



SMALL HOMES NORTHWEST
An Equity-First Affordable Small Home
Demonstration Project

House Committee on Human Services and Housing
January 14, 2020 Testimony

Ernesto Fonseca, CEO Hacienda Community Development Corporation

Thank you for the opportunity to speak with you today, for the Committee's support in 2019 for Hacienda's efforts, with our partners, to demonstrate a small home development model that can be replicated across the state. Thank you also to Rep. Meek for your Co-Chairmanship and Rep. Zika for your membership on the Joint Task Force on Addressing Racial Disparities in Home Ownership.

Hacienda background:

Formed in 1992 in response to the poor housing conditions Latino families were experiencing in the Cully neighborhood of NE Portland, Hacienda has become an influential Latino led Community Development Corporation that serves everyone by providing culturally specific services that strengthen families' economic and social well-being.

Through Hacienda's supportive community programs – including affordable housing and our community benefit commercial buildings, youth and family support, homeownership support, and economic development – Hacienda is improving the lives of its residents, by helping children succeed in school and parents become engaged in their child's education. At Hacienda, we continue to strategically transform our Cully neighborhood and work collaboratively with our public and private partners to transform the lives of the many low-income individuals and families we mutually serve. Strategic innovation is a key part of our approach and we believe our small home development model, which we now call Small Homes NW, is such an innovation.

Hacienda is the lead project developer for the Small Homes Northwest demonstration project, working collaboratively with Portland Community Reinvestment Inc. (PCRI), Verde and ROSE Community Development. Our partners have provided letters describing how the demonstration project creates opportunities in the communities they serve and their roles, as well as their support for Hacienda's request for one-time funding for the project.

We've received crucial funding from Meyer Memorial Trust for the demonstration, MMT sees the scalability and replicability of the Small Homes Northwest model as an innovative tool that can be deployed in communities across Oregon as described in their letter to the Committee.

We agree with the legislature that more housing opportunities are needed in single-family zones, in cities statewide. That is why we supported HB 2001 in 2019. Adding modest residential density in single-family neighborhoods helps address our housing crisis, and is also smart climate policy. But in order for these new housing opportunities to be available to low-income households, we need viable, replicable models for building affordable infill housing. This demonstration project will help HB 2001 realize its true potential of creating not only more housing options, but options that are more equitable, affordable and accessible to households of color and low-income renters statewide.



In providing support for the affordability subsidy for this project, Oregon joins communities in California, Washington State and Colorado in creating equitable and inclusive strategies to deploy small homes to increase affordable housing.

We're sponsoring this demonstration project because we see a tremendous opportunity to create an additional option in the affordable housing greater strategy plan. Small Homes NW will:

- Support family stability - homeowners retain homes and build assets.
- Advance goals of reducing the racial wealth gap by prioritizing modest additional income for communities of color and low-income communities.
- Support Aging in Place and intergenerational living for our communities.
- Create new affordable rental housing in our community.
- Generate economic opportunities through construction and entrepreneurship.

Our planning and feasibility analysis completed in 2019 enables us to build ten demonstration units in 2020. The primary components of the Small Homes Northwest model are:

- Cost controlled design and construction.
- Homeowner loan, debt serviced by rental income.
- Affordability subsidy that is less than ½ typical subsidy for new mf unit with an extended affordability period.
- Homeowner services to build, tenant and manage the rental home.

We will work with homeowners whose household income does not exceed 100% of area median income to:

- Assess the suitability of their property for siting a 537 sq. foot one bedroom or 628 sq. foot two bedroom small home.
- Connect with one of several lenders who are offering innovative ADU loan products (Craft 3, Consolidated Community Credit Union, Umpqua Bank).
- Finalize site plans integrating their choice of optional design details.
- Provide professional construction management and support the DBE contractor utilization and workforce opportunity goals of the project.
- Provide Fair Housing Training and assist with matching a renter household whose income does not exceed 60% of area median income with the new rental home opportunity.
- Provide professional property management, collect rents, make the loan payment and pay other expenses – from the proceeds of the affordable rent for the duration of the affordability period.

The **SHNW Financial Model (handout)** details this arrangement and my colleagues here today can respond to any questions you may have.

You also have the **SHNW Development Budget (handout)** showing Sources and Uses for the demonstration project for our planning year in 2019 and implementation in 2020. You will see that we have fully funded the implementation costs of the project and are prepared to proceed upon securing the affordability subsidy for the 10 demonstration units.

Briefly, our timeline for the project:

2020 – start construction of 10 small homes in the metro area, share widely our learning with affordable housing colleagues in communities across the state as they undertake planning to adapt the model to fit local homeowner stability and affordable rental needs



2021 – finish metro area homes, potentially one or more organizations statewide replicate the model and start construction of small homes in their communities; Hacienda and partners grow a social enterprise to scale up SHNW production.

Over the last year we've had the opportunity to talk with some of those statewide colleagues, in Deschutes, Columbia and Lane counties. They are interested in further discussing, learning from and adapting the model - *if* there is a path to funding for subsidy. Statewide members of the Oregon Housing Alliance support the inclusion of the Small Homes Northwest demonstration project in the 2020 Housing Opportunity Agenda. Our funding request includes resources to evaluate, and report on and disseminate the learning from the demonstration project.

Beyond the demonstration project the SHNW model will be scalable, replicable and sustainable if we are able to work with Oregon Housing and Community Services, and other local affordable housing funders to identify ongoing sources of funding for the affordability subsidy.

This projects completely aligns with HB 2001 and advances its goals and priorities. Our team is standing by to answer any questions that may not be included in this testimony, and to ask for your support to secure funding to complete the demonstration project, creating the opportunity for replication in communities across the state.

I want to thank this committee for giving us the time to present this project, we appreciate the opportunity. To conclude, I ask that the committee support this project with a one time funding request of \$710,000 to 1) provide affordability subsidy of up to \$70,000 per unit for the ten unit demonstration, and 2) evaluate, document and support dissemination of the model for use by communities statewide.

Thank you, we are happy to answer any questions.

Sincerely,



Ernesto Fonseca, PhD
CEO Hacienda CDC