

# Joint Task Force Addressing Racial Disparities in Home Ownership

## Incentivizing Homeownership Development Proposal August 18, 2022

### Proposal

This proposal includes three initiatives to incentivize homeownership development.

### 1. Homeownership Development Subsidy

#### Funding

Allocate \$100 million each biennium for homeownership development with the goal to build 500 homes in the 2023 – 2025 biennium with a maximum subsidy of up to \$200,000 per home.

Identify dedicated funding sources, which could include other bonds, Oregon Lottery Funds, or other sources. Existing Local Innovation and Fast Track (LIFT) or other loan financing resources could be part of this total funding pool. The use of a percentage of the Oregon Affordable Housing Tax Credit (OAHTC) program for homeownership development should also be explored.

#### Programmatic Considerations

- Set the homeownership subsidy at up to \$200,000 per home and allow Oregon Housing and Community Services (OHCS) to administer multiple funding sources to reach that subsidy level.
- Administer funding through the infrastructure that OHCS is currently developing for homeownership development.
- Give preference to nonprofit or mission-centered developers. Nonprofit and for-profit developers are both eligible.
- Recommend selling homes subsidized by these resources, to the extent possible by state and federal law, to people of color.
- Make a larger subsidy available for projects intended for lower income households as determined by county average median income (AMI) or state average AMI.

### 2. Pre-Development Funding Pool

The work group would like OHCS to support pre-development funding through one of the following options:

- **Option 1:** Establish a separate pool of funding (amount to be determined) to be made available to nonprofit developers who are building homes for homeownership. The amount of funding available to nonprofit developers should depend on the project.
- **Option 2:** Allow a portion of the homeownership development subsidy as proposed in the first initiative, in #1 above, up to 15 percent of award, to be accessed up front for pre-development costs and would not be reimburseable.

### 3. Land Availability

Recommend that OHCS improve their existing [Land Acquisition Revolving Loan Program](#) to improve its usability and make more funding available for land acquisition. Work group members suggested the following:

- A land acquisition loan fund of \$30 –sd \$50 million for the 2023 – 2025 biennium. At current prices of \$150,000 for a lot, \$30 million would support the purchase of 200 parcels per biennium.
- Zero-interest loans of three-to-five years to nonprofit homeownership development organizations for land acquisition.

### Background

According to the Department of Land Conservation and Development's February 2022 Regional Housing Needs Analysis report, Oregon has underbuilt housing by 140,000 units in recent decades.<sup>1</sup> Amidst a low supply of available land and buildable lots, the state provides limited support for land acquisition, development, and construction of affordable homes. Slow production, paired with the supply chain disruptions that were exacerbated by the COVID-19 pandemic, has boosted demand and constrained supply, especially for low-income Oregonians. The Oregon Office of Economic Analysis estimates that close to half of the state's underproduced units (combined rental and for-sale units) are needed for Oregonians earning less than half the area median income (AMI), or \$40,000 per year.<sup>2</sup> Additionally, rapidly increasing mortgage rates in the first half of 2022 has dramatically limited the number of qualified buyers who can afford a home in many Oregon regions. These affordability changes particularly impact credit-sensitive buyers, such as first-time homebuyers.<sup>3</sup>

To subsidize projects, many Oregon affordable homeownership developers utilize the Local Innovation and Fast Track (LIFT) Housing Program, which prioritizes new affordable housing for low to moderate-income households, especially for families and communities of color.<sup>4</sup> In 2017, the Oregon Legislative Assembly committed the first general obligation Article XI-Q bonds to fund the LIFT program. Typically, 20 percent of total awarded LIFT funds are set aside for homeownership projects. Since 2017, over \$22 million in LIFT Homeownership Funds have supported the construction of 269 homes through 22 community land trust projects. OHCS' agency budget request for the

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<sup>1</sup> ECONorthwest, WMPA Strategies, and Communitas Planning. *Meeting Oregon's Housing Needs: Next Steps for Equitable Housing Production*. (February, 2022), available at [https://www.oregon.gov/lcd/UP/Documents/20220201\\_RHNA\\_Interim\\_Framework\\_Report.pdf](https://www.oregon.gov/lcd/UP/Documents/20220201_RHNA_Interim_Framework_Report.pdf) (last visited August 15, 2022).

<sup>2</sup> Josh Lehner, Oregon Office of Economic Analysis, Construction, Housing Supply, and Affordability, <https://oregoneconomicanalysis.com/2022/02/15/construction-housing-supply-and-affordability> (last visited August 15, 2022).

<sup>3</sup> Josh Lehner, Oregon Office of Economic Analysis, Priced Out Oregon Households, <https://oregoneconomicanalysis.com/2022/02/15/construction-housing-supply-and-affordability> (last visited August 15, 2022).

<sup>4</sup> Oregon Housing and Community Services, *Homeownership Development*. <https://www.oregon.gov/ohcs/homeownership/Pages/homeownership-development.aspx> (last visited August 16, 2022).

2023 – -2025 biennium includes a \$200 million request for LIFT with up to 20 percent set-aside for LIFT Homeownership.

OHCS' Land Acquisition Program (LAP) was established in 2017 to help local governments and nonprofit organizations purchase land for affordable housing development.<sup>5</sup> Of these funds, 40 percent must be used to develop homeownership properties for low-income households earning 80 percent or less of AMI. In the 2021 – 2023 biennium, the Legislative Assembly allocated \$30 million to OHCS for loan funding for the acquisition of naturally occurring affordable housing stock; \$20 million is being utilized for LAP, with \$3 million set aside for culturally specific organizations serving historically underserved communities.<sup>6</sup>

Other programs supporting the development of affordable housing include the Oregon Affordable Housing Tax Credit (OAHTC) and the Low-Income Housing Tax Credit (LIHTC), but those programs are focused on rental housing and are presently not utilized to support homeownership development.

### **Problem Statement**

The approximate buying power of a family with \$50,000 in annual income and a maximum monthly payment of \$1,250 is \$220,000. at three percent interest, and \$170,000 at 5.7 percent interest, as shown in **Figure 1** on the next page. Rising interest rates are eroding the purchase power of potential homebuyers, increasing the need for additional subsidies for developers to keep the home affordable to low- and moderate-income buyers from communities of color.

Within the state's current homeownership development financing offerings, nonprofit developers struggle to complete projects and maintain affordability for the homebuyer. Currently, the Land Acquisition Program within OHCS provides eligible non-profit developers with a two percent interest, 10-year loan; yet due to the lack of cash on hand to pay off the loan on the land, it is difficult for most non-profit developers to keep the selling price affordable to low-income homeowners without layering in additional subsidies.

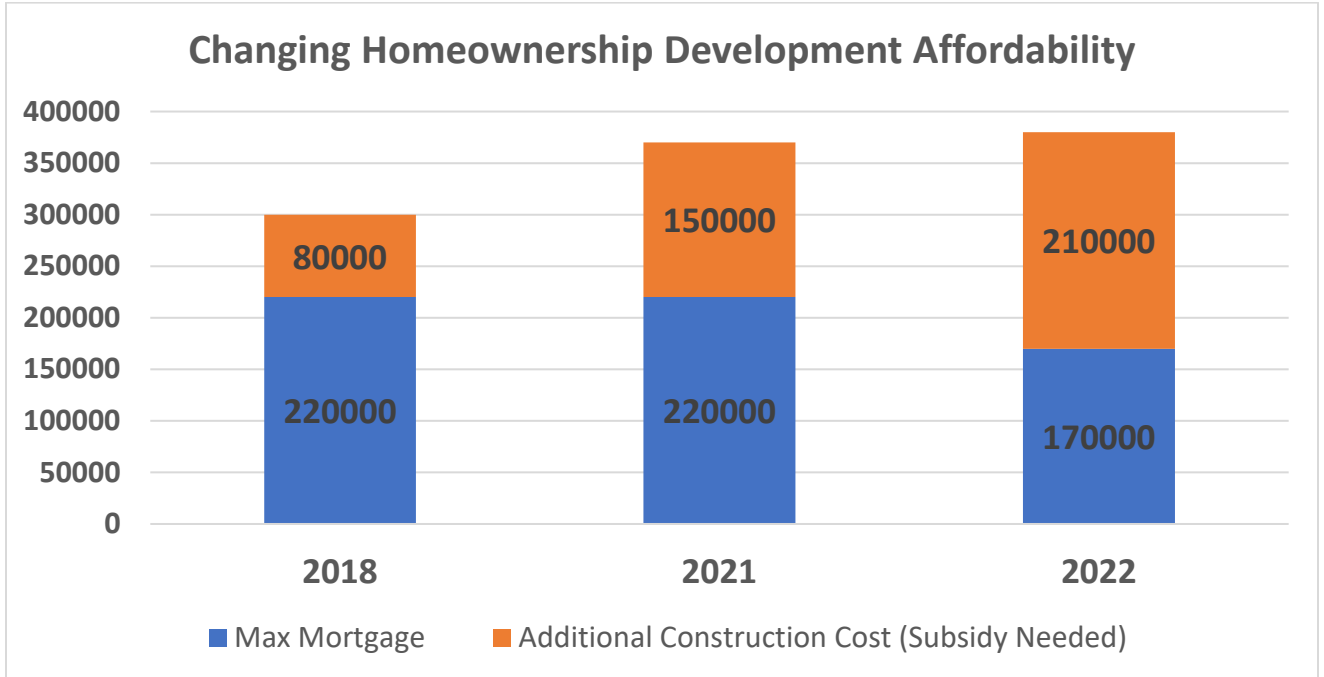
There is a need for homeownership development funds that prioritize nonprofit developers with more limited access to capital. Pre-development financing and zero-interest loans are critical to helping smaller developers cover infrastructure and other costs to complete a project. Additionally, more specific funding targets are needed to ensure that new homeownership development projects serve homebuyers of color within certain income and household specifications.

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<sup>5</sup> Oregon Housing and Community Services, *Land Acquisition Revolving Loan Program*, <<https://www.oregon.gov/ohcs/development/Pages/land-acquisition-revolving-loan.aspx>> (last visited August 15, 2022).

<sup>6</sup> Oregon Housing and Community Services, *LAP Manual* (March 2022), available at <[https://www.oregon.gov/ohcs/development/Documents/LAP/LAP%20Manual%20Final%20\(3rd%20Edition%20-%20Final\).pdf](https://www.oregon.gov/ohcs/development/Documents/LAP/LAP%20Manual%20Final%20(3rd%20Edition%20-%20Final).pdf)> (last visited August 15, 2022).

**Figure 1: Changing Homeownership Development Affordability 2018 – 2022**



Source and Data: Emily Reiman, DevNW