COMMON SENSE INSTITUTE

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OREGON HOUSING COMPETITIVENESS INDEX

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TABLE OF CONTENTS

ABOUT THE AUTHORS

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ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Oregon's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Oregonians. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

KEY FINDINGS

- **Oregon ranks 45 for housing competitiveness among the 50 states and the District of Columbia.**
- **Oregon's Housing Competitiveness Index improved from 60 in 2011 to 62 in 2023.**
- **Oregon's Improvement in Housing Competitiveness was driven by more moderate changes in the four housing competitiveness components relative to many other states.**
- **Permitting has not kept up with increases in population.**
- **The housing deficit has increased as a share of the population.**
- **The Hours of work required to pay the monthly mortgage increased from 47 hours in 2011 to 92 hours in 2023, a 96% increase. –** This is primarily the result of housing prices increasing much more than wages.
- **The increase in the number of hours of work required to pay the monthly rent rose from 48 hours in 2011 to 50 in 2023, very moderate in comparison to many other states.**
- **The supply of housing valued at $300,000 and below is far below the demand for housing in the same range.**
- **The supply of housing valued between $300,00 and $1,000,000 exceeds the demand for that housing.**

FREE ENTERPRISE COMPETITIVENESS INDEX

CSI issues a Free Enterprise Report annually. The report assesses the state's competitiveness relative to forty-nine other states and the District of Columbia and provides data and analysis on eight policy areas, education, energy, healthcare, housing, infrastructure, public safety, state budget, and taxes and fees. This report is intended to provide additional details on the state housing competitiveness not covered in the Free Enterprise Report.

The competitiveness indices should be interpreted as follows: an increase (decrease) in an index indicates increased (decreased) competitiveness relative to the other forty-nine states and District of Columbia. Oregon's individual performance may improve, for example, its labor force participation rate may increase, however, other states may have seen greater increases, and this will cause Oregon's competitiveness in the labor force participation rate to decline.

STATE HOUSING COMPETITIVENESS INDEX

To gauge how well states are performing with regard to housing CSI produces a State Housing Competitiveness Index for all 50 states and the District of Columbia consisting of four metrics that capture the supply and affordability of housing, these include the percentage of permits as a share of the housing deficit/surplus, the housing deficit/surplus as a percentage of the population, the hours required (at the average wage) to pay the monthly mortgage based on 30-year mortgage rates for the average priced home, and the number of hours of work required to pay the monthly average rent at the average wage rate. Each metric is ranked relative to all fifty states and the District of Columbia. Then the four ranked metrics are equally weighted and summed. This value is ranked again to produce an aggregate measure of housing competitiveness as shown in **Figure 1**.

Oregon's Housing Competitiveness Index was 60 in 2011 and then declined to 57 in 2018 before rising to 62 in 2023. An increase in either the competitiveness metric or the four sub-metrics represents a positive qualitative change – i.e., the state is more competitive as the index approaches 100.

FIGURE 1 – HOUSING COMPETITIVENESS INDEX - OREGON

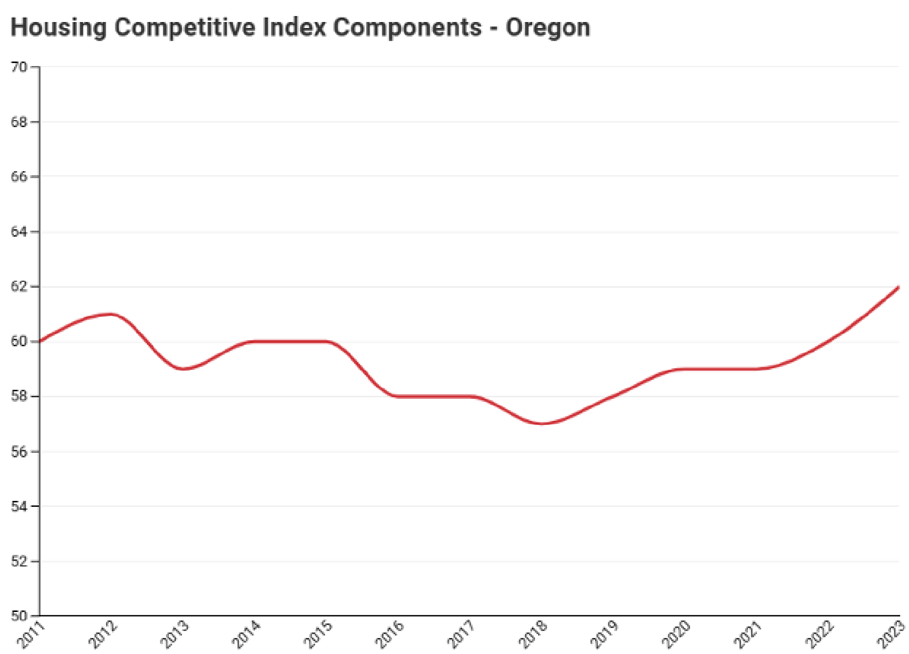
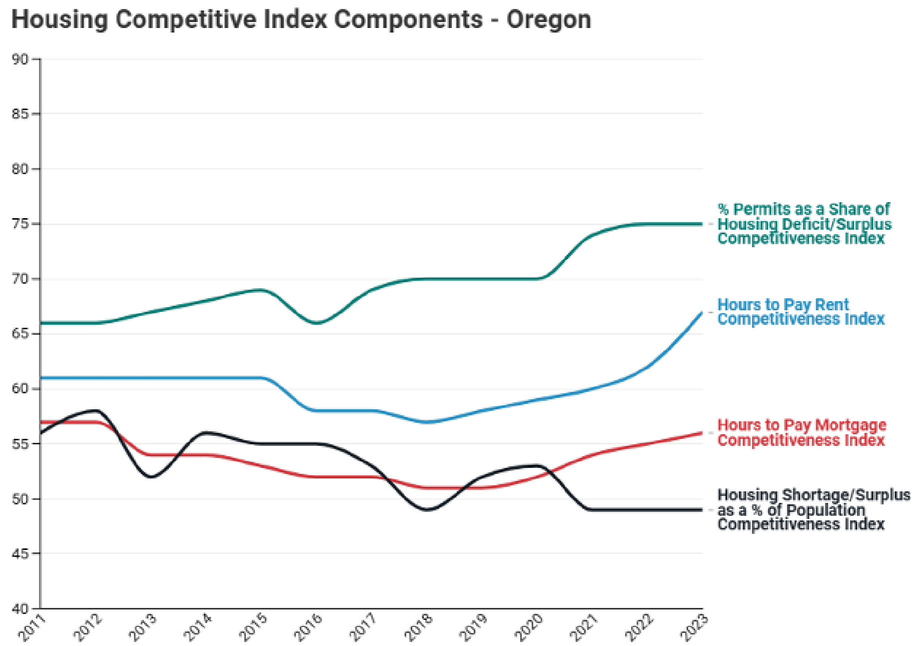


Figure 2 shows the evolution of the four components that are included in the Housing Competitiveness Index. The increase in the Housing Competitiveness Index was the result of increases in two of the four component competitiveness indices. The Competitiveness Index for Percentage of Permits as a Share of the Housing Deficit/Surplus contributed to the increase in the Housing Competitiveness Index as it improved from 66 in 2011 to 75 in 2023. The Competitiveness Index for Hours Required to Pay the Monthly Mortgage declined from 57 in 2011 to 56 in 2023. The Competitiveness Index for Hours to the Monthly Rent improved from 61 in 2011 to 67 in 2023. The Competitiveness Index for the Housing Shortage as a Share of the Population fell from 56 in 2011 to 49 in 2023.

FIGURE 2 – HOUSING COMPETITIVENESS INDEX COMPONENTS - OREGON

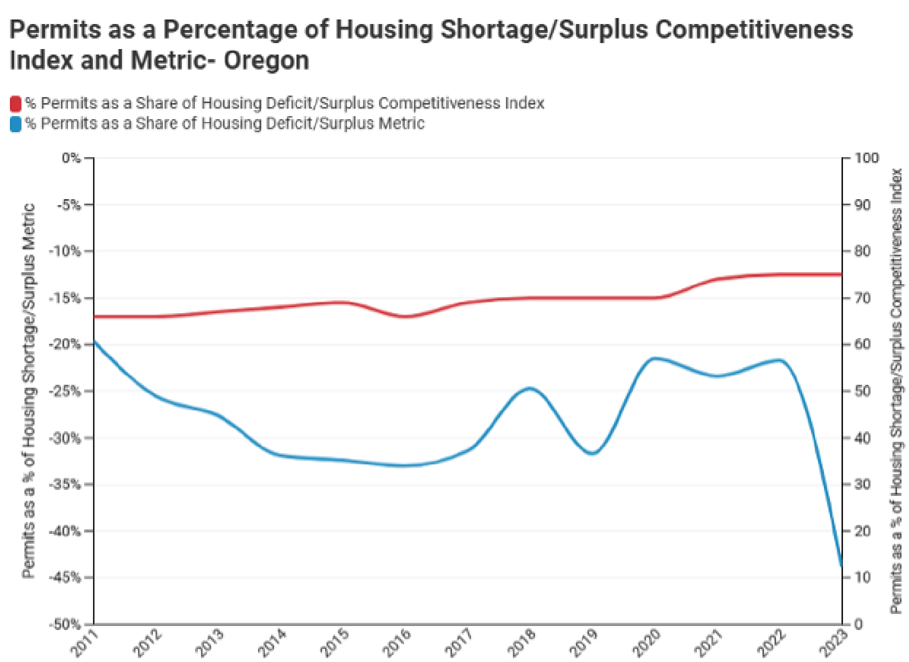


PERMITS AS A SHARE OF THE HOUSING DEFICIT/SURPLUS COMPETITIVENESS INDEX AND STATE METRIC

In order to determine if Oregon's change in competitiveness for permits as a share of the housing deficit/surplus was the result of a change in its own performance, the metric underlying the competitiveness index is shown in conjunction with the competitiveness index, see **Figure 3**.

The majority of the increase in the competitiveness index was the result of a greater decline in the underlying metric in other states. In 2011, Oregon had a deficit of housing and was issuing additional building permits, and the value of the metric was -19.6%. By 2023, it had a larger housing deficit and was not issuing enough permits to alleviate the deficit, and as such the metric fell to -43.8%. Surprisingly, Oregon became more competitive despite the decrease in the metric.

FIGURE 3 – PERMITS AS A PERCENTAGE OF HOUSING DEFICIT/SURPLUS - OREGON

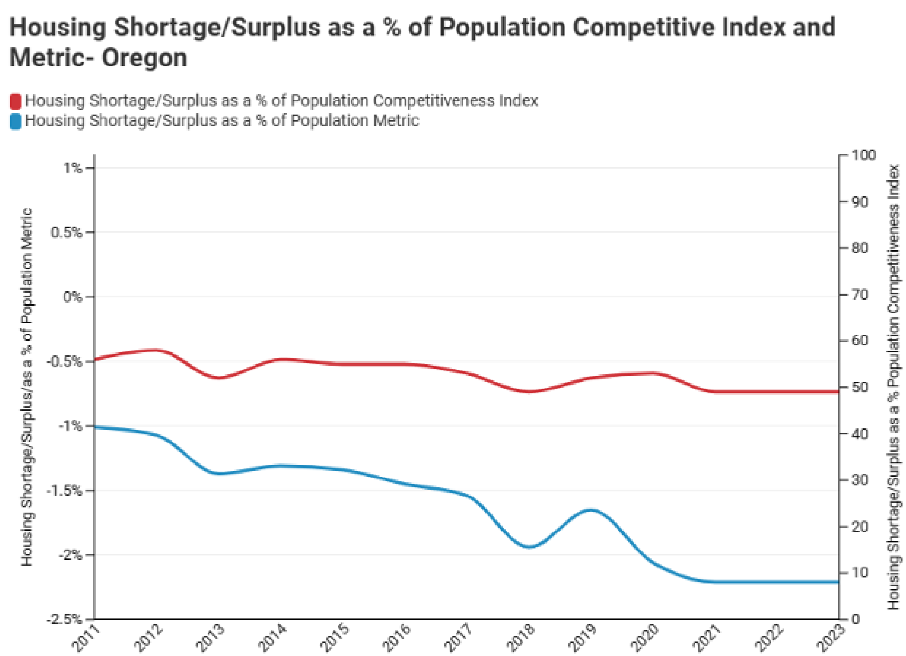


HOUSING SHORTAGE/SURPLUS AS PERCENTAGE OF POPULATION – COMPETITIVENESS INDEX AND METRIC

In order to determine if Oregon's change in competitiveness in the Housing Deficit/Surplus as a Percentage of the Population was the result of a change in its own performance, the metric underlying the competitiveness index is shown in conjunction with the competitiveness index, see **Figure 4**.

The primary driver of the decline in the competitiveness index from 56 in 2011 to 49 in 2023 was the result of a decline in the underlying metric. In 2011, the metric was 0-1.01% but had fallen to -2.21% in 2023 as the housing deficit increased at a greater rate than the increase in population.

FIGURE 4 – HOUSING SHORTAGE/SURPLUS AS A PERCENTAGE OF POPULATION – COMPETITIVENESS INDEX AND METRIC - OREGON



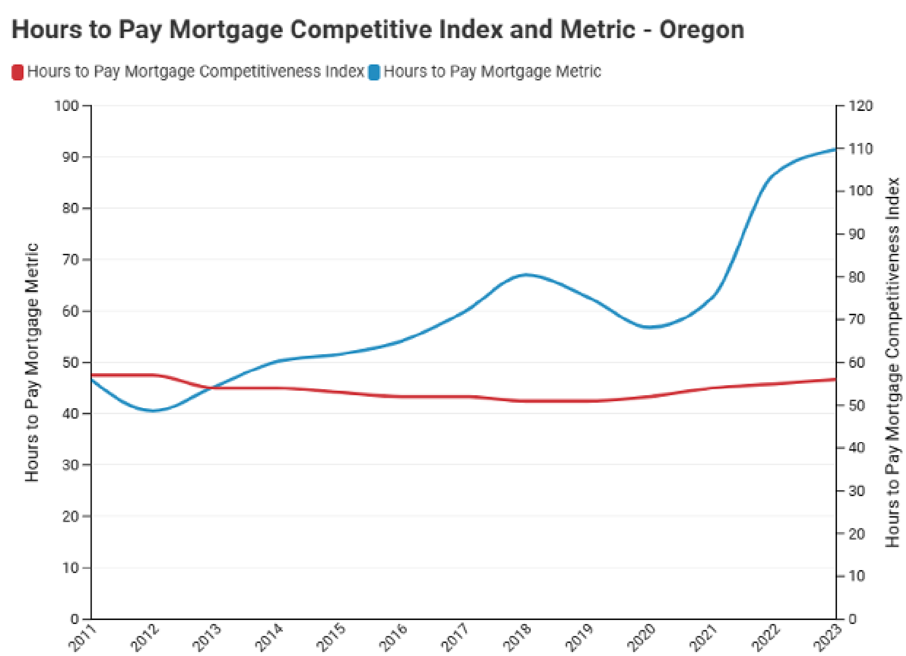
HOURS TO PAY MORTGAGE - COMPETITIVENESS INDEX AND METRIC - OREGON

In order to determine if Oregon's change in competitiveness in the hours required to pay mortgage was the result of a change in its own performance, the metric underlying the competitiveness index is shown in conjunction with the competitiveness index, see **Figure5**.

The primary driver of the slight decline in the competitiveness index from 57 in 2011 to 56 in 2023, was the result of a large increase in the underlying metric. In 2011, the metric was 46.7 hours and rose to 91.5 in 2023. The hours of work required to pay the monthly mortgage also rose in most states but was similar in magnitude as the increase in Oregon.

In Oregon and many other states wages have not kept pace with increased housing prices and rents, thus, this is a large contributor to unaffordability aside from increased housing prices.

FIGURE 5 – HOURS TO PAY MORTGAGE COMPETITIVENESS INDEX AND METRIC – OREGON

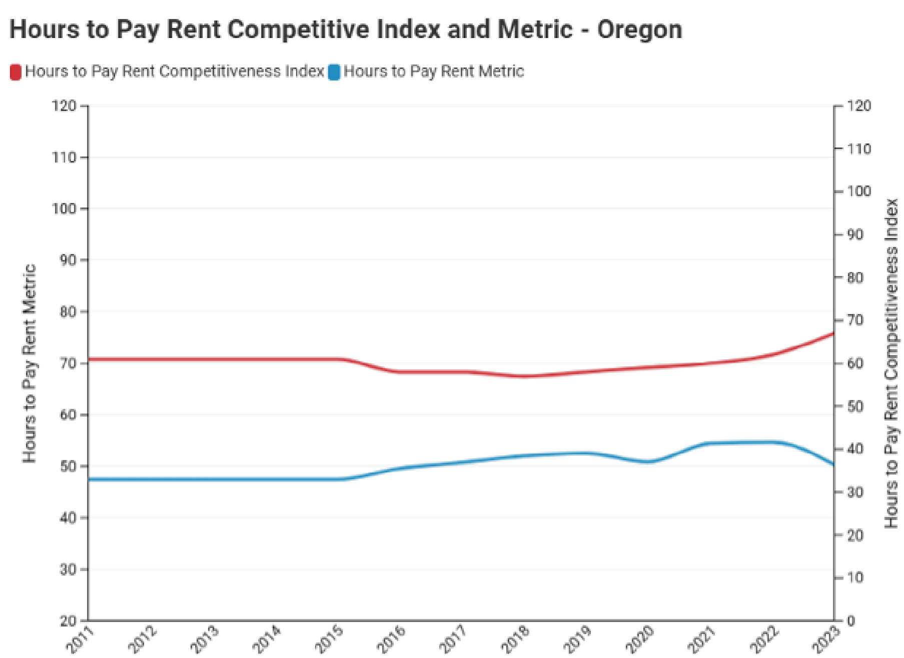


HOURS TO PAY RENT COMPETITIVENESS INDEX AND METRIC - OREGON

In order to determine if Oregon's change in competitiveness in the hours to pay rent as a was the result of a change in its own performance, the metric underlying the competitiveness index is shown in conjunction with the competitiveness index, see **Figure 6**.

Data for rent was only available starting in 2015 so the years 2011 to 2014 were assumed to be the same as 2015 for all states. The primary driver of the increase in the competitiveness index was the result of a moderate increase in the underlying metric while in many other states it was a much higher. In 2011, the metric was 47.5 hours but had risen to 50.3 in 2023. As a result, the competitiveness index increased from 61 in 2011 to 67 in 2023.

FIGURE 6 – HOURS TO PAY RENT COMPETITIVENESS INDEX AND METRIC - OREGON



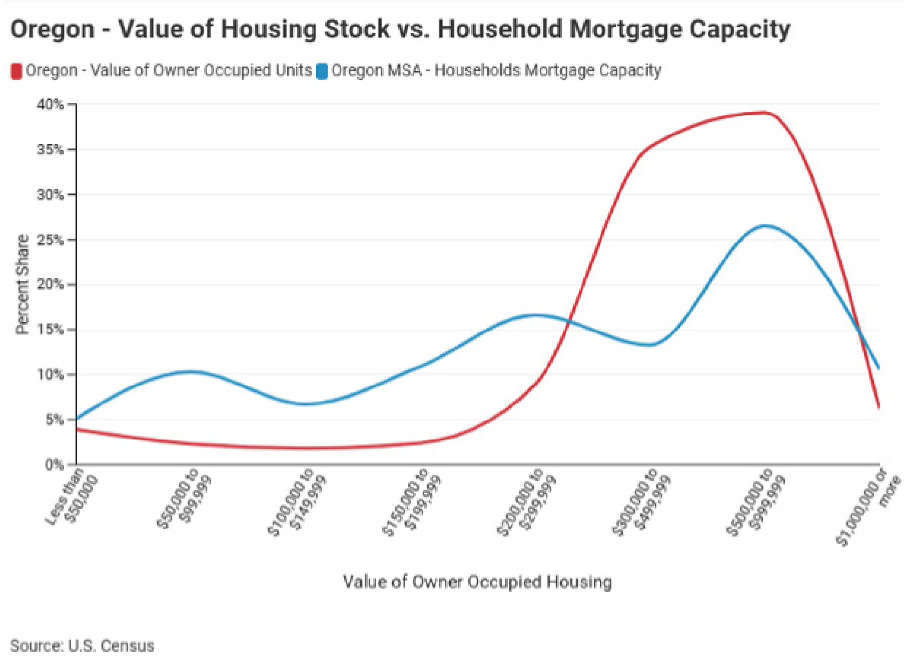
VALUE OF HOUSING VS. HOUSEHOLD MORTGAGE CAPACITY

Unrelated to the Housing Competitive Index, CSI attempts to gain an understanding of the distribution of housing value, or price, of owner occupied housing in Oregon versus the ability of residents to purchase and new home, CSI used data from the American Community Survey on housing values and household incomes. The household incomes are translated into mortgage capacity. This comparison does not include households who have a home to sell and use the proceeds to buy a new home. The assumption is that the new home will be 100% financed.

Figure 7 shows the two distributions. There are more households with the capacity to purchase homes between $50,000 under $300,000 than the available supply, indicating that more homes in the price range need to be built. For home values between $300,000 and $1,000,000 there are more homes valued in this range than the number of households with the mortgage capacity to purchase them, indicating that there is excess supply of homes in this range. For homes valued above $1,000,000 the supply and mortgage capacity are equally distributed.

In the appendices, the same comparison is provided for the following Oregon metropolitan statistical areas, Albany-Lebanon, Bend, Corvallis, Eugene-Springfield, Grants Pass, Medford, Portland-Vancouver-Hillsboro, and Salem.

FIGURE 7 - VALUE OF HOUSING VS. HOUSEHOLD MORTGAGE CAPACITY - OREGON



MARKET-RATE HOUSING AND GOVERNMENT INTERVENTION

There is an ongoing debate as to whether increasing the supply of market-rate housing increases the supply of more affordable housing. There is an abundance of theoretical and empirical research studying the relationship between market-rate housing supply and its effect on affordability. After reviewing the research, Been, Ellen, and O'Regan (2018) conclude that new market-rate housing is necessary but not sufficient to produce more affordable housing and that government intervention is critical to ensure that the supply of affordable housing is added for a range of incomes.[i]

THE ROLE OF GOVERNMENT IN HOUSING

Government plays a role in housing refers to the variety of activities- taxation, zoning, subsidizing, regulating, lending, and others- that take place at several levels of governance- federal, state, and local.

At the federal level, the government serves primarily as a funder, providing financial resources through federal tax policy such as the home mortgage interest deduction, direct subsidies such as assistance to low- income renters and indirect subsidies such as tax credits (LIHTC) to builders of affordable homes. Through its other funding mainstays- the Community Development Block Grant (CDBG) and HOME- the federal government provides funds to states and localities as well as the flexibility to address their area housing needs.

State governments play a vital role in housing too and as such can impact on a state's competitiveness. They can help lower the cost of homeownership through mortgage revenue bond programs and also can allocate their portions of Community Development Block Grant Programs (CDBG) and the Home Investment Partnership Program (HOME) funding, along with state matching funds, to areas throughout the state.

CDBG's are used to address needs such as infrastructure, economic development projects, public facilities installation, community centers, housing rehabilitation, public services, clearance/ acquisition, microenterprise assistance, code enforcement, and homeowner assistance. Low Income Housing Tax Credits (LIHTCs), a major source of funding for new and rehabbed rental homes, are also allocated at the state level. Some states promote housing and community development through state- run housing trust funds or other funding mechanisms.[ii]

HOME provides formula grants to states and localities that communities use - often in partnership with local nonprofit groups – to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or home ownership or providing direct rental assistance to low-income people. It is the largest Federal block grant to state and local governments designed exclusively to create housing for low-income people.[iii]

States can also provide incentives or requirements to encourage localities to adopt policies that will help expand the supply of affordable homes. States serve as conveners and educators, as well as facilitators, through strengthened enabling legislation.

Local governments are crucial to housing and have the largest impact on a state's competitiveness relative to other levels of government. From implementing zoning regulations and processing requests for waivers to issuing building permits and conducting housing code inspections, localities play a direct role in shaping the housing that gets built in their communities. Some localities also donate publicly- owned land or property that has gone into tax foreclosure and contribute local funds to build or rehabilitate homes.

When considering what local governments can do to expand their impact, it is worth noting that not all government initiatives require spending money. By reducing barriers to development, expanding allowable densities, and creating incentives or requirements for the inclusion of affordable homes within new development, local governments can expand the supply of affordable homes with minimal public expense.

THE ROLE OF THE PRIVATE SECTOR IN HOUSING

Private sector developers and builders play a critical role in expanding the overall supply of housing. One reason housing prices are rising faster than wages is that housing supply has not kept up with demand. With the right set of market incentives in place, private sector developers will respond by increasing the supply where needed, slowing the rise of housing costs. With creative policies to keep housing affordable over time also in place, communities can go a long way towards meeting both their economic development and affordable housing goals.

Private financial institutions, namely lenders and servicers, are critical partners to help ensure long-term affordability for homeowners and help families stay in their homes. With the dramatic shifts in the housing market currently taking place, lenders and servicers have the capacity to modify mortgages for families paying more than the current value of their home or refinance unaffordable mortgages to troubled borrowers at risk of losing their homes. Lenders can explore the different refinancing products as options to help borrowers, such as a low-interest loan or a shared appreciation second mortgage, which splits a mortgage into two mortgages- a fixed rate mortgage and a silent second mortgage in which no payments are due until the home is resold.

Lenders and servicers are able to work with housing counselors on behalf of the borrower or through voluntary agreements with the federal government to assist households that qualify for the federal program Making Homes Affordable. Through the Making Homes Affordable program, lenders and servicers receive a financial incentive for helping troubled borrowers that are eligible for the program with a loan modification or in refinancing their mortgage to afford monthly payments over the long term.

GOING FORWARD
– PETER LIFARI, HOUSING FELLOW

Oregon's housing unit shortfall is wreaking havoc on its housing affordability. With a housing unit shortfall of approximately 140,000 homes, in January of 2023, Governor Kotek issued executive order 23-04 establishing a statewide housing production goal and housing production advisory council to address the issue at hand. Oregon presents a unique case study in housing production as they are one of only a few states utilizing a statewide land use system. Oregon was also a first mover in zoning reform, eliminating single family zoning in 2019 in addition to requiring cities of over 10,000 residents to plan for housing growth. Yet although Oregon has engaged in the process of increasing their land zoned for housing density, at the statewide level, the state has managed to produce a paltry average of 20,000 units per year. Governor Kotek's executive order looks to increase that annual number to 36,000 units per year, or 360,000 over ten years. To help facilitate the attainment of this goal Kotek recently signed into law Senate Bills 1530, 1537, and House Bill 4134 which together provide over $376 Million in grants, loans and services funding to local governments, non-profits, public housing authorities and developers to acquire land, construct affordable housing via a revolving loan fund, and finance infrastructure development amongst a litany of other uses.

Unsurprisingly the most controversial element is also poised to be one of the most impactful. The legislative package allows Oregon local governments with populations of 25,000 or more a one-time allowance to expand their Urban Growth Boundary by one hundred acres. Cities with populations of less than 25,000 are granted up to fifty acres. This one time allowance expedites the process to expand the Urban Growth Boundary, which traditionally takes years to traverse and has severely constrained where housing density is premised.

Oregon is a trailblazer in regard to zoning reforms and housing development financing. Yet Oregon remains a housing development laggard. State leadership and housing policy analysts will closely track the impacts of the UGB expansion in the years to come and if as anticipated the expansion plays a material role increasing housing development, Urban Growth Boundary expansion and regulatory reforms should be considered once again.

Oregon has all the pieces in place to promulgate attainable housing offerings throughout the state. Eager and engaged leadership, a statewide land use and building code system that provides a platform for efficiency driving regulations, as well as innovative and highly capitalized financing solutions at the state level. Why then would Oregonians constrain where and how they deploy their housing development strategies in such a mitigating self-defeating fashion?

Herein lies the question Oregonians are grappling with. What use are cutting edge housing plans when you refuse to truly unleash them? If Oregon cities are to meet Governor Kotek's annual housing goal, they have but one option. Increase the vision of what is permitted in Urban Growth Boundary expansion, do not wait until it sunsets in 2033 to build upon the lessons learned in the years ahead. The Urban Growth Boundary expansion, while positive, is limited in scope and contingent upon significant time and cost driving regulatory requirements at the local government level. Self-inflicted cost driving regulations are the enemy of housing affordability, yet they remain prominent in the legislature's strategy. The expansion was borne out of an executive order declaring a housing emergency, yet local governments looking to implement the expansion, many of which will be attempting to unlock 50 acres or less, must produce a report detailing the history of use in the urban growth area demonstrating that they have an affordable housing shortage, a lack of developable land and extremely cost burdened residents. To call this duplicative is self-explanatory and in conflict with the legislation's stated goals.

In closing, while 36,000 homes per year is a laudable goal considering it is just shy of doubling the state's recent average, it is important to note that Oregon can and should surpass that number annually, frankly with the resources allocated a healthy stretch goal is in order. With that said, as inflationary conditions in the capital markets are constraining market rate development, doing so in 2024 will prove difficult, but imagine what Oregon could do if they abandoned incremental cost driving regulations, that only scuttle their well laid plans.

APPENDICES

FIGURE 8 – ALBANY-LEBANON, OREGON MSA – VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

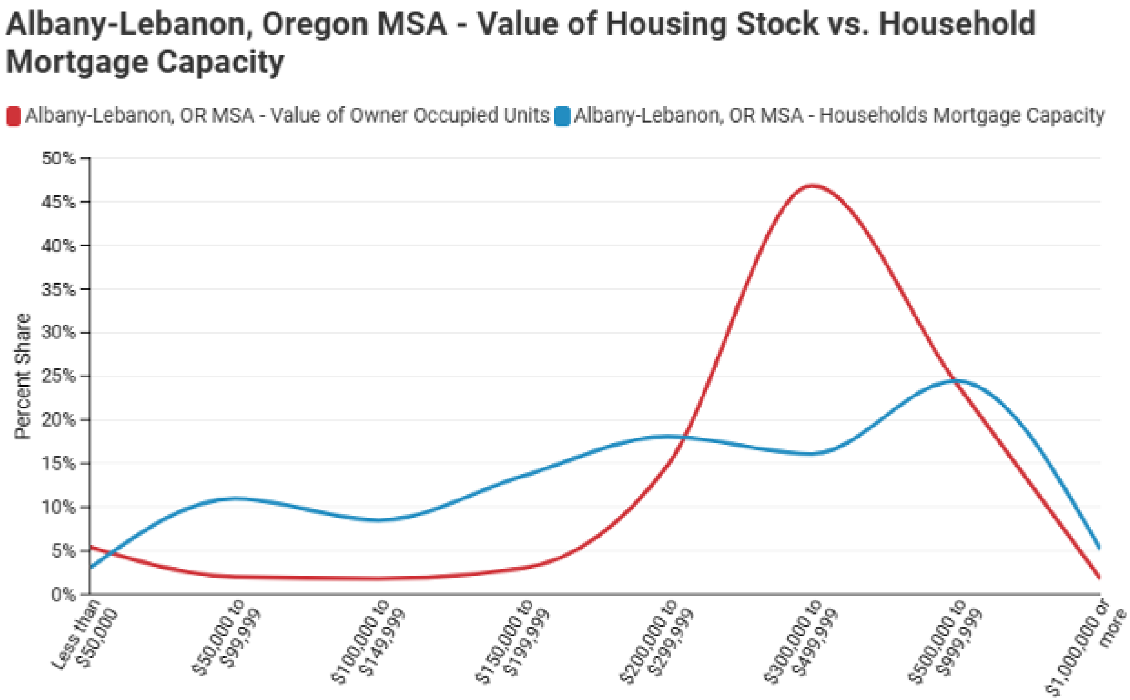


FIGURE 9 – BEND, OREGON MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

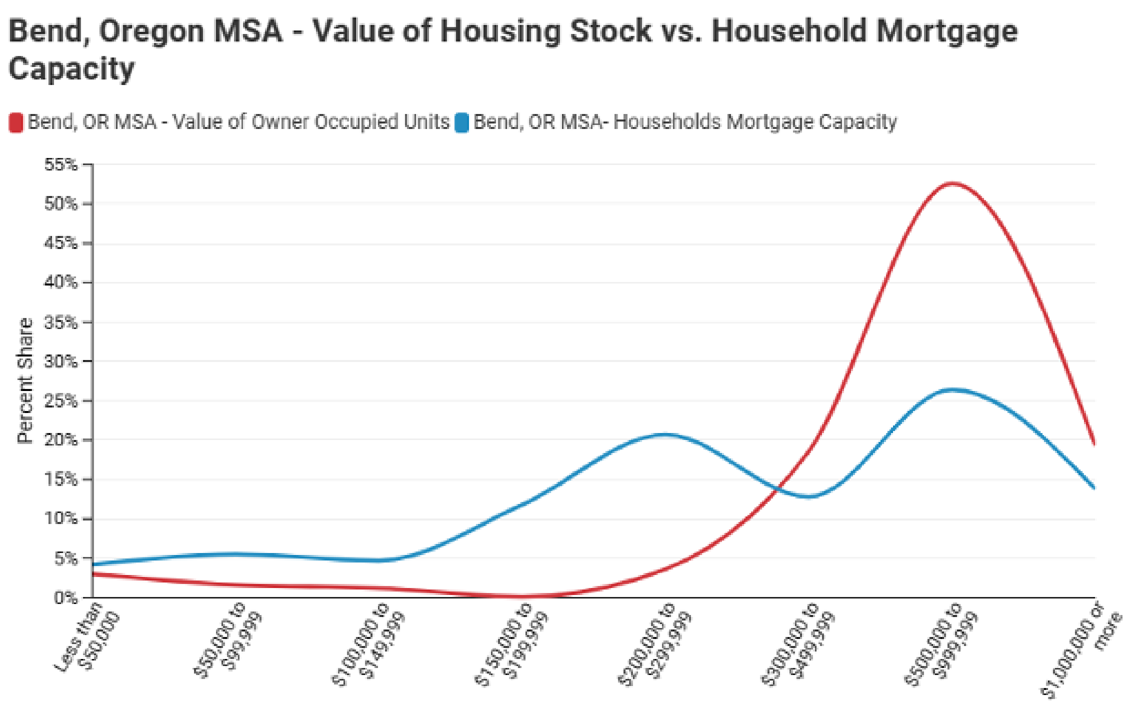


FIGURE 10 – CORVALLIS, OREGON MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

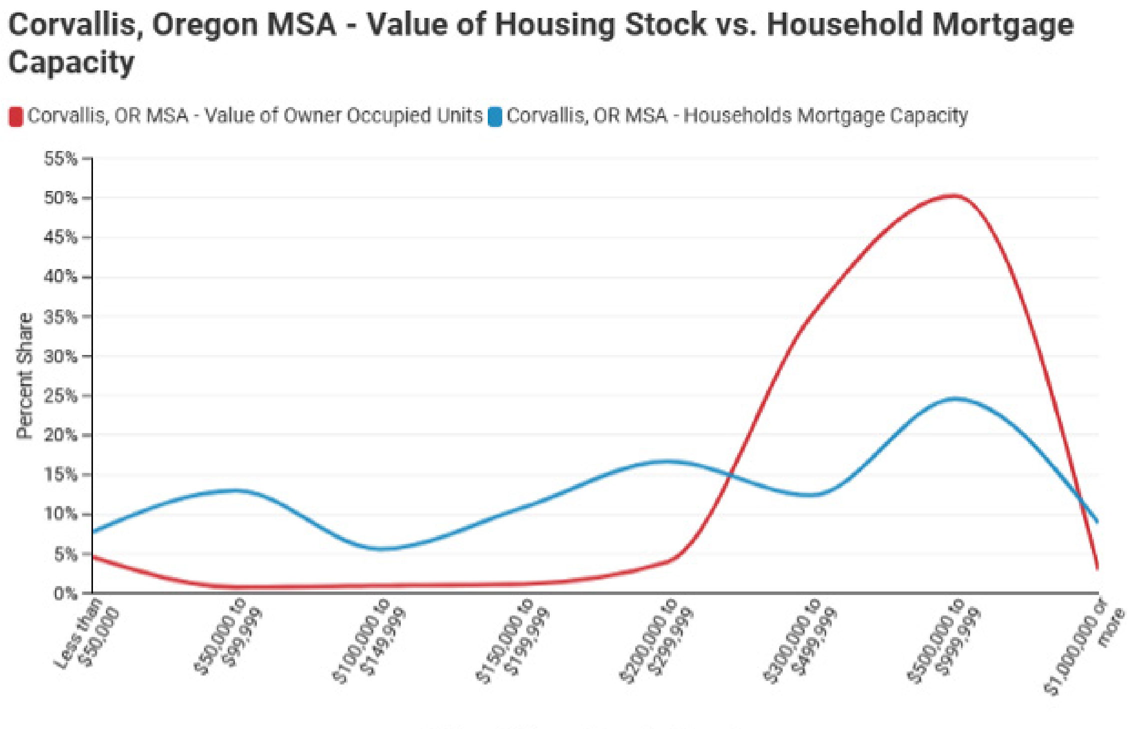


FIGURE 11 – EUGENE-SPRINGFIELD, OREGON MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

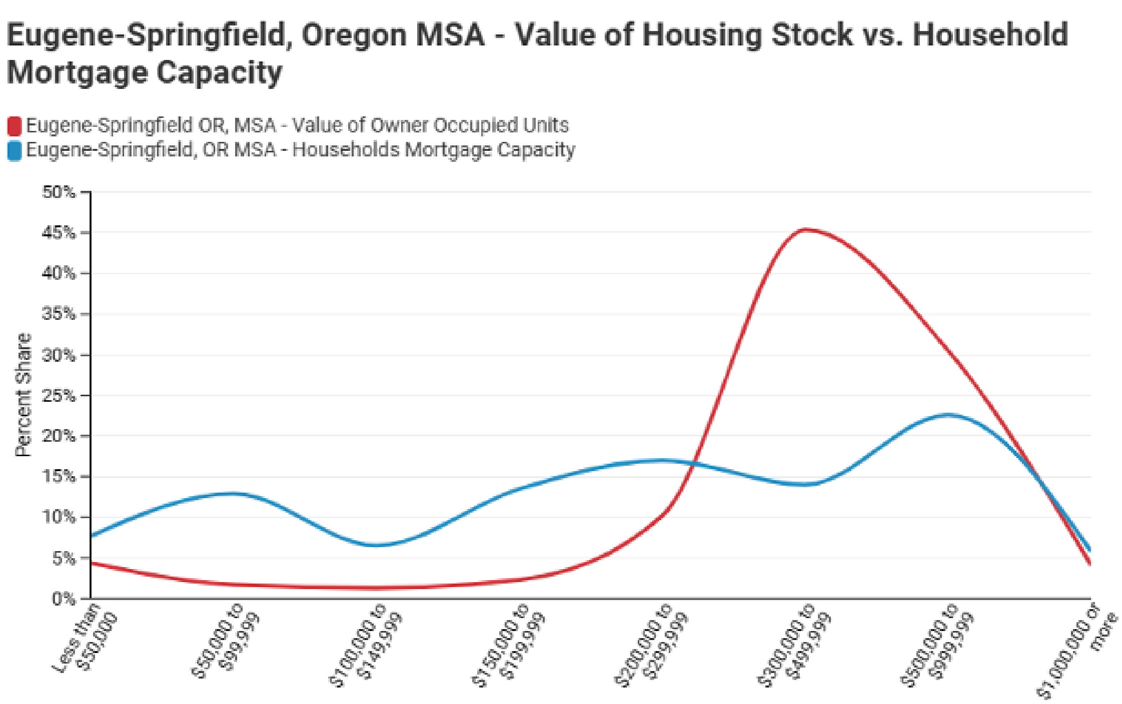


FIGURE 12 – GRANT PASS, OREGON MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

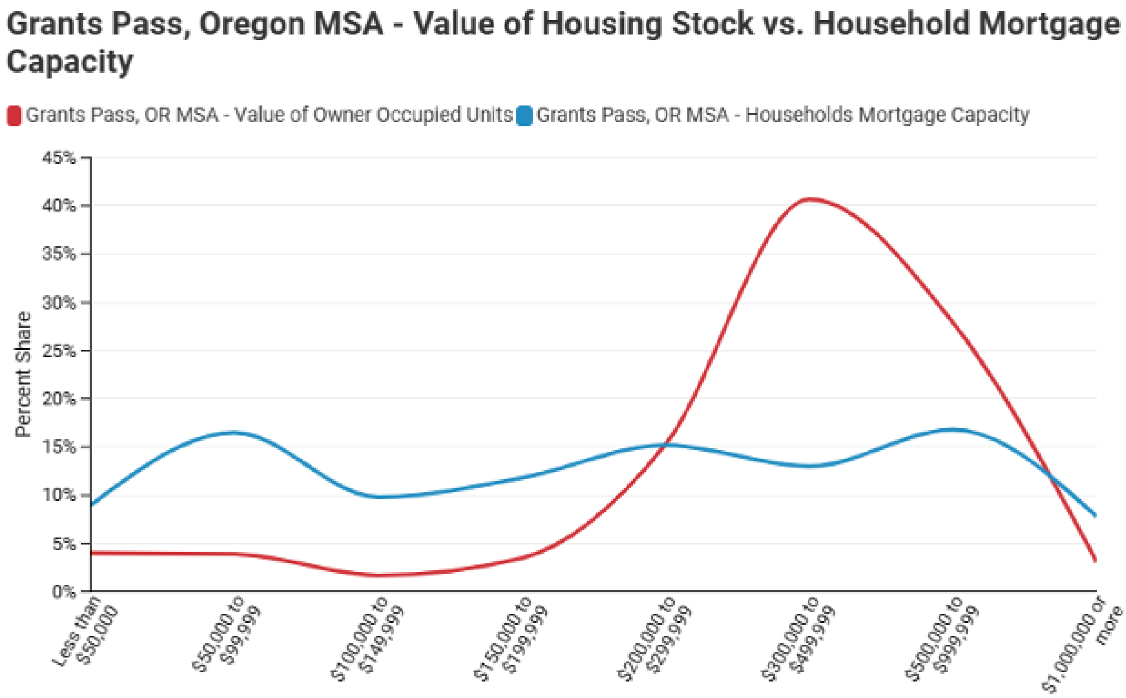


FIGURE 13 - MEDFORD, OREGON MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

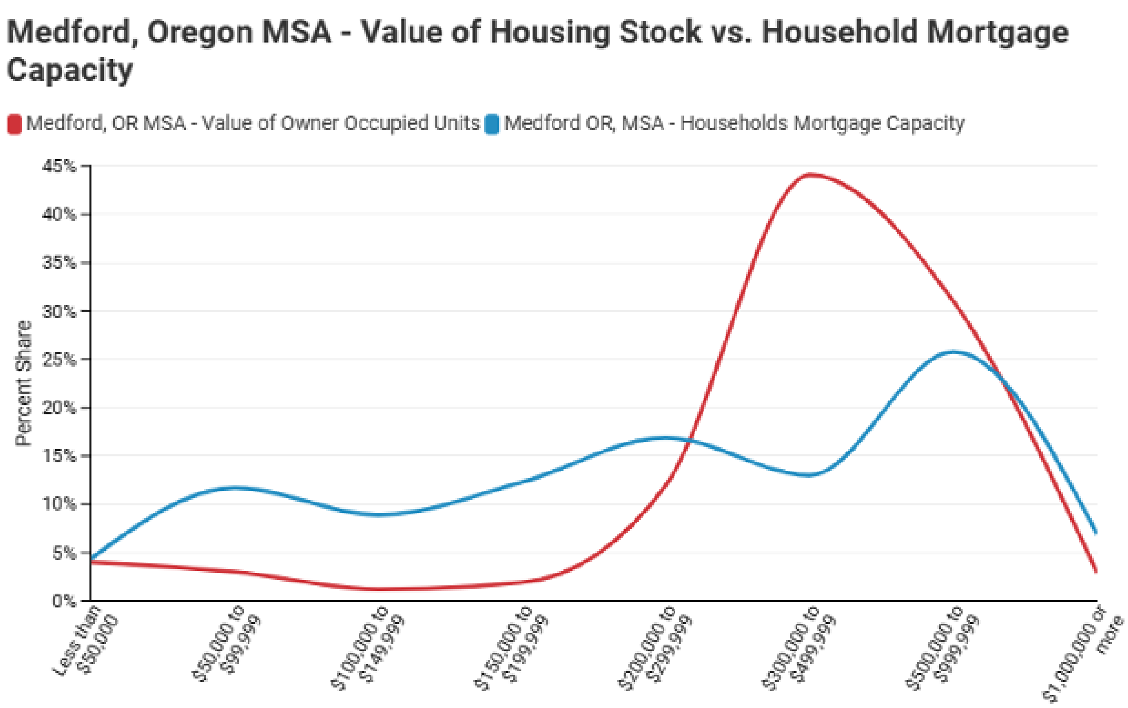


FIGURE 14 – PORTLAND-VANCOUVER-HILLSBORO, OREGON MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

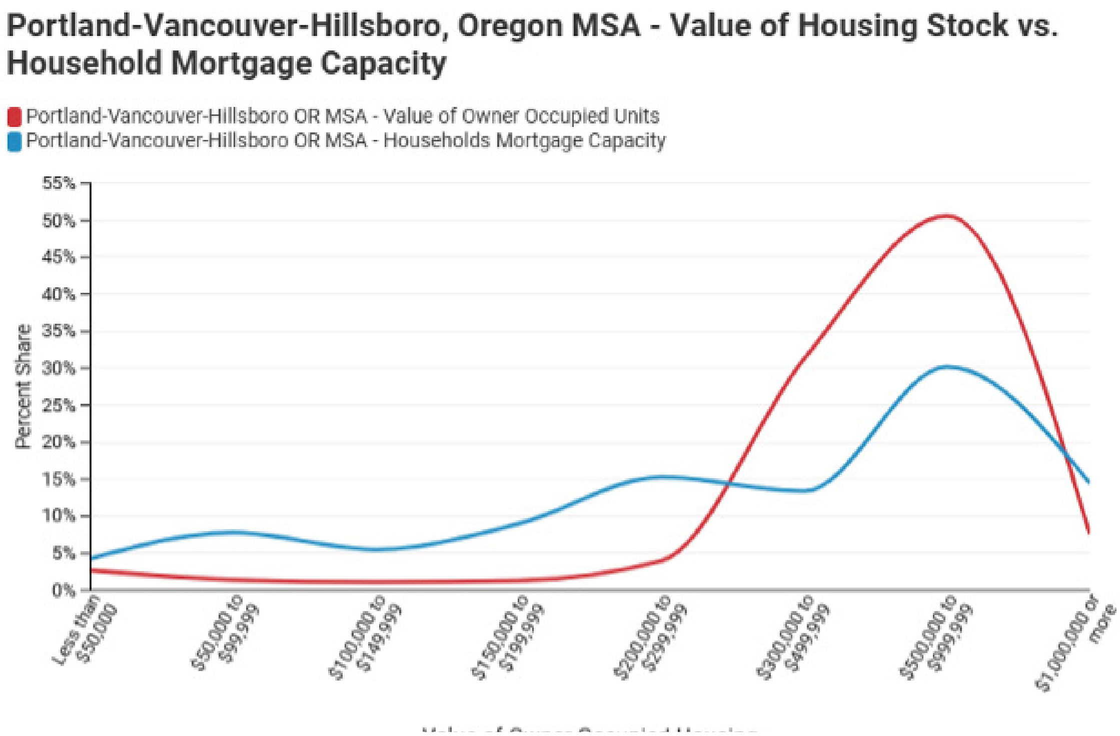
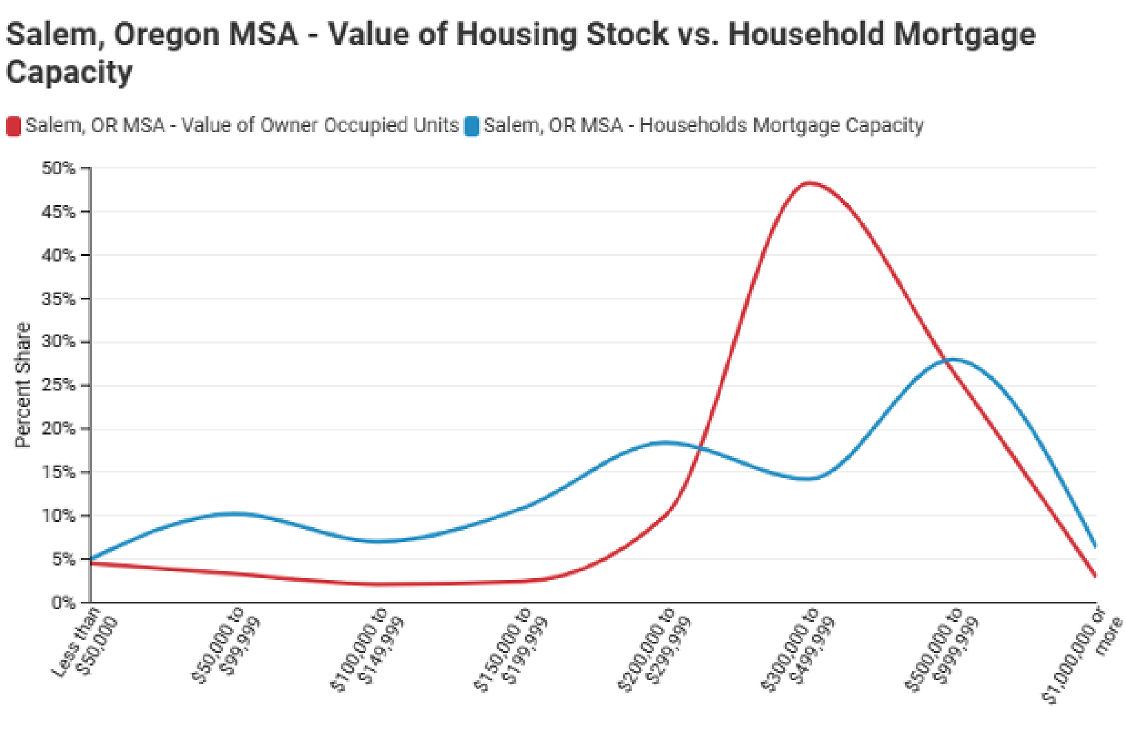


FIGURE 15 – SALEM, OREGON MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY



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i. Been, V., Ellen, I., and O'Regan, K. (2018). Supply Skepticism: Housing Supply and Affordability, NYU Furman Center, NYU Wagner School and NYU School of Law.

ii. https://www.hudexchange.info/programs/cdbg/

iii. https://www.hudexchange.info/programs/home/home-overview/