



CITY OF  
**PORTLAND, OREGON**  
PORTLAND HOUSING BUREAU

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**SUBSTITUTE**

Exhibit A

186585

DATE: April 7, 2014

TO: Portland Housing Bureau (PHB) Investment Committee with expanded representation from the Planning and Sustainability Commission and Multnomah County

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Recommend Approval of a Ten Year Multiple-Unit Limited Tax Exemption (MULTE) for **Sky 3 aka Portland Jefferson Apartments** located at SW Jefferson Street between SW 11<sup>th</sup> and 12<sup>th</sup> Avenues

**Project Description:**

PH Portland Jefferson, LLC proposes to build a mixed-use development, Sky 3, also known as Portland Jefferson Apartments (the "Project"), at SW Jefferson Street between SW 11<sup>th</sup> and 12<sup>th</sup> Avenues on land which currently has a vacant commercial building. The Project will consist of 196 apartments in a high rise building over ground floor commercial space to be used by either one large or five to six smaller retail tenants. The site is located downtown Portland in the Central Business District and is within the Education Urban Renewal Area.

The 196 apartments include 39 units with restricted affordability which will be rented at 80% of median family income (MFI) or less, and 157 market rate units. Over half of the units, 108, will comprise of one bedroom units; the other portion of the units will consist of 37 studio and 51 "family-sized" two bedroom units, including 3 penthouse units. The building will have 170,157 gross square feet including 155,657 square feet of residential space and 14,500 square feet of commercial space, plus 2,551 square feet of common area.

The structure will be concrete and galvanized steel and will feature a combination of color coated metal panels and masonry or calcium silicate masonry finish panels all with a focus on the permanence of the structure. The apartment entrance and retail frontage will be weather protected and integrated with the rest of the external design features, including large windows. The central courtyard will add to the visual appeal of the project for neighbors as well as be space for tenants to gather. Residents will also benefit from an indoor/outdoor rooftop terrace common area, a game room, a fully furnished exercise room, a library, free WiFi in common areas, and a dog washing facility. A business conference room featuring a projector and WiFi will be available both to tenants and the public by reservation.

The 15 story building will have two additional levels of structured parking for a total of 118 vehicles. Tenants will have access to secure long-term parking for 296 bicycles and have space for bicycle maintenance. The Project site is directly on a Streetcar stop at SW 11<sup>th</sup> and Jefferson where the residential entrance will provide a direct pedestrian connection. The sidewalk on Jefferson will be widened to 12 feet and be lined with trees.

The Project will meet environmental goals by building, registering, and certifying per LEED silver level standards with gold level being possible.

The Project will be developed by PH Portland Jefferson, LLC. Riverstone Residential Group will provide property management services, and Absher Construction Co. is the General Contractor for construction. The land was purchased by PH Portland Jefferson, LLC from the City of Portland.

### **Proposed Unit Mix and Affordability:**

| Unit Type    | Square Footage | Total Count | Unit Count at 80% MFI | 80% MFI Rent (w/ Utilities) | Market Rate Unit count | Market Rent w/ Utilities |
|--------------|----------------|-------------|-----------------------|-----------------------------|------------------------|--------------------------|
| Studio       | 496-571        | 37          | 7                     | \$871 (\$971)               | 30                     | \$1275                   |
| One Bedroom  | 554-764        | 108         | 22                    | \$923 (\$1040)              | 86                     | \$1665                   |
| Two Bedroom  | 858-1426       | 51*         | 10                    | \$1118 (\$1248)             | 41*                    | \$2250*                  |
| <b>Total</b> | <b>738 Avg</b> | <b>196</b>  | <b>39</b>             |                             | <b>157</b>             |                          |

\*The two bedroom count includes 3 penthouse units with \$3672 average rent

### **Scoring of Public Benefits:**

Staff reviewed the Project's MULTE application and determined it meets the minimum program threshold guidelines. Staff scored the public benefits the Project will provide based on the information provided in the application. **A proposed project must receive a minimum score of 50 out of 140 possible points, available in seven different categories.**

**Affordability** – 20% of the apartment units will be affordable to households earning 80% or less of the area MFI. The affordable units will be distributed evenly amongst the unit mix. By demonstrating that market rents are above 120% MFI in the area, the affordable units are allowed at 80% MFI rents rather than 60% MFI rents. Because the Project does not provide more than the program minimum threshold requirements, the Project earned **0 out of 50 possible points**.

**Equity** – The application demonstrates results from previous development projects by the same general contractor with high MWESB participation. For six projects recently developed in the Seattle area, the Minority and Women owned business contracts averaged 34% of the subcontracted dollars. Only two of the six had Section 3 business participation, but of the two, the average was close to 15%. The applicant commits to strive for similar results with this Project and will report on bidding activities and results through the City of Portland's procurement office. The application lists strategies to achieve high MWESB participation such as dividing jobs to provide alternative bidding scenarios. Also, the Project lease-up process will be conducted using targeted marketing strategies. In addition to using standard internet listing sites and on-site information of available units, the Project will be affirmatively marketed to surrounding churches, housing agencies, and non-profit organizations. By demonstrating past MWESB contracting results above the 20% participation goal and committing to similar results with this Project, as well as the commitment to pursue affirmative marketing to target populations, the project earned **17 out of 30 possible points**.

**Accessibility** – The residential units will have elevator access, meeting all minimum ADA requirements. Additionally, the Project will increase the number of Type A units by 50% over what is required by code and feature 97 Universal Design features which make the Project more livable and comfortable for tenants and visitors with disabilities. This public benefit will remain beyond the period of the exemption into perpetuity. Providing such amenities to all of the units earned the Project **15 of 20 possible points**.

**Family Housing/Location** – The proposed Project is located in an area defined as having a high lack of family sized units. A quarter of the Project's units are two bedroom units, all of them exceeding 900 square feet. Family centered amenities are not highlighted specifically in the application however the Project features gathering space in the lobby, a fully furnished exercise room, a library, a game room and a central courtyard that would be attractive to families. Including family-sized units and family amenities in downtown Portland where there is a significant lack of bigger units earned the Project **5 points out of 10 possible points**.

**Access to Amenities** – The site is close to Interstate 405 and Highway 26, has access to bike lanes, and is directly on the Portland Streetcar line. The Project is within walking distance to a grocery store and the Portland State University campus as well as numerous retail and dining establishments and professional and medical locations. There are many cultural and entertainment opportunities in the downtown neighborhood around the site. The site has a 20-minute neighborhood score of 87 which earned the Project **9 out of 10 possible points**.

**Gathering Space** – The Project will provide a central courtyard, common space on the 2<sup>nd</sup> floor with large windows looking out on to the street, and indoor and outdoor common activity space on the rooftop. Off of the 2<sup>nd</sup> floor area with access to SW12<sup>th</sup> Avenue, a bicycle maintenance area is planned. Other amenities for residents include a game room, a fully furnished exercise room, a library, and a dog washing station. There will be a business conference room available to tenants and by reservation for public use which will accommodate 15-20 people and provide a projector and WiFi connection for high-tech meetings. The Project applicant will also host quarterly “meet your neighbor” events on the rooftop of the building as a way to connect to the surrounding neighborhood. The sidewalk widening along Jefferson will include a bench for public seating. With the business conference room, the quarterly neighborhood events, and the bench the Project will provide ample gathering space to the community as well as to the tenants, which earned the Project **5 out of 10 possible points**.

**Special Needs Populations** – No units will be reserved specifically for “at-risk” or “special needs” populations; therefore the Project earned **no points out of 10 possible points**.

**The Project earned a total score of 51 out of 140 points, which is just above the minimum threshold score.** There were not sufficient applications received to compete for the annual cap of \$1 million estimated foregone revenue, so the Project's score does not need to be compared to that of other applicants.

| Public Benefit          | Points Earned | Possible Points |
|-------------------------|---------------|-----------------|
| Affordability           | 0             | 50              |
| Equity                  | 17            | 30              |
| Accessibility           | 15            | 20              |
| Family Housing/Location | 5             | 10              |

|                           |           |            |
|---------------------------|-----------|------------|
| Access to Amenities       | 9         | 10         |
| Gathering Space           | 5         | 10         |
| Special Needs Populations | 0         | 10         |
| <b>Total</b>              | <b>51</b> | <b>140</b> |

### **Financial Evaluation:**

Staff examined projected costs, debt, rents, utility allowances, and operating expenses to determine if the assumptions represent a reasonable expectation of how the Project will be developed and operate. Staff found both the development budget and the operating budget to be reasonable and reasonably consistent with industry standards and other projects, and tested eligibility for the tax exemption by examining financial performance and returns under three different scenarios.

The Project is financed with both senior and subordinate debt, and has a ground level commercial component. The commercial component is not eligible for tax exemption under the MULTE program. Therefore, the operating income, expenses, debt and equity attributable to the commercial component were not considered in the financial analysis.

Using the pro forma and financial information provided by the applicant, staff developed three ten-year projections of the Project's financial performance:

- Scenario 1 – with the tax exemption;
- Scenario 2 – without the exemption and with rents maintained at Scenario 1 level; and
- Scenario 3 – without exemption and with rents increased to create same rate of return as scenario 1.

Scenario 1 shows the ten-year average cash on cash rate of return with the exemption is 8.4% over the ten-year period of the MULTE exemption.

Scenario 2 shows that the rate of return without the exemption is 6.9% over the ten-year period of the MULTE exemption and the project would not be able to pay the proposed debt.

Scenario 3 eliminates the MULTE exemption and uses a hypothetical rent structure to result in the same debt service coverage ratio and rate of return as the Project with the exemption. This scenario shows that, without the exemption on the residential improvements, the rents would need to increase by approximately twenty percent to achieve a comparable rate of return to that of Scenario #1. This would result in the loss of all 80% MFI units, and would put rents above market rate.

To determine how much a tenant pays as rent, the financial analysis must consider how utilities are paid. Utilities paid by tenants are considered part of the rent for purposes of this analysis. All utilities at the Project are supplied by the owner but will be billed back to the tenants as a separate charge. The proposed rents appropriately reflect that structure. For example, the monthly base rent (\$871 for an 80% MFI studio) plus the utility billbacks (up to \$100 for a studio) equal \$971 or 30% of the income of an individual at 80% MFI.

This analysis confirms that (i) the Project would not be financially feasible without the benefit of the property tax exemption, (ii) the Project would not deliver the public benefits without the exemption, and (ii) the anticipated ten-year rate of return with the exemption will be less than the ten percent ceiling allowed under the exemption.

After estimating the amount of the real property taxes that would be exempted in the first year of operation under the City's MULTE program at approximately \$690,000, staff calculated the ten-year value of this exempted tax revenue in today's dollars at \$6,035,841 by assuming a five percent discount rate (selected in consultation with the City's Debt Manager) and a three percent annual increase in the tax.

The Project is located within the Education Urban Renewal Area. Staff confirmed with the City's Debt Manager that there are no existing bond covenants to which the Project must adhere.

**CONDITIONS:**

The Project will be required to carry an extended use agreement and submit Project financial information annually during the exemption period, according to the terms of City Code 3.103.070(A).

**RECOMMENDATION:**

Staff recommends approval by the Portland City Council of a ten-year property tax exemption for the residential portions of the Project, including associated residential parking, to be built by PH Portland Jefferson, LLC, or an affiliated entity because the Project meets the minimum threshold and public benefits requirements set forth in Section 3.103 of Portland's City Code.