Central City Floor Area Ratio Bonus & Transfer Options

Introduction

Portland's Central City is projected to gain 30,000 new households by 2035. To meet city goals, housing growth in the Central City also must include a variety of housing types available at a range of affordability levels. The ability to preserve and produce affordable housing will be the biggest challenge.

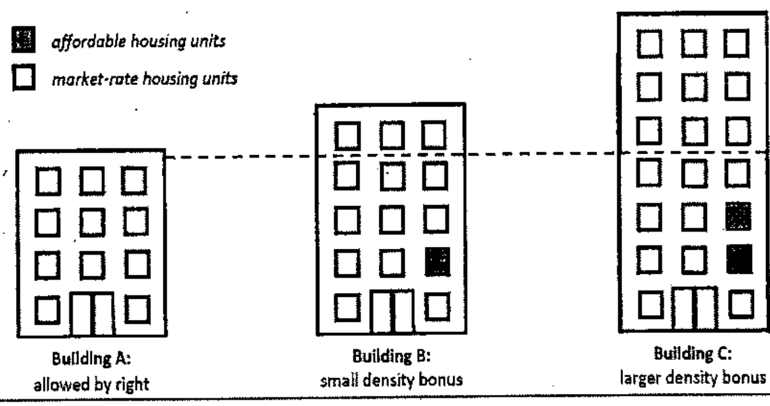
To help respond to this issue, the Portland Housing Bureau (PHB) and Bureau of Planning and Sustainability (BPS) worked with consultants to study the Central City's density and height bonus programs. The consultant analyzed the use of bonuses to produce affordable housing units and resources, recommending ways to incent private developers to voluntarily provide affordable housing in exchange for an increase in development entitlement, such as floor area ratio (FAR) or height.

The basic idea of a bonus system is to allow additional square feet of development on a site in exchange for a public benefit.

Today, the Central City Plan District has 18 bonus options and six FAR transfer options. These were designed to meet the goals of previous decades. Some have been used more frequently, such as the residential and bike locker bonuses. Most others have been little used, if at all.

What is a density bonus?

A density bonus is a zoning tool that allows developers to build larger, often taller, buildings in exchange for providing a specific public benefit, such as affordable housing.



It clearly is time to redesign the Central City bonus options so they reflect current priorities, goals and development economics. Based on current growth projections and housing needs, bonuses for affordable housing should be the highest priority. This update will be part of the Central City 2035 Plan.

Key findings

A few general patterns emerge from the analysis that provide policy direction for the Central City's incentive program:

1. **A bonus for affordable housing in the Central City is economically feasible.**
   There is sufficient bonus value that can be offered to make provision of affordable housing an economically attractive option to private development in the Central City. While this varies by building size, it is true across the spectrum of buildings. With the inclusion of a fee-in-lieu option, it can also be applied to commercial development.

2. **The number of units that can be produced by a bonus depends of the income level set for the affordable units.**
   The amount of subsidy needed per unit increases as the income of the household served decreases. Higher levels of subsidy mean that fewer housing units can be produced for the same amount of money. For example, a project that provides affordable housing at 80 percent of the Median Family Income (MFI) could feasibly set aside between 20 and 45 percent of its density bonus floor area for affordable housing. By contrast, a project that provides affordable housing at 60 percent MFI could only set aside between 15 and 30 percent in order to maintain its profitability.

3. **The size and number of floors in a project affect the value of a bonus.**
   As projects become larger and add more floors, their construction type and building code requirements change. The costs increase on a per square foot basis. Currently, these transitions occur at approximately six stories and again at 20 stories. Shorter buildings can be constructed of wood frame or light-gauge steel, often on top of a concrete podium. Taller buildings move to steel or concrete construction and have more expensive safety requirements.

   For an incentive bonus to work, a project must maintain profitability as additional costs are incurred for affordable housing provision and construction type transitions. The attractiveness of a bonus changes as buildings bump up against these size thresholds.

4. **Bonuses are most attractive to mid-sized buildings.**
   If current development trends continue, requests for additional bonus floor area will occur most frequently in 4:1 and 6:1 base floor areas. If a developer takes advantage of a 3:1 bonus (4:1 + 3:1=7:1 and 6:1+3:1=9:1), these projects could yield nine to 36 affordable units and eight to 30 affordable units in these base entitlement areas, respectively, depending on site size (example is based on 80 percent MFI).

Staff recommendations for new bonus/transfer system

Based on the results of the study, PHB and BPS staff have the following recommendations for a new Central City density bonus and transfer structure:

1. **Redesign the Central City bonus system to prioritize affordable housing in the Central City.**
   Currently developers have a "menu" of 18 public benefits they can provide in exchange for increased density. BPS and PHB propose to simplify the system by reducing the overall number of options, prioritizing bonuses that support the production and preservation of affordable housing. Bonus options would be available to residential, mixed-use and commercial developments.

2. **Allow three ways for projects to earn this bonus.**
   To earn a bonus, BPS and PHB recommend developers be allowed to choose from three options:

   a. Construct affordable housing on-site as part of a project.
   b. Pay into a public benefit fund for the production and preservation of affordable housing. This fund could be managed by PHB; could be used for income levels below 60 percent MFI; and could fund work outside of the Central City.
   c. Provide a combination of options a. and b.

Projects would not be allowed to double count units, meaning that units used to satisfy bonus requirements could not also be used to satisfy another program's requirements.

3. **Require that bonus units be affordable to households at 80 percent MFI, and that units be kept affordable for 60 years.**
   The affordable housing bonus will be one of the few public tools available to support the production of units for households between 60 – 80 percent MFI, a type of housing not being delivered by the private sector in the Central City. There is a tradeoff between level of affordability and the number of affordable units that can be provided in a development (see Key Finding 2, above). Using 80 percent MFI as the income/rent ceiling for the bonus program will produce significantly more affordable units than would be produced by targeting lower income levels. For context, 80 percent MFI currently is $58,800 per year for a family of four, $41,200 for an individual.

4. **Make on-site production of affordable housing the most attractive option economically.**
   The bonus should be structured so that on-site construction is the least expensive option for developers. On-site development has the potential to take advantage of the private sector's development expertise; support near-term development; and distribute lower-rent units throughout the Central City. Under current market conditions, the cash contribution option would cost commercial or residential developers between $32 and $38 per square foot of bonus floor area.

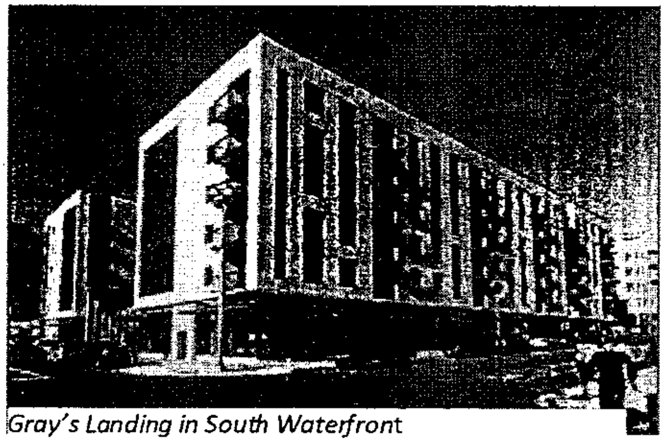
5. **Retain the current 3:1 cap on bonus FAR that can be used on a single site.**
   Generally, under the current bonus structure, the maximum bonus in any base entitlement area is 3:1. The study indicates that some of the Central City's entitlement areas could perform well if additional entitlement was allowed, however, this allowance could have impacts on urban form and transportation function that would need to be carefully considered.

6. **Use FAR transfers to encourage historic preservation and open space in the Central City.**
   BPS proposes to eliminate many Central City transfer options in order to prioritize historic preservation and open space transfers. The system will continue allowing developers to purchase FAR from private parties (for a "receiving site") in exchange for the provision of public benefits on a "sending" site. BPS would like to explore increasing the allowable distance between sending and receiving sites as well as the development of a formal market place to connect potential buyers and sellers. Any changes to the system will require careful analysis to ensure that competition between the transfer system and new bonus system is minimized.

7. **Update the bonus system pricing on a regular basis.**
   BPS recommends that the City update, as needed, pricing variables to align with substantial market shifts (i.e., construction costs, land values and revenues), at least every three years. Staff would like to explore making updates part of an Administrative Rules procedure that could result in adjustments to: i) the percentage of floor area a developer would need to dedicate to affordable housing within a development; ii) the targeted level of affordability (e.g., 60 percent or 80 percent MFI); and iii) the value of the cash contribution.

How much housing or funds could this bonus produce?

Based on average levels of development activity, the proposed affordable housing bonus could result in 35 to 60 affordable units at 80 percent median family income (MFI) per year, or 800 to 1,300 units over 20 years.



Gray's Landing in South Waterfront

Over 20 years, $120-200 million would be generated for affordable housing development or rehabilitation if all of the bonus was earned through the in-lieu-payment option.

By 2035, the need for housing affordable to households in or near the 50-80 percent MFI bracket is projected to grow by 24,000 households citywide. Zoning Code incentives are important, but other tools will also be necessary.

Background on the current bonuses

There are currently 18 density bonuses that can be earned at certain locations in the Central City. There also are six FAR transfer options. Most of these bonuses are no longer necessary or effective. This is largely because the cost of the bonus exceeds its benefits to the developer.

A previous study (Johnson/Gardner, 2007) found:

1. Stakeholders generally agree that bonus and transfer programs need greater clarity, simplicity and certainty.
2. Bonus and transfer programs work in markets where developers seek to maximize density, and where current allowable densities are below what the market can support.
3. Bonuses and transfer options can compete with one another.
4. Transfers create an informal market and competitive prices for additional FAR.
5. Residential projects tend to only use the residential bonus.
6. Commercial projects tend to find transfers the most cost effective way to access additional FAR.

Since 2005, 43 projects have used the bonus/transfer program.

Bonuses/transfers used most frequently:
By far, the residential bonus was used most frequently. A FAR transfer was the second most common way to achieve additional FAR, followed by the eco-roof and bike locker bonuses.

Other available bonuses/transfers:
Bonuses also are available for:

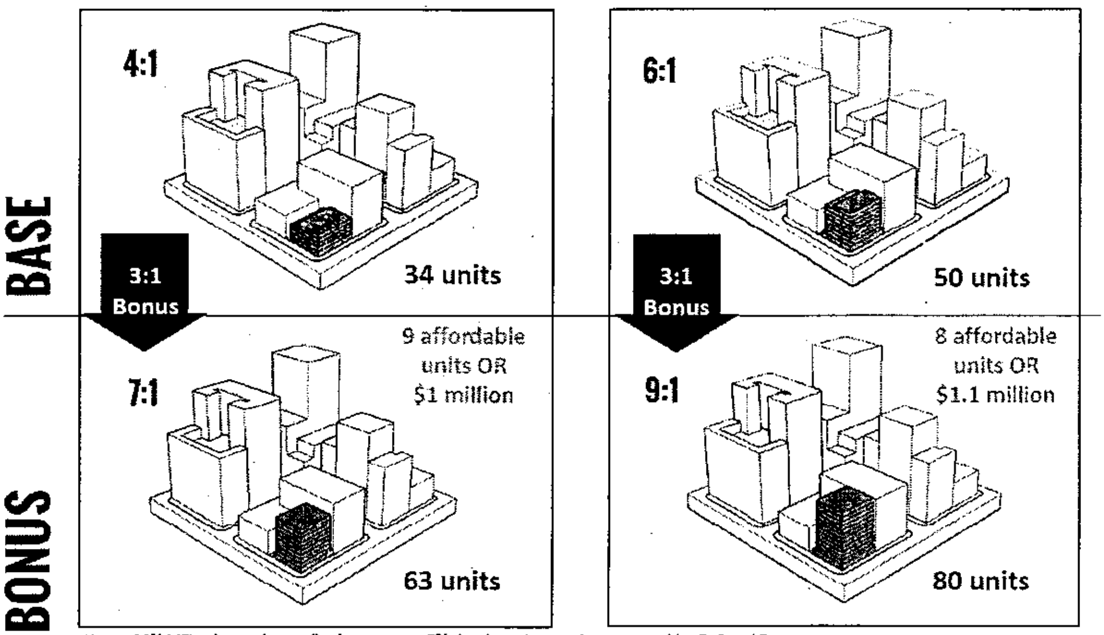
Retail uses	Rooftop gardens,
Daycares	Open space
Open space fund	Percent for art
Water features	Small sites
Below-grade parking	Willamette River Greenway
Middle-income housing	Large dwelling units
Affordable housing fund	Units for large households
Theaters on Broadway	

FAR transfer options include: transfer between abutting lots within a site, single room occupancy housing transfer, residential transfer, and transfer from a historic resource.

Where were bonuses used most frequently?
68 percent of these projects were built in 4:1 and 6:1 base entitlement areas, and 26 percent were built in 2:1 or 5:1 base entitlement areas.

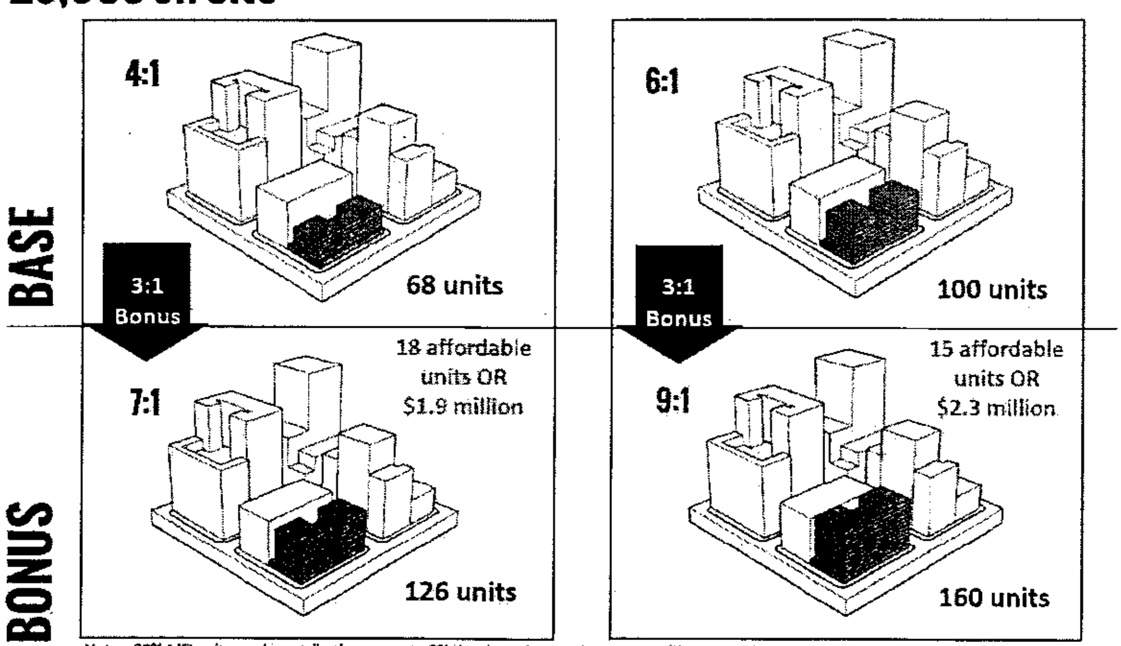
Figure 1: Affordable Units (80% MFI), Cash Contribution Examples

10,000 sf. Site



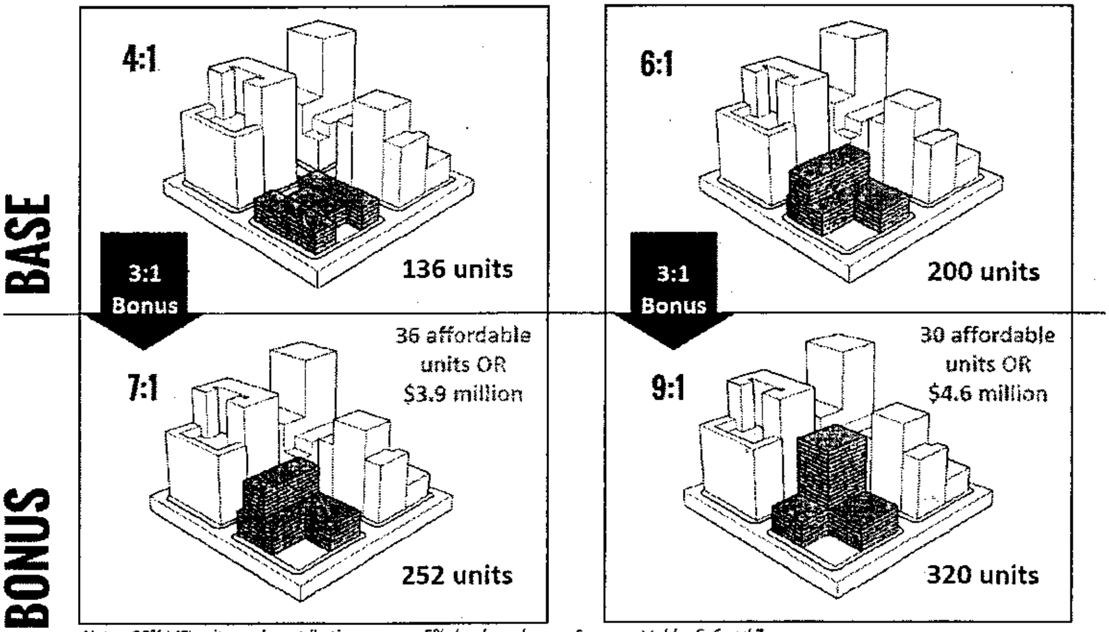
Notes: 80% MFI units; cash contribution assumes 5% developer bonus. See report tables 5, 6 and 7.

20,000 sf. Site



Notes: 80% MFI units; cash contribution assumes 5% developer bonus. See report tables 5, 6 and 7.

40,000 sf. Site



Notes: 80% MFI units; cash contribution assumes 5% developer bonus. See report tables 5, 6 and 7.