Housing Production Strategy Redevelopment Analysis

Salem, Oregon

December 2024

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IMPACT THROUGH INSIGHT

Overview

The Redevelopment Analysis is intended to **inform strategies for inclusion in the Housing Production Strategy (HPS)** to encourage housing and mixed-use development where the City is hoping to focus growth and higher-density housing production, including potential walkable, mixed-use areas.

The analysis uses a pro forma to compare development feasibility for a range of development types, densities, heights, and parking ratios within each of the five study areas.

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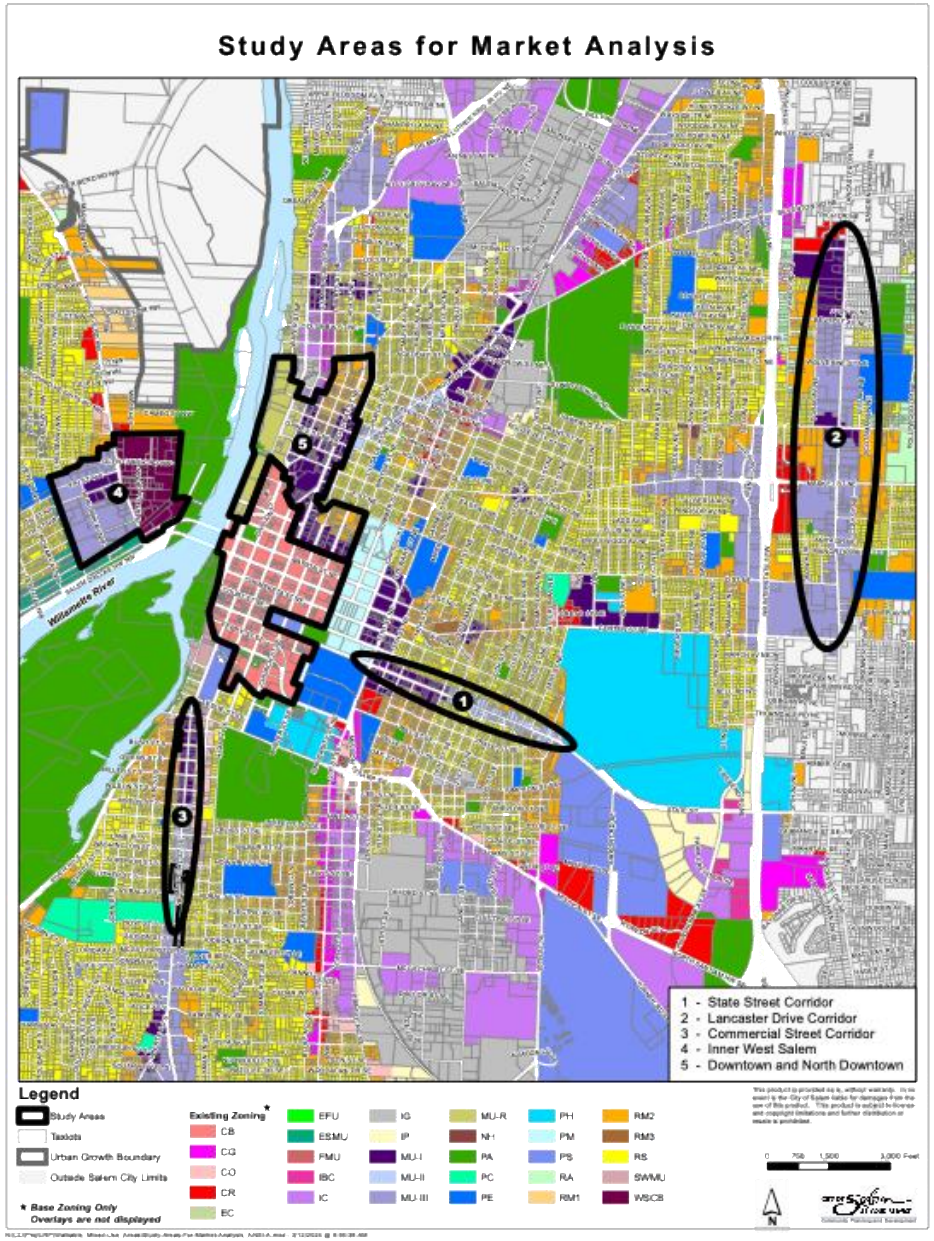
Geographies Included



- Area 1: State St Corridor
- Area 2: Lancaster Dr Corridor
- Area 3: Commercial St Corridor
- Area 4: Inner West Salem
- Area 5: Downtown (and north downtown/riverfront)

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Types of (re)development we're testing

- Mixed-use: apartments with ground floor commercial (4-7 stories)
- Elevator apartments (4-5 stories)
- Compact walk-up apartments (3 stories)
- Townhouses (2-3 stories)

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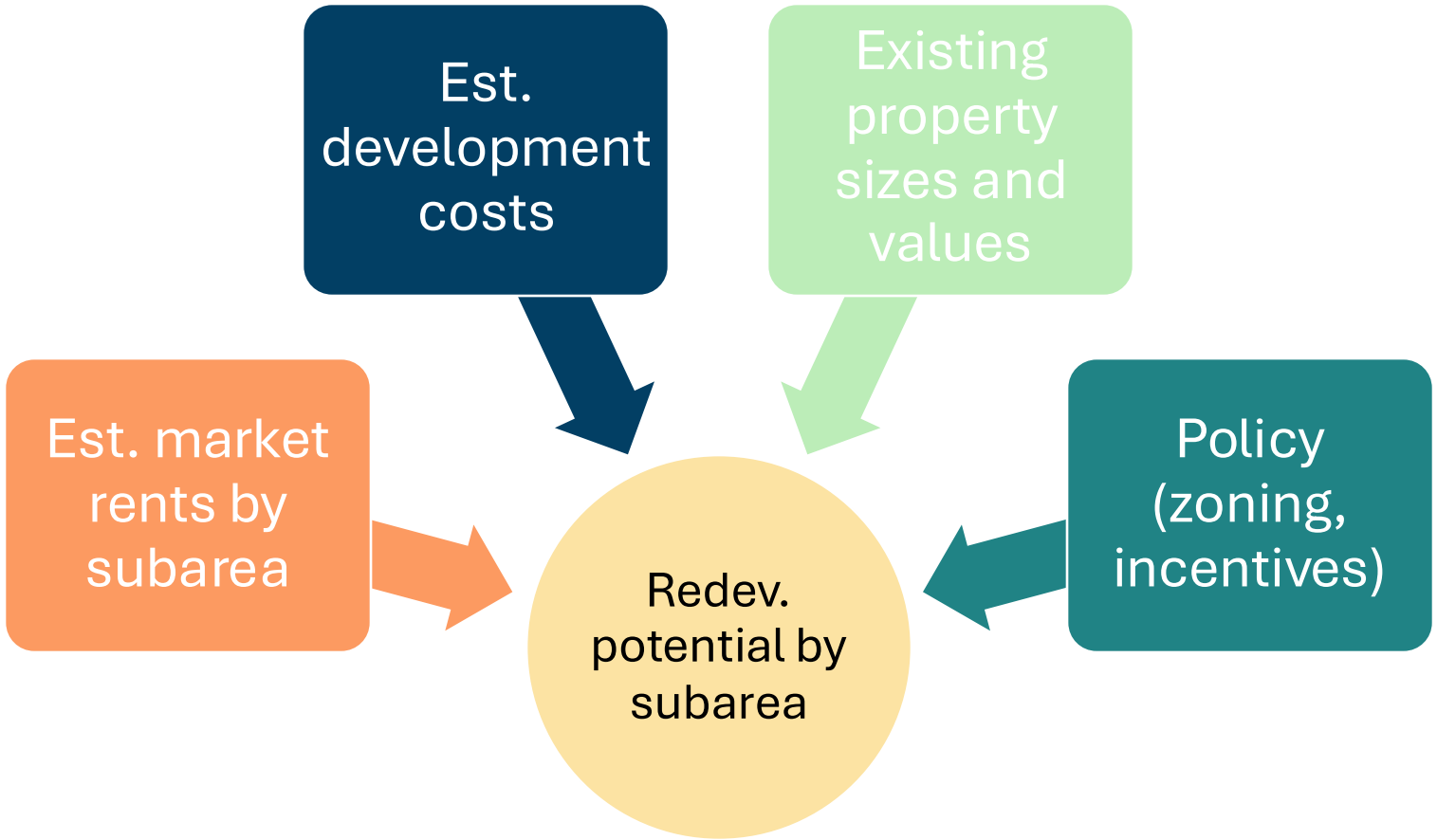
Development feasibility analysis



- Calibrate baseline feasibility from what's been built
- Adjust rents by subarea based on developer interviews and market research
- Test policy/market variables

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Market rents by subarea

Top expected residential rents & sales prices

- Downtown
- Commercial St

Top expected commercial rents

- Downtown
- West Salem

- Top rents/prices are most location-dependent
  - Higher density, higher rent prototypes most sensitive
  - Rents may vary within areas based on site conditions – assumptions reflect a strong location
- Assumptions based on:
  - CoStar (March 2024 data for recent construction)
  - Development interviews (April 2024)
  - Escalation prior to lease-up / sale

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Developer perceptions

Area 1: State St Corridor

- Lower residential rents
- Auto-centric
- Fear of being first new developer without major incentives

Area 2: Lancaster Dr Corridor

- Medium residential rents, good residential development potential
- Auto-centric
- Recent development is promising
- Southern portion has higher mixed-use potential

Area 3: Commercial St Corridor

- Highest residential rents
- Accessible amenities
- Conversions of residential buildings into commercial uses.

Area 4: Inner West Salem

- Lower residential rents
- Perceptions of homelessness and adverse health effects
- Shortage of walkable amenities

Area 5: Downtown and North Downtown

- Medium-high residential rents
- Potential for higher rents from an increased downtown workforce presence
- Changes in perceptions to homelessness (particularly for first floor residential)

Salem's Existing Financial Incentives

Multi-Unit Housing Tax Incentive Program (MUHTIP)

- **10-year property tax abatement** (100% of improvement value)
- New residential or mixed use with 2+ long-term dwelling units
- Limited to "core" area (could be expanded under statute to transit-oriented areas)
- Public benefit(s) required (e.g., day care, open space / recreation facilities, pedestrian oriented design, infill/redevelopment, LEED certification, etc.)
- Projects with 50+ units require 15% of units affordable to households at or below 80% of AMI for 10 years

Opportunity zones

- **Federal tax incentive** on capital gains earned from projects in the designated area
- Local governments do not have authority to designate additional areas

Urban Renewal Grant programs

- West Salem URA Redevelopment Grant: Up to **$300,000 matching grant** (up to 20% of total cost) for projects that increase usable space for commercial, industrial, or mixed-use development (not exclusively residential)
- Riverfront Downtown URA: Up to **$300,000 matching grant** (15-50% of total cost depending on scale of project) for new construction, upper floor renovation, historic preservation, etc. (not exclusively residential)

Financial incentives: policy tests

Baseline: existing incentives

- $300k grant eligibility Downtown & West Salem
- MUHTIP Downtown

Policy Package 1: expand MUHTIP

- Apply MUHTIP to all areas

Policy Package 2: VHDZ

- Vertical Housing Development Zone (VHDZ)* in areas without MUHTIP

* Vertical Housing Development Zones (VHDZ) provide a partial property tax abatement (up to 80% of residential improvement value) for 10 years for multi-story mixed use development. The value of the abatement increases with the amount of residential use, but development must include ground floor commercial.

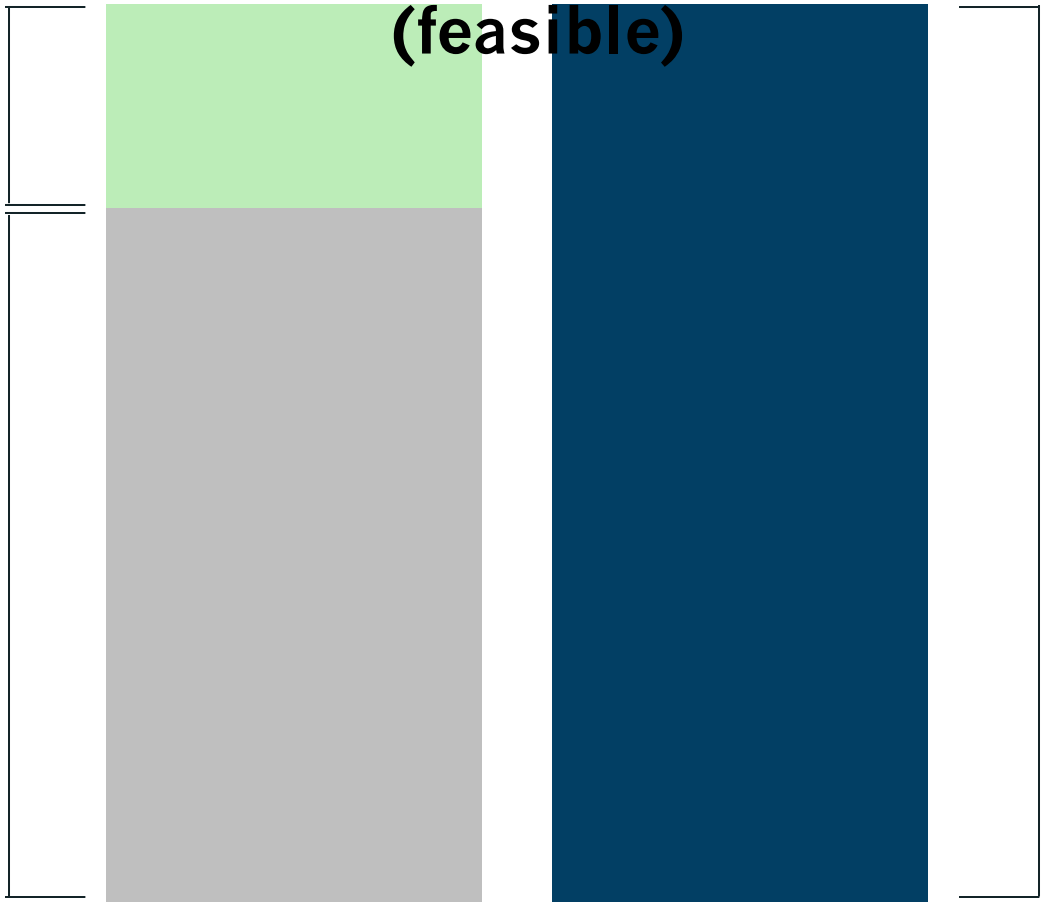
Measuring Feasibility: Residual Land Value (RLV)

Development Example (feasible)

Land Budget (Residual Land Value)

Hard Costs (Construction Costs)

Soft Costs (Impact Fees, Architectural Fees, Developer Overhead, etc.)



DEVELOPMENT COST

DEVELOPMENT VALUE

<u>Rental Value:</u>

Net Operating Income* / Market Capitalization Rates

<u>Ownership Value:</u>

Net Sales Proceeds after broker fees

** Net Operating Income = annual rent & other revenue after accounting for vacancy minus operating costs*

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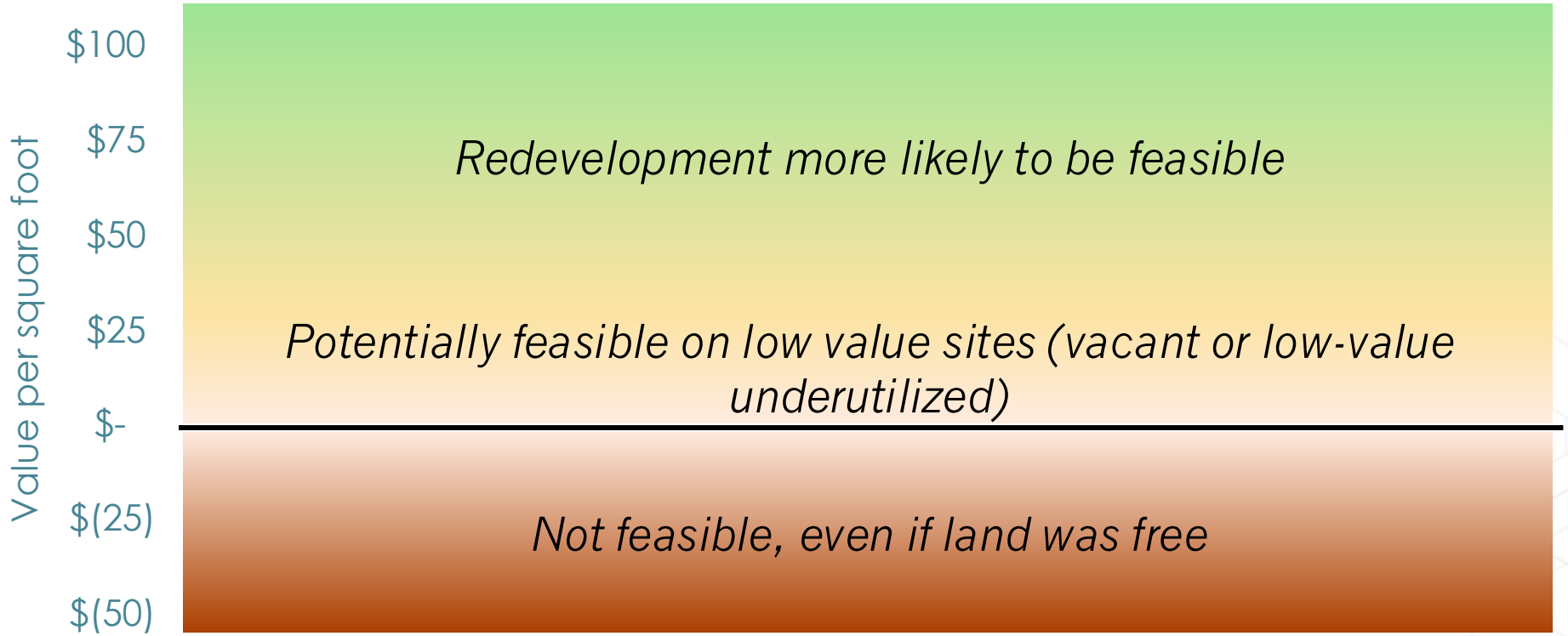
Understanding Feasibility Results

How does RLV (land budget) compare to market value of existing uses? Can a potential development afford to buy a vacant or underutilized site and (re)develop it?



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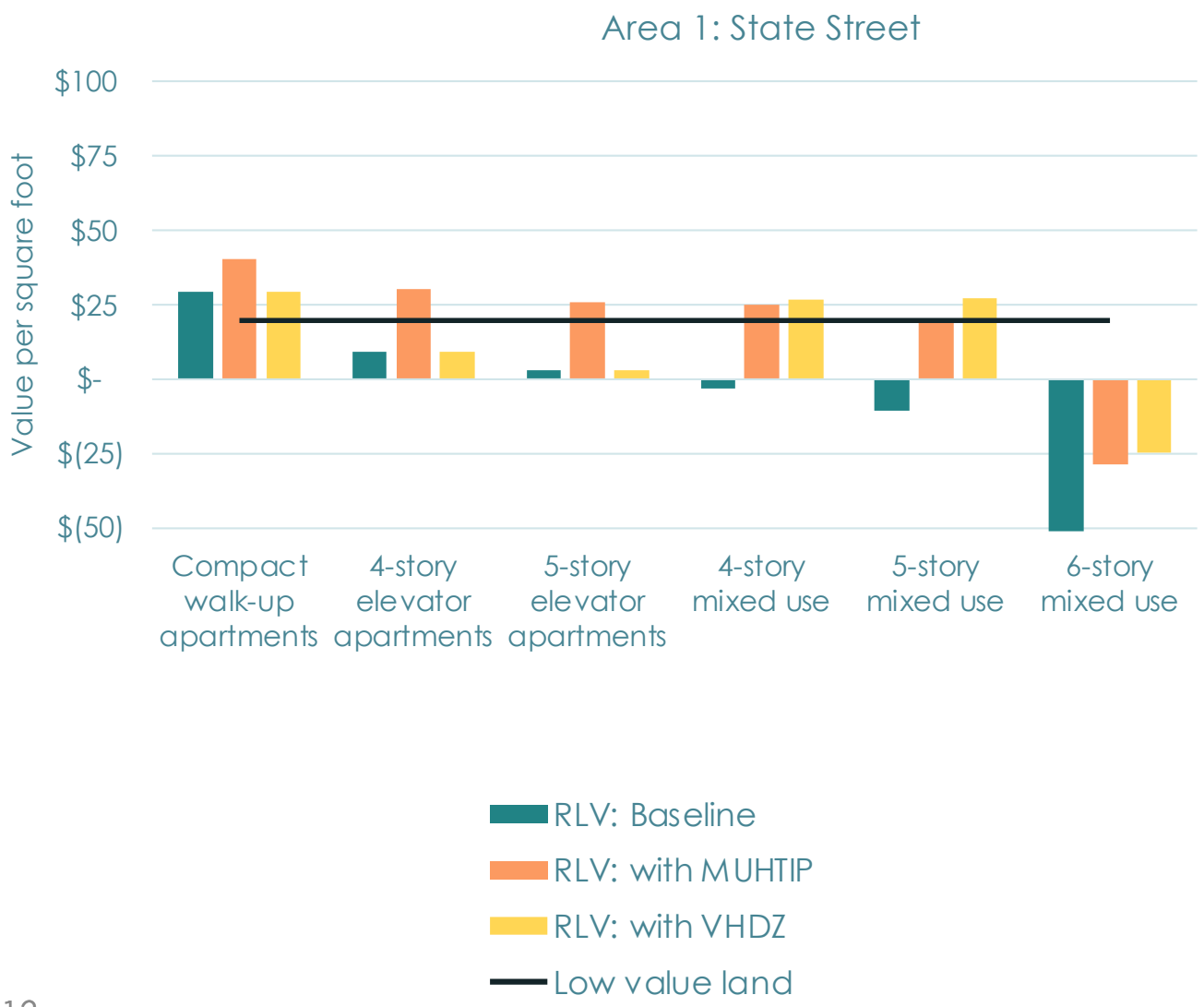
Feasibility Results: Area 1—State Street



Under State Street's current market conditions:

- Compact walk-up apartments may be feasible on vacant or low-value sites without subsidy.
- Extending MUHTIP could make 4-5 story development (with or without ground floor commercial) more viable, but developers might still choose 3-story walk ups.
- VHDZ could support 4-5 story mixed-use on some low-value sites.
- 6+ story mixed use is not likely to work even with tax abatement.

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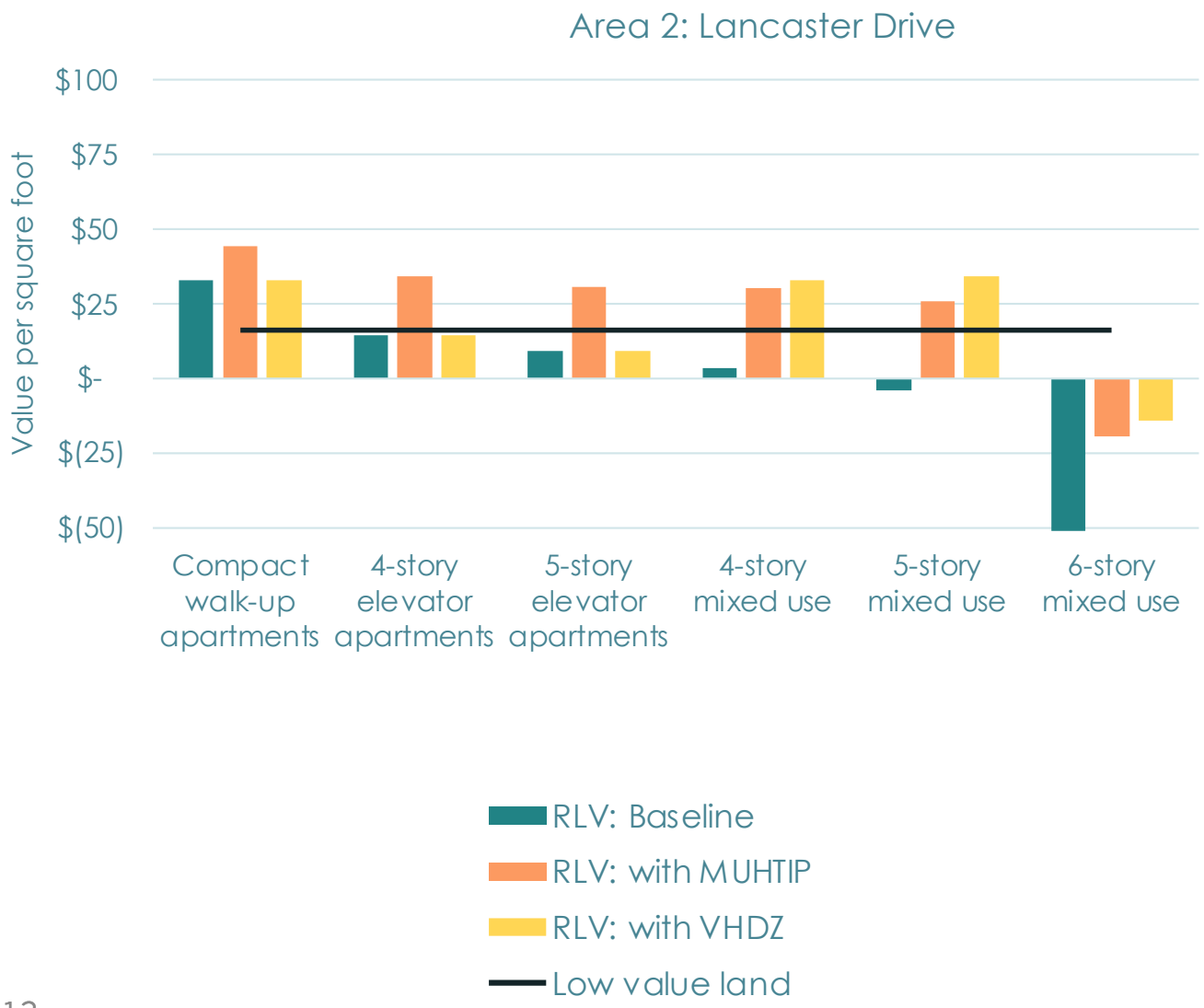
Feasibility Results: Area 2—Lancaster Drive



Under Lancaster Drive's current market conditions:

- Compact walk-up apartments may be feasible on vacant and relatively low-value sites without subsidy.
- Extending MUHTIP could make 4-5 story development (with or without ground floor commercial) more viable, but developers might still choose 3-story walk ups.
- VHDZ could support 4-5 story mixed-use on relatively low-value sites.
- 6+ story mixed use is not likely to work even with tax abatement.

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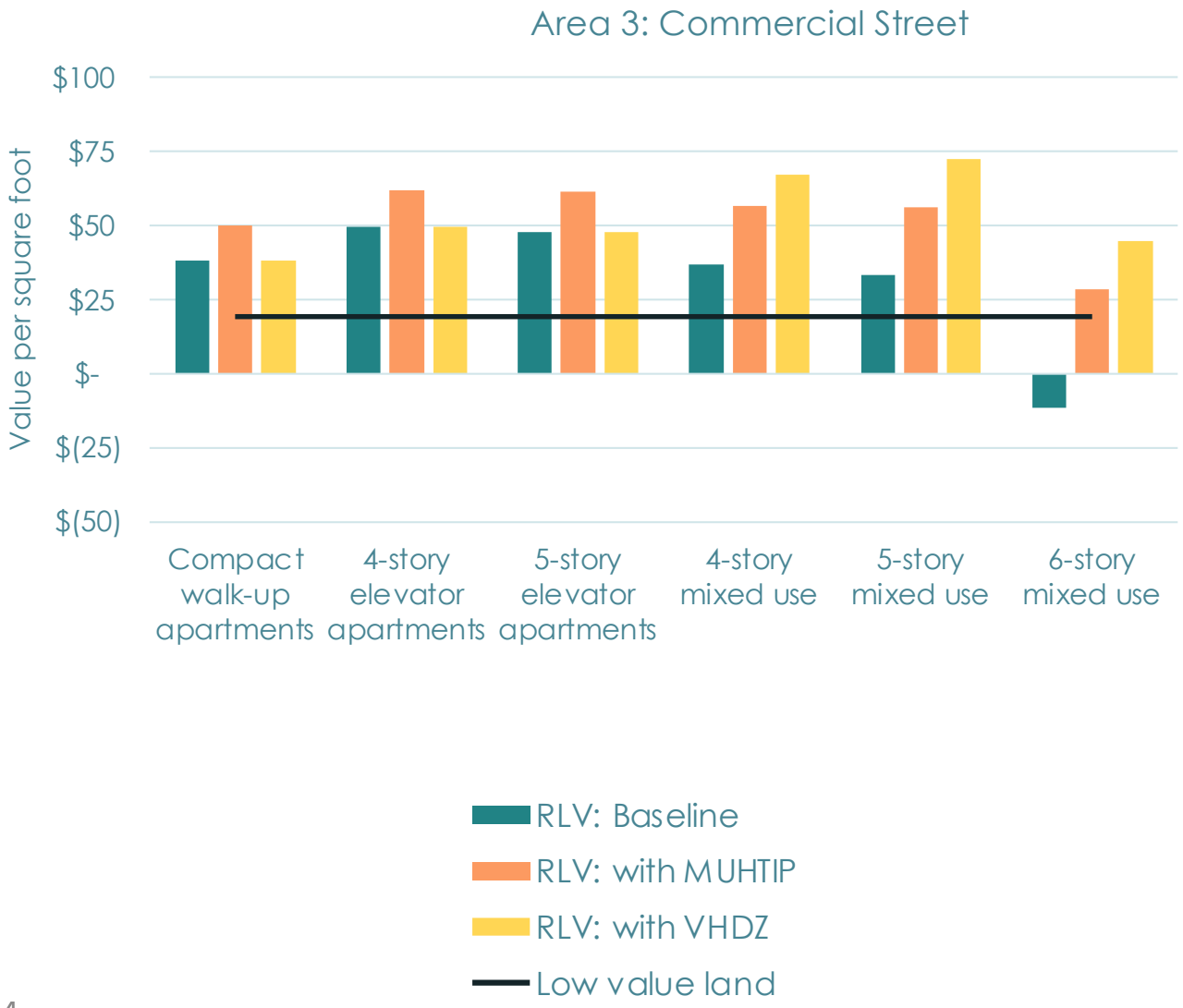
Feasibility Results: Area 3—Commercial Street



Under Commercial Street's current market conditions:

- 3-5 story development with or without mixed use is likely viable on low- to moderate-value sites without subsidy. 4-5 story apartments are most feasible. (Low-value sites are limited in this area.)
- Extending MUHTIP could mean more sites would be viable for redevelopment (because development could pay more) but would have little impact on the scale that would be most feasible.
- VHDZ could make 4-5 story mixed use more feasible than other options.
- 6+ story mixed use could be a feasible option with tax abatement but may be still be less feasible than 4-5 story development.

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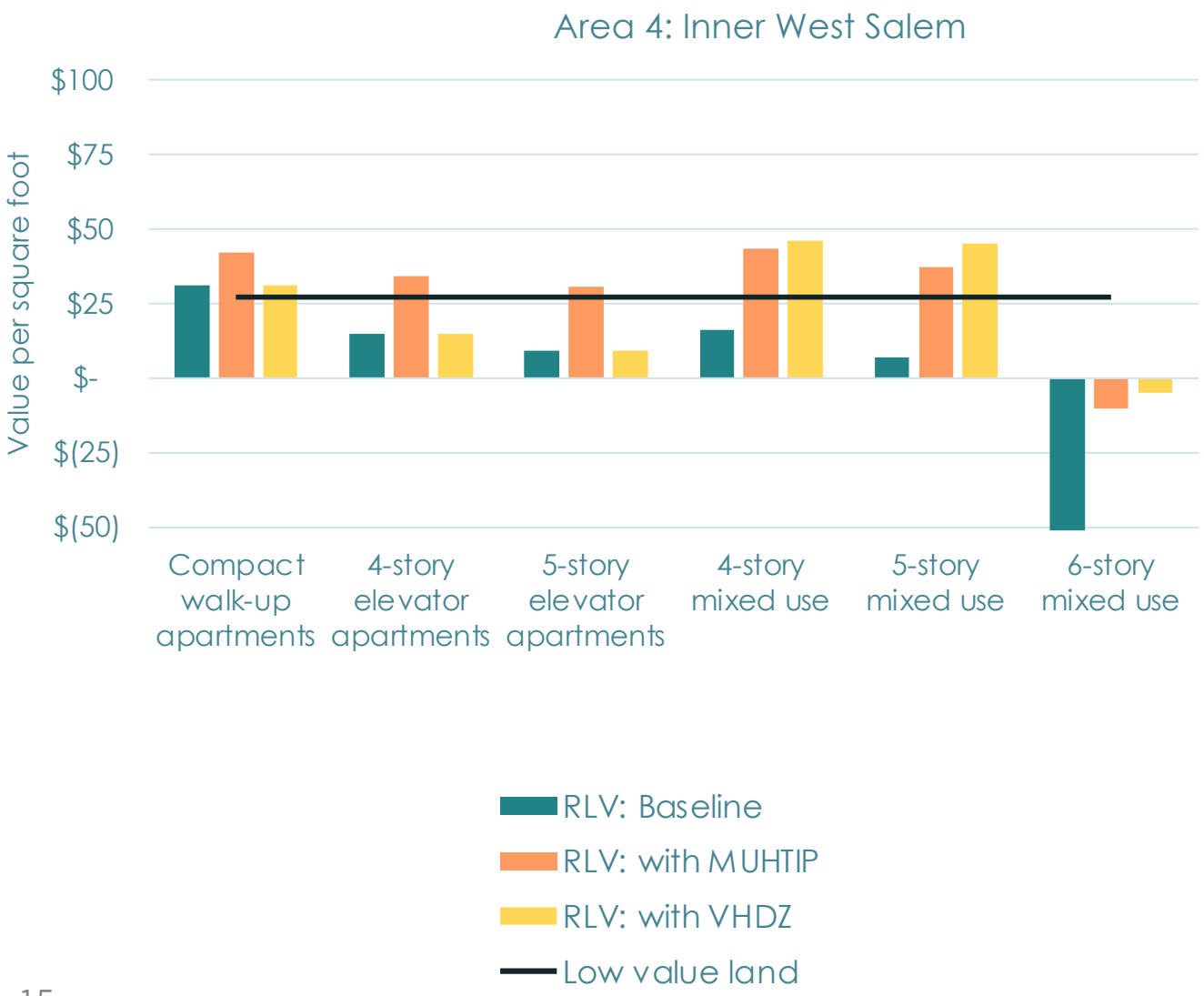
Feasibility Results: Area 4—Inner West Salem



Under Inner West Salem's current market conditions:

- Compact walk-up apartments may be feasible on vacant and low-value sites without subsidy.
- Extending MUHTIP could make 4-5 story development (with or without ground floor commercial) more viable.
- VHDZ could make 4-5 story mixed use more feasible than other options.
- 6+ story mixed use is not likely to work even with tax abatement.

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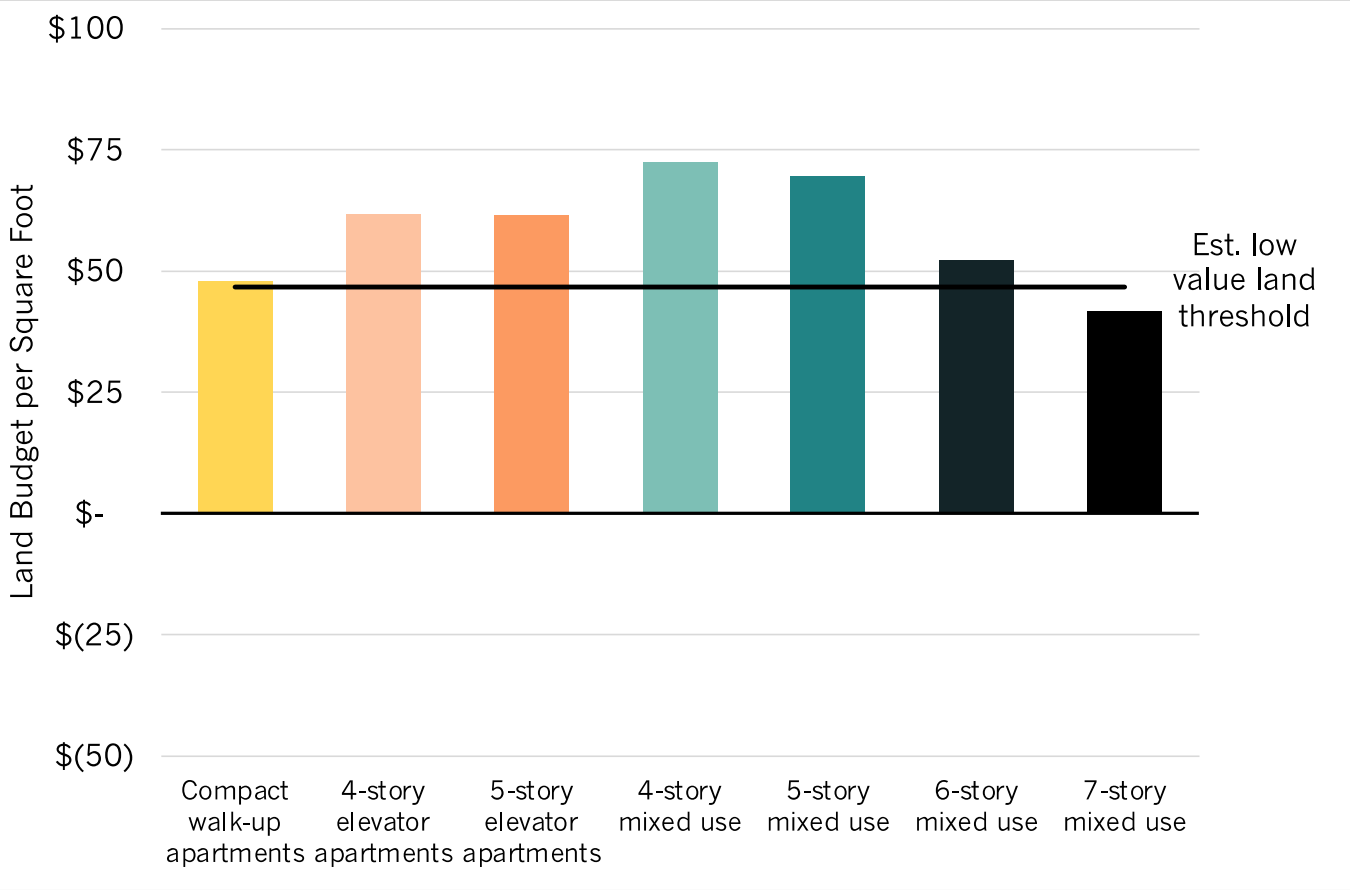
Feasibility Results: Area 5—Downtown



Under Downtown's current market conditions with existing incentives:

- 4-5 story mixed-use development is most feasible for locations with strong visibility for ground floor retail
- 4-5 story residential, 6-story mixed-use, and compact walk-up apartments are likely also viable on at least some low-value sites
- 7-story mixed use is likely not quite viable

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Implications: MUHTIP vs. VHDZ

State Street: consider extending MUHTIP

- MUHTIP makes more options feasible
- VHDZ could be effective in limited situations
- MUHTIP already applies to a small portion of this area—consider extending to area covered by planned road diet

Lancaster: consider MUHTIP for higher density only?

- MUHTIP may not be needed for 3-story MF on low-value sites
- VHDZ could be effective in limited situations
- Deeper corridor, busy street could create challenges for vertical mixed use even with incentive

Commercial Street: consider VHDZ

- Stand-alone MF may be feasible on low-value sites without incentive
- VHDZ could tip development towards mixed use

Inner West Salem: consider MUHTIP for higher density only?

- Few sites have good frontage for ground floor retail without major redevelopment
- VHDZ could be effective in limited situations
- MUHTIP may not be needed for 3-story MF on low-value sites