CITY OF
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PORTLAND HOUSING BUREAU

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EXHIBIT A
187547

DATE: December 14, 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 **SE 9th & Belmont Apartments** located at 915 SE Belmont Street

Project Description:
Killian Pacific, LLC proposes to build a mixed-use development, being referred to as the SE 9th & Belmont Apartments (the "Project"), at 915 SE Belmont Street, on SE 9th Avenue between SE Morrison and Belmont Streets in the Buckman neighborhood within the Central Eastside Urban Renewal Area. A parking lot makes up the site currently. The mixed-use Project will consist of 100 apartments and ground-floor commercial space within a six-story building.

The 100 apartments include 20 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 35 studio units, 60 one-bedroom units and 5 three-bedroom units. The building will be 68,020 gross square feet including 61,020 square feet of residential space, about 1,000 square feet of common area, and 6,000 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/with utility expense*
Studio	472	35	7	$985/$1030	28	$1281/$1326
One Bedroom	656	60	12	$1044/$1103	48	$1404-$2071/ $1463-$2130
Three Bedroom	1022	5	1	$1443/$1529	4	$2616/$2702
Total	**610**	**100**	**20**	**Average $1043/$1098**	**80**	**Average $1616/$1671**

*Utility allowances used to predict utility expenses based on the 2015 Schedule of Utility Allowances for Section 8 Properties published by Home Forward: $45 for studios, $59 for 1-bedroom units and $86 for 3-bedroom units.

The five stories of residential space will rise above the ground-floor, concrete base. The exterior of the building will be brick and feature second-floor terraces, plus Juliette balconies on the other floors. The residential lobby and retail entries will have steel canopies. Aluminum roll-up doors in the commercial space will integrate the space to the neighborhood.

The Project will have 30 structured parking spaces, including 24 machine stalls, available to residents and no spaces designated for commercial use. Any charges to the tenants for parking will be voluntary. Bike parking will consist of forty-nine ground-level spaces as well as a rack in each unit. A repair stand will be available for use on the ground-level bike area. The Project is only four blocks from a Portland Streetcar stop, is adjacent to the west and east bound stops for the #15 bus route and two and three blocks away from the north and south travelling #70 bus route.

Within the Buckman neighborhood, the Project is situated around a mix of industrial, office and retail spaces, restaurants and an increasing number of multi-family buildings. The site is blocks from the Morrison Bridge connecting it to Downtown Portland and close to both the Lloyd District and Hawthorne area. Many shops and restaurants are within close walking distance, and the neighborhood connects to the rest of the Portland metro area directly by car via Interstate 5 just blocks away. There are several schools in the area with Benson High School and Portland Community College's Downtown and Climb Centers close-by and two elementary schools less than a mile away. The site has a "Complete Neighborhood Score" or "walkability" score of 85, 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 both the Buckman Neighborhood Association and the Central Eastside Industrial Council of the project.

The Project will be developed by Killian Pacific, LLC, a local development company managed by George and Lance Killian. Killian Pacific, LLC is under contract to purchase the property and will form a new LLC to hold title to the property. Andersen Construction is the General Contractor for construction, but a property management company has not been selected yet.

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. Killian Pacific, LLC, as the developer, will be entering into an agreement with a technical assistance provider around MWESB subcontracting with a goal of achieving 20% MWESB participation. The technical assistance provider will be 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, 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 Project will furthermore 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 8.29%.

Scenario 2 shows that the rate of return without the exemption is 5.18% over the 10-year evaluation period using the same rental rates because of the increased property taxes. The debt coverage ratio is below 1.25% which is 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 200%, an average of $1012 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 $238,422, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately $2,195,822 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 $724,621, or 33% of the total.

The Project is located within the Central Eastside Urban Renewal Area. Staff will confirm with the City's Debt Manager that the Project fits within the requirements of the existing bond covenants. The Project 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 Killian Pacific, 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.