MONTGOMERY BLOCKS DEVELOPMENT STRATEGY

Portland Development Commission · Updated · June 2005

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PSU Urban Center Plaza

INTRODUCTION

The **Montgomery Blocks Development Strategy** was commissioned by PDC, in cooperation with PSU, to explore options for developing the three "Montgomery Blocks." The initial report was issued August 13, 2003. This revision was prompted by recent decisions impacting development in the area, specifically:

- Retention of the Harrison Court Apartments and the need for further examination of the development feasibility of Block 153 [Jasmine].
- PSU and PDC's decision not to participate in joint PDC/PSU offices on Block 161 [PCAT].
- The need to further study the development potential of Block 152 [St. Michael].
- PDC and Portland Streetcar Inc.'s need to further study the permanent streetcar alignment through the Montgomery Blocks.

Seattle's Best Coffee at the Urban Center

ACKNOWLEDGMENTS

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EXECUTIVE SUMMARY

INTRODUCTION

In Fall 2002, a strategic partnership was formed between the Portland Development Commission and Portland State University to implement aspects of the 1995 University District Concept Plan. The Plan describes a vision for this district as a "vibrant, mixed-use district blending the University with the urban life of the City."

In 2003, PDC and PSU coordinated to create a Montgomery Blocks Development Strategy [MBDS]. The strategy offered an assessment of the development potential of key parcels along the eastern edge of the University District, between SW 4th and 6th Avenues and SW Market and I-405, and formulated strategies for developing three of four Montgomery Blocks.

Since that time, there have been various changes to the original strategy as presented in 2003:

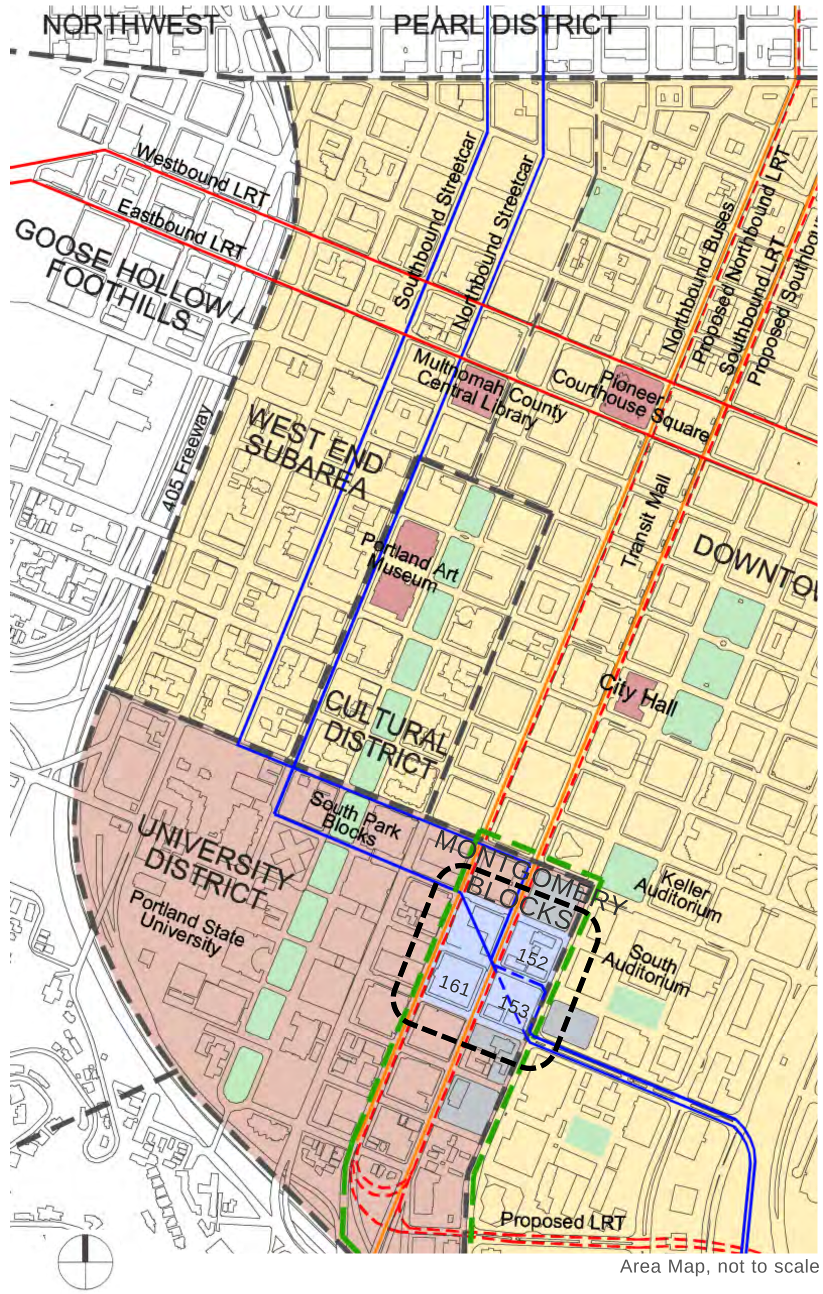
· In 2003, PDC and PSU discussed a joint redevelopment of Block 161 [PCAT] as a mixed-use building including offices for both institutions. Since then, PDC has relocated to the Mason Ehrmann building in the Old Town/Chinatown neighborhood.

· In 2004, PSU's Space Needs Assessment Committee issued a report that determined total current need for an additional 330,000 square feet of academic, instructional, and student support space. Today, PSU is exploring the use of Block 161 [PCAT] for office, academic, ground floor retail, a new student recreation center, and underground parking to address these needs.

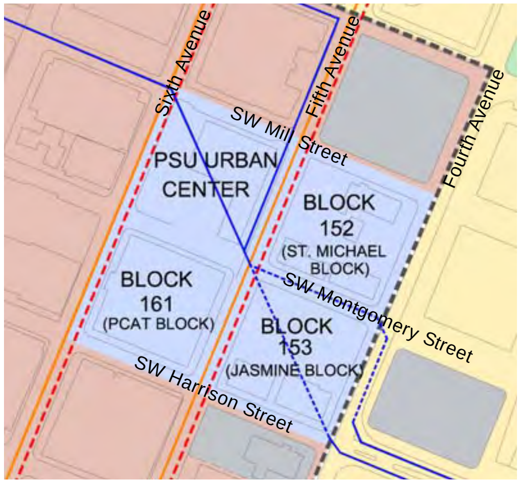
· In 2003, the original development strategy for Block 153 [Jasmine] included full-block redevelopment to create an efficient development footprint. Today, due to the Harrison Court Apartments historic value, the property is undergoing renovation and will be listed by the property owner in the National Register of Historic Places.

· St. Michael's is examining the feasibility of a full block project that includes the Value Inn property on Block 152 [St. Michael]. Alternatively, the Value Inn parcels could be developed independently, however this alternative would not maximize existing planning or development goals.

Despite significant changes, PDC, PSU and other public and private partners continue to have an opportunity to create a University District that attracts people to not only study but to live, work and play. The Updated Montgomery Blocks Development Strategy incorporates the changes and formulates new development strategies to bolster this opportunity.



Area Map, not to scale



Detail map of Montgomery Blocks

DEVELOPMENT AREA

The Montgomery Blocks include:

Block 161 'PCAT' Block between SW 5th and 6th, Harrison and Montgomery,

Block 153 'Jasmine' Block between SW 4th and 5th, Harrison and Montgomery, and

Block 152 'St. Michael' Block between SW 4th and 5th, Montgomery and Mill.

The fourth block that fills out this quadrant is anchored by Portland State University's School of Urban Affairs and Distance Learning Center on the University Plaza.

WHY HERE... WHY NOW?

Five primary issues spurred PDC's interest in analyzing these particular blocks within the University District at this time:

1. PDC acquired 27,000 square feet of Block 153 [Jasmine] and a 42% interest in Block 161 [PCAT] from PSU. With partial site control, PDC wished to explore the development potential of the blocks and determine land assembly to greatly enhance development potential.
2. Alignment decisions on the second phase of the Portland Streetcar were being finalized in the spring of 2003. The streetcar could either go through Block 153 [Jasmine], continuing its diagonal course from the Urban Center Plaza, or could surround the block on four sides. A decision on the final alignment was delayed until PDC was able to analyze the affects of streetcar on the development potential of the block.

   After several options were developed for Block 153 [Jasmine], it was determined that a temporary streetcar alignment would be built until the block is redeveloped. The preferred permanent alignment included here has a south bound track running diagonally through the block and a north bound track along SW Montgomery and 4th Avenue.
3. The Church of St. Michael and the Archdiocese of Portland expressed interest in exploring development proposals for their underutilized land on Block 152 [St. Michael] in hopes it could provide income for the parish. PDC agreed to help identify uses on Block 152 [St. Michael] that could augment the redevelopment of Blocks 153 [Jasmine] and 161 [PCAT] and provide income to the church.
4. PSU requires additional academic space. The university has issued a Request for Proposals to evaluate the feasibility of a mixed-use development on the PCAT site incorporating office space and a student recreation center and expanding Urban Center Plaza retail activity.
5. The South Park Blocks Urban Renewal Area will not be permitted to issue bonded indebtedness beyond 2008, limiting PDC's ability to finance new projects in the district in the future.

PUBLIC GOALS

The Montgomery Blocks lie within the South Park Blocks Urban Renewal Area which was formed in 1985. The urban renewal area's goals, like those in the University District Concept Plan, are to create a vibrant residential neighborhood with a mix of housing types and neighborhood support services. The City's and PSU's shared goals for these particular blocks include:

1. Creating a multi-block catalyst project to activate the area and help create a healthy neighborhood.
2. Providing market rate housing.
3. Creating projects designed to accommodate light rail and streetcar with their design.
4. Ensuring excellent urban design in future developments.
5. Increasing tax-generating uses.
6. Assisting adjacent property owners to realize the development potential of their properties to the extent the above goals can also be met.


PSU Urban Center and Plaza

VISION

PSU's and the City's vision of integrating the University with the City began with the Urban Center and will continue with development of the Montgomery Blocks and beyond. While it is important to build on the youthful identity of the area, there is also an opportunity to add affordable and workforce housing, rental apartments/townhouses and for-sale condominiums, allowing downtown workers, faculty and staff to enjoy the amenities the district offers.

Plans to complete the University Plaza, extend the streetcar to the river, transform Montgomery Street into a tree and café-lined pedestrian way, consider the possible addition of light rail to this area and pursue the addition of a grocery and other neighborhood services will increase the district's appeal as a place to live, work and play.

The potential exists for the Montgomery Blocks to create an active new neighborhood at the south end of downtown, add to the City's housing stock, provide office and academic space, add active retail to serve the neighborhood, and catalyze new development in the University District, justifying substantial public energy and investment.


Montgomery Street Greenway


Pettygrove Park


Lovejoy Fountain

COST AND BENEFIT

The three Montgomery Blocks have the potential to add 790,000 square feet of new development to the University District, valued at $107 million.

- If fully developed as recommended, the three blocks could add more than 360 housing units, 42,000 square feet of retail, 291,000 square feet of office and academic space, and 325 parking spaces to serve the district. [See chart page 15].
- The costs to develop each block range from $14 million to $52 million.
- The amount of public investment [gap] could range between $2 million and $7 million per block. The gap for the proposed development program on Block 153 [Jasmine] is $6.5 million. The gap for a full block project on Block 152 [St. Michael] is an estimated $5.1 million and for a quarter block project involving only the Value Inn parcels is an estimated $1.4 million.
- While the public investment needed to finance these blocks could be significant, the assessed value of all three blocks is expected to rise from the existing $1.5 million to more than $50 million, potentially generating significant new tax revenues. The current assessed value of Block 153 [Jasmine] is currently just under $1 million and of Block 152 [St. Michael] is approximately $0.6 million.
- As with Museum Place, public and private investment in these blocks is likely to spur redevelopment of four privately-owned blocks in the immediate vicinity while creating the core of an active new neighborhood. [See map on page 25].

MARKET STRENGTHS

The area has attributes that make it a prime location for housing, office and retail including:

- Excellent transit and freeway access.
- Nearby greenspaces and recreation opportunities [Keller Fountain, Park Blocks, Waterfront Park, Riverplace].
- Close to downtown jobs, dining and entertainment.
- Adjacent to PSU and its amenities.
- Substantial new investment [$200 million] underway or recently completed including the PSU Engineering Building, the Broadway Housing project and the streetcar.

DEVELOPMENT CHALLENGES

In the near term there are some challenges to attracting private investment and development interest including:

- Untested market = perceived risk.
- Competitive disadvantage to more established areas in Portland [e.g., Pearl District and Riverplace].
- Will cost the same or more to build in the University District, but expected rents/sales prices will be priced lower than the Pearl and Riverplace, at least initially.
- Cost of underground parking will be high.
- Infeasible to build parking beneath street rights-of-way due to utilities, streetcar and access issues.
- Cost premium to integrate streetcar into the design.
- Cost premium to preserve and build around the Harrison Court Apartments.
- Land assembly required.
- Lack of some neighborhood services [pharmacy, grocery, etc.].

MARKET FINDINGS

- There will be strong market support for all commercial and residential land uses, though in the near-term speculative office is not feasible [high vacancy rates].
- Housing development in this area would appeal to a number of underserved segments of the urban housing market including:
    - Young households who prefer urban living but cannot afford more sought-after neighborhoods like the Pearl District.
    - University faculty, graduates, staff and retirees who would prefer to live close to the University.
    - Downtown employees who wish to live close to their jobs and need workforce housing.
- **Condominiums** will need to be priced lower than those in the Pearl [$260/sf versus $270/sf - $335/sf] to be marketable.
- **Middle income apartments** should be priced at approximately $1.50/sf, equivalent to rents at about 80% median family income.
- **Affordable apartments** in the University District are expected to average about $1.10/sf in order to serve households earning 60% median family income.
- **Senior Housing** in the University District could command higher rents than Terwilliger Plaza because of its superior location, new construction and modern design. However, it would have to be priced at the top of the market because of the high cost of land and high-rise construction.
- **Office** performs well in a strong market. Projecting forward three years, office development in the area is expected to command lease rates of $18 per square foot plus common area charges. Developing market rate housing will help support additional retailers.
- **Retail** space in this area does very well. Pizzicato, Seattle's Best Coffee and Starbucks all have their best performing stores in the University District. Lease rates for these stores average $17 per square foot plus common area charges. Developing a diversified housing mix will help support additional retailers.
- **Parking** in the University District is not adequate, so the gross income generated from existing parking is high at $1300/space/year. Excess parking spaces [not dedicated to residents or commercial users] that can be built into the developments will perform well and can help close financial gaps.

DEVELOPMENT OPTIONS

Many different development options, each with a mix of uses, were considered. The following options for the three blocks represent the best blend of uses and balance between public goals, urban design, market acceptance, financial feasibility and constructability, and are included for illustrative purposes. A description of the strengths and weaknesses of each option follows in the body of the report.

Block 161 - PCAT

Option 1: Multi-story building with below-grade parking, lower-level student recreation center and retail, PSU office and academic space, and general office space. Through an RFP process, PSU will further determine the feasibility of combining various development program components.

Block 153 - Jasmine

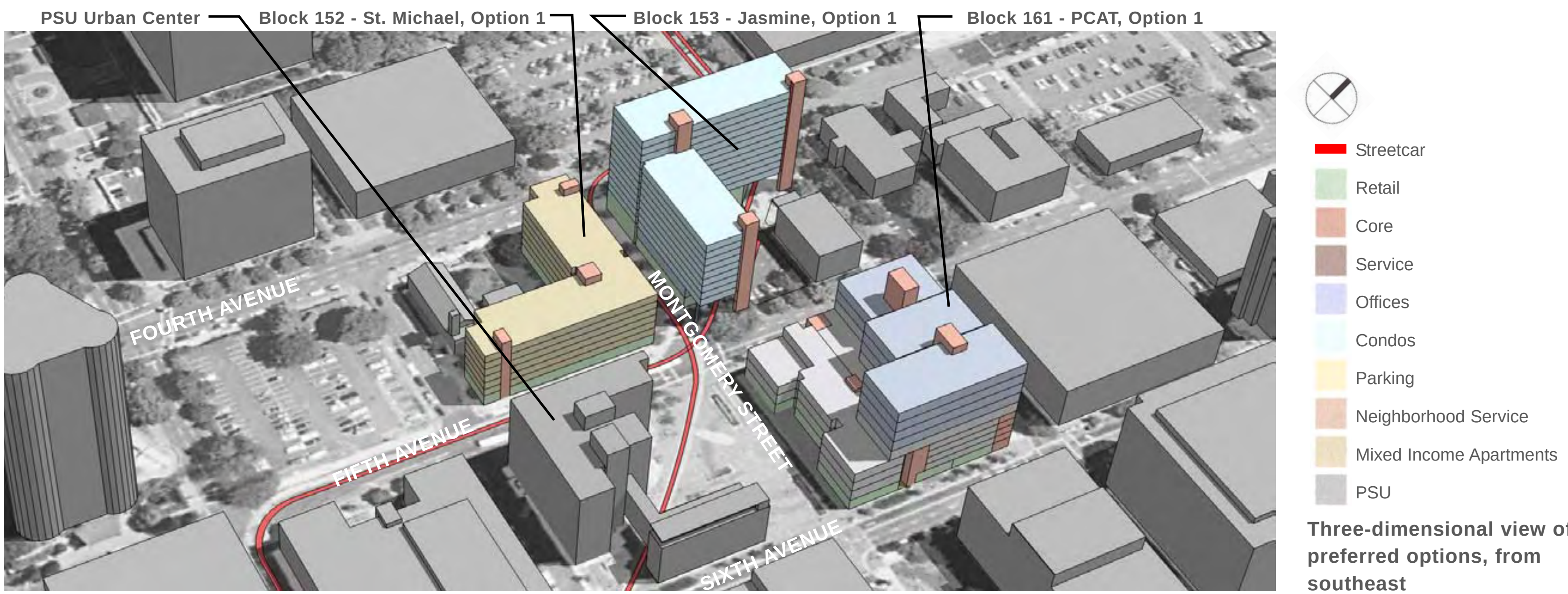
Option 1: 11 and 14-story L-shaped building with two levels of below-grade parking, double-height ground floor retail, and middle income condominiums above. In acknowledgement of the Harrison Court Apartment's historic value and existing affordable units, new development will be coordinated with the apartment's restoration to maximize the block's urban design potential.

Block 152 - St. Michael / Value Inn

Option 1: PDC is working with St. Michael's to develop a comprehensive development proposal for the church's surface parking lots in conjunction with the adjacent Value Inn parcels. If the block is developed by St. Michael's parish, the development could include a multi-story "L"-shaped building with below-grade parking, ground floor retail, second floor office or institutional space, and mixed-income rental housing above.

Option 2: Alternatively, PDC has also explored the feasibility of developing the Value Inn parcels independently of the St. Michael's property. Under this scenario, a 7-story building with one level of below grade parking, ground floor retail and mixed-income rental "lofts" above could be developed on the Value Inn site. [See page 60].

The options contain a diversified mix of uses that maximize performance based on market conditions and financing options.



Three-dimensional view of preferred options, from southeast

The mix of housing, retail and office uses supports the primary goal of creating a vibrant neighborhood that integrates the university with the city. Housing and offices bring people to the district that in turn bring disposable income to support an active retail environment. In addition to the financial performance, the study takes into consideration broader public, institutional and community goals, such as workforce housing geared to middle income households [80% - 150% median family income], academic and administrative space needs, and services needed by the community.

Block 152, Option 1 is based on ongoing development feasibility work by PDC and the St. Michael's church as a result of meetings with the parish and the Archdiocese of Portland. Block 161, Option 1 is based on a Request for Proposals issued by PSU to assess the feasibility of incorporating a student recreation center on the site and does not have a detailed financial analysis of the development program.

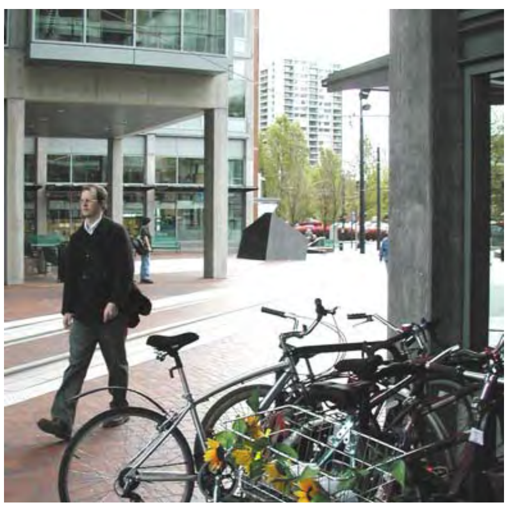
While these are the current recommended options, many factors will affect the final program for the blocks including successful land assembly, availability of public funds, the interest of development partners, participation by key property owners [PSU and the Archdiocese of Portland / St. Michael], and unanticipated opportunities.

DEVELOPMENT OPTIONS SUMMARY

	Block 161[4] PCAT Option 1	Block 153 Jasmine Option 1	Block 152 St. Michael Option 1[5]	Block 152 Value Inn Option 2[6]	Totals With St. Michael Option 1	Totals With Value Inn Option 2
Stories	10[1]	11-14	7[7]	7[7]		
Area	300,000 sf	308,830 sf	181,770 sf	76,600 sf	790,600 sf	685,430 sf
Office / Institutional area[2]	280,000 sf	0 sf	11,030 sf	0 sf	291,030 sf	280,000 sf
Retail area	15,000 sf	12,650 sf	14,710 sf	5,400 sf	42,360 sf	33,050 sf
Apartments	0	0	159	60	159	60
Condominiums	0	204	0	0	204	204
Parking spaces provided Excess or deficit[3]	70 -79	152 -52	106 +26	28 -2	328	250
Total development cost	$43 million[8]	$52 million	$30 million	$14 million	$124 million	$109 million

[1] An additional three floors could be added with zoning FAR bonuses if there were adequate demand for more office space.
[2] Includes commercial space that could be used by academic, non-profit or neighborhood services [health clinic, etc.].
[3] Parking spaces in excess of or less than the spaces needed for the development program.
[4] Detailed financial analysis not performed for Block 161 [PCAT].
[5] Value Inn property developed with the St. Michael’s property.
[6] Value Inn property developed without the St. Michael’s property.
[7] Height was limited to seven stories for this study to provide compatibility with the historic St. Michael’s Church.
[8] The development will be funded in large part by student fees approved by PSU students.

South Auditorium Greenway



PSU Urban Center

RECOMMENDATIONS

Following are recommendations to advance redevelopment of the Montgomery Blocks into a multi-block, mixed-use development that will form the core of the University District neighborhood and catalyze development around it. It is recommended that:

1. PDC to issue an RFP on Block 153 [Jasmine]. Summer 2005
2. PSU and PDC to stimulate development of Block 161 [PCAT] for office/academic space with retail and significant parking to serve the building and immediate area. PDC to consider investing their 42% interest in the PCAT building to further the redevelopment of Block 161 [PCAT] when PSU has developed a financial analysis for Block 161 [PCAT] and are ready to move forward with redevelopment efforts. Fall 2007
3. PDC to work with the Archdiocese and St. Michael's parish to determine development potential of Block 152 [St. Michael] and pursue development implementation, if feasible. Fall 2005
4. PDC to coordinate with the Portland Office of Transportation (PDOT) to design and build the desired permanent streetcar alignment and execute a Memorandum of Understanding with PDOT confirming cost and alignment.
5. PDC to coordinate redevelopment efforts with the ongoing design of the Portland Mall Revitalization Project's light rail station area.
6. PDC and PSU to actively recruit retail uses that will serve neighborhood workers and residents.
7. New development should promote an active use spine on SW Montgomery Street to reinforce the pedestrian connection from the West Hills to the Willamette River.
8. PDC/PSU to undertake development analysis of properties between SW 4th and SW 6th, SW Market and I-405 in coordination with the Bureau of Planning, PSU, and property owners. Spring 2006

I. PROJECT GOALS

The strategy document was commissioned by PDC to:

- Provide a vision, graphic and narrative, for what this three-block area could become.
- Identify the development potential for each block.
- Analyze impacts of streetcar and light rail.
- Analyze impacts of retaining Harrison Court Apartments.
- Assess the blocks in terms of public goals, urban design, market support, constructability and feasibility.
- Recommend two or three development programs and concept designs that best reflect a balance of public goals and financial feasibility.
- Determine what steps are needed to redevelop the parcels and recommend a phasing approach.
- Compile information that will help developers determine their interest in redeveloping the parcels in partnership with PDC/PSU. This information could form the basis for a Request for Proposals for development teams for one or more blocks.
- Identify actions that are needed to proceed with redevelopment.

PSU Urban Center and University Plaza

PSU Urban Center

II. EXISTING CONDITIONS

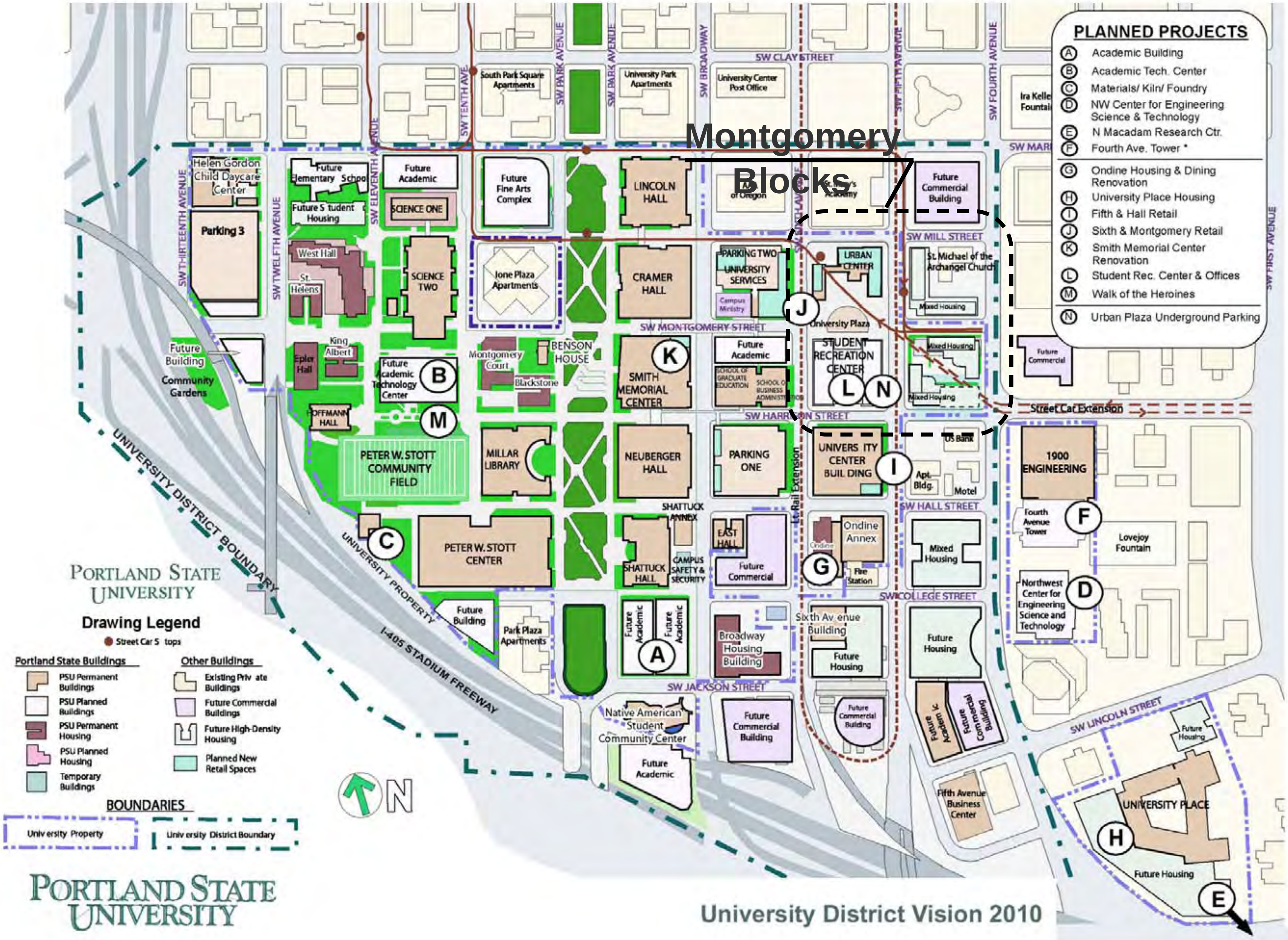
The Montgomery Blocks include three underutilized city blocks near Portland State University [PSU] on the eastern edge of the University District. PSU's College of Urban Affairs and the Distance Learning Center forms the fourth block of the quadrant.

Compared to other parts of Portland's Central City, this portion of the University District is relatively under-developed. The current landscape is dominated by surface parking lots, 1960s-era buildings [many of which are functionally obsolete and vacant], scattered restaurants and retail stores, and a few turn-of-the-century brick apartment buildings.

To address the under-utilized nature of the area, the City of Portland adopted the South Park Blocks Urban Renewal Area in 1985 and the University District Plan in 1995 [see page 21]. The goal of the Urban Renewal Plan is to create a vibrant residential neighborhood with a mix of housing types and neighborhood support services. The goal of the District Plan is to "foster the development of a distinct sub-district which has its character defined by its focus on Portland State University and shape the University District into a vital multi-cultural and international crossroads of the city which stimulates lifelong learning, collaboration with business and government and a rich cultural experience."

In support of both plans, the City of Portland through PDC, invested substantial urban renewal dollars [TIF] in the University District for capital improvements such as developing the Urban Center Plaza, funding the extension of the streetcar to PSU, moving the Simon Benson House to the PSU campus and funding middle-income housing near the campus along the South Park Blocks.

A principal component of the District Plan is the intended expansion of Portland State University eastward from Broadway to SW Fourth Avenue, south of Market Street. This neighborhood will be a vibrant mixed-use district blending the University with the urban life of the City and should include new housing, academic and classroom space, a student recreation center and a performing arts center.



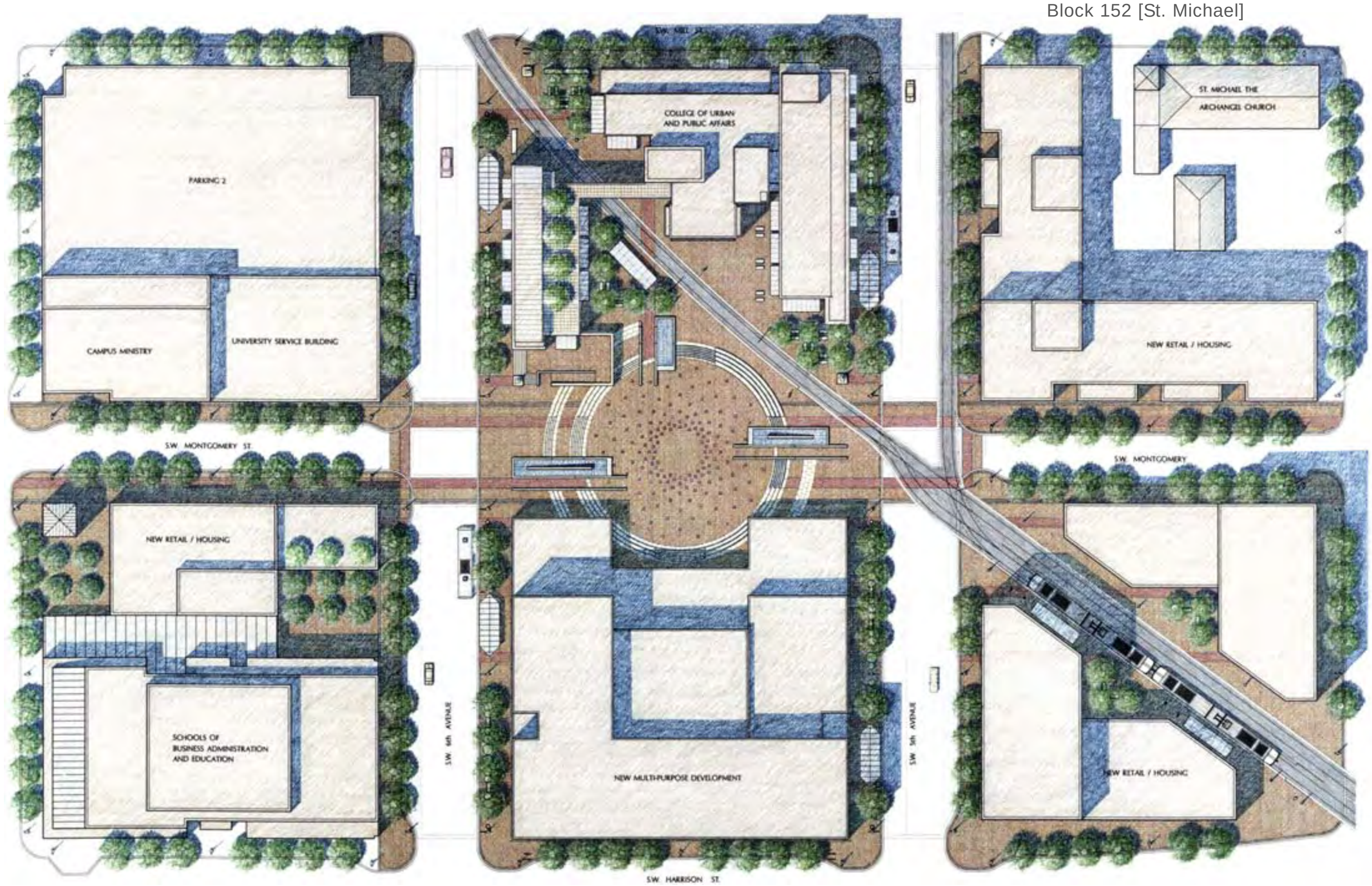
University District Plan

III. NEW DEVELOPMENT

Until recently, very little development had occurred in the University District. A major step toward redevelopment occurred in 2001 with the completion of the Urban Center which anchors the Montgomery Blocks. It includes the Urban Center Plaza, the seven-story College of Urban and Public Affairs and the three-story Michael DeShane Distance Learning Center.

The Urban Center was intended as a catalyst for development. The Six-Block Master Plan [see below], developed in 1996 as a part of the pre-design for the Urban Center and University Plaza, envisioned a mix of University uses, housing, commercial space and ground floor retail. It proposed a diverse urban development as the front door to the University District, a lively commercial development and key transit center. The elements of the Master Plan included housing, retail development, mixed-use and academic spaces, public spaces, transit facilities and street improvements.

Block 152 [St. Michael]



Block 161 [PCAT]

Block 153 [Jasmine]

Six-Block Master Plan, 1996

Since the Urban Center was completed, development interest in the University District has increased. Well over $200 million is being or will be invested in the area in the near future including, but not limited to, the following [see map on page 21]:

- **Streetcar extension** from PSU to River Place and North Macadam.
- **Light rail extension** from downtown to SW Jackson along the transit mall.
- **Epler Hall**, a $9.8 million project with 130 studio apartments built above ground floor classrooms and offices. This project is located at SW 12th Avenue and Montgomery and was completed in 2003 [right, top].
- **Broadway Housing**, a $49 million, mixed-use student housing project is located at Broadway and Jackson. The project includes 384 studio apartments, 15,000 SF of ground floor retail space, and 20,000 SF of space for PSU academic uses. The project is 10 stories tall with an exterior skin of brick and architectural metal panels. It was ready for occupancy in 2004 [right, middle].
- **The Native American Student and Community Center** at 710 SW Jackson Street. This project includes 11,000 SF of space for Native American student groups, conference, classrooms and art. This project cost approximately $4.1 million and was completed in September of 2003.
- **Northwest Center for Engineering, Science and Technology,** a 130,000 SF research and academic building is under construction south of 1900 SW Fourth. This project is estimated to cost $60.2 million. Construction began in January 2004 and is scheduled to be completed by fall of 2005. [right, bottom].
- **Helen Gordon Child Development Center Expansion and Renovation,** is a 10,000 SF addition to the existing 1928 historic child care center at SW 12th and Market Street. This first phase was opened in Fall of 2003. The next phase, which will restore and upgrade the existing building, began in 2004. The total project costs approximately $7.0 million.

These public investments are vital because public investment can lead to private investment in redevelopment areas. These public improvements will improve the area's aesthetic appeal, accessibility and community vitality, all of which will make private development more feasible.


Epler Hall


Broadway Housing


© Zimmer Gunsul Frasca Partnership

NW Center for Engineering, Science & Technology

PSU Urban Center and Plaza from SW Montgomery & 5th Avenue

Portland State University

IV. AMENITIES

One of the key strengths of the University District and the Montgomery Blocks is the ability to access amenities located in the immediate area as well as in the Central City and the rest of the Portland region. Among them are:

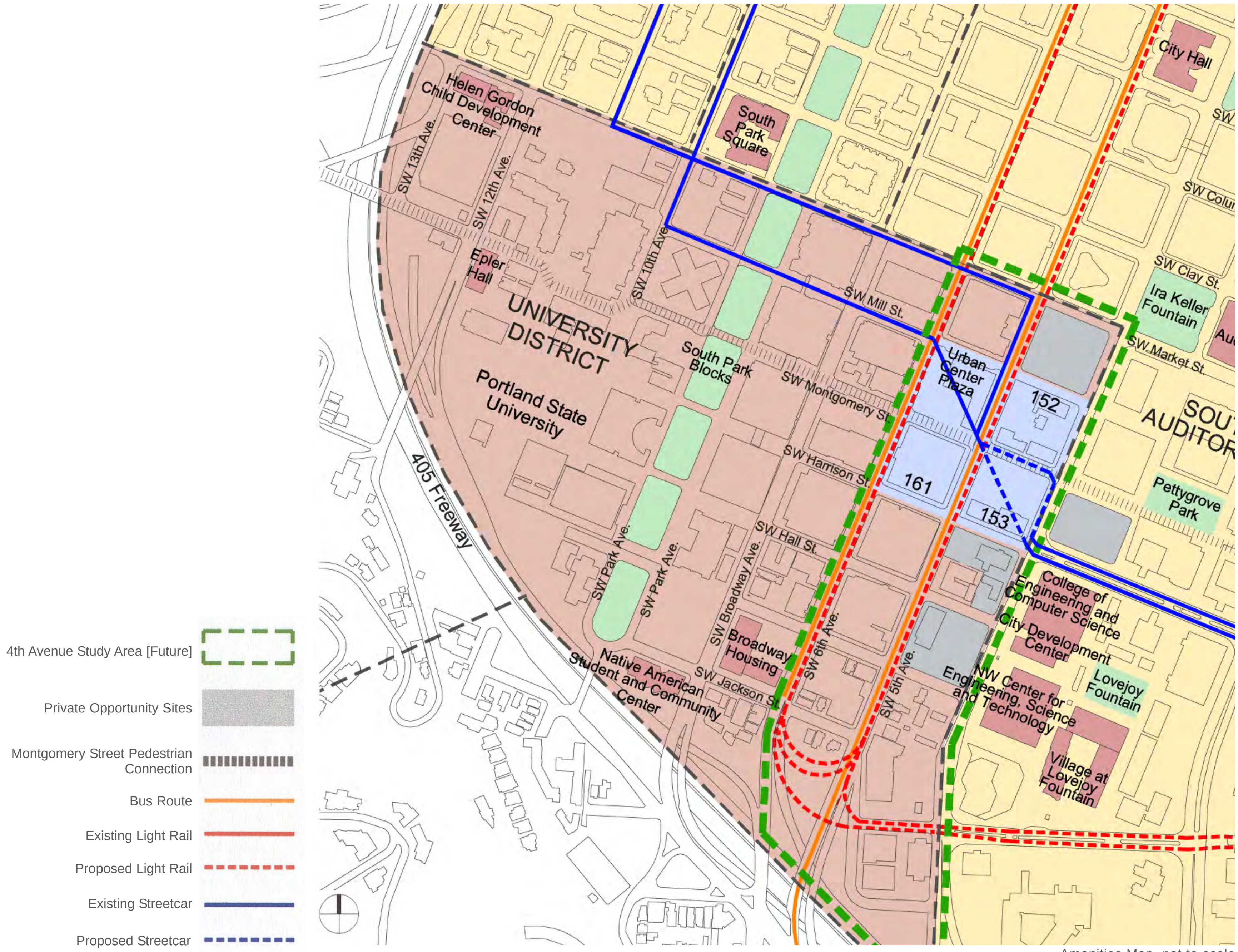
Portland State University

One of the most significant amenities is PSU, the fastest growing university in the state, and by some measures the largest university in Oregon. PSU's current enrollment totals 22,000 students and is expected to grow to 35,000 students by 2012, a 60% increase. In addition to providing a research library, gymnasium and performing arts center, the University offers continuing education courses that would appeal to prospective residents of the University District.

Furthermore, the profile of PSU's student body is changing. PSU is becoming less of a commuter school dominated by part-time, non-traditional students, and is attracting a greater number of full-time, traditional students. As PSU becomes a more traditional four year University, there will be increased demand for housing, retail and other services from students.

Urban Center

The Urban Center and Plaza form a nucleus for the campus, anchor the south end of downtown and are models of good urban design. This is one of the most active areas in downtown Portland due to the presence of the Portland Streetcar and transit mall, ground floor retail, cafes and a restaurant with outdoor seating, active water features and specially programmed events.



Amenities Map, not to scale

Pettygrove Park

Ira Keller Fountain

Green Spaces

Open spaces are plentiful in and near the University District [see map on page 25].

- **Montgomery Street** is designated by the City of Portland as a "pedestrian connection" and provides pedestrian access from the West Hills to the Willamette River. En route it connects several of Portland's most significant open spaces.
- **The South Park Blocks,** with their stately elm trees, are the central organizing space of the District and are some of the most desirable urban parks in the country.
- **The Urban Center Plaza** is a hub of activity and is one of the most important public plazas in the city.
- To the east, **Pettygrove Park,** a pocket park, provides a secluded oasis within the South Auditorium area with connections to **Ira Keller Fountain** to the north and **Lovejoy Fountain** to the south.
- Further to the east are direct connections to the **Tom McCall Waterfront** and the **Marina** within the **River Place Development.**

Employment & Entertainment Opportunities

The Montgomery Blocks are within easy walking distance to the greatest concentration of employment and entertainment opportunities in the region. More than 80,000 jobs exist in Portland's Central City, some of which are located in the University District and many only five or six blocks to the north in the core office area.

Cultural and entertainment venues also abound. Within walking distance of the University District are the region's preeminent cultural venues including the **Arlene Schnitzer Concert Hall**, the **Center for Performing Arts**, the **Portland Art Museum**, the **Oregon Historical Society** and the **Keller Auditorium**. [See map on page 25].

Transportation / Access

The Montgomery Blocks form a superior transportation hub with freeway access, streetcar, bus and a future light rail line within blocks. The University District is bordered by I-405, which links directly to I-5 and Highway 26, all of which provide excellent access to the rest of the region. The Urban Center Plaza is also a transit hub. The existing bus stops on Fifth and Sixth Avenues are the most active in the TriMet system. Furthermore, the streetcar connects the University District to Northwest Portland and the Pearl District and the MAX light rail, which in turn provides access to the western and eastern suburbs and the Portland International Airport.

Future transportation improvements will further enhance accessibility. The Portland Streetcar will be extended to the North Macadam District and run through the Montgomery Blocks. It was determined that the streetcar should go around the block until the block is excavated and redeveloped. The preferred permanent alignment included here abuts Block 153 [Jasmine] and incorporates a diagonal path through the block.

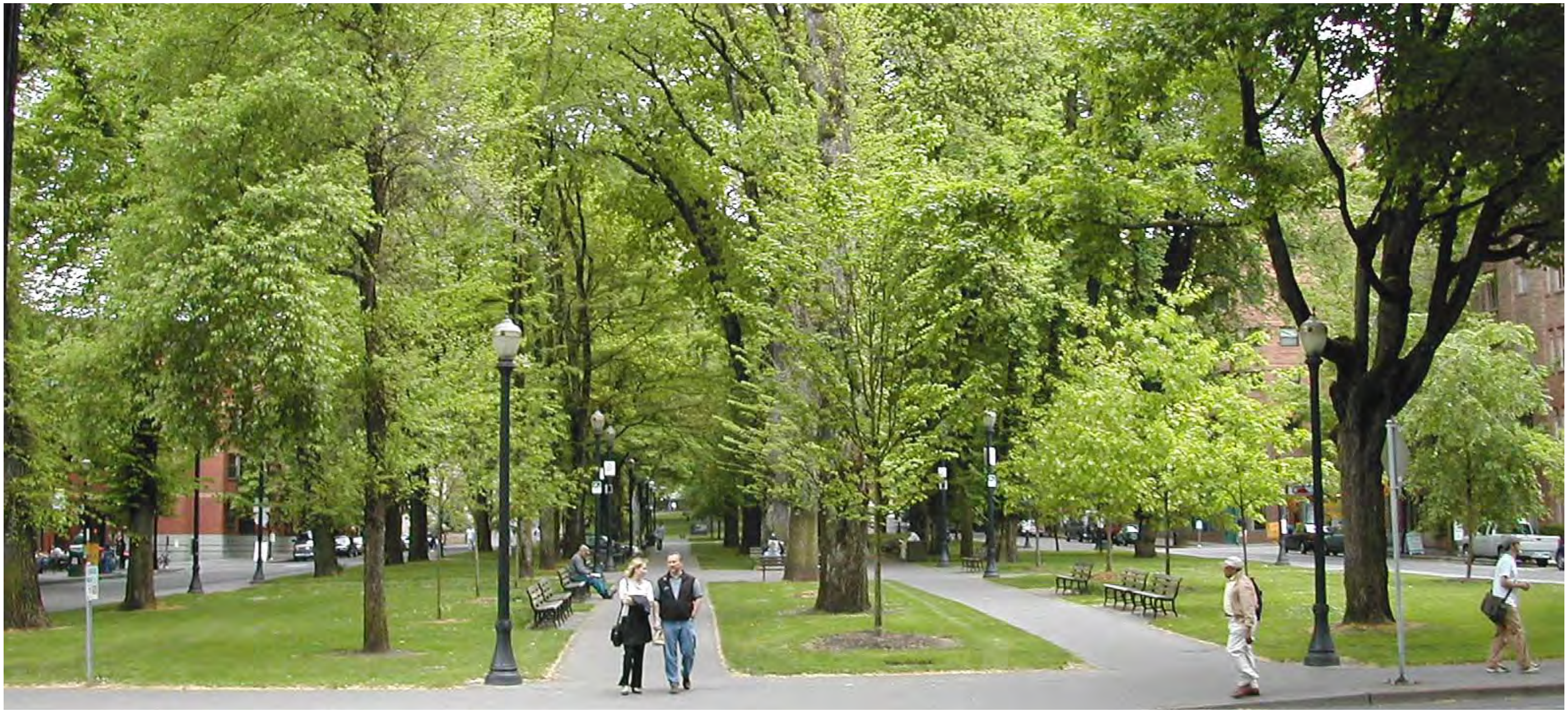
As part of the Portland Mall Revitalization Project, TriMet has proposed to expand light rail south to SW Jackson, which would also run past the Montgomery Blocks. This proposed expansion would eventually extend to Oregon City. Current project plans show a PSU Urban Center/SW Mill Street station area adjacent to the Urban Center on SW 5th Avenue. Light rail expansion, with a turn around just south of PSU, will greatly increase and enhance the quality of service to university students and local residents.

Streetcar stop at SW Mill and SW Park

VI. MARKET OVERVIEW

The Montgomery Blocks have many attributes that make them a prime location for urban housing, office and retail. This, combined with the abundance of underutilized land, creates a significant number of redevelopment opportunities. In the short-term, however, there are some obstacles to attracting additional private investment. The first obstacle is perceived risk - developers do not know how a new project in this area would perform because to date there has been very little new development other than the projects associated with the University. The second obstacle is financial feasibility. Despite its many positive attributes, the University District is at a competitive disadvantage relative to more established areas of the Central City. As a result, new development in the area can be successful, but may be priced below similar development in other areas like the Pearl District.

To test the financial viability of building in the area, eight land uses were evaluated in this report. These land uses range from parking to assisted living senior housing. In general, condominiums perform best; they generate more net income per square foot than the other land uses under consideration. With some amount of public subsidy, as provided elsewhere in the City, several rental scenarios also appear to be financially viable for private, for-profit developers.



South Park Blocks

Housing

Portland has one of the strongest downtown housing markets in the nation. This is the result of careful planning, significant public and private investment, and changing lifestyles and demographic trends, including:

- smaller households which do not need or, in some cases, want large detached suburban homes. Currently, approximately 2/3 of all households have only one or two persons.
- fewer families with children. By 2020, married couples with children are expected to account for only 28.2% of total households, while married couples without children will represent 40.0% of US households.
- less discretionary time. Two working adults per household and longer working hours has created a growing market for convenience, including smaller homes that require less maintenance and quick access to restaurants and other services.
- an older population base. As the 83 million Baby Boomers continue to age, there will be a significant increase in "empty nester" households. This group will be the fastest growing segment of the population over the next twenty years, the oldest of which have just begun to retire.

In 2000, Money Magazine named Portland the best big city in the country because of its "easy-to-stroll blocks, superb light rail network and streetcar system making it a cinch to get around, cultural amenities, unparalleled natural beauty and abundant recreational opportunities." Because of the attractiveness of Portland's downtown, the vast majority of new housing projects have performed well.

Housing development in the University District would appeal to a number of underserved segments of the urban housing market in Portland. The largest target market includes PSU students, faculty and recent graduates who would naturally prefer to live close to work and/or school.

Another target market segment are households who prefer urban living but are not able to afford more sought after neighborhoods like the Pearl District.


South Auditorium Greenway


South Auditorium Condominium Tower

Condominiums

The condominium market in downtown Portland is extremely strong with most projects pre-selling up to 70% of their total units and prices appreciating at nearly 5% per annum for the last five years. However, no new condominiums have been built in the University District, making this an underserved and untested market.

The Pearl District is currently the most established and highly desirable residential neighborhood in downtown Portland because of its abundance of restaurants, galleries and high quality merchants. These attributes are not common in the University District. As a result, for condominiums to be attractive, they will have to be less expensive than the Pearl District.

At the time this analysis was completed, condominiums in the Pearl District were selling for an average price of $295 per square foot. Relative to this benchmark, condominiums in the University District are expected to be marketable if they are priced at approximately $258 per square foot. In the current market, this pricing strategy would be compelling for potential residents, particularly younger buyers who are priced out of the Central City homeownership market, as prices on planned construction now approach or exceed $300 per square foot.

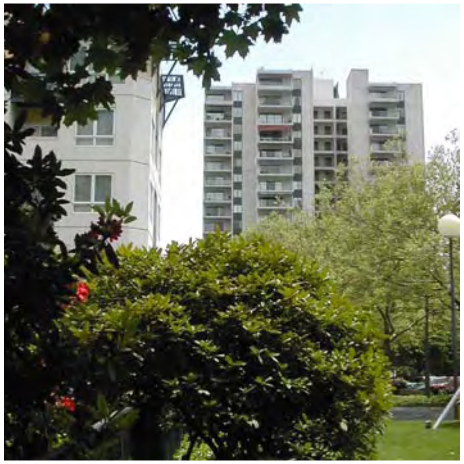
Middle Income Apartments

There are several market rate apartments located in and around the University District. The three best examples are South Park Square, Essex House and Village at Lovejoy Fountain [see map on page 25]. The rental rates in these projects range from $1.10 to $1.50 per square foot. Of the three, the closest comparable is Village at Lovejoy Fountain, not only because it is newer, but also because it is located within four blocks of the Montgomery Blocks. Rents for the market rate units at the Village at Lovejoy Fountain average $1.22 per square foot, based on an average unit size of 824 square feet.

The recommended rents for new construction in this area average $1.50 per square foot, a slight premium from existing rents, reflecting the fact that it will be newer. The recommended unit size is smaller to accommodate middle income renters. Based on the most recent income levels released by HUD, the proposed rents are affordable to households earning approximately 80% of the median area income.

Rents at this level will be affordable to an underserved segment of the market - people who cannot afford rents in new apartments located in the more desirable parts of the Central City, but who have incomes that are too high to qualify for a subsidized apartment.

Village at Lovejoy Fountain


South Auditorium Condominium


Village at Lovejoy Fountain


South Auditorium Condominium

Affordable Apartments

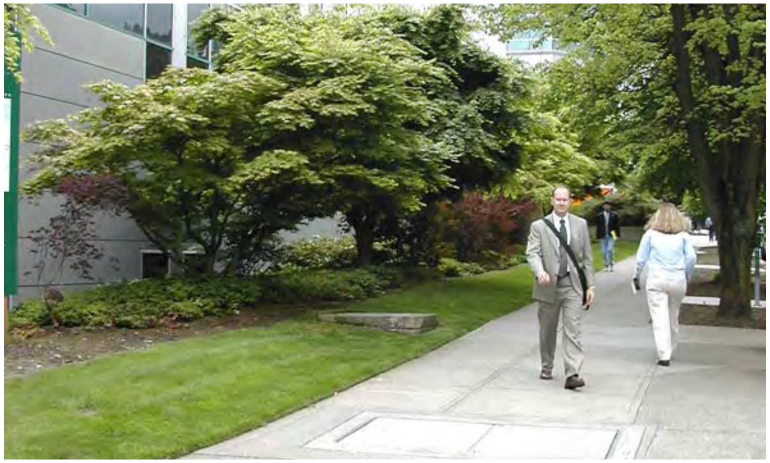
Affordable apartments are defined as rental housing that has some mechanism restricting rent and occupancy to households with low and moderate incomes. These properties generally receive financial assistance from the government to help cover the cost of construction, including Section 42 tax credits, HUD CDBG and HOME funding, or local subsidy sources such as tax increment financing.

Although affordable projects are scattered throughout the Central City, the government's involvement in this market has standardized rental rates, product designs and unit sizes. For example, Pearl Court, which is located in the heart of the Pearl District, rents at levels similar to Collins Circle, which is in Goose Hollow, an inferior location that otherwise would command lower rents. Given the lack of variation in this market, affordable housing that could be built on the Montgomery Blocks is expected to be similar in size and price to the market average - approximately $1.10 per square foot for households earning 60% of median family income.

Senior Housing

The University District is a desirable location for senior housing because of the ability to access nearby amenities and Good Samaritan Hospital via the streetcar. Proximity to PSU will be particularly attractive to seniors who have ample leisure time and a desire to stay active. Although this is a good location, the high land cost and the high cost of high-rise construction may necessitate pricing senior housing at this location at the top of the market, creating market risk, or developing subsidized senior housing restricted to low and moderate income households.

A close comparable to a senior housing project that could be located on one of the Montgomery Blocks would be Terwilliger Plaza, an older project built in 1962 located just outside the Central City. It is a continuing care community with 218 congregate care units that average $1340 in rent, with a $155,000 entrance fee. These costs entitle residents to daily meals, housekeeping, and assistance as their care needs advance. Senior housing in the University District could command higher rents for a comparable service package, due to superior location, new construction and modern design. An alternative comparison is the Station Place project currently under development in the Pearl District which will provide housing for low income seniors at 0 - 80% median family income.


City Development Center, 1900 SW 4th Avenue


South Auditorium Office Building

Office

The office market in downtown Portland is the largest and historically one of the best performing office markets in the Portland/Vancouver metropolitan area. From a marketing perspective, office space in downtown has several advantages:

- It is in the most accessible part of the region, with all major highways and transit routes linking to the area.
- This area has the highest concentration of businesses that facilitate business-to-business interaction.
- This area has the greatest concentration of amenities sought by businesses and their employees, including restaurants, retail and hotels.

Office development already exists in and around the University District, including several Class A buildings. The existence of these buildings demonstrates office development is viable in the University District. However, due to the current recession, the office market in downtown Portland is overbuilt. According to Norris Beggs & Simpson the current vacancy rate is 13.2%, compared to a 7% vacancy rate that signifies a healthy market.

Given these conditions, speculative office development is not recommended in the near future. In the near term, office development should only be pursued if a long-term [5 to 10 years minimum] pre-lease agreement is obtained. Given attributes of the University District, office development in the area is expected to command lease rates of $18 per square foot, plus $3 per square foot for common area pass-through charges.

Academic Space

Many of the development scenarios for the Montgomery Blocks contain a significant amount of space for Portland State University. Although in the financial analysis PSU's space is treated as "normal" rental income, much like office or retail space, in reality PSU would probably finance, own and operate this space independently. In this case the developer would build the space for PSU on a fee basis.

Retail

Although the University District is one of the heaviest trafficked parts of Downtown Portland, with over 5 million trips to the PSU campus each year, there is relatively little high-quality retail space. As a result, what small amount of existing retail there is performs very well. For example, Starbuck's, Seattle's Best Coffee and Pizzicato all have their best performing stores in the University District. Lease rates for these stores average $17 per square foot plus common area charges. These lease rates are assumed for the Montgomery Blocks development options.

One defining challenge for potential retailers is their dependence on students, who have limited means and are in the area mainly from fall to spring and on weekdays. However, this will change as more non-student housing is developed in the University District. As more retail development occurs, retail space should be concentrated, preferably along SW Montgomery Street, to create a critical mass and synergy between retailers.

Parking

Parking space is a less financially viable land use when considered in isolation but is necessary to support residential and commercial uses. In order to provide sufficient parking at a reasonable cost, two parking options were considered:

- Below-grade parking is optimal from an urban design perspective because it allows ground-floor retail and more office and/or residential space on upper floors. However, it is considerably more expensive to build than above-grade parking.
- Structured above-ground parking is more cost-effective than below-grade parking but is less aesthetically appealing and limits the amount of space for other land uses.

The development scenarios considered for the Montgomery Blocks include both below and above-grade parking and considered costs, constructability, market conditions, and urban design issues.

It is important to note that excess parking [spaces not dedicated to residents or commercial users] in the University District will perform better than may be expected. The University District does not have an adequate number of parking spaces, and as a result, PSU currently generates an average of almost $1,300 per space per year in revenue from the parking structures it operates. Income is high because there is a high demand for short-term student parking and parking spaces leased by the hour generate more revenue than monthly leases.

Urban Center Seattle's Best Coffee

Urban Center Pizzicato

VI. URBAN DESIGN VISION

The Montgomery Blocks, centered on the PSU Urban Center, offer the possibility of enhancing and further integrating Portland State University with the city. A mix of university and private uses including housing, commercial office space and ground floor retail, will create a dynamic urban place that will advance PSU's Motto "Let Knowledge Serve the City." At the same time it will give a unique character to this underdeveloped area of the central city. The diagonal of the streetcar movement through two blocks, the bus transit stops and the prospect of future light rail on Fifth and Sixth Avenues make the Montgomery Blocks and the Urban Center a gateway into downtown Portland and the primary point of arrival for Portland State University.

In order to develop the Montgomery Blocks into a coherent whole that enhances the relationship between the City and the University several key urban design goals were identified:

<u>Active Retail</u>

Ground floor retail should be maximized in general but particularly concentrated on Montgomery Street and Fifth and Sixth Avenues. Ground floor retail extending outward from the University Plaza will help knit the existing plaza into the pedestrian experience of the district. [See diagram page 35].

<u>Institutional Identity</u>

Completion of University Plaza should include a visible University, or institutional presence, with an entrance directly from the Plaza. [See diagram page 35].

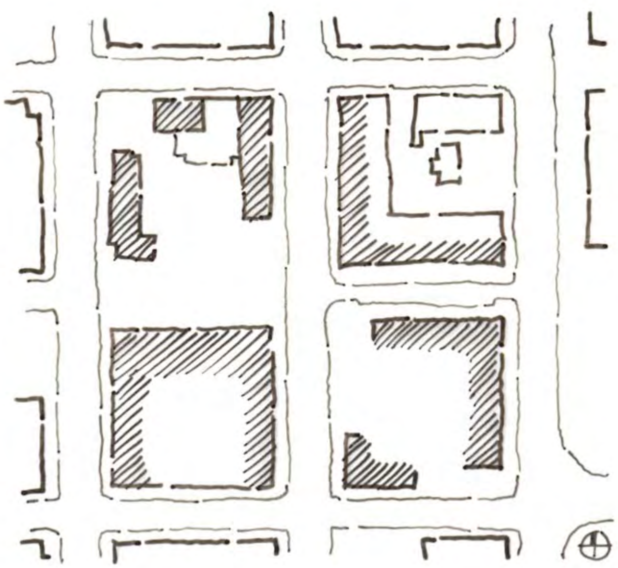
<u>Streetwall</u>

Consistent with the intentions of the Portland <u>Central City Plan</u>, the Montgomery Blocks should be developed to reinforce the street wall as much as possible, especially on the north/south avenues and at the southern edge of the project along Harrison Street. The street wall will be necessarily eroded by the intervention of the diagonal streetcar alignment. In reference to the design of the Urban Center, this may be articulated with masonry facades defining the street wall, and open, largely glass facades on the interior of the blocks and facing the open spaces. [See diagram page 35].

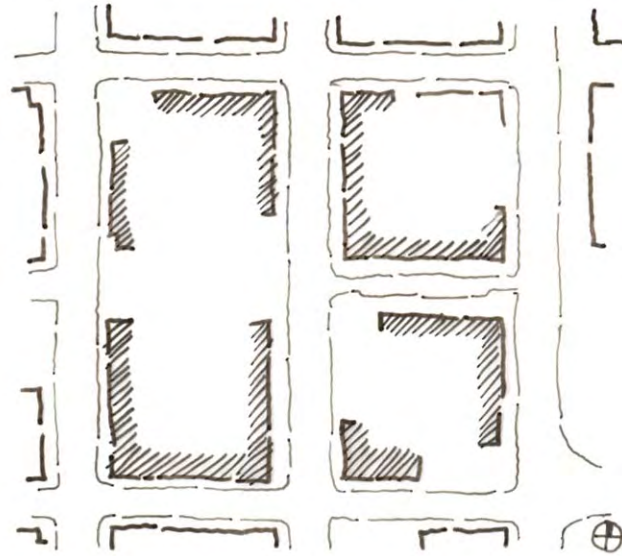
<u>Building Massing</u>

The goal of creating a unified identity for the Montgomery Blocks suggests that the building massing and architecture should relate closely to the Urban Center and University Plaza. The building massing should be varied, and asymmetrical. A stepped massing should be developed with respect for the shadows on the open spaces and to preserve views. Block 161 [PCAT], specifically, should present a low mass on the University Plaza, related to the height of the Distance Learning Center (west wing of the Urban Center). The bulk of the building should be concentrated on the southern half of the block, casting its shadow on the northern, lower section (the PSU section, see discussion of institutional identity above).

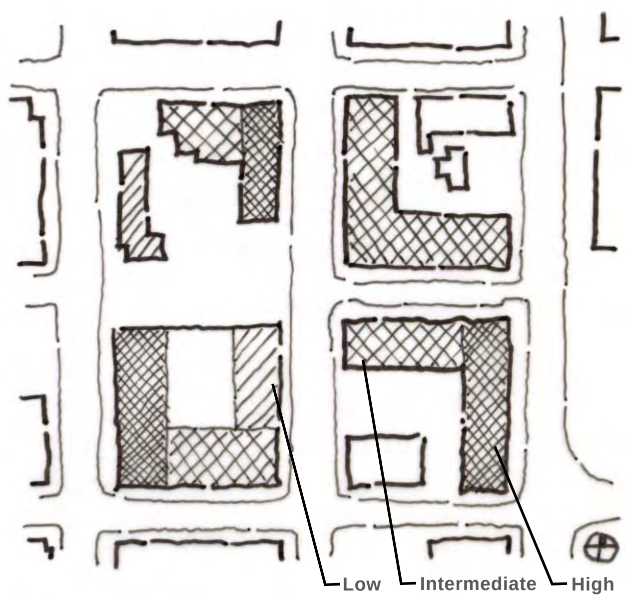
The building on Block 152 [St. Michael] should consider the relationship with the existing Church and Parish House and may be lower than permitted by zoning. The height of the building on Block 153 [Jasmine] can be higher than that on Block 152 [St. Michael] providing strong edges along the street. [See diagram page 35].



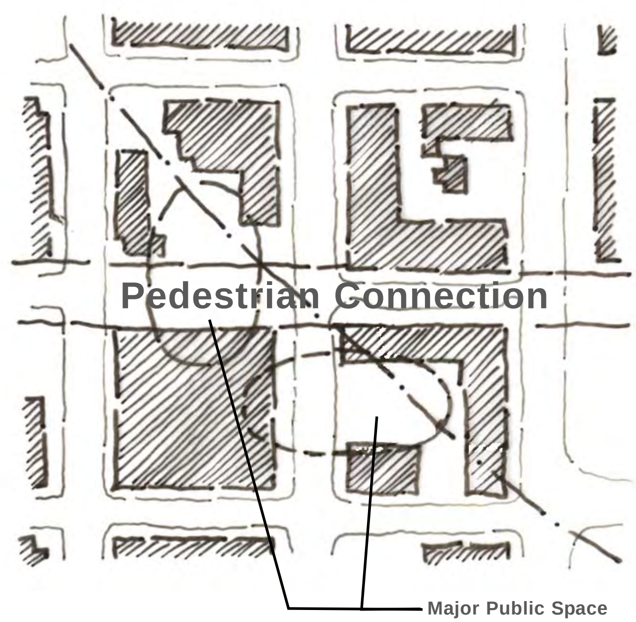
Active Retail and Institutional Diagram



Streetwall Diagram



Building Massing Diagram



Open Space Diagram

Open Space

The development of the Montgomery Blocks offers the opportunity to create open spaces that serve the residents, students and office workers of the District. The open spaces act as attractive destinations for people who come to the district and serve as connective tissue to unite the district. The opportunities for urban space are identified as follows:

Montgomery Street Enhancements

Montgomery Street is identified as a pedestrian connection from the West Hills to the Willamette River extending through the South Park Blocks, the University Plaza, and the South Auditorium District. In the design of the Six-Block Master Plan,1996 [see page 22] siting the Urban Center, Montgomery Street was proposed to be an enhanced pedestrian way, leading from Fourth Avenue to the South Park Blocks. This concept is still valid. The street should feature widened sidewalks with ground floor retail, specialty pavement and specialty street trees. The street could be narrowed while maintaining two-way traffic and one lane for on street parking and loading. Retaining two-way traffic will increase visibility to retail shops and allow drop-offs at building entrances, while providing wider sidewalks for cafés and the tree canopy. [See diagram page 37].

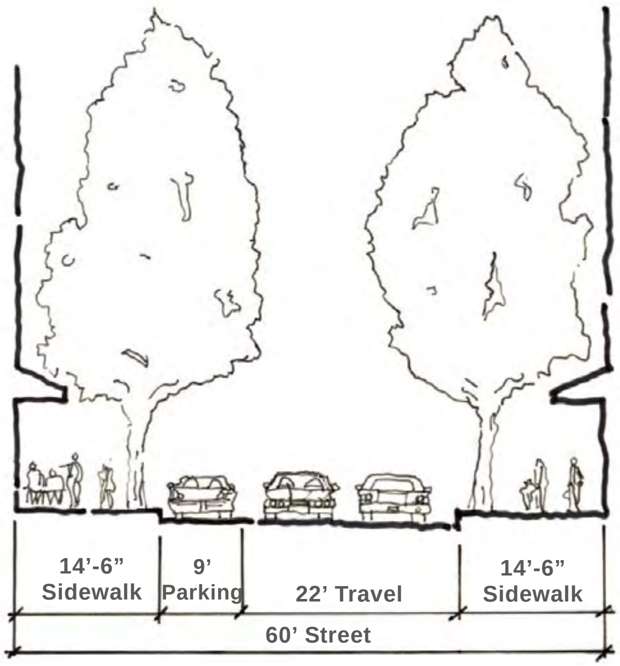
The paving and street furniture should relate to the University Plaza and Bus Mall. Specialty lighting should be designed with the intent that the enhancements would extend from Sixth Avenue to the South Park Blocks in the future. A signaled light should be provided at 4th Avenue to facilitate a safe crosswalk into the South Auditorium District. Modifications to SW Montgomery Street will require analysis by the City's Office of Transportation for feasibility and funding.

Major Public Open Space

The completion of the University Plaza is a primary goal and opportunity of the project. The south wall of the plaza, replacing the bland façade of the PCAT Building, should be aligned symmetrically about the centerline of Montgomery Street (approximately 8' south of the current property line), and step back in the center to allow for the circular pattern of the plaza to complete itself at its smallest dimension (the back of the radial soldier course of the steps). Finishes and details should match the existing plaza materials.

Secondary Public Open Space

The major open space of the University Plaza should be complemented by a smaller plaza at the interior of Block 153 [Jasmine], bisected by the diagonal alignment of the streetcar. This plaza should be more intimate than the University Plaza and the surrounding buildings should be designed to contain this space as much as possible and distinguish it from the larger University Plaza. A small retail pavillion could be occupy the southwest edge of the plaza, adjacent to the Harrison Court building. This will serve to enhance the level of activity within the space and provide a more appropriate urban edge to the plaza. In addition, the design of the Block 161 [PCAT] building should respond to the open side of this new courtyard, reinforcing the connection between the blocks. The paving materials and details should relate to the pallet established by the Urban Center, to strengthen the overall unity of the project. [See diagram page 35].



Section at Montgomery Street Pedestrian Connection

South Park Blocks Retail

VII. DEVELOPMENT OPTIONS

Dozens of different development options with varying land use combinations were considered, including office, retail, condominiums, middle and lower income rental housing, grocery stores, academic, recreation, neighborhood services such as health clinics, and parking. Site configurations included high, medium and low-rise options and above and below-grade parking.

The following options for the three blocks represent the best blend of uses and balance between public goals, urban design, market acceptance, financial feasibility and constructability, and are included for illustrative purposes. A description of the strengths and weaknesses of each option follows the description of each option.

Block 161 - PCAT

Option 1: Multi-story building with below-grade parking, lower-level student recreation center and retail, PSU office and academic space, and general office space. Through an RFP process, PSU will further determine the feasibility of combining various development program components. PSU's goals for the site have been defined only by this RFP, and a detailed development program with financial information was not prepared.

Block 153 - Jasmine

Option 1: 11 and 14-story L-shaped building with two levels of below-grade parking, double-height ground floor retail, and middle income condominiums above. In acknowledgement of the Harrison Court Apartment's historic value and affordable units, new development will be coordinated with the apartment's restoration to maximize the block's urban design potential.

Block 152 - St. Michael

Option 1: PDC is working with St. Michael's to develop a comprehensive development proposal for the church's surface parking lots in conjunction with the adjacent Value Inn parcels. If the block is developed by St. Michael's parish, the development will include a multi-story "L"-shaped building with below-grade parking, ground floor retail, 2nd floor office or institutional space, and mixed-income rental housing above.

Option 2: Alternatively, PDC has also explored the feasibility of developing the Value Inn parcels alone. However, due to parcel constraints, this alternative is less economically feasible and does not maximize planning or development goals for the block. Under this scenario, a 7-story building with one level of below grade parking, ground floor retail and mixed-income rental "lofts" above would be developed on the Value Inn property.

The options contain a diversified mix of the best performing products from a financial standpoint - retail, condominiums, office and parking. In healthy economic times, office, condominiums and high quality retail provide a greater economic return than rental housing.

Depending on the kind of retail and the price point of the condominiums, these uses also best contribute to the primary goal for the area - creating a vibrant neighborhood that integrates the university with the city. Ownership housing and offices add people and activity to the district, and more disposable income to support the retail environment.

However, while these options perform well financially, other public, institutional and non-profit goals need to be considered in the mix. Workforce housing geared to middle income households [80% - 150% median family income], academic and administrative space, and services needed by the community need to be carefully combined with more economic uses to keep the funding gaps lower.

Block 152, Option 1 is based on ongoing development feasibility work by PDC and the St. Michael's church as a result of meetings with the parish and the Archdiocese of Portland. Block 161, Option 1 is based on a Request for Proposals issued by PSU to assess the feasibility of incorporating a student recreation center on the site and does not have a detailed financial analysis of the development program.

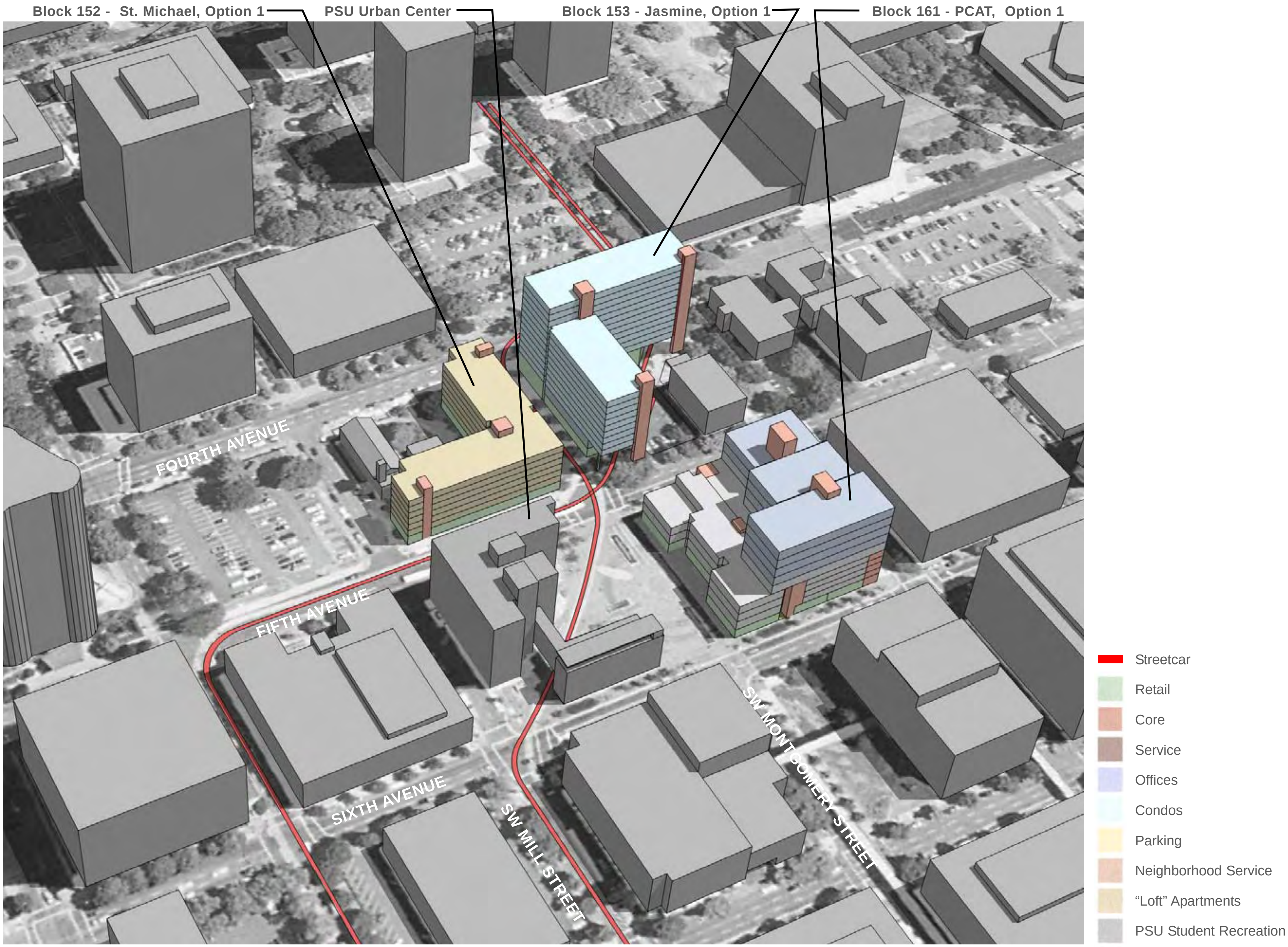
While these are the current recommended options, many factors will affect the final program for the blocks including successful land assembly, availability of public funds, the interest of development partners, participation by key property owners [PSU and the Archdiocese of Portland / St. Michael], and unanticipated opportunities.

Ground Floor Plan of Recommended Options
not to scale

DEVELOPMENT OPTIONS SUMMARY

	Block 161[4] PCAT Option 1	Block 153 Jasmine Option 1	Block 152 St. Michael Option 1[5]	Block 152 Value Inn Option 2[6]	Totals With St. Michael Option 1	Totals With Value Inn Option 2
Stories	10 [1]	11-14	7[7]	7[7]		
Area	300,000 sf	308,830 sf	181,770 sf	76,600 sf	790,600 sf	685,430 sf
Office / Institutional area[2]	280,000 sf	0 sf	11,030 sf	0 sf	291,030 sf	280,000 sf
Retail area	15,000 sf	12,650 sf	14,710 sf	5,400 sf	42,360 sf	33,050 sf
Apartments	0	0	159	60	159	60
Condominiums	0	204	0	0	204	204
Parking spaces provided Excess or deficit[3]	70 -79	152 -52	106 +26	28 -2	328	250
Total development cost	$43 million[8]	$52 million	$30 million	$14 million	$124 million	$109 million
Total project value Percent		$54 million 104%	$20 million 68%	$9 million 67%		
Private Percent		$47.5 million 87%	$15 million 83%	$8 million 90%		
Gap Percent		$6.5 million 12.7%	$5.1 million 17.3%	$1.4 million 10.4%		

[1] An additional three floors could be added with zoning FAR bonuses if there were adequate demand for more office space.
[2] Includes commercial space that could be used by academic, non-profit or neighborhood services [health clinic, etc.].
[3] Parking spaces in excess of or less than the spaces needed for the development program.
[4] Detailed financial analysis not performed for Block 161 [PCAT].
[5] Value Inn property developed with the St. Michael's property.
[6] Value Inn property developed without the St. Michael's property.
[7] Height was limited to seven stories for this study to provide compatibility with the historic St. Michael's Church.
[8] The development will be funded in large part by student fees approved by PSU students.



Three-dimensional view of preferred options, from northwest

BLOCK 161 [PCAT BLOCK]

View from SW Hall & Sixth Avenue, looking north

Description and Current Uses

Block 161 [PCAT] is bound by the bus mall on Fifth and Sixth Avenues on the east and west, the University Plaza on the north and Harrison Street on the south. The block slopes down approximately 16' from southwest to northeast. It is currently occupied by the Portland Center for Advanced Technology [PCAT], a part of Portland State University. PCAT includes classrooms and offices on the first floor organized around an internal courtyard. The basement houses parking, additional classrooms and offices. The block is jointly owned by Portland State University and the Portland Development Commission.

Zoning Potential

Block 161 [PCAT] is zoned CXd, Central Commercial, with a design overlay. It has a maximum floor area ratio of 6:1 which can be increased with bonuses up to 9:1. This translates into a range of 240,000 to 360,000 square feet of development potential above grade. The maximum height is 125' which can be increased with bonuses to as much as 170', or with the Housing Bonus, up to 200'. In addition to the Housing Bonus, other potential bonuses include the Day Care Bonus, Rooftop Gardens Bonus, Percent for Art Bonus and the Eco-Roof Bonus. The site is subject to Design Review and will be required to meet the requirements of the Central City Plan.

Vision

Block 161 [PCAT] faces the Urban Center and offers the opportunity to complete the University Plaza. The lower floors, preferably entered from the Plaza, should have a strong institutional character clearly identified with the University. Active ground floor retail should face surrounding streets and the Urban Studies Center to the north. The Harrison Street facade should engage the street, even where vehicle and service access must be accommodated. The building must be designed to minimize shadows on the Plaza and engage the adjacent Urban Center with most of its bulk on the south. Architecturally, the building may relate to the Urban Center with strong masonry walls on the street sides and an open frame with infill glass and metal panel on the interior of the block, facing north.

Five land use variations were studied, including: two-level retail, condominiums, a grocery store, market rate rental housing, office and condominium combinations, and academic space. The option outlined in this report is **Block 161 [PCAT], Option 1**, a ten-story building with below grade parking, ground floor retail, PSU student recreation center and academic and office space.

View from SW Harrison & Sixth Avenue, looking northeast

View from SW Harrison & Sixth Avenue, looking east

View from SW Harrison & Sixth Avenue, looking north

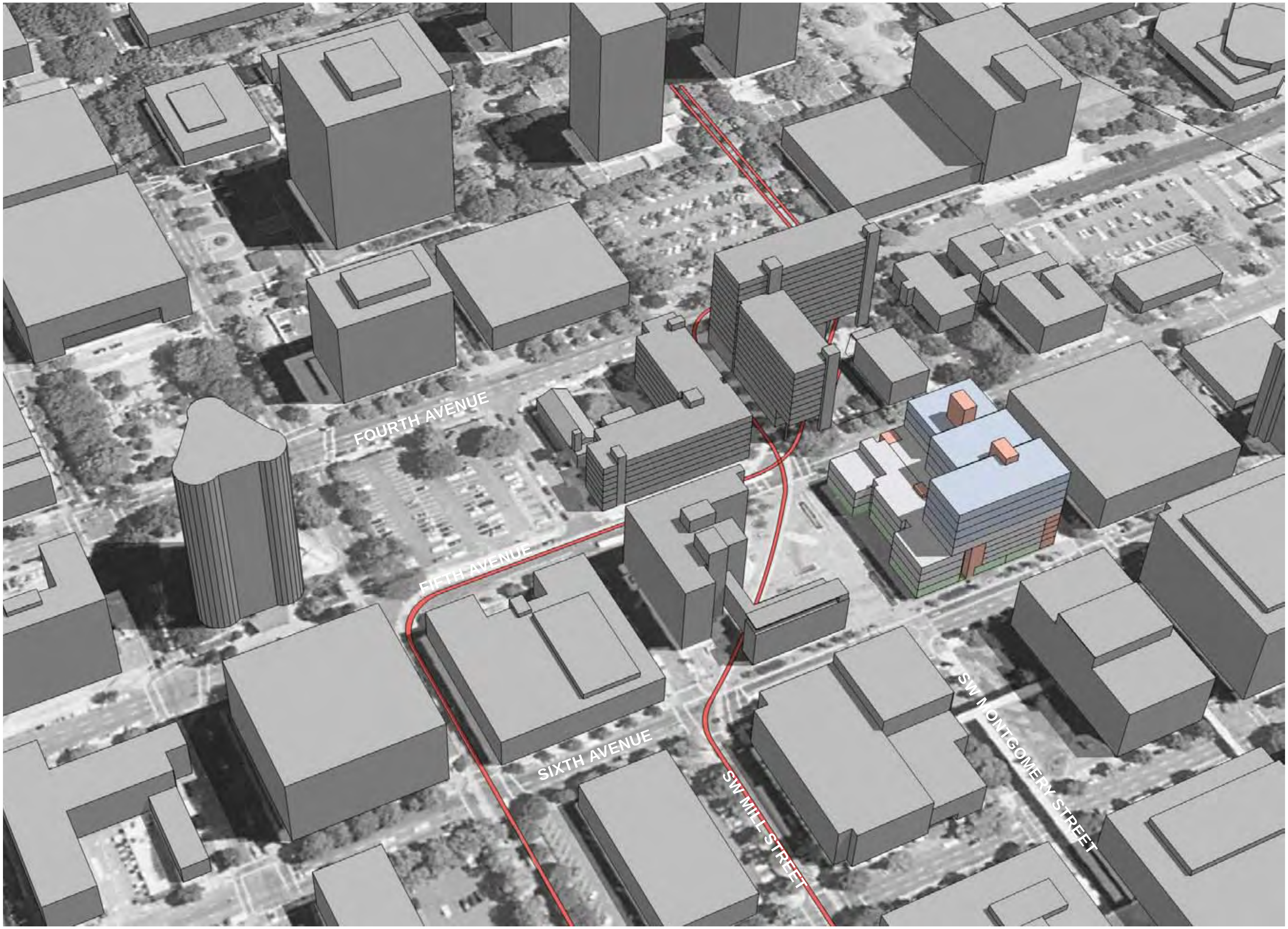
PROGRAM DESCRIPTION FOR BLOCK 161 [PCAT], OPTION 1

Option 1 is a ten story, approximately 300,000 square foot building facing the Urban Center Plaza. The northern portion of the building [facing the plaza] is devoted exclusively to PSU, which reinforces the institutional character of the Urban Center Plaza and the surrounding neighborhood. Active ground floor uses also face Fifth and Sixth Avenues and Harrison Street, activating the perimeter of the block. The main entrance to PSU's space is located on the Plaza. The building provides 160,000 square feet of Student Recreation Center space and 80,000 square feet of academic offices above.

Below grade parking, accessed from Harrison Street, is located on the first floor on the south side of the block. The building provides 70 spaces. Further analysis of the parking requirements for the projected program will need to be undertaken.

40,000 square feet of office space for a private tenant and/or other public entities, is located on the upper floors. Varying roof heights provide multiple opportunities for roof terraces and reduces the building scale, engaging it with the adjacent Urban Center.

Option 1 from the northwest



Option 1 from the northwest

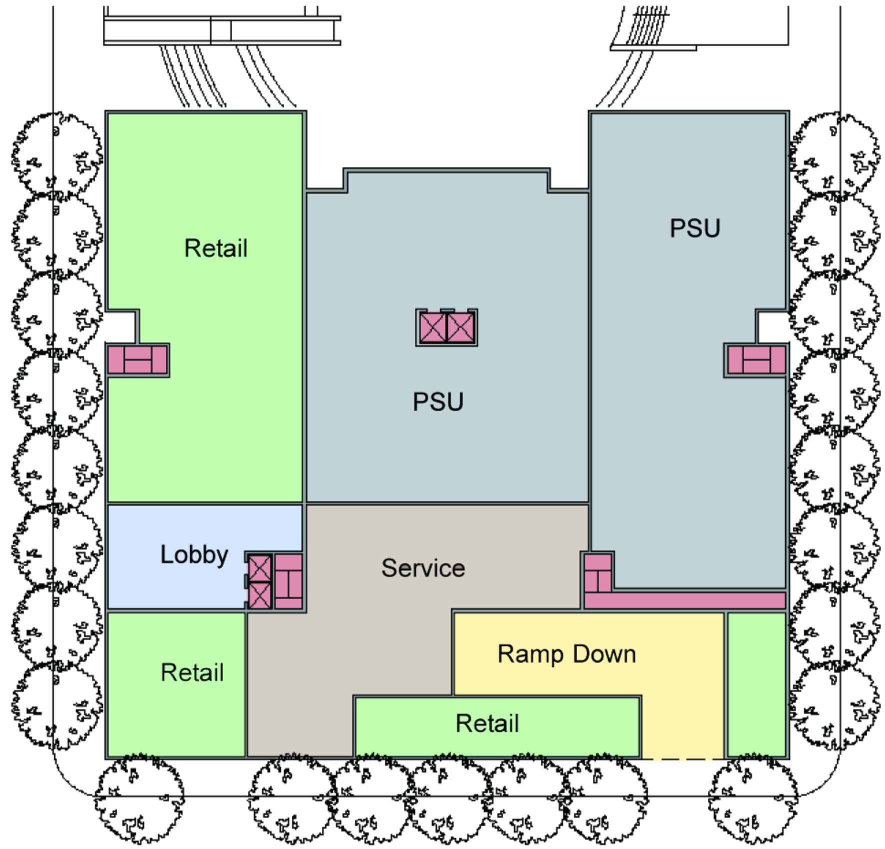
FEASIBILITY SUMMARY FOR BLOCK 161 [PCAT], OPTION 1

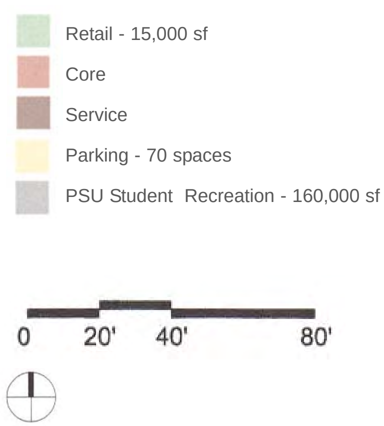
Public Benefits

Option 1 will produce considerable public benefits by providing needed student recreation and administrative/office space for PSU and others. This building will create a new and dynamic center for student activities. In doing so, it will enhance both the PSU campus in particular and the city as a whole.

Financial Feasibility

A financial analysis of the PCAT has not been performed. Total development costs are estimated at approximately $43 million. The Student Recreation Center costs will be covered by PSU student fees. The leasable spaces, both retail and private offices, as well as parking use will pay for themselves.





Option 1, First Floor Plan

BLOCK 153 [JASMINE BLOCK]

Description and Current Uses

Block 153 [Jasmine] is bound on the west by Fifth Avenue (which has Bus Mall improvements on the opposite side of the street), Fourth Avenue on the east, Montgomery Street on the north and Harrison Street on the south. The block slopes up approximately 12 feet from the southwest to the northeast. It is currently occupied by a surface parking lot on the north side, the three-story, wood frame Harrison Court Apartment building on the southwest corner, and the Jasmine Tree Restaurant on the southeast corner. The parking lot and Jasmine Tree building are owned by the Portland Development Commission.

Zoning Potential

Block 153 [Jasmine] is zoned RXd, high density, multi-dwelling with a design overlay. It has a maximum floor area ratio of 6:1 which can be increased with bonuses up to 9:1. With acquisition of the Jasmine Tree site at the southeastern portion of the block this translates into a range of 200,000 to 300,000 square feet of development potential above grade. The maximum height is 125' which can be increased with bonuses to as much as 170'. Potential bonuses include the Middle-income Housing Bonus, Day Care Bonus, Rooftop Gardens Bonus, Percent for Art Bonus and the Eco-Roof Bonus. The site is subject to Design Review and will be required to meet the requirements of the Central City Plan.

Vision

Block 153 [Jasmine], by straddling the streetcar track, creates the opportunity for a second courtyard: one more intimately scaled and complementary to the larger and more open University Plaza. The eastward diagonal of the streetcar extension from the University Plaza, with the south bound stop in the center of the block, reinforces a natural pedestrian connection between the Urban Center, PSU’s 4th Avenue facilities and the future Engineering School. Montgomery Street between Blocks 153 and 152 should be enhanced with widened sidewalks to encourage the development of sidewalk cafés and establish the street as part of a pedestrian connection between the West Hills and the river.

This site presents certain challenges. The streetcar will require a temporary alignment, proposed on Montgomery Street and Fourth Avenue. The permanent diagonal south bound track has implications for building configuration and construction cost, especially as it relates to below grade parking. In addition, development on this block must preserve the historic Harrison Court Apartments. PDC will work with the property owner to ensure the apartment's restoration efforts and design are coordinated with new development.

Architecturally, new development may relate to the Urban Center with strong masonry walls with simple openings facing the streets and an open frame with an infill of glass and metal facing the courtyard. Projecting bay windows, modeled on the north-facing bay of the Urban Center could be used to further articulate the building volume and provide an amenity to the residents.

More than a dozen scenarios were studied for this block, including one and two levels of below grade parking and six, eleven and 14-story, L-shaped buildings. Program elements studied included ground floor retail, senior independent and assisted living facilities, condominiums, rentals, office and middle and lower income rentals. **Block 153 [Jasmine], Option 1**, the recommended option, includes two levels of below grade parking, ground floor retail and thirteen floors of moderately-priced [$258/sf] condominiums.

View from the Urban Center Plaza, looking southeast

View from SW Hall & Fifth Ave, looking northeast

View from SW Harrison & Fifth Ave, looking northeast

View from SW Harrison & Fifth Ave, looking north

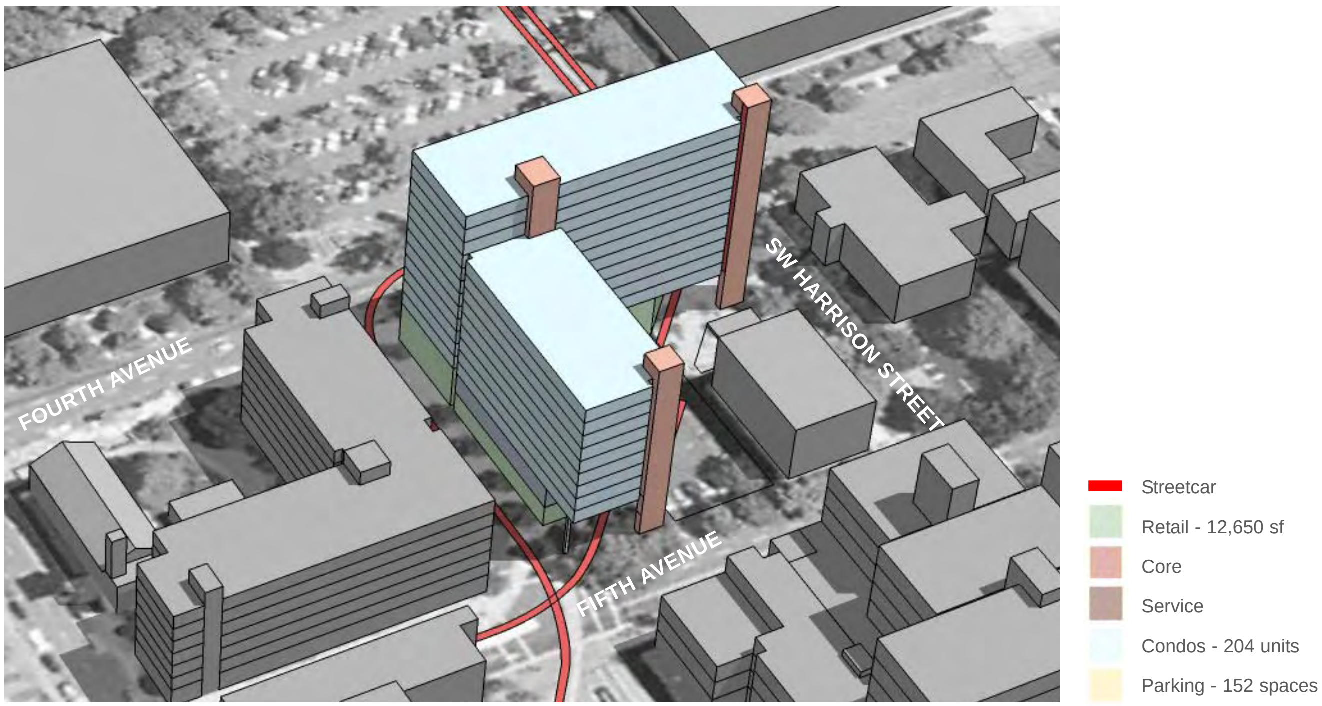
PROGRAM DESCRIPTION FOR BLOCK 153 [JASMINE], OPTION 1

Option 1 is an L-shaped, fourteen story, 308,830 square foot condominium building spanning the streetcar tracks. The L-shaped plan of the building creates an intimately scaled courtyard bounded on the south side by the historic Harrison Court Apartments. Bus, streetcar and future light rail transportation are directly accessible from the site.

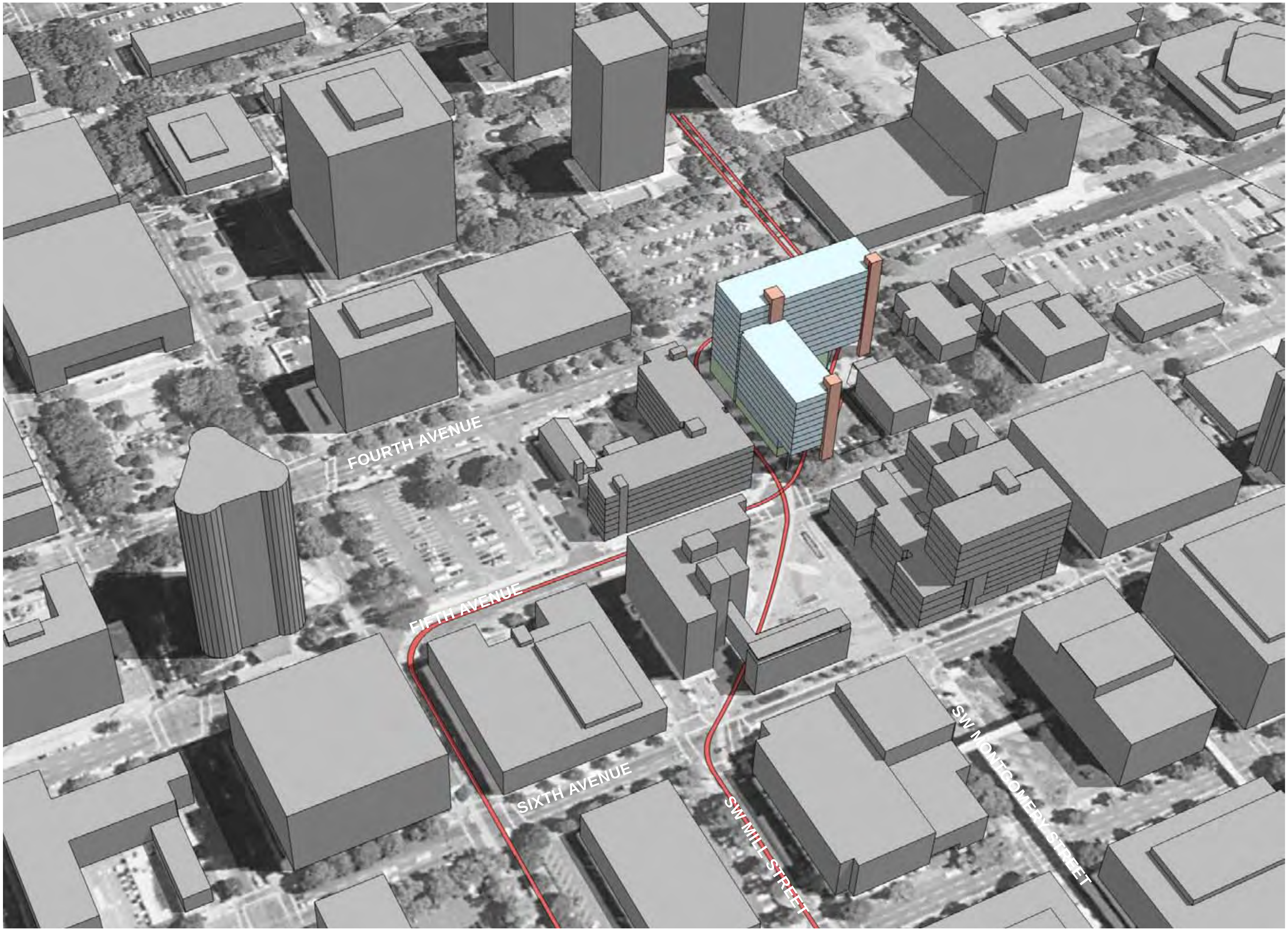
12,650 square feet of active ground floor retail faces Fifth Avenue, Harrison Street, Montgomery Street and the plaza at the center of the site. This retail space will complement the existing retail in the Urban Center and the diagonal alignment of the south bound track will allow easy movement between the two shopping areas. Montgomery Street has been named a “pedestrian connection” in the City of Portland’s Central City Plan making retail space on this street a vital part of that connection. The street will have extra-wide sidewalks to accommodate outdoor cafes and larger numbers of pedestrians. On-street parking will provide easy access.

204 condominiums occupy floors 2-14. There are [30] studio, [111] 1-bedroom and [63] 2-bedroom units. From the upper floors they will have views of the river, the west hills and/or the plaza below. The condominiums will increase the residential population of the neighborhood, resulting in more activity during evenings and weekends, and more customers for restaurants and shops. Two levels of below grade parking, accessed from Montgomery Street, provide 152 parking spaces for the condominiums.

In acknowledgement of the Harrison Court Apartment's historic value and much needed affordable units, new development will be coordinated with the apartment's restoration to maximize the block's urban design potential.



Option 1 from the northwest



Option 1 from the northwest

FEASIBILITY SUMMARY FOR BLOCK 153 [JASMINE], OPTION 1

Public Benefits

There are many good reasons to build ownership housing in this area. Two goals of the University District Plan are to activate the area and to provide a range of housing options that would appeal to non-students as well as students. This option increases the residential population, resulting in more activity in the area during evenings and weekends. It also provides more affordable condominiums for younger and middle income families who wish to live downtown but can't afford Pearl District housing prices, tapping into a potentially deep market of University faculty, staff and downtown workers that prefer the amenities this area offers.

Ownership housing provides a measure of stability to a neighborhood and increases the City's tax base. Finally, homeowners generally have more discretionary income and can support the financial health of the neighborhood by frequenting the retail and service establishments nearby.

Financial Feasibility

Total Cost:	$52 million
Estimated Value:	$54 million
Value / Cost:	104%
Funding Gap:	$6.5 million
Percent Gap Financing:	12.7%

Option 1 is expected to be the most economically and financially viable option, able to attract private financing for 87% of total development costs. This is not surprising given that it consists primarily of condominiums, which have been the most popular type of new construction in the Central City in recent years.

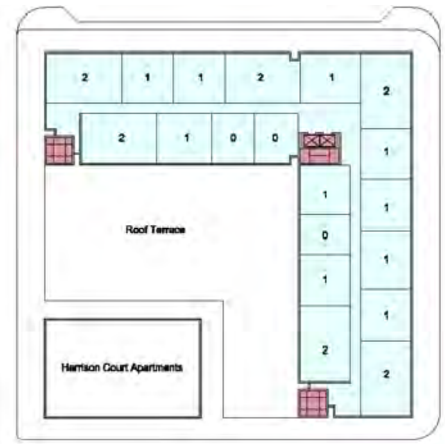
Market Feasibility

Currently the apartment market is not as strong as the condominium market as evidenced by above normal vacancy rates and lack of new market rate development. Condominiums would entail no exceptional marketing risks. They are a very popular product type. New projects typically presell 70% or more of their units, indicating a supply-constrained market. Since the University District is not an established condominium market the prices have been discounted to reflect this condition. As a result, condominiums should easily achieve sales targets of 30% presales. However, there is always a risk in bringing 200+ condominium units to the market at one time, particularly in an emerging market area.

Condominiums in the University District are expected to be marketable if they are priced at approximately $258 per square foot as compared to $270 to $335 per square foot for new products in the Pearl District.

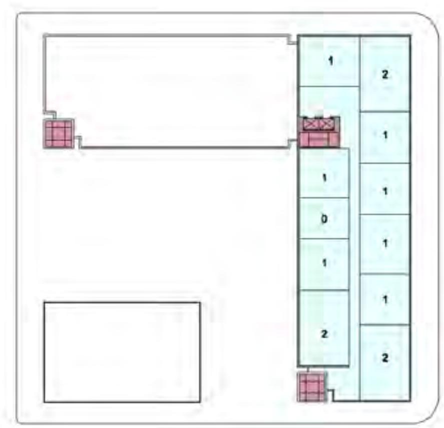
Basement & Sub-basement Plan

1st Floor Plan



2nd Floor Plan

3rd - 11th Floor Plans



12th - 14th Floor Plans

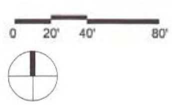
Retail - 12.650 sf

Core

Service

Condos - 204 units

Parking - 152 spaces



Option 1 plans

BLOCK 152 [ST. MICHAEL BLOCK]

Description and Current Uses

Block 152 [St. Michael] is bound on the west by Fifth Avenue which has Bus Mall improvements on the opposite side of the street, Fourth Avenue on the east, Market Street on the north and Montgomery Street on the south. The block slopes up approximately 15 feet from the southwest to the northeast. Block 152 is occupied by St. Michael Church and Parish House and a surface parking lot on the north portion of the block. The southern 50' of the block, fronting Montgomery Street, is occupied by the Value Inn, a two-story wood frame motel. The northern part of the site is owned by the Archdiocese of Portland; the southern part is in private ownership and would need to be acquired.

Zoning Potential

Block 152 [St. Michael] is zoned RXd, high density, multi-dwelling with a design overlay. It has a maximum floor area ratio of 6:1, which can be increased with bonuses up to 9:1. The site area controlled by the Archdiocese is 30,000 square feet and the Church and Parish House occupy approximately 7,500 square feet. With acquisition of the motel site the total potential of the block ranges from 125,700 to 188,600 square feet above grade, depending on bonuses. Without participation from the Archdiocese the potential of the motel site alone is 60,000 to 90,000 square feet. The maximum height is 125' which can be increased with bonuses to as much as 170'. Potential bonuses include the Middle-income Housing Bonus, Day Care Bonus, Rooftop Gardens Bonus, Percent for Art Bonus and the Eco-Roof Bonus. The site is subject to Design Review and will be required to meet the requirements of the Central City Plan.

Vision

Block 152 [St. Michael] is enhanced by its proximity to the University Plaza, ready access to public transit and faces the proposed improved pedestrian corridor of Montgomery Street. As such, it should provide active retail on the ground floor to engage and enhance this new level of activity. With its prominent position on the University Plaza, the building should complement the architecture of the Urban Center and, through strong design elements such as a projecting bay window, focus its mass and height on the southwest corner. The presence of St. Michael's church and parish house is an amenity, and the building massing should be limited to minimize overshadowing its neighbor. Care should also be taken to modulate the scale of the building as a backdrop for St. Michael as seen from the northeast.

From a design perspective, the shape and size of the site limits the number of parking spaces that can be provided and makes them more costly to build. Depending on the lot size available, a large portion of the parking area will need to be dedicated to ramps and circulation. This concern, however, can be partially mitigated if commercial parking is sited elsewhere within the three blocks.

Various development options for Block 152 were explored, including a mixed-use building with ground floor retail uses, space for non-profit and neighborhood services, academic space and low income apartments. Because of the uncertainty of the involvement of the Archdiocese of Portland's (the major land owner), two options are represented in this report.

Block 152 [St. Michael], Option 1, includes development of the entire block, less St Michael's Church and Parish House.

Block 152 [Value Inn], Option 2, includes development of the Value Inn motel site only, With a property depth of only 50 feet, the units may not have required windows on the north side, without a permanent agreement from the adjacent property owner. Therefore this proposal has single loaded "loft" style apartments. Development of this parcel on its own does not meet the goals of the master plan and produces an inefficient development.

View from Fifth Avenue & Montgomery, looking north


View from Fifth Avenue, looking east


View from Urban Center Plaza, looking northeast


View from SW Mill, looking south

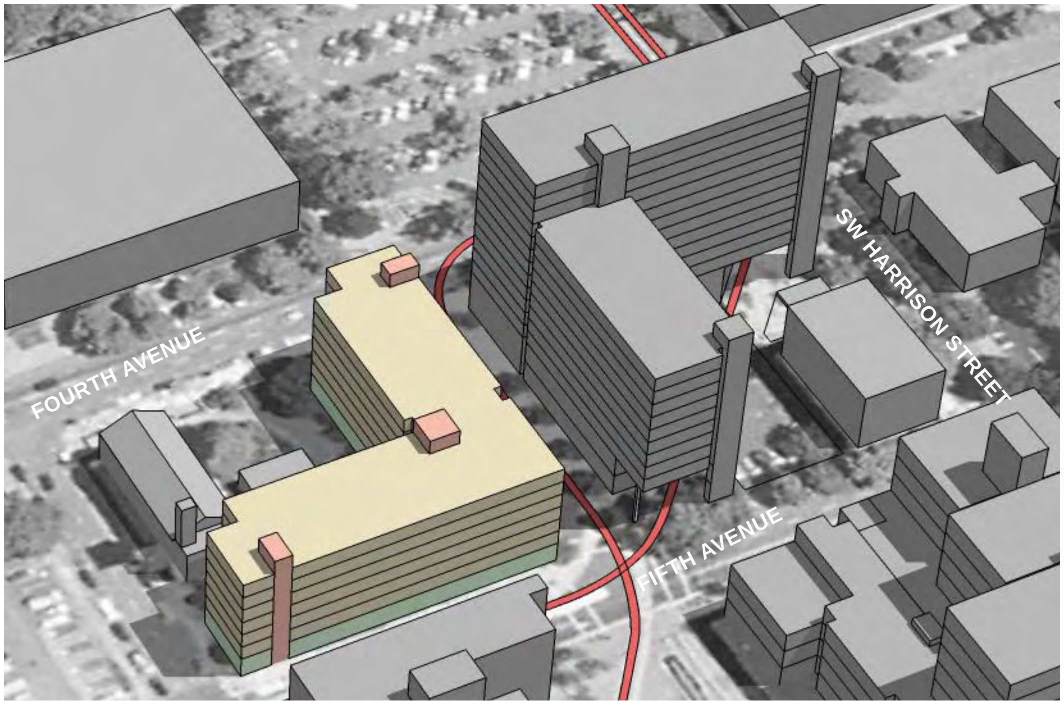
PROGRAM DESCRIPTION FOR OPTION BLOCK 152 [ST. MICHAEL], OPTION 1

Option 1 is an L-shaped seven story, 181,770 square foot mixed-use building sharing a block with St. Michael's Church and Parish House. It is sited on the west and south sides of the block. The height of the proposed building is limited to minimize the shadows on St. Michael's church. 14,710 square feet of active ground floor retail faces Montgomery Street and Fifth Avenue. Like Block 153 [Jasmine], the retail space for this option will be a vital part of the Montgomery Street "pedestrian connection." The street will have extra-wide sidewalks to accommodate outdoor cafes and larger numbers of pedestrians. On-street parking will provide easy access.

Two levels of below grade parking, accessed from Fourth Avenue, provide 106 parking spaces, including replacement parking for St. Michael's parish.

11,030 square feet for a non-profit or neighborhood service is proposed on the second floor. This space can provide much needed services for the increased number of residents expected to inhabit the area.

159 affordable apartments occupy floors 2-7. There are [72] studio, [66] 1-bedroom and [21] 2-bedroom apartments. The apartments will increase the residential population of the neighborhood, resulting in more activity during evenings and weekends.



Streetcar
Retail - 14,710 sf
Core
Service
Parking - 106 spaces
Neighborhood Service - 11,030 sf
Affordable Apartments - 159 units

Option 1 from the northwest

Option 1 from the northwest

FEASIBILITY SUMMARY FOR BLOCK 152 [ST. MICHAEL], OPTION 1

Public Benefits

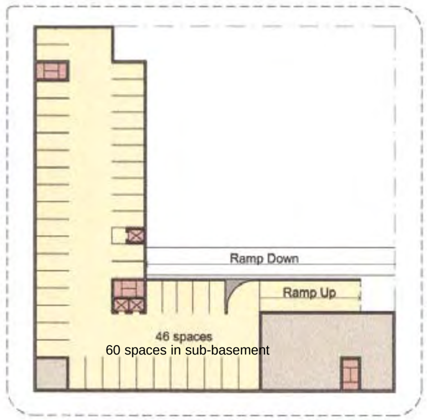
Both options reflect the City's commitment to the goal of increasing affordable rental housing in the Central City. This option adds 159 rental units affordable to families earning at or below 60% of the region's median family income. It also promotes the goal of mixed use development by including ground floor retail and, potentially, a small amount of office or institutional space.

Financial Feasibility

OPTION 1

Total Cost:	$30 million
Estimated Value:	$20 million
Value / Cost:	68%
Funding Gap:	$5.1 million
Percent Gap Financing:	17.3%

Given prevailing land prices, high underground parking costs, development inefficiencies, and achievable rents at this location, affordable housing is not financially viable, even with low income housing tax credits. Hence a substantial public investment would be needed to accomplish this project.



Basement Plan

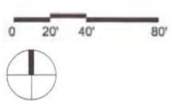
1st Floor Plan

Montgomery Street

2nd Floor Plan

3rd - 7th Floor Plans

- Retail - 14,710 sf
- Core
- Service
- Parking - 106 spaces
- Mixed Income Apartments - 159 units
- Neighborhood Service - 11,030 sf



Option 1 plans

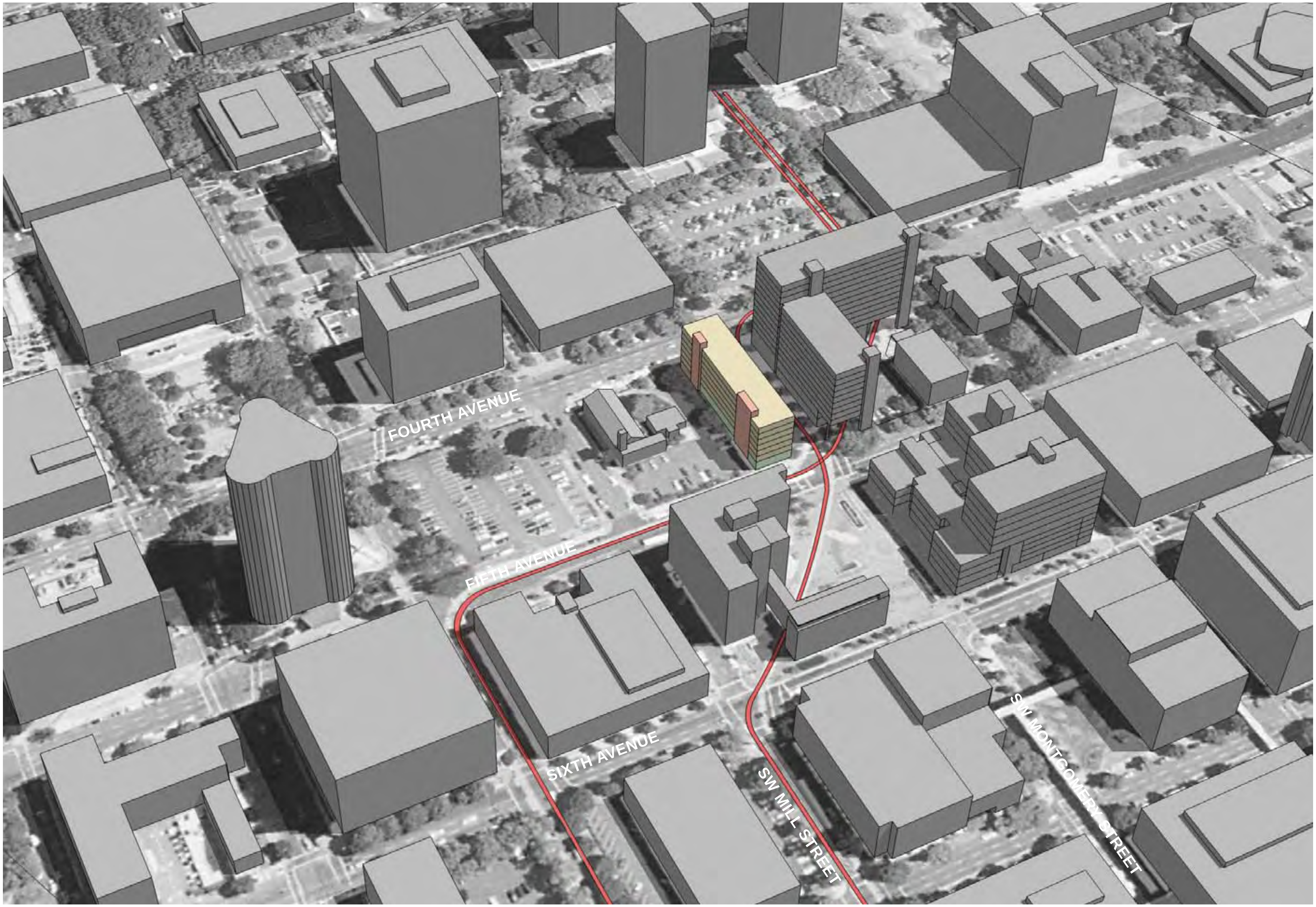
PROGRAM DESCRIPTION FOR BLOCK 152 [VALUE INN], OPTION 2

Option 2 addresses the Value Inn parcel only and is a seven story, 76,600 square foot mixed-use building. The floor area in excess of 60,000 square feet may be obtained by securing the bonuses available on site for middle income housing. It is sited on the south side of the block. 5,400 square feet of active ground floor retail faces Montgomery Street and Fifth Avenue. Like Block 153 [Jasmine], the retail space for this option will be a vital part of the Montgomery Street "pedestrian connection." The street will have extra-wide sidewalks to accommodate outdoor cafes and larger numbers of pedestrians. On-street parking will provide easy access.

One level of below grade parking, accessed from Fourth Avenue, provides 28 parking spaces.

60 affordable “loft” apartments, shaped by single exposure limitations, occupy floors 2-7. There are [12] studio, [36] 1-bedroom and [12] 2-bedroom loft apartments. The apartments will increase the residential population of the neighborhood, resulting in more activity during evenings and weekends.

Option 2 from the northwest



Option 2 from the northwest

FEASIBILITY SUMMARY FOR BLOCK 152 [VALUE INN], OPTION 2

Public Benefits

Both options reflect the City's commitment to the goal of increasing affordable rental housing in the Central City. This option adds 60 rental units affordable to families earning at or below 60% of the region's median family income. It also promotes the goal of mixed use development by including ground floor retail and, potentially, a small amount of office or institutional space.

Financial Feasibility

OPTION 2

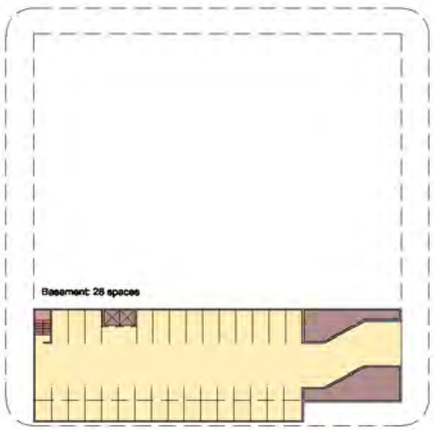
Total Cost:	$14 million
Estimated Value:	$9 million
Value / Cost:	67%
Funding Gap:	$1.4 million
Percent Gap Financing:	10.4%

Given prevailing land prices and achievable rents at this location, affordable housing is not financially viable, even with low income housing tax credits. Hence a substantial public investment would be needed to accomplish this important public policy goal.

Market Feasibility

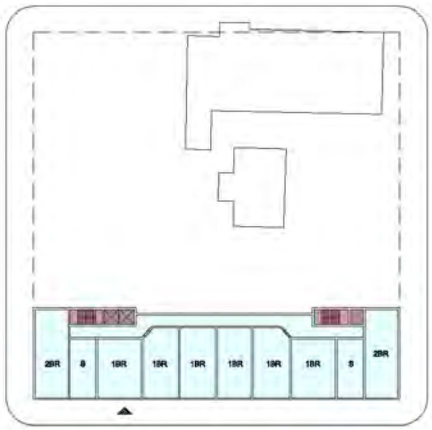
Both options will involve some market risk. On the one hand, affordable housing historically performs well because it is priced comparably to older properties and yet is new, modern construction. On the other hand, due to a weak economy there is the risk of a slow lease-up period at 60% MFI due to oversupply. Alternatively, there is the risk of an increased public funding gap if the rents were decreased to 50% MFI and below where demand remains very strong. Over the long term, however, affordable apartments should perform well.

In addition, the site constraints and high underground parking costs make this alternative less economically feasible. However, the per unit funding gap for Option 2 is significantly lower than for Option 1.



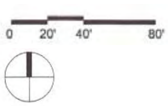
Basement Plan

1st Floor Plan



2nd - 7th Floor Plan

- Retail - 5,400 sf
- Core
- Service
- Parking - 28 spaces
- “Loft” Apartments - 60 units



Option 2 Plans

PSU Urban Center and Streetcar

VIII. RECOMMENDATIONS

Following are recommendations to advance redevelopment of the Montgomery Blocks into a multi-block, mixed-use development that will form the core of the University District neighborhood and catalyze development around it. It is recommended that:

1. PDC to issue an RFP on Block 153 [Jasmine]. Summer 2005
2. PSU and PDC to stimulate development of Block 161 [PCAT] for office/academic space with retail and significant parking to serve the building and immediate area. PDC to consider investing their 42% interest in the PCAT building to further the redevelopment of Block 161 [PCAT] when PSU has developed a financial analysis for Block 161 [PCAT] and are ready to move forward with redevelopment efforts. Fall 2007
3. PDC to work with the Archdiocese and St. Michael's parish to determine development potential of Block 152 [St. Michael] and pursue development implementation, if feasible. Fall 2005
4. PDC to coordinate with the Portland Office of Transportation (PDOT) to design and build the desired permanent streetcar alignment and execute a Memorandum of Understanding with PDOT confirming cost and alignment.
5. PDC to coordinate redevelopment efforts with the ongoing design of the Portland Mall Revitalization Project's light rail station area.
6. PDC and PSU to actively recruit retail uses that will serve neighborhood workers and residents.
7. New development should promote an active use spine on SW Montgomery Street to reinforce the pedestrian connection from the West Hills to the Willamette River.
8. PDC/PSU to undertake development analysis of properties between SW 4th and SW 6th, SW Market and I-405 in coordination with the Bureau of Planning, PSU, and property owners. Spring 2006

IX. NEXT STEPS / SCHEDULE

Priority Order:

1. **PDC issues an RFP to redevelop Block 153 [Jasmine] for mixed income housing, retail and possibly academic uses and negotiates with PDOT and Portland Streetcar, Inc. to determine final streetcar alignment.**

▪ Solicit development proposals	Summer 2005
▪ Select development team	Summer 2005
▪ Design	Fall 2005
▪ Negotiate preferred streetcar alignment	Spring 2006
▪ Construction	2007

2. **PSU undertakes development of Block 161 [PCAT] for office/academic space.**

▪ Select Architects and Design Team	Fall 2005
▪ Design	Fall 2006
▪ Construction	2007-2008

3. **PDC to continue working with St. Michael's to determine development feasibility on Block 152 [St. Michael] in preparation for its eventual redevelopment as housing, neighborhood support and retail.**

▪ Solicit development proposals	Fall 2005
▪ Select development team	Winter 2006
▪ Design	Spring 2006
▪ Construction	2007

4. **PDC/PSU/Bureau of Planning/Property owners to undertake development analysis of properties along SW 4th Avenue between SW Market and I-405.**

▪ Development Analysis	Spring 2006


Existing view of Block 153 [Jasmine] from Urban Center Plaza


Proposed view of Block 153 [Jasmine] from Urban Center Plaza

APPENDIX A
FINANCIAL ANALYSIS OF RECOMMENDED OPTIONS

OPTION 1

MIXED-USE DEVELOPMENT
PARKING, RETAIL, CONDOMINIUMS
Block 153

OPTION 1

BLOCK 153 (Jasmine)

SUMMARY INFORMATION

October 19, 2004

AREA SUMMARY:	
Parcel Size (SF)	33,500
Building Size (SF)	308,830
Efficiency Ratio	89%
Saleable and Leasable Area (SF)	275,670
Residential Units	204
Density (Units/Acre)	265.26

INCOME SUMMARY:			
	Total SF	Average Price/SF	Gross Sales Income
Residential Units	195,620	$277.68	$54,319,160
			Gross Income
Office/Industrial Space	0	$0.00	$0
Retail	12,650	$17.00	$215,050
Parking	67,400	$0.00	$0
Vacancy/Collection Loss			($21,505)
TOTAL	80,050	$2.42	$193,545

COST SUMMARY:			
	Per SF		Total
Acquisition Cost	$11.66		$3,600,000
Direct Construction Cost	$127.42		$39,351,658
Other Construction	$0.00		$0
Soft Costs	$28.02		$8,653,199
TOTAL	$167.10		$51,604,857

EQUITY ASSUMPTIONS:		
Total Development Cost		**$51,604,857**
(-) Permanent Loan		(1,845,331)
(-) Applied Condomium Revenue		(49,236,798)
Net Permanent Loan Equity Required	**22.1%**	**$522,728**

CONSTRUCTION LOAN ASSUMPTIONS:	
Construction Loan Amount	**$42,584,701**
Interest Rate	6.00%
Term (months)	18
Drawdown Factor	0.56
Construction Interest	**$2,037,666**
Construction Loan Fee (%)	1.00%
Construction Loan Fee ($)	**$425,847**

PERMANENT FINANCING ASSUMPTIONS:		
	DCR	LTV
Interest Rate	7.50%	7.50%
Term (Years)	30	30
Debt-Coverage Ratio	1.25	
Loan-to-Value		75%
Stabilized NOI (Year 2)	$196,835	$196,835
CAP Rate		8.00%
Supportable Mortgage	**$1,876,728**	**$1,845,331**
Annual Debt Service	**$157,468**	**$154,834**

MEASURES OF RETURN:	
Indicated Value @ Stablization	$53,520,451
Value/Cost	104%
Return on Investment (ROI)	8.3%
Return on Sales (ROS)	2.1%
Internal Rate of Return (Income Component)	16.7%
Modified Internal Rate of Return @ 8% Reinventment	14.1%

ESTIMATION OF VIABILITY GAP	
Targeted Return on Sales	15.00%
Calculated ROS	2.1%
Calculated Gap-Condos (includes parking)	$6,374,602
Targeted Return on Investment (ROI)	9.0%
Calculated ROI	8.3%
Calculated Gap-Income Components	$181,000
Total Calculated Gap	$6,555,602
Overall Gap as % of Development Cost	12.7%

SOURCE: Johnson Gardner LLC

OPTION 1
BLOCK 153 (Jasmine)
INCOME ASSUMPTIONS

RESIDENTIAL PROGRAM						
	NO. OF UNITS	TOTAL SF	SALES PRICE/S.F.	PARKING SALES 1/	AVG PRICE/ UNIT	TOTAL INCOME
Floors 3-5	57	54,445	$225	$1,061,765	$233,540	$13,311,800
Floors 6-8	57	54,445	$250	$1,061,765	$257,420	$14,672,915
Floors 9-11	57	54,445	$275	$1,061,765	$281,299	$16,034,030
Floors 12-14	33	32,286	$300	$614,706	$312,134	$10,300,416
TOTAL	204	195,620	$258	$3,800,000	$266,270	$54,319,160

OFFICE/INDUSTRIAL						
	TOTAL SF	NET/ GROSS	LEASABLE SF		ANNUAL RENT/SF	ANNUAL INCOME
Office	0	90%	0		$18.00	$0
Industrial	0	100%	0		$5.40	$0
TOTAL	0		0		$0.00	$0

RETAIL						
	TOTAL SF	NET/ GROSS	LEASABLE SF		ANNUAL RENT/SF	ANNUAL INCOME
Retail-Ground Floor	12,650	100%	12,650		$17.00	$215,050
TOTAL	12,650		12,650		$17.00	$215,050

PARKING						
	# OF SPACES	NET REVENUE	TOTAL SF		ANNUAL RENT/SF	ANNUAL INCOME
Housing Parking	152	$0	67,400		$0.00	$0
Income Property Parking	0	$0	0		$0.00	$0
TOTAL	152	$0	67,400		$0.00	$0

1/ Assumes housing spaces sold to condominium buyers at $25,000 per space.

SOURCE: Johnson Gardner LLC

OPTION 1
BLOCK 153 (Jasmine)
DEVELOPMENT COST ESTIMATE

	Area/ Basis	Unit	Cost	Total Cost
Acquisition Cost:				$3,600,000
Construction Costs:				
Howard S. Wright Estimates	308,830	$109.42	$33,793,398	
G.C.'S, Fee, Insurance	308,830	$10.94	$3,379,340	
Design/Escalation Contingency	308,830	$5.47	$1,689,670	
Structural Reinforcement for Streetcar	4250	$25.00	$106,250	
Streetcar Costs			$383,000	
TOTAL				$39,351,658
Pre-Development Consultants:				
Architecture/Engineering Studies		1.0%	$393,517	
Project Management		LS	$250,000	
Market Study/Appraisal		LS	$15,000	
Geotechnical Report		LS	$5,000	
Environmental Studies		LS	$15,000	
Traffic Study		LS	$6,000	
Relocation Costs/Other		LS	$60,000	
Subtotal				$744,517
Architecture & Engineering Fees:				
Architecture/Engineering/Interior Design		8.0%	$3,148,133	
Landscape Design		LS	$5,000	
Geotechnical Inspections		LS	$5,000	
Other Consultants		LS	$5,000	
Construction Testing & Inspection		LS	$5,000	
Consultant Reimbursables		LS	$15,000	
Subtotal				$3,183,133
Development Fees & Administration:				
Developer Fee		3.0%	$1,180,550	
Construction Administration		LS	$195,000	
Builder's Risk Insurance		LS	$6,000	
Miscellaneous Costs		LS	$5,000	
Soft Cost Contingency		LS	$20,000	
Subtotal				$1,406,550
Building Permit Fee and System Charges:				
City Permit/Fee Allowance		2.00%	$787,033	
Subtotal				$787,033
Legal & Accounting Fees:				
Legal Fees		LS	$50,000	
Subtotal				$50,000
Construction Financing & Carrying Costs:				
Loan Fee		1.0%	$425,847	
Interest on Construction Loan			$2,037,666	
Subtotal				$2,463,513
Permanant Financing Fees & Costs:				
Loan Fee		1.0%	$18,453	
Subtotal				$18,453
Total Soft Costs				$8,653,199
TOTAL DEVELOPMENT COSTS				$51,604,857
SOFT COSTS %				16.8%

SOURCE: Howard S. Wright and Johnson Gardner LLC

OPTION 1
BLOCK 153 (Jasmine)
TEN-YEAR CASH FLOW - INCOME PROPERTY COMPONENTS

		Lease-up	*Stabilized*			YEAR					
		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
Gross Scheduled Income/Residential		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Scheduled Income/Office		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Scheduled Income/Retail		215,050	219,351	223,738	228,213	232,777	237,433	242,181	247,025	251,965	257,005
Gross Scheduled Income/Parking		0	0	0	0	0	0	0	0	0	0
Miscellaneous Income		0	0	0	0	0	0	0	0	0	0
Vacancy & Collection Loss		(118,278)	(21,935)	(22,374)	(22,821)	(23,278)	(23,743)	(24,218)	(24,702)	(25,197)	(25,700)
EFFECTIVE GROSS INCOME		$96,773	$197,416	$201,364	$205,392	$209,499	$213,689	$217,963	$222,322	$226,769	$231,304
(-) Operating Expenses - Residential		0	0	0	0	0	0	0	0	0	0
(-) Operating Expenses - Commercial		(581)	(581)	(581)	(581)	(581)	(581)	(581)	(581)	(581)	(581)
NET OPERATING INCOME		$96,192	$196,835	$200,784	$204,811	$208,919	$213,109	$217,382	$221,742	$226,188	$230,724
(-) Annual Debt Service		0	(154,834)	(154,834)	(154,834)	(154,834)	(154,834)	(154,834)	(154,834)	(154,834)	(154,834)
CASH FLOW (PRE-TAX)		$96,192	$42,001	$45,950	$49,977	$54,085	$58,275	$62,549	$66,908	$71,354	$75,890
Total Developer Cash Flow		$96,192	$42,001	$45,950	$49,977	$54,085	$58,275	$62,549	$66,908	$71,354	$75,890
Return on Equity	$522,728	18.40%	8.04%	8.79%	9.56%	10.35%	11.15%	11.97%	12.80%	13.65%	14.52%
Present Value		$1,202,398	$2,460,441	$2,509,795	$2,560,136	$2,611,484	$2,663,859	$2,717,281	$2,771,772	$2,827,352	$2,884,044
Cap Rate	8.00%										
Primary Debt Coverage Ratio			1.27	1.30	1.32	1.35	1.38	1.40	1.43	1.46	1.49
Return on Investment (NOI/Cost)			0.38%	0.39%	0.40%	0.40%	0.41%	0.42%	0.43%	0.44%	0.45%
Assumed Rent and Cost Escalator	2.0%										

SOURCE: Johnson Gardner LLC

OPTION 1

MIXED-USE DEVELOPMENT
PARKING, RETAIL, LIHTC APARTMENTS
Block 152

OPTION 1
BLOCK 152 (Value Inn)
SUMMARY INFORMATION

October 19, 2004

AREA SUMMARY:	
Parcel Size (SF)	22,500
Building Size (SF)	181,770
Efficiency Ratio	88%
Saleable and Leasable Area (SF)	160,363
Residential Units	159
Density (Units/Acre)	307.82

CONSTRUCTION LOAN ASSUMPTIONS:	
Construction Loan Amount	**$14,997,802**
Interest Rate	6.00%
Term (months)	18
Drawdown Factor	0.65
Construction Interest	**$842,520**
Construction Loan Fee (%)	1.00%
Construction Loan Fee ($)	**$149,978**

INCOME SUMMARY:	Total SF	Average Price/SF	Gross Income
Residential Units	95,726	$13.20	$1,263,585
Office/Industrial Space	0	$0.00	$0
Retail	24,097	$14.12	$340,160
Parking	40,540	$3.45	$139,920
Vacancy/Collection Loss			($48,008)
TOTAL	160,363	$10.57	$1,695,657

PERMANENT FINANCING ASSUMPTIONS:	DCR	LTV
Interest Rate	7.50%	7.50%
Term (Years)	30	30
Debt-Coverage Ratio	1.25	
Loan-to-Value		75%
Stabilized NOI (Year 2)	$1,599,766	$1,599,766
CAP Rate		8.00%
Supportable Mortgage	$15,252,979	$14,997,802
Annual Debt Service	$1,279,812	$1,258,402

COST SUMMARY:	Per SF		Total
Acquisition Cost 1/	$22.97		$4,175,000
Direct Construction Cost	$115.38		$20,973,381
Other Construction	$0.00		$0
Soft Costs	$24.25		$4,407,250
TOTAL	$162.60		$29,555,631

MEASURES OF RETURN:	
Indicated Value @ Stablization	$19,997,070
Value/Cost	68%
Return on Investment (ROI)	5.4%
Return on Sales (ROS)	NA
Internal Rate of Return (Income Component)	7.8%
Modified Internal Rate of Return @ 8% Reinventment	7.8%

EQUITY ASSUMPTIONS:		
Total Development Cost		**$29,555,631**
(-) Permanent Loan		($14,997,802)
(-) Proceeds from 4% Tax Credit		($6,666,435)
Net Permanent Loan Equity Required	**34.5%**	**$7,891,394**

ESTIMATION OF VIABILITY GAP	
Targeted Return on Sales	15.00%
Calculated ROS	NA
Targeted Return on Investment (ROI)	9.0%
Calculated ROI (Less Tax Credit Proceeds)	7.0%
Calculated Gap-Income Components	$5,114,023
Total Calculated Gap	$5,114,023
Overall Gap as % of Development Cost	17.3%

1/ Includes RMV land value plus $50,000 for acquisition of the Blind Onion

SOURCE: Johnson Gardner LLC

OPTION 1
BLOCK 152 (Value Inn)
INCOME ASSUMPTIONS

RESIDENTIAL PROGRAM	NO. OF UNITS	LEASABLE SF	MONTHLY RENT/SF	PARKING SALES	ANNUAL RENT/SF	TOTAL INCOME
Floor 2	14	7,987	$1.10	$0	$13.20	$105,423
Floor s 3-7	145	87,740	$1.10	$0	$13.20	$1,158,161
TOTAL	159	95,726	$1.10	$0	$13.20	$1,263,585

OFFICE/INDUSTRIAL	TOTAL SF	NET/ GROSS	LEASABLE SF		ANNUAL RENT/SF	ANNUAL INCOME
Office	0	90%	0		$18.00	$0
Industrial	0	100%	0		$5.40	$0
TOTAL	0		0		$0.00	$0

RETAIL	TOTAL SF	NET/ GROSS	LEASABLE SF		ANNUAL RENT/SF	ANNUAL INCOME
Retail-Ground Floor	14,170	100%	14,170		$17.00	$240,890
Neighborhood Service	11,030	90%	9,927		$10.00	$99,270
TOTAL	25,200		24,097		$14.12	$340,160

PARKING	# OF SPACES	RENT/ SPACE	LEASABLE SF	MOTHLY RENT/SF	ANNUAL RENT/SF	ANNUAL INCOME
Housing Parking	0	$0	0	0	$0.00	$0
Income Property Parking	106	$110	40,540	$0.29	$3.45	$139,920
TOTAL	106	$110	40,540	$0.29	$3.45	$139,920

SOURCE: Johnson Gardner LLC

OPTION 1
BLOCK 152 (Value Inn)
DEVELOPMENT COST ESTIMATE

	Area/ Basis	Unit	Cost	Total Cost
Acquisition Cost:				$4,175,000
Construction Costs:				
Howard S. Wright Estimates 1/	181,770	$100.33	$18,237,723	
G.C.'S, Fee, Insurance	181,770	$10.03	$1,823,772	
Design/Escalation Contingency	181,770	$5.02	$911,886	
TOTAL				$20,973,381
Pre-Development Consultants:				
Architecture/Engineering Studies		1.0%	$209,734	
Project Management		LS	$125,000	
Market Study/Appraisal		LS	$7,500	
Geotechnical Report		LS	$2,500	
Environmental Studies		LS	$7,500	
Traffic Study		LS	$3,000	
Relocation Costs/Other		LS	$30,000	
Subtotal				$385,234
Architecture & Engineering Fees:				
Architecture/Engineering/Interior Design		8.0%	$1,677,871	
Landscape Design		LS	$2,500	
Geotechnical Inspections		LS	$2,500	
Other Consultants		LS	$2,500	
Construction Testing & Inspection		LS	$2,500	
Consultant Reimbursables		LS	$2,500	
Subtotal				$1,690,371
Development Fees & Administration:				
Developer Fee		3.0%	$629,201	
Construction Administration		LS	$100,000	
Builder's Risk Insurance		LS	$3,000	
Miscellaneous Costs		LS	$2,500	
Soft Cost Contingency		LS	$10,000	
Subtotal				$744,701
Building Permit Fee and System Charges:				
City Permit/Fee Allowance		2.00%	$419,468	
Subtotal				$419,468
Legal & Accounting Fees:				
Legal Fees		LS	$25,000	
Subtotal				$25,000
Construction Financing & Carrying Costs:				
Loan Fee		1.0%	$149,978	
Interest on Construction Loan			$842,520	
Subtotal				$992,498
Permanant Financing Fees & Costs:				
Loan Fee		1.0%	$149,978	
Subtotal				$149,978
Total Soft Costs				$4,407,250
TOTAL DEVELOPMENT COSTS				$29,555,631
SOFT COSTS %				14.9%

SOURCE: Howard S. Wright and Johnson Gardner LLC

OPTION 1
BLOCK 152 (Value Inn)
TEN-YEAR CASH FLOW - INCOME PROPERTY COMPONENTS

		Lease-up	*Stabilized*	YEAR							
		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
Gross Scheduled Income/Residential		$1,263,585	$1,288,856	$1,314,633	$1,340,926	$1,367,745	$1,395,099	$1,423,001	$1,451,461	$1,480,491	$1,510,100
Gross Scheduled Income/Office		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Scheduled Income/Retail & Community		340,160	346,963	353,902	360,981	368,200	375,564	383,075	390,737	398,552	406,523
Gross Scheduled Income/Parking		139,920	142,718	145,573	148,484	151,454	154,483	157,573	160,724	163,939	167,217
Miscellaneous Income		0	0	0	0	0	0	0	0	0	0
Vacancy & Collection Loss		(959,015)	(177,854)	(181,411)	(185,039)	(188,740)	(192,515)	(196,365)	(200,292)	(204,298)	(208,384)
EFFECTIVE GROSS INCOME		**$784,649**	**$1,600,684**	**$1,632,698**	**$1,665,352**	**$1,698,659**	**$1,732,632**	**$1,767,285**	**$1,802,630**	**$1,838,683**	**$1,875,456**
(-) Operating Expenses - Residential		0	0	0	0	0	0	0	0	0	0
(-) Operating Expenses - Commercial		(918)	(918)	(918)	(918)	(918)	(918)	(918)	(918)	(918)	(918)
NET OPERATING INCOME		**$783,731**	**$1,599,766**	**$1,631,779**	**$1,664,433**	**$1,697,740**	**$1,731,713**	**$1,766,366**	**$1,801,712**	**$1,837,764**	**$1,874,538**
(-) Annual Debt Service		0	(1,258,402)	(1,258,402)	(1,258,402)	(1,258,402)	(1,258,402)	(1,258,402)	(1,258,402)	(1,258,402)	(1,258,402)
CASH FLOW (PRE-TAX)		**$783,731**	**$341,364**	**$373,378**	**$406,032**	**$439,339**	**$473,312**	**$507,964**	**$543,310**	**$579,363**	**$616,136**
Total Developer Cash Flow		$783,731	$341,364	$373,378	$406,032	$439,339	$473,312	$507,964	$543,310	$579,363	$616,136
Return on Equity	$7,891,394	9.93%	4.33%	4.73%	5.15%	5.57%	6.00%	6.44%	6.88%	7.34%	7.81%
Present Value		$9,796,633	$19,997,070	$20,397,241	$20,805,415	$21,221,753	$21,646,418	$22,079,576	$22,521,397	$22,972,055	$23,431,725
Cap Rate	8.00%										
Primary Debt Coverage Ratio			1.27	1.30	1.32	1.35	1.38	1.40	1.43	1.46	1.49
Return on Investment (NOI/Cost)			5.41%	5.52%	5.63%	5.74%	5.86%	5.98%	6.10%	6.22%	6.34%
Assumed Rent and Cost Escalator	2.0%										

SOURCE: Johnson Gardner LLC

OPTION 2

MIXED-USE DEVELOPMENT
PARKING, RETAIL, LIHTC APARTMENTS
Block 152

OPTION 2
BLOCK 152 (Value Inn)
SUMMARY INFORMATION

October 19, 2004

AREA SUMMARY:	
Parcel Size (SF)	22,500
Building Size (SF)	76,600
Efficiency Ratio	84%
Saleable and Leasable Area (SF)	64,434
Residential Units	60
Density (Units/Acre)	116.16

CONSTRUCTION LOAN ASSUMPTIONS:	
Construction Loan Amount	**$6,857,966**
Interest Rate	6.00%
Term (months)	18
Drawdown Factor	0.90
Construction Interest	**$530,534**
Construction Loan Fee (%)	1.00%
Construction Loan Fee ($)	**$68,580**

INCOME SUMMARY:	Leasable SF	Average Price/SF	Gross Income
Residential Units	50,634	$13.20	$668,369
Office/Industrial Space	0	$0.00	$0
Retail	5,400	$17.00	$91,800
Parking	8,400	$4.40	$36,960
Vacancy/Collection Loss			($12,876)
TOTAL	64,434	$12.17	**$784,253**

PERMANENT FINANCING ASSUMPTIONS:	DCR	LTV
Interest Rate	7.50%	7.50%
Term (Years)	30	30
Debt-Coverage Ratio	**1.25**	
Loan-to-Value		**75%**
Stabilized NOI (Year 2)	$731,516	$731,516
CAP Rate		8.00%
Supportable Mortgage	**$6,974,649**	**$6,857,966**
Annual Debt Service	**$585,213**	**$575,423**

COST SUMMARY:	Per SF		Total
Acquisition Cost 1/	$24.80		$1,900,000
Direct Construction Cost	$123.15		$9,433,558
Other Construction	$0.00		$0
Soft Costs	$30.25		$2,316,892
TOTAL	$178.20		**$13,650,450**

MEASURES OF RETURN:	
Indicated Value @ Stablization	$9,143,955
Value/Cost	67%
Return on Investment (ROI)	5.4%
Return on Sales (ROS)	NA
Internal Rate of Return (Income Component)	11.7%
Modified Internal Rate of Return @ 8% Reinventment	10.7%

EQUITY ASSUMPTIONS:		
Total Development Cost		**$13,650,450**
(-) Permanent Loan		($6,857,966)
(-) Proceeds from 4% Tax Credit		($4,100,481)
Net Permanent Loan Equity Required	28.2%	**$2,692,003**

ESTIMATION OF VIABILITY GAP	
Targeted Return on Sales	15.00%
Calculated ROS	NA
Targeted Return on Investment (ROI)	9.0%
Calculated ROI (Less Tax Credit Proceeds)	7.7%
Calculated Gap-Income Components	$1,422,009
Total Calculated Gap	$1,422,009
Overall Gap as % of Development Cost	10.4%

1/ Includes RMV land value plus $50,000 for acquisition of the Blind Onion

SOURCE: Johnson Gardner LLC

OPTION 2
BLOCK 152 (Value Inn)
INCOME ASSUMPTIONS

RESIDENTIAL PROGRAM						
	NO. OF UNITS	LEASABLE SF	MONTHLY RENT/SF	PARKING SALES	ANNUAL RENT/SF	TOTAL INCOME
Floors 2-5	40	33,756	$1.10	$466,667	$13.20	$445,579
Floors 6-7	20	16,878	$1.10	$233,333	$13.20	$222,790
TOTAL	60	50,634	$1.10	$700,000	$13.20	$668,369
OFFICE/INDUSTRIAL						
	TOTAL SF	NET/ GROSS	LEASABLE SF		ANNUAL RENT/SF	ANNUAL INCOME
Office	0	90%	0		$18.00	$0
Industrial	0	100%	0		$5.40	$0
TOTAL	0		0		$0.00	$0
RETAIL						
	TOTAL SF	NET/ GROSS	LEASABLE SF		ANNUAL RENT/SF	ANNUAL INCOME
Retail-Ground Floor	5,400	100%	5,400		$17.00	$91,800
TOTAL	5,400		5,400		$17.00	$91,800
PARKING						
	# OF SPACES	RENT/ SPACE	LEASABLE SF	MOTHLY RENT/SF	ANNUAL RENT/SF	ANNUAL INCOME
Housing Parking	28	$110	8,400	0	$4.40	$36,960
Income Property Parking	0	$0	0	$0.00	$0.00	$0
TOTAL	28	$110	8,400	$0.00	$4.40	$36,960

SOURCE: Johnson Gardner LLC

OPTION 2
BLOCK 152 (Value Inn)
DEVELOPMENT COST ESTIMATE

	Area/ Basis	Unit	Cost	Total Cost
Acquisition Cost:				$1,900,000
Construction Costs:				
Howard S. Wright Estimates 1/	76,600	$107.09	$8,203,094	
G.C.'S, Fee, Insurance	76,600	$10.71	$820,309	
Design/Escalation Contingency	76,600	$5.35	$410,155	
TOTAL				$9,433,558
Pre-Development Consultants:				
Architecture/Engineering Studies		1.0%	$94,336	
Project Management		LS	$125,000	
Market Study/Appraisal		LS	$7,500	
Geotechnical Report		LS	$2,500	
Environmental Studies		LS	$7,500	
Traffic Study		LS	$3,000	
Relocation Costs/Other		LS	$30,000	
Subtotal				$269,836
Architecture & Engineering Fees:				
Architecture/Engineering/Interior Design		8.0%	$754,685	
Landscape Design		LS	$2,500	
Geotechnical Inspections		LS	$2,500	
Other Consultants		LS	$2,500	
Construction Testing & Inspection		LS	$2,500	
Consultant Reimbursables		LS	$2,500	
Subtotal				$767,185
Development Fees & Administration:				
Developer Fee		3.0%	$283,007	
Construction Administration		LS	$100,000	
Builder's Risk Insurance		LS	$3,000	
Miscellaneous Costs		LS	$2,500	
Soft Cost Contingency		LS	$10,000	
Subtotal				$398,507
Building Permit Fee and System Charges:				
City Permit/Fee Allowance		2.00%	$188,671	
Subtotal				$188,671
Legal & Accounting Fees:				
Legal Fees		LS	$25,000	
Subtotal				$25,000
Construction Financing & Carrying Costs:				
Loan Fee		1.0%	$68,580	
Interest on Construction Loan			$530,534	
Subtotal				$599,114
Permanant Financing Fees & Costs:				
Loan Fee		1.0%	$68,580	
Subtotal				$68,580
Total Soft Costs				$2,316,892
TOTAL DEVELOPMENT COSTS				$13,650,450
SOFT COSTS %				17.0%

SOURCE: Howard S. Wright and Johnson Gardner LLC

OPTION 2
BLOCK 152 (Value Inn)
TEN-YEAR CASH FLOW - INCOME PROPERTY COMPONENTS

		Lease-up	*Stabilized*	YEAR							
		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
Gross Scheduled Income/Residential		$668,369	$681,736	$695,371	$709,278	$723,464	$737,933	$752,692	$767,746	$783,101	$798,763
Gross Scheduled Income/Office		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Scheduled Income/Retail & Community		91,800	93,636	95,509	97,419	99,367	101,355	103,382	105,449	107,558	109,709
Gross Scheduled Income/Parking		36,960	37,699	38,453	39,222	40,007	40,807	41,623	42,455	43,305	44,171
Miscellaneous Income		0	0	0	0	0	0	0	0	0	0
Vacancy & Collection Loss		(438,421)	(81,307)	(82,933)	(84,592)	(86,284)	(88,009)	(89,770)	(91,565)	(93,396)	(95,264)
EFFECTIVE GROSS INCOME		**$358,708**	**$731,764**	**$746,400**	**$761,328**	**$776,554**	**$792,085**	**$807,927**	**$824,085**	**$840,567**	**$857,378**
(-) Operating Expenses - Residential		0	0	0	0	0	0	0	0	0	0
(-) Operating Expenses - Commercial		(248)	(248)	(248)	(248)	(248)	(248)	(248)	(248)	(248)	(248)
NET OPERATING INCOME		**$358,460**	**$731,516**	**$746,152**	**$761,080**	**$776,306**	**$791,837**	**$807,679**	**$823,838**	**$840,319**	**$857,131**
(-) Annual Debt Service		0	(575,423)	(575,423)	(575,423)	(575,423)	(575,423)	(575,423)	(575,423)	(575,423)	(575,423)
CASH FLOW (PRE-TAX)		**$358,460**	**$156,094**	**$170,729**	**$185,657**	**$200,883**	**$216,415**	**$232,256**	**$248,415**	**$264,897**	**$281,708**
Total Developer Cash Flow		$358,460	$156,094	$170,729	$185,657	$200,883	$216,415	$232,256	$248,415	$264,897	$281,708
Return on Equity	$2,692,003	13.32%	5.80%	6.34%	6.90%	7.46%	8.04%	8.63%	9.23%	9.84%	10.46%
Present Value		$4,480,751	$9,143,955	$9,326,896	$9,513,496	$9,703,828	$9,897,966	$10,095,987	$10,297,969	$10,503,990	$10,714,132
Cap Rate	8.00%										
Primary Debt Coverage Ratio			1.27	1.30	1.32	1.35	1.38	1.40	1.43	1.46	1.49
Return on Investment (NOI/Cost)			5.36%	5.47%	5.58%	5.69%	5.80%	5.92%	6.04%	6.16%	6.28%
Assumed Rent and Cost Escalator	2.0%										

SOURCE: Johnson Gardner LLC