

Development Economics and Housing Affordability

The Columbia Gorge Commission

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Some Questions You May Have

- If land was added to an urban growth area/ boundary for an urban area in The Gorge, what type and cost of housing would the private market build and what would be the price/rent?

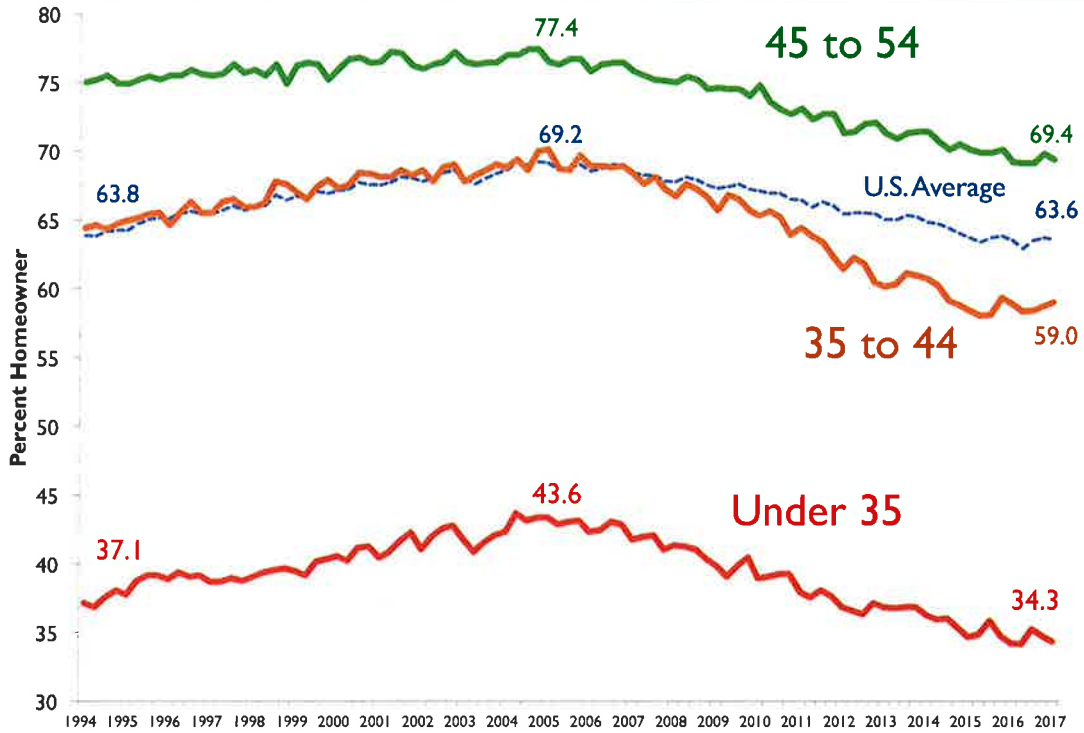
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Homeownership Decreasing For All Ages

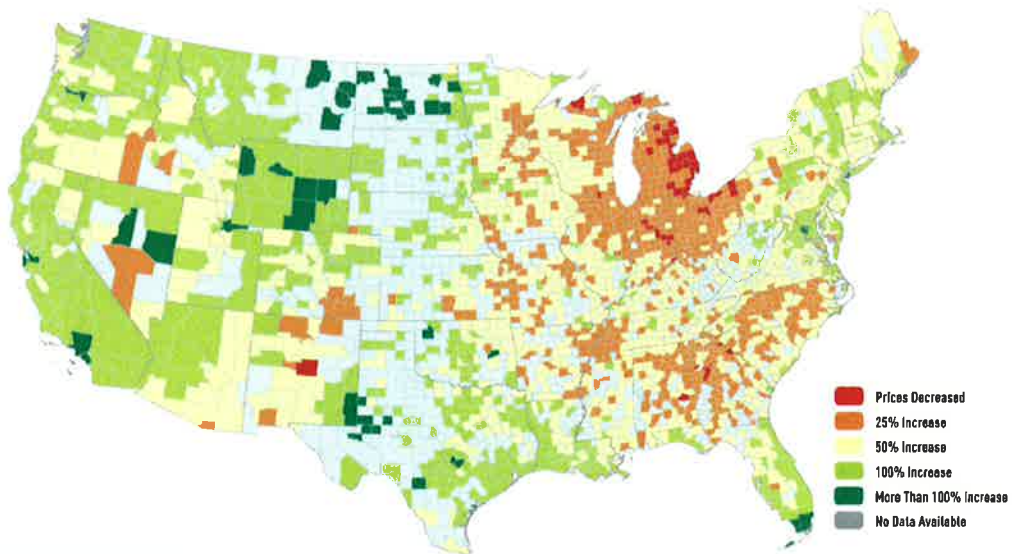


Source: U.S. Census Bureau

Housing Prices more than doubled in some areas since 2000



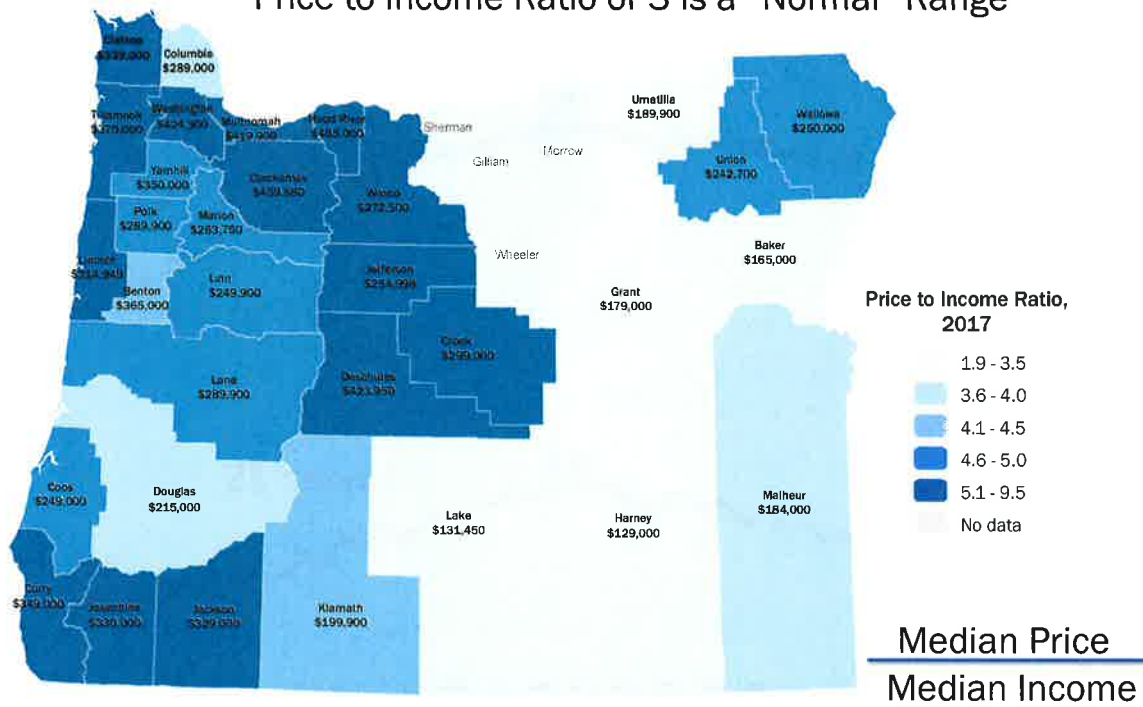
AVERAGE CHANGE IN HOME PRICES BY COUNTY 2000-2016



Source: St. Louis Federal Reserve GEOFRED

County Price to Income Ratios above historical rates

Price to Income Ratio of 3 is a "Normal" Range



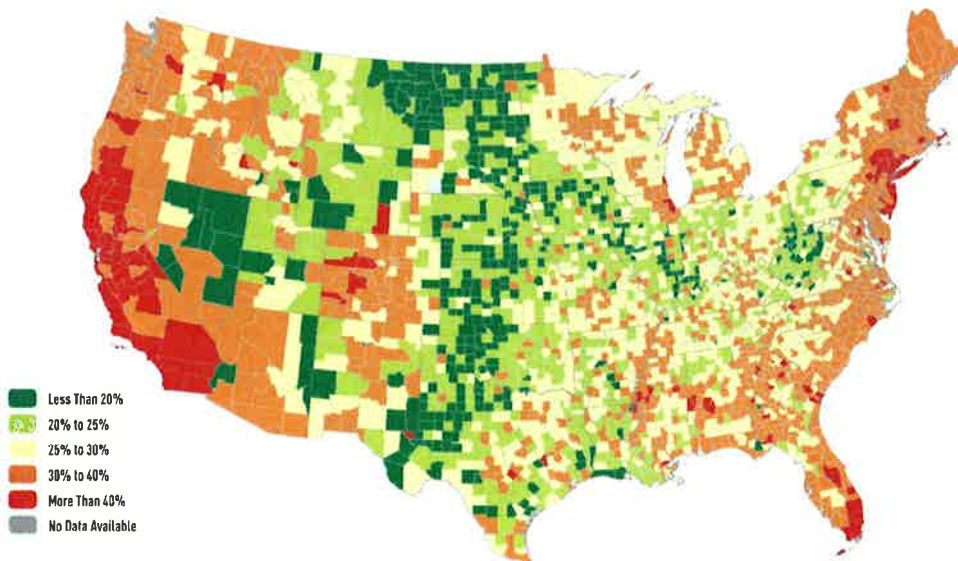
Source: Zillow Median List Price, July 2017; HUD MFI 2017

Cost burdening worst in areas with highest price increases



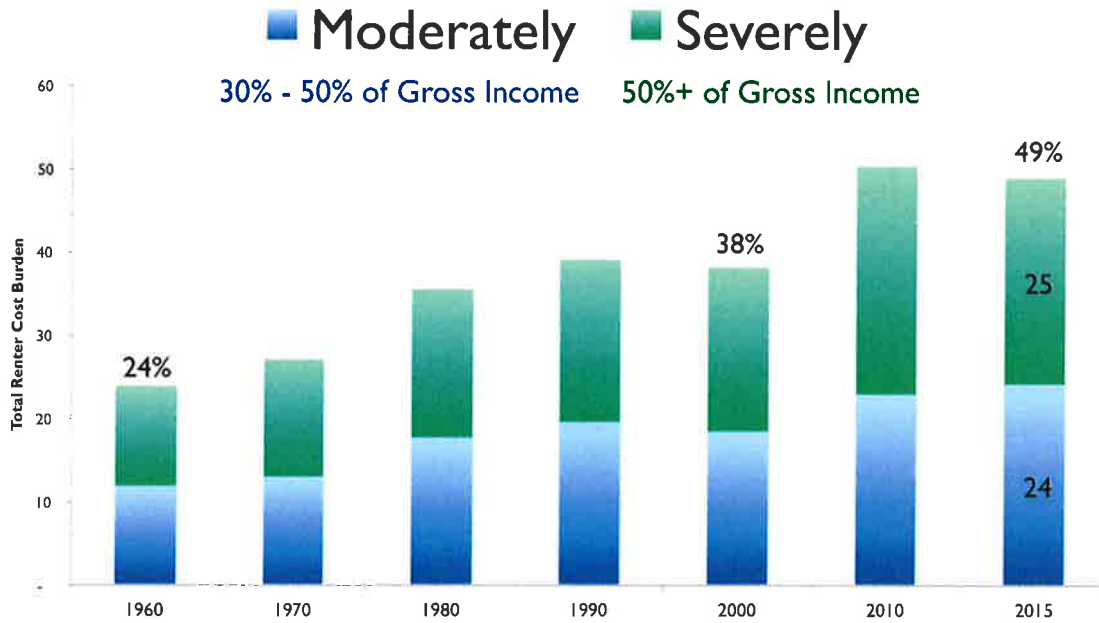
Percent of Cost Burdened Households (Owner + Renter) in 2015

Cost Burdened = Spending 30%+ of Gross Income on Housing



Source: St. Louis Federal Reserve GEOFRED

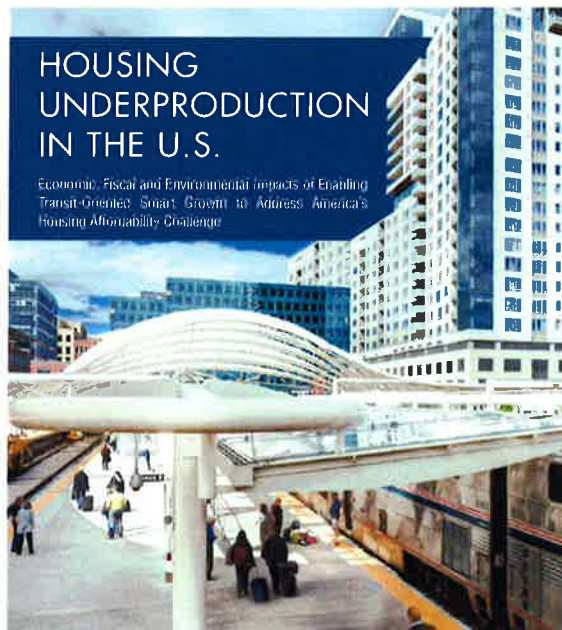
U.S. renter cost burden increasing



25% of renters nationally spend more than 50% of income on rent

Source: Harvard Joint Center for Housing Studies

National Report



HOUSING UNDERPRODUCTION IN THE U.S.

Economic, Fiscal and Environmental Impacts of Enabling Transit-Oriented Smart Growth to Address America's Housing Affordability Challenge

Available for download at:
www.upforgrowth.org

State reports are forthcoming for:

- California
- Oregon
- Washington

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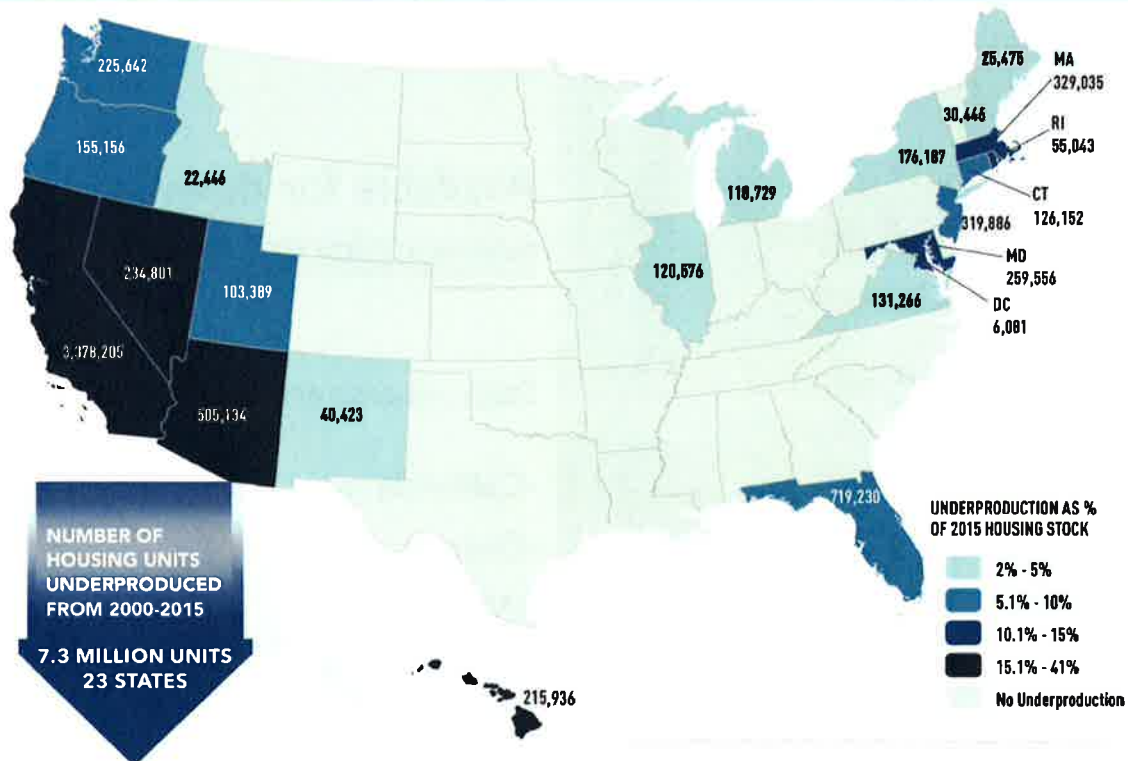
UP FOR GROWTH

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Quantify Underproduction

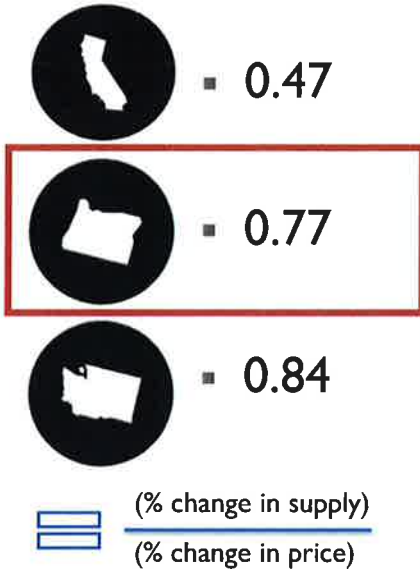
- **Methodology:**
 - Econometric model to estimate supply elasticity at the state level
 - Calculate baseline through 2000
 - Estimate number of units in 2015 if market were in historic equilibrium (national benchmark)
 - Subtract forecast from the actual 2015 stock to determine underproduction of units for each state

7.3 million housing units under produced from 2000 to 2015

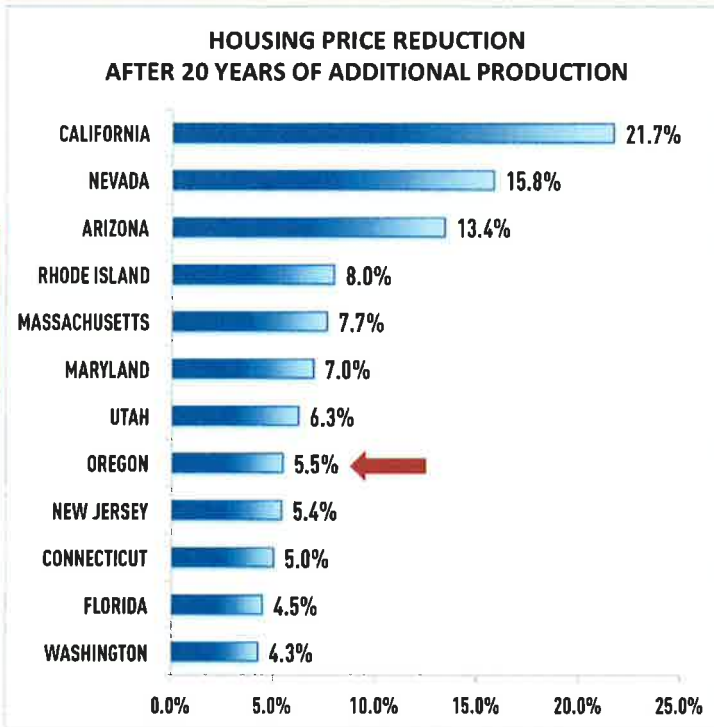


Price Impacts from Additional Production over 20 years

Price Elasticity of Supply

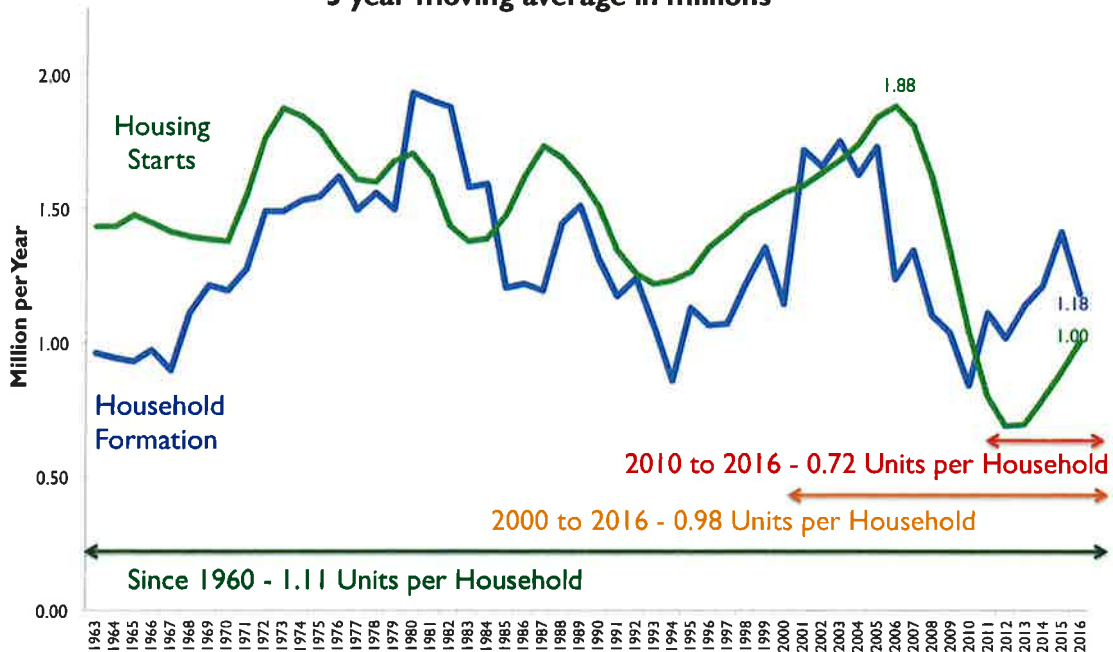


Note: less than one is considered inelastic



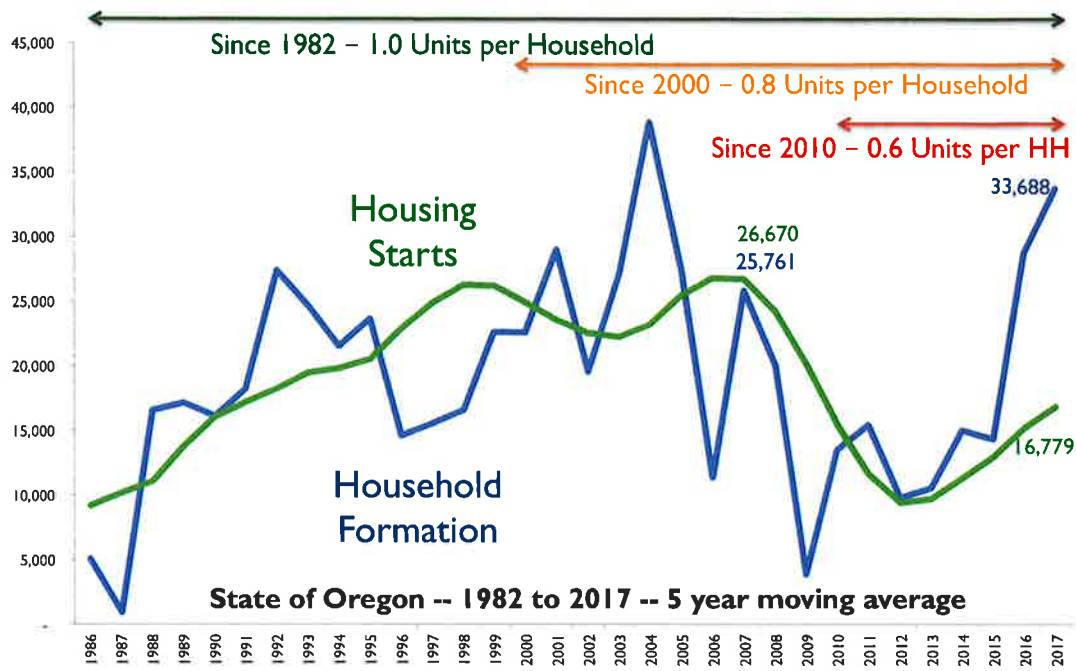
Housing starts haven't kept pace with household formation

U.S. Household Formation vs. Housing Starts
5 year moving average in millions



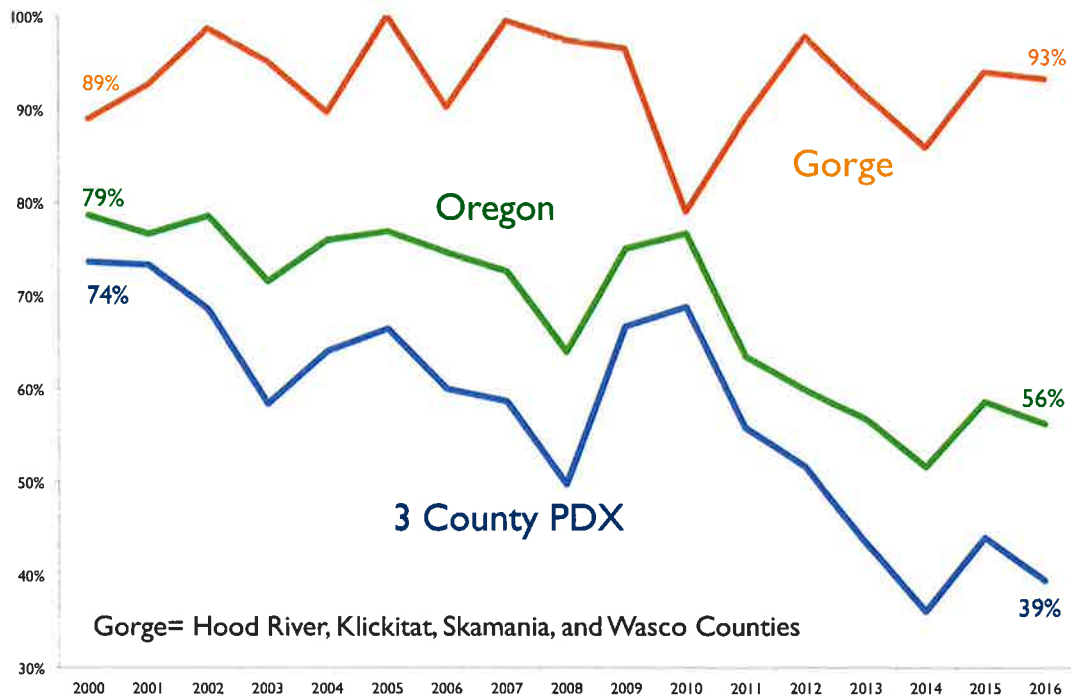
Source: U.S. Census Bureau

Ratio of starts to household formation lower in OR



Source: U.S. Census Bureau, Oregon Office of Economic Analysis, and Moody's

Building Permits - Share of 1 Unit Homes

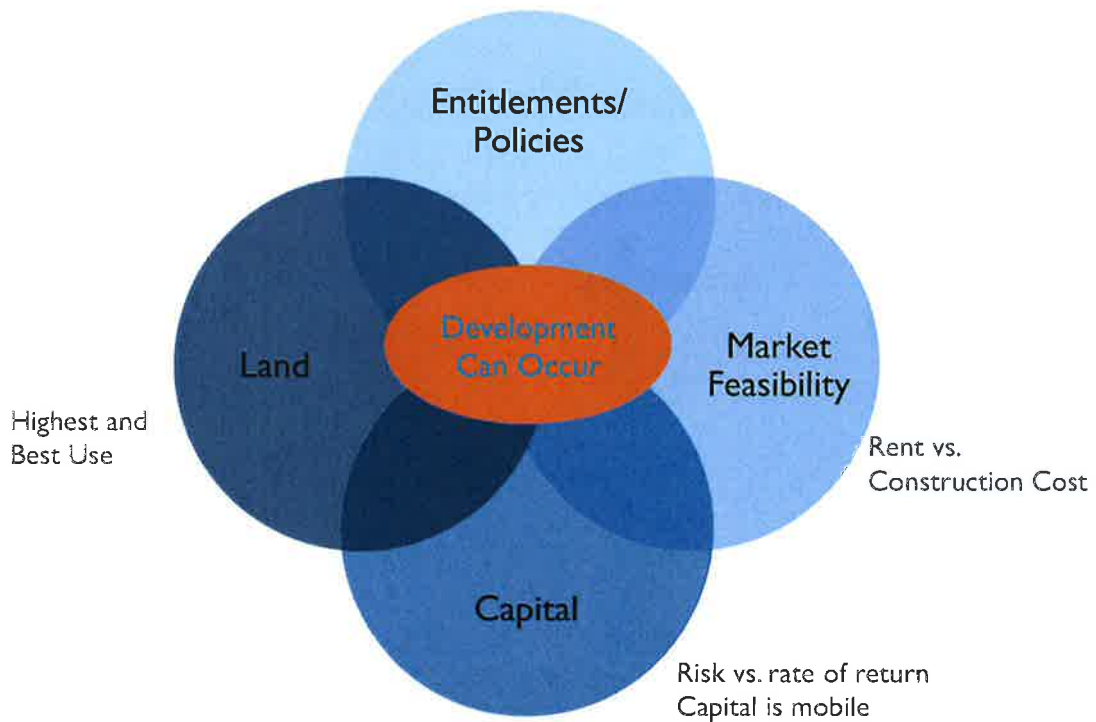


Source: Census Building Permits Survey

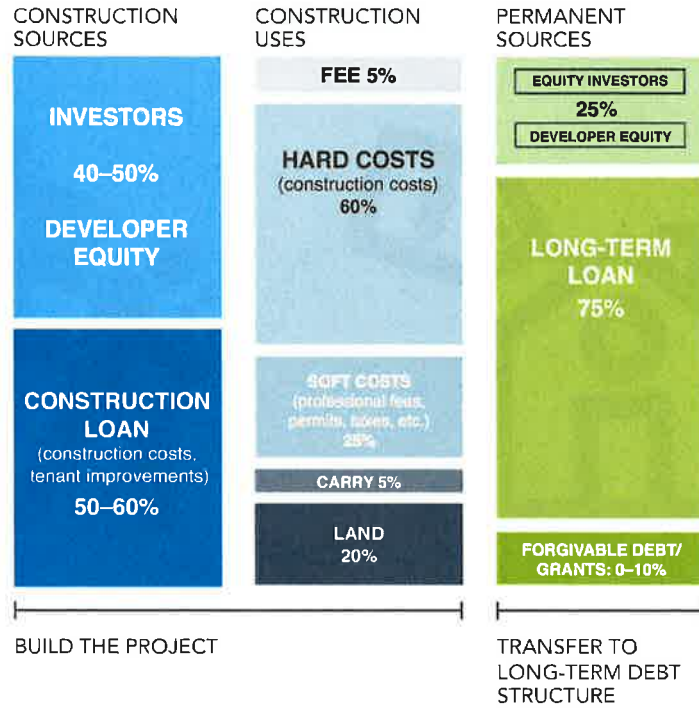
Real Estate Development Economics



Understanding the Economics of Development



Construction and Permanent Financing



Residual Land Value

$$RLV = \text{Developer Maximum Land Budget}$$

Given a set of capital, construction, operating costs, and revenue assumptions



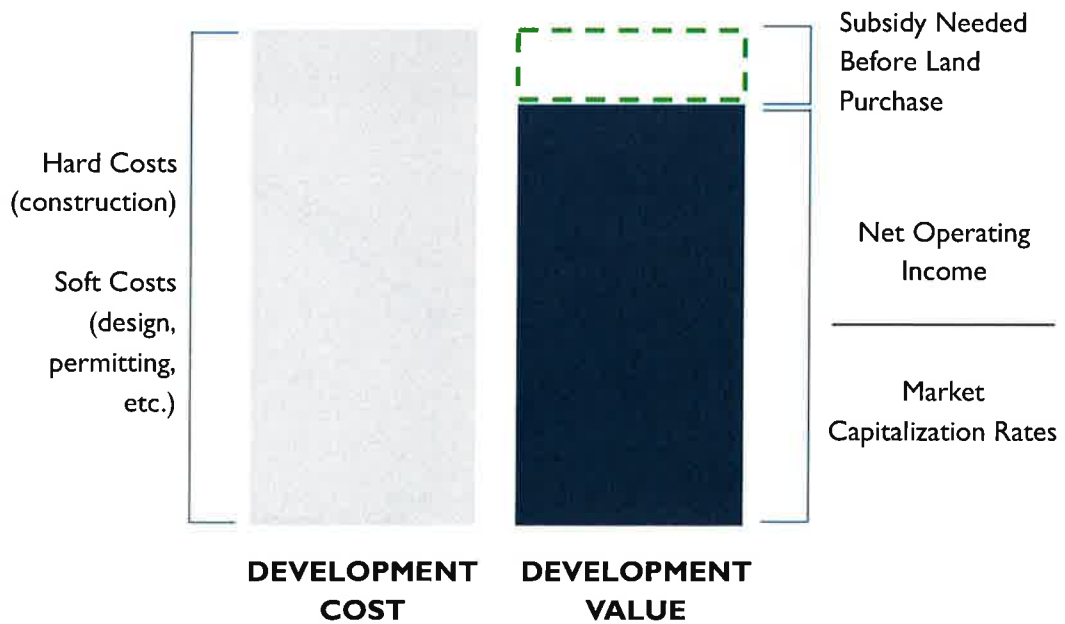
Residual Land Value

Development Example (feasible)



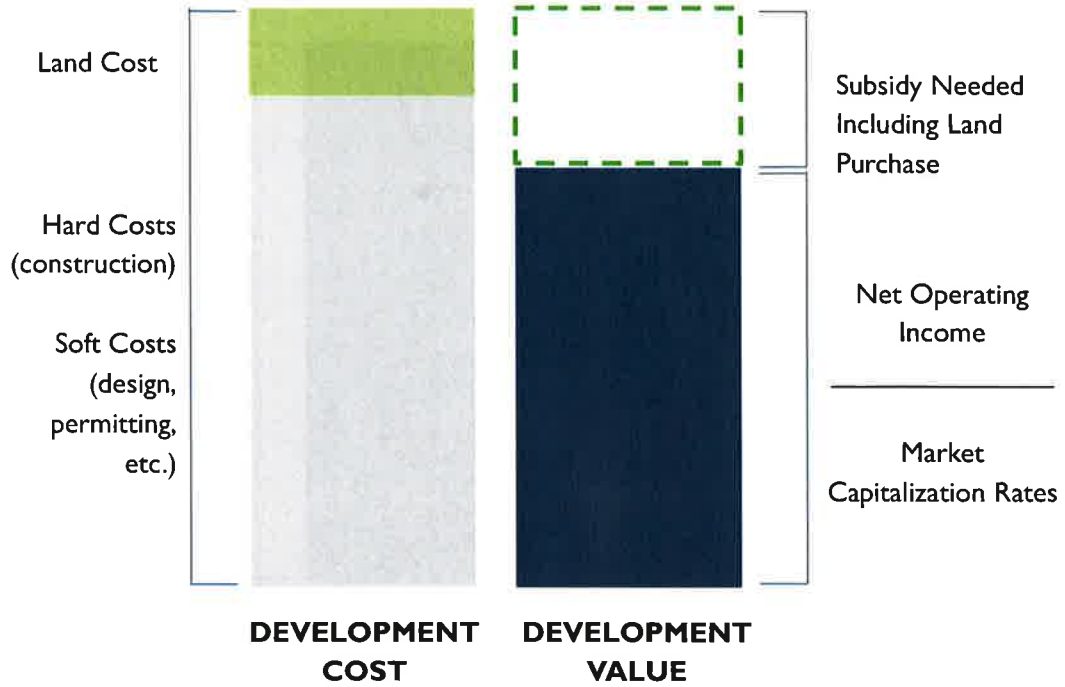
Residual Land Value

Development Example (not feasible)



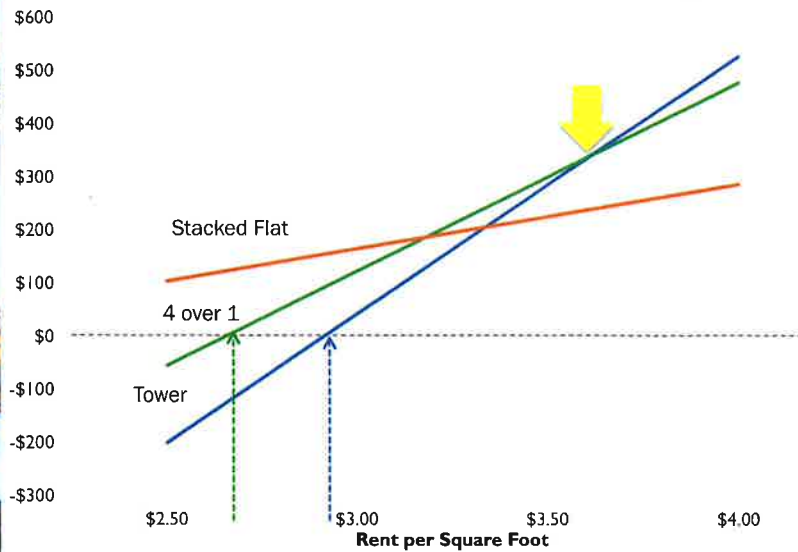
Residual Land Value

Development Example (not feasible)



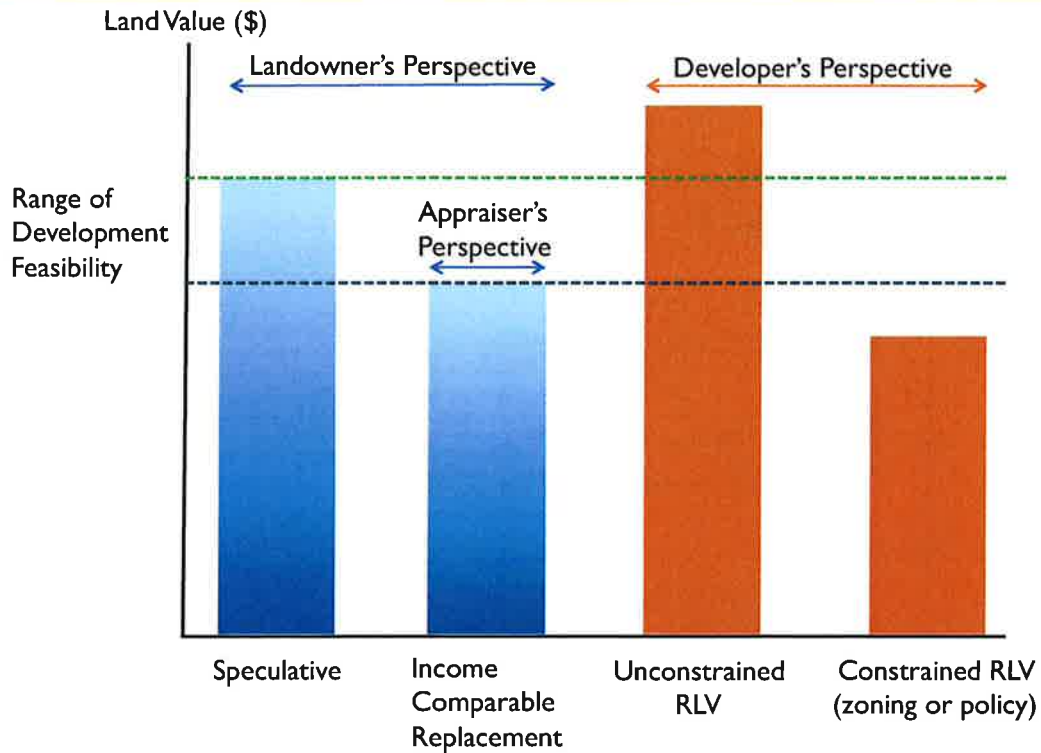
Construction Prototypes

Residual Land Value by Construction Prototype

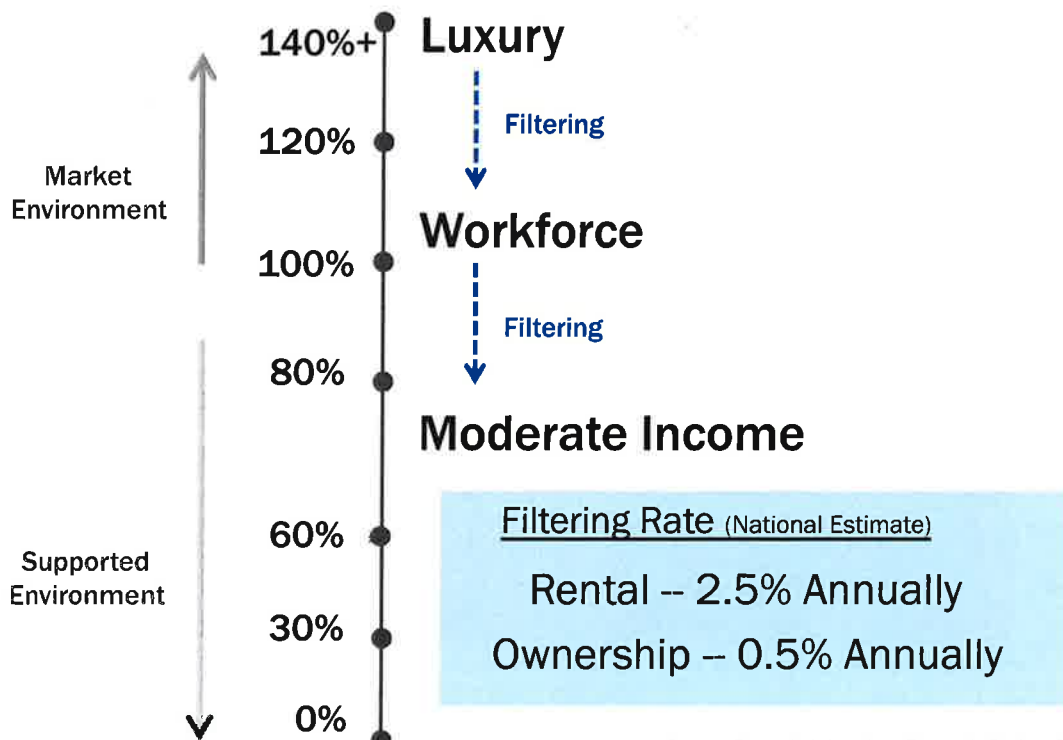


RLV = \$ per gross square foot of land

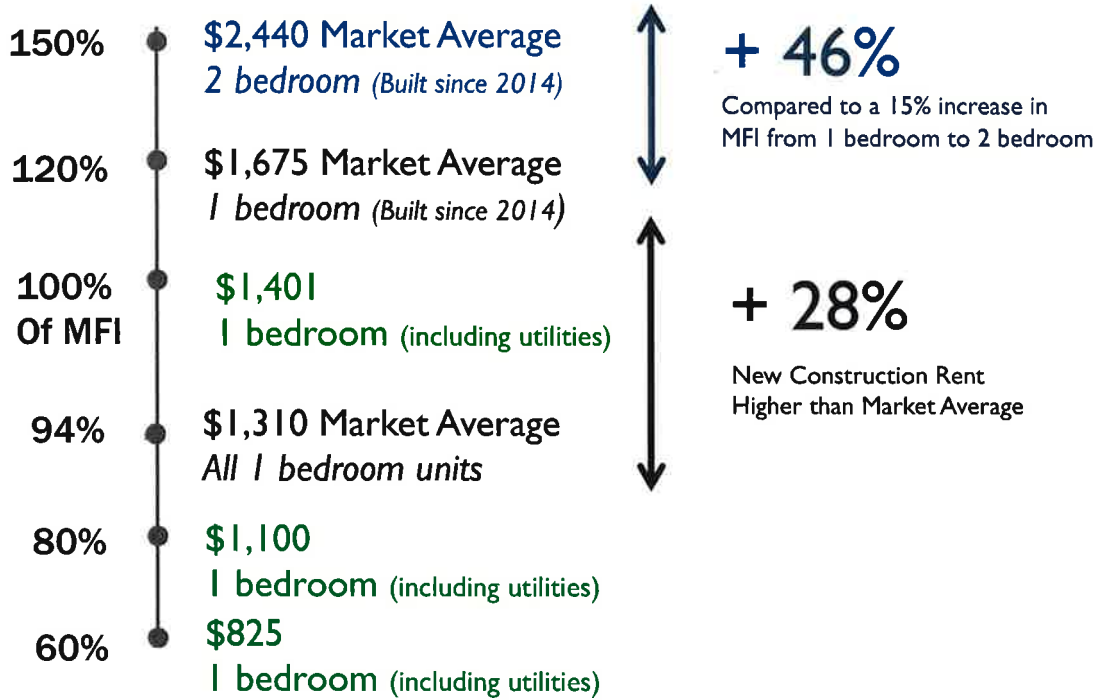
Land Value - Highest and Best Use



The Market Builds High-End Housing



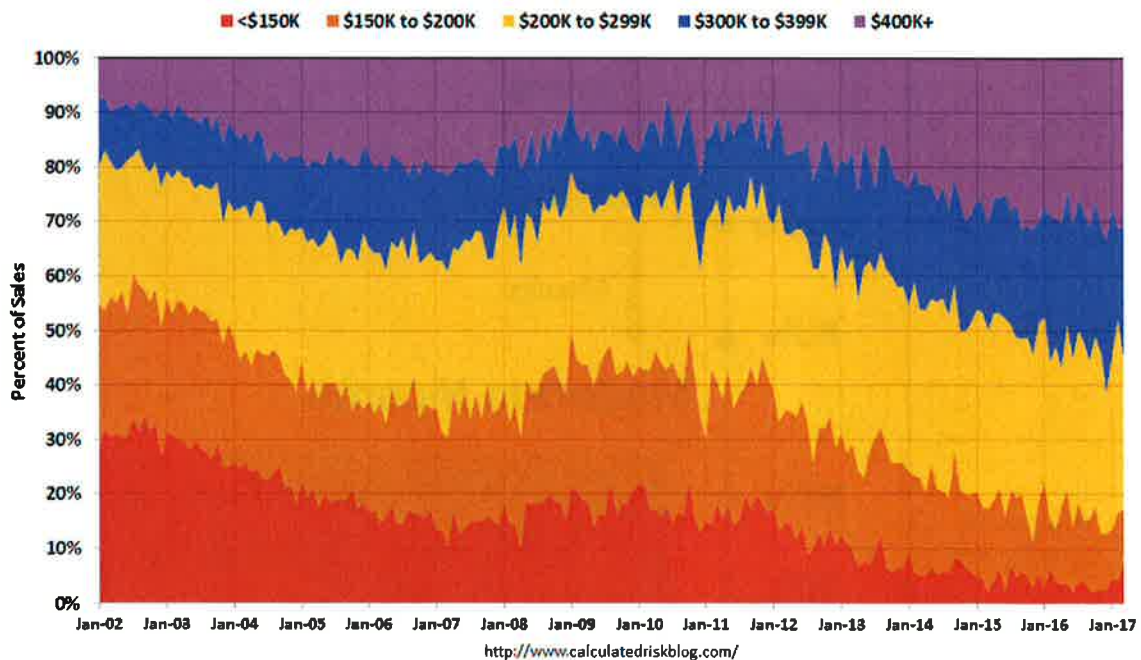
The Market Builds High-End Housing



City of Portland – Sept 2017

Source: CoStar and HUD

Price Distribution of New Homes Nationally



Cost of New Home Construction 2017

Table 1. Single Family Price and Cost Breakdowns 2017 National Results		
	Average Lot Size:	11,186
	Average Finished Area:	2,776
I. Sale Price Breakdown	Average	Share of Price
A. Finished Lot Cost (including financing cost)	\$91,996	21.5%
B. Total Construction Cost	\$237,760	55.6%
C. Financing Cost	\$7,636	1.8%
D. Overhead and General Expenses	\$21,835	5.1%
E. Marketing Cost	\$5,314	1.2%
F. Sales Commission	\$17,448	4.1%
G. Profit	\$45,902	10.7%
Total Sales Price	\$427,892	100.0%

	Average Sales Price	Price per SF
Nationally (Census)	\$368,100	\$140
Hood River County	\$426,171	\$201
Klickitat County	\$438,619	\$219
Wasco County	\$296,411	\$169

Source: NAHB, Redfin

Gorge Real Estate Overview

2012-2016 cumulative averages	% owner occupied housing	Median Value Owner Occupied Housing	Average Monthly Cost Owner Occupied Housing	Median Gross Rent	Median Household Income
Skamania County	69.3%	\$243,000	\$1,464	\$723	\$53,082
Klickitat County	67.4%	\$197,500	\$1,355	\$787	\$49,633
The Dalles	61.6%	\$177,500	\$1,296	\$757	\$45,856
Hood River	48.4%	\$324,600	\$1,604	\$1,064	\$47,967

US Average 63%

Source: US Census, ACS

Zoning Capacity



Economically Feasible

Policy Options – Increase vs. Decrease Supply



Increase



Decrease

Increase	Decrease
Tax vacant land or land bank	Rent Control/Stabilization
Streamline/shorten permitting	Construction Excise Tax
Eliminate/reduce parking requirements	Impact Fees/Systems Development Charges
Increase density in TOD areas	Height/density limits
Allow ADUs	Development moratoriums
Density bonuses	Residential conversion restrictions
Establish “by-right” development	Restrictive zoning (missing middle, ADU)
Tax abatements	Replacement of industrial space
Urban Growth Boundary expansion	Development moratorium



Increase supply

Tax vacant land or land bank	<input checked="" type="checkbox"/>
Streamline/shorten permitting	<input checked="" type="checkbox"/>
Eliminate/reduce parking requirements	<input type="checkbox"/>
Increase density in TOD areas	<input type="checkbox"/>
Allow ADUs	<input checked="" type="checkbox"/>
Density bonuses	<input type="checkbox"/>
Establish “by-right” development	<input checked="" type="checkbox"/>
Tax abatements	<input checked="" type="checkbox"/>
Urban Growth Boundary expansion	<input type="checkbox"/>

Policy Options to Improve Affordability

1. Local Zoning and Regulatory Constraints

- By right zoning in transit corridors
- ADU fee waivers

2. Local Infrastructure Funding

3. Land Banking Authorities

4. Construction Defect Laws

- Increases Condo Construction Costs

5. Low Income Housing Tax Credits (under 60% MFI)

- Middle Income Housing Tax Credit (60 to 100% MFI)

6. Mortgage Interest Deduction Reform

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- If land was added to an urban growth area/ boundary for an urban area in The Gorge, what type and cost of housing would the private market build and what would be the price/rent?

Would build the type of housing currently being developed.

Single Family, detached homes, with average price of \$400k

Recent Portland Metro UGB expansions haven't delivered the expected number of new units. 27,000 acres since 1998, produced 11,000 permitted units of expected 67,000 (16% of total)

Some Questions You May Have

- What effect would the new housing built in a UGB expansion area have on the price of existing housing, or on rents?

Increasing the supply of housing will put downward pressure on price of housing.

Calculating the supply elasticity for a market will estimate how much of an impact price adding new supply will have on prices.

Some Questions You May Have

- If zoning allowed it, what types of middle housing might be built by the market in cities in The Gorge? What kinds of families and households would need and use that kind of housing?

Missing middle housing is the most difficult type of housing to finance.

Given the challenges of small scale development, ADUs/cottage homes are the most likely form of development.

They would primarily serve the vacation rental market, but could also serve single householders, and couples without children.

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