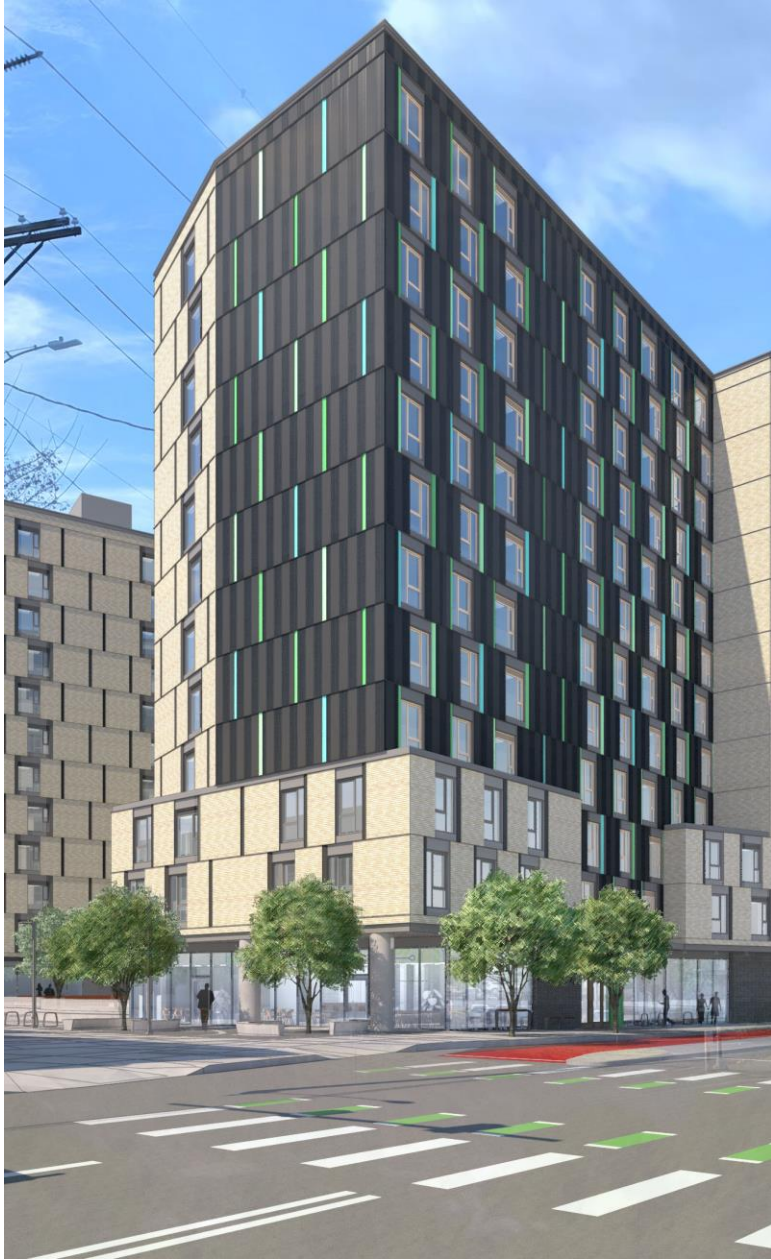




HOUSING PRODUCTION

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

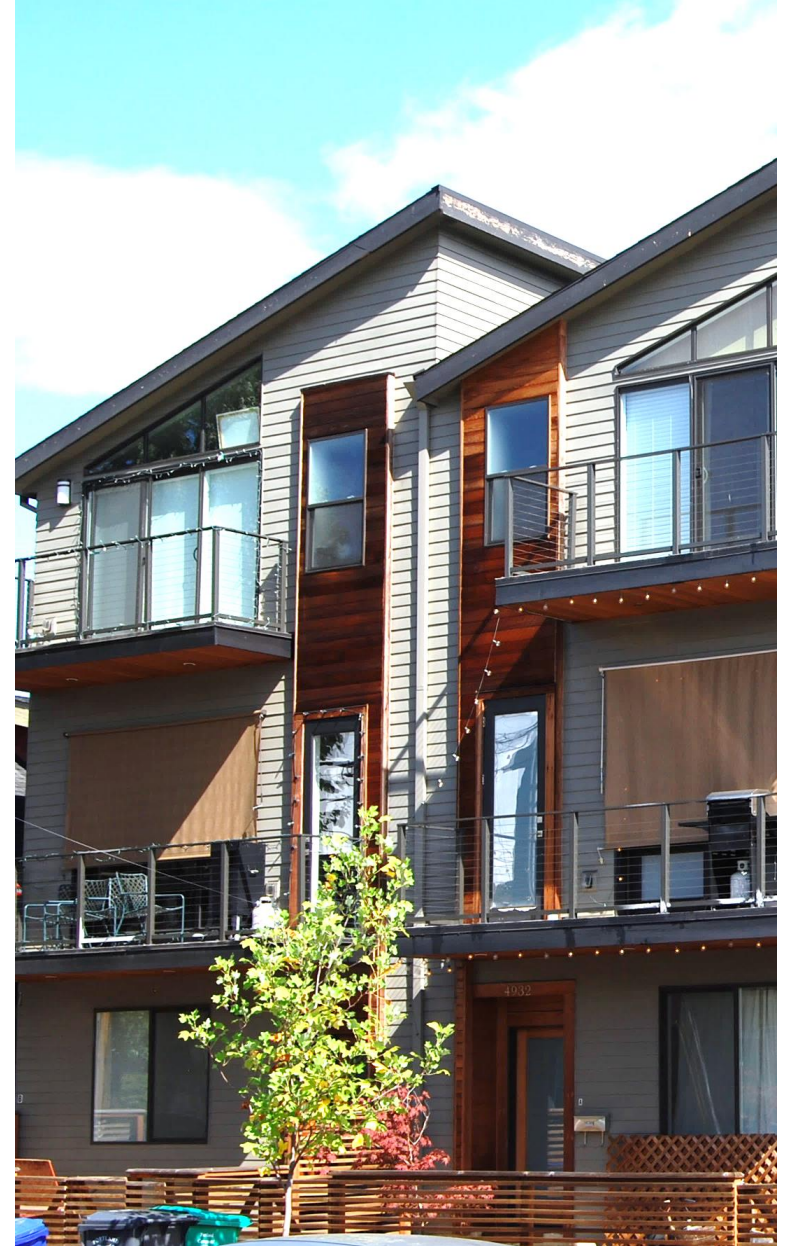
3. Recent, Underway, & Future City Actions

- 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



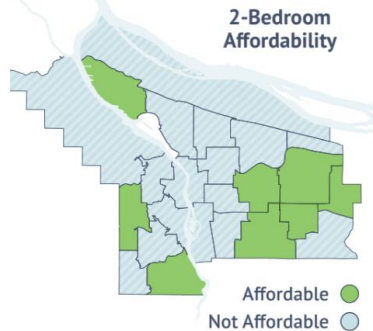
Black Household



Latinx Household



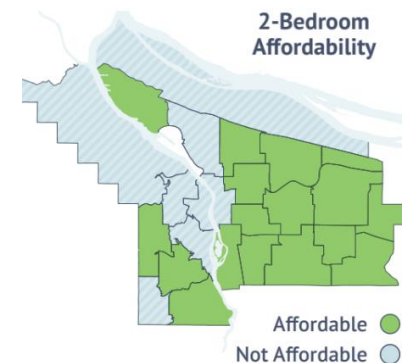
Native American Household



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:

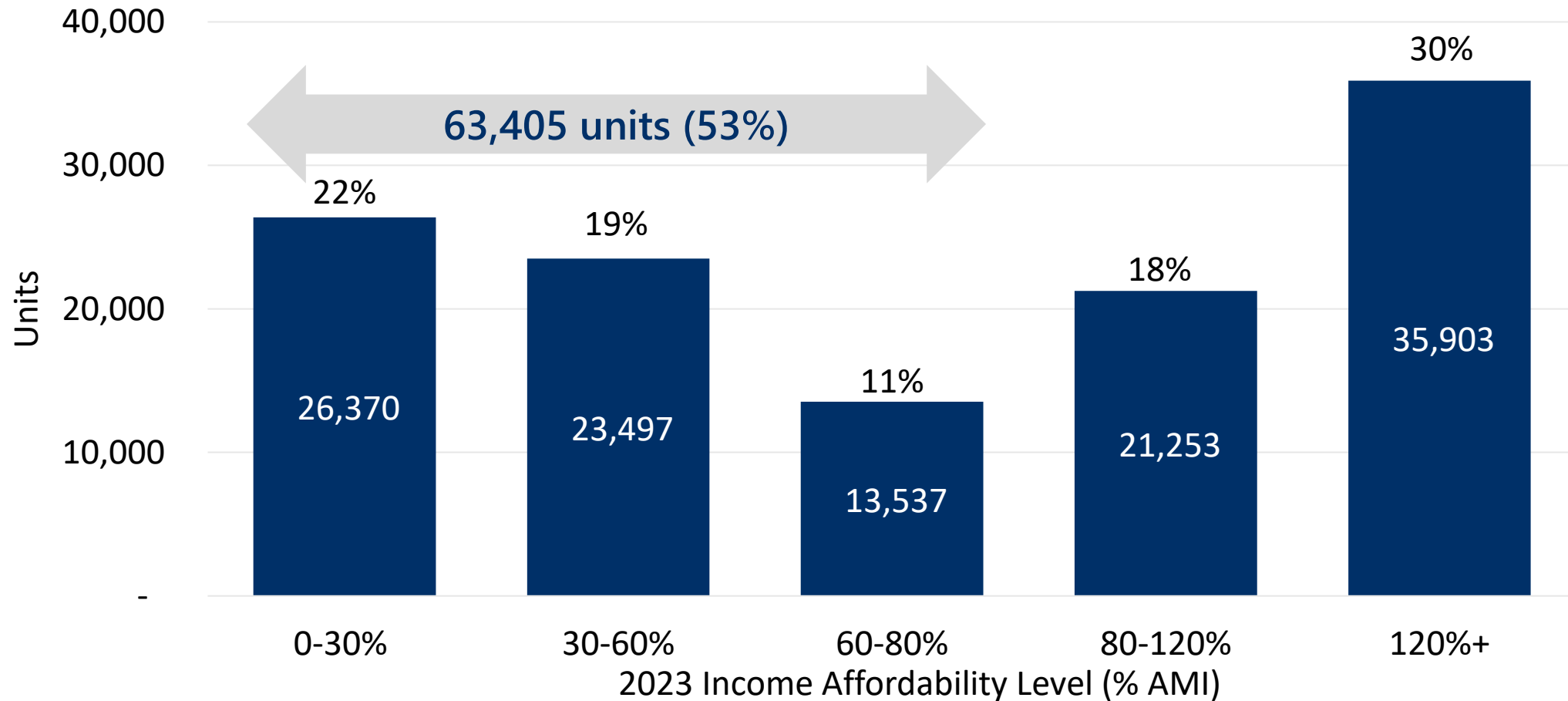
- Forecasted Households
- National Ratio of Housing Units to Households (vacancy factor)
- Second Homes
- Historical Underproduction
- Housing for the Houseless

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



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

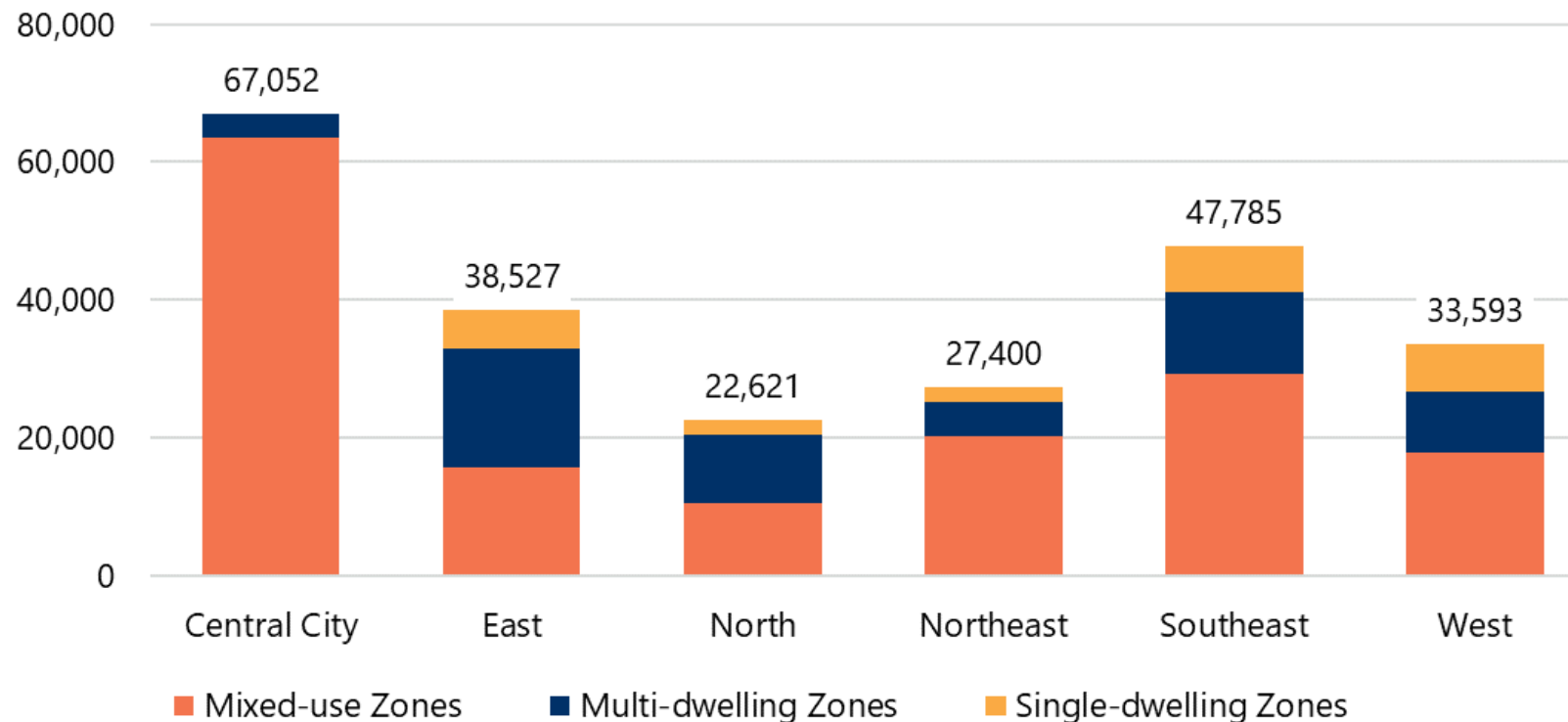
Portland's Comprehensive Plan directs growth into our centers and corridors



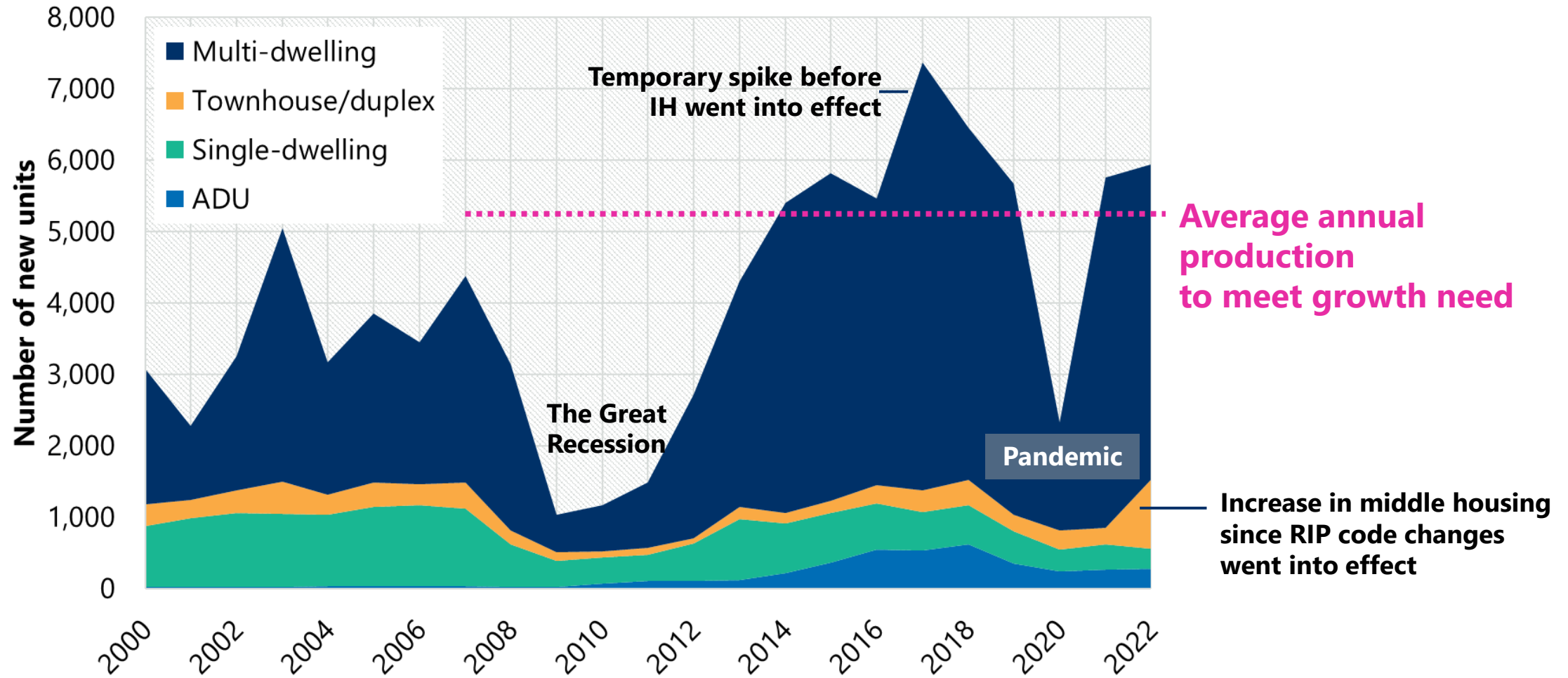
Zoning Capacity for Housing

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





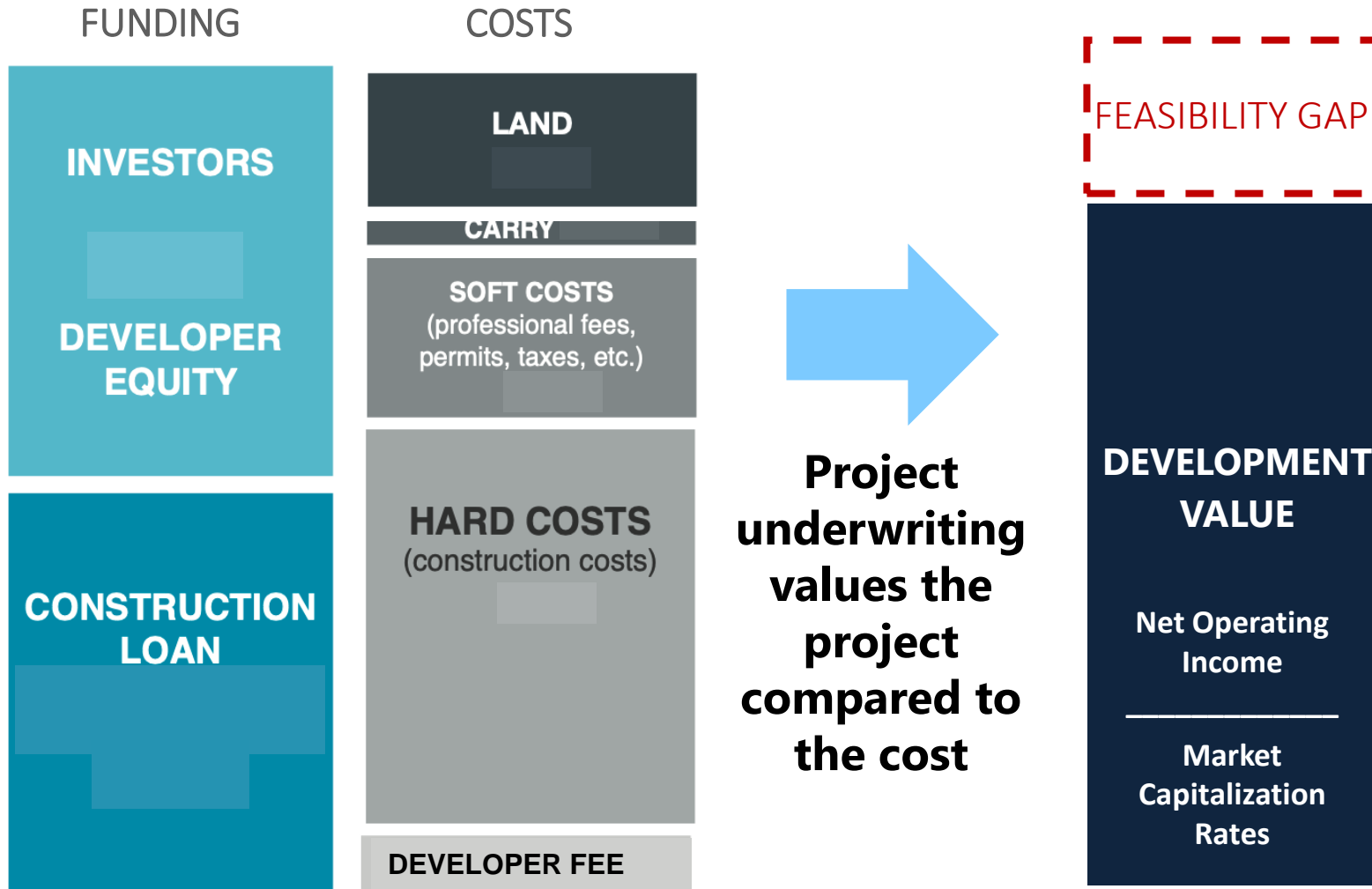
2. Current Market Conditions

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

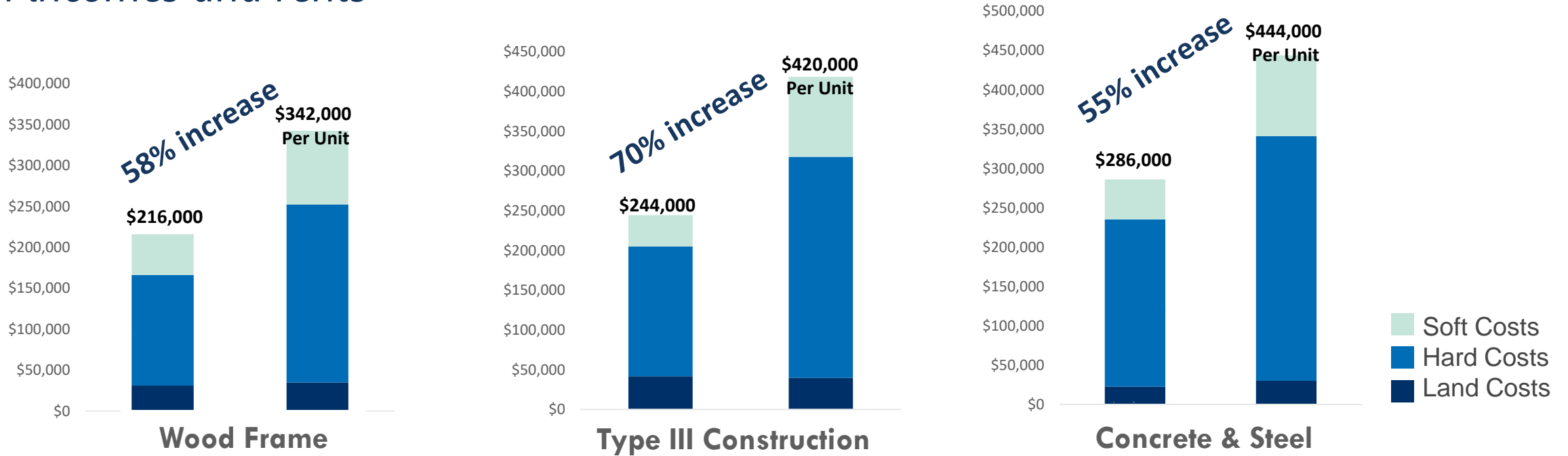


Intervention required to achieve feasibility



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



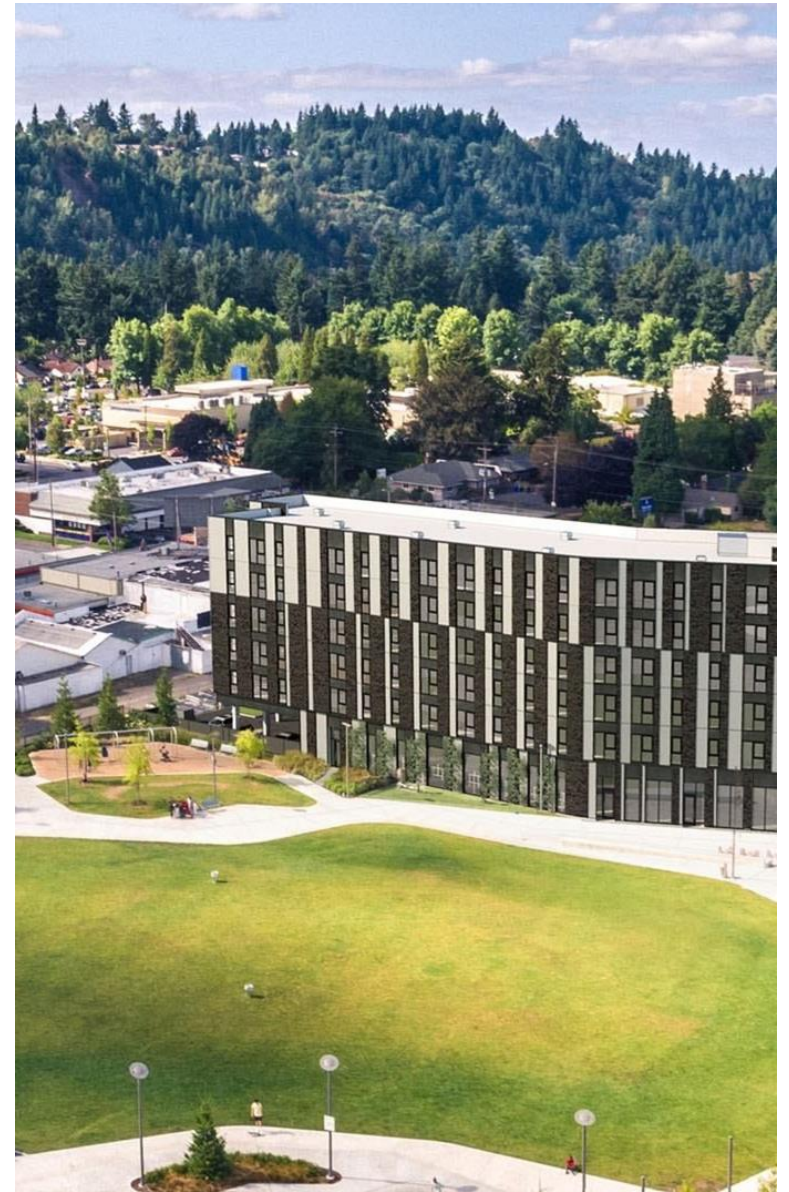


Recent Council Actions

- 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

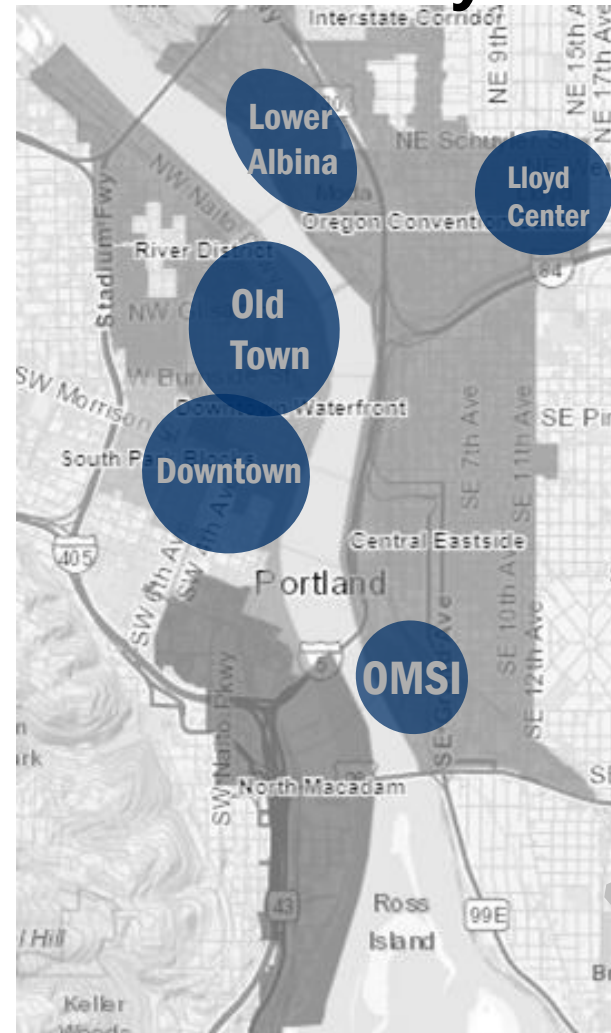
- Adopted by Council in April 2023
- Provides direction to pursue TIF as a tool for inclusive growth and stabilization, create vibrant Central City and neighborhood commercial districts

Resolution 37623

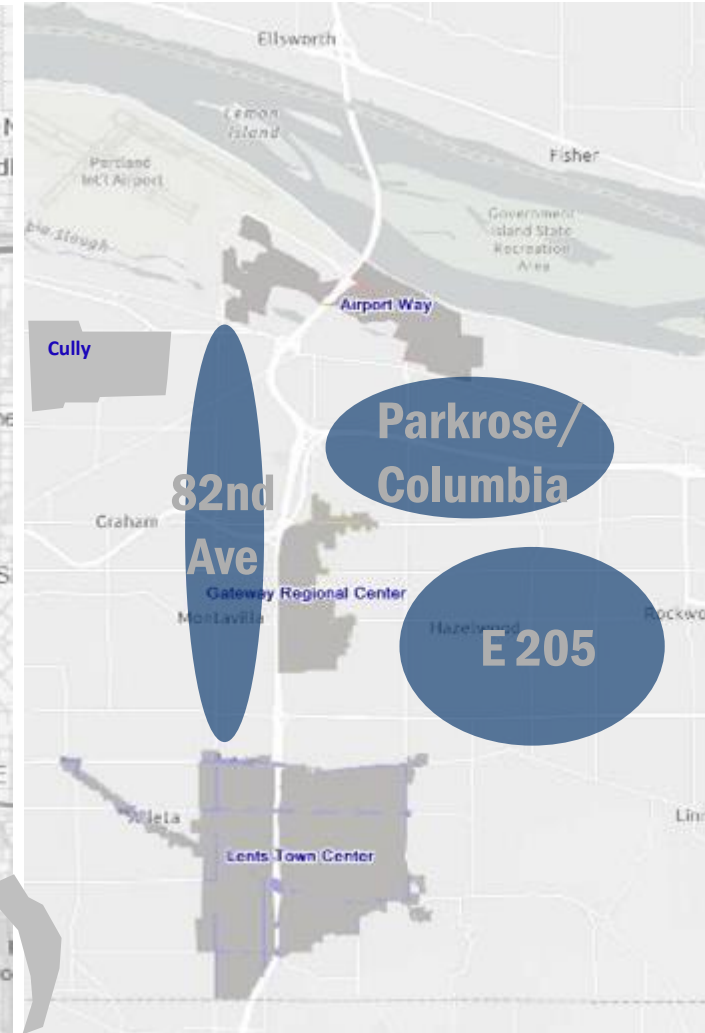
- Adopted by Council in June 2023
- Defines parameters, provides direction to bring proposals for any new districts to Council by October 2024



Central City



East Portland

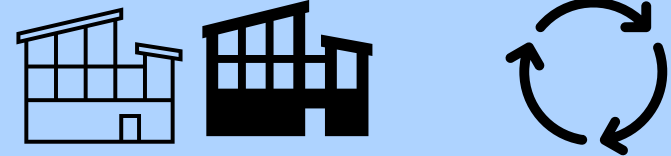


Future Actions: Housing Production Strategy

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

Thank you!

