The State of Housing in Oregon

Senate Committee on Housing and Development

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ECO northwest

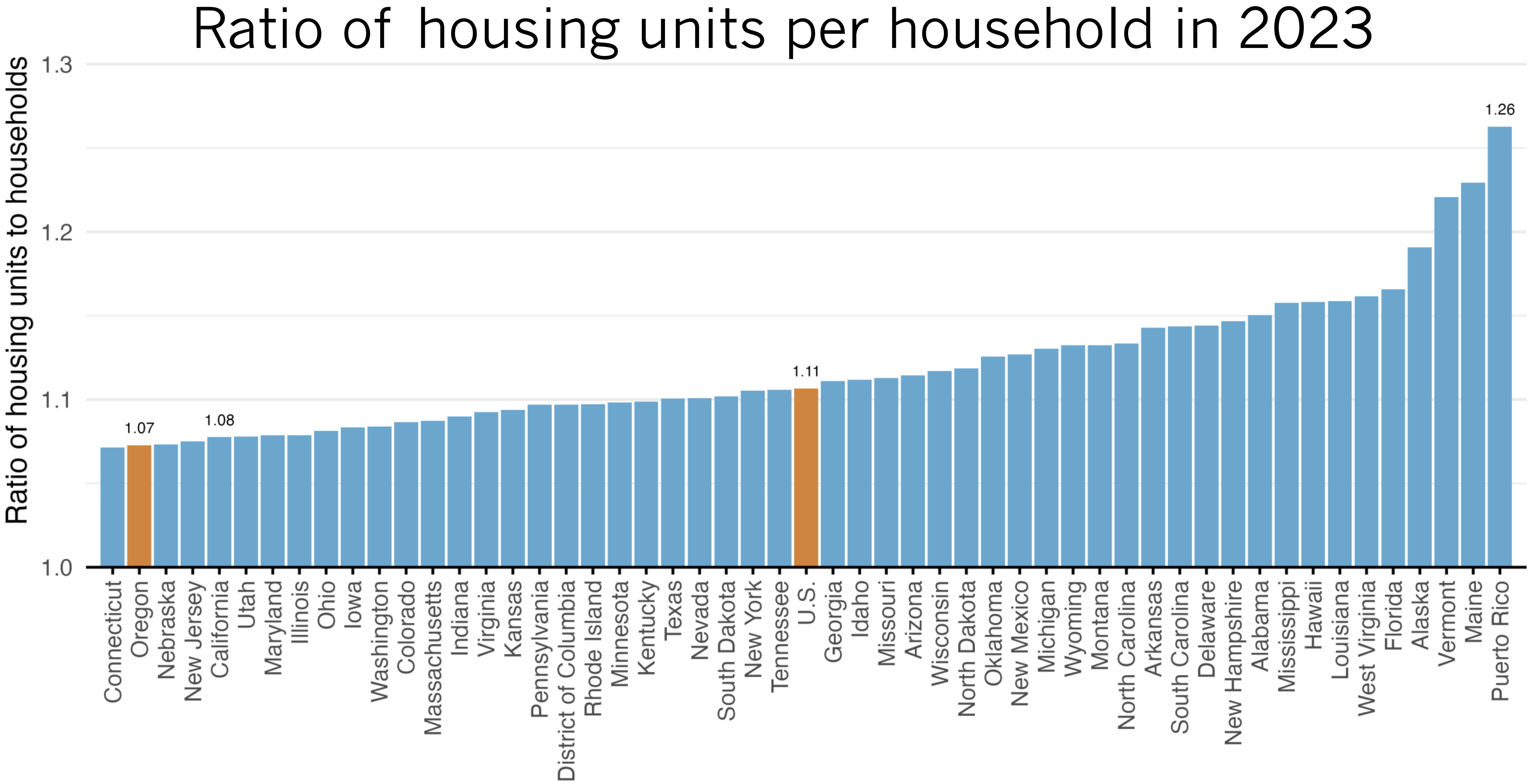
Presentation Agenda

- Why is there a housing crisis?
- How do housing markets function?
- How unaffordable are we?
- How much do we need to build?
- What’s going on in the development market?
- Where might things go from here?

Why is there a housing crisis?

Supply and demand imbalances across the state

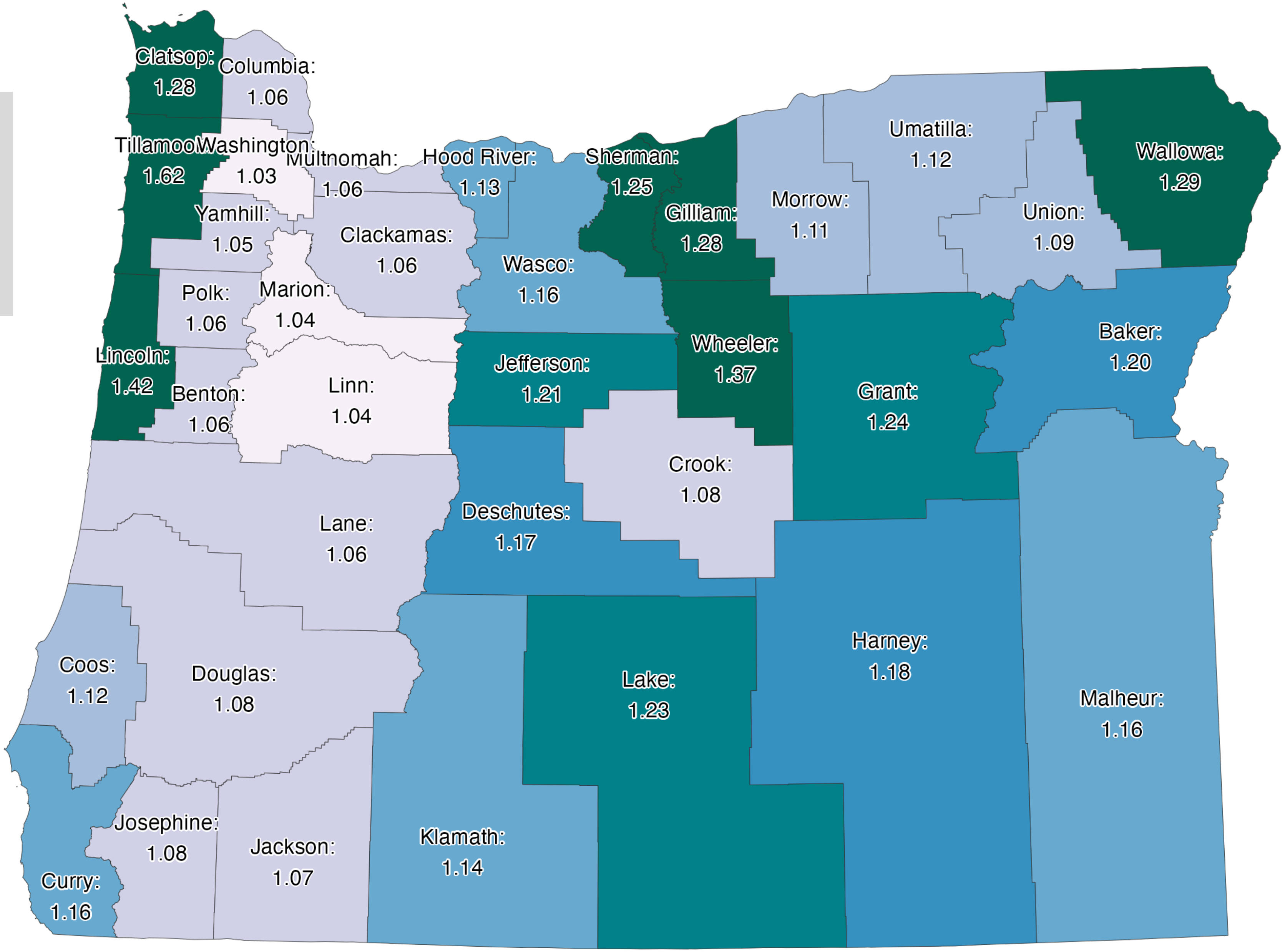
Oregon has the 2nd most constrained housing market in the country



Source: Census ACS, 2023 1-year sample

The entire Willamette Valley is below the national vacancy rate

Nationally there are 1.11 housing units per household



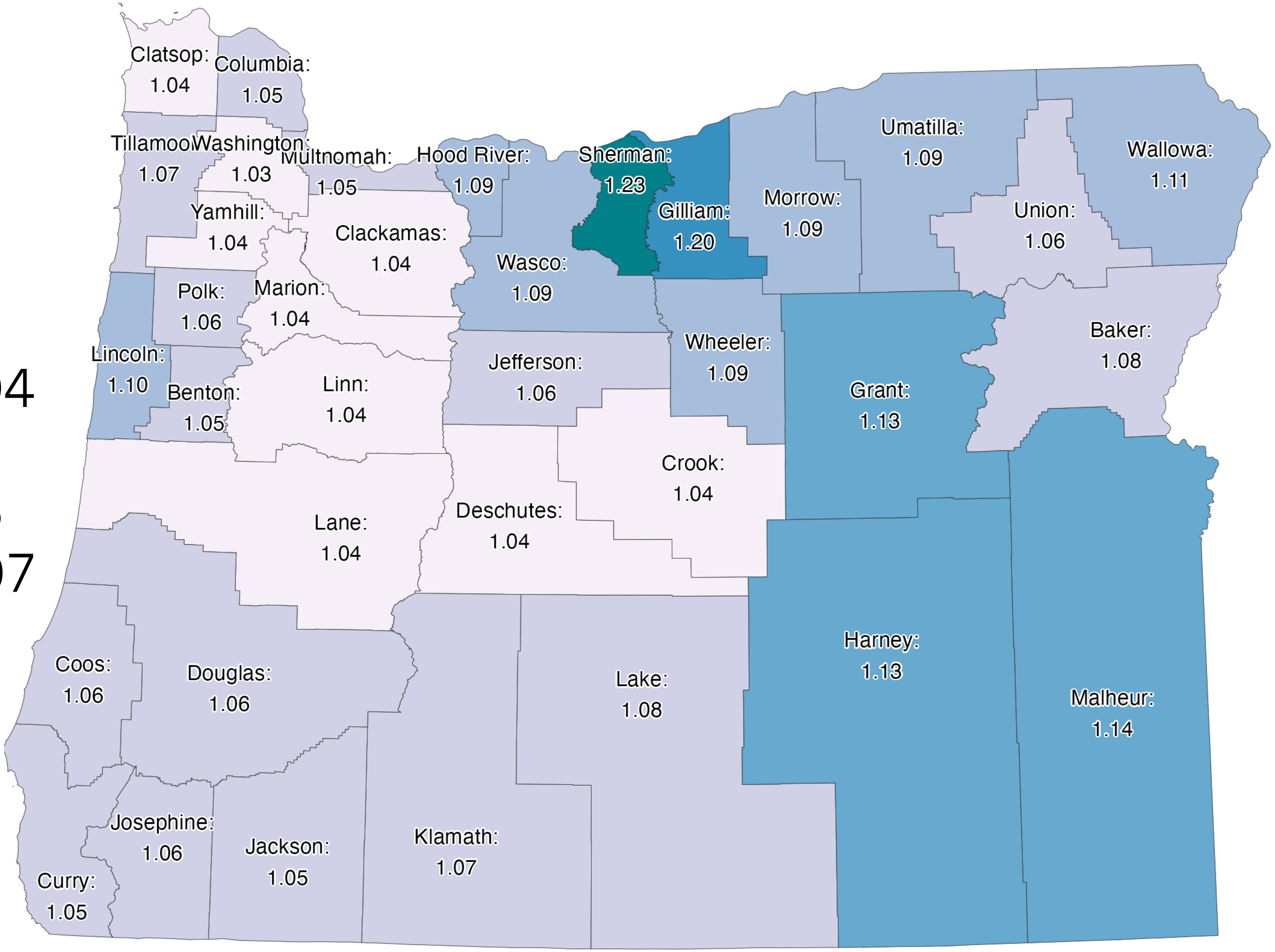
Source: Census ACS, 2023 5-year sample

Removing 2nd & vacation homes reduces the statewide ratio to 1.05

Impact of removing 2nd / vacation homes

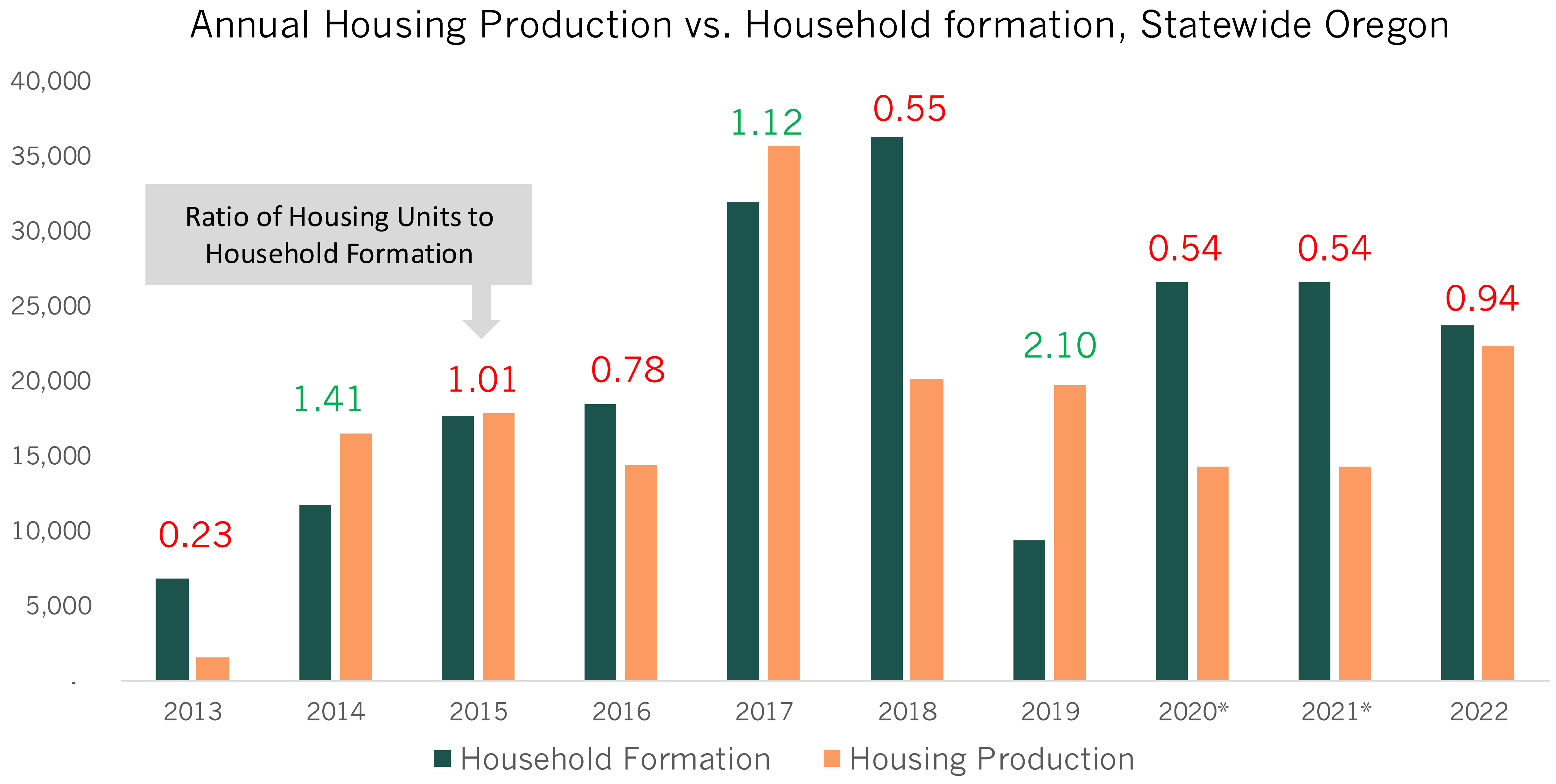
- Deschutes from 1.17 to 1.04
- Clatsop from 1.28 to 1.04
- Jefferson from 1.21 to 1.06
- Tillamook from 1.62 to 1.07
- Lincoln from 1.42 to 1.10
- Wallowa from 1.29 to 1.11

Housing unit to household ratio after removing 2nd & vacation homes



Source: Census ACS, 2023 5-year sample

0.84 housing units were produced per household formed over last decade



How do housing markets function?

Supply changes, filtering, and cost burdening

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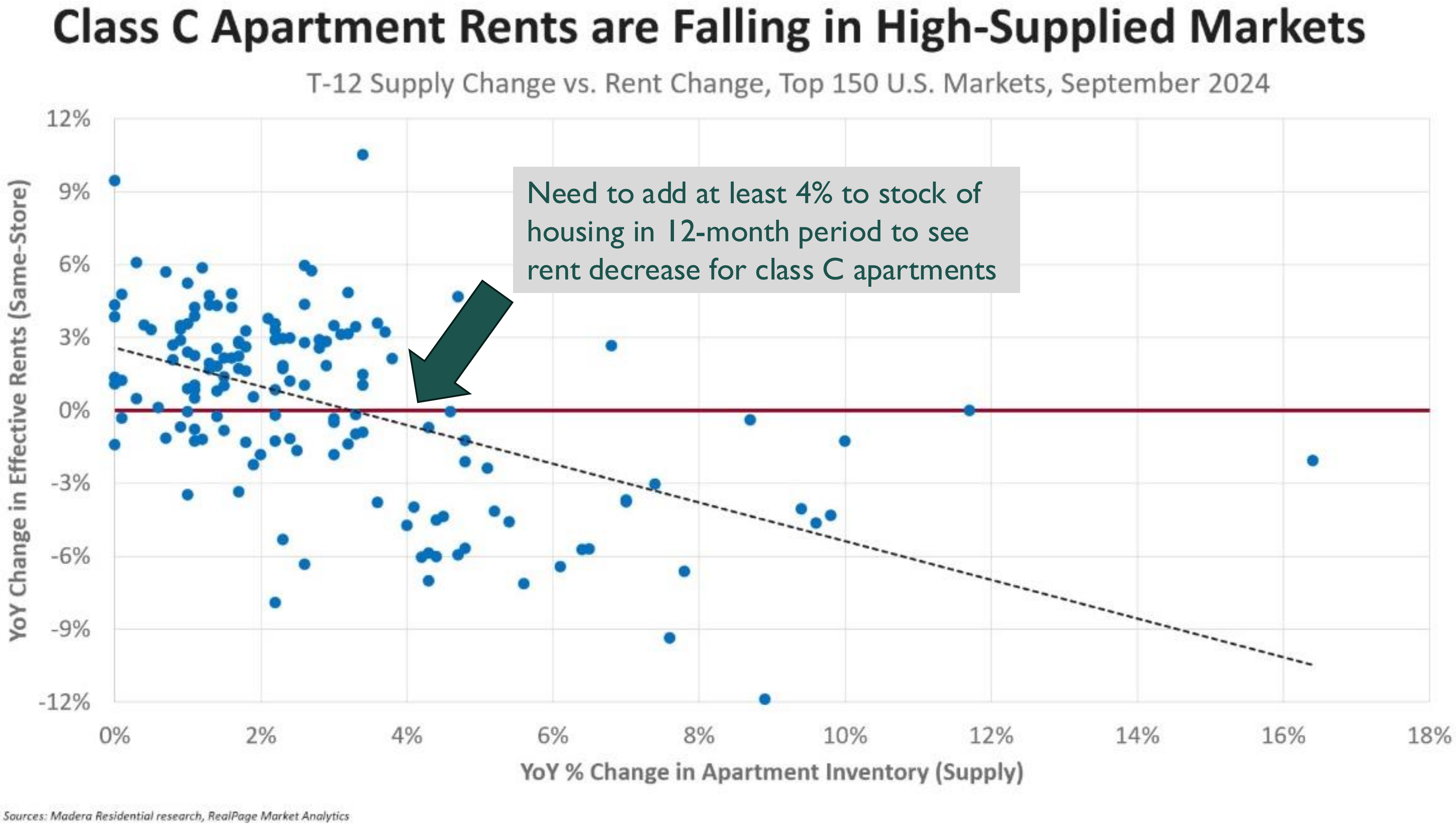
How does increasing supply impact affordability?

1. Elasticity
   The relationship between supply and price, building more units delivers some broad-based price/rent reduction

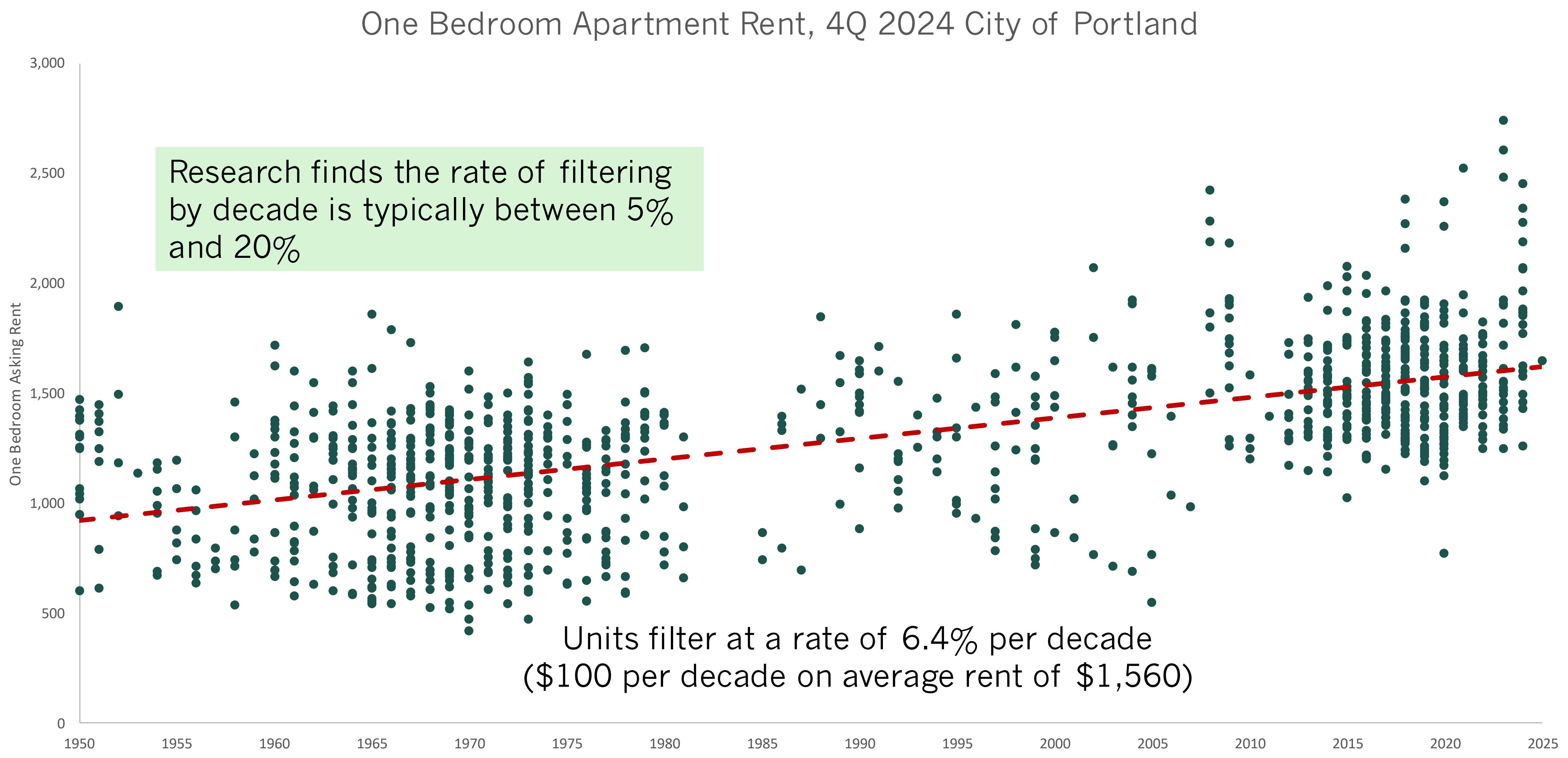
2. Filtering
   Depreciation of older housing stock over time, the rate at which this happens is determined by the vacancy rate and the amount of new construction

3. Income Sorting / Mismatch
   Households rarely spend exactly 30% of their income on housing, households that spend less crowd out lower income households, causing increased cost burdening—the availability of units is a big contributor to lack of affordability

Building market rate housing only offers short-run rent relief

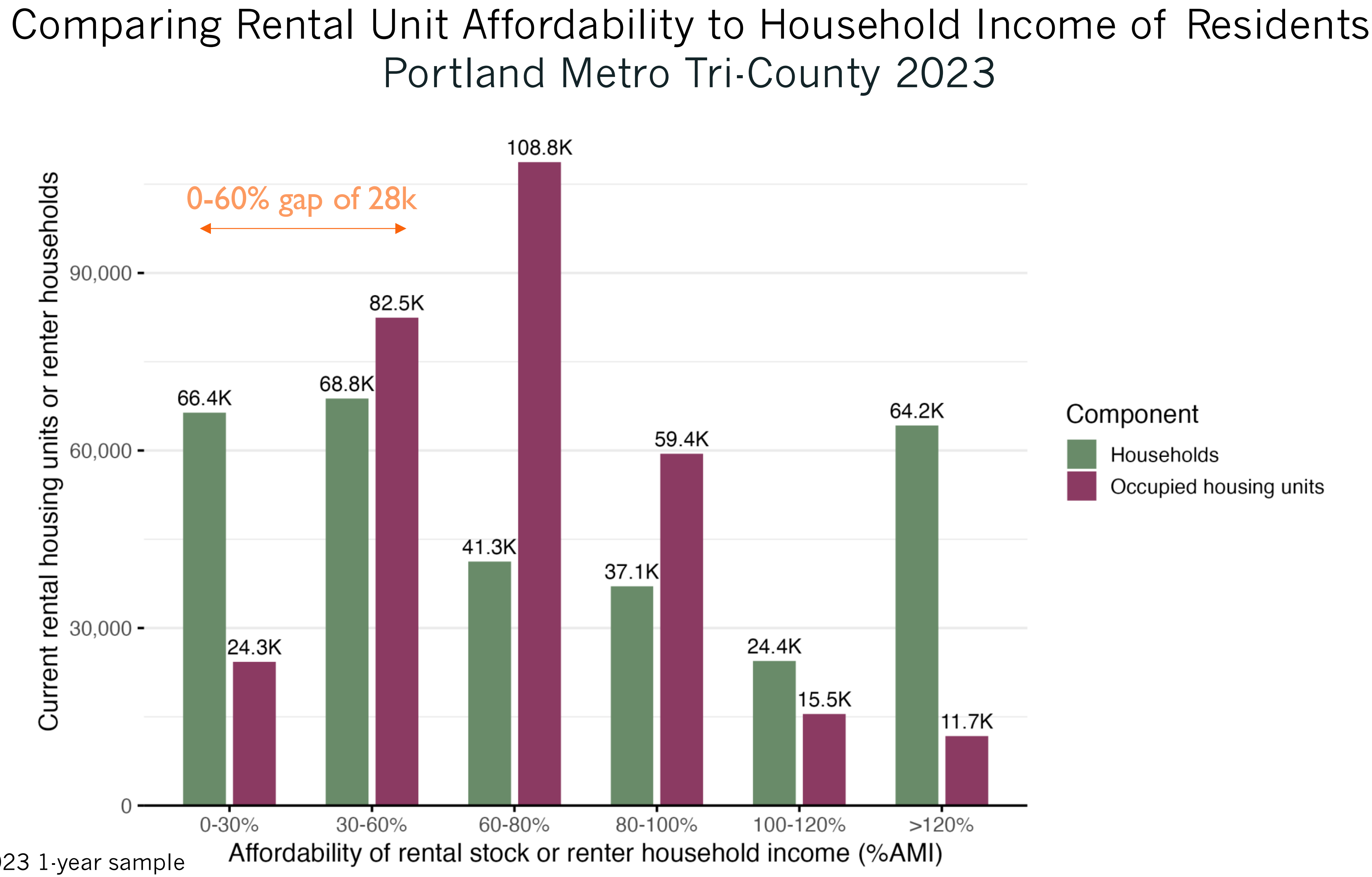


Apartment filtering is slow due to supply constraints



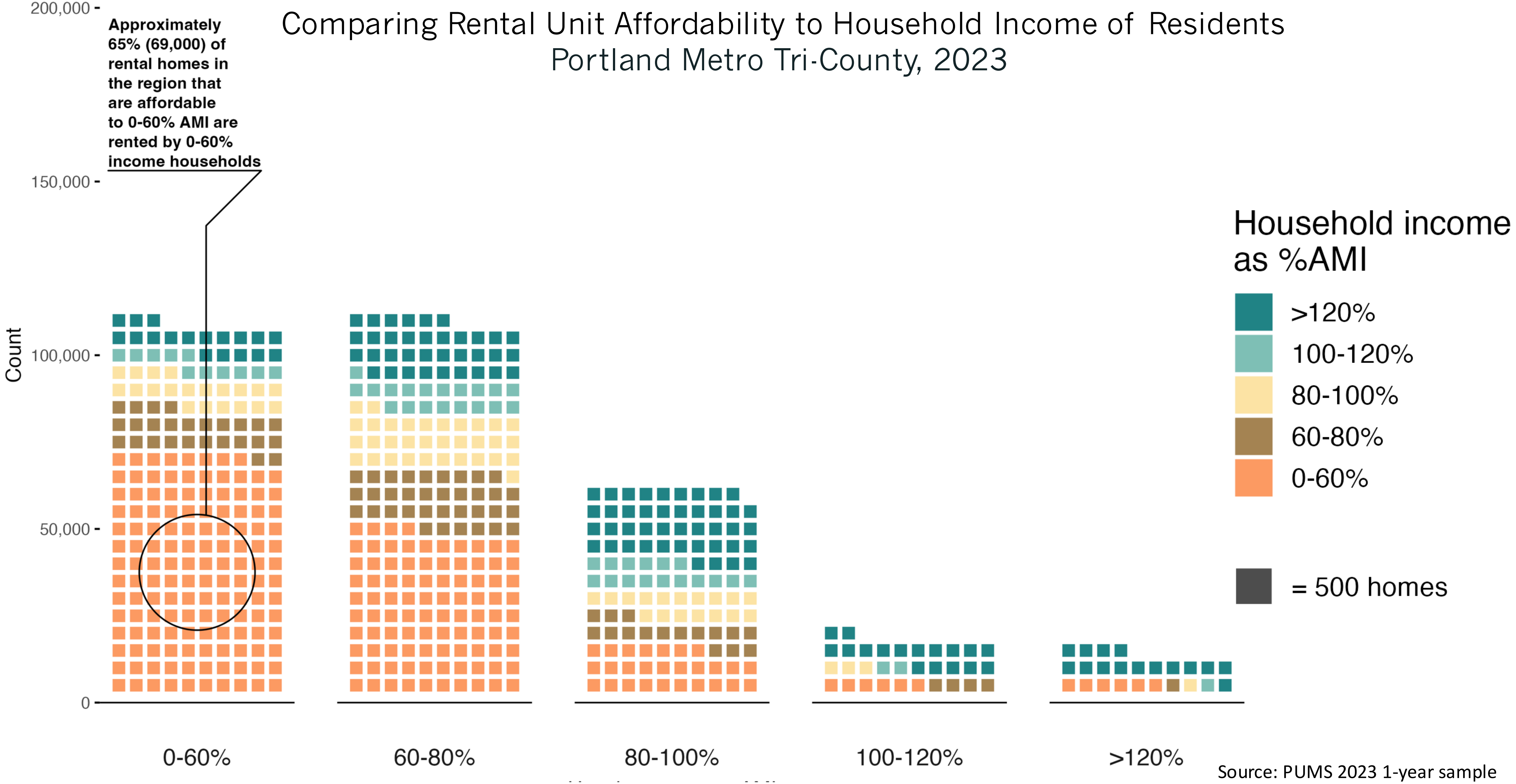
Source: CoStar

Within a regional housing market, low-income structural mismatch



Source: PUMS 2023 1-year sample

Renter households do not sort perfectly based on income, leads to cost burdening



Source: PUMS 2023 1-year sample

How unaffordable are we?

Housing costs compared to incomes

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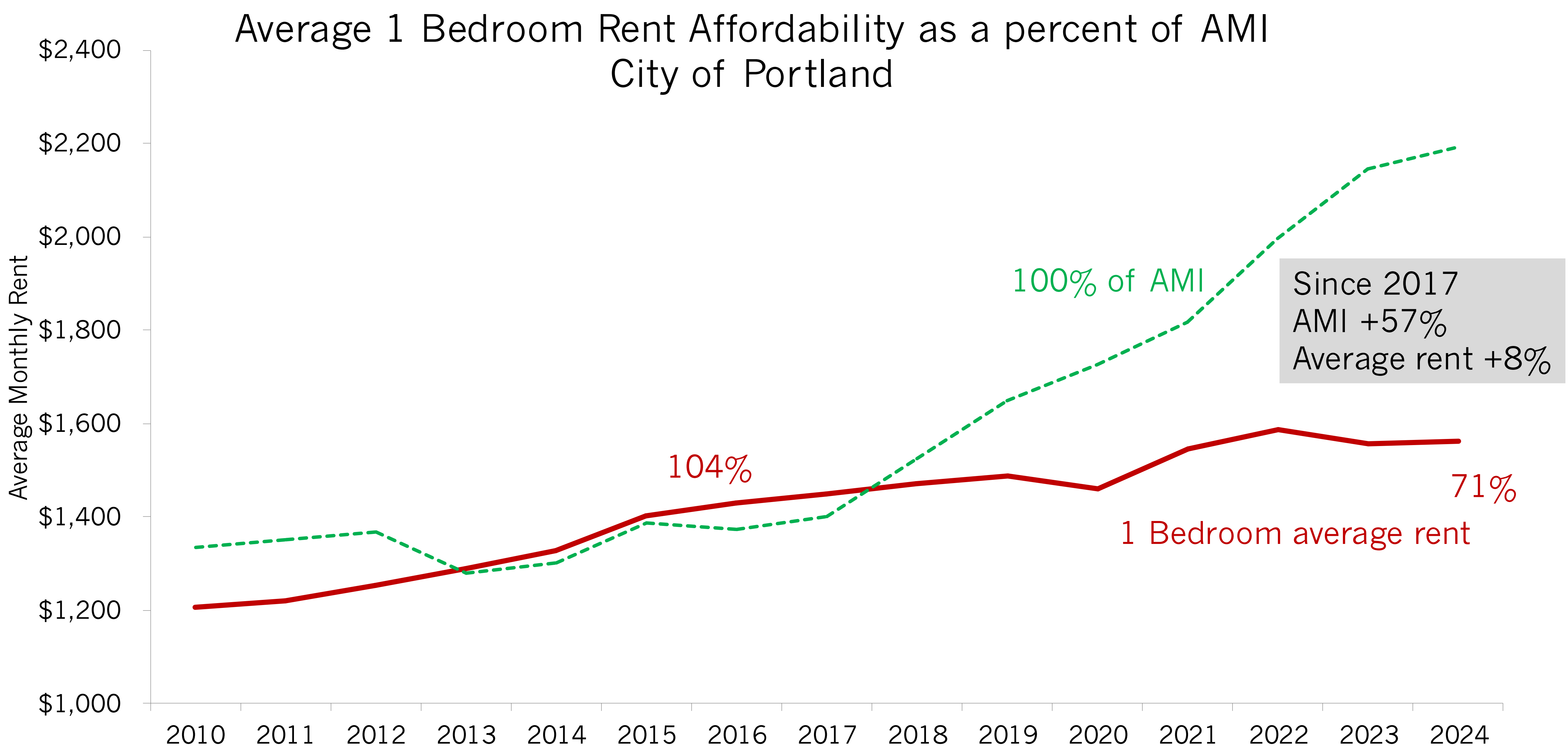
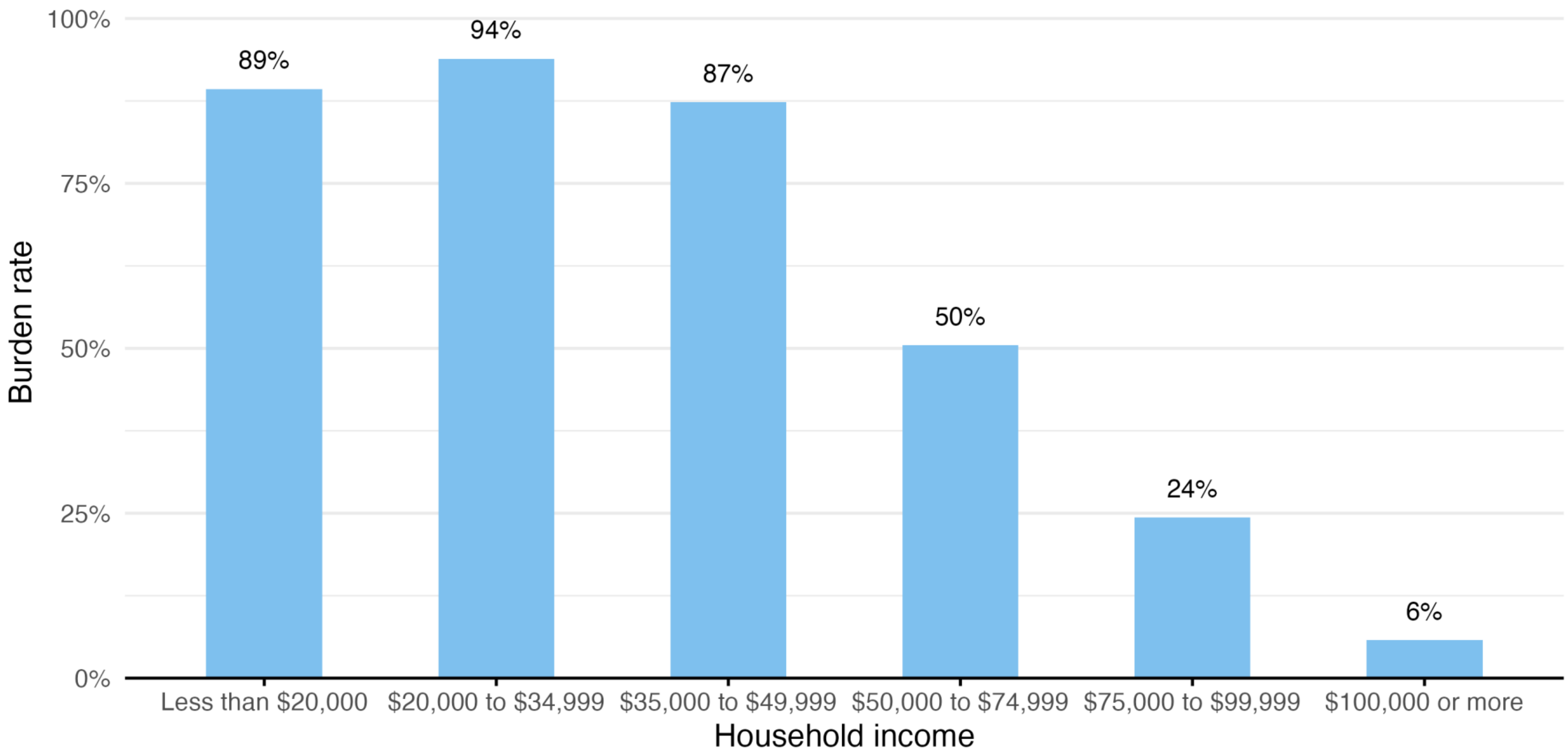
Rents became more affordable as AMI grew rapidly post 2017



Cost burdened renters concentrated below 70% of AMI

Share of cost burdened renters in City of Portland, by income in 2023



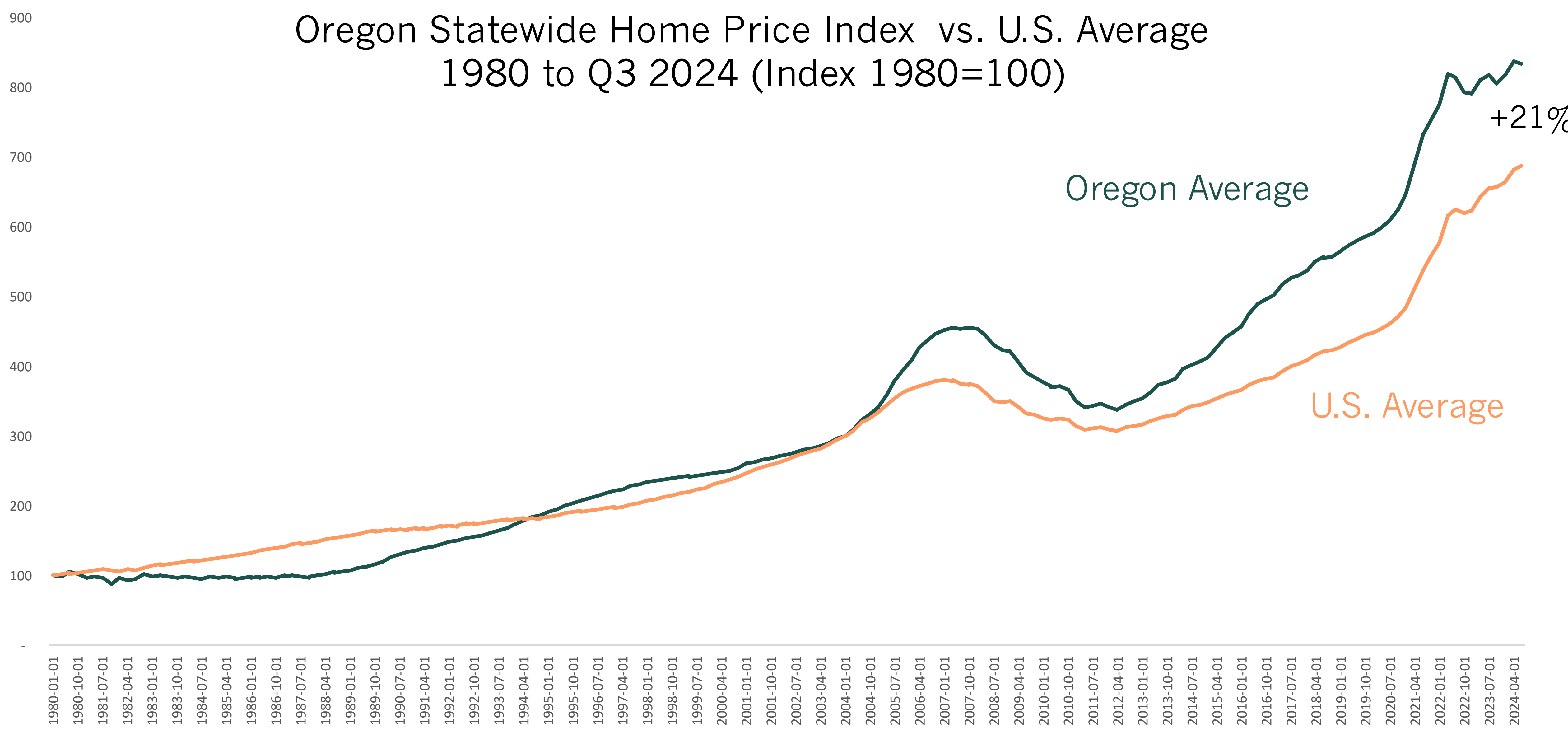
Renter Cost Burdening Rates

Gresham – 61%
Eugene – 56%
Medford – 55%
Salem – 54%
Bend – 50%
Portland – 50%

Cost burdened households spend more than 30% of their gross income on rent

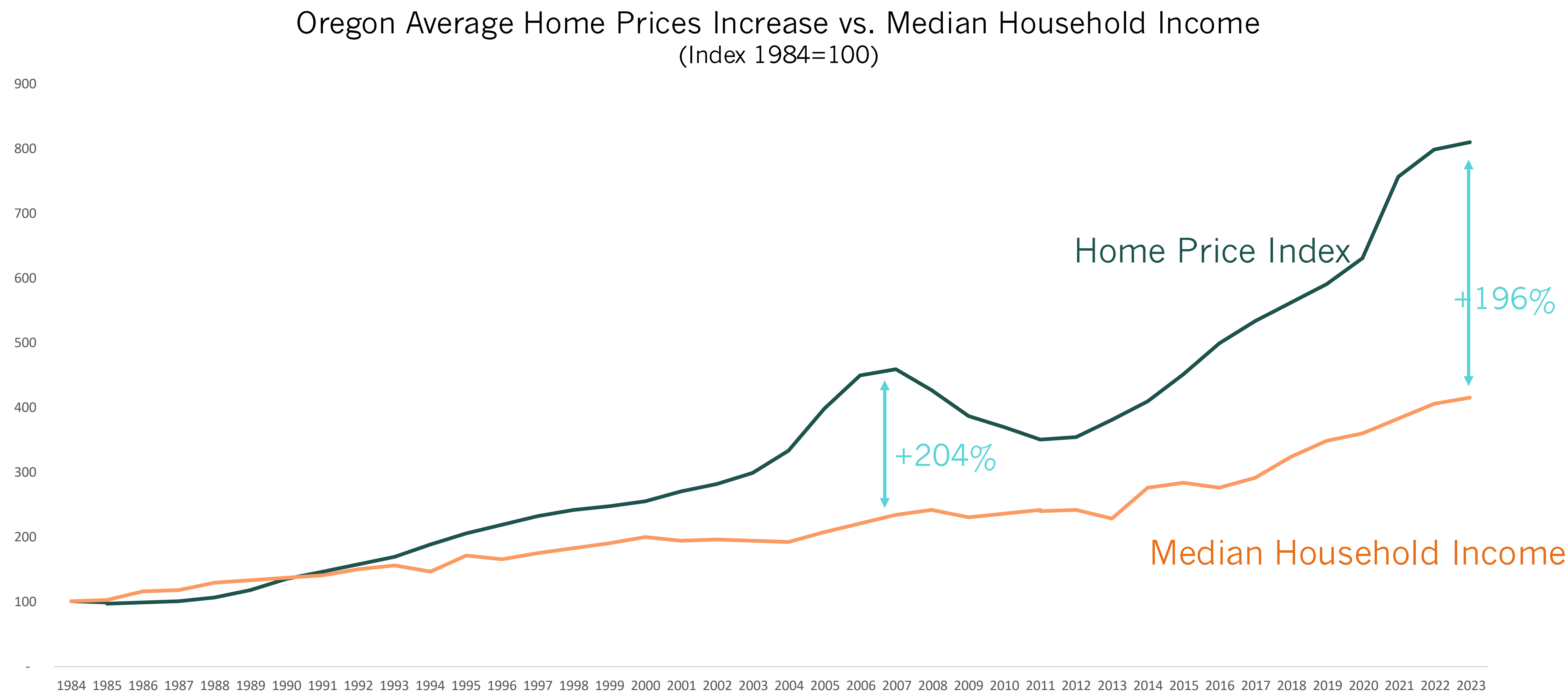
Source: Census ACS, 2023 1-year sample, Census ACS, 2023 5-year sample

Since 1980, prices have gone up faster in 11 states than in Oregon



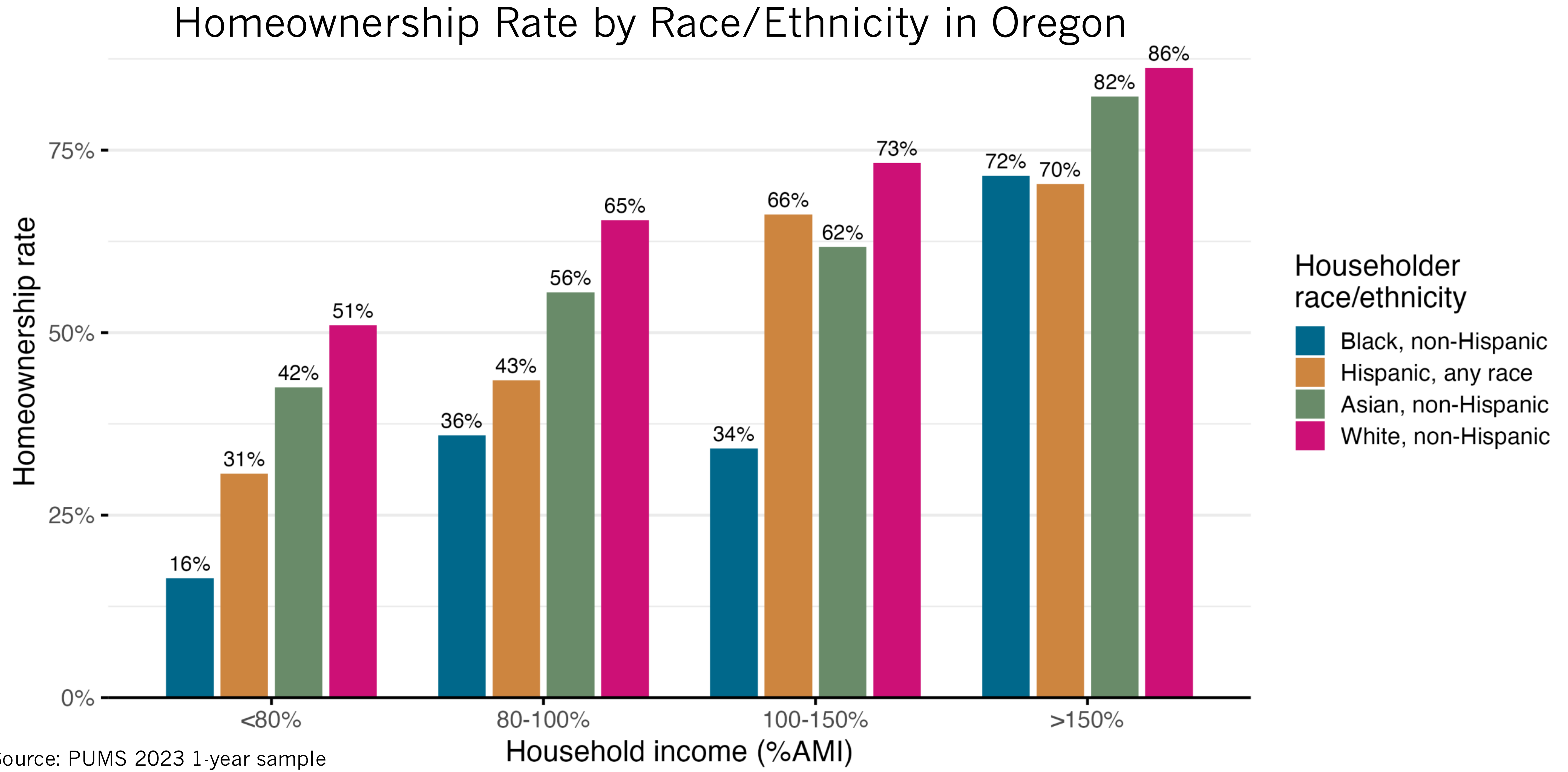
Source: FHFA, All transactions house price index

Since 1984 prices have increased twice as fast as the median income



Source: U.S. Census, FHFA

Homeownership rate related to both income and race/ethnicity



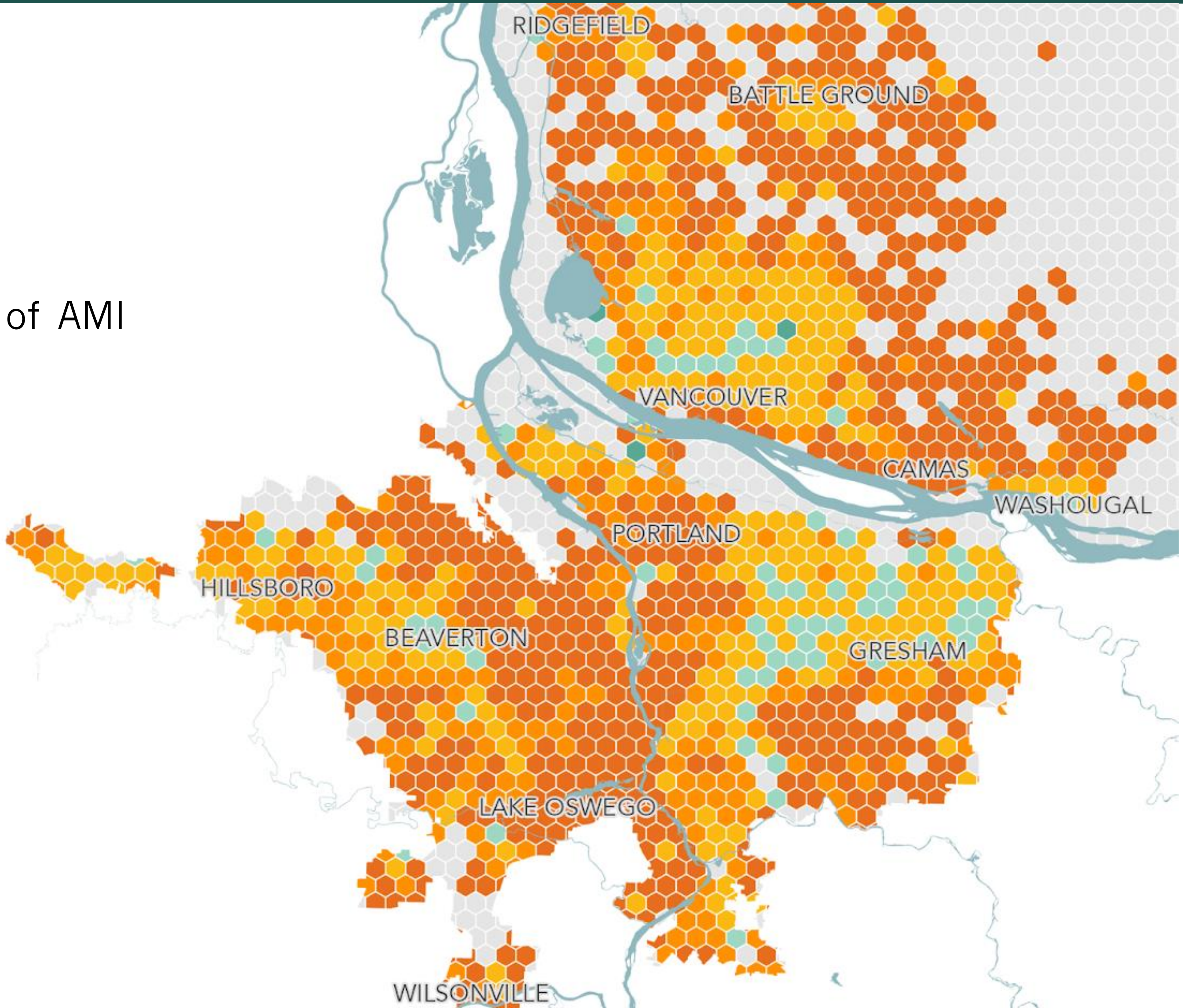
Source: PUMS 2023 1-year sample

Housing unaffordable in most of the region for households at 100% of AMI

Assuming 20% down payment
6.5% mortgage rates

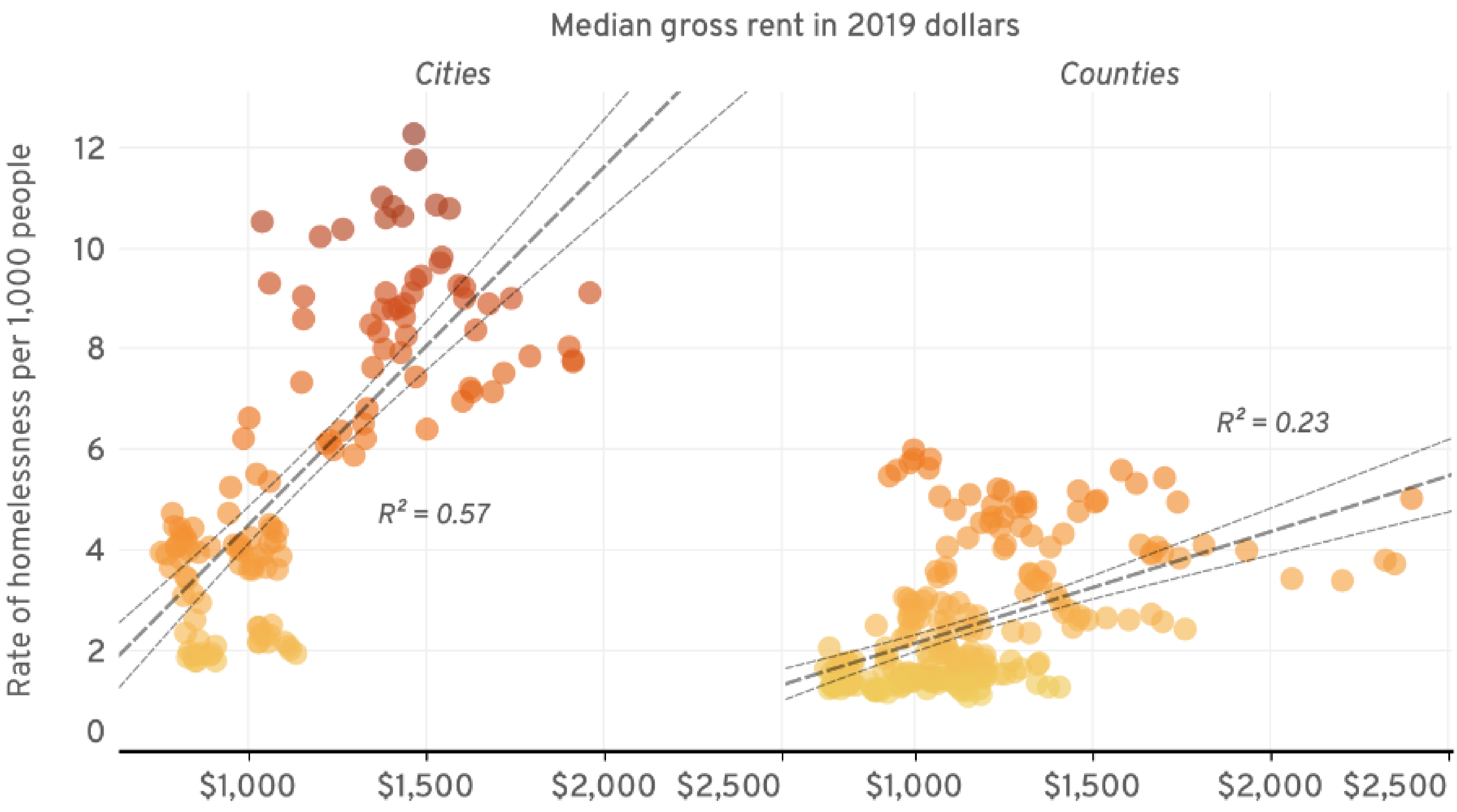
Income level necessary to purchase

- < $85,000
- $85,000 - $110,000 — More Affordable
- - - - - - - - - - - - - - - - 100% of AMI
- $110,000 - $135,000 — Less Affordable
- $135,000 - $160,000
- > $160,000
- Insufficient Transactions



High rents and high cost burdening predict homelessness

A 2020 GAO report found that a $100 increase in a region's median rent led to a 9% increase in its rate of homelessness.



Source: Colburn, Gregg and Clayton Aldern. Homelessness is a Housing Problem. 2022. University of California Press.

How much do we need to build?

Results from the first run of the Oregon Housing Needs Analysis

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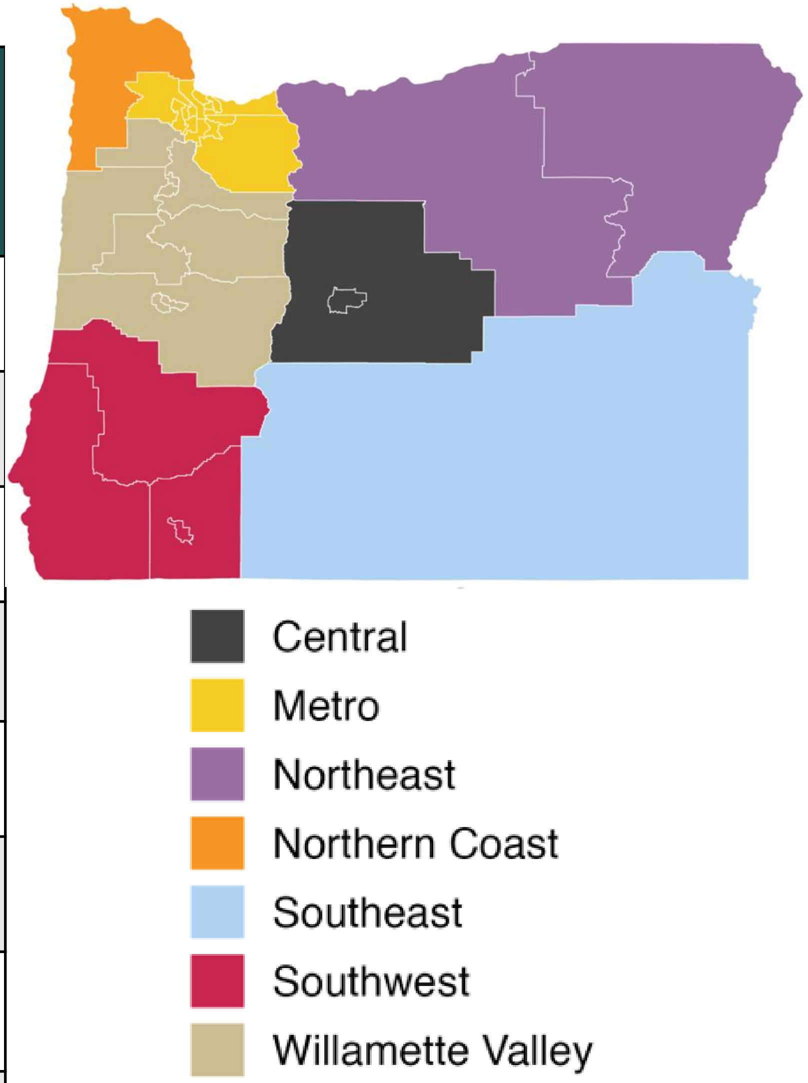
OHNA Statewide Results by Income Level

	Current Need		Future Need				
Income Level	**Under-production**	**Units for Homelessness**	**Second & Vacation Homes**	**Demographic Change**	**Pop. Growth**	**Total Needs**	**% of Total**
0-30%	15,049	35,287	-	17,377	29,818	97,529	20%
31-60%	16,630	8,221	-	22,683	38,840	86,373	17%
61-80%	7,953	2,129	-	15,616	27,292	52,990	11%
81-120%	7,368	-	11,370	27,572	48,329	94,638	19%
>120%	3,301	-	5,930	55,938	97,803	162,972	33%
Total	**50,300**	**45,637**	**17,300**	**139,185**	**242,081**	**494,503**	

OHNA Results By Region and Income Level

Region	Income Level 0-30%	31-60%	61-80%	81-120%	>120%	Total Need
Central	8,151	8,568	6,853	12,759	22,071	58,401
Metro	31,034	32,156	20,591	36,566	67,929	188,276
Northeast	3,598	3,230	2,088	4,458	6,593	19,966
Northern Coast	4,554	3,364	1,350	3,450	3,574	16,292
Southeast	3,088	2,308	1,290	2,242	3,667	12,594
Southwest	13,200	11,002	6,476	10,724	21,150	62,551
Willamette Valley	33,905	25,746	14,342	24,440	37,989	136,421
Oregon	**97,529**	**86,373**	**52,990**	**94,638**	**162,972**	**494,503**



What’s going on in the development market?

What does construction activity look like?

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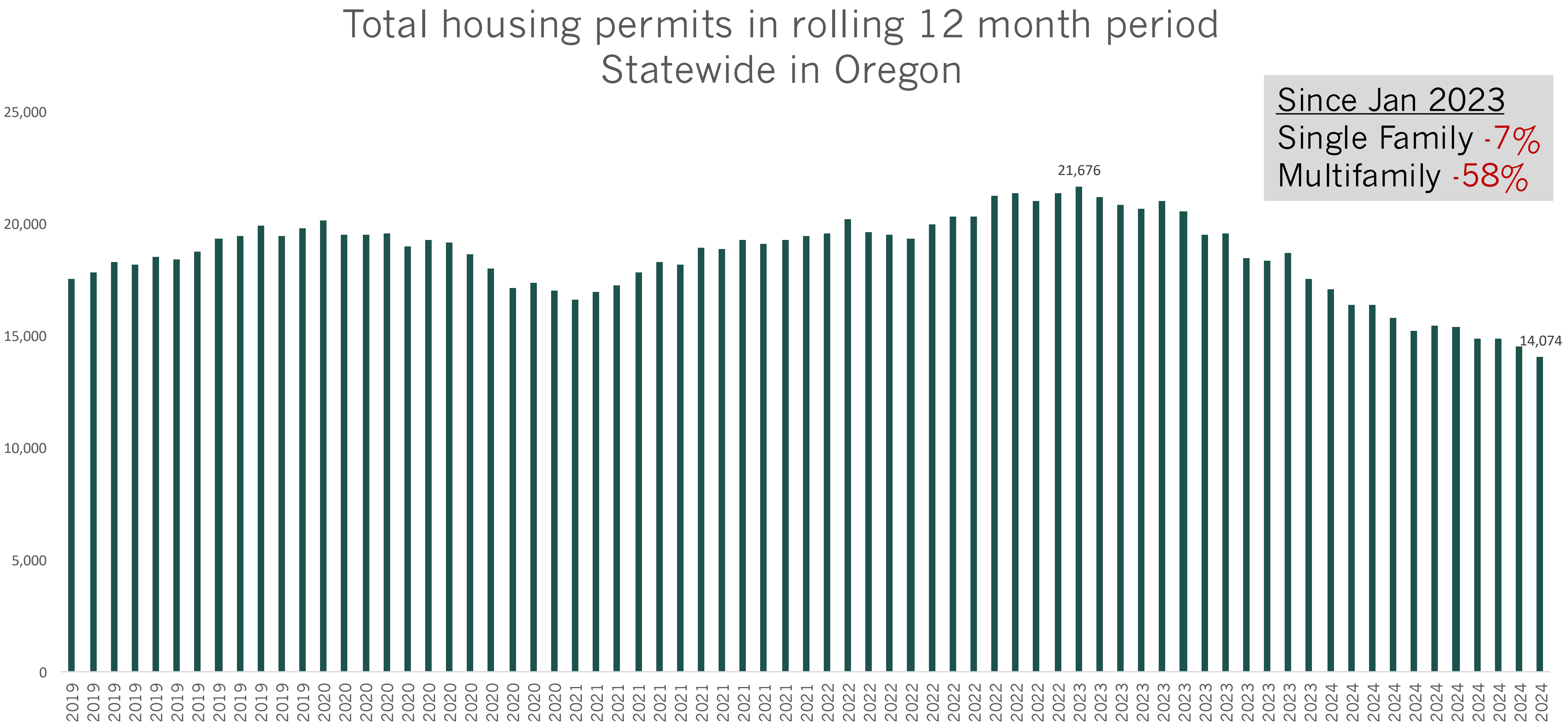
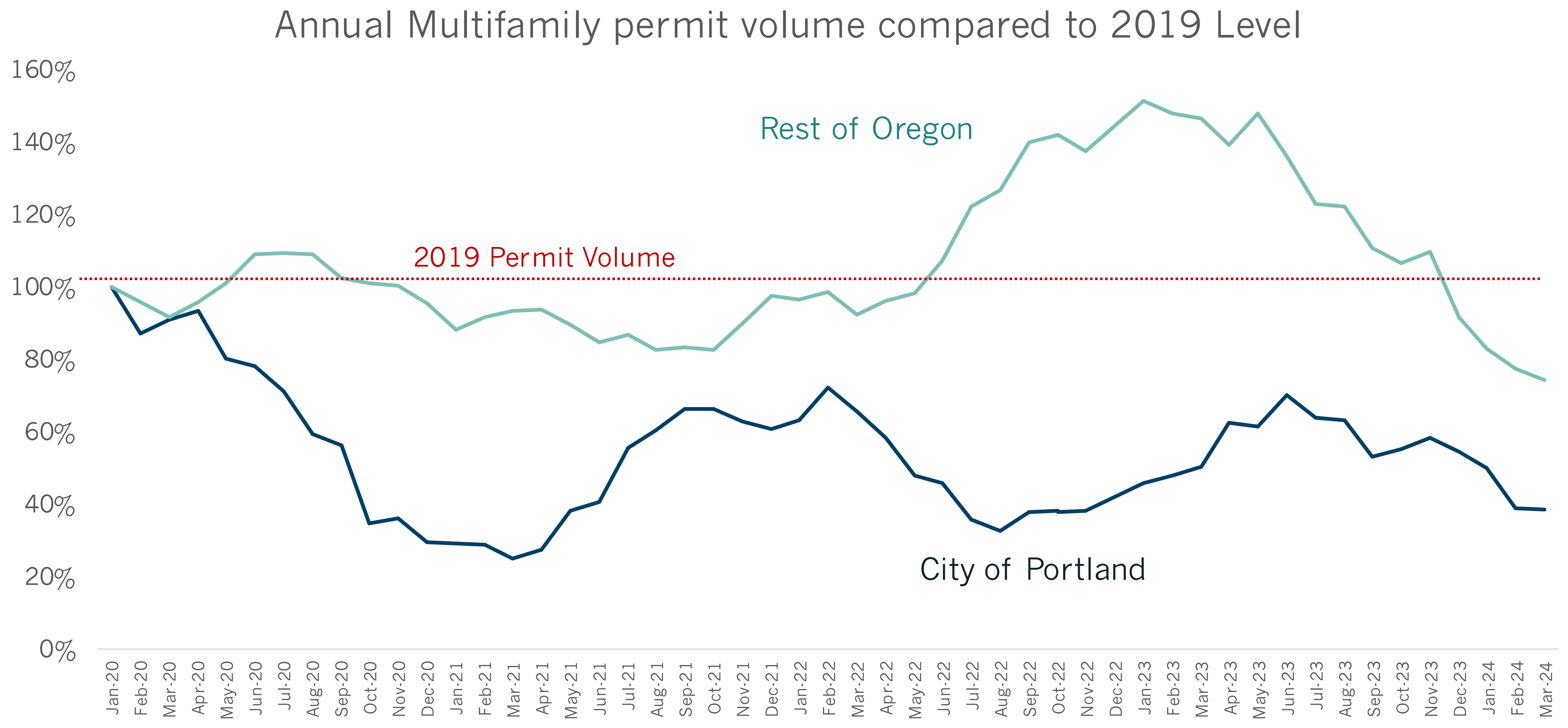
Housing permits down statewide 35% since beginning of 2023



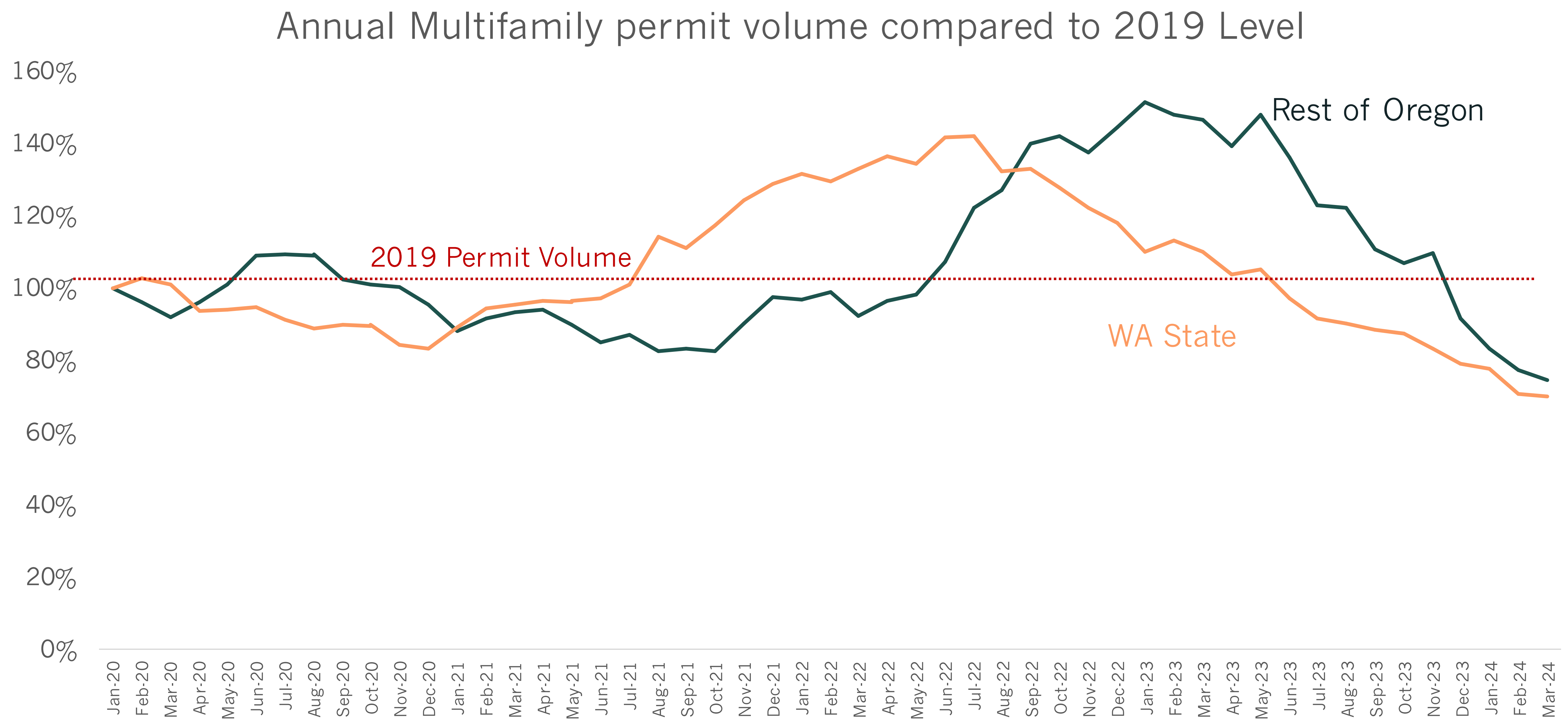
Source: HUD SOCDS

Statewide multifamily permitting dragged down by City of Portland



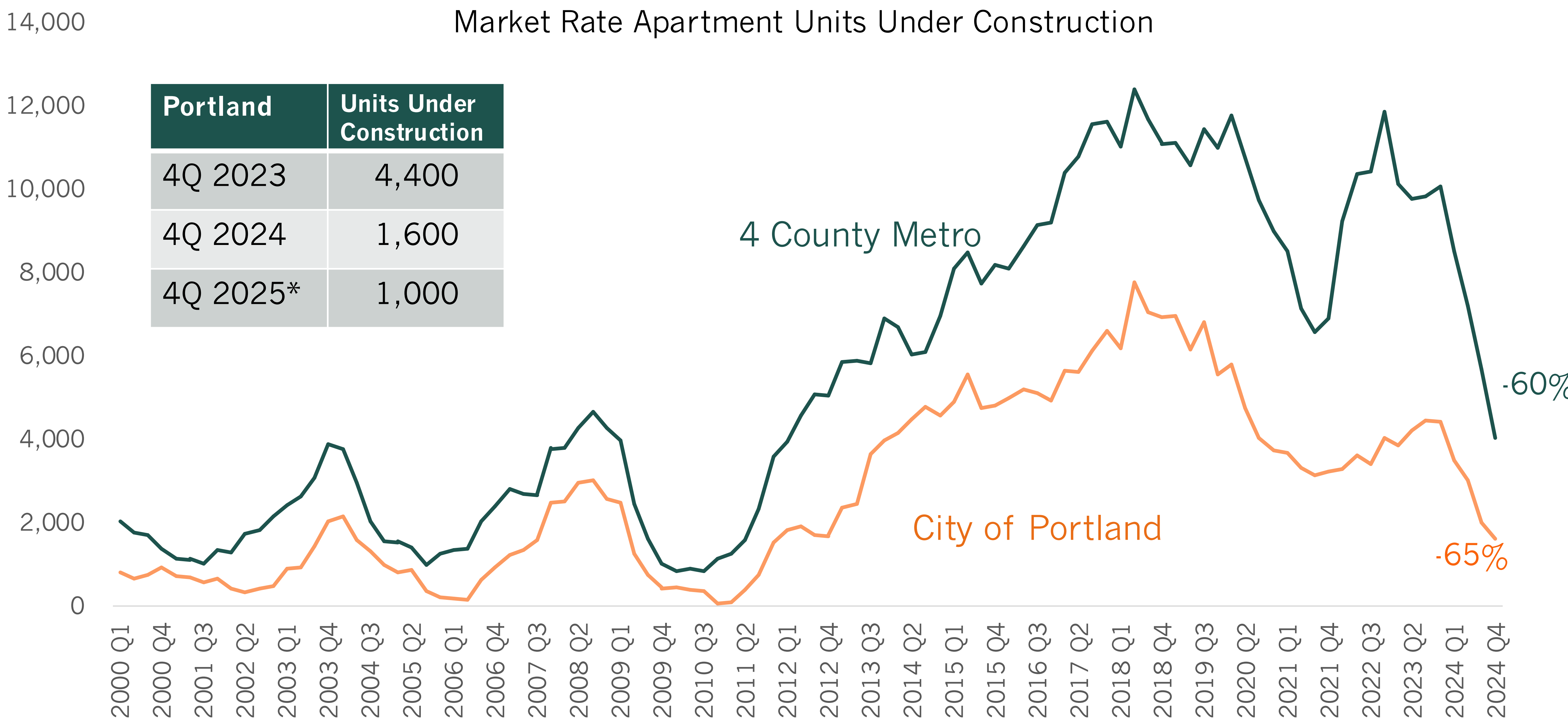
Source: HUD

Rest of Oregon without Portland tracks WA state permitting



Source: HUD

Fewest apartments under construction in PDX since 2011, still declining

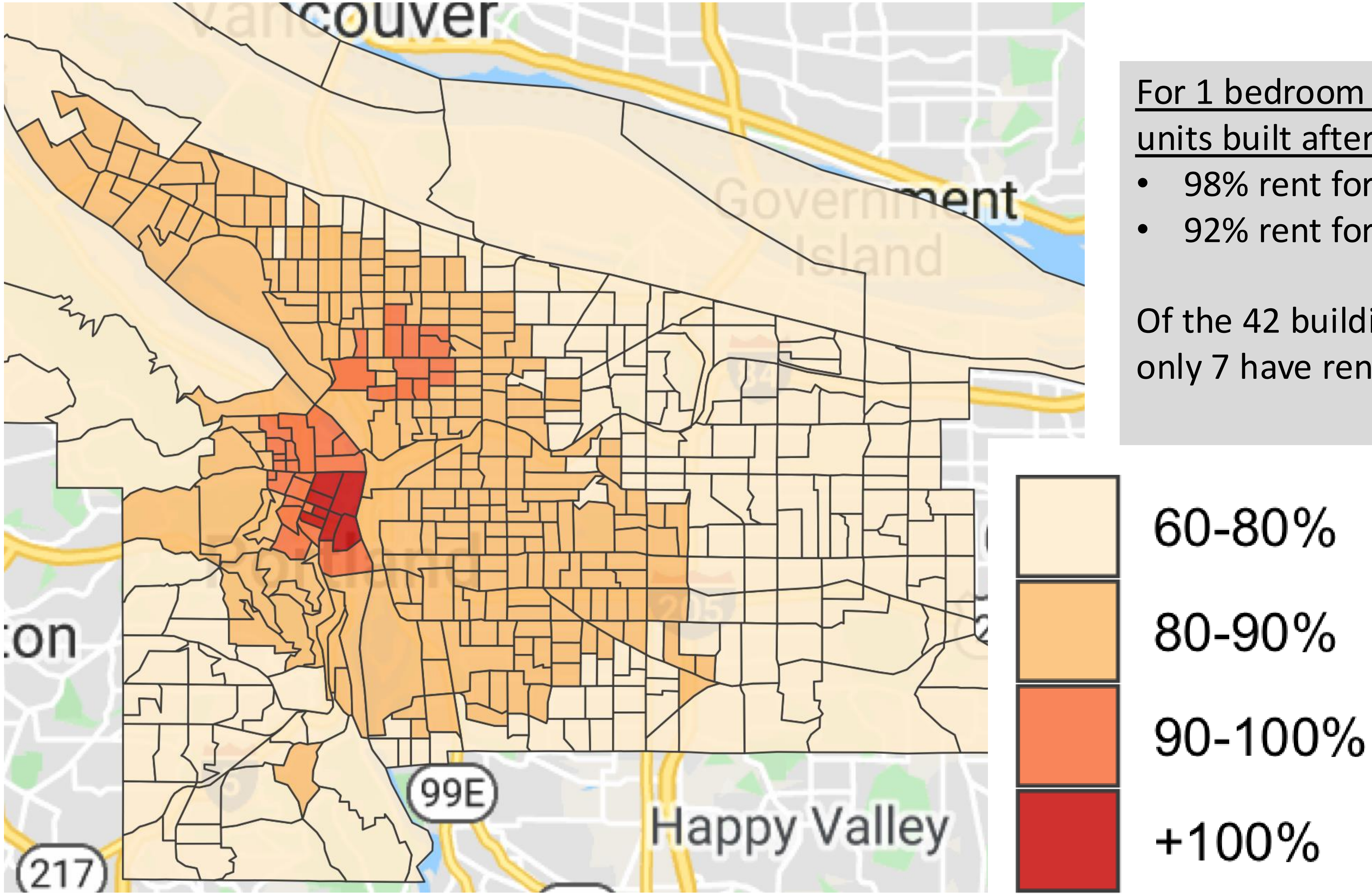


Portland	Units Under Construction
4Q 2023	4,400
4Q 2024	1,600
4Q 2025*	1,000

Source: CoStar

Rents for new construction below 100% of AMI for most of the City

Estimated rent as a percent of AMI for new construction 1 bedroom apartments



For 1 bedroom apartments in buildings with 20+ units built after 1950

- 98% rent for less than 100% of AMI
- 92% rent for less than 80% of AMI

Of the 42 buildings delivered in the last two years, only 7 have rents greater than 100% of AMI

Source: CoStar, ECONorthwest Calculations

Where might things go from here?

Headwinds and tailwinds

Oregon’s Headwinds

- Capital Markets
- Interest Rates
- Insurance Cost and Access
- Infrastructure Needs
- Workforce Needs

Oregon’s Tailwinds

Policy Reforms

Funding for Affordable Housing

Innovation in Construction

Policy implications

- Keep funding Affordable and rental vouchers
- Prioritize middle income and middle housing types
- Remove barriers to production
- Get creative: evaluate role in addressing feasibility headwinds for multifamily

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