

## **MEMO**

**DATE:** April 22, 2019

**TO:** Planning and Sustainability Commission

**FROM:** Tom Armstrong, Supervising Planner

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**SUBJECT:** Better Housing by Design

Follow-up information on Displacement Risk Analysis

As a follow-up to the April 9 PSC discussion on the displacement risk analysis for the Better Housing by Design project, there are two outstanding questions:

- 1. How many additional Inclusionary Housing (IH) units could be enabled from the proposed code changes?
- 2. What is the expected price/rent levels of new development? What household income level would be needed to be affordable?

The overall finding is that the Better Housing by Design changes create more opportunity for larger projects with more IH units, but most of that opportunity is in East Portland where the market values and rents are more challenging to creating financially feasible development.

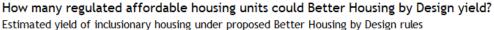
## Opportunity for Inclusionary Housing (IH) units

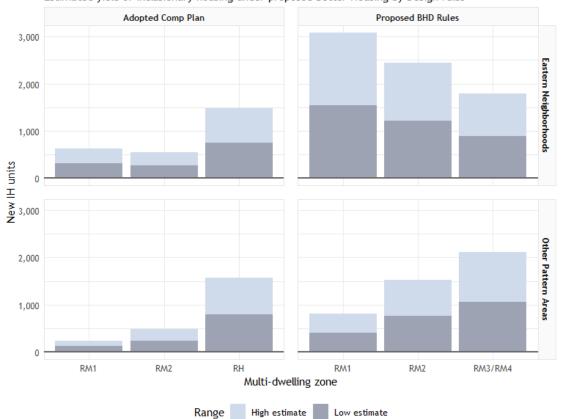
BPS staff analyzed the Buildable Land Inventory (BLI) to estimate the amount of additional IH units that could be enabled by the proposed code changes compared to what is allowed under the current 2035 Comprehensive Plan. This analysis measures the increase in zoned *capacity* (not expected growth *allocation*) from the proposed 50% increase the IH affordable housing bonus in combination with the move to a FAR-based approach (instead of maximum unit per acre density). This analysis is a high-end estimate based on the maximum development potential for each site in the BLI, unconstrained by growth rates or 20-year planning horizon. This analysis applied the IH bonus to vacant and underutilized sites in the BLI and identified



large sites with more than 20 units that would likely be subject to IH requirements. The results are presented as a range from the low end (10% of units at 60% Area Median Income) to the high end (20% of units at 80% Area Median Income) to reflect the options in the IH code. The results also are categorized by sites in East Portland compared to other parts of Portland.

The analysis shows that the proposed changes could significantly increase the opportunity for IH units by an additional 3,400 to 6,800 units (Table 1). This increase is due to two factors: 1) an increase in larger projects (20+ units) in the RM1 and RM2 zones due to the FAR-based approach; and 2) an incremental increase in the size of projects due to the increased IH bonus. About two-thirds of the development capacity on large sites is in East Portland, which means these code changes could enable the development of an additional 2,300 to 4,700 IH units in East Portland.





<sup>&</sup>lt;sup>1</sup> This analysis does not account for IH units in large projects on small sites, nor does it account for large sites that avoid the IH requirement by under-developing or arranging the development into multiple buildings with less than 20 units.



Table 1. Comparison of bonus-adjusted development capacity and opportunity for inclusionary housing.

	Adopted Comp Plan			Proposed BHD			Net (BHD - CP)		
	Bonus-	IH yield		Bonus-	IH yield		Bonus-	IH yield	
	adjusted capacity	10% @ 60% MFI	20% @ 80% MFI	adjusted capacity	10% @ 60% MFI	20% @ 80% MFI	adjusted capacity	10% @ 60% MFI	20% @ 80% MFI
Total capacity/yield	53,821	2,468	4,936	97,587	5,885	11,770	43,766	3,417	6,835
Small sites (capacity < 20 units)	29,143	0	0	38,735	0	0	9,592	0	0
Eastern Neighborhoods	8,771	0	0	10,313	0	0	1,542	0	0
Other Pattern Areas	20,372	0	0	28,422	0	0	8,050	0	0
Large sites (capacity >= 20 units)	24,678	2,468	4,936	58,852	5,885	11,770	34,174	3,417	6,835
Eastern Neighborhoods	13,233	1,323	2,647	36,532	3,653	7,306	23,299	2,330	4,660
Other Pattern Areas	11,446	1,145	2,289	22,320	2,232	4,464	10,875	1,087	2,175

Note: Bonus-adjusted capacity is the product of net constrained capacity and an adjustment factor of 1.25 for Comprehensive Plan and 1.50 for Better Housing by Design.



## Expected price/rent levels of new development

The analysis of expected price/rent levels of new development is approached through two different methods. First, the EPS residual land value analysis (Appendix C) does not have a submarket analysis similar to the one in the Johnson Economics analysis for the Residential Infill Project. The EPS analysis only uses citywide rent levels for the financial feasibility analysis, rather than multiple rent levels by sub-market in the Johnson Economics report. This difference means that this analysis presents more generalized findings. The EPS model assumptions reflect rents/prices that are not as strong as close-in neighborhoods, but not as soft as East Portland neighborhoods. The EPS assumption is \$3.00/sf (per square foot) for apartment rental projects. However, at \$2.85/sf rent level is only affordable to a household making 120% of the median household income (\$88,000 for a family of three), according to the Portland Housing Bureau's 2018 income limits.

Further, an analysis of current market rents in East Portland for newer units (built after 2013), shows rent levels at about \$1.50/sf, which is significantly lower than what is needed to make new construction projects financially feasible. This difference in rent levels (market vs. cost to develop) is one indicator as to why there has been less development activity in East Portland in the last ten years. East Portland has seen only about 3,700 new units built since 2008, or about 11% of total units citywide.

Table 2. New construction rents by bedroom count in 2019.

_	East Portland		Citywide		
	Rent	Approx. MFI †	Rent	Approx. MFI †	
Studio	\$853	60% MFI	\$1,290	91% MFI	
1-bedroom	\$811	53% MFI	\$1,590	104% MFI	
2-bedroom	\$1,423	78% MFI	\$2,376	130% MFI	
3-bedroom	\$1,641	78% MFI	\$2,510	119% MFI	

† Does not account for cost of utilities.

Source: CoStar, Prosper Portland.

For Inner Portland, the BHD proposals for the lower-scale multi-dwelling zones, especially the RM1 zone (current R2), could enable projects with greater numbers of smaller units, versus the larger townhouse-type units that currently predominate in the existing R2 zone. The EPS analysis indicated that per-unit development costs (excluding land) of townhouse units in this zone are generally around \$480,000 per unit, while the proposed RM1 zone allowances for greater numbers of smaller units could lower per-unit development costs down to \$115,000 to \$265,000 per unit (depending on size and number of units).

For a 5,000 square foot lot in the current R2 zone, developers are limited to a duplex. Under the BHD proposal, the shift to the RM1 zone would allow for triplexes and fourplexes (and more) on the same lot. As illustrated below, the smaller units can make a significant difference in affordability levels.









	Duplex	Triplex	Fourplex
Average Size	1,500 Square Feet	1,170 Square Feet	880 Square Feet
Average Sale Price	\$463,500	\$360,500	\$270,400
Affordability Level Income Required †	110% MFI \$81,000	90% MFI \$66,000	80% MFI \$59,000
Average Rent	\$3,255/month	\$2,500/month	\$1,900/month
Affordability Level Income Required †	180% MFI \$132,000	120% MFI \$88,000	100% MFI \$73,000

<sup>†</sup> Income required for a family of 3.

