

## 2017 Affordable Housing Update

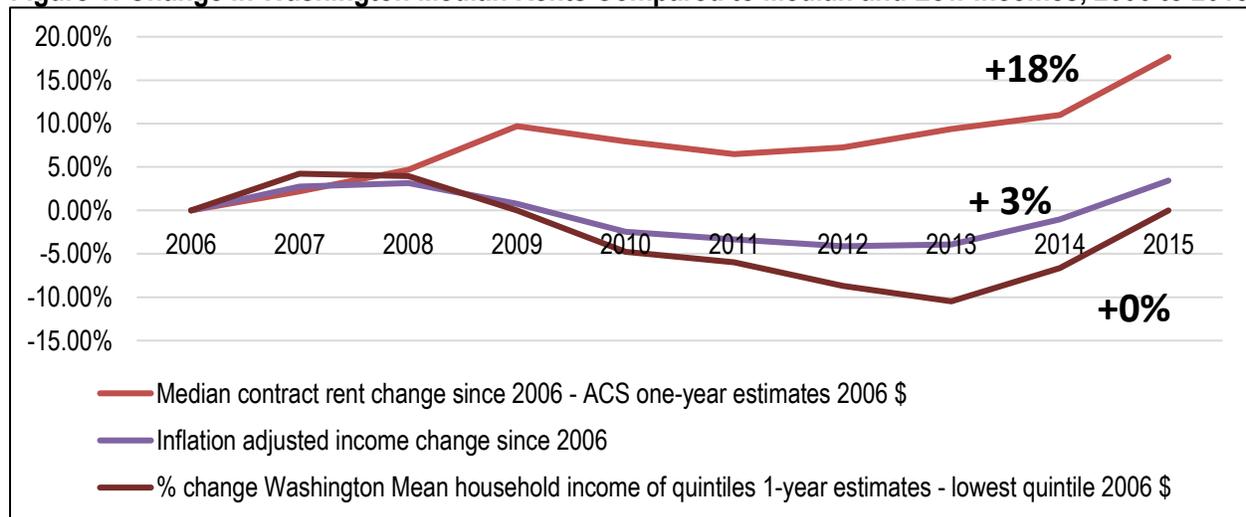
*An update on affordable housing needs, accomplishments and recommendations to improve access to safe and affordable housing for all Washington residents, pursuant to RCW 43.185B.040.<sup>1</sup>*

### Current State of Affordable Housing Needs

Housing supply and affordability issues affect every community in Washington. As the state's economy continues to rebound from the Great Recession, the resulting growth in population<sup>2</sup> and low housing vacancy rates<sup>3</sup> have produced a tight housing market in which existing inventory is priced at a premium.<sup>4</sup> Low and middle income households feel this market pressure the most and have the fewest number of housing options in the private market. Low income households are increasingly more vulnerable to homelessness.<sup>5</sup>

Between 2006 and 2015 the median income in Washington increased 3 percent. During the same period, median rents increased 18 percent. Incomes for the lowest fifth of households are equal to where they were in 2006.

**Figure 1: Change in Washington Median Rents Compared to Median and Low Incomes, 2006 to 2015**



Source: See footnote 3.

<sup>1</sup> Washington State Legislature, RCW 43.185B.040, (1993), <https://app.leg.wa.gov/rcw/default.aspx?cite=43.185B.040>

<sup>2</sup> Washington State Office of Financial Management, *Population change: natural increases and net migration*, <https://www.ofm.wa.gov/washington-data-research/statewide-data/washington-trends/population-trends/population-change-natural-increase-and-net-migration>

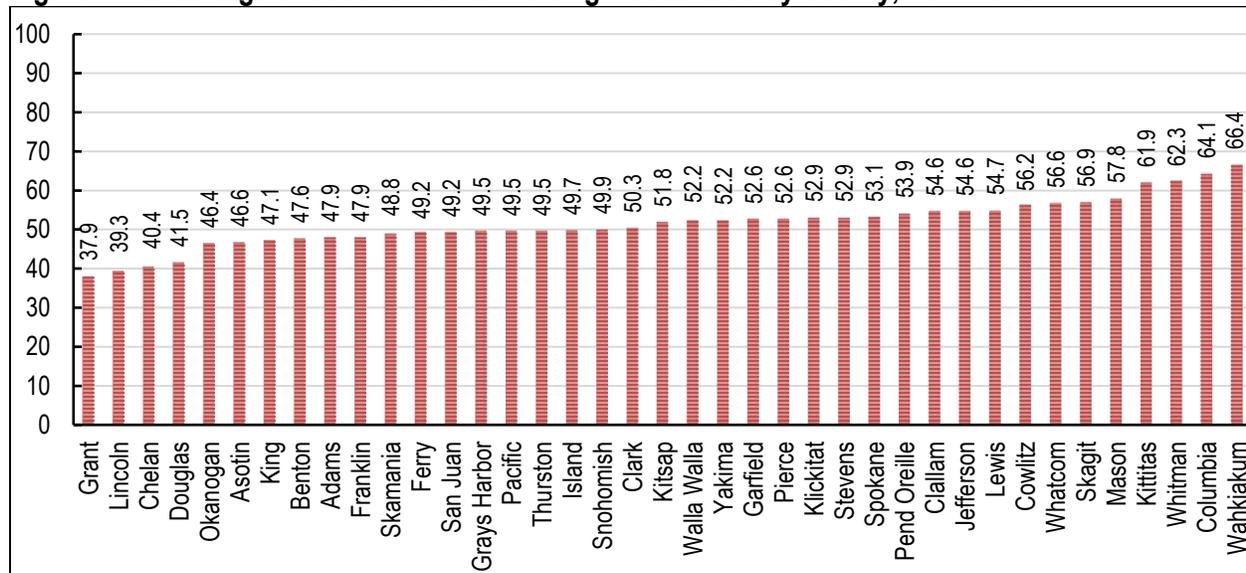
<sup>3</sup> United States Census Bureau, America Community Survey, Median Contract Rents 1-year estimates, <https://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t#acsST>

<sup>4</sup> United States Census Bureau, American Community Survey, Selected Housing Characteristics 1-year estimates

<sup>5</sup> Washington State Department of Commerce "Why is Homelessness Increasing?," (2017) <http://www.commerce.wa.gov/wp-content/uploads/2017/01/hau-why-homelessness-increase-2017.pdf>

With incomes lagging behind rent increases, 51 percent of renters statewide have become “cost-burdened,” spending more than 30 percent of household income on housing.

**Figure 2: Percentage of Cost-Burdened Renting Households by County, 2011-2015**



Source: American Community Survey 2011-2015 five year estimates, U.S. Census Bureau

Currently, there are over 234,000 households considered “severely cost-burdened” in Washington state. Severely cost-burdened households pay more than half their monthly income on rent.<sup>6</sup> These households are primarily renters earning 50 percent or less of the Area Median Income. The number of these households increases annually due to rising housing costs and wages that do not keep pace with increasing costs of living. It is projected that by 2019 there will be 780,341 households earning less than 50 percent of the Area Median Income and only 442,367 units affordable to that income level; a shortfall of 337,974 housing units.<sup>7</sup>

Prospective homeowners are also impacted by the lack of affordable housing. In 2017, the statewide median sales price for a home in Washington reached \$337,700, 6.6 percent higher than 2016. This represents an all-time high for statewide house prices and the highest median home price ever recorded in Washington.<sup>8</sup> The Runstad Center for Real Estate Research at the University of Washington asserts that a low supply of existing homes listed for sale is likely a leading factor promoting rapid house price growth throughout the state.<sup>9</sup>

Many factors contribute to lack of housing supply, but most fall into three main areas: land use

<sup>6</sup> See footnote 3.

<sup>7</sup> Affordable Housing Advisory Board “Affordable Housing Needs Study” <http://www.commerce.wa.gov/housing-needs-assessment/>

<sup>8</sup> Washington Realtors, “Washington state median house prices at record level of \$337,700,” (August 2017), [https://www.warealtor.org/resources/media/news-articles/sub-news-article/2017/08/29/washington-state-median-house-prices-at-record-level-of-\\$337-700](https://www.warealtor.org/resources/media/news-articles/sub-news-article/2017/08/29/washington-state-median-house-prices-at-record-level-of-$337-700)

<sup>9</sup> Runstad Center for Real Estate Studies “Home Prices up, supply down in second quarter of 2017”. <http://www.washington.edu/news/2017/08/28/home-prices-up-supply-down-in-second-quarter-of-2017/>

barriers, regulatory obstacles to housing construction, and financial obstacles to housing construction.<sup>10</sup> Many communities lack the resources or capacity to effectively assess local needs, barriers, and opportunities for affordable housing. Comprehensive plans often do not address the full range of housing options needed for affordability across the income spectrum, such as accessory dwelling units, cottages, townhouses, and single room occupancy units.

Additionally, high housing development costs are exacerbated by construction delays from lengthy regulatory timelines, competition for developable land, the costs of extending infrastructure to new development, and a lack of builders to keep up with the demand for new units. These factors must be addressed before a diverse and sufficient housing supply will be available in every community.

## ***Funding Sources***

Addressing affordability across the full continuum of income levels within a community requires the strong commitment of both public and private entities. Generally, the public sector targets resources toward those households with the very lowest incomes and highest need for long-term assistance. The Department of Commerce (Commerce) and the Housing Finance Commission (Commission) continue to hold primary responsibility for producing housing for this population through state funding sources. The federal government also provides funding for construction, rehabilitation, and rental subsidies to supply affordable homes to a range of low-income households.

One of the most effective and well-known sources of federal support for new construction is the Low Income Tax Credit Program, which offers tax incentives to private developers to secure their up-front investment of equity into affordable housing projects. With passage of the recent federal tax reform legislation, the value of these credits will be reduced by an uncertain amount, thus making the credits less appealing to private investors.<sup>11</sup> This will create a funding gap that must be addressed through state and local funds.

Current state and federal funding program funding levels cannot meet the full need and demand for affordable housing. The private housing sector, local governments, banks, and developers must also work together to ensure that sufficient affordable options are available within the private market housing stock. The Growth Management Act<sup>12</sup> provides a clear framework for affordable housing planning and development, but application and implementation must be strengthened at the local level. Communities need to designate land and plan for higher-density housing that meets the needs of low and middle income households, and developers must be willing and able to produce it.

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

<sup>11</sup> Novogradac & Company LLP, “Final Tax Reform Bill Would Reduce Affordable Housing Rental Production by Nearly 235,000 Homes,” <https://www.novoco.com/notes-from-novogradac/final-tax-reform-bill-would-reduce-affordable-rental-housing-production-nearly-235000-homes>

<sup>12</sup> Washington State Legislature, RCW 36.70a, <http://apps.leg.wa.gov/RCW/default.aspx?cite=36.70a>

## 2017 Program and Policy Actions

Recent state and federal investments in affordable housing through the Housing Trust Fund and Commission programs have created or preserved nearly 10,000 units. In the 2015-2017 biennium the Housing Trust Fund invested \$88.5 million in 61 projects to create and preserve over 2,700 affordable housing units. Fifty-seven percent of those units will house extremely low-income (earning 30 percent or less of the Area Median Income) individuals and households including:

- Homeless families with children
- Homeless youth
- People with chronic mental illnesses
- Veterans
- Farmworkers
- Seniors
- People with disabilities
- First-time homebuyers

In calendar year 2017, the Housing Finance Commission issued \$732 million in multifamily tax-exempt bonds and \$644 million in multifamily low income housing tax credits resulting in the creation or preservation of 7,049 units of housing, including 472 units dedicated to formerly homeless residents.

Several new projects began in 2017 with the goal of making affordable housing development more feasible in the private market. The Make Healthy Housing project, a partnership between the Department of Ecology and Commerce, will identify sites in the Integrated Site and Information System<sup>13</sup> with high potential to be successfully cleaned up and developed into affordable housing. Additionally, Commerce recently contracted with Land Development Consultants, Inc. to develop Buildable Lands Guidance that 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. And finally, the Ruckelshaus Center began development of the Growth Management Act Roadmap (GMA) Roadmap. The GMA Roadmap is a multiyear analysis of land use regulations including the GMA, the Shoreline Management Act<sup>14</sup> and the Subdivision Act,<sup>15</sup> that can impact the type and amount of housing that is developed and the rate at which it can be constructed.

Local jurisdictions around the state took steps this year to encourage development of more affordable housing options within their communities. They did this by amending local zoning

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<sup>13</sup> Washington State Department of Ecology, *Integrated Site Information System (ISIS) Website – (Cleanup Site & Underground Storage Tank (UST) information)*, <https://data.wa.gov/Natural-Resources-Environment/Integrated-Site-Information-System-ISIS-Website-Cl/h9yj-vui4/data>

<sup>14</sup> Washington State Legislature, *Shoreline Management Act of 1971*, (1971), <http://app.leg.wa.gov/rcw/default.aspx?cite=90.58>

<sup>15</sup> Washington State Legislature, *Chapter 58.17 RCW*, (1969), <http://app.leg.wa.gov/RCW/default.aspx?cite=58.17.010>

codes to promote density within urban growth areas and adopting local housing levies and other affordable housing tools and incentives. A few examples of local governments taking steps to encourage affordable housing development include:

- ✓ The **City of Bellevue** approved a comprehensive Affordable Housing Strategy<sup>16</sup> calling for updates to current accessory dwelling unit (ADU) standards to allow detached units in some neighborhoods and make ADU's easier to build.
- ✓ The **City of Olympia** launched a comprehensive, collaborative effort targeting the "Missing Middle"<sup>17</sup> shortage of housing units for middle income households.
- ✓ The **City of Vancouver** launched their Affordable Housing Fund,<sup>18</sup> which is made possible by a local housing levy that was approved by voters in late 2016. These funds will provide capital to community organizations to build, rehabilitate and preserve affordable housing throughout the city.

In March of 2017, the Affordable Housing Advisory Board convened the Housing Affordability Response Team (HART). HART is an interdisciplinary team of housing development, construction, financing and planning experts to learn about the broad spectrum of issues related to housing supply, and identify possible solutions. The team examined existing systems related to housing development and produced a report with recommendations to Commerce and Gov. Inslee on how to open increased opportunities for additional housing, remove barriers to housing production and increase the affordable housing stock. The solutions they identified fell into three categories: land use, regulatory, and funding. The report<sup>19</sup> was finalized and published in June 2017. The most pertinent recommendations are listed below.

## ***Recommendations to Meet the Need***

### **1. Provide sufficient, stable, and dependable funding for affordable housing.**

- ✓ Increase investments in the Housing Trust Fund and designate additional, supplemental funding sources to help meet the growing need for affordable housing.
- ✓ Stabilize Housing Trust Fund capital appropriations to allow for more accurate planning and development of low-income housing.
- ✓ Expand and renew document recording fees that fund state and local homelessness crisis response systems.
- ✓ Make investments to preserve properties in the Housing Trust Fund portfolio.
- ✓ Provide state resources to preserve affordable, federally funded, and privately owned units that are in need of maintenance or rehabilitation.

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<sup>16</sup> City of Bellevue, "City of Bellevue Affordable Housing Strategy," (June 2017), <https://bellevue.legistar.com/View.ashx?M=F&ID=5201317&GUID=1FA3F9EF-FEC5-4481-BAD3-CD5EB5E78C89><https://bellevue.legistar.com/View.ashx?M=F&ID=5201317&GUID=1FA3F9EF-FEC5-4481-BAD3-CD5EB5E78C89>

<sup>17</sup> City of Olympia, *Missing Middle Housing*, <http://olympiawa.gov/city-government/codes-plans-and-standards/missing-middle.aspx>

<sup>18</sup> City of Vancouver, *Affordable Housing Fund*, <https://www.cityofvancouver.us/ced/page/affordable-housing-fund>

<sup>19</sup> 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>

- ✓ Fund the Public Works Assistance Account and consider whether it could be used to fund infrastructure in support of new affordable housing development. Lack of infrastructure is a barrier to housing development, particularly in rural areas.<sup>20</sup>

**2. Support local governments to assess land capacity through buildable land reports.**

Fund implementation of SB 5254<sup>21</sup> to ensure local jurisdictions get needed clarity and guidance on how to accurately assess and report buildable lands capacity and increase the supply of affordable housing in their communities. This recommendation is discussed in more detail on page 12 of the HART report.

**3. Encourage public agencies to consider underutilized public property as an opportunity for affordable housing.**

Affordable housing developers find it difficult to identify and purchase suitable, affordable property. Gifts, sales at a reduced price, and long-term leasing of publically owned property to affordable housing developers increases the feasibility of developing new projects.

**4. Revise the Condominium Act<sup>22</sup> to remove unnecessary disincentives to condominium construction, while retaining important consumer protection measures.**

Enacting condominium liability reform would encourage creation of more housing supply and homeownership opportunities for middle-income households by getting more of this affordable housing type to market.

**5. Provide broad-based education to encourage communities to facilitate the development of affordable housing.**

AHAB supports the addition of an Affordable Housing Navigator within the Housing Finance Unit at the Department of Commerce. This position would perform needed outreach and promote effective collaboration with the housing development community, elected officials, city and county staff, financial institutions, and the public to address affordable housing issues.

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<sup>20</sup> See page 11 of the HART recommendations in footnote 19.

<sup>21</sup> Washington State Legislature, *SB 5254*, (2017), <http://app.leg.wa.gov/billsummary?BillNumber=5254&Year=2017>

<sup>22</sup> Washington State Legislature, *Condominium Act*, (1989), <http://apps.leg.wa.gov/rcw/default.aspx?cite=64.34>

## ***Members of the Affordable Housing Advisory Board***

The Washington State Affordable Housing Advisory Board is a group of 19 governor-appointed experts on housing matters in Washington state and three non-voting Ex-Officio government representatives. They advise the Washington State Department of 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 non-profits.

**M.A. Leonard**, AHAB Chair, Enterprise Community Partners  
**Joel Ing**, AHAB Vice Chair, Edge Developers  
**Peter Orser**, HART Chair, Runstad Center for Real Estate Development  
**Christina Pegg**, Longview Housing Authority  
**Paul Trautman**, City of Spokane  
**Shannon Affholter**, Master Builders Association of King and Snohomish Counties  
**Derrick Belgarde**, Chief Seattle Club  
**The Honorable Claude DeCorsi**, Legislative Chair, Auburn City Council  
**Connie Devaney**, Kwabe Memorial House  
**Tom Hoban**, Coast Management  
**Paula Wallace Lonergan**, Tacoma Rescue Mission  
**The Honorable Obie DJ O'Brien**, Kittitas County Council  
**Michael Dotson**, Banner Bank  
**Vijya Patel**, Madison Avenue Realty  
**Michone Preston**, Habitat for Humanity Washington  
**Cindy Proctor**, Beacon Development Group  
**The Honorable Vickie Raines**, Grays Harbor County Commissioner  
**Shaw Seaman**, DSHS Developmental Disabilities Administration  
**Chuck Weinstock**, JP Morgan Chase  
**Kim Herman**, Ex-Officio, Washington State Housing Finance Commission  
**Diane Klontz**, Ex-Officio, Washington State Department of Commerce  
**David Stillman**, Ex-Officio, Washington State Department of Health and Human Services

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**Department of Commerce**