

DATE: February 11, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-11
Approving a Two-Year Lease of the Old Town Lofts Commercial Space in the Downtown Waterfront Urban Renewal Area

BOARD ACTION REQUESTED

Adopt Resolution No. 7100

ACTION DESCRIPTION

This proposed action by the Portland Development Commission (PDC) Board of Commissioners (Board) would authorize a two-year master lease (Lease) with Oregon Storyboard (OSB) for approximately 4,000 square feet (SF) of ground floor space owned and operated by PDC at 411 NW Flanders Street in the Downtown Waterfront Urban Renewal Area (URA) (see Attachment A for a site map). The leased space (Leased Space) will be used as office and business incubator for OSB staff and partners.

While the Lease is for a term of less than five years and such leases are generally within the PDC Executive Director's authority to execute, the Executive Director serves on the OSB Board of Directors so this action is being presented to the PDC Board for approval to avoid any perception of conflict of interest.

BACKGROUND AND CONTEXT

The Old Town Lofts project on the corner of NW 4th Avenue and NW Flanders Street was completed in 2001, containing 60 residential condominium units and ground floor commercial condominium space. On October 26, 2010, PDC was assigned ownership of the Leased Space along with 20 parking units through a Collateral, Surrender, Settlement and Release Agreement entered into between the property developer (Old Town Lofts, LLC) and PDC. Since then, four parking units have been sold and the remaining sixteen parking units remain available for sale. The Leased Space has been maintained by PDC as a cold shell and, aside from an approximately six-month use as a contractor staging office for building maintenance and improvements, has remained vacant. PDC has attempted to lease or sell the Leased Space in the past, but there has not been sufficient interest for either.

On August 11, 2014, PDC engaged in a direct outreach effort to real estate professionals and potential tenants and interested parties to lease the space. Twenty entities or individuals were directly contacted and PDC staff also posted the opportunity on the Startup Switchboard website. PDC received varying degrees of interest and four entities expressed interest in leasing some or all of the Leased Space. OSB was the only entity that submitted a proposal to master lease the space, proposing to fully activate the Leased Space and support a growing sector of the Portland economy.

OSB is working to unite Oregon’s digital storytelling ecosystem, which encompasses five main industry sectors or clusters. The five sectors are film/video, animation/visual effects, gaming, digital media, and content creation. The primary goal of OSB is to create more and stronger connections among these sectors, with the vision that collaboration and interactivity will amplify job growth and economic viability. To accomplish the goals, they will be holding two accelerator cohort classes annually for early stage companies in these sectors. Each cohort will be three months long and include a \$25,000 investment from OSB, as well as free space during the class. Of the 30 desks in the Leased Space, 18 to 20 desks will be held for the two accelerator classes per year, and the balance of the seating, 10 to 12 desks, will be set aside as co-workspace for other members of the digital storytelling and/or startup community. Fueling each of these sectors is a robust layer of freelance creative talent that requires consistent project work in order to thrive and remain in Oregon, hence the need for OSB to control and master the entire Leased Space. OSB is working to create sustainable businesses in traded sector portions of the economy.

PDC is in the process of contracting with a general contractor to make approximately \$300,000 in tenant improvements to the Leased Space, including new offices, a conference room, restrooms, bike storage, locker room, and break room (see Attachment B for proposed layout). The work is expected to be completed by May 2015 and OSB will move in shortly thereafter.

Following are high-level deal points of the Lease:

- Term: 24 Months
- Date of Possession: Upon Completion of Tenant Improvements (Projected 05/31/2015)
- Base Rent: \$3,117
- Estimated NNN Reimbursements: \$2,390
- Total Monthly Rent: \$5,507
- Other Lease Provisions:
 - Option to extend term by 12 months
 - Compliance with Old Town Lofts Condo Bylaws
 - Provision of space for Old Town/Chinatown Community Association District Manager
 - Right to sublease for purposes of providing business incubator services

COMMUNITY AND PUBLIC BENEFIT

Executing the Lease provides number of public and community benefits. PDC and Portland City Council have both recently adopted the Old Town/Chinatown Five-Year Action Plan, which contains three key objectives, all of which this Lease will directly address:

1. Attract new neighborhood investment to activate key properties and improve district connectivity
2. Promote business vitality by increasing employment and retail activity
3. Align resources and build local capacity for improving district livability

Activating PDC space is addressed in Action 1.2, “Promote development and/or occupancy of PDC-controlled properties.” With regards to this space specifically, the plan calls for, “Build out vacant 4,000 SF ground floor commercial condominium space as Accelerator Annex to support entrepreneurial firms.” In addition to these benefits, the space will reserve one desk for the Old Town/Chinatown district manager.

PUBLIC PARTICIPATION AND FEEDBACK

Staff did not conduct any public participation specific to this Lease. However, there was significant community outreach conducted in the development of the Old Town/Chinatown Action Plan.

BUDGET AND FINANCIAL INFORMATION

Future lease revenue will appear in the Downtown Waterfront URA property income line item (see Attachment C).

RISK ASSESSMENT

The risks to executing the Lease are minimal and mitigated by provisions in the Lease.

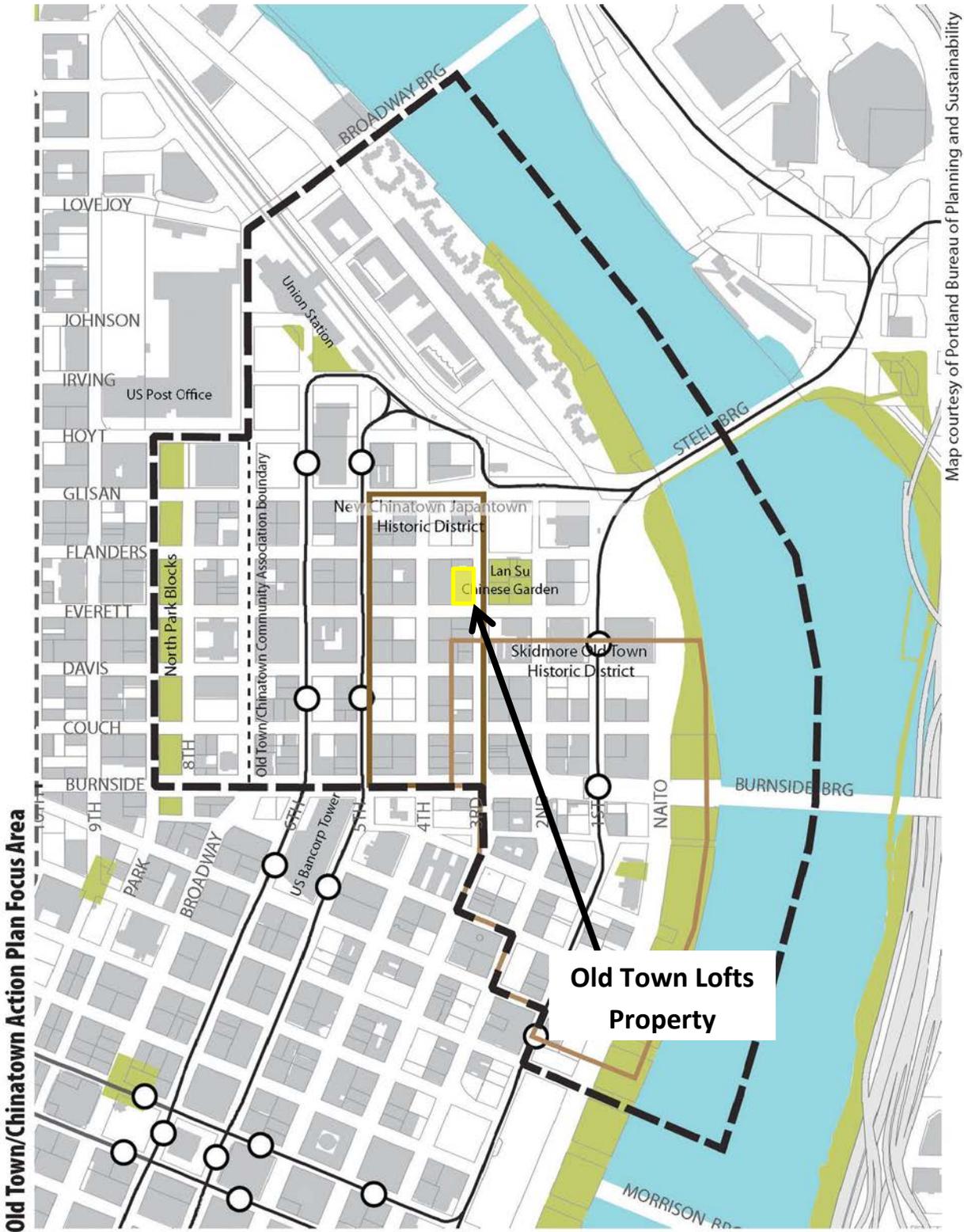
ALTERNATIVE ACTIONS

The PDC Board could elect to not approve the Lease. In which case, the space would remain vacant and PDC would likely elect to improve the space for occupancy. The PDC Board could also elect to change the deal points of the Lease.

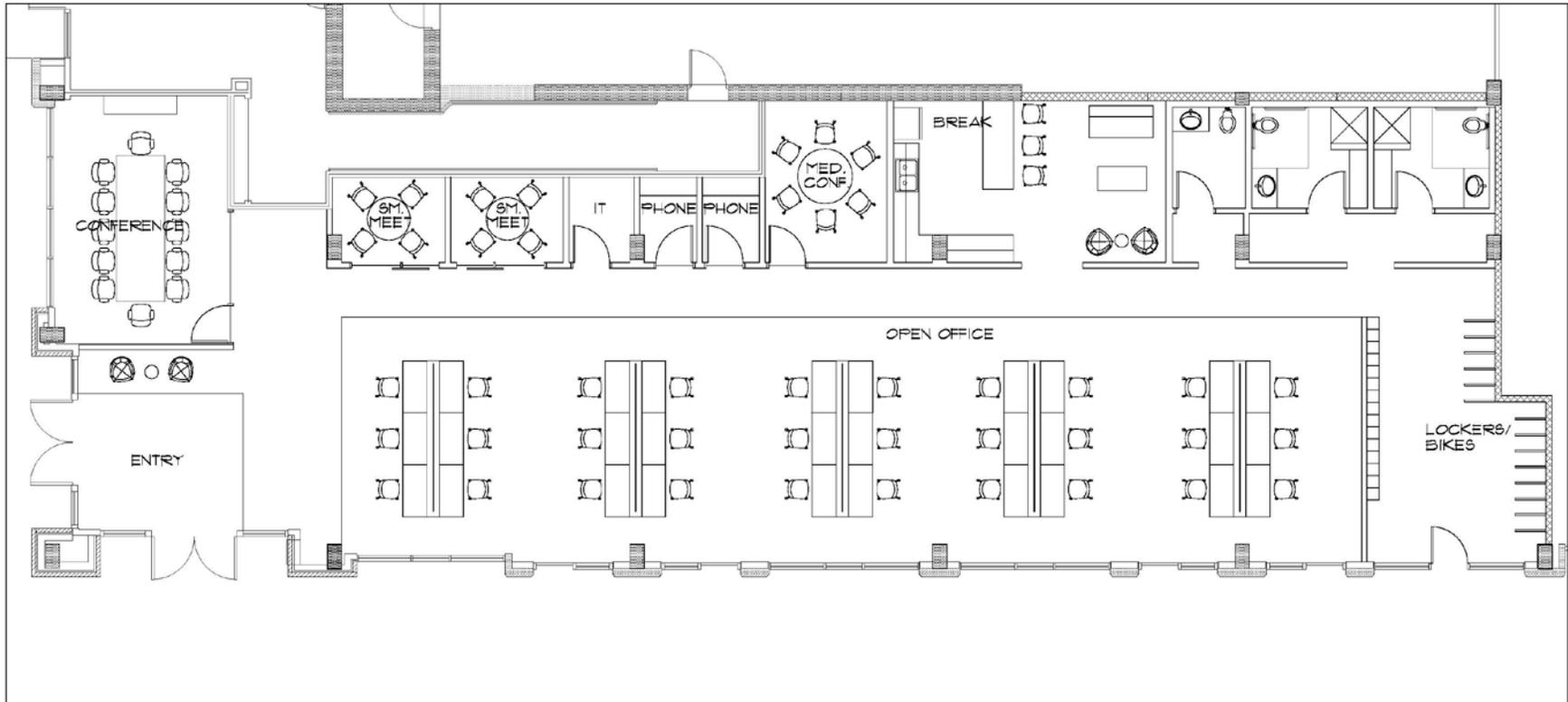
ATTACHMENTS

- A. Map
- B. Proposed Floor Plan and Potential Tenant Improvements
- C. Downtown Waterfront URA Financial Summary

Map



Proposed Floor Plan and Potential Tenant Improvements Images



1 PROPOSED FLOOR PLAN A - PDC ACCELERATOR SPACE
SCALE: 1/18" = 1'-0" 7-23-14



URA Financial Summary

Five-Year Forecast Program Requirements Detail

	Revised-3 FY 2013-14	Adopted FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19
<u>Downtown Waterfront URA</u>						
Resources						
Beginning Fund Balance	13,926,476	10,998,336	2,075,764	52,603	667,691	2,603,948
Fees and Charges	4,267	2,295	915	10,591	16,068	1,115
Interest on Investments	63,000	60,000	30,000	10,000	10,000	0
Loan Collections	495,480	408,905	163,010	1,886,929	2,862,605	198,664
Property Income	328,200	1,760,669	20,560	20,560	20,560	20,560
Reimbursements	15,200	15,200	15,200	15,200	15,200	15,200
Total Resources	14,832,623	13,245,405	2,305,449	1,995,883	3,592,124	2,839,487

Requirements

Program Expenditures

Administration

Financial Administration

A45101320 Debt Management-DTW

8,000 8,000 8,000 8,000 8,000 8,000

Total Administration

8,000 8,000 8,000 8,000 8,000 8,000

Business Development

Business Lending

L00210320 BL -General-DTW

0 425,000 135,000 715,000 425,000 425,000

L02100320 BIF-General-DTW

100,000 0 0 0 0 0

L02110320 BIF-Cluster Group-Budget-DTW

50,000 0 0 0 0 0

Small Business & Community Dev

B55005320 OT/CT Action Plan-DTW

0 65,000 65,000 65,000 0 0

Total Business Development

150,000 490,000 200,000 780,000 425,000 425,000

Housing

PHB Housing

H15430320 Affordable Rental Hsg-DTW

0 1,717,345 0 0 0 0

H15900320 PHB Staff & Admin-DTW

0 0 254,565 0 0 0

Total Housing

0 1,717,345 254,565 0 0 0

Property Redevelopment

Commercial Property Redevelopm

P32053635 Old Town Lofts-Prkng-DTW-Adm

8,521 29,948 10,045 10,045 10,045 10,045

P32050115 Dtnw Retail Strat -DTW-Adm

30,000 0 0 0 0 0

P32052115 Block 8 Redev-DTW-Adm

10,000 0 0 0 0 0

P32060515 One Waterfront South-DTW-Adm

3,600 4,600 0 0 0 0

P32052215 CC 2035-DTW-Adm

51,301 0 0 0 0 0

P32060615 SW 3rd & Oak-DTW-Adm

70,396 73,432 0 0 0 0

P32053625 Old Town Lofts-Retail

31,800 334,600 31,800 31,800 31,800 31,800

P32060415 SW 3rd & Taylor Lot-DTW-Adm

10,500 9,132 0 0 0 0

P32060115 Block 8 - L-DTW-Adm

21,824 49,111 0 0 0 0

P32056515 RiverPlace Marina-DTW-Adm

15,000 15,200 15,200 15,200 15,200 15,200

P32054415 One Waterfront Pl-DTW-Adm

2,700 0 0 0 0 0

P32054115 3rd & Oak Parking Obl-DTW-Adm

0 1,400,000 1,447,000 0 0 0

Commercial Real Estate Lending

R01100320 CPRL-General-DTW

2,350,000 6,000,000 0 0 0 0

Community Redevelopment Grants

G01100320 CLG-General -DTW

0 100,000 0 0 0 0

G02100320 DOS-General-DTW

50,000 50,000 50,000 24,000 24,000 12,000

G03100320 SIP-General-DTW

200,000 200,000 200,000 200,000 200,000 200,000

Total Property Redevelopment

2,855,642 8,266,023 1,754,045 281,045 281,045 269,045