

Council Business Meeting

March 19, 2019

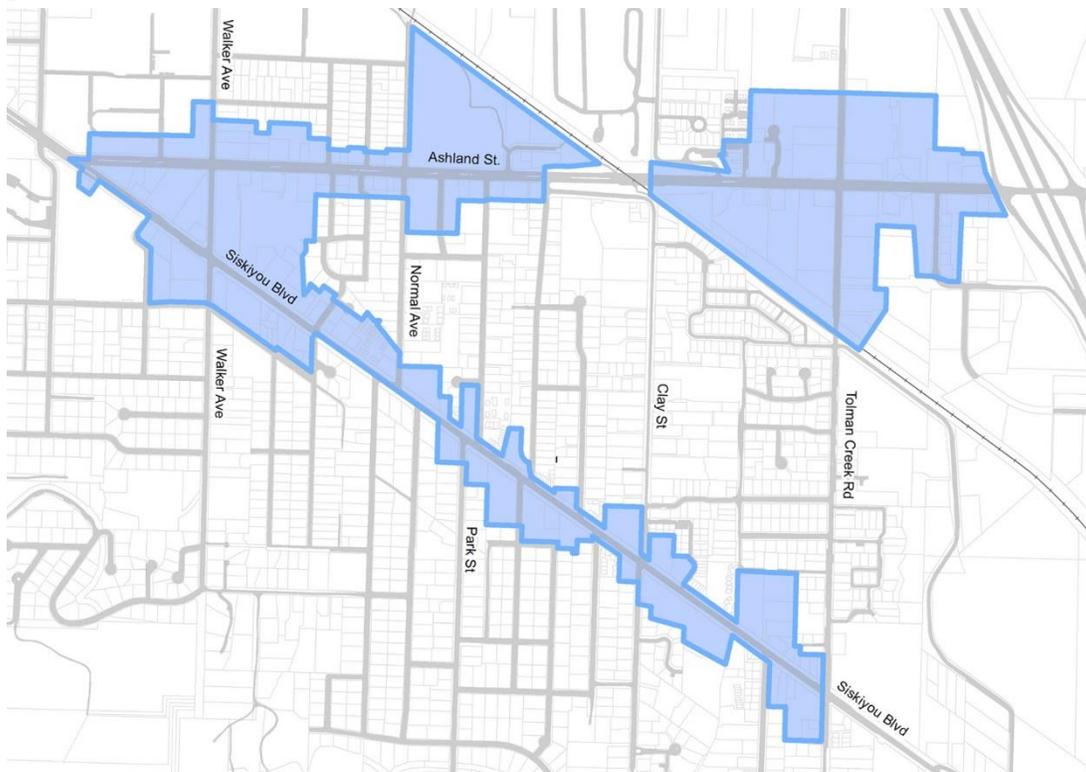
Agenda Item	Vertical Housing Development Zone	
From	Maria Harris	Planning Manager
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SUMMARY

The vertical housing development zone (VHDZ) is an informational item to discuss the partial property tax exemption for mixed-use buildings that is allowed under state law and review how a VHDZ could affect building valuation and property tax revenues in the Transit Triangle (TT) overlay. The City Council approved the Transit Triangle (TT) overlay and land use ordinance amendments in December 2018 and directed staff to bring back an incentive program similar to the vertical housing tax credit to a future study session at the January 16, 2018 meeting.

Fregonese Associates created and analyzed several building scenarios to test the impacts of a partial property tax exemption and will present their analysis at the March 19, 2019 Council Business Meeting. A memo from Fregonese Associates summarizing the building scenarios is attached.

Figure 1: Transit Triangle (TT) Overlay



POLICIES, PLANS & GOALS SUPPORTED

The purpose of the TT overlay is “to promote the development of a mix of housing units and businesses adjacent to the bus route designed in a way that encourages walking, bicycling and transit use (Ashland Municipal Code 18.3.14.010).

The *Ashland Comprehensive Plan* includes a goal in the Housing Element to “ensure a variety of dwelling types and provide housing opportunities for the total cross-section of Ashland’s population, consistent with preserving the character and appearance of the city (6.10).”

The *Ashland Comprehensive Plan* includes a goal in the Economic Element to “ensure that the local economy increases in its health, and diversifies in the number, type, and size of businesses consistent with the local social needs, public service capabilities, and the retention of a high quality environment (7.07.03),” and a policy which says development guidelines should ensure that “development along Siskiyou Boulevard and Ashland Street will not primarily be automobile-oriented, but will also include attractive landscaping and designs that encourage pedestrian, bicycle, and mass transit forms of travel.(7.07.03.c.2).” A similar policy is included in the Transportation Element regarding development of Ashland Street as a “multi-modal” corridor (10.09.02.7).

The *Economic Development Strategy* includes an action to “create incentives for development applications that meet certain predefined economic development eligibility criteria (Action 7.2).”

The *Climate and Energy Action Plan* (CEAP) includes an action to “Establish policies to support development near transit hubs without displacing disadvantaged populations. Transit-oriented development (TOD) increases housing density within walking distance of transit hubs. Creating a TOD zoning overlay or similar policy could reduce car use, but Ashland will need to design any policy carefully to avoid unintended consequences, such as gentrification that threatens housing affordability and could displace vulnerable populations (CEAP ULT-1-3).”

The *Climate and Energy Action Plan* (CEAP) includes an action to “Revise community development plans to favor walkable neighborhoods and infill density. Ashland has a series of long-range planning documents that guide development across Ashland districts, neighborhoods, and natural areas. Revisiting these plans to ensure that they support climate-ready development needs, such as walking, biking, transit, parking management, and climate adaptation features, will ensure that Ashland development is consistent with the City’s climate goals and commitments. It will be important to ensure that these activities do not come at the expense of higher housing costs, which could disadvantage low-income populations (CEAP ULT-4-2).”

PREVIOUS COUNCIL ACTION

The Council directed staff to bring back an incentive program similar to the vertical housing tax credit to a future study session at the [January 16, 2018](#) meeting.

BACKGROUND AND ADDITIONAL INFORMATION

The VHDZ was established under state law in 2001 to provide local jurisdictions a tool to encourage the private sector to build higher density "mixed-use" buildings that include commercial uses and residential housing. A mixed-use building typically includes commercial uses on the first floor and residential housing on one or more upper floors.

The program offers a 10-year partial property tax exemption on the value of a new, qualifying structure or rehabilitated structure. The exemption does not include the value of the land, unless the project includes a floor or more of low income housing (i.e., no greater than 80 percent of area median income).

The partial tax exemption is calculated based on the number of floors above the ground floor that are allocated to residential housing. The program grants a tax exemption of 20 percent for each floor of housing that is incorporated above the ground floor, with a maximum tax exemption of 80 percent for any single project. For example, a three-story mixed-use building with residential housing on the second and third floors would have a 40 percent tax exemption on the value of the construction of the building. In addition, 50 percent of the ground floor is required by state law to be in nonresidential uses.

A project that receives the partial property tax exemption is required to commit to maintaining and operating in a manner consistent with the application for the partial tax exemption for at least the number of tax years for which the project is intended to be partially exempt from property taxes.

1. Application Process

In order to be eligible for a partial property tax exemption, state law includes the following requirements.

- The project must be entirely located in an established VHDZ.
- The project must be a multi-story building including a mix of nonresidential uses (e.g., commercial) and residential housing.
- At least 50 percent of the building's ground floor that fronts on the primary public street must be committed to nonresidential uses.
- Construction or rehabilitation must have started on each building included on the project

The process for approving a project for a partial tax exemption is outlined in state law and involves the following steps.

- a. The project owner/developer applies to a local jurisdiction (city or county) that has established a VHDZ for certification, prior to any relevant residential unit being ready for occupancy.
- b. The local jurisdiction reviews the application and approves or denies the certification request based on whether the application meets the requirements of Oregon Revised Statue (ORS) 307.841 to 307.867, as well as additional criteria established by the local jurisdiction that are consistent with the applicable ORS.
- c. If the project is approved or "certified" by the local jurisdiction, the local jurisdiction sends a copy of the certification to the county assessor.
- d. The vertical housing development project property owner notifies the local jurisdiction when the project is ready for occupancy.
- e. The local jurisdiction sends a second notice to the county assessor informing the assessor that the project is about to be occupied and is certified.

State law establishes that the determination by the local jurisdiction to approve or deny certification for the partial tax exemption is discretionary. As a result, the local jurisdiction's decision is final and not subject to judicial or administrative review.

2. Sample Building Scenarios for the TT Overlay

Fregonese Associates created and analyzed several sample building scenarios for the TT overlay to test the impacts of a partial property tax exemption. A summary of the results is included in the attached memo and will be presented at the March 29, 2019 Council Business Meeting.

The sample building scenarios are at the site or development level and include a scenario for a one-story commercial building, a three-story mixed-use building and a four-story mixed-use building. A one-story commercial building was created to use as the base line to compare the results of the multi-story mixed-use buildings. A one-story commercial building is used as the base line because this type of development is reflective of the most of the new development in the TT overlay over the last past several decades. Examples of past one-story commercial developments in the TT overlay include Rogue Credit Union at 1661 Ashland St., Wendy's at 1624 Ashland St., Oil Stop Drive Thru at 2210 Ashland St. and Sherwin-Williams Paint Store at 2220 Ashland St.

In the short to medium-term, the initial analysis indicates the property taxes collected on a three or four-story mixed-use building with a partial tax exemption for 10 years will exceed the taxes collected on a one-story commercial building with no tax exemption for the same 10-year period. This is because the value of a multi-story, mixed-use building is higher than that of a one-story commercial structure.

In the long term, any multi-story mixed-use buildings developed in the TT overlay using a partial tax exemption would be fully taxed after 10 years when the exemption expires. Again, this would add higher value multi-story buildings to the tax base.

The financial analysis for the VHDZ is focused on the impacts to property taxes and to the financial feasibility of developing three and four-story buildings. The analysis does not capture the costs or benefits of other goals associated with the TT overlay such as creating opportunities for the development of more apartments, stimulating more commercial growth, and increasing the number of residents and businesses near the bus route to encourage walking, bicycling and transit use.

3. Establishing a VHDZ and Local Program

A local jurisdiction that wishes to provide partial tax exemption as an incentive for higher density, mixed-use development including commercial uses and residential housing is required to establish a VHDZ and the associated program. The local jurisdiction is also responsible for administering the program and monitoring approved projects for compliance with state law and any additional local requirements.

The process for establishing a VHDZ is outlined in state law as follows.

- a. The local jurisdiction designates an area within the city or county as a VHDZ.
- b. The local jurisdiction must notify the local taxing districts that have territory in the proposed VHDZ of the local jurisdiction's intention to designate a VHDZ.
- c. Any taxing district not agreeing to participate in the VHDZ must notify the local jurisdiction within 30 days of receiving the notice.
- d. The local jurisdiction adopts an ordinance or resolution designating the VHDZ and any additional local criteria. The local jurisdiction is required to wait at least 60 days after sending the notice to the local taxing districts before adopting an ordinance or resolution designating the VHDZ.
- e. After adopting a resolution or ordinance, the local jurisdiction notifies the county assessor of the designation of the zone and the districts that elect not to participate in the zone.

A local jurisdiction that establishes a VHDZ is permitted to terminate the zone at any time. Termination of a VHDZ does not affect any exemptions that were granted under the zone prior to the termination date.

4. Next Step

Staff will schedule an item at a future meeting requesting direction from the City Council as whether to move forward with the formation of a VHDZ in the TT overlay.

FISCAL IMPACTS

If the City were to establish a VHDZ and associated program, staff time would be required to administer the program and monitor certified projects that received the tax exemption. The number of developments using a partial tax exemption will impact the associated work load. At the same time, it is difficult to predict the potential projects that will pursue the incentive if it is established.

STAFF RECOMMENDATION

Not applicable because this is an informational item.

ACTIONS, OPTIONS & POTENTIAL MOTIONS

Not applicable because this is an informational item.

REFERENCES & ATTACHMENTS

Attachment 1: Memo from Scott Fregonese, February 25, 2019



DATE February 25, 2019
TO Bill Molnar, Maria Harris & Brandon Goldman
FROM Scott Fregonese, Fregonese Associates, Inc.
RE Transit Triangle – Vertical Housing Development Zone

Introduction

Through working with the City of Ashland on the Transit Triangle Infill Strategies Project, Fregonese Associates has gained an understanding of the need for creating a greater concentration of multi-family residential and retail within the study area. Fregonese Associates has been researching and analyzing of the effects of implementing a Vertical Housing Development Zone within the Transit Triangle Overlay.

A Vertical Housing Development Zone incentivizes mixed-use residential/commercial developments by providing a partial property tax exemption on qualified projects in areas designated by communities. Within the Ashland Transit Triangle, a Vertical Housing Development Zone has the potential to be a valuable tool that encourages moderately-priced housing, jobs, and commercial spaces in an area well-served by regional transit.

Return on Investment (ROI) Analysis using Building Prototypes

A range of building types or “prototypes” were modeled for each of the zone districts within the Transit Triangle using the ET pro forma model. The building prototypes include the physical attributes of buildings, such as height and landscaping, and the financial attributes, such as rents and construction costs.

The ET pro forma model is used to evaluate the financial feasibility of the building prototypes. The model can then be used to look at different scenarios or changes to building and site characteristics and see if the financial feasibility of the development is impacted. For example, changes to the amount of parking required for a mixed-use building with office and residential units can be evaluated to see how the return on investment (ROI) is impacted.

What is a Vertical Housing Development Zone?

A Vertical Housing Development Zone (VHDZ) is designed to encourage the private sector to build higher-density mixed-use development (first floor commercial with

residential above) in targeted areas of a city and provides a partial tax exemption, or Vertical Housing Tax Credit (VHTC) on increased property value for qualified projects.

The VHDZ provides qualified development projects a 10-year property tax exemption on the value of new construction or rehabilitation for 20 percent per residential floor for floors above a commercial ground floor with total exemption limited to no more than 80 percent. Additional exemption may be available for projects with affordable housing.

VHDZ Benefits

Ashland could potentially see many benefits to the Transit Triangle area through the implementation of a VHDZ. These benefits include:

- Encouraging new mixed-use development (residential and commercial)
- Stimulating more commercial growth in the Transit Triangle, increasing the value of surrounding properties
- Enhancing opportunities for a live/work community
- Supporting commercial development by increasing the number of residents
- Creating long-term community wealth through, mixed-use buildings that will be fully taxed after the partial abatement expires
- Encouraging more walkable neighborhoods by locating goods and services near residents

VHTC Eligibility

Qualified new development projects within a VHDZ are eligible to receive a 10-year property tax exemption on the value of new construction or rehabilitation of 20 percent per residential floor for the first four floors above ground floor commercial. Total property tax abatement of the new construction is limited to no more than 80 percent. The exemption applies to all taxing jurisdictions that do not opt out when the zone is established. After 10 years, the full value of the project is placed on the tax rolls. To be eligible for a VHTC, the following criteria must be met:

1. Project must be entirely located within a vertical housing development zone
2. Project must be a multi-story building used for residential and non-residential uses
3. At least 50 percent of the project's ground floor that fronts the primary public street must be committed to non-residential use

VHTC incentives differ depending on the number of floors. For each full floor of residential above non-residential there is a 20% property tax exemption. VHTC incentivizes five story or taller buildings to achieve maximum property tax exemption of 80% percent of the building value. The tax exemption for various buildings heights is as follows:

- 2 story building – Typically will not use VHTC, as it would only result in a 20% property tax exemption
- 3 story building – 40% property tax exemption
- 4 story building – 60% property tax exemption
- 5 story building – 80% property tax exemption
- 6+ story building – 80% property tax exemption

Vertical Housing Case Studies

Developers have taken advantage of the VHTC in several Oregon cities that have implemented Vertical Housing Development Zones, including Tigard and Milwaukie.

Tigard, Oregon:

The City of Tigard adopted a Vertical Housing Development Zone in 2014. Since then, it has been used for two developments, Attwell Off Main and The Adrian. Combined, these two projects are expected to generate \$7.8 million in property taxes over twenty years.

- Attwell Off Main
 - 165 Residential Units
 - 1,819 sq. ft. Commercial Space
- The Adrian
 - 12,000 sq. ft. Mixed-Use
 - Office/Apartments

For more information: <http://www.tigard-or.gov/business/EcDev/DIXreprint1217.pdf>

Milwaukie, Oregon:

The City of Milwaukie adopted a Vertical Housing Development Zone in December 2017. Axletree is the first project in the city to use the VHTC. The project is located on the former Bernard's Garage site in the heart of Downtown Milwaukie. Guardian purchased the property in May 2017 and plans to develop a five-story mixed-use building with 110 apartment units and 7,300 sf of retail space. This will be the first newly constructed multifamily development that the city has seen in over ten years and is conveniently located on the MAX Orange Line. The development broke ground in 2018 with completion expected in 2019.

For more information: <https://www.gres.com/projects/block-37/>

Testing VHTC in the Transit Triangle

Fregonese Associates used Envision Tomorrow prototypes to test the impacts of the VHTC for three different building types in the Transit Triangle. The models were able to determine the total tax exemption of a ten-year period, the tax exemption per unit over that same time period, and potential public revenue for each of the buildings.

3 Story Mixed-Use Example (TT Overlay - R-2 and R-3 Zones)

- Generic 150ft by 150ft lot = 22,500 sq. ft.
- 1,300 sq. ft. retail/office net
- 28 units (650 sq. ft. average)
- 28 parking spaces
- Percent improvement exemption = 40%
- Total tax exemption over 10 years = \$245,200
- Tax exemption per unit over 10 years = \$8,864
- Potential public revenue (10-year property tax) = \$753,000

4 Story Mixed-Use Example (TT Overlay - C-1 and E-1 Zones)

- Generic 150 ft by 150 ft lot = 22,500 sq. ft.
- 1,600 sq. ft. retail/office net
- 34 Units (650 sq. ft. average)
- 34 parking spaces
- Percent improvement exemption = 60%
- Total tax exemption over 10 Years = \$457,000
- Tax exemption per unit over 10 Years = \$13,337
- Potential public revenue (10-year property tax) = \$903,000

1 Story Commercial Example (TT Overlay - C-1 and E-1 Zones)

- Generic 150 ft by 150 ft lot = 22,500 sq. ft.
- 8,600 sf retail/office net
- 26 Parking Spaces
- Percent Improvement Exemption = 0%
- Potential Public Revenue (10 Year Property Tax) = \$382,000

Key Conclusions

The research and prototype modeling completed by Fregonese Associates has produced a number of conclusions that may be useful for the City of Ashland as they explore the implementation of a VHDZ in the Transit Triangle:

- There is more incentive to use VHTC when building 4 story buildings in the C-1 and E-1 Zones (within the TT overlay)
- 60% Abatement for 4 Story (C-1 and E-1 Zones)
- 40% Abatement for 3 Story (R-2 and R-3 Zones)
- VHTC are not generally used for 2 story buildings because they only receive 20% property tax exemption