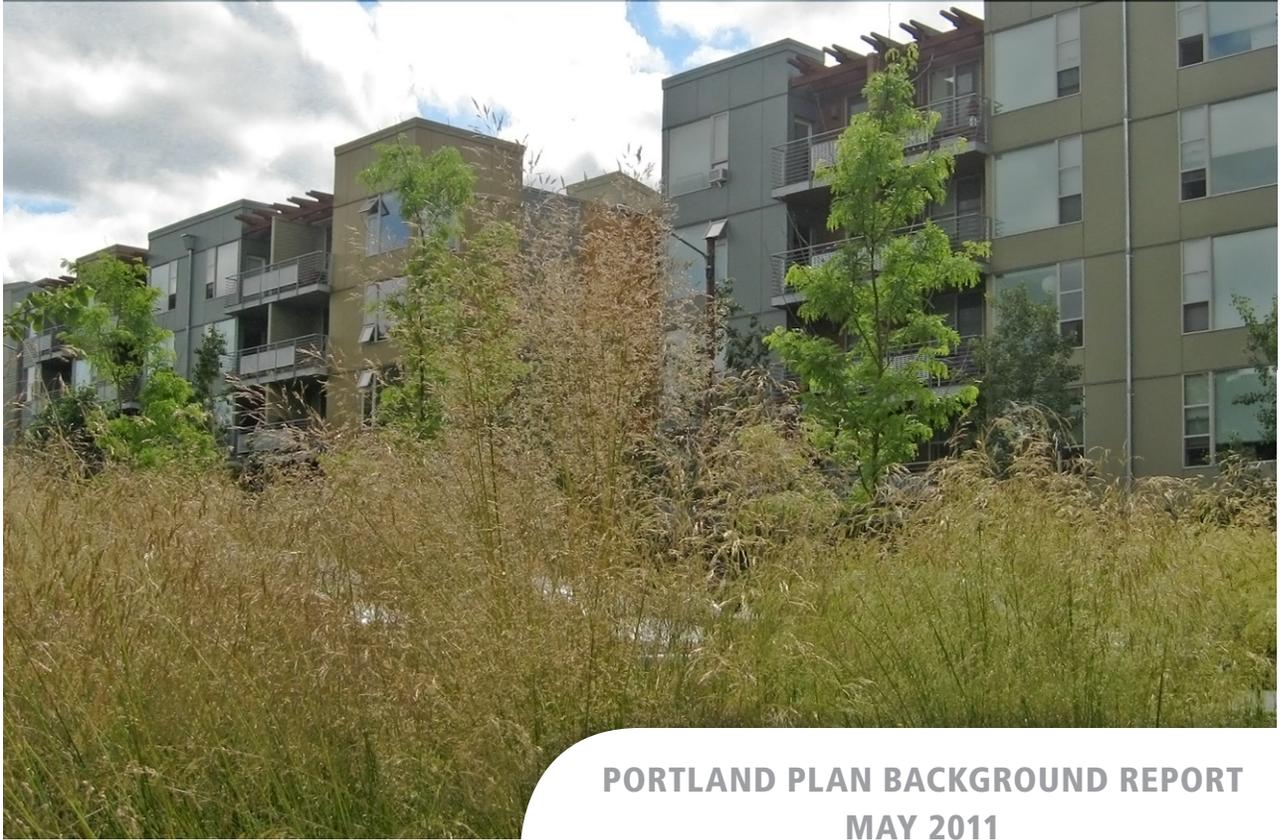


PORTLAND PLAN

Housing: Updates on Key Housing Supply and Affordability Trends



PORTLAND PLAN BACKGROUND REPORT
MAY 2011

**Planning and Sustainability Commission
Recommended Draft**

JULY 12, 2011



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Sam Adams, Mayor • Susan Anderson, Director

Acknowledgments

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Housing: Updates on Key Housing Supply and Affordability Trends



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Housing Background Report 5: Updates on Key Housing Supply and Affordability Trends

EXECUTIVE SUMMARY

In Fall 2009, as part of *Portland Plan's Phase I* fact-finding efforts, the following four housing background reports covered in-depth analysis of various significant housing issues:

- **Housing Supply:** the report conducted a detailed inventory of housing units by type, age, size, tenure and quality for the City as a whole and for six subareas within Portland. Based on available data, the inventory largely documented the nature of the housing stock in the year 2007.
- **Housing Affordability:** the report analyzed the state of housing affordability for owners and renters across the City by looking at various relevant variables like Median Housing Price, rents, number of cost burdened households, count of affordable units within the City etc. and made findings and recommendations on housing affordability. The available data was mostly for the year 2007 while some information was for 2009.
- **Housing and Transportation Cost Study:** the report developed a framework to guide the City's efforts toward calculating a combined housing and transportation cost burden, particularly as it pertains to housing cost burden. Theoretically generated base year 2005 data and projections for the year 2035 were used for this analysis.
- **Household Demand and Supply Projections:** the report considered the effects that projected population growth will have on the City's housing needs over a 30-year timeframe. Specifically, the report examined whether the supply of existing and new housing will be able to meet demand, and in which areas of the City certain types of housing could be needed most. The report utilized household projections for the year 2035.

In the two years since the publication of the above reports, more up-to-date data on housing units, household income, tenure and housing costs have been released by various sources. **The purpose of this report is to document current housing information and to analyze the current state of *housing supply, households and housing affordability*.**

Overall Conclusions

Taken together, the five housing reports offer the following insights regarding Portland's housing supply and housing affordability:

Housing Supply: the City will have adequate housing stock, through a combination of existing units and new construction, to meet projected population growth. Further, based on recent trends in housing construction, the future housing stock will include a much greater proportion of multi-family units in the coming years.

Housing Affordability: low and moderate income households in the City continue to be challenged in terms of finding "affordable housing units" due to a combination of high housing costs, rising energy prices and stagnant household income. Affordability is likely to be a housing problem in years to come. Noteworthy is the fact that the recent drop in housing prices neither improved nor worsened housing cost burden for owners. However, the tightening of the rental market and increasing rents is indeed deepening affordability issues for renter households. Given the projected growth in cost burdened households, preserving and expanding the stock of affordable housing units of various types and in varied price ranges will continue to be a critical long term housing issue for housing policy advocates and housing providers.

REFERENCE GEOGRAPHY & HOUSEHOLD TYPES

I. City & Its Subareas

The distribution and nature of housing units is rarely uniform across any local jurisdiction. City of Portland is no exception. In order to better discern patterns of housing units by *type*, *age* and *tenure*, the housing reports looked at the City as a whole and also at “subareas” within the City. These subareas are clusters of census tracts within the City and Portland has six such areas. The following illustration shows the various subareas with Portland:

Portland’s Subareas

The housing reports used the subareas as analysis geographies mainly because Metro releases household projections at this level and existing supply can also be easily grouped by census tracts. It is important to note that while these subareas do not exactly match the six planning districts, they are quite close. Following is an illustration of the six planning districts:

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Portland's Liaison Districts

It is important to note that while most of the subareas are a close match, there is significant difference in the "Central City" geography. The Central City Plan Area is a much larger geography than Metro's "Portland CBD" or "Subarea 11." The data documented for Portland CBD in the housing reports does not cover the entire Central City.

The subareas have discernible differences in terms of their land area, housing unit types, tenure split, household size and occupancy rates. The following table reproduced from the Housing Supply Report, provides a snapshot of important housing characteristics in the various subareas of the City:

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| Selected Housing Characteristics, 2005 | | | | | | |
|------------------------------------------------|---------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|-----------------------------|
| | Portland CBD (Subarea 11) | Northeast Portland (Subarea 12) | East Portland (Subarea 14) | Southeast Portland (Subarea 15) | West Portland (Subarea 16) | North Portland (Subarea 17) |
| TOTAL HOUSING UNITS | 10,268 | 43,430 | 48,250 | 70,340 | 47,069 | 23,413 |
| Occupied housing units | 8,938 | 40,765 | 44,979 | 66,431 | 44,127 | 21,641 |
| Vacant housing units | 1,330 | 2,665 | 3,271 | 3,909 | 2,942 | 1,772 |
| Vacancy rates | 13.0% | 6.1% | 6.8% | 5.6% | 6.3% | 7.6% |
| Average homeowner vacancy rate | 1.7% | 1.6% | 1.5% | 1.2% | 1.6% | 0.8% |
| Average rental vacancy rate | 5.9% | 5.2% | 6.6% | 3.7% | 5.8% | 5.1% |
| Percent share of units | 4.2% | 17.9% | 19.9% | 29.0% | 19.4% | 9.6% |
| TENURE | | | | | | |
| Owner-occupied | 1,497 | 26,231 | 27,286 | 35,477 | 24,808 | 13,384 |
| Renter-occupied | 7,441 | 14,534 | 17,693 | 30,954 | 19,319 | 8,257 |
| Average household size of owner-occupied unit | 1.6 | 2.5 | 2.7 | 2.4 | 2.3 | 2.4 |
| Average household size of renter-occupied unit | 1.3 | 2.3 | 2.6 | 2.2 | 1.8 | 2.3 |
| LAND AREA (in acres) | 1,690 | 17,325 | 15075 | 14881 | 24818 | 26393 |
| Percent share of land | 1.7% | 17.3% | 15.0% | 14.9% | 24.8% | 26.3% |

Source: ACS Multiyear Estimate, 2001-2005

II. Household Types

Similar to geographic differences within the City, differences exist between households living in the City. For the purpose of housing needs analysis, the housing report uses eight (8) different household types that differ in terms of a combination of four variables: *age, income, size and whether or not there are children in the household*. Following is a summary of the eight different household types:

- **Group 1 ("Low-Income Singles"):** These are the lowest income households, whether they are renters or owners. Of the renters in this group, all live alone, and most are elderly. Among owners in Group 1, age and number of people in the household is more evenly distributed. *Example: A woman in her seventies renting an apartment, living alone on a very low income. Total income less than \$15,000.*

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- **Group 2 (“Working Class”)**: These households can be any age, but their income is among the lowest. More are renters rather than owners. About two-thirds are childless. However, one-third of the renter households in this group have school-age children, while only about one in six of the owners in this group have school-age children. *Example: A family renting a home, two adults working at low-wage jobs, raising young children. Total income at least \$15,000, less than \$25,000.*
- **Group 3 (“Emerging Singles”)**: With a bit more income than Group 2 households, these people are primarily in the 25-44 age bracket. The renters are mostly single-person households. The owners are about half made up of two-person households, about one third of them being families with school-age children. *Example: Two thirty-somethings, both of whom work, and who have just bought their first home. Total income at least \$25,000, less than \$35,000.*
- **Group 4 (“Established Singles and Couples”)**: With a broad age distribution and approaching middle income, these households are usually childless, especially if they are renters. Owner households in Group 4 have more residents and almost 40 percent include school-age children. *Example: Two people renting a home, both working, and with children who are grown up and living elsewhere. Total income at least \$35,000, less than \$45,000.*
- **Group 5 (“Young Middle-income families”)**: Group 5 households are larger and wealthier. People in the renter households of this category are not only older than those in the owner households are, but also have smaller household sizes. The owners are more likely than not to have children. *Example: Two parents in their late thirties, living in a home they own with children in junior high and high school. Total income at least \$45,000, less than \$60,000.*
- **Group 6 (“Fast Track Families”)**: With more income than Group 5 households, almost half of this group is between 25 and 44. Although the majority do not have school-age children, two- and three-person households are most common. The owner households are larger and more likely to have school-age children. *Example: Two adults with well-paying jobs, one working full-time, the other part-time, raising elementary-school-age children, and living in a home they own. Total income at least \$60,000, less than \$75,000.*
- **Group 7: (“Successful Middle Aged”)**: Mostly without children, these households include the very high-income couples, especially for owners. Interestingly, the renter households in Group 7 are more likely to have children. *Example: Two early-fifties adults working at very well-paying jobs, owning their home. Total income at least \$75,000, less than \$100,000.*
- **Group 8: (“Movers and Shakers with Kids”)**: Among owners, most of these households have children; about 60 percent of renter households have children. They are the highest earners in their prime earning years. *Example: A family with two parents in their late forties or early fifties, both working full-time in high-paying jobs, raising children who are still in school and living with them in the home they own. Total income \$100,000 or more.*

It is important to note that these eight groups actually represent a bundling together of the more than 400 different household consumption profiles and not a simple grouping of households based on *Income, Size or Age*. However, as “consumption” of housing is strongly

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influenced by a household's age, size, income or presence of children, there is some pattern with regard to these characteristics.

Patterns we find when comparing across groups are that:

- Household *income is generally lower for renters than for owners.*
- For both renters and owners, income increases as we move from one group to the next.
- Age varies more for renters than for owners.
- *Group 1* includes many *elderly*, while *Group 2* has a much higher concentration of *young* adults. The average age rises again for Groups 3 and 4 and then falls for Groups 5 and 6, rises slightly for 7, then falls again for group 8.
- Household *size is generally higher for the higher number groups* (which also have the *higher incomes*). However, Group 2 renters have a larger household size than renters in Groups 3 and 4. Group 8 renters and owners have both the highest household size and the highest percentage of households with school-aged children.

Highlights from Fall 2009 Housing Reports

I. SUMMARY: HOUSING SUPPLY REPORT

About 60 percent of the housing units in Portland are single-family detached homes, 3 percent are attached single-family homes, and almost all the rest are multifamily housing. The mix of housing types varies across the city, with more multifamily housing and lower homeownership rates in the city's core and adjacent close-in neighborhoods. The overall homeownership rate has increased steadily since 1990 and was 57 percent according to the 2007 American Community Survey, with the highest homeownership rate in Northeast Portland. Most housing units have two or three bedrooms, with the exception of units in Portland's core area, most of which have one or no bedrooms (i.e., they are studios or single-room occupancy housing¹).

The current mix of housing types will change over time with an increasing share of multi-family. Most of the new housing built since 2000 is multifamily. Since the middle of this decade, the number of multifamily units added to the housing supply, as reflected by building permit activity, is two to three times that of single-family units. This trend is likely to continue for several reasons: most Portland households consist of one or two people, families with children make up a decreasing portion of the population, and that underused land zoned for commercial and employment use is also available for new higher-density residential development. A sizable portion of the new multifamily housing in the city's core is being built for homeownership, so the homeownership rate there may increase in the future. New single-family homes are now often built on infill lots in existing residential areas because the supply of vacant land that does not have environmental constraints and is zoned for single-family residential development is dwindling. Given that the City is essentially land-locked, it is not likely that Portland can add new single-family lots.

To preserve a variety housing types, prices, and rents in Portland, it will be important to maintain the existing housing stock. More than half of the city's housing was built before 1960,

¹ Single room occupancy units (SROs) are rooms without their own bath or kitchen facilities. They are typically found in residential hotels in inner cities. Studio apartments do not have a separate bedroom but have a kitchen and bathroom.

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with about one-third built before 1940. The largest supply of single-family detached homes is older homes; to optimally use available single-family units, it will be increasingly important to encourage older, smaller households to move into smaller units, which then provides an opportunity for larger households, particularly families with children to reuse these units. The preservation of older multifamily housing is also critical because this housing type is often more affordable than new housing. Maintenance and energy efficiency are important in maintaining the viability of older housing units. So far, about one-tenth of the city's housing has benefited from weatherization improvements. Given rising energy costs, more and more of the housing units will have to be weatherized. Preservation of older housing stock is not important just because of affordability and desirability issues. Maintaining the city's existing, older housing stock offers the additional benefit of a preserving Portland's architectural history and the unique character of its residential neighborhoods.

KEY FINDINGS

- The supply of housing units in the city of Portland has continued to grow in the current decade. An estimated 12,621 new housing units have been added to the existing stock since the last Census count of 2000. However, the pace of increase in the current decade is considerably less than the 1990-2000 time period, during which nearly 39,000 new housing units were built in the city.
- An examination of housing stock within the city's geographic subareas reveals differences. (See the Metro subarea map for the city in the previous section) Southeast Portland, which covers approximately 15 percent of the city's land area, contains an estimated 29 percent of the Portland's total housing stock. The three other subareas—Northeast, East, and West Portland—each account for roughly 18 percent of the total stock. The North subarea holds nearly 10 percent of the total units, while Portland's Central Business District (CBD) accommodates just more than 4 percent of the city's housing units.
- Although the city's housing stock consists of different unit types, a significant proportion (61%) of the units are single-family detached units. This unit type accounts for nearly 61 percent of the total stock. Multifamily units that have 20 or more units make up only 15 percent of Portland's housing stock. However, in Portland's CBD, buildings with 20 or more units make up an estimated 87 percent of available housing supply.
- Nearly 35 percent of Portland's housing units were built before 1940. However, the older housing stock is not uniformly distributed throughout the city. The Northeast (52%) and the Southeast (47%) subareas have a disproportionate share of these older units. The East and Southeast subareas have a composition that is different from the city as a whole. About 21 percent of the dwelling units in these areas were built between 1950-1960.
- A majority of housing units in the city either have two or three bedrooms. Together, such units account for about 63 percent of the total units. About 17 percent of the units have one bedroom, while 11 percent of the units are four bedroom units.
- An examination of housing tenure indicates that about 57 percent of units are owner-occupied and 43 percent are occupied by renters. As in the rest of the nation, homeownership rates in Portland have been steadily climbing since the 1990s.

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- The 64 percent homeownership rate in Northeast Portland is the highest in the city, well above the city as a whole. The East and North subareas also have rates that are above 60 percent. The Southeast and West subareas closely mirror the city's tenure split.
- The Census Bureau tracks the condition of housing units based on the presence or absence of complete kitchen and plumbing facilities. Although only about 1 percent of the city's housing units lack complete plumbing and another 1 percent lack complete kitchen facilities, the absolute number of substandard units has risen since the 1990s. Furthermore, the vast majority of these substandard units (40 percent of units without plumbing and 33 percent of units without kitchen facilities) are located in Portland's CBD. The Southeast and West subareas also have large shares of these substandard units.
- Locally tracked residential weatherization data for both single-family and multifamily units reveals that 21,450 units have accrued energy savings through a variety of weatherization programs, such as improvements from envelope weather-stripping and hot water heater replacement.
- Portland's CBD (a much smaller geography than the "Central City") has a more distinct unit composition than the City as a whole and the other subareas. Nearly 35 percent of the units in this area were built in 1990 or later. The permit activity corroborates housing developments in the CBD. It is also the only subarea that has very different distribution in terms of number of bedrooms. In this subarea, about 42 percent of the units have one bedroom and 35 percent have no bedrooms. Additionally, Portland CBD is different in terms of tenure split. An analysis of the tenure by city subarea reveals differences in homeownership rates, with an estimated 83 percent of the units here being renter-occupied.

CHALLENGES TO HOUSING SUPPLY

- The existing supply of housing stock is adequate for the current demand. However, significant and sustained addition to the housing inventory will be needed as the population in the Portland area continues to grow.
- Housing supply and stock will need to match expected demographic shifts in population age and race/ethnicity.
- Although the age of a dwelling unit by itself does not imply loss of units due to natural depletion, greater age does imply maintenance. Unless older stock is kept up, the inventory of existing stock may decline.
- The nature of new housing units that are being built in the City is changing (i.e., more smaller, multi-family/ infill units), and consequently educating the population on the benefits such dwelling units provide will be critical to keeping larger households or families with children in Portland.

OPPORTUNITIES FOR HOUSING SUPPLY

- An analysis of demolition activity in the past several years indicates that many garages or similar structures were demolished to construct new dwelling units. This trend is an opportunity to replenish the housing stock while encouraging sustainability.

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- If development continues in Portland's CBD, there will be great opportunity for sustainable living – primarily in the form of smaller, multifamily units in locations with good transportation access.

II. Summary: Housing Affordability REPORT

The most notable trend affecting the Portland housing market in the last decade has been the decline in affordability. Housing affordability is a function of both housing costs and incomes, and since 2000, both housing prices and rents in Portland have increased more than incomes. The result is that more households are "cost burdened," meaning that they pay a greater portion of their household income for housing costs than the 30 percent that is considered acceptable. Portland household's, whether they rent or own, are paying more than households nationally, 45 percent "cost-burdened" vs. 36 percent "cost-burdened" nationally in 2007.

| | All Households | | Owners | | Renters | |
|--------------------------|----------------|--------|----------|--------|----------|--------|
| | Portland | Nation | Portland | Nation | Portland | Nation |
| Not paying more than 30% | 55% | 64% | 61% | 69% | 48% | 51% |
| Paying More than 30% | 45% | 36% | 39% | 31% | 52% | 49% |

Although Portland has had lower housing prices and rents than West Coast cities such as Seattle and San Francisco, incomes here also tend to be lower.

Although homeowners as a group have substantially higher incomes than renters, monthly housing costs have outpaced income growth since 2000. During that time, monthly housing costs have increased about 40 percent for both for the three-quarters of the homeowners who have a mortgage and the one-quarter without. Even with the current downturn in the housing market, it is unlikely that housing values and prices will fall enough to be more in line with household incomes, as was the case earlier in this decade. Because the population of the Portland metropolitan area is expected to continue to grow, the demand for homes to purchase will eventually increase when the economy improves. In addition, the cost of utilities is expected to continue to rise.

Even though the rise in housing prices far outpaced income growth since 2003, homeownership rates rose during this period. Some of this increase may have been due to the availability of unconventional mortgage products, including adjustable-rate, interest-only, and stated income loans that allowed people with insufficient income to purchase homes. With the increasing number of homes in foreclosure, the homeownership rate may decline in the short term, and certainly, it will be more difficult for some potential homebuyers with lower incomes to obtain loans. This may adversely affect the City of Portland's objective of increasing the homeownership rates of minority households, which often have lower incomes than Portland households as a whole.

The monthly housing costs of Portland's renter households have not risen as much as those of homeowners; still, the increase was more than 20 percent since 2000. More than half of all renter households need rental units that are more affordable if they are not to be cost burdened. Almost all the renters needing more affordable units have incomes of less than \$35,000 a year. Although Portland has a substantial supply of subsidized rental housing, there are not enough subsidized units to meet the demand. Furthermore, some subsidized rental units are at risk of losing their affordability if they are in privately owned developments where

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federal or state contracts that have required that rents be kept affordable to low-income households are expiring. Condominium conversions and mobile home park closures also can lead to the loss of unsubsidized affordable units. Recently, foreclosures on loans to investors in rental properties have led to tenants losing their housing even when they were current on their rent.

KEY FINDINGS

(a) Change in Housing Costs and Cost Burdens between 2000 and 2007

- Housing costs rose faster than household incomes, regardless of tenure. Monthly owner costs, both for households with a mortgage (76 percent) and those without one (24 percent) rose 40 percent during that period. Monthly housing costs were significantly higher for households with a mortgage, but so too were incomes. Monthly housing costs for renters rose 23 percent during this time period.
- Owner households have much higher incomes as a group than renter households. In 2007, most households with incomes of less than \$35,000 were renters, and most households with incomes of more than \$35,000 were owner households. Some of this difference in income could be accounted for by household size. Most renter households consist of one person, while the most common size of owner households is two people.
- About 40 percent of owner households in Portland were cost-burdened in 2007. Most owner households with annual incomes of less than \$50,000 were cost burdened, as were some households in the \$50,000 to \$74,000 income range. Few owner households with an income of more than \$75,000 were cost burdened.
- Most renter households were cost burdened in 2007, although only a very few of renter households with an annual income of more than \$35,000 were cost burdened.

(b) Changes in Owner and Renter Monthly Housing Costs 2000 to 2007

- The supply of affordable owner-occupied and renter-occupied housing units decreased.
- The number of owner-occupied housing units with values of lower than \$200,000 decreased substantially, and the number valued at more than \$200,000 increased dramatically. In 2000, 73 percent of owner-occupied housing units were valued at \$200,000 or less in 2000, but in 2007, only 18 percent were valued below \$200,000. The monthly owner costs for households with a mortgage were \$1,620 in 2007, a jump of 40% compared to the year 2000 expenses.
- The number of rental units with monthly housing costs of less than \$700—particularly in the \$400 to \$600 range—declined substantially. Units in the \$400 to \$600 range would be affordable to households with incomes of between \$16,000 and \$24,000 a year. A minimum wage worker working full time makes about \$17,500 a year.
- The number of rental units with monthly housing costs of \$800 or higher increased, particularly in the \$1,000 to \$1,250 range. Such units would be affordable to moderate- to middle-income households, with annual incomes of \$40,000 to \$50,000.

(c) Housing Prices, High-Cost Mortgages, and Foreclosure Activity

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- From 2000 to 2007, the median Portland housing price rose from \$166,000 to \$288,900—almost 75 percent in seven years. Because incomes have not kept pace with the increase in housing prices, it is not surprising that many households used unconventional mortgage products to purchase homes that they could not afford and therefore are now in trouble.
- In late October 2008, about 8 percent of loans in the Portland metropolitan area were subprime, 3 percent were delinquent, and 1.2 percent were in foreclosure. The rates for these loan characteristics were lower in some other western cities, such as Sacramento and Denver, and higher than in Seattle.
- Census tracts that had a higher percentage of conventional high-cost loans for home purchase and refinancing in 2004 to 2006—the height of the housing boom—were located in far north and east Portland, where both incomes and housing prices tend to be lower than the rest of the city. These are areas where higher foreclosure rates can be expected.

(d) Housing Prices and Rents by Area

- Housing prices vary by area of the city and are lower in north and east Portland, according to information on median sales prices from the Regional Multiple Listing Service (RMLS).
- Rents are substantially higher in Portland's centrally located neighborhoods, such as downtown, the Lloyd and River districts, Northwest, and the inner eastside, than in the rest of the city, according to a local real estate firm that tracks rents of buildings with 100 or more units. Rents by both number of bedrooms and by square foot are as much as twice as high near the center of the city than further out.
- Although the Housing Authority of Portland's properties are somewhat dispersed throughout the city, the use of Section 8 rental housing vouchers has been increasing the most in areas far from the city center, such as in the far north (the St. Johns, Portsmouth and University Park neighborhoods) and East Portland (neighborhoods east of I-205). The use of housing vouchers has decreased in inner eastside neighborhoods (between 39th Avenue and I-5). These inner eastside neighborhoods have frequent transit service and convenient neighborhood commercial areas, and they are close to the central city—the region's largest job center.

CHALLENGES TO HOUSING AFFORDABILITY

- Housing costs will probably continue to increase over the long term. Population growth will fuel demand for housing and keep housing prices and rents high. Rising energy costs also will contribute to increased housing costs.
- There has been a marked decrease in the number of owner-occupied homes with values of less than \$200,000 and an increase in those with higher values. This increase in housing values may be a barrier to first-time homebuyers trying to find an affordable home. There also has been a significant decrease in the supply of rental units affordable to low-income households. This could be due to a number of factors, such as rent increases, condominium conversions, and the expiration of federal and local contracts with private owners to provide affordable units. If the supply of low-income housing units declines and the current recession deepens, more of Portland's residents will be homeless or at risk of homelessness.

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- Housing prices and rents are most affordable in areas to the north and east, furthest from the city's center, which is the region's largest job center. The transportation costs and commuting times for households seeking affordable housing are likely to increase if they choose to live in these locations. Hence, efforts are underway to measure housing costs and affordability as a combination of Housing and transportation costs (see summary in subsequent section).

OPPORTUNITIES FOR HOUSING AFFORDABILITY

- Available inventory of foreclosed homes could be conveyed to nonprofits to house low-income families.
- Local developers and employers may have an interest in providing "workforce housing" that would allow employees to live close to where they work. This could include employer-assisted housing programs and/or development of close-in, more reasonably priced ownership/rental housing units than the current market is providing, perhaps with smaller units and no parking.
- Given the decline of new single-family home construction, more households may be willing to consider buying smaller, more energy-efficient multifamily units.

III. SUMMARY: HOUSING AND TRANSPORTATION COST STUDY

The City of Portland's and the region's approach to planning has helped make our region one of the most livable in the world. Even so, the city's livability is threatened by economic instability, changing settlement patterns, and global climate change. As it undergoes periodic review, the City is trying to find new ways to address these global issues. In addition, recent volatility in fuel prices has led to an interest in incorporating the cost of transportation along with the cost of housing when examining housing affordability. This analysis begins to make that link between the two policy priorities—the need for affordable housing and transportation accessibility.

This report provided a framework to guide the City's efforts toward calculating a combined housing and transportation cost burden, particularly as it pertains to housing affordability. This document reports on a preliminary analytic framework, including recommendations and refinement to the Metroscope model, suggested inclusions in subsequent work products, and an exploration of policy tools and choices.

KEY FINDINGS

- The smallest proportion of household income earmarked for housing and transportation (for all housing types and tenures and all household groups) was estimated at about 32 percent, for small areas in close-in on the eastside and the southern part of downtown Portland.
- Lower-income groups in the rental multi-family market (for the household groups defined and estimated by Metroscope) tend to spend higher proportions of their income on transportation costs than their higher-income counterparts, though the proportion spent on transportation varies somewhat.
- Lower-income groups in the rental multi-family market tend to spend higher proportions of their income on transportation and housing costs combined. One of the lowest-income household groups (Metroscope's Group 2) in the rental multi-family market faces

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the highest combined housing and transportation cost burden of all demographic groups, averaging 79 percent region-wide, followed by the other lowest-income household group (Group 1), at about 64 percent, with the higher-income groups requiring relatively lower proportions of their household income committed to housing and transportation.

- Even in the most location-efficient areas, the lowest-income households are still cost burdened, with a high proportion of household income committed to housing and transportation.
- Location-efficiency of housing can lessen the cost burden of housing and transportation, but must be viewed as one of many potential tools to increase housing affordability for low-income households.

OPPORTUNITIES FOR FURTHER RESEARCH

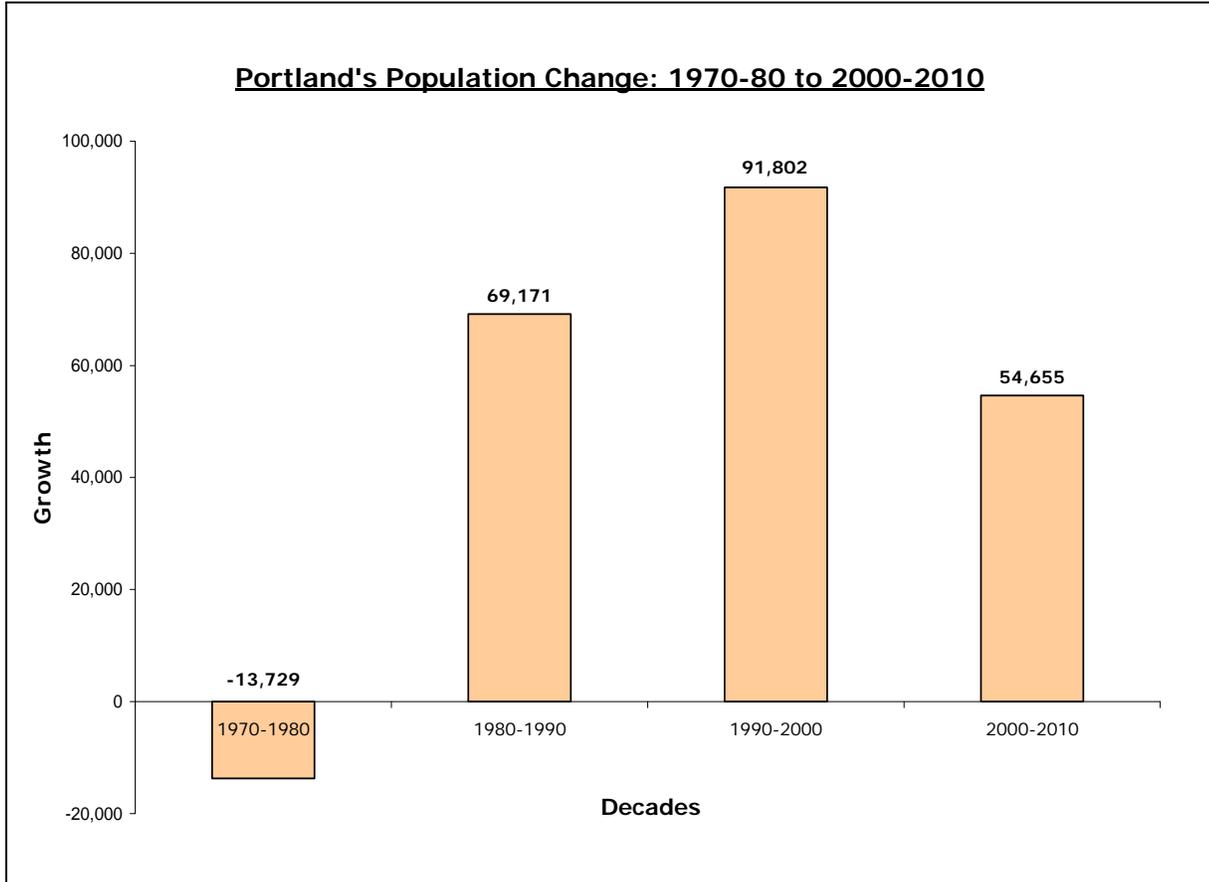
- ***Developing a quantitative standard for combined housing and transportation cost burden:*** With the generally-accepted definition of cost burden for housing alone at 30 percent of household income, a suitable standard for housing and transportation combined might be in the 45- to 50-percent range.
- ***Developing a quantitative standard or index for location-efficient housing:*** The general definition of a location-efficient area is one that is well-served by transit, and is conducive to biking, walking and other modes of transportation. The empirical definition might be based on the proportion of trips captured by non-driving modes, adjacency to a well-served transit station (light-rail or streetcar station or frequent bus service), proximity to employment, retail and other services, or some combination.
- ***Exploring possible metrics for quantifying household wealth:*** For many households, particularly older households, the wealth effect has an important impact on whether housing costs cause economic hardship. Households that have the wealth required to purchase a home with a significant down payment will have a much lower mortgage payment than a household that must finance 80 percent of the cost, which is the assumption made by Metroscope.

IV. SUMMARY: HOUSEHOLD DEMAND & SUPPLY PROJECTIONS REPORT

This Portland Plan Background Report considered the effects that projected population growth will have on the City's housing needs over the 30-year timeframe to 2035. Specifically, the report examines whether the supply of existing and new housing will be able to meet demand, and in which areas of the City certain types of housing could be needed most.

In recent decades, the populations of both the Portland Metropolitan region and the City itself have experienced a steady net increase. This increase is likely to continue in coming decades. In 1980, Portland's population was about 368,000; according to the latest 2010 Census counts, Portland's population is 583,776 a growth of about 10.3%. The following illustration traces Portland's population over the past several decades:

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Source: Census 2010

Some of this population growth was a result of changed boundaries as the City expanded its land area by about one-third through annexations, mostly of land on the eastside. In another 25 years, how many people will live here on Portland's nearly 93,000 acres?

Metro's Regional Forecast

The Metro regional government is responsible for forecasting the amount of growth the metropolitan area will experience. The Metroscope computer model calculates a wealth of detailed projections of what the region's population and demographics will be in 2035.

Regarding housing needs in the City of Portland in 2035 (and stated in the broadest of terms), the model tells us that:

- The **number of households** in the Metro region and the City of Portland **will grow**
- There **will be adequate supply** of housing for the additional residents
- The **highest level of demand** will be for **multi-family** residences

The Metroscope model forecasts total households in the three-county region in 2035 will be between 1.3 and 1.5 million, an increase of between 56 and 74 percent. The model projects total households in the City of Portland will be between 345,000 and 376,000, an increase of 44 to 57 percent from the 2005 baseline of 240,000 households.

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Metroscope forecasts the projections for households, not individual people, because people “shop” for housing and live in households; obviously, the increases in numbers of households mean an increase in population. Household sizes are typically estimated to be about two people on average, but it is important to note that what seems like a tiny change in that estimate – for instance, 2.1 vs. 2.0 – has a large effect on total population numbers when we apply the household estimate to the entire city or region.

Metro’s projections are important information to help the City of Portland and other local communities plan responsibly. After all, population growth triggers the need not only for new housing but also for a complex web of additional urban services, from water pipes and sewers to parks and open spaces, roads, railways, schools and hospitals, all of which need to be planned far in advance.

No matter what the population, providing adequate housing is never a simple task. Households vary not only in size but also by age and income. These variations are taken into account in the Metro computer model by the inclusion of eight different household “consumption profile” types.

Metroscope also projects where the housing demand will locate geographically within the urban growth boundary (UGB) of the metropolitan region. The model defines 39 subareas and projects the numbers and types of households that are likely to locate in each of them. The City of Portland contains six of these Metro subareas. It is important to note that these subareas do not correspond directly to the City of Portland’s neighborhood or district planning boundaries. Rather, the model’s subarea boundaries are consistent with Census tract boundaries, since the baseline data for the forecast originates in Census data.

To give a complete picture of future housing needs, the Metroscope model projects not only demand but also supply. This is done by determining the “capacity” of lands in the region to contain new housing units. For instance, are there vacant lands that could be built on? These would be included as “development capacity.” Metroscope is therefore an “equilibrium” model, balancing supply with demand, offering a projected supply number as well as demand number. The geographic subareas are important in terms of where the supply may be located, and the Metroscope model allocates certain percentages of the projected overall regional household growth to the 39 different subareas in the region.

To complement Metroscope projections of housing supply, and further illuminate the forecast of where new housing might be located, the City of Portland uses its own model as well to project “development capacity.” Differences between the two models relate to assumptions about underutilization of parcels, feasibility of redevelopment, and development densities by zone. The two separate models, Metro’s and the City’s, essentially present high and low range figures.

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The Forecast is a Baseline

The Metroscope model assumes that existing policies and trends continue; in this way, the forecast is useful as a baseline by which to evaluate potential changes in relevant land use and transportation policies. The forecast calculates three growth level scenarios - high, medium and low.

This Background Report summarized projections regarding the high, medium and low growth scenarios to answer **four basic housing questions**. Three are related to demand, one to supply.

Demand

- **Growth of Households**: How many new households will there be in Portland?
- **Distribution of Households**: In which of the six subareas of Portland will the new households be?
- **Types of Households**: Which types of households will locate in the region overall, within the City of Portland itself, and lastly in which of the six specific subareas of the City? (The types of households are described as eight household "consumption profiles" based on income, numbers of people, and their ages, especially if they are school-age children.)

Supply

- **Available land**: What is the capacity of the land in the City's six subareas to accommodate the numbers of housing units projected to be needed?

KEY FINDINGS

In answering the four basic housing questions above, several key findings arise from the Metroscope model. A summary of the findings is as follows:

(a) **Demand**

Growth of Households:

- The total *number of households in Portland in 2035 is projected to increase to between 344,800 and 376,300, compared to a baseline of 240,000 households in 2005.*
- The increase in households in Portland will be between 105,000 and 136,000, accounting for an *annual percent rate change of 1.2% - 1.6%.*
- This annual percent growth rate translates into a need for *3,500 - 4,500 housing units to be added each year for the 30-year timeframe to 2035.*
- *As a frame of reference, the city built 29,300 new units between 1997 and 2007, an average of just under 3,000 new units each year. (Please note that this number does not include renovations, additions, or conversions of spaces such as garages into living units.)*

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- The City of Portland's share of households regionally is projected to decline, from a baseline year (2005) share of about 29%, to *approximately 22%* in 2035. This decline occurs in all three growth levels (low, medium, high) scenarios.
- The 1997-2007 growth rate of new units in Portland accounted for an *average share of 36%* of the total of new units built in the metro region in that period.
- Nationally, regionally, and within the city, *household size is projected to decline*.
- The housing type in highest demand will shift in favor of *multi-family units*.

(b) Supply

Available Land:

- *Currently zoned land "capacity" in Portland is sufficient to meet housing demands* - that is, enough land in Portland is currently zoned so as to be available to house the projected numbers of new households citywide and in each particular subarea. Capacity is determined not only by current zoning but also by expected redevelopment levels (vacant land plus redevelopment of existing built sites).
- Land capacity for new Portland housing units is projected to range between 112,000 and 262,000 new *units* by 2035 (the City of Portland Buildable Lands Inventory model. The low end of that range assumes no "constrained" land is available, no matter how minor the constraint. The higher number is the additional capacity available within the present Comprehensive Plan, ignoring constraints. A more realistic estimate, based on evaluating in the degree of different constraints is 213,700 units. That figure is well above the projected need by 2035 for 105,000 to 136,000 new units, as noted above. For additional details, see the report titled, "Buildable Lands Inventory - Summary of Residential Capacity."

(c) Supply and Demand

The Metroscope model groups the many different types of households into eight categories, by considering various factors including size of household, family composition, age of residents, income, and other criteria. The groups are numbered one through eight, with the lowest, Group 1, corresponding to the lowest household income, and the highest, Group 8, to the highest income. Each numbered group is also given a descriptive name such as "Young Middle Income Families." Differences are projected in where the eight household types will distribute themselves within the six subareas, though most of the distributions are relatively consistent with the baseline year. The most significant concentrations are forecast to be in West Portland (with about *half* of the city's *highest* income households) and North Portland (with about *one-third* of the city's *lowest* income households). Whereas most of the subareas are projected to be fairly stable in their household type make-up, East Portland is forecast to see a slight shift to lower income levels.

Types of Households

As described earlier, the eight household groups are categorized by several factors, one of which is annual household income. The lowest earning households (group 1) have annual income of less than \$15,000. These figures only include income, however, and not accumulated wealth that a household may be drawing from. Income level distributions

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citywide are projected to be much the same as in the baseline year. A few categories see some changes in the forecast, however.

- *Top earning households* (group 8 – those making more than \$100,000/year) as a percentage of citywide households will *increase* to 16% from 12%.
- *Middle income households* (groups 5, 6 and 7 – earning \$45,000 and up) will each *drop*, with the three middle income groups combined dropping to 26% of citywide households from 31%.

Distribution of Households:

Regarding the geographic distribution of housing on both the supply and demand sides, the model forecasts most subareas to be relatively stable, with more changes occurring in the Central, North and East Portland subareas. Key findings related to the distribution of types of households include the following.

The most *dramatic changes are forecast for the Portland Central Business subarea* (which, as noted previously, is not the same as the Central City District as designated by City planning regulations):

- The Portland Central Business subarea will *grow in households at the highest percentage rate of all the region's 39 subareas*.
- The Portland Central Business subarea is projected nearly to *triple its number of households*, from 12,267 in 2005 to a 2035 total of 46,187 (low-growth scenario/276% rate of growth) to 52,530 (high-growth scenario/327% rate of growth).
- Portland Central Business subarea will *increase its share of citywide housing units* to just under 14% (low-growth scenario) from 5%.
- *A significant shift will occur toward owning rather than renting housing* in the Central subarea - that is, households will shift in "tenure" from renting to owning, bringing ownership to 61% from a 20% share of all housing units.
- The Central subarea is also forecast to have relatively *significant shifts in the proportions of all the household groups*. Groups with children will increase (up 6% and 4%), while groups at the highest and lowest income levels will decrease (down 8% and 10%).

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UPDATE: RECENT HOUSING MARKET CONDITIONS

Since the time period between the release of the various housing reports (2009) and the present (2011) several key indicators of housing supply and affordability continue to be released. These variables include but are not limited to *total housing count, occupancy rate, permitted units, housing tenure, household income, housing costs, median housing sale price, affordability index etc.* The purpose of this report is to primarily document housing affordability indicators like monthly housing costs, number of cost burdened households, median sale price, tenure split (homeownership vs. renting) etc. to understand how housing affordability continues to be impacted by ongoing trends in the City's housing market: ***has affordability continued to decline or is it getting better or is there a status quo?***

KEY FINDINGS

The analysis of recent trends in housing supply and the housing market reveals that housing affordability continues to be a problem in Portland. The lack of affordability is not due to lack of overall supply but more due to lack of a supply of affordable units. The affordability situation has not worsened for homeowners. However, affordability appears to be worsening for renters, particularly, low and moderate income renters. Following are some of the key findings from the report:

- The supply of housing units in the City of Portland grew by about 12% during the 2000-2010 time period. According to Census counts 28,132 new housing units have been added to the existing stock since the 2000 Census. Also, nearly all the addition to the housing stock came from new construction and not through annexation of units in unincorporated parts.
- It is evident from the above table that construction activity, of both single-family and multi-family units declined significantly during the 2008-2010 three year period. This was the period of national real estate bust and the sharp decline is in keeping with the rest of the nation. Also, noteworthy is the changing shares of various housing unit types - particularly, the declining share of single-family units that are being built in the City. In the past decade, the proportion of multi-family units (62%) was more than double the percent share (28%) of single-family units constructed. This is a big shift in the nature of construction as 61% share of Portland's total housing stock is made up of detached, single-family units.
- The construction activity also reveals that "Accessory Dwelling Units" (ADUs) are poised to contribute to the overall housing supply in Portland due the affordable nature of these units.

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- The housing tenure in Portland reflects the housing crisis that began in 2007. During the 2000-2007 time period, homeownership was on the rise with rentership going down. However, most current data that is available (2009) shows that homeownership is on the decline (down nearly 3%) with a corresponding increase in rentership.
- The Median Family Income (MFI) continues to increase, but at a much slower pace than in previous years.
- The proportion of cost burdened renter households in Portland and the nation are identical and the perceivable difference exists only in proportion of owners without mortgage. Interestingly, during the 2007 period more households (owners & renters) were cost burdened in the City than nationwide. While situation did not necessarily get better in the City, for renters cost-burden appears to have worsened for the nation as a whole.
- The housing costs (rent/mortgage & utilities) continued to go up for both owners and renters but significantly, the cost burden on renters went up twice as much as it was for owners. The foreclosure crisis that unfolded during the 2007-2010 period is exerting pressure in the rental market and consequently, rents have been rising in the Portland real estate market with falling rental vacancies.
- The vacancy rates in all parts of the City remain very low. The downtown market experienced a boom in condominium construction and hence the higher vacancy there is more an indicator of greater supply than lack of consumer interest.
- The downtown area of the City continues to command really high rents compared to other parts of Portland regardless of unit size. Noteworthy is the fact that a "1 Bed/1Bath" unit in downtown rents for nearly twice as much as compared to most other parts of the City (\$1,272 vs. \$637).
- Median Sale Price percent change from peak in July 2007: -29.0% (\$215,000 vs. \$302,000).
- Condominium prices had risen steeply during the real estate boom period. The prices have experienced variability during the last 3-year period. Interestingly, for this year (2011), the Median Condo Sale price has been slowly climbing up.
- The Median Sale prices continue to vary significantly in different parts of Portland. The City's housing stock ranges from some of the most expensive homes in the region (Median value of \$360,000 in West Portland) to some of the most affordable in the region (Median Value of \$173,000 in SE Portland).
- For the past several quarters, the gap between affordability and purchasing power has not varied much. Despite increasing opportunity and declining home price, stagnant median income is making it hard to bridge the affordability gap.
- In recent times, foreclosure filings have indeed declined but not completely stopped. In addition, the County and the State as a whole have far fewer foreclosed properties than is the case nationwide.

UPDATED HOUSING MARKET INFORMATION

To assess the present state of housing supply and affordability, the remainder of the report provides updated information on housing supply, housing costs, tenure split and household income. It is divided into the following three sections:

- I. State of Housing Supply:** this section will document current data on *total housing units, occupancy rates, and permit activity*;
- II. State of Households (Owners & Renters):** this section will document current data on *housing tenure, household income, family income, number of households with cost burden*;
- III. State of Affordability as Measured by Housing Costs: (Ownership & Rental):** this section will document current data on *median sale price, rents (market & fair market), affordability index and opportunity index and foreclosure activity*.

Each section will document currently available data on the listed variables and offer findings based the current values and how they compare with past values and the trends established by the change in values.

I. State of Housing Supply

Ia. Housing Unit Count & Occupancy Status

| Total Housing Units and Occupancy Status in Portland, 2010 | | |
|-------------------------------------------------------------------|---------------|----------------|
| | Number | Percent |
| Total housing units | 265,439 | 100 |
| Occupancy Status | | |
| Occupied housing units | 248,546 | 93.6 |
| Vacant housing units | 16,893 | 6.4 |

Source: Census 2010

The following table documents change in total supply during the past decade:

| Year | Total Housing Units | Percent Change | Units from Annexation |
|-------------|----------------------------|-------------------------------------|------------------------------|
| 2000 | 237,307 | 1990-2000 38,939 19.6% Change | 16,095 |
| 2010 | 265,439 | 2000-2010 28,132 11.8% Change | 12 |

Source: Census 2000 & 2010; BPS Annexation Records

Key Findings

- The supply of housing units in the City of Portland grew by about 12% during the 2000-2010 time period. According to Census counts 28,132 new housing units have been

Housing Background Report 5: Updates on Key Housing Supply and Affordability Trends

added to the existing stock since the 2000 Census. Also, nearly all the addition to the housing stock came from new construction and not through annexation of units in unincorporated parts.

- The citywide housing vacancy rate of nearly 6.5% falls in the optimal range that supports choices for the consumer in the real estate market.

Ib. Permit Activity Over the Decade: 2001-2010

The following table documents the trend in new construction of housing units over the decade as indicated by permit activity in the City:

Permitted Units in City of Portland: 2001-2010

| | Multifamily | Townhouse /Rowhouse /Duplex | Single Family | ADU | TOTAL |
|-------------------|-------------|-----------------------------|---------------|------|--------|
| 2001 | 1040 | 265 | 972 | 18 | 2295 |
| 2002 | 1955 | 316 | 1050 | 15 | 3336 |
| 2003 | 3542 | 460 | 1024 | 21 | 5047 |
| 2004 | 1853 | 286 | 1009 | 27 | 3175 |
| 2005 | 2492 | 344 | 1120 | 24 | 3980 |
| 2006 | 2009 | 300 | 1147 | 27 | 3483 |
| 2007 | 2891 | 371 | 1083 | 32 | 4377 |
| 2008 | 2472 | 201 | 600 | 20 | 3293 |
| 2009 | 530 | 110 | 367 | 22 | 1029 |
| 2010 | 641 | 87 | 375 | 58 | 1161 |
| Total | 19425 | 2740 | 8747 | 264 | 31176 |
| % of Total | 62.0% | 9.0% | 28.0% | 1.0% | 100.0% |

Source: City's Building Permits Data

Key Finding

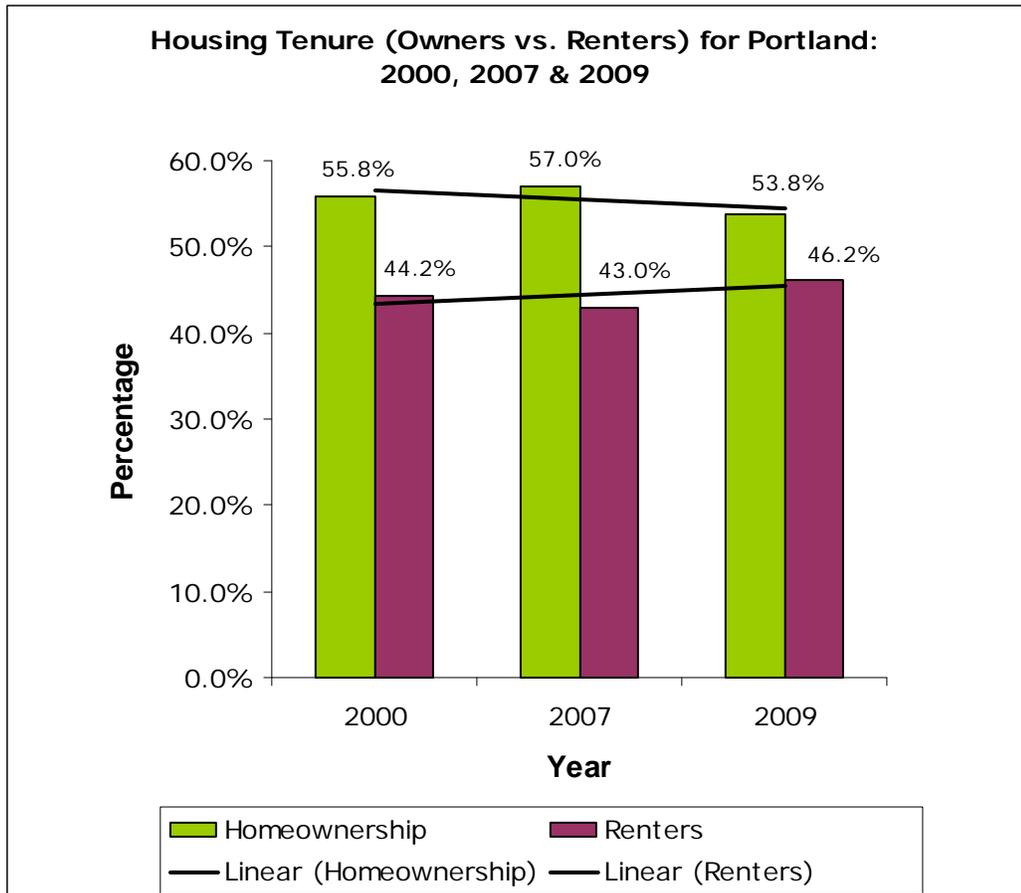
- It is evident from the above table that construction activity, of both single-family and multi-family units, declined significantly during the 2008-2010 three year period. This was the period of national real estate bust and the sharp decline is in keeping with the rest of the nation. Also, noteworthy is the changing shares of various housing unit types - particularly, the declining share of single-family units that are being built in the City. In the past decade, the proportion of multi-family units (62%) was more than double the percent share (28%) of single-family units constructed. This is a big shift in the nature of construction as 61% share of Portland's total housing stock is made up of detached, single-family units.

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- The construction activity also reveals that “Accessory Dwelling Units” (ADUs) are poised to contribute to the overall housing supply in Portland due the affordable nature of these units.

II. State of Households (Owners & Renters)

II a. Changes in Housing Tenure (Owners vs. Renters) for Portland



Source: Census 2000; ACS 2005-2007, ACS 2009

Key Finding

- From the above illustration it is clear that housing tenure in Portland reflects the housing crisis that began in 2007. During the 2000-2007 time period, homeownership was on

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the rise with rentership going down. However, most current data that is available (2009) shows that homeownership is on the decline (down nearly 3%) with a corresponding increase in rentership.

IIb. Household Income of Owners & Renters

| Median Household Income for City of Portland by Tenure, 2009 | | | |
|---------------------------------------------------------------------|-------------|-------------|-----------------|
| | 2007 | 2009 | % Change |
| All Households | \$47,143 | \$50,203 | 6% |
| Owner occupied | \$65,313 | \$70,973 | 9% |
| Renter occupied | \$28,064 | \$31,832 | 13% |

Source: ACS, 2009

| HUD Median Family Income for Portland-Vancouver-Beaverton OR-WA MSA | | |
|----------------------------------------------------------------------------|-----------------------------------|-----------------|
| Year | Median Family Income (MFI) | % Change |
| 2010 | \$71,200 | 2% |
| 2009 | \$70,000 | 4% |
| 2008 | \$67,500 | 6% |
| 2007 | \$63,800 | -5% |
| 2006 | \$66,900 | |

Source: Dept. of Housing & Urban Development

Key Findings

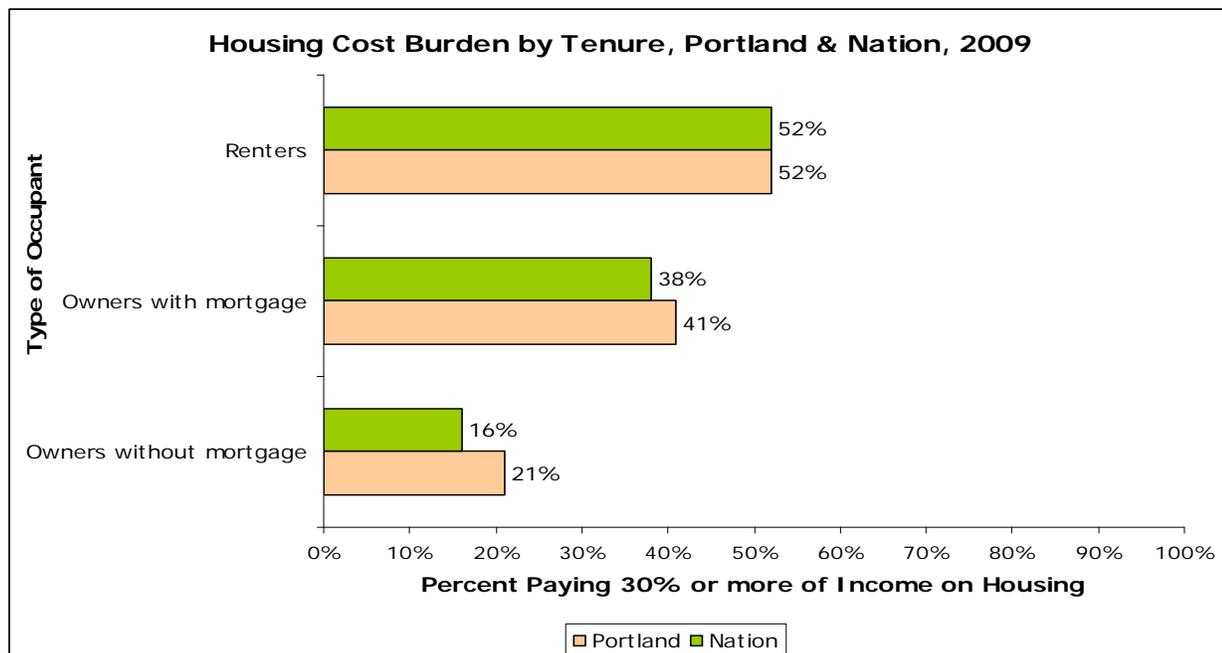
- The above table indicates that the Median Household Income (MHI) for all households in Portland increased during the 2007-2009 period. However, the 13% increase in the MHI of renters could be due to decision of households with means to delay purchase of a

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home during sluggish economic times and a lack luster housing market rather than real economic prosperity of renters.

- The Median Family Income (MFI) continues to increase, but at a much slower pace than in previous years.

IIc. Occupants with a Housing Cost Burden in Portland, 2009



Source: American Community Survey, 2009

Key Finding

- It is clear from the above illustration that the proportion of cost burdened renter households in Portland and the nation are identical and the perceivable difference exists only in proportion of owners without mortgage. Interestingly, during the 2007 period more households (owners & renters) were cost burdened in the City than nationwide. While situation did not necessarily get better in the City, cost-burden appears to have worsened for the nation as a whole.

**III. State of Affordability as Measured by Housing Costs:
(Owners & Renters)**

IIIa. Median Housing Costs by Tenure

| Median Monthly Housing Costs by Tenure: 2009 | | | |
|-----------------------------------------------------|-------------|-------------|-----------------|
| Owner-Occupied Housing Units | 2007 | 2009 | % Change |
| With a mortgage | \$1,620 | \$1,740 | 7% |
| Without a mortgage | \$494 | \$530 | 7% |
| <hr/> | | | |
| Renter-Occupied Housing Units | 2007 | 2009 | |
| Median rent | \$762 | \$867 | 14% |

Source: ACS, 2009

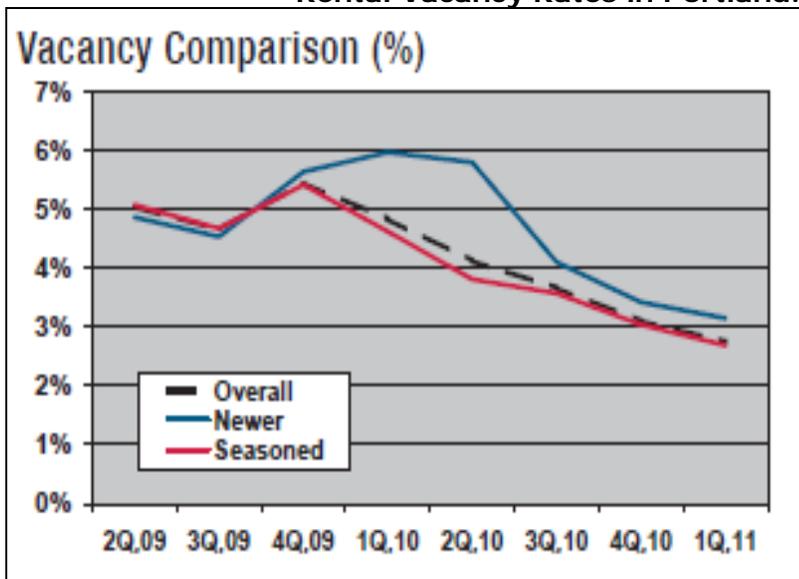
Key Finding

- The above table indicates that the housing costs (rent/mortgage & utilities) continued to go up for both owners and renters but significantly, the cost burden on renters went up twice as much as it was for owners. The foreclosure crisis that unfolded during the 2007-2010 period is exerting pressure in the rental market and consequently, rents have been rising in the Portland real estate market with falling rental vacancies.

IIIb. Rental Market Characteristics

With falling home prices, decreasing homeownership rates and continued foreclosures, the local rental market has been slowly tightening. Subsequent parts of this section documents current vacancy rates, market rent in various parts of the City, and the Fair Market Rent (FMR).

Rental Vacancy Rates in Portland: 2009-2011



Source: NAI Norris, Beggs and Simpson Portland Metro Area Multifamily Report, First Quarter 2011

Key Finding

- It is clear from the above illustration that rental vacancies in the City has been steadily decreasing during the 2009-2011 time period with current rates being really low (<3%).

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Average Rents Per Unit by Size in Portland: First Quarter 2011

| SUBMARKET | AVERAGE RENT PER UNIT | | | | % VACANT |
|--------------------------|-----------------------|------------------|------------------|------------------|----------|
| | 1 Bed/1Bath | 2 Bed/1 Bath | 2 Bed/2 Bath | 3 Bed/2 Bath | |
| MULTIFAMILY* | | | | | |
| Downtown Portland | \$1,272 (\$1.69) | \$1,215 (\$1.35) | \$2,095 (\$1.75) | \$2,839 (\$1.65) | 4.29 |
| Southeast Portland | \$637 (\$0.96) | \$713 (\$0.82) | \$783 (\$0.78) | \$920 (\$0.79) | 2.88 |
| North/Northeast Portland | \$787 (\$1.11) | \$752 (\$0.83) | \$1,128 (\$1.08) | \$823 (\$0.80) | 2.28 |
| Southwest Portland | \$698 (\$1.04) | \$751 (\$0.86) | \$1,000 (\$0.96) | \$1,046 (\$0.84) | 2.69 |

Source: NAI Norris, Beggs and Simpson Portland Metro Area Multifamily Report, First Quarter 2011

Key Findings

- It is evident that the downtown area of the City continues to command really high rents compared to other parts of Portland regardless of unit size. Noteworthy is the fact that a "1 Bed/1Bath" unit in downtown rents for nearly twice as much as compared to most other parts of the City (\$1,272 vs. \$637).
- The vacancy rates in all parts of the City remain very low. The downtown market experienced a boom in condominium construction and hence the higher vacancy there is more an indicator of greater supply than lack of consumer interest.

Trends in Metro Area Fair Market Rents: 2009-2010

Fair Market Rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. FMRs are primarily used to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment (HAP) contracts in the Moderate Rehabilitation Single Room Occupancy program (Mod Rehab), and to serve as a rent ceiling in the HOME rental assistance program. The U.S. Department of Housing and Urban Development (HUD) annually estimates FMRs for 530 metropolitan areas and 2,045 nonmetropolitan county FMR areas.

The following table documents the FMRs during the 2009-2011 time period along with associated year over year rent increases (\$) and also the relevant percent (%) change:

| Fair Market Rent, Portland-Vancouver, MSA: 2009-2011 | | | | | |
|-----------------------------------------------------------------|-------------|-------------|-------------|--------------|--------------|
| FAIR MARKET RENT(\$) | | | | | |
| Year | OBR | 1BR | 2BR | 3BR | 4BR |
| 2011 | 675 | 783 | 905 | 1,318 | 1,583 |
| 2010 | 626 | 726 | 839 | 1,222 | 1,467 |
| 2009 | 604 | 700 | 809 | 1,178 | 1,415 |
| \$ CHANGE, YEAR OVER YEAR | | | | | |
| 2011 | 49 | 57 | 66 | 96 | 116 |
| 2010 | 22 | 26 | 30 | 44 | 52 |
| 2009 | 39 | 45 | 52 | 76 | 91 |
| % CHANGE, YEAR OVER YEAR | | | | | |
| 2011 | 7.8% | 7.9% | 7.9% | 7.9% | 7.9% |
| 2010 | 3.6% | 3.7% | 3.7% | 3.7% | 3.7% |
| 2009 | 6.9% | 6.9% | 6.9% | 6.9% | 6.9% |

Source: Dept. of Housing & Urban Development

Key Finding

- The 7.9% proposed rent increase in the Portland area FMR is the largest increase in the last 10 years. Between 2001 and 2008, the more typical increase has been in the 2-3% range. The implication of such a steep rent increase is that unless the Section 8 program gets increased funding, more money needs to be spent to honor each voucher, which

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may in turn impact the total number of vouchers that will be available to help low-income households.

IIIc. Ownership Market Characteristics

Home prices have continued to fall in the Portland Metro Area while foreclosures have held steady. Subsequent parts of this section documents *Median House Price*, *Median Condo Price*, *Affordability Index* and *Opportunity Index*, all indicators of the ownership market.

Highlights of Portland Metro Area Residential Market: 2010-2011

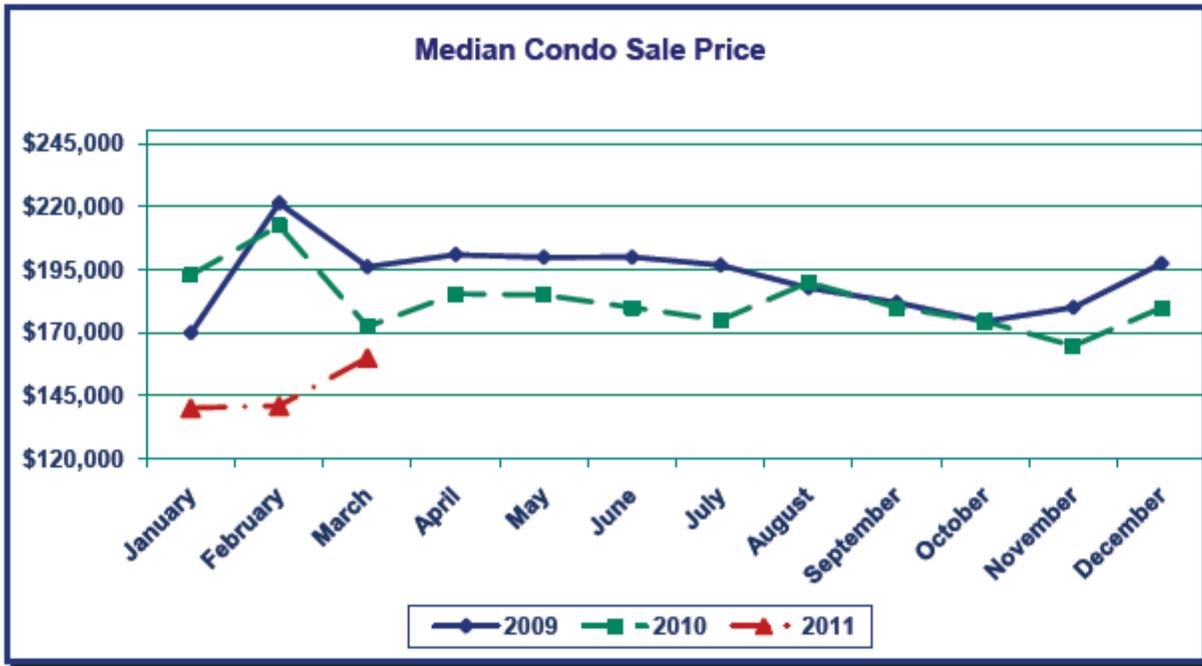
| Portland Metro Residential Highlights | | New Listings | Pending Sales | Closed Sales | Average Sale Price | Median Sale Price | Total Market Time |
|---------------------------------------|--------------|--------------|---------------|--------------|--------------------|-------------------|-------------------|
| 2011 | March | 3,056 | 2,014 | 1,615 | 261,100 | 215,000 | 161 |
| | Year-to-date | 9,172 | 4,915 | 3,834 | 252,800 | 215,000 | 165 |
| 2010 | March | 4,987 | 2,402 | 1,799 | 280,300 | 238,900 | 142 |
| | Year-to-date | 13,072 | 5,576 | 3,892 | 278,300 | 237,500 | 144 |
| Change | March | -38.7% | -16.2% | -10.2% | -6.8% | -10.0% | 13.3% |
| | Year-to-date | -29.8% | -11.9% | -1.5% | -9.2% | -9.5% | 14.3% |

Source: Reproduced with Permission from March 2011 Market Action, a publication of the RMLS

Key Findings

- It is clear from the above table that housing value, as measured by Portland Metro Area Median Sale Price, has remained stable for Year-to-date (2011) at \$215,000. However, compared to last year (2010) the price is down by 9.5%, a drop of \$22,500.
- Median Sale Price percent change from peak in July 2007: -29.0% (\$215,000 vs. \$302,000).
- Average Sale Price percent change from peak in August 2007: -29.0% (\$261,100 vs. \$366,900).
- It is also evident from the above table that housing transactions have been slower this year than compared to last year- more units were available for sale (13,072 vs. 9,172) and units were selling more quickly (142 market days vs. 165 days).

Trends in Portland Metro Area Condo Market: 2009-2011



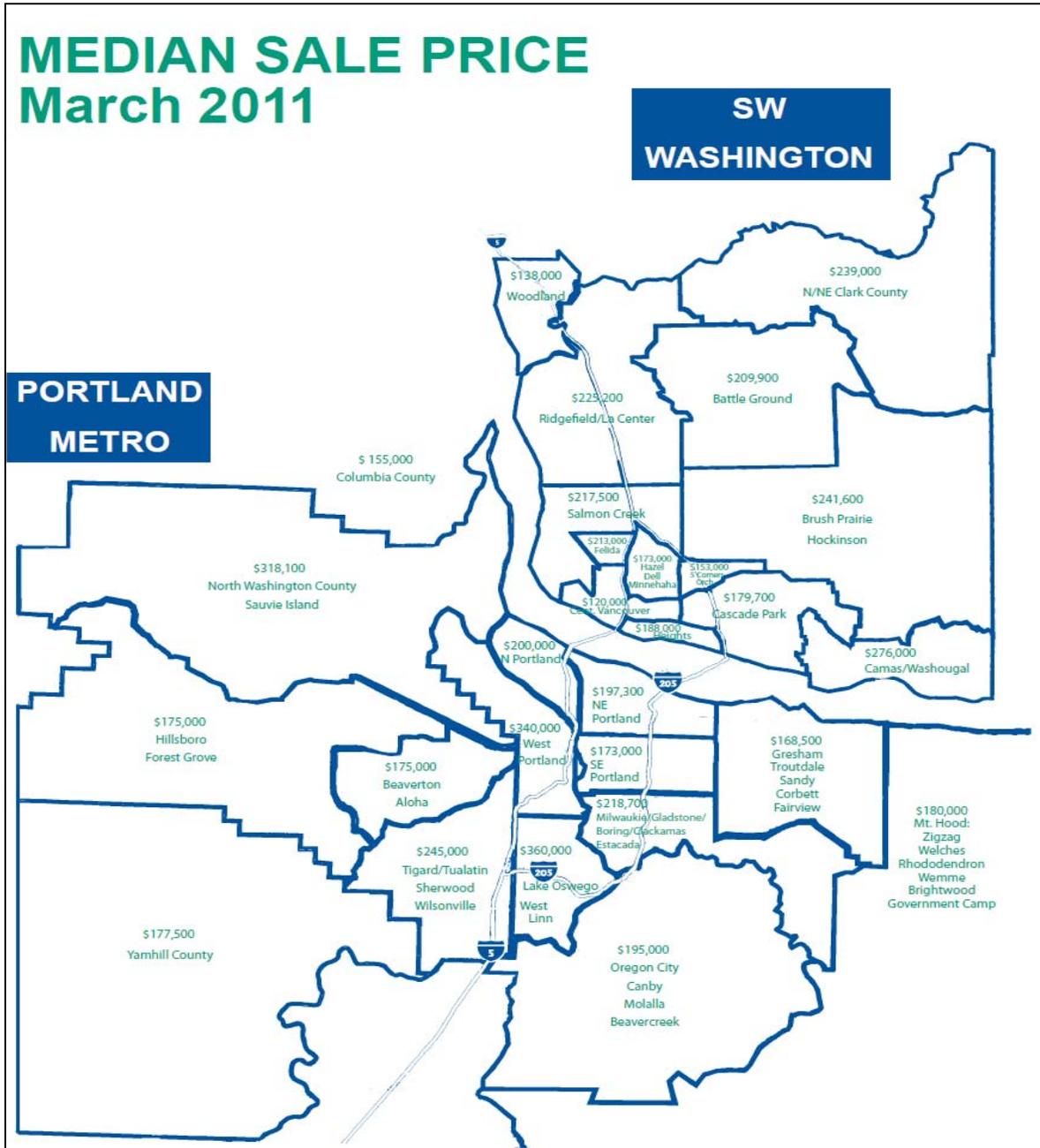
Source: Reproduced with Permission from March 2011 Market Action, a publication of the RMLS

Key Finding

- Condominium prices had risen steeply during the real estate boom period. As can be noted from the above illustration, prices have experienced variability during the last 3-year period. Interestingly, for this year (2011), the Median Condo Sale price has been slowly climbing up.

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Median Sale Price in the submarkets of Portland Metro Area: 2011



Source: Reproduced with Permission from March 2011 Market Action, a publication of the RMLS

Key Finding

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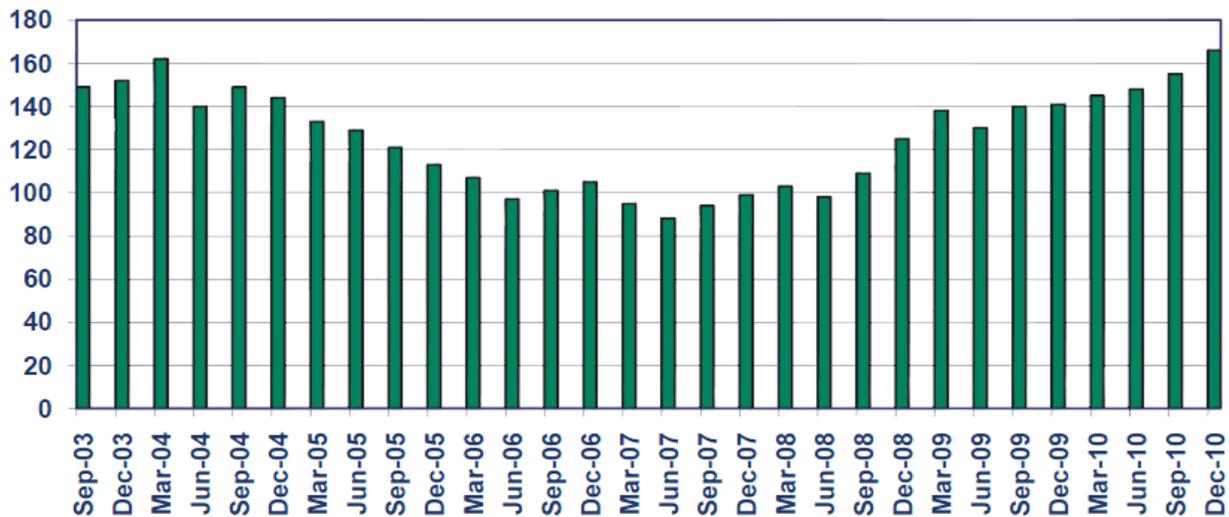
- It is clear from the above illustration that Median Sale Price continues to vary significantly in different parts of Portland. The City's housing stock ranges from some of the most expensive homes in the region (Median Value of \$360,000 in West Portland) to some of the most affordable in the region (Median Value of \$173,000 in SE Portland).

Trends in Homeownership Affordability Measures: 2003-2010

The National Association of Realtors (NAR) Affordability Index measures whether or not a typical family could qualify for a mortgage loan on a typical home. A typical home is defined as the national median-priced, existing single-family home as calculated by NAR. The typical family is defined as one earning the median family income as reported by the U.S. Bureau of the Census. The prevailing mortgage interest rate is the effective rate on loans closed on existing homes from the Federal Housing Finance Board and HSH Associates, Butler, N.J. These components are used to determine if the median income family can qualify for a mortgage on a typical home.

To interpret the indices, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment. For example, a composite HAI of 120.0 means a family earning the median family income has 120% of the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing single-family home. An increase in the HAI, then, shows that this family is more able to afford the median priced home. The calculation assumes a down payment of 20 percent of the home price and it assumes a qualifying ratio of 25 percent. That means the monthly P&I payment cannot exceed 25 percent of the median family monthly income.

Affordability Index



Source: Reproduced with Permission from March 2010 Market Action, a publication of the RMLS

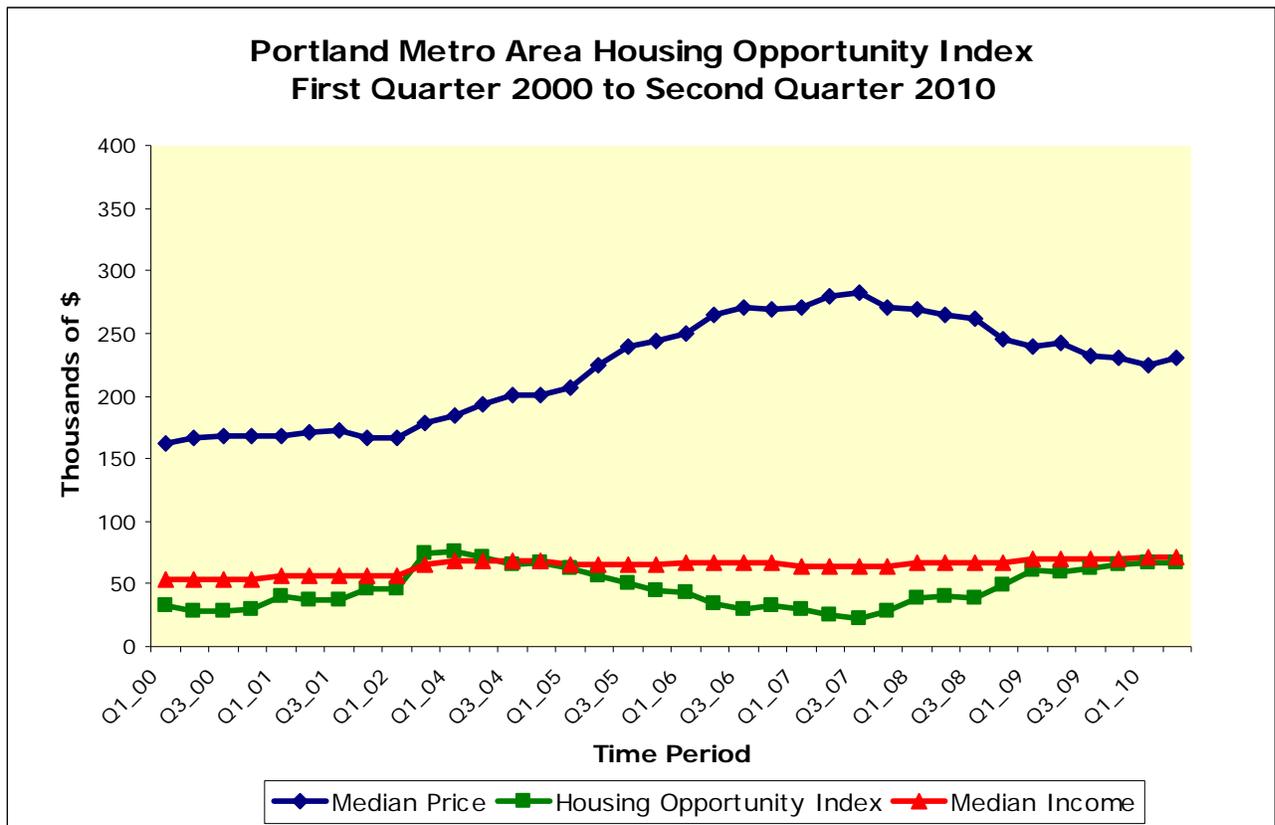
Key Finding

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- It is clear from the above illustration that affordability is on the rise since 2008. It is also interesting to note that present affordability is as high as it was back in 2003 (just over 160). However, increased affordability has not translated into increased number of homeowners. There could be multiple reasons for this including but not limited to cautious homebuyers and risk averse lenders.

Housing Opportunity Index

Another Index that is helpful in understanding homeownership affordability is the Homebuyer Opportunity Index (HOI). This index from the National Association of Home Builders and Wells Fargo shows the percentage of metro area homes that would be affordable to households with the local median income based on standard mortgage underwriting criteria.



Source: National Association of Home Builders & Wells Fargo

Key Finding

- It is evident from the above graph that in the past several quarters the gap between affordability and purchasing power has not varied much. Despite increasing opportunity

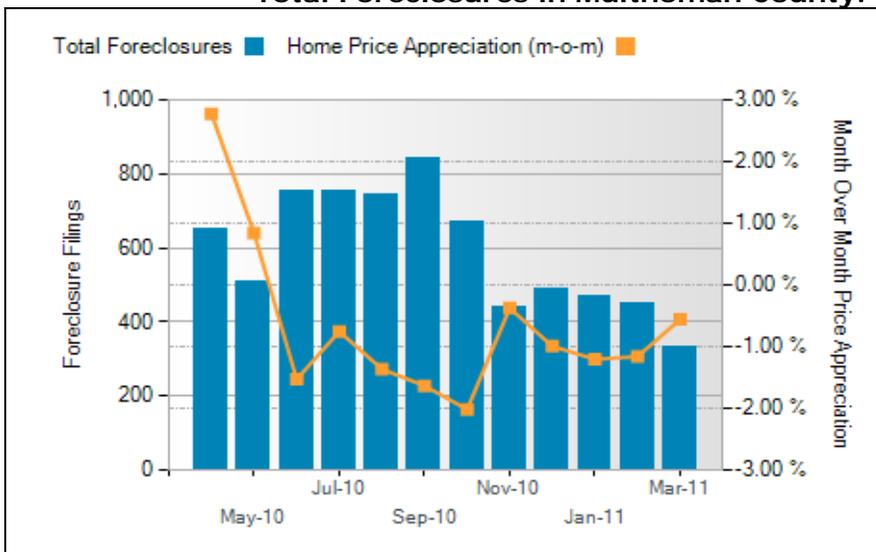
Portland Plan

and declining home price, stagnant median income is making it hard to bridge the affordability gap.

Foreclosure Activity

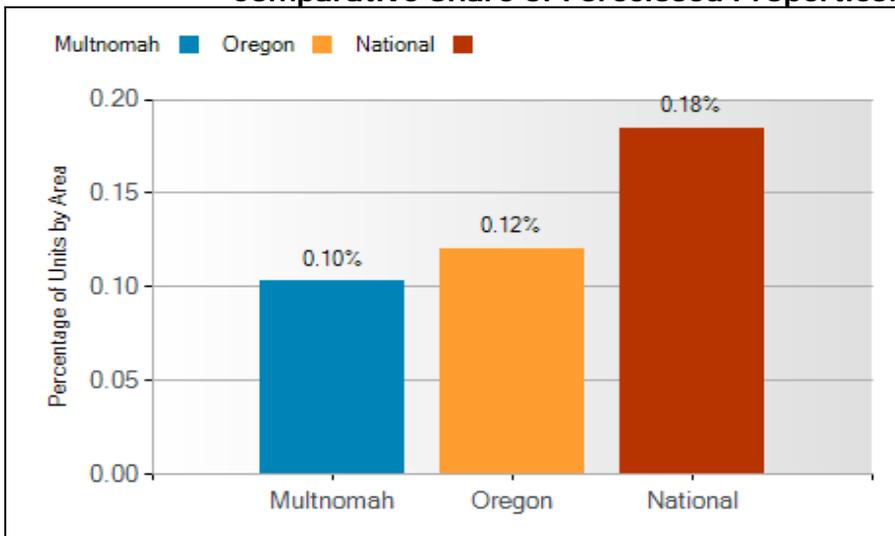
Home Foreclosures have adversely impacted housing market nationwide. While foreclosures have not been rampant in Portland Metro area, it is not without its share. The following two graphs show the most recent trend in foreclosure in Multnomah County:

Total Foreclosures in Multnomah County: 2010-2011



Source: RealtyTrac

Comparative Share of Foreclosed Properties: 2011



Source: RealtyTrac

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Key Finding

- The above graphs indicate that in recent times foreclosure filings have indeed declined but not completely stopped. Also, the County and the State as a whole have far fewer foreclosed properties than is the case nationwide.

III d. The Subsidized Housing Supply

There are no major changes to report on the supply of publically subsidized housing units since the publication of the previous report on housing affordability. Efforts continue to preserve and expand the existing supply of subsidized units. Also, the idea of siting affordable units in areas with good accessibility to mass transportation options and necessary services is getting serious consideration amongst various housing providers and advocates.

The Housing Authority of Portland (HAP) is the largest nonprofit provider, operator and developer of low-income housing in the City. HAP's rental portfolio includes **6,291 units** and **8,402 Section 8 Vouchers**. These programs serve nearly 15,000 households all over Multnomah County. Following is an extract from their most recent monthly report that provides a snapshot of number of units and vouchers and other financial and demographic information about the occupants:

Housing Authority of Portland - Dashboard Report For April of 2011

| Property Performance Measures | | | | | |
|-------------------------------------------|----------------------|----------------|----------------|--------------|----------------------|
| Occupancy | | | | | |
| | Number of Properties | Physical Units | Rentable Units | Vacant Units | Occupancy Percentage |
| Public Housing | 44 | 2,053 | 1,985 | 69 | 96.5% |
| Public Housing Mixed Financed Owned * | 2 | 65 | 65 | 0 | 100.0% |
| Public Housing Mixed Finance Tax Credit * | 5 | 426 | 425 | 32 | 92.5% |
| Total Public Housing | 51 | 2,544 | 2,475 | 101 | 95.9% |
| Affordable Owned with PBA subsidy | 6 | 496 | 496 | 11 | 97.8% |
| Affordable Owned without PBA subsidy | 11 | 1,164 | 1,164 | 41 | 96.5% |
| Total Affordable Owned Housing | 17 | 1,660 | 1,660 | 52 | 96.9% |
| Tax Credit Partnerships | 19 | 2,156 | 2,156 | 47 | 97.8% |
| Total Affordable Housing | 36 | 3,816 | 3,816 | 99 | 97.4% |
| Eliminate Duplicated PH Properties/Units | -7 | -491 | -490 | -32 | |
| Combined Total PH and AH | 80 | 5,869 | 5,801 | 168 | 97.1% |
| Special Needs (Master Leased) | 36 | 422 | 422 | | |
| Total with Special Needs | 116 | 6,291 | 6,223 | | |

* property/unit counts also included in Affordable Housing Count

Source: Dashboard Report, HAP

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| Rent Assistance Performance Measures | | | | |
|--------------------------------------|----------------------|---------------|------------------------|----------------------|
| Utilization and Activity | Current Month Status | | | |
| | Vouchers Available | Vouchers Paid | Utilization Percentage | Average Voucher Cost |
| Tenant Based Vouchers | 6,688 | 6,634 | 99% | \$582 |
| Project Based Vouchers | 1,206 | 1,179 | 98% | \$523 |
| SRO/Mod Vouchers | 512 | 489 | 96% | \$407 |
| All Vouchers | 8,406 | 8,302 | 99% | \$563 |

Source: Dashboard Report, HAP

IIIe. Fair Housing Issues

Persistent discrimination in the housing market impacts low-income and minority households disproportionately. Hence, "fair housing issues" bear a direct relation to "affordability" and efforts to address affordable housing will not be complete without paying attention to issues of fairness, including but not limited to "fair access" to existing housing. All jurisdictions that receive federal funding are required by the U.S. Department of Housing and Urban Development to submit a certification that it is Affirmatively Furthering Fair Housing (AFFH) (24 CFR 91). Each jurisdiction is required to conduct an analysis of impediments to fair housing choice, make recommendations and then take appropriate actions to overcome the effects of impediments identified through that analysis. Hence the analysis of impediments is a comprehensive review of a jurisdiction's laws, regulations, and administrative policies, procedures, and practices affecting the location, availability, and accessibility of housing, as well as an assessment of conditions, both public and private, affecting fair housing choice. The Portland Housing Bureau took the lead on the Analysis of Impediments to Fair Housing Report on behalf of the Consortium including Multnomah County, the City of Portland, and the City of Gresham. This report will be released in June 2011 but a draft version is available at the following location:

[http://efiles.portlandoregon.gov/webdrawer/rec/4236561/view/Section%20I Introduction%20Final.PDF](http://efiles.portlandoregon.gov/webdrawer/rec/4236561/view/Section%20I%20Introduction%20Final.PDF)

The report notes that forty-three years after the passage of the Fair Housing Act of 1968, there are still many impediments to Fair Housing Choice in Multnomah County. While it has grown more diverse over the years, many parts of the county remain racially, ethnically, and economically segregated. The report notes that there is indeed a shortage of accessible, affordable housing stock particularly for low-income households and that efforts need to increase this stock.

IV. Conclusions

The above examination of recent trends in the housing market offers the main conclusion that the housing market in the Portland Metro Area is yet to become robust since its downturn in 2008. Housing prices have continued to fall but far less steeply. However, housing remains largely unaffordable with reluctant buyers and reluctant lenders. The noteworthy change is actually in the rental market. The rental market continues to tighten which in turn results in

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declining rental vacancy rates and increasing rents across the City and the region. In sum, affordability, particularly affordable rental units, will be a persisting concern for low and moderate-income households in Portland.