

Public Lands Advisory Committee (PLAC)

Special Meeting –OLCC Acquisition

Minutes

June 2, 2022

Location: Remote via Microsoft Teams and Telephone

Committee Attendees (Present unless otherwise noted):

Chair John Brown

Representative Mark Meek

Sara King, Real Estate Management

Brady Ricks, Department of Administrative Services (DAS) Enterprise Asset Management (EAM), Real Estate Services Manager

Senator Bill Hansel - *Absent*

Jennifer Blake, DAS Leasing & Property Agent

Presenters:

Jeff Samuels, OLCC Administrative Services Director

Chris Mayton, OLCC, Distilled Spirits Program Director

Guests:

Liz Beaty, DAS

Will Higlin, OLCC

Steven Marks, OLCC

Matt Johnson

Jennifer Potter, DAS

Robert Underwood, DSL

Jeremy Miller, DAS

Shannon Ryan, DAS

Sis Marcus

Paul Laura, OLCC

Staff:

Elaine Schacher, DAS

Darrin Brightman, DAS

Sarah Sanders, DAS

Nelly Wright Mader, DAS

Agenda Items:

A. Committee Administration

1. Opening Remarks

Chair John Brown: Opens meeting, welcomes attendees. Notes that PLAC is an advisory committee appointed by the Governor and job is to take various backgrounds and apply comments to what is proposed by DAS.

2. Call for Public Comment

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None.

B. Property Acquisitions & Dispositions

1. OLCC Headquarters replacement acquisition

Jeff Samuels, OLCC, Administrative Services Division Director: Provides background on OLCC, including the following:

BACKGROUND

OLCC Mission:

Support businesses, public safety, and community livability through education and the enforcement of liquor and marijuana laws.

Agency Position:

The Oregon Liquor and Cannabis Commission keeps Oregonians safe and promotes economic development through regulated access, sale, and utilization of regulated substances. We run a world-class public-sector business that among other things:

- Creates predictability and stability for the billions of dollars in revenue generated for the State of Oregon and local jurisdictions through the Distilled Spirits and Public Safety Programs

OLCC is the third largest revenue source for the State

The current headquarters is in Milwaukie. The main warehouse is attached to the headquarters. Those buildings are over 65 years old. OLCC had a similar situation more than 15 years ago where the agency ran out of space at the main warehouse and purchased the Milport Warehouse a few blocks away. Now, the agency has to transport product back and forth.

CURRENT FACILITY - MILWAUKIE



OLCC Headquarters – McLoughlin Blvd.



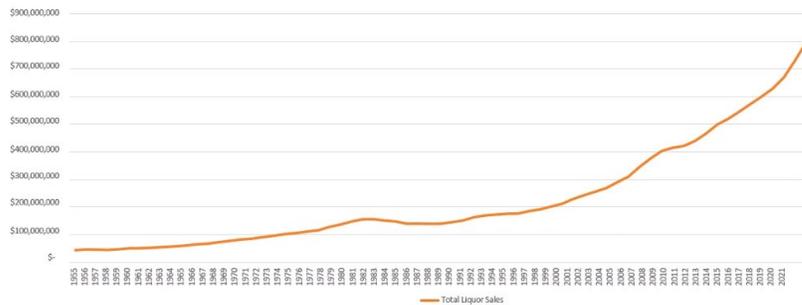
Main Warehouse – McLoughlin Blvd.



Milport Warehouse

Chris Mayton, OLCC, Distilled Spirits Program Director: The below slide is about the revenue that the agency has produced historically. OLCC has a long history of consistent growth that is driven primarily by population increase and through price inflation. If you look at population increase, two-thirds of the growth over this time period has come because of that growth, one-third is due to inflation. There is a consistent and predictable revenue source of income coming into Oregon.

HISTORIC LIQUOR SALES



Looking at the slide in front of you (below), when I joined the agency, one of the first things I was asked to look at was: what does the future look like for us? I have listed seven characteristics that are challenges. The first and foremost is capacity. In Milwaukie warehouse and Milport, we have approximately 230,000 SF of warehouse space; we can house about 500 cases of alcohol. Based on our shipping capacity, we will run out of space sometime later this year if not early next year. Two years ago, we stated talking about the loss of revenue that would be created by warehouse capacity restraints. That lead to economic uncertainty. Those capacity limitations will affect the State’s revenues by eliminating the possibility of new products coming into the state, and us maintaining full shelves. You might have seen it during the recession of COVID in other states where product was not reaching shelves. They had major disruption in supply chain, creating massive revenue shortfalls for the state. As well as our customer’s expectations. Our OLCC business strategy has always been to open new stores and actively seek new opportunities to profitably expand our product selection in the state. Our facility has aged; it is over 65 years old. It simply fails to meet our future distribution needs. And then our improvised technology; it is well known that the agency is operating on a fragmented system with minimal infrastructure flexibility. Therefore, we went to session in 2019 and again in 2021 asking for the funds to get new property, to build a new warehouse, and to have IT modernization. That is the changing of the enterprise. Sharing the existing warehouse does not remove the need for new/upgraded warehouse management system. As you are aware in 2021, our IT modernization was passed (discusses new POS system, new warehouse, site location, etc.).

All of this was done to continue to provide a predictable, stable revenue source for Oregon. We have taken a protective approach to mitigate the immediate space constraints that we have today in an effort to delay the anticipated capacity shortfalls. As you will hear in slides ahead, those shortfalls were estimated to be about \$1.5 billion in sales revenue lost to the state through the year 2029, which the

2021 legislation approved the new warehouse selection, which lead to the purchase of the property, or at least the purchase sale agreement that we are talking about today.



Jeff Samuels: In 2020, we hired Deloitte, who did a capacity study for us. They presented the findings in January 2020. They recommended that we relocate to a new facility to support future capacity needs and growth. The study found that the best location would be in Northern Oregon to yield the best location for lower transportation costs, mileage, and transit times. Northern Oregon is home to the most liquor agents we have, and it is also a destination for over 51 percent of OLCC's annual deliveries.

DELLOITTE – CAPACITY STUDY FOR OLCC

- Presented January 2020
- Recommended relocation to a new facility
 - To support future capacity needs and growth
- Study found relocation to Northern Oregon, between Central Portland and Salem would yield best location for lower
 - Transportation costs
 - Mileage
 - Transit times
- Northern Oregon is home to
 - The most liquor agents of any Region
 - Destination for over 51% of OLCC's annual deliveries

With all that being said, we secured services with DAS Real Estate Services, we are working with Liz Beaty, who is on the call, and broker Cushman and Wakefield. Matt Johnson, I believe is on the call for any questions that come up. We came up with our search criteria, which was 20-35 acres that was located no more than 10 miles east or west of the I-5 corridor between South Tigard to Brooks. Additionally, we did a state land inventory system search to look for state land available. There is not any in our criteria area. As such, we submitted a futile act request so we would not have to fill out the real property acquisition notice, and DAS approved that request.

PROPERTY SEARCH

- OLCC secures services from DAS Real Estate Services and Broker Cushman & Wakefield
- Property search criteria
 - 20-35 Acres
 - No more than 10 miles east or west of I-5 corridor
 - Located between South Tigard to Brooks
- A State Land Inventory System search has revealed no state land in or beyond the criteria area
 - OLCC submitted a Futile Act request regarding filing a real property acquisition notice
 - DAS approved the Futile Act request

Chris Mayton: If you look at what occurred from the time we started this search, which was back in 2019 through this year, we had an abundance of things through price escalation and COVID inflation. I have a couple of bullets written here. One, vacancy rates for industrial properties are near all-time low, while utilization is at an all-time high. Prices are at record levels. Land valuation, when we went out looking, was near \$25.00 SF compared to just \$8-\$9 per SF just two years ago. Construction and labor costs are rising nationally with material costs leading the way. Steel up 120%, Lumber 111%, and aluminum 35%, all of which drives our prices up. Pricing continues to fluctuate with market uncertainty. Supply chain challenges coupled with domestic labor shortages are also driving that price increase. What was once projected in 2019 to cost \$62.5 million is now estimated to cost \$145.8 million for total project. That is why we had to go back in 2021 to ask for additional money from the legislature. \$130.8 million of that is for land and construction and \$15 million for the conveyor system. Of that \$130.8 for land and construction, we are here today talking about the land purchase and sale agreement for the land in Canby, which is known as Baker Center, which is approximately \$40 million all inclusive.

PRICE ESCALATION & COVID INFLATION

- Vacancy rates for industrial properties are near all-time low, while utilization is up, and prices are at record levels
- Land valuation is near \$25 per sqft compared to \$8-\$9 per sqft 2 years ago
- Construction/Labor costs rising upwards of \$130/sf, with material costs leading the way (Steel +123%, Lumber +111%, and Aluminum +35%)
- Pricing continues to fluctuate with market uncertainty (supply chain challenges coupled with domestic labor shortages)
- OLCC's relocation once projected to cost \$62.6 M in 2019, is now estimated to cost approx. \$145.8 M for the total project which the Legislature funded in the 2021 session and increased in the 2022 legislative session through Article XI-Q General Obligation Bonds
 - Land purchase funding earmarked at *\$40,775,530

Timeline: Back in 2019, Cushman and Wakefield completed a survey of available properties that fit the OLCC Criteria. That criteria was build based on designators based on the Delloitte study. We looked at the following: should we be under one roof, under multiple warehouses throughout the state, should we build in a metro area or move to a rural area? They gave us our best analogies, we hired Cushman and Wakefield to do a search given that criteria. If I remember correctly, it was somewhere between 10-15 miles within the I-5 corridor. Somewhere between South Portland and North Salem. We wanted to see how many properties were even open to us to purchase. Back in 2019, that was about 11 properties cited.

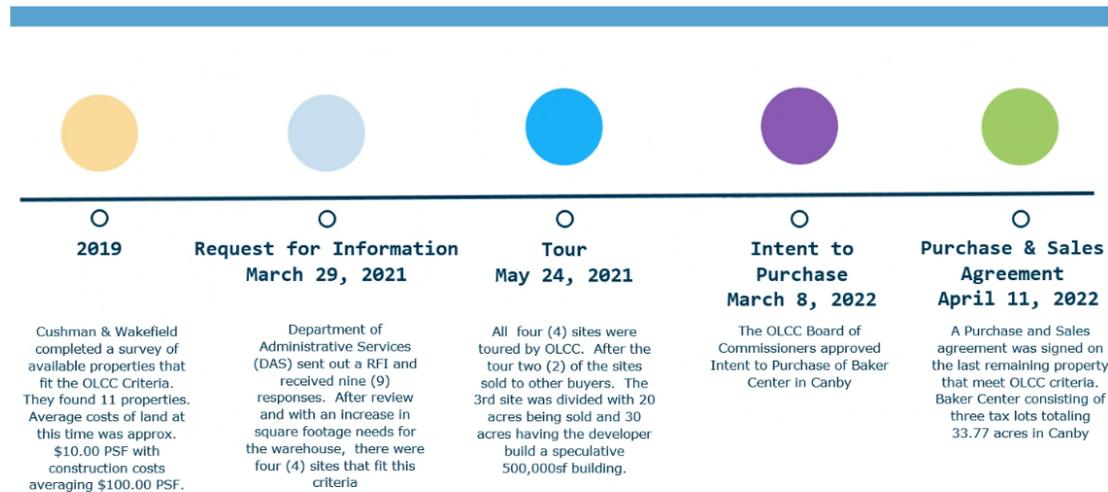
Average cost for the land at that time was about \$10 per SF, with construction costs about \$100 per SF. Fast forward to March 2021, we went out for our RFI with DAS, and we received 9 responses. After review and with the increased in SF needs for warehouse, only four sites that met our criteria. Right away, just in those two years, we saw prices jump and we saw spaces diminish. We were limited to just four. All four sites were toured by the agency and vetted. Of those four, after the tour, two of those sites sold before we even had time to make consideration for offers. Four quickly became two. On those final two sites, as we were getting ready to make initial offers, we were skeptical as well. We knew what we wanted, but we knew the price was at a premium. We wanted to make good fiscal sense with our spending. So, we went back and asked Cushman and Wakefield to do a search again. It is not listed on the timeline, but we went 25 miles on either side of I-5 border to border (to California and to Washington) just to see what industrial space is available to us. Even with that search, there was only one additional property. That third site was about 17 miles outside of our parameter. Anyone who knows about warehousing, any additional mile would cost about \$1 million in transportation fees. So, 17 miles outside would be about \$17 million of additional transportation cost, which comes out of our annual revenue disbursement to the State. So, it didn't make much sense, and the property was at \$25 per SF, essentially the same price as the two we were pricing in May of 2021.

March 8, Board of Commissioners approved the intent to purchase on the property of Baker Center in Canby. Then on April 11, our agency director signed a purchase and sale agreement on the last property, which was Baker Center. I say the last property because of the two properties we were looking at, one of those properties was being subdivided. Really, it left us with one standing. The last one was our first choice of property because it met all of our criteria for space and the logistics for transportation. Lastly,

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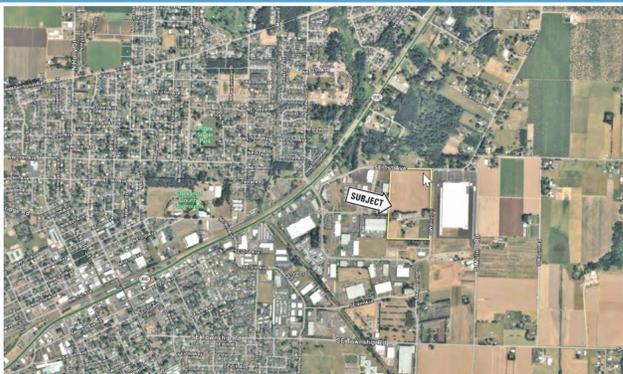
it also has two other major state suppliers for distribution. One had been built; one was soon to come in that same general area. It was definitely the right location spot for us to be.

PROPERTY SEARCH TIMELINE



Jeff Samuels: You can see the property that we will be talking about, Baker Center. In 2024, the City of Canby is going to push through an access road from 99E right to the corner of First and Walnut, where this property is.

CANBY



Now we have zoomed in, this is the property First and Walnut. You can see some buildings that are here. The seller has since removed the buildings and done some environmental work. You will notice that there is a small cemetery. This is a cemetery. It is not part of the land purchase. (Lutheran Church cemetery.)

BAKER CENTER



I will zoom in to the purchase and sale agreement. Same overlay but you can see the tax lots (pictured, below). The property is zoned light industrial. It is 33.77 acres with three tax lots. Tax lot 300 is 20.5 acres, tax lot 301 is 3.42 acres and tax lot 2000 is 9.85 acres. The purchase price is \$40,775,530, of which is made up of $\$25.00/\text{SF} = \$36,775,530$ and a development offset of \$4,000,000.

This is a developer-owned property. They actually are continuing to proceed, if we pull out and do not purchase the land, they will build a large warehouse and lease or sell that warehouse. That is where that development fee.....We worked closely with DAS Real Estate Services and Cushman & Wakefield to broker the best deal that we could. That includes the development offset. The seller was not willing to forgo some of the development fees that they would gotten to do a build to suit. We started out with a build-to-suit; however, things changed, and we were advised to have procurement on the land and then procure the building separately. We are working with CMGC (construction manager as a general contractor).

BAKER CENTER - PSA

Location: SE 1st Ave & S. Walnut St,
Canby, Clack. Co., OR

Zoning: M-1, Light Industrial

Acres: 33.77 acres (three tax lots)

- N. Tax lot 300 – 20.5 acres
- Mid. Tax lot 301 – 3.42 acres
- S. Tax lot 2000 – 9.85 acres

Purchase Price: \$40,775,530

33.77 acres @ $\$25/\text{SF} = \$36,775,530$

Development Fee Offset = \$4,000,000



We did cause an appraisal on the property. That was done by Jackson Group NW Inc., which you have been provided. The appraiser looked at I think six comps and also specifics of the property. They appraised it at \$15/SF. So, 33.77 acres = \$22,065,000. They did talk about that comparable sales support

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a land value somewhere between \$10.25/SF and below \$21.00/SF. (References the appraiser quote cited in the slide, below.)

APPRAISAL OF BAKER CENTER

Appraisal performed by Jackson Group NW Inc.

- Baker Center was appraised at 33.77 acres @ \$15/SF = \$22,065,000
 - Comparable sales support a land value above \$10.25/SF and below \$21.00/SF

Appraiser Comment:

- "With the favorable supply / demand picture in the market area, scarcity of large sites, proposed highway improvements, and entitlement work performed, the pending sale, at \$25/SF, may be justifiable for this specific buyer and reflects the significant premium needed to obtain the site given the timing, geographic and size requirements."

We are also updating Phase I environmental site assessment. I've provided you a summary of the initial work. In 2018, the initial Phase I ESA was performed by GeoDesign (which is now NV5). At that time, a heating oil storage tank was associated with Tax Lot 2000. It was determined that a diesel tank was decommissioned by removal on that middle area; however, there was no documentation of the decommissioning. We hired NV5 to do the update on the initial Phase I. NV5 is working on that currently. They have also reviewed some of the seller provided documents and determined that there were three septic systems decommissioned in 2022. Asbestos from the buildings that were since removed was abated in 2022. Approximately 5 tons of petroleum-contaminated soil was removed, and that soil was tested, and no petroleum hydrocarbons were detected. The heating oil storage tank was properly decommissioned in 2022.

PHASE I ENVIRONMENTAL SITE ASSESSMENT

- Initial Phase I ESA performed by GeoDesign (now NV5) in 2018 identified:
 - A heating oil UST associated with the eastern residence on Tax Lot 2000
 - A diesel UST was reportedly decommissioned by removal from Tax Lot 301 in 1988. Documentation regarding the decommissioning was not available
- An updated Phase I ESA is underway by NV5 for OLCC
- NV5 reviewed Seller provided documents and determined:
 - Three septic systems were decommissioned by Drain-Pro in February 2022
 - Asbestos-containing materials abated by Asbestos Abatement Contracting LLC - February 2022
 - Approximately 5 tons of petroleum-contaminated soil were removed from the vicinity of the pad-mounted transformer and disposed of at a RCRA Subtitle D landfill by EVREN Northwest in February 2022. Petroleum hydrocarbons were not detected in confirmation soil samples collected from the limits of the excavation.
 - The heating oil UST was properly decommissioned by EVREN Northwest in April 2022

Chris Mayton: Baker Center meets all of the criteria that OLCC needs for its expanded warehouse and headquarters location. It aids in distribution of distilled spirits and has been verified by the Delloitte study, and the City of Canby road upgrade to 99E. The acreage allow for the 400,000 SF warehouse and

30,000 SF headquarters. We have quality land features, cleared to bare ground and entitlements by seller sets up our agency for 30 years and beyond for growth potential. We will have additional space on that property to expand so the agency will not need to move again. That is the room for future expansion or sale of excess land if not needed.

And really, as the last two years that I have spent presenting to legislatures, there is no time to spare. Our warehouse is at capacity today. We need an expanded building. There are no other available properties. And simply, as we sit here and wait, those prices continue to rise. The revenue at risk for the State is \$1.5 billion without relocation just through the year 2029. Our project as approved would be expected to be completed in early 2025. Even a six-month delay in our current progression puts \$190 million revenue at risk. This project is estimated to pay for itself in 18 months purely by capturing the revenue at risk during that time frame. However, because they are bonds, we will be paying that over the life of the bond. However, if this was private sector, this would be, as many a legislator have called it, a no brainer for us.

REASONS TO PROCEED

- Baker Center meets all OLCC Criteria
 - Location aids in distribution of distilled spirits – Deloitte study
 - City of Canby road upgrade to 99E
 - Acreage allows for 400,000 sqft warehouse and 30,000 sqft Headquarters
 - Quality land features, cleared to bare ground and entitlements by seller
 - Sets agency up for 30 – 50 years of growth potential
 - Room for future expansion or sale of excess land if not needed in the future
 - No time to spare
 - No other available properties and can't afford to wait
 - 10-year revenue at risk is \$1.5 billion without relocation
 - Project completion expected in early 2025
 - Even a 6 month delay in the project puts \$190 M of revenue at risk
 - Project is estimated to pay for itself in approx. 18 months purely from capturing the revenue at risk during that timeframe.
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Jeff Samuels: That concludes our presentation.

Chair Brown: Thank you, certainly well presented and on time. Opening up to committee members for questions.

Sara King: Thank you for the presentation. Just a couple of questions, can you explain more, you were talking about if a six-month delay puts a \$190 million of revenue at risk. I understand that this is being paying by a bond. I would like to understand about why that funding is at risk. My second question is that it sounds like you had an opportunity or contemplated a situation whereby you would use the seller as a developer. I would have presumed that they would provide a turnkey development for the State.

Instead, you decided on a separate procurement process for the contractor. I would like to know a little bit more about why you made that decision.

Chris May: Regarding the first question, revenue at risk, we need a certain product on the floor to meet shipping demand. It is about 1.5 cases on the floor of the warehouse in order to meet the demand of frequency of cases coming into the manufacturers and stores ordering it. So when we reach our peak ordering season, we will not have enough product on the floor to meet the demand because our warehouse is small; too small to meet demand. That revenue becomes revenue not realized or revenue at risk. Because our warehouse is at capacity today—it is full—we are only able to deliver what we have on our floors. We cannot get more into the building because we are just small. So what we are doing now is trying to mitigate some of the shortages by adding additional racking to go higher into the rooftops if we can or using garage storage space to house it. When we say we are leaving money on the table, it is because we do not have enough floor space to meet demand therefore creating shrink in the stores or open shelf space, which costs revenue. That is the dollars that the State would not capture because we cannot meet demand. Secondly, the process from build to suite to CMGC, that is not a selection that we made. We were instructed to do that. When we started on this venture in 2019, we were looking for a design build suite. In our discussion with DAS and Governor's Office, we were instructed to move from a design build to CMGC to be more inclusive with the Governor's directives of equity and inclusion with the State and try to preserve costs through the CMGC process. We turned on that corner, and that is why we made that decision.

Chair Brown: I have several questions. They will be real estate related because we each have our specialty background. I do not have any question about your need. I see it, I am glad you are doing this and everything. I have a question on how we got to the appraised price to \$40 million. Let's go back to your presentation where you talked about out of the nine presented, four properties met the short list. Three out of those four sold. Two of them sold outright and one was partitioned. How come we did not see what those three sold for?

Jeff Samuels: This is where I would ask Matt Johnson to come in and assist us on that.

Matt Johnson, Cushman & Wakefield: I think we are looking at two things. The first is, some of this land sold, and for example, the development off of 112th that we toured, the shape and the size did not fit OLCC's needs. They build an industrial building for about \$120/SF. They put a tenant on a long-term lease, and it is on the market for \$220 per SF.

Chair Brown: I am asking about the land because it said four of them met your criteria. Of those four, three of them sold. What were those land sales?

Matt Johnson: No, many of those land sales, for example, probably the most comparable land sale, sold just south of where this is. It sold to a large company...

Chair Brown: The Amazon sale?

Matt Johnson: Yes.

Chair Brown: That went for \$7/SF, I think?

Matt Johnson: It sold for \$7/SF, but it had an undisclosed development fee associated with it as well. Public records show what the land sales are, but public records do not show the development fee that was paid to them for that transaction. Many of them are more complicated than a straight land sale.

Chair Brown: I am still trying to get to where the four sites, four of those met all of your criteria, three of them sold, do we have any information for what those sold for?

Matt Johnson: I can summarize the information we have and provide a qualitative descriptor of that as well if it would be helpful.

Chair Brown: Is anything over \$15/SF?

Matt Johnson: yes. I have comps that we have here. Much of the information is redacted. There is a site that will close in 2022 that looks like it will sell at \$20/SF. There is another one that is selling to an Intel vendor that will close in September 2023 that is \$22/SF.

Chair Brown: I was an appraiser for 30 years. Of all the sales the appraisal used, it went from \$4.65 to \$10.25 per SF. I do not know how we got to \$25.00. This was assembled in 2020 and 2021. Twenty acres was bought for \$2.00 per SF in 2020. The rest was assembled in 2021 for a cumulative price of \$4.00/SF.

Matt Johnson: If I could take a step back and frame it differently, the land price at \$25/SF is on the high end of the range. The way developers are looking at it today, they are looking at what is my opportunity cost as a developer if I do not get to develop this land. There is a development fee, which was included separately as part of this transaction. There is also their profit associated with it. For example, the plan on this building were to build 600,000 SF building spec with a 30,000 SF office. If you look at the current rates in industrial today.....taking into account a hiccup in dead equity markets...that building would be worth \$153 million. If they just sold the dirt at \$25.00 and OLCC built their building. The total cost is \$128 million. The delta is about \$25 million that the developer is leaving on the table by selling dirt and not building a project and selling it on the open market. I understand the point about dirt selling for \$25 as opposed to \$20, but the opportunity costs developers are looking at, given the scarcity of the land, is if I sell this dirt, what is the profit I am potentially giving up by not developing this? The industrial market is so tight right now. It is a game of musical chair, and at some point, someone will be left without a chair, and the developers are feeling it.

Chair Brown: This property has been on the market for two years with Capacity Commercial. I had some information about the list price, and I am pretty sure it was not anywhere near \$25/SF. I am wondering how that equated. Technically, there is a law that says that the appraisal should have considered any pending sale or listing of the property. I got a copy of the listing through LoopNet, though they did not include the price, they did disclose it was for sale. Was that factored in here?

Matt Johnson: I cannot speak to the appraisal; I have not spoken to the appraiser. I know a lot of the comps provided, much of the information was redacted. Appraisals look behind us in terms of projects completed. For pending, I think you have to be in the market for the information to know what properties are pending for. I would be more than happy to speak to the appraiser.

Chair Brown: I can do that, but I think that is outside the purview of what we do. We had this once before in Newport with ODOT where we had three appraisals.....somehow we paid \$4 million, and now

it has been a pretty big mistake. I have called a lot of people in Portland. A lot of appraisers and a lot of brokers, and I have not heard of anyone confirming a closed sale at \$25. The appraisal has a pending sale at \$21, but that property is near the airport. To me, I do not think that I would go by Intel and compare where this is. I have been in the business a long time, and I have never heard of getting paid for something you did not do. When ODOT condemns a property frustration of plans and things not compensable. Why was it \$4 million if you said \$25 million was the delta. I do not know why they would sell it if there was a \$25 million profit.

Matt Johnson: I think their motivation is wanting to sell his year. There is a risk associated as you know with going forward. \$25 million is not money in the bank, but it is a big motivator for them to do it.

Chair Brown: Has anyone ever quantified the \$4 million? Is that just a number?

Matt Johnson: No, we received two responses from separate developers. One for a property that is no longer on the market, that is tied up by a group buying 40 acres and they are building a 600,000 SF spec building because they have done the math. One included a 5 percent development fee, the other included a 4.25 development fee on what it would be if they developed the building. The cost was about \$100 million. Each of them had a line item. One said profit and one said markup. It was 17.5 percent additional on top of it. When we looked at where we started from the initial proposals where OLCC was engaging a developer to do a build to suit, they were saying if we build it and you own it, we are going to make it apples to apples so if we build it, leased it out, and sold it on the open market, so we are not leaving money on the table. So for us, \$25/SF is on the high end of the range for land. You can make the argument that the land has good egress and ingress, they are going through entitlements and there is value there, it has good soil so it will make construction efficient and cost effective. But, from our standpoint, we were looking at \$17.5 million markup for last two sites, and then having to strip that out, pay a development fee, and then just buy the land to self-perform.

Chair Brown: Our job is to not kill deals but to help make them. But it is also to be a good steward of the public's money. The fact that OLCC can make a profit on this....the analogy I use is that when the Government takes the canyon walls to build a dam, the closer canyon walls are the less the dam costs, but that does not make the canyon walls worth any more. The fact that they can recover the money is irrelevant to the value of the property. I have not seen a closed sale. The highest one is \$10.00. To me, the best comp is the one Amazon bought in Canby at \$7/SF. So how we get to \$25 in six months and then plus another \$4 million, is challenging to me to say that is it. Why isn't \$30 just as good as \$25?

Matt Johnson: Caveat with that comp, there is an undisclosed fee paid to them as a developer that we cannot figure out. We do not know the whole story. I wish we did.

Chair Brown: Even if you doubled it, would still only be at \$14/SF. I appreciate your answers. They have been very thorough. I will move on...

Representative Meek: Thank you Chair Brown. Thank you for the presentation today. I too have some of the same concerns. In this real estate business, timing is everything. I know you mentioned due to timing, which it shows your sense of urgency puts you in a more precarious position for negotiating. Matt, my question is: when you presented this offer and began negotiations, does the potential seller know your identify and who you are? Do they know it is the State of Oregon and OLCC wants to purchase and acquire the property?

Matt Johnson: They do. There is a process we go through. Liz is on the phone as well. Liz, do you want to talk a little about the RFI process?

Liz Beaty, DAS Real Estate Services: Yes, any time we look for substantial property, especially for build to suit, we send a request for information (RFI). This goes to brokers, developers, cities, counties, municipalities, everybody to say this is what we are looking for, this is how much we are looking for, this is our parameters, locations, and what we need. It identifies us as State of Oregon and what agency is looking. That is sent out on all large needs that we have. That was done for this property as well.

Representative Meek: That answered the question. In effect, anyone who reads the news are very well aware of your situation and urgency. Which I am sorry to say puts us in a really bad negotiating position. Matt, I don't know if you want to respond. I am in the real estate business, of course I am not into million-dollar industrial projects, but I know that a lot of the economic forces that affect both real estate, residential, multi-family, and industrial are all out there. I am concerned that we are looking at an economic downturn potentially. When we have a recession, yet your sales will go up. You will be able to survive. But can I say in good conscious approve a recommendation to purchase this property because we have potential revenue to lose on the table. Those are some of the things that concern me given my background.

Matt Johnson: Those are valid good points. I think if I was on the outside looking in, I think I would look at it similarly. I think in this particular instance, and we do a lot of work with the State of Oregon, and we put a process in place that both meets the State's needs for transparency, inclusion, and fairness as well as creates competition so we can generate the best results for the State. I think in this particular instance, we had a moment in time where the pandemic accelerated the industrial market, and the demand for industrial. I think that is more of a function of where we were in this market cycle combined with a very constrained industrial land. If you were to go find 30 acres of industrial where we need it, it is far and few between. That has been the case of industrial throughout this pandemic. I do agree that we could be headed in a downturn. I think the path that OLCC went down, regardless of whether it was at the direction of the Governor or not, if we do hit a downturn and construction costs do soften, they will be in a position to potentially benefit and build this more effectively and efficiently in a market where inflation has been rampant.

Chair Brown: Representative Meek are you done with your questions?

Representative Meek: Thank you Chair Brown, for now, yes.

Sara King: I do not want to pull us too off track here, but I wanted to follow up on Liz's statement on process. I am curious, is it possible for large land searches like this, that you can go through say Cushman and put an RFP with an anonymous purchaser. Does the State of Oregon need to be identified? Maybe it makes a difference and maybe it doesn't make a difference, but as we have said, I do not know how much competition gets created when everyone knows it's a government agency looking for a large piece of property.

Liz Beaty: I understand your question. I believe that there are policies, procedures, and in some cases statutes that guide us on what we are required to follow. We do not have to follow strictly the procurement process, but we still have to follow certain procedural processes. Notifying all

municipalities of a requirement and a need, and all state agencies of any available properties, I something that has been very strongly required for us to do. I cannot speak to whether it is in statute, I am sure someone is on here who can do that.

Darrin Brightman, DAS: It is in statute to send out the notice to State agencies, subdivisions, and so on. Basically, to see if there is already publicly owned land that will meet the need. Is it possible to then go out separately, secretly with an agent or corporation? It is possible. However, when this started, it started as a build to suit as I recall. So that would have gone out as a development build to suit, not a purchase of land. It was already down the road before there was a change from a build to suit. The leases have specific purchases that are different from land purchase.

Sara King: That is helpful to know. I know my experience doing property acquisition for public agencies, we would have the option of hiring a broker and anonymously putting out an RFI. I understand your process of reaching out to other State agencies. That makes sense, it is just when we go to the private market, doing so anonymously has its advantages. But I appreciate the history, thank you Darrin and Liz.

Chair Brown: Someone said you searched up and down the I-5 corridor for other available sites. I just sold 160 acres of industrial land with full rail lines for the transportation facility in Millersburg for \$10 million. They do not need 160 acres, they need 30. Did anyone ask Linn County if there was 20, 30, or 40 acres there? Did anyone ask Linn County if they could have any of that land?

Chris Mayton: I will have to defer to DAS or Cushman & Wakefield. I can say that when we requested the search, it was 25 miles on either side border to border. I cannot specifically say if we reached out to any specific counties.

Liz Beaty: Matt could probably answer better than I can, but I do know that when we looked, we only looked in property that was listed for sale. If it was not listed, it would not have come up in our search.

Matt Johnson: I remember that, and I also remember that the cost of land being one variable, but the distance that trucks have to drive from I-5 and the transportation costs being a much larger component to that. In real estate we are doing what we can, but knowing that [there was more to the equation].

Chair Brown: That site is contiguous to I-5. For another example, my business partner Alan Evans has 60 acres just north of the Royal Caribbean call Center in Eugene/Springfield contiguous to I-5. It has been on the market for a couple million. I am not trying to kill your deal. You have to look at it from my perspective. I am a volunteer and get beat up no matter what I say. You have to look at it from my perspective. Something that they assembled six months before the date of value for \$5.6 million, and we are going to spend \$40 million? Twenty acres of the 33 they bought for \$2/SF and we are going to pay \$25 for it? I understand the value of entitlements and development fees. I understand appreciation, but this is really hard for me to get there. Nobody has even told me how you get to \$25. I haven't seen a sale yet.

Matt Johnson: A comp for you that sold in March 1 of this year, a property off of 112th, that was kind of an odd-shaped parcel...that sold for \$23.50. Probably a lot more site work, not as good of a location, and that was 21 acres.

Chair Brown: Do you set the price? You represent the buyer. You get a contingent fee. You get paid a percentage of what it sells for. Do you guys set the price? Does Capacity Commercial set the price? Why do we have it appraised?

Matt Johnson: This was a direct negotiation that we had in terms of the price. Capacity was involved a little in the beginning, but we were working directly with Trammel Crow.

Liz Beaty: Part of our process, once we get the RFI proposals in and we identify the properties that meet our criteria, we send out RFPs for those. That is our negotiation tool. In negotiations, each of them sent first proposal. The proposal for this property started out at \$19/SF. But again, that was back awhile ago. It is supply and demand. They are saying, if I keep this property, develop, sell it, I will make an additional twenty-something million dollars, do I really want to do that? We had to talk long and hard with them about allowing us to still have this property after we changed our model. We had to have some conversations around that.

Representative Meek: I have some recommendations that I would prefer before I would be willing to approve this request (notes does not wish to discuss negotiation tactics in public forum). My main point would be to walk away and start all over. I have a different feeling about this. The real estate process, available lands, I have been in this industry trying to help developers find parcels.... My main point is that we are not in a really good negotiating position right now. Sometimes you just need to walk away and call their bluff on it. Sometimes you need to walk away on deals to get a better opportunity.

Matt Johnson: I hear what you are saying and in many instances I would agree. I think that we are dealing with a group now who is fully engaged with the city getting the site entitled to build a 600,000 SF warehouse with 30,000 SF office going spec that is going to try to lease it to a tenant and then sell it on the market for \$150 million. Their alternative to us walking away is really strong. I think that is the challenge that we are having. I mentioned the comp that is slightly inferior, and that sold for \$23.50. The market is moving in the wrong direction, the person we are working with has a good alternative if we walk away. They are spending \$400,000-\$600,000 in case the plug gets pulled on this so that they can go forward on that project.

Sara King: This is a tough one. I appreciate hearing more about the process. I appreciate Liz and Matt being available to give us more background that we clearly needed to have. I am quite on the fence about this. I think that John and Representative Meek make some very good points. I certainly understand where OLCC and where Matt are coming from. I am on the fence. It is a beautiful piece of property, and it really works for OLCC's needs, clearly. On the one hand, we can walk away and see what else pops up, but I also understand the urgency, and this is a well-suited property. I could be persuaded to support this. I can find a reason to support it. I just have to make this comment about the disposition of the OLCC headquarters that we discussed last month. At that time, if you remember, we did not support the staff recommendation, which included transferring the property to Clackamas County. One of the reasons is that if we are going to pay a tremendous amount of money for this site, from a fiduciary standpoint, there is no reason why we should not be putting the OLCC headquarters on the market and maximizing the disposition revenue out of that site rather than transferring that to another jurisdiction who can buy their own site or pay the State for the site. This is another reason to not support the disposition to Clackamas County that we discussed last month. I will leave it at that. I am really torn.

Steven Marks, Director of OLCC: I appreciate the conversation. Let me put it in context as a director...we did the only process we knew. We tried to do it turnkey, and we had the state resources to do it as best we could through the process. Certainly, when we went back to the bonds and had a high cost identified in the recent short session of the legislature, they knew that we had a high cost. Me as director, I had a lot of problems with this deal myself. I do not like the process we had to go through. The price tag chokes a horse. Choked me. We had to bring it back into the legislative process. That is a far cry different than the business deal for the state. The business deal is sound. It is why we weren't in Eugene. It is why Paul Evans' airport property in Monmouth was not the site we chose. It is a million dollars a miles outside the target area. As a business deal for the State....I can tell you I felt like not only were we property scarce, we were doing this deal in probably the worst time in history that we could be making this deal. We were behind the 8-ball consistently the whole way through. This was the ideal spot just based on the neighbors....So on the business deal proposition, I feel already about this. I think you are fine, and the State should take a look at those processes. I wish I could go turnkey all the way through. I respect that decision, but we had to go a different way. This is still a good business decision for the State even though the property deal was very expensive.

John Brown: Thank you. I will chime in here. There are a couple things that I did not say earlier. On page 35, the appraisal states that the buyer is an undesirable commercial user. That is one of the justifications for paying way more than the appraised price. I do not understand that statement. I think history repeats itself. I get it about the business deal, but it is kind of like when ODOT or the Feds run I-5 through a rye grass field. It is not what they are gaining; it is what the people are losing. The fact that it is a good business deal for you...it is what you are gaining and what you are losing. We learned in Newport with what this group did with the Forest Service. We had a broker's opinion of value, the appraisal came in at half. So we stopped, went back to the drawing board, they just came back and we approved it. They made an incredibly good business decision, they joined up with the city and Fire Department. It worked out well and saved a ton of money. I get it. I am a straw man for many governmental agencies. I get that, but I am going to go with Representative Meek and say push back and wait. I know that is not what you want to hear, and that we are advisory. I know at the end of the day, DAS and OLCC will do what they think is best. But we exist for a reason. I don't know what that reason is. But I guess with that we are about out of time. Representative Meek, and then I will ask the question.

Representative Meek: Looking at the numbers, the appraised price was at \$15/SF. Purchase price \$25. I would like to see a \$21/SF....I do not care about the development fee. I am ok with that. I want to make sure that we are paying the responsible and effective price per square foot. For me, that is split in the middle, and paying a little more at \$21/SF.

Steven Marks: I want to put one thing on the record. I think what you said is perfectly analytical and right. I want to make sure that we say that the public is the beneficiary of going forward. There is no doubt about that. That is lost revenue, time is money in our business. Millions of dollar a day in operations. That is why the business deal makes sense. The public would benefit from the revenue. Whether there is a private benefit that we should negotiate better is I think the question in a public process. I would not have signed this paper for this deal or any other if I did not believe that this was the best deal to give the people of Oregon under the parameters that we have to put it together.

Sara King: I do not care how much private benefit goes to the seller/developer. If it works for the State and the private party, great. I just want to say that for me it is not about that. It is whether this is the best deal that the state can get. I appreciate the business case; I understand that.

Chair Brown: I get the business deal, but when the other state agencies, let's say they are building a highway, if they can go through the property and save ten million, they do not pay ten million dollars, they pay the fair market value. They pay for the real estate. Period. We are getting different things from different state agencies. With that, Representative Meek, do you want to make a motion to approve something at a different number and see where that goes?

Representative Meek: Yes I would. Under this circumstance, I would make a motion that we recommend that OLCC go back to sellers and propose \$21/SF and calculate those numbers (I came to \$30,891,000 and some change), and then the development fee I am fine with. That is what I am willing to support at this time.

Chair Brown: I will second this for purposes of discussion. Discussion on the motion?

(None)

All those in favor of asking OLCC to go back to seller at \$30,891,000 plus \$4 million development fee?

Vote: Chair Brown, Representative Meek, and Sara King vote yes. Brady Ricks and Jennifer Blake opposed. Passes 3 to 2.

Chair Brown; Darrin, do you have what you need from the committee?

Darrin: Yes I do.

C. General Discussion

1. Discussion

Chair Brown: Any remarks? Like I say, this was a tough one. If not, then I will call for an adjournment.

(None)

Ok, thank you very much. I appreciate it.

2. Adjournment

Meeting Adjourns.