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RESIDENTIAL MARKET

Housing Production, SROs, and Project Turnkey

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LOCAL HOUSING PRODUCTION 2021 Q4

By in large, 2021 closed out with a much stronger overall performance than 2020. Total housing permits filed has increased 28.2% since the fourth quarter of 2020 in Multnomah County and 24.4% in Clark. Year-over-year change in Washington and Clackamas has decreased slightly, by 2% and 10% respectively. As has been the case for most of the year, Clark filed the most permits in the fourth quarter of 2021, accounting for 40% of the area's growth. Following Clark is Washington with 29%, Multnomah with 20% and Clackamas with 11%.

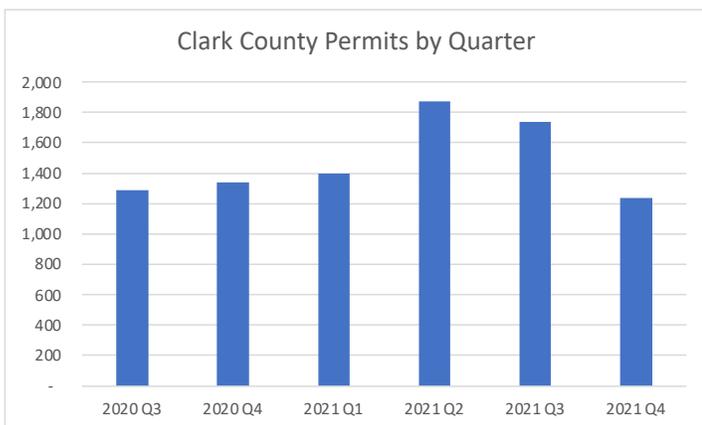
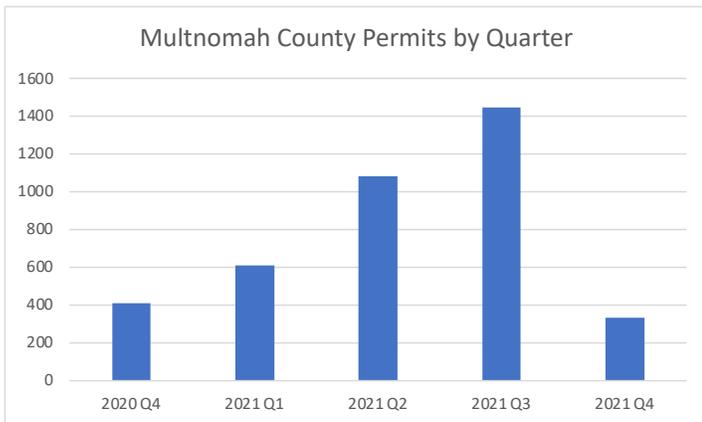
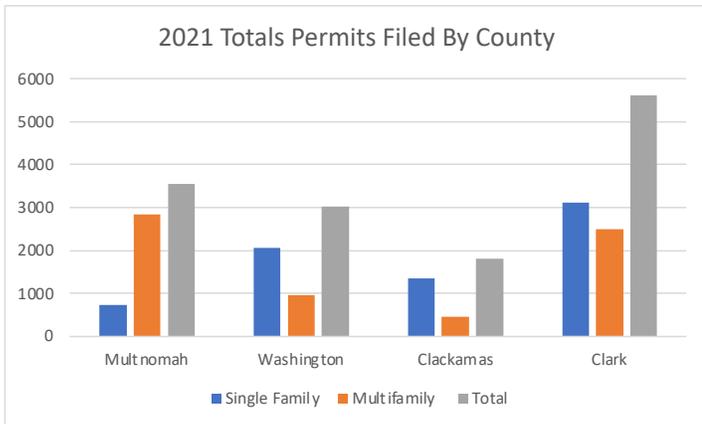
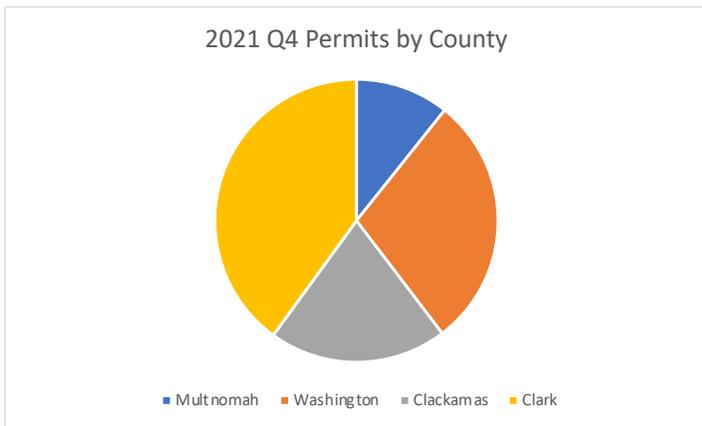
Despite a steady increase in the fourth quarter of 2020, Multnomah permits filed plummeted in the fourth quarter of 2021, down from 1,448 to 331. Oddly, 16% of those permits were for multi-family and 84% were for single-family. In fact, HUD reported zero multi-family permits filed in October and November of 2021. This is quite a dramatic reversal from July, which had the most activity since 2019 (752 multi-family permits filed). While overall production is up from the year prior, the fourth quarter of 2021 ended on a low note for Multnomah.

Continuing an impressive development streak, Clark closed out 2021 with its strongest year yet with approximately 5,609 total permits filed. Of those total permits, 55% were for single family homes and 45% for multi-family, demonstrating significant demand and a strong performance for both asset types. Considering its ample development pipeline, quick absorption times and low vacancies, it is likely that Vancouver's production will continue eclipsing Portland for the foreseeable future.

PORTLAND'S HOUSING CRISIS

In October 2015, Portland City Council declared a state of emergency to help address the city's growing homeless and housing affordability crisis. This allowed the city to access additional federal funding, which led to the creation of a department called the Joint Office of Homeless Services. Since the start of the declaration, the Joint Office has spent \$286.4 million; however, the problem still feels as dire as ever. While an official tally has not been conducted since the start of the pandemic, most experts agree that COVID-19 has only made the situation worse.

There are many root causes of homelessness that



have made it an almost insurmountable challenge to overcome. Historically, the deinstitutionalization of mental health facilities, disinvestment in public housing, and the dismantling of the welfare system under President Reagan have all been major contributing factors. Bloomberg CityLab also identifies a modern form of homelessness that took rise in the 1980s, characterized by mass incarceration, drug epidemics, and a lack of affordable health care.

These factors, combined with rapidly increasing housing costs and lagging wages, have created the crisis we now face today. But what many people don't realize about modern homelessness is that its origins can be traced back to the removal of America's most naturally affordable housing supply: single room occupancies. Interestingly, this once-in-a-century pandemic has presented a unique albeit fleeting opportunity to bring them back.

HISTORY OF SINGLE ROOM OCCUPANCIES (SROS)

As America's industrial cities started booming around the turn of the century, everyday workers migrated to these urban hubs to participate in their economies. This migrant workforce, comprised of laborers, seafarers, immigrants – many of them women – all thrived off the flexibility that the short-term rental of beds and rooms offered. But as America started to suburbanize and become more family values oriented, SROs and their residents fell into disrepute.

Throughout the 1960s and 1970s, the majority of inexpensive hotels and SROs used by low-income residents were converted to office, luxury condos, or tourists' hotels. The few that remained languished alongside urban decay, further solidifying their reputation as problematic and undesirable. By the mid 1990s, most planners and city officials agreed that SROs led to "maladjustment" and were considered a public nuisance. Yet they failed to replace the SRO units that were lost with an alternative. While official records were not kept in Portland, housing nonprofit Northwest Pilot Project found that from 1978 to 2015, Downtown lost nearly 40% of its rentals (about 2,000 units) that were affordable to minimum wage earners. Many of these units were SROs.

PROJECT TURNKEY: HOTEL CONVERSION AS THE 21ST CENTURY SRO

Soon after the pandemic devastated the hotel industry in the spring of 2020, government officials took advantage of a rare opportunity: use pandemic emergency funds to convert struggling hotels into supportive and affordable housing. In March 2020, California established Project Roomkey to provide non-congregate shelter options for people experiencing homelessness during the pandemic. As the pandemic assistance funds were scheduled to end in late 2020, Project Homekey was established as its continuation, with a focus on creating permanent low-cost housing by repurposing hotels, motels, vacant apartments, and other underutilized commercial real estate.

In November 2020, after wildfires in Oregon displaced more than 4,000 households, lawmakers passed their own version of this initiative called Project Turnkey. Modeled off Project Homekey's success, Project Turnkey also uses grant money to acquire hotels and motels to use as emergency housing during the pandemic, with intentions to convert them into a permanent supply of transitional, supportive, and affordable housing units.

Between November 2020 and August 2021, Project Turnkey was able to acquire and convert 865 new housing units in Oregon, at the average cost of \$87,700 per unit. That's over 60% less the average cost of a new affordable housing unit, which is around \$226,000 per unit. For the Turnkey properties located in the metro area, the cost per unit ranges from \$91,000 to \$101,800, while average cost per unit for affordable housing can range from \$350,000 to \$450,000. Turnkey was able to convert 865 hotel rooms into housing units in approximately seven months, while the design, permitting, financing and construction timeline of a new affordable complex can take anywhere between two to four years.

Of course, in many ways this is an unfair comparison. New affordable units are higher quality, longer lasting, and will better serve larger households than SRO style housing. But hotel conversion and new construction serve different purposes in the ongoing effort to provide housing for vulnerable populations. For example, converted hotels and SROs have proven especially effective at helping unsheltered people transition out of homelessness and into more permanent housing

situations.

In November 2021, Help USA published a literature review outlining how SROs have reduced homelessness among single adults and have had positive impacts on residents by improving mental health, increased housing stability, and increasing job retention. All around the country, especially in New York and California, discussions about reintroducing SRO supportive housing are underway. But the extent to which they are effectual will all depend upon if they can act before the economics of conversions change in the future.

CONCLUSION

For the last half century, the common narrative about SROs is that they are undignified at best and criminal hubs at worst. But the heart of that narrative was informed by class bias, social prejudice and varying degrees of xenophobia and racism. There was the misunderstanding that a housing type that met the needs of vulnerable people was responsible for the issues that already exist in these populations. We have learned the hard way that simply removing the housing type doesn't make the problem go away; rather, it makes it worse. By shedding our preconceived notions about SROs, we should continue to think creatively about how we can repurpose underutilized real estate into the housing we desperately need in a post-COVID world.

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