IMPACT STATEMENT

Legislation title: * Approve amended application under the Multiple-Unit Limited Tax Exemption Program for Hazelwood Plaza located at 222 NE 102nd Ave (Ordinance)

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Purpose of proposed legislation and background information:

PHB administers the Multiple-Unit Limited Tax Exemption Program, authorized under ORS 307 and Portland City Code 3.103. The City first codified tax exemption programs in 1985. The City's tax exemption programs provide an incentive for the development and maintenance of affordable housing. The MULTE Program helps ensure the availability of affordable housing units in transit rich areas during the ten-year exemption. During the exemption period, projects in the program must report annually to PHB the unit rents and tenant income, which PHB monitors to ensure compliance of the approved affordability restrictions.

PHB administers the Multiple-Unit Limited Tax Exemption Program, authorized under ORS 307.600-307.637 and Portland City Code 3.103. Section 3.103.060(C) states that PHB shall take applications to City Council for approval in the form of an ordinance and deliver a list of the approved applications to Multnomah County within the timeframe set forth in ORS 307.621.

An application for the MULTE for this project, Hazelwood Plaza, was approved through City Council October 16, 2013. The applicant submitted an amended application to PHB for approval due to changes in the project design and costs during the time it has taken to get the project financing approved, which could only be achieved by amending the amount of affordability required in the project. Without amending this application the applicant and the lender contest that the project will not be able to move forward with any affordable units.

Financial and budgetary impacts:

With the originally approved application that is now being amended, the applicant paid the City a $5000 application fee to help cover costs of administering the program and monitoring during the exemption period. No additional fees were collected for review of the amended application.

This Ordinance amends a previous Ordinance approval for which the City already considered the effect of the foregone revenue to the City. The total estimated amount of the property tax revenue not collected for the ten years of the exemption period based on the amended application is valued at approximately $502,987 in today's dollars assuming a 5.0 percent discount rate (selected in consultation with the City's Debt Manager), and a three percent annual assessment increase. This ten-year estimate includes taxes foregone by the City of Portland, Multnomah County and other entities which receive property taxes within Multnomah County. The reduced amount of property taxes to the City over the ten years are roughly 30 percent of that amount, or $150,896. The amended application review resulted in a revised calculation of the estimated foregone revenue which is slightly less than the initial estimate of $540,540 over ten years. The City will still benefit from property taxes collected on the improved value of the land during the exemption period.

Community impacts and community involvement:

The MULTE program encourages the inclusion of affordable units in new developments which otherwise may not be available to potential tenants living in the area where these projects are getting built. MULTE applicants participate in a neighborhood contact process involving outreach to neighborhood associations about the projects. Applicants also agree to seek out MWESB contractors in the construction of the project and to reach-out to community organizations during lease-up of the project. As the largest taxing jurisdiction affected by the tax exemption programs, Multnomah County has approved the administration of the programs in order to meet shared affordable housing goals. County staff reviews the application financial information and PHB write-up of the project.

Budgetary Impact Worksheet

Does this action change appropriations?

- ☐ **YES**: Please complete the information below.
- ☒ **NO**: Skip this section

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DATE: August 18, 2015

TO: Portland Housing Bureau (PHB) Investment Committee

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Recommend Amending the Approval of a Ten Year Multiple-Unit Limited Tax Exemption for **Hazelwood Plaza** Located at 222 NE 102nd Avenue

Background:
Ricardo Berdichevsky of Quail Court Management and Alberto Rinkevich of ARDesign, LLC were approved for a Multiple-Unit Limited Tax Exemption in 2013 for their proposed affordable housing apartment building to be developed on currently vacant land at 222 NE 102nd Avenue between Northeast Glisan and Davis Streets. The applicants have submitted an amended application for the Hazelwood Plaza (Project) which will now consist of 62 housing units and two store fronts, compared to 61 housing units, in the Hazelwood neighborhood within the Gateway Urban Renewal Area.

In their request to amend the approval, the applicants describe the changes to the project since it was approved for the MULTE program. Over the past two years the Project has gone through design review with the City of Portland resulting in significant changes to the design and ultimately the development costs. Developments costs have also risen due to the price of labor and materials since the Project was first approved. Ultimately, the ready Project could not receive financing at the terms approved initially for the MULTE. The request being made is to decrease the required affordability from 100% of the Project to 40% of the Project due to the increase of the development costs by approximately $1 million.

Project Description:
The Project will now be two five-story buildings with an adjoining plaza rather than one building with four stories facing the east and five stories facing the west. The total square footage is increasing from 59,018 gross square feet to 75,168 gross square feet with slightly less square feet of residential space, decreasing from 46,696 to 44,620. The common area increased slightly from 12,322 square feet to 15,890 square feet. The commercial space and parking accounts for the remaining 14,658.

The building design changed to include the plaza, as well as the two commercial spaces and an additional lobby entry. The exterior will still consist of wood, corrugated metal, and fibrous cement siding and have green composite roofing atop, but will now feature smooth-finish brick at the ground floor. The Project will also still feature a secure access entry and other security components, including tenant restricted access to elevators. Each unit will still be equipped with a washer and dryer and have individual balconies. There will continue to be onsite management and administration, interior landscape areas, as well as fitness and community rooms.

The Project will provide 45, compared to 53, tuck-under parking spaces for the residents and long term parking space for 78, compared to 100, bicycles plus short term parking space for six bicycles.

The application describes the Project's proximity to schools, childcare, parks, several shopping centers and medical facilities. The Project will provide both interior and exterior gathering space and allow some neighborhood use. The Project's community room will be available to the whole community by reservation for neighborhood activities, meetings, and classes. Tenants will have access to the community room where manager led activities will be held, plus a fitness room and the landscaped plaza.

The Project will still comply and certify with Enterprise Green Communities' affordable housing criteria through the use of sustainable building materials and practices.

The property is held by Century 18, LLC which is managed by Ricardo Berdichevsky and Oscar Berdichevsky. The Project Manager is Alberto Rinkevich who will work with Ricardo Berdichevsky to develop it, with Stephen J. McHugh of MCH Construction Company as the Construction Manager. Quail Court Management, Inc, of which Ricardo Berdichevsky is the president, will lease-out and manage the completed Project.

Proposed Unit Mix and Affordability:
The total units in the project are almost the same with 62 housing units, compared to 61. The number of two-bedroom units has decreased significantly from 23 to eight, and the one-bedroom units have therefore increased significantly from 38 to 54. The two one-bedroom units which were possibly going to be live/work units have been replaced with the two store fronts.

Unit type	Count	Sq Footage	Rent w/ utility allowance	Net rent w/out utility allowance	Income & Rent Limits
One Bedroom	32	660-721	$1023	$930	Market
One Bedroom	22	660-721	$827	$734	60% MFI
Two Bedroom	5	951	$1303	$1187	Market
Two Bedroom	3	951	$993	$877	60% MFI
Total	**62**				

Public Benefits:
When the Project was approved for the MULTE in 2013, the application had been evaluated and scored to weigh the public benefits. The Project well exceeded the minimum score of 50 by earning a score of 81. The original application was for the Project to be 100% affordable to households at or below 60% of median family income (MFI), which garnered high points for affordability. The Project will still be providing more than the minimum threshold of affordability (20%) by restricting 40% of the units in the Project.

Going forward, PHB will be evaluating any new applications with re-defined minimum threshold requirements and not through a competitive scoring process. This Project would still qualify for the MULTE Program under both ways of reviewing the application because it still will be meeting the core program goals of affordability and equity.

Affordability – 40% of units in the Project will be affordable to households earning 60% or less of MFI. Financial analysis reveals that rents would need to be increased by roughly $180 per unit to achieve the same rate of return as is achieved with the tax exemption in place.

Equity – In the original application, the applicants presented 15 letters from both non-profit organizations serving vulnerable communities and tenants from current projects highlighting the positive relationships the applicant has through management of their other projects. In particular, the letters mention how supportive the projects have been to recovering addicts. Maintenance and management staff includes recovering addicts as well as people with prior criminal convictions. The applicant has also committed to efforts to utilize MWESB registered apprentices for at least 20% of contracts and to following federal Section 3 goals. PHB will require that the applicant work with a third-party contractor to assist with securing bids from MWESB contractors and report on progress through the City's procurement office.

No units will be reserved specifically for "at-risk" or "special needs" populations however the letters of support submitted with the application and by following the precedence of other projects under the same management, the Project will continue relationships with community partners to serve populations leaving prison as well as recovering addicts.

Accessibility – The Project will conform to 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.

Financial Evaluation:

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 for the improvements is 6.1%.

In Scenario 2, the Project's rate of return calculation without the exemption and using the same rental rates is 2.1% over the 10-year evaluation period 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 uncertain that a project that maintains rents at 60% or less of the area median family income rental levels 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 roughly 22% higher, an average of $180 a month per unit higher overall, which precludes units affordable at 60% or less of area median family income.

The remaining Project rents without restriction appear to still be below market rents for the area in a newly constructed building. However, even if the non-restricted units were to have rents increased instead, the Project would likely still need the benefit of the tax exemption to be financially viable.

The projected rents must also incorporate room for a utility allowance. In this project, the tenant will pay utilities on the affordable and restricted units, which reduces the net rent that is charged to the tenant. 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.

The projected first-year value of the tax exemption is $57,500, which will apply to the taxes due on the assessed value of the structural improvements of the Project. The estimated ten-year value of exempted tax revenue is approximately $502,987 in today's dollars assuming a 5.0 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 funding from PHB.

The Project is located within the Gateway Urban Renewal Area. At the time of the initial application, staff confirmed with the City's Debt Manager that there are no outstanding long-term bonds with which to comply currently.

CONDITIONS:

The Project will be required to amend the current extended use agreement in place, according to the terms of City Code 3.103.070(A) and submit tenant income and rents annually during the exemption period.

RECOMMENDATION:

Staff recommends amending the approval for a ten-year property tax exemption for the residential portion, including parking, of Hazelwood Plaza to be built by Ricardo Berdichevsky and Alberto Rinkevich (or an affiliated entity) to the Portland City Council because the Project meets the program requirements set forth in Section 3.103 of Portland's City Code.