

## Executive Summary

# DOWNTOWN DEVELOPMENT OPPORTUNITY STUDY OREGON CITY, OREGON

June 2010

The Urban Renewal Agency for Oregon City, OR owns two vacant parcels in downtown Oregon City for future private development. As a Metro-designated Regional Center, Oregon City would like to utilize these sites to support and expand the downtown's role as the historic commercial and civic center of Clackamas County. In concert with the Metro Development Center Staff, the Historic Downtown property owners' association, and the Community Development staff from Oregon City, the consultant team of Urban Land Economics and Vallaster Corl Architects PC was directed to determine the market feasibility of new development on these properties and identify development barriers in order to encourage future investment and activity in the district.

### CONCEPTUAL DEVELOPMENT PROGRAMS

Following extensive site studies and considering alternative developments programs, two mixed-use conceptual plans were chosen. On the larger 12<sup>th</sup> & Main site, the conceptual plan includes housing and structured parking, in addition to retail and office space. On the smaller 10<sup>th</sup> & Main site, the conceptual program calls for a two-story building, with storefront retail space on the ground floor and office space on the second floor, connecting to a surface parking lot at the behind the building. The conceptual development programs are summarized as follows and illustrated on the following pages:

	<b><u>12<sup>th</sup> &amp; Main</u></b>	<b><u>10<sup>th</sup> &amp; Main</u></b>
<b><i>Program Mix</i></b>		
▪ Retail (sf)	3,538	4,688
▪ Office (sf)	15,821	4,751
▪ Apartments (units)	40	0
▪ Parking spaces	39	12
<b><i>Height (feet)</i></b>	68	25
<b><i>Levels</i></b>	6	2

Each conceptual design has a distinct character, dictated in large part by the differences in site size and building height. In order to take full advantage of Willamette River views and capture their value for residential development, the recommended program for the 12<sup>th</sup> & Main site is a six-story building (68 feet), exceeding the height limit by 23 feet and requiring a variance. In contrast, although the 10<sup>th</sup> & Main site has an allowable height limit of 65 feet, the program only calls for two levels. A building over two levels requires an elevator and two sets of stairs, requirements that cannot be met without significant inefficiencies within a small floor plate. Because an active railroad line runs directly behind this site, residential development was not considered in the program.



12th STREET & MAIN SITE : View from corner of 12th & Main, looking West

## DEVELOPMENT COST AND FINANCIAL FEASIBILITY

Based on estimates of both construction costs and soft costs, total development costs for the conceptual development plans are as follows:

- *12<sup>th</sup> & Main:* \$10,336,000 (\$166 per square foot)
- *10<sup>th</sup> & Main:* \$1,613,000 (\$171 per square foot)

Costs assume that the future developers have no cost in the land, but that there are no discounts for any systems development charges (SDC), building permits, no below-market financing provided by the Urban Renewal District or other incentives.



10th St. & MAIN SITE : View from intersection of Main Street & 10th Street, looking South

The financial feasibility analysis for the two conceptual projects has widely varying results. The 12<sup>th</sup> & Main conceptual development plan results in a capitalized value that was less than its construction cost, resulting in a \$2.5 million financial gap. While a preferred return on investment would be 10-12%, the conceptual plan for the 12<sup>th</sup> & Main site could have cash-on-cash return of only 2.3%.

The financial gap results partially from the cost of structured parking and high residential SDC's and other fees. Operationally, the apartment component requires a high level of discounts for utilities, management and taxes. The mixed-use plan also necessarily includes common areas, corridors, stairways and other non-

leasable areas. The results of this feasibility analysis indicate that this project would not be constructed without significant modifications in its cost structure, potential improvements in achievable rents and development incentives.

Financial feasibility of the 10<sup>th</sup> & Main conceptual development plan is more positive, indicating a capitalized value in excess of construction costs. With surface parking, two-story design, a very efficient floor plan, and somewhat higher rents than the 12<sup>th</sup> & Main site, the conceptual plan suggests strong development potential at this site. Cash-on-cash return is 19.3%, indicating strong feasibility, as well as potential for residual land value.

## **MARKET CONDITIONS**

Results of the feasibility analysis for the 12<sup>th</sup> & Main program suggest that market rents are not yet high enough to support the costs of high density, urban-style housing in downtown Oregon City. However, in the long term as downtown Oregon City adds to its base of retailers and continues to upgrade its historic buildings, there is upside potential for rents, particularly with expansive views of the Willamette River and Willamette Falls. From a market standpoint, the potential for condominium development is long-term, and will come after downtown has a solid inventory of rental housing.

Market conditions for new office space are currently suffering from recessionary conditions. New office development will have to await return to more normal vacancy rates, although Southeast/I-205 office buildings have stronger occupancy rates than many metropolitan submarkets. For downtown Oregon City, the Clackamas County Courthouse is a very positive factor and its possible relocation to the Red Soils Industrial Park would constitute a setback to the downtown office market.

## **BARRIERS TO DEVELOPMENT AND POLICY CONSIDERATIONS**

Some barriers to development are market-driven, i.e., rents are not high enough to support the costs of new development. However, as these two conceptual projects show, the market may well be able to support some less costly construction types (low rise, surface parking) but not costlier programs (mid-rise, structured parking). With public policy focused on high-density, transit-oriented development models, both direct and indirect assistance will be necessary to reduce and costs and increase the value to private development.

Direct assistance can come in many forms:

- *SDC Waivers:* Cost estimates for the 12<sup>th</sup> & Main program showed that residential SDC's add nearly \$12,000 to the cost of each unit. Clearly, a meaningful reduction in these costs could be significant.
- *Building Code Adjustments:* Cost analysis of the 12<sup>th</sup> & Main concept indicated that savings of as much as \$480,000 could be obtained with a variance in building codes allowing five levels of wood construction.
- *Gap Financing:* In cases when private lenders are unwilling to finance the entire project, low interest gap loans can provide a critical element in project financing.
- *Grants:* Grants for green roofs and other environmentally friendly components would also provide incentives. Metro's Transit Oriented Development (TOD) grants are another source of financial assistance for high-density projects such as the 12<sup>th</sup> & Main concept.
- *Technical Support:* With potential funding from the Urban Renewal District, predevelopment support for engineering and site analysis can be a good tool to encourage developer interest.

Indirect assistance covers a wide variety of improvements to downtown itself, both from the public and private sectors, to enhance the livability and attractiveness to future residents and employees. For example, storefront grant programs to other downtown property owners to enhance their buildings will, over time, increase the rent structure and pave the way for viability of new construction.

## Parking

In this study, both conceptual plans needed maximum allowances to meet or nearly meet their parking requirements. However, a more realistic measure of parking adequacy will be whether developers and their lenders agree that limited on-site parking is acceptable. This is particularly important for office and residential uses. Publically developed surface and/or structured parking will be mandatory for future urban development, where dedicated spaces can be leased to tenants and residents. This is especially true for large projects such as the 12<sup>th</sup> and Main site.

Rather than use parking standards that are appropriate for suburban development and can probably never be met in an urban environment, it would be preferable to waive or greatly reduce the on-site parking requirement and address the parking demand for the downtown as a whole.

## Minimum Floor Area Ratios (FAR)

Closely linked to the parking issue is minimum FAR. The minimum FAR in the Downtown Design District (where the 10<sup>th</sup> & Main site is located) is 0.5, a ratio that

requires on-site structured parking to meet. However, few lots are large enough to accommodate structured parking efficiently, even if the costs could be borne by the market. On the other hand, in the northern section of downtown (including the 12<sup>th</sup> & Main site), the minimum FAR is 0.3, a standard that encourages low-density development and surface parking. In this case, the minimum FAR works against urban development in a manner that is counter to public policy.

## RECOMMENDATIONS

As suggested above, Oregon City can facilitate new development downtown by: 1) updating its parking code and provide a comprehensive parking plan and 2) allow reduced SDC's for residential development in targeted redevelopment areas. There are also many steps that the City and its partners can take to provide the incremental improvements to the downtown market and environment that will support new development, including:

- Continue marketing and promotion efforts downtown
- Encourage Clackamas County to maintain downtown courthouse
- Allow variances on height, parking, building codes and other development requirements, if possible, without compromising other redevelopment goals, to reduce development costs, provide economies of scale, etc.
- For City-owned lots, write down cost of land for development programs with a housing component and consider other programs on a case-by-case basis.
- Encourage and support redevelopment projects to ratchet up rent levels
- Encourage and support conversion of second story office to residential space
- Continue to support the creative industry

In addition, as the feasibility analysis for the 10<sup>th</sup> & Main site was strongly encouraging, the Urban Renewal Agency could begin the developer solicitation process in the near future. However, a recommended first step would be to informally solicit developers' opinions on timing while reviewing and finalizing changes to development codes, fees and incentives.