



CITY OF
PORTLAND, OREGON

PORTLAND HOUSING BUREAU

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Exhibit A

DATE: April 5, 2017

TO: Portland City Council

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Recommend Approval of a Ten Year Multiple-Unit Limited Tax Exemption (MULTE) for **Atomic Orchard Lofts** located at 2510 NE Sandy Blvd.

Project Description:

...Some Knucklehead, Inc. has applied to PHB for the MULTE Program for their proposed mixed-use development, Atomic Orchard Lofts (the "Project"), that is being developed by Guerrilla Development at the corner of NE Sandy Boulevard and NE Lawrence Avenue, half a block from NE 25th Avenue, in the Kerns Neighborhood. The Project will be built on a roughly 29,000 square foot site that currently houses an auto dealership.

The Project is a mixed-use, five-story building with a 6th level mezzanine and four retail spaces on the ground floor and 90 apartments above that. 19 onsite surface parking spaces will be available for to the Project. There are 88 apartments including 18 units (20%) with restricted affordability at 80% of area median income (AMI) or below. The affordable units will be distributed evenly amongst the unit types.

Proposed Unit Mix

Unit Type	Total Unit Count	Unit Count at 80% AMI	80% AMI Rent charged/with utility expense*	Un-restricted Market Rate Unit Count	Un-restricted Market Rent charged/ with utility expense*
One Bedroom	88	18	\$1039/\$1,100	70	\$1682/\$1743

*Utility allowances used to predict utility expenses are based on the 2016 Schedule of Utility Allowances for properties receiving Housing Choice Vouchers published by Home Forward: \$61 for 1-bedroom units.

The building will be about 68,000 gross square feet including roughly 53,500 square feet of residential space and about 1,200 square feet commercial space. The building will have over 16,000 square feet of common areas and open space. The apartment units will be multilevel with sleeping lofts or mezzanines. A large entry off of Sandy Boulevard, in between the retail spaces, leads into a glass-canopied concourse with front stoops facing one another. The Project landscaping allows for outdoor access by the residents. The exterior of the building will be finished in cement stucco similar to other prominent buildings along Sandy Boulevard. The retail spaces will have sliding storefront windows.

The site is located along the #12 bus line with frequent service and is less than 100 feet to the #19 bus line as well. The site has a "Walk Score" of 84, "Transit Score" of 58 and a "Bike Score" of 94,

out of 100 according to walkscore.com based on the level of access to amenities and commercial services.

As required by the MULTE Neighborhood Contact process, the applicant is notifying and requesting a meeting regarding the Project with the Kerns Neighborhood Association and Southeast Uplift Neighborhood Program.

The site is owned by the applicant, ...Some Knucklehead Inc., which is an Oregon corporation. The development company, Guerrilla Development, Co. is an assumed name of the owner. A property management company has not been identified 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 AMI. The Project is eligible to have restricted rents at 80% AMI because the Project's market rents are at or exceed 120% of AMI. The affordable units will be distributed evenly amongst the unit mix.

Equity – The project will meet the programs' equity requirements by hiring a third-party technical advisor to make sure qualifying contractors are aware of the Project for bidding on work with a goal of reaching 20% participation by Minority, Women and Emerging Small Business (MWESB) contractors in the construction of the Project.

The applicant plans to contract with MCIP in order for the general contractor, who has not been identified yet, to engage in activities such as to hold pre-bid outreach meetings with sub-contractors, match scopes of work to available firms' expertise, and advertising in local and minority newspapers.

PHB will be coordinating with the property management team to help ensure that the project is affirmatively marketed.

Accessibility – Pursuant to Section 504 of the Rehabilitation Act of 1973, a minimum of 5% of the project's total living units, 7 units, will meet the requirements of Adaptable units (Type A).

Application 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.

Rents of the otherwise affordable units would need to increase by 117%, over double the affordable rents, which precludes any units affordable at 80% AMI.

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 \$177,315, staff calculated the ten-year value of this exempted tax revenue in today's dollars at approximately \$1,633,037, 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 \$538,902, or 33% of the total.

The Project is not located in an urban renewal area. It is receiving private financing and will not be receiving any direct funding from PHB.

CONDITIONS:

The Project will be required to have an extended use agreement recorded on title to the property requiring annual reporting of tenant income and rents for the affordable units during the exemption period, according to the terms of City Code 3.103.070(A).

RECOMMENDATION:

Staff recommends that the Portland City Council approve a ten-year property tax exemption for the residential portions of the Project, including associated residential parking, to be built by ...Some Knucklehead, Inc., 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. The HIPPP Senior Program Manager will review any further proposed changes and can approve any slight variances not increasing the value of the tax exemption.