



CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

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EXHIBIT A

DATE: November 18, 2015

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 **North Hollow Apartments** located at SW 15th Avenue and SW Taylor Street

Project Description:

Goose Hollow Apts, LLC proposes to build a mixed-use development, North Hollow Apartments (the "Project"), at 1501 SW Taylor Street at SW 15th Avenue and SW Taylor Street in the Goose Hollow neighborhood. A vacant commercial building and parking lot make up the site currently. The mixed-use Project will consist of 121 apartments and ground-floor commercial space within a six-story building.

The 121 apartments include 24 units (20%) with restricted affordability at 80% of median family income (MFI) or below. The remaining units in the project will be rented at market rates. The Project will consist of 39 studio units, 25 studio-loft units, 46 one-bedroom units and 11 two-bedroom units. The building will be 122,619 gross square feet including 92,760 square feet of residential space, 29,859 square feet of commercial space.

Proposed Unit Mix

Unit Type	Average Square Footage	Total Unit Count	Unit Count at 80% MFI	80% MFI Rent charged/with utility expense*	Un-restricted Market Rate Unit Count	Un-restricted Market Rent including utility expense*
Studio/ Studio Loft	560	64	13	\$938/\$1029	51	\$1404-1650
One Bedroom	700	46	9	\$979/\$1103	37	\$1850
Two Bedroom	1100	11	2	\$1168/\$1324	9	\$2420
Total	662 Avg	121	24	\$973/\$1081	97	\$1719

*Utility allowances used to predict utility expenses based on the 2015 Schedule of Utility Allowances for Section 8 Properties published by Home Forward: \$91 for studios, \$124 for 1-bedroom units and \$156 for 2-bedroom units.

The Project's six-story structure will feature a concrete, stucco and fiber cement panel exterior, with black vinyl windows and fiberglass doors. Features offered in the Project include a dog washing station, a rooftop lounge, community room and an outdoor terrace with a movie screen. The units will be finished with high-quality materials, come with stainless steel appliances including washers and dryers and be wired with high-speed fiber internet.

The Project will have an adjacent parking structure with 65 underground parking spaces available to residents and no spaces designated for commercial use. Any charges to the tenants for parking will be voluntary. Parking for 184 bikes will be included in the project. The Project is only a couple of blocks from the MAX light rail blue and red lines as well as multiple bus lines and the Portland Streetcar.

Within the Goose Hollow neighborhood, the Project is situated around a mix of residential, office and retail spaces. The site is within only a couple of blocks from the Pearl District, Downtown Portland and the Northwest District with additional abundant amenities. A multitude of shops and restaurants, Providence Park athletic field, the Multnomah Athletic Center and Pioneer Courthouse Square are within a short walking distance, just a few blocks away. There are several schools in the area with Lincoln High School close-by and Portland State University, Pacific Northwest College of Art and two elementary schools less than a mile away. Tenants also will have easy access to many medical facilities as well as a major grocery store. Interstate 405 is a couple blocks away, connecting the Project to the rest of the Portland metro area. The site has a "Complete Neighborhood Score" or "walkability" score of 76, out of 100, based on the level of walkable access to amenities and commercial services.

As required by the MULTE Neighborhood Contact process, the applicant has notified the Goose Hollow Neighborhood Association of the project and requested to present the project at a neighborhood meeting, which they did in 2014 as part of Design Review standards.

The Project will be developed by PH Goose Hollow, LLC, part of the Molasky Group of Companies who has another project currently under construction which has been approved for the MULTE, the Sky3 Apartments. Skanska is the General Contractor for construction, and Greystar will provide property management services. The applicant, Goose Hollow Apts, LLC, whose members are PH Goose Hollow, LLC and Langley OPC Manager, LLC, owns the land on which the Project will be constructed. The manager of Goose Hollow Apts, LLC is PH Goose Hollow MMM, Inc.

Public Benefits:

Whereas the MULTE Program has many goals, including the promotion of residential development in transit oriented areas and city centers, the public benefits most at the forefront of the program are affordability, equity and accessibility.

Affordability – 20% of the apartment units for rent in this Project will be affordable to households earning 80% or less of 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 at 80% MFI are allowed per the program guidelines.

Equity – The applicant has committed to specific strategies to ensure MWESB participation and working with specific local non-profit organizations to market to target audiences with a demonstrated need. PH Goose Hollow, LLC, as the developer, has entered into an agreement with

Donaldson Enterprises, DMWESB Consulting & Training (Donaldson) for Donaldson to provide technical assistance around MWESB subcontracting with a goal of achieving 20% MWESB participation. Donaldson is contracted to assist the developer with pre-bid planning, outreach to MWESB contractors, open houses, bid reviews, assistance to contractors, post-bid support and reporting both quarterly to the City's procurement office and a summary of all efforts and successes post construction. PHB will be coordinating with the property management company, Greystar, to help ensure that the project is affirmatively marketed to best meet target audiences.

Accessibility – The residential units will have elevator access, meeting all minimum Americans with Disabilities Act and Fair Housing Act requirements. The units and common areas have also been designed with Universal Design components above and beyond the minimum ADA and FHA requirements, making the Project more livable and comfortable for tenants and visitors with disabilities as well as seniors. The Project will also be built to have five percent of the units be fully adaptable to become fully accessible per ADA and FHA standards if necessary to accommodate tenants with disabilities. These public benefits will remain beyond the period of the exemption into perpetuity.

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 monthly rents do not include utility expenses. Tenants will either pay the utilities themselves or be billed back for the cost of monthly utilities. The maximum affordable rents reflect the base rent paid by the tenants and the utility calculation.

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 8%.

Scenario 2 shows that the rate of return without the exemption is 3.1% 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 20% of the unit rents at the 80% 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 of the otherwise

affordable units would need to increase by 94%, an average of \$1184 a month per unit higher overall, without the tax exemption, which precludes any units affordable at 80% MFI.

This analysis confirms that (i) the Project would not be financially feasible without the benefit of the property tax exemption, and (ii) the Project would not deliver the public benefits without 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 \$310,902, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately \$2,863,349 assuming a four percent discount rate and a three percent annual assessment increase. The City's portion of the foregone revenue over ten years is estimated at \$944,905, or 33% of the total.

The Project is not located within an Urban Renewal Area and is receiving private financing so 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 Goose Hollow Apts, 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.