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PORTLAND HOUSING BUREAU

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TO: Planning and Sustainability Commission

FROM: Portland Housing Bureau Investment Committee
Submitted by: Siobain Beddow Portland Housing Bureau

SUBJECT: **RECOMMEND APPROVAL TO THE CITY BUREAU of PLANNING and SUSTAINABILITY COMMISSION OF A TEN YEAR LIMITED PROPERTY TAX EXEMPTION FOR A NEW RESIDENTIAL TRANSIT ORIENTED DEVELOPMENT KNOWN AS THE YARDS AT UNION STATION PHASE C**

Background

Yards at Union Station C (project) is a proposed new construction five story wood frame, 80 unit multifamily project on Union Station Lot 5 currently owned by the City of Portland. Representing the final phase of a multi-phase mixed-use development more widely described as Yards at Union Station, it constitutes an entirely affordable conclusion to the development agreement for this city-owned site.

During the pre-application meeting for the project, the reviewers suggested that the abatement should be longer than 10 years, given that the project is entirely affordable and required to stay that way for 30 years by the state, and 60 years by the city of Portland. Due to bond covenants governing the granting of tax abatement in the River District Urban Renewal area, and the cost and time to gain an exception from those covenants given financial market pressures, only the ten year abatement recommendation is being made at this time. This project will have to come back for a renewal request at a future date in order to remain viable at its restricted rent levels. For confirmation of this, see what happens to the project's NOI and debt coverage ratio in Year 11, when full bore taxes resume, if all the assumptions in the pro forma hold.

This project is somewhat unusual in that it does not have permanent vestment of developer equity. There is usually something in this regard as to land which has been held for development if nothing else, but in this case, the city owns the land. The developer has deferred 44% of the developer fee on this project, which is capital at risk, but is considered temporary for purposes of calculating a return as full payment of deferred fees are expected within 10 years of operations per projections in pro forma.

If this project were being developed by a non-profit, it would be eligible for permanent tax abatement on both the land and improvements under Portland City Code§3.101.

Other considerations as to equity and developer contribution are set forth in the table below. Imputed equity is $227,897 by virtue of the amount of developer fee that could have been budgeted.

Budgeted Developer Fee	**Max Allowed Dev Fee**	**Difference is Developer fee Foregone**	**Developer funded predevelopment costs**
$903,564	$1,131,461	$227,897	$1,419,156

Developer Funded Predevelopment Costs

Architect and Engineering	$884,090
Permits	$132,927
Legal & Acctg	$107,576
Financing	$294,563
	$1,419,156.00

Project Description

The project will have 6 studios, 48 one-bedroom and 26 two- bedroom units, with 48 uncovered parking spaces equating to a .60:1 parking ratio. Located conveniently to transportation routes and public transit, community amenities will includes a community room, lounge and fitness center on the ground floor. Bike storage will be available in the north garage, and each floor will have storage units available, for a fee. Laundry facilities are communally located on the 2nd and 3rd floors.

Openings in the parking area screenwall and the windows, doorways, and varied color panels on the northern-most portion of this wall will provide a human scale and interest to the ground level of the building along the NW Naito Parkway and NW Ironside Terrace sidewalks. The surface parking area will be screened from views from the street by the building and from the railyard by the fence and landscaping along that property boundary. Proposed landscaping in the area of this space will help integrate the surface parking area with the adjacent building. Unit density is 78 per acre, exceeding the 3.103 Portland city code density requirements. Though density is not a requirement for 3.104, the 3.103 public benefit requirement around density is 68 units per acre. The building footprint will cover 95% of the lot.

Project's development team includes GSL Partners (Skip Grodahl et al.) and Otak Architects.

Proposed Unit Mix and Affordability (preliminary):

Unit type	**Count**	**MFI**	**Pro forma Monthly gross rents (including an allowance for utilities)**
Studio	6	60%	646
One BR	48	60%	806
Two BR	26	60%	969
Total Units	**80**		

<u>Public Benefits</u>

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

Rental Rates. Code requires that 15%, the rentable residential units be affordable at rents at or below 60% of median family income. All of the units in this project meet this affordability requirement.

Additionally, the project plans to include the following public benefits.

Zip Car space: The project will offer two spaces for Zip Cars.

Permanent dedications for public use: The project will be connected to pedestrian paths and create a walkway to an existing pedestrian bridge.

Open spaces available to the general public: A community room will be available to both residents of the project and the general public upon request.

Increased affordability: The minimum affordability is met, but because more than 25% of the units will be at rents at or below 60% MFI, the project qualifies for the additional public benefit due to affordability.

This meets the second level test city code requirement from a selection of options in §3.104.040(D)

Financial Evaluation

> The total development budget for this phase of the Project is an estimated $15 million. Project financing is set forth in the Sources and Uses section on page 4. Project requires approximately $4.4 million in River District Rif that is subject to underwriting and approval by PHB's Investment Committee and Portland's City Council. Staff will present a recommendation for action to HIC and City Council along with a disposition and development agreement by February 2012.The 10-year income projections derived from the pro formae show:
>
> - Scenario 1 - the financial performance of the Project with the tax abatement, and
> - Scenario 2 - the financial performance of the Project without the tax abatement.
> - Scenario 3 - the financial performance of the Project with the rents necessary to achieve feasibility without the tax abatement, setting the return equal to that of the financial performance with the tax abatement.

In none of the scenarios does the return exceed the 10% threshold.

As shown in Scenario 1, the Project's rate of return[1] with the abatement is incalculable during the 10-year period of the abatement. The reason for this is that there is no equity contributed permanently to the project by the developer. $397,222 of the projected $903,564 in developer fees is being deferred. The project is only attractive for financing with the abatement granted, as most banks are currently requiring debt service coverage ratios of 1.20 or better in order to make a loan.

As shown in Scenario 2, the Project's rate of return without the tax abatement is also incalculable during the 10-year period. Staff again evaluated the need for the abatement according to the lender required debt service coverage ratio. Without the abatement, the project would not qualify for financing it has proven it can obtain with the abatement, due to its low debt service coverage ratio. According to materials submitted with the application, the annual unabated property tax is estimated at $69,010 ($862 per unit) in the first year, escalating thereafter.

As shown in Scenario 3, staff imputed rents which arrive at the lender required debt service coverage ratio as with the abatement in order to determine how much higher the rents would need to be to achieve the same result. Rents without the abatement would need to be an average of $7 a month per unit higher overall, causing all but the six studios to exceed the 60% MFI rent levels.

[1] 10 year average cash on cash

The estimated ten-year value of exempted tax revenue is approximately $574,081 in today's dollars assuming a 6 percent discount rate, a three percent annual assessment increase and $21.72 per $1,000 mil rate. Of that total, 32%, or $183,706 is attributable to City of Portland foregone revenue.

River District URA Bond Covenant Requirements

The city's Debt Manager has reviewed the abatement, which is not in conflict with any existing bond covenants.

SOURCES AND USES:

		per unit	**per person**	**per sq ft**
		80	**156**	**89,751**
Uses				
Acquisition	$565,000	7,063	3,622	6
Construction	$11,204,553	140,057	71,824	125
Development	$2,373,704	29,671	15,216	26
Developer Fee	$903,564	11,295	5,792	10
	$15,046,821.00	**188,085**	**96,454**	**168**
Sources				
City Real Estate Advisors - LIHTC	$4,854,399	60,680	31,118	54
Deferred dev fee	$397,222	4,965	2,546	4
PHB TIF	$4,400,000	55,000	28,205	49
Tax Exempt Bond Funding – Chase private placement	$4,830,200	60,378	30,963	54
PHB Seller Financed note	$565,000	7,063	3,622	6
Total	**$15,046,821.00**	**188,085**	**96,454**	**168**

New construction cost per square foot of $125 per square foot in hard costs appears modest for construction of this type in this area.

<u>CONDITIONS:</u>
The project will be required to carry an extended use agreement, according to the terms of §3.104.055(D).

<u>RECOMMENDATION:</u>

Recommend the approval of a ten-year property tax abatement for Yards Phase C Limited Partnership (or affiliated entity) to the Planning Commission and City Council because the project meets the financial feasibility test and public benefits requirements set forth in Section 3.104 of Portland's City Code.

Attachments:
Attachment 1: Scenario 1 – With tax abatement
Attachment 2: Scenario 2 – Without tax abatement
Attachment 3: Scenario 3 – Rents needed without abatement to produce same return as with abatement
Attachment 4: RE taxes for 10 years and NPV