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HOUSING PRODUCTION REPORT

Suburban Single-Family Dwelling Construction Up in the COVID-19 Economy

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OVERALL OUTLOOK

As of November 2020, the COVID-19 pandemic still governs our daily lives. Without a vaccine, economic uncertainty is the new normal. Responding to the Center for Disease Control (CDC) efforts to control an exponential surge of the virus, governors across the nation imposed partial economic shutdowns - limiting nonessential business operations, closing schools, and restricting social activity. This COVID surge comes as Oregon recovers from late summer wildfires, the most destructive wildfires in state history, that took at least 11 lives, burned over 1 million acres, destroyed 4,009 homes, entire towns, businesses, livelihood, and an estimated 15-billion board feet of timber. In fact, Oregon construction jobs were the most adversely impacted employment sector during wildfire evacuations contributing to high Q3 unemployment rates compared to last year - both national and statewide October 2020 unemployment rates at 6.9% compared to 3.4% last year. Even as Oregon got a one-two punch with COVID and wildfires, its construction sector remains in the essential business category allowing Q3 2020 housing production to keep humming along, primarily in the low-density single-family market, at a steady but slow pace.

NATIONAL HOUSING PRODUCTION: DEMAND SHIFTS TO LOW-DENSITY HOUSING

Nationally, Q3 2020 residential construction contributed 15.5% to the gross domestic product (GDP), down 16% in Q2 – but, the highest share of the GDP for housing since the summer of 2008. Residential construction was up 8.6% year-to-date, with the Midwest and other lower density markets leading the way. Single-family building increased 6.4 percent to a 1.18 million seasonally adjusted annual rate. In fact, even as unemployment levels remain high, low interest rates are driving high demand, creating the perfect formula for strong confidence in building single-family homes: October 2020 was the highest national residential production rate since Spring of 2007.

The NAHB/Wells Fargo Housing Index, which measures home builder confidence, hit an all-time high of 78 in August 2020, principally bolstered the current low supply of new home inventory. In U.S. cities, even as overall construction biannual count dropped by 40-cranes, 455 to 415, from Q1 to Q3 2020, residential projects accounted for 40% of all cranes, the most of any sector. In fact, construction starts experienced a boost within the single-

TABLE 1.1
STATE OF OREGON

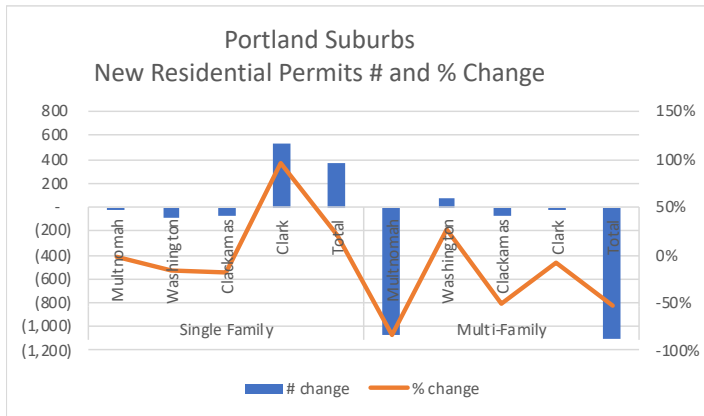
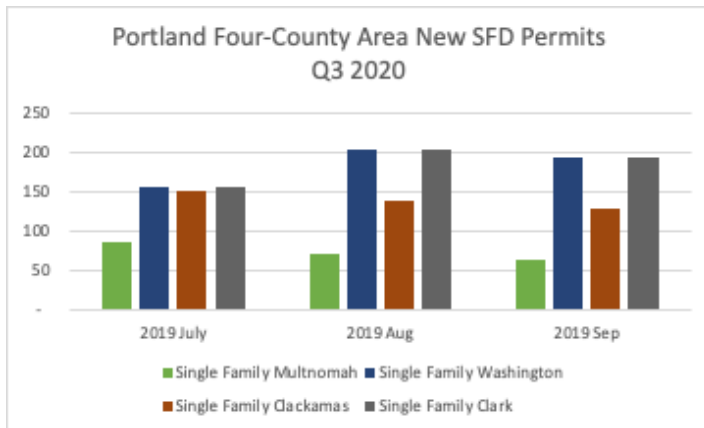


TABLE 1.2
FOUR-COUNTY NEW SFD AND MFD PERMITS



family home sector, the single-family housing for rent (SFHFR).

In Q3, Portland’s MSA and suburban areas experienced a similar uptick in lower-density single-family dwelling new construction permits in July and August. But, this is where the national similarities end and the Portland, Oregonian contrast begins. Hampered by the summer wildfires, supply chain material and labor shortages, projects are generally more expensive and are taking longer to complete. And, compared to last year, the total new permit count is down dramatically.

PORTLAND HOUSING PRODUCTION: GEOGRAPHIC SHIFT TO SUBURB AND EXURBS

First, taking a look at the similar national trend, as we see in Table 1.1, Q3 2020 statewide housing production shifted from high density new construction multifamily to single family and other low-density smaller detached dwellings under 5-units. Notably, MFD new permits started low in July with only 28 and steadily declined to 8-new permits through September. While lower density duplexes, triplexes, and under 5-units, followed the same trend as SFD permit patterns, peaking in August with a decline in September.

In the four Portland county areas that the CRE Quarterly analyzes – Multnomah, Washington, Clackamas, and Clark, the low-density trend continued from high density central city core to the more open-space city edges – to the suburban and exurban areas. In fact, the Q3 2020 Table 1.2 shows all four counties shifted gains away from multifamily dwelling new construction permits to single-family permits.

The two suburban counties, Clark and Washington, experienced the most positive gains in both single-family and multifamily new construction permits - with 1,081-SFDs in Clark, and 389-MFDs in Washington. The more densely populated Multnomah County lagged behind in both property types – with 213-SFDs and 208-MFDs.

Q3 2020 Portland MSA also followed the national and suburban trend, with gains in lower density non-multifamily buildings with 5+ units. Table 1.3 shows gains in single family new permits, and with triplexes, quadplexes.

“Covid has not gone away, yet the demand for projects appears to have spiked up.”

TABLE 1.3
PORTLAND MSA

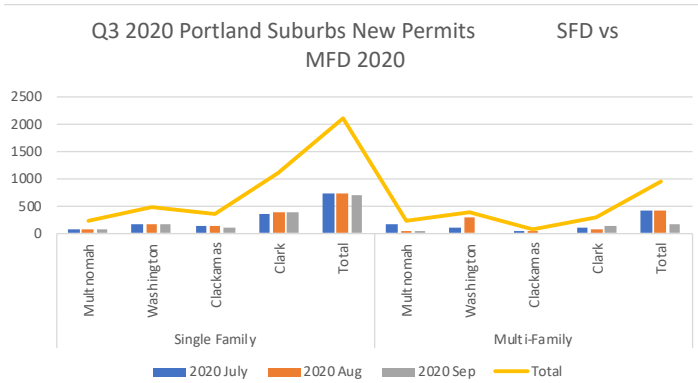


TABLE 1.4
PERCENT CHANGE OF SFD VS MFD FROM CITY TO SUBURBAN

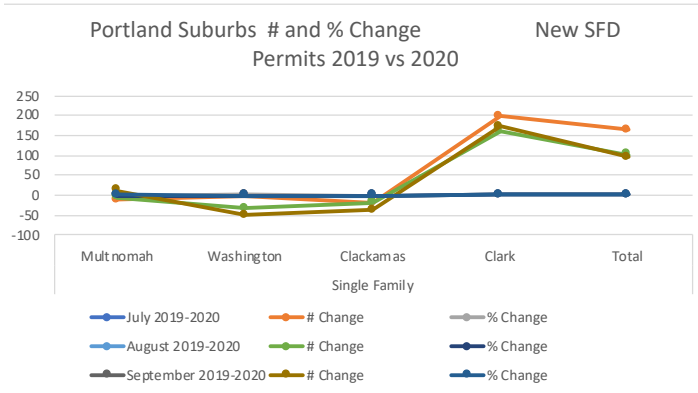
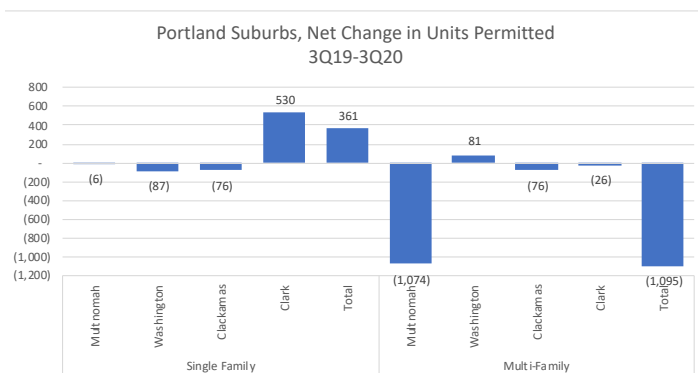


TABLE 1.5
PERCENT CHANGE 2019-2020 NEW PERMITS (STATE-WIDE, MSA, 4-COUNTY)



ALL PERMIT COUNTS DOWN FROM 2019 TO 2020

Even as permit numbers are up in the low-density residential projects, compared to Q3 2019, Q3 2020 geographic gains, Table 1.5 show total new permits statewide, Portland MSA, and all 4-counties are significantly down across the board in all property types. Overall, total new construction permits are down 86% with SFD down 83%.

HIGHER CONSTRUCTION COSTS: LABOR AND SUPPLY CHAIN SHORTAGES, HIGHER CONSTRUCTION RATES

Although the Oregon construction industry remains open for business, COVID and summer fire related issues have led to project delays, slower construction completion schedules, and increased total production costs. "The summer 2020 wildfires burned nearly four times what Oregon's industry harvests each year." In fact, this past summer's wildfires contributed to labor shortages already occurring as a result of COVID-19. Building material, skilled labor shortages, social distancing, and some pandemic illnesses have led to project delays, slower construction schedules, higher construction interest rates, increasing higher total production costs.

With regard to labor, according to the Oregon Employment Development Department, Q3 2020 construction jobs gained 6,100 construction jobs. But, the Bureau of Labor Statistics document fluctuating job percentage losses from July to September from negative to positive territories starting in July at -1.7, to 0.4 in September, back to a stark drop of -2.7 in October 2020. In the geographic jurisdictions affected by Level 3 wildfire evacuations, construction jobs were disproportionately affected with 13-percent, compared with 8-percent of all jobs. Pandemic outbreaks in manufacturing plants and mandated business closures created a lack of contractors, skilled laborers, and created a backlog in building materials.

Compounding building material supply chain shortages, emergency efforts to rebuild wildfire or storm damaged homes on both east and west coasts have stressed the supply side as builders draw from the same sources making it challenging to meet high residential construction demand. Shortages in steel, surfacing and case goods are limited. The shortage of lumber has caused a shift for substitutes such as plywood, causing

“Our builders in our region are some of the hardest working people you’ll ever meet, but in the situation we have today, it’s impossible for them to build to the demand of the market.”

(Brad Bennington, Executive Officer of Governmental Affairs, at the Builders Association of Southern Oregon: September 22, 2020)

“Average New Home Price Now \$16,000 Higher Due to Lumber”

(NAHB August 2020)

substitute shortages.

Whereas lumber prices were already up because of tariffs with China, the Oregon wildfires have now caused lumber shortages and additional price increases. The higher production costs risk impacting the middle-housing market.

With higher for-sale prices, low inventory, and high demand for more elbow-room COVID-living space, it is not surprising that the single-family homes in the for-rent submarket experienced an up-tick in production.

AFFORDABLE HOUSING IN THE COVID ECONOMY: UPTICK IN THE FOR-RENT SINGLE-FAMILY DWELLING PRODUCTION

Included in the single-family dwelling data is the resurgence of the more affordable single-family homes for rent (SFHFR) market. Compared with Q3 2020 production increased by 27% compared to Q3 last year. According to NAHB, a total of 14,000 units were built in 2020 compared with 11,000 units in Q3 2019. Although the construction configuration is different, the SFHFR market niche produces nonsubsidized for-profit affordable housing as a single-family dwelling for-rent product. It meets the increasing demand for more rental living space as people must continue to work/study at home during the pandemic. These for-rent consumers receive the spatial and mobility benefits of living in a rental single-family dwelling without the financial burden of a hefty down payment as is required in the for-sale market. This continues the demand trend for single-family dwellings.

CONCLUSION

The confluence of events – the COVID pandemic and the summer wildfires, has created a mixed-bag of new permit housing production levels in Oregon. What is clear: right now, there is a geographic shift and structural construction shift from high density multifamily dwellings to low-density and suburban housing production. Whether or not this is a permanent shift remains to be seen.

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