



March 28, 2023

Senator Kayse Jama, Chair
Senate Committee on Housing and Development
900 Court St NE
Salem, OR 97301

RE: SUPPORT FOR SB 977-1

Dear Chair Jama and Members of the Committee:

Innovative Housing, Inc. (IHI) wants to express our support for Senate Bill 977-1, which would expand the current exemption from prevailing wage requirements for affordable housing to apply to the affordable housing portion of mixed-use projects.

In the beginning of my 17 years working at IHI, the expanded exemption was in place, and was called “split determination”. We paid commercial prevailing wage to construct only the commercial space in the project, and paid non-prevailing wage to construct the residential affordable housing apartment units. This split determination enabled us to build several mixed-use affordable housing projects between 2006 and 2011:

- 58 unit project with a daycare center and 20 units for formerly homeless families (Broadway Vantage in NE Portland),
- 95 unit project in Old Town Portland with commercial storefront retail space that helped support the cost of 95 Permanent Supportive Housing units on the floors above, with 24 hour staffing (Musolf Manor). IHI also moved our non-profit organizational offices into one of the storefronts of this building.
- 88 unit project in SE Portland with storefront retail space that helped support the cost of 88 Permanent Supportive Housing units for ex-offenders and formerly homeless singles in the floors above, with 24 hour staffing (The Clifford)

However, the rules changed about a decade ago, eliminating the split determination option. That change required that ANY mixed use space included in an affordable housing project (commercial, retail, daycare, employment office, non-profit organizational offices, medical and dental offices, etc.) would require the ENTIRE PROJECT, including all the affordable housing residential units, to utilize commercial prevailing wage.

The consequence of this change is that we were forced to eliminate all mixed use elements from projects that were four stories or less, because we could not fund commercial prevailing wage for the commercial space AND all the affordable apartments as well. Commercial prevailing wage adds approximately 20% to the cost of an affordable housing project. For a recent project in Lincoln City, that would have been an additional \$5 Million. That additional amount is simply not realistic to add to the budget. The funding for affordable housing is extremely limited and difficult to obtain, and it is important to use the funds to build as many apartments as possible. Here are specific examples of recent or upcoming projects that would have significantly benefitted (or could still benefit) from mixed use elements:

LINCOLN 25 Apartments, Lincoln City, Oregon

This 107 unit family apartment project has frontage on Hwy 101 in Lincoln City. Along this frontage would have been a perfect location for commercial space, which could have included an employment office, medical or dental services, or a

different retail component that would have benefitted both the families in the apartments and the community. But we could not include this commercial space, due to the current commercial prevailing wage requirement being applied to the apartment unit construction as well. The additional cost of commercial prevailing wage would have been approximately \$5 Million on a construction cost of \$25 Million.

Merwyn Apartments, Astoria, Oregon

This 40 unit project is in downtown Astoria, next door to City Hall. It is an historic building, with storefronts along Duane Street, and could have included retail space, the rent from which could have helped keep the rents for the affordable apartments on the floors above at a lower rate. This space would have benefitted both building residents and the community. But we could not include this commercial space, due to the current commercial prevailing wage requirement being applied to the apartment unit construction as well. The additional cost of commercial prevailing wage would have been approximately \$800,000 on a construction cost of \$4 Million.

Copeland Commons, Astoria, Oregon

We are currently looking at another project in downtown Astoria. This is a similar project to the Merwyn, with storefronts along Marine Drive. Having commercial space in the building would help the building and community in the ways described for the Merwyn above. In addition, it helps make Affordable Housing easier for the community to support, because the project would also provide another element that many people want, which is commercial space that helps support a vibrant commercial district. However, we cannot provide the commercial space due to the current commercial prevailing wage requirement being applied to the apartment unit construction as well. If SB 977-1 passes, we could include commercial space in this project. The additional cost of commercial prevailing wage would be approximately \$2.8 Million on a construction cost of \$14 Million.

Barbur Apartments, SW Portland

We are in the predevelopment and funding phase of this 150 unit apartment project on Barbur Blvd at Capital Hill Rd in Portland. This is in the SW Corridor, and a community study for the corridor lists childcare and preschool as a needed service that is currently in short supply in this area. We have space in the development to provide this feature, but cannot provide the commercial space due to the current commercial prevailing wage requirement being applied to the apartment unit construction as well. If SB 977-1 passes, we could include early childhood education in this project. The additional cost of commercial prevailing wage would be approximately \$9 Million on a construction cost of \$45 Million.

I hope these examples make the economics of the current commercial prevailing wage rate situation clear. The current requirements are hurting affordable housing projects, denying residents valuable services that could be included if SB 977-1 is passed. The current requirements also hurt the community, because mixed-use creates vibrant districts where people can live, work, shop, learn, play and live walkable lives not completely dependent on cars. I urge passage of this change. And if the exemption could be expanded to allow five stories of affordable housing within the exemption, this would help the affordable housing crisis even more. We need more density in our communities, and often the fifth story can mean more affordable units, and better utilization of scarce land. We must limit most of our projects (like Barbur above) to four stories (even though zoning allows five stories) to avoid commercial prevailing wage so we can afford to build the projects. Adding a fifth story to the exemption would help us all build more much-needed affordable housing for the money that we have available.

Thank you for your work and time on this issue,



Julie Garver

Senior Housing Developer, 360-635-1216, jgarver@innovativehousinginc.com