Exhibit A

CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

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DATE: December 30, 2013

TO: Portland Housing Bureau (PHB) Investment Committee

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Recommend Amendment of the Approval of a Ten Year Multiple-Unit Limited Tax Exemption for **The Rose Apartments** Located at 9700 and 9850 NE Everett Court.

Overview

PHB approved a Transit Oriented Development (TOD) Limited Tax Exemption (now known as Multiple-Unit Limited Tax Exemption [MULTE]) for the Rose Apartments through City Council on March 21, 2012. Following the TOD approval, the developer has had to make sufficient enough changes to the proposed project that an amendment to PHB's prior approval is necessary. The changes affect the public benefits being offered, including the number of affordable units as summarized below, in order for the project to be financially viable.

Unit type	Initial Count	Current Count	Median Family Income (MFI)
Studio	**30**	**12**	**60%**
Studio	0	18	Market
One Bedroom	**36**	**14**	**60%**
One Bedroom	0	22	Market
Two Bedroom	**24**	**10**	**60%**
Two Bedroom	0	14	Market
Total	90	90	

Project Description:

Rose Holdings, LLC proposes to build a housing development on currently vacant land at 9700 and 9850 NE Everett Court between NE 97th and 99th Avenues in the Hazelwood neighborhood within the Gateway Urban Renewal District. The proposed Rose Apartments (Project) will still contain 90 housing units including 30 studio units, 36 one-bedroom units, and 24 two-bedroom units. At this time, a second phase is no longer planned.

The Project will remain two separate buildings, each four stories high, and consist of 59,874 gross square feet, with 24,679 square feet of common space. The building will be slab on grade, wood framed construction compared to the pre-fabricated panels and steel framing as was originally planned. Each of the two buildings will have elevator service and the above-ground floors will still have covered private decks. Ground floor units will have entrances to the street or parking lot with the rest of the Project accessible through a secured ground-level lobby.

Some of the features of the project have changed without the pre-fabrication component. The Project will still have many attractive architectural features including large storefront lobby windows, a contemporary design with "V" roof and white reflective membrane, variegated cornice treatment of parapets and overhangs, three different siding types (texture and color variation) with articulated joinery, and internal storm drains. Units within the Project will have recessed vinyl windows, as well as Packaged Terminal Air Conditioning (PTAC) units and wall-mounted electric fan heaters, and offer Energy Star appliances including a washer and dryer in each unit. Amongst the landscaping features of the Project are benches along pedestrian connections, arbors and trellises, fruit trees, low water and edible plants, and a centrally located community garden and boardwalk.

The Project will still provide 58 parking spaces for the residents in addition to offering a car share program and electric vehicle charging station. Each unit will have a bike hook for tenant use, and bike corrals will be available for visitor use. The availability of a bike repair area will further promote bike use. The site is convenient to transportation routes and public transit; it is located approximately three blocks from the Gateway light rail station which connects several bus lines and the red, blue, and green MAX lines and is near the Interstate 84 and 205 freeway interchange.

The Project will still meet healthy and resource efficient environmental building standards by building, registering, and certifying per Earth Advantage silver level standards at least, rather than LEED standards as was originally included in the application. Maria Cahill has been hired as a consulting engineer of the sustainable features of the Project including a curbless parking lot with drywells to infiltrate overflow of storm water, energy efficient lighting, car sharing and electric vehicle charging, Energy Star appliances, and the use of recyclable building products and low VOC paint.

The Project is being developed by Gordon Jones, the Manager of Rose Holdings, LLC, and will still have the same architect in place, Craig Monaghan. Precision Construction Company will serve as the general contractor. The Project management team has not been selected yet. There is no known mutual identity of interest between the applicant and the rest of the development team.

Proposed Unit Mix and Affordability:

The previous application was approved with all 90 of the units affordable at 60% MFI or below. The revised proposed Project will have 40% of the units (36) affordable to households earning 60% MFI or below with the same unit type breakdown as originally approved. Tenant rents of the affordable units are calculated based on the net of the affordable rents (at 60% MFI) less utility allowance.

Unit type	Count	Sq Footage	Rent	MFI
Studio	**12**	**462**	**$661**	**60%**
Studio	18	462	$670	Market
One Bedroom	**14**	**555**	**$689**	**60%**
One Bedroom	22	555	$925	Market
Two Bedroom	**10**	**825**	**$822**	**60%**
Two Bedroom	8	825	$1036	Market
Two Bedroom	6	968	$1167	Market
Total	90			

Public Benefits:
Staff reviewed the Project's amended application and determined it still meets the minimum program threshold guidelines. The original application was approved prior to the revision of City Code 3.103 in August 2012 requiring a project to be competitively scored. Staff requested that the applicant demonstrate in the amended application how the Project will meet some of the current program goals however PHB is not scoring the application, nor was the application required to be part of a competitive process.

In the original approval from March 2012, the applicant committed to several public benefits: affordability beyond the minimum 20% of units at 60% MFI or below, green building certification, dedicated car-share spaces, transportation improvements above those required by development standards approved by the Bureau of Transportation and the Planning and Sustainability Commission, and unit density exceeding the minimum 68 units per acre. Staff reviewed the amended application to confirm that the Project is still providing sufficient public benefits as originally approved.

Affordability – Instead of 100% of the units as originally proposed, 40% of units in the Project will be affordable to households earning 60% or less of the area median family income. The affordable units will be distributed evenly amongst the unit mix – 12 studios, 14 one-bedrooms, and 10 two-bedrooms. The Project is still providing more than the minimum threshold requirements. Since the Project was first approved, MFI rents have decreased, and market rents have considerably increased. This still meets the former public benefit designation of at least twice as many units as the minimum 20% being affordable.

Equity – Although not required in the original submission, as part of the amended application, the applicant presented plans for marketing the units and MWESB contracting. The applicant commits to contacting agencies serving immigrants and refugees, the physically challenged, and seniors to market the Project. The applicant is also exploring working with local employers and more than 15 local churches to ensure local residents have opportunities to live in the affordable units. The general contractor, Precision Construction Company, submitted a plan to reach out to MWESB contractors including offering bid packages in Economically Feasible Units and helping connect small subcontractors with larger subcontractors. PHB will request reporting of MWESB participation results.

Accessibility – The Project will offer two fully accessible units. Ground floor units will all have street access without any steps, allowing for people using scooters, chairs and walkers to easily enter. Units on the upper floors will be accessible by elevator. The application did not highlight any features designed specifically for people with disabilities.

Family Housing/Location – The proposed Project is not located in an area defined as having a high lack of family sized units but it does have some two-bedroom units which are desirable in any area, particularly due to the fact that the difference between the affordable units and market rents for larger units is so high – over $200 for this Project.

Access to Amenities – The Project is within an area with a 20-minute neighborhood score of 62. The Project is close to shopping and medical centers.

Gathering Space – The center of the Project will incorporate raised vegetable beds for both resident and public community gardening. A paved boardwalk will connect to the garden and a courtyard with bench seating and a fountain feature. The Project will have pedestrian connections to the sidewalks on NE 97th and 99th Avenues as well as the newly constructed "Woonerf" street, NE Everett Court.

Special Needs Populations – No units will be reserved specifically for "at-risk" or "special needs" populations.

Financial Evaluation:

PHB staff reviewed a revised budget and pro formae based on the revisions to the proposed Project and current market and affordable MFI rents.

The 10-year income projections derived from the pro formae are broken down into three scenarios:

- Scenario 1 - the financial performance of the Project with the tax exemption, and
- Scenario 2 - the financial performance of the Project without the tax exemption.
- Scenario 3 - the financial performance of the Project with the rents necessary to achieve feasibility without the tax exemption, setting the return equal to that of the financial performance with the tax exemption.

In Scenario 1, the Project's 10-year average cash on cash rate of return with the exemption is 9.17%. (Initially, the Project's 10-year average cash on cash rate of return with the exemption was 7.86%).

In Scenario 2, the Project's rate of return calculation without the exemption is 5.33% (compared to a rate of return of 5.06% as submitted in the initial application) over the 10-year evaluation period using the same rental rates. The lower return occurs because of the increased property taxes and additional approximately $502,000 that would be needed. The higher equity is required because conventional lenders would reduce the loan amount because of reduced net operating income/lower value. It is uncertain that a project that maintains 40% of the units at 60% MFI affordable rental levels for ten years would be built without the property tax exemption.

In Scenario 3, imputed rents are utilized in order to arrive at the same investor return as Scenario 1 with no tax exemption for the improvements. Rents without the exemption would need to be an average of $97 a month per unit higher overall. This precludes units affordable at 60% or less of area median family income. The imputed rents are substantially above the market so this scenario is not feasible.

Staff examined the projected rents for adequacy and appropriateness of the implied utility allowance to ensure that rents weren't simply being projected lower than they should be. Rents estimated for the projections appear to be appropriately set.

The initial equity contribution will only be repaid upon sale or refinance, not from available cash flow.

The estimated ten-year value of the exempted tax revenue is approximately $849,689 in today's dollars assuming a 4.0 percent discount rate (selected in consultation with the City's Debt Manager), and a three percent annual assessment increase.

The Project is receiving private financing and will not be receiving any direct funding from PHB. The Project has received SDC exemptions for the 40% of the Project that will be affordable at 60% MFI or below. The SDC Exemption Program requires sixty years of affordability for those units. The Project also is benefitting from a grant from the Portland Development Commission, a METRO transit oriented development grant, and a model green street grant from the Bureau of Environmental Services. The applicant has worked with neighboring property owners to form a Local Improvement District bond to assist in the street redevelopment of NE 97th Avenue and construction of the new NE Everett Court. The Project is receiving additional SDC credits for the right-of-way granted for the new street.

The Project is located within the Gateway Urban Renewal Area. Staff confirmed with the City's Debt Manager in 2012 that the Project fits within the requirements of the existing bond covenants.

CONDITIONS:

There is already an extended use agreement in place, according to the terms of City Code 3.103.070(A), requiring the submission of Project financial information annually during the exemption period. It will be necessary to amend the agreement to reflect the changes to the Project.

RECOMMENDATION:

Staff recommends amending the approval of the ten-year property tax exemption for the residential portion, including parking, of The Rose Apartments to be built by Rose Holdings, LLC (or affiliated entity) to the Portland City Council because the proposed Project still meets the minimum threshold and public benefits requirements set forth in Section 3.103 of Portland's City Code, as previously approved.