

# DOZA Proposed Draft Appendix B

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### **The DOZA Draft Report and Housing Affordability**

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Per BPS' request, this memorandum has been prepared as an addendum to the Design Overlay Zoning Assessment (DOZA) Report, and addresses the impacts of the DOZA report recommendations on housing affordability in the City of Portland. Key findings of this review are:

- o Design review in the City of Portland almost certainly adds some cost to the housing development process since non-profit and private sector housing developers must invest time, effort, and funds to navigate the process, and higher design standards may require more costly building materials. Some of these costs are then passed on to renters and homebuyers.
- o The goal of the DOZA project has been to retain and improve the design review process, and many of the developers and designers we interviewed support the goals of design review in concept. In this context, the challenge is to optimize the positive benefits of design review (better-designed buildings and public places), while minimizing rather than eliminating the cost associated with design review.
- o A number of the recommendations in the DOZA report are intended to make the design review process more efficient, focused, predictable, and effective, and less time-consuming for applicants. This should help to optimize the benefits of design review, while reducing costs. Therefore, the DOZA recommendations should help to improve housing affordability in Portland.
- o Design review is just one among many factors that affect housing affordability in Portland. Other issues, such as the rate of population growth and the availability of land zoned for single- and multi-family housing, are likely to have a larger impact. In order to make meaningful improvements to housing affordability, policy makers will need to address other issues beyond design review.

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## Defining Housing Affordability

Housing affordability has become one of the most important public policy issues in Portland over the past several years. However, “affordable” housing can mean different things to different people. For example, an apartment that rents for \$2,000 per month may seem affordable to one family, and out of reach for another.

As used in this memorandum, the term “**housing affordability**” describes a general issue that affects households across a wide range of income levels in the City—including homeless, low-income, and even middle and upper-middle income households. Housing prices and rents have been increasingly rapidly across the City, so housing affordability has decreased. A key measure of housing affordability is whether households are “cost burdened”—spending more than 30% of their income on rent. And while lower income households are more likely to be cost burdened, higher income households can be cost burdened too.

“**Regulated affordable housing**” is a more specific term that is defined by the Portland Housing Bureau (PHB) as housing with a regulatory agreement tied to the property deed, which requires affordability (usually for specific income groups); this is sometimes referred to as “subsidized” affordable housing. Typically, this housing is targeted towards households earning 80 percent of area median income (AMI) or less.

“**Inclusionary housing**” is a new program that was adopted by City Council in December and requires developments with 20 or more units to reserve 20 percent of those units for households at 80 percent of AMI or less. Thus, a share of most new housing projects in the City going forward will be “regulated affordable housing.”

## Potential Impacts of Design Review on Housing Affordability

- Housing affordability is a complex city and regional issue, and many factors can affect it. Even in the most extreme cases, design review is only one factor among many. From an economic point of view, factors affecting affordability can be summarized within two categories:
  - **Housing demand** is affected by population growth rate from births and immigration, household incomes, mortgage interest rates, location preferences, and other factors. If housing demand increases and supply remains the same, housing prices will increase and affordability will decrease.
  - **Housing supply** (the amount of housing, particularly new housing development) is affected by construction costs, debt and equity interest rates, labor costs, land availability and cost, zoning, regulatory processes (such as design review), taxes and fees, availability of funds for regulated affordable housing, and other factors. If housing demand is constant, and costs increase or supply is constrained, developers and owners will pass higher costs on to renters and homebuyers, which adversely affects affordability.

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- The primary way that design review is likely to adversely affect housing affordability is by imposing additional time, investment, and uncertainty on the development team (including developer, architect, etc.) during the design process.
  - Additional time and investment are most often incurred when the design review process requires architects and engineers to revise building plans multiple times and seek approvals from the Design Commission. The process creates uncertainty when developers cannot be sure when they will be able to break ground/start construction, secure construction contracts, complete financing documents, begin leasing apartments, or complete other parts of the development process.
  - Time, investment, and uncertainty are deterrents to housing development since, a) they increase development costs, which developers will seek to pass on to renters and homebuyers, and b) they may encourage developers to forego their project or complete the project elsewhere, outside the City of Portland. When design review requires additional time, investment, and uncertainty it can become a housing supply constraint.
  - In stakeholder interviews, the DOZA team heard that design review can be a bottleneck (supply constraint) to housing and other projects, since many meetings with design review staff and Design Commission (DC) are required, the process is unpredictable, revisions are required, and the Commission can only handle so many projects at a time. According to BPS' analysis of housing affordability, more than 5,000 new residents moved to Portland each year for the years 2010 to 2015, which represents an approximate level of housing demand. Supply must keep up with demand, or housing costs will rise even more than they would otherwise.
  - While this additional time, investment, and uncertainty is real, it should be put in perspective. The design process, or professional fees paid for "architecture and engineering" account for approximately 3 to 4% of the total project cost of a typical housing project. (3% was the average estimated by the City's 2015 Central City Density Bonus study. A/E is typically calculated as 6 to 8% of hard construction costs, which are about 50% of total project cost.) Therefore, if a project that goes through the design review process requires 20% more design effort, this would increase total project costs by less than 1%. While this cost increase may seem modest, interviews indicate that because it requires extra time and uncertainty early in the development process, it frustrates developers, causes delays that are compounded later, and could lead them to forego projects or build elsewhere.
- A second way that design review can negatively affect housing affordability is by requiring higher-cost materials, particularly for the exterior building envelopes such as windows and brick.

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- When materials cost more, this will increase developers' cost, and therefore increase housing cost across all price points. Hard construction costs make up for about 50% of project's total cost, and therefore, modest increases to the cost of materials could significantly increase total cost. However, envelope costs are only one part of hard costs; the building's structure, systems, and interior finishes are also significant hard costs.
- During interviews, the DOZA team did not hear as much about the issue of increased materials costs as about the time, investment, and uncertainty issues mentioned above.
- A third way that design review can adversely affect housing affordability is by imposing significant time, investment, and uncertainty, and requiring higher cost materials, *specifically for regulated affordable housing.*

## **Reasons the DOZA report is likely to benefit housing affordability**

As discussed above, design review is likely to add some additional time and cost to the housing development process. However, the intent of the DOZA report is to improve the design review process and make it more efficient and effective. Leland Consulting Group believes that, if implemented, the DOZA recommendations will accomplish this, and thus help the cause of housing affordability. This is for the following reasons:

- The report provides a number of recommendations that should reduce design review's roles a bottleneck/supply constraint, and thus address issue number 1 above (time, investment, and uncertainty) including:
  - Exempting "small" size projects and reducing the level of design review applied to "medium" size projects. This alone could reduce the number of projects reviewed in the design review process by almost 20% and reduce the bottleneck effect. See report Recommendation 1: "Adjust the thresholds for design review..."
  - Various recommendations to make the design review process more clear, linear, transparent, and straight forward for applicants (developers), design review staff and commission, and the general public. This can have the effect of reducing the amount of time investment by the development team (developer, architect, others), since the team would be less likely to complete some tasks "out of sequence," and less likely to have to re-do elements of the design multiple times. Specific recommendations in the report that address this issue include:
    - Processes Recommendation 2: Improve the review processes with a charter, better management of meetings and training for both the Design Commission and staff.
    - Processes Recommendation 3: Align the City's review process with an applicant's typical design process.

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- Tools Recommendation 1: Clarify and revise the purpose of the d-overlay and simplify terminology.
  - Increasing the clarity regarding the issues over which design review has purview, and the issues that are outside of design review purview. As the report points out, design review's effect on development is often conflated with other regulatory frameworks imposed by the City or other government agencies. For example, design review has no oversight over project density, types of land uses in a building, or parking requirements, which are all governed by zoning. However, this not always understood by the public or other parties, which can create confusion and require time to address. The report addresses this issue via:
    - Tools Recommendation 3: Use the Three Tenets of Design to Simplify, Consolidate, and Revise the Standards and Guidelines. (The three tenets are context, public realm, and quality and sense of permanence.)
  - Increasing the potential supply of housing, by increasing the throughput or potential number of projects that the design review process can consider and approve at any given time. The report addresses this issue via:
    - Processes Recommendations 8: Consider establishing more than one Design Commission... Establishing additional Design Commissions should increase the number of projects that could be evaluated and would reduce the bottleneck/supply constraint effect.
- An addendum to the report recommends that some regulated affordable housing projects be exempted from design review. The precise parameters of this recommendation should be clarified, so that City staff and leaders can better understand how to apply it. For example, the recommendation should clarify whether all regulated affordable housing will be exempted, or only those smaller than a certain threshold, and whether this would apply to projects with some regulated affordable housing (e.g., projects with 20 or 50 percent of regulated units). However, to the extent that regulated affordable housing is exempted or receives an expedited review, this should decrease the cost of regulated affordable housing projects and increase the total number of units.

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## **Other Comments**

- As stated above, housing affordability is a complex city and regional issue, and design review is only one small input into this complex equation. Portland faces other housing demand and supply factors that are likely having a larger impact on housing affordability than design review. In particular, these include relatively rapid population growth and a limited supply of single- and multi-family zoned land.
- As the report points out, design review's effect on development is often conflated with other regulatory frameworks imposed by the City or other government agencies. Developers are attempting to understand the combined effect of multiple new or revised regulatory frameworks, which include Inclusionary Housing and Transportation Demand Management (TDM) requirements, and therefore, it is possible that frustration with the overall regulatory environment will be directed at design review.
- However, as summarized above, we believe that because of its recommendations to clarify and streamline the design review process, exempt or offer expedited permitting to some projects (particularly regulated affordable housing), and potentially increase the throughput of the design review system, the DOZA report recommendations, if implemented, can be positive for housing affordability.