

Home prices will keep rising, experts say

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Factors identified at annual Housing Forecast include a shortage of buildable lots, a lack of construction workers, and increasing costs imposed by governments



PORTLAND TRIBUNE: JAIME VALDEZ - Construction has begun on new homes in the River Terrace development in Washington County, one of the few areas in the region with a large number of available buildable lots.

Despite government efforts to create more affordable housing, home costs will continue increasing in the Portland area for years to come, according to a panel of experts who spoke Friday at the 2017 Housing Forecast presented by the Home Builders Association of Metropolitan Portland.

Some of the reasons are beyond government control, the experts said. They include the growing number of people moving to the area in pursuit of the good paying jobs being created during the economic recovery.

"There's a huge demand for owner occupied product, and the supply is not keeping up," said Tim Duy, senior director of the Oregon Economic Forum and a professor at the Department of Economics at the University of Oregon.

A shortage of construction workers to build enough new housing is also driving up labor costs.

But some government actions are increasing housing costs, the panelists said. They include setting aside land for new homes without adequate infrastructure or the money to pay for it.

"There is a lot of land (set aside for housing) that can't be developed. The infrastructure costs are so high, you can't get it to market," said Jerry Johnson, a principal at Johnson Economics.

And Robert Dietz, the chief economist for the National Association of Homebuilders, said some government programs to create more affordable housing will increase home costs. In response to a question, he pointed to a proposed requirement in Portland that developers include a certain percentage of affordable units in future multi-family projects. Officially

called inclusionary zoning, it was allowed by the 2016 Oregon Legislature and is expected to be considered by the City Council by the end of the year.

"Inclusionary zoning is a tax on supply," Dietz said.

Dietz' comment followed statements by two prominent local developers first reported by the Business Tribune last Friday that they have stopped work on future projects before of the proposal.

The proposal is being prepared at the direction of Commissioner Dan Saltzman, who is in charge of the Portland Housing Bureau. He argues that it will include incentives to offset the lost revenue from the affordable units, such as tax and system development charge abatements.

"Portland's approach is unique in that we have rigorously crunched the numbers to provide the correct amount of cost offsets in the form of incentives as to not stymie supply or work as a tax that increases housing costs," Saltzman said.

The proposal has already been heard once by the Planning and Sustainability Commission, which advises the Bureau of Planning and Sustainability and reviews related City Code revisions before they are presented to the council. It is expected to hold one more hearing on the proposal before the council receives it.

Also speaking at the forecast was Mayor-elect Ted Wheeler, the state treasurer who takes office on Jan. 1. He promised to reform the city's permitting, design review and inspection system to reduce the time and cost of housing projects.

"We need to streamline it and be more flexible," Wheeler said.

Wheeler's promise was welcomed by Brian Schmidt, president-elect of the HBAMP.

"Anything to reduce the time to get the product to market will help," Schmidt said.

Wheeler also spoke favorably about creating more so-called missing middle housing, such as duplexes, triplexes, four-plexes, small apartment buildings, accessory dwelling units and cottage clusters. He did not endorse the specific proposal being considered by the council to rezone two-thirds of Portland's single-family neighborhoods to allow for them, however.

Worse before it gets better

The forecast was presented as state, regional and local government officials are grappling with an affordable housing crisis sparked by home costs that are increasing faster than practically anywhere else in the nation. Although much of the public attention is focused on the poorest members of the community, including the homeless and low-income renters, the speakers made it clear that the shortage of single-family homes for sale is part of the problem. Because of the shortage, newcomers and existing residents with good paying jobs are driving up all home costs, forcing out those with little money.

"That's creating a lot of anxiety because wage growth is not keeping up with housing costs, so people are worried about displacement," Wheeler said.

Wheeler and the panelists predicted the situation will get worse in coming years because 400,000 or more people are projected to move to the region over the next 20 years, with 230,000 or so of them expected to settle in the Portland area. But new home construction is not keeping up with the current and expected demand. Although many new apartment buildings have been constructed in the region in recent years, the economists predicted the demand for multi-family housing will weaken as Millennials, who are now renting many of the new apartments, get married, have children and begin buying their own homes.

"Millennials are aging. In the next five to 10 years, they'll be looking for single-family homes," Dietz said.

But fewer single-family homes are currently being built in the region than before the start of the Great Recession, That's the case, even though the economic recovery has been underway for eight years. And it's not just a Portland area problem.

"Sixty-four percent of builders (across the country) report a low supply of buildable lots," said Dietz, explaining the shortage is caused by local land use policies, rising regulatory costs, and high fees like system development changes, which have increased 30 percent in the past three years. "That's why no one is building houses for first-time home buyers anymore."

Because of increasing home costs, Wheeler predicted the 2017 Oregon Legislature will spend much of its time on housing issues, including whether to lift the statewide ban on local rent control. Wheeler described national rent control policies as ranging from strict limits on increases, like those in New York, to those allowing no-cause evictions, like those in Portland. Wheeler said he was against both extremes, and called for a "rational, factual, data-driven conversation on such issues."

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