HRD
BUILDING OPPORTUNITY

February 3, 2020

The Hon. Representative Nancy Nathanson, Chair, House Committee on Revenue
900 Court St. NE H-279, Salem OR 97301

The Hon. Senator Mark Hass, Chair, Senate Committee on Finance and Revenue
900 Court St. NE, S-207, Salem OR 97301

The Hon. Representative Pam Marsh, Vice Chair, House Committee on Revenue
900 Court St. NE, H-375, Salem, Oregon 97301

The Hon. Representative E. Werner Reschke, Vice Chair, House Committee on Revenue
900 Court St. NE, H-384, Salem OR 97301

The Hon. Senator Lynn P. Findley, Vice Chair, Senate Committee on Finance and Revenue
900 Court St. NE, S-403, Salem OR 97301

Copy to:
The Hon. Representative Tina Kotek, Speaker of the Oregon House of Representatives
900 Court St. NE, Rm. 269 Salem OR 97301

The Hon. Senator Ginny Burdick, Oregon Senate Majority Leader
900 Court St. NE, S-223, Salem OR 97301

The Hon. Jeff Merkley, U.S. Senator, State of Oregon
500 Liberty St. SE, Suite 320, Salem OR 97301

The Hon. Ron Wyden, U.S. Senator, State of Oregon
707 13th St., SE Suite 285, Salem OR 97301

The Hon. Susan Bonamici, U.S. Representative, 1st Dist. of Oregon
12725 Southwest Millikan Way, Suite 220, Beaverton OR 97005

The Hon. Greg Walden, U.S. Representative, 2nd Dist. of Oregon
1051 NW Bond St., Suite 400, Bend OR 97701

Dear Chairs Nathanson and Hass, Senators, Representatives,

I write in opposition to a renewed effort to uncouple the federal tax code provisions on opportunity zones (OZ) from Oregon law (a bill known as HB 2144 in last year's legislative session). **This legislation will harm opportunity zone census tracts throughout the state that were designated in the true spirit of the legislation**, merely to counter abuses in the Portland area. The Renaissance Companies are creating workforce housing in Oregon without government subsidy by leveraging the tax incentives of the opportunity zones. We have focused our efforts on secondary markets in the Redmond and McMinnville opportunity zones. We are working to pioneer a new model for workforce housing by reducing construction costs and eliminating taxpayer subsidies, a model that can be replicated on a large scale without the need for public spending.

Taxpayer-funded affordable housing will always be limited by other public spending priorities. Currently, new construction of affordable units simply does not happen without subsidies. We are working to change that, initially at two development sites in Redmond. To raise the private equity required despite offering below-market returns to investors, we rely on federal and state tax incentives to make up the difference, thereby attracting capital and debt funding to this vitally important effort.

After 30 years successfully creating affordable housing in difficult Chicago neighborhoods, we opted to set aside the familiar framework of Low-Income Housing Tax Credit (LIHTC)-funded housing and try something new in Oregon. In the LIHTC world, we had found that embedded costs were limiting the number of affordable units we could build. Working with an Oregon home builder we were able to value-engineer an original townhome design that could rent, without subsidy, to individuals and families earning 70% to 100% of Area Median Income (AMI) in lower-cost secondary markets. Our "beta test" site was 58 units in Redmond, all now fully leased.

According to the Urban Land Institute, workforce housing is affordable to individuals and families earning 80% to 120% of area median income (AMI). These middle-income earners do not benefit from traditional affordable housing programs, which concentrate eligibility at 60% of AMI and cap it at 80%. In primary/urban real estate markets, the middle-income segment is under-served because the multifamily rental housing boom has focused either on LIHTC units or luxury rentals, with little new housing built for earners in between. In secondary/smaller-city markets, this occurs because prevailing rents are not favorable to new construction, and the multifamily rental housing boom simply never arrived. Often in these secondary markets, prevailing rents are workforce rents.

In Redmond's opportunity zone, we are ready to break ground on 128 more rental units. It has not been easy to attract funding to this effort. Using a major national brokerage firm, we approached more than forty (40) lenders before finding a bank willing to provide construction financing for the project. We have found that banks are much less willing to lend to a project with modest returns in a secondary market. When those 40 banks we approached heard the project was in Redmond -- despite the ability to project solid returns and a strong local economy -- they declined to fund.

As with the potential for abuse of the OZ tax credit, banks favor urban primary markets for multi-family construction lending. We are now working to change how Community Reinvestment Act (CRA) credits are awarded to banks because we have observed firsthand that secondary markets are left out. The cash flow projections banks require in order to make loans for unsubsidized workforce housing depend on the opportunity zone tax incentive. For us, recognition of the incentive in Oregon tax law is not an extra layer of profit; it is make-or-break.

In a 2019 *Oregonian/Oregon Live* article, Jody Wiser of Tax Fairness Oregon was quoted saying, "The double tax break is clearly going to benefit the owners of projects that were going to happen anyway."[1] **At a national conference in 2019 attended by the HUD Secretary, we spoke out forcefully against using opportunity zones for projects that would have happened anyway, or "building in the path of development."[2]** Instead, opportunity zones should bring catalytic investment

[1] https://www.oregonlive.com/politics/2019/02/oregon-goes-big-on-new-trump-tax-break.html

[2] A copy of our presentation is available at https://www.hrc.capital/investments/opportunity-zones/.

to markets like Redmond where we have learned it does not come easily. In economically vibrant secondary markets, the investors we appeal to recognize the value of long-term, steady income that approaches traditional private equity returns when OZ tax benefits are factored in.

We have sharpened our pencils and made our operation as efficient as possible in order to attract the needed capital. With a construction cost of $135 per square foot, we have pushed the limit on the cost side of the equation. After several years' work, we can finally offer a return on investment that interests public-spirited local investors. **If investors learn their capital gains will now be taxed by the state, developments that could provide quality affordable housing to hundreds of Oregon households will be back to square one.**

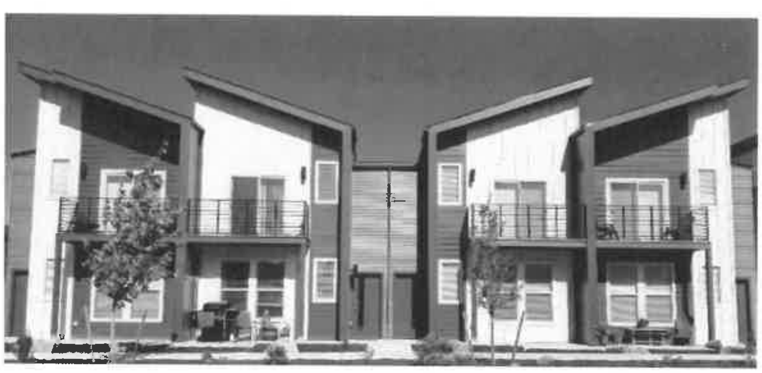
The 10-year hold incentivized by opportunity zone regulations is capable of attracting "patient capital" with solid long-term returns, tax benefits at exit, and an opportunity to do some good in neglected secondary markets. A great deal of America's economic activity happens in markets like Redmond and McMinnville, but the multifamily rental housing boom has largely ignored them. In McMinnville, our hope is to build a business park attracting complementary services needed by the wine industry, allowing expansion that would bring permanent new jobs to the agriculture, manufacturing, and distribution sectors.

With opportunity zone developments in major cities charging market rents for luxury units, the proposed change in Oregon law addresses the windfall but also impacts good faith developers like us. It was Oregon's governor who designated the opportunity zone sites now being criticized as a giveaway. **Surely there is a way to adjust this framework for abuses in the luxury market, without stopping investment that is poised to bring housing and jobs to Oregonians who need them.**

I am happy to speak with you directly or testify at a public hearing about this matter.

Sincerely,

Nancy J. Kapp
President and CEO
The Renaissance Companies
Hunter Renaissance Development, LLC
773.968.8448



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