bae urban economics

RESIDENTIAL AND MIXED-USE PROTOTYPE FEASIBILITY ANALYSIS

City of Portland

December 2, 2022

PRESENTATION OVERVIEW

- BAE Introduction
- Study Overview
- Analysis Methodology
- Development Prototypes
- Next Steps
- Questions and Comments

BAE INTRODUCTION

bae urban economics

Award-winning urban economics practice with more than 2,200 engagements since 1986

Areas of expertise include market and financial feasibility analysis, affordable housing policy analysis, public-private partnerships, economic and fiscal impacts, cultural districts, and parks and open space feasibility studies.

Staff in Portland, San Francisco, Sacramento, Los Angeles, New York, Atlanta, and Washington D.C. Certified MBE/DBE/SBE.

STUDY OVERVIEW

1. Site Utilization Analysis – City
2. IH Resident Survey - PSU
3. Comparison City IH Analysis – City
4. IH Financial Feasibility Analysis – BAE

   Assess financial feasibility of residential and mixed-use developments under the existing inclusionary housing ordinance and incentive options

ANALYSIS METHODOLOGY

ANALYSIS METHODOLOGY
OVERVIEW

- Review Prior Analyses
- Create Development Prototypes
- Conduct Market Analysis
- Developer and Stakeholder Interviews
- Feasibility Assessment

ANALYSIS METHODOLOGY

REVIEW PRIOR ANALYSES

2016 Financial Feasibility Analysis

- 22 Prototypes, Rental Properties Only
- Various Inclusionary Ordinance Options
  - Different Affordability Levels
  - Different Delivery Options
- Various Development Incentive Options
- Supported City Approving Current Ordinance

ANALYSIS METHODOLOGY

CREATE DEVELOPMENT PROTOTYPES

- Review Prior Study Prototypes
- Review characteristics of recent multifamily developments
- Propose Development Prototypes based on density, height, unit mix, etc.




ANALYSIS METHODOLOGY

CONDUCT MARKET ANALYSIS & STAKEHOLDER INTERVIEWS

- Compile rental rates and for-sale prices for comparable multifamily developments
  - High, Medium, Low rental rates and for-sale prices
- Conduct interviews with developers, contractors, property managers, etc.
  - High, Medium, Low Development Costs
  - High, Medium, Low Operating Costs

ANALYSIS METHODOLOGY

FINANCIAL FEASIBILITY ANALYSIS

- Create series of pro forma development feasibility models
  - Assess Residential Development Cost, broken down by cost components (site preparation, hard costs, soft costs, financing costs, etc.)
  - Estimate Rental Revenue or Sale Proceeds, based on various ways to abide by current inclusionary ordinance
  - Estimate Value of Development
  - Calculate Residual Land Value

ANALYSIS METHODOLOGY

FINANCIAL FEASIBILITY ANALYSIS EXAMPLE

Development Program Assumptions

Site Size - acres / square feet	43,560
Total Units	100
Affordable (% - count)	*15*
Market Rate (% - count)	*85*
Leasable sq.ft.	96,450
Circulation & Communal Space	*20%*
Total Project sq.ft	**120,563**
Total Parking Spaces	180
Parking spaces per du	*1.80*

Program Details

		AMI-Level			
Unit Mix	Sq. Ft.	60%	80%	Market	All
Studio	450	6	0	34	**40**
1-BR	650	6	0	30	**36**
2-BR	850	2	0	12	**14**
3-BR	1,100	1	0	9	**10**
All Units		**15**	**0**	**85**	**100**

Summary	Affordable		Market-Rate	Total
Number of Units (# - %)	15	15%	85%	100
Avg. Affordability (% AMI)		*60%*		n.a.
Leasable Sq. Ft.		9,400	54,900	64,300
Total Sq. Ft.		11,750	68,625	80,375
Parking Spaces		18	102	120
Parking Space/du		*1.2*	*1.2*	*1.2*

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per residential sf	$350
Parking cost per space, Podium	$45,000
Soft Costs (% of hard costs)	20%
SDC Fees (per unit) (a)	$31,486
MR Developer Fee (% of hard and soft)	3%
MR Developer Profit (% of hard and soft)	12%

Rental Revenue

	Monthly Rental Rate by AMI-Level		
Unit Type	60%	80%	Market
Studio	$1,849	$2,489	$2,318
1-BR	$1,985	$2,671	$3,244
2-BR	$2,372	$3,195	$3,613
3-BR	$2,726	$3,677	$4,125

Operating Costs

Annual op. cost - per Affordable du	$12,500
Annual op. cost - per Market Rate du	$12,500
Vacancy Rate, Residential	5.0%
Market Rate Cap Rate	3.85%

Financing

Construction-Period	
MR Loan-to-Cost	65%
Loan Fees	1%
Draw dow n Factor	65%
Interest rate	5.50%
Loan Term (months)	24

Development Cost Analysis

	Development Cost
Site Preparation	**$871,200**
Vertical Construction	
Hard Cost	$42,196,875
Parking Cost	$8,100,000
Soft Costs	$10,059,375
Impact Fees	$4,722,945
Subtotal	**$65,079,195**
Construction Financing	
Const. Loan Fees	$428,678
Const. Loan Interest	$3,065,045
Developer Fee	**$1,978,512**
Developer Profit	**$7,914,047**
Total Development Cost	**$79,336,677**
Per Unit	*$793,367*
Per Net SF	*$823*
Per Gross SF	$658

Feasibility Analysis

	Financial Feasiblity
Project Income	
Gross Scheduled Rents	$5,252,334
Less Vacancy	($262,617)
Less Operating Expenses	($1,875,000)
Net Operating Income	**$3,114,717**
Feasibility	
Total Development Costs	**$79,336,677**
Per Unit	$793,367
Project Value	**$80,901,748**
Per Unit	$809,017
Residual Land Value	**$1,565,071**
RLV per unit	*$15,651*

DEVELOPMENT PROTOTYPES

DEVELOPMENT PROTOTYPES
OVERVIEW

- Create series of prototypes to inform feasibility of various development intensities, heights, densities, and tenure.
- Define prototypes based on current zoning and critical construction cost thresholds.
- Maintain continuity with prior City analyses.

DEVELOPMENT PROTOTYPES
APPROACH

- Development types tend to differ between the Central City and outside of the Central City
  - Height, density, construction type, parking provision, etc.
  - Market Characteristics (rents, sale prices, operating costs, etc.)
- Construction type (wood-frame, concrete, steel) is most significant cost threshold, which is driven by height/number of stories
- Define prototypes to capture range of feasibility conclusions

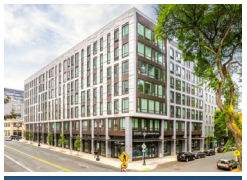
DEVELOPMENT PROTOTYPES

PROTOTYPE HEIGHT AND FORM

Central City Prototypes

- 5 Stories

- 7 Stories



- 9 Stories

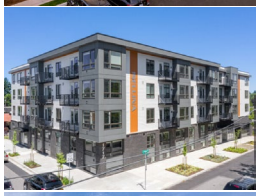
- 15 Stories

- 30 Stories

Outside CC Prototypes

- 3 Stories

- 4 Stories



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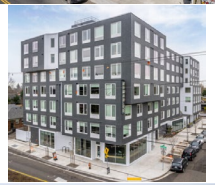
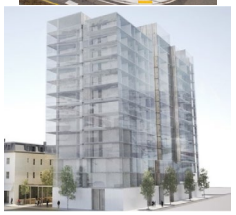


- 12 Stories



DEVELOPMENT PROTOTYPES
PROTOTYPE FEASIBILITY TESTING

- Assumptions
  - Same Site Size (~0.5 Acres)
  - Same Unit Mix
    - Rental: 30% Studio, 50% 1BR, 20% 2BR
    - For-Sale: 30% 1BR, 50% 1BR, 20% 3BR
- Feasibility Testing
  - High/Med/Low Construction Costs
  - High/Med/Low Rents or Sale Prices
  - Tenure (owner v. renter)
  - Ground Floor Use (retail or residential)

DEVELOPMENT PROTOTYPES
CRITICAL COST/REVENUE ASSUMPTIONS

- Revenues/Expenses
  - Rental Rates by Unit Type by Geography (High, Medium, Low)
  - Sale Prices by Unit Type by Geography (High, Medium, Low)
  - Annual Operating Costs (rental prototypes)
- Development Cost Inputs
  - Site Preparation Cost (per site SF)
  - Hard Cost (per bldg SF)
  - Parking Costs (per space)
  - SDCs (per SF/Unit)
  - Soft Costs (% of Hard Costs)
  - Developer Fee
  - Financing Assumptions
- Property Valuation
  - Market Capitalization Rates
  - Developer Return Requirements
    - Yield-on-Cost
    - Return-on-Cost
    - Internal Rate of Return
  - Typical Land Purchase Prices

NEXT STEPS & QUESTIONS

NEXT STEPS

- Continue Market Analysis
- Conduct Developer/Contractor Stakeholder Interviews
- Create Feasibility Models
  - Test all inclusionary ordinance options
  - High / Low Development Cost Sensitivities
  - High / Med / Low rental rates and sale prices
- Working Group Updates
  - March 17th – Present Feasibility Findings

QUESTIONS FOR WORKING GROUP

- Comments on Prototypes?
- Comments on Feasibility Analysis Approach?
- Interested in one-on-one stakeholder interview to discuss cost/revenue inputs?

QUESTIONS AND DISCUSSION