Portland

2030 Workforce Housing Demand

GPCOG

Greater Portland Council of Governments

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EXECUTIVE SUMMARY

Purpose

In 2002, the City of Portland adopted a Housing Plan with a policy goal to ensure an adequate supply of housing to meet the needs, preferences, and financial capabilities of all Portland households. In order to reach this goal, the City established a target of maintaining Portland's current proportion of subsidized units at 20% of the housing stock. Since the plan's adoption, over 2,000 housing units have been permitted in the city for the construction of apartments, condominiums, and single-family homes. This study examines recent trends in the Portland housing market in order to help policymakers determine what gaps, if any, may exist between what is curently being provided in the market and the city's housing needs.

Methodology

In August of 2014, the City of Portland contacted the Greater Portland Council of Governments to discuss the design of a study to assess progress in meeting the city's housing production goals. Staff conducted a literature review of studies used in other states and presented these approaches to the city for consideration.

- *Massachusetts Approach:* This method, so named for its prevalence amongst cities and towns in the Commonwealth, is based on the goals articulated in a municipality's comprehensive plan. In the future, Portland will capture a certain percentage of the region's population growth. People form households, whose demand can be projected by the current distribution of housing units by tenure and affordability.

- *California Approach*: This technique has been piloted in cities throughout California by the consulting firm of Keyser Marston Associates, Inc. The underlying philosophy is that the construction of market-rate units attracts high income households. Through the purchase of goods and services, these households support low-paid service jobs, which in turn support lesser income households whose needs might best be met by living near where they work.

For purposes of this analysis, "affordable" and "workforce" are used interchangably to refer to housing units that a household earning 100% of the county's median income can afford, assuming they spend no more than 30% of their income for housing. The term "subsidized," which is also confused with "affordable," generally refers to public investment to make housing affordable to households earning up to 80% of the county's median income.

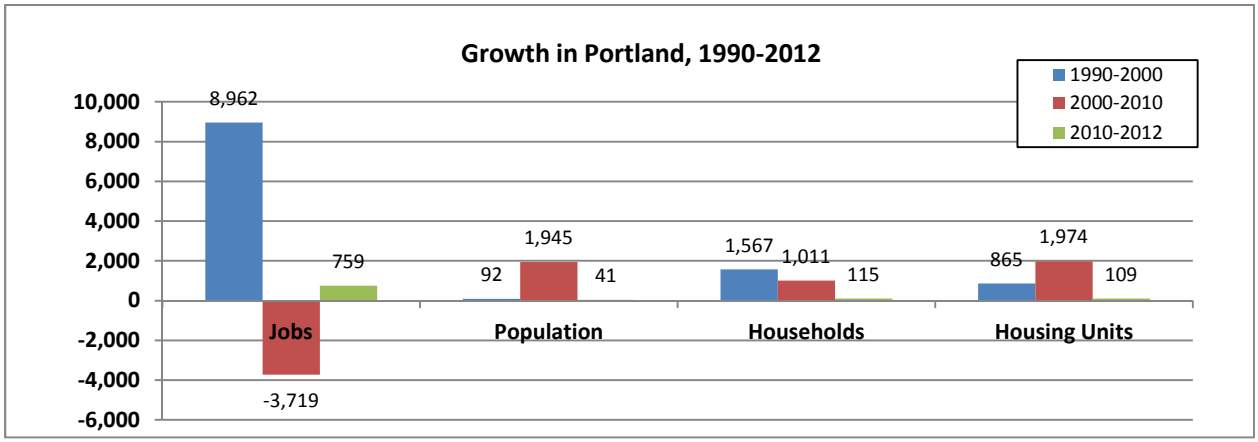
Findings

Sixty-two percent of Portland households earn less than the county's median income, including 38% of homeowners and 81% of renters. Over the last decade, the number of households earning less than median income has increased 10%. While rising incomes have narrowed the affordability of existing homes and apartments, new construction is well beyond the means of the middle class. From 2010 to 2014, 1,130 housing units were permitted and/or built in Portland, including apartments, condominiums and single-family homes. Just 29% were offered at a rent or sales price affordable to a household earning the median income. If robust growth continues, Portland will continue to lose the affordability of its housing stock.

Two approaches were deployed to help policymakers determine what percentage of new construction should be made affordable by policy to increase diversity in the city's housing stock.

- Under the Massachusetts approach, the gap between future demand for workforce housing units and potential supply is 33%.
- Under the California approach, the gap between future demand for workforce housing units and potential supply is 24%.

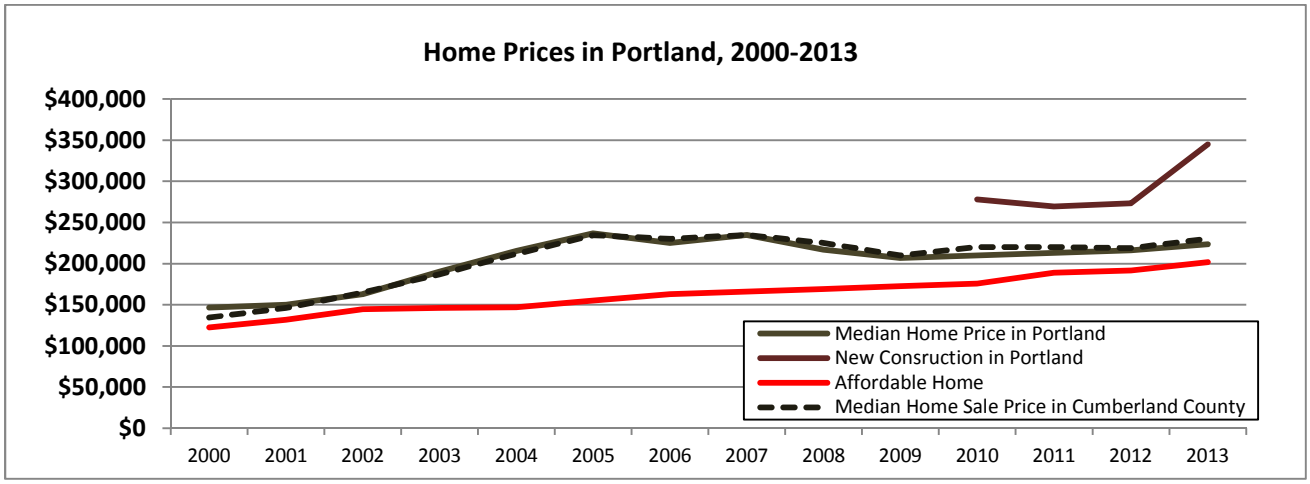
HOUSING MARKET TRENDS



Source: Maine Deparment of Labor, American Community Survey

The economic recession of 1991 ushered in an era of slow growth throughout the nation. In just twelve months, the unemployment rate in Cumberland County soared from 3.7% to a decade high of 7.4%. The sluggish economy led to a lag in home construction. Driven by the dramatic increase in single people living alone, the formation of new households in Portland outstripped the construction of housing units by almost a 2:1 margin. By the late 1990's, the economy rebounded with the "dot com" revolution. Job growth and rising incomes created a pent-up demand for housing that set the stage for the boom of the 2000's.

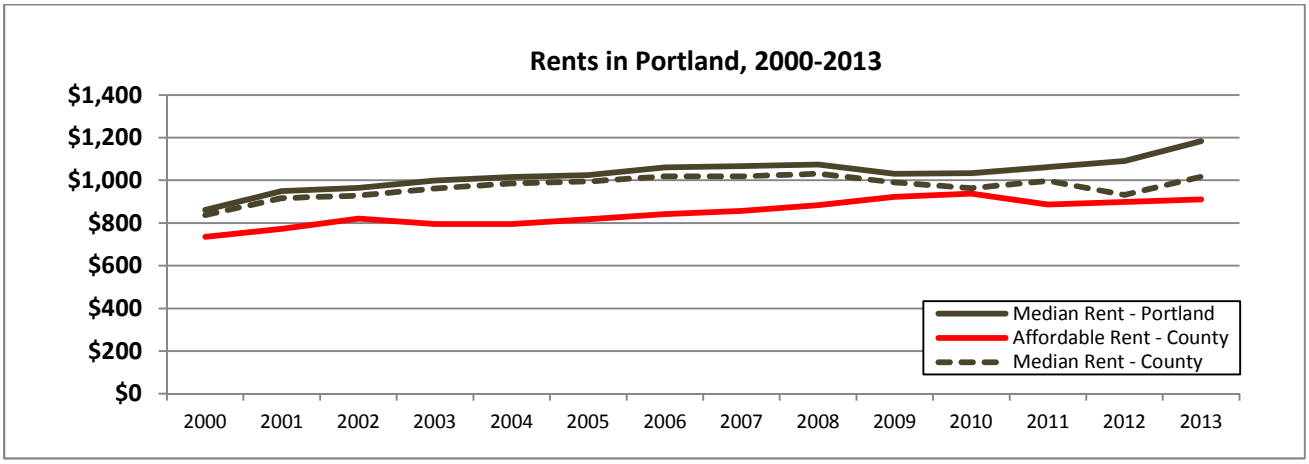
In 2000, the "dot com" bubble burst, triggering another economic downturn. With its relatively small technology sector, Greater Portland weathered the recession better than the rest of New England and the nation. Fueled by the lowest interest rates in 40 years, real estate proved to be a lucrative investment. In Portland, new housing construction outpaced the formation of new households by almost a 2:1 margin. Without real job growth, however, the boom could not be sustained. In 2008, the collapse of the credit market ushered in the greatest economic recession since the Great Depression.



Source: Maine Housing, Portland Assessing Office

Home prices in the region peaked at $235,000 before dropping 12% in 2009. Since then, rising incomes and low interest rates have improved affordability. In 2013, a household in Cumberland County earning the median income of $58,500 could afford a home price of $202,000, while the median home was $223,500. In 2005, the gap

between the median and affordable home price was $68,985. By 2013, the gap had narrowed to $21,500. New construction, however, remains out of reach for all but the wealthiest households. From 2000 to 2014, 282 new condominiums and single-family homes were sold in Portland posting a median price of $313,000, 55% over the affordable price. For example, in 2013, 85 condominiums at the Bay House in Portland's India Street neighborhood sold for a median of $366,350, 64% above the median home price and 81% above the affordable home price.



Source: Maine Housing, Portland Assessing Office

Rents in Portland continue to outpace incomes. In 2013, a household earning the median renter income of $36,438 could afford a rent of $911. The median rent in Portland, however, is $1,183, 30% more than what is affordable. Market rents associated with new construction are even higher. West End Place, a new 39-unit apartment complex at the corner of Brackett and Pine streets, is courting rents at $1,300 to $2,500, 43% to 170% higher than what is affordable.

MASSACHUSETTS APPROACH

Portland's Housing Plan established as a goal to maintain the city's 25% share of the county's population. In order to create enough affordable housing for the future, this share can be applied to the county's future growth projections. The following is a breakdown of the methodology.

1. Establish a long range population forecast at the county level

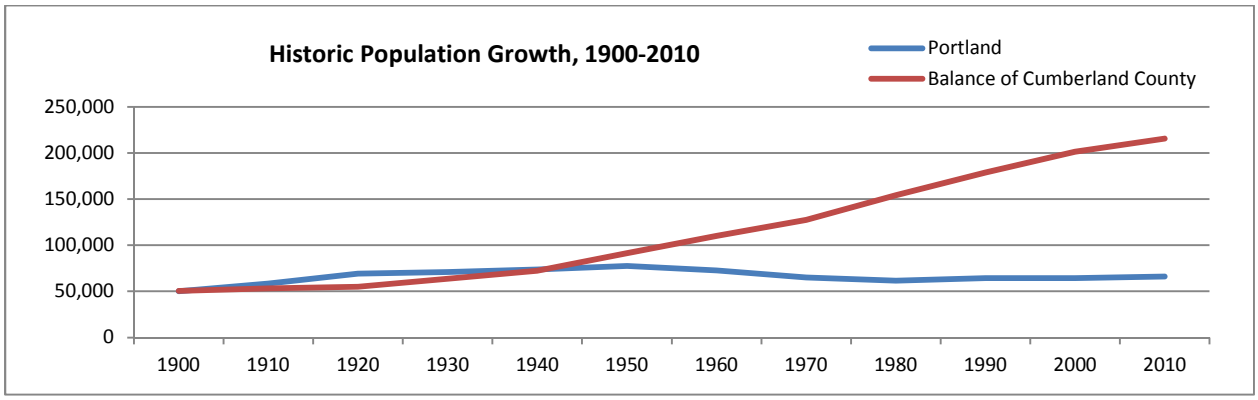
In Maine, there are two sources for population projections at the county level:

State Office of Policy and Management: In 2013, Maine's Economist released the State's 2030 Forecast. These projections assume that fertility of the current population is the primary driver of growth. Future growth is expected to be much slower than the past because Maine has a higher proportion of Baby Boomers, who are past their child-bearing years, along with a high proportion of non-Hispanic Whites, who have the lowest birth rates of any racial or ethnic group. From 2010 to 2030, the State projects that Cumberland County will grow by just 8,427 people, an increase of 1.5% per decade. This data comprises the "Low Growth" forecast.

Center for Business and Economic Research: In 2009, the University of Southern Maine's Muskie School of Public Service prepared a 2035 forecast for the Portland Area Comprehensive Transportation System (PACTS), the Metropolitan Planning Organization for the Portland, Maine Urbanized Area. This forecast, generated through Regional Economic Models, Inc. (REMI), assumes that the economy will drive population growth. From 2010 to 2030, Muskie projects that Cumberland County will grow by 79,924 people, an increase of 14% per decade. This data comprises the "High Growth" forecast.

The "Medium Growth" forecast is the average of the Low and High forecasts. Under this scenario, Cumberland County would grow by 44,176, people, an increase of 8% per decade.

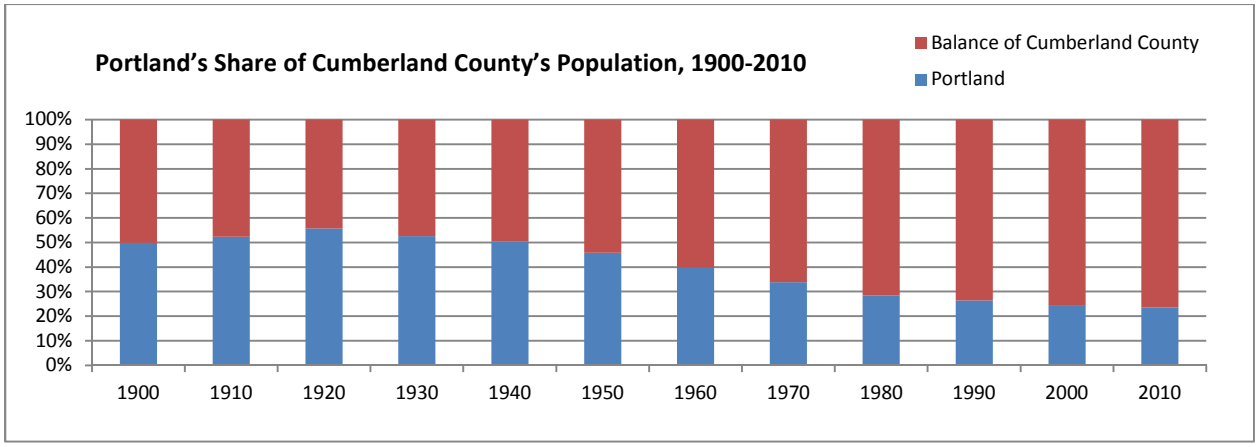
Over the last century, the county's decennial growth rate has ranged from a high of 16% during the 1940's to a low of 5% during the 1960's. Therefore, the Low forecast, at 3% growth, represents a rate lower than in any decade of the last century, while the High forecast, at 14%, is only slightly higher than the pattern of the 1990's. At 8%, the Medium forecast reflects the average growth rate per decade of the past century.



Source: U.S. Census Bureau

2. Assign Portland a 25% share of the county's 2030 population growth

Portland's goal of maintaining a 25% share of the county's population is paramount to its vitality and its influence over state and regional politics. As the largest city in one of the nation's smallest states, Portland exerts an extraordinary influence over Maine's economy out of proportion with its actual size. Indeed, the number of jobs in the city now outstrips population, making Portland the engine of the largest labor market in Northern New England. Over the last century, Portland's share of the county's population has declined from a peak of 56% in 1920 to 24% in 2010. While this share is on a definite downward trajectory, Portland did not yield any ground during the 2000's.



Source: U.S. Census Bureau

Low Growth: To claim a 25% share of the county's population, Portland would need to grow by 6,331 people, or 317 people per year, a growth rate of 4.8% per decade. In order to reach this 25% share, which in 2010 slipped to 24%, Portland would need to claim 75% of the county's future growth. Although this would represent a reversal of the sprawling choices made by residents during the 1970's, 80's and 90's, this trend has already begun in the 2000's. In order to accommodate new residents, Portland would need to build 4,188 housing units, or 210 units

per year over a 20-year period. This modest housing growth is in line with the development patterns of the 2000's, which resulted in the construction of approximately 1,974 units, or 198 units per year.

Medium Growth: To claim a 25% share of the county's population, Portland would need to grow by 15,268 people, or 764 people per year, a growth rate of 11.5% per decade.. This would bring Portland's population to 81,462 people, just past its 1950 peak. In order to reach this 25% share, Portland would need to claim 35% of the county's future growth. In order to accommodate new residents, Portland would need to build 8,636 housing units, or 432 units per year over a 20-year period. This robust growth would be double that witnessed in the 2000's and five times the growth of the 1990's.

High Growth: To claim a 25% share of the county's population, Portland would need to grow by 24,206 people, or 1,211 people per year, a growth rate of 18.3% per decade. In order to reach this 25% share, Portland would need to claim 30% of the county's future growth. In order to accommodate new residents, Portland would need to build 13,084 housing units, or 654 units per year over a 20-year period. In terms of new construction, this represents three times the growth of the 2000's and eight times the growth of the 1990's.

2030 Housing Forecast for Portland

	2010		2030					
			Low Growth		Medium Growth		High Growth	
	Total	Change	Total	Change	Total	Change	Total	Change
Population of Cumberland County	**281,674**	**24%**	**290,101**	**8,427**	**325,850**	**44,176**	**361,598**	**79,924**
Population of Portland	**66,194**	**100.0%**	**72,525**	**6,331**	**81,462**	**15,268**	**90,400**	**24,206**
Population in ownership units	30,317	45.8%	33,217	45.8%	37,310	45.8%	41,403	45.8%
Population in rental units	33,264	50.3%	36,446	50.3%	40,937	50.3%	45,428	50.3%
Population in group quarters	2,613	3.9%	2,863	3.9%	3,216	3.9%	3,569	3.9%
Households	**30,725**		**34,945**	**4,220**	**39,252**	**8,527**	**43,558**	**12,833**
Population in households	63,581	96.1%	69,662	96.1%	78,247	96.1%	86,831	96.1%
Average household size	2.07		1.99		1.99		1.99	
Ownership	2.31		2.23		2.23		2.23	
Rental	1.89		1.82		1.82		1.82	
Housing Units	**31,908**		**36,096**	**4,188**	**40,544**	**8,636**	**44,992**	**13,084**
Ownership	13,321	41.7%	15,077	1,756	16,935	3,614	18,792	5,472
Occupied	13,124	98.5%	14,927	99.0%	16,767	99.0%	18,606	99.0%
Vacant	197	1.5%	149	1.0%	168	1.0%	186	1.0%

Source: Prepared by the Greater Portland Council of Governments based on the 2010 Census and County Population Forecasts from the State Office of Policy and Management and the Center for Business and Economic Research

3. Breakout Portland Forecast by Household Income and Tenure

Owners: As of 2011, 38% of Portland's 13,845 homeowners earned less than the county's median income. This is unchanged from the 2000 Census. Approximately 28% of homeowners are considered to be of low to moderate income because they earn 80% or less of the county's median income. This is slightly lower than in 2000. The U.S. Department of Housing and Urban Development classifies households earning less than 80% as follows:

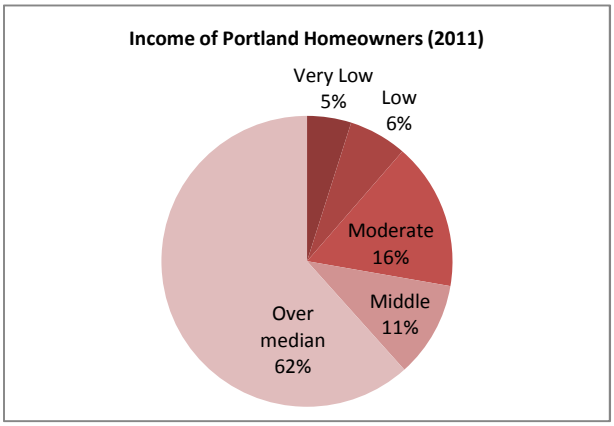
- Less than 30%: *Very low income*
- 30%-50%: *Low income*
- 50%-80%: *Moderate income*

For this analysis, middle income refers to those households earning from 80%-100% of median income. From 2000-2011, the greatest change was in the number of these middle income households, which increased by 52%.

Income of Owners in Portland, 2000-2011

	2000		2011			
	Households	%	Households	%	Net	%
Very Low	605	5%	680	5%	75	12%
Low	1,020	8%	895	6%	-125	-12%
Moderate	2,240	18%	2,265	16%	25	1%
Middle	970	8%	1,470	11%	500	52%
Over Median	7,865	62%	8,535	62%	670	9%
Total	**12,605**	**100%**	**13,845**	**100%**	**1,240**	10%
Low to Moderate	**3,865**	**31%**	**3,840**	**28%**	**-25**	-1%
Under Median	**4,835**	**38%**	**5,310**	**38%**	**475**	10%

Source: Special tabulation by the U.S. Department of Housing and Urban Development based on the 2007-2011 American Community Survey

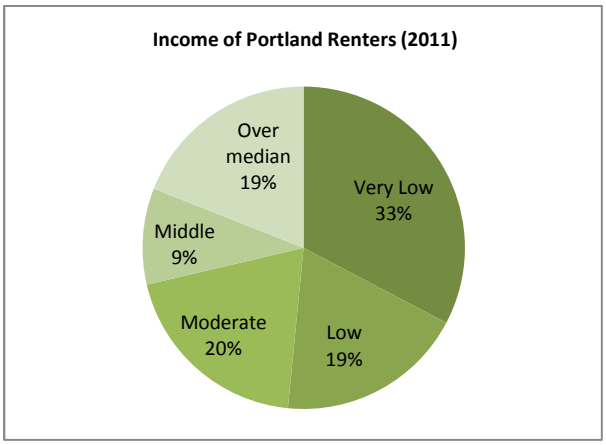


Renters: As of 2011, 81% of Portland's 17,260 renters earned less than the county's median income. Approximately 71% of renters are considered to be of low to moderate income. From 2000-2011, the greatest change was in the number of very low income households, which increased by 30%.

Income of Renters in Portland, 2000-2011

	2000		2011			
	Households	%	Households	%	Net	%
Very Low	4,330	26%	5,630	33%	1,300	30%
Low	2,755	17%	3,260	19%	505	18%
Moderate	4,165	25%	3,415	20%	-750	-18%
Middle	1,415	9%	1,665	10%	250	18%
Over Median	3,700	23%	3,290	19%	-410	-11%
Total	**16,365**	**100%**	**17,260**	**100%**	**895**	5%
Low to Moderate	**11,250**	**69%**	**12,305**	**71%**	**1,055**	9%
Under Median	**12,665**	**77%**	**13,970**	**81%**	**1,305**	10%

Source: Special tabulation by the U.S. Department of Housing and Urban Development based on the 2007-2011 American Community Survey

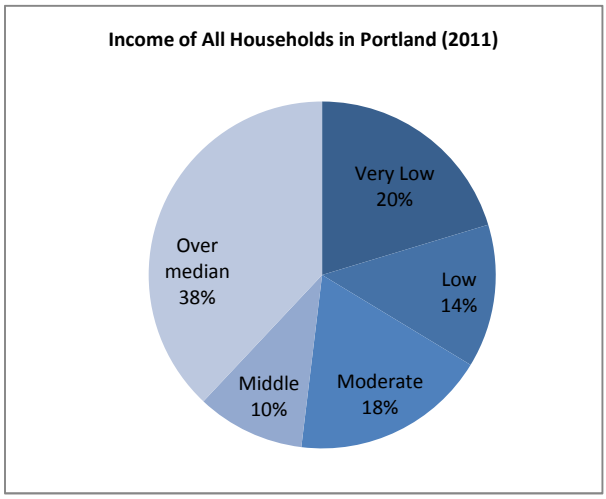


All households. As of 2011, 62% of Portland's 31,105 households earned less than the county's median income. Approximately 52% of all households are considered to be of low to moderate income. From 2000-2011, the greatest change was in the number of very low income households, which increased by 28%.

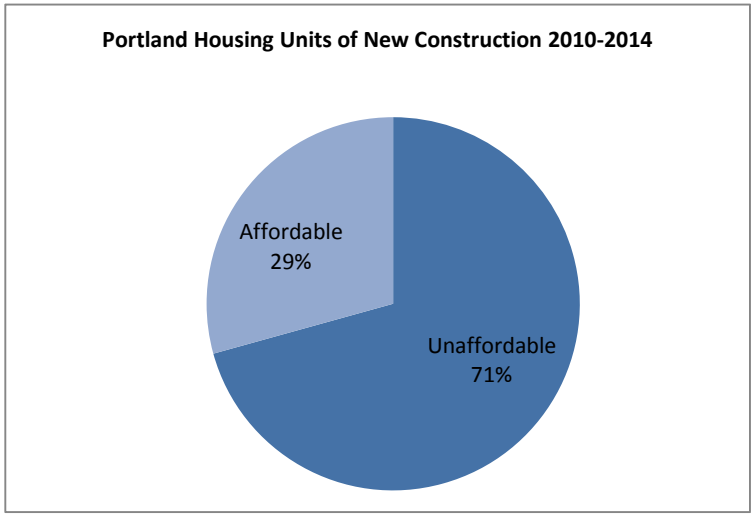
Income of All Households in Portland, 2000-2011

	2000		2011			
	Households	%	Households	%	Net	%
Very Low	4,935	17%	6,310	20%	1,375	28%
Low	3,775	13%	4,155	13%	380	10%
Moderate	6,405	22%	5,680	18%	-725	-11%
Middle	2,385	8%	3,135	10%	750	31%
Over Medium	11,565	40%	11,825	38%	260	2%
Total	**29,065**	**100%**	**31,105**	**100%**	**2,040**	7%
Low to Moderate	**15,115**	**52%**	**16,145**	**52%**	**1,030**	7%
Under median	**17,500**	**60%**	**19,280**	**62%**	**1,780**	10%

Source: Special tabulation by the U.S. Department of Housing and Urban Development based on the 2007-2011 American Community Survey



4. Calculate Gap between Current Production Trends and Future Demand



While the median price of new construction is beyond the reach of the middle class, some proportion of new homes is affordable. From 2010-2014, 384 new condominiums and single-family homes were permitted in Portland. The percentage of units sold or marketed for sale at an affordable price was 7%. During the same period, 746 new rental units were permitted. The percentage of units marketed for rent at an affordable price was 41%. Overall, 29% of new housing units permitted from 2010-2014 were offered to the market at a price affordable to a household earning 100% of median income.

Approximately 62% of Portland households earn less than the county's median income. If recent construction trends hold, the market, without compulsion, will build affordable units to meet 29% of demand. This leaves a gap between supply and demand of 33%.

Supply and Demand for Housing Affordable to Households at 100% of Median Income

		Low Growth	Medium Growth	High Growth
Housing Units	**Percent of Market**	**4,188**	**8,636**	**13,084**
Projected 2030 Demand	62%	2,597	5,354	8,112
Projected 2030 Supply	29%	1,215	2,504	3,794
Gap	**33%**	**1,382**	**2,850**	**4,318**

CALIFORNIA APPROACH

This method is based on the underlying theory that the construction of market-rate units attracts high income households. Through the purchase of goods and services, these households support low-paid service jobs, which in turn support lesser income households whose needs might best be met by living near where they work. The following is a breakdown of the methodology.

1. Calculate the income of market-rate households

A household must earn approximately $90,000 to afford the market price of a newly constructed home ($313,000) or rental unit ($2,500 per month), presuming it spends no more than 30% of its income for housing. This percentage is consistent with mortgage underwriting practice, traditional credit analysis, and housing policy.

2. Quantify the collective purchasing power of market-rate households

The National Consumer Expenditure Survey was used to calculate the disposable income of market rate households. A typical household in the Northeast spends the largest chunk of its income, 28%, on housing, including mortgage, insurance, and property taxes as well as home maintenance and furnishings. At 17%, the second largest category is transportation, including vehicle payments, registration, maintenance, and fuel. The third largest expenditure, 14%, is food, which includes meals eaten at restaurants as well as produce, meat, dairy, and other products purchased at supermarkets and eaten at home. Other categories include insurance, utilities,

health care, entertainment, education, and apparel. Once taxes and housing costs are eliminated, the market-rate household has $45,900 in disposable income accounting for 51% of gross household income. One hundred market-rate households would have a collective purchasing power of $4,590,000.

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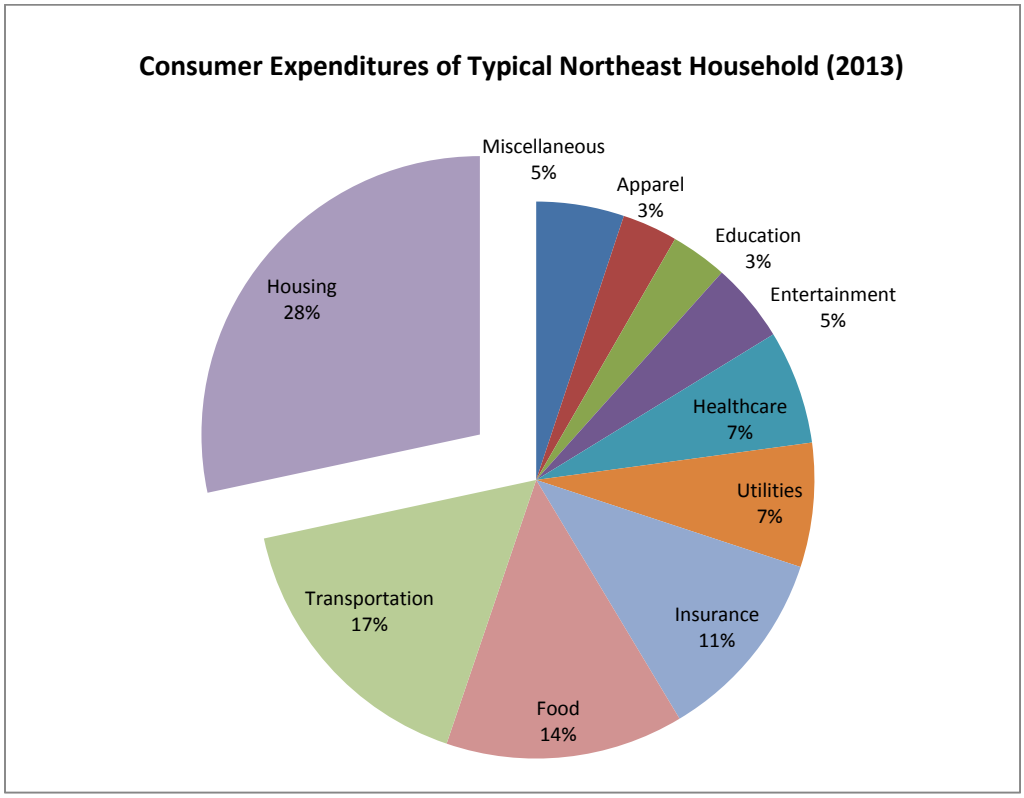
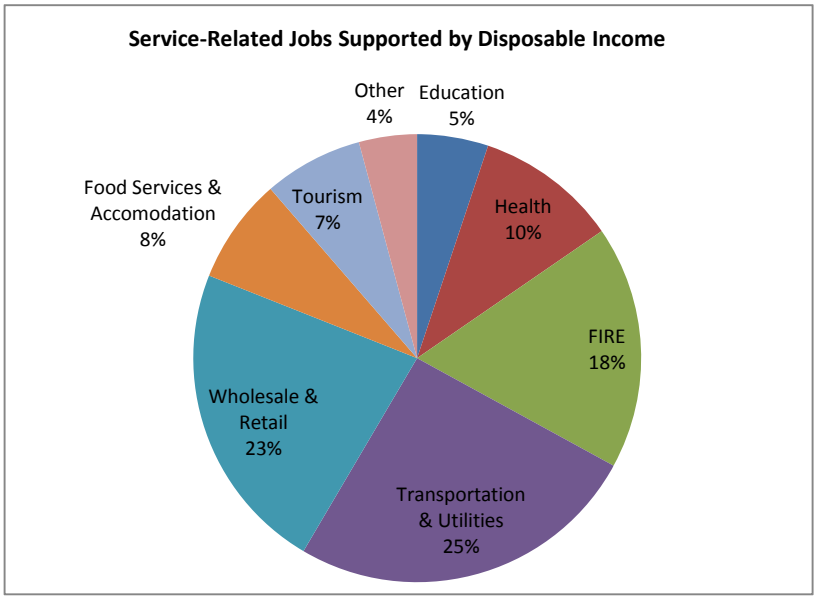


3. Translate collecting purchasing power to jobs



Estimates were made to correlate household spending by category with service jobs by industry sector. Jobs generated by mortgage and rent payments were excluded from analysis. The goods-producing sector, which includes jobs in agriculture, fisheries, forestry, mining, construction, and manufacturing, was also excluded. Thus, while food purchased at the supermarket may be grown in the field and processed in a factory, only the retail jobs supported by household spending are counted. Food eaten at home, for example, was assigned to the Wholesale and Retail sector, while meals eaten away from home were assigned to the Accommodation and Food Services sector. Similarly, income paid to utilities was assigned to Transportation and Utilities.

4. Calculate the economic impact of job creation

The disposable income of 100 households purchasing market-rate homes in Portland would generate an economic impact of 121 jobs, $4.8 million wages, $13.4 million in GDP, and $20.9 million in total output, which is broken down on the following chart. Each job has an average income of $40,020.

Economic Impact of 100 Households Purchasing Market Rate Ownership Units

	Employment	Earnings	GDP	Output
Direct	80	$3,336,816	$9,984,358	$15,617,667
Indirect + Induced	41	$1,505,576	$3,382,239	$5,309,542
Total	**121**	**$4,842,392**	**$13,366,597**	**$20,927,209**

Outputs were generated from the 2011 version of the *Connect Northern New England Economic Scenario Model* developed by Vital Economy and FairPoint Communications. Outputs were adjusted for inflation to 2014 dollars. The model is designed to provide order of magnitude estimates of economic impact resulting from the gain or loss of jobs, including the following:

- **Direct Employment**: Employment attributed to a particular business, activity or industry.
- **Indirect Employment**: Employment in down-stream industries that supply or provide services to the direct business, activity or industry.
- **Induced Employment**: Employment generated because of expenditures made by individuals employed directly or indirectly by the particular business, activity or industry.
- **Earnings**: Sum of wage and salary disbursements, supplements, and proprietors' income.
- **GDP**: Total market value of all final goods and services produced in the region.
- **Output**: Total economic output of a firm, industry, or economy without deducting intermediate inputs such as goods and services consumed by industries in the production of other final goods and services.

The Economic Scenario Model derives its data from the U.S. Bureau of Economic Analysis (BEA), which produces detailed data on economic activity by region and state. In order to calculate the indirect and induced effects on employment, earnings, output, and GDP, the Model uses BEA RIMS II multipliers, which are based on estimates of local area personal income and on the national input-output accounts.

5. Calculate the number of median households supported by new jobs

Cumberland County's labor force is comprised of 167,365 workers age 16 and over. In the 2010 Census, 117,339 households were recorded in the county. Thus, there are 1.43 households for every job in the region. The disposable income from 100 new market rate households generates 121 jobs in the local economy, which can support 85 workforce households. The number of workforce households is multiplied by 62%, which is the percentage of Portland households earning less than the county's median income. The result, 53%, is the percentage of workforce housing demand generated by these 100 market-rate units. If the market, in keeping with current production patterns, supplies 29 affordable units for every 100 built, there would still be an unmet gap for 24 affordable units.

Median Housing Demand Generated by Market Rate Households

Jobs per Household	1.43
Median income households in Portland	62%
Total jobs generated by 100 market-rate households	121
Households supported by jobs	85
Affordable housing demand generated per job	53%
Potential market supply of affordable units	29%
Gap	**24%**

AFFORDABILITY OF CURRENT HOUSING STOCK

Rental Units

While recent trends demonstrate that new construction is increasingly unaffordable, there are still thousands of existing housing units in Portland that are affordable due to condition, size, turnover and other factors. Thanks to a special Census tabulation prepared by HUD, the chart below outlines the income of households who were living in these affordable units in 2011. In 2011, the HUD Area Median Family Income (HAMFI) for the Portland area was $72,300. HUD's basic affordability assumption is that rent should consume no more than 30% of a household's gross income.

There are several important issues left answered by the data. Because respondents to the households are the renters themselves and not the landlords, it is impossible to determine the following: 1) which units are located in a housing project where rents are subsidized; 2) whether the rent reported is the actual rent charged to the tenant or the rent paid by a tenant minus a Section 8 voucher; and 3) what the rent would be if the unit were available to the marketplace. For example, certain housing units might be rented by family members of the landlord, who would charge a higher rent to the general public. Also, many landlords purposefully keep rents low for longtime tenants in order to avoid turnover. Turnover often commands higher rents, particularly if renovations occur during the vacancy.

Of the city's 17,585 rental units, 90%, or 15,800, are offered at rents affordable to households earning up to 80% of the region's median income. At first glance, these numbers seem to indicate that there is no affordable housing problem in the rental market. The reality, however, is that there is a mismatch between income and availability because renters do not seek to maximize their incomes on rent. While many households seek to buy "more house" than they need, renters tend to seek out the best bargain for their preferred location and/or the smallest unit that they can squeeze into. Some renters want to spend as little as possible so that they can save money for a home. Other renters may not compete well for housing in the private market against higher income renters with more stable jobs, incomes, and credit ratings. Another problem is size. Virtually half of the city's affordable rental units are studios, efficiencies, and one-bedroom apartments. Families are hard pressed to find large units at rents they can afford.

Rent Affordable to Very Low Income Households Earning <= 30% of Median Income - These are units with a gross rent affordable to households at or below 30% HAMFI. Of the 3,390 rental units offered at this rent level, 92% are occupied by households earning up to 100% HAMFI. Judging by the vacancy rate, competition is stiffest for units with three or more bedrooms.

Rent Affordable to Low Income Households Earning >30 to <=50% of Median Income - These are units with a gross rent affordable to households earning 30% to 50% of HAMFI. Of the 2,490 rental units offered at this level, 86% are occupied by households earning up to 100% HAMFI. Judging by the vacancy rate of 0%, competition is stiffest for units with three or more bedrooms.

Rent Affordable to Moderate Income Households Earning >50 to <=80% of Median Income - These are units with a gross rent affordable to households earning 50% to 80% of HAMFI. Of the 9,145 rental units offered at this price range, 74% are occupied by households earning up to 100% of HAMFI. Vacancy is tightest in this price range.

Rent Affordable to Households Earning >80% of Median Income - These are units with a gross rent affordable to households with incomes above 80% of HAMFI. Of the 1,790 units offered at this rent level, 47% are occupied by households earning up to 100% of HAMFI. At 12.1%, the vacancy rate is highest amongst 3-bedroom units.

Name of Jurisdiction: Portland, Maine	Source of Data: 2007-2011 CHAS databook			
	Rental Units by # of bedrooms			
Rental Units by Affordability	0-1	2	3+	Total
Units with gross rent affordable to a household earning 30% HAMFI				
Household income 30% or less	1,320	480	425	2,225
Household income 30.1%-50%	365	100	205	670
Household income 50.1%-80%	80	65	60	205
Household income 80.1%-100%	15	0	0	15
Household income over 100%	10	10	95	110
Total occupied units	1,790	655	785	3,225
Vacant for Rent	80	60	25	165
Vacancy Rate	4.3%	8.4%	3.1%	4.9%
Units with gross rent affordable to 50% HAMFI				
Household income 30% or less	470	155	75	700
Household income 30.1%-50%	350	385	150	885
Household income 50.1%-80%	300	305	80	680
Household income 80.1%-100%	165	55	0	225
Household income over 100%	85	170	45	295
Total occupied units	1,370	1,070	350	2,790
Vacant for Rent	90	25	0	115
Vacancy Rate	6.2%	2.3%	0.0%	4.0%
Units with gross rent affordable to 80% HAMFI				
Household income 30% or less	1,270	695	410	2,375
Household income 30.1%-50%	660	600	115	1,375
Household income 50.1%-80%	915	945	310	2,165
Household income 80.1%-100%	530	405	220	1,155
Household income over 100%	720	920	435	2,075
Total occupied units	4,095	3,565	1,490	9,145
Vacant for Rent	170	135	55	360
Vacancy Rate	4.0%	3.6%	3.6%	3.8%
Units with gross rent affordable to household earning over 80% HAMFI				
Household income 30% or less	85	120	25	230
Household income 30.1%-50%	50	45	70	170
Household income 50.1%-80%	75	140	50	265
Household income 80.1%-100%	80	70	35	185
Household income over 100%	190	280	330	800
Total occupied units	480	655	510	1,650
Vacant for Rent	25	50	70	140
Vacancy Rate	5.0%	7.1%	12.1%	7.8%
Total Occupied	**7,735**	**5,945**	**3,135**	**16,805**
Number vacant for rent	**365**	**270**	**150**	**780**
Vacancy Rate	**4.5%**	**4.3%**	**4.6%**	**4.4%**
Units affordable to households earning up to 80% of AMI	**7,595**	**5,510**	**2,705**	**15,800**
Percent of housing stock that is affordable	**94%**	**89%**	**82%**	**90%**

Home Ownership Units

In 2011, 66% of existing homes, or 6,895 units, were affordable to households earning 100% of the region's median household income. Thanks to a special tabulation of the American Community Survey, the chart on the next page illustrates the income of households who were living in these affordable units in 2011.

The data should be used with caution. Unlike rents which can rise and fall with the economy, most homeowners lock themselves into a 30-year mortgage with a fixed interest rate. Except for fluctuations in taxes and insurance, they make the same monthly mortgage for the life of the loan. The Census asks homeowners to estimate what they think their home is worth. Some homeowners may consult their tax bill while others find out the selling prices earned by neighbors. Still others simply make a guess. Because this value does not necessarily align with the price the home would sell for if it was listed on the market, it is substantially different from the market data used earlier in this report, which was provided by Maine Housing and the City Assessor based on actual sales of new and existing homes. While it may be unreliable, particularly in light of the boom and bust of the housing market, it is the best source of data for determining who lives in the region's affordable ownership stock, including condominiums, ranches, capes and bungalows. Mobile homes, boats, and recreational vehicles are not included in the data.

Another caution is that the data is not indicative of cost burden. For example, in 2011, there were 555 homes with a value affordable to households earning over 100% of median income that were occupied by households earning 50% or less of median income. This does not mean that the home is unaffordable to them. Certainly a large percentage of homeowners have owned their homes for a very long time: while initially the mortgage payment may have been more than 30% of their income, as wages rise, mortgage payments gradually decline as a percentage of household income. Some low income owners, such as senior citizens, have paid off their mortgage completely, leaving them "house-rich" but "cash-poor."

To determine the maximum home value affordable to households by income, HUD utilized a series of assumptions: a 31% monthly payment standard, a 4.5% down payment, a 5.5% interest rate, a 1.75% upfront insurance premium, a .55% annual insurance premium, and 2% for annual taxes and insurance. Based on these assumptions, HUD's estimated value to income ratio for an affordable home is 3.36, i.e., a household can afford a home costing no more than 3.36 times its income. In 2011, the HUD Area Median Family Income (HAMFI) for the Portland area was $72,300. A household earning this median income could afford a home price up to $242,928, which is 22% than Maine Housing's estimate for the same base year. The reason for this discrepancy is a different definition of median income. HAMFI, the reference point for the HUD data, is scaled to a family of four. Maine Housing's estimate, however, encompasses for all households, including single people living alone. Thus, while the HAMFI for the Portland area was $72,300, Maine Housing's estimate for the same year was $54,944, and for the American Community Survey, it was $57,267.

Value Affordable to Low Income Households Earning 50% of Median Income – The value of these homes are less than or equal to the maximum amount that would be affordable to a household earning 50% of median family income, or $36,150. Under HUD's financing assumptions, such a family could afford a home of no more than $122,000. There were 540 occupied units with a value in this range: 75% were occupied by households earning 100% or less of median income. There were 100 vacant homes at this value accounting for a vacancy rate of 15.6%. Such a high rate is indicative of foreclosure and/or deferred maintenance.

Value Affordable to Moderate Income Households 80% of Median Income - A household earning 50.1-80% HAMFI, or $36,151-$57,840, could afford a home of $122,000-$194,000. There were 3,080 occupied units with a value in this range: 54% were occupied by households earning up to 100% HAMFI. While homes in this price range might be small, suffer from deferred maintenance, and/or be located in high traffic areas, the tight vacancy rate of 0.5% indicates they are in high demand.

Value Affordable to Households Earning 100% of Median Income - A household earning 80.1%-100% of median income, or $57,841-$72,300, could afford a home of $194,000-$243,000. There were 3,125 occupied units with a

value in this range: 39% were occupied by households earning up to 100% HAMFI. These homes might in good condition and in desirable neighborhoods, but lack high value amenities, such as a water view, two-car garage, and/or historic character. Vacancy is lowest among homes with 0-2 bedrooms.

Value Affordable to Households Earning over 100% of Median Income – These homes, worth over $243,000, exceed affordability for a household earning 100% of HAMFI, or $72,300. There are 7,005 occupied units with a value in this range: 28% are occupied by households earning up to 100% HAMFI. At 3.9%, the vacancy rate is highest among homes with 0-1 bedrooms, which are probably condominiums.

Name of Jurisdiction: Portland, Maine			Source of Data: 2007-2011 CHAS databook						
	With a mortgage				Without a mortgage				
Homes by Affordability	Homes by # of bedrooms				Homes by # of bedrooms				
Occupancy by Income	0-1	2	3+	Total	0-1	2	3+	Total	Total
Units with a value less than $122,000 (affordable to a household earning 50% area median family income)									
Household income 30% or less	0	15	4	20	0	10	40	55	75
Household income 30.1%-50%	0	0	35	35	0	20	20	40	75
Household income 50.1%-80%	0	10	55	65	0	25	50	75	140
Household income 80.1%-100%	0	10	90	100	0	0	15	15	115
Household income over 100%	0	0	80	80	0	0	50	50	130
Total occupied units	0	35	264	305	0	55	175	235	540
Vacant for Sale	25	45	25	100					
Vacancy Rate	100.0%	33.3%	5.4%	15.6%					
Units worth $122,000-$194,000 (affordable to a household earning 50.1-80% of area median family income)									
Household income 30% or less	0	95	25	120	0	0	55	55	175
Household income 30.1%-50%	0	50	115	165	10	100	50	160	325
Household income 50.1%-80%	20	105	245	370	0	115	190	300	670
Household income 80.1%-100%	0	175	235	405	0	40	65	110	515
Household income over 100%	40	250	810	1,100	0	65	225	290	1,390
Total occupied units	60	675	1,430	2,165	10	320	585	915	3,080
Vacant for Sale	0	15	0	15					
Vacancy Rate	0.0%	1.5%	0.0%	0.5%					
Units worth $194,000-$243,000 (affordable to a household earning 80.1-100% of area median family income)									
Household income 30% or less	0	10	105	115	10	10	50	70	185
Household income 30.1%-50%	25	0	75	100	0	0	70	70	170
Household income 50.1%-80%	0	125	320	440	0	4	75	80	520
Household income 80.1%-100%	0	40	135	175	0	65	110	170	345
Household income over 100%	45	250	1,390	1,685	0	35	180	215	1,900
Total occupied units	70	425	2,025	2,520	10	114	485	605	3,125
Vacant for Sale	0	0	35	35					
Vacancy Rate	0.0%	0.0%	1.4%	1.1%					
Units worth over $243,000 (affordable to a household earning over 100% of area median family income)									
Household income 30% or less	30	70	25	130	30	60	25	115	245
Household income 30.1%-50%	60	20	75	155	0	70	85	155	310
Household income 50.1%-80%	115	295	215	620	15	90	170	280	900
Household income 80.1%-100%	30	125	190	350	0	50	90	140	490
Household income over 100%	125	1,100	2,730	3,960	85	335	680	1,100	5,060
Total occupied units	360	1,610	3,235	5,215	130	605	1,050	1,790	7,005
Vacant for Sale	20	0	35	55					
Vacancy Rate	3.9%	0.0%	0.8%	0.8%					
Total Occupied	**490**	**2,745**	**6,954**	**10,200**	**150**	**1,094**	**2,295**	**3,545**	**13,745**
Number vacant for sale	**45**	**60**	**95**	**205**					
Vacancy Rate	**6.6%**	**1.5%**	**1.0%**	**1.5%**					
Units affordable to households up to 100% of AMI	**175**	**1,684**	**5,024**	**6,895**					
Percent of housing stock that is affordable	**33%**	**60%**	**71%**	**66%**					

TOOLS TO INCREASE HOUSING AFFORDABILITY

The Great Recession of 2008 ushered in a market correction that has increased the affordability of Portland's existing housing stock. At the same time, however, the recovery, has generated a certain bullishness to create new housing at the high end of the market. Without incentive or control, new construction remains out of reach of the middle class. The following tools may inform the development of policy to balance access to the newest housing boom.

Density Bonus: This tool grants an increase in the number of units allowed by right in order to provide an incentive for the construction of affordable housing. While the incentive can work as a stand alone tool, it is typically incorporated into a contract zone, overlay district, or cluster subdivision. A model ordinance developed by the American Planning Association posits 20% as a reasonable target for affordable housing. The Town of Brunswick, Maine has incorporated a density bonus into their zoning ordinance, complemented by a provision for the reduction of fees, including building permits, stormwater, solid waste, recreation and traffic impacts.

https://www.planning.org/research/smartgrowth/pdf/section44.pdf
http://www.brunswickme.org/wp-content/uploads/2012/04/Web.Version.Zoning.Ordinance.pdf

Inclusionary Zoning: This tool requires that a certain percentage of units in a new development be set aside as affordable, with or without an increase in density. Inclusionary zoning is widely used by cities throughout the states of California, Massachusetts, New Jersey, Virginia, and Maryland. In Burlington, Vermont, the mandatory set-aside ranges from 15%-25%, depending on the market price of the rest of the units. The Town of Cape Elizabeth, Maine requires that 10% of the units in a subdivision be set aside for moderate income households, or 5% for low income.

http://www.nhc.org/media/documents/IZ_lessons_in_MA.pdf
http://www.burlingtonvt.gov/CEDO/Inclusionary-Zoning
http://www.capeelizabeth.com/government/rules_regs/ordinances/zoning/zoning.pdf

Reduction in Parking: This tool reduces the number of parking spaces that must be constructed to support each housing unit. Eliminating the typical suburban requirement of two spaces per unit can not only slash housing construction costs by 25%, but free up land that can be used to increase density. Concentrating homes, jobs, services, and stores increases the likelihood that people will walk, bike or take the bus to get from one place to another. On the Portland peninsula for example, 77% of households own just 0-1 vehicles, compared with 43% in the U.S. as a whole. The City of Portland, Oregon has reduced or eliminated parking requirements for new development based on the proximity of transit services.

http://www.vtpi.org/park-hou.pdf
http://www.portlandonline.com/shared/cfm/image.cfm?id=53320

Rent control: This tool establishes a ceiling on rent increases permitted in the public and private rental market. Los Angeles, San Francisco, New York City, and Cambridge, Massachusetts have previously adopted rent control policies. While rent control can act as a temporary "breather" from soaring prices, it has the potential to create housing shortages in the long run by discouraging new construction.

http://www.nycrgb.org/html/resources/faq/rentcontrol.html

Do Nothing: At first glance, the construction of luxury housing in any downtown would be considered a boon, not a burden. In the long run, however, neighboring property owners will follow suit, running up sales prices and rents unsustained by real growth in wages, incomes, jobs, or property improvements. For workers, the consequence is longer commutes from suburbs and rural areas. Others will establish themselves in less expensive urban markets, such as Biddeford, Lewiston, Gardiner, and Bath. Absent a correction by regulation or the market, these forces

could take shape, first as a collection of individual choices which then swell into an undeniable movement. And they did happen during the 2000's.

CONCLUSION

Portland's vitality depends on the availability of a diverse array of housing options, particularly apartments, which are often the first and only choice for working professionals, immigrants, and families. Over the last five years, a number of trends have solidified:

- 62% of Portland households earn less than the county's median income, including 38% of homeowners and 81% of renters. Over the last decade, the number of households earning less than median income has increased 10%.

- The Great Recession of 2008 was a market correction that increased the affordability of existing housing – by giving wages a chance to catch up while stalling home sales and rents.

- Current housing production is not meeting the needs of households earning 80%-100% of median income. If recent trends continue, there will be a gap between supply and demand of workforce housing units ranging from 24%-33%.

- While the Portland housing market contains units in a variety of price ranges, the reality is that those with higher incomes, stable jobs, and good credit ratings are in a better position to compete for affordable units that are subsidized and unsubsidized. This creates a glut of affordable units at the low end of the range that may be in rough condition, with deferred maintenance issues.

- The rental market is extremely tight for 3-bedroom units that can accommodate working families.

- Based on the vacancy rate, the inventory of one-bedroom condos targeting households earning over the median income is reaching a point of saturation.

Well into the recovery, the region is on the pathway to another boom marked by a rise in new construction, low vacancy rates, and increasing rents and home prices. But the recovery also represents an opportunity for balance. By increasing the diversity of housing through incentive and regulation, the region can forestall the possibility of another crash due to soaring prices unsustained by real job growth. Trend or choice? It is up to us.