Northwest Housing Alternatives

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January 27, 2025

Invited Testimony to the Oregon Senate Committee on Housing and Development

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Good afternoon, Chair Pham, Vice-Chair Anderson, and Members of the Committee,

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My name is Trell Anderson, I serve the Executive Director at Northwest Housing Altnerantives, a not-for-profit, mission-oriented, community-based housing organization working statewide. We have a portfolio of 2,300 units in 52 properties where families, seniors, Veterans, and people living with disabilities make their homes. We emphasize housing stability, environmental sustainability, and welcoming all people.

> We have recently completed new projects in Warrenton, Ontario, Florence, Tigard, and Portland.
>
> In 2025 we will start construction on new projects in Sisters for working families, and in NE Portland with the Urban League for seniors, for a combined 120 new units among those two efforts.
>
> We will start rehabilitation and refinance activities (e.g. preservation) on two properties in NE and downtown Portland to preserve 190 units for seniors and people with disabilities assuming federal funding secured from the Inflation Reduction Act remains available.

From an organizational perspective, informed by my own 32 years of experience in Oregon in affordable housing, I appreciate the opportunity to join you today and share perspectives on “barriers to finance affordable housing, and more.” I will get right to it:

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Predevelopment and costs to secure funding the package of funding sources, in addition to the cost of acquiring land, requires $1 to $4 million to carry a project through due diligence and the entitlement process which can take between 18 and 36 months or more. This creates significant financial exposure.

High interest rates for construction and permanent lending – the higher the rate the more gap funding is required/the more public subsidy is required. Gap financing in Oregon has not adjusted to today's interest rates and interest fluctuations across a 2- to 3- year timeline to complete a project.

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Risk mitigation that occurs in financing:

- High insurance rates and changes in coverage terms create barriers for financial solvency. At Northwest Housing Alternatives we have incurred over a 500% increase in insurance rates over the past 4 years. This is not due to the number of trips and falls or fair housing complaints. We are told by those in the insurance industry these increases are due to natural disasters and climate events such as wildfires. During our renewal process in 2024, for the first time an insurance company asked how many PSH and Voucher units were in our portfolio – perceiving greater risk by having these integrated units.
- New liquidity requirements by lenders/investors of $2 to $4 million cash-on-hand create a barrier to finance. Fewer than a handful of community-based sponsors have this type of cash-on-hand documented in their financial statements and past audits.
- Additional steps to convert from the construction loan to permanent financing create a barrier to finance. A second team of underwriters, separate from the origination team, and often located outside of the PNW, are driving new questions, additional scrutiny, and added stress tests – this drags out a conversion process and can cost a project hundreds of thousands of dollars in construction loan interest payments.
- Volatile pricing in construction costs is a barrier to financing as it creates pressure on contingency budgeting and local subcontractors by asking

them to "hold" pricing despite rapid changes in costs they experience in the market. Consider how the LA fires will impact the pricing of lumber and building supplies, possibly even labor, yet the general contractors and their subs on projects working their way currently through the OHCS ORCA process will be expected to hold their price points.

- The limited duration of rental assistance associated with Permanent Supportive Housing is a barrier to financing because the number of private lenders and investors who are interested to compete for new deals is diminishing. The risk of lost revenue to the project is too high. This dampens competitive pricing on tax credit investment and loan terms. If the subsidy sunsets it places pressure on the property owner to raise rents which leaves extremely low-income people with few options. Property owners are left with terrible dilemmas of evicting people for nonpayment of rent, or not evicting and collecting less rent than underwriting projected and making up the difference with organizational funds to stabilize the property. When rent assistance is no longer available, there is no financial relief for either the building owner or resident – placing both in precarious positions.
- Outdated underwriting assumptions:

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- The financial barrier to financing affordable housing that I believe is the greatest risk to current and newly produced affordable housing is the woefully outdated underwriting assumptions of:
    - 2% annual rent escalation – which underestimates the necessity to increase revenue over a 30-year operating guarantee.
    - 3% annual cost escalation – which does not reflect the uncontrollable increases in insurance rates, today's security requirements, utility rates; and does not allow the ability to pay a housing wage to property management staff – an irony that should be recognized and addressed in underwriting process.
    - 5% annual unit vacancy rate – which does not account for "economic vacancy" and the newer Oregon eviction laws allowing 90 days to cure with partial payment, establishing lost revenue never recovered

causing a deepening deficit in Accounts Receivables and an inability to pay for operations that include property management staff, security, routine maintenance, and supportive resident services that help to stabilize people in their homes.
- These 30-year-old underwriting assumptions are no longer verifiable in the market and no longer valid indicators of financial solvency.
- Using the 2%, 3%, and 5% standard of 30 years ago undermines a property's finances from the day it is placed in service.
- Of all the barriers to financing affordable housing today, using outdated underwriting metric is the most detrimental and the greatest threat to developing and maintaining stable affordable housing.

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Recommendations for this Committee's purview are the following:

1. There are 46,400 affordable housing units in the OHCS portfolio that have been previously supported with public funding underwriting with now outdated financial assumptions.
    a. For their preservation and ongoing service, conduct an analysis comparing original underwriting to current market realities.
    b. Test the assertion that operating costs have only escalated by 3% annually since the property was placed into service.
    c. Identify exactly how many existing properties are teetering on the brink of financial ruin.
    d. Efforts to stabilize the current portfolio will align with the Governor's "maintenance of effort" theme and support thousands of Oregon's most vulnerable people.
    e. We must re-invest in the current portfolio.
2. Create regulatory flexibility so that property owners can make real-time adjustments to market changes. Couple this with an operations relief pool, funding that would bridge property operations to stronger financials with reinvestment.

3. Update existing tools like Oregon Affordable Housing Tax Credits and General Obligation Bonds for use in preservation and stabilization efforts as previously mentioned by Tanisha and Michale before me.
4. To address out of control insurance increases that alone threaten financial viability of properties, a) regulate the insurance industry in Oregon like other state do and are considering, and b) establish a state-backed insurance pool not solely dependent on premiums; one that supports affordable housing property owners with real-time payouts.
5. Engage our banking and investment partners in problem-solving, invite their national perspective and deep industry experience into the room. They are as much invested and committed as we are, and we can learn together from efforts outside of Oregon.

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6. Lastly, we would be remiss if we did not additionally ask for space in our collective process to lift a few levels above deal finance and convene timely discussions about how public investment can be used to shepherd in a new era of affordable housing.
    a. Affordable housing that is community-owned, resident-owned, mixed-income, publicly initiated, and financially viable.
    b. Move the thinking of public investment beyond gap finance, technical assistance, and capacity building. We are stuck in this limited mindset.
    c. Envision a portfolio of affordable housing that effectively serves a range of household incomes and is affordable in perpetuity.
    d. Reconsider the role of public funding and public efforts to initiate new housing opportunities.
    e. Join and keep pace with discussions that are taking place in California, Washington, and British Columbia.

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Resources

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On behalf of the families, seniors, Veterans, and people with disabilities who make their homes among NHA's affordable housing portfolio, thank you for your time and consideration this afternoon.

Resources:

A New Vision for Social Housing in America - Center for American Progress

https://www.nrdc.org/bio/sarah-elkotbeid/social-housing-angeless-chance-fight-housing-crisis

https://www.shapeyourcity.ca/social-housing

https://council.seattle.gov/2023/04/28/meet-the-13-people-appointed-to-bring-social-housing-to-seattle/

https://policylink.widen.net/s/wlphxh7qmf/social_housing_toolkit_jan2025

Soaring Property Insurance Rates Threaten Affordable Housing Development — Shelterforce Shelterforce

Barriers to Affordable Housing Finance

Oregon Senate Committee on Housing and Development

January 27, 2025

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Trell Anderson, Executive Director at Northwest Housing Alternatives (NHA)

NHA is non-for-profit acting in public interests emphasizing housing stability, environmental sustainability, and welcoming all people.

Mission-oriented and community-based

2,300 affordable housing units in portfolio in 52 properties

Families, Seniors, Veterans, People with Disabilities

Recent new projects in Florence, Warrenton, Ontario, Tigard, Portland – working statewide

In 2025, new projects in Sisters and Portland (120 units); preservation of 2 communities in Portland (190 units)

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Barriers to financing affordable housing:

1. Predevelopment: $1MM to $4MM carrying costs before funding is secured.

2. High/volatile/fluctuation of interest rates create finance gaps, requiring deeper per unit public investment in real-time.

Barriers to financing affordable housing continued:

3. Risk mitigation that occurs in financing:

- High insurance rates/increases
- New liquidity requirements $2MM to $4MM cash-on-hand
- New second-step underwriting to convert from construction loan to permanent finance
- Volatility in the market of construction costs (materials and labor)
- Limited duration of project-based Rent Assistance
- Outdated underwriting assumptions

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Outdated underwriting assumptions:

- 2% annual rent escalation – underestimates cashflow over 30-yr loan guarantee
- 3% annual cost escalation – does not reflect market realities (insurance, security, utilities, labor, materials and supplies)
- 5% vacancy rate – does not account for "economic vacancy" and misalignment w/ rent structure to actual income and wage trends.

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Recommendations:

- Assess existing portfolio (46,400 units) for financial solvency; re-invest in current affordable housing properties.
- Change underwriting assumptions from 2%, 3%, 5% to ones reflected in current market conditions, and that will better allow operations to adjust in real-time.
- Create regulatory flexibility to support real-time adjustments.
- Create an operations relief pool to bridge to new underwriting, new financing, and stronger financials.
- Update existing tools like Oregon Affordable Housing Tax Credits and GO Bonds for use in preservation.
- Regulate property insurance or create state-backed insurance pool for affordable housing.
- Engage partners in the banking sector; gain national perspectives.
- Lift a few levels up to consider how public investment can move beyond gap finance, technical assistance, and capacity building.

Convene timely discussions:

- Set a new standard for affordable housing that is financially viable, operated in the public's interests, community- and resident-owned, mixed-income, affordable in perpetuity.

- These discussion are underway in CA, WA, and Vancouver B.C.

- Let's join the efforts and keep pace.

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Resources:

[Soaring Property Insurance Rates Threaten Affordable Housing Development — Shelterforce Shelterforce]

[https://policylink.widen.net/s/wlphxh7qmf/social_housing_toolkit_jan2025]

[A New Vision for Social Housing in America - Center for American Progress]

[https://www.nrdc.org/bio/sarah-elkotbeid/social-housing-angeless-chance-fight-housing-crisis]

[https://www.shapeyourcity.ca/social-housing]

[https://council.seattle.gov/2023/04/28/meet-the-13-people-appointed-to-bring-social-housing-to-seattle/]

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