while providing for allowable uses in all of the neighborhoods within the City. The Hillsboro Municipal Code's Chapter 12 Community Development Code implements the goals and policies of the Hillsboro Comprehensive Plan. The Hillsboro Airport is located in the north-central area of Hillsboro that the Comprehensive Plan largely calls for employment and industrial uses, and the Fairgrounds and MAX station area to the south is designated as a Station Community Planning Area given the public facilities and transit-oriented location.

The project site is currently zoned with two different zone districts, split at Cornell Road. All Port-owned properties north of Cornell Road are zoned General Industrial (I-G), and the current Port-owned hotel site south of Cornell Road is zoned Station Community Fairgrounds Institutional (SCFI).

Split zone districts at the site

The Industrial General (I-G) zoning provides for a wide variety of manufacturing, warehouse, wholesale, industrial, retail, service, and office commercial uses. Development standard in this district are quite permissible, reflective of the industrial character and large sites where it is applied. Heights in the I-G zoning are capped at 45 feet.

The I-G zone district does not include maximum or minimum Floor Area Ratio (FAR) standards, and there is no maximum lot coverage standard. Minimum open spaces of 15% are conversely required, and there are not setbacks aside from a 1-foot front setback requirement. Parking standards in this zone vary depending on specific uses and range from 2 spaces per 1,000 square feet for general office, to 5 spaces per 1,000 square feet for casual dining and retail.

Example of desired SCFI development

The SCFI zoning applies to the publicly-owned parcels north of the Hillsboro Airport MAX station on all of the publicly-owned parcels bounded by NE 28th Avenue, south of Cornell Road, and west of the airport clear zone. SCFI focuses on year-round public activities, entertainment, and events and encourages supportive uses, like hotels, restaurants, and retail.

The SCFI standards are intended to create higher-intensity, mixed-use, pedestrian-friendly development that supports the public facilities and encourages multimodal ridership to reduce vehicle miles traveled. Standards call for multi-story institutional and commercial structures that are compatible with the Hillsboro Airport, and building design focused on pedestrian-friendly orientations and linkages among buildings, open spaces, and transit.

Permitted uses include lodging, eating and drinking establishments, limited retail, and a variety of public uses. Development standards reflect the desire for intensity, with no maximum FAR standards, no minimum setbacks, and converse maximum setbacks of 35 feet. Buildings are limited to 5 stories with two-story minimum building heights to encourage an urban character. Minimum vehicle parking requirements range from 0.5/room for hotels to 5-8 for eating and drinking establishments, depending on the character of the restaurant, to 2/1,00 square feet for office and retail uses. Given close proximity to the MAX station, the current Comfort Inn site will have a maximum parking standard.

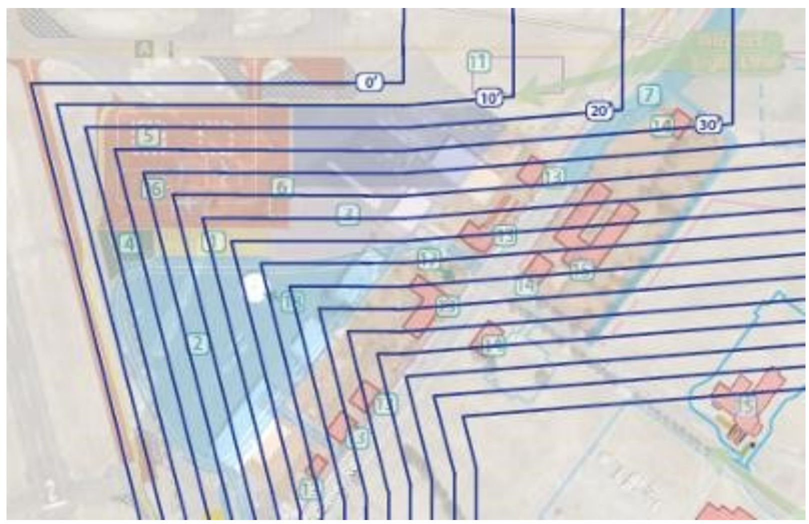
It is important to note that upon adoption of the Airport Master Plan update, the Port and City anticipate the zoning standards for the area will change. An “Airport Use” (AU) zone that limits uses in proximity to the airport may be proposed in the future. However, details on the specifics of that zoning and potential changes are currently not available and require further input and discussion as the Airport Master Plan Process continues. Initial direction from the City of Hillsboro recommends focusing on industry, employment, and creating a gateway node at the intersection of 34th Avenue and Cornell Road.

With uncertainty in the future applicable regulations, CAVU has ensured that HIO Landing's proposed uses are consistent with the current I-G and SCFI zoning and policy guidance from the Comprehensive Plan, while acknowledging the spirit of future community desires. We view our development proposal as an opportunity to inform the future development standards and advise on market to potential to ensure that future regulations are not only reflective of community desires, but market realities.

FEDERAL AVIATION ADMINISTRATION

The Federal Aviation Administration regulates all aspects of civil aviation, including air traffic management and airport operations. The FAA's airport planning responsibilities include providing guidance and assistance on airport master, layout, capacity, airspace and system plans, and aviation forecasts. Hillsboro Airport falls under the Northwest Mountain Region of the FAA, with the headquarters being located in Des Moines, WA.

The regional office will review and provide feedback on the Hillsboro Airport Master Plan and Port's ground leasing for HIO Landing project with regards to proposed uses, tenants, and terms of private use leases. Their goal is to ensure viable airport operations and ensure that airport assets are protected in the long term with compatible uses. Height limits, runway protection open areas, and bans on residential uses are regulatory steps the FAA takes to reduce public safety risks, noise impacts to the public, and interference with takeoffs, landings, and overall operations.



FAA height limit contour example


FAA Reserve Area shown in purple

When it comes to future redevelopment of HIO Landing, the FAA requires ground leases, and the Port of Portland is precluded from selling airport land for development. Maximum terms for ground leases are 30 years with two 10-year renewals, as determined by the regional FAA office. The FAA considers this a 50 year lease, should those renewals be granted, with case-by-case modifications being allowed, as seen in previous airport developments.

In addition to lease restrictions, the FAA will also require additional "reserve areas" north of the Hillsboro Aero Academy site to preserve land for potential future airport expansion, which may occur with commercial passenger service.

CONSTRAINTS AND ASSUMPTIONS

While development at the Hillsboro airport is an opportunity to achieve multiple private and public goals, there are a number of constraints and unknown elements that will impact development viability and require further clarification going forward.

First, the uncertain regulatory environment is a substantial risk. CAVU Partners is committed to moving forward as a partner with the City of Hillsboro and Port of Portland to devise the most appropriate zoning and design review system to facilitate development. A collaborative working relationship will be critical. Additionally, much work must be done to align the goals of various public stakeholders and the community. CAVU will be part of this policy-making process to inform outcomes that are realistic and meet as many goals as possible.

Further, proposed development that generates substantial vehicle trips may trigger costly intersection improvements to 34th Avenue and Cornell Road. While CAVU does not expect that HIO Landing's development program will generate traffic that exceeds current infrastructure capacity, the acceptable level of service is unknown at this time. Should substantial off-site infrastructure expenses be incurred, CAVU would look to this close relationship with our public partners for solutions. Port contributions, given that HIO Landing will drastically increase the value of the Hillsboro Airport, may be critical in moving any private development concept forward.

Regarding development timing, CAVU understands that the Port of Portland must fund the construction of the new Airport terminal building. The funding for this project has not been secured, and it may be a longer-term effort. The relocation of the terminal building and construction of the associated parking and apron is critical to advance HIO Landing's complete development concept. Should the construction of these facilities move farther out, CAVU's development plans will shift as described later.

Additionally, the Port is restricted in the ways that it can spend its funding and partnerships it can enter into. Joint venture structures where the Port offers an equity contribution or creates development partnerships are precluded by federal regulations. Moreover, federal dollars have substantial limitations, so CAVU assumes that financial partnership opportunities do not exist for HIO Landing and the associated Hillsboro Airport facilities and infrastructure.

The Port of Portland has offered a 30-year ground lease term with two 10-year renewals for private development opportunities. While the FAA considers this to be a 50-year ground lease, the capital markets do not. The prospect of a 30-year guaranteed ground lease results in a practically non-existent equity marketplace, especially for employment-focused uses. CAVU

MARKET ANALYSIS

MARKET ANALYSIS

NATIONAL TRENDS

Our analysis of the outlook for the Hillsboro market considers the broader context of the national economy and the dynamics of greater Portland Metro area.

According to Trading Economics, Global Macro models suggest GDP growth rates in the United States are expected to be 2.60% by the end of second quarter of 2018. Increased labor productivity will contribute to faster GDP growth. Labor productivity is projected to grow 1.6% annually from 2016 to 2026, faster than the 1.2% annual growth from 2006 to 2016. Although there are signs the labor market will remain strong, the volatile trade market may threaten progress. Inflation could increase and thus lead to rising interest rates, and a prolonged trade conflict could slow growth and further increase recession risk.

Source: U.S. Bureau of Labor Statistics

According to the U.S Bureau of Labor and Statistics, employment is projected to increase by 11.5 million (+7% annually) from 2016-2026. The prior decade experienced only a 0.5% rate growth, despite the effects of the Great Recession. Healthcare industries are expected to account for the majority of new jobs through 2026. Demand drivers for this industry growth include an overall aging population, decline in birth rate, and longer life expectancies.

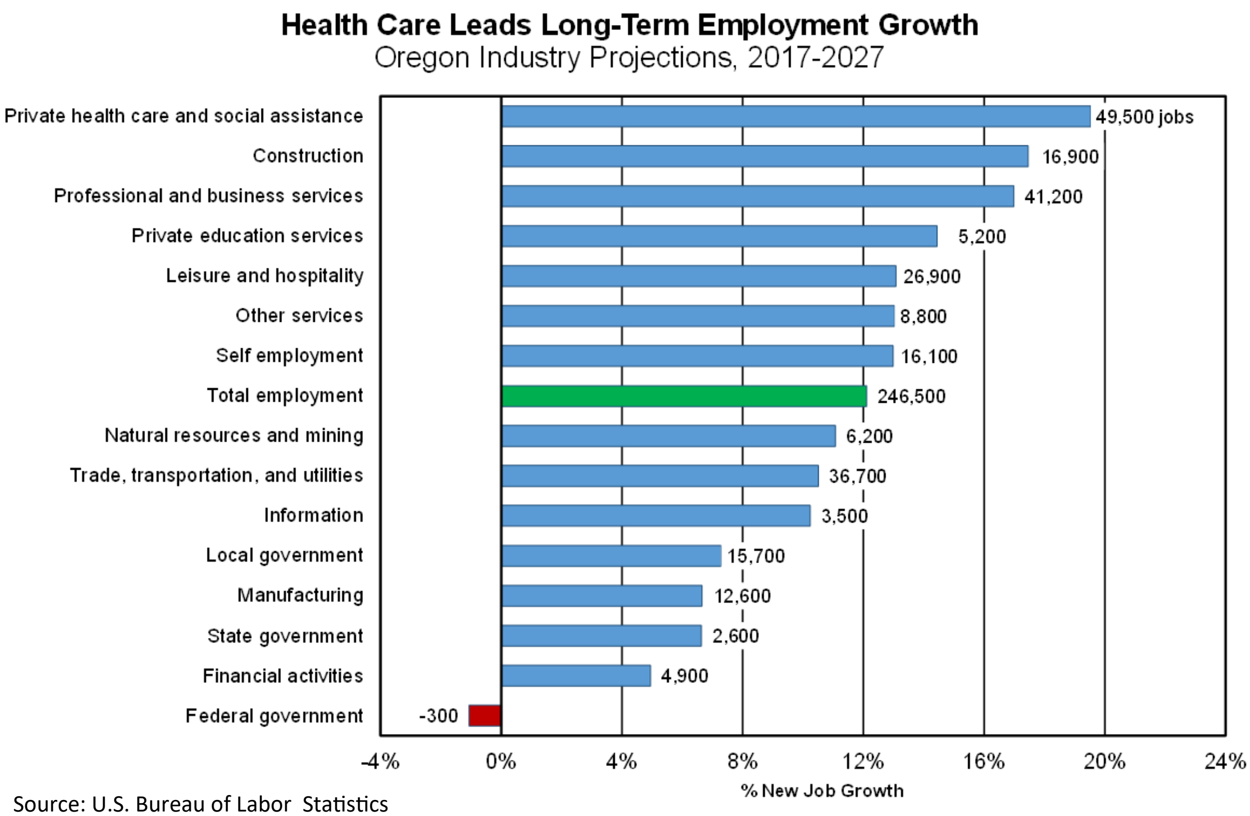
The labor force will become increasingly diverse. Workers of Hispanic origin are expected to account for 1 out of 5 workers nationwide by 2026. Most occupational groups are expected to add jobs through the next decade, with the exception of the farming, fishing, and forestry occupational groups (-0.3%). Since the summer of 2018, employment increased in professional and business services, health care, wholesale trade, and transportation and warehousing. Although manufacturing employment was down 0.3% in August 2018, employment in the industry has shown strong gains over the past year resulting in 254,000 new jobs. More than three-fourths of the gain has occurred in the durable goods component.

U.S. unemployment rates have fallen a full percentage point down to 3.9% in the last two years. However, wage growth has slightly declined, possibly signaling unemployment can withstand 3.0-3.5% before inflation risks emerge

STATE TRENDS

Oregon has continued to experience steady economic growth over the last several years, and the state's unemployment rate of 4.1% has remained at a historic low since 1976. The Portland Metro Area has created more than 207,000 jobs since 2010, which is a 21% job growth rate. In comparison, the U.S job growth was 13% over this same period. This has been attributed to the burgeoning tech sector and strong in-migration, with professional and business services accounting for the single most important growth driver.

In the past 12 months, Oregon ranked No. 23 in net tech development and was in the top 20 states for total new private sector jobs added to the market in 2017. All told, the tech industry employs 134,200 workers in the state. Healthcare and social assistance, professional and business services, and construction are expected to account for nearly half of all new jobs in Oregon through 2027.



Source: U.S. Bureau of Labor Statistics

In the manufacturing and production sector, the food and beverage industry rose 3.4% since 2017. Strong projected growth rates of 15% and 30% respectively, are expected through 2027. The Manufacturing sector continues to grow due to recent tax and regulatory reform measures, adding more than 30,000 jobs per month nationwide. However, concerns point to the ability to find skilled workers to fill open jobs. It is projected more than 3-million manufacturing jobs will be needed to fill by 2025.

REGIONAL TRENDS: HILLSBORO AND WASHINGTON COUNTY

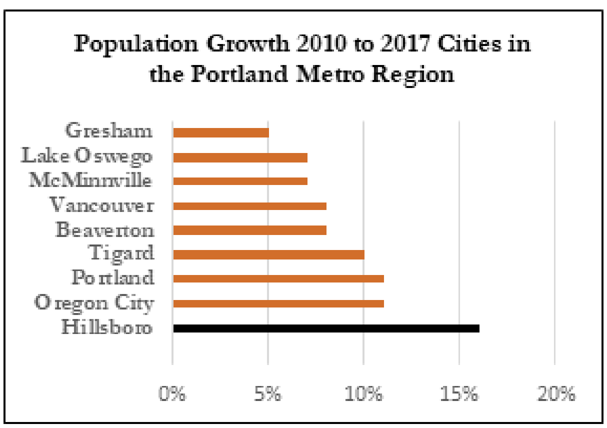
EMPLOYMENT

The Hillsboro Airport is located in the Sunset Corridor submarket, and Hillsboro, known as the "Silicon Forest," began its rapid boom in the mid 1980s with semi-conductor and tech industry proliferation. Tech manufacturing, the largest industry sector for the MSA, is driven from Intel Corporations' Washington County campus employing 19,300 workers.

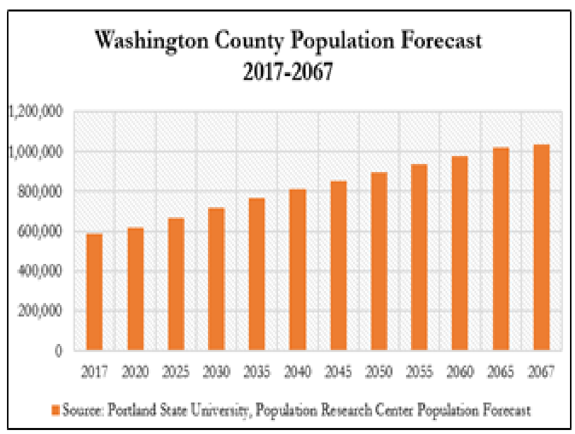
Public and private sector employers in the county added nearly 5,000 new jobs between 2016-2017 alone. Washington County has outperformed the remainder of the nation in its three highest employment sectors of Transportation and Warehousing (+46%), Construction (+39%) and professional and business services (+38%). This is likely attributed to the accelerated growth of the tech-sector and the year-over-year growth in industrial and flex sectors.

The software publishing and tech industry is one of Hillsboro's leading growth industries. It is home to 187 registered firms in software, computer systems, and motion picture recording with average wages totaling $114,000 annually. This sector has expanded jobs by more than 57% in the past five years, due to strong employers such as Adobe, Synopsis, Viawest, and Laika Entertainment. Conversely, government, financial services, and information industry sectors have shed jobs.

POPULATION



Source: Johnson Economics



Washington County is expected to absorb the largest share of population growth in the Tri-County region during the 20-year planning period. The City of Hillsboro grew by 16% from 2010-2017. Hillsboro's pace of growth is faster than the eight largest cities in the Portland Metro Area.

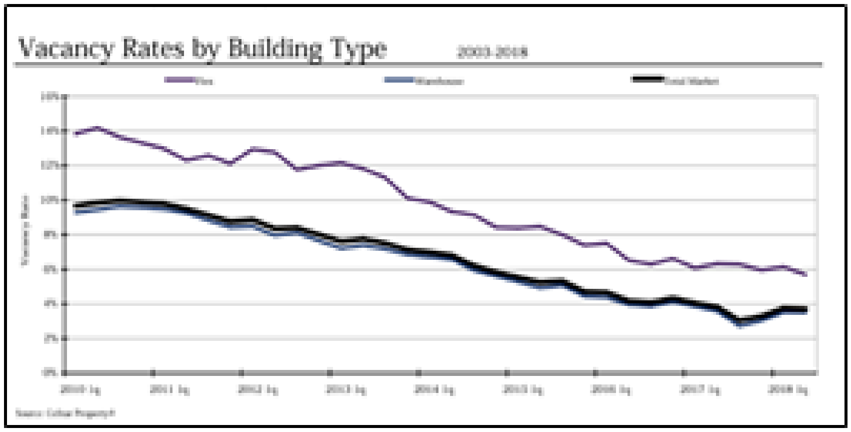
Hillsboro's population has tripled since the early 1990s. Residents have a higher than average educational attainment and labor force participation rate, with a younger than average median age. By 2035, over 105,000 new residents will be over the age of 50. According to Johnson Economics, by 2035, 58% of growth will occur in existing urban areas and 42% in unincorporated areas, indicating that economic growth will be concentrated in urban areas like Hillsboro.

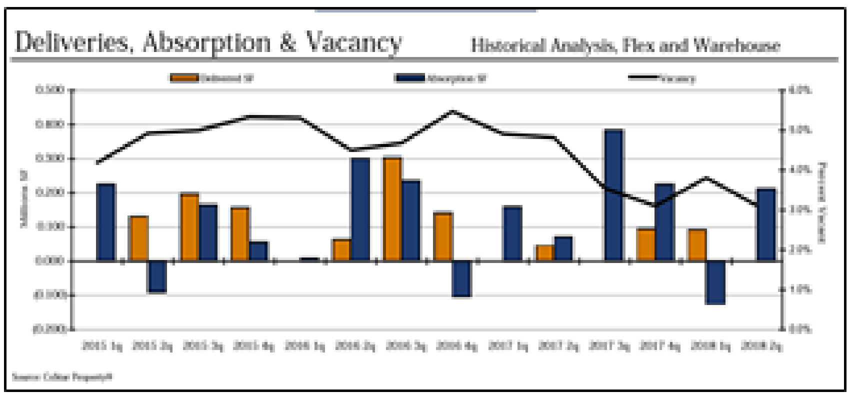
INCOME AND WAGES

For the City of Hillsboro, the largest percentage of household incomes (19.5%) earn $75,000-99,000 per year. The average household median income for the Sunset Corridor submarket is $95,600. This healthy increase reflects the high-wage technology, business, and other growing industrial sectors.

ANALYSIS BY SECTOR

INDUSTRIAL MARKET





Source: CoStar Property

The Portland MSA's industrial market has undergone a vigorous expansion in the last decade. Vacancy rates have averaged 5.9% over the last ten years, with 2Q18 ending at a 3.7% vacancy rate. Portland new construction netted 1.3 million square feet of speculative development and a total of nine buildings (552,369 square feet) have been delivered to the market in 2018 thus far.

A relative lull in supply continues to push vacancies down. Big boxes have dominated; warehouse projects have averaged over 100,000 square feet and assumed a slightly lower vacancy at 3.5%. Warehouse vacancies have only slightly inclined; both building types have rebounded from negative absorption trends due to new deliveries in 1Q18.

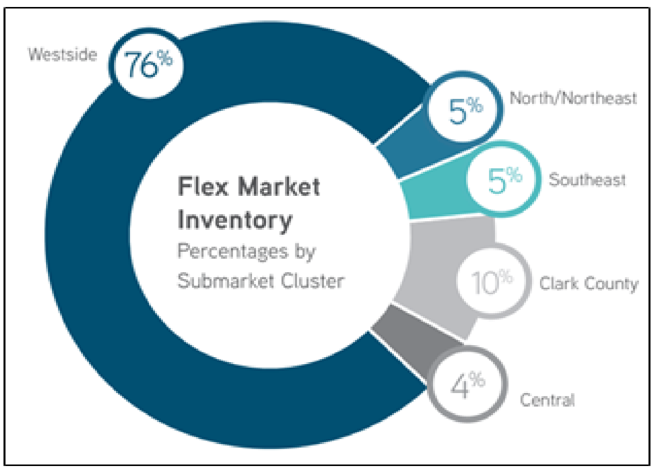
According to CoStar, there are 459 existing buildings in the Portland market with rentable building area of 23,410,610 square feet with quoted lease rates of $12.79 per square foot. Out of approximately 20 submarkets surveyed in the region with industrial total square footage more than 20 million, the Sunset Corridor had one of the lowest vacancy rates at 2.7%. A large percentage of industrial space in the Hillsboro submarket is owner-occupied and purpose-built. Land pricing is typically driven by property values for speculative users.

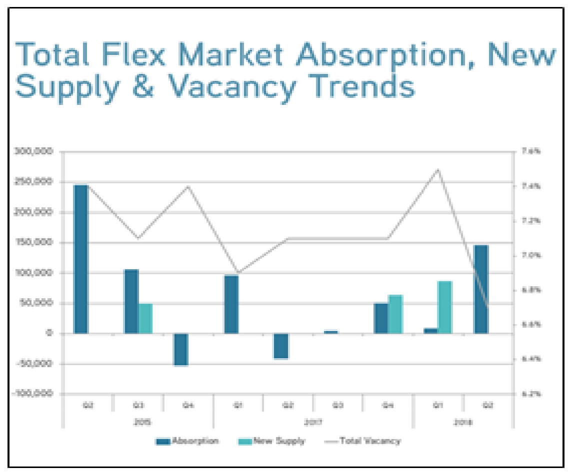
HIO Landing has access to Brookwood Parkway and the North Hillsboro industrial area where new developments are underway. Majestic Realty Company's 303,000 square foot industrial warehouse property represents the largest speculative property to be constructed in Sunset Corridor. Due to our programming to retrofit existing buildings and the parcel constraints along Cornell Road, our site will best support tenants seeking small floor plate industrial spaces of under 50 thousand square feet.

Since a significant percentage of new industrial development is targeting large floor plate spaces, heavy industrial, and owner- occupied tenants, HIO Landing offers a unique opportunity for smaller, light industrial/flex users to have tenant synergies with complimentary retail components. It will also offer flexible spaces to scale up should the market support.

Market research suggests the food and beverage industry will continue to strengthen. HIO Landing proposes accessory restaurants/grab-in-go food as a component to each of our six commercial kitchens. These kitchens will serve as business generators that operate at a larger, more intense scale than current area kitchen business models. Smaller footprint kitchens of 1,500 square feet will allow spaces to be financially tenable to serve Hillsboro and areas to the west. There are no direct comparables in the Sunset Corridor; however, industry experts have recently sought properties in this untapped market. The Portland MSA shows no signs of slowing down for industrial commercial kitchens.

PORTLAND FLEX MARKET





Source: 2018 Q2 Flex Report, Colliers International

The industrial and flex market is relatively supply-constrained and is expected to remain robust. Tight market conditions have contributed to rising rent levels despite lack of access to I-5, I-205, or I-84. The Westside subregion, accounting for the Sunset Corridor submarket, contains the majority of warehouse and distribution space within the Tri-County region.

Currently, there is approximately 1.2 million square feet of flex space under construction in the submarket, with Nike and Intel as the largest tenants as both companies continue to expand their footprint. In 2014, Intel opened a one million square foot semiconductor support facility which increased the existing office inventory by 8%. Intel has also added a one million square foot support facility at Ronler Acres.

A proposed project in Hillsboro includes the 130,000 square foot West Park IV, which will be located in the Hillsboro Enterprise Zone. This Enterprise Zone allows a 100% property tax abatement for eligible businesses on new capital assets for a three-to five-year period.

HILLSBORO/SUNSET CORRIDOR TRENDS

The Hillsboro market contains over 11 million square feet of inventory and is trending at 4.3% overall vacancy for flex. In 2Q18, there was 11,974 square feet absorbed into this market. The average quoted rents in the submarket are $20.78 per square foot for full service gross and $14.80 per square foot for triple net (NNN), while the average vacancy rates are 2.7% and 3.5%, respectively.

Common flex spaces sought by tenants include Class-B executive office space with conference rooms, light production/manufacturing, distribution space with showrooms, research and development, and professional services companies desiring proximity to Intel and airport clientele. This site is also ripe for scalable flex space for business incubation to support storage, production, and distribution. Tenants leasing smaller spaces under 50,000 square feet typically seek average clear heights between 20 to 35 feet with adequate loading, parking, and floor plates that are divisible. Tenant Improvement allowances are quoted on a price-per-square foot basis, on top of preliminary shell work.

As consistent with overall market trends, rents in the higher end of the market average $0.60 per square foot shell, based on NNN leases. Surcharges are common, notably for office spaces, of about $0.85 to $0.90 per square foot.

Both vacancy and available space are low. In the submarket, year-to-date net absorption for flex was 101,904 square feet with similar square foot percentages for leasing activity. Limited supply combined with low vacancy rates continue to drive up lease rates. With over 97% of flex spaces currently leased, demand for more flex space is apparent. HIO Landing offers prime flex space in both renovated buildings as well new build-outs to support leasing tenants under the threshold of 50,000 square feet.

One of our program’s anchor tenants will include Portland-born Laika Studios. Since 2010, the movie and stop-motion studio giant has occupied 17,000 square feet of office space at Sunset Corporate Park, as well as 260,000 square feet of industrial and flex space in this submarket. Laika employs approximately 400 workers in Hillsboro and remains a dominant player in the market. HIO Landing is a unique opportunity for Laika to expand its global brand and build a permanent experiential exhibit location at the Hillsboro airport.

Industrial Comparables

1) Roseway Industrial Park - 3030 SE 59th Ct, Hillsboro, OR 97123

Year Built:	1996
Size:	6,210 s.f.
Vacancy:	70.0%
Lease Type/Term:	MG/Negotiable
Floor Plate:	11,176 s.f.
Asking Rate ($/Yr/SF)	$13.20

Notes: *Class C. The property features 2 docks, 2 grades and gated yard. Easy access to Cornelius Pass Road. There is 1,250 SF of office space.*

2) 6850 NE Campus Way, Hillsboro, OR 97124

Year Built:	1995
Size:	22,500 s.f.
Vacancy:	50.0%
Lease Type/Term:	NNN/Negotiable
Floor Plate:	45,000 s.f.
Asking Rate ($/Yr/SF)	$8.00

Notes: *Class C. The building contains 720 SF of office area and 2500 SF of conditioned lab space (convertible to office). Located near Intel's Ronler Acres Campus. It includes one dock loading door and 2 grade level loading doors.*

3) Griffin Oaks Business Park, 2350 NE Griffin Oaks St Hillsboro, OR 97124

Year Built:	1995
Size:	2,200 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/Negotiable
Floor Plate:	31,000 s.f.
Asking Rate ($/Yr/SF)	$18.00

Notes: *Class: B. Exposure on NE 25th Ave. and located near Intel Jones and Griffin Oaks Park. The space is rented as flex space and offers controlled warehouse suites. Building C and D are 19,548 SF and 15,200 SF, respectively. Tenants: Schenker Logistics, Intel, Zman Magnetics, and Tau Science.*

4) Sunset Highway Business Park, 23548 NW Clara Ln, Hillsboro, OR 97124

Year Built:	2009
Size:	4,152 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/36 mo.
Floor Plate:	18,000 s.f.
Asking Rate ($/Yr/SF)	$10.80

Notes: *Class B. Prime Hwy Access.*

Flex Comparables

1) Hawthorne Business Center 1 - 5285 NE Elam Young Pky, Hillsboro, OR 97124

Year Built:	1981
Size:	2,046 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/60 mo.
Floor Plate:	13,0000 s.f.
Office:	35%
Asking Rate ($/Yr/SF)	$9.57

Notes: Class B. Shell 0.45; Office 0.80. No TI. 3% Increase

2) Suntech Corporate Park - 2925 NW Aloclek Dr, Hillsboro, OR 97124

Year Built:	2001
Size:	9,351 s.f.
Vacancy:	43.0%
Lease Type/Term:	NNN/60 mo.
Floor Plate:	83,244 s.f.
Office:	25%
Asking Rate ($/Yr/SF)	$13.00

Notes: Class B Business campus near Hwy 26 in Sunset Corridor. Flex buildings (35% office) for tech, research, and light manufacturing. Floor plans accommodate multi-tenant use for mid to small size spaces with 16'-18' clear heights

3) Evergreen Business Park - 7175 NW Evergreen Pkwy, Hillsboro, OR 97214

Year Built:	1996
Size:	9,439 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/75 mo.
Floor Plate:	42,700 s.f.
Office:	85%
Asking Rate ($/Yr/SF)	$12.84

Notes: Class B. Concessions: Up to 3 months free, possible TI and 3% increase. Street frontage to Evergreen Parkway. Walking distance to retail. Eight industrial/flex bldgs totaling 317,510 SF. Access to Hwy 26.

4) Techonology Center - 7431 NW Evergreen Pky - One Technology, Hillsboro, OR 97124

Year Built:	1985
Size:	2,046 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/60 mo.
Floor Plate:	25,472 s.f.
Office:	25%
Asking Rate ($/Yr/SF)	$11.00

Notes: Technology Center is located in the heart of the industrial market in Sunset Corridor. It hosts office, small warehouse and production spaces with 14' clear heights. Walking distance to food and commercial services

OFFICE MARKET

The Portland metro area enjoys one of the most desirable office markets in the nation. It has seen consistent growth in rents and deliveries over the last five years. The second quarter of 2018 vacancies remain low at 6.6%, and demand for office space is competitive as new inventory is added to the pipeline. Portland office market trends indicate more than a 9.2% increase for median asking prices per square foot for office properties compared to 2017 prices. Rising rents may signal a tightening market in the coming years.

HILLSBORO RENT AND VACANCY TRENDS

For Hillsboro's Sunset Corridor submarket, strong growth in the tech sector has resulted in a competitive office market outpacing Portland Metro. There are approximately 400 office buildings with gross rents per square foot averaging $22.22. This remains slightly higher than Tri-County neighbors. Median sales prices are $223 per square foot, roughly $30 per square foot lower than the Portland Metro. Hillsboro office cap rates continue to hover around 7.3%, roughly one full percentage point higher than Portland.

According to CoStar Property, Hillsboro office vacancies are trending at 4.2%, well below Portland Metro and the 12.1% historical average for the Tri-County from 2012 to the present. This market supports a higher percentage of owner-occupied and single-tenancy buildings with high retention rates. This is, perhaps, one factor contributing to the tightening market and vacancy rates declining.

Office Comparables

1) 5035 NE Elam Young Pkwy, Hillsboro, OR 97124

Year Built:	1998
Size:	1,963 s.f.
Vacancy:	0.0%
Lease Type/Term:	MG/60 mo.
Floor Plate:	8,028 s.f.
Asking Rate ($/Yr/SF)	$18.75

Notes: *Class B office. 6 months free. $10K TI*

2) 2401 NE Cornell Rd., Hillsboro, OR 97124

Year Built:	1985
Size:	1,558 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/Negotiable
Floor Plate:	40,000 s.f.
Asking Rate ($/Yr/SF)	$21.00

Notes: *Class B Office space on a 3-acre parcel (Neighborhood Center). Tech, retail, and financial services tenants*

3) 5025 NE Elam Young Pkwy, Hillsboro, OR 97124

Year Built:	1994
Size:	1,800 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/Negotiable
Floor Plate:	8,000 s.f.
Asking Rate ($/Yr/SF)	$20.00

Notes: *Class B multi-tenant office building for medical and professional services.*

4) 4950 NE Belknap Ct., Hillsboro, OR 97124

Year Built:	2001
Size:	1,150 s.f.
Vacancy:	0.0%
Lease Type/Term:	NNN/60 mo.
Floor Plate:	9,400 s.f.
Asking Rate ($/Yr/SF)	$22.00

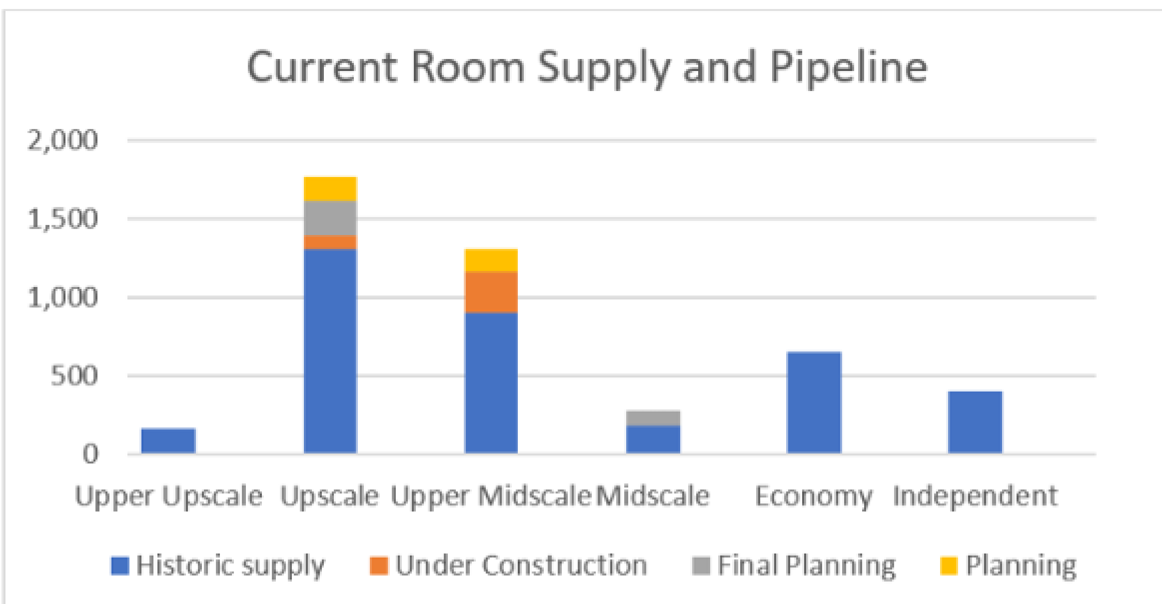
Notes: *Class B. Office and retail tenants with conference rooms and café onsite.*

Year	2008	2010	2012	2014	2016	2017
Total Destination Spending	448	438	512	540	633	967

Washington County Visitor Spending by Type of Traveler Accommodation ($Million), 2017

HOSPITALITY

The hospitality industry in Washington County is robust and growing. Direct visitor spending increased from 633 million in 2016 to 697 million 2017 for all visitors that stayed in a hotel or motel in Washington County. This represents an overall increase in spending of 10%. On average, each visitor to Washington County spent $143 per day in 2017.

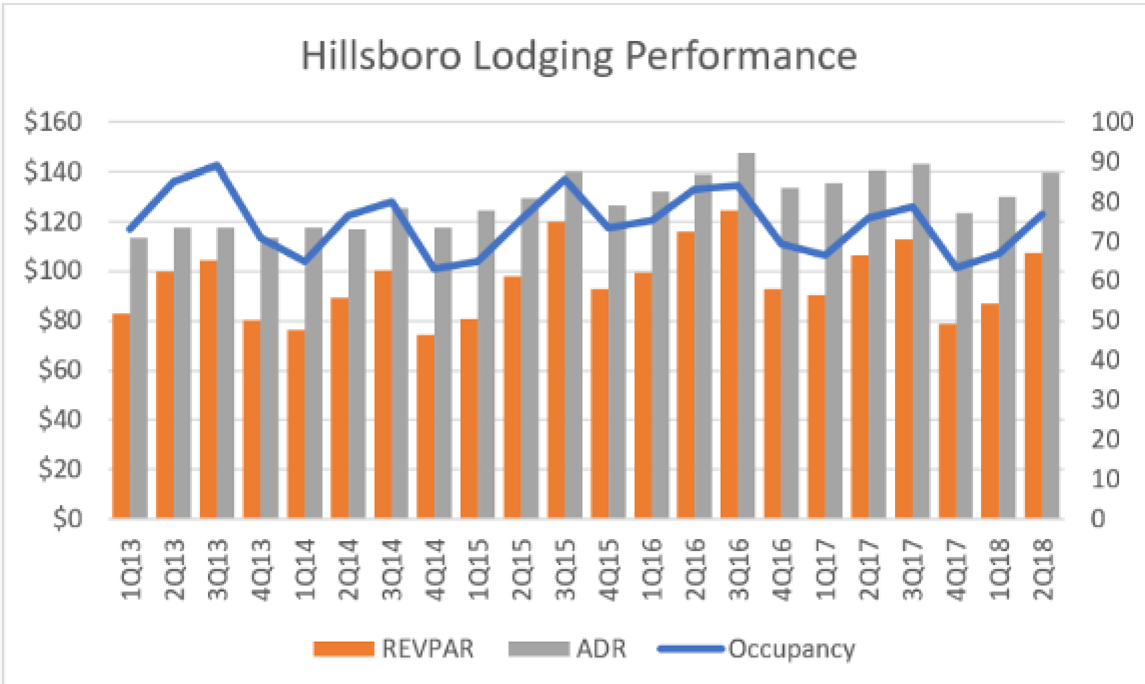


Source: STR Trend Report: Sunset Corridor/Hillsboro

Indicative of this growing market, as of July 2018, in the Beaverton/Sunset submarket there are a total of 3,649 rooms in the current supply, with 940 rooms currently in the pipeline. Of these 940 rooms, 337 are under construction, 319 are in the final planning stage, and 284 are in the planning stage. However, there are no new Upper Upscale, Economy, or Independent rooms currently in the pipeline. Upper Upscale makes up most of the historic supply and rooms in the pipeline, with Upper Midscale having the second highest historic supply and rooms in the pipeline. Currently there are 92 Midscale guestrooms in the final planning stage.

HILLSBORO LODGING PERFORMANCE

The Hillsboro hotel market has seen growth in both Average Daily Rate (ADR) and Revenue per Available Room (RevPar) over the last five-year period. RevPar growth by quarter from 2013-2018 increased



Source: STR Trend Report: Sunset Corridor/Hillsboro

on average 3% per year. RevPar saw positive growth of 15% in 2015 and the highest rate of growth in 2016 was 13.5%, compared to a RevPar increase average of 9% in 2013.

However, 2014, 2017, and 2018 did not see growth in RevPar, and instead saw a decrease of an average of 7% for 2014 and 2017-2018, consistent with the increase in hotel supply. ADR growth during the five -year period increased on average 4.5% per year, however, demonstrating an increase in room rate de-

Year	ADR	ADR Change	Occupancy	Occupancy Change	RevPar	RevPar Change
2016	$138.73	6.10%	77.90%	3.90%	$108.13	10.30%
2017	$136.19	-1.80%	71.20%	-8.60%	$97.02	-10.30%
2018	$137.15	-1.60%	73.50%	1.20%	$100.83	-0.40%

Hillsboro Hotel Performance and Projections 2016-2019
Source: STR Trend Report: Sunset Corridor/Hillsboro

spite increasing vacancy. From 3Q2017 an onwards, both ADR and RevPar have declined. This is likely due to a period of new, excess supply gain outpacing demand, the natural ebb and flow of markets with robust growth.

With the significant amount of new supply in the pipeline, this trend of low and negative gains is forecasted for the near future. Average occupancy for the five-year period since 1Q2013 is 74.6%. Average occupancy from 1Q2017 to current is 71.3%. This marks a moderate decline from the previous year. However, these figures remain substantially above the 60% threshold of stabilized occupancy, signaling a healthy market for hotel occupancy.

Overall, the years 2016 – 2018 marked successful years for the region's hotels, with occupancy ranging from 71.2% to 77.9%. Average ADR was $136 with RevPar averaging at $97. In 2018, ADR percentage change for the year averaged -1.6%, bringing the average ADR to $137. For 2019, occupancy is projected to slightly increase, while ADR and RevPar show a modest decline.

HOTEL DEMAND DRIVERS

The demand generated by Intel and other peripheral tech companies has supported very high rates of hotel occupancy over a sustained period. In response, developers opened a Hampton Inn and Suites and an Embassy Suites in 2014, and a Residence Inn and a Holiday Inn in 2016. In 2017, a 137-room Aloft Hillsboro-Beaverton hotel opened. Together, these projects increased the Hillsboro market supply by more than 600 guestrooms.

Another demand driver that will impact the area hotel market is the Washington County Event Center, part of the effort to revitalize the Fair Complex. The Event Center will provide year-round opportunities for large community gatherings, as well as provided year-round tourism traffic to the area that can serve as clientele for the hotel.

Overall, ADR and RevPar trends show the Sunset Corridor/ Hillsboro hotel boom is cooling off after the market has become saturated with new inventory, but occupancy and ADR values are continuing to hold. Peak ADR numbers occurred from August 2016 - July 2017, with figures starting to dip in 2018. With ADR numbers maintaining their levels and the market's occupancy still well over the standard 60% recommended for new hotel development, averaging at 71%, there are strong indicators to replace the existing Comfort Inn Hotel.

This data suggests that the market would support a replacement hotel despite the number of hotel rooms in the pipeline given strong fundamentals and the potential for growing demand. It will be critical to monitor market daily rates to assure that they are consistently increasing. Additionally, CAVU will need to observe demonstrated performance at the Event Center to have confidence in the hotel replacement strategy.

Hotel Comparables

1) Holiday Inn Hilsboro, – 3030 SE 59th Ct., Hillsboro, OR 97123

Open Date	August 2016
Rooms	110
Class	Upper Midscale
Stay Type	Standard
Meeting Spaces	1,390

Amenities: *Indoor pool, Air-conditioned, Laundry service, Business center, Room service, Kid-friendly, Free breakfast, Pet-friendly, Restaurant Hot tub, Fitness center, Bar*

2) Hampton Inn & Suites Portland/Hillsboro Evergreen Park - 19999 NW Tanasbourne Dr, Hillsboro, OR 97124

Open Date	July 2014
Rooms	106
Class	Upper Midscale
Stay Type	Standard
Meeting Spaces	1,390

Amenities: *Free WiFi, Free Parking, Free Breakfast, Indoor Pool, Air Conditioned, Laundry Service*

3) Quality Inn Aloha – 3333 SW 198th Ave, Aloha, OR 97003

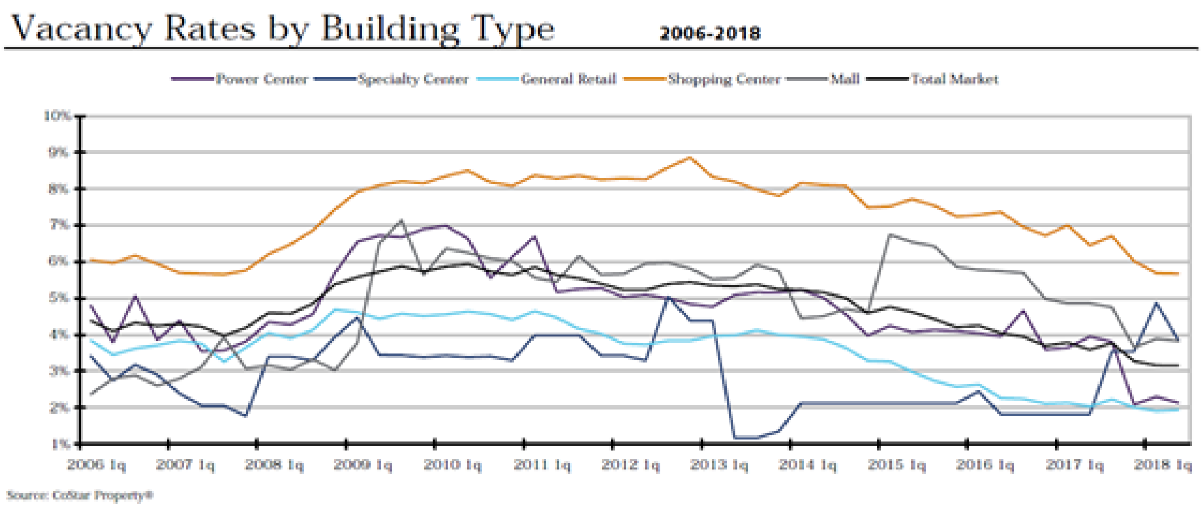
Open Date	June 1985
Rooms	52
Class	Midscale
Stay Type	Standard
Meeting Spaces	0

Amenities: *Laundry Service, Kid-friendly, Kitchen in all rooms*

4) Holiday Inn Express Portland West/Hillsboro– 5900 NE Ray Cir., Hillsboro, OR 97124

Open Date	December 2000
Rooms	86
Class	Upper Midscale
Stay Type	Standard
Meeting Spaces	650

Amenities: *Free Wi-Fi, Free breakfast, Free parking, Air-conditioned, Laundry service, Business center*



RETAIL

PORTLAND METROPOLITAN AREA

Retail vacancy in the Portland metro area was 3.2% for the first and second quarters of 2018, demonstrating a strong retail market. Vacancy for the metro region has been decreasing for the last four quarters, dropping from 3.8% in Q32017, to 3.3% at the end of the Q42017. Vacancies for the General Retail category are particularly low at a mere 1.9%. This category of retail is best suited for a site like HIO Landing.

HILLSBORO/SUNSET CORRIDOR TRENDS

Overall, the data shows that Sunset Corridor/ Hillsboro is outperforming the Portland metro retail market, showing lower vacancy rates and higher average quoted rental rates across almost all retail sectors when compared to the metro region.

Within the general retail classification, the Hillsboro submarket is at 1.6% vacancy compared to 1.9% general retail vacancy for the metro region. The Sunset Corridor/ Hillsboro submarket average quoted asking rent of $19.98 for mid-year 2018 is significantly above the average $17.35 for the metro region. The submarket has tighter vacancies as well, showing a 2.5% vacancy mid-year 2018, which is lower than the metro region's 3.2% vacancy rate for the same time period.

HILLSBORO RETAIL SUPPLY AND DEMAND

As of January 2017, Kidder Mathews and CoStar show that the larger Hillsboro commercial market has approximately 9.6 million square feet of retail space with a 4.1% vacancy rate.

The retail market analysis estimates potential new retail space that can be supported in the greater Hillsboro area. Leakage occurs when retail sales are less than the amount spent by market area residents based on consumer expenditures. When the demand for retail is greater than the supply of retail in a given market area, leakage occurs, indicating that consumers are spending outside of the market area for retail goods or services.

Retail Subcategories

Apparel: Women's Apparel, Men's Apparel, Children's, Footwear, Watches & Jewelry

Potential supportable space: **124,098 SF**

Home Furnishings: Furniture, Floor Coverings, Major and Small Appliances, Household Textiles, Floor Coverings, Housewares, Dinnerware

Potential supportable space: **255,144 SF**

Miscellaneous Retail: Pet Care, Books & Periodicals, Sporting Equipment, Toys & Hobbies, Luggage, Eyeglasses

Potential supportable space: **263,280 SF**

Restaurants

The Hillsboro demand analysis provides an indication of the availability of goods in the local market. Future demand projects household growth and spending patterns in the market area through 2021. The retail subcategories that show leakage and therefore indicate demand are apparel, home furnishings, miscellaneous retail, and restaurants with a total of 723,913 square feet of estimated support. The total retail space proposed at the site is 10,400 square feet, well under the estimated supportable amount.

BREWERIES AND WINERIES

Breweries and wineries don't just produce a product that Oregonians enjoy, they make a significant economic impact. Craft beer sales grew at a rate of 5% by volume in 2017, reaching 12.7% of the total U.S. beer market. According to Oregon Brewers Guild and the Oregon Employment Department, the craft beer industry added 1,400 new jobs over the past two years, signaling a 22% growth. This sector's growth outpaces the 6.3% total nonfarm growth during these same years. Since 2016, more than 375,000 people visited an Oregon brewery, pub, or tasting room on a weekly basis. Visitor volume for craft beer pubs and tasting rooms continue to demonstrate steady growth in our market.

Oregon wineries and tasting rooms typically retain more of their profit margins inside the state economy than most other agricultural products. In Washington County alone, wine-related revenue topped $224,720,596 in 2016, yielding 1636 jobs, while adding $6 million dollars to the tax base.

Retail Comparables

1) Vertigo Brewing Hillsboro- 21420 NW Nicholas Ct, Hillsboro OR 97124

Year Built	2003
Size	24,000 s.f.
Vacancy	0.0%
Lease Type	NNN
Asking Rate ($/Yr/SF)	$19.00/SF

Notes: *20' ceilings with 500 s.f. mezzanine space.*

2) Longbottom Coffee & Tea- 4893 NW 235 th Avenue, Hillsboro, OR 97124

Year Built	2001
Size	18,000 s.f.
Vacancy	22.7%
Lease Type	NNN
Asking Rate ($/Yr/SF)	$16.00/SF

Notes: *Class B. Office mix 12%. Located in the Oregon Technology Park. Coffee tenant lease since May 2002. Floor plates divisible. Clear height 20 feet.*

3) Airport Center – 1910-2020 NE Cornell Rd Hillsboro, OR 97124

Year Built	1980
Size	25,974 s.f.
Vacancy	0.0%
Lease Type	NNN
Asking Rate ($/Yr/SF)	$18.00/SF

Notes: *3 Star Retail Neighborhood Center, adjacent to Hillsboro Airport. Adjacent to Cornell Square and Hillsboro Market Center. Good signage and 223' street frontage to Cornell Rd*

4) Crimson Corner Shopping Center -1823 SE Tualatin Valley Hwy Hillsboro, OR 97123

Year Built	1979
Size	23,205 s.f.
Vacancy	10.3%
Lease Type	NNN
Asking Rate ($/Yr/SF)	$16.00/SF

Notes: *Dense retail trade area. High average daily traffic counts of 30,700 cars per day. accessible from TV Hwy. and SE 18th*

MARKET ANALYSIS CONCLUSIONS

HIO Landing will respond to office, flex, and retail demand for the Hillsboro market, and is located in a prime area to take advantage of these market strengths. HIO Landing is employment-focused with a complementary mix of uses and marketable amenities that show clear demand. Additionally, CAVU's phasing strategy, approach to adding value incrementally, and highly flexible buildings leverage the inevitable ebb and flow of the sectors described previously

DEVELOPMENT PROPOSAL

DEVELOPMENT PROPOSAL

HIO Landing merges old with new, combining soaring aviation with Hillsboro's community roots to reimagine a new district. HIO Landing flies high, but stays local.

HIO Landing's concept takes its cues from the history of aviation with a modern finish: the patina of corrugated metal hangars, the rich finish of a wooden propeller, the lightness of a truss, the glint of a windshield in the sun. HIO Landing will use existing materials and finishes combined with modern elements for an authentic place that feels as if it grew in place over time.

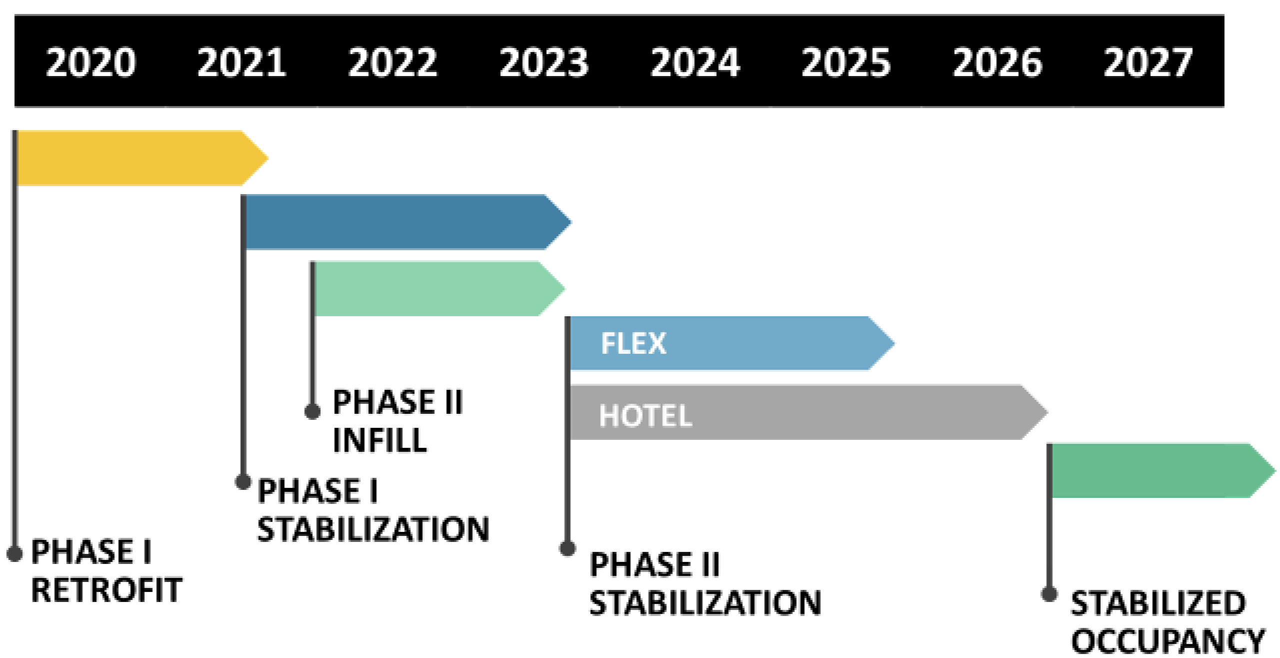
The airport's existing buildings are given new life, and a new central spine creates a pedestrian-scaled central gathering place that focuses energy and activity into the heart of HIO Landing. New, flexible buildings grow as the area matures, harkening to the gritty flexibility that lets industrial districts evolve over time. Spaces for interaction, events, and outdoor living create great places to work, visit, and dine, and a continuous network of landscaped plazas and streetscapes connects the terminal to the station: air transit to train transit.

DEVELOPMENT STRATEGY

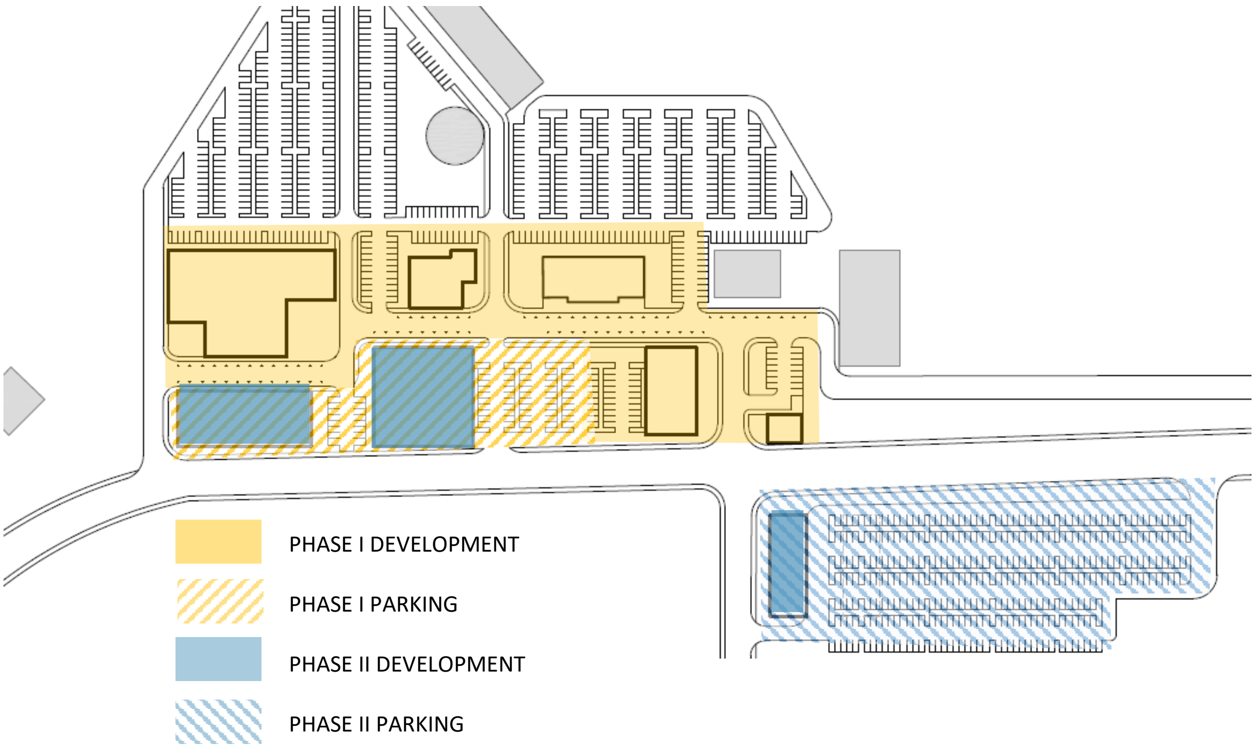
CAVU Partners sees past the clouds to limitless potential, just as our name implies. Our long-term development horizon makes us the ideal partner for the Port's development goals as we create shared value. Our strategy leverages the site's assets and unlocks additional value through an incremental approach grounded in holistic thinking.

TIMELINE AND PHASING

As shown on the development timeline, CAVU's adaptive reuse strategy allows HIO Landing to begin



generating revenue from leases faster than ground-up new construction. In order to initiate HIO Landing, the new terminal has been constructed and the airport's new surface parking lot, or a portion of it, has been constructed. Subsequently, the first 18 months is spent rehabbing the existing buildings and constructing the Galley and Check-In buildings. These Phase I improvements are anticipated to take two years to fully stabilize. These Phase I buildings will be served by the existing parking lots facing Cor-



Development phasing

nell Road as part of CAVU's leased premises.

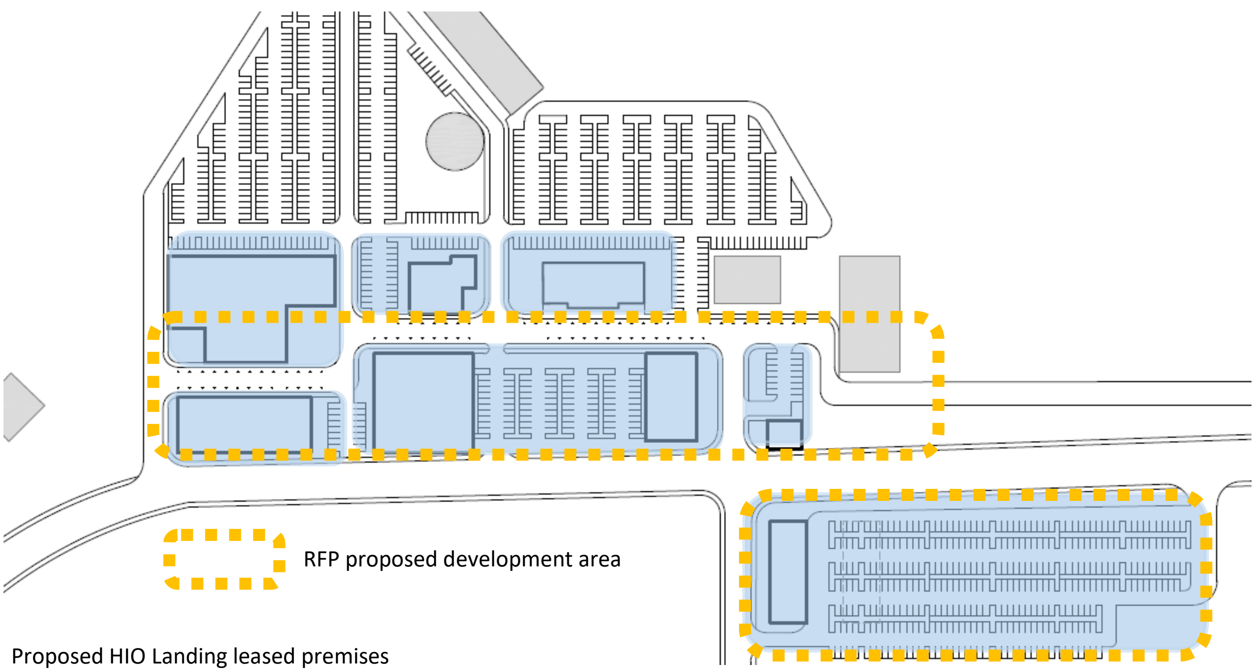
As Phase II, construction of Altimeter, Cargo Hold, and Avid begin in mid-year of the first year of Phase I's occupancy. Phase II infills the surface parking lots along Cornell Road and redevelops the vacant former Comfort Inn site. Phase II's flex buildings stabilize over a 2.5-year period, and Avid stabilized in three years.

During interim redevelopment, the hotel site can additionally be used entirely for temporary surface parking or laydown and staging during construction. In the long-term future, these larger parking areas could be infilled with buildings to further generate development value.

DEAL STRUCTURE

CAVU's approach to phasing HIO Landing and creating sustainable value begins with lower-capital investments to shift the dynamic of the site, creating higher values over time. Adaptive reuse projects in early phases pave the way for more intense development over time as the market has proven up and investors view the site in a different light. Programming brings people to the site for new experiences, and entrepreneurial businesses get in early at HIO Landing, generating market acceptance and excitement by other potential tenants. Over time, our development cache grows and we undertake the hotel redevelopment when the market is the strongest. Flexible floorplates allow buildings to evolve over time and adapt to future needs, ensuring that our investment does not have a limited horizon. CAVU's site planning strategy unlocks the potential of the most valuable property north of Cornell Road by shifting substantial surface parking areas to the hotel site.

As a public-private partnership, we strive to create shared value with our public partners. For HIO Landing, this means that CAVU's proposed ground lease area does not include the future circulation network of roadways. We netted out these areas from the leasable premises, understanding that these internal streets add substantial value to the Port's property, and they will revert to the Port upon expiration of the lease term. CAVU has proposed to fund the cost of this street and public realm network within our development area, an opportunity to share additional capital expenses, as needed. Common Area Maintenance charges are generated through HIO Landing's subtenant lease structure,



Proposed HIO Landing leased premises

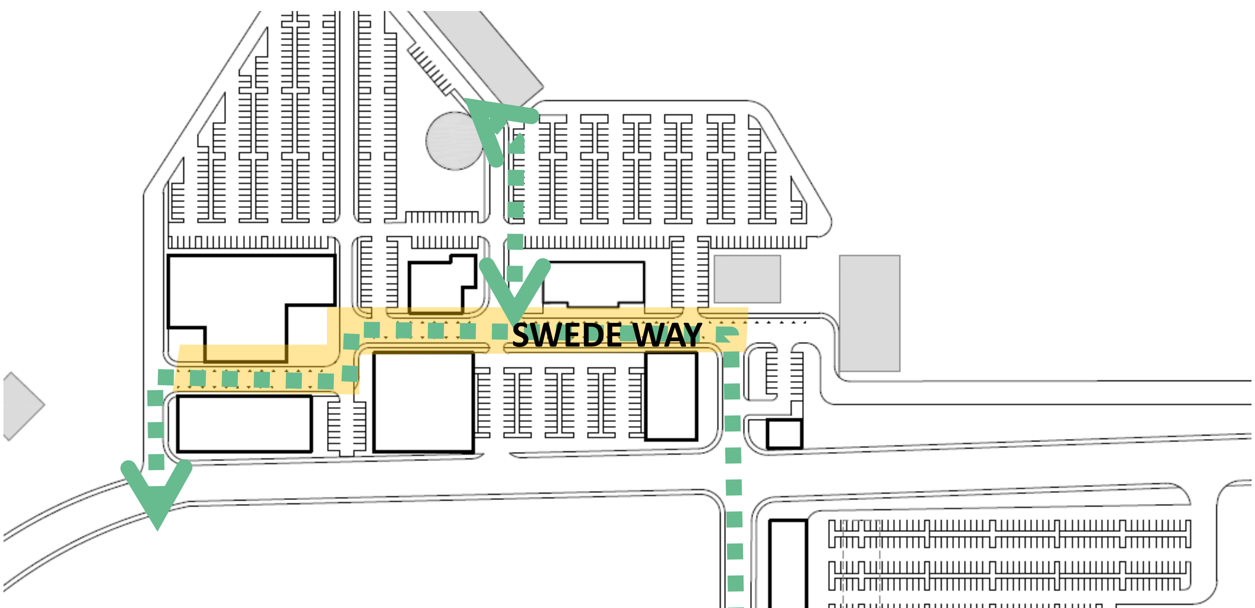
but it would be reasonable to share enhanced maintenance of plazas, streetscapes, bioswales, and other common amenities with the Port in recognition of the mutual value.

HIO Landing creates connections beyond just physical ones. CAVU's development concept creates a seamless network of streetscapes and plazas to link the MAX station and Event Center to the airport terminal. Swede Way pays homage to the airport's original founders, knitting the site together. CAVU builds connections with community groups, like the Hispanic Chamber of Commerce and construction industry, to create higher-wage construction and business opportunities for traditionally marginalized community members. Our development concept supports the Port's Learning Campus initiative, including the Classic Aircraft Aviation Museum and Airway Science for Kids, by enhancing their site prominence and bringing a new population of visitors through a supportive mix of uses. The Hillsboro Airport History project is additionally invigorated with new attention to the airport by a new audience.

INFRASTRUCTURE AND SITE CIRCULATION

HIO Landing's concept hinges around an infrastructure and circulation plan that creates logical development parcels in a sea of surface parking. The existing vehicular access points on Cornell Road are maintained, and north-south circulation is created, taking its cues from the incremental evolution of historic industrial areas.

An east-west, curbless spine knits HIO Landing together with its pedestrian scale, slower traffic speeds, and comfortable tree canopy. This street, Swede Way, is named for the airport's original founder, the critical element that envisioned the original site and now re-envisions its future. Bollard traffic control and lighting keeps pedestrians safe while illuminating the site without light pollution. On-street parking serves both practical and design purposes, accommodating HIO Landing's employees and visitors while calming traffic and making an efficient use of the Port's land.

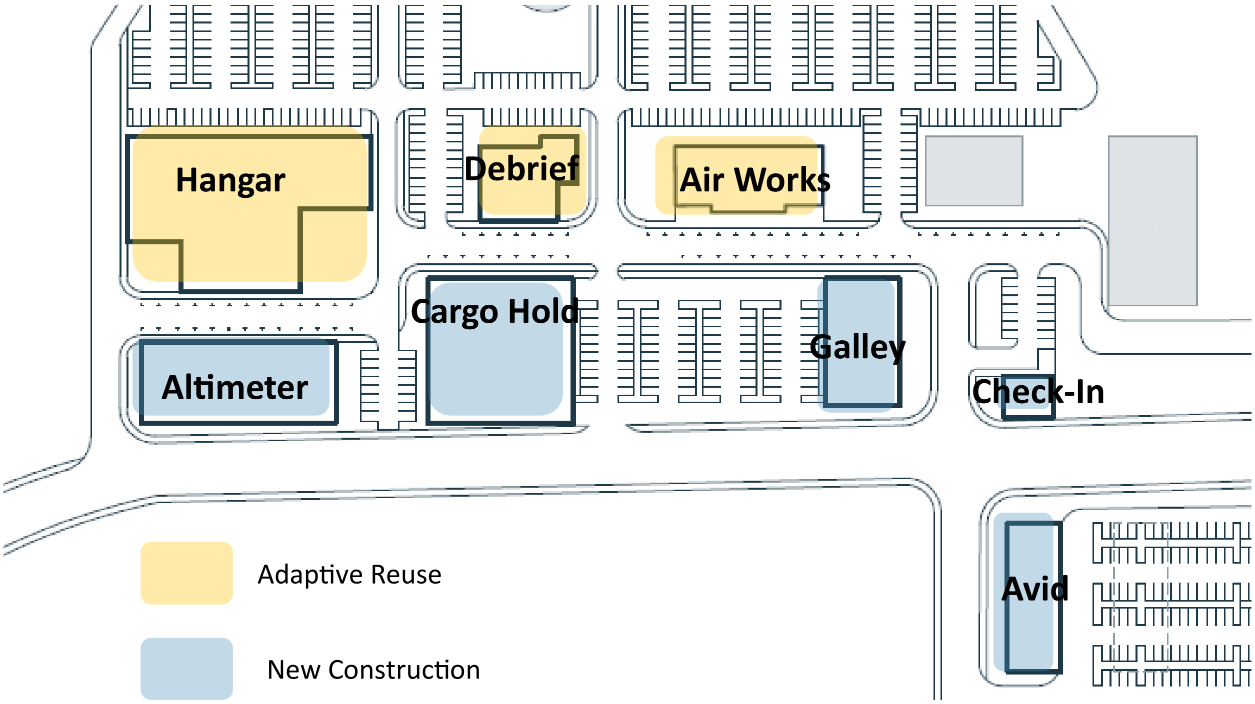


Linkages from the MAX Station to Terminal with curbless Swede Way

HIO Landing's street network plans for a range of users and intensities by avoiding dead-end streets to allow for loading and circulation, for trucks, deliveries, and visiting groups. The internal circulation network is flexible; it can additionally be phased to ready the resultant parcels for development as the market demands.

DEVELOPMENT PROGRAM

HIO Landing's buildings pay homage to the area's rich aviation history while reimagining a district that merges industry, technology, and hospitality with local craft food, wine, beer, and coffee. As the Hillsboro Airport celebrates its 90th anniversary in 2018, each existing and proposed building takes on a new name and identity.



HIO Landing's Development Program

ADAPTIVE REUSE

HIO Landing proposes to adaptively reuse three existing buildings on current Port property, transforming them from current aviation use to a modern reflection of Hillsboro's local economy and craft. The adaptive reuse of these three buildings in Phase I begins to shift the dynamic and perception of the project area through lower cost, immediate interventions, creating value and additional opportunities over time.

HANGAR

The Hangar Building is a 36,000 square foot aviation hangar built in the 1940s by the Hillsboro Airport's founders. Large enough to accommodate plane storage, the Hangar is approximately 40 feet tall, with a large roll-up door and two small additions on each side. The Hangar is constructed of corrugated metal, inspiring the building's redesign with its patina texture and authentic materiality. The Hangar Building site is approxi-

The Hangar today

The Hangar after rehab as Laika's permanent exhibit

mately 59,500 square feet with a plaza space at the southwest corner of the parcel. Several on-street loading spaces are provided to the west of the building for buses and tour access.

The Hangar is transformed into Laika Studios' permanent exhibit space and experiential Laika Live performance space. Laika is Hillsboro's homegrown and internationally-renown stop-motion animation studio, known for innovative, award-winning films including Coraline, The Boxtrolls, and Kubo and the Two Strings. Laika currently employs 400 people at 17,000 square feet of office space at Sunset Corporate Park, as well as 260,000 square feet of industrial and flex space northeast of the Hillsboro Airport.

Laika's wildly successful Laika Live installation has traveled across the U.S in recent years, landing at the Portland Museum of Art in 2018. According to museum staff, Laika proved to be one of the highest-attended exhibits, with 285,900 visitors over the 7-month exhibition period with typical exhibition attendance ranging from 40,000-80,000. Laika's traveling exhibit finds a permanent home at HIO Landing, serving as a showcase of Hillsboro's local talent and innovation, with expanded live virtual reality programming that lets visitors experience the films' fanciful worlds. In addition, creating a new destination will attract new customers for the proposed retail uses including the wine bar, Vertigo brewery, and Commercial Kitchen concepts.

Laika's exhibit at the Hangar Building makes major moves to shift the dynamic of the site and generate activity in HIO Landing's early phases. Portland Art Museum Director of Exhibitions described the ultimate vision of "Bringing Oregon to the World, and the World to Oregon" through its exhibits, and the proposed Laika can achieve just that, bringing a world-class cinematic arts company to one of the key international gateways of Hillsboro.

The expansive exterior metal facades provide opportunities for video projection to create pop-up movie nights and outdoor animation exhibits. The building rehab showcases Laika's exhibits and larger-than-life models through a multi-story glass curtain wall. Views through the glass facade terminate the Swede Way vista as light and animation spill out onto the adjacent plaza. The plaza's location at the southwest corner of the Hangar at the main thoroughfare to HIO Landing provides a perfect opportunity for galas and celebrations, such as the release of the upcoming 5th film expected.

The Laika exhibit compliments the nearby Washington County Fairgrounds and Event Center as a new destination that will provide new, family-friendly entertainment to for visitors and local residents.

Debrief today

DEBRIEF

The Debrief Building is a 8,900 square foot, one-story wooden building with a barrel vault roof, also built during the Hillsboro Airport's early years of operation. The parcel is approximately 28,000 square feet and includes dedicated surface parking. The wood siding and industrial, Quonset hut architecture lend themselves to reuse as a showcase of the Willamette Valley's best products in a space designed for gathering.

Debrief after rehab into a winery

Debrief will be home to a regional, multi-producer winery sponsored by the Willamette Valley Wineries Association. Hillsboro is geographically located on the eastern edge of Oregon's wine country, serving as a gateway to the celebrated local industry. The Debrief winery is an ideal place to download with friends, coworkers, and clients after a flight or a busy day and experience the region's best wine in an authentic, historic building. The Debrief winery also provides amenities for Event Center attendees and hotel guests to experience local culture after a conference or trip to Hillsboro. Swede Way's gentle public realm design softens the winery's industrial edges, providing a comfortable, authentic place to debrief.

Debrief after rehab into a winery

AIR WORKS

Air Works pays homage to the Hillsboro Airport's history of industry, while acknowledging both hard work and play. Reimagined in the existing two-story airport terminal building, the building's 26,000 square feet of space and 36,000 square foot site is transformed into small-space office suites that support Hillsboro's next generation of innovators and entrepreneurs.

With high ceilings, a recent roof and HVAC rehabilitation, sturdy construction, an existing office tenant layout, and sweeping views of the runway, the terminal easily adapts to Air Works as modern, affordable office space. By removing the drop ceilings, wood rafters are exposed for an industrial feel, while cost-efficient renovations keep expenses low for startup and local tenants as Class-B office space.

The exterior is reskinned, larger windows let in light and energy, and Swede Way provides a comforta-

Air Works today

After rehab into Class-B small offices

ble experience at the street level. Potential tenants include personal service, technology, and logistics firms that need between 1,200 - 2,000 square-feet of office space at market rents, with the potential for spaces as large as 4,000 square feet. These spaces provide an opportunity to incubate non-profit and public sector firms as well.


The view from the future Vertigo Brewery taproom

Vertigo Brewing, one of Hillsboro's local breweries, will open a second location taphouse and restaurant on the second floor, overlooking the aviation activities and providing an amenity to office tenants, area employees, and visitors. Many Hillsboro locals fondly remember the Red Baron restaurant that once occupied this space, overlooking the runway and providing a public view of the private aviation experience. Along with Vertigo's expansive windows, a roof deck on the third floor of Air Works provides an outdoor place to experience aviation. The old terminal now both works and plays.


The Galley commercial kitchen

INFILL BUILDINGS

Underutilized surface parking areas are transformed by infill buildings in key locations, knitting together a place that is both new and old, reflecting Hillsboro's soaring entrepreneurial spirit. The new buildings proposed in Phase I bring additional energy, and Phase II's new buildings fully extend HIO Landing to and across Cornell Road to create a cohesive district.

GALLEY

The Galley Building is a 10,000 square foot new building on a 42,000 square foot parcel at the intersection of Cornell Road and 34th Avenue. The Galley is a Phase I new building. The Galley's tenants at HIO

An example interior of a commercial kitchen

Landing allude to its purpose on an airplane. The Galley will be occupied by six 1,500 square foot commercial kitchens with accessory retail space to provide an industrial food production hub for local producers. Each kitchen space has the option of mezzanine office space and grab-and-go retail, should producers want to sell their products on-site to the public. A covered area along Swede Way is provided for outdoor dining or employees, while easy truck and delivery access is located on the site's interior. The Galley's design compliments HIO Landing's historic aviation roots with roll-up doors and industrial elements.

Each kitchen space is fully equipped with all commercial-grade equipment to accommodate a range of products. While the cost to CAVU to upfit the kitchens is high, at $150,000 per kitchen, business-oriented and informed food producers see substantial value in these facilities and associated permits. The guarantee of a ready-made, turn-key facility is worth the relatively high cost of rent for a well-equipped commercial kitchen. While Cornell Road offers high drive-by retail visibility, it is not well-

Check-In coffee shop

suited for walk-up retail and dining that relies on a strong localized population base. Retail is accessory only and optional at the Galley; therefore tenants rely on year-round business income from food production, as opposed to unpredictable and potentially unsustainable retail income.

Commercial kitchens are an opportunity for food producers to create their products in high-capacity, efficient spaces while nurturing the local food economy. HIO Landing's kitchen spaces are employment-oriented and intended to produce products for sale in grocery stores with wide distribution.

CHECK-IN

The Check-In Building houses a 2,600 square foot coffee shop in a 15,000 square foot site at the entrance to HIO Landing at 34th Avenue. Check-In holds the corner in Phase I, and together with the Galley, signals that HIO Landing is an evolving place. Industrial textures on the facade help establish HIO Landing's theme early. The site offers good visibility along Cornell Road for customers passing by, provides a quick spot to grab coffee before heading to HIO for a flight, offers a place for business meetings, for flight students to fuel up, and is an amenity to HIO Landing's employees.

Check-In utilizes the small remnant parcel created by the in-place ground lease with Hillsboro Aero Academy. The small site is constrained by the academy that will remain for eight years, but the small coffee shop uses this space effectively. Check-In will provide space a second location for Longbottom Coffee and Tea, a Hillsboro native producer. Offering good visibility and brand alignment with HIO Landing's concept, the site is an ideal location for Longbottom. Given access and queuing challenges, Check-In does not include a drive-thru, but convenient parking is provided. Should the academy move after the termination of the lease, the expanded area can be redevelopment with a more intense

Altimeter with its flexible roll-up doors

Cargo hold with flexible access and floorplates

use. Check-In is a lower-capital investment that matches well with the term of development certainty, while offering future flexibility and providing a much-needed amenity.

Example of Cargo Hold's façade material

ALTIMETER AND CARGO HOLD

Altimeter and Cargo Hold are HIO Landing's two Phase II flex buildings. They transform the airport's existing surface parking lots into places of innovation and production. Altimeter is a 20,000 square foot building on a 31,000 square foot parcel, and Cargo Hold is 27,000 square feet on 51,000 square feet of site area. Both buildings are constructed out of tilt-up concrete, offering flexibility to demise the interior space over time to meet the needs of both evolving tenants and an evolving district. They feature transparent roll-up doors for flexible tenanting and industrial character, high ceilings of 24 feet for a range of options, and easy loading access. The design melds industrial character with modern refinement, with rooflines that pay homage to aviation. These buildings create a greater street presence along Cornell Road and complete the public edge of HIO Landing.

Altimeter's floorplate dimensions of 80 feet by 210 feet offers 80-foot deep-bay spaces for single tenants, making it particularly suited for flex production, research and development, and light assembly uses. Cargo Hold's 160 foot by 160 foot dimensions offer a central corridor, offering space for smaller flex producers, and allowing for tenant spaces with garage door facades to incrementally convert to retail, dining, or office over time given market conditions, or occupy as active uses upon completion. Altimeter and Cargo Hold's design takes cues from historic industrial buildings that convert to other uses over time. The flexible modules anticipate that HIO Landing and the surrounding neighborhood will evolve over time. These buildings are ready for the future of work and play.

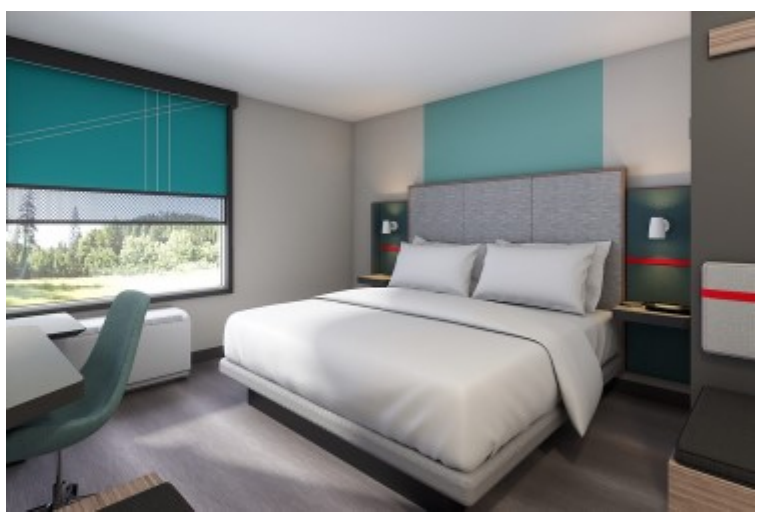
AVID

On the southeast corner of Cornell Road and 34th Avenue, the aging Comfort Inn hotel is replaced with a modern, travel-ready brand seeking to expand to new markets, like HIO Landing. Avid, an IHG hotel, is 40,000 square foot Midscale hotel product that can fit on 1.5 acres, around an acre or less than what most hotels in the segment require. The parcel is approximately 4.4 acres, reserving space for a longer-term option to construct a second hotel. If two hotels were eventually constructed on the site, CAVU Partners would take a dual brand approach, picking a complementary brand that offers a different room type, such as an IHG Extended Stay brand. There are efficiencies here in operations and being able to offer two different products in the same market.

The prototype for Avid is 96 keys. Avid features two room types: king (220 square feet) and queen (275 square feet). All rooms feature bathrooms that are shower-only. We believe that Avid hotels can reach an important set of business and leisure travelers on this site, who represent an underserved $20 billion segment of the U.S. midscale market. On average, guests can expect savings of around $15 off IHG's closest brand competitor, Holiday Inn Express, a

Avid’s exterior at night

Avid’s common area lounge



A typical guestroom

hotel brand that is a competitor in the competitive market area. Avid remains close to its core equity of dependable, value-driven brands that provide the essentials. The IHG flag hotels have done well in Hillsboro, including a few Holiday Inns, and Candlewood Suites, with Candlewood Suites being a pure extended stay brand.

Corporate travelers can enjoy a short commute to many companies including Intel, Nike, and Laika. When considering all of the auxiliary costs of travel beyond the cost of the plane ticket: the cost of meals and the hourly costs of travel time for a multi-day trip, hospitality becomes not just competitive, but convenient. Avid will be constructed in Phase II, when the Washington County Event Center is operating and proving related hotel demand. With demonstrated customers, CAVU will secure a franchise agreement with an operator. The flight school will also drive traffic to the airport's southside, with hotel helping to create synergy between the fairground's development over time and the site's redevelopment.

HIO Landing epitomizes nimble working and production, and Avid compliments this ethos. Debrief winery, Vertigo Brewing, the Laika exhibit, and Check-In coffee shop provide close amenities to Avid in an authentic, local experience, differentiating it from the hotel competition in the area.

OPEN SPACES AND STREETSCAPES

Streetscapes and open spaces play multiple roles for HIO Landing: placemaking, activation, and connectivity. As a large expanse of surface parking with currently disconnected buildings, a connected sequence of plazas, parklets, and tree-lined streetscapes soften HIO Landing's hard edges and provide a space for employees, visitors, and airport customers to enjoy being outside.

HIO Landing's avionic industrial palette is reinforced through durable hardscaped plazas with metallic patina, concrete finishes, wood accents, and sleek architectural elements. Open spaces range from hardscape to softscape, with a continuum of urban to natural elements across the site. These spaces provide an amenity and authentic atmosphere for tenants and visitors that cannot be found in the suburban Hillsboro area. Outdoor seating at Debrief and Galley activate these plazas and parklets, while a plaza at the terminus of Swede Way at the Hangar provides space for events and programming.

Street trees along the circulation network and Swede Way connect the new terminal building to the pedestrian promenade along 34th Avenue, to the Event Center, and finally to the MAX station, meandering through HIO Landing through this connected sequence of open spaces. The mushroom remains in its original location on Port property, and this system of

An example of a curbless street

Bollards control traffic and provide light

Hard and softscape in an urban plaza

Bioswales filter water in a space-efficient way and soften the site

open spaces is proposed to connect to an open space beneath the mushroom, enhancing the terminal's entrance. Bioswales infuse HIO Landing with green elements while serving a practical stormwater filtration and detention purpose. These bio swales do double duty along Swede Way and in the open spaces, serving utility and aesthetics.

PARKING PROVISION

The Port's development goals also include solutions to the perceived existing parking deficiency. There are currently 471 parking spaces on Port-owned parking today. 369 are used as long-term parking for airport customers, 63 are for rental cars, and 39 are two-hour parking for visitors. The Port set a future goal of 700 parking spaces on their dedicated property for airport customer and employees, a target that can be provided in phases. The Port additionally established that private development would need to account for its own parking demand independent of the airport's parking.

As a suburban, auto-oriented area, CAVU Partners understands the need for sufficient auto access and parking, both for our development and the airport's customers who require convenience. Striking the balance of development intensity and parking, however, requires careful planning. The value of land at the airport is not high enough to warrant structured parking.

In combination with Port-owned land, HIO Landing proposes 1,110 total surface parking spaces at full build-out. HIO Landing accommodates the airport's required 700 parking spaces and meets the City of Hillsboro's zoning requirements of 410 spaces for the current mix of uses and market-driven demand for our product type in this location. 71 spaces are provided on-street, and the remainder are split between the airport's parking lot, throughout HIO Landing's parcels, and on the Avid hotel site south of Cornell Road. Several on-street loading spaces are provided for the Hangar Building, and all other loading is accommodated on-site for each building. Parking spaces dedicated to HIO Landing's buildings will be signed, as will airport parking north of Cornell Road. On-street parking spaces will be signed with two to four-hour limits to encourage turnover, but will likely not be enforced until stabilization of Phase II.

Building	Size	Use	Ratio (per 1,000)	Spaces Needed
Hangar	38,000	Community Services	3	114
Air Works	26,000	General Office	4.5	117
Gateway Wine Hall	8,900	Wholesale Manufacturing	3	27
Kitchen Building	10,000	Wholesale Manufacturing	1.6	16
Flex East	27,000	Wholesale Manufacturing	1.6	43
Flex West	20,000	Wholesale Manufacturing	1.6	32
Coffee Shop	2,600	Retail	5	13
Hotel	96 Rooms	Hospitality	0.5	48
			Total	410

Parking spaces required per Hillsboro zoning

A parking management strategy is critical to the site's functionality, vibrancy, and continued ability to evolve over time. Parking is a finite resource and is expensive to provide and maintain; it reduces development capacity. Excessive parking also stifles vibrancy and induces and increased demand for driving, so a careful balance is critical. The City of Hillsboro also prioritizes multimodal options and increased transit ridership, so HIO Landing needs to get it right.

The airport has a defined operation period, generally 7:00-6:00 Monday through Friday, so opportunities for parking sharing across differing peak times are possible, especially during the weekends and evenings--the main times when the Laika building, Debrief winery, and Vertigo Brewing taproom will be in peak operation.

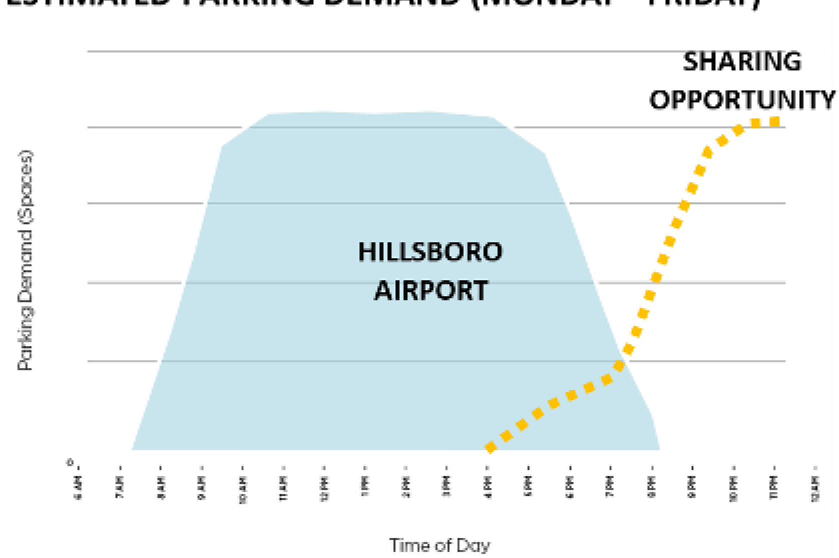
While all current parking needs can be met in the aggregate, the location of surface parking is an intentional strategy to unlock the site's value and manage usage. 338 parking spaces, a substantial portion of the site's overall supply, are accommodated on the Avid hotel site. The Avid parking lot is a short four to five minute walk from the terminal. Avid only requires 96 spaces to meet its brand and zoning standards, so the remainder of the parking is for expanded use of the existing Intel Shuttle or for airport employees who are parked for long periods of time. This area could also be used for rental car parking with a valet-style operation where cars are transitioned from the Avid site to the terminal as needed, likely twice a day to coincide with morning pick-ups and returned with afternoon drop-offs. Allowing rental cars to occupy prime property at the terminal is not an effective use of valuable land, but this strategy will require careful management.

Locating substantial parking in areas where development is likely precluded by the FAA allows for the adaptive reuse of the existing buildings instead of their demolition for additional parking. This strategy creates significant value and preserves the airport's history. While the surface parking proposed for the Avid site violates the City of Hillsboro's maximum parking standard given its proximity to the MAX station, this strategy preserves development opportunities on the main airport site, meeting a different policy goal.

CAVU Partners will work closely with the Port and HIO Landing's eventual tenants to understand and manage the site's parking demand and usage. The Port is presented with an opportunity to appropriately price parking as a valuable resource. Parking spaces closer to the terminal could be managed for Intel executives at a higher price with a tiered pricing strategy that encourages parking at the Avid site for free. Understanding when spaces are occupied and where sharing can occur across the day will allow the parking north of Cornell Road to be managed as effectively as possible. With the MAX station only a seven minute walk away, transit passes for employees will help shift the demand for parking. In the longer term, if vehicles become less of a customer standard with new technologies, these strategies allow for the infill of surface parking lots with more productive and valuable uses.

Finally, mitigating the harsh presence of surface parking is additionally important. Accordingly, bioswales and landscape islands are provided in and around the parking areas as buffers, preserving a good pedestrian experience and providing stormwater filtration in a space-efficient manner.

ESTIMATED PARKING DEMAND (MONDAY - FRIDAY)



PROGRAM-

MING AND ACTIVATION

The transformation from surface parking lots with disconnected buildings to a new mixed-use, employment-focused district cannot be achieved through buildings alone. HIO Landing utilizes a phased programming and outdoor activation strategy to shift the dynamic of the site and maintain vibrancy over time.

The Laika building's rear facade is the perfect place to project an outdoor movie in HIO Landing's early phase, converting the airport's surface parking lot into a temporary drive-in movie theater on nights and weekends. As new visitors experience the site in a different way, the dynamic begins to shift and the other businesses benefit. The thrill of exploration is what attracts many patrons to breweries, distilleries, and wineries in transitioning industrial areas. As patrons come to Debrief and Vertigo in the early phase of development, seeing temporary activation reinforces the cool factor of this foodie adventure in a largely unknown area.

Outdoor movies can be projected on the Hangar

Food trucks can activate parking lots and plazas

HIO Landing's plazas and parking lots can be activated by food trucks and pop-up events as a programming strategy, providing lunch opportunities, food for the winery, and weekend activities. Commercial kitchen operators can participate in food festivals while local beer and wine from Debrief and Vertigo show off the best of the region. Flex producers can roll up their doors and host open houses for First Friday style events, highlighting Hillsboro's tech scene. Events and programming can additionally be coordinated with the Washington County Fairgrounds for a continuous system of public activity, offering a variety of experiences.

FINANCING PLAN

ECONOMIC MODEL

FINANCIAL MEASUREMENTS

SCENARIO TESTING

RISK ANALYSIS

FINANCING PLAN

ECONOMIC MODEL

CAVU Partners values a rigorous approach, and tested numerous scenarios and formulated a list of assumptions to test the feasibility of our development. In this section, we will describe our base scenario.

Considering the Port's ground lease structure, CAVU Partners backed into the amount of equity required for this development proposal to gain an adequate return on investment. We modeled an 8.0% return for investors, based on options from industry professionals and underwriting standards from lenders.

The Port's preferred rate of return for the land ranges from 7.0% to 9.0%. We calculated the annual payment for the land lease for each of the parcel blocks and derived a market value for the subject land. We based land value on similarly zoned parcels and size. The price range per square foot for these comparables range between $6.00 and $10.00. We projected the subject's market value toward the middle of the range, or $8.00 per square foot.

We modeled a rate of return of 7.0% to the Port and a 50-year ground lease term to calculate an individual annual payment for each site. While the Port proposed a 30-year term with two 10-year extensions, this would negatively affect the terms of our loan, and severely harm our ability to finance HIO Landing with conventional bank debt. Our analysis reveals the challenges of such a short lease term. Considering the land lease provisions, site constraints, and legal/regulatory challenges, CAVU believes these factors increase the overall risk and threaten the potential return for the developer and investors. While we believe that the Port's preferred return of 7.0% to 9.0% is considered above market, the proforma is based on this rate. We look forward to working with the Port to inform realistic expectations.

Annual ground lease payments for each site range from approximately $3,000 to $34,000. The circulation network is not included in this leasable premises.

Site	Size	Land Value	Annual PMT
Galley	42,000	$336,000	$24,347
Cargo Hold	51,000	$408,000	$29,564
Altimeter	31,000	$248,000	$17,970
Hangar	59,500	$476,000	$34,491
Debrief	28,000	$224,000	$16,231
Air Works	36,000	$288,000	$20,868
Check-In	5,000	$40,000	$2,898
Avid	163,000	$1,304,000	$94,488
Total	**415,500**	**$3,324,000**	**$240,857**

Ground lease payments

Use	Size(SF)	Rent
Laika	38,000	$10.00
Office and Taproom	26,000	$18.00
Winery	8,900	$15.00
Commercial Kitchen	10,000	$26.00
Flex East	27,000	$13.00
Flex West	20,000	$13.00
Coffee Shop	2,600	$26.00

Subtenant lease rates

LEASE RATES

LAIKA: This lease is based on retail anchors in the market for large floor plates. Depending on the tenant improvement (TI) package conceded, typical market rates for large box retail spaces range from $6.00 to $14.00 per square foot. To attract Laika as a tenant, major lease rate cuts would be warranted to mitigate additional upfront tenant improvement costs beyond the renovation cost to the Hangar building. Thus, we would lease the space at $10.00 per square foot after our renovation.

COMMERCIAL KITCHEN: Rates for kitchens fully built-out with ranges, grease traps, and other equipment garner a higher rental rate due to upfront infrastructure required. In the Portland area, these rates are as high as $30.00 per square foot. Our second-tier location suggests our lease rates would be slightly discounted to $26.00 per square foot.

FLEX: Flex space can range from $11.00-$14.80 on a triple net basis. We offer a brand-new product with superior office build-outs compared to assets in the market. Additionally, our product has strong exposure for tenants along NE Cornell Road. We target a rate at the upper end of the range with minimal concessions.

RETAIL (WINERY): Our winery is a quasi-retail space. The space offers above average amenities and will be renovated to suit the needs of the tenant. We project rates to be $15.00 per square foot, slightly above flex spaces and below the low end of retail.

RETAIL (COFFEE): There are several recent build-to-suit coffee shops in the suburbs of Portland. Leases have a broad range depending on location. Recent leases range from $25.00 to $45.00 per square foot. Our proposed space will not offer a drive-thru, so the lease rate is at the low end of the range at $26.00 per square foot.

OFFICE AND RETAIL (TAPROOM): The terminal space is the most difficult to price. This is due to the destination taproom space on the upper floor, in combination with the executive suites located on the first and second floors. The taproom space offers fantastic mountain and airport views which increases marketability. The executive suite space may be more lucrative on a per- square-foot basis, and there is demand for office users desiring small floor plates and proximity to the airport. Despite these factors, we used a rate at the low end of the retail range and just below the average for office space at $18.00 per square foot for Class-B space.

METHOD

The local market indicates that retail, office, and industrial/flex properties are all leased on a triple net basis. In these lease agreements, the owner is only responsible for the structural maintenance and management of the property. Tenants are responsible for their pro-rata share of their expenses, including: property taxes, insurance, utilities, and maintenance and repairs.

Typical lease agreements in this area for flex spaces and commercial kitchens range from three to five years with 3.0% annual increases locked into this rate. For our anchor tenant, Laika, and the build-to-suit coffee shop, we assume lease terms of ten years. We calculated expense recoveries above the vacancy and credit loss line to account for the income loss during periods when the spaces are not fully occupied by tenants.

Vacancy rates for HIO Landing are dependent on the use type. Our market analysis reveals the following vacancy rates: 7.3% for office space, 2.7% to 4.3% industrial/flex, and 2.5% for retail space. These rates have accounted for the stabilization period. We conclude that the absorption for our spaces will take one year at a minimum. We modeled the 10-year discounted cash flow model to reflect a 70% occupancy rate for the first year and an 85% occupancy rate for the second year before reaching stabilization. This includes the flex spaces that are constructed in Phase 2.

EXPENSES AND NET OPERATING INCOME

Property expenses were calculated based on comparable properties within each unique asset class. Property taxes are likely to increases due to new construction and renovations. Therefore, we based our property tax expenses on specific comparables. This expense is calculated on an average per square foot basis. Insurance costs vary depending on the type of asset. In our proforma, the insurance ranges from $0.20 to $0.50 per square foot, depending on the use type associated with the improvements. We modeled a 3.0% management fee for the costs to maintain the tenants within this development. This percentage falls in line with typical third-party management fees across all asset types. For office leases, we factored in an additional janitorial fee based on similar office properties in the Hillsboro market. Reserves range from $0.10 to $0.25 per square foot; we modeled reserves of $0.25 per square foot for office properties, $0.20 per square foot for retail properties, and $0.10 per square foot for flex properties. Finally, we calculated the ground lease for each space and included it as an expense. These expenses will be included during each building's development phase.

Our expenses begin at $483,192 in Year 1 and increase to $765,223 by Year 10. After deducting expenses from the effective income, we achieve a net operating income of $718,678 in Year 1, increasing to $1,848,351 in Year 10.

HOTEL

CAVU Partners will not act as an owner-operator of the hotel. The anticipated operator has a 20% interest in the gross potential revenue. The market analysis provided us with an ADR of $150 per room per night. Therefore, with 96 rooms in this development, the potential gross revenue for the development starts at $5,201,250 per year. As the developer, our annual share of this revenue begins at $1,040,250 per year, increasing annually. This leaves an operator with an initial profit of $370,000.

The hotel proforma illustrates the profitability that an operator may achieve. The $150 room rate would generate an overall annual income of over $4,000,000 per year after vacancy. Other income for the hotel includes: food and beverage, room service, and common meeting areas. Since Avid hotel does not offer a full-service restaurant, we modeled a rate of 10% additional income, which is at the lower end the market. We estimated a three-year period of income loss during the stabilization period, after which occupancy percentages gradually increase; 60% in the first year, 65% in year two, and 70% in the third year. This occurs until it reaches a stabilized rate of 75% over the course of the remaining years.

EXPENSES AND NET OPERATING INCOME

We factored room expenses at a 20% ratio, which falls in line with typical market standards. We modeled an expense rate of 80% for food and beverages, and 50% for the expenses of goods associated with the other income. Administrative expenses include the salary of all the administrative personnel, typically fixed and ranging from 7.0% to 9.0%. Our rate used is consistent with Avid's administration expense. Furthermore, we modeled a 5.0% franchise fee. Avid's fee is typically lower; however, this ratio conforms with market standards.

Marketing expenses consist of all costs associated with the promotion of the brand that will eventually attract and retain guests. This expense typically ranges from 4.0% to 7.0%. This expense will be at the upper end of the range for a new hotel brand, because we anticipate that Avid will require more robust marketing efforts to achieve stabilization. Our management expense is paid to a third party service to operate the hotel on a day-to-day basis. Management fees typically range from 2% to 4%, and we estimated an average of 3%.

Maintenance expenses range from 2.5% to 5.0%. Avid is a new development and will not require the same level of maintenance. Accordingly, we modeled these expenses at the lower end of the range. Utilities expense include water, sewer, garbage, and electricity. Expenses range from 2.5% to 3.5%, and we chose an average rate of 3.0%.

With a modern and stylish replacement hotel, the site's property taxes will increase. Expense assumptions were based upon comparable properties in the market, and we modeled a similar scenario for insurance costs. Insurance ranges from 0.5% to 1.5%, in line with comparable market properties. Furthermore, CAVU accounted for Furniture, Fixtures and Equipment (FF&E) that must be consistently maintained, as well as the roof and other building systems. Reserves typically range from 4.0% to 5.0%, and opted for the lower end of the range. After factoring in the revenue and expenses for this hotel, we achieve a total net operating income of $1,410,579 in the first year. After subtracting CAVU's developer's fee of $1,040,250, the operator receives a profit of $370,329. This rate rises to $915,842 and presents strong incentive to operate this hotel. Upon calculating the NOI for the office, industrial/flex, and retail properties, we add this total to the NOI from the hotel. The total ranges from $718,678 in Year 1 to $3,127,728 in Year 10.

CONSTRUCTION COSTS AND SITE IMPROVEMENTS

Construction Type	Per SF	Size	Subtotal	Soft Cost	Contingency	Total	Phase
Hangar	$50	38000	$1,900,000	$380,000	$228,000	$2,508,000	1
Air Works	$50	26000	$1,300,000	$260,000	$156,000	$1,716,000	1
Debrief	$75	8900	$667,500	$133,500	$80,100	$881,100	1
Galley	$140	10000	$1,400,000	$280,000	$168,000	$1,848,000	1
Cargo Hold	$140	27000	$3,780,000	$756,000	$453,600	$5,438,664	2
Altimeter	$140	20000	$2,800,000	$560,000	$336,000	$4,028,640	2
Check-In	$200	2600	$520,000	$104,000	$62,400	$686,400	1
Avid	$200	44000	$8,800,000	$1,760,000	$1,056,000	$12,661,440	2
Site Improvements			$8,800,000	$1,760,000	$1,056,000	$11,616,000	1

Hard costs by building and infrastructure

We received construction estimates from Bremik Construction, a trusted local firm.

Our flex space costs are at the upper end of this range, as we intend to provide a superior office build-out compared to current market offerings, yielding desirable rental rates in turn. The renovation

costs are at the lower end, given the structural integrity of the existing structures. Similarly, rental rates are at the lower end of the range for these spaces, suggesting that high end renovation is unwarranted.

Our development site includes a significant number of site improvements, including new streets, pedestrian friendly walkways, plazas that connect the development, and landscaping. Based on costs provided by McKenzie, our total investment is $8,800,000 for these improvements. After factoring in soft costs and contingencies, site improvements total $11,616,000. CAVU's proposed site improvements will enhance our development program, improve site circulation, and deliver greater amenities for airport customers and employees. Our base model includes CAVU undertaking all infrastructure costs in Phase 1 of construction, while paying the full lease rate to the Port.

In addition to the hard costs modeled, we factored in 20% for soft costs for each of the projects. We assumed an additional 10% contingency on top of the hard and soft costs of each project. Due to our project phasing, we factored in an annual escalator to account for an increase in construction costs. We elected a 3.0% rate as construction increases begin to level off. This is compared to the 6.0% to 9.0% annual increases that the industry has experienced over the last three years.

LOAN ASSUMPTIONS

For our phased development program, our lender will have multiple, separate loans on the site based upon each ground lease. The first loan would be based on the construction costs and site improvements of our first phase, which includes the renovation of the existing buildings and development of the kitchen and coffee buildings. The second loan will be based on the construction costs for the second phase, which includes two flex buildings and hotel.

Our construction for both phases is expected to last 18 months. The terms will be interest-only at a 10% rate, which indicates a monthly rate of $70,868. We assume a rate of 200 additional basis points to procure the construction loan. This results in $255,126 of additional equity needed to obtain the construction loan. The second phase also requires a construction loan. We modeled a 10% rate on an interest only loan over the 18-month construction period. We maintain the 200-basis points modeled in the first phase. As a result, CAVU must pay an additional $287,674 over the course of the construction loan to obtain this financing. After the construction period end for both loans, the total rate is rolled into a permanent loan. This is discussed in further detail below.

For the ground lease, the overall risk is inherently greater for most parties. Most lenders typically retain legal counsel to understand and negotiate the terms of a ground lease. This expense can range from $20,00 to $50,000, and often, the lessee absorbs this cost. CAVU increased the amount of points included in the loan for this purpose. While the bank may consider the ground lease as greater risk, it may not negatively affect the terms offered for each deal.

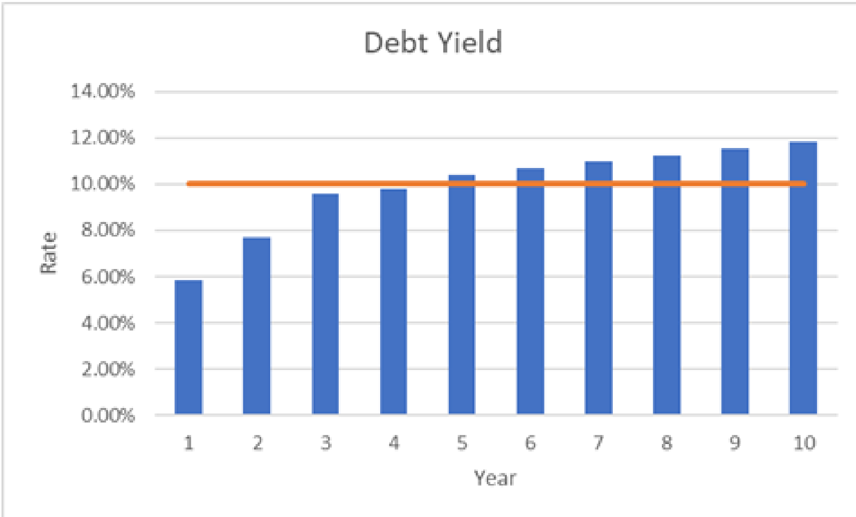
MORTGAGE RATES, POINTS AND APPRAISALS

Currently, mortgage rates range from 4.25% to 4.50%. Due to the risks associated with the ground lease and obtaining construction loans, we estimate the mortgage rate to be 150 basis points above the high end of the range. Lenders typically factor in an additional 25 to 100 basis points for a future mortgage. In the current economic climate, it's probable these rates will increase. Therefore, we model a primary rate of 6.0% for the first phase and a 7.0% mortgage rate for the second phase of development. According to lenders we do business with, points would range from 25 to 75 basis. For each individual loan segment, we included a 50-basis point spread as a part of our loan. This is a conservative assumption in order to underwrite the project. We factored in an additional 25 basis points to account for legal fees associated with lending on a ground leased property. Loan points would include the appraisal, title insurance, and other costs associated with obtaining the loan.

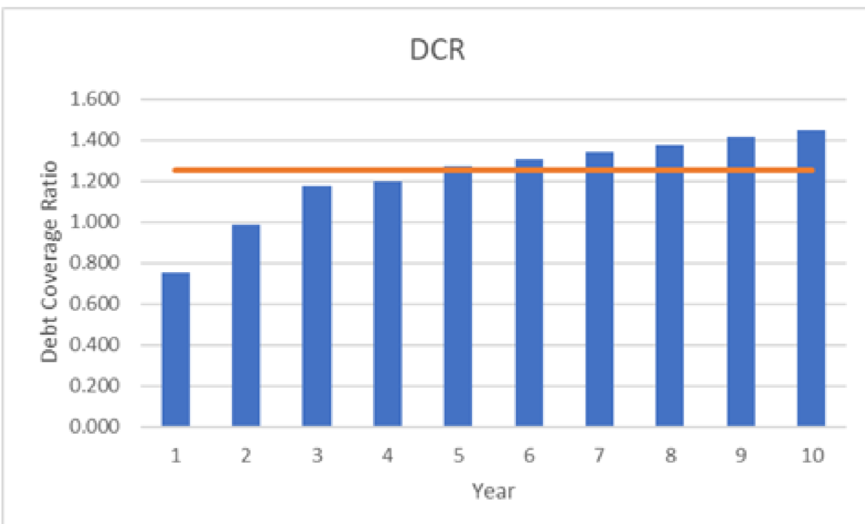
The amortization period within a loan is associated with the use type of the property that is to be acquired, constructed, or renovated. In the case of most 'traditional' properties, the amortization period would extend from 20 to 30 years. The more specialized the use type, the shorter the amortization period. Similarly, the call period is dependent on the use type. The lease length, the relationship with the borrower, and the duration of the ground lease may change the call date. We modeled a 25-year amortization period as the building types are general and a ten-year call period.

KEY INDICATORS

After banks suffered in the 2008 recession due to lending based on debt coverage ratios, major institutions and smaller creditors have altered their approach to lending based on debt yield ratios. Lenders actively avoid risk. Current market standards range from 10% to 12.5% depending on the asset type. Some lenders quote below the 10% rate, depending on the overall credit of the client. The Loan to Value (LTV) ratio and the Debt Service Coverage Ratio (DSCR) play a role in the potential for a loan to be approved. Banking institutions have become more conservative over the past decade, reducing their exposure by decreasing the LTV ratio to roughly 65% compared to a 70%-75% in past years. Additionally, they have increased the DSCR. It's not common to see a project dip below 1.25 DSCR upon stabilization. The ability for CAVU to have tenants lined up mitigates the risk. It suggests that our loan may have superior terms than a loan without tenants. CAVU has obtained significant interest from Laika as a strong anchor tenant, as well as a number of smaller local tenants, like Vertigo Brewing. We expect



HIO Landing's debt yield



HIO Landing's debt service coverage ratio

terms to be highly favorable compared to a purely speculative development.

These key indicators helped formulate our assumptions for the total equity needed for a lender to finance our project. The following graphs display our base cases financial metrics over the course of the development.

We assume a LTV of 65.0% and utilize Year 6's income as the final test of whether the property could be permanently financed by a traditional lender. We elect Year 6 as the stabilized year for the entirety of the project because the hotel and flex buildings constructed in Phase II will be stabilized at this point. In our base case, we still encounter hurdles to acquire permanent financing.

CAPITAL EXPENDITURES– STABILIZATION OF PROPERTY

To account for the investment needed to attract a tenant, we will utilize market concessions. Lease-up costs include the tenant improvement allowance, free rent, and leasing commissions, requiring at least \$5.00 per square foot in additional tenant improvements. Despite conceding these allowances, we will offer no free rent as the Hillsboro market is generally tight enough to preclude them. We included commissions of 6.0% for each new lease. The lease-up costs for Phase I is \$1,004,100, and the lease-up costs for Phase II total \$418,300. We included an additional lease-up budget in Year 6 of \$284,140. This measure is in the event a major tenant vacates, the market corrects, and/or concessions are required in lease agreements or renewals.

The specialty nature of the commercial kitchen building requires significant upfront investment to achieve the higher rental rates. As discussed, we will provide this FF&E for our tenants. Typically, these tenants will pay the higher rate over the course of the lease. Many tenants are unable to afford the upfront costs needed to equip their kitchens at this scale of production, and the total cost for this investment is $150,000 per suite.

NET PRESENT VALUE OF REMAINING CASH FLOW AND DISCOUNT RATE

The subject property is on a ground lease. Therefore, the potential buyer pool is likely nonexistent. Therefore, an outgoing capitalization rate, or reversion value of the property, is not a meaningful measure. All improvements will revert to the Port at the end of the lease. To calculate an appropriate internal rate of return, we consider both a return on investment and a return of equity for HIO Landing. CAVU will hold and operate the property for the entirety of the lease term. We calculated the net present value of the net operating income generated for the remaining 40 years of the lease. Subsequently, we discounted the cash flows to account for the necessary rate of return relative to other opportunities and expected investment growth over the operational period.

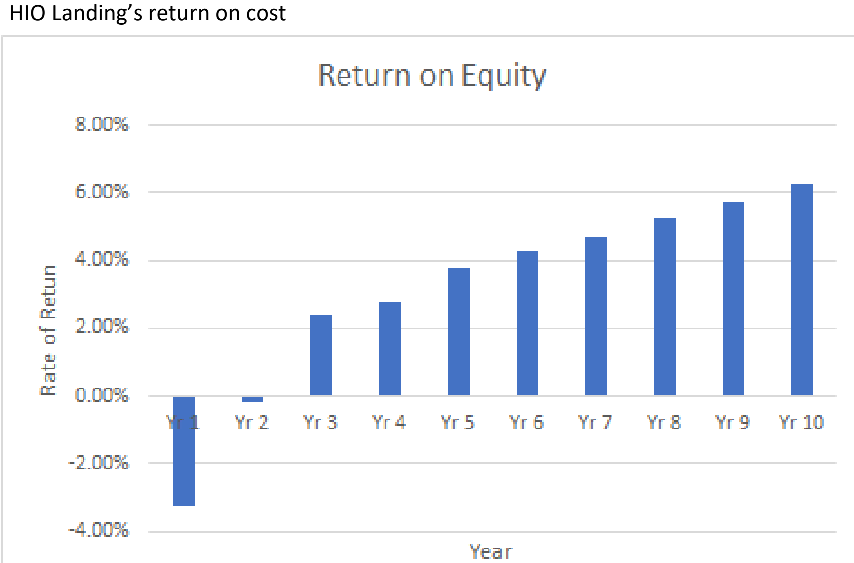
In formulating the discount rate for this cash flow, we considered various elements of timing and risk. First, we looked to market-driven cap rates of approximately 6.5 and calibrated this figure to account for the return on investment that won't be generated without a profit from sale.
We added 200 basis points for a reasonable spread on investment return. Our model included an additional 4.0% growth factor to offset the return from reversion that we will not receive over the 50-year lease period. We added an additional 150 basis points for land lease risk to account for a smaller equity and tenant pool. This results in a conservative discount rate of 14.0%.

FINANCIAL MEASUREMENTS

Developers and investors alike measure the success of a project based on key metrics: a return on equity, return on costs, internal rate of return, and an equity multiple. Investors may entertain an 8.0% return on costs for a project of this nature. The internal rate of return for this project type is not a strong indicator of the project's success, since it highlights returns over a short period of time. CAVU's strategy is a long-term hold; therefore, we place more weight on the equity multiplier because this metric accounts for the long-term return to the investment.

The following charts display the financial measurements based on our development profile and assumptions.

HIO Landing's return on cost



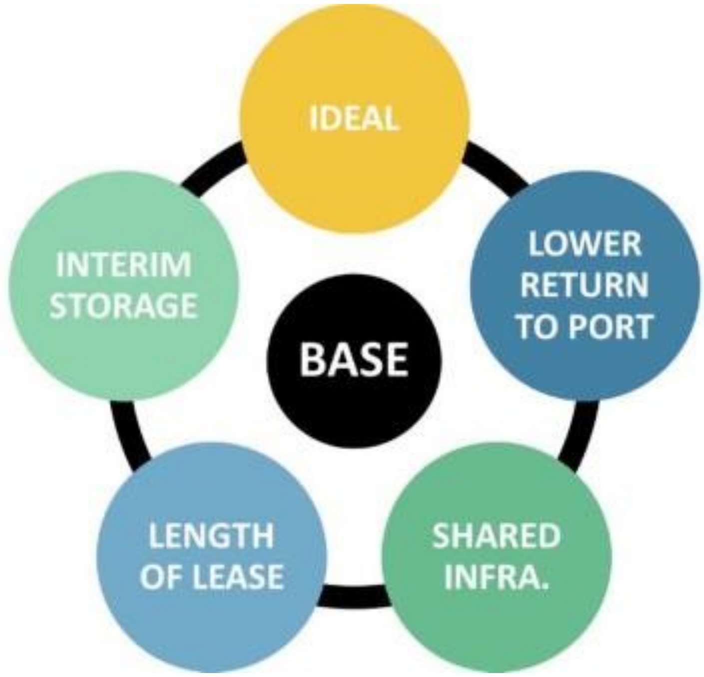
HIO Landing's return on equity

In our base case, we were unable to achieve an 8.0% return on equity or on costs, unfortunately. While this project is financially feasible, it's unlikely we would attract significant appetite from investors, especially given the market uncertainty with ground leased investments. The high cost of infrastructure and new construction are particularly detrimental to HIO Landing's financial feasi-bility, de-spite a cost-effec-tive adap-tive reuse strate-gy. How-ever, with a

Year	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Phase	1	1	2	2	2	2	2	2	2	2
Rental Income	$1,309,100	$1,348,373	$1,987,665	$2,035,136	$1,984,791	$2,032,755	$2,082,157	$2,133,042	$2,185,453	$2,239,436
Utility Reimbursement	$285,500	$285,500	$388,900	$388,900	$388,900	$388,900	$388,900	$388,900	$388,900	$388,900
PGI	$1,594,600	$1,633,873	$2,376,565	$2,424,036	$2,373,691	$2,421,655	$2,471,057	$2,521,942	$2,574,353	$2,628,336
Vacancy/Credit Loss	$392,730	$202,256	$183,300	$94,400	$99,240	$101,638	$104,108	$106,652	$109,273	$111,972
EGI	$1,201,870	$1,431,617	$2,193,265	$2,329,636	$2,274,452	$2,320,017	$2,366,949	$2,415,290	$2,465,080	$2,516,365
Expenses										
Property Taxes	$92,000	$93,840	$141,780	$144,616	$147,508	$150,458	$153,467	$156,537	$159,667	$162,861
Insurance	$25,750	$25,750	$35,530	$36,241	$36,965	$37,705	$38,459	$39,228	$40,013	$40,813
Utilities	$24,000	$24,480	$47,500	$48,450	$49,419	$50,407	$51,416	$52,444	$53,493	$54,563
Maintenance/Repairs	$24,000	$24,480	$47,500	$48,450	$49,419	$50,407	$51,416	$52,444	$53,493	$54,563
CAM	$106,750	$108,310	$108,310	$110,476	$112,686	$114,939	$117,238	$119,583	$121,975	$124,414
Management	$37,723	$38,478	$39,247	$40,032	$40,833	$41,649	$42,482	$43,332	$44,199	$45,083
Grounds/Janitorial	$13,000	$13,260	$13,525	$13,796	$14,072	$14,353	$14,640	$14,933	$15,232	$15,536
Reserves	$13,600	$13,872	$14,149	$14,432	$14,721	$15,015	$15,316	$15,622	$15,935	$16,253
Land Lease	$146,369	$146,369	$146,369	$240,857	$240,857	$240,857	$240,857	$240,857	$240,857	$240,857
Total Expenses	$483,192	$488,839	$593,911	$697,349	$706,479	$715,792	$725,290	$734,979	$744,861	$754,941
NOI	**$718,678**	**$942,778**	**$1,599,354**	**$1,632,287**	**$1,567,973**	**$1,604,226**	**$1,641,659**	**$1,680,311**	**$1,720,219**	**$1,761,423**
Gross Line Hotel	$0	$0	$1,040,250	$1,071,458	$1,103,601	$1,136,709	$1,170,811	$1,205,935	$1,242,113	$1,279,376
Total NOI	$718,678	$942,778	$2,639,604	$2,703,745	$2,671,574	$2,740,935	$2,812,470	$2,886,246	$2,962,332	$3,040,799
Annual Debt Service	$953,701	$953,701	$2,155,720	$2,155,720	$2,155,720	$2,155,720	$2,155,720	$2,155,720	$2,155,720	$2,155,720
Cash Flow ADS	-$235,023	-$10,923	$483,884	$548,025	$515,854	$585,215	$656,750	$730,526	$806,612	$885,080
NPV of Full Term										$7,955,912
Equity/Loan Payoff	-$7,240,068		-$8,320,408					$0		
CapEx/Lease Up	-$2,204,100	$0	-$418,300	$0	$0	-$284,140	$0	$0	$0	$0
Total	**-$9,679,191**	**-$10,923**	**-$8,254,823**	**$548,025**	**$515,854**	**$301,075**	**$656,750**	**$730,526**	**$806,612**	**$8,840,992**

10-year discounted cash flow

ground lease that does not need to be capitalized through debt and equity, the project is buoyed by fixed annual payments, improving performance.



Variable	Base	Port - Lower Value/ Return	Shared Infra-structure	Length of Lease	Interim Stor-age	All Right
Value	$8	$6	$8	$8	$8	$6
Return	7%	5%	7%	7%	7%	5%
Length of Lease	50yrs	50yrs	50yrs	30yrs	50yrs	70 yrs
Rent Rate	$10	$10	$10	$10	$6	$12
Infrastructure Cost	$11,616,000	$11,616,000	$5,808,000	$11,616,000	$11,616,000	$0

Variables tested to determine sensitivity

Stabilized Yr. 6	Base	Port - Lower Value/ Return	Shared Infra-structure	Length of Lease	Interim Stor-age	All Right
Return on Equity	3.76%	4.43%	6.52%	3.59%	2.74%	12.08%
Return on Costs	6.62%	6.88%	7.42%	6.53%	6.24%	9.85%
IRR	-4.99%	-3.28%	1.74%	-6.35%	-8.32%	12.42%
NPV	-$4,579,102	-$2,695,579	$3,134,581	-$5,821,481	-$7,854,124	$14,659,495
Yr. 5 Stabilized DCR	1.271	1.320	1.457	1.259	1.198	1.855
Debt Yield	10.4%	10.8%	12.1%	10.3%	9.8%	15.5%
Equity Multiple	4.07	4.53	6.25	3.95	3.25	10.53

Results of scenario testing on financial measures

SCENARIO TESTING

To understand elements where CAVU Partners could modify the development or create public-private partnerships to improve development feasibility, we tested the model in various scenarios to see how our financial measurements would be affected by our assumptions. We tested the following six situations compared to our base scenario.

LOWER PREFERRED RETURN AND LAND VALUE TO THE PORT

By lowering the Port's preferred rate of return over the ground lease period, the annual ground lease payment decreases. This allows the income, both above and below the line, to increase each of the major financial measurements. Our original assumptions suggest a rate of return of 7.0% for the Port on a $8.00 per square foot land value. This scenario reduces the preferred return to 5.0%, with a land value of $6.00 per square foot. These modifications make the development potentially feasible, depending on the equity factors the development meets.

SHARED ON-SITE INFRASTRUCTURE COSTS WITH THE PORT

Site infrastructure for our development exceeds $11,000,000, increasing the value of the Port's land to the north and improving the overall circulation. As a result, the long-term marketability of the site increases. Considering the long-term value and benefits the Port will receive, sharing infrastructure costs is a reasonable request to make as part of the negotiation process. This 50/50 split would reduce the upfront costs to approximately $5,808,000 and greatly increase profitability of the development.

LENGTH OF THE GROUND LEASE TERM

The length of the ground lease drastically impacts overall profitability. Any decrease in the length of the ground lease would constrain the overall potential upfront capital from investors. Decreasing the lease term from 50 to 30 years, originally offered by the Port, significantly decreases the net present

IMPLEMENTATION PLAN

LEASING STRATEGY

MEASURING SOCIAL EQUITY

MEASURING EMPLOYMENT CREATION

IMPLEMENTATION PLAN

> *Airports have started to understand the value generated by the vast numbers of people, vehicles, and goods that pass through their lands and buildings, and the revenue potential of developing this real estate for its highest and best use.*

LEASING STRATEGY

Generally speaking, CAVU projections include a minimum 12-month lease-up period for the flex, office, and retail sectors. We modeled these sector spaces to achieve 70% occupancy in the first year, and 85% by the end of Year 2 before reaching stabilization.

Adjustments may be made, such as how leases are staggered and concession options, depending on market conditions. CAVU will employ the services of brokers specializing in the particular sector, and we have accordingly included a 6% leasing commission.

OFFICE

Hillsboro's robust population growth and employment strength is expected to continue fueling office space demand. We expect similar absorption trends at HIO Landing as currently experienced in the submarket.

The submarket office sector hovers around 96% occupancy and may slightly decline one-to-two percentage points by the time HIO Landing reaches stabilization. Office leases in the Air Works building will best suit Class-B, personal service firms appealing to local neighborhood needs.

Future tenants may leverage access to local technology firms and HIO Landing's other businesses. Tenants may include Aerotek, Prudential, and Nikon. Nikon currently leases office space at Ronler Campus alongside Laika. Additionally, Air Works meets the needs of startups seeking lower cost, market-rate office space, including technology and graphics companies who desire proximity to Laika and the dozens of tech firms in Silicon Valley.

Public Sector tenants seeking satellite office space may suit these spaces as well, especially seeking under 4,000 square feet. These may include non-profit entities working with the Hillsboro Chamber of Commerce, as well as the Washington County Business Council. A local brokerage firm will assist CAVU in tenant selection, lease-up, and third-party management support.

FLEX

There is an uptick in office and retail users who are looking to this product type as an alternative to traditional office and retail space due to the lower cost per square foot and availability. The market trend consists of flex buildings built-out with a larger office component or as retail space with a smaller warehouse/receiving areas.

The flex submarket reflects approximately 96% rate of occupancy. HIO Landing would likely mirror market trends with a 12-month lease up period and stabilization within 18 months. We expect flex leases to be highly competitive due to the office build-outs and street frontage to Cornell Road. Flex tenants that may benefit from additional office build-outs could include Tokyo Electron, Genentech, and Applied Materials. These type of tenants are attracted to the close proximity to Intel and the Hillsboro Airport, and other complementary technology firms in the vicinity. Furthermore, our site provides direct access and visibility to C-Suite airport customers.

HOTEL

The Avid hotel is a high-quality, midscale, and limited service brand that is a champion for everyday travel. Travelers will value the basics done exceptionally well, while at a price point our market can support. This is one of newest brands of InterContinental Hotels and Resorts (IHG). IHG is leading the $20 billion U.S midscale market segment, and franchises have remained extremely successful in the tri-county area. The brand will attract loyal IHG members, one of the largest hotel loyalty programs in the world. They are on the short list of branded hotel companies that account for more than 30% of the room supply and 65% of the development pipeline nationally. This franchise will provide CAVU with the right to operate under the IHG flag and have access to franchisor's distribution and marketing systems. The industry demands that significant management expertise is required, or is delegated to a third-party operator.

Our prototype uses technology to its advantage with unprecedented service levels and transparency to the market. Attributes that set our hotel apart from competitors include check-in automation. Guests can choose a specific room or zone before arrival based on IHG's new cloud-based guest reservation system. There is no current franchise type that competes with this level of service. Guests can stream and cast content onto in-room televisions. Dedicated workspaces have clean, modern designs to serve tech-savvy clientele in this area. Avid will attract business travelers seeking proximity to companies in the "Silicon Forest," as well guests associated with the event center, wine enthusiasts, and local conference attendees.

The hotel leasing strategies will seek competitive advantage under the helm of a franchise owner or third-party operator. One strategy will include connecting with online travel agencies, which account for the majority of hotel bookings in the current market. Secondly, operators will subscribe to global distribution systems that streamline the hotel's booking presence for corporate travel agents. Corporate clients like Intel and Laika who seek predictable blocks of hotel rooms will appreciate these process alignments.

Furthermore, the leasing and marketing strategy will also lean heavily on the Washington County Visitors Association. The operator will promote the hotel as a venue for conferences, training sessions, or other business functions to compliment the larger events at the Washington County Event Center. This will include establishing corporate contracts with local technology firms, as well as formal partnerships with the Washington County Event Center. Content marketing will be successfully implemented as part of the Search Engine Optimization strategy. This content will be shared across the full spectrum of social media platforms to increase views and channel visitors to our location.

COMMERCIAL KITCHEN

Commercial kitchens are a unique product to lease, and do not rely on traditional brokers. Each kitchen space is leased to a master tenant who is the primary user of the facility to produce their goods at scale. For example, a tortilla maker, commercial baker, or caterer would occupy the space as a master tenant. The master tenant is encouraged to sublease the space to one to two subtenants during the kitchen's down time. These subtenants are often small craft food producers, food carts, or food trucks who need a few predictable hours a week to create products in a certified environment and conduct their commissary activities.

This subleasing approach is a powerful social and business equity strategy, incubating small, startup, and under-resourced food producers. The predictability they can find at the Galley may eventually allow a subtenant to reach the need to scale up and occupy an entire kitchen as a master tenant. Two commercial kitchens are located in the submarket: Collective Kitchen in downtown Hillsboro and Bohemian Kitchen in Beaverton. However, both facilities serve largely hobby and craft food producers, not commercial producers at a comparable scale. The Galley will provide a place for such tenants to grow and scale-up as a continuum production opportunity.

Potential tenants come from a variety of places, including subtenants who need to scale up, clients of other hobby-oriented kitchens who want to expand, or the vast industry of mobile food vendors and restaurateurs. Relationships and local knowledge of the food industry are critical to leasing, so CAVU will work with our deep connections in the restaurant and dining industry to identify entrepreneurial potential tenants. We will reach out to additional potential tenants through postcard mailers to local restaurants, food truck pods, mobile food professional organizations, the Small Business Development Council, Hispanic Chamber of Commerce, international markets, and other avenues to grab the attention of ambitious area restaurateurs.

As described in the development program section, the value of a commercial kitchen and its corresponding relatively high rents at $26 per square foot require deliberate tenant selection. Educated tenants see the value, but many will be turned off by the seemingly high lease rate. While there is substantial market demand, an aspect of tenant education is required with this new product in the Hillsboro market. Accordingly, we project stabilization in year two, after a vacancy of 30% in year one.

Laika's traveling exhibit at the Portland Museum of Art

RETAIL

This submarket's low vacancy rates and rapid absorption particularly in the past five years indicates a supply demand in the market. The market's occupancy rate for general retail hovers around 98%, trending slightly higher than Portland Metro area. Retail programming that will be incorporated into our development includes HIO Landing's Laika gift shop and concessions, wine sales and tastings in Debrief, Vertigo Brewing Pub, Longbottom Coffee and Tea, and accessory eateries accompanying our commercial kitchens.

The accessory retail uses alongside Laika's exhibit generated intense revenue and is expected to follow-suit for this development. The marketing and leasing strategy will include collaborating with Travel Portland, the Hillsboro Chamber of Commerce, and social media platforms to advertise the exhibit offerings.

Laika, the Portland native studio giant and two-time Oscar Award nominee, is seeking to amplify its brand and distinctive style of filmmaking. According to Portland Art Museum's Director of Exhibitions, Laika would bring ' Oregon to the World, and the World to

Similar to the Portland Art Museum and Laika's partnership with the NW Film Center, this exhibit space affords an opportunity to collaborate with local artists and cultural initiatives such as Hillsboro's Bag and Baggage Productions and the City's Art and Cultural Council. It is expected to generate significant demand for self-guided and teacher-lead tours that will generate weekday activity to the site. More than 300 educators participated in professional development programs during Laika's 2017-2018 Portland exhibit. Washington County has a current population of 58,000 school-aged children (0-14 yrs of age) that participate in tours throughout the academic year. HIO Landing's anchor tenant would capture visitor volume from these groups, as well as visitors from around the state and the nationally.

The leasing strategy considers incorporating experiential food and beverage offerings that align with current and projected market demand. Both Vertigo Brewing and Debrief winery will appeal to airport customers, event center attendees, Avid guests, Hillsboro commuters, and regional wine and beer enthusiasts. HIO Landing is on the doorstep of one of the greatest wine regions in the state. According to the Hillsboro Arts and Cultural Council, there is a clear opportunity to link cultural development with tourism and the wine country in this area.

LEASE PROVISIONS

The Port and CAVU Partners must consider appropriate prescriptive use provisions to ensure that HIO Landing is activated in a certain way, while allowing CAVU to make adjustments based upon market conditions. Use provisions may include type and quality of tenants, compatibility of tenants, minimum operating hours, and limitations on "going dark" to prevent extended periods of inactivity. Provisions may also include the Port's social and business equity goals for subleasing, described in greater detail later.

CAVU PARTNERS

September 13, 2018

Marcus Bush,
CAVU Partners

RE: HIO Landing – Vertigo Brewing Lease

Vertigo Brewing has been contacted and shown interest in leasing at the above location:

SIZE:	Approximately 5,000 sf square feet
USE:	Restaurant and Bar
TERM:	Approximately Five (5) years expiring 1/31/2023 with one 5-year options.
RENTAL:	$18.00/SF with 3.0% annual increases
BASIS:	Triple Net
NNNs:	Tenant is responsible for their pro-rata share of the expenses.
USE RESTRICTIONS:	In response to this Letter of Intent and for negotiations to continue, Landlord shall also provide Tenant with copies of all title work and actual use restrictions (exclusives, covenants and restrictions of record) in effect at HIO Landing.
RENT COMMENCEMENT:	The earlier of One hundred and Twenty (120) days after possession date or the first day of business.
POSSESSION DATE:	The later of: (i) the date Landlord delivers possession to Tenant with all Landlord Work complete; or (ii) the date on which Tenant receives all necessary building permits for its construction and/or signage. Tenant will submit plans to the building department within ninety (90) days of full lease execution. Any exterior improvements to the Airworks Building, parking lot, landscaping or façade, and/or any impact fees, required bythe local authority having jurisdiction as a condition for issuing Tenant'sbuilding permits or a certificate of occupancy for the Demised Premisesshall be the responsibility of Landlord.

This letter of Agreement shall be contingent upon the approval of both our Real Estate Committee and Vertigo Brewing LLC.

This letter shall signify our intent to enter into a lease based on the terms set out herein. No commitment by Vertigo Brewing shall be considered binding until all of the terms have been approved by our Real Estate Committee and reduced to a written lease, which has been reviewed and approved by our Legal Department and signed by an Officer of the Company. <u>This offer may be withdrawn at any time for any reason.</u>

Sincerely,

Michael Kinion

Member, Vertigo Brewing

Letter of Intent from Vertigo Brewing

MEASURING SOCIAL AND BUSINESS EQUITY

CAVU and the Port will work together to achieve local business incubation and dynamic equity strategies aligning with the Port of Portland's Social Equity program.

CAVU will consider contracting with service providers, via our property management firm, that employ disadvantaged workers, those transitioning from incarceration, or those with disabilities for HIO Landing's service contracts. While these jobs may not be high-paying, they may be a lower barrier to entry opportunity for employment.

CAVU also plans to explore the establishment of a Disadvantaged Business Enterprise Program, with principles derived from PDX's concession program for minority and start-up businesses. In this model, CAVU may partner with the Port to consider a percentage of subtenants who may not meet the business strength typically competitive for a market-rate lease. Tenants may include diversified businesses with 501(c)(3) tax exempt status, Hillsboro start-up firms, Woman-Owned Small Businesses (WOSB), and Service-Disabled Veteran Owned Small Businesses (SDVOSB), and minority-owned firms**.**

This program could allow for the right type of business incubation to meet social equity goals and initiatives. It will likely include provisions whereas the Port may need to "write down" expenses, offer concessions or guarantees, and/or cover any significant equity loss that may result to CAVU.

While the Port does not currently require Bureau of Labor and Industries prevailing wage or Davis-Bacon Act wages for construction on its properties by private entities, CAVU is committed to exploring livable wage rates for HIO Landing. Construction cost estimates provide a moderate cushion for this increase in cost. Also, women-owned, minority-owned, or emerging business contracting goals are not required for private construction projects, but we plan on assembling the most diverse team possible to share the project's benefit and lift up local companies.

At HIO Landing, food, drink, and retail will celebrate the local flavor of Hillsboro. These offerings could also be sold at kiosks at the new airport terminal under "street pricing" similar to the successful PDX airport model. Airport customers would enjoy the local taste of Hillsboro without paying the premium.

MEASURING EMPLOYMENT CREATION

Creating a high-density employment area at the Hillsboro Airport is important to both the Port of Portland and City of Hillsboro, given the site's designation as an employment district in City adopted plans. HIO Landing's concept revolves around local industry coupled with amenities that attract and retain employers to create longer term value.

To understand the impact of our development program on economic development, we compared HIO Landing's development program to a purely industrial and hospitality concept and applied standard employee-per-square foot calculations to understand employment density. Our mix of uses generates 63 more direct jobs than an industrial and hospitality concept alone. While retail jobs may be lower wage, we believe that the amenities provided to flex and office tenants will attract higher-wage businesses to the site, as opposed to lower density traditional industrial users.

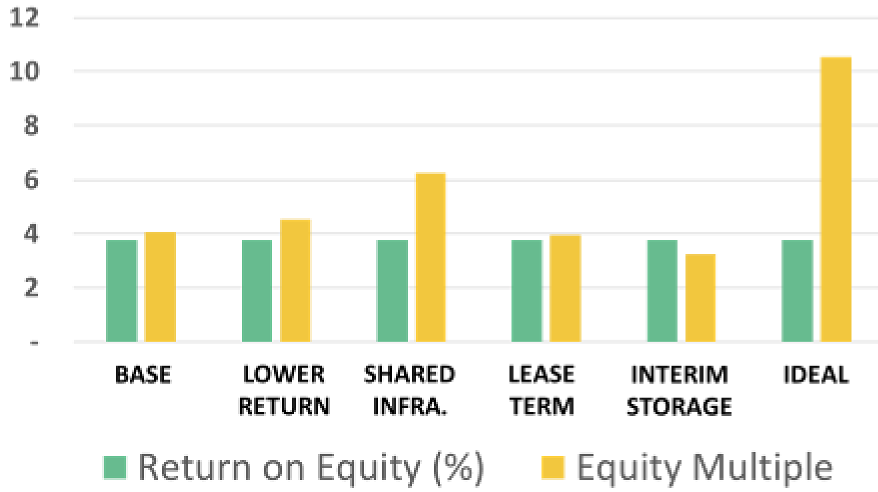
CAVU Scheme	SF of Development	Avg. SF per Emp	Jobs Created
Flex	95,000	677	140
Retail	11,500	467	25
Office	26,000	467	56
Hospitality	44,000	467	94
		Total	315
Alternative	**SF of Development**	**Avg. SF per Emp**	**Jobs Created**
Flex/Industrial	106,500	677	157
Hospitality	44000	467	94
		Total	252

Potential jobs created at HIO Landing as compared to traditional development, as measured by employment density

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS AND RECOMMENDATIONS

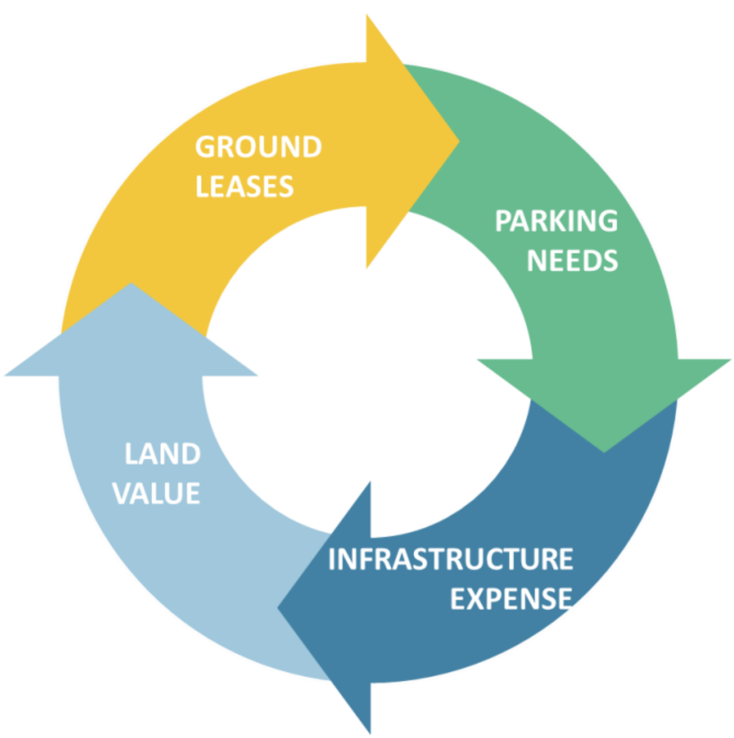
CHALLENGES



Key measures of financial feasibility

HIO Landing's concept is strategic, nuanced, and creates shared value for the Port and community. The fundamentals are strong and meet many public, business, and market objectives; however, the economics of the deal are fundamentally challenged.

The return on equity and equity multiple results of the base economic analysis and five scenarios illustrate that HIO Landing fails to meet market-reasonable rates of return that most development entities, including CAVU Partners, would require to proceed. Rates of return all hover below 4%, and equity multiples range from less than 4% to just over 6%, aside from the ideal scenario where the Port of Portland contributes substantial funding towards infrastructure. Given other investment opportunities, these rates of return do not indicate a financially viable project.



Several interconnected elements going on that hinder the economics of the site.

There is substantial development risk in ground leases— they are difficult to finance, and investors aren't typically interested given other straightforward opportunities. All improvements revert back to the owner at the end of the term, so there is no profit from reversion in a ground lease scenario. A developer must make a return *on* investment and a return *of* investment during the hold period, so it's particularly challenging to amortize the cost of high capital cost buildings over a 30-year hold period.

The land value is relatively low in the

area around the Hillsboro Airport, and the context is unproven. There is not substantial population density in the area, so HIO Landing's innovative concept may not be supported by the local market. With large vacant land surrounding the development site and an unproven event center, there's a lot of risk in transforming this area into a place people want to be.

The Port has identified a high parking need of 700 spaces, and there are city of Hillsboro parking requirements for private development. In total, it's difficult to fit all this parking on the site, limiting density and development potential. Additionally, the land value and market is not robust enough to warrant a parking structure.

At HIO Landing, infrastructure is very expensive, so much so that lower density development may not be able to pay for it. The risk of City-required, expensive infrastructure upgrades to the intersection of 34th Ave and Cornell Road is also too high for a single development entity to bear.

While HIO Landing is economically challenged, these types of development feasibility studies can help inform planning and policymaking to ensure that expectations are realistic and outcomes can be met. With united vision, the right public and private partners can bring their relative strengths and expertise to the table to meet shared objectives.

GOING FORWARD

The following recommendations are intended to provide additional flexibility and development potential for HIO Landing and for the Port of Portland's consideration when negotiating a future development program:

- Extend the ground lease term from 30 years with two ten-year optional extensions to 50 years, at a minimum, with possible extensions to make the site attractive to developers and financial lenders. Development feasibility analyses like this may help with Port advocate for flexibility with the regional FAA office.

- Reduce overall parking needs to create more development value; the current high parking requirements, both Port-mandated and City-mandated, are a detriment to a development program. With the Port's desire for 700 surface parking spaces, development capacity is greatly reduced. Achieving the required densities to account for the cost of infrastructure may not be possible as a result. Alternatives to consider are a shared parking agreement with the Fairgrounds and/or hotel, pricing strategies for parking, and encourage airport patrons to use public transport or ride sharing. Less parking will allow for more development and overall revenue.

- Research what will be required for moving and environmental cleanup costs to relocate the old historic fuel station, the mushroom. Currently, there is too much risk for a developer to attempt this, but its historic landmark status is an important part of the Hillsboro Airport story and should be preserved and better utilized. In its current location, the mushroom limits the efficiency of surface parking and circulation. Repurposing the mushroom could be better accommodated in another location.

- Consider sale of the hotel parcel with a reverter covenant that it can only be sold back to the Port, never another private entity. The sale would be greatly preferred by the market and would likely result in a higher quality development outcome.

- Quantify what social equity goals are most needed and how best the Port can achieve them. Suggestions include, adhering to living wage requirements, negotiating pubic benefits agreements, offering discounted lease rates, accepting a lower financial return, and providing other subsidies, should be considered. Lease or loan guarantees, predevelopment loans, and tenant improvement assistance may be particularly effective.

- Major zoning changes may be considered after the completion of the Airport's Master Plan update, and they should be rigorously informed by a market-driven approach to ensure that community, public, and private goals can be realistically met. This development proposal can inform subsequent regulatory implementation.

Thank You, CAVU Partners

WORKS CITED

2018 Economic Trends for the Portland Metro Area

Bureau of Labor Economic News Release

City of Hillsboro Software & Information Services

The Economic Impact of the Wine and Wine Grape Industries on the Oregon Economy 2016

The Future Role of Hillsboro Airport

Hillsboro Economic Department and Cyberstates, Inc.

Hillsboro Airport Master Plan

Hotel Demand Drivers - Kidder Mathews Portland Hotels

HVS Portland Market Area Overview

IHG's avid™ hotels accelerates roll-out with first groundbreaking in Oklahoma City

Johnson Economics Market Conditions, Trends, and Redevelopment Opportunities at the Hillsboro Airport

Open for Business: Airports as Real Estate Developer and Strategic Partner

STR Trend Report: Sunset Corridor/ Hillsboro

STR HOST Almanac 2018

Washington County to Build New Community Event Center