

Portland Business Alliance/Urban Land Institute
Central Portland Commercial Development Strategy:

Summary of Findings

Background

The Portland Business Alliance Development Committee, a subcommittee of the Central City Standing Committee, and the Urban Land Institute Commercial Development Committee convened a joint effort (the Development Committee, hereafter) to craft recommendations and inform the Bureau of Planning and Sustainability as it begins the process of updating the 25 year Central Portland Plan. This is occurring because the Bureau of Planning and Sustainability has embarked on an update to the 1988 Central City Plan. The Central Portland Plan Update is a two-year, comprehensive effort that will set the stage for significant employment and residential growth for the next 25 years.

At the same time, the city launched a 5-year Economic Development Strategy “in the face of the worse economic downturn in 60 years and the evolution away from a century long dependence on carbon-based technologies”. The Economic Development Strategy acknowledges that the city of Portland has lagged in job growth, and that the job growth that did occur in the region happened outside downtown. The strategy recommends that the city must invest in retaining and growing firms, training workers, funding innovation and developing catalytic projects. The strategy calls for directing the investment necessary to create 10,000 jobs in five years. In order to realize this job creation goal, it will require continued development of employment districts, and recommends a new Central City urban renewal district to “invest in catalytic downtown redevelopment as one of the means to implement the near term objectives and opportunities of the Central City and the long-range goals for the Central Portland Plan Update.”¹

The city’s planning efforts are taking place in the context of regional discussions regarding the designation of urban and rural reserves and deliberations regarding adjustments to the urban growth boundary. Those plans anticipate considerable additional growth over the next twenty years will take place in the region and that the city, and the central city in particular, will absorb a higher percentage of that residential and employment growth than has been the case over the past two decades. Those regional plans anticipate that the city will adopt policies and provide resources, such as urban renewal and allowances for additional density, which will facilitate a rate of investment in the central city greater than the historical pattern.

Portland’s Central City has succeeded on many levels due to sound planning practices. Although the last plan was highly successful and resulted in many of the city’s signature housing and public space accomplishments, the goal for employment numbers in the core was never realized. Based upon the employment numbers, the Central City is gradually losing market share and its status as the region’s largest

¹ City of Portland, Economic Development Strategy. 2009.

office employment center. According to Costar data, the central business district, the downtown employment core area, holds 32 percent of the metropolitan area's square feet of office space. Compare this with 1983, when the central business district held nearly half of the market share. Accordingly, the central business district has growth 24 percent over 25 years, while the balance of the metropolitan area has grown 124 percent. This condition could soon reach a point where the central business district will only hold 20 percent of the metropolitan areas' market share of office space.² This decline will gradually refocus the employment centers outside the city of Portland unless a combination of changes in planning and economic development succeed in revitalizing the Central City as the region's largest and most intense office employment center.

Maintaining the region's compact urban form by continuing to implement Metro's 2040 Plan is important to keeping the Central City central to the region. It should be acknowledged that suburban employment development actually supports many of the office uses currently located in the Central City. Because the region is compact, due to the Regional Urban Growth Boundary, many businesses that support suburban employment development are located in the Central City because the location is central to the entire region and many related land development businesses have easy access to other related service providers. There will always be a healthy tension between Central City and suburban employment development, but the relationship is symbiotic, with development in both instances supporting regional economic health.

Consequently our regional economic emphasis should be on attracting national and international business opportunities to both Central City and suburban locations. While suburban office development may have some economic advantages relative to the Central City, the Central City holds other advantages over the suburbs, including a comprehensive, multi-modal transportation network, a centralized and intense investment in infrastructure, cultural, retail and civic amenities, and immediate connections to higher education institutions. The challenge is to build on Central City strengths, while creating an attractive economic environment to enhance Central City competitiveness locally, regionally, nationally, and internationally.

With that background in mind, the Development Committee focused on compiling a series of observations, ideas and recommendations that address the Central City's viability for future commercial development and the capability to support a healthy commercial core. Ultimately, the Development Committee organized the discussion and recommendation into five topics:

- Vision and Guiding Principles for the Central City
- Transportation and Access
- Workforce Housing Availability
- Regulatory Framework
- Financial Assistance

² Information from Costar as compiled by Colliers International- Portland.

The purpose of these comments is to inform the Central Portland Plan Update on how to maintain and improve the market position of the Central City as a competitive location for commercial activity in order to:

- Encourage and enable commercial development in the Central City;
- Support retention of market share in the Central City; and
- Stimulate the demand for Central City office space.

It is worth mentioning that the committee recognizes the importance of ground floor retail in the Central City. The Central City's industry sectors of retail, restaurants and entertainment, professional services, health, social and educational services, and government centers serve regional populations and the regional economy. Due to its direct impact on the street level and its role in each market, retail is the means to an end for overall Central City success. Retail activates the ground floor and sidewalks, attracts a strong visitor market, is an amenity for employees and clients that gives the office market a competitive advantage over non-urban locations, and serves the Central City residential and employee population. Any fluctuation in the retail segment immediately impacts the street level environment and the residual effect on other economics soon follow. Continued investment is critical to maintain the health of office, residential and tourist industries. The committee is pleased that the Mayor convened his Downtown Vision Task Force to address these issues in the downtown retail core and defer to the work and recommendations of that task force on retail development. As a general note, the city should consider retail as a critical element to urban areas and plan for it carefully and strategically, not as "a given" in development.

Topics of Focus

Vision and Guiding Principles for the Central City

As a point of beginning, the committee identified guiding principles as the framework for the strategy:

1) There is an inherent connection between land use planning and economic development

The success of the Central City Plan Update depends on job creation. The City has unveiled the 5- Year Economic Development Strategy, an action-oriented plan to create 10,000 new jobs in the City of Portland in five years. A critical part of implementing this strategy will be to ensure that there is an available supply of employment land- both commercial and industrial-, transportation infrastructure that can accommodate new development, and sufficient housing stock that is affordable for the employees and proximate to employment areas. The City and regional governments play a critical role ensuring the planning policies and public financing strategies support these basic employment needs. Additionally, the following ideas should be used strategically to position the city and the central city to accommodate forecasted job growth in the near and long term, and reverse the trend of lagging employment growth and declining market share: Provide planning and financial tools that protect existing commercial and industrial land supply; promote the reuse of

underutilized employment lands; alleviate risk associated with mixed use, high density construction; maintain infrastructure at a level necessary to support new development; and, ensure an adequate housing stock will

2) Central City development has a higher cost and risk relative to suburban development

A lot of the cost of doing business in Portland is hidden - businesses that locate in the city must pay the city and county Business License Tax and that reduces the rent premium that can be charged in the city to offset the increased cost of construction. Further, extensive design review, and the need to re-engineer buildings based on design review discretion and viewpoint can be time-intensive and costly.

Comparatively, the suburban development market enjoys a lower land cost, and lower cost per square foot of space associated with low-density development. Suburban development usually involves smaller scale, often-single use, projects and thus a lower project risk. Building in a dense urban environment is simply more difficult and expensive: Multiple use projects that include retail, commercial office and residential may require multiple sources of project financing, which may have different requirements for project participation. . Portland citizens and leadership have identified guiding principles of accessibility, sustainability, connectedness and distinctiveness in planning and development strategies that encourage high density, mixed use projects. Favoring, or in some cases requiring, this type of development, irrespective of the risks and financial constraints associated with building high density, mixed use projects can have a negative impact on projects. Further, ground floor activation requirements that mandate commercial use irrespective of what the market can support create an oversupply of commercial space potentially diluting the retail environment and reducing investment return.

3) It is important to retain existing employment centers and their industry base in addition to fostering the growth of emerging industry sectors.

We recognize that there are distinct sub districts within the Central City that are critical to the overall role of the Central City as a regional employment center. While this strategy does not specifically address each sub district, we recommend that preservation of the commercial and industrial base in each sub district be a primary effort of the Central Portland Plan Update. As the City plans for additional job growth and emerging industries, fostering the location and infrastructure for new development and employment opportunities should be made in concert with preserving the existing industry base. National Urban Land Institute experts indicate that it is more efficient and effective to retain a business than relocate a new one.³ Retention should be an active effort, led and coordinated among the public and private sectors identified in the city's Economic Development Strategy. Further explicit role definition is needed to ensure any retention effort is not an orphaned element of a comprehensive job growth strategy.

Additionally, Portland should plan ways to retain and foster the locally educated population in Portland. The city's Economic Development Strategy outlines an approach to

³ Maureen McAvey, Urban Land Institute

working with educational institutions to produce a workforce skilled to match the needs of targeted employment industries. Immediate access to higher educational institutions is a valuable asset to the Central City, and furthering the development of those institutions is identified in the Economic Development Strategy. As a corollary, the educated workforce that either migrates to Portland or is fostered through the local education system should be nurtured as well. The creative class is an entrepreneurial segment of the workforce that is important to the new economy and whose companies typically locate in central cities, due to the connected urban experience and immediate access to complementary or supportive industries.⁴ New companies that are startups or incubator businesses may be sliding under the radar. The pure creative class, college educated workforce may not be accounted for in most industry data and therefore not adequately nurtured or supported. If this entrepreneurial and educated workforce is not accommodated by providing employment or space for the workforce to grow, nor access to proximate, affordable housing at ranges of 80- 150 percent MFI, this talent pool will leave Portland.

4) Track benchmarks on the city to inform planning efforts

It is important for a city to understand the employment base, and collecting data is necessary to determine what industry types locate in which parts of the city or region, where jobs grow, and where leakage occurs. Performance measures that should be considered when evaluating planning efforts and policies include economic growth, traded sector investment, increase in wage levels, increase in income tax revenue collections, and permitting revenue. Planning recommendations and policies should focus on the achievement of an agreed upon set of benchmarks. The committee is interested in assisting the city with identifying benchmarks that accurately, objectively and meaningfully measure the economic health of the central city over time.

5) Focus on the Central City's endemic qualities

Planning policy should focus on what is endemic to Portland, rather than focusing entirely on the aspirational. Overall, development is less costly and thus takes fewer subsidies if a city or area acknowledges, plans and builds the natural fit for the market. The city's Economic Development Strategy emphasizes the Central City as an area to showcase a way of life and attract creative class talent, but the identity, recruitment and preservation of Central City industries needs further consideration. The traditional Central City industry niches of professional services, finance and insurance, manufacturing, education, and others also should be supported in economic development efforts. Additionally, new industries related to sustainable economy⁵ that the city has identified in the Economic Development Strategy should be recruited and integrated into the Central City job spectrum, but not at the cost of the existing employment base.

6) The Central City should continue to be a primary regional employment center

We envision the Central City as a well-balanced mix of residential, commercial and public institutional uses. Over the last 25 years the City has achieved great success in preserving and recruiting residential uses in the Central City. Over the next 25 years the Central City is envisioned as having an equally great success in retaining

⁴ City of Portland Economic Development Strategy

⁵ City of Portland Economic Development Strategy

existing employment and attracting new employment to revitalize its logical role as the center of gravity for regional employment. There is a trend beginning of employers wanting to move back to the Central City. Over the life of the updated Central City Plan and the Economic Development Strategy, that trend should be strengthened to increase efficiency, productivity and to reduce sprawl and the consequent environmental impacts.

Transportation, Parking & Access

Discussion of difficulties and contradictions:

Despite the existence of good light rail, streetcar and bus facilities serving the central city, for many office tenants and project funders, the limit of 1 parking space for each 1000 square feet of improvements in the Central City is a key impediment to tenant placement and office development. Many tenants would prefer the Central City but need higher parking ratios than 1:1000 to accommodate their workforce and clientele. Currently there are limited sites within the Central City that allow a 2:1000 parking ratio. Yet, developers struggle even to reach the limit of existing parking ratios due to the high cost of underground, structured parking. Due to the prohibitive cost, developers cannot finance structured parking to the levels and amount that is needed for a high density, large development.

There are four avenues to address the issue of parking availability: (1) increase the non-single occupant auto mode split (i.e., decrease the demand side), (2) increase para-transit alternatives taxi/shared car circulation integration (i.e., decrease the demand side), (3) increase the efficiency of use of the existing parking inventory (i.e., increase the supply side), and (4) to construct additional shared parking spaces (i.e., increase the supply side).

This document does not make recommendations regarding strategies to increase mode split, as those strategies are well document elsewhere. It should be noted that the Central City already has one of the highest transit and bike mode splits of any comparably sized U.S. city. Light rail, streetcar and bus service are all available. The state of Oregon provides a Business Energy Tax Credit for employers who subsidize transit passes for their employees. TriMet's ride share and transit pass programs are robust and have a deeper market penetration than most transit districts of comparable size. The city has one of the highest bike commute percentages in the nation and the city is investing heavily in projects and programs to make bike commuting even more attractive. However, even with the success of these programs, a significant percentage of downtown employees, shoppers and visitors will continue to access the central city via single occupant auto trip. Additionally, project funders and national tenants will continue to be reluctant to invest in projects that do not at least approach national norms for parking ratios.

From a Central City customer's perspective, there is evidence of a public perception that there is limited parking in the Central City⁶, yet there are many short term, on-street and garage parking stalls unoccupied at any given time. Existing parking is not

⁶ Downtown Business Census & Survey, 2008

actively and comprehensively managed to maximize capacity for different uses. Unless existing short and mid term parking supply is more effectively managed, it will remain difficult to reverse this perception that downtown parking is difficult. This perception can negatively impact businesses that depend on a client base visiting their office. Anecdotal comments from businesses that leave downtown have indicated lack of parking for their clients as a reason for their exit. In addition to allowing higher parking ratios, a better management of the existing supply can make great strides in improving the perceived accessibility of the Central City.

Transportation, Parking and Access Recommendations:

Establish an Effective Central City Parking Management System

Establish an entity, such as a Parking Management Association (PMA), to manage the inventory of parking stalls in the Central City that could help provide real time and long-term utilization information. This could facilitate the leasing and sharing of parking supply in a way that would help maximize the use of stalls 24 hours a day and provide more parking to users that require a higher parking ratio to support their business. Authorize the PMA to function like a parking broker with property owners and parking operators to lease any surplus of parking stalls to proximate users. The PMA could increase City revenue by marketing and maximizing use of public parking facilities as well.

Facilitate a shared parking pool

Include surplus or new parking stalls in a publicly or privately owned and managed shared parking pool from which property owners can lease spaces to add to their parking supply. A shared parking pool reduces the quantity of parking stalls a developer has to build and thus reduces total development cost. Additionally, provide development incentives (i.e. FAR bonus) for developers who contribute a certain percentage or number of parking stalls to a shared parking pool. City-managed or owned parking garages dedicated to a specific purpose can be managed in a collective parking pool and open for other use during times that are not dedicated to that purpose, i.e. events, daytime shopping, etc.

Consider Central City – Transit Circulator System.

There is the potential to utilize the investment in Max and Streetcar as circulators allowing employees and clients to park in underutilized garages such as those on the east side of the Willamette. A lower all-day cost could be established for these facilities, encouraging ridership and eliminating the need for drivers to cross the bridges into downtown. The proximity of these facilities next to interstate Freeways could be a benefit to parkers.

Network dispatch for taxi/shuttle/town car/car sharing service

Create a centralized and connected dispatch network of taxis, shuttles and town cars operating on a zone-based fare within the Central City. A centralized dispatch would create an efficient and more utilized mode of transportation within the Central City. This would also reduce the need for parking, since the customer would be dropped off at their destination and without the need to park. The use of taxis complements the use of transit to commute, because the certainty of taxis for short trips within the

Central City reduces the need for an automobile during the day and allows flexibility for commute options.

Encourage multi block underground parking structures

Facilitate the assembly of multi block or large parcels and incentivize building parking connected through multiple blocks. Multi block parking structures are a way to reduce development cost, and provide more parking in a concentrated location. Multiblock parking structures produce an immediate mass of people and create new and support existing activity centers. Example sites that may be appropriate for this strategy include the Post Office site, the Jasmine Tree blocks, and the University Place area.

Enforce parking with real-time congestion pricing, not fines

The current system penalizes the user for parking beyond the time limit with parking fines. This is punitive to the downtown customer and contributes to a negative perception. Consider meters that charge the user for the time the user is parked, rather than fining the user for parking beyond the initial specified time. Parking rates can be adjusted by location and by time of day to encourage long term or short term parking, and to manage parking turnover during and between peak periods.

The Public Sector should pioneer a mechanized parking structure pilot project

Mechanized parking increases space efficiency, and eliminates the need for ventilation, lights, attendants, security, stairs, and floors. While there are many benefits to mechanized parking, there are still unknown operational and functional scenarios that are risk-prohibitive to the developer at this time. The city should explore a mechanized parking pilot site and address any liabilities to encourage the private sector to adopt this efficient development type.

Allow higher, effective parking ratios in high-rise buildings.

The City should allow and support concealed above grade parking in new high-rise development in appropriate locations in the Central City in order to make Central City office construction more economically feasible and competitive. These buildings are constructed in a manner obscuring the above grade parking from the exterior of the building. Concealed above ground parking is presently available at the ODS building, One Columbia Square, 1000 Broadway and other existing buildings. The City should also allow higher parking ratios of up to 2:1000 at specified locations that are removed from mass transit coverage (perhaps two blocks from transit) to attract major tenants in the City (such as Integra Telecom and Northwest Evaluation Association) and to broaden the alternative transportation modes for the middle-income workforce in such buildings.

Coordinate funding regionally for higher capacity downtown transportation projects.

Metro, the Oregon Department of Transportation (ODOT) TriMet, and other local jurisdictions control significant transportation infrastructure funding. The Central City Plan and Transportation Management Plan Updates will succeed or fail based upon the ability of the City to gain agreement from regional partners to support infrastructure funding for its needs and priorities. The Central City should continue

to operate as a primary economic hub. Accommodating access, freight mobility and trips to, from, and within the Central City will remain critical to the Central City's economic success. The demands for regional highway and high capacity transit improvements are real and need attention. Portland's plan must include a superior strategy to educate those in control of the funds and obtain regional, state and federal funding support, through coordinated planning at all jurisdictional levels, in order to ensure a strong transit and transportation system that in turn reinforces a strong commercial core that is the region's employment hub.

Available Workforce Housing

Discussion:

Planning goals call for a balanced housing stock across all income levels and geographic areas. There are few development tools to assist in the development of Central City middle-income housing, which we interpret as 80- 150 percent of median family income. There are several tools to assist with low income housing development, including tax credits and the set aside of urban renewal resources dedicated to low income housing. The market takes care of the highest end of housing. Workforce housing is stuck in the middle without either the rents or the tax credits to make them consistently attractive investments. Previously, the Central City New Multiunit Housing tax abatement was available to assist the financial feasibility of high-rise housing development. However, City leaders determined the abatement program was not accomplishing intended policy goals, and therefore issued a moratorium on the program. Currently, there are no subsidies available that assist with middle-income housing development. As a result, there is a gap between what a person earning \$47,000 a year can pay for rent and the price per unit that a developer can deliver to the market without these tools.

There are several reasons the availability of middle-income housing stock is important for the economic viability and livability for the Central City. As the city's cost of living continues to increase, rising housing costs impact the standard of living for low and middle income residents, which in turn impacts the Central City's economic productivity, competitiveness, and resiliency.

Portland residents who typically have incomes less than or equal to the median family income and who face rising housing costs are losing ground through an eroding standard of living, increasing economic marginalization, low savings rates, and inability to absorb unexpected expenses.

This lack of affordability effectively drives the workforce out of the Central City, reduces their ability to live near employment, impacts land use, transportation and other services, and reduces their level of discretionary income if they choose to pay higher rent.

With this lack of available middle income housing stock, working households often cannot afford market-rate housing that is in or near the Central City. As a result middle-income earners are forced into the suburbs to find market rate housing. This

housing is likely not as close to transit, shopping, services and employment, as Central City housing would be but is often perceived as being safer and with better quality schools. They are forced to live in neighborhoods far from employment, thereby increasing transportation costs and commuting burdens, which may result in lowering worker productivity, increased capital infrastructure costs and reduced efficiency in the transit system. This workforce is represented by teachers, police officers, firefighters and others integral to the community, but who cannot afford to live in or near the Central City where their jobs are located. It includes young professionals, construction trades-people, office workers, service workers and the creative class.

All of this ultimately impacts the Central City economy in a negative way. Rising housing costs impact Portland's economic productivity and competitiveness because the costs place upward pressure on salaries and wages for employers, and lack of affordable housing makes it more difficult for Central City businesses to recruit and retain high quality employees.

In the Central City, market rents for newer housing result in too low a return to the developer to make new middle-income development financially feasible. In addition the economics of this housing are not compatible with the current density goals of having high-rise construction throughout the core. The highest density that is economically feasible for these middle-income units is mid rise wood frame construction over a first floor concrete pedestal, rather than the post-tension concrete or steel construction required to create greater height and density

Recommendations:

Extend the existing tax abatement program to facilitate middle-income housing development in or near the Central City

Extend the Transit Oriented Development (TOD) tax abatement program to include the Central City. The TOD tax abatement should be a ten-year abatement targeted for the 80- 150 MFI bracket, and tiered based on its proximity to transit nodes and lines. Extend the abatement throughout the stabilization period of the development.

Currently the TOD boundaries do not include the Central City, yet the Central City is a hub of transit investment. This is an opportunity for the City to accomplish the valuable sustainability objectives in the Economic Development Strategy, which include EcoDistricts and 20 minute neighborhoods. Providing tools to assist with development of housing that is affordable to the workforce in areas that are adjacent or within employment centers should be a key element of any housing strategy.

Provide adequate and diverse development tools that facilitate middle-income housing development

There should be real incentives including bonuses, streamlined permitting, and subsidies for developing middle-income housing in and near the Central City because those residents likely will stay in downtown and support other uses and services and contribute to achieving 20 minute neighborhood and 24 hour district planning goals and will more likely use the transit system. This should be a "public value" that is worth development incentives to build workforce housing. These tools include urban

renewal, property tax abatement, a predictable tax assessment, a facilitated design review and permitting process, a predevelopment menu to provide certainty, tax exemption extension through construction period to stabilization (from two years to three years), a waiver or reduction of system development charges, and subsidized ground floor retail tenant improvement costs.

Separate the cost of building parking from middle-income housing development

Eliminate or reduce the development cost of middle income housing by allocating existing day-use parking stalls in garages to adjacent and nearby residents of middle income housing units. Provide public sector funding for structured parking to reduce costs to the developer, making development more feasible.

Recognize that high rise construction is not a cost efficient construction method to deliver middle income housing

While it is critical to deliver housing that is affordable to the workforce proximate to Central City employment, the cost of high rise construction and the rents achieved from middle income housing are difficult to align in a pro forma. Stick frame, 5 over 1 structure is the construction method that makes middle-income housing financially feasible. Areas of each Central City sub district should be targeted where such mid-rise heights and lower densities are appropriate and residential use does not conflict with existing commercial land use.

Support additional Central City educational facilities to promote families living in the Central City

Education facilities are critical to attract and retain families in the Central City. The presence of high quality K-12 schools in or very near the Central City will assist in creating market demand for middle income housing. While this is primarily the jurisdiction of the Portland Public School District, the Central City has a direct economic development interest in attracting middle-income families to the Central City, in part by assuring quality nearby K-12 public education, because middle-income families cannot afford private schools. The importance of this factor in family decision making about home location is difficult to overemphasize.

Support the City's 5 Year Economic Development Strategy to bring additional jobs to the Central City

Employment is the main driver for stimulating workforce housing demand. While the economic development strategy should be to bring to the Central City as many higher wage office jobs as possible, executives inevitably need middle income support staff. The creation of jobs earning \$50 – 100K is the most important catalyst for creating market demand to build workforce housing.

Introduce new middle income housing construction methods through a public sector pilot project

Test the marketability and development process of prefabricated modular unit construction methods in a middle income housing pilot project. While there are several international examples of modular unit housing developments, the private sector may be unwilling or unable to test a product in the Central City market. The

public sector has an opportunity to share the risk of developing a new prototype that can efficiently deliver more middle-income units to the Central City.

Regulatory Framework

Discussion:

The current regulatory environment has played an instrumental role in shaping and encouraging the growth of the Central City into the attractive user-friendly place that we currently enjoy. As Portland has grown and matured, growth pains have developed in relation to some of those very regulations that created this growth in the first place. The answer is not to abandon these regulations entirely but rather to make them more flexible and bring them up to date to reflect the opportunities and challenges that the city will face over the next 25 years. Regulatory tools should be used strategically, but allow for market opportunity in conjunction with an effective employment growth strategy that supports adding capacity.

Recommendations:

Allow height increases in certain market-driven opportunity areas in the Central City

While there is an established rationale for determining height and density limits in the Central City plan district, there are sites in the Central City that should allow higher densities providing real market opportunity while not conflicting with important urban design goals, view corridors, etc. Higher density should be allowed where research confirms the current zoning is artificially and needlessly constraining development demand and forcing commercial development outward. Areas that should specifically be examined include major arterials and transit route streets, and historic districts that have unique development challenges.

Allow higher parking ratios in certain locations

In order to attract suburban office users back to the Central City, higher parking ratios are necessary. Allow 2:1000 parking ratios outright on sites that are four blocks or more from designated transit nodes, that are not feasible for mixed use, and that do not have immediate access to shared parking.

Allow opportunistic, market-driven uses in certain areas of the Central City

The market should play a larger role in determining what areas are considered development opportunities. The regulatory framework should not provide that primer. The city should provide broad opportunity both in geography and in tools and see how the market responds. For example, the Central Eastside is an important employment district that should be protected to preserve traditional employment lands. With the new investment in the eastside streetcar and proximity to employment areas on the east and west sides of the river, there may be certain, targeted areas in the district where residential use could be appropriately located and not conflict with the existing industrial and commercial uses. Specific opportunities should be discussed with neighborhood and industry groups to ensure compatibility and optimal use of land, both from a livability and an economic perspective.

Identify opportunities to designate multiple parcels of land in the Central City for planned unit re-development

The planning success of the Pearl District shows how a critical mass of mixed-use development can create a destination for commercial, residential and civic activity. While the opportunity of transforming acres of an abandoned rail yard into a vibrant neighborhood is rare, the concept of assembling parcels of underutilized land for a planned development could have a similar effect on areas of the Central City. The city should identify logical groups of related parcels and provide incentives to landowners to work collectively. Incentives could include a streamlined development review process; height and/or density increases that support the desired development; fee waivers or reductions; and other offsets to initiate a master planned, multi-parcel commercial and/or residential development. The city could provide a list of general policy goals and performance guidelines and facilitate the property owners cooperating in master planning the development of the parcels to satisfy basic requirements but to also implement the intended goal of spurring redevelopment of underutilized land.

Establish a hierarchy of ground floor uses to promote retail continuity and “retail main streets”

In order to preserve the destination recognition of the downtown retail core, the Mayor’s Downtown Vision Task Force created a strategy to catalyze retail development and increase ground floor continuity that supports the core as a retail destination. The Task Force identified a signature retail spine on Morrison and Yamhill streets in the downtown retail core. The signature spine would receive regulatory incentives, financial assistance, and branding efforts that would be targeted at a higher proportion than the areas immediately surrounding the signature spine. The logic behind a signature spine was to establish a hierarchy of retail streets, with investments concentrated in certain locations in a manner that creates an obvious destination. The city should apply this model to its ground floor activation requirements in the Central City by establishing a hierarchy of ground floor use that relates to specific streets. The hierarchy of streets concentrates retail on streets and prevents retail leakage and dilution, promotes continuity, and creates main street destinations. Currently, regulations requiring extensive ground floor commercial is problematic and forces retail and/or commercial uses in areas where the market cannot support the required uses and dilutes the opportunity to concentrate retail/commercial to create contiguous retail corridors that achieve critical mass. The regulation should be refined to concentrate ground floor commercial use in areas where the market demand is sufficient for success. Additionally, other ground floor uses like walk up residential and office should be allowed to better implement the policy goal of activating the streetscape.

Financial Incentives

Discussion:

City and regional planning goals emphasize high density and mixed use development. While these planning goals add to the livability and sense of place for the region and its centers, maintaining a tight urban growth boundary causes land to be divided into smaller

parcels over time. Smaller parcel sizes preclude large-site employment land and campus style development. While the Central City cannot necessarily accommodate all employment types due to land constraints, regional planning efforts need to be mindful of providing sufficient and diverse employment land types to ensure employment growth and retention, especially large parcel users. Public sector funds should be used judiciously in order to maximize the reach of the resources to implement the City's economic development strategy goals and address the needs of the downtown as a unique employment center.

The region made a policy decision to make a major investment in infrastructure in the Central City, and that investment requires the re-use, maintenance and redevelopment of Central City land in order to maximize the existing infrastructure. The City has relied on urban renewal as the main financial tool to fund desired infrastructure and real estate development, but the use of urban renewal continues to be limited in its ability to adequately support the land use and development goals of the Central City. Unless the public sector applies adequate and meaningful financial tools to making commercial development more economically feasible then the Central City will continue to lose its market share of employment and ultimately, its role as the primary regional employment center.

Portland's urban renewal authority (PDC) was created over 50 years ago and is a critical economic development tool to eliminate economic disinvestment and blighting factors. Urban Renewal, in part, was designed to level the playing field with the competitive advantage of less expensive suburban land and development costs. The statewide adoption of the land use system three decades ago required an urban growth boundary and promoted compact development. While it has been successful in shaping a more compact region and promoting livability, it has contributed to densification, which translates to the reduction of land parcel size and a higher cost of construction associated with high-rise development. This increases the cost of developing in the Central City due to the limited land available for development and the need to compensate development cost with higher rent structure. Systems development charges and other impact fees have a compounding impact on high-rise urban development and may overstate the impact such developments have on surrounding infrastructure. Capital improvement plans that are developed on a city wide basis may not reflect the efficiency of use experienced in the central city and so may overstate the contribution per square foot of multi-story development. Such charges and fees should be adjusted downward to recognize that dense urban development is internalizing costs and maximizing the efficiency of existing infrastructure that less dense developments does not achieve. PDC's contribution to Central City development has largely succeeded in addressing some aspects of these competitive disadvantages that are inherent with urban development, and the need continues to exist.

There is resulting criticism and sentiment that downtown already has greatly benefited from the use of urban renewal and should be "finished" using the tool. While the Central City looks impressive and attractive, the employment numbers between the suburbs and the Central City show a serious erosion of the Central City's regional employment role. Further, the overwhelming recent housing success that the River District urban renewal

district has fostered and continues to have in the Pearl District obscures the need to address the decline of the Central City as the regional employment center that the older, less financially robust urban renewal districts cannot adequately address, particularly if a large percentage of urban renewal revenue continues to be dedicated to low income housing instead of commercial development.

Recommendations:

Commit to a predictable and reliable public private partnership model that supports development for job creation and economic development

In order for development types to match the policy goals of high density, mixed-use development in the Central City, the public and the private sector must enter into a partnership where the public subsidy, if needed, of commercial development should total approximately 15 percent and the private sector should supply 85 percent of the necessary financing. This current recession presents an opportunity to build a broad consensus for such a partnership in support of a new Central City plan that gives top priority to retaining its status as the primary employment center of the region.

Subsidize structured parking

Structured parking is the primary financial competitive burden and disadvantage of high-density office development in the Central City. The public sector needs to subsidize this development cost to support the financial feasibility of new Central City, high-density commercial development. Structured parking adds the critical 15% of cost to Central City office development that puts it at a competitive disadvantage against suburban office development. Also it is much higher risk to develop high density office towers compared to the lower density suburban office buildings because of the lease up risk and market timing issues involved when development of a high rise takes over two years for design and construction compared to one year or less for a smaller suburban office project. These competitive disadvantages must be offset somehow if the high-density Central City offices are to be truly competitive against the suburban office development projects. Structured long term parking for office developments as well as retail should be considered a part of the infrastructure that the City needs to subsidize in order to make the central city competitive against the suburbs. Done correctly, City owned parking structures are long-term income producing investments whose rental income can be used to expand the City's economic development funding.

Address a broad spectrum of financing mechanisms to assist with providing sufficient transportation capacity

Higher density development requires greater development and infrastructure costs of the private developer. As infrastructure needs maintenance, improvement and expansion over time and as the population grows, all of the costs cannot be passed through to the developer through development charges and fees. Policy makers must consider all financing mechanisms to address and distribute the cost proportionally to all users of the system

Continue the judicious and strategic use of tax increment financing (TIF) in the Central City to address blight and blighting factors and to support projects that promote economic development and job creation

Urban renewal is a necessary development tool for the Central City, and works most efficiently in areas like the Central City with a high density of land values. Creating a new Central City Plan that encourages more commercial office development will be academic unless TIF and other resources are focused more than in the past on economic development. Office development is directly correlated to job creation, so the success of the plan depends on investing significant resources in economic development. In order to maximize the benefits of urban renewal, which include job creation, economic development and increased property tax revenues flowing back to the overlapping jurisdictions, the city should strategically balance urban renewal budgets with projects that directly generate tax increment (private development), indirectly generate tax increment (parks, streetcar, etc) and projects that do not generate tax increment (low income housing).

Consider short term tax abatement programs to encourage targeted development

Establishing a Central City commercial tax abatement zone would provide up to a five-year property tax abatement to companies bringing new jobs to the zone. This could spur the targeted development, while mindfully reducing the long-term impact on taxing jurisdictions.

Implement the Central Portland Plan Update using a holistic approach

For the plan to be successful, the city must become a true partner with a) the business community in economic development and infrastructure funding for more office development; b) Metro and JPACT to ensure transportation infrastructure funds are allocated equitably and sufficiently to projects that benefit the Central City as the primary regional employment center; c) PSU and OHSU, collectively the Central City's biggest employers and landowners; d) Multnomah County and Portland schools which experience near term revenue impacts from tax abatements and urban renewal districts. The strength of these relationships will generate benefits for the entire region by promoting economic development, employment opportunities, and increased tax revenues for jurisdictions.

Conclusion:

The recommendations in this report are intended to provide the City of Portland and the Bureau of Planning and Sustainability an industry perspective on the challenges faced in recruiting and attracting employers to the downtown core, and stimulating the demand for new commercial development. This is a practical view of constraints to the Central City's economic development and should be incorporated and considered as the City plans the vision of the Central City for the next 25 years.

The decline in Central City's share of the region's employment has broad ramifications for the City of Portland and for the region as a whole. Fine-tuning the elements suggested in this document will assist the City in creating business and development opportunities.

This will result in increasing the number of workers in the downtown, generating greater tax revenues, stimulating foot traffic and commerce, increasing the number of residents and making downtown a more vibrant location. Conversely, this will reduce the pressure on suburbs and undeveloped rural areas to absorb future job growth and residents, while reducing sprawl and boosting the livability of the region as a whole. We look forward to continuing the discussion on how to apply these ideas to the planning process so the goals and vision of the City of Portland are fully realized and effectively implemented by the public and the private sectors.