

DATE: May 13, 2015
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 15-30
Update on the Portland Development Commission's Office Lease and Future Space Needs

BOARD ACTION REQUESTED

No action is requested; information only.

SUMMARY

At the May 13, 2015, Portland Development Commission (PDC) Board of Commissioners (Board) meeting, PDC staff will facilitate an open conversation with the PDC Board on PDC's short- and long-term office space needs. The intention of the session is three-fold:

1. Provide an update on PDC's current lease agreement at the Mason Ehrman building;
2. Share current office space needs; and
3. Seek PDC Board feedback and direction on releasing a Request for Information (RFI) that will inform PDC's options.

BACKGROUND AND CONTEXT

Current Lease Term. PDC's current lease term commenced July 1, 2010, and ends June 30, 2020, subject to extension or to early termination. PDC has early termination options beginning as early as July 2017. A rough timeline of the lease provisions, included as Attachment A, is summarized below:

- January 1, 2016: Last day to provide written notice if vacating at the Earliest Termination Date (18-month notice required) → July 1, 2017: Earliest Termination Date with \$500,000 termination fee.
- July 1, 2017: Last day to provide written notice if vacating at the Early Termination Date (12-month notice required) → July 1, 2018: Early Termination Date with \$250,000 termination fee.
- June 30, 2020: Current lease terminates with no termination fee.

Space Needs. When PDC's current lease commenced in 2010, PDC employed 213 staff, not including temporary or student workers, and required 17 private offices, 14 conference rooms, and 170 individual workstations. Five years later, PDC has 95 staff, needs fewer offices and conference rooms, and has phased out the ground floor reception area. PDC staff occupies the fifth, sixth, and seventh floors; subleases the third floor; and rarely uses larger first floor communal spaces.

PDC's current lease costs \$771,060 annually (excluding the subleased third floor). The chart below shows the costs of the basement and PDC-leased floors.

Mason Ehrman Lease: July 1, 2014 – June 30, 2015*				
Floor	Rentable (Usable) Square Feet (SF)	Cost per SF**	Monthly Rent	Annual Rent
Basement	7,603 (6,727)	11.26	\$ 7,134.15	\$ 85,610
1 st Floor	7,135 (5,907)	20.09	\$ 11,945	\$143,342
5 th Floor	8,998 (7,188)	20.09	\$ 15,064	\$180,770
6 th Floor	8,921 (7,197)	20.09	\$ 14,935	\$179,223
7 th Floor	9,065 (7,197)	20.09	\$ 15,176	\$182,115
Total	41,722 (34,216)		\$ 64,254	\$ 771,060

* Excluded leased spaces:

- 208 Annex, 2nd floor (~10,000 SF: \$16,390 annual cost)
- Sublet 3rd floor (8,943 rentable SF: \$179,665 annual cost)

** Cost per SF from July 1, 2015 – June 30, 2016: \$20.69 (floors 1 – 7); \$11.59 (basement)

Request for Information. To encourage a competitive process, PDC staff recommends issuing an RFI for professional office space, which could include the current location as well as potential new ones. PDC staff will review proposals and provide recommendations to the Executive Director and the PDC Board. The following lenses will inform staff recommendations:

- PDC’s mission, goals, and strategic plan for equitable investment through job creation, innovation, and economic development;
- PDC acting as a neighborhood catalyst in an Urban Renewal Area, including the six Neighborhood Prosperity Initiative districts;
- Cost or financial outlay to PDC, including upfront capital costs and on-going rental expenses;
- Generation of new property taxes;
- Job creation, with an eye towards immediate construction jobs; and
- Location/proximity to public transportation, particularly light rail or streetcar.

Based on the responses received, PDC staff would return to the PDC Board with a recommendation and seek PDC Board approval to commence with any negotiations.

Finally, the RFI will not obligate PDC to lease space or pursue a contractual relationship with any entity that responds to the RFI. Likewise, the RFI will not limit or restrict PDC’s right to lease space or pursue a contractual relationship with an entity that does not respond to the RFI. The RFI will make it clear that PDC may pursue negotiations with one or more entities that respond, or none at all, in its sole discretion and on such terms and conditions as PDC considers necessary or desirable.

ATTACHMENTS

- A. PDC/Mason Ehrman Lease Term and Termination Provisions
- B. Draft RFI Space Criteria

PDC/GC Mason Ehrman Lease Term and Termination Provisions

1 **SECTION 3 TERM**

2 3.1 **Term**

3 The term of this Lease shall be for One Hundred Twenty (120) months (the
4 “Term”) and shall commence on July 1, 2010 and end on June 30, 2020, subject to extension
5 pursuant to Exhibit D, and to early termination pursuant to Section 3.2.

6 3.2 **Early Termination**

7 3.2.1 Tenant shall have the right to terminate this Lease effective on a date
8 selected by Tenant which is on or after July 1, 2017 (an “Earliest Termination Date”) by giving
9 Landlord written notice of such early termination not less than eighteen (18) months prior to the
10 Earliest Termination Date. If Tenant exercises this right to early termination, Tenant will pay
11 Landlord an early termination fee of \$500,000 no later than ninety (90) days prior to the Earliest
12 Termination Date and, if not so paid, the Lease will not terminate early but will continue in full
13 force and effect until the full original Term has expired.

14 3.2.2 Tenant shall have the right to terminate this Lease effective on a date
15 selected by Tenant which is on or after July 1, 2018 (the “Early Termination Date”) by giving
16 Landlord written notice of such early termination not less than 12 months prior to the Early
17 Termination Date. If Tenant exercises this right to early termination, Tenant will pay to
18 Landlord an early termination fee of \$250,000 payable no later than ninety (90) days prior to the
19 Early Termination Date and, if not so paid when due, the Lease will not terminate early but will
20 continue in full force and effect until the full original Term has expired.

Draft RFI Space Criteria

A. General

- Within the City of Portland
- Near public transportation, particularly light rail or streetcar.
- Within a current Urban Renewal Area (including NPI districts)
- Anchor space within new construction or major rehabilitation project, including in combination with strategic community and public partners seeking to spur new commercial/office development
- Site with significant potential to serve as a catalyst for additional adjacent community and economic benefit; to support adjacent neighborhood small businesses; and to realize benefit to neighborhoods with long standing disinvestment or disinvestment
- LEED Certified, or at a minimum, one that has an Energy Star Portfolio Manager score of at least 80.

B. Space Needs

- General administrative offices
- A single-tenant or multi-tenant professional office building.
- The building must meet or exceed all current governmental regulations and requirements of the American with Disabilities Act (ADA).
- The building should have:
 - A designated public meeting facility with seating for a minimum of 120 people.
 - Capacity for 90 full service work stations
 - Capacity for 12 offices at 130 square feet each.
 - Capacity for 14 meeting rooms as follows:
 - Two (2) rooms to accommodate 2 people
 - Three (3) rooms to accommodate 4 people
 - Seven (7) rooms to accommodate 8 people
 - Two (2) rooms to accommodate 18 people
 - One quiet/sick/mothers room to accommodate one person
 - One copy/mail room per occupied floor at a minimum of 200 square feet each
 - One staff/lunch room area to accommodate 30 people. To include a commercial size sink with instant hot water services and space for two (2) microwave ovens, two (2) refrigerators, dishwasher, and two (2) vending machines.
 - Storage space in aggregate of approximately 2,000 square feet
- If the building does not have a common fitness facilities, showers sufficient to accommodate anticipated demand and a minimum of 40 individual, secure lockers
- Bicycles storage for up to 40 bicycles

- PDC shall have the right to reduce total amount of square footage leased
 - Note: Current PDC SF = 41,722 rentable square feet (34,216 usable square feet); excluding subleased third floor and second floor Records Annex

C. Lease Term

- Five (5) year initial term with the option to extend for two (2) additional terms of five (5) years each
- PDC shall have the right to an early lease termination
- For Full Service Lease, at competitive rates for the initial lease term and any option to extend terms with mutually agreed annual adjustments.
- For Triple-Net Lease, at competitive rates for the initial lease term and any option to extend terms with mutually agreed annual adjustments.
- For a Triple-Net Lease, Building Owner to provide advance estimate of the annual per square foot additional rent charge. Building Owner and PDC to mutually agree this additional rent charge will not exceed a specific dollar amount.
- Building Owner to provide PDC with a competitive rental abatement amount, including any additional rent, based on current market conditions.
- If PDC extends the initial five (5) year lease term, then Building Owner to provide PDC with a refurbishment allowance based on current market conditions.
- PDC is exempt from real property tax assessments. Building Owner to return to PDC the savings realized from this exemption in the form of an annual rent rate.
- Building Owner to provide comprehensive industry standard janitorial service and require its contractor to pay its employees in conformance with the City of Portland’s Fair Wage Policy.
- Building Owner to disclose all ownership interests of the building and agrees to enter into a Non-Disturbance Agreement.
- For multi-tenant building, Building Owner to provide building security services, including after-hours roaming, security access, consisting of a security station located in the building lobby and after-hours roaming security patrols. Security Contractor to pay its employees in conformance with the City of Portland’s Fair Wage Policy.

D. Tenant Improvements

- New and/or existing space is move-in ready
- Building Owner to deliver the premises in an industry standard “Vanilla Shell” condition including finished ceilings, lighting, plumbing, heating and cooling (HVAC), interior walls (painted or unpainted), electrical outlets, restrooms and a concrete floor.
- Building Owner, at its expense, to provide the following tenant improvements to the “Vanilla Shell” space including all architectural, space planning, permits, and construction management-related expenses. All improvements are to be of a finish and quality

consistent with professional office space and all work must be completed by contractors and sub-contractors in conformance with Oregon’s prevailing wage law.

- For multi-tenant building, PDC shall be provided with building standard tenant signage, including the building directory located in the main building lobby, the leased individual suites and building floors.

E. Information Technology – Network/Infrastructure

- Additional considerations: Connection or close proximity to the City’s network, or presence of telecommunications fiber loop already established
- Location and existing network infrastructure (presence of City or telecom infrastructure in or nearby new facility)
- The building must have:
 - *Server room requirements of 400 SF*
 - *One IT workroom to accommodate 1 person*
 - *One network closet area per floor of at least 100 SF each*
 - *One training room to accommodate 10 people*
- Commission/public meeting room with existing AV technology and infrastructure