

DATE: April 11, 2022
TO: Chris Hartye and Omar Martinez, City of Hillsboro
FROM: Becky Hewitt and Ariel Kane ECONorthwest
SUBJECT: Displacement and Gentrification Risks and Potential Mitigations

Introduction

In 2017, the City of Hillsboro worked with ECONorthwest to prepare a study titled *Affordable Housing Tools: A Review of Policy Options for Hillsboro*. One of the recommendations from that study was to inventory existing “naturally occurring” affordable housing (low-cost market rate housing that offers below-average rents based on its age and/or condition rather than because of a subsidy or affordability agreement) and explore strategies to acquire or otherwise preserve it. This memorandum picks up on that recommendation. It identifies areas within the City where displacement and gentrification risks are highest based on a variety of housing and demographic factors, sets the stage for identifying specific properties within those areas where displacement may be a concern and where the City may wish to explore interventions and provides further evaluation of potential interventions and mitigation measures to address displacement and gentrification risks.

Who is at Risk of Displacement?

Overview

Displacement occurs when a household is forced to relocate due to circumstances beyond household-specific disruptions. Risk of displacement primarily derives from the intersection of two interrelated factors: (1) changes in market conditions that result in rising rents and/or increasing redevelopment potential, and (2) household characteristics that lead to increased susceptibility to changing market conditions.

Our analysis of displacement focuses on households that rent because they are more directly affected by changing market conditions than those that own their property because they are subject to the decisions of the property owner about redevelopment, remodels, rent increases, etc. Property owners in Oregon are largely insulated from the financial effects of market changes due to the property taxation system, which decouples market value from taxable value, meaning that rising property values only impact the owners’ property taxes in very limited circumstances. While Oregon state law limits the amount a landlord can raise residential rents annually for most older market-rate rental housing, these increases can still reach about 10 percent per year.¹

¹ ORS 90.600; rent stabilization provisions were added in 2019 by Senate Bill 608. See this summary from Oregon Law Center for details: <https://www.oregonhousingalliance.org/wp-content/uploads/2019/03/Oregon-Law-Center-Detailed-Outline-SB-608-cites-and-page-numbers-Final.pdf>.

Among households who rent, those who face disadvantages or discrimination in the real estate market tend to be at greater risk of displacement and experience more harm if they are forced to move. These include low-income and cost-burdened households (spending more than 30% of their income on rent), people without advanced degrees, people of color, people who do not speak English, immigrants and refugees, seniors, and people with disabilities.

Who is at Higher Risk in Hillsboro?

The City/County’s latest Consolidated Plan provides information about populations experiencing cost-burden:²

- *The largest group of severely cost-burdened households earn between 0 and 30% of MFI and are majority renters. These extremely low-income renters have the most trouble finding affordable units.*
- *Severely cost-burdened owners are generally owners who cannot afford to keep up with property taxes and home insurance costs and are usually elderly owners.*
- *Cost-burden differs somewhat by race and ethnicity: Black/African American households face the highest rate of cost burden (43%) yet the same rate of severe cost burden as most other groups. Hispanic households have the highest rate of severe cost burden (24%) but moderate rates of cost burden.*

To understand how rates of cost-burdening vary by housing type, ECONorthwest analyzed Census data for the Hillsboro area overall, as shown in Exhibit 1. This analysis can help the City target housing types that are most likely to be home to cost-burdened renters.

Exhibit 1: Rates of Cost-Burden By Housing Type, Hillsboro PUMA³

Source: ECONorthwest analysis of 2015-2019 PUMS data

	# of cost-burdened HH	% of all cost-burdened HH who live in this type of housing	% of HH living in this type of housing who are cost burdened
Single family house detached	1278	17.5%	36.9%
Single family house attached	911	12.5%	36.2%
Duplex, Triplex and Quadplex	599	8.2%	35.3%
5-9 Apartments	1195	16.4%	44.4%
10-19 Apartments	1046	14.4%	33.4%
20 or more Apartments	2217	30.4%	44.0%
Mobile home or trailer	39	0.5%	57.4%

² 2020-2024 Consolidated Plan for Washington County and the Cities of Beaverton and Hillsboro, Hillsboro section, page 15.

³ This analysis uses 2015-2019 data from the U.S. Census Bureau’s Public Use Microdata Sample (PUMS). The Public Use Microdata Area (PUMA) that best represents Hillsboro is not fully contiguous with City boundaries and includes some adjacent areas in unincorporated Washington County.

This shows:

- Renters living in mobile homes and trailers are more likely to be cost-burdened than those living in other types of housing, though they comprise a very small share of the total cost-burdened renters in the area.
- Apartments with 20 or more units are home to the largest share of cost-burdened renters of any housing type, and the rate of cost-burdening is higher for these larger apartments than for most other types of housing.
- Smaller apartments and plexes combined account for roughly 39% of cost-burdened renters; another 30% live in single-family attached or detached houses. Rates of cost-burdening in these types of housing are generally below the average for renters in the Hillsboro area.

Looking at the existing housing supply within the City of Hillsboro:

- An estimated 3.5% of housing units citywide are both renter-occupied and at moderate to high risk for redevelopment based on their age, property type/number of units, and property value relative to land area. This includes older (built before 2007), unregulated rental housing with 4 or fewer units that is in the bottom quartile for property value per land area and manufactured home parks.
- Roughly 32% of housing units citywide are estimated to be renter-occupied with some risk of rent increases or major remodels that could trigger displacement. This includes older (built before 2007)⁴, unregulated rental housing with any number of units, though roughly 60% of these units are in apartments with 20 or more units.

This suggests that focusing the City's efforts on older apartment buildings with 20 or more units will target the housing with the highest concentrations of renters who are more vulnerable to displacement from rising rents due to lower incomes and existing cost-burden.

⁴ Newer rental housing can also experience rent increases and tends to closely track changes in the housing market; it is also excluded from Oregon's statewide limitations on rent increases. However, while some older properties are regularly maintained and updated, other older housing may become dated with rents that have fallen below those of newer housing. Older housing that has not been updated may become "naturally occurring affordable housing" where a change in ownership or other factors can lead to larger rent increases or major remodels that can trigger displacement.

Which Areas Have the Greatest Concentrations of Households and Housing at Risk?

Demographic Factors

The following maps show the share of the population/households in demographic categories that may be more likely to experience harm from displacement by Census tract⁵, based on the following metrics:

- Households earning less than \$50,000 (roughly 50% of the Area Median Income for the Portland region) as a share of all households in the tract
- People of color (POC; combined: all except white non-Hispanic) as a percent of the population in the tract
- Renter households as a share of all households in the tract
- Cost-burdened renter households as a share of all households in the tract
- Adults with less than a bachelor's degree as a percent of all adults in the tract

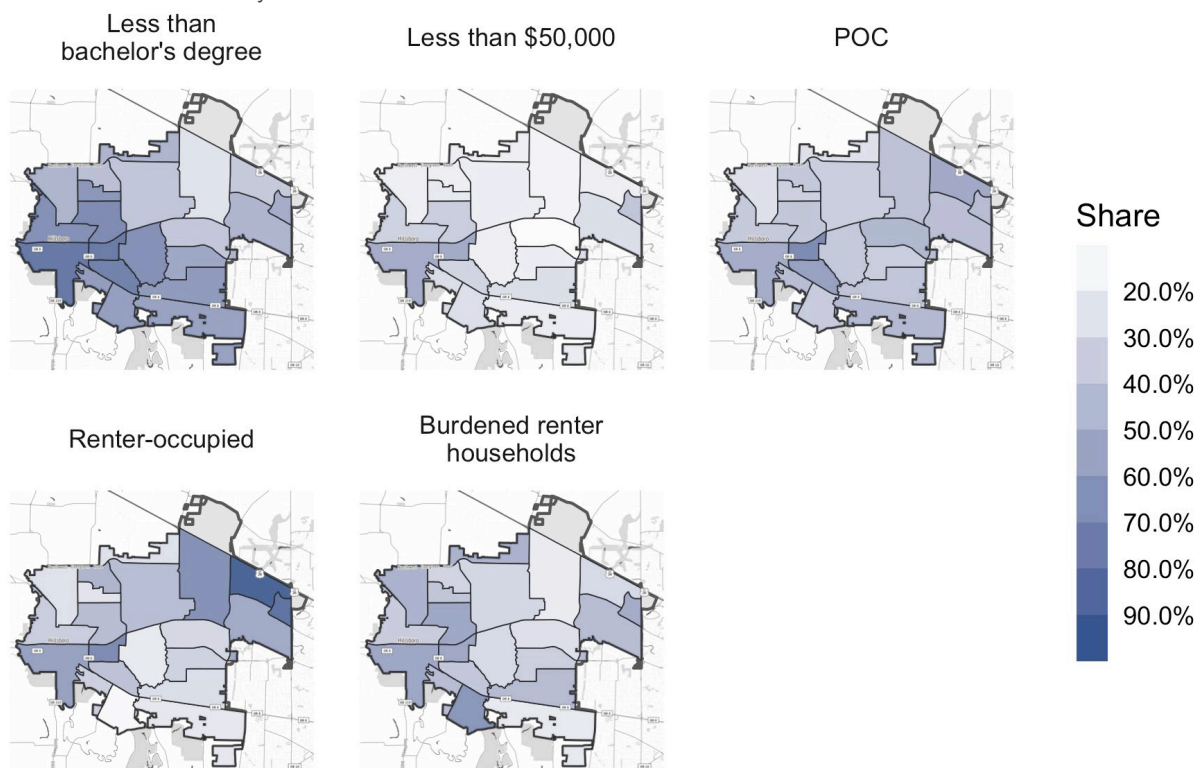
These metrics are common demographic indicators of vulnerability in displacement risk studies, including those done by the cities of Portland and Seattle, though the details of how they are used vary.⁶ Low-income, cost-burdened renters are at greatest risk of being forced to move due to rising rents, since they have little ability to absorb further rent increases, and may already be facing trade-offs between paying rent and covering their household's other basic needs. Those without college degrees have less ability to increase their income to cover higher housing costs and may have to work multiple low-wage jobs to make ends meet. People of color tend to face greater housing discrimination and may have a harder time purchasing a home or finding another apartment if they are forced to move.

⁵ The map shows only the portion of the Census tracts that falls within City limits. Several tracts at the north and south edges extend well beyond City limits, but there is relatively little other housing in rural areas outside the City, so data on the population share in a given category is likely relatively accurate for the area in City limits.

⁶ Those with limited English proficiency, which is also sometimes used as an indicator, had low statistical reliability at the tract level for Hillsboro and was not included in this analysis.

Exhibit 2. Vulnerability Metric by Share of Population in Tract

Source: ECONorthwest Analysis of 2015-2019 ACS data



This shows that lower-income households and adults without four-year degrees are largely clustered near the downtown, where there are also relatively high concentrations of renters and people of color. This aligns with the latest Washington County Consolidated Plan, which identifies “one R/ECAP [Racially/ethnically-concentrated areas of poverty] in Washington County located in west-central Hillsboro—home to predominately Hispanic residents of Mexican origin.”⁷

There is also a high concentration of renter-occupied housing in the northeastern portion of the City, around Tanasbourne, because there are a number of apartment complexes in the area and little other housing. However, the Tanasbourne area has a relatively low share of low-income households, cost-burdened renter households, and adults without a college degree, which suggests that these renters may be better able to withstand fluctuations in the housing market.

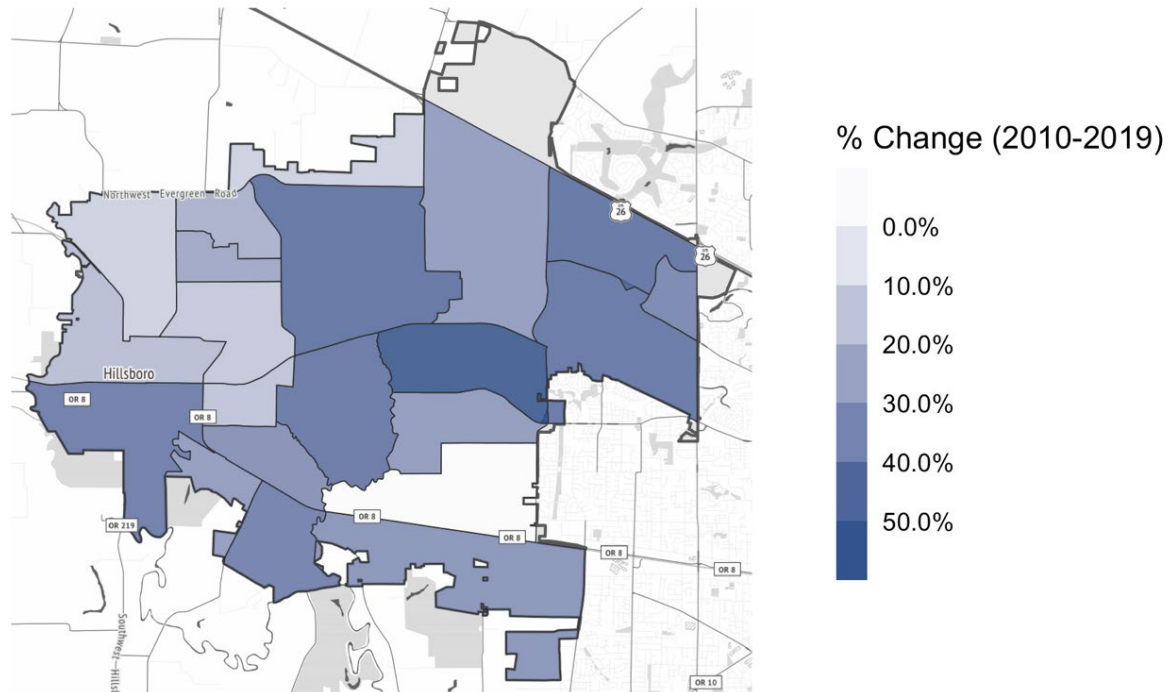
⁷ 2020-2024 Consolidated Plan for Washington County and the Cities of Beaverton and Hillsboro, page 111.

Rent Trends

Another factor that influences gentrification and displacement risk is the rate of rent increases. While the Census's rent data is an imperfect indicator of changing market conditions,⁸ it provides one indicator that aligns with Census geographies. Exhibit 3 shows rent changes highest in central and eastern Hillsboro between 2014 and 2019, with the rents in the downtown increasing less than in other areas.

Exhibit 3. Median Gross Rent Change Since 2010 in Hillsboro by Tract

Source: ECONorthwest Analysis of 2020 Census and ACS 5 Year Data 2010- 2014 and 2015-2019



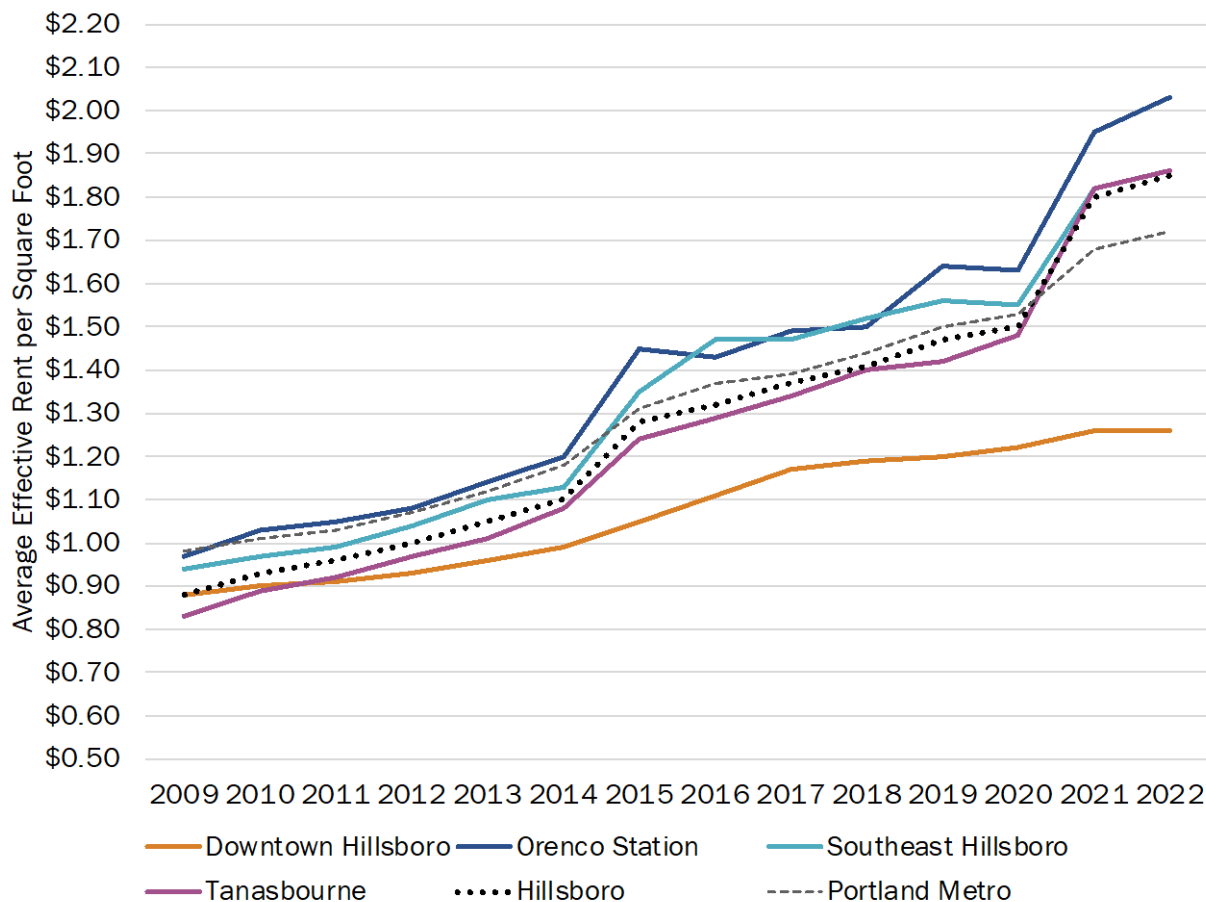
Another indicator of rent trends is the change in rents for older apartment buildings whose rents are tracked in CoStar, a proprietary source of rent and other market data. CoStar is also an imperfect data source,⁹ but it provides a more timely sense of rent trends and the ability to identify trends within a subset of the housing market. Exhibit 4 shows how rents for older market-rate apartments (built before 2007) have changed between 2009 and 2022. Excluding new construction from the data allows us to focus on changes for existing housing stock and prevents the addition of newer development at higher rents from skewing the results.

⁸ Issues include timeliness of the data and the fact that rents are self-reported and are not adjusted in any way for unit size.

⁹ Data for smaller, older apartment buildings is often missing or unreliable because CoStar data is gathered primarily from recent internet listings, and older apartment buildings do not always list availability online. Where listing data is unavailable, CoStar typically estimates likely rent increases at the property level based on trends in the surrounding area. CoStar also does not track the rents that existing tenants are paying or how rent is changing at lease renewal; it only tracks rent for available units.

Exhibit 4. Multifamily Rent Trends in Buildings Built Before 2007, 2009-2021

Source: ECONorthwest Analysis of CoStar March 2022 data



This shows that rents have increased dramatically for older apartments across much of the City and the region, more than doubling from 2009 to early 2022, with substantial rent increases since 2020. However, rents in Downtown Hillsboro, where demographic indicators suggest higher concentrations of vulnerable renters, have increased more slowly than the citywide average. This may change going forward, given the City’s current efforts to support redevelopment and revitalizations in Downtown Hillsboro and the 10th Avenue corridor, but suggests that the City may still be ahead of major market-driven displacement in this high-vulnerability area.

Housing Stock

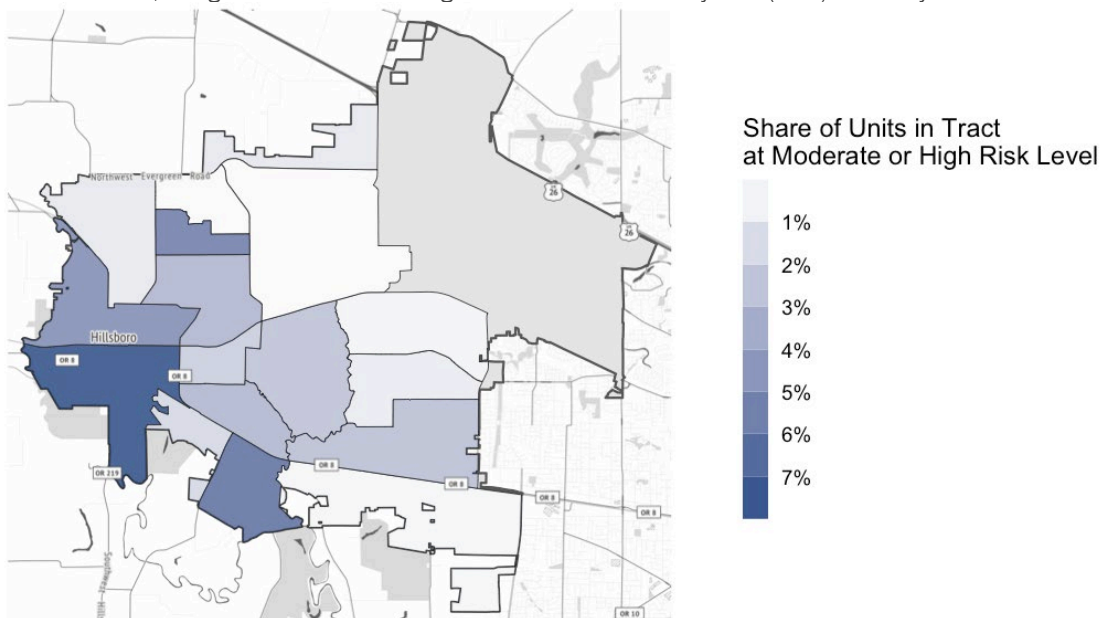
As an additional indicator, ECONorthwest analyzed characteristics of the existing housing stock to identify two sources of potential for displacement:

- **Redevelopment Risk:** Small, older rental properties with low property values¹⁰ were identified as moderate risk, or high risk if they are part of a group of adjacent properties under common ownership. Manufactured home parks, which can be targeted for redevelopment despite some state protections, were identified as being at moderate risk.
- **Rent Increase Risk:** Older market-rate rentals where changes in ownership or investment strategy or upgrades to units could lead to larger rent increases that could displace current renters were identified as being at some risk. Further property-specific analysis would be required to establish risk in more detail within this group of properties.

The distribution of housing units that are both renter-occupied and at moderate to high risk for redevelopment is shown in Exhibit 5. While there are few units at risk of redevelopment, they are more concentrated in southwestern Hillsboro (surrounding and south of the downtown). The concentration in this area reflects the presence of a number of manufactured home parks along with some low-value rental homes.

Exhibit 5. Share of Units that are Rentals with Moderate to High Redevelopment Risk by Tract

Source: ECONorthwest, using data from Metro's Regional Land Information System (RLIS) tax lot layer



The greatest concentration of units at higher risk of rent increases is in northeast Hillsboro, as shown in Exhibit 6, because of the concentration of market-rate apartments in that area. Most of

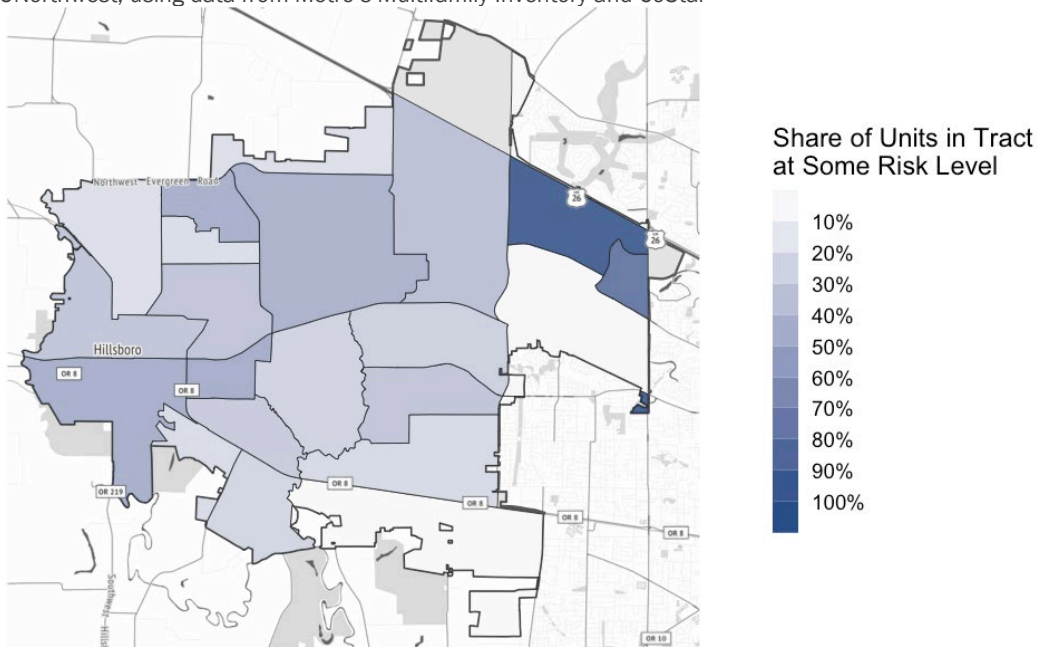
¹⁰ This is defined as properties in the bottom quartile for all single-family homes in the city based on real market value (per tax assessor's records) per square foot of land area.

the older apartments in that area were built in the 1990s; while they may need repairs and upgrades, they are mostly larger properties with more amenities, which tend to be professionally managed and upgraded over time as units turn over. This decreases the risk that tenants will be displaced due to upgrades; however, rents at these properties are also more likely to track the market over time, as the rent trend data shows. Tenants in these properties may be more likely to face rent increases at the upper limit of what is allowed under state law when rents are escalating as fast as they have over the past two years. However, as noted above, demographic data suggests that renters in the Tanasbourne area may be better able to withstand fluctuations in the housing market without experiencing displacement.

Older, smaller apartment developments with few amenities are less likely to be professionally managed and upgraded over time; they can become deteriorated and potentially need major upgrades that would require tenants to move out, but they also tend to be slower to raise rents in the absence of upgrades. Apartments with under 100 units that are more than 30 years old and have few amenities are largely concentrated in Downtown Hillsboro. Many of the older apartments in Downtown Hillsboro have less than 40 units, and there are many smaller apartments with less than 20 units in Downtown Hillsboro as well.

Exhibit 6. Share of Units that are Rentals at Some Risk of Displacement due to Rent Increase by Tract

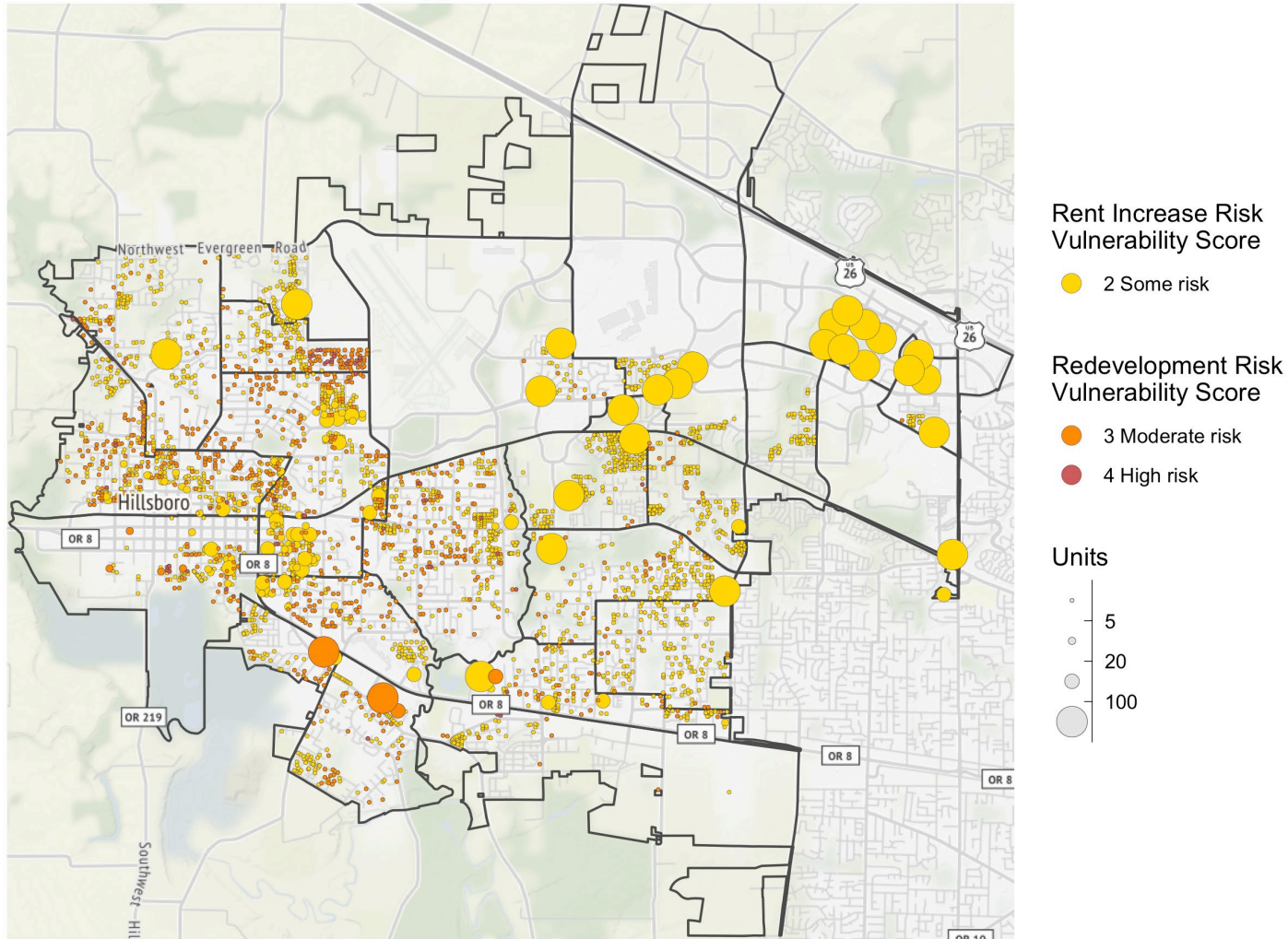
Source: ECONorthwest, using data from Metro’s Multifamily Inventory and CoStar



Properties identified as being at risk of either redevelopment or rent increase are shown in Exhibit 7.

Exhibit 7: Housing with Greater Potential for Displacement Due to Redevelopment or Rent Increases from Repositioning

Source: ECONorthwest, using data from Metro's Multifamily Inventory and Regional Land Information System (RLIS) tax lot layer



ECONorthwest will provide additional detail on properties in higher risk areas that City staff may want to evaluate for potential interventions as a follow-up step under the current contract.

Manufactured Home Communities

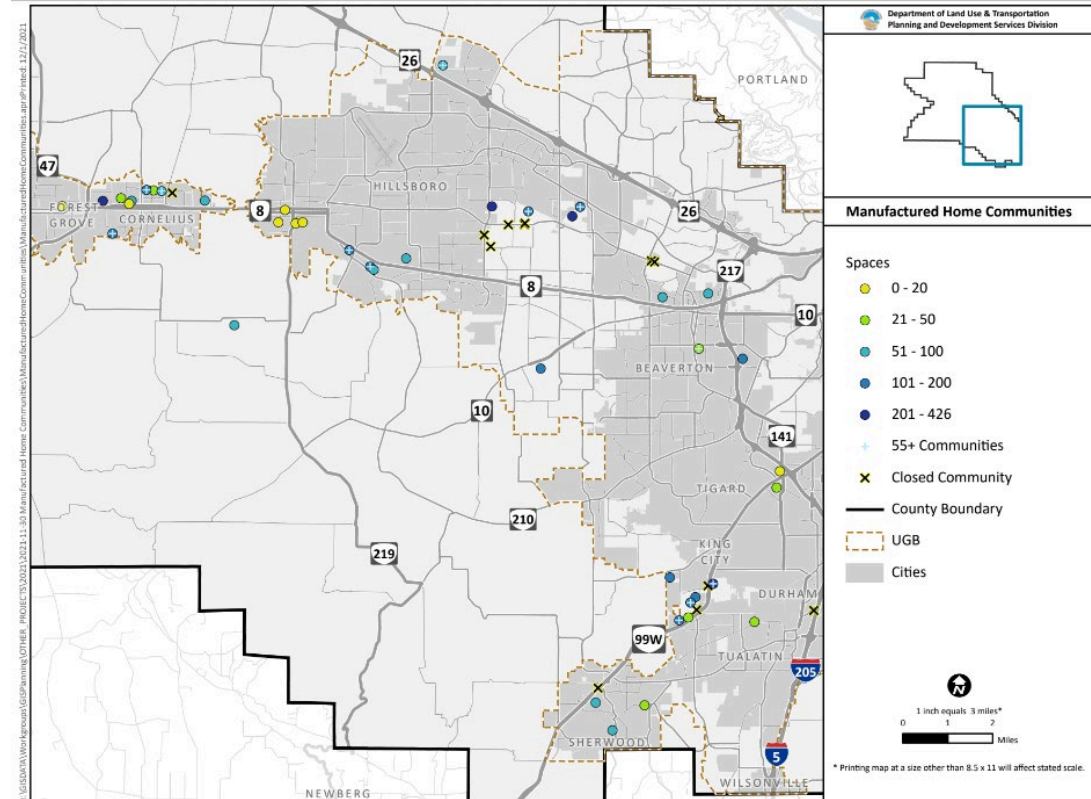
In the early 2000's there was a loss of 15 manufactured housing communities in Washington county, estimated to have displaced 1,100 households with a loss of about 1 in 5 spaces for manufactured housing. In Hillsboro there are 8 MHCs with 392 spaces presently.¹¹

Exhibit 8: Manufactured Dwelling Spaces in Hillsboro

Name	Address	Acreage	Spaces
Emerald Village Mobile Home Park	2200SE 45th Ave	9.95	59
Fir Tree Mobile Estates	2865SE River Rd	8.40	59
Garden Circle Mobile Home Court	316SW Baseline St	1.80	18
Hillsboro Trailer Park	159SE Maple St	1.02	9
Maple Lane Mobile Court	535SW Maple Ln	1.37	18
River Road Mobile Estate	2681SE River Rd	14.76	105
South Side Mobile Park	640SE 3rd Ave	1.50	20
Terra Buena Terrace	1901SE Mintner Bridge Rd	11.13	104
Total		49.93	392

Exhibit 9. Map of Manufactured Housing Communities in Washington County

Source: Washington County's Manufactured Housing Communities Facts, Risks, And Resources Final Report April 2022.



¹¹ Washington County's Manufactured Housing Communities Facts, Risks, And Resources Final Report April 2022.

Potential Interventions and Mitigation Measures

Overview

The City wants to increase housing stability and has already taken steps to expand the supply of affordable, stable rental housing in Hillsboro. (These are described in more detail in a separate memorandum.) Potential measures to support housing stability include:

- **Prioritizing displaced or at-risk households for housing support.** The City could augment or focus existing housing programs and investments in higher-risk areas. For example:
 - Investing in additional regulated affordable housing within gentrifying areas to give residents more access to stable housing (the City is already doing this)
 - Targeting homebuyer assistance (including housing acquisition with Proud Ground) to renters living in areas with greater displacement risks through additional marketing efforts or prioritization of funding
 - Increasing funding for home repair for low-income homeowners in areas where the for-sale housing market is changing quickly
- **Supporting tenant protections.** Cities are pre-empted from establishing local rent regulations by state statute,¹² and many renter protections are addressed at the state level, including rent stabilization and eviction protections enacted with Senate Bill 608 in 2019. Programs providing information on tenant rights, legal support for tenants facing eviction or other housing issues, and emergency rent assistance are largely handled by the County and nonprofit organizations. However, the City could explore opportunities to support partners in these efforts through targeted outreach, funding, referrals, or other means.
- **Preserving and stabilizing existing “naturally occurring affordable housing”.** There are two general approaches to preservation of older apartments for cities that do not have their own Housing Authority to own and manage housing directly:
 - Supporting **acquisition and rehabilitation** by nonprofits or others who would keep rents affordable or convert to regulated affordable housing
 - **Incentives for property owners** (e.g., tax abatement, grants/loans) to make needed health and safety improvements while stabilizing rents

The City can also explore options to help support preservation of manufactured housing parks, drawing on the findings of an ongoing Washington County study.

Preservation measures are the focus of the balance of this memorandum and are discussed in more detail below.

¹² ORS 91.225

Acquisition and Rehabilitation

Acquisition and rehabilitation of existing apartments by providers of regulated affordable housing for conversion to regulated affordable housing can be funded through state and federal programs such as the Low-Income Housing Tax Credit (LIHTC).

Acquisition/rehabilitation projects are complex on many levels, including understanding the capital needs required to rehabilitate the property, analyzing rents and cash flow, and converting units to be income-qualified without displacing existing renters (who may not be eligible for the income-restricted units). There are ways for the City to support these efforts without undertaking the acquisition and rehabilitation directly. An additional challenge is the need to compete with private investors, which often requires acting quickly when a property becomes available for purchase. The City can potentially help overcome this challenge in a few ways:

- Establish a **flexible local funding** source that can be deployed quickly to help with property acquisition and preservation.
- Research and **evaluate potential target properties** to identify a short-list of properties where acquisition and rehabilitation would be a priority if they came available and reach out to property owners to gauge interest in selling for preservation when they are ready to part with the property.

Some communities require that property owners seeking to sell certain types of rental housing (e.g., properties with 20 or more units built before a certain year or manufactured home parks) offer a **“right of first refusal”** (ROFR) to the local housing authority, the current tenants, and/or qualified nonprofit organizations. The ROFR generally allows the opportunity for the housing authority or other party to purchase the property for the same terms as the potential buyer. Oregon has ROFR policies in place for regulated affordable housing with expiring affordability restrictions¹⁴ and for manufactured housing parks¹⁵. There are no existing programs in Oregon that apply a ROFR to other market rate rental housing. While such programs do exist in other communities (for example, Montgomery and Prince George’s Counties in Maryland), they may require state-level changes to statute in Oregon and are not considered further here.

Example

Acquisition/Rehabilitation Project: Rosewood Place (Gresham)

Nonprofit Human Solutions acquired a 26-unit market-rate apartment building in Gresham with a history of property issues and converted it into regulated affordable housing with supportive services. The project also included development of 19 additional affordable housing units on the site and a community dental clinic. Rents are affordable to households earning 30-50% of AMI. Acquisition cost \$1.37 million (in 2013), and the total project budget was over \$13 million. Funding included \$937,500 from the Network of Oregon Affordable Housing and a \$350,000 property acquisition loan from the Housing Development Center’s Community Fund; Gresham HOME funds; LIHTC equity and state funds; and a capital campaign by Human Solutions.¹³

¹³ Metro, “Opportunities and challenges for equitable housing,” January 2016.

<https://www.oregonmetro.gov/sites/default/files/2016/01/28/EquitableHousingReport-20160122.pdf>;

Housing Development Center, “Rosewood Plaza,” April 1, 2016, <https://www.hdc-nw.org/development-projects/rosewood-plaza>

¹⁴ ORS 456.250 to 456.265

¹⁵ ORS 90.800 to 90.850

Flexible Local Funding for Acquisition/Preservation

Flexible local funding that can be deployed quickly for acquisition can come from a variety of sources, including general fund or a Construction Excise Tax. In the example programs described below, public funding was pooled with funds from philanthropic partners, banks, and/or CDFIs.

Examples

The **Oregon Housing Preservation Project** offers acquisition loans that provide bridge financing until the buyer is able to complete the necessary steps to secure long-term funding and prepare to rehabilitate the property.¹⁶ The program offers acquisition loans with favorable terms to help borrowers acquire unregulated market rate properties and transition them to regulated affordable housing. This funding provides time to align public subsidies and obtain long-term or construction financing. (There are other loan programs specific to preservation of regulated affordable housing with expiring restrictions—this program has been a bigger priority for the organization.) Funding comes from public partners, such as the City of Portland, Oregon Housing and Community Services, Fannie Mae, and CDFI funds, private foundations, and private banks.

Greater Minnesota Housing Fund - NOAH Impact Fund is a social impact fund in the Minneapolis-St. Paul region that connects developers and owner-operators with social impact investors to preserve low-cost market rate housing. The fund offers a double-bottom line impact to investors in the form of social impact and return on equity, with the goal of investor repayment in ten years. Since the fund's inception in 2015, it has leveraged \$25 million in capital investments to invest \$100 million in property acquisitions to preserve 1,000 at-risk unregulated affordable housing units in the Twin Cities area. The fund acquires and rehabilitates these unregulated affordable housing properties (Class B and C properties, from 40 to 200 units), and partners with local affordable housing organizations to operate them with 15-year affordability restrictions.¹⁷ NOAH Impact Fund investors include several banks, the Minnesota Housing Finance Agency, the county, and local philanthropic organizations.¹⁸

Key Questions

- Where would City funding come from to capitalize an acquisition/preservation fund? Capitalizing a fund from a flexible funding source (e.g., general fund, or potentially in the future a Construction Excise Tax) would allow the fund to be more nimble.
- Would the City want to partner with others (e.g., the existing Oregon Housing Preservation Project) to leverage additional public and private resources, even if it meant less control over the program and where it would focus?

¹⁶ Preserve Oregon Housing, "Loans: Purchase of Existing Project to Convert to Affordable," <http://www.preserveoregonhousing.org/loans.php>

¹⁷ NOAH Impact Fund Presentation. Greater Minnesota Housing Fund. September 7, 2017.

¹⁸ NOAH Impact Fund, "About," <https://noahimpactfund.com/about/>

- How much risk is the City willing to take on its participation in an acquisition/preservation fund?
- Would the City want to provide funds as grants or loans? In some cases, all or a portion of the funds may be repaid from other sources later when the project receives financing.
- Can the City provide enough capital to enable acquisition of a typical property without partnering with others? The average sale price for recent transactions of older apartments with few amenities in Hillsboro is approximately \$150,000 per unit.¹⁹ For a 20-unit property, this could mean roughly \$3 million in acquisition costs.

Property Inventory and Research

Oregon Housing and Community Services (OHCS) currently maintains an inventory of regulated affordable properties with affordability restrictions that are near expiring. This strategy is focused on identifying unregulated “naturally occurring affordable housing” that could be targeted for acquisition and preservation or for incentive programs. ECONorthwest will provide a preliminary property inventory as part of this project, focused on older, unregulated apartments. ECONorthwest will work with staff to refine the criteria for inclusion in the inventory, including year built, number of units, location, property value, presence of amenities such as a pool, recent sales or remodels, and current rent levels (if known).²⁰

Manufactured Home Communities Preservation

Washington County’s recent report on manufactured home communities provides a summary of state protections for manufactured home communities and options for local actions to support their preservation. Currently, Oregon regulates the sale of manufactured home communities through various laws. Tenants must be given notice of intent to sell with 25 days to express purchase interest. If the landlord sells to a nonprofit, the gains are exempt from Oregon Income Tax, at least until the end of 2025. There must also be a year’s notice if the community will close.²¹ The report identifies opportunities for local governments to support the preservation of manufactured home communities, including:

- Assist with the purchase and preservation of manufactured homes as permanently affordable housing. This could include use of the Washington County Housing Production Opportunity Fund (HPOF), which has up to \$500,000 available annually to support a resident-owned cooperative or nonprofit organization purchase of manufactured home communities, or Community Development Block Grants.

¹⁹ ECONorthwest analysis of CoStar data for apartment properties built before 1992 with more than 12 units, rated as 2 stars by CoStar based on amenities and quality, sold since 2018.

²⁰ While ECONorthwest has access to proprietary data sources such as CoStar that detailed information about the properties, we are prohibited from transferring this data to third parties. However, we can use it to filter and identify properties that likely meet the City’s criteria for further evaluation.

²¹ Washington County Manufactured Housing Communities Facts, Risks, and Resources Final Report (April 2022).

- Target outreach of existing and future programs for preservation or displacement mitigation at manufactured homeowners and communities. Oregon Housing and Community Services worked with other partners to develop The Local Agency Toolkit with guidance on rapid response organization to a community closure.²² This could include working with Washington County to develop a plan for assisting households displaced from MHCs and assisting with outreach and services reach key populations including older adults, people with disabilities, Latinx/Hispanic families, veterans, and households with lower incomes.
- Target manufactured homes communities and owners for state and federal repair, rehabilitation, weatherization, and replacement assistance and programs, such as the Home Access and Repair for the Disabled and Elderly (HARDE) program, the Community Action Weatherization Program,²³ and energy efficiency incentives from Energy Trust of Oregon.²⁴
- Explore the opportunity to preserve manufactured home communities through land use regulation. Several Oregon cities have made efforts to preserve communities through overlay zones or code development:
 - The City of Cornelius adopted a Manufactured Home Park zone allowing manufactured housing communities as a permitted use with a prohibition of conventional single-family and multi-family units. Redevelopment would likely trigger a zone change requiring public testimony and council and commission discussion.²⁵
 - The City of Portland adopted a manufactured housing zone in 2018.²⁶

Incentives for Property Owners

Some property owners may want to help their tenants and keep their rents low but may not have the resources to maintain and improve the property without raising rents. Others may be willing to consider stabilizing rents if there are strong enough financial incentives to do so. The main approaches that cities can use to incentivize property owners to invest in property maintenance or upgrades without increasing rents are grants, low-interest loans, or tax abatements. Any of these can be paired with a requirement to provide affordability commitments.

²² See <https://www.oregon.gov/ohcs/mmrc/Documents/Manufacture-Home-Park-Solutions-Collaborative-Local-Agency-Toolkit.pdf> for more information.

²³ See <https://caowash.org/programs/housing-stability/conservation.html> for more information for more information.

²⁴ See https://www.energytrust.org/wp-content/uploads/2021/05/Manufactured-Home-Replacement-Pilot-Evaluation_Final-.pdf for more information.

²⁵ See <https://www.codepublishing.com/OR/Cornelius/#!/Cornelius18/Cornelius1830.html#18.30> for more information.

²⁶ See https://www.portland.gov/sites/default/files/2020-02/manufacturedpark_asadopted_082218.pdf for more information.

Grants/Loans for Stabilization

Funds could be distributed as grants or loans with varying terms to increase affordability and incentives for landlords to participate. There are meaningful trade-offs between offering grants or loans, and the City could offer both funding types, choosing between them depending on the borrower's creditworthiness.

- If the City offered grants, there is potential for deeper affordability for the units or the borrower, because grant funds do not accrue interest and are not expected to be repaid. As such, the funds are gifted to the property to help lower the cost of the rehabilitation project and thus increase affordability. However, the City would not receive its funding back and it cannot be used for future preservation projects.
- If the City were to offer loans, it would become a real-estate lender to the private market. Loans come with the expectation that the borrower repays the full principal plus interest over the life of the loan. If the City offered loans, although affordability can vary based on loan terms, it is not as affordable for the borrower as a grant. However, loans mean that the City can reinvest its funds in future preservation projects, and loans may induce greater accountability (such as through a lien on the property), for the borrower.

Either way, funding would be distributed in exchange for an agreement with the landlords or property owners to rehabilitate the properties to adhere to certain safety, code, or habitability standards, and provide a certain level of affordability for a defined period of time. The City would need to ensure that any loans could be paid back with the affordability restrictions in place. If the City were the only source of funds for the project, the City would also need to take on monitoring and enforcement to ensure the terms of the affordability agreement were being met.

Example

The City of Beaverton has been working on a Housing Preservation Pilot Project for the past several years. Housing staff has been exploring partnerships with a few interested property owners to stabilize existing multifamily rental housing while retaining existing property ownership. However, current low interest rates are creating little incentive to take a City loan with affordability requirements, which has hampered program implementation to date.²⁷

Tax Abatements

There are two property tax abatement programs authorized under state statute that the City could consider as incentives for preservation and rehabilitation of older apartments:

- Multiple-Unit tax abatement (also called MUPTE or MULTE in some jurisdictions)²⁸

²⁷ ECONorthwest, *Beaverton Downtown Equity Strategy: Summary of Potential Best Practices for Displacement Prevention and Mitigation and Inclusive Downtown*, February 15, 2022.

²⁸ ORS 307.600 to ORS 307.637

- Rehabilitated Residential Property tax abatement²⁹

Multiple Unit Tax Abatement

The Multiple Unit tax abatement (referred to here as the MULTE program) is a flexible tax abatement program for multiple-unit rental housing that offers substantial local control over eligibility. It can apply to apartments and/or to middle housing, depending on how the city sets the local requirements. It exempts the full value of the residential improvements, but not land value. It is normally limited to a 10-year abatement; however, if there is an affordability agreement in place, the abatement can last as long as the term of the affordability agreement. The City may only exempt its own taxes, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included. (If Washington County agreed to participate in the program, County taxes could also be included in the exemption.)

State statute allows for the MULTE program to be used for existing multiple-unit housing that is or becomes subject to an affordability agreement with a public agency. This means that the City could offer the tax abatement in exchange for signing an agreement with a public agency (such as the Washington County Housing Authority or another affordable housing provider) to regulate rents. Because the statute is flexible about the nature of the affordability agreement, it could be structured to limit the annual increase in rents or to require a reduction based on the value of the tax abatement. The City could require that participating property owners invest in renovations in order to qualify, but this is not required under statute. Possible options include:

- **Rehabilitation emphasis:** Make renovations an eligibility requirement, with a required investment amount that is proportional to (and less than) the value of the tax abatement to the property owner. Require that participating property owners prioritize investments in health and safety improvements first, and then improvements for energy efficiency, universal accessibility, etc. Limit the rate of rent increases for the duration of the tax abatement (e.g., 2% or less). This would not require income qualification.
- **Rent reduction emphasis:** Do not require renovations (except in cases where they are needed for health and life safety) but require that rents be reduced in proportion to the tax abatement, with a limit on the rate of increase year-to-year. This would not necessarily require income qualification.
- **Income-restricted affordability emphasis:** Do not require renovations (except in cases where they are needed for health and life safety) but require that a percentage of the units be made affordable at a specific income level and require income qualification. The share of units to be made affordable and the income level could be set on a property-by-property basis.

Requiring income qualification has some downsides: it creates an administrative burden for the property owner, and some existing residents may not qualify. For enforcement, participating property owners could be required to submit current rent rolls and provide written notice to all

²⁹ ORS 308.450 to ORS 308.481

tenants of the affordability agreement with contact information to report any potential violations. If income qualification was not required, the City could in theory establish affordability contracts directly with property owners. This would require some additional administrative effort, but much less than income certification.

Additional testing of MULTE as an incentive for specific properties and outreach to property owners would be needed as a follow-up step to determine whether it could provide a viable incentive for rehabilitation and stabilization. However, as an initial indication, older apartments in Downtown Hillsboro with few amenities are currently paying roughly \$950 per unit per year in property taxes.³⁰ If 80-90% of this is based on improvement value,³¹ that means an abatement through MULTE could be worth roughly \$760-860 per unit per year (roughly \$60-70 per month per unit), or \$7,600 to \$8,600 per unit over 10 years (in today's dollars, assuming that the 3% annual increase in property value is counteracted by 3% average annual inflation). Whether this would provide a sufficient financial incentive to reduce/stabilize rents or invest in needed property upgrades depends on the property's condition and current rents, but the amount is likely not enough on its own to support rehabilitation if major repairs are needed. This program could potentially be paired with a low-interest loan or grant as described above for projects with more extensive capital needs.

Rehabilitated Residential Property Tax Abatement

This program provides a 10-year property value freeze for rehabilitation of existing units in substandard condition, and for the conversion of transient accommodation or nonresidential structures to permanent residential units, in areas designated by the jurisdiction as "distressed" – residential areas that are deteriorated, lacking proper facilities, or that have vacant or abandoned homes or structures. No more than 20% of the jurisdiction's total land area may be included. For properties subject to affordability restrictions, the freeze can remain in place for the duration of the restrictions. The City may only exempt its own taxes, unless the boards of districts representing at least 51% of combined levy agree to the exemption for a given property, in which case all districts are included.

Structures must be at least 25 years old and not meet local building or housing codes prior to the improvement. The value of the improvements must be at least 50% of the existing assessed value of the property. All housing types are eligible, which would make the program available for single-family (rental or owner-occupied), middle housing, or apartments. This versatility could make it a good choice for areas where much of the lower-cost housing stock is in poor condition but includes a mix of housing types.

This program is more restrictive than the MULTE program and offers less of an incentive because only a portion of the improvement value is exempt. However, because both programs

³⁰ ECONorthwest analysis of CoStar data for apartment properties built before 1992 with more than 12 units, rated as 2 stars by CoStar based on amenities and quality, located in Downtown Hillsboro. CoStar provides 2020 property taxes per unit, which were adjusted to a 2022 estimate.

³¹ Based on Washington County tax assessor records for selected example apartment properties within this set.

require support from overlapping taxing districts in order to apply to more than just the City's taxes, the fact that this program does not decrease the tax base may make it more acceptable to other taxing districts. In addition, the flexibility in housing type and tenure could make it a good fit for certain areas.

Conclusions and Next Steps

Demographic indicators of vulnerability to displacement (low-income households, cost-burdened renters, adults without college degrees, and people of color) all point to an area near Downtown Hillsboro (just east of 10th Avenue) as the area with the greatest vulnerability to displacement. While rents for older apartments in that area have been growing more slowly than the City overall, upcoming investments in the 10th Avenue corridor and ongoing revitalization efforts downtown could increase the potential for repositioning of older properties. The Tanasbourne/Amberglen area stands out for its high concentration of market-rate apartments, including many large apartment complexes where rents have increased dramatically in recent years. However, renters in that area tend to have higher incomes, lower rates of cost-burden, and higher levels of education than those in the Downtown area, which reduces their risk of displacement due to the rising rents and increases the chances that they will find other suitable housing if they do have to move. This suggests that the area near 10th Avenue should be Hillsboro's top priority for preservation efforts and housing stabilization programs.

Local efforts to preserve "naturally occurring affordable housing" are challenging because of the need to intervene in the private market in ways that are beneficial for both the property owner (so that they are willing to participate) and the tenants (so that the preservation efforts succeed in preventing displacement) while protecting the City's interests. This is especially true with the staffing limitations of a city without a housing authority. Still, there are a range of potential interventions the City should consider exploring further, including:

- Grants or loans to support acquisition and rehabilitation by affordable housing providers;
- Grants or loans and/or property tax abatements as incentives to the existing owners for preservation/stabilization; and
- Augmenting existing programs to support low-income homeownership in higher-risk areas.

The City's ability to dedicate flexible, locally-controlled funding and the support of potential partners (e.g., affordable housing providers, other funders, and overlapping taxing districts) will determine which of the available interventions are most appropriate for implementation. Feedback from potential partners and stakeholders will also inform how those programs should be structured.

In the near term, the City should engage with stakeholders and partners to gather feedback on the potential interventions identified in this memorandum. This should include:

- Overlapping taxing districts—particularly Washington County and Hillsboro School District—to gauge support for adopting a tax abatement for preserving affordability of low-cost market-rate apartments.
- Property owners/managers of target properties identified by ECONorthwest’s upcoming analysis to gauge their interest in participating in a preservation program through tax abatements or grants/loans, and whether they would consider selling to an affordable housing provider in the future.
- Washington County Housing Authority, nonprofit affordable housing providers, and other funders to explore program design options for City acquisition and/or preservation grant/loan programs.

Over the coming years, City should also consider how it can dedicate additional local funding to support preservation and housing stabilization efforts, including:

- Identifying an appropriate flexible local funding source (e.g., CET or general fund) to support acquisition and/or preservation grant/loan programs.
- Allocating additional funding to homebuyer assistance and home repair programs for low-income households in areas at higher risk of displacement.