Evaluation of Portland's Residential Limited Tax Exemption Portfolio

Prepared for

Portland Development Commission

Portland Housing Bureau

Multnomah County Chair's Office

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PORTLAND'S PORTFOLIO OF LTE PROGRAMS

Most of the data presented below comes from the 2008-09 Annual Report: Residential Tax Exemption Programs and refers to program operations in FY 2008-2009. Where noted in the tables, statistics for FY 2009-10, drawn from the 2009-10 annual report, were also used in our calculations. This is because the specific data elements presented differed across the two reports.

Table 1 provides a brief description of the five programs, and clearly illustrates the diversity embodied in the City's portfolio of residential LTEs. The programs share an emphasis on development of affordable housing, but apart from the nonprofit program, each also ostensibly targets myriad other community development goals such as increasing access to public transit, increasing residential density in the urban core, and promoting infill development on underutilized land. Many of the City's abatement programs allow for mix of affordability within a specific development. While affordability is a useful lens through which to view the LTEs, other program goals are not necessarily less important. However, as we discuss elsewhere, the wide range of goals complicates measurement of program success and efforts to communicate with affected taxing entities and the public about programs' benefits.

Table 1. Description of Tax Abatement Programs

New Multi-Unit Housing (NMUH)	This program abates the property taxes owed on the improvement value of a new multifamily or mixed-use project for 10 years.
Nonprofit Low-Income Housing (Nonprofit)	This program abates the portion of property taxes in nonprofit-operated developments associated with units occupied by low-income residents.
Residential Rehabilitation (Rehab)	This program abates the increase in property taxes resulting from rehabilitation expenses for 10 years. (now rarely used due to reduced benefit under Measure 50 property tax limitations)
Single-Family New Construction (SFNC)	This program abates a portion of the property taxes owed by owners of newly constructed homes for 10 years.
Transit-Oriented Development (TOD)	This program abates property taxes associated with residential improvements and non-residential improvements that provide public benefit for up to 10 years.

Responsibility for administration of the five LTEs is primarily vested with PHB's Policy, Housing Development Finance and Asset Management Departments and is also supported by the Bureau of Planning and Sustainability. Specific duties include monitoring occupancy, public benefit requirements, and, in some cases, income. Table 2 describes the allocation of these duties for each LTE.

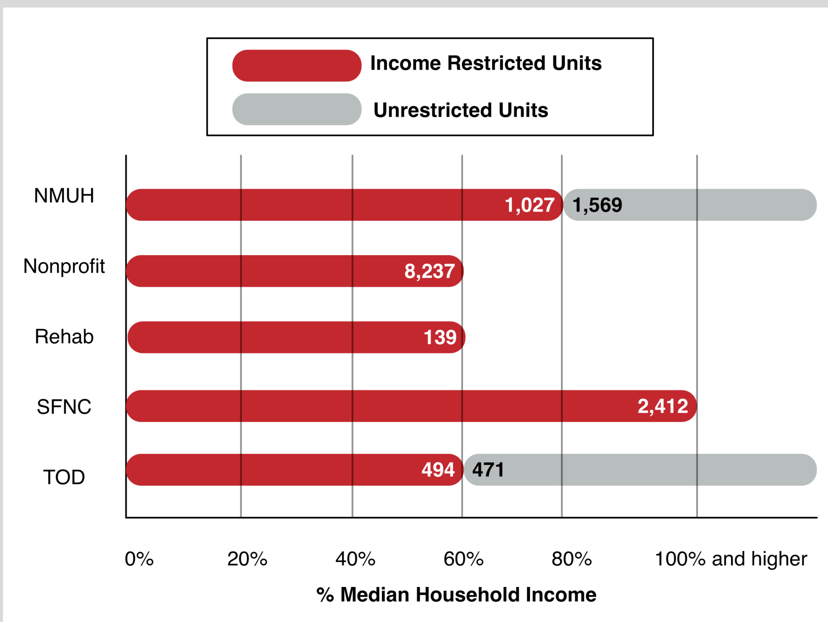
Each LTE targets a different range of income levels, as illustrated in Figure 1, which shows the income eligibility requirements for each program and number of abated units that meet the restriction (the red bars). The figure also shows the number of unrestricted units (grey bars). The Nonprofit program, for example, requires that all units are affordable to households earning 60 percent or less of median household income. The NMUH program, on the other hand, requires that at least 15 percent of rental units be affordable to households earning 80 percent or less of median household income, but allows other market-rate units. Similarly, the

TOD program requires some units to be affordable to households at or below the 60 percent of median income level, and allows the rest to sell at market rates.

Table 2. Breakdown of Responsibilities among Programs

	Portland Housing Bureau	Bureau of Planning and Sustainability
NMUH	Application, project underwriting & IRR analysis, Monitoring tenant/homeowner qualified occupancy	Review compliance with public benefit requirements (during initial application)
Nonprofit	Monitoring nonprofit status of owner/operator & Owner/manager certification of tenant income)	
Rehab	Monitoring tenant/homeowner occupancy	
SFNC	Application, Monitoring builder compliance and qualified sale and annual homeowner income and occupancy certification	

Figure 1. Income Restrictions by Abatement Program



The Rehab program has a range of income eligibility requirements. We assume that all of the abated units are low-income units, although some may not be.

Types of units

Throughout this report, we use the terms "abated units" and "low-income units". "Abated units" include all housing units for which the property owner's taxes are abated under one of the five LTEs. "Low-income units" comprise the subset of abated units that have affordability restrictions under one of the five LTEs, represented by the red bars in Figure 1. Table 3 shows the number of each type of units abated by each program during FY 2008-2009.

Table 3 also shows the share of abated units that are rentals. In total, 81 percent of abated units are rentals, the remaining 19 percent are owner-occupied, but the share of rental units varies considerably across the five programs. The Nonprofit program offers only rental units, whereas the SFNC program is exclusively for owner-occupied housing.

Table 3. Breakdown of Abated and Low-Income Units by Program (FY 2008-09)

	Abated Units	Share of Total Abated Units	Low-Income Units	Share of Total Low-Income Units	Low-Income Units as a Share of Total	Rental Units as a Share of Abated Units
NMUH	2,596	18%	1,027[1]	8%	40%	97%
Nonprofit	8,237	57%	8,237	67%	100%	100%
Rehab	139	1%	139[2]	1%	100%	43%
SFNC	2,412	17%	2,412	20%	100%	0%
TOD	965	7%	494[3]	4%	51%	88%
Total	*14,349*	*100%*	*12,309*	*100%*	*86%*	*81%*

[1] In FY 2009-10, 39.5 percent of the abated units under the NMUH program were low-income units, we assume here that the same percentage of abated units were low-income units in 2008-09.
[2] There is a range of income restricting eligibility requirements in the Rehab program, so we assume that all of the abated units are low-income units, although some may not be.
[3] In FY 2009-10, 51.2 percent of the abated units under the TOD program were low-income units, we assume here that the same percentage of abated units were low-income units in 2008-09.

Forgone revenue and administration costs

The LTEs reduce the amount of property tax revenue that would have been collected for abated properties given their assessed value. We refer to this unrealized revenue as forgone revenue, possibly the most important cost associated with an LTE. But, as we note elsewhere, this definition of forgone revenue is not necessarily the amount that would have been collected without the LTE. Development might have occurred differently without the LTE, and a different development pattern would, in turn, affect assessed property values and property taxes actually collected. And forgone revenue may not accurately reflect program costs or benefits to the extent that developers rely on, and can substitute, other tools to finance new construction. Given these caveats, the forgone revenue data presented in Table 4 still provide useful context for comparing the five LTEs.

Table 4 shows the forgone revenues associated with each program, the percent of total forgone revenue associated with each program, the forgone revenue per abated unit, the forgone revenue per low-income unit, and the administrative costs associated with each program. By forgone revenue and number of units (see Table 3), The Nonprofit program is by far the largest program, accounting for 45 percent of the total forgone revenue. The NMUH and TOD programs, which are very similar in implementation, combined account for 34 percent of forgone revenue, while the SFNC accounts for 21 percent. The little-used Rehab program accounts for about one percent of both total abated units and foregone revenue.

The administrative costs in Table 4 were estimated using relevant staff salaries and estimated annual workload attributable to each program. The SFNC program is the largest with about 50 percent of the total administrative costs for all the programs. The Rehab program currently has no administrative costs due to the low utilization of the program resulting from reduced benefits under Measure 50 property tax limitations . Aside from the Rehab program, the Nonprofit program has the lowest total administrative costs accounting for about 5 percent of the total administrative costs for all the programs.

Table 4. Forgone Revenue by Program and Unit Type (FY 2008-09)

	Total Forgone Revenue	Share of Total Forgone Revenue	Forgone Revenue per Abated Unit	Total Administrative Costs
NMUH	$4,002,952	26%	$1,542	$83,377
Nonprofit	$6,883,951	45%	$836	$13,949
Rehab	$144,982	1%	$1,043	$0
SFNC	$3,174,267	21%	$1,316	$127,807
TOD	$1,219,377	8%	$1,264	$30,993
Total	*$15,425,528*	*100%*	*$1,075*	*$256*,126

From the perspective of foregone revenue per unit, however, the programs look very different. The large Nonprofit program has the smallest level of forgone revenue per unit, one-third to one-half that of NMUH, SFNC, and TOD programs. From an affordability standpoint, the statistics do not speak well for the two multiunit programs. But the programs also "purchase" very different housing products. The Nonprofit program targets a very low-income population and has no major objective other than provision of affordable housing, whereas the NMUH and TOD programs target a different demographic and also seek to incent development that achieves a variety of other public livability goals. If the benefits, beyond affordability, provided by the multiunit programs have significant value, the programs are actually less "expensive" than the forgone revenue statistics suggest.

However, without digging into the details, the LTE portfolio might appear to be first and foremost about affordable housing, creating the potential for confusion about what the programs try to do and what they actually accomplish. This potential disconnect underscores the importance of clearly articulating program goals so that stakeholders understand why, for example, it might make sense to continue the NMUH program when the forgone revenue per low-income unit is nearly five times that for the Nonprofit program.

Who forgoes the revenue?

Revenue generated from property taxes is used to fund many services provided at the city and county level by numerous entities. Table 5 describes how the forgone revenue associated with the abatement programs is distributed among different public entities. About 32 percent of the total forgone revenue would have gone to the City of Portland, 30 percent to area education service districts, 22 percent to Multnomah County, 2 percent to community colleges, and 13 percent to other tax districts. These calculations assume that abated tax revenue would otherwise have flowed directly to the relevant jurisdiction. This is not always the case. Abated taxes in urban renewal areas, for example, would have been tax increment financing (TIF) revenues and redistributed accordingly.

Table 5. Forgone Revenue by Program and Potential Source (FY 2008-09)

	City of Portland	Multnomah County	Community Colleges	Education Service Districts	All Other Tax Districts	Total Forgone Revenue	*Share of Total*
NMUH	$1,276,134	$931,910	$86,236	$1,197,152	$511,519	$4,002,952	*26%*
Nonprofit	$2,187,985	$1,597,798	$148,468	$2,070,497	$879,203	$6,883,951	*45%*
Rehab	$46,111	$33,673	$3,118	$43,300	$18,779	$144,982	*1%*
SFNC	$1,008,145	$736,208	$68,415	$952,904	$408,596	$3,174,267	*21%*
TOD	$385,231	$281,319	$26,508	$372,822	$153,496	$1,219,377	*8%*
Total	$4,903,607	$3,580,909	$332,744	$4,636,676	$1,971,593	$15,425,528	*100%*
Percent of Total	*32%*	*23%*	*2%*	*30%*	*13%*	*100%*	

The case studies

Following our recommendations for updating the LTE portfolio, below, we present case studies where we analyze each of the abatement programs separately. We begin each study by highlighting several important program-wide statistics such as the number of abated units, forgone revenue, and administrative costs, and compare them to those of other programs. We then describe each program's objectives and provide a map showing its geographic scope. Next, we analyze specific developments or homes participating in each of the abatement programs (in some cases, we analyze hypothetical homes). PHB staff suggested the specific developments we analyzed. For each of the case studies, we analyze the effect of the abatement on the development's feasibility and on the home's affordability. Based on this analysis, we describe the impact of each abatement program on the specific developments and houses considered and the extent to which each program meets its objectives.

RECOMMENDATIONS

The City of Portland asked ECO to evaluate these LTE programs to make recommendations on better alignment of program goals and intended outcomes. The five programs independently and collectively are overly complex: they are a set of similar, but not identical, programs that incent a range of housing affordability and other benefits. Over time, the implementation of the City's LTE policies to meet current housing needs has evolved away from the initial statutory intent of the program. Recent audits have highlighted the fact that these programs provide taxing jurisdictions an uncertain return on their investment, in part because not all current program eligibility requirements or outcome measures are well matched to housing goals. Our findings indicate that the programs are trying to accomplish a wide range of goals that include everything from improving the pedestrian experience, to adding homes near jobs, to increasing affordability. In short, the program goals are too far-reaching, and should be better targeted.

Tax abatements are an important development incentive, but our review of the case study developments financials finds that they are rarely used alone: they are part of a package of tools that includes low income housing tax credits, publicly-backed low interest loans, federal funds, and traditional equity and bank loan sources. Tax abatement alone is not a powerful enough tool to create affordable housing, let alone the broad range of desired outcomes. However, well-targeted programs add an important piece to the financial puzzle for developers and building operators, and the programs underwrite the public benefit that the City would like to see realized.

The recommendations that follow provide a starting place for a policy discussion about how to improve the alignment of program goals with development outcomes. They provide high-level direction, but implementation will require more specific policy decisions to determine appropriate criteria for program eligibility.

1. **Rehabilitation program: Move from underutilization to a full stop on implementation.** Our review of this program (which is currently little-used) indicates that the provisions of Measure 50 provide the same benefit as this tax abatement to all citizens of Oregon, and that the program as it is currently structured is redundant. Portland should stop using this program.
2. **Single-Family New Construction program: clarify program goals and re-target program requirements to address these goals.** Initial program goals related to reversing declining property values, not to affordability. The boundaries ("Homebuyer Opportunity Areas") are, therefore, areas experiencing declining property values and are not generating much new construction. These are, not coincidentally, also the areas of the City where the market is already providing affordable housing. In the statutorily defined targeted areas, most households with income as low as 70 percent MFI can afford housing available on the market even without abatement, while households with income much below 60 percent MFI cannot afford to buy even with an abatement, meaning that this program makes home ownership affordable for only a small swath of the population in the target area. At the same time, many households who do not need the abatement to purchase available housing stock are nonetheless eligible for the program. The program is not well targeted. Program goals and geographic boundaries should be reviewed and clarified to better align likely outcomes with stated goals and the boundary chosen.

If the primary goal is providing affordable single-family new construction, the City might select boundaries that: (1) have zoning policies that support single-family construction, and (2) have market characteristics that indicate that new construction is unaffordable to families with target incomes. Such a program could help to provide a range of housing options, at a range of price points, in parts of the City that might otherwise lack housing stock affordable to lower-income households. The City should evaluate how much of an incentive the abatement gives for development in these geographic areas (where we would expect property values to be higher and gaps for financing affordable new construction therefore greater), and whether the abatement will be sufficient to support the affordability goals.

Other program goals might suggest other modifications to the program.

3. **New Multi-Unit Housing / Transit Oriented Development programs: combine and simplify.** These two programs are substantially similar in their structure, eligibility criteria, and current implementation goals. Both abate an entire development (including a portion of housing units that are not required to be affordable); both seek to incent a range of outcomes that relate to assuring a mix of housing price points as well as quality-of-place factors such as pedestrian environment and location-efficient density. These similarities suggest that the programs could be combined to simplify implementation. The combined program would continue to abate an entire development, would require a mix of affordability, and would focus on quality-of-place aspects of a development.

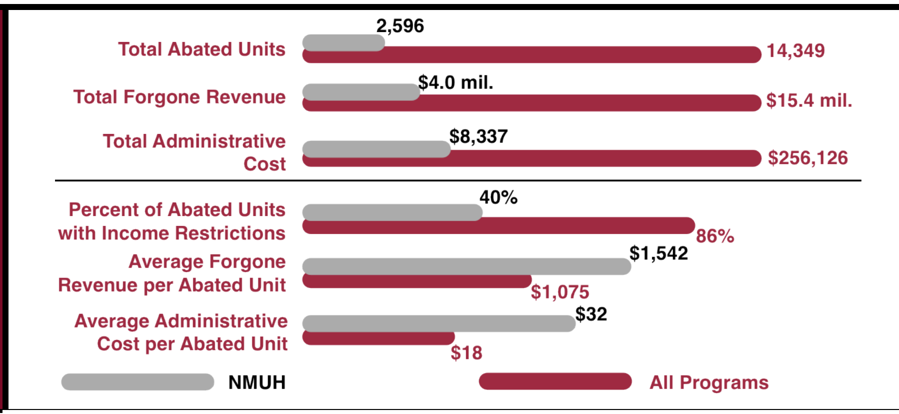
   The abatement alone is probably not a powerful enough incentive to support all program goals; these programs are part of a package of tools that together implement the City's, and the region's, stated policies of increasing density in appropriate locations, supporting increased transit ridership, reducing greenhouse gas emissions, and creating high-quality communities that are affordable to a broad range of residents. Other tools in this package are already in place. This package includes regulatory (zoning, building code) as well as financial (Metro's TOD program, urban renewal and tax increment finance, and even local and business improvement districts) tools. Other resource and regulatory tools to advance these goals remain to be developed.

   From this perspective, it is appropriate to consider a boundary for the program that aligns with comprehensive or other plan designations. Metro's 2040 plan identifies Regional and Town Centers as appropriate locations for density, and also identifies corridors that are appropriate for a mix of commercial and higher-density residential developments. The City of Portland is also currently updating its comprehensive plan (the "Portland Plan") and will be evaluating its land use designations. These processes and plans could identify logical target areas for a combined TOD / NMUH program.

   The City should further evaluate the length of the abatement, to assure that the current ten years provides sufficient certainty to lenders and developers to support the kind of high-quality, multi-unit, mixed-use development required in this program.

4. **Nonprofit program: allow for-profit developers to access the program.** Of the programs that ECO evaluated, this one has the greatest support at the policy level and from the affordable housing developers who use it. It provides affordable units at the lowest forgone revenue per unit measure, and its administrative costs are significantly lower than other programs. In part, this is because the program's goals (providing affordable housing) and boundaries (available city-wide) are well aligned with the

New Multi-Unit Housing

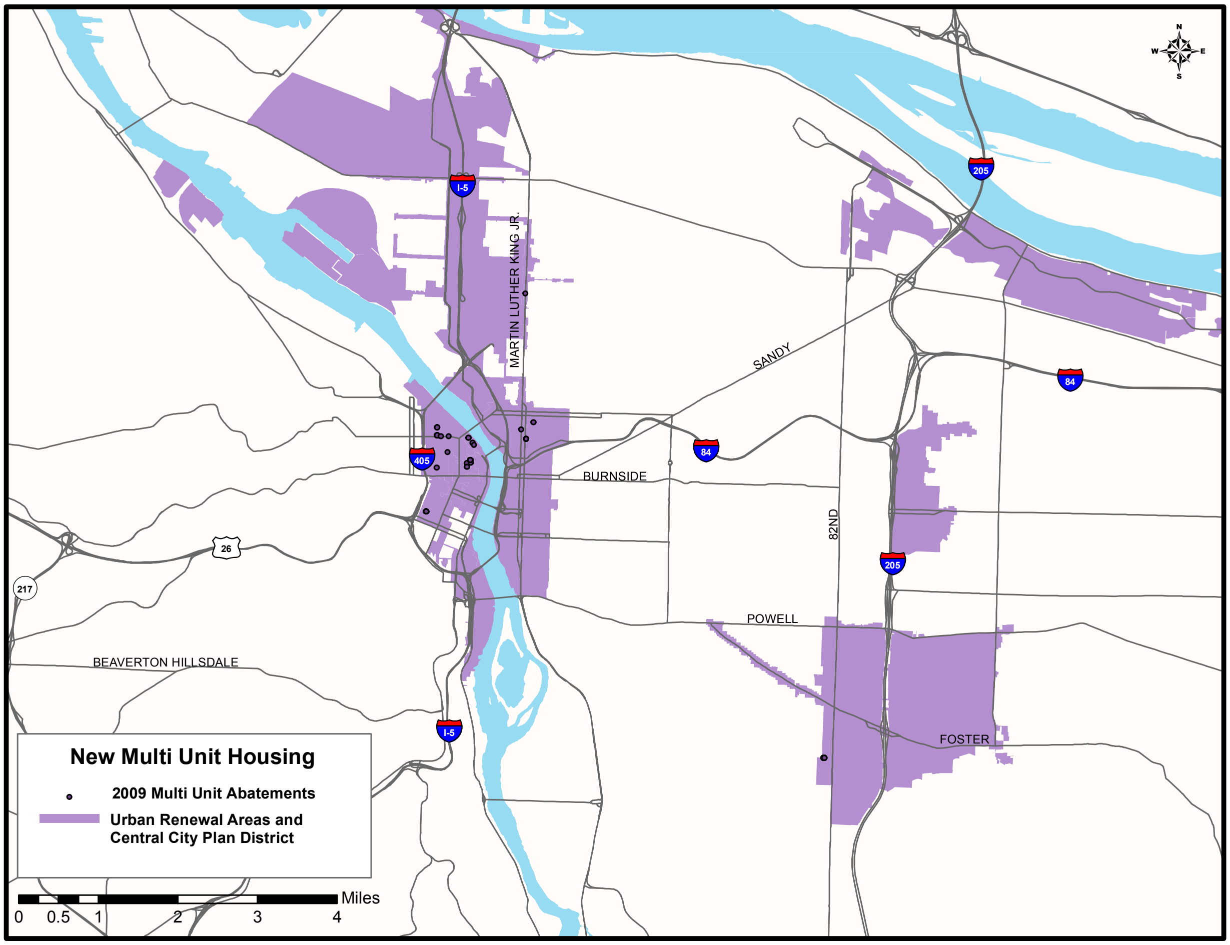


eligibility criteria and outcomes, making its successes easy to describe and measure, and simplifying program administration. We recommend opening this program to any developer, regardless of their status as a not-for-profit developer, keeping the program available citywide, and continuing to abate only the affordable units in a development. For- and nonprofit developers essentially provide the same product to the City, and should have access to the same development tools. Currently, for-profit developers of projects that are primarily affordable have access only to the TOD and NMUH programs, which are typically available only for 10 years, and only in part of the city. Our case studies showed that such projects suffer without the abatement.

Streamlining the application, renewal, and verification process across funding mechanisms, could cut overhead costs and potentially increase the revenues available for services provided by developers

ECO also considered the overall portfolio of programs to identify gaps in housing provision. The recommended programs above, in combination with other tools that support affordability in the City, address affordability primarily for those making 60 percent of median family income (MFI) or lower. The market generally does a good job of providing housing affordable to those at 120 percent MFI (and lower in some parts of the City). The programs don’t address the mid-range of incomes, to provide housing that is affordable to those making 60 – 120 percent of MFI, especially in the location-efficient geographies that are targets for housing density in City and regional plans. The City should consider financial tools that can support this income range.

	Note: Values are based on FY 2008-09 data. See introduction for additional information.
Program Objective	• Support a range of income earners living close to work • Provide a residential community in the Central City • Accommodate for future population growth[1]



[1] City of Portland, Bureau of Planning, Portland Development Commission. 2008. *Residential Tax Abatement Program 2008 Annual Report*. October.

Program Overview

The New Multi-Unit Housing program (NMUH), initiated in 1975, abates the property taxes owed on the improvement value of new multi-family or mixed-use projects for 10 years. There was a moratorium on new applications for the NMUH program from 2005 through 2009, with the exception of low-income housing projects.[2] The program's authorizing legislation (ORS 307.600 to 307.637) sunsets in 2012.

Some of the program's eligibility criteria include:

- The multi-unit development must have 10 or more units and must be constructed after 1975 and completed by 2012.
- The development must be located in the Central City Plan District or in an Urban Renewal or Redevelopment Area.
- A cash flow analysis must demonstrate that the abatement is necessary for the economic feasibility of the project (the internal rate of return cannot exceed 10 percent).
- For rental properties, at least 15 percent of the rental units must have rental rates that are affordable to households earning 80 percent or less of the median household income.
- For owner-occupied units, the initial purchase price must not exceed 95 percent of the FHA mortgage maximum and must be sold to households earning no more than 100 percent of the median household income, and the owner must occupy the unit throughout the duration of the abatement. Furthermore, only the property taxes for those units complying with mortgage and income restrictions will be abated.
- The project must also provide one or more of the following: open space available to the public, day care facilities, permanent dedications for public use, LEED Silver certification, no less than 20 percent of units with 3 or more rooms, or no less than 25 percent of rental units affordable to households at or below 80 percent median household income.[3]

Development Overview

For this case study, we analyzed the pro forma of the Sitka development with and without the abatement.

The Sitka opened in 2005 and contains 209 rental units. Six units (about 3 percent) have no income restrictions (these are all 2 bedroom/2 bathroom). 131 units (about 63 percent) are restricted to households earning up to 60 percent of the median family income. 72 units (about 34 percent) are restricted to households earning up to 50 percent of the median family income.

As of this year, rental rates for these units are:

- Studio: $400–$685

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[2] Portland Housing Bureau. 2010. *New Multi-Unit Housing Tax Abatement Program."* Retrieved on September 9, 2010 from http://www.portlandonline.com/phb/index.cfm?c=53033.

[3] Auditor's Office. 2010. *Chapter 3.104 Property Tax Exemption for New, Multiple-Unit Housing*. Retrieved on August 26, 2010, from http://www.portlandonline.com/auditor/index.cfm?c=28467.

- 1br: $615–$750
- 2br/1ba - $725–$880
- 2br/2ba - $1,300–1,600 (these units are not income-restricted)

Circle Studio (a Pilates and Girotonic studio), Dublin Bay Knitting Company, Ecru (a stationary store), and Little Green Grocer (independent, family-owned organic market) occupy the commercial area on the site.

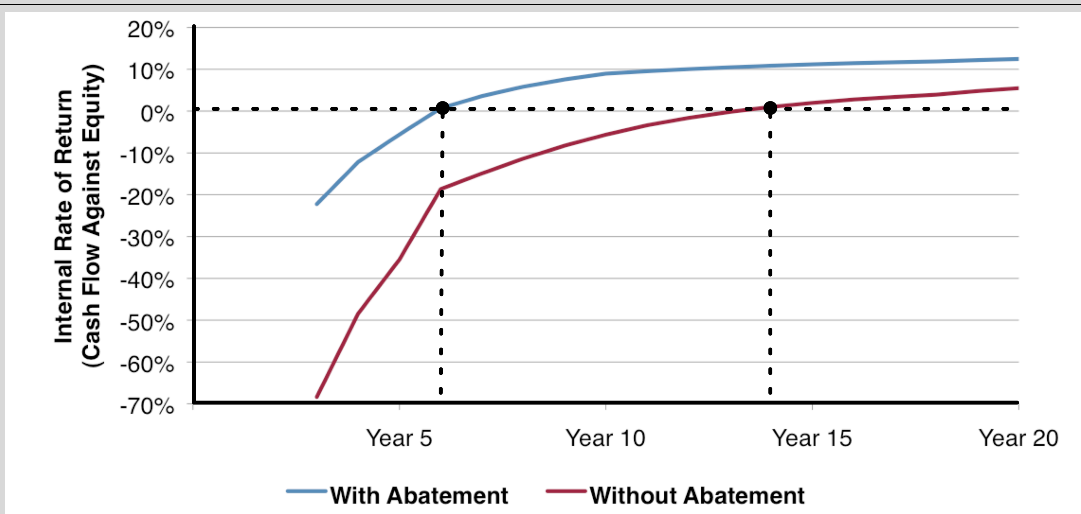
The Sitka is unlike other developments that might have applied for and received the NMUH abatement in that it primarily provides affordable units, and uses other sources of funds that are available to support affordability (such as low income housing tax credits) in addition to traditional sources. While rental developments need only have 15 percent of units available at affordable prices, 97 percent of the Sitka's units are income restricted. However, because a for-profit organization developed the Sitka, it is not eligible for the nonprofit program.

Analysis

ECO evaluated an underwriting pro forma for the Sitka to better understand the financing structure and returns produced, and to help answer questions about what the Sitka might have looked like without the abatement. With the abatement, the development attains a positive IRR shortly after Year 5. Without the abatement, however, the development doesn't attain a positive IRR until Year 14. The gap between IRR estimates with and without the abatement narrows after Year 10, which is when the abatement expires.

The Sitka's total annual expenses are about $140,000 less with the abatement in Year 3 than they are without the abatement. In Year 10, annual expenses are about $170,000 less with the abatement than without. The difference in annual expenses is attributable to the property tax abatement and allows for higher annual cash flows with the abatement that ultimately raise the IRR.

Internal Rate of Return for the Sitka Development with and without Abatement



Source: ECONorthwest with data and analysis from Portland Development Commission / Housing Bureau loan underwriting

Notes: Internal rate of return is not calculated for Year 1 and Year 2. IRR calculated as cash flow against equity investments.

Key Findings

About the Sitka

Compared to development participating in the Nonprofit abatement, the Sitka provides very similar levels of affordability (though compared to some nonprofit eligible projects, it provides fewer tenant supports). Further, because it uses sources of funds that are tied to requirements about maintaining affordability, the Sitka will remain affordable for a much longer period of time than the ten years for which it is eligible for abatement.

Financing for the Sitka would have been very difficult to manage without the abatement in place, even with the other sources of funds that contributed to the project. The IRR without the abatement probably would not have attracted sufficient private capital to support the project. It is possible, even likely, that without the abatement, the Sitka would not have been built.

While it appears that the Sitka continues to provide sufficient operating income when the abatement expires at year ten, there are many factors that were not evaluated that could influence that outcome. The IRR shown above is contingent on the strength of the overall market to support the projected rent escalation, on operating and maintenance costs growing minimally and predictably, on vacancy rates remaining stable, and on many other factors. Many other projects struggle to maintain affordability when the abatement disappears in year ten, and count on extensions. Anecdotally, we learned of privately-developed properties changing hands to nonprofits (which receive abatements as long as affordability is maintained) at year ten when the abatement expires.

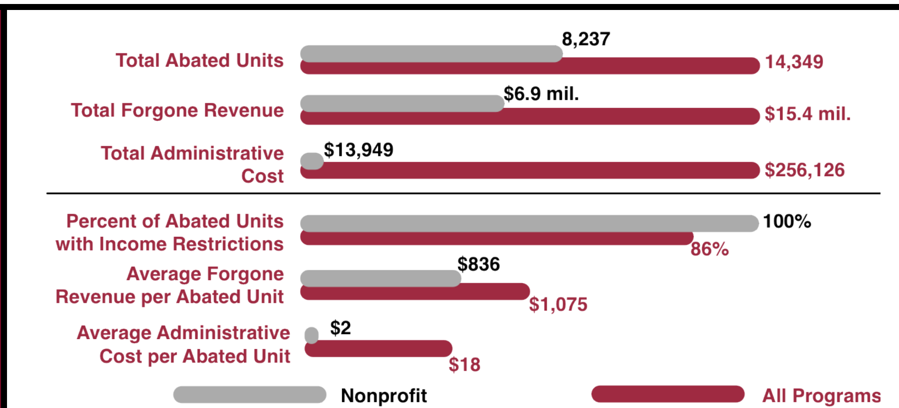
About the program

The NMUH program was initially intended to support the development of residential units in the Central City. While not originally an affordability program, requirements for affordability have increased over the last decade. The program goals have remained broad, and include a range of eligibility criteria that relate more broadly to quality of place than to affordability.

The program has been more controversial than some others because it abates entire residential portion of eligible buildings, including market-rate components. Additionally, our analysis found that it required a higher average amount of forgone revenue per unit to achieve its results than other LTE programs

Current uncertainty about the assessment / abatement of commercial spaces in NMUH-eligible properties complicates building operations financing.

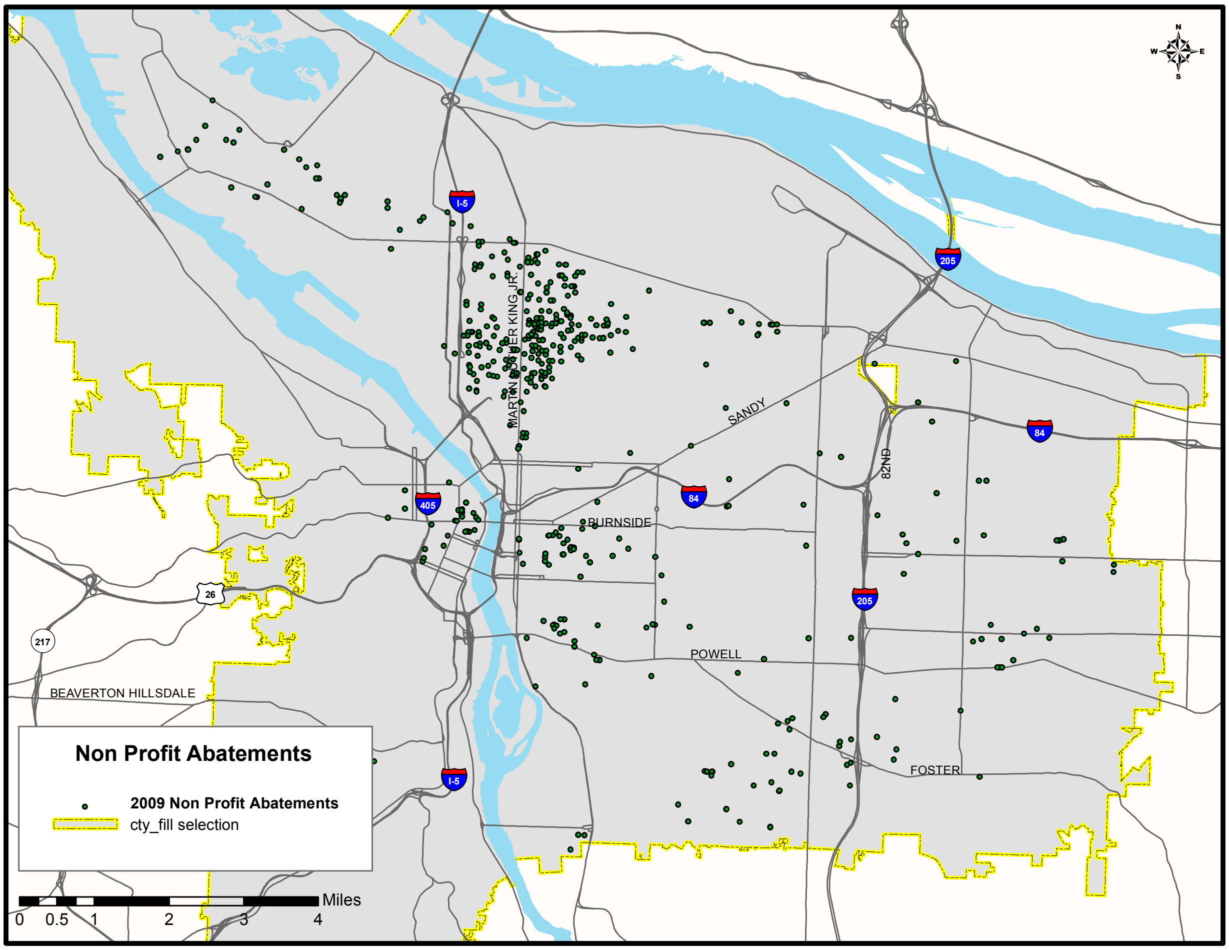
NONPROFIT LOW-INCOME HOUSING



Note: Values are based on FY 2008-09 data. See introduction for additional information.

Program Objective

- Support an adequate supply of low-income housing
- Support the prevention of homelessness[4]



[4] City of Portland, Bureau of Planning, Portland Development Commission. 2008. *Residential Tax Abatement Program 2008 Annual Report*. October.

Program Overview

The Nonprofit Low-Income Housing program (Nonprofit), initiated in 1985, abates the portion of property taxes in nonprofit-operated developments associated with units occupied by low-income residents. The abatement covers the property taxes on both land and improvement values. There is no time limit on the abatement, but to continue with the program, the nonprofit organization must submit annual renewal forms.[5] The program's authorizing legislation (ORS 307.540 to 307.548) sunsets in 2014.

Some of the program's eligibility criteria include:

- A nonprofit organization (501(c) (3) or (4)) must own the property, have a leasehold interest in the property, or work with the owning entity so long as the nonprofit manages day-to-day responsibilities.[6]
- Only units with residents earning a maximum household income of 60 percent of the median household income are eligible for abatement.[7]

Development Overview

For this case study, we examine the financial characteristics of one specific development owned and operated by REACH Community Development (REACH), a nonprofit organization with a large portfolio of low-income development projects. We will also examine concerns of staff at REACH and at another nonprofit organization, Central City Concern (CCC), regarding the Nonprofit program.

REACH Community Development (REACH)

REACH manages about 1,300 units in Portland. Households earning less than 60 percent of the median household income occupy about 93 percent of these units. REACH manages a total of 1,320 units in 22 multi-family developments. Most of their developments have 30-100 units; some of these include commercial space. The remainder of REACH's portfolio consists of about 60 smaller developments (7-10 units) and single-family homes.[8] In our analysis of the impact of the Nonprofit program, we look at one of REACH's new developments, Patton Park Apartments.

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[5] City of Portland, Portland Housing Bureau. 2010. *Non-Profit Owner-Manager of Low0Income Housing Tax Abatement Guidelines*. Retrieved on August 26, 2010, from http://www.pdc.us/housing_services/programs/financial/non-profit_owner_manager.asp.

[6] City of Portland, Portland Housing Bureau. 2010. *Non-Profit Owner-Manager of Low0Income Housing Tax Abatement Guidelines*. Retrieved on August 26, 2010, from http://www.pdc.us/housing_services/programs/financial/non-profit_owner_manager.asp.

[7] City of Portland, Office of the City Auditor. 2010. *Property Tax Exemption for Low-Income Housing Held by Charitable Non-Profit Organizations*. Retrieved on August 26, 2010, from http://www.portlandonline.com/auditor/index.cfm?c=28464&a=248082.

[8] Mahoney, M. Director of Property Management, REACH Community Development Inc. 2010. *Personal Communication*. August 11, 2010.

Central City Concern (CCC)

Households earning less than 60 percent of the median household income occupy all of the units managed by CCC: a total of 1,527 units in 21 developments, ranging in size from 4 units to 192 units with the average development containing 73 units.[9]

Analysis

Interviews conducted as part of this case study suggested that the Nonprofit tax abatement is critical to both the initial financing of construction and to the ongoing operations of the building. Interviewees suggested that the cancellation of the Nonprofit program would increase demand for Gap Loan Funds, which provides "last resort" financing used only when other financing has been maximized and the housing project does not generate sufficient cash flow (after operating expenses and required senior debt service) to allow regular loan payments. Alternatively, it could decrease funding available for services provided at the nonprofit low-income developments.[10]

ECO conducted a more detailed evaluation of the portfolio of affordable units owned and operated by REACH to better understand the impacts of the Nonprofit program. In acquiring a new development, REACH follows a standard procedure to secure financing:

- Identify and apply for all available and relevant grant funding from local, state, and federal sources.
- Acquire additional philanthropic contributions.
- Negotiate private loans for residential and commercial spaces.[11]

Oftentimes, this process does not sum to the amount needed to proceed with a housing development project. The Portland Housing Bureau offers a no-interest Equity Gap Contribution (Gap Loan) to fund the difference between a development costs and available financing. The Gap Loan is a public funding tool geared toward helping nonprofit organizations finance rental or mixed-use developments providing public benefits. To qualify for the Gap Loan, the development sponsor must be a nonprofit organization, they must have maximized contributions from other funding sources, and they must provide affordable rental units for 60 years. There is no interest charged on the Gap Loan nor is there a repayment period, however excess cash flow[12] must be split between the nonprofit developer and the Portland Housing Bureau.[13]

As shown in the figure below, total revenue remains the same regardless of the abatement. Operating expenses (not including debt service), however, are higher without the abatement. The difference in operating expenses between the "with" and "without" abatement scenarios is equal to the value of the property taxes (in this case, $41,506). This difference in operating

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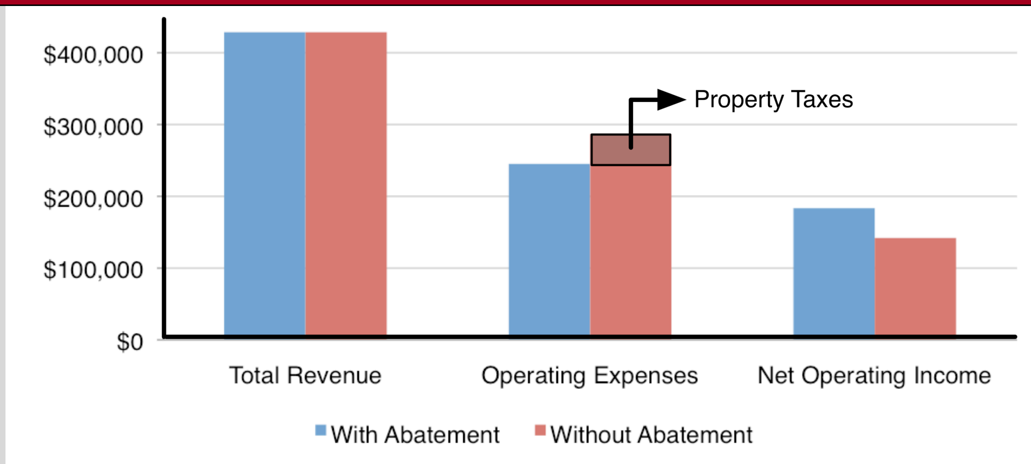
[9] Soloway, M. Assistant Director of Housing, Central City Concern. 2010. *Personal Communication*. August 9, 2010.
[10] Soloway, M. Assistant Director of Housing, Central City Concern. 2010. *Personal Communication*. August 9, 2010.
[11] Mahoney, M. Director of Property Management, REACH Community Development Inc. 2010. *Personal Communication*. July 23, 2010.
[12] Excess cash flow is equal to net cash flow minus either (1) 15 percent of permitted loan payments, or (2) $600 per unit, whichever is more.
[13] City of Portland, Portland Housing Bureau. 2010. *Equity Gap Contributions*. Retrieved on August 26, 2010, from http://www.portlandonline.com/phb/index.cfm?c=52989.

expenses causes the net operating income with abatement to rise above the net operating income without the abatement.

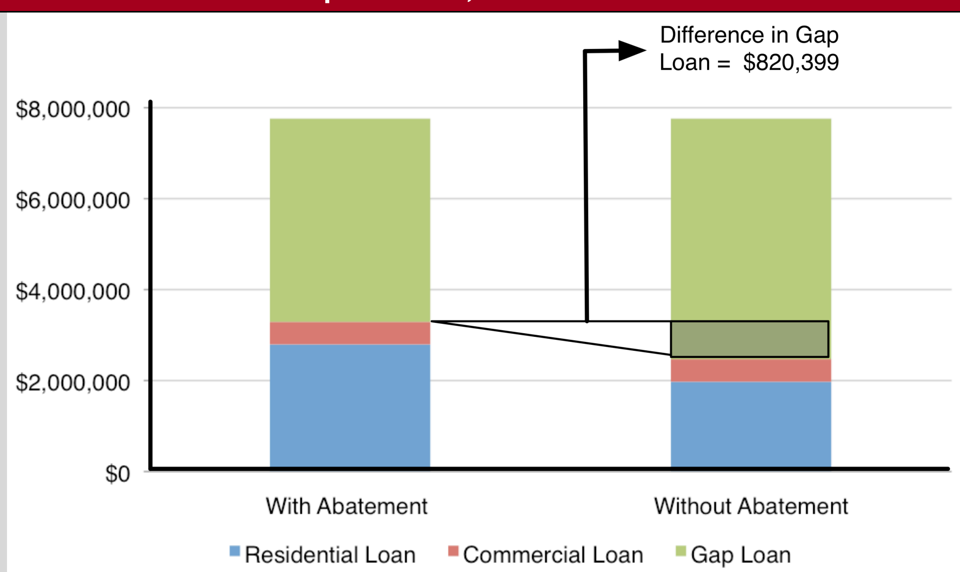
Revenue, Expenses, and Net Operating Income for Patton Park Apartments, with and without the Abatement



Source: ECONorthwest with data from REACH

The figure below shows the mix of loans resulting from the impact of the abatement on the net operating income. With the abatement, REACH was able to take out a larger private loan than it would have been able to without the abatement. With more private financing, REACH required a smaller Gap Loan with the abatement than it would have without the abatement.[14]

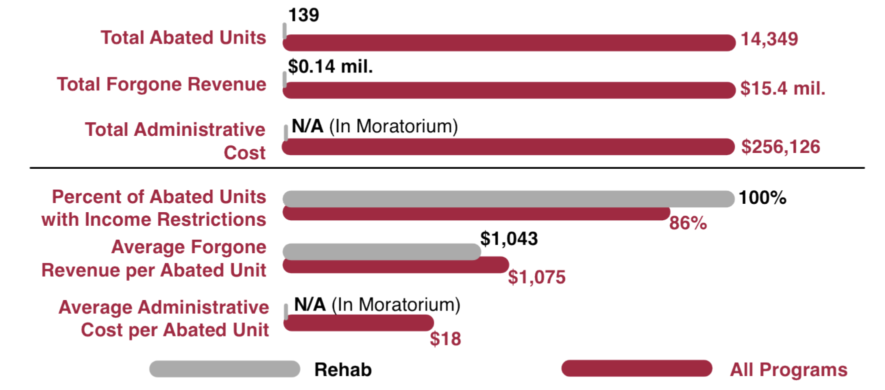
Loan Sources for Patton Park Apartments, with and without Abatement



Source: ECONorthwest with data from REACH

[14] Mahoney, M. Director of Property Management, REACH Community Development Inc. 2010. *Personal Communication*. July 23, 2010.

Residential Rehabilitation



According to one interviewee, participating nonprofits would be better served if the application, renewal, and verification documentation required for the abatement program more closely matched the documentation required by other funding mechanisms at the state and federal level. By streamlining the application, renewal, and verification process across funding mechanisms, participating nonprofits would cut overhead costs and potentially increase the revenues available for services provided at their developments.[15]

Key Findings

About the Patton Park Apartments

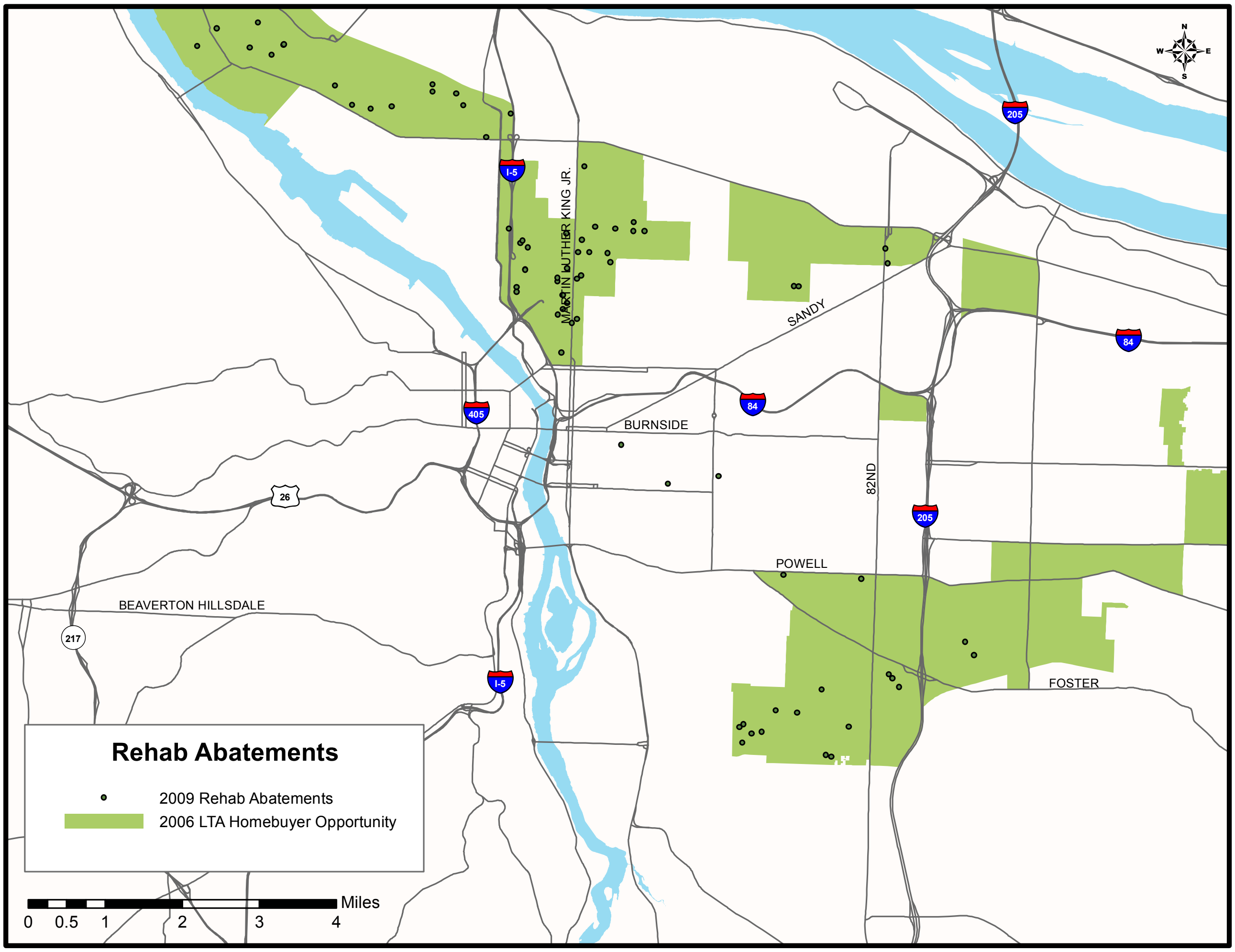
Our evaluation of the Patton's revenues and expenses confirms the necessity of the subsidy: affordable housing is not feasible without public support (even when done by private, for-profit developers). In essence, because the project is income restricted and cannot increase revenues to cover expenses, the property tax abatement directly supports affordable rents and associated programming in ways that would not be possible without either the abatement or other forms of public subsidy.

About the program

In our evaluation of this program, we found widespread support for its affordability goals and its administration. It is relatively inexpensive to administer, and provides affordable units for a relatively low average forgone revenue per unit measure. It fills an important funding gap: Federal funds are limited and often directed to non-bricks & mortar eligible activities, general funds scarce & declining, and tax increment (urban renewal) funds are geographically restricted & declining.

[15] Mahoney, M. Director of Property Management, REACH Community Development Inc. 2010. *Personal Communication*. July 23, 2010.

	Note: Values are based on FY 2008-09 data. See introduction for additional information.
Program Objective	• Preserve Portland's housing stock • Improve the safety and quality of Portland's housing stock[16]



Program Overview

The Residential Rehabilitation program (Rehab), initiated in 1975, abates the increase in property taxes resulting from rehabilitation expenses for 10 years.[17] The program's authorizing legislation (ORS 308.450 to 308.481) sunsets in 2017.

Some of the program's eligibility criteria include:

[16] City of Portland, Bureau of Planning, Portland Development Commission. 2008. *Residential Tax Abatement Program 2008 Annual Report*. October.

[17] City of Portland, Portland Housing Bureau. 2010. *Rental Rehabilitation Tax Abatement Program Guidelines*. Retrieved on August 26, 2010, from http://www.portlandonline.com/phb/index.cfm?c=53035.

- The property must be located within a designated Homebuyer Opportunity Area (HOA) (a "distressed area" statutorily defined as: a residential area of the city which is detrimental to the safety, health and welfare of the community by reason of deterioration, inadequate or improper facilities; the existence of unsafe or abandoned structures, including but not limited to a significant number of vacant or abandoned single or multi-family residential units; or any combination of these or similar factors).
- The home must have code violations that are addressed through the rehabilitation.
- Either one unit or 20 percent of the units, whichever is more, must be inhabited by families earning no more than 60 percent of median household income.
- For homes built prior to 1961, rehabilitation expenses must be greater than or equal to 5 percent of the property's assessed value
- For homes built in 1961 or later, rehabilitation expenses must be greater than or equal to 50 percent of the property's assessed value.[18]

Development Overview

For this case study, we do not consider a specific scenario. Rather, we examine how other legislation (specifically, Measure 50) has reduced the usefulness of the Rehab program to homeowners and rental property owners in Portland.

Analysis

In 1997, Measure 50 was passed, altering the way property taxes are calculated and how they change over time. Under Measure 50, property taxes are determined relative to the assessed value of a property. The assessed value of a property is usually less than its market value (typically by about 50 percent).[19] Below is a list of other elements contained within Measure 50 that decrease the usefulness of the Rehab program:

- Increases in assessed values are capped at 3 percent per year, which implicitly caps increases in property taxes at 3 percent per year (absent changes in rates).
- Up to $10,000 can be spent on improving a property in a single year, or $25,000 over the span of five years, without impacting its assessed value (although the expense will likely increase the market price of the property, which prior to Measure 50, would have increased the property taxes owed on that property).
- If more than $10,000 is spent in a given year, or $25,000 over the span of five years, and the owner can show that the expenses are for property maintenance, the assessed value will likely not increase by more than the 3 percent cap (this exception requires an appeal process).

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[18] City of Portland, Portland Housing Bureau. 2010. *Rental Rehabilitation Tax Abatement Program Guidelines*. Retrieved on August 26, 2010, from http://www.portlandonline.com/phb/index.cfm?c=53035.

[19] State of Oregon, Legislative Revenue Office. 1999. *The New Direction of the Oregon Property Tax System under Measure 50*. Research Report #6-99.

New applications for the Rehab program have been on the decline over the past decade and as such, nearly all current program participants are nearing the end of their abatement term.[20]

Measure 50 has by and large served to prevent the rehabilitation-based increases in property taxes that the Rehab program seeks to mitigate.

Prior to Measure 50, a rehabilitation project typically caused the market value of the home and its property taxes to rise. Since then, assessed values capped at a 3 percent annual increase have replaced market values as the basis for property tax determination. Furthermore, the impact of rehabilitation projects associated with basic maintenance (like those required for eligibility under this abatement program) on property taxes has been removed.

Key Findings

The implementation of Measure 50 in 1997 made the potential benefits provided by the program redundant.

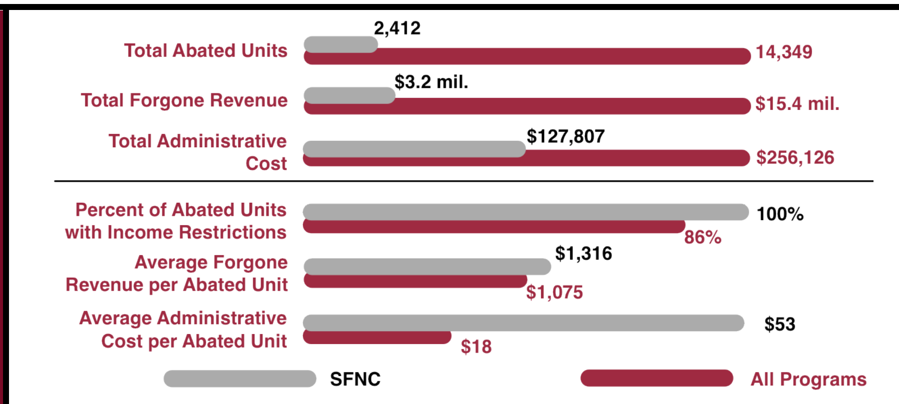
By retiring the program, the City would lose the revenues generated by program application fees, but may increase productivity by reducing time currently spent on the program by Portland Housing Bureau staff. Furthermore, as the abatements retired, additional revenue would flow to the City and the overlapping taxing districts.

The results of our analysis suggest that the benefits offered by this program have been standardized to all property owners through Measure 50.

The initial goal of the program (to preserve Portland's housing stock and improve its safety and quality) can be supported by the elements of Measure 50 described above. Furthermore, the potential benefits of Measure 50's rehab allowances could be better communicated to the public to incentivize improvement rehabilitation and code compliance.

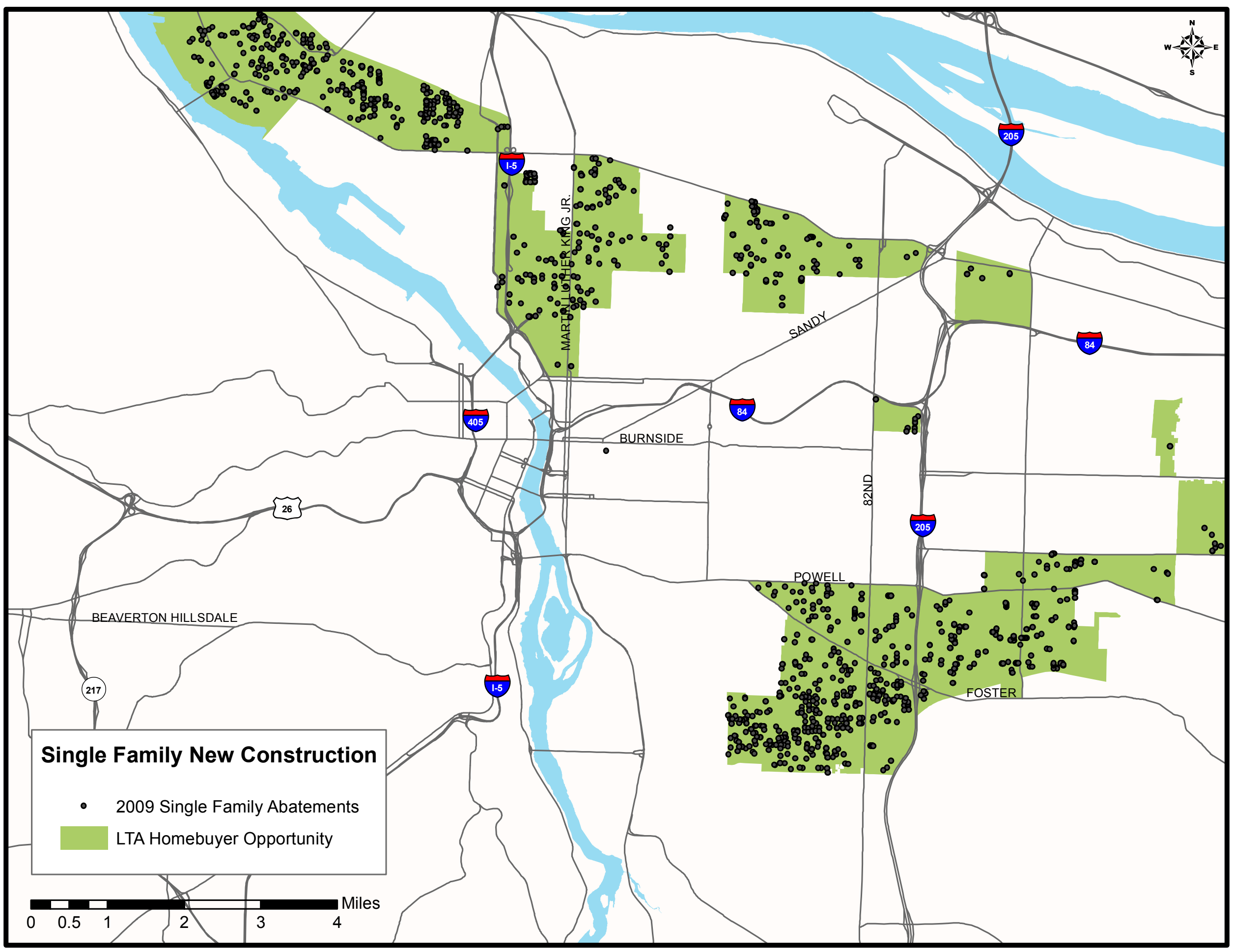
[20] Multnomah County Board of Commissioners. 2007. *Authorizing the City of Portland's Tax Exemption Programs Administered by the Portland Development Commission*. Resolution No. 07-129.

SINGLE-FAMILY NEW CONSTRUCTION



Note: Values are based on FY 2008-09 data. See introduction for additional information.

Program Objective	• Increase homeownership opportunities in Portland neighborhoods targeted for revitalization[21]



[21] City of Portland, Bureau of Planning, Portland Development Commission. 2008. *Residential Tax Abatement Program 2008 Annual Report*. October.

Program Overview

The Single-Family New Construction program (SFNC), initiated in 1990, abates a portion of the property taxes owed on newly constructed homes for 10 years. Eligible homeowners pay property taxes only on the assessed value of the land; the assessed property taxes associated with the improvement (the house built on the land) are abated for 10 years.[22] The program's authorizing legislation (ORS 307.651 to 307.687) sunsets in 2015.

Some of the program's eligibility criteria include:

- The property must be located within a designated Homebuyer Opportunity Area (HOA).
- The property must be owner-occupied during the abatement period.
- The property must have a sale price below 120 percent of the median sales price. Each year, the city specifies the actual eligibility threshold to be used for that year. For 2010, the city chose to limit the sale price to 110 percent, or about $275,000.
- For households of four or more individuals, the occupant's household income must be less than or equal to 100 percent of Portland's median household income. For households with fewer people, the threshold is the median household income for a family of four. Also, the program only collects income information from the property's title holders; other household income is not considered for this eligibility criterion.[23]

Development Overview

For this case study, we analyze abatement scenarios for hypothetical properties. For each scenario, we make the following assumptions:

- The down payment equals 10 percent of the market price.
- The assessed value of the property equals its market price.
- The assessed value of the land equals 35 percent of the total assessed value (the assessed improvement value accounts for the rest).
- The term of the mortgage loan is 30 years with a 0.5 percent monthly interest rate (6 percent annually).
- Median household incomes are based on FY 2010 data published by PDC.[24]
- Households can afford to spend up to 30 percent of household income on housing and property taxes combined.

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[22] City of Portland, Portland Housing Bureau. 2010. *Single Family New Construction Limited Tax Exemption Builder Page*. Retrieved on August 26, 2010, from http://www.portlandonline.com/phb/index.cfm?c=52653.

[23] City of Portland, Portland Housing Bureau. 2010. *Single Family New Construction Limited Tax Exemption Builder Page*. Retrieved on August 26, 2010, from http://www.portlandonline.com/phb/index.cfm?c=52653, nd Van Bockel, D. Portland Housing Bureau. 2010. *Personal Communication*. July 30, 2010.

[24] Retrieved on August 26, 2010, from http://www.pdc.us/housing_services/resources/median_family_income/default.asp

To analyze how the SFNC program works, we apply these assumptions to three hypothetical properties and identify the populations that would benefit from the program's incentives. The hypothetical properties include:

- Home 1: The market price equals $275,000, the highest allowable market price under 2009 SFNC guidelines.
- Home 2: The market price equals $207,750, the median sales price of homes receiving a new SFNC abatement during 2009.
- Home 3: The market price equals $165,000, the 25th percentile sales price of homes entering the SFNC program in 2009.

Analysis

The figures below provide an overview of housing market conditions in the HOA during 2007-2009. The first chart shows median lot size and building size for eligible sales (those below the price threshhold) during 2009. The data clearly reflect trends in new housing construction: newer houses tend to have larger square footage on smaller lots. The typical abated property purchased in 2009 is 20 percent larger than the typical non-abated property in the eligible price range, but is on a lot that is less than half the size of those for non-abated sales.

The bottom left chart compares the median sale price in the HOA for properties first abated under the SFNC program during the relevant year to the median sale price for all non-abated single-family properties in the HOA, regardless of SFNC eligibility. The median sales prices have been fairly consistent, regardless of the abatement. In 2009, the median sales price in the HOA was actually somewhat higher for abated properties than for non-abated properties, despite the price caps associated with the abatement.

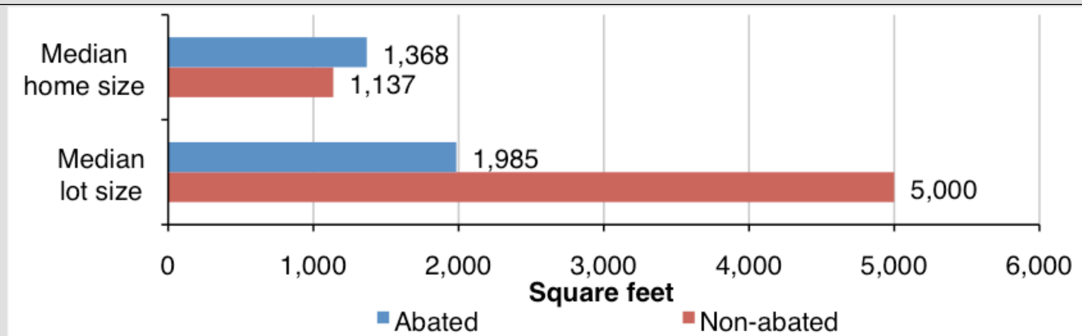
The bottom right figure shows the number of sales of abated and non-abated properties in the HOA. Abated property sales ranged between 7 and 9 percent of total sales in the HOA between 2007 and 2009. Sales of both abated and non-abated properties have dropped dramatically in response to the declining market for housing product, a decline of about 83 percent for abated properties and about 81 pecent for non-abated properties between 2007 and 2009.

A regression analysis of sale price on lot size, building size, age of building, and neighborhood characteristics indicates that, all else equal, abated properties sell for prices that are not distinguishable from those of non-abated properties, after controlling for differences in size of the home, size of the lot, and the fact that the abated homes are all new construction.[25] But the cost of ownership includes assessed property taxes which do not directly affect sale price. If the owner of an abated property purchases a home at market prices, the owner receives a discount because the cost of ownership will be lower, by the amount of the abated taxes, than for a similar non-abated property.

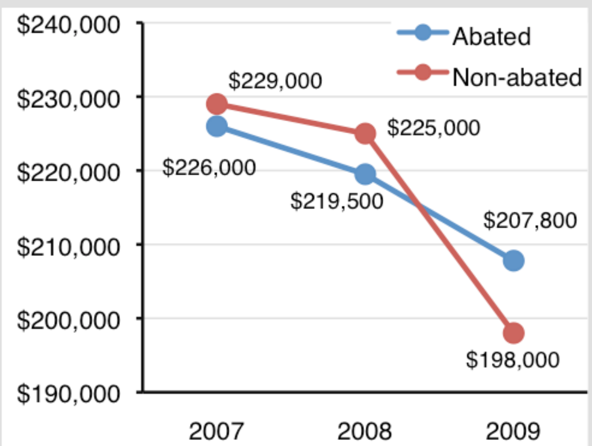
[25] See the technical appendix for regression details.

Interpretation of this finding is complicated. On the one hand, it could mean that developers are not increasing their prices to compensate for the effect that the abatement has on the buyer's bottom line monthly payments. On the other hand, there could be a hidden price effect that is not captured in the data analyzed here: it could mean that the developer is selling lower quality construction at a higher price. Or, it could mean that the homeowner is purchasing a slighly higher quality property (e.g., larger, newer) than would otherwise be affordable. [26]

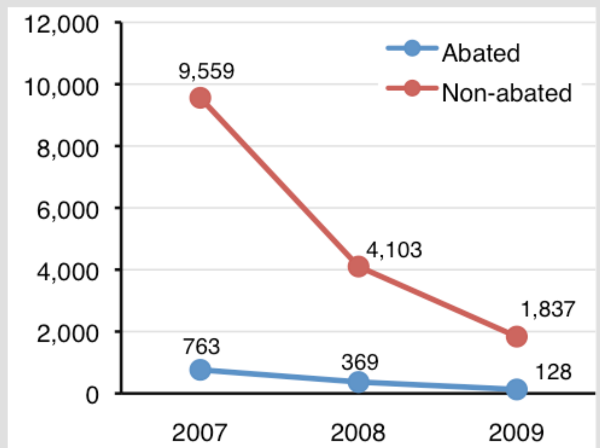
Median Home and Lot Size for Eligible Sales in the HOA, 2009



Median Sale Price in HOA. 2007-2009



Number of Sales in HOA, 2007-2009



Source: ECONorthwest analysis of Multnomah County Assessor data, 2007 - 2009

[26] Any systematic, *unobserved* differences in abated and non-abated home characteristics (e.g., construction quality) affect the benefits that would accrue to the purchaser of an abated property. For example, if abated homes tend to be of lower construction quality than similarly sized and located non-abated homes, similar sales prices imply that purchasers of abated properties pay above market prices given the quality of the home. In this case, the developer benefits by selling a lower quality home at the price of a higher quality home (the buyer could still also benefit in this scenario). Available data do not allow us to draw conclusions about whether this actually occurs.

Analysis of Development Scenarios

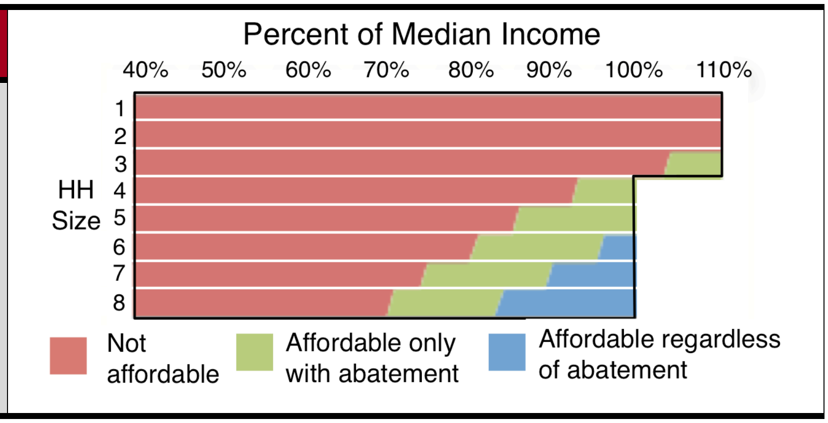
The section above compared all abated homes in an HOA to non-abated homes in the HOA. This section evaluates the affordability of hypothetical, individual abated homes at various price points for families of various sizes in a series of development scenarios. For each development scenario, we show for the first year of ownership, the payment (mortgage plus property taxes) without an SFNC abatement, the payment with an abatement, and the savings associated with the abatement. The figure associated with each scenario identifies the size and income level of households that could afford the home under the assumptions listed above. Some cannot afford the home even with the abatement (red areas), others can only afford the home with the abatement, and others can afford the home both with and without the abatement. As previously noted, a household with four or more people is eligible so long as they earn no more than 100 percent of the median income associated with household size. A household with less than four people is eligible so long as the owner earns less than the median household income for a family of four.[27]

This analysis indicates that:

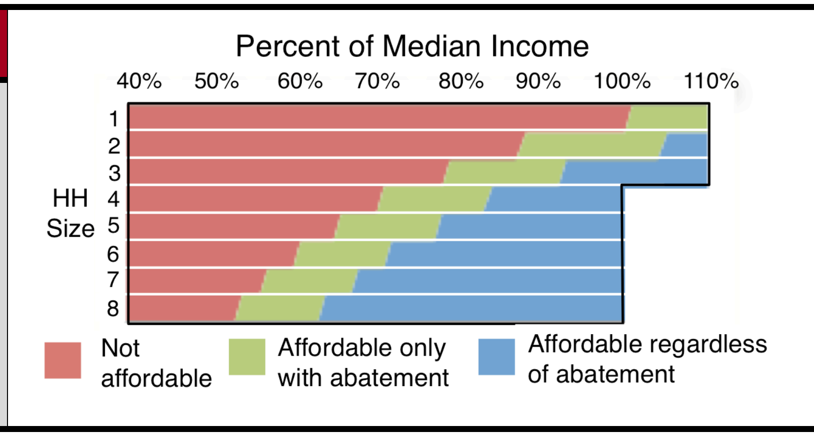
- Home 1 is only affordable without abatement to relatively large households at just under the median income threshold. With the abatement, households of a more typical four can afford the house at incomes between 93 and 100 percent of the median.
- Home 2 is affordable without the abatement to a much broader cross-section of household types. It is affordable by a family of four with income at 84 percent of the median. With the abatement, the four-person family can afford Home 2 at incomes of between 71 to 100 percent of median.
- Home 2 is also affordable to smaller households at income levels beyond 100 percent of median. Single-person households, for example, are both eligible for the SFNC abatement and find the house affordable at incomes between 120 and 143 percent of the median income for single-person households.
- A family of four can afford Home 3 without the abatement at incomes of 67 percent of median. With the abatement, Home 3 would be affordable to the same family at incomes of 56 to 100 percent of median.
- Home 3 is affordable without the abatement to single-person households at incomes of 95 percent of median. With the abatement, these households are eligible for abatement and find Home 3 affordable at incomes of 80 to 143 percent of median.
- The analysis may understate the share of households eligible for the abatement who do not need it because SFNC does not consider total household income in determining eligibility.

[27] A one-person household is eligible for the program so long as the person earns no more than 143 percent of the median household income for a one-person household. A two-person household is eligible for the SFNC program so long the owner earns no more than 125 percent of the median household income for a two-person household. A three-person household is eligible for the program so long as the owner earns no more than 111 percent of the median household income for a three-person household.

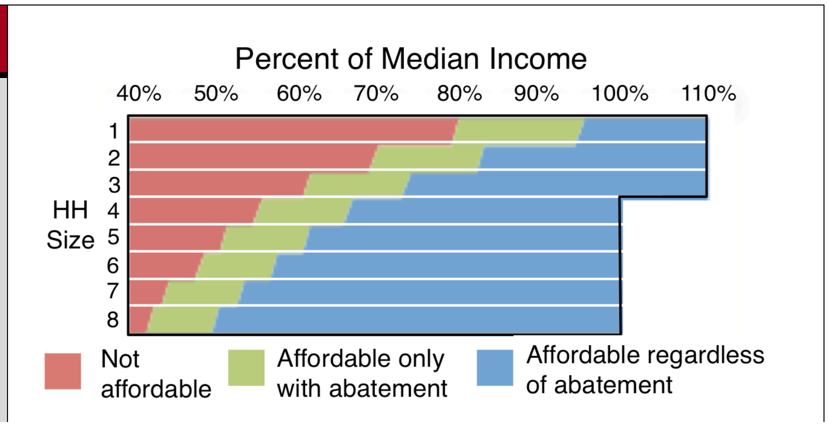
House 1: $275,000	
Annual payment without abatement	$23,582
Annual payment with abatement	$19,828
Annual savings	$3,754



House 2: $208,000	
Annual payment without abatement	$17,815
Annual payment with abatement	$14,979
Annual savings	$2,836



House 3: $165,000	
Annual payment without abatement	$14,149
Annual payment with abatement	$11,897
Annual savings	$2,252



Key Findings

Given the stated program goal of increasing homeownership opportunities, an appropriate question is: Does the abatement make home ownership a possibility for many households that would otherwise not be able to buy a home? Based on the figures above, the answer is that SFNC makes homes affordable only for a relatively narrow income band. Furthermore, at many reasonable price levels, the abatement is available to a much larger number of households that would find a home affordable even without the abatement. We conclude that the SFNC is not well targeted from the perspective of affordability.

The affordability charts above do not identify the number of households that fall into each size/income combination and might give a distorted view of who the program can actually help into home ownership. For example, only 17 percent of Portland residents who live below 100 percent of median income live in households with five or more people, only slightly more than the 16 percent living in four-person households, and less than the 23 percent living in single-person households.[28] Regardless, for most eligible households, the abatement does not change the affordability of housing readily available on the market.

We do not have access to data about the income levels or household sizes of the families who actually purchase abated or non-abated properties. But the available evidence suggests that SFNC can allow owners of abated properties to purchase higher quality properties than they would otherwise find affordable. But the program is unlikely to add significantly to the number of homeowners in the HOA.

A second question relates to boundary: Given what we know about the market for single-family homes within the HOAs, does the program support the production of new homes at a lower and more affordable price point? Our analysis indicates that abated homes sell at prices that are essentially indistinguishable from prices of other homes in the HOA, and while there are various interpretations of this finding, it does indicate that the market is providing similarly priced product in the target areas even without the incentive. This finding, coupled with the relatively narrow band of the population that might be able to afford a home because of the abatement, call into question this program's efficacy. In short: similarly priced product is on the market without the incentive (at least in the current HOAs), and relatively few people are pushed to purchase a home because of the abatement.

Our findings suggest that the boundaries and eligibility criteria of the SFNC are not well targeted for the purposes of increasing home ownership. But the findings do not imply that the SFNC does not or cannot help Portland achieve its housing goals, including the goal of increasing home ownership. To avoid public misperceptions about SFNC, the program should explicitly identify any other important program goals and assure that target geography markets are appropriate to the goals.

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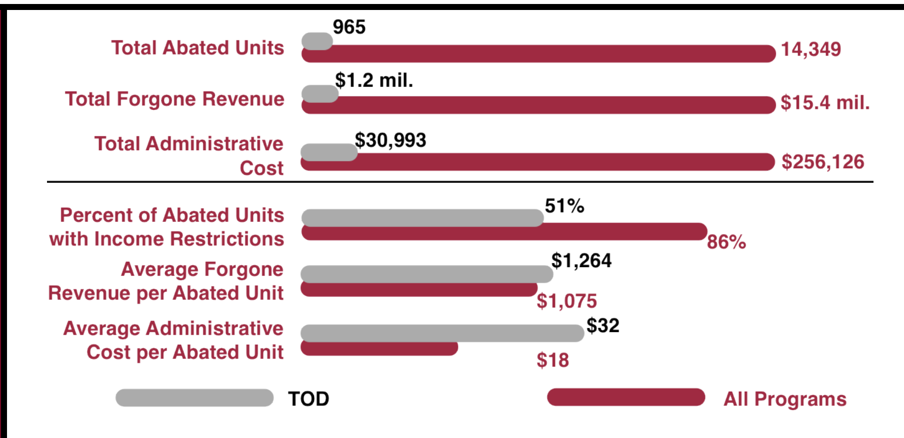
[28] ECONorthwest analysis of 2006-08 American Community Survey data. Excludes individuals living in group quarters.

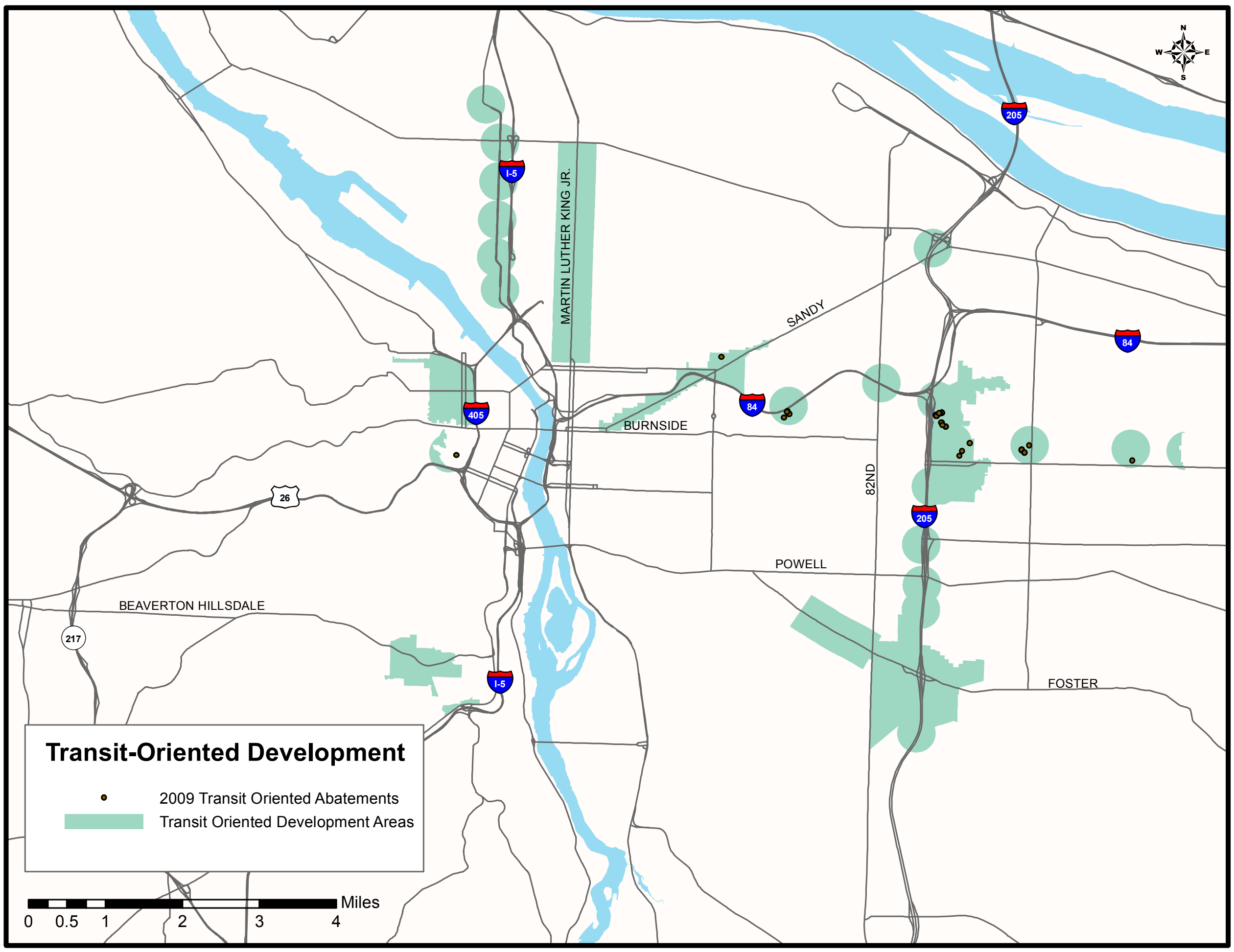
Transit-Oriented Development



Note: Values are based on FY 2008-09 data. See introduction for additional information.

Program Objective

- Support public investment in transit
- Accommodate for future population growth[29]



[29] City of Portland, Bureau of Planning, Portland Development Commission. 2008. *Residential Tax Abatement Program 2008 Annual Report*. October.

Program Overview

The Transit-Oriented Development program (TOD), initiated in 1996, abates property taxes associated with residential and commercial improvements that provide public benefit for up to 10 years.[30] It is very similar to the NMUH program described on pages 9-12 in both its structure and eligibility criteria, though it is available in a different geography to support its transit-oriented goals. The program's authorizing legislation (ORS 307.600 to 307.637) sunsets in 2012.

Some of the program's eligibility criteria include:

- The multi-unit development must be constructed, converted, or preserved after 1996 and completed before 2012.
- The development must be within no further than ¼ mile from a light rail station or within one of several transit-oriented areas described by the Auditor's Office in City Code Chapter 3.103.
- If mixed use, the development must have at least twice as much residential floor area than non-residential floor area and must have at least 20 residential units per acre.
- If the development is solely residential, it must have at least 35 residential units per net acre of site area.
- For developments with rental units, at least 20 percent of the units or the square footage must be rented at rates affordable to households earning 60 percent of the median income or less; OR at least 10 percent of the units or the square footage must be rented at rates affordable to households earning 30 percent of the median income or less.
- For developments with owner-occupied units, property taxes will be abated on units that have an initial purchase price not exceeding 95 percent of the FHA mortgage maximum and that are sold to households earning no more than 100 percent of the median household income.
- Additionally, all developments with rental units must include three of the following: (1) dedicate at least 20 percent of the units to households with persons of special needs, (2) ensure that at least 10 percent of units have three or more rooms, and (3) provide child care, (4) provide residential per acre density no less than 80 percent of the applicable maximum density, (5) commercial services for residents, neighboring residents, and transit riders, (6) office space/meeting room, (7) permanent dedications to public use, (8) family-oriented recreational facilities, (9) car-share space, (10) structured parking, (11) LEED Silver certification, (12) exceeding mandatory requirements.[31]

Development Overview

For this case study, we analyze financial data from two developments. First we analyze data from the Fifth Avenue Commons. Second, we analyze data from the Bookmark Apartments.

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30 Auditor's Office. 2010. *Chapter 3.103 Property Tax Exemption for New Transit Supportive Residential or Mixed Use Development*. Retrieved on August 26, 2010, from http://www.portlandonline.com/auditor/index.cfm?c=28466.

31 Auditor's Office. 2010. *Chapter 3.103 Property Tax Exemption for New Transit Supportive Residential or Mixed Use Development*. Retrieved on August 26, 2010, from http://www.portlandonline.com/auditor/index.cfm?c=28466.

Fifth Avenue Commons

Construction of the Fifth Avenue Commons was completed in 1998. The project is an affordable (60 percent of MFI) six-story building consisting of 70-units of studio, one and two bedroom with 2,100 square feet of ground floor commercial and 21 structured parking spaces (2 for retail). Property taxes were abated until June 30, 2009, at which point they will resume in a projected range of $45,000 - $103,250 per year even after utilizing the state of Oregon's tax formula for affordable multifamily projects. The owner requested an extension of property tax abatement in 2009.

Similar to the Sitka, this development offers primarily affordable housing, and does not necessarily reflect the full range of developments that might be eligible for the TOD program. Other projects that participate in the program have a varied mix of affordable and market rate units that could create a very different cash flow situation because market rate units would not be income restricted and the building operator would have the flexibility to increase rents to offset expiring abatements.

Bookmark Apartments

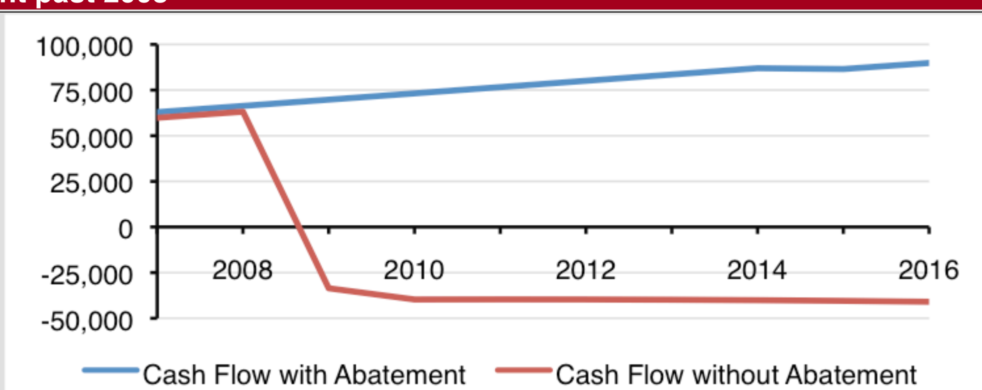
Construction of the Bookmark Apartments was completed in 2002. The project has a total of 47 units, 19 (40 percent) of which are affordable to households earning no more than 60 percent of MFI. Of the affordable units, 18 are one-bedroom units with about 650 square feet, the other unit is a studio with about 530 square feet. The first floor of the development houses a 13,000 square foot public library and a coffee shop. The development has participated in the TOD program since it opened and is scheduled to stop receiving the abatement in fiscal year 2011-12.[32]

Analysis

Fifth Avenue Commons

The figure below shows the results of City of Portland analysis of the Fifth Avenue Commons cash flow situation with and without the abatement, to support the request to extend the

Cash Flow for Fifth Avenue Commons with and without Extension of Existing Abatement past 2008



Source: ECONorthwest with data from the Portland Housing Bureau

32 Obletz, D. Principal, Shiels Obletz Johnsen, Inc. 2010. *Personal Communication*. November 1, 2010.

abatement. The analysis shows the impact of the abatement ending in year ten, and highlights the situation that some for-profit developers of affordable housing find themselves in when the abatement disappears: cash flow is no longer sufficient to support ongoing building operations.

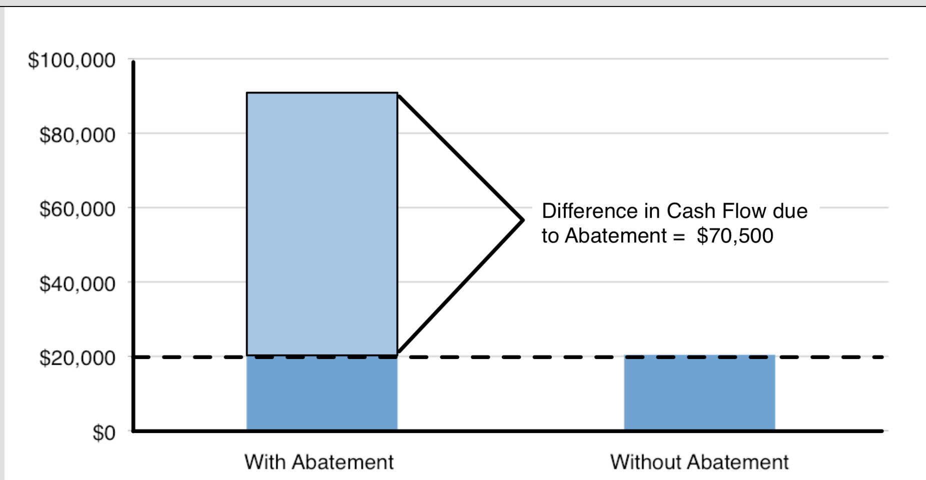
The City of Portland evaluation further found that, as the project recovered from a 30 percent vacancy rate to a stable 97 percent occupancy, it became clear that the impending return of property taxes to the operating expenses for the project would prove unmanageable. Even at near 100 percent occupancy the project will not be able to pay property taxes.

Bookmark Apartments

We have insufficient data to conduct a thorough analysis of the Bookmark's future financial feasibility. The figure below shows the Bookmark's net cash flows in 2009 with and without the abatement.

Net cash flow in 2009 was about $90,900 with the abatement and net operating income was about $395,000. Without the abatement, the estimated net cash flow in 2009 would have been about $20,400 and the net operating income would have been about $331,000. The debt service for the Bookmark's first mortgage was about $278,000 and the minimum debt to cash ratio in the loan documents is 1.20. With the abatement, the Bookmark's debt to cash ratio is about 1.42, well above the minimum ratio required in its loan agreements. Without the abatement, however, the debt to cash ratio would have been about 1.19, slightly below the required ratio, and would put the Bookmark in default of the loan.[33] In other words, as of 2009 the abatement prevents the Bookmark Apartments from defaulting on their first mortgage and is thus essential for the financial feasibility of the development.

Cash Flow for the Bookmark Apartments with and without Abatement (2009)



Source: ECONorthwest with data from Doug Obletz.

[33] Obletz, D. Principal, Shiels Obletz Johnsen, Inc. 2010. *Personal Communication*. November 1, 2010.

Key Findings

The analysis above suggests that both Fifth Avenue Commons and the Bookmark developments would face very difficult cash flow situations without the TOD abatement. Both developments rely on the abatement to maintain positive cash flows and to comply with various loan requirements such as minimum debt to cash ratios. Without the abatement, both developments likely would have to find ways to either increase revenues (change rent structure, find new financing) or decrease costs in order to remain solvent. These actions, if feasible, would directly counteract efforts to promote affordability.

TECHNICAL APPENDIX

The regression analysis noted in the text specifically addresses the question, "How do sales prices of abated properties compare to those of observationally similar non-abated properties?" Many factors can affect property sales. The housing economics literature is replete with examples of studies that measure the price effect of certain characteristics of the house, neighborhood amenities, school quality, and of other policy decisions that potentially capitalized into house prices. In effect, these studies come down to whether or not the characteristic of interest increases or decreases demand for properties with that characteristic.

So how might tax abatements affect house prices? Tax abatements effectively reduce the cost of developing and owning a property. Holding consumer demand for housing as well as the number of developments fixed, the reduced cost of development would result in lower sales prices for abated properties, relative to similar non-abated properties. At the same time, barring price control policies on the sale of abated properties, a lower price for abated properties will spur demand for those properties, relative to that for non-abated properties, thereby increasing the price of abated properties until price equilibrium is reached.

To determine how sales prices are affected by the Single Family New Construction abatement, we analyzed a data set of residential housing records from the Multnomah County Assessor's office. Our main goal is to measure the difference in the prices of abated and non-abated properties, while accounting for the effect of other property characteristics such as the lot size, building size, age, and neighborhood amenities (captured by controlling for geographic location at the census block group level). We then determine if the price differential between the two groups, on average, is significantly different from zero. We impose some restrictions on the data set to create AS clean a measure of the difference as possible. We restrict our analysis data set to sales transactions during 2006 through 2009.

Within this subset of the data, we find numerous observations with extreme, and likely erroneous values for both lot size and building size. To make sure that these outliers do not skew our results, we estimated the model under three different scenarios: (1) include all properties as reported to the assessor; (2) discard properties with lot sizes less than .02 acres and building sizes less than 200 square feet; and (3) discard outliers with lot sizes less than .05 acres and 500 square feet. We summarize the estimated effect of the property tax abatement on sales price in the table below. The effect of the tax abatement varies slightly across the three modeling scenarios, ranging from a reduction in sales price of 1.6 percent to an increase in the sales price of .55 percent. In no case, however, was the tax abatement effect statistically significant. In other the words, the abatement has no statistically significant effect on sales price after controlling for observable characteristics.

Model Details

Type of Model Restriction	Effect of Abatement	Statistically Significant?
All Properties	-1.60%	No
Lot Size >.02 Acres Building Size > 200 Sq.Ft.	-0.84%	No
Lot Size >.05 Acres Building Size > 500 Sq.Ft.	0.56%	No