

ROBERT CHARLES LESSER & CO.  
REAL ESTATE ADVISORS



October 10, 1991

Ms. Bertt Stevenson  
METRO  
2000 S.W. First Avenue  
Portland, OR 97201-5398

11-3720.01

SUBJECT: Preliminary Update Of Least Cost Analysis Comparing Current Sears Building Proposal With Other Headquarters Alternatives

Dear Bertt:

Following your request of October 9, 1991, we have completed our assignment regarding the above subject. This letter and the attached exhibits summarize our findings regarding this engagement.

In March of 1991, Robert Charles Lesser & Co. prepared an analysis of METRO's proposed ownership and adaptive reuse of the Sears Building. This "least cost analysis" was essentially a relative comparison of the overall occupancy cost associated with the Sears Building versus other potential headquarters options. Following completion of our initial study, a new Sears Building development option has been formulated and, for the purposes of this report, is referred to as the Current Sears Building proposal. The proposal is summarized in the attached document that was supplied to us by METRO.

Against this background, the objective of our assignment was to compare the Current Sears Building option with those summarized in our earlier study. Two possible Sears Building options were evaluated in our initial study; a traditional ownership alternative and a lease/purchase option. The lease/purchase option has been dropped from consideration in this present analysis, and the previous Sears Building ownership option is henceforth referred to as the Initial Sears Building proposal.

Every effort was made to analyze the Current proposal in a manner consistent with our previous study. This goal was largely achieved, with the exception of the amount of space occupied by METRO. The Current Sears Building proposal assumes that METRO will eventually occupy 69,000 square feet of usable space, whereas all previous scenarios assume that METRO will occupy 65,000 square feet of space. This factor alone, however, does not alter the fundamental conclusions discussed below.

The analysis presented herein follows the same format as our March study, in which the various alternatives are compared on the basis of three primary measures: 1) development costs, including aggregate cost and cost per square foot; 2) estimated cash outlays associated with occupancy during the first 10 and 25 years; and 3) the

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present value of all cash occupancy costs during a 25-year period, less the present value of the property's reversion value after 25 years. The results of our analysis are presented in EXHIBITS 1 through 5, and briefly summarized below.

Among the four ownership options summarized in EXHIBIT 2, the Current Sears Building proposal represents the highest overall project cost on a dollar per usable square foot basis, at approximately \$235.00 per square foot, and the lowest total development cost at \$16.2 million. By comparison, the Initial Sears Building proposal was next most expensive option in both dollar per square foot and aggregate terms, at \$202.00 and \$25.8 million, respectively.

Among all options analyzed, the Current Sears Building proposal was fourth most expensive when measured in terms of net cash outlay for occupancy costs during the initial 10 years of occupancy (EXHIBITS 3 and 4). As in our previous analysis, the lease options appear to represent the best value during the first decade of occupancy, and the Initial Sears Building proposal remains the most expensive option.

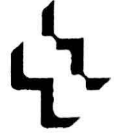
You may recall that the cash outlay summaries in EXHIBIT 4 do not reflect the build-up of equity that occurs under the ownership scenarios and therefore tend to overstate the true economic cost these options. The fundamental differences between lease and ownership alternatives can, however, be corrected for by comparing the net occupancy associated with each alternative on a present value basis. This is accomplished by calculating the present value of net occupancy cost associated with each option over a 25 year period. In the case of ownership options, the present value of the property's reversion value at the end of 25 years is also calculated. In essence, the reversion value, or accrued equity in the property net of depreciation, represents a net reduction in the true economic costs incurred over the 25 year period.

Measured in terms of the net present value of overall occupancy costs during a 25-year period, the Current Sears Building proposal represents the third most expensive headquarters option on a dollar per usable square foot basis (EXHIBIT 5). Consistent with our initial study, new construction in the Lloyd District was the least expensive option in aggregate, and the Initial Sears Building proposal was third most expensive alternative.

In relative present value terms, the Current Sears Building proposal is roughly 44% more expensive than the least costly alternative - slightly more expensive than the Initial Sears Building proposal. This finding is not inconsistent with the fact that the Current Sears Building proposal has the lowest total development cost among ownership options because: 1) it is the most expensive option on a dollar per square foot basis; and 2) it has a lower reversion value than does the Initial Sears Building proposal (EXHIBIT 4).

As we indicated at the conclusion of our initial study, this is a *comparative* analysis which demonstrates the relative cost among various disparate headquarters options, and should not be used for the purposes of budgeting. The *actual* costs associated with any specific alternative can only be determined through detailed financial

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analysis, as in the attached August 13th document prepared by METRO, which was outside the scope of this study or our previous efforts.

We also stress that this analysis does not reflect any potential public benefits or operational efficiencies associated with these or any other possible location options. We recognize, however, that such factors must ultimately be given consideration - if not on a quantitative basis, at least qualitatively.

As always, it has been a pleasure working with you on this assignment. If you have any questions or comments regarding the findings, please do not hesitate to call.

Sincerely,

ROBERT CHARLES LESSER & CO.

Stephen M. Gambiae  
Director of Consulting

EXHIBIT 1

PHYSICAL DESCRIPTIONS  
SEARS BUILDING & COMPARATIVE ALTERNATIVES  
(Stated In 1991 Dollars)

SCENARIO	PROJECT SIZE (SQ. FT.) 1/				USABLE SQ. FT. OCCUPIED BY METRO 2/	TOTAL PARKING SPACES	SPACES PER 1,000 NET RENTABLE SQ. FT.
	LAND AREA	GROSS BLDG. AREA	NET RENTABLE BLDG. AREA	USABLE BLDG. AREA			
<i>Sears Building - Current METRO Ownership Proposal w/o garage</i>	N/A	147,000	76,000	69,100	69,100	220	2.89
<i>Sears Building - Initial METRO Ownership Proposal w/ garage</i>	N/A	147,000	141,000	129,000	65,000	336 3/	2.38
<i>New Construction In Lloyd District</i>	40,000	105,000	100,000	90,000	65,000	250	2.50
<i>Purchase Building X</i>	N/A	120,000	114,000	102,000	65,000	285	2.50
<i>Enter Into New Long-Term Lease In One Location</i>	N/A	N/A	N/A	N/A	65,000	N/A	N/A
<i>Stay Put/Lease 25,000 SF Within Walking Distance</i>	N/A	N/A	N/A	N/A	65,000	N/A	N/A

1/ Figures rounded to nearest thousand.

2/ With the exception of the current Sears Building proposal, METRO space requirement was assumed at 65,000 usable square feet.

3/ Parking ratio net of State Office Building commitment.

SOURCE: Robert Charles Lesser & Co.

EXHIBIT 2

SUMMARY OF DEVELOPMENT COSTS  
SEARS BUILDING & COMPARATIVE ALTERNATIVES  
(Stated In 1991 Dollars)

SCENARIO	PROJECT COST SUMMARY			TOTAL PROJECT COSTS PER USABLE SQ. FT. 6/
	LAND 1/	HARD & SOFT 4/	TOTAL 5/	
<i>Purchase Building X</i>	\$800,000	\$17,200,000	\$18,000,000	\$175.97
<i>New Construction In Lloyd District</i>	\$1,000,000	\$15,584,000	\$16,584,000	\$184.27
<i>Sears Building – Initial METRO Ownership Proposal</i>	\$3,325,000 3/	\$22,477,000	\$25,802,000	\$201.58
<i>Sears Building – Current METRO Ownership Proposal</i>	\$2,235,000 2/	\$14,006,000	\$16,241,000	\$235.04
<i>Enter Into New Long-Term Lease In One Location</i>	N/A	N/A	N/A	N/A
<i>Stay Put/Lease 25,000 SF Within Walking Distance</i>	N/A	N/A	N/A	N/A

1/ Land cost under Sears scenarios based on appraised value of \$25 per SF.

2/ Includes land allocated to building only.

3/ Includes land allocated to building and parking structure.

4/ Costs exclude anticipated expenditures for new F.F.&E., estimated at \$1,200,000.

5/ Total project costs reflect estimated total bonding amount required under each scenario.

6/ Cost per usable square foot; based on the total building area.

SOURCE: Robert Charles Lesser & Co.

EXHIBIT 3

SUMMARY OF FIRST YEAR OCCUPANCY COSTS  
SEARS BUILDING & COMPARATIVE ALTERNATIVES  
(Stated In 1991 Dollars)

SCENARIO	TOTAL METRO CASH OUTLAY	OCCUPANCY COST PER USABLE SQ. FT. 1/
<i>Stay Put/Lease 25,000 SF Within Walking Distance</i>	\$935,000	\$14.38
<i>Enter Into New Long-Term Lease In One Location</i>	\$975,000	\$15.00
<i>New Construction In Lloyd District</i>	\$1,208,192	\$18.59
<i>Sears Building – Current METRO Ownership Proposal</i>	\$1,351,899	\$19.56
<i>Purchase Building X</i>	\$1,399,088	\$21.52
<i>Sears Building – Initial METRO Ownership Proposal</i>	\$1,783,607	\$27.44

1 / Based on 65,000 usable SQ. FT. occupied by METRO in all scenarios except Current Sears Building proposal, ▼  
assumes METRO occupies 69,100 SQ. FT.

SOURCE: Robert Charles Lesser & Co.

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EXHIBIT 4

SUMMARY OF CASH OUTLAYS  
SEARS BUILDING & COMPARATIVE ALTERNATIVES  
(Not Discounted)

SCENARIO	Cumulative Cash Outlay Yr. 10 (Ending)	Cumulative Cash Outlay Yr. 25 (Ending)	Building & Land Reversion Value Yr. 25 (Ending)
<i>Stay Put/Lease 25,000 SF Within Walking Distance</i>	\$13,334,989	\$36,913,924	N/A
<i>Enter Into New Long-Term Lease In One Location</i>	\$13,778,933	\$37,357,868	N/A
<i>New Construction In Lloyd District</i>	\$14,963,248	\$31,354,976	\$23,437,849
<i>Sears Building – Current METRO Ownership Proposal</i>	\$15,663,449	\$38,635,054	\$25,603,758
<i>Purchase Building X</i>	\$17,108,077	\$34,756,872	\$25,058,862
<i>Sears Building – Initial METRO Ownership Proposal</i>	\$20,092,230	\$41,416,100	\$38,823,907

SOURCE: Robert Charles Lesser & Co.

EXHIBIT 5

25-YEAR LEAST COST ANALYSIS  
SEARS BUILDING & COMPARATIVE ALTERNATIVES  
(Stated In 1991 Dollars)

SCENARIO	TOTAL PRESENT VALUE OF 25-YEAR OCCUPANCY COST 1/	OCCUPANCY COST PER USABLE SQ. FT. 2/	VARIANCE FROM LEAST COST ALTERNATIVE	
			TOTAL	% INCREASE 3/
<i>New Construction In Lloyd District</i>	\$7,446,209	\$114.56	..	..
<i>Purchase Building X</i>	\$8,559,168	\$131.68	\$1,112,959	15.0%
<i>Sears Building - Initial METRO Ownership Proposal</i>	\$10,603,553	\$163.13	\$3,157,344	42.0%
<i>Sears Building - Current METRO Ownership Proposal</i>	\$10,701,120	\$154.86	\$3,254,911	44.0%
<i>Stay Put/Lease 25,000 SF Within Walking Distance</i>	\$11,525,687	\$177.32	\$4,079,478	55.0%
<i>Enter Into New Long-Term Lease In One Location</i>	\$11,766,258	\$181.02	\$4,320,049	58.0%

1 / Present value of annual cash outlay for rent or occupancy costs. (Note: In the case of ownership options, these costs are net of the present value of the building's reversion at end of 25-year period.)

2 / Based on 65,000 usable SQ. FT. occupied by METRO in all scenarios except Current Sears Building proposal, which assumes METRO occupies 69,100 SQ. FT.

3 / Figures have been rounded.

SOURCE: Robert Charles Lesser & Co.