



CITY OF
PORTLAND, OREGON

PORTLAND HOUSING BUREAU

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Exhibit A

188261

DATE: January 30, 2017

TO: Portland City Council

FROM: Dory Van Bockel, PHB Housing Program Coordinator
Jill T. Chen, PHB Finance Coordinator

SUBJECT: Application for a ten-year Multiple-Unit Limited Tax Exemption (MULTE) for **Hawthorne Boulevard** located at 2310 SE Hawthorne Blvd.

Project Description:

TMT Development, LLC ("TMT") has applied to PHB for the MULTE Program for their proposed mixed-use development, Hawthorne Boulevard (the "Project"), between SE 23rd and SE 24th in the Hawthorne Business District. The Project consist of two sites, 0.39 acres or 17,000sqft, purchased by affiliated company, Tom Moyer Theatre, LLC over two decades ago. One site is currently leased to Kruger Farm's Market and Flying Fish Company (leases expire Nov 2016, they do not intend to renew) and the other site is a duplex; these properties are rented on a month-to-month basis.

The Project is a mixed-use, four story building with three levels of residential apartments above two separate retail spaces with 22 tuck-under parking spaces in the back. The building will feature full width brick masonry veneer alternating with high quality metal panel. There are 59 apartments including 12 units (20%) with restricted affordability at 80% of median family income (MFI) or below. Restriction at set at 80% MFI since the Project's market rents are at or exceed 120% of the area's MFI levels reflecting a high cost area. 28 are studios and 31 are one-bedroom units with the affordable units distributed evenly amongst the unit types on each floor.

Proposed Unit Mix

Unit Type	Square Footage	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	467-543	28	6	\$931/\$1,027	22	\$1,394-\$1,594/ \$1,490-\$1,690
One Bedroom	518-841	31	6	\$977/\$1,100	25	\$1,413-\$2,294/ \$1,536-\$2,417
Total	560 Average	59	12	\$954/\$1,064 Average	47	\$1,448/\$1,701 Average

*Utility allowances used to predict utility expenses based on the 2016 Schedule of Utility Allowances for properties receiving Housing Choice Vouchers published by Home Forward: \$96 for studios and \$123 for 1-bedroom units.

There are two ground level, retail spaces¹ at each corner which does not benefit from tax exemption. The storefronts and the residential lobby entrance will mainly be glass and feature canopies to provide protection from the elements and to emphasize the entrances. The building will be about 54,000 gross square feet with roughly 34,670 square feet of residential and auxiliary space, 6,500 square feet of common/lobby areas, 5,000 square feet for retail and 7,830 for garage. Living units will be divided between those facing north to Hawthorne Blvd. or south towards primarily single family homes. Twelve units will feature balconies, typically south facing, and second level units facing south will feature landscaped private patios, screened for privacy. In addition, the south façade will be significantly setback to provide a good transition in scale from the single family homes to the south.

The Project's target demographic generally uses less space, commutes via alternatives to traditional single-occupancy vehicles, comfortable using car sharing services. The site has excellent bike routes both north and south of Hawthorne which facilitate commuting by bike and there is high frequency bus service on Hawthorne, with a stop on the SW corner of 23rd and Hawthorne and NE corner of 22nd and Hawthorne. The Project ground floor will feature a large bicycle storage room, a dog wash station and a secured parcel storage system in the residential lobby. The fourth floor will feature a resident amenity room and terrace with views of downtown Portland. The site has a "Complete Neighborhood Score" or "walkability" score of 85 and a "bikeability" score of 97, out of 100, based on the level of walkable and bikeability access to amenities and commercial services.

As required by the MULTE Neighborhood Contact process, the applicant has notified and already held a meeting with the Hosford-Abernethy Neighborhood District Association on September 20, 2016 to present the Project.

TMT was founded in 1990 by Tom Moyer who built the largest privately owner movie theater chain in the western US, starting with the Sellwood Theater, before selling it in 1989. The company turned as a commercial real estate developer that developed the 1000 Broadway Building, Fox Tower, and Park Ave West Tower. It currently owns and operate 2 million square feet of commercial real estate in Oregon and SW Washington.

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 – 20% of the apartment units for rent in this Project will be affordable to households earning 80% or less of area MFI. The affordable units will be distributed evenly amongst the unit mix.

Equity – The project will meet the programs' equity requirements by hiring a technical advisor to make sure qualifying contractors are aware of the project for bidding on work.

The applicant has committed to specific strategies to ensure MWESB participation. TMT Development has entered into an agreement with Donaldson Consulting to provide technical

¹ Under MULTE, property owners are still responsible for payment of the taxes on the assessed value of the land and any commercial portions of the project, except for those commercial improvements deemed a public benefit and approved for the exemption. In this Project, there is no tax exemption for the retail space.

assistance around MWESB subcontracting with a goal of achieving 20% MWESB participation. The contract includes assistance with pre-bid planning, outreach to MWESB contractors, open houses, bid reviews, assistance to contractors, post-bid support and reporting both quarterly to the City's procurement office and a summary of all efforts and successes post construction. TMT's contractor, Bremik, has also provided a sample MWESB outreach plan. The mechanical and plumbing, representing about 10% of hard costs, is already contracted with MWESB contractor and the applicant is confident of reaching the targeted 20% as more outreach meetings are already planned for later this year. PHB will be coordinating with the property management team to help ensure that the project is affirmatively marketed.

Accessibility – Pursuant to Section 504 of the Rehabilitation Act of 1973, a minimum of 5% of the project's total living units or 3 units, equally dispersed by "class", will meet the requirements of Adaptable units (Type A). Additionally, a minimum of 2% of the project's total living units or 1 unit, equally dispersed by "class," will be accessible for persons with hearing or vision impairments.

Application 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.

Rents of the otherwise affordable units would need to increase by 103%, over double the affordable rents, which precludes any units affordable at 80% MFI.

This analysis confirms that (i) the Project would not be financially feasible without the benefit of the property tax exemption, and (ii) the Project would not deliver the public benefits without 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 \$141,517, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately \$1,303,343, 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 \$430,103, or 33% of the total.

The Project is not located in an urban renewal area. It is receiving private financing and will not be receiving any direct 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 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 TMT, 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.