CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

Commissioner Dan Saltzman
Kurt Creager, Director
421 SW 6th Avenue, Suite 500
Portland, OR 97204
(503) 823-2375
Fax (503) 823-2387
portlandoregon.gov/PHB

187860

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 **Block 290/KOTI** located at 1417 NW 20th Avenue

Project Description:

Block 290, LLC proposes to build a mixed-use development, Block 290, or "KOTI" (the "Project"), at 1417 NW 20th Avenue, which takes up a block along vacated NW Quimby Street at NW 21st Avenue in the Northwest District neighborhood, also referred to as Slabtown. As part of the freight company, Con-way's, master plan development, a vacant truck service building currently is located on the site. The Project will take up the western half of the site, and an on-site public plaza will complement a park being developed separately on the eastern half of the site. The mixed-use Project will consist of 150 apartments and ground-floor retail space within a six-story building.

The 150 apartments include 30 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 53 studio units, 72 one-bedroom units and 25 two-bedroom units. The building will be about 191,500 gross square feet including roughly 124,000 square feet of residential space, 21,000 square feet of commercial space and 46,500 square feet of common area and open space.

Proposed Unit Mix

Unit Type	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 charged/ with utility expense*
Studio	468-594	53	11	$1,021/$1,093	42	$1,855/$1,927
One Bedroom	625-791	72	14	$1,074/$1,170	58	$2,331/2,428
Two Bedroom	888-1,320	25	5	$1,284/$1,405	20	$2,949/$3,070
Total		**150**	**30**	**$1,090/$1,181**	**120**	$2,267/$2,360

*Utility allowances used to predict utility expenses based on the 2015 Schedule of Utility Allowances for Section 8 Properties published by Home Forward: $72 for studios, $97 for 1-bedroom units and $121 for 2-bedroom units.

The Project's six-story structure will feature a mix of brick colors on the outer façade, and the ground floor retail space will have window walls, with some opening up to connect the spaces to outside. Features offered in the Project include balconies off of some units and high-end interior finishes.

The Project will have one floor of underground parking with a total of 105 parking spaces which will be optional to rent by the residential tenants. Parking for 169 bikes will be included in the Project as well as several publicly accessible bike racks. The Project site is immediately adjacent to the #77 north/south bus line and is a short walk to the Portland Streetcar stop at NW 23rd and Marshall.

Within the Northwest District neighborhood, the Project is situated around a mix of single-family and multi-family residential, office and retail spaces, and restaurants. Within a couple of blocks, the site is close to trendy NW 23rd Avenue as well as the recently built New Seasons Market grocery store. The site is also a short walk to the Pearl District and Downtown Portland with additional abundant amenities. There are several schools in the general area including Chapman Elementary, Metropolitan Learning Center and Early Learners Academy at the Ramona. Tenants also will have easy access to Legacy Good Samaritan Medical Center medical facilities, as well as several parks. 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 94, 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 contacted the Northwest District Association and the Neighbors West-Northwest Coalition of the project and requested to present the project at a neighborhood meeting.

The property is owned by Block 290, LLC and the Project will be developed by Guardian Real Estate Services, LLC (Guardian) who is the member of Block 290, LLC. Guardian is also associated with another project approved for the MULTE; YARD is currently in the process of beginning to pre-lease affordable units. Anderson Construction is the General Contractor for construction, and Guardian Management, LLC will provide property management services.

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. Guardian, as the developer, 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 working with Guardian and Andersen Construction to assist them 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 application notes several recent projects for which Andersen Construction was successful exceeding the 20% MWESB participation goal.

The marketing and lease-up practices developed for YARD will be implemented for the Project as well, with adjustments made after any lessons learned from the success of that process. Guardian Management LLC, as the property manager, will strive to reach low-income people currently living in the area around the Project and promote the Project at area churches and community organizations, and will ultimately select tenants through a random selection process. PHB will be coordinating with the property management team to help ensure that the projects are affirmatively marketed.

Accessibility – The residential units will have elevator access, meeting all minimum Americans with Disabilities Act and Fair Housing Act requirements. 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 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 2.6%.

Scenario 2, using the same rental rates, shows that the rate of return without the exemption is -0.2% over the 10-year evaluation period because of the increased property taxes. The debt coverage ratio 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 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 128%, an average of $1571 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 $477,441, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately $4,397,146, 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 $1,451,058, 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 Block 290, 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.