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TO: RPS Committee
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SUBJECT: SUMMARY OF STAKEHOLDER INTERVIEWS

The Regional Plan developed and adopted through the Regional Problem Solving (RPS) requires the development of a regional housing strategy within five years of acknowledgement of the Regional Plan. As a foundation for strategy development, it is useful to have discussions with stakeholders involved in residential development in the Rogue Valley.

The purpose of this memorandum is to document feedback on the barriers to housing development, which was received through interviews with key stakeholders. This information will inform the RPS Housing Strategy.

Methods

ECONorthwest worked with Rogue Valley Council of Government staff and the RPS Committee to identify key stakeholders, including: representatives from Jackson County Housing Authority, real estate and development professionals, affordable housing advocates, and economic development professionals. The information presented in this memo represents preliminary findings from the completion of fifteen interviews.

ECONorthwest developed a list of questions to guide the interviews. The questions sought to obtain answers to the following, generalized, questions:

- If you have developed housing, in what cities and areas have you developed and what types of residential product have you built?
- What factors influence the types of housing you build? What factors hinder you from building other types of housing (e.g. zoning/policy constraints, profitability, financing availability, lack of familiarity with developing other product types)?
- What are the most significant changes that would need to occur to develop other types of housing (e.g. policies, industry issues, economics, financing)?
- What are the biggest challenges to development in the Rogue Valley and does this differ by jurisdiction?
- How do the constraints differ for developing regulated affordable housing?

Key Issues Identified in the Interviews

The interviews illuminated consistent barriers to development. These barriers range from local policy constraints to nationwide industry issues. The following key issues, and any associated recommendations from stakeholders, are synthesized below:

Limited availability of land suitable for development

Many stakeholders mentioned the difficulty in finding land that is both suitable for development and affordable. Multiple factors were listed as the reasons for the limited availability, including one specific constraint that is unique to the Rogue Valley: a majority of the contacts mentioned that land ownership is held by a small handful of people who have continued to speculatively purchase land over the last few decades (both in and outside of the urban growth boundaries) and are willing to wait to sell until market conditions are optimal. In addition, the following issues impacting the availability of land that is suitable for development:

- There are few cities that have large enough parcels available for subdivision development (e.g. parcels ranging in size from 10 to 25 acres).
- Many cities have parcels available for infill development, but the zoning often prohibits higher density residential development (e.g. commercial, industrial, or low-density residential). Some contacts directly identified this as a barrier, while others mentioned they had to pursue zoning code changes (a costly and cumbersome process) to complete the housing development.
- Other physical constraints, like wetlands or steep slopes, decrease the developable area on the limited available parcels.

Land review and permit process is cumbersome and unpredictable

Developers consistently expressed that predictability in real estate development translates to cost savings. Every interview completed included a note about the land review process and the resulting disincentive to even attempt to develop due to the many ripple effects caused by this constraint.

- Two cities were noted to have a clear and quick review of development proposals: Central Point and Eagle Point. A few contacts noted that Medford was historically problematic to work with, but has been changing due to staff and leadership turnover.
- Each city staff member can interpret zoning and regulations differently from one another, which is especially true in cities with staff turnover. This results in different requirements and approvals for very similar housing developments (or even the exact same development) by the same developer and team. The cities of Medford and Ashland were mentioned in specific examples of this issue.
- Developers are more regularly hiring land use consultants to help navigate the increasingly complex land-review processes. There are a lot of unknown obstacles that will arise on projects that result in construction and or design delays, which can increase the cost of the project through carrying costs on the financing. Additionally, hiring

another consultant contributes to the overall soft cost of the project. A stakeholder recommended that cities should work to make the development process more transparent by having city staff be more proactive in helping to identify the many potential project hurdles (zoning, land use, or otherwise). The stakeholder noted that the earlier in the development process staff could identify the road map of hurdles, the better - ideally at the time when a developer first brings a project concept to planning and development departments.

System Development Charges and assessments

Every developer that was interviewed identified the cost of system development charges (SDCs) as a barrier. Though most were understanding of the need for the fees, some identified either ways to help mitigate the costs or address issues related to the methodology for the assessment:

- One stakeholder recommended that the city finance, or delay the requirement for payment, until the housing unit is sold and in use. The rationale behind this recommendation is two-fold: the impact to the city infrastructure is relatively nonexistent until occupancy, and when the payment for SDCs is required upfront the interest from the construction loan is then applied to the fees in addition to all the other costs, which increases the principle and resulting interest paid on the loan. Note that this recommendation was made for residential units built as for-sale product and could have different implications for multi-family and/or rental product. If payment is delayed until sale and occupancy of the unit, it could be a one-time expense or closing cost. Multi-family and/or rental product is typically occupied before the entire building is sold (if ever) to another real estate firm. Therefore, the repayment of the SDCs would be an operating expense that could impact the revenue and resulting feasibility of the rental development.
- Another stakeholder recommended that cities adjust the assessment of SDCs based on the presence of existing infrastructure in places like downtowns and main streets. Developers said this could help incentivize infill development over new subdivisions.
- One contact indicated that the methodology for SDC assessment, for development in unincorporated Jackson County, is prescribed at the state level and therefore does not take into consideration the local supply of infrastructure. His recommendation was for the county to work with the state to revise that system so that the authority of the methodology resided at the county level. The local knowledge of the existing development and infrastructure in unincorporated areas could translate to a better fee structure.
- A final interview quantitatively identified the rising cost of SDCs. Over the past ten years, their firm has seen SDC fees increase from 5% to 12% of vertical hard costs.
- Another contact noted a different phenomenon - at commission and council meetings there is not testimony on the subject of SDCs and the pushback is simply due to "sticker shock" when getting the bill for each individual development project.

Additional barriers specific to regulated affordable housing development

The population in need of affordable housing is growing. City staff at one municipality indicated that the waitlist has approximately doubled in the last decade and that it can take 3-4 years to get placed in housing. In addition to experiencing the other barriers identified in this memo, the following barriers are specific constraints that impact the development of regulated affordable housing:

- Property taxes are a substantial expense in the already constrained operating budget of regulated affordable housing developments and can therefore be a barrier to development. State statute exempted housing authorities from paying property taxes, but other non-profits in the Rogues Valley need to apply to each taxing jurisdiction to receive this benefit. Each application process, at the various taxing jurisdictions, requires staff time and subsequently an added labor cost that doesn't always result in an approved exemption. A stakeholder recommended pursuing a solution to make achieving property tax exemptions easier for other non-profits. Other counties in the state, like Washington County, helped eliminate this barrier by getting the majority of the taxing jurisdictions to agree to a property tax exemption for all non-profit owned and managed affordable housing.
- Predevelopment costs, like due diligence and design, are an upfront cost for which many non-profits do not have financial resources and cash flow to pay for. The majority of the financing for affordable housing development usually doesn't come until the construction loan, and many non-profits don't have access to another funding source to pay the predevelopment costs that are incurred prior to the loan (including soils and environment testing, architecture and engineering fees, and staff time to apply for the low-income housing grants and tax credits). Some counties and jurisdictions in Oregon have created predevelopment loans or grants, through either a housing bureau or the creation of a non-profit housing fund, to help eliminate this barrier.
- Aging inventory of existing housing causes problems for both non-profits and first-time homebuyers. Federal assistance for affordable housing requires certain standards of living which includes the abatement of hazardous materials present in older homes (e.g. asbestos and lead). These repairs are costly for non-profits that are trying to preserve existing housing. The aging inventory also impacts first-time homebuyers who are attempting to use HUD 203k loans for both the purchase and rehabilitation of the homes. The resulting barrier for homebuyers is that the homes for which they can financially qualify put them in competition with investors who are seeking to buy, flip, and sell for a profit.
- The zoning code, in some jurisdictions, might limit the availability of feasible locations for residential care facilities. One interviewee noted that the City of Medford requires residential care facilities (greater than 15 beds) to be in commercial zones, but allows assisted living facilities to be developed in multi-family zones. Meanwhile, the state building code treats residential care facilities as residential facilities not commercial. In

this situation, the zoning code is unnecessarily restrictive on a type of development that is residential in nature (from the perspective of building form and traffic impacts).

- The local code is often either in conflict with state requirements, or staff have difficulty interpreting and adapting to state statutes. This was identified by one interviewee in two different instances – during the attempted adaptive reuse of an existing residential development and while creating a new tiny house village. This conflict can create an additional hurdle for the more creative infill housing projects.
- Local jurisdictions have control of few parcels of land and little acreage to use for incentivizing affordable housing. Land donations or affordable ground leases can greatly impact the feasibility of affordable housing developments.
- Opposition to affordable housing development exists within many of the communities in the region. Community opposition to affordable housing development resulted in the cancellation, or significant alteration, of multiple affordable housing development proposals. Political opposition is also a barrier to affordable housing development, often as a result of the opportunity cost from approving an affordable housing project (which might not contribute to the tax rolls) instead of waiting for a market-rate development.

Economic and financial conditions support "for-sale" residential product

Most of the real estate developers we interviewed were experienced in the development of residential product that exists in the region already, specifically single-family homes (either attached or detached) or townhomes. They explained the reason for not developing multi-family and/or rental product was a mix of economic, financial, and policy factors:

- The current sale prices for homes create a better financial return on the cost of development than holding the property and renting.
- The financing options for single family homes and small-scale multi-family (like duplexes and townhomes) are more favorable than commercial real estate financing sources for larger multi-family development. Multi-family development typically has longer construction timelines and revenue is not generated until most or all units are complete. Single-family home development allows for the development to be staggered so that revenue can be generated upon the completion (and therefore sale) of each unit. Note that one interviewer indicated this dynamic only applies for developers of large-scale subdivisions – banks in the area will not finance scattered-site development that isn't build-to-suit with an owner identified. Small-scale developers are subsequently having difficulty securing construction loans for speculative development and can only secure a combined construction and permanent loan for custom homes.
- The building code requirements for single family (either attached or detached) and townhomes result in lower construction costs than for multi-family. Multi-family development (including some triplexes and quadplexes) falls under the commercial building code which imposes additional fire and life-safety requirements, like sprinkler systems, that increase the cost of development on a per-unit basis. Direct feedback on

this issue included a strong advisement against stricter code requirements for single family homes – for which advocacy is growing at both the state and local levels.

- For those building rental product, the size of the product is determined by economies of scale in terms of both the physical development (e.g. property amenities) and the operations (e.g. staffing). Smaller properties are therefore not desirable for developers that own and operate their multi-family rental developments.

Construction labor shortage drives up cost of construction

In a majority of the interviews completed, the contact mentioned that labor shortages in the construction industry are driving up the cost of construction, causing uncertainty for new construction timelines, and creating a limit on the total number of units that can be constructed in a year. Though this is a barrier currently encountered throughout the country, it is especially problematic in Southern Oregon for the following reasons:

- During the recession, established construction laborers either moved away from the Rogue Valley to look for work in larger metropolitan areas and/or left the industry to find work in other sectors.
- The recent growth of the marijuana industry in southern Oregon has created competition for the real estate development industry by supplying jobs for skilled contractors and construction-related professionals (e.g. mechanics, electricians, and plumbers). In addition to offering consistent employment opportunities, the marijuana businesses often pay for the work with cash.
- The larger-scale developers (e.g. horizontal developers completing residential subdivisions) experience more loyalty from both general contractors and subcontractors due to the consistency of work. The smaller-scale developers (e.g. infill developers completing scattered site development), have a hard time securing construction labor for their projects. This lessens the supply getting built and stymies the opportunities for creative infill projects.
- There are no local trade programs educating new construction laborers – the program at the local community college recently closed.