PORTLAND SW CORRIDOR AREA AND SITE PLANNING PROJECT

Barbur Transit Center Site Concept Analysis

July 30, 2020

Bureau of Planning and Sustainability
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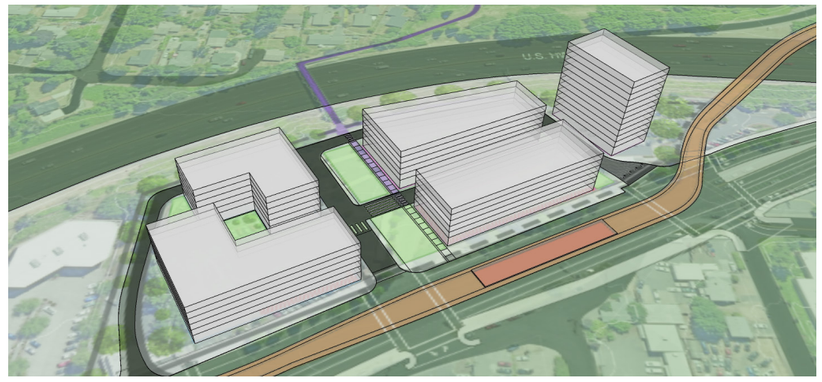
EXECUTIVE SUMMARY



- 6.6 acre site, currently owned by ODOT

BPS Design Studio Concept Review

- 245 total homes, with 18,000 sf retail, 168,000 sf office, 22,000 sf community space, public and private open space

- IH Affordable Homes Provided:
  - 24 homes if 10% are @ 60%AMI
  - 49 homes if 20% are @ 80% AMI

- Rough private (building) development costs/home: $312,500

- Site cost at $60/ft: $17,247,700
  - This could buy 55 additional affordable homes if land were free
  - Or, 86 new affordable homes could be subsidized ($200,000 subsidy/home, @ 60% AMI)

- Multiple Unit Property Tax Exemption: $23 million in property taxes over 10 years, could subsidize an additional 115 affordable homes ($200,000 subsidy/home, @ 60% AMI)

- Total SDC fee waivers of $7.3 million in fees could subsidize an additional 37 affordable homes ($200,000 subsidy/home, @ 60% AMI)

- Public dollars needed to fund construction of plazas, on-site roads, commuter parking, and greenspace: if trying to solve for affordable housing, community space, and commercial space on the site, then the development will not also produce sufficient surplus to shoulder the burden of also being able to fund these site amenities out of the development budget

WPTC OFFICE MARKET SUMMARY

- West Portland Town Center's office market is **relatively weak** in comparison to surrounding sub-markets, and to the Portland market as a whole

- There are no CoStar 4 or 5-star rated properties in the study area (roughly equivalent to Class A office buildings)

- Gross effective rents, at $15/ft, are vastly lower than the $19.3/ft in nearby sub-markets and $20.1/ft for the Portland market as a whole for all properties, much less the $23.5/ft for 4-5 star properties in surrounding sub-markets, or $27.9/ft for 4-5 star properties in the Portland market as a whole

- The average office space leased, at 1,590 sf, is the smallest of all comparables (others range from 3,754 to 6,832)

- The average lease term, as 2.7 years, is much shorter than for comparables, which range from 3.9 to 5.2 years

WPTC RETAIL MARKET SUMMARY

- West Portland Town Center's retail market is **relatively weak** in comparison to surrounding sub-markets, and to the Portland market as a whole
- Currently, retail in the area is automobile-oriented, often located in aging buildings
- Demand for and growth in retail in the City of Portland is largely focused on walkable-format retail, however, leading to soft demand for the auto-focused product in this area
- Gross effective rents have steadily decreased, from $22.7/ft in 2013, to $19.6/ft in 2018
- Even as retail vacancy rates were generally decreasing in the other sub-markets studied, they have been rising since 2014 in the WPTC sub-market
- The context for retail will need to shift from an auto-oriented area to a walkable, pedestrian-focused district, before the local retail market has the opportunity to shift and catch up to the rest of the Portland market in terms of rental rates and vacancy levels
- The current COVID-19 crisis is having a severe impact on the local retail market; it's unclear when or if retail will return to a pre-crisis norm.
- This retail market weakness makes a stronger case for a commercial affordability tool to lower barriers for small businesses seeking to open and operate a brick-and-mortar retail establishment

WPTC RESIDENTIAL MARKET SUMMARY

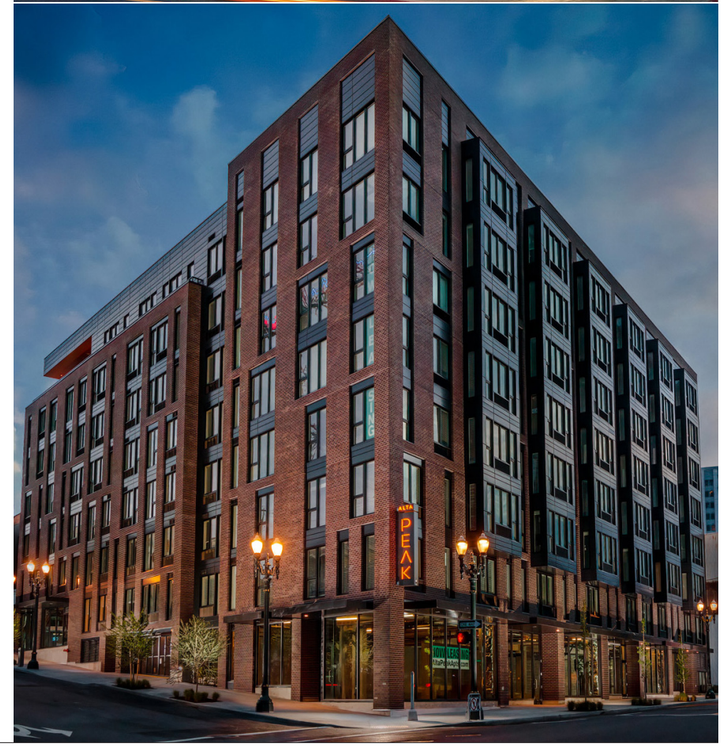
- West Portland Town Center's residential market is **relatively weak** in comparison to surrounding sub-markets, and to the Portland market as a whole. The residential market is differentiated by tenure, with ownership product performing better than rental product for new construction.

- Existing rents in the WPTC are low, with an average rent per apartment of $1,210, an average rent per square foot of $1.45, and a median apartment size of 813 square feet. Apartment building median height is 2 stories, median number of apartments per building is 16, and the average vacancy rate is 5.4%, up from a five-year average of 4.9%.

- Over the past ten years, the average rental price has increased roughly 50%, from about $825 per month in 2010, to just over $1,200 a month in 2020.

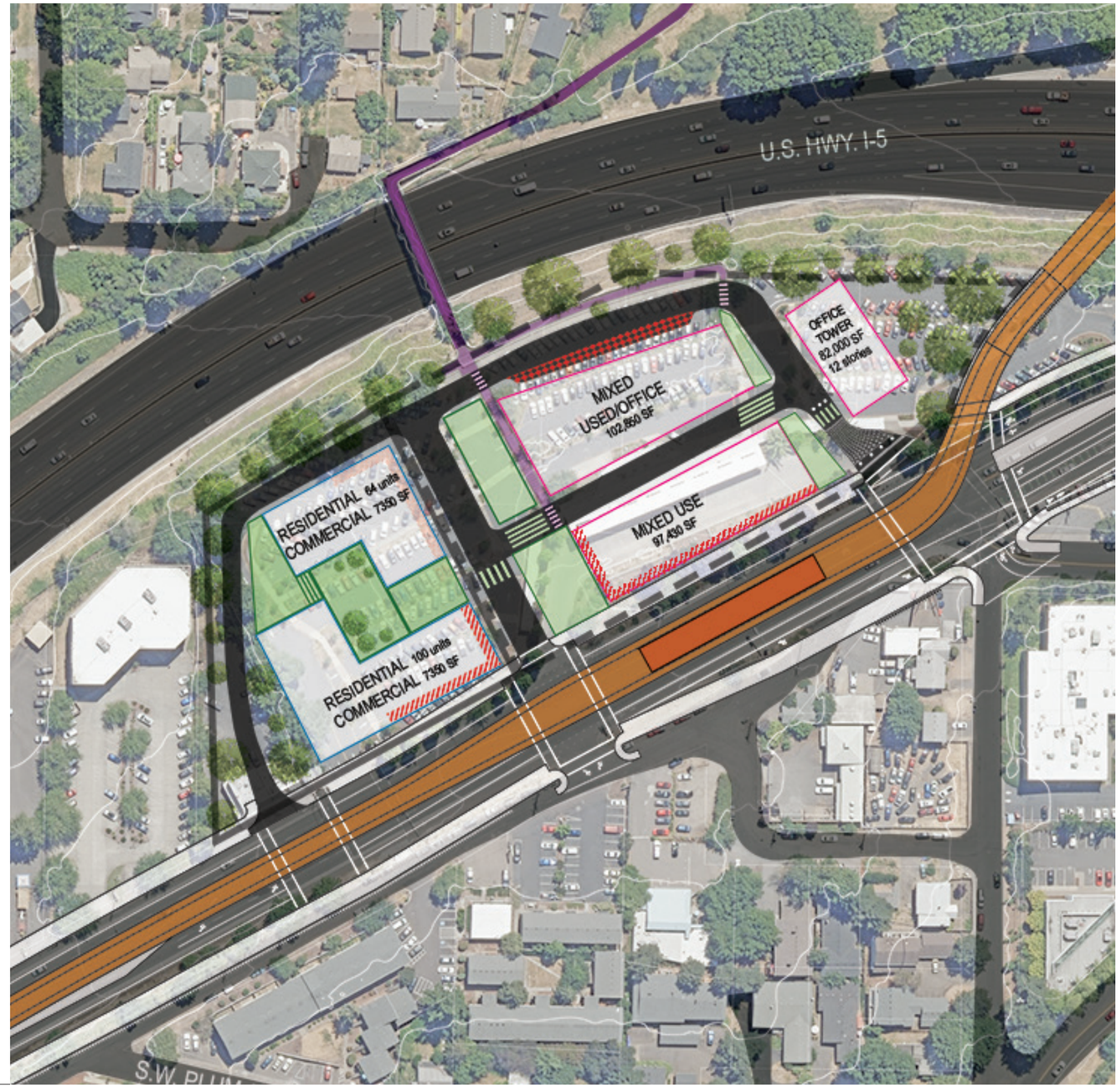
- Unsurprisingly, studio apartments command the highest rent per square foot, at over $1.80/sf, while 3-bedroom apartments have the lowest rent per sf, at about $1.30/sf. Surprisingly, however, since 2015 the vacancy rate for studio apartments in particular has skyrocketed from roughly 3% to about 12%; the next-least-occupied unit type is 3-bedroom units, which have increased to roughly 6.5% vacancy in 2020 from roughly 4% vacancy in 2018, the lowest of any unit type at that time. Small samples sizes may be contributing to noise and volatility in the data, however, as more than half of all apartments in the area are 2-bedroom units, while 9.3% are 3-bedroom, and only 2.4% are studio apartments.

- There have been no new multifamily construction starts in the WPTC area since 2013, which is very dissimilar to the rest of the Portland market. This is a likely indication that area rent levels are insufficient to justify new development given high construction hard costs and other market factors.



Barbur Transit Center | **DESIGN CONCEPT SUMMARY**

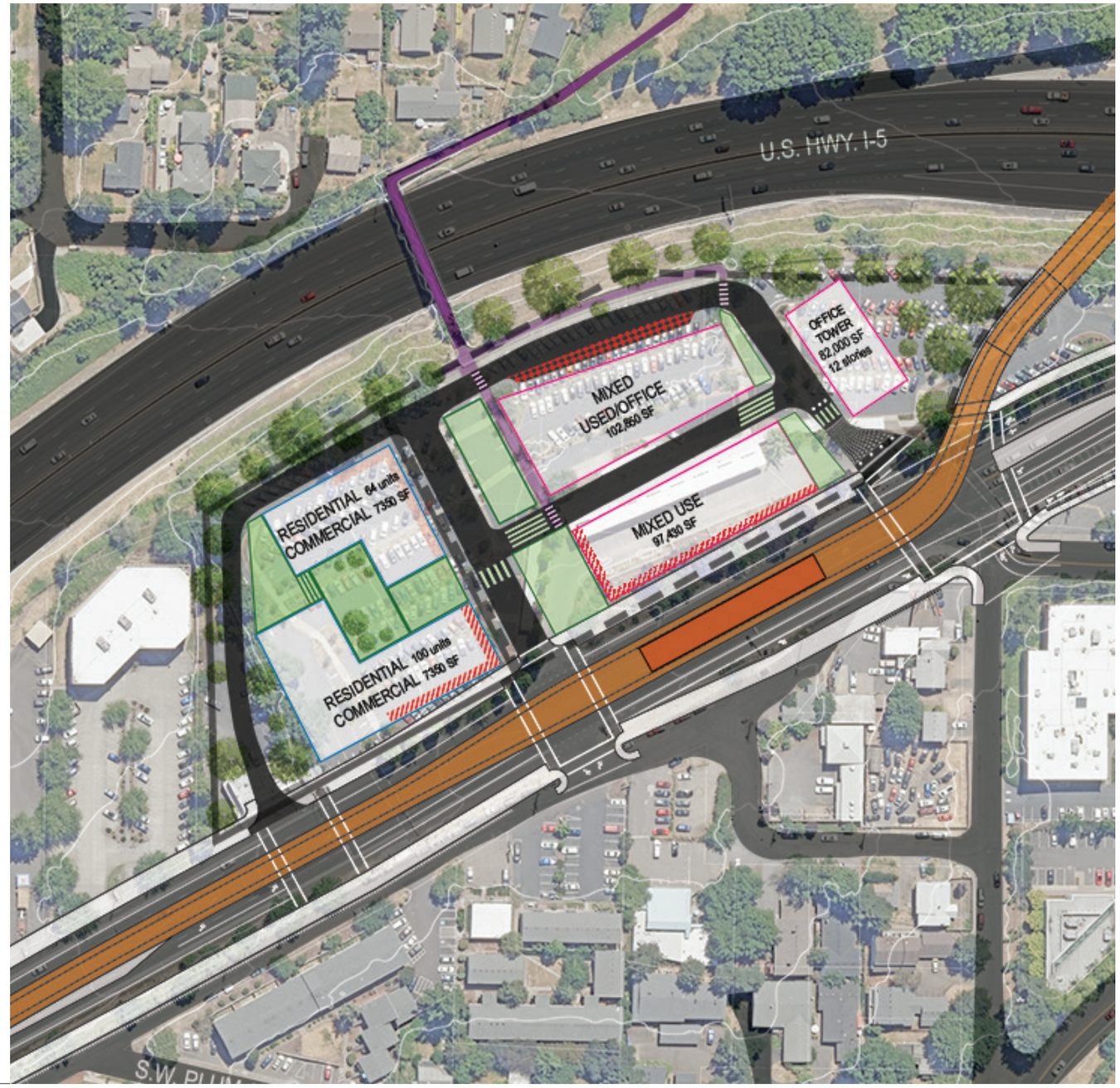
Housing Units - Rental Apartments	245
Avg. Unit Size (sf)	800
Retail Space (sf)	18,000
Office Space (sf)	167,000
Community Space (sf)	22,000
Outdoor Plaza Area (sf)	30,000
Site Gross Density (units/ac)	37
Site FAR (floor area ratio)	1.53
Parking Spaces (Surface+Structured only)	332
Res. Parking Ratio (Spaces/Unit)	0.6
Com. Parking Ratio (Spaces/1k sf)	1.00
Res. Rent @ Market Rate (Monthly)	$1,740
Retail Rent @ Market Rate (Annual, NNN)	$25.00
Office Rent @ Market Rate (Annual, NNN)	$27.18
Internal Rate of Return (IRR) (Target = 12%)	1.2%
Cash-on-Cash (Target = 10%)	0.0%
Res. Rent @ Target Return (Monthly)	$3,500



Barbur Transit Center | **PUBLIC FACILITY COST ESTIMATES**

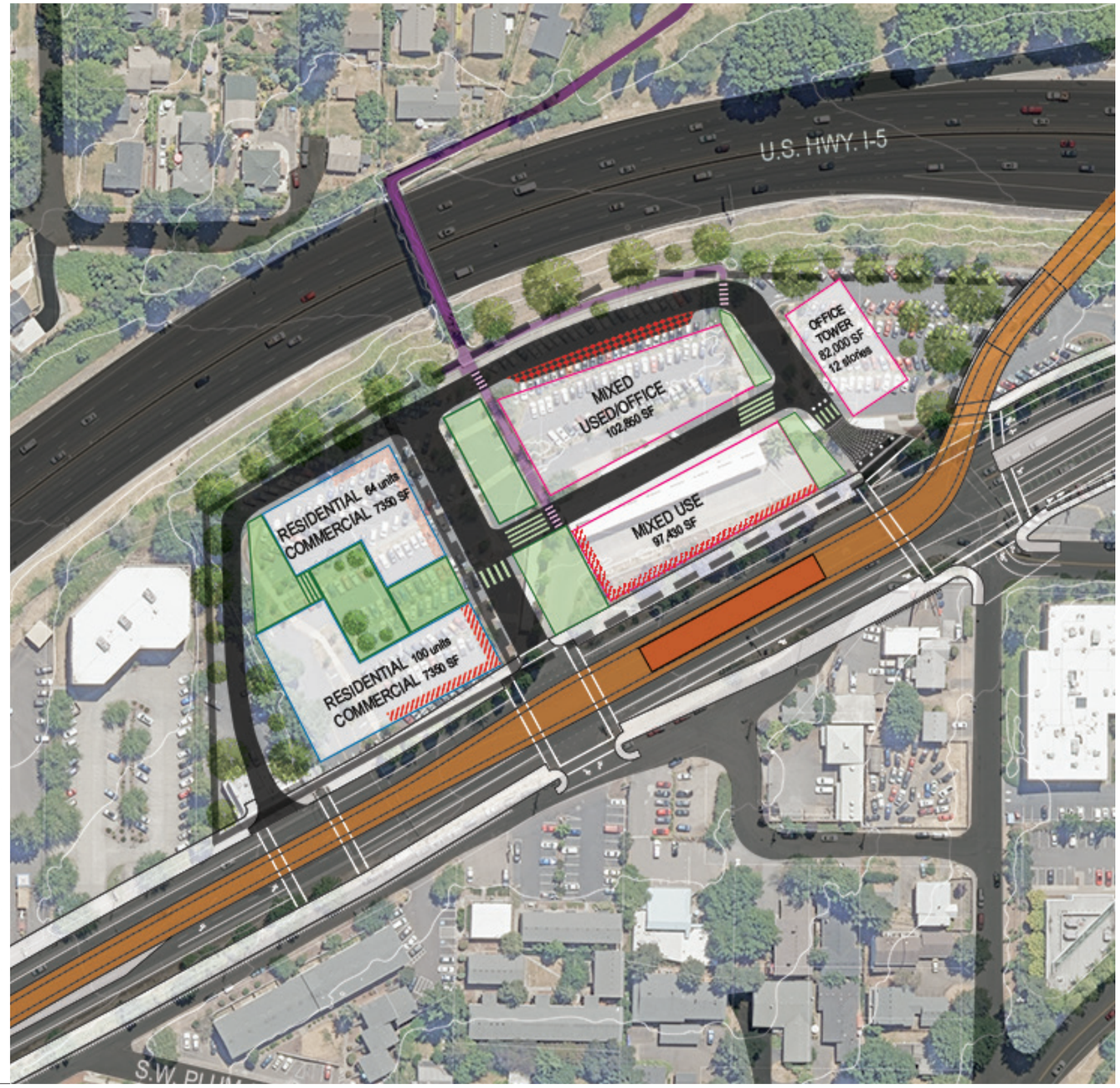
(Not included in building-level pro forma analysis)

Plazas		
	Cost / Acre	$2,000,000
	Acres	1.1
	Total Cost	$2,100,000
Roads		
	Cost / Linear Foot	$1,236
	Linear Feet (Centerline)	1,781
	Total Cost	$2,201,300
Greenspace		
	Cost / Acre	$200,000
	Acres	1.96
	Total Cost	$391,500
Total Site Road, Plaza and Greenspace		$4,692,800



Barbur Transit Center | **PARKING OPTIONS**

- **Parking represents a core tension for the site: too much of it either destroys the budget, or it destroys the site plan, depending on if it is structured or surface**
- **All site parking cannot be provided as surface parking, or no room would remain for development**
- **Remaining options therefore include: the current mix; all structured above-ground; and all underground**
- **All options are for 332 spaces to indicate range of costs**



Current Design Concept	
210 Surface + 12 first-floor tuck-under + 110 underground	**$6.56 million**
First Floor + Structured Only	
332 in above-ground structure(s)	**$6.64 million**
Underground Only	
332 in whole-site underground garage, or under a set of specific buildings	**$14.67 million**

ANALYSIS CONCLUSIONS

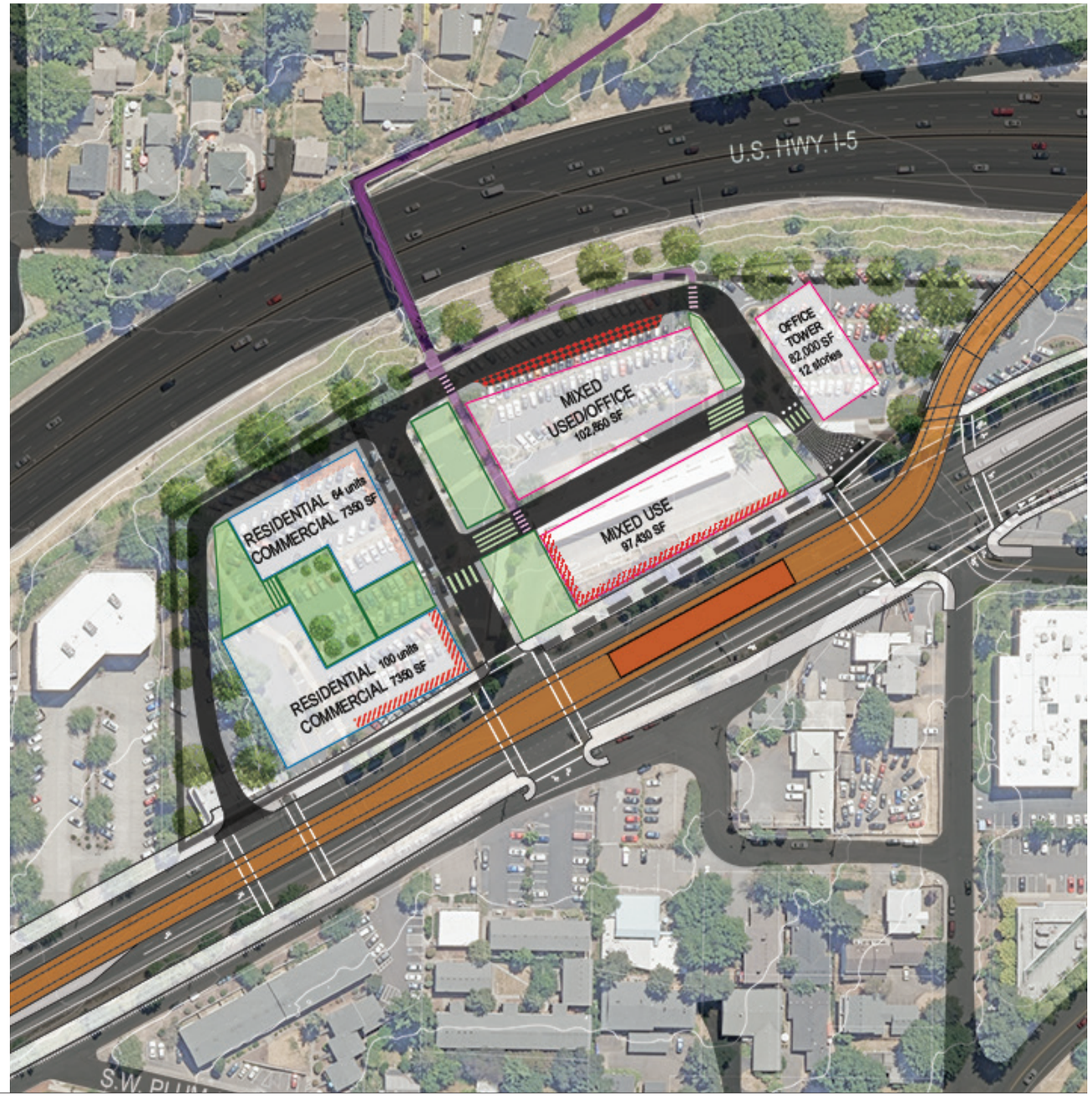
- **How many affordable homes would be provided under inclusionary housing (IH)?**
  24 homes if 10% are @ 60%AMI, 49 homes if 20% are @ 80% AMI

- **What are the total estimated development costs for each of these homes?**
  Assuming each home is 800 sq ft, $312,500

- **What is the land estimated to be worth?**
  The site cost, based on comps at $60/ft, is $17,247,700, though this does not match the residual land value of the proposed development program

- **If the land were provided for free, how many additional affordable homes could be provided?**
  55 additional affordable homes could be fully paid for if land were free.

- **What if the subsidy were capped at $200,000 per home, then how many new affordable homes could be provided using the cost of the site?**
  86 new affordable homes could be subsidized if the land were free **(@ 60% AMI)**

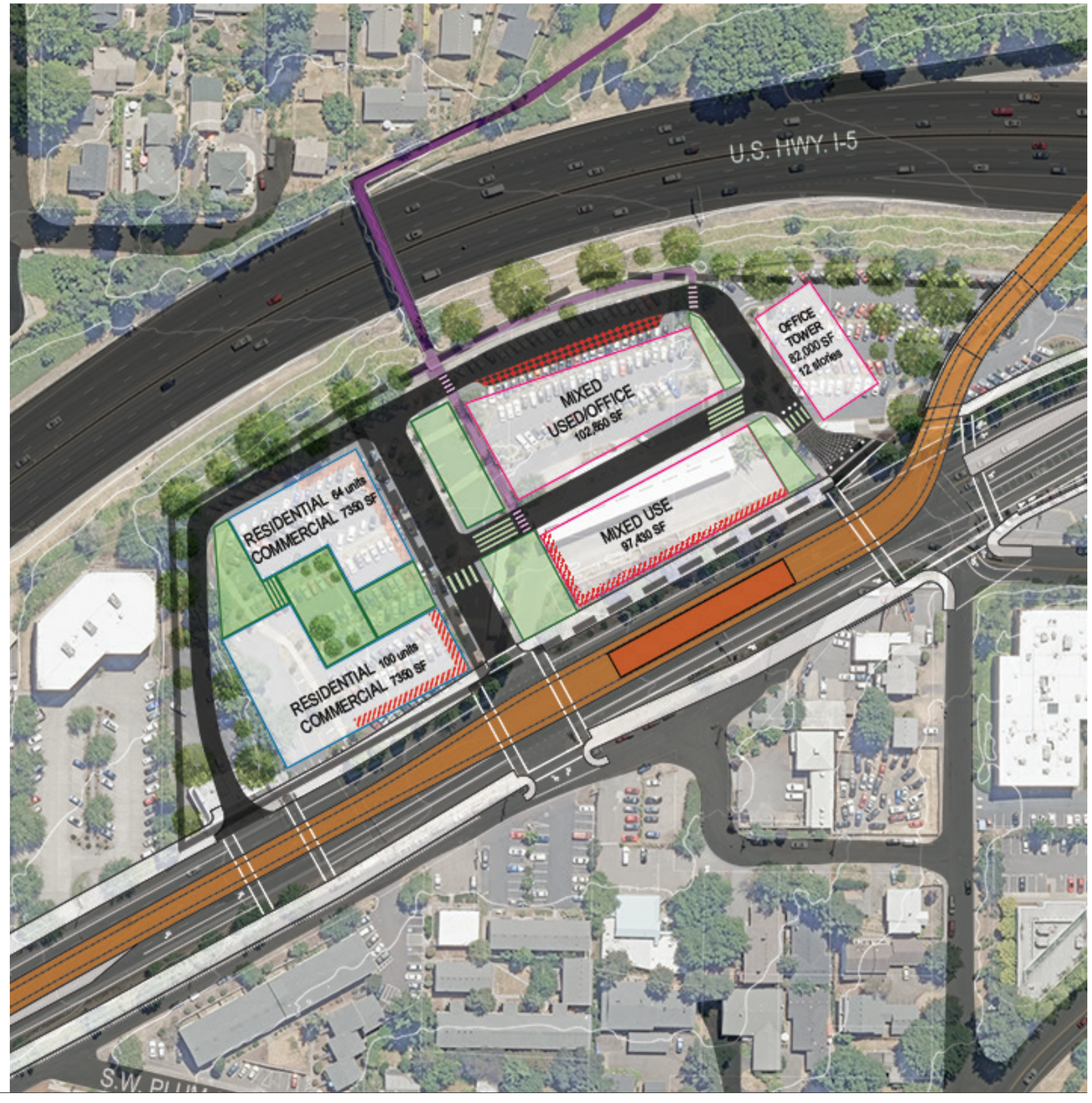


ANALYSIS CONCLUSIONS (con't)

- **Without further public subsidy, would the project support the 60% IH requirement instead of the 80%?**
  Neither option would be supported, but they would both perform equally. If land is not written down, no property tax exemption is provided, and no SDC fees are waived, then a project providing 10% of homes affordable to HHs at or below 60% of AMI would produce a 4.6% return, the same return as if 20% of homes were affordable to HHs at or below 80% of AMI. Private market developers want to see at least a 12% return for a for-profit development, so neither option would "pencil."

- **Should Building C be used for office or residential?**
  Residential would appear to be the highest and best use for the land, especially with the current work-from-home order creating a massive open question around future demand for office space.

- **Is the envisioned amount of on-site parking supported by this development plan?**
  On-site parking should be minimized to encourage walking, bicycling, and transit. The amount envisioned may be appropriate if it is priced and shared amongst all uses on the site, including for residents and visitors. However, this development plan cannot produce sufficient revenue, given current hard costs and lease rates, to support the envisioned amount of on-site parking.



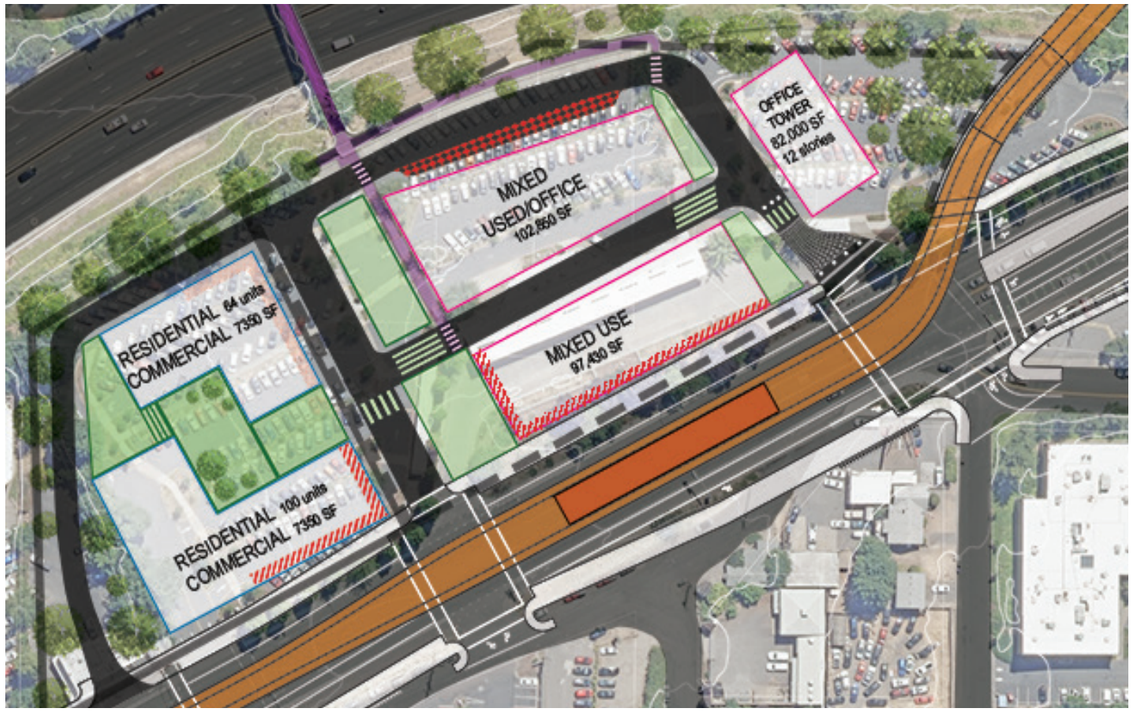
OFFICE MARKET ANALYSIS CONCLUSIONS

- **What are the current office market development assumptions?**
  $250/sf for hard costs, and rents at $27.18/ft (annual, triple net lease [NNN]), resulting in a 3.5% projected Internal Rate of Return (IRR), which would not "pencil." (The target IRR is 12% minimum.)

- **Those hard costs seem high, how much would hard costs need to drop for office development to pencil with those lease rates?**
  Hard costs would need to drop to $135/ft to achieve a 12% IRR. There are some reports of local-region office development at $202/ft; with office lease rates at $27.18/ft, the IRR for such a development would be 6.5%.

- **The NAR reports a lease premium for locations near transit, might this be sufficient to make office development pencil at BTC?**
  If hard costs were at $202/ft, rents would still need to rise to $37/ft (annual NNN) to achieve a 12% IRR and thus "pencil."

- **What if office development didn't bear the costs of providing on-site parking?**
  If no parking costs were borne by the development, hard costs were at $250/ft, and leases at $27.18/ft annual NNN, then a 5.8% IRR is projected (doesn't pencil).
  Hard costs would need to drop to $173/ft to achieve a 12% IRR at those lease rates.
  If hard costs were at $202/ft, IRR would be 9.4% (still doesn't pencil).
  If hard costs were at $202/ft, lease rates would need to rise to $31.5/ft annual NNN to achieve a 12% IRR.



RETAIL MARKET ANALYSIS CONCLUSIONS

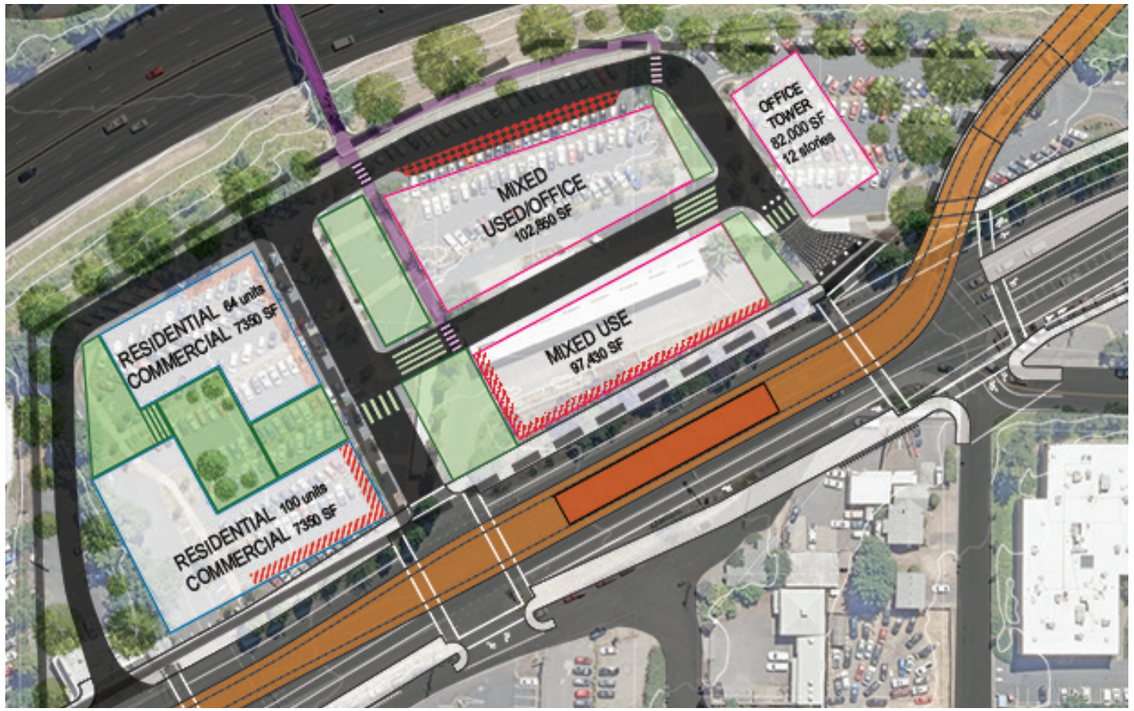
- **What are the current retail market development assumptions?**
  $190/sf for hard costs (warm shell), and rents at $25/ft (annual, triple net lease [NNN]), resulting in a 1.9% projected Internal Rate of Return (IRR), which would not "pencil." (The target IRR is 12% minimum.)

- **What if the costs of providing on-site parking were not borne by retail development?**
  With hard costs for a warm shell at $190/ft, and lease rates at $25/ft NNN, IRR would improve to 4.7% (it still wouldn't pencil).

- **Those hard costs seem high, maybe the market doesn't need a warm shell, what if only a cold shell were provided?**
  Providing a cold shell rather than a warm shell could reduce hard costs to $143/ft. With retail lease rates at $25/ft, and the costs of parking not borne by retail, the IRR for such a development would be 8.6%.

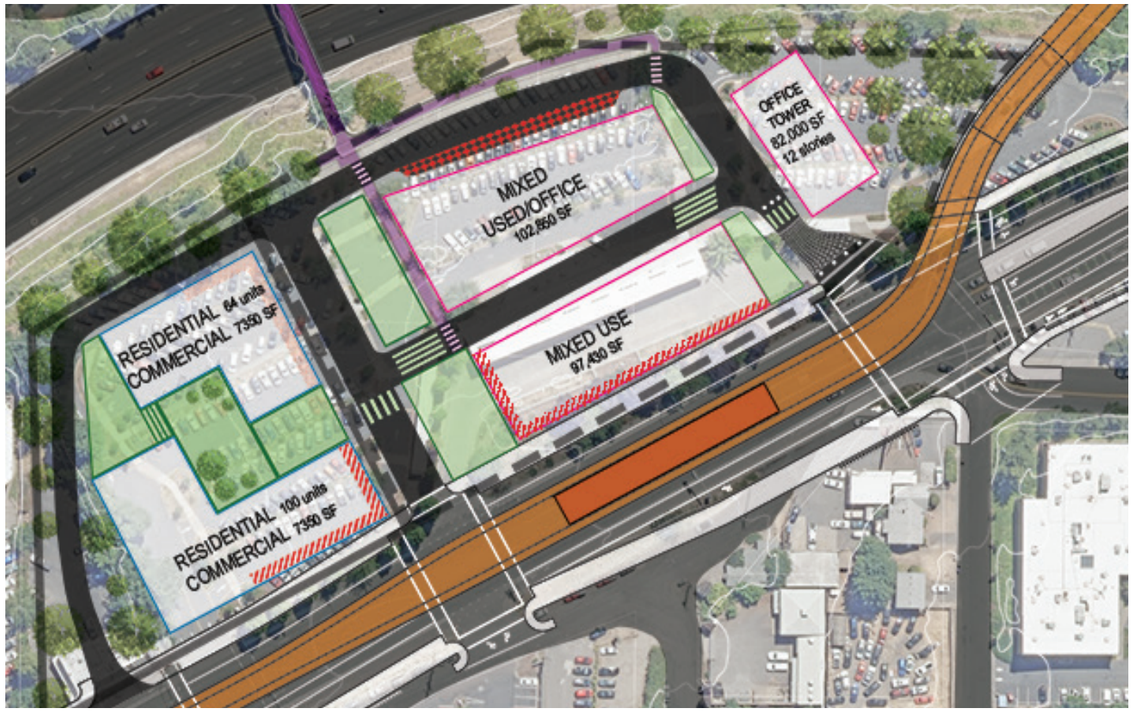
- **How much would hard costs need to drop for retail development to pencil with those lease rates?**
  Hard costs would need to drop to $105/ft to achieve a 12% IRR.

- **The NAR reports a lease premium for locations near transit, might this be sufficient to make retail development pencil at BTC?**
  If warm shell were provided with hard costs were at $190/ft, rents would still need to rise to $37.4/ft (annual NNN) to achieve a 12% IRR and thus "pencil."
  If cold shell were provided with hard costs at $143/ft, rents would need to rise to $30.2/ft (annual NNN) to achieve a 12% IRR and thus "pencil."



MULTIFAMILY MARKET ANALYSIS CONCLUSIONS

- **What are the current multifamily development assumptions?**
  $215/sf for hard costs, 0.6 parking spaces provided per home, and rents at $2.78/ft (monthly average of $2.96/ft for studios, $2.51/ft for 1-bedrooms, and $2.30/ft for 2-bedrooms or larger), resulting in a 7.9% projected Internal Rate of Return (IRR), which would not "pencil." (The target IRR is 12% minimum.)
- **Those hard costs seem high, how much would they need to come down for multifamily to pencil?**
  With a parking ratio of 0.6 spaces/home, and rents not exceeding those from the market study, hard costs would need to drop to $156/ft to achieve an IRR of 12%.
- **The NAR reports a lease premium for locations near transit, might this be sufficient to make multifamily development pencil at BTC?**
  With hard costs at $215/ft, rents would still need to rise to $3.52/ft to achieve a 12% IRR and thus "pencil." At these rates, an 800 sf apartment would cost $2,816 per month, and would not be affordable to households making less than 122% of Area Median Income (AMI).
- **What if the costs of providing on-site parking were not borne by multifamily development?**
  With hard costs at $215/ft, and lease rates at $2.78/ft, IRR would improve to 10.2% (it still wouldn't quite pencil).
  If hard costs of $191/ft were to become possible, then a 12% IRR could be achieved at these rental rates.
  Or, if rents rose to $3.07/ft, or $2,456 for an 800 sf apartment affordable to households making 107% or more of AMI, then a 12% IRR could be achieved.
- **Does feasibility improve with allowing 12-15 floors in height rather than 7?**
  Yes, with all other assumptions held equal, and the costs of parking not borne by the development, if a 15-story building could be delivered at $215/ft, it would produce an 11% IRR. If rents rose to $2.95/ft, or $2,360 for an 800 sf apartment affordable to households making 102% of AMI or more, then a 12% IRR could be achieved.



Is there an alternate development scenario that pencils at BTC?

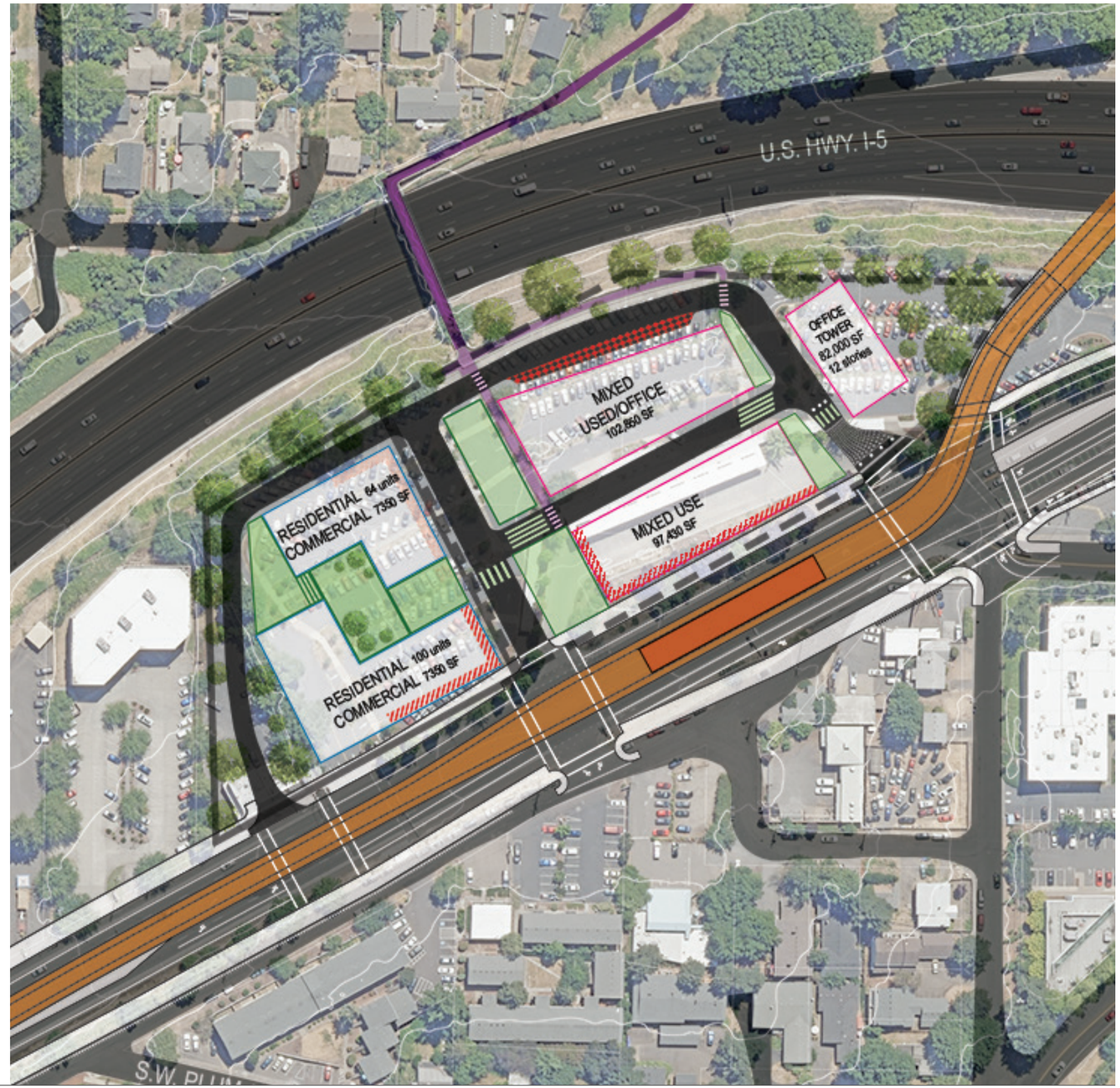
- **The currently-proposed site plan seems to be less intense than we're seeing at other notable developments in the region, could it be more intensely developed?**
  Yes. The current site plan only places buildings on roughly 26% of the site, with the balance going to internal circulation streets (33%), landscaping and plazas (26%), and surface parking (14%). This produces 245 homes in 230,300 gross residential sf, 18,000 gross retail sf, 167,000 gross office sf, and 22,000 gross public sf.
  If surface parking were not provided, and that space instead used for housing such that 40% of the site were covered by buildings (with the amount for internal circulation and landscaping held constant, as well as the total amount of office, retail, and public space provided), then nearly 650 homes could be provided within roughly 610,000 total gross residential square feet.
- **What if the costs of providing on-site parking were not borne by development, and instead were funded as the public contribution to a joint development and provided as a site-wide podium/ underground level?**
  This would go a long way towards making the whole site pencil. Assuming that construction atop this level could be entirely stick-built at $166/ft, retail is provided as a cold shell for $143/ft, and office hard costs are $202/ft; and that the unit mix includes 15% 830 sf 2-bedroom 1-bath homes, 15% 700 sf 1-bedroom 1-bath homes, and 50% 420 sf studio apartments, and all public facility costs for internal streets and plazas are paid by the public sector, then the project would result in a 10.9% IRR.
- **That seems very close to penciling, how could the gap be closed?**
  If building sites were sold to private developers for $9/ft rather than the $60/ft cost assumed from area comparable sales, that would close the gap from 10.9% to 12% IRR, and the development would pencil as five-story wood-framed buildings above a common podium.
- **How much property tax revenue would be generated over 10 years from this development?**
  Approximately $23.6 million.
- **Does feasibility improve with allowing 12-15 floors in height rather than 7?**
  No, because it's unlikely that a 15-story building could be constructed for the same cost as a wood-framed building, and the additional hard costs would not be offset by the additional revenue from the extra height.

Potential Development Barriers

- **Construction hard costs are out of line with market rents and lease rates.** This means that neither market-rate residential rental, office, or retail is expected to pencil as spec-built for-profit developments at this site over the next decade, unless market conditions change or joint development occurs, with the public sector making a significant contribution to cover infrastructure, parks, open space, and on-site parking.

- **Context needs to be transformed** from current auto-oriented landscape to become a pedestrian district in order for this site plan concept to be successfull

- **Residential is strongest**; office almost pencils; retail is weakest



Transit Oriented Development and Walkable Districts

- **Light rail and re-zoning** can bring additional value to walkable station areas where placemaking occurs to create pedestrian districts
- **Recent research from the National Association of Realtors** shows an increase in residential rents and sales prices, and a substantial reduction in transportation costs per household, within the transit shed of new light rail service*
- **Light rail projects can use joint development strategies** to cover the costs of public infrastructure such as commuter parking, plazas, roads, landscaping, and bus infrastructure, using federal FTA Joint Development funds

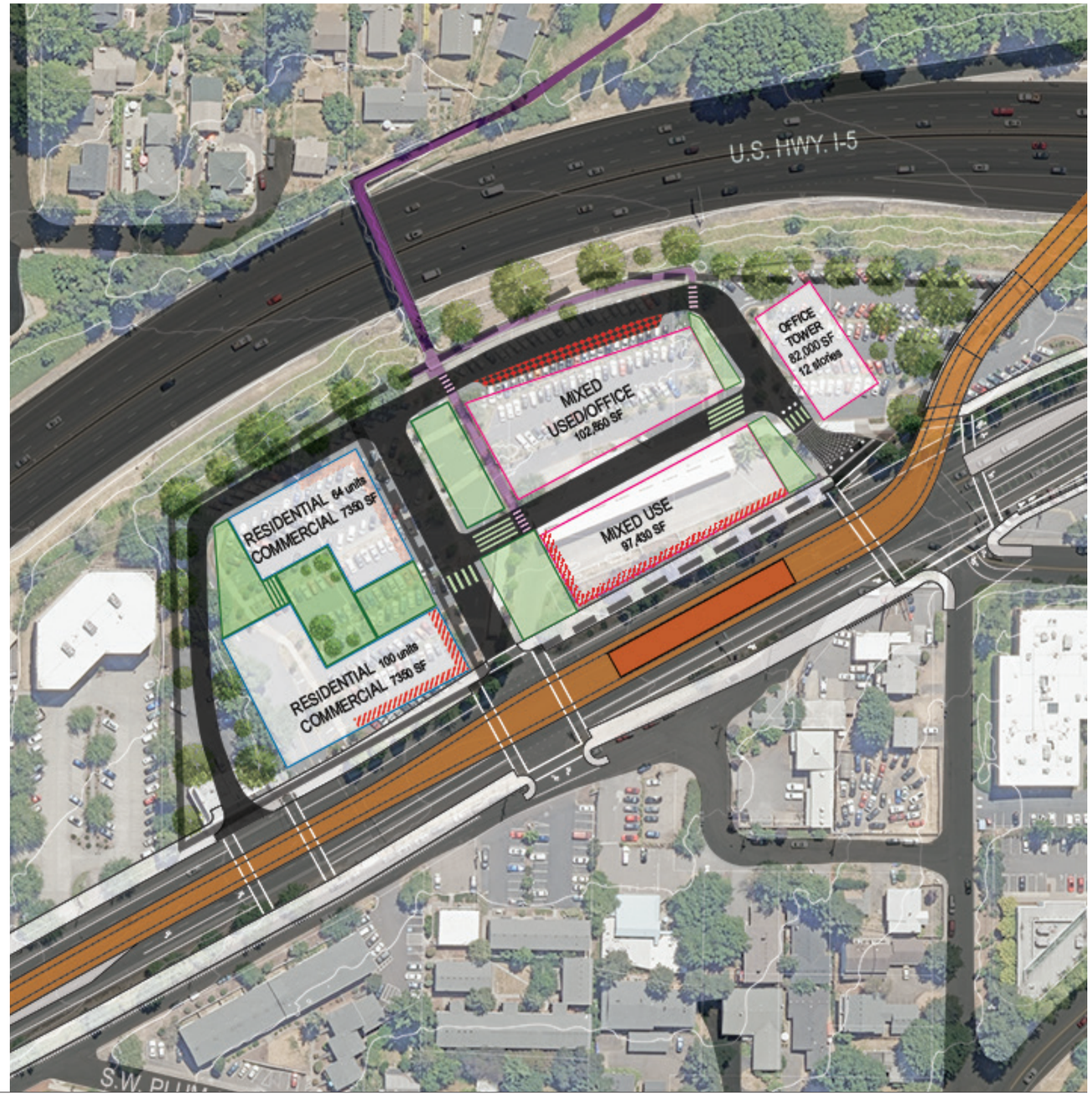
* The NAR/APTA report (https://www.nar.realtor/research-and-statistics/research-reports/the-real-estate-mantra-locate-near-public-transportation) shows an outlier area of LRT stations in SE Seattle outside of downtown where well-located, well-designed transit stations, coupled with TOD zoning, resulted in high location premiums, indicating a potential bright future for TOD at the BTC and in the SW Corridor in general.

Construction Comparables

- **What construction cost assumptions are being used?**
  Hard cost assumptions for buildings only, based on this construction type, are:
  Residential: $215/sf
  Retail: $190/sf (warm shell)
  Office: $250/ft

- **What comparables are the source for these construction cost estimates?**
  Interviews with local industry experts at EcoNW, YBA Architecture, and others, were combined with recent cost estimates for a variety of construction and product types produced by Swinerton Builders and R&H Construction. These estimates track with results from other sources, including the Multifamily NW report, which are also based on industry interviews.

- **What is the confidence level in these assumptions?**
  Construction cost estimates for a project at least seven years in the future, made during the beginning of an economic downturn, based on the immediate prior top of the market condition, are of necessity given a low degree of confidence and are for planning purposes only. Sensitivity testing is used to provide more information on the bounds of feasibility, given this uncertainty.



Questions:

- **What information presented here is new or surprising?**

- **What questions need to be answered in the next phase of planning?**

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Considerations for Future Planning

- **What might the long-term implications of COVID-19 be?**
  We don't know exactly what the market will do. Much depends on the continuing public response to the multiple crises we're currently experiencing. However, people need community and social interaction to thrive, and community-building activities require community space within which to occur. At this point in time, outdoor community space is in high demand, so facilities such as plazas and space for outdoor seating for restaurants look to be critically important to the future success of communities.

- **Need for universal high speed internet access as a utility.**
  What's the right level of public participation in providing internet services to a population that is increasingly dependent on the internet to purchase goods, commute electronically to work, and facilitate social interactions? Does a baseline level of high-speed service need to be provided as an equity measure by public entities?

- **Does a mandatory work-from-home requirement for a minimum of 1 day a week make sense, and is it relevant to this plan?**
  It may. If employees and employers that are able to allow tele-commuting have the freedom to choose which day, and the goal is to reduce traffic, congestion, and the need for parking by at least 20%, then this could reduce the costs associated with providing on-site parking and thus allow the BTC site to be developed feasibly at a lower public cost.