

Housing Growth and Affordability in Portland

I. Introduction

Portland is growing and is in the midst of a housing development boom. Still, the city has been adding people faster than housing. This has put pressure on the housing market and increased housing costs across the board.

- Since 2010, Portland has welcomed approximately 27,000 new residents.
- Due to the recession, very few new housing units were built in 2008 and 2009.
- This means that new residents were competing for a limited supply of new housing as shown by the low rental vacancy rates in Portland, currently 3 percent and under 4 percent for the last 5 years.
- From 2010 to 2014, more than 15,000 new housing units were built in Portland, primarily apartments in the Central City and surrounding inner neighborhoods.
- Only a few hundred of these units were built under programs that ensure long term affordability.

This cost pressure is greatest for lower income families. While about a third of Portland households earn less than \$34,700 (half of the median family income or MFI), only about 7.5 percent (20,300 units) of the housing stock is publicly subsidized and maintained as affordable to these households. Other housing in Portland may currently be affordable to this group, but there are no protections to ensure it remains that way.

The need for housing for the lowest income households remains large and acute. In the 2012 Portland Plan, the City set a goal to create 30,000 new affordable units over the next 20 years. This would more than double the existing supply of long-term affordable housing.

To meet the ambitious Portland Plan goal, new funding and other approaches to produce affordable housing will be needed. The Bureau of Planning and Sustainability (BPS) has two studies underway that are exploring the use of zoning bonuses as an additional financial incentive for affordable housing development.



II. Current approaches to providing for housing affordability

Policies and regulations that affect the housing market and supply:

1. **Support for predictable and efficient growth in the overall housing supply.** Through the Comprehensive Plan, enough land is being zoned for multifamily, mixed use and other infill development to ensure the private sector can generally produce enough housing to keep up with demand. This is vital because overall housing costs can rise quickly if demand exceeds supply. Higher income households end up competing for units that, in the past, have been accessible to lower income households, especially in close-in and amenity-rich neighborhoods.
2. **Support for new housing types that are more likely to be affordable.** There is increasing interest for a broader range of housing types in single-family neighborhoods and in mixed use centers and corridors. These include small houses, small lot development and accessory dwelling units as well as multi-unit micro-apartments.

Also, the Zoning Code already allows some infill development without additional off-street parking, thereby reducing the cost of providing housing. These new development types can add to the range of affordable housing available in established single-family neighborhoods and in transit-rich centers.

Investment in affordable housing development:

3. **Tax Increment Financing (TIF).** In designated Urban Renewal Areas, the City may use TIF financing to raise funds for direct public investment in development. A portion of TIF funds in each Urban Renewal Area is dedicated to affordable housing investments. Since 2010, this program has invested more than \$107 million in affordable housing in Urban Renewal Areas including new construction and the preservation of existing affordable housing. Examples of direct TIF investment for new affordable units include the Bud Clark Commons and Grays Landing.
4. **Federal funds.** As an entitlement city, the federal government allocates HOME and Community Development Block Grant (CDBG) funds to Portland. Although both of these funding sources may be used for new affordable housing, these funds are also used for preservation of existing affordable housing and social services such as homelessness prevention. The Portland Housing Bureau (PHB) estimates that the investment of federal funds in new affordable housing development may result in about 40 new units per year. The Magnolia Apartments on NE Martin Luther King Blvd is an example of a new housing development created through the investment of federal funds.
5. **Loan products.** PHB uses federal funds and TIF for loan products available through the Notice of Funding Availability process. Loan products include equity gap contributions and housing development subordinate loans. A subordinate loan provides public financing for new or existing

affordable rental and mixed use projects, or projects for economic development activities directly related to affordable housing.

Financial incentives for affordable housing development:

6. **Tax exemptions.** The Multiple-Unit Limited Tax Exemption (MULTE) program allows developers to forgo paying property taxes on the residential improvements for the first 10 years after the project is built, provided 20 percent of the units are affordable.

7. **System Development Charge (SDC) exemptions.** The SDC Exemption Program assists developers by reducing their development costs when building affordable housing.

III. Exploring a new zoning-based financial incentive for affordable housing

Two studies are underway that explore the use of zoning bonuses as an additional financial incentive for affordable housing development. These bonuses would be incentives for private developers to voluntarily provide affordable housing in exchange for an increase in development entitlement, such as density or height. Options under consideration would allow the affordable housing to be provided onsite, offsite or through payment into a fund.

Project Timelines	Central City Bonus Study Economic & Planning Systems, Inc.	Mixed Use Zones Project Johnson Economics
Final Reports: Concepts & Recommendations	Early May 2015	Mid-April 2015
Present to City Council & Resolution	End of May 2015	N/A
Discussion Draft of Bonus Code	Fall 2015	May 2015
Proposed Bonus Code	Winter 2016	July 2015
PSC Hearings	Spring 2016	July – September 2015
City Council	Summer 2016	Late 2015

CENTRAL CITY BONUS STUDY

(Consultant: Economic & Planning Systems, Inc.)

The Central City Bonus Study is evaluating and calibrating the current Central City bonus structure to incentivize the production of affordable housing. There are currently 18 bonus programs available. Adopted between 1998 and 2003, these programs were designed to meet goals at the time. As market conditions and policy objectives have changed, the need to reevaluate the system has become apparent.

An updated Central City bonus structure would continue to allow additional density to be built in exchange for a public benefit, but the new structure would prioritize affordable housing development above other benefits.

For more information about the Central City 2035 Plan visit <http://www.portlandoregon.gov/bps/cc2035>



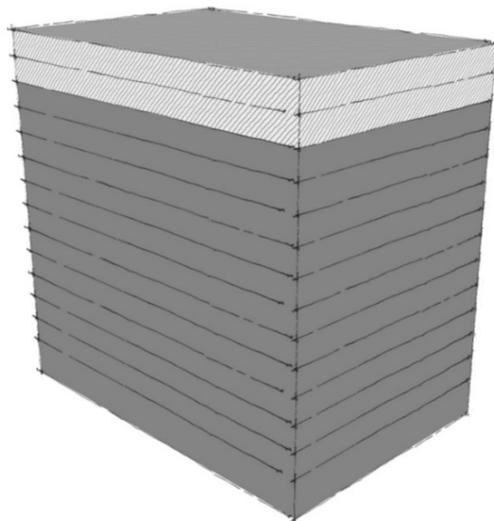
MIXED USE ZONES PROJECT

(Consultant: Johnson Economics)

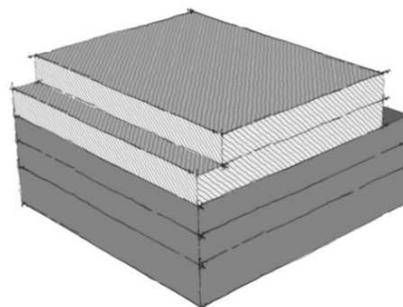
The Mixed Use Zones (MUZ) Project is evaluating an affordable housing bonus that would be applied to all mixed-use zones outside of the Central City. The project is identifying opportunities to incentivize affordable housing in private sector development through a bonus system while maintaining sensitivity to the context of adjacent residential neighborhoods. A bonus system in the mixed use zones would lower base entitlement and allow developers who take advantage of the bonus to build at a higher density than is currently permitted in these zones.

For more information on the Mixed Use Zones Project visit: <http://www.portlandoregon.gov/bps/mixeduse>

**Central City
RX Zone
12:1 FAR**



**Neighborhood
Center
CS / MU-2 Zone**



These diagrams demonstrate current concept direction for the Central City Bonus Study and MUZ Project. The dark sections of the diagrams show base development allowances with the density bonus shown in the lighter grey hatching.

IV. What is the benefit of doing this work?

Portland must provide growth capacity for 123,000 new households through 2035 and accommodate the need for a variety of housing types at different price levels. Through better implementation of an affordable housing bonus structure, the City of Portland can move closer to its goal of equitable, healthy and complete neighborhoods.

The proposed development bonus structure for both projects could provide 50 to 80 affordable units at 60 percent median family income (MFI) per year in high opportunity areas, resulting in 1,000 to 1,600 affordable housing units at 60 percent MFI over the next 20 years. However, estimates show that the need for housing affordable to households in or near this income bracket will have grown by 16,000 households by 2035. Zoning Code incentives are important, but other tools will also be necessary.

Median Family Income (MFI) refers to the income level earned by a given household (typically four people) where half of the households in an area earn more and half earn less. The MFI for Portland is \$73,900 per year. A household at 60 percent MFI earns \$44,100 per year. Many housing programs target households earning less than 60 percent MFI.

Policy tradeoffs that will need further discussion

- A. Affordability and number of units.** What is the correct balance between level of affordability, and number of units? For example, fewer units can be built at 60% MFI than at 80% MFI.
- B. Bonus system geographies.** Will the affordable housing bonus be applied to the entire city or only in geographies identified as high opportunity areas?
- C. Development scale.** What scale of development will the community accept for a project that includes affordable housing? In order to make an affordable housing incentive attractive, increased density and taller buildings will be necessary in mixed use zones, especially to achieve units affordable to households in the 60% MFI bracket.
- D. Payment in lieu.** Will a cash payment in lieu of providing on-site affordable housing be a component of the bonus structure? How would a cash payment in lieu program work?

ECONOMIC ANALYSIS

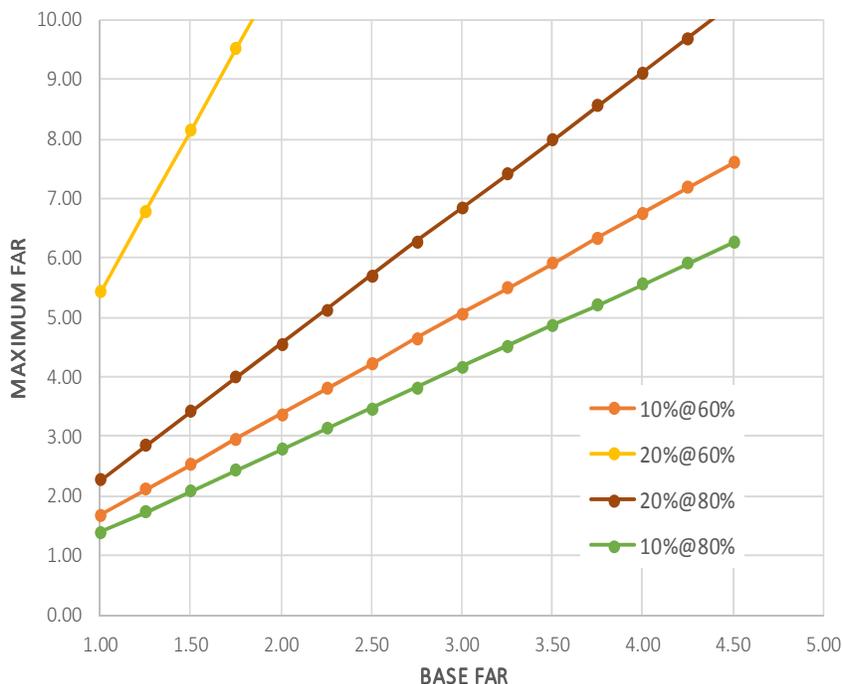
It is critical to make sure that the math works: Development regulations and policies need to be structured so that development continues to meet the overall housing demands of a growing population while effectively incentivizing the creation of new affordable units.

In order for the private sector to take advantage of the affordable housing density bonuses in the Central City and the mixed use zones, the value of the extra development that can be built using a bonus has to exceed the cost of providing the extra level of affordability.

If zoning requirements are difficult to meet, it can reduce overall private sector housing production, limiting supply and driving up overall prices. Policy decisions will need to be made to evaluate tradeoffs of a bonus structure.

Current relationship between base and bonus density in Portland's Mixed Use Zones

This chart shows the general relationship between base and bonus density achievable with today's market conditions in the mixed use zones. It shows the maximum FARs (a measure of density) that must be offered beyond the base zoning entitlement (base FAR) to provide affordable housing at 60 percent or 80 percent MFI. This is one of the economic calculations that must be done to calibrate a bonus program. The chart illustrates the tradeoffs between the density of allowed development, number of affordable units that can be achieved, and the level of affordability. For example, with a base zoning entitlement of 3:1 FAR, in order to provide a market incentive to build housing at 60 percent MFI, zoning must allow FARs slightly above 4:1 with bonuses.



Source: Johnson Economics

V. How do these studies relate to the inclusionary zoning bill currently under consideration in the 2015 Oregon Legislative Session?

Best practice research demonstrates that local governments with affordable housing incentives — in addition to mandatory inclusionary zoning — have been the most effective in creating units or generating revenue from cash in lieu payments. Density bonuses provide a market incentive to developers to create affordable housing, while generating revenues that maintain the production of market rate housing. If the repeal of the mandatory inclusionary zoning legislation is successful, the research and analysis conducted for these bonus studies will be relevant and can directly inform the crafting of a local solution in Portland.