

Date: January 26, 2022

To: Board of Directors

From: Sam Desue, Jr.

Subject: RESOLUTION NO. 22-01-02 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AUTHORIZING A LEASE WITH MADISON-OFC ONE MAIN PLACE OR, LLC FOR ADMINISTRATIVE OFFICE SPACE AT 101 SW MAIN STREET

1. Purpose of Item

This Resolution requests that the TriMet Board of Directors (Board) authorize the General Manager or his designee to execute a lease with Madison-OFC One Main Place OR, LLC for TriMet administrative office space at the One Main Place building, located at 101 SW Main Street (Lease).

2. Type of Agenda Item

- Initial Contract
- Contract Modification
- Other - Lease

3. Type of Contract Procurement

- Low Bid / Invitation to Bid (ITB)
- Request for Proposals (RFP)
- Request for Qualifications (RFQ)
- Other (inc. sole source) - Competitive real estate selection process led by broker

4. Reason for Board Action

Board approval is required for leases obligating TriMet to pay in excess of \$1,000,000.

5. Type of Action

- Resolution
- Ordinance 1st Reading
- Ordinance 2nd Reading
- Other _____

6. Background

In 2012, TriMet entered into a ten-year lease for administrative offices at Harrison Square, located at 1800 SW First Avenue. Prior to that time, TriMet housed units of its administrative staff at its Center Street building on SE 17th Avenue, as well as at other leased space around Portland. The lease at Harrison Square was part of a project called “Moving Together.” As part of the Moving Together project, TriMet renovated the Center Street building as an operational headquarters, and rented what was then sufficient space to house the majority of the Agency’s administrative staff together at the Harrison Square building.

At that time, TriMet did extensive work to understand and implement functional work group adjacencies, in order to increase organizational efficiency. The lease at Harrison Square expires in June 2023.

In 2018, TriMet established a Space Planning Steering Committee (SPSC) to oversee and control space planning movements throughout the district. The SPSC, which has member representation from every division in the Agency, also began to analyze the Agency's future space planning needs. At that time, both Center Street and Harrison Square were at capacity. After analyzing hiring trends and staffing projections, it became clear that staffing requirements over the next five years would continue to grow and would far exceed the space available at Harrison Square and Center Street. The SPSC was tasked to consider options for meeting workspace requirements beyond those provided by the current Harrison Square lease. The SPSC established the Office Search Work Group to explore options, and TriMet retained Cushman & Wakefield as its broker to lead the search process for TriMet's next administrative office space.

In March 2019, criteria for the next office location were established, vetted and approved by the SPSC and TriMet's executive director team, including the General Manager. The criteria for the next administrative headquarters were that the building should be: (1) well-served by mass transit, (2) located at or near a vibrant neighborhood, (3) promote transit-oriented development if possible, and (4) seismically resilient.

TriMet then developed a timeline for the decision of whether to build, buy or lease the next location. Potential property options were periodically brought to the SPSC, the General Manager, and executive directors for review of the location and alignment with the criteria. In the end, TriMet reviewed and vetted 27 potential locations before selecting One Main Place.

Not only did One Main Place conform closely with TriMet's search criteria, it was determined to be the most advantageous economic option available in the current market. The general economic terms of the Lease are as follows:

- Lease Term: 134 months (11 years, two months)
- Leased Space: Approx. 95,000 square feet
- Free Rent: 14 months at the beginning of the term (approx. value of \$3,500,000)
- Rental Rate: \$31.00/square foot (includes estimated operating expenses)
- Tenant Improvements: Turnkey project (value up to \$12,500,000)
- Moving Allowance: Approx. value of \$500,000
- Contraction Option: Approx. 18,000 square feet, available after 60 months
- Expansion Option: Right of first refusal on any contiguous space
- Renewal Option: Five year extension, at TriMet's option
- Total Financial Obligation: Approx. \$33,000,000

During the search process, TriMet evaluated whether to stay at Harrison Square for an additional term after its current lease expires in June of 2023. However, moving to One Main Place presents a superior opportunity for the Agency. In addition to being a seismically safer and more up-to-date building that better meets TriMet's search criteria, the economic terms offered by One Main Place were far superior to those offered by Harrison Square.

For example, the lease term for remaining at Harrison Square would have been 180 months (15 years), significantly longer than the term at One Main Place, which would reduce future Agency flexibility. Second, the total financial obligation for TriMet to stay at Harrison Square would have been approximately \$44,200,000, compared to the \$33,000,000 obligation for One Main Place. Third, the cost of the initial five-year lease period at Harrison Square would be about \$100,000 more than the cost of the first five-year period at One Main Place. Finally, Harrison Square did not offer a contraction option, and Harrison Square's expansion possibilities are more limited given the smaller size of the building.

When TriMet started this search process in 2019, the real estate market was at a high point for property owners. Now, TriMet is able to execute a lease in a market that is very advantageous for tenants; one that Cushman & Wakefield advises is the best market in at least twenty years for renters to receive economic concessions. Executing this Lease will not only put TriMet in a favorable position economically, but will put it in a strong position to adapt to the new post-pandemic work environment.

TriMet has adopted a telework policy, and believes that many of its employees will work part-time from home and part-time in the office. In determining the square footage of this Lease, TriMet's consultant GBD Architects interviewed TriMet division leaders, reviewed the telework policy, reviewed employee surveys regarding remote work preferences, and utilized information learned from the plans of GBD's other clients. As a result, TriMet was able to reduce the assumed square footage of the Lease from 120,000 square feet (pre-remote work) to 95,000 square feet (with remote work). The internal space will be designed to promote collaboration and reduce individual workspace demands, creating an environment that should assist with employee satisfaction and retention.

Further, TriMet believes it is important to remain a significant presence in downtown Portland, to help with the revitalization of downtown that will occur at the conclusion of the pandemic and demonstrate its commitment to the City.

7. Financial/Budget Impact

The total cost of the Lease at One Main Place is expected to be approximately \$33,000,000 over the 134-month term. Similar to the current lease at Harrison Square, the annual payments for this Lease will be included in TriMet's zero-based budget for leased facilities.

8. Impact if Not Approved

Board approval for this Lease is requested at this time because staff estimates that the process to finalize lease terms and to design and construct the new office space will take 12-18 months to complete. If the Board decides not to approve the Lease, TriMet is in danger of not having its new offices ready for occupancy by the June 2023 expiration of its current Harrison Square lease. As described above, TriMet engaged in an exhaustive search process and selected the location that provides the most favorable economic terms while also meeting TriMet's search criteria, in a market that is currently very advantageous for tenants. If this Lease is not approved, it is very probable that negotiating another lease for a suitable replacement property will cost TriMet significantly more than the current proposal.

RESOLUTION NO. 22-01-02

**RESOLUTION NO. 22-01-02 OF THE TRI-COUNTY METROPOLITAN
TRANSPORTATION DISTRICT OF OREGON (TRIMET) AUTHORIZING A
LEASE WITH MADISON-OFC ONE MAIN PLACE OR, LLC FOR
ADMINISTRATIVE OFFICE SPACE AT 101 SW MAIN STREET**

WHEREAS, TriMet has authority under ORS 267.200 to enter into a lease with Madison-OFC One Main Place OR, LLC for its administrative offices (Lease); and

WHEREAS, by Resolution dated October 25, 2017, the TriMet Board of Directors adopted a Statement of Policies requiring it to approve real estate transactions obligating TriMet to pay in excess of \$1,000,000; and

WHEREAS, the total amount of the Lease exceeds \$1,000,000;

NOW, THEREFORE, BE IT RESOLVED:

1. That the Lease shall conform with applicable law.
2. That the General Manager or his designee is authorized to execute the Lease in the total amount of approximately \$33,000,000, over the duration of the Lease expiring on August 31, 2034.

Dated: January 26, 2022

Presiding Officer

Attest:

Recording Secretary

Approved as to Legal Sufficiency:

Gregory E. Skillman

Legal Department