**SUMMARY**

Pearl Court Apartments, completed in September 1997, is a full-block development at the edge of downtown in Portland's emerging River District, a new neighborhood growing out of 70 acres of vacant railroad yard between downtown Portland and the Willamette River. The building's 199 apartments are rented at rates that residents earning 40 percent to 60 percent of the area median income can afford. The building features a library, a formal two-level lobby with a fireplace, numerous lounges and outdoor decks, and a large bicycle room. The apartments enclose a landscaped courtyard.

**FEATURES**

- Redevelopment of brownfield site
- Public/private partnership
- Environmentally responsible construction
- Fast-track development/construction schedule
- High-quality design and finishes at affordable rents using a low level of public subsidies
- Transit-supportive features
- Extensive interior and exterior public spaces
Pearl Court Apartments

Portland, Oregon

Project Type: Residential

Volume 28 Number 16

October-December 1998

Case Number: C028016

PROJECT TYPE

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SPECIAL FEATURES

- Redevelopment of brownfield site
- Public/private partnership
- Environmentally responsible construction
- Fast-track development/construction schedule
- High-quality design and finishes at affordable rents using a low level of public subsidies
- Transit-supportive features
- Extensive interior and exterior public spaces

DEVELOPER

Prendergast & Associates
333 SW Fifth Avenue, Suite 200
Portland, Oregon 97204
503-223-6605

ARCHITECT

William Wilson Architects
133 SW 2nd Avenue, Suite 200
Portland, Oregon 97204
503-223-6693
GENERAL DESCRIPTION

Pearl Court is the first affordable housing project—and only the fifth project overall—to be developed in Portland’s emerging River District, an area of approximately 70 acres bordered by downtown Portland on the south and by the Willamette River on the east. Most of the area is vacant land that once was used as a railroad yard.

Unlike many affordable housing developments, Pearl Court was begun by a private developer. The 199-unit apartment building, a joint venture of Prendergast & Associates and the Housing Authority of Portland, offers studio and one- and two-bedroom apartments to residents earning between 40 percent and 60 percent of the area median income. The building’s exceptional design sets the standard for future affordable housing developments in the neighborhood and proves that high-quality affordable housing can be developed without large public subsidies.

Despite the complexity of the undertaking, which involved brownfield cleanup, intricate financing, and myriad public/private partnerships, Pearl Court was on a fast-track development/construction schedule. Although many tax-credit projects entail two to three years of planning before construction starts, the developer closed on the financing one year after planning began and completed construction less than a year after that. From the start, the architect, developer, and contractor worked together as a team, which helped the project stay on schedule and on budget.

SITE HISTORY

The city of Portland had been studying the redevelopment potential of the area since the early 1980s and acquired about 30 acres on its fringe—including the passenger train station—in the late 1980s. Planning began in earnest in 1990 when a local developer, Pat Prendergast, purchased 40 acres from Burlington Northern Railroad. A committee of civic leaders, property owners, citizen activists, and city officials convened in 1991 to develop a vision for the district. Whereas earlier plans treated the area as an extension of downtown, the committee recommended building a new medium-density residential neighborhood as part of Portland’s strategy to contain urban sprawl and use existing infrastructure more effectively.

In 1995, Portland’s city council adopted an ambitious vision plan for the River District calling for the creation of 5,000 or more housing units to accommodate residents of all incomes in a pedestrian- and transit-oriented neighborhood connected to downtown and the river and served by a mix of retail uses, new parks, and a new streetcar line.

DEVELOPMENT AND CONSTRUCTION

Built at a density of more than 211 units per acre, Pearl Court exceeds the density of any project built in the area to date as well as that of most projects in Portland. It thus furthers one of the main goals of the city’s River District plan—to stem sprawling development in the metropolitan area and capture growth in the central city by locating housing close to employment, retail, and services. In addition, the site’s proximity to downtown, the transit mall (which provides free bus service in the central city area), the light-rail line, and a future streetcar line allowed the developer to build at a very low parking ratio—18 spaces for 199 apartments.

Prendergast & Associates already had built market-rate condominiums and townhouses on four sites in the area. The Pearl Court site—next to a viaduct ramp and the city’s main post office parking lot—made it more suitable for rental than for-sale housing. Moreover, the developer viewed Pearl Court as an opportunity to realize one of the central goals of the River District plan—to create a mixed-income neighborhood.

Unlike many affordable housing developments, Pearl Court Apartments was developed by a private company rather than a nonprofit or a public agency. Prendergast knew that the Housing Authority of Portland (HAP) wanted to ensure a supply of affordable housing in the River District, so he offered to sell the city the Pearl Court parcel and to develop it.

HAP made an attractive partner because of its ability to issue low-cost, tax-exempt bonds quickly and because it would be a responsible long-term owner. The developer in turn brought the land, development expertise, and working capital to the project. A limited partnership was set up with HAP as the general partner. The developer eventually sold the tax credits to Fannie Mae, making it the sole limited partner of Pearl Court Limited Partnership. Prendergast & Associates assumed full development responsibilities, and HAP assumed responsibility for management after completion.

Pearl Court received the first permit issued in the city for a five-story, wood-frame building, and it was the first project approved under the newly adopted River District design guidelines. The project also obtained approval for an experimental stormwater system. In addition, it went through a lengthy street vacation process to reattach a triangular piece of land that had been dedicated to the city years ago.

The River District plan called for densities of 80 to 120 units per acre, far greater than in any other Portland neighborhood. Pearl Court Apartments was built at 211 units per acre, with an exceptionally low parking ratio of 1:11. The developer started with a ratio of 1:6, but when it decided to increase the number of units from 170 to 199, it found there was no room for additional parking to serve the extra 18 units and decided to offer them as low-income
rentals without parking. One of the keys to developing affordable housing at greater densities is to limit the amount of space devoted to parking.

Pearl Court was part of a large brownfield site; its soil was contaminated by railroad operations and its groundwater by an old manufactured gas plant nearby. Burlington Northern Railroad had been working with the Oregon Department of Environmental Quality (DEQ) on a risk and feasibility assessment of the entire 40-acre railyard area. As part of assembling the site for Pearl Court, the developer asked Burlington Northern and DEQ to accelerate the assessment and remediation of the one-acre parcel. Although both parties were concerned about setting a precedent, they agreed to the cleanup program.

Burlington Northern quickly cleaned up the soil, and DEQ agreed to issue a prospective purchaser agreement (PPA) to remove any liability to HAP, the partnership, lenders, or investors for any existing conditions. This was the first time that a PPA was used in conjunction with a Section 42 low-income housing tax credit (LIHTC) project. It also was the first time DEQ had used a PPA for a residential project.

The developers were committed to making Pearl Court as environmentally sustainable as the budget permitted. They worked with the local utility company, Enron Portland General Electric (PGE), which provided an environmental consultant and a comprehensive set of guidelines for constructing an "Earth Smart" building that recommended recycling construction site materials; using nontoxic (or low-toxic) paint and other materials; installing a continuous ventilation system; using recycled-content materials; providing for tenant recycling by having a large recycling room on each floor; and installing an innovative stormwater system that recharges part of the roof runoff back into the ground rather than into the public storm sewer system.

PLANNING AND DESIGN

As the first example of new, affordable housing in a mostly upper-end neighborhood, Pearl Court would set the standard for future affordable and mixed-income developments in the River District. The developer therefore wanted to build a beautiful building and thought it especially important to use a higher level of design, finishing, and architectural detailing than usually is associated with tax-credit projects.

A major challenge was to design a building that was open to the street and contributed to an active streetlife while providing residents in the still-emerging neighborhood with a sense of safety and security. The solution was to build a full-block building around a private interior courtyard that eventually will offer residents a welcome haven from the bustling neighborhood that will soon surround them. Three formal entrances are located at street level, allowing pedestrians to see through the building into the landscaped courtyard. Common decks, built on the upper floors above each of the three entries and above the parking entry, further animate the streetedge.

Another challenge was to fit the apartment building into an area surrounded by massive warehouses and still express its residential character. The developer chose a building exterior of industrial red brick veneer with alternating panels of synthetic stucco that blends well with the neighborhood. The stucco panels that project beyond the brick line like modern bay windows underscore the building's residential nature, as do the black wrought-iron window boxes with terra-cotta planters.

Building height also was modulated to suggest a more residential scale. The roof was carved out at the four outside corners and was stepped up above the east and west entries to give the appearance of a fifth floor. Besides emphasizing the entries, the additional space contains the elevator shafts and rooftop stairs.

One goal was to create a hierarchy that would differentiate the four sides. To that end, a straight horizontal line was maintained on the south side, where residents enter the garage, to identify it as the back of the building. A partial fifth story of living area was added on the north side, where the elevator tower gives the appearance of a sixth story. This additional massing is in scale with the wider and deeper horizontal articulation of the building and marks the north side unmistakably as the formal entrance to the building. The fifth story was built under the first permit issued in the city for a five-story, wood-frame building. The process was simplified because only 3,000 square feet was added. To avoid the cost of an additional elevator stop and stair tower, the five apartments in this section were made into two-story townhouses.

Because the building occupies a full block, the developer wanted to avoid the appearance of a massive, solid box and to create a pedestrian-scale environment. In downtown Portland, this could be easily accomplished by providing retail space on the first level of office buildings. However, developers in the residential River District needed to find ways to do so with apartments on the ground floor and without sacrificing the privacy and safety of tenants.

One of the solutions at Pearl Court was to recess corners and use large, raised planting areas to break down the apparent length of the building. The building also was stepped back in two increments at each of the three entries, where raised planters, small benches, and large projecting marquees were added to create visual interest at ground level.

The first floor was raised three feet above the sidewalk so that window sills were six feet above grade. While this solved the privacy issue, it created a blank wall that did not improve the quality of the pedestrian environment. To add variety to the facade, an 18-inch-wide landscaped strip was planted on the sidewalk; in addition, a rowlock course of brick and a raised panel scoring pattern in the concrete base were added. Wrought-iron window boxes also
Pearl Court leased up at a rate of 50 units per month, an impressive feat given that HAP changed management
townhouses priced in the $400,000 range. District so far has been decidedly upper end. A newly opened project one block west of Pearl Court features luxury
keeping the housing affordable for at least 60 years. In contrast, the vast majority of new development in the River
income, 91 units at 50 percent of median income, and 90 units at 60 percent of median income. HAP committed to
Eighteen units, which rent for $308 a month, were reserved for people earning incomes at 40 percent of median
temporaries to answer the telephones and added extra leasing staff rather than turn people away.
The key to the strategy was not to treat Pearl Court as low-income housing, and the company marketed Pearl Court
primary marketing tools were newspaper ads, banners on the building, and advertising in local rental apartment magazines. Because of the high
projects, the developer, believing that such a large space would tend to discourage socializing, opted instead to create
Pearl Court features higher-quality indoor and outdoor common area amenities than are generally associated with
tax-credit projects. Instead of building one large community room, as frequently is done in low-income rental
projects, Pinnacle took a much more market-driven approach than is usual for tax-credit projects. Instead of building one large community room, as frequently is done in low-income rental
Pearl Court features higher-quality indoor and outdoor common area amenities than are generally associated with
tax-credit projects. Instead of building one large community room, as frequently is done in low-income rental
marketing, sales, and management services to Pinnacle Realty, a Seattle-based company that is the sixth-largest fee manager in the country. The primary marketing tools were
problematic. After the first level was raised three feet, there was not enough space on the east and west sides for
ramps, so double-sided elevators were installed. Wheelchair-bound residents can enter through the east and west
doors and ride the elevators up three feet to the elevator stop on the first floor. Pearl Court has ten fully accessible
units, but a number of other units also are rented by tenants in wheelchairs because they find the entire building so
accessible.

Rather than providing only one handicapped accessible entry, as required by law, the building is fully accessible on all
four sides. After the first level was raised three feet, there was not enough space on the east and west sides for
ramps, so double-sided elevators were installed. Wheelchair-bound residents can enter through the east and west
doors and ride the elevators up three feet to the elevator stop on the first floor. Pearl Court has ten fully accessible
units, but a number of other units also are rented by tenants in wheelchairs because they find the entire building so
accessible.

Pearl Court has access to a broad range of public and private transit services within a five block area. These include
local and long-distance buses, light-rail trains, and a future streetcar line. A main aim of the River District plan was to
locate housing close to employment, retail, services, and entertainment as a way of encouraging walking, biking, and
use of transit. The plan designates NW Kearney, which runs on the north side of Pearl Court, as a main pedestrian
thoroughfare. NW Ninth Avenue, which runs on the east side of Pearl Court, will be a primary north/south bicycle
route, connecting the River District to downtown. NW Tenth Avenue will be the route for the new streetcar line, which
will connect the neighborhood to Portland State University on the south edge of downtown and to major employment
centers to the west.

Pearl Court features a bicycle room with 72 bicycle racks that each can hold two bicycles. It is estimated that River
District residents will walk, bicycle, or use transit for almost 50 percent of their daily trips outside the district.
Proximity to downtown and excellent access to public transportation made it possible to provide remarkably few
parking spaces.

MARKETING AND MANAGEMENT

The Housing Authority of Portland contracted out marketing, sales, and management services to Pinnacle Realty, a
Seattle-based company that is the sixth-largest fee manager in the country. The primary marketing tools were
newspaper ads, banners on the building, and advertising in local rental apartment magazines. Because of the high
quality of the development, Pinnacle took a much more market-driven approach than is usual for tax-credit projects.
The key to the strategy was not to treat Pearl Court as low-income housing, and the company marketed Pearl Court
as if it were one of the most expensive buildings in town. Leasing agents wore business suits, and Pinnacle hired
temporaries to answer the telephones and added extra leasing staff rather than turn people away.

Eighteen units, which rent for $308 a month, were reserved for people earning incomes at 40 percent of median
income, 91 units at 50 percent of median income, and 90 units at 60 percent of median income. HAP committed to
keeping the housing affordable for at least 60 years. In contrast, the vast majority of new development in the River
District so far has been decidedly upper end. A newly opened project one block west of Pearl Court features luxury
townhouses priced in the $400,000 range.

Pearl Court leased up at a rate of 50 units per month, an impressive feat given that HAP changed management
companies mid-stream and brought on Pinnacle just six weeks before the building opened. Although there was little
time for preleasing and lease-up took place during the Thanksgiving and Christmas holidays, the building was fully
leased and occupied four months after opening.

The site had a number of significant drawbacks that easily could have discouraged potential residents. Although
located within blocks of the Pearl District—a rapidly gentrifying area of art galleries, trendy restaurants, and loft
housing—the site was both visually and physically separated from the neighborhood by an on-ramp to a viaduct
system. (The ramp is slated to be removed in spring 1999, when the city street system will be extended.) The site
also was bordered by a vacant lot, an empty warehouse, and a truck parking lot for the main post office.

Renters, however, recognized the long-term opportunities. Drawn by the high-quality design, affordable rents, and
close-in location, they were willing to look beyond some short-term unattractive conditions in order to secure an
apartment.

FINANCING

The capital structure of tax-exempt bonds, low-income housing tax credits, a Portland Development Commission
(PDC) loan, and a bridge loan for the tax credits created a complex and time-consuming financing process. The first
step was to obtain an allocation of tax-exempt bonding authority from the state’s private activity bond committee.
Competition for the limited amount of available bonding capacity was fierce, and the city already had a number of
other projects in the pipeline.

The project was financed with tax-exempt bonds issued by the Housing Authority of Portland, equity from the sale of
4 percent low-income housing tax credits (LIHTC) to Fannie Mae, and a subordinate loan from the PDC, the city’s
urban renewal agency. Compared with most other public housing projects in the city, Pearl Court Apartments
represents a conservative investment of public funds. The average development cost for projects serving the same
income level is slightly more than $90,000 per unit, and the average PDC funding contributed is approximately
$20,000 per unit. Pearl Court is at the lowest end of both measures, with $60,000 per unit in development costs and
$7,000 per unit in PDC funding.

The low level of public investment was achieved in several ways. Besides the careful attention to the construction
budget, the developer worked with the city to use its resources in four new ways:

Bridge financing. The yield from the sale of the tax credits was increased by allowing the limited partner to defer its
pay-in until June 1999. Eighty-five percent of the pay-in was covered by a $3.5 million bridge loan from Bank of
America, and PDC provided another $600,000 loan for the remaining 15 percent. This structure provided net
equity—after deducting for all additional loan fees, interest costs, and transaction costs—of approximately $500,000
more than a traditional pay-in schedule would yield. By lending $600,000 for 2.75 years, the city lowered its 30-year
loan by $500,000.

Letter of credit. Tax-exempt bonds were used for construction financing to save money on interest and extra loan
fees. Late in the financing stage, the bond underwriters required a letter of credit, even though the developer already
had secured a performance bond from a substantial contractor. The underwriters finally were willing to accept a
pledge of $1,000,000 from PDC during construction rather than have the developer purchase a letter of credit on the
full $7,200,000 of bonds, ultimately saving the developer about $100,000.

Funding of construction draws. PDC agreed to disburse all but 15 percent of its loan funds—at 3 percent
interest—before the bond funds and the Bank of America bridge loan. HAP agreed to disburse all of the bond
funds—at 6.95 percent—next. This arrangement saved approximately $30,000 in direct interest costs. It also resulted
in more favorable terms on the Bank of America bridge loan.

Debt reserve guarantee. The developer worked with the city’s office of fiscal administration to devise a guarantee
from them that could be used in lieu of a credit enhancement to obtain a rating for the bonds. The city’s guarantee
took the form of a pledge to replenish the debt service reserves if they were drawn down and the project or general
partner was unable to replenish them. Because state law in Oregon limits cities to making only annual budget
commitments, the rating agencies were unwilling to issue a rating. Nonetheless, the developer sold the bonds without
a rating at a very competitive rate. Since then, the rating agencies have announced their willingness to consider such
guarantees in future projects.

Pearl Court has exceeded initial projections for eligible basis under the LIHTC program. As a result, the limited
partner’s rate of return will meet or exceed its projections and the housing authority will receive up to $200,000 of
additional equity in June 1999.

EXPERIENCE GAINED

- As the first affordable housing development in the emerging River District area, Pearl Court set the standard
  for future affordable development in the neighborhood and demonstrated that low-income housing can be
  attractive and blend well with adjacent high-end development. Newly planned condominiums in the district are
  preselling for more than $650,000 a unit.
- Pearl Court demonstrates that the cost of including numerous environmentally sustainable and
energy-conserving features need not be prohibitive and that those features are just as appropriate for affordable housing as for market-rate development. In fact, energy savings are especially important to a low-income population. The developer followed the "Earth Smart" standards of the local utility company, employing features to lower heating and lighting expenses for residents. The utility company ran several public service announcements highlighting the development's environmental features, which contributed to the project's quick lease-up.

- In hindsight, the developer says he would have started earlier and allotted more time for incorporating the environmental features. Although most of the participating entities—contractor, architect, landscape architect, HAP, and interior designer—supported the basic concept of building an environmentally responsive project, their tendency was to rely on the standard specifications they were accustomed to using because they involved less effort, risk, and expense. As a result, the developer spent more time than he anticipated researching the various environmentally sustainable materials and construction technologies, rather than relying on others to come up with the information.

- In a development located in an emerging neighborhood, like Pearl Court, it is important to take a long-term perspective. Otherwise, it is easy to be discouraged by temporary conditions (viaduct ramp, adjacent parking lots, etc.) and build a lower-quality development. The lesson is to focus on what you want to build and to build it rather than become distracted by existing conditions that are likely to improve in the future.

- The developers started with a higher parking ratio. But when they looked at increasing the density from 170 to 199 units, they found that there was no room for additional parking to serve the extra 18 units and decided instead to build them as low-income rentals without parking. Thus, one of the keys to developing affordable housing at greater densities is to limit the amount of space devoted to parking.

- Pearl Court demonstrates that low-income housing can be well designed with attractive, high-quality amenities at relatively low cost without large subsidies. Whereas most Portland tax-credit projects require loans from the city's urban renewal agency of $20,000 or more per unit, Pearl Court borrowed only $7,000 per unit. Using a similar financing strategy, the city potentially could increase the amount of low income housing it produces. Moreover, the financing was structured so that the housing authority will receive substantial cash flows from the development, which it will use to replace expiring federal subsidies on other projects serving even lower-income tenants.
**PROJECT DATA**

**LAND USE INFORMATION**
- Site area: .94 acres
- Total units planned/completed: 199/199
- Gross density: 211 units per acre
- Off-street parking spaces: 18

**LAND USE PLAN**

<table>
<thead>
<tr>
<th>Use</th>
<th>Acres</th>
<th>Percent of site</th>
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<tr>
<td>Buildings</td>
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<td>76</td>
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<tr>
<td>Roads/paved areas</td>
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<td>2</td>
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<td>Common open space</td>
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<td>22</td>
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<td><strong>Total</strong></td>
<td>.94</td>
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**RESIDENTIAL UNIT INFORMATION**

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<thead>
<tr>
<th>Unit type</th>
<th>Unit size (square feet)</th>
<th>Number of units planned/built</th>
<th>Rent range</th>
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<tr>
<td>Studio</td>
<td>312-422</td>
<td>112/112</td>
<td>$308-$451</td>
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<tr>
<td>One bedroom/one bath</td>
<td>543-821</td>
<td>59/59</td>
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<td>Two bedrooms/one bath</td>
<td>695-1,148</td>
<td>28/28</td>
<td>$595</td>
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Vacancy rate: 2 percent

**DEVELOPMENT COST INFORMATION**

**Site acquisition cost:** $750,000

**Site improvement costs**
- Excavation/grading: 259,698
- Sewer/water/drainage: 85,019
- Paving/curbs/sidewalks: 145,205
- Landscaping/irrigation: 61,500
- Fees/general conditions: 59,299
  - **Total: $610,721**

**Construction costs**
- Superstructure: $3,353,454
- HVAC: 186,276
- Electrical: 963,512
- Plumbing/sprinklers: 806,929
- Finishes: 1,604,588
- Graphics/specialties: 86,103
- Fees/general conditions: 751,499
  - **Other: 241,683**
  - **Total: $7,994,044**

**Soft costs**
- Architecture/engineering: $300,850
- Project management: 272,095
- Marketing: 112,019
- Legal/accounting: 80,162
- Taxes/insurance: 34,952
- Title fees: 16,141
- Construction interest and fees: 517,091
- Debt service/operating reserves: 724,383
  - **Other: 801,550**
  - **Total: $2,859,243**

**Total development cost:** $12,214,008

**ANNUAL OPERATING EXPENSES (JANUARY-AUGUST 1998)**

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<th>Expense</th>
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<td>Financial</td>
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<td><strong>Maintenance and janitorial</strong></td>
<td>19,513</td>
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<td>Utilities</td>
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<td>Payroll</td>
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<td>Administrative</td>
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<td>Miscellaneous</td>
<td>3,181</td>
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<td><strong>Total</strong></td>
<td>$1,042,004</td>
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**FINANCING**

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<tr>
<th>Sources</th>
<th>Construction financing</th>
<th>Permanent financing</th>
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**Notes:**
- The data provided includes site usage information, residential unit details, development costs, and annual operating expenses. The financial section also includes sources and financing details.
<table>
<thead>
<tr>
<th>Tax-exempt revenue bonds</th>
<th>$7,137,222</th>
<th>$7,137,222</th>
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<tbody>
<tr>
<td>(Housing Authority of Portland subordinate loan)</td>
<td>1,417,497</td>
<td>1,417,497</td>
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<tr>
<td>(Portland Development Commission)</td>
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| LIHTC equity (Fannie Mae)               | 10,000     | 3,619,489  |
| Bridge loan for LIHTC equity (Bank of America/PDC) | 3,609,489  |            |
| Utility rebate (Portland General Electric) | 39,800     | 39,800     |
| Total                                   | $12,214,008| $12,214,008|

### DEVELOPMENT SCHEDULE

- **Site purchased:** 1990
- **Planning started:** October 1995
- **Construction started:** October 1996
- **Rentals started:** August 1997
- **Construction completed:** September 1997
- **Project leased up:** January 1998 (100 percent occupied)

### DIRECTIONS

*From airport:* Take I-205 south to I-84 west. Proceed about five miles to I-5 north, then take I 405 across the Fremont Bridge. Take the Everett Street exit; turn left on Davis Street, then left on 9th Avenue. Go seven blocks to Kearney Street. Pearl Court is located at the intersection of NW 9th Avenue and Kearney Street.

*Driving time:* 20 minutes in non-peak-hour traffic.
The first affordable housing development in Portland’s emerging River District, Pearl Courts offers housing to residents earning 40 percent to 60 percent of the area median income.
The building’s height was modulated to suggest a more residential scale. The roof was carved out at the four outside corners and was stepped up above the east and west entries to give the appearance of a fifth floor.
An interior courtyard offers residents a secure outdoor environment in the still-emerging neighborhood.
Instead of a large community room typical of low-income housing developments, the developer chose to create a series of smaller, more intimate gathering places dispersed throughout the project.
Site plan.