

**Subject:** IPO Report on housing affordability  
**Attn:** 2018 nominees and cross-nominees  
**From:** IPO subcommittee on homelessness and housing affordability  
**Date:** 8/23/2018

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## Summary

Oregon is in the midst of a crisis of housing affordability, driven by a lack of available housing supply. This problem impacts both rural and urban parts of the state.

A 2018 survey by the University of Oregon Institute for Policy Research and Engagement found that 88 percent of city planning directors agree that their communities lack of affordable multi-family residential housing.<sup>1</sup> In the Portland metro area, the median house price is currently \$418,000, and there is only 1 “affordable unit” for every 5 low income households. Outside of the Portland metro area, 76 percent of renters earning less than the area’s median income pay more than 30 percent of their total income on housing.

## The problem(s)

### 1. Statewide housing need is significantly higher than available supply

The chart below from the Department of Housing and Urban Development (HUD) shows total estimates for sales and rental housing new construction in relation to demand for the Portland area, which includes Yamhill, Washington, Clackamas and Multnomah counties. HUD analyses for Salem and other Oregon communities in Southern, Central and Coastal Oregon similarly indicates that current market demand far exceeds supply.

**Table 1. Housing Demand in the Portland HMA\* During the Forecast Period**

	Portland HMA*		Portland Submarket		Beaverton-Hillsboro Submarket		Vancouver Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	27,225	18,925	12,750	10,650	7,675	5,325	6,800	2,950
Under construction	2,810	6,995	1,050	4,900	820	970	940	1,125

\*Portland-Vancouver-Hillsboro HMA.

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of May 1, 2016. A portion of the estimated 20,700 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is May 1, 2016, to May 1, 2019.

Source: Estimates by analyst

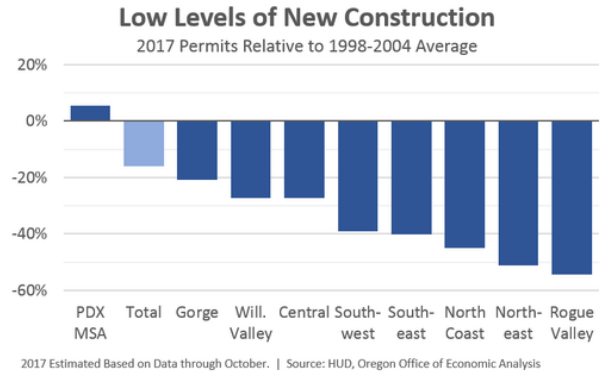
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<sup>1</sup> Oregon’s Housing Affordability Crisis: Results of a Statewide Survey of Oregon Cities (April 2018)

## 2. Lack of new construction continued in 2017

According to a report by ECONorthwest, over the last 15 years Oregon has underbuilt 155,000 housing units needed to keep pace with market demand.<sup>2</sup>

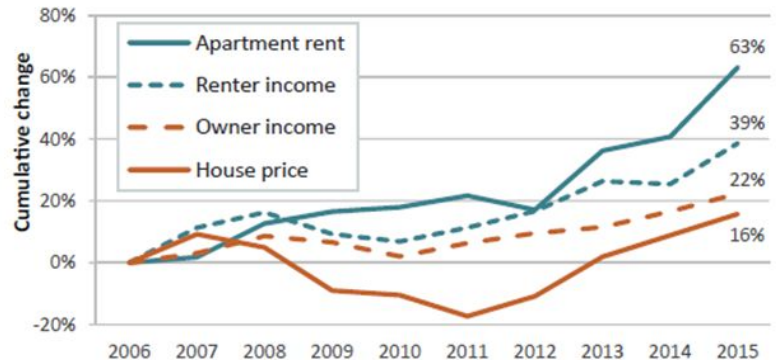
That trend continued statewide in 2017 with new construction still below 1998-2004 averages across most of the state.



## 3. Cost of housing continues to rise faster than incomes

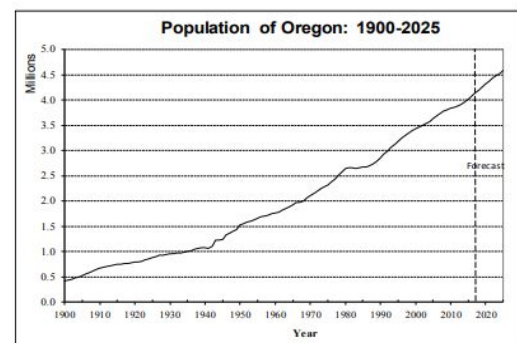
Rents increased by 63 percent from 2006-2015, while renter income increased by 39 percent. Underlying that data is that renter income has not increased uniformly. Income for middle and low income wage earners has risen by less than 20 percent during the same period.<sup>3</sup> That gap widened again in 2017.

Figure 5 Change in income and home prices | Source Multifamily NW, RMLS, U.S. Census Bureau, Johnson Economics



## 4. Demand for housing expected to rise

Oregon is currently 10th in the nation in population growth. The state grew 8 percent from 2010-2016 and is expected to reach 4.5 million in total population by 2021.



Source: U.S. Bureau of Census; and Oregon Office of Economic Analysis.

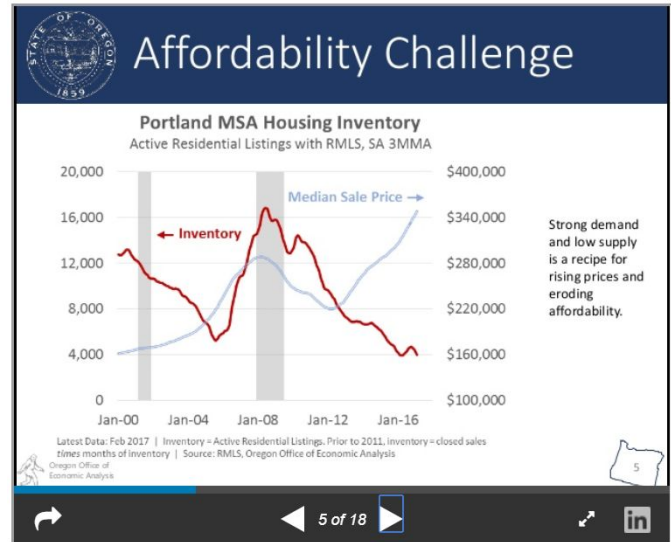
<sup>2</sup> <https://portlandtribune.com/pt/9-news/381184-267817-oregon-lawmaker-says-housing-is-core-state-responsibility>

<sup>3</sup> <https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality>

## 5. Constriction of supply is driving up costs

A 2016 report by Oregon’s Office of Economic Analysis cited lack of available inventory as a factor in increased housing costs. The report cited a lack of confidence by investors; high construction costs due to shortage of labor in construction market; Oregon’s land use laws; lack of “shovel ready” lots.

The chart on the right shows changes in the Portland-area housing inventory versus costs from 2000 - 2016. Note the shift in prices from 2012-2016. That increased again in 2017, which saw 5-consecutive months of record-breaking increases in median home prices.



## Current Solutions

**City Zoning flexibility** - The top 5 main tools currently used by Oregon cities to address housing affordability relate to zoning changes that allow increased density on existing parcels or that reduce pavement width requirements, allowing for increased density on new development.

**Table 4. Tools to address housing affordability, Top 5, Bottom 5, 2018, n=99**

	<i>Efficiency Measure</i>	<i>Respondents (Yes)</i>
<i>5 most common tools</i>	<i>Allow Accessory Dwelling Units</i>	56 (55%)
	<i>Duplexes allowed on corner lots in low density zones</i>	42 (42%)
	<i>Allow residential pavement widths of 28 feet or less with parking on both sides, 24 feet or less with parking on one side, or 20 feet or less with no parking.</i>	33 (33%)
	<i>Duplexes allowed on any residential lot in low density zones</i>	31 (31%)
	<i>Attached single family allowed in low density zones; min lot size &lt;5000 sq ft</i>	33 (33%)

Source: [Oregon Housing Affordability Survey, UO Institute for Policy Research and Engagement, Q29](#)

**Construction Excise tax (Inclusionary zoning)** - In 2016, the Oregon Legislature passed SB 1533, which allows local jurisdictions to levy a 1 percent fee on the permitted value of new construction and apply that to affordable housing. This gives local jurisdictions a source of money that can be spent or set into reserve to subsidize the cost of affordable housing units as part of new multifamily residential dwellings.

**Allowing local jurisdictions to take on bond debt to fund affordable housing** - In 2017, the Oregon legislature referred Measure 102 to the ballot, which would allow cities and counties, through development corporations, to use bond monies to leverage federal tax credits that are a main source of funding affordable housing projects. This allows local jurisdictions to raise part of the capital necessary to trigger much larger allocations of federal housing tax credits. The immediate intent was to allow Portland to leverage a \$256 million bond passed in 2016 and a similar \$652.8 million bond being considered by metro voters in the current election cycle. However, many jurisdictions could also take advantage of this tool.

## Perceived efficacy of current solutions

**71 percent of city planners surveyed said that the current tools available to them are ineffective or are only slightly effective at solving housing affordability in their communities.** <sup>4</sup>

Government's ability to solve market problems through subsidized housing or limited changes in zoning inside of Urban Growth Boundaries (UGB) does not scale to meet current demand. The first table in this paper showed a 2018 deficit of 24,000 residential homes and 12,000 rental units in the Portland metro area alone. While past and current solutions to offer subsidized affordable housing should be considered, they do not scale to the current or future needs, given predictions about the increase in demand.

## Conclusions

Much of our state is going through a period of gentrification in which the jobs we are creating in our regional economies do not match the increase in the price of housing. Unless we relieve that pressure, we are consigning a large number of Oregonians to economic and housing insecurity.

## Solutions

**Part of the Solution:** Encourage shared housing services, particularly in urban areas, by helping to match people who have space in their homes (a key demographic being "house-rich, cash-poor" seniors who want to age in place) with individuals and families who have stable income and who need a home and adopt zoning and building code policies to allow variations of living arrangements. Adopt flexible and accommodating accessory dwelling units, particularly in neighborhoods with currently low density housing.

**Part of the Solution:** Oregon's land use and tax laws have distorted our state's housing market. We propose a public conversation about Oregon values as the first step in rebalancing both systems in light of Oregon's current and future housing needs. Consideration should be given to the ability of cities to incorporate sufficient land and housing to meet growing population demands as well as to the impact of compression on local budgets.

**Part of the Solution:** Limit the state home mortgage deduction to primary residences for mortgages, and only up to 200% of the median price of a single family home. Currently, homeowners have strong government incentives to buy second homes (removing them from the primary home market); not to downsize even when they can or should; or being forced from their homes as they age when they would prefer to remain.

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<sup>4</sup> University of Oregon Institute for Policy Research and Engagement Statewide Housing Report, April 2018