



## Bureau of Planning and Sustainability

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January 26, 2012

# 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 Rose Apartments

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Gordon Jones (General Manger, Lake Creek Lodge), represented by Darris Cassidy requests a 10-year tax exemption under the City's New Transit Supportive Residential or Mixed Use (TOD) program for the proposed Rose 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 *The Rose Apartments* is a proposed new four story wood frame, 90 unit multifamily project located between an extension of NE Flanders and E. Burnside and between NE 99<sup>th</sup> and 97<sup>th</sup> Avenues in the Gateway URA. The assembled 6 parcel, 86,662 SF site will offer 100% affordable units serving families and individuals making 60% MFI or below and slated to be a mix of 30 studios, 36 one-bedroom units, and 24 two-bedroom units. The Project will have 58 uncovered parking spaces equating to a 0.64: 1 parking ratio. The Project will consist of two separate buildings, will be built to LEED standards and include outdoor balconies for each unit, passive solar design, on-site water harvesting, pre wiring for an electric car port and charging station for electric vehicles. Two community gardens have also been planned. Other landscaping elements include:

- Bike corrals to accommodate visitors;
- Benches along the pedestrian connections,
- Arbors and gateways demarking pedestrian intersections,
- A long trellis above the lower level courtyards for climbing roses on the building,
- Greenwalls that will surround the courtyards, softening the building and offering pleasing ground level environments.



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This is a phased project and there is a potential second phase that may add an additional 63 affordable units to the project. The following table summarizes the intended *unit mix* and *affordability mix* for the Project:

Unit type	Count	MFI	Pro forma Monthly net rents (excluding an allowance for utilities)
Studio	30	60%	\$ 695
One BR	36	60%	\$ 729
Two BR	24	60%	\$ 870
<b>Total Units</b>	<b>90</b>		

As can be noted from the above table, all 90 units in The Rose Apartments will remain affordable at 60% MFI.

### Housing Affordability

The Project will be 100% affordable. This translates to all 90 units being affordable 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. Further, as the Project is receiving SDC waivers, it is required to maintain affordability for a 60 year period.

### Proposed Public Benefits

The project provides a number of public benefits. The housing units will be located on a site approximately three blocks from the Gateway MAX station that is the confluence of the Red, Blue, and Green MAX lines and near the 84/205 freeway interchange. The site is convenient to transportation routes and public transit. As mentioned earlier, all 90 units will remain affordable to households earning 60% or less of the area Median Family Income (MFI). Also, the Project brings desired high density 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 Rose Apartments will provide several public benefits elaborated in the program guidelines:

1. **Increased affordability:** The Rose Apartments will be 100% affordable.
2. **Green Building:** LEED Silver certification from the US Green Building Council. In addition to this standardized certification, the Project will be undertaking some innovative and sustainable building construction and resource use practices:
  - **Deconstruction/Recycling of Existing Buildings:** Two single family residences, two garages and a commercial building on the site were recently deconstructed (salvaged in a way that allows them to be reused) and recycled to make way for the project. All of these activities were done according to prescriptive LEED criteria, and every load that was removed from the site received a 100% certification at the recycling destination;
  - **Reduced Schedule:** The Construction schedule with this technology is reduced from approximately 14 months per building to 5 months per building, resulting in far less use of



resources, energy, trucking, and neighborhood disturbance (**Good community benefit if it plays out that way**);

- **Reduced Waste:** The construction methods will reduce waste from approximately 8 to 9 lbs. per building square foot to less than ½ lb. per sq. foot, resulting in a savings to the public in landfill use and setting a new standard for construction projects in the Portland region (**This may be a very important contribution to improving current construction practices**);
- **Integrated Pannelized System:** Miranda Industries cutting edge construction technology makes the construction process far more efficient and results in a building that is of superior quality, longevity and at a lower const. The public benefit is that a new standard for low to midrise multi-family housing will be established in the Portland metropolitan region (**this construction process has not been done before here in Portland**);
- **Durable Quality Materials:** The all concrete and steel structure minimizes waste all the way through manufacturing and construction. The floor and roof assemblies utilize a system called “BubbleDeck®”, which uses hollow plastic balls sandwiched between square mesh structural steel, reducing concrete by 35% and reducing costs by being panelized off-site (**New technology, good for reducing waste. Since material selection is up to designers and contractors, this will be a good project for others to see how well it works**);
- **Eco Roofs:** The Buildings and other roof areas will utilize vegetated covers to reduce the heat island affect, reduce storm water surges and extend roof life (**Above code**);
- **Green Live Walls:** A new and innovative Green Live Wall system will surround all courtyards and the building base to provide similar benefits as the eco roof. A side benefit is the elimination of graffiti which is endemic in the area (**Above code**);
- **Rainwater Harvesting:** The Project is investigating the feasibility of utilizing rain water for drip irrigation of the landscaping, fruits and vegetables, as well as for flushing toilets (**Above code**).

**3. Parking Spaces:** The Project will offer dedicated car-share spaces.

**4. Transportation improvements above those required by development standards:**

- **Local Improvement District (LID):** The property owners in the neighborhood joined together in support of the LID to improve NE 97<sup>th</sup> Ave. and stimulate development. This was a process initiated by PDC and took over 5 years, including a revision to the Gateway Street Plan and significant community involvement;
- **Model Green Street & Innovative “Woonerf” (shared streets):** The City of Portland, through two grants from BES and PDC committed to the Project and provided the seed money for the LID to improve two streets and make the project feasible; a collaborative effort between the City and the Gateway Community, resulting in smaller more walkable blocks.

**5. Public benches, Bicycle Parking, Pedestrian Environment:** The Project will include park benches on the private property near building lobbies and along Flanders for pedestrian respites, as well as bicycle parking available in several locations, all adding to a vital pedestrian experience on all three streets

**6. Community Garden:** The center of the Project will incorporate raised vegetable beds for both resident and public community gardening; as well as other edible plants such as berries vines, espaliered fruit trees and herbs in the perimeter landscaping. The process of planting, cultivating and harvesting will bring community members together and provide for a healthy living environment.



## Site and Zoning Information

The Rose Apartments is a proposed new construction that will be located between an extension of NE Flanders and E Burnside and between NE 99<sup>th</sup> and 97<sup>th</sup> Avenues in the Gateway URA. The site is currently vacant. Then existing single-family residential structures, two garages and a commercial building at that site were recently deconstructed and recycled to make way for the Project. The plans for phase I of this development is to construct two 4-story buildings with 29,937 SF feet and 45 residential units in each building. The site is an assembly of six parcels making up a parcel size of 86,662 SF.

The entire site is zoned **RXd**. The Central Residential (RX) zone allows high density and most intensely developed multi-dwelling structures. A limited amount of commercial uses are permitted to serve residents in the development and immediate area. Development needs to be pedestrian oriented. The “d” design overlay zone is applied in conjunction with this zone. It is the Floor Area Ratio (FAR) that determines densities in this. The Project is currently going through Type III Design Review and has gone through the pre-application process (**Case #: EA 11-159632**).

The Project is located in the Hazelwood Neighborhood and in the David Douglas School District. The nature and design of the development is guided by the Gateway Plan 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. The estimated Internal Rate of Return (IRR ) for the Project without the abatement is 5.06% during the 10-year period of the abatement. For Scenario 2, the Project's IRR with the tax abatement is 7.86% during the 10-year period. In the absence of the abatement, to get to the 7.86% return, all units will have to be rented at least at an additional \$62/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 \$9.05 million. The estimated ten year value of exempted tax revenue is approximately \$599,779 dollars assuming three per cent annual appreciation. The net present value using a 6% discount rate is \$435,231. Of that total, approximately 33%, or \$143,626 is attributable to City of Portland foregone revenue.

The PHB Investment Committee concurred with the staff findings during their case review meeting on Thursday, January 26<sup>th</sup>, 2012 and recommended approval of 10-year tax abatement to The Rose 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 100% of the units will be set-aside for households making at or below 60% MFI:

Unit type	Count	MFI
Studio	30	60%
One BR	36	60%
Two BR	24	60%
<b>Total Units</b>	<b>90</b>	

#### Staff Discussion on Need for Affordable Units

The project site is located in Census Tract **81** 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. The following table provides the highlights:

#### **Housing Counts in Proposed Site’s Vicinity**

<b>Census Tract 81 (Project Location), Portland, Oregon</b>	
<b>Total Housing Units</b>	<b>3,002</b>
Occupied	2,687
Vacant	315
<b>Vacancy rate</b>	<b>10.5%</b>
Owner occupied	1,342 (Homeownership: 50%)
Renter occupied	1,345 (Rentership: 50%)

Source: ACS 2006-2010

It is important to note that CT 81 is a large tract with four separate Census Block Groups. The Project will be located in Block 3 within the Gateway Center. This part of the tract lacks multi-family units and likely has a tighter rental vacancy than is the case for the tract as a whole. The following table on housing expenditure of renter households provides a snapshot of the cost burden experienced by the residents of this area:



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

Census Tract 81 (Project Area), Portland, Oregon	
<b>Total:</b>	<b>1,345</b>
Less than 10.0 percent	30
10.0 to 14.9 percent	31
15.0 to 19.9 percent	143
20.0 to 24.9 percent	136
25.0 to 29.9 percent	82
<b>30.0 to 34.9 percent</b>	<b>100</b>
<b>35.0 to 39.9 percent</b>	<b>123</b>
<b>40.0 to 49.9 percent</b>	<b>250</b>
<b>50.0 percent or more</b>	<b>417</b>
Not computed	33

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 over **66%** of the households in the vicinity of the proposed Project are cost burdened. Additional documentation on need for affordable workforce housing is offered by the Gateway Eco District Integrated Assessment (August, 2011), "*Gateway is distinguished from other areas of Portland by its greater ethnic diversity and homogeneity of households in terms of income potential and earning capacity. In comparison to other areas of the city, Gateway has far fewer households headed by higher-earning professionals. Ten percent of Gateway employed residents are in production - double that of the city as a whole (5.7%) - while only 7.4% are in occupations that require higher levels of education as compared to 11.3% for the city as a whole. In 2009, there were 9,500 jobs in Gateway, with almost half of those jobs (4,800) in the education and health service sectors.*" The Rose will fulfill a public need by responding to the deficiency of affordable housing for this diverse work force population. 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: **#7, #9, # 11, #12, # 14**

### 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 Rose Apartments is offering **five** additional benefits from that list (see page 2-3 of this report). All benefits are self-explanatory but the benefit of getting 100% affordable units in a transit rich location is worth





consideration. In addition, the innovative and green construction, community gardens and the development of model green street and woonerf can set a precedence for future affordable housing projects.

### **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

