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CITY OF  
**PORTLAND, OREGON**

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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 Transit Oriented Development (TOD) Limited Term Tax Exemption to  
Prescott, LLC (or affiliated entity) for the residential component (including residential  
parking) of the mixed-use Prescott Block Apartments project at 4312 N. Interstate and  
1416 N Prescott Street

**Project Description**

Prescott Block Apartments (project) 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. See the site map on page 6.

The property's legal description is:

Block 1, HARDIMAN'S ADDITION TO THE CITY OF PORTLAND, in the City of Portland,  
County of Multnomah and State of Oregon.

EXCEPTING THEREFROM, the interest conveyed under the terms of that certain Deed for the Right of Way Purposes recorded as Instrument No. 2002-137356 in the real property records of Multnomah County, Oregon.

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.

Staff's review of the development and operating pro formae indicates that the residential portion of the project does not cash flow without the commercial ground floor component and requires tax abatement for feasibility. The commercial net income (NNN leases) and related debt were eliminated from consideration in the review process because the exemption requested will not involve the commercial component of the property. Because the debt figure submitted was for both the residential and commercial components of the project, staff divided debt to each component prorated according to square footage.

A limited property tax exemption, if approved by the City, exempts the value of the Project's residential improvements including residential parking (only) from taxation for a period of up to ten years. The estimated first year tax, including land, from all taxing jurisdictions is \$292,544. 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 \$65,000.

The project utilizes no City of Portland urban renewal or federal pass through financing, nor will it apply for SDC waivers. HUD conventional financing is expected to be approved in September, closing prior to year end.

Prescott, 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.

<b>Unit type</b>	<b>Count</b>	<b>Rent</b>	<b>MFI</b>
<b>Studio</b>	<b>9</b>	<b>750</b>	<b>59.5%</b>
Studio	3	800	63.5%
Studio	14	825	65.5%
Studio	15	850	67.5%
<b>Open One Bedroom</b>	<b>2</b>	<b>810</b>	<b>60.0%</b>
Open One Bedroom	3	950	70.4%
Open One Bedroom	3	975	72.2%
<b>One Bedroom + den</b>	<b>2</b>	<b>810</b>	<b>60.0%</b>
One Bedroom + den	8	1,050	77.8%
One Bedroom + den	2	1,075	79.6%
One Bedroom + den	3	1,100	81.5%
<b>One Bedroom</b>	<b>10</b>	<b>810</b>	<b>60.0%</b>
One Bedroom	10	975	72.2%
One Bedroom	20	1,000	74.7%
One Bedroom	6	1,050	77.8%
<b>Two Bedroom</b>	<b>8</b>	<b>970</b>	<b>59.9%</b>
Two Bedroom	8	1,450	89.5%
Two Bedroom	19	1,500	92.6%
Two Bedroom	10	1,600	98.8%
	155		

Shaded and bolded rows mark the proposed 60% MFI affordable units; nine (9) studios, fourteen (14) one-bedrooms, and eight (8) two-bedrooms, for a total of 31. 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.

*Residential Density* – The proposed project exceeds 100% of the allowable density in this zone and is transferring history FAR rights to the site to increase the density approximately 13,500 SF beyond the allowable FAR.

*Ground floor service or commercial use* – 9,500 SF of first floor commercial space that will serve the project and neighborhood.

*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 pickleball<sup>1</sup> court for families and residents to use and enjoy.

*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.

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 \$28.3 million. Project financing is set forth in the Sources and Uses section on page 5.

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.

As shown in Scenario 1, the Project's rate of return without the abatement is 3.9% during the 10-year period of the abatement. 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.

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<sup>1</sup> 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.

As shown in Scenario 2, the Project's rate of return with the tax abatement is 8% 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 \$191 per month per unit (plus utilities) higher overall, which does not allow for any 60% MFI units in the structure.

#### **SOURCES AND USES:**

Uses		Sources	
Acquisition	2,869,250	HUD 221 d(4)	22,117,700
Construction	20,479,619	Equity	6,156,855
Development	4,925,686		
Developer Fee <sup>2</sup>	0		
Total	28,274,555		28,274,555

New construction cost per square foot of \$171 per square foot in hard costs closely conforms to hard costs per square foot of other mid-rise construction projects of this type in this area.

Observed operating expenses fall within a normal range per unit per annum figure of \$5,728 with taxes, \$4,264 with only land taxes.

The estimated ten-year value of exempted tax revenue is approximately \$1,811,182 in today's dollars assuming a 6 percent discount rate, a three percent annual assessment increase and \$21.56 per \$1,000 mil rate. Of that total, 33%, or \$597,690 is attributable to City of Portland foregone revenue. The project will still pay an estimated \$65,000 per year in taxes on the land, escalating at 3% annually after the first year, and the commercial component will generate taxes estimated at \$19,000, also escalating annually after the first year.

#### **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:**

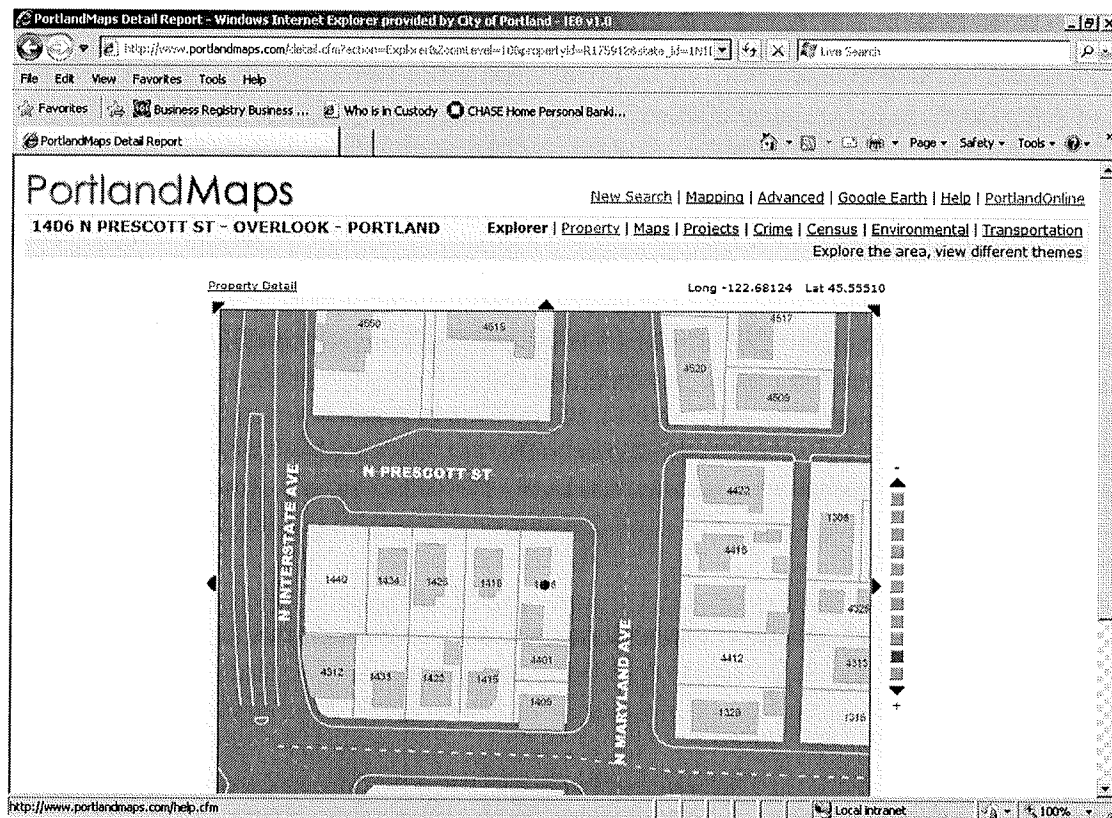
1. The project will be required to carry an extended use agreement, according to the terms of §3.103.055(D).

<sup>2</sup> Staff questioned this and the response was that the project is being held for portfolio, and that staff project management time of approximately \$160,000 is being reimbursed by the project. No traditional developer fee is being paid.

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 of the Prescott Block Apartments project to Portland City Council because the project meets the financial feasibility test and public benefits requirements set forth in Section 3.103 of Portland's City Code.



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