



# Housing Affordability in Portland

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*City Club members will vote on this report between Friday, April 15, 2016 and Wednesday, April 20, 2016. Until the membership votes, City Club of Portland does not have an official position on this report. The outcome of the vote will be reported in the City Club of Portland Bulletin Vol. 98, No. 16, dated April 21, 2016, and online at [pdxcityclub.org](http://pdxcityclub.org).*

# TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	4
Findings and Conclusions.....	5
Recommendations.....	6
MINORITY SUMMARY .....	7
COMPOSITION OF THE COMMITTEE .....	8
ACKNOWLEDGMENTS.....	8
INTRODUCTION.....	9
Portland’s Housing Affordability Crisis .....	10
Your Committee and its Process.....	13
Your Committee’s Charge.....	13
Geography .....	14
‘Affordable Housing’ and ‘Housing Affordability’: A Distinction in Terms and Focus .....	15
Benefits and Costs .....	16
LIMITED FUNDING TO BUILD AFFORDABLE HOUSING .....	17
POTENTIAL FUNDING SOURCES.....	20
Linkage Fees.....	20
General Obligation Bonds.....	21
Housing Levy .....	22
PRESERVING AFFORDABLE HOUSING FOR THE FUTURE .....	23
USING REGULATIONS TO AFFECT AFFORDABLE HOUSING DEVELOPMENT.....	25
Regulatory Barriers .....	25
Urban Growth Boundary .....	25
Zoning and Density .....	26
Inclusionary Zoning for Increased Density .....	29
TENANTS’ RIGHTS .....	32
Rent Stabilization and Rent Control .....	33

Just-Cause Evictions .....	36
Forcible Entry and Detainer (FED) .....	36
For-Cause Eviction .....	36
No-Cause Eviction .....	37
DATA .....	41
Rental Licensing for Data Collection and More .....	42
Better Data.....	44
CONCLUSION .....	46
Findings and Conclusions.....	46
Recommendations .....	47
MINORITY REPORT: Include Missing Middle Housing .....	49
Specific Proposed Changes to Report.....	51
WITNESS LIST .....	52
BIBLIOGRAPHY .....	53
ENDNOTES .....	60
ABOUT CITY CLUB OF PORTLAND .....	69

## EXECUTIVE SUMMARY

Housing affordability is one of the most important challenges confronting the greater Portland area. It affects everyone, regardless of income. A lack of enough affordable housing, whether for rent or for sale, has already proved devastating for some families and individuals. Communities not yet fully engaged in the housing crisis soon will be as costs continue to rise, often outpacing income, and as both new residents and displaced people compete for homes.

Portland City Council declared a “housing emergency” in October 2015. There is indeed an emergency, and half-measures and business as usual will not solve it. Reforms to how the city manages land and regulates landlord-tenant relations are required. Portlanders struggling to pay rent or to find a home need action now.

City Club of Portland created the Housing Affordability Research Committee to investigate and develop attainable recommendations to address housing affordability. City Club directed your committee specifically to “identify a set of policies and/or programs necessary to increase the supply of, and/or access to, affordable housing for low- and middle- income households.”

Your committee found that the crisis in Portland is as difficult as recent media reports make it out to be. There is no single or simple solution to this complex and multifaceted problem. We first drafted this report with four times the number of conclusions and recommendations presented in this final version.\* Some of them eventually slid to lower priority. We narrowed down the rest based on committee agreement, ability of the recommendation to add to the broader discussion and likelihood that it could be implemented.

This crisis continues to evolve. During the recently concluded 2016 legislative session, Oregon lawmakers passed SB 1533, which allows inclusionary zoning and ends a state ban on construction excise taxes. It makes incremental progress, but it was not as expansive as it should have been, so we chose to retain a recommendation on inclusionary zoning.†

The Legislature also passed HB 4143, offering some measure of protection from rent increases. It was, however, scaled back to exclude some of the protections that are included in the just-cause evictions policy that our report recommends.

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\* In 2015 Seattle proposed a 65-point plan to address its affordable housing crisis and said the problem required all the points to be enacted in order to make a dent.

† SB 1533 does not apply to buildings with fewer than 20 units and sets the threshold for affordability at 80 percent of the median family income. Under this law, no more than 20 percent of units have to be reserved as affordable.

The fact that this is a complex problem that resists an easy, comprehensive solution should not dissuade Portland and Oregon from acting. Quite the contrary, we can make progress, and we must act now on measures that will have real benefits for Oregonians struggling to find housing they can afford. Meanwhile, all Oregonians, especially our leaders, must continue to engage in an essential public policy discussion, of which your committee's report is one part.

## Findings and Conclusions

1. **Finding:** Fewer federal dollars are available to fund affordable housing development, leaving developers with a patchwork of state and local funding sources that makes adequately financing affordable housing difficult and time-consuming.

**Conclusion:** Dedicated local funding with fewer regulatory restrictions could more effectively fund the development of affordable housing units.

2. **Finding:** As demand to live in Portland increases, the city could strategically acquire properties to encourage development and preservation of affordable housing. The city currently lacks reserve funds to act when attractive properties become available.

**Conclusion:** In order to pursue strategic property acquisition, Portland needs to set aside funds to purchase foreclosed and discounted properties, especially during economic recessions.

3. **Finding:** On paper there is adequate capacity within the existing urban growth boundary and zoning code to accommodate Portland's population growth, but other barriers create limits in practice. Moreover, not all properties are built to the maximum allowable density.

**Conclusion:** Incentives and updates to the zoning code would help ensure that a higher percentage of infill development is used to its fullest potential and with affordability in mind.

4. **Finding:** Many growing cities use rent control to address affordability issues, but Oregon law currently preempts localities from using it.

**Conclusion:** Lifting the state preemption of rent control would allow Portland to conduct a careful study of its suitability as a potential policy tool.

5. **Finding:** Not having security of tenancy lessens the bargaining power of renters, who fear no-cause eviction. That, in turn, impacts affordability considerably.

**Conclusion:** A required for-cause eviction process would improve bargaining power of renters by preventing retaliatory and discriminatory no-cause evictions.

6. **Finding:** Portland does not have up-to-date and comprehensive data on the number of landlords, rental units, costs, evictions and renter demographics.

**Conclusion:** The city is unable to know accurately the extent of Portland's housing affordability problem, especially with respect to equity.

## Recommendations

1. Portland City Council should dedicate funding to build subsidized affordable housing units.

*Council should follow existing research and recommendations on revenue streams from Metro's "Opportunities and Challenges for Equitable Housing" report and the Welcome Home Coalition. It should consider a variety of funding alternatives, such as a linkage fee; voter-approved housing levy for ongoing revenue; or a general obligation bond authorization for initial funding.*

2. The City of Portland, the Portland Development Commission and Metro should develop a housing land bank strategy to put money away during strong economic times for use in purchasing properties during downturns.

*Portland should prioritize purchase of foreclosed buildings and other available properties for the purpose of creating and preserving affordable housing.*

3. The City of Portland should remove barriers to and identify incentives that encourage development of more housing types.

*Examples could include funding the Multiple-Unit Limited Tax Exemption Program (MULTE) to encourage developers to use voluntary inclusionary zoning and streamlining the design review process.*

4. The Oregon Legislature should end the ban on local rent regulation.

*Ending the ban would allow Portland and other local governments to engage with all stakeholders and consider policies within a spectrum that includes rent stabilization and rent control.*

5. The City of Portland should ban no-cause evictions and enact a just-cause eviction policy.

*Some advocates note that there are no 'no-cause evictions' in Portland and Oregon, only 'termination of tenancy.' We trust that policymakers will understand that this is primarily a semantic issue. Whenever tenancy is terminated without documented cause it amounts to a no-cause eviction.*

6. The City of Portland should implement a rental property licensing system.

*Licensing would allow for data collection, increased inspections and education.*

## MINORITY SUMMARY

The minority concurs with the majority report on all but the question of “missing middle housing” in residential neighborhoods. The majority does not recommend revising Portland’s zoning code to allow for more housing types in residential neighborhoods, instead urging it only to “work to overcome neighborhood skepticism.” If the city is to make the best use of its available land, it must encourage a diversity of housing types at a range of price points in Portland’s residential neighborhoods.

The minority therefore would amend Recommendation 3 to read:

The City of Portland should remove barriers and identify incentives to encourage development of more housing types.

Examples could include funding the Multiple-Unit Limited Tax Exemption Program (MULTE) to encourage developers to use voluntary inclusionary zoning, ~~and~~ streamlining the design review process **and revising the zoning code to allow for middle housing types in residential neighborhoods.**

## COMPOSITION OF THE COMMITTEE

### Chair

M. Nels Johnson

### Vice Chair

Chip Lazenby

### Lead Writer

Kristin Thiel

### Committee members

Liang Wu	Mike Westling	Judith Ramaley
Andrea Pastor	Gil Johnson	Crista Gardner
Margot Black		Patrick Belin

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City Club members and staff for their help and support:*

### Research Adviser

Nicole Pexton

### Research Adviser

Garrett Stephenson

### Advocacy & Awareness Adviser

Rob Sadowsky

### Interim Research & Policy Director

Christian Trejbal

### Former Research & Policy Director

Greg Wallinger

### Civic Associate

Vince Singer

### Civic Associate

Elizabeth Clarkson Williams



## INTRODUCTION

Pick up a copy of any of the latest travel or lifestyle magazines, and you are likely to find Portland at the top of a best-of list. Best food, best city for young people, best place to start your career, best city for livability. Many Portlanders would agree that our city is a wonderful place to live, work and explore.

Yet it's also hard to pick up a news or commentary source and not see discussion of Portland's housing crisis — from big-picture articles and op-eds in the city's papers to individual anecdotes in posts on Facebook to Metro's Regional Snapshots presentation "True Housing Affordability in Portland: Beyond the Rent," which broke Metro's record for number of clicks on a video in one day after the presentation video appeared on the website Reddit.<sup>1</sup>

The challenge is not new. In 1942, City Club of Portland's Committee on Housing reported on the lack of affordable housing:

*Until the last few weeks, Portland has met the growing demand for housing accommodations, although many families have doubled up and others have located outside the city limits, even as far away as Hillsboro and Newberg. Newcomers have found shelter of one sort or another, and so far we have escaped "shanty towns" and other unsanitary developments. ...*

*However, the practical limits of present housing capacity have already been reached. The demand now exceeds the supply, and it is almost impossible to secure medium- to low-priced rentals anywhere in the city.*

Although some of the specifics were different then, the big picture was not. Then, Portland experienced an influx of residents to fill jobs in wartime shipbuilding. Today, Portland again has an influx of residents, but this time it's driven by the tech sector and quality of life.

Questions of affordability rarely vanish entirely. Indeed, in 2002, City Club of Portland returned to the topic with a report titled "[Affordable Housing in Portland](#)." That report's opening line still resonates, despite the intervening Great Recession. "Since 1970, Portland has gone from being one of the most affordable housing markets in the nation to one of the least affordable," that research committee wrote.

The 2002 report focused on the acute problem of affordable housing for low-income Portlanders. It recommended restructuring the rental vouchers system and better funding it. It also recommended focusing on special-needs populations and mixed-income housing.

Arguably the problem is even worse today. Housing affordability is a broader issue that affects Portlanders of many income levels. Communities of color, many of them having been displaced from their historic neighborhoods, and low-income residents might feel it most acutely, but middle-income families of all backgrounds often struggle to find housing they can afford too.

In October 2015, Portland City Council declared a “housing emergency and pledged to tackle the issue head-on.

Your committee approached the problem from that context. We intentionally have chosen to address ‘housing affordability’ not just ‘affordable housing.’ (See below for more on that distinction.)

## **Portland’s Housing Affordability Crisis**

Some civic observers say that Portland is going through a renaissance. Industries, such as those in the technology sector, are growing. New minds are bringing new ideas. Since 2000, about 80,000 people have moved to Portland, and there are 29,000 new households. But below the surface of the exciting new city is a deep and profound question: Can Portlanders still afford to live here by either purchasing or renting a home?<sup>2</sup>

The answer is troubling. In 2015, Portland had a 2 percent vacancy rate, much lower than the national vacancy rate of 7 percent. Such a tight rental market has pushed rental prices sky-high. According to Portland Housing Bureau data, rents in Portland increased 8 to 9 percent from 2014 to 2015, amounting to an average increase of \$100 per month.<sup>3</sup> Home sale prices have also increased, with Portland seeing a 32 percent increase in median home sale price from 2011 to 2014.<sup>4</sup> Portland has only a two-month supply of homes on the market — a very small number for a city of this size.<sup>5</sup>

Rapidly increasing rental and home sale prices are displacing many Portlanders. This is no longer a problem just for Portlanders living at the margins. Portland has had a housing affordability problem for a long time, disproportionately affecting people of color and those with lower incomes for decades. But understanding how Portland ended up with a housing affordability crisis is not comparable to peeling an onion. Rather it is like studying an entire ecosystem. Portland’s housing ecosystem emerges from the interplay of many different stakeholders reacting to social and economic trends.

Portland has a fundamental problem of supply and demand — the demand for housing is much higher than the available supply. However, one should not conclude that focusing solely on increasing the supply will solve the problem. Deeper economic and public policy choices

**Portland Rental Affordability: Change in Average Neighborhood Rent by Unit Type**

Neighborhood	Studio		1-Bedroom		2-Bedroom		3-Bedroom	
	2015	% +/-	2015	% +/-	2015	% +/-	2015	% +/-
Portland	\$1,135	+9.2%	\$1,182	+8.7%	\$1,286	+7.9%	\$1,362	+8.7%
122nd-Division	\$539	+0.2%	\$740	+6.9%	\$884	+10.1%	\$1,095	+6.2%
Belmont-Hawthorne-Division	\$1,043	+1.0%	\$1,158	+5.9%	\$1,220	+4.4%	\$1,337	+19.3%
Centennial-Glenfair-Wilkes	\$689	+5.0%	\$742	+4.7%	\$847	+5.7%	\$995	+6.1%
Central City	\$1,198	+11.6%	\$1,404	+9.5%	\$2,163	+9.4%	\$3,290	+20.6%
Forest Park-Northwest Hills	-	-	\$1,330	-	\$1,522	-5.5%	-	-
Gateway	\$654	+5.7%	\$823	+6.1%	\$930	+8.1%	\$1,137	+7.0%
Hayden Island	-	-	\$1,594	+41.2%	\$2,078	+50.1%	-	-
Hillsdale-Multnomah-Barbur	\$855	+19.4%	\$867	+10.6%	\$1,015	+7.7%	\$1,343	+3.9%
Hollywood	\$1,080	+8.3%	\$1,206	+11.2%	\$1,540	+19.5%	\$2,440	+104.0%
Interstate Corridor	\$1,020	+4.1%	\$1,287	+9.4%	\$1,496	-0.8%	\$937	-4.1%
Lents-Foster	\$753	+5.2%	\$900	+11.2%	\$1,035	+14.0%	\$1,342	+16.7%
MLK-Alberta	\$1,123	+12.0%	\$1,022	-0.6%	\$1,274	+7.4%	\$854	+4.0%
Montavilla	\$908	+17.8%	\$837	+7.4%	\$1,009	+14.8%	\$1,028	+7.8%
Northwest	\$1,086	+3.8%	\$1,518	+6.0%	\$2,243	+11.5%	\$1,933	-6.4%
Parkrose-Argay	\$585	-10.6%	\$790	+11.1%	\$984	+16.9%	\$1,097	+13.8%
Pleasant Valley	-	-	\$842	+14.1%	\$1,003	+10.6%	\$1,289	+21.5%
Raleigh Hills	\$595	+7.0%	\$875	+19.5%	\$1,050	+8.6%	\$1,308	+10.9%
Roseway-Cully	\$600	+6.6%	\$812	+2.1%	\$1,022	+6.9%	\$1,174	+5.1%
Sellwood-Moreland-Brooklyn	\$1,263	+29.7%	\$894	+11.3%	\$1,124	+17.3%	-	-
South Portland-Marquam Hill	\$1,123	+1.1%	\$1,367	+2.8%	\$1,858	-11.0%	\$1,284	+20.5%
St. Johns	\$762	+3.4%	\$814	+3.8%	\$909	+8.3%	\$1,147	+11.0%
Tryon Creek-South Terwilliger	\$675	-	-	-	\$900	-	-	-
West Portland	\$848	+0.6%	\$971	+7.8%	\$1,288	+4.8%	\$1,487	+12.3%
Woodstock	\$1,019	+14.1%	\$1,020	+22.2%	\$1,225	+8.4%	\$1,112	-0.8%

Source: CoStar Multifamily Residential Market Data, September 2015

Portland Housing Bureau

affect housing affordability, some of which are local and some of which are beyond Portland's control.

One of the macro factors that has affected Portland's housing affordability is the national stagnation of wages. According to urban economist Richard Florida, housing rents typically increase at the rate of inflation, which is possible for a person or family to absorb assuming wages increase at a similar rate.<sup>6</sup> However, median household income has only seen meager growth since 2000.<sup>7</sup> While nationally wages have stagnated, the cost of housing has not, with rent levels exploding not just in Portland but in most large cities across the country. This has been a significant factor in causing the affordability crisis.

Another macro, global factor that has contributed to Portland's housing affordability crisis was the Great Recession. In the waning days of 2008, the global financial market melted down as a result of an enormous housing bubble created by shaky lending practices, speculative

**Portland Homeownership Affordability: Change in Median Home Sales Price, 2011 to 2014**

Neighborhood	2014 Median Home Sales Price	% +/-
Portland	\$310,000	+31.91%
122nd-Division	\$184,500	+38.2%
Belmont-Hawthorne-Division	\$415,000	+34.5%
Centennial-Glenfair-Wilkes	\$180,000	+33.4%
Central City	\$375,000	+23.8%
Forest Park-Northwest Hills	\$595,000	+26.6%
Gateway	\$205,000	+36.3%
Hayden Island	\$189,950	-3.8%
Hillsdale-Multnomah-Barbur	\$355,000	+26.5%
Hollywood	\$520,000	+30.0%
Interstate Corridor	\$330,000	+37.2%
Lents-Foster	\$225,000	+60.7%
MLK-Alberta	\$390,000	+29.4%
Montavilla	\$307,000	+34.2%
Northwest	\$495,000	+30.3%
Parkrose-Argay	\$237,000	+41.5%
Pleasant Valley	\$247,500	+41.4%
Raleigh Hills	\$438,000	+25.3%
Roseway-Cully	\$280,000	+34.9%
Sellwood-Moreland-Brooklyn	\$395,650	+27.6%
South Portland-Marquam Hill	\$392,500	+22.3%
St. Johns	\$249,000	+39.2%
Tryon Creek-South Terwilliger	\$454,950	+33.8%
West Portland	\$329,000	+26.5%
Woodstock	\$359,900	+28.5%

Source: RMLS, 2015

Portland Housing Bureau

buying and the faulty assumption that real estate would always increase in value without ever decreasing. All of this led to a worldwide recession that not only caused massive job losses across the country but also cut off access to capital for many would-be housing developers. The lack of lending and the lack of a market in which to buy housing made it so that from 2009 to 2014, Portland added only 17,659 new rental units; the city saw a population increase of approximately 35,000 during that same time.<sup>8</sup>

In the 1980s, the federal government slashed spending on housing, particularly on housing for the poor.<sup>9</sup> What funding was left was given to states in the form of block grants,<sup>10</sup> allowing them greater leeway in making use of the money, though the amount was smaller than ever before. Neither the State of Oregon nor the City of Portland was able to pick up the difference. Thus, there was less money coming in to build subsidized housing, which meant fewer units. Less money to subsidize housing for low-income residents meant a greater chance at individual displacement.

Portland does not have acceptable housing affordability for a city of its size, demographics, sensibilities and priorities. Our laws, policies and accepted practices regarding zoning, lending, and the rights of renters and owners of single-family homes no longer serve the population well. Tied in with the city's housing concerns are issues of employment, transportation and equality, making housing one of the most complex issues the Portland community faces. There is no one single answer that will improve the overall picture, but there are steps we can and should take without further delay. And that's the key: Portland doesn't have to become unlivable for all but the few. In fact, because of our size, population composition, sensibilities and priorities, Portland is in a perfect position to be able to make real change now.

## Your Committee and its Process

From July 2015 through February 2016, the Housing Affordability Research Committee met weekly at City Club of Portland's downtown offices. We interviewed 20 witnesses, studied general interest articles and academic papers, formulated and debated conclusions and recommendations and finally wrote this report. Your committee is both self-selected and vetted by City Club's Research Board. We as individuals chose to apply, and then were selected by City Club from among all applicants. None of us were determined to have a conflict of interest with this topic, but all of us are, of course, interested in the issue of housing affordability.

## Your Committee's Charge

City Club's Research Board initially tasked your committee with the following assignment:

*The study will seek to identify a set of policies and/or programs necessary to increase the supply of, and/or access to, affordable housing for low- and middle-income households. Specifically, the study will answer the following questions:*

*What conditions have led to the rapid increase in housing costs in the City of Portland?*

- *What policies/programs are used at the local and state levels to provide an adequate supply of affordable housing in Portland for low- and middle-income households? Are these sufficient or could they be made so with expansion, better oversight, or additional investment?*
- *If not, what policy/programs have been or are being used by other local and state governments, but not used here, that have been successful in either*

*slowing the growth of housing costs or increasing the supply of affordable housing to low- and middle-income households?*

- *Which of these policies, if any, does the Committee recommend as appropriate for Portland, in light of the following potential policy considerations, as well as any other considerations the Committee deems appropriate?*

Your committee was always allowed flexibility in what and how we explored, and our choices will become clear to the reader as the paper unfolds, detailing our focus points and advocating for certain policies and other actions. But we want to highlight two decisions here because they frame all of our points and recommendations.

## Geography

Our charge, as given to us by City Club, said that we should look specifically at the housing issues and needs of Portland. Early on in our research, we realized that our true geographical scope should be broader.

As part of its mission, City Club “examines issues of importance to the Portland metropolitan region, the state and society as a whole.”<sup>11</sup> Meanwhile, Metro serves 1.5 million people in 24 cities in three counties. Boundaries are more fluid – people live, work, shop, play, study and travel across a long stretch of northern Oregon and southern Washington every day. As something changes, for better or worse in one city, other cities also are changed. For example, as housing costs go up in Portland, people seek housing in Gresham, Beaverton, McMinnville and other nearby cities, increasing demand there.

As porous as boundaries are, they are also rigid: each city has its own government and policies, taxes differ, etc. The interplay between those policies creates a complex web of options all residents navigate whether they realize it or not.

Your committee therefore focused our work on Portland, but we looked beyond the city as well. We ask that readers consider not only how the cities throughout this region can work together but also how they can inspire each other.

## **‘Affordable Housing’ and ‘Housing Affordability’: A Distinction in Terms and Focus**

When City Club’s Research Board formed your committee, it directed us to study ‘affordable housing.’ Your committee found during its research that often that term is read too narrowly. Your committee therefore favors ‘housing affordability’ when possible.

‘Affordable housing’ usually refers to subsidized housing, i.e., housing that is income-restricted so that low-income households, as determined by median family income, pay no more than 30 percent of income on housing (as defined by the U.S. Department of Housing and Urban Development [HUD]). This was largely the issue addressed in the 2002 City Club report on affordable housing.

‘Housing affordability’ is a broader concept. It takes into account subsidized housing as well as other factors, such as transportation costs and the hidden costs of renting and displacement. It also is more inclusive in that it captures Portlanders who earn too much to qualify for subsidized housing. What constitutes affordability varies based on one’s income. A home that is affordable to a middle-income family might be unaffordable to a low-income single person. Measures that will improve housing affordability at many income levels are needed.

Your committee determined early on that studying just ‘affordable housing’ would narrow our focus so much as to ignore Portland’s true problems. The housing affordability solution requires much more than just putting more housing units on the other side of a single-factor, simplistic and possibly outdated line. Improve other areas such as transportation and employment, and we also improve housing. The reverse is also true — if we don’t consider interconnected concerns, housing cannot be improved.

For a city with the unofficial motto “Keep Portland Weird,” we must not be satisfied with saying in one breath, “Live in Portland and innovate in the arts, technology, and the environment and also have a good quality of life” and in the next breath, “You will have to live on the outskirts of the city, far from great public transport and amenities, and we’ll allow your landlords to keep raising rent and evicting without cause.” Housing affordability takes into account all that makes housing affordable: rent or mortgage costs, cost of transportation to and from home, accessibility and stability.

Unless otherwise noted, both ‘affordable housing’ and ‘housing affordability’ should be read in the broader sense of the latter throughout this report.

## Benefits and Costs

Every policy proposal your committee reviewed comes with costs and benefits — some people and groups will “win,” and some will “lose.” Throughout our deliberations, we remained cognizant of the careful balance required. We did not reach our recommendations lightly and believe that in each case sufficient evidence exists that the benefits will outweigh the costs.

Throughout the text we have included pullouts identifying who benefits and who pays with each recommendation as well as a summary of the reasons your committee concluded it is a reasonable transaction.



## LIMITED FUNDING TO BUILD AFFORDABLE HOUSING

Problems with the supply of housing units affordable to many people in Portland are rooted in a number of causes. The collapse of the housing market in 2009 led to a stop in production of new units, and construction still hasn't returned to prerecession levels of building, though demand has increased.<sup>12</sup> Additionally, large numbers of foreclosures during the housing crisis led many former homeowners to enter the rental market.<sup>13</sup>

From 2009 to 2014, developers built 17,659 rental units in Multnomah County.<sup>14</sup> From 2010 to 2014, Portland gained more than 46,000 people, about half of whom were added through net migration.<sup>15</sup> The number of units that are being built right now, even with the seemingly ubiquitous cranes across the city skyline, is not keeping up with the number of new people who are choosing to make Portland home.

Most new rental units being built are priced at market rates and above, unaffordable to the 72,500 Portland renter households that make less than 60 percent of the area median income (about \$40,000 for a family of three).<sup>16</sup> Rental units in new construction are renting for rates that far outstrip the Census figures for median area rents, partially due to the lag time in Census figure reports. One recent rental industry tracking company reported median monthly rents for currently available one-bedroom apartments in Portland at \$1,400 and two-bedroom apartments at \$1,700.<sup>17</sup> As new construction pushes the general market rate up, property owners of existing rental housing realize they can raise rents. Therefore, renters face the dual problem of being priced out of older units through rent increases and finding that there are not anywhere near enough new units affordable to lower-income households to make up the difference.

Creating new housing for the vast majority of Portland renters with incomes well below the median involves government or philanthropic subsidy of some sort because the private market is unwilling or unable to target new construction to that segment of the population. Funding sources, such as HUD Community Development Block Grant funds and IRS tax credits, have decreased as a share of the overall national budget over the past three decades. The vast majority of the national housing-related subsidies and expenditures go toward middle- and upper-middle-class households in the form of mortgage-interest deductions. The mortgage deduction costs the federal government \$70 billion to \$100 billion per year, while HUD's entire budget for FY2016 is \$49 billion. Households earning more than \$100,000 per year receive more than 75 percent of the mortgage deduction benefit.<sup>18</sup>

Many witnesses who spoke to your committee reported that new construction of subsidized affordable units is very expensive, with development costs often eclipsing the cost of unsubsidized market-rate units because of such considerations as the cost of capital and public benefit requirements.<sup>19</sup> Private and nonprofit developers alike shared some of the main reasons for the high cost of building subsidized housing, which is now well over \$200,000 per unit.<sup>20</sup> Some of the most salient findings are:

- HUD regulations are difficult to navigate, requiring significant dedicated staff to ensure compliance.<sup>21</sup>
- Nonprofit housing developers, who build most affordable units in Portland, often must assemble complex financing packages with up to half a dozen sources of financing. This time-consuming process makes it difficult for them to move quickly when an attractive parcel of land becomes available for purchase at a good price.<sup>22</sup>
- Banks require nonprofit developers to maintain large cash reserves for the length of the mortgage because the projects are designated as high-risk due to the fact that rental rates are capped.<sup>23</sup>
- Some social benefits required of city-, state- and federal-funded projects as well as locally driven requirements and fees such as for Leadership in Energy and Environmental Design (LEED) certification, design review and system development charges increase the price of any project considerably.<sup>24</sup>
- Building on land in close-in, high-opportunity zones is an expensive proposition for affordable housing developers. Developers who build up rather than out, the prevalent style in high opportunity areas, increase their overall projects' costs by having to pay higher construction prices. Above six or seven stories, construction type typically changes from wood frame (cheaper) to steel and concrete (more expensive).<sup>25</sup>

One of the main problems reiterated by a number of affordable housing developers is the lack of capital available to leverage over the length of time it takes for development to happen. Creative solutions are needed to close the funding gap to facilitate the building of more housing units, especially those guaranteed to be affordable in the long term.

Dedicated revenue to fund new subsidized housing units as well as plan ahead in strong economic times to save money for purchasing properties during downturns could allow the city more flexibility in boosting housing supply. Funds also could be used to cover the cost of incentives that encourage developers to build affordable units voluntarily. That, in turn, would benefit low- and middle-income residents.

Some developers are working within the current system. Home First, a for-profit developer of affordable housing, is able to keep costs low by partnering with Portland Habilitation Center, a mission-driven social enterprise that reinvests its profits into housing projects, thus allowing Home First to build without relying on government financing or subsidies. Currently, most developers of subsidized housing have to enter a highly competitive process to access the federal 9 percent Low Income Housing Tax Credit (LIHTC), which is administered by Oregon Housing and Community Services.

Jessica Woodruff, director of housing development at REACH CDC, reported that although the noncompetitive 4 percent LIHTC funds are undersubscribed, they often are not used because nonprofits in Oregon lack flexible funding sources that can cover the equity gap necessary to secure bank financing.<sup>26</sup> Woodruff noted that in Clark County, the Washington State Housing Trust Fund helps developers like REACH bridge the funding gap, which results in a much greater number of realized projects using LIHTC. Without this source of available funding, Oregon is left funding the majority of its affordable housing with the competitive 9 percent LIHTC. That means only about one in three viable affordable housing projects is able to be developed.

Portland uses Tax Increment Financing (TIF) to fund affordable housing. TIF allows the city to borrow against the future increase in the property tax base resulting from development in urban renewal areas. The city has had a policy in place since 2006 to set aside 30 percent of TIF funds for affordable housing development, which Portland City Council increased to 45 percent in July 2015.<sup>27</sup> According to Metro, from 2006 to 2011, this TIF set-aside resulted in \$30 million invested each year in affordable housing development and homeowner assistance.<sup>28</sup>

While TIF funds can help make affordable housing development financially viable, they come with limitations and tradeoffs. In Portland, TIF funds may only be used for development in urban renewal areas. Also, because assessment of real property value is frozen over the life of an urban renewal district, there are decreased property tax funds available for public services, such as schools.

## POTENTIAL FUNDING SOURCES

Witnesses told your committee that there is a lack of capital available to develop affordable housing, and the limited funding that does exist comes with regulations that tend to make development both more complex and costly.<sup>29</sup> To fill this existing funding gap, the city should consider alternative, more flexible revenue sources to spur the development of more affordable housing units. The Welcome Home Coalition examined strategies that other cities have used to create revenue streams for developing affordable housing.<sup>30</sup> The city could follow the example of these cities and provide a dedicated revenue source for developing affordable housing using one of the following models.

### Linkage Fees

In November of 2015, Seattle passed a linkage fee on new commercial development in conjunction with a mandate for inclusionary zoning in all new residential development.<sup>31</sup> The Seattle agreement passed through its council as part of a “grand bargain” worked out between developers and the city through their Housing Affordability and Livability Agenda process. The logic behind a linkage fee on development is that any new development with ground-floor commercial or office space increases demand for housing. Ground-floor restaurants and retail stores in particular increase demand for affordable housing because the majority of jobs they generate are relatively low-wage.<sup>32</sup>

Seattle’s new linkage fee exempts the first 4,000 square feet of any development. Beyond that, it charges \$5 to \$17.50 per square foot, depending on the development’s location. The money is collected into a fund managed by the Seattle Office of Housing and will be used to preserve as well as build new subsidized housing. Alternatively, a developer may also choose to build the allotted number of units of subsidized housing as part of a mixed-use development. Rents for subsidized units must be affordable to people earning 60 percent of the median family income for 50 years. The linkage fee in Seattle is expected to generate \$195 million in revenue.

In October of 2015, Portland City Council passed a resolution to contract for a study on the impacts that commercial and residential development have on the need for affordable housing and whether a new linkage fee could help address funding for affordable housing. More will be known about this study in the spring of 2016.<sup>33</sup> The city could learn from Seattle’s process and bring developers and landowners to the table to work out an enforceable agreement that includes a linkage fee on commercial development.<sup>34</sup>

## General Obligation Bonds

A general obligation bond is a common type of municipal bond in the United States that is secured by a state or local government's pledge to use legally available resources, including tax revenues, to repay bondholders. A local bond could serve as seed money for dedicated funding.

The Legislature dedicated \$62.5 million to affordable housing during its 2015 session. Of that, \$40 million will be raised in the form of a state-issued general obligation bond and will create a program called the Local Innovation and Fast Track (LIFT) Housing Program. LIFT addresses the needs of families experiencing or at risk for homelessness.

The Legislature also provided \$22.5 million in lottery bonds split:

- \$2.5 million to preserve existing affordable housing,
- \$20 million to develop housing for people with mental health and addiction disorders.

LIFT Housing Program funds will be available beginning in 2017.<sup>35</sup> According to the National Low Income Housing Coalition, “the State of Oregon will have an ownership stake in all properties developed through the program, and will enter into agreements with housing providers who will develop and manage the properties. Because LIFT will have fewer regulations, it is expected to generate more innovation.”<sup>36</sup>

City Council has the option to pursue upfront funding through either a general obligation bond measure or limited tax general obligation bond. A general obligation bond measure, which Portland City Council would refer to voters, has the advantage of public approval and new tax to pay down the debt. A limited tax bond could be adopted by Council without a public vote, but repayment would require using general fund dollars, reducing the resources available to other city spending priorities.

City leaders should engage diverse stakeholders in choosing an appropriate bond mechanism.

To establish a local general obligation bond, Portland could follow the lead of Charlotte, N.C. Since 2001, Charlotte has used a general obligation bond to raise more than \$86 million to fund affordable housing for families making up to 60 percent of area median income. Those bond dollars have funded more than 5,000 new and rehabilitated affordable housing units. The Welcome Home Coalition noted that such a bond in Portland could only fund infrastructure projects (not public services) and that it would also require periodic renewal by public vote.<sup>37</sup>

## Housing Levy

Another potential source of local revenue for Portland to consider is a housing property tax levy. Property owners have benefitted from the startling rebound in home prices of the past five years as well as from the ongoing mortgage interest tax deduction. Renters, meanwhile, have not had access to the same benefit and have dealt with rent increases.

Seattle's Housing Levy, first instituted in 1981, has financed the vast majority of affordable rental units over the past 30 years. The levy sunsets and must be renewed periodically. Most recently Mayor Ed Murray proposed more than doubling the size of the levy to \$209 million over seven years. That money could be used much more flexibly and might allow for innovative projects that do not meet the requirements set by federal grant programs, creating a much-needed local housing capital fund.<sup>38</sup>

**Recommendation 1:** Portland City Council should dedicate funding to build subsidized affordable housing units.

Who Benefits	Who Pays	Justifications
<ul style="list-style-type: none"><li>• City of Portland</li><li>• Low- and middle-income residents in need of affordable housing</li></ul>	<ul style="list-style-type: none"><li>• Taxpayers who will pay for the program or see reduced services as money is shifted</li></ul>	<ul style="list-style-type: none"><li>• Housing affordability challenges have far-reaching negative public effects.</li><li>• Addressing housing affordability is a community investment that should be paid for by the community at large.</li><li>• City Council has the power to develop a coordinated, strategic funding approach in partnership with stakeholders.</li></ul>

## PRESERVING AFFORDABLE HOUSING FOR THE FUTURE

In addition to encouraging private and nonprofit developers to develop residential properties to their maximum density, the city has a direct role to play in making sure affordable units are available. Maintaining an adequate supply of affordable housing will require proactive measures to preserve existing affordable housing and to purchase properties for future affordable housing development. During market downturns, the City of Portland could purchase foreclosed or vacant properties at lower prices and make them available for nonprofit or private affordable housing developers. To be able to purchase property during a recession, however, the city would need to have a source of funding already set aside.

Often used in communities with depressed or abandoned property, land banking is a policy tool that allows cities to purchase properties without having immediate development plans for them. Land banking in neighborhoods that are likely to gentrify can prevent future displacement of residents.<sup>39</sup>

The Great Recession was a missed opportunity to purchase property at lower prices that Portland could have used for future affordable housing. It's not a historically common tactic — only five states had land bank legislation until 2008 — but it's a useful modern one. As of 2015, there are about 120 land banks and land-banking programs in more than a dozen states.<sup>40</sup>

Justin Buri, executive director of the Community Alliance of Tenants (CAT), listed land banks as one part of a solution to Portland's affordable housing crisis.<sup>41</sup> Metro has said that the ability for public agencies to identify and buy properties before prices become prohibitive "can tip the scales to make an affordable housing development financially feasible."

If the city did purchase some land, it would necessarily take it out of the hands of private developers, at least temporarily. However, if officials pursue purchases strategically, they can target land that is less appealing to private developers during an economic downturn. The city would not purchase every property that goes on the market, leaving opportunities for developers to acquire land. Moreover, private developers would almost certainly play a significant role in developing those city-owned properties when the economy turns around.

Eugene's Land Acquisition for Affordable Housing Program is one of the longest-running programs in the country at nearly 50 years old. Eugene city staff are always on the lookout for potential sites. After a board of elected officials and residents approve one, the city purchases it and sells it later for development by qualified partners. The city looks for properties that have

good locations relative to jobs, services, schools and transportation routes and that allow for new pockets of affordable housing, among other considerations.<sup>42</sup>

Ohio's Cuyahoga County, which includes Cleveland and surrounding suburbs, established the Cuyahoga Land Bank in response to the foreclosure crisis of 2006. The county treasurer, state senators and representatives and local nonprofit and academic leaders, created this nonprofit, government-purposed entity in order to acquire blighted properties and return them to productive use, improving property values and quality of life in the process. Funding comes primarily from penalties and interest on collected delinquent real estate taxes and assessments. Very little levied tax revenue is used. Supplemental funding comes from grants, donations and sale of properties.<sup>43</sup>

Under the Louisville and Jefferson County (Mo.) Land Bank Inc., nonprofit organizations take control of land to redevelop housing at less than market rate and with easier bank financing and the possibility of private investment to leverage the total development cost.<sup>44</sup> On a much smaller, but interesting, level, Fresno, Calif., has taken the relatively simple step of starting a registry of vacant properties.<sup>45</sup> In the short-term, such a registry helps the city keep on top of blight. In the long-term, this would help it be ready for any purchase opportunities.

<b>Recommendation 2:</b> The City of Portland, Portland Development Commission and Metro should develop a housing land bank strategy to put money away during strong economic times for use in purchasing properties during downturns.		
<b>Who Benefits</b>	<b>Who Pays</b>	<b>Justifications</b>
<ul style="list-style-type: none"> <li>• City of Portland</li> <li>• Low- and middle-income residents in need of affordable housing</li> </ul>	<ul style="list-style-type: none"> <li>• Private developers interested in land the city targets for purchase</li> <li>• Taxpayers who will pay for the program or see reduced services as money is shifted</li> </ul>	<ul style="list-style-type: none"> <li>• A government housing land bank will not be able to purchase all available land, so developers can purchase other available properties.</li> <li>• Private developers will likely benefit from a new role helping to develop land bank projects.</li> <li>• A land bank will benefit the city during a housing affordability crisis.</li> </ul>



# USING REGULATIONS TO AFFECT AFFORDABLE HOUSING DEVELOPMENT

## Regulatory Barriers

Regulatory processes involved in developing new housing units, such as plan review, permits and inspections, add costs because they can be unpredictable. However, such processes are necessary to make sure buildings comply with building and zoning codes designed to maintain safety and livability. While an unexpected delay can occur at any stage in the development process, we heard from our witnesses that one particular regulatory process is most likely to result in delays: design review.

Design review is required for projects in design overlay zones that are primarily located in the central city, multiple Southwest Portland neighborhoods, Sellwood and Gateway.<sup>46</sup> Projects that are required to go through design review have their building designs approved by a volunteer design review commission.

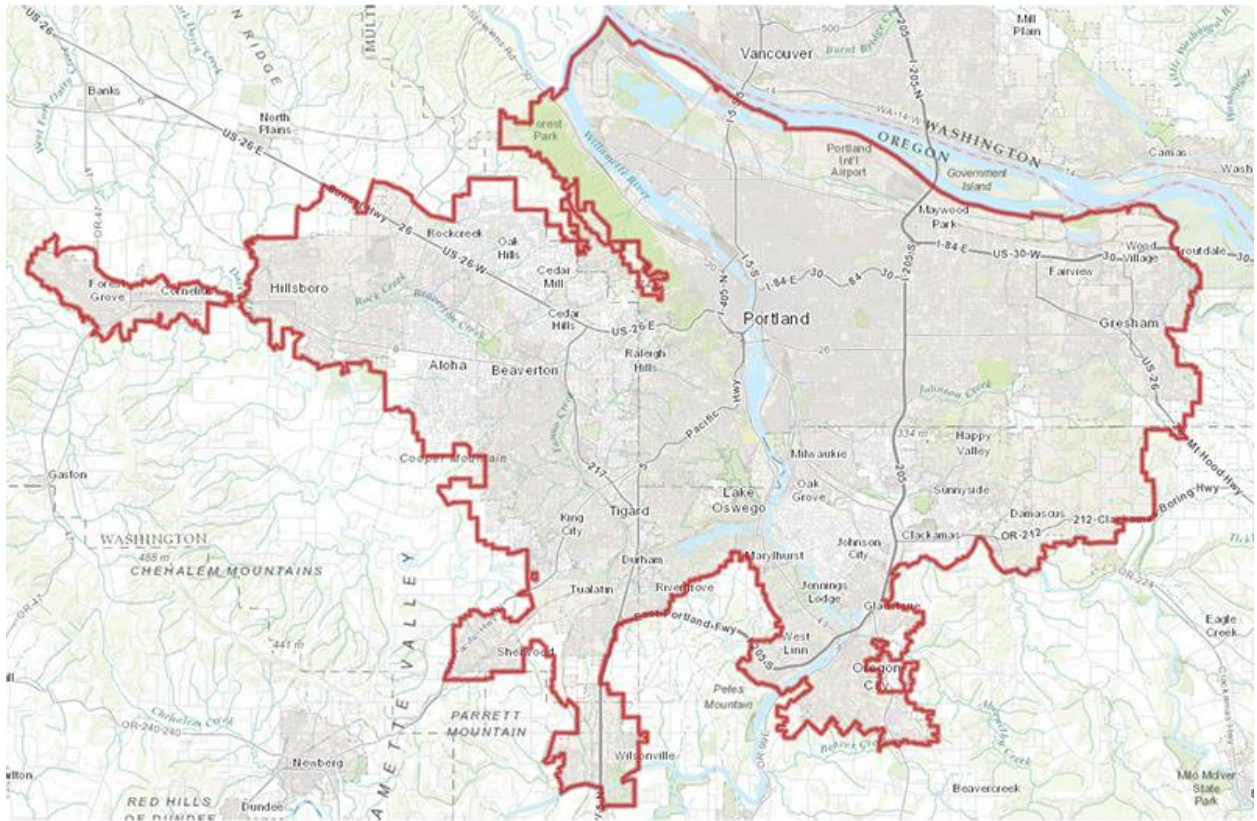
Due to the recent development boom, the commission has struggled to keep up with the workload. Projects have had difficulty getting on the review schedule and may need to come back multiple times if revisions to their designs are necessary. Due to these concerns, Portland has begun to study ways to streamline the design review process, according to Eric Engstrom, a principal planner with the Bureau of Planning and Sustainability.<sup>47</sup>

## Urban Growth Boundary

While the urban growth boundary (UGB) does not cause delays in the development process, it is another commonly cited regulatory barrier to building more affordable housing in the Portland metropolitan area. The urban growth boundary limits the supply of available land for housing, but it does not necessarily decrease the amount of affordable housing available. Expanding the urban growth boundary would increase the amount of land available, but that land would be located mainly in rural areas along the periphery of the metro area. Building new housing in those rural areas increases transportation costs for residents, and the type of housing allowed in those areas would likely be low-density single-family housing on large lots.

A recent Metro report showed that developing on the edges of urban growth boundaries is challenging due to infrastructure costs. “In the several thousand acres added to the growth boundary since 1998, only 8 percent of planned housing has been built — primarily due to

## Portland Urban Growth Boundary



Metro

challenges related to financing and building infrastructure like roads and pipes and reaching consensus on who should plan and govern such areas,” the report said.<sup>48</sup>

According to Prof. Lisa Bates of Portland State University’s Urban and Regional Planning program, places without an urban growth boundary, such as Atlanta and Las Vegas, are not doing any better in providing affordable housing than cities with an urban growth boundary.<sup>49</sup>

## Zoning and Density

Portland’s zoning code also restricts the supply of affordable housing available because it limits the density of residential development. Compared with other West Coast cities, Portland has fairly low population density, with an average 4,537 people per square mile, according to a Portland Monthly analysis of CityData.com data. To put that in perspective, San Francisco has 17,539 people per square mile. Even some Portland suburbs have higher density, such as Aloha (6,702 people per square mile) and Happy Valley (6,047 per square mile).<sup>50</sup>

Portland has lower population density in part because, as of 2013, about 60 percent of the dwellings in Portland are single-family detached homes,<sup>51</sup> but the demand for multifamily dwellings is increasing. According to BPS planner Engstrom, two trends are driving this increase in demand: people are waiting longer to have kids, and an aging population wants to downsize from detached single-family houses.<sup>52</sup> In both cases, more studio and one-bedroom apartments are necessary. People also need access to multibedroom apartments in the central city so that growing families can stay in the city if they choose.

Portland already encourages higher density through several provisions in the zoning code, including:

- Allowing duplexes on corner lots in single-family zones;<sup>53</sup>
- Creating development bonuses that relax development standards for developers who are willing to fulfill certain goals (for example, in R1, R2 or R3 zones, if 20 percent of the units in a new development are three-bedroom apartments, then the developer can build 10 percent more units than what the zoning code allows);<sup>54</sup>
- Allowing property owners to build accessory dwelling units (ADUs) in single-family zones, which don't count toward the minimum or maximum density for a site.<sup>55</sup>

Cities in other states have developed strategies to increase density and alleviate a tight affordable housing supply. Kirkland, Wash., passed a cottage housing ordinance that allows development of smaller one- to three-bedroom homes situated on private lots with access to common outdoor areas. The ordinance also requires developers to set aside a percentage of a new cottage housing development as affordable housing for households earning 82 to 100 percent of the county's median family income.<sup>56</sup>

Los Angeles passed a small-lot ordinance that removes requirements for front, rear and side setbacks. It also allows developers to build townhomes on lots as small as 600 square feet.<sup>57</sup>

San Francisco revamped an affordable housing density bonus to allow three additional floors for buildings that are 100 percent affordable housing units. Planners project that up to 5,000 new affordable housing units could be built on 240 vacant sites under the new code, compared with the previous code's incentives, which would have produced 400 affordable units.<sup>58</sup>

Portland has a residential infill project underway looking at how the city could implement proposals similar to the ones described above in single-family zones. According to the project scope, the residential infill project will look at three primary topics:

- The scale of houses, such as maximum height limits, lot coverage and minimum setbacks;
- Narrow lot development;
- Alternative housing options, such as cottage housing, stacked flats and multiple units within a single house.<sup>59</sup>

Infill development and increasing density will affect how established neighborhoods look, and that has the potential to generate neighborhood opposition. Concern from neighbors about developing infill, increasing residential densities and rising housing costs is common in rapidly changing cities like Portland. If the response is to limit new development and take other steps to clamp down on housing supply, that's a recipe for driving up housing costs even faster as new residents bid against new and existing residents for places to live in amenity-rich neighborhoods.

If cities or neighborhoods react by layering on new design review or other discretionary zoning code regulations, they can further increase unpredictability (and hence, cost) for new development.<sup>60</sup> More public education on how increased density and infill development can help create affordable housing could counter the notion that increased development leads to higher rent. Careful attention to building design could also help mitigate neighborhood concerns over infill development.<sup>61</sup>

In theory, Portland does not necessarily need to change its zoning code to increase density; there is underused capacity in town centers and corridors that could be developed into more housing units. According to Metro's 2014 buildable lands inventory, there is enough capacity within current zoning to accommodate almost 1.3 million residences inside the urban growth boundary. About half of that is in use today.

Yet much of the buildable land is on the fringes of the UGB and not in the walkable, connected neighborhoods that are near transit, jobs and services. Developing it would not do a great deal to help housing affordability, particularly given that development near the edges of the UGB tends to be single-family homes on larger lots.

In order to address equity and affordability for all Portlanders, the housing supply must increase in the city core. In particular, the city must work to overcome neighborhood skepticism about "missing middle housing," which is typically multifamily housing built on a scale of single-family structures. Duplexes, triplexes, small apartment buildings and courtyard projects could provide affordable housing disbursed throughout established neighborhoods.

Developing land to its maximum density would result in the greatest supply of housing, but costs and market demand often prevent properties from being developed to maximum

density.<sup>62</sup> Incentives could help ensure that more properties are developed to maximum density and filling the “missing middle,” especially in desirable neighborhoods that are close to transportation and amenities.

The Portland Housing Bureau is working on incentives for affordable housing development by increasing the cap on the Multiple-Unit Limited Tax Exemption Program (MULTE). The program provides 10-year property tax exemptions on housing units in new projects that reserve at least 20 percent for low- to moderate-income residents. The new annual cap is \$3 million, up from \$1 million. The Housing Bureau expects to add about 200 to 300 new affordable housing units per year through increased participation in the program.<sup>63</sup>

## **Inclusionary Zoning for Increased Density**

One incentive that Portland might use to encourage higher density development is inclusionary zoning, which requires a certain percentage of newly constructed housing units to be affordable, and that would benefit multifamily developers and low- and middle-income residents. Several witnesses told your committee that inclusionary zoning would help to increase the affordable housing supply.

Until recently, only Oregon and Texas banned counties and cities from implementing inclusionary zoning,<sup>64</sup> but at the end of the 2016 legislative session, Oregon lawmakers ended our state’s 17-year prohibition. SB 1533 says builders must set aside new multifamily affordable housing units; in exchange, cities offer incentives such as tax waivers or permission to build taller projects.<sup>65</sup>

Still, inclusionary zoning is controversial among some groups. Existing single-family neighborhoods would need to integrate more units and, therefore, become denser, and single-family developers may fear they could lose work. Because of this, the version of SB 1533 that passed is a “watered-down” one, stating families making 80 percent of an area’s median income, up from 60 percent, are eligible for affordable housing; also, SB 1533 applies to multifamily developments of at least 20 units, up from those of at least 10 units.<sup>66</sup>

Mandating a certain number of affordable units reduces profit margins for developers and can make it difficult to recoup the costs of development without passing costs along to market rate units. Economist Joe Cortright argued that inclusionary zoning leads to fewer market rate units being built, and this constriction of housing supply raises market rents and diminishes overall housing affordability.<sup>67</sup> Still, the Oregon Home Builders Association, which lobbied for the inclusionary zoning ban in 1990, supported lifting it this year. Jon Chandler, chief executive of Home Builders, played an active role in the legislation’s negotiations.<sup>68</sup>

“A well-crafted local policy, developed with private sector input will not stifle development of multi-family market rate units or place an unfair burden on the developer. Most importantly, developers have an obligation to be a part of the solution,” T. B. Dame, president, Williams/Dame & Associates, Inc., wrote to lawmakers.<sup>69</sup>

While inclusionary zoning will not meet the total need for affordable housing in Portland on its own, it is an important policy tool that can play a role in increasing the number of affordable units available in desirable neighborhoods. In a hot real estate market, inclusionary zoning can help make affordable units available in areas with better schools and transportation.<sup>70</sup> “Portland has been successful in implementing voluntary inclusionary zoning in areas like the Pearl District and getting 30 percent affordability in some cases.,” Dame said<sup>71</sup>

Portland does not need to exclusively use mandatory inclusionary zoning to find success. Measures to encourage voluntary inclusionary zoning can also lead to participation without developers feeling that they were forced into it.

In Metro’s recent “Equitable Housing” report, the organization mentioned that voluntary inclusionary zoning could work if the incentives are strong enough to encourage more affordable housing units to be developed. SB 1533 benefits from being flexible, allowing “cities across the state to develop inclusionary housing programs tailored to the needs of the market and the affordable housing goals of the city.”<sup>72</sup> It’s a “smart playbook” to achieving “adequate housing for the full range of market demand” and avoiding displacement, according to Clyde Holland, head of a local real estate investment group.<sup>73</sup>

Portland already offers density bonuses for development projects that include affordable units, which BPS planner Engstrom noted is similar to voluntary inclusionary zoning.<sup>74</sup> Metro mentions Seattle’s Multifamily Property Tax Exemption as another model to consider, in which developers and owners who choose to restrict rents on 20 percent of their units receive a 12-year property tax exemption.<sup>75</sup> Regardless of whether Portland chooses to adopt a mandatory, voluntary or some hybrid inclusionary zoning program, designing it will require careful study to minimize additional costs and mitigate negative effects on Portland’s rental market.

Recently, Mayor Charlie Hales and Multnomah County Chair Deborah Kafoury signed a letter that was distributed by Multifamily NW, incentivizing owners of existing multifamily apartment properties to set aside a percentage of units for affordable housing, specifically intended to house currently homeless veterans. Those units receive rental voucher funds to guarantee rent payment. This program includes a funded risk-mitigation pool to cover any damages to the units, as well as wraparound social services for the veterans. Such programs could be expanded upon, and incentives should be augmented to encourage more property owners to participate.

**Recommendation 3:** The City of Portland should remove barriers to and identify incentives that encourage development of more housing types.

Who Benefits	Who Pays	Justifications
<ul style="list-style-type: none"> <li>• Multifamily developers</li> <li>• Low- and middle-income residents in need of affordable housing</li> </ul>	<ul style="list-style-type: none"> <li>• Existing single-family neighborhoods that would need to integrate more density and units</li> <li>• Single-family housing developers</li> <li>• Residents who prefer single-family homes</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient housing supply is one of the fundamental challenges to housing affordability.</li> <li>• Developers can be part of the solution.</li> </ul>

## TENANTS' RIGHTS

Portland's vacancy rate hovers between 2 and 3 percent. The impact of that low vacancy rate is far reaching. With increasing population, demand outstrips supply, and the result is predictable: surging rents. As rents increase at unprecedented rates, there is more than just sticker shock. Higher rents also cause displacement of households unable to afford the increases.

Increasing rents and displacement affect not just the households faced with them but also their communities, the businesses they patronize and the city and state charged with providing social services.

Certainly, Portland needs to add more units to the housing stock and take measures to ensure that new units are meeting the demographic and geographic needs of Portland's growing population. But increasing the supply alone is neither a comprehensive nor a short-term solution. According to Multifamily NW's "Fall 2015 Apartment Report," though the Portland metropolitan area added about 18,000 apartment units from 2012 to 2015, "the new units have had little impact on the overall vacancies and the vacancy rate has actually declined over the past 12 months."<sup>76</sup> Despite continued and aggressive development, Portland is still projected to see rents increase by 8.4 percent in 2016, compared to a national increase of 4.8 percent.<sup>77</sup>

Meanwhile, Portland's population, in particular the population of renting households, is only expected to continue to grow. Renters currently make up 49 percent of Portland's population, up from 41 percent in 2008, but expected to be 58 percent by the 2020 census. With Oregon economists projecting Portland's population to grow by 25,000 to 30,000 people per year, and household sizes on the decline, the city cannot simply build its way out of the affordability crisis. Portland and Oregon must also consider regulatory solutions that address housing affordability in the short term.

Conventional wisdom holds that one should spend no more than 30 percent of income on housing. For homeowners, that usually includes mortgage, taxes, insurance and utilities. Renters usually only count their rent, perhaps because the landlord's property taxes and insurance are rolled into it, and historically most utilities also were included.

Yet there are other costs associated with tenancy that too often are overlooked. They include utilities (increasingly paid by the tenant rather than the landlord),<sup>78</sup> security deposits, fees, insurance, health issues related to inadequate housing, legal expenses and the cost of displacement.<sup>79</sup> The lack of bargaining power in this market combined with insecurity of tenure means that these expenses are mounting and have significant financial impact.



## Rent Stabilization and Rent Control

The most obvious, albeit controversial, regulatory solution to addressing housing affordability is rent stabilization, similar to those policies enacted in other high-priced housing markets along the West Coast, from San Diego to Vancouver, B.C.

Rent stabilization, an often misunderstood concept in the shadow of rent control, is distinct from rent control in that the latter protects people already living in controlled units. Rent stabilization sets limits on how much a landlord can raise the rent and gives tenants the right to renew their lease. As implemented on nonsubsidized housing, it is not a policy designed to impact the affordability of vacant rental housing stock; that's vacancy control.

The purpose of a rent stabilization policy is to prevent displacement, to stabilize existing tenants in their homes by using economic indicators to regulate the percentage by which rent is allowed to increase each year.

It is more complicated than that, though. If rents stabilize, that creates new challenges. Economist Joe Cortright stated that in rent-controlled markets, tenants tend to stay in their units longer than in noncontrolled markets. "Rent control works for those few who are lucky enough to have a rent-controlled apartment," Cortright said, "and everyone else is worse off. [It] locks renters into units and decreases the supply of housing that one would expect from turnover, thus adding to rental inflation."<sup>80</sup>

David Weissman, a longtime tenants' rights and affordable housing advocate in San Francisco and now Portland, supports rent stabilization in Portland, listing it as a necessary component of a healthy tenant protection system.<sup>81</sup>

In Oregon, a statutory statewide preemption against local jurisdictions enacting any rent regulation, control or stabilization prevents Portland and other localities from using those tools. The case for rent control is further undermined by legitimate questions about its efficacy. Cortright said that rent control does not work. It tends to favor people who have lived in a place for a long time and therefore works against young people and people new to the area, including immigrants; since such groups tend to be made up of people of color, rent control's effects can raise real equity concerns.

He said rent control inhibits the market and thus depresses construction of new units. It also drives up the prices of units that are not rent controlled. This encourages people with rent-controlled apartments to "overconsume" housing, staying in an apartment that is too large after children move out or there's a divorce or death of a spouse only because it is rent controlled. This aggravates the shortage and increases the rents. Newly arrived immigrants are

often the ones to feel the consequences of this, as they now have to compete for a scarce supply of more expensive market rate units and may end up overcrowded.<sup>82</sup>

Deborah Imse, executive director of Multifamily NW, cited “notoriously high rents” in San Francisco under its rent control policy.”<sup>83</sup>

The majority of states ban rent control or stabilization. Yet Oregon has rarely shied away from implementing innovative, progressive policies that other states eschew. Rather than follow what a majority of other states do, Oregon should consider the merits of rent control and stabilization on their own. With a ban in place, however, there is little incentive for opponents to engage in constructive discussion at the local level.

Though rent control is controversial in some circles, experts also are not sure that it is ineffective. Bates said rent control is a complicated and context-sensitive. She cautioned against a blanket rejection of rent regulation, calling that a “knee-jerk reaction to a hypothetical policy that is not the way it’s being implemented anywhere.”<sup>84</sup> Kurt Creager, director of the Portland Housing Bureau, said that rent controls can serve as an effective tool for dealing with emergencies and disaster recovery.<sup>85</sup>

And some experts and advocates think the ban simply should be overturned. Both Buri, of executive director of the Community Alliance of Tenants, and Jonathan Ostar, executive director of OPAL, said that Oregon’s ban should be overturned, in order to allow local municipalities to decide what works for them.<sup>86</sup> But witnesses without exception agreed that it would be difficult to actually overturn the state’s preemption.

Despite the divergent views on the efficacy of rent control, your committee concludes that it has the potential to help Portland. The city’s housing crisis is more severe than in the rest of the state, and any implementation of rent control here could be done on a limited, local basis. Your committee therefore recommends that the Legislature end the ban on local rent control regulations so that Portland can assess its potential here and implement it if leaders, after a thorough public vetting, conclude that it would help housing affordability.

It’s not unprecedented for lawmakers to pass a law not with the intent to create or enforce something but rather to afford opportunity. At the end of the 2016 legislative session, SB 1533 passed, opening the door to mandates without requiring them. “It is going to allow certain local governments a tool they need right now,” House Speaker Tina Kotek said.<sup>87</sup>

Other municipalities have taken thoughtful advantage of such autonomy. The board of supervisors in San Mateo County, Calif., for example, announced in 2015 that they would study the feasibility of implementing rent regulations. They decided this amid much skepticism, including from themselves. Still, they thought considering everything was important. Supervisor David Pine said, “The high cost of housing has always been a challenge in San Mateo County, but

now it’s reached a crisis level. So this is the time for cities, the county and other stakeholders to look at every tool available to provide more affordable housing.”<sup>88</sup>

Flexibility — not being held to a state preemption and making decisions on a city-by-city basis —also allows for innovation. Maybe rent control or stabilization are not the answers, but related measures might be. Berlin, Germany, for example, enacted a “rental price brake” law in the summer of 2015 in order to slow, not prevent, rent increases, which had been occurring at an ever-quicken pace in that city.<sup>89</sup> It’s important to note that this is not the only plan addressing housing costs that Berlin has introduced; the problem is complex and requires a multipronged approach.

Rent stabilization and rent control might not ultimately be suitable for Portland. Your committee lacked the time and resources to make a recommendation for or against them. We don’t know if the possible benefits for renters in regulated units would outweigh potential cost increases for landlords and renters not in regulated units. We therefore are not arguing for policy change at this time. Rather, based on the preliminary evidence and testimony we did receive, we conclude that rent stabilization and rent control are worth exploring. In order to have a fruitful public policy discussion, the first step should be the Legislature’s lifting the statewide ban on them. As long as they remain prohibited statewide, it will be hard to engage in a serious local conversation about their merits. Landlords who oppose allowing local rent regulation have little motivation to participate in a process that could lead to it as long as preemption is already preventing it.

Recommendation 4: The Oregon Legislature should end the ban on local rent regulation.		
Who Benefits	Who Pays	Justifications
<ul style="list-style-type: none"><li>• Renters in regulated units</li></ul>	<ul style="list-style-type: none"><li>• Landlords who may not be able to increase rents to market rate</li><li>• Renters who are not in regulated units and may face higher costs</li></ul>	<ul style="list-style-type: none"><li>• These beneficiaries and payees would only be affected if rent regulation occurs.</li><li>• Your committee only recommends lifting the statewide ban to allow localities to explore the option and engage all stakeholders effectively.</li></ul>

## Just-Cause Evictions

Another critical tool to stabilize tenants in their homes are provisions for just-cause evictions. If a landlord must provide a reason for an eviction, it provides renters with at least some security of tenure, unlike under the current system in which no-cause evictions are permissible.

Security of tenure for a tenant means security from being forced to leave one's home by untenable rent increase, expiration of a lease, uninhabitable living conditions, intimidation or harassment by the landlord, court order, or for the purpose of renovating, repossessing or repurposing the home. Only homeowners and, to a lesser extent, residents of low-income subsidized housing have security of tenure. According to Diane Linn, executive director of Proud Ground, the security of tenure afforded to homeowners has a far-reaching transformative impact.<sup>90</sup>

Recent research conducted by DHM Research for Proud Ground suggested that a person's ability to put down roots in a community leads to economic stability, better performance in school and better health outcomes, in addition to that person feeling more connected to the community.<sup>91</sup>

There are three types of evictions: forced entry and detainer, for-cause eviction (or termination with cause) and no-cause (or termination without cause).

### ***Forcible Entry and Detainer (FED)***

A landlord may only file for a forcible entry and detainer after a tenant has been given notice to vacate a unit by a specified date but has failed to do so. It is a common misperception that evicting a tenant is a long and expensive process when actually, with the exception of getting protective orders for victims of violence, it is one of the fastest civil legal processes in Oregon.<sup>92</sup>

### ***For-Cause Eviction***

A for-cause eviction notice is given to a tenant either for not paying rent or for violating other specified provisions of their rental agreement. In either case, the tenant is given the reason for the notice, a time frame to remedy the infraction and a date to vacate should the person not successfully remedy the situation. If the infraction is remedied, the tenant may continue the tenancy.

For-cause evictions are often confused with FEDs, so it is important to note that to send a for-cause notice does not require any court filings, document fees or legal representation. For a cooperative tenant, a for-cause results in either a remedy or a

vacant unit in no more than thirty days from the notice, depending on the issue. A for-cause eviction is not a long, expensive or arduous process, nor does it go on the tenant's permanent record (rental reference notwithstanding). If a tenant fails to remedy the problem or to vacate, the landlord then files an FED. With respect to terminating tenancies of noncompliant tenants, it is generally considered to be an effective and acceptable process by the housing advocacy community.<sup>93</sup>

### ***No-Cause Eviction***

A no-cause eviction, as the name suggests, terminates a tenant's rental agreement without cause on a given date (not to be sooner than the end date of a lease). The landlord is under no obligation to offer an explanation, and even when there is one, the tenant does not have a right to a remedy nor to dispute the cause. In a no-cause eviction, a tenant is required to vacate the rental unit by the date on the notice. Portland now requires 90 days' notice. If the tenant refuses or is unable to vacate by that date, then the landlord files for a FED in order to take possession of the unit.

No-cause eviction is sometimes issued for reasons such as the owner repossessing, renovating or repurposing the home.

Christian Bryant, board president of the Portland Area Rental Owners Association, said it's technically not difficult to evict for cause, but no-cause eviction is a necessary solution for terminating tenancy of a difficult tenant when the cause is too hard to prove (a noise violation, for example) or doesn't amount to a lease violation (personality conflict with landlord or neighbors). Because a for-cause requires the due process of offering a remedy and presents the tenant a chance to dispute the stated cause in court, he said a for-cause is seen as harder, riskier and more expensive for landlords, whereas a no-cause helps them resolve the situation peacefully.<sup>94</sup> Imse said HB 4143 makes "it harder to ensure the wellbeing of all renters," citing end-of-tenancy notices as rarely used but key for safety reasons.<sup>95</sup> Her organization, Multifamily NW, said the term 'no-cause eviction' is "inaccurate and imprecise." The better terminology, in their view, is 'end-of-tenancy notice.'

"These notices provide a way for landlords to address problem tenants where initiating eviction proceedings would create additional safety concerns for other tenants or staff," Multifamily NW asserted.<sup>96</sup>

While your committee appreciates this difference, it is a technical one that is not necessary for this discussion. The term 'no-cause eviction' is broadly understood and the one that we have chosen to use in this report, but we acknowledge that some prefer an alternative.

The fact remains that given the nature of no-cause evictions and the lack of recourse they allow, they can be issued capriciously or used in discriminatory or retaliatory manners, for example against tenants who ask for repairs.

Multifamily NW, which was against policy change in early February, still had “committed to good-faith comprehensive discussions ... through the Landlord Tenant Coalition on retaliation, end-of-tenancy notices, evictions and other complex rental agreement issues.”<sup>97</sup> By late February, the group supported the revised HB 4143, which forbids rent increases in the first year of month-to-month tenancy and lengthened notice periods for rent increases and termination. Multifamily NW called the bill a “reasonable and common-sense solutions [to] help landlords, tenants and communities remain stable, healthy and successful.”<sup>98</sup>

Your committee finds that the battle between renters and landlords regarding evictions is not as clear-cut as many assume. Stakeholders on both sides can negotiate a compromise that acknowledges the extra-legal burden on all parties associated with evictions but also curtails or prevents retaliation or housing discrimination.

The Oregon Residential Landlord Tenant Act (ORLTA) establishes most landlord-tenant regulations. The act, typically only amended during legislative sessions based on recommendations by Oregon’s landlord-tenant coalition, contains provisions regulating application and screening policies, security deposits, the terms of a rental agreement, occupancy and habitability standards, allowed fees, deposits and charges, guidelines on required notices, utility charges, termination of the rental agreement, and obligations and remedies for both parties. Local jurisdictions may add their own provisions so long as these provisions do not contradict state-sanctioned ORLTA. For example, in October 2015, Portland City Council voted to require landlords to provide 90 days’ notice before a no-cause eviction or rent increase of 5 percent or more.<sup>99</sup>

ORLTA specifically protects tenants from retaliatory<sup>100</sup> and discriminatory no-cause evictions, but there are such significant barriers to challenging a no-cause on these grounds that the protections are not considered by tenants or tenants’ rights attorneys to be effective. Challenging an eviction requires court action, which poses significant financial burden and risk. In landlord-tenant law, the losing party pays the legal expenses of the prevailing party.

An eviction could be challenged in court without an attorney, but according to Megan Dorton from Legal Aid Services of Oregon, the viability of a case depends on whether or not a tenant has an attorney, not on the strength of the claims. Legal representation is the biggest determinant of success.<sup>101</sup>

When housing disputes become legal disputes and land in court, the vast majority of landlords (85 to 90 percent) are represented by legal counsel, but tenants rarely have such

representation.<sup>102</sup> Retaining an attorney is an expensive undertaking even for those with moderate incomes. Those with income less than 125 percent of the federal poverty level can try to obtain services through Legal Aid, but due to limited resources, the service is only able to meet 18 percent of the legal need in the region. Housing is Legal Aid's second-largest caseload behind domestic violence, showing the disparate impact of our housing crisis on low-income tenants. This makes it unlikely that a random tenant can successfully challenge a wrongful no-cause eviction.

Dorton, Buri (of the Community Alliance of Tenants) and Ostar (of OPAL) all said that ending no-cause evictions would be one of the most effective non-supply-side recommendations to address our housing affordability crisis.<sup>103</sup>

The cost of displacement and its implications with regard to affordability are substantial and difficult to precisely quantify. As a society, we recognize that moving can be so expensive<sup>104</sup> that there is a provision in the tax code to claim job-related moving expenses of sufficient distance as a tax deduction, and relocation assistance is a standard part of many professional job offers. Even when the move is local, for a renter looking for housing in a market with low vacancy rates, the expenses can be formidable.

Consider the average renting household in Portland, as described by the Portland Housing Bureau's October 2015 "State of Housing Report." The average household of 2.35 persons has an income of \$55,571 and pays \$1,286 to rent a two-bedroom unit, not including utilities. If this household faces an unplanned move while vacancy rates are low, the competition will be fierce. This means more time off work to search for units, more money spent on application fees (averaging \$50 per adult applicant) and no bargaining power to negotiate a grace period from the time of accepting the unit to moving in, which means that the tenant likely will have to pay rent on both units for an overlapping time. Then there are either the costs of professional packers or movers or the expense of boxes and a moving truck plus lost wages for time off work to pack, move and clean.

All of those expenses could easily eclipse \$3,000, especially considering the security deposit that typically equals one month's rent. If renters must do this once a year due either to no-cause evictions or to economic evictions, that prorates to at least \$250 per month in additional housing expenses.

This also doesn't account for the social and psychological costs associated with moving, especially due to forced displacement. Buri said that tenants calling the Community Alliance of Tenants' hotline to report no-cause evictions sometimes report feelings of depression and thoughts of self-harm.<sup>105</sup> The Princeton University and Columbia University Fragile Families and Child Well-Being research found that mothers who have been evicted are 20 percent more

likely to report depression than their peers in one year, and there was still an effect after two years. They also have much higher rates of material hardship.<sup>106</sup>

Legal Aid Service's Dorton said that every time a tenant moves in the case of a forced displacement, he or she moves into worse housing. This causes financial instability because every move erodes the ability to achieve stability.<sup>107</sup> Forced displacement is not a consequence of poverty but a cause of it.<sup>108</sup>

Portland could model a ban on no-cause evictions on Seattle's Just-Cause Ordinance. In Seattle, a landlord who wishes to terminate a month-to-month tenancy may only do so for one of 18 specific reasons listed in the code. Valid causes for eviction include failure to pay rent in a timely manner, damaging the property or engaging in criminal activity. A landlord might also terminate a lease because she wishes to demolish the building and replace it with a noncommercial use or convert it to condominiums.<sup>109</sup>

Certainly, working from a defined list is more restrictive than having no-cause eviction available, but Seattle's ordinance demonstrates that just-cause is limited only by the imagination of lawmakers and advocates.

Despite lacking concrete data on the number of no-cause evictions and precise data on the cost of displacement, the City of Portland is experiencing the impact in a very tangible way. Recent news reports state that many in our growing homeless population are recently homeless; they were housed within the last six months. Family shelters are reporting sharp increases in families displaced through no-cause evictions.<sup>110</sup>

**Recommendation 5:** The City of Portland should ban no-cause evictions and enact a just-cause eviction policy.

Who Benefits	Who Pays	Justifications
<ul style="list-style-type: none"> <li>Renters</li> </ul>	<ul style="list-style-type: none"> <li>Landlords who will have the additional burden of proving for-cause evictions</li> </ul>	<ul style="list-style-type: none"> <li>The extra legal procedures and burden are a fair tradeoff to prevent retaliation and discrimination against renters.</li> <li>A well-crafted list of eligible causes can provide sufficient flexibility for landlords.</li> </ul>



## DATA

Fundamental to the public policy discussion about housing affordability is good data. We lack well-organized, accessible, comprehensive and reliable data on the state of housing in the Portland metro region, specifically with regards to market rate units and private landlords. With such data, the city could track the supply of units available, and renters could make more informed housing choices.

Although a considerable amount of data is available from the U.S. Census Bureau's American Community Survey, it is imprecise because it is based on a sample and lacks the level of granularity that would aid discussions about housing in Portland.

"We do not have data on rental units. It's difficult to know because it's company by company [landlord association by landlord association or property manager by property manager]. They don't share information," the Portland Area Rental Owners Association's Bryant said.<sup>111</sup>

The Community Alliance of Tenants' Buri noted that we lack up-to-date data on increases of rents, no-cause evictions and owners' refusals to make repairs. CAT has mostly anecdotal evidence, which is more difficult to verify and quantify, from hotline or other complaints.<sup>112</sup>

Dorton, from Legal Aid Services, offered her wish that landlords be required to provide a breakdown of applicants who applied for housing and rejection rates, move-in costs and deposit return amounts. For example, she sees great racial injustice in housing issues and cited a study that found that one in five Black renters in Milwaukee, Wisc., reported having been evicted, compared with one in 10 Hispanic and one in 14 white women.<sup>113</sup>

She also reported that the challenge was particularly acute for women. "Black men face mass incarceration; black women face mass displacement," she said.<sup>114</sup>

Witnesses said that the data they have is mostly anecdotal. Though anecdotal evidence doesn't mean the situations are no less real for the individuals involved, it's also not useful in crafting long-term successful housing policies and programs. In the face of one of the most aggressive housing markets of Portland's history, we lack up-to-date demographic data on renters (income, family size, income distribution, etc.), as well as data on rent, vacancy, rent increases and displacement (number and type).

National and local experts acknowledge the necessity of data, particularly when considering an issue as complex and crucial as housing.

The Population Association of America, a nonprofit professional organization that promotes research on population issues, discussed the need for data at its meeting on "The

Ailing Economy: How Do Census Data Help?” Without data sources, such as censuses and surveys, “it would be impossible to identify and interpret key economic trends.”<sup>115</sup>

The research director of the National Low Income Housing Coalition, Danilo Pelletiere, noted how essential census data was for making well-thought-out and useful housing policy. Though the U.S. Census is the basis for all other surveys, timeliness and local focus are the key beneficial differences that additional surveys such as the American Housing Survey, the Housing Vacancy Survey, and the American Community Survey provide.<sup>116</sup> Imagine, for a moment, how much stronger Portland’s housing policies and programs would be if they were based on hyperlocal data gathered, analyzed and shared often.

## Rental Licensing for Data Collection and More

Though landlords would bear the burden of paying a licensing fee and undergoing related inspection, carefully designed requirements could reduce the burden and ensure complete, accurate and accessible data.

Many of your committee’s witnesses cited Minneapolis as a city that has enough in common with Portland to offer a useful model. In 1991, Minneapolis began to require all property owners to receive a city-issued license for their properties.<sup>117</sup> That’s 23,000 properties undergoing some degree of review each and every year.<sup>118</sup> The license applications allow the city to collect a variety of information on rental properties, from number and type to how many building fines, violations, and police calls have been made.<sup>119</sup> For a city that’s half renters, that’s important to leaders.

It’s important to landlords too. “I have found the people that have responded ... have been a little surprised by this and saying, ‘Hey, I don’t want to be one of the worst people, I don’t want to be on this list,’ ” said the city’s regulatory services chief, Nuria Rivera-Vandermyde.<sup>120</sup>

The benefits that Minneapolis finds in licensing offer strong reasons for Portland to pursue a similar system. Among the benefits cited by Minneapolis:

- Gives public safety agencies a way to contact those responsible for properties about code violations or emergencies,
- Helps the city supply property owners/managers with information about useful city programs and resources,<sup>121</sup>
- Promotes the health, safety and welfare of the general public,
- Ensures preservation of the existing housing supply,
- Helps maintain property values,

- Works toward eliminating substandard and deteriorating rental housing,
- Maintains a living environment that contributes to healthful individual and family living.<sup>122</sup>

Minneapolis encourages compliance with public education and annual fees.<sup>123</sup> Public education includes a requirement that property owners post a rental license certificate on the property, and the city updates an online map of “problem landlords.” Fees are determined on a tiered basis<sup>124</sup> that allows inspections to occur more frequently at properties that require more help, recaptures inspection costs and incentivizes rental license owners to maintain their properties in order to pay a lower annual license fee. A hefty 50 percent penalty is charged to those property owners who miss the annual payment window.

The idea of putting some of the licensing fee toward inspections is a good one. In Portland, despite access to an enforcement agency, many tenants do not make the call to have their units inspected. One reason is the lack of tenant education — they do not know that they can call or whom to call — but the other issue, more pronounced in this housing crisis, is fear of retaliation from the landlord. Reporting a landlord for code violations presents a serious risk for losing one’s home via a retaliatory no-cause eviction.

Minneapolis’s Citizen Inspection Program trains community members, under supervision of city inspectors, to identify seven common areas of violation of building and health regulations and write letters to building owners outlining violations and measures. The compliance record for the volunteer inspectors is 80 percent.<sup>125</sup>

Seattle launched its own Rental Registration and Inspection Ordinance in 2014 after an extensive public involvement process.<sup>126</sup> Seattle requires all 148,000 rentals to register. Armed with more knowledge, Seattle could become a city in which all housing units meet set standards of quality and livability. The city’s information about the policy notes, “If a unit doesn’t meet the standards, it may be registered along with the rest of the units, but it may not be rented until it meets the standards.”<sup>127</sup>

Look even closer to home, and we see one of Portland’s closest neighbors, Gresham, has a rental license program. Each annually renewed registration of a rental unit in the city goes into a lottery for inspections. The city temporarily removes properties that pass an inspection with flying colors from the lottery pool, so that over time the city ends up concentrating resources on properties that have the most problems.

Landlords initially resisted because the program appeared to place an additional financial burden on them. Landlords also worried the city’s goal was to catch them doing something

deemed incorrect and fine them further. To address these concerns, the city approached inspection cost and procedure with everyone, including the landlords, in mind.

Gresham redirected the money generated by the city's business license fee, which landlords already were responsible for paying, from a general fund into a fund dedicated solely to inspections. That way it remained somewhat revenue neutral for the city, and landlords weren't getting hit with a new fee.

These are not surprise inspections. Gresham sends a notice, including a checklist of all the things inspectors will be looking for, to the tenants and the owner or property manager three weeks before the inspection. The city wants everyone to know what is expected and to understand what they have to fix to pass. Gresham is happy to work with landlords who need time to make repairs. City inspection program managers said that they have better relationships with owners now than they did when every complaint-based interaction was necessarily adversarial.

Other reported benefits of this program is that incidences of visible mold have dropped from one of the most common violations to no longer being on the top ten list of problems inspectors are finding. Another plus is that the program allows inspectors to contact tenants who may have cause to file a complaint but don't, especially non-English speaking and elderly populations.

## **Better Data**

The lack of Portland housing data presents a formidable challenge to measuring and understanding the size and scope of the issue, and that in turn makes it difficult to adequately address housing affordability in a sustainable and comprehensive way. Your committee recommends the state's Department of Oregon Housing and Community Services and Portland departments and agencies work together to collect, review, and disseminate data and review regularly the efficacy of the collection.

We recommend specifically asking:

- What fees are assessed by landlords at the time of moving in and moving out?
- What fees are assessed for violations of terms of a lease?
- What are the number and causes of evictions?
- What is data on applicants who applied for housing, with information on rejection rates, fees imposed and deposits returned?

We also recommend making better use of the data tools that are already available. Oregon’s Multifamily NW is in its 13th year of publishing the twice-yearly “Apartment Report,” which shares “rent and vacancy data collected from the Portland/Vancouver, Salem, Eugene/Springfield, and Bend/Redmond areas” as well as “market perspectives ... from appraisers, lenders, brokers, economists, and developers who specialize in the multifamily industry.”<sup>128</sup> Scott Bernstein, president and cofounder of the Center for Neighborhood Technology (CNT),<sup>129</sup> presented to Metro in late 2015. CNT’s Housing + Transportation Affordability Index<sup>130</sup> is free and available to all, helping people and cities create more actual affordable housing by including commuting costs in rent. “No one would be surprised if Portland stepped up and led the way,” Bernstein said.

Portland has been issued a compliment and a challenge that it needs to—and can—meet.

<b>Recommendation 6:</b> The City of Portland should implement a rental property licensing system.		
<b>Who Benefits</b>	<b>Who Pays</b>	<b>Justifications</b>
<ul style="list-style-type: none"> <li>• City of Portland</li> <li>• Renters</li> </ul>	<ul style="list-style-type: none"> <li>• Landlords</li> </ul>	<ul style="list-style-type: none"> <li>• If designed carefully, the burden on landlords could be minimized.</li> <li>• Licensing has succeeded in other communities.</li> <li>• The benefits of complete and accurate data on rental units is worth some cost. The city would have more data to track the supply of rental units, and renters would have more information available when making housing choices.</li> </ul>

# CONCLUSION

Housing affordability is one of the most important challenges confronting the greater Portland area. Your committee found that the crisis in Portland is as difficult as recent media reports make it out to be, so there is no single easy answer to our particular brand of the problem. We offer six recommendations that may help correct the situation.

## Findings and Conclusions

1. **Finding:** Fewer federal dollars are available to fund affordable housing development, leaving developers with a patchwork of state and local funding sources that makes adequately financing affordable housing difficult and time-consuming.

**Conclusion:** Dedicated local funding with fewer regulatory restrictions could more effectively fund the development of affordable housing units.

2. **Finding:** As demand to live in Portland increases, the city could strategically acquire properties to encourage development and preservation of affordable housing. The city currently lacks reserve funds to act when attractive properties become available.

**Conclusion:** In order to pursue strategic property acquisition, Portland needs to set aside funds to purchase foreclosed and discounted properties, especially during economic recessions.

3. **Finding:** On paper there is adequate capacity within the existing urban growth boundary and zoning code to accommodate Portland's population growth, but other barriers create limits in practice. Moreover, not all properties are built to the maximum allowable density.

**Conclusion:** Incentives and updates to the zoning code would help ensure that a higher percentage of infill development is used to its fullest potential and with affordability in mind.

4. **Finding:** Many growing cities use rent control to address affordability issues, but Oregon law currently preempts localities from using it.

**Conclusion:** Lifting the state preemption of rent control would allow Portland to conduct a careful study of its suitability as a potential policy tool.

5. **Finding:** Not having security of tenancy lessens the bargaining power of renters, who fear no-cause eviction. That, in turn, impacts affordability considerably.

**Conclusion:** A required for-cause eviction process would improve bargaining power of renters by preventing retaliatory and discriminatory no-cause evictions.

6. **Finding:** Portland does not have up-to-date and comprehensive data on the number of landlords, rental units, costs, evictions and renter demographics.

**Conclusion:** The city is unable to know accurately the extent of Portland's housing affordability problem, especially with respect to equity.

## Recommendations

1. Portland City Council should dedicate funding to build subsidized affordable housing units.

*Council should follow existing research and recommendations on revenue streams from Metro's "Opportunities and Challenges for Equitable Housing" report and the Welcome Home Coalition. It should consider a variety of funding alternatives, such as a linkage fee; voter-approved housing levy for ongoing revenue; or a general obligation bond authorization for initial funding.*

2. The City of Portland, the Portland Development Commission and Metro should develop a housing land bank strategy to put money away during strong economic times for use in purchasing properties during downturns.

*Portland should prioritize purchase of foreclosed buildings and other available properties for the purpose of creating and preserving affordable housing.*

3. The City of Portland should remove barriers to and identify incentives that encourage development of more housing types.

*Examples could include funding the Multiple-Unit Limited Tax Exemption Program (MULTE) to encourage developers to use voluntary inclusionary zoning and streamlining the design review process.*

4. The Oregon Legislature should end the ban on local rent regulation.

*Ending the ban would allow Portland and other local governments to engage with all stakeholders and consider policies within a spectrum that includes rent stabilization and rent control.*

5. The City of Portland should ban no-cause evictions and enact a just-cause eviction policy.

*Some advocates note that there are no 'no-cause evictions' in Portland and Oregon, only 'termination of tenancy.' We trust that policymakers will understand that this is primarily a semantic issue. Whenever tenancy is terminated without documented cause it amounts to a no-cause eviction.*

6. The City of Portland should implement a rental property licensing system.

*Licensing would allow for data collection, increased inspections and education.*

**Respectfully submitted,**

M. Nels Johnson, Chair  
Chip Lazenby, Vice Chair  
Kristin Thiel, Lead Writer  
Liang Wu  
Mike Westling  
Judith Ramaley  
Andrea Pastor  
Gil Johnson  
Crista Gardner  
Patrick Belin  
Margot Black



## MINORITY REPORT:

### Include Missing Middle Housing

The minority concurs with the majority report on all but the question of “missing middle housing” in residential neighborhoods. The majority does not recommend revising Portland’s zoning code to allow for more housing types in residential neighborhoods, instead urging it only to “work to overcome neighborhood skepticism.” If the city is to make the best use of its available land, it must encourage a diversity of housing types at a range of price points in Portland’s residential neighborhoods.

The majority acknowledges that middle housing is worth considering. Such housing typically includes duplexes, triplexes, small apartments and garden apartments. They are called the “missing middle housing” because they are a size and form that exists between large multi-unit buildings (i.e., apartments and condominiums) and single-family detached homes but are not allowed in most of Portland under current zoning.<sup>131</sup>

Portland has many single-family neighborhoods that are within a few miles of the city core where new housing is desperately needed but cannot be built because of a lack of available land. Even when a structure is demolished, it often cannot be replaced at any greater density, resulting in zero gain in housing supply. As the majority correctly noted, addressing the supply side of the housing affordability crisis is necessary in conjunction with other policy changes.

The city does encourage greater density along some corridors, but they are too few and not well dispersed. Portland should actively encourage middle housing development that provides opportunities for people of all incomes in neighborhoods that aren’t necessarily on



Source: Opticos Design, Inc. | [missingmiddlehousing.com](http://missingmiddlehousing.com)

main streets, near transit stations, or in town or regional centers, but that are close to bus lines, good schools and job centers. Targeted incentives and zoning changes that allow middle housing development in residential zones would open the door for new housing types, increasing the supply and diversity of available units.

Portland Commissioner Steve Novick supports at least exploring this approach. He announced online:

I'm interested in considering changes to the Comprehensive Plan to expand the existing zones (primarily R1, R2 and R2.5) that allow middle housing to be built. I'm also interested in taking a close look at the housing types we allow in all of our single family zones; perhaps we can allow more middle housing in a wider range of residential zones. Finally, we won't get new middle housing unless the market supports it and developers build it. So, the City should explore changes and incentives to encourage smaller, more affordable middle housing.<sup>132</sup>

Middle housing also is an element of Metro's January 2016 equitable housing report, which identified zoning changes as a tool for creating more affordable housing. The report states:

[Local governments should] 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.<sup>133</sup>

Revising the zoning code to allow middle housing in residential neighborhoods is an important part of an overall affordable housing solution for Portland. The majority's recommendations ask developers to include affordable units in new buildings and ask landlords to limit rent increases and abandon no-cause evictions. At the same time, residents of Portland's single-family homeowners should be asked to help address the affordability problem by accepting more duplexes, triplexes and other middle housing types on their residential blocks. Doing so would promote affordable, equitable and diverse types of housing available for all of the different kinds of people who want to live in our neighborhoods.

## Specific Proposed Changes to Report

The minority specifically would:

- Amend Majority Recommendation 3:

The City of Portland should remove barriers and identify incentives to encourage development of more housing types.

Examples could include funding the Multiple-Unit Limited Tax Exemption Program (MULTE) to encourage developers to use voluntary inclusionary zoning, ~~and streamlining the design review process~~ **and revising the zoning code to allow for middle housing types in residential neighborhoods.**

- Beginning on page 28, amend two paragraphs to read:

In order to address equity and affordability for all Portlanders, the housing supply must increase in the core. In particular, the city ~~must work to overcome neighborhood skepticism about~~ **should revise its zoning code to allow for more** “missing middle housing,” which is typically multi-family housing built on a scale of single-family structures. Duplexes, triplexes, small apartment buildings and courtyard projects could provide affordable housing disbursed throughout established neighborhoods.

Developing land to its maximum density would result in the greatest supply of housing, but costs and market demand often prevent properties from being developed to ~~maximum~~ **higher** densities. ~~Targeted incentives could help to ensure that more properties are developed to maximum density and to fill the missing middle~~ **and zoning changes would allow for the creation of more middle housing types**, especially in desirable neighborhoods that are close to transportation and amenities.

**Respectfully submitted,**

Kristin Thiel, Lead Writer

Mike Westling

Andrea Pastor

Gil Johnson

Margot Black

## WITNESS LIST

- Lisa Bates, Professor of Urban Studies and Planning, Portland State University, Aug. 6, 2015.
- Christian Bryant, Board President, Portland Area Rental Owners Association, Oct. 29, 2015.
- Justin Buri, Executive Director, Community Association of Tenants, Sept. 10, 2015.
- Jon Chandler, Executive Director, Oregon Home Builders Association, Sept. 3, 2015.
- Joe Cortright, President and Principal Economist, Impresa Economics, Oct. 8, 2015.
- Kurt Creager, Director, Portland Housing Bureau, Oct. 22, 2015.
- Karl Dinkelspiel, Housing Investment & Preservation Programs, Portland Housing Bureau, Aug. 20, 2015.
- Megan Dorton, Attorney, Legal Aid Services of Oregon, Jan. 7, 2016.
- Eric Engstrom, Principal Planner, Portland Bureau of Planning and Sustainability, Jan. 14, 2016.
- Rob Justus, Home First Development, Aug. 13, 2015.
- Emily Lieb, Senior Project Manager, Equitable Housing Project, Metro, Nov. 5, 2015.
- Diane Linn, Executive Director, Proud Ground, Jan. 12, 2016.
- Connor McDonnell, Management Analyst, U.S. Department of Housing and Urban Development, July 23, 2015.
- Jonathan Ostar, Executive Director, OPAL, Aug. 27, 2015.
- Michael Parkhurst, Affordable Housing Initiative Program Officer, Meyer Memorial Trust, Oct. 15, 2015.
- Eli Spevak, Founder, Orange Splot, Sept. 24, 2015.
- Margaret Van Vliet, Director, Oregon Housing and Community Services, Jan. 14, 2016.
- David Weissman, Filmmaker, Oct. 1, 2015.
- Jessica Woodruff, Director of Housing Development, REACH CDC, Jan. 28, 2016.
- Sarah Zahn, Senior Project Manager, Gerding Edlen, Aug. 20, 2015.

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## ENDNOTES

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## ABOUT CITY CLUB OF PORTLAND

The mission of City Club is to inform its members and the community in public matters and to arouse in them a realization of the obligations of citizenship.

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### **City Club of Portland**

901 SW Washington St.  
Portland, OR 97205

503-228-7231

[info@pdxcityclub.org](mailto:info@pdxcityclub.org) • [www.pdxcityclub.org](http://www.pdxcityclub.org) • [twitter.com/pdxcityclub](https://twitter.com/pdxcityclub) • [facebook.com/pdxcityclub](https://facebook.com/pdxcityclub)