

DATE: June 22, 2016
TO: Inclusionary Housing Panel of Experts
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SUBJECT: NEXUS STUDY/IZ STUDY COST INPUTS – **DRAFT, DO NOT DISTRIBUTE**

The Portland Housing Bureau is working with David Rosen Associates (DRA) and ECONorthwest to undertake a financial analysis of possible inclusionary housing and linkage fee programs. This memorandum proposes draft financial inputs for this study, for review and confirmation by a panel of experts the City has convened. They were developed based on a review of market data and interviews with 11 Portland area developers. The cost assumptions reflect the ranges that a developer would assume in a pro forma for new construction for each use type as of June 2016.

Housing Cost Assumptions

	Residential – rental, 2-3 story low-rise	Residential – rental, 5-6 story mid-rise	Residential – rental 7-12+ story high rise	Residential – condo
Operating Revenues and Expenses				
Rent Per NSF	Low: \$2.25 Medium: \$2.50 High: \$2.75	Low: \$2.50 Medium: \$2.75 High: \$3.00	Low: \$2.75 Medium: \$3.00 High: \$3.25	N/A
Parking revenue per space	\$125 per month	\$150 per month	\$200 per month	Comes with unit
Annual OpEx Per Unit (controllable and non controllable-property tax)	Low: \$6,000 Medium: \$7,000 High: \$8,000	Low: \$6,500 Medium: \$7,000 High: \$8,000	Low: \$7,000 Medium: \$8,000 High: \$9,000	HOA covered, taxes individually assessed
Construction & Sales/Stabilization Period (Months)	12 mo. construction 10 mo. leaseup 6-9 mo. lookback	14 mo. construction 10 mo. leaseup 6-9 mo. lookback	24 mo. construction 10 - 12 mo. leaseup 6-15 mo. lookback	3%
Development Costs				
	Wood frame	Podium	Steel & concrete/ Light gauge	Steel & concrete
Site improvement cost (per SF site area)	Included in hard cost	Included in hard cost	Included in hard cost	Included in hard cost
Construction Hard Cost Per GSF (without Parking)	Low: \$110 Medium: \$125 High: \$150	Low: \$145 Medium: \$165 High: \$185	Low: \$200 Medium: \$230 High: \$250	Low: \$220 Medium: \$250 High: \$270
Contingency (hard cost, just for developer)	5-8%	5-8%	5-8%	5-8%
Soft Costs (% of Hard Costs, including land)*	30%	30%	30%	30%
Parking Cost Per Space	\$10,000 surface \$20,000 tuck-under	\$45,000 podium \$60,000 underground		
Market Assumptions				
Stabilized Vacancy %	5%	5%	5% Leaseup at 15 months	N/A
Cap rate	4.5% - 5%	4.75% - 5.25%	4.75% - 5.25%	N/A
Construction and Permanent Financing				
Loan to Value Ratio	70%-75%	70%-75%	70%-75%	
Loan to Cost Ratio	65%	65%	65%	
Debt Coverage Ratio	1.5	1.5	1.5	
Interest Rate	5.50%	5.50%	5.50%	
Amortization Period	30 years	30 years	30 years	
Target for Return	1.5% over cap	1.5% over cap	1.5% over cap	

*Original estimates at 24 – 27%, increased to account for new SDCs and proposed CET

Commercial Cost Assumptions

	Office	Retail (Ground Floor)	Arterial Retail	Distribution Warehouse
Operating Revenues and Expenses				
Rent Per NSF NNN	Low: \$28 Medium: \$32 High: \$34	Low: \$15 Medium: \$20 High: \$25	Low: \$15 Medium: \$20 High: \$25	\$5.65 PSF ¹
Parking Revenue per leased space	\$200-\$250	N/A	N/A	N/A
OpEx Per NSF	\$10-\$12 per SF, incl taxes (assuming \$0.60 SF for Class A specific amenities) (Source: Apex Real Estate, 2015)	\$10 PSF, incl taxes (Source: Apex Real Estate, 2015)	\$10 PSF, incl taxes (Source: Apex Real Estate, 2015)	N/A
Construction and Sales/Stabilization Period (Months)	3 years	3 years	10 months	12 months
Development Cost				
Hard Cost Per GSF excluding parking and TI's	Low: \$125 Medium: \$150 High: \$175	N/A	Low: \$110 Medium: \$120 High: \$130	\$44 PSF for total site development
Tenant Improvement Allowance	Low: \$50 Medium: \$60 High: \$70	Low: \$30 Medium: \$45 High: \$60	Low: \$20 Medium: \$30 High: \$40	Low: \$6 Medium: \$9 High: \$12
Soft Cost Per GSF	30% of hard costs	30% of hard costs	30% of hard costs	30% of hard costs
Parking Cost Per Space	Same as residential per construction type	Same as residential per construction type	\$10,000 surface	N/A
Market Assumptions				
Stabilize Vacancy	5%	5%	5%	5%
Cap rate	6.5% - 7%	6.5% - 7%	5.5% - 6%	4.5% - 5%
Construction and Permanent Financing				
LTV Ratio	60%	60%	60%	60%
Interest	5.5%	5.5%	5.5%	5.5%
Amortization Period	30 years	30 years	30 years	30 years

¹ Calculated by taking the base rate \$.44 psf per month plus an additional office surcharge of \$.80 psf of office space.

Hotel Assumptions

	Hotel (mid-scale, branded, downtown limited service)	Stick-built hotel
Operating Revenues and Expenses		
OpEx per GSF <i>income</i>	\$55	\$59/GSF
Operating Expenses As % of Gross Income	53%	60%
ADR	\$180 (Source: Travel Portland State of the Industry, 2016) BW: \$190	\$175
Construction and Sales/Stabilization Period (Months)	3 years	2 years
Physical Assumptions		
Average Unit Size (GSF)	350	(796 w parking)
Gross to Net SF Ratio	70%	
Parking Requirements	0.4 spaces per room, \$30 per leased space BW: Need higher parking ratio plus parking for employees and hotel vehicles.	.29 spaces/room
Development Cost		
Hard construction cost	\$250,000/room	\$140,000/Room
Soft Cost Per GSF	Assume 25% of hard costs	\$60/GSF
FF&E cost per unit	\$28,000/room includes common area and lobby.	\$15,000/Room
Pre opening and working capital	\$17,000/room	\$2,000/Room
Parking Cost Per Space	Same as res	\$90/SF
Construction period	2 years	18 Months
Market Assumptions		
Stabilized Occupancy	80% (given today's market conditions, but current conditions are extremely favorable, and realistic occupancy over the long-run would be 72%-74%)	N/A
Cap rate	7%	7.5%
Construction and Permanent Financing		
LTV Ratio	80%	N/A
Interest	6.00%	6.00%
Amortization Period	30 years	30 years

Condo Specific Assumptions

Category	Sales Price	Price per Square Foot	Monthly HOA
High	\$620,000	\$425	\$600
Medium	\$410,000	\$325	\$430
Low	\$200,000	\$200	\$250

Land Value Assumptions

Land Price per SF	Commercial Land (Multifamily, Office, Retail)	Industrial Land
High	\$200 +	\$12+
Medium	\$100	\$6
Low	\$30	\$3

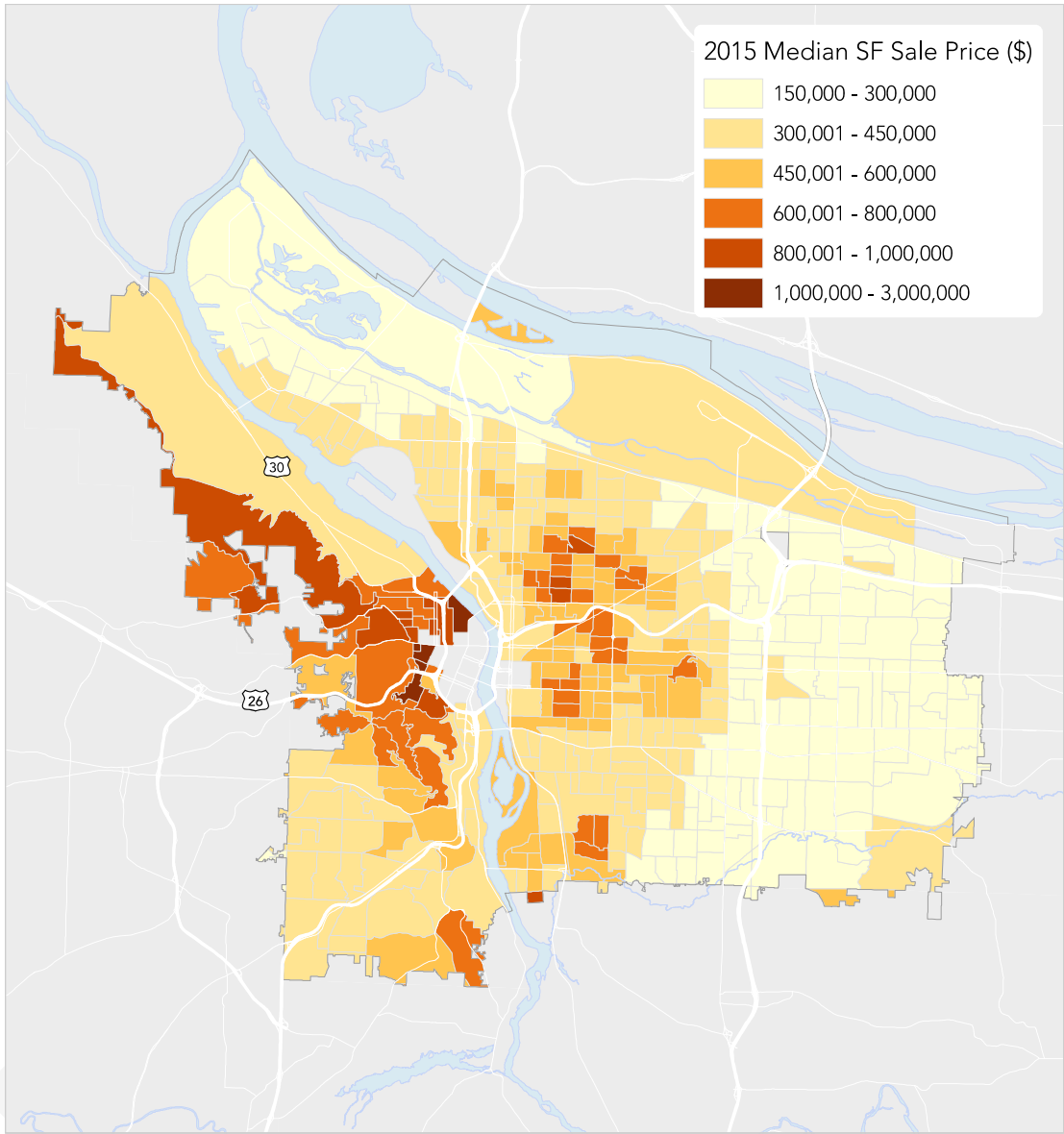
City of Portland Property Value and Rent Maps (for all properties)

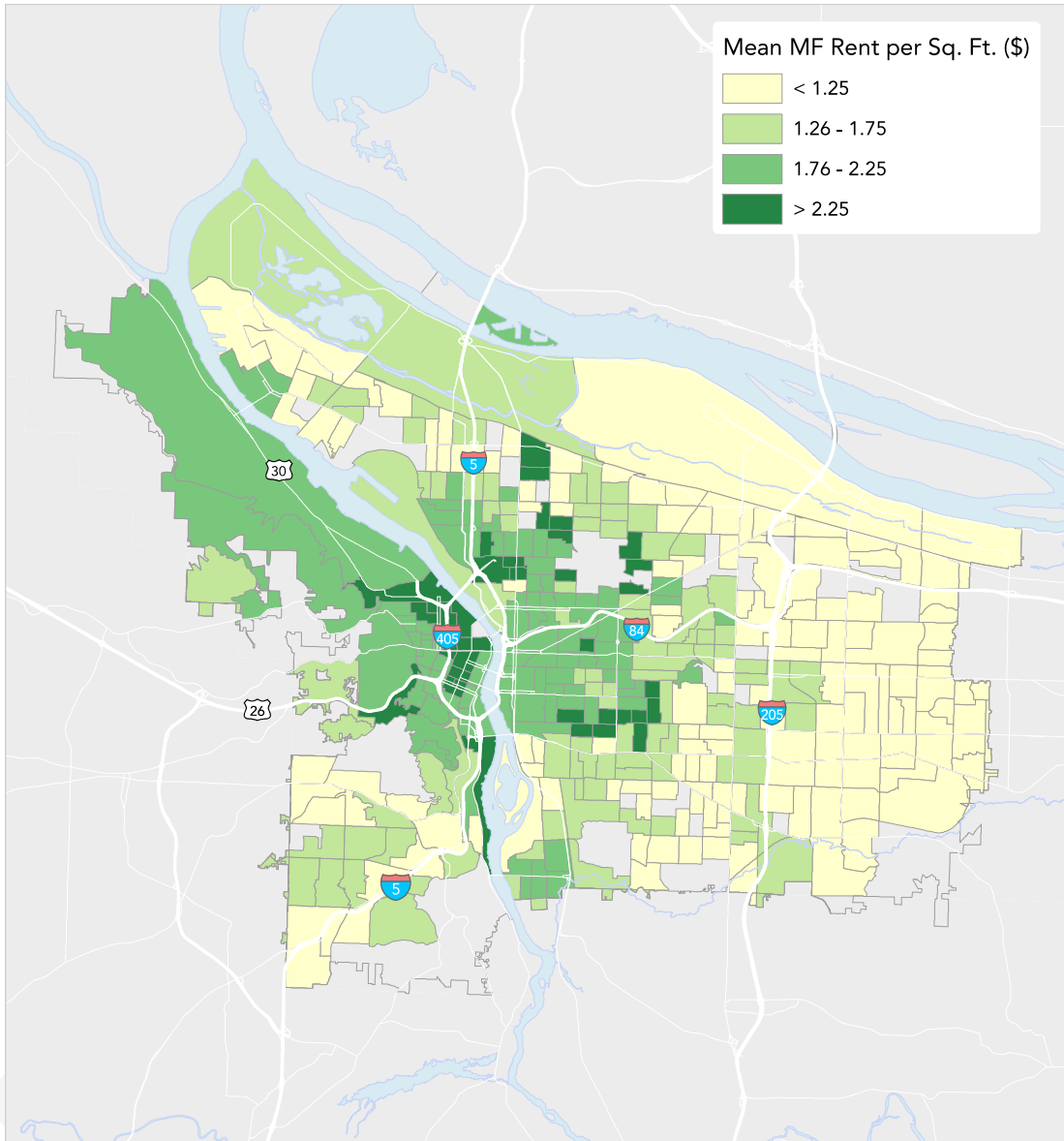
The first map below displays the median sales price by census block group for all single family homes sold during the calendar year of 2015. In order to calculate the median sales price, ECONorthwest exported parcel level sales data from RLIS and binned by census block group. The median observation for each block group is displayed on the map.

The second map below displays the average monthly rent per square foot for market rate apartments by census block group. For this map, ECONorthwest exported from CoStar at the property level in April 2016 and then aggregated by block group.² The average rent within each census block group is reported on the map.

It should be noted that the maps display values for all properties, and are therefore not representative of prices or market rents for newly constructed properties. They do not directly correspond to the tables above, which only display the range of market rents for newly constructed properties. The maps are useful for considering policy impacts across submarkets within the City, and serve as one input into developing the financial assumptions recommended in the first part of this memorandum.

² CoStar does not update each property on a consistent basis, although the data is regularly updated for all properties. The data represent an approximation for market rents in the first quarter of 2016.





: 6/14/2016.

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