



## MARKET FACTORS

Oregon House Bill 2001 requires cities to allow more types of housing in residential areas, particularly in more traditionally single-family neighborhoods where housing choices are limited. Specifically, cities will need to allow middle housing—duplexes, triplexes, quadplexes, townhouses, and cottage clusters—in areas zoned for residential use that currently allow single-family homes. Revising Eugene’s Land Use Code to comply with House Bill 2001 will shape how our community develops and expand opportunities for where people can choose to live and what type of home they can live in. We have the opportunity to use Land Use Code changes to make our neighborhoods more inclusive and more equitable for everyone to enjoy.

We’ve heard concerns that allowing middle housing to be built in single-family neighborhoods will cause wholesale changes to existing neighborhoods. However, the reality of housing development is much more complex and most neighborhoods are slow to change. Removing restrictive regulations will enable greater housing choices in Eugene, but this is only one piece of the housing development puzzle. The real estate market will largely drive the production of middle housing and other factors also will influence the rate of development. As a result, middle housing development and changes to existing neighborhoods are expected to happen gradually over time.

Market analysis and development feasibility analysis will be part of the City’s project to implement House Bill 2001. This fact sheet summarizes some of the more general information we already know about market factors that will influence middle housing development in Eugene.

### Development in built-out areas is likely to happen gradually

New housing development overall can only happen so fast, based on overall housing demand, construction industry capacity, land values, and other factors. Middle housing is only one housing type that can fit the needs of a diversity of household types. Other types of housing, including new single-family homes and larger apartment buildings will continue to account for a larger share of all homes, so only a fraction of the city’s overall housing growth is expected to come from middle housing development.

While some property owners may have interest in adding units to their properties as a way to generate additional income, a relatively small proportion tend to actually take the steps needed to build new units or undertake a major remodel to convert existing space. More typically, major changes happen when a property is sold to a new owner who may buy it with the intention of increasing the number of units. Since a relatively small fraction of existing homes are sold each year, and only a fraction of the single-family homes that come to market will be bought by someone looking to add units to the property, this process will be incremental.

### Some middle housing development faces market challenges and other obstacles

Past research by ECONorthwest at the state level and in Eugene shows that triplexes and quadplexes in particular face several challenges to development:

- Financial returns in some parts of the city are not likely to be high enough to make new construction of rental housing financially viable given typical construction costs. In other places, such as near the university, it may be possible, but not as profitable as building single-family housing (to be further studied through this project).
- The companies that typically own or invest in larger apartment buildings are generally not interested in owning properties with just a few units, leaving primarily local investors to develop middle housing. However, there are only so many local real estate investors who can afford to build or purchase a triplex or quadplex as an investment property.



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- Building triplexes and quadplexes for sale is challenging due to legal issues associated with condominium development. Many homebuilders are unwilling to build condominiums.
- Converting existing single-family homes to triplexes or quadplexes can be difficult due to building code requirements.

Because of these issues, Eugene is not likely to see extensive triplex or quadplex development in the near-term until these conditions change. Duplexes face many of the same issues as triplexes and quadplexes, but to a lesser degree (for example, there are more potential investors who could afford to buy a duplex to live in one unit and rent out the other). Cottage cluster housing faces some of the same challenges related to development capacity and familiarity, condominium viability, and unique land supply and zoning issues.

## Middle housing won't destroy property value for neighbors, but blocking development can price people out of neighborhoods

There is a general misconception that middle housing development will lower property values for existing single-family homes. However, there is no evidence that middle housing or other types of multi-unit development impacts nearby property values in single-family neighborhoods. Perhaps more importantly, resisting neighborhood change and blocking new housing units contributes to a limited housing supply and increases price pressures. Across the community, these pressures create barriers for others to access housing while increasing the values for incumbent property owners.

## Annexation is a limiter in some parts of Eugene

Annexation (sometimes called “incorporation”) is the legal process by which county properties become part of a city and thus can receive city services. Properties that are within the city’s urban growth boundary (UGB) but not within city limits must annex prior to developing. Annexation costs over \$5,000 in permit fees (or more if a zone change is also required) and takes time and effort, creating obstacles to development. This is likely to significantly slow development of middle housing in areas around Eugene where much of the land is not yet incorporated, such as the Santa Clara/River Road area.

## Other factors can influence the pace of development

A variety of factors specific to individual existing neighborhoods also will affect the pace and amount of middle housing development, including topography, infrastructure costs, and private property covenants and restrictions.

**Topography** – Hillside development offers potential for views, which can make homes more valuable; however, sloped properties also increase costs due to the need for more complex foundations, retaining walls, etc. Sloped lots may be challenging for some middle housing development types and can make building on rear yards difficult, even if they are large. This could limit development in Eugene’s hillier neighborhoods.

**Infrastructure** – Properties with sub-standard street frontage (e.g., those lacking sidewalks) or a lack of stormwater or wastewater facilities face barriers to development. This could make middle housing—or any type of development—less likely to be built.

**Covenants, Conditions & Restrictions** – Commonly called CC&Rs, these are rules established by a developer or homeowners association that govern residences in a particular neighborhood—typically a subdivision or planned development. CC&Rs are usually attached to the title of a property and may place certain restrictions on uses, activities, and improvements in the development. Some CC&Rs associated with new developments prohibit more than one dwelling unit on a lot and can effectively prohibit the development of middle housing. HB 2001 prohibits the establishment of new CC&Rs or similar instruments that would prohibit middle housing or accessory dwelling units in a residential neighborhood. However, Eugene and other cities do not have the authority to eliminate, or enforce, existing CC&Rs.

See the fact sheet on the *History of Middle Housing and Exclusion in Zoning* to learn about how racially restrictive covenants enforced housing segregation in the past. While such covenants are no longer enforceable, CC&Rs can still promote neighborhood exclusion by limiting how properties can be developed.