11

HOUSING INSIGHTS

The Portland Housing Bond and Metro Housing Bond: Goals, Progress, and Outcomes

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INTRODUCTION

My November article examined income-restricted housing production through Vancouver's Multifamily Tax Exemption and Portland's Inclusionary Housing and explored emerging policy tools for grappling with the affordability crisis. This article examines bond programs, which are another strategy for supporting metropolitan affordable housing development. From Los Angeles's $1.2 billion Proposition HHH to Denver's Affordable Housing Fund, cities are increasingly turning to bond financing to stimulate the delivery of affordable units. In November 2016 and November 2018, the City of Portland and Metro (Portland's regional government) initiated two new bond programs, known as the Portland Housing Bond and Metro Housing Bond.

This article will be organized into four sections. The first will provide a brief description of the programs' origins, considering questions around how bond programs are structured in general and why they are necessary as a policy tool.

Section two will analyze Portland's programs specifically, laying out the goals of the bonds and their framework for delivering affordable units.

The third section offers a status update on program outcomes, addressing questions like: How many projects are underway? Where are they in the construction process? What percentage of funds have been allocated? And how do these outcomes align with the programs' stated goals?

The final section will examine project costs in the region, comparing bond project budgets to recent multifamily projects to better understand the variance between affordable and market-rate production. Overall, I find that affordable bond projects are more expensive to produce on a per unit and per bedroom basis when compared to market-rate housing. The analysis concludes with considerations around how we may best deploy public funds to support affordable development.

BOND PROGRAMS: AN EMERGING POLICY TOOL

Cities are implementing housing bond programs for three reasons. The first is that many metropolitan regions throughout the country are struggling to manage deepening housing unaffordability. Stagnant wages, a lack of housing production, and an unequal distribution of economic growth all contribute to this pressing issue. As a result, 48% of renter households are cost burdened, meaning they spend over 30% of their income on housing costs, and 24% of all renters are severely cost burdened (housing costs exceed 50% of income). Moreover, Black and Hispanic renters are more likely to be cost burdened than White renters. In 2019, a full-time worker earning the average renter's wage could only afford a two-bedroom apartment priced at the HUD-designated fair market rent (FMR) in only 10% of counties across the U.S. Further, they could only afford a one-bedroom apartment at FMR in 40% of U.S. counties. Because affordability challenges are especially pronounced in dense urban markets and these regions can leverage significant public funds, cities are increasingly turning to bond programs to create income-restricted housing.

The second reason cities are deploying this policy tool pertains to affordable housing finance. Market-rate multifamily development generally utilizes just two key capital sources: private equity and debt. The amount of debt an asset can take on is directly linked to the amount of income the property generates. The relationship between debt and income generation is the why affordable housing finance is often more complex than market-rate development. Because affordable developments offer below-market rents, these projects cannot leverage the debt required to fully finance the property. The lower the target income the property will serve, the larger the gap between debt and a fully financed project.

In response, a number of public and private resources have been developed to facilitate affordable production; they include private and public grants, government loans, Section 8 vouchers, tax credits, and inclusionary zoning fees. The most widely used resource by developers is the Low Income Housing Tax Credit (LIHTC), which was created in 1986. Nonetheless, even affordable projects financed with both conventional debt and LIHTC may not generate the necessary sources of capital to finance a project. Federal programs like the HOME and Community Development Block Grant (CDBG) are, therefore, frequently incorporated into a capital stack. According to the Terner Center's April 2021 report, however, inflation adjusted funds for HOME declined from $2.4 billion in 2000 to $1.36 billion in 2020. CDBG funding fell from $7.2 billion to $3.4 billion over that same period. Gap financing programs like these – heavily sought after and facing troubling funding cuts – can often make the difference between a project moving forward or not.

The third reason driving local bond initiatives is that voters are throwing their weight behind creative strategies to promote rental affordability. Alex Shwartz notes that until recently, cities have rarely issued general obligation (GO) bonds to produce and preserve affordable housing. GO bonds, unlike revenue bonds, are backed by the government and covered via property tax, income tax, and other general revenue sources. Significantly, many states and cities require voters to approve GO bond issuance via public referenda. Voters in the Portland area have recently passed two such initiatives to implement this policy tool and mobilize public dollars for affordable production.

PORTLAND'S BOND PROGRAMS: PROGRAM GOALS, ADMINISTRATION, AND FRAMEWORKS

This section analyzes the Portland area's two bond programs, paying specific attention to their goals, administration, and frameworks. Please refer to Figure 1 for a side-by-side comparison of both programs.

Figure 1 - Program Comparison

Bond Program	Portland Housing Bond	Metro Housing Bond
Administering Entities	Portland Housing Bureau (PHB)	Home Forward (Multnomah County) Washington County Clackamas County City of Portland City of Hillsboro City of Beaverton City Gresham
Year Approved	2016	2018
Geographic Focus	City of Portland	Metro's jurisdiction
Total Funding	$258,400,000	$682,082,545
Unit Goals: Total Income-Restricted 30% AMI or below PSH Units Family-Sized Units	 1,300 600 300 650	 3,900 1,600 - 1,950
Priority Communities	Populations of color; Families with children; Homeless households; Households at risk of displacement	Populations of color; Families with children; People living with disabilities; Homeless households; Households at risk of displacement
Priority Locations	Areas with little or no affordable housing; High opportunity areas Gentrifying neighborhoods	Areas with little or no affordable housing; High opportunity areas; Gentrifying neighborhoods
Services Component	Service plan required	Not required
Equity in Contracting	30% of Construction Costs	20% of Construction Costs

a. The Portland Housing Bond

In November 2016, Portland voters approved the city's first ever housing bond, commonly known as the Portland Housing Bond. Administered by the Portland Housing Bureau (PHB), the initiative dedicated $258.4 million in public funds to support affordable housing development throughout the city. PHB manages the allocation process, awarding funds to developers pursuing projects in alignment with the program's goals (see below). Development activities include new construction, redevelopment, and acquisition projects. The Bond Oversight Committee, composed of five individuals appointed by Portland city commissioners, monitors bond progress and reviews financial metrics.

The Policy Framework, the bond's guiding administrative document, identifies a number of goals for funded projects.

(1) Unit production: The total production goal is 1,300 permanently affordable homes for families at or below 60% of Area Median Income (AMI); subgoals include delivering 600 affordable units for families earning at or below 30% of AMI, 300 permanent supportive housing units, and 650 family-size units (2 or more bedrooms).

(2) Priority Communities: Priority communities include populations of color; families with children, particularly among immigrant and refugee communities; intergenerational households; and households experiencing homelessness or at imminent risk of becoming homeless.

(3) Location priorities: Locations of particular interest include areas with little or no affordable housing; neighborhoods at high risk of gentrification; and high opportunity areas with access to education, food, transportation, health services, greenspace, and employment opportunities. As part of this goal, the Policy Framework also emphasized striking a balance of investments throughout the city, rather than targeting one neighborhood in particular. Unlike the Metro bond, funding is restricted to the City of Portland.

(4) Services: To best serve each property, PHB will develop a culturally appropriate service plan in collaboration with regional partners, agencies, and community partners. Regular programming from a homeless service agency, for instance, would meet this target goal. Importantly, bond funds cannot be used for services so developers must identify sustainable funding sources to ensure continued execution of the service plan.

(5) Equity in Contacting: PHB's equity in contracting target is for 30% of construction costs to be utilized by certified Disadvantaged/Minority/Women/Emerging Small Business/Service-Disabled

Veteran (DMWESB-SDV) contractors. All bond projects target 20% for DMWESB-SDV utilization for professional services, including architects, surveyors, and engineers.

In selecting these specific goals, the bond program aims to further citywide community goals around preventing displacement, advancing racial equity, and ending homelessness.

b. Metro Housing Bond

In November 2018, voters in the three-county region voted in favor of the country's first regional housing bond. Metro, Portland's metropolitan planning organization (MPO), administers the housing bond, amounting to just over $680 million. Allowable projects include the construction of new affordable housing and the conversion of existing market-rate housing to affordable developments. Eligible costs include new construction, acquisition, rehabilitation, construction of community amenities, site work, and predevelopment costs, including third-party reports.

Funds may not be deployed for market rate housing, operating costs, ongoing rental assistance, or rehabilitation of existing income-restricted housing. All projects receiving bond proceeds will record a restrictive covenant or regulatory agreement restricting rents for a minimum of 60 years, or 30 years for conversion projects where the buildings are 10 years or older. Like the Portland Housing Bond, the Metro Housing Bond is overseen by a community oversight committee in charge of monitoring investment outcomes, reporting to Metro, and evaluating local implementation strategies.

The Metro Housing Bond policy framework identifies a number of production goals. Within 5-7 years, the program aims to produce 3,900 income-restricted units. Half of those homes (1,950) are intended to accommodate families via two-, three-, and four-bedroom units. Lastly, 1,600 homes are to be reserved for individuals earning at or below 30% AMI. Unlike the Portland Housing Bond, there is no expressed permanent supportive housing goal, though local jurisdictions are encouraged to implement them as part of their strategy (see below).

As a result of its regional scope, the Metro Housing Bond funds are distributed to seven participating jurisdictions "based on [the] assessed value of property in each of the three counties." The "Local Implementation Partners" are: Clackamas County, Washington County, Home Forward (Multnomah County), and the Cities of Portland, Hillsboro, Beaverton, and Gresham. Each partnering entity is expected to draft a local implementation strategy, detailing the locale's goals for the bonds, their application process, and the project selection criteria.

Eligible developers must submit proposals to a participating jurisdiction, which reviews applications, and with Metro's co-approval, distributes bond funds. Figure 2 identifies local jurisdiction production targets, including 30% AMI and family units, as well as funding allocations. The City of Portland received the biggest distribution of bond funds at just over $211 million, followed by Washington County and Clackamas County at over $116 million. As expected, production targets align proportionally with funding allotments.

Figure 2 - Metro Housing Bond Local Jurisdiction Goals

Entity	Unit Production Targets			
	Total Units	30% AMI Units	Family Units	Funding Available
Beaverton	218	89	109	$31,140,595
Clackamas County	812	333	406	$116,188,094
Gresham	187	77	93	$26,756,995
Hillsboro	284	117	142	$40,657,081
Multnomah County (Home Forward)	111	46	55	$15,879,123
Portland	1,475	605	737	$211,056,579
Washington County	814	334	407	$116,465,532

Like the Portland Housing Bond, Metro is guided by a set of core values around target populations and locations of particular interest. Other policy goals of note include racial equity, equity in contracting, and the efficient distribution of funds.

(1) Target Populations: Metro's target populations closely align with those of the Portland Housing Bond. Specific communities include: communities of color; families with children and multiple generations; individuals living with disabilities; seniors and veterans; households experiencing or at risk of homelessness; and households at risk of displacement.

(2) Target Project Locations: Target locations for Metro bond projects are neighborhoods that have not historically included sufficient supply of affordable homes; high opportunity areas with access to transportation, employment, education, nutrition, and parks; and changing neighborhoods where communities of color live and are at risk of being displaced.

(3) Equity Goals: An awareness of how social equity intersects with housing affordability is central to Metro's framework. One of the bond's core values is leading with racial equity, which Metro writes should influence decision making around: community engagement, project location, tenant screening and marketing, and culturally responsive services.

(4) Equity in Contracting: Metro requires all participating jurisdictions to establish an equity in contracting goal of 20% for construction trades. Jurisdictions can exceed this goal in their local implementation strategy; the City of Portland, for instance, has an equity in contracting goal of 30% for the Metro bond.

(5) Efficient Use of Funds: To guarantee long-term and maximized benefits, Metro also commits to the efficient use of public dollars. That said, in Metro's 2020 Annual Report, the regional government identified a number of reasons why development costs may exceed market-rate averages. Factors identified include: targeting family-size units; goals for equitable contracting; and nationwide trends in higher per-unit soft costs for affordable projects compared to market-rate.

BOND PROGRAM OUTCOMES: STATUS UPDATE

This section provides a status update for the Portland Housing Bond and Metro Housing Bond. Particular attention will be paid to the allocation of funds, where projects are situated in the construction process, the locational distribution of projects, and alignment with the production goals detailed above.

a. Portland Housing Bond Status Update

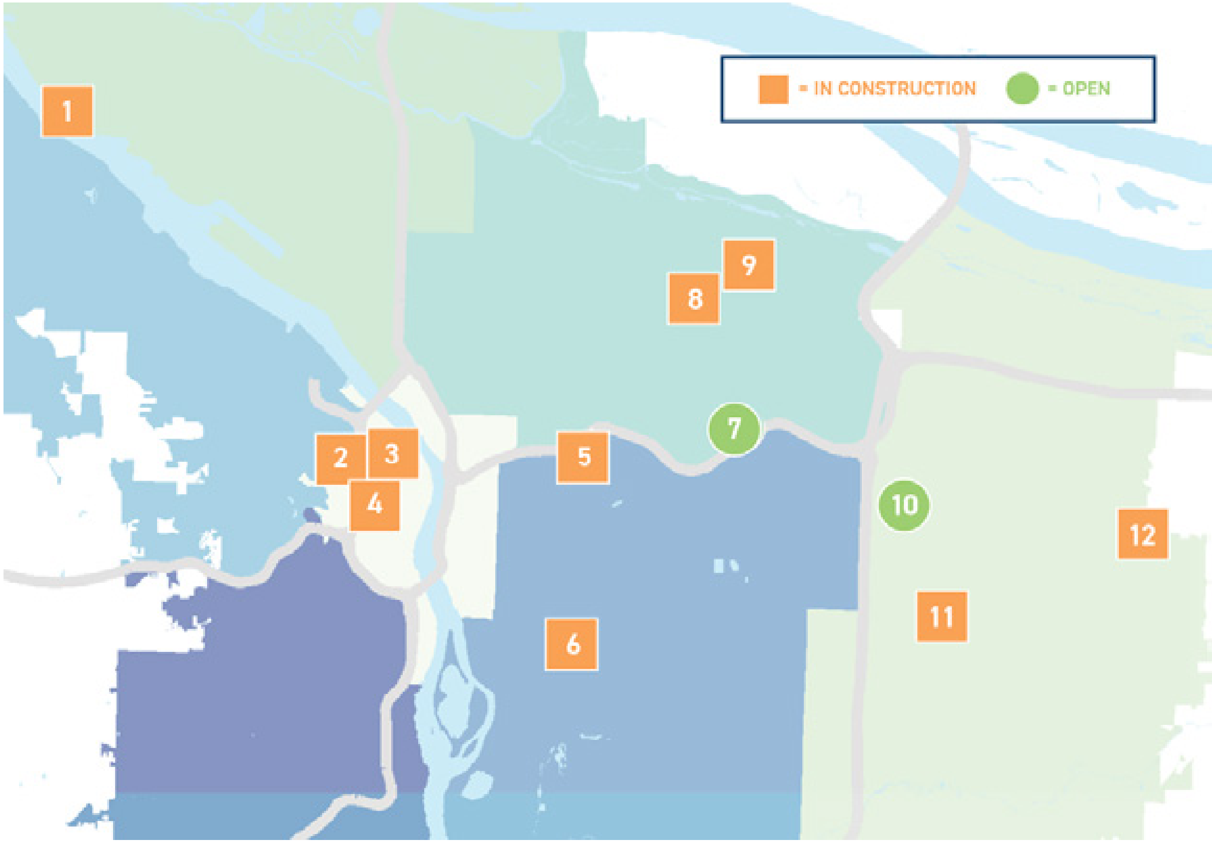
As seen in Figures 3 and 4, the Portland Housing Bond has supported 12 projects in the City of Portland, totaling 1,490 units of affordable housing. Two projects, East Burnside Apartments and The Ellington, are open, while 10 others are still in the development process. A total of $228 million has been allocated to support affordable housing projects across the city, with an average of $19 million per project. The smallest award, allocated to The Joyce, was over $7.1 million. The Ellington received the largest award at $47 million, which provided 100% of the acquisition and redevelopment costs for the site. The total development cost for all 12 projects amounts to just under $510 million, meaning that bond financing accounts for roughly 44% of the total investment in affordable projects.

Regarding project location, three developments are situated in downtown Portland, four in Northeast Portland, three in Southeast Portland, one in North Portland, and one in Outer East Portland. PHB's 2020 Progress Report shows that 82% of new units will open in high opportunity areas and 25% of total units are in areas at high risk for gentrification. The largest project is PHB and Home Forward's The Ellington, a 263-unit market-rate conversion and redevelopment project. The smallest, at 50 units, is sponsored by Community Development Partners (CDP) and the Native American Youth and Family Center (NAYA). Known as Hayu Tilixam, the development is focused on delivering culturally specific housing options for the indigenous community.

Figure 3 - Portland Housing Bond Project Information

Project Name	Sponsor	Location	Status	Unit Count
Cathedral Village	Related Northwest and Catholic Charities	North Portland	In Construction	110
Emmons Place	NHA	Downtown Portland	Pre-Construction	144
The Westwind	CCC	Downtown Portland	Pre-Construction	100
The Joyce	CPAH	Downtown Portland	Pre-Construction	66
Anna Mann House	Innovative Housing	Northeast Portland	Pre-Construction	128
3000 SE Powell	Home Forward	Southeast Portland	Pre-Construction	206
The Ellington	PHB and Home Forward	Northeast Portland	Open	263
Hayu Tilixam	CDP and NAYA	Northeast Portland	Pre-Construction	50
Las Adelitas	Hacienda CDC	Northeast Portland	In Construction	142
East Burnside Apartments	PHB	Southeast Portland	Open	51
Crescent Court Apartments	Related Northwest	Southeast Portland	In Construction	138
Stark Family Housing	Edlan & Co and Human Solutions	Outer East Portland	Pre-Construction	93

Figure 4 - Portland Housing Bond ProjectsMap



How do these projects align with the Portland Housing Bond's goals? Figure 5 shows the bond's production goals compared to the target outcomes once all projects have been completed. According to PHB, all policy targets, including the number of total units, deeply affordable units, Permanent Supportive Housing (PSH) units, and family-sized units, will exceed the program's goals. Significantly, 100% of bond projects include multiple PSH units and two-thirds have partnered with service agencies, including NAYA and the Immigrant and Refugee Community Organization (IRCO), that will provide on-site programming.

Figure 5 - Portland Housing Bond Production Goals and Outcomes

	Goal	Outcome
Total Units	1,300	1,490
Units at 30% AMI	600	628
PSH Units	300	313
Family-size Units	650	691

b. Metro Housing Bond Status Update

Figures 7 and 8 below reflect the Metro Housing Bond's progress in the region. As of Portland Housing Bureau's November 17, 2021 press release, participating jurisdictions had allocated funds to 32 different projects. Three projects are complete (comprising 170 units), eight are actively under construction (comprising 755 units), and 23 are in pre-construction (comprising 2,234 units). This corresponds to a total of 3,519 bond-supported units, 90% of the program's 3900-unit goal. Moreover, the program has achieved 69.4% of its 1,600-unit goal for units affordable to households earning at or below 30% AMI and around 75% of its 1,950-unit goal for family-sized units.

Regarding financing and allocations, of the $620 million specifically reserved for affordable housing development, jurisdictions have allocated $330 million of the total bond amount. With an average award size of $10.3 million, the smallest award amounted to $1.7 million and the largest just exceeded $29 million. The total development cost for all 32 projects is $1.26 billion, meaning that Metro's bond financing accounts for roughly 26.3% of the total investment in affordable projects.

While slightly out of date, Metro's 2020 Annual Report identified the additional financing sources benefiting these bond-supported projects. LIHTC equity provided 33.6% of funds, permanent debt and other loans provided 31.9% of funds, sponsors provided 7% of contributions, and grants yielded 0.5%.

At the time of the report, all but one project was financed in part with LIHTC. The low percentage of grant funding suggests that bond financing took the place of other federal and state programs typically used for gap financing. These include CDBG, HOME, and Housing Trust Fund (HTF) funds. The relatively low percentage of debt is explained by the program's goals around deep affordability and a proportional decrease in operating income. That financial limitation heightens the need for bonds as gap financing.

The program is on track to exceed goals both cumulatively and at the local level (explored in Figures 8 and 9). Metro explains that this positive result is, in part, due to the federal government's expansion of financing through 4% LIHTC. Metro also cited as contributing factors the low interest rates leading to greater leveraged debt and unanticipated early action by implementation partners, thereby minimizing delays and construction cost escalation.

Figure 7 - Metro Housing Bond Project Information

Project Name	Sponsor	Location	Status	Eligible Bond Units
5020 N Interstate	CDP and Self-Enhancement	Portland	Pre-Construction	64
Albertina Kerr	Gerdin Edlan	Gresham	In Construction	147
Albina One	Albina Vision Trust and Edlan & Co	Portland	Pre-Construction	94
Aloha Housing Development	Bridge Housing	Washington County	Pre-Construction	82
Aloha Quality Inn	HAWC	Washington County	Pre-Construction	54
Basalt Creek	CPAH	Washington County	Pre-Construction	116
Dekum Court	Home Forward	Portland	Pre-Construction	147
Findley Commons	Home First and Do Good Multnomah	Portland	Complete	35
Fuller Road Station	GSA, GRES	Clackamas County	In Construction	99
Garden Park Estates	Innovative Housing	Portland	Pre-Construction	117
Goldcrest	Bridge Housing	Washington County	Pre-Construction	75
Good Shepherd Village	Caritas and Catholic Charities	Clackamas County	In Construction	142
Hattie Redmond	Home Forward	Portland	In Construction	60
HollywoodHUB	Bridge	Portland	Pre-Construction	201
Maple Apartments	CDP and Hacienda CDC	Clackamas County	Pre-Construction	171
Meridian Gardens	Central City Concern	Portland	Pre-Construction	85
NE 74th & Glisan	Related Northwest, Catholic Charities, and IRCO	Portland	Pre-Construction	137
Nueva Esperanza	Bienestar	Hillsboro	Pre-Construction	150
PCC Killingsworth	Home Forward	Portland	Pre-Construction	84
Plaza Los Amigos	Reach	Washington County	Pre-Construction	113
Powelhurst Place	NHA	Portland	Pre-Construction	65
Riverplace Phase 2	Bridge Housing	Portland	In Construction	176
Rockwood Village	CDP and Hacienda	Gresham	In Construction	47
Saltzmann Road	Home First	Washington County	Pre-Construction	55
Scholls Ferry Apartments	Wishcamper	Beaverton	Pre-Construction	164
Terrace Glen	Related Northwest	Washington County	Pre-Construction	144
The Mary Ann	Reach	Beaverton	Complete	54
Tigard Senior Housing	NHA	Washington County	Pre-Construction	58
Tistilal Village	NAYA Family Center	Portland	Pre-Construction	58
Valfre at Avenida 23	DCM Communities	Washington County	In Construction	36
Viewfinder	CDP	Washington County	Complete	81
Webster Road	HACC	Clackamas County	In Construction	48

Regarding the regional distribution of projects, 15 are in Multnomah County, 13 are in Washington County, and four are in Clackamas County. The largest property funded in part by the bond is Bridge Housing's recently announced 201-unit project located in the Hollywood neighborhood of NE Portland. The smallest is Home First's Findley Commons, a 35-unit permanent supportive housing property for formerly homeless veterans. Figure 8 details how these projects tie to local jurisdictions.

Figure 8 - Metro Housing Bond Projects Map

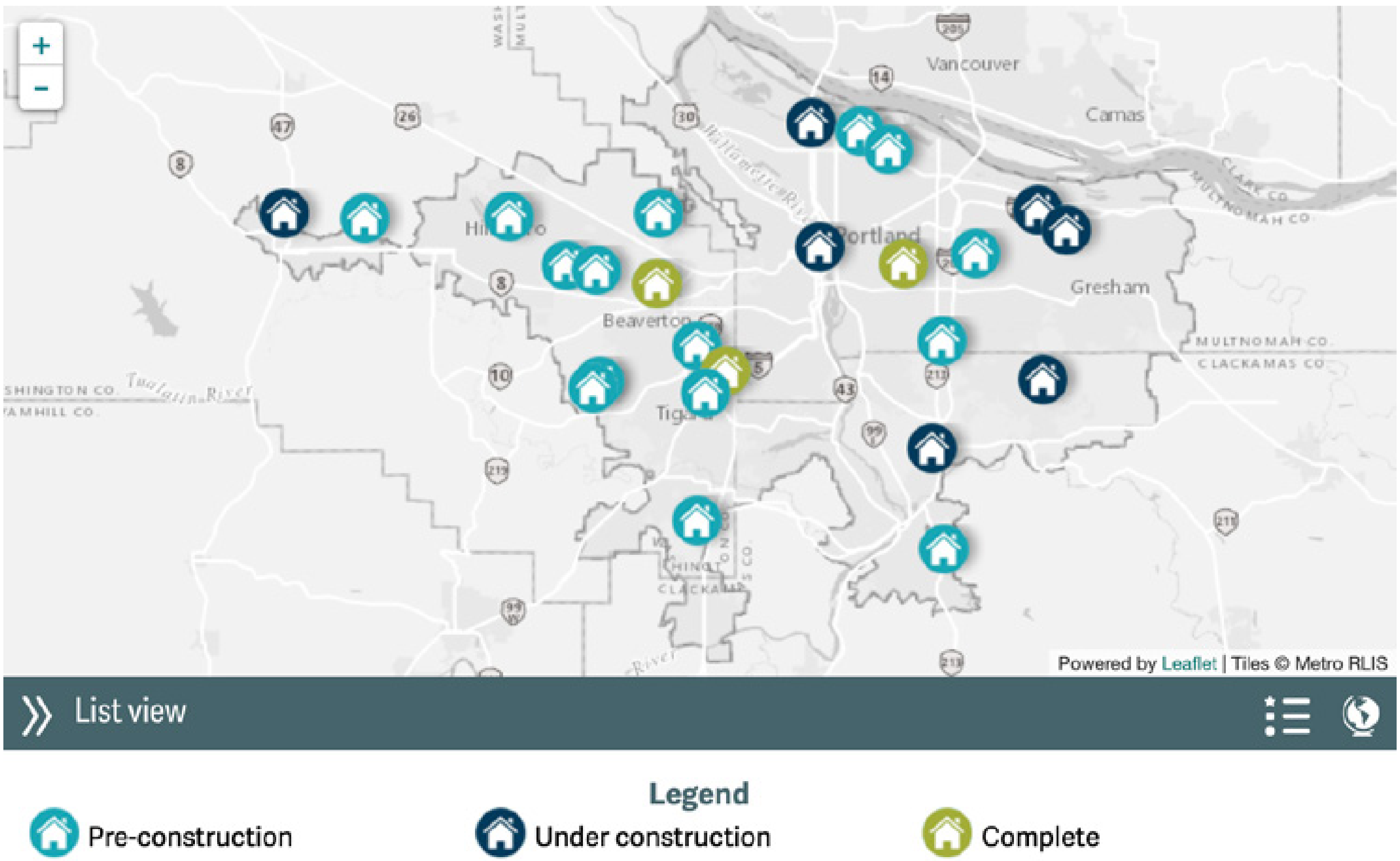


Figure 9 shows how successful local jurisdictions have been in reaching their individual unit production goals. Four entities (Beaverton, Gresham, Home Forward, and Washington County) have already met or surpassed their goals. Portland has reached 70% of its goal, and Clackamas County and Gresham have reached over 50% of their goals.

Figure 9 - Metro Housing Bond Local Jurisdiction Production Goals and Outcomes

Entity	Unit Production Targets	Bond-Supported Units	% of Goal
Beaverton	218	218	100%
Clackamas County	812	460	57%
Gresham	187	194	104%
Hillsboro	284	150	53%
Multnomah County (Home Forward)	111	291	262%
Portland	1,475	1,032	70%
Washington County	814	814	100%

DEVELOPMENT COST ANALYSIS: AFFORDABLE BOND PROJECTS AND MARKET-RATE

This article's final section provides a comparative cost analysis between affordable bond projects and recent market-rate projects. To do so, I have calculated the development costs per unit and per bedroom for both property types. For the market-rate properties, I selected eight of the highest selling properties from Q3 2021 in the Portland metropolitan area, including developments from Portland, Wilsonville, Hillsboro, Beaverton, and Vancouver. See Figure 10. Because the development budgets are not available for these properties, the purchase price will be used. The goal of this property selection is to gain insight into the upper-end of the market-rate multifamily market. Moreover, in order to examine comparable physical projects, all properties have undergone either construction or substantial rehabilitation in the last six years.

Figure 10 - Highest Selling Market-Rate Projects in Portland Metro from Q3 2021

Project Name	Sponsor	Location	Year Built / Renovated	Unit Count
Seven West at the Trail	Greystar Real Estate Partners	Beaverton	1996 / 2017	423
Zera @ Reed's Crossing	MG Properties	Hillsboro	2020	324
Avana One Zero Nine	Greystar Real Estate Partners	Vancouver	1994 / 2015	387
Arc Central	St. Regis Properties	Beaverton	2019	230
Anthem PDX	The Wolff Company	Portland	2020	211
Bridge Creek	TIAA-CREF	Wilsonville	1989 / 2017	315
Ella	The Wolff Company	Portland	2015	199
Sky3 Place	The Wolff Company	Portland	2017	196

Figure 11 reflects developmental costs for all of the Portland Housing Bond and Metro Housing Bond projects, as well as selected market-rate projects. The average development cost for a Portland Housing Bond project is around $42.5 million, which corresponds to $352,145 per unit and $250,017 per bedroom. The most expensive property is the 206-unit 3000 SE Powell in Southeast Portland at just over $87 million. The least expensive is the recently completed, 51-unit East Burnside Apartments project.

Metro Housing Bond projects cost, on average, $39.39 million to develop, meaning $405,132 per unit and $251,706 per bedroom. HollywoodHUB in Northeast Portland's Hollywood neighborhood has the highest total development costs at $98.8 million; it will deliver 201 units once complete. The Findley Commons has the lowest cost at $7 million and will provide 35 units. Between the two bond programs, then, the Portland Housing Bond is projected to see slightly higher total development costs. Additionally, although the Portland Housing Bond has lower costs per unit compared to the Metro Housing Bond, they have nearly identical costs per bedroom.

The average sales price for the selected market-rate projects was $92 million, double the development costs of both bond programs. The sales price per unit and per bedroom, however, are much more closely aligned with the affordable projects. The market-rate projects saw a per unit cost of $328,221 and per bedroom cost of $218,088. The most expensive market-rate properties from Q3 2021 thus cost $23.9K less per unit then the Portland Housing Bond and $76.9K less per unit then the Metro Housing Bond. Regarding per bedroom costs, the market-rate properties cost just over $30K less per bedroom than the bond programs. Ultimately, then, these market-rate projects are seeing lower costs per unit and per bedroom.

Figure 11 - Cost Comparisons - Avg Cost Per Unit & Avg Cost Per Bedroom

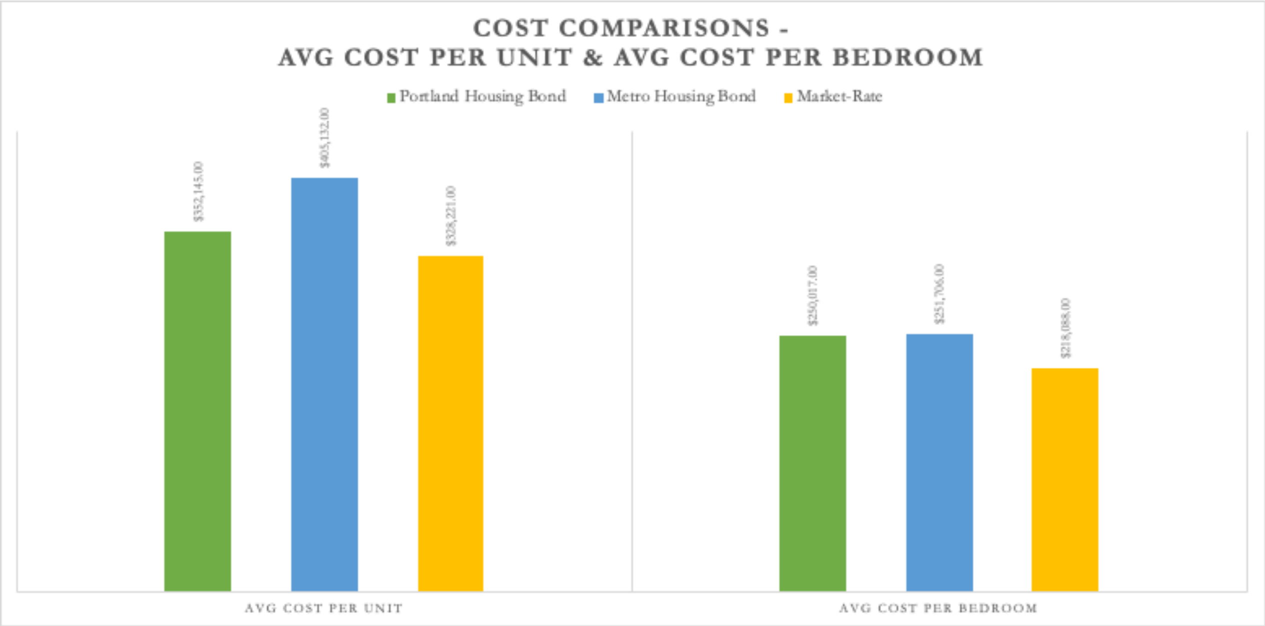


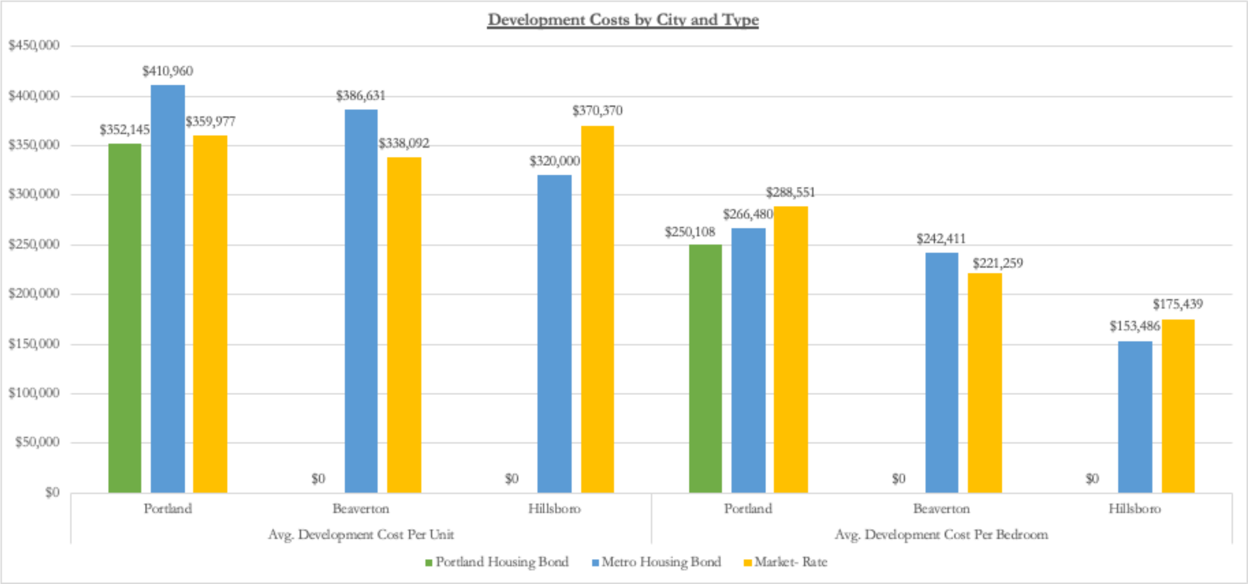
Figure 12 - Cost Comparisons - Avg Cost Per Unit & Per Bedroom % Difference than Market Rate

Avg Cost Per Unit % Diff than Market Rate			Avg Cost Per Bedroom % Diff than Market Rate		
Portland Housing Bond	Metro Housing Bond	Market Rate	Portland Housing Bond	Metro Housing Bond	Market Rate
+7.3%	+23.4%	-	+14.6%	+15.4%	-

Figure 13 offers a city-specific examination of cost per unit and cost per bedroom for Portland, Beaverton, and Hillsboro. Because the Portland Housing Bond was limited to the city of Portland, that program does not offer any data in Beaverton and Hillsboro. Note, too, the limited data included here for market rate projects – Portland had three projects represented, Beaverton had two, and Hillsboro just one. Nonetheless, a few interesting observations may be drawn.

First, in the Portland Area, market-rate projects actually saw the highest cost per bedroom, though the Metro Housing Bond saw the highest per-unit costs. Second, Beaverton's market rate projects saw lower per-unit and per-bedroom costs. Lastly, Hillsboro, a one-to-one comparison between the market-rate Zera at Reed's Crossing and Metro Housing Bond's Nueva Esperanza, saw higher per-unit and per-bedroom costs for the market-rate project.

Figure 13 - City Comparisons Cost Per Unit and Cost Per Bedroom



The high cost of affordable housing development is not new to the industry or to the region. Even Metro admits that certain facets of affordable housing production drive up costs. In particular, Metro notes that affordable housing development is widely known to generate higher per-unit soft costs as a result of combining public and private financing and complying with a greater number of regulatory requirements. Contracting requirements are also cited as a contributing factor: “the program’s priority focus on advancing racial equity was made with an understanding that prioritizing equitable contracting and workforce diversity may mean additional costs.”

The authors go on to add that any project relying upon federal funding will trigger prevailing wage requirements. What’s more, while not mentioned by Metro, green building standards and the need to incorporate office and community space for services are also frequently noted as a source of higher per unit costs. Lastly, because the bond programs both target family-size units, which drive up hard costs, this analysis has intentionally included costs per bedroom.

As a final note, we should be mindful of the significant limitations of this type of direct property comparison. For instance, while cities may see similar development costs, every parcel is positioned differently, resulting in unique developmental challenges, amenities, and land costs. Likewise, every project has distinct design elements and construction quality. I did not account for building type in the project comparisons above – garden style walk-ups, five-story structures, and high-rise construction are tied to very different hard costs largely due to the need for elevators and structural reinforcement.

I also did not account for in-unit amenities, like stainless steel appliances, balconies, patios, or high-speed internet. A 2015 study on affordable housing costs writes that “comparing costs between different kinds of projects is difficult and complex – and often misleading.” With this in mind, it is useful to think of these cost comparisons as demonstrative of the high-cost of affordable housing development in general, rather than yielding any insight into how much housing projects should cost in specific locales.

CONCLUSION

The Portland Housing Bond and the Metro Housing Bond have stimulated an incredible amount of affordable development for the region. These programs are partly responsible for Portland seeing one of the largest per-capita investments in affordable housing in the entire U.S. As gap financing tools at the federal level face fierce competition, voter-backed bond programs can and should be deployed to bridge the gap between a theoretical project and a financially viable one. The integration of green building elements, commitment to living wage contracting jobs, delivery of deeply affordable and family-sized units, and engagement with local service partners all generate additional benefits for our communities. Indeed, these are high quality developments that address many issues which affect our communities. They are also, importantly, proving very successful at accomplishing program goals.

Having said that, entities must be transparent about the costs to develop affordable housing and carefully oversee programs to ensure the most cost-effective allocation of funds. Should new construction projects be prioritized, or should locales encourage conversion projects, in which an existing property is adapted for affordable housing? The Ellington, which was financed through the Portland Housing Bond, provides an insightful example of this strategy; at just over $178,000 per unit, The Ellington was able to convert 263 units at nearly half the average per unit development costs of the other bond projects. How do complex requirements (e.g. green building, equity in contracting, etc.) complicate and thus disincentivize affordable housing development? Or, alternatively, should we collectively accept that affordable housing is delivering projects that meet a variety of social needs, albeit at a higher cost? If financial resources like these are truly precious, we need to constantly evaluate how we can stretch them the farthest. Seeking answers to these types of questions will help us do so.

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