EUGENE HOUSING TOOLS & STRATEGIES EVALUATION

Prepared for:

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I. EXECUTIVE SUMMARY

Introduction

Enabling quality housing at a range of price points is a high priority for the City of Eugene. In May 2018, the Eugene City Council passed a motion to have staff implement a process to identify barriers to housing affordability, availability, and diversity, and to suggest, evaluate, and recommend possible strategies and tools to address the barriers. In support of that process this report provides findings from an evaluation of a range of housing tools and strategies. The tool evaluation was conducted in conjunction with the Housing Tools and Strategies Working Group, which made recommendations to City Council on options to improve housing affordability, availability and diversity in Eugene. This executive summary highlights key findings from the evaluation. The full report includes additional background information, analytical results, and assumptions.

Report Organization

This executive summary provides an overview of the housing tools and strategies evaluation. The report is organized into five chapters and two appendices. Following this executive summary, Chapter II provides an introduction to the purpose of the study and an overview of affordable housing and housing affordability in Eugene. Chapter III summarizes population and household characteristics for Eugene and provides an overview of recent trends in market rate rents and sales prices and construction permits. Section IV provides an evaluation of accessory dwelling units. The final chapter, Section V, provides an evaluation of the Construction Excise Tax. Appendix I provides an inventory of housing tools and strategies and Appendix II summarizes research on best practices for increasing housing production.

Background Information

POPULATION AND HOUSEHOLD CHARACTERISTICS

This section summarizes demographic and housing characteristics for Eugene and other places in Oregon. Figure 1 summarizes key population and household characteristics for Eugene, Lane County, and Oregon as a whole. Figure 2 provides an overview of how Eugene has been growing compared to select cities in Oregon.

Compared to other places in Oregon, Eugene is characterized as follows:

- **Higher share of individuals aged 18 to 24 years old.** Young adults in the typical college-age range account for 19 percent of Eugene's total population. The 23,500 students enrolled at the University of Oregon make the largest contribution to Eugene's share of this age group.
- **Larger share of nonfamily households and people living alone.** Thirty-three percent of households are householders living alone while 15 percent are other nonfamily households, which includes households made up of non-related housemates or roommates. Seniors make up one quarter of householders living alone. The share of seniors among total one-person households has grown from 21 percent since 2000.

- **Relatively low income.** At just under $45,000, median household incomes in Eugene are lower than those in Lane County and in Oregon as a whole.
- **Higher overall poverty rate.** Eugene's overall poverty rate is 23.1 percent, compared to a rate of 13.2 percent for Oregon as a whole. Family households account for about half of the people living under the poverty line in Eugene. College students living in off-campus housing account for about a third of people living under the poverty line, and other non-student individuals in non-family households account for the remaining portion.[1]
- **More renters.** Renter households account for 51 percent of total households in Eugene. Among these households, one-quarter of householders are between ages 15 and 24, and one-quarter are between ages 25 and 34. The other half of renter householders are 35 or older, including 14 percent over the age of 65.
- **Relatively large multifamily housing stock.** Eugene has a larger share of "Missing Middle" and apartment units and a smaller share of single-family detached units than other mid-sized cities in Oregon. Twenty-eight percent of housing units in Eugene are in Missing Middle building types, defined as duplexes, triplexes, cottages, courtyard units, rowhouses, and other smaller multi-unit attached and detached housing units[2], a higher share than in both Salem and Bend. Thirteen percent of Eugene's housing units are in apartment buildings with more than 20 units, which is nearly double the shares of apartment units in Salem, Bend, and Springfield.

Compared to the select cities in Oregon, Eugene is:

- **Growing relatively slowly.** Eugene is growing on par with Salem and Springfield, but more slowly than Bend. Eugene's population grew 17 percent from 2000 to 2016, while its housing stock grew 15 percent over the same period. Eugene and Salem are adding houses at a slower rate than Springfield and Bend. [3]

FIGURE 1: SELECTED POPULATION AND HOUSEHOLD CHARACTERISTICS, EUGENE, LANE COUNTY, AND OREGON, 2012-2016

	Eugene	Lane County	Oregon
Population	161,649	360,273	3,982,267
Households	66,401	146,692	1,545,745
Median Household Income	$44,859	$45,222	$53,270
Households Renting	51%	41%	39%
Households in Multifamily Units	32%	20%	20%
Population 18 to 24 Years	19%	13%	9%
Population Over 65	14%	17%	16%
People Living Alone	33%	29%	28%
Families with Children	24%	25%	29%

Sources: U.S. Census, 2010; ACS, 5-year estimates, 2012-2016; Strategic Economics, 2018.

[1] Sources: ACS 5-year estimates, 2012-2016; Places with Populations of 10,000 or More and Statistically Significant Differences in Poverty Rates with Exclusion of Off-Campus College Students: 2012-2016, https://www.census.gov/data/tables/2017/demo/income-poverty/acs5yrs.html.
[2] Missing Middle Housing, https://www.eugene-or.gov/3652/Missing-Middle-Handbook.
[3] ACS 5-year estimates, 2012-2016.

FIGURE 2: EUGENE AND SELECT CITIES: POPULATION AND HOUSING UNIT GROWTH, 2000-2016

	Eugene	Bend	Salem	Springfield
Population, 2000 Census	137,893	52,029	136,924	52,864
Population, 2012-2016 ACS	161,649	84,416	161,975	60,611
Population Added 2000 - 2016	23,756	32,387	25,051	7,747
% Population Change, 2000-2016	17%	62%	18%	15%
Housing Units, 2000 Census	61,444	22,507	53,817	21,500
Housing Units, 2012-2016 ACS	70,649	37,406	61,987	25,368
Housing Units Added, 2000 - 2016	9,205	14,899	8,170	3,868
% Housing Unit Change, 2000-2016	15%	66%	15%	18%

Sources: U.S. Census, 2010; ACS, 5-year estimates, 2012-2016; Strategic Economics, 2018.

HOME VALUES, RENTS, AND CONSTRUCTION PERMITS

This section summarizes recent trends in market rate rents and sales prices, and construction permits for Eugene.

- **The median sales price for an existing house in Eugene is about $315,000.** However, the median sales price for a newer home, built since 2014, is significantly higher at $449,000. [4]
- **From 2013 to 2018, rents for multifamily units increased 22 percent, or on average $190 per unit, after adjusting for inflation.** Nearly half of the units built since 2013 are in zip code 97401, which covers downtown Eugene and north to the Beltline. In this zip code, rents grew at a slower rate of 17 percent over the last five years.[5]
- **Over half of dwelling units permitted between 2008 and 2017 are in multifamily buildings.** Almost 57 percent of new dwelling units permitted in Eugene from 2008 through 2017 were in 5-or-more-unit apartment buildings. An additional 32 percent of permitted units were single-family dwellings. In contrast, accessory dwelling units, townhouses, and units in 2-4 unit buildings made up just eight percent of total units permitted during that period. Permits for manufactured homes make up the remaining dwelling units permitted at under three percent of the total. [6]
- **Townhomes and condominium units represented just 7.5 percent of total home sales in the past year.** These types of units are typically smaller and less expensive than single-family detached units. However, very few of the townhomes and condominiums that sold in the last year were built in the last decade; the handful of newer units that sold did so at relatively high per square foot prices. The three most recently built townhomes that sold in the last year, (two completed in 2015, and one completed in 2013) sold for $399,000 to $425,000, or $256 to $289 per square foot. In contrast, the median price per square foot for the 165 single-family detached homes that sold in Eugene built since 2014 was $199 per square foot. There were no condominiums that sold in the past year built after 2008. [7]

[4] Redfin, Eugene Home Sales, October 16, 2017 through October 15, 2018.
[5] Costar, Eugene Multifamily History Report, 2013 and 2018. Accessed October 15, 2018.
[6] City of Eugene, Housing Mix Permit Details, 2001-2017.
[7] Redfin, Eugene Home Sales, October 16, 2017 through October 15, 2018.

AFFORDABLE HOUSING AND HOUSING AFFORDABILITY IN EUGENE

This section provides on overview of affordable housing availability and issues related to income and housing affordability in Eugene.

- **Household income needed to afford a house that costs $315,000 (the median price of all homes that sold in the last year) is $68,000 per year to be considered affordable.** As described in the previous section Eugene's median household income is $45,000.
- **The median monthly rental rate for market-rate multifamily units is not affordable for over two-thirds of Eugene's renter households.** The median rent in multifamily rental buildings is $1,058, which would require a minimum income of $42,300 to be considered affordable. However, the median renter household has an income of $26,000.
- **A majority of renter households in Eugene are rent-burdened, and Eugene's share of rent-burdened households is substantially larger than Oregon overall.** Fifty-eight percent of renter households pay more than 30 percent of their income on rent, and of the total, 36 percent are considered severely rent-burdened and pay more than 50 percent of their income on rent.
- **Designated, affordable units in Eugene, alone, are not enough to meet the housing needs of Eugene's lowest-income households.** Deed-restricted, affordable units make up five percent of Eugene's housing stock, while 31 percent of Eugene households have incomes less than $25,000, which is approximately 40 percent area median income for a four-person household, and 50 percent area median income for a two-person household in Lane County. [8]

Accessory Dwelling Unit Evaluation

The City of Eugene asked Strategic Economics to evaluate the effectiveness of accessory dwelling units (ADUs) to help Eugene achieve its goal to enable quality housing at a range of price points. This section of the executive summary provides an overview of ADUs and makes recommendations on how Eugene could reduce barriers to their production.

ADUs, also sometimes referred to as "granny flats," "in-law units," or "backyard cottages," are relatively small housing units, typically ranging from studios to two bedrooms, added to the lots of single-family homes. ADUs come in many forms and can be detached from or incorporated into the primary dwelling. They can be newly constructed or converted from existing structures, such as garages. ADUs are considered a type of "gentle density" in which building them increases the housing supply while minimally impacting their neighborhoods. ADUs do not typically require the demolition of existing buildings, and therefore have a significantly smaller displacement impact, compared to larger-scale development.

KEY FINDINGS AND RECOMMENDATIONS ON ADUS

- **While Eugene allows accessory dwelling units in all residential zones (R-1, R-2, R-3, and R-4), and the majority of Special Zones by right, very few ADUs have been permitted and built, particularly since 2015.** From 2008 to 2014, 66 ADUs were permitted, or approximately nine per year. ADUs permitted during this timeframe represented 1.5 percent of total permitted units. However, after the City of Eugene adopted more restrictive ADU requirements in July 2014, the annual number of ADU permitted units declined significantly. From 2015 to 2017,

[8] "Lane County 2018 Rent Income Limits," *Oregon Housing and Community Services,* 2018.

only seven ADUs were permitted in total, about two per year, representing just 0.3 percent of housing units permitted in those three years.

- **Barriers to ADU production in Eugene are multi-faceted, and include:**
    - **City and utility fees, including system development charges (SDCs), permit fees, and EWEB fees, which can total more than $16,000 for one ADU.** This added development cost discourages homeowners, who typically have to pay out-of-pocket or borrow against their own home equity to develop ADUs, from building them or from engaging in the permitting process required to build them legally. Most SDCs in Eugene are tied to a building's unit count rather than scaled to its square footage. Therefore, developers of ADUs pay SDCs at a rate similar to those for single-family homes. A homebuilder interviewed for this study estimated that there are potentially 50 to 60 unpermitted ADUs built per year, and stated that SDC, utility, and other city fees are his clients' primary disincentive from following the City of Eugene's established ADU permitting process. Since such units are unpermitted and therefore not subject to City review it would be very difficult for the City of Eugene to confirm this estimate.
    - **Minimum lot size requirements preclude the addition of an ADU on approximately 17 percent of single-family lots throughout Eugene.** Single-family lots in most residential areas must be larger than 6,100 square feet to be eligible for an ADU. Approximately 15 percent of single-family lots in most areas are smaller and would be ineligible for ADUs under current regulations. In the Amazon, Fairmount, and South University neighborhoods lots must be at minimum 7,500 square feet to be eligible for an ADU.[9] In these three neighborhoods, ADUs are currently prohibited on one-half of single-family lots.
    - **The requirement that owners must occupy either the primary or accessory unit precludes owners of approximately one-fourth of single-family homes in Eugene from adding ADUs.** Of the 37,400 "1-unit detached" units in Eugene as of 2016, approximately 9,100 were renter-occupied.[10] In other words, 24 percent of single-family detached units are not occupied by the property owner, and therefore those property owners would be unable to add ADUs to their lots under current regulations unless they desire to live on-site. Multiple respondents to this study viewed this requirement as arbitrary, and discriminatory against renter households, which make up over half of all households in Eugene.
    - **Site design requirements are highly prescriptive.** Property owners and builders interviewed for this study outlined site design requirements that do not allow for variations in topography, or for flexible standards for ADUs incorporated in, or converted from existing buildings. Because many existing homes are incompatible with ADU building requirements, many proposals for attached or converted ADU units are considered ineligible. It was reported that ADUs proposed on sloped lots typically do not move forward because applicants have difficulty meeting the standards. Eugene requires adjustment review for ADU proposals requesting variances from these standards, which opens the project up to public review and delays the project's timeline, adding to project cost.
    - **The minimum off-street parking requirement for ADUs adds to site development cost and constrains site design possibilities.** Current regulations require that single-family homes with ADUs have a minimum of two off-street parking spaces, or one space per

[9] Flag lots must be at minimum 12,500 square feet, excluding the "pole" portion of the lot. Flag lots were not considered in the minimum lot size requirement geospatial analysis, due to the complex nature of identifying flag lots in the city's parcel data.
[10] ACS, 5-year estimates, 2012-2016.

unit. Property owners, developers and city staff said this requirement can be challenging to meet from both a site design and financial feasibility perspective for certain lots. Eliminating this regulation would likely have a relatively small impact on the on-street parking supply since developers satisfying this regulation may need to widen or add curb cuts, which reduces on-street parking supply.

- **The factors limiting ADU production in Eugene are multi-faceted, and there is no one silver bullet that alone would better support their development**. To encourage ADU production, the City of Eugene would need to take a number of steps, depending on the political appetite for increasing their supply. Options include adjusting the land use code and the structure of SDCs and other city fees as they apply to ADUs, increasing community outreach and education efforts regarding ADUs, and exploring ways to support applicants trying to build ADUs, who typically are preempted from taking advantage of traditional financing mechanisms available to professional developers.
- **These efforts together could potentially enable the addition of up to 43,000 units to Eugene's housing stock**. While it is unlikely, of course, that every homeowner that is able would choose to build an ADU, the sheer number of potential ADUs points to the great impact ADU-supportive policy could have. If owners of just five percent of potential ADU lots were to build one, the number of units added would be 2,150, which is equivalent to about one-third of all dwelling units permitted in Eugene from 2008 through 2017.

Construction Excise Tax Evaluation

In 2016, the Oregon legislature passed SB 1533, which enabled municipalities to tax new development based on construction cost, to fund affordable housing. Municipalities can levy a construction excise tax (CET) of up to one percent of construction cost on residential projects, and on an unlimited proportion of construction cost for commercial and industrial projects. There are nine municipalities that have active CET policies. Bend, which was the first Oregon municipality to implement a CET policy, as well as Medford, which was the most recent to do so, both levy a tax of just one-third of a percent of construction cost. Most other municipalities with CETs, including Portland and Milwaukie, have set the rate at one percent of construction cost. Corvallis is the only municipality to charge a higher tax (1.5 percent) on commercial projects.

The City of Eugene is currently considering implementing a construction excise tax and has asked Strategic Economics to evaluate the potential impact of such a tax on revenue for affordable housing and on development feasibility of market-rate housing production.

KEY FINDINGS AND RECOMMENDATIONS ON CET

- **Revenue Potential:** Implementing a CET valued at one percent of construction cost for commercial and residential projects could raise up to $3 million per year for affordable housing, based on recent development trends in Eugene.[11] This assumes that the tax would not have rendered any project infeasible, in which case the sum would be lower. Funds raised could be used in a revolving fund to leverage affordable housing development.
- **Financial Feasibility:** Financial feasibility is just one of several factors for cities to consider in making decisions on implementing a new tax or fee. In order to provide the City of Eugene with

[11] Estimate based on City-provided construction valuation data.

guidance on how a new construction excise tax could impact development decisions, Strategic Economics conducted a pro forma analysis that tested the financial impact of a construction excise tax of one percent on several housing prototypes. Financial feasibility was tested using a static pro forma model that measures return on cost (or ROC, used for for-sale residential development) or yield on cost (YOC, used for rental properties). Return on cost and yield on cost are commonly used metrics indicating the profitability of development projects.

The financial feasibility analysis included four housing prototypes:

- **Single-Family Detached** – An 1,800 square foot 3 bedroom, 2.5 bathroom for sale house at a density of nine dwelling units per acre.
- **Townhouse** – A 1,400 square foot 3 bedroom, 2.5 bathroom for sale townhouse at a density of 13 dwelling units per acre.
- **Apartment** – A 3-story wood frame apartment building with an average unit size of 864 square feet and surface parking at a density of 30 units per acre. (This prototype does not represent the denser multifamily construction that is occurring in the downtown.)
- **Cottage Cluster** – A cluster of eight rental cottages with 800 square feet, 1 bedroom and 1 bathroom each at a density of 16 dwelling units per acre.

The results of the financial feasibility analysis are as follows[12]:

- **Single-Family Detached** – According to the results of the pro forma analysis, the single-family detached prototype meets the threshold of feasibility and the addition of a one percent construction excise tax on the single-family detached prototype also marginally meets the threshold of feasibility.
- **Townhome** – According to the results of the pro forma analysis, the townhome prototype meets the threshold of feasibility and the addition of a one percent construction excise tax on the townhome prototype also meets the threshold of feasibility.
- **Low-Rise Apartment** – According to the results of the pro forma analysis, the apartment prototype only marginally meets the threshold of feasibility and the addition of a one percent construction excise tax on the apartment prototype does not meet the threshold of feasibility.
- **Cottage Cluster** – According to the results of the pro forma analysis, the cottage cluster prototype does not meet the threshold of feasibility and the addition of a one percent construction excise tax on the cottage cluster prototype also does not meet the threshold of feasibility.
- **The financial feasibility analysis indicates that some types of residential development do not meet the minimum threshold of feasibility or are marginally feasible even without the CET.**
- **To address financial feasibility concerns, however, the City of Eugene could take a number of steps, including:**
    - **Phasing in a CET first with a one-third or one-half of one-percent tax rate.** The City of Bend, which was the first to implement a CET, uses one-third of a percent, and has raised over $6.4 million for a revolving fund for affordable housing.

[12] Data sources for the financial feasibility analysis include: interviews with developers; RS Means; similar pro formas; and data provided by the City of Eugene.

- Accompanying the implementation of a CET with regulatory/process improvements that have the potential to reduce other development costs.
- Exempting some types of housing units, particularly those that meet other housing goals, such as smaller, more affordable units, from paying the CET.
- Using a portion of revenue collected to assist in the production of qualifying market-rate units.

II. INTRODUCTION

Purpose of Study

Enabling quality housing at a range of price points is a high priority for the City of Eugene. In May 2018, the Eugene City Council passed a motion to have staff implement a process to identify barriers to housing affordability, availability, and diversity, and to suggest, evaluate, and recommend possible strategies and tools to address the barriers.

The process included the establishment of the Housing Tools and Strategies Working Group, a citizen committee formed to make recommendations to City Council on options to improve housing affordability, availability and diversity in Eugene. In support of all these efforts the City of Eugene hired Strategic Economics to conduct research and analysis on housing policies and tools. This report is not intended as a comprehensive affordable housing strategy or housing action plan, but rather provides findings from a series of tasks coordinated with the work of the Housing Tools and Strategies Working Group. For the process, Strategic Economics conducted the following tasks:

- **Evaluated data on demographics and housing.** Strategic Economics analyzed a wide variety of quantitative data, relying on U.S. Census and American Community Survey estimates for demographic data, and on sources such as Costar and Redfin for housing market data. The City of Eugene also provided Strategic Economics with housing unit building permit trend data.
- **Evaluated Accessory Dwelling Units.** Strategic Economics performed multiple analyses concerning Accessory Dwelling Units (ADUs) in Eugene. Strategic Economics analyzed: 1) parcel data to consider how current ADU policies may be limiting ADU production and the overall potential of ADUs as a tool to increase Eugene's housing stock; 2) the Eugene land use code to identify areas of conflicting interpretation on ADU policy; 3) existing literature on ADU production in other cities; and 4) the financial feasibility of building an ADU under various scenarios.
- **Evaluated the Construction Excise Tax (CET).** Strategic Economics relied on building valuation data from the City of Eugene to estimate the potential revenue of a Construction Excise Tax (CET), and considered the impacts of a CET on the financial feasibility of development projects.
- **Conducted financial feasibility evaluation.** Strategic Economics considered the feasibility of various housing development types, including large-lot single family, townhome, multifamily, cottage cluster, and accessory dwelling unit projects. Feasibility was analyzed under various scenarios including the status quo, with reduced system development charges (SDCs), and with a CET.
- **Interviewed homeowners, property owners, renters, developers, and city staff.** Strategic Economics contacted a variety of stakeholders and conducted interviews with city staff, community members, and with individuals involved in the development community, including professional real estate developers, architects, homebuilders, contractors, and homeowners building ADUs.
- **Prepared summary descriptions of housing tools and strategies (Appendix I).** Strategic Economics researched and assembled a matrix of housing-focused tools typically used by municipalities. The matrix includes tools on zoning strategies for market-rate housing production, as well as developer incentives and local funding strategies for affordable housing production.

- **Conducted best practice research (Appendix II).** Strategic Economics collected best practices relevant to increasing housing production, and on ADU and CET policy specifically.

Overview of Affordable Housing and Housing Affordability in Eugene

Because terms like housing affordability and affordable housing can be unclear, it's important to define terms when evaluating strategies or tools for housing production. "Housing affordability" is a relative concept. Housing is generally considered "affordable" if monthly housing costs account for 30 percent or less of a household's income. (For the purposes of this study we use 30 percent for renters and 35 percent for home-owners.)

"Affordable Housing" typically refers to housing designated for households that cannot afford market-rate housing. For such households, federal, state, and local governments may provide assistance in two ways:

- **Government subsidies:** Several federal and state funding sources provide funding to cover the gap between what qualifying households can pay, and the cost of providing affordable housing. In general, new affordable housing development requires a contribution from a local government source in addition to state and federal funding.
- **Requirements or incentives for private sector contributions:** Local governments can create requirements or provide incentives for private development to contribute towards affordable housing. For example, local governments may require private development to pay a tax towards the provision of affordable housing (the construction excise tax), require a set percentage of new units to remain affordable to low- or moderate-income households (an inclusionary zoning requirement), or allow development at an increased height or density in exchange for the provision of affordable units (density bonus).

These two methods are often combined in projects and most projects require multiple funding sources. Units that are produced through either of these two methods are typically subject to a deed restriction or covenant under which the property owner agrees to restrict the units to households in certain income categories for a given amount of time, and to limit monthly rents or purchase prices.

- Eugene has 3,406 protected affordable units with deed restrictions that specify income requirements. These units are funded through a variety of sources, including federal, (low-income housing tax credits, HOME project funds, Section 8) and others, and are managed by a mix of non-profit and for-profit housing providers, and Homes for Good, the Lane County housing authority.
- These units are largely reserved for low- and very low-income households (with household income under 50 percent of area median income).
- These units make up approximately 5 percent of total units in Eugene.

III. BACKGROUND INFORMATION

This chapter summarizes population and household characteristics within the City of Eugene and discusses how Eugene has been growing compared to other mid-size cities in Oregon. It also provides a scan of recent trends in market-rate rents and sales prices and discusses recent development trends for market-rate housing citywide. The demographic and housing information was used to inform the evaluation of housing tools and strategies.

POPULATION AND HOUSEHOLD CHARACTERISTICS

Eugene is home to approximately 162,000 people, and 66,400 households. The average household size in Eugene (2.3 persons per household) is slightly smaller than that of Oregon as a whole (2.5 persons per household) (Figure 3). More information on population growth is provided in a later section of this chapter.

Eugene has a higher share of college-age residents, but fewer children and older adults relative to Oregon as a whole. Approximately 19 percent of Eugene residents are 18 to 24 years old, compared to 13 percent and nine percent in Lane County and Oregon respectively (Figure 4). The share of children and adults over 45 living in Eugene is below the share of these two age groups for Oregon as a whole.

Almost half of households living in Eugene are "nonfamily" households. Householders living alone make up one third of households in Eugene and other nonfamily "roommate" households, make up a larger share in Eugene than in Lane County and Oregon overall, while family households with and without children both make up smaller shares (Figure 5).

FIGURE 3. POPULATION, HOUSEHOLDS AND HOUSEHOLD SIZE, EUGENE, LANE COUNTY AND OREGON, 2012-2016

	Eugene	Lane County	Oregon
Population	161,649	360,273	3,982,267
Households	66,401	146,692	1,545,745
Average Household Size	2.3	2.4	2.5

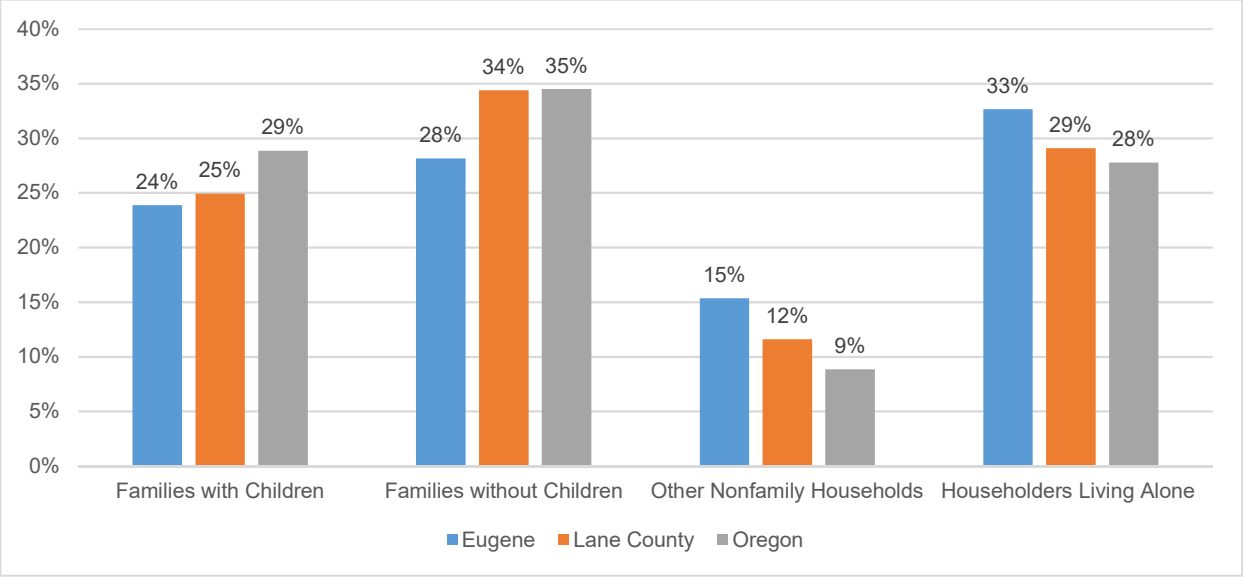
Source: ACS 5-year estimates, 2012-2016; Strategic Economics, 2018.

FIGURE 4. POPULATION BY AGE, EUGENE, LANE COUNTY AND OREGON, 2012-2016

	Eugene		Lane County		Oregon	
	Count	Share	Count	Share	Count	Share
Under 17	28,881	18%	68,745	19%	861,395	22%
18 to 24	31,511	19%	47,450	13%	365,086	9%
25 to 44	41,590	26%	86,725	24%	1,066,642	27%
45 to 64	36,333	22%	94,852	26%	1,054,570	26%
65 and up	23,334	14%	62,501	17%	634,574	16%

Source: ACS 5-year estimates, 2012-2016; Strategic Economics, 2018.

FIGURE 5. HOUSEHOLD COMPOSITION, EUGENE, LANE COUNTY AND OREGON, 2012-2016



Source: ACS 5-year estimates, 2012-2016; Strategic Economics, 2018.

POPULATION AND HOUSING UNIT GROWTH

From 2000 to 2016, Eugene's population grew 17 percent, while its housing stock grew just 15 percent over the same period. Figure 6 shows Eugene's population and housing unit trends compared to other mid-size cities in Oregon. Eugene and Salem are adding houses at a slower rate than Springfield and Bend, with Bend growing much faster than any of the other cities studied.

FIGURE 6. POPULATION AND HOUSING UNIT GROWTH, EUGENE AND SELECT CITIES, 2000-2016

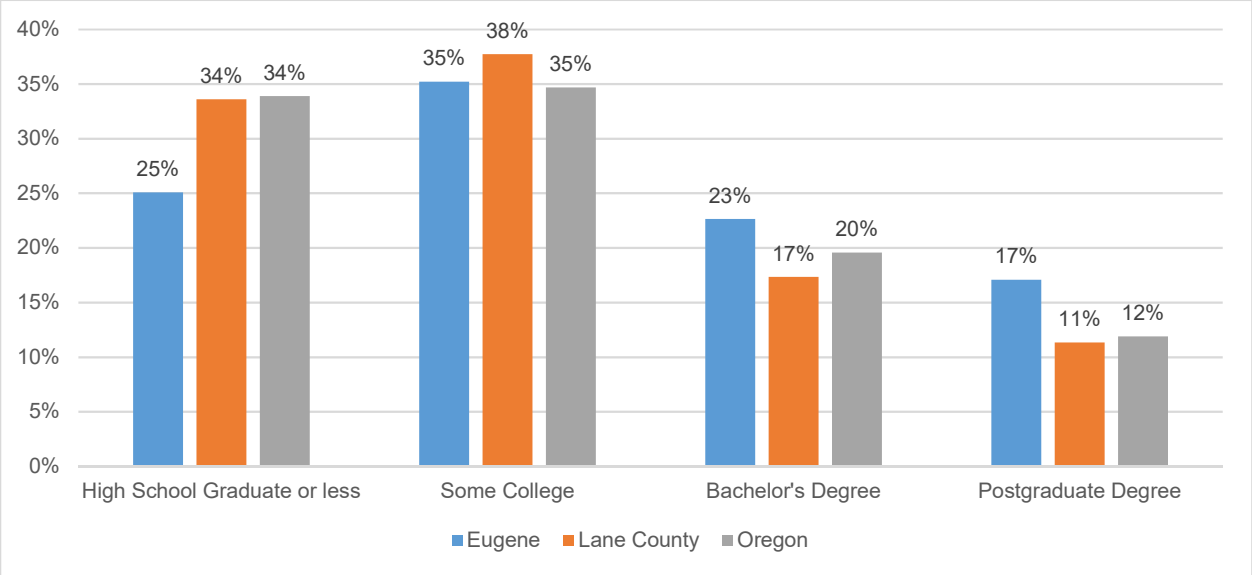
	Eugene	Bend	Salem	Springfield
Population, 2000 Census	137,893	52,029	136,924	52,864
Population, 2012-2016 ACS Estimates	161,649	84,416	161,975	60,611
Population Added 2000 - 2016	23,756	32,387	25,051	7,747
Rate of Population Change	17%	62%	18%	15%
Housing Units, 2000 Census	61,444	22,507	53,817	21,500
Housing Units, 2012-2016 ACS Estimates	70,649	37,406	61,987	25,368
Housing Units Added, 2000 - 2016	9,205	14,899	8,170	3,868
Rate of Housing Unit Change	15%	66%	15%	18%

Source: U.S. Census, 2010; ACS, 5-year estimates, 2012-2016; Strategic Economics, 2018.

STUDENT POPULATION AND INCOME LEVELS

Eugene, like many college towns, has a relatively large share of people that are highly educated. Approximately 40 percent of people over age 25 in Eugene have a bachelor's degree or higher, while the proportion of Eugene residents with a high school degree or less is substantially lower than in both Lane County and Oregon (Figure 7).

FIGURE 7. EDUCATIONAL ATTAINMENT FOR POPULATION AGE 25 AND OVER: EUGENE, LANE COUNTY, AND OREGON, 2012-2016



Source: American Community Survey 5-year Estimates 2012-2016; Strategic Economics 2018.

The median household income in Eugene is $44,859, which is slightly lower than that of Lane County, ($45,222) and of Oregon, ($53,270) (Figure 1). Eugene also has a relatively large share of very low-income households, a trend which is partially attributable to the presence of the significant number of college students. Approximately 31 percent of all Eugene households have incomes of less than $25,000, compared to 23 percent for Oregon as a whole (Figure 8).

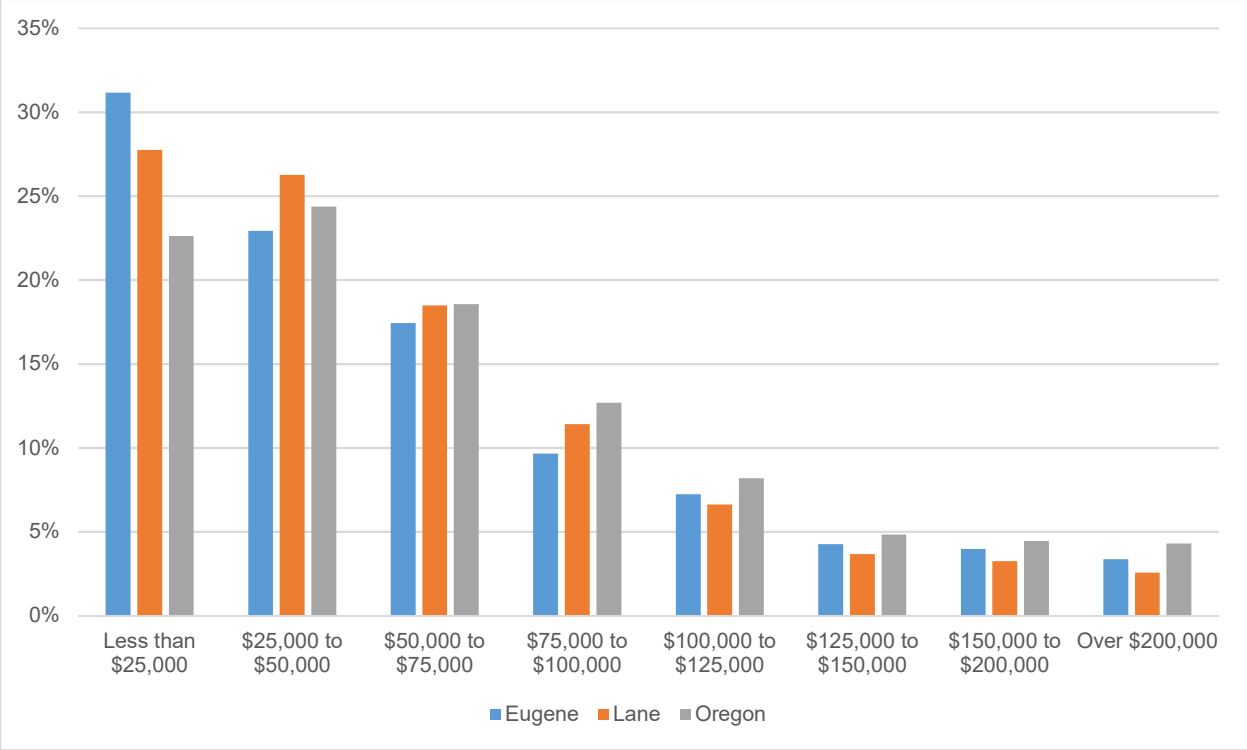
Eugene's poverty rate was estimated at 23.1 percent overall, meaning approximately 36,000 Eugene residents are living below the poverty line (Figure 9). The income thresholds that inform the poverty rate, which are adjusted based on household size and set by the federal government, are not regionally adjusted to account for cost of living variations.[13] Therefore, the poverty rate is an inadequate metric for understanding a region's housing affordability. However, the U.S. Census Bureau analyzes how college students statistically affect college towns' income characteristics, and thus provides a glimpse at college students' impact on household incomes in Eugene.

Off-campus college students make up over 11 percent of Eugene's "Poverty Universe."[14] Because they are such a large share of Eugene's population and have relatively low incomes, typically relying on

[13] The poverty line threshold for a one-person household in 2016 was $11,880. The thresholds for a two-person household was three-person household was $16,020, for a three-person household was $20,160, and for a four-person household was $24,300.
[14] The number of people in the Census Bureau's "Poverty Universe" calculation does not include students in college dormitories, or others in institutionalized group quarters, nor does it include children under age 15 who are not related to the adult members of their household (e.g. foster children).

part-time employment, stipends, or assistance from their families, the presence of college students has the potential to pull household income data downward and increase the city's poverty rate. There are approximately 23,500 students enrolled at the University of Oregon and many more college students enrolled at other institutions in Eugene. Of University of Oregon students, 77 percent or about 18,000 live off-campus (and not with their families). After excluding off-campus college students, there are estimated to be approximately 25,200 non-student residents under the poverty line in Eugene.[15] [16] In other words, off-campus college students account for about 30 percent of Eugene residents in poverty as defined by the federal government (Figure 9).

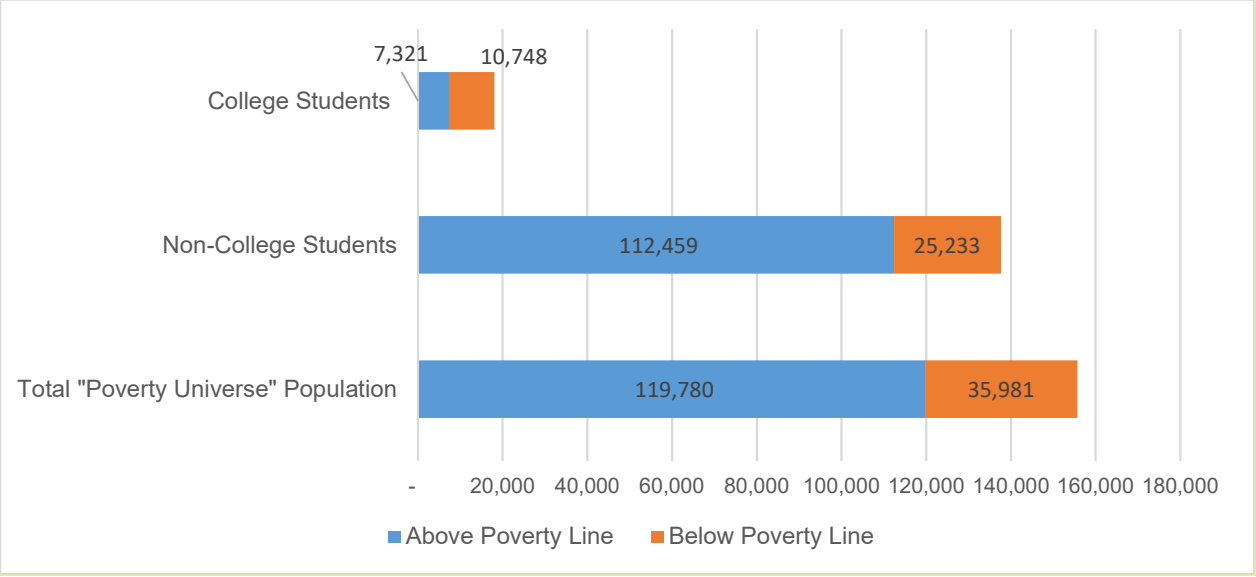
FIGURE 8. HOUSEHOLD INCOME DISTRIBUTION: EUGENE, LANE COUNTY, AND OREGON, 2012-2016



Source: ACS 5-year Estimates 2012-2016; Strategic Economics 2018.

[15] Benson, Craig and Alemayehu Bishaw, "Examining the Effect of Off-Campus College Students on Poverty Rates," *U.S. Census Bureau,* 2017.
[16] ACS, 5-year estimates, 2012-2016.

FIGURE 9. EUGENE RESIDENTS IN POVERTY BY STUDENT STATUS, 2012-2016



Source: ACS 5-year estimates, 2012-2016; Strategic Economics, 2018.

HOUSING TENURE AND COST-BURDEN

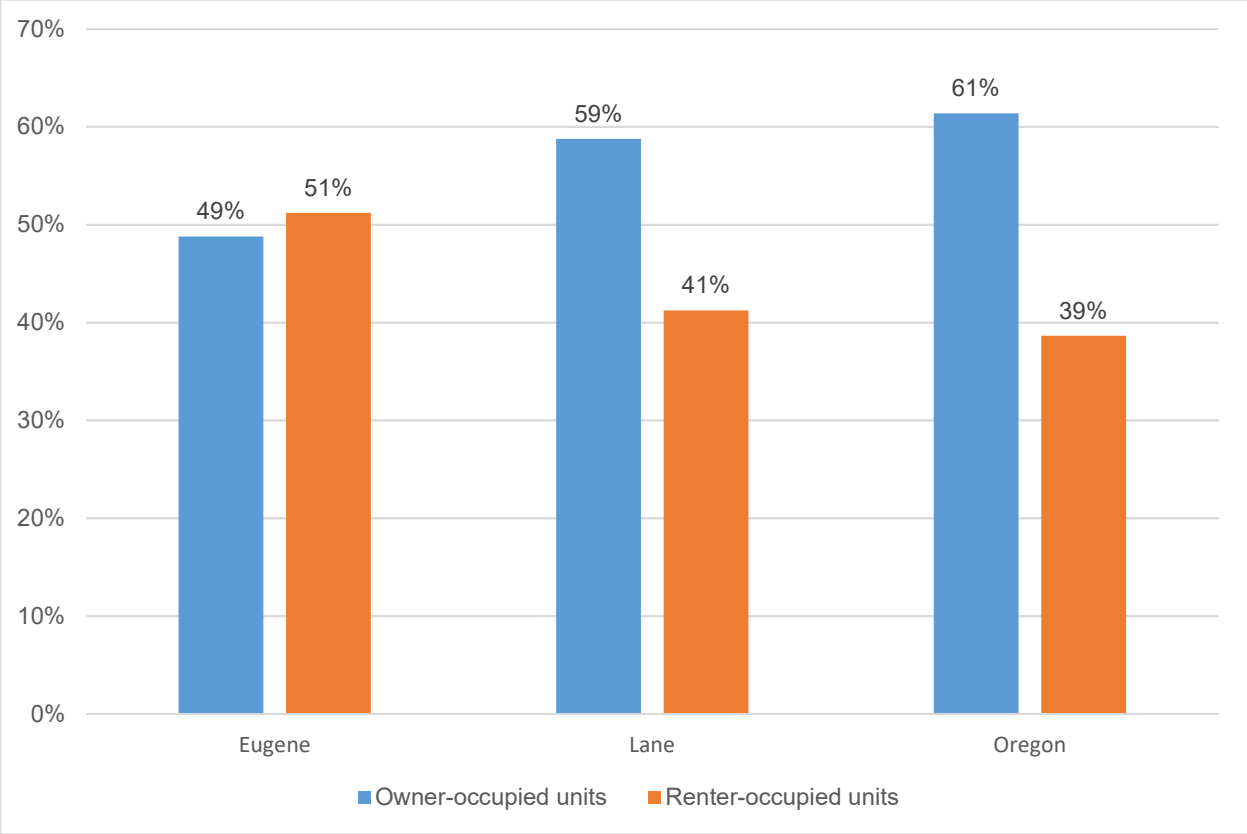
Over half of Eugene households are renters, compared to both Lane County and Oregon overall, where renters represent approximately 40 percent of households.[17]

The median income for renter households is $26,064, which is substantially lower than that of households overall. The median renter household would therefore require a maximum rent of $650 per month to be considered "affordable." Households that spend more than 30 percent of their income on housing costs are considered "cost-burdened," while households that spend more than 50 percent of income on housing costs are considered "severely cost-burdened." A larger share of renters in Eugene are considered rent-burdened and severely rent-burdened, compared to renter households in Lane County and Oregon. While 58 percent of households in Eugene are rent-burdened and 36 percent are severely rent-burdened, 50 percent and 26 percent of Oregon households are rent-burdened and severely rent-burdened respectively, as shown in Figure 11.

A similar share of Eugene owner households is "mortgage-burdened" and "severely mortgage-burdened" as in both Lane County and Oregon overall. For the three geographies, 34 to 36 percent of owner households with mortgages are mortgage-burdened, and 13 to 15 percent are severely mortgage-burdened.

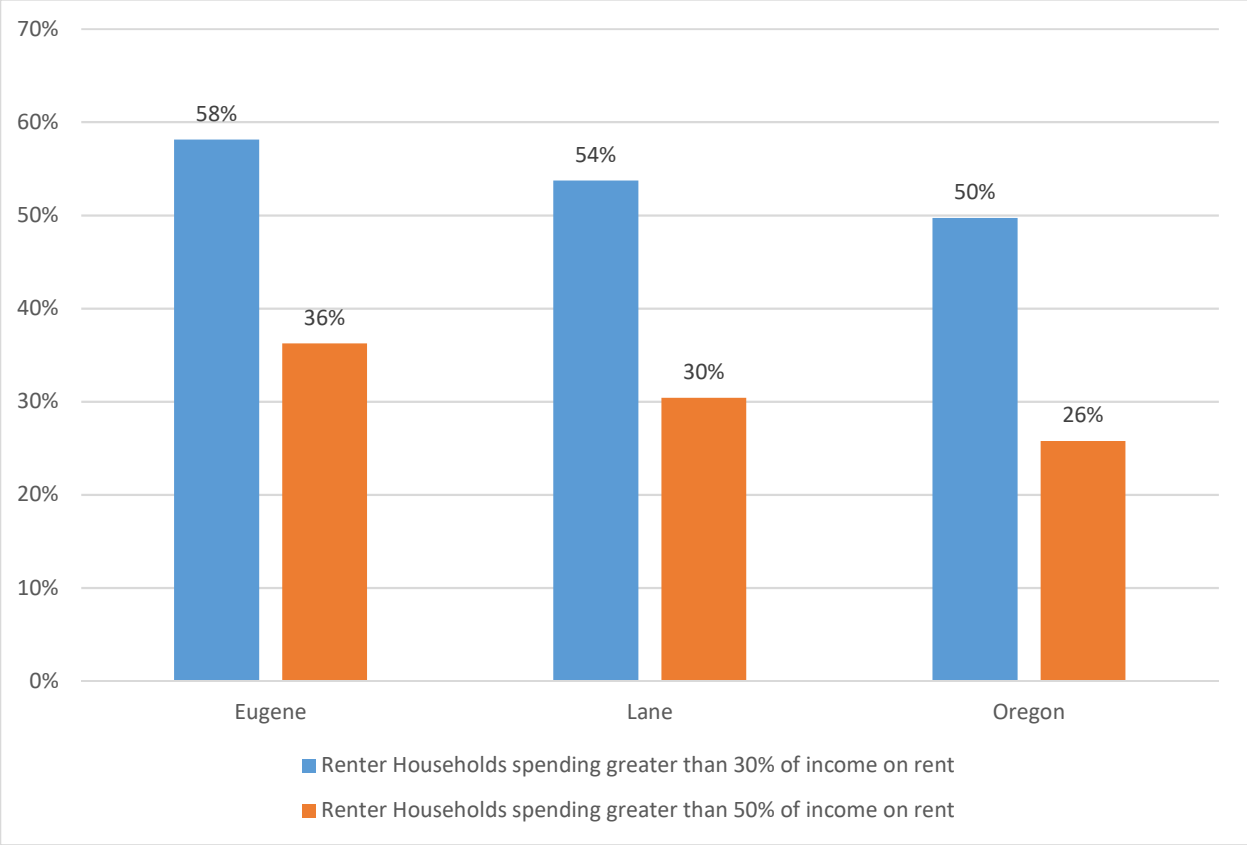
[17] American Community Survey 5-year estimates, 2012-2016.

FIGURE 10. HOUSING TENURE IN EUGENE, LANE COUNTY AND OREGON, 2012-2016 ESTIMATES



Source: ACS 5-year estimates 2012-2016; Strategic Economics, 2018.

FIGURE 11. RENT BURDEN IN EUGENE, LANE COUNTY AND OREGON, 2012-2016 ESTIMATES

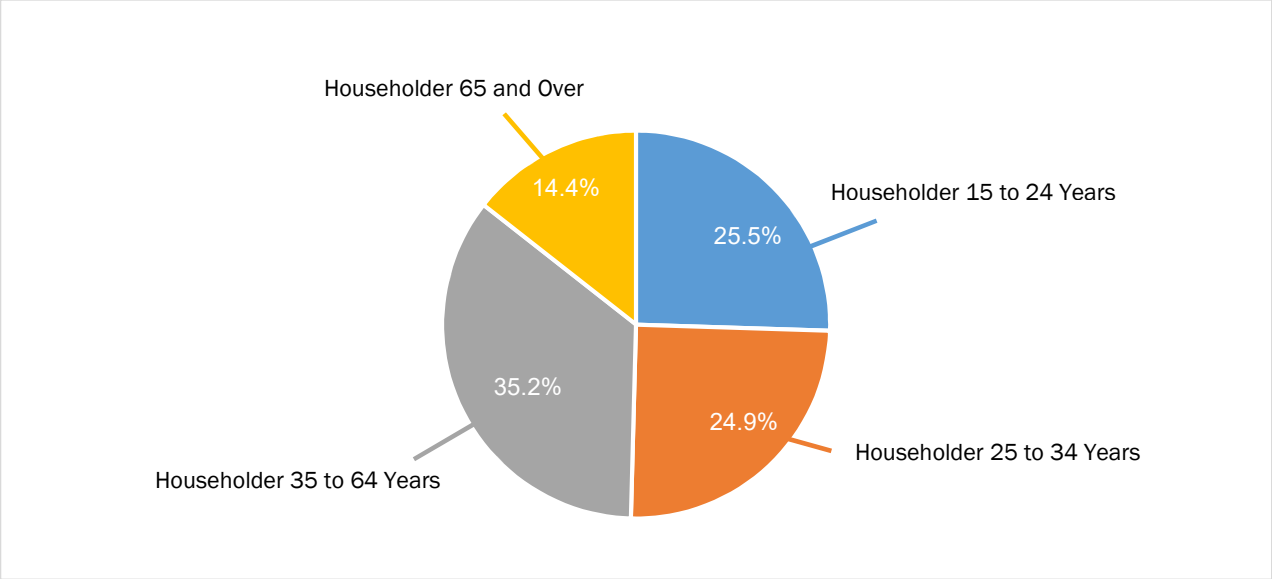


Source: ACS 5-year estimates 2012-2016; Strategic Economics, 2018.

HOUSING TENURE AND AGE

About one quarter of renters fall in the typical college age range of 15 to 24 years of age (Figure 12). An additional 25 percent are in the 25 to 34 year range. The rest, or about one half are older than 35 with 14 percent older than 65.

FIGURE 12. EUGENE RENTER HOUSEHOLDERS BY AGE, 2012-2016



Source: ACS 5-year estimates, 2012-2016; Strategic Economics, 2018.

HOUSING STOCK

Although Eugene's housing stock is largely made up of single-family homes, the share of apartments has been increasing in recent years. According to U.S. Census ACS data single-family homes make up 55 percent of Eugene housing units, compared to 63 percent in Lane County and 64 percent in Oregon as a whole (Figure 13). Apartments make up 26 percent of housing units in Eugene, a substantially larger share than in Lane County or Oregon.

Eugene's housing stock is more diverse than that of the other mid-size cities in Oregon studied, and has the largest share of units in multifamily buildings with more than 20 units (Figure 14). Eugene's share of units in buildings with 20 or more units is nearly double that of the other cities. Eugene also has the second largest share of Missing Middle units, and second lowest share of single-family detached units, after Springfield.

FIGURE 13. HOUSING UNITS BY TYPE: EUGENE, LANE COUNTY AND OREGON, 2012-2016 ESTIMATES

	Eugene		Lane County		Oregon	
Housing Type	Number of Units	Percent of Total Units	Number of Units	Percent of Total Units	Number of Units	Percent of Total Units
Single Family	39,078	55%	99,028	63%	1,085,466	64%
Townhome	4,068	6%	8,022	5%	76,043	4%
Duplex	2,694	4%	5,201	3%	49,582	3%
Triplex, Fourplex	4,109	6%	6,673	4%	74,915	4%
Apartments	18,224	26%	24,413	15%	274,442	16%
Mobile Home, Other	2,476	3%	14,900	9%	145,842	8%
Total Units	70,649	100%	158,237	100%	1,706,290	100%

Source: Social Explorer, American Community Survey 5-year estimates, 2012-2016; Strategic Economics, 2018

FIGURE 14. HOUSING STOCK BY UNITS IN STRUCTURE: EUGENE AND SELECT CITIES, 2012-2016

	Eugene	Bend	Salem	Springfield
1-Unit Detached	55%	69%	60%	54%
Missing Middle - Under 5 Units (a)	15%	15%	14%	20%
Missing Middle - 5 to 19 Units (b)	12%	6%	13%	10%
20+ Units	13%	6%	7%	8%
Other (Mobile Home, RV)	4%	4%	6%	9%

Source: American Community Survey 5-year estimates, 2012-2016; Strategic Economics, 2018.

Notes:

(a) Includes "1 unit-attached" units, duplexes, triplexes, and fourplexes. Note that the ACS does not provide data on ADUs, specifically.

(b) Missing Middle housing typically includes "walk-up" multiplexes that contain up to 20 units.

HOUSING CONSTRUCTION PERMITS

As shown in Figures 15 and 16, permitted units of new single-family homes in Eugene have made up 32 percent of all permitted housing units since 2008, with 44 percent of those single-family units permitted in the last two years. Permitted units for apartments have increased since 2011, with permitted units for new apartments making up 57 percent of the total over the ten year period. However, permitted units for one-to-four-unit “Missing Middle” housing types, which include ADUs, duplexes, townhomes, triplexes and fourplexes, have lagged. These housing types, which make up 15 percent of Eugene’s housing stock, accounted for just nine percent of permitted units from 2008-2017. For every Missing Middle unit in a one-to-four-unit building permitted in Eugene, four single-family units are permitted. There have been very few permitted units in recent years for ADUs in particular. From 2008 to 2014, approximately nine ADUs were permitted per year, representing 1.5 percent of total permitted units during this timeframe. However, after the City of Eugene adopted more restrictive ADU requirements in July 2014, the annual number of ADU permitted units declined significantly. From 2015 to 2017, only seven ADUs were permitted in total, about two per year, representing just 0.3 percent of housing units permitted in those three years.

FIGURE 15. HOUSING UNITS PERMITTED IN EUGENE BY TYPE, 2008-2017

Housing Type	Number of Permitted Units (a)	Percent of Total Permitted Units
Single Family	2,166	32%
Duplex	165	2%
Accessory Dwelling Unit	73	1%
Townhouse	117	2%
Manufactured Home (b)	165	2%
Triplex, Fourplex (c)	190	3%
Apartments (5+ Units)	3,800	57%
Total	6,676	100%

Source: City of Eugene Planning Division, 2018; Strategic Economics, 2018

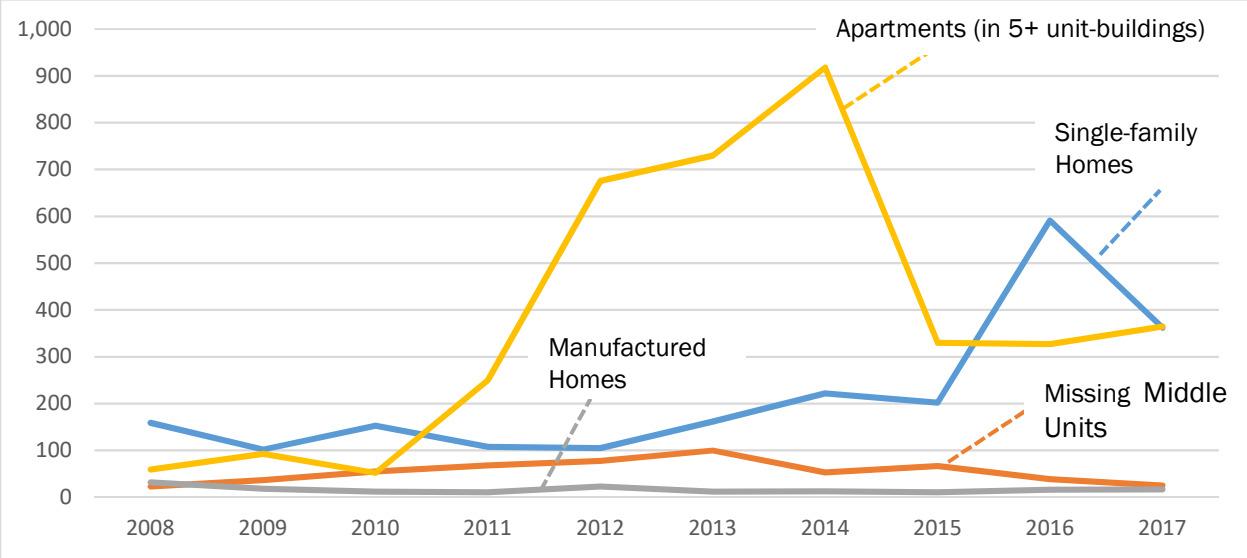
Notes:

(a) These data are imprecise and should be used as an estimate. The City is currently developing a system for collecting and analyzing building permit data.

(b) Manufactured home units include units in home parks and outside home parks.

(c) Triplex and fourplex permitted unit counts include "Apartments 1-4 unit" permits which, according to city staff, are predominantly tri- and fourplexes.

FIGURE 16. EUGENE HOUSING UNITS PERMITTED BY TYPE, 2008-2017 (a)



Source: City of Eugene, 2018; Strategic Economics, 2018.

Notes:

(a) These data are imprecise and should be used as an estimate. The City is currently developing a system for collecting and analyzing building permit data.

(b) Missing Middle permitted units include permits for duplex, ADU, townhouse, triplex, and fourplex units.

HOME VALUES AND RENTS

Recent data for home sales shows that the typical for-sale home in Eugene is unaffordable for approximately 66 percent of households. As shown in Figure 18, the median sales price of detached

single-family homes that sold, which account for 92 percent of total sold homes, was $315,000, which requires a minimum annual income of $68,000 [18] [19]

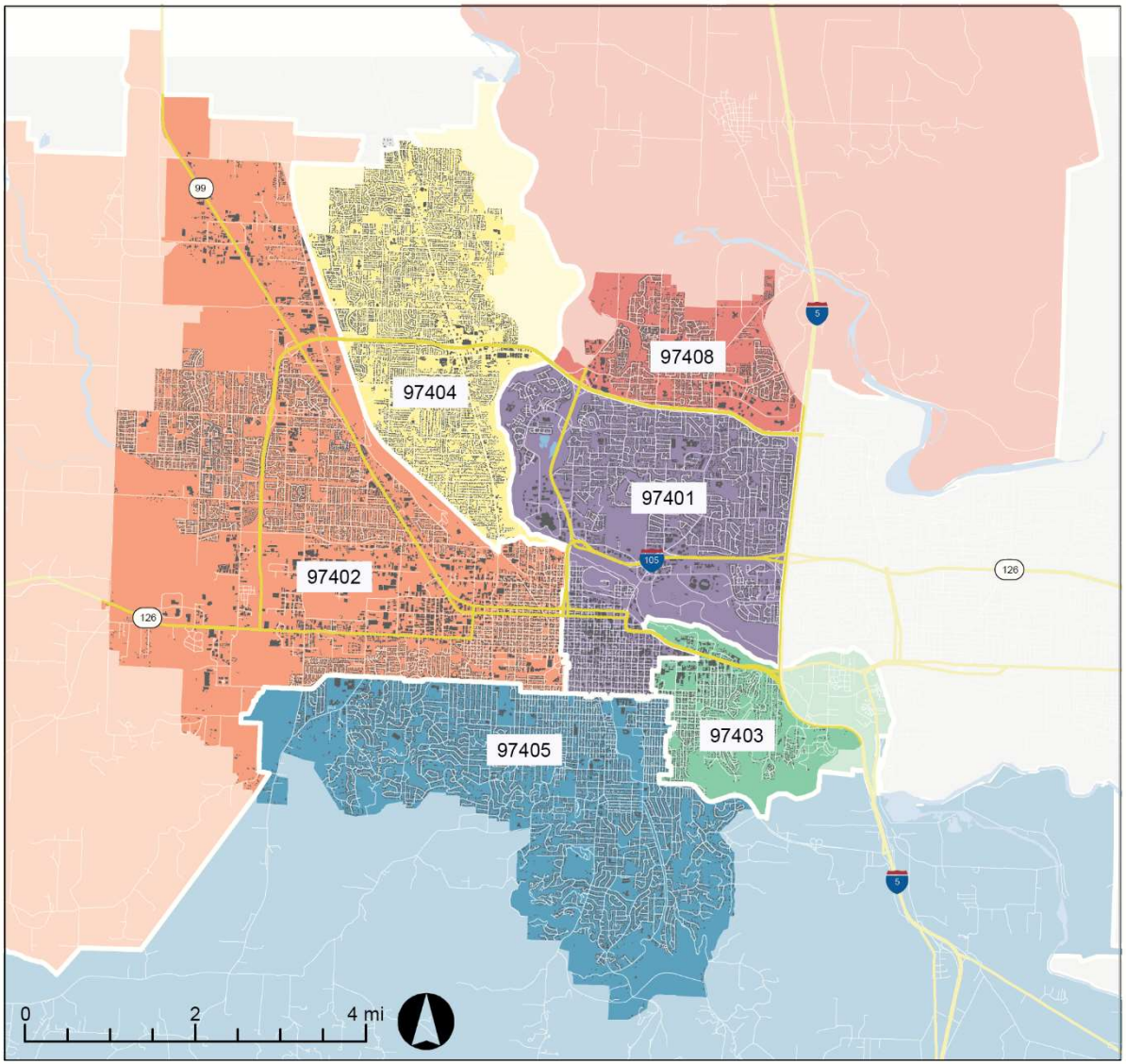
Newly constructed, detached single-family homes are larger, and substantially more expensive than existing single-family homes overall (Figure 19). The median single-family home built since 2014 that sold in the previous year was 19 percent larger than the overall median, and cost 26 percent more. Only two townhomes that sold over this period were built since 2014, both of which were at the Lucia in the Friendly neighborhood. [20] These units, which are 1,464 square feet, sold for approximately $422,000, reflecting a cost of $257 per square foot. In contrast, single-family homes built since 2014 in the same zip code, 97405, sold for $224 per square foot.[21] Note that no condos built since 2014 sold in the past year, as no condos have been built in Eugene since 2008.

Zip code sales data shows that there is both a larger supply of homes for-sale in west and northwest Eugene neighborhoods, and that these homes tend to be sold at relatively lower prices. In contrast, there were fewer homes that sold in south and east Eugene, and these homes tended to sell at significantly higher prices (Figure 20). See Figure 17 for a map of zip codes within Eugene's Urban Growth Boundary.

[18] Sales of multi-unit buildings, such as duplexes, were excluded from this analysis.
[19] Minimum income was calculated assuming monthly housing costs should not exceed 35 percent of household income to be considered affordable. It is based on a 30-year fixed rate mortgage, and incorporates property tax, and homeowners' insurance, but no down payment cost.
[20] Both townhomes were built in 2015.
[21] The 97405 zip code covers South Eugene, including Friendly, College Hill, South Hills, and Fox Hollow neighborhoods.

FIGURE 17. EUGENE ZIP CODES

Zip Codes within the City of Eugene Urban Growth Boundary



Source: City of Eugene, 2018; Strategic Economics, 2018.

STRATEGICECONOMICS

FIGURE 18. SUMMARY OF SOLD HOMES IN EUGENE, 10/16/2017 TO 10/15/2018

	Condo	Townhouse	Detached Single Family
Count	140	61	2,462
Median Sales Price	$167,000	$235,000	$315,000
Median Sq. Ft.	953	1360	1690
Median Price per Sq. Ft.	$175	$173	$186
Median Year Built	1975	1980	1975

Source: Redfin, 2018; Strategic Economics, 2018.

FIGURE 19. SUMMARY OF RECENTLY BUILT, SOLD HOMES IN EUGENE, 10/16/2017 TO 10/15/2018

	Detached Single Family Built Since 2014
Count	165
Median Sales Price	$399,000
Median Sq. Ft.	2010
Median Price per Sq. Ft.	$199
Median Year Built	2017

Source: Redfin, 2018; Strategic Economics, 2018.

FIGURE 20. DETACHED SINGLE-FAMILY HOME SALES IN EUGENE BY ZIP CODE, 10/16/2017 TO 10/15/2018

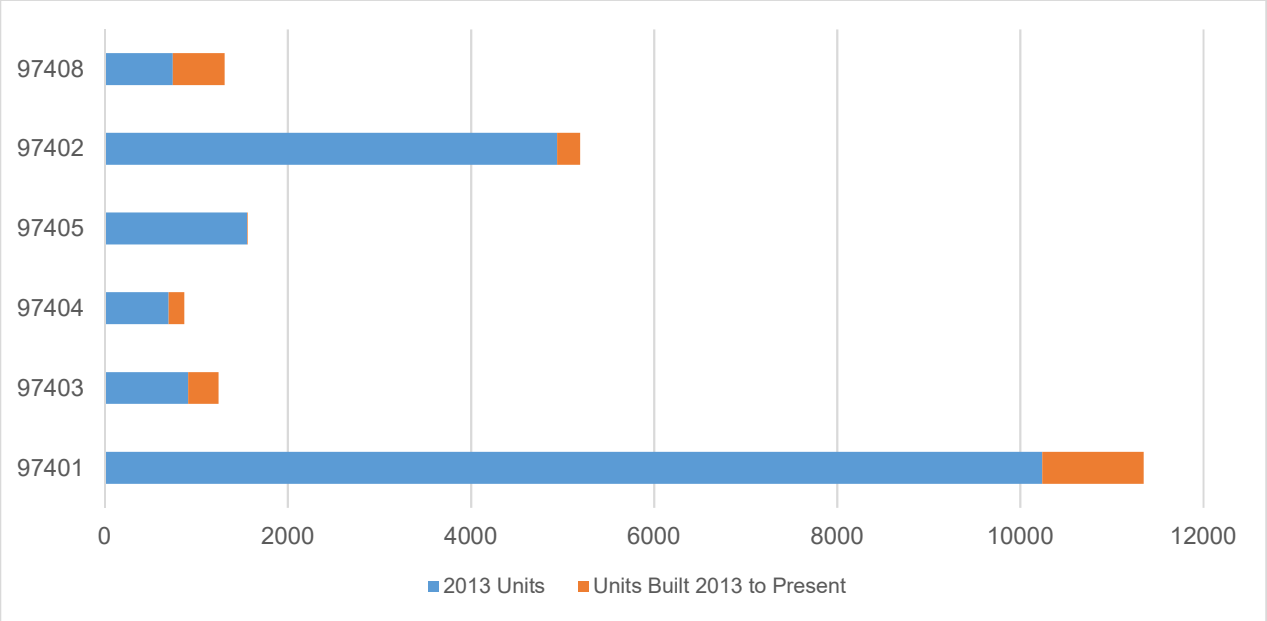
	All Detached Single-Family		Detached Single-Family Built 2014 or Later	
	Count	Median Sale Price	Count	Median Sales Price
97401	348	$345,000	10	$453,500
97402	558	$257,950	30	$321,200
97403	92	$421,264	3	$455,000
97404	557	$295,000	81	$386,289
97405	703	$351,750	16	$544,975
97408	201	$379,900	25	$449,900

Source: Redfin, 2018; Strategic Economics, 2018.

From 2013 to 2018, effective rents in multifamily apartment buildings increased 22 percent on average, or $190 per unit, after adjusting for inflation. Over this period, Eugene saw an increase in 2,441 apartment units. The 21,528 multifamily units in this analysis likely account for between 60 and 65 percent of Eugene's rental units.[22] Figures 21 and 22 show unit and rent growth broken out by zip code. Nearly half of new units added over this period were in zip code 97401, which also is home to over half of Eugene's multifamily unit stock. Units in this zip code also saw a milder rent increase, of just 17 percent. Rent rates grew the fastest in zip code 97404, northwest Eugene, which saw a rent increase of 63 percent, over this period, while adding 172 multifamily units. South Eugene, or zip code 97405, saw the slowest growth in multifamily units, adding just 10 units over the period, while rents increased 18 percent. [23]

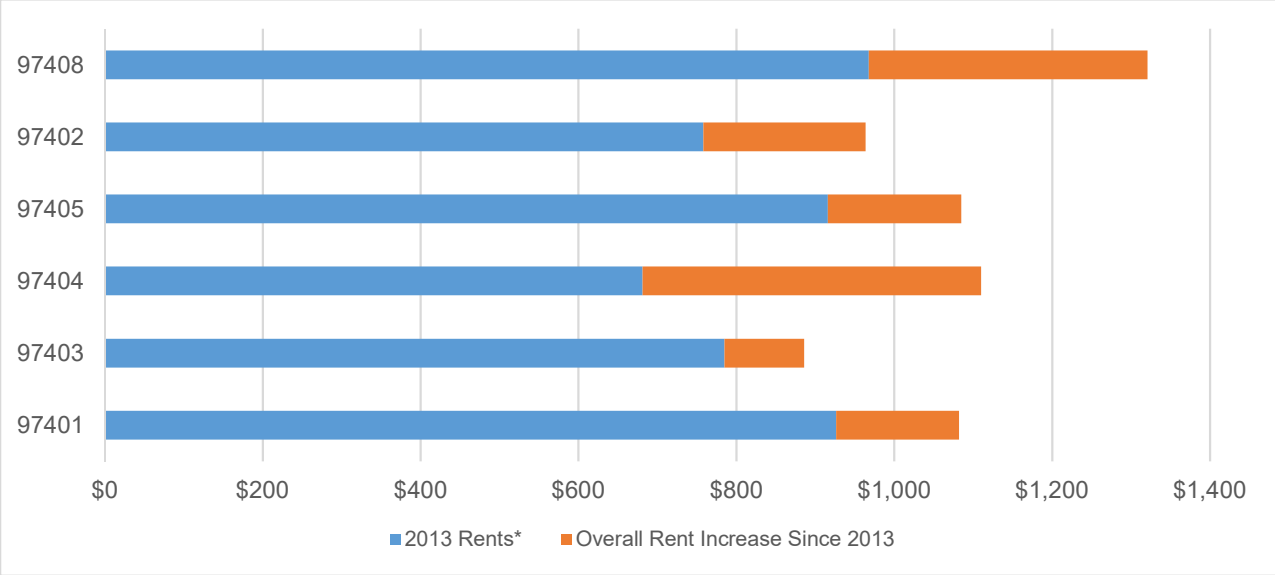
[22] American Community Survey, 5-year estimates, 2012-2016.
[23] Costar, 2018. Note that Costar data does not incorporate information on rentals in smaller-scale buildings, including single-family homes or small multiplexes.

FIGURE 21. EUGENE MULTIFAMILY UNITS BY ZIP CODE, 2013-2018



Source: Costar, 2018; Strategic Economics, 2018.

FIGURE 22. EUGENE MULTIFAMILY RENTS BY ZIP CODE, 2013-2018, IN 2018 USD



Source: Costar, 2018; Strategic Economics, 2018.

IV. ACCESSORY DWELLING UNITS

This chapter summarizes the evaluation of Accessory Dwelling Unit (ADU) policy in Eugene. Strategic Economics conducted several analyses to evaluate the potential to increase ADU production, including: 1) conducting a parcel analysis to consider how current ADU policies may be limiting ADU production and the overall potential of ADUs as a tool to increase Eugene's housing stock and the overall potential of ADUs as a tool to increase Eugene's housing stock; 2) reviewing the Eugene land use code to identify areas of conflicting interpretation on ADU policy; 3) reviewing existing literature on ADU production in other cities; and 4) conducting an analysis of the financial feasibility of building an ADU under various scenarios.

An ADU, also sometimes referred to as a "granny flat," "in-law unit," or "backyard cottage," is a housing unit of modest size, typically ranging from studios to two bedrooms, added to the lot of single-family home. ADUs come in many forms. They can be detached from or incorporated into the primary dwelling. They can be newly constructed or converted from existing structures, such as garages. ADUs are considered a type of "gentle density" in which building them increases the housing supply while minimally impacting their neighborhoods.

Who Lives in ADUs?

ADUs have been promoted in high-cost cities to meet the needs of aging homeowners. An ADU could provide retirees with both an additional income source, and a means to "age in place." A 2014 survey of over 200 Portland homeowners with ADUs found that owners are typically older than ADU tenants. The median age of ADU owners in Portland was estimated to be 53, while that of tenants was 36.[24]

The vernacular nicknames for ADUs suggest that they are inhabited primarily by family members, be it an elderly parent or an adult son or daughter. However, in regions with high housing costs, homeowners are increasingly building ADUs as units on the general rental market. A study that surveyed homeowners that had recently built ADUs in Seattle, and Portland, and Vancouver, BC, found that over half of the 414 respondents' ADUs were occupied by "arm's length renters," or those with no previous relationship with the owner. Friends and family occupied approximately 30 percent of ADUs, and the remaining respondents reported their ADUs were either unoccupied or occupied by homeowners.[25]

Benefits and Opportunities Associated with ADUs

An effective ADU policy can contribute to achieving or maintaining affordability while accommodating growth because ADUs are a relatively low cost housing type since there are no land costs and because they capitalize on existing infrastructure. Other benefits of ADUs include:

ADUs do not require the demolition of existing buildings, and therefore have a significantly smaller displacement impact, compared to larger-scale development.

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[24] Brown, Martin and Jordan Palmeri, "Accessory dwelling units in Portland, Oregon: evaluation and interpretation of a survey of ADU owners," *Oregon Department of Environmental Quality,* 2014.

[25] Chapple, Karen, Jake Wegmann, Farzad Mashhood, and Rebecca Coleman. "Jumpstarting the Market for ADUs: Lessons Learned from Portland, Seattle, and Vancouver." *The Terner Center for Housing Innovation*, 2018.

ADUs can be regulated in a manner that allows them to be visually compatible with their neighborhood's existing fabric. Municipalities' typical ADU site design regulations tend to require that ADUs be smaller than the primary unit and set back from the primary street. With these policies in place, ADUs have a minimal impact on the urban design characteristics of their neighborhoods.

Building ADUs can be relatively straightforward. The barrier to entry for homeowners wanting to build an ADU is very low, compared to other, more complex housing products. In this sense, ADU-supportive policies can open up the real estate development arena to a larger swath of the population, which increases the rate at which new housing can be delivered. Homeowners building ADUs do not have land acquisition and assembly requirements typical of larger development, (including other Missing Middle development types). Additionally, ADU development, when guided by sound policy, can bypass administrative hurdles that more complex developments tend to require, such as site plan reviews, zoning changes, or subdivision applications.

In tight housing markets, ADUs provide property owners with supplemental income, and renters with an "affordable-by-design" housing option. In a balanced housing market, ADUs' efficient size and less expensive construction cost can translate to housing cost savings for renters. They also provide an opportunity for seniors to "age in place," in which a senior homeowner could reside in an ADU while earning rental income on their primary property.

Barriers to ADUs

Barriers to ADUs include zoning and permitting issues as well as lack of capital or other financing issues. This section summarizes nationwide financing issues and barriers arising from Eugene's existing ADU policies.

NATIONWIDE ADU FINANCING ISSUES

Homeowners frequently are required to take on substantial personal financial risk when building an ADU. A comparable amount of upfront development costs per unit are likely to be completely reasonable for professional developers to absorb, who benefit from greater access to financing products and more experience navigating the real estate development process. However, for homeowners, these costs can impede ADU development, and the threshold at which per unit development cost can kill an ADU project is likely to be considerably lower than for larger developments that traditional developers oversee. A study that surveyed ADU owners in Portland, Vancouver, and Seattle, for instance, found that monetary challenges, including obtaining a loan and paying for construction costs, were the largest challenges that homeowners building ADUs faced. [26]

Larger-scale developers typically rely on construction loans to finance development projects, through which they borrow against expected future equity following the project's completion. However, this type of loan product is typically not available to homeowners adding ADUs. Rather, homeowners rely on their own savings, or borrow against existing equity in their primary dwelling. A 2014 study that surveyed over 200 Portland ADU owners found that 62 percent of respondents financed their ADU (either partially or in-full) with cash, while a sizeable share also relied on their existing home equity,

[26] Chapple, Karen, et al.. "Jumpstarting the Market for ADUs: Lessons Learned from Portland, Seattle, and Vancouver." *The Terner Center for Housing Innovation*, 2018.

either through a home equity line of credit (29 percent), or cash-out refinancing based on the primary home's value (12 percent). Meanwhile, very few (2 percent) relied on a construction loan, and no respondents paid with cash-out refinancing based on the property's future value.[27] National lending institutions do not have an established definition for ADUs, and therefore they improperly categorize them as non-income generating properties, which largely accounts for these financing issues. Fannie Mae and Freddie Mac underwriting guidelines, for instance, treat properties with ADUs differently than they would a duplex or other small multiplex, which they consider as "mortgage-helper" units. A prospective homebuyer of a triplex, for instance, can partially rely on their expected rental income to qualify for a mortgage. In contrast, a homebuyer purchasing a property with a detached ADU would likely not be able to use expected rental income to qualify.[28]

The solution to circumventing nation-wide ADU financing issues rests in collaborating with local banks and credit unions, who may be more willing to invest in ADU projects and to craft innovative financing solutions that can support them. Umpqua Bank in particular already offers construction loans for ADUs and other investment properties (see Appendix II for more information on Umpqua Bank's programs).

BARRIERS CREATED FROM EXISTING EUGENE ADU POLICIES

While the City of Eugene currently allows ADUs in all traditional residential zones (R-1, R-2, R-3, and R-4), and the majority of Special Zones by right, very few ADUs have been permitted and built. From 2008 to 2014, approximately nine ADUs were permitted per year, representing 1.5 percent of total permitted units during this timeframe. However, after the City of Eugene adopted more restrictive ADU requirements in July 2014, the annual number of ADU permitted units declined significantly. From 2015 to 2017, only seven ADUs were permitted in total, about two per year, representing just 0.3 percent of housing units permitted in those three years.

System Development Charges (SDCs) discourage people from building ADUs and from engaging in the existing permitting process required to legally build them. Eugene ties SDCs to a building's unit count rather than to unit size. Developers of ADUs and other small-footprint housing units, such as cottage clusters, pay comparable SDCs to developers of large, single-family homes. Homebuilders estimated that there are potentially 50 to 60 ADUs being built per year in Eugene that are not permitted as ADUs, but rather as "additions with two-bedrooms and a wet bar." Because incorporating a full range into an addition triggers ADU review, contractors frequently build "*de facto"* ADUs omitting that feature. Since such units are unpermitted and therefore not subject to City review it would be very difficult for the City of Eugene to confirm this estimate. However, the City was able to provide data for "not an ADU" deed restrictions and for code compliance issues related to illegal dwelling space. In 2018 the City processed 22 permits that required "not an ADU" deed restrictions, which are required when a proposed project includes space that could be used as a separate dwelling but an ADU is not being permitted. Again for 2018, the City found 19 code compliance cases related to illegal dwelling space. Many of the cases appeared to be related to people living in unconverted garage or shed space. Staff also noted that they have many more inquiries on ADUs than actual permitted units.

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[27] Brown, Martin and Jordan Palmeri, "Accessory dwelling units in Portland, Oregon: evaluation and interpretation of a survey of ADU owners," *Oregon Department of Environmental Quality,* 2014.
[28] Wegmann, Jake. "Financing Ancillary Apartments on Residential Properties: Challenges and Solutions," *UC-Berkeley Institute of Governmental Studies,* 2015.

Minimum lot size requirements preclude approximately 17 percent of residential lots with single-family homes throughout Eugene from adding ADUs. Single-family lots in most residential areas must be larger than 6,100 square feet to be eligible for an ADU. Approximately 15 percent of lots with single-family homes are smaller than the minimum and would be ineligible for ADUs under current regulations. In the Amazon, Fairmount, and South University neighborhoods lots must be at minimum 7,500 square feet.[29] In these three neighborhoods, ADUs are currently prohibited on one-half of single-family lots.

The requirement that owners must occupy either the primary or accessory unit precludes up to one-fourth of owners of single-family homes in Eugene from adding ADUs. Census data estimates that of the 37,400 "1-unit detached" units in Eugene, approximately 9,100 are renter-occupied.[30] In other words, 24 percent of single-family detached units are not occupied by the property owner, and therefore those property owners would be ineligible to add ADUs to their lots unless they intended to occupy one of the units. Multiple property owners and developers interviewed for this study viewed this requirement as arbitrary and discriminatory against renter households, which make up over half of all households in Eugene.

Site design requirements are highly prescriptive to a point of being potentially capricious. Both developers and city staff mentioned that site design requirements do not allow for variations in topography, or flexible standards for attached ADUs in existing buildings. For example, most existing homes do not meet the building standards that the City of Eugene established for ADUs in 2014. Therefore, many proposals for attached ADU units incorporated into existing homes are deemed ineligible, according to city staff, because the existing homes themselves are incompatible with the requirements. In addition, height standards for ADUs are inflexible on sloped lots. According to city staff, ADU proposals on sloped lots typically do not move forward because applicants have difficulty meeting the standards. Eugene requires adjustment review for ADU proposals requesting variances from these standards, which opens the project up to public review and delays the project's timeline, which further adds to project cost.

The minimum off-street parking requirement for ADUs adds to site development cost and constrains site design possibilities. Current regulations require that single-family homes with ADUs have a minimum of two off-street parking spaces, or one space per unit. Developers and city staff said this requirement can be challenging to meet from both a site design and financial feasibility perspective for certain lots. Eliminating this regulation would likely have minimal impact on on-street parking supply since developers satisfying this regulation may need to widen or add curb cuts, which reduces parking supply.

Most SDC rates that apply to newly constructed single-family homes and duplexes also apply to ADUs. While the Stormwater SDC rate is lower for buildings under 1,000 square feet, the other SDCs apply at the same rate regardless of unit size or bedroom count. **In effect, Eugene's current SDC policies disincentivize the development of both ADUs and of small footprint housing more generally**. The City of Eugene also currently restricts the number of bedrooms and square footage of ADUs, the only housing type regulated in this manner. ADUs may be up to 800 square feet and can have two bedrooms or fewer. The maximum square footage policy, on its own, helps ensure that ADUs have low environmental impact, and offer "affordable-by-design" units in Eugene. However, a homeowner's

[29] Flag lots must be at minimum 12,500 square feet, excluding the "pole" portion of the lot. Flag lots were not considered in the minimum lot size requirement geospatial analysis, due to the complex nature of identifying flag lots in the city's parcel data.
[30] American Community Survey, 5-year estimates, 2012-2016.

rental income for an ADU is informed by the size of the unit. Therefore, the combination of the SDC policy and size restrictions on ADUs likely negatively impacts ADU feasibility.

ADU Feasibility

The factors that impact financial feasibility of ADUs vary from those of larger-scale developments because they are built under different circumstances than projects from professional developers. While additional income can be a driving factor, motivations among homeowners adding ADUs are typically multilayered. For instance, they may be providing housing for a family member, or creating a way for themselves to "age in place." This is in contrast to professional developers who make decisions based on their financial bottom line. Homeowners may also have to take on a substantial amount of personal debt to build an ADU, meaning they typically view the endeavor as very financially risky to take on, substantially more so than a traditional developer managing a comparable project. With this in mind, ADU feasibility is less about short-term profitability and more about the perceived risk and time commitment associated with breaking even. Additionally, professional developers are likely to plan for selling their projects after a certain period has passed, and they may make their decisions based on information from a shorter time span. In contrast, homeowners adding ADUs are likely to think of them as a long-term investment into their own property or home.

Therefore, while a larger projects' feasibility is typically measured by its "yield on cost" or "return on cost" (depending on if they are rentals or for-sale product), a potential ADU's long-term cash flow better informs whether it will or will not be built.

This evaluation of ADU feasibility tested four scenarios: Scenario 1 represents current circumstances for building ADUs. Scenario 2 reflects if SDCs were waived, which is roughly equivalent to Portland's ADU policy. Scenario 3 incorporates waived SDCs, and a larger building size. Scenario 4 is modelled after the Alley Flat Initiative, a program in Austin, Texas that aims to increase the production of designated affordable housing units by assisting with the development of ADUs (see Appendix II for more information on the Alley Flat Initiative). Figure 23 shows assumptions held constant for each scenario.

FIGURE 23. ASSUMPTIONS FOR ALL SCENARIOS IN ADU CASH FLOW ANALYSIS

Metric	Amount
Operating Cost as Share of Rent Income	30%
Vacancy Cost as Share of Rent	5%
Interest Rate for 30-Year Fixed Rate Cash-Out Refinance	4.50%
Down Payment as Share of Total Project Cost	20%
Rent Per Sq. Ft.	$2.00
Time from Financing Approval to Certificate of Occupancy	1 Year

Source: Strategic Economics, 2018.

Figure 24 shows a summary of feasibility results for the four scenarios. Among the first three scenarios, which assume the ADU is rented at market-rate, the current status quo is the least favorable to the homeowner, requiring 14 years before the ADU project turns a profit. Waiving SDCs completely, and

relaxing site design standards to easily allow for a 900 square foot ADU moves that up by four years. This shows that combining incentives, such as waiving SDCs, with ADU-friendly design regulations can significantly improve the financial outlook for homeowner. Scenario 4 demonstrates that requiring that homeowners charge "affordable" rents impacts financial feasibility for ADUs. However, there are potentially additional incentives that the City of Eugene could layer on top of those incorporated into Scenario 4, to incentivize homeowners to participate.

FIGURE 24. FEASIBILITY RESULTS SUMMARY FOR FOUR ADU SCENARIOS

Scenario	SDCs	Building Sq. Ft.	Net Operating Income	Total Mortgage Cost	Homeowner Sees Profit
Scenario 1: Status Quo	$7,515	750	$11,700	$139,219	Year 14
Scenario 2: Waived SDCs	$0	750	$11,700	$133,207	Year 12
Scenario 3: Waived SDCs and Larger Sq. Ft. (a)	$0	900	$14,040	$150,607	Year 10
Scenario 4: "Alley Flat Initiative" Affordable Housing (b)	$0	900	First 5 Years: $5,216; Year 6 and After: $14,040	$142,378	Year 17

Source: City of Eugene, 2018; Strategic Economics, 2018

Notes:

(a) While Scenarios 1 and 2 incorporate a direct per square foot cost of $175, Scenarios 3 and 4 are informed by a slightly discounted direct per square foot cost of $170, as it is assumed the added square footage would be more efficiently built.

(b) In Scenario 4, the development overhead and A&E fees are discounted by 50%, while city permit fees are also waived. The homeowner is required to rent their unit for the first five years at 80% AMI.

Recommendations on ADUs

The factors limiting ADU production in Eugene are multi-faceted, and there is no one silver bullet that alone would better support their development. To encourage ADU production, the City of Eugene would need to take a number of steps, depending on the political appetite for increasing their supply. Options include adjusting the land use code and the structure of SDCs and other city fees as they apply to ADUs, increasing community outreach and education efforts regarding ADUs, and exploring ways to support applicants trying to build ADUs, who typically are preempted from taking advantage of traditional financing mechanisms available to professional developers. Specific options include:

- **Adjust Lot Size Requirements:** The median lot size for a single-family home in Eugene is approximately one-fifth of an acre, or 8,430 square feet, which is considered well-suited to accommodate an ADU. After eliminating the 1,470 single-family lots that may be too small to incorporate an ADU, and the 73 ADUs that have been permitted since 2008, crafting policies to encourage ADUs on all single-family lots could potentially add 43,344 units to Eugene's housing stock.[31] While it is unlikely, of course, that every homeowner that is able would choose to build an ADU, the sheer number of potential ADUs points to the great impact ADU-supportive policy could have. If owners of just five percent of potential ADU lots were to build one, the number of units added would be 2,150, which is equivalent to about one-third of all dwelling units permitted in Eugene from 2008 through 2017.
- **Reduce Costs:** The City of Eugene should consider scaling or reducing SDCs for ADUs. Reduced SDCs would reflect the fact that ADUs typically have lower occupancy than single family detached homes and that small-scale infill development capitalizes on existing infrastructure rather than requiring system expansions.
- **Improve Site Design Flexibility:** In cities like Eugene where a majority of residential lots are occupied by detached single-family homes, ADU-supportive policy can substantially increase the housing stock if there is a clear path to build them. If Eugene wants to see more ADUs developed, then ADU requirements need to be more flexible. For example, under current requirements it's very difficult to convert a portion of an existing building into an accessory unit, because it's typical that the existing building does not follow the requirements and there is no grandfathering of existing conditions or flexibility with this. Also, building height requirements do not translate well to sloped lots, making it very cumbersome for homeowners of these lots to incorporate ADUs. The requirement that ADUs have a minimum of one off-street parking space can impede site design possibilities and may make lots that could easily accommodate ADUs otherwise ineligible from doing so. The maximum square footage and bedroom count regulations are not context-sensitive and can be overly restrictive depending on the lot size.
- **Eliminate Owner Occupancy Requirement:** The owner occupancy requirement should be eliminated. Almost one-quarter of single-family detached units are not occupied by the property owner. This requirement is burdensome and discriminatory against renter households, which make up over half of all households in Eugene.

[31] While ADU development standards vary between municipalities, there are examples of well-designed ADUs on lots as small as 4,000 square feet. There are 1,470 lots that are smaller than 4,000 square feet, which may be considered too small to accommodate an ADU.

V. CONSTRUCTION EXCISE TAX ANALYSIS

In 2016, the Oregon legislature passed SB 1533, which enabled municipalities to tax new development based on construction cost, to fund affordable housing. Under the legislation municipalities can levy a tax of up to one percent of construction cost on residential projects, and there is no cap to the rate for commercial and industrial projects.

Once a CET is established, a municipality may use up to four percent of CET revenues collected for the administrative costs associated with implementing the tax. For the CET on residential development, the remaining revenues are distributed as follows:

- 50 percent go toward developer incentives to create affordable housing;
- 35 percent go to affordable housing programs; and
- 15 percent go toward Oregon Housing and Community Services to provide down payment assistance for homebuyers. (The amount for down payment assistance will be returned to existing programs within the jurisdiction that adopted the tax.)

For the CET on commercial and industrial development, at least half of collected revenues must go toward the jurisdiction's housing-related programs and the other half is unrestricted in use.

There are nine municipalities that have active CET policies in Oregon. Bend, which was the first Oregon municipality to implement a construction excise tax, as well as Medford, which was the most recent to do so, both levy a tax of just one-third of a percent of construction cost. The other municipalities with CETs, including Portland and Milwaukie, have set theirs at one percent of construction cost. Corvallis set the CET on residential development at one percent and is the only municipality to impose a higher rate (1.5 percent) on commercial projects.

Revenue Potential

An analysis of building valuations from Eugene building permit data was conducted to provide the City with the revenue potential resulting from a CET. The annual potential revenue was estimated by analyzing "building valuation" permit data the City of Eugene provided. While "building valuation" data is an estimate of actual construction cost, it is likely that in practice the CET would be based on such valuation estimates, which are the most precise/official understanding the City of Eugene has of the construction costs for development projects.

The analysis shows that if Eugene had implemented a CET of one percent for both residential and commercial projects, it would have raised approximately $3 million in both 2016 and 2017. Had Eugene implemented a CET similar to Bend at one-third of one percent of construction cost, it potentially could have raised nearly $1 million in both 2016 and 2017.

This analysis assumes that the tax would not have rendered any project infeasible, in which case the total amount of development could be impacted, and the revenue potential would be lower. As project feasibility is critical to the revenue potential of the CET, it is evaluated in the following section.

Financial Feasibility Evaluation

In order to provide Eugene with guidance on how a CET could impact development decisions, Strategic Economics conducted a financial feasibility analysis that tested the impact of a CET set at one percent. This section provides a summary of the feasibility analysis for four residential prototypes.

METHODOLOGY

This analysis tested the financial feasibility of the imposition of a new CET on prototypical residential development projects. Financial feasibility was tested using a static pro forma model that measures **return on cost** (or ROC, used for for-sale residential development) or **yield on cost** (YOC, used for rental properties). Return on cost and yield on cost are commonly used metrics indicating the profitability of development projects. These metrics are calculated using the following methodology:

- **Return on cost** is calculated by tallying all development costs, including land, direct construction costs, indirect or soft costs (including financing) and developer fees. Total revenues from the sale of the for-sale units are then estimated. Developer profit is calculated by subtracting total costs from total revenues. Finally, ROC is calculated by dividing developer profit into total development cost.
- **Yield on cost** is calculated by dividing a project's expected net annual operating income at full lease-up[32] by total development costs (including construction costs, soft costs, fees, and land costs but excluding financing costs). Using YOC as a metric for feasibility allows for a comparison of rates of return among different rental projects, without skewing the results based on the specific financing arrangements (such as the particular combination of debt and equity) that can be highly variable from project to project.

PROTOTYPES

Strategic Economics conferred with City staff to construct four residential prototypes that represent the range of market-rate housing development projects that can reasonably be expected in Eugene based on recent development trends. (An ADU prototype is discussed separately in a preceding chapter.) Figure 25 summarizes the characteristics of the four development prototypes that were tested for financial feasibility:

- **Single-Family Detached** – A residential development of 1,800 square foot 3 bedroom, 2.5 bathroom for sale houses at a density of seven dwelling units per acre.
- **Townhouse** – A 1,400 square foot 3 bedroom, 2.5 bathroom for sale townhouse at a density of 13 dwelling units per acre.
- **Apartment** – A 3-story wood frame apartment building with an average unit size of 864 square feet and surface parking at a density of 30 units per acre. (This prototype does not represent the denser multifamily construction that is occurring near the University of Oregon.)
- **Cottage Cluster** – A cluster of eight rental cottages with 800 square feet, 1 bedroom and 1 bathroom each at a density of 16 dwelling units per acre.

[32] Net operating income at full lease-up is calculated as total rental revenues minus operating costs, assuming a stable vacancy rate.

The characteristics, including building type, size, density, and parking assumptions are based on a review of recently built projects in Eugene.

FIGURE 25: RESIDENTIAL PROTOTYPES

	Single-Family Detached	Townhome	Low-Rise Apartment	Cottage Cluster
Building Type	2-story wood frame (Type V); attached garage	2-story wood frame (Type V); surface parking	3-story wood frame (Type V); surface parking	1.5-story wood-frame (Type V); surface parking
Unit Type	3 bed/2.5 bath	3 bed/2.5 bath	43% 1 bed/1 bath 48% 2 bed/2 bath 9% 3 bed/2 bath	1 bed/1 bath
Net Residential Sq. Ft.	18,000	14,000	151,250	6,400
Number of Units	10	10	175	8
Average Unit Size (SF)	1,800	1,400	864	800
Dwellings per Acre	7.1	13.1	30	16
Lot Size (Acres)	1.40	0.8	5.8	0.5

Source: City of Eugene, 2018; Strategic Economics, 2018.

REVENUES

To estimate income from residential development, the analysis used estimates of sales prices and monthly rents. These revenue assumptions were based on a review of local market data, including information on the type of development that has been recently constructed in Eugene; and recent sales prices and current rental rates of recently built (or sold) development in Eugene.

For single-family detached and for-sale townhome projects, the revenues are calculated by multiplying the unit count by the sales price. For the apartment and cottage cluster prototypes, the revenues were estimated using an income capitalization approach. This valuation approach first estimates the annual net operating income (NOI) of the development prototype, which is the difference between total project income (annual rents) and project expenses, including operating costs and vacancies. The NOI is then divided by the capitalization rate (cap rate) to derive total project value. Figures 26 and 27 summarize the calculations and data sources used for estimating the value of the prototypes.

FIGURE 26: PROTOTYPE SALES PRICES AND RENTS

Prototype	Unit Type	Number of Units	Unit Sales Price/ Monthly Rent	Price or Rent per SF
Single-Family Detached	3 bed/2.5 bath	10	$407,513	$226
Townhome	3 bed/2.5 bath	10	$385,000	$275
Low-Rise Apartment	1 bed/1 bath	75	$1,495	$2.08
	2 bed/2 bath	85	$1,790	$1.88
	3 bed/2 bath	15	$1,995	$1.81
	Total Apartment Units	175		
Cottage Cluster	1 bed/1 bath	8	$1,520	$1.90

Sources: Strategic Economics, 2018.

FIGURE 27: APARTMENT REVENUE CALCULATIONS

Apartment Revenues	Calculation	Total
Gross Annual Rental Income	Gross annual rents	$3,530,400
Operating Expenses	30 percent of income	($1,059,120)
Vacancy	5 percent of income	($176,520)
Annual Net Operating Income	Income less expenses and vacancy	$2,294,760
Capitalization Rate	5.5 percent	5.5%
Capitalized Value	Project value	$41,722,909

Source: Strategic Economics, 2018.

DEVELOPMENT COSTS

Cost estimates include land costs, direct construction costs (site work/infrastructure, building costs, and parking), indirect costs, financing costs, and developer overhead and profit. Land costs are based on average asking prices for single-family and multi-family zoned property that was listed on Zillow.com in Eugene in December 2018 and interviews with developers. Direct building construction cost estimates include site work, building construction, and parking costs and are based on RS Means, project pro formas for recent projects in Eugene, and information from developer interviews. Soft costs and developer overhead/profit were estimated based on review of similar project pro formas, interviews with developers, and previous studies. City and EWEB fee calculations were provided by City staff and EWEB data. The cost factors used in the analysis are summarized in Figure 28.

FIGURE 28: DEVELOPMENT COST FACTORS

Development Costs		Metric
Land		
Single Family	$7	per SF
Townhome	$12	per SF
Low-Rise Apartment	$9	per SF
Cottage Cluster	$9	per SF
Direct Costs (a)		
Single-Family Detached	$135	Per Net SF
Townhome	$155	Per Net SF
Low-Rise Apartment	$160	Per Net SF
Cottage Cluster	$150	Per Net SF
Indirect Costs (b)		
Soft Costs	10.00%	of direct costs
Contingency	5.00%	of direct costs
Fees (Excluding City SDCs)		
Single-Family Detached	$10,163	per unit
Townhome	$10,135	per unit
Low-Rise Apartment	$5,373	per unit
Cottage Cluster	$7,680	per unit
City SDCs		
Single-Family Detached	$9,928	per unit
Townhome	$6,353	per unit
Low-Rise Apartment	$6,786	per unit
Cottage Cluster	$10,041	per unit
Financing Costs (b)		
Loan to Cost Ratio (LTC)	80%	of total costs
Loan Interest Rate	6%	annual rate
Compounding Period	12	months
Construction/Absorption Period (c)	12 to 24	months
Utilization Rate	55%	of loan
Loan Fees	2%	of loan
Developer Overhead & Fee	4%	of total costs (ex. land)

Notes:

(a) Direct costs include site work, building construction, and parking costs. Costs estimates are based on review of Eugene pro formas for similar projects, data from RS Means, and developer interviews.

(b) Based on review of similar project pro formas and interviews with developers. Fee estimates were provided by City staff.

(c) Absorption periods are estimated at 24 months for apartments, cottage clusters, and townhouses; and 12 months for single-family subdivisions.
Sources: RS Means, 2018; Similar pro formas; City of Eugene, 2018; Strategic Economics, 2018.

MEASURES OF FEASIBILITY

To establish a reasonable threshold for a developer's rate of return on new for-sale and rental development projects in Eugene, Strategic Economics interviewed local developers and reviewed publications on the local and regional real estate market.

- **Return on Cost (For-Sale Development):** Based on input from developers, for-sale projects with a ROC of more than 10.0 percent were considered financially feasible. Development with a ROC of less than 10.0 percent are not financially feasible, while projects with a ROC at or just above 10.0 percent are considered marginally feasible.
- **Yield on Cost (Rental Development):** A common rule of thumb is that the expected Yield on Cost (YOC) for a rental development project should be about 1.0 percentage point higher than the average capitalization rate (cap rate) in the local market.[33] Local developers reported that investors expect yields in the range of 6 to 7 percent. Based on the cap rate and developer input, projects with a YOC of at least 6.5 percent were considered financially feasible for the purposes of this analysis. Developments with a YOC of less than 6.5 percent are not financially feasible, while projects with a YOC at the lower end of the threshold (at or just above 6.5 percent) are considered marginally feasible.

FINANCIAL FEASIBILITY RESULTS

Figure 29 provides the pro forma model results for the residential prototypes. Below is a discussion of the findings.

- **Single-Family Detached** – According to the results of the pro forma analysis, the single-family detached prototype meets the threshold of feasibility. With the addition of a one percent construction excise tax, the single-family detached prototype marginally meets the threshold of feasibility.
- **Townhome** – According to the results of the pro forma analysis, the townhome prototype meets the threshold of feasibility and the addition of a one percent construction excise tax on the townhome prototype also meets the threshold of feasibility.
- **Low Rise Apartment** – According to the results of the pro forma analysis, the apartment prototype only marginally meets the threshold of feasibility and the addition of a one percent construction excise tax on the apartment prototype does not meet the threshold of feasibility.
- **Cottage Cluster** – According to the results of the pro forma analysis, the cottage cluster prototype does not meet the threshold of feasibility and the addition of a one percent construction excise tax on the cottage cluster prototype also does not meet the threshold of feasibility.

[33] A project's capitalization (or "cap") rate is the ratio of net operating income divided by property value. Real estate brokerage firms typically calculate the market capitalization rate as the average capitalization rate for projects sold in a given period.

FIGURE 29: SUMMARY OF FEASIBILITY ANALYSIS

	Single-Family Detached	Townhome	Low Rise Apartments	Cottage Cluster
Scenario 1: Status Quo				
Costs				
Land	$426,888	$398,574	$2,210,670	$196,020
Building & On-Site Improvements	$2,430,000	$2,170,000	$24,200,000	$960,000
Indirect Costs (Including Financing)	$613,159	$624,067	$6,841,974	$284,398
SDCs	$99,282	$63,533	$1,119,113	$80,326
Other Fees	$101,627	$101,355	$940,282	$61,437
Total Development Costs	$3,670,956	$3,357,529	$35,312,039	$1,582,181
Annual Net Operating Income	N/A	N/A	$2,294,760	$94,848
Net Sales Proceeds	$4,075,130	$3,850,000	N/A	N/A
Return on Cost/Yield on Cost	11.0%	14.7%	6.50%	6.0%
Threshold for Feasibility	10% return on cost	10% return on cost	6.5% yield on cost	6.5% yield on cost
Scenario 2: CET of 1%				
Costs				
Land	$426,888	$398,574	$2,210,670	$196,020
Building & On-Site Improvements	$2,430,000	$2,170,000	$24,200,000	$960,000
Indirect Costs (Including Financing)	$615,046	$626,298	$6,866,855	$285,385
SDCs	$99,282	$63,533	$1,119,113	$80,326
Other Fees	$101,627	$101,355	$940,282	$61,437
CET	$24,300	$21,700	$242,000	$9,600
Total Development Costs	$3,697,143	$3,381,460	$35,578,920	$1,592,768
Annual Net Operating Income	N/A	N/A	$2,294,760	$94,848
Net Sales Proceeds	$4,075,130	$3,850,000	N/A	N/A
Return on Cost/Yield on Cost	10.22%	13.86%	6.45%	5.95%
Threshold for Feasibility	10% return on cost	10% return on cost	6.5% yield on cost	6.5% yield on cost

Source: RSMeans, 2018; similar pro formas; City of Eugene, 2018; Strategic Economics, 2018.

RECOMMENDATIONS ON CET

The financial feasibility analysis indicates that some types of residential development do not meet the minimum threshold of feasibility or are marginally feasible even without the CET. To address financial feasibility concerns, however, the City of Eugene could take a number of steps, including:

- Phasing in a CET first with a one-third or one-half of one-percent tax rate. The City of Bend, which was the first to implement a CET, uses one-third of a percent, and has raised over $6.4 million for a revolving fund for affordable housing.
- Accompanying the implementation of a CET with regulatory/process improvements that have the potential to reduce other development costs.
- Exempting some types of housing units, particularly those that meet other housing goals, such as smaller, more affordable units, from paying the CET.
- Using a portion of revenue collected to assist in the production of qualifying market-rate units.

APPENDIX I: HOUSING TOOLS & STRATEGIES INVENTORY

Housing Tools Strategies Inventory

Category	Strategy/ Tool	Description	Who Benefits	Costs	Key Considerations	Examples	Links to examples
Zoning Strategies for Market Rate Housing Production	Streamlined Permitting Process	Ensure that development permitting processes are predictable and timely. Delays and uncertainty in the permitting processes can increase housing costs and discourage investment in housing. Streamlining permitting processes can eliminate unnecessary costs and barriers, and facilitate the development of innovative housing options that are more affordable to a broader spectrum of the population. This strategy can take many forms, including: (1) providing easily navigable permitting information online; (2) creating a "one stop shop" permitting center; (3) allowing expedited review for projects that work toward goals identified by the municipality; (4) increasing coordination between municipal departments with permitting oversight; and (5) simplifying zoning codes to reduce need for variance appeals.	Moderate income renters and owners	May require code rewrite, administrative costs.	• Limiting discretionary review and other multiple layers of review can reduce uncertainty and delays in permitting. • Public processes can add to uncertainties and delays, which in turn increase development costs.	Kittitas County, WA; Aurora, CO	https://www.nahb.org/en/research/~/media/9DF7168BA27A4FADB1566FAF6EF375A2
	Accessory Dwelling Unit Ordinance	Allow homeowners to easily add accessory dwelling units (ADUs) to their lots, thereby increasing density without requiring administrative hurdles neccesary for larger projects, such as site plan review or land assembly. ADUs can be both standalone structures or incorporated into the existing building.	Homeowners and moderate income renters	May require code rewrite, administrative costs.	• Allowing ADUs by right in single-family areas has minimal cost and potentially great impact. • It is most efficient and most effective for ADU standards to be generally applied to all residential areas.	Springfield, OR; Los Angeles, CA	http://www.springfield-or.gov/dpw/CommunityPlanningDevelopment/Images/ADU/ADU%20brochure_8-20-18_final.pdf
	Graduated Density Zoning	Incentivize land assembly, particularly near transit, to allow for larger-scale real estate development in a more effficent manner. Under graduated density zoning contiguous lots that in sum are larger than a minimum threshold size can be upzoned, thereby incentivizing individual parcel owners to sell the lots. The lots may then be assembled and redeveloped.	Property owners, moderate income residents, low income renters	May require code rewrite, administrative costs.	• Success of policy is tied to the extent of market demand for higher density units in a particular location. • There is some criticism that while large parcel sites may be easier to develop, the resulting developments are not neccesarily "superior" to smaller-scale development.	Simi Valley, CA; Jersey City, NJ	https://urbanland.uli.org/development-business/zoning-can-ease-land-assembly/
	Tweak traditional zoning code to encourage Missing Middle development	Ensure that the land development code is permissive of both "Missing Middle" housing types, and site design specifications required for them to be built. A relatively simple way to encourage this type of development would be to reduce minimum lot sizes and setback requirements, streamline the subdivision process for existing large lots zoned for single-family homes, and simplify site plan review requirements for a proposals under a certain number of units.	Moderate income residents	May require code rewrite, administrative costs.	• Allowing all Missing Middle housing types in the land development code is a relatively low-cost strategy, but can be controversial. • Slightly upzoning single-family areas by allowing such housing types by right would likely raise land value and incentivize this development to occur. • In a strong real estate market, allowing "Missing Middle" housing development can be most impactful in providing moderate-income, market-rate housing when it is permitted and encouraged at a greater scale. • Encouraging Missing Middle housing types complements multiple strategies, including form-based codes, mixed-use zoning, and streamlined development process initiatives.	Olympia, WA; Vancouver, BC	https://council.vancouver.ca/20180620/documents/rr1b.pdf
	Form-based codes	Establish a land development code that encourages an urban form that includes diverse housing types. This, in turn supports communities that are inclusive of households of varying incomes, sizes, and ages. Form-based codes include no or little specification on use and code is solely presciptive on urban form.	Moderate income residents	May require code rewrite, administrative costs It may be costly to transition from a use-based zoning code to a form-based zoning code.	• Form-based codes allow for “as of right” development of land for residential purposes.	Denver, CO; Peoria, IL ; Cincinnati, OH; Fort Worth, TX; Lacey, WA	https://formbasedcodes.org/codes/
	Mixed Use Zoning	Enable mixed-used districts through zoning, particularly in transit-supportive areas. This provides flexibility and a greater diversity of land uses, and creates opportunities to decrease parking.	Moderate income renters and owners	May require code rewrite, administrative costs.	• A mixed-use zoning policy does not necessarily require that all buildings incorporate multiple uses. Instead allowing single-use buildings on distinct parcels within a district with multiple uses can be more efficient at producing market-rate, lower-cost housing. This is partly because multifamily developments without a commercial component can be less complex to permit, finance, and build. • Some affordable housing advocates have criticized the use of mixed-use zoning as a "one-size-fits-all" tool that increases development pressure on vulnerable naturally occuring affordable units. With this in mind, it is advisable to consider the displacement effect that mixed-use zoning may have, and use it with sensitivity to neighborhood context. • Flexible parking requirements complement mixed-use zoning well.	Tacoma, WA; Eugene, OR (already has three mixed-use districts)	http://cms.cityoftacoma.org/Planning/MUC/MUC%20New%20Page%202017/Tacoma%20Mixed-Use%20Centers%20(10-1-15).pdf
	Reduced or Flexible Minimum Parking Requirements	Enact flexible parking requirements for development in transit-supportive areas, thereby reducing development cost. This could entail reducing the minimum number of parking spaces per unit for properties near transit, unbundling parking cost from unit cost to decrease parking need, and exploring shared parking solutions between compatible land uses.	Moderate income renters and owners	May require code rewrite, administrative costs.	• Flexible parking regulations support both housing affordability and transit-oriented development goals, and are most impactful when used near transit stations. • Municipalities can enact flexible parking requirements in specific neighborhoods or districts that vary from citywide parking requirement. • With “unbundled” parking, developers can build fewer spaces per unit and rent or sell the spaces to tenants/owners as a separate cost, instead of wrapping the cost of parking into the basic rent/unit price. This allows tenants/owners to only pay for the parking they need. Tenants who do not need parking will pay lower rents than those who require parking. Households are not forced to pay for parking spots they may not need, while parking costs for the developer will be lower in relation to total construction costs making housing more affordable. This strategy is most appropriate for multifamily apartment buildings.	San Diego, CA	http://docs.sandiego.gov/municode/MuniCodeChapter14/Ch14Art02Division05.pdf

Housing Tools Strategies Inventory

Category	Strategy/ Tool	Description	Who Benefits	Costs	Key Considerations	Examples	Links to examples
Tax/Fee Exemptions and Other Incentives	Reduce impact fees/ systems development charges	Reducing fees for projects in specified areas incentivizes development projects meeting established city planning goals by reducing total development costs.	Moderate income owners and renters	Foregone fee revenue for municipality.	• Municipalities should review how their fees are structured to limit the extent to which fees discourage housing development. • Incentives like fee delays and reductions are most likely to to be successful in locations with relatively strong real estate markets.	Sacramento, CA	https://www.cityofsacramento.org/Community-Development/Resources/Housing-Impact-Fee
	Delay impact fees/systems development charges	Delay payment of fees, typically until a certificate of occupancy is issued, in order to reduce upfront development costs, which thereby incentivizes new construction.	Moderate income owners and renters	Delay in fee revenue for municipality.	• Municipalities should review how their fees are structured to limit the extent to which fees discourage housing development. • Incentives like fee delays and reductions are most likely to be successful in locations with relatively strong real estate markets.	Anaheim, CA; Irvine, CA	http://www.anaheim.net/DocumentCenter/View/17867/BAP-Fee-Deferral-Guide?bidId=
	Property tax exemptions	Incentivizes construction of housing by delaying or exempting property tax collection, which lowers overall operating cost.	Property owners receive exemption	Foregone property tax revenue for municipality.	• Eugene's Multi-Unit Property Tax Exemption (MUPTE) program provides a property tax exemption on certain multi-unit projects for 10 years. Construction, addition, and conversions to multi-unit projects with at least five new housing units within the MUPTE boundary are elgibile. • Property tax exemptions can be used to incentivize projects with and without affordable units.	Eugene, OR; Bellevue, WA; Seattle, WA	https://www.eugene-or.gov/829/Multi-Unit-Property-Tax-Exemption
Affordable Housing Production Strategies	Density Bonus Ordinances	Under density bonus programs development is eligible for a pre-defined increase in density or floor area ratio (FAR) in exchange for providing public benefits (such as affordable housing units), or funding at a pre-determined, per-square-foot price. Different levels of density may be available in exchange for providing additional public benefits.	Moderate income residents, low income renters	Developers produce affordable units.	• Because density bonuses rely on development, they are most likely to be successful in locations with relatively strong real estate markets. • Density bonuses should be calibrated so that using the bonus would consistently provide the developer with greater return than without the bonus.	Sonoma County, CA/ Ann Arbor, MI/ Bellevue, WA/ Bend, OR	https://sonomacounty.ca.gov/PRMD/Newsletter/Creating-More-Housing-with-Rental-Density-Bonus/
	Affordable Housing Overlay Zone	Apply incentives for affordable housing to a specific geographic area as projects are proposed or as needed. A floating zone, which would allow the incentive zoning to go into effect provided that development proposals meet specified criteria, may define separate standards depending on neighborhood context.	Very low and low income renters	Developers produce affordable units.	• Specific incentives should be calibrated based on policy goals and the feasibility of development given local market conditions, but may include: - Density bonus - Increased allowable heights - Streamlined permitting - Fee reductions or waivers	Farmington & Middletown, CT/ New Rochelle, NY, Orange County & Menlo Park, CA	http://www.courant.com/politics/hc-news-farmington-development-20180517-story.html
	Inclusionary Zoning	Establish policy requiring developers to set aside a certain proportion of units as affordable for households earning a certain level of area median income. Can be used for both rental and ownership properties. Cities typically allow alternative means of compliance, such as paying an in-lieu fee into an affordable housing trust fund.	Very low, low, and moderate income owners and renters	Developers produce affordable units and/or pay fees.	• Inclusionary zoning has been explicitly allowed in Oregon since 2016. • Programs may be structured to offer developers the option of providing units on-site or off-site, or paying an in-lieu fee to fund affordable housing development elsewhere in the jurisdiction. Requirements can also vary by project size or zone within the city. • Inclusionary requirements (including the percentage of units required to be affordable, the level of affordability, and the size of the in-lieu fee) must be carefully calibrated based on policy goals and the feasibility of development given local market conditions. • If policies are not set correctly they may lead to impacts on the price/supply of market-rate housing. • Studies find that more flexible inclusionary policies and those designed to offset additional costs associated with providing affordable units may lead to greater production of affordable units.	Portland, OR; Seattle, WA	https://www.portlandoregon.gov/bps/article/621866
	Workforce Housing Initiatives	Collaborate with major employers, particularly those who offer lower-wage jobs, to provide housing for their employees.	Low income residents	Employers assist in providing housing.	• Workforce housing ordinances might require developers of commercial or industrial space to build a combination of market-rate and affordable housing, informed by employment density assumptions. • This type of ordinance is most suitable in municipalities with a jobs-housing imbalance such as resort communities	Truckee, CA	https://www.sierrasun.com/news/local/council-reactivates-suspended-workforce-housing-ordinance/

Housing Tools Strategies Inventory

Category	Strategy/ Tool	Description	Who Benefits	Costs	Key Considerations	Examples	Links to examples
Local Affordable Housing Funding Strategies	Reduced Fees or Waivers	Waive or reduce development fees in exchange for providing affordable housing or other public goods.	Very low, low, and moderate income owners and renters	Foregone fee revenue for municipality. Developers produce affordable units and/or other public goods.	• Eugene waives SDCs for affordable units. • Fee waivers and reductions are most likely to have a significant effect in areas experiencing rapid growth.	Eugene & Bend, OR; Longmont, CO	https://www.bendoregon.gov/government/departments/economic-development/affordable-housing-program/developer-resources#FinancialTools
	General Fund Allocation	Set aside a portion of discretionary funds from the General Fund for affordable housing needs.	Very low, low, and moderate income owners and renters	Tax and other general fund revenues	• Many competing needs for general fund revenue.	Berkeley & San Mateo County, CA	https://cmo.smcgov.org/allocation-funds-under-affordable-housing-fund-40-and-staff-support
	In-Lieu Fees - Inclusionary Zoning	As an alternative to requiring market-rate developers provide affordable housing on-site, allow developers to pay an in-lieu fee toward an affordable housing fund, which could be used for a range of affordable housing strategies, such as preserving existing affordable units, or providing gap financing to affordable housing developers. The In-lieu fee should be roughly equivalent to the cost of developing on-site units in order for it to be most impactful, though not too high as to discourage development.	Very low, low, and moderate income owners and renters	Developers pay fees	• Inclusionary zoning has been explicitly permitted in Oregon since 2016. • In-lieu fees must be carefully calibrated based on policy goals and the feasibility of development given local market conditions. • If policies are not set correctly they may lead to impacts on the price/supply of market-rate housing. • Studies find that more flexible inclusionary policies and those designed to offset additional costs associated with providing affordable units may lead to greater production of affordable units.	Seattle, WA; Somerville, MA	https://inclusionaryhousing.org/designing-a-policy/off-site-development/in-lieu-fees/
	Residential Impact Fee for Affordable Housing	The purpose of this fee is to mitigate the impact of new market rate residential development on the demand for affordable housing. Fees are structured similarly to system development charges for infrastructure and calculated based on the connection between the development of market rate housing and the demand for affordable housing units. Fees are typically charged on a per unit or per square foot basis and revenue may be deposited to an affordable housing fund.	Very low, low, and moderate income owners and renters	Developers pay fees.	• Similar to inclusionary zoning requirements, residential impact fees for affordable housing must be carefully calibrated based on policy goals and the feasibility of development given local market conditions. • If policies are not set correctly they may lead to impacts on the price/supply of market-rate housing.	Santa Rosa, Oakland & Palo Alto, CA	https://www.sfgate.com/bayarea/article/Oakland-to-impose-impact-fees-on-new-housing-7280444.php
	Commercial Development Impact Fee / Commercial Linkage Fee	Similar to the residential impact fee, the purpose of the commercial linkage fee is to mitigate the impact of new commercial development on the demand for affordable housing. Fees are structured similarly to system development charges for infrastructure and are calculated based on the connection between the development of commercial uses such as hotel, retail, and office projects and the demand for affordable housing units. Fees are typically charged on a per square foot basis and revenue may be deposited to an affordable housing fund.	Very low, low, and moderate income owners and renters	Developers pay fees.	• Similar to residential impact fees, commercial linkage fees must be carefully calibrated based on policy goals and the feasibility of development given local market conditions. • If policies are not set correctly they may lead to impacts on the price/supply of commercial development.	Palo Alto & Burlingame, CA	https://siliconvalleyathome.org/resource-map/commercial-linkage-fees/
	Residential Construction Excise Tax	Levy a tax of up to 1 percent of the permit value on residential construction to be used for affordable housing.	Very low, low, and moderate income owners and renters	Developer pays the tax.	• Construction excise taxes were enabled in Oregon in 2016, with the passage of SB 1533. It is required that: 1) 50% of funds collected from the residential excise tax go toward developer incentives to create affordable housing; 2) 35% go to affordable housing programs; and that 3) 15% go toward Oregon Housing and Community Services to provide down payment assistance for homebuyers. The amount for down payment assistance will be returned to existing programs within the jurisdiction that adopted the tax. • If policies are not set correctly they may lead to impacts on the price/supply of market-rate housing.	Bend, Medford, Corvallis & Milwaukie, OR	https://www.oregonhousingalliance.org/construction-excise-tax/
	Commercial/ Industrial Construction Excise Tax	Levy a tax on the permit value of commercial and industrial taxes.	Very low, low, and moderate income owners and renters	Developer pays the tax.	• Construction excise taxes were enabled in Oregon in 2016, with the passage of SB 1533. There is no cap to the rate for commercial and industrial tax, and at least half of revenues must go toward the jurisdiction's housing-related programs. • If policies are not set correctly they may lead to impacts on the price/supply of commercial development.	Bend, Medford, Corvallis & Milwaukie, OR	
	Affordable Housing Bond	Introduce a general obligation bond measure, backed by property taxes and voted on by residents, to provide funding for affordable housing.	Very low, low, and moderate income owners and renters	Taxpayers	• Affordable housing bonds in Oregon are now more impactful at financing affordable housing because a constitutional amendment on the November 2018 ballot allowing bond funds to go toward nongovernmental housing passed (Measure 102). Previously, bond funds were not eligible to help fund projects (including affordable housing) that were not owned by a public agency. • Bond measures require voter approval.	Portland, OR (currently considering bond); Austin, TX	http://www.austintexas.gov/sites/default/files/files/Finance/CFO/2018-Bond/Housing/Bond_Presenation_Aug_4_2017_FINAL.pdf
Preservation of Existing Affordable Housing Units	Condominium Conversion Controls and Tenant Protections	Impose restrictions on the ability to convert apartments to condominiums and/or implement protections for existing tenants. Require that applicant who is converting rental units to condominiums build an equivalent number of rental units or pay an affordable housing impact fee, tied to amount of rental units lost.	All renters	Property owners	• Oregon law requires that tenants receive 120 days notice of a condo conversion. Tenants must be given first opportunity to purchase the unit. Landlords face penalties if they violate these rules.	Portland, OR/ Oakland, CA	http://oregoncat.org/know-your-rights/how-do-i-defend-my-rights-as-a-tenant/condo-conversions/
	Mobilehome Park Conversion Controls and Tenant Protections	Impose restrictions on the ability to convert or redevelop mobilehome parks into a different use, and/or implement protections for existing tenants.	Very Low income renters	Property owners	• Portland is currently considering rezoning 56 manufactured home parks to "residential manufactured dwelling park" which will carry protections from redevelopment.	Santa Cruz, CA/ Portland, OR	http://www.codepublishing.com/CA/SantaCruzCounty/html/SantaCruzCounty13/SantaCruzCounty1330.html
	Single-Room Occupancy Conversion Controls / Preservation	Impose restrictions on the ability to convert Single Room Occupancies (SROs), and/or implement incentives to help create them. SROs are a type of multifamily housing with one to two-person units with shared bathrooms and/or kitchens.	Very low/ low income renters	Property owners	• Eugene has a House-To-SRO Conversion framework in place.	San Francisco, CA/ Chicago, IL/ Eug	http://www.tenantstogether.org/updates/new-sro-laws-surprising-success
	Acquisition/ Preservation of Deed-Restricted Units	Track expiration date of existing deed-restricted units and provide resources for their acquisition and rehabilitation. Additional funding sources, such as the Low Income Housing Tax Credit, may be available.	Very low/ low income renters	Administrative cost to run program	• Replacing deed-restricted units whose affordability periods have expired may be difficulat. • Taking stock of affordability periods for exitisting deed-restricted units can better prepare municipalities to anticipate future affordable housing needs, with relatively minimal administrative cost.	Cambridge, MA; Stamford, CT	https://inclusionaryhousing.org/designing-a-policy/affordability-preservation/
	Acquisition/ Preservation of "Naturally Occurring Affordable Housing"	Track existing "naturally occurring" affordable units and provide resources for their acquisition and rehabilitation. Programs may exist at the municipal level (for example, the Small Sites Acquisition Program in San Francisco, CA and Measure KK Acquisition Program in Oakland, CA) or regional level (such as the Bay Area Pilot Preservation Fund).	All renters	Administrative cost to run program	• It is generally considered more economical for municipalities to add existing, naturally occuring affordable units to their deed-restricted housing stock, than it is to construct new, deed-restricted units.	Twin Cities (NOAH Impact Fund)/ Charlotte, NC	https://noahimpactfund.com/wp-content/uploads/2017/03/Brochure-GMHF-NOAH-Impact-Fund_031517.pdf
	Community Land Trust (CLT)	Nonprofit, community-based organization, usually supported by the local city or county, whose mission is to provide affordable housing in perpetuity. Most often, the CLT owns the land, and either sells or rents properties on the land to low-income families at affordable rates.	Very low and low income renters, low and moderate income homeowners	Administrative costs for a non-profit or municipality to manage the community land trust.	• Studies show that after homeowners participating in community land trusts sell, they more often than not are able to purchase a traditional home.	Colorado Community Land Trust (Denver)	https://coloradoclt.org/

Housing Tools Strategies Inventory

Category	Strategy/ Tool	Description	Who Benefits	Costs	Key Considerations	Examples	Links to examples
F	Short-term Rental Restrictions	Regulate short-term rental platforms, such as Airbnb or VRBO, to ensure housing stock remains available and affordable to residents. Regulations may include tracking of listings; imposing requirements such as business licenses for landlords, transient-occupancy taxes, minimum/maximum rental periods; or restricting short-term rentals to certain areas.	All renters	Property owners	• Efforts to regulate short-term rental platforms have been met with significant and well-funded resistance. • Eugene has some rules in place intended to help protect community livability and ensure safety.	San Francisco, CA	https://shorttermrentals.sfgov.org/
Tenant Protections and Support	Rent Stabilization	Limit rent increases for existing tenants, typically to once per year with increases tied to the rate of inflation or a fixed percentage. Ordinances generally allow landlords to raise rents higher to cover certain costs, such as capital improvements.	All renters	Property owners	• Oregon state law currently preempts cities from rent control . In order to implement this type of ordinance, state law would need to be changed. • Policies must balance protections for tenants with ensuring that landlords receive an adequate return on their investment and are incentivized to continue maintaining buildings to a high standard.	San Jose, CA	https://www.portlandmercury.com/blogtown/2017/05/31/19050961/a-proposal-to-allow-rent-control-in-oregon-is-probably-dead
	Mobile Home Park Rent Control	Limit the escalation of rents paid by mobilehome residents on the land rented, or on the mobilehomes themselves.	Very low income renters	Property owners	• Oregon state law currently preempts cities from rent control . In order to implement this type of ordinance, state law would need to be changed. • Policies must balance protections for tenants with ensuring that landlords receive an adequate return on their investment and are incentivized to continue maintaining buildings to a high standard.	San Jose, CA	http://www.sanjoseca.gov/index.aspx?NID=2675
	Just Cause Eviction and Harassment Protections	Protect tenants from eviction by restricting evictions to specific "just causes" (e.g., failing to pay rent, damaging the property, violating the rental agreement terms, etc.) and requiring notice, documentation, and justification for evictions. Just cause policies are often combined with additional measures to protect tenants from landlord harassment and/or mandate relocation assistance for "no fault" evictions	All renters	Administrative cost to craft ordinance	• Effectiveness depends on tenant education and strict enforcement actions. • Most effective in conjunction with rent stabilization measures.	Seattle, WA	http://www.seattle.gov/sdci/codes/codes-we-enforce-(a-z)/just-cause-eviction-ordinance
	Proactive Code Enforcement	Enforce local building and fire codes on at-risk properties owned by for-profit owners to ensure quality of living conditions.	All renters	Administrative cost to craft and enforce ordinance	• Can be costly to enforce.	San Luis Obispo, CA	http://www.slocity.org/Home/ShowDocument?id=4510
	Limit Discrimination Based on Source of Income	Ban discrimination of tenants based on the source of their income and/or incentivize landlords to rent to Section 8 voucher holders, for example through educational programs for landlords.	Very low/ low income renters	Administrative cost to craft and enforce ordinance	• HB 2639, which passed in 2014, made it illegal to discriminate against potential renters based on the fact that they use housing assistance.	State of Oregon	
Homeowner Support	Homeowner Assistance Programs	Provide financial assistance to low income homeowners for downpayment, closing costs, etc.	Low and moderate income homeowners	Administrative costs, in addition to funding needed to run program	• May be in the form of a revolving loand fund.	Oakland, CA	http://www2.oaklandnet.com/government/o/hcd/s/HousingResources/OAK047037
	Housing Rehabilitation Funds	Provide financial assistance to low income homeowners in need of emergency home repairs or other home rehabilitation.	Low and moderate income homeowners	Administrative costs, in addition to funding needed to run program	• May be in the form of a revolving loand fund.	City of Napa, CA	https://www.cityofnapa.org/204/Housing-Rehabilitation
Other	Home sharing programs	Establish a home-sharing program that matches home-seekers and home-providers with one another. Home-providers typically pay market-rate rent for a bedroom and use of common space, or discounted rent in exchange for additional chores.	Senior homeowners, low income renters	May require code rewrite, administrative costs	• Home sharing programs are an efficient way to fill larger housing units that may be occupied by "empty nesters" or seniors, while lowering affordable housing need.	HIP Housing- San Mateo County. CA	http://hiphousing.org/programs/home-sharing-program/
	Vacant Unit Tax	Establish a tax on both vacant units and vacant property to encourage the development of land, and the habitation of available housing units, while discouraging speculation and under-utilization of property. Use tax for homelessness mitigation, and affordable housing funding.	Very low, low, and moderate income owners and renters	Owner of vacant property	• This is a relatively new and untested tool, and Vancouver, BC was the first city to adopt it.	Vancouver, BC; Oakland, CA	https://www.theglobeandmail.com/canada/british-columbia/article-vancouver-mayor-outlines-effect-of-empty-homes-tax/

APPENDIX II: BEST PRACTICES RESOURCES

Accessory Dwelling Units

SDC Fee Waivers for ADUs (Portland): In 2018, Portland City Council extended a policy that waived SDCs for ADU developments, adding the condition that neither the primary nor accessory unit on the property can be listed as a short-term rentals for the first ten years after the permit is finalized. This restriction is enforced by requiring property owners submit a covenant, through which violators are required to pay 150 percent of what the SDC fees would have been. The application fee for the program is $400, which covers the cost of staff to oversee the program and collect data on applicants that participate. It is estimated that this program saves homeowners between $12,000 and $20,000 per ADU. This program has existed in some capacity since 2010, and Portland city staff cite it as key for incentivizing further ADU development. In 2009, there were 24 permits for new ADUs, while in 2016 there were 615, representing 10 percent of new dwelling permits for that year. Researchers analyzing ADUs in Portland found that SDC waivers, combined with increased educational efforts about ADUs, and relaxed site development standards all contributed to increased ADU production.[34]

Portland ADU SDC wavier application: https://www.portlandoregon.gov/bds/article/689356

Overview of updated Portland program: https://www.portlandoregon.gov/bds/article/692797

California ADU law: A California state law that took effect in January 2017 reduced barriers to building ADUs statewide. The law requires that all California municipalities allow ADUs in single-family zones. and eased both parking and permitting requirements associated with them. It eliminated off-street parking requirements for ADUs near transit, in historic districts, or in cases when they are incorporated into existing dwellings. The law also established streamlined permitting guidelines for ADUs, requiring that a city must approve ADU applications that meet design standards and other requirements within 120 days and that approvals be processed in an "over-the-counter" fashion from a city's permit office, rather than through discretionary review. The impacts of this legislation are particularly evident in Los Angeles. In Los Angeles, there were 90 ADU building permit applications in 2015, and 80 in 2016. In 2017, there were 1,970.

Overviews of CA law: https://www.sfchronicle.com/news/article/New-California-housing-laws-make-granny-units-10688483.php

https://nextcity.org/daily/entry/california-adu-applications-skyrocket-after-regulatory-reform

UCLA CityLab ADU Handbook (Los Angeles): CityLab UCLA, which is an urban research think tank in UCLA's Department of Architecture and Urban Design, published a guidebook for Los Angeles homeowners interested in building ADUs. The publication includes information on where in ADUs are permitted in Los Angeles, descriptions and site illustrations for different ADU types, a primer on basic site design and zoning concepts, and a summary of Los Angeles' specific ADU regulations following the California state law.

LA Guidebook: https://citylab.ucla.edu/adu-guidebook/

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[34] Chapple, Karen, et al. "Jumpstarting the Market for ADUs: Lessons Learned from Portland, Seattle, and Vancouver." *The Terner Center for Housing Innovation*, 2018.

Cover (Los Angeles): Cover, a Los Angeles-based tech firm, released an online tool that guides Los Angeles homeowners through the ADU process, from idea conception, to permitting approval, and construction. They offer prefabricated ADUs that can be customized to a degree, based on lot specifications, and client's goals. Cover also provides *a la carte* consulting services to homeowners, who seek assistance in navigating city requirements, but may have their own design in mind. The tool is "designed to get homeowners over the first few hurdles for adding an ADU." Homeowners input their address, and answer questions about their property, and the tool crunches city data to answer "what, where, and how big" they can build. A consultation fee of $250 covers up to 100 questions and a site visit.

Article on Cover: https://la.curbed.com/2018/3/9/17101336/prefab-los-angeles-adu-back-house

Alley Flat Initiative (Austin): A collaboration of non-profits runs the Alley Flat Initiative, which aims to increase the supply of designated affordable housing units by assisting with the development of ADUs, particularly in East Austin, where long-time residents are facing significant displacement pressure. Homeowners who participate are required to take part in Austin's S.M.A.R.T. Housing program, in which they must offer their units at 80 percent AMI for the first five years. In exchange, they receive permit fee waivers, and the Alley Flat Initiative provides them with discounted architectural services. Volunteer site design specialists assess the property and propose design plans informed by the zoning code and the prototypical ADU models developed for the Initiative's clients. Overall, this, along with permit fee waivers, translates allows the homeowner to save on soft costs. Started in 2005 by the University of Texas School of Architecture, the Alley Flat Initiative has thus far spurred the development of eight ADUs, with nine more planned.

http://thealleyflatinitiative.org/

Umpqua Bank ADU Construction Loan (Cascadia): Umpqua Bank, which has three locations in Eugene, offers a unique construction loan specifically available for homeowners financing ADUs. While homeowners intending to build ADUs cannot use expected future rental income to qualify, they can rely on the future appraised value of their property. This type of loan could increase ADU production because it expands access to new homeowners with limited equity in their property. In contrast, cash-out refinance loans or home equity loans, which homeowners frequently rely on to finance ADUs, require borrowers to have enough built-up equity to qualify them for the mortgage. This loan will be most impactful if the City of Eugene also follows other ADU-related recommendations in this report. This is because, in the current state, the application of this loan is limited by the fact that there are so few local comparables which assist appraisers in considering future value.

https://accessorydwellings.org/2018/07/06/adu-rental-income-can-be-used-to-qualify-borrowers-to-purchase-on-homeready-loans/

https://accessorydwellings.files.wordpress.com/2014/11/adu-finance-guide-final10-30-14.pdf

Missing Middle Housing

Triplexes in all Former Single-Family Zones (Minneapolis): Minneapolis became the first city in the United States to eliminate single-family zoning. In December 2018, The Minneapolis City Council approved the *Minneapolis 2040* comprehensive plan, which recommends upzoning all single-family neighborhoods to allow triplexes by-right. City planners in Minneapolis, which is facing rising housing

costs, view this as a key strategy toward increasing housing supply while offering homeowners greater opportunities for rental income and maintaining the fabric of existing neighborhoods.

Articles on Minneapolis zoning: http://www.startribune.com/fourplex-proposal-in-minneapolis-will-face-resistance-spark-debate/476464693/

https://www.housingwire.com/articles/47659-minneapolis-is-about-to-abolish-single-family-residential-zoning

https://slate.com/business/2018/12/minneapolis-single-family-zoning-housing-racism.html

Making Room Housing Program (Vancouver): The City of Vancouver is pursuing opportunities to deliver "Missing Middle" housing to increase housing choice throughout Vancouver neighborhoods. City staff are in the process of drafting a bylaw that Considering adding rowhouses, duplexes, triplexes, and fourplexes, by right in all single-family zones.

Article on Making Room: https://www.planetizen.com/news/2018/08/100231-making-room-housing-program-would-allow-new-density-vancouver

Cottage Cluster Zoning (Langley and Kirkland, WA): Langley, WA, a small municipality in Puget Sound established the first "Cottage Housing Development" ordinance in the country. The ordinance created specified density and site design regulations unique to cottage clusters. It allowed for up to two times the dwelling unit density in all single-family zones, provided that the ground floor area is less than 700 square feet, and that the total square footage is less than 975 square feet, with a second story. There are additional landscaping requirements, in which the cottages must face a "commons" and have parking screened from the street. Projects are reviewed by the planning and design review boards. Kirkland, WA, a suburb of Seattle, has a similar cottage housing ordinance, which incorporates a slight density bonus to incentive units of up to 1,500 square feet, which better supports a greater diversity of households.

Article on Kirkland: https://www.huduser.gov/portal/casestudies/study_102011_2.html

Article on Langley: https://rosschapin.com/projects/pocket-neighborhoods/third-street-cottages/

Adding to Housing Supply

Portland: Multiple news and data outlets have reported that multi-family rents in the City of Portland have begun declining. Apartmentlist.com shows that rents declined 3.5 percent from June 2017 to June 2018. Zillow shows that Portland apartment rents peaked in April 2016, and have since declined 9 percent, from $1,660 to $1,509. This is correlated with a large number of apartment units (and other housing types) that were recently delivered in Portland. There were approximately 42,000 apartment units permitted in the Portland metropolitan area since 2012.

Articles about Portland housing supply: http://cityobservatory.org/wapo_rents_analysis/

http://cityobservatory.org/more_evidence_of_portland_rent_declines/

Seattle: The Seattle Times reported in January 2018 that for the first time in a decade, apartment rents in Seattle have decreased, as a "flood of new construction has left apartments sitting empty in Seattle's hottest neighborhoods". Average rents in King County dipped 2.9 percent from Quarter 3 to Quarter 4 of 2017, which is the largest drop between those quarters to occur in a decade. This

translates to a $100 decrease in monthly rent for new leases. The largest decreases were in the most popular Seattle neighborhoods such as First Hill, South Lake Union, Ballard, and downtown Seattle, where rents decreased approximately six percent.

Article on Seattle housing supply: https://www.seattletimes.com/business/real-estate/seattle-area-rents-drop-significantly-for-first-time-this-decade-as-new-apartments-sit-empty/

Incentives

Expedited Permitting for Affordable-by-Design/ Gentle Density Housing (San Diego): Expedited Permitting for Affordable, In-Fill Housing & Sustainable Buildings: The City of San Francisco allows for a fast-track discretionary review process for housing projects that are desired under city plans. Under the expedited process, eligible projects are reviewed 25 percent faster than the standard process. (And, projects with 100% affordable units are reviewed 50 percent faster). Eligible projects include developments providing any share of designated affordable housing units, as well as "urban infill housing" developments of five or more units that fall in the city's Transit Priority Areas which are outlined in the city's Climate Action Plan. Projects in this category are eligible for expedited review if the units are affordable to households earning at or below 150% AMI. Similarly sized projects are also eligible if they incorporate voluntary California Green Building standards are incorporated into their design.

Overview of San Diego expedited permitting program:
https://www.sandiego.gov/sites/default/files/dsdib538.pdf

Taxes

Construction Excise Tax (Bend): Bend, the first Oregon municipality to implement a Construction Excise Tax, did so in 2006 before it had been prohibited state-wide, and then reinstated again in 2016. Bend charges only one-third of one percent of building valuation, rather than one percent. Since the CET's implementation, the City of Bend has raised $6.4 million for affordable housing programs, which has been funneled into a revolving fund where developers can take out low-interest loans to leverage other sources of equity for affordable projects. The fund in sum has leveraged $106 million in both private and public investment and has contributed to the development of 770 designated affordable units in Bend.

Article on Bend's CET: https://www.bendbulletin.com/localstate/5915032-151/bends-affordable-housing-manager-retires