



DATE: April 8, 2020
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 20-16
Authorizing Funding for Improvements to the Prosper Portland-Owned Retail Space within the Halsey 106 Project in the Gateway Regional Center Tax Increment Finance District

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7366

This action by the Prosper Portland Board of Commissioners (Board) would authorize \$3,500,000 in funding for the Halsey 106 development in the Gateway Regional Center Tax Increment Finance (TIF) District, a catalytic mixed-use, mixed income project adjacent to Gateway Discovery Park at NE 106th Avenue and Halsey Street. The funding will ensure the completion of necessary design, construction, and leasing activities associated with the Prosper Portland-owned ground floor retail space and allow for the retail space to be enrolled in the agency's Affordable Commercial Tenanting Program. See a site map and retail floor plans in Attachment A.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

This action delivers on multiple Strategic Plan objectives, most notably by creating vibrant communities and corridors; providing wealth creation opportunities for business owners; and delivering affordability and neighborhood solutions in a rapidly changing mixed-use community.

BACKGROUND AND CONTEXT

In 2008, Prosper Portland and the City of Portland (City) Bureau of Parks and Recreation (PP&R) jointly acquired a 4.2-acre site at the southwest corner of NE Halsey Street and NE 106th Avenue with the shared goal of developing a three-acre neighborhood park and one acre of complementary mixed-use development (see the Halsey 106 Property Plan in Attachment B). Prosper Portland and PP&R staff worked with community members to develop a master plan which has since resulted in funding, construction, and the grand opening of Gateway Discovery Park in August 2018.

In July 2019, through Resolution No. 7321, the Prosper Portland Board of Commissioners (Board) authorized the executive director to negotiate and execute various real estate and funding agreements totaling \$9,354,888 to construct Halsey 106, a mixed use, mixed-income catalytic project on the 1.04 acres of Prosper Portland-owned real property adjacent to Gateway Discovery Park. Halsey 106 is being developed by Human Solutions, Inc. (Human Solutions) and includes 52 units of affordable housing, 23 units of market rate housing, new headquarters offices for Human Solutions, and ground floor commercial space which will be owned by Prosper Portland.

Funding for Halsey 106 includes multiple sources, including Prosper Portland Tax Increment Financing (TIF) funds, Portland Housing Bureau TIF funds, New Markets Tax Credit equity, Low Income Housing Tax Credit equity, Human Solutions equity, a bank loan, and other resources. Using all of these funding sources to finance the mixed-use, mixed-income development project required creating a condominium structure within which the affordable housing, market-rate housing, office, and retail are each separate units with different ownership entities. As a part of this ownership structure, Prosper Portland will own the ground floor commercial retail units. In addition, Prosper Portland owns the land, which is ground leased to the development.

For construction of the ground floor commercial units, Prosper Portland entered into a Construction Funding Agreement for up to \$3,500,000 with Gateway QALICB, Inc. (a subsidiary of Human Solutions) as the developer; this action by the Prosper Portland Board will authorize an additional \$3,500,000 to complete improvements to the ground floor commercial space. Construction is expected to be complete in March 2021. When complete, Prosper Portland will own approximately 11,000 square feet of commercial space almost equally divided into nine spaces in two retail bays, one fronting Halsey Street, the other primarily fronting the plaza of Gateway Discovery Park. Two spaces will allow for hood venting that is required for a restaurant use.

Prosper Portland staff have begun working with local stakeholders to establish goals and values for the ground floor retail prior to formal leasing activities. In addition, staff are working with a retail consultant to provide advice on the commercial spaces, successful retail districts, and the leasing process. Feedback from the community members and the consultant will help to inform the decision-making criteria that will be used by Prosper Portland staff when reviewing interested and eligible tenants.

As noted, all of the ground floor retail space will be enrolled in Prosper Portland's Affordable Commercial Tenancing Program, which provides affordable commercial spaces through a grant to priority businesses (those led by owners who are diverse in terms of race, gender, and other demographics typically underrepresented in the business community, and who provide needed business services to the local community) to assist in tenant improvements, access to technical assistance, and below market rate commercial rents.

EQUITY IMPACT

The ground floor retail space will be enrolled in Prosper Portland's Affordable Commercial Tenant Program and as such will prioritize leasing activities that will reduce barriers to entry for underrepresented businesses; preserve the vitality of small businesses; provide business development opportunities that in turn offer needed goods and services to the community; and advance the agency's goal to build an equitable economy.

Furthermore, construction of Halsey 106 has and will meet the City of Portland's Business Equity and Workforce Equity Programs, as well as Prosper Portland's Green Building Policy. In addition, Commercial Prevailing Wages and U.S. Housing and Urban Development Section 3 requirements apply.

COMMUNITY PARTICIPATION AND FEEDBACK

There has been and will continue to be public participation related to tenancing the ground floor commercial space. In February 2020, Prosper Portland staff convened a Retail Advisory Committee inviting several local businesses and resident stakeholders to an initial series of three meetings to assist with the tenancing process, providing guidance on the business and tenant mix as well as tenant referrals to position the retail spaces for success. Retail Advisory Committee feedback to date has encouraged Prosper Portland seek:

- Active destination businesses that contribute to the health and success of the business district and the adjacent park, prioritizing anchor restaurants, retail, and personal services.
- Tenants with some business experience who represent the diverse community of Gateway/East Portland, especially businesses owned by people of color, women, or long-term residents.

Recommendations from the Retail Advisory Committee will continue to guide staff decisions and leasing activities.

BUDGET AND FINANCIAL INFORMATION

There are sufficient funds in the fiscal year 2019-20 Adopted Budget for the Gateway Regional Center Tax Increment Finance District (see Attachment C).

As part of the initial construction of Halsey 106, the Prosper Portland Board authorized \$3,500,000 in the ground floor retail to buildout to “cold dark shell” standard. As noted at the time of authorization, this initial investment did not include funding for any budget for additional tenant improvement allowances or leasing activities. Staff have since estimated an additional investment of \$300 per square foot into tenant improvements (hard and soft costs) and \$200,000 in brokerage fees based on a Prosper Portland’s experience with Lents Commons. This translates into potential additional estimated investment of \$3,500,000 into the retail space (see budget table below), or roughly \$7,000,000 total between the core/shell and full build-out.

Hard Costs	
Landlord Work	\$ 2,000,000
ACT Grant/Tenant Improvements	\$ 440,000
Contingency	\$244,000
Total Hard Costs	\$ 2,684,000
Soft Costs	
Architecture	\$ 131,000
Permitting	\$ 365,000
Broker Fees	\$ 200,000
Consulting Services	\$ 50,000
Contingency	\$ 70,000
Total Soft Costs	\$ 770,000
TOTAL PROJECT COSTS	\$ 3,500,000

Prosper Portland’s return on investment for the retail spaces will come from leasing and operation of the approximately 11,000 square foot space. Actual returns will ultimately depend on lease rates, which are currently modeled at \$18 per square foot, triple net. At that rent level, initial stabilized net

operating income (NOI) is estimated at \$167,200. The NOI provides a modest cash flow which performs at 2.4 percent return on the total \$7,000,000 equity investment. This ROI is just shy of the 2.5 percent return target identified for this property in the Financial Sustainability Plan.

RISK ASSESSMENT

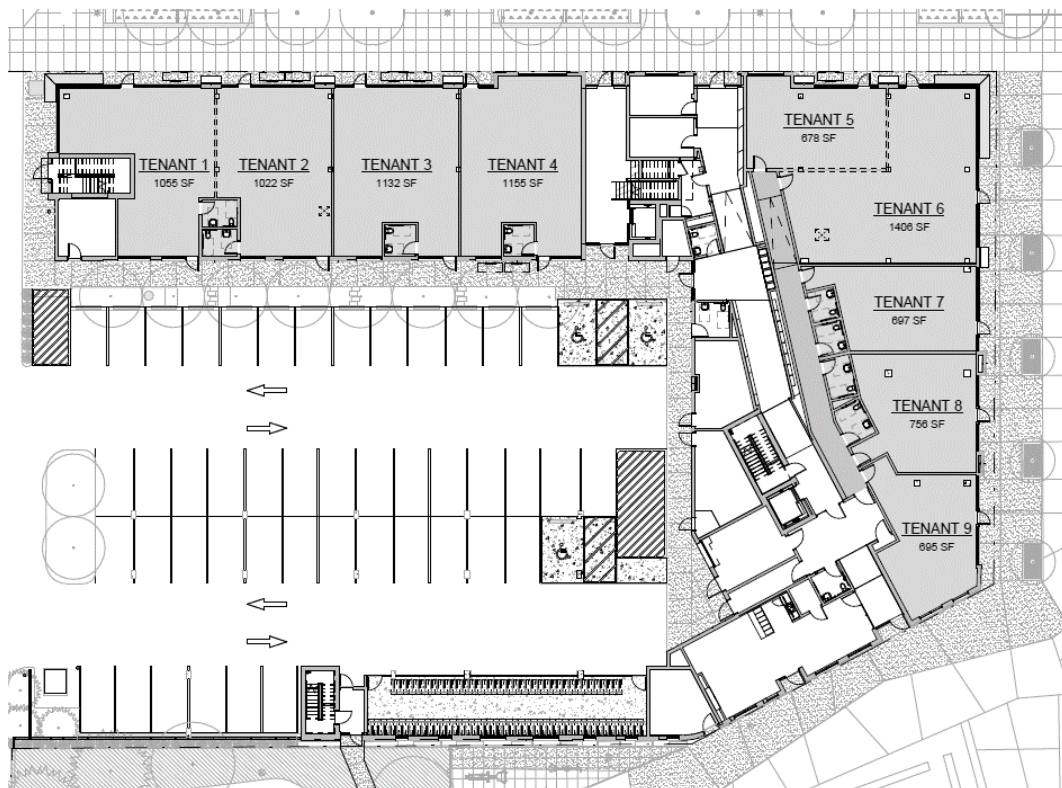
There are several risks related to this action. To date, no tenants have been identified for the commercial units, and the tenancing process will be influenced both by market conditions as well as by Prosper Portland's goals and priorities for a tenant mix consistent with the Affordable Commercial Tenancing Program.

There is also a risk that construction costs increase. As such, staff has incorporated a five percent construction cost increase in the project budget.

ATTACHMENTS

- A. Site Map and Floor Plan
- B. Halsey 106 Property Plan
- C. Gateway Tax Increment Finance District Financial Summary

Site Map and Floor Plan



Halsey 106 - Property Plan

Thursday, September 12, 2019 5:00 PM

Property Strategic Considerations	
Goals & Objectives	
Acquisition Date & Purpose	December 24, 2008 from the Estate of Brad, Karen & Scott Fischel and Peggy Spott <ul style="list-style-type: none"> Acquired in conjunction with Portland Parks to develop a neighborhood park (Resolution 6641-December 12, 2008)
Property Plan Objective	Development Site / Active
2015-2020 Strategic Plan Goal(s)	<p>Objective 1: Create Healthy, Complete Neighborhoods Throughout Portland (Outcome 1.1: Vibrant Communities & Corridors)</p> <p>Objective 3: Foster Wealth Creation within Communities of Color and Low-Income Neighborhoods (Outcome 3.2: Business Growth)</p> <p>Outcome 4: Form 21st Century Civic Networks, Institutions and Partnerships (Outcome 4.2: Affordability & Neighborhood Solutions)</p>
Financial Sustainability Plan Objective	Program Related Investment - 2.5%
Equity Objectives(s)	<p>Interim: Increase equitable contracting of certified firms</p> <p>Development: Contributes to the Halsey/Weidler business district and brings 11,000 square feet of new commercial space to the area as part of the affordable commercial tenants pilot program; Promote opportunity objectives for the Business Equity Program and the Workforce Equity Program by promoting contracting and employment opportunities to MWESB business and communities of color. Ensure lease rates of commercial space are affordable and accessible to businesses within the district, with particular focus on businesses owned by communities of color and/or immigrant and refugee community. (Social Equity Policy 4.1 and 4.2)</p>
Property Information	
Property Characteristics	
Property Code ¹	380-A00344
Property Name(s)	JJ North
Project Name(s)	Halsey 106; 106th & Halsey
Property Description	Vacant fenced lot
Address	NE Halsey Street
RNumber(s)	R680891
Tax Lot Description(s)	SECTION 34 1N 2E, TL 701 0.84 ACRES
Lot Size	.75 acres (32,567 sq ft)

Building SF	0 sq ft
Neighborhood	
URA	Gateway
Neighborhood	Hazelwood
NMTC Census Tract	Census Tract 81
Opportunity Zone	Yes, Severe Distress
Zoning	CX-Central Commercial; d-Design
Base FAR & Height	3:1 / 100'
Financial Baseline	
Book Value (2017)	\$2,068,000
Real Market Value (2017)	\$1,302,680
Appraised Value	January 31, 2019; \$1,590,000; Romanaggi Valuation
Financial Sustainability Plan Cash Flow	(\$16,646) FY 19/20 (\$175,196) Ten-year outlook including FY 19/20
Due Diligence	
Alta/As-Built	N/A
Title Report	N/A
Title Easements	N/A
Site Constraints	None
Environmental Documents/Notes	ESA Phase I: July 2008; ESA Phase II: September 2008; No known RECs (GASB 49 17/18)
Additional Information	
Historical Background	
Interim Activity Strategy	Manage & maintain the property in a way that minimizes risks and holding costs, while maintaining it in a clean and respectable manner. Work in coordination and consultation with project management staff responsible for implementation of related development plans. Interim uses would include short-term/one-time permits only, like community events, film uses, construction staging, and event parking.
Development Goals & Objectives	
Re-Development/Re-Use	
Active/Inactive	Active
Phase of Development (acquisition, community process, predev, disposition, construction)	Disposition, Community Process
Development Concept(s)	High-quality, mixed-use building with ground floor active commercial uses and mixed-income housing, a project that supports the park, activates NE Halsey and sets the stage for future growth and private investment along Halsey and Weidler.
Action Plan / Framework(s)	Gateway Action Plan
URA / Community Goal(s)	Enhance Portland's vitality as a community at the center of the region's housing market by providing housing of different types, tenures, density, sizes, costs, and locations that accommodate

	the need, preferences, and financial capabilities of current and future households.
Major Consultant Contracts	N/A
Major Milestone(s) & Deadline(s)	Ground and Air Rights lease to be executed at closing by August 31, 2019; Ground floor commercial spaces to be owned by Prosper Portland; Construction to start September 1, 2019 with completion by February 1, 2021
Project Budget	See Fund 380 Budget
Project Manager	Thea Munchel
Project Team Member(s) & Responsibility	John Wasserman (Legal), Laura Alsenas (Lending), Ember Breckenridge (Property Management)
Project Sponsor	Amy Edwards
Developer	Human Solutions / Gerding Edlen
Major External Stakeholder(s)	Halsey/Weidler Business Association, Hazelwood NA, Parkrose NA, EPAP
Major Bureau Partner(s)	Portland Housing Bureau, Parks
Agency Approvals & Recommendations	
FIC Approval(s)	December 13, 2018 - Disposition
Board/Council Approval(s) & Recommendation(s)	January 16, 2019 - Funding and Disposition
Agreements	
LOI/MOU/DDA/PSA	LOI
Additional Notes	
Project File Document Location	S:\Projects\Neighborhood-URAs\Gateway\Projects\Halsey & 106

Gateway Tax Increment Finance District Financial Summary

Financial Summary Five-Year Forecast

Gateway Reg Center TIF Fund	Revised 2 FY 2019-20	Requested FY 2020-21	Forecast FY 2021-22	Forecast FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25
Resources						
Beginning Fund Balance	19,228,063	2,553,435	752,347	12,849,006	6,863,769	3,422,981
Revenue						
Fees and Charges	48	48	48	0	0	0
Interest on Investments	244,089	32,581	121,846	174,343	92,614	35,466
Loan Collections	187,267	9,810	48,140	75,213	75,214	75,214
TIF - Short Term Debt	5,938,492	5,240,975	5,165,196	0	0	0
TIF - Long Term Debt	0	4,500,000	11,361,655	0	0	0
Rent and Property Income	63,600	56,589	235,863	240,809	245,861	251,021
Reimbursements	0	0	61,345	62,582	63,851	65,153
Total Revenue	6,433,496	9,840,003	16,994,093	552,947	477,540	426,854
Total Resources	25,661,559	12,393,438	17,746,440	13,401,953	7,341,309	3,849,835
Requirements						
Administration						
A00031-Debt Management-GTW	9,803	5,589	5,589	5,589	10,000	10,000
Administration Total	9,803	5,589	5,589	5,589	10,000	10,000
Economic Development						
Traded Sector						
A00115-Business Development-GTW	20,000	20,000	20,000	0	0	0
A00382-Lean Manufacturing-GTW	10,000	0	0	0	0	0
Community Economic Development						
A00123-Community Development-GTW	20,000	20,000	20,000	0	0	0
Business Lending						
A00210-BL-General-GTW	300,200	200,200	200,200	200,000	200,000	0
Economic Development Total	350,200	240,200	240,200	200,000	200,000	0
Housing						
A00172-Affordable Housing-GTW	3,709,702	2,808,783	1,407,179	3,673,969	35,753	0
Housing Total	3,709,702	2,808,783	1,407,179	3,673,969	35,753	0
Infrastructure						
Transportation						
A00590-Trans. Improvements-GTW	0	2,100,000	0	0	0	0
Infrastructure Total	0	2,100,000	0	0	0	0
Property Redevelopment						
Commercial Property Lending						
A00367-CPRL-General-GTW	4,701,500	1,501,500	1,501,500	0	0	0
A00526-Halsey 106 CPRL-GTW	6,100,000	0	0	0	0	0
Real Estate Management						
A00344-JJ North Rstrmt Lot-GTW	4,500	0	0	0	0	0
A00588-Halsey 106 Corn Condo-GTW	8,582	0	106,446	109,687	113,061	116,574
Real Estate Acquisition						
A00588-Halsey 106 Corn Condo-GTW	5,050,000	3,400,000	0	0	0	0
Real Estate Disposition						
Redevelopment Strategy						
A00346-Project Development-GTW	100,000	100,000	100,000	1,000,000	2,000,000	2,000,000
Redevelopment Grants						
A00132-CLG-General-GTW	515,000	230,000	220,000	220,000	220,000	220,000
A00503-Prosperity Investment Program (PIP) Grant-GTW	420,000	420,000	400,000	400,000	400,000	400,000
Property Redevelopment Total	16,899,582	5,651,500	2,327,946	1,729,687	2,733,061	2,736,574
Total Program Expenditures	20,969,287	10,806,072	3,980,914	5,609,245	2,978,814	2,746,574
Personnel Services	491,313	203,205	210,687	213,750	216,286	224,836
Total Fund Expenditures	21,460,600	11,009,277	4,191,601	5,822,995	3,195,100	2,971,410
Interfund Transfers - Indirect Charges	327,255	631,814	705,833	715,189	723,228	744,652
Contingency	3,873,704	752,347	12,849,006	6,863,769	3,422,981	133,773
Total Fund Requirements	25,661,559	12,393,438	17,746,440	13,401,953	7,341,309	3,849,835