The Oregonian

Apartment Construction is Drying Up. Is Affordable Housing Measure to Blame?

By Elliot Njus
February 19, 2018

Portland's apartment-building binge appears to be headed off a cliff.

Applications for new housing developments have nearly ground to a halt over the past year, and there are plenty of reasons for that. Construction costs have ballooned, as have land prices. The glut of new construction, meanwhile, has taken the wind out of rising rents, at least at the high end.

But Portland officials are increasingly worried the city's inclusionary zoning policy, which compels developers to set aside rent-restricted units in large apartment and condo projects, might be playing a role, too. And if home construction dries up, it could ultimately push housing costs even higher.

Only 12 privately financed developments large enough to trigger the mandate, totaling 654 units, have sought building permits since the policy took effect last year. A more typical year in the recent housing boom has seen thousands of new apartments proposed.

Those projects would create 89 units geared toward households earning significantly less than the median income.

It's difficult to say, given the many conflicting variables, whether or to what extent inclusionary zoning is to blame for the drop-off. Meanwhile, there's a backlog of projects that had been submitted before the rules took effect, representing up to two years of future development.

Nonetheless, a city economic planner tasked with monitoring the program says it might be time to consider changes that could give developers a better deal — or risk putting an artificial cap on the housing supply, driving rents higher in the long run.

"It's not that the policy is currently broken," said Tyler Bump, a senior economic planner with the Bureau of Planning and Sustainability. "It's that we need to track it before it breaks."

The 12 large projects are set to create 89 units geared toward households earning significantly less than the median income.

Policymakers are trying to walk a fine line, between using private development to create affordable units and avoiding a policy that shrinks housing stocks and drives up rents. They created incentives — including allowing more density while waiving fees and taxes — designed to offset the cost of the discounted rentals.

But developers say the market has shifted dramatically since those offsets were created. Rents in high-end buildings have been stagnant over the last year, which has prompted some landlords to throw in a few weeks of free rent to land tenants.

And it's getting more expensive to build.

Urban Asset Advisers, a local developer, started construction on the six-story, 63-unit Lower Burnside Lofts in 2014. At the time, according to company President Tim O'Brien:

- The company paid a contractor $156 per square foot for construction materials and labor, totaling $7.8 million. Today, the company would budget $220 a square foot, or $10.8 million.
- The building cost $15,400 per unit in permit and development fees. Today, O'Brien estimates it could be $22,000. A 1 percent construction excise tax to pay for affordable housing has been created since and could add thousands more.
- Land prices have climbed. That site, acquired in 2012 for $700,000, is now valued at $1.2 million for the land alone.

Today, Urban Asset Advisers is working on two projects that will fall under the inclusionary zoning mandate.

Both developments, at 39 and 54 units, are smaller projects. They're financed with a collection of local investors, rather than money from an out-of-town institution.

They work, O'Brien said, because small-time investors are willing to accept a smaller return.

But the big real estate trusts, retirement funds and other big-time investors that fueled the recent building boom expect a higher return, of about 6 percent.

That's a much harder target, given the rise in costs and the required discounted units. And if those institutional investors can't get that return in Portland, they can build in other growing cities where they can.

O'Brien says the policy can work without pulling the plug on new housing. But, he said, the city might have to reduce the number of affordable units it requires. The rule requires that one in five units be affordable to households making 80 percent of the city's median family income, which was $74,700 for a family of four in 2017. Developers can choose to offer deeper discounts on a smaller number units.

"We want to produce IZ stuff," O'Brien said. "We want to be part of the solution. We really want to find a way to get this right."

Some local developers have stopped pursuing new residential developments altogether.

Cairn Pacific LLC, whose founders have developed nearly 700 apartments in Northwest Portland under two different companies, is working on two apartment projects that it submitted to the city before the inclusionary zoning policy took effect. Though it has considered buying land for future developments, the rate of return would be too low for banks to make a construction loan, said co-founder Thomas DiChiara.

"The impact of inclusionary zoning is big enough that most deals that are already on the fringe fall below the threshold to be financeable," DiChiara said. "Most projects are on the fringe anyway because of what the costs are."

Of the private projects proposed under the inclusionary zoning mandate, not one is in Portland's central core, where the incentives are the most generous.

The city is extending a 10-year tax abatement for the discounted units in the central city. That's because buildings there are expected to be taller, and concrete-and-steel construction is more expensive than wood-framed buildings elsewhere.

But the uncertainty of where tax rates might fall when the abatement expires makes lenders and investors who would still have an interest in the building in year 11 nervous, DiChiara said. The rent, meanwhile, is locked in at affordable rates for another 89 years.

“How do I get an investor to buy off on that?” he said. “You have to underwrite it as if there’s no abatement.”

Shannon Callahan, the interim director of the Portland Housing Bureau, said the permit drop-off isn’t unexpected, and that the program is operating as expected.

“We committed at the very beginning of passing inclusionary zoning that we would always assess it against market realities,” she said. “In the first year, we’re watching it carefully. But we have to look at the other factors in the market and can’t have any knee-jerk reactions.”

Mayor Ted Wheeler already plans to propose some changes to the inclusionary zoning program, a spokesman said. They would extend a 10-year tax exemption to developments that aren’t subject to the mandate because they were submitted to the city before the policy took effect.

That could squeeze more affordable units out of the existing pipeline, but it would do little to address the looming drop-off.

Close to 10,000 apartments were in the development pipeline before inclusionary zoning took effect, said Bump, the city economist. Half of those are near approval to break ground.

Those projects could keep a steady stream of housing coming online for the next two years. Some, however, may simply not happen. It’s not uncommon for developers to drop projects because of unforeseen logistical or financial problems.

That means the city needs to see more housing proposals in the next year, Bump said, to avert a deep lull in development.

The Great Recession demonstrated the consequences of such a lull. In the throes of the economic downturn, housing production slowed to the lowest levels in recent memory.

As the economy recovered, from 2010 to 2017, average rents climbed 60 percent.

Portland Gas Tax Brings in More Than Expected

By Elliot Njus
February 16, 2018

A four-year gas tax approved by Portland voters in 2016 brought in more than expected in its first year.

The Portland Bureau of Transportation said the city collected $19.9 million from the 10-cent-a-gallon gas tax in 2017. The tax is expected to bring in $64 million, or $16 million a year, before it sunsets at the end of 2020.

Gasoline sales accounted for $18.6 million of the proceeds, while diesel accounted for $1.3 million.

The city said it would use a slight majority of the proceeds -- 56 percent -- for road repairs, while the remainder would go toward pedestrians and bicyclist safety improvements, particularly near schools.

Heavy freight vehicles -- which typically fill up at truck stops outside the city --were exempted from the tax, but were subject to a heavy vehicle use tax when operating on city streets. That was expected to bring in an additional $2.5 million per year, but the collections haven't been tabulated yet.

The Oregon Legislature last year approved a 4-cent increase to the statewide gas tax, bringing it to 34 cents a gallon. That took effect Jan. 1, and there are three more 2-cent jumps scheduled for 2020, 2022 and 2024.

The Portland Tribune

City Hall Update: Public Hearings on Infill Project Slated

By Jim Redden
February 20, 2018

Plus, the City Council votes to stop the proposed Macadam Ridge subdivision and Biketown announces a design challenge.

The Planning and Sustainability Commission was briefed on the background of the Residential Infill Project last Tuesday. The PSC is now scheduled to hold public hearings on the proposal to limit home sizes and increase residential densities on May 8 and 15 before sending it to the City Council for approval.

The PSC will receive three more briefings before its first hearing. They are scheduled for 5 p.m. Feb. 27, 12:30 p.m. March 13 and 5 p.m. April 24. All will take place in the 1900 Building at 1900 S.W. Fourth Ave., where the hearings also will occur.

Public comments received by the Bureau of Planning and Sustainability show the public is split on all of the proposed recommendations. Some people think the recommended size limits are too small, while others think they are too big. Some oppose the proposed density increases while others think they should apply to more parts of town.

You can learn more about the project at: portlandoregon.gov/bps/infill.

Council votes against subdivision

The City Council unanimously voted to stop a controversial 12-home subdivision in Southwest Portland on Wednesday, Feb. 14. It blocked the most recent version of the proposed Macadam Ridge development on a wooded 14-acre parcel.

The land is owned by the Riverview Abbey Mausoleum Company, which proposed building the homes on four acres and donating the remaining 10 acres to the city.

The project is opposed by the South Burlingame Neighborhood Association, which raised concerns ranging from the potential loss of more than 470 mature trees to the property's location in a known landslide zone.

Biketown announces design challenge

Biketown launched a design challenge last Tuesday for the next bike wraps to be added to the city fleet of Nike-sponsored rental bikes.

Submissions are due by 8 p.m. Wednesday, March 7. A panel of judges will choose up to 10 entries for each quadrant of the city. The finalists will be presented to the public, and one winning design will be chosen for each Portland quadrant — North, Northwest, Northeast, Southwest and Southeast. Anyone with a Biketown account is eligible to vote. The winners will be announced in May.

To enter a design, go to: biketownpdx.com.

Willamette Week

Portland Gas Tax Brings in Nearly $20 Million in First Year

By Rachel Ramirez
February 17, 2018

That's nearly $4 million more than projected.

Portland's gas tax brought in more than expected in its first year.

Portland Bureau of Transportation collected $19.86 million in 2017 on a tax that was projected to bring in roughly $16 million.

The Portland Mercury first reported the figures on Friday morning.

Voters approved the 10-cents-a-gallon tax in 2016 that called for dedicating 56 percent of the proceeds to street repair while the remainder is dedicated to safety improvements, including for pedestrians and bicyclists.

"After I spent three years working to establish a new, dedicated source of funding for street repair and traffic safety, it's gratifying to see that the voter-approved gas tax is bringing in even more resources than we expected," says former City Commissioner Steve Novick, who championed the gas tax.

"Hats off to the community advocates, the business leaders, and the voters of Portland who made this possible."

The Portland City Council also approved a Heavy Vehicle Use Tax— on freight haulers — that were exempted from the gas tax. This was also expected to bring in an additional $2.5 million per year, but an estimate from that tax were not available yet.

A $41,000 Donation to a Portland Candidate Ranks Among Largest Ever in City Race

By Rachel Monahan
February 16, 2018

Neighborhood association president Felicia Williams collects a big check from her partner, who is the co-founder of the company where she works.

A Portland City Council candidate is financing her campaign with donations and loans from her longtime partner.

Felicia Williams, a neighborhood association president, has received a $41,000 cash donation this year as well as $4,000 in cash and a $20,000 loan last year from Erik Tucker, who is also an executive at the company where she works.

That makes Tucker the largest donor so far in the race to replace City Commissioner Dan Saltzman.

"Erik and I have been together for 17 years," Williams emails. "When I told him that reporters, unions, and endorsers only cared about how much money was in my OreStar account, Erik's response was, ‘Let’s put enough money in to end that discussion so they can focus on issues instead of cash.’

“The future of Portland is worth more than a few thousand bucks,” she adds.

Williams is a business manager for a biotech start-up, Aronora, Inc., where Tucker is co-founder and chief operating officer. The pair also serve on the Portland Downtown Neighborhood Association together. She is president; he is secretary.

The donations from Tucker constitute the vast majority of the money the cash she’s raised so far.

Oregon law sets no campaign donation limits, but in practice Portland races rarely see funding donations and loans this large.

In 2013, City Commissioner Amanda Fritz forgave a $123,418.15 loan to her own campaign for reelection. Eileen Brady, who ran unsuccessfully for mayor in 2012, forgave a $336,004.50 loan to her campaign.

Williams is running against NAACP of Portland president Jo Ann Hardesty, mayoral staffer Andrea Valderrama, architect Stuart Emmons and Multnomah County Commissioner Loretta Smith.

The Portland Mercury

Portland Might Become the Latest City to Sue Over the Opioid Crisis

By Dirk VanderHart
February 16, 2018

The City of Portland is about to jump into the fight against opioid manufacturers.

A resolution set to come before Portland City Council next week will authorize the City Attorney's office to join hundreds of other jurisdictions around the country—including Multnomah County—that are suing drugmakers for what they say were irresponsible business practices that led to the opioid epidemic being felt nationwide. The city's rationale: that crisis has ratcheted up costs for firefighters who distribute overdose-fighting drugs, has contributed to Portland's housing and homelessness problem, and has cost the city money in treating opioid addictions for those covered by its health insurance, among other things.

"Manufacturers knowingly misled doctors and patients regarding the benefits of prescription opioids for treatment of chronic pain and trivialized the significant risk of addiction," reads an impact statement filed with the resolution. "At the same time, distributors failed to monitor prescription opioid distribution and report suspicious orders. These actions resulted in an opioid epidemic, involving a dramatic increase in opioid addiction and overdose deaths. Manufacturers and distributors of prescription opioids have experienced significant profits, while the City of Portland, like other jurisdictions, has borne the increased costs for emergency medical services, policing, housing, and medical expenses."

The resolution doesn't list which specific manufacturers the city plans to sue, or how much money it will seek. If it follows the lead of county officials, companies like Purdue Pharma, Teva Pharmaceutical Industries, and Johnson & Johnson could be on the list of defendants. Multnomah County's ongoing lawsuit seeks $250 million.

The action—all but certain to pass—comes at an interesting time. Attention has begun to shift back to the toll methamphetamine use has taken in Oregon. A story that ran this week in the New York Times was centered in Portland, and noted that deaths related to meth occur in Oregon at a far higher rate than heroin-related deaths.

“Everybody has meth around here — everybody,” one heroin user told the paper. “It’s the easiest to find.”

Wheeler's Change of Heart on Renter Protections Has Property Managers Ditching a City Committee

By Dirk Vanderhart
February 19, 2018

Mayor Ted Wheeler made it official on February 9. Appearing before an advisory committee that's been studying fixes to Portland's law requiring relocation payments to renters, Wheeler announced he'd support closing a controversial loophole in the policy.

Now, members of a separate but similar committee are quitting in protest. Since Wheeler's announcement that he'll be a crucial vote in making sure landlords who rent only a single unit are required to pay relocation fees, two men have resigned from the new Rental Services Commission (RSC), a board meant to make recommendations on city policies around rentals.

Shortly after Wheeler's announcement, RSC member Ron Garcia was the first to defect. A property manager and president of Rental Housing Alliance Oregon, Garcia told the Portland Tribune he was upset that Wheeler hadn't asked the RSC for its input.

"The people I represent feel betrayed," Garcia said, according to the Trib. "I can't continue to serve on the commission in good conscience. That would make it look like the landlord point of view is being considered, which it isn't."

It turns out Garcia's move inspired another member of the RSC. Nick Cook, a property manager who derives much of his business from people who entrust him to rent out and manage their lone rental property, sent notice on Monday, February 12 that he, too, was bailing from the RSC.

Cook tells the Mercury he feels the same as Garcia—that the RSC has been set up to favor renters over landlords, and that policy decisions are being made without adequate understanding of the economic and business realities landlords face.

"The 180 on that policy—from what I can tell without any data with real merit—is concerning," Cook says. "Politics is going to trump whatever logical or perhaps factual discussion that we have."

The question Cook says he asked himself: "If I continue on the commission, do I feel like I’ll have an impact, or do I feel Like I’m going to be part of a commission that already has a direction?"

Cook's letter of resignation [PDF] was fairly scathing, suggesting the RSC has spoon fed "what appears to be an already ironed out agenda."

"The premise guiding the agenda and terminology is that tenants are victims who need more protection," Cook wrote. "There have been zero ideas or discussions on how to relieve the hardships, liability, and risk landlords face every day."

Both Garcia and Cook's objection to Wheeler's reversal are a bit overblown. Prior to convening the RSC, the city created a technical advisory committee that has the express mission of studying potential changes to the renter relocation law, which mandates payments of between $2,900 and $4,500 to renters who have been issued a no-cause eviction or are moving because of rent hikes of 10 percent or more.

"The RSC was not the permanent body on the relo policy," says Michael Cox, Wheeler's deputy chief of staff. "There was a separate committee."

Interestingly, while the RSC and relocation committee share many members, Cook and Garcia only sat on the former.

"I just think it’s absurd for them to quit the RSC for a decision that was not meant to be sent to the RSC," says Margot Black, an organizer with Portland Tenants United who serves on both commissions.

To date, the renter relocation law approved by Portland City Council a year ago has always had an expiration date. That's expected to change on February 28, when the council will take up a permanent version of the law that also includes changes. Chief among those: an end to the exemption that freed single-unit landlords from having to abide the law.

That exemption has seen repeated attacks from tenants' advocates, and earlier this year was the subject of an analysis that suggested more than 20,000 units could be exempted under the policy. In response to the analysis, Wheeler first announced that better data was needed, and that he could not support killing the single-unit exemption. Weeks later, he reversed course.

In place of the single-unit exemption, council is expected to create an exemption for accessory dwelling units, and for duplexes in which the owner lives in one half and rents out the other.

The Daily Journal of Commerce

Portland Bureau Launches Sustainable Pilot Program

By DJC Staff
February 16, 2018

Portland Parks & Recreation will use more than $250,000 in rebates it received last year to launch a new project designed to save water and energy at 48 sites in the city.

The bureau last year earned a total of $267,191 in rebates from Energy Trust of Oregon; the credits mainly were related to energy-efficient upgrades made to various building control systems. Those upgrades include installations of solar panel arrays at several community centers, including the Matt Dishman Community Center in the Eliot neighborhood.

The rebates will be reinvested in a pilot program for an energy and water performance contract to study how reliance on utilities can be reduced at Parks & Recreation sites around the city. The goal of the program will be to reduce maintenance and utility costs by approximately 20 percent at those locations.

If the pilot program is successful, it will likely be used to help the city move toward its goal of using 100 percent renewable energy by 2050 – a target identified last year by Portland officials.

The Portland Business Journal

Affordable Housing Project coming to Portland's RiverPlace District

By Jon Bell
February 16, 2018

More than 203 affordable apartments are on their way to Portland's RiverPlace district after ground officially broke on the project this morning.

BRIDGE Housing, the San Francisco nonprofit affordable housing developer behind The Abigail in Northwest Portland, held a groundbreaking ceremony today for the first phase of its RiverPlace Parcel 3 project. The development, at 2080 S.W. River Dr., will consist of 203 affordable apartments.

Ninety of the units will be reserved for households earning up to 30 percent of the Median Family Income, which is up to $17,940 for a family of two. Ten of those will be reserved for homeless veterans. The rest of the units will be for households earning up to 60 percent of MFI or $44,820 for a family of four.

“We’re proud to be part of a transformative, transit-oriented development that will enhance the neighborhood,” said Cynthia Parker, president and CEO of BRIDGE Housing, in a release. “With a deep range of affordability and high-quality services, this place will have the power to change people’s lives.”

The project, which will also include a playground, laundry rooms, a conference room and a community classroom, will rise from a piece of property that Prosper Portland owns. In addition to Prosper Portland, the Portland Housing Bureau is also involved in the project, as is Home Forward and Key Bank.

The $83.9 million in funding for the project comes from a range of partners, including those already mentioned and Oregon Housing and Community Services, the U.S. Department of Housing and Urban Development, National Equity Fund, KeyBank Community Development Lending and Barings Multifamily Capital.

Ankrom Moisan Architects designed the project, and Hoffman Construction is serving as general contractor.

BRIDGE is also working on an $18.3 million affordable housing project that will bring 61 units to North Portland's Eliot Neighborhood.