

Council Study Session

May 6, 2019

Agenda Item	Ashland Housing Strategy Implementation Plan Draft	
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Item Type	Requested by Council <input checked="" type="checkbox"/> Update <input type="checkbox"/> Request for Direction <input type="checkbox"/> Presentation <input type="checkbox"/>	

SUMMARY

The draft Ashland Housing Strategy Implementation Plan was produced by the planning consulting firm ECONorthwest through a technical assistance grant provided by the Department of Land Conservation and Development. The plan provides an analysis of Ashland's housing markets and recommends various strategies that could be considered to promote the development of multi-family housing within the community.

POLICIES, PLANS & GOALS SUPPORTED

Comprehensive Plan Housing Element

Goal: 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.

Council Goals and Values 2019

Tier 2: Moderate Priority

- Housing Needs
- All-Age Friendly Community

BACKGROUND AND ADDITIONAL INFORMATION

In 2018 participating Regional Problem Solving (RPS) jurisdictions within the Rogue Valley examined local regulatory barriers and potential incentives to address needed housing. As part of this regional effort the Ashland Housing Strategies document was drafted by ECONorthwest after working with City planning and housing staff to review our land use code and existing housing programs. This initial document was presented to the City Council on [October 1, 2018](#), and it identified several potential actions and regulatory reforms to be considered to address the following:

- Improve the efficiency of residential land use by increasing the concentration of housing under certain circumstances,
- Increase opportunity for development of housing types that are comparatively affordable, such as missing middle housing types (such as duplexes, townhouses, cottage housing, or garden apartments)
- Increase land use efficiency and provide opportunities for development of comparatively affordable housing.

To further evaluate the Ashland Housing Strategies, the City's Planning Division was fortunate to receive a technical assistance grant from the Department of Land Conservation and Development (DLCD). The City Council approved a [Memorandum of Understanding](#) (MOU) with DLCD in October of 2018 to work with ECONorthwest to analyze and adopt a housing strategy

implementation plan to facilitate the provision of needed housing within the community. In recognition of Ashland's need for multi-family rental housing the scope of work outlined in the MOU focused on those specific actions that encourage the development of new multifamily units through identifying barriers in the land use ordinance as well as considering other incentives.

Specifically, the DLCD technical assistance grant enabled the City and ECONorthwest to undertake the following:

- Conduct a code audit and evaluation of the impacts of potential increases to maximum residential density, building height and lot coverage, and potential decreases to parking requirements for multifamily housing types.
- Evaluate financial returns of for-sale versus rental housing to understand the market conditions necessary to facilitate production of rental housing.
- Evaluate the potential impact of the multiple-unit limited tax exemption program on the development feasibility of higher density rental housing types.
- Review the impact of Ashland's annexation policies and approval standards on multi-family residential land supply within the City Limits.
- Develop recommendations for code amendments that are most likely to be effective in both removing obstacles and identifying incentives to promote the construction of multifamily rental housing in R-2, R-3 and other multi-family zones.

The Ashland Housing Strategy Implementation Plan presented to the City Council this evening addresses each of the above stated objectives. The draft Ashland Housing Strategy Implementation Plan completed by ECONorthwest provides an analysis of Ashland's unique housing market, an analysis of existing multifamily development standards, and explores tax abatement strategies available to promote the development of multifamily housing. The draft plan further provides preliminary recommendations that the City may consider as part of a subsequent legislative process. These recommendations (pg. 36-38) outline specific amendments to existing development standards in multi-family zones (R-2, R-3), and discuss financial incentives through partial tax exemptions for multi-family housing development.

The Housing & Human Services Commission and Planning Commission reviewed the draft plan at a joint study session on April 23, and staff will present a summary of their comments during this evening's presentation. Following these study sessions, and in consideration of Commission and Council discussions, ECONorthwest will complete the final Ashland Housing Strategy Implementation Plan per the approved Scope of Work. With the final plan in hand the Council may consider directing staff to initiate a public code amendment process for the final recommendations provided.

Any future amendments to the development code will be processed through a separate legislative adoption process including public outreach, study sessions before the Planning and Housing & Human Services Commissions, public notices, and ultimately public hearings for adoption of ordinance amendments or resolutions by the City Council.

FISCAL IMPACTS

No additional financial resources are necessary to complete the final Housing Strategy Implementation Plan. In the event Council directs staff to develop code amendments for consideration long-range planning staff time will be dedicated to the project. Additionally, staff will explore Department of Land Conservation and

Development technical assistance grant opportunities that may be available in FY 2020. Receiving such grant assistance would enable the City to obtain consultant services to assist in drafting code amendments and conducting the legislative public involvement process.

DISCUSSION QUESTIONS

Does the Council have questions or comments regarding the Draft Ashland Housing Strategy Implementation Plan?

SUGGESTED NEXT STEPS

Upon completion of the final Ashland Housing Implementation Plan staff will present the plan to the City Council and request direction on whether to proceed with implementation of the recommendations outlined in the plan.

REFERENCES & ATTACHMENTS

Attachment 1: Ashland Housing Strategy Implementation Plan – Public Review Draft

[Regional Problem Solving Ashland Housing Strategies 2018](#)

- [City Council Study Session minutes October 1, 2018](#)

[DLCD Memorandum of Understanding October 2, 2018](#)

Ashland Housing Strategy Implementation Plan

Public Review Draft

April 2019

Prepared for:

City of Ashland
and the
Department of Land Conservation and Development

DRAFT REPORT

For discussion only. Do not cite or quote.

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Acknowledgments and Disclaimer

For over 40 years ECONorthwest has helped its clients make sound decisions based on rigorous economic, planning, and financial analysis. For more information about ECONorthwest: www.econw.com.

ECONorthwest prepared this report to the City of Ashland. It received substantial assistance from City staff. Other firms, agencies, and staff contributed to other research that this report relied on.

This project is funded by a grant from the Oregon Department of Land Conservation and Development (DLCD). The contents of this document do not necessarily reflect the views or the policies of the State of Oregon.

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 housing and development economics, 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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Executive Summary

Context and Project Overview

Housing affordability in Ashland has been a challenge for a decade or more. Median home prices and rents in Ashland are higher than in the surrounding area. Recent housing studies show a shortage of housing for very low- and low-income residents and housing price escalation that has outpaced income growth.¹ Few market-rate apartments have been built in Ashland over the past decade, but builders have continued to produce ownership housing, including condominiums and townhomes.

City staff and officials are working to understand the obstacles to multifamily rental housing development and to develop a strategy and implementation plan to address housing affordability and availability in the city. The Oregon Department of Land Conservation and Development (DLCD) provided a grant for ECONorthwest to support the City in preparing this housing strategy. **This report describes the demographic and market conditions that drive for-sale versus rental housing in Ashland, evaluates a set of potential strategies to increase multifamily housing production, and offers initial recommendations for next steps.**

Housing Market Conditions

Ashland's unique housing market is the primary reason that new condominium and townhome development is more prevalent than multifamily rental. Key factors include:

- New development must capture premium rents or sales prices to be financially viable given current construction costs and high land prices.
- Many home-buyers have existing home-equity available, which creates a strong market for homeownership.
- The large senior population may tend to value low-maintenance options like condominiums or townhomes.
- Demand for rental housing is strongest at lower income levels.
- Narrow niche markets such as medium-term (e.g. 3- to 6-month) rentals and housing aimed at university students are among the only segments that can currently sustain high enough rents to cover the costs of new development.
- Securing financing for apartment projects in small markets like Ashland is a challenge. Few local real estate investors have enough capital to buy an apartment building (vs. a single condominium or town home unit), and outside investors rarely show interest in small markets.

While counter-intuitive, new high-end housing contributes to affordability broadly within the housing market. When new high-end housing is not available, high-income households tend to bid up the cost of existing housing, making it unaffordable for others.

¹ Ashland Housing Needs Analysis (2012), Jackson County Regional Problem Solving study (2018)

- Condominium conversions can displace tenants, but for an apartment property in financial distress, converting to condominiums allows the owner to sell some units and potentially refinance the remainder.

While rental housing is typically more affordable than home-ownership, condominiums are more affordable ownership than single family housing in Ashland. In addition, **some condominiums and townhomes are held as rentals by the developer or individual owners, blurring the line between ownership and rental housing.** There are only slightly more seasonal rentals than in the county overall, and less than in other parts of the state.

Strategies and Evaluation Results

The strategies considered here were identified in a recent regional housing study:²

- Increases to maximum allowed density (i.e., dwelling units per acre), height limits, and lot coverage allowances in the R-2 (Medium Density Residential) and R-3 (High Density Residential)
- Decreases to parking requirements for multifamily housing
- A property tax abatement program for multifamily housing that meets locally-established criteria

The analysis used prototypical multifamily housing developments to test development potential and financial feasibility under the existing development code and to evaluate the impact of code changes and property tax abatement. The prototypes and assumptions were informed by housing market and demographic data as well as interviews with local housing developers.

The most limiting development code factor at present is the maximum density (dwelling units per acre) standard, though changes to other standards also have an impact when combined with an increase to the maximum density. While there are multiple incentives for units under 500 square feet, including a density bonus and lower system development charges, the current density limits encourage developers to build large units that have more revenue-generating floor area because they cannot build more units. Increases to development potential (e.g., allowing three stories and higher densities in the R-3 zone) could increase the achievable density substantially without much change to the form of development (e.g., garden-style walk-up apartments).

Changes to the allowed height, density, and parking ratios offer some construction cost savings, but their main impact is to spread the cost of land over more units. If construction costs—even with greater building efficiencies—are so high relative to rents or sales prices that a development cannot afford to pay for land at all, adding more units makes a project less, not more, viable. As market conditions evolve over time, the details of which developments are

² Jackson County Regional Problem Solving study (2018)

viable will shift and change. However, **any multifamily development that can balance rents or sales prices with development costs will be able to better afford the high costs of land in Ashland if they can achieve higher densities.**³

While the multiple unit tax exemption program has limitations, it benefits multifamily developments that are marginally feasible but cannot afford high land costs. **If applied specifically to rental housing,⁴ the tax abatement could help apartments compete with condominium development in the land market.**

Summary of Preliminary Recommendations

The City should consider the following measures for implementation:

- **Increase densities in the R-2 and R-3 zones.** Two to three times as many units per acre as allowed under the current density standards can potentially fit on a typical site with limited changes to other development standards. Higher densities are especially important for small infill sites where efficiency is at a premium.
- **Increase the allowed height in the R-3 zone from 2 ½ to 3 stories and from 35 to 40 feet.** The R-2 zone can serve as a transitional zone that maintains a scale more similar to single family homes, but the High Density Residential (R-3) zone should accommodate typical multifamily construction. Walk-up garden apartments tend to be most cost-effective at three stories.
- **Decrease parking requirements, especially for smaller units.** Small parking reductions increase efficiency and reduce costs when combined with increases in density.
- **Increase lot coverage allowances slightly in the R-2 and R-3 zones.** This change supports the other code amendments listed, but is not meaningful on its own.
- **Revisit regulations for multifamily on smaller infill sites to reduce the need for discretionary processes and streamline permitting.** While not the focus of this project, developer interviews suggest that multifamily projects often end up in discretionary land use reviews that become targets of neighborhood opposition. This is problematic for the developer (and for housing production) for several reasons:
 - The extended review period adds time, which increases the developer's carrying costs.
 - If design changes are required, this can increase design and engineering costs.
 - The uncertainty created by a discretionary decision can discourage developers from taking on the up-front cost of initiating projects.

³ This assumes that the increased development potential does not drive land owners' expectations of property value even higher, further increasing the cost of land.

⁴ The City Attorney should review and confirm that the program can be structured in this way.

The City's existing multifamily design and development standards are largely clear and objective, but there may be opportunities to streamline the process or remove obstacles to meeting those standards on smaller and constrained sites.

- **Be cautious of disincentivizing condominium development and conversion.** Given the fluidity between the ownership and rental markets in Ashland and the financing challenges for multifamily rentals, using the development code to discourage condominium production may be counter-productive and have unintended consequences for the rental market.
- **Revise the City's annexation policies to eliminate the requirement to demonstrate less than a five-year supply of land.** Existing policies were intended to help ensure orderly growth; however, this is the role of the City's Urban Growth Boundary (UGB). Creating obstacles to annexing land within the UGB for housing contributes to higher land costs and makes it difficult to find land for larger housing developments.
- **Advance discussions on the multiple unit property tax exemption for market-rate multifamily rental housing.** While the City could require participating properties to maintain rents at a certain level (e.g. affordable at the area median income) for the 10 year period of the tax abatement, this would add complexity to the program. Deeper discounts would partially or fully cancel out the benefit to developers. As an alternative, the City could explore a separate but similar tax exemption program targeted specifically at multifamily rental housing with rents affordable at up to 120% of the area median income.
- **Consider an additional property tax exemption specifically for non-profit affordable housing.** This program streamlines the process for non-profits to obtain property tax exemptions on affordable housing properties and land held for future affordable housing development.

There is little the City can do to overcome financing challenges for apartment development in small markets, but it can remove development code obstacles to multifamily development. It can also offer tax abatements that specifically support development of multifamily rental housing.

1 Introduction

1.1 Background

Housing affordability in Ashland has been a challenge for a decade or more. Median home prices in Ashland are higher than in the rest of the region, and rents are higher than the county average. Several recent studies, including the City's 2012 Housing Needs Analysis (HNA) and the 2018 Jackson County Regional Problem Solving (RPS) study, document housing affordability issues including a shortage of housing for very low- and low-income residents and housing prices that have escalated far faster than incomes. The City has also seen little new multifamily rental housing development over the past decade, aside from regulated affordable housing. However, condominium and townhome development has continued.

Ashland's Housing Needs analysis concluded "...that the City should plan for a larger share of multiple family housing, and for a greater number of single family housing types on smaller lots." The RPS study identified a list of potential strategies to support a range of housing types and price points. The strategies include regulatory reforms aimed at increasing efficient use of residential land, encouraging development of new multifamily housing at greater densities, and developing policies and funding sources to support affordable housing. The City is also interested in understanding what market and regulatory factors are leading to construction of condominium and townhome development over multifamily rental housing development, and what policy responses could serve to make rental housing development more likely.

Oregon House Bill 4006, passed in 2016, provided an opportunity for the City to develop a housing strategy that builds upon these recommendations. The bill established new requirements for cities with a population over 10,000 people that have extreme rent burdens, where greater than 25% of renter households pay more than 50% of their monthly income toward housing. Ashland was one of these cities. The bill also provided grant funding for local governments to update housing plans, amend development codes, and develop implementation strategies to increase the affordability of housing and to reduce rent burden for severely rent-burdened households. The City of Ashland received a grant from the Oregon Department of Land Conservation and Development (DLCD) to fund consultant services to support the City in developing a housing strategy and implementation plan. DLCD selected ECONorthwest to assist the City with this effort.

1.2 Report Overview

From among the recommendations in the RPS study, City staff identified the following strategies as the priority for this project:

- Increases to maximum density caps
- Increases to height allowances

- Increases lot coverage allowances
- Decreases to parking requirements for multifamily housing types
- Code amendments that potentially limit the percentage of for-purchase, ownership units constructed on multi-family zoned land as well as options for inducements that increase the construction of rental housing
- The multiple-unit limited tax exemption program (a.k.a. MUPTE or MULTE) – a property tax abatement program for multifamily housing that allows cities to offer a 10-year partial property tax abatement for multifamily housing that meets locally-established criteria (e.g. return on investment, sustainability, inclusion of community space, percentage affordable or workforce housing, etc.)

Our charge for this project also includes evaluating financial returns of for-sale versus rental housing to understand market barriers to the production of rental housing and to inform strategies to encourage its production. To do so, we analyzed relevant data on the housing market to describe for-sale and rental housing markets. The intent of this report is not to revisit Ashland’s housing needs or to repeat analysis done as part of other recent studies; however, there were several lines of inquiry not covered in recent studies that were relevant to a more complete understanding of the local housing market. We supplemented our data gathering with interviews with local developers who are building a range of housing types, including both rental and ownership housing. These findings are described in the next section of this report. These findings provide a foundation for understanding the impact that the identified strategies might have on development outcomes.

The remainder of the report evaluates what is physically and financially feasible in the city’s multifamily zones under the existing regulations, and how each potential strategy could change that outcome. Finally, we consider how the MULTE program could be used to incent the desired housing types.

2 Ashland Housing Market Context

Our analysis in this section focuses on understanding the demographics of renters and homeowners to understand these market segments better – who the likely homeowners and renters are, what they might want, and what they can afford. We also include a few basic housing market indicators for context.

2.1 Overview and Key Drivers

The following factors make Ashland’s housing market unusual and drive the outcomes that staff has observed regarding housing production.

- **University Students:** The presence of Southern Oregon University (SOU), with roughly 6,100 students⁵, has an impact on the housing market in a city of roughly 21,000 residents. While a 2007 survey estimated that roughly 20% of students live on-campus and more than half live off campus but outside Ashland, the survey also estimated that roughly 26% of students (close to 1,600 students) live off-campus in Ashland.⁶ This may partially explain the relatively high number of households in Ashland under age 35 with incomes under \$10,000 per year.⁷ For students, current household income may not be the best metric of housing affordability, since many are likely living on student loans or have financial support from their families.
- **Retirees:** More than 30% of Ashland’s population is age 60 or older.⁸ Current household income may not be the best metric for what older households can afford to spend on housing, since some may be drawing on savings in addition to their retirement income. Seniors also tend to have greater interest in low-maintenance housing options such as condominiums and townhomes.
- **High Home-Equity Buyers:** Comparatively few homeowners in Ashland have mortgages.⁹ While some of those without mortgages have likely been living in their homes a long time and have paid off their mortgages, over 57% of condominium sales in Ashland over the last three years were cash transactions, with no mortgages.¹⁰ This may be because Ashland draws migrants from higher-cost housing markets who often have equity from the sale of their previous homes.

⁵ “SOU by the Numbers,” Southern Oregon University: <https://sou.edu/>

⁶ “Ashland, Oregon Rental Needs Analysis”, May 2007

⁷ City of Ashland Housing Needs Analysis, 2012, page 31.

⁸ ECONorthwest analysis of U.S. Census, American Community Survey, 2013-2017

⁹ ECONorthwest analysis of U.S. Census, American Community Survey, 2013-2017. City of Ashland compared to Jackson County and statewide average.

¹⁰ ECONorthwest analysis of Property Radar data for City of Ashland multifamily sales 2015-2018.

- **Demand for Medium-term Rentals:** While Ashland has very tight restrictions on short-term rentals (less than 30 days) in its residential zones, there is demand for 3- to 6-month rentals from some of the employers in town, including SOU, the Asante Ashland Community Hospital, and the Shakespeare Festival. Some local developers reported building housing specifically for corporate rentals by these and other employers. In addition, a strong local tourism economy means that there are more hospitality jobs to fill in the summer months and some visitors who spend the summer or half the year in Ashland.
- **Financing Challenges for Apartments:** As in many smaller communities, local developers report difficulty securing financing for larger apartment developments, due to concerns about slowdowns in bigger markets and concerns about the ability to find a buyer for an apartment building in a small market if the bank has to foreclose on the property. However, unlike many smaller communities, condominiums and townhomes have not faced the same challenges. Condominium and townhome developments are generally built and sold to individual buyers, so the bank only needs enough units to sell to pay off the bank loan. This reduces risk from the lender's perspective. The ability to convert from rentals to condominiums after construction can be valuable if a property is in financial distress, because it allows the owner to sell off some of the units and refinance the rest. Some local developers report building multifamily housing as condominium for ease of financing, even though they intend to hold a portion of the units to rent out as investments. This is not a common strategy in larger markets, but may be a viable source of rental housing in Ashland's unusual market.
- **Local Equity:** Most equity investment for local housing development is coming from local developers and property owners, who may or may not have the same return requirements as larger equity investors in larger markets. This can make it possible to build projects that might not "pencil" under typical return requirements, but it also tends to limit the scale and pace of development to only what those local investors are willing to take on.
- **Consolidated property ownership:** Several local developers noted that much of the available land in Ashland is owned by a few local families who have (to date) been reluctant to sell. This makes finding available land for new development a challenge, and increases land costs. In addition, some reported that much of the existing rental housing in Ashland as well as the rest of the Rogue Valley is owned by a single property owner, who then has some ability to drive rents throughout the market.
- **Contentious approval processes for infill:** Several developers noted that they often end up in contentious land use approval processes where neighborhood opposition is an obstacle. With much multifamily development occurring on relatively small infill properties, there may be more need for adjustments that trigger a discretionary process where the neighborhood opposition becomes relevant to the approval decision. One local architect described designing multifamily buildings for neighborhood compatibility as making the buildings feel "like an apology". Design solutions like

dividing the units into fewer small buildings substantially increased construction costs for recent developments. The time and uncertainty associated with these processes also add cost to the development by increasing holding costs and fees for architects or other representatives to support the land use process.

2.2 Demographic and Market Data

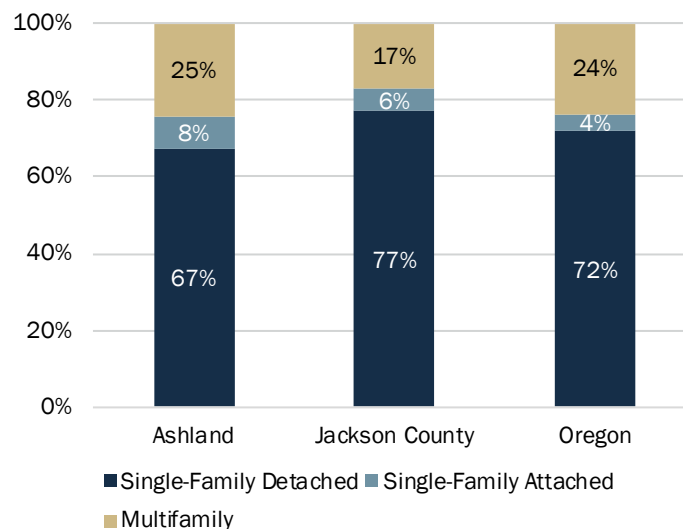
This section includes data regarding housing mix; age, income and homeownership; home price and rent trends; and vacancy to shed light on who Ashland's homeowners and renters are, what type of housing they live in, and how those housing markets have performed in recent years.

Housing Mix

Ashland has a higher proportion of multifamily and single-family attached housing units than Jackson County or the state.

Exhibit 1. Housing Mix, Ashland, Jackson County, Oregon, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B25024.

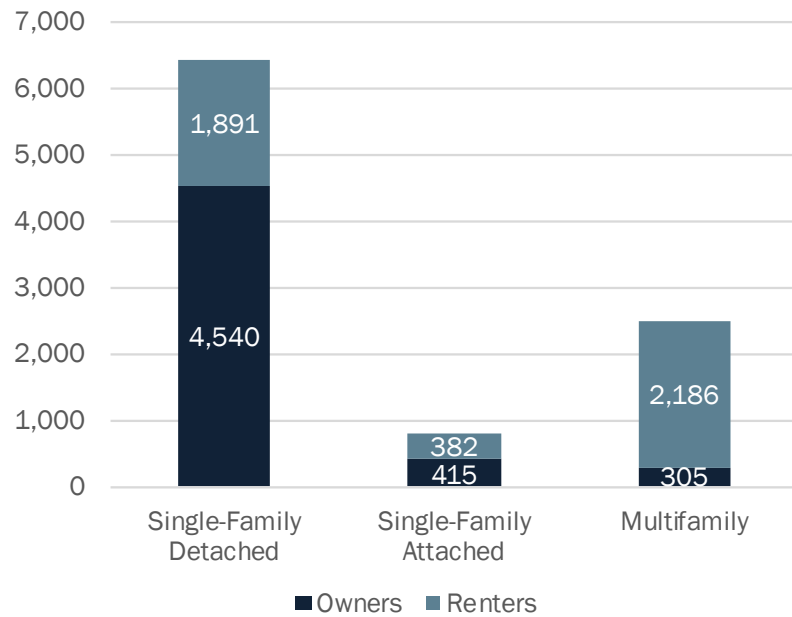


Roughly 70% of single-family detached housing is owner-occupied, while nearly 90% of multifamily housing is renter-occupied.

However, compared to Jackson County and the state overall, the percentage of owner-occupied single-family units is lower, and the percentage of owner-occupied multifamily units is higher. This could be due to the relative shortage of multifamily rental housing in Ashland.

Exhibit 2. Housing Units by Type and Tenure, Ashland, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B25032.

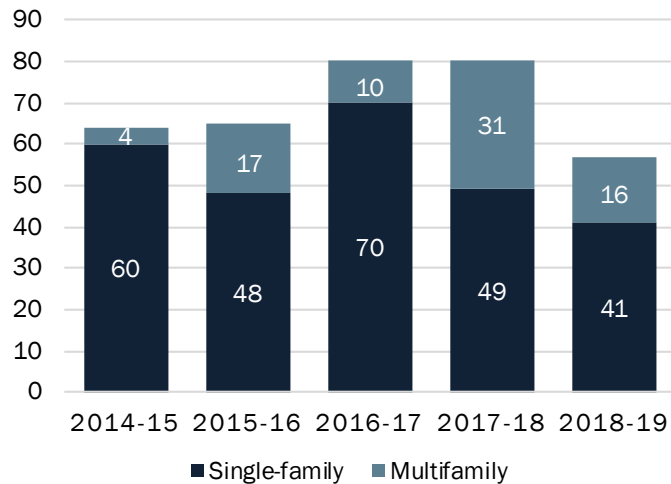


Ashland has approved an average of just 16 multifamily units (including units in mixed use developments) per year in the last five years.

Single family permit activity (including townhomes and accessory dwelling units) has averaged 54 units per year during the same period.

Exhibit 3. Residential Building Permits Issued by Housing Type (New Construction), Ashland, Fiscal Year 2014-15 through 2018-19

Source: City of Ashland, March 2019

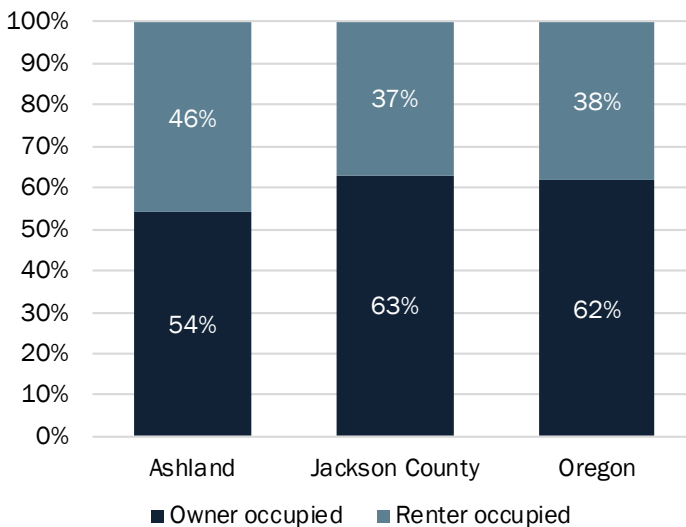


Ashland has a lower homeownership rate than the county or the state.

In Ashland, 54% of housing units are owner-occupied, compared to 63% of units in Jackson County and 62% of units in Oregon.

Exhibit 4. Tenure, Occupied Units, Ashland, 2013-2017

Source: U.S. Census Bureau 2013-2017 ACS 5-year estimate, Table B24003.



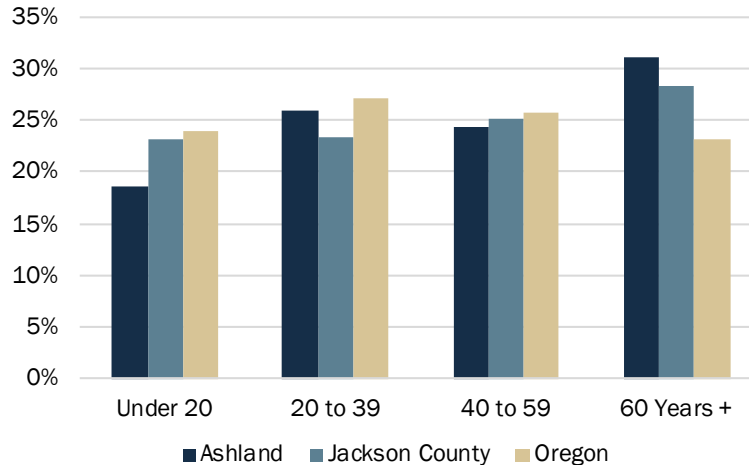
Age, income, and homeownership

A higher proportion of Ashland's population is over 60 years old compared to Jackson County and Oregon.

Over half (55%) of Ashland's population is over 40 years of age.

Exhibit 5. Population Distribution by Age, Ashland, Jackson County, Oregon, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B01001.

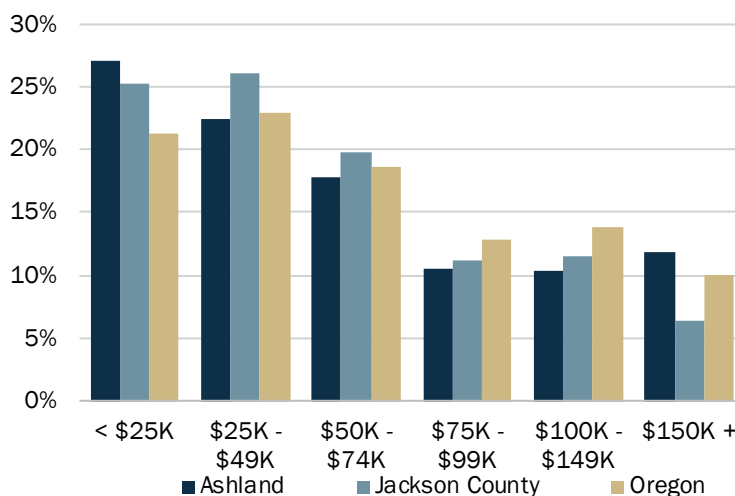


Ashland has both a higher proportion of households with incomes below \$25,000 and a higher proportion of households with incomes of \$150,000 or more than the county and the state.

Nearly 50% of Ashland households earn less than \$50,000 per year.

Exhibit 6. Distribution by Household Income, Ashland, Jackson County, Oregon, 2013-2017

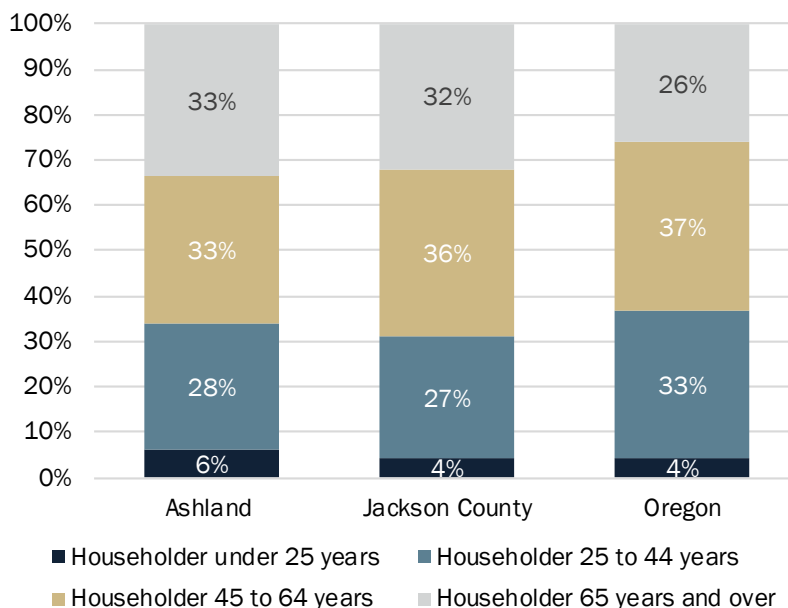
Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B19001.



Ashland has a slightly greater proportion of households headed by seniors and by those under 25 than Jackson County or the state.

Exhibit 7. Homeownership by Age of Householder, Ashland, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B25007.

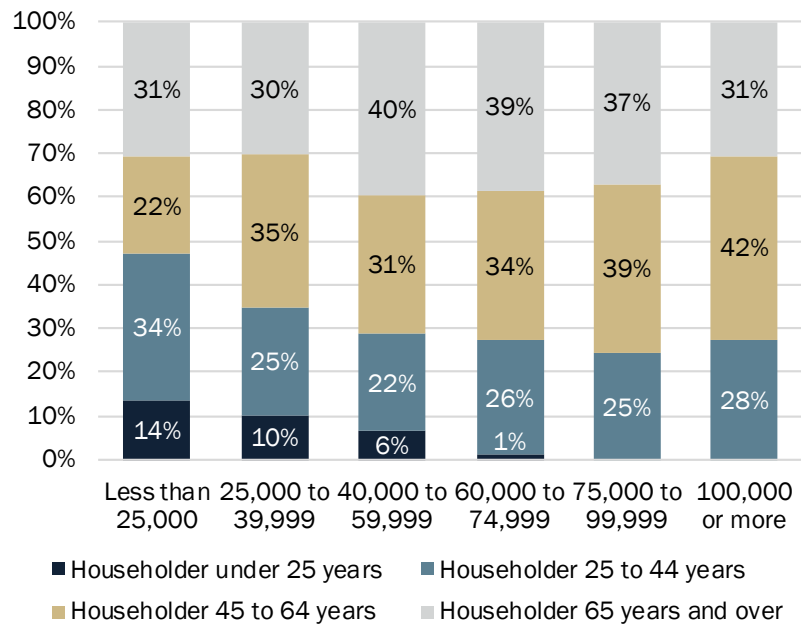


Younger householders tend to have lower incomes in Ashland.

While some of this may be due to the presence of the SOU student population, over a third of those earning less than \$25,000 per year are aged 25 to 44, and more than half are in the primary working years of 25 to 64.

Exhibit 8. Income by Age of Householder, Ashland, 2013-2017

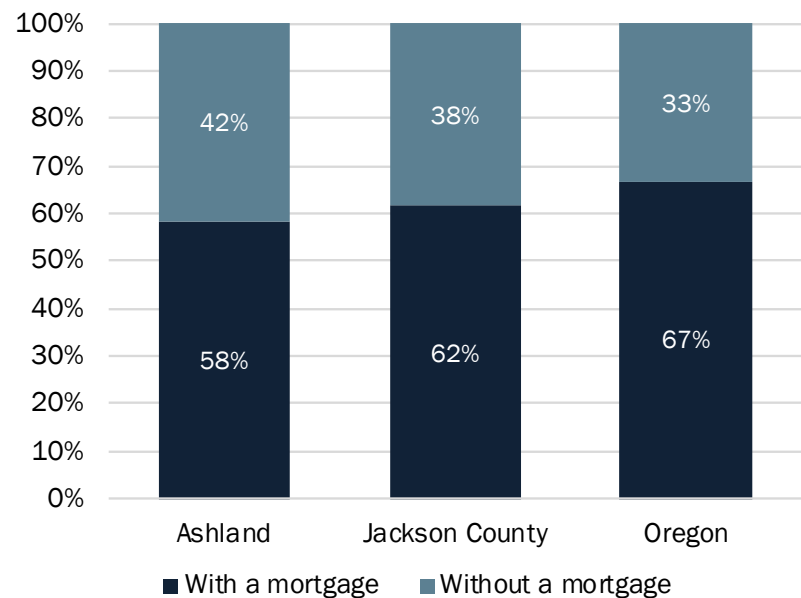
Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B19037.



Ashland has a lower share of homeowners with a mortgage than the county and the state.

Exhibit 9. Mortgage Status, Ashland, Jackson County, Oregon, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B25081.

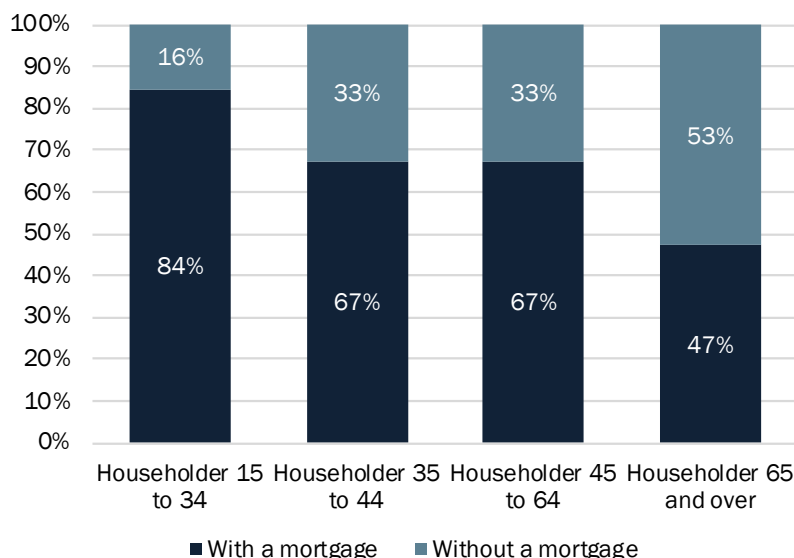


Older homeowners in Ashland are far less likely to have a mortgage than younger ones.

This could be a mix of older households that have lived in their home for many years and have paid off their mortgage and newly-arrived retirees entering the market with equity from a recent home sale.

Exhibit 10. Mortgage Status by Age of Householder, Ashland, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B25027.

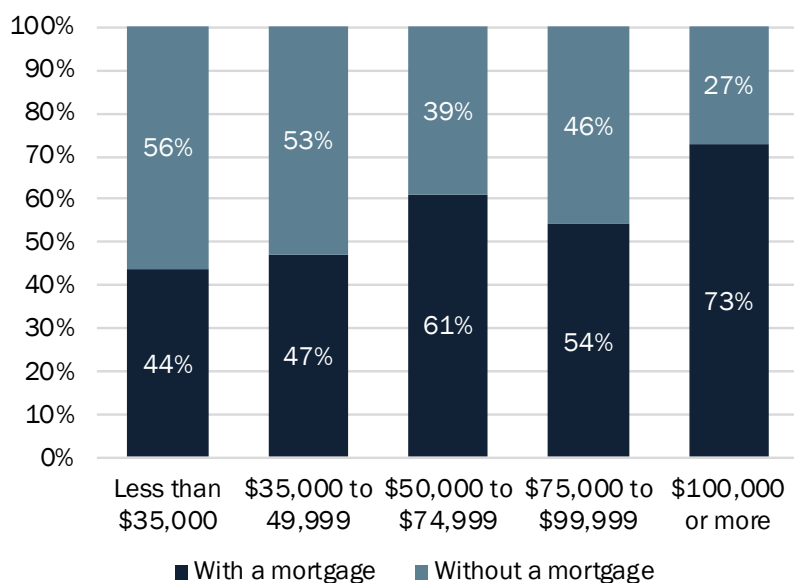


Ashland homeowners earning \$100,000 or more per year are far more likely to have a mortgage than homeowners earning less than \$35,000 per year.

Given the age distribution of homeowners without a mortgage, this could mean that some of the older households without a mortgage have lower current household income (though this does not account for retirement savings and home equity).

Exhibit 11. Mortgage Status by Income of Householder, Ashland, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS 5-year estimate, Table B25098.



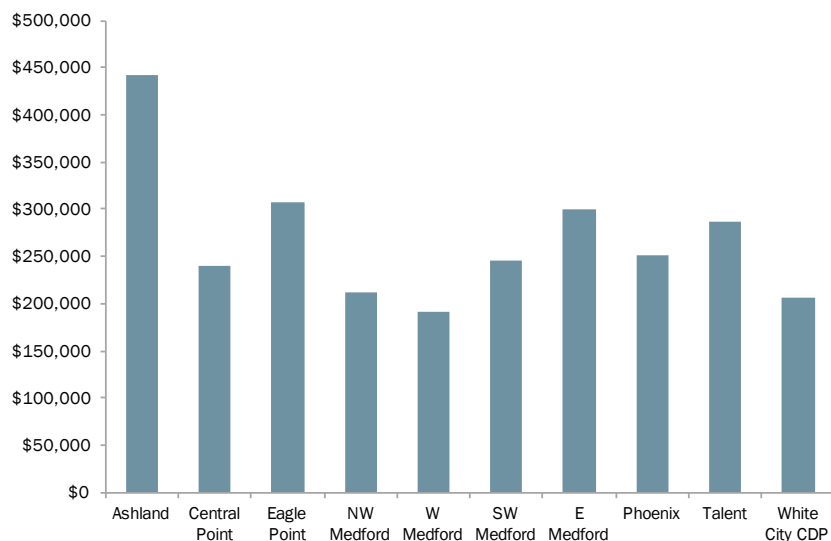
Home Prices

Ashland has the highest median home sales prices for existing homes of any city in the Rogue Valley.

Ashland's housing prices were roughly 50% higher than the median home costs for housing in other urban areas in the region. Ashland's median home sales price was also well above the state average. In July of 2017, Oregon had a median home sales price of \$315,400.

Exhibit 12. Median Home Sale Price (Existing Home Sales), June 1, 2017 through August 31, 2017

Source: Rogue Valley Realtors Residential Market Statistics. ECONorthwest RPS reports. Zillow data.



In the summer of 2017, the median condominium sales price in Ashland was well below the median sales price for all residential sales.

While some condominiums are priced at luxury levels, on average, they represent a more affordable form of ownership housing than single family detached homes, even in Ashland.

Exhibit 13. Ashland Median Sales Prices, Condominiums and All Residential Sales, June 1, 2017 through August 31, 2017

Source: Property Radar, Rogue Valley Realtors Residential Market Statistics, ECONorthwest RPS reports.

\$289,950

Condominiums

\$443,000

All residential sales

Rents

Based on recent listings, current market rents in Ashland are largely unaffordable to households earning less than 80% of the median family income, adjusted for unit / household size.

Very few recently available units were listed for less than \$850 per month, and all were studio units. Listings include a range of housing types: single family homes, units in condominium developments, townhomes, and ADUs. Two-bedroom units were the most commonly available unit type, with an average rent just over \$1,250 per month.

It is worth noting that CPM is currently offering concessions (move-in discounts of half a month or a month of free rent) on many of its units, which reduces the effective rent by 4-8% on an annual basis.

Exhibit 14. Average Square Feet and Rent by Unit Type, Ashland

Source: ECONorthwest analysis of rent data for current listings (all residential property types) from Commercial Property Management / CPM Real Estate Services, February 2019

Bed	Average Unit Size (sf)	Rent Range	Average Rent	Average Rent per sf
Studio	467	\$400 - \$1095	\$760	\$1.93
1	626	\$850 - \$1200	\$947	\$1.57
2	990	\$970 - \$1850	\$1,255	\$1.27
3	1,590	\$1595 - \$2300	\$1,807	\$1.22
Total	919	\$400 - \$2300	\$1,201	\$1.37

Exhibit 15: Current Rents Compared to Maximum Rents by Unit Type and Affordability Level

Source: ECONorthwest analysis of rent data for current listings (all residential property types) from Commercial Property Management / CPM Real Estate Services, February 2019; Oregon Housing and Community Services, 2018 – Rents for LIHTC & Tax-Exempt Bonds, Jackson County

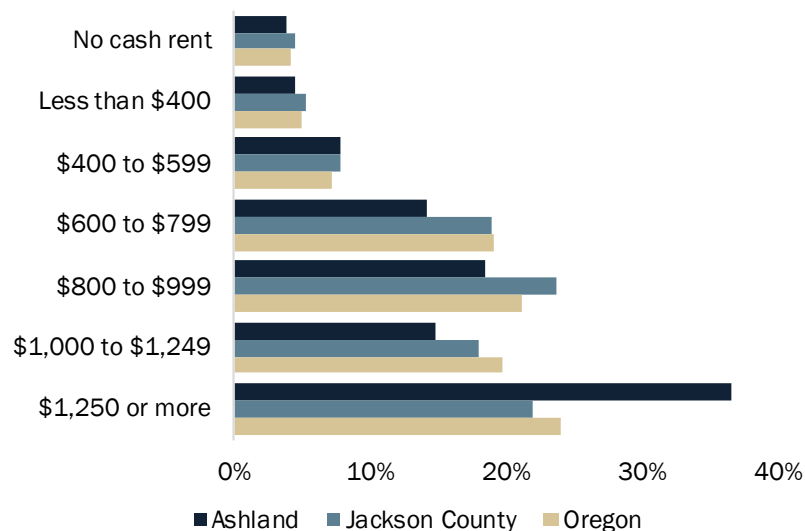
Unit Type	Rent Range	Average Rent	Maximum rent at 60% MFI	Maximum rent at 80% MFI
Studio	\$400 - \$1095	\$760	\$619	\$826
1	\$850 - \$1200	\$947	\$663	\$885
2	\$970 - \$1850	\$1,255	\$796	\$1,062
3	\$1595 - \$2300	\$1,807	\$919	\$1,226

A far greater share of renters in Ashland pay \$1,250 or more in rent per month than in Jackson County or Oregon.

Nearly 40% of renters in Ashland pay \$1,250 or more in rent each month, compared to 22% in Jackson County and 24% in Oregon.

Exhibit 16. Gross Rent, Ashland, Jackson County, Oregon, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS Table B25063.



Vacancy

Ashland and Jackson County both have lower vacancy rates than Oregon.

The overall vacancy rate in Ashland across all housing units was roughly 8% over the 2013-2017 period. However, the vacancy rate for rental units (“for rent” vacant units as a percentage of units in the rental market) was just over 3%.

CPM Real Estate Services, a large property management company, had listings for roughly 10% of the residential rental units it manages (72 listed units out of 696 total units) as of February 2019. These listings include units available and units expected to become available soon.

Exhibit 17. Vacancy Rate, Ashland, Jackson County, Oregon, 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS Table B25063.

Total Vacancy	8.0%	8.0%	9.3%
Rental Vacancy	3.3%	3.1%	3.7%
	Ashland	Jackson County	Oregon

The share of units that are vacant due to seasonal use is higher in Ashland than in Jackson County, but lower than in the state overall.

This suggests that there are only slightly more second homes for part-time use in Ashland than in the county overall, and less than in other parts of the state. Tight restrictions on short-term rentals in Ashland may limit the prevalence of seasonal rentals.

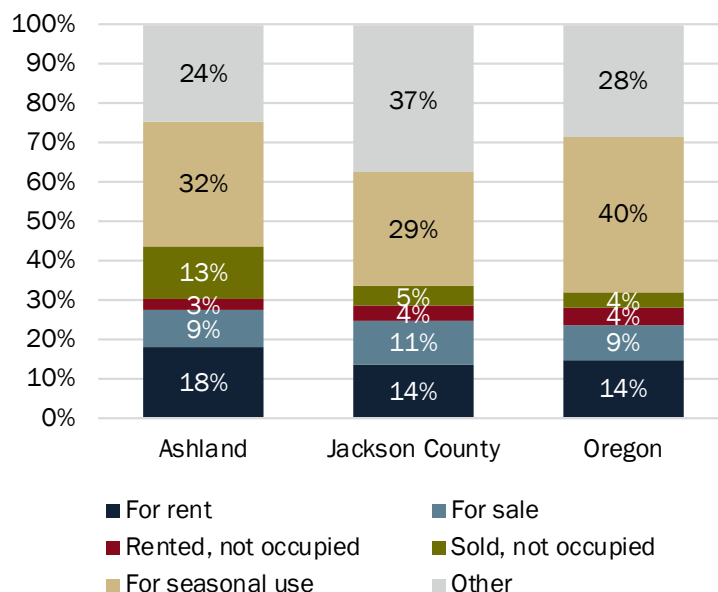
Exhibit 18. Seasonal Use as a Share of All Units, Ashland, Jackson County, Oregon 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS Table B25063.



Exhibit 19. Reason Unit is Vacant, Ashland, Jackson County, Oregon 2013-2017

Source: U.S. Census Bureau, 2013-2017 ACS Table B25063.



3 Analysis

3.1 Overview

This section provides an analysis of how development regulations and a partial property tax abatement program affect the amount and type of multifamily housing that is physically and financially feasible in the City's R-2 (Medium Density Residential) and R-3 (High Density Residential) zones. Our approach is summarized in brief below.

- Identify example site sizes reflective of local conditions in the R-2 and R-3 zones
- Test the maximum number of units that could be built under current zoning (including density, height, parking, and lot coverage standards) on those example site sizes using a range of unit sizes and types
- Test a range of changes to key development standards (parking, height, density, and lot coverage) to see the effect on the amount of development that would be possible on the example site sizes
- Use local rent, sales, and construction cost information to project the financial returns and feasibility of the developments that would be allowed under existing zoning and potential changes to key standards
- Evaluate the impact of a partial property tax abatement consistent with the MULTE program on development feasibility for each of the development examples

Our analysis showed that under current development regulations, maximum density is the key limiting factor in both the R-2 and R-3 zones, and that the existing density bonuses may increase project costs by more than they offset the land costs for some developments. We also found that there is potential to substantially increase the number of units that can fit on these example sites through changes to the development code while maintaining a low-rise garden apartment style. However, our financial feasibility analysis showed that development costs (excluding land) outweigh the value of the finished housing for many multifamily rental housing projects. If construction costs—even with greater building efficiencies from higher density—are so high relative to rents or sales prices that a development cannot afford to pay for land at all, adding more units makes a project less, not more, viable. However, where a development is marginally viable under existing zoning, increasing density allows the development to bear higher land costs that are common in the Ashland market.

We also found that the MULTE program could provide a valuable incentive if all taxing districts participate. If the program is provided only to multifamily rental housing, it could help apartment development compete with condominium and townhome development. However, even this valuable incentive was not enough to overcome the financial feasibility challenges for certain unit types and sizes where rents will not cover the cost of construction. With

development barely feasible under the best case, any attempt by the City to require below-market rents for the rental units would almost certainly eliminate the value of the incentive.

The remainder of this section details key assumptions and methodology, and summarizes the results of our analysis.

3.2 Impact of Changes to Multifamily Zoning Regulations

Approach to Testing Zoning Changes: Physical Form

We tested the impact of changes to density, height, and parking standards as well as standards such as lot coverage and landscaping requirements to see which constraints are most limiting for multifamily development, and how various changes would affect the financial feasibility of multifamily rental housing in comparison to condominium development. To do this, we interviewed developers to understand what types of development have been developed recently or are currently under development in Ashland, and created a range of prototypical multifamily developments that would fit on commonly available lot sizes in Ashland (half-acre and one-acre sites).

Zoning Standards

We created building prototypes that align with existing zoning regulations in the R-2 and R-3 zones. These are summarized in Exhibit 20.

Exhibit 20. Summary of Existing Zoning Regulations (R-2 and R-3 zones)

	Zone R3	Zone R2
<i>Height limits</i>		
Height (ft)	35	35
Height (stories)	2.5	2.5
<i>Parking ratio (per unit)</i>		
Studio	1	1
1-bedroom	1.5	1.5
2-bedroom	1.75	1.75
3-bedroom+	2	2
<i>Base Density (units per acre)</i>		
Base density* (dwelling units per acre)	20	13.5
*Units <500 sq. ft.	Count as 0.75 units	Count as 0.75 units
Maximum base density (all studios)	26.7	18.0
<i>Density Bonuses - maximum total increase</i>		
Conservation Housing (Earth Advantage)	15%	15%
Additional outdoor recreation space	10%	10%
Major recreational facilities	10%	10%
Affordable housing (per unit)	2 per affordable unit	2 per affordable unit
Maximum density with all bonuses (no studios)	32	22
Maximum density with all bonuses (all studios)	42.7	28.8
<i>Landscaping / Impervious Surface Standards</i>		
Impervious coverage (max)	75%	65%
Min. landscape area - % of dev. area	25%	35%
Min outdoor space - % of site area	8%	8%
<i>Setbacks (ft)</i>		
Front	15	15
Side	6	6
Rear (single story)	10	10
Rear (multi-story) setback per story	10	10

Source: ECONorthwest analysis of City of Ashland zoning code

Unit Size and Type

Based on our developer interviews, we tested three different rental unit mixes and one condominium mix, as follows:

- Rental: All studios (under 500 square feet, to take advantage of a provision that allows these units to count as 0.75 of a unit in the density calculation and also reduces certain City fees)
- Rental: A typical unit mix for garden apartments in other communities (20% studios, 35% 1-bedroom, 30% 2-bedroom, 15% 3-bedroom, 0% 4-bedroom)
- Rental: All 4-bedroom units (assumed to be for roommates rather than large families, given demand from students)
- Condo: A typical mix for condos in Ashland (30% 1-bedroom, 60% 2-bedroom, 10% 3-bedroom) with larger unit sizes than the rental units

Capacity Analysis: Existing Zoning

To understand which existing development standards most limit development potential on typical R-3 and R-2 zoned sites, we created prototypes that fit as many of units on the site as possible given the specified unit mix and development regulations. The maximum number of units achievable for each prototype under existing zoning¹¹ is shown in Exhibit 21, along with other key factors, like the number of parking spaces and the impervious surface area.

The low density limits relative to the maximum lot coverage make it more efficient to build larger units to maximize the square footage that can be leased or sold. While larger units tend to rent or sell for less on a per-square-foot basis, the additional square footage does add value and often costs less to build on a per-square-foot basis as well. If the developer cannot generate more revenue or value by adding more units, they may build larger units instead. Depending on how much the construction cost per square foot changes relative to the achievable rents or sales prices per square foot, building smaller units may help financial feasibility, as well as lowering the total rent or sale cost on a per-unit basis.

¹¹ We tested the base density (accounting for the reduced density calculation for units under 500 square feet) as well as a 25% density bonus, assuming use of the Conservation Housing and additional outdoor recreation bonuses allowed in Ashland's code. Achieving a greater density bonus would require either amenities that are unlikely to fit on a small infill site or inclusion of affordable units, which would have a much greater impact to development feasibility than meeting Earth Advantage standards or improving more of the landscaped area as outdoor recreation space, so we did not model use of those incentives. Note that although the code allows for 2.5 stories in the R-2 and R-3 zones, the additional half-story is more appropriate in the context of a single family home than an apartment building, and we have not assumed an additional half-story in these prototypes.

Exhibit 21. Maximum Achievable Units by Prototype and Zone: Existing Zoning (with and without existing bonuses)

Zoning scenario	Results	Prototype						
		1 acre, Rental Mix	1 acre, All Studio	1 acre, all 4BR	1 acre, Condo Mix	0.5 acre, Rental Mix	0.5 acre, All Studio	0.5 acre, Condo Mix
Existing Zoning: R-3	Total achievable units	21	26	20	20	10	13	10
	Total bedrooms*	34	26	80	36	16	13	18
	Parking spaces	33	26	40	34	16	13	17
	Stories	2	2	2	2	2	2	2
	Percent Impervious	47%	36%	63%	56%	45%	36%	56%
Existing Zoning: R-3 with 25% density bonuses	Total achievable units	26	33	23	25	13	16	12
	Total bedrooms*	42	33	92	45	21	16	22
	Parking spaces	41	33	46	43	21	16	21
	Stories	2	2	2	2	2	2	2
	Percent Impervious	58%	46%	72%	71%	59%	45%	69%
Existing Zoning: R-2	Total achievable units	14	18	13	13	7	9	6
	Total bedrooms*	22	18	52	23	11	9	11
	Parking spaces	22	18	26	23	11	9	11
	Stories	1	1	1	1	1	1	1
	Percent Impervious	45%	36%	61%	56%	45%	36%	53%
Existing Zoning: R-2 with 25% density bonuses	Total achievable units	17	22	16	15	8	11	7
	Total bedrooms*	27	22	64	27	13	11	13
	Parking spaces	27	22	32	26	13	11	12
	Stories	1	1	2	1	1	1	1
	Percent Impervious	55%	44%	50%	64%	52%	44%	60%

* Including studio units
Source: ECONorthwest analysis

In almost all cases, the maximum density (even with a 25% density bonus) proved to be the most limiting of the development standards in terms of the allowed capacity of the site. As shown, the current densities are so low that nearly all the prototypes tested left much of the site unused (the actual impervious surface area—building footprint plus required parking—was well below the maximum allowed impervious surface area). This means that reducing parking requirements, increasing allowed height, or increasing the maximum impervious surface area will have little or no effect without substantial changes to the allowed density. In the R-2 zone, with the current base density, only large units (like the 4-bedroom example) make sense as a two-story building, while smaller units could fit on a single story. This likely contributes to the prevalence of large two-story townhomes in the R-2 zone.

Input from local developers suggests that the density bonuses for smaller units and Earth Advantage certification have been utilized and were perceived as being worth any increases in construction costs. However, our own analysis suggests that the financial return on these increased costs may not be realized for rental housing. If the existing density bonuses increase construction costs without a commensurate increase in achievable rents (as we have assumed here), on balance, they will hurt rather than help development feasibility.

Effect of Alternative Development Standards on Physical Form

Next, we tested various packages of changes to development standards, including:

- Density increases to better align the maximum density with the form allowed by other development standards
- Height increases up to three stories in the R-3 zone (we did not test an increase in maximum height in the R-2 zone, though changes to other standards would make building a second story make sense for smaller units)
- Lot Coverage increases up to 80% in the R-3 zone and up to 70% in the R-2 zone
- Parking reductions of 0.25 spaces per unit for studios, 1-bedroom and 2-bedroom units

We tested these in combination since our initial research showed that they would likely be much more powerful together than individually. We tested two combinations of adjustments to each zone, as shown in Exhibit 22 (standards that differ from the current code are highlighted in light blue). We made fewer and less aggressive changes to the R-2 zone to stay consistent with the intention for the zone to allow medium density housing, and presumably to have a greater level of compatibility with single family homes.

Exhibit 22. Zoning Modifications Evaluated

	Zone R3 - current	Zone R3 - Modification 1	Zone R3 - Modification 2	Zone R2 - current	Zone R2 - Modification 1	Zone R2 - Modification 2
<i>Height limits</i>						
Height (ft)	35	40	40	35	35	35
Height (stories)	2.5	3	3	2.5	2.5	2.5
<i>Parking ratio (per unit)</i>						
Studio	1	1	0.75	1	1	0.75
1-bedroom	1.5	1.5	1.25	1.5	1.5	1.25
2-bedroom	1.75	1.75	1.5	1.75	1.75	1.5
3-bedroom+	2	2	2	2	2	2
<i>Base Density (units per acre)</i>						
Base density* (dwelling units per acre)	20	50	60	13.5	35	40
*Units <500 sq. ft.	Count as 0.75 units	Count as 0.75 units	Count as 0.75 units	Count as 0.75 units	Count as 0.75 units	Count as 0.75 units
Maximum base density (all studios)	26.7	66.7	80.0	18.0	46.7	53.3
<i>Density Bonuses - maximum total increase</i>	60%	60%	60%	60%	60%	60%
Conservation Housing (Earth Advantage)	15%	15%	15%	15%	15%	15%
Additional outdoor recreation space	10%	10%	10%	10%	10%	10%
Major recreational facilities	10%	10%	10%	10%	10%	10%
Affordable housing (per unit)	2 per affordable unit	2 per affordable unit	2 per affordable unit	2 per affordable unit	2 per affordable unit	2 per affordable unit
Maximum density with all bonuses (no studios)	32	80	96	22	56	64
Maximum density with all bonuses (all studios)	42.7	106.7	128.0	28.8	74.7	85.3
<i>Landscaping / Impervious Surface Standards</i>						
Impervious coverage (max)	75%	75%	80%	65%	65%	70%
Min. landscape area - % of dev. area	25%	25%	20%	35%	35%	30%
Min outdoor space - % of site area	8%	8%	8%	8%	8%	8%
<i>Setbacks (ft)</i>						
Front	15	15	15	15	15	15
Side	6	6	6	6	6	6
Rear (single story)	10	10	10	10	10	10
Rear (multi-story) setback per story	10	10	10	10	10	10

Source: ECONorthwest analysis of City of Ashland zoning code

The results of these potential modifications are summarized in Exhibit 23. A comparison between the number of units achievable with and without the zoning modifications shows that there is potential to substantially increase the number of units that can fit on these example sites without major changes in the form of development (i.e. maintaining a low-rise garden apartment style). This is especially true for the smaller studio units where any increase in building area translates to a lot more units.

Exhibit 23. Maximum Achievable Units by Prototype and Zone: Modified Zoning

Zoning scenario	Results	Prototype						
		1 acre, Rental Mix	1 acre, All Studio	1 acre, all 4BR	1 acre, Condo Mix	0.5 acre, Rental Mix	0.5 acre, All Studio	0.5 acre, Condo Mix
R-3: height and density increase	Total achievable units	39	62	28	31	18	28	15
	% increase in units from baseline	86%	138%	40%	55%	80%	115%	50%
	Total bedrooms*	62	62	112	56	29	28	27
	Parking spaces	61	62	56	53	28	28	26
	Stories	3	3	3	3	3	3	3
	Percent Impervious	75%	74%	74%	73%	69%	67%	71%
R-3: height & density increase, parking reduction, and lot coverage increase	Total achievable units	45	79	30	36	20	36	16
	% increase in units from baseline	114%	204%	50%	80%	100%	177%	60%
	Total bedrooms*	72	79	120	65	32	36	29
	Parking spaces	61	60	60	54	27	27	24
	Stories	3	3	3	3	3	3	3
	Percent Impervious	78%	80%	79%	78%	70%	72%	70%
R-2: density increase	Total achievable units	29	46	20	22	14	23	11
	% increase in units from baseline	107%	156%	54%	69%	100%	156%	83%
	Total bedrooms*	46	46	80	40	22	23	20
	Parking spaces	45	46	40	38	22	23	19
	Stories	2	2	2	2	2	2	2
	Percent Impervious	65%	64%	63%	62%	63%	64%	62%
R-2: Density increase and parking reduction	Total achievable units	33	53	22	26	16	26	13
	% increase in units from baseline	136%	194%	69%	100%	129%	189%	117%
	Total bedrooms*	53	53	88	47	26	26	23
	Parking spaces	45	40	44	39	22	20	20
	Stories	2	2	2	2	2	2	2
	Percent Impervious	69%	64%	69%	69%	67%	63%	70%

* Including studio units

Source: ECONorthwest analysis

Approach to Testing Zoning Changes: Financial Feasibility

We used rent, sales cost, and construction cost assumptions based on local data and input from local developers to evaluate development feasibility (see appendix for details). Construction costs and rents can vary by location and project design – this analysis is not intended to reflect all the possible variations, but rather to give a relative comparison of different development options given a reasonable set of assumptions.

While our assumptions have been calibrated to Ashland’s market, it is important to note that some of these assumptions are atypical for residential development that occurs in many other markets. To align results (under current zoning) with the inputs from local developers and the

outcomes observed in the market (e.g. what types of projects are moving forward and not), we had to assume lower return rates for non-luxury developments than developers and real estate investors in other markets will typically accept. In sensitivity testing our assumptions, the only product that would be able to generate a more typical financial return is high-end condominiums, which confirms the challenge observed in the market.

It is also worth noting that we took a simplified approach to modeling “soft costs” (system development charges; permitting fees; legal, architecture and engineering costs; carrying costs; and other pre-development costs), setting the total for soft costs at a typical percentage of hard costs rather than itemizing the individual costs. However, we did account for the City’s reduced system development charges for smaller units by deducting the difference in per-unit SDC fees from soft costs for qualifying units. In addition, condominium development would have higher soft costs due to the need to create the condominium plot and the increased legal fees; we have modeled this through assuming a higher soft cost percentage for condo development.

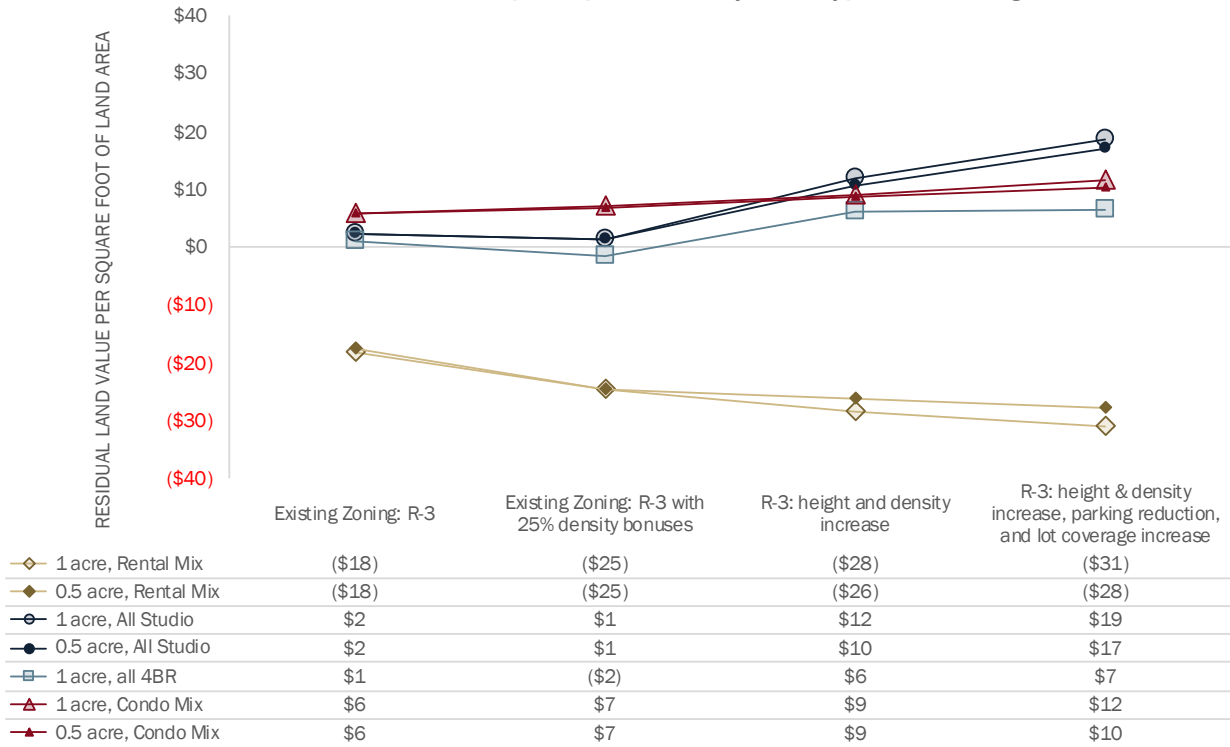
We estimate residual land value (RLV)—the amount that a developer could afford to pay for land (per square foot of land) given the expected project value and all non-land costs—as an indicator of development feasibility. This method allows us to understand how different types of development would “compete” for the same land. Generally, the use or development type that can afford to pay most for the land will be the most likely to secure that land, while others may get outbid on the open market. In reality, some people build on land they already own and have held for some time, in which case they can choose a development option with a very low or near-zero residual land value.

This analysis focuses on whether each development type has a positive residual land value (meaning that they are feasible if land cost is not an issue) and how various types compare to one another. However, it is helpful to keep in mind that land costs in Ashland can be quite high. Local developers indicated costs of at least \$250,000 per acre (about \$5.75 per square foot) and as high as \$900,000 an acre (more than \$20 per square foot) for multifamily residential land.

Effect of Alternative Development Standards on Financial Feasibility

Exhibit 24 and Exhibit 25 show the RLV per square foot for each prototype and zoning scenario in R-3 and R-2, respectively. Each graph shows how RLV (on the Y-axis) varies for a given prototype (e.g. 1-acre site developed with all studios, shown as a horizontal line) under each set of zoning assumptions (listed across the X-axis). Our analysis shows that even under relatively optimistic but locally plausible financial assumptions, the only rental prototypes that are at all financially feasible in either zone are ones that can command a rent premium on a per-square-foot basis relative to other unit types: small studio units and 4-bedroom units rented by the bedroom. The prototypes with a more typical mix of 1-, 2-, and 3-bedroom units do not generate enough rent to cover their costs, even assuming a tolerance for lower returns.

Exhibit 24. R-3 Zone: Residual Land Value per Square Foot by Prototype and Zoning Scenario



Source: ECONorthwest analysis

Exhibit 25. R-2 Zone: Residual Land Value per Square Foot by Prototype and Zoning Scenario



Source: ECONorthwest analysis

3.3 Property Tax Abatement

This section describes the multiple-unit property tax exemption—the tax abatement program that was suggested during the Regional Problem Solving project—and provides an analysis of how this program could support development feasibility and how it would affect tax revenue. This section also introduces two additional tax abatement programs ECONorthwest identified as worth consideration for Ashland, but it does not evaluate them in detail, since that would go beyond the scope of the current effort. (A fourth tax abatement program—a Vertical Housing Development Zone—is being evaluated under a separate contract.)

Multiple Unit Property Tax Exemption

Program Overview

Through the multiple-unit tax exemption (a.k.a. MULTE or MUPTE), a jurisdiction can incent multifamily housing in specific locations and/or with specific features. Through a competitive process, multi-unit projects can receive a property tax exemption for up to ten years on the improvement value of the property. 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 designate core areas,¹² areas within a quarter-mile of fixed-route transit service, or urban renewal areas. Alternatively, the city can designate the entire city and limit the program to affordable housing. The city can select projects on a case-by-case basis through a competitive process.

The city establishes the program via ordinance or resolution. A public hearing is required to determine whether qualifying housing would or would not be built without the benefit of the program. The city must establish standards and guidelines with requirements for eligibility.¹³

BENEFITS

- The abatement program is City-controlled on project-by-project basis.
- The City sets eligibility criteria; the program is flexible to support various objectives related to encouraging housing.
- Tax abatements positively impact the feasibility of projects where market-rate projects are feasible and can help cross-subsidize affordable units.
- The program is not limited to developments with active ground floor uses.

¹² Core areas is not defined in the statute. The legislative findings in ORS 307.600 suggest that the intent is for areas around a downtown, but there seems to be discretion for the City to interpret this broadly if desired.

¹³ See ORS 307.600 to 307.637 for complete regulations.

- The city can set an annual cap on the total amount of tax exemptions in any given year for all projects.
- The property owner can apply by the February before first assessment year of requested exemption. Construction need not be complete.

DRAWBACKS

- The City must get affirmative support from at least some overlapping taxing districts¹⁴ to apply the abatement to their tax collections.
- The discretionary application process creates uncertainty during the development stage and more work for applicants.
- The abatement may provide insufficient incentive to lead to affordability unless paired with other tools.
- The City foregoes some property tax revenue for 10 years.

Program Design for Ashland

Given Ashland's housing market context, in which rental housing has difficulty competing with condominium development and there is a need for additional multifamily rental housing, the City could offer the tax abatement only for rental housing (not condominium ownership). To ensure that the units are at least moderately affordable, the City could require that rents not exceed levels affordable to households earning 100% of the area median income (AMI). This would not produce much, if any, discount relative to the rents likely with new market rate multifamily for most unit types. (The exception is the 4-bedroom units, for which expected rents when leased by the bedroom would be well above the level affordable at 100% of AMI for a single household.) However, requiring a rent discount in exchange for the tax abatement will cancel out some or all of the incentive, which would make it less useful to encourage rental housing that isn't currently feasible. The City could require reporting of rents to ensure compliance, but not necessarily require income certification of tenants, since this can be cumbersome for smaller properties unless they have a property manager experienced in income-qualifying tenants. Because the City already has an affordable housing program that provides enforcement and monitoring for affordable without state or federal funding, the additional administrative burden of requiring rent reporting is not unreasonable.

While there may be an argument to apply the program throughout the City's multifamily zones, for consistency with the intent of the program in statute, the City could apply it only to the R-2 and R-3 zones within a quarter-mile of transit and perhaps within a half-mile of the downtown (based on the C-1-D zone). This would likely include nearly all of the multifamily zoning in the City.

¹⁴ Requires districts representing at least 51% of the combined levy to agree by board resolution to participate, in which case all districts are included.

We have modeled these program assumptions by simply calculating the discounted present value (to the developer) of the 10-year tax abatement with no change to assumed rents or building form, and added that value to the residual land value for each rental building prototype and zoning scenario. However, we have assumed that the program would not be applicable to the 4-bedroom prototype since the rents are too high, and the rent discount required to qualify would more than outweigh the value of the tax abatement.

Approach to Analysis

Since the tax abatement applies only to the assessed value of the improvements (not the land value), we first estimated improvement value based on construction costs for each building prototype. We converted the improvement value to assessed value (the taxable portion) based on the Changed Property Ratio in Jackson County for multifamily housing (0.659)¹⁵. We then applied the local tax rate (\$15.5843 per \$1,000 of Assessed Value) to calculate the property tax savings. (Note that this calculation assumes that enough of the overlapping taxing districts agree to participate that the taxes from all jurisdictions are abated. City taxes account for just \$4.4301 per \$1,000 of Assessed Value.)

We analyzed the value to the developer assuming a discount rate¹⁶ to recognize that money is more valuable today than in the future. However, though the value to the developer is discounted, the property taxes abated by the taxing districts are still calculated at the full value, which we assumed grew at 3% per year.¹⁷ Exhibit 26 shows the estimated value / cost of the property tax abatement to developers and to the affected taxing districts for one example prototype and zoning scenario to illustrate this calculation.

Exhibit 26: Value of Property Tax Abatement to Developer and Taxing Districts

		Example
Value of tax abatement (year one)	City Taxes	\$12,190
	Other Districts' Taxes	\$30,693
	Total	\$42,883
Discounted value of tax abatement to developer (10-year period)	City Taxes	\$113,927
	Other Districts' Taxes	\$286,847
	Total	\$400,774
Cost of tax abatement to the taxing districts (10-year period)	City Taxes	\$163,825
	Other Districts' Taxes	\$412,483
	Total	\$576,309

¹⁵ Jackson County Changed Property Ratio Summary, 2018. <http://jacksoncountyor.org/assessor/Taxes/Tax-Time/Ratio-CPR>

¹⁶ Assumed a 7% discount rate on 2019 dollars

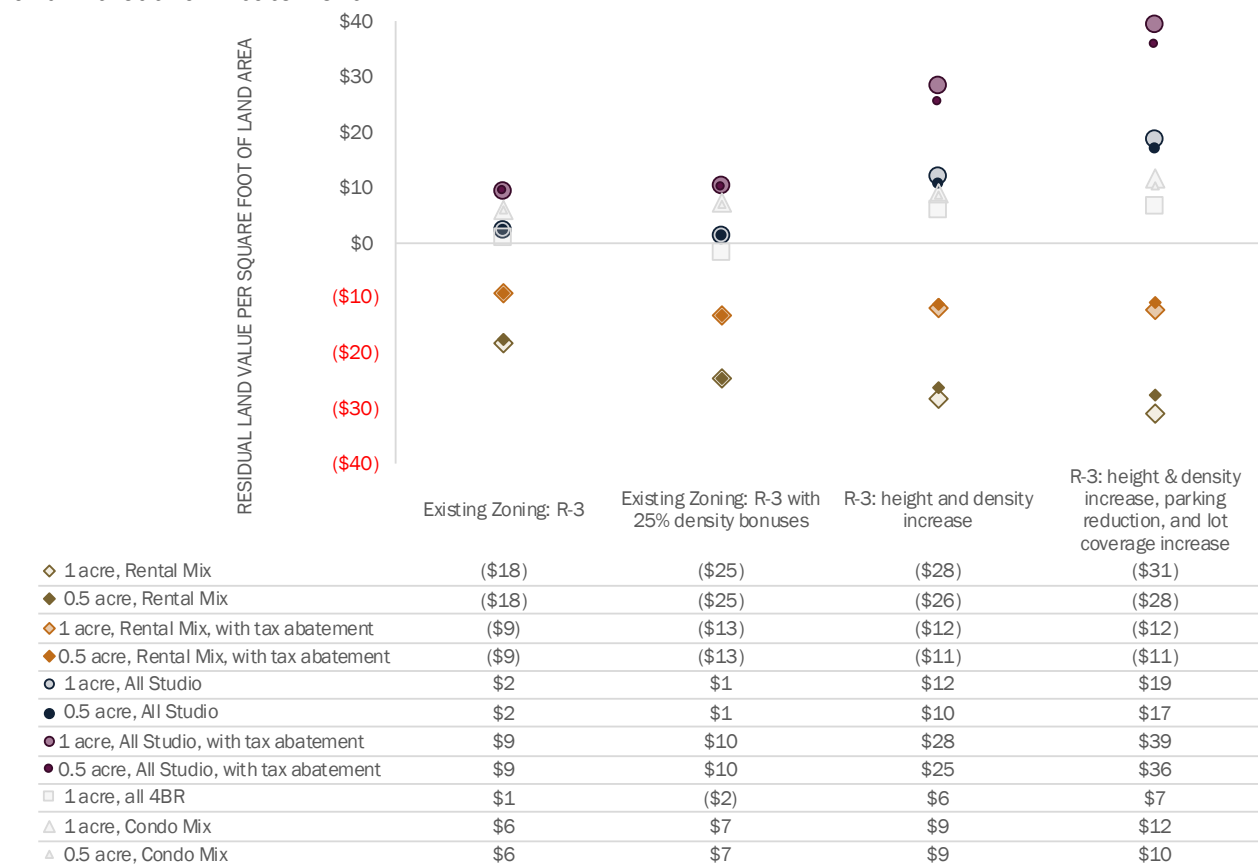
¹⁷ A major market correction could potentially prevent an annual growth of 3% for assessed value if compression resulting from property tax limits under Measure 5 constrains the total tax amount.

To evaluate how this cost savings would impact financial feasibility, we include the discounted value of the tax abatement to the developer over the 10-year period (assuming that both City and other district's taxes are abated) when calculating the residual land value. In other words, in this example, the total residual land value of the development would be increased by \$400,774 before we calculate it on a per square foot basis.

Effect of Tax Abatement on Financial Feasibility

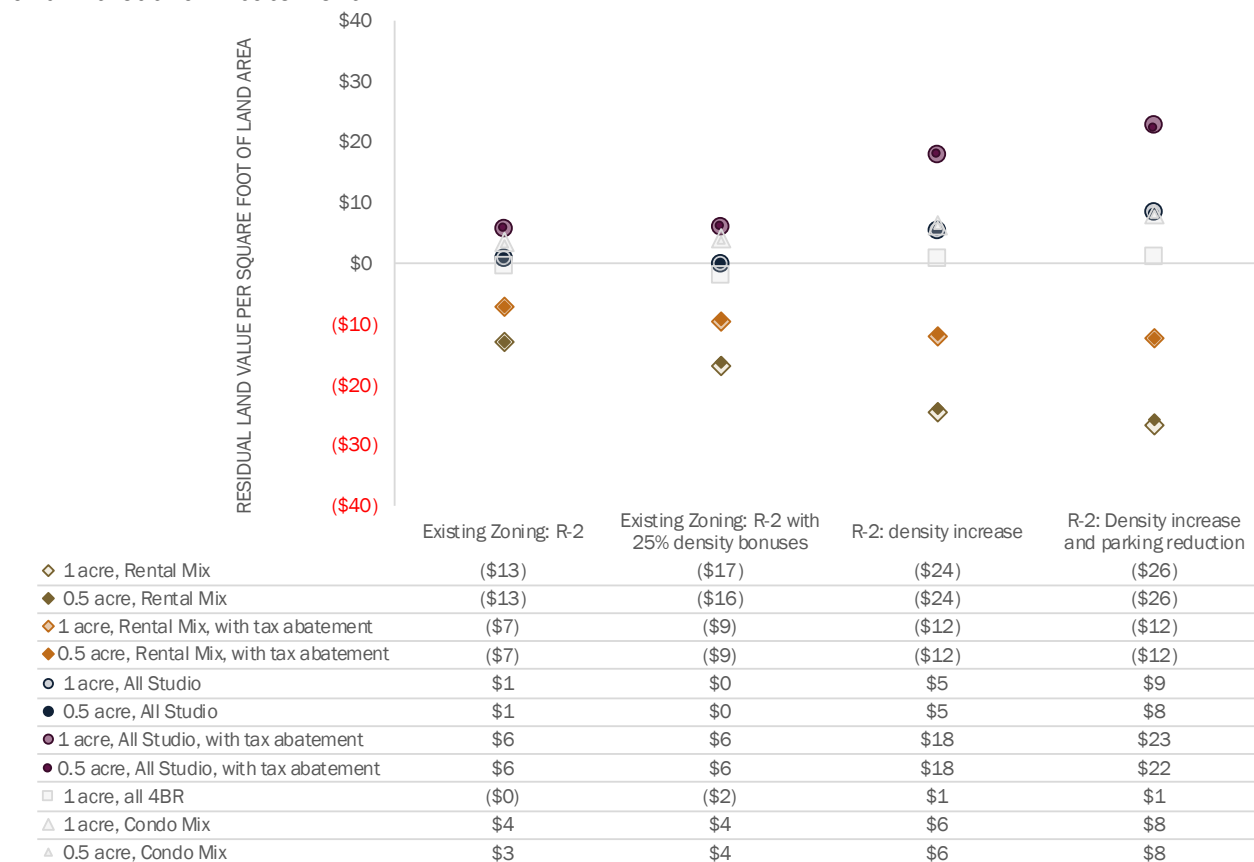
The impact on development feasibility for all the prototypes and zoning scenarios is shown in Exhibit 27 and Exhibit 28. Our analysis shows that the value of the tax abatement, even with all districts included, is not enough to overcome the feasibility issues for the typical rental mix. However, for the all-studio prototype, which was marginally feasible without the tax abatement, the program makes the difference between marginal feasibility on a site with little or no land cost and being able to compete in the land market against condominium development. The combination of code amendments and the tax abatement makes this prototype feasible at a level that could generate the type of returns that a more conventional developer would be looking for, which could potentially expand the pool of interested developers of rental housing.

Exhibit 27: R-3 Zone: Residual Land Value per Square Foot by Prototype and Zoning Scenario with and without Tax Abatement



Source: ECONorthwest analysis

Exhibit 28. R-2 Zone: Residual Land Value per Square Foot by Prototype and Zoning Scenario with and without Tax Abatement



Source: ECONorthwest analysis

Other Property Tax Abatement Programs: Nonprofit Corporation Low Income Rental Housing Exemption¹⁸

Overview

This tax exemption program applies to rental housing for low income persons¹⁹ that is owned, being purchased, and/or operated by a nonprofit. It would also apply to land held for affordable housing development. This program would provide an opportunity to assist nonprofits providing affordable housing in the community by lowering operating costs. (Affordable housing provided by the Housing Authority is already exempt, and some non-profits obtain tax exemptions through the state, though this can be cumbersome.)

Land and improvements are exempt for as long as the property meets the criteria, but developers must reapply every year to show that they continue to meet the program criteria. Rents within the eligible properties must reflect the full value of the property tax abatement.

¹⁸ ORS 307.515 to 307.523

¹⁹ Incomes must be at or below 60% of area median income (AMI) to start, and up to 80% AMI in subsequent years.

BENEFITS

- The affordable housing tax abatement can be used for any non-profit affordable housing development.
- The program does not require construction to be complete prior to application.
- The abatement 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

- The abatement reduces general fund revenues for all overlapping taxing districts if properties that would not otherwise have received an exemption are approved through the program.
- The City must get affirmative support from enough overlapping taxing districts to apply the abatement to their tax collections.
- The program does not apply to mixed-income housing or affordable housing built by for-profit developers.
- The requirement for the property owner to resubmit eligibility documentation every year may be burdensome.

Other Property Tax Abatement Programs: Temporary Exemption for Newly Rehabilitated or Constructed Multiunit Rental Housing²⁰

Overview

This program was adopted by the state legislature in 2017 and to our knowledge has yet to be implemented. The program applies to newly rehabilitated or constructed multiunit rental housing affordable to households with an annual income at or below 120% of AMI. It offers an exemption for the full property tax levy (on land and improvement value) of all taxing districts for up to 10 years. The City must establish a schedule that provides longer exemptions for projects with more qualifying units, up to a maximum of 10 years. The abatement applies to qualifying properties city-wide.

BENEFITS

- Properties must re-apply every year, which provides a built-in enforcement mechanism. This is not overly burdensome since they only need to show that they continue to meet the criteria, which are non-discretionary. Income verification is not required.
- All properties that meet eligibility criteria must be granted the exemption, reducing uncertainty.

²⁰ House Bill 2377 / chapter 624, Oregon Laws 2017

DRAWBACKS

- Little ability to tailor the program to local conditions.
- Reduces tax revenue in the short-term by exempting land as well as improvements.
- Dependent on support from overlapping taxing districts to adopt program – no option to only exempt City taxes.

The City could consider a cap on the total foregone revenue and/or sunset the program after a few years to have an opportunity to evaluate outcomes. This might also be helpful to get other taxing districts to support the program.

4 Preliminary Recommendations and Next Steps

The City should consider the following measures for implementation.

Development Code Amendments

Preliminary Recommendations

- **Increase maximum allowed densities in the R-2 and R-3 zones.** Two to three times as many units per acre as allowed under the current density standards can potentially fit on a typical site with limited changes to other development standards. Higher densities are especially important for small infill sites where efficiency is at a premium.
- **Increase the allowed height in the R-3 zone from 2 ½ to 3 stories and from 35 to 40 feet.** The R-2 zone can serve as a transitional zone that maintains a scale more similar to single family homes, but the High Density Residential (R-3) zone should accommodate typical multifamily construction. Walk-up garden apartments tend to be most cost-effective at three stories.
- **Increase lot coverage allowances slightly in the R-2 and R-3 zones.** This change supports the other code amendments listed, but it is not meaningful on its own.
- **Decrease multifamily parking requirements, especially for smaller units.** Small parking reductions increase efficiency and reduce costs when combined with increases in density.

Next Steps

Amending the development code is a legislative action that will require staff time to prepare specific amendments; outreach to the community and local developers; and work sessions and hearings by the Planning Commission and City Council.

Identify and Eliminate other Regulatory Obstacles

Preliminary Recommendations

- **Revise the City's annexation policies to eliminate the requirement to demonstrate less than a five-year supply of land.** Existing policies were intended to help ensure orderly growth; however, this is the role of the City's Urban Growth Boundary (UGB). Creating obstacles to annexing land within the UGB for housing contributes to higher land costs and makes it difficult to find land for larger housing developments.
- **Revisit regulations for multifamily on smaller infill sites to reduce the need for discretionary processes and streamline permitting.** While not the focus of this project, developer interviews suggest that multifamily projects often end up in discretionary

land use reviews that become targets of neighborhood opposition. This adds time, which increases a developer's carrying costs; can require design changes, which increase design and engineering costs; and increases uncertainty, which can discourage developers from initiating future projects. The City's existing multifamily design and development standards are largely clear and objective, but there may be opportunities for streamlining the process or obstacles to meeting those standards on smaller and constrained sites.

- **Be cautious of disincentivizing condominium development and conversion.** Given the fluidity between the ownership and rental markets in Ashland and the financing challenges for multifamily rentals, using the development code to discourage condominium production may be counter-productive and have unintended consequences for the rental market.

Next Steps

The City's annexation policies are located in the development code. Any changes would need to go through the same legislative process as other code amendments. If possible, revisions to these policies should be brought forward with the amendments to development standards described above so that increasing the capacity of the R-2 and R-3 zones through code amendments does not unintentionally make annexations for multifamily residential land more difficult.

Staff (with consultant support if needed and appropriate) would need to look closely at the development code, procedures (e.g., forms providing notice to nearby property owners), and recent multifamily development applications to identify what issues are causing multifamily infill projects to end up in discretionary review processes. Once the issues have been identified, staff can consider whether code amendments or procedural changes are appropriate.

Property Tax Abatement

Preliminary Recommendations

- **Advance discussions on the multiple unit property tax exemption for market-rate multifamily rental housing.** While the City could require participating properties to maintain rents at a certain level (e.g. affordable at the area median income) for the 10 year period of the tax abatement, this would add complexity to the program, and deeper discounts would partially or fully cancel out the benefit to the developer.
- **Evaluate the "temporary exemption for newly rehabilitated or constructed multiunit rental housing" as an alternative to MUPTE for market-rate multifamily rental housing.** The program may be a good fit for Ashland since it is more streamlined than the MUPTE program, is specifically targeted to rental housing, and sets a fairly high threshold for affordability.

- **Consider adopting the Non-Profit Low Income Rental Housing tax abatement for affordable housing.** This program provides a simplified way for affordable housing owned and operated by a nonprofit to qualify for a property tax exemption.

Next Steps

The City is already anticipating outreach to overlapping taxing districts later this year regarding another property tax abatement program – the Vertical Housing Development Zone. As part of those conversations, the City should discuss the other tax abatement programs listed above, since all require support from overlapping districts.²¹

If the City chooses to move forward with the one or more of the programs, it would need to adopt it via ordinance or resolution. Specific requirements for each program include:

- For MUPTE, a public hearing is required to determine whether qualifying housing would or would not be built without the benefit of the program. The City must establish standards and guidelines with requirements for eligibility.
- For the temporary exemption for newly rehabilitated or constructed multiunit rental housing, the City must establish definitions of affordability and the duration of exemption relative to the share of affordable units.
- To establish the Non-Profit Low Income Rental Housing program, the City would need to adopt standards and guidelines for applications, and enforcement mechanisms.

²¹ For MUPTE and the non-profit exemption, at least 51% of the combined tax rate must agree by board resolution in order for the exemption to apply to all taxing districts. For the temporary exemption for new and rehabilitated multifamily rental housing, the exemption cannot take effect at all unless governing bodies representing at least 51% of the total combined tax rate (when combined with the City's tax rate) agree to grant the exemption.

5 Conclusions

Ashland's unique housing market, described in Section 2, is the primary factor driving multifamily housing production outcomes. There is little the City can do to overcome financing challenges for apartment development in small markets, but it can remove development code obstacles to multifamily development and can also offer financial incentives that help rental housing compete with ownership housing for available land.