



Bureau of Planning and Sustainability

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MEMO

DATE: September 14, 2018
TO: Planning and Sustainability Commission
CC: Bill Cunningham, Better Housing by Design Project Manager
Tom Armstrong, Supervising Planner
FROM: Tyler Bump, Senior Economic Planner, Bureau of Planning and Sustainability
SUBJECT: Follow-up Questions to Better Housing by Design Development Feasibility Analysis

Background

The Bureau of Planning and Sustainability contracted with Economic and Planning Systems as the consultant to undertake a development feasibility analysis of the proposed RM1, RM2 and RM3 zone as part of the Better Housing by Design Project. Economic and Planning Systems evaluated the feasibility of development prototypes provided by OTAK for various lot sizes and configurations for different sub-market pricing levels that reflects market conditions in Inner and Eastern Portland neighborhoods and published a memo with summary findings on May 18, 2018. During the legislative process, Planning and Sustainability Commissioners have asked BPS staff to clarify some findings from the May 18th memo and to answer some specific questions related to development feasibility by tenure and market decisions between unit sizes in the RM1 and RM2 zones.

- **What are the findings saying regarding the likelihood of townhouses versus larger numbers of smaller apartment units?** Some testimony expresses concern that the Economic and Planning Systems analysis indicates that only townhouses will be built in the RM1 and RM2 zones in the inner neighborhoods. Is this so, or are apartment units also likely to be built?

Development supportive residual land values for the RM1 and RM2 prototypes are very similar between the stacked flat and townhouse prototypes. While the townhouse ownership prototype yields the highest values, the stacked flat ownership and rental residual values could still be built given current market conditions. This indicates that both townhouses and stacked flats are feasible development types in most inner neighborhood markets and that market demand and developer preference/business model is likely to drive decision making between townhouses and stacked flats. The RM2 stacked flat prototype for both rental and ownership developments performs especially well and is supportive in all inner neighborhood market areas. The stacked flat ownership and townhouse prototypes perform best in the RM1 zones though the stacked rental prototype works well in St. Johns, Inner Northeast neighborhoods, Southwest, and the Interstate Corridor.



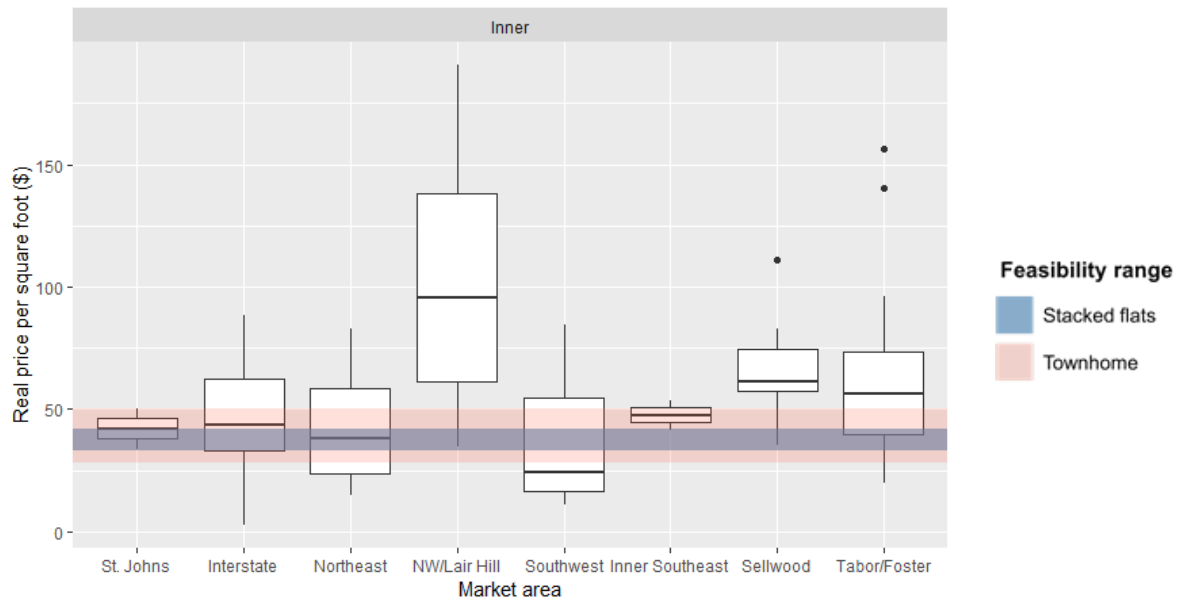
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The following charts illustrate development feasibility by development prototype and sub-market locations. In the charts below, the blue bands represent the range of supportable land values for feasible stacked flat development and the pink bands represent the range of supportable land values for townhome development in the same base zone. The vertical boxes and bars represent a range of pre-development land transaction values over the last two years and the lines adjacent to the bars represent the high and low ranges of transaction values. If the blue and pink bands fall within or above the range of land values identified (at or above the land value vertical boxes and bars) then development of these prototypes is feasible in that sub-market.

Pre-development transaction land values by market area

RM1 (formerly R2 and R3) zone



Pre-development transaction land values by market area

RM2 (formerly R1) zone

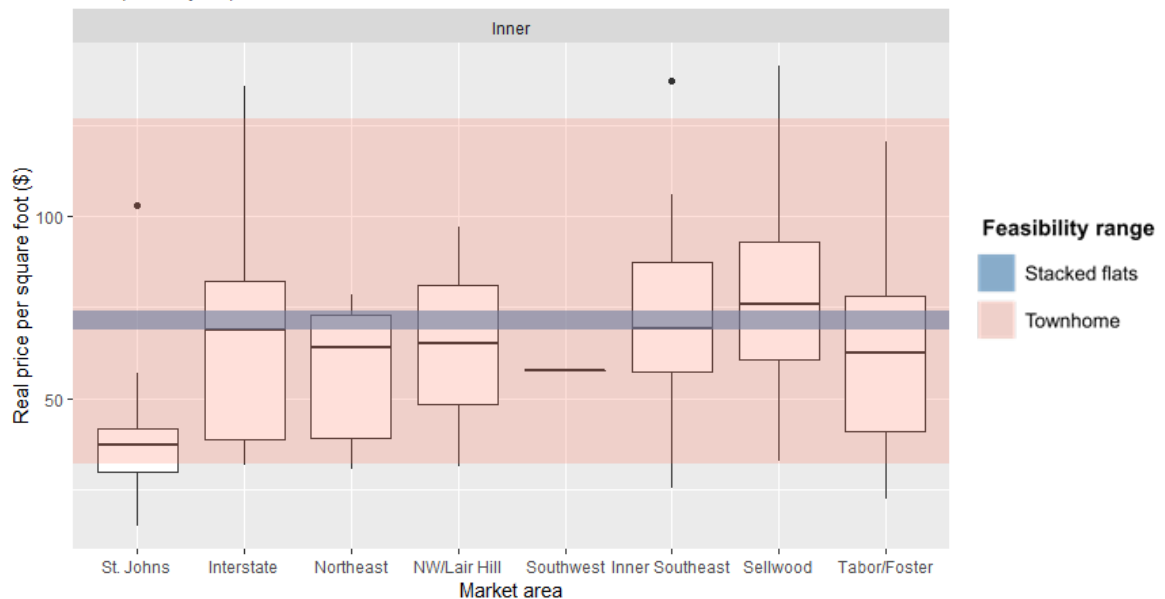


Table 1. Residual Land Values per Square Foot by Inner Prototype and Tenure

RM1 - Inner - 50x100 sf lot	Ownership	Rental	RM2 - Inner - 100x100 sf lot	Ownership	Rental
Stacked Flats - 6 Units	\$41.85	\$33.03	Stacked Flats - 16 Units	\$69.64	\$73.28
Townhomes - 2 Units	\$49.78	\$27.65	Townhomes - 10 Units	\$127.35	\$31.85

- **The PSC would like greater clarity regarding what the EPS analysis indicates regarding the feasibility and production of ownership units versus rental units.**

In general, the findings that ownership housing performs better than rental housing for the development types evaluated reflects development trends that we are seeing occur today in the multi-dwelling zones. For the lower density RM1 and RM2 prototypes evaluated, there is less variation in development feasibility between ownership and rental products. The feasibility analysis indicates that stacked flat rental prototype performs best for the RM1 eastern and RM2 inner prototypes. While stacked flat ownership units perform better than stacked flat rental units for the RM2 eastern and RM1 inner prototypes, the indicated residual land values are close enough to those of the rental prototypes that a developer is likely to evaluate decisions between tenure specific to achievable rents in specific locations.

There are a couple things happening with the larger RM3 prototypes that indicate ownership housing performs better than rental housing. The Inclusionary Housing set aside requirements impact the larger RM3 prototypes more significantly than the smaller RM2 prototypes where Inclusionary Housing compliance is triggered by building size. In some cases, in the RM2 rental prototypes, the achievable rents are not great enough to offset the cost of the affordable units for the 10% inclusion rate at 60% MFI. However, even without Inclusionary Housing requirements, these rental prototypes were not feasible in the current market given the mismatch between escalating costs and moderating rent escalations. Additionally, rental prototypes for development at this scale have ongoing costs that such as tenant turn-over carrying vacancies and ongoing operations and maintenance costs that are not incurred by comparable ownership products.

In general, the ownership products perform better for the RM3 prototypes because achievable sales prices can help overcome the construction cost challenges and reduced revenues for the affordable units under the IH program requirements. While this analysis indicates that higher density ownership prototypes perform extremely well, there are market challenges that could prevent broad acceptance of stacked flat ownership development types at this scale. These additional risks and challenges include pre-sale lender requirements for ownership products, market depth for bringing this amount of ownership product to market in one location, and construction defect liability.

