



CITY OF
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 PORTLAND HOUSING BUREAU

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DATE: March 1, 2012

TO: Portland City Council

FROM: Siobain Beddow, Portland Housing Bureau

SUBJECT: Recommend Approval to Portland City Council of a Ten Year §3.103 Property Tax Abatement for The Hollywood Apartments LLC (or affiliated entity) for The Glendoveer Woods located at 247 NE 146th Avenue and 409 NE 146th Avenue

Project Description

Glendoveer Woods Apartments (project) is a proposed new construction four story, elevator served, 113- unit multifamily project located .23 miles from the E 148th and Burnside Max stop, and .12 miles from the Trimet 25 bus stop. An assembly of three different tax parcels, the proposed project is on an eligible site, currently occupied by a single family rental home which will be demolished, and located outside the Central City Plan area, not in a URA. The site is zoned R1dh. See the site map on page 6.

The property's short legal description is:

the North ½ of Lot 194, the South ½ of Lot 194, and Lots 195 and Lot 196 in Ascot Acres Addition, Multnomah County, Oregon.

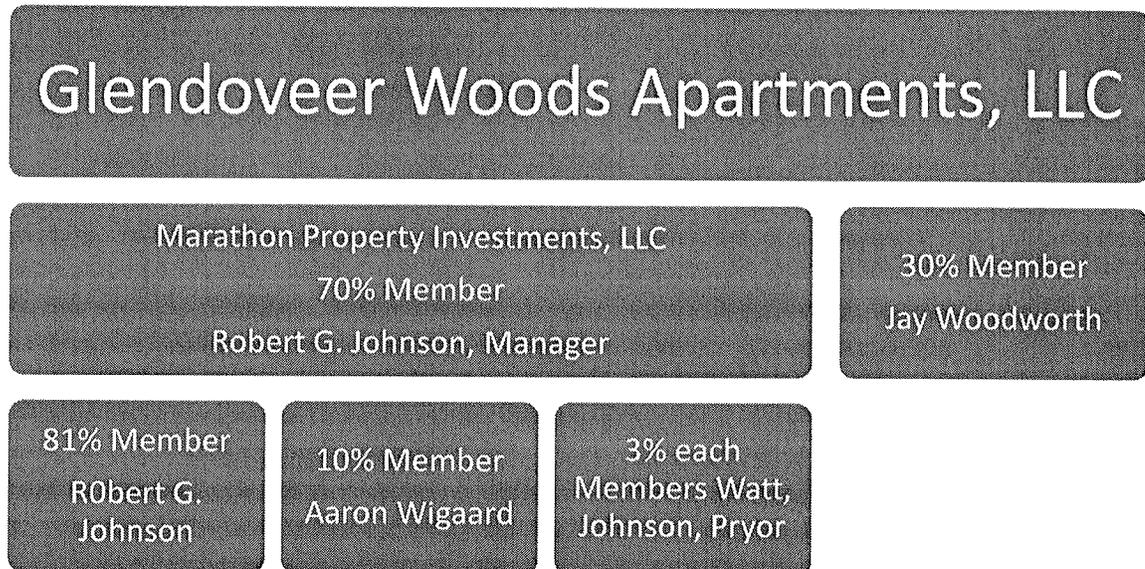
The project will have 40 studios, 56 one-bedroom, and 17 two-bedroom units. Twenty percent (20%) of the units, on a pro rata unit mix basis, will be affordable at 60% MFI, as a result of approving the limited term exemption.

Surface parking will provide 115 parking stalls, and 11 garages, a parking ratio of 1.12:1; and 124 outdoor bike parking spots, of which 6 are short term visitor type spots and half are covered bike parking.

Staff's review of the development and operating pro formae indicates that the project requires a limited tax exemption on the improvements, including parking, in order to be financially feasible to build. A limited property tax exemption, if approved by the City, exempts the value of the Project's residential improvements (only), including parking from taxation for a period of up to ten years. The estimated first year tax, including land, from all taxing jurisdictions is \$123,506. During the abatement period, the property owner continues to be liable for property taxes on the value of the land, estimated in the first year to be approximately \$6,000.

The project utilizes no City of Portland urban renewal or federal pass through financing, nor will it apply for SDC waivers.

Glendoveer Woods, LLC is structured as set forth in the chart below.



Proposed Unit Mix and Affordability:

For the units which are scheduled as affordable at 60% MFI, all utilities are paid. The rest of the units pay their own utilities through direct and chargeback methods.

Unit type	Count	Rent	MFI
Studio	8	699	60%
Studio	32	699	Market
One Bedroom	12	799	60%
One Bedroom	44	799	Market
Two Bedroom	3	929	60%
Two Bedroom	14	929	Market
	113		

Shaded and bolded rows mark the proposed 60% MFI affordable units; eight (8) studios, twelve (12) one-bedrooms, and three (3) two-bedrooms, for 23 units at or below 60% MFI, including utilities. This count and mix meets the affordability requirement of the public benefit test.

Public Benefits

The Project will provide the following additional public benefits, as required by the City Code (Chapter 3.103.):

Rental Rates - 20% of the rentable residential units (on a pro rata basis) are restricted to rents at or below 60% of median family income, including utilities.

Additionally, the project plans to include the following public benefits.

Community Room – The project will contain a community room for the residents which may also be utilized by community organizations.

Ground floor service or commercial use – The project will contain an indoor ground floor bike repair self-service area for the project's residents and community biking organizations to utilize.

Dedicated car share space- The project will contain three dedicated car share spaces.

Accessibility – All of the project's units will be accessible to people with disabilities via two elevators. The building's site, common areas and units have been designed with more than 90 different attributes that make the development more livable and comfortable for tenants and visitors with disabilities. All of these attributes are identified on the attached Disability Design Attributes - Site Plan and Disability Design Attributes - Unit Plans.

Transportation information – the project will have an area of its lobby dedicated to transportation coordination which provides maps, schedules, and other valuable information relating to mass transportation in the Portland metropolitan area.

Carwash parking space – The project will offer a carwash parking space consisting of a vacuum and high pressure water for the project's residents.

Garden accessibility – The project will have a community garden for the development's residents, with increased accessibility for persons who are disabled.

Dedicated Zip Car space – the project will have on dedicated Zip Car space.

This meets the second level test city code requirement from a selection of options in §3.103.040(D)

Financial Evaluation

The total development budget for this phase of the Project is approximately \$13.3 million. Project financing is set forth in the Sources and Uses section below. 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.

As shown in Scenario 1, the Project's rate of return without the abatement is negative, (1.3%) during the 10-year period of the abatement. According to materials submitted with the application, the annual unabated property tax is estimated at \$123,506 (\$1,092 per unit) in the first year, escalating thereafter.

As shown in Scenario 2, the Project's rate of return with the tax abatement is 3.2% during the 10-year period.

As shown in Scenario 3, in order to achieve the anticipated rate of return associated with receiving the abatement, rents without the abatement would need to be an average of \$89 per month per unit higher overall, plus utilities, which does not allow for any 60% MFI units in the structure.

The estimated ten-year value of exempted tax revenue is approximately \$977,227 in today's dollars assuming a 6 percent discount rate, a three percent annual assessment increase and \$20.69 per \$1,000 mil rate. Of that total, 33%, or \$322,485 is attributable to City of Portland foregone revenue. The project will still pay an estimated \$6,000 per year in taxes on the land, escalating at 3% annually after the first year.

SOURCES AND USES:

Uses		Sources	
Acquisition	1,808,000	Private loan	10,350,000
Construction	7,580,000	Equity	2,943,800
Development	3,055,000		
Developer Fee	850,800		
Total	13,293,800		13,293,800

New construction cost per square foot of \$63 per square foot in hard costs is modest compared to hard costs per square foot of other mid-rise construction projects of this type in this area.

Observed operating expenses fall within an efficient range per unit per annum figure of \$4,209 with taxes, \$3,169 without taxes. The developer states this is because they self manage.

Staff also questioned the below market requirement debt service coverage ratio, the existence of which infers that the project will not be able to obtain the amount of financing it needs. The developer has the ability to forego a property management fee, as well as the likelihood of the permanent interest rate being slightly lower than the underwriting interest rate for the tax abatement. This flexibility means the developer should be able to meet the lender's requirements.

CITY DEBT MANAGER:

The City of Portland's Debt Manager has reviewed the abatement and determined that it is not in violation of any bond covenants.

CONDITIONS:

1. The project will be required to carry an extended use agreement, according to the terms of §3.103.055(D).
2. The individual apartment units in the development must be maintained as rental housing and not converted to condominiums or other ownership arrangements during the ten-year term of the exemption.
3. The development must comply with all applicable standards of Title 33, Planning and Zoning, as well as all conditions of approval of any land use and design review.
4. The development must comply with all applicable provisions of Titles 17, 24, 32, 33, and 34 of the City Code, as well as conditions of approval of any land use and design.

RECOMMENDATION:

Recommend the approval of a ten-year property tax abatement for the residential component, including parking, of the Glendoveer Apartments project to Portland City Council because the project meets the financial feasibility test and public benefits requirements set forth in Chapter 3.103 of Portland's City Code.

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