



DATE: April 8, 2020
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 20-15

Approving Terms of a Development Agreement and Ground Lease with Beam Construction & Management, LLC for the 0.80-Acre Prosper Portland-Owned Parcel Between SE Taylor, SE Water, and SE Salmon Streets and Exclusive Negotiating Rights for Two Prosper Portland-Owned Parcels Between SE Salmon and SE Madison Streets in the Central Eastside Tax Increment Finance District

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7365

This action by the Prosper Portland Board of Commissioners (Board) will authorize the executive director to authorize the terms (Term Sheet) for development of the ODOT Blocks, three Prosper Portland-owned properties located in the Central Eastside tax increment finance (TIF) District (see a map in Attachment A). If approved, the Term Sheet will allow for Prosper Portland and development partner Beam Construction & Management, LLC (Beam) to negotiate a development agreement and ground lease for redevelopment of Block A, the northernmost of the ODOT Blocks, into Workshop Blocks, an innovative, multi-phased commercial and industrial development project in the heart of Portland's industrial sanctuary.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

This project will deliver on multiple Strategic Plan objectives by creating connected innovation and job centers; providing opportunities for quality job growth; fostering inclusive innovation and an entrepreneurship ecosystem; and supporting workforce development.

BACKGROUND AND CONTEXT

On November 9, 2016 through Resolution No. 7216, the Prosper Portland Board authorized acquisition of the ODOT Blocks from the Oregon Department of Transportation. The acquisition supported the 1988 Central City Plan, the adopted Central City 2035 SE Quadrant Plan, and the Central Eastside Urban Renewal Plan, all of which have goals and objectives related to increasing jobs through redevelopment opportunities and enhancing the Central Eastside as a close-in employment center.

In 2017, staff issued a Request for Proposals to identify a qualified development partner for the ODOT Blocks, ultimately selecting a team led by Beam and including Colas Construction, a Portland-based minority-owned general contractor.

On November 1, 2018, Prosper Portland and Beam signed a Memorandum of Understanding (MOU) outlining steps each party would take in advance in determining whether a redevelopment project on

ODOT Blocks was feasible, including public outreach, environmental remediation, market analysis, programming, and timing.

Workshop Blocks is planned for development in three phases over the course of the next seven years. Each phase will be designed and tenanted with a focus on different, but complementary industry clusters. Block A, the first phase, will be designed and tenanted as an Inclusive Tech Industry Cluster that includes:

- A ground-floor program of technology-focused for-profits and not-profits working together to nurture emerging businesses and to train new workforces, including an Innovation Center, retail, and possible on-site day care
- Industrial office workspace on the upper floors, totaling approximately 100,000 square feet
- One-level of below-grade structured parking

The Term Sheet includes a 99-year ground lease on Block A that creates both a long-term revenue stream to Prosper Portland and flexibility to Beam to better attract traditional financing for the development project. Following are key terms:

Land Value	\$ 3,304,000 (based on the appraised value of \$3,829,000 and adjusted for known environmental conditions not considered in the valuation)
Rate	Ground lease rate calculated from land value using a 6% discount rate, valuing the leased fee interest as the present value of rent payments together with the present value of the appreciated value of the property
Payment	Annual rent payments of \$132,991 begin in Year 2
Rate Escalation	No escalation before year 20. After year 20, the payment increases by 7.5% every 5 years.
Term	99 years
Purchase Option	The Ground Lease will include an option to purchase in year 20 and again in year 30

Should the Prosper Portland Board approve the Term Sheet, staff anticipates that construction will begin in 2022 and be completed in 2023. Terms of the development agreement will not give Beam the option to acquire or lease Block B or C. However, the terms establish a period of time during which Prosper Portland will be prohibited from selling, leasing or otherwise conveying Block B or C to any entity other than Beam. If Beam is able to complete Block A of Workshop Blocks, it currently contemplates the following program for Blocks B and C, which could be complete by 2027:

Block B – Creative Production Industry

- Ground floor mix of make/sell studio space and arts-based non-profits
- Industrial office workspace on the upper floors
- One level of below-grade structured parking

Block C – Food and Beverage Industry

- Ground floor mix of food- and beverage- focused companies to create a must-see destination for the community to experience innovative food and beverage production and retail
- Industrial office workspace on the upper floors
- One level of below-grade structured parking

EQUITY IMPACT

Prosper Portland and Beam have been planning the redevelopment of the ODOT Blocks with an intentional focus on ensuring optimization of equity opportunities from construction through to operations and the provision of affordable industrial office space; see the Community Participation and Feedback section below for greater detail.

As mentioned, the development team includes Colas Construction, a minority-owned, Portland-based general contractor that has a track record of working with certified minority subcontractors in addition to its own crews self-performing critical scopes of work.

Beam is a member of Portland Means Progress, an initiative that provides connections for businesses to hire local underrepresented students, purchase from businesses owned by people of color, and create diverse and vibrant workforce and company cultures.

Finally, Workshop Blocks will be subject to with Prosper Portland’s Business and Workforce programs and the agency’s Green Building Policy.

COMMUNITY PARTICIPATION AND FEEDBACK

Beam hosted two industry-focused sets of meetings to inform how to increase Workforce Blocks equity outcomes both during construction and ongoing operations. The Construction and Workforce Working Group held three meetings with members of the general contractor, minority-owned small businesses sub-contractors, National Association of Minority Contractors Oregon, workforce development professionals, and the project architect. These meetings explored ways in which material and products identified in the architectural specifications impact the ability of minority-owned subcontractors to respond to invitations to bid. The Small Business Development Working Group met two times, including professionals from Autodesk, Puppet, and Uncorked, to explore ways to inform architectural and space needs that support equity outcomes in ongoing operations. The conversations focused on amenities that would support equity in technology, including, daycare, mentoring, and workforce training.

BUDGET AND FINANCIAL INFORMATION

There are sufficient resources in the Fiscal Year 2019-20 Central Eastside Budget and Forecast for Prosper Portland’s \$725,000 contribution to soil removal (see Attachment B).

Staff have structured the Term Sheet to provide a six percent return on the Prosper Portland’s investment, which is consistent with the agency’s Financial Sustainability Plan and ODOT Blocks Property Plan characterization as a Mission Related Investment (see Attachment C).

RISK ASSESSMENT

There are several risks to this proposed action. The structure of the ground lease could affect Beam’s ability to finance Workshop Blocks’ construction. This risk is mitigated by the options to purchase included in the Term Sheet, which provide greater certainty to lenders.

Beam is also managing the risk related to market timing and the supply of Class A industrial office space. This project will be competing with other central Portland developments in the Pearl District and

downtown. In addition, industrial office is an emerging building use classification and individual tenants are reviewed by the City of Portland Bureau of Development Services. This adds a risk to Beam in identifying and recruiting tenants that comply with zoning.

There is also a risk that construction costs could increase. Beam is assuming a certain level of cost increases that can be mitigated by completing predevelopment activities, securing tenants, and closing on financing as soon as possible.

Finally, there is a risk that delays in completion of Workshop Blocks could affect financial return assumptions to Prosper Portland. This risk is somewhat mitigated by the requirement that future disposition of Blocks B and C require Prosper Portland Board approval.

ATTACHMENTS

- A. Site Map
- B. Central Eastside Tax Increment Finance District Financial Summary
- C. ODOT Blocks – Block A Property Plan

Site Map



URA Financial Summary

**Financial Summary
 Five-Year Forecast**

Central Eastside URA Fund	Revised 2 FY 2018-19	Adopted FY 2019-20	Forecast FY 2020-21	Forecast FY 2021-22	Forecast FY 2022-23	Forecast FY 2023-24
Resources						
Beginning Fund Balance	26,034,943	31,407,041	26,013,904	18,344,458	12,910,314	9,301,100
Revenue						
Fees and Charges	1,674	2,424	1,198	818	-	-
Interest on Investments	446,132	370,902	329,345	277,275	200,538	143,190
Loan Collections	219,100	225,986	160,046	109,556	103,807	101,230
TIF - Short Term Debt	6,693,300	6,693,300	1,990,245	-	-	-
Rent and Property Income	476,792	478,784	478,784	478,784	478,784	478,784
Total Revenue	7,836,998	7,771,396	2,959,618	866,433	783,129	723,204
Total Resources	33,871,941	39,178,437	28,973,522	19,210,891	13,693,443	10,024,304
Requirements						
Administration						
A00028-Debt Management-CES	9,650	6,650	6,650	6,650	6,650	6,650
Administration Total	9,650	6,650	6,650	6,650	6,650	6,650
Economic Development						
Traded Sector						
A00112-Business Development-CES	-	5,000	5,000	5,000	5,000	5,000
A00379-Lean Manufacturing-CES	10,000	10,000	-	-	-	-
Business Lending						
A00207-BL-General-CES	300,000	300,000	300,000	300,000	300,000	-
Economic Development Total	310,000	315,000	305,000	305,000	305,000	5,000
Housing						
A00169-Affordable Housing-CES	84,833	4,751,102	1,382,868	255,540	12,143	-
Housing Total	84,833	4,751,102	1,382,868	255,540	12,143	-
Infrastructure						
Parks						
A00236-Lightwater Craft-CES	11,062	11,169	-	-	-	-
Transportation						
A00421-Trans. Improvements-CES	-	1,000,000	3,000,000	-	-	-
Public Facilities						
A00425-Community Center-CES	-	985,000	-	-	-	-
Infrastructure Total	11,062	1,996,169	3,000,000	-	-	-
Property Redevelopment						
Commercial Property Lending						
A00364-CPRL-General-CES	600,500	600,500	600,500	600,500	600,500	-
Real Estate Management						
A00313-ODOT Blocks-CES	58,638	123,313	66,479	69,802	73,291	76,954
A00319-Festival Parking Lot-CES	34,050	40,408	42,430	44,553	46,781	49,120
A00551-240 NE MLK Lot-CES	1,300	1,000	1,000	1,000	1,000	1,000
A00561-Springwater Trail-CES	6,000	11,500	11,500	11,500	11,500	11,500
Real Estate Predevelopment						
A00313-ODOT Blocks-CES	-	810,000	10,000	-	-	-
Real Estate Disposition						
Redevelopment Strategy						
A00314-Strategic Site ReDev-CES	-	3,400,000	3,700,000	3,500,000	1,800,000	1,000,000
Redevelopment Grants						
A00500-Prosperity Investment Program (PIP) Grant-CES	425,000	425,000	425,000	425,000	425,000	425,000
A00520-CLG-General-CES	125,000	125,000	125,000	125,000	125,000	125,000
Property Redevelopment Total	1,250,488	5,536,721	4,981,909	4,777,355	3,083,072	1,688,574
Total Program Expenditures	1,666,033	12,605,642	9,676,427	5,344,545	3,406,865	1,700,224
Personnel Services						
	268,833	77,458	79,832	79,948	83,149	78,315
Total Fund Expenditures	1,934,866	12,683,100	9,756,259	5,424,493	3,490,014	1,778,539
Interfund Transfers - Indirect Charges						
	530,034	481,433	872,805	876,084	902,329	870,585
Contingency	31,407,041	26,013,904	18,344,458	12,910,314	9,301,100	7,375,180
Total Fund Requirements	33,871,941	39,178,437	28,973,522	19,210,891	13,693,443	10,024,304