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housing production in a COVID-19 economy

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This introductory article serves as the foundational piece for a 3-part series in the Portland State University Quarterly Journal Housing Column to track and review Portland, Oregon MSA housing production during this historic pandemic and in the new COVID-19 economy. Since the U.S. housing industry accounts for approximately 27-percent of the investment spending and about 5-percent of the overall economy, housing production is a key economic indicator to gauge the health of the economy.

In this column, we will analyze housing production within the parameters that include the relationship between new construction permits, housing starts and completions, with regard to market rate housing; and, for-profit and nonprofit government subsidized affordable housing. In this first article, we focus on the pandemic's impact on new construction permits in market rate housing. Permit activity provides insight into the housing industry and the overall economic activity in upcoming months.

BACKGROUND

In this fifth month of the U.S. COVID-19 pandemic health crisis, uncertainty is the new normal. The efforts to slow the spread of the Coronavirus has crippled the U.S. economy, causing adverse cascading ripple effects to one of the most important economic indicators - housing starts. This creates challenges to determine clear trends and patterns. Pre-COVID, the general rule of thumb in analyzing housing starts is that sustained declines in housing starts slow the economy and can push it into recession. Likewise increases in housing activity triggers economic growth. However, at the writing of this article, there is a mixed-bag of data: housing production is down, yet housing sales and investment activity are up, while historic unemployment continues, and eviction moratoriums expire.

**UNEMPLOYMENT RATE AND
UNEMPLOYMENT CHANGE OVER TIME**

Area	Unemployment rate			Change from	
	June 2018	June 2019	June 2020	June 2018 to June 2020	June 2019 to June 2020
United States	4.2	3.8	11.2	7	7.4
Portland-Vancouver- Hillsboro, OR-WA MSA	4	3.8	11.4	7.4	7.6
Clackamas County, OR	3.8	3.7	10.7	6.9	7
Columbia County, OR	5.3	4.7	11.3	6	6.6
Multnomah County, OR	3.8	3.6	13.4	9.6	9.8
Washington County, OR	3.6	3.4	9.9	6.3	6.5
Yamhill County, OR	3.8	3.7	9.9	6.1	6.2
Clark County, WA	4.9	4.9	10.2	5.3	5.3
Skamania County, WA	5.4	5.4	10.3	4.9	4.9

Graph Source: Bureau of Labor Statistics: June 2020

EMPLOYMENT

As of August 2020, approximately 16.3-million people are unemployed in the United States, with a 10.2% unemployment rate - down from 14.7% in April – almost 3-times as high as the 3.5% previously steady low rate. Despite declines over the past 3 months, these measures are up by 6.7 percentage points and 10.6 million, respectively, since February. While the COVID-19 pandemic rages on, Oregon unemployed hovers at a 10.4% unemployment rate. Nationally, over 178,000 people have succumbed to COVID as have over 400 Oregonians with over 25,000 confirmed cases. At over 5.5 million, the USA which accounts for less than 5% of the world population, leads all other countries in global coronavirus infections and deaths leads all developed countries in COVID confirmed cases (Johns Hopkins University Data: 2020). With all of that stated, as the economy is being compared to the Great Depression era, there is little wonder that, compared to last year, housing production levels are down.

Contributing to record unemployment levels are many non-essential businesses which remain closed, or are struggling to survive as people practice social distancing to help reduce the effect of COVID. Especially hard-hit: commercial office retail and hospitality; hotels, restaurants, and bars. In Oregon, housing construction has been allowed to continue as an essential business. However, as the COVID pandemic continues to surge, the housing industry is not immune to its impacts as it is experiencing barriers to production with delayed building permit approval processes; decreased housing production levels; and, slowed construction completion schedules.

DELAYED BUILDING PERMIT APPROVAL PROCESS

Typically, City of Portland permit approvals expire three years after a final land-use decision. However, recognizing COVID's impact on the building industry, in July Portland commissioners considered amendments to the city's zoning code to extend the expiration of land-use approvals to January 1, 2024 for developments approved from July 1, 2017 to December 31, 2020.

"Due to the pandemic, the processing of permits has slowed down, construction timelines have slowed, financing is harder to obtain, and there is just a generally uncertain market condition happening now," said J.P. McNeil, a planner with the Bureau of Planning and Sustainability.

This action was critical in order to comply with the Governor's Stay-At-Home March 2020 mandate, the Portland Bureau of Development Services (BDS) implemented a Work-from-Home employee workplace, changed to a new software permit data reporting system, and created a tiered priority permit approval process. This logistical transformation forced the complete closure of the BDS building and operations from March 17-20. Limited operations resumed March 23rd at which time it accepted only limited types of permit applications based on high priority projects, minimize in-person interactions, and adjust employee workloads working from home (Ken Ray: City of Portland, BDS; July 28, 2020). New single-family residential permit applications were not accepted until the week of April 13th. Other residential alterations and multifamily housing permits (other than affordable housing projects) were not accepted until the week of April 27th. Compounding the delays, with BDS imposed an employee semi-layoff with a furlough-Friday reduced employee work schedule shortening the work week from five-days to four.

In fact, the U.S. Census Bureau issued a statement regarding COVID-19 Impact: "Due to recent events surrounding COVID-19, many governments and businesses are operating on a limited capacity or have ceased operations completely."

Even with Portland legislature's forward-thinking remedy, it took until July 20th, roughly 4-months after the initial Stay-at-Home social distancing guidelines were mandated, for BDS to be logistically-ready to begin to review all permit types. Therefore, the 4-month gap distorts the data, appearing to show a surge in housing production. When, in fact, the spike in approved new construction permits simply reflects a backlog in reviewing permits during the March through June Shelter-in-Place economic shutdown. Nonetheless, taking that gap into consideration, housing production levels are down compared to last year 2019 but July figures show that construction is starting to show a consistent level of production.

LOWER HOUSING PRODUCTION LEVELS

Nationally, according to the National Association of Housing Builders (NAHB), fueled by low interest rates single-family housing permits and starts continued to expand in July as housing demand and construction remains a "bright spot for the overall economy". It states that single-family starts in July were estimated by Census/HUD at 940,000 seasonally adjusted annual rate, after a revised estimate of 869,000 for June. However, this figure is a 34% decline from peak starts pace in February. Multifamily construction starts for 5+ units increased 57% to a 547,000 pace in July. However, this is a 11% decline compared to January. Notably, NAHB forecasts a decline in multifamily construction compared to single-family as a direct result of the 2020 economic downturn.

"The multifamily market continues to make its way back toward pre-pandemic levels, with recent starts data coming in above forecast," said NAHB Chief Economist Robert Dietz. "Demand remains subdued due to elevated unemployment rates, while on the supply-side of the market builders and developers are dealing with a significant increase in lumber prices, which could hinder further recovery of the market." (NAHB: Housing Market Survey; August 20, 2020).

In the Oregon Portland-Vancouver-Hillsboro Metro area, July single-family construction starts show a consistent upward tick in production levels since April 2020, from 376 new permits to 748. However, total new construction permits from January 2020 through July 2020 were down by 136 total units, with 4251 new permits compared to 4387 the same time last year 2019.

Likewise, new construction multifamily dwelling permits in the Portland-Vancouver-Hillsboro is up from a 77-unit February low to 1374-unit high in March. However, new permit units continue to decline April through July from 690-units to 412-units. In fact, new multifamily dwelling units declined from January 2020 through July 2020 down by 938 total units, with 3,556 new permits compared to 4,494 the same time last year in 2019.

"Builders are likely to wrestle with even more economic fallout in the coming months as COVID case counts continue to spike throughout Oregon and various parts of the nation." (Anirban Basu, ABC Chief Economist: 2020)

Whereas housing construction has resumed from the Spring 2020 pandemic-induced economic shutdown, compared to this time last year, production levels are lower overall with higher levels in single-family vs multifamily dwellings. However, what becomes an economic concern will be a high vacancy rate for both housing types.

While historic unemployment continues without a federal \$600 stimulus, and federal/state eviction moratoriums expire, the next article will review the affordable housing market sector to delve deeper into the production of different housing types, geographic location of housing production, and monitor the effects of epic unemployment rates on residential vacancy rates.

CITY OF PORTLAND TIERED PRIORITY HOUSING MATRIX

Tier	Project Types	Accepted Beginning Week of
1	<ul style="list-style-type: none"> ▪ Hospitals and clinics responding to the COVID-19 pandemic ▪ Essential infrastructure and services such as heat ▪ Shelters and transitional housing projects ▪ Essential facilities such as the PDX terminal upgrades and BES wastewater treatment plant 	March 23
2	<ul style="list-style-type: none"> ▪ Projects that are working with BDS Process Management/Major Projects Group ▪ Wireless facilities that are subject to Federal Communications Commission timeline requirements ▪ City infrastructure and facilities projects not covered by Tier 1 ▪ Food supply related projects essential to the COVID-19 pandemic ▪ Submittals associated with projects that have an issued building permit and are under construction (this includes revisions, deferred submittals, and HVAC and electrical trade permits) 	March 23
3	<ul style="list-style-type: none"> ▪ Portland Housing Bureau affordable housing projects that are not working with BDS Process Management/Major Projects Group ▪ Empowered Community Projects (Small Business Empowerment, Arts Empowerment, Empowered Neighborhoods) 	April 13
4	<ul style="list-style-type: none"> ▪ Regulated affordable housing projects with associated grant funding (that are not working with BDS Process Management/Major Projects Group) ▪ Facility Permit Program (FPP) permits 	April 13
5	<ul style="list-style-type: none"> ▪ New single family residential (NSFR) permits ▪ Demolition permits that are a requirement of an active Land Use case or are associated with development of a new structure on the same site 	April 13
6	<ul style="list-style-type: none"> ▪ Commercial and residential new construction, alterations, and additions that are not listed in any of the above tiers (the plan sets for these submittals must not exceed 25 pages and must be submitted as a PDF via an intake appointment. Commercial projects consisting of more than 20 pages may qualify for submittal via ProjectDox) ▪ Mechanical permits that require plan review 	April 27
7	<ul style="list-style-type: none"> ▪ Permits for all other projects, Zoning Permits, etc. 	May 11