



CITY OF  
**PORTLAND, OREGON**  
PORTLAND HOUSING BUREAU

Exhibit A  
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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 8L** located at NW Naito Parkway and 1<sup>st</sup> Avenue between and NW Couch and Davis Streets

**Project Description:**

Gerding Edlen proposes to build a mixed-use development, Block 8L (the "Project"), at NW Naito Parkway and 1<sup>st</sup> Avenue between and NW Couch and Davis Streets on land which is currently partially being used as a surface parking lot and partially vacant. The Project will consist of 59 apartments on two floors above three floors of office space and ground floor retail and office space. The site is located downtown Portland in the Old Town China Town neighborhood and is within the Downtown Waterfront Urban Renewal Area.

The 59 apartments include 16 units with restricted affordability which will be rented at 80% of median family income (MFI) or less, and 43 units which will be rented at around 100% of MFI or less. Two thirds of the units, 38, will be studios; the other portion of the units will consist of 15 one bedroom and six two bedroom units. The building will have approximately 127,000 gross square feet including over 40,000 square feet of residential space, 83,500 square feet of commercial space and 3500 square feet of common area.

The structure will be built using "heavy timber" construction and have design features such as polished concrete flooring in all of the residential units. The Project will have solar panels and green roofing, and will maximize river views from the upper levels. Amenities in the Project include a top floor common room with an outdoor deck, a fitness room, bike room and rooftop gathering space. Oregon College of Oriental Medicine is located on the same block; the Project will form an "L" around the college and development will include enhancement of an existing easement to create a large pedestrian lane which will provide seating for users of the building and the public and connect the Project to the community. Planned tenants include Ankrom Moisan Architects and the University of Oregon for their Executive MBA program.

The six story building will have no vehicle parking although there is a possibility that 25-50 spots will be available by reservation to tenants at a City owned site across Davis Street. The Project is adjacent to bus lines, and the blue and red line MAX light rail line is one block away. The pedestrian path will provide direct access to those lines and to Tom McCall Waterfront Park across the street.

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

The Project will be developed by Gerding Edlen. Gerding Edlen will also provide property management services. R & H Construction is the General Contractor for construction. Gerding Edlen has a current Memorandum of Understanding with the Portland Development Commission to purchase the property.

**Proposed Unit Mix and Affordability:**

Unit Type	Average Square Footage	Total Count	Unit Count at 80% MFI	Restricted at 80% MFI Rent (w/ Utilities)	Un-restricted Unit Count	Un-restricted Rent (w/ Utilities)
Studio	434	38	12	\$902 (\$971)	26	\$1050 (\$1119)
One Bedroom	614	15	3	\$947 (\$1040)	12	\$1250 (\$1343)
Two Bedroom	947	6	1	\$1132 (\$1248)	5	\$1600 (\$1716)
<b>Total</b>	<b>532 Avg</b>	<b>59</b>	<b>16</b>			

**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 80% or less of the area MFI. The affordable units will be distributed evenly amongst the unit mix. An additional 7% of the units, all studios, will also be affordable at 80% MFI or less. By comparing rents of similar projects in NW Portland and describing how market rents are increasing quickly above 120% MFI in an area with mostly low income housing, the affordable units are allowed at 80% MFI rents rather than 60% MFI rents because the market could support higher rents. Because the Project provides more than the program minimum threshold requirements with an additional 7% of the units being affordable, and the rest of the units will be maintained below area market rents in an area that is facing rapid growth and redevelopment, the Project earned **10 out of 50 possible points.**

**Equity** – The application describes the applicant's results from three recent development projects in Portland with over 20% MWESB participation, with a focus on women and minority owned businesses. The application further describes the general contractor's recent success with three other area projects utilizing MWESB firms for over 30% of contracts. Gerding Edlen sites their co-founding of the local non-profit, Construction Apprenticeship and Workforce Solutions (CAWS), to demonstrate their commitment to assisting women and minorities to gain experience and prosper in the construction trades. Part of the Project plan to be successful includes a planned partnership with a Pre-Apprenticeship Training Program (PATP), plus early engagement of MWESB contractors in the cost estimating process in order for them to prepare competitive, accurate bids. The applicant

commits to strive for more than 20% MWESB participation with this Project and will report on bidding activities and results through the City of Portland's procurement office. Also, the Project lease-up process will be conducted using targeted marketing strategies in order to reach underserved populations. In addition to using standard internet listing sites and on-site information of available units, the Project will be affirmatively marketed through community organizations and surrounding affordable housing social service providers such as Central City Concern and Innovative Housing. By demonstrating past MWESB contracting results above the 20% participation goal and demonstrating a plan to be successful with this Project, as well as the commitment to pursue affirmative marketing to underserved populations, the project earned **25 out of 30 possible points**.

**Accessibility** – The residential units will have elevator access, meeting all minimum ADA requirements. All of the units and common areas will feature some Universal Design components making the Project more livable and comfortable for tenants and visitors with disabilities as well as seniors. This public benefit will remain beyond the period of the exemption into perpetuity. Providing such amenities to all of the units earned the Project **1 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. 10% (6) of the units in the Project will be two-bedroom units. Family centered amenities are not highlighted specifically in the application however the Project features gathering space in the common room and the pedestrian lane with seating as well as the proximity to the waterfront area and park that would be attractive to families. Including family-sized units with some family amenities in an area where there is a significant lack of bigger units earned the Project **1 out of 10 possible points**.

**Access to Amenities** – The site is on NW Naito Parkway with easy access to both Interstates 5 and 84 as well as Interstate 405 not far away, to bridges across the Willamette River, and to the adjacent Pearl District and downtown business district. The area is very walkable and bike-friendly, and is one block from a MAX light rail stop with service on both the red and blue lines which go into downtown and across the Willamette River to the Rose Quarter, Convention Center, and Lloyd Center entertainment and shopping areas. The Old Town China Town neighborhood has a burgeoning night life and ever increasing number of restaurants and shops, and is home to University of Oregon's Portland campus. The site has a 20-minute neighborhood score of 83 which earned the Project **8 out of 10 possible points**.

**Gathering Space** – The Project will include a common room with a small kitchen and flexible space suitable for meetings, parties, or other gatherings and will be available to neighborhood groups, free of charge up to twice a month. The enhancement of the existing easement to create a large pedestrian lane will provide seating for users of the building and the public as well as a passageway through the block, thereby connecting the neighborhood. The Project will provide gathering spaces and outdoor seating to the public and improve a pedestrian connection which 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 55 out of 140 points, which is above 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	10	50
Equity	25	30
Accessibility	1	20
Family Housing/Location	1	10
Access to Amenities	8	10
Gathering Space	10	10
Special Needs Populations	0	10
<b>Total</b>	<b>55</b>	<b>140</b>

### **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 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 2.4%.

Scenario 2 shows that the rate of return without the exemption is 0.0% 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 80% MFI affordable rental levels would not be built without the property tax exemption.

Scenario 3 eliminates the MULTE exemption and 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 tax exemption would need to be an average of \$140 a month per unit higher overall, which precludes units affordable at 80% MFI on any of the units.

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.

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 \$74,024, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately \$666,960 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 Downtown Waterfront 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 to be built by Gerding Edlen, 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.