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

Exhibit A

DATE: June 14, 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 **17th and Kearney** located at 905 NW 17th Ave

Project Description:

Holland Acquisition Co., LLC has applied to PHB for the MULTE Program for their proposed mixed-use development, 17th & Kearney (the "Project"), at 905 NW 17th Avenue, in the Northwest District neighborhood. A soon-to-be vacant warehouse currently occupies the site. The Project will consist of 139 apartments and include ground-floor commercial space in a six-story building on NW Kearney Street between NW 17th and 18th Avenues.

The 139 apartments include 28 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 60 studio units, 69 one-bedroom units (including four live/work units) and 10 two-bedroom units, with the affordable units distributed evenly amongst the unit types. The building will be about 113,100 gross square feet with roughly 90,109 square feet of residential space, 18,491 square feet of common areas or open space and another 4,500 square feet for the commercial unit.

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	518	60	12	$943/$1,030	48	$1,528/$1,615
Live/Work	676	4	1	$984/$1,103	3	$1,893/$2,012
One Bedroom	707	65	13	$984/$1,103	52	$2,100/2,219
Two Bedroom	1037	10	2	$1,176/$1,324	8	$2,965/$3,113
Total	**629 Average**	**139**	**28**	**$945/$1,048 Average**	**111**	**$1,858/$1,962 Average**

*Utility allowances used to predict utility expenses based on the 2015 Schedule of Utility Allowances for properties receiving Housing Choice Vouchers published by Home Forward: $87 for studios, $119 for 1-bedroom units and $148 for 2-bedroom units.

Project amenities include a common area lounge, a fitness room, a courtyard and a ground-floor common gathering space. Features offered in the units include modern, high-quality finishes and appliances.

The Project will provide 70 parking spaces within one subterranean level. There will be a separate bike room for long-term, secure parking. The Project is half a block away from the Portland Streetcar and within easy walking distance to the #77 bus line. The site has close access to Interstate 405 and connectivity to the rest of Portland and surrounding areas.

Within the Northwest District neighborhood, the Project is situated amongst multi-family buildings and businesses of all kinds including restaurants, coffee shops, offices and retail spaces. The site is blocks from popular NW 21st and 23rd Avenues and within close proximity to many parks, as well as Legacy Good Samaritan Medical Center. The site has a "Complete Neighborhood Score" or "walkability" score of 97, 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 Northwest District Neighborhood Association and the Neighbors West/Northwest about their MULTE application and has requested to present the Project at a neighborhood meeting.

Holland Acquisition Co., LLC has control of the site through an affiliated ownership interest. The property will be developed by Holland Development and managed by Holland Residential. Holland Partner Group controls the development, construction, and property management companies and will own the Project as part of a Joint Venture.

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.

Equity – The applicant has committed to specific strategies to ensure MWESB participation. Holland Development is entering into an agreement with Donaldson Consulting for Donaldson Consulting 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, including elevator service. The Project will also be built to have at least five percent, seven, 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 5.1%.

Scenario 2, using the same rental rates, shows that the rate of return without the tax exemption is 1.8% 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 80% 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 125%, over twice the rents of the affordable units, 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 $353,370, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately $3,253,558 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 $1,073,674, or 33% of the total.

The Project is not located within an Urban Renewal Area. 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 Holland Acquisition Co., 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.