Summer 2013

The Water Tower: BOMA Real Estate Development Workshop

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THE WATER TOWER

Portland State University

BOMA Workshop
Summer 2013
EXECUTIVE SUMMARY

A wise man will make more opportunities than he finds
-Francis Bacon

This proposal represents an opportunity to be made, not found.

• This Water Tower site redevelopment proposal is the next chapter in the vibrant history of the Water Tower property

• We propose a redevelopment worthy of Melvin Mark’s high expectations and long-term investment strategy

• Our plan results in an improved, diversified, more stable and profitable asset, yielding 7.82% return on costs for the developer

• Our Class A office space will be the pinnacle of John’s Landing, an area under supplied with new Class A space

• New apartments evolve placemaking at the site, increase residential densities, and anchor site programming

• Creative tenant mix, sustainable natural foods market, micro restaurants, neighborhood pharmacy, and inviting greenspace all harmonize, enriching the experience of tenants, customers, and residents

• In 2026, Melvin Mark will net $31,084,947 cash upon sale of the property, at a blended 6.13% Cap Rate
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</tr>
</tbody>
</table>
SITE OVERVIEW

Located in Southwest Portland’s historic John’s Landing neighborhood, the Water Tower Building (5331 SW Macadam Ave) and the Bailey Building (5441 SW Macadam Ave) comprise an approximate four acre parcel, divided between two tax lots.

Owned by Melvin Mark, the buildings feature a mix of office and retail tenants, and are currently at or near 100% occupancy. Having parking ratios of approximately 3:1,000 sf and located along or near major thoroughfares such as SW Macadam and SW Corbett Ave, the site is extremely visible and easily accessible. Alternative transportation options for the site include three Tri-Met bus lines and dedicated bicycle parking.

Built over numerous phases beginning in 1903 through the 1970s and recently renovated in 2005, the site has seen many changes to its tenant mix and purpose. In its current form, the Water Tower and Bailey Building feature a vibrant mix of office tenants. These tenants range from professional and medical services to creative entrepreneurs, and occupy approximately 80% of the leasable square feet within the two buildings. Retail and restaurant tenants comprise most of the remaining leasable space, and feature such long time tenants as Pier 1 Imports and The Honey Baked Ham Company.

The site is walkable, served by multiple transit modes, and is very bikeable.
<table>
<thead>
<tr>
<th>Water Tower Bldg</th>
<th>Bailey Bldg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td>5331 SW Macadam Portland, OR 97239</td>
</tr>
<tr>
<td>Size</td>
<td>151,364 sf</td>
</tr>
<tr>
<td>Assessed Property Value (2012)</td>
<td>$7,181,190.00</td>
</tr>
<tr>
<td>Market Value (2012)</td>
<td>$9,749,800.00</td>
</tr>
<tr>
<td>Property Taxes (2012)</td>
<td>$152,526.73</td>
</tr>
<tr>
<td>Year Built</td>
<td>1903 / 1927 / 1974</td>
</tr>
</tbody>
</table>
The SW Macadam Avenue frontage currently features the retail anchor Pier 1, a Chinese restaurant, and access to the open courtyard.

The Bailey Building located at the south-east corner of the site at the intersection of SW Macadam and SW Sweeney.

Existing and visually unappealing ADA ramp will be removed with construction of the new Annex Building.
Existing surface parking lot on the north side of the site is an attractive feature to retail tenants and customers.

Refurbished interiors beautifully celebrate the vibrant history of the Water Tower Building.

Open courtyard provides tenants and guests outdoor space for enjoyment and relaxation, but is currently underused.
SITE HISTORY

The area in which the Water Tower site is located (now known as John’s Landing) was originally part of Southwest Portland’s Fulton neighborhood and developed as an industrial area featuring many timber related operations. Platted in the 1880s this neighborhood soon grew to include some of the city’s largest factories including the Jones Lumber Mill and the Water Tower Building’s namesake, the B.P. John Furniture Company. B.P. John, who constructed the first building on the Water Tower site in 1903, was once the largest furniture maker west of the Mississippi River. B.P. John’s company located along Macadam Avenue (may be Portland’s oldest permanent road, and featured the city’s first dedicated bicycle lane in 1896) and operated until the early 1970s when the proliferation of cheaper particle board and plastic materials caused the factory’s ultimate demise.

When The B.P. John Company consolidated operations and moved headquarters to Southern California, the family began working with real estate developer John Gray who had previously developed both the Salishan and Sunriver Resorts. Along with architect John Storrs, the group converted the former industrial buildings into a retail destination, in what was one of the earliest and most successful historic reuse (of industrial space) projects in the nation. The project took the name John’s Landing (a reference to B.P. John, Gray and Storrs) and became a major retail center for nearly two decades.

As suburban malls and lifestyle centers began to be developed in the region during the 1990s, the John’s Landing Water Tower Building began a gradual decline as a retail destination. The site eventually became a predominately office oriented development and was purchased in 2008 by the current owners Melvin Mark. Featuring extensively renovated interiors and mechanical systems, the site currently enjoys strong office occupancy rates and ample on-site parking.
The Water Tower site is zoned Storefront Commercial (CS) and lies within a design overlay district (d). The City of Portland’s commercial zones are intended to support and enhance the economic viability of the specific district and the city as a whole.

The CS zone is specifically intended to preserve and enhance older commercial areas that have storefront character. The CS zone allows a full range of retail, service, and business uses and guides new development to be compatible with the existing area’s character. This character is typically defined to include areas which are predominately built-up, with buildings close to and oriented towards the sidewalk, especially at corners. Industrial uses are allowed in CS zones but are limited in size as to not dominate the character of the commercial area. Minimal building set backs and high building coverage ratios are the predominate themes of CS zones.

The project is located within the Macadam Plan District design overlay zone. The design overlay was established mainly for the purposes of protecting river access and view corridors, and preventing suburban strip mall style developments. The overlay significantly restricts development opportunities (transit oriented development in particular) by reducing the base zones FAR allowance and maxing building coverage area at 75%. In fact, this is one of only two districts within the city that actually reduces the development limits of the base zone.

As the push for denser urban development within the city has increased, there is increasing pressure from land owners within the Macadam District to update the district’s zoning regulations. This pressure, coupled with talks of a potential streetcar line extension, encourage the city to take a serious look at loosening the development restrictions within the Macadam District.
### Commercial Zone Primary Uses

<table>
<thead>
<tr>
<th>Use Categories</th>
<th>CN1</th>
<th>CN2</th>
<th>CO1</th>
<th>CO2</th>
<th>CM</th>
<th>CS</th>
<th>CG</th>
<th>CX</th>
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<tbody>
<tr>
<td><strong>Residential Categories</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household Living</td>
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<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Group Living</td>
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<td>L/CU</td>
<td>L/CU</td>
<td>L/CU</td>
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<td>L/CU</td>
<td>L/CU</td>
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<tr>
<td><strong>Commercial Categories</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
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<td>Retail Sales And Service</td>
<td>L</td>
<td>Y</td>
<td>N</td>
<td>L</td>
<td>L</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<tr>
<td>Office</td>
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<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>L</td>
<td>Y</td>
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<td>Quick Vehicle Servicing</td>
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<td>L</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
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<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>L</td>
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<td>N</td>
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<td>N</td>
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<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>L</td>
<td>L</td>
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<td>Major Event Entertainment</td>
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<td>N</td>
<td>N</td>
<td>N</td>
<td>CU</td>
<td>CU</td>
<td>Y</td>
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<td><strong>Industrial Categories</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Manufacturing And Production</td>
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<td>N</td>
<td>N</td>
<td>N</td>
<td>L/CU</td>
<td>L/CU</td>
<td>L/CU</td>
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<td>Warehouse And Freight Movement</td>
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<td>N</td>
<td>N</td>
<td>N</td>
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<td>N</td>
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<td>L</td>
<td>L</td>
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<td>N</td>
<td>N</td>
<td>CU</td>
<td>CU</td>
<td>CU</td>
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<tr>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>Basic Utilities</td>
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<td>Y/CU</td>
<td>Y/CU</td>
<td>Y/CU</td>
<td>Y/CU</td>
<td>Y/CU</td>
<td>Y/CU</td>
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<td>L/CU</td>
<td>L/CU</td>
<td>L/CU</td>
<td>L/CU</td>
<td>L/CU</td>
<td>L/CU</td>
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<td>Parks And Open Areas</td>
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<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<td>Colleges</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<tr>
<td>Medical Centers</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<tr>
<td>Religious Institutions</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<tr>
<td>Daycare</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<tr>
<td><strong>Other Categories</strong></td>
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</tr>
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<td>Agriculture</td>
<td>L</td>
<td>L</td>
<td>L</td>
<td>L</td>
<td>L</td>
<td>L/CU</td>
<td>L/CU</td>
<td>L/CU</td>
</tr>
<tr>
<td>Detention Facilities</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>CU</td>
<td>CU</td>
</tr>
</tbody>
</table>

*Y = Yes, Allowed

*CU = Conditional Use Review Required

Notes:

* = 45 ft. maximum building height so long as total average building height does not exceed 35 ft.
# Design Review

The purpose of the design review process is to ensure that development conserves and enhances the recognized special design values of a site or area. Design review ensures that certain types of infill development will be compatible with the neighborhood and enhance the area. Design review is also used in certain cases to review public and private projects to determine if the projects are of high quality design.

Due to its location within a design overlay zone and the scope of the proposed redevelopment, Water Tower redevelopment will require a Type III Design Review which will also address any potential zoning adjustments or modifications, such as a maximum height limit adjustment. The timeline of the Type III process is shown below.

## Summary of Development Standards in Commercial Zones

<table>
<thead>
<tr>
<th>Standard</th>
<th>CN1</th>
<th>CN2</th>
<th>CO1</th>
<th>CO2</th>
<th>CM</th>
<th>CS</th>
<th>CG</th>
<th>CX</th>
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</thead>
<tbody>
<tr>
<td>Maximum FAR</td>
<td>.75 to 1</td>
<td>.75 to 1</td>
<td>.75 to 1</td>
<td>2 to 1</td>
<td>1 to 1</td>
<td>3 to 1</td>
<td>3 to 1</td>
<td>4 to 1</td>
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<td>Maximum Height</td>
<td>30 ft.</td>
<td>30 ft.</td>
<td>30 ft.</td>
<td>45 ft.</td>
<td>45 ft.</td>
<td>45 ft.</td>
<td>45 ft.</td>
<td>75 ft.</td>
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<tr>
<td>Min. Building Stbks</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Garage Entrance Setback</td>
<td>5/18 ft</td>
<td>5/18 ft</td>
<td>5/18 ft</td>
<td>5/18 ft</td>
<td>5/18 ft</td>
<td>5/18 ft</td>
<td>5/18 ft</td>
<td></td>
</tr>
<tr>
<td>Max. Building Stbks</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>10 ft.</td>
<td>10 ft.</td>
<td>None</td>
<td>None</td>
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<tr>
<td>Street Lot Line Transit Street or</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>10 ft.</td>
<td>10 ft.</td>
<td>None</td>
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<tr>
<td>Pedestrian District</td>
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<td>None</td>
<td>None</td>
<td>None</td>
<td>10 ft.</td>
<td>10 ft.</td>
<td>None</td>
<td>None</td>
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<tr>
<td>Building Coverage</td>
<td>Max. of 85% of site area</td>
<td>Max. of 65% of site area</td>
<td>Max. of 50% of site area</td>
<td>Max. of 65% of site area</td>
<td>Min. of 50% of site area</td>
<td>Min. of 50% of site area</td>
<td>No Limit</td>
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<tr>
<td>Min. Landscaped Area</td>
<td>15% of site area</td>
<td>15% of site area</td>
<td>15% of site area</td>
<td>15% of site area</td>
<td>None</td>
<td>None</td>
<td>15% of site area</td>
<td>None</td>
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<tr>
<td>Landscaping Abutting an R Zoned Lot</td>
<td>5 ft. @ L3 or none</td>
<td>5 ft. @ L3 or none</td>
<td>5 ft. @ L3 or none</td>
<td>5 ft. @ L3 or none</td>
<td>5 ft. @ L3 or none</td>
<td>5 ft. @ L3 or none</td>
<td>5 ft. @ L3 or none</td>
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</tr>
<tr>
<td>Ground Floor Window Std. Apply</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Pedestrian Requirements</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

## Design Review Timeline

- **Pre-Application Conference** (required for all Type III Procedures)
- **Day 1**
  - 21 Day Completeness Check (Planning staff has 21 days to determine completeness of application)
- **Day 21**
  - Request for Response (RFR) and Comment Period
- **Day 72**
  - Public Hearing (Held within 51 days of complete application)
- **Day 89**
  - Hearing Body Decision and 14 Day Appeal Period
- **Day 103**
  - Decision is Final
MARKET ANALYSIS

Overview

John’s Landing is a premier suburban business corridor within the Portland Metro area, located two miles from downtown Portland, nestled between the Willamette River and Terwilliger curves to the west. The area has convenient vehicle access from I-5, I-405, I-84, as well as Corbett Ave. and downtown Portland.

Demographics - Portland and John’s Landing

According to second quarter 2012 data provided by Costar, a total population of 386,637 resides within five miles of the site, with an anticipated growth rate of 6.3% between 2012 and 2017. South Waterfront has been a driver in increasing the area’s population density. The average household income is strong at $68,000, with 49% of households earning over $50,000. 51% of residents hold a Bachelors degree or higher.

A tighter market area of one mile indicates an even stronger surrounding market. The total population of 9,526 (2012) is anticipated to grow 14.3% between 2012 and 2017 (Costar). The average household income increases to an impressive $87,000, with 61% of households earning over $50,000, and the total population holding a Bachelors degree or higher increases to 65%.

Age and household size within the market area indicate a strong rental demographic. The median age is 38 within five miles, and 36 within one mile of the site. The population between 25 and 34 is the largest segment in the trade area, representing 20% of the total population within five miles, and 27% within one mile of the site. The average household size is 2.09 within five miles of the site and 1.84 within one mile.

Consumer spending patterns within a one-mile radius indicate that 9% of total spending is spent on groceries (food at home), 9% on food away from home, and 11% on entertainment and alcoholic beverages. Consumer spending patterns within five miles were nearly identical. These patterns and emphasis on groceries, food and entertainment both informed and help support the site’s planned programming.

It should be noted that, for demographic purposes, the Willamette River makes up a large section of the market area. This fact leads to a reduction in densities and purchasing power, compared to market areas without a large neighboring body of water.

The analysis below, prepared by ESRI Business Analyst Online, compares John’s Landing to the Pearl, Hawthorne, and Mississippi neighborhoods. As demonstrated by the demographic indicators, John’s Landing offers a strong market when compared to other close-in Portland markets, ranking highest in per capita income, percent of population with a college or graduate degree, and white collar employment.
Portland Office Market

In first quarter 2013, NGFK reported the Portland office market finished the quarter strong, with a 337k sf increase in occupancy, pushing down overall market vacancy to 13.2%, the lowest level in four years. The appetite for premium space remained the catalyst of growth in the most recent market expansion. NGFK reports the Class A sector accounted for the bulk of that growth, comprising 75% of the net increase in occupancy. Central Business District (CBD) office growth is somewhat flat, but suburban markets have benefited from 865k sf in positive net absorption.

The strength of the office sector has continued to grow. As of second quarter, Portland now has the second lowest office vacancy in the U.S., behind San Francisco. Vacancy rates in the Portland office sector continue to fall, now averaging 10.5%. Comparatively, office vacancy nationally now stands at 16%, and is anticipated to drop further by year’s end (Center for Real Estate Summer 2013 Quarterly Report).

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


### Historical Deliveries 1982 - 2013

```
MID-YEAR 2013 – PORTLAND
```

```
PORTLAND OFFICE MARKET
INVENTORY & DEVELOPMENT
```

```
HISTORICAL DELIVERIES 1982 - 2013
```

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```
Portland Office Rents

Kidder Mathews’ second quarter 2013 report shows Portland’s average asking rental rate at $19.77 FSG., ticking up $0.18 from the previous quarter. The average asking rental rate in the market has increased by 2.92% over the past year.

Office Tenancy Trends

Law firms and financial companies, traditional mainstays of CBD office space, have reduced their overall presence in the urban core. Technology has played a role in this trend. For example, law libraries are no longer being housed within law offices, reducing their square footage needs. Flexible and creative office spaces are trying to fill those voids. As such, smaller CBD office projects are ongoing in Portland. Among these redevelopment projects is Melvin Mark’s current project transforming 2nd & Taylor from a gym into a mixed use, creative office space building, and Eastern Real Estate LLC’s redevelopment of the U.S. Customs House into creative office space (Portland Business Journal, Aug 23, 2013).

Unico is transforming space in their US Bancorp Tower into creative office space, fueled by demand for cool, creative office space coveted by startups, and a younger generation of tenants. More open spaces, larger conference rooms, quirky floor plans, and exposed ceilings, all entice younger tenants and yield higher rents. While the prestige of locating in the CBD is alive and well, the search for the perfect creative office space appears to pull tenants to locate outside of the CBD. Melvin Mark broker, Nick Ehlen, confirms that the Water Tower Building directly competes with creative office space in the Pearl and CBD.

Our analysis is that free parking, top quality management, convenient access, proximity to downtown, and what we would call “classy meets classic” interiors at the Water Tower, will all continue to pull creative office tenants from the CBD. Further, the unique and accessible location of John’s Landing from the CBD, coupled with an aging stock of primarily 1980s office in that market and a lack of new office supply in the CBD, may prove to be positive drivers for growth in the John’s Landing office market.

While Class A starts are minimal, Class A space such as US Bancorp Tower, Umpqua Bank Plaza, and Fox Tower have been converting some floors into open spaces to attract growing companies like Webtrends (65,000 square feet) and K&L Gates (21,206 square feet) (Center for Real Estate Summer 2013 Quarterly Report).
Employment as an indicator of office demand

A year ago Oregon’s unemployment rate stood at 8.8%. As of May 2013 it has dropped to 7.9%, lower than the national average. The Portland area is leading this trend; with the one of the fastest growing metropolitan job markets in the nation, 21,800 jobs have been added in the last year in the metro area. This is a growth rate of 2.2% compares favorably to the national average of 1.8%. Portland’s unemployment in May is registered at 7.3%, improved from 8.3% a year ago (Center for Real Estate Summer 2013 Quarterly Report).

Office growth is directly correlated to employment growth, and there are signs that Portland, and the nation, will see continued employment growth.

Portland Office Vacancies

Consistently declining vacancy rates across most office product types is encouraging news for developers. Given the low amount of office deliveries (on a historical basis) over the last three years, there may evidence that demand continues to out-pace office supply, and that we may see an increase in deliveries within the next two years.

John’s Landing Office Market

While the Portland suburban office market remains soft, the John’s Landing market appears to have firmed quite a bit in the last 12 months (April 2012-April 2013). Cohen Financial, the owner of the Willamette Wharf Building, reports their building went from 45% leased to 85% leased in the last six months. This leasing momentum made possible Cohen Financial’s 7-year-fixed $4.375m (25 year amortization) permanent loan in April 2013 (Cohen Financial website).
Portland’s largest office project in the second quarter 2013 is in John’s Landing (4600 SW Macadam), a 100% preleased 55,526 sf project).

<table>
<thead>
<tr>
<th>Market</th>
<th>Existing Inventory</th>
<th>Vacancy</th>
<th>YTD Net Absorption</th>
<th>YTD Deliveries</th>
<th>Under Const SF</th>
<th>Quoted Rates</th>
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</thead>
<tbody>
<tr>
<td>Johns Landing</td>
<td>3 607,473</td>
<td>44,267</td>
<td>44,267 7.3%</td>
<td>15,292</td>
<td>0</td>
<td>55,527</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24.20</td>
</tr>
<tr>
<td>Class B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johns Landing</td>
<td>26 948,322</td>
<td>113,762</td>
<td>113,762 12.0%</td>
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<td>0</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20.06</td>
</tr>
<tr>
<td>Johns Landing</td>
<td>41 447,391</td>
<td>32,348</td>
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<td>(1,089)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>19.87</td>
</tr>
</tbody>
</table>

*All rental rates have been converted to a Full Service equivalent rental rate.

Based on our analysis and current submarket statistics our team is confident that our $23.50 FSG rent assumptions are extremely conservative.

**Retail Market**

Although located within two miles of Portland’s CBD, John’s Landing has a surprisingly limited retail supply, yet low vacancy rates. According to the Mid-Year 2013 CoStar Retail Report, John’s Landing has 47 buildings and 337,901 square feet of total retail, with an overall vacancy rate of 4.9%.

Within the shopping center sub market, which includes strip, neighborhood and community centers, total GLA is 55,873 square feet, vacancy 3.5%, and average quoted rates $18.00 NNN per sf.

Asking rents for retail spaces currently being marketed within John’s Landing range from $16 to $26 per sf NNN, with an average asking rent of $21.60 per sf NNN.
The John’s Landing’s retail node can be expected to draw a customer base beyond five miles, primarily from the south, due to Lake Oswego traffic commuting to Portland’s CBD by way of Macadam. Macadam sees an average daily traffic (ADT) count of 24,356 (Costar, 2011).

For purposes of tenant analysis, the Water Tower was compared to two Portland Area neighborhood pharmacies, and Green Zebra’s first three Portland locations. The results of these comparisons were conclusive: buying power, traffic volume, educational attainment, average and per capita incomes, and population growth were all strong at the Macadam site. (see Tenant Analysis section)

However, two retail metrics at the Water Tower site and John’s Landing, do not compare favorably to other pharmacy and Green Zebra sites.

1. The Water Tower site lacks a signalized intersection at Sweeney & Macadam. The lack of signalized intersection hurts the retail presence at 5441 SW Macadam, the south side retail capacity of the site, and would be a hindrance to locating a major pharmacy such as Walgreens to the Water Tower site.

2. When the Water Tower site is compared to all three Green Zebra locations and neighborhood pharmacies in Hillsdale and Tualatin, it becomes apparent that one-mile estimated population densities are substantially lower at the Water Tower site. This leads our team to believe smaller, local, specialized retailers will be most successful at the Water Tower site, making up for low one-mile-radii population densities with excellent per capita and median household incomes, and discerning retail customers.

The Retail Market Comps graph above shows retail spaces currently being marketed within John’s Landing, and includes the size range, asking rents, and primary use (with retail typically serving as the building’s secondary or ancillary use).
Retail Rent Assumptions

Compared to the Portland Retail Market’s overall vacancy rate of 5.5% and average $16.06 NNN per square foot quoted rental rate (The CoStar Portland Retail Market Report, Mid-Year 2013), John’s Landing represents a strong retail market. Through analysis of Water Tower’s 2012 rental rate data, we assume $18.00 NNN per sf rental on the re-development’s retail space. Three factors helped justify this rate:

1. Of all the Water Tower 2012 retail leases, commencing-in-2012 (five total), the average rent is $16.78 NNN. Our estimated $18 NNN retail rents for 2017 (coffee shop) and 2018 (New Bailey Building) are a mere 6.8% higher than the average commencing in 2012 rents.

2. When we factor the Water Tower’s commencing-in-2012 retail leases and remove the lowest (Szechuan Chef restaurant, $9.94 NNN), the average rent is $18.49 NNN.

3. Although we’ve assumed an average of $18 NNN, the proposed micro restaurants could achieve higher rents per sf. Likewise, Green Zebra will pay higher rents than Pier 1. It is also possible Melvin Mark has a percentage rent clause for Pier 1, which our rent estimates are not capitalizing.

Given the substantial time frame between now and delivery of the majority of our retail space, our team believes our conservative retail rent assumptions will serve the project well.

Proposed Retail Tenancy

The site currently contains limited retail uses, including Honey Baked Ham, Pier 1 Imports, and a mixture of small, independent users such as Barone Crystal Shop and David Frank Jewelers. Our team’s proposed retail mix seeks to incorporate new uses currently missing from the localized community and includes: a small pharmacy, grocery, bike shop, neighborhood brewpub, and a grouping of micro-restaurants.

Grocery. In re-visioning the tenant mix, we recommend replacing Pier 1 Imports with Green Zebra. Although Pier 1 has been a long-standing tenant, their large ground-floor space (8,726 sf) serves as a retail anchor for the site and should be re-activated with a use that will both draw in and better serve the neighborhood. The surrounding community currently lacks a grocery, with Zupans serving as the nearest food market, located .9 miles south of the Water Tower site.
There is potential need for additional grocers in Southwest Portland, fueled by growth in the South Waterfront, and the continued trend of residential migration to the urban core from the suburbs, a need confirmed by Marketek’s Central City Grocery Market Analysis (Sept. 2011). Marketek reported Portland’s South Waterfront (SOWA) is in need of a grocer, but the location needs 10k new residents more than the existing 3k residents (at 100% occupancy), to support a full service grocer. While growth at SOWA is ongoing, and anticipated in the near term, Marketek’s SOWA population thresholds appears years, if not decades away. The result is a good opportunity for the Water Tower site to establish a small specialized neighborhood market, such as Green Zebra in the near term to capture demand.

**Green Zebra** was identified as a proposed tenant due to its small space requirements (the three new Portland sites range from 3,789 to 7,500 sf). Another important aspect is the company’s emphasis on both community and “healthy and locally sourced food” (www.sustainablebusinessoregon.com). This retail user will contribute to our team’s goal of creating an active, sustainable community asset. (see Tenant Analysis section)

Green Zebra’s exclusive real estate representative, Dan Bozich, reviewed our team’s demographic analysis and side-by-side comparisons between the Water Tower site and Green Zebra’s first three locations. After further discussions with our team about the merits of the Water Tower Building and our proposed placemaking and development, Mr. Bozich signed an academic letter of tenant interest to potentially locate one of their next stores at the Water Tower site. (see Letters of Support)

**Brewpub.** We recommend replacing the existing Szechuan Chef restaurant with a brewpub. Although the restaurant is well received within the community (with an average Yelp rating of 3.5 stars), the Szechuan Chef space is oversized for the current user at 6,341 sf. A brewpub will serve the surrounding office and residential users with both lunch and evening offerings, and will serve to activate the site after office hours have subsided. During the development of the project, we had the benefit of meeting with Dan McMenamin, who serves as an operations director for McMenamins. Although Dan did not provide an academic letter of support for the project, he offered general support for the project and agreed that the site offered standard amenities sought out by McMenamins when choosing new sites: interesting site history, a mix of on-site uses, sufficient restaurant space and parking, and outdoor seating opportunities.
Neighborhood Pharmacy. We recommend adding a neighborhood pharmacy to the southeast corner of the new southwest building. Our team initially considered a national tenant (Walgreens) for their creditworthiness and highest potential sales per square foot. After further analysis, however, we recommend pursuing a smaller neighborhood pharmacy in order to better support the mission of the development to serve as a local, community-focused and community-driven asset. In place of a neighborhood pharmacy, our team believes the pharmacy chain, Pharmaca, shows good potential to become the Water Tower site’s pharmacy tenant.

The proposed pharmacy footprint is 6,000 sf, considerably larger than most neighborhood pharmacies, which are typically 2,000 sf or smaller. Pharmaca, however, typically occupies larger footprints, 3,500 sf and larger. Pharmaca’s focus on traditional, holistic, and naturopathic remedies, and day spa services, contribute to our development’s goals of creating an active, community asset.

Our research shows that no pharmacy is located on Macadam, between OHSU’s Center for Health and Healing at SOWA and Lake Oswego, a distance of 6.3 miles. Detailed comparisons between 5331 SW Macadam and two neighborhood pharmacies, one in Hillsdale, and one in Tualatin, each showed strong evidence to support placing a neighborhood pharmacy at the Water Tower site.

Neighborhood pharmacy tenant analysis was driven by discussions with Patrick Bowman, an entrepreneurial pharmacist who opened his own pharmacy in Tualatin two years ago. When choosing his neighborhood pharmacy location, Patrick identified key metrics to compare proposed locations. He used this analysis to narrow down 10 proposed locations, culminating in his decision to choose his Tualatin location.

Key metrics evaluated by Patrick included: population within 1 and 3 miles, estimated household income, number and proximity of prescribers, number of nearest pharmacies (not including Kaiser), proximity to nearest neighborhood pharmacy (a critical metric to him), miles to nearest hospital, and traffic count of facing street. Following that model, our team compiled a list of data and demographics comparing our site to his pharmacy and Bowman’s Hillsdale (neighborhood) Pharmacy.

Mr. Bowman was more than generous with his time and information, and from his valuable input, we feel strongly that a neighborhood pharmacy would flourish at 5331 SW Macadam. (see Tenant Analysis Section for the comparison chart)
**Micro Restaurants.** In addition to the brewpub, we recommend adding five “micro-restaurants” to the ground floor of the new southwest building, inspired by Kevin Cavenaugh’s project, The Ocean, on NE 24th and Glisan. With minimally built-out spaces ranging in size from 650 to 700 sf, the model offers low entry costs and operating expenses for restaurateurs. According to Michael Russel’s 11/9/12 article on Cavenaugh’s project in The Oregonian, the concept provides for “a level of experimentation possible because of the small spaces, and low risk, inherent in the idea”.

The variety of restaurants, along with their experimental nature, will drive outside traffic to the site as well as serve to better meet the needs of the new Water Tower tenants (both residential and office) by providing a range of on-site food offerings. Given the inherent risks associated with new restaurant ventures, the micro restaurants also offer a lower risk to the developer than a single restaurant tenant would. Although we’ve modeled all retail rents at $18 per sf NNN in the pro forma, the smaller spaces could garnish higher per sf rents. Using a common venting system could save on costs. The micro restaurant spaces could also be used as basic retailers.

**Bike Shop.** For a key space within the ground floor of the Southwest Building, we recommend adding a 1,600 sf bike shop. Although this space could serve a range of retail tenants, we identified this particular use as missing from the surrounding market area. More importantly, however, the bike shop would serve as an asset for the site’s residents and office users. For a site under served by public transit, the bike shop will encourage office and residential users to engage in a viable means of alternative transportation. (note the site’s Transit Score of 53 versus its Bike Score of 84).

**Coffee Shop.** The final component of our retail programing is the addition of an 800 sf free-standing coffee shop on the northwest corner of the site, which will capitalize on the traffic along Corbett (2,064 ADT), as well as the traffic along Boundary, which is used as a connector for I-5 and Macadam. The coffee shop will serve to both draw in additional traffic, as well as activate the northwest corner of the site.
Residential Market

Portland benefits from a tight residential market, with current vacancy rates hovering just above 3.5%. Multi-family construction is increasing, but total anticipated future units are still below predicted overall demand.

At present, Portland is underserved by residential apartment stock. Given the limited residential product in the pipeline, we do not anticipate this gap to be filled in the next four years. Barry Market Report’s Mark and Patrick Barry do not predict the Portland market to become overbuilt. The Barry’s emphasize that the projected population will grow by 25,000 - 30,000 per year and that new units will be delivered in intervals. They expect that some neighborhoods will experience slow absorption, higher vacancies, and possible concessions until there is sufficient time for the new units to be absorbed” (Center for Real Estate Summer 2013 Quarterly Report).

Given that SW Portland’s current vacancy rate of 2.8% is below Portland’s average of 3.55%, we do not anticipate the project will be affected by either slow absorption or high vacancy rates as additional projects come on the market.

A catalytic TOD project in John’s Landing, and higher FAR limits, would help encourage new mixed use developments to flourish in John’s Landing. Macadam is a high volume arterial, limiting pedestrian users, along and across the street. A TOD project would also improve John’s Landing’s livability, by way of improving equity amongst street users.

The residential component of the Water Tower redevelopment is scheduled to be delivered in Spring 2017. The extensive time frame between this market analysis and the anticipated delivery must be acknowledged. As noted in Kidder Mathew’s Second Quarter 2013 Portland Apartment Report, “general consensus supports the notion that the multifamily market will remain very strong throughout the rest of the year and into early 2014. The outlook beyond 18 months remains positive, but few can say with certainty that the market will duplicate the successes of 2011 and 2012.”

Multi family apartment comps within the John’s Landing are limited, but include two aging properties; Park Landing apartments, .06 miles South of our site, currently renting at $1.28 per sq ft, and River Heights apartments, 0.2 miles North, which rents for $1.40 per sq ft.
5310 SW Macadam, (site of the former Cal’s Restaurant) is currently in preliminary design for a five-story apartment building on 1.03 acres. The performance of this project should be an indicator of whether supply growth in the John’s Landing apartment market is upon us, and should help establish higher-than-existing market rents for new apartment space in John’s Landing.

## Tenant Analysis

### Tenant type analysis: Comparison Water Tower Parcel with three Green Zebra locations

*note: PDX Maps says 6450 sf
** Google Maps

<table>
<thead>
<tr>
<th>Location</th>
<th>Sq. Ft</th>
<th>Address</th>
<th>Parking ratio per 1000sf (off street)</th>
<th>Estimated Rent</th>
<th>Average Daily Volume</th>
<th>Secondary feeder street Average Daily Volume</th>
<th>Daytime Population</th>
<th>Daytime population per business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Zebra:</td>
<td>5,600</td>
<td>3913 N Lombard St, Portland, 97217</td>
<td>5.18: 1000</td>
<td>Unknown</td>
<td>N. Lombard: 23k</td>
<td>N. Greene Ave: 18,810</td>
<td>1-mile radius</td>
<td>1-mile radius</td>
</tr>
<tr>
<td>3,789</td>
<td>4926 SE Division St, Portland, 97206</td>
<td>&lt; 1:1000</td>
<td>$19 mm</td>
<td>SE Woodstock: 17k</td>
<td>SE 52nd: 8,081</td>
<td>4,012</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>750 *</td>
<td>3801 SW Macadam, Portland, 97239</td>
<td>-2.8: 1000 **</td>
<td>$22 (mm?)</td>
<td>SE Division: 15k</td>
<td>SE 50th: 9,690</td>
<td>7,032</td>
<td>7</td>
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<tr>
<td>Water Tower Site:</td>
<td>8,736</td>
<td>5331 SW Macadam, Portland 97239</td>
<td>3.0/1000</td>
<td>$22mn, negotiable</td>
<td>Macadam: 24k</td>
<td>SW Corbett: 2,840</td>
<td>11,134</td>
<td>12</td>
</tr>
</tbody>
</table>

### Tenant type analysis: Comparison Water Tower Parcel with Neighborhood Pharmacies

Source: Costar Aug. 2013

<table>
<thead>
<tr>
<th>Location</th>
<th>Sq. Ft</th>
<th>Address</th>
<th>Parking ratio per 1000sf (off street)</th>
<th>Estimated Rent</th>
<th>Main feeder street Average Daily Volume</th>
<th>Secondary feeder street Average Daily Volume</th>
<th>Daytime Population</th>
<th>Daytime population per business</th>
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<tbody>
<tr>
<td>Tualatin Pharmacy</td>
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<td>19297 SW Martinazzi Ave, Tualatin, 97062</td>
<td>?</td>
<td>$22 (mm?)</td>
<td>N/A from report</td>
<td>N/A from report</td>
<td>10,892</td>
<td>11</td>
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<tr>
<td>Hillsdale Pharmacy</td>
<td>?</td>
<td>6256 SW Capitol Hwy, Portland, 97239</td>
<td>?</td>
<td>Own</td>
<td>Capitol Hwy 20.8k (PDOT)</td>
<td>Sunset 5,069</td>
<td>7,335</td>
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<tr>
<td>Water Tower Site:</td>
<td>&lt;= 6,000</td>
<td>5331 SW Macadam, Portland 97239</td>
<td>3.0/1000</td>
<td>$22mn, negotiable</td>
<td>Macadam: 24k</td>
<td>SW Corbett: 2,840</td>
<td>11,134</td>
<td>12</td>
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There are 23 medication prescribers within a 1 mile straight line distance of 5331 SW Macadam (not including OHSU or SOWA OHSU). Three of these 23 prescribers are located at the Water Tower site.
GOALS & OBJECTIVES

Working in conjunction with the stated desires of the property owners, our proposed redevelopment of the Water Tower aims to successfully reactivate the site while providing a long-term hold asset that realizes an acceptable return on investment for Melvin Mark.

- Reactivate the Water Tower to include uses that provide activity on evenings and weekends
- Demolish and rebuild existing structures that have declining useful or aesthetic value
- Provide the neighborhood with currently lacking services and retail uses
- Provide enhanced and inviting open space to act as a venue for neighborhood activities, and encourage community gathering and building
- Maintain existing view corridors
- Incorporate sustainable design and building amenities
- Create a synergistic sense of place
- Develop a phased approach that will minimize disruption to existing tenants and customers
- Increase density and make better use of the available development capacity
EXISTING BUILDING
MIXED-USE TENANTS
AREA: 50,991 SF
TOTAL SF: 101,982 SF

COURTYARD
AREA: ~13,300 SF

NORTHWEST BUILDING
COFFEE SHOP
AREA: 800 SF
TOTAL: 800 SF

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

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

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

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

SW N CORBETT AVE
SW MACADAM AVE
SW SWEENEY ST

N

PORTLAND STATE UNIVERSITY - CENTER FOR REAL ESTATE

THE WATER TOWER

BOMA WORKSHOP: SUMMER 2013
The goal of the project team is to maintain the strongly performing Water Tower Building asset, while injecting additional uses and activity into the large urban parcel. To accomplish this goal, our team has focused on a mixed-use redevelopment that features a multi-family residential component, enhanced retail and restaurant space, new and improved office space, and increased and aesthetically pleasing parking capacity. By increasing the uses and capacity of this urban four acre site we hope to create a profitable asset for the property owners, and an attractive destination for both local and non-local users.

**Office**

While the Water Tower site currently enjoys strong office occupancy rates, some structures on the site (Bailey and Annex buildings) have exhausted their useful life and may not be attractive to the tenant mix the owners are targeting. Our program will demolish and rebuild both of these buildings to include a more diverse tenant mix, increased leasable square footage, with a goal of achieving higher office lease rates.

**Retail/Restaurant**

While the Water Tower was once a major retail and dining destination, in recent years this type of tenant has struggled with the construction of new Portland area malls and lifestyle centers such as Bridgeport Village and Pioneer Place. Our program goals are to re-purpose the retail and restaurant space to meet the needs of the neighborhood and to capitalize on the high traffic counts adjacent to the site. Identified through market analysis and neighborhood input, retail establishments such as a small grocery store, pharmacy, brewpub, bicycle shop, and other added dining options have been implemented into our program. Replacing Pier 1 with Green Zebra grocery will add a higher paying and more relevant tenant to the site. Green Zebra will also help fill the grocery void in the area, promote the Water Tower as a retail destination, as well as enhance livability for the site’s new apartment residents. A neighborhood pharmacy should also be well received by the community, will compliment medical offices located on the Water Tower site, and add convenience for their patients.
Residential
With such strong demand in the local multi-family rental market, and the desire to create synergy and demand for our retail tenants, an approximately 100-unit apartment building will be built at the site. Proximity to the urban core, neighborhood amenities, and superb access are key drivers for multifamily residential demand for the Water Tower site.

Parking
Abundant, dense, and efficient parking at the site represents one of our team’s biggest goals. Our program will keep the existing north surface parking lot in place, as this area represents the site’s primary retail hub. The north side of the Water Tower needs to be highly visible, inviting, and convenient to street users. Retaining the north surface parking lot meets these goals.

The existing parking structure located on the south side of the property is not structurally sound enough to support buildings above it and is visually unappealing. As such, in order to implement our program, we intend to demolish the existing structure and provide below grade parking to support the office and residential tenants. Part of this process will be the creation of a second below-ground access point for the structured parking area, located under the new Annex Building.

The availability of the 17k sf Bailey lot for surface parking will help offset the parking needs during the reconstruction of the structured parking garage at the Southeast Building. However we determined that there will be a need for a maximum of 80 parking spaces during a 15 month period of construction. Our research shows Shorenstein’s (5100 SW Macadam) site, just two blocks north of the Water Tower, has a 100k sf building with 350 parking spaces. The building has leases that guarantee 3 per 1000 sf, so at minimum they have 50 excess spaces for overflow. The Water Tower could utilize Shorenstein’s spaces during the 15 month period. We included temporary parking within our pro forma at $40 dollars a month per space for 80 spaces, and attempted to minimize impact on existing tenants. Shorenstein is receptive to the idea of temporarily renting out 5100 SW Macadam’s parking spaces for $45 dollars a month (see Appendices). Valet service or shuttles could be implemented by the developer, if necessary.
SOUTHWEST BUILDING
PROPOSED FLOOR PLAN
*NOT TO SCALE

- MICRO RESTAURANT
- BICYCLE HUB
- PHARMACY

EXISTING BUILDING

GREEN SPACE

6,000 SF
1,600 SF
680 SF
680 SF
680 SF
680 SF
680 SF

SW MACADAM AVE
Site Design & Architecture

The Water Tower Building was renovated in 2005, involving mechanical improvements and a building face lift. That remodel offered design cues for our proposed redevelopment of the site. The exterior elevations of the proposed development were meant to complement and fall in line with the existing Water Tower design. Particular care was taken in protecting existing spaces, courtyard, and the existing building, preserving the site history. Protecting these open spaces is aligned with the goal of creating a sense of place within the site. This sense of place can help create activity throughout the day, while activating the site’s different uses and creating symbiotic relationships.

Design features and amenities are focused on emphasizing the unique attributes of the site such as the prominent water tower itself, its proximity to the water, large old growth exposed timbers, history as a furniture factory, and access to highways and the CBD. These design features clearly help to add to the classic nature of the site. The proposed development integrates modern technology with a historic feel, to meet the changing demands of the users. For example, incorporating exposed timbers such as those in the existing building, is not cost ineffective to create a new, open floor plate. Instead, we propose to use modern technologies such as steel beams with wooden trims to accent the building’s interior facade; this helps creates a warm and welcoming environment within a steel frame. Natural lighting with large insulated windows is a focus within our design.
Construction Phasing

The redevelopment of the Water Tower site will be completed in phased increments. This will be done to ensure that construction has minimized impacts on the existing tenants or operations of the site. Completing the construction in a timely, cost-effective manner is also crucial to the success of the Water Tower redevelopment, by minimizing negative externalities associated with redevelopment.

**Phase 1-2 Demolish and Reconstruct Annex.** Due to the location of the Annex within the site, along with its small size, and the low number of tenants currently located within the space (three), it is obvious that redevelopment must start here. Quickly tearing down and rebuilding the annex will have very little impact on the daily site activities as well as the overall financials. After the Annex is completed lease up of the new space can begin immediately. The Annex Tenants will be attempted to be relocated elsewhere in the Water Tower Building. When reconstructed, the Annex will be fully utilized as office space.

**Phase 3-4 Demolish Parking Garage and Bailey Building.** To ensure maximization potential savings and efficiencies, we plan on demolishing both the Parking Garage and Bailey Building simultaneously. While this will create a major disturbance on the site itself; this is the quickest, easiest and therefore most cost effective way to remove the two structures. In addition, by demolishing the two structures simultaneously, we also create the opportunity to convert the Bailey Building into a temporary parking lot for patrons, tenants and construction staging.

**Phase 5-7 Construct Parking Garage, Coffee Shop and Residential Apartments.** The next step in the redevelopment plan calls for rebuilding the parking garage, constructing a multi-story apartment complex on top of the new parking garage, and constructing a small coffee shop on the NW corner of the site. Given the impact that the construction of the parking garage/apartment building will have on the site, combined with the need for temporary parking on the site itself, the redevelopment plan calls for only the construction of these structures at this time. The reconstruction of the Bailey Building will be delayed until construction of the new parking garage/apartment building is completed.

**Phase 8 Construct New Bailey Building.** Once the construction has been completed on the annex, parking garage, apartment building and coffee shop, construction can begin on the new Bailey Building, thus completing the redevelopment of the Water Tower site.
Development Phasing

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

101 surface
215 podium

- Inefficient parking densities
- Lack of traffic flow within site
- A “sea of asphalt” surrounds the buildings
Proposed Parking

- Improved parking densities
- Improved traffic flow within site
- New and improved podium infrastructure
- Shared parking efficiencies due to programming of site

### Parking Assumptions

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Parking Area</td>
<td>350 SF/Stall</td>
<td></td>
</tr>
<tr>
<td>Residential Area</td>
<td>750 SF/Unit</td>
<td></td>
</tr>
<tr>
<td>Office Parking Ratio</td>
<td>2 /1000SF</td>
<td></td>
</tr>
<tr>
<td>Retail Parking Ratio</td>
<td>3 /1000SF</td>
<td></td>
</tr>
<tr>
<td>Residential Parking Ratio</td>
<td>0.75 /Unit</td>
<td></td>
</tr>
</tbody>
</table>

---

**370 TOTAL PARKING SPACES**

- **70 SURFACE**
- **25 UNDERGROUND**
- **260 STRUCTURED**
- **15 SURFACE**
Additional Programming

**Height Limit Restrictions:** With zoning that includes a 45 foot total height limit and includes a 35 foot average building height, we will be seeking a height limit adjustment for our redevelopment. Upon discussion with planning professionals and past land use reviews, we feel positive that our adjustment will be approved due to our enhancement of the SW Sweeney right-of-way which includes the addition of sidewalks, the maintaining of east-west oriented buildings to preserve view corridors, and our support from the neighborhood association.

**Wall Mural:** A blank wall at the busy north parking lot could be improved by way of a mural. Mural artist, Richard Haas, designed the mural at the Oregon Historical Society. Haas reviewed The Water Tower site and roughly estimates a cost of $51,200 to paint a mural at the blank wall location. The mural site could also be rented as advertising space. (see Appendix)

**Water Feature:** We recommend creating a water feature and structure along SW Macadam on the north side of site. The water feature will promote the visual appeal of the structure for southbound drivers, while providing an additional outdoor space for office tenants and retail customers.

**Improved parking flow:** A second entrance to the subsurface garage under the Annex building will connect the North and Southeast surface lots. The improved flow will help keep autos from leaving the site if the surface lots are full.
View from the northwest corner of the site, new coffee shop and Annex

Improved green space between the new Bailey & Water Tower buildings
View of site looking North, featuring new residential building, underground parking and Bailey Building

Southwest corner of site featuring new residential building
The Green Factor

- We suggest bringing notice to this iconic location through solar and wind powered parking lot lighting. Rooftop turbines bring notice to ZGF’s 12 West Building, small turbines can do the same to differentiate the Water Tower site from its competition.

- We urge Melvin Mark to consider the necessary capital improvement of the Water Tower Building roof in 2013 or 2014, as an opportunity to install solar panels that utilize a feed-in tariff.

- The new sidewalk on Sweeney promotes livability / walkability for residents, tenants and improves the neighborhood.

- Using daylighting analysis data from Interface Engineering (Shem Heiple, PE) we situated the residential building East/West. The East/West orientation allows for lower first costs, 16% reduction in HVAC tonnage, lower operating costs, improved daylighting, and improved quality of life for tenants. While we didn’t factor this savings in the pro forma, the developer can capitalize on them.

Daylighting analysis saves energy and improves livability

Powin Corporation off-the-grid solar and wind powered lighting
### Cost Assumptions

<table>
<thead>
<tr>
<th>Cost Assumptions</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land Cost</strong></td>
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</tr>
<tr>
<td><strong>Hard Cost</strong></td>
<td></td>
</tr>
<tr>
<td>Construction costs (PSF)</td>
<td></td>
</tr>
<tr>
<td>Demo</td>
<td>$2.00</td>
</tr>
<tr>
<td>Site</td>
<td>$17.50</td>
</tr>
<tr>
<td>Office</td>
<td>$155.00</td>
</tr>
<tr>
<td>Retail</td>
<td>$155.00</td>
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<tr>
<td>Coffee</td>
<td>$80.00</td>
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<tr>
<td>Residential</td>
<td>$100.00</td>
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<tr>
<td>Parking B1, B2</td>
<td>$100.00</td>
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<tr>
<td>Parking B2, B3</td>
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<tr>
<td><strong>Hard Contingency (PSF)</strong></td>
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<tr>
<td>Office TI's</td>
<td>$30.00</td>
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<tr>
<td>Retail TI's</td>
<td>$40.00</td>
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<tr>
<td><strong>Soft Cost</strong></td>
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<tr>
<td>Due Diligence (PSF)</td>
<td>$0.15</td>
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<td>A/E Fees</td>
<td>8%</td>
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<td>Legal Fees</td>
<td>1%</td>
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<tr>
<td>SDCs/Permitting</td>
<td>$2,108,522.00</td>
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<tr>
<td><strong>Soft Contingency</strong></td>
<td>3%</td>
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</table>

### Development Hard Costs
As per cumulative estimates from various sources, including inputs from the expert panel listed in the Acknowledgments Page, the average demolition cost is assumed to be $2 PSF. Market research suggests $30 PSF for office and $40 PSF for the retail spaces to be budgeted for tenant improvements.

### Development Soft Costs
Rembold’s detailed soft cost calculation tool was utilized to assist our calculations for development soft costs.
Cap Rate
We estimated the Cap Rate to be at 6.13%. This is an averaged rate based on the three types of development planned for this project. As per REIS report: over the last 12 months for quarter ending June 2013, average apartment caps are 5.1%, retail 7.8%, and office 8.5%.

Revenue Assumptions
Based on 2012 Water Tower Rent Roll, renting the existing retail spaces are producing $14.79 PSF and offices $20.47 PSF in revenue. Based on CoStar second quarter of 2013 retail report for John’s landing, the retail rents are NNN and office rents are FSG. The retail space is calculated at $18 PSF, office at $23 PSF, and residential at $1.92 PSF. Given that area comps are quoted from $35 to $60 per space, parking is assumed to be rentable at an average of $50 per stall.
Financing Strategy

The financial planning for this redevelopment required creative thinking. There were several elements which needed to be addressed, including the existing debt, the relatively large construction costs, and a desire to minimize the amount of equity required on the part of the owner.

<table>
<thead>
<tr>
<th>Uses:</th>
<th>Sources:</th>
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<tbody>
<tr>
<td>Land</td>
<td>Land</td>
</tr>
<tr>
<td>$ 2,030,000.00</td>
<td>$ 2,030,000.00</td>
</tr>
<tr>
<td>Existing Debt</td>
<td>New Loan on WT</td>
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<tr>
<td>$ 14,700,000.00</td>
<td>$14,107,025.40</td>
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<tr>
<td>Const. Costs</td>
<td>Const. Loan</td>
</tr>
<tr>
<td>$ 41,557,709.12</td>
<td>$31,955,239.25</td>
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<tr>
<td></td>
<td>EB5 Equity</td>
</tr>
<tr>
<td></td>
<td>$ 8,642,222.88</td>
</tr>
<tr>
<td></td>
<td>MM Equity</td>
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<tr>
<td></td>
<td>$ 1,553,221.59</td>
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</table>

**Total Uses:** $58,287,709.12  **Total Sources:** $58,287,709.12

The overall success of this plan requires a lender to see the overall vision. The first step is to refinance the existing Water Tower building independently from the parking structure. A temporary parking plan will provide Water Tower tenants parking on nearby properties. A construction loan is required to pay for the majority of the new development costs, with the balance being funded by a combination of equity from Melvin Mark and EB5 financing. EB5 is the Employment Based Visa program, a method of obtaining a green card for foreign nationals willing to invest in the new creation of job generating commercial enterprise. The EB5 equity is what ultimately allows this project to bridge the gap in the construction costs without requiring a significant cash investment on the part of Melvin Mark.

Based on input from American United EB-5 Regional Center, we have made reasonable assumptions about being able to extend the established Portland area Targeted Employment Area to include the Water Tower site.

<table>
<thead>
<tr>
<th>Contraction Loan</th>
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<tbody>
<tr>
<td>Total development cost</td>
</tr>
<tr>
<td>Loan amount</td>
</tr>
<tr>
<td>Loan costs</td>
</tr>
<tr>
<td>Loan proceeds</td>
</tr>
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<td>LTC</td>
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<tr>
<td>Amortization term</td>
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<tr>
<td>Rate</td>
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<tr>
<td>Monthly debt service</td>
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<tr>
<td>Annual debt service</td>
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<tr>
<td>DCR</td>
</tr>
<tr>
<td>Equity required</td>
</tr>
<tr>
<td>Equity in land</td>
</tr>
<tr>
<td>Equity needed</td>
</tr>
</tbody>
</table>
Once the redevelopment is complete and the project has stabilized, a permanent commercial loan could be placed. The permanent loan would be based off the cumulative, increased NOI of the entire property, generating enough proceeds to pay off the “temporary” loan that was issued on the Water Tower as the first step, as well as the balance of the construction loan. The payback of the EB5 equity investment would come principally from the accumulated net cash flow over the course of the redevelopment, but also in part from a minimal additional cash equity investment by Melvin Mark.

The end result is a greatly enhanced, mixed use development generating more than double the original NOI, all for relatively little additional equity investment on the part of the owner.

Our analysis shows in 2026, Melvin Mark will net $31,084,947 cash upon sale of the property, at a blended 6.13% Cap Rate.
### 10 Year Cash Flow

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Existing Building</th>
<th>New Annex</th>
<th>New Bailey</th>
<th>Black Rock</th>
<th>TOTAL GROSS REVENUE</th>
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<tr>
<td>2014</td>
<td>$399,021.94</td>
<td>$1,989,291.55</td>
<td>$10,292.67</td>
<td>$220.83</td>
<td>$2,388,313.49</td>
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<td>2015</td>
<td>$363,760.22</td>
<td>$1,958,254.45</td>
<td>$762,046.25</td>
<td>$817.50</td>
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<td>2016</td>
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<td>$1,806,980.38</td>
<td>$783,020.00</td>
<td>$842.03</td>
<td>$2,858,420.62</td>
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<td>2017</td>
<td>$317,321.96</td>
<td>$1,855,381.64</td>
<td>$803,993.75</td>
<td>$867.29</td>
<td>$4,016,155.24</td>
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<td>2018</td>
<td>$304,041.12</td>
<td>$1,903,782.90</td>
<td>$824,967.50</td>
<td>$893.30</td>
<td>$5,380,758.67</td>
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<td>2019</td>
<td>$296,912.10</td>
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<td>$845,941.25</td>
<td>$920.10</td>
<td>$6,185,690.35</td>
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<td>2020</td>
<td>$296,454.40</td>
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<td>$866,915.00</td>
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<td>$6,384,635.18</td>
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<tr>
<td>2021</td>
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<td>$887,888.75</td>
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<td>$6,554,727.41</td>
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<td>2022</td>
<td>$318,820.95</td>
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<td>2023</td>
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<td>$971,783.75</td>
<td>$1,098.65</td>
<td>$7,734,626.21</td>
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<td>2026</td>
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<td>$793,783.75</td>
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### Investor Cash Flow

#### Total

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<td>$(1,113.19)</td>
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<tr>
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<td>Construction Loan Payoff</td>
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<td>Permanent Loan Fund</td>
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<tr>
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<td>Sale</td>
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<tr>
<td>Permanent Loan Payoff</td>
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<td>Total</td>
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<td>$(1,142.33)</td>
<td>$(7,710.90)</td>
<td>$685.58</td>
<td>$602.32</td>
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<td>$938.086</td>
<td>$1,318.045</td>
<td>$1,423.166</td>
<td>$1,538.144</td>
<td>$1,662.044</td>
<td>$1,797.565</td>
<td>$1,948.901</td>
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#### 2026

<table>
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<tr>
<th>Year</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$2,122,602</td>
</tr>
</tbody>
</table>
Many weeks were spent debating and gathering professional input into our redevelopment proposal. While many iterations of the design were vetted prior to coming to a consensus on our preferred development, the following two proposals ended up being our top alternatives.

**Alternative 1: Leave site and program as is**

**Pros:**
- Successfully performing asset with an occupancy rate at or near 100%
- The least disturbance to the financial debt already existing on the properties
- Zoning regulations make the site difficult to develop profitably
- No disruption to current tenants or neighboring properties

**Cons:**
- Lack of activity on evenings and weekends
- Outdated and poorly constructed Bailey Building and parking structure
- Does not currently meet neighborhoods desire for services and amenities
- Large amount of surface parking does not promote alternative transportation modes
Alternative 2: Leave parking structure / No residential

**Pros:**
- Provides new Bailey, Annex, and Coffee Shop buildings
- Significantly reduces total development costs and timeline
- Maintains sufficient parking ratios

**Cons:**
- Lack of residential component could hinder retail success
- Does not take advantage of the successful, local multi-family market
- Reduced yearly cash flow
- Does not diversify the site’s income streams by including residential development
To: Travis Meinhold, Portland State University
From: Dan Bozich, Green Zebra Grocery
CC:  
Date: August 16, 2013

Re: Letter of potential tenant interest in 5331 SW Macadam - Water Tower Building

Travis,

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

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

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

Best of luck on this project.

Sincerely,

Dan J. Bozich (exclusively representing Green Zebra Grocery)

Urban Works Real Estate
South Portland Neighborhood Association

Representing the Lair Hill, South Waterfront, Corbett, Terwilliger, John's Landing, and Fulton communities

7688 SW Capitol Hwy.
Portland, OR 97219

September 12, 2013

Michael Gum
Portland State University

Dear Michael:

On behalf of the South Portland Neighborhood Association I want to thank you for reaching out to us and sharing your proposed PSU student workshop redevelopment of the Water Tower and Bailey buildings with us. Your group’s presentation at our September 4, 2013 association meeting seemed to be well received by our board members. Specifically the ideas of adding a grocery store and pharmacy received positive responses from the board and the idea of restoring evening and weekend activity to the Water Tower site is something we would really like to see. Of course issues regarding the addition of residential units and parking capacity are always going to be a concern, but it appears that this has been adequately addressed in your proposal.

Best of luck on the completion of this project, I believe you have done a great job with it.

Sincerely,

Ken Love, President
South Portland Neighborhood Association
ACKNOWLEDGMENTS

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Brandon O’Leary, Kidder Mathews
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Kirby Kirch, Income Property Management
Nick Fritel, TMT Development
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Marcus Breuer, Touchmark
Dan Bozich, Urban Works Real Estate

Bader, Rembold Companies
Robert Pile is an MRED candidate. He holds a GCRE from PSU, and a BA in Economics & International Relations. He is an Associate Vice President at TMT Development in commercial real estate management and operations. Additional real estate skills include lease negotiation, construction, capital projects, and team management. Robert is a BOMA scholarship recipient.

Travis Meinhold is an MRED candidate. He holds a GCRE from PSU, a BA in Humanities, with minor in English. He has spent nine years in resort community development as Vice President of Telegraph Cove Venture Inc. Additional real estate skills include private utility development, marketing, excavation, and property tax appeal strategy. Travis is a BOMA scholarship recipient.

Frank Tea is an MBA and GCRE candidate. He holds a Bachelor of Architecture degree. He is an architectural intern and manager for his family’s business for over 10 years. Additional real estate skills include conceptual design, drafting and modeling, research, training and management. Frank is a BOMA scholarship recipient.

Michael Gum is an MRED candidate and holds a GCRE from PSU, and a BS in Resort & Lodging Management, with minor in Business Admin. Michael has spent the last seven years working at the Portland Development Commission. Michael is a recipient of multiple scholarships including the Mark and Ann Edlen, Norris & Stevens, and BOMA awards.

Morgan Brakken is an MRED candidate. She holds a BA in American Cultural Studies and is the Retail Real Estate Manager for the adidas Group. Additional Real estate skills include market research and analysis, financial modeling and lease negotiations. Morgan is a BOMA scholarship recipient.

Mitch Powell is an MRED candidate. He holds a GCRE from PSU, and a BA in Communications. He is the owner of the Powell Group LLC. He has over six years experience as a project Superintendent at DR Horton. Additional real estate skills include construction management and residential development. Mitch is a BOMA scholarship recipient.

Noshad Rahimi is a PhD student in Engineering Technology Management. She holds an MBA from PSU, and a Computer Engineering degree. She owns a property investment and mgt. business, and has 15 years in the IT industry. Additional real estate skills include financial modeling and financial management. Noshad is a BOMA scholarship recipient.
APPENDICES

Water Tower office competition map

River Forum 1
4830 SW Macadam
$17.00 - $26.50 FSG
0.5 miles north

River Forum 2
4386 SW Macadam
$23.00 FSG
0.5 miles north

Riverside Center
5100 SW Macadam
$21.00 FSG
0.2 miles north

5550 Building
5500 SW Macadam
$23.00 FSG
0.1 miles south

Macadam Place
6915 SW Macadam
$20.00 FSG
0.7 miles south
Water Tower Area Retail Map

Macadam Center
Community Center
0.1 mile north

Macadam Bar & Grill
Free-Standing Restaurant
0.2 miles south

Macadam Market
Community Center
0.4 miles south

Elephants Delicatessen
Free Standing Deli
adjacent to site

Corbett Fish House
Free Standing Restaurant
0.3 miles south

Fulton Pub
Free Standing Brewpub
0.5 miles south
John’s Landing Residential Map

- Single-Family Rowhouses adjacent to site

Park Landing
$1.28 per sq ft
0.6 miles south

River Heights
$1.40 per sq ft
0.2 mile north
From: Kelly Levine [mailto:klevine@shorenstein.com]
Sent: Monday, September 23, 2013 11:36 AM
To: Robert Pile
Cc: Eric Castle
Subject: RE: RSC parking

Robert-
We would be open to the possibility of providing parking spaces at $45/month per parker.

Kelly Levine - Property Manager
Shorenstein Realty Services, LP
503.412.4865 (T) | 503.595.8767 (F)
klevine@shorenstein.com

From: Robert Pile [mailto:Robert@tmtdevelopment.com]
Sent: Tuesday, September 17, 2013 1:43 PM
To: Kelly Levine
Cc: Eric Castle
Subject: RE: RSC parking

Hi Kelly,

Thanks for the response. Our proposed construction timeline calls for needing the temporary parking from January 2016 until December 2016, though could spill over into 2017 some, maybe no later than March of 2017?

Thanks,

Robert L. Pile
Associate Vice President
Direct: (971) 230 - 2388
www.tmtdevelopment.com

From: Kelly Levine [mailto:klevine@shorenstein.com]
Sent: Tuesday, September 17, 2013 1:19 PM
To: Robert Pile
Cc: Eric Castle
Subject: RE: RSC parking

Hi Robert-
Thank you for your email. Let me look into this for you and get back to you. Can you give me the specific time frame you are looking for (start/end date)?

Kelly Levine - Property Manager
Shorenstein Realty Services, LP
503.412.4865 (T) | 503.595.8767 (F)
klevine@shorenstein.com
PSU graduate student request regarding your murals

Richard Haas <haasnc@aol.com>
To: Travis Meinhold <mein2@pdx.edu>

Pardon me for not getting back to you sooner but things have gotten rather chaotic in my studio of late topped by a visit from a CBS Sunday morning crew tomorrow.

I looked at the Old Water tower building you show me and it does look interesting. It is as you can imagine very difficult to discuss possible costs for executing such a project. The usual procedure is to engage at first in a preliminary design commitment and then when ideas are explored and sketched and designs are completed one can get a better grasp of the actual costs. Execution on such a site which I estimate by what you have sent me is about 750 to 800 square feet have recently run in the $30 to 40 dollar range by painters who I approve. That of course, would include the use of the special German silicate paint that I usually mandate for such outdoor projects. My fees generally run about 50% to 60% of those costs plus travel expenses.

I would be happy to further discuss this all with you further of course.

Sincerely,
Richard Haas
Richard Haas
381 West 36th Street, 5A
New York, New York 10018

212 947 9868  Studio
514 490 9410  Mobile
Haasnc@aol.com