

RESOLUTION NO. 3355

A RESOLUTION APPROVING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR PROPERTY LOCATED AT 310 AND 350 SW INDUSTRIAL WAY

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 exemption 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., the tax exemption is only for the City's ad valorem taxes, but if the combined rates of taxation of the City and of all taxing districts whose governing boards agree to the tax exemption policy of MUPTE 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 12.35.025, 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 other public benefits.
- 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 tax lots 181205A000300 and 181205A000400, located at 310 and 350 SW Industrial Way in Bend, Oregon, owned by Industrial Way QOZB LLC, proposing a new 7-story mixed use building with residential housing units, a wrapped parking structure, and surface parking, approved under City of Bend Site Plan number PLSPR20220228 (the "Project"). The Project is located in the Core Area Tax Increment Finance District, which is an area eligible for MUPTE, and proposes approximately 313 new dwelling units. The Project will provide the following public benefits for the MUPTE: a high standard of energy efficiency by installing green building features and achieving LEED Platinum certification, mobility supportive amenities, and a wrapped parking structure.
- G. The City retained an independent professional financial consultant to review the Project's financial pro-forma. This consultant determined that the Project would not be feasible but for the tax exemption.

- H. 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.
- I. On January 9, 2024, the Bend-La Pine School District (Administrative School District No. 1) will consider a resolution agreeing to the policy of providing tax exemptions for multiple-unit housing as provided in ORS 307.600 to 307.637 and Bend Municipal Code Chapter 12.35, including the exemption proposed under this Resolution for the Project.
- J. The Bend La-Pine School District represents 40.5 percent of the 2024 combined tax levy and the City of Bend represents 21.6 percent of the 2024 combined tax levy. Approval of the multiple-unit property tax exemption from both the Bend La-Pine School District and City of Bend will exceed 51 percent of total combined rate of taxation for the property located at 310 and 350 SW Industrial Way.
- K. Therefore, if on January 9, 2024, or subsequently, the Bend La-Pine School District adopts a resolution agreeing to the policy of multiple-unit property tax exemption for the Project, the MUPTE Program criteria defined in BMC 12.35.0010 to 12.35.050 and accompanying City policies will 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 181205A000300 and 181205A000400, as they may be consolidated or adjusted, is approved for the ad valorem taxes for the City of Bend for residential improvements and residential parking constructed under City of Bend Site Plan approval number PLSPR20220228 (the "Exempt Improvements"), 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 LEED Platinum Certification for the residential mixed-use building subject to this exemption before City staff will certify the exemption to the County assessor.
- c) City staff must verify mobility supportive amenities are constructed before certifying the exemption to the County assessor.
- d) City staff must verify construction of wrapped parking structure as proposed in approved site plan and building permits before exemption is certified to the County assessor.
- 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. If, after the date of this Resolution and before the City certifies the exemption to the

County tax assessor pursuant to Section 4 of this Resolution, the Bend-La Pine School District, or any other combination of the governing boards of the taxing districts whose tax rates, when combined with the City's, representing at least 51% of the combined rate of taxation, adopts a resolution approving the policy of providing a multiple-unit property tax exemption for or including the Exempt Improvements, then the multiple-unit property tax exemption for the Exempt Improvements is approved for the ad valorem taxes of all taxing districts, subject to the same conditions listed in Section 1.

Section 3. 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 that serves the residential units on the same tax lots.

Section 4. 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 Exempt Improvements 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 5. If construction of the Project has not been completed and the Exempt Improvements 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 6. 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 7. This Resolution takes effect immediately upon passage.

Adopted by the City Council on January 3, 2024.


YES: Mayor Melanie Kebler
Mayor Pro Tem Megan Perkins
Councilor Barb Campbell
Councilor Ariel Méndez
Councilor Megan Norris

NO: Councilor Mike Riley



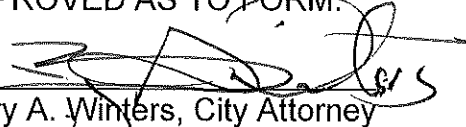
Melanie Kebler, Mayor

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. 1959

Resolution Agreeing to Tax Exemption for Multiple-Unit Housing 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 Bend City Council to grant a 10-year property tax exemption to qualified multi-unit housing projects to encourage higher density housing and redevelopment within the 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 policy equal 51 percent or more of the total combined rate of taxation on the property granted the exemption, the County Assessor may exempt the property granted the exemption from all property taxes; and

WHEREAS, Bend-La Pine Schools has conferred with the other taxing districts regarding a time limited exemption policy within the Core Area TIF Area; and

WHEREAS, ORS 307.606(1) is applicable to Bend-La Pine Schools and Bend-La Pine Schools concurs with the policy of providing the exemption for approved projects by the Bend City Council within the Core Area TIF Area through June 30, 2025.


NOW, THEREFORE, BE IT RESOLVED THAT the Bend-La Pine Schools agrees to the policy of providing property tax exemptions for multiple-unit housing projects that qualify for the MUPTe program as provided in Sections 12.35.010-12.35.050 of the Bend Code within the Core Area TIF Area, as it may be amended, through June 30, 2025.

Moved by: Cameron Fischer

Seconded by: Amy Tatom

Yes votes: 5 No votes: 0

Dated this 9th day of January, 2024

Signed: 
Chair


Vice Chair DIRECTOR

Attest: Janet Byjanski
Board Secretary



COMMUNITY
DEVELOPMENT

**STAFF REPORT FOR
MULTIPLE UNIT PROPERTY TAX EXEMPTION**

PROJECT NUMBER: PRTX202303757
COUNCIL DECISION: January 3, 2024
**APPLICANT/
OWNER:** Industrial Way QOZB LLC
Killian Pacific
1615 SE 3rd Ave, Suite 100
Portland, OR 97214

OWNER: Industrial Way QOZB LLC

**APPLICANT'S
REPRESENTATIVE:** Michiko Slick, Killian Pacific
1615 SE 3rd Ave, Suite 100
Portland, OR 97214

LOCATION: 310 SW Industrial Way; Tax Lot 181205A000300
350 SW Industrial Way; Tax Lot 181205A000400
Between Old Mill District and Downtown

REQUEST: Multiple Unit Property Tax Exemption (MUPTe), 10-year tax exemption on residential improvements

STAFF REVIEWER: Cate Schneider, Senior Management Analyst

RECOMMENDATION: Approval

DATE: November 17, 2023

PROJECT & SITE OVERVIEW

The Jackstraw mixed-use project site is located at 310 and 350 SW Industrial Way in the Mixed-Use Urban (MU) Zone inside the Core Tax Increment Finance (TIF) Area. The project proposes 313 apartment units, 16,019 square feet of retail, 332 bicycle parking spaces, and 457 parking spaces (347 in parking garage and 110 surface). The project also includes construction of NW Sisemore along the eastern frontage of the property and construction of a multi-modal publicly accessible shared use drive aisle and a shared use path adjacent to their proposed public plaza on the southwest corner of the site.

Public Benefits

The project plans to incorporate the following three public benefits to meet the requirements of the MUPTE program:

- High standard of energy efficiency through LEED Platinum certification (priority public benefit)
- Mobility supportive amenities
- Wrapped parking structure as additional public benefits to qualify for the MUPTE program.

The Jackstraw Project plans to provide several other public benefits, beyond the requirements for MUPTE, including:

- Tracking to meet the criteria for LEED Platinum for Multifamily and Fitwel.
- Two (2) townhomes units at 60% of Area Median Income (AMI). The two townhomes offered at 60% AMI are designed to allow their tenants to operate in-home childcare.
- Major public improvements for Sisemore Street and Industrial Way.
- Public art program which will include a sculpture, custom artist-designed residential entry doors, and a mural on the north façade.
- Engineered to retain and treat stormwater exceeding a 25-year storm event.
- Landscaping that incorporates native, pollinator-friendly and water-wise landscaping best practices. Landscaping will also include managed beehives to support pollinator population.
- Targeting 25% of total construction costs to be awarded to businesses owned by underrepresented members of our community including women, minorities, LGBTQ individuals, and persons with disabilities, and 25% of construction journey and apprentice hours to be completed by underrepresented members of those same communities.
- 31 electric vehicle car charging stations with Level 2 fast chargers and an additional 31 parking stalls with standard EV charging. Conduit will be constructed to allow for easier installation of car charging stations in the future.

The project received land-use approval in August 2022 (PLSPR20220228). Construction began in April 2023 and is expected to be completed in October 2025. Although the project started construction, the applicant has shared that the project is financially dependent on the exemption. If the project is not approved for MUPTE, construction will be stopped and the project put on hold.



Figure 1: Site Location



Figure 2: Conceptual project rendering

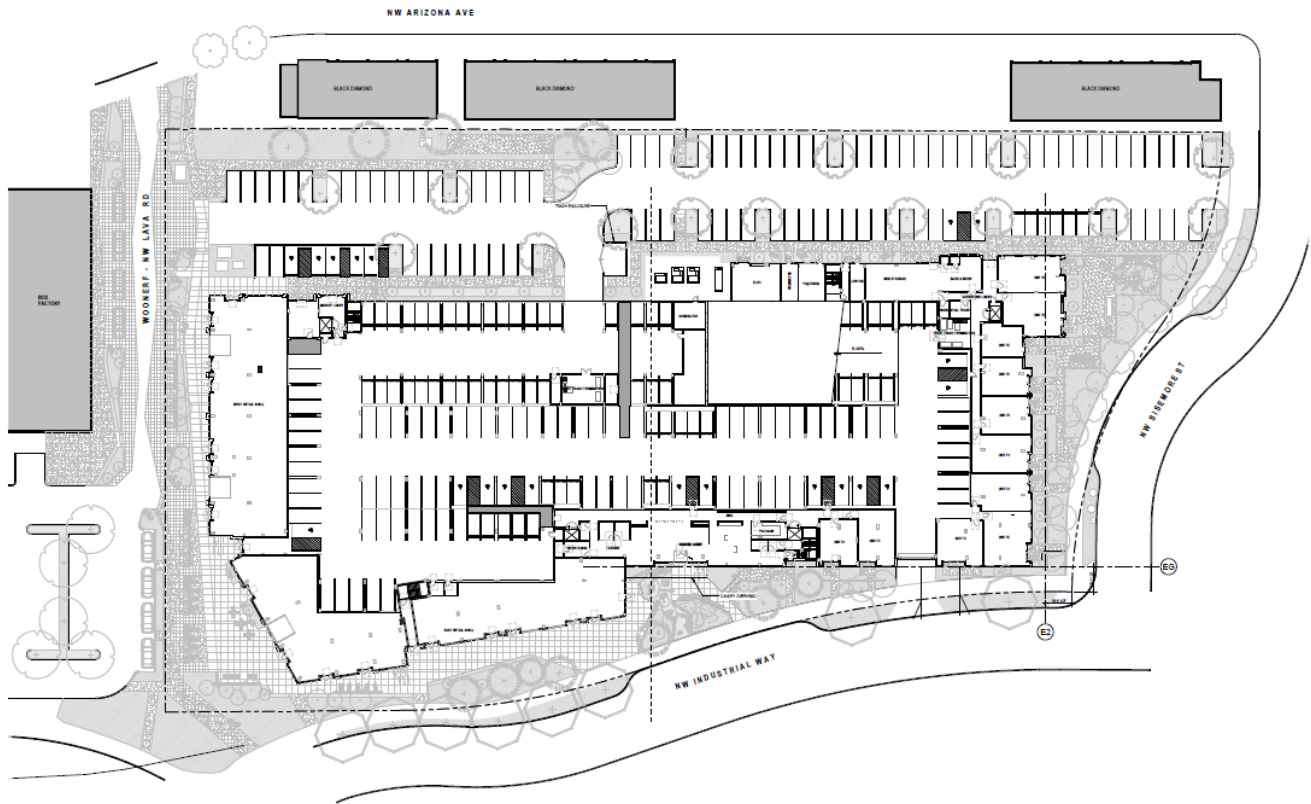


Figure 3: Site Plan

INFRASTRUCTURE NEEDED TO SERVE THE SITE

The project will be required to install an 8-inch water main within Sisemore Street to loop the water system. The project must also install a sample manhole on the site. The City of Bend Private Engineering Division confirmed that these improvements will provide the necessary infrastructure to serve the site in a letter dated Feb. 22, 2023. These infrastructure improvements are permitted under permit number PRINF202207907.

ELIGIBILITY CRITERIA

APPLICATION OF THE CRITERIA

LOCATION/ELIGIBLE ZONE REQUIREMENTS

The project site is located at 310 and 350 SW Industrial Way in the Mixed-Use Urban (MU) Zone inside the Core Tax Increment Finance (TIF) Area which is eligible for the MUPTE program per BMC 12.35.015D.

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 development site is located on a lot larger than 10,000 square feet and is proposed to be three or more 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 pro forma 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 pro formas were then reviewed by a third party independent financial consultant hired by the City.

PNW Economics completed a review of the pro formas. A summary of their findings is included as Attachment A. The review confirms that the Jackstraw Mixed-Use Project is not financially feasible on its own, noting that the project's income does not justify its operating expenses with a return of investment (ROI) of only 4.4%. The financial analysis concluded that the Jackstraw project approaches financial feasibility with the MUPTE, which increases ROI to 5.1%. The review notes that given that 6% ROI is a rule-of-thumb minimum, the project can be considered financially challenged even with MUPTE.

The applicant has shared that the project is financially dependent on the exemption; without MUPTE project construction will be stopped and the project put on hold.

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

Prior uses at the property included Spoken Moto, a three-sided shed, a warehouse, and parking for the Box Factory. The Spoken Moto building was sold and relocated to a new location to be repurposed for other uses. The three-sided shed was also sold and repurposed for farm use.

The warehouse was demolished and the existing parking will be replaced with the new development. These efforts to mitigate impacts to an existing business meet 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 project is pursuing a High Standard of Energy Efficiency/Green Building Features through LEED Platinum certification as its priority public benefit. The applicant provided a copy of a scorecard demonstrating the project's path to meet LEED Platinum. If approved for MUPTE, the applicant will be required to provide 3rd party documentation demonstrating that LEED Platinum certification has been met before the City certifies the tax exemption with the Tax Assessor.

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) Mobility Supportive Amenities and 2) Wrapped Parking Structure.

Mobility Supportive Amenities: The applicant must provide a minimum of two mobility supportive site elements. The project plans to include pedestrian scaled lighting and secured bicycle parking on the site to meet the requirements of this public benefit. In addition, the applicant is planning to locate a plaza on the southwest corner of their site. The applicant received a letter from the City of Bend Community and Economic Development Department, dated May 1, 2023, confirming that the applicant's plans meet the MUPTE guidelines for this public benefit.

Wrapped Parking Structure: For above-grade parking structures, the project must provide retail and residential uses on the street level for any frontages on roads with a classification higher than an alley. The applicant provided a site plan that demonstrates the planned parking structure meets this requirement as verified by planning staff.

ESTIMATED EXEMPTION: This project is estimated to receive a total 10-year tax exemption of approximately \$10.6 Million.

Based on an estimated building value of \$127,186,251, the total estimated tax collection for this project between 2027 through 2036 is estimated to be \$11.7 Million without the exemption and \$1.1 Million 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 \$400,000.

Since this project is located within the Core Tax Increment Finance (TIF) Area, there is no anticipated impact to any taxing district apart from the Bend Urban Renewal Agency's Core Area TIF fund. The project, if approved for the tax exemption is estimated to generate approximately \$27 Million in total revenue over the 30-year lifetime of the Core TIF Area.

Estimates are based on the value of building as provided by the developer, the proportion of the project is commercial as provided by the developer, and timeline is as 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

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. All of the Taxing District agencies will be provided with a 45-day comment period to review the application materials and this staff report beginning on November 17, 2023, through January 1, 2024. The following district reviews are scheduled for this project:

- November 29, 2023: Applicant Presentation to Deschutes County Board of County Commissioners
- December 5, 2023: Applicant Presentation to Bend Park and Recreation District Board
- December 12, 2023: Bend La Pine School District Board Review and Decision on Application
- January 3, 2024: City Council Review and Decision on Application

CONCLUSION: Based on the application materials submitted by the applicant, the independent financial review, and these findings, the 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 provide documentation of 3rd party verification that High Standard of Energy Efficiency/Green Building Features energy standard is met.
3. City to verify mobility supportive amenities are constructed before exemption is applied.
4. City to verify construction of wrapped parking as proposed in approved site plan and building permits before exemption is issued.

ATTACHMENTS

Attachment A: Review of Financial Feasibility, PNW Economics

Attachment B: Application Materials

**REVIEW OF FINANCIAL
FEASIBILITY
JACKSTRAW PROJECT
KILLIAN DEVELOPMENT
MUPTÉ PROGRAM
APPLICATION**

Prepared for: City of Bend, Oregon

Prepared by: PNW Economics, LLC

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1. Executive Summary

Introduction

PNW ECONOMICS, LLC was retained by the City of Bend to review the Killian Development Jackstraw Project Multi-Unit Property Tax Exemption (“MUPTE”) program application as part of City review of the project application. Specifically, PNW ECONOMICS was tasked with:

- Reviewing project application assumptions including rent income, non-rent income, operating expenses, bank underwriting assumptions, and other pertinent assumptions;
- Evaluating projected return on investment for the project without MUPTE and with MUPTE, which grants a ten-year property tax exemption for the project in order to incentivize its financial performance such that investment and development is possible and positively contributes to the Bend economy in place of property underutilization; and
- Communicating all analysis and findings appropriately for review by community members and elected officials.

This document represents completion of these tasks for review by the City of Bend and its partners and stakeholders.

Summary of Findings

An independent pro forma analysis was conducted by PNW ECONOMICS for the proposed Jackstraw project in the Old Mill District of Bend. The following table provides a concise summary of the outcome of not awarding and awarding a MUPTE to the project, which comprises 313 apartment units and 17,500 square feet of retail space.

Table 1 – Jackstraw Project Measures of Return With & Without MUPTE: 313 Units & 17,500 Sq. Ft. Retail

NO MUPTE	Residential	Retail	Total
Net Operating Income (NOI)	\$6,878,606	\$691,909	\$7,570,515
Total Development Cost			\$171,197,197
Return on Investment (Cost) - NO MUPTE			4.4%
YES MUPTE	Residential	Retail	Total
Net Operating Income (NOI)	\$8,056,220	\$734,534	\$8,790,754
Total Development Cost			\$171,197,197
Return on Investment (Cost) - MUPTE			5.1%

Without MUPTE Conclusion: The Jackstraw project has very challenging financial feasibility on its own.

- Employing a minimum Return on Investment (Cost) measure of return of 6% as a result of thumb for project pursuit, the Jackstraw project's income does not justify its operating expenses, with an ROI of only 4.4%. The rule-of-thumb minimum ROI of 6% would indicate the project would be difficult to pull, all things equal.

With MUPTE Conclusion: The Jackstraw project approaches financial feasibility with the MUPTE and only with the tax exemption compared to the No MUPTE scenario.

- A MUPTE awarded that would reduce a roughly \$1.2 million property tax burden for the development is estimated to enhance ROI for the project to 5.1% compared to 4.4% without the MUPTE.
- Although a MUPTE award would significantly enhance expected feasibility of the project and enhance assurance of its success, the estimated ROI with the MUPTE still does not fully rise to the applied 6% rule-of-thumb minimum. In other words, the MUPTE is a critical aid in this project happening, but it can still be viewed as a challenged project with higher risk.

Review of all development and financial assumptions in the MUPTE Application for the Jackstraw project yielded the following other general finds and comments:

- The Jackstraw project has rents and operating assumptions that are seemingly consistent with market conditions in Bend among newer projects.
- Development costs of the project are seemingly consistent with current construction market conditions, as verified by a comparable, planned project in the Eugene downtown market.

Otherwise overall, it was found that the Jackstraw MUPTE Application financial analysis used reasonable assumptions. Much of the independent pro forma analysis in this report utilizes similar assumptions as the Applicant. Differences in assumptions are noted in this document. The most notable difference would be that PNW ECONOMICS estimates property tax burden of this project, and the value of the MUPTE, are slightly higher than estimated by the Applicant.

2. Financial Feasibility Analysis

Financial Feasibility ("Pro Forma") Assumptions

Debt vs. Equity & Project Financing

Table 2 provides a summary of project permanent financing assumptions considered in this analysis. The Applicant documents that 49% of total development cost will be debt financed, while 51% will be equity-financed. Although extremely unusual just a few years ago, a 50%-50% debt and equity split is consistent with observed market on other projects.

Table 2 – Jackstraw Project Permanent Debt Finance Assumptions

	313 Units
	2023 Dollars
Total Development Cost	\$171,197,197
Permanent Loan	\$84,000,000
Equity	\$87,197,197
Percent Financed	49%

Development Costs

The Applicant declares in the Jackstraw MUPTE application a total development cost of \$171,197,198 development cost for the 313-unit, 480,000 square-foot improvement. The project’s more urban orientation, combined parking structure and size make it a bit incomparable to Bend projects of recent development for comparisons. Accordingly, PNW Economics compares the project to the Riverfront 3A mixed-use development in Eugene as somewhat of a peer comparable for size, parking, mix of uses, and vintage of cost information. Table 3 provides a comparison of both projects with appropriate details.

The Jackstraw project overall has development cost metrics not unlike the peer reviewed Eugene Riverfront 3A project.

- Total Cost per Unit: \$546,956 (Jackstraw) vs. \$534,904 (Riverfront 3A)
- Total Cost per Sq. Ft.: \$357 (Jackstraw) vs. \$464 (Riverfront 3a)

Table 3 – Jackstraw Project Permanent Debt Finance Assumptions

	Bend	Eugene
	Jackstraw	Riverfront 3A
Units	313	237
Total Sq. Ft.	480,000	272,983
Land Acquisition	\$7,662,931	\$2,782,504
Hard Costs	\$127,186,251	\$96,444,138
Soft Costs & Contingencies	<u>\$36,348,016</u>	<u>\$27,545,538</u>
Total Development Costs	\$171,197,198	\$126,772,180
Total Cost Per Unit	\$546,956	\$534,904
Total Cost per Sq. Ft.	\$357	\$464

Both projects have similar scale, though Jackstraw is larger: more residential units, slightly more commercial space, and certainly more parking spaces. Per square foot costs are lower at Jackstraw, though cost per unit is higher at Jackstraw largely by virtue of a larger parking garage and public street improvements taken on by Jackstraw that the Eugene project does not have. On the other hand, the Eugene project had significant non-clean fill soil removal and at-cost disposal costs. Overall, the

cost comparison indicates Jackstraw development costs are on-par with market for larger mid-rise, mixed-use redevelopment in urban Oregon markets.

Assumed Rents & Escalation

Table 4 provides a summary of apartment rents utilized in the pro forma analyses in this section. Rents assumed are planned rents for each of the unit types as proposed by the Applicant. Annually after 2023, rents are assumed to escalate by 3% annually.

Table 4 – Jackstraw Project Market Apartment Rent Assumptions – 313 Units

MARKET RATE					
Unit Type	Unit Mix		Average Unit	Monthly	Rent per
	Units	Percentage	Size (Sq. Ft.)	Rent	Square Foot
Studio	15	5%	483	\$1,824	\$3.78
One bedroom	189	61%	669	\$2,167	\$3.24
Two bedroom	91	29%	1,091	\$2,993	\$2.74
Three bedroom	<u>16</u>	<u>5%</u>	<u>1,460</u>	<u>\$3,360</u>	<u>\$2.30</u>
Subtotals/Averages	311	100%	824	\$2,453	\$2.98
INCOME RESTRICTED					
Unit Type	Unit Mix		Average Unit	Monthly	Rent per
	Units	Percentage	Size (Sq. Ft.)	Rent	Square Foot
Studio	0	0%	0	\$0	\$0.00
One bedroom	0	0%	0	\$0	\$0.00
Two bedroom (TH)	<u>2</u>	<u>100%</u>	<u>1,481</u>	<u>\$1,080</u>	<u>\$0.73</u>
Subtotals/Averages	2	100%	1,481	\$1,080	\$0.73

Rents overall appear slightly higher than most other new market rate projects, though that is to be expected from under construction/newest product being delivered to the market. The Jackstraw project also has superior mixed-use district location, grocery store proximity and river/trail compared to most other newer projects, thus some kind of rent premium for superior location would be expected. Examples of going market projects include:

- **The Nest** (1609 SW Chandler Avenue, Bend): 1,049 square foot 2 bed/2 bath for \$2,637 average (\$2.51 per square foot)
- **Solis at Petrosa** (63190 Deschutes Market Road):
 - 620 square foot 1 bed/1 bath for \$1,770 average (\$2.85 per square foot).
 - 901 square foot (average) 2 bed/2 bath for \$2,250 average (\$2.50 per square foot).
 - 1,109 square foot 3 bed/2 bath for \$2,545 (\$2.29 per square foot).
- **The Eddy Apartments** (801 SW Bradbury Way): 640 square foot 1 bed/1 bath for \$1,800 average (\$2.81 per square foot).

As was stated, Jackstraw rents are slightly higher than current market rents at newer projects. Between a rent premium for being the absolutely newest project in the peer group, as well as having the best single location for a mixed-use project in the Old Mill District, slightly higher rents at Jackstraw should be expected. From a MUPTE-modeling perspective, higher rents in the pro forma will tend to make the need for a MUPTE less likely. That is, higher rent income will tend to increase cash flow for a project

after debt service is accounted. Project rents that are inexplicably low relative to market would run the risk of overstating MUPTE need. That is not the case here.

Non-Rent Revenues

Table 5 summarizes the various sources of revenue for the project in addition to standard rent planned for the occupancy for units. The key feature of the project will be secured parking (212 spaces) for residential tenants for \$150 per space in 2023, as well as 133 spaces for \$75 per month as an option for residents, but with shared access with visitors. Retail tenants and customers will not pay parking fees under the Jackstraw plan.

Table 5 – Jackstraw Project Mixed-Use Non-Rent Income Assumptions

Non-Rent Revenue	Monthly Jackstraw	Jackstraw - Annual	
		Units	2023
Parking - Residential	\$150	212	\$381,600
Parking - Shared Residential	\$75	133	\$119,700
Other (Misc. Fees, Deposits)			<u>\$739,103</u>
Total Non-Rent Revenue:			\$1,240,403

Operating Expenses

Apartment Operating Expenses

Table 6 below provides a comparison of annual operations expenses per unit anticipated by the Applicant. For context, annual per-unit operating expenses for Penn Avenue, a different proposed apartment project applying for a City of Bend MUPTE as well as recent urban apartment MUPTE applicants in the City of Eugene are compared. Based upon these findings, it was assumed that operations expenses at the project are reasonable if not somewhat low, though the larger scale of the development allows lower cost-per-unit spread.

Table 6 – Jackstraw Project Operating Expenses Per Unit vs. Comparable Projects

	Per Unit Expenses Annually		
	Jackstraw	Penn Avenue	Eugene Projects*
Before Property Tax			
Expenses: Stabilized	\$4,903	\$4,679	\$6,700

*Non-55+ active community projects

For pro forma financial analysis in the next section of this report, PNW ECONOMICS assumes operating expenses supplied by the Applicant. While a bit lower, lower estimated expenses will tend to give more optimistic financial performance projections that would tend to reduce the importance of tax exemption on the bottom line, all things equal. It is also acknowledged that annually, the Jackstraw project expects \$75,056 in annual operating expenses for the 17,500 square feet of planned retail (\$4.29 per square foot annually, or \$0.36 per square foot monthly). Relatively speaking, retail operating expenses are minor compared to the much larger residential units' operating expenses attribution and do not seem unreasonable.

Property Taxes

Table 7 provides estimates for property taxes that will be paid on both the land as well as expected improvements value on a “Cost of Replacement” basis – the total development cost of improvements alone if built new.

Parcel taxable assessed value (TAV) data is directly from the Deschutes County Assessor’s Office parcel database online (DIAL). Taxable assessed value estimated for the value of improvements assumes total improvement development costs as expressed by the Applicant and then converted to Measure 50 TAV via the Deschutes County 2023 Multifamily Exception Value Ratio of 0.461 and Commercial Exception Value Ratio of 0.441. Finally, the tax rate of \$15.8378 per \$1,000 of TAV was utilized for Tax Code Area 1128 that includes the project addresses of 310 SW Industrial and 350 SW Industrial in Bend, Oregon.

Table 7 – Jackstraw Project Estimated Property Tax: Land & Improvements in FY 23

		Cost of Replacement - Improvements	\$157,572,080			
		Exception Value Ratio - Multifamily (7)	0.461			
		FY 23 Taxable Assessed Value	\$72,640,729			
		Cost of Replacement - Retail Improvements	\$5,962,187			
		Exception Value Ratio - Commercial (2)	0.441			
		FY 23 Taxable Assessed Value	\$2,629,324			
				<u>Taxable Assessed Value (FY 23)</u>		
<u>Parcel</u>	<u>Account #</u>	<u>Acres</u>	<u>Zoning</u>	<u>Land</u>	<u>Improvements</u>	<u>Total</u>
310 SW Industrial Way	167373	2.15	301 - Industrial	\$469,390	\$0	\$469,390
				Tax Code Area 1128 (per \$1,000 TAV)	15.8378	15.8378
				Total Property Tax - Land Only	\$7,434	\$0
350 SW Industrial Way	167955	2.73	231 - Commercial	\$1,306,550	\$0	\$1,306,550
				Tax Code Area 1128 (per \$1,000 TAV)	15.8378	15.8378
				Total Property Tax - Land Only	\$20,693	\$0
310-350 SW Industrial Way		4.88	231 - Commercial	\$1,775,940	\$75,270,053	\$77,045,993
				Tax Code Area 1128 (per \$1,000 TAV)	15.8378	15.8378
				Total Property Tax - Combined	\$28,127	\$1,192,112
						\$1,220,239

Financial Feasibility Analysis of the Jackstraw Project

Introduction to Terms

To evaluate whether or not a project is financially feasible, that is whether or not the project meets investment rates of return benchmarks, a pro forma analysis is conducted. A pro forma is simply a financial modeling exercise to examine how a development project performs as a business investment over a specified period of time.

Variables that are modeled, or estimated, in this report are as follows:

Apartment Rent Income: The annual rent income if all apartment units in a project were occupied and charging full, assumed market rent.

Gross Project Income: The sum of Apartment Rent Income, Retail Lease Income and Other Income streams such as parking, storage fees, electric vehicle parking fees, bike storage fees, electric bike charging fees and other related fee streams.

Vacancy: 5% of apartment space and retail space is assumed to always be vacant and represent income loss.

Lease-Up Vacancy & Concessions: This category of expense reflects different sources of loss to revenue as a result of project vacancy and discounts to apartment rents to realize and keep an average 5% vacancy rate.

Effective Gross Income: Gross Project Income less Vacancy and Lease-Up Vacancy & Concessions.

Apartment Operating Expense: Annual operating expenses of \$4,903 per apartment unit starting in year 1.

Retail Operating Expense: \$4.29 per square foot annually in retail space operating expenses for the project.

MUPTE: When included, MUPTE is a 10-year exemption from local property taxes levied on the value of the improvement constructed in place, in this case the Jackstraw project. Based on an estimated cost-of-replacement of \$75,270,053 million in 2023 dollars and a local, existing total property tax rate of \$0.0158378 (Tax Code Area 1128), the estimated MUPTE exemption beginning in year 1 would be \$1,220,239. This would increase by an assumed 3% annually, consistent with the annual maximum under Oregon property tax law.

Net Operating Income (NOI): Effective Gross Income less Project Operating Expense plus the MUPTE (if assumed).

Equity: The share of total development cost that is funded by invested dollar assets rather than by debt.

Debt Service: The annual, fixed debt service payment made by the developer for permanent debt financing of the project.

Return on Investment (Cost): The measure of financial return for the real estate development in question of this analysis, Jackstraw. The Applicant reports Net Operating Income and total development costs, leaving the primary measure of return for evaluation for the project to be Return on Investment. ROI is calculated as Net Operating Income divided by Total Development Cost. There is no hard rule for acceptable ROI for a real estate development project, but a common minimum ROI for moving forward with a development is 6%. Developers will vary on required ROI to go through with a project, but a minimum of 6% is a common minimum.

Jackstraw Project Pro Forma Without MUPTE

Table 8 reports the Return on Investment (Cost) pro forma for the Jackstraw project without a MUPTE.

Table 8 – Jackstraw Project NOI and ROI Without MUPTE

	Residential	Retail	Total
Income			
Lease Income	\$9,159,010	\$614,250	\$9,773,260
Other Income	\$1,002,453	\$237,950	\$1,240,403
Less: Vacancy Loss	<u>(\$508,073)</u>	<u>(\$42,610)</u>	<u>(\$550,683)</u>
Gross Income	\$9,653,390	\$809,590	\$10,462,980
Expenses			
Pre-Tax Operating Expenses	<u>(\$1,534,570)</u>	<u>(\$75,056)</u>	<u>(\$1,609,626)</u>
Property Taxes	<u>(\$1,177,614)</u>	<u>(\$42,625)</u>	<u>(\$1,220,239)</u>
MUPTE Awarded	\$0	\$0	\$0
Capital Reserves	<u>(\$62,600)</u>	<u>\$0</u>	<u>(\$62,600)</u>
Total Operating Expenses	<u>(\$2,774,784)</u>	<u>(\$117,681)</u>	<u>(\$2,892,465)</u>
Net Operating Income (NOI)	\$6,878,606	\$691,909	\$7,570,515
Total Development Cost			\$171,197,197

Return on Investment (Cost) - NO MUPTE **4.4%**

Combining all development assumptions of the Applicant reviewed in this document, as well as some calculations that slightly vary from Applicant math – namely the likely property tax generated by the development based on cost of replacement – project ROI without a MUPTE is calculated to be 4.4%.

4.4% is certainly below the rule-of-thumb minimum ROI of 6% for a project to get lending and/or equity investment. The project without a MUPTE would be considered a challenging project to finance and/or would require very patient capital for equity investment.

PNW ECONOMICS figures vary a bit from Applicant documentation, namely in attribution of taxable land value to portions of the project, whether residential or retail. This report also estimates that property tax owed on the project will be slightly higher than what the Applicant has estimated. This greater tax owed in this analysis would only serve to show the MUPTE is more consequential than what the Applicant demonstrates.

Jackstraw Project Pro Forma WITH MUPTE

Table 9 reports the Return on Investment (Cost) pro forma for the Jackstraw project with a MUPTE. All operations findings are the same as the Without MUPTE scenario, except for the addition of the

property tax exemption each year equal to the value of the property taxes paid on improvements put in place.

Table 9 – Jackstraw Project NOI and ROI WITH MUPTE

	Residential	Retail	Total
Income			
Lease Income	\$9,159,010	\$614,250	\$9,773,260
Other Income	\$1,002,453	\$237,950	\$1,240,403
Less: Vacancy Loss	<u>(\$508,073)</u>	<u>(\$42,610)</u>	<u>(\$550,683)</u>
Gross Income	\$9,653,390	\$809,590	\$10,462,980
Expenses			
Pre-Tax Operating Expenses	<u>(\$1,534,570)</u>	<u>(\$75,056)</u>	<u>(\$1,609,626)</u>
Property Taxes	<u>(\$1,177,614)</u>	<u>(\$42,625)</u>	<u>(\$1,220,239)</u>
MUPTE Awarded	\$1,177,614	\$42,625	\$1,220,239
Capital Reserves	<u>(\$62,600)</u>	\$0	<u>(\$62,600)</u>
Total Operating Expenses	<u>(\$1,597,170)</u>	<u>(\$75,056)</u>	<u>(\$1,672,226)</u>
Net Operating Income (NOI)	\$8,056,220	\$734,534	\$8,790,754
Total Development Cost			\$171,197,197

Return on Investment (Cost) - MUPTE 5.1%

Assuming a MUPTE is awarded to the project, Net Operating Income for the Jackstraw is enhanced by more than \$1.2 million. The result is a Return on Investment (Cost) for the project with a MUPTE equal to 5.1% in this analysis.

Award of a MUPTE certainly enhances the ROI for the project closer to the minimum rule-of-thumb 6%. The MUPTE does not, however, push the rate of return over the minimum threshold but makes the project significantly more compelling as an investment.

As already noted, different developers will use not only different measures of return, but also different criteria for a minimum and/or successful rate of return for that measure. This analysis employs a rule-of-thumb minimum of 6% return on cost for a project to be worth the risk. On this measure alone, MUPTE makes the Jackstraw project significantly more compelling than without the MUPTE. If the Applicant internally employs a lower threshold ROI for project evaluation, such as 5%, then it can be said the MUPTE not only makes the project more compelling but certainly assures the project would worth the risk and expense in a way that would not be possible without the MUPTE.

PNW Economics

Evidenced-Based Real Estate, Land Use, & Economic Development Due Diligence

MEMORANDUM

To: Cate Schneider
Senior Management Analyst
CITY OF BEND, OREGON

From: Bill Reid, Principal
PNW ECONOMICS, LLC

Subject: Revised MUPTe Return on Investment Findings: Jackstraw Project

Date: November 21, 2023

This memorandum summarized revised return on investment calculations for the Jackstraw project in Bend, Oregon for the purposes of Mixed-Use Property Tax Exemption (MUPTe) benefit consideration by the City of Bend and its partners.

On October 7, 2023, PNW Economics submitted to the City of Bend a review of Jackstraw development MUPTe application financial pro formas required by City ordinance for the MUPTe incentive program. On November 20, 2023 City of Bend staff identified two math errors in the findings of that October 2023 review. The identified errors in Table 9 of the October 2023 review were as follows:

- MUPTe on the taxable assessed value of land upon which the Jackstraw project would be built: A tax exemption of \$28,127 starting in 2023 was erroneously credited to the Jackstraw project as part of return on investment calculations. MUPTe should not apply to the value of land, only improvements put into place. The error has been corrected in Table 1 of this memorandum.
- MUPTe on the taxable assessed value of commercial retail development in the Jackstraw project: A tax exemption of \$42,625 for the taxable assessed value of the retail commercial component was erroneously credited to the Jackstraw project as part of return on investment calculations. The MUPTe, per State statute, does apply to the retail commercial portion of the project. The error has been corrected in Table 1 of this memorandum.

Table 1 on the following page provides revised calculations of Return on Investment (Return on Cost) that should replace Table 9 in the October 2023 MUPTe review of the Jackstraw. In combined total, correction of the errors above reduce the value of the MUPTe for the Jackstraw project by \$70,752. This has the following effects upon ROI calculations:

- Revised MUPTe of \$1,149,487 awarded to the Jackstraw (and increasing by Measure 50-allowed 3% annually thereafter);
- Total Operating Expenses increased to \$1,742,978;
- Net Operating Income (NOI) decreased to \$8,720,002;
- Return on Investment (Cost) with a MUPTe of 5.1%.

In what may seem surprising, the ROI with a MUPTe did not change from the previous rounded calculation of 5.1%. This is so because despite a reduction in the MUPTe of \$70,752, the Jackstraw project is both so

PNW Economics

expensive to develop (\$171.2 million) and annual Net Operating Income is so large (\$8.72 million), that the downward correction of the MUPTE award is basically rounding error on the ROI calculation. In fact, not rounding ROI to one decimal place would display the following:

- ROI before error correction: 5.135%
- ROI after error correction: **5.09%**

Table 1 – Revised Return on Investment (Return on Cost) Calculation for the Jackstraw: Yes for a MUPTE

	Residential	Retail	Total
Income			
Lease Income	\$9,159,010	\$614,250	\$9,773,260
Other Income	\$1,002,453	\$237,950	\$1,240,403
Less: Vacancy Loss	<u>(\$508,073)</u>	<u>(\$42,610)</u>	<u>(\$550,683)</u>
Gross Income	\$9,653,390	\$809,590	\$10,462,980
Expenses			
Pre-Tax Operating Expenses	<u>(\$1,534,570)</u>	<u>(\$75,056)</u>	<u>(\$1,609,626)</u>
Property Taxes	<u>(\$1,177,614)</u>	<u>(\$42,625)</u>	<u>(\$1,220,239)</u>
MUPTE Awarded	\$1,149,487	\$0	\$1,149,487
Capital Reserves	<u>(\$62,600)</u>	<u>\$0</u>	<u>(\$62,600)</u>
Total Operating Expenses	<u>(\$1,625,297)</u>	<u>(\$117,681)</u>	<u>(\$1,742,978)</u>
YES MUPTE	Residential	Retail	Total
Net Operating Income (NOI)	\$8,028,093	\$691,909	\$8,720,002
Total Development Cost			\$171,197,197
Return on Investment (Cost) - MUPTE			5.1%

We hopes this clarifies the issue for the City of Bend and its partners, and we apologize for the math error.