

METROPOLITAN EXPOSITION RECREATION COMMISSION

Resolution No. 14-26

For the Purpose of Approving a Rent Adjustment for the Antoinette Hatfield Hall Ground Lease with First Congregational Church.

WHEREAS, the Metropolitan Exposition Recreation Commission and Portland's Centers for the Arts ("Portland's"), by and through Metro, leases the land underlying the Antoinette Hatfield Hall from First Congregational Church pursuant to a 99-year ground lease agreement dated November 1, 1984 ("Ground Lease");

WHEREAS, the Ground Lease was originally entered into between the City of Portland and First Congregational Church and the City assigned its rights and obligations under the Ground Lease to Metro effective January 4, 1990;

WHEREAS, the Ground Lease provides for a periodic rental rate adjustment every five (5) years on each November 1 of each calendar year of the Term when such calendar year ends in a "9" or a "4", the purpose of which is to reflect changes over time in the fair market value of the property;

WHEREAS, First Congregational Church subleases back a small portion of the leased space (the "Sublease Space"), the rent for which is also adjusted in proportion to the Ground Lease rental rate increase referenced above;

WHEREAS, after obtaining two independent MAI appraisals of the property, Portland's and First Congregational Church have negotiated a new annual rental rate of \$190,524 for the five-year term beginning November 1, 2014, which, after setoff of the annual Sublease Space rent of \$22,236, results in new monthly payment of \$14,024; and

WHEREAS, the Portland's Director recommends that the Commission approve this negotiated rental rate adjustment;

BE IT THEREFORE RESOLVED, that the Metropolitan Exposition Recreation Commission:

1. Approves the new annual Ground Lease rental rate of \$190,524 for the five-year term beginning November 1, 2014, which results in a monthly net payment from Portland's to First Congregational Church of \$14,024 per month after setoff of the Sublease Space rent;
2. Authorizes the Metro Deputy Chief Operating Officer to execute a lease amendment consistent with this Resolution, in a form approved by legal counsel.

Passed by the Commission on October 1, 2014.

Approved as to form:


Alison R. Kean, Metro Attorney

By: _____

Ashley H. McCarron, Assistant Metro Attorney



Chair



Secretary/Treasurer

MERC STAFF REPORT

Agenda item: For the Purpose of Approving a Rent Adjustment for the Antoinette Hatfield Hall Ground Lease with First Congregational Church

Resolution No.: 14-26

Date: October 1, 2014

Presented by: Robyn Williams

Background: The land on which Hatfield Hall was constructed is leased from First Congregational Church for a term of 99 years (the "Ground Lease"). Dated November 1, 1984, the original Ground Lease agreement was between the City of Portland and First Congregational Church. As part of the December 18, 1989 Agreement Regarding Consolidation of Regional Convention, Trade, Spectator and Performing Arts Facilities Owned and operated by the City of Portland and the Metropolitan Service District, the City has since assigned all its rights and obligations regarding the Ground Lease to Metro.

The Ground Lease provides that the rent shall be adjusted at 5 year intervals on each November 1 when the calendar year ends in a "9" or a "4". The purpose of the periodic adjustment is to reflect changes over time to the "fair market value" of the property and the "fair rate of return" prevailing in the market for comparable long term ground leases.

Portland's Center for the Arts began negotiating the rent increase with First Congregational Church in February of 2014. Given the significant changes in the real estate market since the previous rent adjustment negotiation in 2009, Portland's (working with its partner the City of Portland) ordered an independent MAI appraisal of the property. First Congregational Church also obtained a separate MAI appraisal of the property. Both appraisals were used as part of the rent negotiations. In the event that Portland's and First Congregational Church were unable to reach an agreement to establish a new rental rate, the appraisals were to be used as part of the arbitration process proscribed in the Ground Lease.

Portland's staff has negotiated a new annual rental rate of \$190,524 for the five-year term beginning November 1, 2014. As the current annual rent for Hatfield Hall is \$152,604, the proposed rent adjustment represents an approximate 24.8% increase in the rate paid by Portland's. Based on the appraisal obtained by the City of Portland and Portland's, this increase appears reasonable in light of the real estate market changes since 2009.

Pursuant to the Ground Lease, First Congregational Church has the right to lease back 3,000/sf of space in Hatfield Hall, which rent is also adjusted periodically in proportion to rent paid by Portland's. After offset of the annual sublease rent of \$22,235, the new monthly net rent payable to First Congregational Church is \$14,024 or \$168,289 annually.

Fiscal Impact: The adopted Portland's budget for fiscal 2014-15 is \$134,819. Actual expenditures will now be \$157,130 for a shortage of \$22,311. This will be made up by increased revenues or decreased spending in the operating budget.

Recommendation: Staff recommends that the Commission approve Resolution No. 14-26.