

EXECUTIVE SUMMARY

2009 – 2030

Preliminary housing needs analysis

April 2009 draft



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INTRODUCTION

Considering housing affordability in our growth management policies and investments:

Anticipating how to best provide our region's residents with housing choices is more than an exercise in analyzing numbers. It is a process of understanding how people in different stages of their lives and with varied incomes choose how and where to live, of considering the capability of our region's public policies and the private market to meet resident's needs, and of exploring the implications of supporting a variety of housing choices. Broader trends such as infrastructure funding shortages and shifting demographics compel a reassessment of past practices in order to ensure housing choices in the future.

The preliminary housing needs analysis is a companion report to the preliminary residential urban growth report. The final version will be completed by December 2009 in order to address Statewide Planning Goal 10 (Housing), which requires that our communities' plans "...encourage the availability of adequate numbers of needed housing units at price ranges and rent levels which are commensurate with the financial capabilities of Oregon households and allow for flexibility of housing location, type and density." Our residents and leaders have further stated that our plans should consider whether policy and investment decisions are likely to lead to a more equitable distribution of the benefits and burdens of growth.

A new approach to assessing affordability

This analysis of future affordability uses a sophisticated approach that builds on many of the suggestions of a May 2008 analysis conducted by the Institute of Portland Metropolitan Studies at Portland State University¹. Noteworthy aspects of this study's approach include:

- Incorporating both housing and transportation costs into affordability.
- Defining cost-burdened households as renters that spend more than 50 percent of their before-tax income on housing and transportation. This is a more nuanced approach than the traditional blanket rule about spending more than 30 percent of income on housing.
- Using MetroScope, an integrated land use and transportation model, to predict future affordability, assuming the continuation of current policies and trends. The use of this model allows for a discussion of the market dynamics and policies that influence affordability.

Key findings and policy choices

Historically, most residents of this region have been able to choose from a variety of housing types that match their preferences and budgets. However, there is work to be done to ensure that future generations have the same range of choices and that those choices support the region's vision of creating vibrant and walkable communities, protecting air and water quality, and reducing greenhouse gas emissions.

If current policies and investments are continued, the number of cost-burdened households in the region may more than double from 95,500 in the year 2005 to 198,400 in the year 2030, bringing the percentage of households that are cost-burdened from 17 percent in 2005 to between 18 to 23 percent in 2030. Many of these households will be seniors on fixed incomes and the working class, some of which will have school-aged children.

¹ Report by the Institute of Portland Metropolitan Studies is available at www.pdx.edu/sites/www.pdx.edu/ims/files/media_assets/ims_metrohousingreport.pdf

Likely causes of cost burden

The increase in cost-burden does not appear to be caused by a shortage of vacant land or zoned capacity inside the urban growth boundary. Likely causes include:

Inadequate funding for infrastructure: this constrains housing capacity, which in turn makes it unaffordable for some households.

High market demand in urban centers and transportation corridors: this increases the value of land and the per-square-foot cost of housing. Multi-story development often requires more expensive construction materials and structured parking. Without public investments or choices of smaller residences, these higher costs get passed on to residents.

Insufficient transportation cost savings: Transportation cost savings offset housing price increases, but are not enough to guarantee affordability.

Policy choices

Urban centers and corridors are likely to be some of the region's least costly communities in the future, but this does not mean that they are affordable for all. The Metro region's leaders are counting on housing in centers and corridors to remain affordable in order to manage growth in a way that protects existing single-family neighborhoods and addresses new challenges such as climate change. To do so, concerted efforts are needed.

- New infrastructure investments can make better use of existing land inside the urban growth boundary.
- Incentives for mixed-use, multi-family development can reduce housing costs even further in urban centers and corridors.
- Policies that encourage the construction of smaller residences can provide more housing choices.
- Transit investments in centers and corridors can reduce transportation costs for residents.
- Wages are an important component of affordability—ensuring a healthy regional economy will be essential.

Potential shifts in housing preferences

In order to provide a starting point for discussion, this analysis makes the assumption that housing preferences in the future will be similar to what they are today. However, a rapidly changing world necessitates a reconsideration of how the region has traditionally planned for growth and whether those assumptions will be valid in the future. What is clear is that upcoming policy choices need to enable communities to adapt to changing circumstances. Some of the key trends to consider include:

Climate change is likely to increase the price of water and electricity.

Increasing energy prices could influence preferences for residential square footage and location.

Demographic changes are likely to result in a higher percentage of one- and two-person households.

Changing lending practices may make home ownership less common.

Increasing traffic congestion may make walkable, transit-accessible locations more preferable.

Infrastructure funding shortages may necessitate shifting more cost burden to home buyers, which could make housing more expensive.

GENERAL FINDINGS – PAST PERFORMANCE

In order to provide a picture of where the region may be headed in regard to housing needs and affordability, it is useful to assess our past performance.

Mix of housing types

One way to create activity levels necessary to sustain small businesses and vibrant downtowns is to encourage the construction of a greater share of multi-family buildings in those areas. In our region, the share of new multi-family construction has varied from year to year: about 46 percent in 2001, 44 percent in 2002, 33 percent in 2003 and 2004, and 48 percent in 2005. A higher share is generally associated with healthy economic activity, higher redevelopment rates, smaller lot sizes and a shift in housing demand toward central urban locations. All of these benefits can be encouraged through future policy and investment choices.

Lot sizes

Smaller average lot sizes indicate that the region is using its land more efficiently. From 2001 to 2006, lot sizes for new residential construction inside the Metro urban growth boundary varied from 4,000 to 4,800 square feet, with a weighted average of about 4,400 square feet. The average lot size for new construction from 1997 to 2001 was 5,700 square feet.

Affordability

In the past, the general rule has been that housing is affordable if it costs no more than 30 percent of a household's income. However, for a number of reasons, affordability is a concept that is hard to define.

To get a better sense of affordability, housing and transportation expenditures can be expressed as a percent of income. However, this metric has some shortcomings: some people are relatively wealthy despite having little current income and many people treat their home as not just shelter, but an investment. With those caveats in mind, by this measure the Portland region is about average when compared with other cities in the western United States.

In 2005², the average household in the United States spent \$15,167 on housing and \$8,344 on transportation³, for a total average expense of \$23,511 per year.

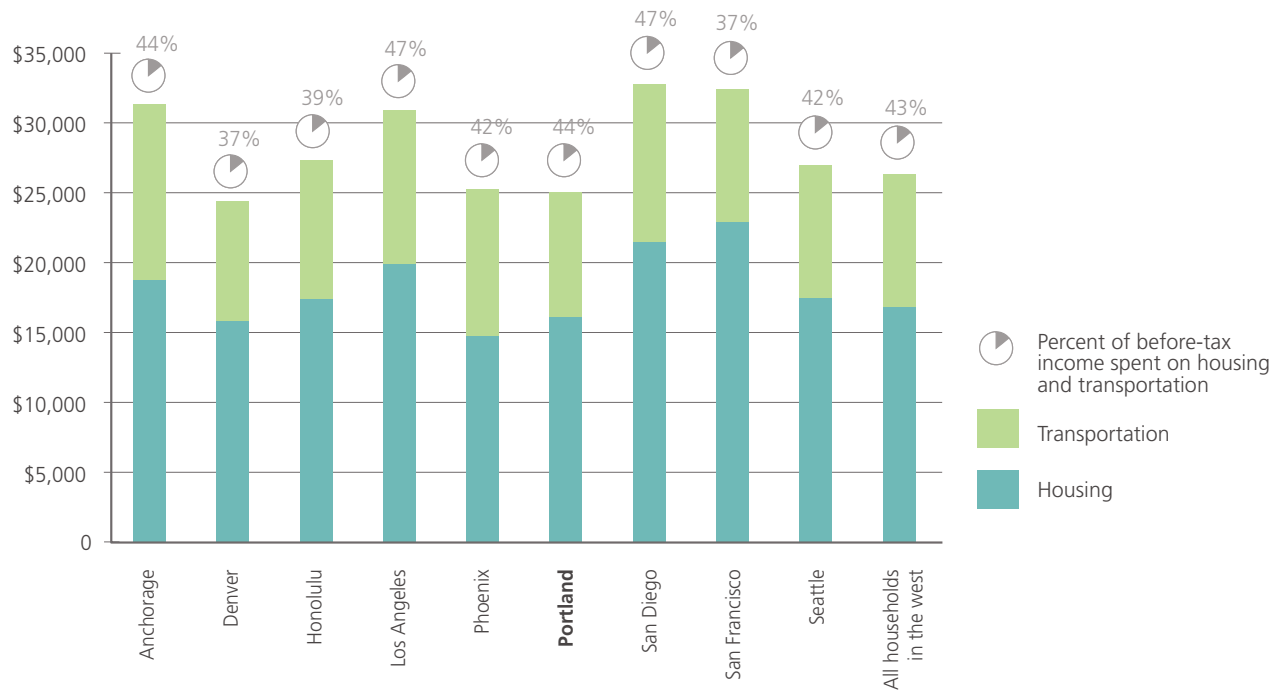
In the Portland region, the average household spent \$16,039 on housing and \$8,845 on transportation, for a total of average expense of \$24,884 per year. While this is higher than the national average, it is lower than average for metropolitan areas in the western United States.

² The year 2005 is used because data for the Portland region is only available through that year. The source of data is the United States Bureau of Labor Statistics.

³ Included here are all housing and transportation expenditures tracked by the Bureau of Labor Statistics. Housing costs include, for example, rent, mortgage payment, homeowners insurance, utilities, and furnishings. Transportation costs include, for example, vehicle purchase, gasoline, insurance, and transit fares.

Figure 1 Average annual housing and transportation expenditures per household and share of household income in western United States (2005)

Source: United States Bureau of Labor Statistics



GENERAL FINDINGS – FUTURE PERFORMANCE

One of the fundamental principles of this analysis is that we can plan for a range of possible future conditions. Possible futures are defined by ranges of population growth rates, possible market responses, policy and investment choices, and a variety of megatrends, such as climate change, that provide additional uncertainty.

MetroScope, an integrated land use and transportation model, can help illustrate the implications of continuing with current policies and investments. MetroScope is a market-based model that distributes forecasted households and jobs based on a series of policy and investment assumptions. MetroScope scenarios can provide us with information about future housing affordability.

Key scenario assumptions

These scenarios are based on the assumption that current land use and transportation policies and investments will remain unchanged. The scenario results are intended to serve as a starting point for discussion. A more detailed description of the scenario assumptions is available as Appendix 3 to the preliminary residential urban growth report. It is anticipated that many of the policy and investment assumptions will need to change to reflect ongoing policy discussions and city and county government decisions to modify their growth management plans. Finally, these scenarios do not account for possible shifts in future housing preferences (due to factors such as fuel prices and credit availability).

Use of a range forecast in the scenarios

In March 2009, Metro released a new population and employment forecast. Given the inherent uncertainty surrounding such predictions, the forecast is expressed as a range and estimates a 90 percent chance that there will be between 1.2 million to 1.3 million households in the seven-county region⁴ by the year 2030. The estimates also show between 1.3 million to 1.7 million jobs in the seven-county region by the year 2030. Not all of those households and jobs will be in the Portland metropolitan region.

Three scenarios were conducted for the purpose of informing this analysis:

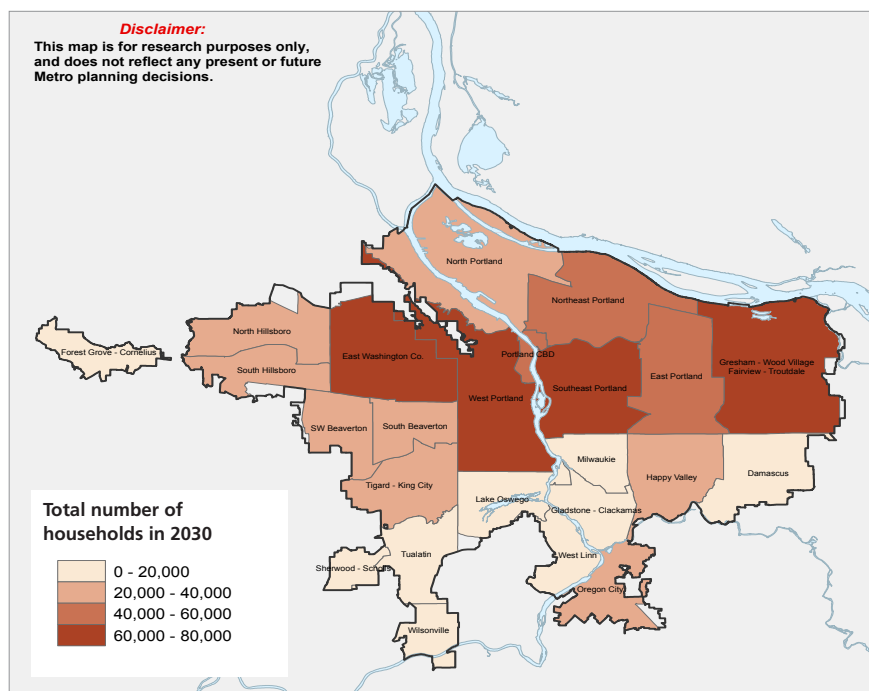
Low end of population and employment range forecast	Middle of population and employment range forecast	High end of population and employment range forecast
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MetroScope scenarios model the interplay between the population and employment forecast and a set of policy and investment assumptions. Because these scenarios do not test different policy options, only different population and employment growth rates, the results are frequently similar. For this reason, some results are reported just for the middle scenario. Household distributions and affordability results are reported as a range with the intent to provide local governments with a better sense of the degree and type of growth they may need to plan for, given current policy and investment trends.

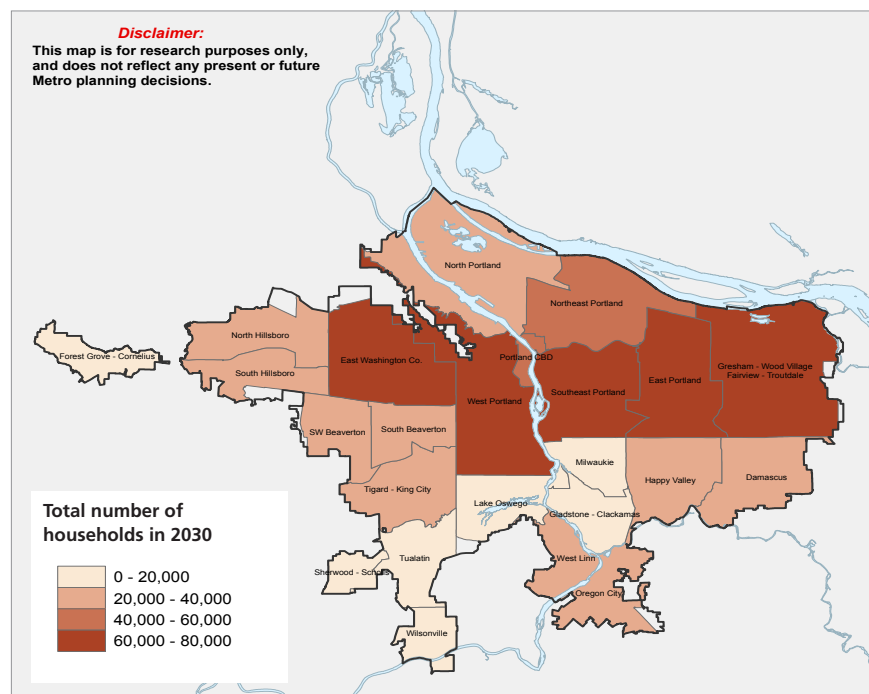
⁴ The seven-county region includes Clackamas, Multnomah, Washington, Clark, Columbia, Skamania, and Yamhill counties.

Maps 1 and 2 illustrate two possible distributions of households in the year 2030 under low and high growth scenarios (also summarized in tabular format in Table 1. These results would be different with a different mix of policies, investments or changes in housing preferences⁵.

Map 1 Possible household distributions with current policy direction
LOW growth scenario



Map 2 Possible household distributions with current policy direction
HIGH growth scenario



⁵ The capture rate assumed in the preliminary urban growth report is based on historic trends. MetroScope scenarios, on the other hand, produce a capture rate as an outcome of the scenario and its assumptions. Thus, though similar in scale, the number of households described here in the context of scenarios is not exactly the same as what is assumed in the preliminary urban growth report.

Table 1 Possible distributions of households in the year 2030, assuming current policies and trends

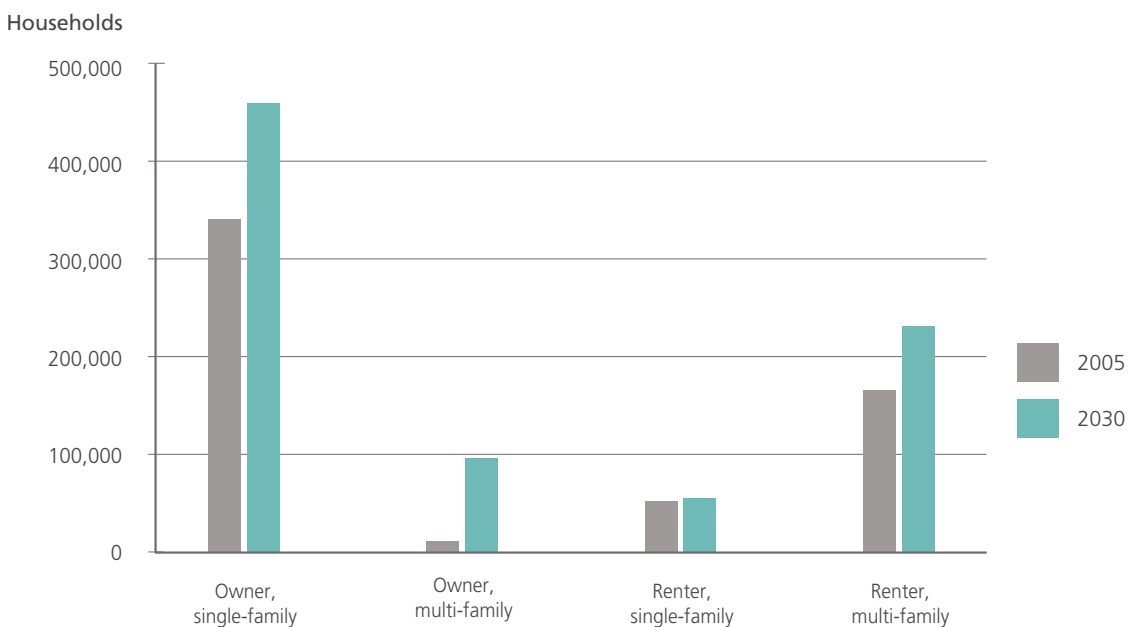
Subarea <i>City boundaries or portions thereof, based on census tracts.</i>	2005 estimate	Low growth scenario	High growth scenario	Difference low and high
Portland central business district	12,300	43,200	48,800	5,600
Northeast Portland	44,400	50,100	53,300	3,200
Gresham - Wood Village - Fairview - Troutdale	47,300	61,700	68,700	7,000
East Portland	44,000	59,200	65,400	6,200
Southeast Portland	68,300	76,900	79,500	2,600
West Portland	48,800	71,700	77,500	5,800
North Portland	22,400	29,000	32,300	3,300
Lake Oswego	16,400	18,500	18,900	400
Gladstone - Clackamas	16,800	19,400	19,800	400
Milwaukie	15,400	18,300	18,900	500
Happy Valley	15,300	21,500	23,800	2,300
Damascus	5,200	16,100	23,300	7,200
Oregon City	14,300	25,200	33,100	7,900
West Linn	10,000	16,500	20,900	4,400
Wilsonville	7,900	10,800	12,200	1,400
North Hillsboro	19,300	26,400	29,200	2,800
East Washington Co.	42,400	62,100	67,400	5,300
South Beaverton	23,200	26,600	27,000	400
Tigard - King City	26,400	34,300	35,900	1,600
Tualatin	9,900	14,800	17,700	2,900
Sherwood - Scholls	7,400	9,800	10,100	300
SW Beaverton	23,500	30,300	32,100	1,800
South Hillsboro	20,100	26,800	28,200	1,400
Forest Grove - Cornelius	11,500	15,900	16,300	400
TOTAL	572,500	785,100	860,300	

Mix of housing types and ownership

Assuming a continuation of current policies and trends, we are likely to see an increase in the total numbers of all housing types. The potential increase in multi-family units (150,000 more by 2030) is greater than the increase in single-family units (121,500 more by 2030). Researchers such as Dr. Arthur C. “Chris” Nelson, who has conducted pioneering research on urban settlement patterns, growth management and housing, have suggested that the focus of planning efforts needs to be on providing more apartment and condominium choices. The number and type of dwelling units that will be needed by the year 2030 will be included in an updated draft of this analysis to be released in September 2009.

Figure 2 Comparison of household types and ownership in Metro urban growth boundary, actual 2005 and forecasted 2030

Source: Middle growth scenario based on continuation of current policies and trends



Calculating housing and transportation affordability

In order to produce estimates of future housing and transportation expenditures for different household types in different locations, both historic and forecasted data are used:

Historic data: United States Bureau of Labor Statistics data on housing and transportation expenditures are augmented with other historic data on income levels, demographics, housing preferences and travel behavior.

Forecasted data: MetroScope scenarios produce forecasted data on household types (household size, income, age of householder), patterns of renting versus owning, and location choices.

Scenario results are analyzed and linked with the historic data. This analysis produces expenditure estimates for future households, depending on factors such as the household type, renting versus owning, and location.

A definition of “cost-burdened” household

For this analysis, cost-burdened households are defined as renters that spend more than 50 percent of their income on housing and transportation.

Homeownership represents an economic choice that requires some level of equity investment (recent lending practices notwithstanding). For this reason, this analysis assumes that to be cost-burdened, a household must rent, not own.

Because this analysis includes both housing and transportation costs, the standard rule that no more than 30 percent of one’s income should be spent on housing needs adjustment. In 2007, many low-to-moderate-income households in the United States spent well over 50 percent of their income on housing and transportation⁶. In 2007, the national median percentage of income spent on these costs was 45 percent. In the absence of an accepted standard, this report proposes that if a household rents and spends 50 percent or more of its income on transportation and housing, it may be considered cost-burdened.

As is the case today, in the year 2030, the amount that households spend on transportation and housing costs is likely to vary widely from community to community. Costs are likely to be lowest for those living in smaller square footage condos or apartments, particularly in locations with access to multiple modes of transportation, including transit. Many of the region’s urban centers and transportation corridors will be the most affordable places to live.

If we continue with current policy and investment direction, the number of cost-burdened households could double by the year 2030

In the year 2005, there were approximately 95,500 cost-burdened households inside the Metro urban growth boundary (about 17 percent of the households in Metro region). By the year 2030, if current trends and policies continue, between 18 to 23 percent of the households inside the Metro region could be described as cost-burdened. If the high end of the population range forecast is reached by the year 2030 and new policies and investments are not pursued, the number of cost-burdened households may more than double to 198,400.

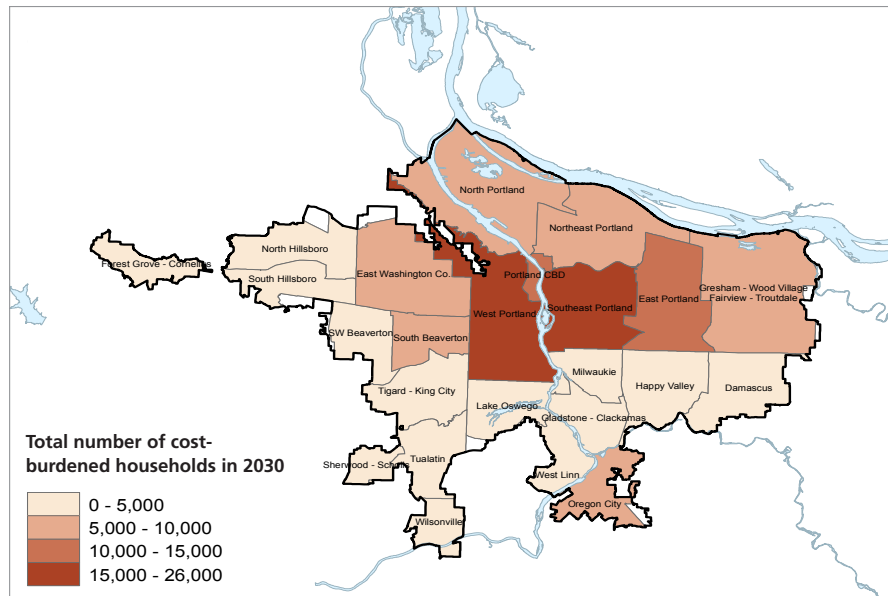
These MetroScope scenarios indicate that the central city, centers, corridors, and centrally-located neighborhoods are areas that are likely to remain in high demand in the future. While high market demand supports the development of multi-story buildings (where zoning allows), this type of construction often requires more expensive materials and structured parking, leading to higher costs per square foot of residence. However, these are also the communities where residents are likely to have the choice of smaller residences and multiple transportation options that save money. Though these urban center and corridor locations appear likely to offer the most affordable housing and transportation options, these scenarios indicate that there could still be many cost-burdened households, many of which choose to locate in urban centers and corridors to save money.

Table 2 provides a summary of the possible distribution of cost-burdened households in the year 2030. Areas that have lower numbers and percentages of cost-burdened households have not necessarily provided affordable housing options. In many cases, there are fewer cost-burdened households simply because there are limited affordable options from which to choose.

Maps 3 and 4 depict the possible number of cost-burdened households in the year 2030 by subarea (rough approximations of city boundaries, portions of larger cities, or combinations of smaller cities). Though cost-burdened households are predicted to be distributed throughout the region, many are concentrated in the Portland central business district, southeast Portland, and west Portland, where housing and transportation options could be most affordable.

⁶ Source: United States Bureau of Labor Statistics

Map 3 Total cost burdened households, LOW growth scenario



Map 4 Total cost burdened households, HIGH growth scenario

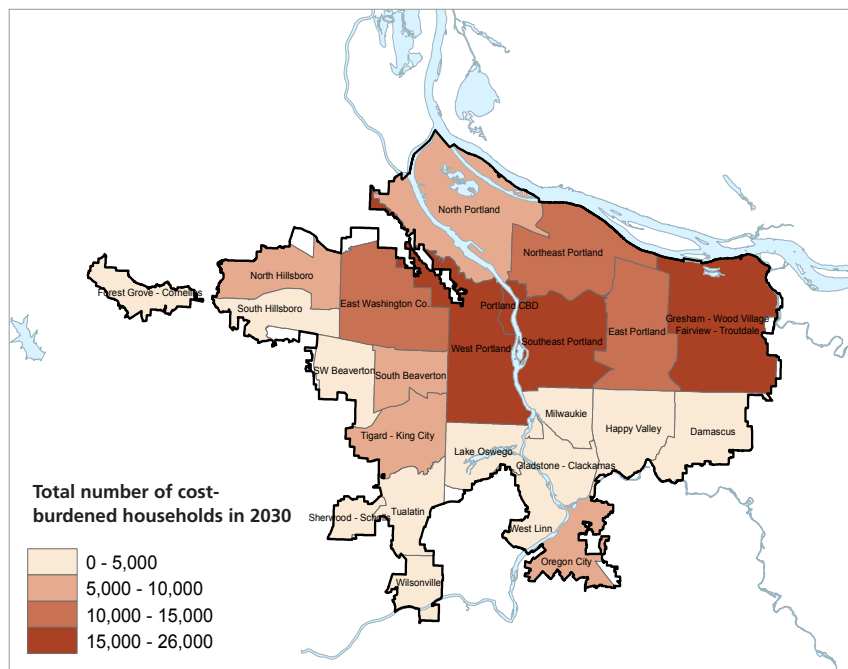


Table 2 Potential distributions of cost-burdened households by year 2030 under low and high growth scenarios

Subarea <i>City boundaries or portions thereof, based on census tracts.</i>	Low growth scenario		High growth scenario	
	Number of cost-burdened households	Percent of cost-burdened households	Number of cost-burdened households	Percent of cost-burdened households
Portland central business district	12,800	30%	16,500	34%
Northeast Portland	9,400	19%	13,500	25%
Gresham - Wood Village - Fairview - Troutdale	9,800	16%	18,100	26%
East Portland	11,000	19%	12,400	19%
Southeast Portland	18,400	24%	26,000	33%
West Portland	19,100	27%	23,600	30%
North Portland	6,000	21%	7,100	22%
Lake Oswego	2,100	12%	2,600	14%
Gladstone - Clackamas	2,900	15%	4,300	22%
Milwaukie	3,500	19%	3,600	19%
Happy Valley	2,500	12%	4,900	21%
Damascus	600	4%	1,300	5%
Oregon City	5,400	21%	7,200	22%
West Linn	900	6%	900	4%
Wilsonville	2,300	21%	3,000	25%
North Hillsboro	3,400	13%	7,800	27%
East Washington Co.	7,300	12%	14,300	21%
South Beaverton	5,100	19%	5,300	20%
Tigard - King City	4,300	13%	7,500	21%
Tualatin	1,600	11%	3,000	17%
Sherwood - Scholls	1,100	11%	1,500	15%
SW Beaverton	2,600	9%	4,900	15%
South Hillsboro	2,800	10%	4,600	16%
Forest Grove - Cornelius	4,400	28%	4,500	28%
TOTAL	139,300	18%	198,400	23%

POLICY IMPLICATIONS

In order to implement the region's long-range vision and address new challenges such as climate change, the region needs to maintain housing affordability in the central city, centers and corridors. These scenarios indicate that many urban centers and corridors, particularly areas in the City of Portland, will offer the most affordable housing and transportation options. However, if the region continues the current policy trends, many households will still be cost-burdened as housing prices continue to increase in all locations.

Increases in housing prices are not caused by a lack of zoned capacity or vacant land.

It appears that the primary causes of increased housing prices are the very success of efforts to enliven centers and corridors (which inherently leads to increased demand), the continued underfunding of infrastructure (which effectively reduces housing supply), inadequate public investments to offset multi-family construction costs, and a shortage of choices for people who want smaller, less expensive residences.

New ideas are needed to preserve our region's livability and affordability. A failure to maintain affordable housing choices in the central city, centers, and corridors may put additional growth pressures on existing single-family neighborhoods and push more residents to less central locations where they could be more susceptible to increases in energy prices.

Local and regional policy and investment choices will influence housing choice and affordability in the Portland metropolitan region. As we make these choices, questions to consider include:

- Are cities and counties willing to invest to make housing affordable in locations with good accessibility to various transportation options and essential services?
- Will the region identify an infrastructure funding source to support more housing choices in centers and corridors, thus reducing the effects of population growth on single-family neighborhoods?
- What are some ways that policies could be tailored so that they encourage the market to provide more housing choices such as accessory dwellings, cottage housing, and high quality manufactured housing?
- Is the region willing to address inequity in the distribution of cost-burdened households? Can public investments minimize the impact?

NEXT STEPS

This preliminary housing needs analysis – and the preliminary residential urban growth report released in March 2009, into which this analysis is incorporated – is designed to frame policy questions and choices for the region’s residents and elected leaders to discuss and address throughout 2009. As such, this analysis will evolve in response to public input and to any policy decisions made by local and regional governments this year.

This summer, regional leaders will engage in a more specific discussion of the long-term aspirations of local communities and the assumptions of the capacity of the existing urban growth boundary to meet the next 20 years’ worth of employment and population growth, culminating in a draft urban growth report to be issued in September 2009.

This fall, the Metro Council will, with the boards of commissioners of Clackamas, Multnomah and Washington counties, designate urban reserves to accommodate potential urban growth boundary expansions over the next 40 to 50 years, as well as rural reserves that will be off-limits for expansion during that same period. Reserve designations will be informed by the 2060 population and employment range forecast, released on March 19, 2009, as well as by the preliminary urban growth report.

In December 2009, the Metro Council will accept a 2030 population and employment range forecast and will adopt the final urban growth report, which describes any gap between the capacity within the existing boundary and forecasted demand.

Throughout 2010, local and regional governments will continue to implement policies and investments to stimulate and support the region’s communities while accommodating anticipated growth. By the end of 2010, the Metro Council will submit to LCDC its plans to accommodate at least 50 percent of any identified 20-year capacity need through efficiency measures designed to accommodate future growth within the existing urban growth boundary or through expansions if there is any need to take further action to accommodate the forecasted 20-year growth.



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Clean air and clean water do not stop at city limits or county lines. Neither does the need for jobs, a thriving economy and good transportation choices for people and businesses in our region. Voters have asked Metro to help with the challenges that cross those lines and affect the 25 cities and three counties in the Portland metropolitan area.

A regional approach simply makes sense when it comes to protecting open space, caring for parks, planning for the best use of land, managing garbage disposal and increasing recycling. Metro oversees world-class facilities such as the Oregon Zoo, which contributes to conservation and education, and the Oregon Convention Center, which benefits the region's economy.

Metro representatives

Metro Council President – David Bragdon

Metro Councilors

Rod Park, District 1

Carlotta Collette, District 2

Carl Hosticka, District 3

Kathryn Harrington, District 4

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