



**DATE:** March 8, 2017  
**TO:** Board of Commissioners  
**FROM:** Kimberly Branam, Executive Director  
**SUBJECT:** Report Number 17-07

Authorizing the Execution of a Lease Amendment with Figure Plant LLC for the Portland Development Commission Property Located at 8411 N. Denver Avenue within the Interstate Corridor Urban Renewal Area

### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7227

### **ACTION DESCRIPTION**

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the execution of the First Amendment to Lease Agreement (Lease Amendment) between PDC and Figure Plant, LLC (Figure Plant, or Tenant), for the PDC-owned real property known as the Nelson Industrial Building located at 8411 N. Denver Avenue in the Kenton business district within the Interstate Corridor Urban Renewal Area (see a Project Summary and Aerial Map in Attachment A). Figure Plant, a visual design display and fabrication studio, has leased space in the Nelson Industrial Building since 2010 (see a photo of the Nelson Industrial Building in Attachment B). The company has 13 full-time employees, three part-time employees, and pays them an average of \$25.00 per hour. Should the Lease Amendment be approved, Figure Plant will be able to expand its business into additional space at the Nelson Industrial Building, exercise its option to extend the lease term through March 2026, and hire at least five additional employees. Since the proposed aggregate term of the lease extends the lease beyond five years, the Lease Amendment requires PDC Board approval.

### **BACKGROUND AND CONTEXT**

On May 30, 2011, the PDC Board through Resolution No. 6872 authorized, under a single transaction, the acquisition of four parcels referred to as the Nelson Sites for a total purchase price of \$3,657,000. The assemblage totals 3.5 acres and is located in the Kenton business district. The parcels are as follows:

1. 2221 N. Argyle Street, Portland, OR 97217. A 59,485 square foot parcel with a 35,000 square foot single tenant and occupied industrial/warehouse building referred to as the Spar-Tek Building.
2. 8411 N. Denver Avenue, Portland OR 97217. A 43,000 square foot parcel with a 27,593 square foot multi-tenant and occupied industrial/warehouse building referred to as the Nelson Industrial Building.
3. 8419 N. Denver Avenue, Portland, OR 97217. A 9,955 square foot parcel with a 792 square foot vacant structure formerly used as a coffee shop and referred to as the Nelson Retail Site.

4. 2221 W/ N Argyle Street, Portland, OR 97217. A 43,287 square foot unimproved lot referred to as the Argyle Street Lot.

The original acquisition plans called for PDC to work in close coordination with Tri-Met to jointly master plan a transit-oriented development to meet redevelopment goals identified as a priority for the Kenton business district.

In 2012 PDC decided to re-tenant the Nelson Industrial Building for the following reasons:

- Market conditions at the time did not support mixed-use redevelopment at the site;
- PDC did not wish to create a demolished site with an unknown redevelopment timeline; and
- There was an opportunity to retain an industrial/warehouse building for business incubator and job creation purposes, a use that was supported by neighborhood stakeholders.

As a result of this decision, PDC moved forward with correcting fire/life/safety/code issues at the Nelson Industrial Building and completed structural upgrades and interior space improvements, for a total cost of approximately \$1,650,000.

Figure Plant was an existing tenant in the Nelson Industrial Building when PDC acquired the building in June 2011. The company occupied Suite 30 at the time, and the lease was assigned to PDC when the Nelson Industrial Building was purchased. In April 2015, PDC negotiated a new five year lease when the company expanded into Suite 10 and PDC subsequently invested \$160,000 to complete tenant improvements for both suites. The current lease expires on March 1, 2020 with an option to extend the lease term for two successive three-year terms. In 2015, the base monthly rent under the current lease was \$4,082. Per the terms of the lease, the base rent adjusts annually in accordance with the increase of the Consumer Price Index, with a minimum increase of 2.5 percent and a maximum increase of five percent; therefore, the current monthly base rent is \$4,184. PDC can reasonably increase or decrease additional rent to reflect the actual expenses for the property. The current lease also gave the tenant the Right of First Refusal to lease Suites 20, 40, and 50, exercisable only if the Tenant was not in default of the lease terms.

**Current Leased Areas and Base Rent Structure:**

Suite	Use	Square Feet (SF).	Rent Per SF/Mo	Monthly Rent	Annual Rent
10	Office	1,703	0.61	1,040	12,480
30	Office	316	0.61	195	2,340
30	Common	358	0.28	100	1,200
30	Whse/Mfg	6,150	0.45	2,769	33,228
Mezz #1	Storage	884	0.09	80	960
<b>TOTALS</b>		<b>9,411</b>		<b>4,184</b>	<b>50,208</b>

Staff has discussed the expansion with Figure Plant and recommends the following terms:

- Term of the lease will be extended through March 31, 2026.
- Premises expanded to include Suites 20, 40, 50, the open yard and Mezzanine #2.
- Tenant to receive a rent abatement incentive for the additional leased areas in an amount equal to six months base rent or \$27,954, which will be applied as a monthly credit of \$2,329.50 for the first twelve months after lease amendment is signed

- PDC will spend up to \$250,000 for the build-out of the expanded space. The build-out will include a complete interior demolition and remodel of Suite 20 into new office and printing spaces, installation of a large fire-rated roll up door between Suites 30 and 40, completion of utility and structural upgrades for a new tenant-furnished paint booth in Suite 40 and lighting and finish upgrades in Suites 40 and 50. PDC is coordinating the design and engineering for these modifications and will coordinate all necessary procurement activities and construction administration services for the Project.
- Tenant to possess the Right of First Offer to purchase the property at market value in the event PDC places the property for sale on the open market.
- Figure Plant will retain the right to be refunded for the first three years of base rent paid in the event PDC elects to terminate the lease prior to the expiration of the initial term (March 1, 2020). PDC has the right to early termination of the lease in the event a development opportunity arises for the site.

**Expansion Leased Areas and Base Rent Structure:**

Suite	Use	Square Feet (SF)	Rent Per SF/Mo	Monthly Rent	Annual Rent
20	Office	1,331	0.61	812	9,744
40	Whse/Mfg	6,264	0.45	2,818	33,816
50	Whse/Mfg	1,883	0.45	847	10,164
Open Yard A	Storage	1,368	0.10	137	1,644
Mezz #2	Storage	503	0.09	45	540
<b>TOTALS</b>		<b>11,349</b>		<b>4,659</b>	<b>55,908</b>

**Combined Square Footage Leased and Base Rent Structure:**

Square Feet.	Monthly Rent	Annual Rent
20,760	8,843	106,116

The average annual cash on cash return during the holding period (2011-2026), accounting for abated rent and tenant improvement costs, is projected to be 5.80percent.

**COMMUNITY AND PUBLIC BENEFIT**

If approved, this action by the PDC Board will allow Figure Plant to continue to operate, provide middle-wage employment opportunities, and grow their operations in the Kenton business district.

**PUBLIC PARTICIPATION AND FEEDBACK**

There was no community outreach regarding this action.

**BUDGET AND FINANCIAL INFORMATION**

There are sufficient funds in the Interstate Corridor URA Budget for the proposed \$250,000 tenant Improvements (see Attachment B).

**RISK ASSESSMENT**

If PDC and Figure Plant are not able to agree to Lease Amendment terms and/or if Figure Plant elects not to expand into additional space, then PDC's risks include the following:

- Revenue loss due to vacancy and holding costs during the period the space remains vacant.
- Payment of leasing commissions if a new tenant must be found for the space.
- Rental concessions may need to be given to a new tenant as part of the lease negotiations.
- Potential for greater tenant improvement costs to build-out the property for a new tenant.

**ALTERNATIVE ACTIONS**

IF PDC and Figure Plant are not able to agree on the terms and conditions of the Lease Amendment, PDC may proceed to lease the space, in whole or in part, to another tenant.

**ATTACHMENTS**

- A. Project Summary and Aerial Map
- B. Photo – Figure Plant
- C. Interstate Corridor URA Summary

### PROJECT SUMMARY AND AERIAL MAP

**Project Name:** Figure Plant LLC Lease Amendment

**Description & Location:** 27,953 square foot building located on a 43,000 square foot parcel located at 8411 N. Denver Avenue, Portland, OR 97217

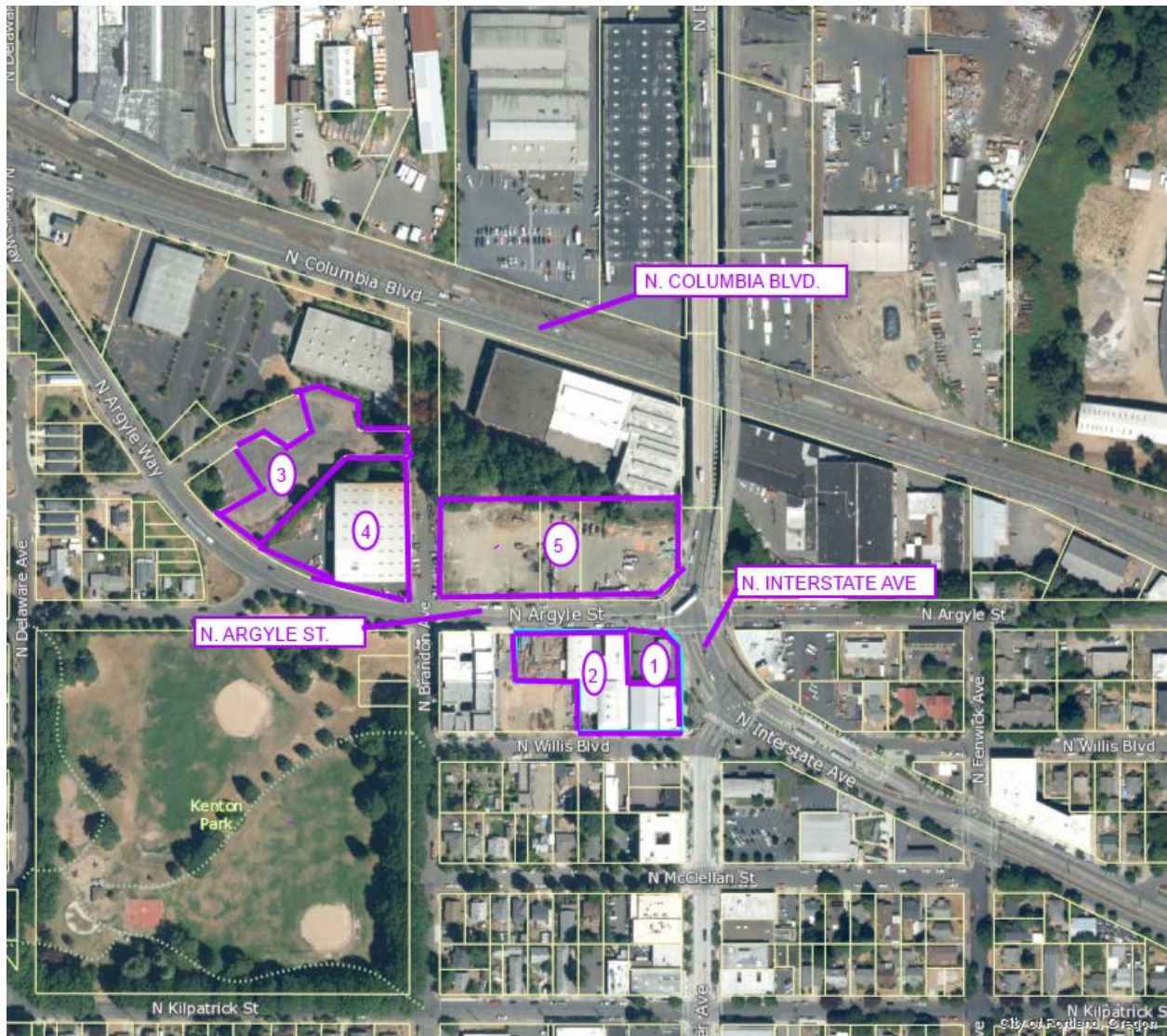
**URA:** Interstate Corridor

**Current Phase:** Entering into First Amendment to Lease Agreement with Figure Plant, LLC

**Next Milestone:** Execution of Lease Amendment

**Completion Target:** Estimated completion of tenant improvements is June 2017

**Outcome:** To extend the lease term until March 2026 and allow tenant to expand into additional 11,349 sq. ft. of Nelson Industrial Building.



**Site Legend:** 1-Nelson Retail Site, 2-Nelson Industrial Building, 3-Argyle Street Lot, 4-Spar-Tek Building  
5-TriMet Site

**NELSON INDUSTRIAL BUILDING**



**INTERSTATE CORRIDOR URA SUMMARY**

**Financial Summary  
 Five-Year Forecast**

<u>Interstate URA Fund</u>	<u>Revised FY 2016-17</u>	<u>Forecast FY 2017-18</u>	<u>Forecast FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>
<b>Resources</b>					
Beginning Fund Balance	26,176,511	10,241,604	2,934,243	1,382,337	12,278,770
<b>Revenue</b>					
Fees and Charges	4,991	4,498	4,374	4,676	3,468
Interest on Investments	39,901	41,662	622	812	36,051
Loan Collections	397,961	309,606	284,737	345,199	103,557
TIF - Short Term Debt	18,981,000	18,958,972	18,665,851	18,981,000	18,981,000
TIF - Long Term Debt	0	9,000,000	2,200,000	-	28,954,146
Property Sales	502,160	-	-	-	-
Rent and Property Income	265,246	304,209	305,161	306,137	307,138
Reimbursements	71,526	84,644	85,277	85,930	86,602
<b>Total Revenue</b>	<b>20,262,785</b>	<b>28,703,591</b>	<b>21,546,022</b>	<b>19,723,754</b>	<b>48,471,962</b>
<b>Total Resources</b>	<b>46,439,296</b>	<b>38,945,195</b>	<b>24,480,265</b>	<b>21,106,091</b>	<b>60,750,732</b>
<b>Requirements</b>					
<b>Administration</b>					
A00030-Debt Management-ISC	22,532	22,532	22,532	22,532	22,532
<b>Administration Total</b>	<b>22,532</b>	<b>22,532</b>	<b>22,532</b>	<b>22,532</b>	<b>22,532</b>
<b>Economic Development</b>					
<b>Traded Sector</b>					
A00114-Business Development-ISC	5,000	5,000	5,000	5,000	5,000
A00381-Lean Manufacturing-ISC	50,000	50,000	50,000	50,000	50,000
<b>Community Economic Development</b>					
A00122-Community Development-ISC	25,000	25,000	25,000	25,000	25,000
A00106-NPI & Main St Network-ISC	60,000	50,000	50,000	50,000	50,000
<b>Business Lending</b>					
A00209-BL -General-ISC	650,200	650,200	650,200	650,200	200,200
<b>Economic Development Total</b>	<b>790,200</b>	<b>780,200</b>	<b>780,200</b>	<b>780,200</b>	<b>330,200</b>
<b>Housing</b>					
A00171-Affordable Housing-ISC	17,878,902	28,864,651	16,849,525	2,458,688	13,703,965
<b>Housing Total</b>	<b>17,878,902</b>	<b>28,864,651</b>	<b>16,849,525</b>	<b>2,458,688</b>	<b>13,703,965</b>
<b>Infrastructure</b>					
<b>Parks</b>					
A00245-Bridgeton-ISC	0	-	-	-	-
<b>Transportation</b>					
A00249-Killingsworth Stscape-ISC	75,000	-	-	-	-
A00250-Lombard Investment-ISC	1,226,985	1,000,000	-	-	-
<b>Infrastructure Total</b>	<b>1,301,985</b>	<b>1,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Property Redevelopment</b>					
<b>Real Estate</b>					
A00335-Nelson Bldg-Indust-ISC	700,693	73,029	73,029	73,029	73,029
A00336-Spar-Tek Building-ISC	73,287	24,287	24,287	24,287	24,287
A00337-Argyle Lot-ISC	6,700	6,700	6,700	6,700	6,700
A00338-3620 NE MLK Prkng-ISC	10,066	10,066	10,066	10,066	10,066
A00340-Reiss House-ISC	8,692	-	-	-	-
A00342-Real Estate Mgmt-ISC	17,500	17,500	17,500	17,500	17,500
<b>Commercial Property Lending</b>					
A00366-CPRL-General-ISC	1,879,172	1,276,275	1,276,275	1,276,275	1,276,275
<b>Redevelopment Strategy</b>					
A00333-MLK Alberta-ISC	734,375	196,455	199,553	200,858	210,005
A00341-Project Development-ISC	20,000	20,000	20,000	20,000	20,000
<b>Redevelopment Grants</b>					
A00131-CLG-General-ISC	760,000	300,000	300,000	300,000	300,000
A00138-DOS-General-ISC	24,000	100,000	100,000	100,000	100,000
A00146-SIP-General-ISC	350,000	500,000	500,000	500,000	500,000
A00150-GFGP-General-ISC	0	100,000	100,000	100,000	100,000
A00502-Prosperity Investment Program (PIP) Grant-ISC	700,000	-	-	-	-
<b>Property Redevelopment Total</b>	<b>5,284,485</b>	<b>2,624,312</b>	<b>2,627,410</b>	<b>2,628,715</b>	<b>2,637,862</b>

**Financial Summary  
Five-Year Forecast**

<b><u>Interstate URA Fund</u></b>	<b><u>Revised FY 2016-17</u></b>	<b><u>Forecast FY 2017-18</u></b>	<b><u>Forecast FY 2018-19</u></b>	<b><u>Forecast FY 2019-20</u></b>	<b><u>Forecast FY 2020-21</u></b>
<b>Total Program Expenditures</b>	<b>25,278,104</b>	<b>33,291,695</b>	<b>20,279,667</b>	<b>5,890,135</b>	<b>16,694,559</b>
Personnel Services	413,544	435,236	444,821	460,877	470,556
<b>Total Fund Expenditures</b>	<b>25,691,648</b>	<b>33,726,931</b>	<b>20,724,488</b>	<b>6,351,012</b>	<b>17,165,115</b>
Interfund Transfers - Indirect Charges	2,075,948	2,284,021	2,373,440	2,476,309	2,547,970
Contingency	18,671,700	2,934,243	1,382,337	12,278,770	41,037,647
<b>Total Fund Requirements</b>	<b>46,439,296</b>	<b>38,945,195</b>	<b>24,480,265</b>	<b>21,106,091</b>	<b>60,750,732</b>