ECOnorthwest

DATE:	July 8, 2024
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SUBJECT:	METRO RESIDENTIAL READINESS – TASK 8 EXISTING HOUSING NEEDS – REVISED

Introduction

Following recent changes to state law, Metro is required to account for existing housing needs in its 2024 Urban Growth Report (UGR) as part of determining whether there is adequate land for housing within the region's urban growth boundary. This statutory requirement is new since the last UGR.

As part of related legislation referred to as the Oregon Housing Needs Analysis (OHNA), the state is also transforming how housing needs are projected and planned for, and working to incorporate planning for existing housing needs into local housing planning efforts. However, statewide rules and methodology are still being established, and will not be complete in time to provide a basis for the 2024 UGR. The legislative history and relevant bills are summarized at the end of this memo for context.

Metro contracted with ECOnorthwest to help respond to these recent changes in state law, as well as to more deeply integrate market realities, infrastructure, governance needs, and equity into its 2024 Urban Growth Management Decision. ECOnorthwest and Metro staff developed an estimate of existing need based on the most recent, but not yet finalized, methodology that is appropriate for the Metro region and its unique planning context. This memorandum provides an estimate of existing need for the Metro region, describes the methodology behind the estimate, and expands on dome of the differences between this methodology and the OHNA methodology. The first iteration of the OHNA methodology is expected to be released in summer 2024 and will be finalized by December 31, 2024.

Estimated Existing Housing Needs for Metro's 2024 Urban Growth Report

Metro has a need for **approximately 23,700 housing units to address current unmet housing needs**. This estimate includes approximately:

» **15,000 units needed to address current housing underproduction**

» **8,700 units needed for people experiencing homelessness**
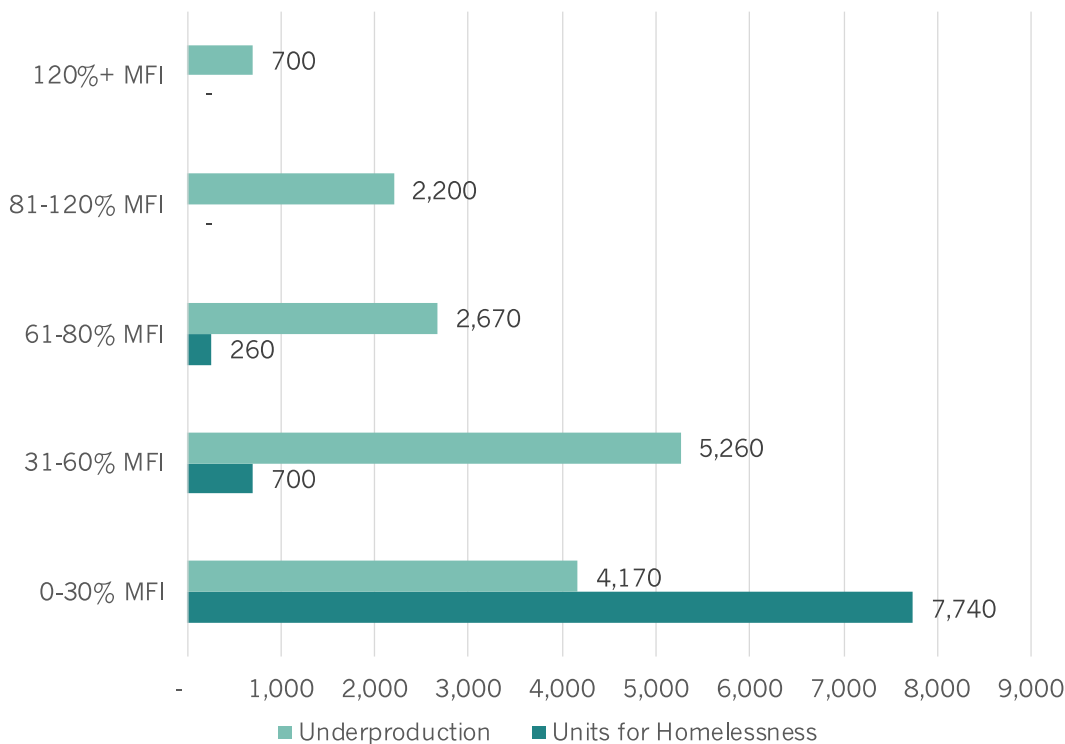
This is illustrated in Figure 1.

Figure 1. Metro UGB Existing Housing Need by Component (Rounded)
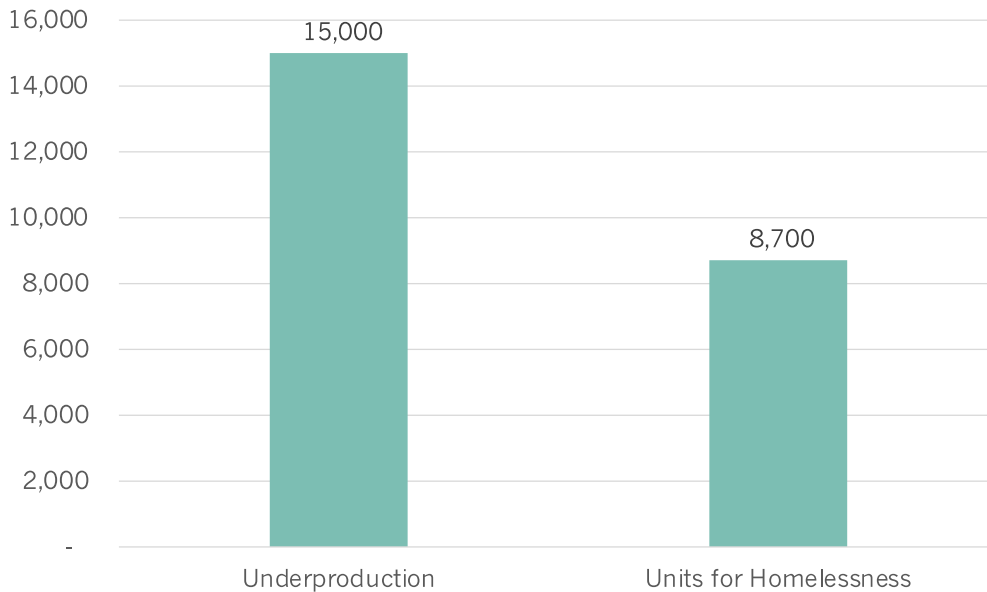
Source: ECOnorthwest analysis

Almost two-thirds of these housing units are needed for households earning the lowest incomes (less than 60% of the area median income), as shown in Figure 2.

Figure 2. Metro Existing Housing Need by Income Level (Rounded)

Source: ECOnorthwest analysis

Accounting for Second and Vacation Homes

Another new component of planning for housing need under the OHNA is accounting for units that will be lost to second and vacation homes during the planning horizon as the stock of those units grows.

Based on long-term (20-year) trends in growth in second and vacation homes, **the Metro region will need to add roughly 3,300 units to make up for units lost to second and vacation homes** over the next 20 years.

Summary of Data Sources and Methods

This section provides a summary of the data sources and methodology used to create these estimates. A more complete description of the Underproduction methodology is provided at the end of the memo.

Data Sources

Figure 3. Data Sources by Component

| COMPONENT	DATA INPUT	SOURCE
Current Housing Underproduction	Total households, missing households, total housing units, second and vacation homes, uninhabitable units, regional rate of cost burdening (to allocate units to income levels)	Census PUMS
Units for People Experiencing Homelessness	Homeless Point-in-Time Counts	Portland State University[1]
	Estimate of doubled-up homeless population	McKenny-Vento Data from U.S. Department of Education
	Average number of children per household by region	Census PUMS
Second and Vacation Homes	Change second and vacation homes between 2000 and 2020 compared to change in all housing units	Census PUMS
Allocation to income categories	Area Median Income Limits	Census and OHCS

Underproduction

Underproduction is calculated as the target number of housing units a market should have compared to the actual number of units that market has available for year-round occupancy. While housing underproduction is an important contributor to homelessness, the need for housing specifically related to people experiencing homelessness is addressed separately below. The underproduction estimate methodology is adopted from the Up for Growth Organization.

Figure 4. Up for Growth Housing Underproduction Methodology
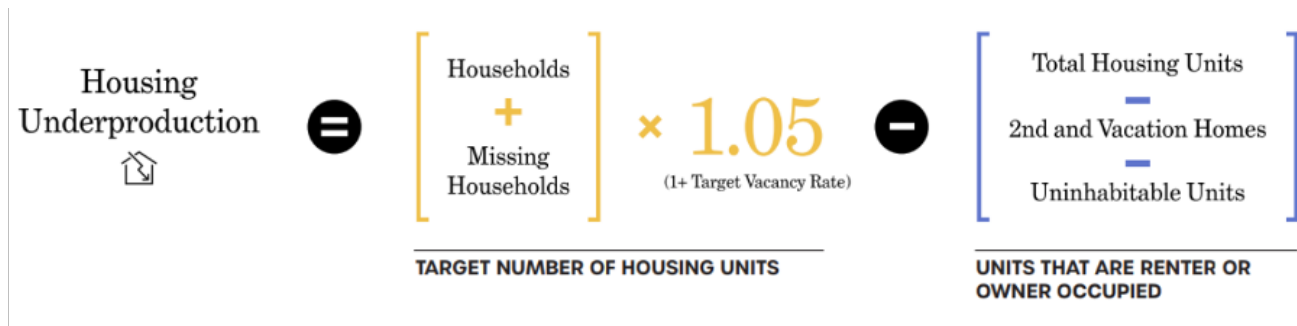
As illustrated in Figure 4, the calculation has two main steps:

1. Calculate **target number of housing units**:
    a. Identify total current households based on Census data.
    b. Estimate "missing households"—the number of households that would have formed had housing been more available—using age cohorts and headship rates (the share of the population in a given age cohort that is listed as the "head of household" in the Census survey) to approximate.
    c. Multiply by 1.05 to factor in a healthy amount of market vacancy (5 percent).
2. Calculate the **actual housing stock available for year-round occupancy**:
    a. Identify total existing housing units in the region (based on Census data).
    b. Subtract second and vacation homes (based on Census data).
    c. Subtract uninhabitable units (based on Census data).

Units Needed for People Experiencing Homelessness

As noted above, housing underproduction is interrelated with and contributes to homelessness. However, because the methodology for estimating underproduction does not specifically capture people experiencing homelessness (due to its reliance on Census data), a separate estimate is included based on available data focused on homelessness. The OHNA methodology for estimating housing units needed for people experiencing homelessness is being refined in summer 2024. In the absence of the refined approach,

Metro staff provided direction on the desired approach to estimating need for housing for those experiencing homelessness for purposes of the 2024 UGR. The approach includes two main components:

- ♦ **Sheltered and unsheltered households based on Point in Time count and county Homeless Management Information Systems (HMIS):** This estimate uses sheltered and unsheltered household counts from an April 2024 Portland State University (PSU) report on findings on the 2023 Point in Time (PIT) Count for the three-county area (Zapata, 2024). The PSU report differs from the PIT Count data collected by Oregon Housing and Community Services (OHCS) and reported to the U.S. Department of Housing and Urban Development (HUD) in that it incorporates administrative data HMIS about people in need of homeless services, which has been deduplicated with the point in time count, to provide a refined estimate. Even with these refinements, the PSU report acknowledges the limitations of the PIT counts and reasons why the PIT often undercounts people experiencing homelessness:

  - ➢ It is impossible to find and count everyone sleeping outside.

  - ➢ The count is conducted on a single night so does not capture every experience or episode of homelessness.

  - ➢ The U.S. Department of Housing and Urban Development definition of homelessness does not include people who are "doubled up" with other households.

- ♦ **Doubled-up households based on McKinney-Vento data on students experiencing homelessness:** The McKinney-Vento data comes from the U.S. Department of Education, which works with state coordinators and local liaisons to collect data on students experiencing homelessness. The data records the number of school-aged children who live in shelters or hotels/motels and those who are doubled up, unsheltered, or unaccompanied. Students identified as sheltered, unsheltered, and unaccompanied are assumed to be captured in the PIT count data. However, because the PIT count and HMIS data do not identify households who are doubled-up, the McKinney-Vento data is the best available way to identify such households. This data on doubled-up students is converted to households by dividing by the average number of children per household in the Metro region, which is calculated using 2022 PUMS 1-year data.

These methods result in the following estimates by component for the Tri-County area:

- ♦ 5,774 sheltered and unsheltered homeless households based on the PIT count and HMIS data from the 2024 PSU report

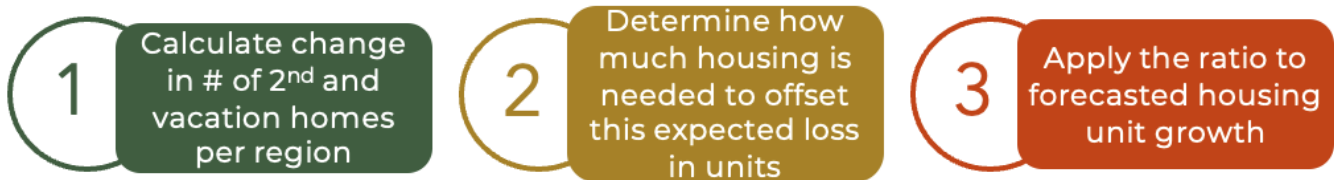- ♦ Approximately 3,100 doubled-up households from the McKinney-Vento data

Based on the Metro UGB's share of the tri-county population, 97.5% of the housing for these households (roughly 8,700 units) is assumed to be needed within the Metro UGB.

Second and Vacation Homes

The approach to estimating need for housing due to growth in second and vacation homes is illustrated in Figure 5.

Figure 5. Process of Identifying Second and Vacation Homes

1. Calculate change in # of 2nd and vacation homes per region
2. Determine how much housing is needed to offset this expected loss in units
3. Apply the ratio to forecasted housing unit growth

First, the model calculates the change in the number of second and vacation homes for each region between the years 2000 and 2020. The growth in second and vacation homes is then contextualized by the number of all housing units added for each region between 2000 and 2020. The ratio of second and vacation homes added compared to the total housing production is calculated for each region. This ratio is effectively an approximation of how much additional production would be required to offset the loss in units to second and vacation home demand over the 20-year planning period.

Allocation to Income Categories

The methodology uses the same income categories and same methodology as the OHNA to allocate the existing needed housing units to income levels.

Units needed to address underproduction are allocated to income categories based on the rate of cost burdened renter households in each region. Cost burdening is the best proxy available to estimate the current need for housing. Because underproduction in a market leads to cost ·burdening by limiting choice and reducing overall affordability, the impacts of underproduction are most acutely felt by lower-income renter households who currently need access to affordable housing. The distribution for the Metro region is shown in Figure 6.

Figure 6: Share of Underproduction Units by Income Category

INCOME CATEGORY	SHARE OF UNITS
0-30% MFI	28%
31-60% MFI	35%
61-80% MFI	18%
81-120% MFI	15%
120%+ MFI	5%

Housing units needed for people experiencing homelessness are distributed by income based on information provided from the Oregon Housing and Community Services Department (OHCS), which comes from administrative data from Community Action Agencies that receive state Emergency Housing Assistance (EHA) and State Housing Assistance Program (SHAP) funds. The data are statewide and from 2020; OHCS plans to update the data going forward. The distribution is shown in Figure 7.

Figure 7: Share of Units for People Experiencing Homelessness by Income Category

INCOME CATEGORY	SHARE OF UNITS
0-30% MFI	89%
31-60% MFI	8%
61-80% MFI	3%
81-120% MFI	-
120%+ MFI	-

Metro Share

The OHNA methodology calculates the Metro Regional housing need based on the three counties. The estimates provided in this memorandum are scaled to the Metro Urban Growth Boundary. The scalar is 97.5% which accounts for the UGB's share of the Tri-County region's underproduction based on the number of jobs and people.

Full Underproduction Methodology

This methodology is based on the OHNA Interim Methodology as of June 2024, which is likely to change before it is finalized and implemented for the first time in January 2025.

TARGET NUMBER OF HOUSING UNITS

The estimate of the target number of housing units starts with the Census Bureau's estimate of total households and then estimates the number of "missing households" that have not formed in a market compared to historical formation rates in 2000.

Household formation is influenced by the housing stock available—when a market does not build sufficient housing, prices rise and vacancy falls, affecting the likelihood of households to form (roommates splitting up, children moving out, etc.). This measure estimates the number of households that would have formed had enough housing been available, and as such, are a component of current demand.

"Missing households" are calculated based on changes in the headship rate (the percentage of persons who are heads of households) for different age cohorts between 18 and 44. The lack of housing availability and affordability is not the only reason that explains reduced household formation rates—other cost increases (e.g., student loans, car ownership and

healthcare costs) and societal/demographic trends are also contributors. Therefore, the age cohorts are limited to between 18 and 44 as the most likely ages where this occurs, but also to acknowledge the nature of the estimate as an overcount. Limiting the age cohorts helps compensate for the nature of the overcount–essentially that housing is not the only factor contributing to decreased household formation rates.

The year 2000 is used as a baseline headship rate for all cohorts. This year was chosen because 2000 Decennial Census data affords us the most recent statistically reliable estimate of a housing market that was more in balance. Headship rates were also generally stable between 1980 and 2000, so going back further would not have a large impact on the baseline headship rate. The model compares the most recent headship rate (based on 2022 PUMS data) against the 2000 baseline for each age cohort. If a cohort has a lower headship rate in the most recent year compared to the baseline, it indicates that fewer households formed. The total estimate of "missing households" is the sum of reduced household formation from cohorts aged 44 years and younger. Should there be negative missing households (more households formed compared to the baseline rate), they are netted out to zero.

The estimate of missing households is added to the current total number of households to approximate the total number of households that would be seeking housing in unconstrained market conditions. The model then applies a five percent target vacancy rate to estimate the total number of housing units a region should have to accommodate current need and have a healthy level of vacancy. Five percent vacancy is the 75th percentile of the national vacancy rate between 1980 and 2000 and is meant to represent unconstrained market conditions. It is also backed by industry stakeholder outreach and some research and is used in other methodologies of estimating housing need and underproduction.

ACTUAL UNITS AVAILABLE FOR YEAR-ROUND OCCUPANCY

The estimate of the actual number of units available for year-round occupancy starts with the Census Bureau's estimate of total housing units and removes uninhabitable units and second and vacation homes that are not available for year-round occupancy from the stock. Uninhabitable units are identified in the Census PUMS data as those that lack indoor plumbing and complete kitchens, and that have been vacant for at least a year. Vacation homes are identified in the Census data as those that are used for "seasonal or recreational purposes."

By removing uninhabitable units and second and vacation homes from the estimate of the current housing stock, the methodology attempts to calculate each region's total housing stock available for year-round occupancy as a more accurate reflection of current housing supply.

Legislative History

Legislation related to addressing existing housing needs and changing the state's approach to planning for housing began in 2019, but methodological details are still in flux, and will be the subject of additional rulemaking and potentially additional clarifying legislation through 2025. The relevant legislative history is summarized below.

♦ In 2019, House Bill 2001 amended state law to require that jurisdictions analyze "existing and projected" housing need.[2] Metro has interpreted this to mean that its 2024 Urban Growth Report and Management Decision must include an estimate of "existing housing need" in addition to future housing need over the 20-year planning period.

♦ In 2019, House Bill 2003 directed the Oregon Housing and Community Services Department (OHCS) to develop a pilot methodology for an Oregon RHNA (subsequently renamed the OHNA) to estimate statewide housing need under several need categories and incomes. OHCS and the Oregon Department of Land Conservation and Development (DLCD) each produced summary reports[3,4] on the pilot methodology in 2021.

♦ In 2021, House Bill 5006 directed DLCD and OHCS to revisit the pilot methodology and offer recommendations to the Legislature on how to improve the methodology and implement the OHNA into the existing land use planning system. This work culminated in a Recommendations Report to the Legislature in December 2022.[5]

♦ In 2023, House Bill 2001 directed DLCD, OHCS, and the Department of Administrative Services (DAS) to implement the OHNA into existing land use planning systems. The bill does not address specific methodology. DAS is responsible for finalizing the methodology, but DLCD's oversight body (the Land Conservation and Development Commission, LCDC) and OHCS must "assist" and "may study and recommend methodological changes to DAS to improve its functions and suitability." When these provisions take effect, Metro will calculate the Metro region's housing need estimates using the principles of the OHNA, but the state will allocate need to cities within the Urban Growth Boundary (UGB). A follow-up bill later in 2023 (House Bill 2889) included several adjustments to the new OHNA laws, including some

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[2] Section 5 of House Bill 2001 (2019) amended ORS 197.296(3)(b) to read: "Conduct an analysis of **existing and projected** housing need by type and density range, in accordance with **all factors under** ORS 197.303 and statewide planning goals and rules relating to housing, to determine the number of units and amount of land needed for each needed housing type for the next 20 years." (Boldface language added.) No further definitions of "existing" housing need were included with this legislation; other sections of the bill describe using population projections to estimate housing need, but do not address existing need.

[3] OHCS Report: https://www.oregon.gov/ohcs/about-us/Documents/RHNA/02-21-2021-ECONW-OHCS.pdf

[4] DLCD Report: https://www.oregon.gov/lcd/UP/Documents/20210301_DLCD_RHNA_Assessment_Report.pdf

[5] OHNA Recommendations Report:
https://www.oregon.gov/lcd/UP/Documents/20221231_OHNA_Legislative_Recommendations_Report.pdf

applicable to Metro, but not to the specific methodology addressed in this memorandum. Both sets of changes have since been codified into statute.[6]

♦ The OHNA rulemaking process is currently underway along with the process to finalize the methodology. DLCD is responsible for writing the rules and will not be complete until the end of 2025. DAS is responsible for finalizing the methodology and will not be complete until late 2024. Additional legislation in the 2025 regular session could further change the OHNA.

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[6] Oregon Revised Statutes (ORS) Chapters 197A and 185 contain most of the new statutory requirements related to the OHNA.