



CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

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EXHIBIT A

187856

DATE: April 19, 2016

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 **Cathedral Flats** located at 7220 N Burlington Avenue

Project Description:

WDC Construction, LLC proposes to build a housing development, Cathedral Flats (the "Project"), at 7220 N Burlington Ave, in the Cathedral Park neighborhood within the heart of St Johns. Currently, a vacant warehouse occupies the site. The Project will be in the middle of the block and consist of 24 garden-style apartments in a two-story building.

The 24 apartments include 5 units (20%) with restricted affordability at 60% of median family income (MFI) or below. The remaining units in the project will be rented at market rates. The Project will consist of all studio units. The building will be about 9,700 gross square feet which will be all residential space.

Proposed Unit Mix

Unit Type	Square Footage	Total Unit Count	Monthly Rent Charged	Total Monthly Housing Expense with utility allowance
Studio – 60% MFI	360	5	\$703	\$772
Studio – Market Rate	360	19	\$1,175	\$1,244
Total		24		

*\$69 utility allowance used to predict utility expenses based on the 2015 Schedule of Utility Allowances for Section 8 Properties published by Home Forward.

Features offered in the Project include high ceilings, stacked washer/dryer combos and high-end interior finishes such as granite countertops.

The Project will not provide any vehicle parking. Both short-term and long-term exterior bike parking will be available and each unit will have a bike rack inside. The Project site is within a block of two bus lines, the #16 and #11, with several more lines within a few blocks, including #44, #75 and #4.

Within the Cathedral Park neighborhood and main-street St Johns area, the Project is situated around a mix of single-family and multi-family residential, office and retail spaces, and restaurants. The site is blocks from Cathedral Park and across the Willamette River from Forest Park via the iconic St Johns Bridge, and a short walk away from Safeway, a post office and library. The site has a “Complete Neighborhood Score” or “walkability” score of 91, 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 Cathedral Park Neighborhood Association and the North Portland Neighborhood Services about the project and requested to present the project at a neighborhood meeting.

The property is owned by Mark R. Madden Revocable Trust and will be developed by WDC Construction, LLC. Mark R. Madden is the Trustee and Manager, respectively, of the two entities. WDC Construction, LLC will be its own General Contractor for the development and another arm of the company, WDC Properties (also known as EKO Living Apartments) will provide property management services. WDC Construction, LLC has submitted two other MULTE applications which are being considered at the same time.

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 60% or less of area MFI. The affordable units will be distributed evenly amongst the unit mix.

Equity – The applicant has committed to specific strategies to ensure MWESB participation. WDC Construction, LLC, is entering into an agreement with Metropolitan Contractor Improvement Partnership (MCIP) and NAMC Oregon for MCIP and NAMC Oregon to provide technical assistance around MWESB subcontracting with a goal of achieving 20% MWESB participation. The contract includes assistance 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.

The applicant has also committed to working with local non-profit organizations to market to target audiences with a demonstrated need. PHB will be coordinating with the property management team to help ensure that the project is affirmatively marketed.

Accessibility – The residential units will be built to meet all minimum Americans with Disabilities Act and Fair Housing Act requirements. The Project will also be built to have five percent, two, 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 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 tax exemption and with rents maintained at Scenario 1 level; and
- Scenario 3 – without the tax 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 tax exemption for the improvements is 11.8%.

Scenario 2, using the same rental rates, shows that the rate of return without the tax exemption is 2.8% over the 10-year evaluation period because of the increased property taxes. The debt coverage ratio 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 affirming that a project that maintains 20% of the unit rents at the 60% MFI affordable rental levels would not be built without the property tax exemption.

Scenario 3 uses imputed rents in order to arrive at the same investor return as Scenario 1 but with no tax exemption for the improvements. Rents of the otherwise affordable units would need to increase by 100%, or double the affordable rents, which precludes any units affordable at 60% 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 \$32,107, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately \$295,698, 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 \$97,580, or 33% of the total.

The Project is located within the Interstate Corridor 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 to be built by WDC Development, 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.