



CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

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EXHIBIT A

DATE: August 21, 2014

TO: Portland Housing Bureau (PHB) Investment Committee with expanded representation from the Planning and Sustainability Commission and Multnomah County

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Recommend Approval of a Ten Year Multiple-Unit Limited Tax Exemption (MULTE) for **Block 67 aka Burnside Bridgehead** located at E Burnside and NE Couch Streets between NE 2nd and 3rd Avenues

Project Description:

Block 67, LLC proposes to build a mixed-use development, Block 67, also known as Burnside Bridgehead (the "Project"), at E Burnside and NE Couch Streets between NE 2nd and 3rd Avenues on a current parking lot. The Project will be a mixed-use, high rise building consisting of 284 apartments over 8 commercial units on the ground floor. The site is located on the east end of the Burnside Bridge in the Kerns neighborhood within the Central Eastside Industrial Urban Renewal Area.

The 284 apartments include 57 units with restricted affordability which will be rented at 60% median family income (MFI) or less, and 227 market rate units. Of the 284 units, 120 will be studios, 128 will be one bedroom units and 36 will be two bedroom units. The building will have 344,162 gross square feet including 224,752 square feet of residential space and 21,025 square feet of commercial space, plus 11,494 square feet of common area.

The structure will feature aluminum panels and wood panels with several different architectural features to appeal to the industrial history of produce commerce in the neighborhood including canopied entries over loading dock-like areas. There are several design elements to integrate the access to the parking garage both with a focus on the flow of traffic and presence of pedestrians and bicyclists, plus a lighting scheme and a podium curtain wall system. The Project will include a plaza with raised landscape planters and seat walls, as well as a green roof area with barbecue facilities, fire pits and art features.

The 21 story building will have structured parking with a total of 195 vehicle parking spaces. Tenants will also have access to 416 secure inside bicycle parking spaces including racks in each unit, plus 19 outside spots. The Project site is within a couple of blocks of Streetcar stops at NE Martin Luther King, Jr Boulevard and NE Grand Avenue as well as business on SE Couch and E Burnside Streets. The Project will connect directly to the Burnside Skateboard Park. The Project will also incorporate a Transportation Demand Management strategy including a care share program and discounted transit passes for tenants and promote walkability by providing walking maps at informational kiosks and highly visible street signs, plus directional signs and banners.

The Project will meet environmental goals by building, registering, and certifying per LEED silver level standards.

The Project will be developed by Block 67, LLC of which Key Development Corporation, Andersen Construction Company and GRES, LLC are all members. The architectural firm is Skylab Architecture. Guardian Real Estate Services will provide property management services, and Andersen Construction Co. is the General Contractor for construction. The land was purchased from the Portland Development Commission through a competitive award.

Proposed Unit Mix and Affordability:

Unit Type	Square Footage	Total Count	Unit Count at 60% MFI	60% MFI Rent (w/ Utilities)	Un-restricted Market Rate Unit Count	Un-restricted Market Rent (w/ Utilities)
Studio A	504	60	24	\$664 (\$729)	36	\$1487 (\$1552)
Studio B	556	30	0	-	30	\$1568 (\$1633)
Studio C	658	30	0	-	30	\$1658 (\$1723)
One Bedroom	556	26	26	\$729 (\$937)	0	-
One Bedroom A	591	6	0	-	6	\$1738 (\$1823)
One Bedroom B	808	32	0	-	32	\$1939 (\$2024)
One Bedroom C	598	32	0	-	32	\$1734 (\$1819)
One Bedroom D	803	32	0	-	32	\$1927 (\$2012)
Two Bedroom	658	7	7	\$729 (\$937)	0	-
Two Bedroom A	1042	25	0	-	25	\$2803 (\$2918)
Two Bedroom B	990	2	0	-	2	\$3148 (\$3263)
Two Bedroom C	1009	2	0	-	2	\$3027 (\$3142)
Total	Avg 669	284	57		227	

Scoring of Public Benefits:

Staff reviewed the Project's MULTE application and determined it meets the minimum program threshold guidelines. Staff 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 – 20% of the apartment units will be affordable to households earning 60% or less of the area MFI. The affordable units will be distributed evenly amongst the unit mix. By demonstrating that market rents are above 120% MFI in the area, affordable units are allowed at 80% MFI rents rather than 60% MFI rents. The Project is offering a large number of affordable units at a lower MFI level than required by the program. Because the Project provides 57 units at a lower MFI percentage than the program minimum threshold requirements, the Project earned **25 out of 50 possible points**.

Equity – The application highlights efforts to promote MWESB contracting in several ways. Primarily, the General Contractor has selected a Minority Business Enterprise subcontractor, Colas Construction for two large components, making up over 22% of the hard costs and also allowing Colas Construction to build capacity and experience through mentorship from the General Contractor. Also, the application describes further efforts to have 20% of work hours performed by apprentices and hopes that Colas Construction's involvement will help them connect to other subcontractors who might successfully bid on smaller projects. Guardian Real Estate Services has been identified as the property manager for the Project based on their experience with affordable housing portfolios in Portland, particularly in efforts around successful lease-up of the affordable units by disadvantaged populations. The application did not identify a specific target audience, but mentioned the importance of working with community members to include people within the culturally and socially-disadvantaged neighborhood who may be displaced from the rise in rents in the area. By demonstrating contractual commitments to and mentorship of MWESB firms and providing apprenticeship opportunities, the project earned **20 out of 30 possible points**.

Accessibility – The residential units will have elevator access, meeting all minimum ADA requirements, but 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 located in an area defined as having a high lack of family sized units. 13% of the Project's units are two bedroom units with units ranging from 658 to 1042 square feet. Family centered amenities are not highlighted specifically in the application however the Project features public gathering space, is adjacent to a skateboard park and promotes walking and biking, all features which may be attractive to families. Including some family-sized units and family amenities in a central location where there is a significant lack of bigger units earned the Project **2 points out of 10 possible points**.

Access to Amenities – The site is situated at the east end of the Burnside Bridge in close proximity to downtown and many amenities within the central eastside of Portland, including shopping, entertainment and restaurants. Particularly, the Project is within walking distance of the Convention Center and Rose Quarter. The Project promotes the culture of biking and walking and is close to a Portland Streetcar line, but also has immediate vehicular access to both Highway 84 and Interstate 5. The site has a 20-minute neighborhood score of 83 which earned the Project **8 out of 10 possible points**.

Gathering Space – The Project's 9,327 square foot eco-roof will be available to the public as gathering space featuring barbecue facilities, fire pits and art features. The Project will also have a plaza with raised landscape planters and seat walls integrating the Project with passers-by. The Project will further be responsible for connecting to the adjacent skateboard park site through paving

plus ongoing maintenance and protection of park features. Providing gathering spaces for public use and enhancing a pedestrian connection earned the Project **10 out of 10 possible points**.

Special Needs Populations – No units will be reserved specifically for “at-risk” or “special needs” populations; therefore the Project earned **no points out of 10 possible points**.

The Project earned a total score of 65 out of 140 points, which is the minimum threshold qualifying score. There were three applications submitted within the competitive application cycle. The annual MULTE program cap for the amount of foregone revenue approved is sufficient for all three applications to be approved.

Public Benefit	Points Earned	Possible Points
Affordability	25	50
Equity	20	30
Accessibility	0	20
Family Housing/Location	2	10
Access to Amenities	8	10
Gathering Space	10	10
Special Needs Populations	0	10
Total	65	140

Financial Evaluation:

Staff 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 reasonably consistent with industry standards and other projects, and tested eligibility for the tax exemption by examining financial performance and returns under three different scenarios.

The Project is financed with both senior and subordinate debt, and has a ground level commercial component. The commercial component is not eligible for tax exemption under the MULTE program. Therefore, the operating income, expenses, debt and equity attributable to the commercial component were not considered in the financial analysis.

Using the pro forma and financial information provided by the applicant, staff developed three ten-year projections of the Project’s financial performance:

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

Scenario 1 shows the ten-year average cash on cash rate of return with the exemption for the improvements is 7.1%.

Scenario 2 shows that the Project’s rate of return calculation without the exemption is negative 0.1% over the 10-year evaluation period using the same rental rates because of the increased property

taxes. The debt coverage ratio is also too low for the proposed debt and would require a higher equity contribution or additional collateral that would further reduce the investor return. Without the additional collateral, the investor return is unattractive so it is certain that a project that maintains rents at the 60% MFI affordable rental levels would not be built without the property tax exemption.

Scenario 3 eliminates the MULTE exemption and uses imputed rents in order to arrive at the same investor return as Scenario 1 with no tax exemption for the improvements. Rents without the tax exemption would need to be an average of \$315 a month per unit higher overall, which precludes any units affordable at 60%.

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 investment will receive a small return during operation but can only be repaid upon sale or refinance, not from available cash flow.

This analysis 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 less than the ten percent ceiling allowed under the exemption.

After estimating the amount of the real property taxes that would be exempted in the first year of operation under the City's MULTE program at approximately \$771,079, staff calculated the ten-year value of this exempted tax revenue in today's dollars at \$6,947,444 by assuming a five percent discount rate (selected in consultation with the City's Debt Manager) and a three percent annual increase in the tax.

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

The Project is receiving private financing and will not be receiving any funding from PHB.

CONDITIONS:

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

RECOMMENDATION:

Staff recommends approval by the Portland City Council of a ten-year property tax exemption for the residential portions of the Project, including associated residential parking, to be built by Block 67, LLC, or an affiliated entity because the Project meets the minimum threshold and public benefits requirements set forth in Section 3.103 of Portland's City Code.