

2018 Affordable Housing Update

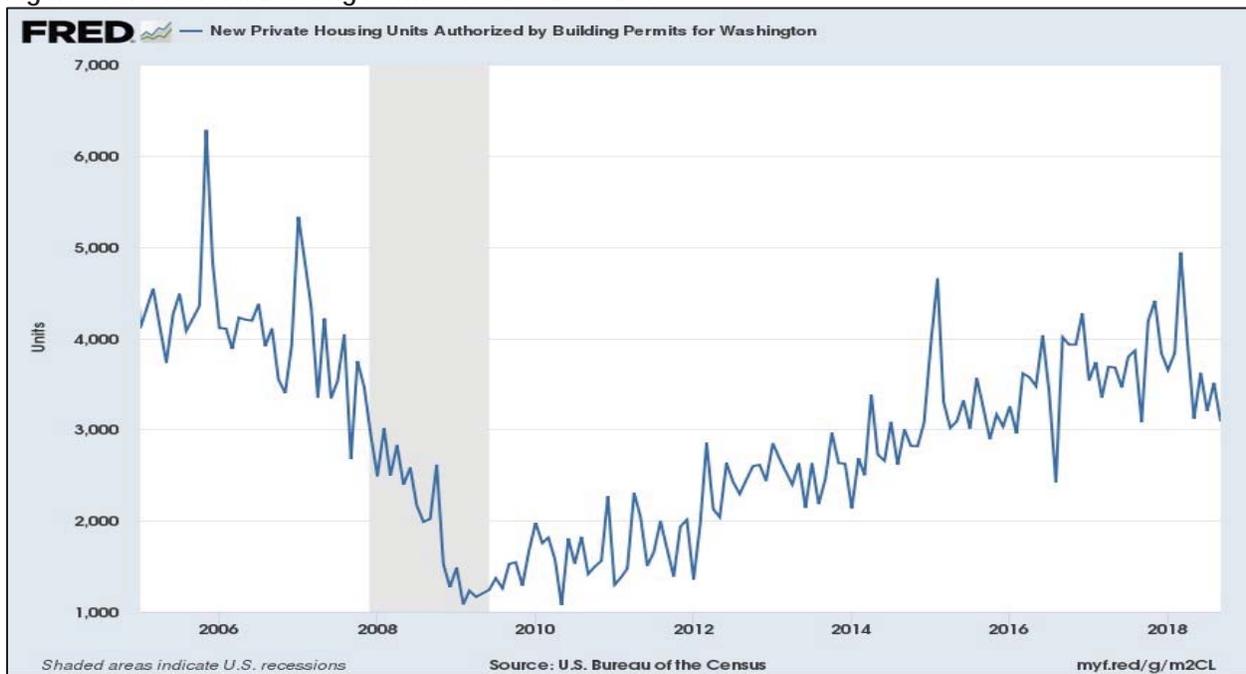
This report is an annual update on affordable housing needs, accomplishments and recommendations to improve access to safe and affordable housing for all Washington residents, pursuant to RCW 43.185B.040.

Current State of Affordable Housing Needs

Housing in Washington is less affordable than almost anywhere else in the nation.¹ Even though much of the media coverage surrounding housing unaffordability focuses on the Puget Sound region, households across the state are experiencing affordability challenges.

The rising cost of housing is due, in part, to an overall lack of available units.² Building permits for new private housing units in Washington are being filed at about the same rate as in the three other fastest-growing states in the country (Colorado, Oregon and Arizona). However, state housing production has not yet returned to the levels immediately before the Great Recession.³

Figure 1: Residential Building Permits Issued 2006-2018



Source: U.S. Census Bureau

¹ U.S. News and World Report, "2018 Best States Rankings," <https://www.usnews.com/news/best-states/rankings>

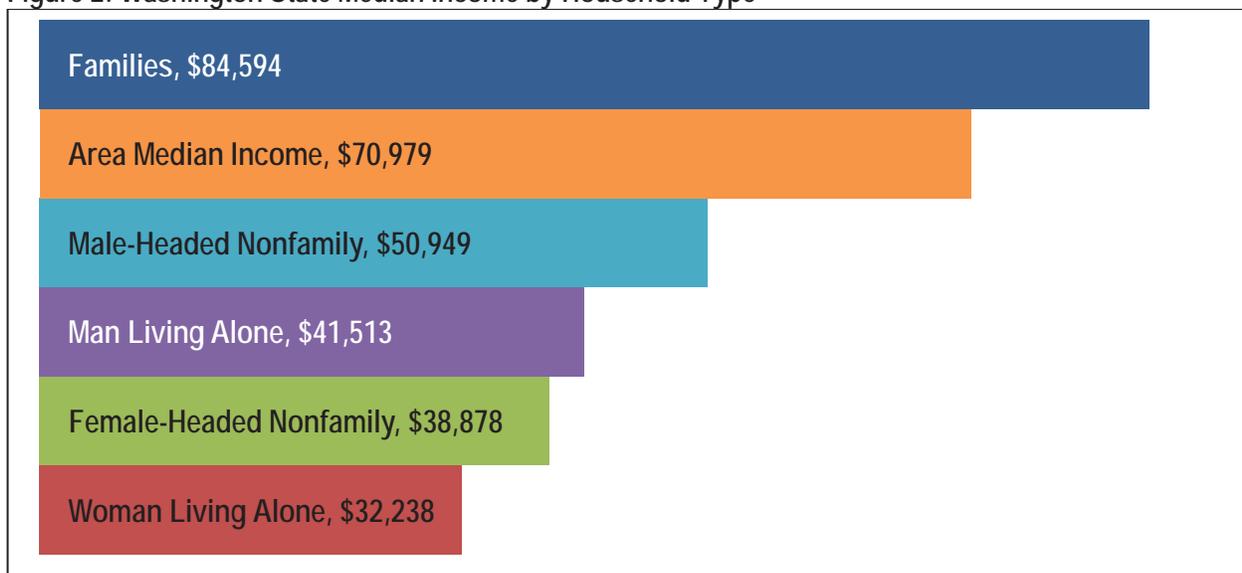
² Zillow Research, March 2018 Market Report. <https://www.zillow.com/research/low-end-inventory-shortage-19704/>

³ U.S. Census Bureau, *Building Permits Survey, Permits by State Annual Data*, <https://www.census.gov/construction/bps/stateannual.html>

According to the Runstad Center, the statewide median sales price for a single-family home rose to \$373,400 during the second quarter of 2018. Housing affordability is also lower than the previous quarter and last year. The first-time buyer index declined to 61.2, which is the percentage of first-time homebuyers with incomes high enough to purchase a typical starter home statewide.⁴

Affordability challenges are more acute in the rental market and within certain household types. Washington has 2,840,377 households and an area median income (AMI) of \$70,979. The vast majority of households (62 percent) are composed of one person or unrelated persons. These nonfamily households tend to have less income than family households and the population overall.⁵ One-person households and female-headed households have the lowest incomes of all household types. These differences are shown in Figure 2.

Figure 2: Washington State Median Income by Household Type



Source: U.S. Census Bureau American Community Survey Median Income in Past 12 Months 1-Year Estimates (2017)

When a household must spend more than 30 percent of its income on housing, the household is considered cost-burdened.⁶ Washington renters have been experiencing cost-burden at a higher rate than homeowners, with 49 percent of renters and 26 percent of homeowners experiencing cost-burden.⁷ This outcome is primarily due to renters having lower annual incomes than homeowners, as shown in Figure 3.

In 2017, the median household income for renters in Washington was \$46,837. The median

⁴ Runstad Center, Quarterly Market Summary Q2 2018, <http://realestate.washington.edu/wp-content/uploads/2018/08/2018Q2WSHMR.pdf>

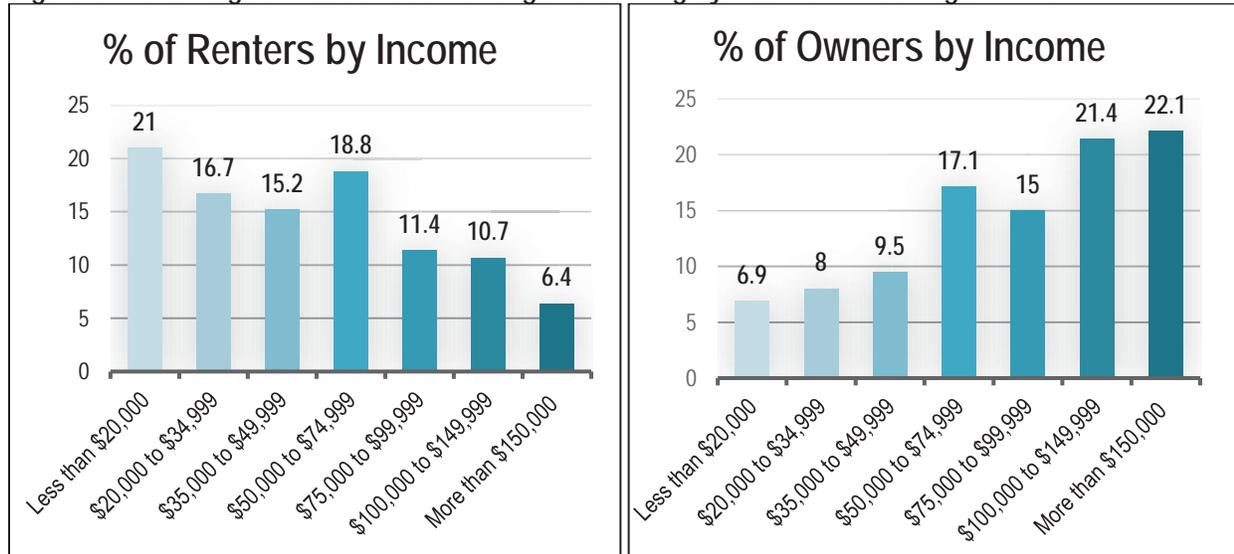
⁵ U.S. Census Bureau, 2012-2016 American Community Survey Median Income in Past 12 Months 1-year estimates (2017), <https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>

⁶ The U.S. Department of Housing and Urban Development defines housing affordability as housing for which the occupants are paying no more than 30 percent of their income on housing costs, including utilities.

⁷ See Footnote 5

household income for homeowners was nearly twice that amount, at \$87,717.⁸

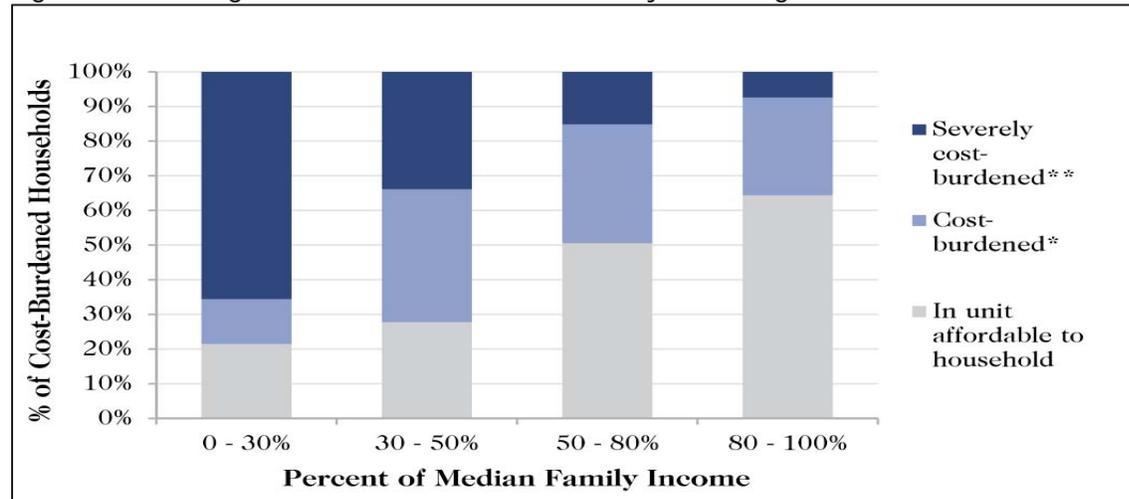
Figure 3: Percentage of Households Renting and Owning by Income in Washington in 2017



Source: U.S. Census Bureau, 2017 American Community Survey 1-Year Estimates

Although incomes in Washington are growing faster than the national average, they are not keeping pace with growing rents. And fixed incomes are growing well below the rate of inflation. According to the most recently available data, more than 217,190 renter households in the state experience severe cost-burden, meaning they pay more than half their monthly income on rent.⁹

Figure 4: Percentage of Households Cost-Burdened by Percentage of Area Median Income



Source: State of Washington Housing Needs Assessment¹⁰

⁸ See Footnote 5

⁹ U.S. Department of Housing and Urban Development, *Consolidated Planning/CHAS Data*, <https://www.huduser.gov/portal/datasets/cp.html>

¹⁰ Washington State Department of Commerce, "State of Washington Housing Needs Assessment," (2015), <http://www.commerce.wa.gov/wp-content/uploads/2016/10/AHAB-Housing-Needs-Assessment.pdf>

These severely cost-burdened households are primarily renters earning 50 percent or less of the AMI. Projections for 2019 assert that 780,341 households likely will earn less than 50 percent of the AMI and only 442,367 housing units will be affordable to those households – a shortfall of 337,974 housing units.¹¹

Bridging the Housing Gap

To bridge the housing gap, the rate of new unit production within the private housing market must increase. If the rate of new unit production does not increase, vacancy rates will remain low (below 5 percent) and continue to drive up rents.¹²

Washington’s apartment vacancy rates are the lowest in the nation, at 2.7 percent. In some counties, the vacancy rate is less than 1 percent for certain unit types.¹³ For example, the vacancy rate for one-bedroom apartments in Walla Walla County is 0.5 percent.¹⁴ This is a strong indication that many more one-bedroom apartments are needed there.

However, the private housing market typically does not accommodate households with the lowest incomes and highest need for long-term assistance. More state and local support for construction and preservation of subsidized housing units also is essential. That need is due to high competition for private market rentals and the specialized services and extremely low rents that many households need to achieve housing stability.

The federal government supports many Washington households through public housing and Section 8 vouchers. However, as the number of very low-income households increases each year, those subsidies serve a shrinking proportion of the cost-burdened, low-income households that need help.¹⁵

The Washington Department of Commerce (Commerce) and the Washington State Housing Finance Commission (HFC) hold primary responsibility for producing housing for low-income populations using state and federal funding sources.

In fiscal year 2018, the HFC issued \$552 million in multifamily, tax-exempt bonds and \$717 million in multifamily, low-income housing tax credits. These issuances resulted in the creation or preservation of 6,721 units of housing, including 839 units dedicated to formerly homeless residents.

In fiscal year 2018, Commerce’s Housing Trust Fund (HTF) awarded \$66.1 million in state and federal funding to develop more than 2,100 units to serve people with chronic mental illnesses,

¹¹ Ibid.

¹² Harvard Joint Center of Housing Studies, “The State of the Nation’s Housing,” (2017)

http://www.jchs.harvard.edu/sites/default/files/harvard_jchs_state_of_the_nations_housing_2017_chap5.pdf

¹³ See Footnote 4

¹⁴ Ibid.

¹⁵ U.S. Department of Housing and Urban Development, “Worst Case Housing Needs 2017 Report to Congress,” (2017)

families and individuals exiting homelessness, seniors, veterans, people with disabilities, and farmworkers. The Legislature also awarded \$9.9 million to the Housing Trust Fund Preservation Program to address emergent repairs and capital needs for 1,179 units within HTF's existing portfolio.

However, even at recent production levels, the combination of state and federal funding programs does not meet the full need for affordable housing across all income categories. The participation of the private housing sector, local governments, banks and developers is needed to ensure sufficient affordable options are available within the private market housing stock.

The Washington State Growth Management Act (GMA) (RCW 36.70a) provides a clear framework for affordable housing planning and development, but application and implementation at the local level requires state support. Jurisdictions are responsible for designating land and planning for higher-density housing that meets the social and economic needs of their communities. State government can assist by making appropriate tools, incentives and financial support available.

2018 Program and Policy Actions

In 2018, the Affordable Housing Advisory Board participated in several initiatives to increase the availability of affordable housing. A board member served on the executive steering committee for development of new buildable lands guidance. That effort will help streamline the identification of land suitable for housing development within the urban growth areas of the seven fastest-growing counties in the state.

The full board participated in a focus session with the William D. Ruckelshaus Center¹⁶ to identify the most important affordable housing issues through the GMA Roadmap project. The GMA Roadmap is a multiyear analysis of land-use regulations, including the GMA, the Shoreline Management Act (Chapter 90.58 RCW) and the Subdivision Act, all of which affect the type and amount of housing that is developed and the rate at which it can be constructed.

The board also is closely following implementation of "Surplus State Lands – Disposal" (Chapter 217, Laws of 2018), which promotes the use of surplus property for public benefit.

In 2018, jurisdictions around the state took steps to encourage development of more affordable housing options in their communities. They did this by amending local zoning codes to promote density within urban growth areas and by adopting local housing levies and other affordable housing tools and incentives. For example:

- The city of Bellingham reduced restrictions on accessory dwelling units¹⁷ by allowing

¹⁶ William D. Ruckelshaus Center, *A Road Map to Washington's Future*, (updated 2018), <https://ruckelshauscenter.wsu.edu/a-roadmap-to-washingtons-future/>

¹⁷ An accessory dwelling unit (ADU) is a small, self-contained residential unit located on the same lot as an existing single-family home. Learn more: <http://mrsc.org/Home/Explore-Topics/Planning/General-Planning-and-Growth-Management/Accessory-Dwelling-Units-in-Plain-English.aspx>

them in residential single-family zones citywide and reducing garage setback requirements.¹⁸

- The city of Anacortes adopted an Affordable Housing Demonstration Program with provisions for flexibility in certain zoning, design and regulatory standards for affordable housing projects meeting certain requirements.¹⁹
- Clark County adopted amendments to the Unified Development Code to support a diversity of housing choices, increasing the variety of housing types for smaller households and promoting housing affordability.²⁰
- The city of Seattle amended parking requirements in the Land Use Code and related environmental policies to increase opportunities for shared parking and eliminate parking requirements for income-restricted housing.²¹

The board continues to pursue the solutions identified in the 2017 Housing Affordability Response Team report.²² These solutions fall into three categories: land use, regulatory and funding.

The board's most relevant recommendations for the 2019 legislative session are included as an appendix to this report.

¹⁸ Bellingham Herald, "Relaxed rules for backyard cottages split the Bellingham council. Here are the new rules," (2018), <https://www.bellinghamherald.com/news/local/article210660744.html>

¹⁹ City of Anacortes, *Affordable Housing Demonstration Program*, <https://www.anacorteswa.gov/929/Affordable-Housing-Demonstration-Program>

²⁰ Clark County Community Planning, *Manufactured Housing Code Update Topic of Upcoming Open House*, (2018), <https://www.clark.wa.gov/community-planning/manufactured-housing-code-update-topic-upcoming-open-house>

¹⁴ City of Seattle, "Short Summary of Neighborhood Parking Ordinance #125558," (2018), https://www.seattle.gov/dpd/cs/groups/pan/@pan/documents/web_informational/p3789953.pdf

²² Affordable Housing Advisory Board, "2017 Housing Affordability Response Team (HART) Recommendations," (2017), <http://www.commerce.wa.gov/wp-content/uploads/2016/10/ahab-hart-affordablehousing-report-2017.pdf>

Members of the Affordable Housing Advisory Board

The Washington State Affordable Housing Advisory Board (AHAB) is a group of 19 governor-appointed experts on housing matters in Washington and three nonvoting government representatives.

The members advise Commerce on affordable housing policy matters and represent a variety of housing interests around the state. These interests range from local government representatives to public and private housing developers, landlords and nonprofits.

Derrick Belgarde, Chief Seattle Club

Allison Butcher, Master Builders of King and Snohomish County

The Honorable Claude DeCorsi, Auburn City Council

Michael Dotson, Banner Bank

Kim Herman, ex-officio, Washington State Housing Finance Commission

Tom Hoban, Coast Management

Joel Ing, Edge Developers

Diane Klontz, ex-officio, Washington State Department of Commerce

Paula Wallace Lonergan, Tacoma Rescue Mission

The Honorable Obie DJ O'Brien, Kittitas County Council

Peter Orser, Housing Affordability Response Team (HART) chair, Runstad Center for Real Estate Development

Vijya Patel, Madison Avenue Realty

Christina Pegg, Longview Housing Authority

Michone Preston, Habitat for Humanity Washington

Cindy Proctor, Beacon Development Group

Paul Purcell, AHAB chair, retired from Beacon Development Group

Shaw Seaman, DSHS Developmental Disabilities Administration

David Stillman, ex-officio, Washington State Department of Health and Human Services

Paul Trautman, AHAB vice chair, city of Spokane

Chuck Weinstock, JP Morgan Chase

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Department of Commerce

Appendix

December 2018

2019 LEGISLATIVE AGENDA

An adequate supply of affordable housing for low- and moderate-income households is now a problem statewide, in areas with strong economies as well as those that are still struggling. The issue of affordable housing requires immediate attention and a response as robust as that given to education, transportation, and climate change.

While the particular housing unit mix and the specific strategies needed to produce those units varies from area to area, the need for more available housing crosses the entire income spectrum.

- The State is growing and more housing is required at every price point. Producing market rate housing does not directly solve the affordability problem but if we do not add more units to the supply, people of limited means pay the price and feel the burden as supply tightens and prices rise.
- The cost of housing is outstripping the incomes of low- and moderate-income wage earners, the elderly, and disabled households. We need more rent restricted units and affordable home ownership produced by the financial partnership of the private, non-profit, and public sectors to close the gaps.
- Homelessness remains a terrible burden on many people including children, seniors and veterans. Investments in successful prevention strategies and the social safety net are critical.

The state has made critical resources available and passed useful regulatory reform. However, given the unprecedented breadth and depth of the problem today, a comprehensive financial and legislative response is required. No one action will solve this challenge. A multi-faceted set of actions are required to make significant headway.

To that end, the Affordable Housing Advisory Board offers the following recommendations for the 2019 legislative session.

I. Increase the Housing Trust Fund

The need for affordable housing touches all areas of Washington State. While the capacity of local jurisdictions has increased, in order to address the worsening housing crisis the state should continue to be a reliable financing partner.

Funding the Housing Trust Fund at a significantly higher level than in prior biennial budgets would help support local responses to housing needs. Identification and elimination of unnecessary costs that drive up the cost of affordable housing development would stretch the impact of the HTF.

- ✓ Fund HTF at \$600 million per biennium in response to the higher statewide affordability crisis.
- ✓ Enact appropriate reform from the State JLARC report after review by AHAB

II. Address Issues with Application of the Prevailing Wage

Passed last year, SB 5493 altered the Department of Labor and Industries (LNI) calculation of state prevailing wages and inadvertently increased residential state prevailing wages. This significantly decreases the ability to utilize public funds to construct and maintain desperately needed affordable housing. Additionally, LNI has a long standing practice of applying commercial wage rates to residential projects, which impacts the ability of non-profits to bring additional units to the market. The Legislature could address these policies through the following actions.

III. Enact Condominium Liability Reform

Affordable condominiums are an important part of a healthy and inclusive housing market as they provide another access to homeownership, especially for first time homebuyers. Reforming current statutes related to condominium development should address concerns about litigation risk while maintaining appropriate consumer protections to enable increased production of affordably priced units.

IV. Support Strategies to Prevent Homelessness

As rents increase throughout the state, households with extremely low incomes become more vulnerable to homelessness. A strong safety net including provisions for basic needs and reasonable tenant protections to prevent unnecessary evictions are both necessary to improve housing stability for these households. To achieve this goal, the legislature should consider the following actions.

- ✓ Increase funding for the Housing and Essential Needs Program to accommodate the increase in eligible individuals and stem the flow from housed to homeless.
- ✓ Enact statewide Just Cause Eviction to enable tenants in substantial compliance with their occupancy agreements to remain housed.

V. Update the Growth Management Act

The Buildable Lands Review pursuant to SB 5254 and the Ruckelshaus Initiative are currently underway. These are both showing signs of good work and will advance our understanding of the act and how well it is working to enable a variety of housing types. It is clear that adjustments and additional resources will be required to do the level of work necessary for successful implementation of these efforts. We have provided some suggestions below, as the work is ongoing and the Legislature should prepare for the new responsibilities for State and local government inherent in these studies.

- ✓ Adjust the Growth Management Act (GMA) plan update intervals so that local jurisdictions can use this work within the limits of their Community Wide Planning Policies. For instance, lengthen the overall Plan update to 10 years to coincide with Census data, but shorten the Housing Element updates to 5 years to better align with housing market changes.
- ✓ Reduce land capacity analysis review requirements so that it is easier to do the analysis and compare information across jurisdictions. We acknowledge effort is underway on this under the Buildable Lands Review.
- ✓ Fund the Planning and Environmental Review Fund (PERF) to provide grants as a way to encourage local governments to do up front environmental review on an area-wide basis.

VI. Require Minimum Net Urban Density

To accommodate population growth and the need for additional units while preserving and protecting environmentally critical areas, the Growth Management Act should be modified to require minimum densities of dwelling units in urban growth areas with higher targets near high capacity transit corridors¹

VII. Modify the Local Project Review Act- Procedural Completeness Review

To bring more efficiency to the permit process without impacting other existing permit requirements and to facilitate housing development, the Local Project Review Act should be modified with the goal of streamlining and shortening the process for making a consistent determination of completeness. One way to achieve this is to define “complete application” for a development permit at the statewide level.

VIII. Fund Planning Grants for Implementation of Local Affordable Housing Programs

Many jurisdictions lack the capacity to effectively plan and implement local affordable housing policies. The legislature should provide funding on a competitive basis to local jurisdictions for long term planning and staffing to streamline permitting processes for affordable units and for local government projects that involve Planned Actions, Infill Development, Multifamily Tax Exemptions, Mandatory Affordability Programs, Manufactured Home Parks, or Farmworker Housing.

- ✓ Provide Geographic Information Systems (GIS) and other technologies to better analyze the current condition.
- ✓ Provide resources to improve county assessor’s data to help non-GMA counties get better information.

IX. Incentivize Local Affordable Housing Development and Policy Adoption through Funding Criteria

The State could create an effective incentive for jurisdictions to make progress toward meeting local housing goals by requiring agencies to embed housing considerations into their funding prioritization schemes. Three ways of doing this are as follows.

- ✓ In awarding grant funds or other State recognition, such as SMART Communities and Complete Streets to local jurisdictions, consider local adoption of affordable housing policies, permit streamlining, and affordable housing² production.
- ✓ In reviewing local government state grant and loans applications, such as Public Works Trust Fund, Transportation Improvement Board, Community Economic Revitalization Board, Job Development Fund, award bonus points to applications that clearly address state housing goals.
- ✓ Amend the Public Works Assistance Account to provide funding for infrastructure creation and improvement to jurisdictions that are developing affordable housing at a certain density level or initiating compact development.

¹ High Capacity Transit Corridor is defined as “a system of public transportation services within an urbanized region operating principally on exclusive rights of way, and the supporting services and facilities necessary to implement such a system, including interim express services and high occupancy vehicle lanes, which taken as a whole, provides a substantially higher level of passenger capacity, speed, and service frequency than traditional public transportation systems operating principally in general purpose roadways.” RCW 81.104.010

² Affordable housing is housing that is affordable to households making up to 80% or less of the Area Median Income. Housing is affordable when the cost of monthly rent or PIMI (principal, interest, mortgage and insurance) and utilities constitutes less than 30% of the household income

X. Require Affordable Housing Incentive Programs

RCW 36.70A.540 provides that jurisdictions may enact affordable housing incentive programs to encourage developers toward affordable options alongside market rate ones. Every jurisdiction, whether small or large, should be required to include a voluntary incentive for affordable housing. The developer may or may not utilize the incentive, but it should be available as a choice.

XI. Expand the Multifamily Tax Exemption

The Multifamily Tax Exemption (MFTE) program has been a useful tool, providing important local flexibility to produce affordable housing without other forms of housing subsidy and to stimulate community reinvestment in the jurisdictions where it is currently allowed. The exemption should be available to a jurisdiction of any size, extended for an initial 15 year term, provide for renewal at the end of the initial term, and enable the exemption to be used to preserve non-subsidized “naturally occurring affordable housing” units with affordable rent.

XII. Address Timing Issues with Impact Fee Collection

Mitigation payments (impact fees) are an important tool to offset development impacts. However, the payment is required at the start of a project long before the full impact exists, a mitigation project is actually ready to be funded, or sufficient revenues are available to offset the costs of the mitigation project. Often dollars must be pooled from multiple projects before the aggregate payment is of any consequence to fund an actual mitigation (e.g. a school). This early payment adds cost to a project which erodes affordability or consumes public subsidy dollars.

A revolving loan fund that could aggregate funds, loan against as yet to be collected funds, and manage a latecomer program to recover funds from those who benefit at a later date could bridge these issues of timing. This is a tool that could be used for all levels of housing, but waivers granted specifically for affordable housing for utility connections or impact fees could also be repaid to the local municipality through grants by the state to, and then through, this fund.

XIII. Authorize Local Sales Tax Programs

Addressing affordability across the full continuum of income levels requires the participation of all levels of government. To enable more options for local capital investment local governments should be authorized to impose a local sales tax credited against the state sales tax to support development or rehabilitation of affordable housing.

XIV. Authorize Additional Property Tax Programs

Similar to the Multifamily Tax Exemption, property tax as a relief for affordable initiatives should be considered. Some suggested approaches are below.

- ✓ Offer property tax relief to homeowners who rent a portion of their home to non-family members below 50% AMI.
- ✓ Authorize a voter-approved local option regular property tax using the unused portion for the state regular property tax levy within a specified county or city. Allow funding to be used in place of impact fees.
- ✓ Provide a “holding time” graduated property tax reflecting only land value until certificate of occupancy is delivered then reflecting land and improvement value for affordable housing.

- ✓ Provide a partial property tax exemption for affordable rental or for sale units for households at 80% or less of the median income (per RCW 84.36.560)