
Affordable Housing Tools

A review of policy options for Hillsboro

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City of Hillsboro

FINAL REPORT

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Acknowledgments and Disclaimer

ECONorthwest prepared this report to the City of Hillsboro. It received substantial assistance from City staff, including the City's Housing Affordability Team, and from a series of stakeholders who were interviewed to provide input and advice.

That assistance notwithstanding, ECONorthwest is responsible for the content of this report. The staff at ECONorthwest prepared this report based on their general knowledge of policy solutions to housing affordability in the Portland region, and on information derived from government agencies, private statistical services, the reports of others, interviews of individuals, or other sources believed to be reliable. ECONorthwest has not independently verified the accuracy of all such information, and makes no representation regarding its accuracy or completeness. Any statements nonfactual in nature constitute the authors' current opinions, which may change as more information becomes available.

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Summary

Like the rest of the Portland metropolitan area, the City of Hillsboro is facing an increasingly urgent housing affordability challenge. Recognizing the impact of this situation for all of its residents, the City of Hillsboro is interested in exploring its best approach to seeing additional development and preservation of units that would be affordable to those making less than 80% of median family income (MFI), or \$59,760 per year.¹

This report advances the City's conversation through an analysis of the effectiveness and impact of various policies and tools available to Oregon municipalities to stimulate the development preservation of affordable housing within the Hillsboro market. It evaluates a list of tools that includes many of the most commonly used municipally-controlled programs and tools in the State of Oregon, as well as a range of potential funding sources.

More specifically, this report provides an evaluation of the trade-offs of public expenditures to inform decision-making about the use of these tools in Hillsboro. The analysis relies upon pro forma evaluation of market-rate and affordable development projects, interviews with stakeholders (including affordable housing developers), and staff input to evaluate a set of municipally-controlled tools that are commonly used in Oregon and elsewhere to advance affordable housing development. Its purpose is to provide an informative preliminary scan of tools for City staff, Council, and affordable housing stakeholders. If warranted, the City may conduct additional analysis or outreach to design a program or incentive for implementation.

Currently, affordable housing development is financially difficult to achieve in Hillsboro; our modeling shows that low income housing tax credits (LIHTC) and other federally-available affordable housing funding sources can leave funding gaps in most development scenarios. This is primarily due to the decrease in the value of LIHTC equity combined with rapidly rising construction costs. Given these findings, our analysis emphasizes that additional municipal incentives, programs, and other actions will be helpful, if not necessary, to substantially increase the supply of affordable units in Hillsboro.

In addition to increasing the production of market-rate housing, which provides affordable units over time and is already a focus of City planning initiatives, there are two major categories of actions that the City can undertake:

1. Increase the production of regulated, income-restricted affordable housing
2. Preserve existing affordable housing

We find that several of the tools increase development feasibility for affordable and market-rate product types, but only *property tax abatements*, a *direct capital investment* (which could be a general fund grant or loan), or *land donation* (which could come through a land bank or a land trust) are powerful enough to substantially alter development feasibility. Other tools provide

¹ All MFI numbers in this report are calculated from the HUD 2017 MFI for Washington County. This is the MFI that is used by the housing development community to calculate income eligibility.

useful support, especially relative to their costs, administrative requirements, and flexibility in use, and are therefore also worth consideration. Exhibit 1 provides an overview.

Exhibit 1. Overview of tools for consideration

Consideration	Comments
Allow reduced parking requirements for affordable projects.	When layered with other tools and in certain circumstances (small lot size, for example), this tool can be beneficial for development feasibility. Importantly, when it is used, the reduction in parking also allows more space for affordable residential units. If those additional units are not tax abated, they also increase the tax base. This tool is administratively simple to implement relative to other tools, and does not require direct capital investment or foregone revenue.
Consider participation in the Washington County Tax or other tax abatement program.	Our analysis shows that a tax abatement has the strongest benefit for affordable housing feasibility of the tools we evaluated. Importantly, tax abatements can incent preservation of existing affordable units as well as construction of new units. Stakeholder interviewees agreed that Hillsboro’s participation in an abatement would have financial benefits that would improve affordable unit production. The City should first understand the impact of abatement on its existing revenue stream, including in urban renewal areas.
Evaluate opportunities for land contributions to affordable housing development, and consider options for a more formal land bank.	Eliminating land costs can be very helpful in improving feasibility, especially if paired with other incentives. Land contributions also allow the City to control where and when new units are constructed, and partner with affordable housing developers to achieve other goals through the housing development, such as improved design or landscaping to better integrate the project into neighborhoods. The first step for near-term use of this tool would be to evaluate the City’s land holdings to determine whether an appropriate city-owned property is available. The City might also evaluate options for a more formal land bank, or partner with other entities that could administer a land bank across larger geographic scale.
Use general fund or other revenue sources.	General fund dollars can very flexibly used for many outcomes, and can be scaled to match the financial need for any particular project: affordable housing preservation, direct grants, or other types of investments in affordable housing outcomes. The first step in the process of using these funds would be to clarify how such investments should be prioritized. For example, is the City more interested in preserving existing or building new units? In home ownership or in rental units? Depending on the answers, general fund or other revenue sources could be used to provide funding to partners such as existing community land trusts, or to directly invest in affordable projects.
For preservation: Inventory existing affordable units, and seek opportunities to acquire them.	The City could acquire and partner with non-profit or other affordable housing developers to rehabilitate and maintain them as affordable. The City of Beaverton is currently beginning an inventory process for the purpose of supporting a housing preservation strategy. This could serve as a model for the City’s approach to exploring this opportunity.

If the City chooses to advance this conversation and initiate strategies for affordable housing unit production and preservation, many of the most appropriate tools described above will require funding. Our analysis shows that direct contribution to a project (either in the form of a low-interest loan or a grant, either of which the City could administer) is one of most powerful ways that the City can help to fill gaps in feasibility for priority projects. The City may also wish to consider options for new funding, such as a Construction Excise Tax (CET). More analysis is needed to understand the revenue potential of a CET as well as its potential impact on development in the City before determining whether or not it is appropriate in the Hillsboro Market. However, no matter how efficiently general fund dollars are used, they will be limited

relative to the need for affordable housing, given the fact that general fund dollars are necessary for maintaining functional City infrastructure and service provision.

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Purpose and Background

Housing affordability is an increasingly urgent economic development and social need for the City of Hillsboro. Median for-sale home prices have increased rapidly over the past several years, and rents are also rising faster than incomes. The situation affects all of the City's

By the numbers:²

Median renter income increased 44% between 2000 and 2015, while rents increased 61% in that time.

Median incomes for homeowners increased by 35% between 2000 and 2015, while for-sale prices have increased 61% in that time.

To afford the median home for sale in Hillsboro in 2016, a home-buyer would need to make \$95,000 per year.

To afford median rent for a 1-bedroom unit, a household would need to earn \$46,080 per year.

The median household income is \$72,200.

residents, from those who earn wages at the lowest end of the income spectrum and are struggling to find any housing at all, to families in the upper-middle part of the spectrum who find home ownership increasingly out of reach. The City's Housing Needs Analysis³ (HNA) found that more than one-third of Hillsboro households, and more than one-half of renters, are cost-burdened (pay more than 30% of their income on housing).

In this context, the City of Hillsboro is interested in exploring its best approach to encouraging the development of new affordable housing supply, supporting preservation of existing units, and supporting access to affordable units for Hillsboro residents. Specifically, the City is interested in seeing additional development of units that would be affordable to those making less than 80% of median family income (MFI), or \$59,760 per year.⁴ Assuming that these families would pay no more than

30% of their monthly take-home pay on housing costs (the usual threshold for 'affordability' as defined by the U.S. Department of Housing and Urban Development), these families could afford to pay up to \$834 - \$1,394 per month in rent or own a house worth approximately \$95,000 - \$190,000.

This report advances the City's conversation through an analysis of the effectiveness and impact of various policies and tools available to Oregon municipalities to stimulate the development preservation of affordable housing within the Hillsboro market. The report addresses this key question: **In what ways can the City of Hillsboro be involved in affordable housing projects? What are the impacts of that involvement?**

² Data from U.S. Census American Community Survey 1 year estimates (income data, rent data 2000-2015); Zillow (median home sales); CoStar (2017 rent) for the City of Hillsboro. Housing affordability calculations assumes a household would spend no more than 30% of income on housing. For homeowner affordability, we assume 20% down-payment, 4.2% interest rate, 30 year term, homeowner's insurance at 20% of monthly housing costs, utilities of \$250 per month, and a property tax rate of 16.8414 per \$1,000 of assessed value.

³ *City of Hillsboro Housing Needs Analysis, 2016-2036*, ECONorthwest, January 2016. <http://plan.hillsboro-oregon.gov/document/housing-needs-analysis>

⁴ All MFI numbers in this report are calculated from the HUD 2017 MFI for Washington County. This is the MFI that is used by the housing development community to calculate income eligibility.

The City is particularly interested in understanding how each tool interacts with the City’s fiscal situation. Each tool has a unique public ‘cost’, whether that cost is denominated in dollars (direct cash flow out to incent or support the creation of new affordable units), in staff time, or in other public resources. At the same time, each tool has a unique set of impacts on the City’s property tax base, staff and administrative costs, affordable unit production, and financial capacity. This report provides an evaluation of the trade-offs of public expenditures for achieving stated public goals, to inform decision-making about the use of these tools in Hillsboro. Its purpose is to provide an informative preliminary scan of tools for City staff, Council, and affordable housing stakeholders. If warranted, the City may conduct additional analysis or outreach as follow up steps to design a program or incentive for implementation.

What do we mean by ‘affordable housing’?

Definitions for “affordable housing” can vary greatly, and are often tied to median family income. This study defines affordability as the relationship between market housing price and income, as follows: single-family or apartment where the monthly housing cost (including utilities and other costs) for either type is less than 30% of gross household income. Transportation costs are not included. This is an imperfect, but frequently-used definition. Housing affordability is therefore a function of income and housing costs for each individual household, which can vary substantially given the unique circumstances of a household and housing unit.

Median family income is a standard measure of income that varies depending by geography and family size, and is derived from US Census data. The Department of Housing and Urban Development (HUD) establishes median family income thresholds dependent on the size of the household for programs it administers.

Exhibit 2 provides an overview of the relationship between current income ranges and affordable housing costs in Washington County; they are used throughout this report.

Exhibit 2. Washington County Income and Affordability Ranges, 2017

	Income	Affordable monthly housing cost
Rounded 2017 MFI Washington County	\$ 74,700	\$ 1,868
High (120% or more of MFI)	> \$89,640	> \$2,241
Upper Middle (80%-120% of MFI)	\$59,760 - \$89,640	\$1,494 - \$2,241
Lower Middle (50%-80% of MFI)	\$37,350 - \$59,760	\$934 - \$1,494
Lower (30%-50% of less of MFI)	\$22,410 - \$37,350	\$560 - \$934
Very Low (Less than 30% of MFI)	< 22,410	< \$560

Source: ECONorthwest, based on 2017 MFI data from the Census and Housing and Urban Development

The City’s recent HNA identified the greatest need among very low and extremely low income households (below 50% of MFI). This situation is not unique to Hillsboro; nearly all cities facing affordability challenges have the greatest need at the lowest income levels. However, it is extremely expensive to build new affordable housing that is targeted at these income levels,

because even using the full range of policy and financing tools available, rents are rarely sufficient to cover construction costs and ongoing expenses.

There are federal, state, and county-based programs and funding sources that are designed to meet the needs of very low and extremely low income households. One way that the City can supplement these programs is through focusing its limited resources and tools at the 50 – 80% of MFI range. This focus complements existing programs while still increasing affordable unit supply.

Further, given the portion of Hillsboro’s population that is suffering cost burdening and therefore competing for units that are not in their household’s affordable range, added supply affordable at the 50 – 80% income range is needed. Households with incomes below the 50% range are competing for supply with those making above 50% of MFI. Adding more supply will reduce competition for available units, making it more likely that the entire income range can be served.

What tools are evaluated?

The report builds on substantial work completed by Metro through its recent Equitable Housing Report⁵ to evaluate the set of policy and financial incentive tools for their effectiveness in Hillsboro. Hillsboro staff developed this list of tools, with input from ECONorthwest. This list of tools includes many (though not all) of the commonly used municipally-controlled programs and tools in the State of Oregon. The report also evaluates and considers a range of potential funding sources, which can be used to implement those tools on the list that require public funding. In this preliminary scan, our financial and other analysis is intended to identify those tools that hold the most promise for additional discussion, analysis, program design, and potential implementation.

⁵ *Opportunities and challenges for equitable housing*. Report. January 2016. Accessed May 2017. <http://www.oregonmetro.gov/tools-partners/guides-and-tools/guide-equitable-housing>.

Tool	Brief description of tool
Land Banking	Land banks reduce or eliminate land cost from development. They can take several forms, but generally manage a portfolio of properties to support affordable housing over many years or decades.
Land Trusts	A land trust is typically a nonprofit organization that owns land and sells or leases the housing on the land to income-qualified buyers.
Reduced parking requirements	Reducing the number of required spaces reduces the construction costs of a project, and could increase feasibility for affordable development.
Incentives for space efficient housing	Policies designed to encourage or allow cottage clusters, internal division of larger homes, corner duplexes, and / or accessory dwelling units. In theory, these units are more affordable than other units because they are smaller.
Inclusionary zoning	IZ requires or incents developers to set aside a certain share of new housing in market-rate developments at an affordable price.
Multiple-unit limited tax exemption (MULTE)	A State-enabled program that, through a competitive process, allows multi-unit projects to receive a property tax exemption for up to ten-years on structural improvements to the property.
Washington County tax exemption for non-profit owned affordable housing	A property tax exemption for low-income housing (60% MFI and below) held by charitable, nonprofit organizations. Washington County has implemented this program in unincorporated Washington County, Beaverton, and Tigard.
Allowing financing of SDCs or other fees	These programs reduce the impact of development fees and systems development charges (SDCs) on the development cost of the project by allowing the developer to avoid the upfront cost and finance the fees over time.
Vertical Housing Tax Abatement	Subsidizes "mixed-use" projects to encourage dense development or redevelopment by providing property tax exemption on increased property value. An additional property tax exemption may be given if some, or all, of the housing is for low-income persons.
General fund grants	A City can use general fund or tax increment dollars to directly invest in specific affordable housing projects. These grants or loans can serve as gap funding to improve development feasibility.

Hillsboro Housing Market Framework

If Hillsboro implements municipally-controlled affordable housing incentives and policies, they will interact with a complex mix of housing market economics, development finance variables, federal funding sources, and compliance requirements that drive decisions about affordable housing development. The analysis in this document is rooted in an understanding of how those decisions are made, to inform a City strategy that is responsive to the fundamentals of affordable housing development finance. This section describes that framework, to provide context for the analysis in the remainder of the report.

How is affordable housing created?

As documented in the 2016 Housing Needs Analysis, more than half of renters in Hillsboro are cost-burdened. Policies to address the shortage of housing affordability should be rooted in an understanding of how regulated *and* market-rate housing contribute to the supply of housing available to households at all income ranges—particularly lower-income households.

Broadly speaking, there are three ways to increase the number of housing units that are affordable to lower-income households. A complete affordable housing strategy would employ strategies in each of these three planks:

1. Increase the production of market-rate housing, which provides affordable units over time through a process known as *filtering*.
2. Increase the production of regulated, income-restricted affordable housing.
3. Preserve existing affordable housing, whether regulated or naturally affordable.

The stock of housing affordable to low-income households increases through the addition of new regulated units, smaller market-rate units, and older market rate units that become more affordable over time. Details on each follow.

1. Increase the production of market-rate housing.

As with other goods and services, housing prices rise when demand (net new households) increases faster than supply (units available). Over time, the only way to stabilize housing price is to balance the supply of housing with demand for it. The addition of new housing units is one critical plank to keeping an affordable housing crisis from worsening.

An important feature of housing markets is the process known to housing economists as *filtering*. Filtering occurs as the owners of older housing units upsize to newer, more

Definitions:

Regulated or Supported Affordable Housing – housing that is affordable due to public subsidies and/or regulations that restrict based on income levels or rents

Market or Naturally Affordable Housing– housing that is provided at an affordable rate on the open market; not subsidized by the government and not legally restricted by income levels or rents

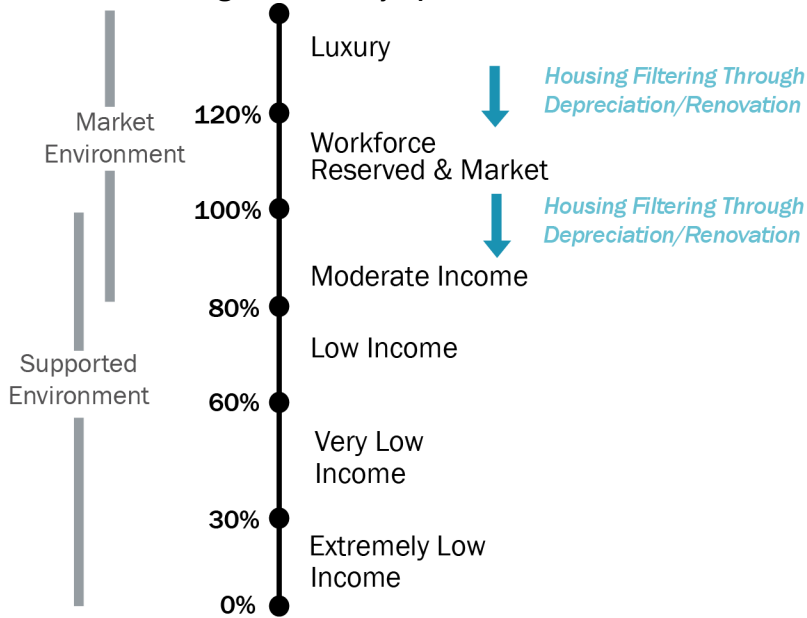
Definition Source: Washington County Affordable Housing Development Strategy

expensive units, and make available their now depreciated units for new residents at more affordable price points.

Most new market-rate development—with the exception of very small units—is only affordable to moderate- and high-income households. It is generally understood that the filtering process is the primary means through which markets provide affordable housing to lower-income households. Developers build housing for purchase and rent in the market, and as this stock of housing depreciates in value over time it becomes affordable to households with lower incomes.

Even with filtering, market-rate housing rarely becomes affordable for households making below about 50% - 60% of MFI. An affordable housing strategy that focused only on adding new market-rate units would fail to serve the entire population.

Exhibit 3. Housing Affordability Spectrum



Source: ECONorthwest, 2016

2. Increase the production of regulated, income-restricted affordable housing.

Another way to produce housing units that are affordable to lower-income households is the most direct: build units that are specifically set aside for households at lower income levels. As discussed later in this section, this requires various public regulatory and financial supports.

Regulated affordable housing is also the most common way to provide housing that is maintained as affordable to households at the very lower end of the income spectrum for the long-term.

3. Preserve existing affordable housing units

As shown above, filtering of market-rate housing provides units that are affordable to lower-income households. However, these older, depreciated units are vulnerable to redevelopment pressure. When this housing is demolished or renovated and replaced with market-rate development, those affordable units disappear. Cities can increase the availability of housing that is affordable to lower income households by slowing the rate of demolition and renovation of market provided affordable housing. They may also choose to acquire and rehabilitate existing lower-cost housing to maintain it as regulated affordable.

Another important consideration is that most (if not all) regulated affordable units have *terms of affordability*, or a time period during which income restrictions must be maintained. When those terms expire, units may revert to market-rate units without intervention.

This report focuses on tools and revenue sources that can advance the second and third planks. The City currently has other planning and implementation processes in place that focus on the first plank (market-rate housing production).

How and when does market-rate development occur?

Many affordable housing policy tools work by leveraging new market-rate development to provide new affordable housing units. Because these tools depend on market-rate development, they only work when new development is occurring. For that reason, and because new market-rate housing production is important to overall housing market pricing, understanding how market-rate development occurs is a key starting place for understanding how affordable housing policies can be structured to work with the market to increase the supply of workforce housing.

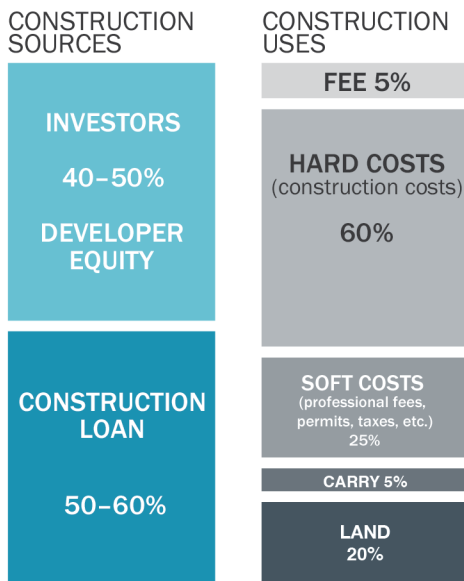
Feasibility is based on a set of calculations that assess whether the project (a) has sufficient demand (measured in market rents or sales) to cover its construction and operating costs and (b) can provide financial returns for the effort and risk undertaken by the developer and its sources of funding. Public policies affect feasibility in various ways throughout the development process. Some may increase upfront costs (e.g., requiring higher-quality design), while others may reduce ongoing operating costs (e.g., tax abatements).

Feasibility calculations have two major components. The first is sources and uses, which reflects the costs of building and financing a development project. Uses reflect the costs of creating a development project. Sources describe the various sources of capital available. For a project to be built, the sources must meet or exceed the uses. The following percentages are broadly illustrative of the breakdown of sources and uses for a multifamily development project.

Exhibit 4. Construction Sources and Uses

The **construction sources** provide funding to build the project. The developer and outside investors typically provide equity. Most projects also have a construction loan that accounts for at least half the sources. Some projects have mezzanine debt (a hybrid of equity and debt).

The **uses** are the costs of the project, including the costs to acquire the site, construct the project, pay for the architectural engineering, and other services, and pay interest on financing the construction loan (carry). In addition, developers must cover overhead costs for staff and other expenses and often choose a fee for their time and expenses.

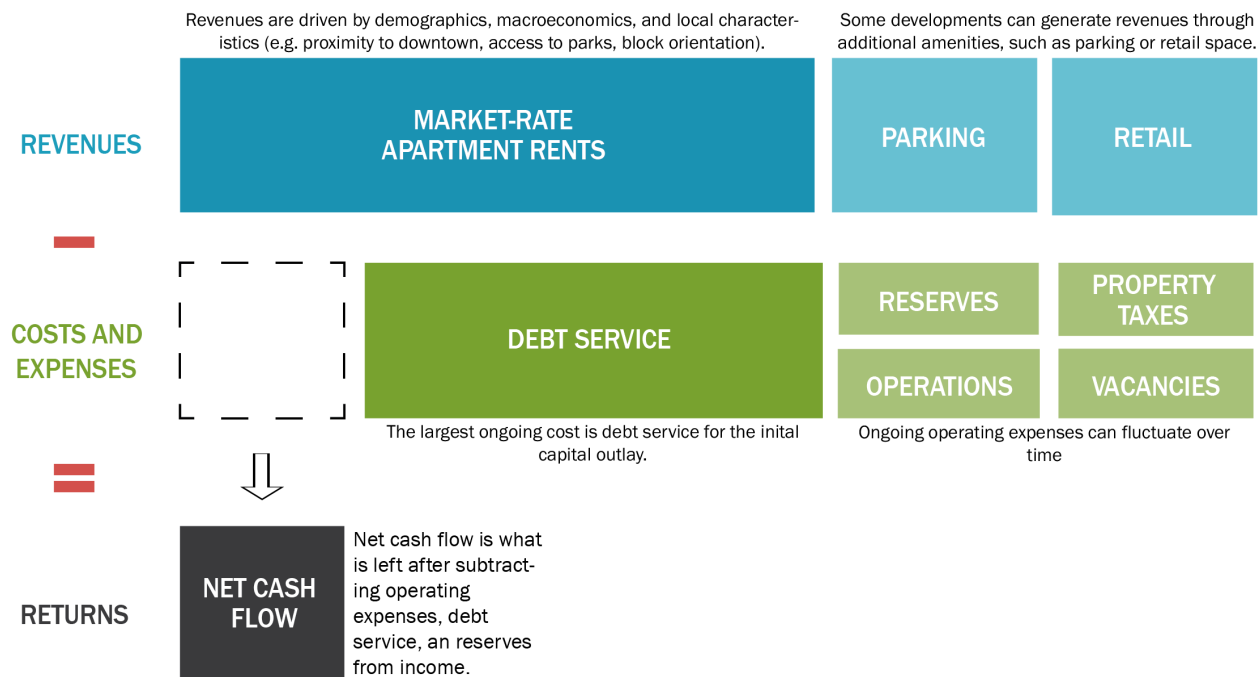


Source: ECONorthwest, 2016

The second major component of development feasibility is costs and revenues, which are reflected in a development pro forma or a cash flow statement. A pro forma compares a set of ongoing operating costs (like maintenance, insurance, and taxes) to a set of ongoing operating revenues derived from rents. Revenues minus costs equal net operating income (NOI). Out of NOI, property owners pay debt service and set aside capital reserves. Investors and lenders must be confident that the resulting net cash flow (after debt service and reserves) is sufficient to cover all operating costs and compensate them for their capital commitments. Exhibit 5 below shows broad illustrative cost and revenue categories for a typical market-rate multifamily project.

In Hillsboro, market-rate development feasibility is already challenging to achieve for more expensive construction typologies that include structured or underground parking and supply a larger density of units. Much of this type of new market-rate development that has occurred (including Downtown and at Orenco) has benefitted from public sector financial support of some sort, as well as lower land values and construction costs). This context is critical for understanding affordable housing development in Hillsboro. If market-rate development has a gap, driving to deeper affordability will create an even bigger gap.

Exhibit 5. Costs and Revenues for a Typical Market-Rate Multifamily Project

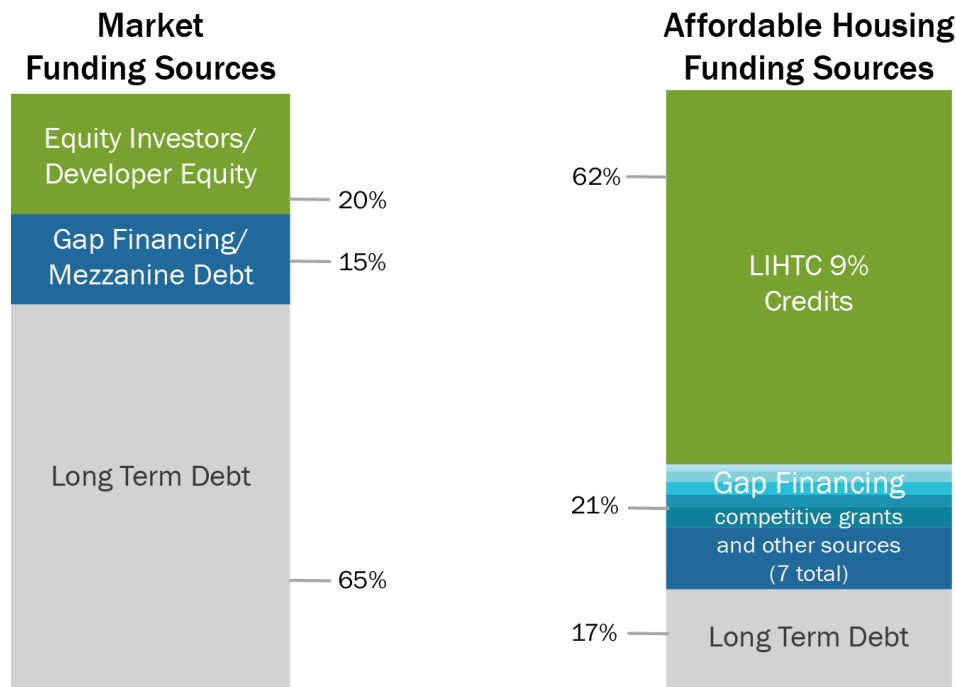


Source: ECONorthwest, 2016

Affordable housing finance and production

When building an affordable housing development, the costs stay the same but the rent is reduced to a rate that is affordable for lower-income households, which creates a gap in operating revenue. One common solution is to adjust the funding sources of the project to replace investor equity (which requires high rates of return) with less expensive sources such as housing tax credits or grants, to lower the debt service payments that the building operator will make. This typically requires combining multiple sources in order to make a project financially feasible. An affordable housing project in the Portland area may use as many as a dozen funding sources. Exhibit 6 compares funding sources for a typical market rate multifamily project and a typical affordable housing project. Although the categories of funding sources stay the same, the impacts to financial feasibility are different. For example, the funding sources in an affordable deal are cheaper than the equity in a market-rate project, with low or no interest rates. On the other hand, the gap financing sources for an affordable housing project often require competitive application processes.

Exhibit 6. Example Funding Sources for Market-Rate and Affordable Projects



Source Note 1: Market funding sources column from ECONorthwest, representing a typical market-rate capital stack.

Source Note 2: Affordable housing sources show the capital stack from the Orchards at Orenco, a Hillsboro affordable housing project developed by REACH, a Portland-area non-profit housing developer. The “competitive grants and other sources” include grants from Meyer Memorial Trust, Oregon Housing and Community Services, and non-profit grants. For details on the REACH project and its capital stack, see <http://reachcdc.org/about-us/housing-weve-developed/orchards-at-orenco1/661/>

Another way to improve feasibility for affordable housing projects is to reduce the costs, including both construction costs (by providing free land or allowing reduced parking ratios) and operating costs (by lowering taxes). Both categories of costs factor into the analysis of development feasibility as the expected revenue from a project must be able to cover both the operational costs of that project and repay the debt and equity used to construct it. Many of the tools analyzed in this report support the production of affordable housing by reducing construction or operating costs.

Most affordable housing developments access some combination of federal and state funding tools. Any City of Hillsboro incentives or programs would fill any gaps that remained once these funding sources have been accessed. In brief, these funding sources include the following common sources:

- The Low Income Housing Tax Credit (LIHTC) program is a federally established program that encourages investment in affordable housing through tax incentives; both for-profits and nonprofits are eligible, as well as private investors. The LIHTC requires that either 40% of a project’s units be set aside for renters earning less than 60% of the area’s MFI, or that 20% be dedicated to those earning less than 50%. In addition, the gross rent can be no higher than 30% of imputed income from the MFI. Maximum tax credit eligibility is determined by multiplying the applicable annual percentage rate (4% to 9%) by the eligible cost of construction or rehab attributable to designated low-income

units in the development. The 9% tax credit assists in development feasibility by lowering the cost of equity and increasing the total amount in the project, while the 4% tax credit introduces cheaper debt in the form of a bond. Both the 9% and 4% tax credit can be used for acquiring and/or rehabilitating existing units – the selection of which kind to use depends on the history of the existing units and whether or not they had been built with federal subsidies.

- The HOME Investment Partnerships Program supports the development of low and very-low income affordable housing. It distributes federal funds, but each administering agency has unique structures and requirements. Hillsboro participates in the Washington County HOME Consortium.
- Oregon Affordable Housing Tax Credits (OAHTC) are provided for affordable housing loans where a lender has reduced the interest rate by up to 4%. The program contains a stipulation that the credit be used solely to reduce rents for tenants.
- The Local Innovation and Fast Track (LIFT) Housing Program was created in 2015 when the Oregon Legislature committed \$40 million of general obligation bonds. Oregon Housing and Community Services will either operate, or have an ownership interest, in the properties that use these funds and will competitively award them based on program goals. Prioritization will be given to projects that request a maximum of \$38,000 per unit and provide 100 percent of the units (that are financed with the bonds) at 60 percent area median income. Additional selection criteria include, but are not limited to, projects that are located in communities with high needs, have a short development period, demonstrate innovative building design, and have strong local service partnerships.
- The Low Income Weatherization Program (LIWP) provides funds for improving energy and heating efficiency in multifamily housing through various installations and housing improvements.

In the modeling undertaken for this analysis, we assumed that affordable projects would access these programs, as described in the methods section and that additional funds or incentives would fill any remaining gaps.

Because market-rate development in Hillsboro is financially difficult to achieve, our modeling shows that even adding in LIHTC and other federally-available sources can leave funding gaps in many scenarios. In the current tax credit market, this is especially true; the prices of tax credits have dropped in anticipation of federal corporate tax reform, increasing the gap for many affordable projects. **Additional municipal incentives will be necessary to substantially improve supply of affordable units in Hillsboro.**

Methods

This report uses financial (pro forma) analysis, stakeholder interviews, and input from City staff and other professionals to evaluate the impacts of tools on several outcomes that are of concern to the City. This section provides an overview. Details are in Appendix A.

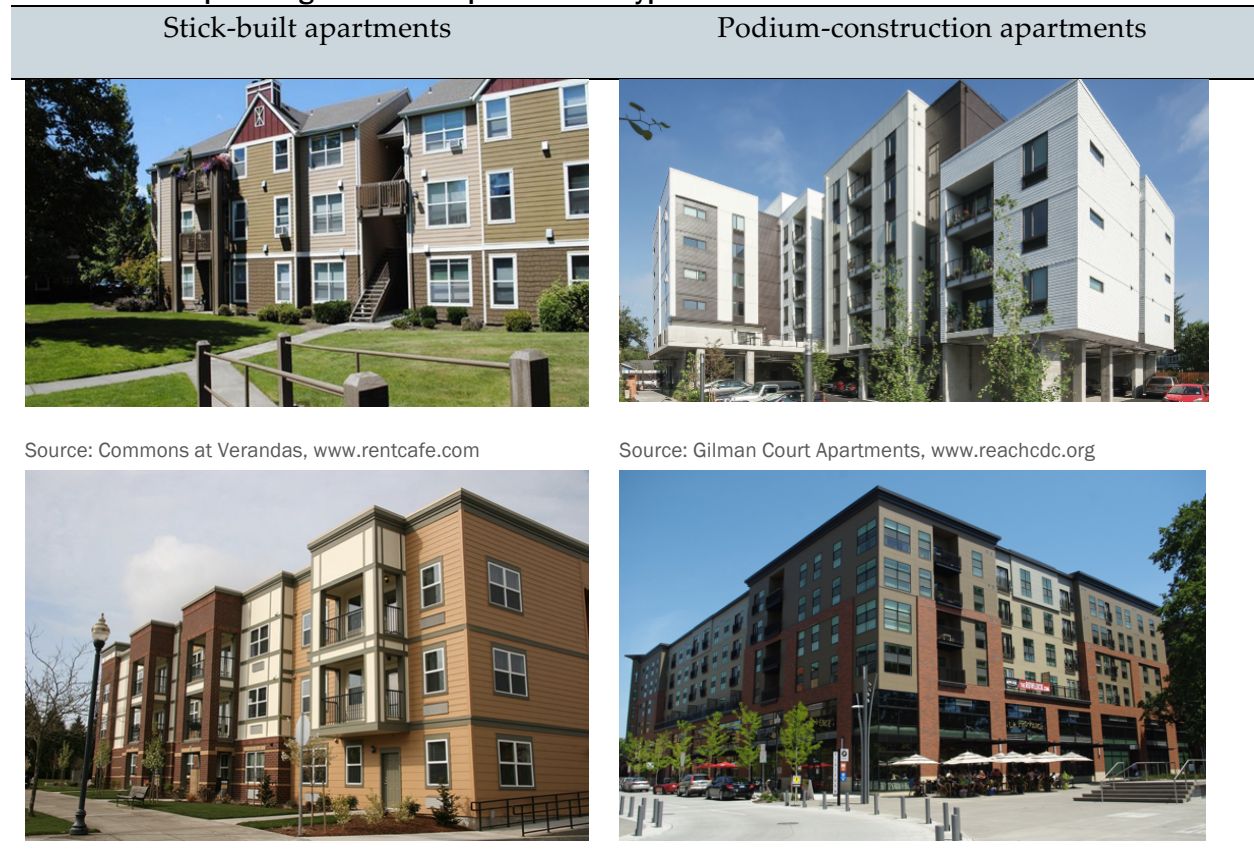
Financial (Pro Forma) Analysis

We used a financial pro-forma analysis to evaluate the impact of the various policies and tools on development feasibility. A pro forma is a financial model that developers use to evaluate whether a development is financially feasible.

Prototypes and inputs

Pro forma analyses require inputs regarding a physical building configuration: square footage, mix of uses (residential versus commercial, for example), and parking configuration. We used two hypothetical development prototypes: stick-built (wood frame construction) garden style apartments with surface parking and podium-construction apartments with integrated structured parking (see Exhibit 7 for example images).

Exhibit 7. Example Images of Development Prototypes



Both of these prototypes are common building typologies for affordable projects in the Portland metropolitan area. Given that these prototypes are built for both new market-rate apartments and regulated-affordable apartments, we used the same physical assumptions (size/type of building and associated costs) but adjusted the financial inputs accordingly to test the impact of tools on both market-rate and affordable product types (as appropriate).

The pro forma model required specific data inputs which ECONorthwest collected from CoStar, HUD, and developer interviews. These data include, but are not limited to, rent (both market-rate and income-restricted), unit mix, and construction costs. To see a full list of assumptions, please reference Appendix A.

Approach to determining feasibility

ECONorthwest employed a *return on cost* approach to estimate *residual land value* (or the amount that a developer could afford to pay for land given cost of construction, rents, and other variables; see Exhibit 8 for a definition of residual land values) normalized on a per unit basis. This analytic output (residual land value per unit) allows us to compare the impact of one tool to all others without changing inputs or methods, and produces a strong understanding of the relative feasibility benefits of each tool. The return on cost approach has multiple additional advantages: a return on cost pro forma model does not require the creation of hypothetical assumptions about the sources and uses of funds for each development (e.g. where the funds are coming from, with what interest rates, for how long of a term, etc.) and the per unit basis of analysis allows the results to be scaled based on the density of units (assumes the scaled development is physically feasible).

Exhibit 8. Development Equation – Understanding Residual Land Values

+ Project Value (Sale price when finished)

- Project Costs

- Site Preparation
- Design, Permits, etc.
- Construction
- Parking
- Infrastructure (road, stormwater, etc.)
- Operation & Maintenance
- Profit (return on cost)

= Residual Land Value

(Amount can pay for land and achieve expected financial return)

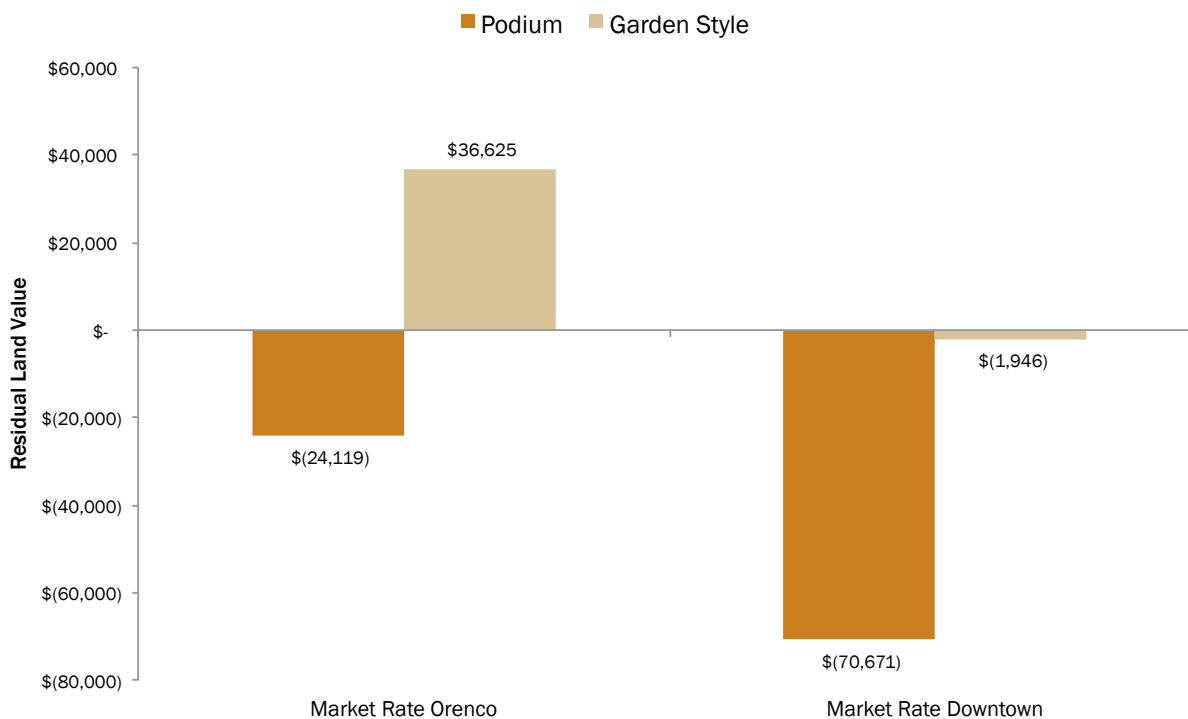
Generally speaking, if the result of a residual land value calculation is *positive* and close to the current market price, then the project is feasible. If the residual land value is *negative*, the project does not generate enough income to pay for land and is not feasible without additional subsidy. If the residual land value is close to zero, then the project would be feasible only if the land is either donated or sold at a very low price.

Source: ECONorthwest, 2017

Market rate housing feasibility and implications for methodology

ECONorthwest tested the feasibility of the prototypes in a market-rate setting (without incentives or revenue-generating tools applied) in both a low rent and high rent scenario to reflect the variability of rents in the Hillsboro market and as a starting place for calibrating our financial model for affordable buildings. To represent the high end of the market in Hillsboro, we used rental rates based on market comps in Orenco Station; to model the low end of the market, we used downtown Hillsboro rents.

Exhibit 9. Funding Gap for Affordable Housing Prototypes (calculated as dollars of RLV per unit)



The feasibility analysis of prototypes in a market-rate setting indicates that new construction of garden-style wood construction prototypes requires higher rents, like those achieved in Orenco Station, to be feasible. The new construction of units in a podium building, regardless of location, with integrated structured parking, requires public subsidies and incentives. Our discussions with market-rate developers, who have experience working in the Hillsboro market, confirmed the necessity for subsidies for market-rate development. Based on these results, we chose to use only the higher rents to model tools that relate to market-rate and mixed-income development.

The negative feasibility for most of the market-rate development prototypes indicates a challenge for one method of producing affordable units – most market-rate units cannot cross-subsidize the affordable units for a project in Hillsboro. Programs like the Multiple-unit limited tax exemption, Vertical Housing Tax Credit (which can be used to incent market rate or affordable units, and to date in Hillsboro has only been used for market rate development), and

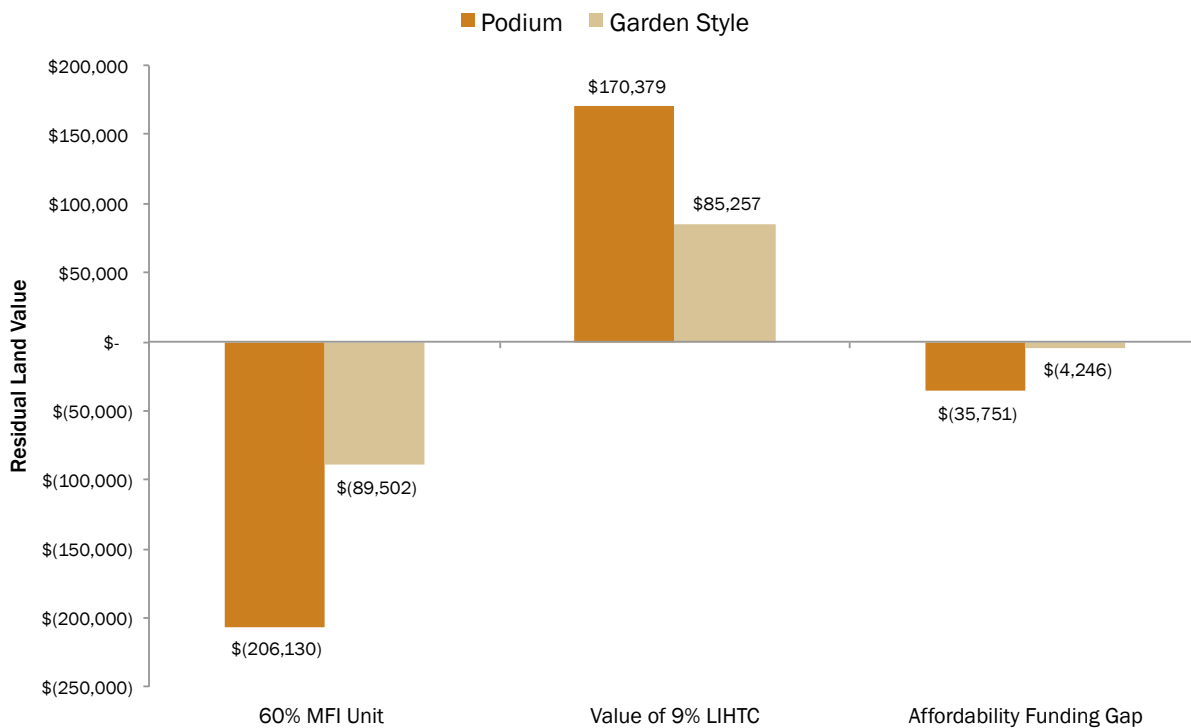
inclusionary zoning will therefore have limited success given that they target the development of affordable units (reserved at less than 80 percent of MFI) within a market-rate project.

It is therefore likely that new affordable units in Hillsboro will be produced by employing LIHTCs, which are reserved for households earning less than 60 percent of MFI. Although projects containing tax credits can be mixed-income, our interviews with developers revealed that this is not common due to increased administration and operational costs related to operating a mixed-income development. Due to these limiting constraints, we assume the development of new regulated affordable housing will occur in an entirely affordable project using LIHTCs and therefore modeled the affordable unit rents based on the HUD limit for 60 percent of MFI.

Regulated affordable housing feasibility and implications for methodology

In order to model the financial feasibility of producing entirely affordable housing projects, we utilized the same prototypes as for the market rate units—podium construction and stick built garden style. As detailed in the previous section, we modeled a project funded with 9% LIHTC credits, which is a competitive process with limited funds awarded annually by OHCS. The assumptions used for valuation of the 9% LIHTC is contained in Appendix A, in practice they are utilized as equity to reduce the utilization of debt to fund the cost of the construction of the project.

Exhibit 10. Funding Gap for Affordable Housing Prototypes (calculated as dollars of RLV per unit)



Units with rents regulated to 60% of MFI are not financially feasible without subsidy—LIHTCs are designed to offset the impact of reduced income. Historically there has been a strong

market for tax credits whereby developers are able to sell 10 years of credit for their full market value, and in some instances, for a small premium. Based on the recent uncertainty involving national corporate tax policy, investors have decreased their willingness to pay by approximately 15% to 20% compared to previous pricing. As a result, projects where LIHTCs previously covered the funding gap created by regulated income, are no longer able to provide enough equity required for a project to be financially feasible. The affordable funding gaps are displayed in Exhibit 10 above in terms of the dollars of RLV per unit. For example, for a podium project to be financially feasible, subsidies with a value of \$36,000 per unit would be required in addition to receiving the land at no cost.

Tools and impact analysis

ECONorthwest modeled the high market-rate rent and the regulated affordable rent in the pro forma analysis and then tested the respective tools accordingly. The following table shows how we operationalized each tool in the model.

Tool	How we measured financial feasibility in this analysis
Land Banking	Feasible when RLV is greater than \$0
Land Trusts	Feasible when RLV is greater than \$0
Reduced parking requirements	Applied a reduced parking ratio of 0.5 stalls for every residential unit which reduces the cost of construction. We decreased the parking requirement to 0.75 parking stalls per unit, which is the targeted ratio, and the baseline requirement was set to an average of 1.25 parking stalls (based on the existing code requirement of either 1 or 1.5 stalls per unit).
Incentives for space efficient housing	Not modeled due to variability of housing types.
Inclusionary zoning	Not modeled due to requirements for incentive packages.
Tax Exemption	Modeled as a full tax abatement, with a discount rate, to reflect either the limited term abatement (for MULTE) or the administrative costs of reapplying for the abatement (for the Washington County program).
Allowing financing of SDCs or other fees	Modeled as based on a 10-year loan amortization at 0% interest. Adjusted the present value of the payment to 60% to reflect the expiration of payment after 10 years.
General fund grants	Estimated as dollars required to reduce negative RLV

The Vertical Housing Tax Credit is included in the analysis, but information obtained during developer interviews indicated that the tool is rarely employed for the development of affordable units, therefore we did not model this tool in the pro forma analysis.

This City is also interested in understanding how these tools might be used to preserve a stock of existing regulated or naturally occurring affordable housing. While the application of these tools to this outcome is addressed at length in the report, we have not modeled the relative impacts of each tool on the feasibility of a preservation project given the variety of methods for acquiring and investing in affordable stock, and the wide range of potential unit types, building configurations and quality, and rehabilitation needs.

The outcomes of concern to the City are evaluated separately, for each of the tools under consideration. These outcomes, or metrics, are operationalized as follows in this analysis:

Metric	Question?	How evaluated
Tax base	How does the potential policy tool or the development it incents affect the City's tax base and property tax revenue generation potential?	Measured in pro forma analysis on a per unit basis. See previous section.
Administrative requirements	Is the potential policy or tool difficult or expensive to implement? Does it create legal or other risks?	A qualitative judgement, informed through stakeholder interview
Development feasibility	To what extent does the tool affect the financial feasibility of affordable housing production for developers?	Varies by tool; measured in pro forma analysis. See previous section.
Public subsidy required	How much direct public subsidy is required?	Varies by tool; measured in pro forma analysis. See previous section.
Flexibility	How flexibly can the tool be used? Across the income spectrum? For preservation as well as new unit production? Across Hillsboro geographies?	A qualitative judgement, informed through stakeholder interview
Primary housing outcome achieved	What kind of housing support is the tool's best application?	Informed by statute if applicable.

Stakeholder interviews

ECONorthwest completed a series of developer interviews to inform the list of tools evaluated, our pro forma assumptions, and the analysis of tools and impacts. We coordinated with City staff to develop a representative list of non-profit and for-profit developers of both affordable and market-rate housing (as some of the tools impact the private, market-rate development of housing). We interviewed the following seven organizations involved in the development of regulated affordable housing:

- REACH Community Development
- BRIDGE Housing
- Bienestar Oregon
- Housing Development Center
- Washington County Housing Authority
- Enterprise Community Investment
- Proud Ground

We also interviewed the following four developers that specialize in market-rate housing in Hillsboro or regionally:

- Holland Partner Group
- Guardian Real Estate Services
- Central Bethany Development
- Orange Splot

Most of the organizations we interviewed had experience working in the Hillsboro market and could comment on the incentives they have either used on past projects or desired to use on future projects. In general, the developers supported the list of tools identified by the City, specifically tools such as reduced parking requirements, land donation, and fee reductions. Developers helped identify potential benefits and drawbacks of tools, which we have noted in our analysis of the tool.

In addition to gauging the preference for certain tools, ECONorthwest asked developers about the specifics of their projects (both existing and future developments), including unit mix, unit sizes, construction costs, and market rents. Verifying these inputs helped us calibrate the pro forma model so the prototypes, and resulting financial feasibility, represent the existing market.

Analysis of Tools

This section presents our analysis of the impact of individual tools that the City of Hillsboro might consider to stimulate the development and/or preservation of affordable housing. It has the following subsections:

- **Overview of tools** provides a ‘report card’ for each tool. The report card describes the tool in detail and provides findings regarding its impact.
- **Funding sources** describes a common set of options that the City might consider to fund its contribution to the programs and incentives included in the tools.

Overview of Tools

The City is weighing options for designing the toolkit that will work best in the Hillsboro market. Broadly, the City is interested in understanding how each tool will work to support the creation of new affordable units or to preserve existing units. Following are the results of our analysis of each tool for achieving those outcomes.

Land Banking

How It Works	Land banks support affordable housing development by reducing or eliminating land cost from development. They can take several forms. Many are administered by a non-profit or non-governmental entity with a mission of managing a portfolio of properties to support affordable housing development over many years or decades. Ideally, a land bank is set up to manage financial and administrative resources, including strategic property disposal, for the explicit purpose of supporting affordable housing development. Cities can partner with non-profits or sometimes manage their own land banks. Cities may also donate, sell, or lease publicly-owned land for the development of affordable housing even without a formal ‘land bank’ organization.
Benefits	<ul style="list-style-type: none"> • Can greatly lower costs for the owner of the planned development. • In interviews conducted for this project, developers listed land donation or write down as among the most critical tools for supporting affordable housing production. • Can manage land as a portfolio of properties, employing a strategy of buying when land prices are low and holding for desired market conditions in the future. • If donating surplus land, the donation/disposition can relieve the upkeep costs for the city. • Can control the location of the development within the City. • Can leverage federal, philanthropic or private (if a non-governmental organization), or other sources of funding for land acquisition
Drawbacks	<ul style="list-style-type: none"> • Requires political commitment over time and across market cycles. • If donating surplus land, might require the coordination between multiple departments. • If purchasing new, requires the additional step of finding and securing the property and funding land acquisition and due diligence. • Administering a land-bank can be costly.
Current Status / Options for Implementing	<p>The City has three general options for implementing a land bank:</p> <ul style="list-style-type: none"> • Partner with / contribute funds to an existing non-profit land banking entity, or participate in the formation of a new non-profit land bank if one does not exist with sufficient capacity to serve Hillsboro. Partnering is the most administratively efficient of the potential approaches to land banking. • Land bank informally using land that is already publicly-owned, or by acquiring new land. This approach could work well for individual developments. However, without a separate governance

structure, it may be difficult to maintain focus on using publicly-owned land consistently for affordable housing across changes in elected leadership and as market cycles progress through peaks and troughs.

- Create a city-run affordable housing land bank. The City of Eugene provides one local example. Another pathway is to form a Land Bank Authority (LBA), using statutory authority recently provided by the Oregon Land Bank Authorities Bill. LBAs are boards that purchase and acquire environmentally contaminated properties (“brownfields”) and promote their rehabilitation and development. LBAs could focus on leveraging federal clean-up dollars for affordable housing projects, creating a governance structure that can focus explicitly on land banking over time.
- Metro’s January 2016 *Opportunities and Challenges for Affordable Housing* report provides examples of land banks in other communities, including details of Eugene’s land bank model.

For more information

Impact	Analysis Results	
Tax base	Negative	Property taxes are typically abated for non-profit or City-owned land. A new development will not reduce the existing tax base; neither will it grow it. The opportunity cost for a taxable development is negative. If taxes are not abated, the development will add to the property tax base.
Admin. requirements	Low - High	Administrative requirements will be low if supporting an existing land bank or using City-owned land. Administrative requirements will be high if creating a new land bank.
Development feasibility	High	Contributing land to development increases feasibility. The level of feasibility, and associated value to the development, varies based on the market value of the land, the amount of land per unit, and the parking requirements per unit. The development may still need additional support from other sources to be feasible.
Public subsidy needed	High	The value of public subsidy is contingent on how long the city owned the land and the value of the land at the time of purchase.
Flexibility	Low - Medium	Can only affect the land component of development feasibility calculation. Most often used only to support new construction, but could be used for preservation (acquire a building, sell the building but maintain ownership of the land to ensure long-term affordability)
Primary housing outcome achieved		New affordable unit production (rental or homeownership)

Land Trusts

How It Works	A land trust is typically a nonprofit organization that owns land and sells or leases the housing on the land to income-qualified buyers. Because the land is not included in the housing price for tenants / buyers, land trusts can achieve below-market pricing. Land trusts are most commonly used as a method for supporting affordable home ownership goals. The City would most likely not start its own land trust, which would be administratively cumbersome, but rather would contribute to an existing non-profit land trust.
Benefits	<ul style="list-style-type: none"> • Can greatly lower costs for the owner of the planned development. • Encourages homeownership and wealth building. • If working with an external non-profit, administrative costs are low as an external party administers the program. • May be less expensive than other options, because it focuses on underwriting land costs.
Drawbacks	<ul style="list-style-type: none"> • Requires an appropriate accompanying funding structure. • A more cumbersome way of accomplishing. • Depending on the structure, some land trusts limit the appreciation and wealth-building benefits of home ownership.
Current Status / Options for Implementing	<ul style="list-style-type: none"> • Land trusts can be used along with land banks • One option is to contribute funds to an existing land trust. Proud Ground is an active, local land trust model.
For more information	<ul style="list-style-type: none"> • Metro's January 2016 <i>Opportunities and Challenges for Affordable Housing</i> report provides an overview. • Proud Ground's website describes its model: https://proudground.org/

	Impact	Analysis Results	
	Tax base	Negative	Property taxes are typically abated for non-profit or City-owned land. A new development will not reduce the existing tax base; neither will it grow it. The opportunity cost for a taxable development is negative.
	Admin. requirements	Low	Low assuming the land trust is a separate non-profit, and the City contributes either land or capital to the non-profit
	Development feasibility	High	Contributing land to development increases feasibility. The level of feasibility, and associated value to the development, varies based on the market value of the land, the amount of land per unit, and the parking requirements per unit. The development may still need additional support from other sources to be feasible.
	Public subsidy needed	Medium - High	The value of public subsidy is contingent on how long the land trust owned the land, the value of the land at the time of purchase, and how much the city contributed to that purchase.
	Flexibility	Low	The most likely model is as a separately administered non-profit that the City would contribute to, but not control.
	Primary housing outcome achieved		Affordable home ownership.

Reduced Parking Requirements

How It Works	Parking is one of the more expensive parts of project development. To the extent that code requires more parking than a developer would otherwise want to provide, the cost of meeting these requirements create financial burden. City can adjust the zoning requirements for parking production relative to unit production, specifically for affordable housing projects. This reduces the construction and development costs of a project, especially for higher density projects with structured parking.
Benefits	<ul style="list-style-type: none"> • In interviews conducted for this project, developers listed reduced parking requirements as among one of the most useful supports for more affordable housing production. • Changing the zoning is an inexpensive solution from a public-sector perspective. • Supports transit ridership, if development is near transit
Drawbacks	<ul style="list-style-type: none"> • Reduced parking can have spillover effects. • On its own, reduced parking requirements may not provide enough incentive power to change development feasibility for affordable units. • If developers / tenants demand more parking than the lower ratios provide, the incentive power is lessened, as developers may be obligated to provide a greater amount of parking than the ratios require.
Current Status / Options for Implementing	<ul style="list-style-type: none"> • 0.75 stalls per unit is already in place for Downtown Hillsboro and Amberglen. For mixed-use, requirements are 1 stall per unit and the commercial component is calculated separately and is based on the use type, for which parking is required at a ratio per 1,000 square feet of net floor area. See Appendix B for description. • Additional analysis of parking demand for buildings in various parts of the City will help to calibrate parking requirements.
For more information	<ul style="list-style-type: none"> • ECONorthwest has worked with the City of Portland and the City of Gresham on analysis of changes to parking ratios and found that in both cases reducing parking ratios improved development feasibility.

	Impact	Analysis Results
	Tax base	Positive By itself, reduced parking requirements are insufficient to incent affordable units. However, reducing parking ratios generally increases development feasibility and the likelihood of development. Additionally, reducing parking requirements can free up land area on which to build more units instead of parking stalls, which could positively contribute to the tax base.
	Admin. requirements	Medium Policy changes are needed which require amendments to the Community Development Code, and ongoing parking enforcement could potentially increase if there is spillover.
	Development feasibility	Medium (\$5,000 - \$27,00) of RLV per ½ stall reduction Impact on feasibility, and resulting value, differs due to physical structure of parking as well as the baseline requirement for parking.
	Public subsidy needed	\$0 per unit There is no direct public subsidy with changing parking ratios. However, by itself, this tool does not lead to development feasibility.
	Flexibility	Low Produces no revenue, and works only to increase development feasibility circumstantially: when a developer can market and finance a building with fewer parking stalls than code requires. It will apply to preservation of existing units only rarely.
	Primary housing outcome achieved	Increased feasibility of new affordable unit production.

Incentives for Space-Efficient Housing

How It Works	General policy focus on encouraging development of more dense neighborhoods to increase housing options. More communities are experimenting with this as cities grow, focusing on encouraging dwellings that are nonintrusive and are compatible with existing neighborhoods, such as: cottage clusters, internal division of larger homes, corner duplexes, and accessory dwelling units. Generally, this type of development is accomplished through changing the zoning code as such homes are traditionally either not allowed or not encouraged by the zoning code. In theory, these units are more affordable than other units because they are smaller.
Benefits	<ul style="list-style-type: none"> • Changing the zoning is an inexpensive market solution. • Can increase total land available for new market rate units, and may increase supply of smaller homes which may be more affordable. • Does not require large empty properties. • Complements the shrinking sizes of households. • Depending on market conditions and property owner motivation, may be more likely to be privately funded (without public support).
Drawbacks	<ul style="list-style-type: none"> • Not guaranteed to promote housing of a certain price. • There are drawbacks to higher density. • A cut to zoning restrictions may be detrimental; e.g. a common one is to reduce parking requirements
Current Status / Options for Implementing	<ul style="list-style-type: none"> • The City of Hillsboro's zoning allows accessory dwelling units in zones that allow for single-family residential dwellings or duplexes. See Appendix B for description. • The City might consider additional analysis to understand the potential for incentives to further support unit production, and options for tying incentives to income qualifications.
For more information	<ul style="list-style-type: none"> • Through its Transportation Growth Management program (TGM), the State of Oregon has conducted substantial research into zoning and other policy approaches to space-efficient housing. http://www.oregon.gov/LCD/TGM/Pages/SpaceEfficientHousing.aspx

Impact	Analysis Results	
Tax base	Positive	Generally, this tool allows more development (and more assessed value) per acre of development.
Admin. requirements	Low	Policy changes are all that is needed.
Development feasibility	Low - Medium	In theory, the more units allowed on a lot, the greater the income potential and associated value – the market would provide these units if not limited by regulations. In reality, the feasibility is contingent on whether the unit is produced as an ownership or rental unit and whether or not the revenue from that unit covers the cost.
Public subsidy needed	\$0 per unit	There is no direct public subsidy needed.
Flexibility	Low	This tool allows new types of development, but does not provide revenue and cannot be used for preservation or rehabilitation.
Primary housing outcome achieved		Increased supply of units (though not necessarily affordable units).

Inclusionary zoning (IZ)

How It Works	<p>IZ requires or incents developers to set aside a certain share of new housing at a price affordable to people of low or middle income. In 2016, the Oregon Legislature passed Senate Bill 1533 which allows for a jurisdiction to implement an inclusionary zoning policy if it meets certain requirements. These requirements relate to the income at which the units are affordable (80% MFI or 60% MFI), the percent of the project set aside as affordable (no greater than 20% of the project), the size of the projects (only if greater than 20 units) and the requirement for both an in-lieu fee option and incentive package.</p> <p>In theory, private market-rate development supports some portion of the cost of the affordable units in an inclusionary project. However, in almost all cases, public incentives are also required. These incentives can be regulatory (reduced parking requirements or density bonuses for example) or financial (property tax abatements or other forms of public investment). Funds can come from general fund, urban renewal, or other municipal sources described in this report.</p>
Benefits	<ul style="list-style-type: none"> • Has opportunity to create some new affordable units, especially in “high-opportunity areas” (high rent) areas with good schools, jobs, and amenities. • Designed to lead to mixed-income projects; helps avoid economic and racial segregation • Can create a revenue source for affordable housing if the inclusionary program allows fee-in-lieu payments
Drawbacks	<ul style="list-style-type: none"> • IZ does not work unless market-rate development is feasible. • Programs can be administratively difficult to design and implement. Staff must ensure that tenants comply with income-qualifications requirements. • Given that development feasibility is already a challenge in many parts of Hillsboro, it is likely that significant incentives would be needed to support an inclusionary program. • If incentives are insufficient to off-set program requirements, IZ may encourage developers to develop less housing or charge more for the non-zoned housing, pushing up overall rental costs. • Overall, evidence of success is mixed and seems largely dependent on which specific policies are adapted as part of the IZ policy and how they match the city’s need • Given the structure of Oregon’s program requirements, IZ would result in relatively few new affordable units being constructed. For example, If 4th Main had IZ applied, and the requirement and off-set incentives didn’t change the resulting physical development, only 14 units would have been produced as regulated affordable units.
Current Status / Options for Implementing	<ul style="list-style-type: none"> • Significant additional analysis would be required to understand the impact of an inclusionary policy on development feasibility in the City of Hillsboro, and to calibrate incentives to the Hillsboro market.
For more information	<ul style="list-style-type: none"> • INSERT LINK TO LEGISLATIVE SUMMARY http://www.oregon.gov/LCD/docs/legislative/landusebills2016.pdf • INSERT LINK TO CITY OF PORTLAND STUDY / PROGRAM details https://www.portlandoregon.gov/phb/72291

	Impact	Analysis Results
	Tax base	Unknown Result depends on how the program is structured, and the depth of incentives that are offered (tax abatements are commonly-used incentives)
	Admin. requirements	High Designing and implementing a program with incentives that will work is complicated. Staff must ensure that tenants comply with income-qualifications requirements.
	Development feasibility	Neutral In theory, incentives would offset requirements for affordability. IZ does not work where market-rate development feasibility is negative. Further, limited amount of new development of a sufficient scale (buildings with at least 20 units) is occurring in Hillsboro.
	Public subsidy needed	Unknown Result depends on how the program is structured, and the depth of incentives that are offered.

Flexibility

Low

Can only be used in limited circumstances.

Primary housing
outcome achieved

Assuming a well-structured program and sufficiently strong market,
production of units affordable to those between 80 and 100% of MFI

Multiple-Unit Limited Tax Exemption Program (MULTE)

How It Works	<p>Through the multifamily tax exemption, a jurisdiction can incent diverse housing options in urban centers lacking in housing choices or workforce housing units. Through a competitive process, multi-unit projects can receive a property tax exemption for up to ten-years on structural improvements to the property in exchange for setting aside a percentage of the units in the project as affordable. Though the state enables the program, each City has an opportunity to shape the program to achieve its goals by controlling the geography of where the exemption is available, application process and fees, program requirements, criteria (return on investment, sustainability, inclusion of community space, percentage affordable or workforce housing, etc.), and program cap. The City can select projects on a case-by-case basis through a competitive process.</p> <p>Use of the program in the State includes:</p> <p>City of Portland Multiple-Unit Limited Tax Exemption Program. Within eligible areas, this program allows multi-unit projects to receive a ten-year property tax exemption on structural improvements to the property as long as program requirements are met. This program limits the number of exemptions approved annually, requires developers to apply through a competitive process, and encourages projects to provide greater public benefits to the community that would otherwise be possible. The applicant must submit documentation that the anticipated rate of return for the project for the period of the exemption will not exceed 10%. In 2014, the City made \$1,210,000 in foregone tax revenue available. More info: https://www.portlandoregon.gov/phb/61191</p> <p>City of Eugene Multi-Unit Property Tax Exemption Program. This program offers a property tax exemption on the new structure or incremental change in the property value of a building for a maximum of 10 years. Projects eligible for the tax exemption include construction, addition or conversion of rental or ownership multi-unit housing within the MUPTe boundary. More info: http://www.eugene-or.gov/index.aspx?NID=829</p>
Benefits	<ul style="list-style-type: none"> • Tax abatements positively impact the feasibility of projects where market-rate projects are feasible and can help cross-subsidize the affordable units. • City-controlled on project-by-project basis. • Does not require active ground floor use. • Possible flexibility to tailor length of exemptions on a case-by-case basis, depending on the project benefits to the public. • The city can set an annual cap on the total amount of tax exemptions in any given year for all projects.
Drawbacks	<ul style="list-style-type: none"> • Requires regular reporting. Property owners must submit to city annual audited financial statements, tax returns and 10-year operating cash flow with current rate of return. • Depending on the project criteria, can be a highly competitive process among development projects. • City must weigh the temporary (up to 10 years) loss of tax revenue against the potential attraction of new investment to targeted areas. • Reduces general fund revenues for all overlapping taxing districts, which could make it harder to promote the tool to partner jurisdictions that do not perceive the same project benefits. • Can be competitive, depending on the criteria that the City outlines. • If the City also seeks abatement from overlapping taxing districts, requires a lengthy approval process. • Some programs have requirements for local and minority businesses to complete a portion of project construction, which can extend development timelines and costs.
Current Status / Options for Implementing	<ul style="list-style-type: none"> • The City does not currently have an existing program. • Other cities, like Portland and Eugene, have implemented a MULTE program.
For More Info	<ul style="list-style-type: none"> • Details of program requirements and eligibility are noted in Oregon Statutes 307.600 to 307.637 https://www.oregonlaws.org/ors/307.600

Impact	Analysis Results	
Tax base	Negative	Taxes are abated for 10 years.
Admin. requirements	High	Requires developing and administering a program that meets statutory requirements and ensures tenant compliance.
Development feasibility	High (\$39,000 - \$44,000 of RLV per unit)	Tax abatements can substantially contribute to the feasibility of both market-rate and regulated units. Saving on operational costs contributes to a greater net operating income (NOI), which is an important factor in determining project value and subsequently the development feasibility (see Appendix A). However, given that market-rate units are not feasible in most of Hillsboro, a tax abatement would not be enough to offset the cost of a mixed-income project.
Public subsidy needed	Medium (\$1,300 - \$2,500 per unit per year)	No direct public subsidy is needed, though the City will forego tax revenue.
Flexibility	Medium	Can only affect the property tax costs, but the City can design a program targeted to desired income levels, to new construction or to preservation of existing units.
Primary housing outcome achieved		Development of income-regulated units

Washington County Tax Exemption for non-profit owned affordable housing

How It Works	Oregon legislature authorizes a property tax exemption for low-income housing (60% MFI and below) held by charitable, nonprofit organizations only. Washington County has created and implemented this tax exemption program in unincorporated Washington County as well as the cities of Beaverton and Tigard.
Benefits	<ul style="list-style-type: none"> • No additional work needed from the city (after approving the implementation of the program in Hillsboro) besides driving nonprofit interest. • Works well in tandem with other incentives, such as land banking. • Reduces carrying costs before development occurs (tax exemption available for land being held for development of affordable units), and offsets operational costs once the development is complete.
Drawbacks	<ul style="list-style-type: none"> • Can only be accessed by non-profit housing developers. • Results in foregone property tax revenue to the City and other taxing districts, including the Downtown Urban Renewal Area. • Individual property tax exemptions are administered by the County – the City of Hillsboro has no authority in selecting the projects that receive the exemption. • Implementing this program requires the agreement of 50% of the taxing jurisdictions
Current Status / Options for Implementing	<ul style="list-style-type: none"> • This program is currently offered through Washington County, but to date the City of Hillsboro has not opted to participate. • Washington County reached out to Hillsboro taxing districts to assess feasibility for implementation in Hillsboro. The school district was in agreement.
For More Information	<ul style="list-style-type: none"> • Details of program requirements and eligibility are noted in Oregon Statutes 307.540 to 307.548 https://www.oregonlaws.org/ors/307.548

Impact	Analysis Results	
Tax base	Negative	Non-profits apply annually for the tax abatement. Washington county has yet to not award the exemption or implement a cap on the allocation.
Admin. requirements	Low	Washington County administers this program.
Development feasibility	High (\$39,000 - \$44,000 of RLV per unit)	Tax abatements can substantially contribute to the feasibility of regulated affordable units and help fill the feasibility gap. Saving on operational costs contributes to a greater net operating income (NOI), which is an important factor in determining project value and subsequently the development feasibility (see Appendix A).
Public subsidy needed	Medium (\$1,300 - \$2,500 per unit per year)	No direct public subsidy is needed, only foregone tax revenue and the opportunity cost of a potential market-rate development and associated higher tax revenue.
Flexibility	Low	Can only affect the property tax costs, but is useful for preserving existing affordable as well as incenting new production. The savings in operating costs, from abated taxes, can offset maintenance and capital improvement costs.
Primary housing outcome achieved		Preservation of existing, or development of new, regulated affordable units.

Financing building permit and planning fees or SDCs

How It Works	These programs reduce the impact of development fees and systems development charges (SDCs) on the development cost of the project by allowing the developer to avoid the upfront cost and finance the fees over time. A financing program can be used as an incentive to induce qualifying types of development or building features (in this case, affordable housing). The City still receives fees and SDCs, but at a later date. This can, however, create cash flow challenges.
Benefits	<ul style="list-style-type: none"> • Nominally increases development feasibility by reducing soft costs for developers. • Fee cost structures are within City control and can be easier to implement than other components of the development cost structure.
Drawbacks	<ul style="list-style-type: none"> • Reduces revenues, in the short term, to provide permitting and compliance services. • Financing fees adds cost to their operating budget, which are already very constrained. Although this tool will decrease the development cost, it will increase the operational cost of a project by having an additional debt payment. Employing this tool in an affordable deal might not be feasible due to a constrained operating budget relative to revenue.
Current Status / Options for Implementing	<ul style="list-style-type: none"> • The Orenco development benefitted from financing of SDCs through its development agreement with the City. While this program has not been formalized as a program, this can serve as an example.
For More Information	<ul style="list-style-type: none"> • The City of Portland Water Bureau has a financing option: https://www.portlandoregon.gov/water/article/219105

	Impact	Analysis Results
Tax base	Neutral	Given the relatively small impact on development feasibility, the tool will not, by itself, help generate units to contribute to the tax base.
Admin. requirements	Medium	A program must be designed and administered to manage SDC loans.
Development feasibility	Low (\$100 - \$1,700 of RLV per unit)	Impact on feasibility, and resulting value, is low due to tradeoff between upfront costs and continued operating costs.
Public subsidy needed	\$0 per unit	No direct public subsidy is needed, only delayed revenue.
Flexibility	Medium	Can be used to incent rehabilitation of existing units (if the rehabilitation triggers SDCs) or to produce new units.
Primary housing outcome achieved		New unit production, though by itself this tool is unlikely to be sufficient to fill feasibility gaps.

Vertical Housing Tax Credit (State of Oregon enabled, locally adopted)

How It Works	<p>Subsidizes "mixed-use" projects to encourage dense development or redevelopment by providing a partial property tax exemption on increased property value for qualified developments. An additional property tax exemption on the land may be given if some, or all, of the residential housing is for low-income persons (80 percent of area is median income or below). The exemption varies in accordance with the number of residential floors on a mixed-use project with a maximum property tax exemption of 80 percent over 10 years. The proposed zone must meet at least one of the following criteria:</p> <ul style="list-style-type: none"> • Completely within the core area of an urban center. • Entirely within half-mile radius of existing/planned light rail station. • Entirely within one-quarter mile of fixed-route transit service (including a bus line). • Contains property for which land-use comprehensive plan and implementing ordinances effectively allow "mixed-use" with residential.
Benefits	<ul style="list-style-type: none"> • The City has experience with this tool. • Targeted tool to support mixed-use development in places with locational advantages. • City-controlled on project-by-project basis.
Drawbacks	<ul style="list-style-type: none"> • Only available in limited geographies • May provide insufficient incentive to lead to affordability unless paired with other tools. • Reduces general fund revenues for all overlapping taxing districts, including the City. • Requires retail space, which may not be viable or appropriate for all projects • Requires a lengthy approval process with taxing districts.
Current Status / Options for Implementing	<ul style="list-style-type: none"> • Current legislation is under consideration in Salem that would increase local control of the use of this tool. • Has been used in Hillsboro, for example in the 4th Main development.
For More Information	<ul style="list-style-type: none"> • State program webpage: http://www.oregon.gov/OHCS/Pages/HFS_Vertical_Housing_Program.aspx

Impact	Analysis Results	
Tax base	Negative	Taxes are abated for 10 years.
Admin. requirements	Medium	The City already has a program in place.
Development feasibility	High	Successful at incentivizing, and bridging the feasibility gap for market-rate housing production.
Public subsidy needed	Medium (\$1,300 - \$2,500 per unit per year)	No direct public subsidy is needed, only foregone tax revenue.
Flexibility	Low	Can only be used for developments that meet Statutory goals, in authorized locations.
Primary housing outcome achieved		Program is designed to incent the production of higher-density market-rate development, and is not likely to provide sufficient incentive for affordable unit production.

General Fund Grants or Loans

How It Works	City can use general fund or tax increment dollars to directly invest in a specific affordable housing projects. These grants or loans can serve as gap funding to improve development feasibility. There are several options for using general fund grants or loans, including the potential for bonds to generate upfront revenue that is repaid over time, as recently approved in the City of Portland. Another option is to use general fund dollars to contribute to other programs that are successfully operating, such as non-profit land trusts or even other government agencies that have the administrative capacity to maintain compliance requirements over time, using intergovernmental agreements.
Benefits	<ul style="list-style-type: none"> • Flexible source of funds for gap financing. • Community can implement public projects that can in turn catalyze other development (e.g. parking garage, transportation improvements...).
Drawbacks	<ul style="list-style-type: none"> • General fund dollars may be limited, and allocated to other City priorities. • Investing over \$750,000 of public funds directly into a new or rehab private project triggers prevailing wage requirements, which can increase overall project costs by 10 – 20%. • Lending of Credit provision prohibits City from contributing to private sector projects, so the use of these funds should be evaluated carefully for legal compliance.
Current Status / Options for Implementing	<ul style="list-style-type: none"> • The City has some precedent for direct investment in financing development projects in its urban renewal area. • One option available is to contribute to existing programs or non-profits. For example, the Community Housing Fund is a non-profit that operates in Washington County and funds pre-development activities for non-profit affordable housing projects. In interviews conducted for this project, developers recognized this as a successful program. This is one existing source of funds to help overcome gaps.

Impact	Analysis Results	
Tax base	Positive	This tool allows more development and more assessed value.
Admin. requirements	Varies	Administrative requirements will be low if using existing general fund dollars. Administrative requirements will be high if implementing new programs for revenue sources with the intent of contributing to real estate development (e.g. CET or linkage fees).
Development feasibility	High	General fund dollars are successful at bridging gaps in development feasibility.
Public subsidy needed	High (\$2,000 - \$70,000 per unit)	The public subsidy needed will vary depending on the type of development (market-rate/mixed-income or affordable) and the other tools and incentives used.
Flexibility	High	Can be used for affordable home ownership, new unit production at desired income level, rehabilitation and preservation of existing units, or other forms of development support
Primary housing outcome achieved		Can be designed to meet the needs of individual programs or public affordable housing goals

Funding sources

Many (though not all) of the tools described in this report would require municipal funding. In addition to general fund grants or loans, which are described above as a tool, the City has several options to consider that would add new funding sources as it further develops its programs and policies. An overview of those funding sources, including benefits and drawbacks to their use, follows.

Construction Excise Tax (CET)

How It Works	In 2016 the Oregon Legislature passed Senate Bill 1533 which, in addition to allowing inclusionary zoning, permits cities to adopt a CET of 1% of the permit value on residential construction and at an uncapped rate on commercial and industrial construction, for use on affordable housing projects. A CET is a tax assessed on construction permits issued by local cities and counties. The tax is assessed as a percent of the value of the improvements for which a permit is sought, unless the project is exempted from the tax.
Fund Sources	New construction - development-derived
Use	<p>The allowed uses for CET funding are statutorily defined. The City may retain 4% of funds to cover administrative costs. The funds remaining must be allocated as follows, if the City uses a residential CET:</p> <ul style="list-style-type: none"> • 50% must be used for statutorily authorized developer incentives, including fee and SDC waivers, tax abatements, or finance-based incentives. In other words, the City would have to offer the incentives but could fund those with CET funds. • 35% may be used flexibly for affordable housing programs, as defined by the jurisdiction • 15% is not available to the City, and flows instead to Oregon Housing and Community Services for home ownership programs that provide down payment assistance <p>If the City implements a CET on commercial or industrial uses:</p> <ul style="list-style-type: none"> • 50% of the funds must be used for allowed developer incentives • The remaining 50% are unrestricted
Benefits	<ul style="list-style-type: none"> • CET provides a relatively flexible source of funding for affordable housing projects and incentives, but these uses must comply with state statutes. • CET pairs well with other commonly-used tools, as it provides a funding source for foregone revenue from property tax abatements or SDC or fee waivers. • While we have not evaluated the impact CET on the feasibility of commercial, industrial, or single-family residential development types which are outside of the scope of this project, the volume of this type of development in Hillsboro suggests that its future revenue generating potential could be considerable. For example, if a 1% CET had been applied to the last year of all permitted projects greater than \$100,000 in value, and if it had no impact on the feasibility of construction such that all development occurred as planned, the City could have generated approximately \$5 million in revenue. However, as CET increases development costs, it would have impact on feasibility. • CET has the potential to generate a stream of revenue for affordable housing over time.
Drawbacks	<ul style="list-style-type: none"> • To date, only the City of Portland and the City of Corvallis have implemented CET under the new State statutes (though Bend had a previous program that was grandfathered in prior to the new statutes which therefore follows different rules). • CET must be used in ways that comply with state statute. • Increased cost of unit production, as a result of CET, may result in financial feasibility challenges for some projects. For a unit that costs \$150,000 (in hard costs) to build, a CET of 1% on that unit would result in approximately \$2,000 in additional costs for that unit (due to the relationship between costs and other budget line items like contingencies). For construction typologies that are already financially challenging to implement, the addition of CET will increase the funding gap (by \$200,000 for a 100-unit project based on the previous example) and the need for incentives or subsidy. • Where housing demand is sufficiently high relative to supply, may be passed on in the form of higher housing costs. • Because CET revenue is development-derived, it will fluctuate with market cycles.

Linkage Fees

How It Works	Linkage fees are charges on new development, usually commercial and / or industrial development only, that can be used to fund affordable housing. To implement them, the City must undertake a nexus study that identifies a legal connection between new jobs housed in the developments, the wages those jobs will pay, and the availability of housing affordable to those employees.
Fund Sources	Development derived
Use	<ul style="list-style-type: none"> • Can be used for acquisition and rehabilitation of existing affordable units • Can be used for new construction
Benefits	<ul style="list-style-type: none"> • Creates a revenue source that can be used to fund incentives or development. • Job growth in Hillsboro has been robust, suggesting future demand for employment uses • Depending on results of nexus study (which determines the legally allowable maximum amount of the linkage fee), could generate more revenue than CET.
Drawbacks	<ul style="list-style-type: none"> • Requires a nexus study, plus impacts of administering the program. • Additional fee on new development, which could affect development feasibility and potentially affect. business recruitment and retention actions • Revenue stream ebbs and flows with the development market cycles. • May be difficult to find a nexus between wages in Hillsboro and demand for affordable housing.

Urban Renewal / Tax Increment Finance (TIF)

How It Works	Tax increment finance revenues are generated by the increase in total assessed value in an urban renewal district from the time the district is first established. As property values increase in the district, the increase in total property taxes (i.e., city, county, school portions) is used to pay off the bonds. When the bonds are paid off the entire valuation is returned to the general property tax rolls. Urban renewal funds can be invested in the form of low interest loans and/or grants for a variety of capital investments, including affordable housing development.
Fund Sources	Local taxing jurisdictions' permanent rate property tax impacts (including the City).
Use	<ul style="list-style-type: none"> • Can be used for acquisition and rehabilitation of existing affordable units • Can be used for new construction
Benefits	<ul style="list-style-type: none"> • Existing tool in Downtown • Among the most flexible incentives. Can be used as a direct investment into an affordable housing capital stack, for site prep, for pre-development analysis or design work, or for needed utilities or other infrastructure to serve a site.
Drawbacks	<ul style="list-style-type: none"> • Can only be used inside of established urban renewal areas • The City's has two existing urban renewal areas. One (in North Hillsboro) is industrial focused and should not fund affordable housing. The other (Downtown) currently has limited financial capacity, especially relative to the list of projects it needs to accomplish. • Investing over \$750,000 in TIF (or any public funds) directly into a new or rehab private project triggers prevailing wage requirements, which can increase overall project costs by 10 – 20%.

Community Development Block Grants (CDBG)

How It Works	Community Development Block Grants provide communities with resources to address a wide range of community development needs, including infrastructure improvements, housing and commercial rehab loans and grants as well as other benefits targeted to low- and moderate-income persons. The City is currently in the process of developing their own CDBG program.
Fund Sources	Federal HUD funds
Use	<ul style="list-style-type: none"> • Can be used for acquisition and rehabilitation of existing affordable units • Can be used for new construction, depending on housing types, how the program is set up, and what community development efforts are prioritized.

Benefits	<ul style="list-style-type: none"> • Funds are fairly flexible in application. • Program has been run since 1974, and is seen as being fairly reliable. • HUD Section 108 is one mechanism that increases the capacity of block grants to assist with economic development projects, by enabling a community to borrow up to 5 times its annual CDBG allocation
Drawbacks	<ul style="list-style-type: none"> • Competitive process to secure loans/grants for individual projects. • Administration and projects must meet federal guidelines such as Davis Bacon construction requirements. • Amount of federal funding for CDBG has been diminishing over the past few years. • CDBG program is run through the County and is not in the control of the City.

Considerations for preservation of existing affordable units

We discuss the following:

- (1) preservation of affordable home-ownership opportunities
- (2) preservation of existing regulated affordable housing
- (3) preservation of market-rate affordable housing

Preservation of affordable home-ownership opportunities

Many of the local tools and funding sources that the City is considering could assist projects focused on creating permanent, affordable, homeownership units. Multiple non-profit developers are already working to provide these units and take advantage of structural and financial benefits like community land trusts, federal grant assistance, tax benefits, and shared equity programs.

The preservation of units as affordable usually occurs through scattered site redevelopment of existing homes, though it is important to note that permanently, affordable homeownership units are also being created in larger-scale new construction.

Preservation of existing regulated affordable housing

There are multiple properties in the Hillsboro area that have regulated-affordable housing units. Existing regulated properties are monitored by Oregon Housing and Community Services to coordinate with non-profits to re-syndicate the property with new tax credits (specifically acquisition and rehabilitation low-income housing tax credits) when the affordability term expires. Non-profits using acquisition and rehabilitation credits will still need local funding sources to fill similar gaps as those that occur with new construction.

It is important to note that many of the properties nearing the end of their affordability term might not be of a construction quality that can support the additional time-period required by the new tax credits, even with substantial rehabilitation. Not all, regulated-affordable properties will be feasible to rehabilitate.

Preservation of naturally occurring affordable housing

In addition to the supply of regulated affordable units is the pool of market-rate affordable units. According to CoStar, 40 percent of the market-rate properties in Hillsboro (for which data is available) have some type of unit (e.g. studio, one-bedroom, 2-bedroom) that is affordable at the regional 80% MFI limit. The private development market will often consider these properties as valuable investment opportunities – if an area’s market rent is substantially higher than the rent achieved at a potential investment property, the property could be a viable option for making minor improvements in order to secure higher rents. Existing properties are also a lower risk compared to new construction given that rehabilitations are typically completed in phases to allow for steady revenue from the other units.

It would be a useful strategy for the City of Hillsboro to prioritize the acquisition of these types of properties, potentially by partnering with a non-profit organization. Many of the same tools available for new construction, specifically those used to provide gap funding, can be used to help acquire and rehabilitate these properties. This strategy needs additional investigation, specifically with regard to staff capacity and feasibility of program implementation, as this would require continual monitoring of available properties, evaluation of property potential for redevelopment, and implementing techniques for being competitive with the private market which often acquires these properties through off-market transactions without a formal bidding process.

Key Findings and Implications

Overall, our analysis emphasizes that additional municipal incentives, programs, and other actions will be helpful, if not necessary, to substantially increase the supply of affordable units in Hillsboro. Because market-rate development in Hillsboro is financially difficult to achieve, our modeling shows that even adding in LIHTC and other federally-available sources can leave funding gaps in most scenarios. This is primarily due to the decrease in the value of LIHTC equity on top of rapidly rising construction costs. The City of Hillsboro already has ongoing efforts to increase the production of market-rate housing through its ongoing efforts to support development in South Hillsboro, Downtown, and other target areas, which is a long-term solution for providing affordable units as unit value depreciates over time. In addition to these efforts, there are two major categories of actions that the City can undertake to specifically incent housing affordability:

1. Increase the production of regulated, income-restricted affordable housing.
2. Preserve existing affordable housing

We've divided the key findings and implications discussion into two sections that correspond with these categories.

Increase the production of regulated, income-restricted units

The financial analysis in this report emphasizes that several of the tools increase development feasibility for affordable and market-rate product types, but only *property tax abatements*, a *direct capital investment* (which could be a general fund grant), or *land donation* (which could come through a land bank or a land trust) are powerful enough to substantially alter development feasibility.

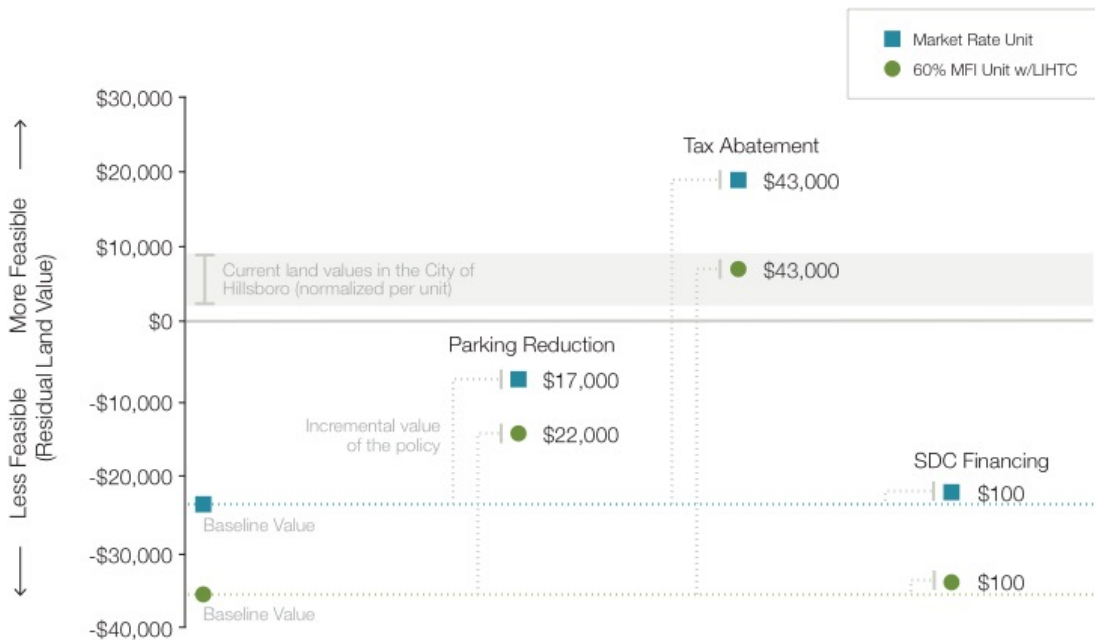
Exhibit 11 provides an overview of the value of individual tools, expressed as residual land value per unit. It shows the results of pro forma analysis for one typology (podium construction) to illustrate a comparison of the impact of tools on development feasibility for market rate development (in blue) and a project affordable at 60% of MFI using 9% LIHTC credits (in green). Without additional support (the baseline value), both have negative residual land values, meaning that a developer would not invest in the project even if land were available at a cost of \$0.

Each of four of the tools modeled (parking reduction, tax abatements, SDC financing, and land donation) improve feasibility. Findings associated with Exhibit 11:

- The **tax abatement** has sufficient incentive power to move the projects above \$0 residual land value.
- Given current land values in the City of Hillsboro, a land donation could be layered with other tools or subsidies to move the projects above \$0 residual land value.

- Since a **direct capital subsidy** can be granted in any needed amount, it is not shown in the graphic, but could have an even greater positive impact than a tax abatement. In our residual land value methodology, land price is effectively held constant, but any product type with a negative residual land value would require a land donation plus additional subsidies to be financially.
- The other incentives modeled help, particularly the **parking reduction**, but need to be layered with additional subsidies in order to achieve financial feasibility.

Exhibit 11. Housing Incentive Policies – Residual Land Value of Tools (for Podium Construction)



Source: ECONorthwest, 2017; CoStar 2017

Source Note 1: Land values range based on residential transactions throughout the City of Hillsboro from 2015 through 2017. To assess the land value per unit, we assumed a podium construction with 130 units.

Based on these findings and all of the other analysis of tools on the City’s tax base, the tools’ administrative requirements, and flexibility in use, we advance the considerations for discussion and further analysis:

- **Allow reduced parking requirements for affordable projects.** While this tool has limited feasibility benefit in many circumstances and by itself will not lead to much new unit production, our analysis found that, when layered with other tools and in certain circumstances (small lot size, for example), it can be very beneficial. Importantly, when it is used, the reduction in parking allows more space on a lot or within a building envelope for residential units, which increases the total number of affordable units that any individual project contributes to supply. If those additional units are not tax abated, they also increase the tax base. This tool has administrative impacts due to the requirement of a policy change and the potential for ongoing operational costs if

spillover parking requires enforcement. While not as powerful as some of the other tools, this tool creates positive outcomes for development feasibility

- **Consider participation in the Washington County Tax abatement program.** The City should begin with an evaluation of the impact of abatement on its existing revenue stream, as lost revenue as a result of the abatement will be a critical consideration. However, even given the fact that abatements will lead to lost revenue for the City's general fund, our analysis shows that this abatement has the strongest benefit for affordable housing feasibility of the tools we evaluated. Stakeholder interviewees agreed that Hillsboro's participation in the Washington County program would have financial benefits that would improve unit production.
- **Evaluate opportunities for land contributions to affordable housing development,** and consider options for a more formal land bank or land trust. Eliminating land costs can be very helpful in improving development feasibility, especially if paired with other incentives. However, land contributions have additional benefits. They allow the City to control where and when new affordable units are constructed, and to partner with affordable housing developers to potentially achieve other public goals through the housing development, such as improved design or landscaping to better integrate the project into neighborhoods. Land trusts can be effective methods for achieving permanent affordability and affordable home ownership. The first step in this process would be to evaluate the City's land holdings to determine whether an appropriate property is available.
- **Use general fund or other revenue sources.** General fund dollars can very flexibly used for many outcomes: affordable housing preservation, direct grants, or other types of investments in affordable housing outcomes. The first step in the process of using these funds would be to clarify how such investments should be prioritized. For example, is the City more interested in preserving existing or building new units? In home ownership or in rental units? Depending on the answers, general fund or other revenue sources could be used to provide funding to partners such as existing community land trusts, or to directly invest in affordable projects.

Preserve existing affordable housing

Many of these tools analyzed in this report can also be applied to preservation of existing housing units. Preservation of affordable units is an important strategy for securing an adequate supply of housing and in some cases is more cost effective than building new units. Even if more, new affordable housing is built in Hillsboro, if the existing affordable units are increasing in price more quickly than incomes are rising, the net gain could be minimal.

Based on our analysis, we suggest the following tools for further consideration and analysis in a toolkit for unit preservation in Hillsboro:

- **Evaluate options for tax abatements that apply to existing units.** Tax abatements are very helpful for new development (see above) but when applied to existing affordable

housing projects, they can reduce operating costs and increase the likelihood of preservation of those units. Because they advance both new unit production and unit preservation, tax abatements are potentially a very valuable tool.

- **Inventory existing regulated and / or naturally occurring affordable units, and seek opportunities to acquire them.** The City could acquire and partner with non-profit or other affordable housing developers to rehabilitate and maintain them as affordable units. The City of Beaverton is currently beginning an inventory process for the purpose of supporting a housing preservation strategy. This could serve as a model for the City's approach to exploring this opportunity.
- **Evaluate other options for keeping people in affordable units.** These options, for instance increasing funding for rent assistance and home-repair programs, could be continued through enhanced partnerships with existing non-profits and / or the County.

Funding considerations

If the City chooses to advance this conversation and initiate strategies for affordable housing unit production and preservation, many of the most appropriate tools described above will require funding. Our analysis shows that direct contribution to a project (either in the form of a low-interest loan or a grant) is one of most powerful ways that the City can help to fill gaps in feasibility for priority projects. But other tools would require funding for effective implementation as well: acquiring land or capitalizing a land bank or buying existing affordable units to ensure long-term affordability is preserved.

The City should carefully consider its options for funding as it continues to evaluate its toolkit. Some considerations:

- **Use limited general fund dollars efficiently.** General fund dollars (whether in the form of a loan or a direct contribution) are the most flexible, accessible source of funding in the near-term. These resources are already stretched thin for other purposes. In that context, this funding source is most appropriately used to:
 - Provide gap-filling grants to a limited number of priority affordable housing projects (whether new development or rehabilitation of existing units), perhaps beginning with just one demonstration project in the near-term. Over time, the City may consider developing a competitive grant program that targets these funds.
 - Capitalize a loan fund that can provide low- or no-interest project financing over time. While this would require some administrative overhead to implement, it would allow a larger number of projects to be served over time, as repayment of loans recirculates to new projects. If appropriate, it may be more efficient to partner with Washington County or other entities and contribute funds to their existing programs, rather than creating new administrative structures to administer these loans.

- **Consider use of CDBG funds for affordable housing**, including preservation of units through emergency rent assistance and possible gap funding for non-profit acquisition and rehabilitation projects. The City is currently developing a program for the use of CDBG.
- **Consider options for new funding**, perhaps phasing in any new funding sources over time after pilot projects with currently available sources (general fund) have been successfully implemented. No matter how efficiently general fund dollars are used, they will be limited relative to the need for affordable housing, given the fact that general fund dollars are necessary for maintaining functional City infrastructure and service provision. New funding sources could include CET or linkage fees. More analysis is needed to understand the revenue generation potential as well as the potential drawbacks of each funding source.

Next steps summary

In summary, our findings suggest further exploration of the following:

- a. Reduced parking requirements to incent new construction.
- b. Participation in Washington County or other tax abatement programs to help preserve, and develop new, regulated affordable housing.
- c. Opportunities for land donation to support new construction.
- d. Opportunities for preservation of existing units (either through purchase by the City or through partnerships with non-profits), beginning with an inventory of affordable properties appropriate/available for preservation or acquisition.
- e. Evaluate use of general fund dollars as direct contributions to affordable housing projects to incent new construction and support the preservation of both regulated and naturally-occurring affordable housing.

Appendix A: Detailed Analysis Methodology

ECONorthwest used a financial pro-forma analysis to evaluate the impact of the various policies and tools on development feasibility. We employed the return on cost approach on a per unit basis to derive the residual land value per unit. This approach has multiple advantages: a return on cost pro forma model does not require the creation of hypothetical assumptions about the sources and uses of funds for each development (e.g. where the funds are coming from, with what interest rates, for how long of a term, etc.) and the per unit basis of analysis allows the results to be scaled based on the density of units⁶. It is important to note that the per unit analysis assumes the development is physically feasible. Exhibit 12 shows the equation for calculating the residual land value.

Exhibit 12. Development Equation – Understanding Residual Land Values

+ Project Value (Sale price when finished)

- Project Costs

- Site Preparation
- Design, Permits, etc.
- Construction
- Parking
- Infrastructure (road, stormwater, etc.)
- Operation & Maintenance
- Profit (return on cost)

= Residual Land Value

(Amount can pay for land and achieve expected financial return)

Source: ECONorthwest

The project value, from which the project costs are subtracted, is based on the net operating income (NOI). The NOI is the income (from the residential uses as well as any parking or retail) less any costs from vacancies, operations, and property taxes. The expected NOI from the project is then divided by either a capitalization rate or a return on cost percentage – both are ratios or percentages that are estimated by analyzing the recent sale prices of comparable properties compared to their NOIs.

Generally speaking, if the residual land value is positive and close to the current market price for the land—raw land, or the price of an improved property indicating the new development is a higher and better use than the existing structure—then the project is likely feasible. If the residual land value is negative, the project does not generate enough income to pay for land and

⁶ This approach is preferred for market rate units, but has limitations when applied to affordable housing units where the capital stack is more complicated and a lower proportion of debt (and therefore debt service) is critical to project success. Return on cost models are based on underwriting standards for commercial debt and the required rates of return for private and institutional equity. In order to simplify the process and “compare apples to apples” for the impact of each tool, we have selected a single valuation methodology, rather than one model for market rate units and a different model for affordable units.

is not feasible without additional subsidy. If the residual land value is close to zero, then the project would be feasible only if the land is either donated or sold at a very low price.

For this analysis, we used two hypothetical development prototypes: stick-built (wood frame construction) garden style apartments with surface parking and podium-construction apartments with integrated structured parking. Within the financial models, we included several adjustments to account for the differences between the two prototypes:

1. Increased market rents by 10% for podium compared to garden style (for market rate units)
2. Increased the return on cost target by .5% (50 basis points) for garden style apartments to reflect the higher cap rates indicated in the market
3. Did not include any parking revenue for garden style apartments, they are surface parked and market comps indicate no additional revenue

The pro forma analysis requires multiple data inputs and assumptions to assess financial feasibility. ECONorthwest collected data from CoStar, HUD, and developer interviews. During the interviews, we asked developers about the specifics about their projects (both existing and future developments), including unit mix, unit sizes, construction costs, and market rents. The results of this research are shown in Exhibit 13.

In order to calculate the value of the LIHTCs, and ultimately any financial feasibility gaps, we used the following assumptions:

1. Assumed the eligible cost basis to be 80% of total construction costs
2. Assumed the pricing for the tax credit to be \$.85, which is down from recent pricing levels of \$1.00 or in some instances over \$1.00.
3. We have modeled all units in the LIHTC at 60% of MFI, which is the maximum allowed income by HUD. In practice, in order to be competitive for the scarce 9% LIHTCs, developers have to reduce the income threshold below 60% on some units. Some other programs have requirements for MFI at 50%, so it is common to see blended rate of units at MFI levels at 50% and below.
4. OHCS has a funding limit of \$900,000 annually for each approved 9% LIHTC, which traditionally has been a value of nearly \$9 million of equity (10 years of credits). Our model is based on per unit calculations, so implicitly, the number of units would need to be under the maximum value of \$900,000. If the scale of the project is larger, there would be eligible basis remaining to fund, but the project tax credit would be capped by OHCS. In these instances, the effective credit per unit is reduced.

Exhibit 13. Development Assumptions for Pro Forma

Assumptions			
Variable	Assumption	Unit of Measure	Notes
<u>Rent</u>			
Studio Apartment	\$ 2.50	Per square foot, monthly	
1-br Apartment	\$ 2.00	Per square foot, monthly	
2-br Apartment	\$ 1.70	Per square foot, monthly	
3-br Apartment	\$ 1.50	Per square foot, monthly	
Rent premium for podium	10%	Percent more than garden/stick	
Downtown rent	80%	Percent of base of Orenco Rent	
Ground Floor Retail	\$ 24.00	Per square foot, annualized	Assume some retail demand in areas due to existing well-performing retail
Retail GSF per Residential GSF	0.05		
<u>Vacancy Rate</u>			
Apartment	5%	Percent	
Retail	10%	Percent	
<u>Operating Expenses</u>			
Apartment	30%	of gross revenue	Property taxes deducted from Opex %
Retail	25%	Of gross revenue	Not including property tax, NNN will be passed through other than vacancy
Parking	10%		
<u>Property Tax</u>			
Change Property Ratio	48.6%		Washington County 2016-17
Property Tax Rate	2%		
Present Value of Abatement	62%	Of total taxes	Present value of 10 year abatement is less than the full value
<u>Parking Demand</u>			
Apartment Market Rate	1.25	Stalls per unit	Market demand, not tied to parking regulations
Reduced Parking ratio	0.75	Stalls per unit	
Square Feet per Space Structured	360	square feet	
<u>Parking Revenue</u>			
Surface	\$ -	Per stall, monthly	
Structure	\$ 50	Per stall, monthly	
<u>Return on Cost (target rate)</u>	5.80%	percent	Calculated as a percent return on cost

Exhibit 13. Development Assumptions for Pro Forma (continued)

Construction Costs			
Variable	Assumption	Unit of Measure	Notes
<u>Hard Construction Costs</u>			
Excludes cost for land and parking			
Stick Apartments			
Apartment	\$ 110	Per square foot	
Surface Parking	\$ 7,000	Per stall	
Gross to Net ratio	90%		
Podium			
(Type V construction; up to 90')			
Upper Floor Apartment (stick)	\$ 165	Per square foot	Blended average for 5 over 1 = \$200 / sq ft
Ground Floor Retail	\$ 120	Per square foot	Blended average for 5 over 1 = \$200 / sq ft
Retail TI	\$ 50	Per square foot	Allowance, included in development budget
Podium Parking	\$ 30,000	Per stall	
Gross to Net ratio	85%		Percent of Leasable square feet
as a percentage of hard costs, includes A/E, permits, financing, lease up, etc.			
<u>Soft Costs (all)</u>			
CET	30%	Percent of Hard Costs	
Water/Sewer SDC	\$ 7,200	1% Percent of Hard and Soft Costs	
Parks SDC	\$ 4,647	Per unit charge	Hillsboro SDCs
TDT	\$ 5,308	Per unit charge	did not calculate trip generation for retail
Other SDCs	10%		
Developer Fee	4.0%	Percent total development cost	
Contingency fee	5.0%	Percent of Hard + Soft Costs	
Apartment Assumptions			
Variable	Assumption	Unit of Measure	Notes
<u>Unit Mix (Stick Apartments)</u>			
Studio	10%	percent of all units	
1 Bedroom	55%	percent of all units	
2 Bedroom	30%	percent of all units	
3 Bedroom	5%	percent of all units	
	100%		
<u>Unit Mix (Podium)</u>			
Studio	20%	percent of all units	
1 Bedroom	50%	percent of all units	
2 Bedroom	30%	percent of all units	
3 Bedroom	0%	percent of all units	
	100%		
<u>Unit Size (both prototypes)</u>			
			Gross
Studio	529	Net/Rentable Square Feet	622.35
1 Bedroom	730	Net/Rentable Square Feet	858.82
2 Bedroom	1,040	Net/Rentable Square Feet	1,223.53
3 Bedroom	1,341	Net/Rentable Square Feet	1,577.65
<u>Gross Average Unit Size</u>			
Stick Apartments	926		
Podium	921		
<u>100% AMI Affordable Rent</u>			
MFI (4 person household)	\$74,700		
Income toward rent	30%		
<u>Unit Size</u>			
	<i>Affordable rent m</i>	<i>Utilities Allowance</i>	<i>Max Rent</i>
Studio/Loft	70%	\$ 41.00	\$ 1,266.25
One Bedroom	75%	\$ 62.00	\$ 1,338.63
Two Bedrooms	90%	\$ 82.00	\$ 1,598.75
Three Bedrooms	104%	\$ 103.00	\$ 1,839.20
<u>100% MFI Blended Affordable Rent</u>			
(Stick)	\$ 1,434		
(Podium)	\$ 1,402		

Appendix B: Memorandum - City of Hillsboro Community Development Code Housing Regulations Summary

This memo is current as of July 12, 2017.



MEMORANDUM

To: Chris Hartye, Senior Project Manager

From: Dan Rutzick, Senior Planner
Laura Kelly, Project Manager

Date: July 12, 2017

Subject: Community Development Code Housing Regulations Summary

As part of its efforts to respond to higher demand for housing, rising real estate costs, low residential vacancy rates, and rent cost increases, the City of Hillsboro has been exploring ways to stimulate affordable housing and preservation. City Council is considering the topic of affordable housing in several work sessions, with the second work session scheduled for July 18, 2017. This second work session will focus on the range of housing policies, tools, and programs available to Oregon cities.

This memo describes common housing types and their regulatory context within the City's Community Development Code (CDC). The CDC contains the City's land use regulations, which implement the goals and policies of the Comprehensive Plan. This memo provides an overview of the standards and procedures of the CDC, but does not address issues such as development or permit fees, and does not provide information about other codes and standards such as building codes.

Whenever possible, key CDC sections are identified and summarized, although these summaries are not intended to supersede or supplant the regulations of the CDC. Generally, the memo describes the standard process or regulation, while acknowledging there may be exceptions and/or special circumstances. For example, most housing is processed as a Type II "administrative" review, however, if an applicant requests a Planned Unit Development (PUD) or a substantial adjustment to numeric standards, it is reviewed through the Type III "quasi-judicial" process. It should be recognized that all of the CDC's Residential Dwelling Structures Definitions were thoroughly vetted with affordable housing advocates and their legal representatives along with our City Attorney.

1. Multiple Dwelling Structure

CDC Definition: ***Multiple Dwelling Structure.** A residential structure containing 3 or more dwelling units sharing common walls or floors and ceilings, built on a single lot or parcel. Multiple-dwelling structures include apartments and condominiums without regard to*

ownership status. Development consisting of multiple dwelling structure is called multi-family residential. [Includes such housing types as apartments and triplexes.]

Location: Multiple dwelling structures are generally permitted in Multi-Family Residential, Commercial, Mixed Use, and Urban Center zones. In Single-Family Residential zones, they are general permitted only as part of a Planned Unit Development. Multiple dwelling structures are prohibited in Industrial and Institutional zones, and in the SCR-OTC Station Community Residential - Orenco Townsite Conservation zone.

Development Standards: No minimum or maximum dwelling unit size is required, so micro-apartments are treated the same as standard size apartments. Multiple dwelling structures are subject to the development standards of the zone, which typically include minimum and maximum density, setbacks, height limitations, open space requirements, and lot coverage maximums. All new multiple dwelling structures and three or more dwelling townhouses are also subject to design standards intended to promote quality architectural design.

Parking: Minimum parking requirements are typically 1.5 spaces per dwelling unit except multi-family dwelling units with 4 or more bedrooms shall provide twice the number. In the SCC-DT Station Community Commercial – Downtown zone, and the AmberGlen Plan District, the minimum required is 0.75 space per dwelling unit. Dwelling units located in mixed-use buildings and live-work dwellings have 1 required parking space per dwelling unit. The commercial component of a mixed-use building or development is calculated separately and is based on the use type, for which parking is required at a ratio per 1,000 square foot of net floor area. The total number of parking spaces required for a mixed-use development is the sum of all parking requirements of the uses.

Land Use Procedures: Multiple dwelling unit structures typically require a Type II “administrative” process, with staff review and Planning Director decision. A public hearing is not usually required, excepting special circumstances such as a PUD, which is a Type III “quasi-judicial” process.

Key CDC Code References: 12.01.500 *Definitions- “Housing Types”*; Subchapters 12.21 – 12.26 *Housing Types* tables; 12.50.720 *Design Standards for Residential Development-Three or More Dwelling Townhouses and Multiple Dwelling Structure Design Standards*; 12.50.320 *Number of Spaces Required*; 12.80.040 *Development Review*; 12.80.120 *Planned Unit Development*.

2. Two-Dwelling Townhouse or Duplex

CDC Definition:

Two-Dwelling Townhouses. *Two dwelling units attached on a common wall, separated by a property line on the common wall.*

Duplex. *A residential structure containing 2 dwelling units attached on a common wall, floor or ceiling, built on a single lot or parcel.*

Location: Two dwelling townhouses and duplexes are generally permitted in Multi-Family Residential, and Mixed Use zones. In Single Family Residential, they are generally permitted except in new larger subdivisions, in which they are limited in number. They are prohibited in all Urban Center, Industrial, and Institutional zones and some Commercial zones

Development Standards: Two dwelling townhouses and duplexes are subject to the development standards of the zone, which typically include minimum and maximum density, setbacks, height limitations, open space requirements, and lot coverage maximums. All new duplexes and two dwelling townhouses are also subject to design standards intended to promote quality architectural design.

Parking: Minimum parking requirements are typically 1 space per dwelling unit except in the SCC-DT Station Community Commercial – Downtown zone, and Amberglen Plan District which requires a minimum of 0.75 space per dwelling unit.

Land Use Procedures: Two dwelling townhouses and duplexes typically require a Type II “administrative” process, with staff review and Planning Director decision. A public hearing is not usually required, excepting special circumstances.

Key CDC Code References: 12.01.500 *Definitions- “Housing Types”*; Subchapters 12.21 – 12.26 *Housing Types* tables; 12.50.710 *Detached Single Family, Duplex and Two-Unit Townhouse Design Standards*; 12.50.320 *Number of Spaces Required*; 12.80.040 *Development Review*.

3. Secondary Dwelling Unit

CDC Definition: **Secondary Dwelling Unit.** *An additional dwelling unit located on the same lot as a detached Single-Family dwelling or a duplex. Also called an accessory or ancillary dwelling unit. [Accessory Dwelling Units are often referred to as ADUs.]*

Location: Secondary Dwelling Units (SDUs) are considered accessory uses permitted by right, with one SDU permitted on any lot containing one primary residence. SDUs are allowed in all zones that allow for single-family residential dwellings or duplexes, including most zones in the Single-Family Residential, Multi-Family Residential, and Mixed Use categories.

Development Standards: Secondary dwelling units may be attached or detached from the primary dwelling on the lot, and may be created through 1 of 3 methods:

1. Converting existing floor area in an existing dwelling or attached garage (attached SDU);
2. Adding new floor area to an existing dwelling or garage (attached SDU). An SDU connected to the primary residence by an architectural or structural connection between the dwellings (such as a breezeway) is considered attached; or
3. Constructing a separate unit on a lot with a new or existing primary dwelling (detached SDU).

SDUs are required to be at least 250 square feet, but not more 750 square feet in area; they shall not be occupied by more than 3 related or unrelated persons.

Typically, SDUs must conform to the same standards of the applicable zone regarding building height, lot coverage, and setbacks. Some smaller SDUs (450 square feet or less) may be located closer to side or rear property lines. SDUs are subject to architectural standards governing details such as exterior finish materials, trim, and roof pitch. The intention is for the SDU to visually match the architecture of the primary residence.

Parking: One off-street parking space is required for a SDU. The parking space for the SDU shall be independently accessible from the parking space(s) for the primary dwelling.

Land Use Procedures: Secondary dwelling units typically require a Type II “administrative” process, with staff review and Planning Director decision. A public hearing is not usually required, excepting special circumstances.

Key CDC Code References: 12.01.500 *Definitions- “Housing Types”*; 12.40.230 *Secondary Dwelling Units*; 12.80.040 *Development Review*.

4. Tiny Homes/Cottage Housing

Tiny homes. There is currently no set definition as to what constitutes a tiny home, but it is generally accepted to be a residential structure under 500 square feet in size. CDC regulations for a dwelling fitting the description of a tiny home would depend on its placement. A tiny home located on its own lot would be considered a “single-family dwelling”, whereas if it were located on the same lot as a single-family dwelling, it would be regulated as a “secondary dwelling unit” (see Section 3) and would need to be at least 250 square feet in size. A cluster of tiny homes would be regulated as “cottage housing” (see below).

Cottage housing is commonly defined as “a grouping of small, single family dwelling units clustered around a common area and developed with a coherent plan for the entire site”¹. There is no set size for this housing type; cottage housing may be comprised of tiny, small, or standard-size dwellings. Although it is not specifically addressed in the CDC, the development of cottage housing is possible as a Planned Unit Development. Most cottage housing is built as infill development on small sites, within existing developed- typically single-family- areas.

Land Use Procedures: Cottage housing may be developed through a Planned Unit Development, which is subject to a Type III “quasi-judicial” process, with Planning Commission public hearing and recommendation and City Council decision.

Key CDC Code References: Subchapters 12.21 – 12.26 *Housing Types* tables; 12.50.710 *Detached Single Family, Duplex and Two-Unit Townhouse Design Standards*; 12.50.320 *Number of Spaces Required*; 12.80.040 *Development Review*; 12.80.120 *Planned Unit Development*.

5. Manufactured Dwelling/Manufactured Dwelling Park

CDC Definition:

Manufactured Dwelling. *A detached Single-Family dwelling, constructed to allow movement on public highways, that has sleeping, cooking, and plumbing facilities, which is intended and used as a residence and is constructed consistent with applicable state law. A manufactured dwelling is built on a permanent chassis and is designed for use with or without a permanent foundation when attached to the required utilities. Also referenced as a mobile home. The term “manufactured dwelling” does not include a “recreational vehicle.”*

Manufactured Dwelling Park. *A lot or parcel on which 4 or more manufactured dwellings are placed, either owned in common by the dwelling owners or rented or leased to them by another party.*

¹ Municipal Research and Services Center website, <http://mrsc.org/Home/Explore-Topics/Planning/Specific-Planning-Subjects,-Plan-Elements/Cottage-Housing.aspx>

Location: Manufactured dwellings may be placed on individual lots outside a manufactured dwelling park, in any zone where Single-Family dwellings are permitted. Generally, this includes Single-Family Residential, and some Multi-Family Residential and Mixed Use zones; however, they are not permitted to be placed adjacent to a site identified on the City’s Cultural Resource Inventory, or on a lot within the SCR-DNC Station Community Residential - Downtown Neighborhood Conservation zone or the SCR-OTC Station Community Residential - Orenco Townsite Conservation zone.

New manufactured dwelling parks are allowed only in the MFR-1 Multi-Family Residential zone on lots a minimum of one acre in size. They are subject to specific park design requirements including setbacks, lot coverage, and recreation area regulations.

Development Standards: Manufactured dwellings are required to be at least 1,000 square feet in area. Typically, manufactured dwellings must conform to the same standards of the applicable zone- regarding lot size, lot coverage, and setbacks- that would apply to a standard single family dwelling. Additionally, exterior siding and roofing must be similar in color, material and appearance to the exterior siding and roofing material commonly used or comparable to the predominant materials used on the surrounding dwellings, as determined by the Planning Director.

Parking: Minimum parking requirements are typically 2 off-street spaces per dwelling unit plus one guest parking space for every five units for manufactured dwelling parks. One off-street space per manufactured dwellings located outside parks, except in the SCC-DT zone, which requires a minimum of 0.75 space per dwelling unit.

Land Use Procedures: Where permitted by zone, manufactured dwellings on individual lots do not typically require land use review. Manufactured dwelling parks typically require a Type II “administrative” process, with staff review and Planning Director decision. A public hearing is not usually required, excepting special circumstances.

Key CDC Code References: 12.01.500 *Definitions- “Housing Types”*; Subchapters 12.21 – 12.26 *Housing Types* tables; 12.40.180 *Manufactured Dwelling Parks*; 12.40.190 *Manufactured Dwellings Placed Outside Parks*; 12.50.710 *Detached Single Family, Duplex and Two-Unit Townhouse Design Standards*; 12.50.320 *Number of Spaces Required*; 12.80.040 *Development Review*.

6. Senior Housing/Retirement Communities

Licensed or certified senior, nursing, or convalescent care, including assisted living facilities, are considered Residential Services. Non-licensed, non-certified facilities (e.g. independent living) are considered Household Living and are generally regulated in accordance with their dwelling type (e.g. single-family detached, multiple-dwelling structure, etc.). Senior care homes are considered adult foster care homes and are defined by ORS 443.705(1) as, “any family home or facility in which residential care is provided in a homelike environment for five or fewer adults who are not related to the provider by blood or marriage”.

CDC Definition: **Residential Services.** *Residential Services are characterized by the residential occupancy of a structure in a residential, Mixed-Use or commercial setting by 6 or more persons who are not a family or household as defined in Section 12.01.500 and who receive State*

licensed and/or permitted provision of care, treatment or training such as medical, rehabilitative, palliative, acute or respite care. Residential Services uses may have common facilities for dining, socializing, recreation and laundry and may provide accessory services such as room and board and assistance with activities associated with daily life.

Location: Residential services are generally permitted in all Multi-Family Residential, Mixed Use zones, the SCR-DNC Station Community Residential - Downtown Neighborhood Conservation zone, and some Commercial and Urban Center zones. They are prohibited in all Urban Center, Industrial, and Institutional zones and some Single-Family Residential, Commercial, and Urban Center zones.

Non-licensed, non-certified facilities (e.g. independent living) as well as licensed senior care homes, are generally regulated in accordance with their dwelling type (e.g. single-family detached, multiple-dwelling structure).

Parking: Minimum parking requirements for Residential Services are typically 0.25 spaces per resident plus 1 space per staff. Senior independent living units have minimum parking requirements of 0.25 space per dwelling unit.

Land Use Procedures: Where allowed by zone, licensed residential senior care homes are typically exempt from land use procedures, excepting special circumstances. Non-licensed, non-certified facilities (e.g. independent living) as well as licensed senior care homes, are subject to land use procedures regulating the specific dwelling type (e.g. single-family dwelling, multiple dwelling structure, etc.).

Key CDC Code References: 12.01.500 *Definitions- "Housing Types"*; 12.10.130 *Residential Services*; Subchapters 12.21 – 12.26 *Housing Types* tables; 12.50.720 *Design Standards for Residential Development-Three or More Dwelling Townhouses and Multiple Dwelling Structure Design Standards*; 12.50.320 *Number of Spaces Required*; 12.80.040 *Development Review*.

7. Short-Term Rentals

Short-term rentals, commonly defined as residential properties that are rented out for less than 30 days at a time, are not specifically regulated by the CDC; although hotels, bed and breakfasts, boarding houses, and other lodging types are regulated under the Commercial Lodging use category. The City of Hillsboro may wish to review its procedures and regulations to determine whether to license short-term rentals in order to manage the supply of rental housing, track noise and property violations, collect transient lodging taxes, ensure neighborhood compatibility, and manage other issues.

8. Homeless Shelters

Homeless shelters are not specifically regulated by the CDC. The City of Hillsboro may wish to update its regulations to ensure the path to establishing shelters, including short term and emergency shelters, is clear and free of unnecessary regulatory obstacles. Potential CDC updates include:

- Establish a new or expand an existing use category within the CDC to include short-term, emergency, and other types of shelters.

- Establish administrative (staff) review level procedure type to for conversion of existing structures into emergency shelters. Establish quasi-judicial procedures for new construction.
- Add specific parking requirements reflecting the reduced need for vehicle parking at shelters.

9. Density Bonuses/Density Increases

CDC Definition: **Density.** *A measurement of the intensity of development on a net acre of developable land. Residential density is measured in number of dwelling units per net acre. Non-residential density or intensity may be measured by floor area ratio. Methodology for calculating density is included in Section 12.50.120.*

Location: Increased residential density above the specified maximum of the base zone may be approved as a Major Adjustment in conjunction with a Planned Unit Development Concept Plan application. Such density increases shall be limited to 120% of the maximum of the underlying base zone density.

Land Use Procedures: Increased residential density may be achieved through a Planned Unit Development, which is subject to a Type III “quasi-judicial” process, with Planning Commission public hearing and recommendation and City Council decision.

Key CDC Code References: 12.50.120 *Residential Density*; 12.80.120 *Planned Unit Development*; 12.80.158 *Standard-Specific Approval Criteria for Variances and Adjustments*.