

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** August 24, 2011  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 11-63  
Amendment to Existing Lease of PDC-Leased Property at 208 NW Fifth Avenue

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6901

#### ACTION SUMMARY

This action will approve a second amendment to an existing lease of Portland Development Commission (PDC) leased property at 208 NW Fifth Avenue to:

1. Extend the lease term to June 30, 2020, to align with the term of PDC's lease at 222 NW Fifth Avenue, Portland, OR;
2. Extend the Option to Terminate written notice period from 90 to 180 days;
3. Change the lease amount from \$990/month to \$1250/month (representing a new annual rate of \$1.50/ square foot) with a three percent increase per annum.

PDC entered into a Commercial Lease Agreement with Kalberer Company for approximately 10,000 square feet of space located at 208 NW Fifth Avenue. The space is used for the storage of records, office furniture and office equipment. The leased premises are located on the second floor of the two-story building that is adjacent to the PDC administrative offices located at 222 NW Fifth Avenue. Access to the leased premises is from the second floor of the PDC administrative offices.

The original Lease Agreement commenced on June 1, 2005, and had an expiration date of May 30, 2010. The first Lease Amendment, signed April 14, 2010, extended the lease term through August 31, 2011, to coincide with the expiration date of the Lease Agreement for PDC's administrative offices. In the interim, PDC and the Kalberers renegotiated the administrative office lease which now has an expiration date of June 30, 2020.

PDC Resolution No. 5418 requires that leases for PDC office space shall be approved by the Board of Commissioners.

## **PUBLIC BENEFIT**

PDC will be able to continue to store PDC files, office furniture and miscellaneous office equipment in the existing convenient location for a period of time consistent with its administrative office lease term. This facilitates ease of access.

### **This action will support the following PDC goals:**

- Strong Economic Growth and Competitiveness
- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Effective Stewardship over our Resources and Operations, and Employee Investment

## **PUBLIC PARTICIPATION AND FEEDBACK**

Public input has not been solicited on the warehouse lease.

## **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

PDC Resolution No. 5418 requires that leases for PDC office space shall be approved by the Board of Commissioners.

## **FINANCIAL IMPACT**

Kalberer Company originally proposed a lease rate of \$5.00 to \$6.00 per square foot that would be in line with current market conditions for storage space. PDC requested Kalberer Company reconsider the proposed lease rate based on access limitations including elevator service is through adjacent building and that unless the entire building is leased to a single tenant that this space is only usable to PDC or a new second floor tenant in the Mason Ehrman Building

Kalberer Company considered PDC's comments and proposed a lease rate of \$1.50 per square foot with three-percent (3.00%) annual adjustments. PDC Real Estate Services staff concur that the \$1.50 per square foot lease rate with three-percent (3.00%) annual adjustments is a current market rate given the space access limitations.

The financial impact to PDC as a result of extending the lease agreement from August 31, 2011, through June 30, 2020, is a total additional lease payment obligation of \$45,465 (or approx. \$5,050/year) over the lease term. This calculation assumes the increase is above the current rate of \$990/month.<sup>1</sup> The financial details are provided below and a financial summary is provided in Attachment A.

We are able to address the financial impact of an increased lease amount of \$3,120 for 2011-2012 through cost savings found in other areas of the facilities budget. For example, PDC has realized over \$4,000 in savings in the first two months of this fiscal year alone through prioritizing the use of PDC's fleet for PDC staff transportation and reducing Zip Car usage.

---

<sup>1</sup> Some amount of rent increase would have been reasonable to expect given that PDC is at the end of its lease term and the entire lease is open for renegotiation.

**1. INITIAL LEASE TERM**

TERM	MONTHLY RENT	ANNUAL RATE PSF	\$ / % INCREASE
06/01/2005 to 06/30/2005	No Charge	N/A	N/A
07/01/2005 to 06/30/2006	\$750.00	0.90	N/A
07/01/2006 to 06/30/2007	\$790.00	0.94	\$40.00 / 5.33%
07/01/2007 to 06/30/2008	\$830.00	0.99	\$40.00 / 5.06%
07/01/2008 to 06/30/ 2009	\$875.00	1.05	\$45.00 / 5.42%
07/01 2009 to 06/30/ 2010	\$920.00	1.10	\$45.00 / 5.14%
06/01/2010 to 08/31/2011	\$990.00	1.18	\$70.00 / 7.60%

**2. RENEWAL LEASE TERM**

TERM	MONTHLY RENT	ANNUAL RATE PSF	\$ / % INCREASE
09/01/2011 to 08/31/2012	\$1,250.00	1.50	\$260.00 / 26.26%
09/01/2012 to 08/31/2013	\$1,287.50	1.54	\$37.50 / 3.00%
09/01/2013 to 08/31/2014	\$1,326.12	1.59	\$38.62 / 3.00%
09/01/2014 to 08/31/2015	\$1,365.90	1.63	\$39.78 / 3.00%
09/01/2015 to 08/31/ 2016	\$1,406.87	1.68	\$40.97 / 3.00%
09/01/ 2016 to 08/31/ 2017	\$1,449.07	1.73	\$42.20 / 3.00%
09/01/2017 to 08/31/2018	\$1,492.54	1.79	\$43.47 / 3.00%
09/01/2018 to 08/31/2019	\$1,537.31	1.84	\$44.77 / 3.00%
09/01/2019 to 06/30/2020	\$1,583.42	1.90	\$46.11 / 3.00%

**RISK ASSESSMENT**

**Financial**

PDC's greatest risk is the financial risk associated with not approving this amendment and thus needing to pay for storage external to the agency. The current market rate for storage is \$5.00 to \$6.00 per square foot. This is significantly more than even the \$1.90 per square foot rate PDC would be paying in the final year of this lease as amended.

### **Legal/Operational**

The possibility of needing to relocate PDC's records is still a risk, should the Kalberer Company find a development or rental opportunity for the 208 building that is more advantageous to them than PDC's use of the space. The existing lease has an advance written notice to terminate of only 90 days. It was unrealistic to expect that PDC could find a location to relocate its records and complete a move within that timeframe. Revising the written notice timeframe to 180 days would at least give a reasonable, though probably still tight, timeframe to PDC to relocate its records should PDC receive such a notice. This written notice for the Option to Terminate applies to both parties. Therefore, should PDC find an alternative approach for handling its records, we would be able to proceed after providing a 180 day advance written notice to Kalberer Company.

### **WORK LOAD IMPACT**

Managing this agreement is already an element in existing staff work plans. No new staff will be necessary.

### **ALTERNATIVE ACTIONS**

Staff could be directed to either renegotiate the lease extension or lease rate for different terms, or secure a different location for storage of PDC property and records after August 31, 2011.

If this action is not approved as submitted the lease term defaults to a month to month lease.

### **CONCURRENCE**

Not applicable.

## **BACKGROUND**

The purpose of the original lease agreement was to allow for the storage of PDC's records, office furniture and miscellaneous office equipment in a location that is adjacent to and readily accessible from PDC's administrative offices.

PDC (as "Lessee") entered into a lease agreement (the "Lease") with Kalberer Company (as "Lessor") on May 23, 2005, to lease approximately 10,000 square feet located on the second floor at 208 NW Fifth Avenue, Portland, Oregon 97209. The initial term of the Lease was from June 01, 2005, through May 30, 2010, and the Lessor has the option to renew the Lease for a term of one (1) year and two (2) months commencing on June 01, 2010, and ending at midnight on the 31<sup>st</sup> day of July 2011, and at a lease rate of \$990.00 per month.

The monthly rent schedule for the initial term of the Lease was as follows:

June 01, 2005 through June 30, 2005	No Charge
July 01, 2005 through June 30, 2006	\$750.00 per month
July 01, 2006 through June 30, 2007	\$790.00 per month
July 01, 2007 through June 30, 2008	\$830.00 per month
July 01, 2008 through June 30, 2009	\$875.00 per month
July 01, 2009 through June 30, 2010	\$920.00 per month

The agreed use of the Premises is for the storage of records, miscellaneous office furniture and miscellaneous office equipment.

In early 2010, PDC requested and received approval from the Lessor to exercise the option to renew the original lease and extend the term for an additional three (3) months through August 31, 2011, at the monthly lease rate of \$990.00, as provided for under the original lease.

**ATTACHMENTS:**

- A. Financial Summary
- B. Project Summary

**FINANCIAL SUMMARY**

Expenditures by Fund, by Department, Division and Center

	FY 2010-11	FY 2011-12
<u>General Fund</u>		
<b>Resources</b>		
Beginning Fund Balance	4,758,798	2,252,129
City General Fund	3,875,126	5,288,326
Fees and Charges	0	0
Interest on Investments	20,000	5,000
Loan Collections	120,000	75,000
Miscellaneous	210,000	0
Property Income	0	411,904
Reimbursements	576,927	160,258
Service Reimbursements	20,401,729	14,318,426
Transfers In	2,299,815	0
<b>Total Fund Resources</b>	<b>32,262,395</b>	<b>22,511,043</b>
<b>Requirements</b>		
<b>Department Expenditures</b>		
<b>Executive</b>		
<b>Business &amp; Social Equity</b>		
<b>Business &amp; Social Equity Total</b>	<b>1,177,881</b>	<b>1,078,531</b>
<b>Government Relations &amp; Public Affairs</b>		
<b>Government Relations &amp; Public Affairs</b>	<b>1,576,871</b>	<b>607,223</b>
<b>Total</b>		
<b>Legal</b>		
Legal Administration	1,638,743	606,511
<b>Legal Total</b>	<b>1,638,743</b>	<b>606,511</b>
<b>Office of Executive Director</b>		
Executive Admin	517,731	362,996
<b>Office of Executive Director Total</b>	<b>517,731</b>	<b>362,996</b>
<b>Executive Total</b>	<b>4,911,226</b>	<b>2,655,261</b>
<b>Finance &amp; Business Operations</b>		
<b>Business Operations</b>		
Business Operations Admin	981,411	855,281
Construction & Environmental Services	527,406	146,850
<b>Facilities Management</b>	<b>1,762,732</b>	<b>1,807,166</b>
Project Management Office	2,631,298	860,970
<b>Business Operations Total</b>	<b>5,902,847</b>	<b>3,670,267</b>
<b>Finance &amp; Asset Management</b>		
Accounting & Payroll	1,273,011	1,504,397
Asset Management	765,556	1,379,972
Finance & Asset Mgmt Admin	0	158,419
Financial Planning	599,137	360,708
Professional Services	719,126	326,903
<b>Finance &amp; Asset Management Total</b>	<b>3,356,830</b>	<b>3,730,399</b>
<b>Human Resources</b>		
HR Administration	1,392,663	1,157,094
<b>Human Resources Total</b>	<b>1,392,663</b>	<b>1,157,094</b>
<b>Information Technology</b>		
Business Systems Development	683,299	607,101
Business Systems Support	833,182	809,861
IT Infrastructure	2,125,851	2,110,353
<b>Information Technology Total</b>	<b>3,642,332</b>	<b>3,527,315</b>

Expenditures by Fund, by Department, Division and Center

	FY 2010-11	FY 2011-12
<b>Office of the CFO</b>		
FBO Administration	333,653	293,738
<b>Office of the CFO Total</b>	<b>333,653</b>	<b>293,738</b>
<b>Finance &amp; Business Operations Total</b>	<b>14,628,325</b>	<b>12,378,813</b>
<b>Non Departmental</b>		
<b>Debt</b>		
Debt Administration	0	0
<b>Debt Total</b>	<b>0</b>	<b>0</b>
<b>Housing</b>		
Historical Housing	0	0
Housing	0	0
<b>Housing Total</b>	<b>0</b>	<b>0</b>
<b>Other Non Dept Revenue/Expense</b>		
Other Non Departmental	482,000	0
<b>Other Non Dept Revenue/Expense Total</b>	<b>482,000</b>	<b>0</b>
<b>Non Departmental Total</b>	<b>482,000</b>	<b>0</b>
<b>Urban Development</b>		
<b>Business &amp; Industry</b>		
B&I General	676,711	1,111,176
<b>Business &amp; Industry Total</b>	<b>676,711</b>	<b>1,111,176</b>
<b>Central City</b>		
Central City Team General	89,210	304,489
<b>Central City Total</b>	<b>89,210</b>	<b>304,489</b>
<b>Neighborhood</b>		
Neighborhood Team General	169,151	562,524
<b>Neighborhood Total</b>	<b>169,151</b>	<b>562,524</b>
<b>Program Investment</b>		
Program Investments	5,854,241	4,340,839
<b>Program Investment Total</b>	<b>5,854,241</b>	<b>4,340,839</b>
<b>Strategy &amp; Operations</b>		
Strategy & Operations Admin	500,000	355,671
<b>Strategy &amp; Operations Total</b>	<b>500,000</b>	<b>355,671</b>
<b>UDD Conversion/Historical</b>		
Historical Dev	0	0
Historical Ec Dev	0	0
UDD Historical Other	0	0
<b>UDD Conversion/Historical Total</b>	<b>0</b>	<b>0</b>
<b>Urban Development Total</b>	<b>7,289,313</b>	<b>6,674,699</b>
<b>Department Expenditures Total</b>	<b>27,310,864</b>	<b>21,708,773</b>
Transfers - Indirect	509,601	441,092
<b>Total Fund Expenditures</b>	<b>27,820,465</b>	<b>22,149,865</b>
Contingency	2,192,115	361,178
Transfers Out	2,249,815	0
Ending Fund Balance	0	0
<b>Total Requirements</b>	<b>32,262,395</b>	<b>22,511,043</b>

## PROJECT SUMMARY

**Project Name:** 208 NW Fifth Avenue Second Lease Extension

**Description:** Commission approval of lease amendment

**Location:** 208 NW Fifth Avenue, Portland, OR 97209

**URA:** DTWF

**Current Phase:** Not applicable

**Next Milestone:** Not applicable

**Completion Target:** August 31, 2011

**Outcome:** Extension of lease agreement term through June 30, 2020; extension of notice to terminate to 180 days; and rent increase to an annual rate of \$1.50/square foot with 3% increases per annum.

**Site/Project Map:** Not applicable