Exhibit A

CITY OF
PORTLAND, OREGON
PORTLAND HOUSING BUREAU

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TO: Portland Housing Bureau (PHB) Housing Investment Committee with expanded representation from the Planning and Sustainability Commission and Multnomah County

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Recommend Approval of a Twenty Year Multiple-Unit Limited Tax Exemption Extension for **Pacific Tower** Located at 333 NW 4th Avenue.

Project Description:

Pacific Tower Associates LP received a ten-year tax exemption that went into effect in 2004 for their development built in 2003 at 333 NW 4th Avenue between NW Everett and Flanders Streets in Old/Town Chinatown within the Downtown Waterfront Urban Renewal Area. Pacific Tower (Project) was built on a surface parking lot and contains 156 housing units including thirty-four studio units, 111 one-bedroom units, and eleven two-bedroom units.

The Project is a sixteen story high-rise located on a 10,000 square foot, quarter block site. The building consists of 119,500 gross square feet with 111,100 square feet of residential space, 894 square feet of commercial space, and 32,796 square feet of common space. The building is a modern style Class A concrete and brick structure with main lobby amenities and high-speed elevators, a secured second floor commons with shared kitchen and meeting rooms, secured outdoor open space, and roof top viewpoint terrace with indoor and outdoor seating and individual raised-bed gardens.

Secured bicycle parking is provided on-site, and residents are provided with maps and other information on walking, bicycling, and public transit. The Project is half a block from MAX and the Transit Mall. The Project provides twelve parking spaces for the residents.

The Project was built to meet healthy and resource efficient environmental building standards by building, registering, and certifying with Earth Advantage.

The Project is owned by Pacific Tower Associates Limited Partnership, which has a ground lease with MRA Pacific, LLC. The Project was built by Walsh Construction Co.

Unit Mix and Affordability:

Unit type	Count	Sq Footage	Rent	MFI
Studio	5	380	383	30%
Studio	29	380-400	766	60%
One Bedroom	12	502-550	411	30%
One Bedroom	99	520-550	821	60%
Two Bedroom	1	725	493	30%
Two Bedroom	10	724	985	60%
	156			

Public Benefits:

Staff has reviewed the Project's application and determined it meets the minimum program threshold guidelines. The Project is subject to a long term affordability contract for a total of sixty years (another thirty years beyond the twenty-year extension of the tax exemption.) As an extension application, the Project was not scored against other applications or required to reach a threshold score. The Project does however continue to provide public benefits originally approved with the initial exemption and additional public benefits outlined in the current application announcement.

Affordability – 100% of units in the Project are affordable to households earning 60% or less of the area median family income, with eighteen of the units reserved for households earning 30% or less. The affordable units are distributed evenly amongst the unit mix, and the application states that the average income of renters based on 2012 rent rolls is 40% of area median family income.

Equity – The Project was successfully built pursuant to MWESB goals. The Project has been marketed to reach Asian seniors through outreach with community based organizations and by marketing the units in several languages and incorporating several design features reflecting the Chinese and Japanese history in the neighborhood.

Accessibility – All floors, facilities, and common areas of the Project are served by elevators, and all of the units are accessible ready. Project staff assists tenants with special needs who request help with such things as taking down their recycling and delivering packages to units.

Family Housing/Location – The Project is located in an area defined as having a high lack of family sized units. A small percentage (seven percent) of the units are two-bedroom.

Access to Amenities – The Project summary in the application describes the Project's proximity to schools, childcare, parks, and grocery stores and the property is within an area with a 20-minute neighborhood score of 83.

Gathering Space – A few of the Project's amenities include access to a large lobby for seating, gatherings, and meeting guests with an onsite café adjoining, secured meeting and open spaces on the second floor commons and the rooftop available to public and private community groups upon request, and rooftop garden space and all weather indoor seating area for residents.

Special Needs Populations – No units will be reserved specifically for "at-risk" or "special needs" populations however the Project provides on-site management services with connections to multiple community based service organizations including regular communication with case managers and an eviction prevention program.

Financial Evaluation:

- Scenario 1 - the financial performance of the Project with the tax exemption, and
- Scenario 2 - the financial performance of the Project without the tax exemption.
- Scenario 3 - the financial performance of the Project with the rents necessary to achieve feasibility without the tax exemption, setting the return equal to that of the financial performance with the tax exemption.

The applicant reportedly obtained the difference between the exempted and unexempted project from the Multnomah County Assessor. Commercial revenues are incorporated as a net figure and are necessary for the project to obtain the benchmarks discussed below.

As shown in Scenario 1, the Project's rate of return[1] with the exemption is volatile and then incalculable during the initial period of the previously approved exemption which becomes totally incalculable during the requested exemption extension period. The reason for this is that there is no equity contributed permanently to the project by the developer. Because the deferred developer fee is repaid over time, it leads to a highly variable return calculation followed by an incalculable/infinite return once it is retired. This is a tax credit project, so the deferred developer fee is part of the investor equity and tax credits equation and must be repaid within the compliance period for the project (15 years).

Presuming that the project performs at or close to projections, even with the tax exemption, there is a significant amount of cash flow dependent debt that will reduce any cash available to distribute and more closely mirror the debt service coverage ratio for all senior and conditional debt toward the bottom of the pro forma. Conditional debt is only payable when certain conditions around cash flow are met, and is cash flow dependent in nature.

As shown in Scenario 2, the Project's rate of return calculation isn't any more informative than Scenario 1.

Given that the customary return calculation doesn't tell the story, staff reviewed the debt service coverage ratio for the extension period. This review determined that the project would be in violation of any lender's minimum debt coverage covenant for the initial nine years of the requested extension period without the exemption and likely also struggling to cover the cost of operating the project.

As shown in Scenario 3, staff imputed rents in order to arrive at the same senior debt service coverage ratio as rents with the exemption in order to determine how much higher the rents would need to be to achieve the same result. Rents without the exemption would need to be an average of $64 a month per unit higher overall, which exceeds the maximum rent for all 17 of the units affordable at 30% MFI and could also prove problematic for the units affordable at 60% MFI. It is

[1] 10 year average cash on cash

difficult to say with certainty that the 60% MFI units would be in jeopardy of violating affordability covenants with this increase since HUD sets the rent maximums at periodic intervals and changes are not predictable.

The projected rents must also incorporate room for a utility allowance. In this project, the tenants pay the electricity bill, with the project paying for water/sewer. Staff examined the projected rents for adequacy and appropriateness of the implied utility allowance to ensure that rents weren't simply being projected lower than they should be. Rents estimated for the projections appear to be appropriately set.

The estimated ten-year value of exempted tax revenue is approximately $2,486,751 in today's dollars assuming a 4.5[2] per cent discount rate, a three percent annual assessment increase.

Conditions:

The Project will be required to carry an extended use agreement, according to the terms of City Code 3.103.070(A) and submit Project financial information annually during the exemption period.

Recommendation:

Staff recommends the approval of a twenty-year property tax exemption for the residential portion, including parking, of Pacific Tower owned by Pacific Tower Associates Limited Partnership (or affiliated entity) to the Portland City Council because the Project meets the minimum threshold and financial need requirements set forth in Section 3.103 of Portland's City Code.

[2] This rate was established in discussions with the City's Debt Manager