January / 2016

Opportunities and challenges for equitable housing

A collaborative framework for creating and preserving housing affordability and availability as the Portland metropolitan region grows

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Opportunities and challenges for equitable housing

A collaborative framework for creating and preserving housing affordability and availability as the Portland metropolitan region grows

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Introduction

For decades, the Portland region has worked to preserve quality of life while growing the economy. In many respects, we've succeeded.

The region is consistently rated one of the most livable places in the world. This reputation has brought an influx of new residents. In 2014, Oregon was the top state for in-migration for the second year in a row. The region has seen 10 percent job growth since 2009 – the 10th-highest in the country.

Both nationally and in our region, rents are rising faster than incomes, increasingly limiting lower-income households – disproportionately people of color – to housing options in areas with lower access to opportunities and higher concentrations of poverty.

Even households with moderate incomes are finding themselves priced out of neighborhoods where they work or go to school. Housing affordability and choice are not only issues of social equity; lack of equitable housing also threatens our economic competitiveness and the livability our region has worked hard to protect.

In 2015, Metro launched the Equitable Housing Initiative to research tested strategies from our region and around the country, engage experts and stakeholders, and develop a strategic framework for creating and preserving housing affordability and housing choice.

This work was conducted in partnership with Oregon Opportunity Network and with guidance from a technical work group consisting of two Metro councilors and ten working professionals with diverse expertise on housing issues.

For the purpose of the initiative, Metro is using the following working definition of equitable housing: diverse, quality, physically accessible, affordable housing choices with access to opportunities, services and amenities. This is a broad definition intended to encompass a wide range of homeownership and rental choices – including options affordable to people and families with low and moderate incomes, accessible to all ages and abilities, and convenient to everyday needs like transit, jobs, schools, childcare, healthy food and parks. Work group members and stakeholders discussed the necessity of any policy or program to be evaluated through a social equity lens to ensure that it accounts for the needs of households with low income and communities of color, recognizes a history of housing discrimination, and complies with current state and federal fair housing policy.

Defining terms

EQUITABLE HOUSING

For the purpose of the Equitable Housing Initiative, Metro uses the working definition of equitable housing as: diverse, quality, physically accessible, affordable housing choices with access to opportunities, services and amenities.

HOUSEHOLD

The individual or group of people – whether roommates or family - living in a home.

HOME

The housing unit where a household lives, whether owning or renting. Could be a house, apartment, condo, duplex, accessory dwelling unit or other form.

HOUSE

A single-household detached home (often referred to as a "single-family home"), in contrast to an apartment, condo, duplex or other "multifamily" building.

CONTEXT FOR THE EQUITABLE HOUSING INITIATIVE

The Equitable Housing Initiative starts from an assumption that a regulatory approach is not the most appropriate approach to achieve positive impacts in the near term. Instead, initiative staff provides implementation support of equitable housing strategies through technical assistance, partnership development, research and data, and federal and state advocacy.

The initiative builds on the work of Metro's Housing Choice Task Force (2005-2006). It also supports the Fair Housing Act and Oregon's Statewide Planning Goal 10, which requires local jurisdictions to actively plan for a mix of housing types to meet the needs of households of all income levels.

Though beyond the focus of the initiative, it is important to understand the relationship between housing affordability and other policy goals. Access to living-wage jobs and quality transportation choices, which play substantial roles in affordability, and policies and programs to support public health, enhance transit access in underserved communities and promote economic vitality and thriving downtowns are all integral to creating equitable housing opportunities.

To make the most of other Metro efforts, the initiative works in coordination with Strategy to Advance Equity, the Transit-Oriented Development Program, regional transportation planning, urban growth management and the Community Planning and Development Grants program.

Challenges in the environment, transportation system and job and housing markets do not stop at city limits or county lines. To create true housing affordability and choice as we continue to grow and add residents, we need to work together to share knowledge, commit to shared solutions and take advantage of efficiencies that come with shared action. Private lenders, foundations, developers, nonprofits and governments all need to come to the table.

Successful policy tools and investment strategies must be tailored to respond to the economic and demographic characteristics of different neighborhoods and to meet the needs of different types of households.

This report seeks to build a shared understanding of challenges and offer guidance for how the region can move forward together to ensure housing options that meet the needs and income levels of our current and future residents. The primary focus is on tools to overcome barriers to the development and preservation of diverse, quality, affordable housing options. In other words, it is concerned with creating and preserving the physical structures that affordably meet the diverse housing needs of the people of our region and, to a lesser extent, strategies to provide rental assistance and homeownership assistance to residents with low income.

There is no silver bullet solution to meeting our region's housing affordability challenge. A range of innovative approaches and broad collaboration across public, private and nonprofit sectors are needed to ensure that people and families of many incomes can afford to live in places and homes that fit their needs and budgets.

APPROACH, STRATEGIC FRAMEWORK AND RECOMMENDATIONS

Between May and November 2015, Metro partnered with Oregon Opportunity Network to conduct stakeholder engagement and research to identify barriers, discuss opportunities and explore successful policies, programs, partnerships and projects. This engagement included surveys and focus groups with more than 160 stakeholders across the region, including jurisdiction policy and program staff, for-profit and nonprofit developers, funders, advocacy organizations and other groups to understand perceived barriers and opportunities for equitable housing. Metro also researched successful policy tools and collaborative approaches from other metropolitan areas.

With guidance from a technical work group consisting of two Metro councilors and 10 working professionals with diverse expertise in housing issues, staff developed a strategic opportunity framework reflecting the research and engagement. The framework outlines strategic priorities and concrete short-term actions Metro and partners (spanning local government, nonprofit and for-profit sectors) could take to eliminate barriers or create new resources or incentives for the creation and preservation of equitable housing.

When evaluating strategies and tools, work group members were asked to consider feasibility (ease and likelihood of implementation in the short, medium or long term) and impact (anticipated benefits and potential unintended consequences). Although stakeholder and work group members did not all agree on specific tools, there was general agreement that a multi-pronged, balanced approach was needed and that it was important to identify "low-hanging fruit" opportunities that could move forward in the short term.

The strategic framework presented in this report consists of four elements, representing four prongs of a balanced approach:

- Strategy 1 | Increase, diversify, and lower the cost of housing: Eliminate regulatory barriers and create incentives for diverse market-rate housing.
- Strategy 2 | Leverage growth for affordability: Use tools to ensure greater shared benefit from public investments and to encourage private developers to participate in the creation of affordable housing
- Strategy 3 | Maximize and optimize resources: Increase flexible funding and pursue coordinated investment strategies to expand the region's supply of regulated affordable housing.
- Strategy 4 | Mitigate displacement and stabilize communities: Pursue community-informed strategies to prevent displacement in high-opportunity areas; promote safe, healthy housing choices; and restore and maintain economic, racial, and age diversity in our neighborhoods.

The four strategies are not presented in order of importance. The first two are market-based strategies, requiring close coordination between government and private developers, with guidance from community members. The third strategy focuses on opportunities for partnerships between the public, private, nonprofit and philanthropic sectors to fill the funding gap for housing that is affordable to those with low and very low incomes – for whom the private market does not provide housing. Finally, the fourth strategy overlaps with the others but is specifically focused on regulatory approaches and innovative, community-driven models to mitigate displacement, ensure safe and healthy housing and support mixed-income communities.

EQUITABLE HOUSING INITIATIVE TIMELINE

Spring to fall 2015 | Phase 1: Assessment and analysis

- Analyze regional housing market snapshot data and trends
- Engage stakeholders to identify opportunities and barriers
- Research tested models and solutions from our region and around the country

Winter 2016 | Phase 2: Building a shared understanding

- Convene regional summit on equitable housing
- Develop a platform for sharing tools and best practices

Spring to Summer 2016 | Phase 3: Short-term implementation and long-term opportunity development

- Launch a technical assistance demonstration program to support short-term implementation opportunities
- Analyze feasibility and develop partnerships to explore/pursue long-term opportunities

Fall 2016 to Winter 2017 | Phase 4: Recommendations for long-term opportunities

- Recommendations for next steps and future direction

CONNECTING STRATEGY TO THE NEEDS OF RESIDENTS

Social Security income
$16,000

Full-time minimum wage
worker $19,000

0-30%
area median income

Annual household salary
(three-person household)
$0-$20,000

Affordable monthly housing costs
$0-$500

The construction of housing affordable at this level requires deep subsidies and often multiple funding sources. Households in this income bracket may include many people on fixed incomes, working for minimum wage or unemployed – including many who are homeless or at risk of becoming homeless. Some of these households require permanent on-site supportive services, which demand additional resources.

Cashier
$24,760

Preschool teacher
$32,090

Two full-time minimum
wage workers $38,000

30-60%
area median income

Annual household salary
(three-person household)
$20,000-$40,000

Affordable monthly housing costs
$500-$1,000

The private market does not typically provide housing affordable at this level – at least not in locations with good access to transit and amenities. The majority of public subsidies for construction of affordable rental housing are focused on serving people in this income level. However, the supply of income-restricted housing does not come close to meeting the need. Regulation can help ensure safe housing and fair rental practices in the older market-rate housing that provides the de facto affordable housing supply for many people of this income level.

60-8
area media

Annual house
(three-person
$40,000-$

Affordable month
$1,000-$

The private market typically do
new rental housing affordable
level, nor are there as many su
development of housing restric
most people in this group live i
that may at one time have bee
"filtered" down to become mo
profit initiatives are working to
among people of this income l

Maximize and optimize resources

Increase adaptable funding and pursue coordinated investment strategies to expand the region's supply of regulated affordable housing with tools such as:

- tax increment financing
- revolving loan funds
- acquisition/rehabilitation
- donation of public surplus land
- housing trust funds
- dedicated local revenue tools, such as short-term rental tax
- real estate investment trusts.

Leverage growth for affordability

Encourage for-profit developers to include some income-restricted units in market-rate projects or to pay into a fund for affordable housing with tools such as:

- tax exemptions
- density bonuses
- fast-tracked permitting
- linkage fees.

"Most of the places we found had tenant income requirements of 3.5 to four times the amount of the rent, and when you're a student those amounts are impossible to match." – Jacob Mosiman, Gresham

"When I close my eyes for the last time, that house will be left to my son and my daughter-in-law and my grandbabies." –Victoria Davis, Southeast Portland

Welder
$41,900

Carpenter
$43,450

0%
n income

ehold salary
household)
$53,000

ly housing costs
$1,300

es not provide much
for people at this income
bsidies available for the
cted to this level. Instead,
n older housing stock
n higher-end but now has
re affordable. Several non-
increase homeownership
evel.

High school teacher
$59,430

Police officer
$66,110

80-100%
area median income

Annual household salary
(three-person household)
$53,000-$66,000

Affordable monthly housing costs
$1,300-$1,650

A few developers are committed to developing modest market-rate housing options – including smaller-format housing types like condos or cottage clusters. With the right combination of financing, incentives and regulatory changes, more "below-market" and mid-priced projects could be encouraged. Most first-time homebuyer assistance is targeted at people of this income level.

Electrician
$72,800

Nurse
$85,450

100-120%
area median income

Annual household salary
(three-person household)
$66,000-$79,000

Affordable monthly housing costs
$1,650-$2,000

Because they are more profitable, the majority of new market-rate apartments, condos and single-family houses are built to appeal to households with higher incomes.

Mitigate displacement and stabilize communities

Pursue community-informed strategies to mitigate displacement, ensure safe and healthy rental housing, and bridge the homeownership gap for lower-income groups with tools such as:

- anti-displacement and safety for renters:
  - landlord licensing and code enforcement
  - rental rehabilitation grants
  - tenant protections (e.g., notifications for no-cause evictions or rent increases)
  - short-term rent or utility assistance
- anti-displacement for owners:
  - foreclosure prevention
  - weatherization assistance
- tools for increasing homeownership:
  - limited equity cooperatives
  - community land trusts
  - shared appreciation mortgages.

Increase and diversify market-rate housing

Eliminate regulatory barriers and create incentives for diverse market-rate housing with tools such as:

- zoning/building code changes
- fast-tracked permitting
- innovative financing
- system development charges waivers for accessory units
- reduced parking requirements
- vertical housing tax credits
- transit-oriented development grants.

Target housing types include: transit-oriented development (condos and apartments in mixed-use buildings), "missing middle" (townhomes, duplexes, fourplexes), accessory dwelling units and cottage clusters.

"I thought about [moving] a little while ago but the rents are getting too high."
–Silvia Rodrigues, downtown Beaverton

WHY A REGIONAL APPROACH IS NEEDED

- **Knowledge sharing** Successful models exist in our region and across the country. We have deep expertise across our development, lending, policy and community-based organizations, yet our region lacks a forum for sharing creative solutions.
- **Economies of scale** Successful models from across the country suggest that collaborative funding and resource models can help to maximize the effectiveness of limited public resources by creating flexible financing tools that leverage additional private and philanthropic capital for greater return on investment.
- **Shared vision** Passionate advocates are working to advance affordable housing goals and develop coordinated responses to homelessness, yet the region lacks a broader lens for connecting this work to our shared 2040 vision for our communities. As our region considers how we grow, equitable housing must continue to be not only a shared priority, but also a framework for providing access to the resources that will allow us to achieve our shared vision for the future.

METRO'S ROLE AND NEXT STEPS FOR 2016

Metro is uniquely positioned to support these four strategies for creating and preserving housing affordability by providing technical assistance, bringing partners together to build innovative solutions, and developing research and data to support informed policy and investment decisions. In addition, Metro can continue to participate in state and federal policy discussions to ensure that local jurisdictions have access to a range of tools and resources to meet their housing needs.

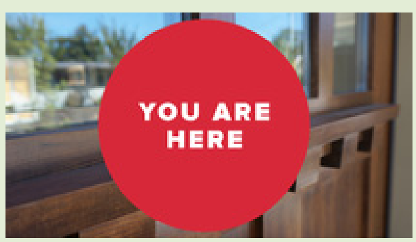
To support these opportunities, Metro's Equitable Housing Initiative 2016 work program proposes the following policy and programmatic actions:

Policy actions

- Convene a leadership summit on Feb. 1, 2016, to build a shared understanding of challenges and opportunities and to discuss next steps and actions for moving the four strategies forward.
- Advocate for state legislative changes to ensure that local jurisdictions have access to a range of tools to address equitable housing needs in their communities.

Programmatic actions

- Develop and launch a technical assistance program to support local implementation of equitable housing tools and strategies.
- Develop an equitable housing research agenda, including the exploration of a housing + transportation cost calculator tool.
- Continue to explore opportunities for coordinated resource development and investment strategies to support equitable housing.



Regional Snapshots

Stories and stats of a changing region

oregonmetro.gov/snapshot

"We loved our old neighborhood [in Southwest Portland] so we started looking there. Then we realized we couldn't afford anything we wanted, so we started looking at Tigard. But we didn't really like the houses we looked at because they were either tiny lots or in neighborhoods we weren't excited about. So we looked in Beaverton and the Bull Mountain area, too."
– Brian McCauley, Tualatin

Regional housing trends

This report focuses on presenting short- and long-term solutions to our equitable housing challenges. Before discussing solutions, however, it is helpful to start with an overview of the regional conditions of the housing dynamics of supply, demand, affordability and social equity.

DEMAND

Our region's population is growing, aging and becoming more diverse, while household sizes are decreasing. Demographers expect 195,000 new households (400,000 more people) will come to the region over the next 20 years. But those households will look different than the typical family of the past. Roughly 68 percent of new households will have just one or two people, and half will be headed by someone age 65 or older.

People increasingly prefer a specific kind of neighborhood. A 2014 survey by Metro and several partners found that although most respondents preferred to live in single-family homes, a majority also prefer neighborhoods with activities within a 15-minute walk. This is consistent with national research by the National Association of Realtors, the National Multifamily Housing Council and other groups.

As many newcomers choose walkable neighborhoods, the region has experienced what economist Joe Cortright has described as an "inversion" in home prices between the urban core and suburban jurisdictions over the past decade; average home prices have risen in Portland but fallen in surrounding jurisdictions.

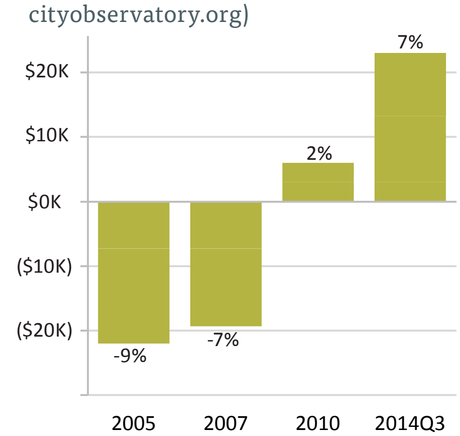
Table 1 Zillow estimated home prices for single family homes, Portland metropolitan area | **Source** Joe Cortright, "Our Shortage of Cities: Portland Housing Market Edition," Nov. 11, 2014 (www.cityobservatory.org)

	2005	2007	2010	2014Q3	2007 to 2014Q3
Portland	$236,000	$290,000	$255,000	$309,000	6%
Clackamas County	$277,000	$340,000	$272,000	$310,000	-9%
Clark County	$239,000	$275,000	$216,000	$247,000	-10%
Washington County	$258,000	$313,000	$259,000	$301,000	-4%
Suburban average*	$258,000	$309,333	$249,000	$286,000	-8%
	2005	**2007**	**2010**	**2014Q3**	
City to suburb differential	($22,000)	($19,333)	$6,000	$23,000	
Percent difference	-9%	-7%	2%	7%	

*Suburban average is unweighted mean of three county price index values

A Portland house that used to sell for 9 percent less than a similar one in the surrounding area now sells for 7 percent more.

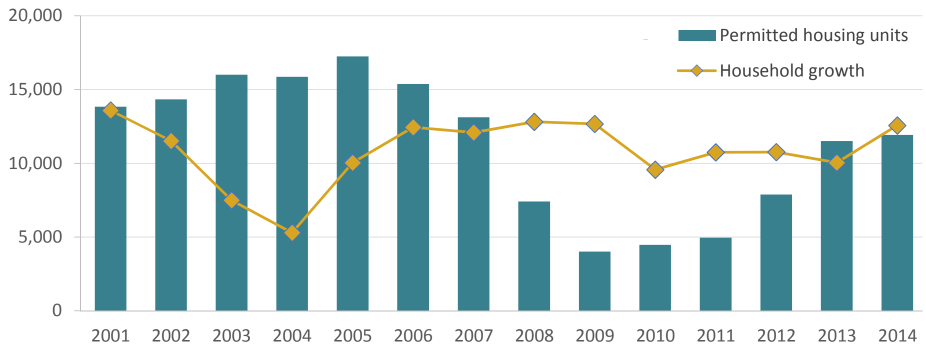
Figure 1 Portland to suburb price differential | **Source** Joe Cortright, "Our Shortage of Cities: Portland Housing Market Edition," Nov. 11, 2014 (www.cityobservatory.org)



SUPPLY

In addition to the increased demand for walkable, urban living, part of our housing cost increase stems from the aftereffects of the Great Recession. New housing construction plummeted during the recession, but the region's population continued to grow. Current construction has yet to catch up with demand.

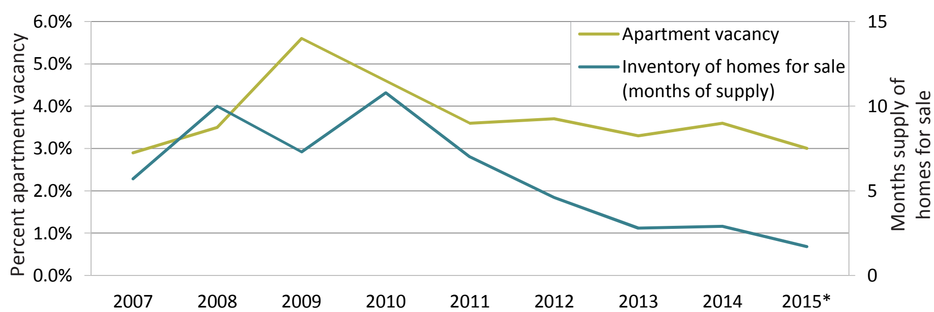
Figure 2 Portland region permitted housing units and expected household growth | **Source** U.S. Census Bureau. Johnson Economics



Population growth divided by 2.57, the long-term average household size in the Portland metropolitan area.

The Portland region's current rental vacancy is among the lowest in the country, hovering around 3 percent, compared with 5 percent in a typical balanced market. The region's inventory of for-sale homes (measured in months of supply at the current sales price) is currently around 1.7 months of supply, compared to 4 to 6 months of supply in a balanced market.

Figure 3 Apartment vacancy and months of for-sale inventory in the Portland Metro area (2007-2015) | **Source** Multifamily NW, Axiometrics, RMLS, Johnson Economics

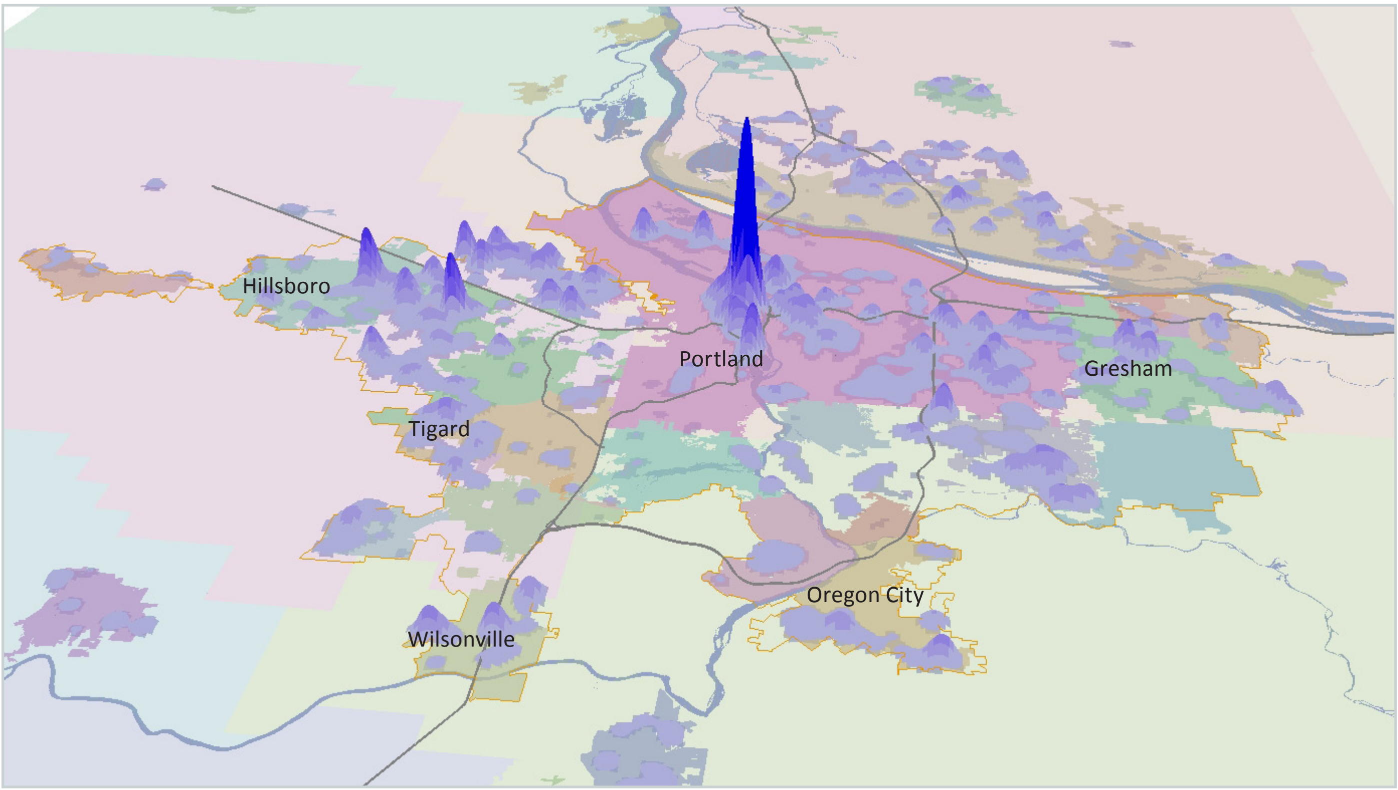


*2015 vacancy is based on Axiometrics' Q2 report; all other vacancy rates are averages of Multifamily NW spring/fall surveys.

These trends don't appear to be driven by a lack of raw land supply at the edges of the region. Although 38,000 new acres of land have been added to the urban growth boundary since 1979, 93 percent of new residences built between 1998 and 2014 were inside the original 1979 urban growth boundary. In the several thousand acres added to the growth boundary since 1998, only 8 percent of planned housing has been built – primarily due to challenges related to financing and building infrastructure like roads and pipes and reaching consensus on who should plan and govern such areas.

This, along with the demand for walkable urban neighborhoods cited above, may account for the fact that over a third of the region's new homes built between 1998 and 2014 were located in the Portland city limits.

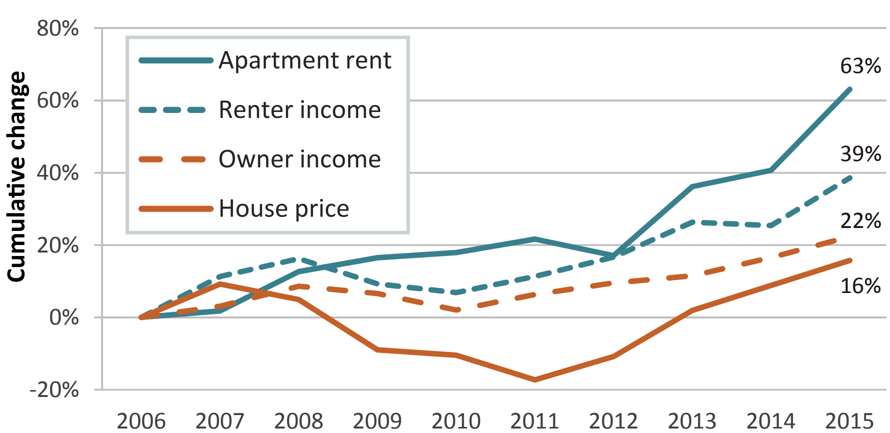
Figure 4 Relative volume of newly permitted units, 1998 through third quarter of 2014 | **Source** Construction Monitor



AFFORDABILITY:

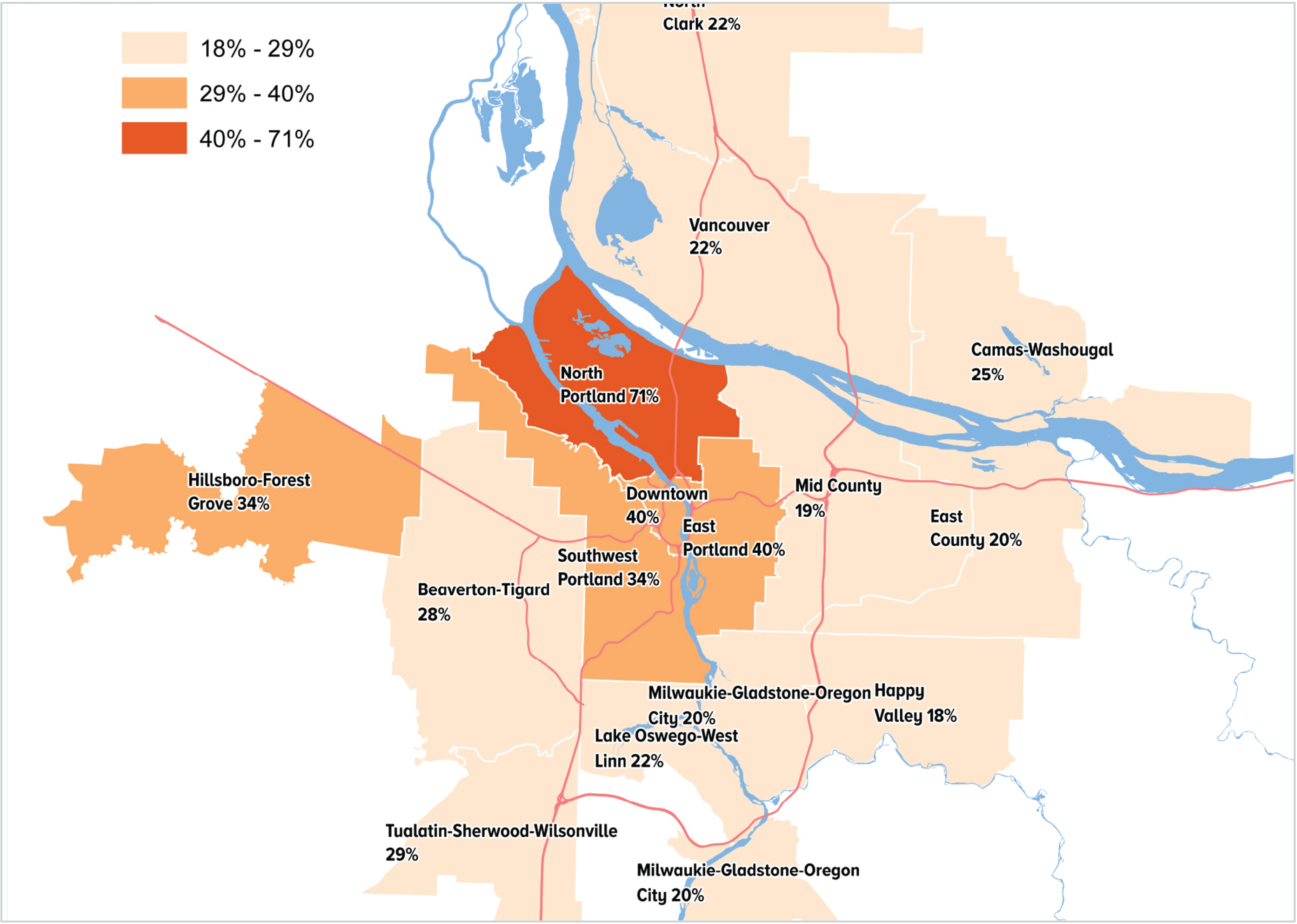
Consistent with national trends, rents are increasing faster than incomes, leading to high cost burdens. Between 2006 and 2015, rents in the Portland metropolitan area went up by 63 percent, while renter incomes increased by just 39 percent.

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



In some – but not all – parts of the region, average housing costs have risen dramatically, putting average prices out of reach for many households with low and moderate incomes.

Figure 6 Percent change in cost of rental housing, 2011 to 2015 | **Source** Multifamily NW, Axiometrics Johnson Economics



The most common measure of housing affordability is 30 percent of a household's income spent on housing. The market generally does not produce new housing affordable to households making less than 60 percent of median income—about $40,000 for a family of three or $30,000 for a single-person household. Producing new housing affordable at this level typically requires some form of public or philanthropic investment. However, the majority of people in this income bracket are served by market-rate housing that is "naturally" affordable because of its age or less desirable location. There are currently approximately 30,000 income-restricted units of housing regulated to remain affordable to households making less than 60 percent of median income, and approximately 73,000 units of market-rate housing that are affordable at this level (although rising rents will cause this number to diminish) in the four-county metro region. With over 185,000 households making less than 60 percent of median income, that leaves a shortage of more than 80,000 units of affordable housing.

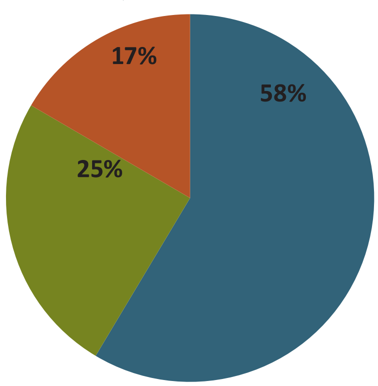
19,000 PEOPLE WITHOUT HOMES

According to the most recent counts, the four-county area (Clackamas, Clark, Multnomah and Washington counties) is home to approximately 19,000 homeless people (including about 1,500 children). Recent assessment of the makeup of the homeless population indicate that a growing portion of the homeless population are people and families who homeless primarily due to economic reasons.

Table 2 2015 Metro regulated affordable housing inventory

County	Number of regulated affordable units
Clackamas	3,937
Clark	5,094
Multnomah	24,962
Washington	7,418
Total	**41,289**

Figure 7 Renter households by income | **Source** Johnson Economics, ACS, Multifamily NW, Axiometric.

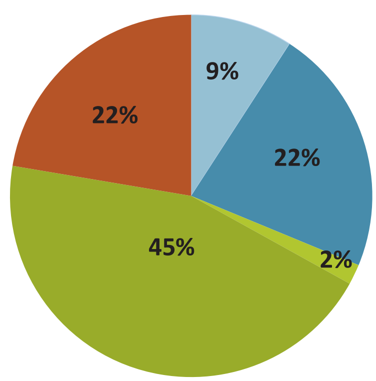


Households making 100%+ AMI, 52,432: 17%

Households making 60-100% AMI, 78,494: 25%

Households making <60% AMI, 185,093: 58%

Figure 8 Rental housing by affordability | **Source** Johnson Economics, ACS, Multifamily NW, Axiometric.



Market-rate units affordable at 100%+ AMI, 73,545: 22%

Market-rate units affordable at 60-100% AMI, 146,857: 45%

Regulated units for 60-80% AMI, 5,400: 2%

Market-rate units affordable at <60% AMI, 72,684: 22%

Regulated units for <60% AMI, 29,699: 9%

Defining terms

HOUSING AFFORDABILITY

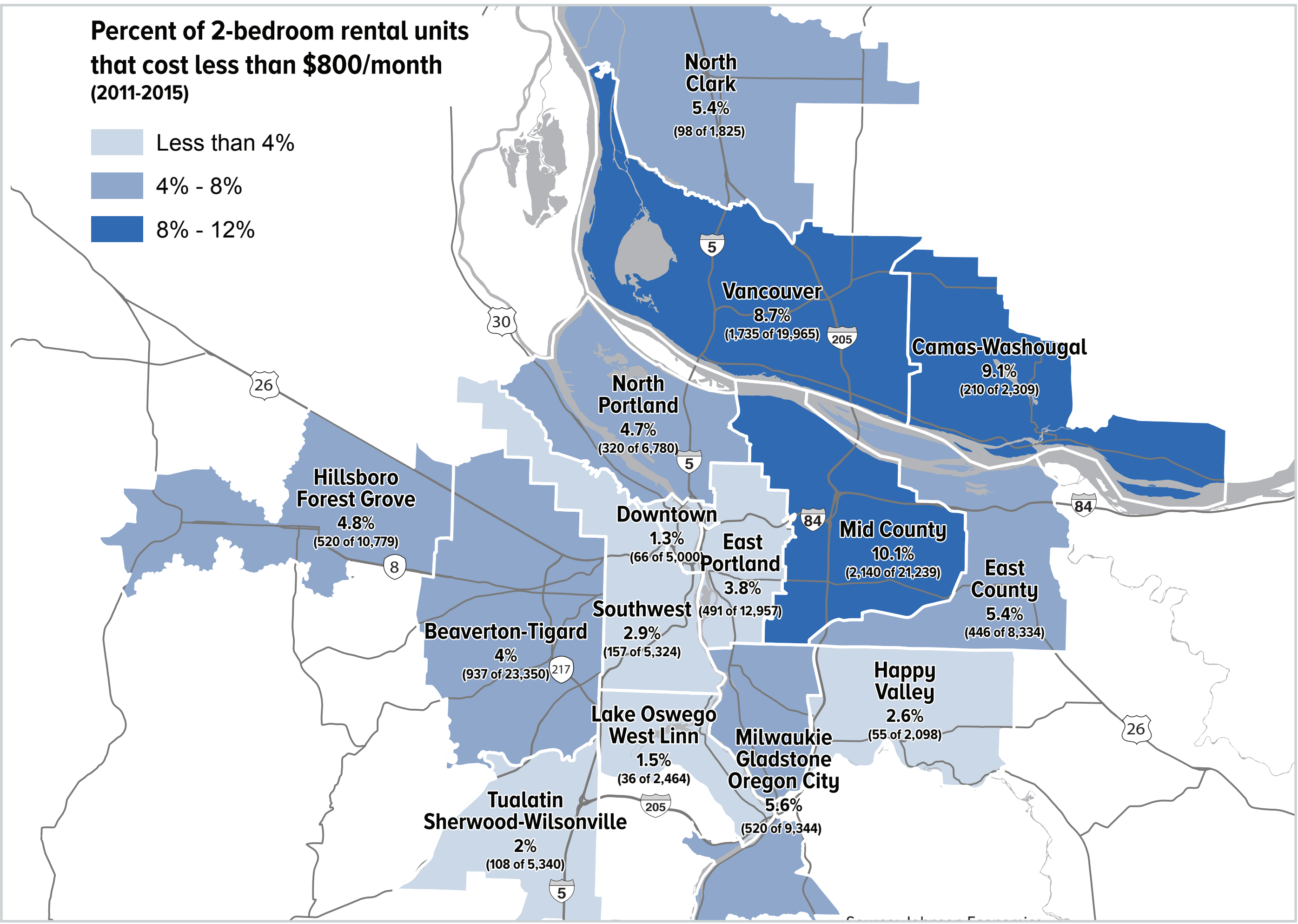
The standard definition for housing affordability is the point at which rent or mortgage payments are no more than 30 percent of household income. Sometimes that definition is expanded to consider the point at which rent or mortgage payments combined with transportation costs are no more than 45 percent of household income.

AREA MEDIAN INCOME (AMI)

The U.S. Department of Housing and Urban Development estimates the median family income for an area each year and adjusts that amount for family size so that family incomes may be expressed as a percentage of the area median income.

The shortage of rental housing for families making less than 60 percent of median income is not only true in Portland, where rent increases have been most dramatic, but all across the region. For example, a three-person household making $32,000 – the average salary for a preschool teacher and about 49 percent of median income – can afford approximately $800 in rent. By this measure, fewer than 6 percent of two-bedroom apartments across the region are affordable to the average preschool teacher.

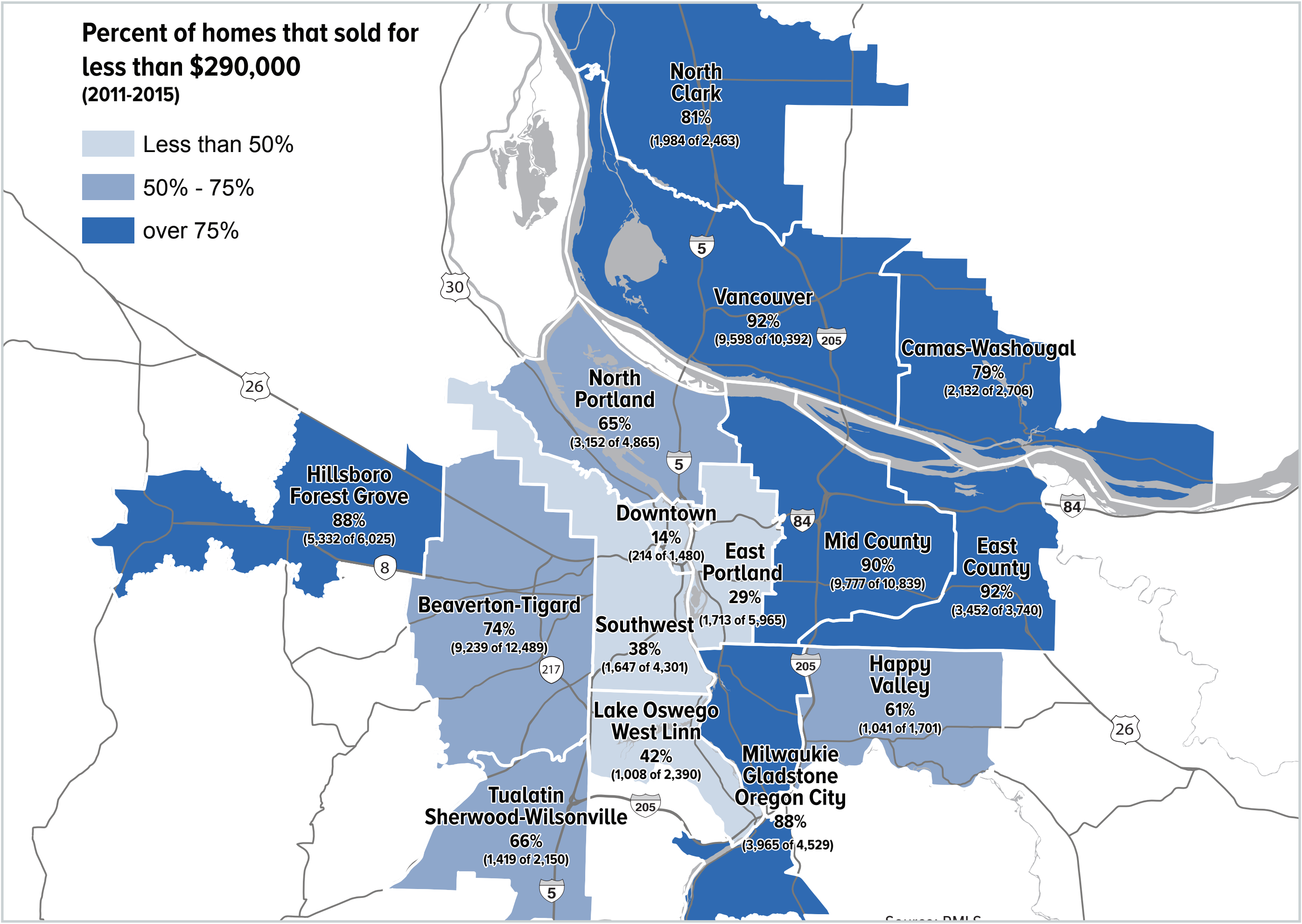
Figure 9 Percent of two-bedroom rental units affordable to a household making $32,000 (less than half the area median income for a household of three) | **Source** Multifamily NW, Axiometrics, Johnson Economics



Assumes 30 percent housing cost burden.

When it comes to for-sale homes, the situation is a little more nuanced. With the exception of some high-demand neighborhoods in Portland, the four-county region still has a fairly substantial supply of for-sale homes that are affordable to households making median income. For example, a household earning the median income of $66,000 – the average salary for a police officer – can still afford about 83 percent of 2-3-bedroom homes across the region. What is often portrayed as a shortage of affordable homes for sale may be more accurately a reflection of the limited number of single-family homes in walkable neighborhoods.

Figure 10 Percent of for-sale homes affordable to a household making $66,000 (median income for a family of three) | **Source** RMLS.



Assumes 30 percent housing cost burden, $280,000 FHA loan with 3.5 percent down payment and 30-year fixed rate mortgage at 4 percent interest, plus $3,000/year in taxes and $750/year in insurance.

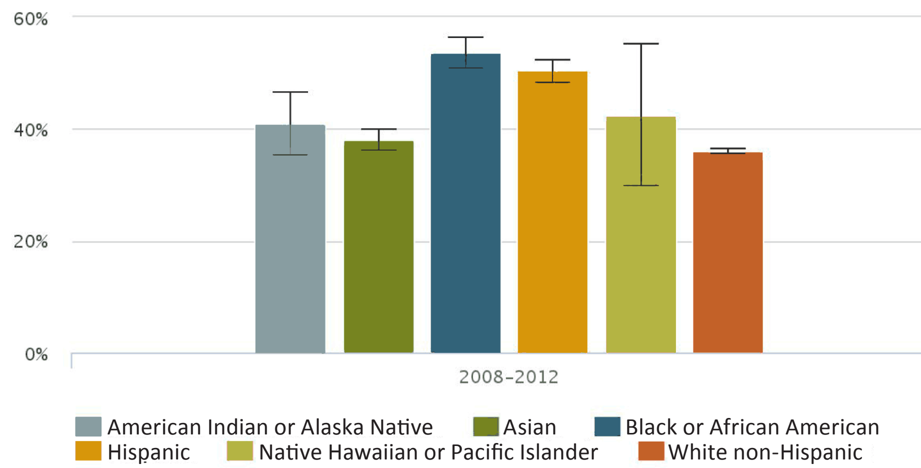
Finally, it's important to consider the combined cost of housing and transportation. The average household in our region spends roughly 20 percent of its income on transportation. This percentage is higher in outlying areas. For example, at $3 a gallon, the average family living on the Advance Road edge of Wilsonville would spend $14,334 on driving costs a year, $3,666 of it on gas. The average household in inner Northeast Portland would spend $7,740 on driving costs annually – a savings of $6,594. If a household earned $50,000 per year, that savings is like a 10 percent raise in income (source: Center for Neighborhood Technology, htaindex.cnt.org/total-driving-costs/).

SOCIAL EQUITY

Lack of equitable housing opportunities threatens the diversity and equity of our communities. Rapidly rising housing costs in much of Portland and areas in other parts of the region have resulted in displacement of low-income households to areas of increasing poverty farther from job centers and less well served by infrastructure, services, and amenities.

Because they have lower average incomes, communities of color are disproportionately impacted by these trends.

Figure 11 Percent of households spending 30 percent or more of income on housing, by race (alone) and Hispanic origin, Portland metropolitan area, 2008 to 2012 five-year estimates with margins of error | **Source** Portland Pulse from U.S> Census Bureau American Community Survey



According to Elizabeth Kneebone at the Brookings Institution, about 40 percent of our region's poor population currently lives in neighborhoods with poverty rates of 20 percent or higher. She writes, "The challenges of poor neighborhoods—including worse health outcomes, higher crime rates, failing schools, and fewer job opportunities—make it that much harder for individuals and families to escape poverty and often perpetuate and entrench poverty across generations" (The Growth and Spread of Concentrated Poverty, 2000 to 2008-2012, Brookings Institution, 2014).

Strategy 1: Increase and diversify market-rate housing

Through coordination between local governments and private developers, we can ensure that the housing that is built is more diverse – both in terms of its form and its price point – and that supply constraints do not drive housing costs up for everyone. Market-based housing strategies can help create a mix of sizes and price points, ensuring that high-demand, high-opportunity locations do not become exclusively high-income neighborhoods.

Public subsidies such as tax credits and grants typically focus on housing projects that meet the needs of families making less than 60 percent of median income, and new market-rate construction is often focused on the upper end of the spectrum, where returns are sufficient to support the cost of new construction and to attract equity investors. With these factors, market-rate housing that is affordable to middle-income households and accessible to jobs and transit is sometimes left out of the mix of new housing.

In addition, as the basic theories of supply and demand suggest, if the overall supply of housing does not keep pace with growth, affordability suffers. Regulatory barriers and concerns about neighborhood change can curtail the construction of new housing or drive up the cost of new units by requiring expensive add-ons like additional structured parking. Some advocates blame soaring housing costs in the San Francisco Bay Area on these dynamics, for example.

"MISSING MIDDLE"

Medium-density multi-unit or clustered housing options – compatible with single-family homes and conducive to walkable urban living – are increasingly lacking compared with demand. Daniel Parolek has called this housing for the "missing middle" of American households. The rediscovery of older housing forms such as duplexes/triplexes/fourplexes, garden apartments and boarding houses – as well as emerging co-housing models such as cottage clusters – can provide a visual transition between lower density residential neighborhoods and higher density urban centers and corridors. These housing types also fill a much needed market gap for more affordable homeownership options and smaller-format rental or owner housing for empty-nesters who are downsizing.

METRO'S TRANSIT-ORIENTED DEVELOPMENT PROGRAM

By bringing more people to live, work, and shop in areas with a connection to transit, Metro's Transit-Oriented Development Program contributes to the region's 2040 Growth Concept of vibrant, urban centers and station areas linked by transit. Projects supported by the program contribute to affordability both by adding supply and by lowering transportation cost burdens by providing housing options that are well served by transit.

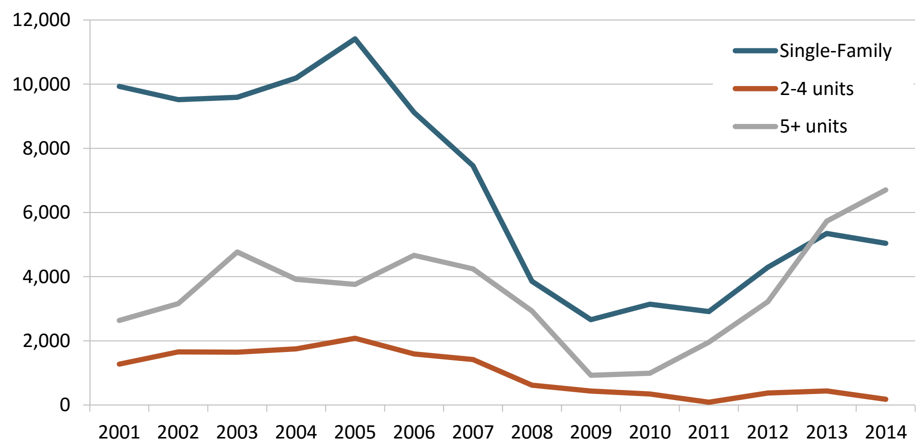
Since 1998, the program has provided developers with financial incentives (typically grants of $200,000 to $500,000) that enhance the economic feasibility of higher-density, mixed-use projects served by transit. To date, the program has helped to support investments in 3,296 housing units near transit, including 729 units that are regulated to remain affordable and 1,045 units of market-rate housing that was affordable to households making 80 percent of median income at the time it entered the market. Recent modifications to the program's work plan will help to encourage more investment in affordable housing, particularly in areas where high land costs present a major barrier for affordable housing development.

4th Main, an example of a Vertical Housing Tax Credit and Transit-Oriented Development Program funded project in downtown Hillsboro

Missing middle diagram, Opticos Design

In the Portland region, the recovery in housing construction has yet to reach two- to four-unit building types. Since the recession, lenders have been reluctant to finance these less common forms of mid-density, middle-income housing, and liability associated with condo associations creates added risk and cost for developers. Zoning codes can effectively prevent duplexes from being built in many neighborhoods or make the process difficult and slow. Delays can drive up project costs and unpredictability can cause developers and financers to drop projects altogether. Before the downturn, young first-time homebuyers supported this segment; now, many households that would have been first-time homeowners prior to the recession are instead renting apartments.

Figure 13 Residential permits for single-family and multifamily housing structures, pre-and post-recession | **Source** U.S. Census Bureau



TRANSIT-ORIENTED DEVELOPMENT

Two decades ago, people in the region decided most new homes should be built within existing downtowns, main streets and near transit instead of paving over farm and forest land. Current trends indicate these areas are where people increasingly prefer to live, but those same trends can raise concerns among existing residents about what this will mean for livability.

A greater range of high-density options is needed to meet the increasing demand for housing in walkable, transit-accessible neighborhoods. Forecasters in the real estate industry recognize the unrealized potential of the mid-density market for middle-income homes, and also point to the commercial potential of the higher-density, middle-income market (Emerging Trends in Real Estate, PwC and Urban Land Institute, 2015).

One example of this trend is the emergence of micro-apartments catering to millennials who prioritize a prime location and affordability over space. Another growing segment is aging baby boomers, who increasingly will require elevator and transit-served housing. High-density projects often require innovative solutions to help reduce costs and keep units affordable for households with near-median income, such as reducing or eliminating parking to dramatically reduce costs. In addition, the State of Oregon's Vertical Housing Tax Credit program and Metro's Transit-Oriented Development Program can help more jurisdictions attract multifamily development.

ACCCESSORY DWELLING UNITS

Like "missing middle" housing options, accessory dwelling units represent a housing form that can be incorporated into existing neighborhood fabric with minimal impacts to urban form. Accessory units offset homeownership mortgages while also providing a smaller scale housing option that can flexibly be used to accommodate intergenerational living and short- or long-term rental options and support vibrant, walkable communities. There are currently over 1,000 permitted accessory dwelling units in Portland. With approximately 400,000 single-family lots in the region, there is considerable potential to increase housing density in existing neighborhoods by eliminating barriers to accessory unit development. Although this housing form is not innately "affordable," anecdotal evidence suggests that many units are used to accommodate caregivers, aging family members and family members with disabilities, allowing people with special needs to stay with family.

All jurisdictions in the region are required to allow for the development of accessory dwelling units; however, a number of regulatory and financing barriers prevent homeowners or developers of new single-family homes from building accessory units. Many jurisdictions require accessory units to be occupied by the primary property owner, limiting the ability of accessory units to contribute to the rental housing stock.

Other restrictions – such as off-street parking requirements, rigid design standards and high system development charges – make accessory dwelling units prohibitively expensive in many places. Challenges with lengthy permitting processes and lack of clarity about tax implications can also add uncertainty and cost to projects. Even in Portland – where the city has worked to eliminate many of these barriers to incentivize accessory dwelling unit development – lack of financing remains a key challenge for many homeowners considering adding an accessory unit to their property

Defining terms

ACCESSORY DWELLING UNITS (ADUs)

Additional, separated dwelling units incorporated into single-family lots. They can be attached units, such as a finished basement or an attached garage with a separate entrance, or detached units, such as a converted garage or new structure in the backyard of a primary residence.

ACCESSORY DWELLING UNITS IN VANCOUVER, BC

The City of Vancouver currently allows ninety percent of the city's single-family lots (about 70,000 lots) to hold not one, but two accessory units—one inside the primary structure, and one in a detached structure. The city removed many of the regulatory barriers typically imposed on such structures, including owner occupancy regulations, off-street parking requirements, and rigid design standards.

By the late 1990s, writes Alan Durning (Sightline Institute) of the Kitsilano neighborhood, "homeowners had tucked so many daylit-basement flats, attic apartments, and stand-alone cottages into the neighborhood that the density had more than doubled to 13.4 dwellings per acre. At that density, neighborhood stores can thrive, transit can run full and frequently, and car ownership and driving both dip much lower than in regular single-family neighborhoods. The architectural feel of the neighborhood, however, had hardly budged."

LESSONS FROM THE BAY AREA

In September, Metro hosted journalist Kim-Mai Cutler to talk about her reporting on housing in the Bay Area, where job growth has far outpaced housing construction, and the gap between the housing haves and have-nots has become a wedge dividing the region. Cutler's description of Bay Area housing dynamics is a vision the Portland region undoubtedly wants to avoid: protective suburbs that won't build multifamily housing, forcing all the growth to far-flung exurbs or super-expensive cities.

"That growth goes somewhere else. It ends up on the urban core, and the exurban periphery," Cutler said."Residents are concerned about schools. They don't want more kids in the schools. Cupertino has some of the best-performing high schools in the country," Cutler said of the suburban Silicon Valley home of Apple. "So people are saying 'Please stop Condo-tino. We don't want more housing.' "

The growth in the urban core – in this case, San Francisco, where the electorate has been loath to add new housing – has caused longtime residents to be priced out of the market, creating concerns about the preservation of the city's character.

But preservation and affordability come at a cost: One affordable apartment building in San Francisco cost nearly $900,000 per unit to build, because of the $18.5 million cost of the land under the building. A proposed $300 million bond would help pay for 500 units of affordable housing.

Following Cutler's talk, Willamette Week reporter Aaron Mesh moderated a panel discussion with economist Joe Cortright, developer Eli Spevak, and long-time housing advocate and Meyer Memorial Trust program officer, Elisa Harrigan, who discussed how our region can learn from the lessons of the Bay Area's housing crisis.

Video footage of Cutler's presentation and the panel discussion is available at www.oregonmetro.gov/news/housing-woes-what-portland-can-learn-bay-area.

EMPLOYER-ASSISTED HOUSING

In the past, our region's comparatively affordable housing stock (compared to other west coast cities) has been identified as a competitive advantage that helps businesses attract and retain talent. As housing prices increase, there's an opportunity for new partnerships to support housing affordability for the workforce and encourage more people to live near where they work. Employer-assisted housing is a model to help moderate-income, working households by mobilizing public resources to leverage additional funds from private employers. When employees live near where they work, employers enjoy the benefits of a more stable workforce, improved morale, lower turnover and reduced recruitment costs; employees save time and money from their reduced commute; and all community members benefit from reduced congestion. Across the country, employer assisted housing and "live where you work" incentives provide assistance to ensure that people who work in a community can afford to live there. Key challenges are economies of scale and making the business case to employers. Chicago's REACH Illinois program provides one example of a successful model for increasing the scale of this approach; key elements include centralized administration and state tax credits that incentivize employers to participate.

STRATEGY 1 CONSIDERATIONS

Opening the doors to more overall housing supply and more diverse housing options requires a combination of regulatory reform, fiscal policy alignment, financial innovation and market creativity. Governments need to balance efforts to streamline permitting and entitlement processes while ensuring that regulations still protect and enhance what residents love about their communities. Local governments can work to eliminate regulatory barriers to "missing middle" housing types and accessory dwelling units – both of which increase neighborhood density with minimal impacts to neighborhood character – but financing and developer capacity remain a challenge for bringing these approaches to scale.

STRATEGY 1 OPPORTUNITIES

Local governments

- Allow for and encourage the re-emergence of "missing middle" housing types, such as cottage clusters, townhomes, and duplexes/triplexes/fourplexes, as well as the redevelopment or conversion of large homes into multi-unit dwellings. Local governments can adjust their zoning and building codes to create more flexibility for these middle-density housing options to resurface. In addition, jurisdictions can allow for the redevelopment or conversion of large homes into multi-dwelling units.
- Support new high-density transit-oriented development to fill the growing demand for housing in transit-accessible locations. Strategies local governments can use to support transit-oriented development include appropriate higher density zoning, reduced parking requirements and streamlined permitting in station areas.
- Streamline the design review and entitlement processes to protect against unnecessary delays that can increase costs or lead to reductions in density or number of units.
- Make it easy for homeowners to develop accessory dwelling units and for homebuilders to include accessory units in new development. Eliminating owner occupancy and off-street parking requirements, adopting flexible design standards, waiving system development charges, implementing fast-tracking permitting, and providing predictability around property tax assessment can help making it easy for homeowners to build accessory units.

Lenders

- Create local financing tools to support accessory dwelling unit construction. Several credit unions are working to develop financing packages that support accessory unit construction and conversion, but options are still limited and there is a great deal of room for innovation in this realm. Creating second mortgage products based on an as-completed value could have an impact in facilitating accessory unit construction and conversion projects. Another idea put forth has been the creation of a regional revolving loan fund for accessory dwelling units to allow homeowners to more easily access financing.

Defining terms

SYSTEM DEVELOPMENT CHARGES (SDCs)

Fees that are collected when new development occurs and used to fund a portion of new streets, sanitary sewers, parks and water.

Employers

- Explore opportunities to create employer-assisted housing.

How Metro can help

- Provide technical assistance grants to help local governments analyze and implement policy changes to eliminate regulatory barriers and create incentives for diverse housing types.
- Convene partners and facilitate regional knowledge sharing, innovation and collaboration between local governments. Metro is positioned to support the development and adoption of model codes and regional coordination to explore effective approaches to structuring system development charges, parking requirements and design review processes.
- Identify opportunities to build capacity among the development community to support alternative housing types. For example, Metro could convene a design competition for a low-cost accessory dwelling unit design, and it could then work with local jurisdictions to adopt pre-approved designs that would receive fast-tracked permitting.
- Identify opportunities to partner with governments and employers to build capacity for employer-assisted housing programs and live-where-you-work benefits.
- Provide data to inform housing choices and program/policy development. Stakeholders have identified an opportunity for Metro's Research Center to develop a housing + transportation cost calculator, an online tool for helping housing seekers understand the true cost of decisions about where to live. Building on the model created by the Center for Neighborhood Technology but customizing it for our region, a housing + transportation cost calculator could be a user-friendly tool to inform individual housing choices as well as policy and lending practices, support location-efficient housing and communicate the tradeoffs of location and transportation choices to those in the housing market.

Strategy 2: Leverage growth for affordability

Inclusionary housing programs and other funding strategies linked to new development are most effective in strong markets and can be a tool for promoting mixed-income development. These programs typically involve regulations or incentives geared toward encouraging the inclusion of affordable units in market-rate housing projects – or other fees or taxes that require private developers to contribute to affordable housing trust funds. Due to regulatory barriers in Oregon, local jurisdictions are currently only permitted to use voluntary or incentive-based inclusionary housing programs. While housing advocates across the state continue to push to overturn the statewide ban on mandatory inclusionary zoning and rent control, voluntary inclusionary housing is an underutilized tool.

Regardless of the specific tool used, inclusionary housing programs are designed to ensure that affordability is preserved as the city grows. As land prices increase in prime urban locations, development has shifted overwhelmingly toward the luxury market, competing for the high-tech millennials and empty nesters leaving single-family homes for the urban core. According to a study of 54 metropolitan areas, commissioned by the Wall Street Journal, 82 percent of rental units completed from 2012 to 2014 were "luxury" apartments – meaning they were in the top 20 percent of the market (Wall Street Journal, "New Rental Luxury Projects Add to Rent Squeeze," May 20, 2015). The article notes that with supply focused primarily on this segment of the market, supply at the lower end of the market is experiencing more extreme demand-driven price increases.

NATIONAL CONTEXT FOR INCLUSIONARY HOUSING

According to a study by the Lincoln Institute of Land Policy, there were more than 500 inclusionary housing programs in the country in 2014 (two-thirds of which were in New Jersey and California). Of these programs, 87 percent were mandatory (all developers over a designated size or within designated zones are required to participate), and 13 percent were voluntary or incentive-based. The majority of programs – including mandatory programs – partially offset the cost of providing affordable units through incentives, the most common being tax abatements, parking reductions, density bonuses, fee waivers and expedited permitting. Many programs offer developers the option of building affordable units in another location or paying an in-lieu fee that goes into a local affordable housing trust fund.

FOCUS GROUP WITH PRIVATE DEVELOPERS

Metro convened a focus group with five representatives of private, for-profit, multifamily development firms that had previously engaged with Metro's Transit-Oriented Development Program. Participants made several observations related to housing affordability and, in particular, voluntary and mandatory inclusionary housing approaches:

- The relationship between overall supply and affordability is often overlooked in conversations about affordable housing. Cities should take proactive steps to increase the overall supply of market-rate housing and should work to ensure that any incentive tools for affordability do not have the unintended consequence of having a chilling effect on overall development.
- Tools to incentivize or mandate inclusion of affordable housing in market-rate development have a cost. It is important for cities to consider the size of the funding gap and to provide funding (e.g., tax abatements, system development charge waivers, tax-increment financing) to partially offset the increased costs of providing affordable units.
- A challenge is that it's easier to make housing affordable for middle income households (60 to 100 percent area median income) financially feasible, but there is more political support for those below 60 percent area median income.
- Seattle's Multifamily Tax Exemption is a simple, predictable, streamlined program that could serve as a model for jurisdictions in our region. The program provides a tax exemption on residential improvements on multifamily projects in residential targeted areas in enhance for setting aside 20 percent of homes as income- and rent-restricted.
- Mandatory tools like inclusionary zoning affect land values. If such a tool were to be introduced, it should be phased in over time so as not to cause a shock to property values.

STATE AND LOCAL CONTEXT FOR INCLUSIONARY HOUSING

Along with Texas, Oregon is one of two states where mandatory inclusionary zoning is illegal. Though mandatory inclusionary zoning is prohibited under a statutory ban, jurisdictions are able to use voluntary inclusionary housing tools. Advocacy efforts to overturn the statewide ban have gained traction in recent years but have not succeeded in passing legislation. Opponents argue that inclusionary zoning could have a chilling effect on development that would negatively impact prices across the market.

Currently, the Portland is the only city in the region that provides incentives to encourage the inclusion of affordable units in market-rate projects. The City of Portland has recently worked to expand its Multiple-Unit Limited Tax Exemption program, which now provides $3 million in annual tax abatements for developers who agree to restrict the rents on 20 percent of their units. The Portland Housing Bureau estimates that this will lead to approximately 200 to 300 new units each year. The program has been underutilized in the past due to complexity and other requirements, but recent changes (including switching from a competitive application to a rolling process) have made the program easier to use. Portland is also working on revamping its density bonus program to increase utilization of the program for affordable housing.

STRATEGY 2 CONSIDERATIONS

Inclusionary housing programs are not one-size-fits-all. Effective programs strike a balance between being streamlined and easy-to-understand and being flexible to respond to different market dynamics across geographical areas or as they change over time. Key policy considerations include:

- whether developers are required/incentivized to build affordable units on-site or provided with an option to pay into a housing trust fund
- target affordability level
- inclusionary percentage requirement
- term of affordability
- types of projects that could qualify (size; new construction or rehabilitation)
- level to which incentives should offset cost for developers
- geographic differentiation for levels of incentives that respond to varying market conditions.

Profile

SEATTLE'S INCLUSIONARY HOUSING PROGRAM

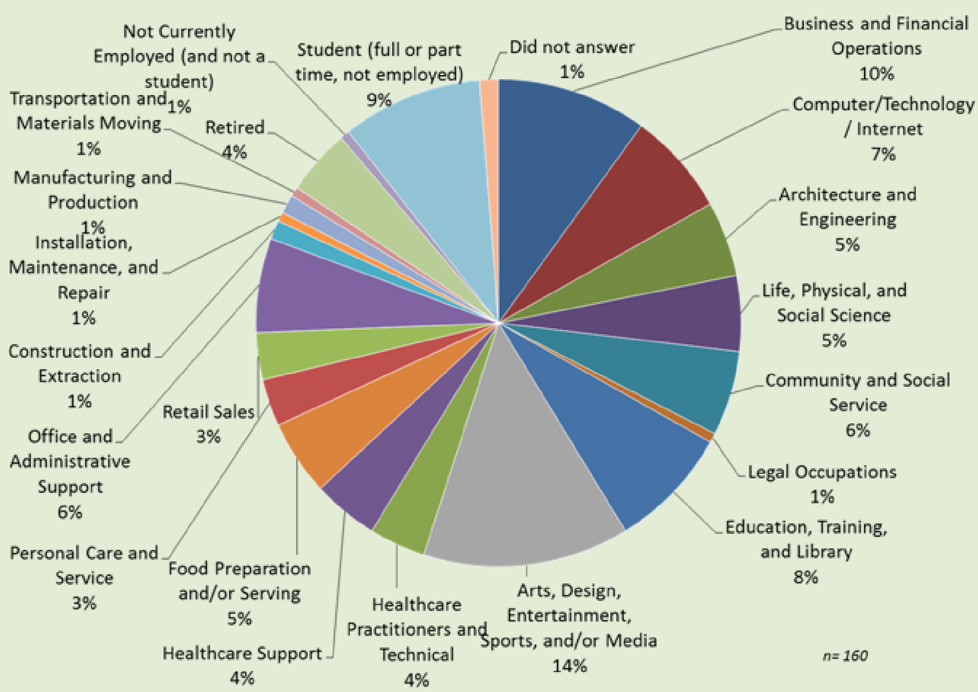
Seattle's Multifamily Property Tax Exemption provides a property tax exemption to developers and owners of multifamily rental and for-sale residential projects who choose to restrict rents on 20 percent of their units to be affordable to residents making between 65 and 85 percent of median income. For rental properties, the owner is excused from property tax on residential improvements in exchange for rent-restricting at least 20 percent of the units for income-qualified households during the period of exemption. For condos and other for-sale multifamily properties, the tax exemption accrues to the owner of each income- and price-restricted unit, so long as at least 20 percent of the units are set aside. Under Washington law, the program currently provides a 12-year exemption.

As of August 2015, the program had 1,981 active affordable units in 88 market-rate projects in the program, with 1,918 addition units in 97 market-rate projects in the pipeline. Participation in the program has increased as a result of the recent building boom. Some publically subsidized affordable projects are also eligible for the program, helping to provide a deeper level of subsidy and make projects with limited public funding feasible. As of 2015, about 40 percent of eligible projects were participating in the program.

The program achieves significant rent reductions, approximately $400/month below market for studios, $500/month below market for one-bedroom units, and nearly $600/month below market for two-bedrooms. Approximately 71 percent of occupants of regulated units have a head of household who works full time.

The tax exemption program is expanding to require that projects set aside 25 percent of units to be affordable. In addition, the Seattle City Council unanimously voted in November 2015 to pass a new ordinance that requires all private developers of commercial and multifamily housing developments to contribute to affordable housing through a linkage fee. The ordinance came out of a study demonstrating the impact of growth on affordability and an economic sensitivity analysis that demonstrated that Seattle's real estate market was strong enough that the fee would not significantly halt new development.

Figure 14 Multifamily Property Exemption head of household current occupation | **Source** City of Seattle



While inclusionary zoning can be an effective tool in strong markets, it is one of many tools, and implementation could require multiple legislative actions at the state and local level. Voluntary inclusionary housing programs, however, could be implemented in the near term with no changes to current law.

STRATEGY 2 OPPORTUNITIES

Local governments

- Analyze and implement inclusionary housing programs that are streamlined and balance simplicity with flexibility and responsiveness to local market dynamics. To avoid unintended consequences and to ensure utilization, such tools should be supported by an analysis of market sensitivity and updated regularly to reflect changing market dynamics; rolling applications can make the program more attractive to private developers. Due to limitations under current Oregon law, voluntary or incentive-based programs are the best short-term opportunity for local governments to encourage private developers to contribute to the region's supply of affordable housing.

For-profit developers

- Ensure policy makers understand the needed market information to avoid unintended consequences such as a chilling effect on new development. Private developers can work with local policy makers to ensure that incentive tools are sufficient to partially offset the added costs of providing affordable units and that the application process is simple to use.

What Metro can do

- Provide technical assistance grants to help local governments analyze and implement programs to support inclusion of affordable units in market-rate projects.
- Participate in state policy advocacy efforts to remove the statutory ban on inclusionary zoning. This tool may not work in all locations, but can be effective in strong market zones and should be available to local governments.

Strategy 3: Mobilize and optimize resources

For very low-income residents, public and philanthropic investments are key to closing the funding gap for developing housing that is affordable below a level the market provides. Public funding models often come with many restrictions that can raise the cost of building affordable housing, so there is a need for both more flexible funding sources and strategies to lower the cost of building affordable housing. With land prices rapidly rising in locations with high access to transit, jobs and amenities, many governments and nonprofit community development corporations have looked to new approaches to land acquisition and to land trusts to preserve affordability.

Demand for low-income housing far exceeds supply, due to the lack of sufficient public resources to fund development and preservation of affordable housing for everyone who qualifies for it. According to Metro's 2015 regulated affordable housing inventory, there are 30,000 units of income-restricted regulated to remain affordable to households making less than 60 percent of median income, but over 185,000 households in this income bracket.

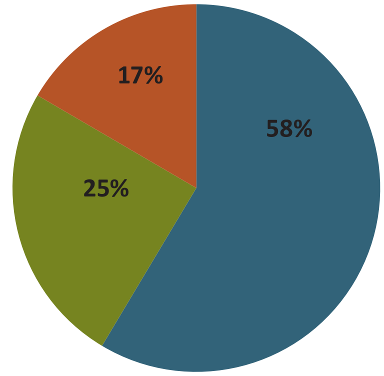
FEDERAL FUNDING

Federal funding resources for affordable housing come with rigid, time-consuming requirements that can drive up costs. The most significant federal funding program supporting construction of affordable housing is the Low-Income Housing Tax Credit program. The program provides tax credits that can be used to subsidize either 30 percent or 70 percent of the low-income unit costs. The 30 percent subsidy, which is known as the so-called "automatic" 4 percent tax credit, covers new construction that uses additional subsidies or the acquisition cost of existing buildings. The 70 percent subsidy, or 9 percent tax credit, is allocated competitively by the state and is sufficient to cover the costs of new construction without additional federal subsidies.

Other U.S. Department of Housing and Urban Development programs – such as Community Development Block Grants and HOME – that provide flexible local funding for community development and housing have been subject to considerable budget cuts. It has become increasingly important to find ways of supplementing federal funding streams with more flexible and sustainable state and local funding streams.

Managed by local public housing authorities, the Housing Choice Voucher program (formerly known as Section 8) provides another federal resource for making housing affordable. Program participants

Figure 15 Renter households by income | **Source** Johnson Economics, ACS, Multifamily NW, Axiometric.

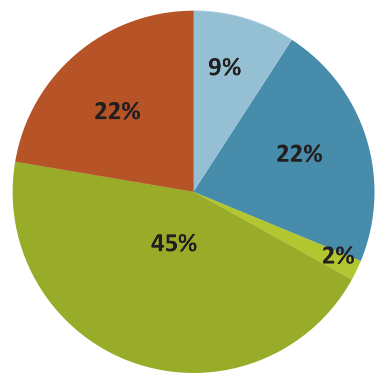


Households making 100%+ AMI, 52,432: 17%

Households making 60-100% AMI, 78,494: 25%

Households making <60% AMI, 185,093: 58%

Figure 16 Rental housing by affordability | **Source** Johnson Economics, ACS, Multifamily NW, Axiometric.



Market-rate units affordable at 100%+ AMI, 73,545: 22%

Market-rate units affordable at 60-100% AMI, 146,857: 45%

Regulated units for 60-80% AMI, 5,400: 2%

Market-rate units affordable at <60% AMI, 72,684: 22%

Regulated units for <60% AMI, 29,699: 9%

receive a voucher that may be used to cover rent for a home of their choosing (i.e., the unit may be income-restricted or market-rate). There are currently 12,947 rental assistance vouchers available in the four-county region, with long wait lists. (In Multnomah County alone, the waitlist for vouchers is currently more than 20,000 people.) One challenge with this program is that as market-rate rents have increased, voucher-holders have faced challenges finding and retaining housing that qualifies for rental assistance.

Also part of the Housing Choice Voucher program, project-based rental assistance vouchers are vouchers that can be used flexibly to add affordability to a range of project types. A public housing authority can attach up to 20 percent of its assistance to specific housing units if the owner agrees to either rehabilitate or construct the units or to set aside a portion of the units in an existing development. These vouchers are particularly useful in high-demand urban areas as recipients of tenant-based rental assistance vouchers struggle with the increasing shortage of market-rate units that meet Department of Housing and Urban Development requirements for "rent reasonableness."

STATE FUNDING

Oregon provides local jurisdictions with the ability to provide permanent tax exemptions for nonprofit rental housing. Under this program, for example, the Tigard, Beaverton, Portland, Washington County (unincorporated areas) and Multnomah County currently offer this program to all qualifying projects, and other jurisdictions consider projects on a case-by-case basis. This program could represent a realistic option for many more cities to consider.

Recognizing the need for new, more flexible resources, the state's new Local Innovation and Fast Track Housing program was authorized by the legislature in 2014. Funded by a $40 million general obligation bond, the program will provide flexible funding for construction of housing for families who are homeless or at risk of homelessness, allowing Oregon Housing and Community Services to "test innovative strategies and create a modern model of affordable housing development."

LOCAL REVENUE TOOLS

Cities are exploring new ways of funding affordable housing. In Portland between 2006 and 2011, tax-increment financing created an average of $30 million a year in investments in affordable housing development and homeowner assistance. The Portland City Council recently voted to increase the portion of tax increment financing funds dedicated to affordable housing from 30 percent to 45 percent. Portland also recently approved a decision to dedicate $1.2 million a year in lodging taxes from short-term rentals to the city's Housing Investment Fund, which can be used to support a range of affordable housing programs. The city hopes to use the new revenue stream to sell a bond that could generate

Defining terms

TAX INCREMENT FINANCING (TIF)

When the city defines an urban renewal boundary, the county assessor "freezes" the assessed value of real property within the urban renewal district. Urban renewal districts raise money by borrowing against future growth in property taxes. The city uses the borrowed money to pay for capital improvements, which spur more development. As the city and others invest in the urban renewal area, property values go up. The property taxes above those that were collected when the values were "frozen" – the tax increment - are used to repay the loans used for the improvements in the urban renewal area. When the urban renewal district expires in 20-25 years, the intent is to return a much higher property tax base to the tax rolls.district.

between $12 million and $30 million for future affordable housing investments.

In 2015, the Welcome Home Coalition, a nonprofit advocacy organization working to expand local revenue tools for affordable housing, examined funding models from other metropolitan areas.

Table 3 Survey of local revenue tools used in other metropolitan regions | **Source** Welcome Home Coalition, 2015 (www.welcomehomecoalition.org)

Jurisdiction	Tool	Annual revenue	Use of funds
Charlotte, N.C. (Population: 775,202)	**General obligation bonds:** Property tax backed bonds approved by voters for the next 8 years	$7.5 million	Development and rehabilitation of housing affordable to households making 60 percent of average median income
San Francisco, Calif. (Population: 825,863)	**Business fee general fund set-aside:** Annual business fee ranging from $76 to $35,001 (part of a comprehensive business tax reform approved by voters in 2012)	$20 million	• Affordable housing development • Private market incentives • Down payment assistance • Rent/mortgage assistance • Complete neighborhoods infrastructure grants
Seattle, Wash. (Population: 634,535)	**Property tax levy:** $0.17/1000 assessed valuation approved for 7-year periods; current average cost to homeowners: $65/year	$20 million	• Rental production and preservation • Operations and maintenance • Rental/mortgage assistance • Acquisition and opportunity loans
Boston, Mass. (Population: 636,479)	**Linkage fees:** $8.34 fee/ sq. ft. of commercial development over 100,000 sq. ft.	$7 million (average)	• New construction and preservation • Rental and homeownership housing • Transitional or permanent supportive housing
	In-lieu fee: $200,000 per unit fee for developers who opt out of Boston's inclusionary housing program	$11 million (average)	• Construction of multifamily housing for households making less than 70 percent of median family income • Homeownership development for households making less than 80 percent of median family income

DONATION OF SURPLUS LAND

In addition to direct funding, cities and other public entities can donate or sell at a discount underutilized publicly owned properties in high-opportunity areas. The City of Beaverton has provided land for several non-profit affordable housing projects, for example. A challenge can be the needed coordination among diverse departments and agencies, not all of which are focused on housing. Given fiscal constraints, many agencies may be protective of their assets or prioritize revenue for their general funds over supporting affordable housing.

Profile

NORTHEAST 82ND AND DIVISION

In December 2014, Metro's Transit-Oriented Development Program – which invests in properties and developments near transit – purchased a half-acre site and 8,000 square-foot building at 82nd Avenue and Division Street in Portland. While work proceeds to select a developer, Metro has created a first-of-its-kind arrangement with a local nonprofit to operate an interim community center in the building.

The oldest, most distinctive section of the building was built in the 1930s as a Piggly Wiggly grocery. Several additions came later, and a widening of Division Street in the 1960s ate away at the corner of the property. Its last tenant was a discount furniture store, which closed more than a year ago.

Thousands of cars and bus riders pass by each day on two of the busiest thoroughfares in the region. People walk and cycle by on the way to businesses in the emerging Jade District and classrooms at Portland Community College's Southeast Campus, which sits just across Division Street. In five years, Powell-Division bus rapid transit could serve the corner as it connects riders to downtown Portland and Gresham.

Rather than having the site sit vacant and fenced-off during selection of a developer, Metro leased the space to the Asian Pacific American Network of Oregon, or APANO, to operate the Jade District Community Space. The new community center can be used for meetings, classes, performances and events that support the neighborhood's efforts to build community and economic vitality.

Metro purchased the property for $685,000 using funds targeted for transit-oriented development from federal sources. It spent roughly $30,000 on repairs to make the building usable and also extended a $2,000 sponsorship to APANO to help with cleanup before the community center opens. APANO leased the site without cost for 12 months in exchange for maintenance and upkeep.

"Having an interim community center will help prove why we need one in the future, and that furniture store is a great way to test it out," said Shannon Payne, communications chair for the Jade District steering committee. "We'll be able to see how many people want to come and gravitate around that space."

Metro envisions future development on the site as a combination of retail and residential uses, creating developer criteria that include priorities like maintaining housing affordability, extending opportunities for diverse communities to participate in the benefits of new investment, and exploring partnerships with nearby institutions and community organizations.

LAYERING RESOURCES AND LEVERAGING COMPLEMENTARY INVESTMENTS

Given the high market demand for central, transit-accessible locations, the best places for creating affordable housing tend to be the most expensive locations. To overcome the barrier of expensive land, multiple public resources need to be layered together to make affordable housing projects financially feasible in the most accessible locations. Project-based rental assistance vouchers from a housing authority represent one flexible funding tool that could be used to help building owners in accessible locations fund rehabilitation projects and convert the building to regulated affordable housing.

Funding only goes so far in supporting affordable housing development; low-cost financing is also necessary to fill the gap to make affordable housing projects feasible. Financing is needed at multiple stages of the development process, including predevelopment, acquisition and permanent financing. State and local resources can layer public, private and philanthropic funds to provide financing to affordable housing developers. For example, the Network of Oregon Affordable Housing is a statewide nonprofit affordable housing lender supported by credit facilities from 22 member banks, as well as resources provided by Meyer Memorial Trust and the MacArthur Foundation. At the county level, Washington County worked with cities to create the Community Housing Fund, a 501(c)3 nonprofit organization that provides low-cost predevelopment loans and grants pooled from multiple public and private sources, including public general funds, foundations and individual donors.

The Snowberry, Southeast Portland

BOND-EXEMPT FINANCING AND 4 PERCENT LOW-INCOME HOUSING TAX CREDITS FOR ACQUISITION AND RENOVATION

Garden Park Apartments

The use of tax-exempt bond financing and 4 percent low-income housing credits for the acquisition and renovation of existing rental buildings for regulated affordable housing is a promising model that could be expanded.

The Springtree Apartments were completed in 2000 and provide 72 one- and two-bedroom units households earning 60 percent or less of Southeast Portland area median income. The Garden Park Apartments were completed in 2002 and offer 62 two-bedroom and one three-bedroom units of housing for households with low income earning at or below 60 percent of Gresham's area median income.

Profile

NETWORK OF OREGON AFFORDABLE HOUSING

The Network of Oregon Affordable Housing is a 22-member nonprofit bank consortium. Established in 1990 by the Oregon Bankers Association to provide permanent financing for the construction and renovation of affordable housing, the network has also developed several other programs. These programs include MPower Oregon, a public-private partnership to provide financing for efficiency upgrades of multifamily properties, and the Oregon Housing Preservation Project, a consortium of public and private partners leveraging philanthropic commitments in strong coordination with the regional U.S. Housing and Urban Development office. The Network of Oregon Affordable Housing is currently exploring opportunities to expand the use of its funds beyond preservation of existing regulated affordable housing to supporting acquisition and conversion of market-rate buildings to regulated affordable housing.

Examples of acquisition and rehabilitation projects

Rosewood Place, Gresham

Rosewood Place (Gresham) The Network of Oregon Affordable Housing provided $937,500 to help nonprofit Human Solutions acquire a 26-unit apartment building in Gresham and convert it into regulated affordable housing supported by social services. Rents are affordable to households earning 30 to 50 percent of area median income. Other support was provided by Housing Development Center and Gresham HOME funds.

Walnut Park Apartments (North Portland) Originally developed in 1981 under the Oregon Housing and Community Services' Elderly and Disabled Bond Program, Walnut Park was at risk of being sold and converted to market-rate housing by 2018. REACH CDC purchased the property, conducted a full renovation (including adding community gardens) and secured an extended Section 8 contract. Financing for the $7.3 million project (including $2.5 million in acquisition) consisted of:

- $1 million – Network of Oregon Affordable Housing permanent loan
- $1.6 million – PHB second mortgage, 0.5 percent interest, deferred
- $3.6 million – Bank of America 9 percent low-income tax credits
- $1 million – Oregon Housing and Community Services Tax Credit Assistance Program.


Walnut Park Apartments, before renovation


Walnut Park Apartments, after renovation

A new fund created by the Network of Oregon Affordable Housing offers low-cost loans for acquisition of land and existing apartment buildings – a promising model that is generally more cost-effective than new construction. However, this resource has been underutilized to date, as nonprofit housing developers prefer grants to loans. Coordinated capacity-building for nonprofits and complementary resources and investments could help make this a more attractive approach to affordable housing creation.

REAL ESTATE INVESTMENT TRUSTS

Another promising funding model is the pooling of investments in a real estate investment trust focused on affordable housing. Similar to mutual funds, the trust can be structured to provide investors with modest returns on their investment while also preserving affordable housing. In 2014, the Housing Partnerships Network, a network of 100 affordable housing and community development nonprofits across the country, created the Housing Partnership Equity Trust. Using seed equity from the MacArthur Foundation, Ford Foundation, and Prudential, along with credit from Citibank and Morgan Stanley, this trust was able to launch a $100 million fund to support projects across the country. Philanthropies and nonprofits around the country and our region are exploring different scales and forms of real estate investment trusts that can provide a modest return on investment while funding the development or preservation of affordable housing.

LOW-COST DEVELOPMENT MODELS

In 2014, Meyer Memorial Trust convened a statewide work group to explore the factors that drive up the cost of affordable housing and opportunities to reduce costs. Among the group's key findings were that "new strategies to test models that don't rely on established, complex subsidies would be worth trying" and "with new funding from the state or from local governments that promote simpler, more cost-efficient projects, developers could be rewarded for finding ways to keep costs down consistent with broader housing goals."

Meyer Memorial Trust recently requested proposals for supporting predevelopment work to test innovative approaches to design, financing and construction of affordable housing, noting that selected grantees may also be eligible for capital grants in 2016-17 to help complete their proposed projects.

While private financing may be an option for some projects, another strategy is to create more flexible public funding streams.

LOW-COST MODELS IN PRACTICE

Irish Moss, a 27-unit, 3-bedroom affordable apartment complex that opened in East Portland in March 2015.

Two Portland developers are using an innovative model for cutting costs in affordable housing by using private financing. PHC Northwest and Home First Development have used this model to build 150 units in Portland, with 150 more in the pipeline. Average costs are around $80,000 per unit, compared with $200,000 or more for a typical government-backed affordable housing project.

Key features of their model include:

- a single, private funding source that allows for significant soft cost savings and ability to move quickly through acquisition, predevelopment and construction
- more flexibility in hiring contractors than is possible with government funding--although the firms try to work with minority- and femaie-owned contractors and environmentally friendly materials
- lower developer fee (around 10 percent) than most developers would require
- use of a standard design to eliminate the need for lengthy design processes at the beginning of each project.

Profile

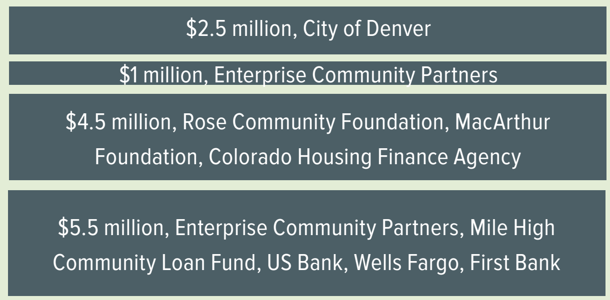
REVOLVING LOAN FUNDS FOR EQUITABLE TRANSIT-ORIENTED DEVELOPMENT

Similar to the Network of Oregon Affordable Housing in Oregon, other regions have set up revolving loan funds that provide low-cost financing for acquisition and construction. These funds are particularly effective in metro areas with considerable redevelopment opportunity along new or existing transit lines. As is the case in Oregon, funds in the Bay Area and in Denver reflect partnerships between a range of public, philanthropic and private investors.

Denver Equitable Transit Oriented Development Fund

Created to respond to large-scale rail transit expansion in the Denver region, Denver's Equitable Transit Oriented Development fund is a $24 million fund to create and preserve affordable housing and community assets along current and future transit corridors. Administered by the Urban Land Conservancy, the fund provides loans up to $5 million for 3 to 5 years with a 90 percent loan-to-value ratio.

Figure 17 Initial fund capitalization, Denver Equitable Transit Oriented Development Fund



Bay Area Transit Oriented Affordable Housing Fund

The Transit Oriented Affordable Housing Fund provides flexible, low cost loans to experienced developers to create or improve affordable housing and other community services along transit lines throughout the 9-county Bay Area. Catalyzed by an initial equity commitment of $10 million investment from the Metropolitan Transportation Commission, primarily funded through bridge toll and local parking revenue, the fund is managed by the Low Income Investment Fund, which serves as the originating lender along with five other community development financial institutions.

Figure 18 Current fund capitalization, Bay Area Transit Oriented Affordable Housing Fund

The fund is currently capitalized at $50 million, with 85 percent of capital focusing on the creation and preservation of affordable housing and 15 percent supporting other community-based purposes such as child care centers, health clinics, fresh food markets and neighborhood retail. Eligible borrowers include nonprofits, corporations, government, joint ventures and limited partnerships. The initial fund capitalization included public sector grants, program-related investments and flexible loans from community development financial institutions and philanthropies and investment firm loan.

STRATEGY 3 CONSIDERATIONS

Given the shortage of public resources to meet the demand for affordable housing, it's important that state and local policymakers thoughtfully consider resource development and allocation processes through multiple lenses, including social equity, cost-effectiveness and unintended consequences. This means considering the target population and potential for leverage, anticipating the impacts of foregone tax revenue to public services such as schools, and working to provide more flexible public resources and eliminate funding requirements that create an unnecessary cost burden for affordable units.

The findings of Meyer Memorial Trust's cost efficiency study suggest that public and private funders could produce savings by expediting the funding processes; however:

> "...dramatic reductions are probably unattainable without new, more flexible sources of funding. It may not be possible to radically lower costs of affordable housing projects without compromising their long-term durability, the interests of residents, and the ability to attract needed private investment. However, new strategies to test models that don't rely on established, complex subsidies would be worth trying. An exclusive focus on lower initial costs at the expense of higher long-term maintenance and utility costs could be counterproductive."

STRATEGY 3 OPPORTUNITIES

Local governments

- Analyze and implement local funding strategies and tools to support affordable housing tools. Current tools used in the region include tax abatements for nonprofit-owned and/or affordable housing, fee waivers, tax increment financing and general fund allocations. Advocacy groups such as the Welcome Home Coalition are working to expand local revenue mechanisms for affordable housing.

- Maximize the ability of public resources to leverage private and philanthropic investments. Local jurisdictions that receive Department of Housing and Urban Development funds have a lot of flexibility in how they use Community Development Block Grant and HOME Funds. The regional Housing and Urban Development field office provides support to local jurisdictions in understanding effective targeting of resources to address housing needs in different communities.

All public sector agencies

- Explore opportunities to provide surplus land for affordable housing. A coordinated process is needed to identify publically owned sites that are appropriate for affordable housing and to overcome governance and administrative barriers to providing them for development.

Public housing authorities

- Project based rental assistance vouchers can be used as an incentive for apartment building owners who agree to rehabilitate their buildings to set aside a portion of units for affordable housing. Housing authorities can actively work with local government partners and developers to identify opportunities for using rent subsidies to create or add affordability to existing apartment buildings.

Developers (for-profit and nonprofit)

- Explore opportunities for partnerships between private and nonprofit developers to create mixed-income projects.

- Explore opportunities for acquisition of market-rate housing buildings for rehabilitation and conversion to affordable housing. Renovating existing buildings is typically more cost effective that new construction. These strategies could leverage funding from the Network for Oregon Affordable Housing. Noncompetitive 4 percent low-income housing tax credits can also be used to finance mixed income rehabilitation projects.

- Explore innovative solutions to cut costs without sacrificing project quality or location. These could include models for developing housing at a smaller scale using flexible public funding and/or private financing, or strategies for increasing the attractiveness of rehabilitation projects as a more cost-effective alternative to new construction. Meyer Memorial Trust recently issued a request for proposals to support financially innovative projects. Other potential partners include Metro's Transit-Oriented Development Program and the state's Local Innovation and Fast Track Housing Program.

Lenders

- Work with developers to understand financing barriers and adapt tools to respond to local needs.
- Develop coordinated investment strategies that layer public-private financing with public and philanthropic grants.

Philanthropy

- Use seed investments to catalyze new public-private funding models, such as revolving loan funds and real estate investment trusts for affordable housing.

What Metro can do

- Provide technical assistance grants to help local governments identify surplus land and analyze development feasibility for affordable housing. Local governments and other public agencies collectively own a significant amount of land. Sites suitable for affordable housing would need to be identified, in addition to a determination of what specific kind of project would be appropriate for each location.
- Continue to develop coordinated investment strategies along new and existing transit corridors. Metro's Investment Areas program works with local jurisdictions, TriMet, ODOT, and other stakeholders to ensure that investments in housing and other community assets are coordinated with infrastructure investments. Metro's Transit-Oriented Development Program invests in innovative projects that increase housing opportunities and walkable communities near transit stations.
- Participate in partnership development and consensus building to create or expand financing and funding tools to fill the gap for funding affordable housing.
- Participate in state policy advocacy efforts to remove restrictions on local and regional revenue-raising authority, to ensure that local governments have all of the tools at their disposal.

Strategy 4: Mitigate displacement and stabilize communities

Rising prices in high demand areas are pushing rents out of reach for many households with low income while demographic shifts indicate a rise in concentrations of poverty in areas with lower access to jobs, services and amenities. Promoting healthy, mixed-income communities requires a mix of tools that respond to different market contexts and community concerns. Governments need to work closely with developers, landlords and community-based organizations to ensure a mix of housing choices in all areas. New federal housing guidelines also require all communities that receive Department of Housing and Urban Development funding to demonstrate that their investments in affordable housing development don't contribute to concentrations of poverty.

Mixed-income neighborhoods have been shown to lead to better economic and health outcomes for individuals with lower-income than do neighborhoods that are effectively segregated by income (and by race). As Elizabeth Kneebone writes in her study, The Growth and Spread of Concentrated Poverty, 2000 to 2008-2012,

> "The challenges of poor neighborhoods—including worse health outcomes, higher crime rates, failing schools, and fewer job opportunities—make it that much harder for individuals and families to escape poverty and often perpetuate and entrench poverty across generations. These factors affect not only the residents and communities touched by concentrated disadvantage, but also the regions they inhabit and the ability of those metro areas to grow in inclusive and sustainable ways."

FAIR HOUSING

The right not to be isolated by income and to have access to the benefits of mixed-income neighborhoods was affirmed in 2015 when the U.S. Supreme Court ruled that local communities can take legal action to address government practices that segregate minorities in poor neighborhoods, even if this is not the intent of the practice. This ruling came soon after the Department of Housing and Urban Development released a new rule requiring local communities that receive department funds to demonstrate that they are working to not only prevent housing discrimination, but also to "affirmatively further" equal housing opportunity. Among other requirements, this means working to site affordable housing in high-opportunity areas and not exacerbating concentrations of poverty.

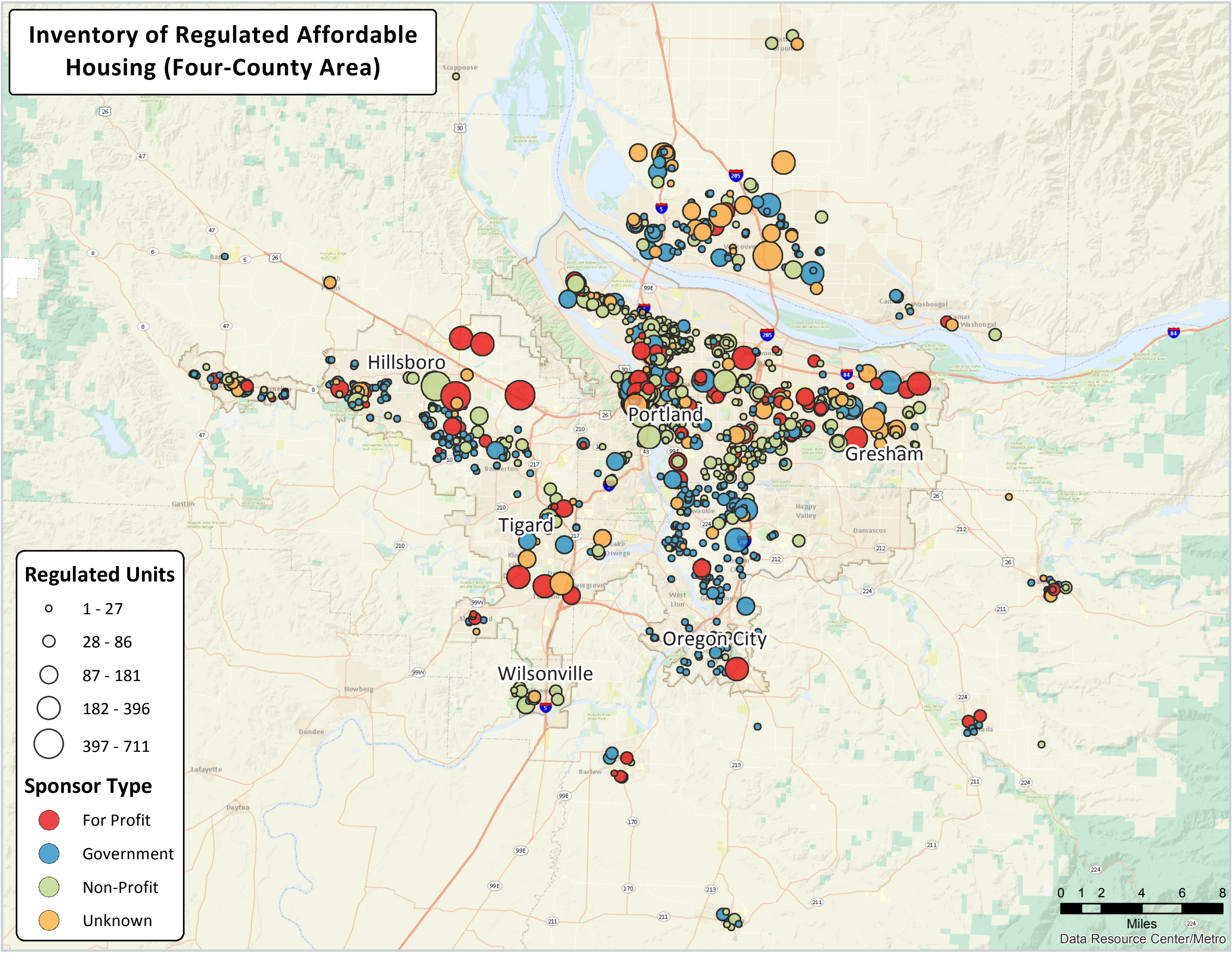
ANTI-DISPLACEMENT EFFORTS IN PORTLAND

In Portland, community efforts led by Anti-Displacement PDX, a coalition of more than thirty nonprofit and community-based organizations, recently led to 11 recommendations in the city's draft comprehensive plan (to be voted on in early 2016) that incorporate explicit policies to address displacement. The recommendations include:

- Add social equity emphasis to community involvement policies.
- Strengthen and expand application of impact analysis tool, in order to anticipate displacement and housing affordability impacts of plans, investments and development.
- Require mitigation for anticipated displacement and housing affordability impacts of plans, investments and development.
- Use community benefits agreements as anti-displacement tools.
- Capture value created by plans and investments as revenue to fund anti-displacement measures.
- Add emphasis on "permanently affordable" models of homeownership.
- Use land-banking as an anti-displacement tool.
- Create permanently-affordable housing in market-rate developments.
- Include tenant protections.
- Develop reconstruction overlay zone (make specific efforts to redress past harms experienced by displaced communities).
- Implement anti-displacement measures in the city's mixed-use zones.

At the neighborhood scale, efforts such as the N/NE Neighborhood Housing Strategy, the Living Cully EcoDistrict, and the Powell-Division Transit Action Plan reflect community-driven conversations seeking to ensure that public investments actively work to address displacement in areas facing market forces that threaten to contribute to a concentration of poverty.

Figure 17 2015 regulated affordable housing inventory



LAND BANKING

One approach to the challenge of siting affordable housing in high-opportunity locations is for public agencies to identify locations where prices are going up and to acquire land for affordable housing before the market becomes too competitive. The ability to identify promising sites within these locations and act quickly and efficiently in acquiring them can tip the scales to make an affordable housing development financially feasible. Public agencies or larger nonprofits may be better equipped than small community development corporations to do this. Another approach is to identify publically owned surplus land that can be dedicated for affordable housing.

This challenge of high land cost in high-opportunity areas has spurred local interest in coordinated land acquisition/land banking models. Key challenges for land acquisition include reliably identifying future areas of gentrification before prices go up, developing the resources necessary to purchase the land, creating mechanisms for easy land transfer and removing the liability associated with holding land.

Profile

EUGENE'S LAND ACQUISITION FOR AFFORDABLE HOUSING PROGRAM

Initiated through a city council resolution in 1968 and reinforced through policy and funding decisions in subsequent decades, the Eugene's Land Acquisition for Affordable Housing Program is one of the most longstanding landbanking for affordable housing programs in the country. Due to its ability to respond to changing market conditions, the program has benefitted from the ability to acquire land during economic downturns that can be held for development when the market picks back up. Since the purchase of the first site in 1979, nearly 90 acres have been acquired for affordable housing using a combination of federal and local funds. Thus far, 881 units of affordable housing units have been developed on program parcels, and 48 units are currently under construction.

Site acquisition

City staff is continuously identifying potential sites, which are then vetted by an intergovernmental policy board made up of elected officials and community residents. The city council makes the final decision to purchase specific sites based on the recommendation of the intergovernmental policy board. Staff criteria for evaluating sites include: 1) location related to, jobs, services, parks, schools, public, transportation and other amenities; 2) dispersal of affordable housing; 3) site environmental conditions; 4) cost; 5) allowed density; 6) existing on-site structures and improvements; and 7) existing utility and street infrastructure.

Site development

The city offers sites, one at a time, for development by qualified partners through an open request for proposals. Other development subsidies including HOME Investment Partnership Program funds, system development charge grants and local property tax exemptions are made available through the same proposal process. Development proposals are evaluated by city staff, an evaluation committee and the intergovernmental policy board based on project feasibility, target population and services, project concept and design, and a cost/benefit analysis. Ultimately, the city council selects the development proposal deemed to be most appropriate for the site based on the recommendation of the policy board. With land and commitment of local subsidies in hand, developers have successfully leveraged highly competitive state and federal resources.

Land banks are a flexible tool that can be used to overcome a variety of challenges related to land acquisition and disposition for public policy purposes. Early land banks were primarily tools for jurisdictions experiencing population loss and economic decline and were largely focused on putting tax delinquent, vacant and abandoned properties back on tax roles. A new generation of land banks that emerged in response to the Great Recession has been focused on developing linkages between the foreclosure process and community stabilization goals. Today, there is considerable interest in adapting land banks to serve land use goals in strong markets that struggle with a different set of challenges, including affordability.

In June 2015, Oregon passed legislation making it possible for local governments to create land banks. Developed by a coalition led by Metro and including local governments, chambers of commerce and environmental and housing advocacy groups, the Oregon land bank legislation is unique among state land bank laws in that it was crafted with the primary goal of supporting brownfield redevelopment. Protected from environmental liability, land banks would have the legal authority to acquire contaminated properties, clean them up and sell them for redevelopment, thereby accomplishing the goal of getting brownfield properties back in active use. However, land banks are a flexible tool that could be used to meet multiple public policy objectives and could be adapted to support affordable housing goals.

Organizations that are not formally designated as "land banks" can also take part in land acquisition and land banking to create a pipeline of sites for affordable housing development. For example, Eugene's longstanding Land Acquisition for Affordable Housing program uses a range of federal and local funding to acquire land and create a pipeline of sites for affordable housing development.

The Network of Oregon Affordable Housing is working to develop a financing tool to provide loans to developers to acquire land and existing rental buildings; however, these funds have not yet been fully utilized, either due to lack of awareness or risk aversion.

COMPLEMENTARY INVESTMENTS

Areas with higher concentrations of poverty should not be targeted for new investments in affordable housing. Instead, much more needs be done to invest in areas that are on the receiving end of displacement to improve infrastructure, services, amenities and opportunities. For example, there are opportunities to continue to work to improve transit service to underserved areas and locations with a higher percentage of low-income residents. This is not only good from a social equity perspective, but it also makes good business sense from a transit farebox revenue perspective, given that low-income households ride transit more. Coordination with public partners could help to channel these financing resources into locations with coordinated investment strategies, such as transit corridors or urban renewal areas.

COMMUNITY LAND TRUSTS

The community land trust is a promising model for giving these households a foothold in building equity. Land trusts are typically run as nonprofits, with support from the public sector and philanthropy, and could be linked to a land bank.

Community land trusts provide permanently affordable housing and lasting community assets. Whether focused on homeownership or rental housing, land trusts maintain permanent affordability by retaining the title to the land and providing the owner of a home or building with a 99-year ground lease or by selling the property with a deed restriction ensuring permanent affordability. Financing the initial acquisition of land and securing enough equity to bring the model to scale are key challenges for the community land trust model. Across the country, land trusts use a variety of land acquisition mechanisms, from private financing and municipal subsidies to relationships with land bank entities.

LAND ACQUISITION MODELS

Across the country, community land trusts use a variety of land acquisition mechanisms, ranging from private financing to municipal subsidies to relationships with land bank entities.

Community land trust	Mechanism
Proud Ground (Portland region)	Public and private grants, individual donations, and fees from broker services.
Urban Land Conservancy (Denver)	Transit Oriented Development Fund layers public and private funding from city/state, foundations, and financial institutions.
Irvine, Calif.	Developers are required to contribute funds to the local land trusts in order to construct large buildings.
Philadelphia, Pa.	The land trust works in partnership with a land bank, which transfers vacant and foreclosed properties to community land trusts
San Francisco Boston (Chinatown) New York City (East Harlem/El Barrio)	Community land trusts are exploring strategies to buy market-rate buildings with private financing and municipal subsidies.
Boston (Dudley Street Neighborhood Initiative)	This initiative acquired eminent domain powers from the state to acquire vacant lots from absentee landlords.

Profile

DENVER'S URBAN LAND CONSERVANCY

A subsidiary of the Denver Foundation, the Urban Land Conservancy is a nonprofit that acquires, develops and preserves community real estate assets in urban areas for a variety of community needs, such as schools, affordable housing, community centers and office space for nonprofits. The conservancy manages property acquisition and disposition for the region's $30 million Transit-Oriented Development Fund, which it helped create in partnership with the City of Denver and Enterprise Community Partners. Since its initiation, the conservancy has invested $58 million in 25 properties, leveraging $360 million in public, private and nonprofit investments.

Evans Stations Lofts Urban Land Conservancy purchased this site for $1.2 million using the regional Transit-Oriented Development Fund and sold it to developer Medici Communities, which was awarded $1 million in annual low-income tax credits from the state. The project is a $12.35 million development with 50 units of housing affordable at 30 to 60 percent area median income households and 10,000 square feet of commercial space.


Evans Station Lofts, Denver

Dahlia Apartments Urban Land Conservancy acquired this 36-unit building using funding from the Transit-Oriented Development Fund after foreclosure in 2008, qualifying it for the Neighborhood Stabilization Program. The conservancy has completed several capital improvement projects including weatherization, a new roof and community gardens and is partnering with a nonprofit on day-to-day property management.

Dahlia Apartments, Denver

LIMITED/SHARED EQUITY MODELS

Homeownership is the primary means of wealth accumulation in the U.S. but is often unavailable to households with low incomes. A limited equity model is an affordable form of ownership that can be created in a range of markets and is often employed in conjunction with a land trust. Limited equity cooperatives – typically governed by a board of residents and/or public officials – allow residents in multifamily properties to take cooperative ownership of their buildings and to accrue limited equity in their homes while also reinvesting in the management of the asset. Under the limited equity cooperative model, each household purchases for a low price a single share in the nonprofit corporation that owns the multifamily property and thereby has the right to occupy an individual unit. Each household builds a small amount of equity on their share – usually a fixed figure tied to inflation. If a resident decides to sell, they may sell their share back to the cooperative or to a new buyer who meets income requirements; the seller recoups the accrued (limited) equity and the housing remains affordable for the next resident.

Key challenges for the limited equity cooperative model include those of collective governance and asset management to ensure that cooperative funds are invested in the maintenance of the building. According to one developer, another challenge is the lack of state laws in Oregon requiring banks to make loans to cooperatives. However, Oregon does have new legislation that makes it easier for residents in manufactured dwelling parks (which provide approximately 65,500 homes across the state) to form resident owned communities.

Finally, shared appreciation mortgages are another tool for increasing the accessibility of homeownership to households of modest incomes. With a shared appreciation mortgage, the lender agrees as part of the loan to accept some or all payment in the form of a share of the increase in value (the appreciation) of the property. Shared appreciation mortgages are beneficial because they reduce the amount low- and moderate-income homebuyers need to borrow from a bank.

INNOVATIVE HOUSING ,INC. USE OF SHARED APPRECIATION MORTGAGES

Built in 1998, Arbor Vista is a 27 condominium project built in a West Portland neighborhood that would otherwise have been cost-prohibilitive for moderate-income households. The condos are located across the street from a MAX light rail station and within walking distance of downtown.

Innovative Housing, Inc. developed three mixed-income condominium projects in central Portland – all of which were built largely without public funding – with units made affordable using an innovative financing tool called a shared appreciation mortgage, which can be used to overcome financing barriers to homeownership for lower income households.

The shared appreciation mortgage is a “soft second” mortgage, which means it doesn’t get amortized or repaid on a monthly basis like a typical mortgage. Homebuyers pay no interest on the shared appreciation mortgage during the life of the loan, nor does interest accrue; but when the buyer sells the condo, they repay the principal amount of the shared appreciation mortgage along with a proportionate share of the condo’s appreciation.

For example, if the total purchase price of a condo is $160,000, and Innovative Housing, Inc. provides a shared appreciation mortgage for $40,000, 25 percent of the purchase price. When the homeowner sells, they will repay Innovative Housing, Inc. $40,000 plus 25 percent of the difference between the $160,000 purchase price and the sale price (because the shared appreciation mortgage was for 25 percent of the purchase price).

Profile

COLUMBUS UNITED COOPERATIVE, SAN FRANCISCO

In 1998, San Francisco City College purchased what was then the Fong Building at 53 Columbus Avenue in Chinatown with the intention of demolishing it to build a new campus. The building had 21 residential units; most residents were low-income and many had lived in the building for years (in some cases, decades). The tenants, represented by the Asian Law Caucus, convinced the college to sell the land to the San Francisco Land Conservancy, which bought the property in 2005 for $1.5 million and made $6 million in improvements (seismic upgrade, an elevator for elderly residents, green upgrades) by piecing together the money from city-funded programs and private financing. The residents formed a co-op, buying single shares for $10,000. Sixteen families returned to the building after the upgrade; five others were chosen from a pool of applicants. To qualify for a single-person room, applicants had to earn less than $26,400 annually. For a family of three, the cap was $33,950. Altogether, property taxes, maintenance, and insurance cost less than $800 for a two-bedroom apartment in 2009 – far below market rate. Long-time residents were able to remain in their homes and their community and were able to build equity.

CASA OF OREGON'S MANUFACTURED HOUSING COOPERATIVE DEVELOPMENT CENTER

In Oregon, state legislative changes have made it easier to residents in manufactured dwelling parks to purchase the facilities where they live and turn it into a resident-owned community. CASA of Oregon's Manufactured Housing Cooperative Development Center, which began in 2006, uses a multi-faceted approach including on-the-ground technical assistance to make resident ownership a viable option. To date, CASA has helped seven parks around the state convert to resident ownership.

The Victor Manor Mobile Home Park in McMinnville was about to close in 2008. CASA of Oregon was able to assist residents in forming a cooperative and purchasing the park. The 30-space resident-owned community was the first of its kind in Oregon using a newly established nonprofit, limited equity cooperative model, which enables cooperative members to purchase, operate and maintain their manufactured housing communities. The resident-formed Horizon Homeowners Cooperative was able to secure construction and permanent financing from Shorebank, Oregon Housing and Community Services, and CASA of Oregon in order to make the purchase and improvement of the property possible.

RENTER PROTECTIONS AND EMERGENCY ASSISTANCE

Local regulations and enforcement programs can help ensure that the aging market-rate housing that provides the de facto affordable housing for many lower-income households meets basic health and safety requirements. Landlord licensing and code enforcement programs can be linked to rehabilitation programs and other incentive tools that encourage landlords to designate portion of units as income-restricted or to set them aside for rental assistance vouchers.

Rent control is currently prohibited by Oregon state law, despite numerous advocacy efforts to change that law. In the meantime, local governments do have the ability to regulate how much notice landlords are required to give tenants for no-cause evictions or rent increases. Cities can also limit the circumstances under which owners are allowed to convert rental units to condominiums, either by requiring that tenants be offered the first right of refusal to purchase their units, by charging the owner a fee for converting the building or by requiring or incentivizing owners to set aside a certain percentage of units in converted buildings as affordable units. In response to mounting community concerns about rental evictions, Vancouver and Portland have recently increased the amount of notice landlords are required to provide for no-cause evictions and for rent increases beyond a certain level.

STRATEGY 4 CONSIDERATIONS

Successful approaches to anti-displacement and community stabilization require strong partnerships between policymakers, landlords and community-based organizations. These strategies require difficult decisions about a set of tradeoffs, including:

- Should affordable housing be located in high-opportunity areas, or should it be situated in areas with lower land costs where that money could go further toward producing more or better housing or more amenities?
- What is the right balance between the deep subsidies required to produce sustainable homeownership solutions for a few and the less expensive, shorter-duration rental solutions that serve a greater number of people?

STRATEGY 4 OPPORTUNITIES

Nonprofit land trusts and affordable housing developers

- Explore a range of tools – including community land trusts, limited equity cooperatives and shared appreciation mortgages – to increase access to homeownership for low-income groups and communities of color.

Philanthropy

- Provide grants to scale up land banking and land trust models. Philanthropy is well positioned to support investments in permanent affordability in partnership with private investors and public grants.

Local governments

- Adopt anti-displacement policies and pursue investment strategies to promote mixed-income development. Effective strategies need to be pursued in close coordination with community-based organizations.
- Provide funding to support homeownership opportunities through land trust and other models that allow for limited subsidy recapture and limited equity ownership. Affordable homeownership strategies require considerable up-front investment but pay off in the long run by providing permanent affordability that helps create pathways out of poverty for households with low-income, who are able to accrue limited equity in their homes.

What Metro can do

- Convene partners and invest in innovative models to explore opportunities to build regional capacity around land acquisition, land banking and land trust models.
- Work with local partners to explore state legislative efforts to make it easier for residents to form limited equity cooperatives.
- Provide data to inform local policy and program development. Metro's regulated affordable housing inventory is one example of a data tool widely used to inform local planning and policy. Opportunities exist to expand opportunity and vulnerability mapping tools to guide coordinated public and nonprofit investment strategies and provide data that local jurisdictions can use in analyzing barriers to fair housing.

Next Steps

The actions and efforts of many public and private partners are needed to pursue strategies discussed in the report. The strategic framework is intended to provide a comprehensive framework for how different groups can work together to implement a range of strategies and tools in their communities.

This report is part of Metro's efforts to help facilitate knowledge-sharing and support a constructive regional discussion of housing tools, starting with the Equitable Housing Leadership Summit on February 1, 2016. Following the summit, staff will be available to present the framework to local leaders and governments for discussion of what tools might work in a local context.

In addition, Metro is committed to supporting opportunities in this framework through by:

- developing a technical assistance program to help local governments and their partners eliminate barriers to equitable housing development both at the site level and through evaluation and update of zoning and building codes.
- advocating for state and federal policies to ensure that local governments have access to a range of tools and resources
- continuing to explore opportunities for coordinated resource development and investment strategies to support equitable housing.

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