



**DATE:** March 12, 2014  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 14-11

Approving a Lease Agreement for Portland Development Commission-Owned Property at 7238 SE Foster Road in the Lents Town Center Urban Renewal Area

**BOARD ACTION REQUESTED**

Adopt Resolution No. 7044

**ACTION DESCRIPTION**

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) would authorize the execution of a five-year lease agreement (Lease) between Portland Mercado, LLC, whose managing member is Hacienda Community Development Corporation (Hacienda), and PDC for a 39,005 square foot (SF) PDC-owned parcel (Site) at 7238 SE Foster Road in the Lents Town Center Urban Renewal Area (URA) (see the Site Map in Attachment A). Subsequent to leasing the property, Hacienda will conduct a major renovation of the existing 6,766 SF building to create spaces for four retail businesses, four permanent food stalls, three offices, a commercial kitchen, a market hall, and a dining area. In addition to the building renovation, Hacienda will landscape and improve the existing surface lot for eight food carts, a plaza, and parking (see the Renderings and Site Plan in Attachment B). Collectively, this Latino market will be known as the Portland Mercado (Mercado), providing fresh Latino food and culturally-specific goods to the greater Portland metropolitan area. The Mercado is expected to create at least 35 new jobs once it is fully operational and support 19 small businesses. The Lease is a five-year agreement with an option to extend the lease term for an additional five years. The annual rent for the Lease is \$1.00. The Lease also provides Hacienda a right to purchase the property at a mutually agreed upon price, provided that Hacienda has paid off all PDC loans (described below).

The Board action will also authorize PDC to grant public right-of-way deeds for improvements to adjacent sidewalks, as will be required by the City of Portland (City) in order to issue permits for the Mercado project.

Board approval is required for any commercial lease agreement for a term (including any option period) of more than five years. The PDC Financial Investment Committee (FIC) reviewed the proposed Lease terms on February 13, 2014, and recommended Board approval.

In related actions, PDC will provide Hacienda with partial funding for the construction of the above described property improvements, in the form of a \$900,000 Commercial Property Redevelopment Loan (CPRL) and a \$201,959 Community Livability Grant (CLG). Hacienda is also contributing an additional \$1,300,000 in non-PDC grant funds to construct the Mercado. The PDC loan and grant are within the Executive Director's signature authority and do not require Board approval.

## **BACKGROUND AND CONTEXT**

Hacienda is a Latino Community Development Corporation that strengthens families by providing affordable housing, homeownership support, economic advancement, and educational opportunities. Since 1992, Hacienda has been serving low-income residents in the City of Portland and fulfilling its mission.

Hacienda has been working since 2011 on the planning and implementation of a Mercado. The economic development goal of the Mercado is to support low-income entrepreneurs of color and to create opportunities for weekend sellers and others who wish to try out their business concept through one-day or event sales opportunities. The Mercado will extend the reach of Hacienda's community economic development initiatives which include: micro-enterprise development services, the *Micro-Mercantes* culinary business incubator, financial education classes, and access to business Individual Development Accounts.

In 2012, PDC provided Hacienda a Development Opportunity Services Grant (DOS) to assist them in advancing the Mercado concept. The DOS paid for a market study, design concept, and research to gather data from other successful Latino markets. The market study confirmed the feasibility of a food-oriented market in outer southeast Portland and Hacienda began searching for appropriate sites. Ultimately, Hacienda identified the PDC-owned property located at 7238 SE Foster Road as an ideal site for the Mercado, based on its availability and location along a revitalizing commercial corridor. A Letter of Intent between Hacienda and PDC was signed in May 2012 to support Hacienda's application for a federal grant for the project and to memorialize the intention of the parties to develop the project at the Site. Then Mayor Sam Adams also provided a letter of support for the grant application and Hacienda was awarded the grant in 2013 from the United States Department of Health and Human Services (U.S. DHHS) for nearly \$800,000. Subsequently, Hacienda has secured additional grant commitments from other sources of more than \$500,000.

In the summer of 2013, Hacienda applied for and was awarded a \$201,959 CLG for purposes of building out the commercial kitchen portion of the Mercado development. In December 2013, Hacienda applied for a CPRL to provide partial funding for the remaining portion of the development. The FIC has recommended a CPRL of \$900,000 for renovation of the building and site. The Lease is the final element of PDC assistance to support this project. Hacienda anticipates beginning construction in May 2014, and starting operations in November 2014.

## **COMMUNITY AND PUBLIC BENEFIT**

The Mercado is anticipated to be a year-round market and convening space that acts as a catalyst for wealth creation for the local entrepreneurs who will participate in the market as vendors. Hacienda expects the Mercado will combine elements of indoor public markets and farmers' markets in the United States, Canada, and Europe with the bustle and feel of many Latin American open air markets. The Mercado vendors will offer a mix of goods and services, including culturally-specific prepared and fresh foods, grocery items, and services. Hacienda will focus on small business development and entrepreneurship, strengths common to both Portland and the Latino community in particular. The Mercado will help spur the transformation of this neighborhood, build new enterprise, create jobs in Portland, and install a landmark cultural institution.

The Mercado project has several important community and public benefits:

1. Promotes revitalization by renovating a vacant and boarded-up building into a neighborhood amenity at a key intersection on SE Foster Road in the Lents Town Center URA;
2. Promotes wealth creation by establishing an economic development generator for priority populations including low-income business owners and business owners of color.

Improvements will create spaces for 19 businesses including: four retail businesses, four permanent food stalls, eight food carts, three offices, a commercial kitchen, a market hall, and a dining area;

3. Promotes job creation – an estimated 35 jobs will be created when the project is fully operational;
4. Leverages \$1,300,000 million in funding from federal and other sources:

Sources

U.S. DHHS Grant	\$788,673	33%
Other Grants	\$517,387	22%
PDC Community Livability Grant	\$201,959	8%
CPRL	\$900,000	37%
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Total Sources	\$2,408,019	100%

5. Benefits other area businesses by drawing new visitors and foot traffic to the commercial corridor; and
6. Establishes a landmark cultural institution.

This project is aligned with the Lents Town Center URA Plan by activating a vacant property that is in a state of disrepair, and providing a catalyst for further development in the immediate area. The economic development goals of the Mercado project advances, and aligns with, the Neighborhood Economic Development Strategy by supporting wealth creation for low-income business owners (making less than 80 percent of median family income), and for business owners of color.

**PUBLIC PARTICIPATION AND FEEDBACK**

Hacienda has been working since 2011 on the planning and implementation of the Mercado. In developing the Mercado project they have relied on input and advice from an established group of low-income Latino entrepreneurs known as the *Asamblea*, many of whom will operate businesses in the project. Hacienda has also had the support of a wide variety of professional consultants many of whom have donated their time and expertise to advance this project and make it a reality.

Hacienda has also reached out to the Lents community and businesses to assure that the Mercado is viewed as an asset to the area. During the past several months, Hacienda representatives have met with Foster-Powell and Mt. Scott Arleta neighborhood associations, Foster Area Business Association, directors of the Holgate branch library, Mt. Scott Community Center, Green Lents, Foster Green Eco-district, Foster United, and business owners and community members in the area. Hacienda staff has begun meeting with neighborhood association chairs about a Good Neighbor Agreement and will make a presentation about the project at the Mt. Scott Community Center in April.

**BUDGET AND FINANCIAL INFORMATION**

The annual rent for the Lease is \$1.00. The Lease terms and conditions are triple-net wherein the Tenant is responsible for all expenses associated with the Property including property maintenance, utilities, real property taxes, and insurance.

Included in the Lease are the following terms and conditions:

- The granting of two separate Deeds for Right-Of-Way Purposes from PDC to the City for improvements to be made to the public sidewalks that front SE 72<sup>nd</sup> and 73<sup>rd</sup> Avenues;

- The right to issue sub-leases to individual marketplace vendors purposefully keeping spaces affordable for entrepreneurs and vendors;
- An option to extend the Lease term for an additional five years; and
- The right to purchase the property during the Lease renewal term.

The Lents Town Center URA fiscal year (FY) 2013-14 Revised Budget, FY 2014-15 Requested Budget, and Five Year Forecast can be found in Attachment C.

#### **RISK ASSESSMENT**

The Mercado concept is unproven in Portland. The sub-leases will be to small business owners, some of whom have little business experience. This risk is mitigated not only by the nominal base rent for the initial term, but also by technical assistance that Hacienda will provide to Mercado vendors. There is also a risk that Hacienda could default on the Lease, in which case PDC can resume possession of the property and offer to other entities either for sale or lease.

#### **ALTERNATIVE ACTIONS**

The Board could choose not to execute the Lease as proposed or to revise the Lease terms.

#### **ATTACHMENTS**

- A. Site Map
- B. Mercado Renderings
- C. Lents Town Center URA Adopted FY 2013-14 Revised Budget

Site Map





### Mercado Renderings



PORTLAND MERCADO  
7238 SE Foster Road  
Portland, Oregon  
January 29, 2014 | Project # 1334

AERIAL VIEW



**Lents Town Center URA Adopted FY 2013-14 Revised Budget**

**Five-Year Forecast Program Requirements Detail**

	Revised- 1 FY 2013-14	Draft FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
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Lents Town Center URA

**Resources**

Beginning Fund Balance	11,200,993	6,872,634	1,924,036	284,995	1,110,362	1,401,087
Interest on Investments	20,000	10,000	10,000	10,000	10,000	10,000
Loan Collections	139,000	101,526	101,526	100,789	100,515	100,515
Property Income	66,802	66,802	246,802	523,548	66,802	2,627,787
Reimbursements	400	0	0	0	0	0
Short Term Debt	7,845,688	7,873,727	8,234,064	8,994,999	9,628,190	10,262,813
<b>Total Resources</b>	<b>19,272,883</b>	<b>14,924,689</b>	<b>10,516,428</b>	<b>9,914,331</b>	<b>10,915,869</b>	<b>14,402,202</b>

**Requirements**

**Program Expenditures**

**Administration**

**Financial Administration**

A45101360 Debt Management-LTC	10,000	20,000	20,000	20,000	20,000	20,000
<b>Total Administration</b>	<b>10,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>

**Business Dev**

**Business Lending**

L02100360 BIF-General-LTC	100,000	700,000	700,000	700,000	700,000	700,000
L02119360 BIF-Nbrhood Ec Dev-Budget-LTC	300,000	0	0	0	0	0

**Small Business & Community Dev**

B55800360 Business Development-LTC	10,000	10,000	10,000	10,000	10,000	10,000
B55900360 Community Development-LTC	50,000	50,000	50,000	50,000	50,000	50,000

**Traded Sector Business Dev**

T01069360 Lean Manufacturing-LTC	30,000	30,000	30,000	30,000	30,000	30,000
B15102360 Site Recruitment-LTC	10,000	10,000	10,000	10,000	10,000	10,000
B15202360 Green Innovation Park-LTC	155,000	0	0	0	0	0
L02110360 BIF-Cluster Group-Budget-LTC	300,000	0	0	0	0	0
<b>Total Business Dev</b>	<b>955,000</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>

**Infrastructure**

**Parks**

N36012515 Parks Public Impr-LTC-Adm	100,000	1,000,000	0	0	0	0
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**Transportation**

N36031525 Foster-Woodstock-LTC-Adm	400,000	0	0	0	0	0
N36031535 122nd-Holgate/Ramona-LTC-Adm	400,000	600,000	0	0	0	0
N36031545 Foster-52nd to 82nd-LTC-Adm	1,000,000	820,000	0	0	0	0
N36032015 Lents Entryway-LTC-Adm	200,000	25,000	0	0	0	0
N36031415 Street/Sidewalks LID-LTC-Adm	110,000	0	0	0	0	0
<b>Total Infrastructure</b>	<b>2,210,000</b>	<b>2,445,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Portland Hsg Bureau**

**PHB Housing**

H15292360 Property Management-LTC	5,400	0	0	0	0	0
H15410360 Home Repair Projects-LTC	670,785	500,000	500,000	500,000	500,000	750,000
H15420360 Home Buyer Assistance-LTC	543,124	500,000	500,000	500,000	500,000	750,000
H15430360 Affordable Rental Hsg-LTC	305,200	400,000	400,000	400,000	400,000	500,000
H15501360 NSP3 Acq/Rehab-LTC	52,600	0	0	0	0	0
H15900360 PHB Staff & Admin-LTC	829,091	400,000	400,000	400,000	400,000	500,000
<b>Total Portland Hsg Bureau</b>	<b>2,406,200</b>	<b>1,800,000</b>	<b>1,800,000</b>	<b>1,800,000</b>	<b>1,800,000</b>	<b>2,500,000</b>

**Property Redev**

**Commercial Property Redevelopm**

P36051215 Jns Ck Ind Area Revit-LTC-Adm	50,000	0	0	0	0	0
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