



CITY OF PORTLAND, OREGON BUREAU OF PLANNING

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PLANNING COMMISSION'S REPORT AND RECOMMENDATION

Application of Prendergast Associates for a Ten Year Property Tax Exemption for New Multiple Unit Housing (Chapter 3.104)

Known as Pearl Block Apartments

I. FACTS

A. GENERAL INFORMATION

Effective Dates: Preapplication Date: June 18, 2002
Full Application Date: July 23, 2002
P.C. Hearing Date: October 22, 2002

Deedholder: Pearl LLC
805 SW Broadway #2070
Portland, OR 97205-3360

Applicant(s): Patrick Prendergast
Prendergast Associates
805 SW Broadway, #2070
Portland, OR 97205-3360

Architect: Ankrom Moisan Associated Architects
Charles Matschek
6720 SW Macadam Avenue, #100
Portland, OR 97219

Proposal: Application for a limited property tax exemption for a newly constructed, ten-story, mixed-use development with market rate apartments (163 units), ground floor retail, at grade parking (40 spaces) and one level below grade parking (128 spaces). The project will also include a contiguous pedestrian walkway linking NW 9th and 10th Avenues developed with trees, benches and paving.

Location: Block bounded by NW 9th and 10th Avenues, Kearney pedestrian way and Lovejoy Street

Legal Description: Pearl Block No. 4; Lots 55, 56 and F; NEW PLAT 1997 State Tax ID#s 1N1E34BC 300, 400 and 500

Quarter Section: 2929

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Zone: EX, Central Employment
d, Design Review Overlay
Central City Plan District

Description of Proposal: The applicants request a limited property tax exemption for a newly constructed apartment project containing 163 units, with at and below grade parking, and ground floor retail. The proposed building will be "L"-shaped with a housing entrance at the outside apex at the corner of NW 10th and NW Lovejoy. The project includes space for recreation facilities such as a health or fitness club. All facilities can be adapted to be handicapped accessible. A landscaped public pedestrian walkway between NW 9th and 10th Avenues will also be developed as part of the project.

B. SITE INFORMATION

Description: The site is almost a city block in size and the northerly 10 feet of the site has been platted with a public pedestrian easement in order to allow widening of NW Lovejoy Street. Most of the site is about six feet below street level. The grade at the northwest corner of NW Lovejoy and 9th Avenue gradually ascends to street level. Some below grade portions of the site have wooden retaining walls. To the south, across a walkway between NW 9th and 10th (located at Kearney Street if it went through), is the Pearl Court Apartments and to the southwest is Jamison Square Park. A new building is under construction to the west, and to the north across Lovejoy lies the new Lovejoy Station Apartments, a five story building with ground floor retail space. The Zimmerman Community Center has a space on the south side of this building, which faces Lovejoy Street. To the east is parking serving the main US Post Office.

History: This neighborhood is transitioning from a primarily warehouse-industrial district to one that is residential and mixed-use. This site is within the Hoyt Street Yards Master Plan area, approved through LUR 92-00798 and LUR 93-00279. The former elevated Lovejoy ramp to the Broadway Bridge ran along the north edge of this site and the NW 10th Avenue ramp which joined the Lovejoy ramp covered a small portion of the northwest corner of this block. The development agreement between the city and Hoyt Street Properties (1997) called for the removal of the Lovejoy and 10th Avenue ramps, the reconstruction of those streets at grade, and the construction of a new ramp at NW 9th and Lovejoy.

Since the approval of the Hoyt Street Yards Master Plan, land use reviews for this site and surrounding properties include:

LUR 95-00241: Approved the subdivision case, which created the subject lots, set the requirement for the pedestrian easement along NW Lovejoy, and modified the size of the Kearney tract.

LUR 96-00233: Approved the design review for the Pearl Court Apartments and Kearney pedestrian tract. Prendergast Associates constructed this affordable housing project that is one block south of the Pearl Block site.

In the last few years, projects similar in scale but more commercial in nature have been proposed for the site of the proposed Pearl Block Apartments.

LUR 00-00104: NW 9th Avenue and Lovejoy Street. Approval of design review for the proposed Pearl Block, which was a mixed-use full-block development with below grade parking, ground level retail, three floors of offices, and two floors of condominiums. There were to be 34 dwelling units and 309 parking spaces. The Kearney tract, adjacent to the south, would have been developed with benches, lights, and paving between the new building and existing development on the next block.

LUR 01-00099: 900 NW Lovejoy. Approval of design review for the Pearl Block Office Tower (which replaced the proposed smaller Pearl Block project). This project was to be a ten-story, 120-foot office tower, at NW 9th and Lovejoy Street. About 285 parking spaces were to be provided, with one level below grade and two levels above grade on the second and third floors. The ground level was to be developed with retail and lobby spaces, as well as loading areas and parking garage entrances. All floor area above the parking levels was to be developed as office space, a total of about 152,000 square feet in area.

The current design review case is:

LU 02 127082DZM: This is the design review with six requests for modifications for the current project. The Design Commission held a public hearing on this case on September 19, 2002. They asked for some changes and approved the design review with five modifications and some conditions on October 3, 2002.

The most currently applicable policy documents, which are relevant to this history of development review, include the River District amendments to the *Central City Plan* (Ordinance No. 168702), the *River District Housing Implementation Strategy* 1994 (Resolution No. 35350) (Ordinance 171449) and the *Pearl District Development Plan* approved by City Council October 2001. The site is also included in the adopted River District Urban Renewal Area.

This property is also covered by the development agreement between the City of Portland and Hoyt Street Properties (1997), although this property is now owned by Pearl LLC. The proposed density of the project exceeds the density standard for projects south of Lovejoy Street (131 units per acre) that are built after the required public improvements

have been made – the streetcar line, removal of the Lovejoy ramp, and construction of Jamison Square.

C. VICINITY DATA

Surrounding Conditions: The site is included in an area called Hoyt Street Yards, which is transitioning from a rail yard to a high density urban neighborhood. Six other full-block sites to the south and west within the Hoyt Street Yards area have been developed, or are under development. In the immediate vicinity of the site, just across the Kearney Street pedestrianway to the south, is the Pearl Court Apartments. Across Lovejoy Street to the north is the Lovejoy Station. The project will be just southwest of the new Lovejoy ramp. The US Post Office parking and loading area is to the east. The new streetcar line runs northerly along NW 10th Avenue with stops at NW Johnson and NW Marshall.

D. AGENCIES, NEIGHBORHOOD AND OTHER ASSOCIATIONS NOTIFIED

All appropriate agencies and associations have been notified in accordance with Title 33 regulations governing design review of this project. The property tax exemption program falls under Title 3, Administration, of the City Code. The public notices of the meeting dates of the Portland Development Commission, the Planning Commission, and the City Council which are printed in area newspapers fulfill the notification requirement of this review.

E. EXHIBITS

1. Zoning and Site Maps
2. Exterior Building Elevations
3. Portland Development Commission Staff Report 02-64
4. Financial Information from the Portland Development Commission Loan Committee Report
5. Portland Development Commission Resolution 6

F. LEGISLATIVE INTENT/STATUTORY AUTHORITY

1. Legislative Intent

Consideration for property tax exemption for a ten-year period is authorized by ORS 307.600 through 307.690 and by Title 3, Administration, Chapter 3.104 of the Code of the City of Portland, Oregon.

State law specifies the following intent for the tax exemption provision under ORS 307.600 (1) and (3), Legislative Findings:

"(1) The legislature finds that it is in the public interest to stimulate the construction of transit supportive multiple-unit housing in the core areas of Oregon's urban centers,

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to improve the balance between the residential and commercial nature of those areas, and thus, to insure full-time use of these areas as places where citizens of the community have an option to live as well as work...

"(3) The legislature further finds that the cities and counties of this state should be enabled to establish and design programs to attract new development of multiple-unit housing in light rail station areas, in transit oriented areas or in city core areas by means of the local property tax exemption authorized under ORS 307.600 to 307.691..."

The Oregon legislature further specified that the ten-year property tax exemption apply only to the building improvements. The applicant would continue to be taxed on the land or any other improvements not a part of the multiple-unit housing or associated public benefit (ORS 307.630).

Planning Commission Comment: This statutory language was amended during the 1995 legislative session by HB 3133 which broadens this program to include "transit oriented" for-sale as well as rental residential and mixed-use development. In October 1996, the City adopted a separate program for transit-oriented development. Although this project can be characterized as transit-supportive given its location on the streetcar line, its location within the Central City plan district requires review under the City's Property Tax Exemption for New, Multiple-Unit Housing (Chapter 3.104 of the City Code).

2. Statutory Authority/Planning Commission Review

Section 3.104.050 of the City Code requires that the Planning Commission review tax exemption applications and determine whether the applicant's proposed development is consistent with the City's *Comprehensive Plan* and shall recommend to the City Council that the application be approved subject to conditions which the Commission deems appropriate to achieve the purposes of Chapter 3.104.

In order for a limited property tax exemption to be approved, the following determinations must be made:

- a) that the proposed housing development is eligible for limited property tax exemption according to the requirements of City Code Chapter 3.104;
- b) that the proposed development is in conformance with adopted *Comprehensive Plan* and other adopted plans incorporated by the *Comprehensive Plan*, such as the *Central City Plan*; and
- c) that conditions specify the scope and nature of public benefit recommended for the proposed project.

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II. ELIGIBILITY DETERMINATION

Section 3.104.010 (C) of the City Code requires that property must meet one of two locational requirements in order to be eligible for tax exemption:

- (1) That it be located within the Central City plan district boundary as shown on Map 510-1 Portland City Code Chapter 33.510; or
- (2) That it be within the boundaries of any urban renewal or redevelopment area formed pursuant to ORS 457.

Planning Commission Finding: The proposed Pearl Block Apartments on Block 115 of Couch's Addition is located within the boundaries of the Central City plan district as well as the River District Urban Renewal Area and, therefore, meets the locational criteria for eligibility. The Portland Development Commission has reviewed this project at their October 9, 2002 meeting and recommended approval of the property tax exemption by the Planning Commission and the City Council. This recommendation is based on the finding that the project would be less affordable without the abatement. Rents would have to be 13 percent higher to obtain a 7.35 percent rate of return. (See Exhibit 3 PDC Staff Report 02-64 and Exhibit 5, Portland Development Commission Resolution 6.)

III. DETERMINATION OF COMPLIANCE WITH ADOPTED PLAN POLICIES

A. COMPREHENSIVE PLAN CONSIDERATIONS

Chapter 197 of the *Oregon Revised Statutes* requires all cities and counties to develop a comprehensive plan for land use and development, in accordance with the requirements of the State Land Conservation and Development Commission (LCDC). Portland's plan was acknowledged by LCDC on May 1, 1981. An update of the City's Housing Goal 4 was completed and adopted by Ordinance No. 172954 on December 16, 1998.

The *Comprehensive Plan* establishes a set of goals and policies to guide future development of the city. Housing is addressed under Goal. 4, which states:

"Enhance Portland's vitality as a community at the center of the region's housing market by providing housing of different types, tenures, density, sizes, costs, and locations that accommodate the needs, preferences, and financial capabilities of current and future households."

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The Pearl Block Apartments project supports several of the policies of the Housing Goal including the following.

4.1 Housing Availability

Ensure that an adequate supply of housing is available to meet the needs, preferences, and financial capabilities of Portland's households now and in the future.

4.3 Sustainable Housing

Encourage housing that supports sustainable development patterns by promoting the efficient use of land, conservation of natural resources, easy access to public transit and other efficient modes of transportation, easy access to services and parks, resource efficient design and construction, and the use of renewable energy resources.

4.6 Housing Quality

Encourage the development of housing that exceeds minimum construction standards.

4.7 Balanced Communities

Strive for livable mixed-income neighborhoods throughout Portland that collectively reflect the diversity of housing types, tenures (rental and ownership) and income levels of the region.

4.8 Regional Housing Opportunities

Ensure opportunities for economic and racial integration throughout the region by advocating for the development of a range of housing options affordable to all income levels throughout the region.

4.10 Housing Diversity

Promote creation of a range of housing types, prices, and rents to 1) create culturally and economically diverse neighborhoods; and 2) allow those whose housing needs change to find housing that meets their needs within their existing community.

4.14 Neighborhood Stability

Stabilize neighborhoods by promoting: 1) a variety of homeownership and rental housing options; 2) security of housing tenure; and 3) opportunities for community interaction.

Planning Commission Finding: This project complies with *Comprehensive Plan* policies related to housing by providing 163 units of rental housing of varying sizes affordable to middle and high income households. This project is in a centrally located neighborhood within a block of the Portland streetcar line. The streetcar provides access to the central business district, a major employment and

cultural center. This project also includes the redevelopment of the Kearney tract with trees, benches and paving, providing an attractive public walkway between NW 9th and 10th Avenues.

B. ZONING CONSIDERATIONS

1. The EXd Zone and Central City Plan District. As of March 24, 1988, the *Central City Plan* was adopted for the inner city along the west and east sides of the Willamette River. In the Downtown, the Z zone overlay was abolished. Public review of projects in the Central City plan district is now regulated by Central City plan district requirements, which supersede some EX regulations.

The *Zoning Code* regulations, which apply to the subject site, include the following:

- Zone, Overlay Zone, and *Comprehensive Plan* Map Designation: EXd, Central Employment with design review overlay (River District design guidelines apply.)
- Permitted Uses: A full range of uses including light industrial, commercial and residential.
- Conditional Uses: Commercial parking is governed by the *Central City Transportation Management Plan (CCTMP)*. Since no independent commercial parking is included in this project, a conditional use is not required for the proposed parking spaces.
- Permitted Floor Area Ratio (FAR): 4:1, with bonuses allowed for residential use, provision of middle income housing units, rooftop gardens and other desired development features.
- Required Residential Development Area: one housing unit for every 2,900 feet of site area is required.
- Permitted Building Height: 75 feet.

Planning Commission Finding: The project complies with the major development and use regulations of the base zone and Central City plan district except for any adjustments that may be considered as part of the design review process. This project is providing housing in a required residential development area in excess of the number of units required by that designation (33.510.230) and the Hoyt Street Yards development agreement of 1997. Nothing in this consideration of the tax exemption request for this project modifies the decision of the Design Commission or overrides any other requirement of the land use and building permit review process. The design review case for this project is LUR 02-127082.

C. DETERMINATION OF COMPLIANCE WITH THE CENTRAL CITY PLAN POLICIES

The *Central City Plan* was adopted by the City Council on March 24, 1988. Relevant district and functional policies to be considered follow (as amended on April 12, 1995).

"Policy 3: HOUSING. Maintain the Central City's status as Oregon's principal high density housing area by keeping housing production in pace with new job creation.

"FURTHER:

1. Promote the construction of at least 15,000 new housing units in the Central City by the year 2010.
2. Preserve and encourage rehabilitation of existing housing.
3. Encourage the development of housing to meet diverse needs by encouraging a range of housing types, prices, and rent levels. Avoid isolating higher, middle, moderate, low and very low-income households.
4. Foster housing development as a key component of a viable urban environment. Encourage a mix of rental and owner-occupied housing that accommodates the variety of households and families attracted to a Central City lifestyle. Include affordable housing in this mix.
5. Secure greater regional participation in addressing the housing needs of the homeless, low-income and other special needs populations.
6. Where residential development is required, assure that when development of the housing is deferred to the future, the housing site is designated and zoned residential.
7. House at least 15 percent of PSU students in university housing. Locate university housing within the District or within walking or bicycling distance of the District, or at a location with a direct transit connection to the District.
8. Facilitate housing ownership in order to foster a vested interest and 'stewardship' in the Central City by residents."

Planning Commission Finding: The proposal complies with the overall policy statement and particularly with policy further statements 1, 3, and 4. This project is adjacent to the Pearl Court Apartments. The Pearl Court Apartments is an affordable housing project with most units affordable to low income households. The same firm developed both projects. Within these two blocks, housing is available to a wide range of incomes.

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"Policy 17: RIVER DISTRICT. Extend downtown development throughout the River District that is highly urban in character and which creates a unique community because of its diversity; its existing and emerging neighborhoods housing a substantial resident population, providing jobs, services and recreation; and most important, its embrace of the Willamette River.

FURTHER, to become the kind of place where people would like to live, work, and play:

- A. Pursue implementation of the River District urban design and development plans through public/private projects (proposals for action) as described in each of the four action areas of the *River District Development Plan*: (1) Union Station/Old Town, (2) Terminal One, (3) Pearl District, and (4) Tanner Basin/Waterfront.
- B. Preserve and enhance the River District's history, architectural heritage, and international character.
- C. Integrate social service facilities in a manner that is visually and functionally compatible with the River District and consistent with the City of Portland and Multnomah County's coordinated social service plan.
- D. Accommodate housing needs for diverse family structures.
- E. Provide neighborhood amenities that support River District residents who work and use the services provided by the Central City. Amenities include commercial, educational, medical, recreational, transportation, entertainment, emergency and social services.
- F. Accommodate industrial growth in industrial zoned areas.
- G. Pursue implementation and completion of the *Chinatown Development Plan*.
- H. Foster the development of artist residential/work space and gallery facilities.
- I. Incorporate strategic public investments in infrastructure that will stimulate private sector redevelopment. The River District needs increased transit services, improved streets, and open space.
- J. In coordination with the Combined Sewer Overflow (CSO) Tanner Creek Basin Project, daylight Tanner Creek through the center of the District and construct a large focal point basin connecting Tanner Creek with the Willamette River to provide a tangible amenity that distinguishes the River District.
- K. Contribute to the efficiency of urban living with development density, diversity of land use, and quality of design that will result in significant savings in the infrastructure costs of transportation, water, sewer, electricity, communications and natural gas."

Planning Commission Finding: The proposal complies with the overall policy statement and particularly with policy further statements A, D, E and K.

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D. DETERMINATION OF COMPLIANCE WITH THE RIVER DISTRICT DEVELOPMENT PLAN, THE RIVER DISTRICT HOUSING IMPLEMENTATION STRATEGY, AND THE PEARL DISTRICT DEVELOPMENT PLAN

On May 11, 1994, the City Council adopted Resolution No. 35274 endorsing the *River District Development Plan* and assigning various City agencies responsibility for supporting, reviewing, and coordinating public and private development activity in cooperation with the major land owners in the area.

On December 21, 1994, the City Council adopted Resolution No. 35350 which, among other things, adopted the *River District Housing Implementation Strategy*. The strategy established long range goals for housing development by allocating a percentage of development to the affordability needs of various income groups. The strategy called for achieving the construction of 5,555 new housing units as well as commercial and residential support amenities to encourage a stable residential population in the district. The City also established an annual monitoring requirement to assess the performance of new residential projects in meeting these goals.

In October 2001, City Council approved the *Pearl District Development Plan* by Resolution 36032 as a general vision to guide the transition of this portion of the River District from a warehouse/arts district to a high-density neighborhood. This includes providing a wide range of housing types, mixed-use development with ground floor retail uses, as well as opportunities for older established businesses and uses, such as artists' lofts, to stay in the area.

Planning Commission Finding: The proposed project is consistent with the overall development goals of the above noted plans. The project will contribute to the achievement of the housing target of 5,555 new units (of which 3,100-3600 are to be targeted to middle and upper income households) in the *River District Housing Implementation Strategy* (1994) and the earlier *River District Development Plan* (1994). The project is consistent with the development envisioned in this area by the *Pearl District Development Plan* (2001). The proposed project will include 41 two-bedroom units as called for in the plan to provide opportunities for households with children to live in the area. The project also creates some additional open space – the Kearney tract pedestrian way that can be used by area residents.

Although this specific project does not include rental units affordable to low to moderate income households (i.e., households earning less than 80 percent of area median income), the *Housing Implementation Strategy* does not require that each project include lower income units so long as the overall development within the River District meets the housing implementation strategy goals. The developer considers the Pearl Block project to be the second phase of a two block

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development, the first of which was the 199-unit, Pearl Court Apartments just to the south. With the completion of this phase, he states the entire project will be 55 percent affordable and 45 percent market rate.

According to the annual report prepared by the Portland Development Commission in summer 2001, these districtwide goals are currently being met, including the goal of housing units affordable to households earning less than 30 percent of the area median income. Future development will continue to take into account these goals which may require more in the way of subsidies in order to achieve deeper affordability.

E. DETERMINATION OF COMPLIANCE WITH RELEVANT URBAN RENEWAL PLANS

The Portland City Council adopted the River District Urban Renewal Area in October 1998 (Ordinance No. 172808). The following housing goal was adopted as part of the *River District Urban Renewal Plan*:

A. Housing

To stimulate the development of a substantial stock of housing accessible to households with a range of incomes which reflect the income distribution of the city as a whole.

- Objective 1. Achieve a Mix of Units by Household Income Categories
- Objective 2. Promote Development of Services and Amenities to Support Housing
- Objective 3. Promote Ownership Housing
- Objective 4. Implement City of Portland Shelter Reconfiguration Plan
- Objective 5. Preserve Access to Affordable Housing for Low Income Residents of the River District.

Planning Commission Finding: The project supports Objective 1 by providing a broader range of rental options to middle and upper income households. It supports Objective 2 by providing ground floor space for retail services and the Kearney walkway, which will add approximately a quarter block of landscaped open space and seating to the district.

IV. ELIGIBILITY, PLAN, AND POLICY CONFORMANCE: CONCLUSIONS

- A. The proposed project is eligible for limited property tax exemption in accordance with City Code and statutory requirements referenced in Section II.
- B. According to statutory intent and applicable City Code, the proposed project is consistent with and supportive of the purposes for which this authority was created. The legislative intent strongly encourages the development of new

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multiple-unit rental housing in the state's largest urban core areas and recognizes the need to provide a financial incentive in areas where higher than average land and construction costs exist.

- C. The foregoing references in Section III indicate that the proposed housing development is consistent with and supportive of adopted *Comprehensive Plan* policies and objectives and the *Central City Plan*; which is incorporated by reference. The proposed development is also consistent with the *River District Development Plan*; the *River District Housing Implementation Strategy*; the *River District Urban Renewal Plan*, the *Pearl District Development Plan* and the governing development regulations of Title 33, particularly the EXd zone as modified by the Central City Plan District approved by City Council.
- D. The property tax exemption has been in existence since 1975 and it has assisted the residential construction activity within the targeted core area of the city. This activity in large part has been made possible by the incentives of the property tax exemption in conjunction with additional direct and indirect subsidies. This project is not receiving any other direct public subsidy and is a key element in the overall development goals of the River District.
- E. Currently, the site under consideration is vacant. The site was formerly partially covered by the NW 10th Avenue and Lovejoy ramps. Therefore, public incentives, in the form of limited tax exemption, are justified in order to achieve the adopted plan goals for new residential development in this area of the Central City.

V. DETERMINATION OF PUBLIC BENEFIT

A. Examples of Public Benefit

Section 3.104.040, Public Benefits, specifies that the proposed project "must include a public benefit which may consist of, but is not limited to one or more of the following: (1) rental units at rates which are accessible to a broad income range of the general public, (2) recreation facilities or space, (3) open spaces, (4) public meeting rooms, (5) day care facilities, (6) facilities supportive of the arts, (7) facilities for the handicapped, (8) service or commercial use which is permitted and needed at project, but not available for economic reasons, (9) dedications for public use, (10) other public benefits approved by the Planning Commission or City Council."

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B. Proposal's Relationship to Public Benefits

The applicant notes in the project narrative the following public benefits offered by this project.

- **Rental Rates.** The project offers 163 apartments: studios, one and two bedroom units in a range of sizes. Rates are market driven and set to be accessible to a range of incomes.
- **Recreation facilities.** Space has been allocated on the first floor for fitness activities and/or a health club.
- **Open spaces.** The development includes a ground floor plaza and contiguous pedestrian walkway on the south side linking NW 9th and 10th Avenues.
- **Facilities supportive of the arts.** Several Frank Lloyd Wright reproduction pieces are planned in the public open space.
- **Facilities for the handicapped.** All public places and parking areas are code compliant to be accessible to [the] handicapped. All apartment units are designed to be handicapped adaptable for access.
- **Service or commercial use.** The Central City design standards for active uses along 10th Avenue and Lovejoy Street; the project includes 11,000 square feet of new commercial space on these frontages and adjacent to public open space on Kearney Walk to the south.
- **Dedication for public use:** [The] plaza [is the same as Kearney walkway] is approximately 10,000 square feet for public use.

Planning Commission Finding: In establishing the review authority for tax exemption, the Portland Development Commission (PDC) is given primary authority to recommend to the Planning Commission approval, denial, or approval with conditions [Section 3.104.050 (B)]. PDC's recommendation is determined by a finding that the property tax exemption is necessary in order to make the development economically feasible at rental rates or purchase prices which serve the public purposes of the tax exemption program.

The Planning Commission's role is to "review the application to determine whether the proposed development is consistent with the City's *Comprehensive Plan*. A recommendation shall thereafter be forwarded to the City Council that the application be approved subject to those conditions necessary to achieve the purposes of this chapter. The Planning Commission shall specify in its recommendation to the council the scope and nature of public benefits recommended for the proposed project."

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The Planning Commission found at its meeting on October 22, 2002, that the primary public benefit of this project is that it provides new housing in the Central City along the streetcar line. The project will add rental housing to the River District and provide balance and choice for current and future residents. The applicant under the heading of "Rental Rates" lists this public benefit.

The commission felt that the other public benefits listed by the applicant were not significant and should be listed instead as project features. This was because they were either required (Kearney Walkway, Dedication for Public Use, and Facilities for the Handicapped) or were features that a middle-income housing project would include to attract tenants (Recreational Facilities). Also, commission members did not have enough evidence to find that the "Service or commercial use" was a public benefit.

VI. PLANNING COMMISSION RECOMMENDATION BASED ON ELIGIBILITY, PLAN, AND POLICY CONFORMANCE FINDINGS AND CONCLUSIONS

This project will add 163 market rate rental units to the River District. This project will occupy a site that is now vacant and will add housing to an area served by the Portland streetcar. The Planning Commission finds that this project complies with City adopted and approved plans for the area and to City Council that the requested property tax exemption be approved subject to the conditions stated below.

VII. PUBLIC BENEFIT RECOMMENDATION

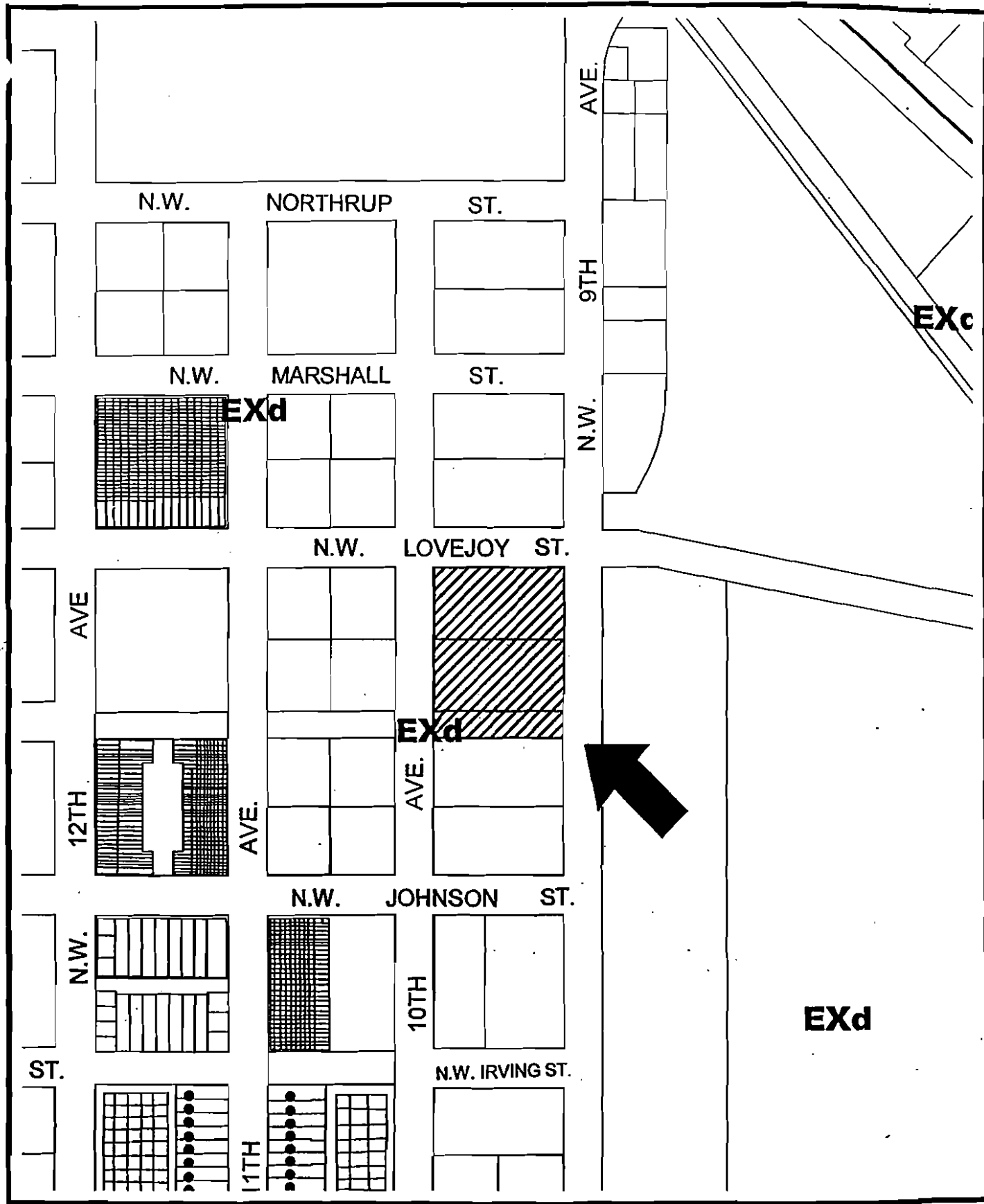
The Planning Commission recommends City Council approval of the limited property tax exemption for the Pearl Block Apartments rental development subject to the following conditions.

1. The public benefits listed in Section V. B of this report and any others be provided in accordance with agreements reached or conditions imposed by the relevant review bodies and agencies, including but not limited to the Planning Bureau, the Portland Development Commission, and the Historic Landmarks Commission or Design Commission, as appropriate.
2. The project complies with all applicable standards of Title 33, Planning and Zoning, as well as all conditions of approval of any land use and design reviews, including the conditions of approval for LUR 02-127082 and the development agreement between the City of Portland and Hoyt Street Properties (1997).

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3. Ground level, locally oriented retail and service businesses serving individuals and households in this building, as well as visitors, can qualify as a public benefit under the terms of this exemption. A determination by the director of the Bureau of Planning shall be made if there is a question regarding the neighborhood orientation of the proposed commercial and service uses.
4. The project will not convert to condominiums within the ten-year property tax exemption.

Barbara Sack:bjs



ZONING

 Site

• Historic Landmark

This site lies within the:
CENTRAL CITY PLAN DISTRICT

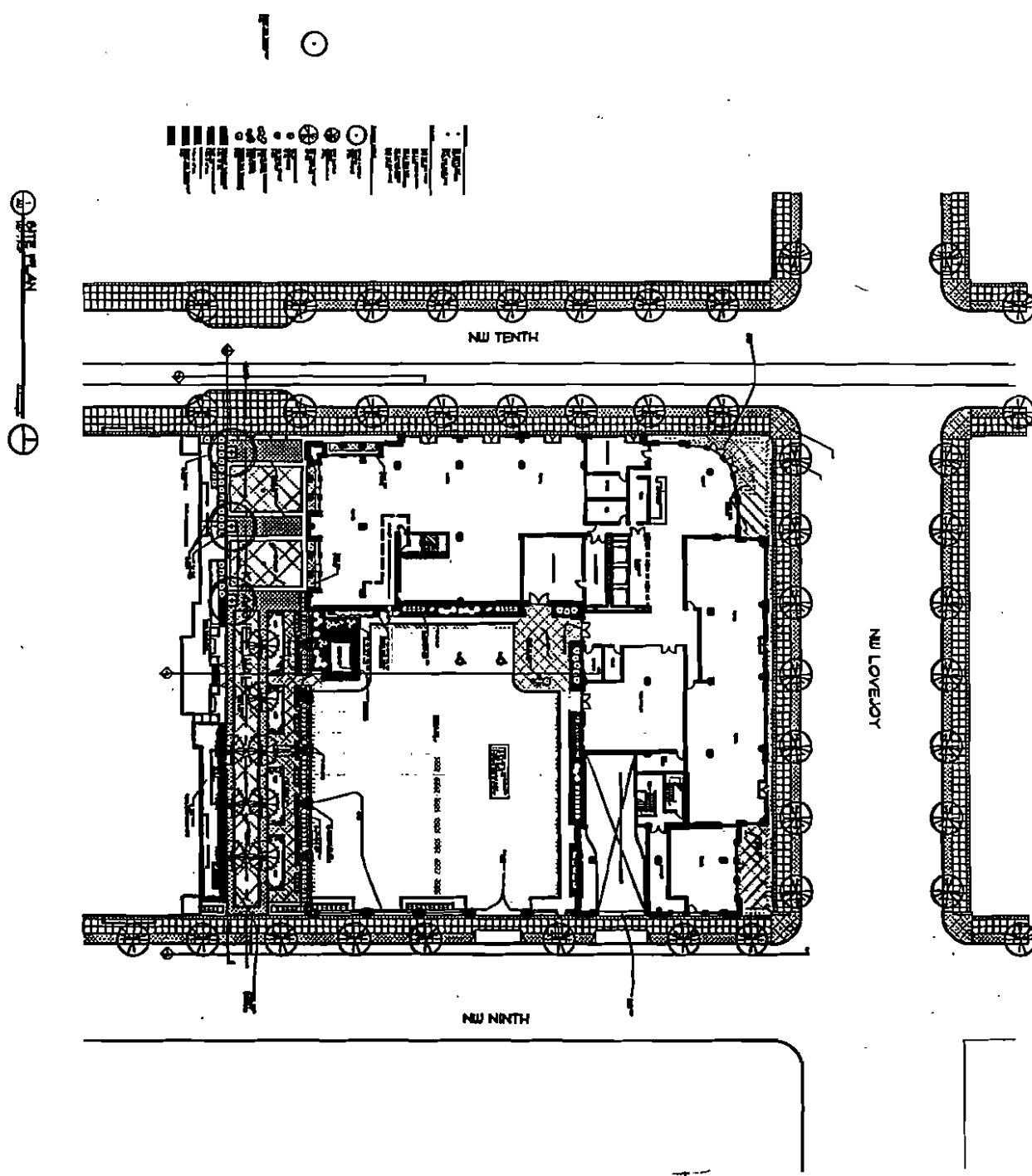
File No. PC Case No. 42

1/4 Section 2929

Scale 1 inch = 200 feet

State-Id 1N1E34BC -00300+





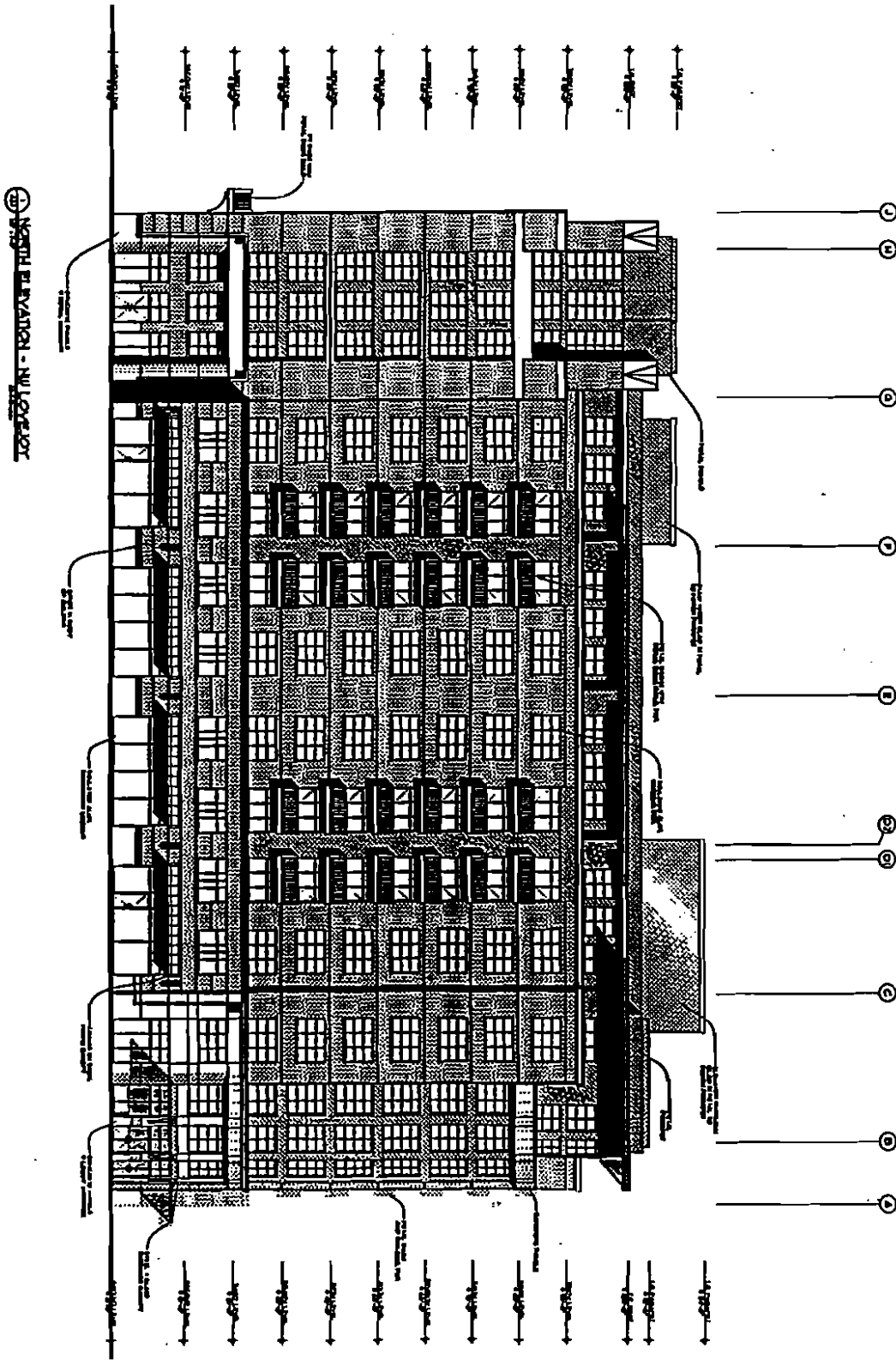
DESIGN REVIEW SUBMITTAL

A-1.1

OVERALL SITE PLAN
GROUND FLOOR
LOBBY/RETAIL/OFFICE/PARKING

PEARL BLOCK

ANEROM MOISAN
ASSOCIATED ARCHITECTS



DESIGN REVIEW SUBMITTAL

A-3.1

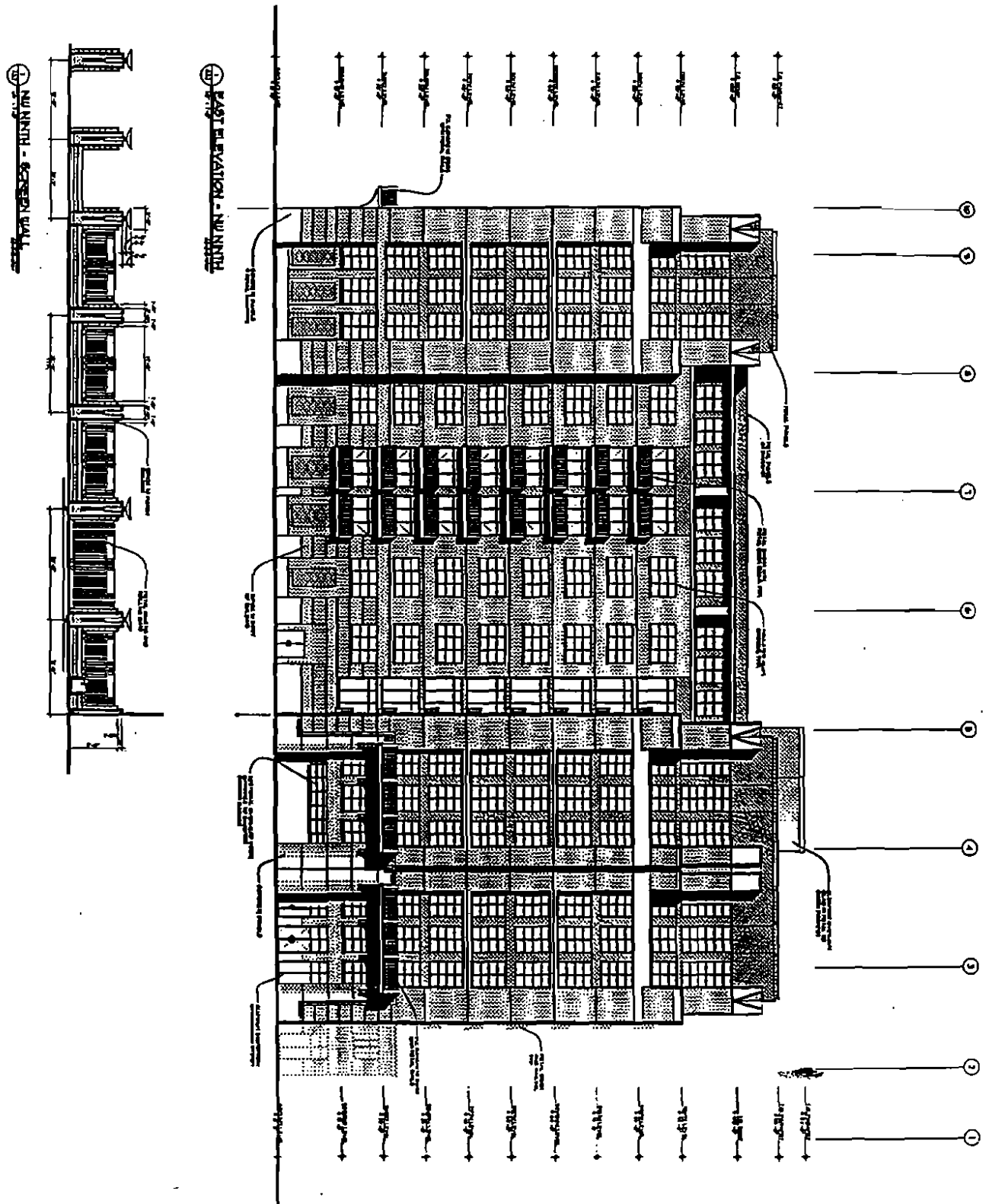
BLDG. ELEVATION
NORTH ELEVATION
NW CORNER

Pearl Block

PEARL BLOCK

ANEROM MOISAN
ASSOCIATED ARCHITECTS

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DESIGN REVIEW SHEET

A-3.2

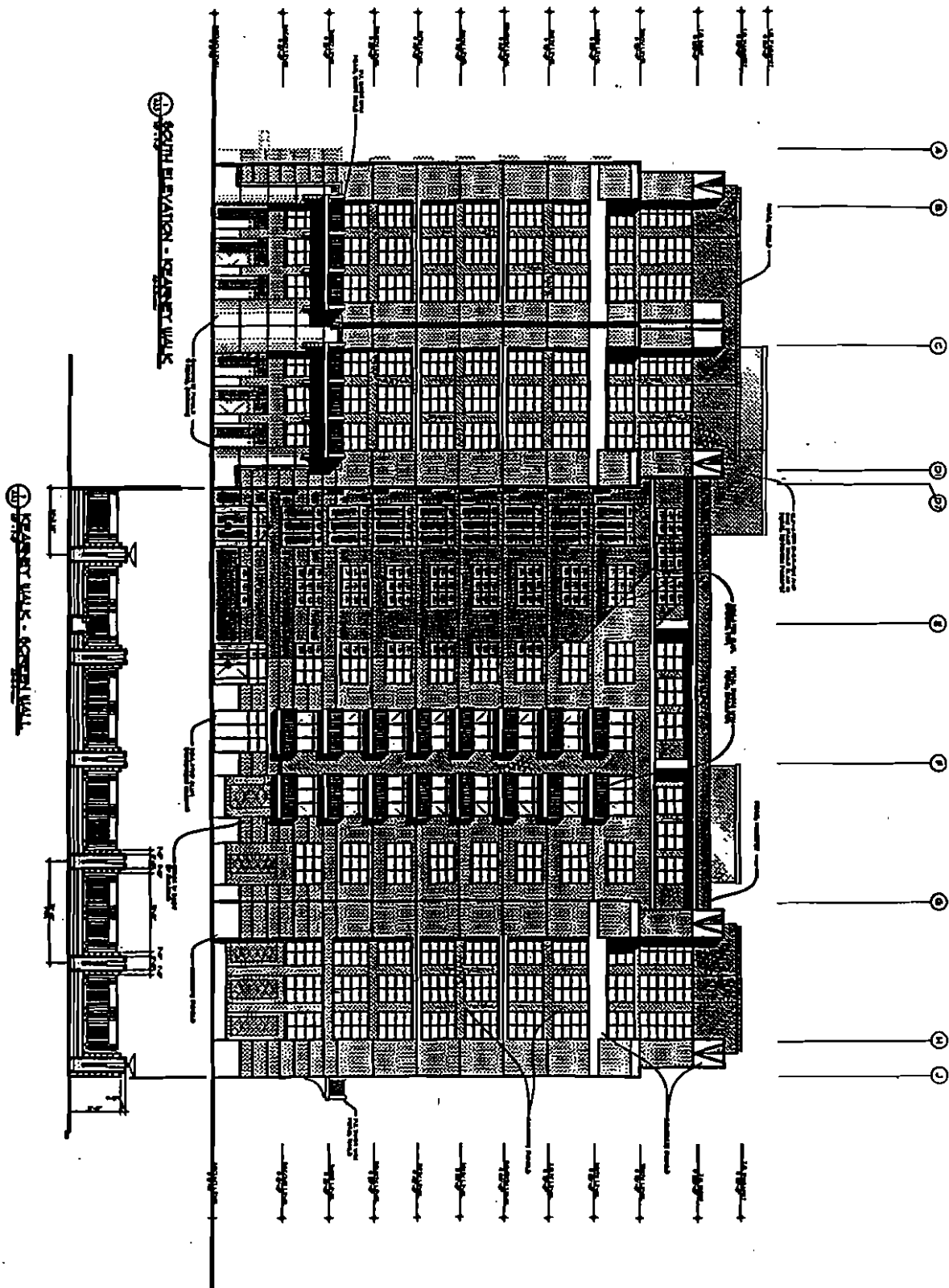
BLDG. ELEVATION
EAST ELEVATION
NW NINTH

Pearl 3 201

PEARL BLOCK

ANKROM MOISAN
ASSOCIATED ARCHITECTS

177152



DESIGN REVIEW SUBMITTAL

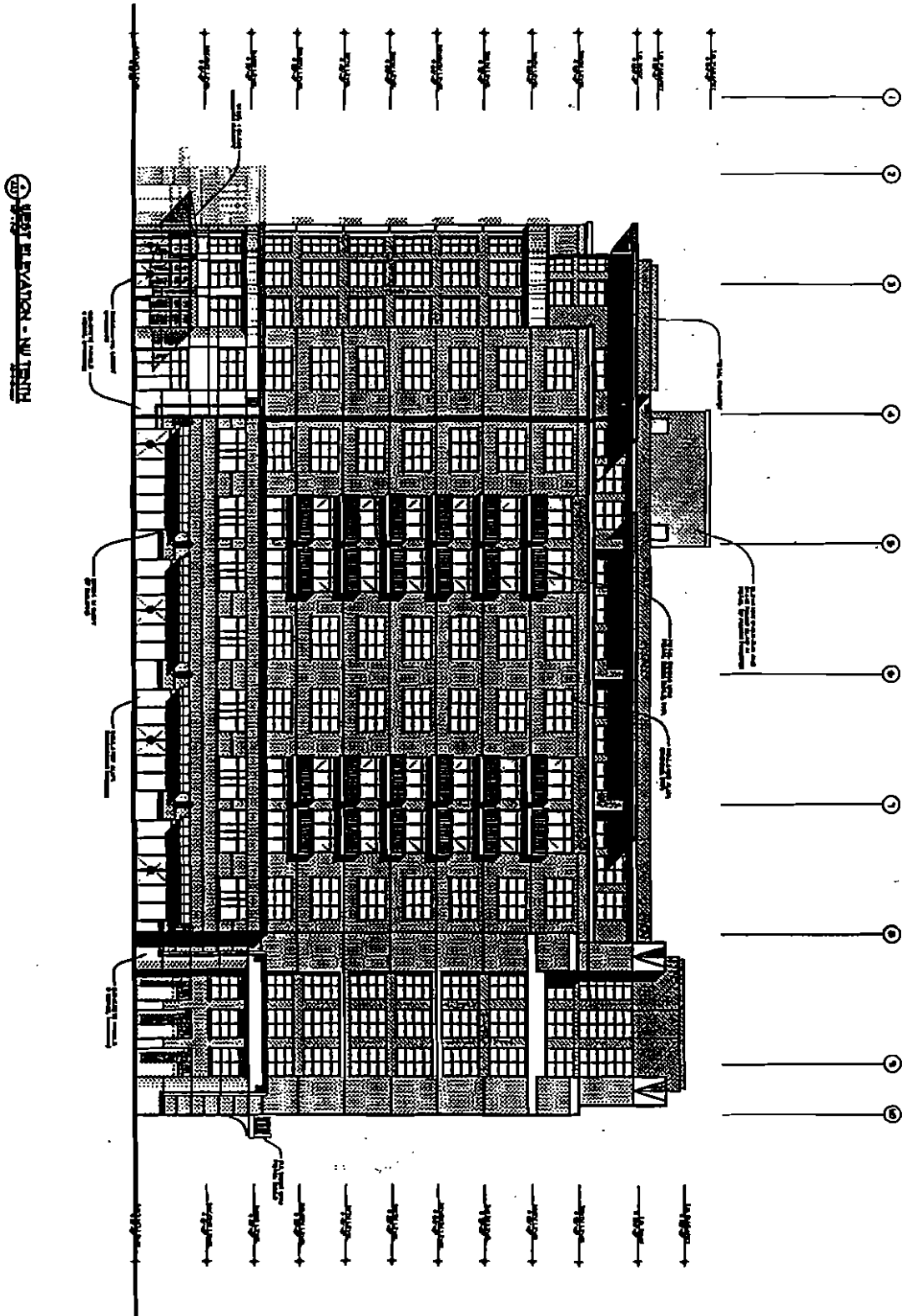
A-3.3

BLDG. ELEVATION
SOUTH ELEVATION
KEARNEY WALK

PEARL BLOCK

ANKROM MOISAN
ASSOCIATED ARCHITECTS

177152



DESIGN REVIEW SUBMITTAL

A-3.4

BLDG. ELEVATION
WEST ELEVATION
NW TENTH

PEARL BLOCK

ANKROM MOISAN
ASSOCIATED ARCHITECTS

PORTLAND DEVELOPMENT COMMISSION

177152

Portland, Oregon

DATE: October 9, 2002

TO: The Commissioners

FROM: Baruti L. Artharee

REPORT NO: 02-64

SUBJECT: Recommend Approval of Property Tax Abatement Application to the City of Portland Planning Commission and City Council for The Pearl Block in the River District Urban Renewal Area.

BACKGROUND

The Pearl LLC, an affiliate of Prendergast and Associates, has applied for property tax abatement for a new residential rental development known as The Pearl Block in the River District Urban Renewal Area. According to Chapter 3.104 of the City Code, the Portland Development Commission shall review the application and make a recommendation on the request to the Planning Commission and City Council.

The property tax abatement, if approved by the City, exempts the value of the project's residential improvements from taxation for a period of ten years. During this period, the owners will continue to be liable for property taxes on the value of the land.

PROJECT DESCRIPTION

Scheduled to start construction in February 2003, the redevelopment of this block includes 163 market rate rental apartments on ten (10) floors, 11,052 square feet of ground floor commercial space, and 168 parking spaces. The Pearl Block, under design by Ankrom Moisan Associated Architects, continues the River District's pattern of high density, quality urban housing. The proposed development consists of an "L" with a housing entrance located at the outside apex of the "L" at the corner of NW 10th and NW Lovejoy. Retail shops will line both NW Lovejoy and NW 10th and also face towards the Kearney Street tract. The building utilizes tower elements at each end of its "L" shape bracketing the main body with unique semi-circular entry at the apex of the "L" plan. The building steps back from the sidewalk at the second and third floors as well as the ninth and tenth floors to provide for decks in some units as well as better sun angles and reduce massing. The building style is in the historic Portland Building tradition using brick and concrete with metal ornamentation. (Building plans are attached and more information is available at: www.pearlblock.com).

PUBLIC BENEFITS

The Project meets many of the City's housing goals as specified in the Comprehensive Plan:

- *The Project will redevelop a full block parcel in the River District, which is called for in Section 4.1 (E): "Encourage the efficient use of infrastructure by focusing well-designed new and redeveloped housing on vacant, infill, or under-developed land;"*
- *If developed as proposed, the Project will be within one block of Central City Streetcar, which is called for in Section 4.3 (A): "Place new residential developments at locations that increase potential ridership on the regional transit system and support the Central City as the region's employment and cultural center;" and*
- *The Project will provide rental opportunities in the River District, which is called for in Section 4.10 (E): "Support opportunities for renter households by providing a range of housing types, sizes, and rent levels throughout the city."*
- Finally, the Project will provide rental opportunities in the River District, that is supportive of high density, mixed-use, in this transit-oriented district.

In addition, the Project will provide the following additional public benefits, as required by the City Code (Chapter 3.104.040):

- *Rental Rates.* The project will provide dwelling units at rental rates accessible to a broad income range. Rental housing is generally affordable compared to for-sale housing.
- *Recreation facilities or space.* The project has allocated space on the first floor for an on-site fitness and exercise room or a health club.
- *Open spaces.* The project will include a ground floor plaza and contiguous pedestrian walkway on the south side linking NW 9th and NW 10th Avenues.
- *Public Meeting Rooms.* The ground floor plaza is approximately 10,000 square feet and it will be for public use.
- *Facilities supportive of the arts.* Several Frank Lloyd Wright reproduction pieces are planned for the public space.
- *Facilities for the handicapped.* The public spaces and parking are code compliant to be accessible to the handicapped. All apartments units will be designed to be adaptable for access.
- *Commercial use.* The Central City Design standards call for active uses along NW 10th and Lovejoy Street. The project will include about 11,000 of retail space facing the active streets and adjacent to public open space on NW Kearney to the south.
- *Density near light rail.* The project capitalizes on the City's investment in the Central City Streetcar by maximizing the density for apartments construction. High quality exterior materials and architecture will offset the density impact.
- *Alternative transportation.* The project will actively promote the use of public transportation and alternate means of transportation. Project managers will actively promote the Central City Streetcar. Developer has worked with Flexcar and similar programs at other rental housing developments and actively supports such programs.

FINANCIAL EVALUATION

The total development budget for the Project is \$33.2 million. Project financing will be provided by a private loan and developer equity. The Pearl Block has submitted proformas to support their Assumptions. The 10-year income projections derived from the proformas show:

- (1) the financial performance of the Project with the tax abatement,
- (2) the financial performance of the Project without the tax abatement, and
- (3) the financial performance of the Project with the rents necessary to achieve feasibility without the tax abatement.

As shown in Cash Flow Summary scenario 1, the Project's internal rate of return is 7.35%¹ during the 10-year period of the abatement. This is within the 10% threshold applied with the program in accordance with the 1999 PDC Financial Products Manual, as amended². For illustration purposes, staff prepared a seven-year IRR that produced a return of 5.35% and a five-year IRR that produced a return of 3.43%. They are labeled in the Cash Flow Summary as Scenario 1C and Scenario 1B respectively.

As shown in scenario 2, the Project's internal rate of return is -3.07% during the 10-year period without the tax abatement. In this scenario, the Project would not likely be eligible for financing without a

¹ This IRR is based on preliminary proformas submitted by the applicant. The internal rate of return (IRR) represents the relationship between the present value of the cash flow and the capital invested. Desired rates of return vary depending on property location, interest and inflation rates (the higher the inflation rate, the higher the return desired). Reproduced below is a table on measures of return from "Urban Land Institute (ULI) - Multifamily Development Handbook - authored by Adrienne Schmitz et al and revised in year 2000"

MEASURE OF RETURN	EXISTING NEW DEVELOPMENT	STABILIZED PROPERTY
Cash-on-cash return (cash throwoff/equity)	8-10%	8-10%
Overall return (NOI/total cost)	10-11%	9-10%
Unleveraged IRR	15%	11-12%
Before-tax leveraged IRR	20-25%	15-20%
After-tax leveraged IRR	15-20%	12-15%
Investor's before-tax IRR	16-20%	14-18%

Please note that the table represents a typical project and that these projected returns vary according to risk. Unleveraged IRR's assume no financing; i.e. developer or one investor pays for all project development costs. Nearly all property tax exemption applications that have come through the Commission have had some form of financing so the stated project IRR in this report is 'before-tax leveraged IRR'. Furthermore, the Pearl Block project IRR does not assume a deemed sale at the end of the review period(s) and it also does not take into consideration tax benefits such as depreciation and losses. As a general rule, financial feasibility analysis is an iterative process - a typical discounted cash flow analysis is performed many times as more detailed and accurate information becomes available about project design, development costs and anticipated rents. As currently structured, there is no requirement for such iterations for multiple-unit property tax abatement applications that do not receive direct PDC financing.

² The 10% PDC threshold acceptably low because even though it does not account for a deemed sale in year ten (10) it is well below the before-tax leveraged IRR from the table above which did assume a sale in year 10. Whether a case could be made for a stricter threshold is a matter for public policy debate.

much greater developer equity contribution because of its inability to cover debt service. The financial performance of the Project in this scenario certainly does not achieve a market return; therefore, the Project is not financially feasible without the abatement.

As shown in scenario 3, in order to achieve the 7.35% internal rate of return associated with the abatement, rents would need to be raised an average of \$223 per unit per month, or 13%, higher. These rent increases could adversely affect absorption and are not possible at the present time; therefore the project is not financially feasible without the abatement³.

The *estimated* ten-year value of exempted tax revenue is approximately \$2,353,205 for all taxing jurisdictions in today's dollars (assuming a twelve (12) percent discount rate, a three percent annual assessment increase and a tax rate \$20.95 per \$1,000 of value).

Based on this analysis, the ten-year property tax abatement is required to achieve economic feasibility for the Project, as described in Section 3.104.010(D) of the City Code.

RECOMMENDATION

Approve the Resolution recommending the approval of a property tax abatement for The Pearl Block to the Planning Commission and City Council.

Baruti L. Artharee, Acting Executive Director

ACTION

³ This market rent assessment in Scenario 3 is not supported by a property appraisal or market study because an appraisal/market study is not part of the application materials for property tax exemption.

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PEARL TOWER
Development Sources and Uses

PROJECT USES

	Total costs	Percent of total costs	Cost per unit 163 Units	Per Sq foot 235,401
Land and Site Costs				
Land costs	4,000,000	12.05%	24,540	16.99
Site Development costs				
Other financing fees				
	<u>4,000,000</u>	<u>12.05%</u>	<u>24,540</u>	<u>16.99</u>
Hard Costs				
Site work	1,000,000	3.01%	6,135	4.25
Building construction	23,312,215	70.22%	143,020	99.03
Construction contingency	534,869	1.61%	3,281	2.27
Tenant improvements				
Other - appliances				
	<u>24,847,084</u>	<u>74.84%</u>	<u>152,436</u>	<u>105.55</u>
Soft Costs				
Architectural services	1,048,000	3.16%	6,429	4.45
Engineering services	30,173	0.09%	185	0.13
Soils engineering	73,755	0.22%	452	0.31
Environmental review	36,878	0.11%	226	0.16
Permits and fees	582,130	1.75%	3,571	2.47
Construction loan fees	67,050	0.20%	411	0.28
Construction period interest	1,659,361	5.00%	10,180	7.05
Permenant loan fees	234,676	0.71%	1,440	1.00
Taxes	13,410	0.04%	82	0.06
Insurance	33,525	0.10%	206	0.14
Furniture, fixtures and equipment	6,705	0.02%	41	0.03
Marketing costs	268,201	0.81%	1,645	1.14
Soft cost contingency	335,251	1.01%	2,057	1.42
Other	140,805	0.42%	864	0.60
	<u>4,353,571</u>	<u>13.11%</u>	<u>27,791</u>	<u>19.24</u>
Total project costs	<u><u>33,200,655</u></u>	<u><u>100.00%</u></u>	<u><u>204,767</u></u>	<u><u>141.79</u></u>
SOURCE OF FUNDS				
Permanent Loan	26,000,000	78.31%	159,509	110.45
Developer equity	7,200,655	21.69%	44,176	30.59
	<u><u>33,200,655</u></u>	<u><u>100.00%</u></u>	<u><u>203,685</u></u>	<u><u>141.04</u></u>

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**THE PEARL BLOCK
CASH FLOW SUMMARY
FIRST YEAR OF OPERATIONS**

	<u>With Tax Abatement</u>	<u>Cost per Unit</u>	<u>Without tax Abatement</u>	<u>Cost per Unit</u>
REVENUES				
Residential				
Apartments	2,911,590		2,911,590	
Parking	176,040		176,040	
Storage	43,920		43,920	
Scheduled gross rents	3,131,550		3,131,550	
Less vacancy at 5%	(156,578)		(156,578)	
Net residential rents	2,974,973		2,974,973	
Retail				
Scheduled gross rents	240,000		240,000	
Less vacancy at 5%	(12,000)		(12,000)	
Net commercial rents	228,000		228,000	
Effective gross income	3,202,972		3,202,972	
EXPENSES				
Administrative	211,900	1,300	211,900	1,300
Utilities	65,200	400	65,200	400
Operating and maintenance	130,400	800	130,400	800
Property and liability insurance	24,450	150	24,450	150
Property taxes on Improvements	-	-	603,656	3,703
Property taxes on land	16,300	100	16,300	100
	448,250	2,750	1,051,906	6,453
NET OPERATING INCOME	2,754,722		2,151,066	
DEBT SERVICE ON PERMANENT LOAN	2,128,390		2,128,390	
CASH FLOW	626,333		22,677	
Initial equity	7,200,655		7,200,655	
Return on initial equity	8.70%		0.31%	

THE PEAK LOCK
CASH FLOW SUMMARY
FIFTEEN YEAR PERIOD WITH TAX ABATEMENT

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
REVENUES															
Residential															
Apartments	2,998,938	3,088,908	3,181,573	3,277,020	3,375,331	3,478,591	3,580,888	3,688,315	3,798,965	3,912,933	4,030,321	4,151,231	4,275,768	4,404,041	4,536,162
Parking	181,321	186,781	192,364	198,135	204,079	210,201	216,507	223,002	229,692	236,583	243,681	250,991	258,621	266,276	274,265
Storage	45,238	46,595	47,993	49,432	50,915	52,443	54,015	55,637	57,308	59,025	60,786	62,589	64,438	66,433	68,426
Scheduled gross rents	3,225,497	3,322,281	3,421,929	3,524,587	3,630,325	3,739,234	3,851,412	3,968,954	4,085,962	4,208,541	4,334,798	4,464,842	4,598,787	4,736,750	4,878,853
Less vacancy at 5%	(161,275)	(168,113)	(171,098)	(176,229)	(181,518)	(186,962)	(192,571)	(198,348)	(204,298)	(210,427)	(216,740)	(223,242)	(229,939)	(236,838)	(243,943)
Net residential rents	3,064,222	3,154,168	3,250,833	3,348,358	3,448,808	3,552,273	3,658,841	3,768,606	3,881,664	3,998,114	4,118,058	4,241,599	4,368,847	4,499,913	4,634,910
Retail															
Scheduled gross rents	247,200	254,616	262,254	270,122	278,226	286,573	295,170	304,026	313,146	322,540	332,218	342,183	352,448	363,022	373,912
Less vacancy at 5%	(12,360)	(12,731)	(13,113)	(13,606)	(14,111)	(14,629)	(15,158)	(15,697)	(16,257)	(16,827)	(17,401)	(17,979)	(18,562)	(19,151)	(19,746)
Net commercial rents	234,840	241,885	249,142	256,516	264,114	272,244	280,411	288,824	297,489	306,413	315,605	325,073	334,826	344,870	355,217
Effective gross income	3,299,062	3,396,054	3,499,975	3,604,874	3,713,123	3,824,517	3,939,252	4,057,430	4,179,153	4,304,527	4,433,663	4,566,573	4,703,673	4,844,783	4,990,127
EXPENSES															
Administrative	220,378	228,191	236,359	244,893	253,809	263,121	272,846	282,900	293,300	304,044	315,140	326,589	338,399	350,574	363,120
Utilities	87,808	70,820	73,341	75,275	77,326	79,499	81,799	84,231	86,800	89,512	92,372	95,387	98,563	101,905	105,422
Operating and maintenance	135,616	141,041	146,582	152,350	158,362	164,698	171,358	178,461	185,900	193,024	200,745	208,775	217,126	225,811	234,843
Property and liability insurance	25,428	26,445	27,503	28,603	29,747	30,937	32,175	33,462	34,800	36,192	37,640	39,145	40,711	42,339	44,033
Property taxes on improvements	18,852	17,630	18,335	19,069	19,831	20,625	21,450	22,308	23,200	24,128	25,093	26,097	27,141	28,226	29,355
Property taxes on land	468,130	484,627	504,220	524,369	545,365	567,179	589,865	613,461	638,000	663,520	690,060	717,653	746,369	776,224	807,273
NET OPERATING INCOME	2,832,882	2,913,206	2,995,754	3,080,585	3,167,758	3,257,337	3,349,386	3,443,989	3,541,183	3,641,008	3,743,603	3,849,010	3,957,304	4,068,669	4,182,854
FAST SERVICE	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390
CASH FLOW	(7,200,655)	704,492	784,816	867,964	952,196	1,039,368	1,128,947	1,220,996	1,315,578	1,412,783	1,512,618	1,615,213	1,720,620	1,828,914	1,940,169
Initial equity	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655
Return on initial equity	9.78%	10.90%	12.05%	13.22%	14.43%	15.68%	16.96%	18.27%	19.62%	21.01%	22.43%	23.90%	25.40%	26.94%	28.53%

10 YEAR IRR	7.35%
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THE PEAK LOCK
CASH FLOW SUMMARY
FIFTEEN YEAR PERIOD WITH TAX ABATEMENT

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
REVENUES															
Residential															
Apartments	2,898,938	3,088,905	3,181,573	3,277,020	3,375,331	3,478,591	3,580,888	3,688,315	3,798,965	3,912,933	4,030,321	4,151,231	4,275,768	4,404,041	4,536,162
Parking	181,321	186,761	192,364	198,135	204,079	210,201	216,507	223,002	229,692	236,583	243,681	250,991	258,521	266,276	274,265
Storage	45,238	46,595	47,893	49,432	50,915	52,443	54,016	55,637	57,306	59,025	60,796	62,618	64,498	66,433	68,426
Scheduled gross rents	3,225,497	3,322,261	3,421,929	3,524,587	3,630,325	3,739,234	3,851,412	3,966,954	4,085,982	4,208,541	4,334,798	4,464,842	4,598,787	4,736,750	4,878,853
Less vacancy at 5%	(181,275)	(168,113)	(171,096)	(178,229)	(181,516)	(188,962)	(192,571)	(198,348)	(204,298)	(210,427)	(216,740)	(223,242)	(229,939)	(236,838)	(243,943)
Net residential rents	3,064,222	3,166,148	3,260,833	3,346,358	3,448,809	3,550,273	3,658,841	3,768,606	3,881,684	3,998,114	4,118,058	4,241,599	4,368,847	4,499,913	4,634,910
Retail															
Scheduled gross rents	247,200	254,618	262,254	270,122	278,226	286,573	295,170	304,026	313,146	322,540	332,216	342,163	352,448	363,022	373,912
Less vacancy at 5%	(12,380)	(12,731)	(13,113)	(13,605)	(13,911)	(14,329)	(14,759)	(15,201)	(15,657)	(16,127)	(16,611)	(17,109)	(17,622)	(18,151)	(18,696)
Net commercial rents	234,840	241,885	249,142	256,616	264,314	272,244	280,411	288,824	297,488	306,413	316,606	326,073	334,826	344,870	355,217
Effective gross income	3,299,062	3,398,034	3,499,975	3,604,974	3,713,123	3,824,517	3,939,252	4,057,430	4,179,153	4,304,527	4,433,663	4,566,673	4,703,673	4,844,783	4,990,127
EXPENSES															
Administrative	220,376	229,191	238,359	247,893	257,809	268,121	278,846	290,000	301,600	313,664	326,210	339,259	352,829	366,942	381,620
Utilities	67,608	70,620	73,341	76,275	79,326	82,489	85,799	89,231	92,800	96,512	100,372	104,387	108,563	112,905	117,422
Operating and maintenance	135,616	141,041	146,682	152,550	158,652	164,998	171,596	178,461	185,600	193,024	200,745	208,775	217,128	225,811	234,843
Property and liability insurance	26,428	26,443	27,503	28,603	29,747	30,937	32,175	33,462	34,800	36,192	37,640	39,145	40,711	42,339	44,033
Property taxes on improvements	-	-	-	-	-	416,480	433,139	450,485	468,483	487,222	506,711	526,980	548,059	569,981	592,781
Property taxes on land	16,952	17,630	18,336	19,069	19,831	20,625	21,450	22,306	23,200	24,126	25,083	26,067	27,141	28,226	29,355
	466,180	484,827	504,220	524,389	545,365	567,059	589,395	612,326	635,863	659,998	684,742	709,102	734,086	758,695	783,934
NET OPERATING INCOME	2,832,882	2,913,206	2,995,754	3,080,585	3,167,758	3,254,058	3,341,857	3,430,104	3,519,290	3,609,529	3,700,961	3,793,571	3,887,347	3,982,088	4,078,193
DEBT SERVICE	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390
CASH FLOW	(7,200,655)	704,492	784,516	867,364	952,186	1,039,368	1,128,467	1,219,714	1,313,200	1,408,939	1,506,501	1,605,847	1,706,988	1,809,913	1,914,733
Initial equity	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655
Return on initial equity	9.78%	10.90%	12.05%	13.22%	14.43%	15.69%	16.94%	18.21%	19.51%	20.84%	22.20%	23.59%	25.01%	26.46%	27.94%

\$ YEAR IRR 3.43%

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THE PEANUT LOCK
CASH FLOW SUMMARY
FIFTEEN YEAR PERIOD WITH TAX ABATEMENT

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
REVENUES															
Residential															
Apartments	2,893,938	3,088,908	3,181,578	3,277,020	3,375,331	3,476,591	3,580,888	3,688,316	3,798,985	3,912,933	4,030,321	4,151,231	4,275,768	4,404,041	4,536,162
Parking	181,321	185,781	182,364	184,135	204,079	210,201	218,507	223,022	229,892	238,883	243,681	250,991	258,621	268,278	274,265
Storage	45,238	48,685	47,893	49,432	50,919	52,443	54,016	55,637	57,308	59,026	60,788	62,519	64,298	66,133	68,026
Scheduled gross rents	3,225,497	3,322,281	3,421,228	3,524,587	3,630,328	3,738,234	3,851,412	3,968,964	4,091,982	4,220,541	4,354,798	4,494,842	4,639,787	4,789,760	4,944,953
Less vacancy at 5%	(161,275)	(188,113)	(171,098)	(178,229)	(181,516)	(186,962)	(192,571)	(198,349)	(204,288)	(210,427)	(216,740)	(223,242)	(229,938)	(236,838)	(243,943)
Net residential rents	3,064,222	3,134,168	3,250,130	3,346,358	3,448,812	3,551,272	3,658,841	3,770,615	3,887,694	3,999,114	4,118,058	4,241,599	4,389,847	4,499,913	4,654,910
Retail															
Scheduled gross rents	247,200	254,618	262,264	270,122	278,226	286,573	295,170	304,026	313,146	322,540	332,216	342,163	352,448	363,022	373,912
Less vacancy at 5%	(12,960)	(12,731)	(13,113)	(13,609)	(13,811)	(14,329)	(14,758)	(15,201)	(15,657)	(16,127)	(16,611)	(17,108)	(17,620)	(18,151)	(18,698)
Net commercial rents	234,240	241,886	249,152	256,513	264,415	272,244	280,411	288,824	297,489	306,413	315,605	325,073	334,828	344,870	355,217
Effective gross income	3,298,462	3,376,054	3,499,282	3,602,871	3,713,227	3,824,517	3,936,252	4,047,439	4,159,183	4,269,527	4,378,663	4,486,673	4,593,673	4,699,783	4,805,127
EXPENSES															
Administrative	220,376	228,191	236,359	244,863	253,709	262,821	272,146	281,690	291,463	301,464	311,699	322,169	332,829	343,642	354,620
Utilities	67,808	70,820	73,941	77,176	80,536	84,099	87,869	91,746	95,731	99,824	104,027	108,339	112,752	117,265	121,888
Operating and maintenance	135,618	141,041	146,862	152,990	159,436	166,199	173,276	180,666	188,379	196,412	204,769	213,452	221,475	229,838	238,551
Property and liability insurance	26,428	28,445	27,503	28,603	29,747	30,937	32,176	33,462	34,800	36,192	37,640	39,145	40,711	42,339	44,033
Property taxes on improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property taxes on land	16,852	17,830	18,835	19,869	20,931	22,025	23,150	24,308	25,490	26,697	27,939	29,217	30,531	31,881	33,266
	468,180	484,827	504,220	524,389	545,383	567,179	589,866	613,441	637,924	663,344	689,703	716,985	745,181	774,294	804,332
NET OPERATING INCOME	2,832,852	2,913,206	2,995,063	3,080,482	3,167,844	3,257,337	3,349,386	3,427,489	3,508,014	3,590,543	3,675,120	3,761,788	3,850,693	3,941,490	4,034,795
DEBT SERVICE															
	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390	2,128,390
CASH FLOW															
	704,462	784,816	866,673	952,092	1,039,454	1,128,947	1,220,998	899,099	979,824	1,062,153	1,146,730	1,233,398	1,322,203	1,413,100	1,508,405
Initial equity	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655
Return on initial equity	9.76%	10.90%	12.05%	13.22%	14.43%	15.68%	16.96%	12.49%	13.60%	14.75%	15.93%	17.13%	18.36%	19.63%	20.92%

7 YEAR IRR 5.35%

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THE PDC
CASH FLOW SUMMARY
FIFTEEN YEAR PERIOD WITHOUT TAX ABATEMENT

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
REVENUES															
Residential															
Apartments	2,998,938	3,098,906	3,181,673	3,277,020	3,375,331	3,476,691	3,580,988	3,688,316	3,798,965	3,912,933	4,030,321	4,151,231	4,275,768	4,404,041	4,536,162
Parking	161,321	164,761	162,364	168,136	204,079	210,201	216,507	223,002	229,882	236,683	243,661	250,981	258,276	266,276	274,265
Storage	45,238	46,696	47,683	49,432	50,915	52,443	54,016	55,637	57,306	59,025	60,788	62,591	64,438	66,333	68,276
Scheduled gross rents	3,225,497	3,322,261	3,421,929	3,524,587	3,630,325	3,739,234	3,851,412	3,968,954	4,089,982	4,208,541	4,334,798	4,464,842	4,598,787	4,738,750	4,878,863
Less vacancy at 5%	(161,276)	(168,113)	(171,066)	(178,229)	(181,819)	(185,962)	(189,671)	(193,949)	(197,898)	(202,471)	(206,740)	(210,743)	(214,538)	(218,138)	(221,543)
Net residential rents	3,064,222	3,156,148	3,250,863	3,346,358	3,448,506	3,553,273	3,660,841	3,768,806	3,889,864	3,998,114	4,108,058	4,241,559	4,388,847	4,498,913	4,654,910
Retail															
Scheduled gross rents	247,200	254,616	262,264	270,122	278,226	286,573	295,170	304,026	313,146	322,540	332,218	342,183	352,448	363,022	373,912
Less vacancy at 5%	(12,360)	(12,731)	(13,113)	(13,606)	(13,911)	(14,329)	(14,758)	(15,201)	(15,657)	(16,127)	(16,611)	(17,109)	(17,622)	(18,151)	(18,696)
Net commercial rents	234,840	241,885	249,142	256,516	264,314	272,244	280,411	288,824	297,488	306,413	315,605	325,073	334,826	344,870	355,217
Effective gross income	3,299,062	3,398,034	3,499,975	3,604,874	3,713,123	3,824,617	3,939,252	4,057,430	4,179,163	4,304,527	4,433,663	4,566,673	4,703,673	4,844,783	4,990,127
EXPENSES															
Administrative	220,376	229,191	238,359	247,893	257,809	268,121	278,846	289,000	301,600	313,664	326,210	339,259	352,829	366,842	381,620
Utilities	67,608	70,520	73,341	76,276	79,326	82,498	85,789	89,231	92,800	96,512	100,372	104,387	108,563	112,906	117,422
Operating and maintenance	136,616	141,041	145,882	150,650	155,832	161,438	167,481	173,981	180,900	188,024	195,446	203,275	211,526	220,211	229,343
Property and liability insurance	23,428	24,446	25,493	26,563	27,647	28,747	29,863	31,000	32,156	33,332	34,528	35,745	36,981	38,238	39,517
Property taxes on improvements	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480	418,480
Property taxes on land	16,932	17,630	18,338	19,059	19,831	20,636	21,480	22,369	23,292	24,249	25,242	26,271	27,336	28,438	29,577
	(82,680)	(80,107)	(78,700)	(76,899)	(75,844)	(74,689)	(73,446)	(72,124)	(70,747)	(69,319)	(67,840)	(66,312)	(64,744)	(63,136)	(61,487)
NET OPERATING INCOME	2,416,402	2,496,777	2,578,274	2,664,106	2,751,279	2,840,858	2,932,406	3,027,430	3,124,573	3,224,828	3,327,123	3,432,630	3,540,824	3,652,080	3,766,374
DEBT SERVICE	2,128,390	2,234,059	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069	2,294,069
CASH FLOW	288,012	262,688	345,216	430,046	517,220	606,789	698,647	783,430	890,614	890,469	1,093,064	1,198,471	1,306,765	1,418,021	1,532,315
Initial equity	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655	7,200,655
Return on initial equity	4.00%	3.65%	4.78%	5.97%	7.16%	8.43%	9.71%	11.02%	12.37%	13.76%	15.16%	16.64%	18.15%	19.69%	21.26%

10 YEAR IRR -3.07%

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THE PEACOCK BLOCK
CASH FLOW SUMMARY
FIFTEEN YEAR PERIOD WITHOUT TAX ABATEMENT

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
REVENUES															
Residential															
Apartments	3,433,838	3,638,913	3,845,080	3,764,433	3,867,086	3,983,078	4,102,570	4,228,647	4,362,416	4,482,988	4,617,479	4,766,003	4,898,663	5,045,643	5,197,013
Parking	186,821	201,367	207,428	213,651	220,061	226,663	233,463	240,466	247,680	255,111	262,764	270,647	278,768	287,129	295,743
Storage	48,746	50,210	51,716	53,268	54,865	56,512	58,207	59,953	61,752	63,605	65,513	67,478	69,502	71,587	73,735
Scheduled gross rents	3,669,107	3,790,510	3,904,225	4,021,352	4,141,982	4,266,252	4,394,240	4,526,067	4,661,848	4,801,704	4,946,755	5,094,128	5,244,932	5,404,380	5,568,491
Less vacancy at 5%	(184,005)	(189,025)	(195,211)	(201,058)	(207,100)	(213,313)	(219,712)	(226,303)	(233,092)	(240,085)	(247,288)	(254,708)	(262,348)	(270,216)	(278,325)
Net residential rents	3,485,101	3,600,984	3,709,014	3,820,294	3,934,882	4,052,939	4,174,528	4,299,763	4,428,756	4,561,619	4,699,466	4,839,422	4,984,604	5,134,162	5,289,167
Retail															
Scheduled gross rents	266,987	274,897	283,247	291,744	300,486	309,511	318,798	328,390	338,211	348,357	358,808	369,572	380,650	392,079	403,842
Less vacancy at 5%	(13,949)	(13,760)	(14,162)	(14,667)	(15,029)	(15,451)	(15,940)	(16,419)	(16,911)	(17,418)	(17,940)	(18,479)	(19,035)	(19,604)	(20,192)
Net commercial rents	253,038	261,137	269,084	277,077	285,457	294,060	302,857	311,942	321,301	330,940	340,868	351,094	361,627	372,475	383,650
Effective gross income	3,738,139	3,862,221	3,978,098	4,097,371	4,220,339	4,346,973	4,477,384	4,611,706	4,750,057	4,892,559	5,039,335	5,190,516	5,346,231	5,506,618	5,671,816
EXPENSES															
Administrative	220,376	228,161	236,359	247,863	257,809	268,121	278,846	290,000	301,600	313,664	326,210	339,259	362,829	366,942	381,620
Utilities	67,808	70,820	73,341	76,276	78,328	80,499	82,789	85,201	87,800	90,512	93,327	96,248	99,276	102,411	105,653
Operating and maintenance	136,616	141,041	146,662	152,650	158,662	164,998	171,596	178,461	185,600	193,024	200,746	208,778	217,128	225,811	234,843
Property and liability insurance	26,428	26,446	27,503	28,603	29,747	30,937	32,175	33,462	34,800	36,192	37,640	39,148	40,711	42,336	44,033
Property taxes on improvements	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480	416,480
Property taxes on land	16,952	17,630	18,396	19,098	19,831	20,595	21,450	22,308	23,200	24,128	25,093	26,097	27,141	28,226	29,355
	882,660	901,307	920,700	940,669	961,644	983,659	1,006,346	1,029,641	1,054,479	1,079,899	1,106,640	1,134,142	1,162,849	1,192,704	1,223,753
NET OPERATING INCOME	2,855,479	2,960,914	3,057,398	3,156,702	3,258,695	3,363,318	3,471,038	3,581,795	3,696,578	3,812,669	3,932,795	4,056,373	4,183,382	4,313,914	4,448,064
DEBT SERVICE															
	2,128,390	2,234,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059	2,294,059
CASH FLOW	727,089	726,855	763,339	862,643	964,636	1,069,259	1,176,979	1,287,736	1,402,519	1,518,610	1,638,736	1,762,314	1,899,323	2,019,855	2,214,005
Initial equity	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855	7,200,855
Return on initial equity	10.26%	10.05%	11.43%	12.81%	14.23%	15.65%	17.18%	18.72%	20.30%	21.92%	23.65%	25.31%	27.07%	28.86%	30.75%
10 YEAR IRR	7.35%														

THE PEARL TOWER
Rents per MFI worksheet

177152

AVERAGE RENTS (as proposed)			
	<u>Average Square Feet</u>	<u>Gross Rents</u>	<u>2002 % MFI</u>
Studios	558	\$ 948	95%
1-Bedroom	797	\$ 1,355	126%
2-Bedroom	1,203	\$ 2,044	159%

AVERAGE RENTS (showing higher housing average rents needed)			
	<u>Average Square Feet</u>	<u>Gross Rents</u>	<u>2002 % MFI</u>
Studios	558	\$ 1,171	117%
1-Bedroom	797	\$ 1,578	147%
2-Bedroom	1203	\$ 2,267	176%

THE PEARL TOWER

Assumptions for proforma projections

177152

<u>Average Apartment Sizes</u>	<u>Square feet per Unit</u>	<u>No. of Units</u>	<u>Total Sq. Footage</u>	<u>Monthly Rent per Sq. Foot</u>	<u>Monthly Rent</u>	<u>Annual Rent</u>
Studio	508	8	4,064	1.70	6,909	82,906
Studio	607	8	4,856	1.70	8,255	99,062
Total/average square foot	558	16	8,920	1.70	15,164	181,968
One bedroom	722	1	722	1.70	1,227	14,729
One bedroom	742	28	20,776	1.70	35,319	423,830
One bedroom	744	16	11,904	1.70	20,237	242,842
One bedroom	796	1	796	1.70	1,353	16,238
One bedroom	807	8	6,456	1.70	10,975	131,702
One bedroom	815	8	6,520	1.70	11,084	133,008
One bedroom	816	8	6,528	1.70	11,098	133,171
One bedroom	818	8	6,544	1.70	11,125	133,498
One bedroom	820	8	6,560	1.70	11,152	133,824
One bedroom	828	8	6,624	1.70	11,261	135,130
One bedroom	862	1	862	1.70	1,465	17,585
One bedroom	864	1	864	1.70	1,469	17,626
One bedroom	868	2	1,736	1.70	2,951	35,414
One bedroom	884	4	3,536	1.70	6,011	72,134
One bedroom	935	1	935	1.70	1,590	19,074
One bedroom	1,039	1	1,039	1.70	1,766	21,196
One bedroom	1,042	1	1,042	1.70	1,771	21,257
One bedroom	1,055	1	1,055	1.70	1,794	21,522
Total/average square foot	797	106	84,499	1.70	143,648	1,723,780
Two bedroom	1,105	1	1,105	1.70	1,879	22,542
Two bedroom	1,132	28	31,696	1.70	53,883	646,598
Two bedroom	1,222	2	2,444	1.70	4,155	49,858
Two bedroom	1,275	7	8,925	1.70	15,173	182,070
Two bedroom	1,539	1	1,539	1.70	2,616	31,396
Two bedroom	1,798	1	1,798	1.70	3,057	36,679
Two bedroom	1,799	1	1,799	1.70	3,058	36,700
Total/average square foot	1,203	41	49,306	1.70	83,820	1,005,842
Total/average square foot	876	163	142,725	1.70	242,633	2,911,590

THE PEARL TOWER

Assumptions for proforma projections

177152

RENTABLE BUILDING SQUARE FOOTAGE

	<u>Square Footage</u>	<u>Number of Units</u>
Residential	182,511	163
Storage		122
Retail	11,052	1
Parking	<u>43,290</u>	<u>163</u>
	<u>236,853</u>	
Total land area	<u>49,000</u>	

RENTAL ASSUMPTIONS

Income	<u>Number of Units</u>	<u>Average Sq. Feet Per Unit</u>	<u>Monthly Rent Per Sq. Foot</u>	<u>Average Monthly Rent</u>	<u>Monthly Rental Income</u>	<u>Annual Rental Income</u>
Studios	16	558	1.70	948	15,164	181,968
One bedroom	106	797	1.70	1,355	143,648	1,723,780
Two bedroom	<u>41</u>	<u>1,203</u>	<u>1.70</u>	<u>2,044</u>	<u>83,820</u>	<u>1,005,842</u>
Total apartments	163				242,633	2,911,590
Parking	163			90	14,670	176,040
Storage	122			30	3,660	43,920
Retail space	1	9,600	2.08	20,000	<u>20,000</u>	<u>240,000</u>
Scheduled gross rental income					280,962	3,371,550
Vacancy at 5%					<u>(14,048)</u>	<u>(168,577)</u>
Projected net rental income					<u>266,914</u>	<u>3,202,972</u>
Projected annual percentage increase in rental income						<u>3%</u>
Expenses						
Initial operating cost per unit						2,750
Projected annual percentage increase in operating costs						4%
Retail space - NNN						
Property taxes on land						
Replacement reserves						

DEVELOPMENT COSTS

	<u>Total</u>	<u>Per Unit</u>
Land	4,000,000	24,540
Improvements	<u>29,200,655</u>	<u>179,145</u>
	<u>33,200,655</u>	<u>203,685</u>
Property tax rate per 1,000	<u>20.83</u>	

FINANCING

Permenant financing	26,000,000	159,509
Equity	<u>7,200,655</u>	<u>44,176</u>
	<u>33,200,655</u>	<u>203,685</u>

Permenant loan - 7.25%, 30 year amortization, 10 year maturity

8/30/02

PORTLAND DEVELOPMENT COMMISSION

177152

Portland, Oregon

RESOLUTION NO. 6

**RESOLUTION RECOMMENDING TO THE PLANNING
COMMISSION AND CITY COUNCIL APPROVAL OF
PROPERTY TAX ABATEMENT FOR THE PEARL BLOCK
LOCATED AT NW 10TH AND LOVEJOY IN THE RIVER
DISTRICT URBAN RENEWAL AREA.**

WHEREAS, Chapter 3.104 of the City Code specifies the process for reviewing and approving applications for property tax abatements for new, multiple-unit housing, including projects containing units available for individual purchase; and

WHEREAS, after the application is submitted to the Bureau of Planning, the first step is review by the Portland Development Commission to analyze the financial feasibility of the project with and without the abatement and to forward to the Planning Commission a recommendation which indicates whether or not the abatement is necessary to achieve a feasible project; and

WHEREAS, the Planning Commission reviews the application for conformance with public benefits and forwards its recommendation to City Council for final approval; and

WHEREAS, The Pearl LLC, an affiliate of Prendergast and Associates, has applied for property tax abatement with the Bureau of Planning for a 163 unit residential rental project scheduled to start construction in February 2003; and

WHEREAS, the project represents the type of new development encouraged by Portland's adopted Comprehensive Plan Housing Policy, the River District Urban Renewal Plan, and the PDC outreach efforts; and

October 9, 2002

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WHEREAS, the Commission has reviewed the proposed project construction costs and projected rents and determines that the property tax abatement is a necessary element to achieve a financially feasible project; now, therefore be it

RESOLVED that the Commission directs the Executive Director to forward a recommendation to the Planning Commission indicating that the property tax abatement for The Pearl Block project be approved based on a financial review of the application; and be it

FURTHER RESOLVED that this resolution shall become effective immediately upon its adoption.

ADOPTED by the Commission October 9, 2002.

John W. Russell, Chair

Noell Webb, Acting Secretary

BUDGET/FINANCIAL COUNCIL ACTION IMPACT STATEMENT

INITIATOR=S SUMMARY OF COUNCIL ACTION (Deliver original to Financial Planning Division. Retain copy.)

1. Name of Initiator Barbara Sack		2. Interoffice Mail Address 299/3200	3. Telephone No. 3-7853	4. Bureau/Office/Dept. Planning
5a. To be filed (date) December 5, 2002	5b. Calendar (Check One) Regular Consent 4/5ths Γ Γ X Γ	5. Date Submitted to OFA Budget Analyst: 12/4/02		6. Fund Name & Number General Fund

Please check appropriate box and list dollar amount.

If using electronic MS Word version; underline appropriate category and type and list dollar amount after.

Category 1 No financial Impact []**Category 2** Routine Budgeted Items []

Γ Contracts	Γ Annual supply contracts
Γ Grants	Γ Claims payment under \$15,000
Γ Call for bids on purchasing contracts	Γ Creation of a Local Improvement
Γ Reports to Council regarding completion of projects	Γ Other

Category 3 Non-Routine or Unbudgeted Item ☒ Approximately \$ 1.37 million (City) foregone revenue over 10 years

SUMMARY OF ACTION: In concise terms, describe what is to take place through the enactment of this council action. Where applicable, narrative should include answers to the following questions. Add space as necessary below each question. Multiple page responses are acceptable if necessary to answer all relevant questions.

- A. What action(s) is proposed?** The proposed ordinance (attached) will grant a limited ten-year property tax exemption for proposed new construction of a 163-unit apartment project known as the Pearl Block Apartments (Pearl Block LLC). This is a rental project targeted primarily for middle income households.
- B. Who will be affected by the proposed action?** The County Tax Assessor will be directed to exempt the eligible portion (improvements) of the taxable assessed value of the project. The land value will be subject to property taxes. Otherwise, minimal impact on operations of City bureaus.
- C. What will the action cost? In this fiscal year? Subsequent year(s)? How much revenue will it generate? In this fiscal year? In subsequent year(s)? If there are indirect costs or future commitments implied as a necessary accompaniment or result of this action, include an estimate of these costs even if the action does not formally authorize any expenditure.** Estimated construction costs for the building is expected to be \$33.2million. The estimated ten year value of exempted taxes totals approximately \$4,164,800.00 (all taxing jurisdictions). See Financial Information from PDC Loan Committee Report in Exhibit 4 of the attached Planning Commission Report. This amount would otherwise go toward fund to pay off the River District urban renewal bonded indebtedness. At the end of the ten year exemption period, the project will become fully taxable.
- D. Is the cost included in the current years budget? If so, which Fund or AU? If not, identify funding sources and amounts - i.e. interagency, contingency/unforeseen, grants, administrative transfer, etc.**
No direct expenditure from City Budget.
- E. What alternatives to this action been explored?** Yes, however, PDC determined that tax exemption is necessary to make project economically feasible at the rental rates targeted for a broader range of income groups. Without the exemption, the project rents would need to be 13% higher and would be unfeasible in this market. The project is consistent with the broad income and development goals for the Central City.

Faye Doty, Administration



APPROPRIATION UNIT HEAD (Typed name and signature)



CITY OF PORTLAND, OREGON PLANNING COMMISSION

177152

c/o Bureau of Planning
1900 S.W. 4th Ave., Suite 4100
Portland, OR 97201-5350
Telephone: 503-823-7700
Fax: 503-823-7800

November 15, 2002

Honorable Mayor Vera Katz
Commissioner Francesconi
Commissioner Randy Leonard
Commissioner Dan Saltzman
Commissioner Eric Sten
Portland City Hall
1121 SW 4th Avenue
Portland OR 97204

RE: Property Tax Exemption for a Market-Rate Apartment Project in the Central City

Dear Mayor Katz and Commissioners:

On October 22, 2002, the Portland Planning Commission voted to recommend approval of a limited property tax exemption for the Pearl Block, a market-rate apartment project in the Central City's River District. Portland City Code, Chapter 3.104, permits the granting of a limited ten year property tax exemption for newly constructed multiple dwelling projects within the Central City Plan District or in designated urban renewal areas. This exemption applies to the improvement value only. The land value remains subject to taxation. The Planning Commission's vote for approval of the exemption for the Pearl Block project was not unanimous (5-2). Some Commission members, those that voted against approval of this exemption and some who voted for it, have concerns about this particular tax exemption program that they would like to convey to City Council.

Project Information

The Pearl Block project is proposed for construction on the block between NW 9th and 10th Avenues and Lovejoy Street and the Kearney pedestrian tract. It will be a 163-unit, market-rate, ten-story apartment building with ground floor retail space. It covers an entire city block and includes the development of the Kearney walkway, a public pedestrian link between NW 9th and 10th Avenues. Although the project site is owned by Pearl 2000 LLC, it was originally one of the Hoyt Street Properties and is still subject to the development agreement between the City and Hoyt Street Properties. The proposed density exceeds that required by the agreement and the development of the Kearney Street walkway fulfills another requirement of the development agreement.

Portland Development Commission Process

The Portland Development Commission is responsible for initially reviewing the applications based on a finding that the tax exemption is necessary for financial feasibility of the project. The Portland Development Commission recommended approval of the Pearl Block project at their October 9, 2002

meeting. See Exhibit 5 of the report. The application was then forwarded to the Planning Commission for review for consistency with the City's *Comprehensive Plan* and other relevant policies.

Planning Commission Action

Although the majority of Planning Commission members agreed to recommend that City Council approve the exemption for this project at their October 22 meeting, they also unanimously passed a motion to amend the public benefits portion of the staff report. The Planning Commission is required by City Code to specify in its recommendation the scope and nature of the public benefit recommended for the proposed project. Each applicant for a tax exemption is required to list the public benefits provided by their project.

The Planning Commission believes that the main public benefit of this project is that it adds middle-income rental housing to the River District, which improves housing balance and choice in the district. The River District has been the location of a number of new high-end condominium projects, as well as rental housing projects affordable to low and moderate income households. The inclusion of new market rate rental units should be viewed as the primary public benefit in the view of the Planning Commission. The Planning Commission asked that this portion of the public benefits description be expanded in their report to the City Council.

Planning Commission members directed that the other public benefits listed by the applicant be deleted from the public benefits section of the report and added to the project description. These included recreation facilities, open spaces, facilities for the handicapped, and service or commercial uses. The reason for this change is that some listed public benefits are required by regulations (facilities for the handicapped) or the Hoyt Street Properties development agreement (dedication and development of the Kearney Street walkway). Planning Commission members considered other features such as the proposed space for recreation facilities and ground floor commercial uses to be ones that a middle-income project would include to attract tenants and did not particularly benefit the public.

The Planning Commission also considered another motion at their meeting that did not pass. This was to limit the tax exemption to the residential portion of the project and not exempt the ground floor commercial portion. The vote on this motion was four against approval and three for it. While this motion was defeated, some Planning Commission members questioned whether there was a particular need for ground floor commercial uses at this location or a need to provide an incentive to induce commercial uses to locate here.

The Planning Commission intends to take up these concerns about the New Multiple Unit Tax Exemption Program at its meeting on housing issues on December 17, 2002.

With these concerns being expressed, the Planning Commission recommends:

Approval of the limited ten-year property tax exemption for the Pearl Block Apartments based on the findings in the attached report and subject to the conditions listed on pages 15-16 of the Planning Commission's report.

Sincerely,

A handwritten signature in black ink, appearing to read "RM", followed by a long, wavy horizontal line.

Rick Michaelson
Portland Planning Commission President

ORDINANCE No. 177152

Grant a ten-year property tax exemption to Prendergast Associates for new multiple-unit housing on the block bounded by NW 9th and 10th Avenues, NW Lovejoy Street, and the Kearney walkway. (Ordinance)

The City of Portland ordains:

Section 1. The Council finds that:

1. Prendergast Associates has applied for a ten-year property tax exemption for property located at Pearl Block No. 4; Lots 55, 56 and F, NEW PLAT 1997 (State Tax ID#s 1N1E34BC 300, 400 and 500) on the block bounded by NW 9th and 10th Avenues, NW Lovejoy Street, and Kearney walkway. The property ID Numbers are , R241289, R241290 and R241270. The applicant proposes to construct a 163-unit middle and upper income rental project with ground floor commercial space currently known as the Pearl Block Apartments.
2. The subject property is located in an eligible area (within the Central City plan district and the River District Urban Renewal Area) as required by Chapter 3.104 of the City Code.
3. The proposed development conforms with the *Comprehensive Plan* and other relevant Council-adopted plans and policies, and the applicable regulations for the reasons contained in the Planning Commission Report and Recommendation. These plans, policies, and regulations include the *Central City Plan*; the Central Employment (EX) Zone and Plan designation; the *River District Urban Renewal Plan*; and the development agreement between the Hoyt Street Properties and the City of Portland.
4. The proposed development contains public benefits necessary for approval of the ten-year property tax exemption on the improvement value of the structure.
5. On October 9, 2002, the Portland Development Commission reviewed the proposed development and recommended to the Planning Commission that the application be approved on a finding that the tax exemption is necessary to make the project feasible at rental rates affordable to a wider range of household incomes than would otherwise be possible without the tax exemption.
6. On October 22, 2002, the Planning Commission held a public hearing and found that the project complies with the eligibility requirements of Section 3.104.010 of the Municipal Code and contributes public benefits sufficient to carry out the purposes of this property tax exemption program.
7. At their meeting, the Portland City Planning Commission voted that this application be approved subject to the public benefit conditions set forth in the Planning Commission Report and Recommendation and contained in this ordinance.

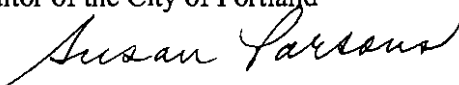
8. It is in the public interest that the limited property tax exemption for the proposed development be adopted in order to meet the City's goals for housing as stated in the *Central City Plan*, the Housing Goal of the *Comprehensive Plan*, and the housing production goals of the *Central City 2000 Plan*.

NOW, THEREFORE, the Council directs:

- a. The application of Prendergast Associates for the ten year property tax exemption provided by Chapter 3.104 of the Municipal Code of the City of Portland, Oregon, and ORS 307.600-691 is hereby approved for the following property:
- Lots 55 and 56 and Tract F, Pearl Block 4, New Plat 1997; Property ID Numbers R241290, R241289 and R241270.
- b. The application described in paragraph "a" above is approved subject to the following conditions:
1. The public benefits listed in Section V. B of the Planning Commission's Report and Recommendation and any others be provided in accordance with agreements reached or conditions imposed by the relevant review bodies and agencies, including but not limited to the Planning Bureau, the Portland Development Commission, or Design Review Commission, as appropriate.
 2. The project complies with all applicable standards of Title 33, Planning and Zoning, as well as all conditions of approval of any land use and design reviews, including the conditions of approval for LUR 02-127082 and the development agreement between the City of Portland and Hoyt Street Properties (1997).
 3. Ground level, locally-oriented retail and service businesses serving individuals and households in this building, as well as visitors, can qualify as a public benefit under the terms of this exemption. A determination by the Director of the Bureau of Planning shall be made if there is a question regarding the neighborhood orientation of the proposed commercial and service uses.
 4. The project will not convert to condominiums within the 10-year property tax exemption.
- c. The Bureau of Planning will provide copies of this Ordinance to the applicant and the Multnomah County Tax Assessor as prescribed by Section 3.104.050(1)(d) of the Code of the City of Portland.

Passed by the Council, DEC 18 2002
 Mayor Vera Katz
 Barbara Sack:bjs
 December 11, 2002

GARY BLACKMER
 Auditor of the City of Portland

By 
 Deputy

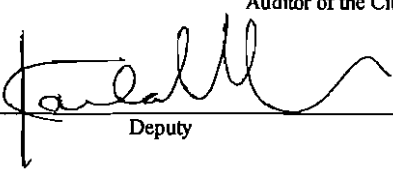
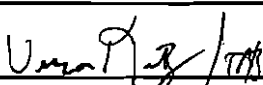

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Agenda No.

ORDINANCE NO. 177152

Title

Grant a ten-year property tax exemption to Prendergast Associates for new multiple-unit housing on the block bounded by NW 9th and 10th Avenues, NW Lovejoy Street, and the Kearney walkway. (Ordinance)

INTRODUCED BY	DATE FILED:
Mayor Vera Katz	DEC 06 2002
NOTED BY COMMISSIONER	Gary Blackmer Auditor of the City of Portland
Affairs	By:  Deputy
Finance and Administration 	For Meeting of: December 11, 2002
Safety	ACTION TAKEN:
Utilities	DEC 11 2002 PASSED TO SECOND READING DEC 18 2002 9:30 A.M.
Works	
BUREAU APPROVAL	
Bureau: PLANNING	
Prepared by Barbara Sack Date: December 5, 2002	
Budget Impact Review:	
X Completed Not Required	
Include in PPD: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Filename: Pearl Block Expt Ordinance.doc	
Bureau Head: Gil Kelley 	

AGENDA		FOUR-FIFTHS AGENDA	COMMISSIONERS VOTED AS FOLLOWS:		
				YEAS	NAYS
Consent X	Regular	Francesconi	Francesconi		
NOTED BY		Leonard	Leonard	✓	
City Attorney		Saltzman	Saltzman	✓	
City Auditor		Sten	Sten	✓	
City Engineer		Katz	Katz	✓	