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PORTLAND HOUSING BUREAU

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Exhibit A

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DATE: January 5, 2016

TO: Portland Housing Bureau (PHB) Investment Committee

FROM: Dory Van Bockel, PHB Housing Program Coordinator

SUBJECT: Recommend Extending the Ten-Year Multiple-Unit Limited Tax Exemption for **Sitka Apartments** Located at 1230 NW 12th Ave

Background:
Block 14 Limited Partnership ("Applicant"), with the General Partner of Praxis Partners LLC (consisting of members Turtle Island Development LLC and Williams & Dame Development Inc.), was approved for a New Multi-Unit Housing Limited Tax Exemption in 2004 for their proposed 210 unit mixed-income rental housing apartment project. The Sitka Apartments (Project) was completed in late 2005 and is located in the Pearl District at NW Northrup Street between 11th and 12th Avenues. The Project ultimately consists of 209 units, 203 of which have restricted 60-year affordability requirements. Block 14 Limited Partnership consists of three funds of Homestead Capital (now a subsidiary of National Equity Fund) as the limited partner and Praxis Partners LLC remaining as the General Partner. Praxis now consists of Winfield Hill Inc. (a nonprofit subsidiary of BRIDGE Housing Inc.) and Turtle Island Development LLC. (Each member owns a 50% share of Praxis.) The Project is being managed by Pinnacle Property Management. The ten-year property tax exemption is expiring so the Applicant has submitted an application to extend the exemption and affordability requirements for another fifteen years.

The Multiple-Unit Limited Tax Exemption (MULTE) Program allows for the extension of an existing tax exemption for the affordable units of projects with other restrictions on affordable rents. This project was eligible to apply because it has three financing sources that place long term restrictions on incomes and rents – Low-Income Housing Tax Credits (30-year restrictions), tax-exempt bonds issued by Oregon Housing and Community Services (30-year restrictions), and a low-interest loan originally issued by the Portland Development Commission (60-year restrictions).

Project Description:
The Project consists of two six-story buildings separated by an open courtyard. The east building has ground-floor commercial space and the west building has 6 market-rate housing units on the ground floor. The Project is located in the Pearl District within the River District Urban Renewal Area. The building has 172,450 square feet above-ground consisting of 164,804 gross square feet of residential space, including common areas, and the remaining space dedicated for commercial use. The unit-mix is comprised of sixty (60) studios, one hundred two (102) one-bedroom units and forty-seven (47) two-bedroom units. Of the 203 restricted units, 131 are made affordable to households earning no more than sixty (60) percent of Median Family Income (MFI) and seventy-two (72) are further made affordable to households earning no more than fifty (50) percent of MFI.

Underground parking takes up a full city block, like the Project does, with 125 spaces available to the tenants. The garage features a bike corral, plus there are two secure bike rooms off of the courtyard space. The Portland Streetcar stops immediately in front of the Project. As a sponsor of the stop and shelter, the Project is able to purchase discounted transit passes for tenants.

The building was designed and built and is being maintained with a focus on energy efficiency. The building envelope, interior insulation, lighting, and appliances are among the features selected to increase energy-efficiency in the Project.

The Project is situated in a desirable, urban setting with two City parks – Tanner Springs and The Fields – adjacent to the site. The neighborhood provides a variety of shops and restaurants. The Project features ground floor lounges for residents to gather by the fireplace, and has a fitness room in each building as well. Tenants also have access to a furnished guest suite to rent for visiting guests.

Unit Mix and Affordability:
The Project consists of 209 housing units as detailed below:

Unit type	Count	2015 Rent w/ utility allowance*	Net rent w/out utility allowance	Income & Rent Limits
Studio	20	$543	$494	50% MFI
Studio	40	$693	$644	60% MFI
One Bedroom	42	$697	$636	50% MFI
One Bedroom	60	$812	$745	60% MFI
Two Bedroom	10	$836	$750	50% MFI
Two Bedroom	31	$1,003	$908	60% MFI
Two Bedroom	6	$1,877	$1,782	Market
Total	**209**			

*Utility allowances used for the project are $49 for studios, $61 and $67 for 1-bedroom units and $86 or $95 for 2-bedroom units.

Public Benefits:
When the Project was approved for the New Multi-Unit Housing Limited Tax Exemption Program in 2004, the City's goals for the tax exemption programs were similar to what they are today. Developed in a high-transit area with close proximity to amenities, the Project met the goals of providing affordable housing in the downtown core, with gathering areas available to the tenants and public, in a high-quality, energy-efficient building. The Project provides a good number of two-bedroom units in an area lacking in family-sized housing and was built to have ten of the units be fully accessible to people with disabilities. Tenant services have included financial literacy and homeownership counseling with a goal of helping tenants improve their financial situation while living at the Sitka. As such, the Project still supports the MULTE Program goals of Affordability, Equity and Accessibility.

Financial Evaluation:
The 10-year income projections derived from the pro formae are broken down into three scenarios:

- 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 affordable rents must incorporate room for a utility allowance. In this project, tenants pay for electricity, water and sanitary sewer which reduces the net rent charged. Staff examined the rents for adequacy and appropriateness of the implied utility allowance and determined that the rents are appropriately set.

In Scenario 1, the Project's 10-year average cash on cash rate of return with the exemption for the improvements is 1.7%.

In Scenario 2, the Project's rate of return calculation without the exemption and using the same rental rates is -0.4% over the 10-year evaluation period because of the increased property taxes. The Project very obviously needs the tax exemption in order to maintain a positive cash-flow. The Project debt would need to be restructured, additional equity would need to be added to the Project, or eliminating the affordable rents would be necessary in order for it to be financially viable without the exemption.

In Scenario 3, imputed rents are utilized in order to arrive at the same investor return as Scenario 1 with no tax exemption for the improvements. Rents of the affordable units without the exemption would need to be increased over 13%, an average of $90 a month per unit higher, and the Project would not be able to provide the required affordable rents.

The current annual value of the tax exemption for the 2015-16 tax year is $200,987, which applies to the taxes due on the assessed value of the structural improvements of the Project. The Project's 2015-16 taxes due for the land total $62,597.

By extending the exemption for another ten years on the residential portion that is dedicated to affordable units, the total additional estimated value of exempted tax revenue is approximately $1,547,668 in today's dollars assuming a 5.0 percent discount rate (selected in consultation with the City's Debt Manager), and a three percent annual assessment increase. Under the proposed extension, the Project will pay increased property taxes in 2016-17 including taxes due on the land, the commercial space and the market-rate portion of the residential improvements. The estimated first-year value of the extended exemption is $176,925.

The Project is located within the River District Urban Renewal Area. Staff confirmed with the City's Debt Manager that there are no conflicts with extending the tax exemption.

The City of Portland provided construction and permanent financing through Tax Increment Financing to the Project. The Project also utilized Low-Income Housing Tax Credits and tax-exempt bonds. All three funding sources require the Project to maintain the affordable rents, which is made possible by the tax exemption.

CONDITIONS:
The Project will be required to carry an extended use agreement on title to reflect the extension of the tax exemption and submit tenant income and rents annually during the exemption period, according to the terms of City Code 3.103.070.

RECOMMENDATION:
Staff recommends to the Portland City Council extending the property tax exemption for ten (10) years, which will apply to the affordable portion of the residential space and the same percentage of associated parking and common area because the Project meets the program requirements set forth in Section 3.103 of Portland's City Code.