



MEMORANDUM

DATE: September 1, 2005

TO: Bruce Warner, Executive Director

FROM: **Oregon Convention Center Headquarters Hotel Evaluation Committee**
Jeff Blosser, Oregon Convention Center
Steve Day, Lloyd Transportation Management Association
Steve Faulstick, Lloyd Business Improvement District
George Forbes, Metropolitan Exposition & Recreation Commission
Eric Johansen, City of Portland – Office of Finance & Management
Chris Lonigro, Lloyd Community Association/Lloyd Resident
Brian McCartin, Portland Oregon Visitor's Association
Bill Stringer, Metropolitan Region of Governments
Carl Talton, North/Northeast Business Alliance/Portland Family of Funds
Scott Youngblood, Tri-County Lodging Association

SUBJECT: Recommendations Regarding Request-for-Proposals #04-09--Oregon Convention Center Headquarters Hotel

I. Introduction

We have served as members of the Evaluation Committee (Committee) responsible for evaluating the proposals received in response to Request-for-Proposals #04-09 (RFP) to inform the selection of a development team for the Oregon Convention Center Headquarters Hotel. This memorandum conveys our recommendations for your consideration.

The Committee was established by the Executive Director of the Portland Development Commission (PDC) and charged with objectively and fairly evaluating the responses received from four development teams according to a weighted scoring system defined in the RFP. Over the past eight months we have worked closely with PDC staff and consultants who have assisted in our understanding of the responses and in analyzing respondents' submitted materials. We have worked individually to evaluate and score the proposals but worked collectively to evaluate all materials and collaboratively discuss our opinions and perspectives.

The four proposals PDC received represented excellent work and significant efforts by diverse development teams from around the country. We appreciate the thoughtful responses and high quality presentations we received. Each of the proposals had positive attributes and represented unique teams and development responses to the challenge of developing a Headquarters Hotel (HQ Hotel) in Portland. The four development teams should be commended.

We have appreciated the chance to serve PDC and the City of Portland and be part of the public outreach in this important assignment. We are available to respond to any questions or discuss our analysis further.

II. Recommended Development Team

After carefully reviewing each proposal carefully, conducting interviews with each development team and application of the scoring criteria defined in the RFP, the Committee recommends that PDC initiate negotiations with the **Garfield Traub/Ashforth Pacific** team to develop a Headquarters Hotel in Portland. The recommendation of the Committee is unanimous.

III. Evaluation Committee General Observations

- PDC received four substantive proposals, each representing potential approaches for achieving a headquarters hotel in Portland. A significant amount of quality work was prepared and submitted in response to this RFP. The development teams were very responsive to Committee requests for clarification and additional information. PDC should acknowledge this fact with all the teams.
- The four responses reinforced the significant challenges involved in financing a headquarters hotel. The RFP expressed a preference for a privately-owned hotel, and the proposers indicated a willingness to proceed in this manner. However, the private proposals indicated the need for a substantial public investment. Each of the proposers has suggested that a publicly-owned facility may be preferable to the public sponsors due to the lower financing costs associated with this approach and because the public would own the asset. However, public ownership also requires that the public accept financial risk, a significant trade-off.
- Whether a public or privately-owned hotel is pursued, the Committee is concerned that the amount of public funding required with a 800-room or 600-room hotel would render the project infeasible given limited public funds. The Committee, therefore, supported issuance of Addendum #4 which lowered the first phase room requirement to 400 rooms and allowed for a more achievable project scope and cost.
- Although a 400 room first-phase increases project feasibility, it also reduces the room block available to attract larger conventions to Portland. The Committee, therefore, supported the idea that a larger hotel would be desirable if a reasonable and supportable financing package could be achieved, but believes the 400-room hotel will provide a significant benefit to Portland's convention industry so long as it allows for a future expansion.

IV. Additional Committee Recommendations

The Committee felt it was important to offer additional recommendations to the Executive Director for consideration as staff reviews these recommendations and considers ways to implement the project.

- **Identify Negotiating Partner**—The Committee feels that all project stakeholders in this project should consider the selection of a development team as the start of negotiations, not the end. The HQ Hotel project will be extremely challenging to carry out. There are numerous approaches and means of financing. The most important step is to complete the selection process and initiate negotiations with an experienced HQ Hotel development team. However, due to the challenging nature of this type of development, it is possible that negotiations may result in a plan that is financially infeasible or not acceptable to decision-makers.
- **Specific Financing Plan Not Yet Determined**— The Committee noted the likely need for some degree of public funds to implement this project. The two general types of public financing are forms direct capital investment or forms of debt guarantee. As has been seen in a variety of other cities, there are many possible approaches to financing development of a HQ Hotel. The Committee believes that the full array of alternatives should be explored thoroughly during initial negotiations with the recommended developer. Therefore, the financing concept presented in the recommended proposal should be viewed as a starting point. The approaches pursued by other cities in Portland’s competitive market should also be considered.
- **Implementation Will Require Broad Partnership**—Implementation of a HQ Hotel will benefit the entire metro region and to some extent, the entire state. Therefore, the project should involve as many partners-- in particular financial partners-- as possible.
- **400 Rooms is Minimum Hotel Size**—The right size HQ Hotel balances the need for an adequate room block to bring new conventions to Portland with acceptable public investment. The Committee believes that 400 rooms is the minimum hotel size and that efforts should be made to increase the room count to the extent permitted by financial feasibility.
- **Consider all Ownership Options**— Although the private option is preferred, the responses received through the RFQ and RFP phases, the 2003 Strategic Advisory Committee Report and examples from other cities indicate that public ownership has frequently been turned to as a viable approach; the recent Vancouver, WA project is a local example. Although a private option is strongly preferred, project stakeholders should remain open as to whether private ownership, public ownership or a combination of the two is appropriate. The Committee recommends that both approaches be examined during negotiations with the selected developer, and final determination be made at the conclusions of negotiations once all implications and requirements are fully understood.

- **Pursue OCC-Area Development**— Along with the development of a HQ Hotel, PDC should seek to facilitate other development opportunities in the immediate area such as housing and retail development to improve the OCC environment for OCC visitors and conventioners. The HQ Hotel can act to accelerate development on under-utilized property nearby.
- **Maximize Mix of Uses Within HQ Hotel Project**—The Committee believes that HQ Hotel development could provide additional opportunities for compatible uses within the project. These could include condominium housing or additional retail which should be further explored to enhance the financial feasibility of the project.

V. Summary of Specific Proposals

The following summarizes the Committee's analysis of the four responses to the RFP and the issued Addenda. The Committee's individual comments are contained on scoring sheets. Please refer to Exhibit "A" for a chart prepared by PDC staff which summarizes the four proposals received and Exhibit "B" which shows the Committee's overall scores for each of the five factors for each of the proposals.

- **Garfield Traub/Ashforth Pacific (Westin)**
As noted, the Garfield Traub/Ashforth Pacific ("GTA") proposal ranked first in the Committee's final scoring receiving a point total of **82.8**. GTA team members have significant experience in the development of hotel properties and real estate financing and represent a mix of highly regarded local and national firms. The GTA proposal, presentation and responsiveness represented a very high quality standard. The Westin brand was considered highly desirable by the Committee. The recognized ability of the Starwood sales staff to bring new convention and group business to the Portland market increased confidence in the feasibility of the hotel. .

The proposal clearly articulates the financial challenges of the project and describes reasonable potential implementation approaches under both public and private financial models to carry the project forward. The Committee was impressed with the thoroughness and quality of the financial analysis, the reasonableness of the business plan presented and the commitment of developer/operator equity funds to the project.

The conceptual project design was considered compelling and would appear to positively transform the MLK Jr. Blvd./Grand Ave. corridor and create a very strongly compatible hotel facility at the main entrance to the Oregon Convention Center. The Committee was concerned, however, about the feasibility of the underground tunnel proposed and the amount of on-site parking and suggests more analysis of these program elements.

In sum, the Committee felt the GTA proposal and team represented the highest quality response and most realistic opportunity to develop a HQ Hotel in Portland.

- **Faulkner USA (Hyatt)**

The Faulkner proposal ranked second in the Committee's final scoring receiving a point total of **72.6**. Members were impressed with the experience of Faulkner USA, particularly in developing Headquarters Hotels around the country, including Vancouver, WA, as well as the recognized ability of Hyatt to attract new convention and in-house group to Portland business through their sales staff.

The Committee liked the approach that included a condominium tower along Holladay Street, from the standpoint of the additional mix of uses. From an urban design perspective, the Committee generally believed the overall massing of the project was less attractive due to the perceived barrier it would create along MLK Jr. Blvd. and the potentially less attractive relationship to the OCC. The vacation of Pacific Street and relocation of access northward closer to Holladay Street seemed to be problematic from the standpoint of vehicular access and city approvals.

The financial proposal presented by the Faulkner team was thorough and well-presented. The proposed hotel was 600 rooms and this resulted in a higher overall financing challenge (i.e. public investment) and the capital and operating assumptions appeared to the Committee to be less conservative than others. Although the addition of condominiums was considered positive because of the increased mixture of uses, this did not appear to impact the overall financing or public investment requirements in any significant way.

In sum, the Committee had a high degree of confidence that Faulkner could deliver a quality hotel to Portland and should be considered if negotiations with the highest-ranked proposal are unsuccessful.

- **Jones Lang LaSalle (Not Determined)** This proposal ranked third in the Committee's final scoring receiving a point total of **60.8**. The Committee was impressed with the vision and conceptual design quality of the Jones Lang LaSalle (JLL) proposal. Some members felt that the JLL site was superior to the PDC site due to its proximity to Light Rail and the larger size. Others felt the increased distance from the front door/mid-point of the OCC was less desirable. The massing of the building and potential cover over Holladay Street was compelling. However, the JLL team was considered somewhat less experienced than other proposers in terms of larger hotel and hospitality projects. The benefit of the Crestline firm to the development team was not clear to some Committee members.

The Committee was relatively less confident in the financial approach presented in the JLL proposal. The type and amount of public investment in this financial proposal was less clear than others. Some cost elements also appeared ambiguous.

The canopy element over Holladay Street carried a challenging price tag and if not implemented may reduce the attractiveness of the proposal.

In sum, this proposal was compelling from a design standpoint, represented a more attractive site to come Committee members but did not appear to be as achievable as more highly ranked responses.

- **Hines Interests/Wright Hotels (Renaissance)** The Hines/Wright proposal ranked fourth in the Committee's final scoring, receiving an overall point score of **49.6**. The Committee appreciated the flexible approach described in this proposal and the proposed participation of a local owner/operator to be part of the development team. The proposal to utilize the current Red Lion in the total development & room package was also attractive. The Hines/Wright team was generally felt to have excellent experience in real estate development and in property management (including hospitality) but less experience in terms of larger hotel, particularly headquarters hotel experience. The Committee appreciated the track record and quality identity of the Marriott chain, but was not as supportive of the Renaissance flag due to other related current or hotels in downtown Portland and the lower potential to bring new group business to Portland.

The team's design was attractive in many ways and could represent a feasible way to develop convention quality hotel rooms, but not necessarily the desired headquarters hotel. The fact that the ultimate hotel program would be spread out over three blocks was perceived as less conducive to efficient hotel operation and could extend the facility in a way that would be less supportive of the OCC.

The Committee felt that the financial proposal of this team was less comprehensive. The proposal represented an opportunity to collaborate with PDC to explore the feasibility of a HQ hotel but was less specific in terms of financial commitment.

VI. Summary of Evaluation Process

The Evaluation Committee met as a group a total of ten times since January 2005. Three public meetings were held to provide information to the public. Feedback was received in the form of comment cards and comments on PDC's website which were provided to the Committee. In general, the Committee's work can be broken down into five basic phases necessitated by the nature of the review of complex and lengthy material and extensions to the evaluation process approved by PDC.

- **First Phase--** Individual committee members reviewed the responses after receipt on January 6, 2005. Each individual proposal contained a significant amount of written, graphic and tabular material and significant individual review was required. The Committee identified specific questions for each development team and requested written responses through PDC staff. These responses were received on March 11, 2005.

- Second Phase-- Two committee meetings were held to review the process and understand the details of material submitted with the assistance of PDC staff and experts in design, hotel development, financing and construction. This phase of our work also included interviews with each development team conducted at the OCC on March 15, & 16, 2005. Each interview was 90 minutes in length and included both specific questions asked of each team and a general question and answer period. Each developer brought representatives from each of the key team members and this face-to-face meeting allowed the Committee to delve into specific issues or questions associated with each proposal.
- Third Phase -- Two Committee meetings were held to discuss about each team's submission, the interviews, responses to written questions and legal summary in accordance with the RFP selection criteria. In addition, the PDC retained outside legal counsel to review confidential information submitted under separate cover as required by the RFP and during this phase the attorneys conveyed a summary of the confidential information to the Committee.
- Fourth Phase— On August 11, 2005 the Committee reviewed additional information received in response to Addendum #4 which allowed the developers to modify their submissions based on a reduced first-phase hotel size of 400 rooms. The Committee sought to develop a clear understanding of the modified responses with the help of PDC staff and consultants. Additional specific questions were identified by the Committee and written response requested through PDC staff.
- Fifth Phase—The Committee conducted individual scoring and collective ranking of the modified proposals utilizing the selection criteria identified in the RFP. The RFP described five weighted evaluation criteria which are contained in Attachment "C". At the meeting on August 18, 2005 the Committee reached preliminary conclusions on the recommended development team subject to Committee approval of this report.