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 pubic 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:

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. DHHS Grant</td>
<td>$788,673</td>
<td>33%</td>
</tr>
<tr>
<td>Other Grants</td>
<td>$517,387</td>
<td>22%</td>
</tr>
<tr>
<td>PDC Community Livability Grant</td>
<td>$201,959</td>
<td>8%</td>
</tr>
<tr>
<td>CPRL</td>
<td>$900,000</td>
<td>37%</td>
</tr>
<tr>
<td>Total Sources</td>
<td>$2,408,019</td>
<td>100%</td>
</tr>
</tbody>
</table>

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 72nd and 73rd 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 subleases 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
## Five-Year Forecast Program Requirements Detail

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources</strong></td>
<td>11,200,983</td>
<td>6,872,534</td>
<td>1,904,038</td>
<td>784,985</td>
<td>1,110,962</td>
<td>1,401,087</td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>20,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Loan Collections</strong></td>
<td>139,000</td>
<td>101,526</td>
<td>101,526</td>
<td>100,789</td>
<td>100,515</td>
<td>100,515</td>
</tr>
<tr>
<td><strong>Property Income</strong></td>
<td>66,802</td>
<td>66,802</td>
<td>246,802</td>
<td>523,548</td>
<td>66,802</td>
<td>2,627,787</td>
</tr>
<tr>
<td><strong>Reimbursements</strong></td>
<td>400</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Short Term Debt</strong></td>
<td>7,845,688</td>
<td>7,873,727</td>
<td>8,234,064</td>
<td>8,994,999</td>
<td>9,628,190</td>
<td>10,282,813</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td>19,272,883</td>
<td>14,924,689</td>
<td>10,516,428</td>
<td>9,914,331</td>
<td>10,915,869</td>
<td>14,402,202</td>
</tr>
</tbody>
</table>

**Requirements**

- **Program Expenditures**
  - **Administration**
    - Financial Administration
      - A45101360 Debt Management-LTC: 10,000, 20,000, 20,000, 20,000, 20,000, 20,000
    - Total Administration: 10,000, 20,000, 20,000, 20,000, 20,000, 20,000
  - **Business Dev**
    - Business Lending
      - L02100360 BIF-General-LTC: 100,000, 700,000, 700,000, 700,000, 700,000, 700,000
      - L02193960 BIF-Nbhd Es Dev-Budget-LTC: 300,000, 0, 0, 0, 0, 0
    - Small Business & Community Dev
      - B58903000 Business Development-LTC: 10,000, 10,000, 10,000, 10,000, 10,000, 10,000
      - B59003000 Community Development-LTC: 50,000, 50,000, 50,000, 50,000, 50,000, 50,000
  - **Trade Sector Business Dev**
    - T01003900 Lean Manufacturing-LTC: 30,000, 30,000, 30,000, 30,000, 30,000, 30,000
    - B15102390 Site Recruitment-LTC: 10,000, 10,000, 10,000, 10,000, 10,000, 10,000
    - B15202390 Green Innovation Park-LTC: 155,000, 0, 0, 0, 0, 0
    - L02110360 BIF-Cluster Group-Budget-LTC: 300,000, 0, 0, 0, 0, 0
  - **Total Business Dev**
    - 955,000, 800,000, 800,000, 800,000, 800,000, 800,000

- **Infrastructure**
  - Parks
    - N36012515 Parks Public Imp-LTC-Adm: 100,000, 1,000,000, 0, 0, 0, 0
  - Transportation
    - N36015625 Foster-Woodstock-LTC-Adm: 400,000, 0, 0, 0, 0, 0
    - N36015635 122nd-Holgate/Ramona-LTC-Adm: 400,000, 600,000, 0, 0, 0, 0
    - N36015645 Foster-S2nd to 82nd-LTC-Adm: 1,000,000, 820,000, 0, 0, 0, 0
    - N36020215 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
  - **Total Infrastructure**
    - 2,210,000, 2,445,000, 0, 0, 0, 0

- **Portland Hsg Bureau**
  - PHB Housing
    - H15202390 Property Management-LTC: 5,400, 0, 0, 0, 0, 0
    - H15410380 Home Repair Projects-LTC: 670,786, 500,000, 500,000, 500,000, 500,000, 750,000
    - H15420300 Home Buyer Assistance-LTC: 543,124, 500,000, 500,000, 500,000, 500,000, 750,000
    - H15430390 Affordable Rental Hsg-LTC: 305,200, 400,000, 400,000, 400,000, 400,000, 500,000
    - H15501390 NSP3 Acq/Rehab-LTC: 55,600, 0, 0, 0, 0, 0
    - H15502390 PHB Staff & Admin-LTC: 829,091, 400,000, 400,000, 400,000, 400,000, 500,000
  - **Total Portland Hsg Bureau**
    - 2,466,200, 1,800,000, 1,800,000, 1,800,000, 1,800,000, 2,500,000

- **Property Redevelopment**
  - Commercial Property Redevelopment
    - P36051215 Ins Ck Ind Area Revit-LTC-Adm: 50,000, 0, 0, 0, 0, 0

---

Tuesday, February 04, 2014 8:23:09 AM