Rehabilitating Oregon's Low-Income Housing Stock: A Call to Action

Executive Summary

The problem:

- Oregon's 1.7 million unit stock of single-family homes loses at least 1% every year to deterioration and economic obsolescence.
- The estimated 17,000 housing units lost each year greatly outnumbers new affordable units produced with limited public funds, as well as units produced by the private sector in all but the most productive years.
- Oregon's affordable housing crisis has at its core several economic trends which are largely beyond the control of public policy. Environmental and economic factors have been at work reducing the existing housing stock and decreasing affordability, while lower income Oregonians are struggling to get ahead.
- Particularly in rural areas, Oregon's homeownership rates are high; many homeowners with low incomes cannot afford rehab and repair costs on their homes.
- With housing rehabilitation project costs ranging from $5,000 to $25,000, preserving existing housing units for low-income residents is significantly cheaper than producing a new unit. Yet funding for, and attention to, the preservation of existing homes is so low as to have little or no impact.

The solution:

- A single state agency should be charged with monitoring the condition of Oregon's housing stock.
- Housing rehabilitation should be the responsibility of Oregon Housing and Community Services, as part of an overarching housing strategy covering the continuum from homelessness to rental housing to homeownership.
- The state needs to refocus some of its investment into housing rehabilitation. This should come from a combination of more carefully targeted existing federal sources, matched by a new legislative allocation.
- Repurposing $5 million of federal CDBG funding and matching it with $5 million in new state funding would produce approximately 400 preserved homes each year.

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As she walked the hundred foot sidewalk from the street to her house, the widow unconsciously pruned bushes and small trees as she passed, apologizing for the state of her yard. She was clearly embarrassed to let a stranger see the deterioration that had occurred since her husband died and she became disabled. In this case, the stranger was a rehabilitation specialist from a local nonprofit. The widow had recently called because she could no longer live with the water leaking into her house. It turned out that Social Security was her only form of income. This minimal income had been adequate since the widow and her husband had paid their house off before retirement. But, there was not enough to repair the roof when it began to leak.

It had been a beautiful home. The site was magnificent. The four double hung windows in the front of the living room looked out over a 40 foot cliff to a panorama of the Columbia River as it passed St. Helens. The home's large living room and dining room sported dark natural woodwork, beamed ceilings and a brick fireplace. Lath and plaster walls and ceilings dated to the first decade of the 20th century, when the home was built.

In his initial phone conversation with the widow, the rehab specialist explained that he could arrange small grants from USDA and also had no-interest, deferred payment loans which could help the widow correct the problems with her home. What he was not prepared for, as he walked with the widow along her sidewalk, was the collapsed ceilings and rotten rafters which more than a decade of leaks had destroyed beyond repair. By the time the widow asked for help, the woodwork and plaster walls were ruined. Given its age, it was not surprising that the home had a post and peer foundation with wood skirting. In any other house, that plus the roof replacement would've been easily available within the rehab specialist's loan limits. This total rebuild exceeded the tools the rehab specialist had at his disposal. Eventually, the home was lost creating losers no matter which way one looks. Had it been salvaged in time, its current value would exceed $400,000, benefiting the communities of St. Helens and Columbia County as well as the widow's children and her grandchildren.

To date, the response to Oregon's affordable housing crisis has been included regulating rental markets, increasing investments in publicly funded affordable housing units, and funding incentives for private-market inclusion of affordable units. While these are all important parts of the solution, they are not enough. Oregon needs an ambitious, well-funded, and effective housing rehab program for low-income homeowners.

Oregon's affordable housing crisis has at its core several economic trends which are largely beyond the control of public policy. There exists a common belief that we can build enough affordable housing to mitigate this crisis. Without massive increases in public spending, this belief is simply wrong. All available public resources over 2 ½ decades have equaled only one and a half to two years of housing losses due to physical, structural and economic obsolescence. Oregon needs to choose a smarter path.

That path is to recognize that Oregon's 1.7 million unit housing stock loses at least 1% every year to deterioration and economic obsolescence. The estimated 17,000 homes lost each year greatly outnumber new units produced with public funds as well as units produced by the private sector in all but the most productive years. With costs ranging from $5,000 to $25,000, preserving existing homes is far cheaper than producing a new unit. Yet current funding for, and attention to, the preservation of existing homes is so low as to have little or no impact. This paper describes how this neglect came about and what Oregon can do about it.

The Problem: How Did We Get Here?

<u>Housing Market Trends</u>

Oregon's current housing crisis has its genesis in at least four separate trends.

- During and after the housing crisis that began in 2008, banks, developers and ordinary homebuyers lost confidence in the real estate market and virtually all new housing development ground to an abrupt halt which lasted 6 to 7 years
- As can be seen below, all new housing development and estimated losses most nearly balanced each other out
- At the same time, the Millennial children of the Baby Boomers reached the age (25 to 35) where new household formation could no longer be delayed
- As the economy recovered, these new households entered the rental and home purchase markets
- The aging of the population, which included Millennial's leaving the parental nest, and other demographic trends reduced the number of persons per household, requiring additional units to serve the same population levels
- Meanwhile, Portland, and Oregon generally, continued the pre-existing trend of net in-migration from other states

The net effect of the separate trends has been for the development of new units to fall 9,000 to 10,000 units per year behind the levels needed to maintain a balanced housing market.

This shortfall comes at the end of a century-long trend toward the production of larger, less affordable, homes and rental units. This is clear to any real estate professional with several decades of experience. It also shows in the data.

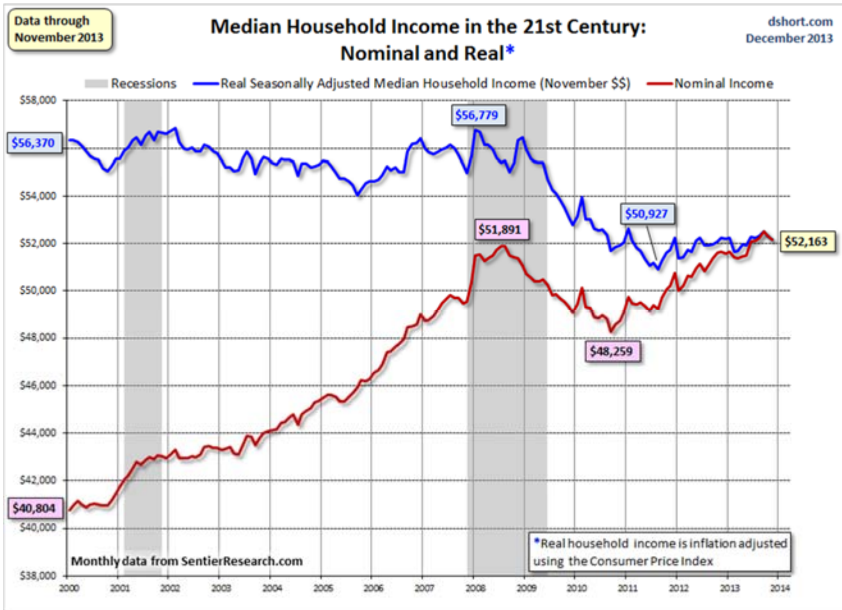
In March of 2016, the median new home price in the US was an unaffordable $288,000. The median size was a whopping 2,500 square feet. In 1900, the average home was 800 square feet. After WW II, it increased to 1,000 Sq. ft. By the 1960s homes averaged 1,200 sq. ft. By 2000, house sizes averaged 2,000 sq. ft. with prices increasing correspondingly.

Although not as pronounced, the size of new rental units have also increased over time to a current average of nearly 1,200 square feet, 20% larger than the average new home in 1950.

Jason F. McLennan, Yes! Magazine: *The Righteous Small House* 1/29/2010

Income Trends

At the same time that our housing has become larger and thus more expensive, most Oregonians have become less able to pay for it.



Studies show that the bottom 60%, if not the bottom 80% of American households have lost ground over the last 30 years, when the real impact of inflation is applied to their nominal wage. During the same era, housing costs have risen in real terms, as has the cost of large, essential durable goods like cars. Lower and middle income households find themselves in a pinch between these two factors. This likely explains the shift to larger homes as the lower and middle classes are simply priced out of the new home market.

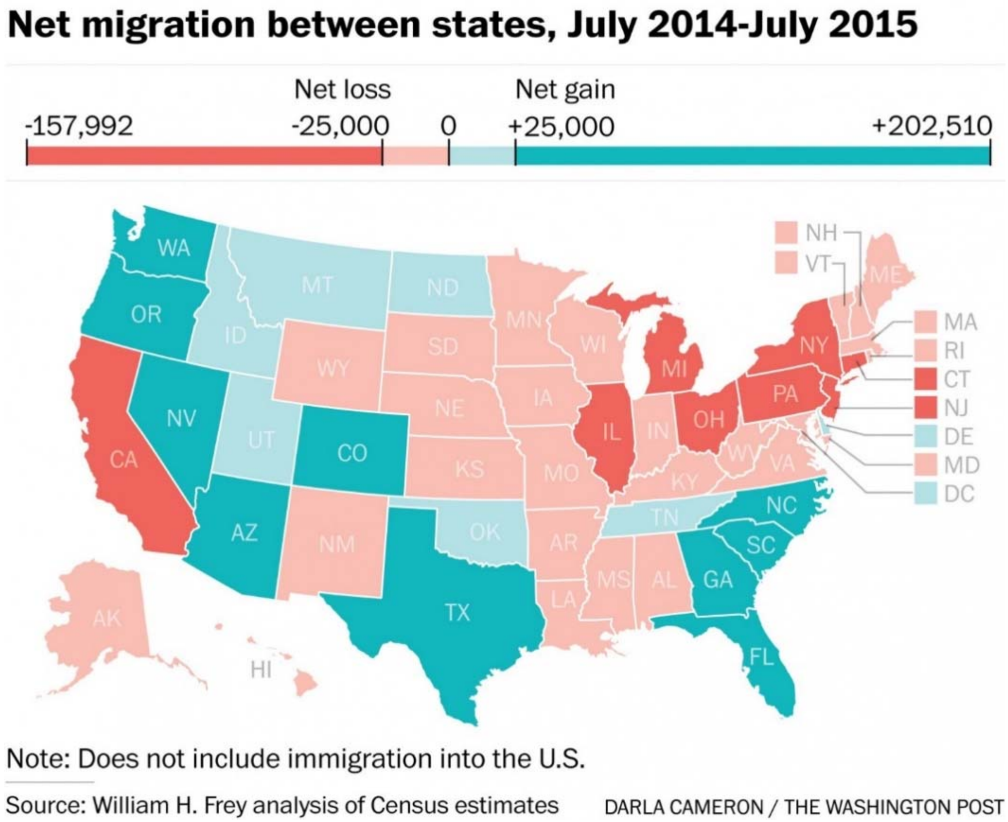
Summing the Impact

Meanwhile, environmental and economic factors have been at work reducing the existing built housing environment. Annual losses to functional and economic obsolescence exceed decade-long efforts of the public sector to produce affordable housing units.

Over the past 25 years, federal and state affordable housing investment has produced around 30,000 to 40,000 units in Oregon. That may sound like a lot, but this 2 ½ decades of all-out effort has produced only 2% of Oregon's 1.7 million housing units. 8.4% of these units are mobile or manufactured homes, which for a variety of reasons are likely to have even shorter than average life expectancies. Even using an optimistic life expectancy of 100 years, Oregon will lose more than 17,000 housing units per year. Coincidentally, by the end of their economic life, most of these units are likely to be occupied by low income Oregonians.

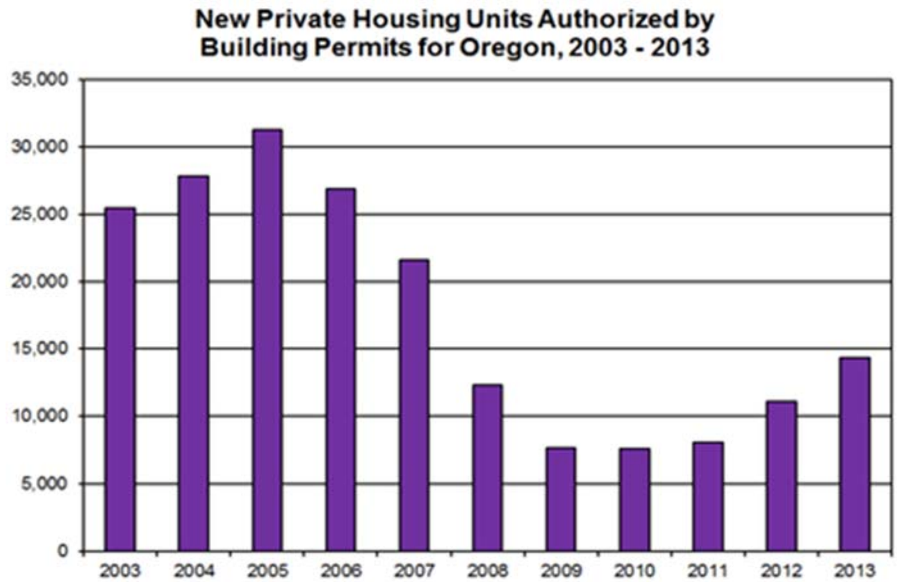
Like most areas of the economy, housing has forces that counteract one another. The key to success is for the sum of the relevant numbers to be positive. It isn't.

The losses of Oregon housing to deterioration and other forms of obsolescence is compounded by thousands more being lost to shrinking household sizes, requiring more units to house the same number of people. Similarly, additional units every year are taken off the market when they are occupied by new residents, products of net in- migration from other parts of the country.



Nor does the number of units lost to depreciation accommodate the impact of Oregon's in-migration. A United Van Lines study shows that 66% of the interstate moves in Oregon were in-bound[i]. This adds extra demand of approximately 3,000 units per year.

These silent, massive losses of available housing units and physical obsolescence represent economic headwinds against which all of Oregon's affordable housing initiatives must sail. It seems our ship is moving backward.



https://www.qualityinfo.org/-/home-building-in-oregon-first-in-last-out-of-recession

As you can see from the above chart, Oregon has fallen short of replacing the projected unit losses to obsolescence 6 out of the last 11 years.

This simple view does not take into account the housing needed to accommodate the shrinking number of persons in each Oregon household – approximately .05 persons less per household over the last 10 years. With our increasing populations this translates into an approximately 62,000 extra units lost to the market over ten years.

The table below summarizes the primary factors impacting housing supply. It can also serve to illustrate the most productive area where we can find relief – saving Oregon's existing housing units from deterioration and economic obsolescence.

Summary Table Estimating Oregon Per Year Changes In Housing Stock	
Units losses	(17,000)
In-migration	(3,000)
Avg. household shrinkage	(6,000)
Avg. new unit production[ii]	17,000
Net Shortfall	(9,000)

No clear strategy exists for saving or protecting Oregon's housing stock. This is best illustrated by the fact that no state agency has a responsibility to track and report on the condition and economic viability of Oregon's 1.7 million housing units. The estimated value of Oregon's housing stock is over $300 billion.[iii] It's hard to imagine any area of Oregon's economy this large without significant state attention to its condition and trends.

This lapse of responsibility has left unexamined and untapped, the least expensive approach to the housing crisis. Effective housing preservation varies in cost from $5,000-$40,000; or to put it another way, approximately 2% to 15% of the routine cost of a new affordable housing unit. As you will see below, housing preservation can have a real impact on the housing supply, and therefore its price.

The Solution: Modifying the Toolkit and the Mindset

With the exception of local government support, the sources of non-market funding for housing in Oregon are similar across the state. Although several urban housing finance agencies bring locally generated bond financing to their communities, Oregon Housing and Community Services (OHCS) awards the bulk of federal funding, in particular the Low Income Housing Tax Credit (LIHTC) program, statewide. The agency is also the conduit for federal HOME program funds across most of the state. Additionally, OHCS distributes various legislatively awarded state investments in affordable housing across the whole state.

In general, OHCS and its programs are focused on rental housing. Homeownership programs receive some support (for example, 14% of the Document Recording Fee is dedicated to homeownership), but the amount of resource and agency focus is relatively low compared to rental housing.

Unfortunately, the LIHTC model being practiced in Oregon isn't all that affordable. Unless they are supplemented by local government funds, these units require minimum base rents of $600 to $800 increasing with unit size and any required debt payments. Developers using LIHTCs must assemble and leverage multiple sources of public and private funding to make projects pencil, and multiple funders come with multiple layers of lawyers, design and compliance requirements – all of which add on cost.

The funding delivery system at OHCS adds its own inefficiencies. Funds are typically distributed via expensive competitions between project supporters (developers, cities, counties, etc.). These competitions are over-subscribed by factors of three to five times, making failure to succeed the probable outcome[iv]. This has the effect of adding nearly $1 million of risk to each successful developer's project cost, and thus to the cost of the units – now weighing in at $250,000 per new unit. ***Add about LIFT being part of the solution, but still need rehab for existing as well.***

OHCS's rental focus includes rental housing preservation primarily for existing affordable rental units. In recent years, as much as 50% of OHCS's investment in affordable housing has been committed to "Big P" preservation projects in which direct tenant rental assistance is a key component***. Need more about how preservation investment differs from proposed rehab investment, how both are needed.***

The main source of rehabilitation funding in Oregon is federal Community Development Block Grant (CDBG) funds. CDBG funds flow in two ways: to the state for distribution to "non-entitlement" (rural) cities and counties; and directly to "entitlement areas" (urban cities and counties), who invest a significant portion of their CDBG funds into local housing rehabilitation programs. Frequently, these programs involve robust lending, enhanced by re-lending of repaid loan funds as well as public and private borrowing. However, Congressional allocations are now just over half (63%) of levels in 2005.

Oregon Business's Infrastructure Finance Authority (IFA) is currently the state conduit for CDBG funding for rural areas. In past years, program administrators matched this resource with USDA and other HUD programs. These federal resources are essentially gone.

In addition to funding cuts, program redesign at IFA has further reduced the effectiveness of CDBG funds. The IFA has substantially redirected and reduced housing rehabilitation funding by instituting program rules that drive successful applicants to focus on health and safety activities. Such a focus has much lower long-term benefits than true housing rehabilitation, which focuses on the long term preservation of the housing asset. The difference between a health and safety program and a housing preservation is similar to emergency room triage vs. corrective surgery. Sticking with the metaphor, a health and safely focus in preservation is the housing version of hospice care. It cedes the housing units in question to eventual oblivion. ***Add: example of the types of projects/repairs IFA is focusing on vs. what we would recommend.***

Missing Ingredients: Tracking and Investing

It seems that neither of these state agencies has the responsibility to survey or account for the condition of Oregon's owner occupied housing stock. Oregon Housing and Community Services remains deeply focused on rental housing, despite Oregon's 60% plus homeownership rate with rural homeownership rates pushing 75% in places. A large fraction of these homeowners are low income, and they are responsible for the preservation of 60 to 70% of Oregon's least expensive, and most at risk, housing stock. Good data are essential, but nearly completely absent. The first step in protecting these Oregon economic assets is for a single state agency to be charged with tracking the condition of these properties and risk of their disappearance.

We believe housing rehabilitation should be the responsibility of OHCS, as part of an overarching housing strategy across the continuum from homelessness to rental housing to homeownership.

Further, the state needs to refocus some of its investment into housing rehabilitation. This must come from a combination of more carefully targeted existing federal sources, matched by a new legislative allocation. One good model for such matching funds would be the Oregon Pre-Kindergarten (OPK) funding which has a long history of successfully matching federal Head Start funding.

Repurposing $5 million of CDBG funding and matching it with $5 million in new state funding would produce approximately 400 preserved homes each year. To put this in perspective, 10 years of this regimen would produce more affordable housing than 30 years of the current production model.

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[i] http://www.bizjournals.com/portland/blog/real-estate-daily/2015/01/report-pegs-oregon-as-top-state-for-in-migration.html and https://oregoneconomicanalysis.com/2013/08/29/migration/

[ii] This number includes all new units created by OHCS and other agency affordable housing initiatives

[iii] Based on the US average housing unit, not the $306,000 Portland average. http://zillow.mediaroom.com/2015-12-30-U-S-Home-Values-Gained-1-1-Trillion-Renters-Paid-Record-535-Billion-in-2015

[iv] Historically, Oregon Housing and Community Service's (OHCS) Consolidated Funding Cycle is three to four times oversubscribed. The average cost of a competitive application has been estimated at $300,000. Thus there is potentially a $1 M surcharge to be paid on every funded application to accommodate the cost of the competitive model used boy OHCS.