CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

Commissioner Dan Saltzman
Traci Manning, Director
421 SW 6th Avenue, Suite 500
Portland, OR 97204
(503) 823-2375
Fax (503) 823-2387
www.portlandoregon.gov/PHB

186826

DATE: September 4, 2014

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 (MULTE) for **The Abigail** located at 1650 NW 13th Avenue

Overview:

PHB approved a Multiple-Unit Limited Tax Exemption (MULTE) for the Abigail Apartments (the "Project") through City Council on October 16, 2013. Applicants are required to receive approval for the MULTE prior to pulling building permits and therefore often before finalizing plans and financing for a project. Following the MULTE 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 and receive financing.

Unit type	Initial Count	Current Count	MFI
Studio	3	8	30%
	2	13	50%
	9	8	60%
	2	6	Market
One Bedroom	5	0	30%
	3	14	50%
	15	14	60%
	3	5	Market
Two Bedroom	11	0	30%
	8	0	50%
	35	41	60%
	8	9	Market
	0	1	Staff
Three Bedroom	6	0	30%
	5	0	50%
	20	29	60%
	6	7	Market
	1	0	Staff
Total	**142**	**155**	

Project Description:

Bridge Housing Corporation (BRIDGE) proposes to build a mixed-use development, The Abigail Apartments, on an undeveloped parcel of land at 1650 NW 13th Avenue. The Project will consist of

155 (increased from 142) stacked-flat style apartments in a double loaded corridor building with 930 square feet of at-grade commercial space, plus another 327 square feet to be used for the delivery of resident services. The building will be six stories comprised of two wings connected by a multi-level sky bridge. The Project will be highly visible from Naito Parkway and have a substantial presence in the north Pearl District. The site is located within the River District Urban Renewal Area.

The 155 apartments include 127 (increased from 123) units with restricted affordability which will be rented at 30-60% median family income (MFI) or less – and 28 (increased from 19) market rate units. The Project still has a very high concentration of "family-sized" units with 35 (increased from 16) studios, 33 (increased from 26) one bedroom units, 51 (decreased from 62) two bedroom units, and 36 (decreased from 38) three bedroom units. The building will have 186,528 (decreased from 189,750) gross square feet including 125,900 (increased from 124,520) square feet of residential space, 12,000 (decreased from 32,950) square feet of open space, 930 square feet of commercial space (in addition to the space originally identified for resident services), and a 32,850 (increased from 32,850) square foot garage.

The building will still comprise of a wood-framed structure over a concrete first floor. The two distinct wings of the building will be connected by glass enclosed walkways on each level, which provides access to a centrally located elevator lobby and laundry room on each floor. Each wing will have a secure entry. There will be two landscaped courtyards with a community garden, a children's play area, a barbecue area, and formal and informal gathering areas.

The six story building will still have an additional level of below grade parking for 80 (decreased from 84) vehicles. Tenants will have access to secure bicycle parking in a tool-equipped bicycle storage room.

The Project will meet environmental goals by building, registering, and certifying per LEED silver level standards. The roof is being reinforced in order to support the possible installation of solar panels.

The Project will be developed by the recently established Portland office of the nonprofit, BRIDGE Housing Corporation. Ankrom Moisan Architects will provide architectural services, Pinnacle (rather than Guardian Management) will provide property management services, and Impact NW will provide resident services. Walsh Construction will be the General Contractor. As planned, the property was purchased on July 14, 2014 from Hoyt Street Properties, LLC who has a Development Agreement with the City of Portland related to the development of infrastructure improvements and affordable housing. The Project's affordability will still exceed that anticipated in the development agreement.

The Project will have many sources of financing including a loan from the Portland Housing Bureau. Subject to City Council approval and other processes, the Project is receiving $12.45M in tax increment financing. The loan amount was determined after a competitive process, the "2012 Notice of Funding Availability", based on the assumption that a tax exemption would be granted. For purposes of the financial analysis discussed later in this report, these loan payments are shown as cash flow dependent and payable after other expenses.

327 square feet of commercial space will continue to be made available at no charge to social service provider "Impact NW" for the delivery of resident support services. Given the intended use of the commercial space as an adjunct to the residential use, the applicant requested that this space be

included in the tax exemption. This request is supported by staff. The additional 930 square feet of additional commercial space does not have an identified use that would allow it to be included in the tax exemption approval at this time.

Proposed Unit Mix and Affordability:

Unit Type	Count	Sq Footage	Rent (w/utilities)	MFI
Studio	8	479	$327	30%
	13	479	$570	50%
	8	479	$691	60%
	6	479	$1,071	Market
1 Bedroom	0			30%
	14	640	$608	50%
	14	640	$738	60%
	5	640	$1,360	Market
2 Bedroom	0			30%
	0			50%
	14	869	$880	60%
	27	980	$880	60%
	3	869	$1,800	Market
	6	980	$1,917	Market
	1	869	-	Staff
3 Bedroom	0			30%
	0			50%
	29	1107	$1,011	60%
	7	1107	$2,221	Market
Total	**155**	**125,900**		

Affordability Level	Unit Count	% of Total Units
Market	27	17.5%
60% MFI	92	59%
50% MFI	27	17.5%
30% MFI	8	5%
Staff Unit	1	1%
Total	**155**	**100%**

Scoring of Public Benefits:

Staff reviewed the Project's revised MULTE application and determined it still meets the minimum program threshold guidelines. Staff re-scored the public benefits the Project will provide based on the information provided in the application. **A proposed project must receive a minimum score of 50 out of 140 possible points, available in seven different categories.**

Affordability – The majority of units – 82% (rather than 86%) – will still be affordable to households earning 60% or less of the area MFI. The Project will continue to further target households at lower incomes by reducing rents below the minimum threshold to provide 17.5% (compared to 13%) of the units to households earning 50% MFI and 5% (compared to 18%) of the total units to households at 30% MFI. The total of the affordable units will be distributed evenly amongst the unit mix. By demonstrating that market rents are higher than rents at 60% MFI, by providing 82% rather than 20% of the units at or below 60% MFI, and by further reducing rents in the affordable units to target households from 30-50% MFI, the Project earned **40 out of 50 possible points.**

Equity – The applicant presented clear plans for pursuing social equity goals while constructing and marketing the Project. The Project will provide rent free space and pay Impact NW, a regional community-based service organization for resident programs and services that will be delivered in partnership with Impact NW. The resident programs to be offered include resource information and referrals, early childhood advancement and school readiness programs, and courses and counseling on financial literacy including homebuyer preparation. The Project has also proposed partnerships with community organizations to market the units including Urban League of Portland, El Programa Hispano, Confederated Tribes of Grand Ronde, and the Asian Family Center. This will support referrals of and advocacy for persons that have enlisted the support of, or, are affiliated with these community groups. Tenant programs and lease-out demographics will be reviewed annually to make any necessary changes to best meet project goals of helping underserved communities. The Abigail is being constructed on vacant land so it will not displace any existing residents. The applicant has committed to including at least four MWESB consultants in the design of the Project and has met that goal, and continues to make efforts towards using at least 20% MWESB subcontractors. Section 3 hiring practices for construction are no longer a funding requirement. The applicant has been reporting on MWESB bidding efforts to the City as required. By pursuing equity goals for the Project well beyond the minimum submission requirements, the project still earned **25 out of 30 possible points.**

Accessibility – The Project site and the commercial space will be accessible to people with disabilities and all residential units will be accessible via an elevator, meeting all minimum ADA requirements. The application did not identify any additional measures being taken to make the Project more accessible to tenants and visitors with disabilities. Therefore, **no points were awarded out of 20 possible points**.

Family Housing/Location – The proposed Project is still located in an area defined as having a high lack of family sized units. The majority of the Project's units, over half, but less than originally approved (70%), are two or three bedroom units designed for families with the three bedroom units at 1107 square feet and the two bedroom units at 869-980 square feet. The Project features a children's play area in an exterior courtyard. The application makes clear that the Project is targeting families stating, "We conceive of this project as a family-centric development that will complement the existing Ramona Apartments, located across NW 13th Street from The Abigail, and other proposed development planned for this rapidly evolving neighborhood." The high percentage of family sized units in the north Pearl District along with areas for family recreation still earned the Project **10 points out of 10 possible points.**

Access to Amenities – The Project is two blocks from the new "Fields Neighborhood Park", within blocks of the "Childpeace Montessori School" and immediately adjacent to the Portland Public School's "Early Learners Academy" at the "Ramona". The Project is within walking distance of two grocery stores and a variety of restaurants and shops. The site has very good vehicular access to Interstate 5 and 405, access to bike lanes, and many bus and light rail stops (Portland Streetcar) are within 2-3 blocks of the site. The site is appropriate for family living in an urban context due to the proximity of schools, stores, transportation, parks, service providers and other amenities. The location with its 20-minute neighborhood score of 67 still earned the Project **7 out of 10 possible points.**

Gathering Space – The Project proposes two landscaped courtyards featuring community gardens for residents, a children's play area, a barbecue area, and formal and informal gathering areas. The Project also includes 327 square feet of at-grade space for use by Impact NW to deliver services to residents. In addition, there will be a 2,000 square foot multipurpose community room adjacent to the courtyard. This space will be accessible from the interior and exterior of the building. Residents are expected to use this space for meetings, classes, counseling and other activities. The Project will have pedestrian connections to the sidewalks on NW 13th and NW Raleigh. Even though the Project will provide ample interior and exterior gathering spaces for tenants, there will not be any gathering space accessible to the public **no points were awarded out of 10 possible points.**

Special Needs Populations – No units will be reserved specifically for "at-risk" or "special needs" populations, however the Project's Marketing Plan for leasing the Project outlines several anticipated relationships with agencies assisting vulnerable populations. Also, Impact NW will have tenant services on-site including assistance for youth transitioning out of foster care, "at-risk" adults, seniors, and disabled adults. Additionally, by providing units affordable to households at 30% and 50% MFI, the opportunity for housing more vulnerable populations is increased. All of these efforts to assist vulnerable populations still earned the project **4 out of 10 possible points.**

The Project earned a total score of 86 (compared to 95 it previously earned) out of 140 points, well above the minimum threshold score of 50. There were not sufficient applications received to compete for the annual cap of $1 million estimated foregone revenue, so the Project's score did not need to be compared to that of other applicants, nor does the applicant have to reapply during a current competitive cycle.

Public Benefit	Points Earned as Approved	Current Points Earned	Possible Points
Affordability	45	40	50
Equity	25	25	30
Accessibility	0	0	20
Family Housing/Location	10	10	10
Access to Amenities	7	7	10
Gathering Space	4	0	10
Special Needs Populations	4	4	10
Total	95	86	140

<u>Financial Evaluation:</u>

Staff again examined projected costs, debt, rents, utility allowances, and operating expenses to determine if the assumptions represent a reasonable expectation of how the Project will be developed and operate. Staff found both the development budget and the operating budget to be reasonable and consistent with standards and other projects, and tested eligibly for the tax exemption by examining financial performance and returns under three different scenarios.

The Abigail will still be developed pursuant to the federal low income housing tax credit (LIHTC) program. An investor (not BRIDGE) will be a limited partner in the ownership entity. The investor will make an equity investment and, in return, receive a credit against other taxable income from the Internal Revenue Service (IRS). For this analysis, the limited partner's LIHTC investment is not considered an equity investment and the potential IRS tax credits are not included as return on equity because this return is not paid from project revenue. In addition to the proposed equity investment of the general partner (an affiliate of BRIDGE) there is an additional financing gap that will be filled by a subordinate loan to be paid from available cash flow from the market rate units. This loan is now structured to be from BRIDGE or an affiliate of BRIDGE. For purposes of this analysis, this loan is treated as equity, not debt, because the loan is not amortized. Instead the loan is a "soft", subordinate, cash flow dependent obligation, and payments are not expected to begin until after the first ten years of the project operations.

The applicant has requested that the affordable units and relevant land portion of the project be exempt from property taxes under the Non-Profit Limited Tax Exemption Program for low-income housing (City Code Section 3.101). The applicant has proposed that the remainder of the Project including the market rate units, parking, and commercial space will be exempt from property taxes under the MULTE program based on the Project qualifications.

Using the pro formae and financial information provided by Bridge, staff developed three ten-year projections of the Project's financial performance:

- Scenario 1 – with the tax exemption and affordable rents included;
- Scenario 2 – without the exemption and affordable rents maintained; and
- Scenario 3 – without exemption and with rents increased to create same rate of return as scenario 1.

Scenario 1 shows that even with the exemption, there is no anticipated cash on cash return during the 10-year exemption period of the MULTE. This is comparable to the initial return calculated which was less than 1% over the ten-year period of the MULTE exemption.

Scenario 2 shows that the rate of return without the exemption is still negative or zero over the ten-year period of the MULTE exemption. Additionally, as evidenced by the debt service coverage ratio (DSCR), the project would be not able to obtain the proposed senior financing without the exemption. The DSCR ranges from 1.11 to 1.25 during the first ten years of operation compared to 1.22 to 1.38 with the exemption. At that DSCR, the proposed permanent debt would not be available to the project.

Scenario 3 eliminates the MULTE exemption and uses a hypothetical rent structure to result in the same senior debt service coverage ratio and rate of return as the Project with the exemption. This scenario shows that, without the exemption on the improvements, the rents would need to increase by more than 6% to achieve a comparable rate of return to that of Scenario #1. If the rents were increased by this much, the tax credit equity and affordable financing and grants would be lost, the public benefit of affordable housing would not be delivered, and the Project is not feasible.

The rents in all scenarios must incorporate a utility allowance reflecting which utility expenses are tenant paid and which are owner paid. The rents appropriately reflect the tenant payment of electricity for heat, lights and cooking.

This analysis still confirms that (i) the Project would not be financially feasible without the benefit of the property tax exemption, (ii) the Project would not deliver the public benefits without the exemption, and (ii) the anticipated ten-year rate of return with the exemption will be significantly less than the ten percent ceiling allowed under the exemption.

After again estimating the amount of the real property taxes that would be exempted in the first year of operation with the MULTE at approximately $97,816 (compared to $66,350), staff calculated the ten-year value of this exempted tax revenue in today's dollars at $877,834 (compared to $580,403) by assuming a 4.5 percent discount rate (selected in consultation with the City's Debt Manager and changed from five percent used in the previous evaluation) and a three percent annual increase in the tax. The increase in construction costs primarily accounts for the change in the estimated exemption amount.

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

CONDITIONS:

The Project will still be required to carry an extended use agreement, according to the terms of City Code 3.103.070(A) and submit Project financial information annually during the exemption period.

RECOMMENDATION:

Staff recommends amending the approval of the ten-year property tax exemption for the market-rate residential portion of the Project and the commercial portion to be used by Impact NW, including associated parking, to be built by the non-profit, BRIDGE Housing Corporation, or an affiliated entity to the 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. Staff continues to support the applicant's decision to utilize the Non-Profit Limited Tax Exemption Program for low-income housing in Section 3.101 of Portland's City Code for the affordable portion of the units.