

The Oregonian

City affordable housing program does zero deals in 2015 amid boom

*By Jeff Manning
October 16, 2015*

As thousands of Portlanders struggle with skyrocketing rents, the city has failed this year to convince a single real estate developer to tap into a city fund meant to encourage more affordable apartments.

Even as Mayor Charlie Hales proclaims a housing emergency, one of the city's key tools for affordable housing has gone virtually dormant.

Three years ago, city and county officials put so many new restrictions on the fund that chased away developers and killed any chance the program had to make a dent in Portland's shortage of affordable housing.

The city has since reversed course, but the program that gives property tax cuts to developers in return for affordable apartments remains a tough sell: Zero deals in 2015, even as a blitz of new apartment construction changes the city's skyline.

Under the program, the city temporarily waives property taxes on an apartment building. The building owner in turn makes one out of five apartments affordable. In essence, the city and county help pay the monthly rent so a tenant can afford to move in.

But of the more than 11,000 new apartments launched in the city since 2012, just 315 carried reduced rents under the tax-break program. In that time, 15 developers applied to participate. Eight were rejected by the city and three others dropped out, deeming the regulations too onerous.

The tax program's failure results from competing agendas, hard choices and inattention to affordable housing issues at city hall. Local leaders shrugged off warnings of an impending shortage of homes affordable to working people.

The tax break-for-affordable apartments swap is not the city's only affordable housing tool. But the voluntary program is particularly important in a state that prohibits rent control and other mandatory affordable housing requirements in use elsewhere in the country.

Seattle, which borrowed the tax break concept from Portland, is getting about 2,000 affordable apartments a year during the current boom.

Portland Commissioner Dan Saltzman took over the city's housing programs in 2013. He acknowledged the 2012 restrictions were a mistake and arranged to repeal most of them. But he also blames "out-of-town developers who don't want to be bothered with anything that interferes with their profit margins."

Portland developer Tom Brenneke said the city missed a golden opportunity to help poor people during the surge of construction.

"You've got to ask yourself, why did it take so long for the city to take action," he said. "Why wasn't anybody talking about this issue two years ago?"

City officials maintain the program could eventually lead to 200-300 new affordable units a year.

That's better than the zero so far in 2015. But it pales in the face of the city's stated need of 33,000 affordable units.

Unacceptable giveaways?

The city's tax break program to provide for apartments and homes dates to 1975. The program helped create more than 14,000 affordable homes, most built by non-profit housing groups.

Private developers also can participate. They get property tax cuts on new apartment buildings if they reduce rents on 20 percent of the units for 10 years. Depending on the neighborhood, developers need to cut rents sufficiently so that people earning 60-80 percent of the area median income can afford to live there.

John Warner, formerly of the Portland Development Commission housing office, led a city group addressing urban middle-income housing. The group, in place from 2008 to 2010, warned of a looming shortage of housing that the working poor could afford. It advocated an ambitious partnership with private developers to build 3,000 affordable homes.

"These are relatively shallow subsidies," he said. "It's pennies on the dollar compared to the cost of building a new low-income housing project. It makes all the sense in the world to get the private sector to work for you."

Warner's task force never gained traction. That was in part a matter of bad timing. The recession was in full swing. Housing was falling in value. The chance of a sudden turnaround and a housing shortage seemed remote.

What's more, the Portland Housing Bureau was riveted on housing the homeless. Nick Fish, the city commissioner then overseeing the housing bureau, doesn't apologize for that.

"The biggest needs are at the really low-end," Fish said in a recent interview. "We don't have the bandwidth to do both."

The tax program had few friends in city hall. As the city, county and schools cut back during the recession, critics deemed the tax breaks unacceptable giveaways to wealthy developers. In 2012, the city and county capped spending on the apartment program at \$1 million.

At the same time, the city imposed a phalanx of new rules intended to extract better terms from developers. Most significantly, the city decided developers could make no more than a 10 percent profit on a particular project if they wanted the tax subsidy.

The market turns

Those limits came as Portland's apartment market took off and developers had little incentive to restrain their profits. Rents soared, jumping more than 40 percent from 2010 to 2015.

That the construction boom would only worsen the affordability problem was initially lost in the exhilaration and relief at the economy's recovery.

"We all can get dinged for not seeing this wave coming," said Multnomah County Chair Deborah Kafoury. "But I think for a while, people were just excited about all this development in places where it hadn't happened before."

Saltzman said he realized last year that Warner's prediction of a serious shortage of affordable housing, even for the middle class, was accurate. The commissioner sought to jumpstart the apartment tax break program, cold calling developers to pitch it. The majority ignored him, he said. Other staffers from Saltzman's office and, more recently, the housing bureau also approached developers with little success.

Two developers started but dropped out of the process last year after getting a closer look.

"From our perspective it seemed we were getting punished in a way for having the affordable component," Allison Finn of Trinsic Residential Group explained at the time.

One who heard out the commissioner was Tom Brenneke. His company, Guardian Real Estate Services, is a co-developer of the Yard, a 284-unit tower under construction at the east end of the Burnside Bridge.

"We weren't going to do it," Brenneke said. "It had some pretty clunky provisions."

The 10 percent profit cap was particularly unacceptable.

"Why would anyone get near something like that in a market as hot as this?" he said.

Brenneke was sympathetic to the need for more modestly priced apartments. As Portland prices have increased, Brenneke's company has found it increasingly difficult to retain employees.

"I have people who live in Southwest Washington, in east county," he said. "And it's not just Vancouver and Gresham these days. It's Battle Ground and Troutdale. People quit after a couple years because they can't take the commute. Every business owner with 50 or more employees is aware of this."

Saltzman and his staff persisted in their efforts last year to recruit Brenneke into the program, finally asking him what it would take to cut a deal.

Soon, the city jettisoned most of the 2012 restrictions, including the limit on developer profits. The city and Multnomah County also agreed in October to triple the budget for the tax program to \$3 million a year.

Under the subsequent deal with the city, Brenneke's company will save about \$800,000 a year for 10 years in property taxes. Tenants will pay \$650,000 less in rents, leaving Guardian with a \$150,000 annual profit from its arrangement with the city.

For Portland, it will mean 57 affordable apartments -- \$729 a month for a studio -- in the heart of the city. The market-rate rent in the Yard starts at \$2,148 a month.

Portland delays financial plan for affordable housing

*By Brad Schmidt
October 16, 2015*

High-stakes negotiations dragged on this week inside Portland City Hall, yet again delaying a proposal to increase public funding for affordable housing by as much as \$91.3 million over the next 10 years.

Commissioner Dan Saltzman has delayed next week's planned hearing until Oct. 28 because city leaders still haven't been able to settle on a funding proposal.

Saltzman, who oversees the Housing Bureau, said he's trying to find agreement and "move the dial up as far as we can."

The debate comes as housing morphs into a top political priority, with the City Council declaring a "housing emergency" and Mayor Charlie Hales pledging \$20 million in the next fiscal year to fight homelessness.

At issue is the share of money that Portland will dedicate to affordable housing within urban renewal districts -- the city's single largest pot of money for affordable housing.

Portland's current policy calls for an aggregate minimum of 30 percent within all districts. But a housing advisory group in August recommended increasing that share -- called the affordable housing set-aside -- to 50 percent.

City officials, who initially proposed no change, have been scrambling ever since.

The Housing Bureau originally planned to release a proposal by Sept. 1 but never did. Saltzman's office later scheduled a City Council work session for Oct. 13 and planned to discuss a proposal at the Oct. 21 regular meeting.

But no clear consensus emerged during this week's work session and negotiations Thursday didn't result in a proposal.

Even though housing has become a top political priority, Portland's commission form of government continues to create divisions.

Saltzman and Commissioner Nick Fish, the former housing commissioner, have expressed support for a big increase.

But increasing funding for affordable housing would leave less urban renewal money for redevelopment projects spearheaded by the Portland Development Commission. It would also leave less money for parks and transportation projects funded with urban renewal money.

A zero-sum game, officials have been trying to find a balance. But Mayor Charlie Hales, in charge of the development commission; Commissioner Steve Novick, in charge of transportation; and Commissioner Amanda Fritz, in charge of parks; have all expressed some reservations.

During Tuesday's work session, Saltzman said he wanted to propose a financial target -- he didn't say what that would be -- and have the City Council vote this month.

Then, housing and development staff would scrub their budgets and return in January with details about how to actually meet the commitments, district by district.

Novick, however, objected. He said it would be difficult to commit to promise more for affordable housing without first analyzing the specific tradeoffs.

A carrot for developers to build affordable housing: Editorial Agenda 2015

*By The Oregonian Editorial Board
October 17, 2015*

For those suffering whiplash in trying to follow Portland City Council's affordable housing strategy, take heart in one proposal that appears to be making its way slowly through the city's planning department.

At the prompting of Commissioner Dan Saltzman and with City Council approval, planners are steadily working on an incentive for developers that, if successful, could result in hundreds of new rent-restricted units in the central city core. In return for building affordable housing units or paying into an affordable-housing fund, developers would get permission to build bigger or taller projects on a central city site than zoning would normally permit. The incentive would replace two existing "density bonus" programs that have failed to generate any interest from developers due to costs outweighing any benefits.

A workable incentive is, by itself, a promising step and something that has yielded tangible results in other cities. In Seattle, for example, project developers have paid \$75.6 million to the city's affordable housing fund in the last 14 years in exchange for the ability to build bigger or taller projects than zoning would normally allow. Those funds have been allocated to 30 projects so far. In addition, as part of the voluntary program, developers have built 115 units that are subject to rent-restrictions for 50 years, according to Seattle's Housing Bureau spokesman Todd Burley.

But Saltzman wants more than just an improved affordable housing incentive. He wants the city to whittle down its list of 18 such incentives to just two – affordable housing and historic preservation.

That will take considerable will from a city that avoids prioritization of needs in favor of an "all-of-the-above" mentality. But commissioners should be prepared to endorse such a strategy if the proposal being developed by the planning department can bring about the kinds of progress that Seattle has seen.

So-called "density bonuses" operate on a fairly simple premise. The city imposes certain restrictions on residential, commercial and mixed-use developments, including how large they can be for the lots they will occupy. Developers, however, can seek permission to build bigger or taller by promising to include amenities that provide a public benefit. Portland's menu of acceptable amenities has grown to include, among other things, a locker room with bike parking, an eco-roof or on-site child care. The city also allows developers to contribute to

certain funds, such as one for public art, as another way to gain approval for a higher "floor area ratio" – the total square footage of a project as compared to the size of the site. That translates into more units for the developer to sell.

It makes sense to get rid of many of these other incentives, Saltzman noted. Some, such as a bonus for adding day care, are rarely used. Others, such as bike parking, no longer need to be encouraged because the market has matured to the point where developers know they must provide it, he said.

It remains to be seen how the proposal will be structured. The current incentive involves granting developers up to an additional floor area ratio of 3 to 1 for adding affordable housing, according to Joe Zehnder, the chief planner for the city's Bureau of Planning and Sustainability. They're also grappling with where to set the price per square foot that developers would have to pay in lieu of providing affordable housing if they want the extra square footage.

"Just like anything, we should get good value for what we're giving up," said Zehnder.

Portland can fine-tune the details as an incentive program evolves. But the biggest challenge will be to ensure that city commissioners remember the urgency behind affordable housing when the proposal to limit incentives comes up for consideration next summer. Prioritizing involves not only choosing what to emphasize, but also what to let drop.

The Portland Tribune

Pearl District affordable housing deal signed

By Jim Redden

October 18, 2015

Portland has picked a developer to build 30 units of affordable housing for families in the Pearl District.

The Portland Housing Bureau has elected Innovative Housing Inc. to develop the housing on city-owned property at Northwest 14th Avenue and Ralieg Street. Under the agreement, the units will be priced so that a family at or below 30 percent of the region's Median Family Income (MFI) can afford to live there.

The agreement also calls for additional one-bedroom units that those earning 60 percent of the MFI can afford to rent. Ground-floor common areas will also offer residents a community room, indoor and outdoor play areas, a laundry facility, and on-site resident support services.

"This project will help protect our most vulnerable Portlanders — low-income families — as we grapple with affordability problems, rising rents, and the heart-wrenching effects of homelessness," says Mayor Charlie Hales. "We need long-term solutions like this affordable housing development to continue to move the needle on affordability, livability, and equity."

The site was bought from Hoyt Street Properties (HSP) this spring as part of a longstanding affordable housing agreement between the city and HSP. The city paid \$1.3 million for the quarter-block parcel, which is below its appraised value of \$1.5 million. The purchase was

financed with urban renewal dollars and is part of the city's efforts to commit 30 percent of such funds to affordable housing projects.

As part of the A Home for Everyone collaborative, the Portland and Multnomah County have identified families with children as a priority population in the local effort to end homelessness. A recent count of homelessness in Portland and Multnomah County published in June showed a 24 percent increase in unsheltered families with children since 2013. Families with children also make up a disproportionate percentage of the estimated 12,000 people who are “doubled up” in housing or living in motel rooms on any given night.

“When families are displaced by a rent increase or a medical crisis, it’s children who suffer,” says Multnomah County Chair Deborah Kafoury. “This project will give kids safe, stable homes where they can thrive.”

Innovative Housing Inc. has been involved with several other affordable housing developments in town, including the Broadway Vantage, Magnolia and Erickson/Fritz apartments.