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Central City 2035: Bonus and Transfer Options

City Council Work Session

June 23, 2015

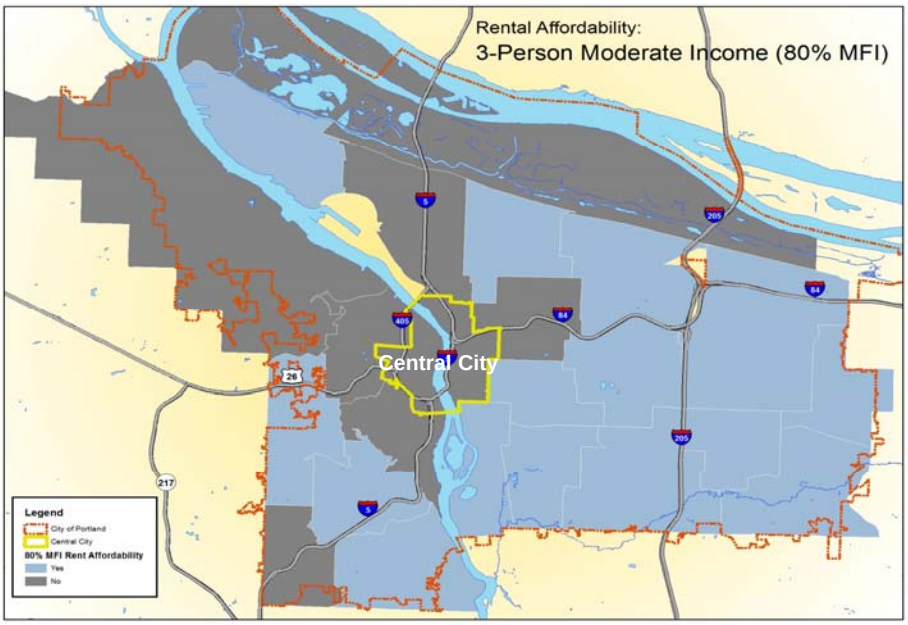
Agenda

- Introduction
- Study & Key Findings
- Staff Recommendations
- Next Steps
- Council Discussion

- Consultants:

Otak-Ben Bortolazzo

Economic & Planning Systems – David Schwartz, Andrew Knudsen



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Costs to cover for Development Feasibility

- ++ Value
- Profits
- Finance
- Hard Cost
- Soft Cost
- Land Value

Potential $ for Community Benefits

- Affordable units
- Housing fund

- *Required IZ*
- *Linkage fees*
- *Community Benefit Agreements*

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Central City Density Bonus / Transfer Mechanism:

Council Work Session

Presented to Portland City Council:

June 23, 2015

Presented by:

David Schwartz, Vice President
Economic & Planning Systems, Inc.

Presentation Outline:

Feel free to ask questions throughout

- **Economic Feasibility Model**
  - How it works
  - How it can be used in the future
- **Key Findings**
  - Portland Central City
  - How density bonus incentives work in other cities
- **Feedback from Development Community**

What does it do, and how does it work?

FEASIBILITY MODEL

Economic Model Framework

Development Components

- Assumptions: construction costs, revenues, land
- Variables: land uses, size of density bonus

Policy Components

- Assumptions: rents, sales prices, construction costs,
- Variables: % of bonus for affordable housing, MFI levels

Outputs

Model Outputs: What does it do?

Works as feasibility proforma

- Residential, Non-residential, Mixed-use

Calculates total development costs

- land, construction, profit etc.

Identifies feasibility under different scenarios?

- Base entitlement
- With various amounts of density bonus
- Density bonus with a variable amount of "community benefit"

Value of the Model

- **Tests different scenarios and variable assumptions**
  - Different MFI levels
  - Different levels of costs and revenues
  - Different magnitudes of density bonus
  - Different magnitudes of community benefit
- **Finds the balance between bonus and benefit**
  - How much value is created by a density bonus (if any), and;
  - How much it "costs" of that RV to provide the community benefi

But, what is a Residual Value?

RESIDUAL VALUE

Residual Value (RV)

- **RV** = [revenues] – [costs] – [profit] - [land]
- **What scenarios did we model?**
  - RV of Base Entitlement
  - RV of Base + Bonus FAR
  - RV of Base + Bonus FAR + Community Benefit
- **What questions does model answer**?
  - Does density bonus create economic value?
  - What is cost to provide a community benefit?
  - Is there enough value to provide community benefit and leave sufficient "incentive" for developer to use the bonus?

Simplified Example Res. Val. Calculations

Base Entitlement

[Revenues]	-	[Costs]	-	[Land Costs]	-	[Profit]	=	[Residual Value]
$8.4 million	-	$6.2 million	-	$1.0 million	-	$1.1 million	=	$100,000

Density Bonus at Market Rates

[Revenues]	-	[Costs]	-	[Land Costs]	-	[Profit]	=	[Residual Value]
$14.6 million	-	$11.0 million	-	$1.0 million	-	$1.8 million	=	$800,000

Density Bonus with Calibrated Community Benefit

[Revenues]	-	[Costs]	-	[Land Costs]	-	[Profit]	=	[Residual Value]
$14.2 million	-	$11.0 million	-	$1.0 million	-	$1.8 million	=	$400,000

$800,000
- $400,000
= **$400,000**

Additional Profit Above Base Entitlement Residual Value

[Residual Value of Density Bonus at Market-Rate]	-	["Cost" of Community Benefit]	-	[Residual Value at Base Entitlement]	=	[Incentive Premium]
$800,000	-	$400,000	-	$100,000	=	$300,000

Incentive Used to Encourage Building Units

- RV = $35 per square foot (100% of RV)
- Onsite Affordable Housing Option
  - $29 per square foot = cash contribution (~85% of RV)
  - $6 per square foot = incentive (~15% of RV)
- Cash in-lieu of Housing Option
  - $33 per square foot = cash contribution (~95% of RV)
  - $2 per square foot = incentive (~5% of RV)
- Purpose:
  - Motivate developer to use the density bonus program itself
  - Motivate developer to build affordable housing onsite

Future Use of Model

- Periodic Updates
  - Cost, revenue, valuation assumptions
  - Land values
- What is critical?
  - Value per square foot for purposes of identifying the cash contribution

What is relevant to Portland's Central City?

KEY FINDINGS

Lessons Learned from Other Cities

(Anaheim, Arlington County, Austin, Chicago, Denver, Seattle)

- Avoid offering bonus FAR through competing processes
- Developers often favor the cash contribution over building units on site
- Incentives reflect community values i.e. affordable housing, green roofs, bike lockers, etc.
- Developers are often adverse to mixing incomes
- Cash contribution options are common but vary in methodology

Feasibility Findings

Model

- Positive economic value (RV) is created through a density bonus but the value varies by entitlement zone
- Positive value can support the provision of community benefits
- Density bonus triggers higher-cost construction in some entitlement zones
- Strong markets can support proportional increases in revenue factors to compensate for the higher-cost construction

Other

- **Historic preservation** entitlement transfers: There is a disconnect between the economics of sending and receiving sites
- Privately-maintained **public open space**: Lack of sufficient space and the qualification process make this difficult to implement

What have we heard from the development community?

FEEDBACK

Developer Roundtables (2) Take-Aways

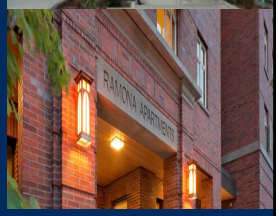
- Don't deviate much from current policy
- Some interest in an affordable housing density bonus
- Pursue other ideas to support affordable housing
  - Use City's bond rate to lower private costs
  - Enhance MULTE and SDC wavier programs
- Fees generated in Central City should stay in area
- Height needs to be considered with bonus FAR

Questions

THANK YOU

Staff Recommendations

What could this bonus produce?



- If all affordable on-site units (80% MFI):
  35-60 affordable units per year; 800 to 1,300 units over 20 years
- If only in-lieu payment option:
  Up to $120-200 million over 20 years
- Some combination of on-site units and in-lieu payment

Next Steps

July 9, 2015	Bonus Hearing @ City Council
Late Fall 2015	CC2035 Public Discussion Draft
Early Spring 2016	CC2035 Hearings @ Planning and Sustainability Commission
Summer 2016	CC2035 Hearings @ City Council