



CITY OF
PORTLAND, OREGON

PORTLAND HOUSING BUREAU

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Exhibit A

188262

DATE: January 30, 2017

TO: Portland City Council

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

SUBJECT: Recommend Approval of a Ten Year Multiple-Unit Limited Tax Exemption (MULTE) for **Fairfield Killingsworth** located at 5327 N Interstate Ave

Project Description:

Fairfield Residential Company, LLC ("Fairfield") has applied to PHB for the MULTE Program for their proposed mixed-use development, Fairfield Killingsworth (the "Project"), at 5327 N Interstate Ave, in the Interstate Corridor urban renewal area. The project consists of three underutilized parcels adjacent to the MAX Yellow Line at the intersection of Interstate Ave and Willamette Blvd. in North Portland. The project lies in the Overlook neighborhood and consists of approximately 0.54+ acres. It is a redevelopment opportunity which requires razing a fast food drive-through restaurant and two single family homes in various states of disrepair. The Project consists of 140 apartments and ground-floor commercial space in a seven-story building.

The 140 apartments include 28 units (20%) with restricted affordability at 80% of median family income (MFI) or below. The remaining units in the project will be rented at market rates. The project is a mixed-use multifamily building designed in a 7 story podium structure consisting of 5 levels of wood frame over two levels of concrete podium with an additional subterranean level of parking. The Project will consist of 85 studio units, 39 one-bedroom units and 16 two-bedroom units, with the affordable units distributed evenly amongst the unit types. The building will be about 156,975 gross square feet with roughly 92,495 square feet of residential space, 6,575 square feet of common areas/open space plus 48 balconies and another 5,450 square feet for the commercial space.

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	487-755	85	17	\$940/\$1,027	68	\$1,410-\$1,800/ \$1,497-\$1,887
One Bedroom	607-912	39	8	\$989/\$1,100	31	\$1,550-\$2,070/ \$1,661-\$2,181
Two Bedroom	1012-1199	16	3	\$1,186/\$1,320	13	\$2,390-2,560/ \$2,524-2694
Total/Avg	661	140	28	\$1,038/\$1,149	112	\$1,894/\$2,254

*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: \$87 for studios, \$111 for 1-bedroom units and \$134 for 2-bedroom units.

There will be approximately 5,500 square feet of ground floor retail of which Fairfield is designing to accommodate a restaurant, coffee shop and two inline boutique shop spaces. Project amenities include a fitness room, a clubroom, dog wash and dog run, a third-level courtyard and roof-top deck. Features offered in the units include modern, quality finishes and appliances.

The Project will provide 57 parking spaces within one subterranean level. There will be a separate bike storage and repair room accommodating 141 bikes for long-term, secure parking. The Project is one block away from the N Killingsworth MAX Station and #72 bus going crosstown on Killingsworth. The Project is across the street from the Patton Square Park and has close access to Interstate I-5 and connectivity to the rest of Portland and surrounding areas.

Within the Overlook neighborhood, the Project is situated amongst multi-family buildings and businesses of all kinds including restaurants, coffee shops, offices and retail spaces. The site is a block away from neighborhood restaurants and businesses on Killingsworth Avenue and close to Kaiser Permanente Interstate and the PCC-Cascade Campus. The site has a “Complete Neighborhood Score” or “walkability” score of 85, out of 100, based on the level of walkable access to amenities and commercial services.

As required by the MULTE Neighborhood Contact process, the applicant has notified the North Portland District Neighborhood Association and Overlook Neighborhood about their MULTE application and has requested to present the Project at a neighborhood meeting.

Fairfield is under contract to purchase the property with closing scheduled prior to approval of the tax exemption. The property will be developed by Fairfield, a national, vertically integrated investor and developer of multifamily housing with over 30 years of experience. Fairfield has its own property management company and currently manages over 60k units nationwide. Additionally, Fairfield has its own general contracting company which has developed over 330 multifamily projects nationwide. The property will be owned by a special purpose entity formed by Fairfield and financed by an internal Fund raised by Fairfield.

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 under MULTE will be affordable to households earning 80% or less of area MFI for 10 years. The affordable units will be distributed evenly amongst the unit mix.

Extended Affordability – In addition, the Project is seeking a Metro TOD grant of \$675,000 and Metro is considering providing the grant in exchange for extended affordability. Specifically, Metro has proposed that 5 units in the MULTE program be restricted at 80% AMI for 30 years instead of phasing out after 10 years. Metro proposes a recorded easement through its TOD grant for enforcement of this provision and that PHB provide compliance monitoring and notification, since Metro lacks the capacity to regulate housing units.

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 is in discussions with consultants MCIP/NACM on strategies for MWESB participation and also exploring options with BESThq of Beaverton. Under MCIP's draft proposal, the consultants are to provide technical assistance around MWESB subcontracting with a goal of achieving 20% MWESB participation. The proposal includes assistance with project review including pre-bid planning, outreach to MWESB contractors, bid support including bid reviews and assistance to contractors, and project debriefing and reporting. MCIP/NACM to also provide a summary outlining its activities and successes.

The applicant is seeking to work with local non-profit organizations that could increase its outreach to smaller, certified subcontractors. PHB will be coordinating with the property management team to help ensure that the project is affirmatively marketed.

Accessibility – 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, seven, 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.

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 116%, well 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 \$312,696, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately \$2,879,873, 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 \$950,358, or 33% of the total.

The Project is located within the Interstate Urban Renewal Area. Staff will confirm with the City's Debt Manager that the Project fits within the requirements of the existing bond covenants. The Project is receiving private financing so 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).

PHB is requiring that all new homeownership and rental housing direct funding programs in N/NE Neighborhood Housing Strategy Study Area use the N/NE preference policy. This requirement necessitates an open application period, screening for preference points, and an ordered waitlist to access services. The preference policy prioritizes applicants whose families were subject to higher concentrations of urban renewal activity and the negative associated impact. Because the Project is located within the study area, PHB is requiring that the MULTE affordable units be accessed through the preference policy as well.

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 Fairfield Residential Co., 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.