City *of* Tigard

# Tigard Triangle

STRATEGIC PLAN

# DRAFT Development Feasibility Analysis Report

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# Introduction

This memorandum serves as the Development Feasibility Analysis for the Tigard Triangle Redevelopment Strategy. The purpose of this memorandum is to evaluate the feasibility of various land use types that were generated by the team under the two options presented in the Land Use and Infrastructure Options memorandum and supported by the Opportunities and Constraints memorandum. It measures financial gaps in various development scenarios to get a sense of the types of development that would be feasible on their own in current market conditions and those that might be feasible with some assistance. It tests the effectiveness of different financial tools and policy strategies and quantifies preliminary economic impacts from the potential development.

The goal is to better understand the likelihood of development occurring in the Tigard Triangle and what subsidies or other interventions might be required for private developers to make the desired types of investments. The potential value of future development can then be measured against the necessary infrastructure investments to determine whether private development can pay for all of the infrastructure or whether public subsidy will be needed to complete the infrastructure improvements recommended in the earlier phase of the project.

# Key Findings

This Development Feasibility Analysis resulted in several key findings:

- **Land costs.** Up-front land costs are a critical factor in determining whether proposed development types are feasible. Variations in the land cost assumptions in the pro forma financial analysis result in wide fluctuations in the "bottom line" feasibility of development. High land costs or extraordinary costs related to land assembly (which can include long-term holding costs, for example) will negatively impact feasibility. Due to the recent recession, there are very few land transaction comparables in the Triangle on which to make a good estimate of land values. Therefore, it is difficult to ascertain what raw land is "worth" in the Triangle. At an assumed land value of $20 per square foot, no development models are feasible using today's construction cost and revenue assumptions. This implies that a) development needs to transact at land prices less than $20 per square foot, and/or b) revenues will need to increase (e.g., commercial lease rates, apartment rents) before new development can be supported at these land prices. In practice, the land price in a transaction is determined and negotiated through a residual land value analysis – whereby the land price is the last variable "solved for" after accounting for development costs, achievable rents, and a risk-appropriate rate of return for the developer.
- **Multifamily is the most viable option.** Multifamily residential development is the most viable land use under today's market assumptions. Again, land prices are an important factor in this scenario and there are market trends that determine how much a developer can spend on land for a multifamily development. As a general rule of thumb, in today's market multifamily development will pay approximately $15,000 (and no more than $20,000) per apartment unit for land. Therefore a 50-unit apartment building could spend up to $750,000 for land. The amount per square foot of raw land, therefore, is dependent on the project's density – thus, $750,000 equates to $8.61 per square foot on a two-acre site or $17.22 per square foot if built on a one-acre site.

- **Residential rents.** Residential rents in Tigard today for a newly-constructed project with surface parking are estimated to be $1.40 per square foot per month based on market research and achievable rents at comparable projects throughout the region. It is estimated that rents would need to be in the range of $1.80 per square foot per month to support a project that includes a parking structure. Like land prices, rents are a very significant variable in the analysis. If the market can support rents of $1.60 or $1.80 per square foot per month, many more residential development types will be feasible.
- **Office rents.** Office lease rates in the Triangle are currently well below what would be required to support new construction, even with relatively inexpensive surface parking. Until vacancies decrease in competitive office markets like Kruse Way and Washington Square, it is not expected that lease rates in the Triangle will increase to the $30-plus range, the minimum needed to support new development.
- **Vertical Housing Tax Abatement.** Several tools were evaluated to test the effect of financial subsidies on development. The State's Vertical Housing Program was found to be very useful in reducing the feasibility gap, especially for denser housing types that require structured parking.
- **Ground floor retail.** Retail rents do not currently support new construction. However, in mixed-use buildings, revenues from residential uses may offset losses from ground-floor retail, especially if that ground-floor retail is limited in size. In practice, if the amount of ground-floor retail is kept small, a developer (and its financial lender) will typically assume that ground-floor retail is a "loss-leader" and does not contribute to the project's profits.
- **Subsidies.** Where financial gaps do exist, a range of cash-equivalent subsidies would be effective at making project types feasible. These subsidies could include development impact fee waivers, public construction of infrastructure (such as utilities or streetscapes), or direct cash subsidies to developers (e.g., grants or forgivable loans through an urban renewal district).

## Analysis Approach

This section describes the approach, methodology, and assumptions used in the analysis. The process begins by building a financial model template that can analyze the financial performance of various land use types under a range of physical and policy conditions. These variations include factors such as densities, parking ratios, parking structure types, and the application of different financial subsidies. By varying these inputs, the model can illustrate the relative differences in feasibility of different land use types, which will assist in identifying a preferred alternative for the plan. Likewise, the effectiveness of different policy changes or financial incentives can assist in making recommendations on public tools for implementation.

- **Land use types.** The land use types evaluated in this memorandum were drawn from information gathered in the Land Use Options memo and informed by the market analysis. Some options offer slight variations on the same land use type in order to test how different building configurations perform.
- **Data inputs.** Leland Consulting Group gathered foundational data such as construction costs, land values, capitalization rates, and office and apartment rents in order to build the model. Some of the data sources used include local brokerage reports, CoStar (a provider of commercial real estate data), interviews with local developers, and other national housing and construction reports. Data sources for each input are noted in the footnotes in the appendices.
- **Static pro forma template.** The data was used to build a pro forma template which can easily model different assumptions, thereby testing the feasibility of the various development types

and conditions. A static pro forma looks at cash flow in the first year, assuming full lease-up, and is a "back of the envelope" way of testing a project's financial feasibility. It does not show debt and equity assumptions or cash flow over a set period of time as a developer would when analyzing a specific investment opportunity. It is a simplified analysis that allows for the testing of the *relative* difference between fixed inputs. For example the model shows the effect of changing the parking ratio for housing from an average of 1.5 spaces per unit to 0.75 spaces per unit, or allowing for a higher FAR for office uses. This memorandum includes a set of land use types and assumptions that is the result of the testing of many more assumption sets. Those that are most illustrative of what is feasible and that demonstrate the effectiveness of incentives were included in the final memorandum.

### Caveats/assumptions:

Given the range of variables and the inherent complexity of a pro forma analysis, several considerations need to be mentioned:

- **Site size.** For consistency, all of the pro formas are based on a theoretical two-acre development site. In reality, development will occur on sites of varying sizes, but this model provides generalized findings that can be scaled up or down proportionately for different site sizes. However, for very small sites (e.g., smaller than one acre), there may be efficiencies that are lost (e.g., efficiently-sized parking garages) that increase overall development costs and reduce financial performance.
- **Relative difference between land use**s. Pro forma financial analyses incorporate a long list of variables (inputs). Many of these variables will fluctuate over time based on market conditions (e.g., rents, land prices) and economic conditions (e.g., construction costs, cap rates). Changes to any of these variables can have significant impacts on a project's bottom line. For this reason, a static pro forma analysis of a theoretical set of project types is most useful in gauging the *relative* difference between land uses under the same set of assumptions. While the analysis can indicate the likely feasibility of development under today's economic assumptions, changing market conditions mean that the numerical results should not be used to indicate the actual feasibility of development in the future. A pro forma for an actual development project has a shelf life of at best six months and would in practice be updated frequently based on real-time cost estimates, architectural designs, and capital conditions.
- **Rental housing.** For residential products, this analysis focuses primarily on rental housing as opposed to ownership housing. First, rental housing is in high demand throughout the Portland region today and is likely to be the most feasible land use under current market conditions. Secondly, in an emerging mixed-use district such as the Triangle, rental housing usually precedes ownership housing, as the rentals provide an opportunity for the district to build market momentum and "prove" itself before attracting residents who would need to make a much more significant ownership commitment when moving there. The only exception is with the townhome example, which would be more likely to be built under an ownership model.

### Infrastructure Assumptions

Typically, developers would be expected to build any onsite circulation improvements necessary for the new development. They are also expected to pay impact fees or systems development charges to offset the additional usage of local streets, parks, sewer, and water. Larger developments may be required to complete a traffic impact analysis which might require a set of offsite improvements, as well, if the additional traffic going to the site would require intersection or other major street improvements. This pro forma analysis assumes a "soft cost" allowance of 25 percent of the "hard costs." Soft costs include

non-construction costs such as impact fees, design and engineering, and administrative fees. Hard costs include actual materials and construction of the site and buildings, including the cost of onsite improvements.

## Case Studies

The density and mix of land uses envisioned for the Triangle are likely to push the envelope of what is feasible under current market conditions. Therefore, a range of tools and incentives will likely be needed to ensure that early projects can get off the ground and begin to build market momentum that will allow for achievable rents and sales prices to occur in the future. This section of the memorandum presents brief case studies from other suburban jurisdictions that illustrate how different incentives and policies have allowed mixed-use, urban-scale development to take place. These examples provide inspiration for the tools and incentives that were analyzed for the Triangle and that will be included in the implementation recommendations.

### Lake View Village, City of Lake Oswego

Lake View Village in Lake Oswego is a very successful example of a public-private partnership in which the City's investment in a central parking structure was instrumental in realizing a feasible development and revitalizing the downtown. For more than 20 years, the City of Lake Oswego struggled to develop a key vacant block at its "100 percent corner" as a vibrant mixed-use center. To realize success, the City partnered with the developer, investing 80 percent of the $5.6 million construction cost for the parking structure. The City maintains the structure which is accessible to customers of Lake View Village as well as visitors for events and festival parking for the nearby Millennium Park. The City also invested in local streetscape improvements. The development included 50,000 square feet of office and 50,000 square feet of retail and restaurants wrapped around a 366-space parking structure on 2.5 acres. The City also used eminent domain and public acquisition of property to assemble the land for the site, while ensuring that private property owners got a fair market value for their property. Parcelization and land assembly was a key barrier to be overcome, and with nine different property owners involved, it would not have been possible without City intervention.

**Vertical Housing Program**

The Vertical Housing Program is a State of Oregon Vertical Housing Tax Abatement program that allows for a maximum tax exemption of up to 80 percent of the improvement over a 10-year term for mixed-use projects in Vertical Housing Development Zones (VHDZ) designated by local jurisdictions. The ground floor of the project is required to be a non-residential use. For projects fronting one or more public streets, 50 to 100 percent of the interior street facing facade of the building adjacent to the public street must be constructed to commercial building standards and/or dedicated as a commercial use upon completion. An additional tax exemption of up to 80 percent may be given on the land for qualifying projects providing low-income housing (set at 80 percent of area median income or below).

### Holland Apartments at Orenco Station

The Holland Development Group is currently developing 894 residential units and up to 25,000 square feet of retail space in three six-story podium-style buildings and one "wrapper" building with a central parking structure and a new public plaza in the new Platform District at Orenco Station. The developers are using a variety of financial tools to make the project feasible. The wrapper building is using the Vertical Housing Tax Abatement, giving it 80 percent tax abatement over 10 years. The project is expected to bring in an estimated $300,000 per year in property taxes even with the abatement, after which it will increase to an estimated $2 million per year.) In interviews, the developer indicated that

the Vertical Housing Tax Abatement made the additional cost of structured parking feasible. Another financial incentive making the project feasible is the City's willingness to allow the developers to pay the systems development charges (SDCs) over time. Rather than paying them in full at the beginning of the project, the developer paid a five percent down payment (as opposed to the typical 15 percent down payment) and will pay the rest over a 10-year period starting six months after the certificate of occupancy is issued. Additionally, Holland has agreed to build the central plaza for an estimated $2.6 million and will apply the construction costs to the $2.4 million parks SDC that it owes for the project.

*Source: Oregon Live, Walker Macy, Holland Development Group*

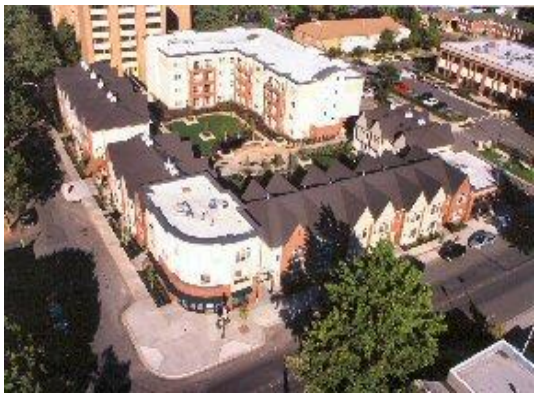
*Source: http://www.platform14apts.com/*

## North Main Apartments and North Main Village, Milwaukie

The North Main Apartments and Village in Milwaukie is a mixed-use project with 64 affordable apartments, 33 ownership townhomes, 9,500 square feet of retail, and a community plaza. The project used a variety of financing tools to make the development feasible including City land contribution, Metro Centers program funds, the Vertical Housing Tax Abatement, and City-funded offsite improvements (sidewalk and roads, water and sewer extensions, utility undergrounding, and downtown ornamental lighting). The North Main Apartments received a 10-year, Vertical Housing Tax Abatement for 60 percent on both the building and 60 percent on the land because it incorporated affordable housing units in that portion of the project. The North Main Village received a 10-year, 40 percent abatement on the building. The $14 million project was completed in 2007 and is one of the few new development projects to have occurred in Milwaukie over the past decade. The developer attributes the success to the City's strong commitment to getting a successful development project downtown and their willingness to partner and find solutions to the financial gap. The biggest challenges to overcome were the financial gaps, parking, and gaining acceptance for affordable housing as a key component of the project.

## Anthem Park at Uptown Village, Vancouver Washington

The project is a 1.5-acre mixed-use housing and retail community with 58 workforce rental apartments, 22 owner-occupied town homes, and 2,500 square feet of ground-floor retail space built around a one-half acre public plaza that also serves as the roof of the 119-space underground parking garage. The Vancouver Housing Authority (VHA) owned the site and continues to own and operate the rental housing, courtyard, and the open portion of the garage. The townhomes, their garages and the retail spaces are privately owned condominiums. The VHA assisted financially by deferring the land sale and providing gap financing for the project. Essentially, the VHA traded the excess land in lieu of developer fees for building the rental housing piece of the project. The underground parking was feasible because there was very little excavation necessary, as the site was already below street level, and the open portion was held by the VHA. The townhomes have underground garages accessed through the main garage, but tucked under the unit, allowing for a fee-simple ownership structure. Other financial subsidies making the project feasible include public street improvements, residential tax exemptions, park impact fee credits, and system development charge waivers.



# Development Feasibility Analysis

This section of the memo describes the land use types to be evaluated, explains the pro formas and assumptions behind them, shows the financial gaps, and describes the tools that appear to have the greatest impact on reducing those gaps.

## Land Use Types

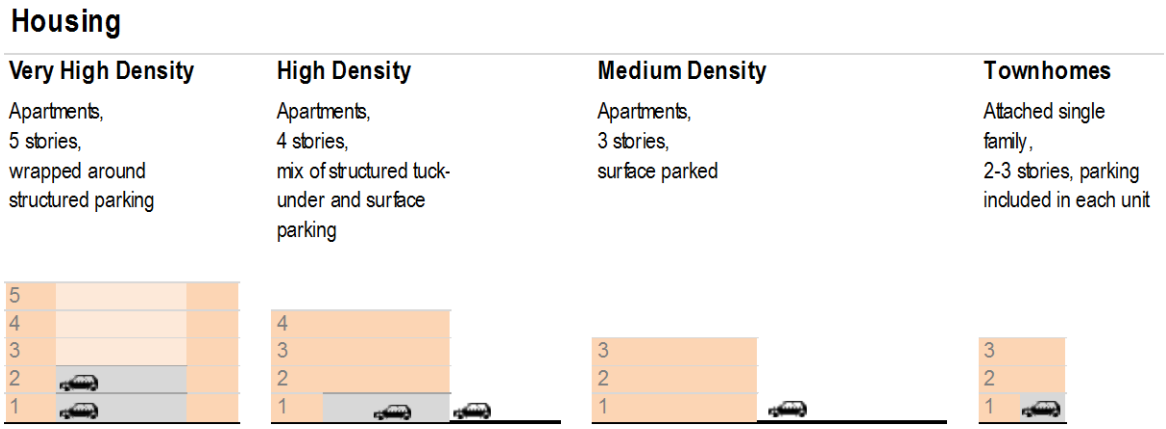
A static pro forma was created to model the various development types deemed most appropriate for the Triangle under the two options presented in the Land Use and Infrastructure Options phase of this project. Development types include residential, office, and mixed-use buildings with a small amount of ground floor retail. This section presents a graphical representation and brief explanation of each building type. The models included surface and above-ground structured parking. None of the models tested underground parking, as the high cost of underground parking (twice as expensive or more per stall as an above-ground parking garage) would not be supported in the Triangle in the foreseeable future and there is virtually no precedent for underground parking in suburban communities in the Portland region.

### Residential

Several residential products were modeled based on a density range that would be appropriate for the Triangle according to the land use options considered in the Land Use and Infrastructure Options portion of this project.

- The lowest density housing type considered for the Triangle was two- to three-story attached townhomes, made of wood frame construction, with parking included in each individual unit. This is the only model considered as ownership (not rental) housing in the pro forma, as higher density condominiums would only be feasible in a mature market.

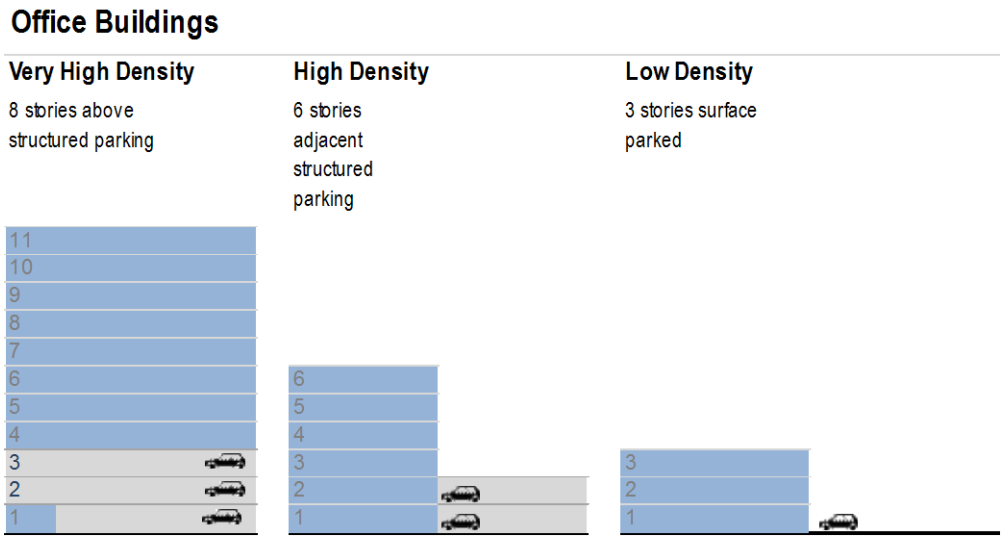
- Medium density apartments in this example are three-story, wood-frame buildings with surface parking. They would have external stairwells and no elevators.
- High density apartments in this example are considered to be four stories with a mix of structured tuck-under parking and surface parking. These would be constructed as either fully wood frame or wood frame above a concrete first floor ("three over one") and would include elevators.
- The very high density apartments in this example are five stories of apartments over one story of structured parking, also known as podium construction ("four over one"). On a larger site (2+ acres), they could also take a wrapper form, also known as a "Texas donut" (illustrated below) with the building wrapping around an efficiently-sized structured parking garage and courtyard.




## Office

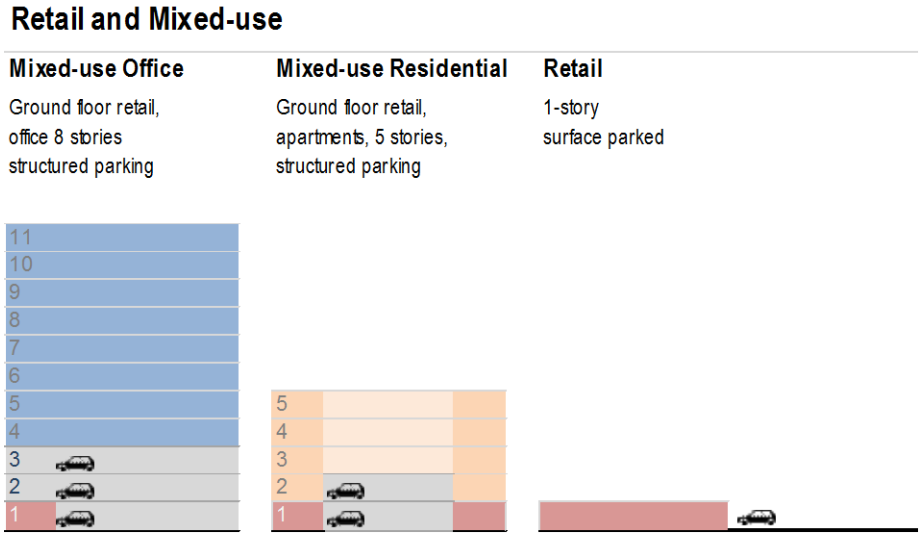
Three different office development types were modeled, again ranging in density and type of parking.

- The lowest density office product is a three-story office with surface parking. This is the highest density office building that can be supported without structured parking. Good site design could allow for future development of structured parking or another office building on the surface parking area as denser development becomes more feasible.
- The high density office product is modeled as a six-story office building with adjacent structured parking.
- The very high density office product is modeled as a building with eight stories of office over three stories of parking. A lobby and common area would be included on the ground floor.




### Retail and Mixed-Use

Commercial and residential mixed-use developments were modeled using the high density and very high density office and residential development types with a minimal amount of ground floor retail. Earlier phases of this project concluded that one-story retail would not be a desired future development type due to the large amount of one-story retail already in the area. However, it was modeled in the pro formas for a cost comparison.




## Financial Analysis

The financial analysis is based on a static pro forma with each development type (and variations on those) in adjacent columns in order to compare the effects of different inputs. The full pro forma, along with footnotes and data sources is provided as an appendix to this report. This section explains the key data inputs that were used in the analysis and provides an explanation of the results. The results are

measured as the project's gross margin, or the profit left over after construction costs have been deducted from the total project value. Developers will typically want to see a minimum 10 percent gross margin to even consider investing time and money into a project. Some development types, like speculative office, may require a higher return due to the inherent risks involved in the project. The model is scalable but assumes a theoretical two-acre site for a consistent comparison. Sites smaller than one acre may lose some efficiency, thereby incurring greater development costs.

As many variables as possible were held constant in order to focus the model on testing financial tools against the base case for each building type. In order to be realistic, the model changes some variables within each building type, but held them constant for each scenario. Those variables include the following:

***Table 1. Variables Affecting Base Development Types***

| | Townhomes | Medium Density Multifamily | High Density Residential | Very High Density Residential | Low Density Office | High Density Office | Very High Density Office | Retail |
|---|---|---|---|---|---|---|---|---|
| FAR OR du/acre | 14 | 25 | 45 | 80 | 0.40 | 1.50 | 3.00 | 0.35 |
| Capitalization Rate | | 6.00% | 6.00% | 6.00% | 8.00% | 8.00% | 8.00% | 8.00% |
| Base Rents per square foot (Sale price for Townhomes) | $280,000 | $1.40 | $1.40 | $1.40 | $26.00 | $26.00 | $26.00 | $18.00 |
| Land Value, per sf | $16 | $9 | $16 | $30 | $16 | $16 | $30 | $16 |
| Parking cost per stall | included in unit | $3,000 | $17,000 | $17,000 | $3,000 | $17,000 | $17,000 | $3,000 |
| Construction Costs (shell) | $110 | $100 | $110 | $140 | $140 | $150 | $160 | $110 |

Source: Leland Consulting Group

- **FAR or du/acre.** The Floor Area Ratio (FAR) and the number of dwelling units per acre (du/acre) were changed in order to reflect the change in density of each development type.
- **Capitalization Rates (cap rates).** Cap rates are a standard assessment of real estate value and are used to measure real estate investments against investments in other capital markets. The cap rate is an inverse relationship between the income stream being produced by the building, or the net operating income (NOI), and the value or selling price of the building. The higher the cap rate, the lower the total value. Currently, cap rates for new apartment buildings are around six percent in the Portland area. Office cap rates are usually higher, because they are riskier, and are currently around eight percent. The mixed-use developments used the cap rate of the main use.
- **Land prices.** As previously mentioned, there are very few recent land transactions in the Triangle to use for comparable prices. However, there is a rule of thumb that apartment builders will pay somewhere between $15,000 and $20,000 per apartment unit for land. Therefore the land values for the residential development types were calibrated to be within this range, varying from $9 to $30 per square foot. In practice, these development types will only be viable if a developer is able to secure land at these target land prices.
- **Construction costs.** Construction costs varied by development type based on regional averages.

The first column under each building type is a "base case" scenario which models the building based on current conditions (rents, parking ratios, etc.) in the Triangle. Inputs used to model the feasibility of a given development with different financial incentives include the following:

- **Cash incentive.** Providing a cash incentive is often one part of a financial package that local governments can use to entice development, especially within an urban renewal area. A cash incentive can come in many forms: System Development Charge (SDC) waivers, investment in infrastructure typically borne by the developer such as street or streetscape improvements, and direct grants or forgivable loans. Regardless of the form of incentive, all of these tools essentially become cash equivalents to the development pro forma and are modeled as such for the sake of simplicity. The cash incentive in the residential development types is based on the estimated fees (sewer and water fees and SDC fees) that would be received by the City of Tigard if the development were to be constructed. Because the office development types performed so poorly in this pro forma, a cash incentive of $500,000 was modeled in combination with the reduced parking ratio, described below.
- **Reduced parking ratio.** Developers will build the amount of parking required by the market for a given product type. Without adequate parking, a developer will find it difficult or impossible to find tenants for an office building or renters for an apartment, especially when nearby competing properties can offer adequate parking. For example, an apartment development in the Triangle will have to compete with apartment buildings at Bridgeport Village which have ample parking in close proximity to the building. Therefore a developer in the Triangle will have to ensure that there is sufficient parking in order to attract tenants and to get financing for the project. Based on current market conditions and the limited amenities and transit in the Triangle, it is unlikely that a project would be viable with a parking ratio lower than 0.75 spaces per unit. Requiring a high minimum parking ratio, however, can sometimes force developers to build more parking than is necessary, making development harder to pencil since extra parking costs do not produce additional revenue. The reduced parking scenario assumes a minimal amount of parking for the specific development type. The reduced parking ratio is below the City's current minimum standards. Therefore 0.75 spaces per unit was chosen as the reduced parking ratio. The City's current minimum parking requirement of 1.5 spaces per unit was the metric used in the base case. For office development a standard ratio of four spaces per 1,000 square feet was used for the base case and a ratio of three spaces per 1,000 square feet was used for the reduced parking ratio scenario.
- **Enhanced Revenue.** The enhanced revenue scenario shows what would happen to the feasibility of the development if rents were to increase 25 percent over current market rents in the Triangle, assuming all other variables remain the same. This is useful in illustrating how stronger market conditions in the future might make certain development types more feasible (all else being equal, of course). For example, rents near Bridgeport Village, like those found at the new Eddyline apartments, are now reaching an average of $1.60 per square foot per month, making market-rate apartment development feasible. Office rents in the Triangle could be expected to increase over time as vacancies decline in the Kruse Way and Washington Square submarkets. This enhanced revenue scenario had the greatest impact on the feasibility of the project.
- **Vertical Housing Tax Abatement.** This variable models the effects of a Vertical Housing Tax Abatement by reducing the operating expenses from a standard 40 percent to 33 percent. Real estate and other taxes account for 10 to 12 percent of total actual rent collections based on a national survey of apartment operators. The Vertical Housing Tax Abatement Program sponsored by the State, offers a maximum reduction of 80 percent of the building on market rate apartments. It also requires a non-residential ground floor use. For buildings fronting on one public street it requires that 50 percent of the street frontage contain a commercial-type use or 100 percent if the property fronts on two public streets. The non-residential use could be

commercial, retail, a restaurant, an apartment leasing office, or a variety of other non-residential uses. Tuck-under parking could occupy the remainder of the ground floor. Therefore this scenario is only modeled under the mixed-use residential development scenario.

- **Mixed-use.** The addition of retail into either a housing or office product decreases the viability of the project. Retail rents in the Triangle outside of the big-box center west of 72nd are not high enough to support the cost of new construction. In many mixed-use projects, the developer uses the ground floor commercial spaces as an amenity to help rent the main use above it. Banks will also often not include the rent from the retail as income to the project when considering construction financing. This model shows the effect of adding retail to both high density and very high density for both the residential and office products. The Vertical Housing Tax Abatement is modeled under this scenario for the mixed-use residential development types.

## Analysis and Results

Figure 2, Figure 3, and **Error! Reference source not found.** show the results of the financial analysis. The developments are compared based on a gross margin (ranging from positive 25 percent to a negative 90 percent) to assess the feasibility of each development type. Given the limitations of a static pro forma, any scenario that shows a positive gross margin should be considered as potentially feasible. A creative developer might be able to find a way to make the development pencil, for example a sloped site might provide advantages that make structured parking less expensive, as could a slight increase in rents or reduction in construction costs. Those between zero and negative 10 percent should be considered potentially feasible if modest subsidies were applied. As described in the case studies, many dense urban developments in unproven locations require not just one subsidy, but a package of subsidies and a creative partnership between the developer and local government to be feasible. Those with a gross margin lower than negative 10 percent should not be considered feasible until conditions change markedly.

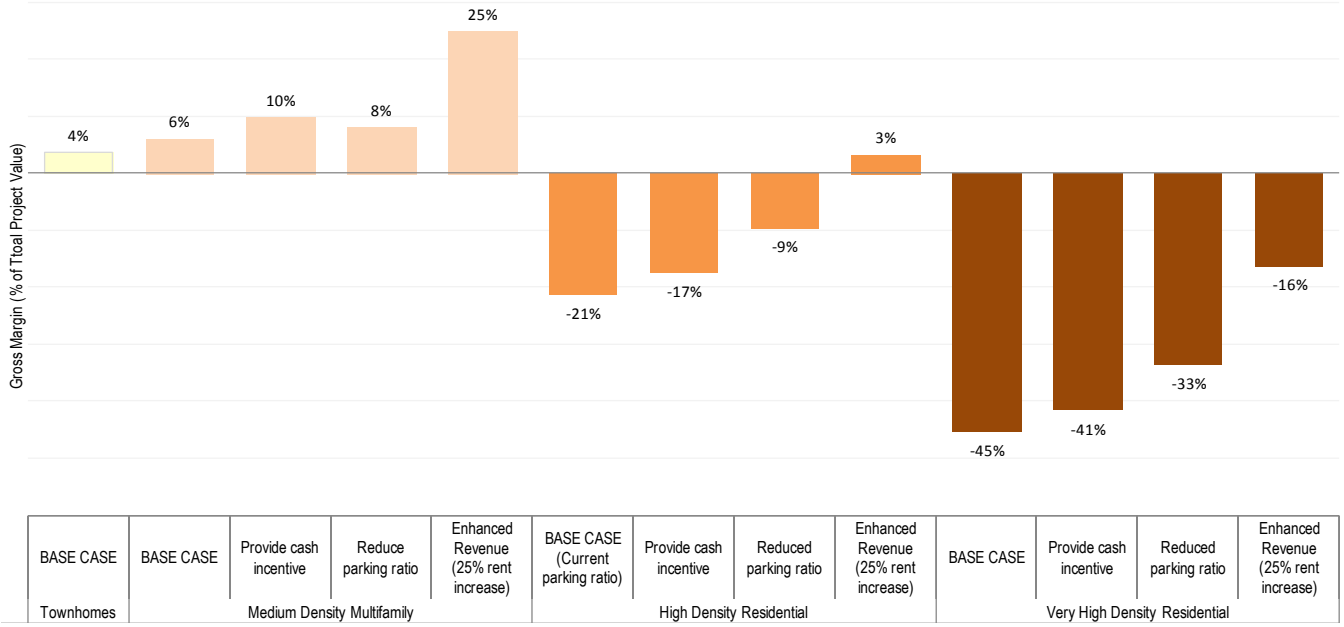
***Figure 1. Feasibility Overview***

| | |
|---|---|
| Townhomes | Feasible in current market |
| Medium Density Multifamily | Feasible in current market |
| High Density Residential | Potentially feasible with enhanced rents or parking ratio reduction |
| Very High Density Residential | Not feasible |
| Low Density Office | Feasible with enhanced rents |
| High Density Office | Not feasible |
| Very High Density Office | Not feasible |
| Retail | Not likely in current market |
| Mixed-use Residential High Density | Potentially feasible with vertical housing tax credits |
| Mixed-use Residential Very High Density | Potentially feasible with enhanced rents and vertical housing tax credits |
| Mixed-use Office High Density | Not feasible |
| Mixed-use Office Very High Density | Not feasible |

- Townhomes and the medium density housing show the highest gross margin and are therefore the development types most likely to be feasible in the current market without any subsidies.
- The high density residential and the low density office could be within the range of feasibility if rents increase by 25 percent.

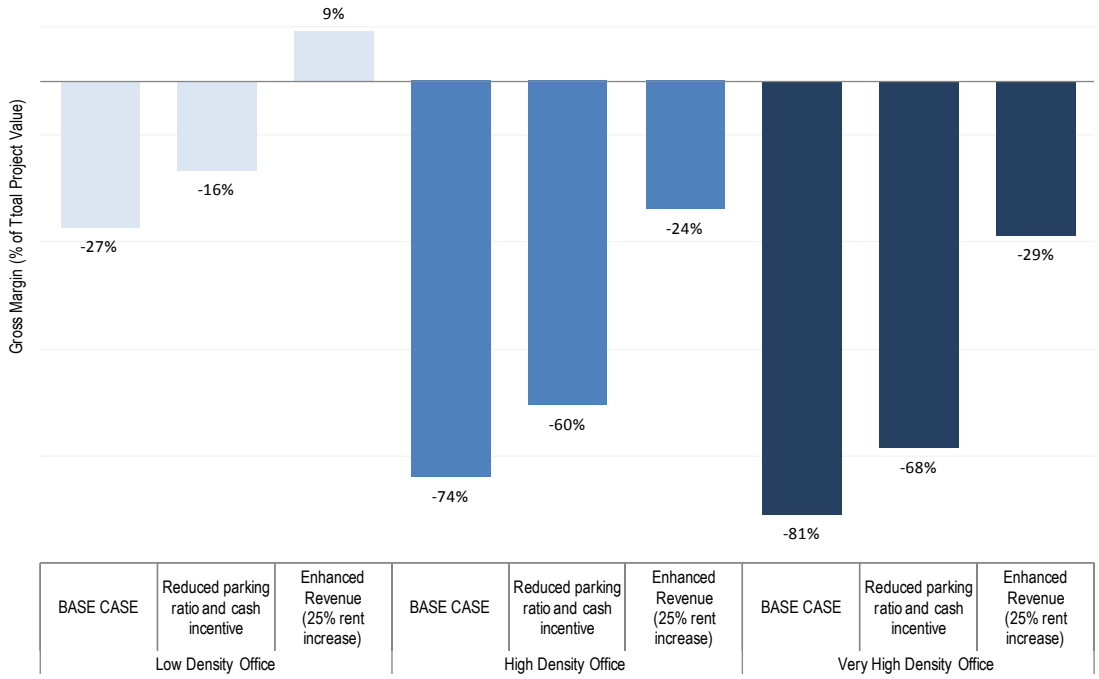
- The high density and very high density office construction are not within the range of feasibility with enhanced revenues or with the reduced parking ratio and cash incentives. It would take an increase in rents and a significant incentive package to make them feasible in the next decade or so.
- The high density mixed use residential development is within the range of feasibility by utilizing the Vertical Housing Tax Abatement, but would likely need additional subsidies to be feasible.
- The very high density mixed use residential development would be in the range of feasibility by utilizing the Vertical Housing Tax Abatement if there was also a 25 percent increase in rents in the area, as is now being seen in the Orenco Station area.
- One-story retail is not likely to be feasible given current market rents without subsidies.

***Figure 2. Gross Margin of Residential Development Types***



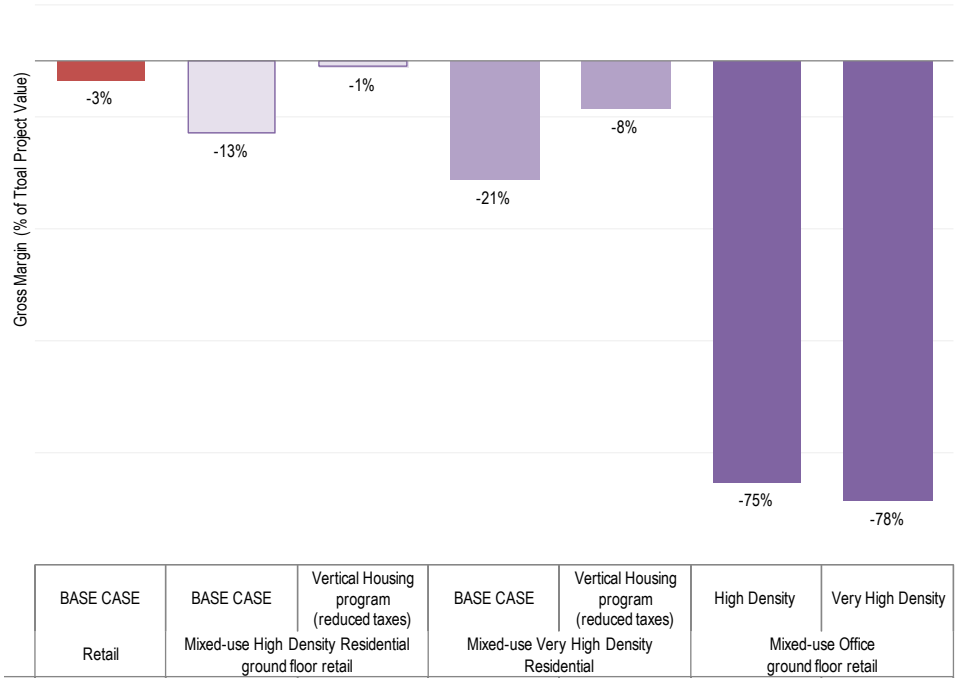

Source: Leland Consulting Group

***Figure 3. Gross Margin of Office Development Types***




Source: Leland Consulting Group

***Figure 4. Gross Margin of Mixed-use Development Types***




Source: Leland Consulting Group

## Fiscal and Economic Impacts

This section of the report provides a summary of the analysis of the fiscal and economic impacts to the City of Tigard, Clean Water Services, and Washington County in the form of impact fees assessed on new development for water, sewer, parks, and transportation. It estimates the City's annual property tax revenue from the potential new construction. Economic impacts are also considered in the form of jobs generated during construction and the annual wages generated by those jobs. An appendix to this report provides the complete analysis and source data.

Of those development types that are likely to be feasible, **Error! Reference source not found.** shows a summary of the fiscal and economic impacts associated with each development type. Those development types that are not considered feasible will not produce any revenues if they cannot be built, therefore only those that were considered potentially feasible are shown in the summary tables below. However, an analysis was conducted for all of the development types (and is included in the appendix) in order to give the City a sense of the revenues in real estate taxes and SDC fees that would be generated in order to make a decision about how much subsidy would be appropriate to provide in order to generate future revenues for the City and to provide temporary construction jobs.

***Table 2. Fiscal and Economic Impact Summary—Townhomes and Medium Density Multifamily***

| FISCAL IMPACT ANALYSIS | Townhomes | Medium Density Multifamily | | | |
|---|---|---|---|---|---|
| | Attached single family, parking included in each unit | Apartments 3 stories, surface parked | | | |
| | BASE CASE | BASE CASE | Provide cash incentive | Reduce parking ratio | Enhanced Revenue (25% rent increase) |
| **Total Fees, Washington County** | $111,328 | $198,800 | $198,800 | $198,800 | $198,800 |
| **Total Fees, Clean Water Services** | $129,037 | $230,424 | $230,424 | $230,424 | $230,424 |
| **Total Fees, City of Tigard** | **$144,083** | **$257,238** | **$257,238** | **$254,776** | **$257,238** |
| **City of Tigard Annual Real Estate Taxes** | **$19,703** | **$17,046** | **$17,046** | **$17,046** | **$21,319** |
| **ECONOMIC IMPACTS** | | | | | |
| Jobs Generated During Construction | | | | | |
| Residential Construction Annual FTE | 19 | 34 | 34 | 34 | 34 |
| Commercial Construction Annual FTE | | | | | |
| **Total Jobs Generated During Construction Annual FTE** | **19** | **34** | **34** | **34** | **34** |
| **Total Wages Generated During Construction (Annual Wages)** | **$737,952** | **$1,317,772** | **$1,317,772** | **$1,317,772** | **$1,317,772** |

Source: Leland Consulting Group

*Table 3. Fiscal and Economic Impact Summary—Townhomes and Medium Density Multifamily*

| FISCAL IMPACT ANALYSIS | Low Density Office 3 story surface parked | | | Mixed Use Residential ground floor retail Apartments 4 stories, structured parking | | Apartments 6 stories, structured parking | |
|---|---|---|---|---|---|---|---|
| | BASE CASE | Reduced parking ratio and cash incentive | Enhanced Revenue (25% rent increase) | BASE CASE | Vertical Housing program (reduced taxes) | BASE CASE | Vertical Housing program (reduced taxes) |
| **Total Fees, Washington County** | $206,070 | $206,070 | $206,070 | $368,797 | $368,797 | $647,117 | $647,117 |
| **Total Fees, Clean Water Services** | $0 | $0 | $0 | $387,654 | $387,654 | $710,248 | $710,248 |
| **Total Fees, City of Tigard** | **$59,929** | **$58,035** | **$59,929** | **$434,460** | **$434,460** | **$786,530** | **$786,530** |
| **City of Tigard Annual Real Estate Taxes** | **$14,483** | **$14,483** | **$20,301** | **$30,823** | **$34,417** | **$54,698** | **$61,078** |
| **ECONOMIC IMPACTS** | | | | | | | |
| Jobs Generated During Construction | | | | | | | |
| Residential Construction Annual FTE | | | | 57 | 57 | 105 | 105 |
| Commercial Construction Annual FTE | 32 | 32 | 32 | | | | |
| **Total Jobs Generated During Construction Annual FTE** | **32** | **32** | **32** | **57** | **57** | **105** | **105** |
| **Total Wages Generated During Construction (Annual Wages)** | **$1,249,170** | **$1,230,070** | **$1,249,170** | **$2,216,958** | **$2,216,958** | **$4,061,838** | **$4,061,838** |

Source: Leland Consulting Group

## Conclusion

Under current market conditions, only the townhomes and medium density housing types are feasible on their own. Some of the high density and very high or mixed-use housing may be feasible with a subsidy package. Office development is unlikely to occur in the Triangle over the next decade. Based on this pro forma model, the greatest impact on feasibility comes from rising rents, which will occur as the broader economy continues to improve, vacancies continue to decrease, and rents begin to rise. There are tools the City can employ to help facilitate development in the meantime, which will help make future development more feasible on its own. Incremental change, starting with lower density developments, will help improve local conditions in the Triangle, and eventually allow for higher density products to move into the range of feasibility over time.

Based on the case study research, many higher density projects completed throughout the region have had some assistance from local governments, typically involving more than one financial tool, to make the projects feasible. Of those tools and based on this pro forma model, the Vertical Housing Tax Abatement seems to be the most effective for achieving a mixed-use residential development with structured parking.

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