



Portland Housing Bureau

Inclusionary Housing Calibration Study

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Agenda

- **Context setting**
 - **Purpose of the IH calibration study**
 - **Cost comparison study findings**
- **IH calibration study assessment and findings**
- **IH stakeholder work group recommendations**
- **Next steps**

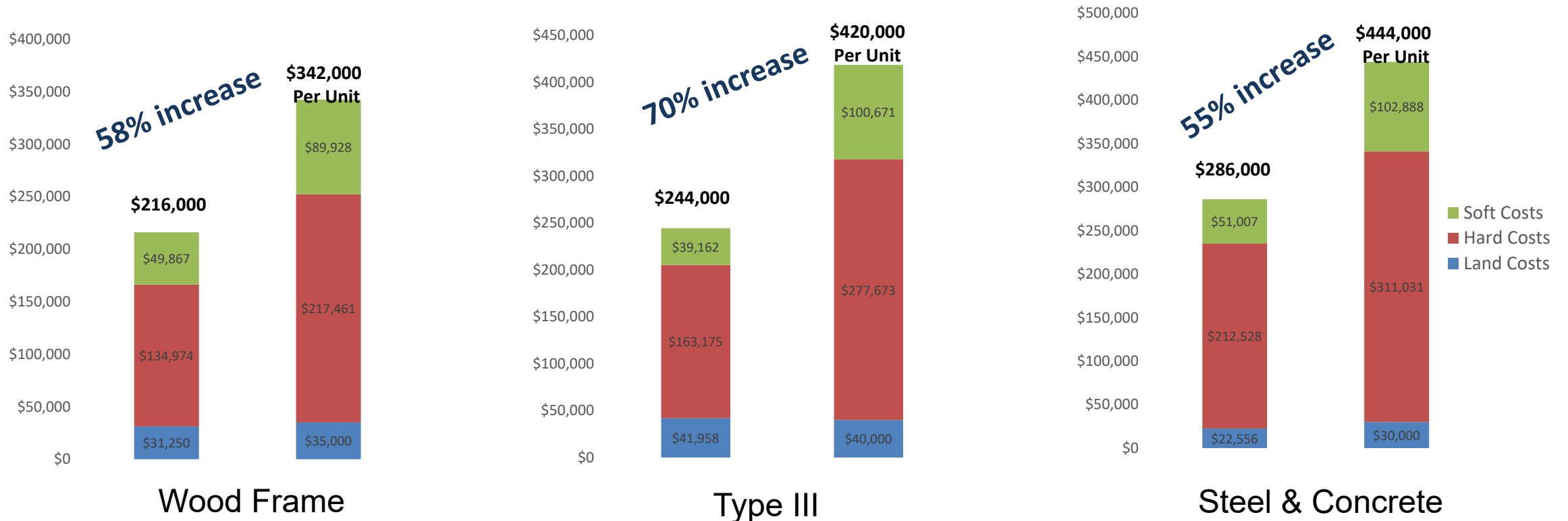
Purpose of the Calibration Study

Key Questions:

1. Are the incentives offered with IH adequate to offset the requirements?
2. Are the policy objectives being met?
 - Creating more 60% AMI units and family size units
 - Creating affordable housing throughout the city
 - Creating mixed-income buildings
3. What can be done to simplify standards, add flexibility, and create more clarity?
4. How does IH fit into the broader picture of development feasibility right now?

Early Findings – Shared with Workgroup in February

Construction costs have risen by more than 50% over the last several years, which is more than 2x the increase in incomes and rents.



Portland Median Income increased by 29% & High-End Rental Rates increased by 24%

Related BAE analysis: Construction Cost Study

Peer cities experienced significant cost increases in recent years, leading to financial feasibility challenges of multifamily development

Current Construction Costs in Portland

- 6 story apartment: ~\$422,000 per unit
- 3-4 story apartment, surface parking = ~\$300,000 per unit
- Townhouse or apartment in new high-end high-rise = ~\$500,000 per unit

Comparing Costs with Peer Cities (6 story apartment building)

- It is expensive to build everywhere, and rents are not keeping pace
- ROI in peer cities is starting to balance, preference for stable markets (Seattle)
- **Seattle** – Higher land and hard costs, no SDCs. Higher-income renters so development is more feasible. **More expensive (\$494k/unit)**
- **Sacramento** – Land similar, soft costs/SDCs much higher. **More expensive (\$473k)**
- **Denver** – Higher land costs, no SDCs. **Cost about same (\$409k)**

Related BAE analysis: Construction Cost Study

The handful of local regulations studied can increase the cost to build housing in Portland by as much as 14%

Scope: Studied 5 development prototypes (townhouses to high-rise) and interviewed developers to understand how local requirements contribute to the cost of development.

Preliminary findings:

- **SDCs:** 3-7% of project cost. Bigger share for townhouses and smaller apt buildings.
- **Bike parking:** 3-6% of project cost. Market demand for some, most would use space for additional unit(s). Not relevant for townhouses.
- **Ground floor active use:** 1-4% of project cost for market-rate, 11-12% for affordable housing. Not relevant for townhouses.
- **Design review:** 1% of project cost. Adds 6 months. Not relevant for townhouses.
- **Trees:** Process and uncertainty are a big issue. Most relevant for townhouses.
- **Public Infrastructure:** Highly variable, hard to quantify. Still working on this.

IH Calibration Study Assessment and Findings

Overview of IH Program: Policy Framework

Reminder of Core Components of IH Program:

- Mandatory program for buildings with 20 or more units
- 20% of units at 80% AMI or 10% at 60% AMI with additional incentives
- Options emphasize on-site IH units (over fee-in-lieu or off-site option)
- Requires units to be affordable for 99 years
- Ensures that IH units are comparable in quality, size, bedroom composition, and distribution throughout building as market-rate units

Progress to Date: Inclusionary Housing has helped create **over 1,000 affordable units** in market-rate projects and generated approximately **\$4M in funding** to support PHB investments for affordable housing in other locations.

IH Calibration Study Scope and Components

Analysis priorities: Off-site, Homeownership, Tax exemption outside CC, Reconfiguration. Additional analysis added at work group request.

- **IH Unit Resident Experience** - *Survey experience of residents of IH units*
- **Site Utilization Analysis** - *Assessment of 12 – 19 unit projects*
- **Program Comparative Analysis** - *Research IH programs in other jurisdictions*
- **Development Prototypes Analysis**
- **Development Cost Study**
 - *Portland construction cost analysis + comparison city, local policy analysis*
- **External Stakeholder Work Group**

Overview of BAE's Methodology for IH Analysis

- Review prior development prototype analysis (from 2016)
- Create 15 base prototypes reflecting a range of real-life development projects
 - Ranging from small apartment buildings to large towers
 - Located in high rent areas and low rent areas
- Conduct market analysis
- Conduct developer and stakeholder interviews
- Assess to what extent development prototypes would be feasible under current market conditions, with and without IH requirements
- Compare the value of the City's offset/incentive package with the cost of the IH requirement

BAE IH Analysis Findings

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 the incentives offered adequate to offset the cost of IH?

Central City = Yes

Projects are receiving *adequate* incentives for the cost of abiding by IH, primarily via full property tax exemption

**Outside Central City
Higher Cost Markets = No**

Projects are receiving *less* incentives than the cost of abiding by IH, particularly in markets like Slabtown and Goose Hollow

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

Projects are receiving *greater* incentives than the cost of abiding by IH, market rate rents are closer to what is required under IH, so impact of IH affordability restrictions is negligible in today's market

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 the 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 a balanced IH program, development currently not feasible due to other market factors, including 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

IH Work Group Recommendations

Guiding principles: Simplify standards, Add flexibility, Create clarity

- **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
- **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

IH Work Group Recommendations

Guiding principles: Simplify standards, Add flexibility, Create clarity

- **Reasonable equivalency** (*rental projects*)
 - Adjust minimum IH unit size from 95% to 85% of market rate units
 - Adjust proportion of IH units allowed per floor from 25% to 35%
- **Off-site building location** (*rental and for-sale projects*)
 - Increase distance allowed for off-site location from .5 mile to 2 miles
 - Allow Opportunity Map score of 5 to build in Opportunity Map score 4
- **Reconfiguration** (*rental and for-sale projects*)
 - Require one market rate 2bd+ unit for every reconfigured IH unit
 - Amend section language for simplicity and clarity

Next Steps

Next Steps for IH Program

- **Foregone revenue analysis with BAE to inform expanding MULTE**
- **Code and Administrative Rule changes to simplify and clarify program**
- **Public process involved with Administrative Rule changes, plus City Council and County Commission**
- **Further study on the IH homeownership program could be part of a broader study on condominium homeownership through the cluster collaboration**
- **PHB is working with Commissioner Rubio's office, BPS, BDS, and Prosper on Housing Needs Analysis and Housing Production Strategy**