

# Affordable Housing Update



2019 Affordable Housing Update Pursuant to RCW 43.185B.040

**AFFORDABLE HOUSING  
ADVISORY BOARD**

February 1, 2020

REPORT TO THE LEGISLATURE

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# Acknowledgments

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# Executive Summary

## Overview

The Affordable Housing Advisory Board (AHAB) is a 21-member board appointed by the Governor. Its role is to “address the state’s need for housing that is affordable to all economic segments and populations” and serve as the Department of Commerce’s (Commerce) principal advisory body on housing and housing-related issues.<sup>1</sup>

Commerce is required to submit an annual progress report to the legislature, detailing the extent to which the state's affordable housing needs were met during the preceding year and recommendations for meeting those needs. This requirement is found in RCW 43.185B.040(2)(b):

*"Each February 1st, beginning February 1, 1995, the department shall submit an annual progress report, to the legislature, detailing the extent to which the state's affordable housing needs were met during the preceding year and recommendations for meeting those needs."*

This report constitutes the 2019 update.

## Key Findings

While housing starts are at a 13-year high in fast-growing areas of Washington, affordability remains a problem for most households. In 2019, despite increased permitting activity, housing affordability worsened throughout the state by 10%.<sup>2</sup> For low and extremely low-income households, the situation is worse than ever. Twenty-two percent of Washington renters (234,362 households) are extremely low-income, and there is a deficit of 165,345 units that are both affordable and available to them.<sup>3</sup>

## Summary of Recommendations

Communities can achieve housing affordability by ensuring that a variety of housing types are available, including naturally affordable and subsidized units. The state's role is to offer effective tools and guidance to help meet local needs. Thus, the Department of Commerce and the Affordable Housing Advisory Board (AHAB) recommend the following policy actions:

1. Expand housing choices for low and moderate-income households.
2. Authorize effective tools to help local governments reach appropriate housing goals.
3. Substantially increase the number of units specifically affordable to low and extremely low-income households through increased state funding for subsidized housing.

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<sup>1</sup> See Appendix A

<sup>2</sup> Most of the increase in housing construction occurred in King and Pierce Counties. Center for Real Estate Research, Housing Market Report Q2, 2019, <http://realestate.washington.edu/wp-content/uploads/2019/09/2019Q2WAHMR.pdf>. Accessed 11/23/2019

<sup>3</sup> National Low Income Coalition, Out of Reach 2019: Washington State, <https://reports.nlihc.org/oor/washington>. Accessed 12/2/2019.

# Current State of Affordability

## Overview

In 2019, rapid economic and population growth in Washington's metropolitan communities continued to negatively affect housing affordability throughout the state. Meanwhile, permitting activity for both single-family and multifamily homes increased: the Center for Real Estate Research at the University of Washington noted a 23.3% increase in total permitting activity.<sup>4</sup> Despite the increase in permitting activity, housing affordability worsened throughout the state by 10%.<sup>5</sup> These statistics refute a common misconception: more housing inventory does not automatically translate to better affordability in the housing market.

The market has responded to consumer demand with more inventory, but newly constructed units tend to lack diversity in housing type and target higher wage earners. Single-family and high-rise multifamily buildings earn a higher return over high development costs, so suppliers favor them, but most Washingtonians cannot afford them. Throughout the state, very little new housing is developed that is affordable for middle and lower-income households unless it is subsidized through government funding.

## Higher-Priced Housing for Fewer Consumers

High development costs are a key factor in the market dynamic described above. In 2017, the [Housing Affordability Response Team \(HART\)](#),<sup>6</sup> a special committee of the AHAB, delivered to Governor Inslee [recommendations](#)<sup>7</sup> on improving housing affordability and reported the following:

*"During the development process for housing projects, significant risk exposures exist for the developer and other parties. This is because the project must be complete before income and anticipated profit is generated. To compensate for this risk, the market-rate developer, investor, and other capital providers establish a minimum expected rate of return on their investment that must be achieved before they will go forward with the project."*

Thus, market-rate developers apply a market demand approach, which favors the higher-end and more profitable, housing types (large-scale multi-family and single-family)<sup>8</sup> preferred by high-income earners who tend to reside in urban areas. The consequence of this combination of factors is that more affordable markets cannot compete with higher-priced markets, and less profitable but more affordable housing types are not produced to the extent they are needed.<sup>9</sup> The housing inventory has grown, but overall affordability has not improved.

One way to address the shortfall of housing that is affordable to households with median incomes is by building smaller-scale multifamily units that are naturally more affordable. This type of housing, which includes duplexes, triplexes, fourplexes, courtyard apartments and townhomes, is also known as the "missing middle."

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

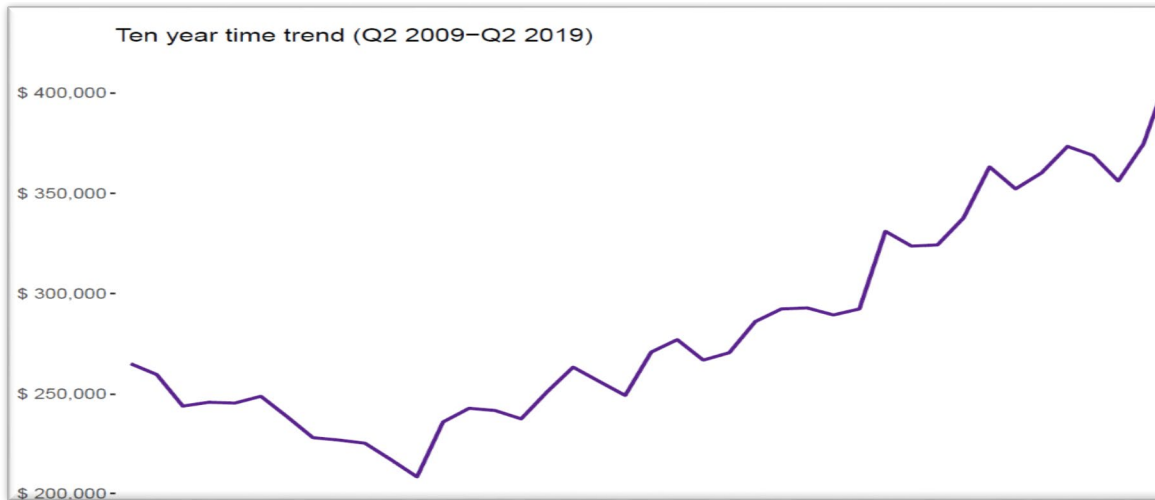
<sup>6</sup> Affordable Housing Advisory Board, "Affordable Housing Advisory Board (AHAB)- Housing Affordability Response Team Meetings and Materials," [https://www.ezview.wa.gov/site/alias\\_1961/overview/37021/overview.aspx](https://www.ezview.wa.gov/site/alias_1961/overview/37021/overview.aspx)

<sup>7</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>

<sup>8</sup> Puget Sound Regional Council annual permitting data, <https://www.psrc.org/sites/default/files/pmt2017.xlsx>. Accessed 12/1/2019

<sup>9</sup> Washington State Department of Commerce, Housing Memorandum: Issues Affecting Housing Availability and Affordability, <https://deptofcommerce.app.box.com/s/npwem3s3rvcsya15nylbroj18e794yk7>. Accessed 11/26/2019

**Figure 1: Median Home Prices in Washington State, 10-Year Trend Data**

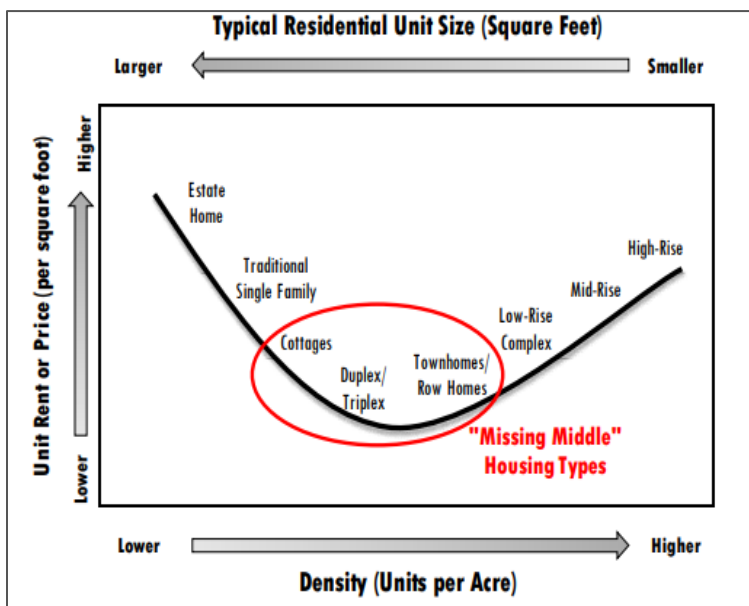


Source: [Center for Real Estate Research, Housing Market Report Q2, 2019](#)

## "Missing Middle" Housing Types

"Missing middle" housing is a range of multi-unit or clustered housing types that are compatible in scale with detached single-family homes and provide solutions along a spectrum of affordability. These housing types sell or rent at moderate costs compared to detached single-family units and higher density attached unit types, yet most cities prohibit or strongly discourage them. Local governments that attempt to authorize infill development with more missing middle housing types often meet community resistance based on fears that higher-density housing will change the character of existing neighborhoods; bringing communities around to support the required zoning changes can require an extensive, costly communications campaign to persuade stakeholders and constituents.

**Figure 2: Housing Type Spectrum - Relationship between Housing Types, Price and Rent, Housing Unit Size and Housing Density**



High-rise development overwhelmingly uses some combination of steel and concrete, which are the highest-cost forms of construction for residential use.

Large lot single-family construction is expensive due to the cost of more land, generally a larger house, no shared walls with other units, and greater per unit infrastructure costs to extend and connect.

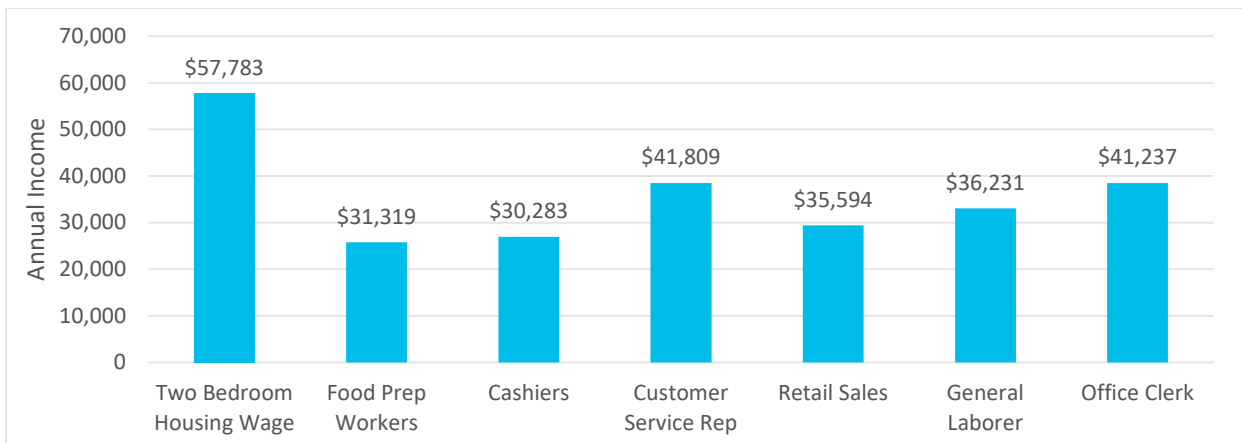
Low-rise and attached single-family (including two, tri, and fourplexes, cottages, townhouses, etc.) can be entirely built with wood construction and are the least expensive typologies to build.

## Growing Need for Low-Income Housing

Affordable housing is commonly defined in terms of housing costs as a percentage of household income. Housing is considered unaffordable when a household's monthly housing costs exceed a certain threshold – most commonly 30 percent of gross income – thereby reducing the budget available for other necessities and amenities. For households with lower incomes, high housing costs often mean they must choose between paying for housing or getting other life necessities like food or medications.

Although incomes in Washington state are growing faster than the national average, they are not keeping pace with growing rents, and fixed incomes such as retirement or disability incomes have grown well below the rate of rent inflation.<sup>10</sup> Consequently, there is a significant gap between renters' wages and the cost of housing. According to the National Low-Income Housing Coalition's 2019 Out of Reach report, it costs twice the minimum wage, or \$57,782 per year, to affordably rent a two-bedroom unit in Washington state. This figure is known as the "housing wage."

**Figure 3: Median Wages for Largest Occupations Compared to Two-Bedroom Housing Wage**



Sources: National Low Income Housing Coalition- Within Reach 2019. Wage and hour statistics derived from the [Employment Security Department Occupational Employment and Wage Estimates](#), 2019 accessed January 3, 2020.

In Washington state, nearly half of renters are cost-burdened. Those with extremely low incomes, meaning their household income is 30% or less of the Area Median Income, have the hardest time finding and keeping housing.<sup>11</sup> Twenty-two percent of Washington renters (234,362 households) are extremely low-income, and there is a deficit of 165,345 units that are both affordable and available to them.<sup>12</sup> When housing costs are more affordable and housing opportunities are more readily available, there is a lower likelihood of these households becoming homeless, and households who do become homeless can exit homelessness more quickly and with a greater likelihood of sustaining that housing long-term.

<sup>10</sup> U.S. Census Bureau American Community Survey one-year estimates for Washington State, B25058, B25057, B19081; inflation adjusted using the Bureau of Labor Statistics CPI-U.

<sup>11</sup> ACS Select Housing Characteristics, 2017 5-Year Estimates

<sup>12</sup> National Low Income Coalition, Out of Reach 2019: Washington State, <https://reports.nlihc.org/oor/washington>. Accessed 12/2/2019.

# 2019 Progress

The Department of Commerce provides tools to local governments, nonprofits, and community action agencies so they can provide housing to low-income members in their communities. Commerce administers the Housing Trust Fund (HTF), the state’s most important investment toward achieving the goal of ensuring that everyone has the opportunity to live in a safe, decent, affordable home. Since 1986, the state has invested more than \$1 billion to provide 50,000 units of affordable housing to eligible families and individuals.

In 2019, the Housing Trust Fund awarded capital funding to organizations to build more than 2,300 multifamily low-income housing units throughout the state, 876 of which will be dedicated to homeless housing. The Washington State Housing Finance Commission, the state's allocating agency for the federal Low-Income Tax Credit program, approved more than \$331 million in financing that will build or renovate and preserve more than 1,000 apartments affordable to people with lower incomes. While these investments are significant, they are not enough to meet the growing need for affordable housing statewide.

HB 1406 (the Affordable and Supportive Housing Sales and Use Tax) and HB 1923 (Increasing urban residential building capacity) were two significant legislative bills passed in 2019. Both bills provided new investments in affordable housing.

Thus far, 29 jurisdictions have completed all the steps necessary to implement the Affordable and Supportive Sales and Use tax locally, and many more plan to do so. More than \$1 million in tax distributions from the Department of Revenue have gone to jurisdictions for affordable and supportive housing development and support, and rental assistance for low-income households in some cases. Commerce awarded grants to 52 fully planning communities with funding provided through HB 1923 (See Figure 4). An additional funding round for partially planning jurisdictions is now underway. The grants will fund housing action plans and city code changes to increase urban residential building capacity and streamline development regulations.

**Figure 4: Commerce awards \$4 million to 52 communities to address housing affordability<sup>13</sup>**

Municipal Code Changes	Single City Housing Action Plans	Regional Housing Action Plans	Sub Area Plans
Algona	Arlington	Auburn, Burien, Federal Way, Kent, Tukwila and Renton	Airway Heights
Bothell	Camas	Bonney Lake and Sumner	Kirkland
Bremerton	Everett	Lacey, Olympia, Tumwater	Lakewood
Chelan	Leavenworth	Walla Walla with College Place, Waitsburg and Dayton	Marysville
Covington	Lynwood		Port Orchard
East Wenatchee	Monroe		
Fife	Mukilteo		
Fircrest	Oak Harbor		
Lake Stevens	Poulsbo		
Mount Vernon	Puyallup		
Pasco	Redmond		
Port Angeles	Seattle		

<sup>13</sup> <https://deptofcommerce.app.box.com/s/tfhqjbqge5nz5e5c81v9u2pu4h901nmf>, accessed March 3, 2020.



Municipal Code Changes	Single City Housing Action Plans	Regional Housing Action Plans	Sub Area Plans
Ruston	Shoreline		
Vancouver	Spokane		
Wenatchee	Spokane Valley		
	Tacoma		
	Yakima		

## Conclusion and Recommendations

### Overview

Affordable homes provide a foundation for positive health outcomes for families, correlate with better cognitive development and academic achievement for children, and lower public expenditures on other services like health care. Affordable homes in high opportunity neighborhoods with good schools can have long-term impacts on earnings and economic mobility of future generations. A sustained commitment to programs that improve housing affordability for low-income renters will provide profound benefits to families and communities statewide.

### Recommendations

To increase affordable housing options for all households, reduce the negative impacts of housing instability, and end homelessness as quickly and efficiently as possible, the following AHAB 2020 Policy Priorities support accessibility to affordable housing throughout the state.

#### Expand Housing Choices for Low- and Moderate-Income Households

Washington state needs a broader diversity of housing types to provide affordable options for renters and homeowners alike. Smaller, "missing middle" housing types such as attached and detached accessory dwelling units (ADUs and DADUs), duplexes, triplexes, fourplexes, townhomes and cottages can offer more affordable options without changing the character of existing residential neighborhoods.

#### Help Local Governments Reach Appropriate Housing Goals

The Growth Management Act requires local governments to plan housing for all economic segments of the population. The state can assist local governments by providing tools to assess housing needs and identify strategies that will help housing developers make investments that meet these needs. Regular monitoring of the housing market can help identify where and when changes to these strategies are needed to help hold communities accountable.

#### Substantially Increase the Number of Units Specifically Affordable to Low- and Extremely Low-Income Households

Meeting the need for low, very low, and extremely low-income housing will take a significantly larger public investment. Local governments need effective funding tools to supplement state and federal investments that can be implemented through a local vote, and through councilmanic action when necessary.

# Appendix A: Members of the Affordable Housing Advisory Board

**Table 1: Members of the Affordable Housing Advisory Board**

Name	Title
Derrick Belgarde	Chief Seattle Club
Susan Boyd	Bellwether Housing
Allison Butcher	Master Builders of King and Snohomish Counties
The Honorable Claude DaCorsi	Auburn City Council
Michael Dotson	Banner Bank
Kim Herman	ex-officio, Washington State Housing Finance Commission
Joel Ing	Edge Developers
The Honorable Dean Kinzer	Whitman County Commissioner
Diane Klontz	ex-officio, Washington State Department of Commerce
Paula Wallace Lonergan	Tacoma Rescue Mission
Peter Orser	Runstad Center for Real Estate Development
Vijya Patel	Madison Avenue Realty
Michone Preston	Habitat for Humanity
Cindy Proctor	Beacon Development Group
Paul Purcell	AHAB Chair, retired from Beacon Development Group
Deborah Ruegsegger	Hood Manor Apartments
David Stillman	ex-officio, Washington State Department of Social and Health Services
Paul Trautman	AHAB Vice-Chair, City of Spokane
Chuck Weinstock	retired from JP Morgan Chase
Kurt Wiest	Bremerton Housing Authority