



# INCLUSIONARY HOUSING CALIBRATION STUDY EXTERNAL STAKEHOLDER WORK GROUP

Date: July 25, 2023

To: Mayor Ted Wheeler  
Commissioner Gonzalez  
Commissioner Mapps  
Commissioner Rubio  
Commissioner Ryan

Re: Inclusionary Housing Calibration Study External Stakeholder Work Group Recommendations

Dear Mayor Wheeler and Members of the Portland City Council,

The Inclusionary Housing (IH) Calibration Study work group appreciates the opportunity to participate in the periodic review of the IH program. We recommend Council focus on simplifying program design, building in flexibility, and extending the property tax exemption outside the Central City.

Portland's IH program went into effect in February 2017, mandating that residential developments creating 20 or more new units include a percentage of those units at affordable rents. In exchange for the affordability requirements, the City provides developers with a suite of incentives to offset the reduced revenue from those units, such as SDC and Affordable Housing Construction Excise Tax exemptions, and a 10-year property-tax exemption.

As the program administrator, the Housing Bureau is committed to periodically reviewing the program and making necessary adjustments. A component of the periodic review is convening an external stakeholder work group. The IH Work Group consists of 10 development and housing professionals, representing the private, public, and community development sectors.

From Winter 2022 – Summer 2023, we supported staff assessments by reviewing analysis components, discussing findings from the IH development prototype analysis, providing input and feedback to ultimately inform a set of recommendations for changes to IH program. This letter outlines our recommendations as well as suggestions regarding additional policy areas outside, but related, to our scope of work.

The guidepost for our recommendations is supporting the Council defined program goals of prioritizing units on-site in mixed-income buildings, units at 60% of the median family income (MFI), and family-sized units. However, we have also employed many lenses in our discussions and encourage Council to do the same, including:

- The impacts that IH policies and potential IH program changes could have on long-term market rents and affordable housing developments.

- The importance of giving all Portlanders, present and future, the chance to live in the communities of their choice.
- That tax expenditures inevitably come at a cost to other city and county priorities.
- The need to create enough homes and enough opportunities for Portlanders of all incomes.
- The principle that complexity creates costs borne by tenants, businesses, and governments.
- The value of good-faith empirical analysis, both qualitative and quantitative, in designing public policies that will achieve their goals.

### **Program Administration and Design**

This is an area where marginal changes can have big benefits for the development team's ability to quickly and creatively adapt to the many factors that constrain building design. The proposals here focus on simplifying program complexity and building in flexibility by increasing unit type and design flexibility, lessening the effect on market rate units to minimize IH impact.

#### *Promote building design flexibility*

- Increase the proportion of IH units allowed per floor from the current standard of 25% to 35%
- Decrease the average size proportion of IH units from the current standard of 95% to 85%

#### *Streamline on-site reconfiguration*

- Amend reconfigured unit to market rate unit parity to simply require that for every reconfigured IH family sized unit, there is a market rate family sized unit.
- Clarify the average reconfigured unit size calculation and remove unnecessary and overly complex language.

#### *Reorganize off-site option to encourage use and ease administrative burden*

- Align the inclusion rates to 20% of the units at 60% MFI for all off-site options to create a single program applicable to both new construction and existing buildings.
- Increase from 0.5 mile to 2 miles the distance the off-site building location can be in relation to the originating building.
- Eliminate the unused and highly infeasible 30% MFI options. The Work Group acknowledges the need for housing options at deeply affordable rates. The 30% MFI however targets community members that often need additional services that require heightened subsidies, case management, and supportive services that is not fully captured in the off-set package nor typically within the area of expertise of market rate property management staff.
- Allow a project located in an Opportunity Map score of 5 the option of sending IH units off-site in a location with an Opportunity Map score of 5 or 4. Current standards only allow an area with a score of 5.

#### *Other areas to consider for additional program flexibility*

- Allowing reconfiguration for off-site options in the same manner that could have occurred if the units had been provided on-site. Current standard only allows reconfiguration when selecting an on-site option.
- Allowing sending building to retain a tax exemption and FAR bonus, to make the off-site option more feasible and diversify the potential funding streams for affordable homebuilders. Current standard requires the incentives to follow the unit. Removing incentives from a

building that is likely paying to send it's required units to another building that may already have its own incentives causes the sending building to 'pay twice'.

- Reducing the inclusion rate for off-site from 20% of the units at 60% AMI to 15%.
- Identifying pathways to create partnerships with affordable housing and market rate housing providers.

Finally, Council should explore ways to increase compliance of annual reporting requirements for IH units for the purpose of research and future program updates.

### **Tax Exemption Outside Central City**

A greater offset package is needed to support private market development in high cost sub-geographies outside the Central City. An expansion of the property tax exemption provides the greatest value at the city and county's disposal. A majority, but not all, work group members believe that the property tax exemption should be expanded. This expansion should apply the 10 year property tax exemption only to buildings providing 60% MFI units in areas outside the Central City that allow apartment zoning, see details below.

#### *Duration*

- Property tax exemption on entire building for 10 years – **Majority recommendation**
  - In some cases, may provide more incentives than needed to balance requirements and offsets
- Property tax exemption on 75% of the entire building for 10 years
  - Closely balanced approach of balancing requirements to offsets

#### *Location*

- Commercial-mixed use and multi-dwelling zones **Majority recommendation**
  - Prioritizes citywide approach on centers and corridors, including any parts of neighborhoods that allow apartment zoning
  - Would likely apply to zones CM3, CM2, CM1, RM4, RM3, RM2, RM1
- Built or base zone of 3:1 FAR or greater
  - Prioritizes density on corridors and commercial streets, less in neighborhoods
  - Would likely apply to zones RX, CX, EX, CM3, CM2, RM4, RM3
- Built to 3:1 FAR or greater, no base zone requirement
  - Prioritizes a density approach and could apply in many zones
- Opportunity Map score areas of 5, 4, and 3
  - Prioritizes a complete neighborhood approach
  - Opportunity Map updated every 5 years

### **Topics Needing Further Analysis**

Two topics, homeownership and policy threshold, require additional discussion and analysis.

#### *Homeownership*

The city should conduct a separate analysis of multi-family homeownership developments and the IH for-sale unit program. We agree with staff and consultants that IH is not the only impediment to development of for-sale projects. However, the incentive offset package applies differently to for-sale projects than it does for rental projects, creating a greater likelihood of an under-incentivized scenario.

It would be beneficial to discuss the program with a group of industry stakeholders specifically around homeownership, including those with expertise in long-term affordable models and those with market rate development experience.

### *IH Policy Threshold*

Currently the IH policy is triggered when a project includes 20 or more new residential units. Increasing the policy threshold, for example from 20 new units to 30 new units, was discussed as an additional way to potentially balance the IH program. Conversation included increasing the threshold of the entire program as well as by targeting specific geographies. The city should continue to consider and evaluate the benefits and tradeoffs of this concept.

### **Consistent Program Evaluation and Calibration**

This fact finding exercise was postponed for years. In those years, underfunding of the IH program outside the central city likely led to Portland producing fewer homes, which in turn drove rents higher than they otherwise might have been. Delays in policy analysis are often necessary, but they can impose invisible costs. We recommend that Portland's IH program be subject to ongoing, pre-scheduled recalibration efforts like this one in 5 year intervals. The models prepared by BAE Urban Economics for this effort can continue to be useful in keeping this program's mandates and the public's offsetting tax expenditures roughly in balance.

### **Policies Outside Work Group Scope**

While formally outside the scope of our work, we appreciate the additional context and analysis provided in the construction cost study, as a key question that arose early on during discussions was how the program relates to current challenges in overall development feasibility.

Initial findings from the construction-cost study show that construction costs have risen more than 50% since 2016. Rising inflation, interest rates, wages, materials, and supply-chain issues are driving up the costs of development in Portland and across the country. The developers among us are personally experiencing these conditions. Local investors are frustrated and looking outside our community. The study made it clear that Council must pursue opportunities to increase certainty for project costs and identify opportunities to eliminate conflicting policies across planning and infrastructure bureaus.

Additionally, many of the developers among us, both non-profit and market rate sectors, are experiencing highly under-used bike parking rooms in our buildings, taking precious space away from much needed housing. Some members suggest eliminating the requirements and that as with auto parking, buildings in bikeable areas will voluntarily provide this amenity due to resident demand. A similar perspective applies to ground floor active use requirements. Other members are more skeptical of such measures. Therefore, additional stakeholder engagement is needed.

Regarding the cost study design review component, in 2021 Council adopted a suite of code changes intended to simplify and streamline discretionary review processes through the Design Overlay Zone Amendments project. Council should first identify the amount of time needed for these code changes to be in place in order to be able to sufficiently evaluate their merits and shortcomings. With this timeline in mind, Council should then schedule and direct this review to the appropriate bureau(s).

It may take several years for market forces to shift; however, we encourage Council to identify and implement strategies to create vibrant commercial centers and corridors that balance city code requirements, including long-term bike parking and active street frontages, with changing market cycles. Strategies should reflect the needs of the community, both present and future.

By reducing the cost of creating new homes, these measures as well as our recommended amendments to the IH program will allow more homes to be developed at lower target rents. Though none of these changes will themselves lead to an immediate turnaround in the homebuilding market, they will help reduce the chance that the next market cycle will involve as destructive a wave of rent hikes as recent cycles have had.

We urge City Council to act thoughtfully, deliberately, and quickly.

Sincerely,

Michael Andersen, *Sightline Institute*  
Andrew Colas, *Colas Construction*  
Paul Del Vecchio, *Ethos Development*  
Sam Diaz, *1,000 Friends of Oregon*  
Ernesto Fonseca, *Hacienda CDC*  
Julie Livingston, *Home Forward*  
Kymberly Horner, *Portland Community Reinvestment Initiatives, Inc.*  
Stef Kondor, *Related NW*  
Erica Thompson, *Hennebery Eddy Architects*  
Sarah Zahn, *Security Properties*