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Mirabella Portland

*A review of the senior housing development in
Portland's South Waterfront*





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Introduction

Mirabella Portland is an urban, luxury Continuing Care Retirement Center (CCRC) being constructed in the South Waterfront neighborhood of Portland, Oregon. The project will house 224 Independent Living residences, 16 Assisted Living apartments, 20 Skilled Nursing private rooms, 21 Special Care Memory Support private rooms and 242 parking spaces in the 30 story, 500,000+ square foot stunning high-rise.

Mirabella Portland is poised to be a premier CCRC facility. The development has several key strengths including an experienced development team with a successful track record, a stellar product and design, as well as a great location. However, as with any development, there are some potential concerns; chief among them are the current economic recession and its impact on the immediate market area and the research relationship with Oregon Health and Sciences University (OHSU), which is unique and represents untested waters for the developer/owner.

Mirabella Portland's Development Team

Mirabella Portland is one of three Mirabellas developed or being developed by Pacific Retirement Services (PRS) based in Medford, Oregon. As an organization, PRS was established in 1991. However, the PRS roots took hold long before. In 1955 an ecumenical community group sponsored the establishment of a non-profit corporation named Rogue Valley Manor (RVM). The non-profit then purchased a 16-acre site on which their first CCRC, named after the corporation, was built. RVM was constructed with 240 independent living apartments and a 40 bed hospital center. In the 80's expansion of RVM took place with the purchase of an additional 112 acres on which 174 cottages and a new 60 bed hospital center were built. Simultaneously, the RVM organization began developing affordable senior facilities. In 1991 RVM established PRS to expand its mission "to create and enhance lifestyle opportunities for seniors." Since establishing PRS, the organization has developed CCRC and affordable senior housing, under Community Housing by PRS, in Eugene, Medford and Portland, Oregon and in California, Washington, Texas and Wisconsin. According to its website, "**PRS is now the parent and management company for nearly 50 affiliated corporations.**"¹ PRS maintains headquarters at the RVM in Medford, Oregon.

Development Team

Developer

Pacific Retirement Services |
Medford, Oregon

Architect

Ankrom Moisan Architects |
Portland, Oregon

Contractor

Hoffman Construction |
Portland, Oregon

LEED Consultant

Green Building Services |
Portland, Oregon

Property Manager

Pacific Retirement Services |
Medford, Oregon

Bond Underwriter

Herbert J. Sims & Com. |
Southport, Connecticut

Other Interested Parties

Partner

Oregon Health & Science
University | Portland, Oregon

Research Partner

Intel | Hillsboro, Oregon

¹ <http://www.retirement.org/about.htm>



Since detailed information about the operations of the PRS portfolio are not available, such as DSCR or occupancy numbers, nor are PRS financials accessible, it is difficult to ascertain the true success of the PRS portfolio. However, the size and the age of the portfolio are telling signs that the portfolio has not experienced significant issues for any length of time. Further, given that the project was able to secure over \$200 million in bonds to support the project, in a very conservative market, it is likely that the portfolio is healthy if not outstanding.

The project architect, Ankrom Moisan Associated Architects (AMAA), was formed in 1983. The principal focus of the firm is on integrated architectural and interior design. AMAA is the 41st largest architectural firm in the world and has worked with PRS for over 20 years in the design and development of senior housing. The two partners have an excellent working relationship, which has resulted in established developed standards and practices which AMAA has incorporates into every senior housing project built for PRS. Such standards and practices ensure that the PRS product is consistent and maintains the high level of design, finishes and quality PRS tenants have come to expect.

An established relationship such as the one between PRS and AMAA brings benefits and security to a development. One benefit is costs savings associated with having the established standards and practices in place as well as accurate cost estimates. Another benefit is that the architect requires less oversight freeing up the developer to address other issues. With such an established relationship an element of security is brought to the transaction allowing the parties to try new design elements such as LEED certification, which might otherwise be made more difficult with an architect who is unfamiliar with the product or team.

Although AMAA has over 85 staff on their internal Green Team, including 46 LEED Accredited Professionals, they have contracted with Green Building Services (GBS) to manage the LEED certification process. Weby Bowles, of GBS, provided detailed information about the green features of the design. As well as shared an informative case study prepared by GBS on the Mirabella Portland. According to Ryan Miyahira, at AWAA, GBS was chosen over their main competitor because they are more hands on and they shepherd their clients through the process.

The general contractor, Hoffman Construction, was founded by Lee Hawley Hoffman in 1922. What began as a company that built single family homes and schools in Portland has since grown into one of the largest general contractors in the U.S. Hoffman began implementing "green practices" long before it was trendy by implementing "aggressive job site recycling and helping owners select energy efficient systems".² Today Hoffman has delivered over 17 LEED Certified projects including the Gerding Armory Theater, the Portland State University Broadway Housing project and the Hillsdale public library. Additionally, Hoffman has extensive experience building high-rise towers in the South Waterfront [what other projects?] neighborhood. This combination of experience made Hoffman Construction an obvious choice for builder of

² <http://www.hoffmancorp.com>



Mirabella Portland.

Smart Growth Principles

- Create a range of housing opportunities and choices
- Create walkable neighborhoods
- Encourage community and stakeholder collaboration
- Foster distinctive and attractive communities with a strong sense of place
- Make development decisions fair, predictable and cost effective
- Mix land uses
- Preserve open space, farmland, natural beauty and critical environmental areas
- Provide a variety of transportation choices
- Strengthen and direct development towards existing communities
- Take advantage of compact building design

Continuing Care Retirement Center - Explained

CCRCs are an interesting product type and are growing in popularity as the “baby boom” generation enters retirement age. CCRCs are all inclusive rental retirement communities that offer separate housing for independent living, assisted living facilities for people who need some help with day to day tasks and skilled nursing facilities for those that need full time nursing care. The concept behind CCRCs is what is called “aging in place” where retired people, who are still healthy and independent, can move in to the community by renting an independent living unit and then transition through the community as they age. Aging in place allows seniors to maintain their social networks as they age which relieves the feeling of isolation that is common when people lose the ability to live independently. CCRCs usually have a wide breadth of community activities as well as wellness centers with pools, exercise facilities and classes to help seniors stay healthy and active longer.

CCRCs are most commonly found in suburban communities where large parcels of land are available to develop into sprawling retirement communities. Mirabella Portland is a unique kind of CCRC because of its urban location. Retirees of today have different needs and expectations than the previous generation. People are living longer and staying healthy and active later in life. Many of today’s retirees are civically involved and live very busy lives. They often want to maintain their involvement in the community as well as their connections to social networks they have built over time. Mirabella Portland offers people the same aging in place lifestyle and social connections that other CCRCs offer with the added advantage of being in an urban setting, just steps away from the streetcar line and bus routes that will allow residents of Mirabella to get out and engage with their city.

Site Location

In November 2002 the Portland City Council adopted The South Waterfront Plan. The plan established the vision for the last major undeveloped area within Portland’s Central City. The South Waterfront is located within the Portland Development Commission’s (PDC) North Macadam Urban Renewal Area. Of the 130-acre neighborhood 31-acres have been identified as the South Waterfront Central District (SWCD). From its inception, the development of the SWCD has been a public-private partnership ensuring that comprehensive planning was reflective of citizen values and bringing together the financial resources necessary for such a large-scale development. The entire SWCD is being developed with the principles of Smart Growth and with a focus on green building and sustainability.

The development of the SWCD is governed by a development agreement brokered by PDC between the major stakeholders (PDC, OHSU, and private development partners). The agreement establishes roles and responsibilities of the stakeholders as well as the SWCD development plan, which includes four acres of greenway development, a two acre park, student, affordable and market rate housing and a number of public transportation options including the aerial tram, street car, bus and walking and bike rails.



Developing a project in an area with a master development plan appears to have both advantages and disadvantages. Advantages such as a comprehensive, coherent development plan come with some strings attached, as the development must adhere to the development agreement in place. However, in the case of the Mirabella Portland CCRC product, the built in community, established transportation options and focus on green spaces enhances the product without any additional costs to the developer. Additionally, development of a luxury product is likely to attract more attention when surrounded by other luxury products as in the case of the SWCD.

Logic also suggests that the site location within the master-planned SWCD would offer a developer an element of market surety. Because it is known from the outset what is going to be developed within the defined area concern over additional supply and dilution of demand is largely eliminated. Overall, the site location and neighborhood are tremendous assets to the marketability of the development.

Despite the positive attributes associated with the SWCD as described above, the current economic situation has hit the SWCD very hard. Though the Mirabella Portland product type might be isolated from feeling the full-blown affects of the economic situation, the once anticipated active and dynamic SWDC might still be years away. And although PRS has used the site location within the SWDC and the vibrant community to be as a selling point, it is unlikely to hamper to a critical degree the appeal of the Mirabella Portland product to the target population.

In terms of the site location relative to the proposed use, Mirabella Portland is an excellent product for this particular site. With an aging tenant base the proximity to OHSU is a tremendous asset, especially with the direct access provided by the aerial tram located less than three blocks away. Additional benefits of the SWCD location include the transportation connections that allow residents to engage with their city regardless of their ability to drive and green spaces and riverfront trails that enable residents to maintain an active lifestyle long after they move into Mirabella Portland. The proposed retail uses in the SWCD will also be attractive to Mirabella's residents.

Financing the Mirabella Portland

Requests for detailed information regarding the project financing were denied due to the confidential nature such information. Thus the total project costs are unknown. However, what is known is that during a very difficult and uncertain economic time, the developer was able to secure over \$221,700,000 in tax-exempt daily rate bonds to support construction of the subject. The fact that this project could garner the interest and confidence of investors during the decline of the investor market is a testament to the quality product that PRS develops as well as their strong track record owning and operating CCRCs.

Although neither the developer nor the bond underwriter provided financing information, some elements of the financing can be assumed given the nature of the project. For instance, it is clear that the developer benefited from



subsidies/ incentives associated with the sustainable features of the building through state and local programs. Unfortunately, though, little else is known about the project in terms of the financial structure. Some questions that were asked but not addressed include the following:

- Did the developer provide any of its own equity to the transaction?
- Were there soft loans provided to the transaction?
- Did the project receive grant funds from any sources?

In keeping with confidentiality the request for a budget or proforma detailing operations was also denied. Therefore income streams are not fully known nor are the extent of the operational expenses. However, from discussions with the PRS marketing director for Mirabella Portland, Adam Payne, it is clear that the operations of Mirabella Portland are significantly more complex than that of a typical apartment complex of its size. While a typical apartment may have an administrator, manager or two, leasing agent, office staff and maintenance personnel, CCRC residents require a slew of additional professionals to meet their resident's needs. Health care professionals are needed to staff the assisted living units, skilled nursing facility and memory care units. Additionally, social workers, activity directors, food service workers and housekeepers, among others, must all be maintained on staff to provide necessary services.

Because of these additional expenses, initially, it was not clear how the Mirabella Portland would be an economically feasible development given the costs of development. The PRS representative shed a light on the expense side by explaining that many of the overhead costs such as administrative, marketing, human resources, etc. are paid for by the PRS corporation as opposed to the Mirabella Portland corporation. Presumably, Mirabella Portland is charged a fee for such services from PRS though it is likely reduced as similar services and fees would be provided and paid for by other PRS owned and managed properties; resulting in cost savings for the portfolio and a revenue stream for the PRS organization.

On the income side what is known is that there is anticipated income from resident rents at all living levels, retail rents and restaurant sales. Residents of the independent living units pay an initial entry fee of \$359,000 dollars at admission and a \$3,000 monthly fee. It is not clear whether or not PRS utilizes the entry fee income for operations or maintains the funds in a separate account. Regardless, at 93% occupancy PRS would have on hand \$74,786,000 in entry fee income. Even if those funds were not used for operations, but instead were kept in a high yielding account, PRS could annually pull the more than \$2.2 million in interest (at a conservative 3% rate) to help support operations.

Income from the assisted living, skilled nursing and memory care units is also anticipated, though those numbers were not available when requested. The ground level retail spaces are also expected to produce income to support operations, though those monthly amounts are not known either. An additional source of income is anticipated from food and beverage sales at the three restaurants on the 24th floor and the café on the ground level. Since the monthly fee for the independent living units only includes 30 meals a month it is likely that many residents will pay out of pocket for additional meals.



Unit Amenities Include:

- 9-foot-tall ceilings
- Extra-large windows
- Stainless steel appliances
- Slab granite countertops
- Wood flooring
- High-quality carpeting
- Views of Mount Hood, the West Hills, the Willamette River, and the downtown skyline

Site Amenities Include:

- Activity Rooms
- Art Studio and Hobby Center
- Auditorium
- Business Center
- Hair Salon
- Fitness & Aquatic Center
- Library
- Emergency Alert Call System in each apartment
- Fine Dining Options including a Café with indoor and outdoor seating, a Casual Café, a more formal Dining Room, and a Cocktail Lounge

Unfortunately, a clear financial picture cannot be painted with the little and incomplete information that was available or presumed. Though even in the absence of detailed information it is clear that the nature of the CCRC product type combined with the luxury amenities and services offered at the Mirabella Portland makes for complex budget.

Design

Mirabella Portland is a luxury CCRC catering to high income retirees who expect high quality finishes their units, first class amenities throughout the community and a high level of attention in the property management and concierge service Mirabella offers. Being in Portland, residents of Mirabella also expect the community to have a reduced environmental footprint. To satisfy these expectations of high quality and sustainability, the development team made a commitment to achieving a LEED Platinum certification from the U.S. Green Building Council. A platinum rating is currently the highest level of "green building" certification achievable by any building before entering the realm of being a "living building".

According to a case study performed by Green Building Services, Mirabella will earn LEED points through several design features. The building is being built on a former brownfield site. Cleaning the site and redeveloping it means that a green-field site didn't get developed and helps to protect native habitat. The building will feature underground stacked parking rather than a three story parking garage. The method of using car elevators to stack vehicles reduces impervious surfaces and saves on materials and resources. One concern we have with this method is the long term operational costs associated with having 121 car lifts. Parking garages have very low operation and maintenance costs once they are built. We wonder how the mechanical equipment will hold up over the 30 year life span of the building.

The compact, high-rise design reduces the footprint of the building and increases density. It also reduces the overall exterior surface area to minimize heat gain and loss. The green design reduces energy use by more than 40% through a variety of technologies including solar hot water, heat pumps, high efficiency lighting with occupancy sensors and energy star appliances. The building will also have exterior insulation, high efficiency windows, solar shading and an eco-roof to capture and slowly absorb rainwater rather than allowing it to flood into the Willamette River.

The case study also says the building will use about 40% less water than a similar building by using water saving fixtures like dual-flush toilets, low-flow shower heads, and Energy Star appliances. The landscaping will be done with native and drought-tolerant plants that use less water. What irrigation that is needed will be delivered through an automated system that only waters at optimal times.

According to the case study the added cost of being a green building was compensated for through financial incentives. For example, the solar hot water system cost \$302,000 to install but the net cost after incentives was only \$50,000. The difference in going from gold to platinum certification added more costs, but these were offset by a higher state incentive for LEED



Platinum projects and even further energy savings. Overall, the building will realize a 45 percent return in energy cost savings.

Since PRS will continue to own, manage and operate the building they have a large incentive to invest in features that lower operational costs like energy and water saving designs. If they planned to sell the building once it was finished, that incentive would be lost. We wonder if the same decisions would have been made to incorporate so many green features if the benefit was passed through to a different owner.

Other Design Features

The building has been designed to meet the zoning and height requirements of the neighborhood. The building height could not exceed 325 feet including all HVAC and mechanical equipment on the rooftop. The first 75 feet could take up most of the block but in order to build above 75 feet a setback was required. That resulted in the building's shape in the final design of a shorter rectangle building on half the block with a tall oval shaped building on the other half of the block. After the next 250 feet in building height another setback was required. This reduced the number of units on the top five floors to four units each which allowed for an exclusive penthouse style top floor apartment living. The tall tower's orientation was positioned so the narrow perspective would face the hillside. This appeased the neighbors on the hill who opposed the project citing the loss of views as a main concern.

Ryan Miyahira and Jason Fifield walked us through the building plans and described the design of each floor of the building. The basement contains space for two levels of parking. The development team decided it would be more cost effective to install 121 car elevators and offer all valet parking than to build two full floors of self parking. Valets will drive cars in, load them onto the elevator and raise them up to make an additional space available underneath the first car. They can accommodate 242 cars in the building which allows each independent living unit to have one car. They saved money on the second floor and ramps needed for full parking.

The basement also houses space for a wood shop and craft room as well as storage space for residents. The laundry and food prep facilities as well as the employee lounge are also located in the basement.

The ground floor of Mirabella offers multi-use space including a café that is open to the public for breakfast and lunch, a small convenience store and beauty shop. There is also a large wellness area with a fitness room, pool and spa services. A classroom offers space for residents to hear lectures and continue learning.

The second floor will house all of the skilled nursing facilities. The north half is designated as the Alzheimer's wing. Units in this portion of the wing will include infrastructure that will allow OHSU to perform research on the behavior of Alzheimer's patients. Units on this floor are all private rooms with single beds and bathrooms. Nursing stations are located in the center of a circular hallway that offers residents a place to walk around the wing. The third floor will be the assisted living area. Units there will have lower counter tops to accommodate a wheelchair and showers with flush shower curbs so a



wheelchair can roll in. Most of the units are one bedroom. Floors four through 23 contain 224 full size independent living apartments.

The 24th floor contains three dining options that look out over the Willamette River and Mount Hood; a bar and lounge, a buffet and a full sit-down restaurant. A meal plan is included in the monthly fees for living at Mirabella making dining an easy and enjoyable experience for residents.

Floors 25 through 30 house 1600 square foot penthouse apartments.

Construction

Construction began in late April 2008. The total construction contract amount is unknown but it likely close to the \$200+ million in short term bonds the deal secured. By most any standards, this is a very large construction project.

Early construction activity included placement of drilled shoring piles along the perimeter of the site, placement of shoring walls, and excavation and removal of excess soils. During this phase of construction a high voltage wire was hit during the pile driving. Fortunately, no one was hurt. According to the architect, the accident occurred because PGE gave the okay to dig in the area despite the fact that the high voltage wire had not been located. The danger was further compounded as the wire was not properly encased in a painted red concrete shell as it should have been.

During the excavation process it was learned that the ground was also not as stable as it was originally thought. An additional 40 pilings had to be driven into the ground to stabilize the site. This added both time and expense to the project, which resulted in the use of contingency early on. Since these two issues early on, there have been no other construction issues as the Mirabella Portland.

A total of over 500 grout piles were placed at the project. Later, reinforced steel, formwork and structural concrete for pile caps and grade beams were also placed. Together with the driven grout pilings and slab-on-grade, the pile caps and grade beams make up the structural foundation.

The mat slab required the placement of over 2,500 cubic yards of structural concrete to form the tower's structural base. According to the Mirabella Portland's website, the pour took nearly six hours and required that the 300 concrete trucks providing the material remain in constant rotation. Since then, construction has continued with post tension concrete slab pours on floors 1-18 to date with plumbing and electrical infrastructure installed in the pre-slab, prior to placement of concrete.

Build-out of the floors with complete post tension concrete slab pours has begun with framing, HVAC installation, piping for domestic water distribution and conduit for the electrical systems. Some finish work has also begun on the lower level assisted living units. Exterior insulation and the window wall systems with spandrel glass have also been installed.

According to the architect the plans for Mirabella Portland have not been augmented due to the tightening of the debt and equity markets.



Construction completion of Mirabella Portland is anticipated to complete in October 2010, ahead of schedule.

Conclusion

PRS, who will maintain ownership, is managing the lease up of the Mirabella Portland, which is under way with 90% of the independent living units pre-leased and an additional 261 people on the waiting list. PRS is currently not accepting direct entry into their assisted living, nursing or memory care units, but has indicated that they may allow direct entry if the income is needed to support operations.

As indicated previously, potential residents age 62 and older pay an entrance fee of \$359,000. The entrance fee is (currently) 95% refundable if the resident moves out or passes away. The monthly fee of \$3000 per person includes a wealth of amenities and services including pharmacy delivery services, scheduled transportation to medical and dental appointments, use of the car share program, 24-hour security, around-the-clock reception and scheduled outings to cultural and social events. The application process for potential residents reviews financial data to ensure that residents can afford to live at Mirabella Portland. Additionally, since people are living longer and the risk of living beyond one's money is a reality for many, Mirabella Portland does allow residents to pay their monthly fee from their entrance fee deposit.

Given the strength of the development team, the developer's prior successes with this product, the site location within the SWCD, the high-end sustainable design and superior amenities, the Mirabella Portland is poised to be a success in Portland's South Waterfront neighborhood. Additionally, the diversity of the product relative to other developments in the area will help isolate it from the current economic troubles that have been a burden to other South Waterfront developments.