

October 26<sup>th</sup>, 2016

Planning and Sustainability Commission  
1900 SW Fourth Avenue  
Portland, OR, 97201

Re: Inclusionary Housing Proposal

Dear Chair Schultz and Commissioners:

I write to follow up on my testimony at the October 25 hearing and respond to several issues raised by commissioners and others who testified.

As an affordable housing advocate, former Portland housing commissioner and someone who has successfully developed and operated a mixed income multifamily building using private equity coupled with Low Income Housing Tax Credits (LIHTC), Portland Development Commission bridge loans and Oregon Housing and Community Development bonds, I understand the complexity of leveraging affordable housing out of the ground and the urgent need for more of it. My company, by design, operates in mixed use zones. We specialize in urban infill projects on brownfields, reclaiming underutilized industrial lands for our neighborhoods. Costs and time to entitle/build are already challenging in our business model. This requires creativity and that is what motivates us to build the type of housing we love: workforce housing in neighborhoods that reflect the values we share as Portlanders.

Any Inclusionary Housing (IH) policy must be carefully calibrated to work for *all* development types in *all* parts of the city. As currently drafted and adjusted, the Portland Housing Bureau's IH policy does not. Nor do I believe any IH policy will work in Mixed Use zones in neighborhoods outside the central city without significant reductions to the inclusion rate *and* substantial increases to the offsets and incentives.

The goal of integrating all levels of income into our neighborhoods, especially those where we have made significant investments in infrastructure is important. To do so, we need to ensure as much housing at all levels of affordability can be built, using every lever, both public and private, we can pull. If inclusionary housing is one of those levers, let's make sure we invest the time and resources necessary to create a viable program that not only delivers the housing we so desperately need, but also spurs builders to produce even more units.

At the end of the day, having more affordable units and more housing overall meets Portland's growth and equity goals far better than pegging IH policy to the highest inclusion rate allowed.

While there may be unique situations in high-demand neighborhoods (like The Pearl) where projects with full property tax abatement might attract investors and lenders with a return on cost below the magic 6% mark, this is not the case elsewhere in our city. Investors and lenders

will still require minimum threshold returns commensurate with their perceived risk. In smaller, infill developments in further flung neighborhoods—like St Johns, where we’re building—lenders and investors are looking for returns on cost comfortably north of 6%—and that’s *before* putting a risk premium on for environmental cleanup.

As proposed by the Housing Bureau, the mandatory IH program would reduce our return on cost by a full 100 basis points, way below even the most aggressive hurdle returns required by the market. Even if a *full* property tax abatement is made available for *all* units—currently only the affordable units are abated—and parking requirements are reduced to zero and we’re allowed a full FAR/density bonus for compliance, the returns are still below what I believe is financeable. I heard at the October 25 hearing that Housing staff intend to offer direct subsidies to help make a project work, and while a good idea, subsidies come with their own potential challenges and requirements. So, despite my deep commitment to affordable housing, I couldn’t build the units I’ve currently got in the pipeline under the proposed Housing Bureau IH policy: the numbers just don’t work.

The frustration I heard about project financing and returns from some at the hearing misses the mark: it isn’t me or any other developer who makes the rules about what a viable return hurdle is, it’s the capital—investors and lenders—who do. Without capital, we can’t build housing. Period.

Where investors and lenders choose to do business is, to a large degree, where they can satisfy their minimum return requirements. That’s true whether it’s a union pension fund or an investment bank. Portland will continue to be an attractive market long-term, given our growth projections and relatively low cost of living, but for some period of time, capital will look to other markets while costs and rents rebalance to absorb the increased costs and reduced returns inherent with this type of an IH program.

Therefore, I urge you to exercise whatever mechanisms available to you to recalibrate, or even replace, the current proposal with a plan that works for all development types in all neighborhoods, especially the mixed use zones.

Any policy change that dampens or forestalls the housing development outside the central city hurts working families and could lead to further displacement and inequity in the region, the exact opposite intent behind Inclusionary Housing. Please work through these issues and make the changes necessary to the proposed IH program rather than approve a policy that won’t achieve the affordable housing we want to build.

Thank you for your consideration.

Brian Wilson  
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