CITY OF
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PORTLAND HOUSING BUREAU

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EXHIBIT A

188073

DATE: October 5, 2016

TO: Portland City Council

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Application for a ten-year Multiple-Unit Limited Tax Exemption (MULTE) for **17th and Pettygrove** located at 1331 NW 17th Ave

Overview

PHB approved a Multiple-Unit Limited Tax Exemption (MULTE) for the 17th and Pettygrove project through City Council on August 10, 2016 (Ordinance 187943). Following the MULTE approval, the developer has requested to amend the approval to increase the number of units being built and subsequently the number of affordable units provided. The applicant was able to secure an adjacent piece of property to the site and has updated the project design, significantly increasing the size of the project and the number of units. PHB has reviewed updated application information with the additional units considered in order to confirm that the application still meets all of the program requirements.

Project Description:

Holland Acquisition Co., LLC proposes to build a mixed-use development, 17th and Pettygrove (the "Project"), at 1331 NW 17th Avenue, in the Northwest District neighborhood. A soon-to-be vacant warehouse and a parking lot currently occupy the site. The Project will be a seven-story building with apartments above ground-floor commercial space on NW Pettygrove Street at the corner of NW 17th Avenue.

In the amended application, the number of apartment units increased from 117 to 197 units, meaning that the number of affordable units will also increase from 23 to 40, which will be restricted at or below 80% of median family income (MFI). The remaining units in the project will be rented at market rates. The Project will consist of 55 studio units, 113 one-bedroom units (including three live/work units), 24 two-bedroom units, and five three-bedroom units, with the affordable units distributed evenly amongst the unit types.

The change to the Project results in an additional story, taking the project from six to seven floors. The Project's total gross square footage increases from about 104,575 to 171,086 gross square feet with roughly 133,119 compared to 84,024 gross square feet of residential space. The larger footprint also provides for more common areas and commercial space.

Residential use parking spaces will increase from 70 to 121, with another additional 20 spaces being made available for commercial use.

Increase in Units

Unit Type	Previous Application			Revised Application		
	Total Unit Count	Unit Count at 80% MFI	Un-restricted Market Rate Unit Count	Total Unit Count	Unit Count at 80% MFI	Un-restricted Market Rate Unit Count
Studio	25	5	20	55	11	44
One Bedroom	72	14	58	113	23	90
Two Bedroom	20	4	16	24	5	19
Three Bedroom	0	0	0	5	1	4
Total	**117**	**23**	**94**	**197**	**40**	**157**

Proposed Unit Mix – The increase in the size of the Project results in an additional 17 affordable units, including a three-bedroom unit.

Unit Type	Total Unit Count	Unit Count at 80% MFI	80% MFI Rent charged/with utility expense*	Un-restricted Market Rate Unit Count	Un-restricted Market Rent charged/ with utility expense*
Studio	55	11	$943/$1030	44	$1405/$1492
One Bedroom	113	23	$984/$1103	90	$1825/$1944
Two Bedroom	24	5	$1176/$1324	19	$2435/$2583
Three Bedroom	5	1	$1350/$1529	4	$2736/$2915
Total	**197**	**40**	**$1006/$1121 Avg**	**157**	**$1804/$1919 Avg**

*Utility allowances used to predict utility expenses based on the 2015 Schedule of Utility Allowances for properties receiving Housing Choice Vouchers published by Home Forward: $87 for studios, $119 for 1-bedroom units, $148 for 2-bedroom units and $179 for 3-bedroom units.

Public Benefits:

Whereas the MULTE Program has many goals, including the promotion of residential development in transit oriented areas and city centers, the public benefits most at the forefront of the program are affordability, equity and accessibility.

Affordability – The Project will continue to make 20% of the apartment units for rent in this Project affordable to households earning 80% or less of 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 Project qualifies for the affordable units to be at the 80% MFI, as allowed per the program guidelines.

Equity – The requirement of the engagement of a third-party technical assistance provider in order to strengthen the performance of the Project in contracting with Minority, Women and Emerging Small Businesses in the construction subcontracts is still a requirement being met by the applicant.

And PHB will be working with the property management team to help ensure that the project is affirmatively marketed.

Accessibility – Like in the initial application, the residential units will be built to meet all minimum Americans with Disabilities Act and Fair Housing Act requirements, including elevator service. The Project will also be built to have at least five percent, now ten, of the units be fully adaptable to become fully accessible per ADA and FHA standards if necessary to accommodate tenants with disabilities. These public benefits will remain beyond the period of the exemption into perpetuity.

Financial Evaluation:

Like with the initial application, 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.

Rents of the otherwise affordable units would need to increase by 130% without the tax exemption, exceeding the rents of the market-rate units and precluding any units affordable at 80% MFI. This analysis confirms that (i) the Project would not be financially attractive without the benefit of the property tax exemption, and (ii) the Project would not deliver the public benefits without the exemption.

Because the Project increased in size, the estimated fair market value increased over $10 million, and of course the value of the tax exemption increased as well. 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 $484,588 (compared to $353,309), staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately $4,462,969 (compared to $3,253,911) assuming a four percent discount rate and a three percent annual assessment increase. The City's portion of the foregone revenue over ten years is estimated at $1,472,780 (compared to $1,073,787), or 33% of the total.

The Project is not located within an Urban Renewal Area. The Project is receiving private financing and will not be receiving any funding from PHB.

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 that the Portland City Council amend the approval of a ten-year property tax exemption for the residential portions of the Project, including associated residential parking, to be built by Holland Acquisition Co., LLC, or an affiliated entity because the Project still meets the minimum threshold and public benefits requirements set forth in Section 3.103 of Portland's City Code. The HIPP Senior Program Manager can review any further proposed changes and approve any slight variances not increasing the value of the tax exemption.