RESOLUTION NO. 3350

A RESOLUTION APPROVING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR PROPERTY LOCATED AT OR NEAR 105 NE FRANKLIN AVENUE

Findings:

A. The Bend City Council adopted 12.35.010 to 12.35.050 of the Bend Municipal Code (BMC), implementing the Multiple-Unit Property Tax Exemption (MUPTE) program as allowed under ORS 307.600 to 307.637.

B. MUPTE enables the City Council to grant up to a 10-year property tax exemptions to qualified multi-unit housing projects to encourage higher density housing and redevelopment in the City's core and transit-oriented areas as defined in BMC 12.35.015.

C. Pursuant to ORS 307.606(1) and BMC 12.35.030.F., if the combined rates of taxation of the City and of all taxing districts whose governing boards agree to the tax exemption policy for the project equal 51 percent or more of the total combined rate of taxation on the property granted the exemption, the exemption is for the property taxes of all taxing districts.

D. To qualify for MUPTE, a project must include three or more dwelling units, provide public benefits as provided in BMC 12.35.030, be at least two stories in height (or if on a lot larger than 10,000 square feet, be at least three stories in height), be located in an eligible area, and provide at least three public benefits, as provided in BMC 12.35.025. Public benefits must include at least one of: 10% of the units provided as affordable housing units, at least 30% of the units provided as middle-income units, childcare facilities, and open space or publicly accessible park or plaza. Other public benefits may include constructing to a high standard of energy efficiency, providing transit-supportive or mobility-supportive amenities, ground floor commercial, heightened stormwater

E. The tax exemption under MUPTE applies to residential improvements only, however, the exemption may also apply to parking constructed as part of the multiple-unit housing project, and commercial improvements required as part of the design or public benefits of a project.

F. In June 2023, the City received an application for MUPTE for a project on a portion of taxlots generally located at 105 NE Franklin Avenue in Bend, Oregon, owned by New Zone Business, LLC, proposing two new 5-story buildings with residential housing units and surface parking, approved under City of Bend Site Plan number PLSPR20230059 (the "Project"). The Project is located in the Core Area Tax Increment Finance District, which is an area eligible for MUPTE, and proposes approximately 199 new dwelling units, though this number may change through further project development. The Project will provide the following public benefits for the MUPTE: a high standard of energy efficiency by installing green building features and achieving Earth Advantage Platinum Certification, enhanced landscaping through the use of native and pollinator friendly plants, and 50% of the parking spaces will have EV charging infrastructure.

G. The Project includes a north building that fronts NE Franklin Avenue. Because NE

Franklin is a main street, commercial-ready space is required by the Bend Development Code on the first floor of the north building. Therefore, the commercial-ready space in the north building is also eligible for the tax exemption.

H. The City retained an independent professional consultant to review the Project's financial pro-forma. This consultant determined that the Project would not be feasible but for the tax exemption.

I. As provided in the Staff Report and Recommendation, attached as Exhibit A to this Resolution, Staff found that the applicant submitted all required materials, and the applicant complies with the program requirements. Staff therefore recommend the application be approved and the exemption granted.

J. On November 14, 2023, the Bend-La Pine School District (Administrative School District No. 1) adopted Resolution No. 1957, agreeing to the policy of the multiple-unit property tax exemption for the Project.

K. The Bend La-Pine School District represents 41.3 percent of the 2023 combined tax levy and the City of Bend represents 22 percent of the 2023 combined tax levy. Approval of the multiple-unit property tax exemption from both the Bend La-Pine School District and City of Bend exceeds 51 percent of total combined rate of taxation for the property located at 105 NE Franklin Ave.

L. Therefore, the MUPTE Program criteria defined in BMC 12.35.0010 to 12.35.050 and accompanying City policies have been met, subject to the conditions in this Resolution.

Based on these findings, the City of Bend resolves as follows:

Section 1. The application for the multiple-unit property tax exemption for a development on tax lots 171232DA08400, 171232DD09201,171232DD09700, 171232DD09800, as they may be consolidated or adjusted, is approved for the ad valorem taxes for all taxing districts for residential improvements, required commercial-ready space and parking constructed under City of Bend Site Plan approval number PLSPR20230059, subject to the following conditions:

a) Applicant must provide proof of a deed restriction that prohibits the use of hotels, motels, and short-term vacation rentals on the site for the period of the exemption.
b) Applicant must demonstrate Earth Advantage Platinum Certification for both residential buildings subject to this exemption before City staff will certify the exemption to the County assessor.
c) Applicant must submit a water budget to City staff for approval prior to exemption certification. The City will monitor water use throughout the 10-year exemption period. The site can't exceed 20% above the water budget approved before City staff certifies the exemption to the County assessor for the site during the exemption period.
d) Applicant must demonstrate that 50% of parking spaces on the subject taxlots have EV charging infrastructure prior to Certificate of Occupancy.
e) The Project must continue to comply with all requirements of the

MUPTE program at Certificate of Occupancy and throughout the exemption period.

Section 2. The tax exemption granted by this Resolution begins July 1 of the year following issuance of a Certificate of Occupancy for the Project, unless the exemption is earlier terminated in accordance with the provisions of BMC 12.35.035. The exemption approved by this Resolution is for the residential buildings and any parking and required commercial-ready space on the same taxlots.

Section 3. City staff are directed to file with the county assessor and send to the applicant at the applicant's last known address a copy of the resolution approving the application on or before April 1, 2024, and to certify the Project as exempt to the County assessor following issuance of Certificate of Occupancy and verification of compliance with all requirements of this Resolution and the BMC Chapter 12.35.

Section 4. If construction of the Project has not been completed and the residential buildings that are subject to this exemption have not received a Certificate of Occupancy on or before January 1, 2031, this approval shall be void unless extended by Resolution of Council at the property owner's request and upon demonstration that the failure to complete the Project was due to circumstances beyond the control of the owner, and that the owner has been acting and could reasonably be expected to act in good faith and with due diligence, pursuant to BMC 12.35.040. Such extension may not exceed 12 additional consecutive months.

Section 5. In addition to the findings set forth above, the City Council adopts and incorporates the Staff Report and Recommendation, attached as Exhibit A, as its findings.

Section 6. This Resolution takes effect immediately upon passage.

Adopted by a vote of the City Council on December 6, 2023.

YES: Mayor Melanie Kebler
Mayor Pro Tem Megan Perkins
Councilor Barb Campbell
Councilor Anthony Broadman
Councilor Ariel Méndez
Councilor Mike Riley
Councilor Megan Norris

NO: none

Melanie Kebler, Mayor

ATTEST:

Robyn Christie, City Recorder

APPROVED AS TO FORM:

Mary A. Winters, City Attorney

Administrative School District No. 1
Bend-La Pine Schools
RESOLUTION NO. 1957

Resolution Agreeing to Tax Exemption for a Multiple-Unit Housing project under ORS 307.600 to 307.637 and Sections 12.35.010-12.35.050 of the Bend Code

WHEREAS, the City of Bend adopted Sections 12.35.010-12.35.050 of the Bend Code implementing the State's Multiple-Unit Property Tax Exemption (MUPTE) policy pursuant to ORS 307.600 to 307.637; and

WHEREAS, the MUPTE enables the City Council to grant 10-year property tax exemptions to qualified multi-unit housing projects to encourage higher density housing and redevelopment in certain areas within the City of Bend, including in the City's Core Area Tax Increment Finance (TIF) Area; and

WHEREAS, pursuant to ORS 307.606(1), if the combined rates of taxation of the governing body that adopted the exemption policy and the rates of all taxing districts whose governing boards agree to the tax exemption equal 51 percent or more of the total combined rate of taxation on the property granted the exemption, the County Assessor may exempt such property from all property taxes; and

WHEREAS, There is a pending application for a MUPTE project located at 105 NE Franklin Ave.

WHEREAS, Bend-La Pine Schools has conferred with the other taxing districts and has determined that they agree with the exemption policy for the project located at 105 NE Franklin Ave; and

WHEREAS, ORS 307.606(1) is applicable to Bend-La Pine Schools and Bend-La Pine Schools concurs with the exemption for such project.

NOW, THEREFORE, BE IT RESOLVED THAT the Bend-La Pine Schools agrees to the policy of the multiple-unit property tax exemption for 105 NE Franklin Ave., Bend, Oregon for a multiple-unit housing project as provided in Sections 12.35.010-12.35.050 of the Bend Code within the TIF Area.

Moved by: Amy Tatom

Seconded by: Marcus LeGrand

Yes votes: 7 No votes: 0

Dated this 14 day of November, 2023

Signed:

Chair

Vice Chair

Attest:

Janet Bojanowski

Board Secretary

STAFF REPORT FOR
MULTIPLE UNIT PROPERTY TAX EXEMPTION

CITY OF BEND
COMMUNITY AND
ECONOMIC DEVELOPMENT

PROJECT NUMBER:	PRTX202303730
CITY COUNCIL DATE:	December 6, 2023
APPLICANT/ OWNER:	Project^ Caroline Baggott 1116 NW 17th Avenue Portland, OR 97209
OWNER:	New Zone Business LLC 1116 NW 17th Avenue Portland, OR 97209
APPLICANT'S REPRESENTATIVE:	n/a
LOCATION:	105 NE Franklin Avenue; Tax Lots 171232DA07900, 171232DA08001, 171232DA08200, 171232DA08400, 171232DD09201,171232DD09700, 171232DD09800, Between Franklin and Emerson Avenues, the Railroad, and along NE 1st Street
REQUEST:	Multiple Unit Property Tax Exemption (MUPTE), 10-year tax abatement on residential improvements
STAFF REVIEWER:	Cate Schneider, Senior Management Analyst
RECOMMENATION:	Approval
DATE:	September 29, 2023

PROJECT & SITE OVERVIEW:

The project site is located at 105 NE Franklin Avenue and is zoned Commercial Limited (CL) and Mixed Employment (ME) within the Bend Central District Special Planned District. The project proposes two new five story multi-family structures at the north and south ends of the site. The north building is proposed to be a mixed-use building with 80,913 gross square feet that includes 100 rental units and 5,219 square feet of commercial space. The southern building is proposed as a 75,383 square foot multi-family building with 99 rental units. In total, the project proposes to build 199 residential units with the following unit mix:

- 103 studios
- 78 1-bedroom units
- 18 2-bedroom units

(During the site plan review process the applicant slightly modified the unit count. The unit numbers above are what was in land use application approval and differ slightly from the MUPTE application materials.)

The three public benefits that the project plans to incorporate, if approved for MUPTE, include:

- High Standard of Energy Efficiency/Green Building Features through Earth Advantage Platinum Certification (Priority Public Benefit)
- Enhanced Landscaping- the project will use native and pollinator friendly plants
- Electric Vehicle (EV) Charging Infrastructure- the project will provide 50% of its total provided parking spaces with EV charging infrastructure.

In addition to these public benefits, the project plans to build a public plaza space that will include trees, landscaping, seating alcoves, benches, and an area for pop-up events that will account for more than 10% of the site's area as well as enhance NE 1st Street through the site with a pedestrian oriented street and provide private amenity space inside the buildings for co-working, fitness and wellness centers and lounge/gathering spaces.

The property where the project is proposed was formerly the location of the Les Schwab Tire Center that recently relocated to NE 3rd Street. The site is currently unoccupied.

A Type II Site Plan Review application (PLSPR20230059) was approved on September 13, 2023.

Figure 1. Site Location

Figure 2. Project Rendering

AERIAL VIEW OF 1ST STREET - RENDERING

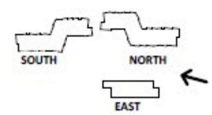
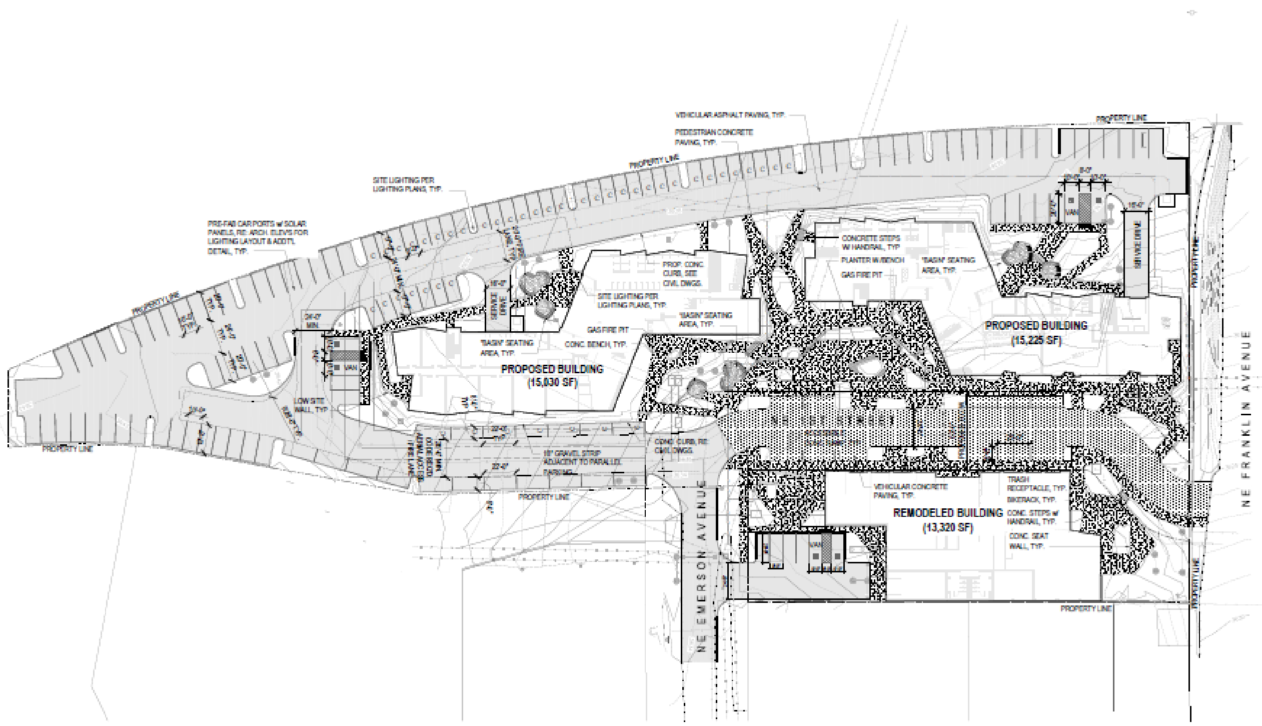


Figure 3. Site Plan



INFRASTRUCUTURE NEEDED TO SERVE THE SITE

The applicant submitted a sewer and water analysis through their application PRSWA202208184. The City identified preliminary mitigations necessary for this site to be served with infrastructure that will be finalized based on the final design submittal required by the land use approval for this site. The applicant received a letter from City of Bend Private Engineering Division confirming this as part of their application.

ELIGIBILITY CRITERIA

APPLICATION OF THE CRITERIA:

LOCATION/ELIGIBLE ZONE REQUIREMENTS

This project is located within the Core Area Tax Increment Finance Area which is an eligible site for the MUPTE Program per BMC 12.35.015(D).

MULTI-STORY REQUIREMENTS

Projects on lots that are greater than 10,000 sf are required to be three (3) or more stories in height to be eligible for the MUPTE Program per BMC 12.35.015(C). The proposed project is located on a lot larger than 10,000 square feet and is proposing both buildings to be 5 stories and therefore satisfies this requirement.

HOTELS, MOTELS, SHORT TERM VACATION RENTALS ON SITE

The MUPTE Program requires that projects include a restriction on transient occupancy uses, including use by any person or group of persons entitled to occupy for rent for a period of less than 30 consecutive days (including bed and breakfast inns, hotels, motels, and short-term rentals). If Council approves this project, the applicant will need to demonstrate a restriction of uses on the property for the period of the exemption satisfactory to the City before staff certifies the exemption with the County Assessor's office.

DEMONSTRATION OF FINANCIAL NEED

The applicant submitted a proforma income statement both with and without the tax exemption to demonstrate that the project would not be financially viable but for the property tax exemption. These proforma were then reviewed by a third party independent financial consultant hired by the City.

Johnson Economics completed a review of the proformas in July 2023. A summary of their findings is included as Attachment A. The review confirms that the Platform project is not financially viable on its own; the assumed returns are below what would be necessary for the market to develop this project. The analysis demonstrates that even with the MUPTE benefit, the project is still operating on tight profit margins.

Based on the findings of the financial analysis, the applicant was asked to clarify the basis for their construction cost assumptions. They provided copies of the cost estimates they received from three general contractors.

JUSTIFICATION FOR ELIMINATION OF ANY EXISTING HOUSING AND BUSINESSES ON THE PROJECT SITE

The existing site is vacant and therefore there is no anticipated displacement of housing or businesses by the project and therefore no mitigation is proposed. This meets the requirements of the MUPTE Program.

PUBLIC BENEFIT REQUIREMENTS

MUPTE requires that applicants provide three public benefits including one priority public benefit to qualify for the MUPTE program, per BMC 12.35.025.

Priority Public Benefit

The applicant plans to receive Earth Advantage (EA) Platinum certification for both buildings. This requires the applicant to incorporate a high level of sustainable, energy efficient and green building features. The applicant submitted documentation including a preliminary scoring sheet that demonstrates that they are on track to reach EA Platinum certification. Approval will be conditioned on future verification of EA Platinum certification.

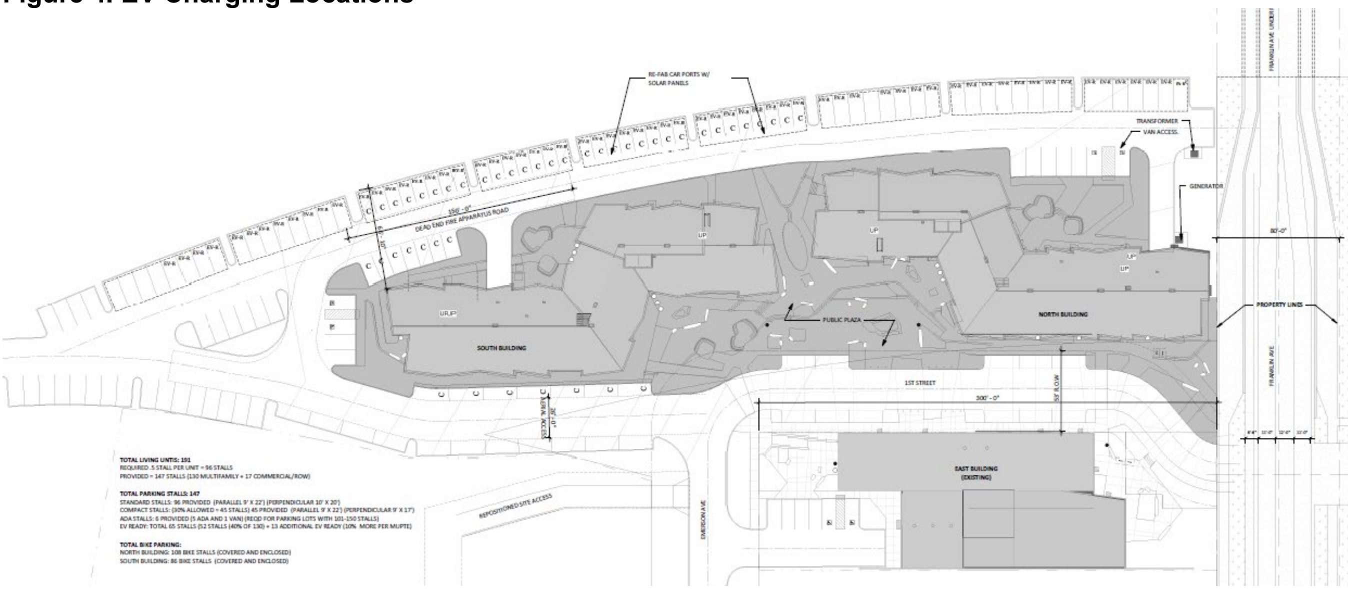
Additional Public Benefits

In addition to the Priority Public Benefit, the applicant is required to provide two additional public benefits. The applicant plans to utilize the following benefits to meet those requirements: 1) Enhanced Landscaping; and 2) Electric Vehicle (EV) Charging.

Enhanced Landscaping: The applicant has submitted preliminary landscaping plans developed by Szabo Landscape Architecture that are consistent with Chapter 12 of the Bend Code and Chapter 3.2 of the Bend Development Code. The current plans include no grass areas. Future approval will be conditioned based on future staff verification that the applicant meets Chapter 12 of Bend Code and Chapter 3.2 of the Bend Development Code as well as the submittal and approval of a water budget for the site. The City will monitor water use throughout the 10-year exemption period. The site cannot exceed 20% above the approved water budget during the exemption period.

Electric Vehicle (EV) Charging: Applicant is required to provide at least 10 percent more parking spaces with EV charging infrastructure, conduit for future electric vehicle charging stations, than the minimum required. Currently Oregon Building Codes require that multifamily projects provide 40% of provided parking spaces with EV charging infrastructure. Therefore, the applicant is required to provide at least 50% of parking spaces with EV infrastructure. The applicant plans to provide 117 onsite parking spaces for the north and south buildings; therefore, 59 of these spaces must be provided with EV charging infrastructure. The applicant plans to provide 65 parking spaces with EV charging infrastructure.

Figure 4. EV Charging Locations



ESTIMATED EXEMPTION: This project is estimated to receive a total 10-year tax exemption of approximately **$4,400,000** based on an estimated building value of $43,953,675 for only the residential improvements.

The total estimated tax collection for this project between fiscal years 2027 through 2036 is estimated to be $5,600,000 without the exemption and $1,200,000 with the exemption. If the project were to not move forward, total tax collection for the 10-year period of the site would be approximately $585,000.

The estimated impact of this exemption would only impact the Bend Urban Renewal Agency's Core Area Tax Increment Finance Fund. The project, if approved for the tax exemption, is estimated to generate approximately $11,100,000 in TIF revenue over the 30-year lifetime of the district.

Estimates assume that building value, the proportion of the project that is commercial, and timeline are all provided by the developer. The estimate is preliminary and subject to change and is based on a variety of factors including Deschutes County Tax Assessor's assessment of the property and future change property ratio (CPR) rates. Estimates could also vary depending on when the Core Tax Increment reaches the maximum indebtedness established in the Plan ($195 Million).

TAXING DISTRICT REVIEW PROCESS

All of the Taxing District agencies are being provided with a 45-day comment period to review the application materials and this staff report which will occur between September 29 – November 13, 2023.

In order for the tax exemption to apply to the full taxable amount, approval by taxing district agency boards that comprise at least 51% of the combined tax levy is required. The City is seeking to have the policy of the MUPTE program approved by all of the taxing districts. This application is being considered individually while an approval process for the policy of the MUPTE program is worked on.

Expected timeline for taxing district review of 105 NE Franklin

- September 29 – November 13, 2023: Review and comment period for all taxing districts
- November 14, 2023: Bend-La Pine School District review and decision
- December 6, 2023: Bend City Council review and decision on the MUPTE application for 105 NE Franklin

CONCLUSION: Based on the application materials submitted by the applicant, and these findings, the proposed project meets all applicable criteria for City Council approval.

CONDITONS TO BE MET IF APPROVED, IN ADVANCE OF EXEMPTION CERTIFICATION WITH TAX ASSESSOR'S OFFICE:

1. Applicant must provide proof of a deed restriction that prohibits the use of hotels, motels, and short-term vacation rentals on the site for the period of the exemption.
2. Applicant must demonstrate Earth Advantage Platinum Certification for both multifamily buildings prior to exemption certification.
3. Applicant must demonstrate compliance with Enhanced Landscaping Requirements to be verified by staff.
4. Applicant must submit a water budget to City staff for approval prior to exemption certification. The City will monitor water use throughout the 10-year exemption period. The site can't exceed 20% above the water budget for the site during the exemption period.
5. Applicant must demonstrate that EV Charging infrastructure is provided as approved for the MUPTE Program in future inspections prior to Certificate of Occupancy.

ATTACHMENTS

- **Attachment A**: Review of MUPTE Application, Project^, 105 NE Franklin Memorandum prepared by Johnson Economics
- **Attachment B:** Application Materials

MEMORANDUM

DATE:	July 14, 2023
TO:	Allison Platt Core Area Project Manager CITY OF BEND
FROM:	Jerry Johnson JOHNSON ECONOMICS, LLC
SUBJECT:	Review of MUPTE Application, Project^, 105 NE Franklin

Johnson Economics was asked to provide an independent review of an application for the City's Multi-Unit Property Tax Exemption (MUPTE). The application reviewed was submitted by project^ and is for a proposed mixed-use development program on a 3.53 acre site at 105 NE Franklin Avenue. The development would include two five-story multifamily structures on the north and south ends of the site, with wood frame construction over a steel podium. The project would offer 191 market rate rental apartments, as well as 25,026 square feet of ground floor commercial space.

The MUPTE is a ten-year property tax exemption. The net impact of the program is a reduction in annual costs for the period associated with property taxes, which provides a substantive boost to project viability. Our analysis included a review of materials submitted by the applicant as well as a pro forma evaluation of the project's viability with and without the MUPTE program. The information used in our analysis was largely derived from materials submitted as part of the application. Appendix A includes a glossary of terms.

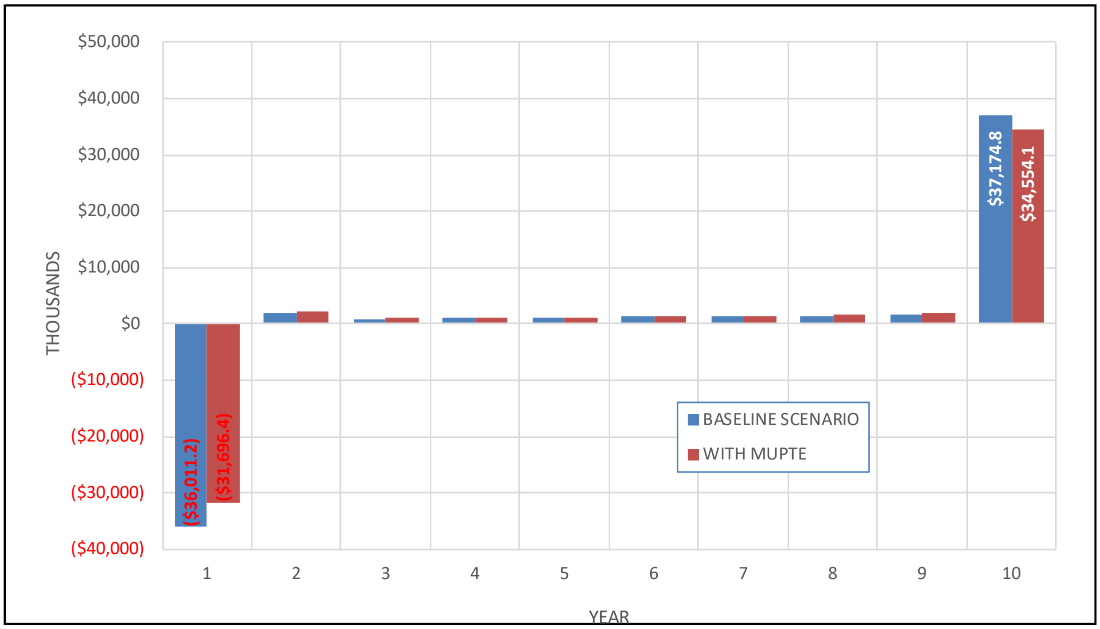
A. KEY CONCLUSIONS

The proposed development program for the site includes 191 market rate rental apartment units, as well as roughly 25,000 square feet of ground floor commercial space. The proposed unit mix is heavily weighted towards smaller units, with studios and one bedroom units accounting for over 90% of the mix. We consider the assumed rent levels to be aggressive in the current market, and achievable rent levels may not be as high as assumed.

Our analysis indicates that the project would not be viable without availability of the MUPTE based on the assumptions outlined. The indicated returns are well below what we would consider adequate to incur the development risk for this project. Inclusion of the MUPTE over a ten-year period would likely make this project viable, although the margins remain tight. The determination of "viability" was based on the project delivering the targeted threshold rate of return (5.50%) at stabilization. While the project does not quite meet this threshold in our analysis, it would only require a 0.5% reduction in cost to meet the targeted return.

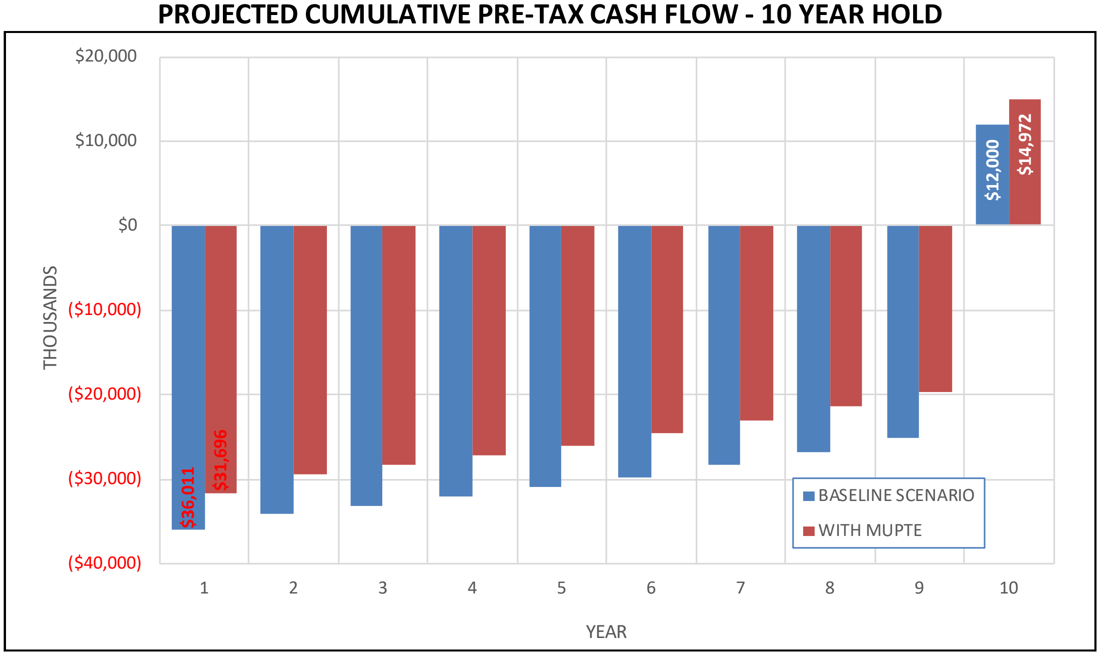
The primary impact of the MUPTE program is a reduction in operating costs for a set duration, which helps the project meet the loan underwriting standards (1.25 DCR) and reduce the needed equity to an amount that can more reasonably be attracted to the project. As summarized in the following graph, initial equity requirements are higher without the MUPTE because the project cannot support as much debt, and interim annual cash flows are lower. The net gain from an assumed sale in year 11 is lower with the MUPTE, as a higher level of debt is assumed to be supportable and therefore the outstanding debt level at reversion is higher. The cumulative projected pre-tax cash flow through the ten year period is $12.0 million without the MUPTE and $15.0 million with the abatement assumed.

PROJECTED NET PRE-TAX CASH FLOW - 10 YEAR HOLD



SOURCE: Johnson Economics

PROJECTED CUMULATIVE PRE-TAX CASH FLOW - 10 YEAR HOLD



SOURCE: Johnson Economics

Many of the assumptions used are reliant upon the information provided by the applicant. We consider the pricing assumptions to be aggressive, but the relatively small unit sizes will help keep absolute rents affordable. Anticipated construction costs per unit are higher than typical for this type of construction based on our recent experience, but we cannot provide qualified commentary on these costs. If more detailed cost estimates were available from a qualified contractor, it would provide additional support for the analysis. Our expectation is that the applicant has this information, but it should be made available as part of the application materials.

The applicant's relatively high assumptions on cost reduce indicated viability, while aggressive assumptions on income and a low threshold rate of return increase the indicated viability. A reduction in the cost of debt (interest rates) by the time the project is initiated and when permanent financing is secured would support the assumed threshold rate of return, and we view this as likely over the next few years.

Variable	Assessment	Implications
Construction Costs	Quite high for this type of construction based on recently completed similar projects. Construction costs have seen significant escalation over the last several years.	Higher construction costs decrease viability and increase the need for subsidy. The applicant should provide more support for the cost assumptions.
Residential Rental Rates	Aggressive in the current market.	Higher assumed achievable rental rates reduce the need for subsidy.
Commercial Lease Rates	Aggressive, but limited information on product.	This assumption also bolsters viability and reduces the need for subsidy.
Threshold Rate of Return	Historically typical, but not reflective of the current interest rate environment.	This assumption increases viability and reduces the need for subsidy, but likely assumes a future drop in interest rates.
Debt Coverage Ratio	The assumed debt coverage ratio is considered aggressive in the current market.	This assumption increases viability and reduces the need for subsidy by increasing the supportable debt and reducing the need for equity.

B. Program

The proposed development program for the site would include 191 market rate rental apartment units, with an average annual rent level of $1,954 in current dollars. This reflects an average annual per square foot rent level of $3.57.

Summary of Residential Program and Pricing (2012 $s)

	Program Mix			Average Monthly Rent	
Unit Type	Units	% Mix	Size (SF)	Per Unit	Per SF
Studios	96	50.3%	426	--	--
1B/1b	77	40.3%	619	--	--
2B/2b	18	9.4%	889	--	--
Total	191	100.0%	547	$1,954	$3.57

The proposed unit mix is heavily weighted towards smaller units, with studios and one bedroom units accounting for over 90% of the mix. The rent levels assumed are quite aggressive on a per square foot basis, and there is little precedent to support these rent levels outside of The Hixon. The small unit sizes will help keep the overall price point down, nonetheless we view the rent assumptions to optimistic in this market.

The program also includes over 25,000 square feet of ground floor commercial space. The materials submitted did not include a description of the space, including frontage and dimensions. The viability of commercial space is highly dependent on orientation, visibility, and accessibility. Our commentary on this portion of the program is limited by our lack of detailed information.

C. Assumptions

A number of assumptions must be made to evaluate the viability of the development program. As noted previously, the applicant's income assumptions are viewed as aggressive within the Bend market.

The developer provided materials contained the following assumptions:

Assumption	Provided	Comments
Housing Efficiency	71%	This factor represents the share of gross square footage that is leasable. The ratio used is relatively low, which increases the per square foot costs per unit. This may reflect the amenity package, which includes storage, co-working space, fitness and wellness centers, and lounge/gathering space.
Retail Lease Rate	$36 NNN	This is also a relatively aggressive assumption, as is a 5% vacancy assumption for the retail space in this location. This assumption increases the projected viability of the project, as a lower assumed lease rate would reduce projected income.
Parking Income	$65/Month	This seems reasonable
Capitalized Value	5.55%	This appears to reflect the return on cost as opposed to the labelled "Capitalized Value" but is consistent with typical threshold yield requirements for this type of project.
Senior Debt Interest	5.75%	The cost of debt is highly volatile in the current market, but this assumption seems reasonable. At this rate, the project will have issues with negative leverage at a 5.55% return on cost. Negative leverage occurs when the return is lower than the cost of debt, in which case the return on equity is below the unlevered rate of return.
Senior Debt Limit	60%	Loan to cost limit, typically conservative but reflective of the current market.
Developer Fee	4.50%	This is a reasonable fee for a project of this complexity.
Threshold Return	5.50%	A 5.50% assumed return on cost appears to have been the key return threshold used by the developer to assess viability. This assumption is quite aggressive in the current market but may reflect strong investor interest and an expectation that interest rates will decline prior to permanent financing.
Property Taxes	$450,000	The developer assumption of the initial year savings in property taxes from the residential component of the project. We are not sure if this reflects property taxes associated with the land and commercial components, which are not eligible for the abatement. For our analysis we discounted this number by 15%.

Additional assumptions in our analysis included an assumed annual escalator of 3.0% for both income and expenses. Permanent financing was assumed to have a minimum debt coverage ratio (DCR) of 1.25, with a 30-year amortization term. No refinance was assumed during the ten year cash flow for simplicity.

Construction costs were derived from the application and reflect a total cost of just under $78.7 million for the project. This reflects a per unit cost of $411,894, which is higher than we would expect for the type of construction proposed. The project does include retail space, which accounts for roughly 7% of the hard costs. Assuming this ratio carries through the project, the indicated cost per unit for the residential units would be $383,000 per unit. While elevated relative to recent similar projects we have worked on, the cost differential is likely attributable to the local contracting environment, high sitework costs due to demolition, extensive landscaping, and the choice of siding. Considering these factors, we view the cost assumptions to be dependable but would welcome additional support from the applicant.

SUMMARY OF DEVELOPMENT COSTS (2023 $S)

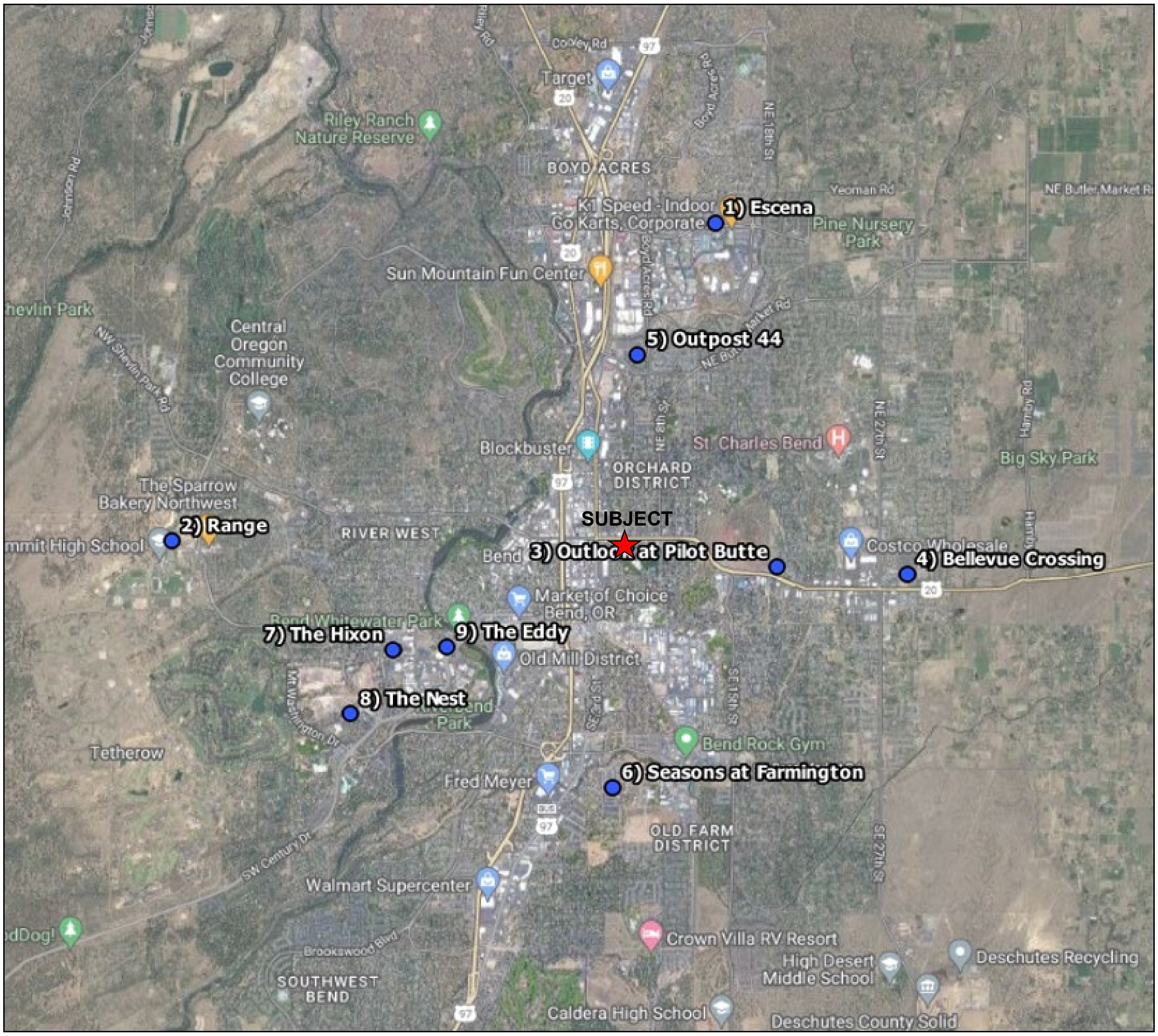
	Total	Per Unit
Property Acquisition		
Site Acquisition	$5,100,000	$26,702
Hard Costs		
Sitework	$7,673,453	$40,175
Construction		
Residential	$43,953,675	$230,124
Retail/Commercial (NNN)	$3,877,783	$20,303
Additional Hard Cost	$1,546,430	$8,096
Hard Cost Contingency	$2,852,567	$14,935
Total Hard Costs	$59,903,908	$313,633
Soft Costs		
Soft Cost Total from Pro Forma	$6,789,737	$35,548
Due Diligence	$160,000	$838
Financing Costs	$3,260,983	$17,073
Developer Fee	$3,109,549	$16,280
Soft Cost Contingency	$347,487	$1,819
Total Soft Costs	$13,667,755	$71,559
Cost Summary		
Development Costs - Total	$78,671,663	$411,894

D. ASSESSMENT OF RENT COMPARABLES

Johnson Economics conducted a survey of nine apartment projects in Bend to assess current market pricing in the Bend area. These are generally the newest and/or best positioned projects in the city. As indicated by the following map, the projects are dispersed geographically, as are older apartment projects in Bend. Comps #1, #4, #5, and #6 represent a typical suburban, walk-up format, with multiple two- or three-story buildings. However, comp #1 includes some four-story walk-up buildings, and comp #3 is a modern version of the three-story walk-up format, representing a design that differs considerably from traditional garden style projects. Comps #3, #8, and #9 consist solely of four-story elevator structures. Only one property – comp #7 – includes ground-floor commercial space, in an urban six-story format. The projects were completed between 2016 and 2022.

The following map shows the locations of the surveyed properties. Detailed profiles of the projects are included over the next pages, followed by a summary of relevant observations and an analysis of achievable pricing at the site.

MAP OF SURVEYED COMPARABLES



SOURCE: Google Earth, JOHNSON ECONOMICS

Occupancy is generally high among the surveyed properties, ranging from 94% to 100%. The overall rate is 97.5% (2.5% vacancy). This is high for large, professionally managed projects, indicating potential for additional rent increases. Newer projects have seen stronger demand over the past two years than the older properties, due to affluent renters coming from larger cities during COVID.

Rents at the surveyed properties range from around $1,535 per month for the least expensive units at the Hixon and the Nest to $3,445 for the most expensive two-bedroom units at the Eddy. Three-bedroom townhomes at Outpost 44 rent for up to $3,100. Rent concessions are rare: Escena is currently offering one month's free rent on select units. The average rent level in the sample is currently $1,951 per unit and $2.34 per square foot (PSF).

The Hixon has the highest rent levels, followed by the Eddy and Range. These properties enjoy strong locations and/or upscale features. Bellevue Crossing represents the lowest levels, reflecting its standard and age. The remaining properties are positioned between these, and largely represent similar rent levels.

SUMMARY OF SURVEYED PROJECTS

			UNIT CHARACTERISTICS						RENT CHARACTERISTICS				
Project Name/ Location	Year	Occupancy	Type	Units	Mix	Sq. Ft.	Vacant		Low Rent		High Rent	Avg. Rent	Avg. Rent Per SF.
1) Escena	2017	99%	2B/1b	34	25%	958	1	3%	$1,950	-	$2,200	$2,096	$2.19
20750 Empire Ave			2B/2b	34	25%	1023	0	0%	$1,975	-	$2,350	$2,157	$2.11
Bend, OR			3B/2b	68	50%	1188	0	0%	$2,300	-	$2,475	$2,328	$1.96
			Tot./Avg:	*136*	*100%*	*1089*	*1*	*1%*	*$1,950*	*-*	*$2,475*	*$2,227*	*$2.04*
2) Range	2017	97%	1B/1b	90	68%	630	4	4%	$1,685	-	$2,045	$1,843	$2.93
3001 NW Clearwater Dr			1B/1b	20	15%	708	0	0%	$1,740	-	$2,085	$1,878	$2.65
Bend, OR			2B/2b	18	14%	826	0	0%	$2,125	-	$2,335	$2,230	$2.70
			2B/2b	4	3%	902	0	0%	$2,463	-	$2,463	$2,463	$2.73
			Tot./Avg:	*132*	*100%*	*677*	*4*	*3%*	*$1,685*	*-*	*$2,463*	*$1,920*	*$2.84*
3) Outlook at Pilot Butte	2017	97%	Studio Loft	83	41%	581	4	5%	$1,635	-	$1,715	$1,674	$2.88
2001 NE Linnea Dr			1B/1b	60	29%	675	3	5%	$1,630	-	$1,795	$1,717	$2.54
Bend, OR			2B/2b	61	30%	1098	0	0%	$2,295	-	$2,705	$2,517	$2.29
			Tot./Avg:	*204*	*100%*	*763*	*7*	*3%*	*$1,630*	*-*	*$2,705*	*$1,939*	*$2.54*
4) Bellevue Crossing	2016	94%	1B/1b	75	49%	766	4	5%	$1,630	-	$1,655	$1,643	$2.14
488 NE Bellevue Dr			1B/1b	21	14%	778	2	10%	$1,680	-	$1,725	$1,703	$2.19
Bend, OR			2B/2b	27	18%	1049	2	7%	$1,970	-	$2,045	$2,008	$1.91
			2B/1b	30	20%	1088	1	3%	$1,995	-	$2,075	$2,035	$1.87
			Tot./Avg:	*153*	*100%*	*881*	*9*	*6%*	*$1,630*	*-*	*$2,075*	*$1,792*	*$2.03*
5) Outpost 44	2021-22	97%	1B/1b	33	25%	752	1	3%	$1,735	-	$1,845	$1,797	$2.39
643 NE Ross Rd			2B/1b	33	25%	997	0	0%	$1,740	-	$2,200	$2,146	$2.15
Bend, OR			2B/2b	21	16%	1082	2	10%	$2,125	-	$2,545	$2,488	$2.30
			3B/2b	21	16%	1380	1	5%	$2,463	-	$2,765	$2,727	$1.98
			3B/2.5b TH	22	17%	1614	0	0%	$2,463	-	$3,100	$3,055	$1.89
			Tot./Avg:	*130*	*100%*	*1115*	*4*	*3%*	*$1,685*	*-*	*$3,100*	*$2,326*	*$2.09*
6) Seasons at Farmington	2017	97%	1B/1b	12	5%	465	1	8%	$1,625	-	$1,660	$1,644	$3.54
61560 Aaron Way			1B/1b	96	42%	768	3	3%	$1,880	-	$1,955	$1,915	$2.49
Bend, OR			1B/1b	36	16%	867	0	0%	$1,930	-	$2,005	$1,969	$2.27
			2B/2b	72	32%	1150	3	4%	$2,220	-	$2,305	$2,249	$1.96
			2B/2b	12	5%	1288	0	0%	$2,430	-	$2,490	$2,466	$1.91
			Tot./Avg:	*228*	*100%*	*916*	*7*	*3%*	*$1,625*	*-*	*$2,490*	*$2,044*	*$2.23*
7) The Hixon	2020	99%	Studio	64	32%	491	1	2%	$1,535	-	$1,725	$1,619	$3.29
210 SW Century D			1B/1b	17	8%	604	0	0%	$1,750	-	$1,880	$1,848	$3.06
Bend, OR			1B/1b	91	45%	685	2	2%	$1,790	-	$2,065	$1,840	$2.68
			2B/1b	8	4%	775	0	0%	$2,250	-	$2,440	$2,345	$3.03
			2B/2b	8	4%	975	0	0%	$2,530	-	$2,655	$2,590	$2.66
			2B/2b	11	5%	1119	0	0%	$2,865	-	$3,015	$2,957	$2.64
			2B/2b Den	4	2%	1234	0	0%	$3,120	-	$3,205	$3,163	$2.56
			Tot./Avg:	*203*	*100%*	*667*	*3*	*1%*	*$1,535*	*-*	*$3,205*	*$1,907*	*$2.86*
8) The Nest	2020	100%	Studio	46	71%	474	0	0%	$1,534	-	$1,750	$1,638	$3.45
1609 SW Chandler Ave			2B/2b	19	29%	1041	0	0%	$2,234	-	$2,550	$2,393	$2.30
Bend, OR			*Tot./Avg:*	*65*	*100%*	*640*	*0*	*0%*	*$1,534*	*-*	*$2,550*	*$1,859*	*$2.90*
9) The Eddy	2022	100%	0.5B/1b	96	68%	646	0	0%	$1,745	-	$2,145	$1,836	$2.84
801 SW Bradbury Way			1B/1b	37	26%	718	0	0%	$1,990	-	$2,080	$1,905	$2.65
Bend, OR			2B/2b	8	6%	1265	0	0%	$2,935	-	$3,445	$3,116	$2.46
			Tot./Avg:	*141*	*100%*	*700*	*0*	*0%*	*$1,745*	*-*	*$3,445*	*$1,927*	*$2.75*

SOURCE: Property managers, leasing agents, and websites; CoStar; Craigslist; Deschutes County; JOHNSON ECONOMICS

The sample set indicates that the proposed rent levels will be near the upper end of the rents in the market, although the premium vis-à-vis smaller units is not as significant.

E. VIABILITY OF PROJECT

To assess the viability of the proposed development Johnson Economics generated a pro forma analysis utilizing the information provided by the applicant.

Baseline Scenario

Our baseline scenario reflects the development program based on the outlined assumptions and does not assume any benefit from the MUPTE. The project would cost an estimated $78.7 million to develop, with a stabilized Net Operating Income (NOI) of $3.9 million. The net operating income reflects income from property after operating expenses have been deducted, but before deducting income taxes and financing expenses.

EQUITY ASSUMPTIONS:			
Total Development Costs			**$78,671,663**
(-) Permanent Loan			($42,660,456)
Net Permanent Loan Equity Required		**45.8%**	**$36,011,208**
PERMANENT FINANCING ASSUMPTIONS:			
	DCR	**LTV**	**LTC**
Interest Rate	5.75%	5.75%	5.75%
Term (Years)	30	30	30
DCR/Limitations	**1.25**	**60%**	**60%**
Stabilized NOI (Year 3)	$3,910,542	$3,910,542	
CAP Rate		5.50%	
Supportable Mortgage	**$44,673,563**	**$42,660,456**	**$47,202,998**
Annual Debt Service	**$3,128,433**	**$2,987,458**	**$3,305,567**
MEASURES OF RETURN, INCOME COMPONENTS:			
Indicated Value @ Stabilization			$71,100,760
Value/Net Cost			90%
Return on Cost (ROC)			4.97%
ESTIMATION OF VIABILITY GAP			
Targeted Return on Cost/Income (ROC)			5.50%
Calculated Gap/Income Components			$7,570,904
Overall Indicated Viability Gap			**$7,570,904**

The applicant assumes senior debt of $47.2 million in this scenario, but the supportable level of debt is expected to be limited by debt coverage and loan to value requirements. The reduction in supportable senior debt will result in a commensurate increase in equity requirements. Based on the revenue assumptions outlined the supportable debt on the project would be $42.7 million, with required equity of over $36.0 million.

A lending institution will typically use a debt coverage ratio (DCR) to calculate the amount of supportable debt on a real estate project. For our analysis we assumed a DCR of 1.25, which reflects net operating income in the first stabilized year after taxes at 125% of the scheduled debt service payment. While achievable in some cases, this is an aggressive assumption as DCR requirements will often be higher at 1.30 to 1.35 in the current lending environment.

When evaluating the viability of a project we use a series of financial return measures. The definition of these is included as a glossary at the end of this memorandum. Individual developers vary with respect to which returns they use in evaluating projects, so we include several alternative measures. The return on cost under the baseline scenario would be 4.97%, with the leveraged return on equity at only 2.48%. The internal rate of return assuming a 10-year hold and calculating the reversion value (sale of the asset at the end of the period) based on a terminal cap rate of 6.5% (the capitalization rate used to calculate the value at sale) would be 3.7%.

These returns are assumed to be below what would be necessary for the market to develop this project. Assuming a targeted return on cost of 5.50%, the indicated viability gap as modeled would be close to $7.7 million without the MUPTE tax abatement. We will typically use return on cost as our preferred measure for acceptable returns, as it is least subject to variability in assumptions. This threshold is typical for projects in the last several years in desirable areas but may be somewhat low in the current interest rate environment.

The following is a 10-year simplified pro forma for the project. As noted, a reversion value was assumed at the end of the period based on the projected NOI in year 11 divided by an assumed terminal cap rate of 6.5% and deducting the remaining principal balance from the primary loan. Under this scenario the net residual value is projected at $74.0 million at the end of year 10.

Project Name:	**105 NE FRANKLIN**
Project Description:	**Baseline Scenario**

TEN YEAR FINANCIAL PROJECTIONS

Thousands of Dollars

	YEAR										
	0	1	2	3	4	5	6	7	8	9	10
INCOME											
Potential Gross Income		$5,542.1	$5,542.1	$5,542.1	$5,708.4	$5,879.7	$6,056.1	$6,237.7	$6,424.9	$6,617.6	$6,816.1
Operating Expenses		24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%
Vacancy/Collection Loss		100.0%	52.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Net Operating Income (NOI)		**$0.0**	**$1,989.1**	**$3,910.5**	**$4,027.9**	**$4,148.7**	**$4,273.2**	**$4,401.3**	**$4,533.4**	**$4,669.4**	**$4,809.5**
ANNUAL CASH FLOW											
Construction Costs		($39,335.8)	($39,335.8)								
Loan Proceeds		$3,324.6	$39,335.8								
Grants		$0.0									
MUPTE Abatement		$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Operating Income		$0.0	$1,989.1	$3,910.5	$4,027.9	$4,148.7	$4,273.2	$4,401.3	$4,533.4	$4,669.4	$4,809.5
Debt Service		$0.0	$0.0	($3,016.8)	($3,016.8)	($3,016.8)	($3,016.8)	($3,016.8)	($3,016.8)	($3,016.8)	($3,016.8)
Reversion Value 1/											$73,991.9
Less Sales Costs											($1,479.8)
Less Principal Payment											($37,130.0)
Net Cash Flow		($36,011.2)	$1,989.1	$893.8	$1,011.1	$1,131.9	$1,256.4	$1,384.6	$1,516.6	$1,652.6	$37,174.8
SELECTED RETURN MEASURES											
Debt Coverage Ratio				1.30	1.34	1.38	1.42	1.46	1.50	1.55	1.59
Cash on Cash Return, Income Properties		**0.00%**	**5.52%**	**2.48%**	**2.81%**	**3.14%**	**3.49%**	**3.84%**	**4.21%**	**4.59%**	**4.98%**
Return on Cost, Income Properties		**0.00%**	**2.53%**	**4.97%**	**5.12%**	**5.27%**	**5.43%**	**5.59%**	**5.76%**	**5.94%**	**6.11%**
Internal Rate of Return	**3.7%**										

1/Assumes asset sale at end of Year 10.

Based on these estimates and forecasts we would not consider the project to represent a viable development program without the MUPTE program.

MUPTE Scenario

The second scenario uses the same income and expense assumptions as the baseline scenario, with the addition of an assumed ten-year tax exemption. The use of the MUPTE reduces operating costs significantly during the first ten years (starting in year 2 on the cash flow table), increasing the cash flow available for debt service. With the increased cash flow to cover debt service, the serviceable debt increases to $47.0 million, reducing the equity requirement to $31.7 million (40% of costs). This varies somewhat from the assumption in the applicant's submittal, as the expected annual savings from the tax abatement was lowered from $450,000 to $384,000 in the first year.

The return on costs (ROC) at stabilization is estimated at 5.47%, which is just below our assumed targeted return. This yields an indicated viability gap of roughly $380,000. The internal rate of return under this scenario is a modest 5.2% at stabilization, while the initial cash on cash return is 3.10%. While the project is considered close to viable based on the

EQUITY ASSUMPTIONS:			
Total Development Costs			**$78,671,663**
(-) Permanent Loan			($46,975,219)
Net Permanent Loan Equity Required		**40.3%**	**$31,696,444**
PERMANENT FINANCING ASSUMPTIONS:			
	DCR	**LTV**	**LTC**
Interest Rate	5.75%	5.75%	5.75%
Term (Years)	30	30	30
DCR/Limitations	**1.25**	**60%**	**60%**
Stabilized NOI (Year 3)	$4,306,062	$4,306,062	
CAP Rate		5.50%	
Supportable Mortgage	**$49,191,936**	**$46,975,219**	**$47,202,998**
Annual Debt Service	**$3,444,849**	**$3,289,616**	**$3,305,567**
MEASURES OF RETURN, INCOME COMPONENTS:			
Indicated Value @ Stabilization			$78,292,032
Value/Net Cost			100%
Return on Cost (ROC)			5.47%
ESTIMATION OF VIABILITY GAP			
Targeted Return on Cost/Income (ROC)			5.50%
Calculated Gap/Income Components			$379,631
Overall Indicated Viability Gap			**$379,631**

assumed threshold of 5.50%, reaching that return will require some modest cost savings and/or revenue enhancements. Under these assumptions the indicated returns do not reflect a project providing above-normal returns.

The following is a ten- year summary pro forma of the development assuming the MUPTE:

Project Name: **PROJECT^, 105 NE FRANKLIN**

Project Description: **Scenario With MUPTE**

TEN YEAR FINANCIAL PROJECTIONS

Thousands of Dollars

	YEAR										
	0	1	2	3	4	5	6	7	8	9	10
INCOME											
Potential Gross Income		$5,542.1	$5,542.1	$5,542.1	$5,708.4	$5,879.7	$6,056.1	$6,237.7	$6,424.9	$6,617.6	$6,816.1
Operating Expenses		24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%	24.4%
Vacancy/Collection Loss		100.0%	52.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Net Operating Income (NOI)		**$0.0**	**$1,989.1**	**$3,910.5**	**$4,027.9**	**$4,148.7**	**$4,273.2**	**$4,401.3**	**$4,533.4**	**$4,669.4**	**$4,809.5**
ANNUAL CASH FLOW											
Construction Costs		($39,335.8)	($39,335.8)								
Loan Proceeds		$7,639.4	$39,335.8								
Grants		$0.0									
MUPTE Abatement		$0.0	$384.0	$395.5	$407.4	$419.6	$432.2	$445.2	$458.5	$472.3	$486.4
Net Operating Income		$0.0	$1,989.1	$3,910.5	$4,027.9	$4,148.7	$4,273.2	$4,401.3	$4,533.4	$4,669.4	$4,809.5
Debt Service		$0.0	$0.0	($3,321.9)	($3,321.9)	($3,321.9)	($3,321.9)	($3,321.9)	($3,321.9)	($3,321.9)	($3,321.9)
Reversion Value 1/											$74,964.8
Less Sales Costs											($1,499.3)
Less Principal Payment											($40,885.4)
Net Cash Flow		($31,696.4)	$2,373.1	$984.2	$1,113.3	$1,246.4	$1,383.4	$1,524.6	$1,670.0	$1,819.8	$34,554.1
SELECTED RETURN MEASURES											
Debt Coverage Ratio				1.18	1.21	1.25	1.29	1.32	1.36	1.41	1.45
Cash on Cash Return, Income Properties		**0.00%**	**7.49%**	**3.10%**	**3.51%**	**3.93%**	**4.36%**	**4.81%**	**5.27%**	**5.74%**	**6.23%**
Return on Cost, Income Properties		**0.00%**	**2.53%**	**5.47%**	**5.64%**	**5.81%**	**5.98%**	**6.16%**	**6.35%**	**6.54%**	**6.73%**
Internal Rate of Return	**5.2%**										

1/Assumes asset sale at end of Year 10.

Under this scenario the net residual value is projected at $75.0 million at the end of year 10, which reflects the capitalized value of the NOI excluding the abatement and the value of the remaining year of abatement. The principal payoff is higher as the supportable debt is higher.

When property taxes are introduced in year 12, the project is still capable of meeting the debt service requirements of the primary loan due to assumed rates of escalation. The project does provide adequate cash flow to refinance in later years to reduce the equity requirement. This would increase the IRR but would not impact initial return on cost.

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APPENDIX A: GLOSSARY OF TERMS

Capitalization Rate or Cap Rate – The rate of return used to derive the capital value of an income stream. The value of a real estate asset is commonly set based on dividing net operating income (NOI) by a capitalization rate.

Debt Coverage Ratio – Defined as net operating income divided by annual debt service. This measure is often used as underwriting criteria for income property mortgage loans and limits the amount of debt that can be borrowed. Standard minimum debt coverage ratios would be in the 1.20 to 1.30 range. A debt coverage ratio of 1.20 indicates that in your first year of stabilized occupancy, your net operating income (NOI, gross income less expenses) is equal to 120% of your debt service requirements (principal and interest).

Equity – The interest or value that the owner has in real estate over and above the liens held against it.

Net Operating Income (NOI) – Income from property after operating expenses have been deducted, but before deducting income taxes and financing expenses.

Return on Cost (ROC) – Net operating income in the initial year, divided by total project cost. This measure is also commonly referred to as the going-in cap rate.

Return on Equity or Equity Yield Rate or Cash on Cash – The rate of return on the equity portion of an investment, considering periodic cash flow. In this analysis, the return on equity represents the initial rate of return and is defined as the net cash flow after interest costs divided by the developer equity. It does not include payments towards principal as interest costs.

Internal Rate of Return (IRR) – The internal rate of return is the true annual rate of earnings on an investment and equates the value of cash returns with cash invested. It reflects projected net cash flows throughout the duration of the investment period.

Terminal Capitalization Rate – The capitalization rate used to estimate the value of the asset at the end of the forecast period, in this case used to calculate a reversion value of the property.