



RESPONSIBLE STEWARDSHIP AND STUDENT SUCCESS: PPS HEADQUARTERS RELOCATION OPPORTUNITY

EXECUTIVE SUMMARY:

Current real estate conditions give Portland Public Schools (PPS) a path for the cost-neutral relocation of the Dr. Matthew Prophet Education Center (PEC) in partnership with the Albina Vision Trust (AVT). This opportunity is the only option, identified through 5-years of site study, that does not trigger significant cost to PPS. Relocation mitigates PPS financial risk around deferred PEC capital costs and unlocks the restorative redevelopment of Lower Albina.

The benefits of relocation include:

- 1) Market Opportunity:** Leveraging current real estate market conditions to A) realize the only cost-neutral relocation outcome available to PPS and B) acquire a valuable asset in downtown Portland with long-term growth potential.
- 2) Fiscal Responsibility:** Freeing PPS from the long-term liability and excess cost associated with maintaining an aging, ill-suited and oversized facility.
- 3) Racial and Economic Justice:** Taking a significant step towards healing historic harms inflicted upon Black Portlanders.
- 4) Housing Working-Class Portlanders:** Catalyzing a precedent-setting project that will create over 1,000 units of housing for over 3,000 working-class Portlanders.
- 5) Accessible, Walkable Headquarters:** Creating a more walkable, central PPS headquarters with greater accessibility via public transit, vehicle, and bike for staff and the public.
- 6) Strengthen & Stabilize Enrollment:** Stabilizing enrollment at Jefferson High School, Tubman Middle School and Boise-Eliot Elementary School to maximize current investments, securing general fund allocation for PPS' most historically neglected schools.
- 7) Environmental Sustainability:** Clearing the way for the development of Oregon's first climate-positive (carbon-negative), child-centered district in the heart of Lower Albina.

THE CONTEXT:

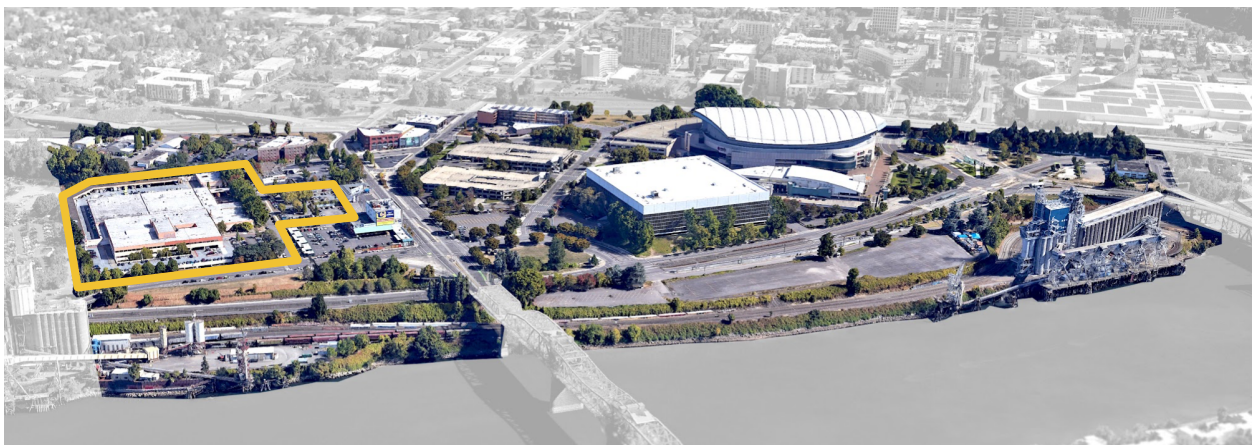
This Ground is Special

For several years, the Albina Vision Trust (AVT) has been envisioning a new kind of community in Portland's Lower Albina. We are leading America's largest restorative redevelopment effort, one that centers the re-rooting of Black people, families, and culture in the economic heart of our city. That work includes making sure that we are reflected in the built environment and that we participate in the wealth generated by our presence as owners of our homes and businesses.

The story of Albina is the story of urban America.

Historically, Albina was home to 80% of Portland's Black population. During the 1950s and 1960s, racist urban renewal policies displaced families from the area. Albina was classified "blighted" and redlined, with properties condemned for cents on the dollar. City and State bureaucrats demolished thousands of homes to build Interstate 5, Veterans Memorial Coliseum, and the sprawling, 10.5-acre Portland Public Schools (PPS) headquarters facility, now known as the Dr. Matthew Prophet Education Center (PEC).

This ground is special. As shown below, the PEC sits in the center of Lower Albina, 94-acres of central city real estate situated along the banks of the Willamette River. The PEC site, and Lower Albina as a whole, offer the unique ability to develop at-scale without displacing, disrupting, or uprooting existing residents. In 2021, AVT was successful in acquiring the right of first offer/refusal on the PEC.



Situating our work in context means understanding the role that **Portland Public Schools** has historically played in **the destruction of Black families** here in Lower Albina. It also means understanding that the way forward must be firmly rooted in the principles of racial and economic justice.

PEC Financial Burden: Capital and Operating

PPS conducted two studies on the PEC site over the last five years: 1) The BESC Future Initiative Phase 1 Report (2019) and 2) The Prophet Center Future Initiative Phase 2 Report (2022). These reports studied the PEC site value, determined PPS' space and occupancy requirements, and analyzed relocation, consolidation, and redevelopment options for the PPS headquarters. The reports concluded that no option studied, including staying in-place, was cost neutral to PPS.

Per the Phase 2 Report, the PEC’s rising deferred maintenance will eventually force PPS to address major systems failure and structural issues at the facility. These necessary updates may trigger costly seismic upgrades, resulting in an **expensive capital project** for PPS.

The Phase 1 Report estimates the **basic maintenance and capital improvement** costs for PPS to stay on-site at **\$14.1M** (as of 2019), before any seismic improvements. While the exact capital costs and timeframe for triggered seismic upgrades is unknown, the scale of the costs will be significant and could require urgent action. A full seismic retrofit of the PEC would require an additional \$65.7M according to cost analysis in the Phase 2 Report. This, along with rising deferred maintenance, is an **unfunded liability** and presents **financial risk to PPS**.

The cost to **maintain operations** at the PEC is also **significant**. Over a 15-year term, operating expenses alone are estimated to be \$26.8M versus \$16.8M for a renovated office building according to the Phase 1 Report. This means PPS is paying 60% or \$10M more to operate the PEC than they would for another office building.

Unique Real Estate Market

There is a short window for the acquisition of an existing, high-quality office building in downtown Portland at a **significant discount**. This discount is based on distress in the Portland office real estate market, concentrated in downtown, due primarily to high interest rates for debt financing and high vacancy rates for commercial office buildings. While these factors constrain development, and depress land values, they create a unique opportunity for office acquisition by an owner-occupier. These discounts on acquisition price can be significant, upwards of 30%–75%.

THE OPPORTUNITY:

As showcased above, the cost for PPS to stay in the PEC is significant. PPS has a **short window** of time to leverage current market dynamics and explore a cost-neutral relocation option in partnership with the Albina Vision Trust (AVT).

In this opportunity, AVT would facilitate the acquisition of a high-quality office building in downtown Portland in exchange for the transferred ownership of the PEC to AVT. This strategic partnership is the only relocation option, identified in 5-years of site study, that does not result in significant cost to the PPS. The exchange of property would **meet or exceed the fair market value** for the PEC site.

The table below shows the financial analysis, completed in the Phase 2 Report, of the most financially feasible options for PPS relocation. The table compares the following scenarios: A) Staying-in-Place; B) Renovating the PEC to meet PPS needs; C) Ground-up development on a new facility; D) Market-rate sale of the PEC and acquisition of an existing building; E) Long-term lease at the Liberty Center; and F) AVT’s proposition to acquire an existing building in exchange for the PEC Site. This comprehensive analysis is designed to shed light on the financial landscape and identify the most advantageous course of action for PPS.

	A. Stay-in-Place at PEC (Minimum Deferred Maintenance)	B. Renovate PEC	C. Construct New Facility Offsite	D. Sell at Market Value/Acquire Existing Building	E. Lease Alt: Liberty Center	F. Partnership with AVT
PPS Options	PPS Phase 1 Study	PPS Phase 2 Study				
Total Net Capital Cost to PPS (Net of PEC Sales Proceeds)	-\$14.1M	-\$220M	-\$166M	-\$77M	-\$8.7M	\$0

AVT’s proposal is the sole cost-neutral option. Option A, one of the lower cost options, is infeasible long-term given the increasing deferred maintenance and risk for costly seismic upgrades. Option D, a private-market sale, was \$78M more costly to PPS than the AVT partnership when studied in the 2022 Phase 2 Report. Option

E, the long-term lease, has the lowest upfront capital cost of the options studied. However, the Phase 2 report reviewed whether it was more financially prudent for PPS to own or lease new office over a 20-year term and this analysis determined that the net present value of the leasing costs was \$6M greater than the net present value of the costs to acquire and hold an office building (Option D).

Embracing AVT's partnership is a responsible move in real estate and budget management for PPS, showcasing a commitment to financial stewardship and bolstering public confidence in the decision-making process.

Value Creation for PPS: Private Market Sale vs. AVT Partnership

The market value of real estate is not fixed and varies based on market conditions. The highest site value for the PEC is in the land as a redevelopment opportunity. For a new development to be financially feasible, the development costs (i.e. land acquisition, design, permitting, construction, etc.) cannot exceed the total development value. This means that the PEC site value and appreciation is limited by the total development value.

Given current real estate conditions, there are limited-to-no alternative buyers for the PEC site. New commercial development is largely infeasible due to high construction costs, high interest rates, and the limited availability of debt and equity financing. Based on these market conditions, it is highly unlikely that PPS would be able to transact with a private market buyer at a price and on a timeline that would allow for the cost-neutral relocation of PPS headquarters.

Waiting for the market to return and a future buyer would similarly fail to create value for PPS. A top-of-market sales price tracks with top-of-market acquisition and relocation costs, as evidenced by a previous site offer. In 2019, PPS received an unsolicited site offer of ~\$80M. This offer had a low likelihood of closing and/or transacting near the offer price. However, even if the offer had closed at that price, PPS' review of relocation options at the time found that this offer did not cover the required acquisition and relocation costs. The deficit between PEC sales price and the cost of relocation for a market transaction was also confirmed in the 2022 Phase 2 study.

Based on analysis created through 5-years of site study, the AVT transaction is the optimal path for value creation for PPS compared to a transaction with a private market buyer.

Additional Benefits to AVT Transaction

AVT's proposal also offers additional transaction-related benefits outlined below:

1. **Certainty of Close:** Broadway Corridor has a 2nd private developer after the 1st backed out which means time and money is wasted.
2. **Flexibility:** Greater flexibility in leaseback/move-out timeline in partnership with AVT versus a private market sale.
3. **Transaction Sequencing:** The transaction sequencing (aligning the acquisition of new office space and the sale of the PEC site) with a private market buyer would likely be infeasible.
4. **Acquisition Support:** Partnership with AVT allows for additional support and resources in the acquisition of new office space as well as the resolution of County warehouse space issues.
5. **Downtown Office Asset Appreciation and Long-term Growth:** PPS would likely see significant appreciation to a downtown office asset over a mid-term horizon as the downtown market returns, based on the discounted acquisition price.

Finally, and of utmost significance for the community, the City and the State, AVT's partnership brings significant social and community benefits unmatched by any other development scenario, with direct benefits to PPS, as well as Portland students and families. Full impacts are detailed in the following section.

THE IMPACT:

PPS can clear the way for a nationally precedent-setting, child-centered redevelopment effort and reactivate the communal fabric of Lower Albina.

Relocating the PEC would enable the development of **over 1,000 units of child-centered housing, an education hub**, mixed-use commercial opportunity, and abundant communal green space in the heart of our central city.

The urgency of the current moment cannot be overstated:

1. **Market Opportunity:** Current conditions for office space downtown mean that relocation is cheaper than it will ever be due to historically high interest rates. PPS has the opportunity to acquire a fully outfitted, virtually turnkey-ready headquarters building for **pennies on the dollar**, creating a once-in-a-generation purchasing opportunity while also contributing to the long-term rebuilding of community wealth.
2. **Fiscal Responsibility:** The Prophet Education Center is a long-term financial liability for PPS. The site is undevelopable in its current form and further site investments will not translate to value at sale, leaving PPS with a building that is oversized, under-utilized and costly to maintain. Long-term, this will create additional burden on the general fund and/or future bonds, which should prioritize modernizing neighborhood schools.
3. **Housing Working-Class Portlanders:** The site represents a large-scale development opportunity capable of bringing affordable, family-centered housing to the central city. The Prophet Education Center occupies 10 acres of prime central city land that could otherwise **house 3,000 working-class residents**, therefore addressing Portland's housing crisis at scale.
4. **Central, Accessible, Walkable Headquarters:** A downtown office location offers significantly improved accessibility by multi-modal transportation, particularly via public transit from all corners of PPS.
5. **Strengthen & Stabilize Enrollment:** Portland Public Schools is investing nearly half a billion dollars into Albina through the modernization of Jefferson High School, the relocation/rebuilding of Harriet Tubman Middle School and the creation of the Center for Black Student Excellence. Ensuring there is adequate, affordable housing for thousands of families through the redevelopment of the Prophet Education Center is a key part of the strategy to **stabilize enrollment at neighborhood schools**.
6. **Environmental Sustainability:** Portlanders living adjacent to interstate highway systems have a higher incidence of asthma and worse overall health outcomes than their more advantageously situated neighbors. We cannot talk about economic and racial justice without simultaneously centering environmental justice. The Prophet Education Center can serve as a pilot zone to develop **Oregon's first climate-positive (carbon-negative) district**. The scale of the development offers a unique opportunity to both improve life outcomes for our most marginalized central city residents and reposition Portland as a national leader in environmentally conscious urban planning, design and construction practices.

The relocation of PPS headquarters is not at all about PPS. It's about clearing the way so that Portland's Black community can finally begin working towards making itself whole.

The Albina Vision Trust is proud to stand alongside PPS in advancing this generational effort to ensure a permanent, equitable and accessible home for Black and under-represented Portlanders in the heart of our city. Together, we can leverage policy to move historically displaced residents back into Albina affordably and create a vibrant and intentionally designed ecosystem geared around providing marginalized community members with legitimate generational mobility and opportunity from cradle to grave.