Memo

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To: Metro Council

From: Emily Lieb, *Housing Policy and Bond Director*;
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Subject: Operational challenges in affordable housing

This memo is intended to provide background context on the range and complexity of operational challenges currently affecting affordable housing providers. It is not intended to define a specific policy response, but to inform early scoping and support a shared understanding of conditions as Metro works with partners to identify appropriate roles and potential strategies.

Context

Over the past several years, affordable housing providers locally and nationally have experienced a range of operational challenges affecting both property performance and organizational stability. These challenges reflect broader shifts in market conditions, operating environments, and resident needs.

In some markets, these pressures have contributed to significant outcomes, including property disposition by established nonprofit operators and, in extreme cases, organizational collapse. While conditions vary by region and property, many of the underlying drivers are similar to those affecting providers in the Metro region.

While vacancies have recently drawn particular attention, they represent just one dimension of a broader and more complex set of risks. These challenges are multi-faceted and vary based on location, property and unit type, operator financial position, and other factors.

Metro's Housing Department is tracking and planning around this set of issues. To ensure Metro Council and operational leadership remain well-informed, staff compiled this memo to provide a high-level overview of the following:

- **Operational challenges:** Market and operational conditions contributing to operational instability for affordable housing providers locally and nationally
- **Impacts:** Current and potential impacts of these conditions
- **Metro Housing activities to date:** Actions Metro Housing has taken and is launching, to better track, understand, and respond to these conditions
- **Partner responses:** Current operator, state and local responses to these conditions

Operational Challenges

In 2024, Metro Housing developed a technical report aimed at understanding lessons learned from the implementation of the 2018 bond, updating assumptions for modeling potential development of new units, and evaluating the feasibility and impact of a range of investment opportunities (e.g. acquisition and conversion of office buildings).

As part of this work, staff interviewed dozens of subject matter experts, operators, and developers to understand current market conditions and industry needs. Staff also hosted a well-attended 90-minute listening session in partnership with Housing Development Center and Housing Oregon, seeking to understand often-cited operating cost escalation challenges facing the industry.

There are several overlapping challenges facing operators; some are more prevalent among specific housing models, while others impact the wider industry. Though not comprehensive, the list below characterizes some of the biggest reported drivers of operational challenges:

- **Operating cost escalation well above projected amounts**
    - Funders limit operating budgets to contain costs and maximize outputs
        - Operating costs limited by OHCS in underwriting for new projects; recent approval of an increase, but still below what recent data shows may be needed for many properties
        - Escalation is limited to ~3% per year, but in recent years costs have escalated more like ~6-7% per year
    - Higher staffing costs (wage increases and higher staff needs) due to inflation, increased needs among residents, and staffing turnover / shortages
        - Unmet service needs requiring operator investments
        - On-site security is increasingly expected by some funders and often requested by residents and staff
        - Work becoming more challenging, with increasing difficulty recruiting and retaining employees
    - Limited choices in property management in the Portland area reduce property owners' options when duties aren't well managed
    - More unit and property damage; increase in large-scale incidents (fires, floods), much higher insurance rates, more expensive materials and labor
        - Existing risk mitigation funds are limited in scope; typically, only support designated permanent supportive housing (PSH) units and

        cover extraordinary unit expenses but not general operating cost overages

    - Rental assistance programs, like SHS-funded Regional Long Term Rent Assistance (RLRA), may not consistently cover full operating costs for regulated units under current payment standards; adjustments would require tradeoffs in number of households served

- **Vacancies and widespread rental arrears reducing revenue**
    - Operators struggling to fill units regulated at 60% AMI with qualified applicants
        - In some areas, rents for these units are comparable to market-rate units, but with narrow qualifying income bands and additional administrative requirements
        - Some report that households voice concerns about neighbors with significant behavioral health needs
        - Lack of resources to "buy down" 60% AMI rents to better align with the income levels of those experiencing homelessness and housing instability
        - Counties lack resources to convert units to dedicated PSH, or overlay long-term rental assistance at scale
        - For some buildings, program or location-based requirements (such as N/NE Preference or alcohol- and drug-free buildings) narrow eligible applicant pool further
    - Coordinated entry and voucher placement processes for properties with PSH or homeless system referral set asides can result in longer vacancy timelines due to referral and inspection processes
    - Households placed with short-term rental assistance and supportive services may struggle to maintain rent payments once assistance ends

To review feedback gathered during the operating cost listening session, please see Appendix B in Metro's Evaluation of affordable housing opportunities technical report.

Impacts

These conditions impact some properties and operators more than others – particularly properties with specific unit types and smaller organizations with more limited financial reserves. There are some indications that these issues, while felt across the region, are more acutely felt in Multnomah County. Home Forward has shared that its most troubled properties are concentrated in Portland's central city.

In May 2025, Housing Oregon hosted a panel discussion featuring experts and leaders from the industry focused on this set of issues. The panel presented analysis of financial data from 112 distressed properties statewide (5,200 units), of which about half were in the Metro area. **Of those included, 27 of the properties in the Metro area were "at risk of loss" due to the properties' financial positions,** while another 53 properties were "draining cash" from operators.

Oregon Housing and Community Services also conducted a portfolio study, finding that from Fiscal Year 2021 to Fiscal Year 2023, its portfolio experienced a 20% per unit escalation in operating costs (compared to 10% inflation during same period).

In addition to contributing agency funds to keep properties afloat, sponsors are at times unable to recoup deferred developer fees from currently operating projects due to cash flow challenges. In some cases, this may constitute a form of default under financing agreements and can contribute to worsening financial health for organizations.

To sponsor new developments, organizations must have sound financial footing and a track record of success. Lenders face regulation from the federal government and must manage risk effectively to ensure their ability to repay deposits. As a result, lenders and investors are in some cases adopting more conservative underwriting approaches.

These conditions may reduce the number of eligible project sponsors over time and contribute to broader impacts across the housing development and operations ecosystem (e.g., reduced organizational capacity, fewer new projects).

In addition to this, some operators who are unable to restructure debt may be in a position where they are looking to remove challenging properties that are draining resources – both financial and staff attention – from their portfolios through ownership transfer. In other cases, when issues cannot be resolved, the property could be at risk of default or foreclosure to ensure repayment of the loan. Depending on the funding source, foreclosure may lead to the loss of affordability restrictions and a reduction in the supply of regulated affordable housing units.

Metro Housing Activities to Date

In addition to the listening session noted above, the Housing Department has been actively tracking these issues and coordinating with partners to better understand emerging risks and potential responses.

- **2018 Metro Affordable Housing Bond production goals**
  Many, but not all, units experiencing vacancy challenges are at the 60% AMI level. While the Low-Income Housing Tax Credit (LIHTC) program tends to be well-suited for 60% AMI development, there is a lot of need at 0-30%, 40% and 50% AMI levels. LIHTC and per-unit gap funding subsidy limits may have also at times favored production of smaller units, which are also among those experiencing the most challenges with vacancies.

  Metro set ambitious goals for deeply affordable 30% AMI and larger, "family sized", unit production in the Affordable Housing Bond to be responsive to community need and existing market conditions. Post-occupancy reporting for the Affordalbe Housing Bond portfolio demonstrates strong demand for Affordable Housing Bond-funded units, with all unit types typically receiving at least double the number of applications compared to unit availability in initial lease-up.

- **Bond interest earnings supporting pipeline**
  In staff check-ins with Affordable Housing Bond implementation partners and as part of annual reports and presentations to the Affordable Housing Bond Oversight Committee, staff have heard about slower leasing timeline in some properties and unit types, which impacts some properties' ability to convert to long-term financing.

  Metro's recent allocation of $26 million in Affordable Housing Bond interest earnings is intended to help mitigate risks during the construction and initial lease up of projects in the pipeline. For example, the Portland Housing Bureau is using funds to reduce the level of debt financing needed to reflect updated operating costs.

- **Asset Management and Monitoring Assessment project**
  The Housing Department is conducting an assessment of asset management and monitoring roles, responsibilities and gaps.

  Supported by the Housing Development Center, this work is responsive to feedback from the Metro Auditor and the Affordable Housing Bond Oversight Committee. The findings are intended to support consideration of long-term monitoring roles for the Affordable Housing Bond portfolio, as well as lessons learned for future efforts.

- **Regional Housing Coordination Strategy**
  Metro's adopted Regional Housing Coordination Strategy (RHCS) includes an action to develop or support the development of a coordinated approach to affordable housing operational stabilization, in partnership with state and local partners.

  The RHCS also includes other focused actions that could help. Examples include improving payment standards for SHS funded rental assistance and services, working with counties to connect available Supportive Housing Services rental assistance to vacant regulated housing units, and procuring a regional affordable housing listing service to help connect housing seekers and navigators with comprehensive information about available units.

Partner Responses

Despite ongoing advocacy by developers and operators, the affordable housing industry faces challenges in securing sufficient responses from public funders, who have to balance competing priorities and constrained budgets.

Challenges achieving support have included but are not limited to:

- **Competing priorities within the industry**
    - Investing limited resources by adding to the housing stock can be more appealing than investments in preserving or stabilizing existing affordable housing.
    - Some solutions may require serving fewer people with the same resources, creating challenging tradeoffs for leaders to consider.
- **Limited understanding of complex financing mechanisms**
    - Affordable housing financing is complex; issues facing operators and developers can be difficult to explain to legislators and system partners
    - Solutions are technical; gaining support for solutions may require strategic and consistent effort in briefing legislators and bringing them along.
- **Statutory limits for specific funding types**
    - Some housing funding types have strict guidelines around allowable and unallowable expenses, which limit the types of resources partners have to dedicate toward solutions; the 2018 Affordable Housing Bond has some of these types of limitations.
- **Decision-maker sentiment**
    - Due to housing development being seen as an inherently risk-laden venture, the perspective may exist among some decision-makers that operators should manage these risks and consequences without additional public investment whenever possible. However, given the industry-wide unprecedented nature of these challenges, this sentiment may be shifting.

Despite these challenges, Metro's partners across the housing and homelessness systems have begun to take action to mitigate both the causes and impacts of these conditions. Though not comprehensive, a short overview of some known efforts is found below. As part of the RHCS action, Housing Department staff are currently mapping existing efforts and launching work to evaluate Metro's role within the context of its authority and priorities.

- **Industry Groups**
  - Housing Oregon and Housing Alliance
    - Convening partners through policy meetings to discuss concerns, potential solutions, and coordination with funders
    - Partnering on data collection and analysis efforts, getting information to funders and decision-makers, advocating for funding and policy solutions
    - Running a working group with bankers, developers, policy makers, advising on issues and solutions
  - Housing Development Center and Network for Oregon Affordable Housing
    - Partnering with industry partners on portfolio data analysis and advocacy for policy and funding solutions
- **Developers and Operators**
  - Supplementing distressed properties with agency funding and reserves
  - Pursuing cost containment measures; where feasible, pursuing funding to improve energy efficiency in response to rising utility costs
  - Taking a more conservative approach to future developments; being thoughtful about additional risk in portfolio
    - Some operators may be less willing or able to take on additional PSH projects
    - Some operators may pause pursuing new deals, focusing on stabilizing portfolio instead (less gap funding availability contributes)
  - Attempting to address referral, rental assistance, and service connection challenges through partnership (either directly or with county-funder support)
    - When possible, offering rent reductions or concessions to address vacancies

- Communicating with lenders and investors; developing stabilization plans
    - When possible, pursuing debt restructuring opportunities
    - When necessary, operators may transfer ownership
- **Lenders and Investors**
  - Implementing – at least temporarily – more stringent underwriting guidelines and reviewing new deals with more scrutiny. These underwriting adjustments are disproportionately impacting community-based providers and PSH projects. New deals may include requirements like:
    - Higher project debt service coverage ratio
    - Increased liquidity and capitalized reserves
    - 10% below market rent setting (instead of AMI max rents)
    - Increased planned vacancy rate (from 5% to 7% or more)
    - $8,500 or more in operational expense budget per unit per year
  - Some, but not all, lenders are working on a case-by-case basis with operators of struggling projects, where possible allowing for "buying down debt" and/or re-amortization to reduce monthly payments.
    - Restructuring / modifications dependent on:
      - Whether issue is short, medium, long term
      - Where property is in life cycle (construction, early in perm loan period, near end of loan term)
      - Sponsor contributions / property and portfolio solutions
      - Timing for restructuring – involving lender early, maintaining trust through communication
- **Oregon Housing and Community Services**
  - Launched an operating expenses dashboard as a resource for funders and developers to use in underwriting, and for operators to use in exploring cost containment opportunities.
    - Oregon Housing and Community Services plan to update this dashboard with new data annually

- Studied the use of Article XI Q bond funds for preservation / stabilization
    - This work led to legislation (HB 4036) to create a preservation funding program using Article XI Q bond funds – the Housing Opportunity, Longevity and Durability (HOLD) fund. The new program was funded with an initial $25 million through the capital bond budget.
    - Due to statutory ownership requirements for this type of funding, many stabilization actions will remain ineligible unless happening through a full debt restructure with qualifying state ownership positionality
- Offered resources in November 2025 through updated Property Stabilization Investments program.
    - Tools include:
        - Debt principal buydown using below-market loan programs (soft debt) where lenders are willing to re-amortize / negotiate forbearance during stabilization period
        - Funding capital repairs in excess of replacement reserves,
        - Layering in Oregon Affordable Housing Tax Credits (OAHTC) to reduce debt interest rate – this is a new/expanded use for OAHTC, which requires savings to be passed onto residents
    - Made available via ORCA process; current biennial budget of $38 million for stabilization efforts
        - Based on application data, approximately 82% of projects pursuing PSI funds are located within the tri-county region; 76% are located within Multnomah County
- Providing technical assistance around possible options, being a partner in those conversations
- Increasing flexibility for already granted technical assistance and capacity building grants, allowing for use on resolving these risks

- **City of Portland**
    - Pursuing a range of options to support distressed properties:
        - Allowing increased flexibility in use of reserves
        - Cash flow loan payment waivers for 2024 and 2025

    - Utility relief – sewer/water bill reduction pilot program (RAMP)
    - Exploring regulatory agreement changes in some cases (e.g. converting units to a different AMI)
    - Working with operators on loan restructures and subordinations
    - Instituting a process to review transfer of ownership requests
  - Mayor Keith Wilson created a "Housing Strike Team", which focuses on barriers to housing production; it is currently unclear how much this workgroup will focus on operational stabilization
    - One effort Mayor Wilson is interested in pursuing is a "shelter to housing" pipeline; funding for rental assistance and supportive services funding has not been publicly identified
  - Portland City Council is currently discussing ways to program one or more tranches of up to $106 million funding identified within the Portland Housing Bureau's budget, with affordable housing stabilization activities considered alongside other needs like rental assistance and capital investment.
    - City Council's new Housing and Permitting Committee is expected to further discuss proposals for these unbudgeted funds during the committee's first meeting on April 7, 2026.

cc: Liam Frost, Housing Director