



# **Middle-Income Housing Solutions**

Hood River Affordable Housing Strategy

City of Hood River

Atkinson Graduate School of Management

## Overview of Project

The City of Hood River identifies a lack of middle-income housing as a problem that needs to be addressed. The Hood River Affordable Housing Strategy (AHS) was adopted by the city in 2022, and its focus is to create market-produced middle-income housing, targeting households earning between 80%-120% of the Area Median Income (AMI) for primary residence (*Appendix A*). The AHS implements a variety of strategies (*Appendix B*), however developer incentives are not included in this. The proposed project with the City of Hood River will aim to establish developer incentive(s) that will boost middle-income housing construction in the Westside Urban Renewal Zone (*Appendix C*).

## The City of Hood River Background

The City of Hood River is facing several complications due to the lack of middle-income housing. First, middle-income families in Hood River are being pushed out of the Columbia Gorge, concerning council members that a decline in locals will lead Hood River to become a tourist attraction or second-home destination. Second, as a result of little to no middle-income housing, employers in Hood River are reporting a decrease in workforce availability for typical middle-income professions such as police officers, nurses, and teachers.

While the City of Hood River has been working to address these issues through the AHS, the most pressing issue is the lack of developer incentives for middle-income housing. The lack of incentives and middle-income housing (*Appendix D*) is leading to an increased demand for this type of housing. Demands that are not being met, which inflates overall prices of housing on the market and in turn, affects the middle-income population of Hood River.

The agency's objectives and ambitions are centered around establishing authentic collaborations with local government and community entities. Enhancing the living standards of its residents, and focusing on initiatives that are identified, driven, and evaluated by the community itself are the agency's priorities. Indicators of success for the agency include a deliberate enhancement of quality of life, the effective realization of projects as envisioned by the community, and the creation of comprehensive professional reports that assist in community decision-making processes. The agency's engagement spans various sectors, including planning, public transportation, downtown revitalization, and housing opportunities, reflecting its holistic approach to urban renewal and sustainable development. Therefore, the city must appropriately plan for and utilize the Western Urban Renewal District to meet these standards and the needs of middle-income residents.

## Target Market

The City of Hood River recognizes “middle-income” as earning 80% to 120% of the AMI or between \$81,000 and \$121,000 (*Appendix A*) for a family of four.<sup>1</sup> Currently, Hood River lacks the amount of middle-income housing necessary because developers have been naturally incentivized by the market to build higher-income housing due to higher profit margins. Therefore, the city’s target market will be developers. The City of Hood River will continue its

---

<sup>1</sup> Out of Reach Oregon 2023: [www.NLIHC.org/OOR](http://www.NLIHC.org/OOR)

attempt to deter the ongoing issue of securing market-driven middle-income housing for residents through development incentives.

It is important to recognize that the City of Hood River is attempting to guide these developers towards a different target market: Hood River's working, middle-income residents. Our team is working with the City of Hood River to create incentives that appeal to developers who will, in turn, build the housing for these customers.

### **Value Proposition**

Our team will determine the incentives that Hood River should implement which will directly affect middle-income residents, as it will create accessible and affordable housing options.

### **Decision Criteria**

Our team has identified four main factors on which to center the solution recommendation. These four factors were determined by the City of Hood River for their importance to the city. Cost, timeline fit, simplicity, and applicability were the four factors used. These factors assisted in the decision process because it was a streamlined way to eliminate possible solutions that did not apply to Hood River. However, we are still working on exact financial figures, so we are using estimations to determine the best fit for these factors.

As seen in *Appendix E*, we weigh the cost as the most important factor as the cost is determined by the city's decision on how much of its fund is being dedicated to incentive solutions.

### **Potential Solutions for Hood River**

After evaluating several incentives through extensive research, we consolidated the most applicable options to Hood River. The two most applicable solutions include lump sum incentives and System Development Charge (SDC) assistance. A brief overview of how they work and a case study for each is provided below.

#### **Lump-Sum Incentives**

Multiple cities and states have enacted a form of lump-sum payments to incentivize development in general or rental conversion. Although not middle-income specific, they are incentives that have achieved their purpose and will inspire parts of our solution. A lump-sum incentive is consistent, and controlled, and appears to provide adequate incentive for developers to build specific types of housing or landlords to convert their rentals to affordable long-term units. We highlight a key example below.

*Michigan*

In the spring of 2022, Michigan introduced an innovative housing production program known as the Missing Middle Housing Program (MMHP)<sup>2</sup>. This program is a strategic response to the shortage of accessible housing, an issue that has been intensified by the COVID-19 pandemic. MMHP is geared towards expanding the stock of workforce housing, thereby fostering the growth and economic advancement of workers. It accomplishes this by offering grant funds to developers, which offset the expenses incurred in the construction and refurbishment of housing units earmarked for households earning between 60% and 120% of the Area Median Income (AMI).

The grants provided by MMHP are specifically formulated to curtail the costs of construction materials and labor wages by filling financial gaps in eligible projects. The program's structure allows for a maximum grant of \$80,000 per unit in projects that have 11 or fewer units. For projects with a scale of 12 units or more, the grant amount is capped at \$70,000 per unit. Michigan has ensured that each geographic partnership region receives a minimum funding allocation, making certain that the benefits of the program are distributed throughout the state.

### **SDC Assistance**

System Development Charges, or fees that are paid by contractors to help fund upgrades to their local areas (sewers, roads, etc.) can often lead developers to shy away from new development projects that are not expected to earn high returns. As middle-income housing is not naturally profitable for developers in Hood River, SDCs may turn away any interest in permits for middle-income development projects before they are even considered. To combat this, some cities have offered assistance covering developer SDCs, which can resemble lump-sum payments. An example is below.

#### *Bend, OR*

Bend, Oregon implemented an SDC waiver for affordable housing developers back in 2017 for housing affordable to 80% AMI or below.<sup>3</sup> This spurred the development of 577 affordable housing units by 2021, granting a total of \$7.6 million in SDC assistance – about \$13k per unit (*Appendix F*). The city offers this waiver as a forgivable loan with interest, requiring that the properties must remain affordable for 5 years after completion. If developers do not uphold affordability, they must pay back their SDCs plus any accumulated interest.

This example shows that SDC assistance can aid in the increase of housing, which would help adjust the housing market in Hood River to naturally be more affordable to middle-income residents. SDC waivers can incentivize middle housing development to address the overwhelming gap in the market, bringing down housing prices as supply rises to meet demand.

### **Risks and Challenges**

Every incentive opportunity will come with potential risks or challenges that must be considered before implementation. We explore these threats for our potential solutions below.

#### *Lump-Sum*

<sup>2</sup> <https://www.michigan.gov/mshda/developers/missing-middle>

<sup>3</sup> [https://www.oregon.gov/ohcs/development/Documents/Oregon%20SDC%20Study\\_Report\\_PublicReviewDraft\\_101822.pdf](https://www.oregon.gov/ohcs/development/Documents/Oregon%20SDC%20Study_Report_PublicReviewDraft_101822.pdf)

The risks associated with lump sum incentives include the difficulty of determining an adequate price and sustaining developer interest. Offering too high of an incentive could have counter-productive effects, such as significantly increasing the project's profitability and raising the land's value. An incentive too low would fail to motivate developers to build middle housing. Calculating the ideal incentive amount may require trial and error which results in lost time and additional costs.

Another potential challenge with lump sum incentives is maintaining developer interest. Developers who may first take advantage of an incentive can later ask for an increase in the incentive amount for future development. For example, Summit County offered a lump sum incentive for landlords of short-term rentals to convert their properties to long-term rentals, designed to house the local workforce. Landlords took advantage of this incentive at the start of the program in 2021, but as demand for the incentive has exceeded supply Summit County is faced with injecting more money into the program or shrinking the size of the incentives<sup>4</sup>. If the costs of a lump sum incentive are too great to maintain for more than a short period, or if developers demand that incentive amounts be increased, this type of program may become difficult to manage.

### *SDC Assistance*

The first and most notable risk with SDC incentives is that they may not be enough to offset developer costs and fail to encourage middle housing development. Although some developers cite that they would be happy to see this cost burden lifted, many indicate that SDC waivers alone are not enough to justify the cost-to-profit ratio of middle-income housing<sup>5</sup>. The most likely scenario in which this incentive is successful is if the city complements the financial incentive with a reduction in the time and complexity of the development process.

An additional risk associated with SDC waivers is that although more middle housing infrastructure is incentivized, developers have the freedom to sell their infrastructure at market rate, using SDCs as a temporary boost to build and not following through on producing middle housing. Bend, for example, had some developers sell their infrastructure at the market rate, above what is classified as affordable. Therefore, the sustainability of this type of incentive is difficult to measure. A way to measure the severity of these risks and whether they influence the overall effectiveness of SDC waivers as a solution for Hood River would be necessary. It may be the case that an increased middle housing supply may lower the market price, eliminating this risk. Further projections must be made.

### **Next Steps**

Our most important next step is to meet with the Hood River representative and the consulting group that has been working with them, EcoNW. We hope to gain further insight and exact numbers regarding the number of units necessary for this project, the cost of development concerning return on investment, and the amount of funds we are allowed for these incentives.

Once we have the number of units needed, we can determine the type of housing we should aim to incentivize. If we need a large number of available units, we will be focusing on

---

<sup>4</sup> [www.summitdaily.com](http://www.summitdaily.com)

<sup>5</sup> [https://www.oregon.gov/ohcs/development/Documents/Oregon%20SDC%20Study\\_Report\\_PublicReviewDraft\\_101822.pdf](https://www.oregon.gov/ohcs/development/Documents/Oregon%20SDC%20Study_Report_PublicReviewDraft_101822.pdf)

the development of denser multi-family housing options. With this approach, we will be focusing on how to incentivize larger developers to enter as they have the capital for these large projects. But, if there is not a large amount needed based on the area, then we will focus on the development of single-family or duplexes. If this is the case, we will be looking at how to incentivize smaller developers.

When we have the cost of development concerning return on investment, we will be able to accurately determine which type of incentive is appropriate. If the gap between the costs of development and the size of return on investment needed to encourage this development is lower than the amount paid in SDCs per unit, waiving SDCs may be a more practical solution to this issue as it will reduce the upfront costs of developing, breaking down a barrier to entry. If the gap between the costs of development and the size of return on investment needed to encourage this development is larger than the amount paid in SDCs per unit, waiving SDCs may not be practical, and looking at lump sum grant options that cover that gap per unit may be more applicable.

Lastly, the specific amount of available funds for this incentive is necessary to finalize a recommendation because if the amount of funds available for housing is not enough to cover the incentive, then we cannot consider that option. And, once we've decided on an incentive framework, we can establish an exact budget allocation.

**Appendix A**  
**Affordability Chart**

	<b>Income</b>	<b>Monthly Housing Expense</b>
<b>80% of AMI</b>	\$80,960	\$2,024
<b>100% of AMI</b>	\$101,200	\$2,530
<b>120% of AMI</b>	\$121,440	\$3,036

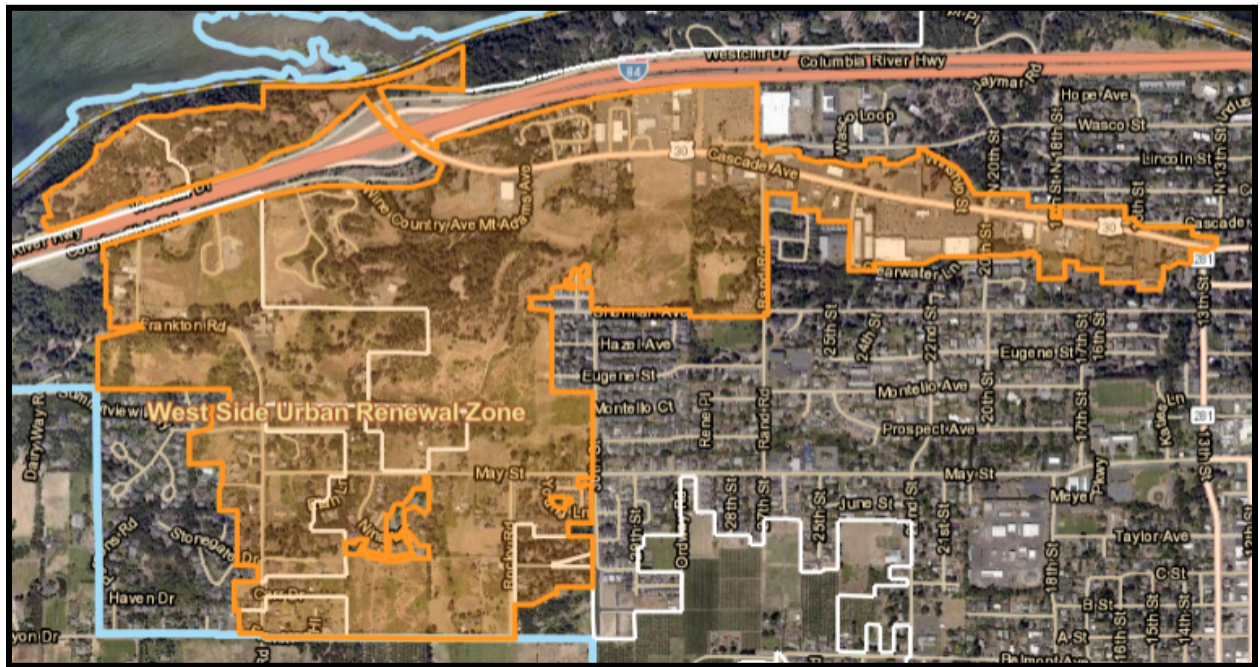
## Appendix B

### Hood River Affordable Housing Strategy, 2022-2027

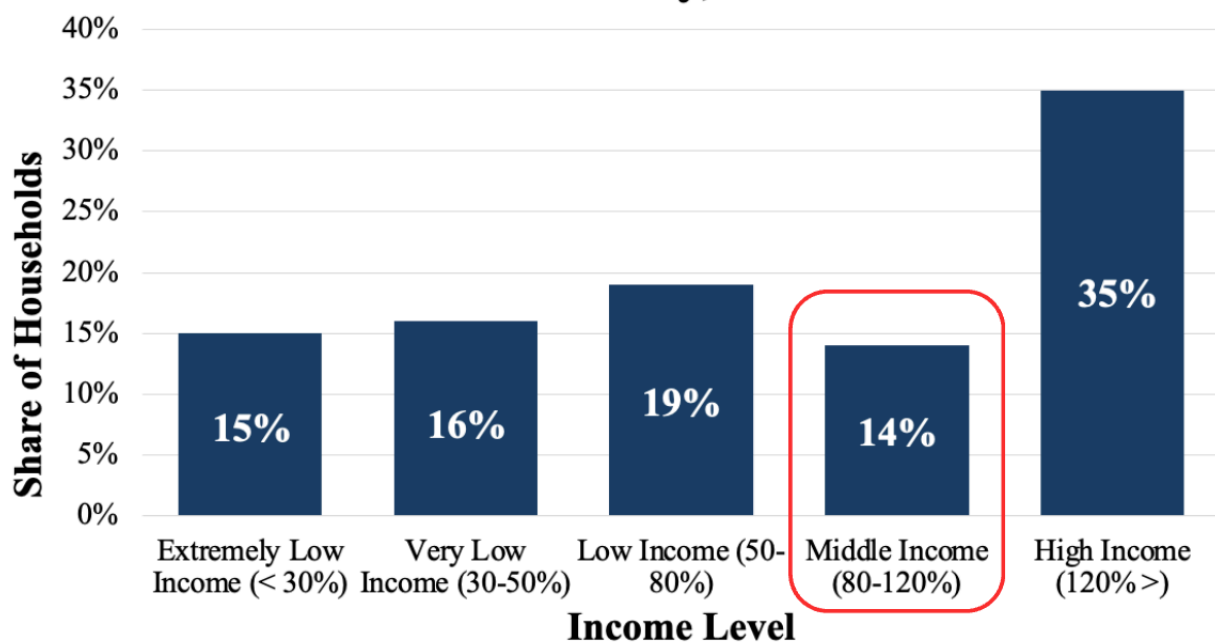
Strategies	What is it?	How does the strategy help?
<b>A. Provide Offsite Infrastructure Subsidies</b> 2023-2026: first investments made	New road connections, water or sewer pipes, sidewalks, or other infrastructure that make development possible.	Reduces the time, cost and uncertainty of building off-site infrastructure, which can delay housing development and drive up costs.
<b>B. Continue City-led Land Banking</b> 2023-2026: additional investments	The City will purchase land and when ready, sell or give that land to affordable housing developers to build new units.	Provides a source of publicly controlled land for future development. Site control directs the type of development that may occur.
<b>C. Establish Nonprofit Low-Income Rental Housing Tax Exemption</b> 2022: establish program	Offers nonprofit affordable housing developers the ability to receive a property tax exemption without partnering with the housing authority.	Provides an alternative pathway to gain a property tax exemption, which lowers ongoing operating costs for publicly subsidized affordable housing.
<b>D. Provide Direct Project Subsidies for New Construction</b> 2023-2026: first investments made	Subsidies to support new construction, such as for onsite infrastructure (such as internal roads or utility connections), predevelopment costs (e.g., due diligence), serve as lower-cost capital for construction financing (with lower interest rates), or provide direct upfront grants during the development phase in exchange for deeper levels of affordability.	Building affordable housing often costs more than the available funding for the development, leaving a funding gap. Affordable housing developers may need flexible subsidies to fill funding gaps.
<b>E. Continue Housing Rehabilitation / Preservation</b> 2022: STR change 2025+: Potential partnerships	<p>The City's existing Short-term Rental (STR) policy could be changed to limit the number of STR licenses to one per person.</p> <p>The City could fund the rehabilitation of existing low-cost market rate units, in exchange for agreement to ensure housing remains affordable.</p>	<p>Adjustments to the City's STR policy will ensure that multifamily buildings owned by a single entity do not convert to STRs and remain long-term rentals.</p> <p>Making investments in existing buildings provides a lower cost way to ensure preservation of affordability over time.</p>
<b>F. Develop an Affordable Housing Ordinance</b> 2023-2024: expected adoption	Adoption of changes to Hood River's development code that expedite the review and approval of affordable housing development, subject to clear and objective development standards tailored to meet the needs and impacts of affordable housing.	Through the use of clear and objective standards, and process reform the City can reduce risk, uncertainty, and time required for development review.
<b>G. Establish a New Urban Renewal District</b> 2022: expected Westside URD adoption; Heights URD ongoing	The City has prioritized the formation of a new 445-acre Westside Urban Renewal District and implementation of the existing Heights Urban Renewal District. Affordable housing is a key project that could be funded in these areas, alongside transportation connections, new parks, and trails.	Provides a flexible funding tool that can support many of the key strategies identified in the Affordable Housing Strategy.
<b>H. Pursue a General Obligation Bond</b> 2023: planning and stakeholder engagement	Initiate a process to pursue a GO Bond, which is a type of municipal bond that is authorized by voters and repaid through a dedicated property tax levy.	GO Bond revenue would be the primary funding source to directly support the development of affordable housing.



## Appendix C



## Appendix D

**Share of Households by AMI for Hood  
River County, 2019**

## Appendix E

Solution	Cost*	Simplicity	Fits our Timeline	Applicability
Lump-Sum Grants	X	—	✓	✓
SDC Waivers	✓	✓	✓	✓

## Appendix F

### Exhibit 45. City of Bend Affordable Housing SDC Exemptions, 2016–2021

Source: ECONorthwest, using data provided by City of Bend

Housing Type	Units	City SDCs Exempted	Parks SDCs Exempted
Single-Family	140	\$1,112,517	\$205,628
Multifamily	407	\$3,731,480	\$2,017,896
Other (incl. shelters)	30	\$383,670	\$165,520
<b>Total</b>	<b>577</b>	<b>\$5,227,666</b>	<b>\$2,389,044</b>