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February 9, 2012

M E M O

To: Planning & Sustainability Commission

From: Uma Krishnan, Management Analyst

Cc: Dori Van Bockel, Portland Housing Bureau (PHB)

Subject: Staff Report on TOD Tax Exemption Request for *The Hollywood Apartments*

The Hollywood Apartments LLC, represented by David Mullens requests a 10-year tax exemption under the City's New Transit Supportive Residential or Mixed Use (TOD) program for the proposed Hollywood Apartments rental project. The TOD program is one of the City's two multifamily tax exemption programs and is available in designated areas outside the Central City where the City has planned for transit-oriented development. This exemption applies to the improvement value including supportive commercial space and other public benefits. The role of the Planning and Sustainability Commission (PSC) is to evaluate the set of public benefits offered by the project against the TOD program's goals.

I. Project Description and Site and Land Use Review History

Project Description

The project known as ***The Hollywood Apartments*** is a proposal to build 47 units of workforce housing at 4105 NE Broadway between Sandy and Broadway southwest of the Hollywood theater. The development intends new construction of a five (5) story, **47** unit multifamily over commercial mixed use project located within 0.2 miles of the 42nd MAX light rail station and along Trimet bus lines and major transportation routes. The proposed project is on an TOD eligible site, located outside the Central City Plan area, in the Hollywood Plan District, and is zoned CSd.

This proposed new construction mixed use building 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. The Project will have 61 secured bike parking spaces, and no off street parking. The Project has efficient floor plans and affordable units 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. The unit mix includes studios and one-bedrooms. All units will include washer dryers. The following table summarizes the intended *unit mix* and *affordability mix* for the project:

Proposed Unit Mix and Affordability (preliminary)

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

As can be noted from the above table, the project will have 4 studios and 43 one-bedroom units. Twenty percent (21%) of the units, on a pro rata unit mix basis, will be affordable at 60% MFI, as a result of approving the limited term exemption. In the above table, the shaded rows are intended to be affordable to households with income at or below 60% Median Family Income (MFI); two (2) studios and eight (8) one-bedrooms, for a total of 10.

Housing Affordability

The project will set-aside 21% of the total units as affordable units. This translates to 10 affordable units that mirrors the project's unit mix (see above table) and will be rented to households at or below 60% of MFI. Additionally, based on program requirements, the units will be rented in accordance with rent restrictions and will remain affordable for 10 years of the abatement period.

Proposed Public Benefits

The site is located in the Hollywood light rail station area and transit oriented areas along Sandy Boulevard and the Broadway Main Street. The housing units will be located 0.2 miles from the Hollywood MAX station and in close proximity to mass transit options and 10 units (21% of total units) will remain affordable to households earning 60% or less of the area Median Family Income (MFI). Additionally, due to changes to the TOD program adopted in November 2006, there is requirement that three public benefits be provided by a project in addition to meeting the affordability requirement from a specified list.

The Hollywood Apartments will provide the following three public benefits elaborated in the program guidelines:

1. **Residential Density***:* The Hollywood proposal is for a development that will be built at just over **275%** of applicable maximum density as measured by units/acre for this site. This exceeds the program requirement of 80% threshold. In terms of units per acre for a CS site, TOD program calls for at least 68 units per net acre. This proposal is for 47 units in a 0.25 acre site leading to a development density of 188 units/acre.

2. **Ground floor service or commercial use:** The project proposal is for 3,915 SF of first floor commercial space that will serve the project and neighborhood.

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3. **Transportation improvement above PBOT requirement**: Adjacent to the new building, the developer is creating a new Public Pedestrian Plaza on what is currently a one way parking lot known as NE 41st. This new space provides a stopping and gathering point for pedestrians and cyclist moving through the area. An improved space of 4,500 SF, the Plaza can host a variety of outdoor neighborhood events along the Sandy corridor. The developers will also be maintaining this Plaza. The development team worked extensively with neighborhood population and businesses to envision this Plaza. This offer has strong support from PBOT particularly since the developer was responsible only for developing half of this informal parking site.

Site and Zoning Information

The Project site is 4105 NE Broadway between Sandy and Broadway southwest of the Hollywood theater. The parcel size is 10,914 SF and the proposed lot coverage will be about 62%. The structure footprint will be about 6,773 SF. The site is located in the Hollywood neighborhood and is in the Hollywood District Plan area. The site lies in the Portland Public School District.

The site is zoned **CSd**. The Storefront Commercial (CS) zone is intended to preserve and enhance older commercial areas that have a storefront character. The zone intends that new development in these areas will be compatible with this desired character. The zone allows a full range of retail, service and business uses with a local and regional market area. Development is intended to be pedestrian-oriented and buildings with a storefront character are encouraged. The design (d) overlay zone promotes the conservation, enhancement, and continued vitality of areas of the City with special scenic, architectural, or cultural value. As is permissible, this project did not go through the Design review, but is using the Community Design Standards to comply with the overlay.

II. The TOD Tax Exemption Program Review Process and Public Benefit Requirements

TOD Program Description

The TOD program provides a 10-year tax exemption on the improvement value of new multifamily and mixed-use projects located within a quarter mile of light rail stations or other public transit service. The program is authorized by the same state statutes that authorize the City's New Multiple-Unit Housing (NMUH) program available in the Central City and Urban Renewal Areas (ORS 307.600 – 307.65). The City Council adopted the TOD program in 1996 to provide support for the City's investment in the MAX light rail system and other investments in public transit outside the Central City by providing an incentive for high-density housing near transit facilities. As of November 2006, the TOD program has been applied to at least a quarter mile radius of all MAX light rail stations with appropriate zoning.

Review Process

City Council adopted a new review process along with other TOD program changes in November 2006 that is summarized below.

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Portland Housing Bureau Review

Requests for TOD tax exemptions are now required to be reviewed by the Portland Housing Bureau (PHB) staff for financial necessity of the tax exemption to the economic feasibility of the project and conformance with the requirements of City Code Chapter 3.103.

PHB staff review has determined that the project meets all basic eligibility requirements. Further, the staff analysis finds that the tax exemption is critical for the financial feasibility of the project. 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, and
- Scenario 3 - the necessary increase in rents without the abatement in order to achieve the return achieved with the tax abatement.

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

In Scenario 1, the Project's rate of return 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.

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.

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.

The total development budget for this phase of the Project is $28.3 million. According to materials submitted with the application, the annual unabated property tax is estimated at $292,544 ($1,148 per unit) in the first year, escalating thereafter.

The PHB Investment Committee concurred with the staff findings during their case review meeting on Thursday, February 9th, 2012 and recommended approval of 10-year tax abatement to the Hollywood Apartments project.

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(See PHB Investment Committee Report attached to this memo for financial feasibility analysis, project costs and recommendation)

Planning and Sustainability Commission Review

The PSC is required to review tax exemption requests for consistency with the public benefit review requirements of Chapter 3.103 within 60 days of receipt of a recommendation for approval of a tax exemption request from PHB staff. The Commission is not required to review TOD tax exemption requests for consistency with City plans and policies as they are for tax exemption requests under the NMUH program. The reason is that the more prescriptive requirements related to residential density and location near public transit in Chapter 3.103 ensure consistency with city plans and policies are met by this program.

After their review of the public benefit requirements at a public hearing, the Commission shall make a recommendation to deny or approve the application subject to conditions and instruct staff to forward a recommendation letter to the City Council for use during the Council hearing process.

City Council Review

City Council is required to review the application and approve or deny by ordinance within 30 days of receiving the application.

Affordability Requirement for Rental Units

The affordability requirement for rental projects is that the applicant provides at least 20 percent of the units or 20 percent of building square footage dedicated to units, affordable to and reserved for households at or below 60 percent MFI. As an alternative, the applicant can provide at least 10 percent of the units or 10 percent of building square footage dedicated to units, affordable to and reserved for households at or below 30 percent MFI.

Public Benefit Requirements

City Council approved changes to the TOD program in November 2006 that included changes to the public benefit requirements. Projects for which a tax exemption is requested are required to meet the aforementioned affordability requirement and provide three other benefits. The requirements are summarized below. More detailed language is included in City Code Section 3.103.040, Public Benefits.

Public Benefit Options: Provide three additional public benefits from the following list:

1. 20 percent of units dedicated to persons with special needs and are designed for full accessibility.
2. 10 percent of rental units include 3 or more bedrooms.
3. Provide childcare on-site or support child care facility.
4. Provide residential unit-per-acre density equivalent to at least 80 percent of maximum density.
5. Permitted ground floor service or commercial use.
6. Office space or meeting room for community.

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7. Permanent dedications for public use including open space, community gardens, or pedestrian and bicycle connections to public trails and adjoining neighborhood areas.

8. Family oriented recreational facilities.

9. A dedicated car-share space(s).

10. Structured parking.

11. LEED Silver certification from the US Green Building Council.

12. Twice the percentage of affordable units, or percentage of residential building square footage for affordable units, than is required by the affordability requirement.

13. Other benefits as proposed by the developer and approved by the Planning Commission.

14. Transportation improvements above those required by development standards approved by the Portland Office of Transportation and the Planning Commission.

15. An agreement to sell off-street parking spaces separate from condominium units so that a unit can be purchased without a parking space.

III. Proposal's Conformance with Public Benefit Requirements & Staff Recommendation

Planning and Sustainability Bureau staff has reviewed the PHB staff's Report to their Investment Committee and finds that the application is consistent with the program's public benefit requirements.

Affordability Requirement

The affordability requirement is met since 21% of the units will be set-aside for households making at or below 60% MFI. The unit-mix for the affordable units will match the project mix:

Affordable Units	**% MFI**	**# of Units**	**Rent**
Studio	***60%***	2	$648
One Bedroom	***60%***	8	$670
Total Units		**10**	
Market Units		**# of Units**	**Rent**
Studio	***Market***	2	$683
One Bedroom	***Market***	35	$809-1,307
Total		**47**	

Staff Discussion on Need for Affordable Units

The project site is located in Census Tract 27.02 and the population and housing characteristics of this small census geography can serve as a proxy indicator for housing conditions and needs of the area in which this project is slated for construction. Currently, the housing situation in this sub geography of Portland is similar to prevalent trends in the market: a very tight rental housing market with very low vacancy rates and steep increases in rents. The following table provides the highlights:

Housing Counts in Proposed Site's Vicinity

Census Tract 27.02 (Project Location), Portland, Oregon	
Total Housing Units	**1,501**
Occupied	1,456
Vacant	45
Vacancy rate	**2.9%**
Owner occupied	601 (Homeownership: 41%)
Renter occupied	855 (Rentership: 59%)

Source: ACS 2006-2010

The vacancy rate of **2.9%** indicates a need for housing units in this transit options rich area and so utilization of this small vacant parcel for intense development that will add 47 multi-family over commercial use is certainly a public benefit. Additionally, there is a need for affordable rental units as demonstrated by the following table on housing cost burden experienced by households in Census Tract 27.02:

Housing Cost Burden of Renter-Occupied Units in Proposed Site's Vicinity

Census Tract 27.02 (Project Location), Portland Oregon	
Total:	**789**
Less than 15.0 percent	110
15.0 to 19.9 percent	102
20.0 to 24.9 percent	108
25.0 to 29.9 percent	151
30.0 to 34.9 percent	**152**
35.0 percent or more	**166**
Not computed	66

Source: ACS 2006-2010

Households that pay more than 30% of their income towards housing costs are considered cost burdened and it is clear from the above table that just over **40%** of the households in the vicinity of the proposed Project are cost burdened. This high proportion of cost burdened households is a

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consequence of high average rents and extremely low vacancy rates prevalent in this area. The increasing desirability of this area due to good transit connections, good schools and presence of amenities like the Hollywood Theatre has made this place an expensive place to live (for both low and moderate income households). Consequently, the addition of 47 units, 10 of which will be set-aside for households making 60% MFI (or less) provides an affordable option for low income households to live in an high opportunity area- an area that is close to active transportation and other amenities. This will certainly be a desirable public benefit. Also, due to the proximity of the Project to light rail and job centers, the combined expenditure on housing and transportation costs for residents will be considerably decreased.

<u>Public Benefit Options</u>

The applicant has stated that they will include several of the public benefit options detailed in the TOD program guidelines: **# 4, # 5, #14**

<u>Staff Discussion on Proposed Public Benefits</u>

The TOD program guideline requires that in addition to affordability set-aside and transit-oriented location, the development offer three other benefits from the prescribed list. The Hollywood Apartments is offering **three** public benefits in addition to the location eligibility and affordability set-aside. All benefits are self- explanatory but the benefit of getting affordable units as part of a mixed use building in a transit rich location is worth consideration. This area is becoming increasingly unaffordable as evident by the high market rents and low vacancy rates. So, to offer housing choice for households making below 60% MFI furthers the TOD program objectives of sustainable growth that furthers affordable housing options.

Staff Recommendation

Approve the request for the 10-year TOD property tax abatement for the residential component with the condition that all proposed public benefits be provided.

Attachments

Zoning and Site Map
PHB Investment Committee Report

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