

# Housing Solutions

**How Cities are Tackling the Housing Shortage Through Local Strategies and Innovation**



**ALSO IN THIS ISSUE**



# Cities Tackle Housing Shortage Through Local Strategies and Innovation

*By Melody Finnemore*

**W**hile Oregon's lack of affordable housing for people with little or no income consistently makes headlines, cities across the state also are dealing with a housing shortage that includes homes for people with moderate and upper-middle incomes.

The reasons for this range from a dearth of developable land and the infrastructure to support it, to parcels that are not attractive to developers and builders because they don't pencil out for a profit. Lengthy approvals and permitting processes, infrastructure costs, and other bureaucratic barriers play a role as well.

However, many cities are addressing their housing shortages in innovative ways, and several are doing so through grant funding for technical assistance provided by the Oregon Department of Land Conservation and Development (DLCD).

Passage of HB 2003 in 2019 helped build momentum by requiring cities with more than 10,000 residents to study their future housing needs and develop a Housing Needs Analysis (HNA). HB 2003 requires cities within the Portland metro area to update their HNA every six years, and cities outside the metro area to update theirs every eight years.

The bill also requires each city to adopt a Housing Production Strategy (HPS) within a year of the HNA deadline. The strategy must include a list of actions a city will take, such as revising regulations or providing financial incentives, to promoting the development of all identified housing needs.

The DLCD will review and approve each city's HPS based on the adequacy of strategies to meet all identified housing needs, the appropriateness of strategies to facilitate the production of



Examples of middle housing developments in Hood River. The city received a technical assistance grant from the DLCDC and hired the consulting firm ECONorthwest to help develop its Affordable Housing Production Strategy. It formed an advisory community task force to provide input on potential strategies to include in a final report.

needed housing, and how well the strategies, taken as a whole, will achieve fair and equitable housing outcomes. Cities must reflect and evaluate the progress and effectiveness of their HPS every three or four years, depending on the HNA schedule, and report on what strategies worked, which ones did not, and make note of any course corrections being made to ensure all housing needs are addressed.

Importantly, the Legislature in 2019 and 2021 included funding for local technical assistance grants at the DLCDC that make it possible for cities to meet the requirements of HB 2003 by hiring planning consultants. Several city leaders shared with *Local Focus* how they are accomplishing their analyses and crafting strategies to provide more housing so that everyone in their communities has a place to call home.

### Lack of Housing a 'Liability'

Hood River has a population less than 10,000 and was not required to create a HPS under HB 2003, yet choose to develop one as part of its 2021 Work Plan to identify public policy tools and actions the city can use to encourage the production of affordable housing.

“Our goal is to provide a certain amount of all types of affordable and rental housing,” said Dustin Nilsen, AICP, Hood River’s director of planning and zoning. “The city’s lack of housing is a big liability in terms of our ability to put roofs over people’s heads.”

A lack of affordable housing also causes economic impacts when companies cannot recruit and maintain the workers they need. “We had to take some forward steps to address that the issue

is becoming significant and it’s having adverse impacts on the overall community,” Nilsen said.

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Among the barriers Hood River faces in increasing its housing capacity is a limited land base surrounded by a national scenic area, the Columbia River, and high valley farmland that limits the city’s ability to expand its urban growth boundary. Identified early in the HNA was how to use limited real estate more efficiently while providing a diverse mix of housing types.

Nilsen said Hood River also faces the challenge of being among the top 10 most expensive small cities in the country, which fuels demand for high-income housing. The land that is available is highly parcelized, prohibiting large-scale development such as multifamily housing and providing only small lots in which the builder—and, ultimately, the homeowner—pays for the cost of infrastructure. In addition, the availability of construction materials and workforce to build homes is scarce.

The city received a technical assistance grant from the DLCD and hired the consulting firm ECONorthwest to help develop its Affordable Housing Production Strategy. It formed an advisory community task force to provide input on potential strategies to include in a final report.

The task force began meeting in mid-September and will be a sounding board for identifying and evaluating potential strategies

“As a small town, developers usually come to us for approvals. This is actually the city stepping out and becoming more assertive in addressing the issue.”

*Dustin Nilsen, AICP, Hood River*

for the city council’s consideration. The task force includes members of the real estate and services sectors as well as people who live in affordable housing and Latino residents.

“The city has been focused on bringing all voices to the table and not just those that have been commonly heard. That DEI lens has been really sharpened through this process,” Nilsen said.

He noted that the city already purchased seven acres that is designated for affordable housing production. “That is really unprecedented for the city to go out and assemble property and



The city of La Grande recently approved a cottage home project for veterans. The homes are between 500-600 square foot each.

get it into production,” Nilsen said. “As a small town, developers usually come to us for approvals. This is actually the city stepping out and becoming more assertive in addressing the issue.”

Hood River also was among the first cities to borrow against its construction excise tax to generate a revenue stream to purchase property and acquire land for affordable housing, which the Legislature authorized in 2016.

“That’s really a signal of what cities are going to need to do. There’s no silver bullet strategy. You are going to have to put forward a portfolio of development because no one is providing that market,” Nilsen said.

### More Private-Sector Leadership Needed

Michael Boquist, community development director for La Grande’s Planning Department, considers the city fortunate to be a recipient of the technical assistance grant from the DLCD that has paid for consultant assistance for its HNA and HPS as a pilot program established through HB 2003 and prior legislation.

This support made possible a critical update to an HNA that had not been revised since 2000, and the HPS is La Grande’s first. The city also has struggled to attract developers to build large-scale affordable housing in the rural community.

Traditionally, La Grande has attracted residents, including a retiree population and middle- to upper-income households, who hire smaller contractors to build custom, single-family homes. “That’s great for those who can afford that, but it doesn’t serve the working class or lower-income families we need to serve,” Boquist said.

Local contractors are generally not willing to assume the financial risk to build a subdivision and then sell the homes themselves because they often do not have the capital or ability to fund the risk. La Grande is striving to increase its inventory of affordable housing for the many residents who work in labor, retail and other low- and middle-income paying jobs.

Added to the challenge is the lack of engagement about housing issues within the community, Boquist said, noting the city promoted its HNA and HPS on its webpage and through local media announcements. When public meetings were scheduled in the evenings to accommodate residents’ work schedules, few showed up.

To ensure it did gather accurate and meaningful input for its HNA, the city recruited local specialists in the housing community, realtors, contractors and large employers that want to provide housing for workers they are trying to recruit.

As La Grande implements its HPS, one of its first steps is to create more affordable housing by changing land use codes to accommodate smaller lots, smaller homes and more multifamily development.

“I think that is very doable. Although, it doesn’t address the issue of who is going to proactively build these developments. So, for the near future we’ll still be relying on people to go out and get loans and hire local contractors to build the housing we need one dwelling at a time,” he said.

La Grande will measure its success by monitoring building permits and tracking whether vacant land is developed, and whether the housing constructed is consistent with the HNA. The challenge, however, is that the city is depending on developers to come forward to build that housing.

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“I’m not sure how we’re going to attack and address the need for lower-income home ownership and rental if the private sector does not come forward to build it for them,” Boquist said.

## Providing Incentives to Attract Development

Like Hood River, the city of Madras voluntarily developed a Housing Action Plan that includes many of the new HSP requirements. “That was very intentional because we wanted a lot of latitude in the way we would potentially address our housing problems,” said Community Development Director Nicholas Snead, AICP.

In 2017, the Madras City Council began addressing housing issues formally by hiring ECONorthwest to help create its Housing Action Plan. The work began through interviews with developers, realtors, homebuilders and other stakeholders. Developers stated that the permitting process took too long, and regulations for infrastructure and design standards were too strict and costly.

“We also learned that, for market-rate housing, the profit margin was so small in Madras that they didn’t want to take the risk of building housing here,” Snead said. “They would have to hold a house for up to six months or longer before it actually sold, and that’s like a spec home. Developers won’t build those anymore. They prefer to build houses that sell within a month or two so they don’t have to pay additional interest to the bank.”

With the understanding that the profit margin was too low, the city looked at how its regulations impacted cost and took aggressive measures to address them. As an example, the city is partnering with developers to reduce the cost of needed infrastructure for housing developments by providing tax rebates through tax increment financing from a Housing Urban Renewal District (HURD) that was created in 2020.



The Yarrow Apartments in Madras, the first of three phases of development to construct 148 units of market rate apartments. They are the first market rate apartments to be constructed in over 10 years.

“The HURD has been immensely powerful and will continue to be powerful,” Snead said. “Once homebuilders understood the HURD, they commented on how amazing it is. For homebuilders who wouldn’t otherwise be interested in Madras, it changes the economics of their business and makes them take a second look. We’ve never had that interest before.”

Madras received a \$15,000 grant from the DLCD to pay for most of the cost to have ECONorthwest prepare its Housing Action Plan, which includes a five-year housing goal of building 32 homes a year. Last year, the city permitted the construction of 58 new dwellings and, by mid-October, had permitted 77 homes this year.

While progress is being made, Snead said, there is always room for improvement and the city council will identify additional measures.

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*Matt Brinkley, AICP CFM, Medford*

### Funding Helps Address Infrastructure Deficiencies

The city of Medford has been developing its housing capacity analysis and HPS over the last year and a half, with both due for completion by the end of 2023. Staff actually began the process in 2018 with a proposed amendment to the urban growth boundary.

When it became clear that expanding the boundary was not going to adequately address the city’s housing shortage, the Housing Advisory Commission and staff were charged with identifying barriers to development and crafting nearly 40 strategies to reduce them, said Medford Planning Director Matt Brinkley, AICP CFM.

Among those barriers are infrastructure deficiencies, including stormwater and sanitary sewer, in areas of the city that are undeveloped or underdeveloped. This includes land the city up-zoned

through the urban growth boundary expansion to provide more middle-density housing.

“That’s a very real infrastructure problem we’re trying to address,” Brinkley said, adding the city has targeted funding from the federal American Rescue Plan Act and state and local improvement district funding to pay for infrastructure improvements on the front end so the cost is not passed on to developers.

Some of Medford’s land is highly parcelized, which is not attractive to developers who want to build on a large scale, including multifamily housing, and the city needs alternatives to single-family homes that cost around \$450,000, he noted.

“We need to cultivate a new generation of developers to produce housing that is good and do it in a way that is profitable to them and that they can own and operate,” Brinkley said. “We do not have supply for everyone else, even for moderate- to upper-middle incomes. We don’t have housing for nurses and teachers and others who have a good income. That’s an economic development problem and also a housing problem.”

He noted he has been “pleasantly surprised” by public participation in a series of webinars the city hosted during development of its HPS. The Housing Advisory Commission received valuable feedback from community housing groups, organizations that work on issues related to homelessness, realtors, developers and other stakeholders.

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With technical assistance grants, Medford worked with ECONorthwest to develop its HPS and has implemented many regulatory reforms and economic incentives that were included in its 37 strategies. Its Housing Advisory Commission advises the city council on how to use the construction excise tax to support the city’s Housing Opportunities Fund, which fosters the creation of affordable housing through incentives.

“Given where we started out, it really enabled us to look at housing production strategies with stronger background experience, and helped us come up with strategies that are going to be meaningful and hopefully improve our housing market here,” Brinkley said.

He added that he looks forward to additional economic incentives such as tax abatement programs, property tax exemptions and exemptions for affordable housing that are due to be implemented over the next year or so. On the regulatory side, the HPS calls for larger subdivisions that require a percentage of smaller, affordable units.

Medford’s City Council is setting a goal of supporting the production of at least 200 units that are affordable to lower- and moderate-income households over the next two years, a measure of the HPS’s success. The city will continue to track its progress through annual reporting.

### More ‘Middle’ Housing in Development

Tualatin’s HPS was an organic progression of a HNA presented to the city council as part of a larger effort to address housing issues called Tualatin 2040.

“It was fresh in the minds of everyone and the findings of the housing needs analysis showed different opportunities and, obviously, some deficiencies,” said Steve Koper, AICP, assistant community development director with the city’s planning division. “Essentially, it came to some great conclusions, but we still have work to do.”

Koper said Tualatin has had to look for creative solutions to address its housing needs because not much vacant land is available, and its residential areas are mostly built out with single-family homes. Some larger areas offer market-rate multifamily housing, but not many diverse, affordable options, or “middle” housing, exists. He said the city hopes to increase the number of townhomes and other stock available for purchase to widen its sales market for people with moderate income levels.

In addition, Tualatin is seeking to increase its housing inventory for low-income residents and people who work in the city but cannot afford to live there. “Most of the people who come to work here don’t live in the city, so we’re trying to figure out that jobs/housing imbalance,” Koper said.

With COVID-19 limiting opportunities for public participation, Tualatin utilized its website and infographics to keep people informed. Staff presentations to the city council are based on core information to increase familiarity with the issues, while also updating it during regular check-ins so the council can see progress.

Koper said members of the Planning Commission serve as a Citizen Advisory Committee that is building on the work done



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The city of Tualatin's housing production strategy culminated in 12 goals, each of which is supported by a series of strategic actions. Some examples include evaluating development codes to identify barriers, and reviewing fees to identify which should be prioritized and which could be waived.

for the HNA. A Community Advisory Committee that met pre-COVID included a cross section of people working in the affordable housing sector, residents from diverse backgrounds, and members of the Planning Commission.

"We had a pretty good idea of what Tualatin's goals were, and the opportunities and weaknesses we had," he said.

When HB 2003 offered a chance to obtain grant funding for consultant assistance with housing production strategies, Tualatin was among the first to pursue it.

"We jumped at the opportunity to be a pilot program for that legislation because we had so recently done our housing needs analysis," Koper said. "We felt like we were in a really great spot to be one of those test cases or pilots."

Tualatin's City Council has adopted the HPS and city staff are now implementing it. The city has received two additional grants from the state to fund further analysis. One grant will pay for a consultant to help the city evaluate opportunities to rezone land for greater density and mixed use. The other will fund Tualatin's Equitable Strategic Finance Plan, which explores financial strategies to increase housing equity and, in particular, affordable housing for lower-income tiers.

Koper explained that Tualatin's housing production strategy culminated in 12 goals, each of which is supported by a series of strategic actions. Some examples include evaluating development

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*Steve Koper, AICP, Tualatin*

codes to identify barriers, and reviewing fees to identify which should be prioritized and which could be waived. Along with measuring progress using its own metrics, Tualatin will report outcomes to the state periodically and with a comprehensive report in 2027.

### **3D Printed Houses Among Innovations**

In addition to the HPS efforts funded through HB 2003, many cities are pursuing innovative housing strategies to spur development of needed housing. John Day, Burns and Lakeview are among the first cities in Oregon to pioneer the construction of 3D printed homes to address their housing needs. They have partnered with Alquist 3D with the goal of building 100 homes

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The first 3D printed homes in Oregon will be The Ridge in John Day, a master-planned development overlooking the John Day River. The Ridge will provide veteran's preference housing at a target rental rate of \$850 per month. *Photo: John Day Facebook page*

in each community over the next five years. The first build in John Day is planned for The Ridge, a master-planned development overlooking the John Day River. This will provide veteran's preference housing at a target rental rate of \$850 a month.

"We've put programs in place to incentivize development," said City Manager Nick Green. "We're going to be announcing a grant award to do the first 3D home printing in the state of Oregon, and that will be one way we can build at-scale without having to increase the number of general contractors in our area right out of the gate."

John Day, which received the grant funding from the DLCD, already offers a New Home Incentive Program that provides a 7% cash rebate on new home construction, based on the increase in the property's assessed value. Its Existing Home Remodel Incentive Program offers a 15% cash rebate on substantial improvements to home façades, structural repairs, major remodels and new additions.

In Central Point, city leaders expanded the urban growth boundary to accommodate growth for the next 50 years. The city council is exploring how to use American Rescue Plan Act funds to develop affordable housing on a vacant site that was formerly slated for a Walmart.

Forest Grove, Hillsboro and Cornelius are all adding more affordable housing, thanks to a 2018 bond measure. Construction of the \$13.5 million project in Forest Grove, called The Valfre

at Avenida 26, began in early September and will add 36 units and is slated to open in fall 2022. Of the 36 units, 30 are two- and three-bedroom apartments for families, the *Portland Tribune* reported.

"Growing up in this community, I've seen how the lack of affordable housing can impact families. I am thrilled that we're seeing some momentum build locally around much-needed affordable units as our region grows," Metro Councilor Juan Carlos González said.

The project, named after Adolph "Val" Valfre, a U.S. Air Force veteran and former Forest Grove city councilor and executive director of the Housing Authority of Washington County, is made possible by a \$653 million affordable housing bond approved by Metro voters in November 2018.

Komi Kalevor, who now holds Valfre's former position as head of the Housing Authority of Washington County, said \$3.7 million of the \$13.5 million development cost is being covered by the bond.

"The bond is the game-changer. Affordable housing is not easy to finance. The market rate charges the highest rent possible and leverages that to get a bank loan plus private equity investment," Kalevor said. "Affordable housing rents are not enough to incentivize development, but here, the Metro bond fills the void, and housing that would get left on the shelf is built."



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In addition to the bond, the project is funded by a \$4.1 million tax credit, a \$500,000 grant from Washington County and a \$4.6 million bank loan.

Similar bond revenue is funding a 113-unit affordable housing complex in neighboring Cornelius, as well as a 150-unit affordable housing complex in Hillsboro, which are both expected to break ground early next year, according to the *Portland Tribune*.

“The development is a step in the right direction,” said Erica Calderon, director of housing for Bienestar, a nonprofit managing tenant outreach and leasing for all three projects. “COVID

has highlighted the need for affordable housing. As we’ve been proactive about leasing and finding tenants, we are meeting more and more families who are no longer able to afford market rates.”

Calderon added, “We’re going to be able to catch some families and individuals who are falling into the same cycle of struggle and homelessness created by the fact that there is not enough affordable housing.” ■

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