



PROSPER
PORTLAND
Building an Equitable Economy

DATE: March 12, 2025
TO: Board of Commissioners
FROM: Shea Flaherty Betin, Interim Executive Director
SUBJECT: Report Number 25-07

Approving Terms for Lease Agreements at the Fairfield Building; Adopting the Fairfield Commercial Property Plan; and Authorizing Additional Funding for Build-Out of Commercial Space and Other Tenant Assistance

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7597

This action by the Prosper Portland Board of Commissioners (Board) will approve Leasing Guidelines, a Property Plan, and increased funding for the 2,467 square foot Prosper Portland owned retail condominium space (Retail Space) located at 1103 – 1121 SW Harvey Milk Street within the Fairfield Building (see a Site Map and Photo in Attachment A). If approved, Prosper Portland will begin leasing the Retail Space with the goal of activating a key corner in the West End of Portland.

STRATEGIC ALIGNMENT AND OUTCOMES

This action delivers on the following Advance Portland goals by providing lease opportunities for a diverse range of tenants, varying in business size, experience, ownership background, and financial capacity:

- Objective 2: Promoting equitable wealth creation
- Objective 3: Fostering a vibrant Central City

The action also delivers on the City of Portland's Central City 2035 vision for the West End district as a connector between Portland State University to the south and the Pearl to the north, effectively stretching the retail core from Downtown to the Brewery Blocks.

BACKGROUND AND CONTEXT

The Fairfield Building, a four-story unreinforced masonry structure built in 1911, for many years provided 82 single room occupancy units. The Portland Housing Bureau purchased the Fairfield Building from Prosper Portland in 2010 to preserve affordable rental housing options in downtown Portland and since July 2017 has partnered with Home Forward to manage the property, which needed major renovations and a seismic upgrade. While Home Forward successfully assembled funding for housing-related improvements to the Fairfield Building, those funds could not be invested in the ground floor commercial space.

In recognition of the importance of preserving ground floor commercial space in the West End and Pride Plaza along SW Harvey Milk St, on April 13, 2022, through Ordinance No. 190773, Portland City Council allocated \$1,900,000 in American Rescue Plan funding to Prosper Portland to lead a development and operations strategy for retaining the retail space. Subsequently, Prosper Portland offered to provide an additional \$600,000 in River District Tax Increment Finance District funds for improvements and acquisition of the Retail Space.

Subsequently, on February 8, 2023, the Prosper Portland Board through Resolution No. 7476 authorized the purchase of the Retail Space as part of Home Forward’s redevelopment of the Fairfield Building. Since that time, Home Forward has completed improvements of the Retail Space, which includes three leasable pads ranging from 600 to 1000 square feet in size. The commercial spaces are designed in varying sizes to provide flexibility, maximize leasing opportunities, and attract a diverse mix of businesses. The remainder of the Fairfield Building has been redeveloped by Home Forward as an affordable housing project.

After researching comparable retail lease rates in the neighborhood, staff are proposing the following Leasing Guidelines for Prosper Portland Board approval, which, if approved will streamline the leasing and negotiations process:

- A maximum total term (including initial term and option periods) of up to 15 years;
- Minimum lease rates of \$16 per square foot; and
- Tenant improvement allowances of \$75 per square foot (which may be adjusted higher or lower based on strategic alignment and budget availability).

Pursuant to Section B of the Prosper Portland Board adopted policy on “Acquisition and Management of Real Property,” dated February 13, 2019, a Property Plan should be developed for each property, and the Prosper Portland Board will review and approve elements of the Property Plan that contain significant financial or strategic impact. As such, staff are seeking Prosper Portland Board approval of the Fairfield Commercial Property Plan.

Resolution No. 7476 authorized up to \$2,600,000 for acquisition and tenant improvements. With just over \$2,500,000 spent on acquisition (including escrow fees and other closing costs), the remaining Prosper Portland Board authorization is just under \$100,000, which is inadequate to fund additional tenant improvements and other assistance. Therefore, staff are seeking authorization of an additional not to exceed amount of \$344,310.

EQUITY IMPACT

As noted, Prosper Portland will be able to offer lease terms below market rate at the Retail Space, which could help attract businesses otherwise unable to afford tenanted commercial space in downtown Portland.

COMMUNITY PARTICIPATION AND FEEDBACK

Staff did not conduct any specific public participation related to this action. However, community stakeholders advocated that City Council fund improvements to the Retail Space to ensure local shopping opportunities and ground floor vitality in the neighborhood. Prosper Portland will continue to coordinate closely with Home Forward and adjacent businesses and property owners in tenanted the Retail Space.

BUDGET AND FINANCIAL INFORMATION

There are adequate resources of \$344,130 in the River District Budget for fiscal year (FY) 2024-25 (see Attachment B). The majority of these funds will be used to facilitate the lease up of the Retail Unit. The remainder of the budget will be held in reserve during the projected 18-month lease up period.

Of the \$344,130 available funds, a \$225,000 TI allowance and leasing commission budget will be reserved to assist tenants with interior finish work. The individual TI allowance target for these tenants is anticipated to be \$75 per square foot (or approximately \$185,000 in total) but may be adjusted up or down based on strategic alignment and budget availability. In cases where a more significant TI allowance is given, a lesser rent abatement is expected to be offered. The remaining \$100,000 of expected spending will be held as operating reserves to cover the holding costs during the lease up period.

Market base rent for comparable spaces in the area is approximately \$23.76 per square foot, plus additional triple net (NNN) charges. As noted, the proposed Leasing Guidelines set a minimum base rate of \$16 per square foot per year to support affordability for target businesses. Staff estimate that NNN passthrough charges for this Retail Space are estimated to be \$9 to \$12 per square foot per year, and will be passed through to tenants, in addition to the base rent. Most of these charges relate to taxes, insurance, and HOA dues.

The financial model projects a stabilized net operating income (NOI) of \$30,700 in FY 2027-28, with a trajectory of positive and growing NOI in the subsequent outlying years. Over a 10-year hold period, the retail property is expected to deliver an average annual NOI of \$22,000, contributing to an accumulative cashflow of \$880,000 inclusive of all accrued replacement reserves.

RISK ASSESSMENT

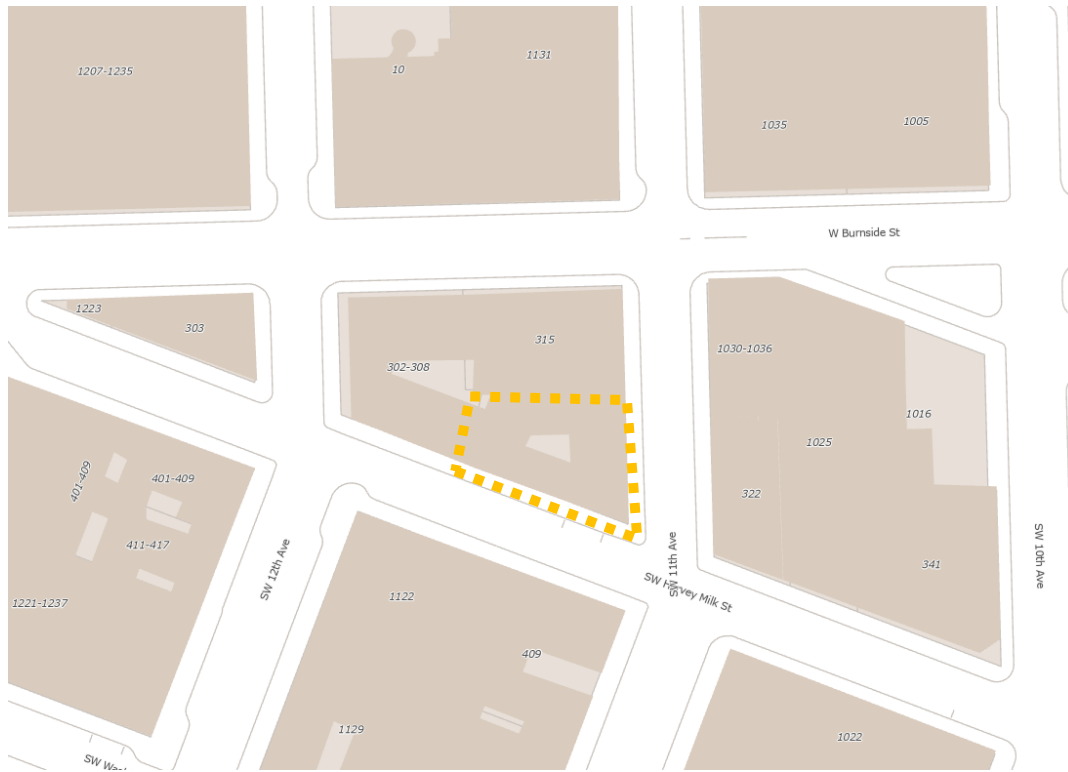
There is a risk that construction costs to build out the Retail Space may rise, adding to the cost of the landlord's work and tenant improvements. To mitigate this risk, Prosper Portland is proposing a contingency budget of 23 percent to account for potential cost overruns, ensuring that unforeseen expenses can be absorbed without jeopardizing the leasing activities. Furthermore, staff will work with architects and contractors to identify cost-saving opportunities without compromising the quality or functionality of Retail Space.

There is also a risk that construction delays could push back the leasing timeline and increase operating shortfalls. To mitigate the risk of construction delays, Prosper Portland will build in buffers into the project schedule to accommodate potential delays, , reducing the likelihood of significant setbacks to the leasing timeline.

ATTACHMENTS

- A. Site Map and Photo
- B. River District Budget and Forecast

SITE MAP AND PHOTO



1103 -
1121 SW Harvey Milk Street

RIVER DISTRICT TIF FUND BUDGET

**Financial Summary
 Forecast**

River District TIF Fund	Revision FY 2024-25	Requested FY 2025-26	Forecast FY 2026-27	Forecast FY 2027-28	Forecast FY 2028-29	Forecast FY 2029-30
Resources						
Beginning Fund Balance	35,081,594	21,001,290	-	309,402	743,799	1,046,261
Revenue						
Interest on Investments	1,052,448	-	-	-	-	-
Property Sales	1,300,000	-	-	125,000	-	-
Rent and Property Income	3,045,302	936,000	936,000	936,000	936,000	936,000
Reimbursements	217,320	-	-	-	-	-
Transfers In	25,478,656	-	-	-	-	-
Total Revenue	31,093,726	936,000	936,000	1,061,000	936,000	936,000
Total Resources	66,175,320	21,937,290	936,000	1,370,402	1,679,799	1,982,261
Requirements						
Economic Development						
Business Lending						
A00204-BL -General-RVD	1,000,000	-	-	-	-	-
Economic Development Total	1,000,000	-	-	-	-	-
Housing						
A00166-Affordable Housing-RVD	2,703,779	-	-	-	-	-
Housing Total	2,703,779	-	-	-	-	-
Infrastructure						
Parks						
A00232-Nbrhd Prk(The Fields)-RVD	550	555	560	565	-	-
Transportation						
A00770-USPS LID-RVD	750,000	-	-	-	-	-
Public Facilities						
A00718-Chinatown Gate-RVD	300,000	-	-	-	-	-
Infrastructure Total	1,050,550	555	560	565	-	-
Property Redevelopment						
Commercial Property Lending						
A00361-CPRL-General-RVD	1,948,925	-	-	-	-	-
Real Estate Management						
A00186-Fairfield Commercial-RVD	344,130	-	-	-	-	-
A00276-Post Office-RVD	348,040	-	-	-	-	-
A00278-4th and Burnside-RVD	51,967	-	-	-	-	-
A00285-Block Y-RVD	113,966	-	-	-	-	-
A00286-Union Station-RVD	2,243,146	-	-	-	-	-
A00288-Centennial Mills-RVD	215,531	-	-	-	-	-
A00290-Station Place Prkng-RVD	836,892	613,295	613,295	613,295	613,295	613,295
A00291-Block R-RVD	62,029	-	-	-	-	-
A00292-One Waterfront North-RVD	-	-	-	-	7,500	7,500
A00293-Old Fire Station Mgmt-RVD	37,286	-	-	-	-	-
A00558-RD Small Lots - 9th & Naito-RVD	12,322	12,743	12,743	12,743	12,743	12,743
A00587-Block 25-RVD	34,548	-	-	-	-	-
A00691-Post Office Garage-RVD	655,561	-	-	-	-	-
Real Estate Predevelopment						
A00186-Fairfield Commercial-RVD	157,627	-	-	-	-	-
A00278-4th and Burnside-RVD	40,000	-	-	-	-	-
A00293-Old Fire Station Mgmt-RVD	33,693	-	-	-	-	-
A00620-Post Office Grant-RVD	13,613	-	-	-	-	-
A00682-USPS Legal-RVD	26,574	-	-	-	-	-
A00276-Post Office-RVD	500,000	-	-	-	-	-
A00587-Block 25-RVD	250,000	-	-	-	-	-
Real Estate Disposition						
A00286-Union Station-RVD	30,713	-	-	-	-	-
A00288-Centennial Mills-RVD	228,229	375,000	-	-	-	-
A00293-Old Fire Station Mgmt-RVD	200,096	-	-	-	-	-
Redevelopment Strategy						
A00038-Superfund-RVD	264,800	-	-	-	-	-
A00276-Post Office-RVD	128,201	-	-	-	-	-
A00279-Broadway Corridor-RVD	301,133	-	-	-	-	-
A00517-Old Town Action Plan Investments-RVD	26,771,601	-	-	-	-	-
A00687-OTCA-PI-RVD	272,000	-	-	-	-	-
Redevelopment Grants						
A00390-CLG-General-RVD	236,866	-	-	-	-	-
A00497-Prosperity Investment Program (PIP) Grant-RVD	625,172	-	-	-	-	-
A00743-James Beard-RVD	100,000	-	-	-	-	-
Property Redevelopment Total	37,084,661	1,001,038	626,038	626,038	633,538	633,538
Total Program Expenditures	41,838,990	1,001,593	626,598	626,603	633,538	633,538
Personnel Services	1,341,053	-	-	-	-	-
Total Fund Expenditures	43,180,043	1,001,593	626,598	626,603	633,538	633,538
Interfund Transfers - Indirect Charges	1,793,987	-	-	-	-	-
Interfund Transfers - Cash Transfers	200,000	20,935,697	-	-	-	-
Contingency	21,001,290	-	309,402	743,799	1,046,261	1,348,723
Total Fund Requirements	66,175,320	21,937,290	936,000	1,370,402	1,679,799	1,982,261