



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

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**EXHIBIT A**  
**187859**

DATE: April 5, 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 **Koz 216X SW Yamhill** located at 2161 SW Yamhill Street

**Project Description:**

Koz 216X SW Yamhill, LLC proposes to build a housing development, being referred to as Koz 216X SW Yamhill (the "Project"), at 2161 SW Yamhill Street, on SW Yamhill Street between SW St Clair and King Avenues in the Goose Hollow neighborhood. The site is currently vacant. The Project will consist of 30 apartments within a four-story building, including one basement level and three above-ground levels.

The 30 apartments include six 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 four studio units and 26 one-bedroom units. The building will be 14,076 gross square feet including roughly 9,440 square feet for the residential units, and the remaining space will consist of open space and common areas.

**Proposed Unit Mix**

Unit Type	Average Square Footage	Total Unit Count	Unit Count at 60% MFI	60% MFI Rent Charged *	Un-restricted Market Rate Unit Count	Un-restricted Market Rent *
Studio	254	4	1	\$772	3	\$1,082
One Bedroom						
Loft	324	26	5	\$827	21	\$1,288
<b>Total</b>	<b>315</b>	<b>30</b>	<b>6</b>	<b>Average \$818</b>	<b>24</b>	<b>Average \$1,153</b>

\*The tenant is not responsible for paying utilities such as water and electricity in this Project; therefore the rent charged is not reflective of a utility allowance.

The Project will not have any vehicle parking, but does have storage for over thirty bikes. The Project connects by sidewalks to both King and St. Clair Streets and has temporary bike parking along planter boxes which are part of the Project's "sitting wall" feature. The Project is two blocks from the west and east bound stops for the #15 bus route with frequent service along W Burnside

Street. Several other bus lines and the blue and red MAX light rail lines are within half a mile of the site.

All of the units will feature high-end finishes such as luxury vinyl plank flooring, granite counter tops and stainless steel appliances. 10' high windows will allow lots of light into the open floor plans which will come partially furnished with specially designed bedroom and living room furniture. The one bedroom units have upstairs lofts making up the bedroom. The building will have laundry facilities available to all units and an indoor trash area and mail room. All units will have full kitchens and bathrooms. Tenants will have use of a rooftop common area accommodating up to forty-nine occupants and a small pocket park located on the NE corner of the property.

Within the Goose Hollow neighborhood, the Project is located within an area zoned for high-density residential use resulting in a mix of housing types. The Project site is also situated around a large number of shops and restaurants, including within walking distance to popular NW 21<sup>st</sup> and 23<sup>rd</sup> Avenues. The site is close to Providence Park where the Portland Timbers soccer team plays, as well as Washington and Couch Parks and is within walking distance of downtown Portland. The neighborhood connects to the rest of the Portland metro area directly by car via Interstate 405 just blocks away. Schools in the area include Metropolitan Learning Center and Lincoln High School. The site has a "Complete Neighborhood Score" or "walkability" score of 96, 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 already met with them several times.

The property is owned and the Project will be developed by Koz 216X SW Yamhill, LLC whose managing member is Koz Development, Inc., a development company based out of Seattle. Neither a general contractor nor a property management company has 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 60% or less of area MFI. The affordable units will be distributed evenly amongst the unit mix and will remain affordable for the ten-year period of the tax exemption.

**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. Koz Development, Inc./Koz 216X SW Yamhill, 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. Koz Development, Inc. is exploring a

relationship with the non-profit community organization, New Avenues for Youth, to help provide living-wage jobs and affordable housing opportunities to youth enrolled in their programs.

**Accessibility** – The residential units will have elevator access, meeting all minimum Americans with Disabilities Act and Fair Housing Act requirements. The Project will have two of the units designed as Type A accessible units which meets the MULTE program requirement that at least 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 maximum affordable rents include all utility expenses. Tenants will not pay for any utilities separately.

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 9.7%.

Scenario 2 shows that the rate of return without the exemption, using the same rental rates, is 0.9% over the 10-year evaluation period due to the increased property taxes. With the reduced rate of return and debt coverage ratio without the tax exemption, the investor return is lowered significantly meaning that without additional collateral or equity contribution the developer would likely not provide the 60% MFI rents.

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 110%, an average of \$1052 a month per affordable unit higher overall, without the tax exemption, which precludes any units affordable at 60% MFI.

This analysis confirms that (i) the Project would not be financially attractive 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 \$48,035, staff calculated the ten-year

value of this exempted tax revenue in today's dollars at approximately \$442,393 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 \$145,990, or 33% of the total.

The Project is not located within an Urban Renewal Area 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 Koz 216X SW Yamhill, 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.