

DRAFT 1. Missing Methodology to Missing Middle Housing ^{7/7/21}

This is a preliminary document. Ultimately, it will include present solutions which will be more effective than the present code amendments.

People who live and work in Bend can afford housing in Bend – 2021 City Council

Aims to provide more housing choice more people can afford – HB 2001

We have the potential to drastically increase the quantity and the diversity of the housing options for people leaving in Bend.....That everyone who works in Bend can afford to live in Bend. – Councilor Goodman-Campbell, June 14, 2021, Planning Commission Work Session

Purpose of this document –

City Staff performed no analysis to verify if the proposed code amendments will achieve the goals stated above.

This paper attempts to provide an example of “thoughtful methodology” that other cities in Oregon conduct but the City of Bend has elected not to conduct.

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2. Executive Summary

Will the code amendments achieve the stated goals?

- The amendments will not increase the “diversity” of housing options.** All five of the “middle housing types” already existing in the code.
- The proposed amendments won’t increase housing in “greenfield” developments.** Most of the future “middle housing” will continue to be built in “greenfield” developments where historically over 95% of middle housing occurred. The code amendments do nothing to make these greenfield more affordable or plentiful.
- There is limited potential for additional “in-fill” middle housing building.** Staff made no effort to estimate the potential “additional” housing these code amendments may provide.
- There is only one scenario where in-fill middle housing may be affordable.** Unrelated adults sharing a dwelling (1 adult per bedroom) when the middle housing building is built on a lot with an existing house or short-term rental.

Conclusions-

- Building bigger buildings on smaller lots will continue gentrification.
- Staff and builders spout ungrounded rhetoric while focusing on achieving a density goal to appease state planners.
- Staff passed on providing the type of analysis other communities are conducting because it would likely prove all their rhetoric is false.
- The majority of the existing community workforce housing is left sharing a dwelling or commuting from a neighboring community while new housing is absorbed by wealthy retirees or new affluent workers who work from home.

3. Half of the Bend workers must commute to Bend

- This exhibit was taken from the 2016 Bend Economic Analysis technical report for the city's Urban Growth Boundary expansion.
- To have nearly as many Bend workers (**18,748**) commuting to Bend as the number of Bend workers (**19,063**) residing in Bend illustrates Bend's failure to meet the workers' demand.
- Using ODOT transportation count data, the volume of traffic has increased on US 97 and US 20 by about 20% over the last decade.
- It is reasonable to assume that this imbalance between providing housing and employment opportunities has increased over the last decade.
- **Previous housing needs analyses failed to include a remedy for correcting the existing imbalance.**

Map A- 1 shows the commute inflow and outflow for Bend in 2011. In 2011, about 18,800 people commuted from outside the city to work within it. About 7,900 resided within the city, but went outside for work, and about 19,000 both lived and worked in the city.

Map A- 1. Commute inflow and outflow, Bend, 2011

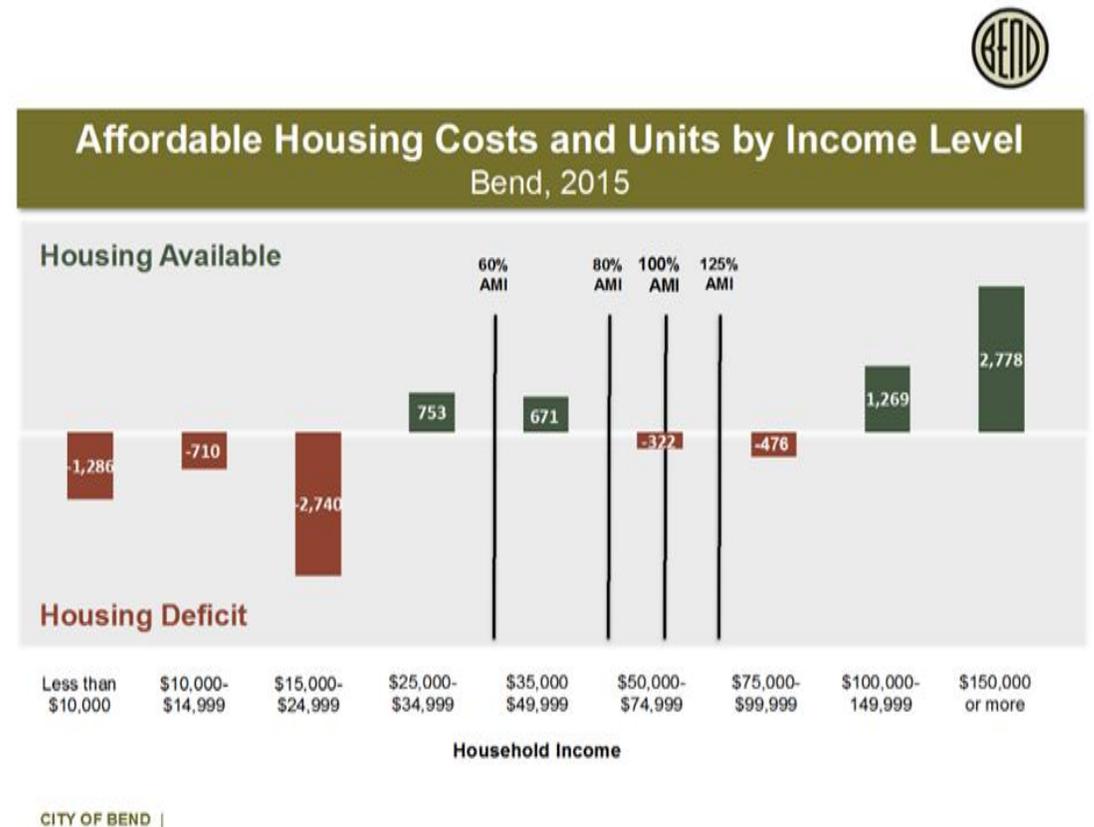


Source: U.S. Census OnTheMap <http://onthemap.ces.census.gov>

4. Affordable Housing Definition

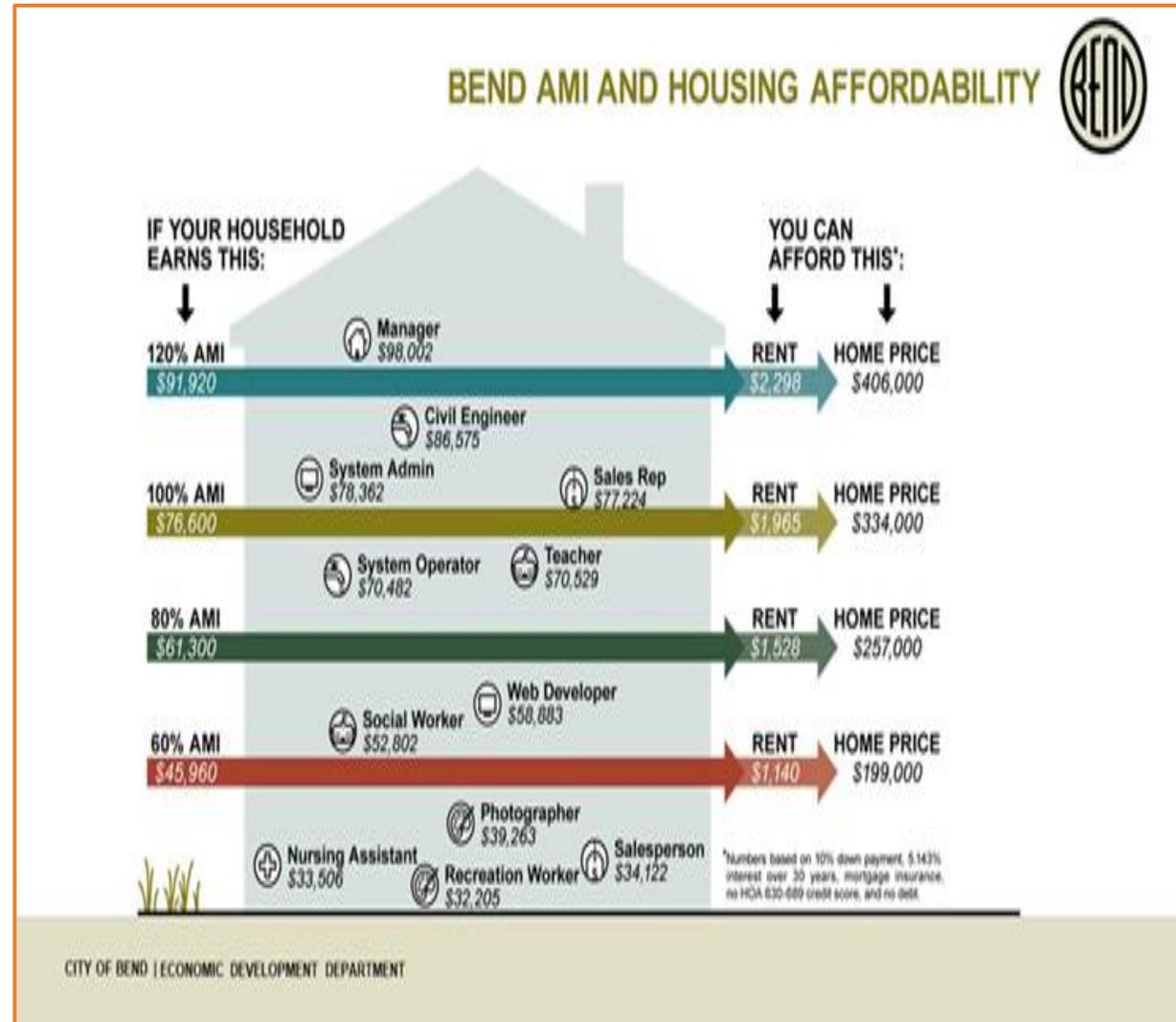
- **“Affordable Housing”** is defined as housing which is not **“cost burdened.”** If housing costs more than 30% of the income of the household, the household is considered **“cost burdened.”** - Source - 2016 Bend Housing Needs Analysis
- This table is an estimate of the # of households that spend less (green) or more (red) than 30% of their household income on housing.
- Cost of housing has increased faster than wages since 2016. **The number of cost burdened households has likely increased over the last five years.**

Source- Bend Affordable Housing webpage



5. What workers can qualify for.

- This exhibit illustrates what typical professions can afford without becoming “**cost burdened**”.
- The rule of thumb used for determining what is monthly payment that a household can qualify for is 30% of the household monthly gross income.
- **AMI** is the estimated* **household income** where half of all households earn more than the AMI and half earn less than the AMI in your area. (based on estimates for family of four)
- The U.S. Department of Housing and Urban Development makes these annual estimates. (Current year AMI is based on a 2016 survey and then an inflation factor is applied.)



6. What type of housing was considered affordable?

Table 15. Housing Attainability, Bend, 2013

Market Segment by Income	Income Range	Number of households	Percent of Households	Financially Attainable Products		
				Owner-occupied	Renter-occupied	
High (120% or more of MFI)	\$71,640 or more	10,622	35%	All housing types; higher prices	All housing types; higher prices	
Upper Middle (80%-120% of MFI)	\$71,640 to \$47,760	4,618	15%	All housing types; lower values	All housing types; lower values	Primarily New Housing
Lower Middle (50%-80% of MFI)	\$47,760 to \$29,850	4,817	16%	Manufactured on lots; single-family attached; duplexes	Single-family attached; detached; manufactured on lots; apartments	Primarily Existing Housing
Lower (30%-50% of less of MFI)	\$29,850 to \$17,910	5,068	17%	Manufactured in parks	Apartments; manufactured in parks; duplexes	
Very Low (Less than 30% of MFI)	Less than \$17,910	5,288	17%	None	Apartments; new and used government assisted housing	

Source: American Community Survey 2013 1-year Estimates

Source – 2016 Bend Housing Needs Analysis Report

- MFI is “median family income” and is consider synonymous with AMI. Half of families are above and below the 100% MFI/AMI.

Highlights -

- “Primarily existing housing” was identified as the probably attainable housing for anyone earning less than 80% of MFI (\$47,760) in 2016.
- For 2020, the 100% MFI/AMI is \$76,600.
- The newest apartments are charging nearly \$1,500 for studios and one bedrooms. The income required to qualify for these units is nearly \$60,000 with is about 78% of MFI/AMI.

[Footnote - The MFI/AMI is the estimated income of a family of four and these new apartments are almost exclusively studios and 1 bedrooms.]

7. What is today's wages / Market Conditions

Oregon Employment Department reports "Employment and Wages by Industry." (2020 data)

Oregon- 81,859 employees @ \$51,464 average wage

The average Oregon employee earns about 67% of the AMI.

These two "service" sectors represent about 27% of the employees in Central Oregon. Bend has the highest percentage of service workers of any cities in Oregon.

Retail trade	11,292 employees	\$36,234 average wage
Leisure & Hospitality	11,030 employees	\$25,158 average wage
Combined	22,322 employees	\$30,761 average wage

These two service sectors earn (27% of all employees) about 40% of the AMI.

- Today's market conditions are overheated by an influx of people moving to be to flee from large metropolitan areas.
- Many arrivals bring a financial resources that exceeds the resources of local workers to compete for the available housing.
- Many arrivals are working from their new residences.
- **This market demand makes it nearly impossible for marketplace to provide new housing for many local employees filling the essential "service" needs.**

8. Demographic Takeaways



- **Most housing needs data is old**, but staff should be updating this data soon as part of HB 2003 compliance.
- **The demand continues to exceed the supply.** The number of commuting Bend workers has probably increased since 2011.
- **The newest apartments are small and expensive.** In these tall buildings, nearly all the units are one bedroom or studios approaching \$1,500 per month (\$60,000 annual income to qualify).
- **More Bend workers are sharing dwellings with others wage earners** (The average household income climb is indicative of more wage earners in a household and not wage increase, especially in the service industry.)
- **The housing problem appears to be growing** despite the local builders' efforts to achieve the Council's goal of 3,000 units in 2 years.

9. Housing Built in Bend

Source – 2016 Bend Housing Needs Analysis

Table 2. Comparison of OAR 660, Division 8 Definitions with Types of Housing Allowed under the Bend Development Code

OAR 660-008-005, Definitions	Bend Development Code (See BDC Chapter 1.2)
<i>"Attached Single Family Housing" means common-wall dwellings or rowhouses where each dwelling unit occupies a separate lot. OAR 660-008-0005(1).</i>	Dwelling, single family attached
<i>"Detached Single Family Housing" means a housing unit that is free standing and separate from other housing units. OAR 660-008-0005(3).</i>	Courtyard housing Dwelling, single family detached Accessory dwelling units Manufactured home on individual lot Manufactured homes in parks
<i>"Multiple Family Housing" means attached housing where each dwelling unit is not located on a separate lot. OAR 660-008-0005(5).</i>	Condominium Two and three family housing (duplex and triplex) Multi-family housing (more than 3 units)

- Here are the housing units completed in Bend (per Bend Land Information System – a City of bend GIS tool.)

Housing Types	2008 to 2019	2016 to 2019
Single-family detached	6,402	2901
mobile home park	<u>122</u>	<u>122</u>
SFD total	6,524 72.6%	3023 64.2%
Single-family attached	<u>607</u>	<u>335</u>
SFA total	607 6.8%	335 7.1%
duplex	108	58
triplex	9	3
Fourplex	16	16
Apartments	1655	1212
Mixed Residential type	63	63
Mixed use	<u>4</u>	<u>2</u>
MF total	1855 20.6%	1354 28.7%

- Footnote – The B.L.I.S. data for 2020 is not up to date.

10. Will these code amendments meet the intended goals?

A. Will this code amendments lead to more diversity in housing “options”?

- **No. All five middle housing types are already allowed in the existing Bend Development Code.**
- A “quadplex” is a “four-plex*” and a “cottage cluster” is the same type as the existing “cottage housing.”

(*A four-plex is currently allowed in RM zones but not RS zones.)

B. Will there be more new housing built as a result of these code amendments?

- **Yes, but only a few at best. Staff has made no analysis of the potential number of residences.**
- Most of these middle housing building types will continue to be built as part of a “**green field**” (vacant land) development per the existing code.
- Inclusion of middle housing types are already included in “**master plan**” and “**expansion areas**” requirements.
- These code amendments will result in little or no gain in the number of “**green field**” development middle housing.

- **In-fill is the focus of HB 2001**, but it has significant hurdles to overcome.
 - There are very few vacant lots in existing neighborhoods.
 - Neighborhoods with existing CCR’s may excluded middle housing.
 - Middle housing may not be the highest value use when competing with Buyers who want a single-family custom homes site.
 - However, some in-fill middle housing scenarios don’t require vacant lots (see 7c).
 - Also, investors may create a hybrid of short-term rental and long-term rental (see 7c).
 - **The number of “in-fill” new housing will likely be less than the number of new short-term permits issued.**

11. Proforma – Will the “plexes” be affordable?

- In a City Club meeting, a respected affordable housing panelist summarized it best by stating, **“it is all about money.”**
- Econorthwest prepared a financial feasibility report for DLCD in the summer of 2020 as part of the work in developing Middle Housing OAR Div. 46.
- This spreadsheet uses Econorthwest’s formula and unit prices, plus a few necessary minor local market adjustments noted in red.
- **This is an example of a portion of the “thoughtful methodology”** city staff failed to perform. Will these specific these code changes actually address Bend’s housing crisis?
- **For this duplex example, a total household income of \$ 159,380 is needed to qualify to rent one side of the duplex to not be cost burdened.**

Proforma for a 3,000 sq.ft. duplex in a hot market				
				%
Land	(Econorthwest used \$225,000)		\$ 250,000	27%
soft costs				
	Planning & design		\$ 35,000	4%
	SDC fee and misc fees		\$ 40,000	4%
	Plancheck and inspection fees		\$ 10,000	1%
	Overhead		\$ 40,000	4%
	financing		\$ 15,000	2%
		soft cost total	\$ 140,000	15%
Hard costs (\$155/sq.ft.)				
	2 One-care garage		\$ 20,000	
	2 surface spaces		\$ 5,000	
		hard cost total	\$ 490,000	52%
	Contingency* (10% of soft and hard costs)		\$ 63,000	7%
	(Econorthwest didn't include)			
Total cost			\$ 943,000	100%
Total Rent*			\$ 7,969	
	*(backed into rent needed to achieve rate of return)			
Operating expense				
	Debt service		\$ (3,725)	per mo.
	Property tax and maintenance		25%	
	Property management		6%	
	Vacancy		5%	
Developer's return on investment				7%

12. Daniel Parolek recommended of keeping building at “home scale” while allowing more units.

Regulate maximum building size, but allow any number of units within that building size

Why: Limiting to 3-4 units per lot discourages the delivery of smaller more affordable/attainable units. Builder may need 6 units to deliver attainable price points or for feasibility.

Message: More units, but building stays the same size. Units get smaller, thus costing less.

Should run proforma analysis of these options.

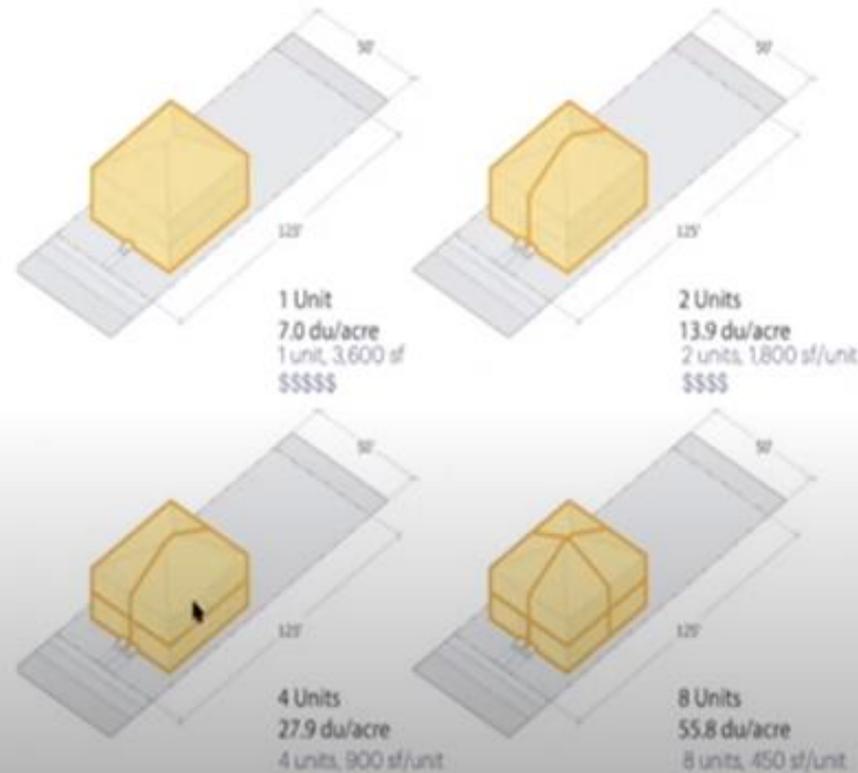


Table Assumption – For simplicity, the cost of the entire building is left the same for each building type even though the building cost will increase slightly as building is split into more and more units.

		Each unit's	# of	monthly	combined
Unit	# of units	sq.ft.	bedrooms	payment	wages
SFD	1	3,000	4	\$ 8,000	\$ 320,000
duplex	2	1,500	4	\$ 4,000	\$ 160,000
triplex	3	1000	3	\$ 2,667	\$ 107,000
quadplex	4	750	2	\$ 2,000	\$ 80,000

If you assume each bedroom has a wagger earner, the triplex has the lowest per bedroom rent (\$890) and a necessary income of \$35,667 to qualify.

13 – Will basic “plexes” be affordable?

Duplexes will not be practical for a workforce family and be a challenge for four adults sharing this unit.

Unit	# of units	sq.ft.	# of bedrooms	monthly payment	combined wages
duplex	2	1,500	4	\$ 4,000	\$ 160,000

Triplexes will may be affordable for some workforce families, but most will opt out for other building types if available or commute. Three adult wage earners may choose to share this unit.

Unit	# of units	sq.ft.	# of bedrooms	monthly payment	combined wages
triplex	3	1000	3	\$ 2,667	\$ 107,000

Quadplexes may be affordable for a two-wage earner workforce family or a stretch for two adult wage earners per unit.

Unit	# of units	sq.ft.	# of bedrooms	monthly payment	combined wages
quadplex	4	750	2	\$ 2,000	\$ 80,000

The likely tenant for these “plexes” will be unrelated adults sharing the residence at a ratio of one adult per bedroom.

- **Footnote - Townhouses and Cottage Clusters affordability has little or no benefit from these code amendments.** In fact, cottage clusters are likely to be more expensive with the removal of the total floor area limit of 1,200 sq. ft. These cottages could be over twice the size of the existing cottage housing option.

14. Affordability of alternative scenarios

Existing Single-family residence + Duplex = Triplex

- There are recent applications for this scenario. In the 3,000 sq.ft. example, the land cost is removed. In the table below, this scenario is probably a stretch for a family but is feasible for three adults sharing a unit.

Unit	# of units	sq.ft.	# of bedrooms	monthly payment	combined wages
duplex	2	1,500	4	\$ 3,000	\$ 120,000

- However, with all successful investment scenarios, the sellers learn about the added value of the extra space of their oversized lot and land cost will creep back into the proforma.
- For current owners who don't wish to sell out to a developer, this scenario could be a possible way to some additional income.
- However, novices may find the development process harder than they realize and a 7% return on their investment may be too risky.

Short-term rental + Plex = net 1 dwelling unit gain

Baseline – Duplex without STR:

Unit	# of units	sq.ft.	# of bedrooms	monthly payment	combined wages
duplex	2	1,500	4	\$ 4,000	\$ 160,000

Duplex with SRT – (1,200 sq.ft. STR @ \$200 per night):

- The STR generates a net profit of as much as \$2,000 per month which could lessen the rent to achieve the 7% return.
- Instead a duplex @ \$4,000/mo./unit, the rent could be lowered to \$3,000/mo. / unit.

Hurdle:

- **Neighborhoods are close to maxing out on short-term rental via spacing.**

15. Summary of scenarios

Family of 4-

- Duplex (1,500 sq.ft.) requires \$160,000 income which is 209% of AMI
- Triplex (1000 sq.ft.) requires \$107,000 income which is 140% of AMI
- Quadplex (750 sq.ft.) requires \$80,000 income which is 109% of AMI

Workforce Housing?

No
No
Barely

Family of 4 combined with existing house or STR -

- Duplex (1,500 sq.ft.) requires \$120,000 income which is 120% of AMI
- Triplex (1000 sq.ft.) requires \$80,000 income which is 109% of AMI
- **Quadplex (750 sq.ft.) requires \$60,000 income which is 78% of AMI**

No
Barely
Yes. This is the only likely scenario for a family to afford.

Multiple adults sharing house -

- Duplex (1,500 sq.ft.) requires \$40,000 per bedroom which is 130% of service worker wage
- Triplex (1000 sq.ft.) requires \$35,700 per bedroom which is 116% of service worker wage
- Quadplex (750 sq.ft.) requires \$40,000 per bedroom which is 230% of service worker wage

Multiple adults sharing house combined with existing house or STR - All of these options are “borderline” and can suffer from high turnover.

- Duplex (1,500 sq.ft.) requires \$30,000 per bedroom which is 98% of service worker wage
- Triplex (1000 sq.ft.) requires \$26,700 per bedroom which is 87% of service worker wage
- Quadplex (750 sq.ft.) requires \$30,000 per bedroom which is 98% of service worker wage

16. Sensitivity Analysis of Proforma to Changing Variables

Smaller Lot size doesn't increase affordability

	Proposed	OAR Min. Code
Triplex	4,000 sq.ft.	5,000 sq.ft
Quadplex	4,000 sq.ft.	7,000 sq.ft.

- There is no difference in land cost between the chosen option and the OAR option.
- Most potential "in-fill" lots are 5,000 sq.ft. or larger.
- Quadplexes are a seldom used building type. It is the exception and if a rare scenario pops up, an applicant should be able to process and reasonable variance request.

Code amendments increase the FAR to 1.1 – Almost doubling all development types scale including single-family, while decreasing the affordability.

Unit	# of units	sq.ft.	# of bedrooms	monthly payment	combined wages
SFD	1	5,000	6	\$ 11,000	\$ 440,000
duplex	2	2,500	5	\$ 5,500	\$ 220,000
triplex	3	1667	4	\$ 3,667	\$ 146,680
quadplex	4	1500	3	\$ 2,750	\$ 110,000

- As the building gets bigger, the needed household income increases.
- There is no benefit to the extra expense except to increase builder profit and it violates Daniel Parolek's recommendation about maintaining "home scale."

Eliminate compatibility standards for no gain.

- Staff has removed the standards (3.6.200 H) intended to control development scale, and minimize impacts associated with compatibility. (Some examples, Delete landscape requirement, street trees, storage for outdoor equipment.)
- Compliance with these existing standards would be less than 1% of the project's cost. **Is this an unreasonable cost?**

Parking requirements

- Providing off-street parking is not an unreasonable cost.
 - Duplex 2 spaces/unit \$12,500 2% of unit cost
 - Triplex 2 spaces/unit \$12,500 3% of unit cost
 - Quadplex 1 space / unit \$2,500 1% of unit cost

Parking reduction advocates fail to understand the marketplace sets the rent, not the project's costs. Reducing costs only increases builder profit in middle housing types.

17. Parking Barrier ?

Parking Barrier? – For this duplex, the four paved surface spaces would cost a total of about \$8,000 (4 x 20 feet x 10 feet x \$10 per sq. ft.) which is less than 1% of the total cost.

A committee member has stated that the above \$8,000 doesn't include land cost. His observation is correct, but his comment is moot because land cost is a fixed cost.

- In the in-fill scenario, the land cost is fixed regardless of whether parking is built or not. The right question is will parking reduce the square footage of the living space impacting the income potential (# of bedrooms).
- With Bend's existing code on height limits, the feasible third story eliminates the negative parking impact.
- **This duplex provided 2 legal spaces per unit and coincidentally, 2 "illegal" spaces per unit all on a lot of less than 4,000 sq.ft. lot.**



18. Ulterior Motivations

Developer's profit – These code amendments allow bigger homes on smaller lots.

- Larger buildings increases profit while decrease the affordability.
- This consequence is the opposite of the rhetoric being used to campaign for adoption of these changes.

Staff and builders' top priority is density, not affordability.

- The last Urban Growth Boundary Expansion included a commitment to raise the density within the original city limits. The goal was to construct 69% of the residential housing built in the planning period (2008 to 2028) within the original city limits.
- To accomplish this density, the city was to achieve a housing mix of SFD 55% / SFA 10% / MF 35%.
- The housing mix from 2008 through 2019 is about SFD 72.6% / SFA 6.8% / MF 20.6% according to the City's GIS tool.

- If 2016 density goals not met, DLCD may raise objections to next urban growth expansion.
- Mixed use projects (tall apartments with retail/office on ground floor) were to provide much of the desired density, but few have been built.
- The few MU projects that have been built are expensive studios / one-bedroom units that are do not provide affordable housing to many workers.
- The consequence is this land planning by the city, is to fail to provide affordable housing for a very large percentage of the community. Workers who earn less than 80% of the AMI.
- **Is this why the city won't engage the community in a thoughtful methodology on HB 2001 because it will expose the falsehood of their rhetoric.**
- **Those who fail to learn from history are condemned to repeat it – Winston Churchill 1948**