



Bureau of Planning and Sustainability
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M E M O

To: Planning & Sustainability Commission
From: Uma Krishnan, Management Analyst
Cc: Dori Van Bockel, Portland Housing Bureau (PHB)
Subject: **Staff Report on TOD Tax Exemption Request for the Prescott Block Apartments**

Prescott LLC, represented by Brendan Lawrence requests a 10-year tax exemption under the City's New Transit Supportive Residential or Mixed Use (TOD) program for the proposed Prescott Block Apartments rental project. The TOD program is one of the City's two multifamily tax exemption programs and is available in designated areas outside the Central City where the City has planned for transit-oriented development. This exemption applies to the improvement value including supportive commercial space and other public benefits. The role of the Planning and Sustainability Commission (PSC) is to evaluate the set of public benefits offered by the project against the TOD program's goals.

I. Project Description and Site and Land Use Review History

Project Description

The project known as **Prescott Block Apartments** is a proposed new construction six (6) story, 155 unit multifamily over commercial mixed use project located across the street from the Prescott MAX stop in north Portland. The assembled 11 parcel, 42,735 SF site is bound by Interstate Ave to the west, Prescott St to the north, Maryland Ave to the east and Skidmore St to the south. In addition to the light rail service the site is in close proximity to Interstate Ave, Interstate 5, and the Skidmore overpass for vehicular access. The proposed project is on an eligible site, currently vacant, located within the Interstate URA boundaries outside the Central City Plan area, in the North Interstate Plan District, and is zoned EXd.

This proposed Project consists of 6 stories along Interstate Ave and 5 stories on the north and east wings of the building. 155 apartment units are situated over approximately 9,500 SF of first floor retail space (five separate units) along Interstate Ave. The project will have 41 studios, 69 one-bedroom, and 45 two-bedroom units. Twenty percent (20%) of the units, on a pro rata unit mix basis, will be affordable at 60% MFI, as a result of approving the limited term exemption. Secured underground parking will provide 111 parking stalls to the residential portion of the project, a parking ratio of .72:1, and 40 for rent storage units for the tenants. Additional project amenities include a landscaped central courtyard, outdoor bocce ball court, outdoor BBQ and seating area,



exercise room and an outdoor pickle ball/sport court area. The following table summarizes the intended *unit mix* and *affordability mix* for the project:

Unit type	Count	Rent	MFI
Studio	9	750	59.5%
Studio	3	800	63.5%
Studio	14	825	65.5%
Studio	15	850	67.5%
Open One Bedroom	2	810	60.0%
Open One Bedroom	3	950	70.4%
Open One Bedroom	3	975	72.2%
One Bedroom + den	2	810	60.0%
One Bedroom + den	8	1,050	77.8%
One Bedroom + den	2	1,075	79.6%
One Bedroom + den	3	1,100	81.5%
One Bedroom	10	810	60.0%
One Bedroom	10	975	72.2%
One Bedroom	20	1,000	74.7%
One Bedroom	6	1,050	77.8%
Two Bedroom	8	970	59.9%
Two Bedroom	8	1,450	89.5%
Two Bedroom	19	1,500	92.6%
Two Bedroom	10	1,600	98.8%

Total Housing Units

155

As can be noted from the above table, the project will have 41 studios, 69 one-bedroom, and 45 two-bedroom units. Twenty percent (20%) of the units, on a pro rata unit mix basis, will be affordable at 60% MFI, as a result of approving the limited term exemption. In the above table, the shaded rows are intended to be affordable to households with income at or below 60% Median Family Income (MFI); nine (9) studios, fourteen (14) one-bedrooms, and eight (8) two-bedrooms, for a total of 31.

Housing Affordability

The project will set-aside 20% of the total units as affordable units. This translates to 31 affordable units that mirrors the project's unit mix (see above table) and will be rented to households at or below 60% of MFI. Additionally, based on program requirements, the units will be rented in accordance with rent restrictions and will remain affordable for 10 years of the abatement period.



Proposed Public Benefits

The project provides a number of public benefits. The housing units will be located right across from the Prescott light rail station and in close proximity to mass transit options and 31 units (20% of total units) will remain affordable to households earning 60% or less of the area Median Family Income (MFI). Also, the project brings higher than desired density bringing in 155 units on a currently vacant site, in an important transit-oriented site with good connectivity.

The changes to the TOD program adopted in November 2006 require that three public benefits be provided by a project in addition to meeting the affordability requirement from a specified list. The Prescott Block Apartments will provide several public benefits elaborated in the program guidelines:

1. **Residential Density:** The Prescott Blocks proposal is for a development that will be built at just over **85%** of applicable maximum density for this site. This exceeds the program requirement of 80% threshold. It needs to be noted that in 2008 when this application was under design review the proposal exceeded 100% of allowable density under the Albina Community Plan District. Since then as a consequence of the replacement of the old Plan by the new North Interstate District Plan, this site was upzoned and the same proposal dropped to 85% density.

In terms of units per acre for an EX site, TOD program calls for at least 139 units per net acre. This proposal is for 155 units in just under an acre and so it is bringing in an additional 19 units.

2. **Ground floor service or commercial use:** The Project proposal is for 9,500 SF of first floor commercial space that will serve the project and neighborhood.
3. **Family oriented recreational facilities:** The Project will have a park-like central courtyard containing a BBQ and seating area as well as a bocce ball court. Above the gym and retail frontage along Skidmore St there will be an outdoor Pickleball¹ court for families and residents to use and enjoy.
4. **Structured Parking:** The Project will have one floor of underground parking containing 111 parking stalls for the residents, a parking ratio of .72:1. Further strengthening this component, the project's leasing office may opt to provide car pool and public transit information and assistance.
5. **Parking Spaces:** The units are not attached to parking stalls and will be rented separately from the units. This uniformly applies to all units and can potentially lower housing costs and also further the City's carbon reduction goals.

Site and Zoning Information

The full-block site is located at an active intersection on N Interstate Avenue. The site is bounded by N. Prescott Avenue to the north, N. Maryland Avenue to the east, N. Skidmore Street to the south, and N. Interstate Avenue to the west. The development began its land-use process when the applicable plan was the Albina Community Plan. However, since then the North Interstate District Plan has

¹ Pickleball is a fun game that is played on a badminton court with the net lowered to 34 inches at the center. It is played with a perforated plastic baseball (similar to a whiffle ball) and wood or composite paddles. It is easy for beginners to learn, but can develop into a quick, fast-paced, competitive game for experienced players.



replaced the old Plan. The site is currently vacant. Then existing single-family residential structures and a commercial structure at the corner of N Interstate Avenue have been demolished.

The vicinity includes a mix of both residential and commercial uses. N Interstate Avenue, which bounds the site to the west, is recognized as a significant commercial corridor. The historic built environment along Interstate Avenue is defined by development that occurred during the 1940s and 1950s. At the time, Interstate Avenue was the major north-south route for travel between California and Washington, and as a result, businesses developed that catered to the long-distance automobile traveler. With the construction of I-5 in the 1960s, the travel-oriented businesses along interstate declined. However, the area is now witnessing a growth in new commercial and residential development, in large part due the MAX light rail line that runs along Interstate connecting northeast Portland with downtown.

The entire site is zoned EXd. The Central Employment (EX) zone allows mixed-uses and is intended for areas in the center of the City that have predominantly industrial type development. The intent of the zone is to allow industrial and commercial uses which need a central location. Residential uses are allowed, but are not intended to predominate or set development standards for other uses in the area. The design (d) overlay zone promotes the conservation, enhancement, and continued vitality of areas of the City with special scenic, architectural, or cultural value. This is achieved through the creation of design districts and applying the Design Overlay Zone as part of community planning projects, development of design guidelines for each district, and by requiring design review. In addition, design review ensures that certain types of infill development will be compatible with the neighborhood and enhance the area. This tax lot has been the site of two land review cases:

- **LU 08-135305 DZM AD:** Design review approval to construct a new full-block mixed-use building located on N. Interstate Ave.
- **LU 11-168690:** Approval of design changes on all four elevations; primarily changes to windows, doors, railings, and wall vents

The current design is for U-shaped structure surrounding a private ground-floor courtyard facing south. The building will be the tallest on N Interstate, with a six-story bar reaching a height of 64'-0". It will house 155 residential units on floors 1-6, 111 parking spaces below grade, and five retail spaces at the ground floor totaling 9,500 SF of tenant space. The building steps down to five stories along N Prescott Street and N Maryland Avenue at approximately 55'-0". A one-story retail wing faces N Skidmore Street with a height of approximately 13'-0". Ground floor retail spaces face N Interstate and wrap the corners at N Prescott and N Skidmore Streets. It is located in the Overlook Neighborhood and in Portland Public School District.

II. The TOD Tax Exemption Program Review Process and Public Benefit Requirements

TOD Program Description

The TOD program provides a 10-year tax exemption on the improvement value of new multifamily and mixed-use projects located within a quarter mile of light stations or other public transit service. The program is authorized by the same state statutes that authorize the City's New Multiple-Unit Housing (NMUH) program available in the Central City and Urban Renewal Areas (ORS 307.600 - 307.65). The City Council adopted the TOD program in 1996 to provide support for the City's investment in the MAX light rail system and other investments in public transit outside the Central City by providing an incentive for high-density housing near transit facilities. As of November 2006, the TOD program has been applied to at least a quarter mile radius of all MAX light rail stations with appropriate zoning.



Review Process

City Council adopted a new review process along with other TOD program changes in November 2006 that is summarized below.

Portland Housing Bureau Review

Requests for TOD tax exemptions are now required to be reviewed by the Portland Housing Bureau (PHB) staff for financial necessity of the tax exemption to the economic feasibility of the project and conformance with the requirements of City Code Chapter 3.103.

PHB staff review has determined that the project meets all basic eligibility requirements. Further, the staff analysis finds that the tax exemption is critical for the financial feasibility of the project. The 10-year income projections derived from the pro formae show:

- Scenario 1 - the financial performance of the Project without the tax abatement, and
- Scenario 2 - the financial performance of the Project with the tax abatement, and
- Scenario 3 - the necessary increase in rents without the abatement in order to achieve the return achieved with the tax abatement.

In none of the scenarios does the return exceed the 10% threshold. Because all project-related debt and income were presented in the tax abatement application, staff prorated debt between the residential and commercial portions of the project and eliminated commercial revenues from the NOI calculation. The estimated Internal Rate of Return (IRR) for the Project without the abatement is 3.9% during the 10-year period of the abatement. For Scenario 2, the Project's IRR with the tax abatement is 8% during the 10-year period. In the absence of the abatement, to get to the 8% return, all units will have to be rented at least at an additional \$191/month/unit (plus utilities), which does not allow for any 60% MFI units in the structure.

The total development budget for this phase of the Project is \$28.3 million. According to materials submitted with the application, the annual unabated property tax is estimated at \$292,544 (\$1,148 per unit) in the first year, escalating thereafter.

The PHB Investment Committee concurred with the staff findings during their case review meeting on Thursday, January 19th, 2012 and recommended approval of 10-year tax abatement to the Prescott Block Apartments project.

(See PHB Investment Committee Report attached to this memo for financial feasibility analysis, project costs and recommendation)

Planning and Sustainability Commission Review

The PSC is required to review tax exemption requests for consistency with the public benefit review requirements of Chapter 3.103 within 60 days of receipt of a recommendation for approval of a tax exemption request from PHB staff. The Commission is not required to review TOD tax exemption



requests for consistency with City plans and policies as they are for tax exemption requests under the NMUH program. The reason is that the more prescriptive requirements related to residential density and location near public transit in Chapter 3.103 ensure consistency with city plans and policies are met by this program.

After their review of the public benefit requirements at a public hearing, the Commission shall make a recommendation to deny or approve the application subject to conditions and instruct staff to forward a recommendation letter to the City Council for use during the Council hearing process.

City Council Review

City Council is required to review the application and approve or deny by ordinance within 30 days of receiving the application.

Affordability Requirement for Rental Units: The affordability requirement for rental projects is that the applicant provides at least 20 percent of the units or 20 percent of building square footage dedicated to units, affordable to and reserved for households at or below 60 percent MFI. As an alternative, the applicant can provide at least 10 percent of the units or 10 percent of building square footage dedicated to units, affordable to and reserved for households at or below 30 percent MFI.

Public Benefit Requirements

City Council approved changes to the TOD program in November 2006 that included changes to the public benefit requirements. Projects for which a tax exemption is requested are required to meet the aforementioned affordability requirement and provide three other benefits. The requirements are summarized below. More detailed language is included in City Code Section 3.103.040, Public Benefits.

Public Benefit Options: Provide three additional public benefits from the following list:

1. 20 percent of units dedicated to persons with special needs and are designed for full accessibility.
2. 10 percent of rental units include 3 or more bedrooms.
3. Provide childcare on-site or support child care facility.
4. Provide residential unit-per-acre density equivalent to at least 80 percent of maximum density.
5. Permitted ground floor service or commercial use.
6. Office space or meeting room for community.
7. Permanent dedications for public use including open space, community gardens, or pedestrian and bicycle connections to public trails and adjoining neighborhood areas.
8. Family oriented recreational facilities.
9. A dedicated car-share space(s).
10. Structured parking.



11. LEED Silver certification from the US Green Building Council.
12. Twice the percentage of affordable units, or percentage of residential building square footage for affordable units, than is required by the affordability requirement.
13. Other benefits as proposed by the developer and approved by the Planning Commission.
14. Transportation improvements above those required by development standards approved by the Portland Office of Transportation and the Planning Commission.
15. An agreement to sell off-street parking spaces separate from condominium units so that a unit can be purchased without a parking space.

III. Proposal’s Conformance with Public Benefit Requirements & Staff Recommendation

Planning and Sustainability Bureau staff has reviewed the PHB staff’s Report to their Investment Committee and finds that the application is consistent with the program’s public benefit requirements.

Affordability Requirement

The affordability requirement is met since 20% of the units will be set-aside for households making at or below 60% MFI. The unit-mix for the affordable units will match the project mix:

Affordable Units	% MFI	# of Units	Rent
Studio	60%	9	\$750
Open One Bedroom	60%	2	\$810
One Bedroom + Den	60%	2	\$810
One Bedroom	60%	10	\$810
Two Bedroom	60%	8	\$970
Total Units		31	
Market Units		# of Units	Rent
Studio	Market	32	\$850
Open One Bedroom	Market	6	\$975
One Bedroom + den	Market	13	\$1,100
One Bedroom	Market	36	\$1,050
Two bedroom	Market	37	\$1,600
Total		155	



Staff Discussion on Need for Affordable Units

The project site is located in Census Tract 35.02 and the population and housing characteristics of this small census geography can serve as a proxy indicator for housing conditions and needs of the area in which this project is slated for construction. Currently, the housing situation in this sub geography of Portland is similar to prevalent trends in the market: a very tight rental housing market with very low vacancy rates and steep increases in rents. The following table provides the highlights:

Housing Counts in Proposed Site’s Vicinity

Census Tract 35.02 (Project Location), Portland, Oregon	
Total Housing Units	903
Occupied	868
Vacant	35
Vacancy rate	3.8%
Owner occupied	585 (Homeownership: 67%)
Renter occupied	283 (Rentership: 33%)

Source: ACS 2006-2010

The vacancy rate of **3.8%** indicates a need for housing units in this transit options rich area and so utilization of underutilized land area to add 155 multi-family is certainly a public benefit. Additionally, there is a need for affordable rental units as demonstrated by the following table on housing cost burden experienced by households in Census Tract 35.02:

Housing Cost Burden of Renter-Occupied Units in Proposed Site’s Vicinity

Census Tract 35.02 (Project Location), Portland Oregon	
Total:	283
Less than 10.0 percent	0
10.0 to 14.9 percent	122
15.0 to 19.9 percent	0
20.0 to 24.9 percent	0
25.0 to 29.9 percent	64
30.0 to 34.9 percent	62
35.0 to 39.9 percent	0
40.0 to 49.9 percent	0
50.0 percent or more	13
Not computed	22

Source: ACS 2006-2010



Households that pay more than 30% of their income towards housing costs are considered cost burdened and it is clear from the above table that just about **27%** of the households in the vicinity of the proposed Project are cost burdened. The low cost burden along with very high ownership speaks for gentrification issues in this neighborhoods over the past two decades- a period in which low-income households have declined in numbers from service rich inner city neighborhoods. Consequently, the addition of 155 units, 31 of which will be set-aside for households making 60% MFI (or less) provides an affordable option for low income households to live in an high opportunity area- an area that is close to active transportation and other amenities. This will certainly be a desirable public benefit. Also, due to the proximity of the Project to light rail and job centers, the combined expenditure on housing and transportation costs for residents will be considerably decreased.

Public Benefit Options

The applicant has stated that they will include several of the public benefit options detailed in the TOD program guidelines: **# 4, # 5, #7, #10 & # 15**

Staff Discussion on Proposed Public Benefits

The TOD program guideline requires that in addition to affordability set-aside and transit-oriented location, the development offer three other benefits from the prescribed list. The Prescott Block is offering **five** additional benefits from that list (see page 3 of this report). All benefits are self-explanatory but the benefit of getting affordable units as part of a mixed use building in a transit rich location is worth consideration. This area is becoming increasingly unaffordable as evident by the small percentage of cost burdened households. So, to offer housing choice for households making below 60% MFI furthers the TOD program objectives of sustainable growth that furthers affordable housing options.

Staff Recommendation

Approve the request for the 10-year TOD property tax abatement for the residential component, including residential parking with the condition that all proposed public benefits be provided.

Attachments

Zoning and Site Map
PHB Investment Committee Report

