



Portland Housing Bureau

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Date: September 26, 2018
Re: 18-Month Inclusionary Housing Program Review

18-Month Review of Inclusionary Housing Program

Background

On February 1, 2017, Ordinance 188163 went into effect, adding the Inclusionary Housing (IH) program to the City's portfolio of affordable housing development tools. The development and adoption of the IH program was based on direction given under the 2035 Comprehensive Plan policies outlined below.

Policy 3.3 Equitable development	Policy 5.26 Regulated affordable housing target
Policy 5.10 Coordinate with fair housing programs	Policy 5.27 Funding plan
Policy 5.14 Preserve communities	Policy 5.29 Permanently-affordable housing
Policy 5.16 Involuntary displacement	Policy 5.34 Affordable housing resources
Policy 5.22 New development in opportunity areas	Policy 5.35 Inclusionary housing
Policy 5.23 Higher-density housing	Policy 5.38 Workforce housing
Policy 5.25 Housing preservation	

The City of Portland currently has a deficit of 22,000 affordable housing units for low- and moderate-income households. Portland's 2035 Comprehensive Plan Policy 5.25 sets a goal of producing 10,000 new regulated housing units affordable at 0-80% median family income (MFI) by 2035. While this production goal would increase the number of affordable housing units, it would nonetheless maintain the current deficit due to population growth projected over the same timeframe. The IH program is designed to supplement publicly financed affordable housing development and help bridge this gap by linking the production of affordable housing to the production of market-rate housing. Under IH, all residential buildings proposing 20 or more units are required to provide a percentage of the new units at rents affordable to households at 80% MFI, with an emphasis on households earning 60% MFI or less.

Prior to the effective date of the IH program, a significant volume of building permit and land use review applications were submitted, effectively vesting those projects under the existing zoning code at the time, which did not yet contain the IH requirement. An estimated 19,000 residential total units were vested between March 5, 2016 and February 1, 2017. With population growth estimated at 123,000 new households between 2010 and 2035 in the 2035 Comprehensive Plan, and an estimated 95,000 multifamily units needed over the same time frame, 19,000 units represents 4-5 years' worth of the multifamily residential development needed to accommodate the projected population growth.

With the adoption of the IH program, and in light of the wave of pre-IH vested units, the Portland Housing Bureau committed to periodically review the IH program options and incentives to determine if they are

consistent with Comprehensive Plan goals and policies, and to monitor whether the program is effectively producing IH units through ongoing market-rate multifamily development. The Housing Bureau carries out this review process with the support of the Bureau of Planning and Sustainability (BPS) and Bureau of Development Services (BDS).

Two previous reports published jointly by BPS and BDS have assessed the status of permitted projects at 6 months and 12 months after the IH program's effective date. Those reports estimated that there were 19,000 residential units (*at 6 months*) in proposed developments overall prior to the adoption of the IH program and 10,000 units (*at 12 months*) in proposed developments with 20 or more units.

In the first report, dated September 15, 2017, BPS and BDS estimated that approximately 14,000 of the 19,000 total pre-IH units were in various stages of the permitting process six months after IH and the remaining 5,000 units had been issued building permits to move toward construction.

The subsequent report, published February 8, 2018, which measured only those units in developments proposing 20 units or more, estimated that of the 10,000 such units vested prior to IH, 5,000 were in the final stages of permitting 12 months later. Additionally, the memo reported that in the first year of the IH program—February 1, 2017 to February 1, 2018—17 projects subject to IH requirements had been permitted, totaling 1,007 residential units, of which 117 were affordable under IH.

Key Highlights

- **8,294 units (in buildings with 20+ units) from the pre-IH vested pipeline remain in some stage of permitting**
- **8,578 units (in buildings with 20+ units) have entered permitting, land use review, or pre-application/early assistance since IH went into effect**
- **362 affordable inclusionary housing units (in projects with 2,269 total units) have permitted or are close to permitting**
- **Multifamily permitting in 2017 set a historic high at over 6,000 permits**
- **Market indicators are signaling a shift in the market cycle based on factors unrelated to the IH program**

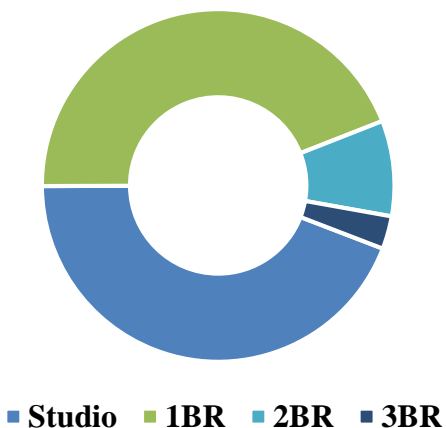
Overview

In the 18 months the IH program has been in effect, the City has permitted, or is in process to permit, a minimum of 362 Inclusionary Housing units associated with 43 development projects. These projects, 36 privately financed and 7 accepting Housing Bureau subsidy, account for roughly 2,269 total units in projects that have submitted development applications after IH went in to effect, February 1, 2017. The IH units in the 36 privately financed projects are roughly the equivalent of a \$32 million-dollar public subsidy, based on the average per-unit cost to the City to develop affordable rental housing. Most of these units are located in high opportunity areas with access to good schools, jobs, transit, and other community amenities.

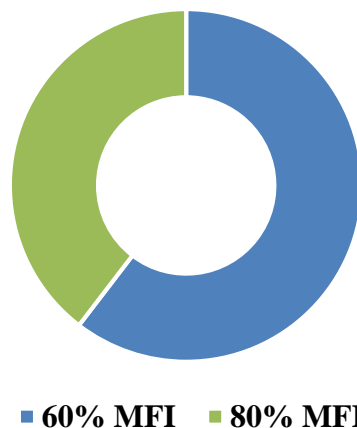
Currently, there are another 57 projects subject to IH (*20+ units*) with a potential 6,309 units in some stage of the early assistance or pre-application process. Additionally, pre-IH vested projects continue to progress with 8,294 total units remaining in the permitting pipeline. In projects proposing 20 or more units (*both pre- and post-IH*), there are currently 16,872 units in the permitting, land use review, or pre-application process.

At the time of this report, the affordability and bedroom count have not been identified for all 362 IH units, however 341 units have selected an affordability level and 334 units have an identified unit type. A breakdown of key data follows.

Inclusionary Housing Units by Unit Type



Inclusionary Housing Units by Affordability Level



Summary of Development Activity

Questions regarding permitting trends are considered as a part of the periodic review of the IH program, particularly in light of several significant market factors present over the last 18 months, such as increasing construction costs, flattening rents, increasing vacancy at opening for new high-end multifamily development at the local level, as well as recent macroeconomic factors including increases in the federal funds rate, tariffs on construction materials, and the state economist’s warning of a potential economic slowdown in the next 18 months. A few relevant market indicators are highlighted below, with backing data in the addendum of this memo.

- Annual rent increases have fallen below 2%, rates not seen since 2010-2011
- Rent concession rates have increased to 2-3%, higher than any time in recent history
- Vacancy rates have increased to 7-8%, similar rates have not been seen in a decade
- Occupancy at delivery rates have fallen to 30% from a historic 70% average
- Concessions in delivery rates have increased to 6% from a low of 2% in 2012

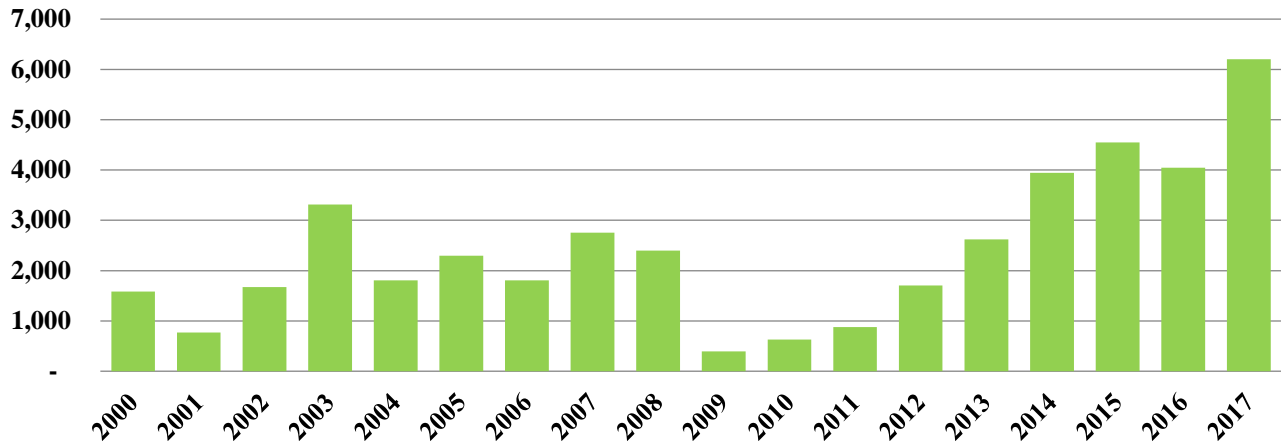
There are significant challenges in determining what changes in volume are the result of what market factor(s) when reviewing permitting and pipeline data. The Housing Bureau continues to work with partners to refine the most appropriate way to isolate and assess these variables in order to understand what IH calibration questions need to be addressed. Central to this analysis is the City’s progress toward meeting the housing demand and goals outlined in the 2035 Comprehensive Plan of 95,000 multifamily units between 2010 and 2035, as well as ensuring that the housing developed is affordable to households across the income spectrum.

Multifamily Permitting Prior to Inclusionary Housing

Multifamily development in Portland, as in all markets, operates in cycles. Many analysts and market participants estimate that Portland has reached, or is close to reaching, the peak of the current development

cycle. More than 6,000 multifamily units (*pre- and post-IH*) were permitted in 2017, a record-setting year. The majority of 2017 permits were obtained before Portland’s IH mandate was in place. The pre-IH vested projects and new IH projects will continue to move through the development pipeline into and throughout 2019.

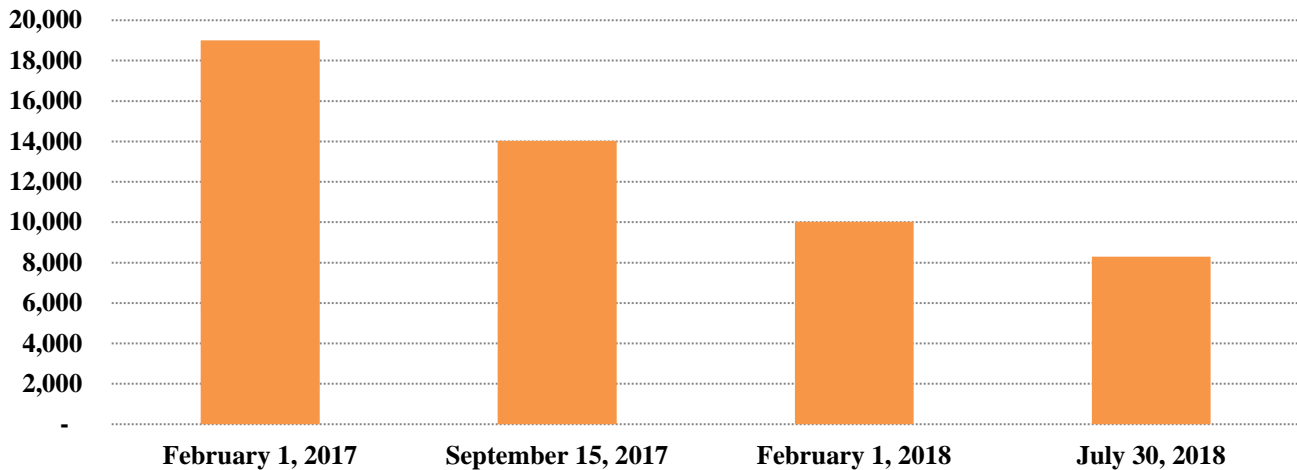
Portland Multifamily Units Permitted



Pre-IH Vested Permits: Mar 5, 2016 – Feb 1, 2017

In the 11 months before the IH program went into effect, developers vested residential projects totaling approximately 19,000 units, a market anomaly that was equivalent to the previous eight years of multifamily unit permit totals combined. Units permitted during this time created a wave of development activity that will require a period for the market to normalize before a clear assessment of the IH program can be completed. As of August 1, 2018, 8,294 units in 65 different projects remain vested in the development review pipeline. Between February and July of 2018, eight permits were completed or moved out of the pipeline and five were withdrawn either by the applicant or because the review window expired. Three projects experienced a change in their land use review and either withdrew their application to reapply or appealed the land use decision. Applications for new development can take approximately four years to receive a permit to begin construction, including up to one year to complete the land use review and up to three years to move through the permitting process. Applications must be reviewed and approved by multiple bureaus depending on the proposed use.

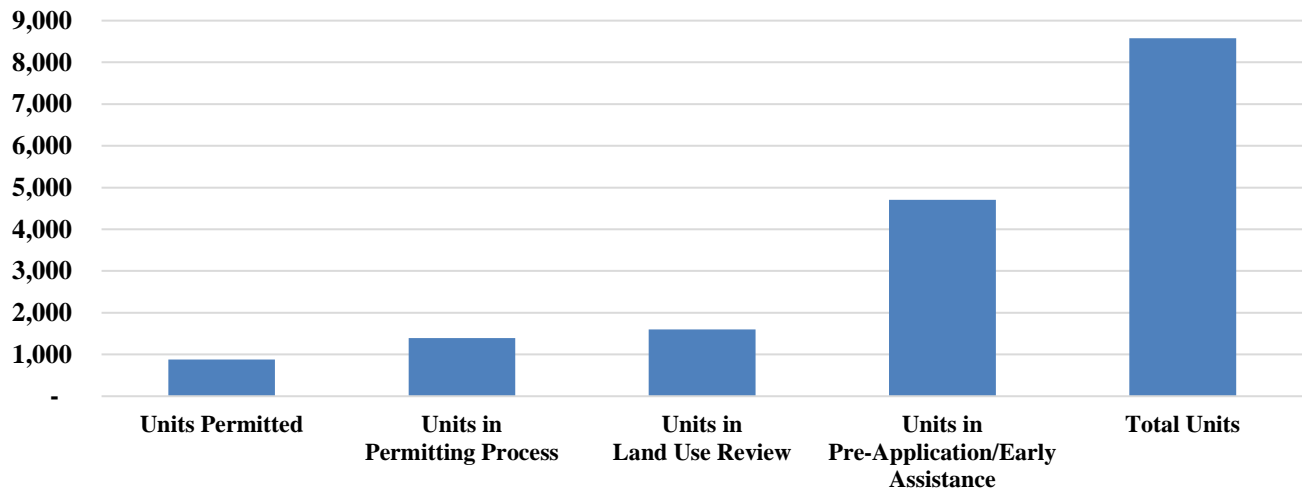
Pre-Inclusionary Housing Units in Process (20+ Unit Buildings)



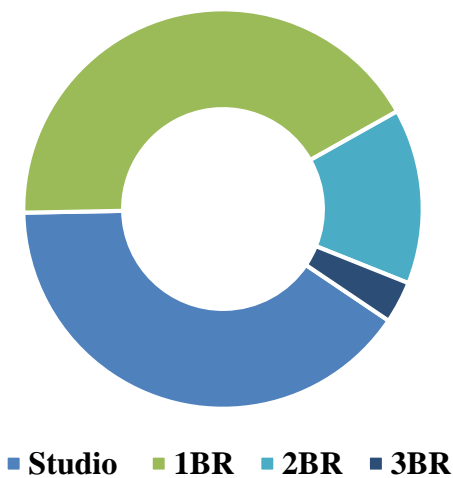
Multifamily Permitting After Inclusionary Housing

For projects that have entered the application process with BDS after February 1, 2017, a total of 8,578 are at some stage of the permitting process. These units are in 100 proposed buildings distributed generally throughout the city. BDS is currently reporting a reduction in revenues from fee collection which is drawing on their reserves due to a decrease in permitting activity overall, residential and non-residential uses included.

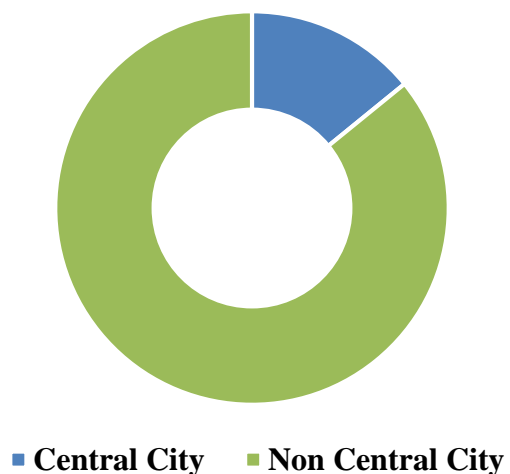
Post-IH Multifamily Permitting Pipeline, August 2018 (20+ Unit Buildings)



Projects by Unit Type



Projects by Location

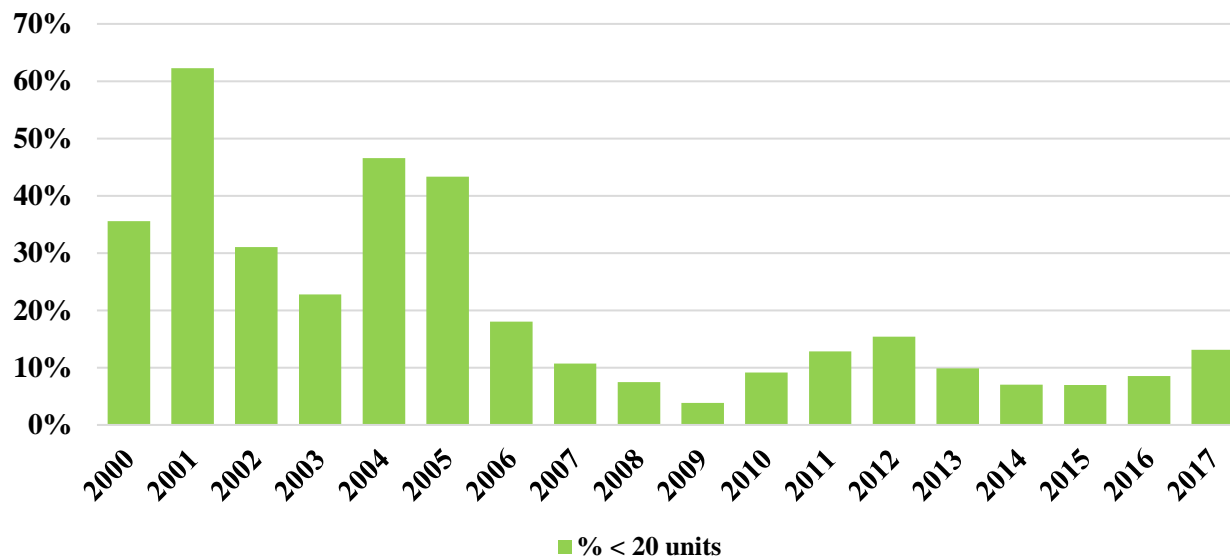


Buildings Under 20 Units

During the policy development process for the IH program, stakeholders raised questions regarding whether permit applications for 19-unit buildings would increase in order to avoid the 20-unit threshold for IH requirements. Review of data indicates that from 2000-2017, permits for the development of buildings with under 20 units have increased and decreased in a cyclical manner. Projects with under 20 units reached a high (62% of total permits) in 2001. The lowest number of units permitted in project with over 20 units (4% of total permits) was in 2009, amid a national financial crisis and economic recession. In 2017, 13% of total

permits were for buildings under 20 units. This proportion is consistent with what has been occurring since 2012 as Portland emerged from the recession.

Multifamily Permitting in Buildings with less than 20 units



Next Steps

Based on the analysis summarized in this memo, the Housing Bureau is recommending modest program refinements and calibrations be made to the IH program at this time. Multifamily unit permitting continues to advance despite signals that the market cycle is beginning to ebb. As the vested pipeline of pre-IH units continues to decline, post-IH projects are increasing and moving through the permitting process. In summary, the Housing Bureau’s recommendations seek to encourage this progress and allow additional time for the market to adjust by maintaining current inclusion rates in the neighborhoods outside the Central City and delaying the ramp up originally scheduled to go into effect on January 1, 2019 by another two years, among other adjustments. Below is a more detailed outline of the specific program refinements and adjustments the Housing Bureau is advancing and or recommending. Some have already been implemented by the Bureau or City Council in the past 18 months and others will be advanced over the next 6 months.

Actions Taken

1. March 2017: City Council adopts 5-year \$15 million Multiple-Unit Limited Tax Exemption (MULTE) program cap providing additional certainty to the market on the availability of financial offsets, ensuring developers of a full or partial property tax exemption for projects subject to IH
2. February 2018: Housing Bureau publishes draft administrative rules for IH homeownership requirements (*requirement adopted in December 2016*) based on an internal draft under development through 2017
3. March 2018: City Council adopts the Incentivizing the Pipeline MULTE program to encourage developers to provide affordable units in projects vested prior to IH, based on a concept from industry stakeholder associations
4. May 2018: Housing Bureau published revised draft administrative rules for IH homeownership requirements based on feedback and engagement with community and industry stakeholders

5. June 2018: Based on feedback from industry stakeholders, City Council approves a technical change to the IH fee-in-lieu and establishes that the fee applies only to residential portions of mixed use buildings
6. August 2018: Housing Bureau adopts administrative rules for IH homeownership requirements (*requirement adopted in December 2016*)

Upcoming Actions

1. September to October 2018: Housing Bureau to bring an ordinance to City Council clarify a technical issue that the full 10-year property tax exemption be provided for projects subject to IH in the Central City when building at 5:1+ FAR as well as zoned 5:1+ FAR
2. September to October 2018: Housing Bureau to publish, and begin a minimum 60-day comment period, draft amended administrative rules addressing numerous technical issues
3. October to December 2018: Housing Bureau and BPS to bring an ordinance to City Council to extend the lower inclusion rate for projects outside the Central City and Gateway Plan Districts by an additional 2 years
4. October to December 2018: Housing Bureau to develop a proposal establishing that the full 10-year property tax exemption be provided for projects subject to IH outside the Central City (in specific geographies) when building at 5:1+ FAR
5. January 2019: Housing Bureau and BPS to review the Central City bonus FAR, potentially increasing the bonus to provide additional value offsets for projects subject to IH
6. January 2019: Housing Bureau and BPS to recalibrate the IH Build Off-Site and Designate Off-Site program options to increase flexibility and utilization

Data Addendum

Figure 1: % Change in Rent per Year (Quarterly Data)

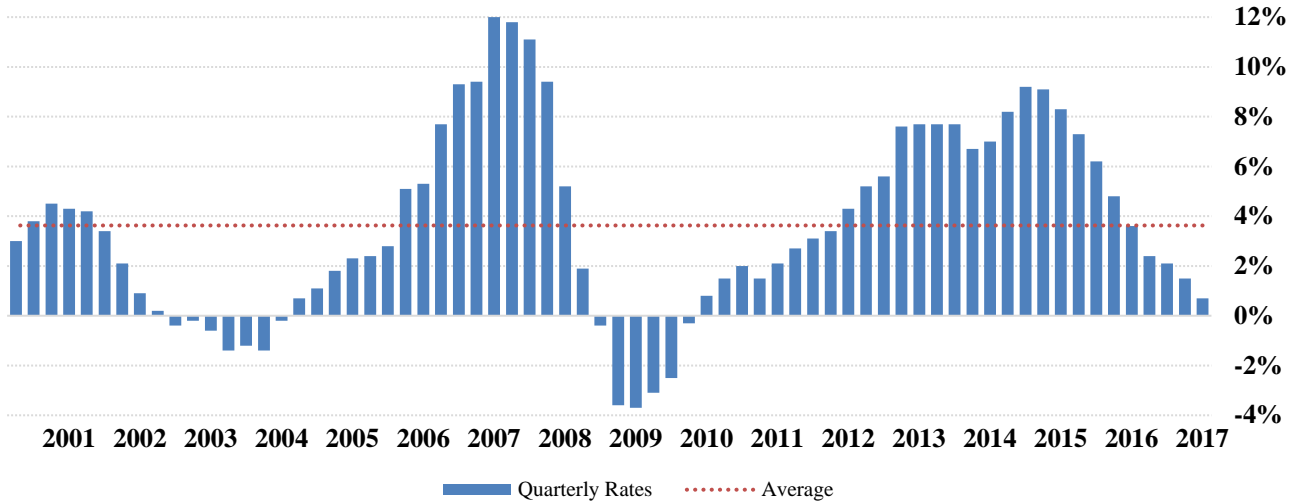


Figure 2: Vacancy Rates (Quarterly Data)

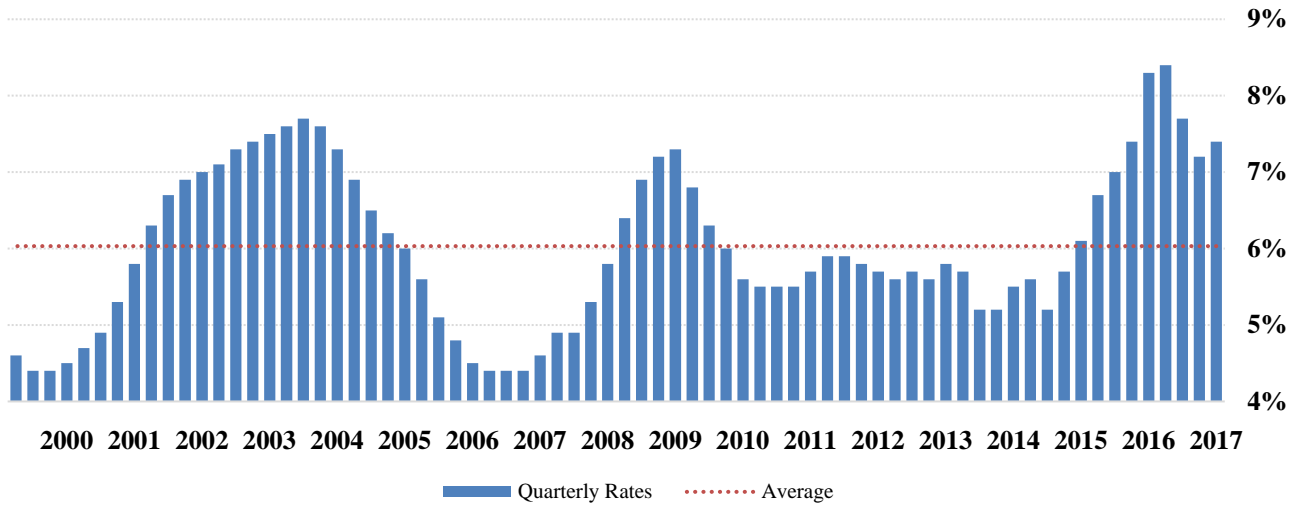
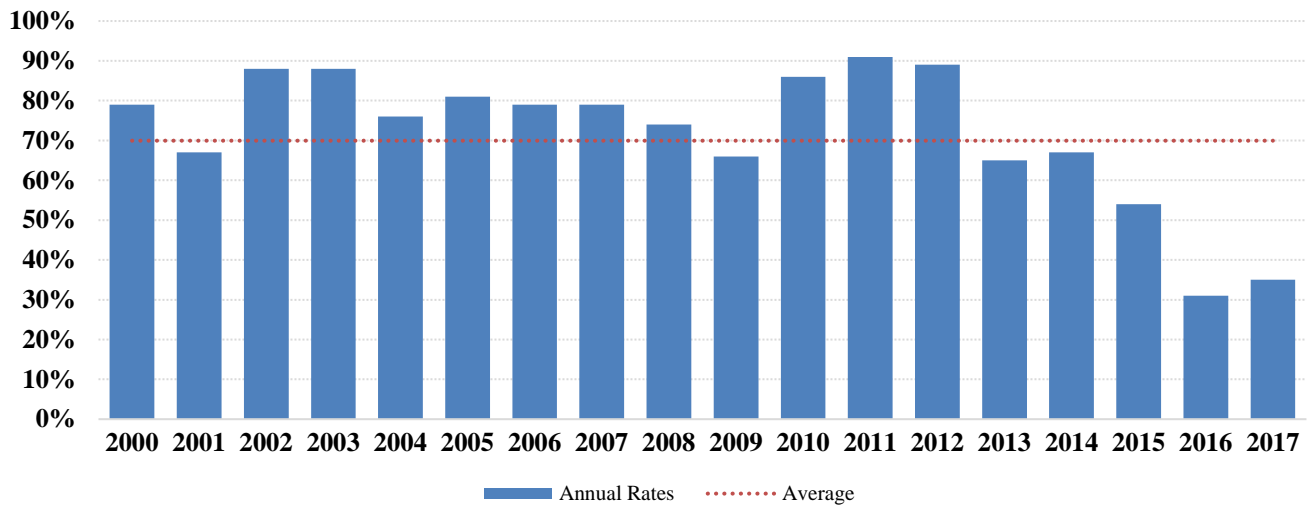


Figure 3: Occupancy at Delivery (Annual Data)



Data Addendum

Figure 4: Concessions in Deliveries (Annual Data)

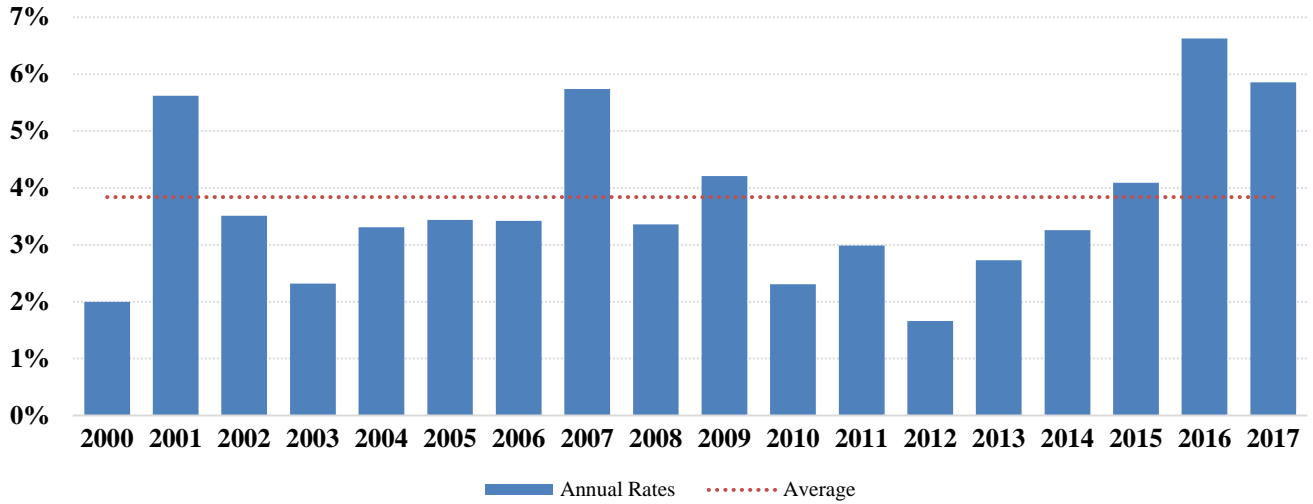


Figure 5: Rent Concession Rates (Quarterly Data)

