
MEMORANDUM

DATE: December 12, 2017

TO: Planning and Sustainability Commission, Bureau of Planning and Sustainability

COPIES: Eric Engstrom, Principal Planner Bureau of Planning and Sustainability
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FROM: Kyra Strassman, Director and Development and Investment, Prosper Portland
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SUBJECT: Affordable Commercial Bonus

Prosper Portland is committed to continuing to work with the Bureau of Planning and Sustainability (BPS) on the development of Administrative Rules for the Affordable Commercial Bonus. To date Prosper Portland has worked with BPS staff, Planning and Sustainability Commission Members, and a Stakeholder Advisory Group to explore the feasibility of an Affordable Commercial Bonus.

In 2017, Prosper Portland and BPS convened a 16-member Stakeholder Advisory Group, which included representatives from the Planning and Sustainability Commission, real estate developers and brokers, and Portland neighborhood business districts. The role Stakeholder Advisory Group was to provide a sounding board to staff in the development of the Affordable Commercial Bonus code language and make a recommendation on the program viability.

The Stakeholder Advisory Group was informed by the work of Johnson Economics. Key findings from the Stakeholder Advisory Group and Johnson Economics include:

- There is concern that the lease rate adjustment approach is too narrow to address the range of issues that reduce the competitiveness of targeted businesses. While the program is focused on cost, that may not be the primary problem for tenants.
- The 25% discount relative to market rent would be extremely difficult to administer, as it would require establishing achievable market lease rates for properties on an annual basis. Achievable rates will vary event within the same building, and there is no reliable way for this to be done. Shifting the language to meet the obligation through participation in a program is administratively more viable as well as likely more effective in achieving the desired outcomes.
- The FAR bonus has a limited geographic area in which it has value. To utilize the bonused FAR allocation requires urban development forms, which are not viable outside of the higher priced inner neighborhoods. These include podium projects as well as zero-parked projects. In some areas, the FAR bonus will have considerable value, and we would expect the program to be utilized in those areas.
- Properties that are projected to utilize the program are smaller sites zoned CM1, CM2, and CE. Larger sites are expected to trigger mandatory inclusionary zoning, which will maximize allowable FAR. Developments utilizing the bonus will need to make enough marginal income from the additional residential or office uses to offset the cost of providing the discounted space.
- Modeling by Johnson Economics indicates that approximately 80,000 square feet of new retail space per year will be constructed on sites that will place a value on the incremental FAR. This serves as a maximum amount of space that may want to participate in an affordable commercial program. We would expect a significantly lower

amount of space would participate, as many developers will not seek the bonus. The degree to which the bonus program is utilized is a function of the costs of participating in the program, which is reflected in the in-lieu fee as well as the characteristics of the final program.

- Modeling by Johnson Economics projects the Affordable Commercial Bonus would produce a net increase of 14,000 square feet of retail space over the next five years.

Stakeholder Advisory Group, along with Prosper Portland, and BPS staff, agreed that there is value in providing an Affordable Commercial Bonus, and have recommended the proposed amendments in the Code Reconciliation Project draft.

In early 2018, Prosper Portland will work with BPS staff, PSC Members, and stakeholders to define the Administrative Rules for the Affordable Commercial Program, including program options and development requirements. All materials will be reviewed by Prosper Portland Investment Team, including Real Estate Marketing and Leasing Coordinator Investment Manager, and Director of Development and Investment. In March 2018, Prosper Portland will return to the Planning and Sustainability Commission to present Draft Administrative Rules to guide the Affordable Commercial Bonus program. Planning and Sustainability Commission Members are welcome to continue to be involved in program development over the next several months. Proposed timeline for Administrative Rule development is as follows:

- JAN – Review and consolidation of On-Site Program Option Concepts including, tenant buildout requirements, tenant improvement allowance, reduced rents, and controlled rent escalations
- JAN – Review and consolidation of program wrap around offerings including, tenant credit enhancement, system development changes reductions or wavier, tenant technical assistance, and tenant pipeline.
- JAN – Review and consolidation of additional Program Option Concepts including Rent Capture and Fee-In-Lieu.
- JAN – Review of Development Requirement Concepts, including Reasonable Equivalency
- JAN & FEB – Focus group conversations with stakeholders including developers, brokers, business district managers, and small business owners.
- FEB – Draft Administrative Rules including Program Option Concepts and Development Requirements.
- FEB – Stakeholder and Prosper Portland Leadership review of Draft Administrative Rules.
- MARCH – Planning and Sustainability Commission review of Draft Administrative Rules and recommendation

The Affordable Commercial Bonus is one tool in a set of tools that Prosper Portland is developing. Prosper Portland Affordable Commercial tools are intended to create and maintain commercial affordability for businesses owned by people underrepresented within the business community. Underrepresented populations include people of color, women, and those from low-income communities. Currently, Prosper Portland has four pilot retail projects, and is actively marketing 12,600 square feet of affordable commercial space. Through the pilot projects Prosper Portland is testing different affordable commercial tools to help businesses access commercial space, including a Master Lease, Prosper Portland ownership, and designated marketing rights from a private developer. Prosper Portland is also building business technical assistance resources to help prepare businesses to succeed in commercial space, and pursuing financial assistance tools, including loans, grants, and credit enhancement. The findings of the pilot projects will inform and help to build a more solid structure of wrap around offerings for the Affordable Commercial Bonus Program.

Stakeholder Advisory Committee Membership

Teresa St Martin	Planning and Sustainability Commission, Windermere / EcoBroker
Andre Baugh	Planning and Sustainability Commission, Consultant, Groups AGB Ltd
Chris Smith	Planning and Sustainability Commission, Interactive Marketing, Xerox
Eric Cress	Urban Development Partners
Sara Daley	Kidder Matthews
Michael DeMarco	Our 42 nd Avenue
Lauren Golden Jones	Capstone Partners
Charlotte Larson	Urban Works Real Estate
Jessy Ledesma	Beam Development
Mingus Maps	Historic Parkrose
Heather Hoell	Venture Portland
Michael Burch	Equitable Contracting & Purchasing Commission / Northwest Regional Council of Carpenters
Khanh Le	The Main Street Alliance of Oregon
Sam Brooks	Oregon Association of Minority Entrepreneurs

Staff Support

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