

Accessory Dwelling Units

... a solution to Portland's Housing Affordability Crisis

With some of the fastest-rising rents in the country, this urban region has a severe shortage of affordable units. More local officials are adopting the view that more ADUs could help address this problem.

The ADU model could help solve financial problems for both owners and renters.

The economics of housing are driving owners to consider how to use their lot space more efficiently and generate supplemental rental income.

Presentation by
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Common Ground – Oregon/Washington
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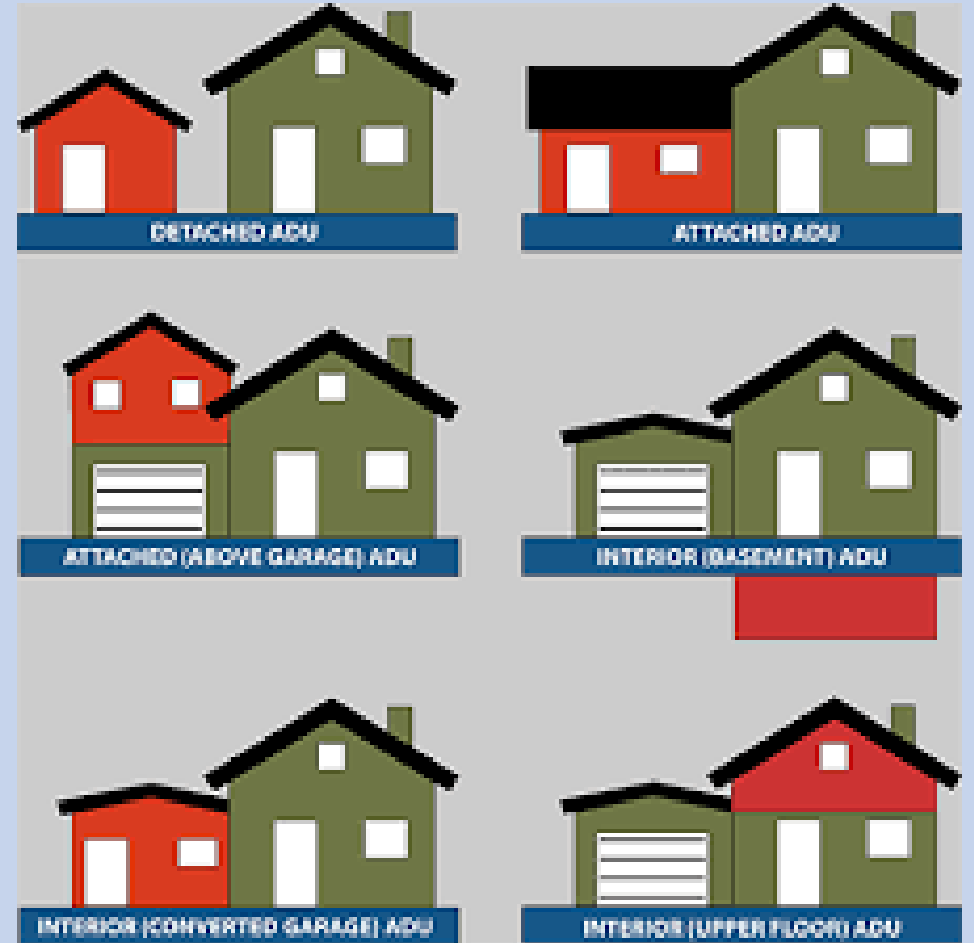
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What are the possibilities for ADUs?

The City of Portland has already created one of the most ADU-friendly policies in the country.



W. Kyrleger's backyard detached ADU, Richmond neighborhood, Portland, OR
(Photo courtesy of Zilim Scott and www.zilimscott.com.)



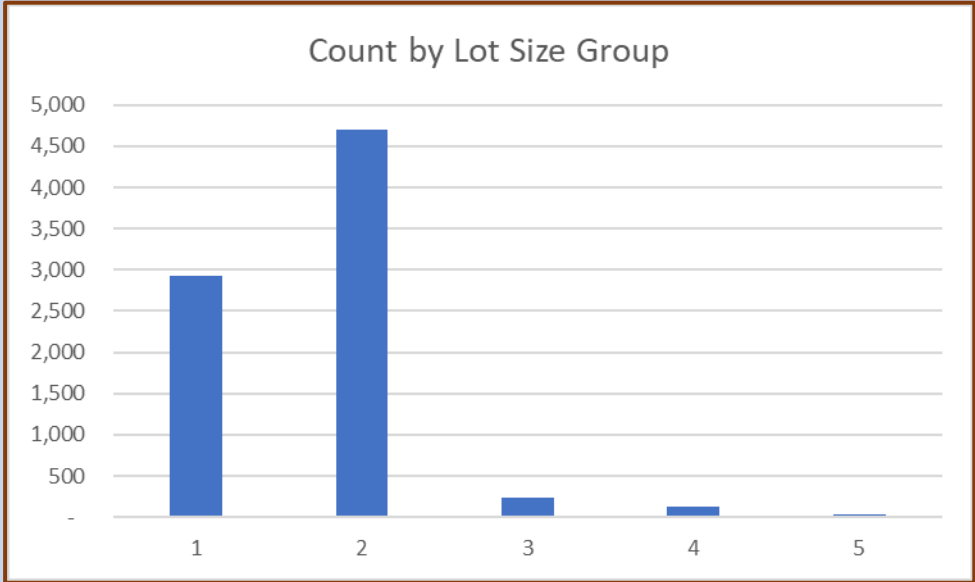
By now, there are over 2,000 ADUs constructed in Portland, situated on two percent of single-family lots

Potential ADU development depends upon lot size

Lot sizes vary by Location

*

Comparing single family developed lots in two Portland neighborhoods

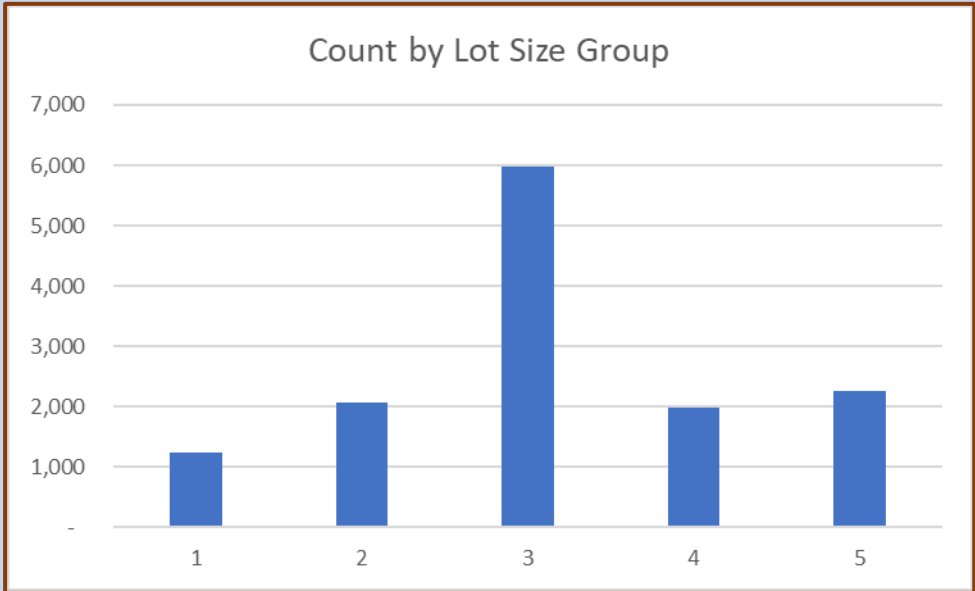


Lot Size Category	Lot Size Parameters
1	< 5000
2	>5000, < 7000
3	>7000, < 9000
4	<9000, <11000
5	>11000, = 27300

Inner Northeast

Average lot size: < 5,000 sq. ft.

Outer Southeast has the greater potential for building ADUs on existing developed single-family lots.



Lot Size Category	Lot Size Parameters
1	< 5000
2	>5000, < 7000
3	>7000, < 9000
4	<9000, <11000
5	>11000, = 344499

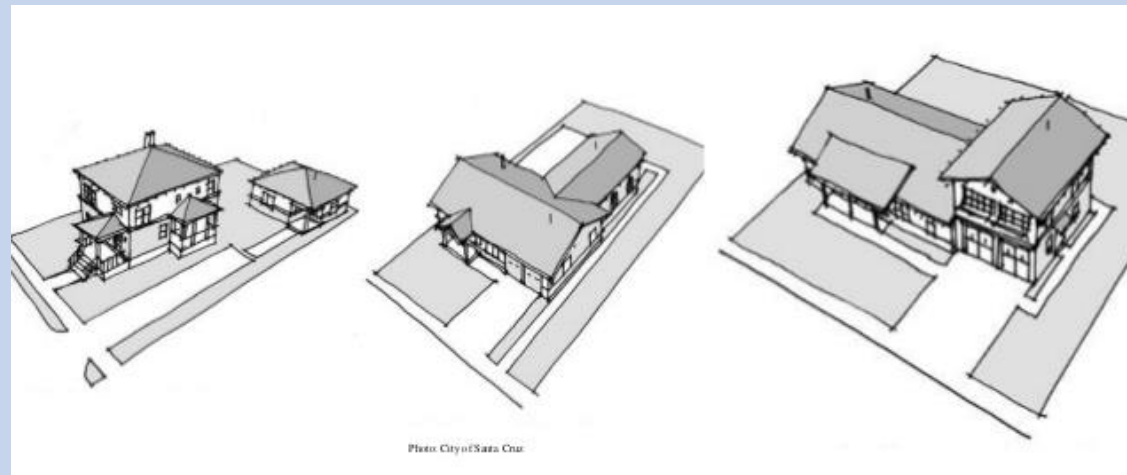
Outer Southeast

Average lot size: > 9,000 sq. ft.

Regulations determine potential for the ADU option

Regulations Governing Accessory Dwelling Units: Chapter 33.205 of the Portland Zoning Code:

- ADUs are allowed on sites zoned Residential
- Maximum ADU size: no more than 75% of the living area of the house, or
- 800 square feet, whichever is less.
- Total ADU building coverage may not exceed 15% of the total lot area.



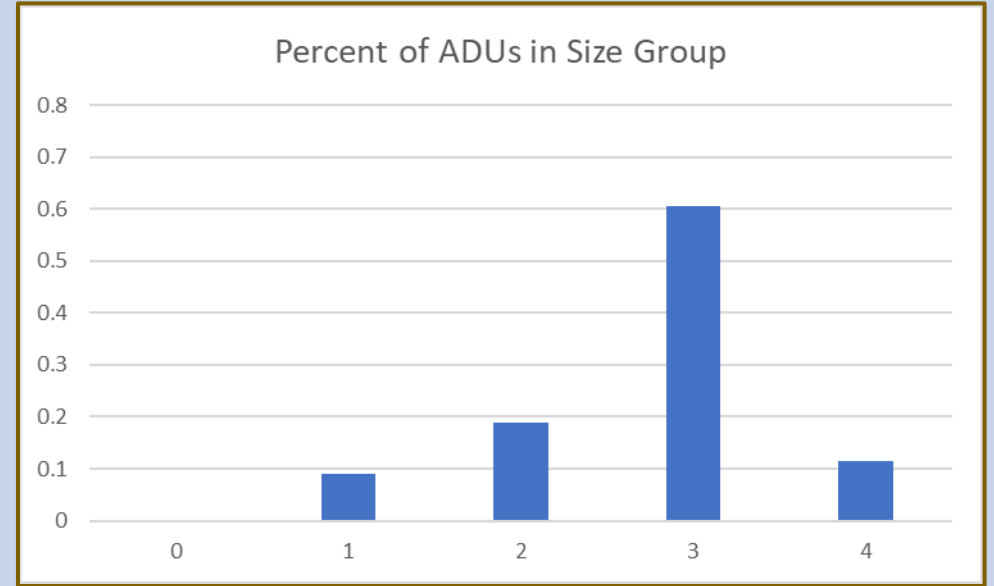
ADU Potential: Size possibilities

ADUs can be classified by size, based on regulated size limits

Allowable ADU Size Group	ADU Group Parameters	Size	Count of ADU Size Group
0	Less than 500 sf		846
1	500 - 599 sf		644
2	600 - 699 sf		1,355
3	700 - 799 sf		4,352
4	800 sf maximum		827

Inner
Northeast

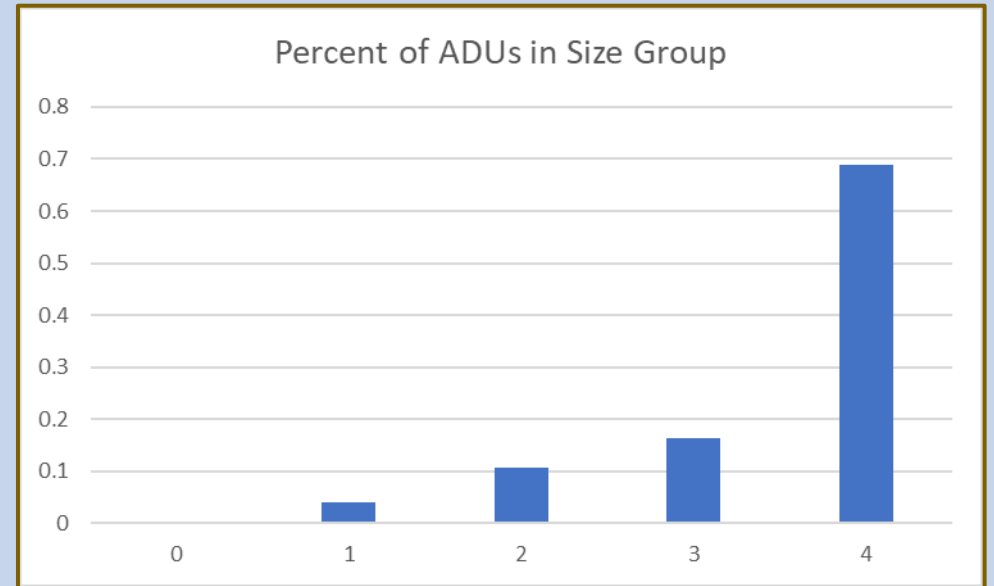
Most allowable ADUs are less than the 800 sq. ft. maximum size.



Allowable ADU Size Group	ADU Group Parameters	Size	Count of ADU Size Group
0	Less than 500 sf		463
1	500 - 599 sf		530
2	600 - 699 sf		1,381
3	700 - 799 sf		2,142
4	800 sf maximum		8,992

Outer
Southeast

Most allowable ADUs meet the 800 sq. ft. maximum size standard.



Model assumptions: All ADU living space is ground floor; minimum standard is 500 sq. ft.

The potential for constructing ADUs is high in Outer Southeast Portland

Average lot area available for ADU construction on single-family sites:

Inner Northeast:

717
sq. ft.

Outer Southeast:

1,377
sq. ft.



89 percent of all developed single-family parcels in Outer Southeast are eligible for building an ADU of standard size or greater...

Estimated Number of Allowable ADUs by Unit Size

Unit Size Group ADU Living Space	Number of ADUs in Size Group	Average of LOT SQ FT	Average of Allowable Lot Area*	Percent ADUs in Size Group
500 - 599 sf	530	7,202	1,080	4%
600 - 699 sf	1,381	7,419	1,113	11%
700 - 799 sf	2,142	7,842	1,176	16%
800 sf maximum	8,992	10,152	1,523	69%

*Average of Allowable Lot Area for ADU Bldg. Coverage

Unequal financial burdens are intensified by Oregon's property tax system

The passage of Measures 5 and 50 in 1997 drastically changed the way property taxes were assessed in Oregon.

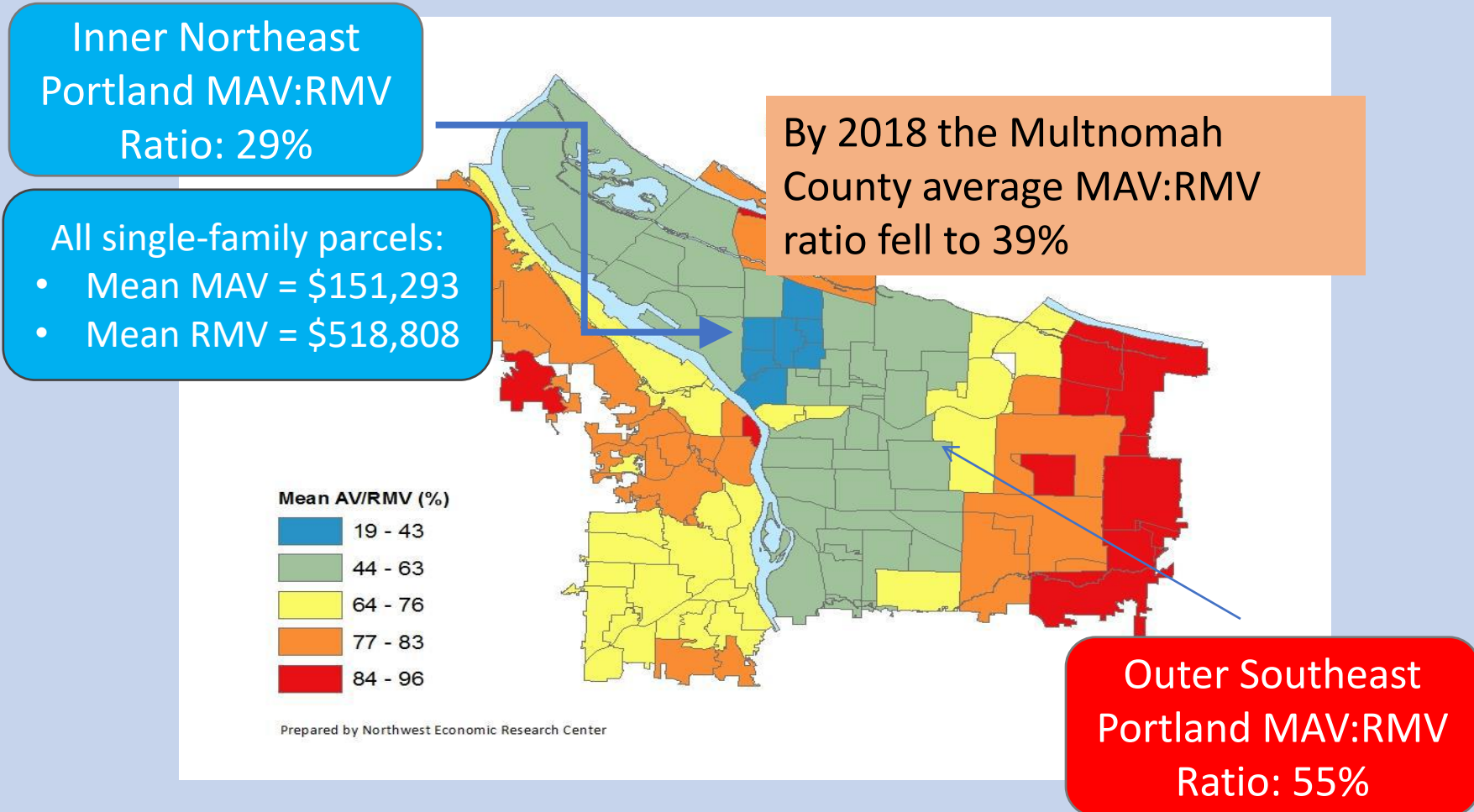
- Measure 5 Limit: Maximum allowable tax = \$15 per thousand of true market value
- Measure 50 Limit: Maximum assessed value = 3% increase per year

Distributional effects of M-50:

- Increasing separation of real market value (RMV) and taxable values (MAV)
- Unequal treatment of taxpayers
- Continuous revenue shortfalls

A Study by the Northwest Economic Research Center at PSU found that by 2019 tax burdens had shifted from high value areas, where land values grew rapidly, to low-income communities where land values grew more slowly. <http://www.pdx.edu/nerc/>

Taxable values lag behind real market values but unequally, resulting in assessment disparities



Result: The property tax on a \$500,000 home in INE is about \$4,700;
an equivalent home in OSE would be billed about \$6,000. 2018-19 tax year

How does the existing property tax affect development decisions?

Taxing land and improvements at the same rate produces perverse incentives – to withhold capital investments in buildings and to hold land for speculative gain

Low taxes



There is no incentive to add improvements to property. Holding land out of production is 'rewarded' by lower taxes



High taxes

If landowners invest their capital in building improvements or redevelop to highest and best use, the "reward" is a jump in the assessment and higher taxes.

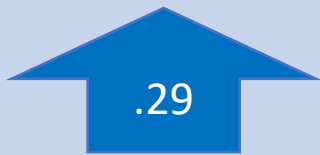
The tax system discourages homeowner investment in ADUs or any major improvements.

How would a reformed property tax affect development decisions?

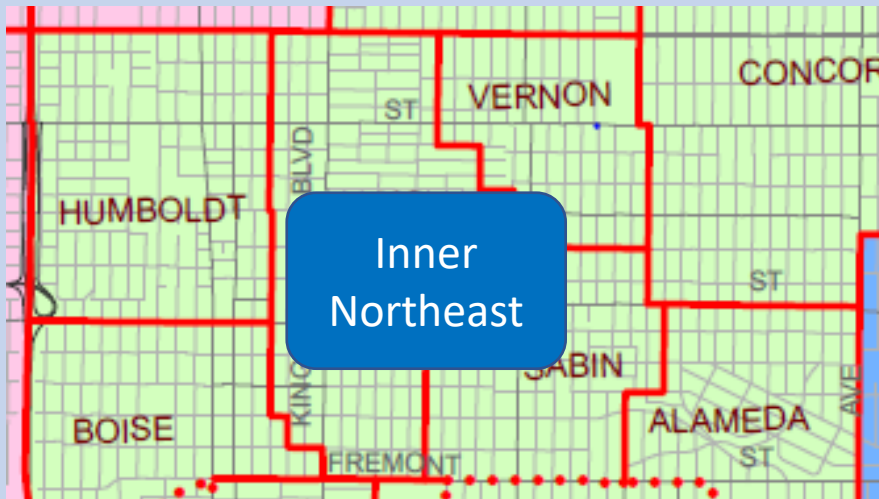
Reforms call for a change from Maximum Assessed Value to Real Market Value

Inner Northeast MAV assessments are far below the county-wide average.

Low ratio



INE can expect a tax increase with a change to RMV assessments.



Step 1

RMV assessments

MAV:RMV ratio in two contrasting communities, and expected tax shift when changing to RMV:

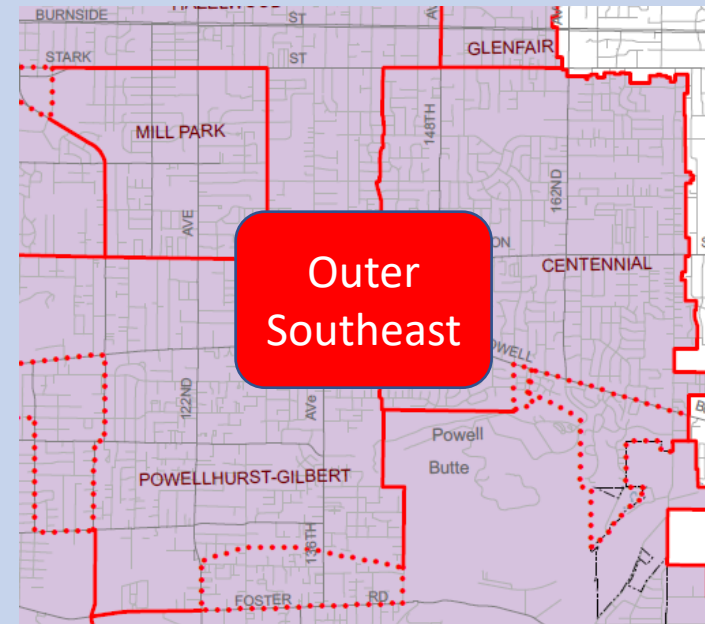
County-wide Ratio: .39

Outer Southeast MAV assessments are closer to RMV.

High ratio



OSE can expect a tax decrease with a change to RMV assessments.



Reforms call for a change from an equal rate tax to a split rate Land Value Tax

Step 2

Land Value Tax

LVT taxes
Land at a high rate
Buildings at a low rate
...using RMV assessments

Under-utilized



Properties with a *high* LTV ratio will experience an UPWARD shift in property tax.

Fully-utilized



Properties with a *low* LTV ratio will experience a DOWNWARD shift in property tax.

The Land-to-Total Value Ratio is a fulcrum for tax shift from a conventional tax to a land value tax.

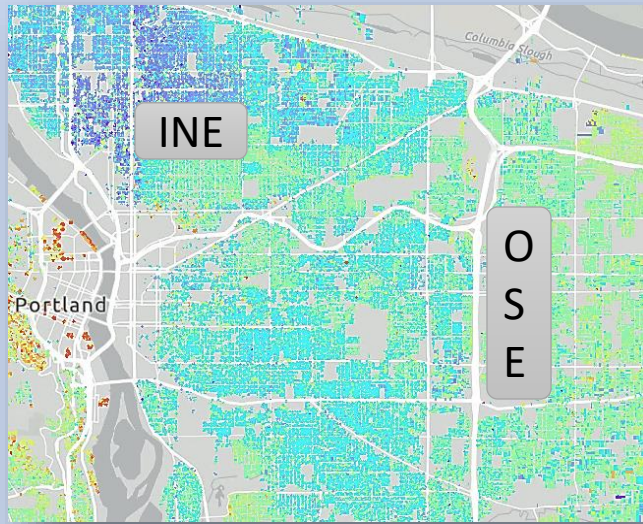
Greater than .395

Less than .395

Multnomah County:
LTV Ratio = .395

Tax shift compares the two tax systems, changing from equal rate MAV to split-rate LVT

Equity and Incentive Effects of LVT in two Portland neighborhoods



Step 1

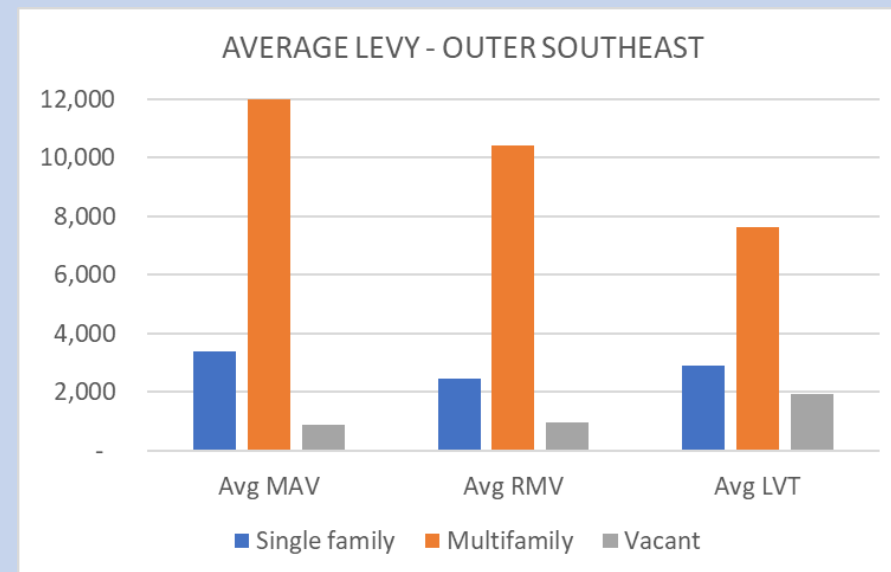
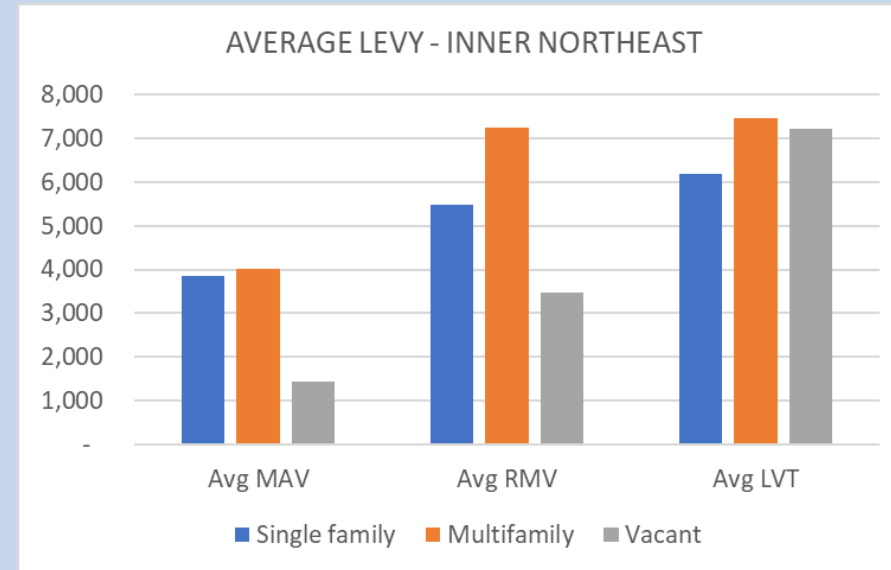
Tax shift is positive in INE when changing to RMV, correcting the horizontal inequity of MAV assessments

Step 2

Higher density land uses (multifamily* in OSE) experience lower tax burden with LVT

Vacant parcels experience a high level of positive tax shift

* Multifamily consists mostly of 2-4 family unit buildings in INE; larger buildings in OSE





Vacant lot

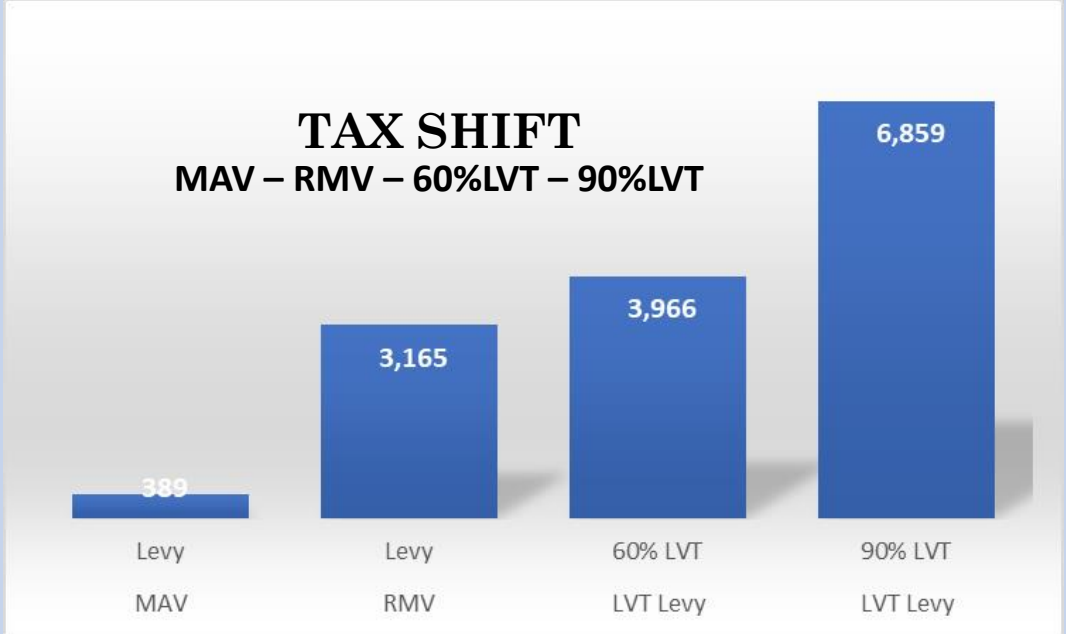
REAL MARKET VALUE
 Land = \$297,770 Improv. = \$0
 L-T-V Ratio: 1.

LVT is incentive taxation:

Land value taxation has been proven to boost construction, increasing the supply of housing.

- Vacant and underutilized parcels will see an upward tax shift when –
- changing from MAV to RMV assessments
 - Changing to 60% of the tax rate on land...
 - to 90% of the tax rate on land.*

*This sample lot is in Inner Northeast where taxable values (MAV) are less than 30% of RMVs.



Converting a problem into a win-win solution

The change to LVT with RMV assessments may overburden some homeowners, especially in Outer Southeast Portland.

Large lot sizes increase to Land-to-Total value ratio.
How can this dilemma be turned into a favorable outcome?

Problems in Outer Southeast:

- Ownership cost burden
- Large residential lot sizes
- Modest residential buildings

Conditions that can be leveraged to solve the problem:

- 1) a surplus of serviced land on large lots;
- 2) the need for income generation to strengthen homeowners' financial solvency;
- 3) the need for more low-income housing units for new renters.

Typical large lot sizes in OSE >



Much of this community was originally developed as semi-rural when lots were platted for septic sewer systems.

A logical response to the problem...

Reverse the negative tax consequence by
investing in building upgrades or new construction



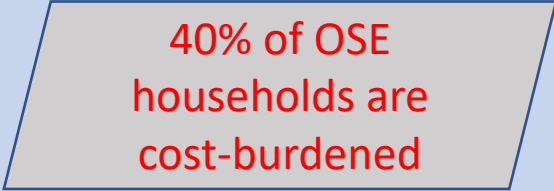
This lowers the Land-to-Total value ratio,
resulting in favorable tax treatment under LVT

The **Accessory Dwelling Unit** model could help solve financial problems for both existing homeowners and new renters.



But financing an accessory housing unit is out of reach for many.

ADU construction costs vary between \$150,000 and \$300,000.



40% of OSE
households are
cost-burdened

ADU-friendly policies:

- Portland City waived development impact fees for ADUs. Still, this is insufficient for lower income owners.
- HB 4015, (2020) authorizes the Housing and Community Services Department to grant moneys to nonprofit organizations for pilot programs for ADU development.

More is needed: a public source of low-interest loan funding for low and moderate-income homeowners applying for ADU permits

Construction financing is needed

Without direct financial assistance, many Outer Southeast households could not participate in this promising solution to the housing crisis,

...simultaneously providing income support to help families remain in their homes,
...retaining their homeownership status,
...and contributing to the increase in the supply of affordable rental housing.

Hence, the need for a public source of loan funding for low and moderate-income homeowners applying for ADU permits.

Construction Loan Assistance Possibilities:

A **BANK OF OREGON** is mandated to serve the public interest. Profits are returned to the state general fund, providing a new source of funds for sustainable development projects such as affordable housing.

A **HOUSING OPPORTUNITY FUND** serves as a custodian bank. It directs the state treasurer to deposit money into the fund. The HOF will partner with local community banks and credit unions to make loans to non-profit organizations and lower income homeowners.

Public banking bills have been introduced in the Oregon Legislature.

See www.commongroundorwa