PORTLAND HOUSING BUREAU
INTERNAL MEMORANDUM

DATE: February 9, 2012

TO: Housing Investment Committee

FROM: John Marshall

SUBJECT: Recommend Approval to the Planning Commission and City Council of a Ten Year §3.103 Property Tax Abatement for The Hollywood Apartments LLC (or affiliated entity) for The Hollywood Apartments located at 4185 NE Broadway.

Project Description:

Dennis Sackhoff proposes to build 47 units of workforce housing at 4105 NE Broadway between Sandy and Broadway southwest of the Hollywood theater. The Hollywood Apartments (Project) is a proposed new construction mixed use building. It will be a five story elevator serviced building with a steel frame on the first floor and wood frame on the second through fifth floor. It will have approximately 22,187 square feet of residential space, 12,006 of common space, 3,915 commercial rental (only the residential space is recommended to be exempted from property taxes), 61 secure bike parking spaces, and no off street parking. There will be 4 studios (350 sq ft) and 43 one-bedroom units at (448 - 670 square feet). All units will include washer dryers.

The Hollywood Apartments fills and undersupplied market niche of transit oriented work housing within the amenity rich Hollywood district. Adjacent to the building, the developer is creating a new Public Pedestrian Plaza out of what is currently a one way parking lot. The new space will provide a stopping and gathering point for pedestrians and cyclists moving through the area. The 4500 square feet plaza will be able to host a variety of outdoor neighborhood events along the Sandy corridor.

The Project has efficient floor plans and affordable unit that yield high density and marketable rates for the transit friendly workforce population. The unit sizes are designed to fill the growing apartment housing gap created by the prolonged downturn in the real estate market and uncertain employment outlook. With a density of 182 units per acre (more than three times greater than other surrounding residential buildings), the Project exceeds the 3.103 Portland City Code public benefit requirement of 68 units per acre.

The Project has an open courtyard space between the first floor of the building and rainwater ponds, seat walls, and a steel fountain sculpture. Rainwater planters and large trees on the exterior of the building will also be included.

The site is located approximately xxxx blocks from the 42nd MAX station and near transportation routes and public transit.

Project's development team consists of The Hollywood Apartments, LLC, Myhre Group Architects, Creston Construction.

The applicant has represented the Project is being financed by equity and a construction loan plus SDC exemptions from PHB.

Proposed Unit Mix and Affordability (preliminary):

Unit type	Count	MFI	Size	Pro forma Monthly net rents (excluding an allowance for utilities)	Rent/SF
Studio	2	60%	350	648	1.85
Studio	2	Market	350	683	1.95
One BR	8	60%	375-465	670	1.78 -1.44
One BR	35	60%	397--670	809-1,307	1.75 -1.95
Total Units	**47**				

Public Benefits:

The Project proposes the following additional public benefits, as required by the City Code (Chapter 3.103.040):

Residential Density greater than 80 per cent of the applicable maximum density as allowed by the base zone as established by Title 33 Portland zoning code.

Ground floor service or commercial use which is permitted and serves project residents, neighboring residents, and transit riders.

A public plaza provided above and beyond the transportation improvements above those required by development standards approved by the Bureau of Transportation and the Planning and Sustainability Commission.

This meets the second level test city code requirement from a selection of options in §3.103.030(D)

Financial Evaluation:

The total development budget for this phase of the Project is an estimated $5.76 million. Project financing is set forth in the Sources and Uses section on page 5. The Project does not receive any direct financial assistance from PHB.

At this point only one of three local governments endorses an extension of property tax abatements beyond 2011. Two of the authorities must agree to obtain a 51% majority approval. According to staff in the Policy group at PHB, Multnomah County officials have indicted they will make their decision whether they will support an extension of the abatements after April 1, 2012, which is the final date to approve property tax abatements. Although there is no current authority to grant the property tax abatement, the analysis is based upon the authorities voting to extend it in the future. The 20-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 6.40% on the 10-year period of the abatement. The reason for this is that the rents are reduced by the affordability restrictions and the project cost is increased by the public benefits required by the tax abatement. 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 3.60% 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 qualify for less financing and have higher annual operating expenses due to the property taxes. According to materials submitted with the application, the annual unabated property tax adds $64,374 ($1,370 per unit) to the first year, escalating thereafter.

As shown in Scenario 3, staff imputed rents that are needed to produce the same return for the applicant achieved in Scenario 1 if the tax abatement were not available using the lender required debt service coverage ratio. Rents without the abatement would need to be an average of $117 a month per unit higher overall, causing all of the units to exceed the 60% MFI rent levels.

The estimated ten year value of exempted tax revenue is approximately $737,976 dollars assuming three per cent annual appreciation. The net present value using a 6% discount rate is $535,515. Of that total, approximately 33%, or $176,720 is attributable to City of Portland foregone revenue.

[1] 10 year average cash on cash

SOURCES AND USES:

		per unit	per person	per sq ft
		47	**68**	**32,783**
Uses				
Acquisition	$682,078	14512	10,031	21
Construction	$4,452,200	94,728	65,474	136
Development	$418,573	8,906	6,155	13
Developer Fee	$204,000	4,340	3,000	6
	$5,756,851	**122,486**	**84,660**	**176**
Sources				
Permanent Loan	$4,016,250	86,452	59,063	123
Equity Investment	1,740,601	37,034	25,597	53
Total	**$5,756,851**	**122,486**	**84,660**	**176**

New construction cost per at $136 per square foot in hard costs appears reasonable for construction of this type in this area.

CONDITIONS:
The project will be required to carry an extended use agreement, according to the terms of §3.103.055(D).

RECOMMENDATION:
Recommend the approval of a ten-year property tax abatement for Gordon Jones (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 3.103 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 to produce tax abatement return with property taxes in the operating budget
Attachment 4: RE for Residential Improvement taxes for 10 years and NPV
Attachment 5: Elevations, Floorplan, and Site Plan