



# OREGON LOCUS

## Responsible Real Estate Developers and Investors

*an affiliate of Smart Growth America's national developer coalition*

### Why the model was developed:

Taking away feedback and requests from the last two Panel of Expert meetings, Oregon LOCUS set out to develop a model based on today's development financing realities, populated with recent or current pro formas and then overlaid the proposed Inclusionary Housing program recommendations to see if development would continue to be feasible, or what the extent there was a "viability gap" for development. The viability gaps were measured in both offset dollars per unit needed and basis points. Basis points are one of the typical units of measurement in interest rates, key to multifamily financing. One basis point equals one hundredth of a percent (1 basis point = 0.01%), so the size of the basis point gap is the key determinant distinguishing a multifamily development that can be financed and one that cannot.

### How the model works:

- The model was developed for same building types the City of Portland has modeled, but the analysis focused on podium and high rise pro formas, since those appeared to have the greatest challenges and are most critical to meeting growth goals.
- Sixteen recent/current projects were added into the model, reflecting the current 80% and 60% MFI recommendations and any "viability gaps" between real projects that worked and how they performed under the IH program proposed were identified.
- The 16 pro formas represent nearly \$1.1 billion of housing development, totaling over 2,600 units delivered, under construction or in preconstruction in Portland's urban core.

### The Results—the portion of the proposal for 10% of new units at 60% MFI largely appears to work:

- The 60% MFI proposal appears to have very little viability gap, although analysis is still being done to assess feasibility from an IRR perspective, looking at the value of projects at reversion, given abatement is only ten years but the affordability obligation remains for 99 years under the proposal.
- The model shows the initial viability gap is \$26,000 needed per unit in offsets for podium and \$36,000 for high rise in central city and along transit corridors.
- In terms of yield, project yield on podium falls 47 basis points; and, high rise falls approximately 49 basis points.
- When the proposed offsets are added for **podium**, utilizing a full tax abatement, CET exemption on affordable, and SDC waiver on affordable, the yield rises 54 basis points, bridging the gap.
- For **high rise**, using a full tax abatement, CET exemption on affordable, and SDC waiver on affordable, the yield rises 45 basis points, coming 4 bps short of bridging the gap....so a modest adjustment of additional offsets should work.

As partners in meeting Portland's growth goals and housing needs, we *also* need a viable 80% MFI program to ensure the maximum number of housing units at a range of affordability need. That portion of the proposed IH program still needs work to close the viability gap.

**The Results—the portion of the proposal for 20% of new units at 80% MFI has a significant viability gap for podium and high rise:**

Podium—these results are true for any FAR, there really isn't a difference between +/- 5.0 in performance:

- Approximately \$43,000 in offsets are needed per unit for **podium** in central city and along transit corridors.
- In terms of return to capital, the source of funding for developments to move forward, project yield on podium falls 77 basis points
- When the proposed offsets for the 80% MFI program are added, utilizing a *full* tax abatement (the proposal only allowed partial abatement for 4.0 FAR base zones) and a CET waiver on the affordable component, the yield rises 50 basis points, still leaving a 27 basis point gap.

High Rise:

- Approximately \$61,000 in offsets are needed per unit for high rise in central city and along transit corridors.
- In terms of return to capital, project yield on high rise falls approximately 83 basis points.
- When the proposed high rise offsets for the 80% MFI program are added, utilizing a full tax abatement and a CET waiver on the affordable component, the yield rises 41 basis points, still leaving a 42 basis point gap.

**Next Steps:**

The model allows changes to the offsets, inclusion rates, or a combination, and instantly shows what happens to the viability gap. The model can help craft not only a workable Inclusionary Housing program, but one that produces the greatest number and range of affordable housing units possible, without negatively impacting housing supply and the City's growth goals.

*Oregon LOCUS, is the newly formed local affiliate of Smart Growth America's coalition of responsible real estate investors and developers.*

*Our members include developers of mixed-use and multi-family properties throughout Portland's central city and transit corridors, and we are committed to achieving a successful Inclusionary Housing program that produces the greatest number and range of affordable housing units possible, without negatively impacting housing supply and the City's growth goals.*