

North Macadam Urban Renewal Area

H O U S I N G D E V E L O P M E N T S T R A T E G Y

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North Macadam Housing Development Strategy

EXECUTIVE SUMMARY

Comprehensive Plan Housing Policy establishes a balancing goal for housing production in new redevelopment areas to match the citywide income profile (Comp Plan Housing Policy 4.7, Objective 1). Since the build-out projection of the area is 3,000 housing units, this would equate to 2,175 units under 120% MFI (both subsidized and non-subsidized). Currently there are not enough resources available to achieve this profile and the adopted housing goals of the District reflect the funding realities. Yet, as development takes place, this Comp Plan policy should remain a guiding principle for adjustments to the affordable unit goals. It is recommended herein that an evaluation of the housing production and affordable goals in the District be undertaken in three years. This review will include data on residential build-out, actual and projected, and available resources. The evaluation will include a community process. The intent is that once production climbs to the 3,000 unit level, affordable housing goals shall be based on Comprehensive Plan Policy from that point forward.

The Adopted South Waterfront Plan, as well as the North Macadam District Framework Plan, contains the goal to develop, at minimum, 788 affordable rental and ownership units across a range of income categories based on build out projection of 3,000 units. This goal contributes to the overall vision of the District as a vibrant urban neighborhood with unique transit-oriented housing that supports Oregon Health Sciences University and related employment needs for all income levels. The Plan seeks to support unique opportunity for expanded greenway, open spaces, and multimodal transportation system. There is significant momentum towards developing partnerships with landowners and developers in creation of a multifaceted district.

There are also significant challenges in achieving this vision. The foremost challenge is identifying sufficient resources for funding the broad range of priorities in the district. Twenty-five million dollars of tax increment funding was in the 1999 North Macadam URA Funding Strategy for affordable housing. The 788 affordable unit targets was derived from committee work during the North Macadam Framework planning process, as the schedule of housing that could be developed using \$25 million of projected TIF funding. This financial forecast was based on constructing wood frame buildings for affordable units. In 1999, the anticipated subsidy range was from \$23,000 per unit to \$43,000 per unit. Current per unit averages are included in Appendix A.

The South Waterfront Plan is an updated vision for the district and has brought new financial expectations. The Plan has changed the development environment of the district. Height limitations and FAR allowances have increased dramatically as well as there being multiple FAR incentive bonuses available. If affordable units are included in concrete buildings, the construction cost will increase by 20-25%. If land is acquired for affordable housing after the infrastructure improvements in the district are significantly underway, the land cost may be 3 or 4 times higher than at present. The current 2003 North Macadam URA Funding Strategy has increased the projected funding for housing from \$25 million to \$36 million while projected TIF available for capital projects through 2020 has dropped from \$150 million to \$130 million.

In order to meet identified needs for housing, economic development activities, transit, street improvements, parks, and the greenway improvements. The current funding strategy includes

funding from federal, state, local and other sources to assist with public infrastructure and programs. Additional funding in any one priority area will allow tax increment funding to be rebalanced among various priorities.

The projections in this document are based on housing build-out of 3,000 units. The zoning changes in the adopted South Waterfront Plan will increase the total capacity for housing. However, a market and capacity analysis has yet to be done. When it becomes apparent that the total build-out of housing is going to exceed the 3,000 units, then the affordable unit goals will need to be increased and this increase will be based on the comprehensive plan housing objective for achieving a distribution of household incomes similar to the distribution of household incomes found citywide.

Adopted affordable housing unit production targets are separated into five MFI categories. In this document it is recommended that the MFI targets be separated into six categories splitting the 51% to 80% MFI range into 51 to 60% MFI (low income) and 61 to 80% MFI (moderate income). This is based on the City's experience with financing affordable units, the financing tools available, and consistency with City policy targets such as the Central City No Net Loss. For instance, it would be unfortunate if a majority of the units designated 51-80% MFI ended up being affordable to families at 80% MFI, and therefore not contributing to the CCNNL goals. Since the range of targeted affordability extends from 0-30% MFI to 101-120% MFI, it will be important to not only have available funding to support the lower end of this spectrum but also to have owners/developers stretch the affordability range within their market rate production.

A fair share assignment of affordable units to major landowners is one of the key recommendations in this document. The targets can be calculated based upon the amount of land owned by a landowner and whether this land is located in the area with the residential housing overlay. Actual housing targets will be established in Development Agreements with the major landowners at the time they are ready to proceed with a development master plan and seek infrastructure support from PDC and other city bureaus. River Campus Investors (RCI), North Macadam Investors (NMI), and Oregon Health Sciences University (OHSU) are the first major landowners to create a development schedule. In development agreement currently under negotiation, NMI is proposing development of up to 2,700 units of housing. This includes production of affordable units across a range of income categories. It is significant to note that NMI is proposing to develop more than half of the 788 affordable units targeted for the entire district.

Since there are currently no publicly owned parcels suitable for housing within the South Waterfront Area, acquisition of site/sites suitable for housing is a recommendation critical to accomplishing the development of the affordable units, particularly those targeted to the very low and low income categories. Now that development activity appears to be imminent and that much of this activity will generate tax increment, PDC should immediately pursue property acquisition across the North Macadam Urban Renewal Area for purposes of developing projects that include low income units serving those most in need as well as moderate to middle income units. This acquisition strategy should rely on use of Smart Growth Funds or other non-tax increment funds recognizing that tax increment will be available in the future to take out these other resources.

It is important to match housing production to types of jobs developed in the district and nearby job centers. OHSU is the City's largest employer and plans to add 5000 jobs in the South Waterfront Area and at its Marquam Hill campus by 2030. Future residents will be attracted to the district by the ease of access to this adjacent employment center as well as by proximity to retail services and green spaces. It will help to minimize transit impacts lessening the need for travel into and out of a district with constrained transportation facilities. Housing availability for a variety of income levels improves recruitment efforts by creating a near-by available labor pool. In addition, public support of the urban renewal investment can be gained and maintained by creating a balanced community that enhances and complements the adjacent neighborhoods. It will be vital to protect the affordability of the units that are produced to ensure this balance. Affordability agreements will be attached to each designated affordable rental unit and each ownership unit will have a mechanism for long term affordability.

BACKGROUND

During the Framework Planning process, five subcommittees were created to assist the Steering Committee with technical and policy analyses and recommendations. One of these subcommittees, the Housing/Jobs Group, met actively between 1998-2000. The following are highlights of this process.

- I. **Scope** – The scope of work included but was not limited to the following:
 - Creation of housing goals consistent with Comprehensive Plan Housing Policy
 - Market, development capacity, financial feasibility, and return on investment analyses
 - Consensus on targeted housing (3,000 units) and affordability goals (minimum of 788 units) through public outreach and meetings with property owners, public agencies, affordable housing advocates, and the general public
 - Jobs/Housing Balance that acknowledged the transportation constraints
 - Study of potential residential capture of North Macadam District workers
 - Sustainable housing development models
- II. **Housing Supply** – Housing development in North Macadam supports Portland’s participation in the Metro 2040 framework plan goal of ensuring that an adequate supply of housing is available. In 1999, it was estimated that there were approximately 140 total acres in the District with 40 going for housing. Build-out of 3,000 units was calculated using the availability of 40 acres and the projection of 80 dwelling units per acre.
- III. **Housing Opportunity** – Comprehensive Plan Housing Policy establishes a balancing goal for housing production in new redevelopment areas to match the citywide income profile (Comp Plan Housing Policy 4.7, Objective 1). The Jobs/Housing Committee felt that obtaining a profile of affordability was essential to gaining citywide support of the urban renewal investment and would allay fears that the district would become an exclusive high-income enclave.
- IV. **Affordability Compromise** - The Subcommittee projected that \$61 million of urban renewal funds would be required to achieve the City-wide income distribution within the 3,000 unit build-out goal, based on the 1990 citywide income profile. The 1999 Framework Plan Strategy allocated \$25 million of projected future tax increment revenue for affordable housing production, which in turn was projected to achieve 788 units according to the distribution indicated below.

In order to increase the number of affordable units, it was assumed that there would be cross-subsidized mixed-income projects that would be able to reach lower income levels while still providing a reasonable return to owners/developers. The Committee cited multiple examples of successfully cross-subsidized projects.

1999 Framework Plan

Summary of Income Distribution of Proposed Build-out Scenarios as compared to Citywide

MFI Ranges	Citywide Profile	City Policy Profile	Constrained Funding Model		
			% by Income	Total Units	Affordable
0-30%	13.50%	405	6%	166	166
31-50%	17.20%	516	7%	211	211
51-80%	16.70%	501	7%	205	205
81-100%	14.10%	423	6%	172	172
101-120%	11.10%	330	20%	608	34
121-150%	21.70%	651	43%	1292	
151-+%	5.80%	174	12%	346	
Totals		3000		3000	788

As a means to offset the lack of cash flow on units serving households at 30% of median income, it was assumed that these units would likely be included in mixed-income projects. The following subsidy assumptions are from the Framework Plan dated August 11, 1999. A careful reader might note that the 81-100% per unit funding is higher than the 51-80% per unit funding. This is due to the fact that housing in the 51-80% range is eligible for a variety of other state and federal subsidies which lowers the amount of tax increment funding needed. Although the amount of per unit funding for homeownership is high, public benefit is gained through long term affordability mechanisms such as Share Appreciation Mortgages and land trust ground leases. This table provided as part of the background information and is not meant to represent current subsidy averages. *Current per unit averages are in Appendix A.*

1999 Framework Plan Subsidy Assumptions for Affordable Units

% of MFI	Affordable	Affordable	Total	Subsidy Projections	Per Unit Funding*
	Rental	Ownership			
0-30%	166	0	166	\$7,140,461	\$43,015
31-50%	211	0	211	\$8,019,828	\$38,008
51-80%	205	0	205	\$4,703,592	\$22,944
81-100%	129	43	172	\$2,977,374 & \$1,208,2100	\$23,080 & \$28,098
101-120%		34	34	\$950,535	\$27,957
TOTAL	711	77	788	\$25,000,000	

*Based on analysis of PDC's housing portfolio

- V. **Housing Types** – To develop the affordable housing, it was anticipated that units would be developed through partnerships between owners and for profit and non-profit developers familiar with this segment. Another assumption was that housing developed at lower densities (e.g., wood frame construction without structured parking) is less costly to develop, and might require less subsidy. In some locations, it might be appropriate to emphasize affordability over density.

RECOMMENDATIONS

The housing in the North Macadam District should serve a variety of household incomes which will reflect the diversity of the City of Portland as a whole. To accomplish this, specific targets have been created to guide public investment. However, these adopted targets reflect funding constraints.

An annual report will be created to review the progress being made in achieving the goals. This annual report will become the basis for public and community review. Further, there will be a more in depth evaluation of the housing production and affordable goals in the District. This review will include data on residential build-out, production projections, and available resources. Adjustments to the affordable housing goals will be based on these findings and on the intent that once production climbs to the 3,000 unit level, affordable housing goals will be based on Comprehensive Plan Housing Policy goal for housing production in new redevelopment areas to match the citywide income profile.

In striving to meet this balancing goal, a periodic inventory of the District's total housing production will be compared to the city wide income profile and adjustment to the targets will be made based on total build out, not just on build out after the first 3,000 units. Inventories should be conducted every three to five years.

This section outlines recommendations to achieve the housing goals. There is a strong commitment to achieving housing production that does reflect the diversity of the City as a whole. Because of the funding constraints of the district, further decisions may need to be made in prioritizing production within the six median family income categories defined in the recommendations. Guidance for these decisions will come from priorities outlined in the Comprehensive Housing Plan Policy and in the Consolidated Plan.

As stated earlier in the document, the foremost challenge is identifying sufficient resources for funding the broad range of priorities in the district. The current funding strategy includes funding from federal, state, local and other sources to assist with public priorities. Additional funding in any one priority area will allow tax increment funding to be rebalanced among various priorities. Meeting the affordable housing agenda of this District is and will remain a high priority. In the event that new resources become available, consideration will be given to achieving unfunded priorities in the District including unfunded affordable housing production goals.

1. Establish targets for new housing using the following six categories: 0-30% MFI, 31-50% MFI, 51-60% MFI, 61-80% MFI, 81-100% MFI, and 101-120% MFI.

These allocations vary from what is in both the Framework Plan and the South Waterfront Plan, as 51-80% was grouped into one category. The rationale behind splitting this into two categories is twofold. First, the Central City No Net Loss Policy has established specific production goals for units at and below 60% MFI. Second, the ability to access federal, state,

and local funding for projects is tied to the development of units at or below 60% MFI. The adjusted targets are listed in Recommendation 3.

2. For the purposes of establishing housing targets, assume that there will be approximately 3,000 housing units in the District at full build-out.

During the Framework Plan discussion, it was projected that the total district housing production would be between 1,500 and 3,000 units. The development potential of the district has increased since the Council adoption of the South Waterfront Plan and the Zoning Code For South Waterfront. One of the Land Use and Urban Form Objectives from the South Waterfront Plan is to provide for 10,000 jobs and at least 3,000 housing units by 2019. Further, one of the projects listed under the Land Use and Urban Form Action Chart is to analyze the implications on district infrastructure of providing an additional 2,000 housing units by 2019. Exceeding the stated target of 3,000 housing units is a real possibility, given that North Macadam Investors (NMI) are exploring the possibility of creating up to 2,700 residential units on their developable acres.

Once it becomes clear that the total build-out of housing units will exceed the 3,000 unit target, then the affordable unit goals will need to be increased. Increasing the targets would help to assure the livability of the district through providing housing that is attractive and affordable to a broad range of households and incomes. The current target of creating, at minimum, 788 units of affordable housing was a compromise shaped by district funding constraints during the creation of the Framework Plan.

3. Establish the following targets for new housing development as updated from the Framework Plan and South Waterfront Plan by moving from five to six MFI categories.

Affordable Unit Goals for South Waterfront Area

% of MFI	Affordable	Affordable	Total	MFI Category
	Rental	Ownership		
0-30%	166	0	166	Extremely Low
31-50%	211	0	211	Very Low Income
51-60%	102	0	102	Low Income
61-80%	103	0	103	Moderate Income
81-100%	129	43	172	Middle Income
101-120%		34	34	Middle Income
TOTAL	711	77	788	

All affordable rental units will have sixty year affordability agreements and affordable ownership units will have a mechanism for long term affordability.

The table above is based on the constrained funding model that was developed during the committee work completed during the Framework Plan process. The table below, from the Framework Plan process, is inserted to show perspective on what the development profile for the entire District would look like if there were adequate resources to match development to the citywide income profile.

1999 Framework Plan

Summary of Income Distribution of Proposed Build-out Scenarios as compared to Citywide

MFI Ranges	Citywide Profile	City Policy Profile	Constrained Funding Model		
			% by Income	Total Units	Affordable
0-30%	13.50%	405	6%	166	166
31-50%	17.20%	516	7%	211	211
51-80%	16.70%	501	7%	205	205
81-100%	14.10%	423	6%	172	172
101-120%	11.10%	330	20%	608	34
121-150%	21.70%	651	43%	1292	
151-+%	5.80%	174	12%	346	
Totals		3000		3000	788

Please note that in this development profile, not all of these units would have affordability agreements.

4. Implement a consistent methodology for establishing “fair share” housing targets in the district.

It is likely that major landowners will seek a Development Agreement with the city. Currently four land owners own 53 out of the 80 developable acres in the district (exact acreage is subject to final greenway configuration). In negotiating housing targets, consideration must be given to whether the property being master planned is inside of the Required Housing area or not. Thus, three fair share target categories are established: 1) land within the Required Housing area likely to be master planned; 2) land outside of the Required Housing area likely to be master planned; and 3) a consolidated target for the small parcels in the district not likely to be included in any development agreement. The targets are established using the six income categories indicated in Recommendation #3. The table at the end of this section summarizes the fair share delineation for each of these three categories. The fair share target for the small parcels is likely to be achieved through PDC purchase of property and subsequent RFP process. The targets serve the purpose of ensuring that the City meets, at minimum, 788 units of affordable housing in the district based on projected build out of 3000 units. The intent is that once production climbs to the 3,000 unit level, affordable housing goals shall be based on Comprehensive Plan Policy from that point forward.

As stated above, it is anticipated that there will be a development agreement negotiated with major landowners in the District for specific redevelopment programs in exchange for City investment in infrastructure improvements. A range of public goals and objectives, including housing development targets should be included in these negotiations. Development agreements with land owners are to include unit targets which contribute to achieving housing production targets and affordable housing targets across the range of incomes for both rental and ownership tenure. Currently, four property owners control 66% of the 80 acres of developable land in the District.

In order to establish fair share targets for housing that could be included in a development agreement, it is necessary to look at the zoning environment and make assumptions as to location of residential uses. The adopted South Waterfront Plan provides guidance. It states “residential uses are expected to cluster east of Bond and south of Gibbs.” This area is in the Required Housing Overlay. It is assumed that 70% of the housing production will be in this area which is 31% of the buildable land in the District. Based on these assumptions, 2,100 units out of the 3,000 projected units would be in this area. The projected housing build-out for the balance of the district would be 900 units. Since there are approximately 31 acres in the Required Residential area and assuming 2,100 projected units, this equates to 67 units per acre.

As stated above, the housing production for the area outside of the Required Housing area would be 900 units in 49 buildable acres equating to 18 units per acre. This unit per acre number is low, not because the residential projects will be of such low density, but because there will likely be a mix of office, institutional and retail emphasis along with residential development.

It must be stressed that these are theoretical targets to be used to ensure meeting the numeric affordable housing goals. These targets are a starting place for development agreement negotiation with the major landowners. Actual goals negotiated will depend on the development profile and schedule undertaken by each landowner.

The remaining 34% of the District’s buildable land is owned by a variety of entities in smaller parcels. These parcels offer opportunities for acquisition and development of housing projects with affordable units within the context of District funding constraints. Note that Recommendation 9 is to target acquisition of land for affordable housing.

Schedule of Goals for Affordable Housing Units

Based on Prorat	3,000	1,959 65.3%	452 15.1%	589 19.6%
% of MFI	Affordable Goal	Land w/ Required Housing - Likely Master Planning (67 units/acre)	Land Outside Required Housing – Likely Master Planning (18 units/acre)	Small Property Consolidated Target
0-30%	166	108	25	32
31-50%	211	138	32	41
51-60%	102	67	15	20
61-80%	103	67	16	20
81-100%	172	112	26	34
101-120%	34	22	5	7
Affordable Total	788	515	119	154

The South Waterfront Central District Project Development Agreement among PDC, Oregon Health and Science University, River Campus Investors, and North Macadam Investors is being finalized. As part of this 32-acre project including OHSU institutional, research, and other commercial uses, NMI is expected to develop up to 2,700 units of housing. If NMI were to develop based on the projected density of 67 units per acre for the Required Housing

area, their build-out would be 1,348 units. As stated above they are scheduled to exceed this forecast with 2,700 residential units or 135 units per acre. Their development profile contains both residential and non-residential projects. The 135 units per acre is a residential average for their whole development schedule. It must be recognized that while 90% of the affordable housing production goals are targeted to rental housing, the anticipated ownership/rental tenure profile for NMI shows more ownership than rental tenure. There is importance of early condominium development to generate tax increment funding in order to achieve our affordable housing and other public goals. This exact mix is unknown, but the projected cost of development in high-rise buildings is driving the residential profile towards ownership housing because the market absorption of rental units at that development profile is uncertain.

Based on underlying assumptions that 1) as housing production increases so should the fair share number of affordable units, and 2) recognizing the dominance of rental production over ownership production in the affordable targets; the negotiated targets with RCI/NMI appear in the table following this section. The distribution between categories is drawn from the distribution recommendations coming from the Framework Plan. Given the City’s high infrastructure commitment in the first years of development and the fact that all residential units developed for rental by NMI in the central district are projected to be concrete construction, the decision was made to collapse two MFI ranges into one. The 0-30% MFI unit programming and the 31-50% unit programming are proposed as 0-50% in the current development agreement. PDC participation in these units is subject to available funding and financial feasibility as a condition of the affordable housing production. If project-based Section 8 vouchers become available or if additional resources become available, then the feasibility of creating a greater number of extremely low income units increases. It is significant that more than half of the 788 targeted affordable units are likely to be achieved under the terms of this first development agreement.

**Summary of Affordable Housing Goals for NMI
In South Waterfront Central District Project Development Agreement**

% of MFI	Affordable Rental	Affordable Ownership	Totals
0-50%	167		167
51-60%	107		107
61-80%	60		60
81-100%	66	13	79
101-120%		17	17
Affordable Totals	400	30	430

Summary of South Waterfront Central District Project Development Agreement Terms Concerning Housing

- A minimum of 430 units of affordable housing will be developed
- A minimum 230 units of affordable housing will be developed in Phase 1 with additional 200 rental units developed in Phase 3.
- Goal is for 1350 market rate condominium units and 700 market rate apartments.
- There may be up to 250 units of student housing.
- If development of more than 2,660 residential units occurs, additional affordable units will be developed that equal 36% of the total number of additional residential housing units and at least 20% of these additional affordable apartments shall be affordable to households below 30% MFI.
- If development of more than 3,000 residential units occurs, additional affordable units will be developed that match the city wide income profile.
- All PDC financing is subject to availability of sufficient gap financing. All PDC financing will be subject to applicable loan program criteria, underwriting requirements, and consistent with historical PDC per unit gap financing for affordable housing.
- NMI will produce residential units at no less than 125 residential units per net acre.
- Future development agreements will be consistent with this Strategy.

5. Target market-rate housing in the District to as wide a market as possible.

Housing should be developed at various sizes and affordable to households of all income levels including a cross section of those employed in the district and nearby job centers, empty nesters, students (including OHSU residents and interns), retirees, and families. Projects should include as great a range of income levels as possible in each housing project. Encourage developers to cross-subsidize units within their projects in order to achieve inclusion of as wide a market as possible within market-rate housing while providing a reasonable return to owners/developers. Developers can achieve this range by designing units in condo or apartment complexes that will sell or rent at more affordable levels due to such factors as: smaller unit size, less expensive amenities, and less desirable location within the building.

6. Encourage housing opportunities for those employed in the district and nearby job centers.

Future residents will be attracted to the District by the ease of access to nearby employment centers, downtown cultural and service amenities, neighborhood retail services and restaurants, green spaces, and health care facilities on Marquam Hill. The anticipated residential profile for the District includes: workers in or near the district or employed downtown; younger, professional couples; empty-nesters who have downsized from larger homes; families including single-parent head of household; seniors; and Marquam Hill employees. Housing for this residential profile needs to contain a mix of unit sizes. Attracting residents who work in or near South Waterfront will help to minimize transit impacts

lessening the need for travel into and out of a district with constrained transportation facilities.

Housing availability for families of various sizes and across a range of income levels improves recruitment efforts by creating a near-by available labor pool. Developers should be encouraged to implement marketing outreach to reach employees of major employers such as OHSU as residential projects come on line. Linkage should be made with employers and workforce development agencies to facilitate hiring and professional advancement strategies for residents of the affordable units in the District.

7. Promote both ownership and rental housing options.

In addition to the subsidized units mentioned above, further rental and ownership opportunities in the District are encouraged. It is anticipated that the market will respond by producing both rental and ownership units serving the mid-to-upper income categories. These units will produce tax increment necessary for pursuing public benefits in the district.

Recent market analysis indicates that at this time, there is more feasibility for development of ownership housing than for rental housing. This is due to the high development cost of the high-rise development guided by the South Waterfront Plan.

The Framework Plan committee recommended that the City should create programs to assist employees working in the North Macadam Urban Renewal District to purchase housing in the area. These programs should include programs providing direct assistance to employees as well as programs to encourage employers to provide housing assistance benefits to their employees who choose to buy housing in the area. The primary issue for the implementation of this action item is how strongly the City wishes to encourage the jobs/housing link and therefore what level of financial assistance/incentive the City wishes to make available. Infrastructure investment creates a market for higher income affordable units.

8. Acknowledge that the funding strategies and amount of subsidy needed varies significantly between the categories 0-30%, 31-50%, 51-60% MFI (low-income units) and the categories 61-80%, 81-100%, and 101-120% (moderate to middle income units). All affordable units will have affordability agreements and in the case of ownership units, a mechanism for long term affordability.

The low income units are eligible for federal, state and local subsidies, and while the units in the moderate and middle income categories may need public subsidies they also lend themselves much more to being included in market-rate housing projects. The subtotal for low-income affordable units is 479. The subtotal for moderate to middle income affordable units is 309.

While urban renewal funds will be a primary tool for financing the affordable housing units, other resources will be needed to meet the housing goals. In striving to meet established targets for production of low-income affordable units, PDC has looked to maximize leverage of tax increment funding through private equity, private contributions and state and federal funds. Notable sources of leverage are: Risk Share Program, Low Income Housing Tax

Credit, Oregon Affordable Housing Tax Credit, State of Oregon Housing Trust Fund, local tax abatement programs, the emerging Portland Communities Fund, the Federal Home Loan Bank's Affordable Housing Program, Project-Based Section 8 Assistance, Federal, state and local sources for mixed-use projects like the Economic Development Initiative (EDI), and Oregon Economic Development Department loans that fund commercial space. As a general rule, CDBG and HOME are not used inside URAs because of the availability of TIF in those areas. It is not anticipated that these sources will be used in North Macadam.

Sources for leverage of tax increment funding for moderate and middle-income affordable units are limited. Projects that are mixed-income, in that they contain both low-income units and higher income units, may be subsidized by any of the above. The Portland Communities Fund (PCF) is a construction financing loan program designed to decrease the tax increment funding needed in all types of projects. The fund will be capitalized by a loan from the Fannie Mae American Communities Fund. Key financing points include lower interest rates, a maximum 7 year construction/"mini-perm" term, and collateralization by PDC resources. Many moderate to middle income projects currently proforma with a financing gap. With PCF, these same projects are able to enter into private financing without or with reduced long term gap financing needs.

Another source of leverage for projects is tax abatement. Projects in the South Waterfront Area may be eligible for tax abatement under the Nonprofit or New Multi-Family abatements.

9. Target acquisition of land for creation of affordable housing.

Now that development activity appears to be imminent and that much of this activity will generate tax increment, PDC should immediately pursue property acquisition across the North Macadam Urban Renewal Area for purposes of developing projects that include low income units serving those most in need as well as moderate to middle income units. This acquisition strategy should rely on use of Smart Growth Funds or other non-tax increment funds recognizing that tax increment will be available in the future to take out these other resources. The use of condemnation should be considered. Delaying acquisition of land for affordable housing development will significantly increase the per unit subsidy as the cost of this land is projected to be 3 to 4 times as expensive once the infrastructure improvements are in place. Affordable units in the district are targeted to a very broad range of incomes from 0-30% to 100% MFI for rental housing and from 81-120% MFI for ownership. As stated earlier, housing projects should be targeted to as wide a market as possible.

Since a third of the developable acres in the South Waterfront Area are held by a variety of land owners in a collection of small parcels, the District acquisition strategy should include acquiring one or more of these smaller parcels in order to ensure meeting the affordable goals. These parcels could be either in the South Waterfront Area or in the section of the North Macadam Urban Renewal Area that extends north and west of the South Waterfront Area. Rental projects built on these parcels will contain a mix of the targeted low income units (0-30%, 31-50%, 51-60% MFI) as well as a mix of moderate and middle income units (61-80% and 81-100%), recognizing there are considerations that affect the range of incomes considered feasible. These include the size and FAR of the site, funding restrictions of other

sources being used to maximize leverage of tax increment funding (such as tax credit regulations), the market rents in surrounding projects, compatibility of different market segments (both within the project and within the area), and recent market information on the area. The construction type on these parcels may be wood frame construction thus providing greater financial feasibility.

The Housing Authority of Portland, other non-profit housing agencies, and for profit developers familiar with this market segment are expected to be key partners in achieving the goals for affordable housing projects. . The Smart Growth Fund (Real Estate Fund) is a source of funding for acquisition of key parcels in the short term. These parcels could be held for several years while available tax increment financing grows and is sufficient for financing the development of the sites. When financing and scheduling of build-out of these units becomes feasible, request for proposals can be solicited from key development partners. When public funds in North Macadam are invested in infrastructure improvements that directly impact the value of the land a developer is making available for development, PDC will purchase land at a fair market value that is discounted by the value of publicly funded portions of the infrastructure improvements made. This means the purchase price will not be based on the appraised value after the improvements have been placed. Acquisition of property enables PDC to have more control over the unit mix than in traditional development agreement negotiations.

PDC anticipates achieving the affordable mix through individual building mix as well as a mix in geographic focus areas within the District.

10. Conduct an evaluation of the housing production and affordable goals in the District in three years. This review will include data on residential build-out projections and available resources. The evaluation will include a community process. Progress report in achieving housing production and affordable goals will be produced annually.

As stated several places in this document, the housing goals established in the Framework Plan were a compromise. The Comprehensive Plan Housing Policy establishes a balancing goal for housing production in new redevelopment areas to match the citywide income profile (Comp Plan Housing Policy 4.7, Objective 1). The current goals for North Macadam do not align with this city policy objective. The goals established through lengthy community process in the Framework Plan and validated in the South Waterfront Plan reflect available resources in the District.

The District continues to have financial constraints in funding the full range of planned projects including housing, the greenway, parks, economic development activities, transit, and street improvements. The current funding strategy distributes resources in a way that essential elements of all these projects are moving forward concurrently. There will continue to be adjustments in all areas as potential funding sources become available.

There will be an annual report showing unit production by income level and housing type. In three years, there will be an evaluation of both the total build-out projection for the district and the availability of additional resources. Adjustments to the affordable housing goals will be based on these findings.

Although current projections for the Central District indicate production of around 2,700 housing units, it is too soon to determine actual production as all projects are in the conceptual stage.

In the later years of the District's twenty year life span, a greater proportion of TIF resources are likely to be available for housing after basic infrastructure improvements are completed. This infrastructure is being funded through partnership of PDC, other city and state agencies, and land owners and developers. In addition, it is still unknown how much increment will be generated over time.

In the recent past, city general fund dollars were dedicated to the Housing Investment Fund. In the four year period from June 1996 to June 2000, these Housing Investment Funds combined with federal dollars, TIF resources, and local incentives assisted over 11,700 housing units. In the current economic climate, there are no new Housing Investment Funds being budgeted. However, new initiatives are underway to bring new housing resources to Portland, and a portion of these could be targeted to North Macadam.

Therefore, since there is uncertainty about future build-out and future resources, the recommendation is for there to be a community process to evaluate the housing production and affordable goals of the District in three years when more data is available. The intent is that once production climbs to the 3,000 unit level, affordable housing goals shall be based on Comprehensive Plan Policy from that point forward.

Role of the Public and Private Sector in Development of New Housing in the South Waterfront Area

Location of Housing within the District

The Land Use and Urban Form Concept section of the Adopted South Waterfront Plan addresses Anticipated Land Uses. It states that “residential uses are expected to cluster east of Bond and south of Gibbs. This area has many attributes, including its views of Mt. Hood, Ross Island, the West Hills, and downtown and its distance from the noise-generating I-5 and Macadam.” This is the area that is subject to the Required Residential Development Areas overlay (extends south to Lowell). The requirement is imposed as an alternative to the creation of exclusively residential zoning. In the South Waterfront Required Residential overlay area, new development must include at least 1 dwelling unit per 1,000 square feet of net site area (43 units per acre). Housing units may be transferred to another site. These factors suggest that the area within the required housing overlay will serve as the prime location for the district’s residential core.

The above discussion is the basis for estimating that approximately 70% of the district’s housing will occur in the Required Residential Development Area. This assumption was used for development of the methodology for fair share housing targets. The second major assumption used for this analysis was that district housing build-out will be 3,000 units.

Housing Build-out

As described in the Background Section above, in 1999 it was estimated that 40 acres would be developed with housing. Build-out of 3,000 units was calculated using this 40 acres and the projection of 80 dwelling units per acre. This assumption also appears in the Adopted South Waterfront Plan, even though developers have now been given increased height restrictions and higher FAR options. Until further build-out analysis is completed and adopted by stakeholders, policy goals and objectives will continue to be based on a build-out of 3,000 housing units. Further analysis will be done at the time of the three year evaluation of housing production and progress on affordability goals.

River District is an example of where city goals drastically underestimated the real build-out potential of the district and where development agreement benchmarks on density became a non-issue for developers.

An example of the increased development potential in South Waterfront can be examined by looking at the potential of one site. Using the following assumptions on our “sample” site/block: site dimensions of 200 ft by 200 ft (.93 acre), not adjacent to the greenway, with bonuses extending the FAR to 9:1 with 15% of the project dedicated to retail/parking uses, with unit size averaging 920 sq. ft. and with tower width of 125 ft., it would be feasible to build 300 housing units on the site. This equates to 322 units per acre. The potential of our sample site is greater than those sites adjacent to the greenway and adjacent to Macadam/I-5. However, this example does indicate that the 3,000 build-out projection based on 80 dwelling units per acre is probably too low knowing that developers will seek to maximize potential on their sites to the extent that they believe market absorption is feasible.

As an example, in River District, an analysis of recent development shows an average density of 144 units per acre. In the previous section, it was estimated that 70% of the district's housing would be built in Required Residential area. This area is approximately 31 buildable acres. At a density comparable to new construction in the River district, this would result in 4,464 housing units. However, it is very unlikely that all blocks will have housing especially since the section of Required Residential area from Grover to Whitaker is planned with Institutional Emphasis. It can be noted that transfer of the required 43 housing units per acre to another site within the Required Residential area can easily be met given the likely density on housing sites.

Projected Subsidy Need

The Portland Development Commission anticipates that construction of the middle and upper income housing (those units that are not defined as affordable) will be privately financed. Assumptions of the direct financial investment subsidy required to accomplish the affordability targets in District are dependent on the structural type of each new project. The two structural types that are likely to be constructed are either wood frame construction or concrete high rise. At this time it is unknown what percentage of each is likely. Recent analysis shows that the subsidy assumptions for wood frame construction from the Framework Plan continue to be valid. The 70 projects used in the 1999 analysis were various types of wood frame construction including stick frame, 4 over 1, and 5 over 1 construction. PDC is now or has recently participated in 5 concrete high rise projects. This is not a large enough sampling to make new subsidy assumptions for this type of construction due to the uniqueness of each of these projects. However, it is clear that construction costs are 20-25% higher for concrete high rise.

All PDC financing is subject to applicable loan program criteria, underwriting criteria, and consistent with historical PDC per unit gap financing for affordable housing. Appendix A shows PDC per unit averages for the time period from 1999 to the present. Per unit averages in this chart are broken down by family and non-family units and by tax credit and non-tax credit properties since consideration is given to type and location of project being developed and other subsidies available. In addition, if land is acquired for affordable housing after the infrastructure improvements in the district are significantly underway, the land cost may be 3 or 4 times higher than at present. This could add \$10,000 to \$20,000 per unit to the project development cost. The current District Funding Strategy indicates \$36 million for affordable housing, up from the \$25 million in the 1999 Funding Strategy.

Role of Development Agreements in Affordable Housing Development

One of the real challenges in the North Macadam District is to create a balanced housing program. It is important to create a district that has opportunities for citizens/workers of all income levels. Both PDC and the developers/landowners need to be committed to creating the 479 units targeted for low income families at or below 60% MFI as well as the 309 units targeted to moderate and middle income families at or below 120% MFI. It is likely that a portion of the moderate and most of the middle income units will be owned by a variety of for-profit entities. PDC and the city need to commit to finding the resources necessary to subsidize a balanced housing program in the district over the next 20 years.

Because the targeted number of affordable units in the district is below the number of units needed to achieve the kind of citywide income distribution that is being strived for in the River District, it is important to successfully negotiate for the development of these units in locations

throughout the district and a proportional share to each of the major landowners. For owners who are willing to sell land for affordable housing, it will be key to establish a sales price at a fair market value at time of election, rather than time of transfer. The benefit of facilitating this transfer in the early years of the district is obvious. The Smart Growth Fund is a potential source of funding for these acquisitions.

There is significant benefit being gained by the owners through city funded infrastructure improvements, thus important to negotiate provisions for the development of affordable housing that benefits both the developers and the city.

Again, because of the conservative targeting of affordable units, it is essential that each affordable unit created be preserved over time. Homeownership units can be preserved through a long term affordability mechanism. Rental units that are designated affordable units will be subject to sixty year affordability agreements.

It is precedent setting to place affordability agreements on all 129 of the targeted units in the 81-100% MFI category. It is likely that only a few of these units will be in any one project, but spread across ownership and throughout the District. Since there is little projected need for subsidy of these units especially as they are absorbed within market rate projects, the responsibility for creation of these units lies with the private sector. PDC's role is to help designate these units and assure that they stay affordable over time.

Workforce Linkage

The addition of the tram to OHSU opens up housing opportunities specifically related to the following groups: workers (nurses, maintenance, administrative, medical technicians, and support personnel); students at the medical and dental schools; medical residents and interns; and clinically related housing for seniors. A 1999 demographic survey of OHSU employees showed the following annual salary data.

Annual Salary	Count	Percent
less than \$20,000	3075	31.88%
\$20,000-49,000	5445	56.44%
\$50,000-79,000	768	7.96%
\$80,000-99,000+	359	3.72%
Total	9647	100.00%

Of those employees counted in the less than \$20,000 range approximately 10% are full time employees with the balance being part-time employees, faculty and students. In addition, annual salary information does not include differential, bonus and overtime pay. While it is not possible to get to household income from the above, this data does indicate that to create housing for employees that work nearby, market rate housing will need to be targeted to as wide a market as possible.

Successful capture rates will depend upon creating a match between income levels of prospective residents and housing choices including incentives such as employer-assisted housing. Helping to facilitate this linkage will require updated and ongoing data analysis.

Appendix A

PDC Subsidy Averages New Construction Projects by Income Level Projects Closed from 1/1/99 To 7/1/03 Location: Citywide

1. All **Sample Size: 41 projects**

Median Family Income	# Units	Per Unit	Per Person	Per Square Foot (est.)
0-30%	477	\$53,443	\$32,167	\$98
31-50%	605	\$35,958	\$16,443	\$52
51-60%	636	\$17,057	\$7,523	\$24
61-80%	183	\$20,985	\$12,448	\$31
81+%	520	\$7,380	\$3,079	\$9

2. Family **Sample Size: 16 projects**

Median Family Income	# Units	Per Unit	Per Person	Per Square Foot (est.)
0-30%	50	\$60,920	\$14,402	\$57
31-50%	94	\$48,977	\$10,769	\$44
51-60%	96	\$11,002	\$2,657	\$11

3. Non Family **Sample Size: 3 projects**

Median Family Income	# Units	Per Unit	Per Person	Per Square Foot (est.)
0-30%	130	\$61,188	\$60,261	\$150
31-50%	60	\$37,876	\$37,876	\$94
61-80%	30	\$18,000	\$18,000	\$35

4. Tax Credits **Sample Size: 18 projects**

Median Family Income	# Units	Per Unit	Per Person	Per Square Foot (est.)
0-30%	414	\$52,166	\$36,205	\$108
31-50%	443	\$36,233	\$17,390	\$54
51-60%	460	\$14,831	\$6,174	\$19
61-80%	124	\$18,655	\$10,168	\$26
81+%	172	\$3,212	\$1,689	\$5

5. Non-Tax Credits **Sample Size: 23 projects**

Median Family Income	# Units	Per Unit	Per Person	Per Square Foot (est.)
0-30%	63	\$61,842	\$19,878	\$65
31-50%	162	\$35,203	\$14,257	\$49
51-60%	176	\$22,875	\$11,947	\$38
61-80%	59	\$25,880	\$18,851	\$45
81+%	348	\$9,441	\$3,573	\$11

Includes Rental Production and Condominium Financing only.

The above dollar amounts are Financial Assistance only. Capital Outlays, Fee Waivers and other sources not included.

Per Person calculation based on number of bedrooms.

Square Foot estimates used in projects where information is not available.

Definitions:

*Family = 2 or more bedrooms, Non-Family = SRO, Studio or 1 bedroom
(Mixed Family and Non-Family projects not included in breakout)*

Tax Credit = Projects that have LIHTC as a source

Sample Size = Number of projects