PORTLAND HOUSING BUREAU
INTERNAL MEMORANDUM

DATE: February 9, 2012

TO: Housing Investment Committee

FROM: John Marshall

SUBJECT: Recommend Approval to the Planning and Sustainability Commission and City Council of a Ten Year §3.103 Property Tax Abatement for The 41 at Tillamook LLC (or affiliated entity) for the 41 at Tillamook Apartments located at 4110 NE Tillamook.

<u>Project Description:</u>

Dennis Sackhoff proposes to build 47 units of workforce housing between 41st and 42nd Avenue on Tillamook Street on a site directly across the street from The Bookmark Apartments in the Hollywood neighborhood. The 41st and Tillamook Apartments (Project) is a proposed new construction residential building that will replace a single story commercial building and surface parking. The Project will have 1 studio (312 sq ft) 37 one-bedroom units (414-6730 sq ft), and 9 two-bedroom units (673-684 sq ft). It is located on a major bike route that brings a large number of commuters to and from work each day.

It will be a four story elevator serviced building with approximately 23,000 square feet of residential space with concrete block and brick exterior. The units will be small helping the Project achieve high density. It is geared towards workforce housing serving a mix of single and couple tenants potentially with retail, service, and healthcare jobs or professional career starters who seek affordable living close to downtown and simple lifestyles. 20% of the units will be affordable to households earning 60% MFI or below. All units will have washer dryers. There will be 50 bike parking spaces, and no off street parking.

The Project has small and efficient floor plans to create marketable rental 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 199 units per acre, (more than three times greater than other surrounding residential buildings in the neighborhood), the

Project exceeds the 3.103 Portland City Code public benefit requirement of 68 units per acre.

The applicant proposes the development will meet Earth Advantage standards and achieve Energy Trust points with such things as high efficiency appliances and above code windows and insulation. The low energy project uses onsite storm planter to capture rainwater.

The site is located less than a third of a mile from the 42nd MAX station and near transportation routes and public transit.

Project's development team consists of The 41 at Tillamook LLC, Myhre Group Architects, and Creston Construction.

The applicant has represented the Project will be 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	1	60%	312	648	2.08
Studio	0	N/A	N/A	N/A	N/A
One BR	7	60%	414-673	670	1.27 -1.62
One BR	30	Market	485-673	825 -944	1.70 -1.75
Two BR	2	60%	684	800	1.17
One BR	7	Market	673-684	1,178-1,197	1.75
Total Units	**47**				

Public Benefits:

The Project proposes the following 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.

A least 20 percent of the units will be dedicated to persons with special needs by providing universal design features to meet accessibility requirements.

Permanent dedications to the public use including open space, community gardens, or pedestrian and bicycle connections to public trails and adjoining neighborhood areas, which may be in the form of bicycle repair area outside of the public right of way.

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 $5.6 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 6.38% 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 3.27% 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 on the residential improvements. 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

[1] 10 year average cash on cash

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 $112 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 $711,368 dollars assuming three per cent annual appreciation. The net present value using a 6% discount rate is $516,207. Of that total, approximately 33%, or $170,348 is attributable to City of Portland foregone revenue.

SOURCES AND USES:

		per unit	per person	per sq ft
		47	**84**	**23,000**
Uses				
Acquisition	$898,500	19,117	10,760	39
Construction	$4,063,079	86,448	48,660	177
Development	$434,557	9,246	5,204	19
Developer Fee	$235,000	5,000	2,814	10
	$5,631,136	**119,811**	**67,439**	**245**
Sources				
Permanent Loan	$4,223,352	89,859	50,579	184
Equity Investment	1,407,784	29,853	16,860	61
Total	**$5,631,136**	**119,811**	**67,439**	**245**

New construction cost per at $177 per square foot in hard costs appears a little high for construction of this type in this area. The $86,448 cost per unit is reasonable for construction of this type in the 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 The 41 at Tillamook LLC (or affiliated entity) to the Planning and Sustainability 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 Property Taxes for Residential Improvement taxes for 10 years and NPV
Attachment 5: Elevations, Floorplan, and Site Plan