



# DEVELOPER INTERVIEWS

PREPARED FOR: Urban Renewal Advisory Board (URAB)

PREPARED BY: Cascadia Partners LLC

DATE: 03/26/2019

## Developer Interviews Summary

Cascadia Partners (CP) interviewed 5 land owners and developers active in the Bend market. The developers interviewed include two seasoned, Bend-based developers; two relative newcomers to the Bend market with extensive experience outside of this market; and one motivated property owner / aspiring developer. All interviewees own land within or very near the study area and are very interested in the process outcomes.

The developer interviews focused on gathering insights on the strengths and weaknesses of different parts of the study area, from a market (desirability) and infrastructure perspective. The interviewees were also asked about the real estate cycle, construction costs, rents and the likelihood of new construction making financial sense in certain areas. A few common themes emerged, and these are explained below.

The only real diverging points of view related to the size of the current study area, which was viewed by 2 of the 4 interviewees as too large. The other two interviewees did not have an opinion on that question.

### Residential is Driving Market Currently

Four of the five developers interviewed are exploring projects within the study area that are predominately driven by rising residential rental rates. The one developer not currently exploring a residentially-focused development project within the study area said they would if and when construction costs declined (see next take-away). Only two felt that other uses, such as retail and co-working office, could be strong enough financially to be successful—and these two have sites that are particularly well-situated for these highly location-dependent uses.

### Historically High Construction Costs

Construction costs, both labor and materials, are at historically high levels currently. This requires achievable rents that are not feasible in many areas, and at levels untested in other areas. Certain developers were willing to “bet” on achieving these rents in untested areas, like the BCD, but others are less willing in the near term. Since there have been no major mixed-use projects constructed in the study area, it is hard to know for certain how high achievable rents could be – and developers and lenders like certainty when making decisions.

There is some speculation that the current high construction costs could cause a slowdown in new construction broadly, and that this slowdown could lead to a gradual reduction in cost—particularly labor cost. But this remains to be seen. High costs provides some advantage to those with low land costs. Conversely, those who recently purchased land within the study area have paid historically high prices and they are much more dependent on top-end rents to be successful. In summary, areas with longstanding and/or low-cost property ownership could see the nearest term feasibility—assuming these owners are motivated.

## Infrastructure Off-Site Costs a Challenge

The required off-site infrastructure upgrade costs are a major barrier to development feasibility. Interviewees mentioned off-site sewer and transportation costs as particularly high. There is significant hope that TIF can help spread the cost burden of these needed improvements. The current model penalizes early investors because the cost burden of these upgrades can fall disproportionately on their shoulders if they have to carry the cost for initial improvements that go beyond their proportionate share and they are not reimbursed for costs beyond that share for an extended period of time.

## Absence of Urban Amenities and Connectivity Hurt Feasibility

The quality of the streetscape environment and the lack of connectivity to downtown and other parts of the study area are major barriers, physically and psychologically, to investment. Developers and property owners interviewed are hesitant to make substantial investments in some of the more industrial portions of the study area because they are “relatively untested markets” for new construction, mixed-use compared to downtown and the west side.

## Zoning Tweaks Needed in Most Areas – Some More Extensive than Others

While the UGB process and adoption of the BCD Overlay Code resulted in major improvements in aligning the zoning allowances with the market and the City’s vision for these areas, interviewees noted that other areas that have not had such a detailed planning effort are still misaligned. For instance, the commercial zones have front setbacks, high parking standards and prescriptive use mix requirements that make mixed-use or apartment construction cost infeasible.

There was support among the interviewees for zone standards that enable and encourage the development of mixed-use buildings on small lots—many of the issues identified were particularly acute on small lots.

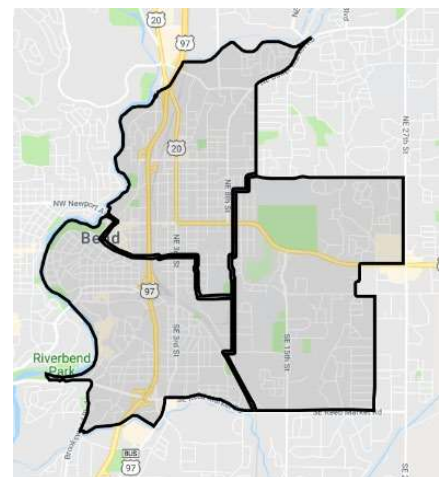
## High System Development Charges

Two of the interviewees specifically mentioned that System Development Charges (SDCs) were undermining the financial feasibility of projects they were evaluating. Both suggested that the ability to finance these fees with a subordinated (2<sup>nd</sup> position) City loan would have benefit to them. Oregon allows cities to establish SDC financing programs. Several cities, such as Hillsboro and Milwaukie in the Portland metro area, have successfully implemented this tool.

## Opportunity Zones Could Equal Less Expensive Equity

The majority of the study area is within Opportunity Zone designated Census Tracts (right). Opportunity Zones are a select number of federally-designated Census Tracts that have special tax benefits for investors who agree to invest specific funds in either development projects or businesses within the tracts. In order to be eligible, the investment funds need to be capital gains derived from a sale of property, stocks, or other assets whose sale results in a capital gain.

According to the interviewees, there has been an uptick in interest from outside equity investors to invest in development projects within these areas. The tax benefits associated with Opportunity Zones means that equity invested in these areas should, in theory, require a lower return rate to make the investment competitive with other, higher performing areas. None of the developers and owners interviewed had actually secured these funds (or volunteered that detail) so the impact the Opportunity Zone designation could have remains to be seen.





# ECONOMIC DRIVERS OF REDEVELOPMENT

PREPARED FOR: Urban Renewal Advisory Board (URAB)  
 PREPARED BY: Cascadia Partners LLC  
 DATE: 03/22/2019

## Summary

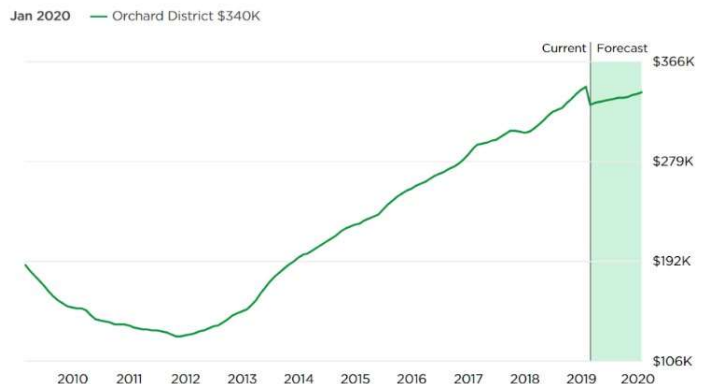
Cascadia Partners has detailed below several economic drivers that influence redevelopment. In summary, Bend and large portions of the study area are well positioned to capture future investment. Bend is a fast-growing community with the potential to see significant redevelopment if certain investments and policy changes can take place. The missing ingredients in several areas are: upgraded infrastructure - including safe, walkable streets that connect different parts of the study area and adjacent amenities; and strategic zoning changes that better align with the market potential.

## Key Economic Drivers of Redevelopment

### Demand and Supply Imbalance

The most basic driver of redevelopment feasibility is when the demand for a development type exceeds the supply. The most recent development cycle followed the Great Recession which saw construction slow dramatically, particularly in Bend, even though in-migration continued to grow. Housing demand has acutely outpaced supply. As a result, the strength of residential demand has underpinned redevelopment in Bend, and many other markets.

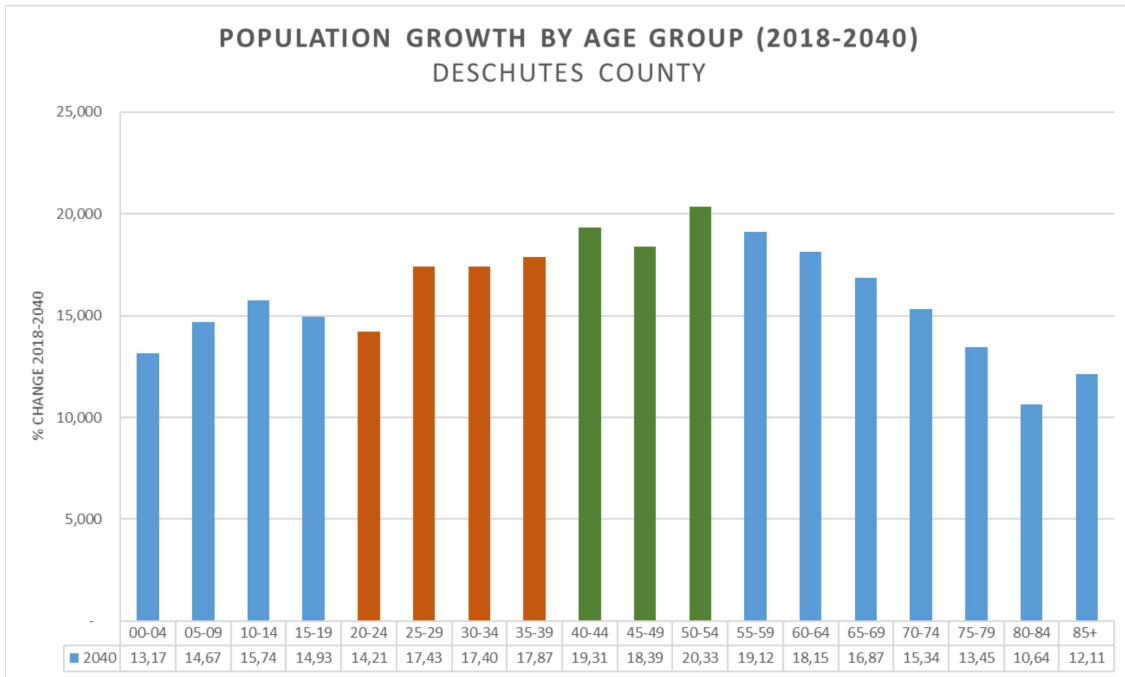
Home sale prices have escalated quickly within existing neighborhoods of Bend as there are more buyers than homes on the market. The Orchard District borders the eastern edge of the study area and the Zillow Home Price Index graph (right) shows a steep upward price trend within that neighborhood.



Demand for new retail and office space has been less intense and much of that can be met by upcycling the existing supply. Lower achievable rents in these two product types means that new construction is not feasible, except in very select locations. This has resulted in fewer newly constructed retail and office space within the study area. The new retail that is being contemplated by our interviewees is mostly secondary to residential, which is the main source of revenue.

### Demographic and Population Changes

Bend is one of the fastest growing mid-sized metro areas in the entire country. Demographic and population change trends are influencing consumer and housing preferences locally. The two largest demographic groups driving housing demand nationally are Baby Boomers and Millennials. By 2040, the PSU Center for Population Research Center forecasts that 43% of all residents in Deschutes County will be either Millennials or Baby Boomers (graph below: orange bars represent Millennial age groups and blue bars represents Baby Boomer age groups).



Bend has long been a popular relocation destination for retirees and is increasingly a destination for young families. According to state enrollment figures, Bend-La Pine School District is one of the fastest growing school districts in the state since the Great Recession with the influx of Millennial families.

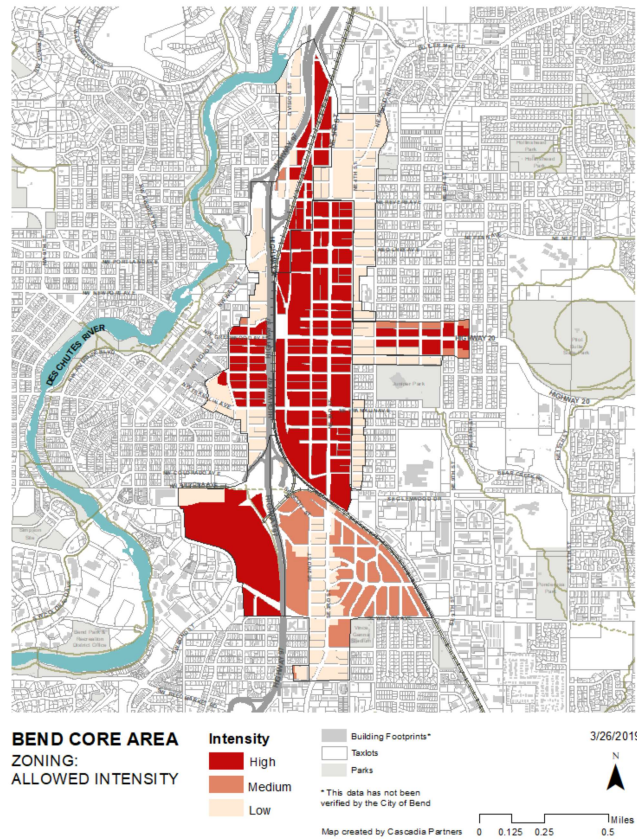
Importantly for the study area, Boomers and Millennials have a strong preference for walkable, high amenity living. Bend’s growth in these demographic groups would seem to suggest the study area is well positioned to succeed with the right mix of public and private amenities and walkable enhancements.



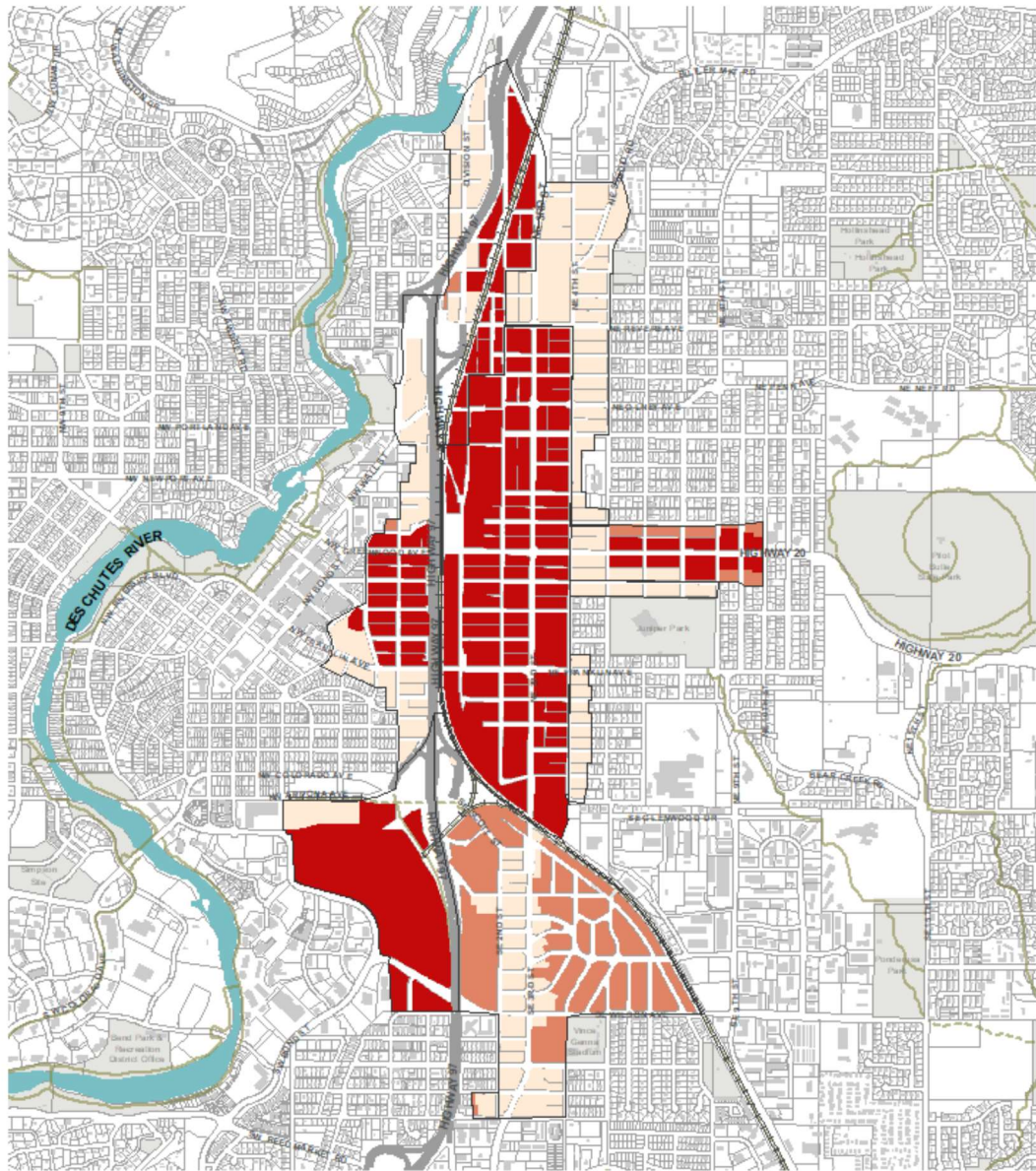
### Zoned Potential

A key factor in redevelopment potential is what someone can do with their property (zoning). Development is risky, costly and time consuming. Generally, the future use must be substantially more valuable than today's use in order to make redevelopment appealing or feasible. Increased value is typically associated with increased intensity or density of uses.

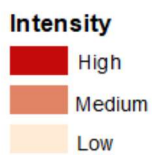
The zoning landscape is not the same across the study area. In areas like the KorPine or the Bend Central District (BCD) sub areas, where recent changes to zoning have substantially increased the intensity of what is allowed, activity and interest is highest. Whereas, in areas with more general commercial or residential zones that have not been substantially updated recently, the market interest is lower. Zoning is not the single determining factor for redevelopment, but without the right zoning, redevelopment is not likely.



**Map: Relative Allowed Intensity of Zoning**

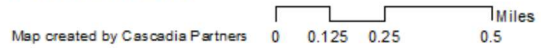


**BEND CORE AREA  
ZONING:  
ALLOWED INTENSITY**



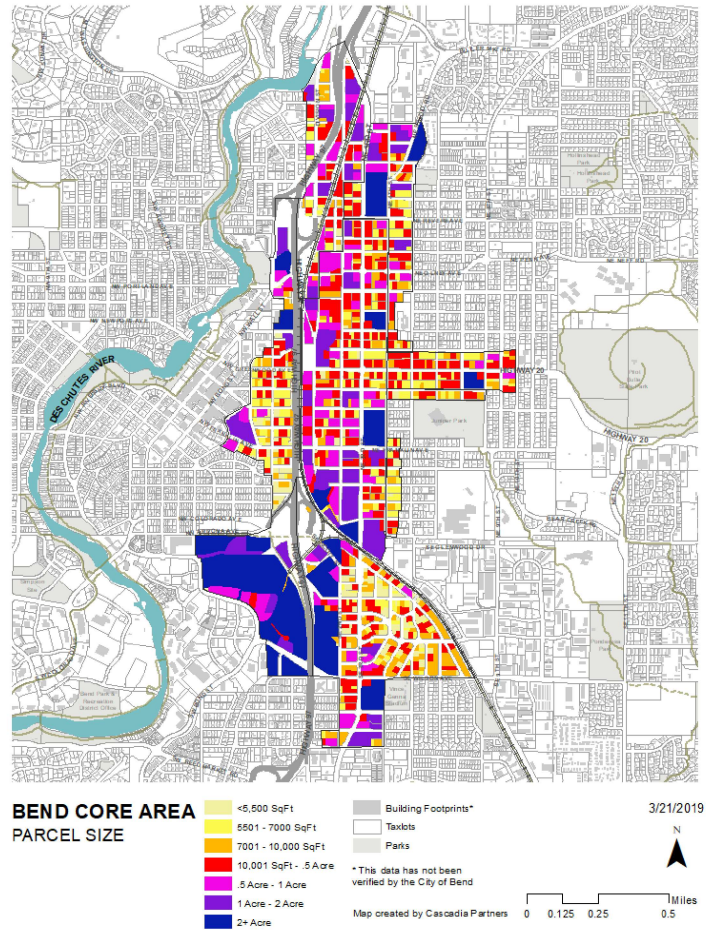
\* This data has not been verified by the City of Bend

3/26/2019



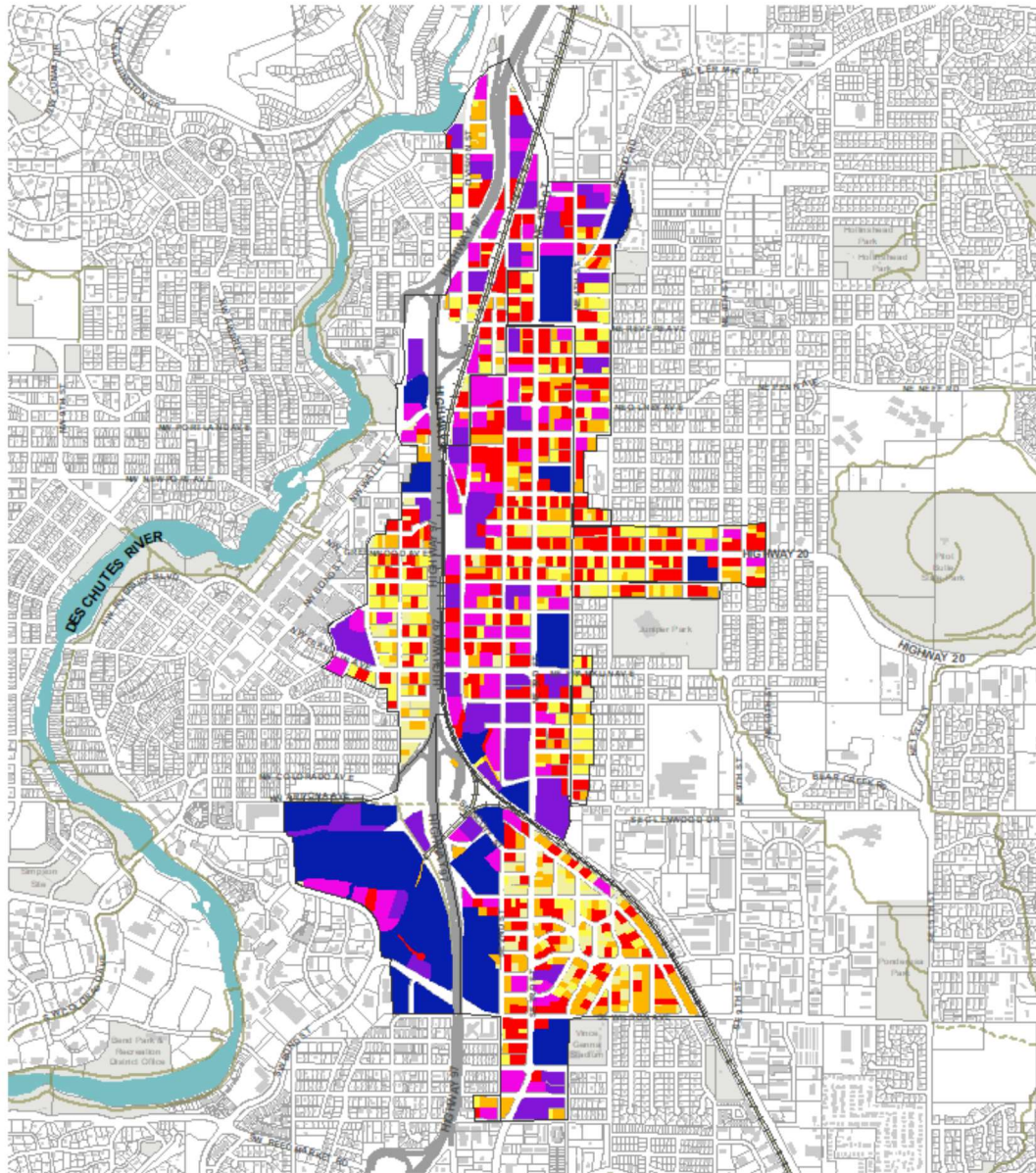
### Parcel Sizes

Parcel size is often listed in factors impacting redevelopment, and there is some level of efficiency in building construction that can be achieved on parcels over a certain size (half acre or more). More often than not, however, the real challenge in redeveloping small sites relates to zoning standards that are not compatible with smaller footprint buildings. Accommodating off-street parking is the single most significant design hurdle for small sites. In cities and neighborhoods where zoning standards have been liberalized (in particular off-street parking requirements greatly reduced or eliminated), small sites are developed far more easily and quickly.





Map: Parcel Sizes



**BEND CORE AREA**  
**PARCEL SIZE**

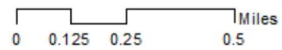
- <5,500 SqFt
- 5501 - 7000 SqFt
- 7001 - 10,000 SqFt
- 10,001 SqFt - .5 Acre
- .5 Acre - 1 Acre
- 1 Acre - 2 Acre
- 2+ Acre

- Building Footprints\*
- Taxlots
- Parks

\* This data has not been verified by the City of Bend

Map created by Cascadia Partners

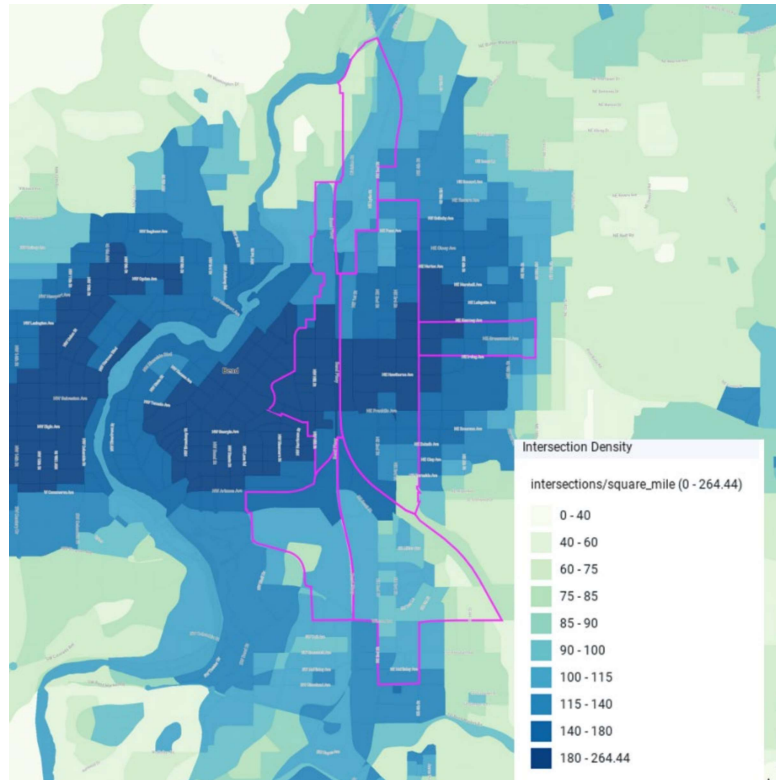
3/21/2019



## Walkability

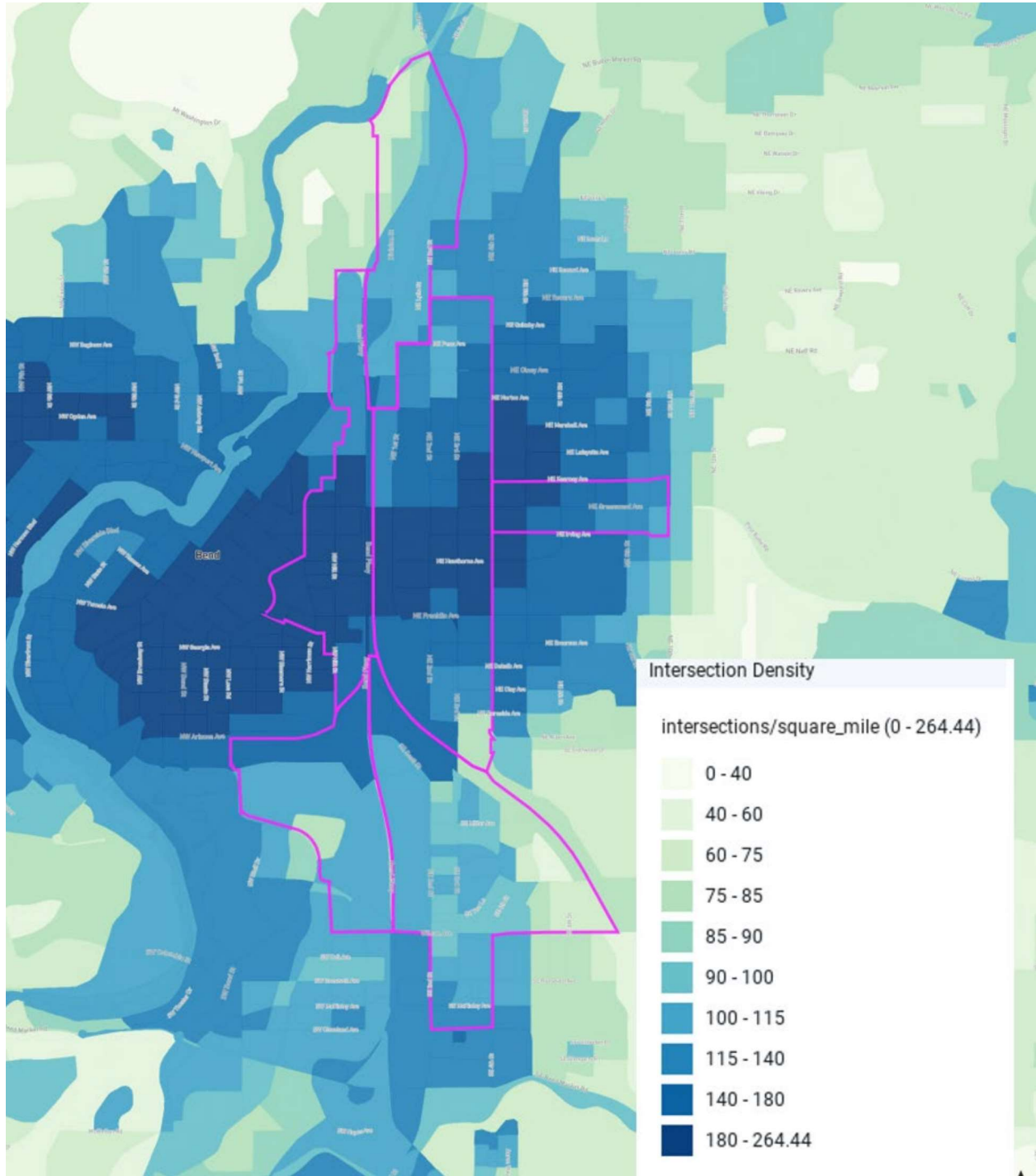
Areas with walkable and bikeable streets with limited major pedestrian barriers are more desirable than isolated and unwalkable places. As the intersection density map to the right shows, the East Downtown and BCD sub areas show up as the most well-connected areas outside of downtown and the Central Westside.

Within the close-in areas of Bend, the Central West Side and Wilson areas offer a case study comparison. Both areas have a wide range of housing types, including many missing middle types, and relatively connected internal street grids. But there are fewer sidewalks within or around Wilson and very few amenities accessible without crossing a major barrier.





### Map: Intersection Density



## Close Access to Amenities – Public and Private

Safe and easy access to major centers of activity or community anchors drives desirability and market demand. Areas close to downtown and other major community amenities, such as grocery stores, parks, trails, breweries, and neighborhood business districts, are more desirable, which translates into higher achievable rents, which results in more feasible development. Close proximity alone is not enough, the access must be safe and convenient—particularly on foot or by bike.

The Walk Score map to the right highlights that there are pockets of well-connected and amenitized areas, but they are relatively isolated from one another.

Areas that have the best access to these types of amenities are:

- **East Downtown** – short walk to downtown, not separated by major transportation barrier
- **KorPine** – close walk to many private amenities, such as Old Mill, Crux, Box Factory and a grocery store; not separated from downtown by any major transportation barriers
- **Greenwood and surrounding residential zones** – while not as strong as the two areas above, there is an emerging set of local and neighborhood business amenities on Greenwood; walking distance to Juniper Swimming and Fitness center and Pilot Butte State Park.



**Map: Walk Score**



## Ownership

The ownership of parcels can influence redevelopment potential in a variety of ways. The owner must be interested in development for redevelopment to be possible. The cost basis (or amount of money the owner has “into the land”) is important in a City like Bend where land prices have escalated rapidly in a relatively short period of time. Those owners with a low-cost basis (often long-term owners) can leverage that “land equity” into a development project. And since they are not paying current market prices for land, they are less reliant on top-end rents and less vulnerable to high construction costs compared to others just entering the market.

Sites with longstanding or low-cost basis property owners who are motivated to develop have a distinct advantage to those buying land at market rates today. The KorPine area has several such longtime/low basis and seemingly motivated land owners. The Bend Central District, East Downtown, and Greenwood are more mixed, with several recent (relatively high priced) land sales but also a mix of longtime land owners.



# DEVELOPMENT FEASIBILITY ANALYSIS

PREPARED FOR: Urban Renewal Advisory Board (URAB)

PREPARED BY: Cascadia Partners LLC

DATE: 03/22/2019

## Introduction

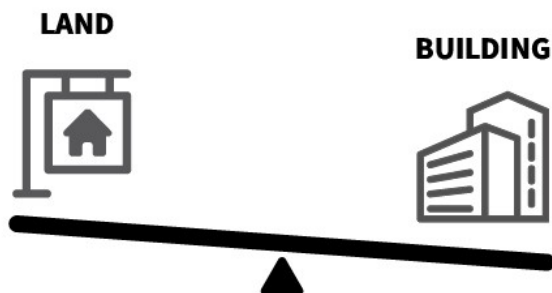
Cascadia Partners (CP) performed a market-driven assessment of current redevelopment feasibility within the Core Area Project boundary. The assessment started with a review of recent development trends within the study area (building permit data) and was informed by both the Developer Interviews and Economic Drivers Analysis that are summarized in companion memos.

The purpose of the redevelopment feasibility analysis is to determine which parcels within the study area would be likely to redevelop given a combination of current factors: land cost, the value of permitted building types (zoning) and specific locational factors, such as walkability, access to amenities and land ownership (described in more detail in the Economic Drivers memo).

Note: This assessment evaluates an area slightly larger than the Core Area Project boundary, for study purposes only. The study area for this memo includes 15 blocks located east (one block) and north around the Bend Central District subarea in order to evaluate redevelopment indicators in that area. See Appendix, Item 2 for boundary comparison map.

## The Redevelopment “Tipping Point”

Whether a parcel is likely to redevelop can be understood as a balance between the cost of land and the price a building can afford to pay for land. If the land is too expensive for a given building type, the redevelopment is unlikely to happen. If the land cost is low enough for a developer to be able to afford and still achieve the needed financial returns, the redevelopment could happen.




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*The “tipping point” balance:  
If the building is feasible and  
can afford the land, the project  
“tips” into feasible. If not,  
redevelopment doesn’t happen.*

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## Tipping Point Analysis Process

The tipping point analysis involves combining several data layers to arrive at a map of areas with likely redevelopment potential. These individual steps are described in more detail in sections below. The graphic to the right is an attempt to summarize how each of these important pieces of the analysis fit together—and result in a redevelopment potential map.

A first step is to understand the relative strengths and weaknesses of certain sub-markets within the study area. Many of these “economic drivers of redevelopment” are explored in more depth in the accompanying Economic Drivers memo. An analysis of recent permit and construction activity was conducted below and confirms many of these strengths and weaknesses.

Assessing the different zone districts and their unique standards, such as allowed intensity and required parking, allows us to build pro forma models for buildings that can be permitted within the study area. Zoning can be more or less aligned with underlying market strength. A deeper analysis of zoning-related barriers will be presented in a next phase of CP work.

The pro forma analysis allows us to estimate the maximum land price that these building types can afford to pay—which is called the “tipping point.”

We can then filter the parcels within the study area based on which are “affordable” to a given, permitted building type. The parcels that are affordable are assumed to be feasible for redevelopment—and the map of those parcels is our redevelopment feasibility map.

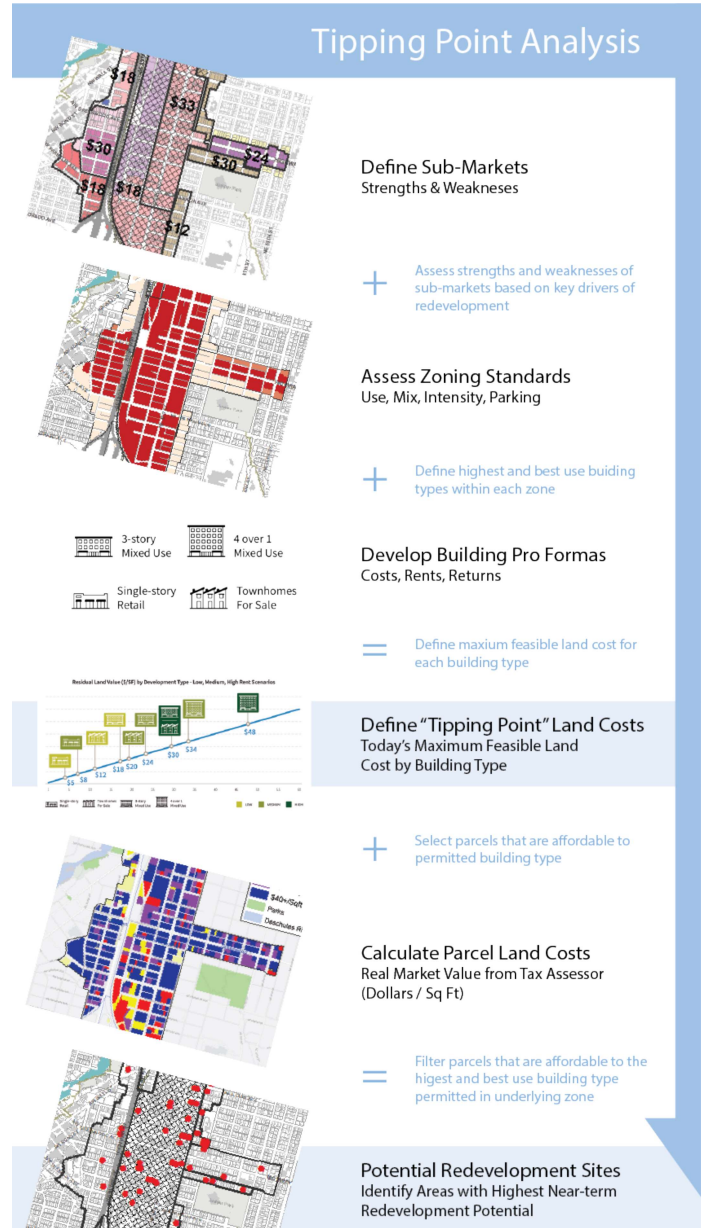
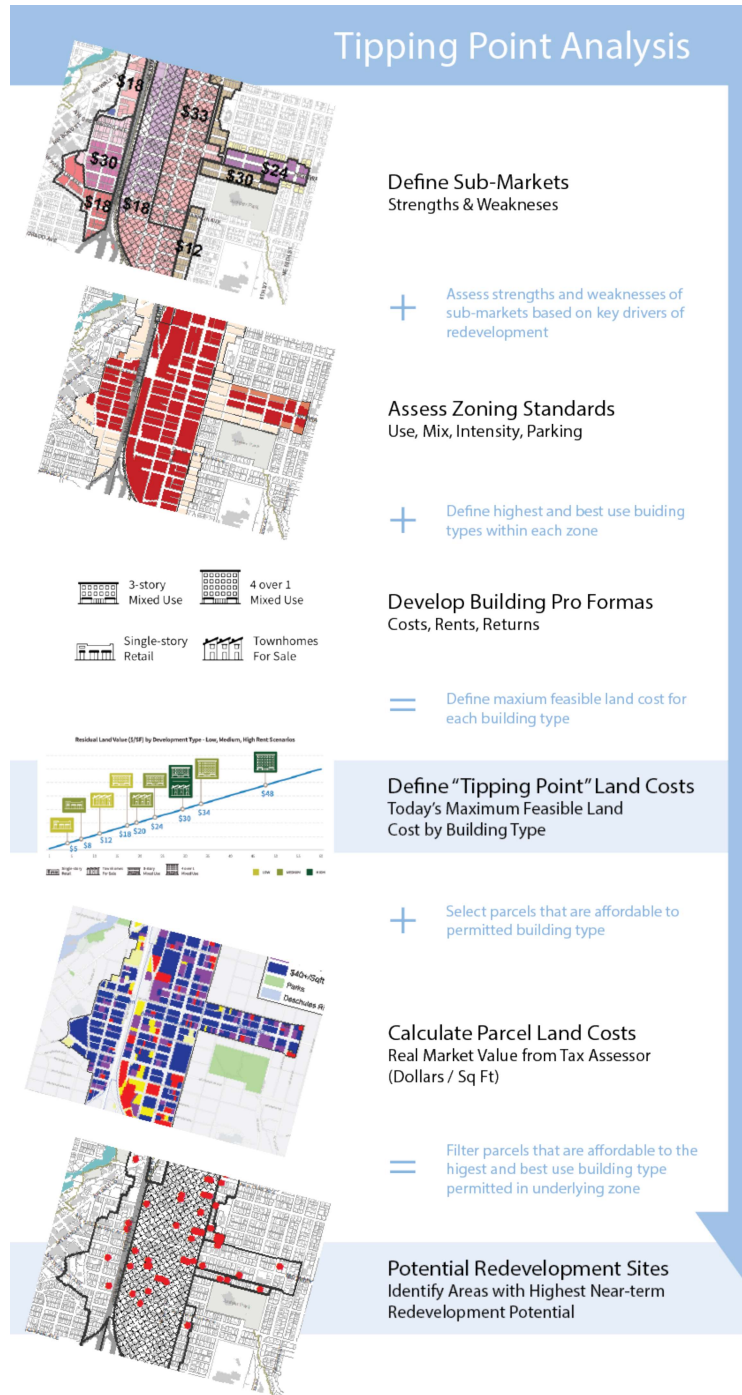


Figure: Key Steps in Tipping Point Analysis



## Analyzing Recent Construction

An analysis of permit data in the study area from 2007-2019 reveals several interesting findings.

### New “Ground-up” Construction is Limited – and Mostly Single-Story Retail

There have been relatively few new construction projects (35) within the study area since 2007, compared to 87 remodel permits. The new construction projects that have occurred are largely single-story retail buildings, often with national chain retail tenants, such as Walgreens and Jack in the Box, or owner-occupied new buildings.

The only substantial new vertical construction project is the Elemental Hotel site at the corner of NW Wall St and Olney Avenue, currently under construction.

Meetings with City planning staff indicate there are several projects in the pre-application stage that have yet to officially submit permit documents.

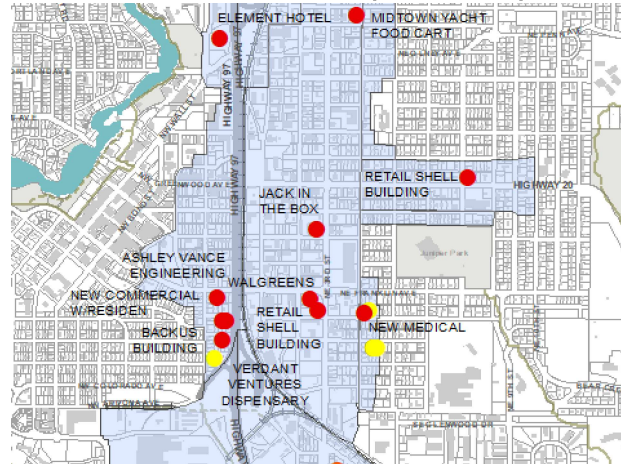
### More Investment in Remodels

Over the same period of 2007 to today, there were twice as many remodel permits than new construction permits within the study area. The study area has a large amount of older retail space. The cost to remodel is less than the cost of new vertical development.

This large amount of relatively low-cost retail space limits achievable retail rents and thus limits the viability of newly constructed retail space, except in very select locations and/or with a national tenant in-hand. Many of the remodels realized within the study area are to accommodate auto-oriented retail and service chain stores, such as fast food.

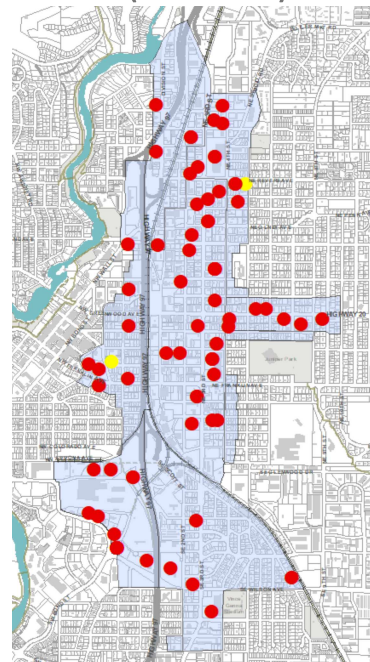
The viability of residential can help tip the scales of feasibility of vertical mixed-use, by helping to overcome relatively low retail rents, but that is only beginning to happen and only in areas with zoning that supports more dense building forms

### New Construction Permits (2007-2019)



See larger image below

### Remodel Permits (2007-2019)



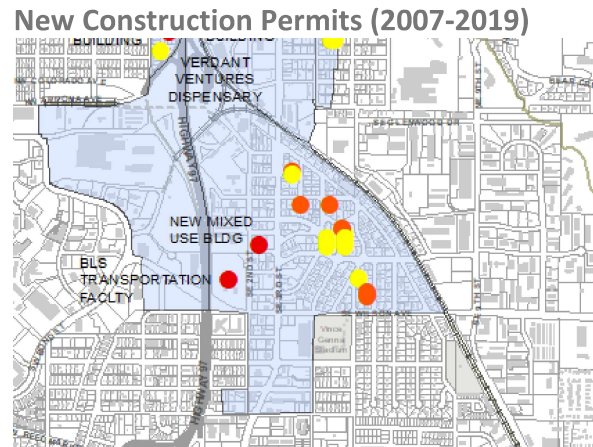
See larger image below

(e.g. Urban Mixed Use). Building permits for true mixed-use development are being processed in other higher amenity parts of the City, such as the Central West Side.

### Wilson Area Seeing Mostly Single Family (Re)development

Of the 14 new construction permits issued in the Wilson area since 2007, 9 were for single family homes. Only 5 were for duplexes. The orange dots to the right represent new duplex permits, while the yellow dots represent new single-family permits.

The zoning in Wilson technically allows multifamily, duplex and triplex dwellings, but the combination of parking and FAR limits greatly diminish the potential for this type of “missing middle” housing construction. Single family and some duplex buildings are the most likely outcome. The townhome building type used in this analysis is not viable in this area. The risk of a continuation of the single family (re)development is that the low-cost housing stock in this area will begin to disappear being replaced on a 1-to-1 basis with relatively expensive single-family homes.



*See larger image below*

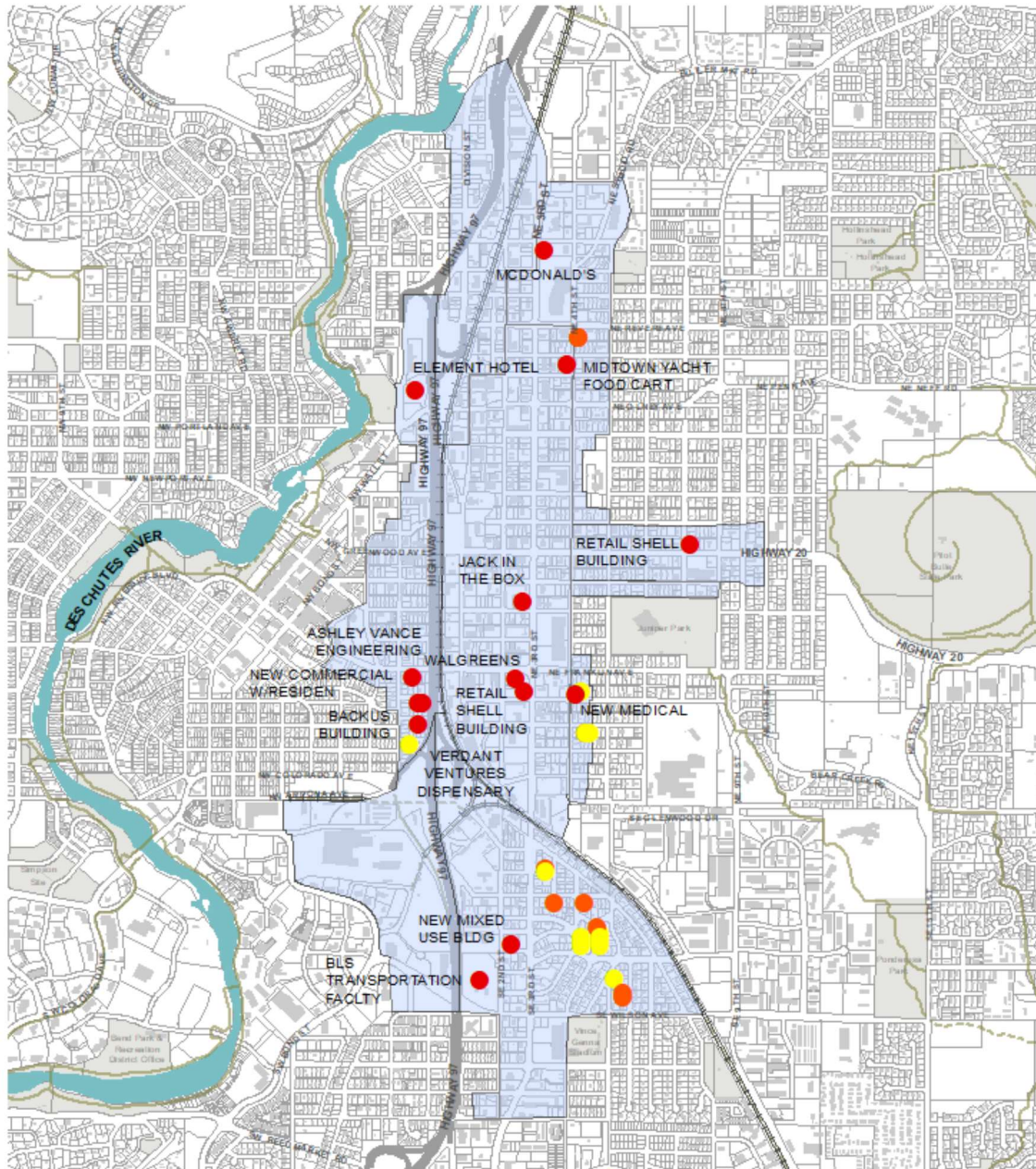
### Conclusions – Recent Construction

The study area is experiencing significant investment, but mostly in the form of remodels of existing retail spaces and some newly constructed single-story retail. Construction of new mixed-use buildings is not yet widespread. This would suggest that the area does not yet have all the ingredients necessary to enable mixed-use buildings to be financially viable—or to “tip.” However, there are indications from planning staff and interviews with land owners and developers of increased interest in vertical mixed-use development within the study area.

Pairing the conclusions of this analysis with those summarized in our Developer Interview Memo and the Economic Drivers Memo, we conclude that a focus on infrastructure upgrades (placemaking and streetscape enhancements) and zone standard changes could make the feasibility of mixed-use development a reality.



**Map: New Construction Permits (2007-2019)**

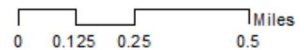


**BEND CORE AREA  
NEW CONSTRUCTION  
2007-PRESENT  
OVER \$100,000**

- Commercial
- Residential Attached
- Residential Detached
- Study Area
- Building Footprints\* 3/12/2019
- Taxlots
- Parks

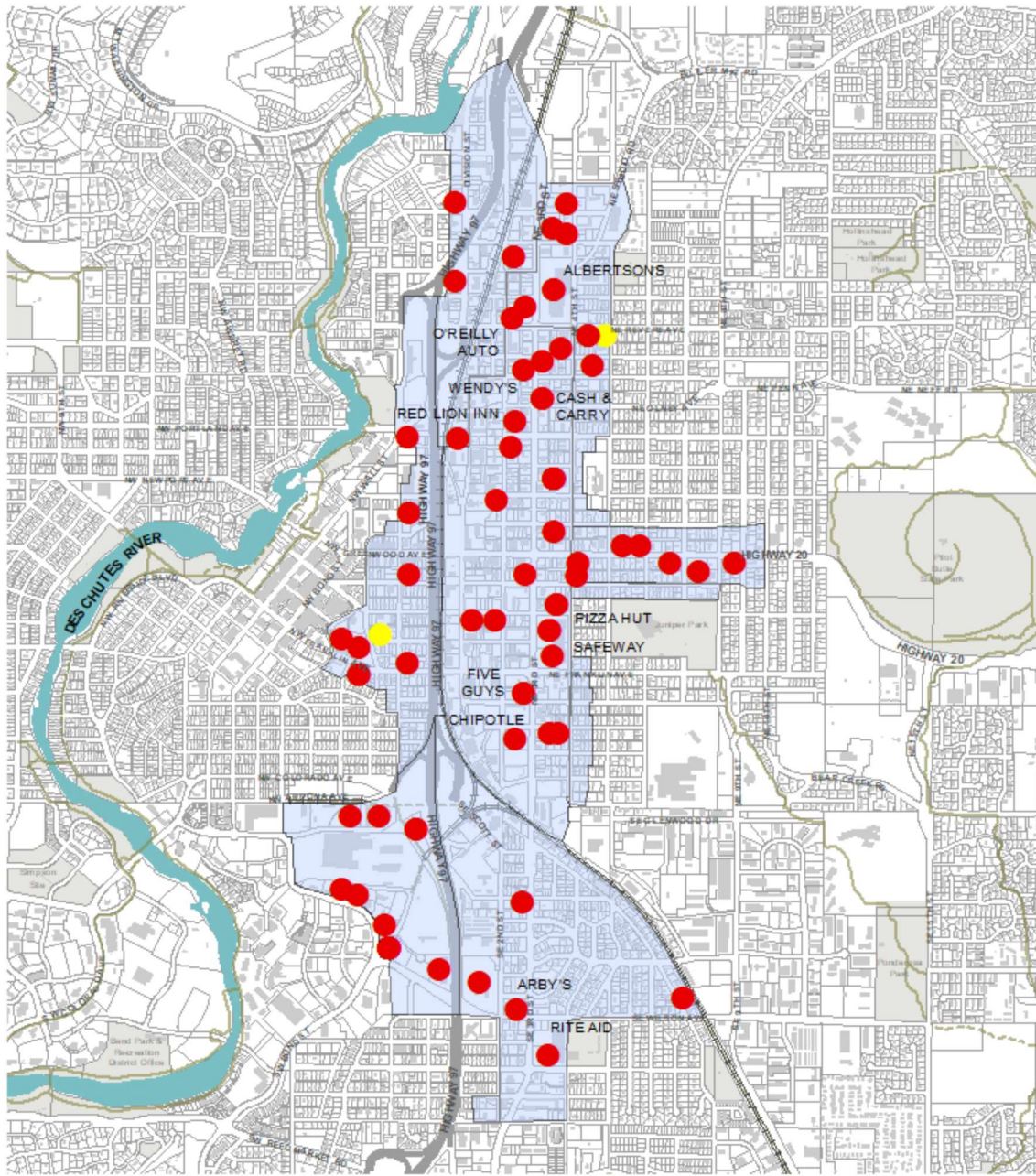
\* This data has not been verified by the City of Bend

Map Prepared by Cascadia Partners





Map: Remodel Construction Permits (2007-2019)

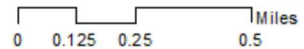


**BEND CORE AREA**  
**REMODELS 2007-PRESENT**  
**OVER \$100,000**

- Commercial
- Residential
- Study Area
- Building Footprints\* 3/12/2019
- Taxlots
- Parks

\* This data has not been verified by the City of Bend

Map Prepared by Cascadia Partners

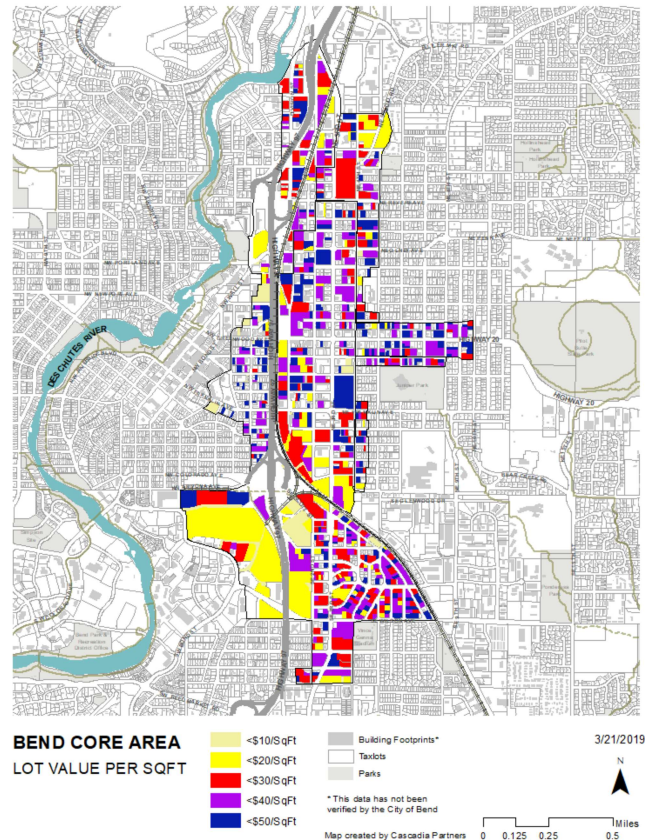


## Defining Land Cost

The Deschutes County Tax Assessor maintains a parcel-based dataset of Real Market Values (RMV) for all property within Deschutes County, including within the City of Bend and CAP study area, excluding publicly owned properties not subject to property taxation. For this analysis, we used this RMV as the assumed “purchase price” for parcels. We derived an average dollar per square foot of “cost” by dividing the Total Real Market Value (of buildings and land) by the lot square footage.

While the RMV from Tax Assessor data is the best available data, it has limitations. The RMV is not a formal appraisal and the amount someone is willing to pay for land depends, in part, on their unique circumstances, such as their cost of capital or tax liabilities.

The map to the right and below display the study area parcel costs colored by RMV per square foot (less than \$10 and \$20 per square foot respectively). The red parcels represent \$20-30 per square foot, purple are \$30-40, and the blue are above \$40. One can see that there are many small parcels with values at or above \$40 per square foot. As the next section of this memo explains, that is a relatively high cost for most buildings to pay for land.

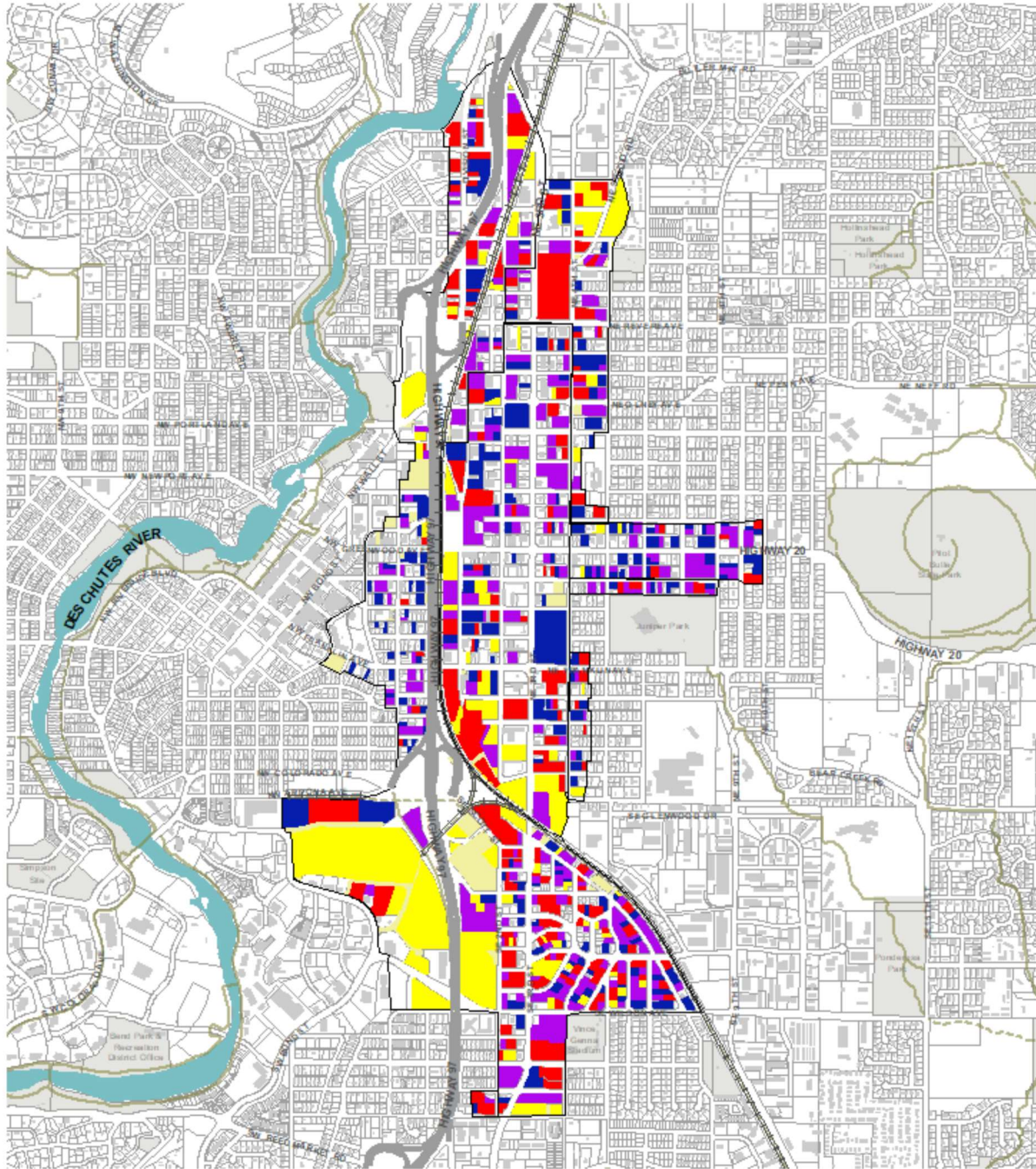


### Key Notes and Assumptions

- Publicly owned lands and parcels with no Real Market Value listed were excluded from this analysis.
- Condominium sites are represented as many small parcels within the parcel dataset, and the data is not compatible with this analysis and was not used – they are high value and unlikely to redevelop anyway.
- Several duplicate parcels exist in the study area – we did not “clean” up the data and remove these parcels since it does not appear to be a widespread issue but is worth noting.



**Map: Total Value per Square Foot of Lot Area (Square Feet)**



**BEND CORE AREA  
LOT VALUE PER SQFT**

- <\$10/SqFt
- <\$20/SqFt
- <\$30/SqFt
- <\$40/SqFt
- <\$50/SqFt

- Building Footprints\*
- Taxlots
- Parks

\* This data has not been verified by the City of Bend

3/21/2019



Map created by Cascadia Partners 0 0.125 0.25 0.5 Miles

## Defining a Building's "Tipping Point" for Land Cost

The key assumption in a tipping point analysis is that redevelopment is only likely on parcels that are affordable for a developer to pay and still achieve their financial return objectives. In other words, if it is too expensive to purchase and redevelop a parcel and still make an acceptable return, then that parcel is unlikely to be redeveloped.

The "tipping point" value is not static but varies based on the desirability of a given location (the achievable rents) and the type of buildings allowed by zoning. For example, a parcel with high visibility, a pleasant pedestrian environment and with easy access to nearby amenities is likely desirable and can likely achieve relatively high retail and residential rents. If the zoning of that parcel also allows both retail and residential in a cost-effective building form, that could allow a developer to pay a relatively high land cost. However, if the zoning is not well aligned with the market and allows only retail or industrial development, or requires high levels of costly on-site parking, a developer is greatly limited in their ability to pay high prices for land.

The maximum dollar amount for land that a given building can afford to pay is known as the "tipping point." Under that cost, the parcel is assumed to be redevelopable. Above that cost, a parcel is assumed not to be redevelopable.

### Limits of Estimating Redevelopment

Whether a parcel redevelops or not is dependent on many factors, several of which are impossible to quantify in this type of analysis. Ultimately land owners control the destiny of parcels, no matter how strong the market is. For instance, each owner has unique motivations, financial constraints, tax liabilities, etc. For the purposes of this analysis, we must assume all property owners act "rationally" and decide to redevelop when it would appear to make financial sense.

### Building Library for Analysis – Pro Formas

CP developed four pro forma models for a representative range of likely building types. These models are used to establish the range of maximum land prices that could be paid by different building types. CP also modeled a high, medium and low "market strength" version of each building. Several zone districts cover subdistricts that have higher or lower market strength. These different submarkets are assumed to have higher or lower achievable rents. Certain building types, such as the mixed-use types, are not permitted in all zones within the study area. In the analysis, buildings were only paired with parcels on which they could be permitted under today's zoning.

### Buildings Based on Today's Zoning

It is important to note that these building pro formas conform to existing zoning standards. There are code-related challenges within several of the zone districts within the study area that reduce the land price. CP will be producing a more detailed assessment of zoning-related barriers in a future phase of work, but below are a few examples of key zoning-related issues identified thus far.

- MU, BCD zones are most flexible, especially in height and parking
- Small sites are still impacted by on-site parking and certain ground floor use restrictions

- ME has prescriptive land use limits in vertical mixed-use that make vertical mixed-use challenging
- MR has a relatively restrictive maximum height (45')
- RH works for small lot single family and townhomes, but not well for multiunit buildings even though permitted due to low density limits and high parking
- RM works for small lot single family, but not for 2-3 unit buildings even though permitted also due to low density limits and high parking
- CG, CL, IL is furthest from market-feasible due in part to high parking, front setbacks, and no horizontal mixed-use allowed

## Building Types

Below is a description of each building type and a graph showing how much land cost the different market-strength versions of these buildings can afford to pay. Table 1 lists the types of buildings or uses that were tested in each zoning district.

- **Mixed-Use 5-story:** 5-over-1 podium style construction is a relatively cost-effective type of vertical mixed-use building. This type of building is allowed and technically feasible within the BCD and MU zone districts. There are current zoning standard challenges that make this type of building very difficult to permit within the CL and CG zones. For instance, front setbacks and high parking standards limit the feasibility of vertical mixed-use projects in these commercial zones.
- **Mixed-Use 3-story:** 3 story mixed-use buildings have a few advantages in medium strength market areas. First, they can be constructed fully with wood frame (cost effective) and they can be surface parked (instead of structured parking) in areas with relatively low parking standards.
- **Townhomes:** Two versions of for sale townhome pro formas were created: low and medium strength versions. Home sale prices in Bend are very strong and townhomes are feasible to be built in the RH zones on the east side of the BCD where residential sales prices have been escalating rapidly in recent years.
- **Stand-alone Retail:** For stretches of 3<sup>rd</sup> Street outside of the BCD overlay area, the streetscape and other amenities limit the viability of residential uses. Retail rents are also relatively low and there is ample existing building area that is cheaper to rent, compared to potential rental or sales values of new construction. These building types have low relative tipping points.

## Residual Land Value

The term “residual land value” used in the graph below is a real estate industry term that refers to the value of a given piece of land based on the development potential. Land that has a higher development potential, where a developer can pay more for the land and still achieve their financial return goals, has a higher residual land value.

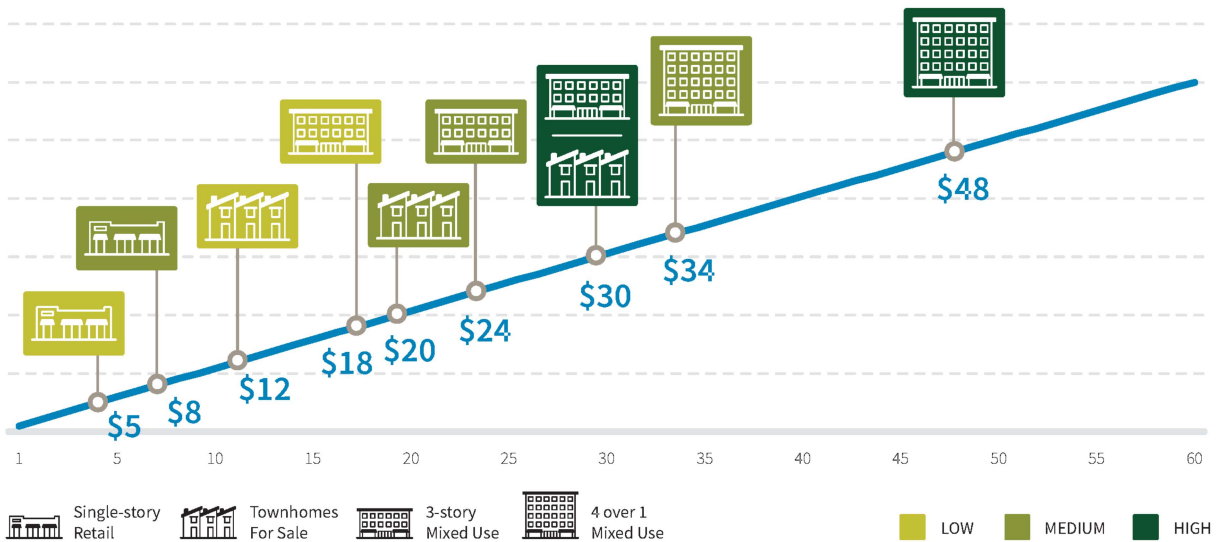


**Table 1: Building Types Tested in Each Zoning District**

Zone Districts	Tested Building Types			
	Townhome - For-sale	Hwy Retail	Mixed-Use - 3 Story	Mixed-Use - 5 Story
BCD				
MU				
CB				
ME				
MR				
CG				
CL				
RH				
RM				

**Graph: Maximum Feasible Land Price by Building Type**

Residual Land Value (\$/SF) by Development Type - Low, Medium, High Rent Scenarios



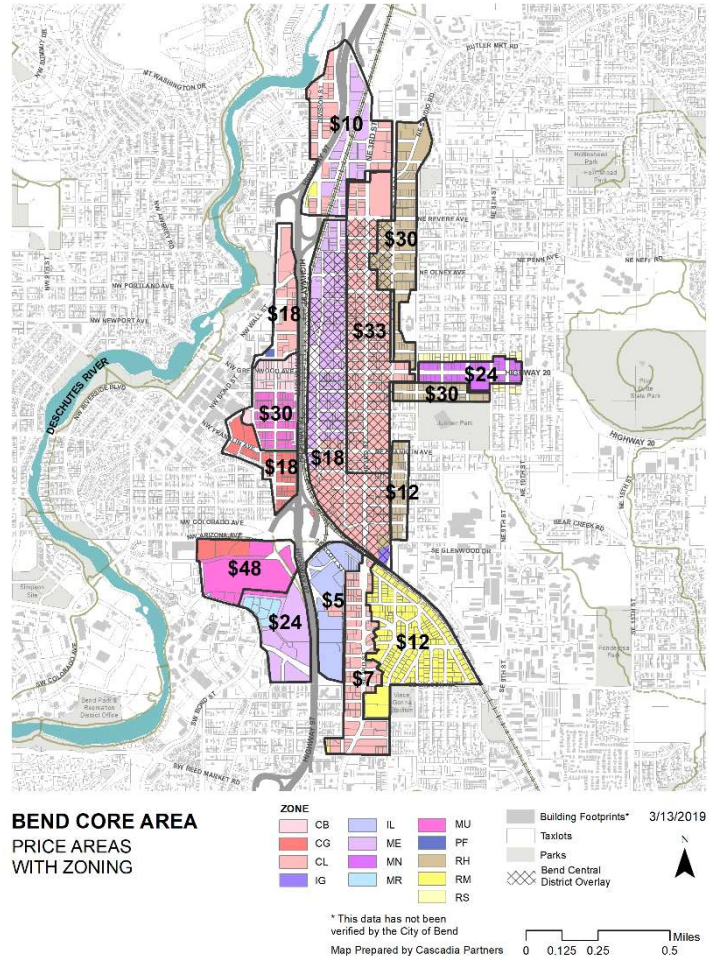
## Defining Sub-Area Market Strength

The market strength is not created equally across the project area. Nor is the viability of residential vs. retail the same across the project area.

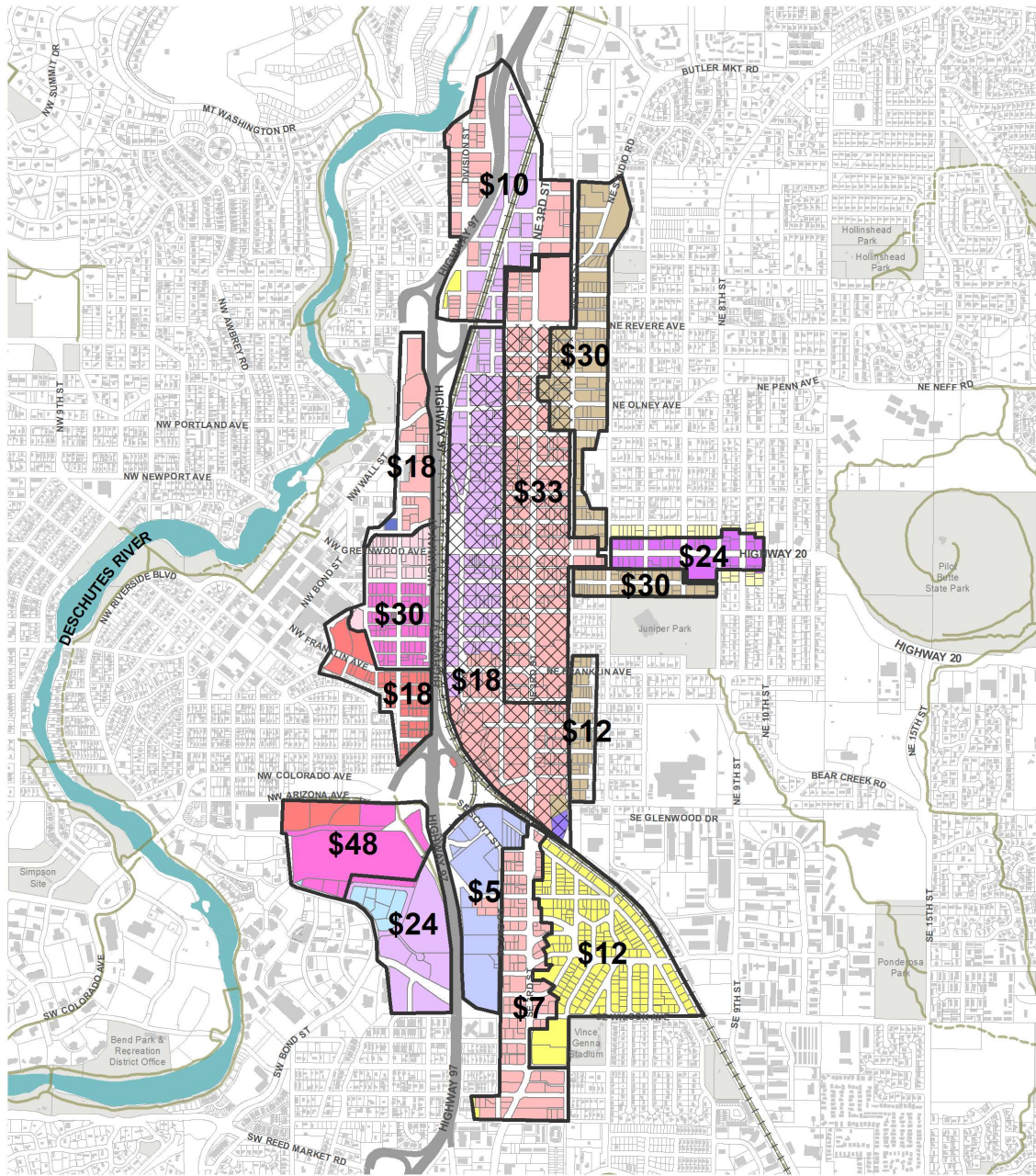
The zone districts impact the viability of development but other characteristics, such as walkability to amenities both public and private, also influence feasibility.

For the purposes of this analysis we have divided the study area into sub-markets that were relatively strong or weak candidates for retail and residential. According to several developers interviewed, speculative office development is not feasible in any large areas outside of downtown proper although they are allowed and envisioned in the future in some of the sub-area planning documents (e.g., the BCD).

The map to the right and below shows the sub-markets and the maximum dollars per square foot of land cost that new buildings could afford to pay and be viable. The range of maximum land costs are quite wide, between \$5 and \$48 per square foot, which represents the wide range of building types that are of highest and best use in these areas. The land costs shown are related to the building types described in the previous section, including those tested in each zone, as summarized in Table 1.



**Map: Maximum Land Price for Feasible Development by Submarket Overlayed on Current Zoning**

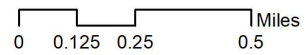


**BEND CORE AREA  
PRICE AREAS  
WITH ZONING**

<b>ZONE</b>	<table border="0"> <tr> <td></td> <td>CB</td> <td></td> <td>IL</td> <td></td> <td>MU</td> </tr> <tr> <td></td> <td>CG</td> <td></td> <td>ME</td> <td></td> <td>PF</td> </tr> <tr> <td></td> <td>CL</td> <td></td> <td>MN</td> <td></td> <td>RH</td> </tr> <tr> <td></td> <td>IG</td> <td></td> <td>MR</td> <td></td> <td>RM</td> </tr> <tr> <td></td> <td></td> <td></td> <td>RS</td> <td></td> <td></td> </tr> </table>		CB		IL		MU		CG		ME		PF		CL		MN		RH		IG		MR		RM				RS			<table border="0"> <tr> <td></td> <td>Building Footprints*</td> <td>3/13/2019</td> </tr> <tr> <td></td> <td>Taxlots</td> <td></td> </tr> <tr> <td></td> <td>Parks</td> <td></td> </tr> <tr> <td></td> <td>Bend Central District Overlay</td> <td></td> </tr> </table>		Building Footprints*	3/13/2019		Taxlots			Parks			Bend Central District Overlay	
	CB		IL		MU																																							
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	Bend Central District Overlay																																											

\* This data has not been verified by the City of Bend

Map Prepared by Cascadia Partners





## Results Highlights

The results of the analysis show that based on today's zoning and submarket strengths and weaknesses, a current low-to-moderate level of redevelopment potential across most of the study area. For an expanded description of analysis methodology, please see Appendix, Item 3.

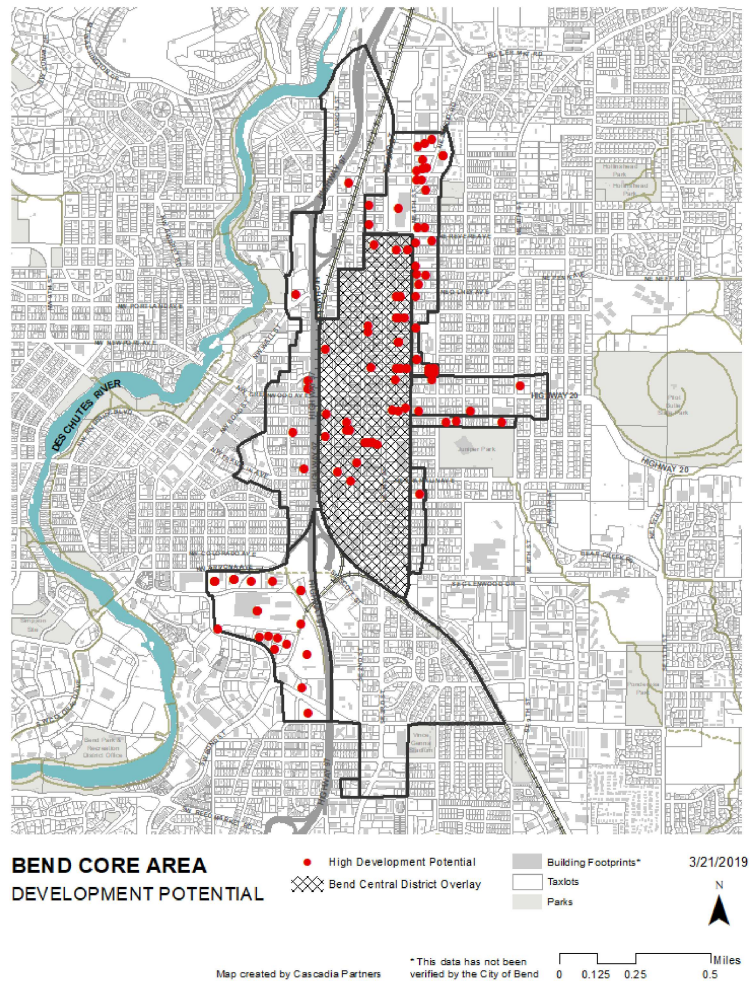
This analysis makes no assumption about the timing of this redevelopment. There are no assumed absorption rates or other limiting factors. These parcels are assumed to have near-term redevelopment potential, however, the owners ultimately control that decision.

It is important to note a few reasons for this low-to-moderate result: many parts of the study area have poor infrastructure, such as streets that are not walkable or bikeable, and zoning districts or specific zoning standards that limit redevelopment.

Redevelopment potential is concentrated around KorPine, the BCD and some RH parcels around Greenwood. KorPine shows the greatest redevelopment potential because it is a strong submarket for both residential and retail and there are several large parcels with low "cost."

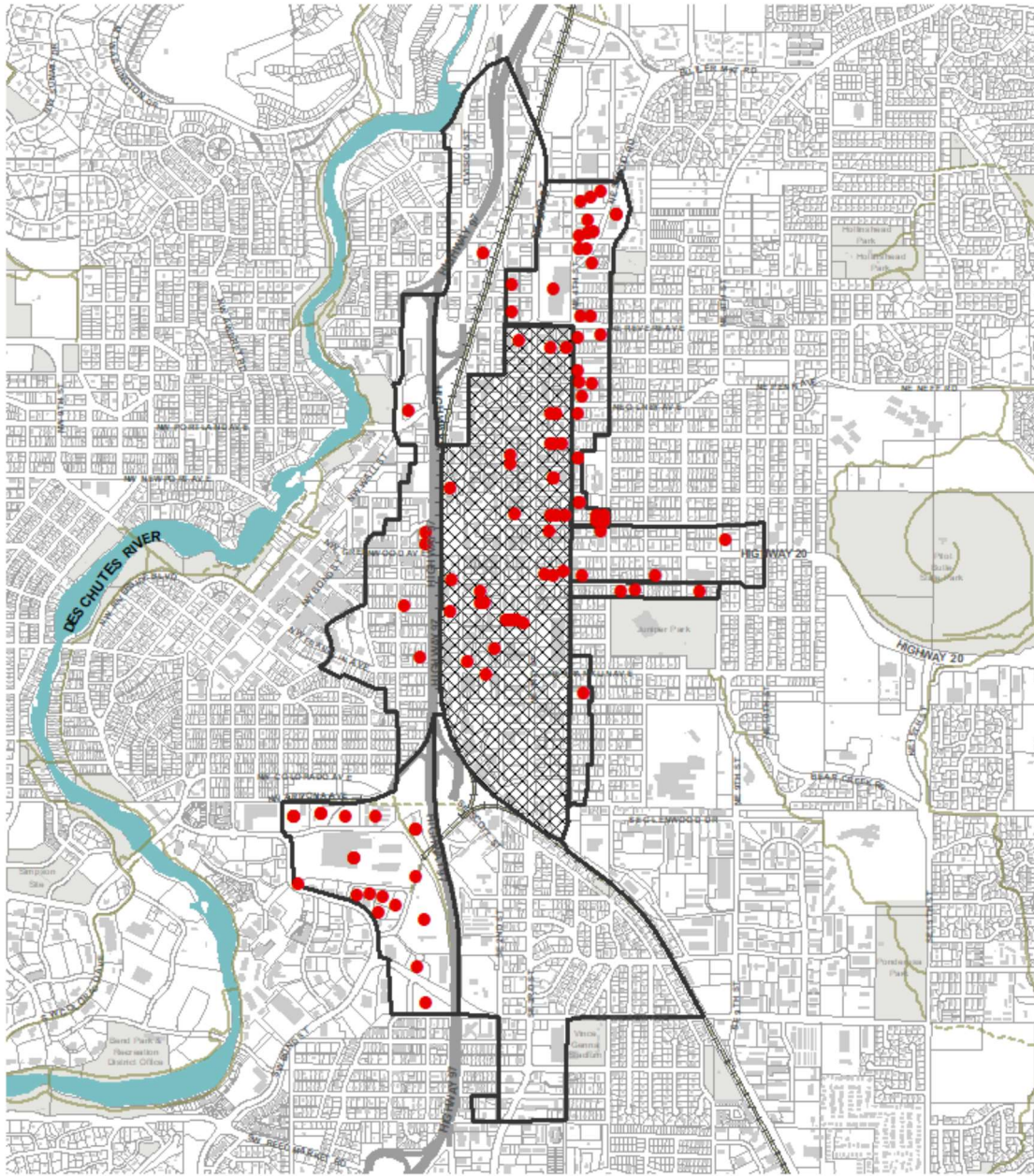
The BCD redevelopment potential is more scattered currently. Tweaks to the current zoning standards would strengthen the redevelopment in this area. In particular, changes that make the redevelopment of small sites more financially feasible would have an impact here—and in other highly parcelized areas such as East Downtown and Greenwood.

With a few exceptions, areas around 3rd north and south of the BCD are more challenging market areas. The streetscapes are hostile to pedestrians and make residential development challenging, requiring more significant investment in streetscape improvements and other infrastructure to make redevelopment feasible. The zoning is also not as liberal or flexible as other areas. Connectivity to downtown and other community amenities is lacking.





**Map: Parcels with Redevelopment Potential Assuming Today's Costs, Zoning and Amenities**



**BEND CORE AREA  
DEVELOPMENT POTENTIAL**

- High Development Potential
- ▨ Bend Central District Overlay

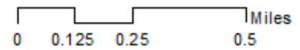
- Building Footprints\*
- Taxlots
- Parks

3/21/2019

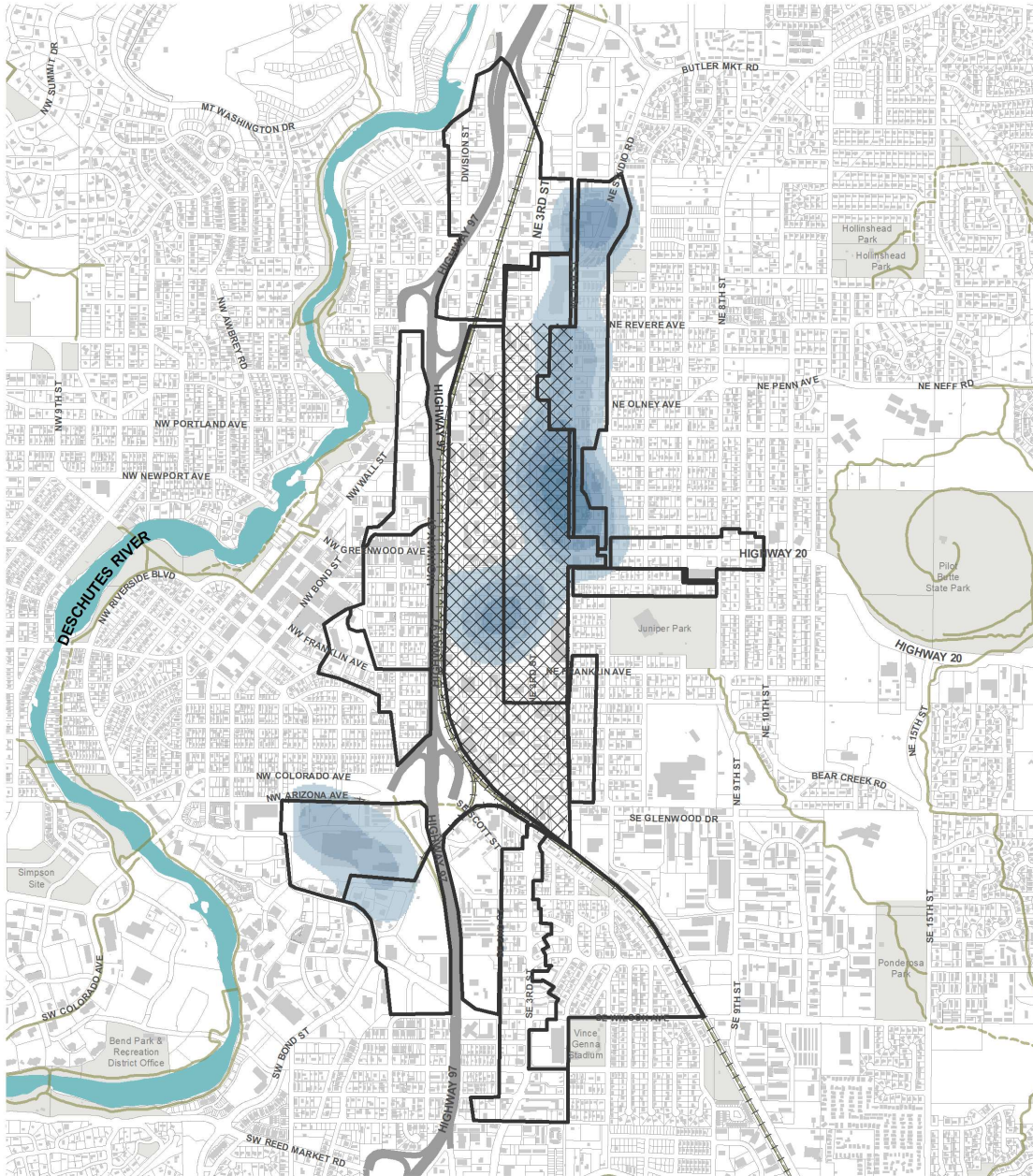


Map created by Cascadia Partners

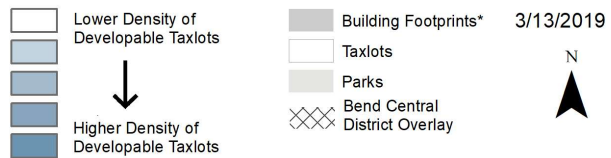
\*This data has not been verified by the City of Bend



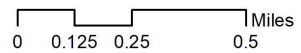
**Map: Heat Map of Areas of Parcels with High Development Potential**



**BEND CORE AREA  
DEVELOPMENT  
POTENTIAL**



\* This data has not been verified by the City of Bend  
Map Prepared by Cascadia Partners





## Near Term Redevelopment - By the Numbers

The table below summarizes and compares the rates of redevelopment across the different sub-market areas. Of note is that with current high construction costs, only the most desirable places (i.e.- strongest sub-markets) are seeing any substantial redevelopment. And even in those areas, not everything is feasible.

Residential Market Strength	Retail Market Strength	Building Type	Tipping Point	Total Parcels	(Re)developable Parcels	Percent
Low	Low	Hwy Retail	\$5/sq ft	29	-	0.0%
Low	Low	Hwy Retail	\$7/sq ft	181	-	0.0%
Low	Medium	Hwy Retail	\$10/sq ft	124	1	0.8%
Low		Townhome - For-sale	\$12/sq ft	310	1	0.3%
Medium	Low	Mixed-Use - 3 Story	\$18/sq ft	340	11	3.2%
Medium	High	Mixed-Use - 3 Story	\$24/sq ft	89	13	14.6%
High	Medium	Mixed-Use - 3 Story	\$31/ sq ft	139	5	3.6%
High		Townhome - For-sale	\$30/ sq ft	207	39	18.8%
Medium	High	Mixed-Use - 5 Story	\$33/ sq ft	223	28	12.6%
High	High	Mixed-Use - 5 Story	\$48/sq ft	24	18	75.0%
Entire study area				1,666	116	7.0%

## What If This Process is Successful?

Let's assume for a moment this CAP process is successful at bringing infrastructure investments and policy changes to all of the submarkets within the study area. This would mean the entire study area would achieve a high level of "desirability" and market feasibility. How might that change the development feasibility map?

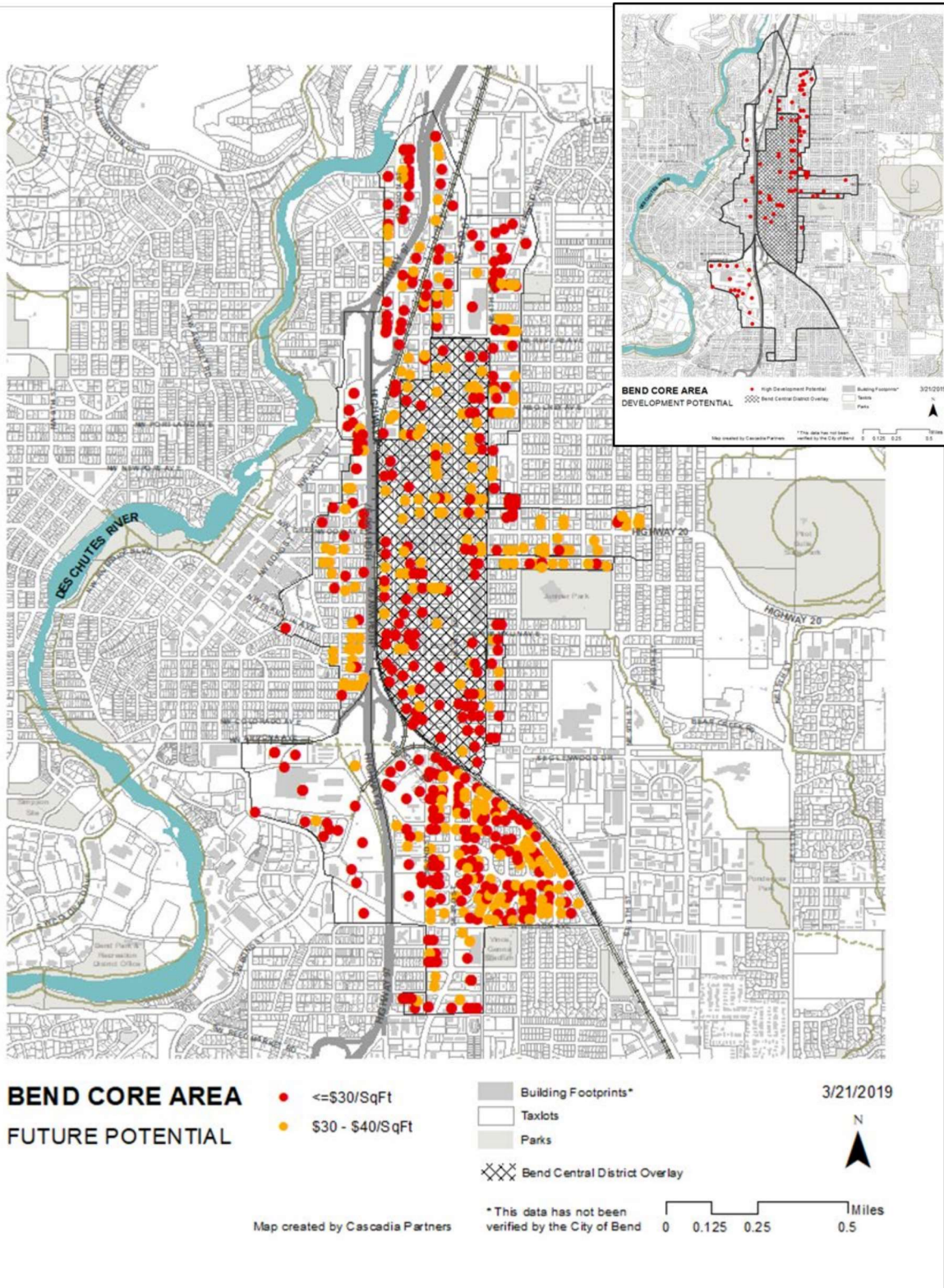
As detailed in earlier sections of this memo, most of the modeled building types have a "tipping point" land cost of below \$30 per square foot. Only two building types able to pay over \$30 per square foot in land cost. As a result, we have prepared a hypothetical future redevelopment feasibility map that shows parcels less than \$30 per foot and \$30-40 per square foot. Parcels with a current value of \$30-40 per square foot could be possible to redevelop but are on the far upper end of our "tipping point" spectrum and thus we decided to create two categories. In the map below, we have colored all parcels at or below \$30 per square foot dark red to indicate likely redevelopment, and those \$30-40 per square foot are colored orange to indicate possible redevelopment.

## Conclusions

Two important lessons emerge from this analysis and the key findings identified in the accompanying Developer Interview and Economic Drivers memos. First, investments in safe walkable streets, amenities like parks and plazas, and comfortable and convenient connections to other dynamic areas greatly strengthens the underlying desirability and achievable rents in an area. Second, aligning the zoning with the market potential is critically important. If zoning standards are limiting redevelopment and investment, public investments in infrastructure and place-making elements are much less likely to catalyze substantial new investment. These are the two most important public strategies to align and fine tune in order to "prime the pump" in these opportunity areas.



### Map: Potential Future Redevelopment Feasibility Map, with Map of Today's Redevelopment Feasibility as inset

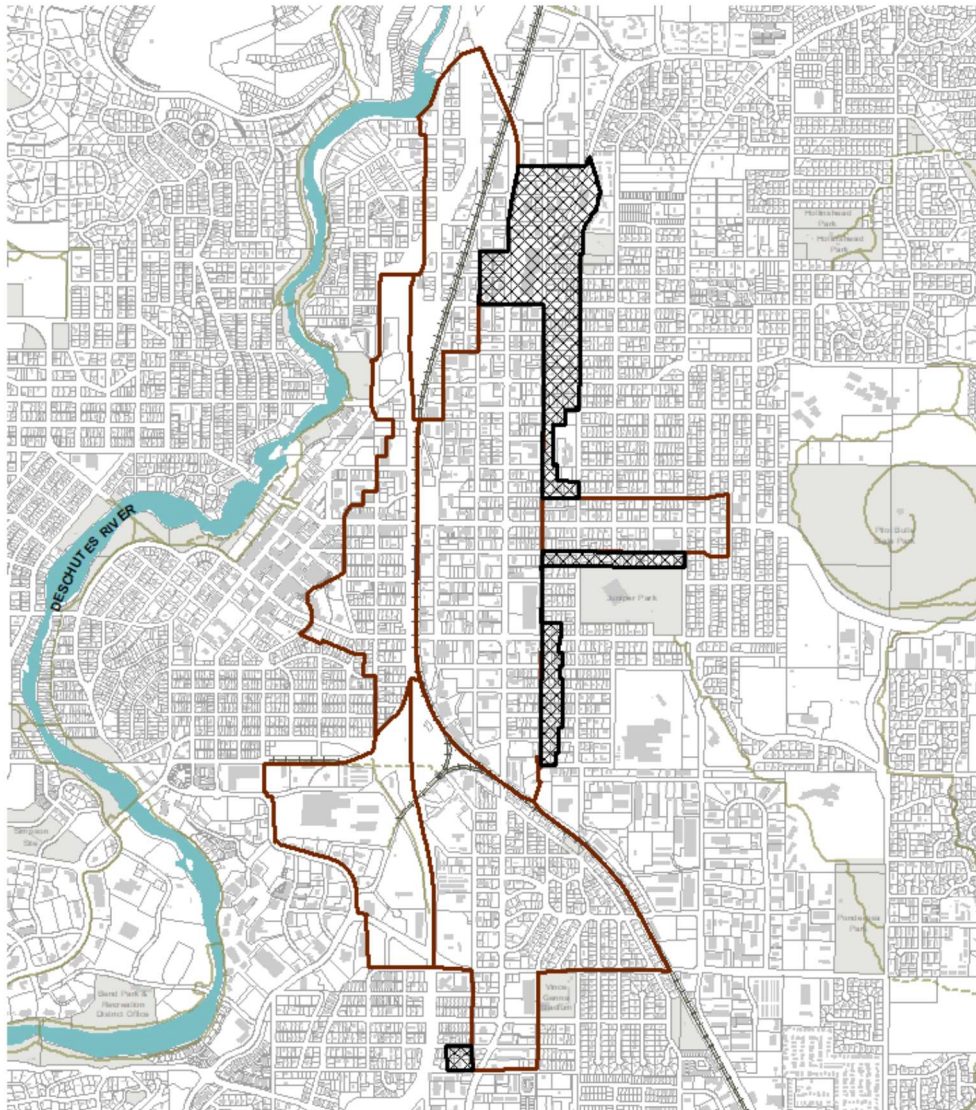


## Appendix

### Item 1: Key Terminology

- *Residual Land Value*: the value of land based on what is feasible to build on it. For the purposes of this analysis, it is the amount a developer is able to pay for land given the assumed value of the development, the assumed project costs, and the developer's desired profit.
- *Real Market Value*: a prediction of the price your property would sell for in a transaction between a willing buyer and a willing seller.
- *Tipping Point*: the maximum land price point that a developer could feasibly pay for a building type
- *Pro Forma*: a multi-part assessment projecting the financial return a development is likely to make when operating at peak efficiency
- *Building Typology*: a classification of building types according to their similarities for the purposes of our study

# Item 2: Boundary Addition for Analysis Purposes



## BEND CORE AREA BOUNDARIES

- Study Area Boundary
- Analysis Boundary Expanded Area

- Building Footprints\*
  - Taxlots
  - Parks
- 3/25/2019
- N
- 

Map created by Cascadia Partners      \* This data has not been verified by the City of Bend      0 0.1 0.2 0.4 Miles



## Item 3: Development Potential Methodology

### Parcel “Land Value” Data

Deschutes County Property Tax assessor parcel data in Geographic Information Systems (GIS) format was used to derive the assumed land value used in this analysis. Specifically, CP used the Real Market Value (RMV)<sup>1</sup> data maintained by the Assessor for each parcel.

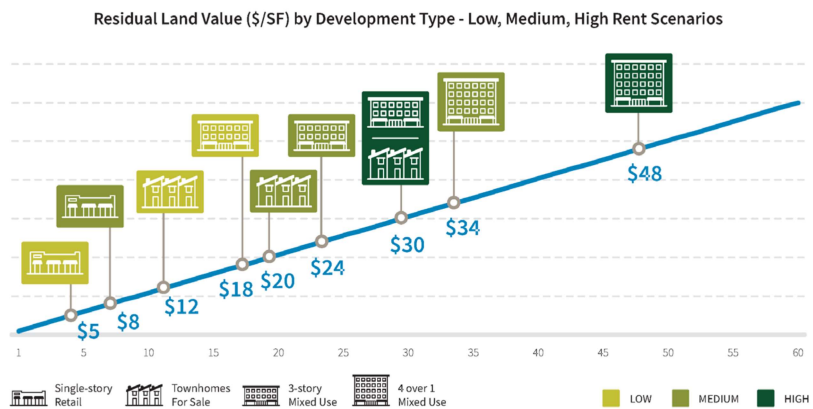
The price per square foot of land was calculated by dividing the Real Market Value by the property square footage. This value is used in this analysis as a proxy for “purchase price” to be compared against the building type pro formas we developed to determine which parcels could have redevelopment feasibility.

#### Key notes and assumption:

- Publicly owned lands and parcels with no Real Market Value listed were excluded from this analysis
- Condominium sites are represented as many small parcels within the parcel dataset, and the data is not compatible with this analysis and was not used – they are high value and unlikely to redevelop anyway.
- Several duplicate parcels exist in the study area – we did not “clean” up the data and remove these parcels since it does not appear to be a widespread issue but is worth noting

### Building Pro Formas

CP developed several building pro formas to establish the range of maximum land prices that could be paid by different building types. Each building type pro forma includes zone standard parameters, such as height and parking requirements; construction costs and assumed rental rates. A residual land value, or maximum feasible land price that can be paid, were calculated for each building type using the pro formas. Those land values are summarized in this graphic.



### Sub-Markets – High, Medium, Low

Rental rates are not static within the study area or within a zone district. We divided the study area into sub-markets that were relatively strong or weak candidates for retail and residential. While a zone district may cover multiple sub-markets and technically allow

<sup>1</sup> While RMV is the best data we have to approximate property value, it still has its limitations. The assessor uses a mass appraisal methodology that groups like properties together and masks the natural property-to-property variation that a willing seller-buyer relationship would unveil. This analysis is meant to suggest feasibility rather than to predict actual selling prices. It is not intended as a substitute for a formal appraisal that uses comparables to estimate value.

the same types of buildings, weaker sub-markets result in building types that can only afford lower land costs and stronger sub-markets allow building types that can absorb somewhat higher land costs. A map was created visualizing the geography of how the study area and zone districts were divided into sub-markets.

### Assess Tipping Point Thresholds for Zones and Sub-Markets

Based on a sub-market’s strengths or weaknesses and zone district, there is a maximum land price a developer could afford to pay and still be financially viable. CP determined which building type could pay the most within a sub-market and zone. All parcels at or below that maximum land price (the tipping point) were assumed to be redevelopable and show up in the redevelopment feasibility maps above.

The assumed building types that can pay the highest land price by zone district are summarized in the table below. Certain zones, such as CG, technically allow taller mixed-use buildings but certain standards, such as parking and the infeasibly high cost of structured parking in most of the study area, effectively limit the amount of building density one could afford to build. As a result, in several instances we have assumed a less intensive building form than is technically allowed in the zone district.

**Table 1: Building Types Tested in Each Zoning District**

Zone Districts	Tested Building Types			
	Townhome - For-sale	Hwy Retail	Mixed-Use - 3 Story	Mixed-Use - 5 Story
BCD				
MU				
CB				
ME				
MR				
CG				
CL				
RH				
RM				