March 20, 2025

Oregon Senate Committee on Housing and Development
900 Court St. NE
Salem, Oregon 97301

Re: Opposition to Reducing the New Construction Exemption (SB 722 -2)

Chair Pham, Vice Chair Anderson, Members of the Committee:

Oregon Smart Growth (OSG) is a coalition of responsible developers, investors and allied professionals committed to the feasible development of walkable, livable communities that are environmentally, socially, and economically sustainable for Oregon's future.

We are writing to you today to oppose any reduction to the exemption for new construction under rent stabilization rules — for example, the move from 15 years to 10 years proposed in the -2 amendment to SB 722.

OSG encourages the Legislature to continue to prioritize our housing supply and affordability crisis by taking bold actions to <u>encourage</u> housing production. Boosting housing production across the state is critical to addressing our housing affordability crisis, reducing homelessness, and enhancing our state and regional economic prosperity.

When supply is constrained due to underproduction—as it is now, with Oregon behind by more than 50,000 homes and facing a future need of nearly 400,000 additional homes over the next 20 years—landlords are positioned to charge maximum rents.

Adding tighter regulations, such as the reduction in the exemption for new construction from 15 years in the -2 amendment, will disincentivize construction of new units, exacerbating our housing supply and affordability crisis.

As Oregon's housing producers compete for limited capital that's essential to increasing our housing supply, **lawmakers must <u>maintain or extend</u> the 15 year exemption for new construction**. Here's why:

- **A 15 year exemption covers the development/construction of a building, the building's first sale, and the new buyer's initial hold period.**

  New housing projects have several consistent parameters for getting developed: the initial private investor financing/construction, lease-up and operating performance and the first sale, as most development is not held long-term.

  Investors and equity partners must agree to finance the project with acceptable rates of return that are driven by expenses and expected rent income; projects must then be leased up and show several years of stable income against operating expenses and then—just as important in the initial go/no-go decision—potential buyers must be able to finance the purchase of the new housing project.

Most of the financing for long-term multifamily buyers comes from major institutional investors, most prominently, teacher and public employee retirement funds.

- **Maintaining a 15 year exemption provides parity with competing housing markets' exemptions—and keeps Oregon from being a far-reaching outlier.**

  Few jurisdictions have rent stabilization policies, but most that do include an exemption for new construction—and Oregon's is already among the shortest at 15 years. Most jurisdictions have a rolling exemption of 15 or 20 years, or a date-based exemption.

  If the Legislature were to adopt an exception that's shorter than the current standard of 15 or more years, Oregon's status as an outlier will further increase the risks associated with our housing market, and discourage capital investment.

- **St. Paul, MN provides a cautionary tale:** In November 2021, voters approved rent control with no exemption for new construction. Within months, building permits in St. Paul plummeted by 80 percent as construction across the river in Minneapolis went up. "Because people making financing decisions view rent inflexibility as increasing risk, they have been simply leaving St. Paul construction projects by the wayside," wrote the MinnPost on March 3, 2022.

  Less than a year later, St. Paul's City Council added a 20-year exemption for new construction. However, housing production hasn't rebounded: The city permitted just 365 new units of housing in 2024, the lowest level since 2013, according to the Pioneer Press newspaper.

  Last year, St. Paul's mayor proposed an exemption for all housing built after Dec. 31, 2004; this proposal is still under consideration by St. Paul's city council.

We are facing similar challenges here in Oregon. This week, Willamette Week reported that apartment construction in the Portland metro area has fallen to its lowest level in more than a decade. According to data from CoStar, there were only 4,375 apartments under construction in the final quarter of 2024—less than half the 10-year quarterly average of over 10,000 units.

And Portland recently fell to 80^{th} out of the 81 markets ranked in Urban Land Institute's "Top Markets 2025 for Overall Real Estate Prospects" — a currently-dire measure of investors' interest in the metro-area market.

The urgency here in Oregon could not be clearer. As our housing shortage deepens, we simply cannot afford to make the problem worse by further hampering our ability to attract housing investment.

On behalf of Oregon Smart Growth and our members across the state, we respectfully urge you to reject any reduction in the exemption for new construction. Thank you.

Sincerely,

Amy Ruiz

Advocacy Director