



Oregon

Tina Kotek, Governor

HPAC Work Group Recommendation Template

Work Group

- Availability of land
- Land development permit applications
- Codes and design
- Workforce shortages
- Financing

Recommendation

This recommendation, Catalyzing Portland, recognizes that Portland is a, if not the, determining factor in meeting our State's housing goals. The recommendation consists of 5 parts:

1. Expand use of the Multiple Unit Limited Tax Exemption (**MULTE**)
2. Expand the applicability of Systems Development Charge (**SDC**) and Construction Excise Tax (**CET**) Waivers
3. Suspend Type III **Design Review**, except for appeals of Type II decisions
4. Consolidate and expedite **permitting** functions into one Bureau or Office
5. Provide expedited permitting and permit and fees waivers for the conversion of office to residential in the Central City.

State to provide COP w. funding support for implementation.

The Finance Work Group believes this should be a Statewide recommendation and not limited to Portland.

Related Work Plan Topics

Land Development Permitting:

- Remove barriers to make it less complex to build smaller, more affordable homes.
- Review the impacts of various land use regulations on housing production...
- The current land use process is too complex, at times not predictable, expensive, and time intensive...The process needs to be changed to address the barriers to housing production that this creates.
- Need for improved coordination between governments and departments to reduce barriers to development.
- Assess potential changes to the current public participation and land use appeals process to address barriers to housing development.
- Create teams of skilled professionals at the local level to aid developers, community groups, and jurisdictions navigate new development process.

Finance:

- Develop policy recommendations in response to OHCS report on SDCs.
- Audit and develop recommendations on state-authorized local policy and financial incentive tools to increase their flexibility and use.
- Prioritize grant funds for large and small cities with the highest production needs.
- Infrastructure needs and SDCs to support local infrastructure development create land readiness and cost barriers for local governments and housing developers.
- Establish, re-establish, or expand programs that provide funding for infrastructure.
- State could provide a fast-track lending instrument for municipalities to borrow against future revenues.
- Expand the portfolio of direct programming to support middle-income housing development (60-120% AMI)
- Provide funding and/or waive SDCs and fees for the conversion of office buildings to residential buildings.

Adoption Date

October 18, 2023

Method of Adoption

For LDP and C&D by email, and for Finance unanimously by Teams meeting on October 18.

Co-chairs Guidance: Standards for Analysis

1. Clearly describe the housing production issue that the recommended action(s) will address.

- The MUPTE has demonstrated, statewide, to be an effective tool in incentivize and catalyze housing, especially high density multi-family housing.
- Inclusionary housing burdens private development with the construction of affordable units. A policy creating an impediment to supply and increasing rents in the non-inclusionary units in order to pay for the affordable units.
- High fees drive development away and to jurisdictions, generally outside the State, where these cost don't exist or are much lower.
- Housing, at least in the near term, should be viewed as infrastructure vs. burdening its cost to fund other forms of infrastructure such as parks, roads, stormwater and water systems, etc.

2. Provide a quantitative, if possible, and qualitative overview of the housing production issue.

The Metro region's estimated OHNA need is about 50% of the total state need. Therefore, the Metro region should produce about **18,000 units per year** (50% of the 36k target). And Portland is 41% of the Metro region, or about **7,400 units per year** if pegged to the Governor's 36,000 unit target.

The Oregon System Development Charges Study prepared by Eco Northwest for OHCS concludes, *"SDCs can combine with other factors to exacerbate challenges for housing production and affordability,¹ even if they are not the primary driver."*

July 7, 2023 report by BAE Urban Economics reviewed the City of Portland Inclusionary Housing program. Key findings as follows:

- COP's BAE report documents that each Inclusionary Housing unit results in a loss of value to the investor of \$190,000/unit.
- On 150 unit project, 15 units * \$190,000 = \$2,850,000. The equivalent of a taking of 6.75 units (using the average cost of \$422,000/unit).
- Due to rising costs and capital constraints (interest rates) all development is infeasible except @ rents affordable to the highest income levels. Average cost is \$422,000/unit.
- With operating expenses, this requires \$38,400/unit/year to earn a 7% return. That equates to a household income of \$115,000. The Portland Housing Bureau's 2023 100% MFI for a household size of 2 is \$91,520. So under current economics, even without the burden of Inclusionary Housing, development of housing to meet even 100% AMI level is infeasible.

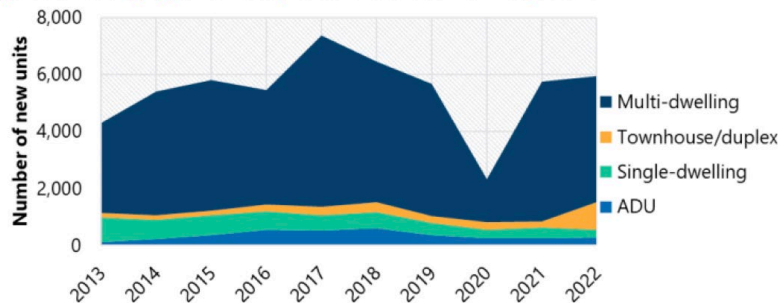
- To assess the issue and potential action(s), include subject matter experts representing all sides of the issue in work group meetings, including major government, industry, and stakeholder associations.

- Lorelei Juntunen, Eco Northwest
juntunen@econw.com
- [BAE Urban Economics Inclusionary Housing Calibration Study](#)
- Jill Chen, City of Portland
Jill.Chen@portlandoregon.gov
- Kimberly Tallant & Tracy Morgan, City of Portland
Kimberly.Tallant@portlandoregon.gov / morgan.tracy@portlandoregon.gov
- [Oregon System Development Charges Study](#)
- Clyde Holland, Holland Partners
- Sam Rodriguez, Mill Creek Residential

- Provide a quantitative, if possible, and qualitative overview of the outcome of the recommended action(s).

- Prior to adoption of inclusionary housing, the City reached its apex in supply at approximately 7,000 units per year.
- Portland’s Inclusionary Housing program has resulted in 1,100 affordable units over the last 7 years. An average of 150 units per year. This pales in comparison to the City of Portland’s share of demand.
- Based on pre inclusionary permit applications vs. post inclusionary, temporarily suspending inclusionary housing alone can be reasonably expected to result in a net increase in supply of approx. 1,500 units/ year.

Figure 53. Housing Types Permitted, Portland Urban Service Area, 2013-2022



Source: City of Portland, Permit Database, 2023

The Inclusionary Housing Calibration Study suggests expansion of the SDC waiver program as readily available tool to increase housing supply.

It is not uncommon for SDCs to be \$25,000/unit which, considering an average housing cost of \$250,000/unit, represents 10% of the the total cost of production. This is a decent profit margin for a builder. Reducing the cost of housing by 10% is expected to be a materially induce supply.

The [National Association of Homebuilders](#) provides data and reports re. the economic impact of home building in both multi-family and single-family configurations. According to their work, there is a one-year initial impact of \$13.9m in local income, taxes, and other revenue, per 100 multi-family units – representing \$139,000 per unit and 1.6 local jobs produced per unit. The recurring annual revenue from income, taxes, and other revenue from the same 100 units is estimated to be \$3.1m or **\$31,000 per unit** and .44 local jobs per unit. The focus should be on the recurring data and impact as the initial includes up-front permits and impact fees.

5. Provide an estimate of the time frame (*immediate, short, medium, long-term*), feasibility (*low, medium, high*), and cost (*low, medium, high*) for implementation of the recommended action(s).

Time Frame: Short
Feasibility: High
Cost: Medium

6. Provide a general overview of implementation, the who and how for the recommended action(s).

Legislative action by State + implementation/adoption from City of Portland.

7. Outline the data and information needed for reporting to track the impact and implementation of the recommended action(s).

Local jurisdiction to track pre and post permitting activity and report to DLCD.

8. Identify any major unknowns, tradeoffs, or potential unintended consequences.

- Lost revenues due to SDC waivers and taxes if you believe housing would have been built anyway
- Need for additional staffing resources to process expected increase in permit activity
- Infrastructure needs to track w. new housing such as parks, schools, etc.

Please include any relevant reports, data analyses, presentations, or other documents that would be informative and useful for the full HPAC as the recommendation is discussed and considered.