EXHIBIT A

CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

Nick Fish, Commissioner
Margaret Van Vliet, Director
421 SW 6th Avenue, Suite 500
Portland OR 97204
(503) 823-2375
Fax (503) 823-2387
www.portlandonline.com/PHB

184714

DATE: May 27, 2011

TO: Planning and Sustainability Commission

FROM: Portland Housing Bureau Investment Committee
Submitted by: Kim McCarty Portland Housing Bureau

SUBJECT: **PHB INVESTMENT COMMITTEE RECOMMENDED APPROVAL OF 18-YEAR TAX EXEMPTION EXTENSION REQUESTED BY HAZELWOOD GROUP LLC FOR THE PORTION OF THE HAZEL WOOD RETIREMENT COMMUNITY REQUIRED TO BE RESERVED FOR HOUSEHOLDS AT OR BELOW 80 PERCENT AREA MENDIAN FAMILY INCOME.**

PROJECT DESCRIPTION

Project Name: Hazelwood Retirement Community
Applicant: Hazelwood Group LLC

The Hazelwood Retirement Community is located at 11933 NE Davis St. near NE 122nd Avenue and Glisan Street on a 35,000 square foot rectangular site, which is part of a 17-acre a mixed-use shopping center. It is three blocks from the 122nd Avenue and E Burnside MAX light rail station. The site is zoned Central Commercial with a design overlay (CXd). (See Hazelwood Photos and Site Map.)

PROJECT INFORMATION

The project is the upper three stories of a four-story structure over small retail shops between a Safeway and Target department store. It has 120 units of congregate housing for people 62 years old or older. The project provides additional services including: meals, on-site activity director, van transportation, 24-hour attendant, and 24-hour security.

PROJECT REQUEST

The project owner, The Hazelwood Group LLC, requests an extension of the tax exemption on the entire improvement value of the project. The reason for request is to preserve the financial viability of the project for the duration of the required period of affordability for 80 percent of the units, which ends in 2029.

REGULATORY AGREEMENTS

The Project has three regulatory agreements. The ten year City Ordinance for the original Transit Oriented Development tax abatement mirrors the recorded PDC/PHB regulatory agreement that restricts 28 studios and 8 one bedrooms at 50% MFI, 4 one bedroom units at 60% MFI, and 56 one bedrooms at 75% MFI through July 2028. PHB's restriction lasts 15 years beyond the maturity of the PHB loan. The remaining 24 two bedroom units are unrestricted. The state's recorded Regulatory Agreement and Declaration of Restrictive Covenants are less restrictive than PHB's affordability requirement since it restricts only 24 units at 50% MFI through November 15, 2029.

PROGRAM BACKGROUND

The Hazelwood Retirement Community had a 10-year limited tax exemption allowed under City Code Chapter 3.103, the TOD tax exemption program. This program is available in MAX light rail station areas and other transit-oriented areas. This exemption applies to the improvements but not the land. Both the State Statutes that enable this program and City Code Chapter 3.103 allow a tax exemption to be granted [or extended] to existing projects that are subject, or will be subject, to a public assistance contract to provide low income housing through June 30 of the year that the contract expires.

The City advocated at the State Legislature in the 1990s for the change to the State statutes that authorize the City's NMUH and TOD programs to allow low income housing subject to a public assistance contract to provide low income housing to receive the exemption for more than 10 years. The City wanted to be able to offer a tax exemption to private owners providing low income housing as an incentive for continuing to participate in public housing assistance contracts such as those with the Section 8 program. The State Legislature approved this change but the City did not incorporate it into our City Code regulations for the NMUH and TOD programs at the time.

In 2006, the City amended the TOD program regulations to incorporate the change in the State statutes along with some other changes to the program regulations and boundaries. The intention was to allow tax exemption for the length of a public assistance contract in order to preserve the City's supply of affordable housing. This is a different standard than the affordability requirement of Portland's program for the 10-year TOD exemption, which is that either 20 percent of the units be affordable to households at or below 60 percent MFI or 10 percent of the units affordable to households at or below 30 percent MFI. This intention is stated in Exhibit B: Planning Commission's Report and Recommendation on Changes to the City's TOD Tax Exemption Program that is attached to the Ordinance No. 180782 adopting the changes to City Code Chapter 3.103. *(See top of Page 2 of attached Excerpt from Exhibit B of TOD Changes Ordinance No. 180572.)*

State Statute ORS 307.630 allows for extensions of tax exemptions if a project has a long term affordability agreement. State statute leaves it up to the jurisdiction, where the project is located, to decide whether or not to grant extensions. City Code, Chapter 3.103, allows for extensions but is silent on the procedure for approving exemption extensions. In the case of the Hazelwood Retirement Community the Portland Housing Bureau staff reviewed new financial information and completed a new financial analysis to determine whether extension of the TOD limited property tax exemption is necessary to make the project financially feasible. After a recommendation from PHB Housing Investment Committee, the Bureau of Planning and Sustainability staff will prepare a report for the

Planning and Sustainability Commission to determine if the Planning and Sustainability Commission needs to revisit their 2008 recommendation to approve the extension of the tax exemption for the length of the affordability agreement for the affordable units. Following an updated recommendation by the Planning and Sustainability Commission, the application will be forwarded to City Council for approval.

The limited property tax exemption, if approved by the City, exempts the value of the Project's residential improvements from taxation for the period of the exemption or extension. The property owners pay property taxes on the value of the land and personal property that is part of the property.

PROJECT BACKGROUND

City Council approved the original ten-year tax exemption under the City's New Transit Supportive Residential and Mixed Use Development (TOD) tax exemption program for the entire improvement value of this project on November 12, 1997 by Resolution No. 35735. The exemption was set to expire June 30, 2008.

Hazelwood Retirement Community applied for an extension of their tax exemption for the all of the units until the end of their affordability agreements in 2029. City Code Chapter 3.103 requires PHB staff to review TOD tax exemption requests for the financial necessity of the tax exemption to the financial viability of a project and other program requirements. On May 29, 2008, PDC's staff recommended to their Loan Committee that approval of the 21-year extension of the full tax exemption was necessary to the financial feasibility of the project with its current mix of low, moderate and market-rate rents, but recognized that for policy reasons that Planning Commission may recommend to City Council only a partial exemption. If the full exemption on improvements is granted, the internal rate of return (IRR) for the project was estimated to be -1.55 percent. This is well under the maximum IRR of 10 percent allowed under City Code Chapter 3.103. If an exemption was approved that would cover only the 40 units that are required to be affordable to households at or below 50 or 60 percent MFI, the IRR would be too low to calculate. If the exemption was extended to the 96 of the units that are required to be affordable to households at or below 50 or 60 percent MFI and those at or below 75 percent MFI, the IRR would be -8.64 percent. *(See PDC staff report attached to the* 2008 *PDC Loan Committee Approval for Hazelwood Retirement Community.)*

On June 3, 2008, Planning Commission held a public hearing and made a recommendation on a requested 21-year extension of the tax exemption term for Hazelwood Retirement Community. They recommended an extension of the tax exemption for the portion of the project that is rent restricted and covered by affordability agreements with PDC and the State of Oregon until 2029. Twenty percent of the units are not rent restricted and can be rented for market rate rents. The Planning Commission did not recommend extending the tax exemption for the 20 percent of the project that is market rate and is not covered by an affordability agreement (See Planning Commission Transmittal letter)

On June 25th, 2008 City Council agreed to temporarily extend the tax exemption for one year through Ordinance 181961. On June 17th, 2009 the expiration date of this ordinance was amended by ordinance 182911 to end June 30th, 2011, because the City Council was undecided about whether the exemption should also apply to the market rate units.

On May 23, 2011 City staff, represented by PHB, Portland Department of Transportation, and Portland Bureau of Planning and Sustainability, and Multnomah County held a meeting to review the request to extend the exemption on all of the units and confirm whether that the project meets the TOD program economic need requirements for an extension as specified in City Code Chapter 3.103 and State Statute ORS 307.630. The review concluded with a determination that the project meets the internal rate of return test and that extensions are allowed for the affordable units and for the length of the affordability agreement. The group agreed that affordable is defined by the federal criteria of 80 percent of median family income.

PLANNING COMMISSION FINDING AND RECCOMENDATIONS

Low income is not defined in either the State statutes that enable the NMUH and TOD programs or Chapter 3.103 of the City Code and the household income ranges labeled "low income" varies. The definition of "low income" for the City's nonprofit tax exemption program is household income at or below 60 percent MFI. However, the regulations for this program are found in City Code Chapter 3.101 and the nonprofit program is authorized by different State statutes than the NMUH and TOD programs. The US Department of Housing and Urban Development defines low income as at or below 80 percent MFI. This is the federal agency that sets the yearly area median family income figures for metropolitan areas. The Commission decided to use this federal definition in this case.

The public benefit of granting the tax exemption extension for this project would be the preservation of the low income housing units for elderly households near a MAX light rail station. Although the applicant has requested a full exemption be extended on this project, the Planning Commission recommended that the tax exemption be extended until 2029 only for the portion of the project that is affordable to households at or below 75 percent MFI and is subject to regulatory agreements with PDC and the State of Oregon.

UNIT MIX AND AFFORDABILITY:

This property will be subject to two affordability agreements after June 30, 2011. They are the PHB regulatory agreement that expires in 2028 and a State of Oregon regulatory agreement which expires in 2029. The financing package for this project included a PHB loan and a State of Oregon Elderly and Disabled Bond loan. The affordability requirements are summarized in the table below. (The same units can meet both the PHB and State of Oregon affordability requirements.)

Current Unit Mix and Affordability

Unit Type		Rent restriction	Term of Required Affordability
Studio		28 @ 50% MFI	2028 by PHB Regulatory agreement
One BR		8 @ 50% MFI	
One BR		4 @ 60%MFI	
One BR		56 @ 75% MFI	
Two BR		24 Unrestricted	None
Total Units			

Studio or 1-bedrooms		24 @ 50% MFI	2029 by State of Oregon Regulatory agreement

PUBLIC BENEFITS ADDRESSED:

The Project meets the TOD limited tax exemption base public benefit requirements (City Code, Chapter 3.103.040 B) to have more than 15 apartment units and make at least 15% of its units affordable to and rented to households earning 60% or less of MFI. The Project has 120 units and 33% of its units are rent and income restricted to households earning 60% or less of MFI and 80% of the units are below 80% MFI. In addition, the Project continues to provide (3) additional public benefit. The original public benefits from the 1998 TOD application include the following:

1) Low Income Housing
2) Special Needs Housing
3) High Density

Other Benefits include:

- Ground Floor Commercial, and
- Transit Design Elements

DEVELOPMENT TEAM:

Senior Lender: State of Oregon Elderly and Disabled Bond

Property Manager: Retirement Housing Services

Owner: The Hazelwood Group, LLC

Project Coordinator: Dan Steffey

Subordinate Lender: PHB

FINANCIAL EVALUATION:

City Code Sections 3.103.30 A and 3.103.050 B specifies that the Applicant must provide financial feasibility analysis for the Project and the PHB staff must make a finding whether the projected internal rate of return (IRR) for the Project for the period of the exemption will exceed ten percent (10.0%).

PHB staff evaluated the project under three scenarios. First, without a tax exemption the internal rate of return is too negative to calculate indicating the economic need for a tax exemption. Second, with a partial tax exemption, meaning only the affordable units receive a tax exemption, the internal rate of return is still too negative to calculate and below the 10% internal rate of return threshold. Third, with a full exemption of all of the units the internal rate of return is -19.9. Again, this is well below the threshold test for economic necessity. An IRR calculation beyond ten years is too low to calculate, but further demonstrates that the project will not be exceeding the 10% IRR threshold over the remaining years of the affordability contract and will continue to need a tax exemption.

Scenario	10 Year IRR	18 Year IRR	18-Yr Avg. Cash-on-Cash
Without LTE	Too Negative to Calculate	Too Negative to Calculate	-12.21%
With Partial LTE 80% of Units	Too Negative to Calculate	Too Negative to Calculate	-3.17%
Full LTE	-19.19%	Too Negative to Calculate	.18%

The following table's shows a comparison of net present value and taxes paid.

No Exempted Taxes		18 Years
Nominal		0
Net Present Value		N/A
Taxes Paid on Land/All Units/Personal Property		2,903,855
80% Exemption		
Exempted Taxes		18 Years
Nominal		2,050,696
Net Present Value		1,124,761
Taxes Paid on Land/20% Units/Personal Property		866,714

All Units Exempt		
Exempted Taxes		18 Years
Nominal		2,563,371
Net Present Value		1,405,951
Taxes Paid on Land/Personal Property		340,484

MARKET ANALYIS

The higher vacancy rate and negative internal rate of return is a reflection of market forces, the debt structure, and the cost of the congregate care business model and not the management of the project. A comparison of Hazelwood Retirement Community to other congregate care facilities shows similar vacancy rates. For example the vacancy rate of Hazelwood Retirement Community is 15% vs. 13% for Columbia Knoll, a newer facility with more amenities.

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CONDITIONS:

The existing PHB -year regulatory agreement supersedes the requirement for a15-Year Extended Use Agreement, pursuant to City Code Sections 3.104.040 B and 3.104.055 D.

RECOMMENDATION:

PHB provides this financial analysis so the City Council may be fully informed of the financial implications of the extension. PHB staff has reviewed the proposed Hazelwood Retirement Community Limited tax exemption extension request and has concluded that it meets the requirements of City Code Chapter 3.103 Property Tax Exemption for (TOD). The project passes the economic need test for a tax exemption because the IRR is well below 10% with or without an exemption. The savings from the tax exemption will partially ensure that the affordability can be retained long-term.

Additionally PHB staff recognizes the loss of tax revenues to local government and other policy considerations by Planning and the City may lead the City Council to grant only a partial abatement for the Project, which is within the Council's discretion. This recommendation to approve only the affordable units is consistent with exemption extensions for other projects.
Based upon the eligibility , the financial analysis, and consideration of the other taxing jurisdictions PHB staff recommends an extension of the abatement through the affordability period (November 15, 2029) for the affordable units of the project under a regulatory agreement and the prorated portion of parking associated with the units.

ATTACHMENTS:

- 2010 Financial Analysis

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2010 Median Income for a Family of Four: $71,200

Published by PORTLAND HOUSING BUREAU: 5/28/10 (Rev. 6/9/10) **Effective: 5/14/10**

HUD - Median Income Percentages - Issued by HUD for Section 8 and other non-LIHTC projects

Household Size	30%	40%	45%	50%	55%	60%	65%	80%	2010 100% see NOTE	120%
1	14,950	19,960	22,455	24,950	27,445	29,940	32,435	39,900	***49,840***	59,808
2	17,100	22,800	25,650	28,500	31,350	34,200	37,050	45,600	***56,960***	68,352
3	19,250	25,640	28,845	32,050	35,255	38,460	41,665	51,300	***64,080***	76,896
4	21,350	28,480	32,040	35,600	39,160	42,720	46,280	56,950	***71,200***	85,440
5	23,100	30,760	34,605	38,450	42,295	46,140	49,985	61,550	***76,896***	92,275
6	24,800	33,040	37,170	41,300	45,430	49,560	53,690	66,100	***82,592***	99,110
7	26,500	35,320	39,735	44,150	48,565	52,980	57,395	70,650	***88,288***	105,946
8	28,200	37,600	42,300	47,000	51,700	56,400	61,100	75,200	***93,984***	112,781

NOTES: **(1) 2010 Income levels have increased based on HUD's calculations for the Portland-Vancouver-Beaverton, OR-WA MSA[1]. The income schedule above is to be used for projects that DO NOT have LIHTC or tax-exempt bond funding. If you have multiple funding sources, you must use incomes and rents applicable to the most restrictive program requirements.** ***Projects that have LIHTC and/or tax-exempt bond funding should refer to the applicable tables for your county found at: http://www.ohcs.oregon.gov/OHCS/HPM_income_rent_limits_2010.shtml.***

(2) Other 2010 MFI levels are based on the 4-Person Income Limit of $71,200. The 1-Person family Income Limit is 70% of the 4-Person Income Limit, the 2-Person family Income Limit is 80% of the 4-Person Income Limit, the 3-Person family Income Limit is 90% of the 4-Person Income Limit. Each family size larger than four (4) is calculated by an 8% increase per HH member to the 4-Person Income Limit. (i.e., 5-Person = 108%; 6-Person - 116%; 7-Person = 124%; 8-Person = 132%, and so on.

ALSO SEE HOME PROGRAM RENT LEVELS ISSUED BY HUD - SEPARATE SCHEDULE
The rent levels may be more restrictive for some bedroom sizes.

2010 Housing Affordability - Maximum Monthly Rent Including Utilities by Median Family Income With a Housing Burden of 30%[2] (effective 5/14/10)

# of Bedrooms	Household Size	30%	40%	45%	50% Compare Low HOME	55%	60%	65% Compare High HOME	80%	100%	120%
0	1	373	499	561	623	686	748	810	997	**1,246**	1,495
1	1.5	400	534	601	668	734	801	868	1,068	**1,335**	1,602
2	3	481	641	721	801	881	961	1,041	1,282	**1,602**	1,922
3	4.5	555	740	833	925	1,018	1,110	1,203	1,481	**1,851**	2,221
4	6	620	826	929	1,032	1,135	1,239	1,342	1,652	**2,064**	2,477
5	7.5	683	911	1,025	1,139	1,253	1,367	1,481	1,823	**2,278**	2,734

**(Based on the HUD Portland[1] Area Median Income as of December 31, 2009: $71,200 for a family of four.
Income & Rents above are based on 4-Person Income Limit of $71,200. Rent calculations are rounded down to the nearest $1.00).**

Fair Market Rent for 2010	
Bedroom Size	**FMR**
SRO	$469
0	$626
1	$726
2	$839
3	$1,222
4	$1,467
5	$1,687
6	$1,907

CITY OF PORTLAND, OREGON 1851

Portland Housing Bureau
421 SW 6th Avenue, Suite 500 | Portland, OR 97204
503-823-2375 | Fax: 503-823-2387 | MFI Tables: 503-823-3259

[1] Portland-Vancouver-Beaverton, OR-WA MSA = Clackamas, Clark, Columbia, Multnomah, Skamania, Washington & Yamhill Counties

[2] Rents can be set below the median family income % threshold. For instance a residential unit may be restricted to households at or below 50% MFI, but have one-bedroom rents (and utilities expenses) that are below $668/month.

Hazelwood Retirement Center

5/22/2011

Housing Program

Affordable	Units	MFI	% of Project
Studios	28	50%	
One Bedroom	8	50%	
One Bedroom	4	60%	
One Bedroom	56	75%	
Subtotal	96	Affordable	80%
Market			
Two Bedroom	24	Market	
Subtotal	24	Market	20%
Total	120		100%

Exemption Scenarios

No Exemption

10 year IRR*	18 Year IRR*	18 Year Avg Cash on Cash
Too Negative to Calculate	Too Negative to Calculate	-12.21

* Note, IRR does not include reversion

Exempted Taxes		18 Years
Nominal		0
Net Present Value		N/A
Taxes Paidon Land/All Units/Personal Property		2,903,855

Affordable Unit Exemption = 80% Abatement

10 year IRR*	18 Year IRR*	18 Year Avg Cash on Cash
Too Negative to Calculate	Too Negative to Calculate	(3.17)

* Note, IRR does not include reversion

Exempted Taxes		18 Years
Nominal		2,050,696
Net Present Value		1,124,761
Taxes Paid on Land/20% Units/Personal Property		866,714

All Unit Exemption

10 year IRR*	18 Year IRR*	18 Year Avg Cash on Cash
-19.19	Too Negative to Calculate	0.18

* Note, IRR does not include reversion

Exempted Taxes		18 Years
Nominal		2,563,371
Net Present Value		1,405,951
Taxes Paid on Land/Personal Property		340,484

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INCOME AND EXPENSE ANALYSIS

Hazelwood Retirement Center

May 20, 2011

Affordable Tax Abatement = 80%

		Ave	**Net Rent**		
HOUSING	Units	sf	**$/unit**	$/Month	$/Year
Studio @ 50%	28			0	
One Bedroom @ 50%	8			0	
One Bedroom @ 60%	4			0	
One Bedroom @ 75%	56			0	
Two Bedroom Unrestricted	24			0	
Potential Rental Income	120			0	
Vacancy/Credit Loss			**6.0%**	0	0
Effective Rental Income				0	**2,139,659**
Other Income	0		0.00		23,032
Vacancy/Credit Loss			0.0%	0	0
Effective Other Income				192	**23,032**

Net EGI			192	**2,162,691**
NET REVENUE			192	**2,162,691**

EXPENSES		% EGI	$/Unit	$/Year
Real Eatate Taxes- personal property/land		1.6%	283	33,968
Property Management	5.1%	5.1%	913	109,520
Activities		1.4%	248	29,736
Admininistrative		7.2%	1,290	154,809
Food Services		20.9%	3,771	452,563
Housekeeping		4.0%	725	87,047
Maintenance/ Repairs		6.6%	1,186	142,339
Utilities		8.1%	1,453	174,317
Payroll & Medical & Taxes		12.3%	2,220	266,393
Insurance		1.2%	220	26,393
Replacement Reserve		2.2%	400	48,000
TOTAL OPERATING EXPENSES		**70.5%**	12,709	**1,525,085**

TOTAL NOI		29.5%	5,313	**637,606**

DEBT SERVICE ANALYSIS - Stabilized Year

Principal--OHCS Risk Share Bonds	**8,000,000**
Interest Rate	6.95%
Amortization Schedule	30
Annual Debt Service	635,470
Total Debt Coverage	1.00

Principal--PHB Note	**700,000**
Interest Rate	6.33%
Amortization Schedule (years)	15
Annual Debt Service	72,377
Debt Coverage Ratio-combined	0.90

Operating Cash Flows/Hazelwood Retirement Center TOD Tax Abatement														
80% Tax Abatement for 96 Affordable Units								PHB Loan Maturity Oct 1, 2014						
Permanent Year Period			-2	-1	1	2	3	4	5	6	7	8	9	10
Years start January, 2009		Stabilized Yr	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue	%Change				New Abatement starts									
Effective Rental Income	2.00%	2,098,023	2,104,201	2,097,705	2,139,659	2,182,452	2,226,101	2,270,623	2,316,036	2,362,357	2,409,604	2,457,796	2,506,952	2,557,091
Other Income	2.00%	46,159	14,623	22,580	23,032	23,492	23,962	24,441	24,930	25,429	25,937	26,456	26,985	27,525
Residential Net EGI	0.00%	2,162,691	2,118,824	2,120,285	2,162,691	2,205,945	2,250,063	2,295,065	2,340,966	2,387,785	2,435,541	2,484,252	2,533,937	2,584,616
Net Revenue		**2,162,691**	**2,118,824**	**2,120,285**	**2,162,691**	**2,205,945**	**2,250,063**	**2,295,065**	**2,340,966**	**2,387,785**	**2,435,541**	**2,484,252**	**2,533,937**	**2,584,616**
Expenses														
Management Fee	3.00%	109,520	105,868	106,330	109,520	112,805	116,190	119,675	123,266	126,964	130,772	134,696	138,737	142,899
RE Taxes				13,556	33,968	34,987	36,036	37,117	38,231	39,378	40,559	41,776	43,029	44,320
Other Expenses	3.00%	1,367,565	1,348,206	1,285,755	1,333,597	1,373,605	1,414,813	1,457,257	1,500,975	1,546,004	1,592,385	1,640,156	1,689,361	1,740,042
Reserves	0.00%	48,000	38,202	15,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000
Total Expenses (EBITDA)		1,525,085	1,492,276	1,420,641	1,525,084	1,569,397	1,615,039	1,662,050	1,710,472	1,760,346	1,811,716	1,864,628	1,919,126	1,975,260
Net Operating Income		**637,606**	**626,548**	**699,644**	**637,606**	**636,548**	**635,025**	**633,015**	**630,494**	**627,440**	**623,825**	**619,624**	**614,810**	**609,355**
Senior Mortgage - OHCS Elderly and Disabled Bond														
Beginning Balance			8,000,000	7,859,180	7,707,989	7,546,628	7,375,311	7,194,247	7,003,640	6,803,691	6,594,596	6,376,547	6,149,732	5,914,336
Interest (adjusted to actual)	6.95%		494,650	484,279	474,109	464,153	454,406	444,863	435,521	426,375	417,421	408,655	400,074	391,672
Repayments	12	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)
Ending Balance			7,859,180	7,707,989	7,546,628	7,375,311	7,194,247	7,003,640	6,803,691	6,594,596	6,376,547	6,149,732	5,914,336	5,670,538
Cash Flow			(8,922)	64,174	2,136	1,078	(445)	(2,455)	(4,976)	(8,030)	(11,645)	(15,846)	(20,660)	(26,115)
DCR-1st Mortgage		1.00	0.99	1.10	1.00	1.00	1.00	1.00	0.99	0.99	0.98	0.98	0.97	0.96
PDC Loan								**PDC Paid off 10-2014**						
Beginning Balance			**700,000**	671,912	642,048	610,294	576,531	540,631						
Interest	6.33%		44,289	42,512	40,622	38,613	36,477	34,206						
Repayments	12	(72,377)	(72,377)	(72,377)	(72,377)	(72,377)	(72,377)	(54,282)						
Ending Balance			671,912	642,048	610,294	576,531	540,631	520,554						
Net Cash Flow			(81,298)	(8,202)	(70,240)	(71,299)	(72,822)	(56,738)	(4,976)	(8,030)	(11,645)	(15,846)	(20,660)	(26,115)
DCR - 2nd Mortgage		0.89	0.89	0.99	0.90	0.90	0.90	0.92	0.99	0.99	0.98	0.98	0.97	0.96
Cushion of 1.15 of Debt Service			(106,177)	(106,177)	(106,177)	(106,177)	(106,177)	(103,463)	(95,320)	(95,320)	(95,320)	(95,320)	(95,320)	(95,320)
Potential Excess Cash Flow after 1.15 Cushion														
Potential PHB Split @ 50%														
Potential Owner Split @ 50%														
Potential Cash Flow To Owner after Capital Investment			-81,298	-8,202	-70,240	-71,299	-72,822	-56,738	-4,976	-8,030	-11,645	-15,846	-20,660	-26,115
Small portion for prop mgmt fee to owners for accounting			20000	20400	20808	21224	21649	22082	22523	22974	23433	23902	24380	24867
		-848907			-49432	-50075	-51173	-34656	17548	14943	11788	8056	3720	-1247
Internal Rate of Return		Too low to calculat	**#DIV/0!**	**-848907**	**-49432**	**-50075**	**-51173**	**-34656**	**17548**	**14943**	**11788**	**8056**	**3720**	**-1247**

184714

Operating Cash Flows/Ha:													
80% Tax Abatement for 96 Affordal													
Permanent Year Period		15	16	17	18	19	20	21	22	23	24	25	26
Years start January, 2009		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Revenue	%Change												
Effective Rental Income	2.00%	2,823,235	2,879,699	2,937,293	2,996,039	3,055,960	3,117,079	3,179,421	3,243,009	3,307,869	3,374,027	3,441,507	3,510,338
Other Income	2.00%	30,390	30,998	31,617	32,250	32,895	33,553	34,224	34,908	35,606	36,319	37,045	37,786
Residential Net EGI	0.00%	2,853,624	2,910,697	2,968,911	3,028,289	3,088,855	3,150,632	3,213,645	3,277,918	3,343,476	3,410,345	3,478,552	3,548,123
Net Revenue		2,853,624	2,910,697	2,968,911	3,028,289	3,088,855	3,150,632	3,213,645	3,277,918	3,343,476	3,410,345	3,478,552	3,548,123
Expenses													
Management Fee	3.00%	165,659	170,628	175,747	181,020	186,450	192,044	197,805	203,739	209,851	216,147	222,631	229,310
RE Taxes		51,379	52,920	54,508	56,143	57,827	59,562	61,349	63,190	65,085	67,038	69,049	71,120
Other Expenses	3.00%	2,017,185	2,077,701	2,140,032	2,204,233	2,270,360	2,338,470	2,408,625	2,480,883	2,555,310	2,631,969	2,710,928	2,792,256
Reserves	0.00%	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000
Total Expenses (EBITDA)		2,282,223	2,349,249	2,418,287	2,489,396	2,562,637	2,638,077	2,715,779	2,795,812	2,878,247	2,963,154	3,050,609	3,140,687
Net Operating Income		571,402	561,448	550,624	538,894	526,217	512,555	497,866	482,105	465,229	447,191	427,944	407,437
Senior Mortgage - OHCS Elderly and Disa													
Beginning Balance		4,614,804	4,331,572	4,040,943	3,743,072	3,438,112	3,126,211						
Interest (adjusted to actual)	6.95%	352,238	344,841	337,599	330,510	323,569	316,774						
Repayments	12	(635,470)	(635,470)	(635,470)	(635,470)	(635,470)	(582,726)						
Ending Balance		4,331,572	4,040,943	3,743,072	3,438,112	3,126,211	0						
Cash Flow		(64,068)	(74,022)	(84,846)	(96,576)	(109,253)	(70,171)	497,866	482,105	465,229	447,191	427,944	407,437
DCR-1st Mortgage		0.90	0.88	0.87	0.85	0.83	0.88						
PDC Loan													
Beginning Balance													
Interest	6.33%												
Repayments	12												
Ending Balance													
Net Cash Flow		(64,068)	(74,022)	(84,846)	(96,576)	(109,253)	(70,171)	497,866	482,105	465,229	447,191	427,944	407,437
DCR - 2nd Mortgage		0.90	0.88	0.87	0.85								
Cushion of 1.15 of Debt Service		(95,320)	(95,320)	(95,320)	(95,320)	(95,320)	(87,409)	0	0	0	0	0	0
Potential Excess Cash Flow after 1.15 Cushion													
Potential PHB Split @ 50%													
Potential Owner Split @ 50%													
Potential Cash Flow To Owner after Capit		-64,068	-74,022	-84,846	-96,576	-109,253	-70,171	497,866	482,105	465,229	447,191	427,944	407,437
Small portion for prop mgmt fee to owners fo		27456	28005	28565	29136	29719							
		-36613	-46018	-56281	-67440	-79534							
Internal Rate of Return		-36613	-46018	-56281	-67440	-79534	0	7,238,205	Reversion				

EXHIBIT A-2

184714

CITY OF PORTLAND, OREGON
PLANNING COMMISSION

c/o Bureau of Planning
1900 SW 4th Avenue
Suite 7100
Portland, OR 97201-5380
portlandonline.com/planning
planningcommission@ci.portland.or.us

TEL 503 823-7700
FAX 503 823-7800
TTY 503 823-6868

June 13, 2008

Mayor Tom Potter and Portland City Council
Portland City Hall
1121 SW 4th Avenue
Portland OR 97204

RE: Recommendation for Approval of a 21-Year Extension of the Term of the Tax Exemption for the Hazelwood Retirement Community

Dear Mayor Potter and City Commissioners:

On June 3, 2008, the Planning Commission held a public hearing on a request to extend the ten-year term of the tax exemption for the Hazelwood Retirement Community for 21 years. City Council originally granted a tax exemption for this project in 1997 under the City's New Transit Supportive Residential or Mixed Use Development (TOD) program and it is scheduled to expire June 30, 2008. The project owner, the Hazelwood Group LLC, has requested an extension of the exemption on the entire project to preserve the financial viability of the project for the duration of the required period of affordability for 80 percent of the units, which ends in 2029.

The Planning Commission heard testimony requesting that the 21-year tax extension be granted to 100 percent of the units to ensure affordability of an apartment building that provides numerous public benefits. The Planning Commission supports the preservation of this project and recommends that a 21-year extension be granted to *80 percent* of the project that is rent-restricted. The Commission considers this a compromise to varying federal, State, and City definitions of affordability and to Multnomah County's concerns about foregone revenue. The Commission finds that this project carries out the purpose of the TOD program because it provides housing for elderly households in an area that is close to a MAX light rail station and is convenient to shopping and services.

The Commission urges the City to work with the State Legislature to develop tools to avoid continuous need for extensions for other expiring projects and to agree on levels of affordability required for such projects.

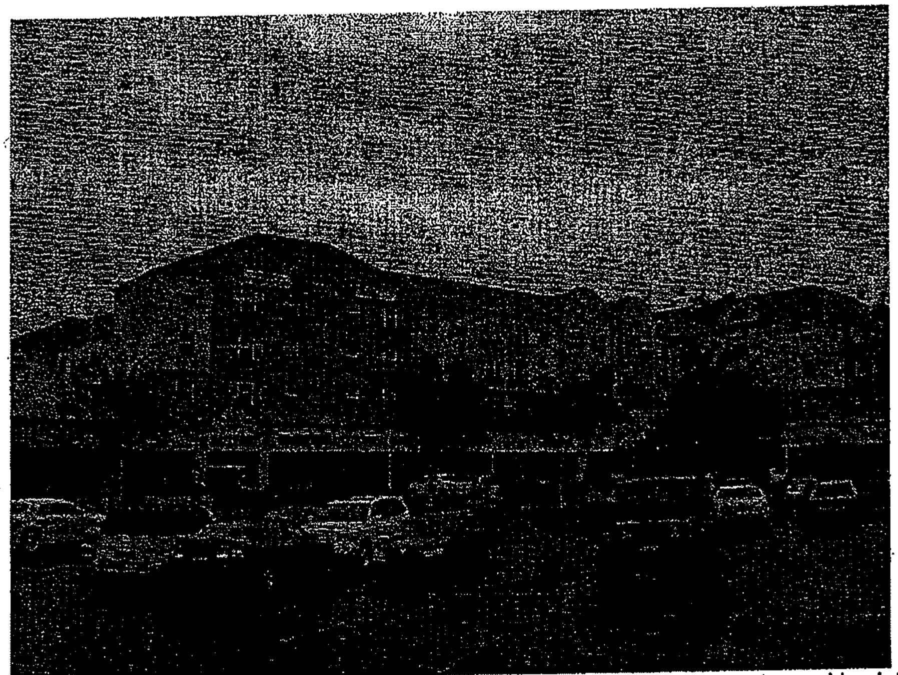
Recommendation: Approve the requested 21-year extension of the tax exemption for the Hazelwood Retirement Community for portion of the project that is rent restricted to households at or below 75 percent MFI.

Sincerely,

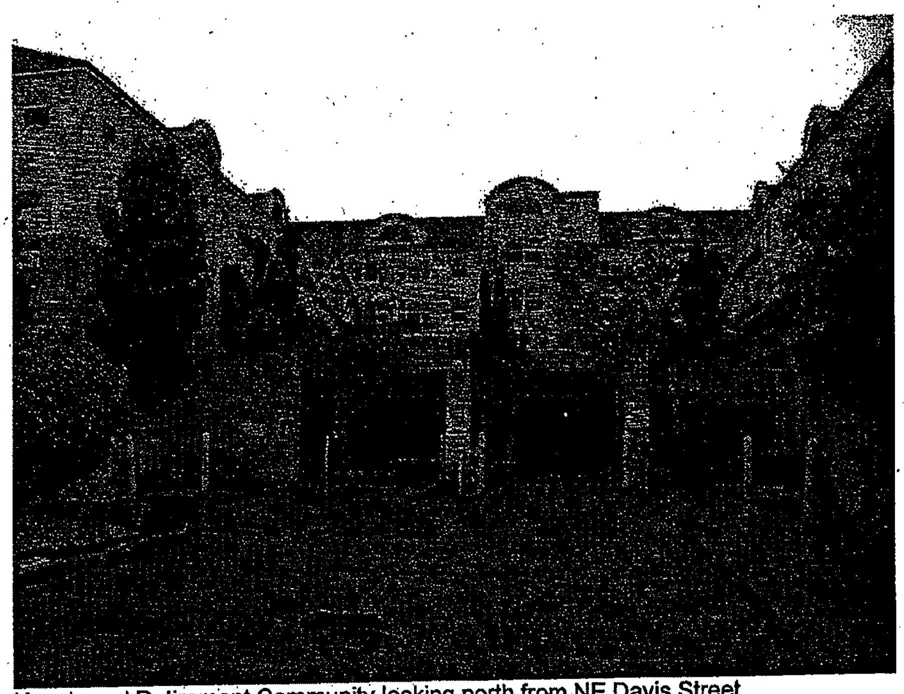
Don Hanson, President
Portland Planning Commission

184714

Hazelwood Retirement Community Photos and Site Map

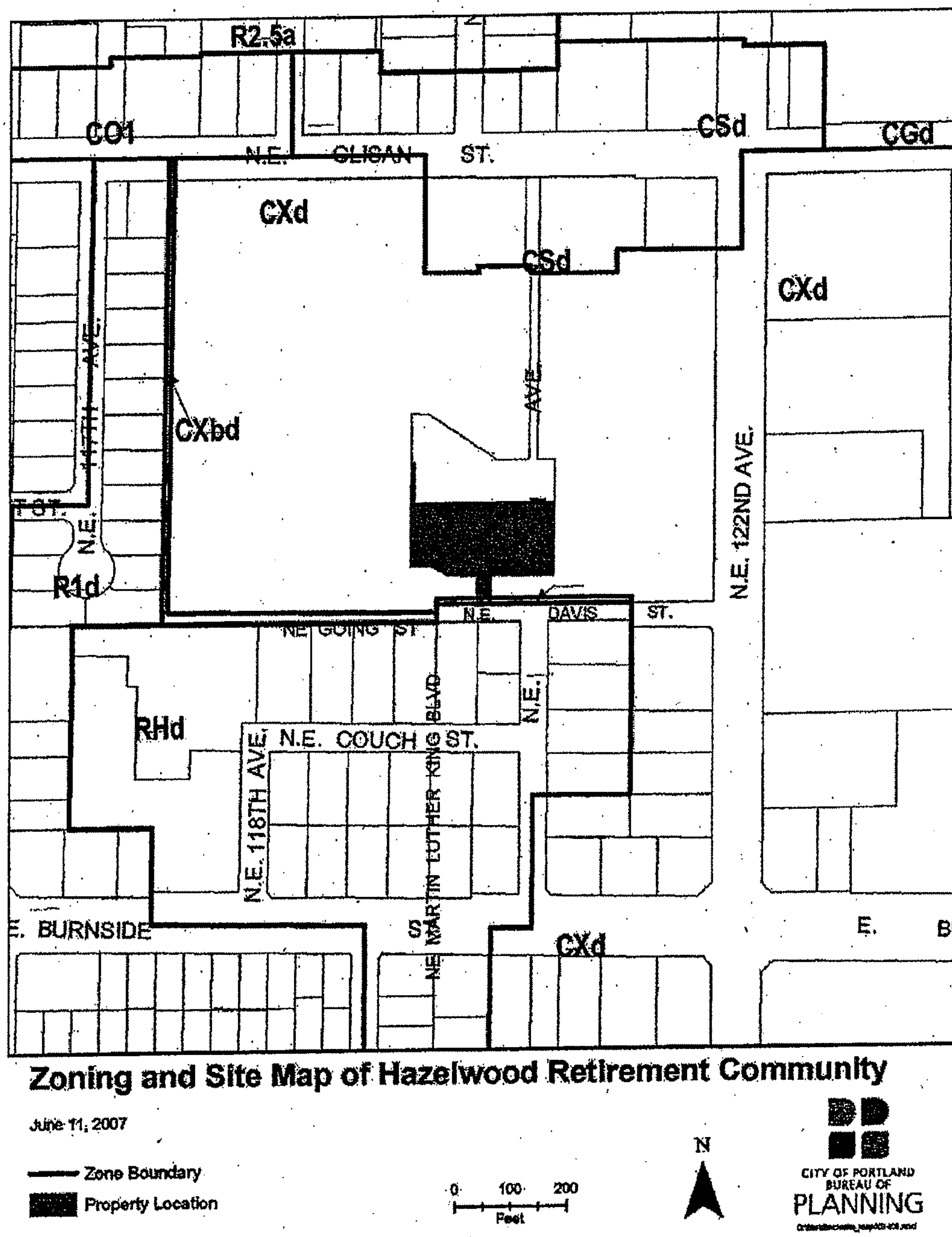


Hazelwood Retirement Community looking southwest from shopping center parking lot.



Hazelwood Retirement Community looking north from NE Davis Street.

Hazelwood Retirement Community Photos and Site Map



184714

CITY OF PORTLAND, OREGON
PLANNING COMMISSION

c/o Bureau of Planning
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Portland, OR 97201-5380
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TEL 503 823-7700
FAX 503 823-7800
TTY 503 823-6868

MEMO

June 11, 2008

To: Mayor Potter and City Commissioners

From: Barbara Sack, City Planner

Cc: John Marshall, Portland Development Commission

Subject: **Planning Commission's Report and Recommendation on the Requested Extension of the Tax Exemption Granted to the Hazelwood Retirement Community**

On June 3, 2008, Planning Commission held a public hearing and made a recommendation on a requested 21-year extension of the tax exemption term for Hazelwood Retirement Community. They recommended an extension of the tax exemption for the portion of the project that is rent restricted and covered by affordability agreements with PDC and the State of Oregon until 2029. City Council approved the original ten-year tax exemption under the City's New Transit Supportive Residential and Mixed Use Development (TOD) tax exemption program for the entire improvement value of this project on November 12, 1997 by Resolution No. 35735. The exemption is set to expire June 30, 2008. [redacted]

The project owner, The Hazelwood Group LLC, requests an extension of the tax exemption on the entire improvement value of the project. The reason for request is to preserve the financial viability of the project for the duration of the required period of affordability for 80 percent of the units, which ends in 2029. Twenty percent of the units are not rent restricted and can be rented for market rate rents. The Planning Commission did not recommend extending the tax exemption for the 20 percent of the project that is market rate and is not covered by an affordability agreement.

Site Information
The Hazelwood Retirement Community is located at 11933 NE Davis St. near NE 122nd Avenue and Glisan Street on a 35,000 square foot rectangular site, which is part of a 17-acre a mixed-use shopping center. It is three blocks from the 122nd Avenue and E Burnside MAX light rail station. The site is zoned Central Commercial with a design overlay (CXd). *(See Hazelwood Photos and Site Map.)*

Project Information
The project is the upper three stories of a four-story structure over small retail shops between a Safeway and Target department store. It has 120 units of congregate housing for people

62 or older. The project provides additional services including: meals, on-site activity director, van transportation, 24-hour attendant, and 24-hour security.

Affordability of Rental Units
This property will be subject to two affordability agreements after June 30, 2008. They are the PDC regulatory agreement that expires in 2028 and a State of Oregon regulatory agreement which expires in 2029. The financing package for this project included a PDC loan and a State of Oregon Elderly and Disabled Bond loan. The affordability requirements are summarized in the table on the next page. (The same units can meet both the PDC and State of Oregon affordability requirements.)

Current Unit Mix and Affordability

Unit Type		Rent restriction	Term of Required Affordability
Studio	28	28 @ 50% MFI	2028 by PDC Regulatory agreement
One BR	8	8 @ 50% MFI	
One BR	4	4 @ 60% MFI	
One BR	56	56 @ 75% MFI	
Two BR	24	Unrestricted	None
Total Units	**120**		
Studio or 1-bedrooms	24	24 @ 50% MFI	2029 by State of Oregon Regulatory agreement

(For more financial information, see the PDC Loan Committee Approval for Hazelwood Retirement Community with attached staff memo. For area median income information, see 2008 MFI Chart.)

The Property Tax Exemption
The Hazelwood Retirement Community has a 10-year limited tax exemption allowed under City Code Chapter 3.103, the TOD tax exemption program. This program is available in MAX light rail station areas and other transit-oriented areas. This exemption applies to the improvements but not the land. Both the State Statutes that enable this program and City Code Chapter 3.103 allow a tax exemption to be granted [or extended] to existing projects that are subject, or will be subject, to a public assistance contract to provide low income housing through June 30 of the year that the contract expires.

Discussion of Property Tax Exemption
The City advocated at the State Legislature in the 1990s for the change to the State statutes that authorize the City's NMUH and TOD programs to allow low income housing subject to a public assistance contract to provide low income housing to receive the exemption for more than 10 years. The City wanted to be able to offer a tax exemption to private owners providing low income housing as an incentive for continuing to participate in public housing assistance contracts such as those with the Section 8 program. The State Legislature approved this change but the City did not incorporate it into our City Code regulations for the NMUH and TOD programs at the time.

In 2006, the City amended the TOD program regulations to incorporate the change in the State statutes along with some other changes to the program regulations and boundaries. The intention was to allow tax exemption for the length of a public assistance contract in order to preserve the City's supply of affordable housing. This is a different standard than the affordability requirement of Portland's program for the 10-year TOD exemption, which is that either 20 percent of the units be affordable to households at or below 60 percent MFI or 10 percent of the units affordable to households at or below 30 percent MFI. This intention is stated in Exhibit B: Planning Commission's Report and Recommendation on Changes to the City's TOD Tax Exemption Program that is attached to the Ordinance No. 180782 adopting the changes to City Code Chapter 3.103. *(See top of Page 2 of attached Excerpt from Exhibit B of TOD Changes Ordinance No. 180572.)*

PDC Review
City Code Chapter 3.103 requires PDC staff to review TOD tax exemption requests for the financial necessity of the tax exemption to the financial viability of a project and other program requirements. On May 29, 2008, PDC's staff recommended to their Loan Committee that approval of the 21-year extension of the full tax exemption was necessary to the financial feasibility of the project with its current mix of low, moderate and market-rate rents, but recognized that for policy reasons that Planning Commission may recommend to City Council only a partial exemption. If the full exemption on improvements is granted, the internal rate of return (IRR) for the project is estimated to be -1.55 percent. This is well under the maximum IRR of 10 percent allowed under City Code Chapter 3.103. If an exemption was approved that would cover only the 40 units that are required to be affordable to households at or below 50 or 60 percent MFI, the IRR would be too low to calculate. If the exemption was extended to the 96 of the units that are required to be affordable to households at or below 50 or 60 percent MFI and those at or below 75 percent MFI, the IRR would be -8.64 percent. *(See PDC staff report attached to the PDC Loan Committee Approval for Hazelwood Retirement Community.)*.

Planning Commission Review
City Code Chapter 3.103 requires the Planning Commission to review tax exemption requests under this program for consistency with the public benefits required by this chapter. Since this exemption was approved in 1997, the program regulations were changed to add the Planning Commission review. Since there is no prescribed process for changing the term of the tax exemption, the Planning Commission was asked to review this requested change. They held a hearing and made their recommendation to City Council on June 3, 2008.

<u>Planning Commission Findings and Recommendation</u>
Low income is not defined in either that State statutes that enable the NMUH and TOD programs or Chapter 3.103 of the City Code and the household income ranges labeled "low income" varies. The definition of "low income" for the City's nonprofit tax exemption program is household income at or below 60 percent MFI. However, the regulations for this program are found in City Code Chapter 3.101 and the nonprofit program is authorized by different State statutes than the NMUH and TOD programs. The US Department of Housing and Urban Development defines low income as at or below 80 percent MFI. This is the federal agency that sets the yearly area median family income figures for metropolitan areas. The Commission decided to use this definition in this case.

The public benefit of granting the tax exemption extension for this project would be the preservation of the low income housing units for elderly households near a MAX light rail station. Although the applicant has requested a full exemption be extended on this project, the Commission recommends that the tax exemption be extended only for the portion of the project for 21 years that is affordable to households at or below 75 percent MFI and is subject to regulatory agreements with PDC and the State of Oregon.

__Planning Commission Recommendation__: City Council approve the requested extension of the tax exemption for 21 years of the Hazelwood Retirement Community for portion of the project that is rent restricted to households at or below 75 percent MFI.

Attachments:
Planning Commission's Transmittal Letter to City Council
Photos and Site Map of the Hazelwood Retirement Community
Excerpt from Exhibit B of TOD Ordinance No. 180572
PDC Loan Committee Approval for Hazelwood Retirement Community (without exhibits)
2008 MFI Chart

Excerpt from Exhibit B of TOD Ordinance No. 180572:

Summary of Planning Commission's Recommendation to City Council

The Planning Commission recommends to City Council that the following changes be made to the Transit-Supportive Residential or Mixed-Use Development (TOD) tax exemption program. All the changes listed below are recommended as changes to City Code Chapter 3.103 with one exception. A staff proposal to set the annual maximum exempted improvement value amount is included in this summary but is not proposed to be included in Chapter 3.103.

1. Change TOD Program Requirements

A. TOD program boundaries

A recommended TOD program area map is opposite page 1, and a detailed color map is in Appendix A.

- Include all existing and planned and funded light rail station areas outside the Central City:
  - o Add station areas along the Interstate and I-205 light rail lines and expanding the program to cover the current Gateway Plan district boundaries and eliminate areas east of Gateway in the MAX corridor that are not in light rail station areas; and
- Add these three Main Street areas:
  - Sandy Boulevard area (previously proposed for the TOD),
  - MLK Jr. Blvd. between Lombard and Broadway Streets and
  - Foster Road between Holgate and 82nd Avenue.

- Keep existing TOD program areas except as noted above.

B. Minimum Project Size

Change minimum project size to 10 units.

C. Affordability and Eligibility of Existing Affordable Housing

- **Rental Housing**
  Require all projects to provide affordable units with the requirement that the affordable units mirror the unit mix in the project. Options would be:
  - o 20 percent of units in a project, or residential building square footage, for housing affordable to households at or below 60 percent area median family income (MFI); or
  - o 10 percent of units in a project, or residential building square footage, for housing affordable to households at or below 30 percent MFI.

- **Condominium Price and Buyer Income Limits** would be not change. The buyer income limit is the metro area's 100 percent MFI for a family of four. The price limit is 95 percent of the FHA mortgage maximum for the metro area. Both are adjusted annually, and the tax exemption goes to the buyer not the developer of the project.

- **Add eligibility of existing low-income housing projects and allow extensions of the tax exemption past 10 years for low-income housing units.** Allow existing low-income housing projects subject to a low income housing assistance contract (including the low income housing units in mixed-income projects) to be eligible for a tax exemption for the term of the contract. Projects must demonstrate the tax exemption is needed to maintain affordability, and the exemption would only be for the low-income housing units.

D. Public Benefit Options

Require one additional public benefit in exchange for the tax exemption and update public benefits options list as follows:

1. Twenty percent of units dedicated to persons with special needs and are designed for full accessibility
2. Ten percent of rental units include 3 or more bedrooms
3. Provide childcare on-site or support child care facility
4. Provide residential unit per acre density equivalent to 80 percent of maximum density
5. Permitted ground floor service or commercial use
6. Office space or meeting room for community
7. Permanent dedications for public use including open space, community gardens, and pedestrian and bicycle connections to public trails and adjoining neighborhood areas
8. Family oriented recreational facilities
9. A dedicated car-share space(s)
10. Structured parking
11. LEED Silver certification from the US Green Building Council
12. Twice the percentage of affordable units, or percentage of residential building square footage for affordable units, than is required by the affordability requirement
13. Other benefits as proposed by the developer and approved by the Planning Commission

2. Adopt a New Process

- At least every three years, Planning Commission and City Council review the program boundaries. (Staff proposes that City Council also set an annual maximum improvement value amount from new applications to limit foregone revenues. See explanation below.)

- **PDC staff** makes a determination if the tax exemption is necessary to the economic feasibility of the project and drafts the staff report to Planning Commission.

- **Planning Commission** recommends approval or denial of individual projects based on conformance to program regulations to City Council. If the recommendation is for approval, an ordinance is forwarded to City Council for action.[1]

A detailed description of the proposal starts on page 6, and a map of proposed boundary changes is included in Appendix A.

---

[1] This last provision was not in the Planning Commission's recommendation but is required by State statutes.

When Recorded Return to:

Portland Development Commission
222 NW 5th Ave
Portland, OR 97209
Attn: Asset Management
Loan No.13563-97
Project #00004

EXTENDED USE AGREEMENT
(Property Tax Abatement per City Code Chapter 3.103)
(Transit Oriented Development)

This **EXTENDED USE AGREEMENT ("EUA")** is entered into as of the 20th day of May, 2009, between the **CITY OF PORTLAND,** a municipal corporation of the State of Oregon, acting by and through the **PORTLAND DEVELOPMENT COMMISSION (the "PDC"),** and The Hazelwood Group, LLC, an Oregon limited liability company (the **"Owner"**).

RECITALS

A. Owner holds title to the real property and improvements located at 11933 NE Davis Street, Portland, Oregon, which is more commonly known as Hazelwood Retirement Community rental housing project (the **"Project"**). The real property on which the Project is located is more fully described in the legal description attached hereto as **Exhibit A.**

B. Owner applied for a property tax exemption for the Project under Portland City Code Chapter 3.103 (the **"Code"**).

C. The Portland City Council approved a one year property tax exemption for the Project, through June 30, 2009 (the **"Tax Abatement Period"**), by Ordinance No. 181961 dated June 25, 2008 (the **"Ordinance"**).

D. As a condition to receiving the property tax exemption, Owner is required to enter into this EUA to implement the requirements of the Code, including but not limited to, the affordability requirements.

E. PDC and Owner have already entered into that certain Regulatory Agreement dated September 15, 1998 and recorded as Fee No. 98190043 (the "Regulatory Agreement"). The Regulatory Agreement relates to PDC's financing for the Project and imposes certain affordability restrictions on the Project that extend beyond the Tax Abatement Period.

AGREEMENT

NOW, THEREFORE, the Owner does hereby impose upon the Project the following covenants, restrictions, charges and easements, which shall run with the land and shall be binding and a burden upon the Project and all portions thereof, and upon any purchaser, grantee, owner or lessee of any portion of the Project and any other person or entity having any right, title or interest therein and upon the respective heirs, executors, administrators, devisees, successors and assigns of any purchaser, grantee, owner or lessee of any portion of the Project and any other person or entity having any right, title or interest therein, for the length of time that this Agreement shall be in full force and effect.

Section 1. Public Benefits

1.1 As required by the Code and the Ordinance:

(a) At least 36 units in the Project shall be leased, rented, or made available on a continuous basis for rental to persons or households whose incomes are fifty percent (50%) or less of median gross household income, adjusted for family size, for the City of Portland, Multnomah County, Oregon.

(b) At least four (4) additional units in the Project shall be leased, rented, or made available on a continuous basis for rental to persons or households whose incomes are sixty percent (60%) or less of median gross household income, adjusted for family size, for the City of Portland, Multnomah County, Oregon.

(c) At least 56 additional units (including a manager's unit) shall be leased, rented, or made available on a continuous basis for rental to persons or households whose incomes are seventy five percent (75%) or less of median gross household income, adjusted for family size, for the City of Portland, Multnomah County, Oregon.

These affordable units shall be rented in accordance with these rent and income restrictions for a period of one_year, through June 30, 2009, subject to extension as provided in Section 2.

1.2 Owner shall submit to PDC a certification (pursuant to section 3.103.040 of the Code, as further described in Section 2 of this EUA) of rental and household incomes for each of the restricted units on an annual basis in order to monitor the Owner's compliance with the EUA.

Section 2. Reporting and Analysis

In addition to any reporting required under other agreements between PDC and Owner, Owner shall provide the following information to comply with the Code.

2.1 Each year during the Tax Abatement Period and pursuant to section 3.103.055 of the Code, the Owner shall submit to PDC financial information on the Project. Owner shall submit the financial information each year no later than 120 days after the end of the Owner's fiscal year. The financial information shall include, but is not limited to the following:

(a) Full Project-based financial statements;

(b) Internal Revenue Services tax information (tax returns);

(c) Ten year operating cash flow statement, showing actual cash flow for all prior years and the current year and shall include a to-date calculation of the Internal Rate of Return ("IRR") for the Project;

(d) Electronic Operating Statement (EOS) or similar form;

(e) Electronic Tenant Survey (ETS) (to validate subsequent rental and household income compliance, when unit becomes available for rent after initial occupancy); and

(f) Any other documentation deemed necessary by PDC to calculate or evaluate the Owner's IRR for the Project.

2.2 Each year of the Tax Abatement Period, PDC shall prepare an annual analysis of the Owner's financial data within 90 days of receipt of all required financial data from the Owner. The analysis shall include a to-date calculation of the IRR for the Project. The PDC shall calculate the IRR by the same method utilized in its initial recommendation for the tax abatement.

PDC shall advise the Owner in writing annually the results of the financial analysis as to whether the projected IRR on the Project will exceed ten percent for the entire Tax Abatement Period and may result in an Accrued Payment Liability ("APL") as calculated pursuant to section 3.103.055 D of the Code.

2.3 At the end of the final year of the Tax Abatement Period, PDC shall calculate the IRR for the Project during the Tax Abatement Period. If the IRR does not exceed ten percent (10.0%), then this EUA shall terminate at the end of the Tax Abatement Period. If the IRR exceeds ten percent (10.0%), then this EUA shall remain in full force and effect for an additional five (5) years after the end of the Tax Abatement Period (the **"Extension Period"**) unless Owner pays the APL in accordance with Section 2.4 below. If this EUA remains in effect during the Extension Period, the affordability requirements set forth in Section 1.1 shall continue to apply to the Project provided that the number of units subject to the rent restrictions described in Section 1.1 shall be that number necessary to reduce the net present value, using a ten percent (10.0%) annual discount rate, of the Project's projected market-rate (unrestricted) annual cash flows, during the Extension Period, by an amount equal to the APL.

2.4 If the IRR calculated in accordance with Section 2.3 exceeds ten percent (10.0%) and Owner desires this EUA to terminate at the end of the Tax Abatement Period, then Owner must pay to the City of Portland Bureau of Planning no later than 30 days after the Owner is notified thereof, an APL in an amount equal to the lesser of:

(a) the net present value, using a ten percent (10.0%) annual discount rate, of the difference between the Project's actual annual cash flows over the Tax Abatement Period and the proforma projected cash flows for the Project that would provide a ten percent (10.0%) IRR for the Tax Abatement Period; or

(b) the maximum amount of property taxes that would have been assessed if no property tax exemption had been granted.

2.5 If the IRR calculated by PDC in accordance with Section 2.3 above exceeds ten percent (10.0%), PDC shall notify in writing the Bureau of Planning. The Bureau of Planning shall then send a written notice to the last known address of the Owner notifying the Owner that it must pay the APL in accordance with Section 2.4 above if it does not wish this EUA to be extended as described in Section 2.3 above.

2.6 In the event of a conflict between this EUA and the Code, the parties agree that the Code prevails.

2.7 The affordability requirements imposed on the Project by this EUA are in addition to, and not in lieu of, any other affordability requirements imposed on the Project through other agreements with PDC or the City of Portland, including but not limited to the Regulatory Agreement. In the event of a conflict or inconsistency between the affordability requirements of this EUA and the affordability requirements imposed on the Project by another agreement with PDC or the city of Portland, the most restrictive requirements shall control.

Owner has reviewed and understands the Code and Owner agrees to be bound by the Code as such Code is in effect on the date of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their respective, duly authorized representatives, as of the day and year first written above.

OWNER:

THE HAZELWOOD GROUP, LLC

By: ______________________
Name: Daniel Steffey,
Title: Member

By: ______________________
Name: John Bentley,
Title: Member

By: ______________________
Name: Hawkin Au,
Title: Member

By: ______________________
Name: Brian D. Carleton,
Title: Member

By: ______________________
Name: William F. Hart
Title: Member

CITY OF PORTLAND, a municipal corporation of the State of Oregon acting by and through the **PORTLAND DEVELOPMENT COMMISSION**

By: ______________________
Bruce A. Warner, Executive Director

APPROVED AS TO FORM:

PDC Legal Counsel

STATE OF OREGON)
) ss.
County of Multnomah)

The foregoing instrument was acknowledged before me this 13th day of May, 2009 by Daniel Steffey, as the member of The Hazelwood Group LLC

OFFICIAL SEAL
SHEILA ROBERTSON
NOTARY PUBLIC-OREGON
COMMISSION NO. 413994
MY COMMISSION EXPIRES MARCH 8, 2011

Notary Public of Oregon
My Commission Expires: March 8, 2011

STATE OF OREGON)
) ss.
County of Multnomah)

The foregoing instrument was acknowledged before me this 20th day of May, 2009 by John Bentley, as the member of The Hazelwood Group LLC

OFFICIAL SEAL
SHEILA ROBERTSON
NOTARY PUBLIC-OREGON
COMMISSION NO. 413994
MY COMMISSION EXPIRES MARCH 8, 2011

Notary Public of Oregon
My Commission Expires: March 8, 2011

STATE OF OREGON)
) ss.
County of Multnomah)

The foregoing instrument was acknowledged before me this 20th day of May, 2009, by Hawkin Au, as the member of The Hazelwood Group LLC

OFFICIAL SEAL
SHEILA ROBERTSON
NOTARY PUBLIC-OREGON
COMMISSION NO. 413994
MY COMMISSION EXPIRES MARCH 8, 2011

Notary Public of Oregon
My Commission Expires: March 8, 2011

STATE OF OREGON)
) ss.
County of Multnomah)

The foregoing instrument was acknowledged before me this 6th day of MAY, 2009, by BRIAN D CARLETON, as the OWNER of THE HAZELWOOD GROUP, LLC

OFFICIAL SEAL
KRISTEN CARTER
NOTARY PUBLIC - OREGON
COMMISSION NO. 392946
MY COMMISSION EXPIRES MAY 18, 2009

Kristen Carter
Notary Public of Oregon
My Commission Expires: MAY 18, 2009

STATE OF OREGON)
) ss.
County of Multnomah)

The foregoing instrument was acknowledged before me this 6th day of MAY, 2009, by WILLIAM F HART, as the OWNER of THE HAZELWOOD GROUP, LLC

OFFICIAL SEAL
KRISTEN CARTER
NOTARY PUBLIC - OREGON
COMMISSION NO. 392946
MY COMMISSION EXPIRES MAY 18, 2009

Kristen Carter
Notary Public of Oregon
My Commission Expires: MAY 18, 2009

STATE OF OREGON)
) ss.
County of Multnomah)

This instrument was acknowledged before me this 4th day of May, 2009, by Bruce A. Warner, as the Executive Director of the Portland Development Commission.

OFFICIAL SEAL
EMILY SWENSEN
NOTARY PUBLIC-OREGON
COMMISSION NO. 406181
MY COMMISSION EXPIRES MAY 18, 2010

Emily Swensen
Notary Public of Oregon
My Commission Expires: May 18, 2010

EXHIBIT A
LEGAL DESCRIPTION

Lot 3 GLISAN STREET STATION, in the City of Portland, county of Multnomah and State of Oregon (Fee Parcel),

TOGETHER WITH easements over Lot 2 as contained within that certain Reciprocal Easement Agreement recorded April 10, 1997, recording number #97052950. (Air space Parcel).

Tax Account No. R-32854-0150

Aka: SW corner of NE Glisan Street and NE 122nd Avenue, Portland, Oregon (collectively the "Property").