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CITY OF  
**PORTLAND, OREGON**

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PORTLAND HOUSING BUREAU

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**DATE:** April 26<sup>th</sup>, 2011

**TO:** Planning and Sustainability Commission

**FROM:** Portland Housing Bureau Investment Committee  
Submitted by: Kim McCarty Portland Housing Bureau

**SUBJECT: RECOMMEND APPROVAL TO THE CITY BUREAU of PLANNING and SUSTAINABILITY COMMISSION OF A LIMITED PROPERTY TAX EXEMPTION FOR A NEW RESIDENTIAL TRANSIT ORIENTED DEVELOPMENT KNOWN AS THE ASH STREET APARTMENTS**

**PROJECT DESCRIPTION:**

Ash Street, LLC the project sponsor has applied for a 10-year Property Tax Exemption for New Transit Supportive Residential or Mixed Use Development for a built 47-unit affordable housing development with ground floor accessible units to be known as The Ash Street Apartments. The project at 12026 SE Ash Street will be located between SE 119<sup>th</sup> and SE 122<sup>nd</sup>. All of the units will be affordable to households below 60% of Median Family Income (MFI). The affordability will be in place for 60 years because all of the units are in a 60 year affordability agreement due to granted SDC exemptions. The project has 12 ground floor units designed to meet ADA requirements for accessibility and fully accessible kitchens and bathrooms. The entire outside ground floor area is wheelchair accessible. Located one and a half blocks from the MAX and close to bus routes and shopping areas, this community contributes to Portland's "green" goals by catering to people who primarily use public transportation. Parking is off-site, with spaces reserved for disabled parking and use of "smart" cars. The 385 square foot community room is open to use by the residents and the neighborhood.

**BACKGROUND:**

As required by City Code, Chapter 3.103, the Portland Housing Bureau staff reviewed the application to determine (1) if the Project meets the requirements for a property tax exemption for New Transit Supportive Residential or Mixed Use Development, and (2) if the tax exemption is necessary in order for the Project to achieve financial feasibility. PHB's recommendation is then forwarded to the Planning and Sustainability Commission. The

recommendation of BPS and PHB are then forwarded to City Council who has the final authority to approve the exemption.

The limited property tax exemption, if approved by the City, exempts the value of the Project's residential improvements from taxation for a 10 year period. During this time period the property owners continue to be liable for property taxes on the value of the land and for the value of any retail space of the project. The exemption allows the project to offer affordable units while maintaining a reasonable return on investment for the developer.

Basic requirements of the TOD tax exemption in city code 3.103 include:

- 1) Must be located a transit oriented location such as within ¼ mile of a light rail transit stop or frequent bus service stop.
- 2) If over 15 units, 20% of the units must be restricted to rents rates affordable to households earning 60 percent or less of the area median income.
- 3) The affordable units are restricted to households below 60 percent of the area median income.
- 4) Must meet three of fifteen pre-selected public benefits or equivalent public benefits.

City staff, represented by PHB, Portland Department of Transportation, and Portland Bureau of Planning and Sustainability, and Multnomah County met with the sponsor. The reviewers had reservations because the project was already under construction their comments could not significantly influence the scope of the public benefits and because the future financing is contingent upon the project receiving the tax exemption.

However the Ash Street Review Committee agreed the project met the basic requirements as specified in City Code Chapter 3.103 in terms of financial need, affordability, and location, and provides some unique benefits such as accessibility. Also, this is one of few projects that have achieved 100% long term affordability without significant public investments.

**UNIT MIX AND AFFORDABILITY:**

Forty seven units (47) are proposed to be restricted at 60% Median Family Income (MFI) under this application. All forty seven units would remain affordable for 10 years. The detailed unit breakdown and the Median Family Income (MFI) to be served are represented in the table below.

R 293814 - SE 119<sup>th</sup> and SE Pine (12026 SE Ash Street)

Unit Type	% MFI	# of Units	Average Unit Size (square feet)	Rent	Anticipated Net Monthly Revenue	Anticipated Net Annual Revenue
One Bedroom	48%	16	518	\$645	\$10,320	\$123,840
One Bedroom	49%	4	540	\$655	\$2,620	\$31,440
One Bedroom	50%	3	608	\$665	\$ 1,995	\$23,940
Two bedroom	47%	16	665	\$745	\$11,920	\$143,040
Two bedroom	47%	4	687	\$ 755	\$3,020	\$36,240
Two bedroom	48%	4	793	\$765	\$3,060	\$36,720
<b>Total</b>		<b>47</b>		<b>\$701</b>	<b>\$32,935</b>	<b>\$395,220</b>

NOTE 12 UNITS ARE ADA ACCESSIBLE. ALL ONE BEDROOM UNITS ARE ON THE GROUND FLOOR.

**PUBLIC BENEFITS ADDRESSED:**

In addition to the location and affordability requirements of the TOD exemption program, three additional public benefits out of a list of fifteen must be provided by the project. The three public benefits offered by this project are listed below.

1. This project has doubled the number of affordable units below 60% MFI above the minimum threshold of 20% therefore the project can use affordability as one of the public benefits.
2. Twelve units or (25.5%) are fully accessible which exceeds the threshold of at least 20 percent of the rental units dedicated and fully accessible during the term of the exemption
3. The 385 square foot community room will be offered to residents and to the public.

**DEVELOPMENT TEAM:**

*Owner:* Ash Street Apartments, LLC (Dave Carboneau, Saj Jivanjee, Rob Justus)

*Developer:* Saj Jivanjee

*Property Management: Cascade Management*

*Architect: Doug Circosta (JCA Architects, LLP)*

*General Contractor: Don Silvey of Silco Commercial Contractors*

**FINANCIAL EVALUATION:**

City Code Section 3.103.020 specifies that the applicant must “demonstrate that property exemption is necessary to achieve economic feasibility of the residential use, taking into account the additional costs incurred by the design features, public benefits, or minimum densities required in return for the incentives allowed by this Chapter.” State Statute ORS 307.600.

With the Property Tax Exemption for Transit Oriented Development, the Project will provide forty seven units of rental opportunities to residents who earn 60% MFI (adjusted for family size).

**10 Year Tax Exemption IRR Calculation**

<b>Property Tax Exemption</b>	<b>Full property tax exemption</b>	<b>No exemption</b>
<b>10 Year Internal Rate of Return</b>	<b>-2.97%</b>	<b>-4.23%</b>
<b>10 Year Threshold IRR</b>	<b>10%</b>	<b>10%</b>

\*The increase in rents if tax abatement is not provided as well as the NPV does not consider terminal value. Also, the IRR calculations do not include residual value or the terminal value that the project sponsors had in their calculation. This represents the return on investment if the property was sold at the end of the 10-yr abatement period.

The developer’s forecasted IRR with the tax exemption is below the City Code’s 10% threshold for the first ten years of operations. The project’s IRR without the tax exemption informs the developer the project is financially infeasible. Based on the IRR calculation the property qualifies for the limited tax exemption. With or without the exemption the rate of return is below the 10% ten year threshold IRR due to the large amount of equity in the project.

The following table illustrates the net present value of the exempt revenues:

**NPV of Exempted Taxes**

<b># of years</b>	<b>10 Year Exempted tax revenue</b>	<b>NPV at 10 years</b>
10	\$337,132	\$229,701

Note: The project received SDC exemptions of \$400,000. As a condition of receiving SDC exemptions the project will sign a 60 year affordability agreement that runs with the land.

The estimated maximum exempted tax revenue for all jurisdictions is based on forecasted NOI, a 7.5% market cap rate, and a base millage rate of \$20.95 per \$1,000 value. The Net Present Value of the exempted tax revenue assumes a 7.5% discount rate.

**SOURCES AND USES:**

The following chart outlines the Project costs and uses of funding:

		<b>Per sq. ft. Based on 30,000 sq/ft</b>	<b>Per Unit</b>
<b>USES:</b>	<b>47-Units</b>		
Acquisition Costs	\$420,000	\$14.00	
Construction Costs	\$1,885,404	\$62.85	
Soft Costs	\$637,860	\$21.62	
Developer fee	\$300,000	\$10.00	
<b>Total Uses:</b>	<b>\$3,294,264</b>	<b>\$110</b>	<b>\$64,772</b>
<b>PERMANENT SOURCES:</b>			
Perm Loan	\$2,600,000		
Developer Cash Contribution	\$0		
Equity Partner	\$694,264		
<b>Total Sources:</b>	<b>\$3,294,264</b>		

**Note:** Mini financing matures in June 2011. The SDC exemptions and TOD taxes exemptions are not included. With taxes and SDC's the cost per unit would increase to \$82,000/unit.

**CONDITIONS:**

An extended use agreement Extended Use Agreement (EUA) as per City Code Section 3.103.055.

**REVIEW PROCESS:**

A financial evaluation of the project was performed by PHB underwriters. The analysis was shared with an application review advisory group composed of staff from PBOT, the County Assessor's Office, PHB, and BPS. The project went through a preliminary evaluation of whether or not the project met the basic financial and public benefit criteria before sending the project to a public hearing at BPS.

PHB staff has briefed the County, the City and David Douglas school district about the project prior to any public hearings.

**RECOMMENDATION:**

PHB staff has reviewed the proposed Ash Street Apartments and concludes it meets the requirements of City Code Chapter 3.103 Property Tax Exemption for New Transit Supportive Residential or Mixed Use Development. The project met the criteria of financial necessity because the IRR is well below 10%. Also the financing appropriate to maintain the affordability of the units cannot be secured unless the project can demonstrate a lower debt to income ratio further demonstrating the project is not viable and would not normally be built at without a tax exemption.

PHB recommends the project be forwarded to the Bureau of Planning and Sustainability for a hearing and the results of the hearing be forwarded to City Council for its deliberations.

**ATTACHMENTS:**

- Site Plan
- Architect's renderings
- PHB Financial Evaluation