



PROSPER
PORTLAND
Building an Equitable Economy

DATE: May 9, 2018
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 18-17

Update on the Evaluation and Selection of Beam Development for Redevelopment of the ODOT Blocks in the Central Eastside Urban Renewal Area

BRIEF DESCRIPTION OF INFORMATION ITEM

At the May 9, 2018 Prosper Portland Board of Commissioners (Board) meeting, staff will provide an update on the evaluation and selection process of Beam Development for redevelopment of 2.19 acres of Prosper Portland-owned property in the Central Eastside Urban Renewal Area (URA). The three-block site, known as the ODOT Blocks, is located on SE Water Avenue and is generally bounded by SE Salmon, SE Main, and SE Madison streets (see a Property Summary and Aerial in Attachment A).

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

Redevelopment of the ODOT Blocks advances multiple goals of Prosper Portland's 2015-2020 Strategic Plan. The location and unique multi-block composition of the property provides the potential to realize the agency's vision for an equitable economy by advancing the following priorities:

- **Quality jobs.** The proposed development plan maximizes employment opportunities with the inclusion of industrial, retail, and office space in the rapidly-developing Central Eastside Industrial District.
- **Widely shared prosperity.** The proposed development plan features industrial and industrial office space, including space leased at below market rates. The local development team has deep experience in designing projects that support small business growth and creating flexible spaces to help businesses enter the Central Eastside market and to grow over time.
- **Collaboration with our partners for an equitable economy.** The Beam Development proposal includes approximately 5,000 square feet of flexible ground-floor space to be provided rent free for the Industry Innovation & Inclusion Hub (I³H), whose partners include the Innovation Quadrant, Technology Association of Oregon, Portland Incubator Experiment, and Built Oregon. In addition, the evaluation and recommendation process marks the culmination years of community outreach regarding development these properties which started with the Central City 2035 SE Quadrant discussions which began approximately five years ago.
- **Vibrant neighborhoods and communities.** Redevelopment of the long-vacant three blocks includes multi-story, mixed-use buildings that provide employment and services in the heart of the Central Eastside URA.

In addition, the potential sale and financial structure of the ODOT Blocks transaction could provide Prosper Portland with critical resources that are consistent with and deliver on the agency's draft Financial Sustainability Plan.

BACKGROUND AND CONTEXT

On November 9, 2016 through Resolution No. 7216, the Prosper Portland Board authorized acquisition of 2.19 acres of property and a lease for 2.18 acres from the Oregon Department of Transportation (ODOT). This action was the culmination of many years of collaboration and negotiation with ODOT, which had declared the property as surplus and available for purchase. Since acquisition, Prosper Portland drafted a Request for Proposals (RFP), articulating the following priorities for future redevelopment of the eastern 2.19-acre portion of the ODOT Blocks (the western 2.18-acre portion was not subject to the RFP, as it is leased from ODOT for on-site parking):

- **Industrial Mixed-Use:** Ground floor industrial space, with a preference for an affordability component to that space; ground floor retail space as allowed by code; and industrial or industrial office space on upper floors to maximize employment.
- **Maximize Development Potential:** Maximize the development potential of the property given the level of public financing available.
- **Parking:** Provide parking at the maximum entitlement allowed, with excess entitlement not allocated to on-site uses to be available for public parking. Prosper Portland will retain ownership of the public parking component. Any parking provided must be designed to be repurposed in the future.
- **Public Realm:** For the project to consider how it relates to adjacent properties and connections to the Vera Katz Eastbank Esplanade.
- **Compatibility:** Redevelopment to be consistent with the anticipated Central City 2035 zoning regulations and further the development objectives of the Central Eastside URA Plan.
- **Timeliness:** Redevelopment (which may be phased) to be carried out as expeditiously as possible.
- **Public Financing:** Minimize the amount of public financing needed. Any investment in the site or project by Prosper Portland requires a minimum return of six percent on that investment, pursuant to the agency's draft Financial Sustainability Plan, and is flexible with regard to transaction structure.
- **Partnering:** Demonstrate robust partnerships with an emphasis on equity in design, construction, and operations.

Prosper Portland issued the RFP on December 15, 2017 and closed the solicitation on February 28, 2018. Six submittals were received in response to the RFP, two of which were deemed incomplete and non-responsive to submittal requirements. The remaining four proposals were reviewed by a nine-member Evaluation Committee which included representatives from the City of Portland, Prosper Portland, and the industrial and small business community.

The Evaluation Committee met twice in April 2018 to review the RFP criteria and to discuss the four responsive proposals. Staff shared a review and analysis of the four responsive submittals, including information regarding the proposed financial structure and consideration of financial offer (land value and return), phasing, and market considerations/risk.

Upon review and deliberation, the Evaluation Committee short-listed two teams to interview – Beam Development and another local development team. During the interview process, that team withdrew its proposal from consideration. Following interviews, the Evaluation Committee made the unanimous recommendation for Prosper Portland to select Beam Development as the preferred developer partner, noting the development team's following attributes:

- Significant experience across the team in the Central Eastside URA and with projects of comparable scale and complexity.

- Experience across the team in addressing and understanding the priority for racial equity and inclusion, including in construction and business operations.
- Beam Development’s mission and values strongly align with the vision and goals for the ODOT Blocks.
- Beam Development’s deep experience in designing projects that support small business growth, including demising plans, creating a granular rent roll, and creating flexible spaces to help businesses enter the market and grow over time.
- Beam Development’s past experience in working on successful public private partnerships with Prosper Portland.

Proposal Summary. The Beam Development team includes Hacker Architects (lead architect), Colas Construction (general contractor), and Mackenzie (industrial and parking architect); its proposal includes the following key components:

- Scalable industrial on all blocks and flexible office layouts with the potential for cross-laminated timber buildings on the northern and southern parcels.
- More conventional urban manufacturing/parking/flexible office space on the center block with the opportunity for it to be owned by Prosper Portland. A proposed steel framing approach would allow for converting parking to industrial office in the future.
- Overall building approaches that represent the most cost-effective construction type, commensurate with the building use and rent targets and helping to reduce required public subsidy.
- Mid-rise development responsive to the district while still increasing height and density beyond the surrounding blocks. The proposed project delivers an ambitious yet market-responsive program, including 260,000 square feet of industrial office; more than 66,000 square feet of scalable industrial program; and a blended parking ratio of 1.5 per 1,000 square feet. The proposal notes that this delivers less than the 380,000 square feet of allowed industrial office with the industrial bonus, but recommends this approach based on current market conditions within the Central Eastside Industrial District.
- Provision of approximately 5,000 rentable square feet of flexible ground-floor space, rent free for the Industry Innovation & Inclusion Hub (I³H), supported in part by a land-value write-down.
- Phasing of development across three blocks between 2019 and 2021.
- Either a land sale or land lease option provides flexibility if Prosper Portland is looking to maximize cash flow in alignment with the agency’s draft Financial Sustainability Plan principles. Provides opportunity for Prosper Portland to retain ownership of development at the center block and to scale the program up or down depending on the desired development goals and available Prosper Portland financing.

Based on the Executive Director’s approval, Beam Development and Prosper Portland will negotiate and enter into a non-binding Memorandum of Understanding that describes in general terms the conditions, contingencies, and commitments by the parties separately and/or jointly that must be completed while negotiating a Disposition and Development Agreement and/or other transaction documents. Staff expects to seek Prosper Portland Board approval of a binding transaction document by late 2018 or early 2019.

EQUITY IMPACT

Prosper Portland is pursuing planning and redevelopment of the ODOT Blocks with an intentional focus on ensuring optimization of equity opportunities from construction through to operations and the provision of affordable industrial space.

The Beam Development proposal has assembled a team with Colas Construction, a leading minority-owned general contractor in the city. Colas Construction has a strong track record working with certified minority subcontractors in addition to its own crews self-performing critical scopes of work. Additionally, Beam Development and Colas Construction anticipate working closely together throughout the development process, including consideration of both lease and ownership opportunities during the tenanting process.

Beam Development has experience in designing projects to support small business growth through their developments, including by creating flexible spaces to help businesses enter the market and grow over time. They also have previous experience partnering with anchor tenants, such as Uncorked Studios, as co-owners within Beam Development projects.

COMMUNITY PARTICIPATION AND FEEDBACK

In addition to the previously described engagement of the Evaluation Committee, Prosper Portland's acquisition and redevelopment of the ODOT Blocks has generally been supported by community stakeholders. Recent public actions which have supported redevelopment of the ODOT Blocks include:

- **Prosper Portland's Budget Advisory Committee:** The committee recommendation for the Central Eastside URA's fiscal year (FY) 2018-19 budget priorities was investment in employment growth and industrial affordability at the recently-purchased ODOT Blocks and City-owned Clinton Station.
- **Preparation and Adoption of Central City's 2035 Plan:** The SE Quadrant Plan, prepared as part of the City's Central City 2035 process to update the 1988 Central City Plan, directs Prosper Portland's efforts to acquire and redevelop the ODOT Blocks. Adoption of the SE Quadrant Plan by City Council on July 29, 2015, followed a two-year planning process in which the City hosted numerous public outreach meetings and a diverse 30-member Stakeholder Advisory Committee, which worked with interested community members and land use and transportation planners to craft the plan.
- **Strategic Sites Analysis:** As part of the City's Employment Transit Oriented Development pre-work to the SE Quadrant Plan, Prosper Portland evaluated development potential on key strategic sites within the Central Eastside. The ODOT Blocks were identified by the City and the Stakeholder Advisory Committee as one of five sites to be studied. The analysis identified site constraints, zoning issues, and prepared concept development plans to inform the SE Quadrant Plan effort.

ATTACHMENTS

- A. Property Summary & Aerial

Property Summary and Aerial

Project Name: ODOT Blocks

Description: 2.19 acres of vacant land owned by Prosper Portland (a, b, and c below)

Location: SE Water Avenue

Zoning: General Industrial 1 (IG1)

URA: Central Eastside

Current Phase: Development Team Selection

Next Milestone: Disposition Documents

Completion Target: 2021



