Housing affordability and the impact of recent legislation in Oregon

Michael Wilkerson, Ph.D.

January 16, 2020
The last ten years has seen the fewest housing units built in U.S. since the 1960’s

Source: U.S. Census Bureau and HUD
Permitting dropped 5% in 2019 statewide

State of Oregon Total Residential Building Permits

On pace for 19,200 units in 2019

59% of statewide permits in the 3 County Portland Metro in 2019

Source: HUD
Construction employment growth slowing in Oregon

Construction Industry Employment
Oregon (Index 2000=100)

Annual Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>OR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>9%</td>
</tr>
<tr>
<td>2018</td>
<td>6%</td>
</tr>
<tr>
<td>2019</td>
<td>3%</td>
</tr>
</tbody>
</table>

+6% from peak
Oregon producing fewest number of housing units per population growth in NW

New Construction in the PNW
New Units per 100 New Residents

Source: Census, Oregon Office of Economic Analysis
Housing production has not matched household formation.

U.S. Housing Starts to Household Formation
(5 year moving average)

1.1 is the long run ratio of housing starts per household formed nationally.

Source: U.S. Census Bureau and HUD
Since 2010 less than 7 units built for every new 10 households

0.89 Housing Starts per Household Formed 2000 to 2016

Source: U.S. Census, Moody's Analytics, ECONorthwest Calculations
3 Jobs Created Statewide for Every Housing Unit 2010 to 2015

Jobs per Housing Unit

2010: 0.89
2015: 0.95

From 2010 to 2015: 2.95

Oregon Jobs to Housing Units Ratio

- 0.1 - 0.5
- 0.6 - 2.5
- 2.6 - 5.0
- 5.1 - 10.0
- 10.1 - 16.2

No growth in primary jobs from 2010 to 2015
Housing is not affordable, but worst of crisis is behind us

City of Portland -- Average 1 bedroom unit affordability

Affordability of 1 bedroom units as a percent of MFI

- Medford = 90%
- Bend = 101%
- Eugene = 102%

Affordability is improving except in Eugene

Sources: Costar, HUD
Rent Strongest Predictor of Metro Homelessness Rate

Portland has 12th highest rate of homelessness

Source: ECONorthwest calculated using data from HUD Point-In-Time, U.S. Census Bureau ACS, and Zillow
Are we forming another housing bubble?

Shaded areas indicate U.S. recessions

Source: S&P Dow Jones Indices LLC
freed.stlouisfed.org

<table>
<thead>
<tr>
<th></th>
<th>Aug. 2018</th>
<th>Aug. 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>5.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Seattle</td>
<td>9.5%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Portland</td>
<td>5.4%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>
Housing market value back on trend?

Expectations for U.S. home value growth, 2019-2023

- **Zillow Home Value Index, through June 2019**
- **Pre-bubble Trend, 1987-1999**
  - 3.6% Average Annual Growth

- **Most optimistic quartile**
- **Panel-wide (all 106 respondents)**
- **Most pessimistic quartile**

Source: Zillow Economic Research
Consumer debt relative to income continues to drop

Household Consumer & Mortgage Debt
As a % of Disposable Household Income

Source: Federal Reserve, CUNA
Price to Income ratio by county in 2018

2018 Ratio of Home Value to Median Household Income

Source: Zillow, ACS
2019 Home Affordability
20% down payment
Median Family Income = $89,700

- < 20%
- 20.1% - 25.0%
- 25.1% - 30.0%
- 30.1% - 40.0%
- 40.1% - 50.0%
- > 50%
- Insufficient Transactions

Maximum affordable price at 100% MFI= $383,000
Home affordability in 2000 with 20% down payment

MFI = $53,700

Percent of Income Spent on Housing
- Insufficient Transactions
- < 20.0%
- 20.1% - 25.0% More Affordable
- 25.1% - 30.0%
- 30.1% - 40.0%
- 40.1% - 50.0% Less Affordable
- > 50%
Home affordability in 2007 with 20% down payment

MFI = $63,800

Percent of Income Spent on Housing
- Insufficient Transactions
- < 20.0%
- 20.1% - 25.0% More Affordable
- 25.1% - 30.0%
- 30.1% - 40.0%
- 40.1% - 50.0% Less Affordable
- > 50%

Single Family Affordability, 2007

Less Affordable

More Affordable

PORTLAND
WILSONVILLE
BEAVERTON
HILLSBORO
GRESHAM
OSWEGO
Home affordability in 2011 with 20% down payment

Percent of Income Spent on Housing

- Insufficient Transactions
- < 20.0%
- 20.1% - 25.0%  More Affordable
- 25.1% - 30.0%
- 30.1% - 40.0%
- 40.1% - 50.0%  Less Affordable
- > 50%

MFI = $72,000
2019 Home Affordability
20% down payment
Median Family Income = $89,700

Maximum affordable price at 100% MFI= $383,000
What share of sales in Portland are affordable?

Home Purchases by County
Sales between $150,000 and $2,000,000

<table>
<thead>
<tr>
<th>County</th>
<th>Affordable</th>
<th>Not Affordable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clackamas</td>
<td>3,279 (42%)</td>
<td>4,572 (58%)</td>
</tr>
<tr>
<td>Clark</td>
<td>9,936 (57%)</td>
<td>7,390 (43%)</td>
</tr>
<tr>
<td>Multnomah</td>
<td>6,877 (46.1%)</td>
<td>8,029 (53.9%)</td>
</tr>
<tr>
<td>Washington</td>
<td>4,347 (44%)</td>
<td>5,472 (56%)</td>
</tr>
</tbody>
</table>

Sources: RLIS, Clark County Assessor
Housing production has dramatically shifted to multifamily statewide.
Apartment production peaked in early 2018
As construction slows rents beginning to increase at high end

One Bedroom Apartments in City of Portland
Annual Rent Change (building level data)

Data Source: Costar
Labels above bars represent total one bedroom units in each bin
Permitting has also peaked -- decrease in construction will continue

City of Portland Permit Totals and Trends, 2009-2019
Combined multifamily & single family

Final / Delivered

Issued permits

Source: City of Portland, Portland Maps
Portland BDS has triggered business continuity plan

The reduction measures outlined in the Business Continuity Plan will be triggered by any circumstance in which four out of five triggers below are active (red).

Trigger 1: Cumulative Cost Recovery Rate
Activated when the cumulative cost recovery rate is below 100%.

<table>
<thead>
<tr>
<th>Month</th>
<th>Rate</th>
<th>Trigger Status</th>
<th>Action Required</th>
<th>Position Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-19</td>
<td>86%</td>
<td>Active</td>
<td>Yes</td>
<td>Finance Section Manager</td>
</tr>
</tbody>
</table>

Trigger 2: Reserves
Activated when bureau reserves are below the minimum reserve goal of 50% or 6 months of total expenditures (reserves are below 50% of the total annual budget).

<table>
<thead>
<tr>
<th>Months</th>
<th>Reserves</th>
<th>Trigger Status</th>
<th>Action Required</th>
<th>Position Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-19</td>
<td>82,707,404</td>
<td>Inactive</td>
<td>No</td>
<td>Finance Section Manager</td>
</tr>
</tbody>
</table>

Trigger 3: Revenue
Activated when bureau revenues have been declining consistently for the previous 6 consecutive months.

<table>
<thead>
<tr>
<th>Month</th>
<th>% Change</th>
<th>Trigger Status</th>
<th>Action Required</th>
<th>Position Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-Oct</td>
<td>-2.8%</td>
<td>Active</td>
<td>Yes</td>
<td>Finance Section Manager</td>
</tr>
</tbody>
</table>

Trigger 4: Total Valuation of Building Permit Applications Received
Activated when the total value of all building permit applications received by the bureau has been declining consistently for the previous 6 consecutive months.

<table>
<thead>
<tr>
<th>Month</th>
<th>% Change</th>
<th>Trigger Status</th>
<th>Action Required</th>
<th>Position Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-Oct</td>
<td>-33.7%</td>
<td>Active</td>
<td>Yes</td>
<td>Finance Section Manager</td>
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</tbody>
</table>

Trigger 5: Total Number of Building Permit Applications Received
Activated when the total number of all building permit applications received by the bureau has been declining consistently for the previous 6 consecutive months.

<table>
<thead>
<tr>
<th>Month</th>
<th>% Change</th>
<th>Trigger Status</th>
<th>Action Required</th>
<th>Position Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-Oct</td>
<td>-20.9%</td>
<td>Active</td>
<td>Yes</td>
<td>Services Division Manager</td>
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<table>
<thead>
<tr>
<th>Table 3: Large Project Applications</th>
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<table>
<thead>
<tr>
<th>Project</th>
<th>May 2019 - October 2020</th>
<th>May 2019 - October 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland Airport - 3rd Place</td>
<td>6,086,408</td>
<td>Apartments/Condos</td>
</tr>
<tr>
<td>Portland Airport - Puffy Modifications</td>
<td>7,998,898</td>
<td>Apartments/Condos</td>
</tr>
<tr>
<td>PP - BND - TCS</td>
<td>153,214</td>
<td>UNITED AIRWAYS Airlines</td>
</tr>
<tr>
<td>PP - TCS</td>
<td>46,178,248</td>
<td>BORDE PONTIS PROJECT BUILDING 1</td>
</tr>
<tr>
<td>PP - TCS - BND - WCO</td>
<td>91,960,500</td>
<td>Item</td>
</tr>
<tr>
<td>PP - TCS - BND - WCO</td>
<td>39,180,808</td>
<td>ROY TAYLOR ST</td>
</tr>
<tr>
<td>PP - TCS - BND - WCO</td>
<td>10,125,503</td>
<td>MCK LIVING BUILDING 3/7 &amp; SW MY ST</td>
</tr>
<tr>
<td>PP - TCS - BND - WCO</td>
<td>50,699,390</td>
<td>Item</td>
</tr>
<tr>
<td>PP - TCS - BND - WCO</td>
<td>13,703,290</td>
<td>Item</td>
</tr>
<tr>
<td>PP - TCS - BND - WCO</td>
<td>1,057,231</td>
<td>Item</td>
</tr>
<tr>
<td>Portland BDS</td>
<td>10,000,000</td>
<td>Item</td>
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<td>Item</td>
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<td>10,000,000</td>
<td>Item</td>
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<table>
<thead>
<tr>
<th>Table 4: Projects Summary</th>
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</thead>
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<table>
<thead>
<tr>
<th>Type</th>
<th>May 2019 - October 2020</th>
<th>May 2019 - October 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Value</td>
<td>Type</td>
</tr>
<tr>
<td>COMMERCIAL</td>
<td>24</td>
<td>COMMERCIAL</td>
</tr>
<tr>
<td>EDUCATION</td>
<td>0</td>
<td>EDUCATION</td>
</tr>
<tr>
<td>HOSPITAL</td>
<td>1</td>
<td>HOSPITAL</td>
</tr>
<tr>
<td>MUTUALITY</td>
<td>1</td>
<td>MUTUALITY</td>
</tr>
<tr>
<td>RESIDENTIAL</td>
<td>1</td>
<td>RESIDENTIAL</td>
</tr>
<tr>
<td>NON-MUTUALITY</td>
<td>0</td>
<td>NON-MUTUALITY</td>
</tr>
<tr>
<td>TOTAL</td>
<td>894,851,568</td>
<td>TOTAL</td>
</tr>
</tbody>
</table>

$900M

$490
Have new apartments ever provided workforce housing?

New apartment rent as a percent of AMI – City of Portland
New construction shifted from entry-level to move-up buyers

Each dot represents a County in Oregon

Source: AEI Housing Market Indicators
Change in new construction location in Portland -2012 to 2018

Source: AEI Housing Market Indicators
New construction predominantly priced for move-up buyers statewide

Source: AEI Housing Market Indicators
Recent Statewide Legislation
HB 2001 and HB 2003
“As a brief reminder, this bill is designed to improve our implementation of Goal 10, our statewide housing goal, so that we live up to its intent. Implementation of this goal requires that we “provide for the housing needs of citizens of the state,” and “...encourage the availability of adequate numbers of needed housing units at price ranges and rent levels which are commensurate with the financial capabilities of Oregon households and allow for flexibility of housing location, type and density.”

House Bill 2003 would help our state reach its housing supply needs as envisioned by our land use system, while providing local jurisdictions the resources they need to accommodate future growth.”

-Tina Kotek, Testimony in Support of House Bill 2003, April 2, 2019
Develop a RHNA methodology to identify the total number of housing units (by housing type and level of affordability) needed to meet each city’s and region’s demand.

HB2003 Section 1(3)

Conduct a regional housing needs analysis for each region, inventory existing housing and estimate the housing shortage for each city and Metro.

HB2003 Sections 1(4) and 1(5)

- How does it compare to existing assessments of need in terms of cost and cost effectiveness, reliability and accuracy, repeatability, and predictability?
- Are the region boundaries ‘appropriate’?
- Determine allocation from region down to cities and UGBs

HB2003 Sections 2

DLCD create report with recommendations on how to proceed

Housing Production Strategies
HB 2001: Why was it needed and how will it help?
Why are small unit developments called the missing middle?

2 to 4 unit building permits -- State of Oregon

2 to 4 unit production represent 3% of state total in 2018

3 County PDX Metro produced 60% of units statewide by only 30% of duplex to quad units

Source: HUD
What does middle housing look like?
Why do we need missing middle housing?
# City of Portland – Residential Infill Project

## SUMMARY OF PREDICTED DEVELOPMENT ACTIVITY WITH PROPOSED MODIFICATIONS IN ZONING CODES

**20 Year Study Period, No Pricing Changes**

<table>
<thead>
<tr>
<th></th>
<th>Predicted Development Yield</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Construction Investment</td>
<td>New Units</td>
<td>Replaced Units</td>
<td>Net Units</td>
<td>Average Rent</td>
</tr>
<tr>
<td><strong>BASELINE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Construction</td>
<td>$5,233,460,967</td>
<td>13,665</td>
<td>(1,384)</td>
<td>12,281</td>
<td>$4,159</td>
</tr>
<tr>
<td><strong>NEW ZONING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Construction</td>
<td>$6,105,186,215</td>
<td>38,115</td>
<td>(1,501)</td>
<td>36,614</td>
<td>$1,823</td>
</tr>
<tr>
<td><strong>NET IMPACT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$871,725,248</td>
<td>24,450</td>
<td>-117</td>
<td><strong>24,333</strong></td>
<td>-$2,336</td>
</tr>
<tr>
<td>% Change</td>
<td>17%</td>
<td>179%</td>
<td>8%</td>
<td>198%</td>
<td>-56%</td>
</tr>
</tbody>
</table>

Source: Johnson Economics, City of Portland BPS
Where are we most likely to see HB 2001
No silver bullet, need coordinated policies to increase production

- HB 2001 (1,200 to 2,500 units a year in PDX metro)
- ADU production (average of 250 a year in City of Portland)
- City of Portland and Metro affordable housing bonds
- More $$$ is needed at all levels of government for subsidized housing
- Preservation of naturally occurring affordable housing
- HB 2003
- Public infrastructure investments
- UGB expansion areas
- Density around opportunity (transit, employment, outcomes)