

Case Study: Downtown Hillsboro's 4th Main Public-Private Partnership

When the developers of the 4th Main hosted the building's grand opening in May 2014, the ribbon-cutting celebration represented the culmination of more than 16 years of work on the part of the City of Hillsboro and Metro to create a catalyst mixed-use project that would add housing units, enhance retail and commercial activity, and inspire additional investment in the City's historic Downtown neighborhood.

The underlying property entered public ownership in 1998, and the public-private partnership established with Tokola Properties in March 2012 would lead to the construction of 71 market-rate housing units and more than 3,800 square feet of commercial space fronting Main Street and 4th Avenue. The four-story, mixed-use building replaced what was a parking lot, and returned the property to the tax rolls. Next door, the renovation of the adjacent building, formerly a Wells Fargo Bank branch, would eventually create a home for the regionally-acclaimed professional theatre company, Bag & Baggage.



As part of the City of Hillsboro's commitment to excellent customer service and transparency, City Manager Michael Brown requested that results created by the 4th Main public-private partnership be documented so that Hillsboro community members and future leaders could understand the project's history and the terms of the public-private partnership, and then analyze the project's outcomes.

This case study is to be one of several documentations of the public-private partnerships entered into by the City of Hillsboro.

The Regional Importance of Downtown Hillsboro

- Downtown Hillsboro is regarded as the historic heart of the greater Hillsboro community. With its rare and unique turn-of-the-century urban form, and retail frontage along Main Street, Hillsboro has retained its small-town charm and character even as the City has expanded dramatically in other areas.
- Metro's 2040 Growth Concept Plan designates Downtown Hillsboro as a "regional center", concentrating public and private investment in new housing, office space, and neighborhood-supporting commercial development. Downtown Hillsboro's designation as a regional center is due to its role in providing high-quality jobs, its proximity to the regional light rail system, and the community's vision for Downtown Hillsboro to become an active, vibrant core that serves the surrounding community.
- While major private employers – such as Intel, Genentech, and SolarWorld – are located within a short distance, Downtown Hillsboro has retained its historical role as the government center of Washington County.
- The award-winning Hillsboro Civic Center – one of the first Gold Leadership in Energy and Environmental Design (LEED)-certified city halls in the country – opened in 2005 at the corner of Main Street and 1st Avenue. The Civic Center includes the Tom Hughes Civic Center Plaza, which serves as a community gathering space and venue for special events and activities.
- The neighborhood's regional importance has helped ensure it is well-connected to regional transit through TriMet's MAX Light Rail system and four bus lines.
- Downtown Hillsboro revitalization is a high priority for the City of Hillsboro and its citizens. The City of Hillsboro has worked and continues to work on the Downtown Enhancement Program, a comprehensive strategy to continue Downtown Hillsboro's revitalization.
- The Hillsboro 2020 Vision and Action Plan, originally developed in the late 1990s, describes a 20-year community vision for Downtown Hillsboro, including:
 - Fostering a vibrant, redeveloped Downtown district which serves as the heart of the community.
 - Identifying and encouraging redevelopment and renovation opportunities.
 - Maintaining the overall "small-town" character.
 - Creating "third places". Third places are defined as locations (restaurants, plazas, etc.) where people gather, other than their home or work place.
 - Providing new housing options that will add residents to Downtown.

The History of the 4th Main Property

- Three blocks east of the Hillsboro Civic Center, at the corner of Main Street and 4th Avenue, sits the four-story 4th Main building.
- The property's history included time spent as home to a livery stable, a gas station, and residential dwelling units.
- In 1998, the space was home to a surface parking lot adjacent to the former Wells Fargo Bank Building, which sat shuttered.
- During the planning of the Westside MAX Light Rail Blue Line, the City of Hillsboro and Metro agreed to purchase the 48,414-square-foot site with the long-term intention of redeveloping the property as a transit-oriented development project.
 - The City of Hillsboro paid \$66,755 for 10.27 percent ownership of the property.
 - Metro purchased the remaining 89.73 percent of the property for \$583,245.
 - Metro's funding source for its share of the acquisition was the Federal Transit Authority.

- Throughout the 2000s, the market was not ready to support development of the property, but toward the end of the decade and in 2010, interest in the property increased following a developer roundtable event in Downtown Hillsboro.
- In October 2009, the City of Hillsboro completed the Downtown Framework Plan (DFP) that included an extensive public outreach process identifying specific short- and long-term actions to achieve economic, physical, and civic revitalization of Downtown and its surrounding neighborhoods. The DFP formalized the community's Downtown Vision, and sets goals, policies, and actions to implement the vision. Those goals sought to ensure:
 - A vibrant, active, sustainable and accessible Downtown core.
 - Development in the Downtown neighborhood is compatible.
 - Pedestrian, bicycle and transit travel is safe and well-connected.
 - Major streets are more inviting with enhanced streetscapes and safe pedestrian and bicycle crossings
 - Sustain and enhance Downtown's economic, environmental, cultural, and historic diversity.
- Simultaneously, the City worked to streamline the development code for Downtown Hillsboro to make the code more conducive to the type of development desired for the neighborhood, including revising the maximum density for the area from 35 units per acre to 90 units per acre.
- Staff also launched the Main Street program, a multi-pronged effort to strengthen the retail core through marketing and branding, events and promotion, and design improvements.
- In 2010, the Downtown Hillsboro Urban Renewal District sought to create additional revenue through tax-increment financing (TIF) that could be used to invest in Downtown Hillsboro projects. Within the roughly 1,100 acres of Downtown Hillsboro, the TIF monies would be invested and, in turn, raise property values and increase opportunities for development.
- Of particular interest to the community were projects that would help to achieve the active, vibrant Downtown experience over the course of 18 hours each day, between 6 am and midnight.

Setting Development Goals for 4th Main

Based on growing indications of developer interest, in September 2010, the City of Hillsboro and Metro issued a Request for Qualifications (RFQ) for a development team capable of meeting several goals for the site:

- Support the City and Metro's Downtown Hillsboro growth objectives by incorporating transit-supportive, pedestrian-friendly development with relatively high density.
- Enhance Hillsboro's traditional Downtown by adding more housing, providing an attractive pedestrian environment, interesting shops, restaurants and other active ground floor uses.
- Serve as a model of high-quality design and construction.
- Serve as a model of sustainable development.
- Meet a minimum floor-area ratio (gross floor area: lot area) of at least 1:1 (structured parking included as floor area).

The RFQ also sought a developer or business owner that could provide a compelling business plan that would result in redevelopment of the former Wells Fargo building into an active use that contributes to urban living and generates support for new housing in the Downtown. Restaurants and brew pubs, or similar uses which provide evening activity Downtown, were considered highly-desirable. The expectation was that the use of the existing building would generate daytime, evening, and weekend activity – preferably six or seven days and nights each week – and that the use, or combination of uses, would be complimentary to existing Downtown businesses and demonstrate successful place-making.

An immediate and necessary goal for the property was environmental cleanup. At some point in its history, the soil of the property became contaminated, rendering it a brownfield site. Ultimately, the City of Hillsboro and Metro selected Tokola Properties as the successful proposer of a four-story, mixed-use residential and commercial development that would add housing units and continue the revitalization of the Downtown area. With the project's completion in 2014, the 4th Main property returned to productive use as private property after 14 years of public ownership as a vacant building and parking lot.

Financial Details of the Public-Private Partnership

- The 4th Main project's original cost of \$16.4 million increased to more than \$18 million after Tokola Development opted to perform seismic upgrades on the former Wells Fargo Bank building.
- This public-private partnership leveraged \$15.765 million in private investment with \$2.3 million in public participation to produce the 4th Main project.
- Tokola's \$15.765 million investment included the purchase of the property for \$150,000.
- Combined, the City of Hillsboro and Metro contributed nearly \$2 million to the project, a figure that increases to \$2.8 million if the land value write down is factored in. While the appraisal of the land indicated a value of more than \$1 million, the usage restrictions for the property as a Transit-Oriented Development effectively pushed the property's real value below zero when factoring in the costs associated with development. Metro's Transit-Oriented Development program contributed a \$465,000 grant to the project with the requirement that 4th Main remain transit-oriented for 30 years.
- Business Oregon offered a \$300,000 low-interest loan payable over 10 years as part of its Brownfields Program to cover the costs of site clean-up related to low-level soil contamination from a petroleum-based product. Metro contributed to the site clean-up as well by providing a \$100,000 grant.
- The City of Hillsboro invested \$872,000 in urban renewal funds to pay for required system development charges (SDCs) and the repayment of the Brownfields Program loan over 10 years. Tokola contributed \$162,284 toward the payment of SDCs.
- Other specific contributions from the City of Hillsboro included:
 - Predevelopment assistance: \$76,625
 - Geotech services: \$4,601
 - ALTA survey: \$3,700
 - Historic plaque for the former Wells Fargo Bank building: \$5,000
 - Environmental studies: \$10,850
 - Land division survey work: \$4,500
 - Contracted staff assistance – economic and financial analysis: \$19,000
 - Contracted staff assistance – historic review: \$4,620
 - Final plat application fee: \$790
 - Design review application fee: \$5,775
 - Land value write down: \$103,727
- Other specific contributions from Metro included:
 - Predevelopment assistance: \$76,625
 - Contracted staff assistance – architectural critique: \$8,000
 - Contracted staff assistance – appraisal & review appraisal: \$9,018
 - Contracted staff assistance – FTA applications: \$3,830
 - Contracted staff assistance – environmental studies: \$39,000
 - Minor land partition fee: \$1,575
 - Land value write down: \$756,273

- Through the Vertical Housing Development Zone, the owner of the property, 4th Main LLC – an affiliate of Tokola Properties – is receiving a 60-percent property tax abatement over 10 years..
 - This abatement began on July 1, 2015 and will end on June 30, 2025, when the property tax returns to 100 percent collection.
 - 4th Main LLC currently is paying 40 percent of property taxes, which amounted to \$49,654 in the 2015-16 tax year.
 - Prior to the sale of the 4th Main property to Tokola Properties, the property did not generate tax revenues under public ownership.
 - The 4th Main mixed-use project fits the requirements of a Vertical Housing Development Zone as an area designated as entirely within either a light rail station area, a transit-oriented development district, a core area of an urban center, a defined central city, regional center, town center, main street or station community in the Metro 2040 Regional Growth Concept Plan, or an existing central business district or downtown area.

Housing Impact

- When it opened to residents in 2014, the 4th Main project added 71 market rate housing units to Downtown Hillsboro, creating new housing options for the neighborhood and for employees at Intel, Tuality Healthcare, and other local companies who desire to live in a downtown environment and commute to work via the MAX Light Rail.
- Prior to the building's completion, Tokola Properties reported an interested parties list totaling 321 people.
- Five tenants signed leases sight unseen prior to the building's completion.
- Full occupancy was achieved six months after the building opened.
- As of 2016, the building's management reports receiving between 20-30 calls and emails from prospective residents each day.
- Lenny Leger is a 4th Main resident and owner of the L Technology business at 4th Main. Leger said, "The apartments are modern and contemporary inside an industrial decor building. The location contains available underground parking, bicycle storage, and is next to the Washington Street MAX and bus transit. An added incentive; there's convenient retail shops on-site on the first floor."
- Dale Buck, Manager of the 4th Main Apartments, said, "There is a common thread that runs through the conversations that we have with prospective residents regarding 4th Main. The idea of living in the Downtown area with all of the local amenities is very attractive along with the fact that we are only half a block from the MAX and Bus station and only four blocks from the Pacific University Health Professions campus.... The apartments are very well appointed and are mentioned as the 'nicest in the area'."



- 4th Main apartment unit size and monthly pricing as of May 2016:

3 studios	545 square feet	(\$900)
17 1BR/1BA lofts	583-992 square feet	(\$845-\$1,250)
33 2BR/2BA lofts	990-1,295 square feet	(\$1,245-\$1,350)
12 2BR/2BA flats w/ den	1,186+ square feet	(\$1,300-\$1,375)
Six 3BR/2BA flats	1,224-1,290 square feet	(\$1,465-\$1,560)
- Apartment unit amenities: 9-foot ceilings, stainless steel appliances, air conditioning, wood cabinetry, quartz countertops, a private deck or patio, and access to a 24-hour fitness gym.
- Tenants of the 4th Main building range from families to couples to single adults. In 2015, the ages of tenants ranged from 9 months old to 81 years old.

The Importance of Transportation Options

- The ability to access public transportation directly outside the 4th Main building via TriMet's SE 3rd Avenue Transit Center is a key advantage for the property. From the Hillsboro Transit Center, residents can access the MAX Light Rail Blue Line, which serves Hillsboro to Gresham, and occasionally the Red Line, which serves Hillsboro to the Portland International Airport. Four TriMet bus lines make stops at the Hillsboro Transit Center.
- Management at 4th Main reports that access to the MAX Light Rail is consistently cited by prospective tenants as an important factor in making their housing decision. They report that it's rare to not hear a prospective tenant discuss the value of commuting to work via the MAX or, for vehicle owners, to be able to travel to Portland and avoid traffic and parking costs.
- Tenants have two options for parking their vehicles at 4th Main, which has a total of 86 parking spaces. The building's underground, secured parking garage is accessible only by an opener given to residents who choose to pay a \$50 monthly fee for the parking privilege. On the ground level, tenants can opt to pay \$35 each month for covered parking in an area that is accessible to the public and is monitored by security cameras. Additional parking is set aside for customers at McNally's and other commercial spaces, in addition to available street parking. 4th Main management reports that several residents seek to save money by parking on the street outside of the 9 am – 5 pm weekday period in which street parking is limited to two hours. Guests of 4th Main tenants also must park on the streets surrounding the building, as there are no guest parking spaces set aside.
- Tenants can access bicycle storage racks at no cost, along with a bicycle repair and washing station. The bike racks are partly the result of an effort to keep the building's patio space visually appealing by ensuring bikes are not stored there.
- Pedestrian access to Downtown Hillsboro is equally cited as an important advantage of 4th Main's location.



Businesses and Jobs

- Beyond expanding housing options in Downtown Hillsboro, the construction of the 4th Main mixed-use project created 140 construction jobs.
- The building's design offered 3,850 square feet of first floor retail space to accommodate up to six storefronts.
- The first retail tenant to sign a lease, McNally's Taproom, signed a five-year lease to occupy 1,800 square feet on the western edge of the Main Street side of the building at 370 East Main Street.
- McNally's owner Jim McNally opened his business in 2014 as a craft beer destination featuring 20 rotating taps or premium craft beer, natural ciders, and mead. The space had capacity to seat 65 people indoors, with available outdoor seating on Main Street and in the adjacent alleyway. The business added food service in 2015.
- The early thought was that the remaining retail space would prove more attractive after residents moved in. Additional retail tenants proved elusive during the building's first two years. While many entrepreneurs expressed interest in leasing, the retail space remained vacant through spring 2015. After targeting such retail uses as a grocery store, a brewpub, or a diner, the focus shifted to other commercial use.
- L Technology opened at 380 East Main Street, next to McNally's, in July 2016. The IT security and computer repair services business had previously operated out of the owner's house in Beaverton. The physical storefront allowed L Technology's owners to expand its retail repair services for customers.
- Perks of Art opened in August 2016 at 384 East Main Street, occupying the last remaining commercial space available at 4th Main. The business describes itself as a community art space to sell local artists' work, while also hosting art shows and music events. Perks of Art also sells coffee and offers a wine bar.
- The addition of 4th Main and McNally's has aided surrounding businesses, particularly retail and restaurants in the direction of the Hillsboro Civic Center that benefit from the increased foot traffic from 4th Main residents and McNally's visitors.
- Bag & Baggage Founding Artistic Director Scott Palmer said, "We have noted a very specific impact on our ticket sales, and an increase in foot traffic and restaurant patronage, directly as a result of the 4th Main development."
- Restaurants that have opened in Downtown Hillsboro following 4th Main's opening in 2014 include Pizzario, Clark's Bistro, Manaia Café, Aybla, and Abu-Rasheed Express. Insomnia Coffee is set to open in fall 2016.
- As L Technology co-owner and 4th Main resident Lenny Leger explains, "With a wide variety of goods and services available within walking distance, there's no reason to drive anywhere. Main Street comes alive every weekend with music pouring from the restaurants, such as Pizzario and Clark's Bistro. The best feature is having the Saturday Farmers' Market a block away."
- In July 2015, the Hillsboro Economic Development Council agreed to facilitate a loan using urban renewal funds from the Downtown Hillsboro Urban Renewal District so that Bag & Baggage could purchase the former Wells Fargo Building at 350 East Main Street.
 - 350 East Main Street is adjacent to the 4th Main mixed-use building, but part of the 4th Main





development project.

- Bag & Baggage reached a deal with Tokola Properties on a purchase price of \$775,000.

- The regionally-acclaimed professional theater company had called Hillsboro's Venetian Theatre home since 2007, and had set a goal of expanding its operations in a theatre that the nonprofit organization owned and controlled.

- Knowing that Bag & Baggage could seek a new home outside of Hillsboro, the City of Hillsboro sought to ensure Bag & Baggage's continued success

in Downtown Hillsboro as part of a citywide strategy to support the arts and continue the revitalization of Downtown Hillsboro.

- The regionally-acclaimed company closed on the purchase of the property and launched a fundraising campaign to renovate the space.
- Bag & Baggage plans to begin performances at 350 Main Street in September 2017.

Additional Community Benefits

- **18-hour environment:** The City's goal for creating an 18-hour environment in Downtown Hillsboro was aided by the addition of new residents living in apartments at 4th Main, as well as the opening of McNally's Taproom, which gave visitors another reason to enjoy spending time in Downtown Hillsboro during the evening. The future use of the 350 East Main Street building by Bag & Baggage will further support efforts to create a welcoming 18-hour environment in Downtown where visitors have many options for spending discretionary income.
- **Connecting the historic Main Street with the Health & Education District:** The addition of 4th Main has improved the connection between the Health and Education District and historic Downtown Hillsboro. Students from Pacific University and Portland Community College's Downtown Hillsboro campus and employees and visitors from Tuality Hospital are only one MAX stop and a few blocks walking distance from 4th Main.
- **Modern design in Downtown Hillsboro:** Adding the modern, four-story mixed-use building at 4th Main builds upon previous vertical development of the Washington Street Station Apartments, the Intermodal Transit Facility, and the Hillsboro Civic Center. 4th Main announces to visitors traveling from the east that they have arrived in Downtown Hillsboro, with a pedestrian-friendly façade and storefront windows that are far more aesthetically-pleasing than the previous surface parking lot. The project has demonstrated the desirability of urban living in Downtown Hillsboro and provided strong visual evidence to the community that substantial new investment is underway in the Downtown core.
- **Class-A retail space:** 4th Main's arrival in Downtown Hillsboro also created the neighborhood's only Class A retail space, helping to raise the average rent for the area with its high-quality standard finishes.
- **Tax revenues:** Along with property tax payments, the 4th Main project is helping to generate additional business and personal income taxes that pay for services at the state, county, and city level – including

education, parks, policing, and fire protection.

Awards

- **Better Bricks Award:** In August 2014, the Portland Business Journal recognized the City of Hillsboro, Metro and Tokola Properties' work on the 4th Main mixed-use development project with a 2014 Better Bricks Commercial Real Estate Award for the Public/Private Partnership of the Year. The Better Bricks Awards "celebrate the companies and individuals behind the region's most exceptional Commercial Real Estate projects, deals, leases and partnerships." For the 4th Main project, the Better Bricks Award signified regional recognition of the innovative partnership between the public and private developers to further the goals for revitalization in Downtown Hillsboro.
- **Oregon Main Street Award:** In September 2014, the Oregon Parks and Recreation Department honored the 4th Main project with an Oregon Main Street Award as the Best New Building Project. The award gave statewide recognition to the project's value as the first mixed-use development in Downtown Hillsboro.
- **Oregon Brownfields Award:** In May 2016, Business Oregon recognized the City of Hillsboro, Metro, and Tokola Properties with an Oregon Brownfield Award for the 4th Main project. The Oregon Brownfields Awards honor "individuals and groups that have implemented innovative, yet practical, remediation projects that stimulated economic development through job creation or retention, or addressed a critical community development need." The Oregon Brownfields Award provided statewide recognition of the project's balance of economic and quality of life improvements, along with significant environmental gains.



Conclusion & Analysis

- Any analysis of the value of the 4th Main public-private partnership must conclude that the addition of new residents has helped Downtown Hillsboro as a neighborhood and as a place where businesses can be viable.
- 4th Main was envisioned as a significant step toward fulfilling the vision of a thriving Downtown Hillsboro, and it has achieved its goals of activating the space, enhancing quality of life, and creating additional economic opportunity for the neighborhood.
- The development would not have come to fruition without the public-private partnership. Tokola Properties owner Dwight Unti said, "Simply stated, without a public/private partnership it would not have been feasible to achieve the desired mixed use/urban form of development featuring a high density, high quality project with structured parking, elevator service, Class A ground floor retail space and a robust package of common area amenities. In fact, based on the financial, environmental and regulatory obstacles affecting development of the site, it is likely either no development would have occurred or at best the result would have been a low density, low quality project featuring strip like retail fronting Main Street and supported by significant surface parking." Unti described working with the City of Hillsboro as "one of the best experiences we have had working with a city or municipality in all of our projects."
- The combination of tools utilized in the 4th Main project include private debt and equity; public tools, such as a Vertical Housing Tax abatement; a land write down; pre-development funding; the Transit Oriented Development Easement, the State's low-interest environmental remediation loan program; and, urban renewal funds for System Development Charges and other project costs.
- Filling the vacant commercial space took longer than initially anticipated, but ultimately, the property secured tenants on long-term leases.
- The addition of McNally's Taproom, L Technology, and Perks of Art have expanded retail offerings for nearby residents and employees, and made Downtown Hillsboro a more attractive destination for visitors.
- Said Scott Palmer of Bag & Baggage, "The 4th Main project has had an enormous impact on the overall visual attractiveness of Main Street, and particularly at the "entrance" to Downtown that is the corner of 4th and Main. The high-quality construction, the building's impressive architecture, and the overall feeling of being a modern, highly sought after location is an enormous benefit to the Downtown area... We have also noted an increase in the ethnic and age diversity of residents, shoppers, and our own patrons, many of whom are residents of the 4th Main building. The diversity of the residents is an exciting and ultimately very positive addition to the make-up of our Downtown."
- The success of the 4th Main project has created a model that can inspire additional development in Downtown Hillsboro with a reduced need for public assistance, and can be replicated in other cities as well.
- While the goal of adding residents and businesses to the Downtown neighborhood is immediate and realized, further analysis in the years to come will better answer the question of whether 4th Main has served Downtown Hillsboro well in helping to generate additional investment.

