

Interim Report

Stabilizing rents for tenants in state-funded affordable housing

In partnership with:



Submitted by the Washington State Housing Finance Commission
and the Washington State Department of Commerce

**WASHINGTON STATE
HOUSING COMMISSION
AND
WASHINGTON STATE
DEPARTMENT OF COMMERCE**

December 1, 2023

Interim Report to the
Legislature

Acknowledgments

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Executive Summary

Reporting requirements and scope

During the 2023 session, the Washington State Legislature included provisos in the 2023-2025 operating budget for both the Housing Finance Commission (Commission) and the Department of Commerce (Commerce) to report on efforts to stabilize rents for residents of affordable housing units financed by the agencies. The Legislature specifically requested the following:

NEW SECTION 129 (70) Within existing resources, the department must submit an interim and a final report to the appropriate committees of the legislature on efforts taken by the department to stabilize rents for tenants of affordable housing units financed through the housing assistance program created under RCW 43.185.015 including, but not limited to, efforts to limit or mitigate the impacts of rent increases for tenants of qualifying units. The department must submit the interim report by December 1, 2023, and the final report by December 1, 2024.

And:

NEW SECTION 914. (1) The Washington State Housing Finance Commission must submit an interim and a final report to the appropriate committees of the legislature on efforts taken by the commission to stabilize rents for tenants of affordable housing units financed through federal low-income housing tax credits allocated by the commission, and other housing finance programs administered by the commission as applicable. Rent stabilization efforts may include, but are not limited to, limiting or mitigating the impacts of rent increases for tenants of qualifying units. The commission must submit the interim report by December 1, 2023, and the final report by December 1, 2024. (2) This section expires June 30, 2025.

The Commission and Commerce collaborated on this interim report, which describes efforts undertaken to date with existing staff resources, as well as planned efforts for the final report due next year, which may require additional staffing or consulting resources to complete.

The scope of this report is limited to the affordable housing portfolios financed by and within the compliance purview of the Commission and/or Commerce. While this report refers to market factors for context, the work associated with this report does not speak to or intend to explore strategies that would affect non-subsidized affordable housing units in the market (commonly known as naturally occurring affordable housing), affordable units generated through land-use incentives, such as the Multifamily Housing Property Tax Exemption Program (MFTE), or solely with local public funds, or units with direct federal funding, such as public housing (owned by housing authorities) or Section 8-supported units.

Summary of identified opportunities to stabilize rents

Solutions to mitigate rent burden may need to be tailored to address certain resident populations or geographic conditions. Some solutions are outside the Commission's and potentially outside Commerce's purview.

Opportunities that are within the Commission's and Commerce's purview include:

- Review/update allocation policies to determine whether current policies are a contributing factor or cause of rent burden.
- Develop "best practices" and "guardrails" to equitably implement rent increases and mitigate rent burden.
- Explore incentives that influence housing providers' behavior and use of best practices.
- Consider rent increase cap policies that mitigate potentially onerous rent limit changes as determined by U.S. Department of Housing and Urban Development (HUD).

Introduction

Background

The Washington State Housing Finance Commission (Commission) administers the federal Low-Income Housing Tax Credit (LIHTC) program, which finances the construction and preservation of affordable multifamily housing units through federal tax incentives. Housing credit in the higher-subsidy 9% Program is awarded through an annual competitive process. Projects are evaluated and scored according to the Commission's established criteria. The lower-subsidy 4% Program combines tax credit equity with tax-exempt bonds, which are allocated through a competitive process. The Internal Revenue Service (IRS) governs these programs, and annual state allocations are determined by a per capita formula.

The Department of Commerce (Commerce) administers a suite of Affordable Housing Programs authorized in [RCW 43.185A](#) and which are primarily known as the Housing Trust Fund (HTF), the federal HOME and National Housing Trust Fund programs. These programs provide grants and low-interest loans to nonprofits, housing authorities and federally recognized tribes for the development or preservation of low-income affordable housing.

Commerce and the Commission collaborate on policies and partner on making investments in affordable housing across the state. In any given year, up to half of our projects overlap, meaning that they receive both an HTF-funded award and an LIHTC allocation of federal housing tax credits. Approximately 42% of the Commerce portfolio (1,356 properties) overlaps with the Commission's, and 45% of the Commission's portfolio (1,260 properties) overlaps with Commerce's portfolio.

Properties funded by the Commission and/or Commerce are subject to specific requirements related to household incomes, rent limits and ongoing compliance, including annual reporting, which is documented through regulatory agreements, covenants running with the land, and contracts that run for a specified term, typically, 40-50 years. These legal documents are amended on a very limited basis for specific circumstances. Therefore, new policies are applicable on a go-forward basis for newly financed projects and can only be applied to existing projects when legal documents are amended in conjunction with a new transaction, such as a refinancing to preserve a project.

Values

We are using the set of values below to guide our exploration of rent stabilization strategies. We acknowledge that these values are inherently in conflict, and we seek to find balance to ensure the long-term health and stability of both residents and the buildings in which they live.

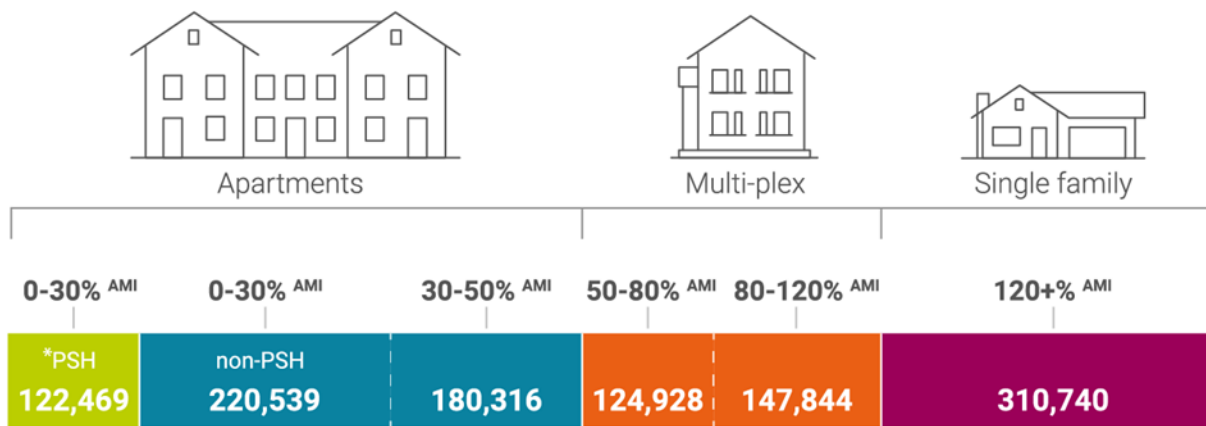
- We value **housing stability as an essential foundation** for people to thrive and we believe everyone, regardless of income, race, ethnicity, gender identity and ability, deserves a healthy, safe and affordable place to live.
- We value the **financial health of rent restricted housing properties** to ensure that buildings are physically maintained as high quality, healthy and safe places for residents to live.
- We value that **property owners serving our most vulnerable residents**, such as people coming out of homelessness, people with disabilities, or seniors on fixed incomes, **rely on competitive and limited resources** to fund operations, maintenance and services.
- We value that **low-income residents need predictable and manageable rent increases** to maintain housing stability, prevent displacement and/or falling into homelessness, **particularly Black, Indigenous, and People of Color (BIPOC) residents who are disproportionately impacted in our systems.**

Context setting

Affordability gap

One of the core factors to acknowledge is the lack of housing supply to meet the need. As Figure 1 shows, 1.1 million homes are needed in the next 20 years with more than half of these homes needed for low-income housing at or below 50% Area Median Income (AMI). Washington is a high-cost state and as efforts are focused on providing affordable housing for the lowest income households, more than 340,000 units are needed for households with the lowest incomes below 30% AMI. New housing cannot be built fast enough. Due to the lack of supply, people are rent burdened and rent increases can destabilize households particularly at the lowest income.

Figure 1: Future housing needs by Area Median Income (AMI) groups ¹



1.1 Million new homes will be needed in the next 20 years

*Permanent supportive housing (PSH)

A contributing factor is that incomes have not kept pace with housing costs, which is a national issue, resulting in a growing gap in income-to-rent disparity. Figure 2 shows the trend since 2001 of median rents nationwide (including utilities) increasing faster than the median renter household income. This disparity creates a greater amount of rent burden for households. While median rents have increased by 18.8% since 2001, median renter household income has only increased by 4.3%.

In addition, costs in general have increased drastically over the last few years, which has impacted both property owners and renters. In May 2020, the Consumer Price Index (CPI) for the west rose 0.8%; by May 2022 it had risen to 8.3% for all goods. ²

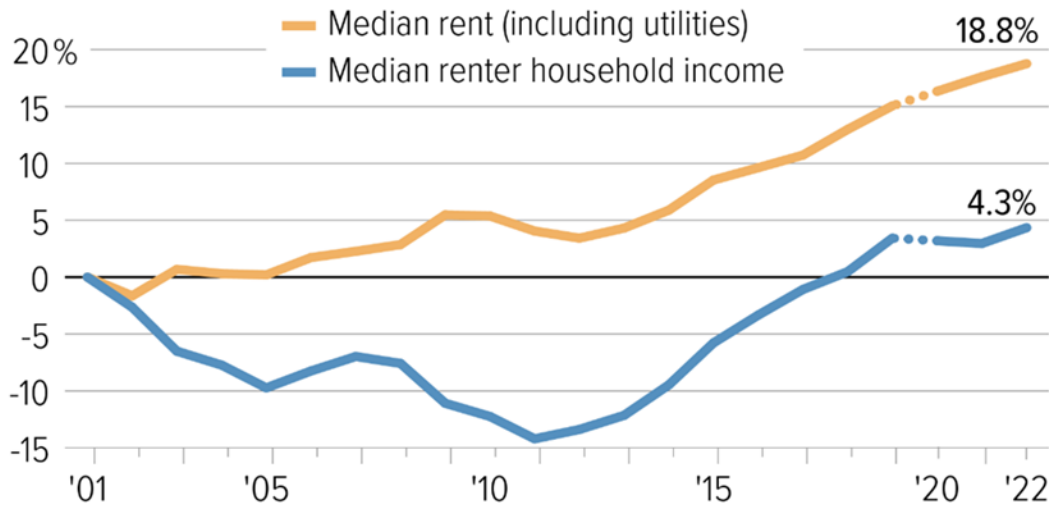
¹ Washington State Department of Commerce Growth Management Services, *Washington state will need more than 1 million homes in next 20 years*, <https://www.commerce.wa.gov/news/washington-state-will-need-more-than-1-million-homes-in-next-20-years/>

² U.S. Bureau of Labor Statistics, *12-month percentage change, Consumer Price Index, by region and division, all items*, <https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-region.htm>

Figure 2: Median rent to income

Renters' Incomes Haven't Caught Up to Rising Housing Costs

Percent change since 2001, adjusted for inflation



Source: CBPP tabulations of the Census Bureau's American Community Survey

Note: Dashed line indicates missing 2020 1-year ACS data due to pandemic-related data collection issues.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Portfolio analysis

The Commission and Commerce affordable-housing portfolios serve a wide variety of households across the range of income levels. Understanding who lives in the buildings provides a baseline of historical data that can be used to analyze and strategize limitations to and mitigation of rent increase impacts. The Commission and Commerce are in the early stages of conducting an analysis of our respective portfolios.

The portfolio analysis is a big task. The Commission currently monitors 1,260 properties providing 106,964 low-income housing units across Washington. Commerce monitors 1,356 properties providing more than 46,000 low-income housing units representing a broad range of types. As Figure 3 shows, roughly 40% of the properties are jointly financed by both the Commission and Commerce and are governed by dual regulatory agreements. Both agencies have distinct regulatory authority and coordinate in monitoring.

Figure 3: State-financed affordable housing properties

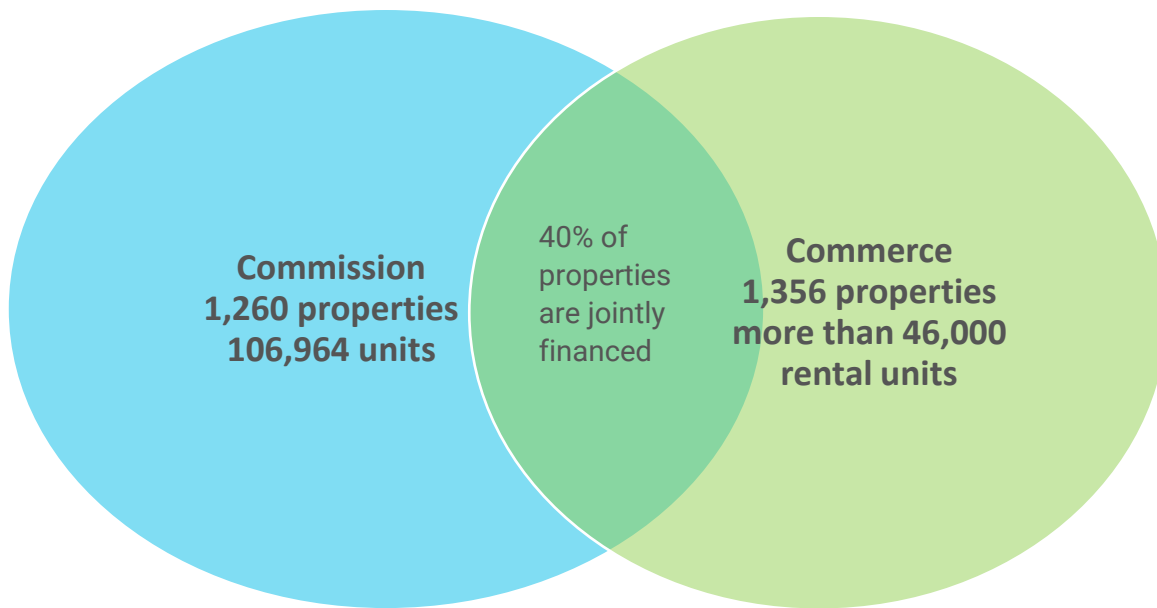
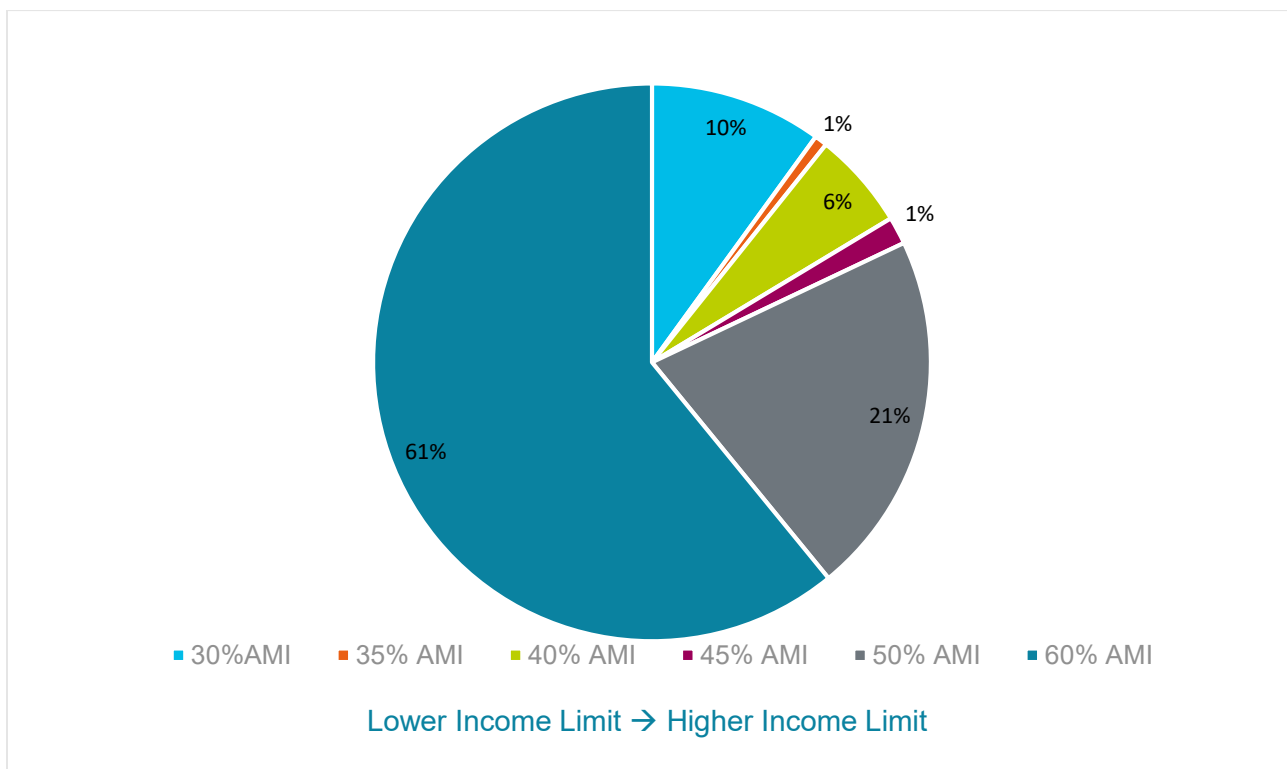


Figure 4 below shows the breakdown of the Commission’s portfolio by AMI level, where a majority of the units are restricted to be affordable to households at 60% AMI and the remainder are affordable at various income levels from 30% - 50% AMI.

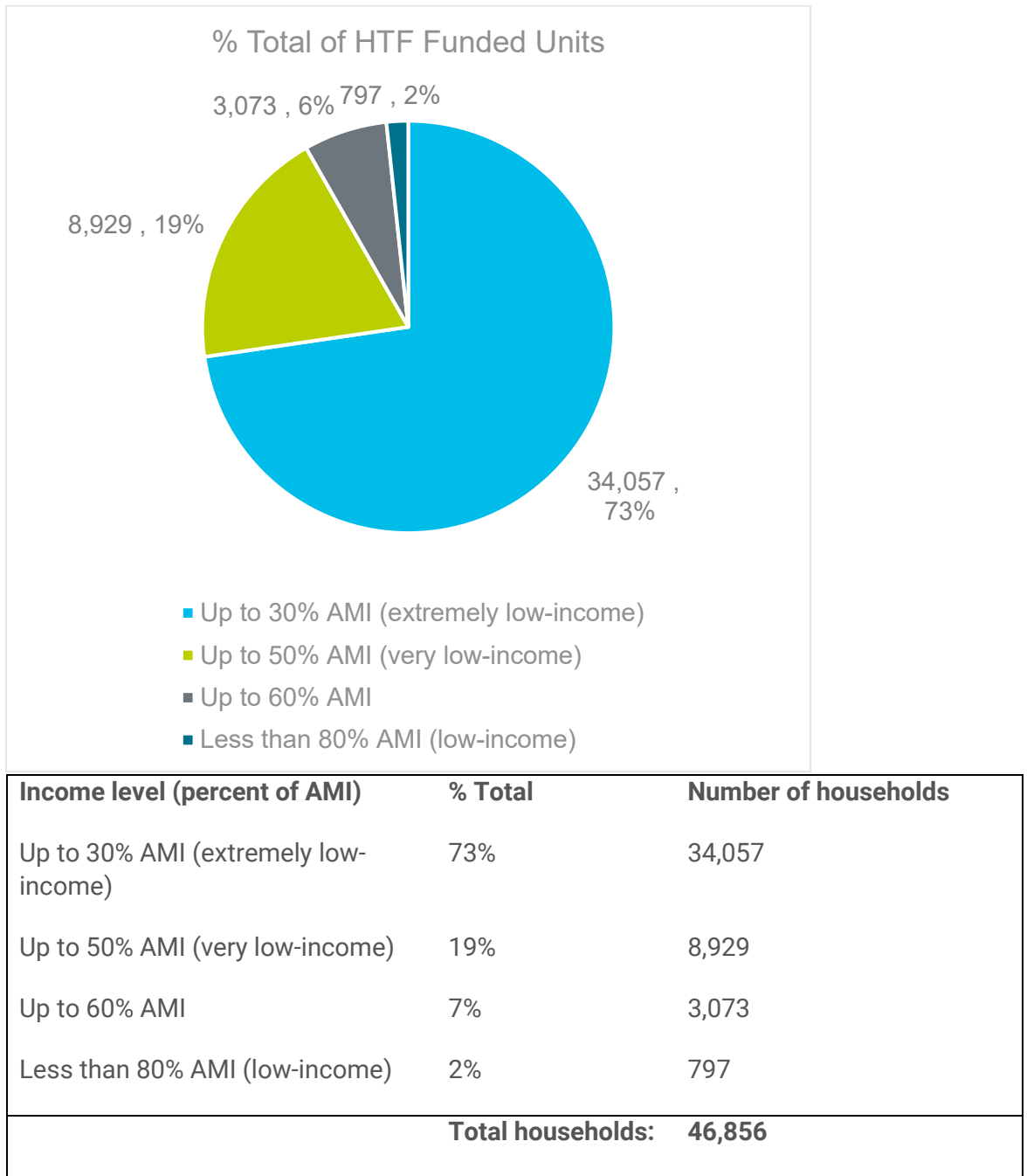
Figure 4: Commission low-income housing units by AMI



Notably, of the units active in the Commission’s portfolio, 52% have special set-asides for specific household types. Of these housing units, less than 1% are allocated for transitional housing; 3% for farmworkers, 10% for homeless individuals, 14% for large households; 22% for individuals with disabilities; and 26% for the elderly.

Commerce’s HTF portfolio includes a wider range of project types, comprising shelters, transitional, multifamily housing, farmworker housing and transitional shelters. A majority of the units (73%) are dedicated to extremely low-income households (earning up to 30% AMI). Half of all households living in HTF-funded units report having at least one person with disabilities, a veteran, a survivor of domestic violence, or an elderly person. These represent the most vulnerable households in the state and indicate the importance of the housing benefits provided.

Figure 5: Commerce low-income housing units



Ongoing monitoring of the State’s affordable housing portfolio requires close coordination and collaboration across the Commission and Commerce, particularly where financing overlaps. This is necessary to ensure both compliance with layered regulatory requirements and stewardship of the portfolio’s long-term ability to serve residents.

How rents are set

Commission-financed Low-Income Housing Tax Credit properties utilize rent and income limits set by HUD, as required by the IRS. The Commission’s Asset Management and Compliance Division publishes these limits on its website as a service to assist owners and property managers in developing and managing their housing projects. The Commission does not have a policy that further limits rents beyond the maximum allowable by HUD that corresponds to the individual low-income AMI set-asides for each property. However, we are aware of other state housing finance agencies that have implemented such policies.

Income and rent limits for properties funded by Commerce are also established using limits published by HUD. While HUD publishes extremely low-income limits using what is referred to as an “increase for poverty guidelines,” this adjustment was not adopted by Commerce when setting rent limits. This results in lower maximum allowable rent limits for individuals occupying extremely low-income units. Commerce’s Compliance Asset Management team within the Multifamily Housing Unit annually calculates and publishes the income and rent limits on its website. Pursuant to HUD regulations, Commerce must specifically review and approve the rent schedule for all HOME and National Housing Trust Fund (NHTF) units in a project on an annual basis. Owners may not implement rent increases on units funded by HOME or NHTF without Commerce’s approval.

HUD’s rent-limit methodology is based on median income data from the Census Bureau’s American Census Survey (ACS). The ACS data used lags three years behind the year in which the limits become effective, so HUD has historically used a CPI factor to trend the data forward. Since 2010, HUD has been using a cap on rents calculated as the “greater of 5% or double the change in national median income.” Changes in median income are unpredictable and can result in varied rent limit changes year over year and these changes vary county to county. To calculate the 2023 income and rent limits, HUD would have used the 2020 ACS data; however, the impacts of the COVID pandemic prevented the data from meeting the Census Bureau’s data-quality standards. Therefore, HUD used the change from 2019 to 2021 ACS data without applying a CPI factor. The 2023 limits, published on May 15, 2023, capped rent increases at just under 6%, which is much less than the approximate 12% increase that industry partners at Novogradac predicted.³

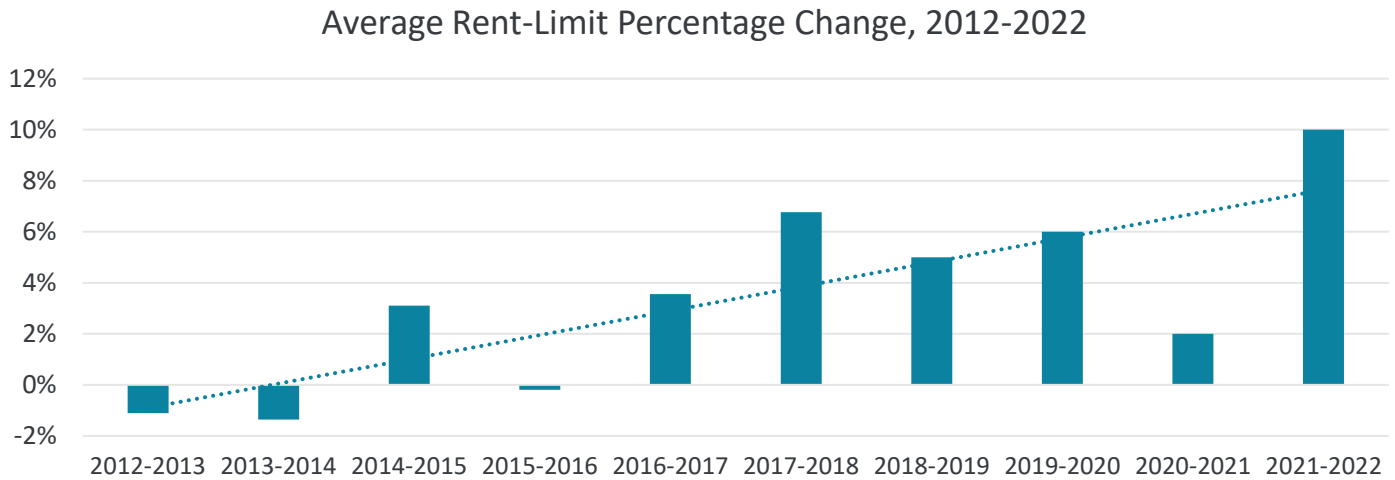
Figure 6 provides an analysis of HUD rent limit trends over a 10-year period for 11 Washington counties with 25 or more affordable housing properties in the Commission’s portfolio.⁴ The analysis is based on the rent limit for a four-person household earning up to 50% AMI. On average, the increase over a 10-year period was no more than 4%. However, the 2021-2022, increase averaged 10%, with the highest increase of 12% for six of the 11 counties analyzed. As shown, these double-digit increases are anomalies within the 10- year trend. Regardless, an increase of 10% or more creates a hardship and can destabilize households, particularly those with the lowest incomes and those who rely on fixed Supplemental Security Income (SSI) or Social Security Disability Income (SSDI). While there is a Cost-of-Living Adjustment (COLA) for recipients of social security

³ Novogradac, “Is it Time for HUD to Settle on a Consistent Method to Determine the Income Limits Cap?,” (July 5, 2023), <https://www.novoco.com/periodicals/articles/it-time-hud-settle-consistent-method-determine-income-limits-cap>

⁴ Counties included: Clark, Grant, King, Kitsap, Pierce, Skagit, Snohomish, Spokane, Thurston, Whatcom, Yakima.

benefits, those increases have ranged from 0% to 8.7% over the last ten years, January 2023 being the highest increase.⁵ Residents need predictable and manageable rents to remain stably housed.

Figure 6: HUD rent limit 10-year trend



Efforts to date

This section outlines some preliminary analysis and efforts undertaken by the Commission and Commerce to date, in preparation for the final report to the Legislature, due on December 1, 2024. Conclusions and/or possible recommendations will need careful analysis and consideration of our respective portfolios, as well as engagement with the affordable housing community, to learn the various perspectives and seek input from both tenants and affordable housing providers as well as other interested parties.

As noted in the [Values](#) section of this report, there is inherent conflict and a delicate balance to both maintaining affordability for residents and supporting the continued financial and physical sustainability of the state funded affordable housing portfolio. Efforts taken for this interim report focused on understanding the intersecting issues that affect the stability of both residents and housing providers, in the context of stabilizing rents. This includes an analysis of documented resident concerns raised over the last five years and a summary of concerns raised by affordable housing providers through initial outreach, that are considerations as we further explore solutions. There are many interested parties, who have interest in and/or are affected by policy and program changes, with residents being both directly and indirectly affected. However, the Commission and Commerce’s direct contractual relationships are with housing providers as the developers and owners of the state funded portfolio, who have previously expressed concerns regarding rent stabilization policies. Therefore, we chose to initiate engagement efforts with housing providers first to listen and lay the groundwork for further solution-oriented conversations.

Assessment of resident concerns

Washington residents of our portfolio properties reach out to the Commission and Commerce on a variety of issues, including but not limited to information about housing opportunities, information about program requirements and regulations, concerns about maintenance or other property issues as well as issues related

⁵ Social Security Administration, “Cost-of-Living Adjustment (COLA) Information for 2024,” <https://www.ssa.gov/cola/>

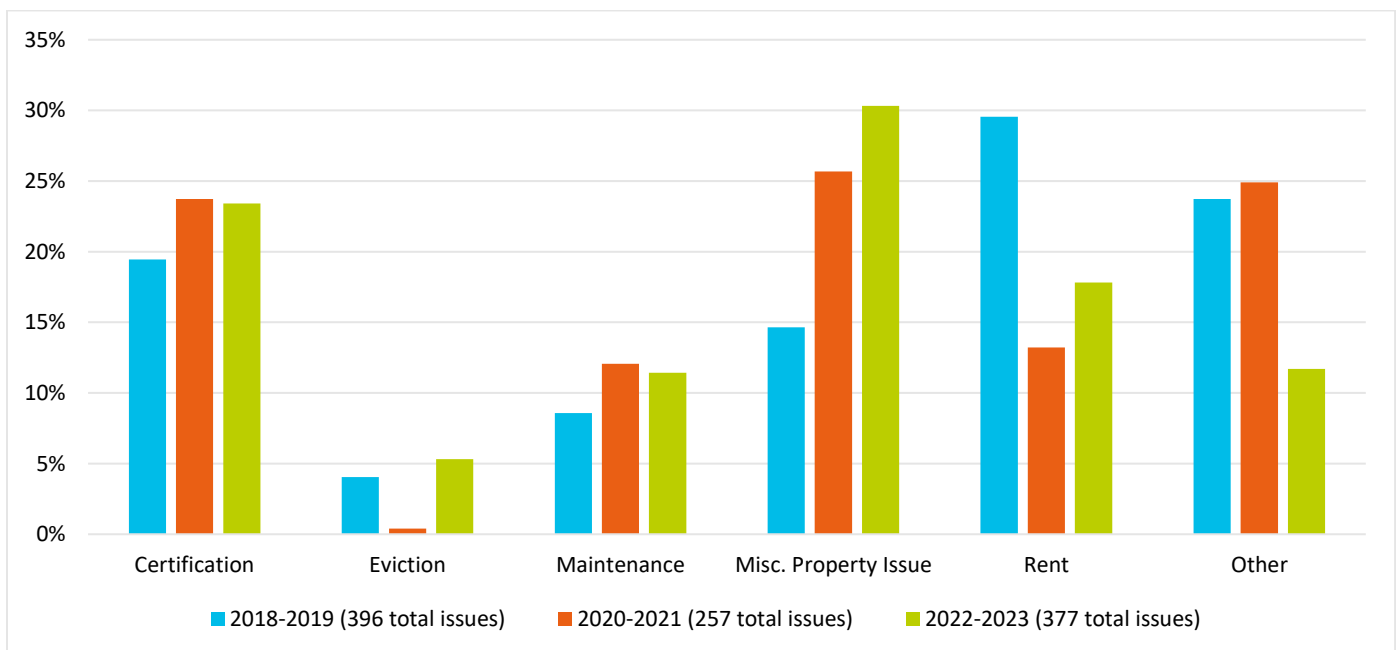
to rents and evictions. In general, Commerce receives a small percentage of resident calls, which are primarily related to tenant–landlord or compliance-related issues, rather than rent-related concerns.

The Commission recently analyzed its resident call/email log from May 2018 through October 6, 2023, to understand the most common issues raised by residents. [Figure 7](#) shows the issues raised sorted into six categories, which are represented as a percentage of the total number documented. As shown, most residents raise issues around Certification, Miscellaneous Property Issues and Rent. The Miscellaneous Property Issue category includes concerns such as property management challenges and quality of life issues such as community rooms, parking, or neighbor-related concerns, which can include safety. The Other category includes a mix of concerns such as general information, fair housing questions, and other issues, which generally represent less than 5% of the total.

Notably, during the first two years of the pandemic (2020-2021), issues related to Rent and Eviction decreased, which likely correlates to eviction moratoria being in place at that time, while concerns related to Miscellaneous Property Issues increased and has remained a high complaint category in 2022-2023. This is likely due to residents spending more time at home during and after the pandemic.

We recognize that for every resident who places a call or sends an email, many other residents with similar issues do not reach out. This analysis is not representative of what a robust engagement with residents may bring to light.

Figure 7: Commission resident issues by subject, 2018-2023



Interested parties engagement

Over the last several months, in preparation for this interim report and the final report due December 2024, the Commission and Commerce started initial outreach efforts to affordable housing providers (both for profit and non-profit) and other public funders, and began a conversation with the Association of Washington Housing Authorities.

As of the writing of this report, 19 affordable housing organizations have participated in small group or one-on-one conversations. Additional information/data has been requested from those organizations, though few have yet responded, and outreach is ongoing. Conversations have also started with other interested local jurisdictional partners including the City of Bellingham, King County, Seattle Office of Housing, and A Regional Coalition for Housing (ARCH) in east King County. The Commission organized a panel at the Housing Washington conference in October 2023 that included representatives from HNN Communities, the City of Bellingham and the Housing Justice Project that discussed balancing the need to support the long-term success of both tenants and the properties in which they live.

Additionally, we continue to engage in research on policies implemented in other states as well as data analysis of the state's affordable housing portfolio to identify trends and gaps, though additional staffing capacity will be necessary to complete this portion of the work which will inform solutions and the final report.

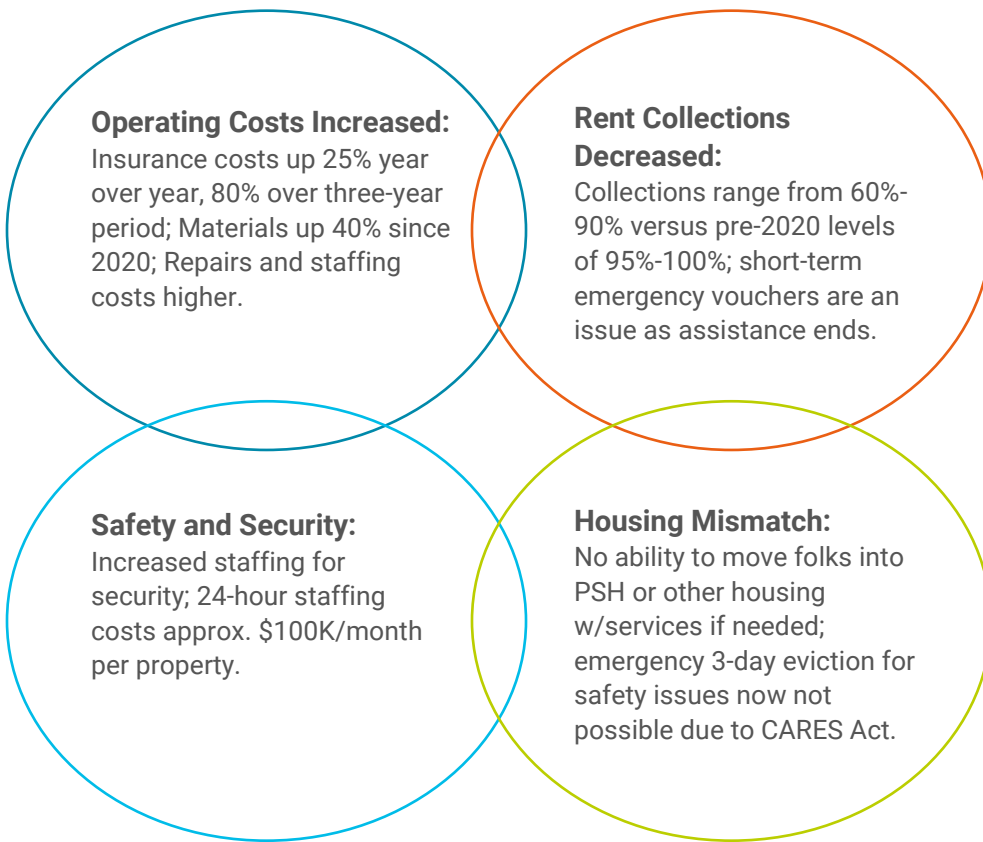
Themes surfaced

When engaging with owners of affordable housing, it is difficult to discuss rent stabilization strategies without first listening to and acknowledging the challenges they are currently navigating. These owners, both non-profit and for profit, are subject to the same economic forces as the market-rate owners, but they operate on thinner margins while greatly constrained in their ability to raise revenue or access additional funding.

Most of the affordable housing owners we have met with so far are operating general affordable housing for families or what can be typically referred to as workforce housing (as opposed to permanent supportive housing for the most vulnerable). Several themes have emerged, which the owners attribute to a combination of the impacts of COVID, inflation and general changes in renters' behavior since the pandemic started, particularly with residents spending more time at home. Figure 8 summarizes these themes along with specific examples as available. The rise in operating costs, particularly insurance costs, is an issue not just in our state, but nationwide. A report recently published by the National Leased Housing Association (NLHA) in partnership with NDP Analytics examines the impact of increased insurance costs on affordable housing, finding that approximately one in three policies renewed in 2022-23 experienced premium increases of 25% or more across all lines of insurance.⁶

⁶ Social Security Administration, "Cost-of-Living Adjustment (COLA) Information for 2024," <https://www.ssa.gov/cola/>

Figure 8: Affordable housing owner-surfaced themes



Housing providers shared challenges with maintaining stability in their buildings both physically and financially. These challenges make it hard to create and maintain community and ultimately affect the stability of all the residents in the building, particularly if safety issues start to arise. We noted that the safety/security issues are more extreme in properties located in Seattle/King County than in other areas. The real or perceived lack of landlords' ability to act results in other residents leaving if they can.

Some property owners are using their organization or corporate funds to cover increased costs of security and other staffing needs, as properties were not set up originally to cover these additional costs at the property level. These expenses are then compounded by inflation of costs generally. This strategy was noted as not sustainable and is impacting owners' ability to build new projects. Access to operating subsidy was cited as a near-term solution. There is consensus that eviction is a last resort; providing residents with affordable, safe, and stable housing is the goal. However, eviction must remain an option, especially when it comes to the safety of other residents. This will be further analyzed and any drawn conclusions will be outlined in the final report to the Legislature due December 2024.

Summary takeaways

The efforts described in this interim report have utilized existing Commission and Commerce staff resources. Efforts with partners to date have focused on understanding the overall landscape within which our respective rent stabilization efforts would intersect. Both agencies wish to emphasize the lived experience of housing residents and are organizing ways to safeguard the quality and sustainability of these properties. We must listen to the needs of both housing residents and property owners. Failure to protect the long-term success of the properties will ultimately fail the communities and people we intend to serve.

This initial work has surfaced that we need solutions for operational issues in housing properties that do not place the cost burden on residents. Solutions to mitigate rent burden may need to be tailored and nuanced to address the impact on certain resident populations. For example, a solution may be different for people on fixed incomes (such as seniors) versus a working family household. Additionally, solutions may need to look different based on the variety of conditions geographically across the state. Some of these solutions, such as providing operating subsidies or loss reserves, a strategy to deal with a growing insurance market issue, or legal system changes, are outside the Commission and Commerce’s purview.

Opportunities that are with the Commission and Commerce’s purview include:

- Review/update allocation policies to determine whether current policies are a contributing factor or cause of rent burden.
- Develop best practices to equitably implement rent increases and mitigate rent burden.
- Explore incentives that influence housing providers’ behavior and use of best practices.
- Consider rent increase cap policies that provide predictability and stability for residents to mitigate the variability of rent limit changes determined by HUD.

As stated previously in this report, the Commission and Commerce are limited by existing regulatory agreements and contracts in our current portfolios. Therefore, any new policies would apply to new projects on a go-forward basis.

Next steps

Outreach and engagement

Developing strategies to mitigate the burden of rent increases will require more research, portfolio analysis of trends and behaviors, and engagement with affordable-housing owners, funders, and housing residents statewide. Additionally, as solutions are explored, an impact assessment will be needed to assess the capacity of our agencies to successfully implement any new policies proposed.

The Commission and Commerce are assessing current staff capacity and considering hiring a consultant to support this work in 2024.

2024 final report

The final report will document efforts from 2023 through October 2024, which may include but are not limited to the results of outreach and engagement, summary of any research of other state strategies, portfolio analysis regarding rent burden, and any strategies for implementation.