



bae urban economics

RESIDENTIAL DEVELOPMENT COST ANALYSIS

City of Portland

January 4, 2024

OVERVIEW

- Comparison City Cost Findings
- Local Policy Impact Findings

PORTLAND & COMPARISON CITY COST FINDINGS

COST COMPARISON STUDY OVERVIEW

- Portland costs compared to Seattle, Denver, & Sacramento
- Use same 6-story podium prototype in all comparison cities
- Conducted developer interviews in comparison cities
- Limited assessment of project “feasibility”

City of Portland



City of Seattle



City of Denver



City of Sacramento



COST COMPARISON STUDY FINDINGS

- Developers in all cities noted significant feasibility challenges due to cost increases
- Portland total costs ~10-20% lower than Sacramento and Seattle
- Portland has lower SDC/impact fees than Sacramento and Denver; Seattle has limited impact fees, but requires developers to make significant on-site upgrades in-lieu of paying fees
- Other major cost factors are comparable across comparison cities

BAE COST COMPARISON STUDY

DRAFT FINDINGS

City of Portland



6-Story Podium Prototype

City of Seattle



6-Story Podium Prototype

City of Denver



6-Story Podium Prototype

City of Sacramento



6-Story Podium Prototype

<u>Development Cost</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>
Land Cost	\$7,150,000	\$50,000	\$72	\$11,440,000	\$80,000	\$115	\$9,295,000	\$65,000	\$94	\$7,150,000	\$50,000	\$72
Hard Cost	\$34,779,150	\$243,211	\$350	\$40,741,290	\$284,904	\$410	\$35,838,000	\$250,615	\$361	\$36,652,500	\$256,311	\$369
Parking Cost	\$4,320,000	\$30,210	\$43	\$4,680,000	\$32,727	\$47	incl above	n.a.	n.a.	\$4,320,000	\$30,210	\$43
Soft Costs	\$7,819,830	\$54,684	\$79	\$8,175,832	\$57,174	\$82	\$6,450,840	\$45,111	\$65	\$10,243,125	\$71,630	\$103
SDC / Impact Fees	\$2,332,293	\$16,310	\$23	\$50,698	\$355	\$1	\$2,574,000	\$18,000	\$26	\$3,575,000	\$25,000	\$36
Financing Costs	\$2,487,296	\$17,394	\$25	\$2,870,373	\$20,073	\$29	\$2,388,361	\$16,702	\$24	\$3,679,273	\$25,729	\$37
Developer Fee	\$1,552,157	\$10,854	\$16	\$2,038,746	\$14,257	\$21	\$1,696,386	\$11,863	\$17	\$1,754,097	\$12,266	\$18
Total Development Cost	\$60,440,726	\$422,662	\$608	\$69,996,939	\$489,489	\$704	\$58,242,587	\$407,291	\$586	\$67,373,995	\$471,147	\$678
<i>% of Portland Costs</i>		100%			116%			96%			111%	

FINDINGS DETAIL

- **Portland renter incomes are lowest across all cities;** Unlike comparison cities, renter incomes are lower in Portland than in Metro Area.
- **Rents** in Seattle and Sacramento are higher, while Denver is slightly below
- **Investor Return Requirements** are similar, but lowest in Seattle due to perceived strong market dynamics and demand drivers.
- All cities have **similar IH requirements**, with differing incentives:
 - Sacramento: Housing Impact Fee, with onsite option (10% at 80% AMI). Limited City incentives
 - Denver: 8% at 60% AMI to 15% at 70% AMI; modest land use incentives and fee waivers
 - Seattle: 5 - 11% of units (depending on area and city upzoning). Property tax exemption available with provision of additional affordable units.

LOCAL POLICY IMPACT FINDINGS

STUDY OVERVIEW

- Assess relative impact of individual policies on five housing prototypes:
 - Townhome Prototype (4 units)
 - Multifamily Prototypes (3-, 4-, 6-, & 30-stories)
- Local Policies:
 - Direct Fees (i.e., SDCs)
 - Bike Parking Requirement
 - First Floor Active Use
 - Design Review
 - Public Infrastructure Requirements

LOCAL POLICY COST IMPACT FINDINGS

PROTOTYPICAL DEVELOPMENT COST SUMMARY

Characteristics	Prototype 1 Townhome		Prototype 2 Surface Parked MFR		Prototype 3 Tuck-Under MFR		Prototype 4 Podium MFR		Prototype 5 High-Rise MFR	
Project Example										
	Total Cost	Per Unit	Total Cost	Per Unit	Total Cost	Per Unit	Total Cost	Per Unit	Total Cost	Per Unit
Land Cost	\$400,000	\$100,000	\$800,000	\$20,000	\$1,920,000	\$30,000	\$7,150,000	\$50,000	\$39,900,000	\$75,000
Hard Cost	\$1,110,000	\$277,500	\$7,410,000	\$185,250	\$11,797,500	\$184,336	\$34,779,150	\$243,211	\$150,968,700	\$283,776
Parking Cost	<i>Incl. above</i>	n.a.	\$100,000	\$2,500	\$480,000	\$7,500	\$4,320,000	\$30,210	\$15,960,000	\$30,000
Soft Costs	\$222,000	\$55,500	\$1,652,200	\$41,305	\$2,701,050	\$42,204	\$7,819,830	\$54,684	\$30,047,166	\$56,480
SDC / Impact Fees	\$132,628	\$33,157	\$752,240	\$18,806	\$1,167,232	\$18,238	\$2,332,293	\$16,310	\$8,333,518	\$15,665
Financing Costs	\$82,230	\$20,558	\$472,507	\$11,813	\$796,701	\$12,448	\$2,487,296	\$17,394	\$10,813,734	\$20,327
Developer Fee	\$77,343	\$19,336	\$311,608	\$7,790	\$508,274	\$7,942	\$1,552,157	\$10,854	\$6,483,694	\$12,187
Total Development Cost	\$2,024,201	\$506,050	\$11,498,555	\$287,464	\$19,370,757	\$302,668	\$60,440,726	\$422,662	\$262,506,812	\$493,434

LOCAL POLICY COST IMPACT FINDINGS

- Depending on site location and prototype, revisions to existing policies can reduce cost of building **between 2 and 14 percent**
- SDC waivers represent the largest potential cost savings, but may represent challenges associated with planned City capital improvements
- Other immeasurable factors can also improve feasibility (i.e., faster approval process, eliminating contradictory policies, reducing last-minute requirements, etc.)

SYSTEM DEVELOPMENT CHARGES

- Estimate impact of waiving all SDCs
- Estimate impact of reducing SDCs by 25%
 - City policy to reduce fees, **OR**
 - City allows developers to reduce SDCs based on on-/off-site improvements (ex: reduced transportation SDC fee if developer is required to upgrade nearby traffic light, etc.)

SYSTEM DEVELOPMENT CHARGES IMPACT

<u>Characteristics</u>	<u>Townhome</u>	<u>Surface Parked MFR</u>	<u>Tuck-Under MFR</u>	<u>Podium MFR</u>	<u>High-Rise MFR</u>
Project Example					
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812

Policy Adjustments

Standard Fees and Charges

Total SDC Costs	\$132,628	\$752,240	\$1,167,232	\$2,332,293	\$8,333,518
<i>% of Project Costs</i>	6.6%	6.5%	6.0%	3.9%	3.2%
Waive/Use SDCs for on/off-site Project Costs (25% reduction in SDCs)	\$33,157	\$188,060	\$291,808	\$583,073	\$2,083,380
<i>% of Project Costs</i>	1.6%	1.6%	1.5%	1.0%	0.8%

BIKE PARKING REQUIREMENT

- Developers currently required to build 1.5 bike parking spaces per unit
- Assess impact of reducing requirement to 1.0 and 0.5 spaces per unit
- Two approaches to estimating impact
 - **Cost Approach:** Estimate the cost savings by the reduced bike parking requirement
 - **Revenue Approach:** Assume developer will substitute residential unit(s) in place of reduced bike parking space. Leads to increased income, and higher relative project value.

BIKE PARKING REQUIREMENT IMPACT

<u>Characteristics</u>	<u>Townhome</u>	<u>Surface Parked MFR</u>	<u>Tuck-Under MFR</u>	<u>Podium MFR</u>	<u>High-Rise MFR</u>
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812

Policy Adjustments

Bike Parking Requirement

Reduce to 1.0 Spaces per Unit

Cost Approach

Cost of Bike Parking Spaces	n.a.	\$106,080	\$169,728	\$510,510	\$2,251,956
Percent of Project Cost	n.a.	0.9%	0.9%	0.8%	0.9%

Revenue Approach

Foregone Annual Revenue	n.a.	\$18,360	\$29,376	\$65,637	\$244,188
Project Value of Lost Revenue	n.a.	\$220,970	\$363,950	\$836,436	\$3,111,776
Percent of Project Cost	n.a.	1.9%	1.9%	1.4%	1.2%

Reduce to 0.5 Spaces per Unit

Cost Approach

Cost of Bike Parking Spaces	n.a.	\$212,160	\$339,456	\$1,021,020	\$4,503,912
Percent of Project Cost	n.a.	1.8%	1.8%	1.7%	1.7%






Revenue Approach

Foregone Annual Revenue	n.a.	\$36,720	\$58,752	\$131,274	\$488,376
Project Value of Lost Revenue	n.a.	\$441,940	\$727,901	\$1,672,872	\$6,223,553
Percent of Project Cost	n.a.	3.8%	3.8%	2.8%	2.4%

FIRST FLOOR ACTIVE USE REQUIREMENT

- Assess impact of waiving the First Floor Active Use requirement
- Assume “active use” is retail tenant
- Two approaches to estimating impact
 - **Assume no Retail Tenant:** Estimate the cost of delivering unused retail space. Assumes developer could eliminate retail space or replace with cost-neutral use
 - **Convert Retail to Residential:** Assume developer will substitute residential unit(s) in place of ground floor retail. Reduces cost of tenant improvements, and substitutes residential rent for retail rent






FIRST FLOOR ACTIVE USE REQUIREMENT IMPACT

Characteristics	Townhome	Surface Parked MFR	Tuck-Under MFR	Podium MFR	High-Rise MFR
Project Example					
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812
Policy Adjustments					
<u>First Floor Active Use Requirement</u>					
<u>Assuming No Retail Tenant</u>					
Cost of Non-Leased Retail Space	n.a.	n.a.	\$676,000	\$1,260,000	\$1,909,000
Percent of Project Cost	n.a.	n.a.	3.5%	2.1%	0.7%
<u>Allow Residential</u>					
Cost Savings (No Tis)	n.a.	n.a.	\$250,000	\$350,000	\$450,000
Project Value of New Revenue	n.a.	n.a.	\$66,372	\$92,920	\$119,469
Total Financial Benefit	n.a.	n.a.	\$316,372	\$442,920	\$569,469
Percent of Project Cost	n.a.	n.a.	1.6%	0.7%	0.2%






DESIGN REVIEW REQUIREMENT

- Assess impact of required Design Review Process
- Two sources of cost savings:
 - **Value of longer approval process:** Assume three months longer approval process and associated required return on pre-development dollars
 - **Soft cost savings:** Assume soft cost reduction of 5 percent (i.e., 20% of hard costs to 19% of hard costs) associated with lower required fees for architecture and engineering

DESIGN REVIEW REQUIREMENT IMPACT

Characteristics	Townhome	Surface Parked MFR	Tuck-Under MFR	Podium MFR	High-Rise MFR
Project Example					
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812
Policy Adjustments					
<u>Design Review</u>					
Cost of Capital Associated with Longer Approval Process (3 Months)	n.a.	\$15,967	\$34,750	\$123,085	\$648,471
Soft Cost Reduction	n.a.	5%	5%	5%	5%
Soft Cost Savings	n.a.	\$82,610	\$135,053	\$390,992	\$1,502,358
Total Financial Benefit	n.a.	\$98,577	\$169,803	\$514,076	\$2,150,829
Percent of Project Cost	n.a.	0.9%	0.9%	0.9%	0.8%

LOCAL POLICY IMPACT SUMMARY

	Prototype 1			Prototype 2			Prototype 3			Prototype 4			Prototype 5		
Characteristics	Townhome			Surface Parked MFR			Tuck-Under MFR			Podium MFR			High-Rise MFR		
(Photo Example)															
	<u>Cost Impact</u>	<u>Per Unit</u>	<u>% of Cost</u>	<u>Cost Impact</u>	<u>Per Unit</u>	<u>% of Cost</u>	<u>Cost Impact</u>	<u>Per Unit</u>	<u>% of Cost</u>	<u>Cost Impact</u>	<u>Per Unit</u>	<u>% of Cost</u>	<u>Cost Impact</u>	<u>Per Unit</u>	<u>% of Cost</u>
Standard Fees and Charges															
High Estimate (waive all fees)	\$132,628	\$33,157	6.6%	\$752,240	\$18,806	6.5%	\$1,167,232	\$18,238	6.0%	\$2,332,293	\$16,310	3.9%	\$8,333,518	\$15,665	3.2%
Low Estimate (25% Reduction)	\$33,157	\$8,289	1.6%	\$188,060	\$4,702	1.6%	\$291,808	\$4,560	1.5%	\$583,073	\$4,077	1.0%	\$2,083,380	\$3,916	0.8%
Bike Parking Requirement															
High Estimate (0.5 spaces/unit)	n.a.	\$0	n.a.	\$441,940	\$11,048	3.8%	\$727,901	\$11,373	3.8%	\$1,672,872	\$11,698	2.8%	\$6,223,553	\$11,698	2.4%
Low Estimate (1.0 spaces/unit)	n.a.	\$0	n.a.	\$106,080	\$2,652	0.9%	\$169,728	\$2,652	0.9%	\$510,510	\$3,570	0.8%	\$2,251,956	\$4,233	0.9%
First Floor Active Use Requirement															
High Estimate (Eliminate Space)	n.a.	\$0	n.a.	n.a.	\$0	n.a.	\$676,000	\$10,563	3.5%	\$1,260,000	\$8,811	2.1%	\$1,909,000	\$3,588	0.7%
Low Estimate (Allow Residential)	n.a.	\$0	n.a.	n.a.	\$0	n.a.	\$316,372	\$4,943	1.6%	\$442,920	\$3,097	0.7%	\$569,469	\$1,070	0.2%
Design Review	n.a.	\$0	n.a.	\$98,577	\$2,464	0.9%	\$169,803	\$2,653	0.9%	\$514,076	\$3,595	0.9%	\$2,150,829	\$4,043	0.8%
Total Estimated Policy Impact (High)	\$132,628	\$33,157	6.6%	\$1,292,757	\$32,319	11.2%	\$2,740,936	\$42,827	14.1%	\$5,779,241	\$40,414	9.6%	\$18,616,900	\$34,994	7.1%
Total Estimated Policy Impact (Low)	\$33,157	\$8,289	1.6%	\$392,717	\$9,818	3.4%	\$947,711	\$14,808	4.9%	\$2,050,580	\$14,340	3.4%	\$7,055,634	\$13,262	2.7%

OTHER POLICY IMPACTS

- Infrastructure Requirements
 - Ped PDX impacts buildable SF due to setbacks
 - Required off-site infrastructure upgrades
 - Pay SDCs but also required to pay for upgrades
 - Uncertainty around site-specific requirements
- Permitting Process Time and Uncertainty
- Contradictory codes/requirements
- Other site-specific costs (e.g., tree mitigation, bird glass, etc.)