

Market-Rate Housing Development Economics 101

OR, Why doesn't the market provide affordable housing?

Lorelei Juntunen
April 2017

Affordability Spectrum

Publicly-funded and / or produced
Primarily 0 – 30% MFI



Privately-funded and produced
Primarily 80% MFI ++

Federal programs
(HOME, CDBG, etc.)
General fund
Housing bond

Community
Land Trusts

Land
Donations

LIHTC
Property
Tax
Abatement

Public Private
Projects
Non-profit-
funded projects

Regulatory

Inclusionary zoning
Supply-side strategies
(i.e., increase allowable
density in SF zones)
Linkage or impact fees

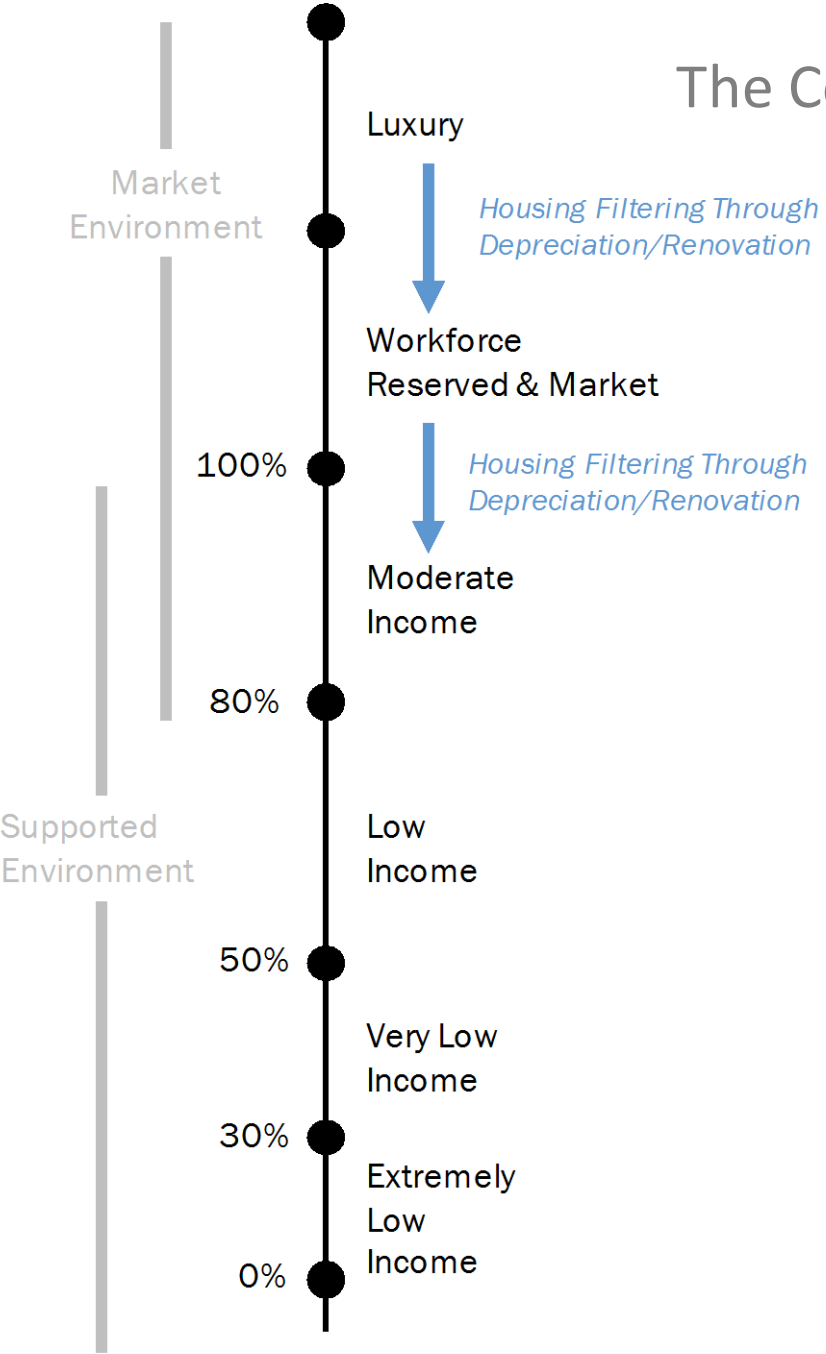
Incentive-based

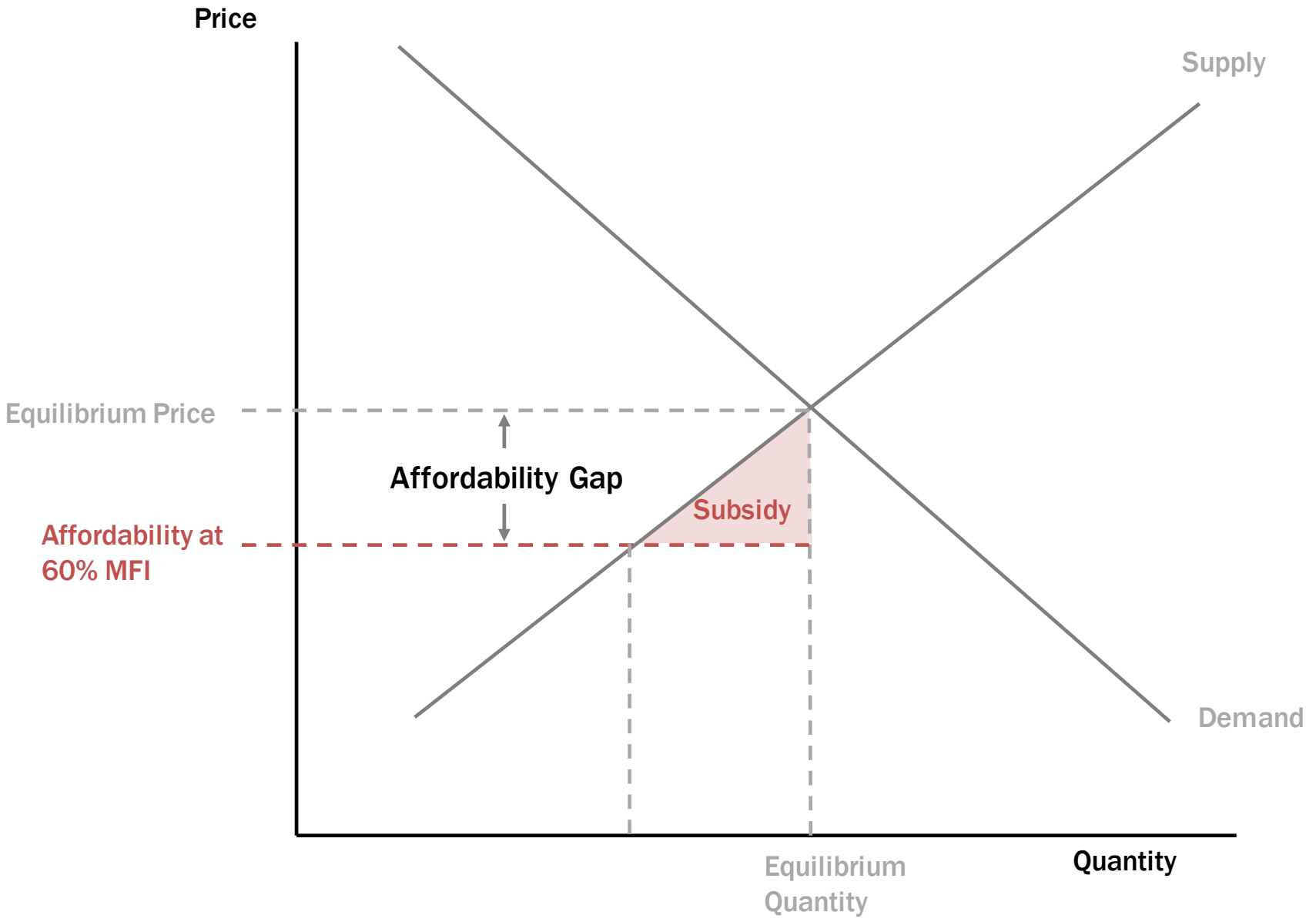
Incentive zoning
Transfer of
Development Rights
Development Finance
Land Write-Downs

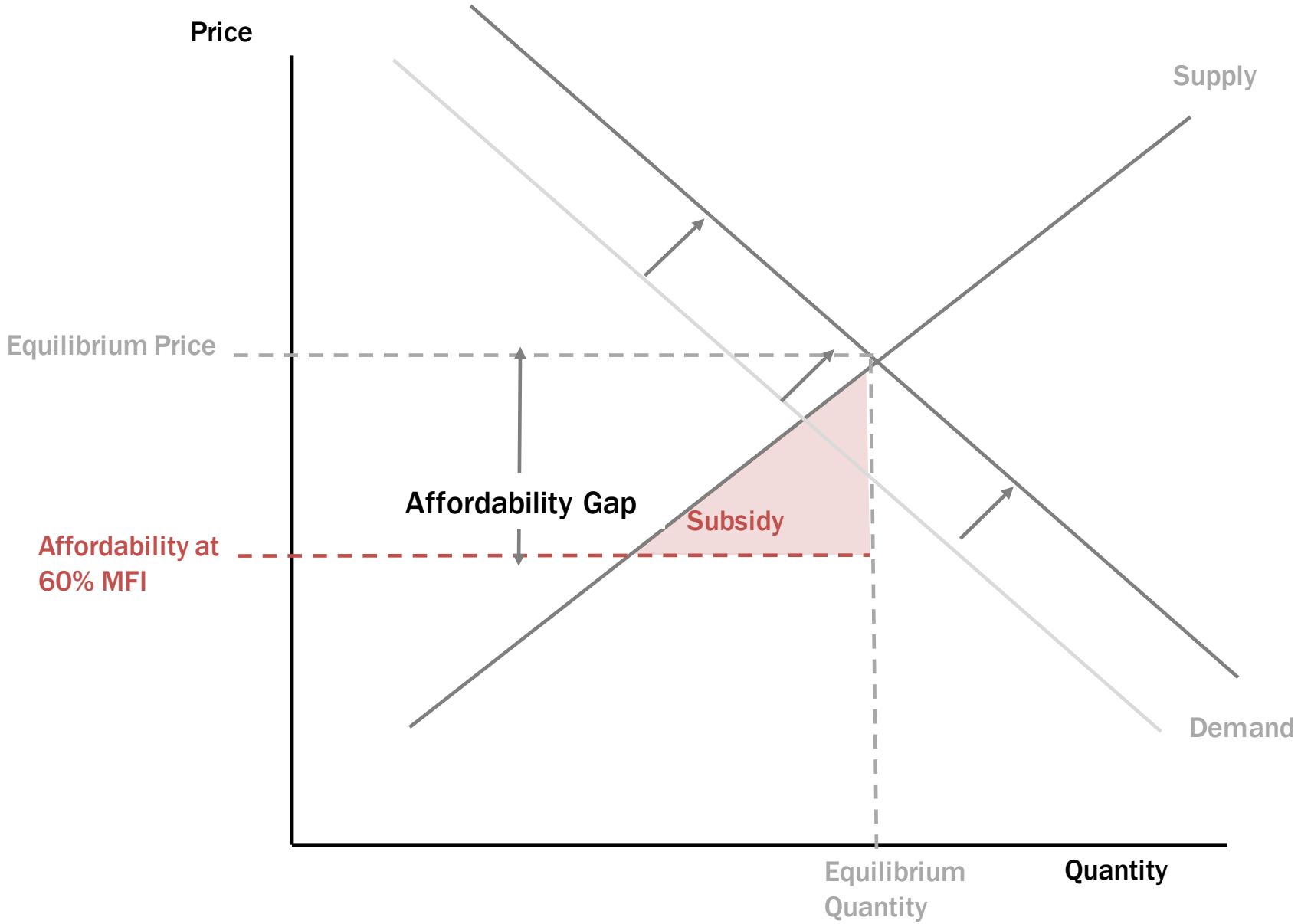
Part 1: The Theory



The Concept of Housing Filtering: “Naturally Occurring” Affordable Housing







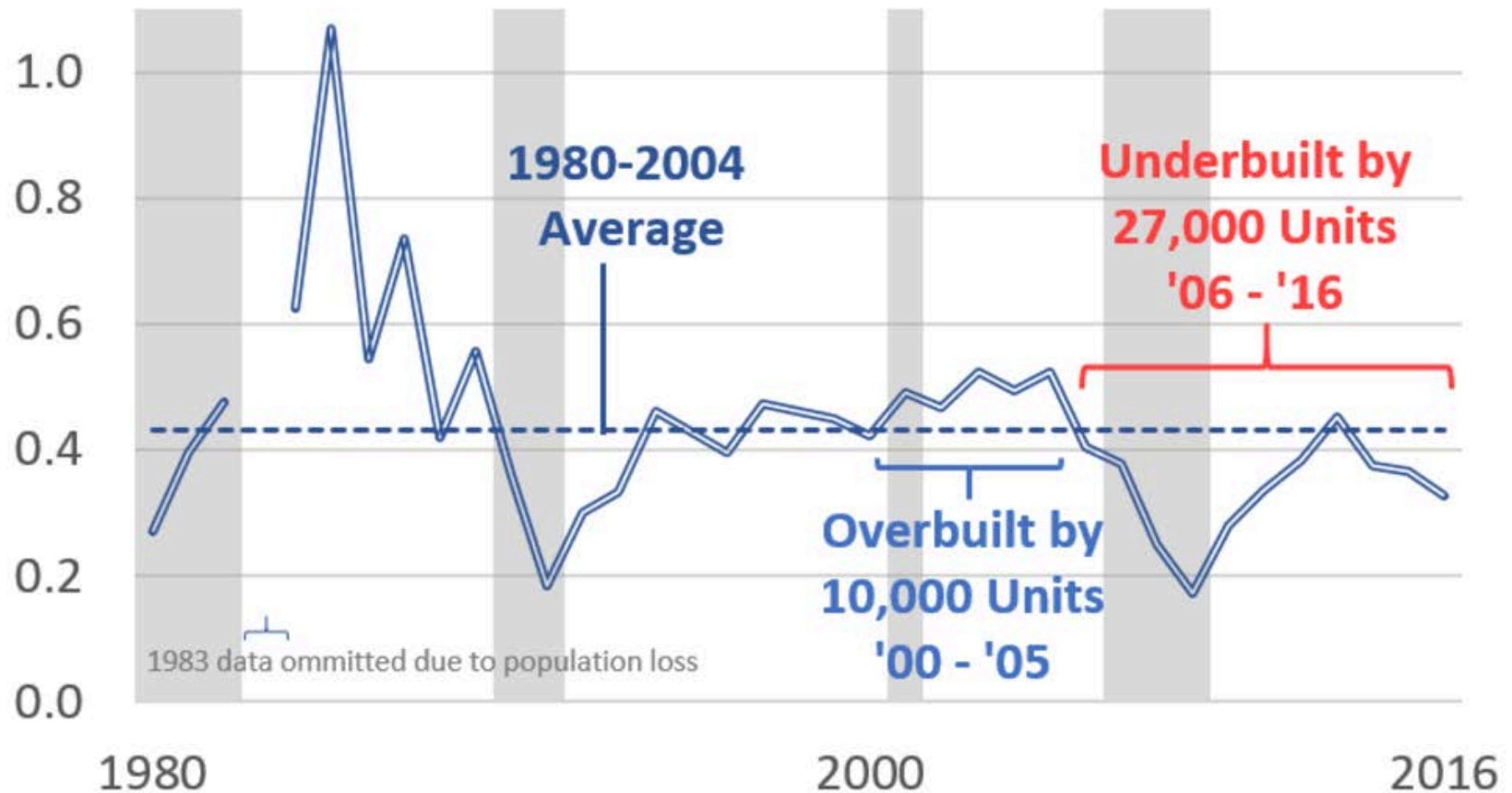
Part II: The Theory Plays Out in Portland



Housing Permits per New Portland Resident

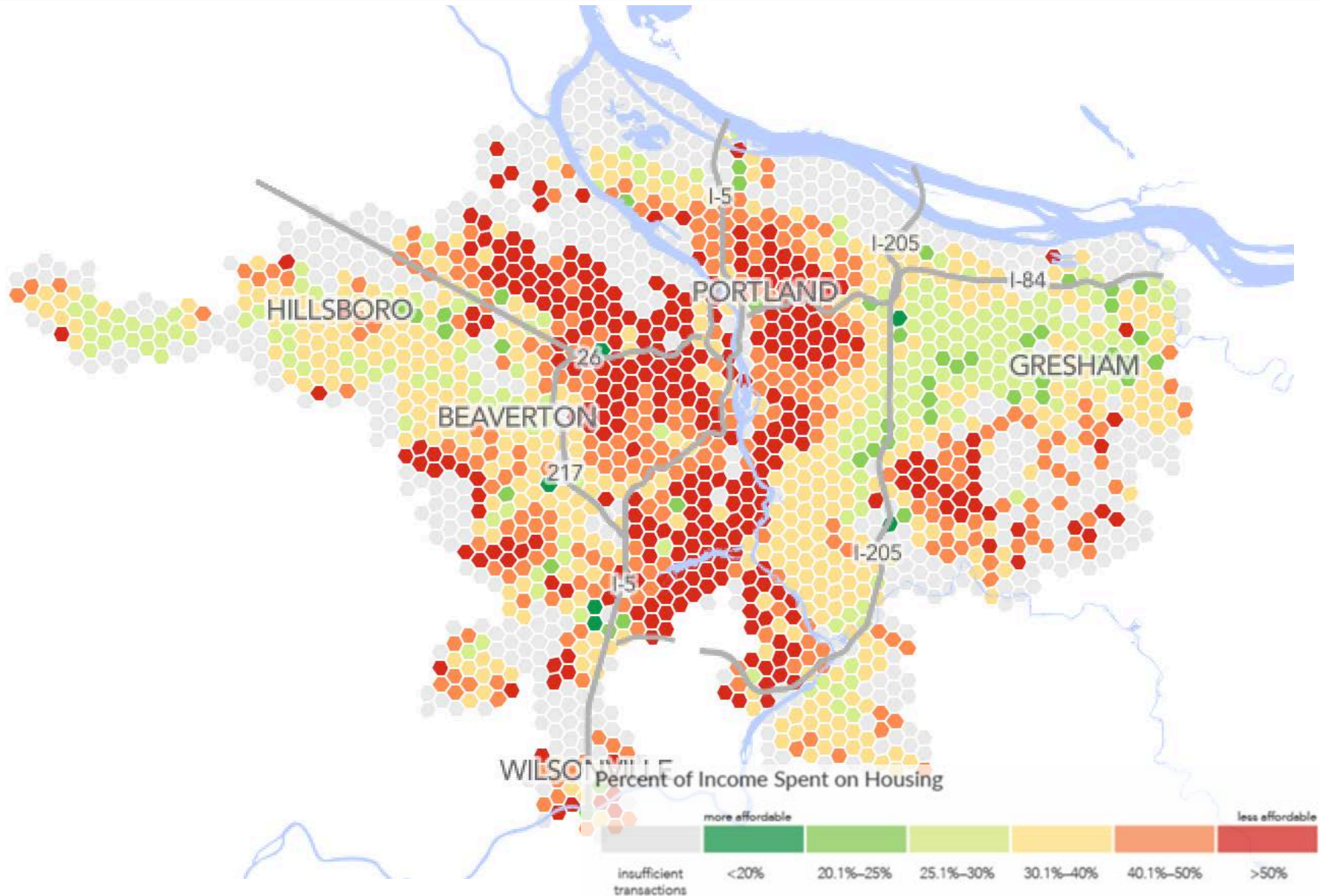
New Construction and Population Growth

Portland MSA Housing Permits per Population Change

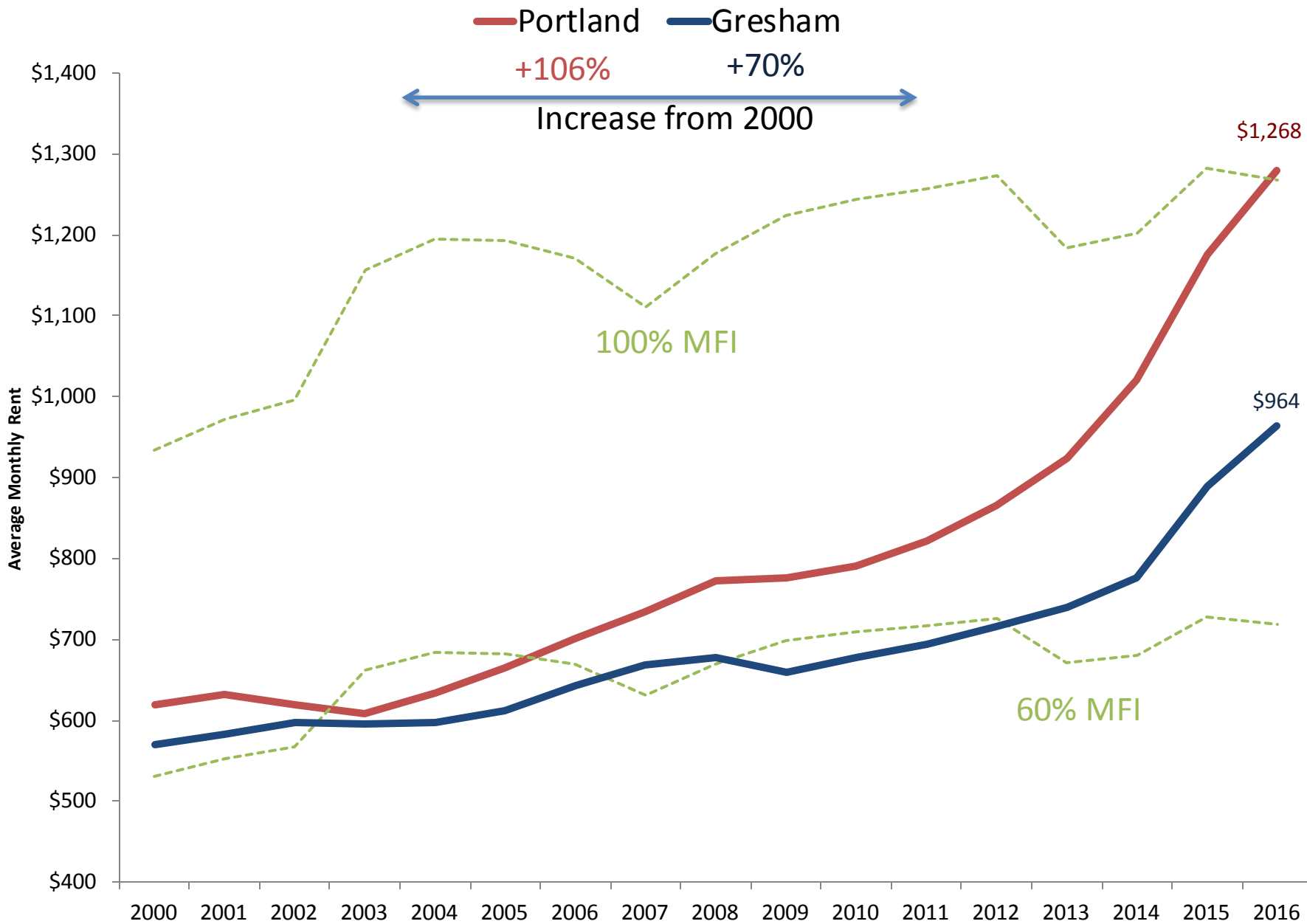


Source: Census, Portland State University, State of Washington, Oregon Office of Economic Analysis

Single Family Affordability (5% Down Payment, 2016)



Renter Affordability (1 BR)





Part III:

Why don't developers just build more units?

Project Operating Pro Forma

Revenues



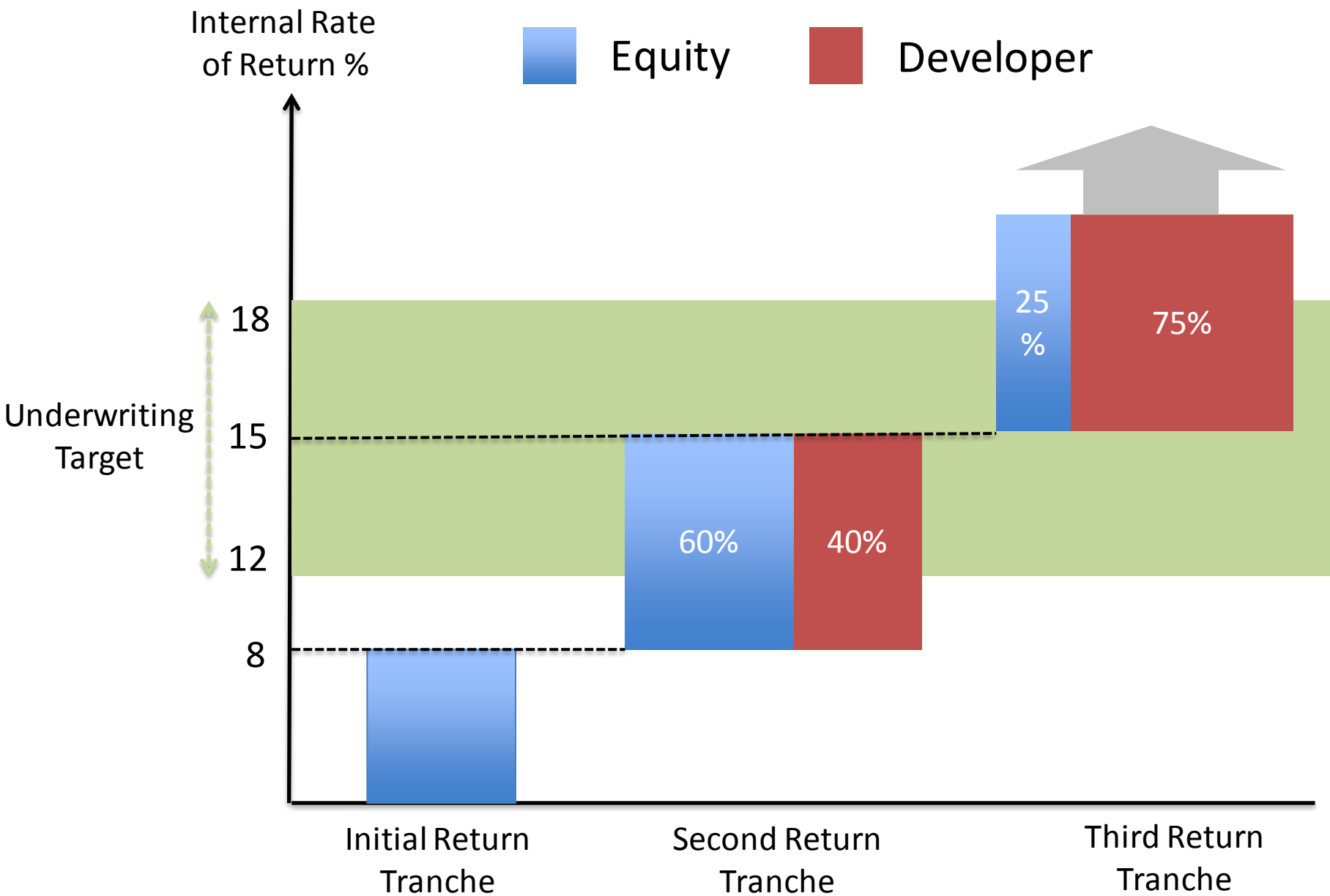
Costs and Expenses



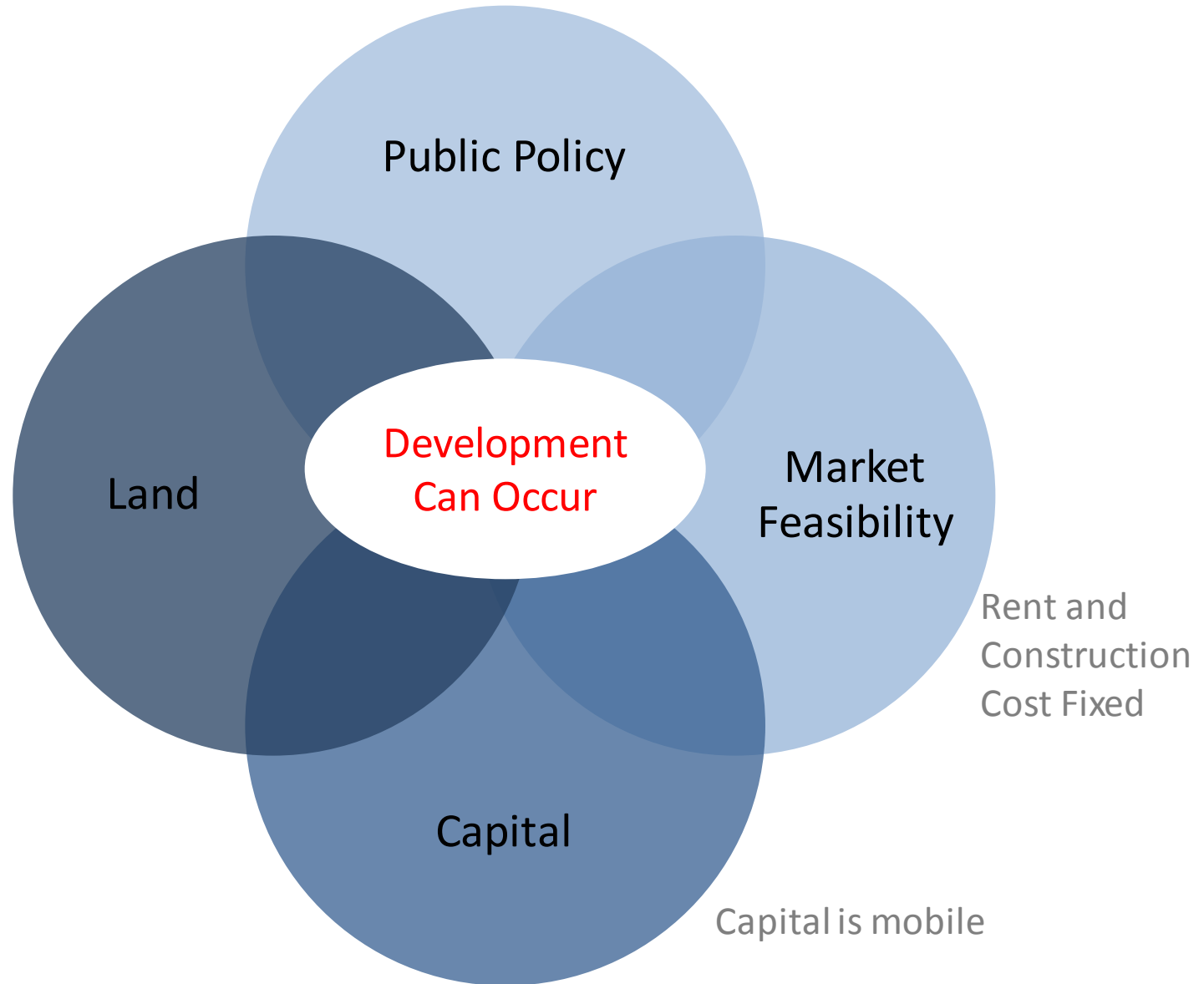
Returns

Net Cash Flow

Net Cash Flow Distributions (“Waterfall”)



Leverage Points: Land and Policy



Making Housing Affordable

- Supportive public policy
- Available subsidy programs for below-market development
- Creative partnerships to:
 - Reduce development costs
 - Secure available land

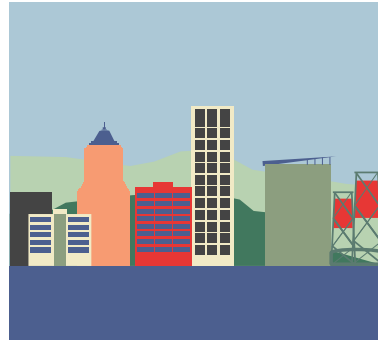
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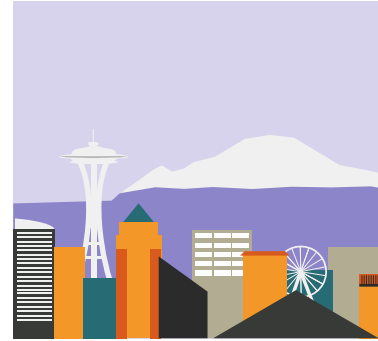
Email: juntunen@econw.com



Eugene



Portland



Seattle



Boise