Portland's Growth Undermines Home Ownership

by Robert Bole

In September of 1990, the *Oregonian* ran a series titled "Blueprint For A Slum". After analyzing federal mortgage statistics for Portland, the reporters concluded that lenders had a history of denying mortgage credit to would-be home buyers in North and inner Northeast Portland. Without access to credit from major banks, many home buyers were forced to seek mortgages at disadvantageous terms from smaller, sometimes disreputable, companies.

The "Blueprint" series was a catalyst for lenders, already under pressure from housing advocates, to improve their lending performance in the "inner city". The result has been an important change in lending policy and procedures: over the past six years, local banks have opened or expanded branches in the low-income neighborhoods in North and Northeast Portland, and trained loan officers to be sensitive to the needs and difficulties of those borrowers. Most important, lenders have responded to market demand by creating new institutional portfolio mortgages and expanding their participation in a broad array of secondary market mortgage products. According to Barbara Smith of U.S. Bank, "The 'Blueprint for a Slum' articles called our attention to a market that we had previously ignored, to our detriment. Not only has the bank been able to make a return on its investment, we have been able to fulfill our mission of supporting the growth and development of Portland's low-income neighborhoods."

Data on Portland made available through the Home Mortgage Disclosure Act shows that minority applications have increased 173.6% since 1990. Applications from low-income residents (less than 80% of Median Family Income) increased 189.7%, the largest growth in the city. The majority of applications was for conventional loans. By 1994, conventional loan applications had increased just over 157%, while government-insured applications only grew by 30%.

These changes have had a positive impact in many of Portland's low-income neighborhoods, but the future of low-income home ownership in Portland is currently in doubt because wider economic and demographic trends have reduced the ability of prospective low-income home owners to afford housing in the neighborhoods that were available to them only a few years ago.

At the core of this change has been the tremendous population growth within the Portland metropolitan region in response to a burgeoning high technology and international trade economy. From 1990 to 1994, the population of Portland's low-income neighborhoods grew by 10% to an estimated high of 179,144. (1990 Census of Population and Housing). Once low-income workers had these neighborhoods to themselves; now they must compete with many newcomers, both low-income and middle-income, for the homes.

Figure 1

In response to Portland's economic growth and population pressures, home prices in the low-income housing market have appreciated rapidly. The rise is caused by constraints on supply as well as growing demand. These constraints include low percentages of single-family homes, restrictive zoning regulations and limited building lots for in-fill. Since the mid-1980s the Portland metropolitan region has experienced a substantial increase in housing prices. In 1988 the average home price in the city was $69,120; as of October 1996 the average price was $141,325, or 104% price increase in just over eight years (see Figure 1). According to Real Estate Market Listing Service (RMLS), housing prices in the North, Northeast and Southeast markets have grown even faster. Home prices, as of October 1996 in Southeast Portland average $117,300, a 143% increase. Prices in the popular Northeast have risen to $127,900, or 157%. North Portland is the greatest surprise: average home prices have risen 195%, to $93,400. From 1990 to 1994, applications for mortgages in low-income census tracts tripled, while mortgage applications in middle-income census tracts began to moderate.

In order to afford homes in these rapidly appreciating markets, low-income residents' incomes must continually expand to meet the latest escalation in prices. Without upgrading their skill level, existing low- and moderate-income workers will be increasingly isolated from wage growth in expanding economic sectors. This translates directly into the loss of home ownership opportunities, and corresponding long-term asset appreciation, not to mention the loss of family stability.

Low-income workers are beginning to experience that isolation as their incomes lag behind changes in the marketplace. In 1970 the median family income (MFI) of low-income neighborhoods was approximately two-thirds (61.7%) that of upper-income communities. By 1990 the residents of these same neighborhoods were earning only just over half (54%) the median income of upper-income census tracts. Real income (1990 dollars) has declined by 13.1% since 1980 in these lower- income areas. This has resulted in an erosion of low-income families' ability to secure affordable housing in the current housing market (see Figure 2). Current changes in Portland's housing market are following the Cascade Effect, which predicts that buyers will react to rising housing prices in one of two ways: they will stay in their current market, defined by price range and location, and accept a "lesser" house; or they will search for the highest quality housing in the next most affordable neigh-

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borhood, markets that have traditionally been affordable to lower -income buyers. The second option increases the competition for housing in lower-priced markets, so that lower-income people face the same dilemma, whether to accept a lesser home in their target neighborhood or to move into less expensive neighborhoods. This market reorganization continues until those at the bottom, the lowest-income home buyers, are pushed out of the market. The displacement of lower-income residents by higher-income residents is often referred to as gentrification.

"Blueprint for a Slum" appeared at an opportune time, because Portland's housing market flattened out from 1990 to 1992, following the economic expansion of 1988 to 1990. Home prices in low-income neighborhoods were stable, so lenders could stretch their horizons and actively lend to low-income buyers on houses that were still largely affordable. The situation changed after 1992. Low-income residents have steadily lost the ability to obtain an affordable mortgage since then.

Despite escalating prices, the expansion of credit has had a positive impact upon low-income neighborhoods, albeit one that is quickly vanishing. To understand the impact, let's take a closer look at two other aspects of the Home Mortgage Disclosure Act data: closings and denials. The number and dollar amount of mortgage closings are direct measures of the final step in the home buying process. In low-income neighborhoods, the percentage of mortgage applications that reached closing actually went up by 1%, from 74.7 to 75.7, during the period 1990-94. The number of closings more than doubled, from 1,316 to 2,756. That means the amount of credit available to low-income neighborhoods more or less doubled from 1990-94. During the same period, the city-wide percentage went up from 76.2 to 76.7, and the number of closings increased 79.50%.

The stability of the closing rate indicates that although the market prices rose, the percentage of qualified buyers seeking mortgages in low-income neighborhoods didn't change. However, we know that low-income buyers are increasingly priced out of the market, so the stability of closing rates in those neighborhoods is probably caused by gentrification.

During that period, the number of government-insured closings increased about one-third, from 642 to 878, and the percentage of closings which were government-insured rose from 77% to 82%. The increasing percentage of government-insured mortgages in these areas indicates only subsidized lending is currently affordable to low-income residents. As prices continue to rise and incomes stagnate, loans will require more and more public subsidy to maintain low-income residents' access to affordable home ownership opportunities. Without new innovation or further investment by the public, an increasing number of low-income borrowers will be denied home ownership opportunities.

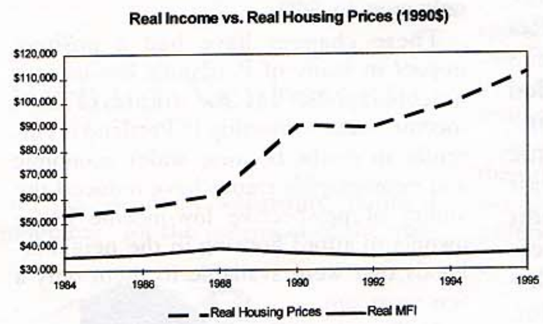

Figure 2

Trends in denial rates were mixed in low-income neighborhoods in the period 1990-94. The denial rate for all low-income neighborhoods dropped from 15.3 % to 13.2%. And the denial rate for very low income applicants (less than 50% of MFI) dropped from 19.8% to 17.2%. But Northeast Portland actually saw an increase in the denial rate, from 9.5% in 1990 to 10.3% in 1994, with a spike to 16.5% in 1992. This increase may be due to increased marketing efforts by banks in the early 1990s, which increased the number of unqualified buyers submitting applications for mortgages.

The overall drop in denial rates may be due to an increasing number of marginally qualified low-income residents choosing to stay out of the home ownership market. Just as the unemployment rate only reflects individuals who are actively searching for employment and not those who have "taken themselves out" of the work force, denial rates do not reflect those residents who are no longer searching for housing. Banks and home buying counselors are reporting an expanding number of low-income residents who decide not to pursue home ownership after being prequalified. They simply cannot find affordable homes in the current market. While the drop in denial rates for low-income applicants shows important improvement in banks' lending performance, it doesn't show the frustration of many would-be buyers.

Oregonians must realize that low-income home ownership is vital to the health and stability of our cities. This stability has promoted a healthy economy and has attracted the businesses that have turned Portland into the economic powerhouse it is today. Today the most significant obstacle to home ownership does not originate from lending practices, but rather from declining affordability generated by market forces. If the housing market continues to escalate at its current pace, or interest rates jump, there is probably very little the public sector can do to sustain low-income home ownership. Many families will continue to struggle on low wages and increasing rents. Recent changes to federal welfare programs may further exacerbate this problem.

Government and non-profit housing organizations have developed new models of home ownership for low-income families, including community land trusts, high-density home ownership, and recapturable second-mortgage loans. But government and non-profits can't do it themselves. Oregon's corporate boardrooms must play a greater part. Local banks already have proven that they can expand home ownership in low-income neighborhoods. As the market tightens, they need to come up with new methods. Such programs will assist families on the margins of affordability, but the majority of low-income families will still not be able to own decent, safe homes. Corporations must pay their workers wages which will enable them to afford the housing stock. We'll leave behind a significant portion of our population, and achieve only a hollow economic victory, unless banks and other corporations work together with government and housing advocates.