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PORTLAND HOUSING BUREAU

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Exhibit A

DATE: April 5, 2017

TO: Portland City Council

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

SUBJECT: Recommend Amendment to Approval of a Ten Year Multiple-Unit Limited Tax Exemption (MULTE) for **Block 290/KOTI** located at 1417 NW 20th Avenue

Overview

PHB approved a Multiple-Unit Limited Tax Exemption (MULTE) for the Block 290/KOTI project through City Council on June 29, 2016 (Ordinance 187860). 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 plans to build to the maximum allowed floor area ratio in order to provide more units in an area capable of accommodating increased density and has updated the project design. 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:

Block 290, LLC proposes to build a mixed-use development, Block 290, or "KOTI" (the "Project"), at 1417 NW 20th Avenue, which takes up a block along vacated NW Quimby Street at NW 21st Avenue in the Northwest District neighborhood, also referred to as Slabtown. As part of the freight company, Con-way's, master plan development, a vacant truck service building currently is located on the site. The Project will take up the western half of the site, and an on-site public plaza will complement a park being developed separately on the eastern half of the site. The mixed-use Project will consist of 200 apartments and ground-floor retail space within a seven -story building.

The 200 apartments include 40 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 will consist of 71 studio units, 87 one-bedroom units and 42 two-bedroom units. The building will be about 181,165 gross square feet including roughly 132,000 square feet of residential space, 6,900 square feet of commercial space, about 20,540 square feet of courtyard, plaza and covered exterior space and about 45,900 square feet for 121 underground parking spaces.

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	53	11	42	71	14	57
One Bedroom	72	14	58	87	18	69
Two Bedroom	25	5	20	42	8	34
Total	**150**	**30**	**120**	**200**	**40**	**160**

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	450-470	71	14	$989/$1,037	57	$1,539/$1,577
One Bedroom	601-783	87	18	$1,055/$1,100	69	$1,965/$2,010
Two Bedroom	966-1011	42	8	$1,261/$1,320	34	$2,672/$2,731
Total		**200**	**40**	**$1,102/$1,149**	**160**	**$2,059/$2,106**

*Utility allowances used to predict utility expenses based on the 2016 Schedule of Utility Allowances for Section 8 Properties published by Home Forward ranging from: $38 for studios, $45 for 1-bedroom units, $59 for 2-bedroom units.

The property is owned by Block 290, LLC and the Project will be developed by Guardian Real Estate Services, LLC (Guardian) who is the member of Block 290, LLC.

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. By demonstrating that market rents are above 120% MFI in the area, affordable units at 80% MFI are allowed per the program guidelines.

Equity – The applicant has committed to specific strategies to ensure MWESB participation and working with specific local non-profit organizations to market to target audiences with a demonstrated need. Guardian, as the developer, is entering into an agreement with Metropolitan Contractor Improvement Partnership (MCIP) and NAMC Oregon for MCIP and NAMC Oregon to provide technical assistance around MWESB subcontracting with a goal of achieving 20% MWESB participation. The contract includes working with Guardian and Andersen Construction to assist them 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. The application notes several recent projects for which Andersen Construction was successful exceeding the 20% MWESB participation goal.

Accessibility – The residential units will have elevator access, meeting all minimum Americans with Disabilities Act and Fair Housing Act requirements. The Project will also be built to have five percent 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 114%, an average of $262 a month for all units without the tax exemption, 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 $657,432, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately $6,054,832, 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 $2,018,257, or 33% of the total.

The Project is not located within an Urban Renewal Area and is receiving private financing so 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).

If, after the Project is approved for the MULTE, and prior to construction being completed, the Project owner needs to make changes to the application submitted that would reduce the number, percent or distribution of affordable units in the Project, or the approved public benefits provided, the project owner must submit a formal restructure request. Restructures will be reviewed by staff, presented to PHB's Housing Investment Committee, and if recommended, to PHB's Director for submittal to City Council for approval. If changes to the Project are minor and would result in substantially the same Project, PHB may allow slight variances to what was approved without a formal restructure request.

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 Block 290, 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. The HIPP Senior Program Manager will review any further proposed changes and can approve any slight variances not increasing the value of the tax exemption.