

WHITE PAPER
2008 LEGISLATIVE CONFERENCE
BARRIERS TO AFFORDABLE HOUSING

QUESTION PRESENTED

Should the Oregon Association of REALTORS® pursue legislative options to make the cost of housing more affordable for all Oregonians?

OVERVIEW

The more you learn about the concept of affordable housing, the clearer it becomes that this is a multi-faceted problem. There isn't one solution that will solve the problem and make housing throughout Oregon more affordable. While we attempt to address this challenge through innovative solutions, we need to remember that each community is unique and guidelines to strengthen affordable housing must be flexible and community based.

DEFINITION OF AFFORDABLE HOUSING

Affordable housing is a residence where the total housing costs are affordable to those living in that housing unit. In the United States, a historical guideline for housing affordability is that the cost of housing does not exceed 30 percent of a household's gross income. This typically includes taxes and insurance for owners, and in some cases utility costs. When the monthly carrying costs of a home exceed 30 percent of the household income, it is considered unaffordable for that household. It's also important to remember that the definition of affordable housing brings different problems for Oregonians depending on their level of income.

DEFINING THE ISSUE OF AFFORDABLE HOUSING

When the demand for available housing exceeds supply, a large amount of the housing stock is not affordable for much of the population. A universal problem experienced by middle and working class households is that their income simply grows at a slower rate than the value of property rises, making it virtually impossible to keep pace with the market. The most "affordable" places in the United States are in neighborhoods that have the least demand and an adequate or abundant supply of housing.

Affordable housing will continue to be an issue as costs associated with the housing market (ie: regulation, development, land acquisition, services such as electricity, water and sewer) are increasing. As costs increase, those associated with the housing community will try to find new ways of relief to assist with the goal of keeping housing more affordable.

Socially, it is critical that we view the full continuum of housing, ranging from homelessness to homeownership. The solution to housing costs realistically relies in the ability to generate a supply of housing that is affordable and also provides a safety net to help assist Oregon families through various stages in their life along the continuum of housing. It is important that there is a strong supply of housing that is affordable for all levels of the continuum. Without homeownership opportunities, the problem is further compounded as there is no way to get ahead and move up in the housing continuum.

BARRIERS TO AFFORDABLE HOUSING

As different states and local communities work to find solutions to bring housing back within reach, it is critical that we understand and identify the barriers that exist to affordable housing opportunities. With new innovative affordable housing programs emerging, we need to look at the whole picture. While affordable housing discussions are typically restrained to the arguments of land costs, market prices and subsidy programs, there are additional potential solutions available.

Recently several jurisdictions have accepted inclusionary zoning language in their local ordinances, which can cause a breakdown of land being voluntarily annexed into the city. These types of programs tend to focus on the immediate need of affordable land but do not focus on keeping the land affordable in future acquisitions. It also has the potential to complicate the development process and limit opportunities for local developers. The unfortunate side effect of inclusionary zoning is that it raises the cost for all other homebuyers in that development.

A study released by the University of Maryland placed in question the long-term effectiveness of inclusionary zoning. This study conducted by Gerrit Knaap, Antonio Bento, and Scott Lowe, analyzed the impacts of inclusionary zoning policies on single-family home process, single-family and multifamily housing starts, and the size of single-family housing units in a number of jurisdictions in California from 1988 to 2005.

The study showed that during the above time period in California, imposing inclusionary zoning had virtually no effect on the overall level of housing starts and it did not increase or reduce the overall housing supply. The results showed the following measurable effects on other factors within the market:

- Increased multifamily housing starts by 7 percent to 12 percent when production shifted away from single-family homes as inclusionary zoning requirements increased;
- Raised the price of new homes by 2 percent to 3 percent, and by as much as 5 percent for more expensive homes, compared to communities without inclusionary zoning; and
- Reduced the size of new homes by 48 square feet.¹

Taxes, such as a real estate transfer tax are constantly surfacing as ways to help subsidize government programs and make housing more affordable for low-income Oregonians. In an effort to bolster a specific program, advocates don't take into consideration the impact new taxes have on the market. For example, this "niche tax" on the sale of real estate will drive up the housing costs for all buyers within the market and have a pronounced negative impact on new homebuyers.

¹ The University of Maryland study relating to inclusionary zoning impacts is available on the National Association of Homebuilders website at www.nahb.org/housingaffordability.

These types of programs and regulations tend to be a quick fix for a small population while shifting the burden, and the question remains whether they really get at the heart of the problem?

In Oregon, the Land Conservation and Development Commission has the ability to write administrative rules which interpret state land use law. In many situations, counties and cities can be more restrictive than the administrative law and/or state law. The process of working through two or three regulatory entities can create an anti-growth atmosphere within the state. These entities should not get “in the way” of residential, industrial and commercial opportunities by creating restrictions which are statewide and do not allow for local flexibility in land use planning.

A prevalence of public lands dictates the direction communities can grow and where infrastructure can expand. In connection with strict land use policies and regulations in Oregon, these issues serve to further enhance the lack of available land for development. A new study by Theo Eicher, a University of Washington economics professor, shares an insightful perspective by illustrating that home prices in Seattle have, perhaps unintentionally, been driven up \$200,000 as a consequence of land use regulations. “In a nationwide study, it can be shown that Seattle is one of the most regulated cities and a city whose housing prices are profoundly influenced by regulations,” said Theo Eicher a University of Washington Economics Professor.²

CONCLUSION

The issue of affordable housing is very complex and challenging. To take into consideration all the implications associated with affordable housing requires an in-depth study for each community individually. While many factors will change the dynamics from one city to another, each shall experience its own unique problems and require its own set of solutions. Many cities study what works for similar communities; however, it is important to remember there is no “cookie cutter” solution for all. These findings are similar to the initial findings of the Big Look Task Force. The Oregon Association of REALTORS® should continue to support their efforts to reform and improve upon Oregon’s land use system.

In Oregon, we are challenged with an abundance of publicly owned lands and lack of “shovel ready” dirt for residential, industrial and commercial lands. As a result, it is essential that we continue to evaluate land use restrictions to make sure that we do not put our state in a position where growth is impossible. Real estate markets are largely impacted by land availability and development costs. It is critical not to create an atmosphere where the lack of land availability and development costs out-pace economic development and living wage jobs.

As we embrace solutions to affordability, we need to ensure that future land-use decisions, regulations and government subsidy programs don’t detract from our goal of keeping housing affordable.

² See the Seattle Times Article “UW study: Rules add \$2,000 to Seattle house price” at http://seattletimes.nwsourc.com/html/business/technology/2004181704_eicher14.html.