



February 23, 2015

Representative Alissa Keny-Guyer
Chair, House Committee on Human Services and Housing
Oregon House of Representatives
900 Court St. NE, H-484
Salem, OR 97301

SUBJECT: HB2564 – Written testimony in opposition

Dear Representative Keny-Guyer:

This written testimony is submitted to the House Committee on Human Services and Housing on behalf of Devco Engineering, Inc., a Corvallis based civil engineering and land use planning consulting firm. I have been employed at Devco Engineering since 2007 in the capacity of land use planner. Prior to that I served for five years on the City of Corvallis Planning Commission, 3 years on the City of Corvallis Housing and Community Development Commission, and 2 years volunteering for Benton County Habitat for Humanity on a land use application involving an 18-unit mixed income housing development. It is based on this professional experience that I strongly urge you to vote “no” on HB2564. As you are aware, HB2564 would lift the ban on inclusionary zoning (IZ) and allow municipalities to require the inclusion of affordable housing with housing development, in the hopes of alleviating a shortage of affordable housing in communities with tight housing markets.

HB2564 is a piece of well-intentioned legislation that will likely have unintended consequences, exacerbating the problem rather than alleviating it.

Please consider the following:

- **In Oregon communities with tight real estate markets, affordable housing development needs to be subsidized.**

Oregon’s rigorous land use planning laws provide myriad economic and quality of life benefits to Oregonians. However, the drawback to our state land use policy is that it tends to drive up development costs and reduce profit margins for developers. Unfortunately, this is a contributing factor of the private sector’s failure to provide affordable housing where real estate markets are tight – precisely the markets most in need of affordable housing.

Affordable housing in Oregon is primarily provided by the non-profit sector, which is eligible for funding from both government and philanthropic foundations. The lift of the ban on IZ may well provide new opportunities for private/non-profit sector partnerships, but some form of external funding would still be necessary for a development to be financially feasible.

- **It is not realistic to expect the private sector to absorb the full cost of subsidizing affordable housing. IZ would, in many cases, cause a decrease in the development of housing.**

Given the higher development costs and lower profit margins that are the consequence of strict state land use policy, developers will walk away from housing developments that are not financially feasible. Adding the cost of requiring the developer to absorb the difference between affordable and market rents would likely render many housing developments financially unfeasible. Developers would walk away from markets in IZ areas rather than develop at a loss. The choice presented to the public is therefore not "housing developments without affordable housing vs. housing developments with affordable housing", but rather "housing developments without affordable housing vs. no development at all."

- **Reducing development of all housing suppresses supply and results in higher housing costs overall.**

If cities are to implement IZ in a way that would not exacerbate rather than alleviate the affordability problem, they would need to simultaneously provide for some sort of external funding mechanism that would make housing developments financially feasible in these zones. Unfortunately, this is not possible via the land use process, and cities would have to coordinate the funding separately. This is not likely to happen in most cities. Land use policy alone cannot solve the affordability crisis.

- **The solution is a state fiscal policy that funds affordable housing.**

Attached is an editorial from the *Seattle Metropolitan* magazine, "Expensive new housing reduces displacement." The piece does an excellent job of summarizing the points made in this testimony, and explaining why acting to suppress the development of market-rate housing causes more affordability problems than it solves. The one exception noted is the assertion that the private sector will provide affordable housing; the article is written for the Seattle housing market whose land use policy is not as strict as Oregon's and thus this assertion is not applicable.

Sightline Institute is a progressive environmental policy think tank based in Seattle that addresses land use planning issues in Washington, Oregon, and British Columbia. Sightline's Executive Director Alan Durning has stated:

"One half the solution to rising housing prices is to allow much more housing: to make Seattle and other Cascadian cities grow upwards, like Paris or Amsterdam or Vancouver, BC. To hold onto our value for equity and inclusion, we have to let the built form of our cities change. (The other half of the solution is to further subsidize housing, efficiently, for poor families.)" (emphasis added)

If you have any questions, please do not hesitate to contact me.

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Attachments: Dan Bertolet, "Expensive new housing reduces displacement", Seattle Metropolitan,
20 February 2015

¹ Alan Durning, Facebook, 20 February 2015, used with permission

Opinion

Expensive New Housing Reduces Displacement

New housing doesn't cause displacement, it prevents it.

Published Feb 20, 2015, 11:56am

By [Dan Bertolet](#)

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Most Seattleites understand that the public has an obligation to subsidize housing for the city's most needy, and residents have voted twice to tax themselves to that end through [the housing levy](#). What's far less appreciated is the essential role of the private sector in sustaining affordable housing.

It's probably safe to say that the average Seattleite-on-the-street believes that expensive new housing is a major cause of declining affordability. And that is a regrettable thing. Because under current conditions of high demand for housing in Seattle, the reality is that new housing—regardless of price—actually abates displacement of those on the lower end of the income spectrum.

How can this be?

As counterintuitive as it may seem, the creation of a new expensive rental prevented displacement of the poorest renter. Consider the simplified case of a city with a total of five rentals ranging from cheap to expensive, and five people living in them with corresponding incomes. Along comes a wealthy newcomer who offers more for the most expensive unit, so the landlord raises the rent and the newcomer gets the unit because the current tenant can't afford to pay that much.

The person who was displaced then offers more for the next cheapest rental, and so that landlord raises the rent, displacing the current tenant, who then bids up the next cheapest rental, and so on. In the end the person left without a place to live is the one with the lowest income of the five original renters.

Now consider how that scenario changes dramatically when there is one simple difference: a newly built expensive rental is available. The wealthy newcomer rents that unit, and that's it—nothing changes for any of the existing five renters. No rents are raised, and no one is displaced. As counterintuitive as it may seem, the creation of a new expensive rental prevented displacement of the poorest renter.

Today in Seattle, the scenario of the lacking new unit is the fundamental process behind declining affordability and increasing displacement. And that's why the ever popular sport of bashing "greedy developers" for building "luxury" housing is actually doing more harm than good.

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Yes, of course Seattle's housing system is far more complex than the above thought experiment. But none

of those complexities negates the fact that the root problem is we're not making enough room for newcomers. Still, this idea tends to encounter remarkably spirited resistance in progressive circles. Here are five common objections and why they are misguided:

Misconception I: New housing causes displacement because older, cheaper housing is demolished to make way for it.

In recent years the ratio of new to demolished housing in Seattle has been about [eight to one](#), which means that displacement prevented by new housing far outweighs any displacement caused. For high density housing the ratio is more likely in the range of 50 or 100 to one. That's because a lot of new high density housing is built on parking lots or spent commercial buildings, as is readily observed in the city's growing neighborhoods such Capitol Hill, Ballard, or downtown.

Misconception II: New expensive housing drives up rents of surrounding housing; owners of new housing keep their units vacant to drive up rents; outside investors are buying up housing in Seattle and jacking rents to cover the inflated prices they pay.

The simple reason all of these related claims have no merit is because the primary determinant of rents is demand. And neither the existence of expensive housing, nor vacant units, nor inflated rents can create demand. These factors may introduce short-term marginal upticks, but over the long-term, rents always fall back in line with demand. This is simply indisputable reality, as verified by decades real estate market data.

Misconception III: Housing consists of multiple bifurcated markets, so new expensive apartments do not affect prices of any other type of housing.

Regarding price, the thought experiment discussed above illustrates that in a large housing market there is a continuum of prices that allows renters to easily move up and down the market as needed—in other words, there is no financial bifurcation. Regarding housing type, bifurcation can be a factor, but the fact is, every new apartment added to the stock absorbs demand from a household that otherwise may have been forced to compete for other options. For example, a person who can't find a cheap enough apartment may end up renting a room in a shared single-family house. Ultimately, every unit built relieves the entire market.

Misconception IV: The market cannot provide affordable housing.



It is no secret that the raw costs of production are simply too high for new housing to be affordable to a significant swath of the lower end of the income spectrum. But to claim that the market doesn't provide affordable housing is highly disingenuous. Past [census data](#) and [market surveys](#) show that about three quarters of Seattle's rentals were affordable to households earning [80 percent of the area median income](#). Today's new housing becomes tomorrow's affordable housing as it ages. Furthermore, because new housing absorbs demand, it reduces market pressure to renovate older, cheaper housing, thereby helping to preserve these low-rent options and reducing displacement.

Misconception V: It's a lost cause because we can't build fast enough to get ahead of demand.

Even if production isn't keeping up with demand, each new unit still has the potential to prevent one poor household from being displaced. It's far from a lost cause to the person who can afford to stay in his or

her home because just one additional unit of housing was built. This is not to say that building new housing will solve the whole problem. Subsidies will always be necessary to provide decent housing for the poorest households, as has been true in cities for centuries. But when so many people want to live here, the less new housing we build, the bigger the subsidy problem becomes.

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In the public conversation about housing affordability in Seattle, rigid progressive ideology all too often leads to the demonization of private developers. If Seattle hopes to successfully tackle affordability, the critical role of market housing must be given more weight in policymaking. Take for example Capitol Hill, one of the city's most in-demand neighborhoods, for which a policy choice has been made to not allow high-rise buildings, a policy that will curtail the creation of new housing by hundreds, if not thousands of units. And that translates to hundreds if not thousands more lower-income residents displaced from the neighborhood. Limiting height or density in places where there is strong demand is putting aesthetics before [social equity](#).

In the public conversation about housing affordability in Seattle, rigid progressive ideology all too often leads to the demonization of private developers. But this can only lead to failure, because it will encourage policies that attempt to solve the problem at the expense of market production, such as the City's proposed [linkage fee](#).

Again, to be clear, no one is saying that market production alone will solve Seattle's affordability problem.

There will always be some level of subsidy necessary, but that level will be determined by the balance of supply and demand. If market production continues to fall behind demand, the need for subsidy will balloon to the point where it becomes essentially unsolvable, as it has in San Francisco. And even if some households are protected from displacement through subsidized housing, the displacement caused by housing scarcity will simply shift to the next poorest households not protected.

It's really not that complicated. Seattle has a housing shortage. Every occupied new unit of higher cost housing translates to one less higher income household competing for a limited amount of existing housing. And whenever there are more people who want housing than there are housing units, it will be the poorest who lose.

Seattle Met and *PubliCola* deliver breaking news and essential updates from around the Northwest. [See an example!](#)

File Under: [Affordable Housing](#)