

Middle Housing Attainability and Feasibility

Middle Housing Objective Design +
Development Standards Toolkit

Cascadia Partners



Washington State
Department of
Commerce

Cascadia Partners



Discipline:

Real Estate Economics

Role:

Feasibility and attainability testing of middle housing prototypes

Headquarters:

Portland, OR

What is Attainable Housing?

What is “Attainability”?

Housing that is “attainable” for a certain income group means it is affordable to own or rent without spending more than 30% of one’s income on rent or a mortgage payment.

Middle-income households, are those earning between 60% and 110% of area median income (AMI), adjusted for family size. In the Puget Sound Region, this means the following:

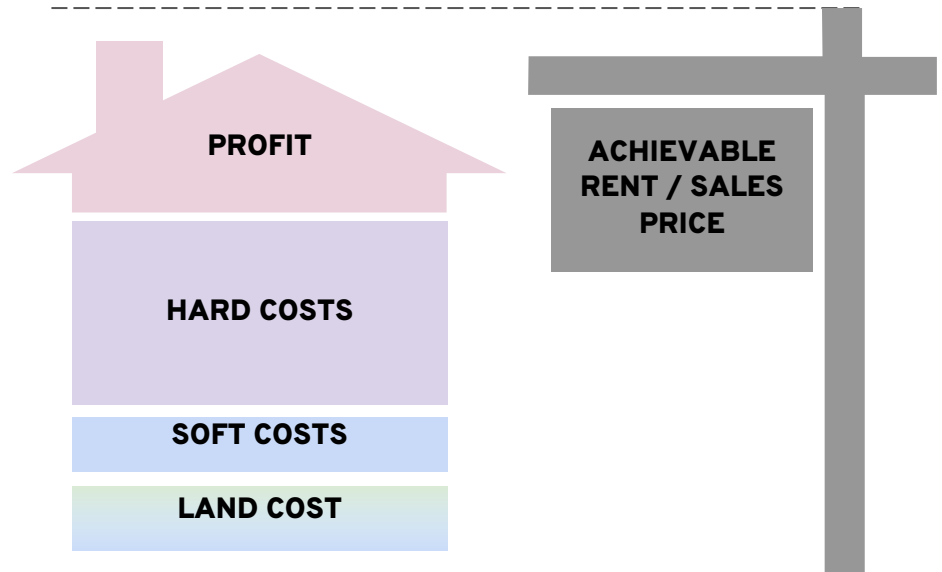
	60%	← Area Median Income (AMI) →	110%
King	\$80,760		\$148,060
Kitsap	\$61,500		\$112,750
Snohomish	\$80,760		\$148,060
Pierce	\$61,080		\$111,980

What Makes Development Feasible?

What is “Financial Feasibility”?

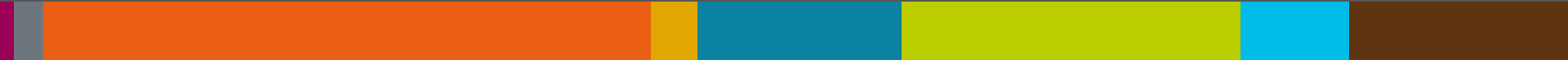
Developing housing involves a range of costs. Developers must pay for materials and labor (hard costs), taxes and fees (soft costs), and land and still be able to justify their investment with a reasonable return (profit).

When the expected revenue (rent or sales price) from a project can cover all of its costs and generate an acceptable rate of return (profit), it is considered **financially feasible**.



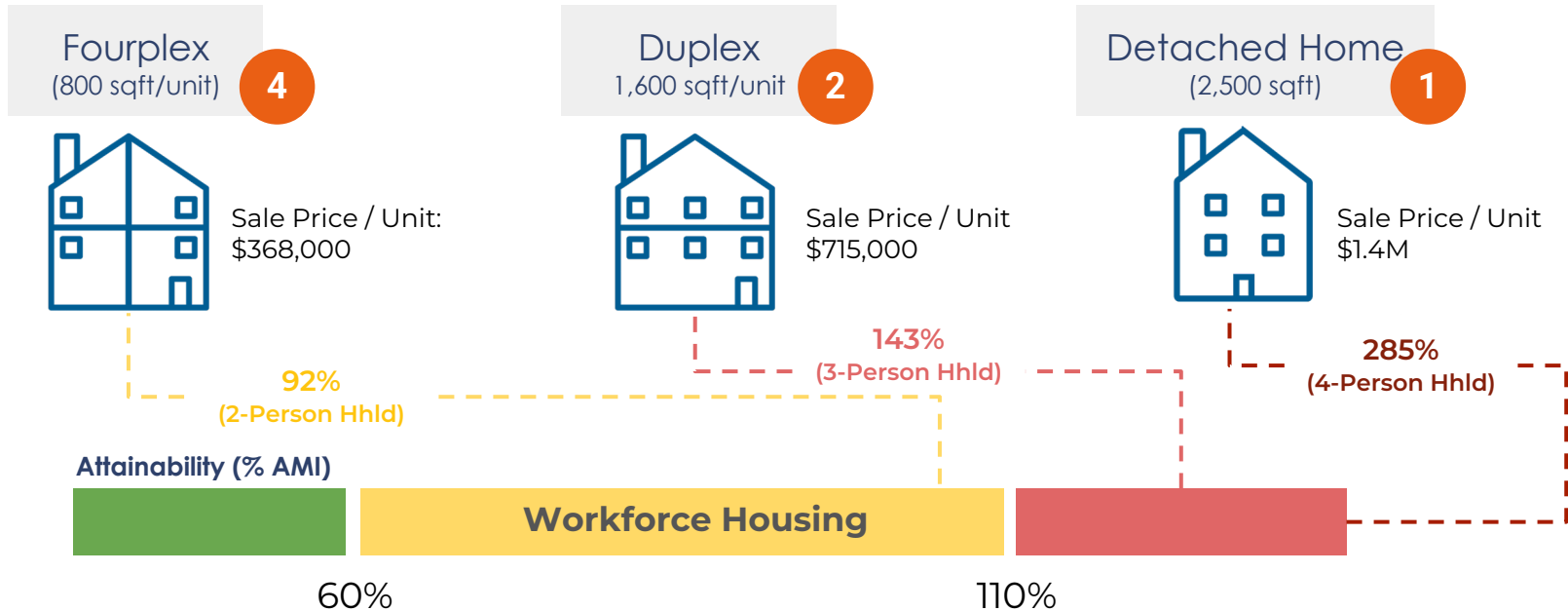
Is Middle Housing Attainable?

Can households in the Puget Sound afford to buy middle housing?






Middle Housing vs Single Detached Home

AMI needed to afford:



Cost Burden Lower for Middle Housing

Middle housing types are more attainable than detached homes and provide housing at a cost near 30% of income.

	Teacher	Police Officer	Doctor
			
Annual Income	\$74,030	\$101,470	\$252,820
Detached Home Cost Burden	142%	104%	42%
Duplex Cost Burden	75%	55%	22%
Fourplex Cost Burden	39%	28%	11%

Is There a Market for Middle Housing in the Puget Sound Region?

If you build it, will they come?

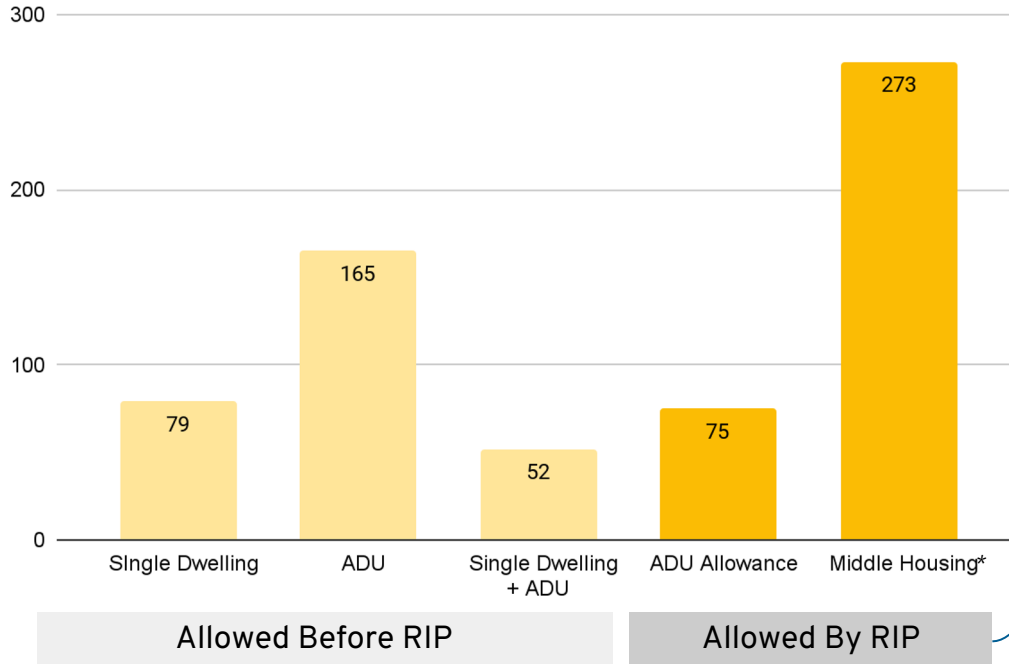


Portland's Residential Infill Project (RIP)

- Portland used to only allow one housing unit + an ADU on lots in residential zones.
- The Residential Infill Project (RIP) updated zoning to allow duplexes, triplexes, fourplexes, sixplexes, as well as additional/expanded ADU allowances.
- Within one year of making changes, there is evidence that the market is already responding.

Portland's Residential Infill Project (RIP)

Permitted Units by Housing Type (R2.5, R5, and R7 Zones)



RIP-Enabled Units Permitted by Housing Type

Aug 1, 2021- July 31, 2022

	ADU Allowances	75
	Duplex	40
	Triplex	27
	Fourplex	204
	Sixplex	2

Source: City of Portland Building Permit Data

Portland's Residential Infill Project (RIP)

The market has delivered 348 units in year one of the program.

Image Source: Zillow



Median Sales
Price Prior to RIP*:

\$706,000

**Woodstock neighborhood,
new construction,
Q1 2018 - Q2 2022*

Housing Type:

Average Price/unit: \$518,099

Fourplex

← (units **pending for sale** after **only 8 days** on the market)

**Price retrieved Feb 2023*

How Can Cities Lower Barriers to Middle Housing Production?

Policy changes to make middle housing even more likely



Puget Sound Developer Insights

Developers say you can build middle housing in any market but there are regulatory barriers that prevent it.



I could have built 7 units on a lot, but was only allowed 4 units on the lot.



Parking is a significant factor. Two spaces per unit is very difficult.



The layers of regulation require so many rounds of review, which adds up to time and cost.

Ways to Improve Feasibility



Reduce Parking Requirements



Allow More Density



Streamline Permitting



Restructure Impact Fees



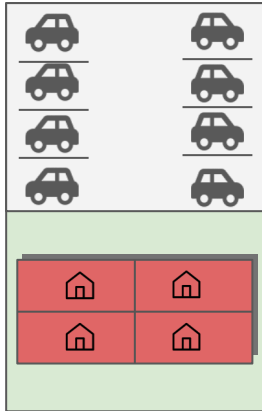
Create Opportunities for Ownership (Extra Credit!)

Reduce Parking Requirements

**Internal rate of return (IRR)*

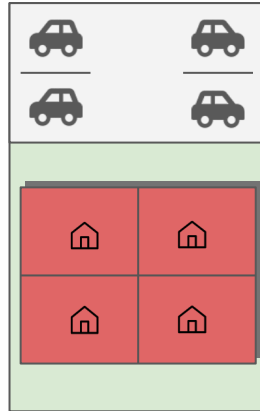
FOURPLEX

2 spaces/unit



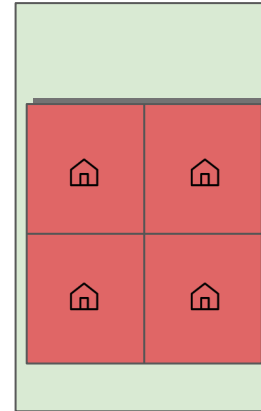
Lot Size: 5,000 SF
Avg Unit Size: 700 SF
Project Return*: **8.8%**

1 space/unit



Lot Size: 5,000 SF
Avg Unit Size: 1,000 SF
Project Return: **10.5%**

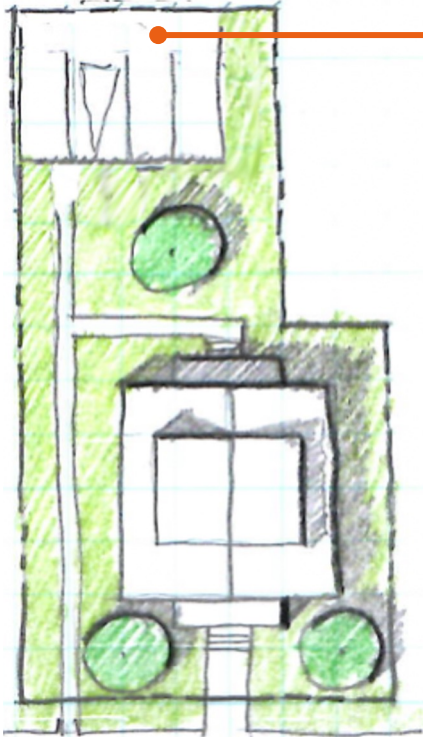
0 spaces/unit



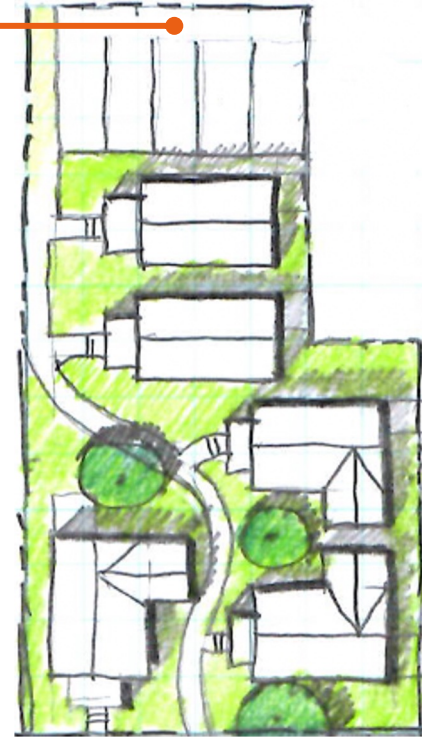
Lot Size: 5,000 SF
Avg Unit Size: 1,200 SF
Project Return: **11.3%**

On small infill sites, parking competes with leasable area. With less parking, larger units are possible leading to a more feasible project.

Allow More Density



	Duplex	Cottage Court
Lot Size	5,500	5,500
Lot Price	\$220,000	\$220,000
Units	2	5
Avg. Unit Size	1,600 sqft	1,000 sqft
Rate of Return	20%	20%
Feasible Sales Price	\$908,000	\$440,000

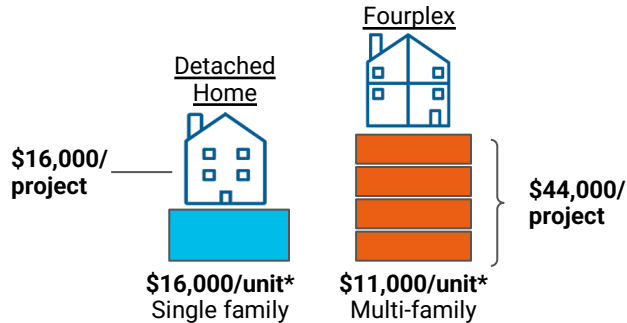


Increasing density allowances on lots, allows for smaller units to be offered at lower cost

Restructure Impact Fees

FLAT FEES

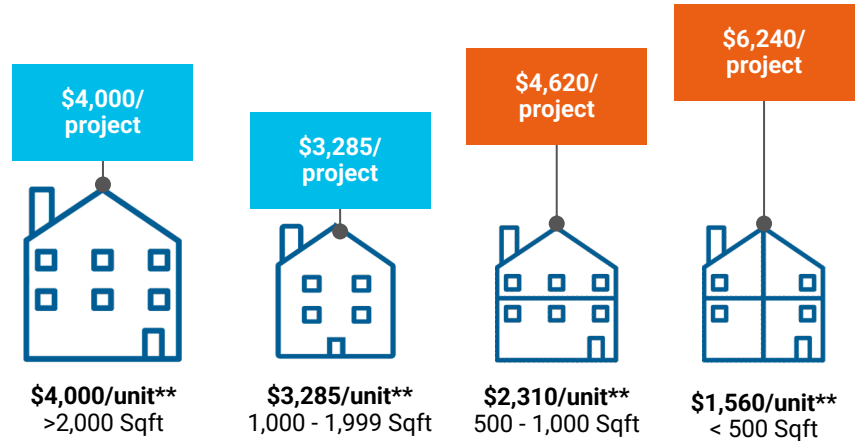
When Middle Housing is treated the same as larger multifamily projects, impact fees can end up representing a relatively large share of project cost.



*Actual transportation, parks, and fire impact fees from a Puget Sound jurisdiction.

PER SQUARE FOOT FEES

Per square foot fees are more responsive to the smaller unit sizes that are typical of Middle Housing.



**Actual parks impact fee from a Puget Sound jurisdiction.

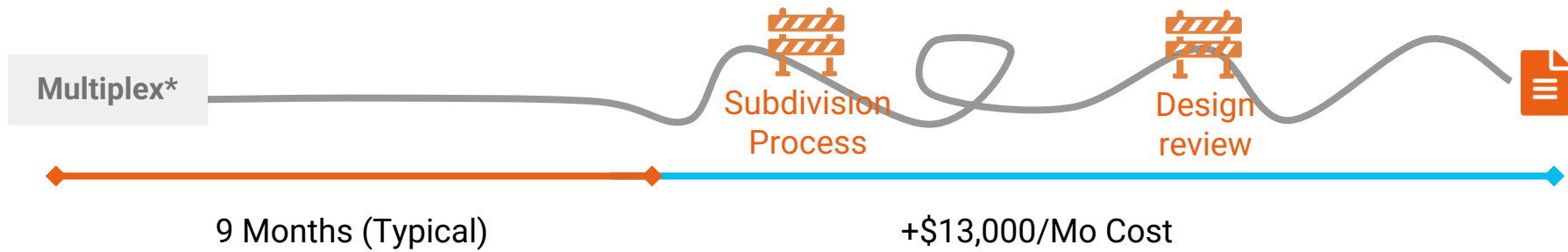
Streamline Permitting

**6-unit rental multiplex,
Cost includes delayed revenue + pro rata
debt service and property tax*

How Delays Impact Cost:

- Legal and permit processing costs
- Property taxes
- Loan debt service
- Delayed revenue

Longer permitting times increase costs, delay revenues, and create additional risk for middle housing projects.



Create Opportunities for Ownership

Reduce Barriers to Ownership in Middle Housing:

- Expedited land division process (Oregon SB 458)
 - Halves jurisdictional land division timeline
 - Limits appeals process timeline
 - Must involve middle housing
- ADU condominium conversions (Seattle)
 - Allows property owners to sell ADUs separately from primary residence
 - Avoids subdivision process and can be applied to small lots.

condominium insurance is a big inhibitor to condo development, but at the same time there is also a strong market for ownership...



Tools to Support Implementation


Middle Housing Pro-Forma



Middle Housing Pro-Forma (DRAFT)

Pro-forma Spreadsheet:

A companion to the Middle Housing Objective Design + Development Standards Toolkit



Washington State
Department of
Commerce

MIDDLE HOUSING PRO-FORMA

HOUSING PROGRAM
LOCAL GOVERNMENT DIVISION

1. Project Location & Type

County	King
City	Bothell
Placetype	City_Center_Adjacent
Toolkit Zone	NRO M2
Housing Prototype	Multiplex
Project Type	For Rent

2. Project Characteristics

Site Size	Dimensions	Setbacks
Front	70	15
Side	110	7

Attribute	Prototype Value	Override
Floors	2	
Average Unit Size	1000	
Number of Units	6.0	
Required Parking (Spaces/Unit)	1	
Impact Fees (% of Hard Costs)	5.00%	
Development Duration (Months)	9	
Land Cost (\$/Sqft)	\$40.00	

3. Project Feasibility

▲	Avg. Monthly Rent Per Sqft	\$	2.71
▼	Avg. Monthly Rent	\$	2,710
	Project Internal Rate of Return		12.0%

Project Attainability

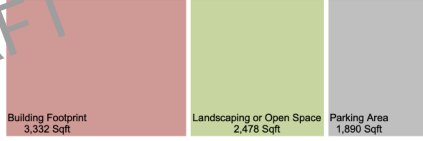
Financial Surplus (Gap)	\$	(4,232)
Surplus (Gap) Per Unit	\$	(705)
% of AMI		89%
Household Type (Ppl/Hhid)		3

Achievable Rents and Sales Prices

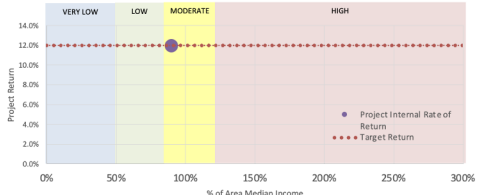
In Bothell, the average unit in this project could rent for around:

\$2,460

Site Layout



Project Return vs Attainability

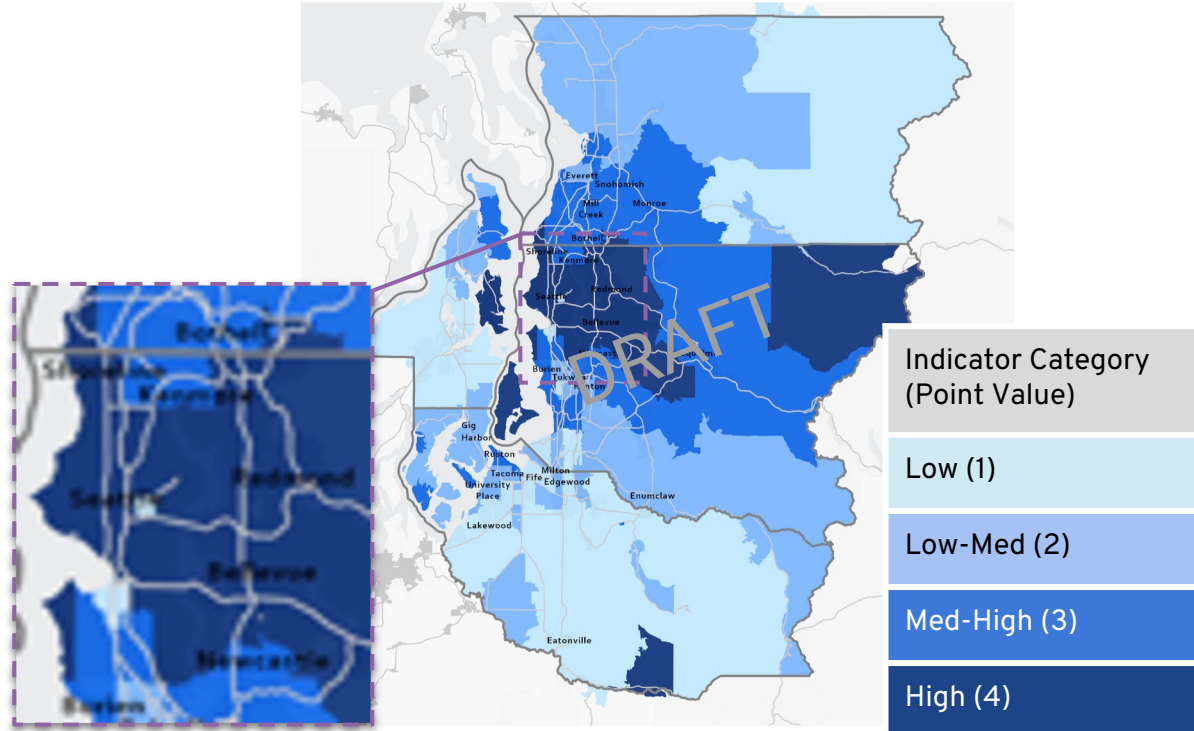


DRAFT

Middle Housing Pro-Forma (DRAFT)

Calibrated to Puget Sound Conditions:

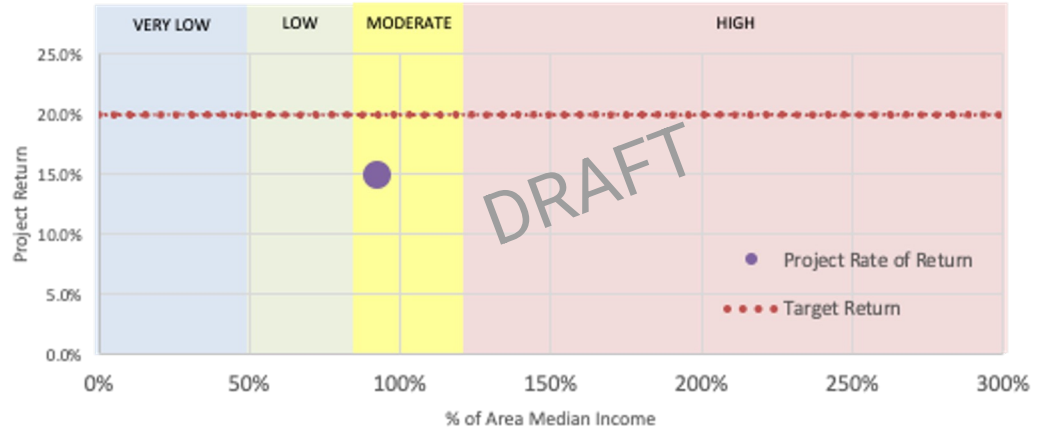
Conducted developer interviews and a regional analysis of sales prices and rents.



Middle Housing Pro-Forma (DRAFT)

Feasibility and Attainability:

Allows users to evaluate **feasibility** of development (project rate of return) as well as **attainability** (% of AMI needed to afford)



Thank you!

Alex Steinberger
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www.commerce.wa.gov

