

**Salem Core Area
Housing Study:**

**Evaluation of the Impacts of
Downtown Housing**

Prepared for

City of Salem

by

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April 2002

EXECUTIVE SUMMARY

BACKGROUND

The City of Salem is conducting an assessment of the downtown housing market in the Core Area¹ to use as a tool to facilitate and encourage private investment in downtown housing projects. Key components of the study include a market analysis and site evaluations. The City will use the results of the study to prioritize funding decisions and timing of potential redevelopment projects.

To supplement data collected in the market analysis, the work program also included an evaluation of the impact of downtown housing on retail sales, other potential impacts, and case studies of five northwest cities with downtown housing programs. This report presents an estimate of the potential impact on retail sales in the downtown core as a result of new housing and examines possible mixed-use projects. It also includes a qualitative evaluation of the impact of downtown housing on property values and taxes, infrastructure, parking, and several other issues.

SUMMARY OF FINDINGS

Following is a summary of key findings. We present them in two categories: findings that pertain to the impacts of downtown housing projects; and findings about downtown housing programs.

IMPACTS OF DOWNTOWN HOUSING

- *Impacts on retail sales could range from \$100,000 to \$1.2 million annually.* To develop these estimates, ECONorthwest evaluated four site scenarios developed by Johnson Gardner that represent 256 dwelling units. The actual impacts would depend on the number of housing units developed and the characteristics of households living in those units (see Table S-1).

¹ The Market Analysis report delineates a market area. The market area was fashioned to include the major centers of employment downtown, such as the state government facilities and retail locations, as well as residential areas that border Salem's downtown. To the west and the south, the Willamette River and Mission Street form obvious boundaries to the market area, while to the east and north census tracts that were roughly one mile from the center of downtown determined boundaries.

Table S-1. Estimated consumer impacts under different downtown housing scenarios

Site	New downtown dwelling units	Target population	Annual Exp/HH	Est. Annual Exp Downtown
Site 2: Front Street	20	Relatively High Income, Assumes 150% of MFI	\$5,200	\$104,000
Site 11: 295 Church Street SE	93	Assumes moderate income, at 110% of MFI	\$5,000	\$465,000
Site 9: Pringle Parkway	39	Assumes Moderate Income, at 120% of MFI	\$5,100	\$198,900
Site 8: 445 Marion Street "Marion Parkade"	104	Assumes Tax Credit at 60% of MFI	\$4,200	\$436,800
Total	256			\$1,204,700

Source: ECONorthwest
 Note: MFI—Median family income,

- *Impacts to downtown merchants would be distributed over a wide range of goods and services.* About two-thirds of the total impacts would go to retailers in the food sector (primarily grocery stores and restaurants). Other sectors that would benefit include entertainment, household goods, apparel and services, personal care products, and other miscellaneous expenses.
- *Consumer expenditures on a per household basis are relatively small.* ECO estimates that consumer expenditures that would benefit downtown retailers would range from \$2,500 to about \$6,600 per household annually depending on household income. Moreover, the overall retail impacts will be relatively small vis-à-vis the entire City. Salem has about 50,000 households; building 500 housing units in downtown would represent approximately 1% of the City's total consumer market. The actual percentage of consumer expenditures captured will depend on the demographic characteristics of households in the core area, but will also be small (less than 1% of the City's total consumer expenditures under any reasonable scenario).
- *Downtown housing fits into a broader community development framework and can achieve multiple objectives and create multiple benefits.* Other potential issues evaluated as part of this study include: property values and property taxes; infrastructure; parking; impacts to other downtown investments; implications for planning and growth management objectives; the attractiveness of downtown as a location; level of downtown activity; safety; and sense of place. Many projects ECO reviewed in the case study communities achieved multiple benefits for downtown areas while addressing safety and other concerns.

- *Downtown housing can increase the attractiveness of downtown to retailers.* Housing projects show commitment on the part of the City to improve conditions in downtown areas and can help retain existing retailers and attract new retailers. Moreover, a more vital retail climate can lead to reduced vacancies in downtown areas.
- *The positive impacts of downtown housing and mixed-use projects can be enhanced through design.* Positive impacts can not only include increased retail sales, but can help leverage public investments, support growth management goals, increase the desirability of downtown as a location, increase downtown activity, address safety concerns, and enhance sense of place. Project design is important in the context of these impacts; not only the architecture of the project, but the elements a development includes (i.e., housing, retail space, commercial space, parking) and how those elements complement other nearby uses. If done properly, public investments can increase property values and tax revenues.
- *Projects can present challenges.* Parking was most frequently cited as a potential challenge. Parking needs to be considered early in the project cycle because downtown residents can create competition for parking that might otherwise be available to patrons of downtown businesses. Cost and availability of parking is a key issue for many households when considering downtown housing. Many cities, however, are finding innovative ways to combine parking with their projects and ensuring sufficient parking for residents and to support retail components of projects.
- *Retail is a challenge.* Most of the case study cities had experience with vertical mixed-use developments. All of the staff ECO interviewed in the case study communities indicated that retail presents an ongoing challenge. All of the case study cities, however, have relatively short histories (less than 10 years) in mixed-use development. In some instances, retail spaces were being leased by service industries such as attorneys and realtors. Staff in the case study communities were optimistic about the long-term viability of retail uses.

DOWNTOWN HOUSING PROGRAMS

- *Sound financial analysis is important.* Having a thorough understanding of the dynamics of the local market is important. Understanding the financial implications of projects is important from both the standpoint of developing projects, but also in demonstrating public benefits from public investments. For example, the City of Vancouver performs a net present value analysis for a 20-year period

on all of its projects.² Projects that do not demonstrate a positive net present value are either restructured or dropped.

- *Take a long-term view.* Many of the positive impacts of public investment will not occur overnight. All of the cities reviewed in the case study analysis understood that change is incremental *and* cumulative. The downtowns of the case study cities had very few residents before the cities made housing a priority. Staff interviewed in the case study cities believe that the pioneering efforts of cities to encourage housing downtown will have long-term and lasting benefits.
- *Have a clear vision.* All of the case study communities had a downtown vision and plan or were in the process of developing one. Most had made modifications to their development codes to facilitate desired development types by revising regulations to be more flexible. Staff at the case study cities said flexibility in development standards was critical given the amount of time it takes to develop and adopt development codes.

² Net present value is a technique that evaluates costs and benefits over a project's life cycle.

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BACKGROUND

The City of Salem is conducting an assessment of the downtown housing market in the Core Area³ to use as a tool to facilitate and encourage private investment in downtown housing projects. The project includes the following components:

- A detailed evaluation of the market for housing downtown;
- Selection of prospective sites for specific evaluation;
- Site specific design and parking analysis;
- Financial viability analysis of specific sites;
- Resident input including workshops, a Web survey, and focus group meetings;
- A community cost/benefit assessment; and
- Development of a marketing brochure to attract private sector investment.

The City will use the results of the study to prioritize funding decisions and timing of potential redevelopment projects. This report represents the community cost/benefit portion of the study.

WHY EVALUATE IMPACTS OF DOWNTOWN HOUSING?

During the 1990s many communities began to focus attention on declining downtown areas. That attention resulted in a renaissance of growth and development in many downtown areas. Simply removing regulatory barriers that prevented residential was a big step forward for many cities. One of the most important reasons for evaluating the impacts of downtown housing is that it frequently requires public subsidy, therefore some justification for these subsidies on the basis of public benefit is needed.

³ The Market Analysis report delineates a market area. The market area was fashioned to include the major centers of employment downtown, such as the state government facilities and retail locations, as well as residential areas that border Salem's downtown. To the west and the south, the Willamette River and Mission Street form obvious boundaries to the market area, while to the east and north census tracts that were roughly one mile from the center of downtown determined boundaries.

Demographic trends are helping spur growth and interest in downtowns. The increase in empty nesters from the baby boomer generation and young professionals are the two key populations leading this trend. If even a modest portion of empty-nester households trades suburban homes for urban ones, demand for downtown housing will continue to expand. The other emerging population that is aiding downtown's comeback are young professionals in their 20s and 30s who have yet to start families. This group—often consumers of downtown-friendly amenities such as coffeehouses and nightclubs—are frequently in the market for low-maintenance, urban housing convenient to work and amenities.⁴ It is important, however, to distinguish between demand for downtown housing and growth in downtown populations. Downtown housing projects do not make economic sense in many urban areas, and as a result the production of units is a function of public investment or subsidy.

Increases in full-time residents in downtown areas have many implications. The ability to conveniently access shopping and services is a key attraction for many residents. This implies benefits to retail sales for downtown merchants. Retail sales, however, are not the only potential beneficial impacts of downtown housing. Downtown housing can have positive impacts on property values, increase tax revenues, achieve growth management goals, and increase civic pride. This report assesses the potential impacts of housing on Salem's downtown area and presents the results of five case study analyses conducted by ECONorthwest.

This report builds from the market study and is primarily about describing other impacts of downtown housing. The market analysis and Web survey suggests that demand exists for housing downtown. The market analysis, however, does not make a specific estimate of this demand in terms of dwelling units. Because housing projects in the core area will probably require public investment, the number of units built is less a function of demand and more a function of city investment in housing production. Johnson Gardner evaluated housing scenarios on four downtown sites. The scenarios include a total of 256 dwelling units targeting various income levels. Those scenarios form the basis for the retail impact analysis presented in this report.

One of the primary impacts estimated in this report is additional retail demand in the downtown because of new households in the downtown. In addition to additional retail sales and the multiplier effect of those sales, this report evaluates other potential impacts of new housing downtown, including:

- Creating vital urban environments

⁴ *Life at the Center: The Rise of Downtown Housing*, Rebecca Sohmer and Robert E. Lang, Housing Facts and Findings, Spring 1999, Vol 1. Issue 1, Fannie Mae Foundation

- Increasing the hours of activity
- Decreased demand on road systems
- Increased demand for transit service
- Creating demand for other urban amenities such as museums, theaters, etc.

WHAT PROGRAMS DOES SALEM HAVE IN PLACE?

Salem has encouraged housing in its core area for some time. The City has a number of programs in place intended to facilitate housing and mixed-use development in the core area. However, these efforts have not yet resulted in housing developments. Following is a description of the programs Salem has in place.

- *Urban Renewal.* Salem has two Urban Renewal Districts that cover the entire downtown core area. These include the Riverfront-Downtown Urban Renewal District and the Pringle Creek Urban Renewal District. The primary objectives of both Districts are to improve the overall appearance, condition, and function of the project area, encourage a variety of river-oriented uses, sustain and improve the economic vitality of the Central Business District, relieve traffic congestion and railroad conflicts, encourage the use of mass transit, and preserve and create natural green belts along existing waterways. Urban Renewal is a way to provide funding which can encourage the development of new housing units.
- *Historic District.* Much of the downtown core area was listed on the National Register of Historic Places as a historic district in the fall of 2001. This will enable owners to apply for federal and state grant, loan and tax abatement programs which can assist them in restoring their structures. Recently, the Urban Renewal Agency has applied for Community Development Block Grant Funds to develop a rehabilitation loan program to further assist in the restoration of historic structures.
- *Commercial Loans.* The Urban Renewal Agency funds a loan program available to develop new or rehabilitate existing downtown properties within the Riverfront-Downtown Urban Renewal District. There is a \$500,000 limit for commercial properties, with an additional \$250,000 available for housing, seismic, historic restoration and parking improvements. Interest rates start at 6% and can be reduced to 3% by matching the loan with other funds. If the project is to update a property for seismic or historic purposes, the loan rate is automatically brought down to 3%. Terms can extend out to 20 years.
- *Tax Incentives.* Salem has a 10-year tax exemption program that is available for owner occupied and rental housing units which are built

in the core area. The tax exemption program has not been used recently for housing projects. The tax rate in the core area is currently \$18.50 per \$1,000 of assessed value.

- *Streetscape Improvements.* Salem also has installed streetscape improvements throughout much of downtown and is pursuing additional improvements. In addition, the City has focused attention to creating a safe crossing from downtown to Riverfront Park; these pedestrian improvements are anticipated to be constructed in 2003.
- *Facade Improvement Program.* The City has a facade grant program that can assist business or property owners with street facing facades, storefronts, signs, graphics, lighting, awnings, painting, repainting/masonry cleaning, limited security & accessibility improvements as well as permit & design review fees. The program provides a 50% matching grant for all eligible work, with a maximum grant of \$20,000. Buildings primarily in residential use are ineligible.
- *Parking.* Currently a resident may buy a parking permit (\$22/month) and receives three annual permits for guests. A resident must park in a structure from 9 am to 5 pm, with an allowance of 120 consecutive minutes on the street. After 5 pm residents can park on the street. Guests must follow the same rules. If a resident does not participate in the permit system, they may still receive the three passes for guests at no cost. The City may need to revisit this policy if a lot of residential development occurs in the core area.

In summary, Salem is not looking at the development of a new housing program; rather, it is exploring refinements and innovative ways to use existing programs. The case study cities use many of the same programs, as well as others Salem does not have in place.

METHODS

The main source of quantifiable benefits is additional retail demand in the downtown because of new households in the downtown. Our estimates of additional retail demand in the downtown build from the estimate of the number of new households. We also have estimates of retail spending for Salem area households and of the total purchasing power of Salem area households. We then make an assumption about how much of each household's retail purchases would be captured in the downtown to estimate increased downtown retail sales per household.

In addition, this report provides a listing and qualitative assessment of other benefits of downtown housing, which include more activity and security in the downtown, property tax impacts, as well as a number of other potential impacts.

To supplement this analysis ECO conducted case studies of cities with comparable housing programs. The case study cities include Eugene, Oregon, Medford, Oregon, Vancouver Washington, Redmond, Washington, and Renton Washington. The case study communities all have housing programs that include a downtown element; all but Medford have developed one or more residential or mixed-use project in their downtown area.

ORGANIZATION

The remainder of this report is organized as follows:

Chapter 2: Estimated Retail Impacts presents average consumer expenditures for a variety of items and presents estimates of how much retail spending might be captured in the core area by housing development.

Chapter 3: Case Study Cities presents summaries of the five case study communities and their experience with residential and mixed-use development.

Chapter 4. Other Impacts of Downtown Housing describes other impacts of downtown housing such as property values, tax base, growth management objectives, safety, and sense of place.

This report also includes an appendix:

Appendix A: Consumer Expenditure Data presents base data from the Bureau of Labor Statistics *1999-2000 Consumer Expenditure Survey* for the Western region.