

NORTH MACADAM URBAN RENEWAL AREA RETURN ON INVESTMENT (ROI) ANALYSIS UPDATE

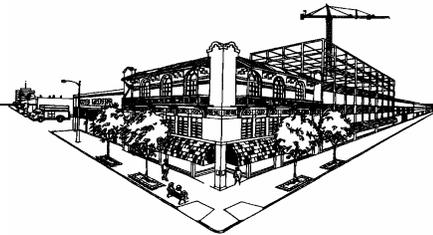
Prepared for:

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Economic and Development Services



North Macadam Urban Renewal Area Return on Investment (ROI) Analysis Update

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EXECUTIVE SUMMARY

As the largest remaining underdeveloped area in Portland's Central City, the South Waterfront/North Macadam district stands at the threshold of redevelopment that will transition this formerly industrial area into a mixed use riverfront district – with urban-scale housing, offices, hotels, and retail uses together with public open space and multi-modal transportation facilities. Over the course of the next approximately 20 years, this emerging district is expected to experience potential for:

- An estimated 9,000 jobs – including an anchor presence by OHSU and catalyst role for the city's science and technology quarter.
- Approximately 3,700 housing units – including market rate and affordable condominiums, market rate and affordable apartments, and student housing.

In 1999, an initial return on investment (ROI) analysis was completed for the *North Macadam Urban Renewal Area* based on the *North Macadam Framework Plan*. This report provides an updated ROI assessment – reflecting changes including new planning standards with the 2002 adopted *South Waterfront Plan*, revised expectations regarding urban renewal and tax increment financing, and proposals by Oregon Health Science University (OHSU) and associated private development for a substantial Central District investment commitment. What follows are summary findings and observations from this updated ROI analysis.

QUANTITATIVE RETURN ON INVESTMENT

In 1999, the *North Macadam Urban Renewal Area* was expected to receive approximately \$1.2 billion in combined public private investment by 2020. Current projections are for \$1.9 billion of combined investment – a 58% increase (reflecting 27% more public investment and 74% in added private investment).

Private Investment: Added private investment (now estimated at \$1.7 billion) occurs with greater density of development. Increased density is particularly focused on the Central District which will be anchored by 1.2 million net square feet of OHSU related development, 250 hotel rooms, over 300,000 net square feet of retail and just over 2,700 high rise residential units.

While most Central District development is targeted for completion by as early as 2012, full build-out of the entire North Macadam/South Waterfront area is expected to occur by about 2025. Under the extended 2025 timeline for build-out of the revised development program, some average annual absorption targets increase above those associated with the Framework Plan.

Housing unit absorption would increase from 150 units (under the Framework Plan) to 186 units per year. Office space absorption targets would increase from 95,000 net square feet of office absorption annually (without significant biomedical) to 102,000 square feet per year. Retail and service space to serve local demand would increase from 12,500 net square feet to 13,000 square feet per year.

These more aggressive absorption expectations come at a time of economic downturn for the Portland metro area. However, the Central City housing market has outperformed the region. The combination of low interest rates and growing preference for close-in living provide a more

optimistic view of residential absorption potentials – further strengthened with a broader mix of owner and rental product than was envisioned just four years ago.

Of greater concern today are high office vacancy rates in the Central City and regionwide. However, while total office space projected for North Macadam has increased, OHSU will account for approximately 60% of the new office-related space developed, meaning that the need for private office tenancy drops to less than one-half of the level previously planned. Added employment also declines somewhat from 10,000 to 9,000 added jobs – due in large part to lower employment density generally associated with lab/research space versus typical office space.

Public Investment: Approximately \$131 million in tax increment/urban renewal funding is planned over the 2000-2020 time period. This estimate reflects an 18% reduction compared to prior estimates – due to more conservative TIF projections and projections for more tax exempt development (OHSU facilities and other institutions). Other public funding increases from less than \$13 million to over \$23 million, with an added \$65 million in potential public funding from sources not yet committed (see table below).

North Macadam Investment Summary (2000-2020)

Source of Funding	2003 Program		1999 ROI Analysis	
	Estimated Amount	% of Total	Estimated Amount	% of Total
Public Investment				
Tax increment financing (TIF)	\$131,230,000	7%	\$160,210,000	13%
Other public	\$23,130,000	1%	\$12,793,000	1%
Potential public*	\$64,660,000	3%	--	--
Subtotal Public	\$219,020,000	11%	\$173,003,000	14%
Private Investment	\$1,689,080,000	89%	\$971,998,000	80%
Undetermined***	--	--	\$65,069,000	6%
Total Investment**	\$1,908,100,000	100%	\$1,210,070,000	100%

Note: All dollar figure estimates are in 2002/2003 dollars.

* Indicates other potential, but not currently available or committed, public funding sources.

** Investment projected is for the urban renewal area, extending beyond the boundaries of the *South Waterfront Plan*.

*** Undetermined investment associated with the Framework Plan enhanced development funding strategy was expected to come from a mix of private and public sources not specified in 1999.

Source: Portland Development Commission.

Operating Budget Implications: Though not required by state statute, the Portland City Council has taken the additional step to assess broader financial implications extending beyond urban renewal and TIF to the City's General Fund. With incremental property tax revenues potentially committed to repayment of urban renewal bonded indebtedness, primary sources on non-property tax revenue available to the City are transient lodging tax, business license fees, and utility franchise fees. Through 2025, an estimated \$47 million in revenue is projected from these sources – with 61% from transient lodging tax receipts, 25% from business license fees and 14% from utility franchise fees.

Operating cost projections have been made for police, fire service and parks maintenance (consistent with the 1999 analysis) plus street lighting, general administration, business license services, community development, miscellaneous services, and Portland street car operation and maintenance

(added with this update). Incremental city expenses incurred from 2002-2025 are estimated at a cumulative total of \$59 million – with expenses exceeding non-property tax revenues by approximately \$12 million.

In addition to on-going operating revenues, system development charges (SDCs) will be generated from one-time fees and permits issued when development occurs. An estimated \$21 million in one-time revenue is forecast through 2025 build-out from parks and recreation, transportation, water and sanitary system SDCs. Though SDCs are not generally applied to the districts in which they are generated, including these revenues in calculation of net impacts to the city results in a net city revenue gain of approximately \$9 million.

While the City of Portland will forego most North Macadam District property tax collections through the period of funding urban renewal expenditures, all taxing jurisdictions generate significant long-term benefit after the urban renewal program is completed. This is because total private investment is higher with urban renewal completion versus without. After the urban renewal area expires and bond indebtedness has been repaid, the city portion of the additional property tax revenue generated by district development (estimated at nearly \$5 million per year) will more than offset the difference between ongoing operating budget revenues and expenses (at approximately -\$758,700 per year at build-out).

QUALITATIVE RETURN ON INVESTMENT

A primary purpose of public investment is to obtain a *public benefit or return on investment* exceeding what could be expected without a major public commitment to development. Public policy goals have been articulated by the *South Waterfront Plan* and the *North Macadam Urban Renewal Plan*. This return on investment extends beyond financial objectives of adequate tax increment for urban renewal bond repayment and general fund implications to also address the degree to which proposed public and private investments achieve the vision for the district beyond what would be expected with private market mechanisms alone.

This ROI analysis concludes with a comparison of development that could be expected with *base case* conditions (and limited public capital investment) versus development anticipated with the *2003 investment program* involving both TIF and non-TIF expenditures. The base case analysis results in little movement toward fulfillment of adopted plan objectives and substantially reduced private as well as public investment in North Macadam/South Waterfront.

Base case private investment was projected to be only 18% of the 2003 projected public-private development program value. Housing production would be only about one-quarter (27%) as strong, and net jobs added less than one-half (44%) what is projected with the 2003 investment program as currently proposed – for Central District development plus the remainder of the North Macadam/South Waterfront Plan area.

Performance Indicators for North Macadam Development Strategies

A. Development Program Elements	Base Case Development	2003 Development Program
Greenway, Parks & Open Space	Greenway built to prior minimum public 25 foot standard; no parks planned	Three public parks/open spaces & Greenway built to average 145 foot setback, with moderate funding for design & construction
Housing	+/- 1,000 du	+/- 3,700 du
	Mix of market rate apartment and condo; limited affordable housing	Mix of affordable and market rate condo and apartment; +/- 1,900 affordable housing units
Jobs	3,200 net added jobs	7,200 net added jobs
Office	625,000 sf suburban scale office	2 million nsf high and mid-rise office/OHSU; targeting knowledge-based industries which provide livable wages
Lodging	300 lodging rooms	800 additional lodging rooms
Retail	60,000 nsf of local serving retail development	411,000 nsf of local and destination serving retail development
Transportation	Improvements limited to private funding of Bancroft-Macadam intersection, one-half of River Parkway and one half of East-West streets; Harrison connector publicly funded	Builds all transit (including a portion of streetcar and tram) and most North-South street and portal improvements; most East-West streets privately funded
B. Capital Investment		
Public Investment		
Tax Increment	\$0	\$131,230,000
Other Public	\$3,342,000	\$23,130,000
Undetermined Public	--	\$64,660,000
Subtotal Public	\$3,342,000	\$219,020,000
Private Investment*	\$345,765,000	\$1,689,080,000
Total Investment	\$352,449,000	\$1,908,100,000
C. City of Portland Operating Budget Impacts		
Ongoing Public Revenues less Expenses**	Net positive due to combination of property and other tax revenues	Net negative due to combination of significant institutional use and higher residential density – inclusion of SDCs in calculating net impacts results in city net revenue gain of \$9 million

Notes: The term du refers to number of dwelling units; sf denotes square feet of building area. Base case investment case been adjusted for inflation. All figures in 2003 dollars.

* Includes investment within North Macadam Urban Renewal Plan area.

** This indicator is provided to show whether the North Macadam Urban Renewal District is expected to generate sufficient revenues to cover service costs. Development at scenario levels may or may not result in net revenue growth in the city.

Source: Portland Development Commission and E.D. Hovee & Company.

Under the 2003 investment program there is direct *public benefit or return on investment* more closely accomplishing the goals of the *South Waterfront Plan* and *North Macadam Urban Renewal Plan* including:

- Increased development density – above what would otherwise occur
- Diversity of parks and open space – including and enhanced riverbank and Greenway
- Retention and expansion of Portland’s largest employer – OHSU
- Improving the City’s competitive position – for knowledge based industries of the future
- A mix of housing for renters and homeowners – both affordable and market rate
- Efficient multi-modal transport – for residents, employees and visitors
- A faster pace of redevelopment – better addressing City/regional population and employment objectives