



Lower Southeast Rising Economic Analysis

Background Report

August 2023

Introduction

The Lower Southeast—comprised primarily of the Brentwood-Darlington, Woodstock, and Mt. Scott-Arleta neighborhoods in Southeast Portland—is the focus of The Lower Southeast Rising Area Plan. Project staff have proposed a range of recommendations, including potential zoning map changes and transportation projects, to implement the community’s aspirations for the future of the Lower Southeast Rising area.

This economic analysis background report (hereafter referred to as “report”) documents the market and economic conditions in the Lower Southeast Rising Area to provide an overview of the spatial differences in development trends, the characteristics of recent development, and the development characteristics that are likely in the near to medium term (based on the estimated financial feasibility of various projects). The report also describes the likely economic and development impacts and the risk of residential displacement associated with the proposed zoning map changes.

Data sources utilized for this analysis primarily include City of Portland permit data, Costar (a private commercial and multifamily real estate database), Multnomah County Assessor, and the Regional Multiple Listing Service (RMLS).

Zoning Overview

The proposed zone changes include:

- Rezones to RM1 (mostly from R2.5, some R5): 71 acres
- Rezones to RM2 (primarily from RM1): 72 acres
- Rezones to CM1 (from R2.5 & RM1): 4 acres
- Rezones to CM2 (primarily from CM1): 19 acres
- Rezones to CM2 (from EG1): 5 acres
- Rezones to OS: 6 acres

Information about floor area ratios (FAR) for each zone is shown in the table that follows. The table includes both the base FAR and the additional bonus FAR allowed with the provision of inclusionary housing.

Zone	Primary Uses	Maximum Base FAR	IH Bonus FAR	Minimum Residential Density
RM1	Residential	1 to 1	0.5 to 1	1 unit per 2,500 sq. ft. of site area
RM2	Residential	1.5 to 1	0.75 to 1	1 unit per 1,450 sq. ft. of site area
CM1	Commercial, Residential	1.5 to 1	1.0 to 1	NA
CM2	Commercial, Residential	2.5 to 1	1.5 to 1	1 unit per 1,450 sq. ft. of site area

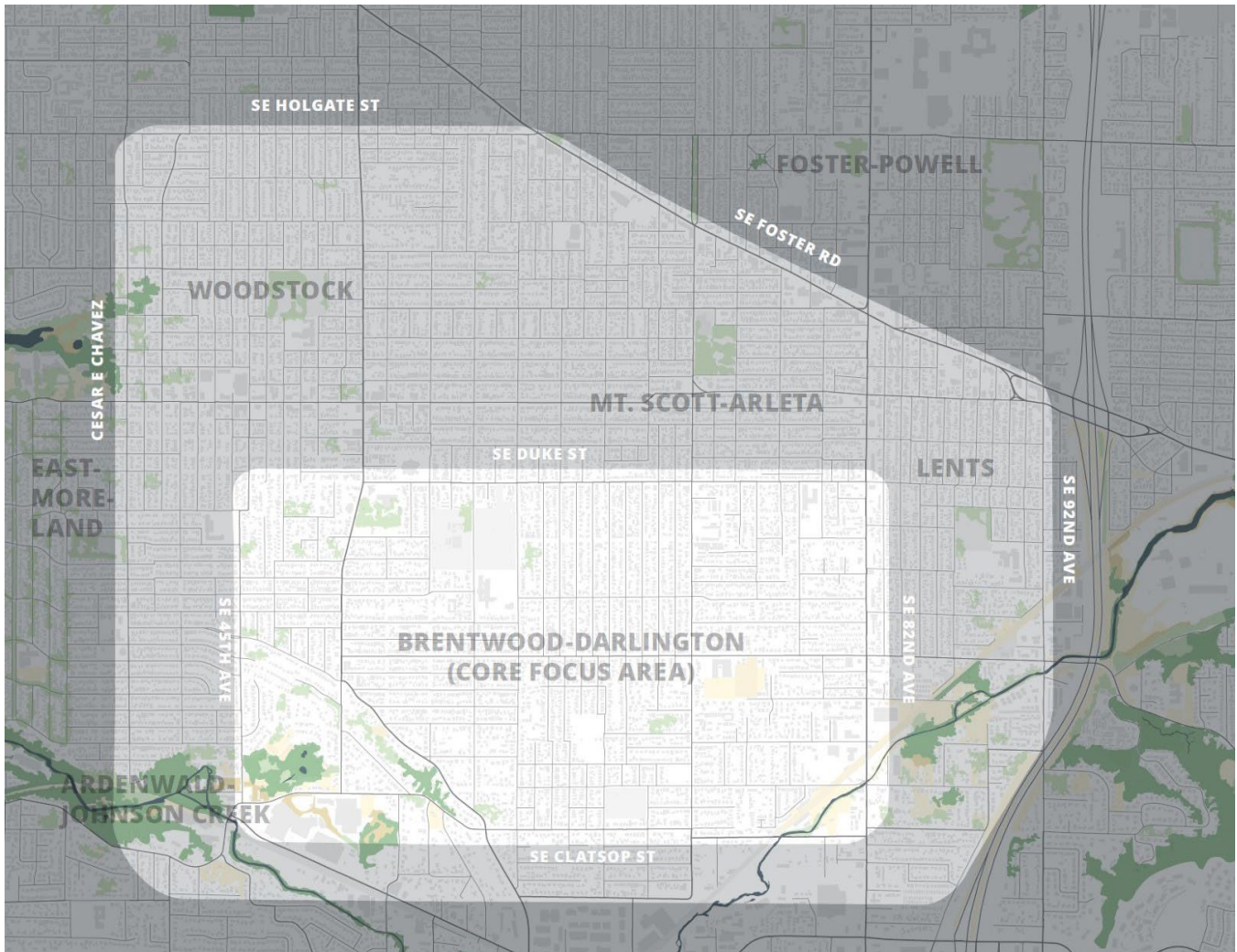
Market Context

Portland Market. A combination of high levels of sustained in-migration and a citywide underproduction of housing has resulted in one of the lowest residential vacancy rates amongst Portland’s peer cities. Rising construction costs and inflation have further exacerbated Portland’s housing affordability by creating development feasibility problems for residential developers. Combined, this has inevitably led to a market characterized by rapidly escalating rental rates and home sale prices.

As Portland’s inner neighborhoods have become prohibitively expensive for many existing and future residents, homes in the middle ring of Portland’s neighborhoods (which have traditionally been more accessible to lower-income households) are now starting to experience a relatively new wave of investment attention. Competition between individual households and investors is now common, which hinders the ability of many households to become homeowners and build wealth.

Lower Southeast Submarket. The Lower Southeast Rising (LSER) study area neighborhoods have historically experienced lower levels of market-rate investment compared to other Portland neighborhoods. Woodstock has seen more recent real estate investment in higher density and middle housing development types, as has Mt. Scott–Arleta, while development activity in Brentwood–Darlington remains limited to single-dwelling units. Both Woodstock and Mt. Scott–Arleta have either larger arterials or a central higher-density, mixed-use area. The Brentwood–Darlington neighborhood is characterized by smaller residential lots, single-family and lower-density multifamily homes, and lower-traffic streets.

Figure 1. LSER Study Area



Key Findings

This report provides information about production and market trends, development feasibility, and potential displacement in Portland’s Lower Southeast. Key findings are as follow.

Production and Market Trends

Production. Since 2015, citywide housing unit production has been primarily in multi-dwelling and mixed-use structures (80 percent of all units). Meanwhile, approximately half of the units built in the Lower Southeast have been single dwellings and accessory dwelling units, in keeping with the higher homeownership rate and greater proportion of single-dwelling zoning in the area. Apartments have accounted for most of the other half, although townhome and middle housing production has increased in recent years as a direct result of the Residential Infill Project and these developments have started to absorb an increasing share of overall production.

A greater variety of allowable housing types is likely to dampen the overall displacement risk in the area by distributing demand throughout the project area, rather than just in select locations in higher density zones (centers and corridors). High homeownership rates provide further protection from displacement pressures.

Development Areas. Most of the recent housing unit production in the Lower Southeast has been in Woodstock and the Foster Road corridor in the Lents-Foster plan area. Construction activity in Brentwood-Darlington and Mt-Scott Arleta has been relatively subdued in comparison, largely due to lower average rents and sales prices.

- These trends are likely to continue for the short-to-medium-term.
- The long-term outlook will likely see development activity push further east and south as the supply of closer-in vacant and underutilized parcels dwindles and land prices increase.

Development Potential and Feasibility

Development feasibility is explored in this report using a pro forma analysis that calculates the residual land value (the amount a developer could spend on land and still have a feasible project) for a range of housing prototypes. For each prototype, Multnomah County taxlot data is then used to identify lots that meet a series of criteria, including valuation below the residual land value, zoning, and lot size.

Mixed-Use Zones. The most prominent changes to development patterns as a direct result of the proposed zone changes are an increase in four- and five-story apartments, including mixed-use developments, in some parts of the plan area.

- Larger multi-dwelling structures are likely to cluster along corridors and in centers in CM2 zones where five-story buildings are allowed in certain situations.
- Suitable sites for larger developments are currently limited outside of the Woodstock Boulevard and Foster Road corridors and may require site assembly, which many developers avoid because of the additional time and complexity needed to acquire multiple properties.
- Five-story podium apartment projects are one of the most economically feasible opportunities for the area to gain the additional commercial services desired by area residents . However, within the plan area, four-to-five story scale is only allowed in the CM2 zone, which is proposed for a limited expansion of 24 acres.

Single-dwelling and Multi-dwelling Zones. More impactful from a land use perspective are the rezones involving the RM1 and RM2 zones (the proposed rezones account for about 81 acres of additional multi-dwelling zones). These zones can accommodate wood-frame apartment buildings, townhomes, and middle-housing development types, with the primary change from single-dwelling zones being the allowance of apartments.

- Townhomes and wood-frame apartments have the highest residual land values.
- There are unlikely to be land supply-related pressures or challenges to townhome development due to the high number of suitable and feasible development sites in the study area. Townhome development is likely to be spatially distributed throughout the Lower Southeast and on underutilized sites (including those with existing single-unit dwellings).
- While there will likely be a slight uptick in the construction of wood-frame apartments in the Lower Southeast due to the proposed zone changes, recent production trends have seen developers preferring to build townhomes over other development types. Townhomes, which are already allowed in the single-dwelling zones, will likely continue as the preferred development type.

Displacement Risk

Displacement risk is low for most of the Lower Southeast. While BPS's 2022 Displacement Risk Analysis showed a high vulnerability to displacement amongst the existing population in the southern half of the study area, there remains a plentiful supply of large, underutilized, and relatively inexpensive sites to accommodate the demand for many years. In other words, supply remains significantly higher than demand, and market conditions do not yet support the redevelopment of already-developed sites.

- The plentiful supply of highly underutilized land means that developers can and will focus primarily on larger, less expensive sites and smaller infill development.
- The higher rate of homeownership in the area also provides a level of security for area homeowners. Further, larger sites—where bigger apartment and mixed-use projects are typically built—tend to be occupied by commercial buildings, rather than residences.

Economic Displacement Risk and Land Values. Economic displacement occurs when residents can no longer afford escalating rents or property taxes. Throughout most of the Lower Southeast area, property values are unlikely to increase substantially as a direct result of the proposed zone changes, primarily because the changes are incremental and make little difference to the 'highest and best use' of the land. In other words, the most likely development types remain the same under the current and proposed zones. For example, townhomes are the highest and best use on lots with 'R' zoning, and townhomes and smaller lot wood-framed apartments are the highest and best uses on lots with RM1 and RM2 zoning.

- The proposed zone changes may increase property values because of the opportunity for greater returns for larger projects, especially in areas with a proposed zone change from employment (EG1) to mixed-use (CM2 - proposed for a limited area of five acres).
- Other upzones to CM2 may increase land values as development potential improves, although these changes only include 19 acres of land.

- Property value escalation may occur in select locations like SE Woodstock that currently have a monopoly on higher-density CM2 zoning; upzoning more areas to CM2 will help moderate price escalation and mitigate economic-related displacement by increasing competition.

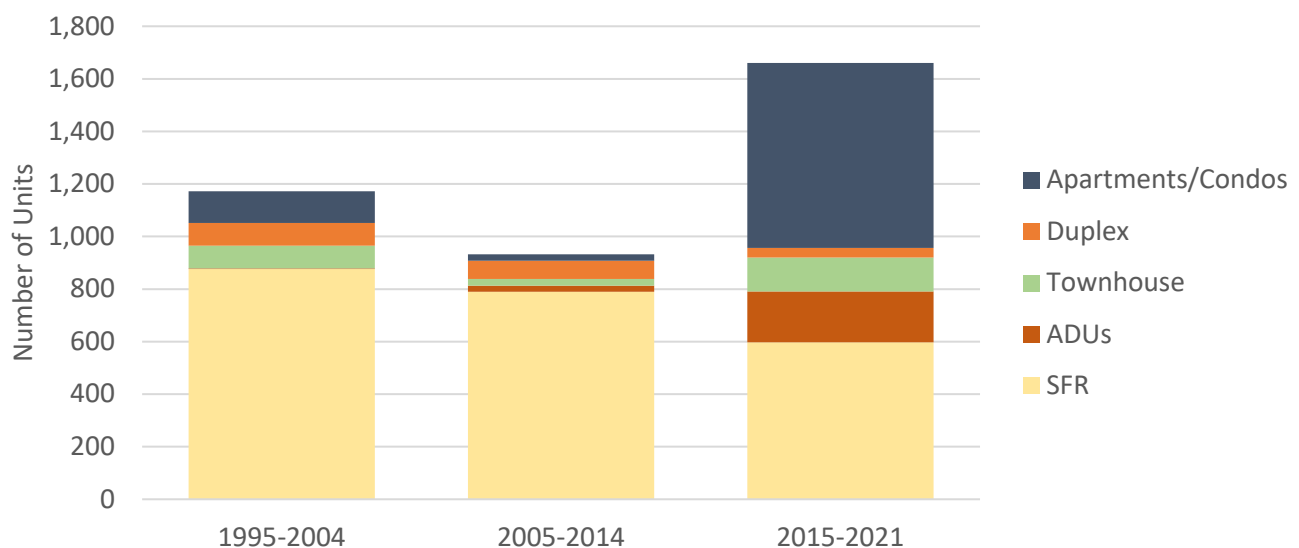
While widespread direct displacement because of redevelopment is unlikely, improvements and zoning changes in the existing commercial corridors that aim to improve quality of life and livability (e.g., streetscape and transportation improvements, additional amenities provided by new development, etc.) could have more of an impact on rents and sales values by creating an attractive place to live and increasing demand for the existing housing units in the area. These increases will be incremental and long-term, however, while being accompanied by zoning changes that support an increase in housing supply.

Production and Market Trends

Residential

From 1995 through 2014, residential construction in the area encompassed by the LSER study area was dominated by single-family homes. While the number of single-family homes constructed annually has remained relatively constant (averaging about 84 homes annually), in more recent years the number of apartments, townhomes, and accessory dwelling units (ADUs) has increased significantly. Between 1995 and 2014, just 144 apartment or condo units were built; since 2015, permits have been issued for a total of 444 units (increasing from an annual average of seven units to 63 units). An 84-unit apartment building on Woodstock Boulevard was completed in 2022 and about 247 units are in the pipeline (as of early 2023), reflecting a significant increase in multifamily construction activity.

Figure 2. Residential Development by Type and Time Period



Source: BDS

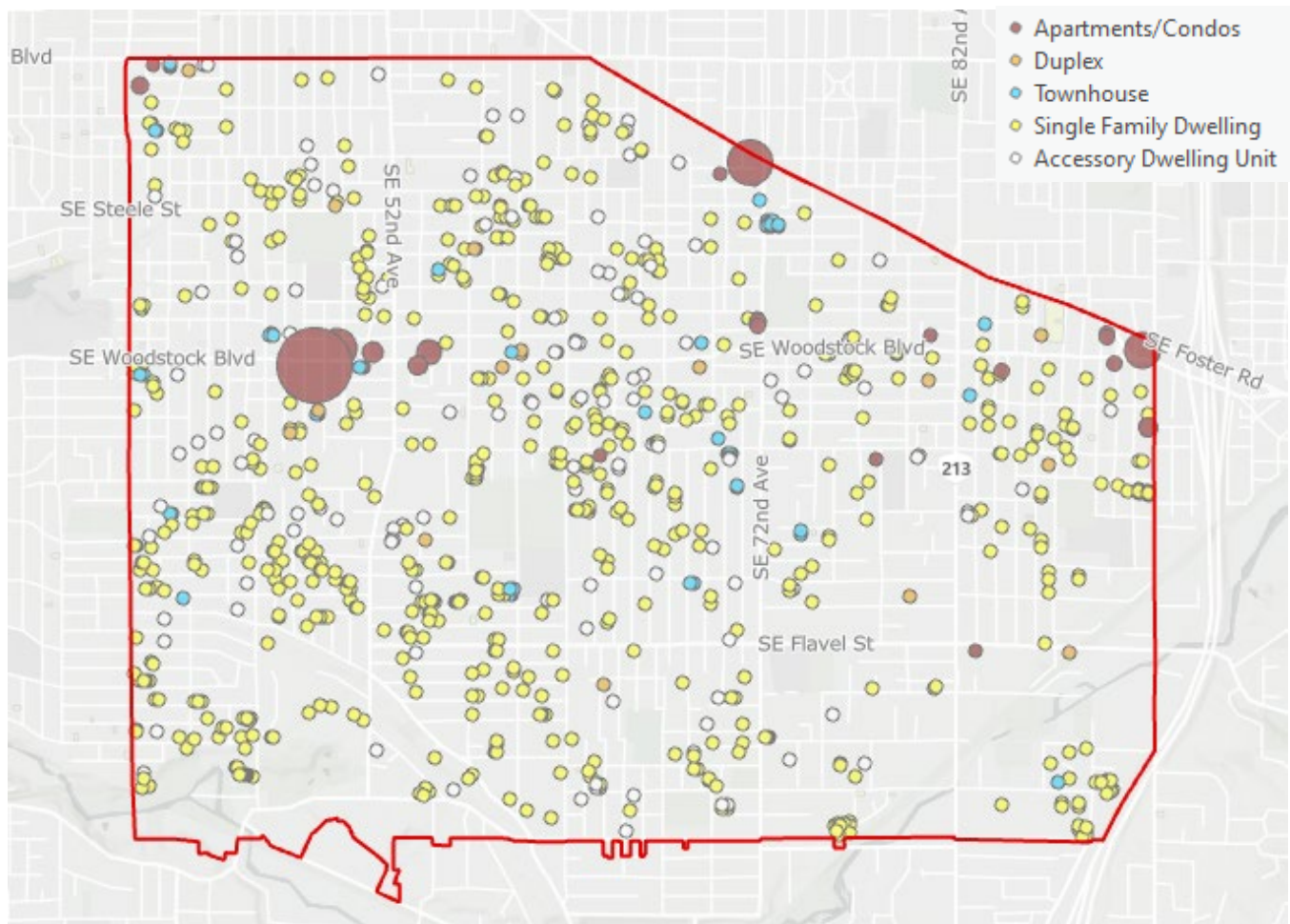
Figure 3. Annual Averages (Finaled and Issued Permits)

	Single-Dwelling	ADUs	Town-house	Duplex	Apts./Condos	All Types
1995-2014	83	1	6	8	7	105
2015-2021	76	23	7	5	63	174

Source: BDS Permit Data

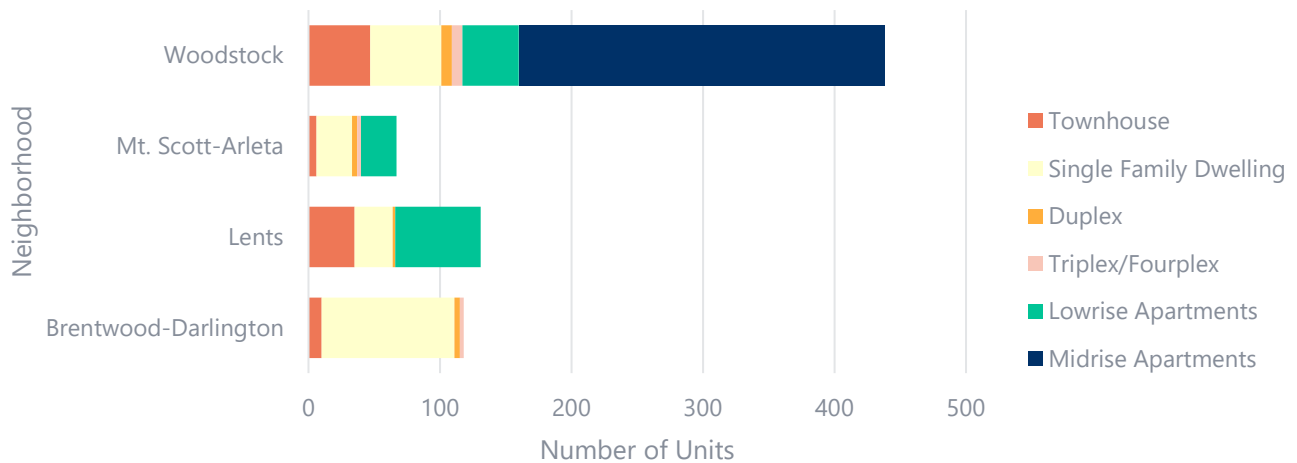
The following map and accompanying chart show that apartments have clustered along the Woodstock Boulevard corridor, with five apartment projects built since 2012. The Foster Road corridor has also continued to develop on the periphery of the LSER study area. Midrise (4+ story) apartment development has been built primarily in Woodstock (along SE Woodstock Blvd).

Figure 4. New Residential Construction, 2012-2022 (Finaled, Issued, and Under Inspection Permits)



Source: BDS

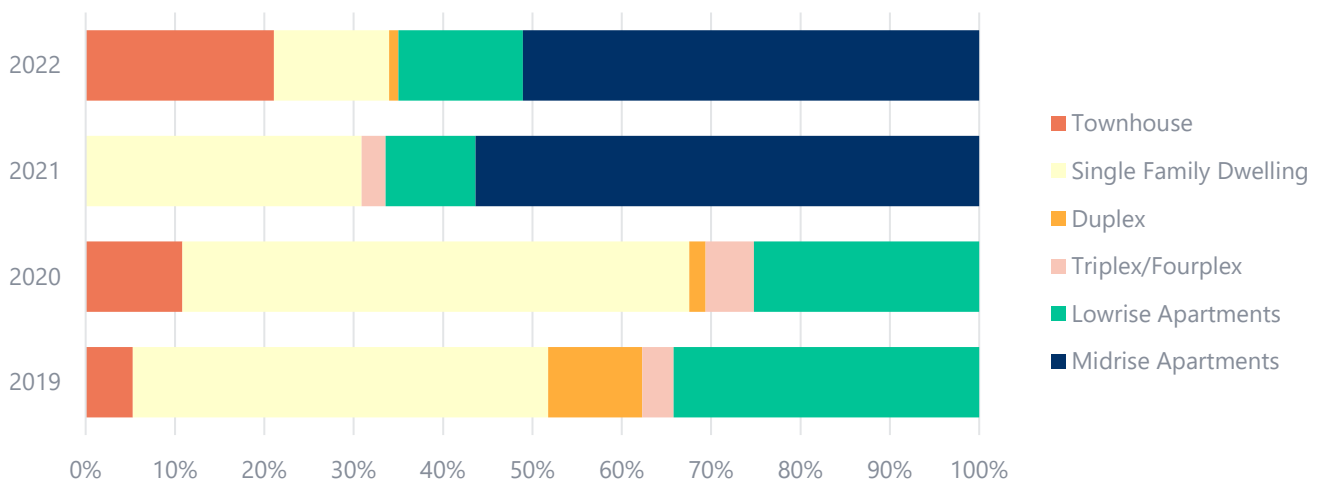
Figure 5. Residential Permits by Neighborhood, 2012-2022 (Finalized, Issued, and Under Inspection Permits)



In addition to the primary development types shown in the chart above, approximately 208 accessory dwelling units (ADUs) were built between 2012 and 2022. Of these, 38% were in Brentwood-Darlington, 29% were in Woodstock, 27% were in Mt. Scott-Arleta, and five percent were in Lents. The higher proportion of ADUs built in Brentwood-Darlington is closely aligned with the greater proportion of single-family dwellings relative to the total number of units built in each neighborhood.

Permit activity between 2019 and 2021 totaled between 111 and 149 units per year and increased significantly in 2022 to 380, largely because of the increase in larger midrise apartment projects in Woodstock. Midrise apartments accounted for more than half of all units produced in 2021 and 2022 for the first time. Townhouse development has generally captured a growing share of all units produced, and the share of single-family dwellings and low-rise apartments has decreased.

Figure 6. Residential Permits by Year, 2019-2022, Lower Southeast Rising Study Area



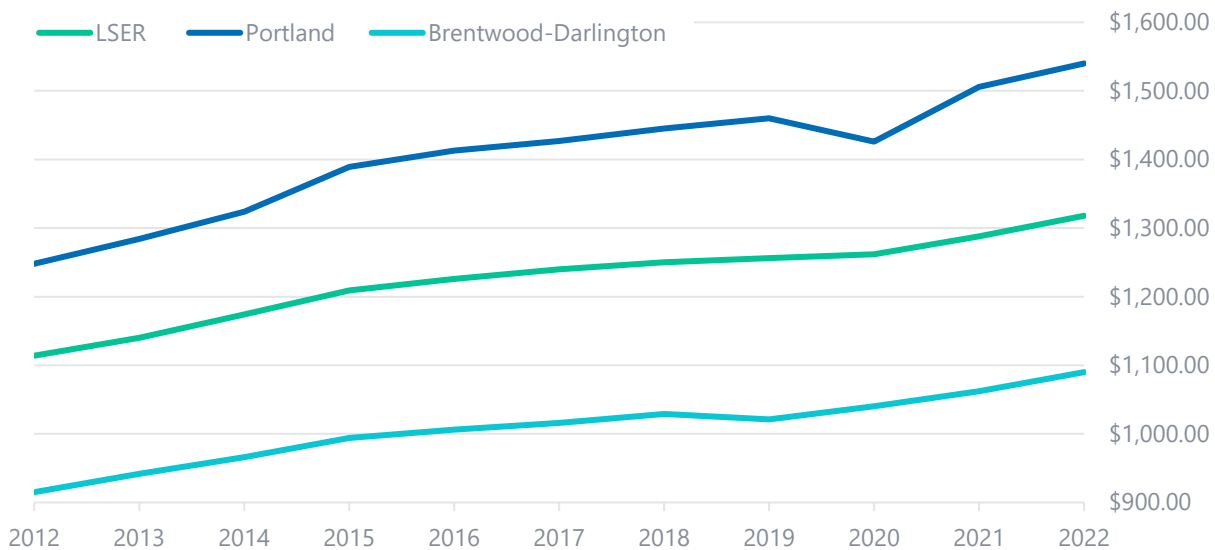
Apartments

While there have only been two apartment projects in the CM2 zoning in the LSER area, developers have generally been close to maximizing the allowable development potential (FAR of 2.5:1 without bonuses, 4:1 with bonuses). Increased density allowances are expected to increase the financial feasibility of additional apartment developments. Both new CM2 apartment projects have been Type III construction (wood frame over a concrete podium); other zones (CM1, RM, etc.) typically see apartments built with Type V construction (wood frame only), which is about 20% less expensive to build on a per-unit basis.

Average apartment rents in the Lower Southeast are about \$150 to \$200 less than the citywide average. New market-rate apartment projects in the LSER area have seen rents roughly in line with new development citywide. Woodstock is considered a more mature market that is currently achieving higher rental rates than either Mt. Scott-Arleta or Brentwood-Darlington, with the latter trending about \$200 lower than the overall LSER area and \$400 lower than the Portland average for market-rate rents on a per-unit basis.

Rental rates on a per-square-foot basis in the LSER area are very similar to the citywide average (about \$2.10 per square foot), reflecting smaller average unit sizes in the area compared to the City. Brentwood-Darlington lags the area at \$1.61 per square foot, likely due to the lack of newer apartments built in the area.

Figure 7. Average Market-rate Apartment Rents Per Unit

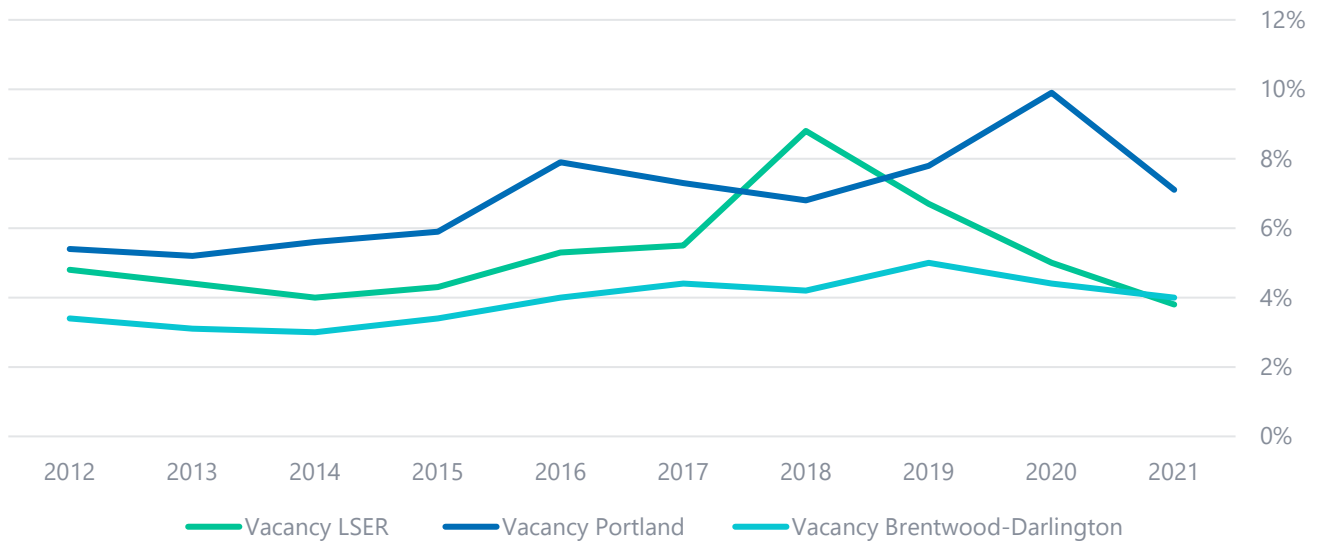


Source: Costar

Low vacancy rates in the LSER area indicate ongoing demand for new multifamily development. Vacancy rates have consistently been below the citywide average and are generally below five

percent—often considered the rate reflecting market equilibrium. The construction and subsequent lease-up period of larger multifamily projects in recent years have contributed to a slight uptick in the vacancy rate, but these have been temporary, and strong leasing activity continues to reflect multifamily rental housing demand.

Figure 8. Multi-dwelling Vacancy Rates



The table below shows apartments recently constructed in the LSER area. BD52 is the only new apartment building in the Brentwood Darlington neighborhood. Land has transacted for increasingly more money on a per-square-foot basis, going from \$37 in 2011 to \$104 in 2020. In 2021, a 0.92-acre site sold for \$137 per square foot, and a five-story mixed-use apartment building is proposed on the site. Based on these trends, land purchased for midrise apartments in the next few years is likely to transact for between \$110 and \$140 per square foot.

Figure 9. Apartment Characteristics, Recently Built Properties, Lower Southeast Rising Study Area

Property Name	Bldg. SF	# Of Units	Year Built	# Of Stories	Area	Zone	Land Area (SF)	FAR	Land Sale	Land Sale Price PSF
The Novus	57,812	84	2022	4	Woodstock TC	CM2	22,615	2.56	2020	\$104
N/A (40 th Ave)	14,959	15	2021	3	NW (Holgate, C-C)	RM2	13,123	1.14	2015	\$44
54 Woodstock	30,400	38	2019	3	Woodstock & 52nd	CM1	15,171	2.00	2017	\$69
72Foster*	86,400	101	2019	4	Foster & 72nd	CM2	37,292	2.32	2011	\$37
Oliver Station*	203,105	145	2018	5	Lents (Foster)	CM3	104,544	1.94	2016	\$78
BD52	30,000	32	2019	2	52nd (Brent'd-Darl'ton)	CM1	52,272	0.57	NA	NA
Woodstock Apts	14,000	19	2018	3	Woodstock & 52nd	CM1	10,019	1.40	NA	NA

*denotes an affordable project, all others listed are market-rate projects.

THE NOVUS



Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF
Studio	26	453	\$1,541	\$3.40
1	36	556	\$1,753	\$3.15
2	19	715	\$2,081	\$2.91
3	3	1,272	\$3,193	\$2.51
Totals	84	586	\$1,813	\$3.10

- Completed in 2022
- Only existing four-story building in the central portion of the LSER study area
- 84 units (162 units per acre)
- 2,000 sq ft commercial space with three tenants
- Smaller units allow for higher rents per square foot while maintaining lower per-unit rent
- Land purchased in 2020 for \$104 per square foot

MODERA WOODSTOCK

The "Modera" is a proposed five-story, full-block mixed-use residential development of 194 housing units with 6,750 square feet of ground-floor commercial space and 121 underground tenant parking spaces (0.6 spaces per unit—about double the City's minimum parking requirements).



- Located on Woodstock Boulevard between S.E. 48th and 49th Avenues
- Land area totals 0.92 acres / 40,075 square feet
- Sold in March 2021 for \$5.5 million (\$137 per square foot of land)
- Type III construction; four-over-one building – as proposed would be the first five-story project in the area
- Used a special allowance to obtain 5 feet of additional height (for a total of 50 feet) for providing a 15-foot-high ground floor (the rest of the LSER plan area also allows this 50-foot height when tall ground-floor spaces are provided).

Single-Family Units, Townhomes, and Duplexes

The characteristics of new duplexes, single-family dwellings, and townhomes are shown in the table below.

- Over the past five years, these development types have been built on smaller lots at greater densities. Other characteristics have remained similar.

- One of the major differences is the average FAR of townhouse developments, which increased from an average of 0.75 to 1.04, likely because of recent amendments to the zoning code that allows for greater lot coverage for multi-unit developments.
- Duplexes have largely been built on oversized lots (closer to 6,000 square feet), while single-family and townhouse developments have been built on more typical 4,000 to 5,000-square-foot lots. These trends are likely to continue in the near future.

Figure 10. Housing Characteristics, 2013-2022 Development

	Housing Type	Lot SF per unit	Avg Unit Size	Avg Bldg. FAR	# Projects
2013-2017	Duplex	3,018	2,003	0.67	3
	Single-family	4,027	2,343	0.64	267
	Townhouse	2,471	1,849	0.75	10
	All Housing Types	3,961	2,321	0.65	280
2018-2022	Duplex	2,744	1,665	0.62	7
	Single-family	3,712	2,240	0.65	236
	Townhouse	1,971	1,884	1.04	24
	All Housing Types	3,530	2,193	0.69	267

Source: BDS, County Assessor

Sales Prices

On average, ownership units (primarily single-dwelling units and townhouses) have sold for about \$100,000 less in the Lower Southeast versus citywide, although the average sale price has increased faster. On a per-square-foot basis, units in the Lower Southeast sell for more than the citywide average. This is due to the smaller homes in the area compared to the rest of Portland. It should also be noted that the Lower Southeast has only accounted for about one percent of all home sales over the past five years. Future developers and investors are more likely to look at the overall cost of properties in their evaluation of market feasibility and opportunity.

Figure 11. Average Sales Prices (Total and Per Square Foot), All Ownership Housing Types

	City Price	LSER Price	City Price PSF	LSER Price PSF
2018	\$491,372	\$388,117	\$268	\$264
2019	\$490,393	\$387,394	\$265	\$268
2020	\$524,070	\$421,439	\$279	\$296
2021	\$592,650	\$474,443	\$317	\$329
2022	\$627,298	\$510,332	\$342	\$357

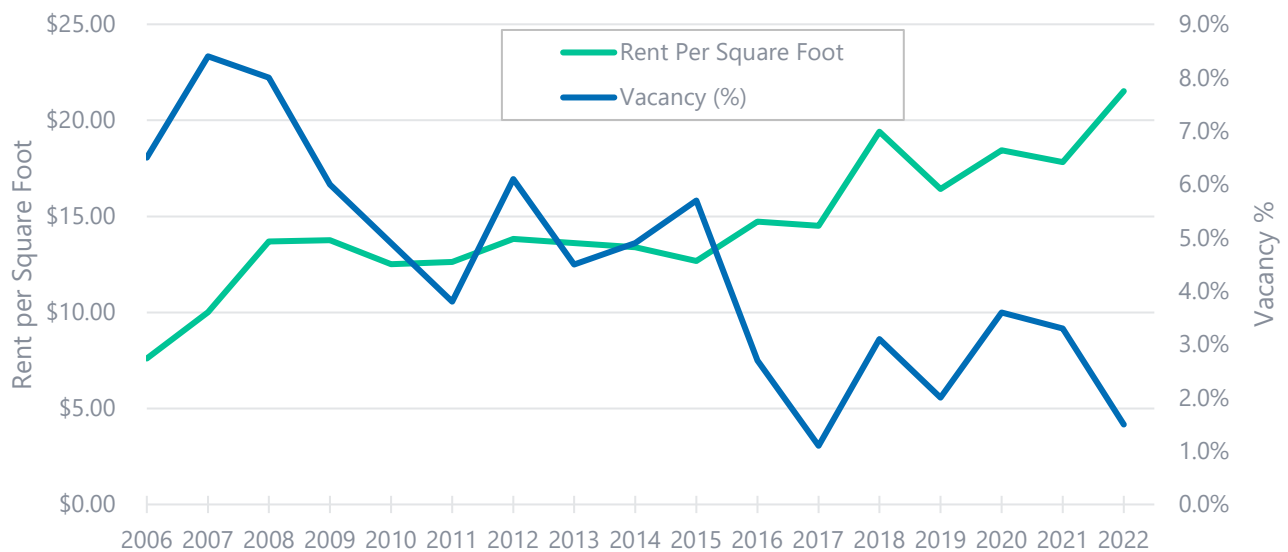
Source: RMLS

Commercial

The Lower Southeast has a limited commercial presence outside of the core commercial corridors of Foster and 82nd and the Woodstock Center. Commercial development since 2012 has largely been limited to the Woodstock area along Woodstock Boulevard at both 46th Ave and 52nd Ave. One self-storage facility accounts for the new commercial development along the 82nd Avenue corridor within the study area.

Retail inventory totals approximately 1.15 million square feet of space with an average rental rate in the low \$20s (per square foot). New retail construction – either as standalone retail buildings or as part of a mixed-use residential building – requires at least \$30 per square foot rental rates. Newer retail spaces – including the Novus ground floor commercial space and at 5975 SE 52nd Ave – have asking rents of around \$30 per square foot.

Figure 12. Retail Rent and Vacancy Trends

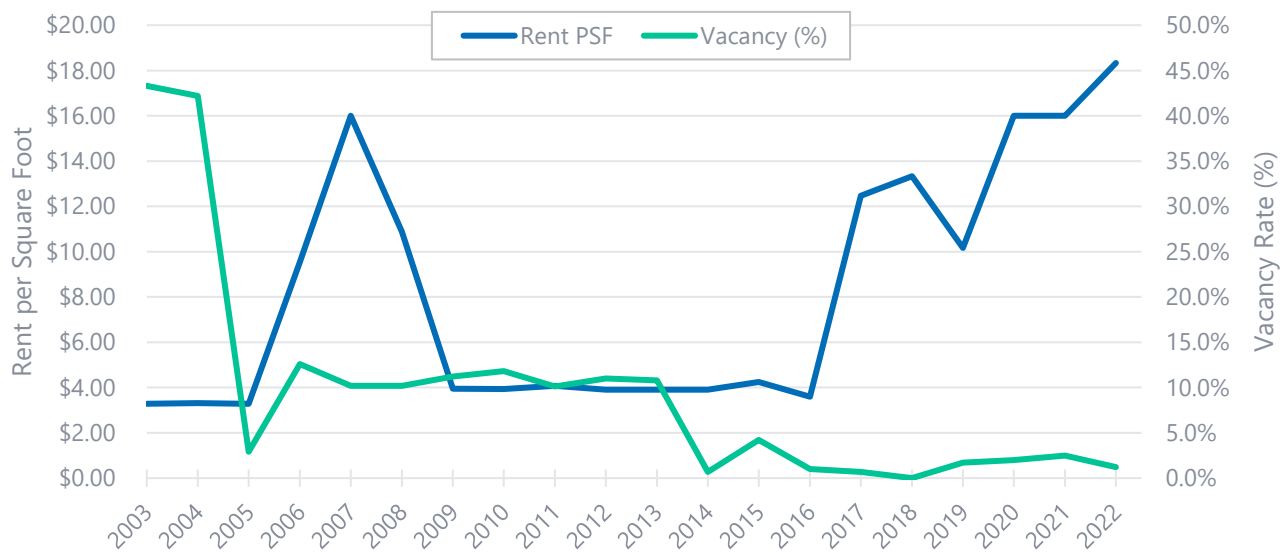


Source: Costar

The LSE office market is comprised of 36 buildings totaling 170,000 square feet (averaging 4,650 square feet per building). The most recent office building built in the area was a professional office building in Woodstock (6010 SE 52nd Ave) in 2016. Information from Costar on the building’s leasing activity suggests gross rents of around \$25 per square foot, slightly above the current areawide average for existing space. Despite a very low vacancy rate, the lack of new office construction, and the macroeconomic uncertainty surrounding the office sector, the LSE submarket is unlikely to attract new speculative office development in the future. The primary opportunities for new office development in the future are likely to be in the form of medical, financial, and select professional services – most likely as part of mixed-use developments – as well as owner-occupied build-to-suit opportunities.

Industrial and flex employment space totals about 585,000 square feet across 33 properties and is predominantly located along the Foster and 82nd corridors. While there has not been a new building delivered to the market since before 2010, the industrial sector has experienced significant growth and is now considered an investment priority at the macroeconomic level. With a near-zero vacancy rate and rapid rent growth over the past six years, the area could conceivably attract smaller-scale industrial and/or flex employment investment in the near future. It should be noted, however, that industrial developers will struggle to compete financially with commercial developers in the employment zones of the study area, which are mostly near 82nd Avenue, so significant investment activity should not be expected.

Figure 13. Industrial/Flex Rent and Vacancy Trends



Source: Costar

Development Feasibility

This section will answer the following questions:

- What development typologies are possible in the current and proposed zoning?
- What development typologies are most feasible?
- What properties are most likely to be redeveloped?
- Is there a displacement risk?

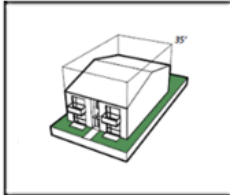









Introduction to Development Feasibility. Development feasibility depends on both returns and risk. Return on investment can be calculated using several methodologies and is, at its simplest, the profit earned on an investment divided by the cost of that investment. The desired level of return depends on the perceived risk of development—the riskier the development the higher rate of return a developer will seek. The return metric described in this section is residual land value.

The residual land value (RLV) is the maximum purchase price a potential developer could theoretically spend on land while still achieving the target return (profit from sale proceeds, revenue, etc.) for a project. The residual land value method arrives at a realistic value of the land, helps developers assess a project’s viability, and compares options without needing to know the actual land value. Ultimately, the land gets its value based on how it can be used—i.e., what an owner can build on the site.

Feasible Development Types. Under the proposed zoning, several types of developments are possible, including single dwellings, townhomes, two-to-four-unit multiplexes, and up to four- and five-story (in select locations) apartment buildings. Under most of the current zoning, apartments would generally be limited to three stories. Proposed changes include:

- R5 or R2.5 to RM1
- R2.5 to CM1
- RM1 to RM2
- CM1 to CM2

The likely residential developments in each of these zones are shown below. Buildings range from two to four stories, mostly built out of wood. Some mid-rise, mixed-use buildings in CM2 zoning may include two to three stories of wood-framed residential atop a ground floor concrete podium that houses structured parking and/or commercial space.

Multi-Dwelling Zones		Commercial/Mixed Use Zones		
RM1	RM2	CR	CM1	CM2
				
				
2-3 stories Intended to be compatible with single-family areas	3-4 stories Often located in centers and along corridors	2 stories “Corner stores” located in residential areas	2-3 stories Small-scale mixed-use zone	3-4 stories Mid-scale zone typically located in centers and along corridors

RLV by Development Type. The chart below shows the approximate residual land value for a range of potential residential development types in the Lower Southeast Rising area. The results are summarized as follows.

- Five-story podium apartment projects and rented townhomes have residual land values of about \$120 per square foot of land.
- Three-story wood-framed apartments and four-story podium apartments have residual land values of about \$100 per square foot of land.
- The residual land value for owner townhomes and rental fourplexes and triplexes is closer to \$80 per square foot, and between \$40 to \$50 per square foot for owner-occupied/for-sale duplexes, triplexes, fourplexes, and single-dwelling detached units (as well as rental duplexes).

Figure 14. Residual Land Value (Land Budget) per Square Foot of Land



This data suggests that prospective developers are more likely to pursue townhome developments on smaller sites (e.g., 5,000 square feet), and five-story podium or three-story wood-frame apartments on larger sites.

Higher Density Zones. Four- and five-story podium projects will be limited to larger sites zoned CM2, which are in short supply both in the current and proposed zoning. Given the complexities of getting a five-story building permitted, the limited zoning where these would be allowed, and the additional challenges of ground floor commercial, wood-frame three-story buildings are more likely than podium-style apartments on most of the rezoned sites in the plan area. Ground-floor commercial spaces on both SE 72nd and SE Flavel may also struggle to attract tenants given the lower traffic counts.

Lower Density Zones. In areas with proposed zoning changes from single-dwelling (R5, R2.5) to multi-dwelling (RM1) zones, the main difference in newly allowed development types includes courtyard housing and small apartment buildings. Based on the pro forma results, there is likely to be a slight

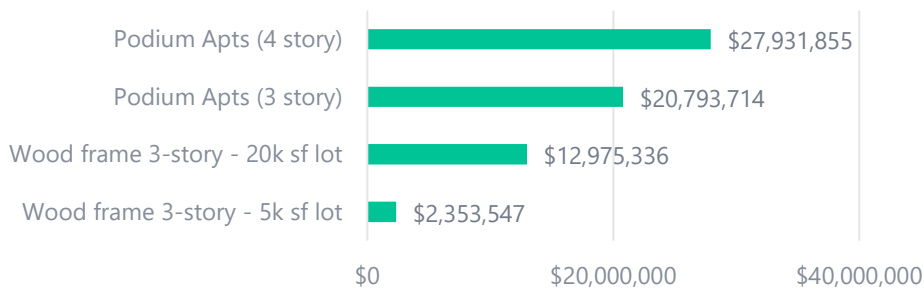
uptick in the development of smaller wood-framed apartment buildings, but sites are just as likely to develop as townhomes.

Larger projects (like apartments) are more expensive to build and will require access to large sums of capital because of the higher construction costs, which is most likely to come from traditional financing institutions and investors. Smaller projects are a less expensive development type and may be perceived as a lower-risk investment, particularly with the current (high) interest rates. While a smaller project may be more accessible from a financial perspective, it may deliver the project to market for less potential profit but with a higher rate of return.

Development Cost. The following chart shows the approximate development cost (not including land) of the four larger prototypical developments. Despite the higher project cost on a four-story podium project, a developer would be able to purchase land at a much higher price than for the same project at three stories because of the greater revenue-generating ability of the project.

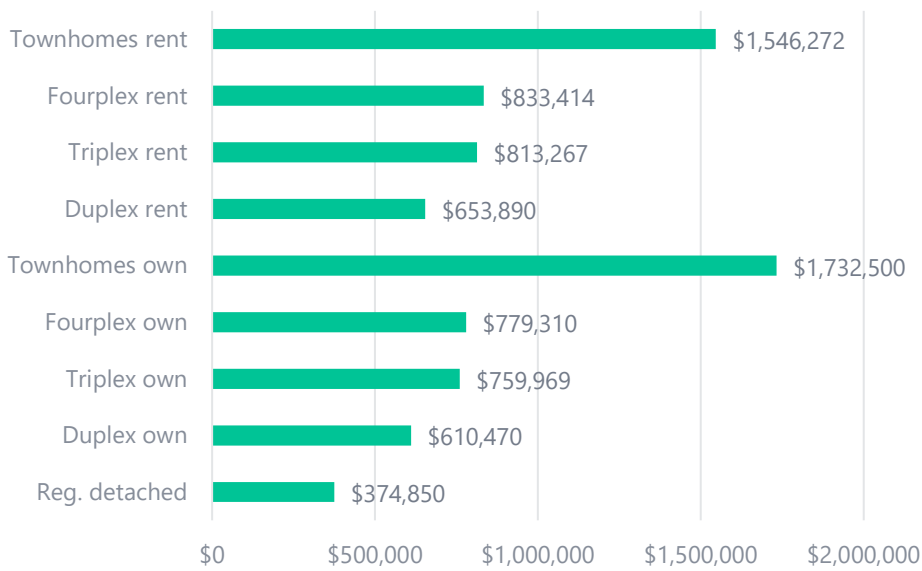
Wood-framed apartments (without a ground floor commercial element) are significantly cheaper to build, which offsets the lower revenue-generating ability compared to a four-story podium building. A small-lot wood-framed apartment building costs just \$2.4 million in total development costs but has one of the highest residual land values, providing a high rate of return and making it an attractive option for prospective developers.

Figure 15. Large Residential Project Development Costs



The relative cost of smaller residential developments is shown in the chart below (these housing types are differentiated by rental [rent] versus ownership [own] because of their differing construction standards and costs). Townhomes, which have five units in the pro forma, are the most expensive middle housing prototype to build, yet remain significantly less expensive to build than any of the multi-dwelling options shown above and have a high residual land value.

Figure 16. Middle Housing Project Development Costs



Redevelopment Potential

Based on the information described in the previous pages, the most likely properties likely to develop or redevelop are:

- Vacant or underutilized sites,
- Along SE Woodstock Boulevard and SE 52nd Ave,
- Larger sites (~0.5 acres or more) and valued at less than \$140 per square foot in CM2 zones,
- Small-to-medium-sized sites (5,000 to 12,000 square feet) and valued at less than \$100 per square foot for three-story wood-framed apartments in select locations where demand for renter housing is high (near commercial amenities, transit, etc.), or
- Small-to-medium-sized sites (4,000 to 12,000 square feet) and valued at less than \$120 per square foot for townhomes or less than \$80 for other middle housing types.

Apartments are likely to account for at least half of all new housing units produced in the LSER area, which is less than the citywide average of 80 percent due to the greater prevalence of lower-density zoning in the Lower Southeast.

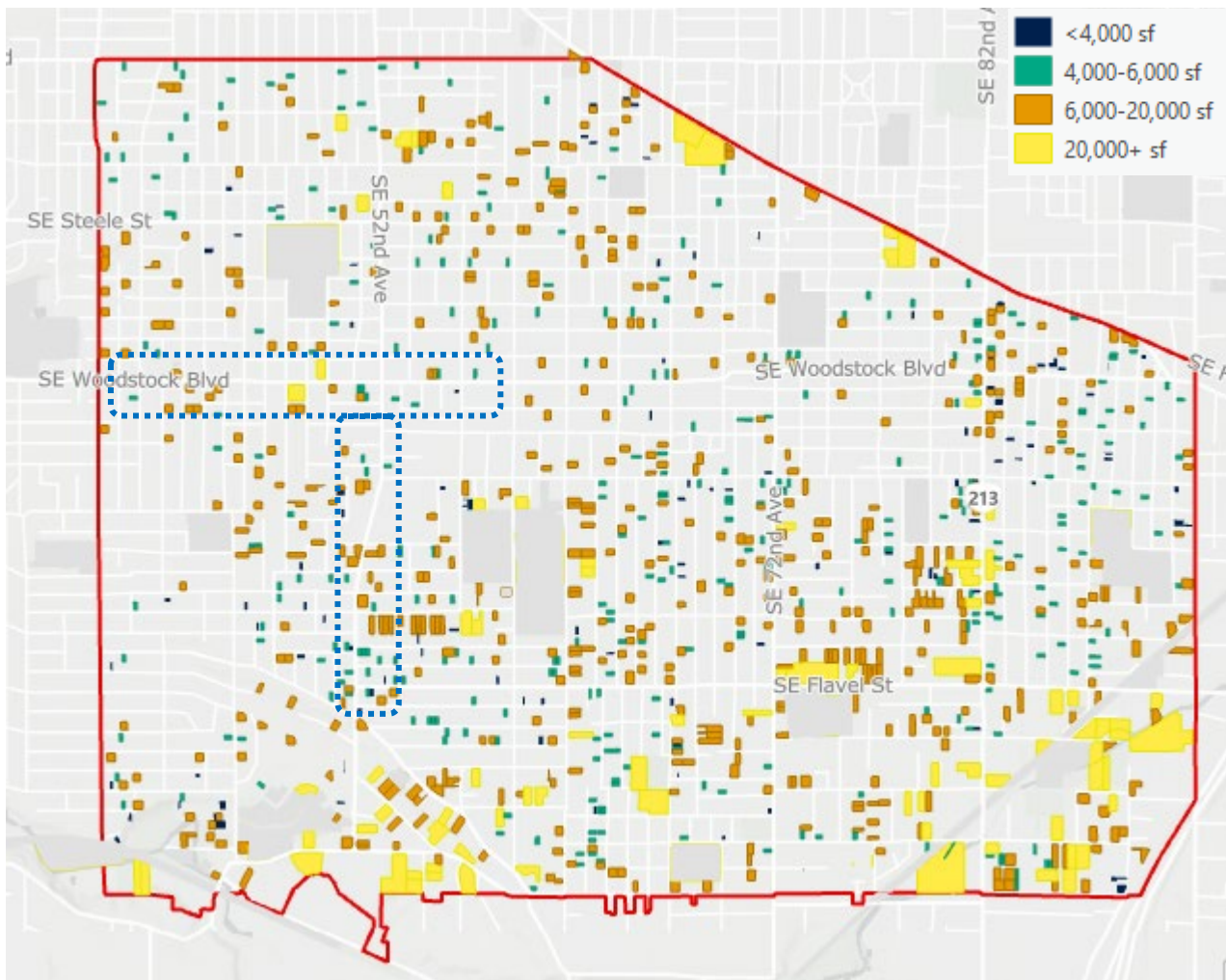
Potential Development Sites and Displacement Risk

This section includes a series of maps describing how the site characteristics in the LSER area align with the development potential and feasibility of the residential prototypes described in the previous pages. Displacement risk is described through the lens of both development potential and market demand, as well as Portland's 2022 Displacement Risk Analysis, which considered a series of data variables like income, race, tenure, housing cost burden, education, etc. to determine how well equipped the population within a census tract is to resist displacement pressures.

The following map shows vacant and highly underutilized sites by site size. Highly underutilized sites are defined by having an improvement-to-land value ratio of less than 0.5. These sites tend to be more attractive to developers because they tend to require less site preparation (e.g., demolition, cleanup) and due diligence (e.g., buying out lease contracts, etc.) and are cheaper than properties with existing buildings.

Vacant sites are rare in the LSER area and there is only a moderate supply of highly underutilized sites, although the supply is more limited in the areas that have recently experienced new investment, such as Woodstock Boulevard and 52nd Ave. Demand remains high in and around the Woodstock Boulevard corridor, which when combined with a land supply shortage, may result in increased land prices and a heightened displacement risk. However, this area was not deemed a vulnerable area in BPS's 2022 citywide displacement risk analysis, as opposed to other census tracts in the southern sections of the project area that were deemed vulnerable.

Figure 17. Highly Underutilized Lots by Lot Size

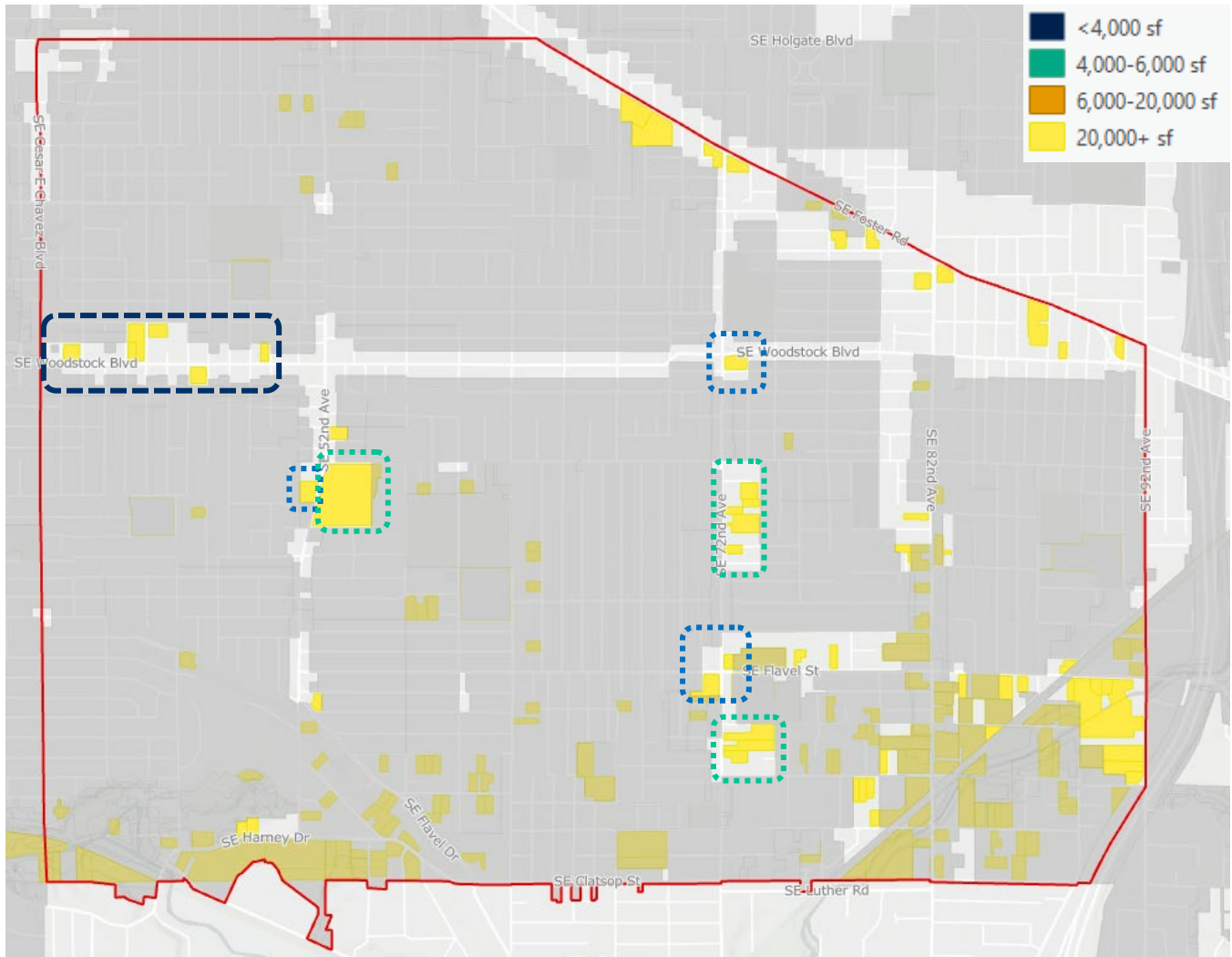


The map on the following page shows large sites (in yellow) that might be able to accommodate larger apartment projects. Underutilized sites within multi-dwelling and mixed-use zoning (outside of the shaded areas) are relatively limited.

- Woodstock is likely to remain the focus of these developments—at least in the near term—with several underutilized commercial sites currently zoned CM2 (dark blue outline).
- Other large sites in the area that are valued at less than \$140 per square foot of lot area are located along 52nd, 72nd, and 82nd where there are limited amounts of CM1 and RM2 zoning in place (light blue outline), but most of the development opportunities are in RM1 zoning (green/teal outline), which limits the likely scale of new development (however, some of these currently RM1-zoned sites are proposed to be upzoned to RM2).
- Along 72nd Ave there are several low-density residential developments (one of which is a Rose CDC affordable housing project).
- Near Flavel St, there is another subsidized housing project, the Grocery Outlet site, and a manufactured home park; of these, the Grocery Outlet site is most likely to redevelop.
- Along 82nd and in the southeast of the LSER area, most of the properties are non-residential, often with employment or industrial zoning that does not allow residential development. The market here is unlikely to support widespread redevelopment, and priority development sites are vacant or highly underutilized with no existing housing units to displace. In the southwest, there is industrial and single-family zoning. Neither of which is likely to induce displacement.

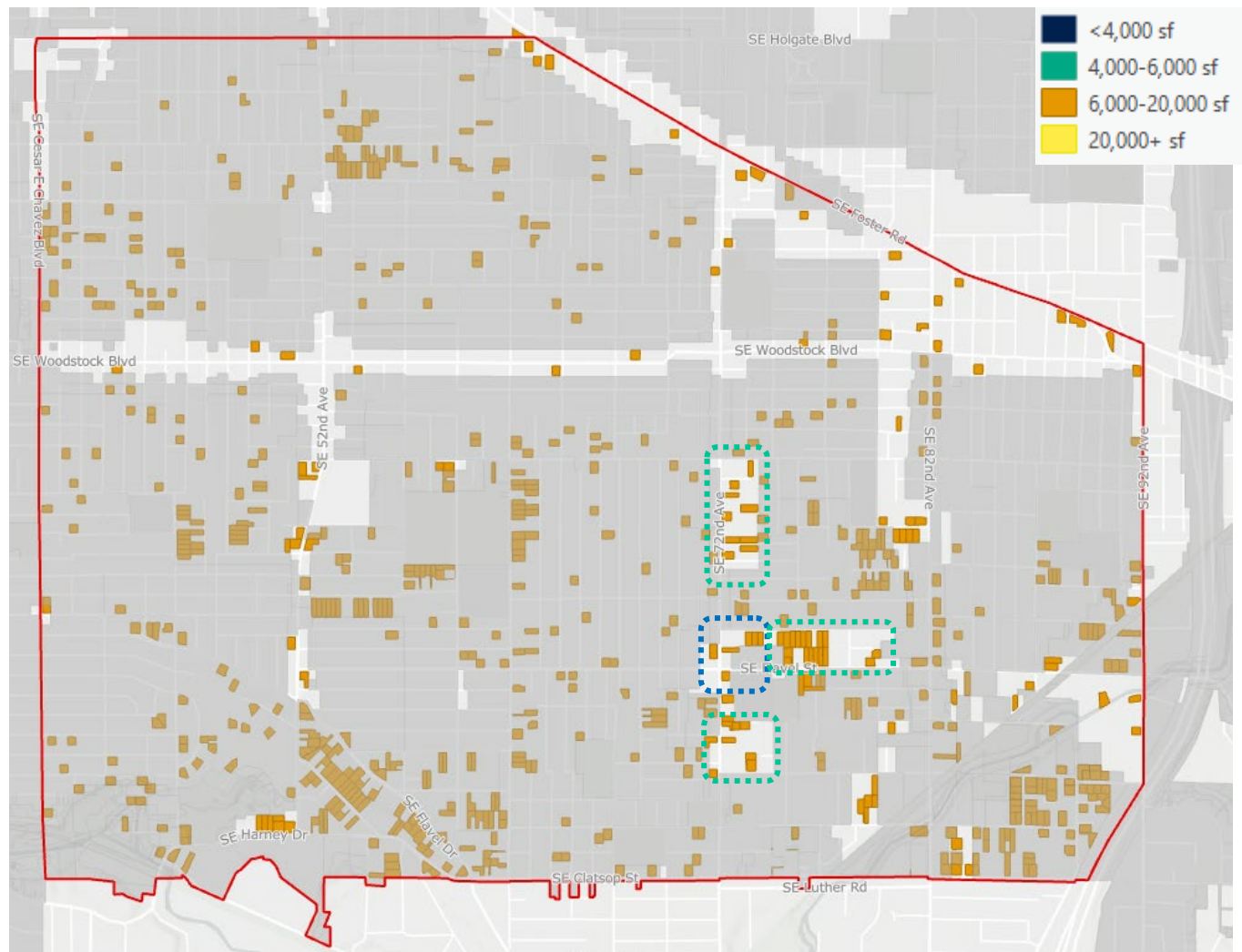
In lieu of large existing sites, a developer interested in a larger-scale apartment or mixed-use development will have to assemble multiple properties to get a large enough site to develop. This can be a time-consuming and uncertain process and is unlikely to attract developers.

Figure 18. Large (20,000+) sf Sites Valued at <\$140 Per Square Foot (PSF)



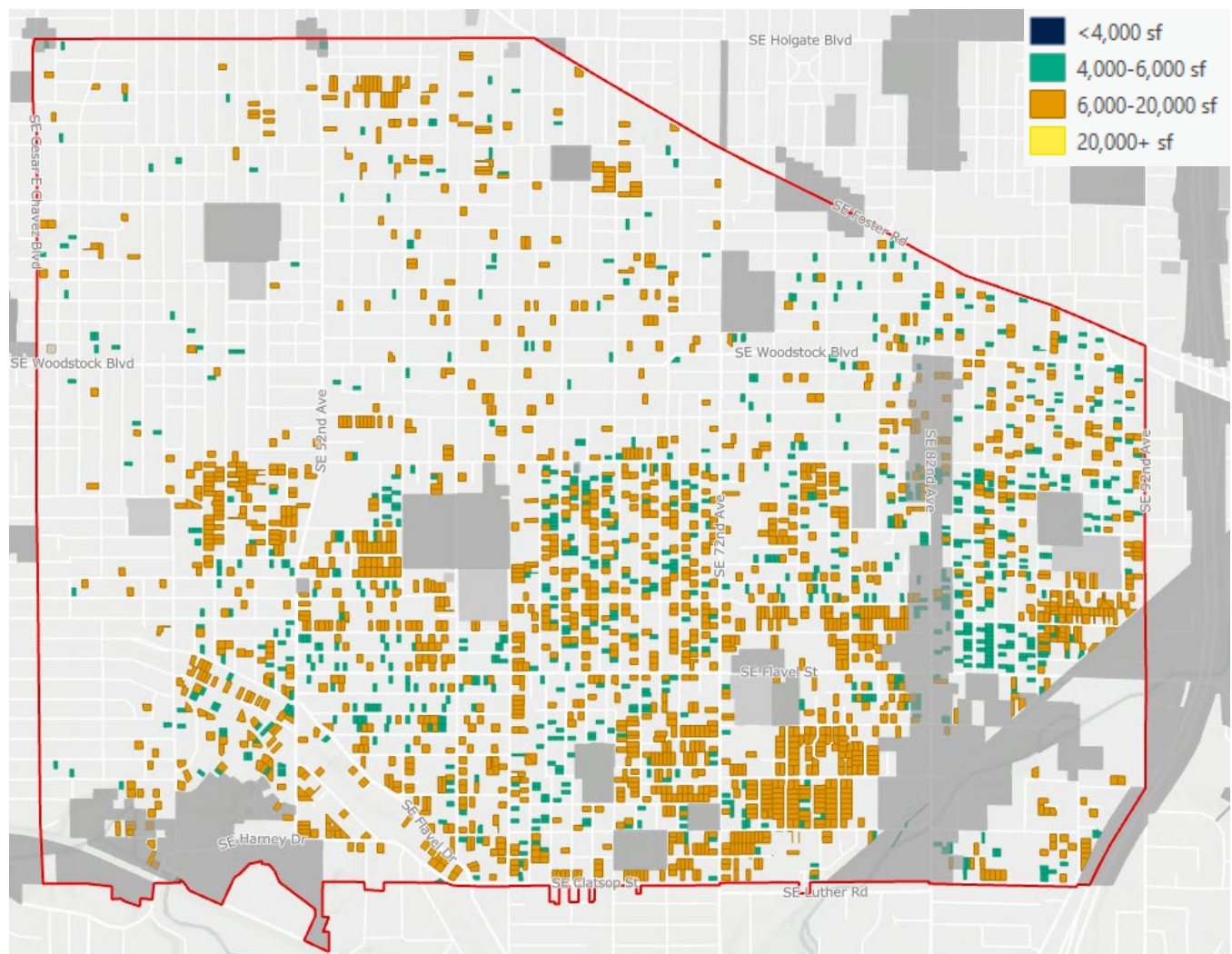
The map below shows lots that would support a lower-value apartment product type (low-rise wood-framed) that will likely need larger sites (10,000 to 20,000 square feet). Most of the medium-sized sites that could be feasible for apartment development are in RM1 zoning along 72nd Avenue and Flavel Street (areas indicated below in the light blue outline). Given the lower density allowances on RM1 sites and the greater risk and cost of building apartments, these lots may attract more interest in townhome development. The census tract in which these lots are located was deemed more vulnerable to displacement (or less able to resist displacement pressures), primarily due to the median income of the tract's households but also because of the higher proportion of people of color, people with a disability, and housing cost-burdened households. However, the higher percentage of owner-occupied housing and the lack of recent development activity (i.e., low demand) in this area suggests that displacement pressures will not occur in the near future.

Figure 19. Medium Sized (10,000 to 20,000 sf) Sites Valued at <\$110 PSF



The following map shows suitable sites for townhomes and middle housing development based on lot size (4,000-10,000 sf) and property value (<\$80 PSF). These sites are in plentiful supply and common throughout each neighborhood, albeit limited north of Woodstock Boulevard. This could suggest that—since it is already economically feasible to redevelop most single-dwelling-zoned properties with townhouses and middle housing, which are already allowed per RIP (Residential Infill Project)—incremental rezones to RM1 and RM2 will not have a significant impact on redevelopment or displacement risk. Given the widespread feasibility of this development, the lowest value sites and those actively offered for sale by property owners will likely be able to accommodate most of the demand for townhome and middle housing development without putting significant pressure on the market or increasing sales prices and rents.

Small-to-Medium-Sized Sites (4,000 to 10,000 sq. ft.), Valued <\$80 PSF for Townhome/Middle Housing



Growth Capacity and Demand

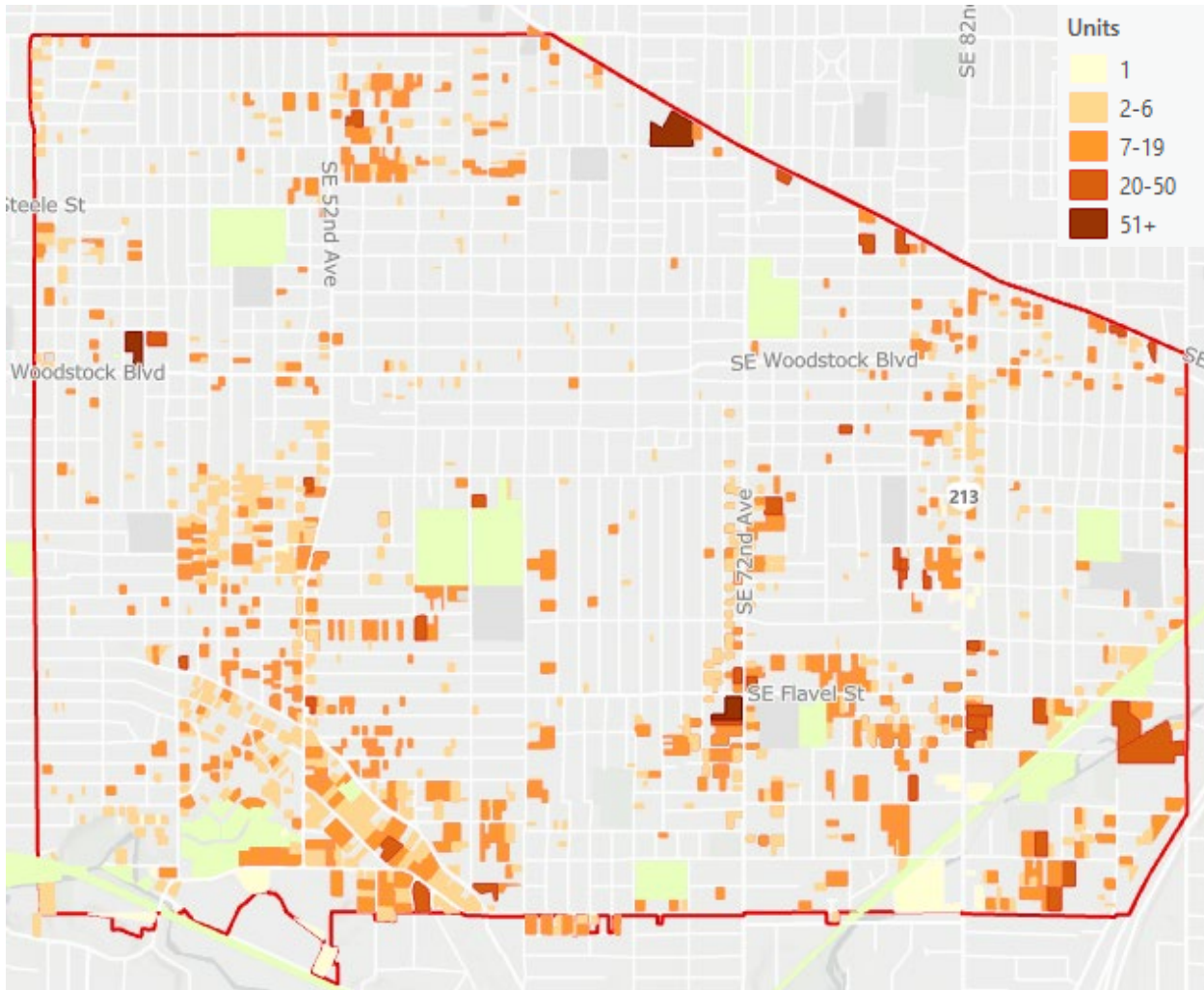
The growth capacity shown below builds on the previous information and incorporates development constraints, and existing conditions (e.g., current units).

Under the proposed zoning, there is an estimated capacity for an additional 11,552 units (809 more than under current zoning).

Figure 20. Housing Unit Capacity

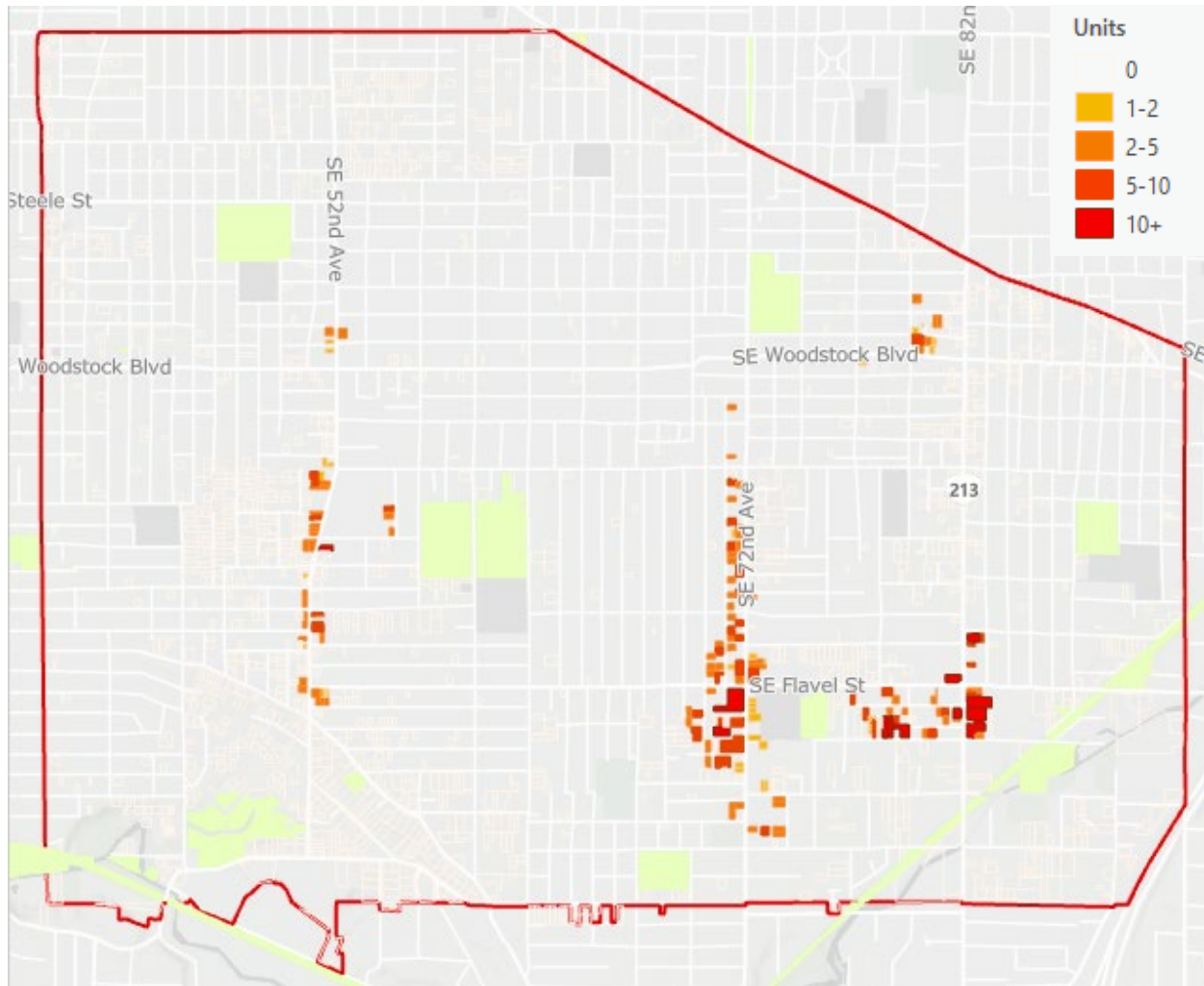
	Current Zoning	Additional Capacity from Zone Changes
Net Housing Unit Capacity	10,743 units	809 units

Figure 21. Housing Growth Capacity (Net New Units), Proposed Zoning



The map below shows the difference in growth capacity between the current and the proposed zoning. The primary differences are along the 52nd Ave and 72nd Ave corridors, where land is proposed for upzones to multi-dwelling and commercial/mixed-use zoning. Development trends in the area currently show the 52nd Ave and Woodstock Boulevard corridors as the primary areas where new development is concentrated.

Figure 22. Difference in Growth Capacity (Net New Units), Current and Proposed Zoning



Housing Demand

Housing production (excluding ADU) of single-unit dwellings, townhouses, duplexes, and apartments or condos has averaged about 150 units per year over the past seven years, a significant increase from the previous two decades. The near-term pipeline looks promising and is likely to increase this annual average once more, at least in the near term.

If average annual production holds steady at 150 units per year, this equates to **approximately 3,450 new units (from 2023 through 2045) – 30 percent of total capacity**. If annual production increases

to 250 units per year, as is expected in the next two years, this equates to 5,750 units – about 50 percent of total capacity. We expect the production of **1,017 units under a baseline scenario** reflecting a linear continuation of trends over the past 20 years, and up to **3,450 units under an accelerated, peak-market scenario** that accounts for more recent development trends and the potential catalytic impact of focused redevelopment in LSE centers and corridors.

This increased production is most likely to take the form of three-story wood-framed apartments in multi-dwelling (and some mixed-use) zones and four- and five-story podium buildings in newly rezoned CM2 areas, as well as townhome-style developments in other residential zones.

The increased housing and residents may generate demand for as much as 6,100,000 square feet of new commercial space along major corridors and in centers.

Development Potential

As the data in the previous section indicated, there is a plentiful supply of properties that meet the criteria for feasible development (highly underutilized sites alone total 300 acres). Most of the proposed zone changes are incremental changes from single dwelling zones to RM1, or RM1 to RM2. For both changes, the most likely development (the type with the highest feasibility) will be townhomes. In RM2-zoned areas, some developers may prefer to build wood-frame apartments instead of townhomes, particularly on larger sites.

Under an accelerated, peak-market development scenario, just 113 acres of redevelopable property are needed to accommodate 3,450 units. With nearly 3,000 acres in the plan area, highly underutilized and vacant property is most likely to comprise most of the primary development sites for the foreseeable future before a significant displacement risk materializes. Displacement risk will increase as the availability of vacant and highly underutilized sites dwindles (i.e., as easier development sites are acquired), particularly in neighborhoods like Woodstock that have started to see rapid rent and sales price growth and new real estate investment.

Figure 23. Estimated Mix of Housing Types Anticipated through 2045

Housing Type	Approx %	# Units	Avg. Density*	Acres Needed
Apartments	50%	1,725	60	29
Middle Housing	40%	1,380	25	55
Single-Dwelling	10%	345	12	29
Total	100%	3,450	31	113

*Units per acre