EXHIBIT A

CITY OF
# PORTLAND, OREGON
PORTLAND HOUSING BUREAU

**Commissioner Nick Fish**
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185217

DATE: March 1, 2012

TO: Portland City Council

FROM: John Marshall, Portland Housing Bureau

SUBJECT: Recommend Approval to Portland City Council of a Ten Year §3.103 Property Tax Abatement for Gordon Jones (or affiliated entity) for The Rose Project located at 305 NE 99th Avenue, between an extension of NE Flanders and E Burnside and between NE 99th and 97th Avenues.

## Background

The Rose (Project) is a proposed new construction four story wood frame, 90 unit multifamily project located between an extension of NE Flanders and E Burnside and between NE 99th and 97th Avenues in the Gateway URA.

During the pre-application meeting for the project, the applicant requested a twenty-year property tax abatement since the Project is entirely affordable and required to stay that way for 60 years since it is receiving SDC waivers. The applicant also requested the tax twenty year abatement because the of the population that is being served and the fact that similar projects owned by nonprofits would be able to qualify for a tax abatement for a longer period of time since they are eligible for annual 100% tax abatement on both the land and improvements under Portland City Code§3.101.

The City Debt Manager has confirmed there are no bond covenants limiting the period of tax abatements in the Gateway Urban Renewal area.

## Project Description

Gordon Jones proposes to build 90 units of affordable housing between an extension of NE Flanders and E Burnside and between NE 99th and 97th Avenues on land that is currently vacant. The Project will be 100% affordable with all units serving families and individuals with income at 60% MFI or below during the term of the abatement which is being requested for a 20 year period. The Project will have 30 studios, 36 one-bedroom units, 24 two-bedroom units, and 58 uncovered parking spaces equating to a .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 & charging station for electric vehicles, and two community gardens. 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.

There is a potential second phase that may add an additional 63 to 90 units in the future.

The Project will be prefabricated at a separate site manufacturing plant. All of the material preprocessing is completed at this plant prior to it being transported to the job site on a just in time schedule. This greatly increases accuracy and efficiency as well as reducing noise and waste. The base of the building will be a poured concrete slab on grade footing/stem wall and floor assembly. The building skeleton will consist of structural steel members. All building floor systems will be poured in concrete floor that will then be polished. All interior walls will be constructed from light gauge steel framing. All interior walls are "pre-panelized" at Miranda Homes. The ground floor units have a green wall that features the "Redi Pour" wall system that reduces construction time and provides a continuous surface for the inside court yard. All windows will be commercial grade non-white vinyl window and heating will be wall mounted radiant heating. The materials will be assembled on site by the contractor.

The site is located 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.

Unit density for this phase is 87 per acre, which exceeds the 3.103 Portland City Code public benefit requirement of 68 units per acre.

Project's development team consists of Craig Monaghan Architects, Miranda Homes and potentially Guardian.

The applicant has represented the Project is being financed by a $500,000 Metro Transportation grant, and will receive SDC exemptions from PHB. A Local Improvement district bond is assisting in the construction of street improvements for the project.

**Proposed Unit Mix and Affordability (preliminary):**

| **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 |
| **Total Units** | **90** | | |

## Public Benefits

The Project will provide the following additional public benefits, as required by the City Code (Chapter 3.103.040):

Rental Rates. Code requires that 20%, the rentable residential units be affordable at rents at or below 60% of median family income. All 90 of the units in this project meet this affordability requirement.

Additionally, the applicant plans to include the following public benefits in the Project.

Increased affordability: The minimum affordability is met, because more than twice the number of units required by 3.103.040 (B) (20% of the units) will be at rents at or below 60% MFI. In fact all 90 of the units are affordable at 60% MFI, which is why the applicant is asking for the tax abatement for longer than ten years.

LEED Silver certification from the US Green Building Council.

The project will offer dedicated car-share spaces.

Transportation improvements above those required by development standards approved by the Bureau of Transportation and Planning and Sustainability Commission.

This meets the second level test city code requirement from a selection of options in §3.103.030(D)

## Financial Evaluation

The total development budget for this phase of the Project is an estimated $9 million. Project financing is set forth in the Sources and Uses section on page 5. The Project does not receive any direct financial assistance from PHB.

At this point only one of three local governments endorses an extension of property tax abatements beyond 2011. Two of the authorities must agree to obtain a 51% majority approval. According to staff in the Policy group at PHB, Multnomah County officials have indicted they will make their decision whether they will support an extension of the abatements after April 1, 2012, which is the final date to approve property tax abatements. Although there is no current authority to grant the property tax abatement, the analysis is based upon the authorities voting to extend it in the future. The 10-year income projections derived from the pro formae show:

- Scenario 1 - the financial performance of the Project with the tax abatement, and
- Scenario 2 - the financial performance of the Project without the tax abatement.
- Scenario 3 - the financial performance of the Project with the rents necessary to achieve feasibility without the tax abatement, setting the return equal to that of the financial performance 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[1] with the abatement is 7.86% on the 10-year period of the abatement. The reason for this is that the rents are reduced by the affordability restrictions and the project cost is increased by the public benefits required by the tax abatement. The project is only attractive for financing with the abatement granted, as most banks are currently requiring debt service coverage ratios of 1.20 or better in order to make a loan.

As shown in Scenario 2, the Project's rate of return without the tax abatement is 5.06% during the 10-year period. Staff again evaluated the need for the abatement according to the lender required debt

[1] 10 year average cash on cash

service coverage ratio. Without the abatement, the project would qualify for less financing and have higher annual operating expenses due to the property taxes. According to materials submitted with the application, the annual unabated property tax adds $52,319 ($581 per unit) to the first year, escalating thereafter.

As shown in Scenario 3, staff imputed rents that are needed to produce the same return for the applicant achieved in Scenario 1 if the tax abatement were not available using the lender required debt service coverage ratio. Rents without the abatement would need to be an average of $62 a month per unit higher overall, causing all of the units to exceed the 60% MFI rent levels.

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.

**Gateway District URA Bond Covenant Requirements**

The City's Debt Manager has reviewed the abatement, which is not in conflict with any existing bond covenants.

| **SOURCES AND USES:** | | **per unit** | **per person** | **per sq ft** |
|---|---|---|---|---|
| | | **90** | **132** | **59,874** |
| **Uses** | | | | |
| Acquisition | $1,584,765 | 17,609 | 12,609 | 26 |
| Construction | $5,217,677 | 57,974 | 39,528 | 87 |
| Development | $1,886,371 | 20,960 | 14,291 | 32 |
| Developer Fee | $350,000 | 3,889 | 2,652 | 6 |
| | **$9,038,813** | **100,431** | **68,476** | **151** |
| **Sources** | | | | |
| Permanent Loan | $6,800,000 | 75,556 | 51,515 | 114 |
| LID Debt | $437,000 | 4,856 | 3,311 | 7 |
| Equity Investment | $1,801,813 | 20,020 | 13,650 | 30 |
| **Total** | **$9,038,813** | **100,431** | **68,476** | **151** |

New construction cost per at $87 per square foot in hard costs or 94 with the contractor fees appears modest for construction of this type in this area.

**<u>CONDITIONS:</u>**
The project will be required to carry an extended use agreement, according to the terms of §3.103.055(D).

**<u>RECOMMENDATION:</u>**
Recommend the approval of a ten-year property tax abatement for Gordon Jones (or affiliated entity) 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.