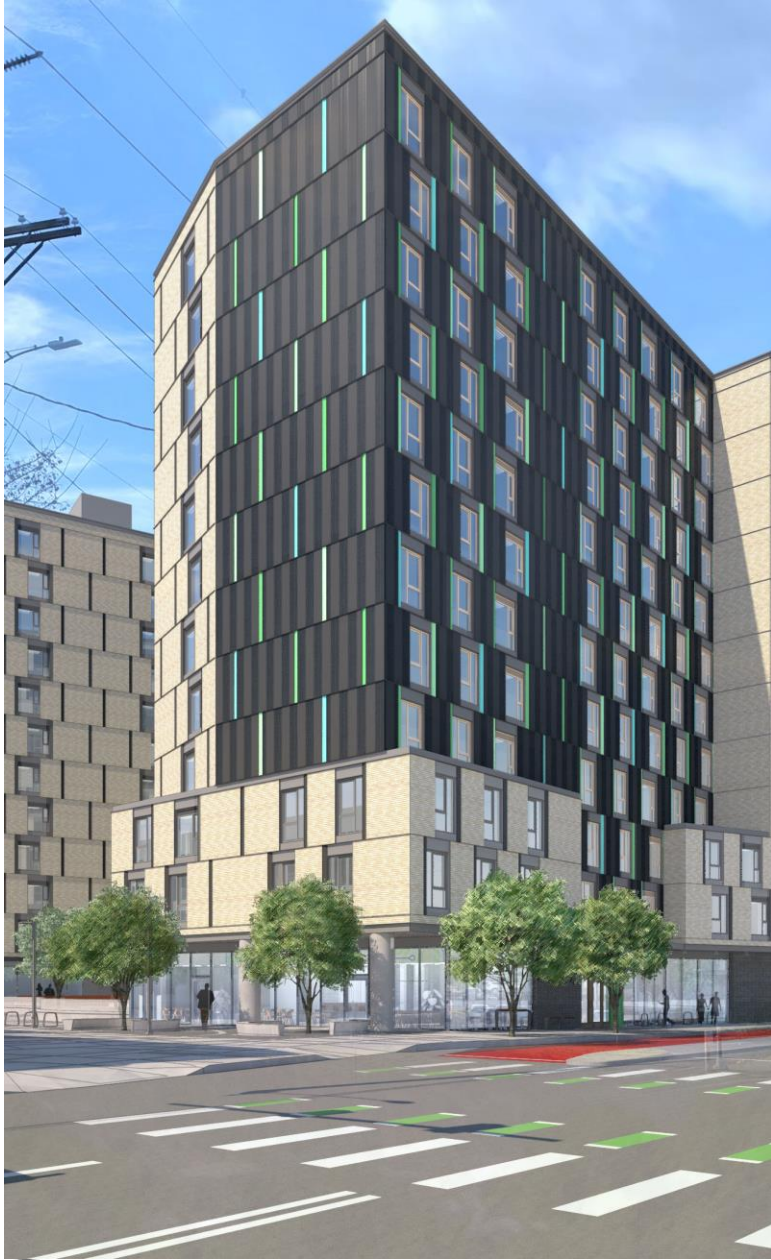




# HOUSING PRODUCTION

CITY COUNCIL WORK SESSION  
July 25, 2023





# Agenda

## 1. Setting the Foundation

- Housing Needs Analysis
- How the City Influences Housing Development

## 2. Current Conditions

- Current Market Challenges
- Impact of local policies

## 3. Recent, Underway, & Future City Actions

- IH Calibration Study
- Internal Organization of City Government
- Development Code Amendments Package
- TIF Exploration
- Housing Production Strategy



# Key Takeaways

- We're optimistic and planning for future growth
- Currently, there are feasibility challenges for new development
- We're continuing to take action to help close the feasibility gap





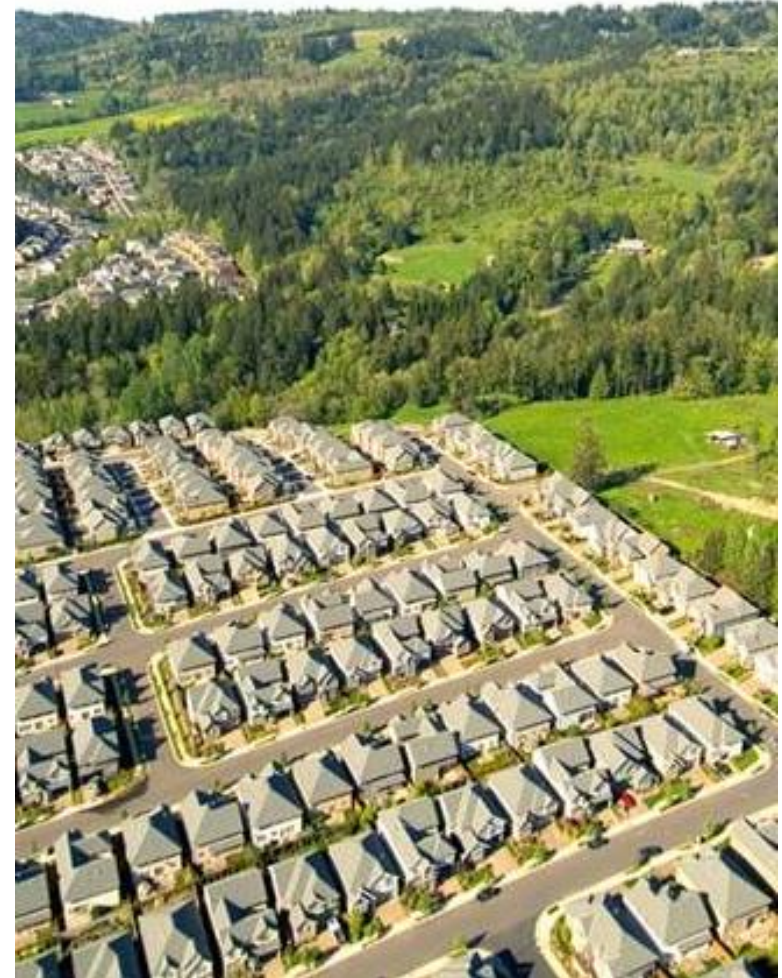
# 1. Housing Production Policy Foundation

Tom Armstrong, Bureau of Planning & Sustainability



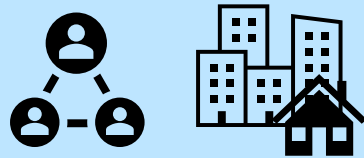
# What is the Housing Needs Analysis?

- Statewide Planning Goal 10 requires cities to ensure enough zoned-development capacity to accommodate housing needs over the next 20 years
- Must be updated every six years
- Must be adopted by Council as a supporting document to the City's Comprehensive Plan



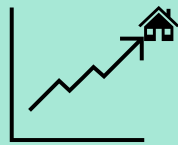
# Housing Needs Analysis

## Existing Conditions



Population & Housing

## Housing Capacity Analysis



Project Housing Need



Inventory Buildable Land



Evaluate Needed Housing



2023



# Limited Housing Opportunities

*Nearly 1/3 of Portland residents are people of color. However, most neighborhoods are out of reach to Black, Latine, and Native American renters.*

## White Household



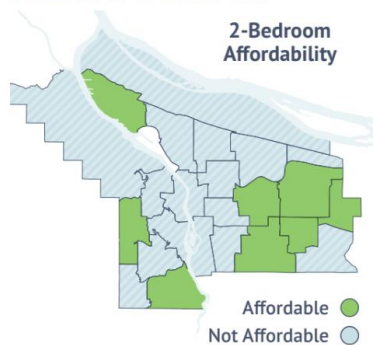
## Black Household



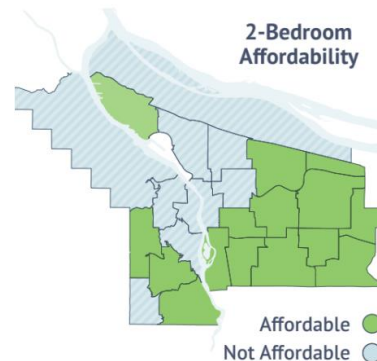
## Latinx Household



## Native American Household



## Pacific Islander Household



## Asian Household



# Shifting Household Characteristics

*Portlanders' demographics are changing over time, creating the need for many different types of housing.*

## Trends



13% are elders (65+)



22% are households with a person with a disability



23% are households with children



53% are homeowners



70% are households with 1 or 2 people





# 2045 Housing Forecast

*Over the next 20+ years, we will need over 120,000 new units of housing*

## New methodology includes:

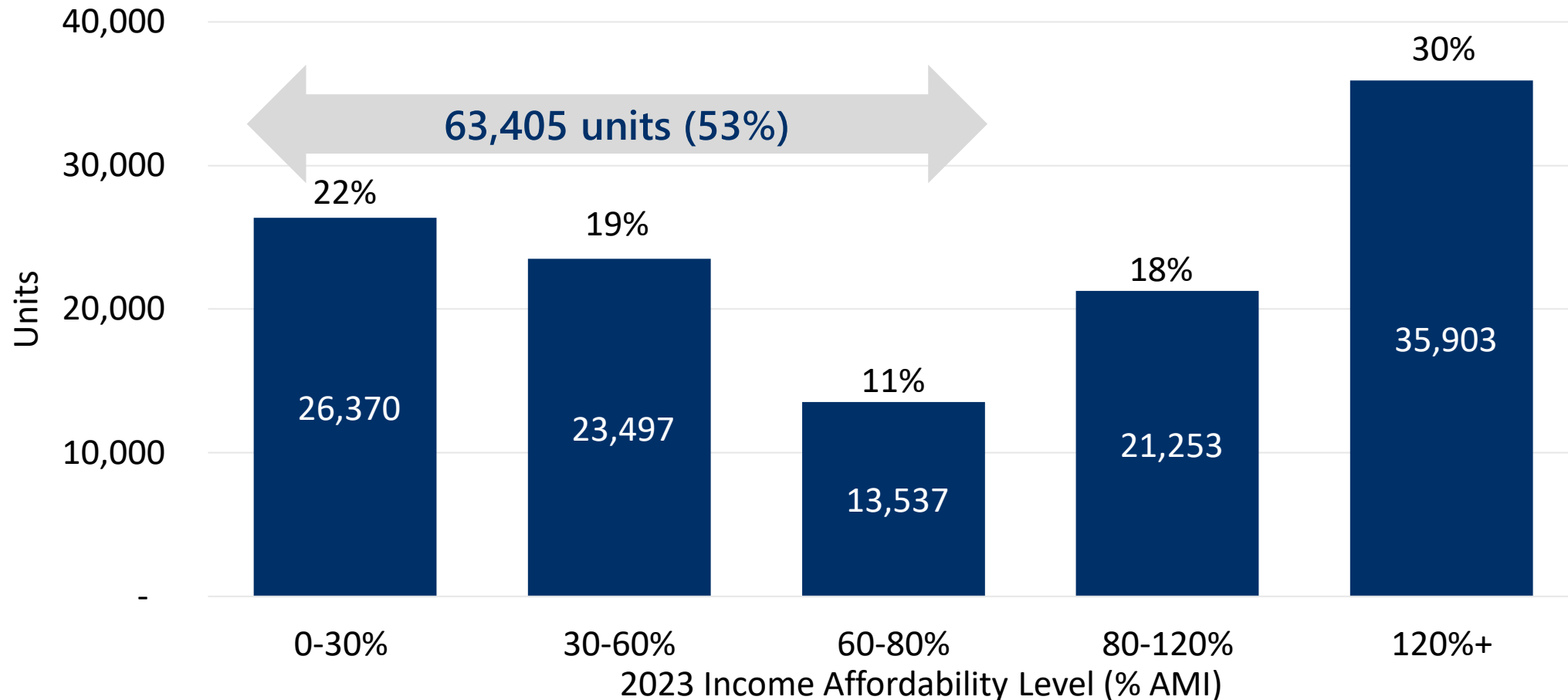
- Forecasted Households
- National Ratio of Housing Units to Households (vacancy factor)
- Second Homes
- Historical Underproduction
- Housing for the Houseless

<b>2021-2045 New Households</b>	97,471
Vacancy Factor	+ 8,287
2 <sup>nd</sup> Home Factor	+ 813
<b>Needed New Housing Units</b>	<b>106,571</b>
<b>Historical Underproduction</b>	+ 9,385
<b>Houseless Households</b>	+ 4,604
<b>Total Needed Housing Units</b>	<b>120,560</b>
<b>Annual Production Target</b>	<b>5,242</b>
<b>2032 Catch-up Target</b>	<b>55,000</b>



# New Housing Units by Income Level

*Over the next 20+ years, we will need over 60,000 affordable housing units and over 20,000 moderate income housing units.*



# Our Growth Strategy

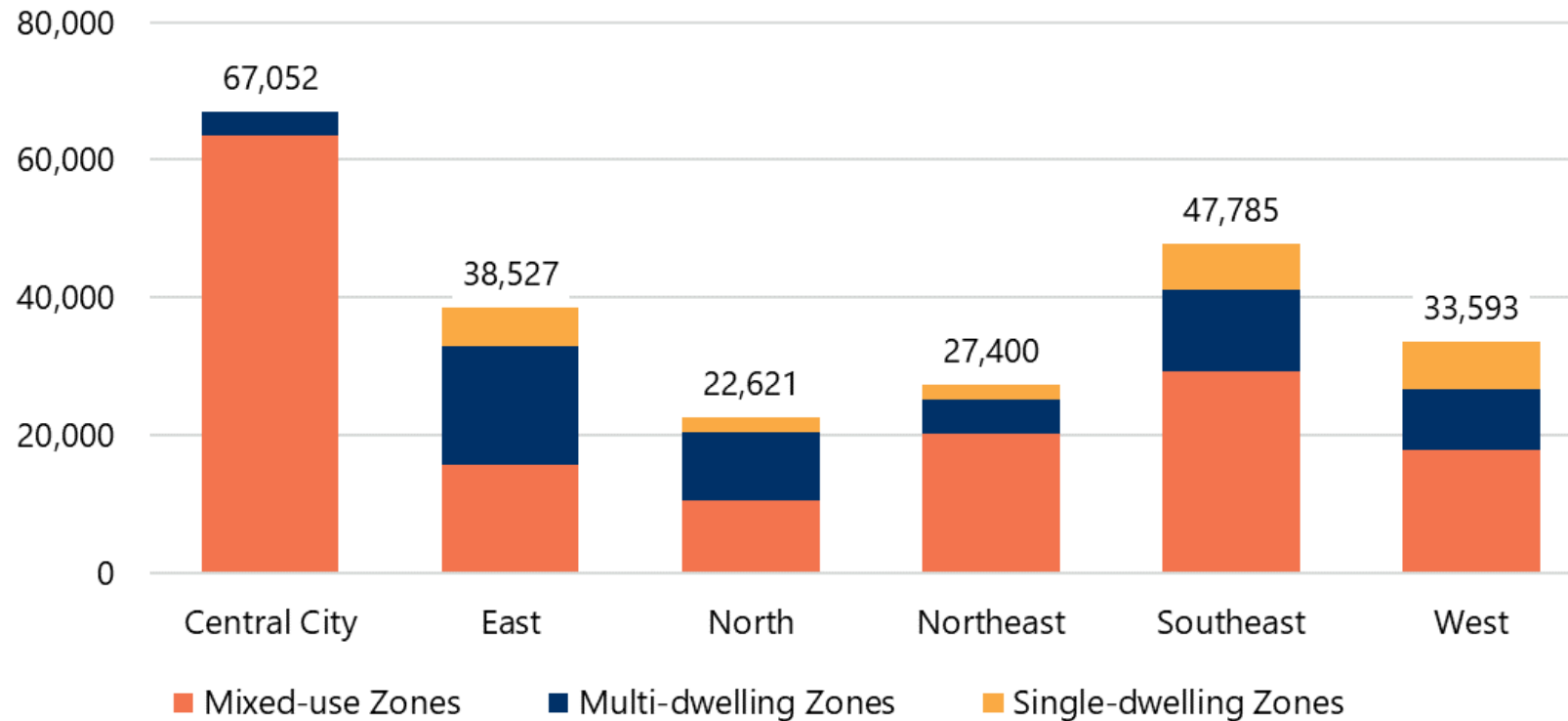
*Portland's Comprehensive Plan directs growth into our centers and corridors*



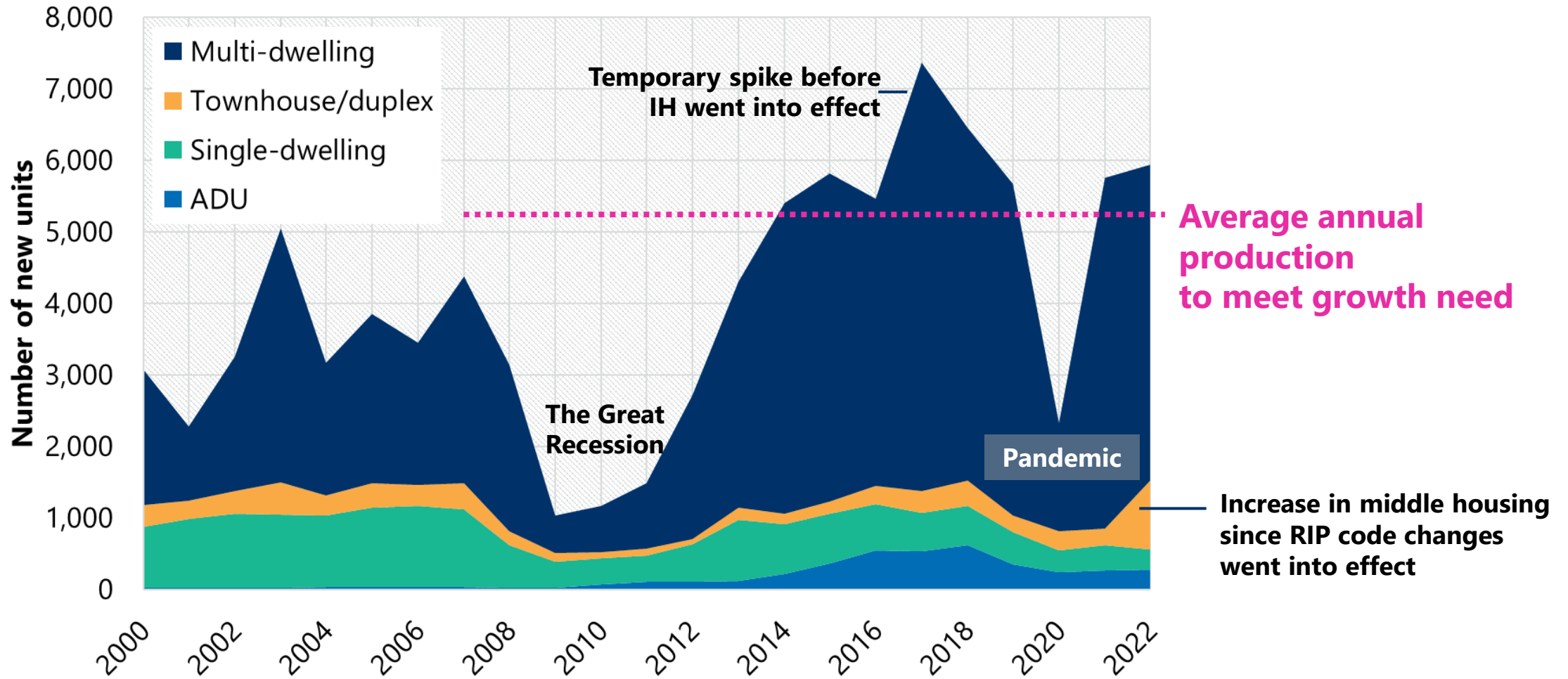
# Zoning Capacity for Housing

*Citywide, there is ample land for future growth under current zoning*

- Capacity for 237,000 housing units
- More than 2x our need
- Mixed-use and multi-dwelling zones account for 90% of capacity
- Capacity for 33,000 units of middle housing



# Recent Housing Production



# How Does the City Influence Housing Development?



**- Pause -**  
**Questions/Discussion**





## 2. Current Market Conditions

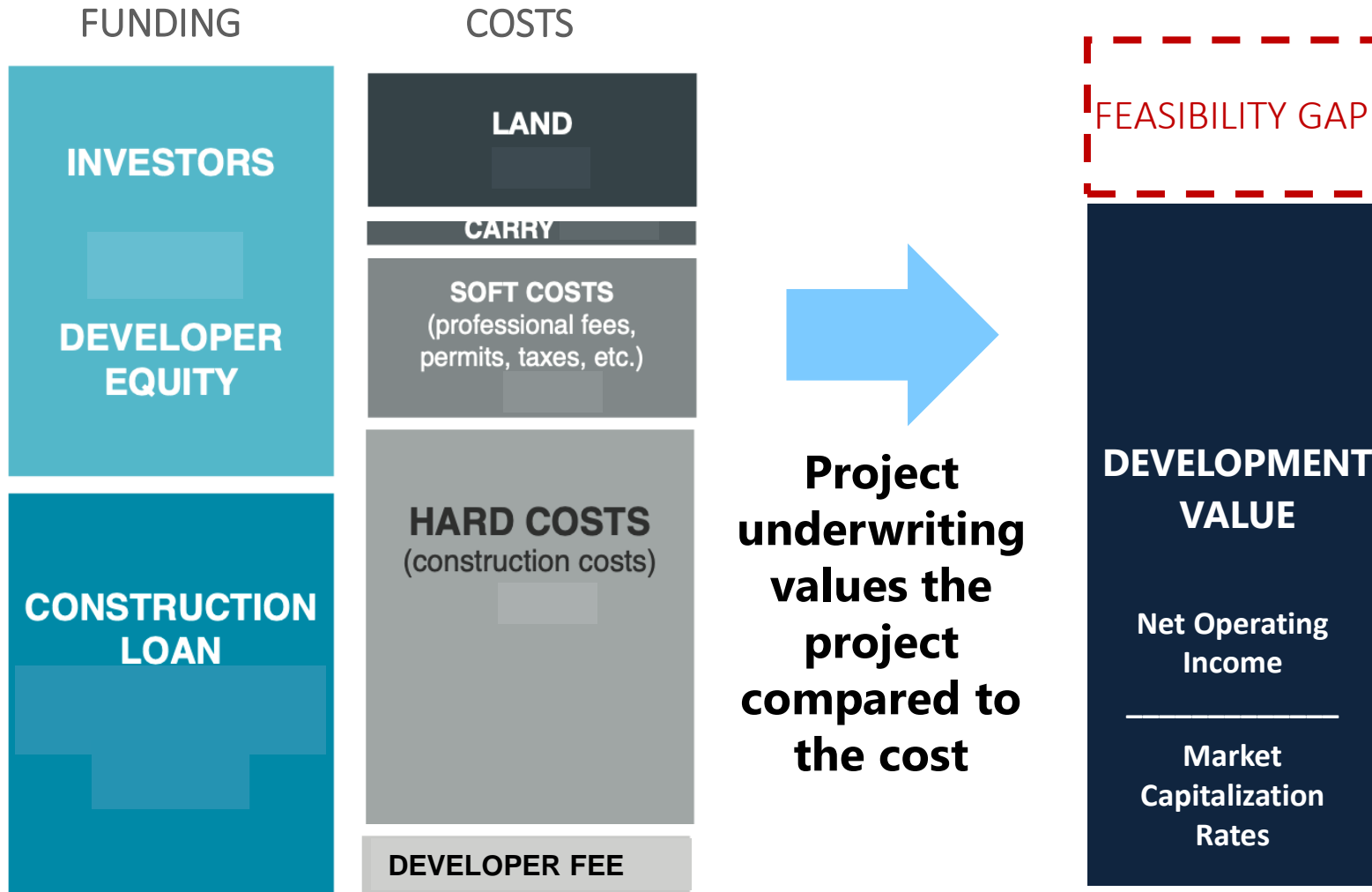
Kimberly Branam, Prosper Portland  
Matt Fairris, BAE Urban Economics





# Market Rate Housing Development

*Projects aren't feasible when the value is less than the cost*

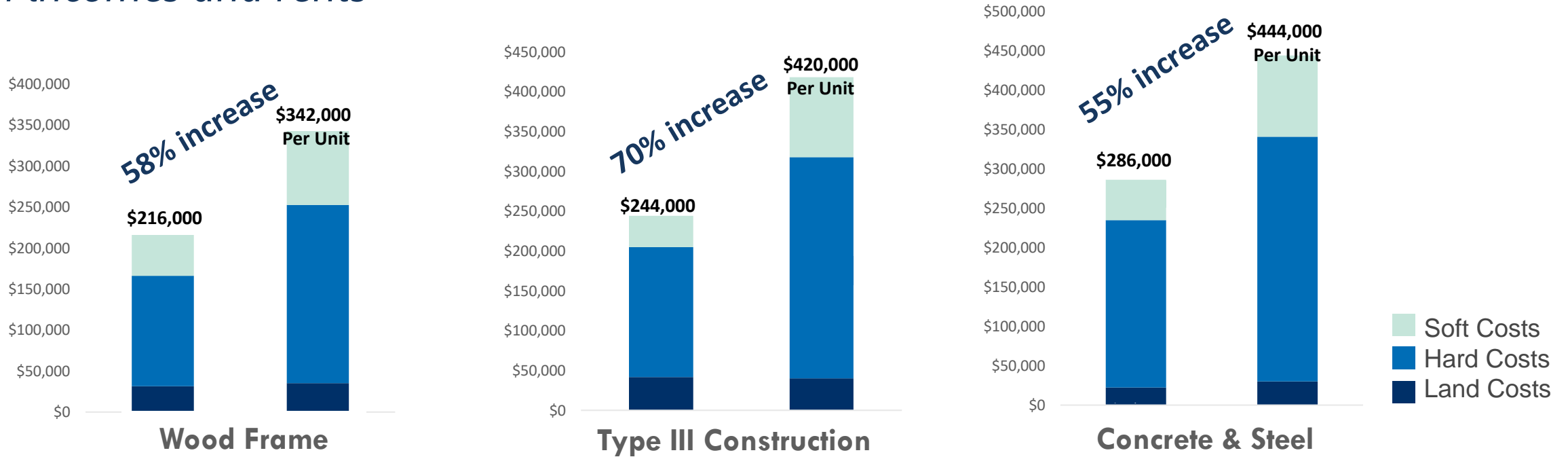


**Intervention required to achieve feasibility**



# Construction Costs are Rising Dramatically

*Costs have risen by more than 50% since 2016, which is more than twice the increase in incomes and rents*



Portland median income increased by 29%, high-end rental rates increased by 24%



# Portland's Construction Cost Compared to Other Cities

*Peer cities also faced significant cost increases, creating financial feasibility challenges*

- **Cost to build a 6-story apartment in Portland: \$422,000 per unit**
- **Seattle** – Higher land and hard costs, no SDCs. Higher-income renters make development more feasible. More expensive - \$494k/unit
- **Sacramento** – Land costs similar, soft costs/SDCs much higher. More expensive - \$473k
- **Denver** – Higher land costs, similar SDCs. Cost about same - \$409k



# Impact of Local Regulations

*Interviews with developers informed how specific local requirements contribute to the cost of construction*

Townhome



Surface Parked MFR



Tuck-Under MFR



Podium MFR



High-Rise MFR



## Local policies/requirements

- Selected based on input from BDS survey in Feb 2023 and other stakeholder feedback
- Address direct fees/charges, development standards, and permit process



# Cost of Local Regulations

*Findings show that some local regulations can increase the cost to build housing by as much as 15% (roughly \$60,000 per unit)*

## SDCs

3-7% of project cost

Most impactful for smaller projects (\$33,000 per unit)

## Bike parking

3-6% of project cost

\$11,000 per unit

## Ground floor active use

1-4% of project cost

(\$3,000-\$10,000 per unit)

Higher for affordable housing

## Tree mitigation fees

Permit process and uncertainty are bigger issue than fees

## Public Infrastructure

Permitting process and uncertainty

Overlap with SDCs

## Design review

1% of project cost for apartments

\$2,000-\$4,000 per unit



# What it Will Take For Development to be Financially Feasible

## Market Actions

- Market rate rents increase by 15-35%
- Decrease hard costs by 15-40% or total costs by 12-30%
- Cost of capital (or interest rates) and investor risk analysis decrease to pre-pandemic levels.

## City Actions

- Increase incentives
- Reduce costs by reducing time for permitting approvals
- Reduce costs by reducing code requirements



**- Pause -**  
**Questions/Discussion**





## 3. City Actions: Recent, Underway, Future

Molly Rogers, Portland Housing Bureau  
Matt Fairris, BAE Urban Economics  
Sarah Zahn, Security Properties

Christina Ghan, Commissioner Rubio's Office  
Donnie Oliveira, Bureau of Planning & Sustainability





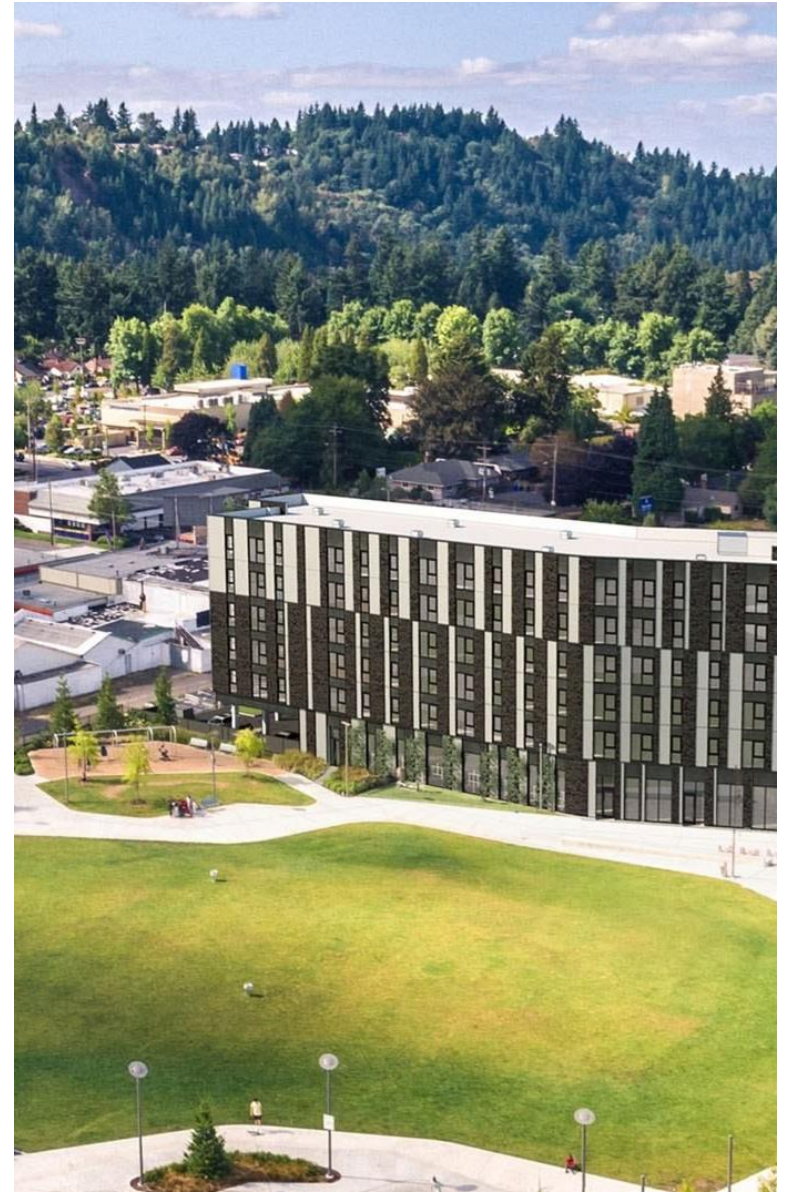


# Recent Council Actions

- Office to residential conversion
- SDC waivers on payments
- Permitting point of contact
- Offering MULTE extension
- Expanding HOLTE program

# Currently Underway

- IH Calibration Study
- Internal Organization of City Government
- Development Code Changes
- Advance Portland / TIF Exploration



# Inclusionary Housing Calibration Study

*Since 2017, the IH program has created over 1,100 affordable units and ~\$4M in funding for affordable housing in other locations.*

## Comprehensive Plan Policy

- Link production of affordable housing to market-rate housing development

## Requires developments of 20+ units to either:

- Set aside 20% of units at 80% MFI for 99 years
- Set aside 10% of units at 60% MFI for 99 years
- Include affordable units in a different building (off-site)
- Pay a fee in lieu

## City offers generous incentives to offset costs

- Property tax exemption for 10 years
- Fee waivers for the affordable units
- Development bonuses



# IH Study Questions

*With Council direction to study the program, PHB engaged a consultant and convened an external stakeholder group. Recently shifted scope to address broader feasibility issues.*

## Key Questions

- Are IH incentives adequate to offset requirements?
- Are policy goals being met?
  - *Creating more 60% AMI and family size units throughout the city in mixed-income buildings*
- What can be done to simplify standards, add flexibility, and create more clarity?
- How does IH fit into broader picture of development feasibility right now?



# Findings of Development Prototype Analysis

*The City's current incentives are effectively offsetting the impact of IH on projects in the Central City, but less so in some other areas.*

**Are IH incentives adequate to offset requirements?**

**In Central City = Yes**

Projects are receiving *adequate* incentives for the cost of abiding by IH

Primarily via property tax exemption

**Outside of Central City  
Higher-cost markets = No**

Projects are receiving *less* incentives than the cost of abiding by IH

Particularly in higher-cost markets like Slabtown and inner Eastside

**Outside of Central City  
Low-Cost Markets = Yes**

Projects are receiving *greater* incentives than the cost of abiding by IH

Market rate rents are closer to 60%/80% MFI so very minor impact of IH on rents



# Key Takeaways of IH Study

*IH program is meeting overall policy goals to create affordable, family-sized housing in mixed-use, mixed-income neighborhoods.*

## How does IH fit into broader picture of development feasibility right now?

- IH is only City policy where City offsets much (or all) of the cost of meeting requirement
  - **Fully offsetting in Central City**
  - Some **other high-cost areas may need additional incentives** to ensure that IH is not reducing the feasibility of development
- Even with balanced IH program, development currently not feasible due to other market factors, including a rapid increase in construction costs in the last few years
- Reducing the impact of other local development regulations could improve feasibility
- Only way to get market rate units and IH units is to improve project feasibility



# Work Group Recommendations

**Extend full tax exemption outside Central City when providing 60% MFI units**

- Consider whether to focus on certain areas outside Central City, or extend citywide

**Minor changes to requirements could simplify, add flexibility, create more clarity**

- Size and location of affordable units
- Allow off-site units to be located farther away
- Clarify rules for providing reconfigured family-sized units

**Homeownership**

- Due to complexity of condo development, identified need for a separate analysis of multi-family homeownership developments and IH's for-sale unit program



# Next Steps for Inclusionary Housing



## City Council

Property tax exemption

Amendments to City Code

Refine off-site options



## County Commission

Property tax exemption

Income restrictions



## Administrative Rulemaking

Property tax exemption

Inclusion rate for off-site option

Proximity of off-site buildings

Unit size and design





**- Pause -**  
**Questions/Discussion**



# Internal Organization of City Government

*In order to deliver on our housing production needs, City Government must address ongoing issues related to alignment of permitting teams, consistency of reviews, and overall predictability and speed.*

- Permit Task Force
- Mayor's reassignment of portfolios has led to increased coordination and problem solving between staff in Community & Economic Development Portfolio
- Next step is building on that as part of preparation for Charter Changes
  - Housing Production Team
- Unification of permitting functions



# Potential Development Code Changes

*The "Housing Regulatory Relief Project" code changes to reduce barriers to housing production will be considered by Planning Commission later this year, could be temporary or permanent*

## Development Standards

- Bicycle Parking
- Ground Floor Active Uses
- Nonconforming Upgrades

## Central City

- Bird glazing
- Ecoroofs
- Master Plan Requirements

## Design

- Façade Articulation
- Ground Floor Active Use
- Security Gates and Lighting

## Process

- On-street Parking Impacts
- Design Review For Housing
- Land Use Review Expiration Dates
- Neighborhood Contact



# TIF District Exploration

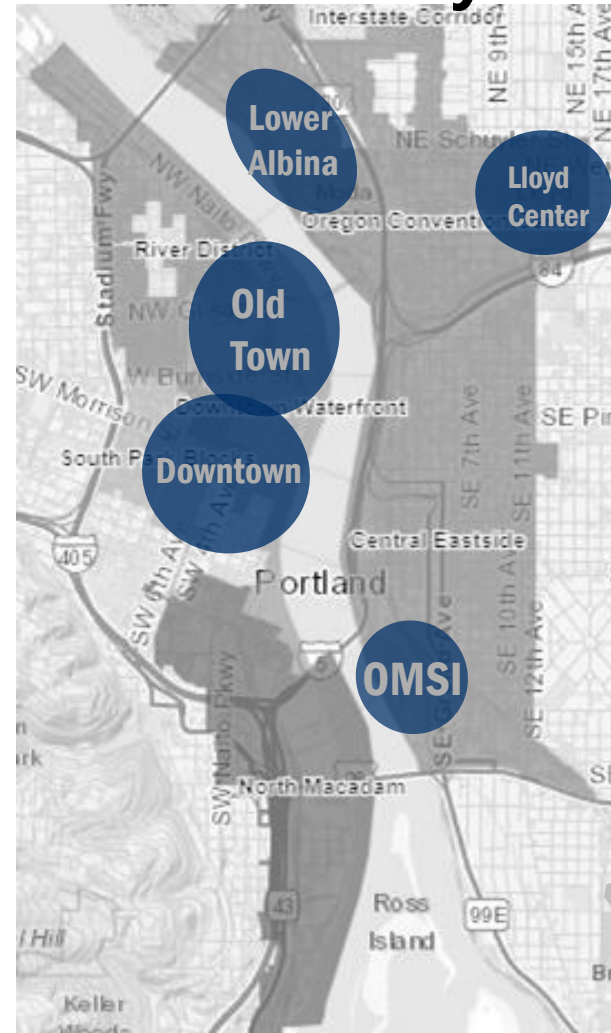
## Advance Portland

- Adopted by Council in April 2023
- Provides direction to pursue TIF as a tool for inclusive growth and stabilization, create vibrant Central City and neighborhood commercial districts

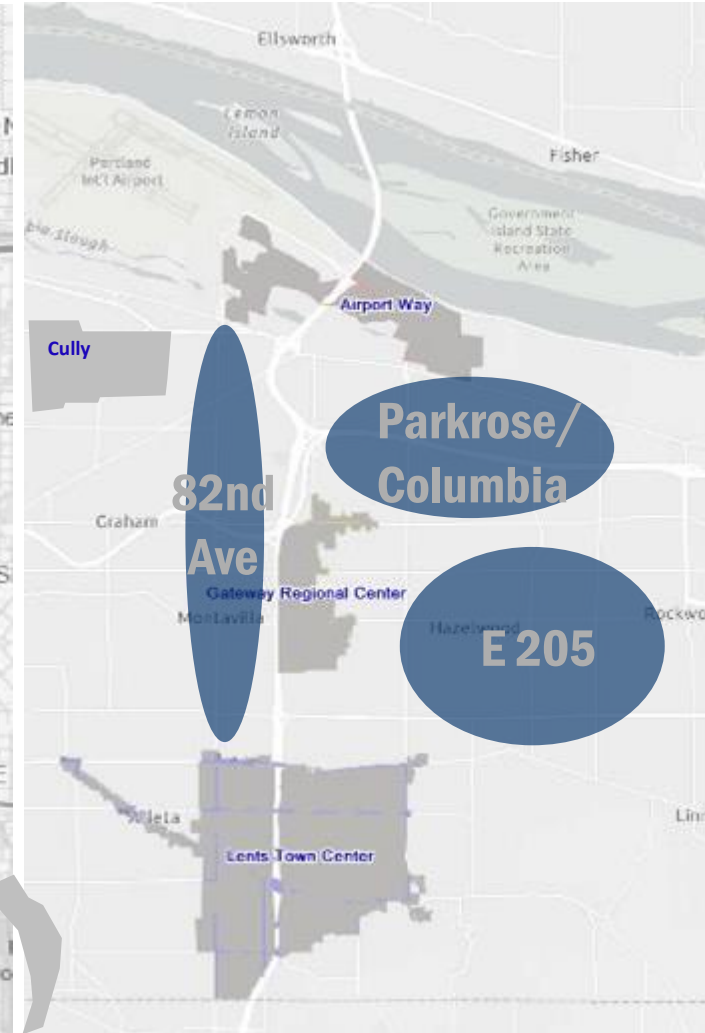
## Resolution 37623

- Adopted by Council in June 2023
- Defines parameters, provides direction to bring proposals for any new districts to Council by October 2024

### Central City



### East Portland

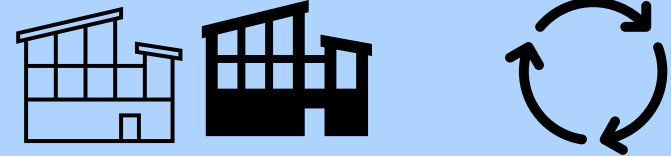


# Future Actions: Housing Production Strategy

## Overview

- A set of specific actions, measures, and policies needed to address our future housing needs
- Under state law, must be adopted by Council by December 2024
- Categories of actions:
  - Funding
  - Financial incentives
  - Preservation
  - Partnerships
  - Zoning Code and Map
  - Reducing other regulatory burdens

## Housing Production Strategy



Promote Needed Housing      Reflect, Measure & Report

**Late 2023 & 2024**



# Housing Production Strategy - Examples

	Affordable Housing	Zoning/ Devel. Regs.	Permitting	TIF Districts	State Legislation
<b>Recent/ Existing Programs</b>	<ul style="list-style-type: none"> <li>• City Bonds</li> <li>• Metro Bonds</li> <li>• TIF</li> <li>• IH</li> <li>• MULTE</li> <li>• HOLTE</li> <li>• SDC exemptions</li> </ul>	<ul style="list-style-type: none"> <li>• Residential Infill</li> <li>• Affordability Bonus</li> </ul>	<ul style="list-style-type: none"> <li>• Affordable Housing Priority</li> <li>• Early Assistance Fee Reduction</li> <li>• SDC Deferrals</li> <li>• Office-to-Housing Conversion</li> </ul>	<ul style="list-style-type: none"> <li>• Old Town/ Broadway Corr.</li> <li>• Gateway</li> <li>• Interstate</li> <li>• N. Macadam</li> <li>• Cully</li> </ul>	
<b>Ongoing Projects</b>	<ul style="list-style-type: none"> <li>• IH Calibration</li> <li>• Public Land Inventory</li> <li>• Land Acquisition ARPA Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Housing Regulatory Relief Project</li> <li>• RICAP</li> <li>• Land Division Code Update</li> </ul>	<ul style="list-style-type: none"> <li>• Permit Task Force</li> <li>• Single Point of Contact</li> <li>• Multi-Dwelling Housing Pilot</li> </ul>	<ul style="list-style-type: none"> <li>• Advance Portland / TIF District Exploration</li> </ul>	<ul style="list-style-type: none"> <li>• Governor’s Housing Production Advisory Council</li> </ul>
<b>Future Strategies &amp; Actions</b>	<b>To be identified in the next 6-12 months</b>				

# Thank you!

