



PROSPER
PORTLAND
Building an Equitable Economy

DATE: June 14, 2017
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 17-24

Approving the Terms of a Master Lease Agreement with the City of Portland Bureau of Transportation for the SW 10th & Yamhill Garage Retail Space and Authorizing Prosper Portland to Enter into Sub-Lease Agreements

BOARD ACTION REQUESTED

Adopt Resolution No. 7240

ACTION DESCRIPTION

This action by the Prosper Portland Board of Commissioners (Board) will authorize i.) the terms of a master lease agreement between Prosper Portland and the City of Portland (City) Bureau of Transportation (PBOT) for the City-owned retail space at the SW 10th & Yamhill Parking Garage (Parking Garage) and; ii.) the terms of sub-lease agreements for Prosper Portland to tenant 12 ground floor retail spaces. If approved, these actions will allow Prosper Portland to partner with local, priority, disadvantaged businesses to lease newly-renovated, highly-accessible space in the downtown retail market (see a Site Map in Attachment A).

BACKGROUND AND CONTEXT

Parking Garage Renovation. The Parking Garage is one of multiple garages owned by PBOT in the SmartPark system. It is a seven-story structure with just under 30,000 square feet of commercial space at or near ground level and 796 parking spaces on the upper floors. The Parking Garage was constructed in 1978 and improved in 1984 with the addition of two floors of parking. The ground floor retail space is fully leased and is managed by the Office of Management and Finance on behalf of PBOT. Tenants are on month-to-month leases and are paying below-market rents. The retail space currently operates at a loss.

Over the last decade Prosper Portland and the Portland Business Alliance partnered with the City on multiple efforts to improve the Parking Garage and surrounding area. The agencies contributed to the 2009 Downtown Portland Retail Strategy (Downtown Retail Strategy), key concepts of which include focusing on primary retail frontages on SW Morrison and SW Yamhill streets and calling out key redevelopment opportunities within the retail core, including at and adjacent to the Parking Garage. The Downtown Retail Strategy prioritizes the Parking Garage as a “Large Scale Development Opportunity” to catalyze the retail signature streets and create a vibrant retail core.

PBOT is currently pursuing a renovation project that will address the deferred maintenance of the Parking Garage and improve the interior and exterior retail areas (see Project Renderings in Attachment B). The \$25,000,000 project is in the design process, and construction is slated for mid-January 2018. On May 11, 2016, the Prosper Portland Board authorized the Executive Director to amend an Intergovernmental Agreement (IGA) with PBOT, investing \$5,000,000 in the renovation of the non-retail aspects of the Parking Garage. The investment was tied to a prior agreement between Prosper Portland and PBOT, committing Prosper Portland to provide a backstop to the City's loan guarantee for a state energy loan for Solo Power, a solar manufacturing firm.

Leasing. Independent of the renovation investment, Prosper Portland and PBOT agreed upon the terms of a master lease and retail strategy to create high-quality and affordable retail space for local merchants. The strategy includes a mix of retail spaces, a restaurant, and market hall with varying sizes to create a cohesive and complementary mix of tenants (see a Retail Space Interior Layout in Attachment C). The sub-tenanting goals will emphasize businesses that align with Prosper Portland's 2015-2020 Strategic Plan including businesses owned by people of color seeking opportunities to access to the downtown retail market. The combination of these elements will activate the street and increase the number of visitors to the Parking Garage and surrounding area.

Prosper Portland will realize several benefits from a master lease agreement:

- Prosper Portland will not pay rent for master leasing the space and will receive a portion of the net operating revenue from the retail leases;
- PBOT will pay Prosper Portland an administrative fee of \$30,000 per year and 30 percent of the net rental revenue;
- The administrative fee and the share of retail revenue will not be TIF-restricted and will contribute toward revenue goals outlined in the agency's Long-Term Business Plan.
- PBOT has approved the general uses for sub-tenants and supports Prosper Portland's tenanting strategy. While PBOT will not require any additional approval of the sub-leases unless they are outside of the agreed-upon term, Prosper Portland will be required to maintain an average lease rate of \$18 per square foot (base rent) after a two year stabilization period.

COMMUNITY AND PUBLIC BENEFIT

Improvements to the interior and exterior commercial space are tied to a retail strategy that creates an economic environment for businesses by offering a variety of spaces and lease rates that allow for entry and growth into the city's highest concentration of purchasing dollars. The spaces will be Leadership in Energy and Environmental Design (LEED)-certified at the gold level and delivered in a finished condition to remove potential barriers of entry for small businesses.

The project stands to become a replicable model of how the City can improve its buildings to contribute to the surrounding neighborhood by better activating the pedestrian environment, improving the health and performance of the buildings, and creating quality and affordable space for businesses to grow.

PUBLIC PARTICIPATION AND FEEDBACK

The Downtown Retail Strategy was developed to enhance downtown's signature retail district with the input of committee members representing Central City land owners, business operators, and public entities. As mentioned, the Downtown Retail Strategy identifies the Parking Garage as a high priority for redevelopment. As part of this effort Prosper Portland staff shared the project scope and retail plans with the Downtown Retail Advocates at their quarterly meeting and received positive feedback on the approach. In addition, Prosper Portland staff engaged with its small business provider network to gather feedback on the layout of the ground floor, the quality of retail spaces and other needs of small retailers.

BUDGET AND FINANCIAL INFORMATION

Prosper Portland's property management expenses for the retail space are estimated at \$45,000 per year. However, these expenses will be offset, as Prosper Portland will receive 30 percent of the net operating income (estimated at \$150,000 per year) and collect an administrative fee of \$30,000 annually from PBOT to cover staffing costs associated with the master lease. Staff will request that the Prosper Portland Board approve a revision to the fiscal year 2017/18 Business Management Fund budget to reflect these expenses and income.

RISK ASSESSMENT

While the overall risks to this action are low, following are potential risks and associated mitigation measures:

1. Tenanting. Securing tenants that best further the 2015-2020 Strategic Plan may take more time than anticipated. However, Prosper Portland staff will partner with their network of service providers and retain a broker to assist with marketing the space.
2. Tenant Mix. Securing tenants that further the 2015-2020 Strategic Plan may generate some short-term costs in the form of business development and support services to build the tenant community and ensure small tenants' success in their transition to the downtown market. This cost is built into the pro forma.
3. Master Lease Termination. PBOT may terminate the lease should the overall rental rate for the spaces fall below \$18 per square foot triple-net after a two-year stabilization period. However, Prosper Portland has significant flexibility in selection of tenants, establishment of rates, and lease terms so as to best avoid this minimum standard and advance 2015-2020 Strategic Plan objectives.
4. Master Lease Operating at a Loss. There is a chance that the cost of servicing the master lease exceeds the net revenues. However, Prosper Portland may terminate the master lease at the end of two years if the vacancy rate is lower than 50 percent or if the agency's capacity changes such that it is no longer in a position to provide the same level of service.

ALTERNATIVE ACTIONS

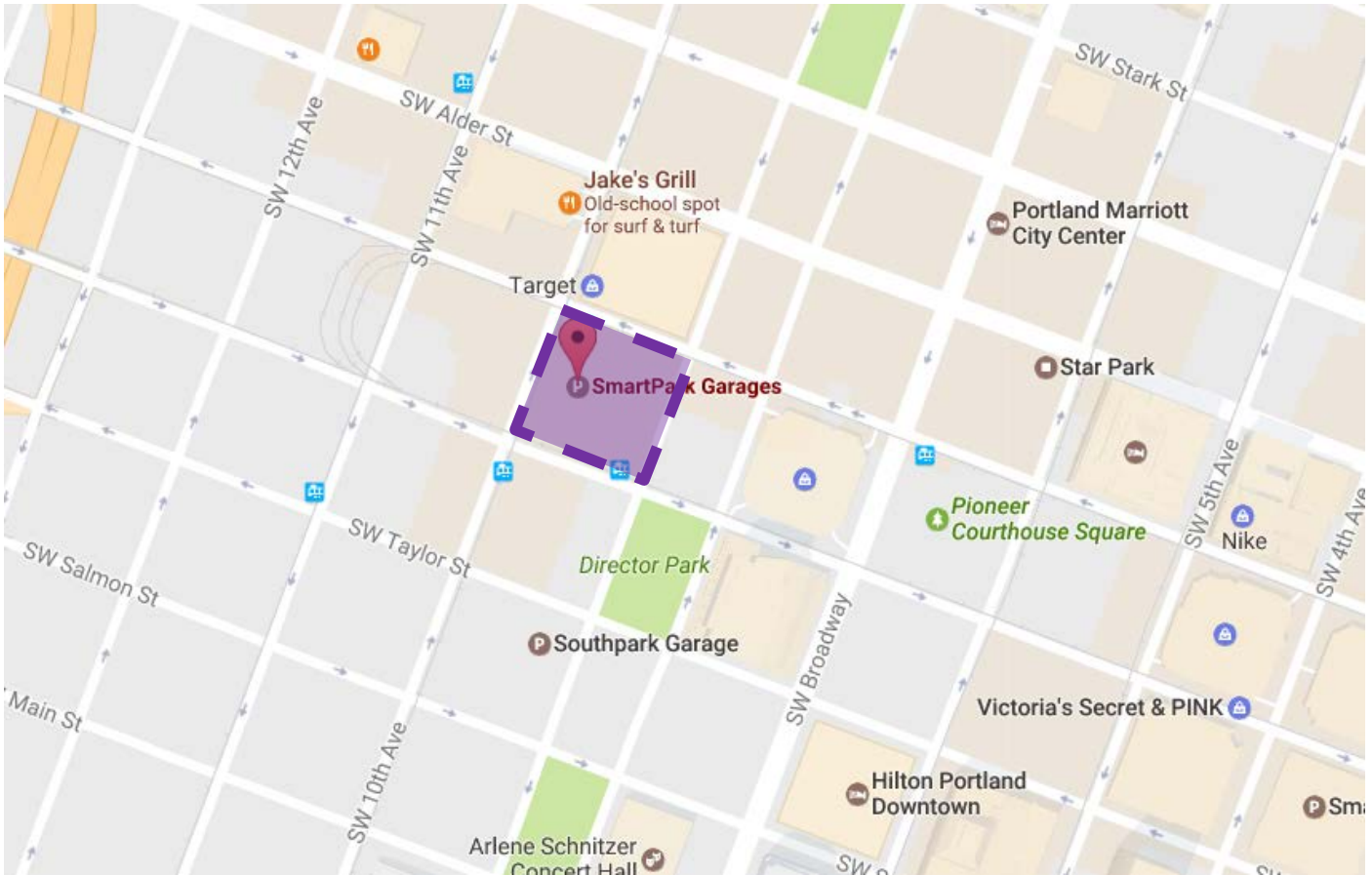
The Prosper Portland Board could take the following alternative actions:

1. Recommend alternative terms that would require a continued negotiation with PBOT.
2. Not approve the terms, thereby ceasing Prosper Portland's participation in the project.

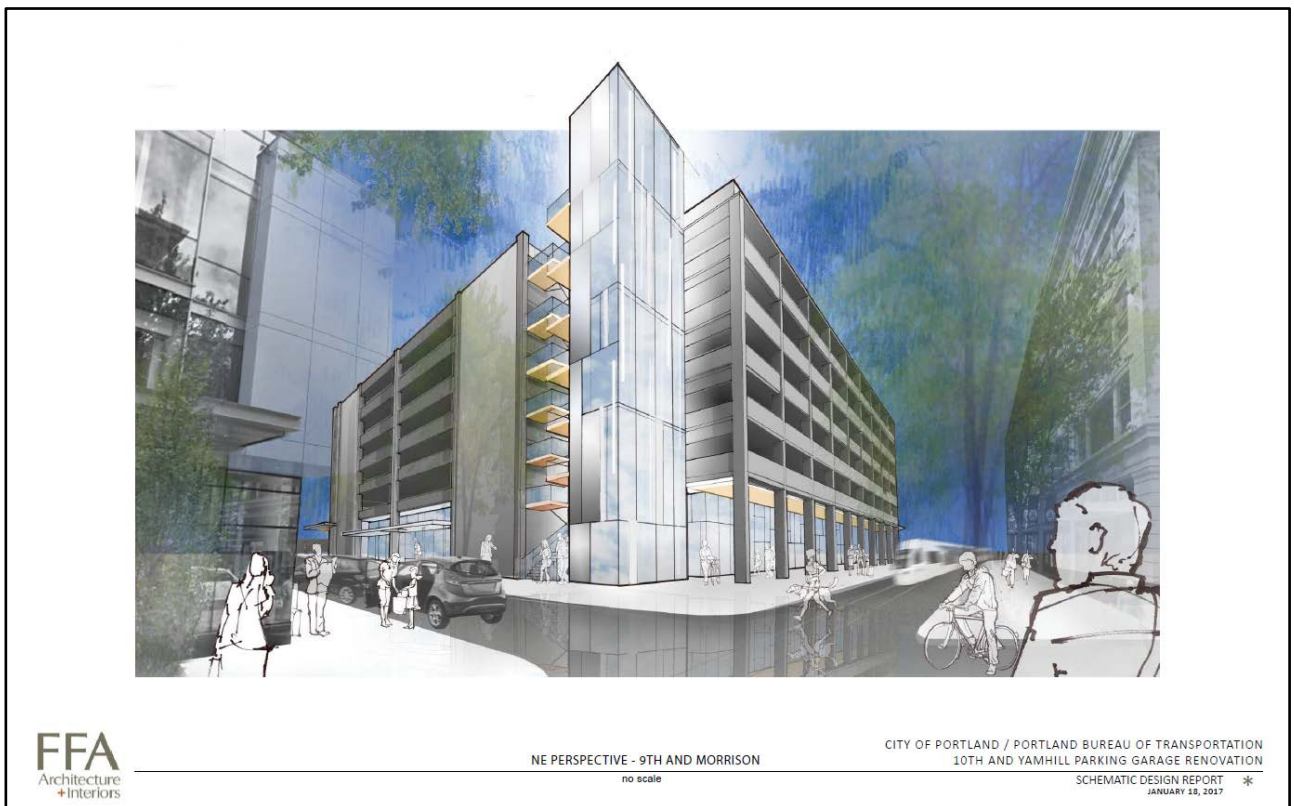
ATTACHMENTS

- A. Site Map
- B. Project Renderings
- C. Retail Space Interior Layout

Site Map







Project Renderings





Rentable Area Legend

-  Building Common Area
-  Floor Area
-  Office Area
-  Store Area