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MEMO

DATE: September 15, 2017

TO: Susan Anderson, Director, Bureau of Planning and Sustainability
Kurt Creager, Director, Portland Housing Bureau
Rebecca Esau, Director, Bureau of Development Services

FROM: Tyler Bump, Senior Economic Planner

CC: Planning and Sustainability Commission

SUBJECT: Six Month Review of Inclusionary Housing Zoning Code and Program

After the adoption of the Inclusionary Housing (IH) requirements, there has been significant speculation about the impact on the economics of real estate development and the ability for the City of Portland to continue to build new housing to accommodate growth and demand for housing in the coming years. This memo provides an analysis of six months of development trends and permit activity under the new Inclusionary Housing Zoning Code and Program regulations.

The analysis shows that pre-IH vested applications are continuing to work their way through the development review process at a rate that is consistent with recent development trends. Given there is still a substantial number of pre-IH applications, it is too early to determine the impact the IH requirements are having on the overall rate of residential development. Development projects that are required to comply with the inclusionary housing regulations are beginning to enter the development review process through both permit applications and early assistance requests. BPS will continue to monitor the development pipeline and report progress every six months. The next update will be based on permit activity through February 1, 2018.

Key Findings

- 5,000 units, in 57 projects, of the 19,000 units vested before Inclusionary Housing went into effect have been issued building permits to move towards construction.
- There are still another 14,000 pre-IH vested units waiting to move through the review process. Vested project land use review approvals stay active for three years (until early 2020).
- There has not been a significant increase in the volume of 15-19 unit buildings that would be an indicator that developers are trying to avoid the IH requirements.



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Development Activity Prior to Inclusionary Housing

The Bureau of Planning and Sustainability (BPS) and the Bureau of Development Services (BDS) compiled a dataset of all pre-IH vested projects. BDS identified a significant increase in development permit and land use review applications after the Oregon State Legislature passed Senate Bill 1533 in March 2016. While the City of Portland moved forward with the development of the Inclusionary Housing Program, BPS and BDS staff estimated approximately 14,000 units in the development review pipeline through November 30, 2016.

Development Review Pipeline (through November 30, 2016)

Total Land Use Reviews	51
Total Units in Land Use Review	8,995
Total Building Permit Units	5,029
<i>Approved to Issue</i>	<i>384</i>
<i>Issued</i>	<i>165</i>
<i>Under review</i>	<i>4,471</i>
Total Pipeline Units - Land Use Review and Building Permits	14,024

Review of building permit applications in December 2016 and January 2017 indicates that building permits for an additional 1,574 units in 28 buildings with 20 or more units were submitted before the February 1, 2017 implementation date of the Inclusionary Housing requirements. Additionally, BDS staff estimated that approximately 5,000 new residential units were submitted through land use review applications in December 2016 and January 2017. Therefore, BPS estimates that there were approximately 19,000 new residential units in the development review pipeline as of February 1, 2017.¹

During the post-recession development cycle (2013-2017) there have been 3,000 to 6,000 new residential units built per year in Portland. At this rate, 19,000 units in pre-Inclusionary Housing vested development projects represents about four years of development activity. The spatial distribution of pre-Inclusionary Housing vested development projects is consistent with the current development cycle, 40 percent of vested units are located in the Central City Plan District and 60 percent of the vested units are located in Mixed Use and Multi-Dwelling Zones in centers, corridors, and neighborhoods outside the Central City.

¹ The 19,000 pre-IH vested unit estimate accounts for projects that were in the permit pipeline but completed during this timeline, some projects of which final design contained a smaller number of units than originally estimated through review of land use review applications, and changes to projects between permit application and permit issuance.



Progress of Vested Projects Through the Development Pipeline

As of August 1, 2017, 57 projects with a total of 5,024 units of the pre-IH permit applications have moved through the land use review and building permit processes. Permit and land use review applications for these projects originated between March 6, 2016 and February 1, 2017.

Development Output (through August 1, 2017)

Vested LUR Units	2,115
Vested LUR Projects	15
Vested Permit Units	2,909
Vested Permit Projects	42
Total Vested Units	5,024
Total Vested Projects	57

Post Inclusionary Housing Permit Activity

Between February 1, 2017 and August 1, 2017, permits were filed for 11 projects subject to IH requirements. Six were privately financed and five were affordable housing projects receiving some level of assistance from the Portland Housing Bureau.

The six privately financed projects included 406 market-rate residential units and 60 affordable units. Of the 60 affordable units, 23 units are provided at 80% MFI and 37 units are provided at 60% MFI.²

Of these six projects:

- Four utilized, at least partially, the parking exemption for IH projects near transit.
- Three utilized, at least partially, the IH FAR bonus.
- Three are located in close-in commercial corridors
- Three are in inner neighborhoods, but further from the Central City in Sellwood, Woodstock, and Mt. Tabor.

The five projects that included Portland Housing Bureau financing were 100% affordable housing projects and account for 424 of affordable housing at various income levels between 0% and 80% MFI.

There were no new land use review applications filed for projects with buildings consisting of 20 or more units during this time period.

² Two permitted development projects were working with PHB staff to determine the feasibility for off-site or on-site dedication but have been estimated at the 60% MFI level consistent with other development projects from that developer



Post-IH Early Assistance Review Activity

As of August 1, 2017, there were 11 applications for early assistance (EA) for private sector projects that would be required to comply with the Inclusionary Housing regulations. After a lull in permit activity immediately following implementation of the new Inclusionary Housing regulations, early assistance activity is picking up as architects and developers are starting to explore how to work with the Inclusionary Housing requirements. Most of these potential development projects propose to utilize the IH FAR density bonus and many are expected to at least partially use the parking exemption near transit. Of the 11 EAs, two are in the Central City and nine are outside the Central City, mostly in the inner neighborhoods, but a little further from the Central City. Interestingly, the projects outside the Central City tend to be in locations where there has been limited new construction activity during this business cycle. This suggests that developers are attracted to sites with lower land values in areas that have seen relatively high increases in rent but limited development activity over the past four years.

The Myth of 19-Unit Buildings

During the Inclusionary Housing policy development process there were concerns that there would be an increase in permit applications for 19-unit buildings to avoid the 20-units in a building threshold for IH compliance. Review of the data shows that, generally, there has not been an increase in permit activity for 15-19 unit buildings compared to recent trends. From January 1, 2016 through January 1, 2017 there were 16 permit applications for 15-19 unit projects. From February 1, 2017 through August 1, 2017 there were 10 permit applications for development projects with 15-19 units. The rate of new permit applications filed for smaller projects under 20 units is consistent with pre-IH trends. Additionally, new permit applications for 15-19 units buildings are on smaller lots between 5,000 and 10,000 square feet and are all within close range of maximum residential densities allowed.

Conclusion

Given there is still a substantial number of pre-IH applications, it is too early to determine the impact the IH requirements are having on the overall rate of residential development. The large volume of vested development permits in the pipeline presents challenges for evaluating the impact of the IH-regulations on the current development market. BPS staff would be more concerned with the slowdown in permit and land use review applications if there was not such a large volume of pre-IH vested development applications in the pipeline. If the combined pre- and post-IH permits that are moving forward falls below 5,000 units per year, it could be a sign that the IH program is impacting housing production. However, development activity is also responsive to broader market fundamentals and economic cycles. BPS will continue to monitor the development pipeline and report progress every six months. The next update will be based on permit activity thru February 1, 2018.

