



Department of Commerce

Housing Memorandum: Issues Affecting Housing Availability and Affordability

Produced in accordance with Senate Bill 5254
BUILDABLE LANDS | June 2019

Prepared for: Washington State Department of Commerce

Prepared by: PNW Economics, LLC with LDC, Inc.

This Page Intentionally Left Blank



CONTENTS

Introduction 1

Executive Summary 2

PART I: MACROECONOMIC TRENDS & HOUSING ECONOMICS OVERVIEW 11

Affordability & Economics Introduction 12

Macroeconomic Trends 13

Housing Economics Framework 18

Rent Escalation and Affordability Crisis: The Ownership Housing Substitution Effect 20

PART II: GENERAL MARKET AVAILABILITY OF LAND..... 22

General Market Availability of Land..... 23

Market Supply Factor and Market Availability 27

Housing Production Trends..... 29

PART III: PLANNING FOR HOUSING AND HOUSING AVAILABILITY 33

State Requirements for Housing Planning 35

Comprehensive Plans and Countywide Planning Policies..... 35

Market Demand Concepts 37

Current Housing Demand Forecasting 39

Translating Growth Targets into the Characteristics of Needed Housing 40

Other Guidance from the GMA 41

“Reasonable Measures” 43

PART IV: DEVELOPMENT COSTS 44

The Development Process 45

The Redevelopment Process..... 47

Permit Processing Timelines 49

Filtering & the Importance of New Housing Supply at Broader Densities & Price Points..... 51

Zoning/Development/ Environmental Regulations 51

Taxes and Fees 54

PART V: INFRASTRUCTURE COSTS 58

Residential Infrastructure Funding..... 59

Lags in Infrastructure and Housing Supply Constraint..... 60

How Does Infrastructure Funding Affect Housing Cost?..... 62

Impact Fees: Research and Consensus 64

Infrastructure in Green Field vs. Infill/Redevelopment 65

PART VI: OTHER FACTORS AFFECTING HOUSING COST 70

Construction Labor Shortage 71

Implication of Rising Fixed Costs: Higher-Price Housing for Fewer Buyers 72

The Impact of Vacation Rentals and Second Homes 73

Foreign Occupancy and Investment 76

Condominium Liability Costs..... 78

Displacement Risk 78

PART VII: “MISSING MIDDLE” HOUSING 81

Density and Housing Cost 82

Conclusions & Recommendations 89

APPENDIX 1: SPECIAL ISSUES AND RESOURCES FOR SUBSIDIZED HOUSING
DEVELOPMENT 98

Definitions and Challenges 98

Support for Affordable Housing 99

Appendix 2: Reasonable Measures as Tools for Increasing Housing Availability and
Affordability..... 104



Introduction

In 1990, the state of Washington enacted its groundbreaking Growth Management Act, requiring counties and cities to create 20-year comprehensive plans that integrate local government actions in order to preserve the environment, encourage sustainable economic development, and promote the health, safety, and quality of life for all Washingtonians.

A housing element is required in each comprehensive plan, with the goal of *encouraging the availability of affordable housing to all economic segments of the population of this state, promoting a variety of residential densities and housing types, and encouraging preservation of existing housing stock.* (RCW 36.70A.020 section 4)

In 1997, the legislature modified the Growth Management Act, requiring the six most populous western Washington counties to conduct a review and evaluation of development activities. This evaluation looks backward to assess the extent to which achieved densities match target densities. It also looks forward to ensure that sufficient land remains for development, or redevelopment, over the next planning period. The Review and Evaluation component is commonly referred to as the Buildable Lands Program.

Senate Bill 5254: Housing Memorandum

In recent years, as a thriving economy and Washington's desirable natural environment have brought hundreds of thousands of new residents to the state, housing affordability has increasingly become a concern. In 2017, the Washington State Legislature passed E2SSB 5254. Section 2 of

the bill modified the Review and Evaluation Program requirements (RCW 36.70A.215) to ensure that Buildable Lands jurisdictions address issues that impact housing affordability in their Buildable Lands Reports.

Section 3 of the bill (now RCW 36.70A.217) contains specific requirements for review and study. This memorandum addresses these housing-related elements contained in Section 3 of the bill, as follows:

- Section 3(d) Infrastructure cost and development issues:
 - Infrastructure costs of various types including transportation, water, sewer, and stormwater.
 - Cost of development including timelines to permit and develop land and general market availability of land.
 - Nexus between proposed densities, economic conditions needed for such densities, and resulting impact to housing affordability for home ownership and rental housing.
 - Market demand in its role for determining land suitable for development or redevelopment.
- Section 3(e) Housing availability issues:
 - Zoning, development, and environmental regulations
 - Permit processing timelines
 - Housing production trends
 - Pertinent national and regional economic and demographic trends
 - Housing unit qualities and how growth targets align with market conditions
- Section 3(f) Existing regulations and reasonable measures:

- Zoning, development, and environmental regulations promoting or hindering affordable housing goals (RCW 36.70A.020 (4)).
- Identify barriers to meeting the goal as reasonable measures for each county and city for comprehensive plan update purposes.
- Section 3(g): Opportunities and strategies for growth within Urban Growth Areas.
- Section 3(h): Strategies to increase local government investment in infrastructure.
- Section 3(i): Other topics identified by stakeholders and the Department of Commerce.

This memorandum aims to address each of these specified issues as they affect the development and affordability of housing in the state, with an emphasis on the urban counties of western Washington. The ideas and topics discussed are relevant statewide.

Executive Summary

Washington State's rapid economic and population growth over the past 10 years, especially in King, Snohomish, and Pierce Counties, has led to significant housing demand with rising rents and prices. While demand has surged, housing supply tends to be inelastic. That is, housing supply is slow or not easily responsive with new production even with great changes in price. Both rents and home prices have risen even more as a result. Demand has largely been driven by macroeconomic changes beyond local government control.

Local governments have the ability to examine the extent of housing supply inelasticity, or the extent to which local housing production is constrained. The current discussion around housing affordability reflects the reality that housing is not simply another consumer good. It is, in fact, a need -- the provision of which contributes to quality of life at any income level. The housing market is not simply another market; it is highly regulated to meet consumer safety standards, zoning code, building code, and land use.

Through the Growth Management Act, Washington imbeds into the housing market a set of values that protects the environment by encouraging dense, close-in development. The Growth Management Act has been successful to the extent that, in the years 2010 to 2016, the Seattle metropolitan area increased in density by 3.0%, more than any other metropolitan area in the country.¹ Dense, close-in development uses and supports transit, with positive effects on both the environment and in a reduction in household transportation expenses.

In a normal market for any good, competition ensures that supply and demand interact and tend toward an equilibrium price that satisfies both producers and consumers. Regulations protect property rights and ensure the market functions effectively. This housing memorandum asks the question, why is the housing market not functioning to produce sufficient housing for households at low to moderate incomes?

This Housing Memorandum examines the effects of various planning regulations on the housing market, and the ability of local, regional, and state governments to use planning as a tool for housing affordability. Targeted changes in

¹ Kolko, Jen. "Seattle Climbs but Austin Sprawls," *New York Times*, 5/23/2017.

planning and development policy can be implemented to incent developers to produce more housing, and to do so at lower costs. Though these changes may be small, with incremental effects, cumulatively they can have a significant ability to encourage more housing. The current expense of housing for working Washington residents requires that they be considered and adopted where appropriate.

Here are the major findings of this report:

PLAN FOR HOUSING REGIONALLY

All cities and counties should consider the need for affordable housing a regional issue and a shared responsibility.

Undersupply of housing in one city, including income-restricted and “workforce” or “missing middle” housing, not only raises housing costs in that city, but pushes demand to other, more distant cities. This then affects those cities’ housing needs, prices, and capacity to meet their own affordable housing needs. Undersupply of housing also puts greater demand on the regional transportation system and increases transportation expenses for households. This costly spillover effect resulting from housing undersupply is worse when there is no coordination among agencies. It is important to plan for this broad understanding of total housing need, both currently, as well as into the future.

Housing production that is affordable can also be curtailed by jurisdictions that seek to avoid low-income or moderate-income population growth due to community political pressure. Such exclusionary actions are frequently due to negative perceptions and misunderstandings about affordable housing projects and the populations they serve. These negative perceptions can be based on recollections of historic patterns of low-income and affordable housing concentrations in different cities. In these

instances, the concentration of economically challenged households has reduced opportunities for economic improvement due to isolation from broader economic opportunity and limited social safety net. Avoiding integration of mixed-income affordable housing into all cities due to bad perception of affordable housing, therefore, actually perpetuates the concentration of affordable housing and makes economic improvement more difficult for socioeconomically disadvantaged households.

Housing production affordable at all income levels, with an emphasis on income-restricted housing and workforce or missing middle housing, should therefore be a regional effort of coordinated planning and economic integration.

1. Consider coordinated efforts at the regional (metropolitan and county-wide) level to estimate current and future affordable housing and workforce or missing middle housing need and demand. Methodology would emphasize both current, unmet affordable housing needs of all types for all households, as well as projected future households region-wide within a jobs/housing balance and economic integration framework.

Outcomes should include:

- a. Regional goals and targets for proportionate mixed-income and affordable housing need to be met locally, including greater detail of regional population and household targets for different jurisdictions including likely household income, affordability, and stage-of-life housing needs.
- b. Regional goals and targets for retaining and growing existing affordable housing stock, including existing income-restricted units as well as units that are affordable to rent or own due to being older. Goals and targets of retention should aim to prevent

displacement of households due to demolition of existing, affordable housing, rapid pricing pressure created by booming new development, or cultural displacement that disproportionately affects lower-income households.

- c. Regional incentives and requirements regarding achievement of affordable housing, “workforce” housing and mixed-income housing development and retention targets and goals.

LOCAL PLANNING FOR HOUSING

Local governments should work within the region and state to translate population forecasts into households and affordability levels, and use these numbers to shape development regulations to encourage affordability.

Population target forecasts for housing do not necessarily include socioeconomic and demographic qualities of households and their housing needs. This translation from population targets to zoning for housing affordability needs to be done, but many jurisdictions currently do not have the resources to do so.

Specific recommendations for next-steps discussed in the memorandum comprise:

1. Consider publishing more guidance for projecting or forecasting future household demand and need characteristics for housing beyond single-family vs. multifamily designation and general density levels. Methodology should account for factors that determine market demand for future housing, different types of housing needed, including income, household size, household age, propensity to rent or own, affordability, and other stage-of-life determinants of household housing needs. Methodology should express a wide variety

of future housing needs by future households, with an emphasis on household needs rather than basic housing capacity. Resources may need to be provided to cities, counties, and/or regional planning agencies to adequately fund such efforts and the resulting tools that will be required for more detailed household housing needs planning.

REVIEW DEVELOPMENT SYSTEMS FOR EFFICIENT PROCESSING OF APPLICATIONS

Local governments should review development review systems and fees and strive for clear, efficient processes.

This memorandum describes the complexity of the development process for new market-rate or income-restricted housing. This process typically includes many different and expected costs along during development. Developments with public review may be opposed due to “not in my backyard” (NIMBY) opinions, resulting in unpredictability, uncertainty and delays in the development process. These delays drive up the cost of housing, sometimes unnecessarily so. This memorandum recommends the following issues to consider to achieve an efficient process:

1. Consider a comprehensive study of the development approval processes. The study should examine best practices by case study of different, effective programs in different Washington cities and counties. Findings could lead to recommendations for changes to statutes that regulate permit processes. The study could result in a pilot program to test out a revamped way of looking at permit processes and procedures. Goals of the study would be to:

- a. Accelerate the time it takes to submit a permit application. Ensure standards and procedures are clear and concise.
 - b. Identify ways of fast-tracking development applications for chronically undersupplied housing types such as income-restricted units or missing middle housing units for middle-income households.
 - c. Find ways to incentivize certain types of developments. This could include items such as fee waivers for development applications for chronically undersupplied housing such as income-restricted units or missing middle housing units for middle-income households.
 - d. Review and improve permit processing timelines over time through continuous tracking and improvement, including reviewing and auditing various processes related to the development processes. These processes include timeliness, effectiveness, and triggers for actions.
 - e. Better address community opinions and concerns about new developments in a manner that maintains a straightforward, predictable and effective development review process.
 - f. Fast-track “shovel-ready” development sites that are pre-recognized by a jurisdiction as suitable for affordable or income-restricted housing development.
2. Consider a policymaker-level discussion about community opposition that the region is facing on development projects and upzoning of areas that support the overall framework for regional growth. How can we address community concerns moving forward but still implement city, county, and statewide goals for growth? What changes in state law should be considered to facilitate growth while still providing opportunity for community input?
- 3. Consider a review of local jurisdiction policies and their implementation that serve to prevent or curtail housing production of income-restricted housing and workforce or missing middle housing. Potential policies or their implementation that should be reviewed for negative impacts upon lower-priced or lower-rent housing may include:
 - a. Minimum lot sizes
 - b. Unclear or difficult, and therefore, costly development application approval processes, exacerbated by community opposition to development
 - c. Height restrictions
 - d. Site efficiency and housing unit yield loss due to measures such as tree canopy retention, view setbacks, various non-critical area buffers, and excessive on-site parking requirements, especially proximate to transit
 - e. Potential impact fee, permit fee, and other fee or development cost exemptions, credits or rebates to developments that meet housing affordability standards

PROVIDE TIMELY INFRASTRUCTURE TO FACILITATE AFFORDABLE HOUSING

Lack of infrastructure impacts development. Local governments should plan for infrastructure over the full planning period, and carefully assess investments to support the development of affordable housing.

1. Consider funding a study that carefully documents residential infrastructure provision and financing challenges in urban Washington, providing details and case studies regarding current residential infrastructure finance strengths, weaknesses, opportunities and threats to housing production and affordability. The study should cover the unique challenges to both private and public sector entities in a variety of geographies, greenfield and infill/redevelopment, to inform new potential infrastructure finance programs, financing tools, and best practices depending upon the nature and location of housing delivery and need. The study also should review residential infrastructure best practices, programs, strategies and innovations used in other states and regions that would lend useful comparison for residential infrastructure provision and finance in Washington. Recognizing that rural issues differ from urban issues, consider separately addressing residential infrastructure provision and financing in rural areas. This separate study would address the Hirst decision and exempt wells, and septic.

as modest-income (missing middle) housing provision.
2. Consider adding residential infrastructure finance programs that specifically address housing need for jobs/housing balance. Infrastructure finance mechanisms should help reconcile workforce housing delivery and affordability for workforce growth that match economic development programs and initiatives, along with infrastructure programs that facilitate industry infrastructure provision. Programs should allow for financial incentives such as exemptions, credits, low-interest loans, matching grants, or other mechanisms that facilitate needed residential infrastructure for both income-restricted housing as well
 3. Consider funding a study and possible future modifications to the GMA to better address capital facility planning requirements. This request for consideration is being made to the Ruckelshaus Center through a memorandum as part of the Roadmap to Washington's Future project. Specifically, a comparative review of how cities and counties plan and prioritize capital facilities projects that serve residential capacity would be useful. The timing of that capacity, and the funding of that infrastructure and its tie to comprehensive planning of housing capacity and buildable land could be reviewed for potential improvement. A review of capital facilities planning relative to housing capacity and buildable land and sites supply beyond a six-year period and greater certainty about projects, their funding sources, and their delivery for assuring medium-term to long-term housing capacity should also be under consideration.
 4. Consider exploring additional or different funding mechanisms for water, wastewater, and stormwater infrastructure need as these critical infrastructure types currently cannot be financed with impact fees. To the extent new funding tools are identified, explore credits, exemptions, or other incentives specifically for income-restricted housing development as well as moderate-income, workforce or missing middle housing types. New financing tools should be mindful of city-owned utilities and existing ratepayer obligations.
 5. Maximize transportation infrastructure investments by ensuring moderate to high density around transit lines and transit

hubs. Residents' ability to locate near transit allows them to bring down the overall share of housing and transportation costs in their budgets. It also promotes transit ridership and contributes to the viability of the transit network.

SUPPORT PROGRAMS TO INCREASE CONSTRUCTION LABOR SUPPLY

The Washington residential construction industry was deeply impacted by the Great Recession, with construction labor made scarce and expensive for the housing boom. Steps should be taken to grow construction trades, skills, employment, and businesses, including those that develop and employ innovative construction methods and technologies.

1. Consider public agency and private sector partnerships that result in resources, training, and labor force and business count growth within the residential construction trades. Partnerships could explore or result in, among other outcomes:
 - a. Resources, such as scholarships or construction trades training programs funding, that result in expansion of construction labor skills and labor supply growth.
 - b. Resources that result in construction business formation and training in educational institutions or industry/professional organizations.
 - c. Financial incentives that specifically target start-up, emerging, disadvantaged and growing residential construction businesses, especially those that perform services for income-restricted housing as

well as workforce/affordable housing that includes "missing middle" housing types.

- d. Financial incentives that encourage innovative, next-generation technology construction types, such as pre-fabricated homes, 3D-printed construction, modular construction, and the construction firms and labor that support new and innovative construction types and technology.

DATA COLLECTION AND ANALYSIS CAN HELP US BETTER MATCH SUPPLY WITH DEMAND

The lack of association between land prices and buildable residential land capacity also prevents accounting of the affordability of that land capacity to future households.

Most cities and counties do not have the data to understand how affordable or unaffordable their current housing capacity will be to current or future households when housing is constructed.

Housing capacity and affordability accounting would be greatly benefited by the analysis of what housing prices or rents would likely be associated with different buildable lands within a jurisdiction or geography. Analysis can be based reasonably on zoned density and either prices or rents as a percentage of Area Median Income on different lands based on prevailing economic conditions elsewhere in the jurisdiction on like land. This information could be used as important zoning changes are considered.

Currently, at best, housing capacity is frequently described as "single-family" or "multifamily" with no other detail about whether or not the qualities of those lands are economically adequate beyond basic inventory accounting.

Better information enhances predictability and reduces risk. Reduced risk reduces costs and enhances feasibility of housing delivery volume.

Here are specific recommendations for next steps:

1. Consider a coordinated study or coordinated planning process among regional, county, and city interests that explores the relationships among different housing product types, their density levels, land prices, and their market prices and rents relative to regional and local level of affordability. Issues explored should include current pricing and rents of housing by unit types and density levels at the local level with attention to how price and rents differ as unit type and density transitions upward. An accounting should then occur that documents the likely price or rent of a residential unit at different density levels at the local (city or market) level in current dollars and current affordability level. The accounting should also document where jurisdictions lack unit capacity at specific levels of price and rent affordability. To the extent that a local jurisdiction is lacking different levels of affordability by density level, strategies and tools should be explored and adopted to remedy current and likely future deficits of housing capacity by affordability level need. Finally, such accounting and procedure by cities and counties should be coordinated in a manner consistent with a regional approach to affordable housing need and shared jurisdictional responsibility in meeting regional affordable housing goals and targets.
2. Consider a greater role for the Washington State Department of Commerce, Affordable Housing Advisory Board (AHAB) or institutional partners

such as the Runstad Department of Real Estate and the University of Washington or the Washington State University Real Estate Research Center, in keeping consolidated account of regional affordable housing land inventory and capacity. Resources may need to be provided, but ongoing accounting of affordable housing capacity would assist regional affordable housing goals, targets, and measured accounting of affordable housing delivery.

FACILITATE DEVELOPMENT OF MISSING MIDDLE HOUSING

Cities and counties should take measures to facilitate development of and retain moderately priced housing, specifically missing middle housing types, which offer greater affordability to the local workforce.

Missing middle housing provides not only greater efficiency of land use and infrastructure with higher density, but also provides greater affordability options for households due to both typically lower prices, as well as frequently lower daily transportation costs due to residence proximate to higher-density, mixed-use areas, services, and employment. As such, missing middle housing offers affordable “workforce” housing to those who are often unable to live in the communities in which they work. An extensive list of actions that cities and counties can take can be found at various documented resources, but should include the following with a focus on new unit creation and existing unit retention:

1. Consider local city and county review of past development trends of missing middle housing types (cottage homes, duplexes, triplexes, cluster homes, row homes and townhomes) to understand their

- production volume relative to need and to understand past obstacles to their development from a planning, zoning, and development review perspective.
2. Consider local city and county review of current housing capacity for missing middle housing types of moderate density and price by zoning code, and identify and adopt solutions to local zoning that enable more and sufficient missing middle development based on flexible range of density for these unit types.
 3. Consider local city and county fast-tracked development application acceptance, review, and/or approval process for different missing middle housing product types.
 4. Consider local city and county incentives for encouraging greater realized density and production of missing middle housing types, including density bonuses, reduced setbacks, buffers, on-site parking requirements and other efficiency loss reductions.
 5. Consider local city and county impact fee discounts, credits, exemptions or other incentives that help missing middle unit types become more cost-competitive for development vs. higher-end, detached single-family units from an infrastructure cost and finance perspective. Reduced impact fees can be considered as one option to reduce costs for housing that meets affordability targets.
 6. Consider identifying local city-owned and county-owned properties that would be suitable for missing middle and income-restricted housing unit types at a potential discount to prospective developers to enhance financial viability.
 7. Consider incentives, positive and negative, to encourage property owners to (re)develop properties suitable for missing middle and income-restricted housing. Density bonuses, tax credits and exemptions or other tools can encourage development. Vacant property tax or other fee structure can encourage vacant and even nuisance properties to become missing middle and income-restricted housing.
 8. Consider the suitability of inclusionary zoning, potentially including a fee-in-lieu system instead of strict on-site unit development requirements, at the local level in achieving construction of missing middle and income-restricted housing. Inclusionary zoning requirements should be feasible, and fee-in-lieu systems should be priced to achieve a balance between onsite and offsite production, in order to leverage other funding and avoid excessive concentration of affordable housing.
 9. Consider a city-based and county-based fast-track process for rezoning properties to moderate density levels that enable missing middle housing types. Accelerated process and cost, as well as greater certainty and lower risk of public NIMBY opposition, should be explored.

FUND LOCAL GOVERNMENTS TO DO THIS WORK

Additional resources will be needed for counties and cities to address needs as identified in the Housing Memorandum.

County and local planning resources are certainly limited and to date have been maximized for the purposes of complex and necessary housing capacity documentation. To better understand

market suitability of planned housing capacity, and better understand housing need by affordability level, a significant new effort will be needed. All will require additional resources for city and county planning efforts, with the return on that investment being better ability of local governments to avoid future housing scarcity and affordability problems.

PART I: MACROECONOMIC TRENDS & HOUSING ECONOMICS OVERVIEW

Figure 1—Overview of Economic & Policy Factors That Affect Housing Production & Affordability

Macroeconomic Trends Including:	
Employment Prices/Inflation Interest Rates	
Supply Issues (Housing Production)	Demand Issues (Housing Need)
Infrastructure & Utilities Costs Development Costs Including: - Timelines to Permit & Develop - Market Availability of Land Capacity & Range of Potential Densities Regulations Including: - Zoning - Development - Environmental Housing Production Trends & Costs	Population Growth & Demographics - Age/Stage of Life - Household Size Income Interest Rates Housing Preferences - Structure Type (Attached or Detached) - Tenure Preference (Own or Rent) - Location Preference (Urban or Suburban) Investment Ownership Including Foreign

Affordability & Economics Introduction

Market prices for housing, demand for housing, and supply of housing are all core issues of economics. Therefore, to better understand housing costs, production, and affordability topics required by E2SSB 5254 (laws of 2017), a framework for housing economics is first discussed.

Figure 1 provides an overview of the *many* different factors that affect the supply and demand for housing, along with its costs and affordability. Every one of these factors alone or more frequently in combination has affected housing availability, prices and rents in Washington and in other states and metropolitan areas as well.

The three key categories of economic effects on housing and affordability are:

- **Macroeconomic Trends:** Economic and financial factors that are nationwide, international, or related to federal policies well beyond state and local influence;
- **Housing Supply (Production) Issues:** Land and housing development factors at the local level, with state-level policy framework, that affect local housing supply including economic and regulatory-related costs; and
- **Housing Demand (Need) Issues:** Population growth-related demand drivers of housing need at the local level, within the context of the local, regional, and statewide economy.

Macroeconomic Trends

National and even international economic trends and federal policies that affect those trends have fundamental influence on housing availability and affordability in Washington and elsewhere in the country.

- Gross Domestic Product (GDP) & Employment Growth:** Overall economic growth in the national economy tends to create prosperity for Washington due to international trade growth, income growth, and population growth as households move to Washington for career or quality of life.
- Prices & Inflation:** National policies and economic growth tend to affect price levels for goods and services across the country, including Washington. This affects home prices, household spending

patterns, and the cost of labor and materials to develop land or build housing, among many other things.

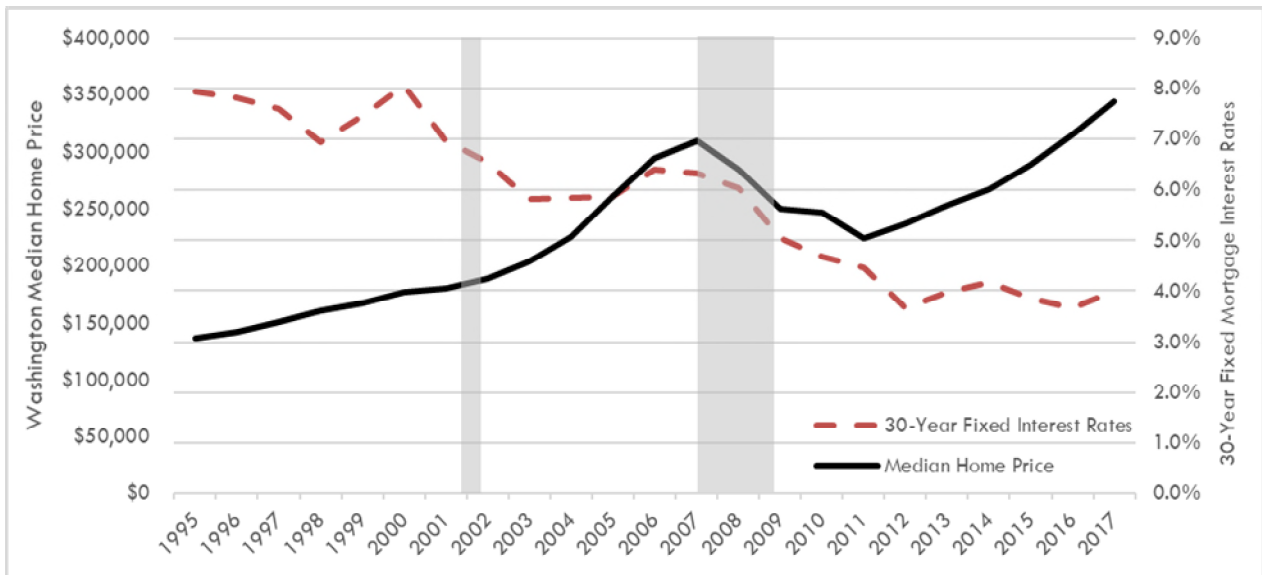
- Interest Rates:** Both financial markets and federal policies shape interest rates, which in turn directly affect the cost of borrowing to build housing (short-term construction loans and interest rates) as well as borrow to buy a home or long-term finance housing development (long-term interest rates).

Mortgage (Interest) Rates

Long-term mortgage rates tend to have a significant effect on overall housing affordability for two key reasons:

- Ownership Home Prices & Sales Volume:** Mortgage rates determine what a monthly house payment will be, given a household’s income. Typically, no more than 35% of a household’s monthly

Figure 2—State of Washington Median Home Price Trend & 30-Year Fixed Mortgage Rates



Source: Freddie Mac monthly U.S. mortgage rates survey and Runstad Department of Real Estate, College of Built Environments, University of Washington

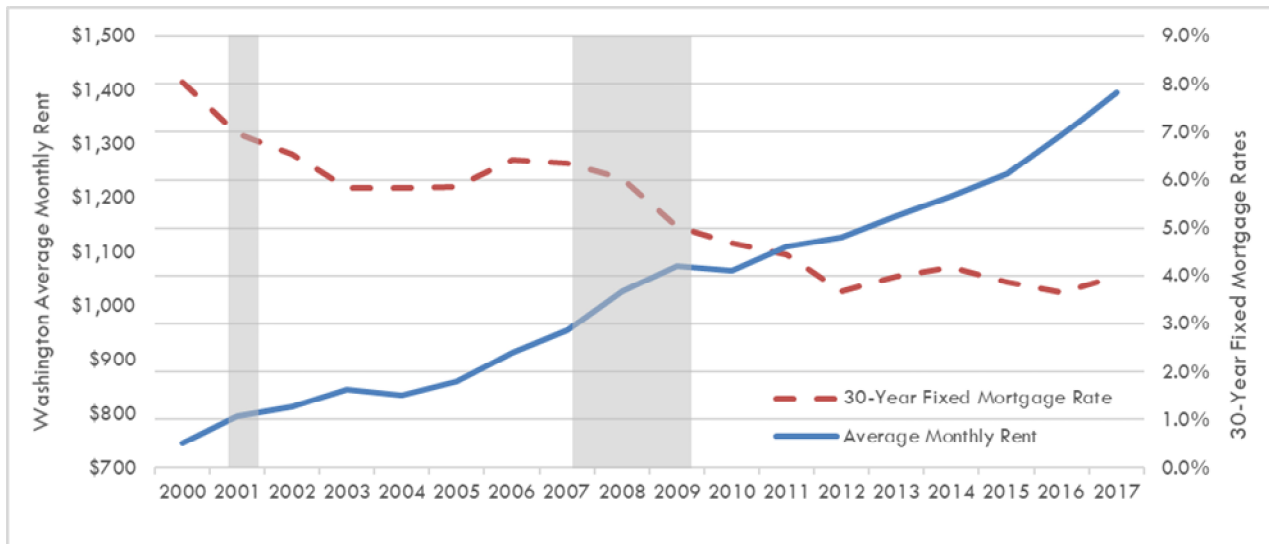
income can be spent on a qualified monthly mortgage payment. Lower mortgage rates tend to allow households to afford more expensive homes and increase housing demand because more people can afford a broader range of home prices. Alternatively, increasing mortgage rates tend to reduce the maximum price of a home a household can afford and cools housing markets because households can afford a narrower range of home prices.

- Rents as Both Temporary & Substitute Housing:** Rents can be boosted by either rising or decreasing mortgage rates. If mortgage rates go down, housing markets heat up and households buy and relocate more frequently, which

increases demand for temporary rentals. Alternatively, rising mortgage rates make monthly house payment more expensive for prospective buyers. This tends to slow sales by reducing the number of households that can afford to buy homes, keeping more households in rental housing longer. Fewer renters moving into ownership increases rents due to higher rental occupancy. This is particularly true for younger households with less equity saved for home purchase.

Thirty-year fixed mortgage rates have trended downward since at least 1995 nationwide, according to Freddie Mac Mortgage rate survey data.² Mortgage rates have dropped by half from roughly 8.0% in 1995 to just below 4.0% in 2017. During that time, housing prices (Figure 2) in Washington trended upward.

Figure 3—State of Washington Average Monthly Rent Trend & 30-Year Fixed Mortgage Rate Trend Relationship

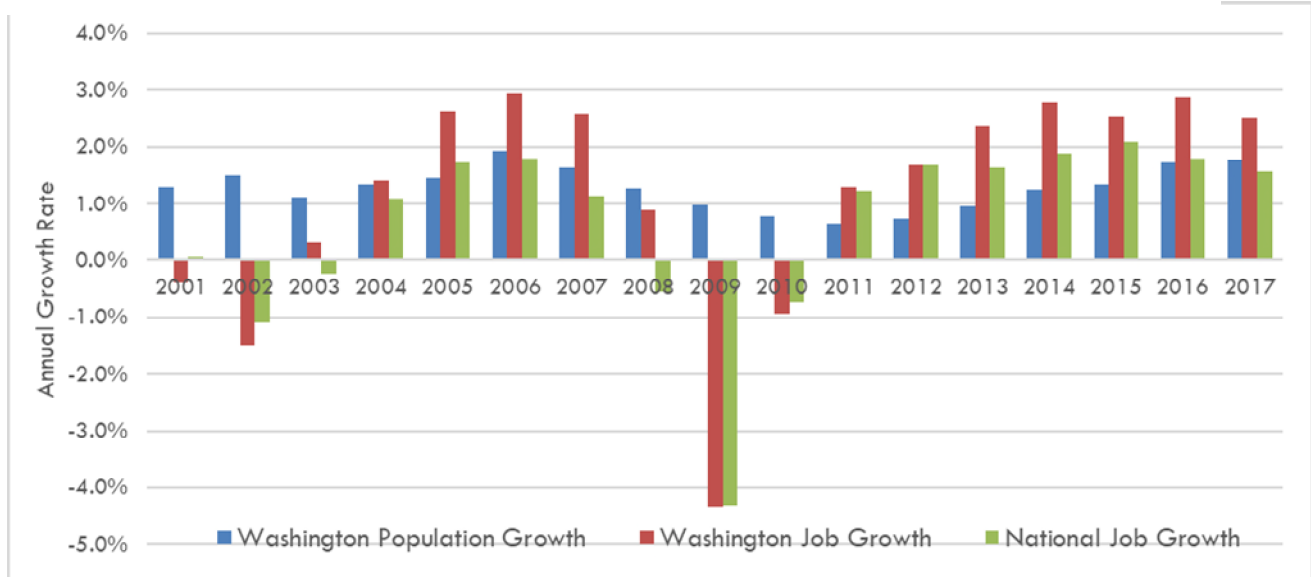


Source: Freddie Mac monthly U.S. mortgage rates survey and Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas, and Matthew Sobek. IPUMS USA: Version 8.0 [dataset]. Minneapolis, MN: IPUMS, 2018.

²<http://www.freddiemac.com/pmms/docs/historicalweeklydata.xls>

At the same time, monthly rents (Figure 3) in Washington also trended upward. Areas shaded gray represent years of national economic recession.

Figure 4—National Employment, Washington Employment, and Washington Population Growth Trend Relationship



Source: U.S. Bureau of Labor Statistics, Washington Employment Security Department, Washington Office of Financial Management

Employment & Population Growth

While interest rates have an impact on housing prices at the national level, volume of housing need and related affordability are more significantly influenced by population growth at the local level.

Figure 4 displays the relationship trend for U.S. employment growth, Washington employment growth, and Washington population growth. During neither the Great Recession nor the early 2000s recession did Washington lose population. The state added new residents every year since 2001.

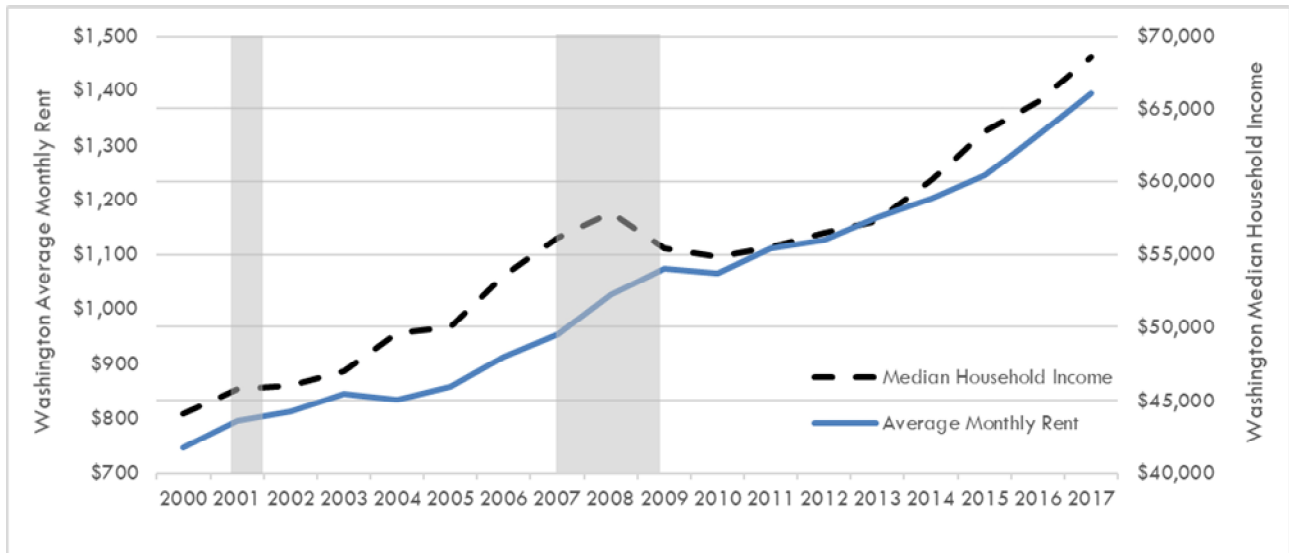
Figure 5 demonstrates the trend relationship between statewide population growth and median home prices.

Figure 6 tracks the resulting trended relationship between sustained Washington population growth and average monthly rent median home

prices. Areas shaded in gray represent years of national economic recession.

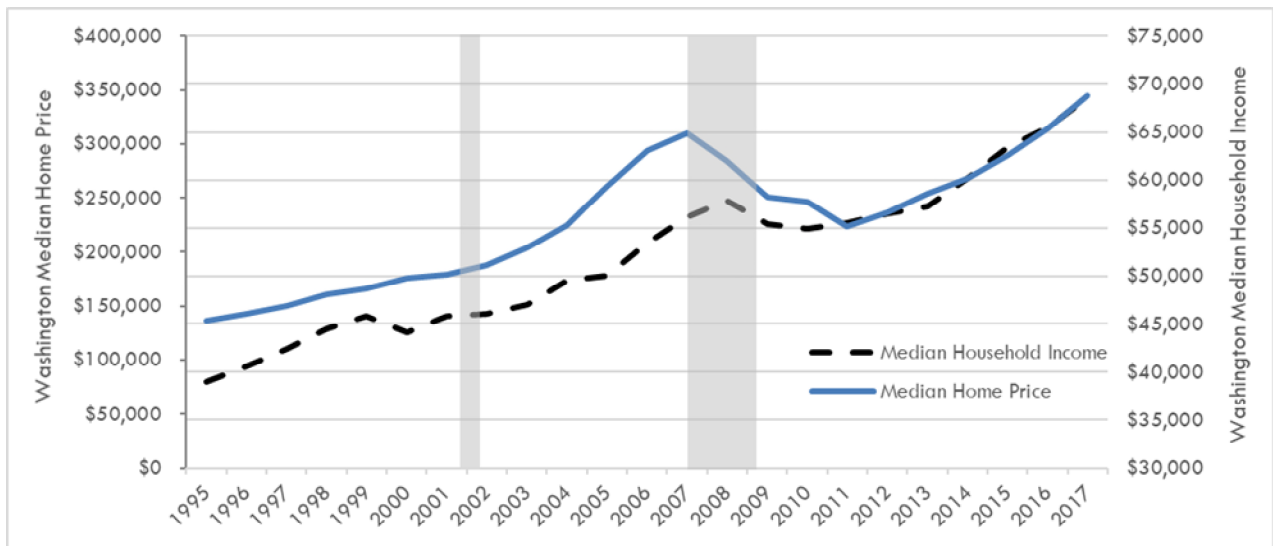
- Population growth since at least 2000, and through two recessions, has supported overall upward trend in home prices in Washington.
- The Great Recession marked a temporary reduction in home prices that has been made up statewide since 2016.
- Sustained population growth statewide has most closely correlated with rising average rents in Washington.
- Average monthly rent growth has been rapid for all years but two since before 2000, and average rents grew during the worst of the Great Recession (2007-2009).

Figure 5—Washington Median Household Income and Average Monthly Rent Trend Relationship



Source: Washington Office of Financial Management and Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas, and Matthew Sobek. IPUMS USA: Version 8.0 [dataset]. Minneapolis, MN: IPUMS, 2018. <https://doi.org/10.18128/D010.V8.0>

Figure 6—Washington Median Household Income and Median Home Price Trend Relationship



Source: Washington Office of Financial Management and Runstad Department of Real Estate, College of Built Environments, University of Washington
 Note: 2016 median household income is a preliminary estimate, and 2017 median household income is projected.

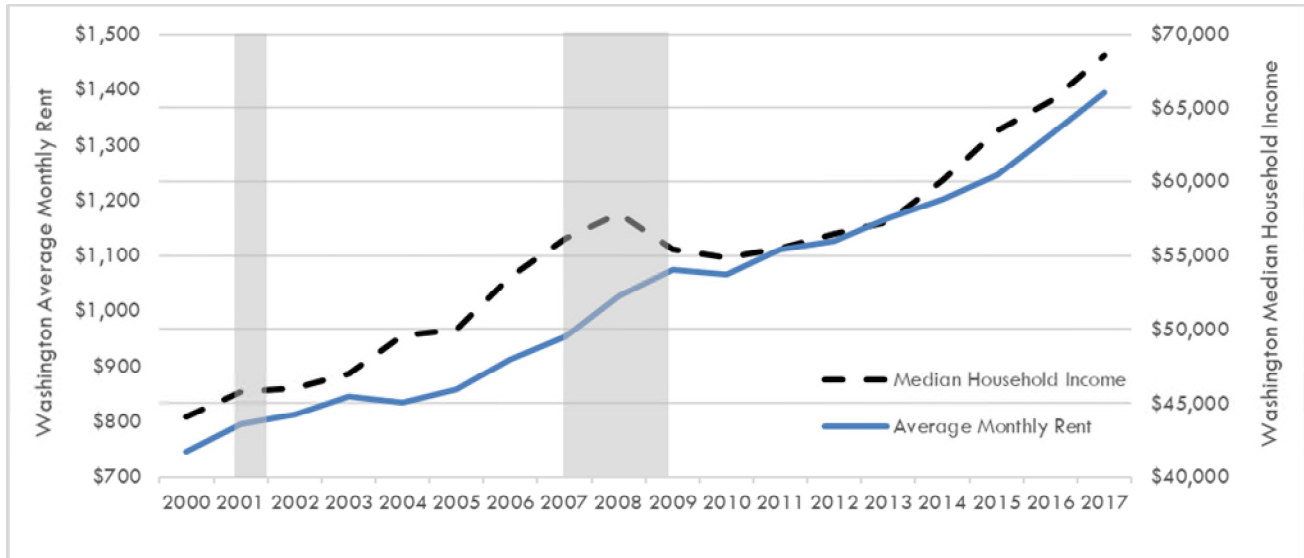
Personal Income

Home prices and rents in Washington also have been affected by longer-term income growth trend in the state. Job growth and population growth in Washington have resulted in upward trending personal income. Figure 7 illustrates

Washington household income compared to average monthly rents.

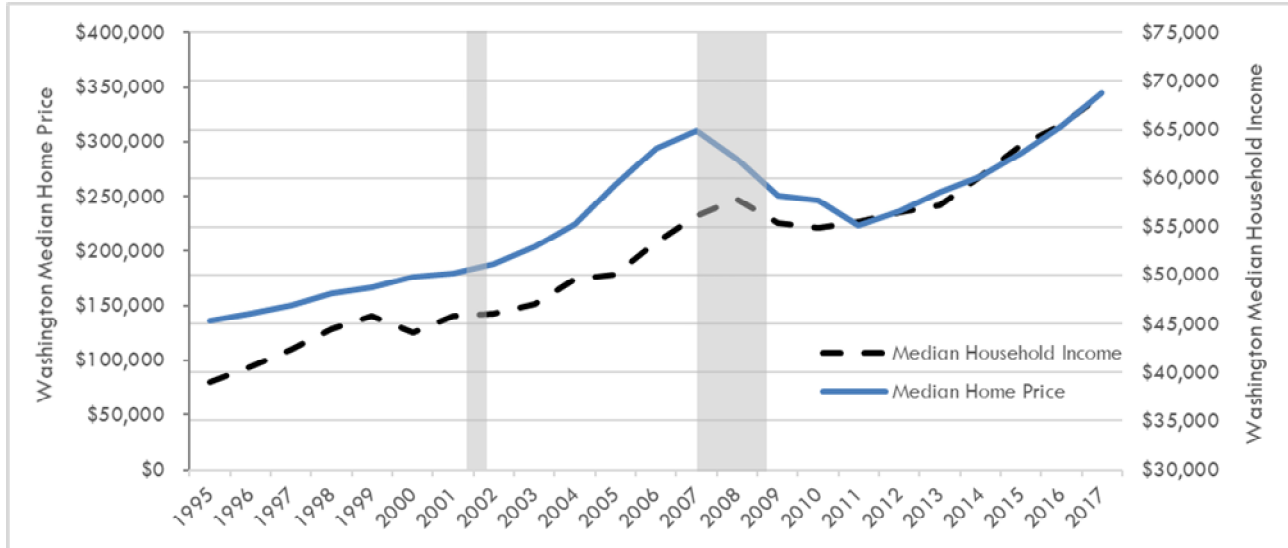
Figure 8 displays the long-term relationship between household income and home prices in Washington.

Figure 7– Washington Median Household Income and Average Monthly Rent Trend Relationship



Source: Washington Office of Financial Management and Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas, and Matthew Sobek. IPUMS USA: Version 8.0 [dataset]. Minneapolis, MN: IPUMS, 2018. <https://doi.org/10.18128/D010.V8.0>

Figure 8– Washington Median Household Income and Median Home Price Trend Relationship



Source: Washington Office of Financial Management and Runstad Department of Real Estate, College of Built Environments, University of Washington

Note: 2016 median household income is a preliminary estimate, and 2017 median household income is projected.

Except for two years of the Great Recession, Washington personal income has generally trended upward long-term with rents and home prices.

Housing Economics Framework

Housing production and housing need follow the laws of economics like other goods:

- **Housing Supply:** The higher the price of housing, the more housing that producers will try to deliver. In other words, there is a positive relationship between housing price and housing supply.
- **Housing Demand:** The lower the price of housing, the more housing that households will be able afford and occupy.

In the previous section, it was established that several sustained, long-term macroeconomic trends have pushed demand for housing in Washington continually upward, along with both home prices and rents.

Growing demand, however, does not alone determine how much new housing is developed or the ultimate prices or rents for that housing. Housing is expensive, time-consuming, and complicated to produce for a number of different reasons, such as land cost or constraints, materials or labor costs, regulation and development approval process. In other words, housing production cannot be delivered quickly or easily in response to growing demand conditions that sometimes change rapidly. In economics, this is called **inelastic supply**, or supply whose percentage change in amount supplied is less than the change in price, generally limited by how quickly a provider can respond to a price change.

In places with dramatic population growth like Washington, and most notably the City of Seattle, inelastic housing supply met with sizeable new housing demand can have a predictable outcome: dramatic increases in home prices and rents.

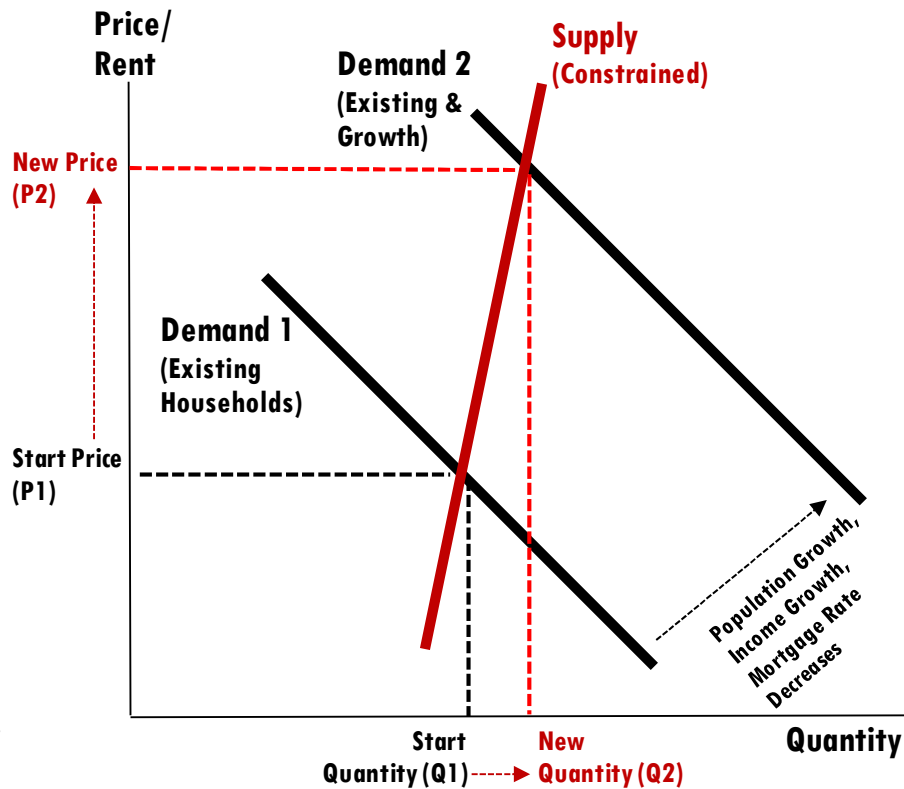
Figure 9 uses a standard supply and demand model to express what happens when rapid housing demand growth occurs while **supply is inelastic**, or new supply is costly or slowly produced in responding to growing housing demand.

First, the following represent *starting market conditions* before significant population and economic trends grow demand for housing:

- **Demand (1):** Existing households representing existing housing need.
- **Supply (Constrained):** The inelastic supply curve, which is steep to represent difficulty producing greater of housing (horizontal axis) even when price growth is significant (vertical axis).
- **Start Quantity (Q1):** The existing housing stock represented by Q1 on the horizontal quantity axis, determined by the intersection of existing supply and demand (1).
- **Start Price (P1):** The existing equilibrium (stabilized) price for housing represented by P1 on the vertical price/rent axis, determined by the intersection of supply and demand (1).

What happens when there is a combination of rapid population growth, income growth, and low or decreasing mortgage rates as there has been in

Figure 9—Housing Market Economics: Constrained Housing Supply vs. Enabled Housing Supply



many places nationwide and especially in Washington? Demand increases dramatically, which changes housing prices/rents as well as inventory of housing provided. Specifically:

- **Demand (2) (Existing + New Households):** Housing demand grows and is represented by a shift up and right in the demand curve from demand (1) to demand (2).
- **New Quantity (Q2):** Growth in demand to demand (2) results in more housing produced by industry (Q2), though new production is not large because of constraints to supply as discussed.
- **New Price (P2):** Significant growth in demand to demand (2) also results in housing prices/rents rising to P2. Because new

housing supply is inelastic, or constrained and not rapidly produced, prices/rents go up significantly and disproportionately more than housing stock as increased (Q2).

Washington housing markets have experienced dramatically higher housing demand growth because of broader economic and population factors. But the state also experiences constrained (inelastic) housing supply due to the unique costs and nature of housing production.

Washington is not alone in this reality; most states and regions across the country that have experienced sustained population and economic growth consistently report housing affordability challenges and undersupply of housing. The common thread is prevailing economic and

population growth factors that increase housing demand, which local and even state governments can do little to shape or affect.

The challenge, then, for cities and counties in Washington is examination of the various factors that affect housing supply quantity, cost, and delivery speed. To the extent that housing supply can be made less inelastic - less constrained, less costly, and/or more rapidly produced – greater housing can be delivered with more modest increases in housing prices and rents.

Rent Escalation and Affordability Crisis: The Ownership Housing Substitution Effect

Using the housing supply and demand model expressed in Figure 9, we can examine the nature of the particularly rapid rise in rents in many cities across Washington, as well as elsewhere across the country.

Undersupply of any type of housing will impact not only housing cost and amount of housing delivered, but the impacts of that undersupply will spill over into other housing types via the **substitution effect** and make the situation even worse.

The **substitution effect** in economics is simply what happens when demand moves from one good to a replacement, or substitute, if the preferred good is not affordably available. The classic example in housing economics is the substitution between rental housing and ownership housing.

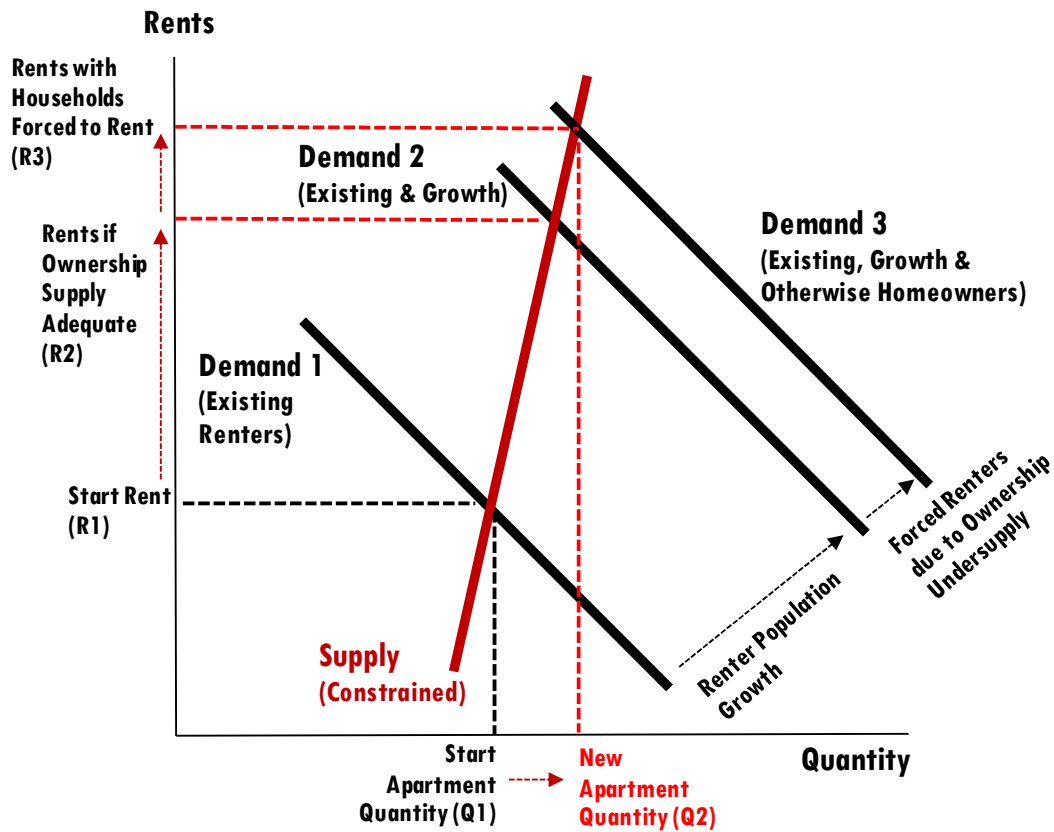
- If ownership housing is undersupplied, households who would prefer to own will be forced into rental housing for some duration. And as will be explored later in this report, ownership housing has been produced at

below-historical rates since the Great Recession.

- The primary impact is that the market for rental housing becomes even more overwhelmed with renters when rental apartment supply conditions are also constrained or inelastic. Figure 10 shows a secondary effect in a growing market of households being forced to rent who would otherwise prefer to and can afford to own.
- A third demand curve has been added (demand 3) that represents households forced into the rental market in addition to the normal growth in households that prefer to rent (demand 2).
- The primary impact of even more demand (demand 3) in a supply-constrained rental market is marginally more apartment delivery and even more rent escalation compounding already-rapid rent growth from normal growth.

Again, the major driver of rents rising in the market is growing population and the need for rental apartment production as a result. Rent growth is, however, exacerbated by undersupply of ownership housing opportunity, as well as apartment supply inelasticity, or difficulty delivering new apartments for various economic or regulatory reasons. Rent growth can be compounded further by the conversion of older, rental apartment units to condominium ownership. This amounts to a shift in the supply curve to the left, which reduces overall apartment supplied and further spiking the rents that are charged.

Figure 10—Economic Impacts to Rental Market with Undersupply of Ownership Housing



Summary of Key Points

1. Washington's rapid economic and population growth over the past 10 years, especially in King, Snohomish, and Pierce counties, have combined to drive significant housing demand with rising rents and prices as traditional economics would predict.
2. While demand has surged, housing supply tends to be inelastic – slow or not easily responsive with new production even with great changes in price – and both rents and home prices have risen even more as a result.
3. Cities and counties in Washington likely have very little ability to affect the major drivers of sustained housing demand growth: macroeconomic trends including economic growth, population growth, and interest rates, among others.
4. But local governments do have the ability to examine the extent of **housing supply inelasticity**, or how constrained local housing production may be for numerous reasons.

Part II: GENERAL MARKET AVAILABILITY OF LAND

General Market Availability of Land

Introduction

The term “general market availability of land” is very broad. From an economics perspective, a “market” denotes supply and demand for a specific commodity within a specific geographic area.³

No specificity is provided by the language of E2SSB 5254 about whether “land” is defined as raw land, buildable residential land and lots, or redevelopable parcels. Further, with regard to the use of “market” in the bill, there is no specificity regarding the specific supply of residential land by zoning and market, which could be a neighborhood or district within a larger city, an unincorporated area, or a smaller community in its entirety, all with different housing and land economics. The ongoing inventory of raw land parcels, buildable lots, or potential redevelopment parcels supplying the active market for housing is not tracked formally publicly or privately for data analysis purposes currently. But different resources are in part available or are becoming available, such as county buildable lands reports, commercial

brokerage databases, and proprietary or “big data” databases and analytical services. Land and sites that transact for purposes of (re)development are certainly recorded transactions for title and appraisal data purposes, but such data is not tracked in terms of a quantity of market supply for a particular type of land.

Given the lack of specificity of the term and both the complication and the lack of data for availability of land, the following analysis discusses residential land value trends nationally, in Washington, and in the Seattle-Tacoma-Bellevue metropolitan statistical area (MSA) as a signal of residential land market availability. As with any other product, rising values tend to signal rising demand and/or declining supply while declining values tend to signal weakening demand and/or increasing supply.

Residential Land Value Trend: Washington, Seattle-Tacoma-Bellevue MSA & U.S.

Land prices, whether for raw land or land with some infrastructure assured, are a critical component of development and construction cost, and ultimately housing affordability.

According to data tracked by the Lincoln Institute of Land Policy⁴, residential land values have risen and accelerated in their rise across the country in most states and metropolitan areas for over 20 years. Washington and the Seattle-Tacoma-

³ It is worth noting that cities and counties must plan sufficient land capacity for residential housing need over a 20-year period according to the Washington Growth Management Act (GMA). The reader is invited to review updated Buildable Lands Guidelines specifically for the seven urban, Buildable Lands counties of western Washington at <https://www.commerce.wa.gov/serving-communities/growth-management/growth->

[management-topics/buildable-lands/](https://www.commerce.wa.gov/serving-communities/growth-management/growth-)). New buildable lands guidance was required as a result of E2SSB 5254 to provide updated and more refined guidance as to how cities and counties account for residential (and non-residential) land capacity over a long-range planning period. Via the link, additional information about GMA requirements is also accessible.

⁴ <http://www.lincolnst.edu/resources/>

Bellevue Metropolitan Statistical Area (MSA) are no exception, as demonstrated in Figure 11.

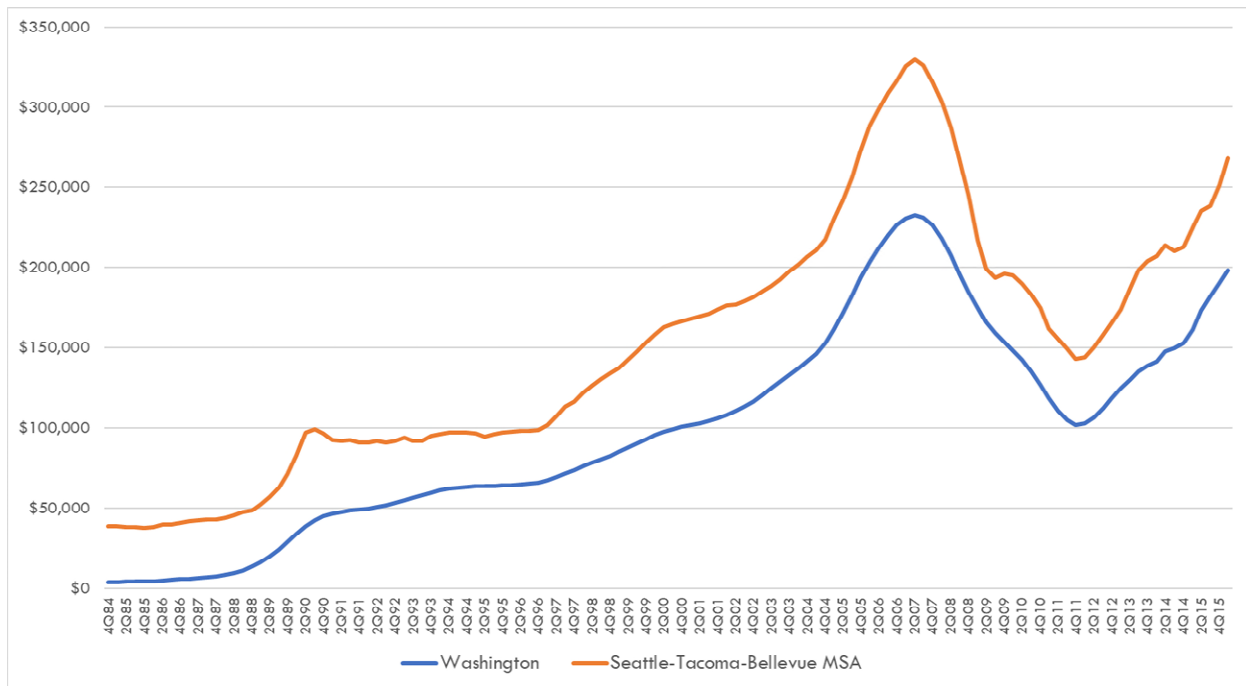
- Since 1984, the average value of residential land per single-family home in Washington State has grown by roughly 13.5% annually.
- Since 2012, when recovery after the Great Recession was fully underway, the average value of residential land per single-family home has grown by 17.9% annually.

Residential land price data in Washington and the central Puget Sound region indicate that broader economic phenomenon (the credit bubble, the Great Recession) have had a dramatic impact upon residential land value trends. The worst spikes in residential land values occurred during

the macroeconomic credit bubble that preceded the national Great Recession (2004-2007) and then for the Great Recession recovery years (2012 to current).

- The Seattle-Tacoma-Bellevue MSA has had higher residential land values than Washington as a whole, but both have trended upward over the last 30 years.
- Following adoption of the Growth Management Act (“GMA”) in 1990, land price as a share of home value was steady in the Seattle-Tacoma-Bellevue MSA area for six years, while it trended slightly upward statewide for six years.

Figure 11- Average Value of Land per Single-Family Home, 1984-2016



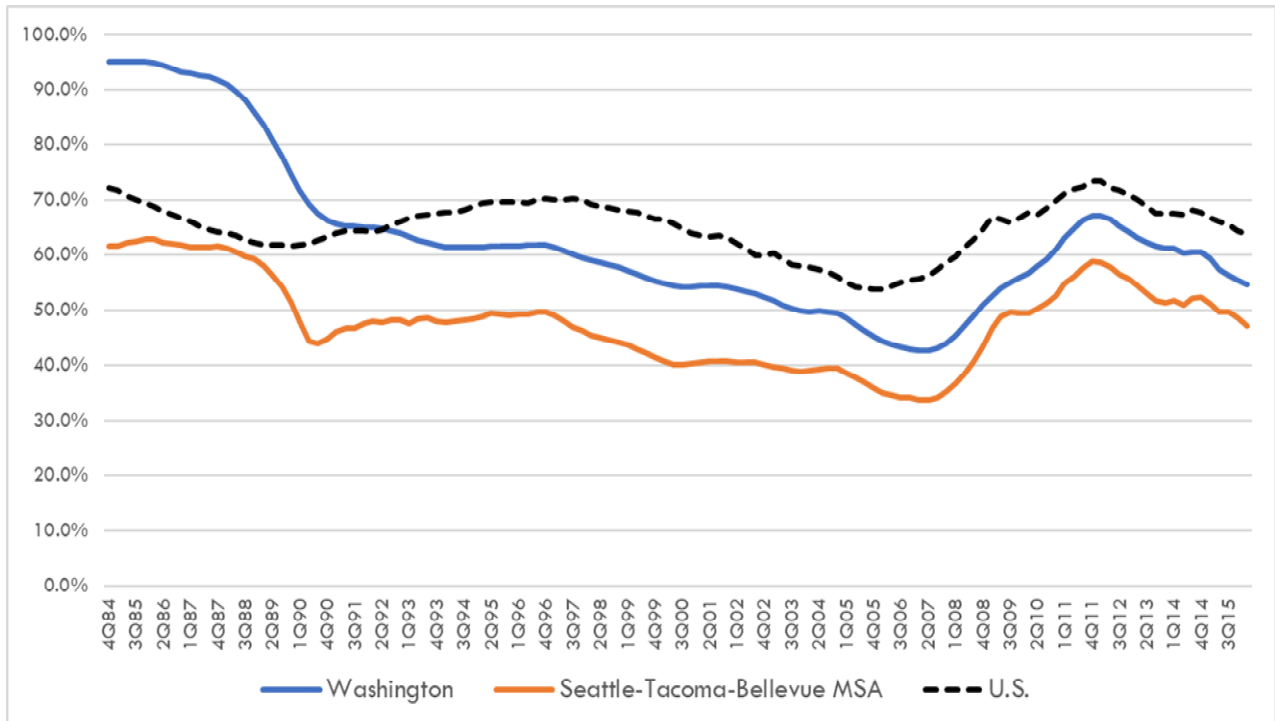
Source: Davis, Morris A. and Jonathan Heathcote, 2007, "The Price and Quantity of Residential Land in the United States," Journal of Monetary Economics, vol. 54 (8), p. 2595-2620; ongoing data located at Land and Property Values in the U.S., Lincoln Institute of Land Policy (<http://www.lincolninst.edu/resources/>)

Over the last 30 years, land costs have taken up an increasing share of overall housing value statewide and in the Seattle-Tacoma-Bellevue MSA over the last 30 years according to data in Figure 12.

Rapidly rising land values as discussed in Figure 11, particularly between 2011 and 2016, are typically a signal that availability is constrained.

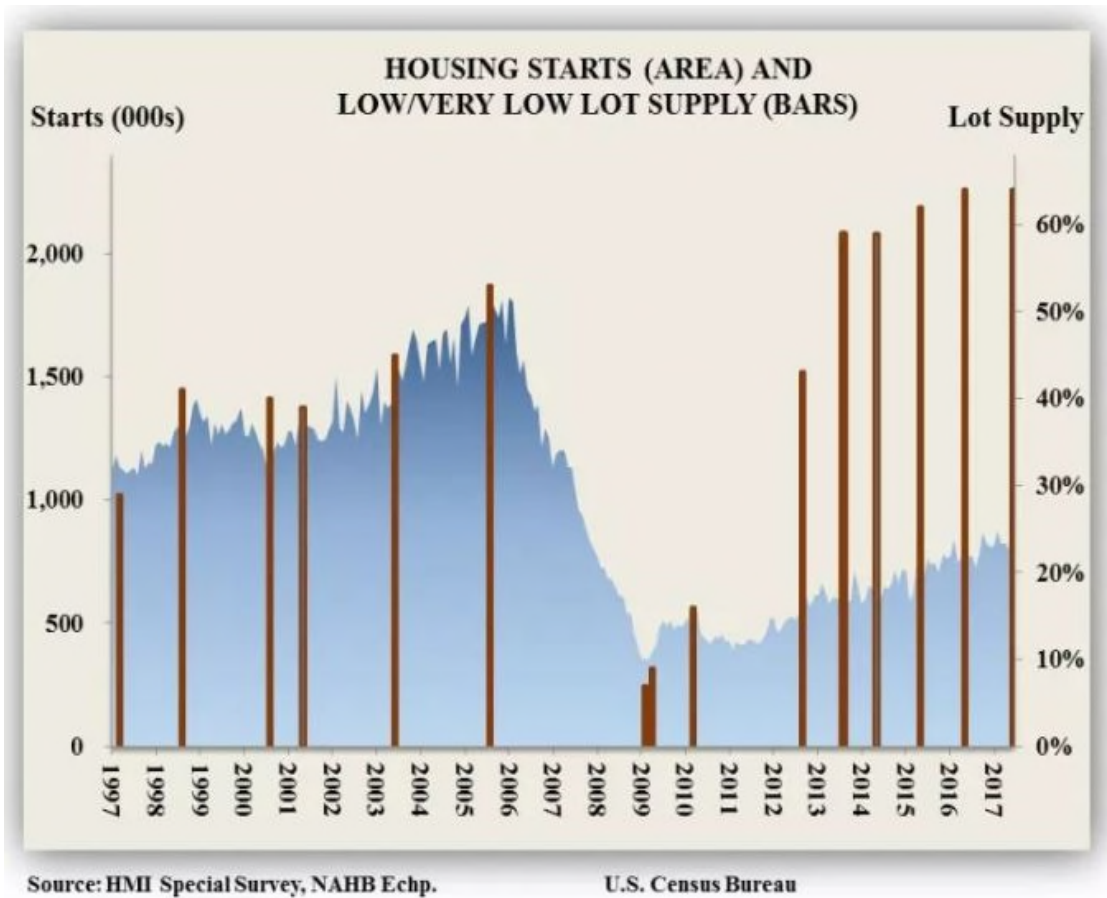
Residential structure value (vs. underlying land value) in the Seattle-Tacoma-Bellevue MSA and statewide have varied but declined since at least 1984. Nationally, however, structure cost growth has roughly kept pace with land value growth. Washington and the central Puget Sound region are indeed experiencing land value growth that is faster than the nation as a whole, according to Lincoln Institute of Land Policy data.

Figure 12—Average Share of Single-Family Home Value Attributable to Structure, 1984-2015



Source: Davis, Morris A. and Jonathan Heathcote, 2007, "The Price and Quantity of Residential Land in the United States," Journal of Monetary Economics, vol. 54 (8), p. 2595-2620; ongoing data located at Land and Property Values in the U.S., Lincoln Institute of Land Policy (<http://www.lincolninst.edu/resources/>)

Figure 13—U.S. Nationwide Housing Starts and Builder-Reported Single-Family Residential Lot Availability, 1997-2017



Source: June 2017 National Association of Home Builders/Wells Fargo Housing Market Index (HMI) Survey (http://eyeonhousing.org/2017/07/builders-concerns-of-lot-availability-unchanged-from-2016/?_ga=2.230129178.703801376.1538997064-916932729.1537560008)

Nationwide, data bears this fact out. In the June 2017 National Association of Home Builders/Wells Fargo Housing Market Index Survey, which has been conducted monthly since 1985, homebuilders nationwide were again asked to rate their own market’s relative availability of single-family residential lots for home construction. Results are expressed in Figure 13.

A few notable findings:

- National housing starts after the Great Recession (2012 to current) have consistently

been well below levels exhibited as far back as the late 1990s and early 2000s prior to the credit bubble that preceded the Great Recession.

- While housing starts have been extraordinarily low over the past decade, homebuilders nationwide have responded that single-family residential lot supply has been at its worst over the last 20 years as indicated by the bars in the chart.
- Since 2013, 60% or more of homebuilders nationwide have reported “low to very low”

single-family buildable lot availability in their markets.

- In the 2016 survey, in the West census region including Washington, 39% of homebuilders reported all buildable lots were in very low supply, and 45% of builders reported “prime” Class A buildable lots were in very low supply.⁵

Lot supply and land supply are not necessarily the same thing. For instance, most builders reported low lot supply in 2005 immediately preceding record housing starts in 2006. Low lot supply likely had to do with buildable lots being tied up by builders due to busy construction activity and replenishment limited. Low supply reported after the Great Recession is likely different and due to low available lot supply in general, given low housing starts.

And although survey data is not available for Washington or metropolitan specifically, based on the rapid escalation of land prices exhibited in Figure 11 and Figure 12, we would certainly expect that western Washington and the Seattle-Tacoma-Bellevue MSA specifically have a similar, overall single-family residential land and lot availability problem.

Market Supply Factor and Market Availability

Property owners can have widely varying economic and legal reasons for not selling buildable or redevelopable land for an extended period of time, whether in a rural, or lower density urban setting, or in a highly urbanized area. Cities and counties account for this unavailability via a Market Factor Supply

assumption, or a percentage reduction in buildable and redevelopable land that for whatever reason – usually property owner intent – will not be available for development or redevelopment.

As cities increasingly see interest in redevelopment and/or need to focus on redevelopment, property owner intent of parcels with existing improvements becomes more important to understand for properly accounting for what true redevelopable land inventory is over a planning period. This section discusses common examples of long-term constraining factors on land sale and (re)development from the property owner perspective, with an emphasis on redevelopment and infill properties.

- **Current owner paid too much for the property and is waiting for the market to “catch up” to make it economically feasible to develop (high basis).** This constraint can happen for new lower density urban development, but the issue is far more common and constraining for urban properties deemed appropriate for redevelopment. An existing development can be purchased on speculation that it can be redeveloped if a business cycle continues and rents or prices continue to climb. However, as the cycle changes and rents or prices do not continue to grow, the property sale price is overvalued and the owner must either sell at a discount or hold until prices or rents return and escalate higher. The holding period, until such time redevelopment is feasible, typically is mitigated by the cash flow received from the existing real estate use. Therefore high basis “holding” of property can happen for long periods of time.

⁵ <http://eyeonhousing.org/2016/05/shortage-of-lots-now-worse-than-ever/>

- **Trust ownership restrictions.** To shield property ownership from taxes and legal risk, properties are frequently held “in trust” with such legal protections. But such ownership places restrictions upon sale of such properties due to tax implications, as well as restricts how those properties can be used as collateral to finance (re)development. Accordingly, properties held in trust can and will not see (re)development for long periods of time as the trust entity enjoys the income from the existing real estate use(s) on-site.
- **Subjective ownership preferences.** Property owners, particularly of suburban properties with residential subdivision potential, can have purely subjective reasons for not selling property over a 20-year period or longer. Often, the current owner prefers to enjoy the parcel in its greenfield status. Primarily a constraint to single-family subdivision, owners of larger and underutilized parcels will not always weigh financial return of sale in decisions to hold a property and enjoy its more rural nature.
- **The economic value of business operating on the property is high enough to inhibit property sale or redevelopment.** Although screening for redevelopment suitability of land in cities reflects ratios of building improvement value to land value, determination of redevelopment suitability never factors in the current economic use within the improvements and likely overstates redevelopment capacity. While an existing structure might have depreciated value in terms of redevelopment potential, the property may not redevelop for long periods because the business inside the structure is viable, profitable, and may depend upon that business location as irreplaceable for the urban market it serves.
- **Absentee Ownership.** As property-owning households relocate away from the property they hold, sometimes distantly to another state, or another country, owners will retain the property as an investment, and if rented, may generate income from the use on their property. With stable, dependable income as the priority for their ownership, redevelopment will frequently not be a consideration for long periods and the property can be off the market for much or all of a land use planning period.
- **Lease vs. Fee-Simple Ownership.** Whether by choice or by legal requirement, such as tribal land ownership, lands can and do have lease-only restriction to the use of those properties. The main constraint is that the lease-hold is of finite duration, and so at end of the lease terms, the value of any improvements on the property reverts back to the owner and the lessee vacates. This constrains certain types of development, particularly for-sale real estate uses. In high-value real estate markets in large cities, such constraints can be a smaller factor, given the value of the real estate improvements and income in question. But in suburban markets of lower real estate value, leasehold restrictions can affect land availability for certain types of uses over the long term.

Housing Production Trends

Building permit data for Washington and five select Washington metropolitan statistical areas are found in 14 and Figure 15 for general building permit trend and multifamily building permit trend focus, respectively. Data are from the U.S. Department of Housing and Urban Development State of Cities Data System (SOCDS) Building Permit Database and represent permitting activity from 2001 to 2017.

Statewide and in Bellingham, Olympia-Tumwater, Seattle-Tacoma-Bellevue, Spokane-Spokane Valley, and Clark County, housing construction has all generally followed the same production pattern since 2001:

- A surge in predominantly single-family housing units through 2008 when the Great Recession began;
- A slow-down in single-family housing construction after the Great Recession compared to before 2008; and
- A relative increase in multifamily housing unit permitting since 2008 compared to historical trend.

Pace and volume of construction certainly vary from region to region. But the most notable pattern that is consistent for metro areas and across the state is the lower volume of single-family construction relative to historical rates for an economic expansion.

Figure 15 verifies that statewide, largely due to Seattle-Tacoma-Bellevue, the share of multifamily construction has been in higher-density structures (5+ units).

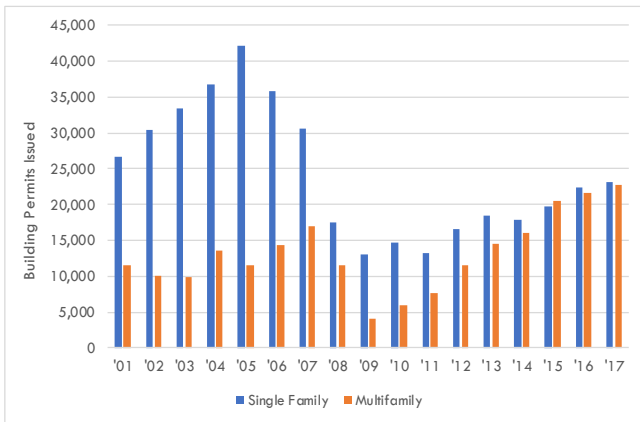
Like single-family homes, duplexes (2 units) and triplexes/fourplexes (3-4 units) of different varieties actually experienced a slower pace of construction in most of the Washington urban

markets after the Great Recession. Data does seem to bear out other findings in this report:

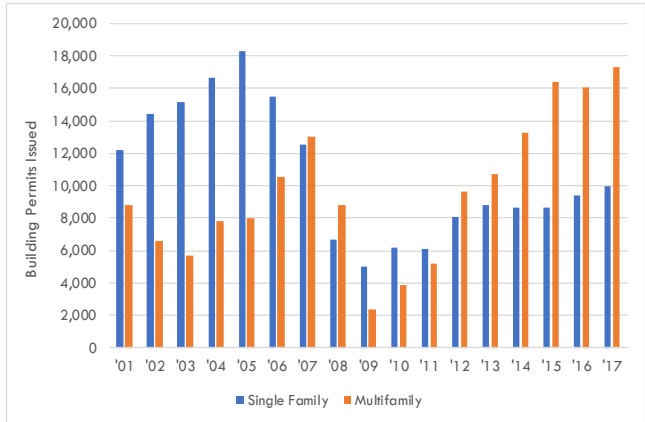
- Single-family housing construction has declined at least in part due to rising costs that are covered more safely by high-end products with higher profit margins for a smaller, wealthier customer base. This tends to undersupply ownership opportunity to households of all other income levels.
- Given the unresolved liability cost problem with condominiums, the surge in multifamily housing necessarily and overwhelmingly must be rental apartments.
- The Great Recession reduced the number of home builders, at least temporarily, through the worst of the recession and then through the early recovery years. Smaller builders who fill market niches like smaller product or more urban product at higher densities, would be a further cause of lack of diversity of housing type production.

Figure 14- Housing Permit Trends, Washington State & Select MSAs, units permitted 2001-2017

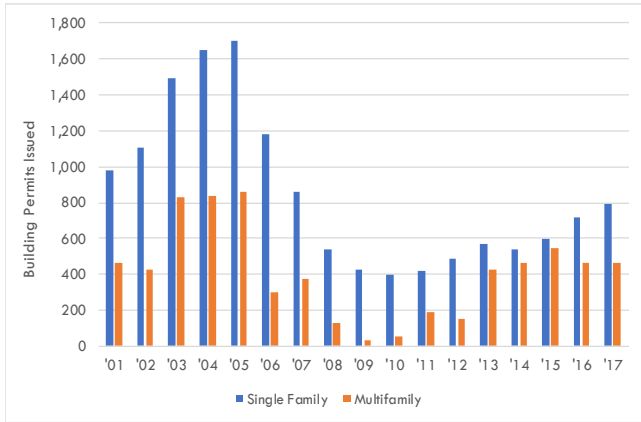
Statewide



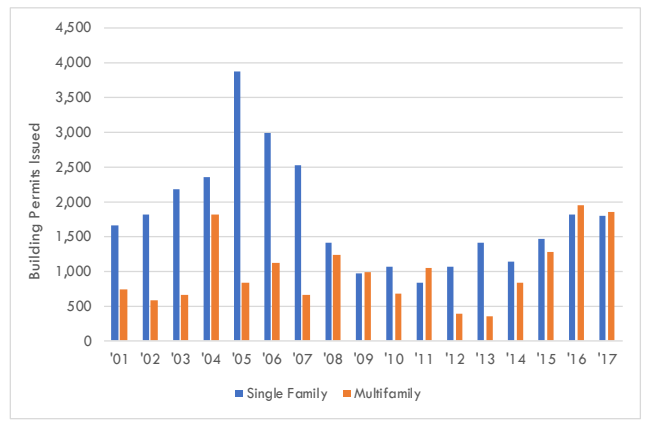
Seattle-Tacoma-Bellevue



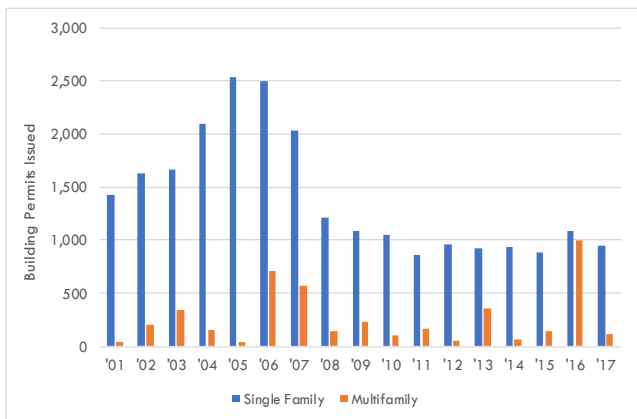
Bellingham



Spokane-Spokane Valley



Olympia-Tumwater



Clark County

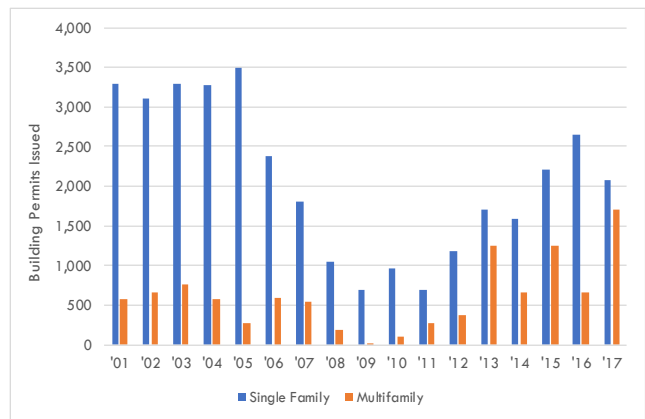
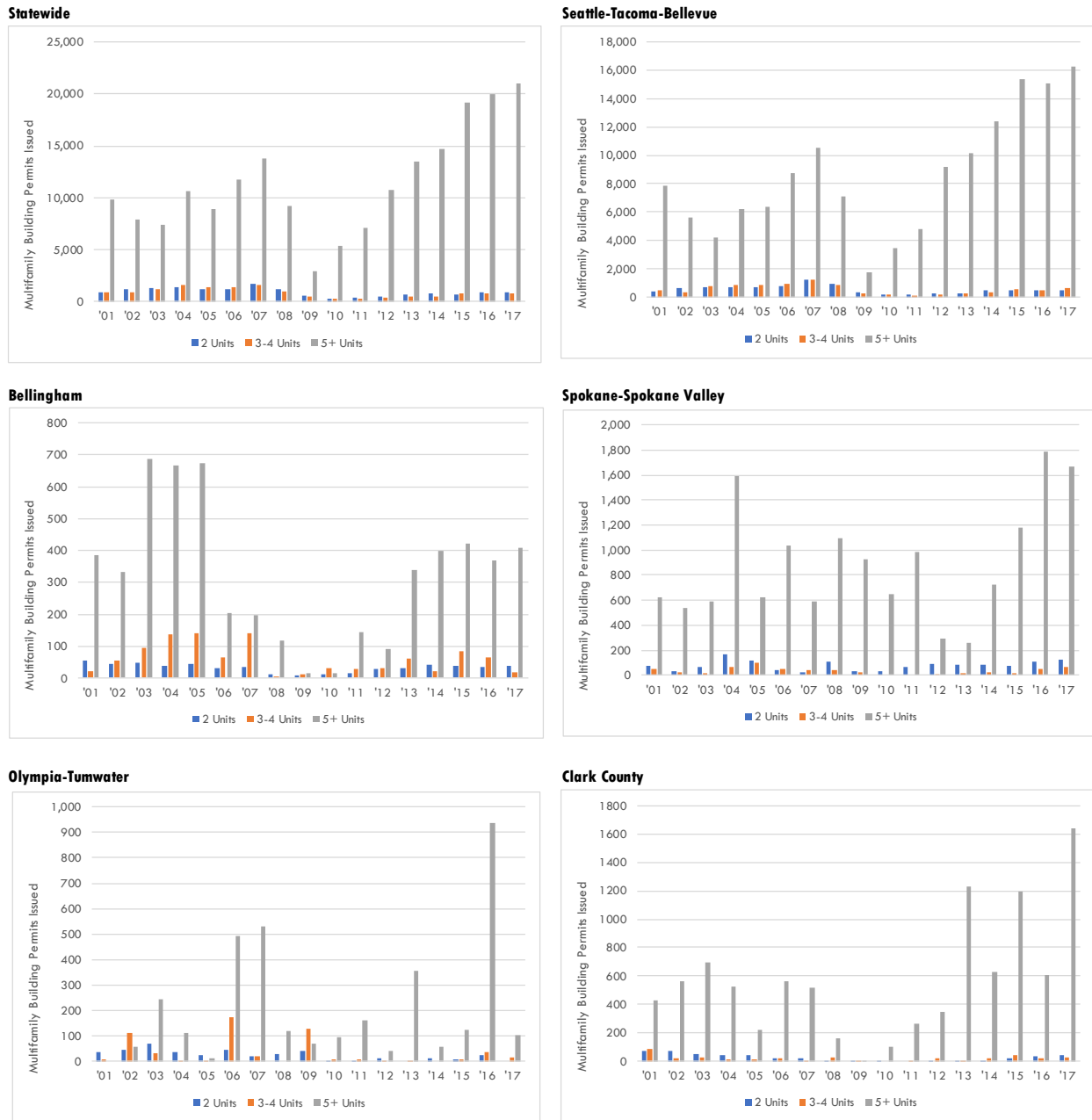


Figure 15– Multifamily Housing Permit Trend Focus, Washington State & Select MSAs, units permitted 2001-2017



Source: U.S. Department of Housing & Urban Development State of Cities Data System (SOCDS) Building Permit Database (<https://socds.huduser.gov/permits/>)

Summary of Key Points

1. Residential land value data for Washington State and the Seattle-Tacoma-Bellevue MSA indicate that land value growth in Washington has been overwhelmingly impacted by macroeconomic events like the Great Recession, and overall Washington and Seattle-Tacoma-Bellevue MSA residential land value growth outpaces the national average.
2. Although trend in the volume of residential land supply is not currently possible to analyze, residential land value trends are symptomatic of some level of land availability constraint within the Seattle-Tacoma-Bellevue MSA and likewise in other urban parts of the state.
3. Nationally, sharp gains in residential land values since 2011 have been simultaneous with substantial underproduction of single-family homes, according to surveying by the National Association of Home Builders (NAHB) and Wells Fargo.
4. Regular home construction industry surveying by the NAHB and Wells Fargo also found that since 2011, record-high counts of home builders report low or insufficient buildable lot supply nationwide. Washington-specific survey data is not available, the West Region builders report the most acute buildable lot shortages in the U.S.
5. E2SSB 5254 includes review and improvements to accounting for buildable lands and in particular, Market Supply Factor, the deduction for land that will not be available for development over the long-term even if deemed buildable or redevelopable. Accordingly, jurisdictions will likely refine and/or

elaborate Market Supply Factor assumptions in the future, particularly as cities anticipate planning for increasing redevelopment and infill activity.

TOOLS FOR UNDERSTANDING HOUSING SUPPLY

HS - 01

The collection of data is one of the keys to understanding housing trends. However, collecting and analyzing data can be expensive and time consuming. Consider coordinating at the county or regional level or partnering with a university to collect and analyze key housing data.

HS - 02

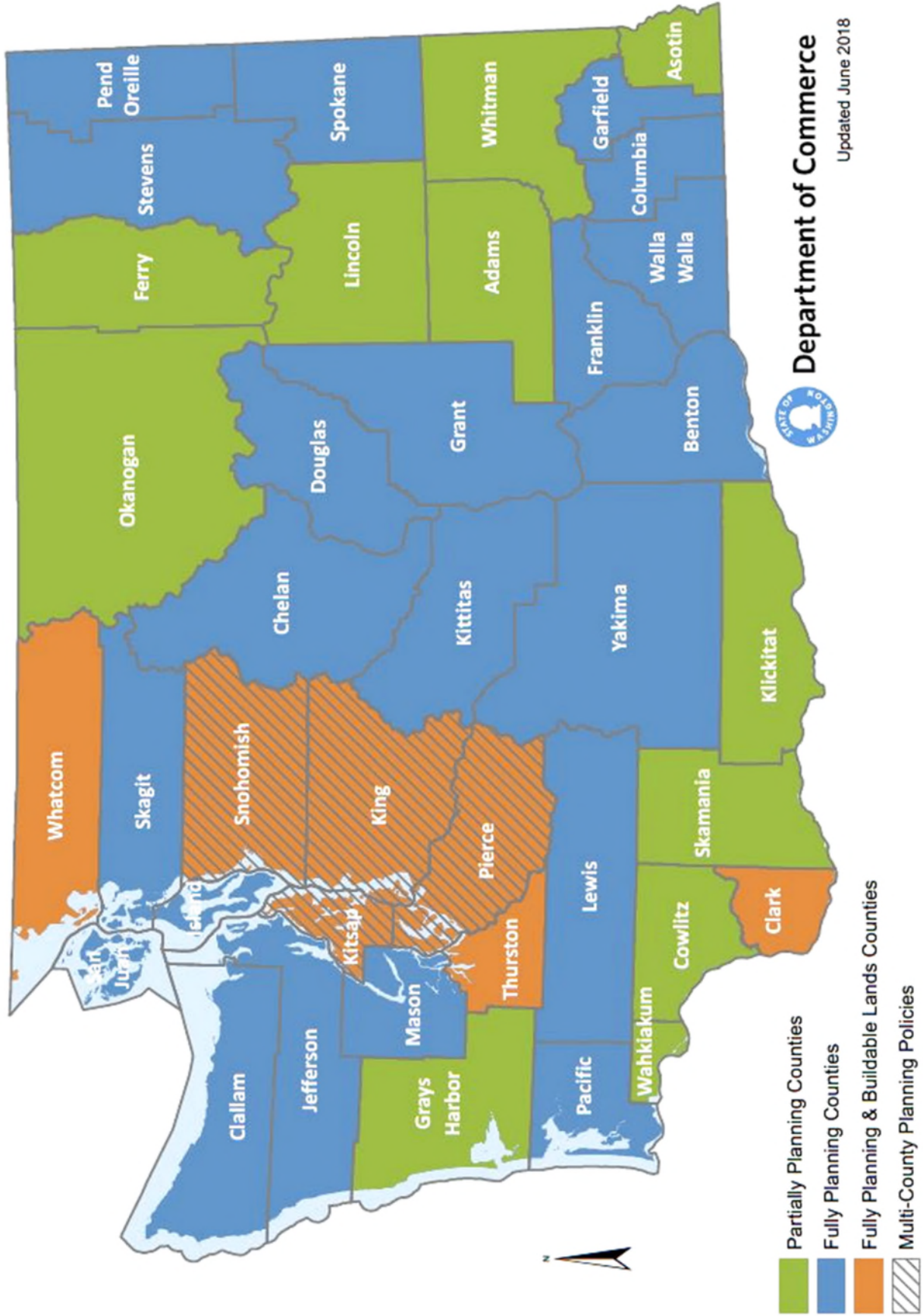
Especially in our faster-growing counties and cities, consider monitoring growth more frequently. As an example, Snohomish County and its cities produce a Growth Monitoring Report every one or two years. It is a “monitoring process to review population and employment growth, annexations and incorporations, land consumption and supply, and housing availability and affordability.”

HS - 03

Local governments should coordinate more frequently with the building community to better understand housing supply issues that are impacting the ability to build what is planned within local comprehensive plans.

Part III: PLANNING FOR HOUSING AND HOUSING AVAILABILITY

Figure 16 - GMA Planning Counties



Mismatches based on economic and demographic factors, and housing capacity planned by local government means that housing is not available at the size, cost, or location for households that need it. Land availability, suitability, cost and price are all at stake, with constraints due to planning mismatch with serious consequences for housing affordability.

State Requirements for Housing Planning

The Growth Management Act (GMA) includes specific requirements for how cities and counties should plan for housing, including housing affordable to lower-income households. As shown in Figure 16, the requirements apply in the 29 “fully planning” counties that are required to plan under the GMA. Implementation of the GMA is guided by 14 overlapping goals. The GMA housing goal is to:

“Encourage the availability of affordable housing to all economic segments of the population of this state, promote a variety of residential densities and housing types, and encourage preservation of existing housing stock.”⁶

⁶ RCW 36.70A.030 includes other goals that relate to affordable housing: (1) Encourage development in urban areas where adequate public facilities and services exist, or can be provided in an efficient manner. (2) Reduce the inappropriate conversion of undeveloped land into sprawling, low-density development. (12) Ensure that those public facilities and services necessary to support development shall be adequate to serve the development at the time the development is available for occupancy and use

Comprehensive Plans and Countywide Planning Policies

All 29 GMA counties and the cities within them must agree on how they will address issues of a countywide nature, such as transportation, siting of public facilities, growth, and affordable housing, including policies that consider the need for affordable housing, such as housing for all economic segments of the population and parameters for its distribution.⁷ These countywide planning policies may include targets for affordable housing.

City and County Comprehensive Plans

GMA cities and counties must include five mandatory elements in their comprehensive plans: land use, transportation, housing, utilities and capital facilities.⁸ Counties must also include a rural element. Each county receives 20-year population projections from the state Office of Financial Management.⁹ The county, cities, and towns work together to allocate the countywide population to individual jurisdictions based on local land capacity, availability of capital facilities, and local vision. The land use element is where population densities, building intensities, and estimates of future population growth are located. The majority of new growth should be planned inside designated urban growth areas, but the intensity and distribution of uses is left to

without decreasing current service levels below locally established minimum standards.

⁷ RCW 36.70A.210 (3)(e).

⁸ Washington State Office of Financial Management, *Population and Demographics*, www.ofm.wa.gov/pop/default.asp.

⁹ Washington State Office of Financial Management, *Population and Demographics*, www.ofm.wa.gov/pop/default.asp.

local decision makers, consistent with countywide planning policies and GMA goals.

The Housing Element should *ensure the vitality and character of established residential neighborhoods*.¹⁰ It should:

- *Include an inventory and analysis of existing and projected housing needs that identify the number of housing units necessary to manage projected growth. Cities should consider both the new households inside the city limits and those in any unincorporated areas intended to annex to that jurisdiction within the 20-year planning period.*
- *Include a statement of the goals, policies, and objectives for the preservation, improvement, and development of housing, including single-family residences.*
- *Identify sufficient land for housing, including, but not limited to, government-assisted housing, housing for low-income families, manufactured housing, multifamily housing, group homes, and foster care facilities.*
- *Make adequate provisions for existing and projected housing needs of all economic segments of the community.*¹¹

There are some general steps to implement this requirement:

I. Assess Community Housing Needs

A housing element should include a housing inventory and housing needs assessment. This assessment creates a data profile of the community, and identifies recent and projected trends in household size, composition, income, and demographics. The housing profile should review the condition and affordability of existing housing, and it should identify the number and

types of new housing units needed to serve the projected growth and the income ranges within it. This information is important to designate land zoned for the needed housing types over the planning period.¹²

II. Evaluate Policy Options

Housing goals and policies within the housing element should be consistent with countywide planning policies (and multicounty policies where applicable), should address a variety of residential densities and housing types, promote affordable housing for all economic segments, and support preservation of existing housing stock. A plan that includes a broad variety of housing types, compact development and protections for the existing affordable housing stock will yield the best variety of options for middle- and low-income community members. Smaller lots and smaller units are generally most affordable because this is the most efficient way to use land and provide public facilities and services.

Each housing element should include provisions to monitor the performance of its housing strategy, such as targets and benchmarks.

¹⁰ RCW 36.70A.070(2)

¹¹ WAC 365-196-410 provides advisory guidance on how to develop the housing element.

¹² See county profiles in the Affordable Housing Needs Study: www.commerce.wa.gov/housing-needs-assessment/

Market Demand Concepts

Market demand for housing implies a combination of the following factors that determine a household's residential choice:

- **household socioeconomics;**
- **subjective housing preferences;** and
- **locational preferences.**

Market demand also **implies a usually short-term time period** during which households choose among preferred housing options available at that time. From a long-range residential land need planning perspective, the short-term timeframe typical of market demand analysis can be viewed as problematic.

- Socioeconomics (stage of life, income, household size) can change. For instance, how much and when will younger households transition from rental housing to ownership housing, what kinds, and where?
- Subjective housing preferences can change (detached home preference can shift to attached housing preference). Does significant multifamily housing development over the last seven years represent a permanent shift towards attached housing preferences?
- Locational preferences can change (suburban lifestyle shift to urban lifestyle preference, household aging and services shift, income or wealth stages or loss): For instance, will senior citizen households age in place in existing homes or relocate to urban, attached homes

closer to services, freeing single-family units for younger households?

But change and predicting the nature of it is the foundation of forecasting of any kind. And all three general dimensions to market housing demand can be modeled and forecast using a solid methodology and grounded assumptions.

Elements of Market Housing Need (Demand) Analysis

For *market demand* analysis for housing, the three primary dimensions to need are:

1. Household **income and household size;**
2. Household **tenure preference** between ownership and renting; and
3. Household **structure preference** between detached and attached.

When considered jointly, housing product demand can be understood most thoroughly from the perspective of affordability, type, and location.

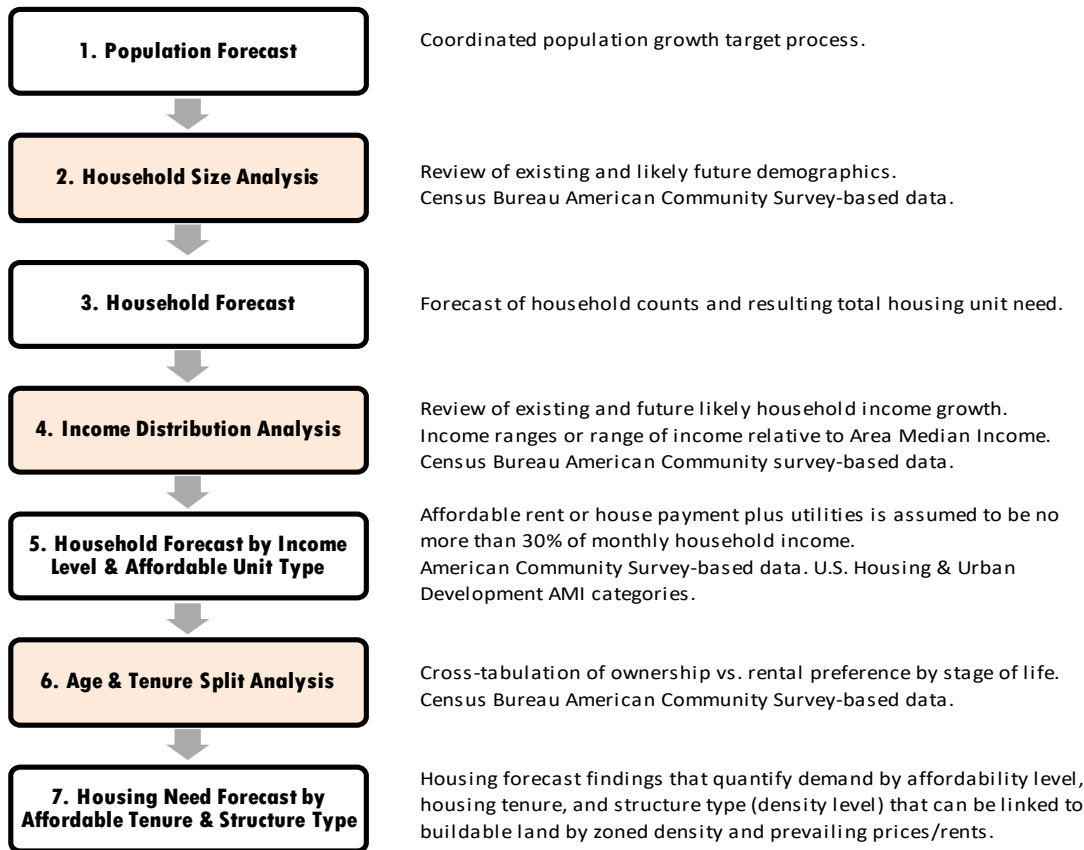
In traditional housing market demand analysis, a multi-step procedure is typically followed that enables the projection of housing demand that incorporates likely housing affordability and quality needs. Figure 17 outlines the typical steps and data analysis and basic data source considerations at each stage of project demand for different housing products for expected growth.

Most data required for typical analysis can be compiled from the U.S. Census Bureau American Community Survey (ACS).¹³ Advanced data needs can be met by the Census's data-based Integrated Public Use Microdata Series (IPUMS).¹⁴

¹³ <https://www.census.gov/programs-surveys/acs>

¹⁴ <https://www.ipums.org>

Figure 17—Typical Approach to Housing Market Demand Analysis Given a Starting Population Forecast



Market demand analysis via the steps in Figure 17 yields a set of assumptions about the different percentages of total household growth in a given area that will seek housing of different types by income affordability level. Figure 18 gives an example of the different outputs of market demand analysis that can be used to estimate demand for different types of housing at different density levels and qualities as reflected in Figure 18. Different categories of housing demand percentages are color-coded to suggest the likely geographic location of different housing demand based on a typical urban infill/redevelopment setting vs. a green field/suburban setting.

- **More Likely Urban Infill/Redevelopment (Yellow):** Attached housing that is owned by the household will usually be in a higher-density, more urban environment. Typical housing types would be townhome/rowhouse, mid-rise condominium or high-rise condominium.
- **More Likely /Greenfield (Blue):** Detached single-family that is owned by the household will usually overwhelmingly be developed in a suburban setting. New infill single-family housing certainly is built, but relative order of magnitude is small and expensive relative to suburban single-family.
- **Blend of Urban and Suburban Setting (Green):** Attached and detached rental

housing will certainly be found in both suburban and urban/redevelopment settings:

- **Duplex/Triplex/Fourplex:** New plex development is usually found in suburban setting where market demand demographics require moderately priced or rented homes. Existing plexes of older vintage certainly are found in urban/redevelopment settings.
- **Townhouse/Rowhouse:** Rental townhouse and rowhouse homes will more frequently be infill projects in an urban setting. For-sale townhouses and rowhomes have grown in many pricier suburban markets as a higher-density ownership option, but a portion will sometimes be rented out as an investment property.
- **Low-Rise Plex:** New “garden apartments” will be more common in a suburban/green field setting where larger parcels with higher suburban densities are allowed. Vintage garden apartments certainly exist in existing urban areas and remain as rental properties before redevelopment is feasible.
- **Mid-Rise:** Rental properties over five stories in height will tend to be highest-density new housing in a suburban setting while mid-rise will be moderate or step-up rental development in a redevelopment setting where rents are not high enough to justify high-rise development costs.
- **High-rise:** Rental apartments and condominiums in the most concentrated, urban

redevelopment centers of cities are the exception to the combined greenfield/redevelopment mix. Existing and growing population density in city centers justifies the highest rents, which in turn are enough to justify the higher construction cost of high-rise engineering.

Figure 18—Market Demand for Housing Analysis Results Framework

Structure Split	Attached		Detached	
Tenure Split	Ownership	Rental	Ownership	Rental
Income Range				
<40% of AMI	%	%	%	%
40%-49% of AMI	%	%	%	%
50%-59% of AMI	%	%	%	%
60%-79% of AMI	%	%	%	%
80%-99% of AMI	%	%	%	%
100%-119% of AMI	%	%	%	%
120%+ of AMI	%	%	%	%

	More likely in an urban/infill/redevelopment setting
	More likely in a suburban/green field setting
	A blend of urban and suburban setting

Current Housing Demand Forecasting

A review of comprehensive plans for a number of jurisdictions in King, Pierce, Snohomish, and Thurston counties verifies that many if not most agencies forecast and plan for housing need with a great emphasis upon *capacity* of single family vs. multifamily units with less or sometimes no emphasis on the *suitability* of that capacity for future household needs.

In review of a select number of comprehensive plans around the Puget Sound indicates that the

City of Seattle is among the few that forecast future household growth and housing demand based on affordability level/income as a percentage of AMI.¹⁵ It is understood, however, that local governments are not always resourced to complete this additional analysis.

However, for many cities, their comprehensive plan housing elements and technical appendices usually have exhaustive summaries of current household counts and demographics, housing stock counts with rents or pricing, and permitted development trends. All of this information already compiled can and should be the basis for informing future housing need forecasts that more fully account for household needs and affordability.

It is up to the local government to use census and other data to ascribe additional detail for number of households, household size considerations, and preferred structure types (single family vs. multifamily). The housing needs analysis should also project likely income levels of future residents relative to Area Median Income (AMI) as a measure of future affordability needs.

Translating Growth Targets into the Characteristics of Needed Housing

A detailed and comprehensive review of cities and counties' comprehensive plans, housing elements, technical reports, countywide planning policies and buildable lands reports is beyond the scope of this memorandum. However, a review of a selection of such plans and reports for several cities and counties yields the following observations:

- Population counts are the focused subject of many past county and regional growth targets and growth allocations for different jurisdictions. Detail of analysis and forecasting does vary, with Central Puget Sound jurisdictions conducting the more detailed forecasting.
- Because forecast targets are usually population point estimates alone, with no income or age/stage of life analysis, there is typically no countywide or regional attempt to describe future household demographics and housing affordability levels of the population that is being distributed. Population growth forecasting specifically does not currently typically treat:
 - Allocations of a variety of household sizes, by household stage of life, and propensity to have varying housing needs and location preferences.

¹⁵ Seattle's Comprehensive Plan: Towards a Sustainable Seattle. 2015. Housing Appendix A, Figure A-33 Estimated Household Growth by Income Level, p. H-A39.

<https://www.seattle.gov/Documents/Departments/PCD/OngoingInitiatives/SeattlesComprehensivePlan/HousingAppendix.pdf>

- Allocations by household income level and resulting affordable rent or affordable house payment.
- Because key socioeconomic and demographic analysis is not included with county population target forecasting and countywide allocation, cities must make assumptions and conduct analysis about the nature of household size, income/affordability levels, and stage of life, that all combine to determine housing need.
- Often, only the most resourced communities have the capacity to use methodology for translating population growth into household growth by income level and, therefore, affordability level.¹⁶ It is reasonable to conclude that many smaller cities do not have the capacity to refine the population allocation to develop a fuller understanding of future housing need.
- Many city comprehensive plans and county buildable lands reports currently reconcile available residential unit capacity by zoned density without regard to what those residences would likely cost in rent or home price. Without such analysis, and reconciliation of housing unit need with housing unit cost, the potential is great for mismatch between household growth targets and housing affordability levels.

Other Guidance from the GMA

As has been established, housing demand by households is established by a variety of market factors having to do with the nature of households moving into an area: quantity of households, income levels, stage of life, size of household, and a number of need factors regarding proximity to transit, employment, recreation and other amenities.

It is unclear is whether Buildable Lands Program counties and cities are consistently reflecting true, market and demographic data-backed housing need projections for comprehensive planning.

These missing housing affordability targets may be attributed to current language within the GMA. RCW 36.70A.070(1) and 36.70A.110(1) provide general guidance for cities and counties as they plan for growth. RCW 36.70A.070(1) states that “A land use element designating the proposed general distribution and general location and extent of the uses of land...” and “shall include population densities, building intensities, and estimates of future population growth.” RCW 36.70A.110 states that “the county and each city within the county shall include areas and densities sufficient to permit the urban growth that is projected to occur in the county or city for the succeeding twenty-year period...”

The housing element requirements in RCW 36.70A.070(2), get much more specific. It requires “(2) A housing element ensuring the vitality and character of established residential neighborhoods that: (a) Includes an inventory and analysis of existing and projected housing needs

¹⁶ City of Seattle has a comprehensive plan technical appendix that address affordability. Other East Puget Sound communities also do this analysis, as well as

those areas which are funded to develop a consolidated housing plan from the US Department of Housing and Urban Development.

that identifies the number of housing units necessary to manage projected growth; (b) includes a statement of goals, policies, objectives, and mandatory provisions for the preservation, improvement, and development of housing, including single-family residences; (c) identifies sufficient land for housing, including, but not limited to, government-assisted housing, housing for low-income families, manufactured housing, multifamily housing, and group homes and foster care facilities; and (d) makes adequate provisions for existing and projected needs of all economic segments of the community.

Without providing the specificity as required for the housing element, latitude is wide for counties and cities to potentially plan housing capacity within existing urban areas or UGAs that are at odds with the affordability levels of households moving into the planning area.

- Over-estimating the capacity for redevelopment may translate into new capacity created that skews towards housing supply for higher-income households and potentially understates the risk to existing residents of displacement – if such redevelopment of that volume and density is even feasible during the 20-year planning period. Higher density housing translates into higher development costs and prices – especially when redevelopment is involved and purchase of a parcel with an existing improvement value is required.
- Underestimating a variety of housing in UGAs with different densities or overestimating expensive, low-density housing supply would also be a significant mismatch of housing need and supply. This could be relying on capacity with density levels and associated housing costs that will not happen in a UGA during the planning period or over-relying on very low-density single-family housing that is expensive by virtue of large lot sizes. The

upshot of either is low production and rapid price escalation.

In other words, “sufficient” densities should be defined and expanded for guidance and practice in order to avoid unintentional – or intentional – planning of future capacity that is limited to affordability by the highest of income levels by virtue of over-reliance on high-density housing in any location.

Housing Element and Comprehensive Planning Implementation

The comprehensive plan update process (and buildable lands reporting process) are required to occur over certain periods of time of less than 20 years. However, such updates do not take into consideration unanticipated development surges. Although comprehensive planning does require forward-looking planning, without planning consideration of the risk for potential shorter duration surges during a broad, hypothetical 20-year period, greater residential capacity can be contingent upon later year, unfunded infrastructure investments. The result is capacity deemed sufficient over a full 20-year period, but insufficient until perhaps the 10th or 15th or 19th year of the planning period. All of the effects of land undersupply, cost, housing undersupply and escalating home prices and rents are at risk of being caused or exacerbated as a result. It is recommended that additional resources be made available to review development surge and capacity contingency issues as part of long-range planning. A potential key approach to expanded accounting would be scenario modeling to understand different potential growth scenarios, such as high growth, medium growth, and/or low growth scenarios. A range of outcomes may be considered so that a surprisingly robust period of growth has been given forethought and potential actions or strategies anticipated ahead of time.

“Reasonable Measures”

The seven most populous counties (Clark, Thurston, Pierce, Kitsap, King, Snohomish, and Whatcom) and their cities that are subject to “buildable lands” requirements (RCW 36.70A.215) must employ “reasonable measures” if an analysis shows that comprehensive plan goals and targets are not being achieved.

RCW 36.70A.215(1)(b) defines reasonable measures as **actions necessary to reduce the differences between growth and development assumptions and targets contained in the county-wide planning policies and the county and city comprehensive plans with actual development patterns.**

“Reasonable measures” may include land use planning measures such as intensifying planned densities, allowing a broader mix of uses, using zoning tools to encourage added intensity, or more actively providing key infrastructure extensions.

RCW 36.70A.215(3)(c) requires an *analysis of county and/or city development assumptions, targets, and objectives contained in the county-wide planning policies and the county and city comprehensive plans* **when growth targets and assumptions are not being achieved.**

This analysis requires a review of all development in the previous planning period to evaluate whether planned densities were achieved and to analyze the reasons for any differences.

Reasonable Measures Suggestions

If a county buildable lands analysis indicates that growth targets, projections, and assumptions are not being achieved, or if, based on achieved densities, there is not sufficient land suitable for development or capacity to accommodate population and employment growth during the remainder of the planning period, then jurisdictions must complete the following:

- Determine whether reasonable measures are needed. There may be reasons why growth targets, projections, and assumptions are not being achieved that would not require reasonable measures to be taken. This could include the evaluation period happening during a time of economic recession or that planned infrastructure that will make up for any identified shortfalls is scheduled for future-year construction. This could also include items like a light rail station, which will attract significant redevelopment, being planned for the second half of the planning period. If local governments determine that no reasonable measures are necessary, they must document the reasons why. The key is to clearly document how decisions are made as to whether reasonable measures are necessary.
- When reasonable measures are necessary, identify possible actions, other than expanding urban growth areas, to be taken to reduce the difference between planned and achieved growth.
- For more information, refer to the 2018 *Buildable Lands Guidelines* on the Department of Commerce website, <https://www.commerce.wa.gov/servin-g-communities/growth-management/>. A selection of reasonable measures is included as Appendix B.

Part IV: DEVELOPMENT COSTS

The Development Process

Home prices and apartment rents that grow faster than expected are a sign that the market is not delivering enough supply of housing – that housing is *supply inelastic* - as described earlier in this document.

To begin to address the things that push housing costs upward and constrain new housing supply, a discussion of the housing development process is helpful. Development costs and constraints described in this section apply not only to market-rate housing, which is always for-profit, but also to affordable, i.e., income-restricted housing, which is frequently non-profit developed.

Housing development and housing costs are often discussed broadly in terms of housing affordability and policy issues. But to better understand factors affecting housing costs, it helps to understand that housing development of all kinds is a complicated, multistep process where both costs and time have a cumulative effect on housing prices and delivery.

To better understand how costs for each development phase are distinct, Figure 19 provides cost detail and description for each development phase. Costs for each phase are detailed by private costs –such as labor, materials, financing, etc. – and public costs, including taxes, fees, and regulatory-related costs. Importantly:

- Costs escalate in magnitude at each step in the development process, and usually significantly.
- Costs from each previous phase become embedded in the costs of the following phase, usually through the process of land transaction between phases (for single-family development) as well as its financing.
- Public costs are incurred during all phases but not as significantly until the

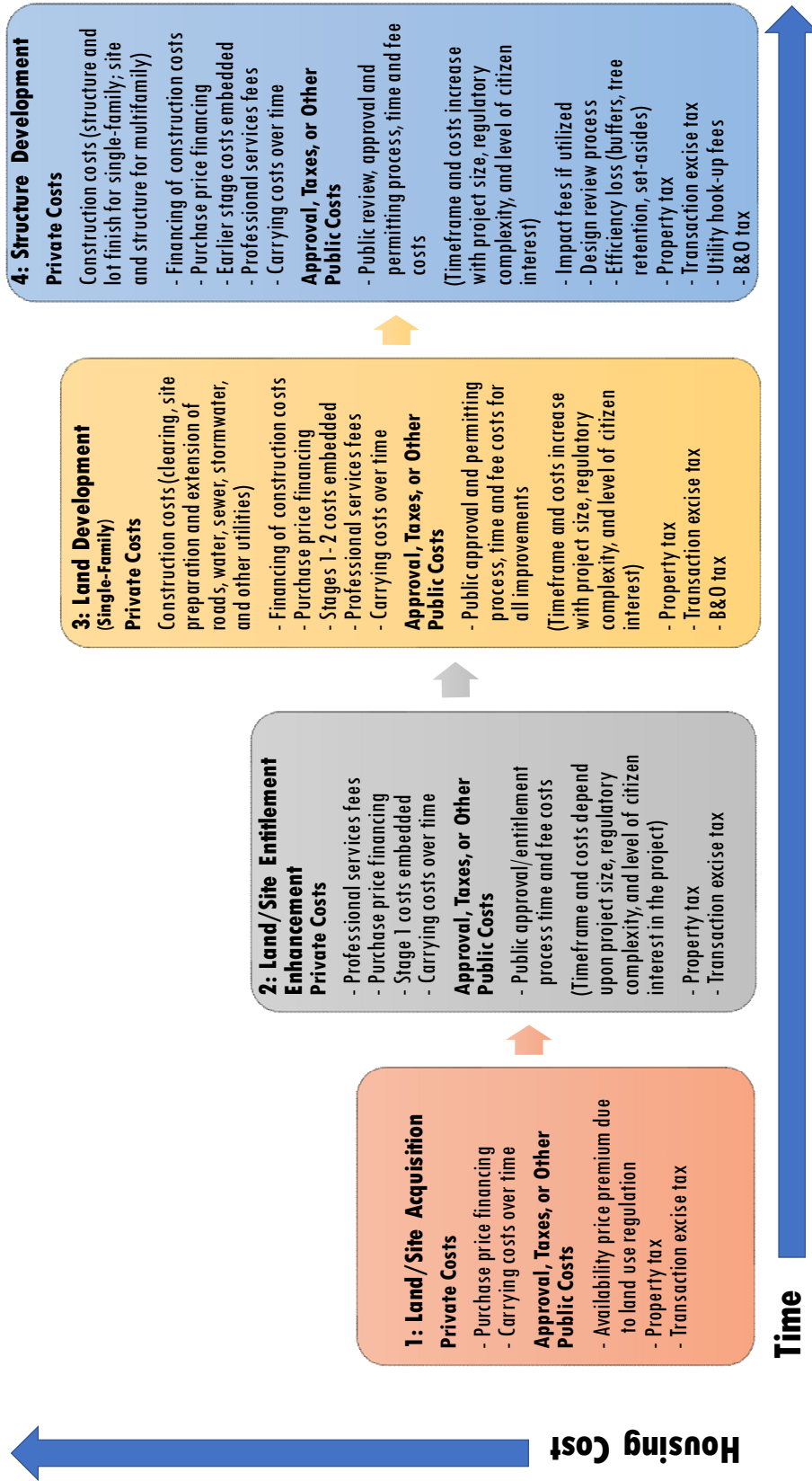
entitlement/enhancement phase and thereafter.

- Although the figure does not attempt to represent the relative amount of time that passes for each phase, later phases usually have longer duration.

The cost of each development phase is usually a combination of debt (financing) and equity investment (usually the smaller share of the two). Due to the cost of interest, the greater the cost at each phase and the longer the process takes, the greater the cumulative cost.

The cumulative effect of all costs being embedded and financed through each stage is the key reason each item identified should be examined for its impact on housing affordability. A treatment of individual cost items follows.

Figure 19- Generalized Residential Development Sequence Costs Contributing to Housing Cost



Source: *Real Estate Development – 5th Edition: Principles and Process*, Mike E. Miles, Laurence M. Netherton, and Adrienne Schmitz, summarized with additional context by PNW Economics, LLC

The Redevelopment Process

The redevelopment process is different from greenfield development in a number of key ways. Figure 20 is a general outline of the common sequence of events for a high-density residential redevelopment project reflecting key differences from single-family greenfield development.

Key differences are:

- Residential redevelopment frequently results in one new structure, like a mid-rise or high-rise apartment building. The overall development process for a redevelopment project can take a substantial amount of time for one structure, depending on the scale of the project, surrounding uses, and the public review process. This differs from greenfield

development in that single-family development involves many individual residential units to be constructed, which may occur rapidly upon completion of the development review process.

Redevelopment is defined by the purchase of a property or properties that are underutilized and likely include existing improvements. This means the property is generally more expensive than unimproved land, and the project has the added cost of removing existing structures before proceeding with the project. The new use after redevelopment must be of sufficient economic value to substantiate the cost of purchasing and removing existing improvements.

Figure 20– High-Density Residential Redevelopment Process Sequence & Common Timeline



- Actual purchase of the existing site will occur later in the development process, usually after entitlements of the higher intensity use have been secured.
- In an apartment project (income property), development can happen on a property purchased outright (fee simple) or leased long-term. For greenfield single family projects, the land is usually purchased, subdivided and homes are sold individually at the end of the project.
- The unique nature of each redevelopment site or assembly of sites dictates a unique building concept and set of development costs, unlike single-family units that can be built with economies of scale due to replication of house model types.
- Because redevelopment sites are in existing urban areas with existing residential and commercial uses nearby, the public review and approval process can be longer and more complicated than greenfield single-family development due to greater public interest in changes to properties in the neighborhood.
- The existing improvement may be housing, which by virtue of being older and underutilized, will be more affordable than new residential construction replacing it. Households who cannot afford the new housing are likely displaced with the loss of lower-cost, affordable housing stock. The issue is discussed at greater length later in this document.
- Building heights, views, glare, shadows, transportation impacts, schools, parking requirements, and other effects of higher-density uses upon surrounding public and private properties with redevelopment of higher-density uses also complicate the public review and approval process.
- Redevelopment properties are much more likely to be served with utilities than greenfield development, but existing sewer or water lines may be old and in need of maintenance.
- The cost of meeting stormwater management requirements, including low-impact development, may be greater in an urban area because more technical solutions may be needed in a confined area, or the project may contribute to a regional/watershed-based stormwater system.
- Redevelopment projects in urbanized areas may incur additional expenses because they may need to rent extra land (if available) for delivery of materials and storage of equipment. Often streets may need to be blocked off temporarily to manage deliveries of certain stages of construction.
- Due to the high value of urban land, structured parking within the building is often included as part of the project. This adds greatly to the cost of urban development.

Permit Processing Timelines

Financial Impact of the Permitting Process: At each stage of development, time is needed for various approval processes. From the development perspective, a predictable time period for development application submittal, review, public approval, and then later permit review and approval process are all important for the financial feasibility of a development.

The developer and/or builder can account for the regulatory process, if predictable, in terms of how much a project will actually cost and the financing terms and cost for the project. Unpredictable timeframes for any stage of the development process has several consequences that can both reduce development feasibility and drive up housing costs.

- **Increased construction and development costs due to a longer development review process:** Sometimes, the public review process can be unpredictable and difficult. If the project must be adjusted to meet code requirements, or address neighborhood concerns, coordinating and complying with the public review process may incur higher overhead costs, including ongoing professional services costs for planning, engineering, architecture, or other issues.
- **Increased finance (holding) costs:** With extended development review and approval processes, particularly if unexpected, development costs increase due to the cost to finance additional months of debt service to the lender.
- Due to the **seasonality of construction**, much construction activity is planned for key windows of weather during the drier months. When delays occur due to development review, approval, and permitting timelines, this can force an even greater delay of the

development process which will result in and create additional debt service.

Overall, extended and unpredictable development review and approval process can substantially increase costs during the land development and construction phases. How those costs are absorbed depends on how rapidly an area is growing:

- If population is growing rapidly, higher costs can frequently be passed on to households due to fewer housing choices available for that growth.
- If population growth is modest, higher costs likely cannot be passed on to households and instead are more proportionately absorbed by home builders, including as business losses.
- In either case, higher costs due to development review and approval are punitive to households and/or housing production.

TOOLS TO ADDRESS PERMIT PROCESSING TIMELINES

PP - 01 Analyze application review processes for ways to make the process more predictable and streamlined. As an example, modify permit intake processes to deem applications procedurally complete on day one instead of taking 28 days. This could save both local governments and applicants' time and resources.

PP - 02 Update forms, applications, and procedure documents so they are clear and easy to understand.

PP - 03 Update public procedure requirements for quasi-judicial and legislative actions. Look for opportunities to streamline permit processes based upon experiences using the code.

PP - 04 Consider adopting higher SEPA exemptions within UGAs to "encourage urban growth" as the GMA anticipates.

PP - 05 For Urban Growth Areas, make nine the standard for short plats.

PP - 06 Re-examine your use matrix. As an example, uses currently listed as conditional uses could be modified to administrative conditional uses or even permitted use.

PP - 07 Meet with other local governments to discuss permitting best practices. Cities and counties generally work under the same land use laws. There are opportunities to learn from each other and incorporate best practices. This could also be a good idea for local planning conferences.

PP - 08 Build a robust communication process during comprehensive plan updates so citizens have a better understanding of the growth that is to be encouraged within the next 20 years. This is especially important in the most urban areas.

PP - 09 Review permit processes to find ways of streamlining public review of those permits that are anticipated under an adopted comprehensive plan.

Filtering & the Importance of New Housing Supply at Broader Densities & Price Points

The greater the variety of housing types built, everything from workforce and missing middle housing to more expensive high-rise condominiums, the more inventory exists for all different households, ultimately keeping housing more affordable due to the **filtering effect**. Filtering is simply the cumulative effect of allowing and adding new housing of all types, which at first will be full market rent or price, but over an extended period will age and become increasingly affordable to more households by virtue of depreciation compared to new construction. This achieves two longer-term results:

- Greater market-rate housing that keeps pace with households who can afford it and tends to keep those households from pricing out lower-income households for existing housing stock.
- Over time, all housing stock depreciates and earns lower rents or prices relative to new, market-rate rents and prices. Greater volume of market-rate housing now translates into more housing stock of increasing affordability years down the road.

Although a somewhat controversial economic concept among density opponents, mainstream research¹⁷ tends to support the contention that additional supply of all types of market-rate housing helps affordability problems over time

because not adequately supplying growing housing need of any kind will practically guarantee that it accelerates in cost due to scarcity.

Zoning/Development/Environmental Regulations

Community-specific zoning regulations can have a great effect on the yield of land, or how many units can be built on a given parcel. Densities, height limits, set-backs, and other requirements can impact the per-unit cost, and price to the consumer, of a housing unit.

- **Zoning Requirements that Reduce Yield:** Zoning requirements such as off-street parking, open space, or wide road standards often diminish the yield of a site for housing unit capacity and raise the cost of that housing. Such requirements are often intended to ensure health and safety in development, and may preserve community character, but these requirements may make it more difficult to reach the goal of affordable housing.
- **Parking requirements** that make accessory dwelling unit (ADU) construction physically or economically less feasible may lead to fewer households choosing to build an ADU, foregoing the option of affordable ADU housing. For fully urbanized jurisdictions, increasing density in this way may be one of few options to grow housing capacity as greenfield land may no longer exist.

¹⁷ For additional explanation and analysis example, see the Oregon Office of Economic Analysis economics blog

[\(https://oregoneconomicanalysis.com/2016/05/25/ho-using-does-filter/\)](https://oregoneconomicanalysis.com/2016/05/25/ho-using-does-filter/)

Excessive on-site parking requirements for high-density housing in larger cities can render projects less feasible or infeasible because the project has to absorb the cost of structured parking. In short, reducing parking in residential development can lower the cost of housing, especially appropriate in areas where transit is sufficiently accessible.

- **Minimum lot sizes:** To preserve a community-perceived neighborhood character, cities often require minimum lot sizes for new development. This means that only houses on lots meeting this size limit will be able to develop. This not only limits the number of units that might be built, but increases the house price to account for the value of the new home structure as well as the value of the larger parcel itself. This has the effect of restricting households from being able to buy or rent less-expensive homes on smaller lots altogether. This in turn ensures the households who might have lived in that city must find housing options in other, likely more distant cities at greater commute/transportation expense at the expense of the second city's more modestly priced housing capacity.
- **Zoning regulations,** including buffers for natural resource areas, tree retention, views, or any other reduction, are among the more obvious policy choices communities make to protect the environment and quality of life. While the benefits are intended to be those protections, reductions in developable area of a property – or reduced yield – is an economic cost that affects development feasibility and ultimately prices and rents.
- **Tree retention requirements:** While focused on maintaining and enhancing a healthy tree canopy and increasing livability, tree retention requirements can increase development review costs and may impact development yield. This could in turn reduce the market value of land to an owner or get passed on to a home buyer as a more expensive home per square foot that maximizes sale price for a reduced land area yield.
- Regulations that require greater existing tree retention may reduce more efficient geometric site layouts, thereby reducing development yield per acre and per site. This could serve to reduce the potential value of land and affect the property owner's decision to sell land and when, due to the increased development cost.
- Regulations that reduce developability of land and may reduce the density and yield ultimately affect the value of land and the decision to make it available for development during a planning period. Here are other examples:
 - Minimum open space requirements on sub-dividable land that reduce developable area.
 - Minimum parcel size to be considered sub-dividable.
 - Private restrictions/covenants that prevent further subdivision or development.
 - General deductions for non-residential uses in residential districts, such as parks, streets, trails and sidewalks, open space, utility easements, etc.

- Truncation of potential subdivision dwellings and layout due to rounding of units to whole numbers per parcel.

Other off-sets that reduce buildable area, yield and escalate cost may include:

- Off-street parking requirements;
- Sensitive areas and buffers for sensitive areas;
- Setbacks from property lines;
- Landscaped buffers between adjacent uses; and
- Any other regulated setback that reduces the buildable area of the residential parcel or site.

Ultimately, setbacks and other buildable land yield reductions involve trade-offs. Protections of different community priorities (tree canopy, views, distances from neighboring property, etc.) that involve setbacks or other buildable land yield reductions ultimately have a cost: higher land cost per residential unit built, which contributes to higher home prices.

- **Zoning Gap for the Missing Middle:** Cities can frequently have a gap in zoned capacity for housing of moderate density that transitions between detached single-family units and higher-density apartment buildings. Duplexes, triplexes, cottages, rowhouses and townhouses all may be denied due to lack of land zoned for moderate density and the flexibility to allow a range of such homes from duplexes at the lower end of density to townhouses at the higher end.

DR - 01

Carefully review and balance the impact of setbacks, parking, height restrictions, and lots sizes on the yield of land. When new or revised codes are considered, this conversation should be included.

DR - 02

When developing new or revised development regulations, try applying the draft regulations to current projects to see how they might work when applied.

DR - 03

When adopting new or revised codes, bring in stakeholders to evaluate how the new requirements may impact projects, both positively and negatively.

DR - 04

For larger departments where planning and permitting divisions are separate, include someone on the permitting team when preparing new regulations. They may be able to provide you feedback on how the new requirements will work when applying to a project or possible conflicts with other code provisions.

DR - 05

Review public street standards to reduce the land used.

DR - 06

Allow lot size averaging and cluster development. This will help offset enhanced tree retention requirements, larger vault sizes, or critical and buffers that could impact a site.

TOOLS TO ADDRESS DEVELOPMENT REGULATIONS

Taxes and Fees

Taxes and fees are development costs that accumulate through different phases of development and affect final home price or rent, whether green field or redevelopment. The degree to which costs, such as impact fees, are ultimately passed on to home buyers or renters is debated and studied without conclusion. Here are the most common fees and taxes:

- **Real Estate Excise tax (REET)** is 0.128% of the cost of the property and is charged to the seller whenever property changes hands. Additional REET may be charged at the local level. Document recording fees also occur at this level, a certain portion of which create funding for addressing homelessness.
- **Business and Occupation (B&O)** tax is charged by about 20% of municipalities on the gross receipts of a business. For the developer, this fee is charged on the revenue received by the business, usually after the finished lots or constructed homes are sold.
- **Property taxes** are paid annually to the city or county, calculated on the assessed value of the land and the improvements, which are paid annually, based on the previous year's assessment. Property tax generally funds city or county services, schools, special districts, or other special items.
- **Permit fees** are charged for the process of reviewing the development. Generally they are charged to cover the cost of reviewing plans and taking the project through the review and approval process.
- **Building permit fees** are charged for inspection of the plans, and on-site inspection as development occurs.
- **Impact fees** under RCW 82.02 may be imposed by a city or county for transportation, fire, schools or parks. They must be charged for a proportion of the cost to serve new development with such facilities. Local governments are required to allow a developer to defer payment of impact fees for the first 20 single-family homes each year, to later in the development process so that developers do not have to carry the financing of the impact fees during the construction period.
- Utilities charge **development connection fees** to cover the costs of adequate facilities to serve the development with power, sewer, water and/or stormwater.
- Cities may also use the **SEPA process** to require or charge **mitigation fees** for the impacts of development. Typically these are used when jurisdictions do not have adopted impact fees.
- Some jurisdictions may require **Transfer of Development Rights (TDR)** or **Affordable Housing to be built** (or fees in lieu of) in exchange for higher densities or other project benefits.

TOOLS TO ADDRESS TAXES AND FEES

TF - 01 Consider waiving permit review fees for projects that implement city or county goals. This could include developments that meet housing affordability criteria.

TF- 02 When cities or counties own the utility, consider charging lower connection fees for smaller housing units, such as duplexes or cottage homes.

TF - 03 Adopt a basics program for building permits. Adopt lower building permit fees when an applicant reuses the same or similar plan set.

TF - 04 Use the multifamily tax exemption, where appropriate, to encourage multifamily development.

Table 1 - Summary of Taxes & Fees Most Significantly Affecting Development Cost and Housing Affordability

Tax or Fee	Affects What Phase?	How It Impacts Development Cost	Is it Also Unpredictable?	How It Impacts Affordability
Real Estate Excise Tax	Development phases where a transaction occurs	Cost of business to seller of property at transaction, adds to cost reducing profit margin.	No. Can be planned into feasibility.	Cost that is either passed on to the household via higher sales price or rent, or absorbed in some part by builder profit/cash flow.
Property Tax	All development phases as a holding cost	For rental housing, an on-going operating cost that can inhibit redevelopment feasibility and prevent adequate housing unit supply. An on-going and growing cost to the household who owns the unit.	Potentially. Assessed value changes with the market. Also voter-approved special or bond levies can add sizeable cost burden in projects requiring more than a year to complete.	As a holding cost, accumulates through each phase of development and at least in part passed on to household via higher price or rent, or absorbed in part by builder profit. In addition to debt service and other operating costs, is passed on to renters via necessary rent to keep predictable, targeted cash flow by rental property owners. Part of shelter cost for homeowners.
Development/ Building Permit Fees	Phase 3 Land Development and Phase 4 Construction	One-time assessment for improvement activities during Phase 3 Land Development and Phase 4 Construction.	No. Can be planned into feasibility.	One-time cost that affects both costs and cost of financing. Passed on to the household via higher sales price or rent, or absorbed in some part by builder profit/cash flow.
Utility Connection Fees	Phase 4 Construction	One-time assessment for connecting finished housing unit to utilities, notably water and wastewater.	No. Can be planned into feasibility.	One-time cost that affects both costs and cost of financing. Like building permit fees, passed on to the household via higher sales price or rent, or absorbed in some part by builder profit/cash flow.
Impact Fees	Phase 4 Construction	One-time assessment at building permit phase. Directly adds to unit cost significantly depending upon jurisdiction and number of assessments.	No. Can be planned into feasibility.	Some share of the impact fee is directly passed on to the buyer of the home in the form of higher home prices. The topic is heavily studied in academic literature, but incidence depends on local conditions. Regulatory constraints to land supply and effects on land price are not well-studied.

Table 1 - Summary of Taxes & Fees Most Significantly Affecting Development Cost and Housing Affordability

Summary of Key Points

1. The following represent key points from discussion of the cost of development including timelines to permit and develop land and market availability of land. In short, available data directly or indirectly point to key factors that have combined in a likely unprecedented way over the past eight years to drive up housing development cost, prices and rents. Development of housing, whether single-family or multifamily, in a green field or an infill/redevelopment environment, follows a reasonably consistent sequence of development stages over a period of time (Figures 19 and 20). From stage to stage, debt service interest, development hard and soft costs, taxes and public approval process all grow and accumulate in terms of time spent and magnitude of cost that ultimately affect prices or rents.
2. To the extent that timeframe is delayed at any stage of development, development costs increase and in turn put upward pressure on the ultimate price or rent of a housing unit if the development is to be financially feasible. This is primarily due to interest on development and land costs that accrues each month, regardless of any progress on the development.
3. The later the phase of development, the more expensive unpredictable schedule and delays are for development costs. This is because the later the phase, the higher the value of investment (cost) put into the development, and thus the larger the interest payment on a loan or loans to fund that development phase.
4. Redevelopment poses different and unique development costs compared to

greenfield residential development.

These costs may or may not be greater per unit than green field development, but they uniquely accumulate through structure construction and are equally subject to public approval process timelines.

Part V: INFRASTRUCTURE COSTS

Residential Infrastructure Funding

Appropriate infrastructure of all types is perhaps the single most-important determinant of whether or not otherwise buildable land will be developed or redeveloped. Without appropriate connection and capacity for transportation, water, wastewater, and stormwater in particular, new development or redevelopment of land is extremely unlikely. Thus, lack of infrastructure renders land unavailable for development or redevelopment, limiting the supply of land and potentially driving up prices and costs.

Housing development typically depends on infrastructure that requires either public funding and construction responsibility, private funding and construction responsibility, or a combination of both. Main infrastructure facilities, such as primary roads, water mains, sewer mains, and sewer pump stations are examples of infrastructure facilities that are typically the responsibility of a public agency. Alternatively, private development will frequently be responsible for connector roads and private roads that circulate through a development and provide access to main roads and water and sewer pipes that extend from the public main to distribute to the residential development. Stormwater facilities tend to be solely the responsibility and cost of private development due to their specific presence and function on-site. In some instances, however, infrastructure improvements that might typically be public sector cost and responsibility may be taken on in part or wholly because of the nature of the private development in question, such as its location and distance from existing mains, perhaps existing deficiencies in facilities to which the development would be connected, or other facilities that without private partnership would be difficult for the local government alone to fund.

The four primary types of public, physical infrastructure facilities required by residential development usually are:

- Roads, and transit;
- Water;
- Wastewater, *and*
- Stormwater.

All four types of physical infrastructure must be of adequate capacity *and* in-place to serve new development, whether greenfield residential subdivisions or a new high-rise apartment tower in a city center.

How Local Governments Must Plan for Capital Facilities

Local governments planning under the Growth Management Act are required to develop capital facilities plans to show how the community will be served over the 20-year planning period. A level of service is selected, typically congestion levels for roads, or gallons of water per household. Using the future population growth and level of service, municipalities can estimate needed capacity to serve future development. They also plan a network of roads and water/sewer main lines to serve the community. This helps residents and developers understand where investments are planned during the coming years. If a local government finds that it does not have the funds to pay for the development of all facilities, it has some choices:

- Reduce the level of service so the cost is not so great
- Charge more to better cover costs, or
- Re-evaluate the land use element.

A six-year capital improvement plan is required, with secured sources of funding. For more information about this process, please review “*CAPITAL FACILITIES PLANNING GUIDEBOOK*” (2014) on Commerce’s Growth Management

website. <https://www.commerce.wa.gov/serving-communities/growth-management/>

Here are key issues with public infrastructure and residential development:

- **In-Place before Development:** Public infrastructure, such as main roads, sewer trunk lines, and water lines must be financed and built in place prior to new development. This creates a **funding timing issue** when public infrastructure must be planned, funded, and constructed potentially years ahead of revenues generated by the resulting development that infrastructure made possible.
- **Fair Share:** Public infrastructure capacity expands to serve growth. This raises the classic public finance questions of who pays, when, and what is a fair share?

Cities, counties, and special districts are the typical owners of the infrastructure necessary for housing to be constructed. Funding of that infrastructure, therefore, is a primary responsibility of those public entities in some combination of the following mechanisms:

- **Utility Connection Fees:** Such fees are generally charged per lot to connect to sewer or water. Local governments may choose to reduce these fees to meet local goals. For example, they may reduce fees for smaller housing, such as apartments, or ADUs, or may eliminate such fees that meets certain affordability criteria.
- **Taxes:** Property taxes (particularly bonds funded by property taxes or “levy lid lifts”), sales and use tax, or sales and use tax credits are among key public revenue sources at the local level for funding new infrastructure. Revenues rely on existing

taxpayers, and newcomers may not be contributing until long after the investment enabled new development.

- **Grants & Loans:** Federal and state grant and low-interest loan programs exist for specific infrastructure improvements, typically roads, water and wastewater for protection of public health and the environment. These funds are now more loans and fewer grants. Very low interest rates provide an attractive option of low-cost funding for infrastructure projects.
- **Targeted Assessments:** Local improvement district (LID) assessments, impact fees and latecomer agreements are key examples of fee structures that are specifically assessed upon new residential (and non-residential) development instead of relying on the entire tax base of a jurisdiction.

Lags in Infrastructure and Housing Supply Constraint

Because new necessary facilities must be in place ahead of new residential development, public resources of some kind must usually finance new facilities upfront. This may be followed later with some reimbursement from developers or a new funding stream that grows as new housing is realized and new households pay taxes.

The absence of sufficient infrastructure when it is needed to serve housing growth contributes to housing supply inelasticity.

At issue is the lag between the time when population growth pushes new housing need and when necessary infrastructure is put in place to make that new housing possible.

Assurance of timing of planned, key public infrastructure investments is crucial in shaping market availability of land over a land use planning period. As “lower hanging fruit” buildable land and sites are developed, the proportion of remaining land that depends on key public infrastructure investment will tend to increase. That has different effects:

- A greater share of potentially developable land depends on uncertain infrastructure funding and delivery, which acts as a constraint to available land supply before infrastructure can be delivered.
- The constraint in land supplied with infrastructure delays the ability to deliver housing, which impacts housing prices for both ownership housing and rental housing.

To a certain extent, lags are inevitable between the time when certain types of housing are needed and when infrastructure is put in place.

Public resources are limited, and infrastructure investment always has a speculative element due to the varying nature of housing markets and realized growth. Due to speculative risk and cost, infrastructure funding will tend to occur when development need is proven rather than ahead of time in anticipation of housing development need. This assures funding from new housing construction – such as property taxes and impact fees – will be available to reimburse upfront infrastructure outlays.

Infrastructure incidence and costs frequently are cited as inhibitive to new housing construction in Washington. The Affordable Housing Advisory Board (AHAB) 2017 *Housing Affordability*

Response Team (HART) Recommendations found the following:

In many communities, an assessment of land capacity shows that there is sufficient land to accommodate the local share of projected population growth. However, the ability to develop land may vary greatly, based on the availability of sewer, water, roads, and other public services. In many cases, to develop land outside the area currently served by urban services, the first developer is required to carry the cost of bringing infrastructure to serve the parcel. Where development is proposed in already developed areas, there may be concerns about the pressures it puts on existing infrastructure and services.¹⁸

Despite strong and warranted concern about residential infrastructure costs, little published documentation illustrates specifically how, where, and why infrastructure is a broad constraint to needed new housing construction in Washington.

The lack of specific documentation of how infrastructure gaps constrain housing delivery, however, presents an opportunity to study residential infrastructure need and cost issues in detail. For example, the Association of Washington Business, Association of Washington Cities, Washington State Association of Counties, and Washington Ports jointly issued “Building the Economy: Infrastructure Needs in Washington” in March 2017.¹⁹ The report provides detailed infrastructure project need statewide to support

¹⁸ <http://www.commerce.wa.gov/wp-content/uploads/2016/10/ahab-hart-affordablehousing-report-2017.pdf>

¹⁹ https://www.awb.org/file_viewer.php?id=9601

the Washington economy, including water and wastewater.

But all documentation is for industry infrastructure in the pursuit of retaining and growing jobs. The report is silent on the importance of workforce growth and new housing affordability and availability for a growing workforce to make job gains possible.

However, Buildable Lands counties²⁰ are now tasked with more detailed accounting for future residential land capacity given infrastructure capacity or constraint.

How Does Infrastructure Funding Affect Housing Cost?

Funding Changes and Uncertainty

All housing requires essential infrastructure, therefore for all housing that is connected to public infrastructure, some infrastructure cost share is embedded in the cost of the residential unit.

In recent years, due to tax concerns, **funding for residential infrastructure in Washington has increasingly moved to reliance on new development itself and less reliance on the broader resident/taxpaying base of a jurisdiction.** In other words, the philosophy of “growth pays for itself” undergirds most current funding mechanisms, such as local improvement districts (LIDs), impact fees, system development charges, benefit districts, and latecomer agreements.

The result of this change is mixed in its consequences for housing construction and housing costs.

- **New development pays a greater share of infrastructure expansion costs,** rather than relying on existing housing, whose pricing already reflects previous infrastructure expansion costs. This tends to reduce the property tax burden of existing residents by avoiding general obligation debt financing for infrastructure expansion.
- **However, a greater proportion of infrastructure expansion finance has become more uncertain and, therefore, greater potential complications because it depends upon the pace and type of development that will only materialize after the infrastructure is in place.**
 - As new development itself pays a higher share of upfront infrastructure costs, payback increasingly depends on the uncertain nature of the housing market and development timing. In other words, infrastructure expansion and the debt service on it has to be made even though there may be an uncertain pace of housing construction via which upfront infrastructure costs must be recouped. This amounts to a shift of risk to the developer rather than the public entity.
 - Private development itself has taken on new infrastructure expansion costs, particularly roads but also water and wastewater. Payback is expected

²⁰ From north to south: Whatcom, Snohomish, Kitsap, King, Pierce, Thurston, and Clark counties.

as new housing is sold, as well as other “latecomer” development after the fact.

The effect of infrastructure costs upon housing delivery and cost also is further complicated by the vast differences between development locations and types. The following is a list of example variables that can greatly affect the type, cost, timing, and combination of infrastructure financing tools needed to assure residential infrastructure capacity expansion to serve new housing delivery:

- Terrain/topography as it affects need for more expensive road projects, as well as additional facilities for water and wastewater flow to cross rivers, canyons, or other difficult geography;
- Existing infrastructure, with or without existing deficiencies, to be connected or potentially upgraded for new construction;
- Jurisdiction comprehensive plan, growth targets, existing capital facilities plans relative to growth targets, public financial realities, staff experience with various financing tools, and political sensibilities; and
- Housing market conditions, property owners’ intent, and redevelopment or build-out plans.

These variables can translate into lack of predictability, cost efficiency, and speed with which necessary infrastructure of different types can be financed with some certainty about residential build-out upon which debt service depends.

Infrastructure difficulties do, however, have different challenges or opportunity, such as:

- Affordable, or income-restricted housing, is also sensitive to infrastructure costs attributable to the development. See more in the section on subsidized housing.
- As will be further discussed, workforce housing which includes missing middle housing of moderate, attached density and moderate pricing, will often pay the same impact fees and other costs of infrastructure finance as more expensive single-family homes. This is due largely to impact fees being charged per unit type rather than the relative price of that unit on the market, or per size of unit.
- Central cities such as Seattle and Portland have chosen to add capacity through increased density and can take advantage of the cost advantage of existing infrastructure to serve new development.
- Portland is on the verge of adopting a major overhaul to single-family housing zoning in its Residential Infill Project.²¹ Zone changes will allow smaller lots, accommodating floor area ratios (FARs), and allowing a wider variety of smaller unit sizes on existing lots as infill. This would be in addition to accessory dwelling unit regulations that encourage ADU construction in single-family residential zones by waiving system development charges for new utility connections.
- Seattle is in the process of review and adoption of a new set of backyard cottages²² policies that will facilitate construction of both a detached and an attached accessory dwelling unit in addition to the primary single-family residential structure for a total

²¹ (<https://www.portlandoregon.gov/bps/67728>)

²² (<http://www.seattle.gov/opcd/ongoing-initiatives/encouraging-backyard-cottages#whatwhy>)

of up to three residences on a single-family lot. The ADUs and the main dwelling may be able to share a single utility connection to reduce costs for the homeowner.

Because of the variation in programs, jurisdictions and constraints, guidance for either the public sector or private sector on residential infrastructure financing and cost efficiencies via best practices is very difficult to find.

Residential infrastructure development guidance tends to be broadly programmatic²³ rather than strategic or as best practices specifically for housing need and especially affordability. This is true for a jurisdiction that may be seeking to enhance residential infrastructure enhancement, or a private housing development company seeking to plan short-term or long-term housing delivery.

The current lack of such strategic guidance for public and private interest audiences is an opportunity for public agencies and housing industry stakeholder partners to coordinate on best-practices guidance as part of infrastructure need and deficiency study.

With study, potentially with case studies of success for guidance on similar situations and challenges, complexities and costs of residential infrastructure provision will be documented. With common knowledge of successes and complexities shared among agencies and interests, greater likelihood of efficiencies or

improvements via next policy steps will be gained.

Impact Fees: Research and Consensus

Nationally, impact fees and their impact on the cost of housing have become the most-studied aspect of infrastructure finance. The Municipal Research Services Center of Washington (MSRC) defines impact fees as:

“One-time charges assessed by a local government against a new development project to help pay for new or expanded public facilities that will directly address the increased demand for services created by that development.”²⁴

Impact fees in Washington may be collected under RCW 82.02 for:

- Public streets and roads;
- Publicly owned parks, open space, and recreation facilities;
- School facilities; and
- Fire protection services.

Alternatively, impact fees in Washington **are not authorized** for three of the four key residential infrastructure needs: **water, wastewater, and stormwater.**

²³ Commonly cited examples include “Building Infrastructure – Washington State Department of Commerce” (<https://www.commerce.wa.gov/building-infrastructure/>), K&L Gates “City Infrastructure Financing Tools” (<http://www.klgates.com/files/Publication/73c1246b-c4fd-41a0-9fae-7c01fcbaec4/Presentation/PublicationAttachment/584b242b-3695-41cc-82fb->

[7f56bfff8367/City_Infrastructure_Financing_Tools_January_2010.pdf](http://www.klgates.com/files/Publication/73c1246b-c4fd-41a0-9fae-7c01fcbaec4/Presentation/PublicationAttachment/584b242b-3695-41cc-82fb-7f56bfff8367/City_Infrastructure_Financing_Tools_January_2010.pdf)), Varela & Associates, Inc. (<http://mrsc.org/getmedia/057841a2-d43b-4b34-93d9-9e03e4a52cff/m58varela.pdf.aspx>), and various topic guides by the Municipal Research and Services Center (MSRC) (<http://mrsc.org/Home.aspx>).²⁴ (<http://mrsc.org/Home/Explore-Topics/Finance/Revenues/Impact-Fees.aspx>)

In a thorough survey of major national studies on the topic, findings²⁵ are summarized here:

1. Impact fees verifiably lead to higher housing costs.
2. Increases in housing cost usually are due to households valuing housing more with new infrastructure than with older infrastructure.
3. Increases in housing cost usually are not due to impact fees making production more expensive (supply).
4. Households also value homes with impact fees higher than without because the fee translates into lower ongoing property taxes.
5. The body of economic research comes to no consensus about the effect of impact fees on housing construction volume.
6. Without impact fees, jurisdictions seem more likely to underfund infrastructure expansion, which leads to less provision of residential capacity in one location, pushing households to other locations.

Impact Fee Research – Studies of King County

In both a 2007 study²⁶ and a 2004 study²⁷ of King County home prices and impact fees, it was found that for a broad sample of home sales in the 1990s in King County, impact fees raised the price

of homes in different cities as well as raised the price by more than the cost of the impact fee.

These findings are consistent with the broad body of literature already summarized. If home buyers value new infrastructure investment as an amenity in terms of how much they are willing to pay for a home, as well as a reduction in what they would have paid in property taxes in the absence of the impact fee, home prices would indeed increase and potentially be more than the cost of the individual impact fee.

Infrastructure in Green Field vs. Infill/Redevelopment

Expansion and cost of new infrastructure is generally more of an issue with “green field” development within urban growth areas (UGAs) under the Washington Growth Management Act (GMA). With increasing cost of infrastructure expansion, a key growth management question increasingly becomes:

- **What is the infrastructure cost differential for encouraging infill and redevelopment in addition to or in place of some green field development?**

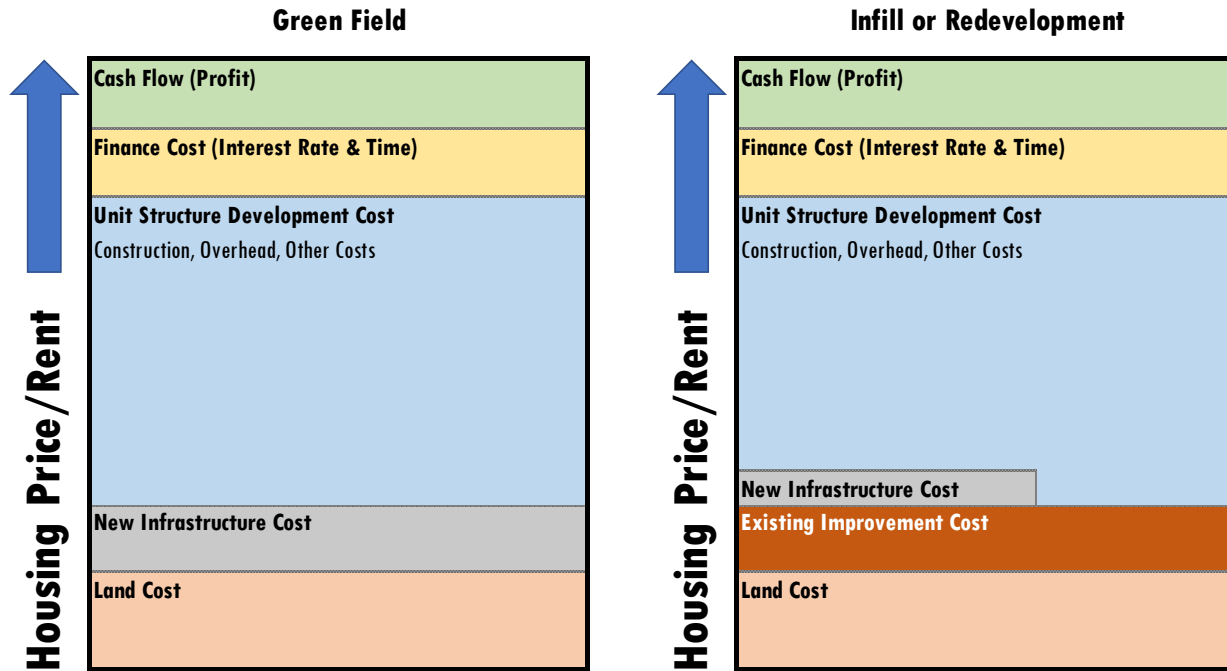
To begin to answer this question, Figure 21 provides a conceptual depiction of the various components that make up the price or rent for a *financially feasible* housing unit for both a green field project and an infill/redevelopment project.

²⁵ “Impact fees in relation to housing prices and affordable housing supply.” GS Burge, A Guide to Impact Fees and Housing Affordability. Washington, DC: Island Press, 2008.
(https://www.researchgate.net/publication/265228760_Impact_Fees_in_Relation_to_Housing_Prices_and_Affordable_Housing_Supply)

²⁶ Mathur, S. 2007. Do Impact Fees Raise the Price of Existing Housing? Housing Policy Debate 18(4):635–659.

²⁷ Mathur, S., P. Waddell and H. Blanco. 2004. Effect of Impact Fees on Price of New Single-Family Housing. Urban Studies 41(7):1303–1312.

Figure 21 – Green Field vs. Infill/Redevelopment Housing Unit Cost Components including Infrastructure



Whether for sale or for rent, residential unit cost to a household includes all of the following major *feasibility* components:

- **Land Cost:** A cost common to each residential unit, whether a single parcel for a single-family home or a portion of a parcel in the case of attached housing.
- **New Infrastructure Cost:** The combined incidence of costs per unit from new infrastructure capacity need. The amount of cost will certainly vary by housing type and whether greenfield or infill/redevelopment.
- **Unit Structure Cost:** Physical costs of the residential unit, whether single-family or attached, from design to construction and completion, and all hard (labor and

materials) and soft (design, legal, permitting, etc.) costs included.

- **Finance Cost:** Interest payments on debt to construct the unit, whether a single-family unit or a single attached unit in a larger residential structure.
- **Developer/Builder Profit:** An acceptable profit margin as a return on the investment and risk of development makes housing units possible.

In the conceptual analysis in Figure 21, key unit infrastructure cost differences are distinct for green field development versus infill or redevelopment. Though different factors illustrated in Figure 21 in both the Green Field and Infill/Redevelopment charts are of similar levels, similarities are *only intended as illustration of relative magnitude and should not be viewed*

as equivalence (for example land cost, finance cost, and cash flow/profit). Factors that affect housing unit cost are:

- **Higher New Infrastructure Cost for Green Field Residential Units:** Greenfield single-family development will tend to have a higher per unit infrastructure capacity expansion need due to the nature of conversion from undeveloped land to a housing use. This will tend to be true for all infrastructure and services types, along with schools, parks, and open space among others.
- **Typically Lower New Infrastructure Cost for Infill/Redevelopment Housing Units:** By definition, infill and redevelopment will occur where development has previously occurred nearby (infill) or on the site itself (redevelopment). In many cases, existing infrastructure for infill or redevelopment will greatly or completely serve the planned new housing development. An obvious exception will be examples of existing infrastructure deficiencies such as street traffic capacity and by extension transit service.

In summary, **infill and redevelopment will present lower – and potentially significantly lower – infrastructure costs per residential unit than green field development.** In other words, if a unit is built where infrastructure capacity already exists, it stands to reason that per-unit

new infrastructure cost need will be smaller compared to building where all new infrastructure of all kinds is necessary. Not only that, but the more land developed per unit, the further and more expensive infrastructure extension via pipes, roads, etc. will be per unit.²⁸

But as Figure 21 also conceptually illustrates, unique cost considerations for infill or redevelopment can sometimes reduce the cost advantage of infill/redevelopment:

- **Redevelopment necessarily requires the purchase of the value of existing improvements on a site and their demolition as a cost.**
- **The value of existing improvements purchased and demolished as a construction cost will vary widely and unpredictably from property to property:**
 - Existing improvements can vary from as inexpensive as a paved parking lot to as expensive as an existing and fully occupied office, retail, or housing development of different sizes.
 - Redevelopment may require the purchase and assembly of a number of smaller, adjacent properties with existing improvements, which would include a sometimes-expensive parcel assembly legal and time cost.

²⁸ A comprehensive survey of literature on infrastructure and public service cost differences between “smart growth” including redevelopment/infill and greenfield development via nationwide case studies is “Building Better Budgets: A National Examination of the Fiscal Benefits of Smart Growth Development” May 2013, Smart Growth America.

(<https://smartgrowthamerica.org/resources/building-better-budgets-a-national-examination-of-the-fiscal-benefits-of-smart-growth-development/>) Findings of that report enumerate the different development patterns and their public infrastructure cost with results that confirm the comparative nature of costs qualitatively described in this report.

- Brownfield due diligence and potentially remediation issues may be part of existing improvement site and demolition costs.
- **Construction costs will tend to be higher for infill and redevelopment due to logistical and staging reasons, given the prevalence of adjacent, existing improvements:** Existing streets and traffic flows, and existing adjacent improvements of different configuration present construction logistical challenges and costs that greenfield development does not incur.

Summary of Infrastructure Cost Key Points

The following represent key points from discussion of infrastructure as an issue for housing production and affordability. Most notably, given the crucial importance of residential infrastructure finance and construction, there is still surprisingly little documentation of the magnitude or details of residential infrastructure constraint in Washington to draw upon:

- Lag times between when housing is needed and when housing can be produced after necessary infrastructure is constructed contributes to housing price escalation (supply inelasticity). Some lag between housing need and infrastructure construction are unavoidable due to the uncertain nature of housing market growth and cycles.
- Over the years, residential infrastructure finance has shifted from broad public finance sources such as property tax to targeted revenue sources where “growth pays for itself.” The shift in infrastructure finance has protected existing taxpayers from paying for additional infrastructure capacity required by growth, but has made needed housing supply more dependent on uncertain growth to reimburse infrastructure costs or meet their debt service obligation.
- With shifts away from general property tax and public debt for constructing residential infrastructure, the resulting infrastructure financing tools also are complicated by issues such as differences in topography, growth targets and zoning, infrastructure financing tools, sufficiency of existing infrastructure for expansion, and varying property owner intent before and after new infrastructure is constructed.
- National studies of impact fees and housing affordability generally indicate that impact fees increase home prices because households value updated infrastructure and because one-time impact fees represent an on-going savings in future property tax payments.
- Two studies of impact fees and impacts to home prices showed impact fees were associated with higher home prices, likely because households value modern infrastructure and reductions in future property tax bills due to upfront infrastructure impact fee payment.
- All things equal, infill and redevelopment should expect to incur substantially lower infrastructure expansion costs than green field residential development, which requires infrastructure expansion cost of all types.
- Usually lower infrastructure costs-per-unit for infill or redevelopment housing can be expected to be offset by the fact that redevelopment and infill construction face higher non-infrastructure development costs. These costs may be due to existing improvements that must be purchased and demolished, potential brownfield cost issues, potential site assembly costs, and more-expensive construction cost logistics in an already-built environment.

TOOLS TO ADDRESS INFRASTRUCTURE

IN - 01 When updating land use plans, ensure the cost for public and private infrastructure is taken into account. As an example, a community may wish to upzone an area from low to medium density to facilitate redevelopment. However, the cost to provide infrastructure improvements may require even higher density zoning for development or redevelopment to take place during the 20-year planning cycle.

IN - 02 Work with stakeholders in the development industry to better understand private infrastructure costs and their effects on development.

IN - 03 The GMA requires only a six-year financing plan to finance capital facilities. When possible, ensure longer-term financing plans identified within the capital facilities plan are realistically linked to the 20-year land use plan. As a way to estimate capital improvements over a 20-year horizon, one option is to project the six-year Capital Improvement Plan funds throughout the 20-year planning horizon.

IN - 04 Look for opportunities to support higher density development that will more efficiently utilize infrastructure. Jurisdictions that face choices on how and where to invest in infrastructure may choose to invest in trunk lines in areas zoned for higher density so that there will be more housing units to share the costs of construction.

Part VI: OTHER FACTORS AFFECTING HOUSING COST

Construction Labor Shortage

Washington continues to suffer from a Great Recession-induced construction labor shortage. This has contributed to housing construction lags and rising housing construction costs due to the difficulty of filling construction jobs. In a 2017 survey of general contractors in Washington:

- 79% of respondent companies indicated great difficulty finding hourly craft/skilled trades employees.
- 67% of respondents said it will continue to be difficult to find skilled workers over the next 12 months.
- 24% of respondents said that either it will get worse or it will not improve trying to find skilled trades labor.²⁹

A more recent, 2018 study³⁰ found Washington has experienced worse than national average labor shortage problems:³¹

- Washington has the eighth-worst rate of difficulty filling construction jobs as measured by 45-day online construction job announcement “survival rate” or renewals because the ad was not filled.
- When considered against median home values, Washington has the fourth-worst combination of difficulty filling construction jobs and prevailing home prices, behind only Hawaii, California, and Massachusetts.

The study concludes that Washington and other states have simply not recovered all of the

construction jobs lost as a result of the Great Recession. Washington has been among the hardest hit by the problem, but Washington has still fared better than places like Sunbelt states, which currently suffer among the worst construction labor shortages.

Construction and Labor Cost Increases

Overall costs of construction in the Seattle-Tacoma-Bellevue MSA have increased consistently since the fourth quarter of 2010 according to the Mortenson Construction Cost Index in Figure 22. Construction labor shortage has paired with increasingly expensive construction materials to see construction costs grow by 30% between the fourth quarter of 2009 and the end of 2017, or 3.75% annually.

Over the calendar year 2017, construction cost growth accelerated to 5% due to the many active construction projects putting heightened demand on both labor supply and materials.

²⁹

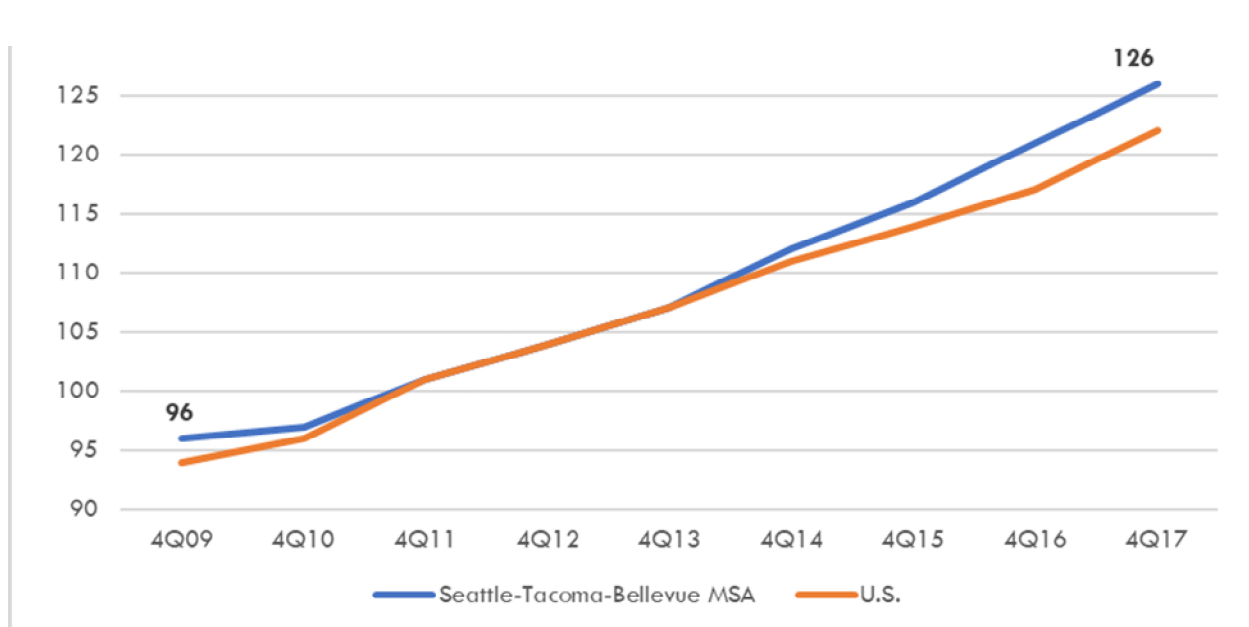
https://www.agc.org/sites/default/files/Files/Communications/2017_Workforce_Survey_Washington.pdf

³⁰ by Dr. Issi Romem of the Turner Center for Housing Innovation at the University of California, Berkeley and

Chief Economist at BuildZoom, a construction contractor industry data service,

³¹ Issi Romem, Ph.D. “The Scar from Which the Construction Workforce Has Yet to Recover,” July 31, 2018. (<https://www.buildzoom.com/blog/scar-from-which-the-construction-workforce-has-yet-to-recover>)

Figure 22– Mortenson Construction Cost Index, Seattle-Tacoma-Bellevue MSA, 4Q 2009 to 4Q 2017 (2009=100)



Source: Mortenson Construction Cost Index – Seattle, WA, 4th Quarter 2017
<https://www.mortenson.com/~media/files/pdfs/cost-index-report-seattle-q4-2017.ashx>

Construction firms' costs will vary at the local and individual firm level of course, but the Seattle-Tacoma-Bellevue MSA index geography is the key market benchmark for project construction costing throughout western Washington.

Over the longer term, if construction labor is available, and the market continues to be strong, more builders may enter the market, and cost increases may level off.

The greatest number of construction trades people and equipment have tended to be concentrated in the Seattle area where the returns are the greatest. So even if prices level off in the Seattle area, it may not mean that construction resources will be readily available in the rest of the state.

Implication of Rising Fixed Costs: Higher-Price Housing for Fewer Buyers

The 2017 Housing Affordability Response Team (HART) reported the following:

“During the development process for both market-rate and affordable 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, the market-rate developer applies a market demand approach, which favors the higher end, and more profitable, housing types 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, or less profitable but more affordable housing types are not produced to the extent they are needed.

Both construction materials cost escalation and labor supply shortage in the Seattle-Tacoma-Bellevue MSA, and likely to some extent for all of Washington, have combined, escalating development costs that exacerbate housing production and price issues.

Construction cost and labor supply analysis is not available for other submarkets within Washington to verify uniformity of the impact of increased costs of materials and labor. But based on the typical relationships between the Central Puget Sound region and the rest of western Washington and the state as whole, it is credible to conclude that development of moderate-cost housing is being limited, and prevalence of higher-end housing with higher profit margins has grown over the past eight years in the wake of the Great Recession.

The Impact of Vacation Rentals and Second Homes

For some communities in the state, housing availability and affordability can be complicated by demand for housing as vacation rentals and/or as second homes. In many instances, communities that see demand for vacation

rentals and second homes will be in places with significant natural amenity and recreation value: coastal communities, outdoor recreational resort communities, and other places where scenic, leisure, climate, and/or recreation values are very high.

In many of these communities the natural resource amenities that are the basis for vacation and second home demand limit the availability of land for full-time residents.

For these communities, the ability to deliver affordable housing can be exacerbated beyond the housing issues discussed throughout this report. Here are some of the additional challenges:

- Suitable residential land likely will be limited due to natural resource areas, topography, or potential flood or tsunami hazard areas in the case of coastal communities.
- Communities tend to be smaller and scale of new development limited, therefore wherewithal to plan and finance new infrastructure expansion to serve new housing for primary residents can be even more expensive or unfeasible than in more urban or suburban areas.
- Existing property owners who value their own access to high value natural amenities, such as views, rural character, access to natural amenities, and other features of the community will tend to oppose new development on the grounds of having negative impacts on those existing amenities.

From a housing demand perspective, moderately-priced housing can be difficult to provide in communities with vacation home and second-home demand due to the nature of the economy in such communities. Here are some of the reasons:

- Vacation- or second-home destinations frequently will be in communities where the local economy is driven by leisure and recreational amenity. That is, local businesses can predominantly be in retail, commercial services, dining, and entertainment services. All of these industries tend to not only pay lower-than-average wages, but employment will also tend to be seasonal based on the location of the community. Employment and workforce housing need, therefore, can fluctuate greatly during a year, and affordable shelter costs can be challenging for employees in the retail, tourism, and hospitality industries.
- Vacation rentals tend to earn more in rent per-night than as permanent housing. In a community with limited housing options, vacation rentals will be occupied regularly at a premium, rendering the use of the housing far more likely as temporary housing rather than for permanent, workforce housing use.
- Second homes tend to be of high value due to ownership wholly or fractionally by higher-income households. Such housing will typically not be affordable as rentals to people living in the community. And because of higher home values, such housing will tend to outbid missing middle or other moderately

priced housing for land due to their luxury pricing.

In short, it can be very challenging to provide affordable housing options to permanent or even seasonally employed households in communities with robust vacation-home demand and/or second-home demand. Management of the problem is, therefore, both a supply and demand management issue.³²

- Communities with different tourism types cannot completely avoid growing demand for vacation rentals and second homes. Jurisdictions must, therefore, have a thorough understanding of the demand pressures from these non-resident sources in addition to housing need for permanent residents and seasonal workers. A primary tool is vacation- or second-home housing registries that track housing usage for housing need to be appropriately planned.
- Communities also must have a thorough understanding of actual housing need for permanent residents and seasonal workers themselves, particularly need by affordable shelter payment due to the significant likelihood of lower-paying retail, services, and hospitality jobs in such communities.
- Based on community values, restrictions on where and what types of land and housing can be used as vacation home rentals or second home ownership may be appropriate. This may include:
 - Restrictions on when, how often, or for how long existing housing

³² The Municipal Research Services Center (MSRC) website provides several examples of various regulatory measures that different Washington State communities have taken to address the problems cited

at (<http://mrsc.org/Home/Stay-Informed/MRSC-Insight/November-2017/Short-Term-Vacation-Rental-Sample-Regulations.aspx>)

- units can be rented for vacation purposes.
- Encouragement of accessory dwelling unit development but with restrictions on whether or not the units can be rented to visitors or must be maintained as permanent housing for residents and workers.
- Taxes, surcharges, or other fees on rentals that can contribute to funds that seed or fund affordable housing development in the community for workforce housing need.
- Exemptions, credits, or other incentives that free development of workforce housing while maintaining restriction on temporarily occupied (second homes) or vacation home rentals.

Because individual communities in a region are not alone in their difficulties in producing affordable housing under the circumstances of vacation and second-home demand, there may be opportunity for individual communities to partner with each other as well as others within a region that do not have the same proximity to the natural amenities that are so highly prized but are within an acceptable job shed/transit distance for vacation home-challenged communities. Regional strategies for where greater capacity and feasibility exists for more affordable housing options may be possible to plan within a regional geographic context and with intergovernmental partnerships on incentives and funding of costs inhibitive to new affordable housing development, as well as transportation/transit costs.

Urban Vacation Rentals and Second Homes

In an urban or suburban setting, demand for housing also can occur from uses that are temporary or second home in nature. Like smaller

communities with tourism and/or natural amenities already discussed, demand for temporary or second home housing adds to need by primary residents in an urban or suburban cities. Local governments will want to properly account for these sources of housing demand in addition to typical primary residence need to properly plan for housing need.

The issue of temporary rentals and second homes can add to housing availability woes if a city is growing rapidly and housing production is not keeping up with growth. This occurs primarily because:

- As in a smaller resort or tourism-oriented town, urban vacation (short-term) rentals tend to earn more in rent per-night than as permanent housing. This tends to make different housing units less available for permanent, primary housing need because it earns less as a long-term rental.
- Also similarly to more tourism-oriented communities, urban second homes tend to be of high value due to ownership wholly or fractionally by higher-income households, especially by households involved in business interests in the region or city of interest.

Unlike tourism or recreation-oriented smaller communities, second homes and temporary rentals in an urban or suburban setting many times will be attributable to business or industry need rather than leisure. Executives at different companies may own a second home in a city in which much business is conducted but occupation is not year-round. Short-term rentals in cities can also frequently be through companies that market leisure travel, like AirBnB, Vacasa, or VRBO. But there is also need for both business travel with extended stays such as:

- Medium-term labor and project contract workers

- Extended visits by academics, researchers, health care professionals, or others requiring extended stays that are shorter than typical apartment lease terms.

In other words, temporary rentals meet a number of needs in an urban setting besides purely leisure travel.

For this reason, regulation of temporary rentals and second homes in an urban or suburban setting may likely be more complex than in a purely leisure travel environment due to the economic value of temporary or shorter-term labor housing need.

Local jurisdictions in an urban or suburban setting should, therefore, seek to understand not only the volume of second home and temporary rental demand, but also the potentially complex nature of temporary rentals and second home demand. Some restrictions on such uses and registries of such units, as well as licensing, tend to be tools adopted by jurisdictions³³ to deal with urban second homes and temporary rentals specifically. Outright bans, however, may be counterproductive for extended short-term or medium-term business or labor needs in the local economy.

Foreign Occupancy and Investment

A component of housing demand that has grown in concern in western Washington is the share attributable to foreign demand, whether for-sale or rental units. Foreign demand for housing, particularly in Seattle where cost and supply of housing have become major policy issues, has received significant reporting over the past few years. Headlines include:

“Chinese millionaires pick Seattle as No. 2 place in the world to live, survey shows”³⁴

and

“Seattle’s popularity among foreign real estate investors rises as the Bay Area’s drops.”³⁵

Such reporting clearly verifies the international recognition of the growth in the Seattle economy and real estate market. But what is not clear in studies and reports is exactly how much buying or leasing of housing is occurring in Seattle or other Washington markets.

- Much of recent reporting focuses on surveys of foreign *interest* in the Seattle real estate market, or perception in how attractive Seattle is as a place to invest in real estate.³⁶

³³ The City of Seattle’s process and ultimately decided regulatory measures for short-term rentals are described at

(<https://www.seattle.gov/council/issues/past-issues/regulating-short-term-rentals>).

³⁴ “Chinese millionaires pick Seattle as No. 2 place in the world to live, survey shows.” Gene Balk. Seattle Times, July 27, 2017.

(<https://www.seattletimes.com/seattle-news/data/chinese-millionaires-pick-seattle-as-no-2-place-in-the-world-to-live-survey-shows/>)

³⁵ “Seattle’s popularity among foreign real estate investors rises as the Bay Area’s drops.” Marc Stiles. Puget Sound Business Journal, January 8, 2018.

(<https://www.bizjournals.com/seattle/news/2018/01/08/seattles-foreign-real-estate-investors.html>)

³⁶ “Immigration and the Chinese HNWI 2017,” Hurun Research, July 15, 2017.

(<http://www.hurun.net/EN/Article/Details?num=51636DE2A1F4>)

- Emphasis is also on real estate portfolio *investment*, which usually means purchase of commercial real estate properties as income-generating assets or investment in new real estate development. This would include office buildings, retail centers, industrial parks, as well as apartment buildings potentially.

Though the perception of foreign investment may be negative when housing costs and availability are a major political issue, growth in supply of foreign investment in new residential development projects tends to increase the likelihood of new housing developed with that investment. New supply, as has been discussed, is a desirable outcome as it satisfies need and keeps price and rent growth in check.

With the exception of an annual study of realized home purchases by foreign buyers by the National Association of Realtors, reported surveys and studies do not actually measure or document the extent of realized housing purchases or rental occupancies by foreign/non-resident households.

In the 2018 National Association of Realtors report on foreign demand for housing purchases in the U.S.,³⁷ the following was found specific to Washington:

- Overall, Washington is not in the top 12 of states that see foreign purchase of housing units (Florida, California, Texas, Arizona and New York are the top 5).

- Among the top 5 origins of foreign buyers, Washington ranks:
 - **Canada:** 6th (4% of Canadian purchases in the U.S. led by Florida at 39%)
 - **China:** 4th (5% of Chinese purchases in the U.S. led by California at 38%)
 - **India:** 12th (4% of Indian purchases in the U.S. led by California at 15%)
 - **Mexico:** Not reported (Less than 3% of Mexican purchases in the U.S. led by Texas at 38%)
 - **United Kingdom:** Not reported (Less than 3% of UK purchases in the U.S. led by Florida at 20%)
- 54% of sales to foreign buyers are for **primary residences** and the remaining 46% of sales to foreign buyers are for **second home/recreation or investment property**.
- **Central City/urban locations** account for an average of 27% of all sales to foreign buyers.
- **Suburban locations** account for an average of 53% of all sales to foreign buyers.
- **Small town, rural or resort locations** account for an average of 20% of all sales to foreign buyers.

According to Zillow.com, Washington recorded a total of 134,979 home sales in 2017.³⁸ Overall, a rough estimate of 9,000 home purchases, or approximately seven percent, were made by

³⁷ *Profile of International Transactions in U.S. Residential Real Estate. 2018.* National Association of Realtors. (<https://www.gbreb.com/GBREBDocs/GBAR/News/Infomer/2018/2018-profile-of-international->

[transactions-in-us-residential-real-estate-07-26-2018.pdf](https://www.zillow.com/research/public/State.zip))

³⁸ Sale_Count_States.csv sales data file, October 15, 2018. (<http://files.zillowstatic.com/research/public/State.zip>)

foreign buyers based on National Association of Realtor statistics. The Seattle-Tacoma-Bellevue MSA is the likely concentration of those purchases, though only state-level geography is reported in the study.

While data for foreign buyers of housing nationally and at the state level are available, documentation and studies regarding foreign apartment rentals of U.S. apartments tends to be scarce. Apartments tend to be rented overwhelmingly for primary residence, and tenancy does not require a reporting by the tenant of national origin.

Apartment rentals are common for households requiring temporary housing until home purchase occurs, therefore foreign home ownership rate statistics should serve as a reasonable starting point for identifying share and magnitude of rental housing demand by foreign households.

Condominium Liability Costs

Condominium development is significantly restrained due to the current construction liability burden under the Washington Condominium Act. Extended liability period and coverage amount, as well as the insurance to avoid the liability, specifically hinder lending availability for projects, and the likelihood developers will build a project with such a liability risk.

This has also had a well-documented constraining effect upon redevelopment of properties into condominiums. Such risk and cost reduces likelihood that much-needed, high-density ownership housing supply gets built. Otherwise condominiums have very robust need and sales potential. At this time, construction liability risk and cost also applies to conversion of apartments to condominiums, not just new condominium construction.

Displacement Risk

The city of Seattle defines displacement as the following in its Final Environmental Impact Statement for the Mandatory Housing Affordability policy initiative:

“In the context of housing, displacement refers to a process wherein households are compelled to move from their homes involuntarily due to the termination of their lease or rising housing costs or another factor. This is a different phenomenon than when a household voluntarily makes a choice to move from their home. There are three different kinds of displacement occurring in Seattle.

Physical displacement is the result of eviction, acquisition, rehabilitation, or demolition of property, or the expiration of covenants on rent- or income-restricted housing.

Economic displacement occurs when residents can no longer afford rising rents, or costs of homeownership like property taxes.

Cultural displacement occurs when residents are compelled to move because the people and institutions that make up their cultural community have left the area.”

In other words, displacement is the involuntary movement out of a location because of housing costs they can no longer afford. But it is multidimensional:

- Existing rentals can be torn down for redevelopment, forcing relocation by households who cannot afford the new, top-of-market housing being built.

- Rapid growth – and/or rising property taxes – that push up rents or make owning a home no longer affordable will force relocation due to affordability loss.
- For certain community populations, relocation of households due to demolition or unaffordability can cause a cascading effect where increasing cultural isolation makes relocation necessary.

Indeed, Seattle has experienced and measured housing undersupply induced-displacement over the past 18 years as part of its Mandatory Housing Affordability policy initiative process. Figure 23 provides a capture of Exhibit M-9 from Appendix M of the MHA Final EIS. Each data observation is a census tract within Seattle.

Income. In other words, the chart answers the question: Did Seattle neighborhoods gain or lose moderate and low-income households as more housing was produced in the city? The answer is mixed and varies according to census tract.

Seattle recognizes that additional market housing capacity, via upzones to allow greater density and residential units where needed, comes with the need to add affordable, income-restricted housing units. The program requires market-rate development to either build a percentage of housing as income-restricted units or pay a fee-in-lieu of affordable units in-place that goes to a fund to pay for new income-restricted projects elsewhere in the city.

Figure 23- Gain/Loss of Households Earning No More than 80% of AMI, City of Seattle Census Tracts, 2000-14

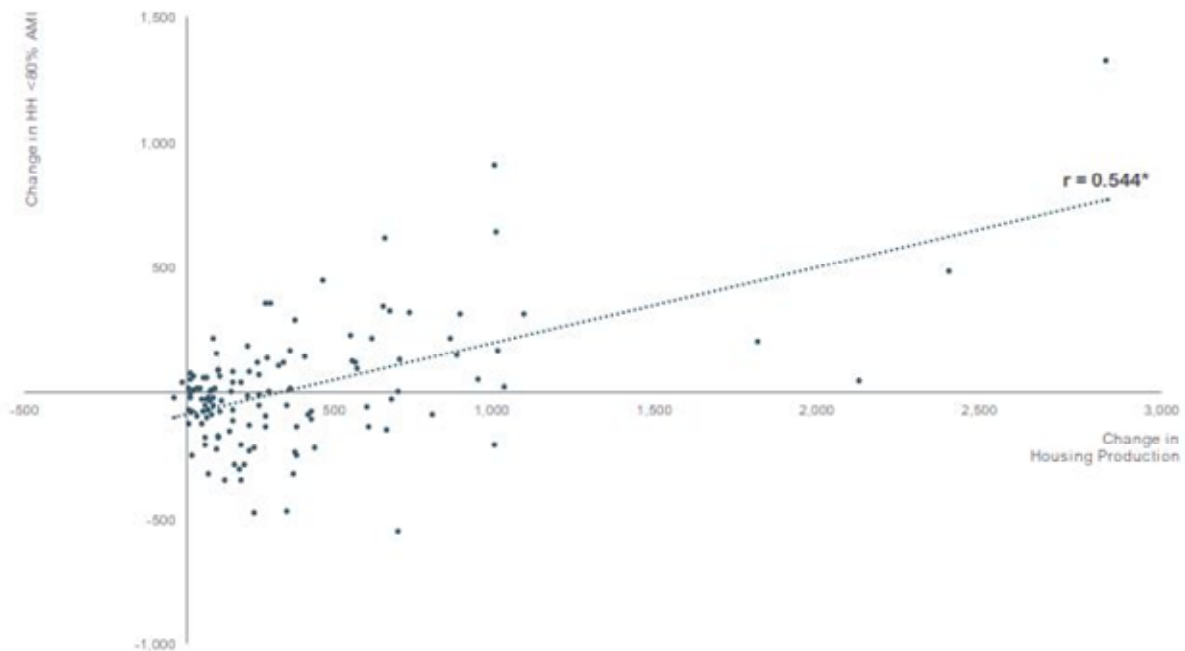


Exhibit M-9 Gain or Loss of Households with Income \leq 80% AMI and Net Housing Production by Census Tract, 2000 Compared to 2010–2014

Source: City of Seattle; HUD CHAS (based on U.S. Census 2000 and ACS Five-Year Estimates, 2010–2014); OFM, 2016; BERK, 2017.

This chart compares changes in housing production to gains or losses of households earning no more than 80% of Area Median

Income. Displacement is no doubt occurring in other jurisdictions in Washington where redevelopment is happening, whether it is demolition, pricing

pressure, or cultural isolation displacement. And to the extent that displacement occurs, it is not only an economic loss for households and the city from which they had to relocate, those households become new and unexpected “spillover” demand for housing in other jurisdictions in a region where housing is affordable to those households.

In other words, displacement and housing affordability is a regional issue with varying adequacies of housing and affordability causing spillover effects onto other jurisdictions. The jurisdictions receiving the spillover may plan greater housing capacity than others or have more affordable rents, prices, and land prices than others. This can have cost and housing supply consequences for some jurisdictions due to the under-planning of others.

Because of the spillover – and the displacement itself – of affordability problems, some uniformity and consistency of housing need and planning requirements may be in order across jurisdictions.

ADDITIONAL TOOLS

AT - 01 Vacation rental registries can help jurisdictions understand how many units are not available for permanent housing, and plan around this.

AT - 02 Land use regulations may be necessary to help address where the use of short-term vacation rental may be appropriate. They can also address issues such as noise and parking.

AT - 03 A business license or land use permit may help in appropriately addressing impacts of short-term vacation rentals on a community.

Part VII: “MISSING MIDDLE” HOUSING

Figure 24 Typical Residential Unit Types, Densities per Acre, and Typical Tenure Split

Structure Type	Density (Per Acre)		Tenure Split
	Typical Max	Multiple of Detached	
Detached Single-Family	5 du/acre	---	Own/Rent
Attached Single-Family	15 du/acre	3	Own/Rent
Low-Rise (2 to 4-Story)	30 du/acre	6	Rent/Own
Mid-Rise (5 to 8-story)	60 du/acre	12	Rent/Own
High-Rise (9-Story+)	100+ du/acre	20+	Rent/Own

Density and Housing Cost

As Washington and the Seattle-Tacoma-Bellevue MSA region continue to grow in population, development at higher densities – including redevelopment – steadily increases in need and practice for a growing number of cities around the state. Greater density can result in more homes built on less land area. To illustrate the potential gain in residential capacity, Figure 24 provides a comparison of the basic housing structure and density types common in urban areas. It shows that planning for *attached* single-family housing yields up to three times the density of traditional *detached* single-family residential units. By economic necessity, rising land prices are a reason and cause for residential density to increase to “spread” higher land costs across more units to be profitable.

Expansion of housing unit capacity via rezoning areas to higher-density development will help to provide more affordable market rate housing units. This is called *upzoning*.

But as the tenure split information indicates, different housing types are preferred by different types of households; housing is indeed a market, and consumers have different preferences.

- Lowest-density units tend to be overwhelmingly owner-occupied in a suburban setting but are occupied by a mix of renters and owners in a larger city urban setting.
- Higher-density units tend to have greater renter tenure split, partly due to condominium liability, which discourages the development of for-sale condominium units, and instead encourages the development of rental apartments.

Planning for higher density within a particular geographic area is therefore a balance of market forces based on a number of factors including:

- Magnitude of demand (volume of household growth):** Demand for the unit type has to be sufficient for the volume of those units allowed by higher-density zoning. The zoning should assure that the density is appropriate for the area, and consider the income levels and affordability limits for those who will live there. For example, a *high-rise* “allowed” to be built in a suburban downtown that has never seen sufficient demand even for mid-rise housing is not economically suitable for an even larger-volume development type, and the per unit costs will be higher than other single family units due to the cost of construction. They likely will not work in an area with lower rents. However, a variety of housing of different attached-unit densities, such as townhouses and rowhomes, in or near a suburban downtown may be completely appropriate. More units will be available in a given area of land, and the prices will generally be more moderate than at high-rise densities due to lower construction costs.
- Income levels of households:** If the income of households moving into a geography typically earn less than what would be required to afford monthly rent or mortgage payments for the planned development type, the residential product type likely will not be built.
- Household stage of life and size:** Younger households with fewer or no children, and earlier in their career, with less wealth for ownership down payment, are typically more inclined to live in higher density rental housing, especially in areas with higher levels of transit service. More recently, older households with no children, and greater disposable income and wealth may prefer urban living. Health and age also certainly play a part, with stronger preference for single-story homes and attached flats as households age. Larger families with middle incomes may tend to prefer detached housing with room for children’s play areas, and may end up driving further to find affordable detached single-family housing.
- Household preferences for ownership vs. rental:** As households age, earn more, and accumulate wealth, ownership housing is increasingly preferred by households. As of 2017, even with the apartment boom in the urban Puget Sound region, over 62.7% of households in Washington owned their home while 37.7% rented their home.³⁹ However, the majority percentage can be reversed in central cities, such as Seattle, with 53% of all households renting. But overall, consistent with historical trend, households in their 20s are the only demographic that will tend to rent more than own.⁴⁰
- Proximity to transportation choices, employment, services, and recreational amenities:** Seattle’s concentration of employment that drives the regional economy, paired with limited land supply

³⁹ Selected Housing Characteristics, 2013-2017 5-Year Estimates, American Community Survey, Washington State data.

⁴⁰ For additional reading, see detailed data in “Who Owns a Home in America, in 12 Charts” David

Montgomery for CityLab, August 8, 2018.

(<https://www.citylab.com/life/2018/08/who-rents-their-home-heres-what-the-data-says/566933/>)

available for housing development, has concentrated very high-density forms of residential development. This concentration of jobs, services, transit, and recreation enable households to live in higher density developments with increasing freedom from personal automobiles. Higher density residential forms tend to depend on a combination of at least two proximate concentrations of such amenities for households to feasibly trade off detached for attached housing.

- **Other subjective factors:** View preferences, property taxes, family proximity, essential health care proximity, and a host of other factors that vary from household to household will affect housing choice and structure type.

Any projection of housing need should include some consideration of household type and housing preference based on the above factors to be reasonably accurate.

To plan for higher-density forms of development as sufficient capacity for future growth without accounting for price, income, and housing need issues could result in mismatch between housing needs of the future population and housing that zoning allows.

In order of decreasing cost per square foot:

- High-rise development overwhelmingly uses some combination of steel and concrete, as do some forms of mid-rise over seven stories. That is the highest-cost form of construction for residential use.
- Mid-Rise 5-over-2 stories uses an up to two-story concrete podium with five stories of wood frame residential construction on the podium. The hybrid allows more modest construction costs compared to concrete and steel.
- Low-Rise and Attached Single-Family (including plexes, cottages, townhouses, etc.) can be entirely stick-built, with wood construction and are the cheapest typologies to build.
- Large lot single family is more expensive because of 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.

Figure 25 is intended as a combined illustration of the general relationships between different product types, costs, prices, and unit density levels. Also highlighted are what are currently termed “**missing middle**” housing types, which are moderate-density housing types that also sell or rent at moderate costs compared to detached single-family units and higher-density attached unit types.

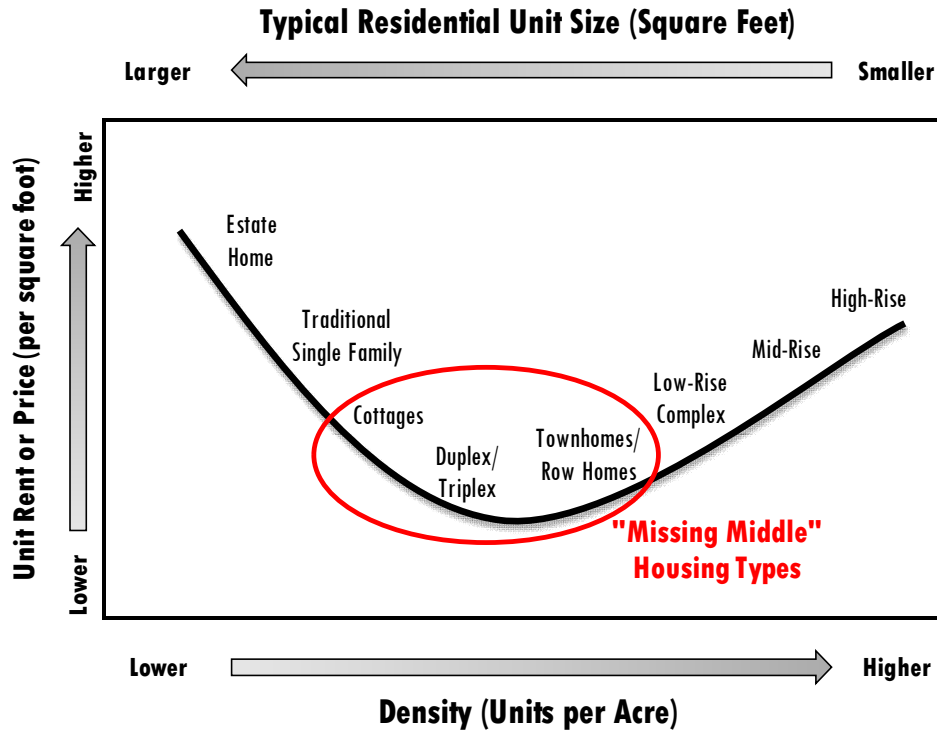
Different housing product types are organized along a U-shaped curve, Figure 25.

- The higher the housing type is along either side of the curve, the higher the sales price or rent typically associated with it (left axis). (Estate homes and high-rise housing typically are the most expensive; duplex/triplex are among the least expensive).

The further to the right along the curve a housing product is, the greater the cost per unit.

- To illustrate the variation in the economics of higher-density uses, Figure 26 provides 2016 average construction costs, pricing and other data for different residential structure types

Figure 25 - Housing Type Spectrum: Relationships between Housing Types, Price & Rent, Housing Unit Size, & Housing Density



throughout the city of Seattle, identified during the MHA policy study process.⁴¹

- Although specific housing economics in Seattle should not be directly extrapolated to other urban areas in Washington, relative differences in economics between residential forms will have similar relationships. In other words, land values, existing improvement values and income levels might be different outside of Seattle, but structure type construction costs should not be significantly different.
- As construction moves from moderate density to high-density (mid-rise, high-rise),

the more expensive the housing type tends to be.

- High-rise development, which is generally planned in large centers but is rarely built outside of Seattle and Bellevue at this time, may charge rent over 80% higher than the lowest-density form in the chart, single-family rental.
- The higher the density above townhouses and row homes, the higher the construction costs per unit or per square foot due to structure type engineering and costs:

⁴¹ Community Attributes, Inc. "Technical Memorandum: Economic Analysis of MHA", November 29, 2016.

https://www.seattle.gov/Documents/Departments/HALA/Policy/2016_1129%20CAI%20HALA%20Economic%20Analysis%20Summary%20Memorandum.pdf

- With greater density, transit options are typically more available due to higher ridership likelihood in a higher density area, and a more congested, dense road network. The lower the density of housing, the higher transportation costs will tend to be due to distances traveled from home to work or commercial needs.

Relationships are not absolutely true for every instance, but it is generally true that:

- Moderate density residential unit types offer a wider variety of pricing and rents while also offering more moderate average household transportation costs. In other words, cottages, duplex/triplex, and townhouse/row home forms offer slightly higher density, gains in land use density, and affordability gains for households who seek reasonably priced housing and opportunity to moderate transportation costs.

- Although increasing density is associated with lower per unit infrastructure costs (described earlier in this report) and reductions in daily transportation costs, the transportation cost savings may be offset by higher rents or mortgage payments.

- As density decreases, housing cost tends to increase, paired with higher daily transportation costs, for higher household expense. This is primarily through the greater dependence upon a vehicle for each adult in the household, and increased operating costs as distance increases. Lower-density, green field development also incurs higher per unit infrastructure expansion and finance costs.

Figure 26—Relative Economics of Different Attached Residential Structure Types, City of Seattle, 2016

Structure Type	Development Costs (per sq. ft.)				Two-Bed Rent		Income Required 3/	
	Hard	Soft	Structure	Site 1/	Total	Monthly Premium 2/		
Attached Single-Family (Infill)	\$184	\$49	\$233	\$35	\$268	\$1,467	---	\$58,675
Low-Rise (2 to 4-Story)	\$187	\$52	\$240	\$170	\$409	\$2,133	45.4%	\$85,323
Mid-Rise (5 to 8-story)	\$197	\$55	\$252	\$214	\$466	\$2,570	75.2%	\$102,816
High-Rise (9-Story+)	\$204	\$57	\$260	\$327	\$587	\$2,981	103.2%	\$119,238

1/ Cost of redevelopment property or properties acquired including existing improvements

2/ Rent premium over single-family (attached) rent for a two-bedroom unit

3/ Assumes standard affordability criteria that monthly rent not exceed 30% of monthly household income

Missing Middle Housing

Typically most affordable housing unit types will tend to be moderate-density units such as cottages, duplexes, triplexes, and rowhouses or townhouses. Such unit types are the transition between detached single-family (overwhelmingly ownership) and low-rise attached housing (overwhelmingly for-rent).

This grouping of housing types, now commonly referred to as missing middle housing,⁴² represents an opportunity for affordable, market-rate housing at densities higher than detached, single-family housing but at lower-densities than low-rise, garden apartments.

Although a clear opportunity to serve housing need for rent or for sale, these unit types are cited as “missing” because of a combination of two key constraining obstacles:

1. **Infrastructure Cost & Financing:** Less-expensive housing such as duplexes or cottages may pay similar per-unit impact and utility connection fees as single-family homes. This means that for smaller units, development fees are a greater proportion of the price of the unit, which adds to the ultimate price or rent of the home making them more expensive than could be possible with scaled fee schedules to allow smaller units to pay smaller fees.
2. **Zoning Code Obstacles & Gaps:** The *Strong Towns* website⁴³ and *Missing Middle housing planning resource* website⁴⁴ detail the following zoning-

based constraints to missing middle housing:

- a. In some jurisdictions, there is a shortage of lands that are zoned to allow densities above the highest-density single-family units and low-rise apartment housing densities that encourage or allow building heights and sizes significantly larger than missing middle types.
- b. Lack of zoning designations that allow for a range of housing types. Missing middle housing types are a range of densities from as low as duplexes on a single-family sized lot all the way up to townhouses or rowhouses near garden apartment densities. Commonly implemented zoning codes do not typically allow this type of flexibility for a variety of such densities, or blending of densities to achieve feasible conditions for missing middle units.

Moving forward, missing middle housing should and can be allowed in both an existing urban area, as well as greenfield portions of a UGA. Zoning that allows a diversity of moderate-density housing types and flexibility for them, paired with infrastructure expansion in greenfield environment should enable greater missing middle-type housing delivery. Alternatively, infrastructure expansion cost does not pose as

⁴² Missing middle housing has been most notably discussed and popularized as a housing need issue, along with its obstacles, by Daniel Herriges of Strong Towns, an online planning and urbanism publication. For greater details, see “Why are Developers Only

Building Luxury Housing?”

(<https://www.strongtowns.org/journal/2018/12/10/why-are-developers-only-building-luxury-housing>)

⁴³ *Ibid.*

⁴⁴ (<http://missingmiddlehousing.com/>)

high of a constraint to missing middle housing as it does in a greenfield environment.

Neighborhood opposition to such housing will likely tend to be lower in a greenfield environment as opposed to a populated, existing urban environment. Within an existing urban area, community opposition to increased density and changes to zoned density will be more likely.

TOOLS TO ADDRESS MISSING MIDDLE HOUSING

MM - 01 Use upzones to encourage development. This is especially important for single-family detached zones where there may be an opportunity for redevelopment to townhome development.

MM - 02 Use design standards to ensure housing that fits the character of the neighborhood. This should result in a similar form to traditional single family and fit with character of existing neighborhoods.

MM - 03 Reduce fees, such as impact fees, as a mechanism to encourage missing middle housing.

MM - 04 Reduce parking requirements for missing middle housing types where appropriate.

MM - 05 Use inclusionary zoning to require a certain percentage of affordable housing, or allow fee in lieu.

MM - 06 Allow missing middle housing in single-family zones, especially areas with transit services, jobs, services and other amenities.

MM- 07 Use density bonus incentives to encourage the development of missing middle housing.

Conclusions & Recommendations

The Housing Memorandum and its review of housing development and affordability issues within the context of the Washington State Growth Management Act (GMA) was required by E2SSB 5254. The report examines a variety of topics specifically included the bill and as it pertains to housing issues.

Declining and low mortgage rates, the longest economic expansion on record, record employment gains especially in the Puget Sound region, sustained population growth (even through the worst of the Great Recession), and a construction industry labor pool left devastated by the Great Recession have all combined to explain much of the housing affordability issue within Washington. Local conditions, policies, and constraints can and do play a part, but even with those local issues resolved, macroeconomic trends likely would still challenge adequate housing provision and drive up prices and rents.

To the extent that it is possible, local, regional, and state governments have a responsibility to examine their policies, and the extent to which they can address the GMA's goal of housing availability for households across the socioeconomic spectrum.

Recommendations for Next Steps

The following are conclusions about this report and options for further studying or consideration of changes to address some of these important topics and issues.

PLAN FOR HOUSING REGIONALLY

All cities and counties should consider affordable housing need a regional issue and a shared responsibility.

Undersupply of housing in one city, including income-restricted and workforce or missing

middle housing, not only raises housing costs in that city, but pushes demand to other, more distant cities and affects those cities' housing needs, prices, and capacity to meet those needs. It also puts greater demand on the regional transportation system and increases transportation expenses for households. This costly spillover effect resulting from housing undersupply is worse when there is no coordination among agencies and a broad understanding of total housing need, both currently as well as in the future for planning purposes.

Housing production that is affordable to all households can also be curtailed by jurisdictions that seek to avoid low-income or moderate-income population growth due to community political pressure. Such exclusionary actions are frequently due to negative perceptions and misunderstandings about affordable housing projects and the populations they serve. Negative perceptions are frequently about past affordable housing concentrations in different cities where that concentration of economically challenged households have reduced chance at economic improvement due to isolation from broader economic opportunity and limited social safety net. Avoiding integration of mixed-income affordable housing into all cities due to bad perception of affordable housing, therefore, actually perpetuates the concentration of affordable housing in ways that caused poor perceptions and makes economic improvement more difficult for households needing affordable housing.

Housing production affordable to all income levels, with emphasis on income-restricted housing and workforce or missing middle housing, should therefore be a regional priority in terms of coordinated planning and economic integration.

Consider coordinated efforts at the regional (metropolitan- and county-wide) level to estimate current and future affordable housing and workforce or missing middle housing need and demand. Methodology would emphasize both current, unmet affordable housing need of all types for all households, as well as projected future households region-wide likely within a jobs/housing balance and economic integration framework. Outcomes should include:

1. Regional goals and targets for proportionate mixed-income and affordable housing need being met locally, including greater detail of regional population and household targets for different jurisdictions including likely household income, affordability, and stage-of-life housing needs.
2. Regional goals and targets for retaining and growing existing affordable housing stock, including existing income-restricted units as well as units that are affordable to rent or own due to being older. Goals and targets of retention should aim to prevent displacement of households due to demolition of existing, affordable housing, rapid pricing pressure created by booming new development, or cultural displacement that disproportionately affects lower-income households.
3. Regional incentives and requirements regarding achievement of affordable housing, “workforce” housing and mixed-income housing development and retention targets and goals.
4. Modifications to the Land Use and Housing Element requirements of the GMA should be considered to put action to these findings.

LOCAL PLANNING FOR HOUSING

Local governments should work within the region and state to translate population forecasts into households and affordability levels, and use these numbers to shape development regulations to encourage affordability.

Population target forecasts for housing do not necessarily include socioeconomic and demographic qualities of households and their housing needs. This translation from population targets to zoning for housing affordability needs to be done, but many jurisdictions currently do not have the resources to do so. This inhibits planning for an affordable housing supply.

Here are specific recommendations for next-steps discussed in the memorandum comprise:

1. Consider publishing more guidance for projecting or forecasting future household demand and need characteristics for housing beyond single-family vs. multifamily designation and general density levels. Methodology should account for factors that determine market demand for future housing, different types of housing needed, including income, household size, household age, propensity to rent or own, affordability, and other stage-of-life determinants of household housing needs. Methodology should express a wide variety of future housing needs by future households, with an emphasis on household needs rather than basic housing capacity. Resources may need to be provided to cities, counties, and/or regional planning agencies to adequately fund such efforts and the resulting tools that will be required for more detailed household housing needs planning.

2. Consider working with housing industry stakeholder partners to better understand and document the nature of foreign housing demand in Washington, and more specifically the extent to which foreign demand is for investment purposes (speculative rental income) rather than as a primary residence supporting employment and industry in Washington.

REVIEW DEVELOPMENT SYSTEMS FOR EFFICIENT PROCESSING OF APPLICATIONS

Local governments should review development review systems and fees and strive for clear, efficient processes.

The development process for any new housing, whether market-rate or income-restricted, is a typically long and complicated process with many different and expected costs along the way as documented in this report. Developments with public review may be opposed due to “not in my backyard” (NIMBY) opinions, resulting in unpredictability, uncertainty and delays in the development process. This drives up the cost of housing unnecessarily.

Consider a comprehensive study of development approval processes. The study should examine best practices by case study of different, effective programs in different Washington cities and counties. Findings could lead to recommendation for changes to statutes that regulate permit processes. The study could result in a pilot program to test out a revamped way at looking at permit processes and procedures. The goals would be to:

1. Accelerate the time it takes to submit a permit application. Ensure standards and procedures are clear and concise.

Identify ways of fast-tracking development applications for chronically undersupplied housing types such as income-restricted units or missing middle housing units for middle-income households.

2. Find ways to incentivize certain types of developments. This could include items such as fee waivers for development applications for chronically undersupplied housing such as income-restricted units or missing middle housing units for middle-income households.
3. Create potential impact fee, permit fee, and other fee or development cost exemptions, credits or rebates to developments that meet housing affordability standards.
4. Develop options for review and audit of development processes, timeliness, effectiveness, and triggers for actions to continue to review and improve permit processing timelines over time.
5. Devise methods for better addressing community opinions and concerns about new developments in a manner that maintains a straightforward, predictable and effective development review process.
6. Fast-track “shovel-ready” development sites that are pre-recognized by the jurisdiction as suitable for affordable or income-restricted housing development.
7. Consider a policymaker-level discussion of community opposition that the region is facing on development projects and upzoning of areas that support our overall framework for growth in our region. How can we address community concerns moving forward but still implement city, county, and statewide

goals for growth? What changes in state law should be considered to facilitate growth while still providing opportunity for community input?

8. Consider a review of local jurisdiction policies and their implementation that serve to prevent or curtail housing production of income-restricted housing and workforce or missing middle housing. Potential policies or their implementation that should be reviewed for negative impacts on lower-priced or lower-rent housing may include:
 - Minimum lot sizes
 - Unclear or difficult, and therefore, costly development application approval processes, exacerbated by community opposition to development
 - Height restrictions
 - Site efficiency and housing unit yield loss due to measures such as tree canopy retention, view setbacks, various non-critical area buffers, and excessive on-site parking requirements, especially proximate to transit.

PROVIDE TIMELY INFRASTRUCTURE TO FACILITATE AFFORDABLE HOUSING

Lack of infrastructure impacts development. Local governments should plan for infrastructure over the full planning period, and carefully assess investments to support development of areas zoned to provide affordable housing.

1. Consider funding a study that carefully documents residential infrastructure provision and financing challenges in urban Washington, providing details and case studies regarding current residential infrastructure finance strengths, weaknesses, opportunities and threats to housing production and affordability. The study should cover the unique challenges to both private and public-sector entities in a variety of geographies, greenfield and infill/redevelopment, to inform new potential infrastructure finance programs, financing tools, and best practices depending upon the nature and location of housing delivery and need. The study should also review residential infrastructure best practices, programs, strategies and innovations employed in other states and regions that would lend useful comparison for residential infrastructure provision and finance in Washington. Rural issues would require separate consideration to address wells and septic.
2. Consider adding residential infrastructure finance programs that specifically address housing need for jobs/housing balance. Infrastructure finance mechanisms should help reconcile workforce housing delivery and affordability for workforce growth that matches economic development programs and initiatives, along with infrastructure programs that facilitate industry infrastructure provision.

Programs should allow for financial incentives such as exemptions, credits, low-interest loans, matching grants, or other mechanisms that facilitate needed residential infrastructure for both income-restricted housing as well as modest-income (missing middle) housing provision.

3. Consider funding a study and possible future modifications to the GMA to better address capital facility planning requirements. This request for consideration is being made to the Ruckelshaus Center through a memorandum as part of the Roadmap to Washington's Future project. Specifically, a comparative review of how cities and counties plan and prioritize capital facilities projects that serve residential capacity. The timing of that capacity, and the funding of that infrastructure and its tie to comprehensive planning of housing capacity and buildable land, could be reviewed for potential improvement. A review of capital facilities planning relative to housing capacity and buildable land and sites supply beyond a six-year period and greater certainty about projects, their funding sources, and their delivery for assuring medium-term to long-term housing capacity should also be under consideration.
4. Consider exploring additional or different funding mechanisms for water, wastewater, and stormwater infrastructure need as these critical infrastructure types currently cannot be financed with impact fees. To the extent new funding tools are identified, explore credits, exemptions, or other incentives specifically for income-restricted housing development as well as moderate-income, workforce or missing middle

housing types. New financing tools should be mindful of city-owned utilities and existing ratepayer obligations.

5. Maximize transportation infrastructure investments by ensuring moderate to high density around transit lines and transit hubs. Residents' ability to locate near transit allows them to bring down the overall share of housing and transportation costs in their budgets. It also promotes transit ridership and contributes to the viability of the transit network.

ENCOURAGE A LABOR AND BUSINESS SUPPORT FOR CONSTRUCTION TRADES

The Washington residential construction industry was hit hard by the Great Recession, with construction labor made scarce and expensive for the housing boom. Steps should be taken to grow construction trades, skills, employment, and businesses, including those that develop and employ innovative construction methods and technologies.

1. Consider public agency and private sector partnerships that result in resources, training, and labor force and business count growth within the residential construction trades. Partnerships could explore or result in, among other outcomes:
 - a. Resources, such as scholarships or construction trades training programs funding, that result in expansion of construction labor skills and labor supply growth
 - b. Resources that result in construction business formation

and training in educational institutions or industry/professional organizations

- c. Financial incentives that specifically target start-up, emerging, disadvantaged and growing residential construction businesses, especially those that perform services for income-restricted housing as well as workforce/affordable housing that includes missing middle housing types
- d. Financial incentives that encourage innovative, next-generation technology construction types, such as pre-fabricated homes, 3D-printed construction, modular construction, and the construction firms and labor that support, new and innovative construction types and technology.

DATA COLLECTION AND ANALYSIS CAN BE USED TO BETTER MATCH SUPPLY WITH DEMAND

The lack of association between land prices and buildable residential land capacity also prevents accounting of the affordability of that land capacity to future households.

Most cities and counties do not have the data to understand how affordable or unaffordable their current housing capacity will be to current or future households when housing is constructed.

Housing capacity and affordability accounting would be greatly benefited by the analysis of what housing prices or rents would likely be associated with different buildable lands within a jurisdiction or geography. Analysis can be reasonably based on zoned density and either prices or rents as a percentage of Area Median Income on different lands based on prevailing economic conditions elsewhere in the jurisdiction on like land. This information could be used as important zoning changes are considered.

Currently, at best, housing capacity is described frequently as “single-family” or “multifamily” with no other detail about whether or not the qualities of those lands are economically adequate beyond basic inventory accounting.

Better information enhances predictability and reduces risk. Reduced risk reduces costs and enhances feasibility of housing delivery volume.

Here are specific recommendations for next-steps:

1. Consider a coordinated study or coordinated planning process among regional, county, and city interests that explores the relationships among different housing product types, their density levels, land prices, and their market prices and rents relative to regional and local level of affordability (as measured by shelter payment and utilities as a percentage of monthly income). Issues explored should include current pricing and rents of housing by unit types and density levels at the local level with attention to how price and rents differ as unit type and density transitions upward. An accounting should then occur that documents the likely price or rent of a residential unit at

different density levels at the local (city or market) level in current dollars and current affordability level. The accounting should also document where jurisdictions lack unit capacity at specific levels of price and rent affordability. To the extent that a local jurisdiction is lacking different levels of affordability by density level, strategies and tools should be explored and adopted to remedy current and likely future deficits of housing capacity by affordability level need. Finally, such accounting and procedure by cities and counties should be coordinated in a manner consistent with a regional approach to affordable housing need and shared jurisdictional responsibility in meeting regional affordable housing goals and targets.

2. Consider a greater role for the Washington Department of Commerce, Affordable Housing Advisory Board (AHAB) or institutional partners such as the Runstad Department of Real Estate and the University of Washington or the Washington State University Real Estate Research Center, in keeping consolidated account of regional affordable housing

land inventory and capacity. Resources may need to be provided, but on-going accounting of affordable housing capacity would assist regional affordable housing goals, targets, and measured accounting of affordable housing delivery.

FACILITATE DEVELOPMENT OF MISSING MIDDLE HOUSING

Cities and counties should take measures to facilitate development of and retain moderately priced housing, specifically missing middle housing types, which offer greater affordability to the local workforce.

Missing middle housing provides not only greater efficiency of land use and infrastructure with higher density, but also provides greater affordability options for households due to both typically lower prices as well as frequently lower daily transportation costs due to residence proximate to higher-density, mixed-use areas, services, and employment. All offer either ownership opportunity as well as rental opportunity. An extensive list of actions that cities and counties can take can be found at various documented resources,^{45 46 47 48} but

⁴⁵ Missingmiddle.com

(<http://missingmiddlehousing.com/about/how-to-regulate/>),

⁴⁶Growth Management Act Housing Element Guidebook 2018 Update

(<https://deptofcommerce.box.com/shared/static/mo62jmu4w21106lqrbh12g9h408zjm4.pdf>) via

Washington State Department of Commerce Growth Management Planning for Housing website

(<https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/>)

⁴⁷ 2018 Updated Buildable Lands Guidelines, Washington State Department of Commerce

(<https://deptofcommerce.box.com/shared/static/3admh8ew6olyoqh48js4v6fs4lzcu664.pdf>) via the Buildable Lands website

(<https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/buildable-lands/>), specifically Reasonable Measures for achieving greater housing unit and density yield.

⁴⁸ “Promoting Inclusive Communities: How Cities Can Utilize Local Housing Policy to Combat Economic Segregation,” Christopher Wheeler and Paul Jargowsky, Johns Hopkins 21st Century Cities Initiative (<http://21cc.jhu.edu/wp->

should include the following with a focus on new unit creation and existing unit retention:

1. Consider local city and county review of past development trends of missing middle housing types (cottage homes, duplexes, triplexes, cluster homes, row homes and townhomes) to understand their production volume relative to need and to understand past obstacles to their development from a planning, zoning, and development review perspective.
2. Consider local city and county review of current housing capacity for missing middle housing types of moderate density and price by zoning code or zoning district, and identify and adopt solutions to local zoning that enable more and sufficient missing middle development based on flexible range of density for these unit types.
3. Consider local city and county fast-tracked development application acceptance, review, and/or approval process for different missing middle housing product types.
4. Consider local city and county incentives for encouraging greater realized density and production of missing middle housing types, including density bonuses, reduced setbacks, buffers, on-site parking requirements and other efficiency loss reductions.
5. Consider local city and county impact fee discounts, credits, exemptions or other incentives that help missing middle unit types become more cost-competitive for development vs. higher-end, detached single-family units from an infrastructure cost and finance perspective.
6. Consider identifying local city-owned and county-owned properties that would be suitable for missing middle and income-restricted housing unit types at a potential discount to prospective developers to enhance financial viability if feasibility is challenging.
7. Consider incentives, positive and negative, to encourage property owners to (re)develop properties suitable for missing middle and income-restricted housing. Density bonuses, tax credits and exemptions or other tools can be used to encourage development. Vacant property tax or other fee structure can be explored to encourage vacant and even nuisance properties to see missing middle and income-restricted housing.
8. Consider the suitability of inclusionary zoning, potentially including a fee-in-lieu system instead of strict on-site unit development requirements, at the local level in achieving construction of missing middle and income-restricted housing. A net increase in affordable housing unit creation should be achieved rather than delay or shirking of affordable housing production because either market-rate projects are not feasible with inclusionary zoning and affordable units do not get produced, or cases where a fee-in-lieu system funds affordable housing in a concentrated, low-cost location and mixed-income targets are not met.

<content/uploads/2018/06/promoting-inclusive-communities.pdf>

9. Consider city-based and county-based fast-track processes for rezoning properties to moderate density levels that enable missing middle housing types. Accelerated process and cost, as well as greater certainty and lower risk of public NIMBY opposition, should be explored.

FUND LOCAL GOVERNMENTS TO DO THIS WORK

Additional resources will be needed for counties and cities to address additional efforts as identified in the Housing Memorandum.

County and local planning resources are certainly limited and to-date have been maximized for the purposes of complex and necessary housing capacity documentation. To explore and address a better understanding of market suitability of planned housing capacity, shortfalls or constraints in that capacity for market-suitable housing delivery, and better understanding of housing need by affordability and household characteristics will introduce significant new effort. All will require additional resources for city and county planning efforts, with the return on that investment being better ability of local governments to avoid future housing scarcity and affordability problems.

Appendix 1: SPECIAL ISSUES AND RESOURCES FOR SUBSIDIZED HOUSING DEVELOPMENT

Definitions and Challenges

Subsidized housing, or income-restricted affordable housing, is housing units that have restrictions on who can buy or rent them based on the income level of the household in need. Here are some key definitions to discuss affordable and subsidized housing:

Affordable Housing: Commerce uses the U.S. Department of Housing and Urban Development’s standard definition for housing affordability, which states that affordable housing is housing for which the occupants are paying no more than 30 percent of their income on housing costs, including utilities (RCW 43.185A).

Area Median Income: The midpoint of a region’s income distribution; half of households earn more than the median, and half earn less than the median. For housing policy and planning purposes, income thresholds are used to define the affordability of housing units to households.

Low-Income Housing: Housing that is affordable to occupants making 80 percent or less of the area median income.

Subsidized Housing: Subsidized housing is a government system that includes direct payments to eligible recipients, as well as public or non-profit housing. It is usually targeted to low-income, extremely low-income and formerly homeless households.

Affordable, or subsidized, housing is typically developed as attached rental units. HUD provides income limits for each region, adjusted for household size. Although units have income level restrictions on who can rent (or in some cases buy), the development process and costs that are incurred during that process are not unlike market-rate housing types. Infrastructure, construction costs, land costs, regulation and development processes all have the same costs.

Subsidized, or affordable housing, does have unique challenges beyond and in addition to these mentioned factors that tend to make it even more difficult to develop:

- **Funding and Financing:** Subsidized housing typically relies on federal (Department of Housing and Urban Development) or state-level housing tax credit programs. While these sources of funding and programs are earmarked for affordable housing, their requirements can be rigorous or difficult with limited availability based other competing projects for those funds. Banks or other traditional lenders may or may not be familiar with affordable housing lending; combined with public funding sources, private financing can be complicated and difficult.

Competition with Market Rate Projects for Available Sites: Market-rate projects can and do outbid affordable housing projects for purchase of sites suitable for higher-density housing, which affordable housing tends to need to be. This is particularly true in the case of sites that require the purchase and assembly of more than one parcel to be large enough for development or redevelopment. Land can therefore be scarce for affordable housing projects due to this competition and availability.

- **City Restrictions or Obstacles:** Local government regulations may restrict the ability of affordable housing to be built through zoning restrictions that prevent density or height needed for affordable projects, or require a minimum lot size.
- **NIMBYs:** Negative public perception of affordable or public housing and their misunderstood impacts upon surrounding property values can fuel public opposition to affordable housing development.
- **Mixed-Income Development Requirements:** Modern affordable housing policy, spearheaded by HUD, recognizes that affordable/subsidized housing should occur in a variety of places in a city with a mix of income levels. In the past, public and subsidized housing was overwhelmingly concentrated in lower-income, lower land-cost areas. This in turn concentrated poverty and created lasting economic vulnerability or poverty. Modern affordable housing policies and funding programs promote mixed-income locations to realize better long-term economic outcomes for affordable housing residents. But requirements or incentives to develop in different income-level areas may require higher cost land and public approval difficulties and costs to projects that locate in higher-income areas.
- **Environmental and Design Requirements:** Affordable housing funds and resources may come with project design standards and costs that can increase development costs. For example, the Washington State Housing Trust Fund requires that housing be built to the Evergreen Standard. This is intended to reduce long-term maintenance and increase energy efficiency. However, all costs add up and can make project development feasibility more difficult.
- **Prevailing Wage:** Affordable housing projects must be built with workers being paid “prevailing wage” for residential or commercial projects.

Support for Affordable Housing

In spite of these challenges, projects that are affordable also are eligible for a variety of discounts. These are either directly authorized by statute, or allowed under the Washington state constitution. *“No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, **except for the necessary support of the poor and infirm**”* Article 8, Section 7

- **Affordable housing incentive programs** may be enacted by counties and cities for the development of low-income housing through development regulations, conditions on rezoning or permit decisions, or both, on residential, commercial, industrial or mixed-use development. Incentives may include density, height and bulk bonuses, fee waivers, parking reductions, expedited permitting or other

means. Units created with an incentive program must meet specific affordability levels, and must remain affordable for 50 years.⁴⁹

- **Multifamily tax exemptions** (MFTE), authorized by RCW 84.14, can be applied in GMA cities with at least 15,000 people, 5,000 people in the seven most populous counties, or the largest city in other counties. MFTEs can be offered in certain locally designated “residential target areas” where more multifamily housing is desired. Multifamily construction within the designated area may be exempted from paying property taxes on the value-added portion of new or rehabilitated property investment for eight years, if adding multifamily housing units, and up to 12 years, if 20 percent of housing units are affordable to low- and moderate -income households.⁵⁰
- **Waived or Reduced Impact fees** are one-time charges imposed by a local government on new development to pay for a reasonable portion of the costs of providing public services to the development. Impact fees may be reduced by up to 100 percent for housing units that are designated as affordable by covenant.⁵¹ Eighty percent of impact fees may be waived completely; 20 percent must be paid from other public funds.
- **Utility Fees waivers:** A city or town may waive or delay collection of tap-in charges, connection fees, or hookup fees for low-income households connecting to water, sanitary or storm sewer service, electricity, gas, and other means of power and heat.⁵²
- **Publicly owned land for affordable housing:** The state constitution allows local governments that want to support the development of affordable housing⁵³ to provide gifts to the “poor and infirm.” They can choose to provide underused infrastructure or publicly owned land to help affordable housing. RCW 39.33.015 (laws of 2018) sets out procedures for the transfer of public property for a public benefit, specifically defined as affordable housing. The state is also required to consider state-owned surplus property for affordable housing (RCW 43.63A.510). Suspected brownfields also are being reviewed for potential use for affordable housing. Locally owned public property should also be inventoried and considered. Public projects can be catalysts for additional private development.
- **Affordable housing property tax levy:** RCW 84.52.105 allows for a vote for up to \$0.50 per \$1,000 assessed value for up to 10 years to finance affordable housing. The county, city or town must declare an emergency with respect to the availability of housing that is affordable to very low-income households (less than 50 percent area median income (AMI)) in the taxing district. The governing body must adopt an affordable housing financing plan. Seattle, Bellingham, Olympia, Vancouver, and Jefferson County have voted for such levies

⁴⁹ RCW 36.70A.540

⁵⁰ See RCW 84.14 for more detail.

⁵¹ See RCW 82.02.060(3)

⁵² RCW 35.92.380, RCW 35.92.020(5)

⁵³ Article 8, Section 7 of the State Constitution provides: No county, city, town or other municipal corporation shall hereafter give any money, property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm.

- **Sales and use tax for housing and related services:** RCW 82.14.530 allows a county to vote to impose a sales and use tax of up to 0.01 percent for constructing affordable housing, mental or behavioral health facilities. People served must be at less than 60 percent of the median income of the county, and must be seniors, homeless, veterans, have mental illness, or meet other criteria.⁵⁴ Olympia and Ellensburg have such sales taxes.

Local Funds: *A city, town, or county may assist in the development or preservation of publicly or privately owned housing for persons of low income by providing loans or grants of general municipal funds to the owners or developers of the housing. The loans or grants shall be authorized by the legislative authority of the city or town. They may be made to finance all or a portion of the cost of construction, reconstruction, acquisition, or rehabilitation of housing that will be occupied by a person or family of low income.* RCW 35.21.685 and RCW 36.32.415.

Commercial linkage fees hinge on balancing the impact of growth in non-residential development by stimulating affordable residential development for workers or supporting demand for services. Different development types may be charged separate rates per square foot of development, due to their differing levels of impact. The size of the fee will also vary by jurisdiction, with more expensive markets having larger commercial linkage fees. This tool requires a vibrant development climate to succeed. Depending on your community's needs, the fees collected can be applied to any type of affordable housing proposal or district. Commercial linkage fees can serve as a designated revenue stream for a local housing fund.

Credit Enhancement refers to the backing of a loan or bond for an affordable housing project by a local government. This makes the investment more attractive to a bank or bond investor, therefore lowering the interest rate. The cost savings then are transferred back to the affordable housing developer.

Direct Household Assistance: Jurisdictions can establish financial assistance programs that provide direct monetary assistance to low-income renters, owners and first-time homebuyers. Forms of assistance can include monthly rent and utility support for low-income households, grants and loans for low-income homeowners undertaking weatherization and repair, or grants and loans for first time homebuyers for down payment, closing costs and mortgage assistance.

Displacement Resources Displacement can refer to several different processes. First, residents may be displaced when a property is slated for redevelopment, conversion, or when the affordability restrictions on a subsidized unit/building expire. A second definition of displacement describes the impact of increasing housing prices in a neighborhood prompted by neighborhood reinvestment, major infrastructure investments, and processes of gentrification. In this scenario, displacement may occur through legal rent increases, illegal evictions, and foreclosure. State legislation (RCW 59.18.440) establishes standards for the former definition regarding the amount of financial support jurisdictions and property owners are required

⁵⁴ RCW 82.14.530(2)(b) (2015)

to provide to displaced residents. Resources to mitigate the latter definition of displacement include, but are not limited to: preservation of affordability, community land banking, community land trust, right of first refusal, relocation advisory services, reimbursement for moving expenses, and payments for the added cost of renting or purchasing comparable replacement housing.

Inclusionary zoning is a tool that stipulates that new residential development in certain zones include some proportion or number of affordable housing units, or meet some type of alternative compliance. To ensure that costs are offset, jurisdictions often increase the development rights (i.e., density) of a proposed project. Adopting this combination—mandatory affordable housing and increased density—into the local code a priori an actual development application distinguishes inclusionary zoning from other types of incentive zoning. Zoning may be applied in ownership and rental developments, single-family and multi-family zones, and can be tied to specific geographic areas. Jurisdictions should craft inclusionary zoning policies that best reflect the needs of their residents, paying close attention to details relating to program management and monitoring. In the state of Washington all units developed through an inclusionary zoning program must remain affordable for at least 50 years (RCW 36.70A.540).

Interjurisdictional Cooperation (HIP) Local jurisdictions can partner with each other to pool resources and stretch funding for their housing needs. The central Puget Sound region is fortunate to have a national model for interjurisdictional cooperation in A Regional Coalition for Housing (ARCH). ARCH is composed of 16-member jurisdictions in east King County. It assists with the following:

- Support for below-market rate housing through loans, grants and surplus land
- Development of comprehensive and neighborhood plan housing policies
- Regulation implementation
- Housing program implementation and administration
- Finding affordable ownership and rental options for households
- Education for members and the public

A Local Housing Fund provides a dedicated source of funding for affordable housing projects. Jurisdictions can use the funds in a variety of ways:

- Direct loans or grants to owners or developers of affordable housing.
- The underwriting of general obligation bonds sold to support low-income housing.
- Direct low-income renter or first-time homebuyer subsidies.

Typically, a local housing fund is established through a legislative process that generates fund revenue (e.g., a special purpose housing levy enacted through voter approval, general funds, or a portion of sales tax from new development).

Non-Profit Partnerships (HIP) Jurisdictions can establish cooperative arrangements with public or non-profit housing developers to promote low-income or special needs housing in their communities. Jurisdictions can also encourage for-profit developers to partner with non-profits to provide affordable units within larger market-rate developments.

Appendix 2: Reasonable Measures as Tools for Increasing Housing Availability and Affordability

Encouraging urban growth in urban areas and reducing sprawl are two key goals of the GMA. To achieve these goals, per capita land consumption rates must be low enough and compact development must predominate in urban areas. At the same time, people in those urban places need to be able to enjoy a high quality of life. They want growth and development to result in livable communities, a healthy environment, and a strong economy.

The Department of Commerce first published some of the following *Measures for Providing Attractive, Compact Urban Areas* in 2004 to offer options local governments can use to increase densities. This listing also incorporates a substantial number of tools from the Puget Sound Regional Council's (PSRC) *Housing Innovations Program Toolkit*, available on the PSRC website. This should be considered a partial list of tools local governments can consider to provide for greater residential densities and employment-based development in urban growth areas (UGAs). They may be especially applicable if a local government is considering more ways to achieve urban infill or needing to "adopt and implement measures" to ensure consistency under the Buildable Lands Program [RCW 36.70A.215(4)].

Local governments in their GMA updates also can use the measures. Each city and county planning under the GMA in Washington needs to take action to review, and if necessary, revise its plans and regulations to ensure it complies with the GMA. If local governments find their UGAs are filling up faster than expected or growth is occurring at lower densities than they had planned for, the measures in this publication may be used to make the needed adjustments. Local governments planning under the GMA also are required to review their UGAs, including densities, at least every eight years, and make changes if needed. In this Urban Growth Area Review, the county comprehensive plan designating UGAs and the densities permitted in UGAs by the comprehensive plans of the county and each city located within UGAs are to be revised to accommodate the urban growth projected to occur in the county for the next 20 years.

RM - 01

Accessory Dwelling Units

Accessory dwelling units, whether internal to a single-family house, or a detached unit on the same parcel, can provide low-cost housing in established neighborhoods. They preserve neighborhoods as residents age and give older residents a smaller place to live while allowing them to stay in their neighborhood. Densities are increased within existing developed areas with minimal visual disruption.

RM - 02

Capital Facilities Investments

Give priority to capital facility projects that most support urban growth at urban densities. Provide urban services to help reduce sprawl development and maintain the edge of the urban growth boundary. Phased, infill development is more cost effective than sprawl and helps retain rural and natural resource lands. Adequate infrastructure to support compact urban growth will help UGAs be livable, attractive places. Outside UGAs, rural lifestyles can be maintained better when infrastructure investments provide for rural needs without encouraging urban encroachment.

RM - 03 Clustering

Encourage clustering techniques in UGAs where appropriate to ensure that infill development and future urban services can be provided cost effectively. Clustering can be used to concentrate development in one area while avoiding critical areas, or other areas not suited for development, or it can be used to design the site for more efficient placement of infrastructure. Outside UGAs, use clustering techniques where appropriate to help retain open space, critical areas, and natural resources, provided that the cluster does not provide for more growth than the underlying zone allows and that retained open areas are not redeveloped in the future.

RM - 04 Co-housing

Allow co-housing as an innovative form of housing to encourage more housing choices in UGAs. Co-housing refers to cooperative ownership of an apartment building or detached dwellings, usually with a central gathering and dining facility. It provides another choice in a variety of housing options.

RM - 05 Cottage Housing and Tiny Homes

Allow for cottages or tiny home communities. The units are typically under 1,000 feet, smaller for tiny homes, include provisions for living, sleeping, eating, cooking and sanitation. The most successful developments are usually clustered around a central open space, in higher density single-family areas. Some units are for sale, or others may be cooperatively owned. They are usually for one person, often without a vehicle. Benefits: Because the units are very small in size, they are more affordable than a larger unit.

RM - 06 Density Bonuses

Allow higher density or intensity of development in UGAs than normally permitted as an incentive for achieving other community values such as affordable housing, mixed-use developments, infill, rehabilitating existing structures, etc. Bonuses can increase densities in urban areas and create an incentive for providing neighborhood amenities. They also can be used as receiving zones to preserve resource lands by buying or transferring development rights from rural to urban areas. They work best in areas where land values and home prices are high, and development is constrained.

RM - 07 Design Standards

Adopt design standards in targeted areas to encourage attractive compact development. Balanced guidelines should promote good design without imposing prohibitively costly requirements on new developments. They are most helpful where new innovative development is being proposed. They help ensure development is attractive, safe, and consistent with neighborhood character, historic preservation, or other desired features. They can facilitate community acceptance of affordable housing projects or increased densities.

RM - 08 Development Agreements

Use development agreements to formalize public benefits and bonus densities. Development agreements are attractive to developers because they secure approvals at the outset of a project and assure that multi-phased projects will not be subject to regulations adopted after an initial application is approved. Such agreements are mutually beneficial because the jurisdiction can specify the inclusion of

public benefits like affordable housing and provide an additional measure to ensure consistency of developments with planning goals.

RM - 09 Downtown Revitalization and Economic Development Strategies

Develop a strategy to encourage downtown vitality. Include techniques such as promoting mixed residential and commercial uses, reuse of existing buildings/inventory rather than tearing down and rebuilding, and alternative urban landscaping and infrastructure that encourage pedestrian use. Include a strategy for sustainable economic development in the local comprehensive plan.

RM - 10 Flexible Single Family Development Regulations

Flexible single-family development regulations refer to an array of strategies that permit lot size, setbacks, sidewalks, street widths, height and other development standards to vary from what is otherwise prescribed by the zoning code. Flexible standards allow for denser and more diverse development and more economical use of available land. The cost savings realized from lower land, infrastructure and other development outlays can translate into lower per-unit housing costs.

RM - 11 Form-Based Zoning or Performance Zoning

In contrast to zoning, which separates and regulates land uses, form-based zoning systems focus on the character of the built environment's building size, design, street/block scale, streetscape and open space standards, as well as cohesion with surrounding development. This allows a variety of uses to co-locate within a zone. The codes are not merely advisory; they mandate development regulations (e.g., setbacks, building height and bulk, parking requirements) and are supplemented by design guidelines to shape how the district should look, feel and be experienced.

RM - 12 Higher Allowable Densities

Change the comprehensive plan and development regulations as necessary to encourage higher densities where they can be accommodated within UGAs. Higher densities, where appropriate, provide more housing, a greater variety of housing options, and a more efficient use of scarce land resources. Higher densities also reduce sprawl development and make the provision of services more cost effective.

RM - 13 Incentive Zoning

Incentive zoning is a broad regulatory framework for encouraging and stimulating development that provides a desired public benefit as established in adopted planning goals. An incentive zoning system is implemented on top of an existing base of development regulations and works by offering developers regulatory allowances in exchange for public benefits. It can incorporate one or several incentives, including density bonuses, flexible development regulations, parking reductions, fee waivers or reductions and permitting priority. Common public benefits achieved through incentive programs include affordable housing, historic preservation, open space and recreation, and increased environmental protection. Jurisdictions should craft incentive zoning policies that best reflect the needs of their residents, paying close attention to details relating to program management and monitoring.

RM - 14 Infill Development

Infill development refers to any new development in already built-up areas. It can also mean redeveloping existing properties to make more efficient use of the land. Generally, infill increases neighborhood density and the ratio of improvement-to-land value of the property.

RM - 15 Lot Size Averaging

Lot size averaging allows the size of individual lots within a development to vary from the zoned maximum density, provided that the average lot size in the development as a whole meets that maximum. Housing then can be developed on lots smaller than otherwise permitted in a zone, allowing for greater densities in some areas and more diversity throughout the development.

RM - 16 Low Densities in Rural and Resource Lands

Make sure that allowable densities in rural lands are low enough to discourage sprawl development. Generally this means one unit to five, 10, 20, or more acres in rural areas, except for established areas of more intense development [as identified in RCW 36.70A.070(5)(d)]. Ensure that allowable densities in natural resource lands are even lower to discourage sprawl development. Lower densities outside UGAs protect resource lands, promote development within UGAs where services will be available and are cost effective to provide, reduce sprawl development, and reduce reliance on private automobiles for transportation.

RM - 17 Maximum Lot Sizes

Establish maximum lot sizes, consistent with urban densities, for UGAs. This approach may be chosen instead of the “minimum density” approach. Maximum lot sizes can promote appropriate urban densities, efficiently use limited land resources, and reduce sprawl development.

RM - 18 Minimum Density Requirements

Require in UGAs that residential development on a site must be built or located in a way that will allow the future achievement of specific minimum urban densities. Minimum densities promote developments consistent with local comprehensive plans and growth assumptions. They reduce sprawl development, eliminate underbuilding in residential areas, and make provision of services more cost effective. They also promote a more consistent neighborhood fabric, reduce street costs, create areas with a more pedestrian scale, and are more transit friendly.

RM - 19 Mixed Uses

Allow residential and commercial development to occur in many of the same buildings and areas within UGAs. This technique can provide a broader variety of housing options, allowing people to live, work, and shop in nearby areas. Mixed uses in the same area encourage more pedestrian and transit-friendly access, reduce the demand on transportation services and facilities, make goods and services accessible to non-drivers, and reduce people’s dependence on vehicles for mobility.

RM - 20 Mobile Manufactured Homes

Mobile/manufactured homes offer a very affordable option for single-family ownership and rental housing. Allowing placement of mobile or manufactured homes in single-family zones can increase affordability and housing choice in single-family neighborhoods. Preserving manufactured home

communities at risk of redevelopment is an effective strategy for sustaining an important component of the affordable housing stock, as well as preventing dislocation of existing residents.

RM - 21 Multifamily Development

Multifamily housing refers to a broad range of residential development types that are characterized by multiple dwelling units contained in a single building or otherwise adjoined by shared walls. Multifamily development may be constructed at different scales (e.g., low-rise, mid-rise, high-rise) depending on the character of the district and can be developed as rental or ownership housing.

RM - 22 Narrow Streets

Encourage or require street widths that are the minimum necessary to ensure that transportation and affordable housing goals can be achieved. Meet public safety needs through design standards that keep traffic at a safe speed. Narrower streets slow neighborhood traffic and increase livability. They are more pedestrian friendly, enhance the sense of neighborhood, lower capital and maintenance costs, and make more land available to housing and economic-based development.

RM - 23 NIMBYs: Strategies to Address

Affordable housing projects, increased density and other proposed regulatory changes to established neighborhoods can be contentious issues that provoke common “not-in-my-back-yard” (NIMBY) reactions from the surrounding community. Building community support throughout the planning process is essential to bridging the acceptance gap for a particular project or regulatory change. Some general strategies to build support and address NIMBY attitudes include community outreach plans, coalition building, education, and ongoing communication.

RM - 24 No Maximum Densities

Eliminating maximum densities is a zoning approach for multifamily and mixed-use districts where jurisdictions omit a maximum dwelling unit per acre requirement and instead focus on the height, bulk, and design of buildings in a zoning district. Floor area ratios (FAR) are a regulatory alternative to maximum unit densities for establishing parameters around development intensity while permitting some flexibility in building height, bulk and design.

RM - 25 Parking Reductions

Reducing parking standards can help prevent excessive parking requirements that add to the cost of housing. Jurisdictions can better match residential parking standards with parking demand by studying neighborhood and resident characteristics, transit access and mobility. Once a balance is struck between standards and parking needs, maximum parking standards may be enacted to eliminate development of excessive parking.

RM - 26 Permitting Priority

Jurisdictions can offer priority permit review and approval to developers of affordable housing and other projects that meet local housing goals.

RM - 27 Phasing Urban Growth

Incorporate strategies in comprehensive plans and capital facilities plans to phase urban growth as a way to provide for orderly development and encourage infill ahead of “urban fringe” development. This promotes development near existing urban services, reduces sprawl development, and

reduces “hop-scotch” development. It also reduces capital spending, increases efficiency in providing capital facilities, promotes more orderly and cost-effective growth, and promotes more efficient use of scarce land resources.

RM - 28 **Planned Action EIS**

An Environmental Impact Statement (EIS) is a report prepared by counties or cities in accordance with the State Environmental Policy Act (SEPA, RCW 43.21c) and SEPA rules (WAC 197-11). An EIS provides information about environmental conditions, potential impacts, and mitigation measures related to a development proposal or legislation. The goal of a **planned action EIS** is to simplify and expedite environmental review of future individual projects in a study area. Detailed and comprehensive environmental analysis occurs upfront during the planning stage for a study area, thereby streamlining the permit review process and reducing or eliminating the possibility of legal challenges to individual projects within the study area. A planned action EIS can reduce the overall costs for project developers, which may translate into lower final housing costs. It can also help to attract growth to a priority planning area of a community.

RM - 29 **Planned Unit Development**

Planned unit development (PUD) ordinances allow developers flexibility to depart from existing zoning requirements in exchange for fulfilling an established set of planning criteria. PUDs also are called planned residential developments (PRDs) or urban planned developments (UPDs). The benefits of PUD can include more efficient site design and lower infrastructure and maintenance costs. Ordinances can be written to require or incentivize public benefits such as affordable housing or open space in exchange for regulatory flexibility and assumed cost savings. Tools like density bonuses and parking reductions can help underwrite the cost of incorporating low- and moderate-income units into a project, either through established incentive programs or implemented on a case-by-case basis through development agreements.

RM - 30 **Short Plats**

Short subdivisions are defined as plats with up to four lots, but any city or town can increase the maximum number of lots to nine. Counties planning under the Growth Management Act may also do the same within the urban growth area (RCW 58.17.020 (6)). Increasing the number of lots allowed in a short plat can help to streamline the permit process.

RM - 31 **SEPA Exemptions**

SEPA (State Environmental Protection Act) categorical exemptions remove projects below a set threshold number of units from SEPA review. Typically, developments of more than four dwelling units are subject to an environmental review process under SEPA; however, jurisdictions are allowed to adopt higher exemption thresholds for single family, multifamily and other project types.

RM - 32 **Small Lots**

Allow or require small lots (5,000 square feet or less) for single-family neighborhoods within UGAs. Small lots limit sprawl, contribute to the more efficient use of land, and promote densities that can support transit. Small lots also provide expanded housing ownership opportunities to broader income ranges and provide additional variety to available housing types.

RM - 33 **Transfer/Purchase of Development Rights**

Develop a program to encourage the purchase or transfer of development authority in order to increase urban densities and decrease non-urban densities within UGAs. These techniques can protect rural resource lands and reduce sprawl outside UGAs. They also may be used to protect critical areas while still allowing development on lots that contain unbuildable areas. They encourage the more efficient use of land and promote densities where they can be provided most cost effectively.

RM - 34 Transit-Oriented Development

Encourage livable urban communities and neighborhoods by providing public transit systems that are convenient and safe. Also encourage attractive transit-oriented development. Transit allows denser development with less traffic congestion, reduces dependence on single occupancy vehicles (SOV), and provides transportation options for broader segments of the population who cannot drive (elderly, disabled, children, low-income without vehicles, etc.). Transit-oriented development allows people to more easily use transit systems and helps businesses near transit stations be more accessible. When done well, the result will be desirable urban neighborhoods.

RM - 35 Urban Amenities for Increased Densities

Identify and provide amenities that will attract urban development in UGAs and enhance the quality of life for urban residents and businesses. Include them as part of the local small lots, increased density, and affordable development package. Amenities, such as parks, trails, waterfront access, and cultural centers, enhance livability in denser areas. Amenities contribute to the overall design vision of the community and promote livability in UGAs.

RM - 36 Urban Centers and Urban Villages

Use urban centers and urban villages to encourage mixed uses, higher densities, inter-connected neighborhoods, and a variety of housing types that can serve different income levels. They are a more efficient use of land, encourage more transportation or mobility options (due to connected streets), and provide for urban services more cost-effectively. Centers and villages create integrated, more complete, and inter-related neighborhoods. They also reduce the need to drive across town for basic services and shopping.

RM - 37 Urban Holding Zones

Use very low zoning in certain areas adjacent to or within the UGA where municipal services will not be available within the near future. This will help to phase future urban development in an orderly and cost-effective manner. If this zone is for planned residential use, shadow platting and clustering techniques may be used so that a person may still build a house while configuring the lot(s) so that future rights-of-way and sites for future densification are preserved. The remaining lot(s) or sites may be further developed to urban densities when urban services are available.

RM - 38 Zero Lot Line Development

Zero lot line development makes use of flexible setback regulations or variances to allow single-family homes to be sited on the property line, typically on one or more sides of the lot. This achieves compact development that maximizes usable lot space. Units can be detached or attached (e.g., duplexes, townhomes). Zero lot line development allows individual ownership of each unit/lot instead of condominium-based ownership of undivided land.