



The Conspicuous Crisis: Addressing Housing Affordability in Washington

January 2023

Introduction

By Challenge Seattle

It is no secret that we face a housing affordability challenge in Washington. It is a regular refrain in the news and a daily reality for many in our community. The time to act is now. We hired Boston Consulting Group (BCG) to outline the scale of the challenge we face, and, through a landscape analysis of best practices from around the world, identify policies and actions we can consider for Washington State.

The result is this report: “The Conspicuous Crisis: Addressing Housing Affordability in Washington.” We encourage you to read the full report, which includes rich detail from BCG’s research and analysis. We have also included a narrative executive summary to complement the 100+ slides of findings.

Four essential takeaways from the report

- **Housing affordability is at a crisis level in Washington state.** It disproportionately impacts people of color, burdens low- and middle-income households, and directly contributes to homelessness, which is also at a crisis level.
- **The fundamental problem is we lack housing supply.** This has been the case for decades, and with a growing population the problem only will worsen.
- **Housing supply—at the right size, in the right place, and at the right price—is the solution to address today’s affordability crisis and meet tomorrow’s housing needs.** Action should begin with zoning reform as the foundation to build upon. From there, a comprehensive portfolio of short- and long-term policy solutions is required to fully address the crisis.
- **We need to act now.** By taking a comprehensive approach and working together, we can and must address the pain of unaffordability today and plan for the growth of tomorrow. We have no other choice—the prosperity and well-being of our state depends on it.

Executive Summary

Written by Challenge Seattle

From the
“Invisible Crisis” ...

to the
“Conspicuous Crisis”

In 2019, Challenge Seattle hired Boston Consulting Group (BCG) to look at housing affordability in King County. The data showed a depressing, yet unsurprising, reality of unaffordability—home prices had risen ~60% in a decade, nearly 3x the national average, and 40% of middle-income households were burdened by housing costs. BCG conducted a landscape analysis of best practices around the world, and proposed a suite of approaches, which were published in the report “The Invisible Crisis.”

Since the release of that report, action has been taken, with leaders across sectors stepping up to the challenge. This progress is important, but it has become clear that it is not enough to address the magnitude of the affordability challenge we face today and will face into the future.

Housing affordability is at a crisis level in Washington, and it will take a comprehensive solution and all of us coming together to act at the scale we desperately need.

We see and hear the signs of the crisis all around us: loved ones who do not have the means to buy a house, teachers and police officers who cannot afford to live in the neighborhood where they work, and people living on the street because they are unable to make their rent. At a community and state level, it undermines our economic vitality and ambitions for an equitable society.

While the 2019 report was focused on King County, the scope of the challenge is statewide, and the data supports what we are seeing and hearing. Nearly ~1 million Washington households are cost-burdened, spending more than 30% of household income on housing-related costs. These families find themselves confronted with stark choices—between paying for food, housing, utilities, and the list goes on—to keep their families safe, housed, and secure. When looking across the state, we see counties in Eastern and Western Washington where over 30% of residents are cost-burdened, underscoring that this crisis is not isolated to any one community, or even to metro centers.

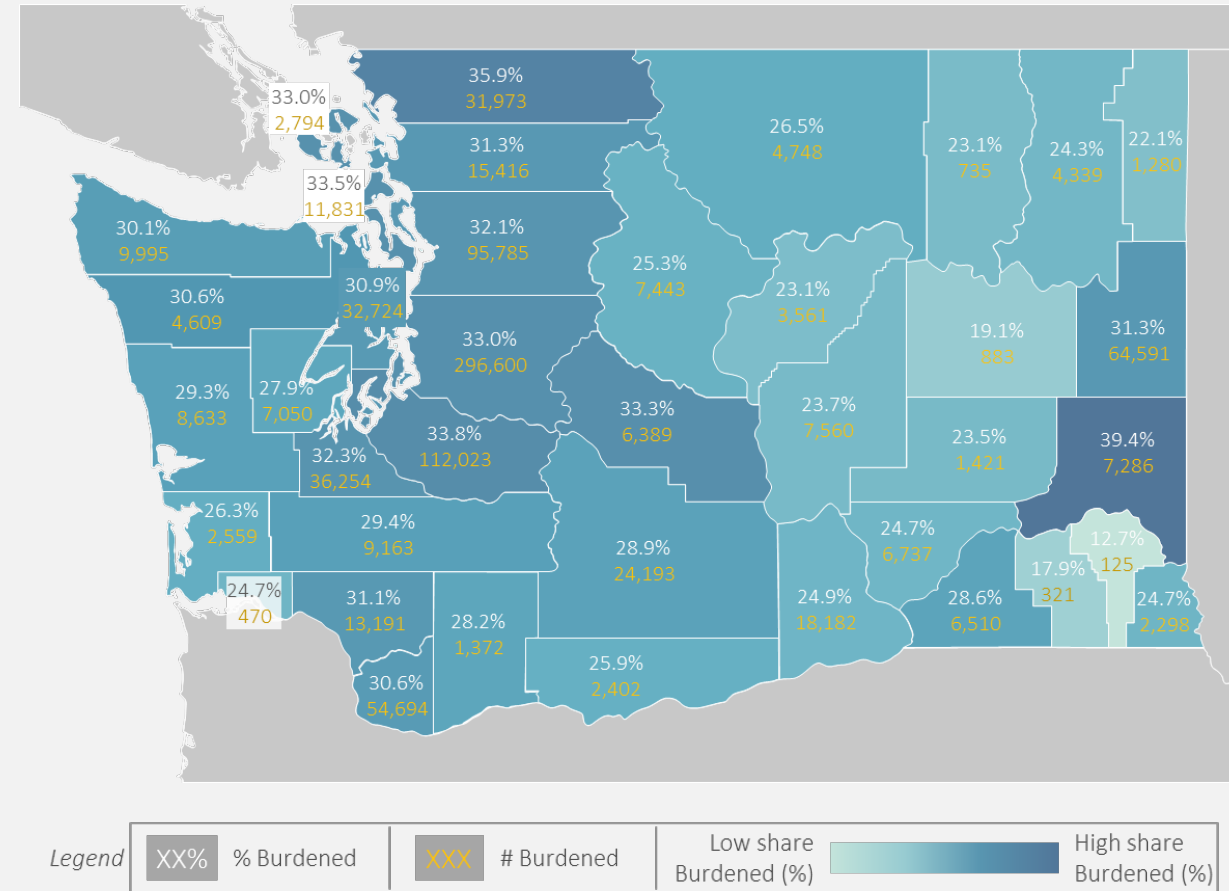
While the crisis reaches across the state, a lack of affordable housing has a greater and/or disproportionate impact on certain groups.

For example:

Low-and middle-income households are much more likely to be housing cost-burdened compared to high-income households. From nurses to maintenance workers, low-and-middle income households are essential to the fabric and success of our society. Across the state, 60% of low-income and 23% of middle-income households are burdened by housing costs, compared to only 6% of high-income households.

While burden rate varies, affordability is a state-wide challenge

Share of occupied housing units (%) and Number of occupied housing units (#) for both renters and owners, where monthly housing costs as a percentage of household income in the past 12 months was 30 percent or more (ACS, 2020)



Housing unaffordability disproportionately impacts people of color. Historical discrimination locked people of color out of opportunities for home ownership and economic mobility in Washington. This stifled people of color’s ability to build generational wealth (homeownership is one of the primary drivers of household wealth accumulation in the United States), which still impacts their ability to enter the housing market. For example, Black households are more likely to have a net worth of zero (42% of Black households, compared to 14% of white households), making it near impossible to compete for and purchase a home, especially in a heightened price environment.

Housing affordability has a direct impact on homelessness in Washington. Cities see faster growth in homelessness when median rent exceeds 32% of median income—10 Washington counties fall in that category today. Homelessness is already a crisis in Washington, and high rents and home prices raise concerns that homelessness rates will accelerate further. While significant effort and actions are being taken to address homelessness in our state, the cost will continue to grow and success will not be sustainable without addressing the affordable housing crisis.

The challenge before us is massive, and with projected population growth on the horizon, the crisis will inevitably worsen with inaction. There are no easy answers, no single solution that any one sector can implement to solve the crisis, but we must find a path forward.

To help us define and understand the nature of the challenge we face and inform potential action, we are publishing this report—“The Conspicuous Crisis”—in partnership with Boston Consulting Group as a follow-on to the 2019 report. Taking a broader geographic view, we hired BCG to outline the scale and scope of the housing affordability crisis state-wide, and, through an analysis done by BCG, highlight a suite of research- and context-based actions that can provide both immediate relief and address this crisis in the long-term.

The scale of the crisis and the scope of the solution

There are many factors underlying the housing affordability crisis in Washington, but in short, increasing housing prices are driven by a **mismatch of supply and demand**. Fueled by population growth, the number of households in the state has increased dramatically over several decades, but the development of housing units has not kept up. The lack of supply from underbuilding is reflected in Washington's 4% vacancy rate—well below the 7-8% range that is considered healthy in the housing market. As demand outpaces supply, housing prices increase, which is what we are seeing across the state.

The supply-demand mismatch is even more pronounced for households at middle- and lower-income levels. While the current housing market is generally able to produce enough housing units for luxury and high-cost segments, it is not producing enough housing for low- and middle-income households. For example, while ~23% of Washington households have <30% of HUD Area Median Family Income, only ~6% of all rental units are affordable at that income level.

The chasm between demand and supply will only widen if housing development cannot catch up and keep pace with our state's growing population. Based on the Washington State Department of Commerce's draft version of the Housing for All Planning Tool, Washington will need between ~588K and ~2.1M net new homes by 2050, equating to 20-71K new housing units per year over the next ~30 years. These estimates are just to keep pace with our estimated population growth, and do not account for the current supply deficit.

In all, Washington may need up to ~2.5M new housing units by 2050 to fill the current supply gap from decades of underbuilding, meet the new demand from projected population growth, and replace old housing stock (e.g., demolished homes).

At first glance, it appears the crisis is simply a problem of supply—but the answer to the challenge is more nuanced. BCG’s research and analysis underscored that bringing more supply online is the main catalyst for change in this crisis, but the type of supply is essential to success.

New units must be of the right size, at the right price, and in the right places to meet demand, ensure affordability across all household income brackets, and promote equitable and climate conscious action.



Right size = The sizes of housing units are aligned with the demands of the market/household formation patterns. Washington has not been producing housing types of the right size. For example, from 2010-2021 studio and 1-bedroom apartments accounted for ~60% of new housing units, not meeting the needs of Washington’s 3+ or 4+ person households.



Right price = Housing is available at lower costs to meet the needs of the market and provide more rental and homeownership opportunities for low- and middle-income households. Currently, there is a severe shortage of affordable rental units for lower-income households; ~23% of households have <30% HUD Area Median Family Income, but only 6% of rental units are affordable to these lower-income households.



Right place = Housing is available in high-demand areas, near city/job centers, and transit hubs. Washington’s commute times are higher than the US average (63% of Washingtonians have a commute >40 minutes, compared to only 33% across the US). Building more housing in the right places will help reduce average commute times and emissions as individuals spend less time on the road or switch to accessible public transit options (supported by transit-oriented development).

Since the release of the 2019 report, we have seen public, private, and non-profit sector action to address the crisis:



27 state bills were passed addressing housing affordability and homelessness, providing funding and incentives to localities to allow for more housing units and housing types (e.g., legalizing tiny homes).



Several local jurisdictions implemented innovative policies and actions to deal with housing affordability in their communities (e.g., enacting a density bonus to encourage affordable housing development in Bellingham, waiving impact fees for affordable housing developments in Kirkland, and decreasing parking requirements to reduce construction costs in Bellevue and Renton)



Some large companies and non-profits made considerable contributions, from funding to development expertise, to address the housing affordability crisis (e.g., Microsoft and Amazon committed \$750M and \$360M respectively, Evergreen Impact Housing Fund).

Given that these initiatives were all implemented recently, it is too early to definitively state their impacts on housing affordability.

But we do know that based on the magnitude of the crisis, these actions alone will not be sufficient to address the challenge we face.

These actions are the right thing to do, and where applicable should be expanded and/or tried elsewhere in the state—**but much more must be done.**

A comprehensive approach

Challenge Seattle hired BCG to complete a landscape analysis of best practices and policies in the U.S. and around the world that could be considered for Washington State. BCG conducted desktop research and consulted with a range of experts and housing policymakers, which resulted in an inventory of more than 50 housing policies and actions that have shown promise in increasing housing supply and improving affordability. Each policy was graded based on potential impact and feasibility in Washington, as well as equity and climate impacts. In addition to building an understanding of impact at the individual policy level, BCG took a holistic look at six locations to understand how affordable housing policies are combined and working together in practice.

In all, BCG's research resulted in several high-level takeaways, and a comprehensive suite of 19 approaches to increase housing supply at the right place, right price, and right size for Washington to consider.

High-level key takeaways

The solution to the housing affordability crisis starts with zoning. Zoning reform is the critical enabler for removing regulatory barriers standing in the way of the private market producing more housing units. In the context of Washington, we would need to change zoning laws to allow for more density and re-zone more land for multi-family residential uses.



On Zoning: >90% of Mercer Island and >70% of Seattle and Bellevue are zoned as single-family. Up-zoning these areas will unlock a significant amount of housing supply. To the south, California recently passed Senate Bill 6 authorizing residential housing projects in commercial corridors otherwise zoned for large retail and office buildings; by some estimates, this new law could produce up to 2.4M new units.

While zoning changes are necessary, they are not sufficient on their own. They must be paired with other policies to get to a comprehensive solution. Zoning reform is the foundation, or enabler, upon which other policies and actions can build. Once zoning is in place, complementary policies and actions are needed to accelerate an increase in housing supply at the right place, at the right price, and at the right size.



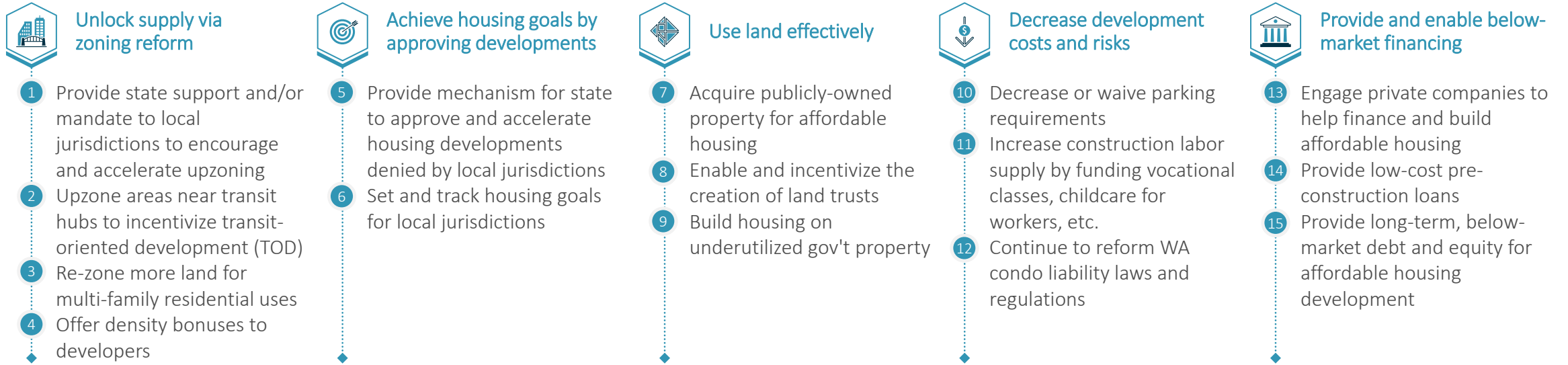
For instance, if areas around transit hubs are up-zoned to incentivize development in areas close to cities/job centers, a complementary policy would be to decrease or waive parking requirements, which would reduce construction costs and encourage more development (and drive a positive climate impact through transit-oriented development).

We need to act today and plan for tomorrow. Long-term policies and actions are essential to create the structural change necessary to fill our supply deficit and build for future growth. As structural action occurs over the long-term, near-term policies and actions are critical to support distressed Washington households as soon as possible.

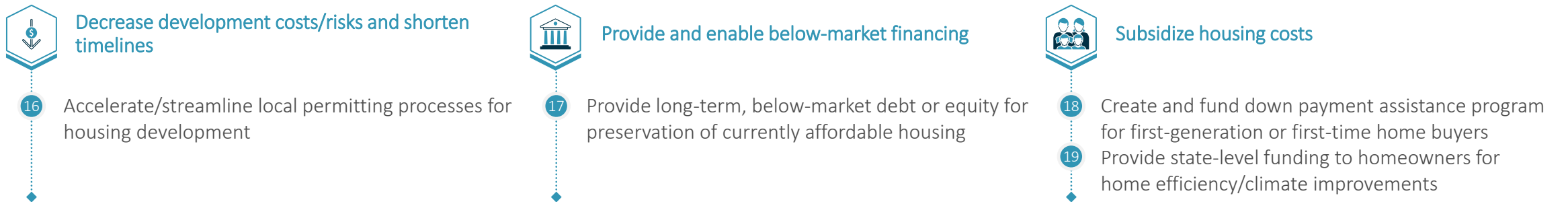
Context is crucial. The proposed policies and actions can and should be adapted to meet a community's needs, mitigate potential unintended consequences, and complement other policies and actions being undertaken in a jurisdiction.

19 recommendations to be considered for Washington State:

15 long-term policies and actions that produce structural changes to increase housing supply



Four near-term policies and actions support distressed Washington households now



In the full report, a detailed evaluation of each policy is provided.

Through these summaries, the evaluation framework used by BCG and the proposed action are brought to life, with assessments of feasibility and impact, including on climate and equity; key details for implementation, such as the sectors involved, critical actions, and proposed complementary policies; and, real-world examples of the policy applied in places around the globe.

An example is included at the right, and all 19 summaries are in the full report.

Provide state support and/or mandate to local jurisdictions to reform zoning

Lever: Land

Time Near Long V. Long

Capital \$ \$\$ \$\$\$

Sectors Involved:

- Public
- State Nonprofit
- Local Private

Assessment:

Impact ← Low High →

Feasibility ← Low High →

Equity ● ● High positive outcome

Climate ● ● Negative outcome

Description

Many municipalities insufficiently zone for multi-family housing and therefore do not allow enough housing development at density to keep pace with population growth. For example, >90% of Mercer Island's and >70% of Seattle's and Bellevue's residential land is zoned single family.¹ Significant research indicates this not only constrains supply and decreases affordability in that city or town, but also has spillover effects across the county and region. To overcome this, state governments can set this goal and provide incentives to act along with penalties for not acting. Upzoning the use alone (from single-family to multi-family) is rarely enough on its own, as other restrictions (high parking requirements, height limits, max FAR², etc.) may make development practically impossible even if the use is as-of-right.

Example(s)

- California's HOME Act (SB 9 2021) bill **mandates** that cities to allow one additional residential unit on most single-family parcels, but compliance is being insufficiently monitored
- In 2004, Massachusetts passed the Smart Growth Zoning and Housing Production Act (Chapter 40R) that **incentivizes** municipalities to re-zone. Under this law, the state gives a one-time Zoning Incentive Payment, a \$3,000/unit payment at permitting, & school reimbursement payments (under Ch. 40S)
- Mass Ch. 40R works in tandem with Ch. 40B, passed in 1969, which allows local Zoning Boards to waive existing land use regulations for certain projects; and **allows developers to appeal to state body (reducing local control)** if their qualified project is not approved locally

Critical actions

- Set target (e.g., % of city's housing must be affordable)
- Decide what local flexibility is required vs. what should be state-level criteria or guidelines
- Determine (and create/fund) appropriate "carrots" and "sticks"
- Actively monitor local compliance

Complementary policies

- Transit Oriented Development (TOD)—and most other policies in this document
- Provide mechanism for state to approve housing developments denied locally

1. Doug Trumm, "Seattle Region's Extensive Blanket of Exclusionary Zoning Illustrated in New Study" *The Urbanist*, (2022) [Link](#).
 2. Floor area ratio

Building an affordable future

Imagine what might be possible if we acted in unison, across sectors and in every corner of the state, taking a comprehensive, climate-conscious, and equity-forward approach to address this crisis:



Low-and-middle-income households can have more affordable housing options near transit and job centers. From first responders to teachers and nurses, our community members could live near where they work, reducing their commute times and increasing time with loved ones. No longer housing cost-burdened, they could put the saved dollars toward what their family needs to survive and thrive.



We can positively impact the homelessness crisis we face in tandem, by slowing the number of individuals who become unhoused. Creating more housing supply will filter down to very low-income segments of the market and will help keep more people in their homes in the first place.



We can move toward more equitable outcomes for Washingtonians. For instance, these policies can provide pathways to homeownership for those who have traditionally been denied home-buying opportunities, and they can enable residents of color to have an equal voice in urban planning via community land trusts.



We can address the affordability challenge while minimizing the climate impact of the new construction. While it's clear more housing is needed, construction has a high climate impact, so it will be critical to evaluate tradeoffs and balance these two priorities. A comprehensive approach to the affordability crisis can provide a path to doing so. For example, up-zoning areas near transit hubs can incentivize transit-oriented development, while decreasing/waiving parking requirements can cut down on materials and encourage the use of public transportation. The state can also subsidize climate-related home improvements to make homes more resilient and energy efficient.



The wide-reaching impacts of addressing housing affordability can translate into a brighter future for all Washingtonians. By addressing the affordability crisis, we could see economic growth, as we are more easily able to attract and retain global talent; wealth generation, as first-time homebuyers purchase their first place and begin amassing wealth that will benefit generations; more diversity across neighborhoods, as communities become accessible to all; increased community safety, as first responders are able to live closer to where they work; reduced congestion, as public transit becomes a more accessible option, and more.



The challenge is daunting, but there is an opportunity to tackle this crisis together. Bringing resources across sectors to bear, and equipped with research-backed analysis, we can tackle the affordability crisis holistically to build a brighter, affordable future for Washingtonians.



The Conspicuous Crisis: Addressing Housing Affordability in Washington

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Crisis: Addressing
Housing Affordability
in Washington

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Before jumping in, let's make sure we are speaking the same language



Terms, and how we will use them in this document

Affordable housing: The U.S. Dept. of Housing and Urban Development (HUD) considers housing to be affordable if the household is spending no more than 30% of its income on housing cost. In many contexts, the term “Affordable Housing” is used to describe income-restricted housing available only to qualifying low-income households; throughout this report, we are generally using the broader definition of no more than 30% of household income being spent on housing costs

Area Median Income (AMI): Term that commonly refers to the area-wide median family income for a specific geography

Cost burdened: Housing cost (i.e., for renters, rent plus utilities) makes up more than 30% of household income. When a household pays more than 50% of their gross income on housing, including utilities, they are considered "severely cost burdened"

Household: A household is a group of people living within the same housing unit (related, such as a family, or unrelated)

Housing: Housing that is rented or owned

Housing unit: a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied (or if vacant, is intended for occupancy) as separate living quarters—in which the occupants live and eat separately from any other persons in the building, and which have direct access

HUD Area Median Family Income (HAMFI): Median family income calculated by HUD for each jurisdiction, in order to determine Fair Market Rents (FMRs) and income limits for HUD programs. HAMFI will not necessarily be the same as other calculations of median incomes (such as a simple Census number), due to a series of adjustments that are made

Local government: Refers to any jurisdiction within the state, such as city, county, or regional governing bodies

Low-income household: Household with income 50-80% of the median household income (very low-income limits at 50% of the median household income)

Middle-income household: In this report, we are defining this as households with income 80-120% of the median household income, based on the federal definition. (Note that in some parts of this document, we use slightly different ranges depending on data availability.) The Washington Dept. of Commerce defines middle income as 80-100%

Multi-family house: Any housing that is attached to another unit, such as apartments, condos, duplex, triplex, quadplex, and mobile homes

Single-family house: Detached houses, often with a yard, driveway, and garage

Current state: Outlining the housing affordability crisis in Washington

In 2019, Challenge Seattle published "The Invisible Crisis" focusing on housing in King County

Housing affordability challenges three years ago...

+60%

Home prices had risen nearly 60% in the last decade, 3x the national growth rate

7x

Home prices were nearly seven times the median income in King County

40%

Households (HHs) were directly impacted by rising housing costs; nearly 40% of middle-income HHs¹ were cost burdened

...negatively impacted communities in King County



Public education



Community safety



Diversity



Economic growth



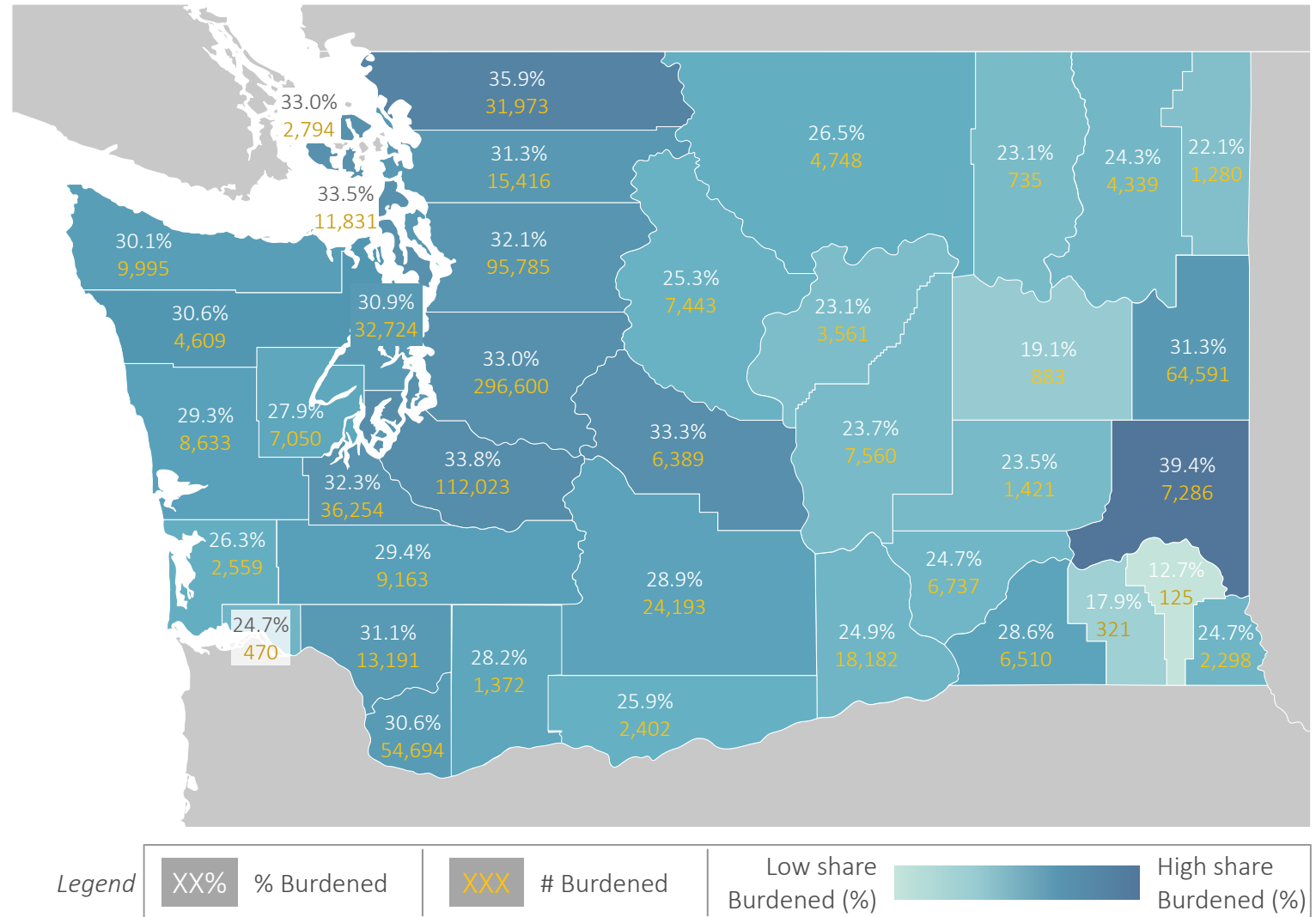
Quality of life

These trends have accelerated in the past three years, and impact communities beyond Puget Sound – the time is right to take a second look with a broader perspective

1. Previous work defined middle-income households as 60-120% of AMI, a different definition than used in this report (80-120% of AMI)

While burden rate varies, affordability is a state-wide challenge

Share of occupied housing units (%) and number of occupied housing units (#) for both renters and owners, where monthly housing costs as a percentage of household income in the past 12 months was 30 percent or more (ACS, 2020)

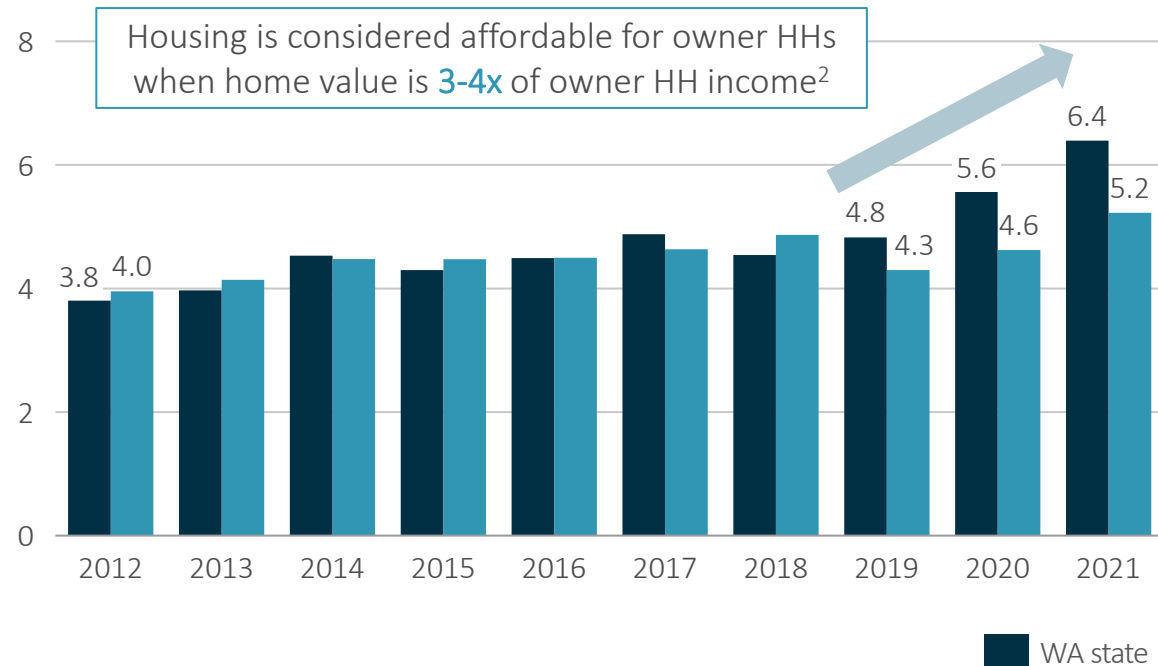


Today,
nearly 1M
Washington
households are
housing cost
burdened...

...and this cost burden is experienced by both renters and homeowners

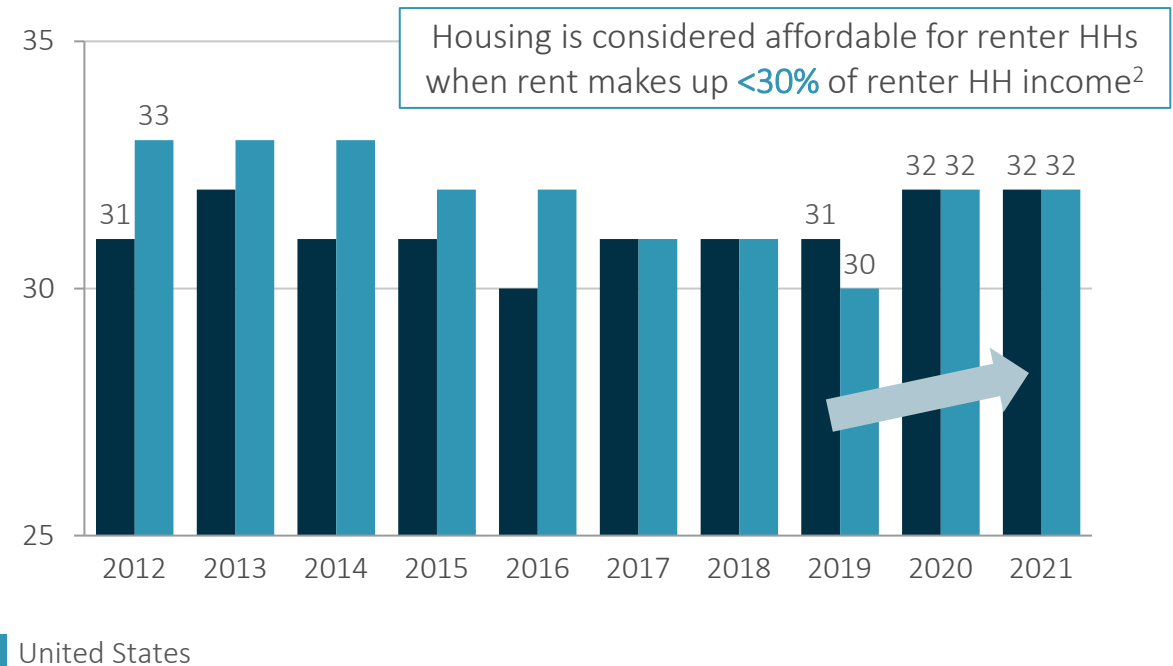
Home values reached 6.4x median HH income

Ratio of median home value to median household income, WA



Rent costs are ~32% of median HH income

Median gross rent¹ as percentage of median renter household income, WA

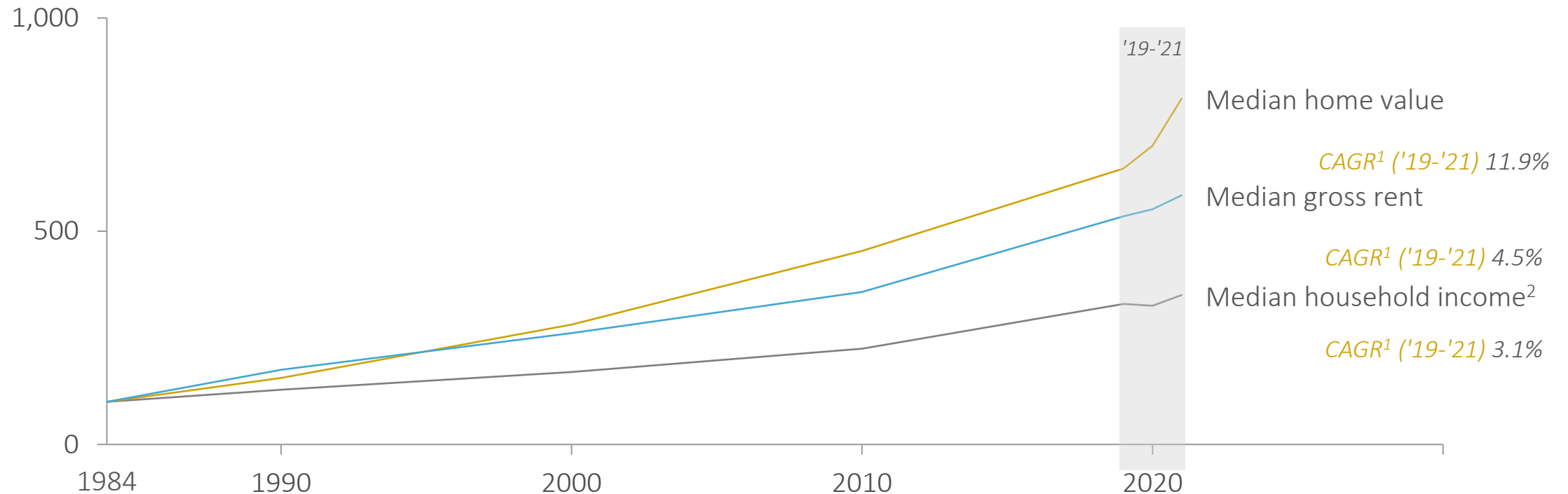


1. Gross rent includes the sum of the contract rent and the estimated average monthly cost of utilities (e.g., electricity, gas, water and sewer, etc.) and fuels (e.g., oil, coal, kerosene, etc.); 2. "States can improve housing well-being through thoughtfully designed policies" by Jenny Schuetz ([link](#))
 Source: U.S. Census Bureau; Federal Reserve Economic Data; BCG analysis

Housing affordability is a long-term challenge in WA – median home value and rents have outpaced household incomes for decades

Washington state home value, gross rents, and income over time

(Indexed to 100 in 1984)



1. Compound annual growth rate 2. Median household income current dollars and not seasonally adjusted; Median home value and Median gross rent are presented in current dollars; Median household income data only available from 1984 onwards on Census, Median home value and Median gross rent (1980 onwards)

Source: U.S. Census Bureau; American Community Survey

Statewide, costs of homeownership have increased rapidly due to combination of rising interest rates and home prices

	Sep. 2019	Sep. 2022	Change
Interest rate	3.61%	6.11%	+2.50%
Median home price	\$397,900	\$590,400	+\$192,500
Down payment & closing costs	\$25,864	\$38,376	+\$12,512
<i>Down payment (3.5%)</i>	\$13,927	\$20,664	
<i>Closing costs (3.0%)</i>	\$11,937	\$17,712	
Monthly mortgage payment	\$1,941	\$3,729	+\$1,788
Total monthly owner costs	\$2,488	\$4,540	+\$2,052
Annual income needed	\$96,026	\$175,193	+\$79,167
% Median HH Income needed	122%	208%	

Median homebuyer must have >\$38k in savings

Median savings of U.S. renter households is just \$1,500; even top income quintile renter HHs have only \$26,100 in savings¹

Median home buyer must have >\$175k annual income

Over 85% of Washington households could not afford to buy this median home today based on income alone²

1. JCHS 2022 State of the Nation's Housing, citing Survey of Consumer Finances 2019.; Assumptions: 3.5% down payment (minimum for FHA loan), 30-year fixed rate loan with no points, 0.8% mortgage insurance (2022 Annual MIP rate), 0.93% property taxes (estimated avg. for WA), 0.30% home insurance (estimated avg. for WA), 0.42% utilities (estimated from Seattle avg), 3% closing costs and 31% maximum debt-to-income ratio 2. Based on households making less than 150k/yr, according to 2020 ACS 5 yr. estimate, using ACS provided income buckets (datausa.io); BCG analysis supported by recent Seattle Times [article](#).
 Additional Sources: Based off Figure 17 in JCHS's 2022 State of the Nation's Housing report, plus additional desk research for Washington specific numbers

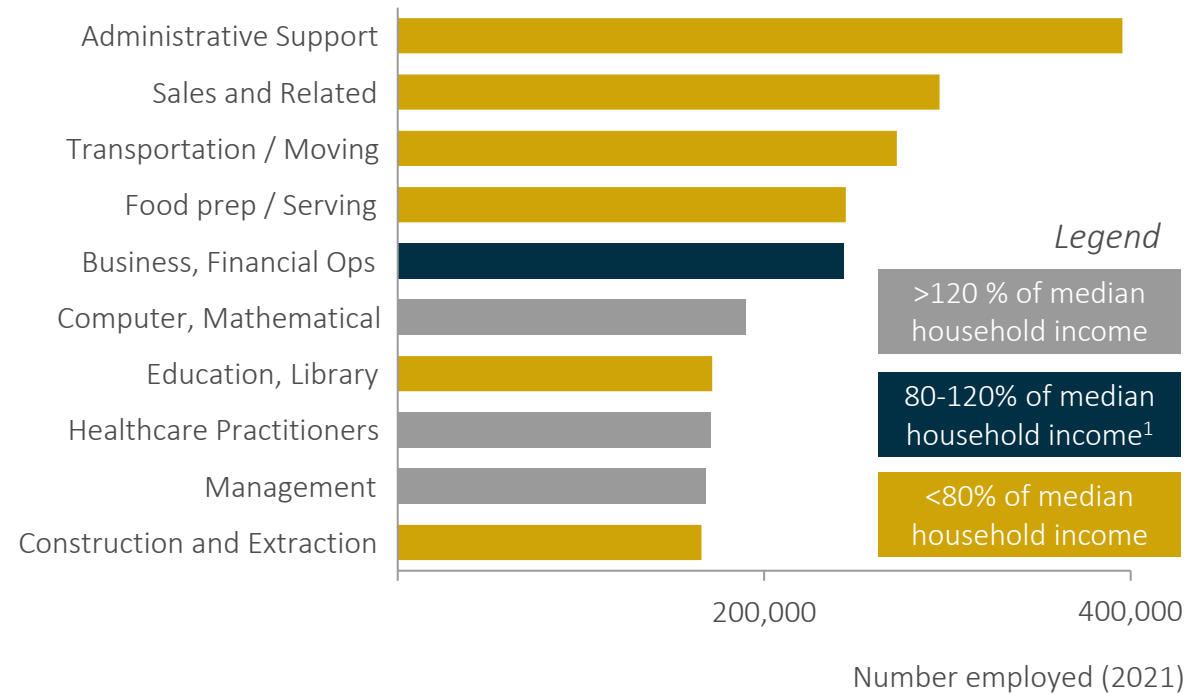
Housing affordability impacts Washington's most common occupations, many of which are low- or middle-wage jobs

Wages for these jobs have not kept pace with the state's median wage

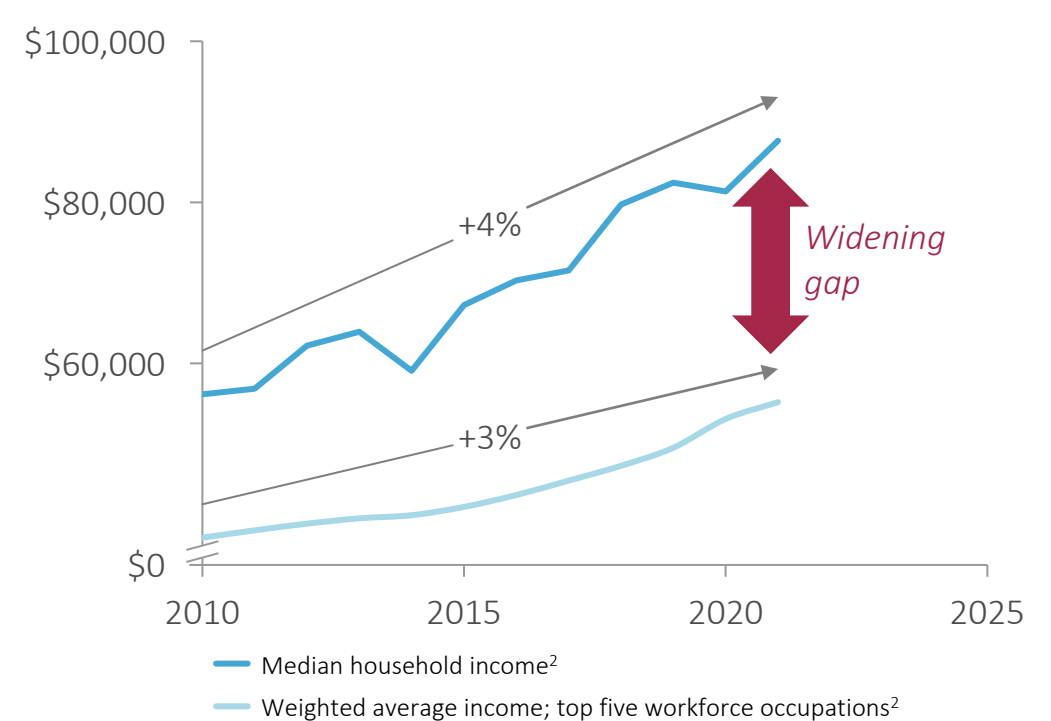
WA state's most common occupations need housing, and 7 of these 10 are low or middle wage jobs ...

...and the gap between wages for these occupations and others is widening

Top occupations by number of workers ('21)



Annual wage (\$)



1. Median household income ('21): \$87,648 (80% AMI: \$70,118 | 120% AMI: \$105,178) 2. Median household income current dollars and not seasonally adjusted; average income presented in nominal values (not adjusted for inflation)
Source: U.S. Bureau of Labor Statistics; BCG analysis

Low- and middle-income households are essential to the fabric of society



Maintenance worker

A maintenance worker who grew up in Puget Sound and now works in Yakima. He and his wife, who works part-time at a local restaurant, live in a small apartment

Household income:
\$64,000
(\$58,000 + \$6,000¹)

(As a % of County Median HH income)



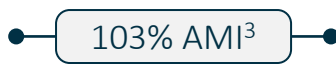
(73%)



Administrative assistant

An administrative assistant is employed by a tech company based in the Tri-Cities. She lives in Kennewick with her retired parents

Household income:
\$58,000



(66%)



Machinist

An aerospace machinist who grew up in Puget Sound. She and her dog are moving to Spokane and are excited to be in the second largest city in the state

Household income:
\$52,000



(59%)



Teacher

A second-grade teacher, in his third year of teaching in Seattle Public Schools. He lives with his partner who works as a personal trainer part-time. They have two young children

Household income:
\$88,000
(\$61,000 + \$27,000¹)



(100%)

1. Income from partner who is working part-time 2. Yakima median households' income: \$52,689 ('21) 3. Kennewick: \$56,041 ('21) 4. Spokane: \$58,714 ('21) 5. Seattle: \$110,781 ('21) 6. WA state median households' income: \$87,648 ('21)

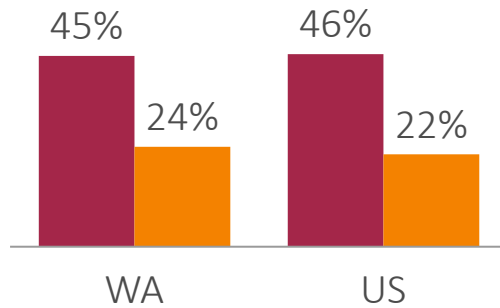
Source: U.S. Bureau of Labor Statistics; BCG analysis

Certain groups are disproportionately burdened by housing costs

Renters

Renters are more heavily burdened than owners

% of WA households that spend >30% of their income on housing costs (ACS, 5-yr, 2020)

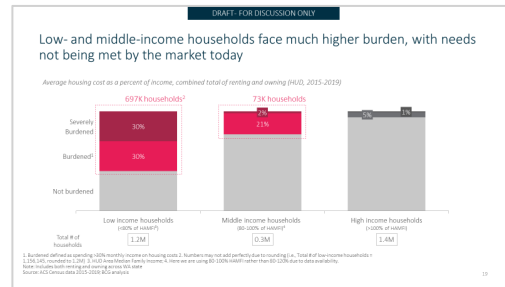


■ Cost Burdened Renters
■ Cost Burdened Owners

Lower incomes

Low- and middle-income households face high burden, with needs not being met by the market today

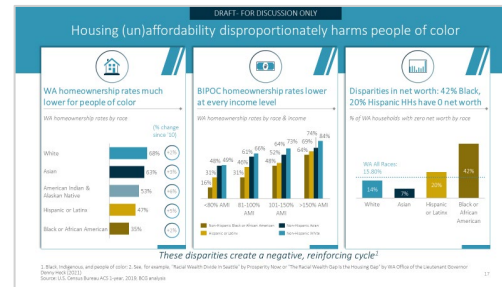
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Black & Hispanic households

WA homeownership rates much lower for people of color; BIPOC¹ homeownership rates lower at every income level

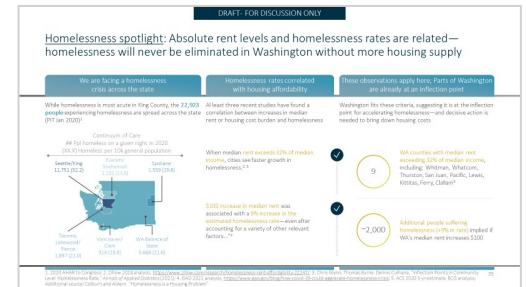
See page 29



People currently experiencing homelessness

Homelessness rates are correlated with housing affordability

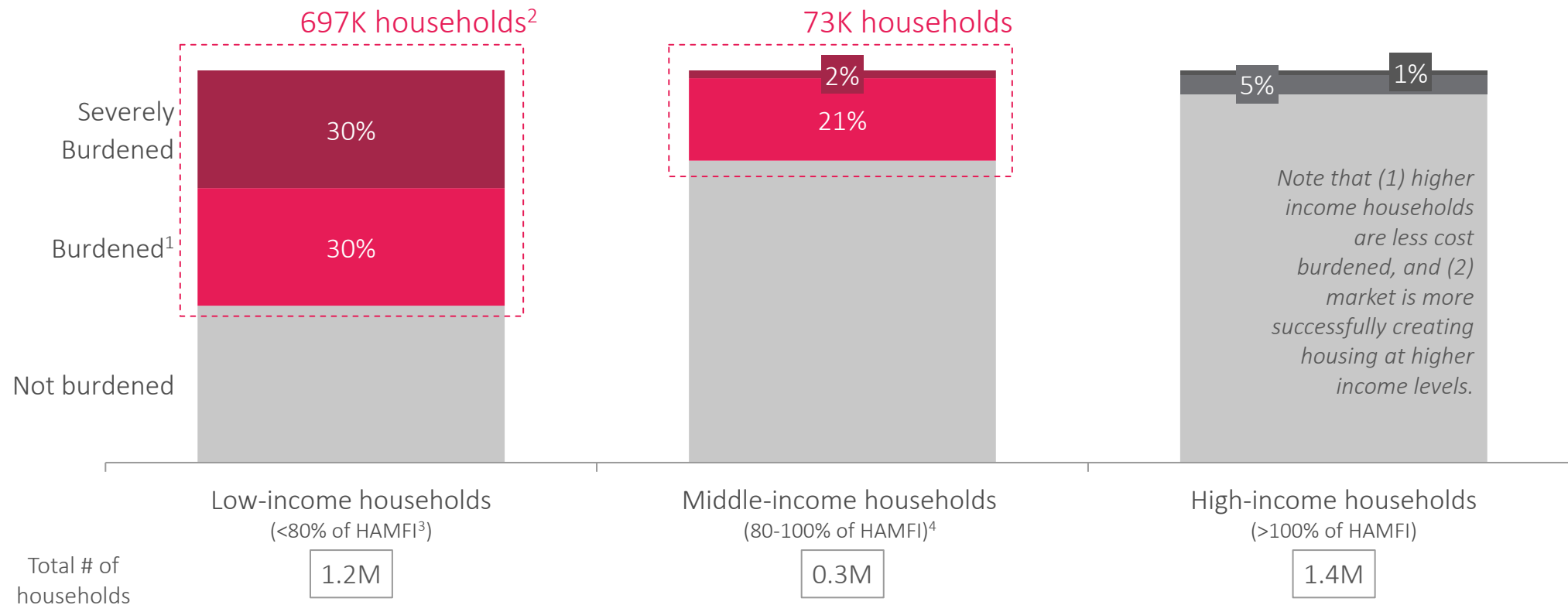
See page 30



1. Black, Indigenous, and people of color

Low- and middle-income households face much higher burden, with needs not being met by the market today

Average housing cost as a percent of income, combined total of renting and owning (HUD, 2015-2019)



1. Burdened defined as spending >30% monthly income on housing costs 2. Numbers may not add perfectly due to rounding (i.e., Total # of low-income households = 1,156,145, rounded to 1.2M) 3. HUD Area Median Family Income 4. Here we are using 80-100% HAMFI rather than 80-120% due to data availability.

Note: Number of households includes both renting and owning across WA state

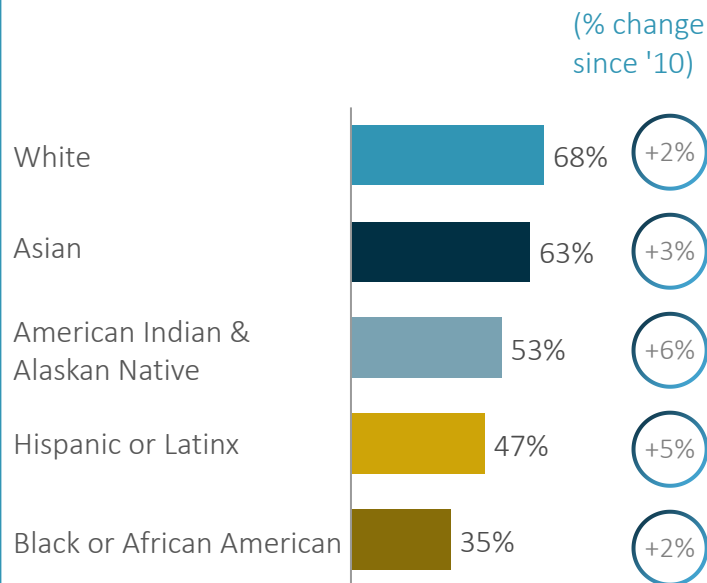
Source: ACS Census data 2015-2019; BCG analysis

Housing (un)affordability disproportionately harms people of color



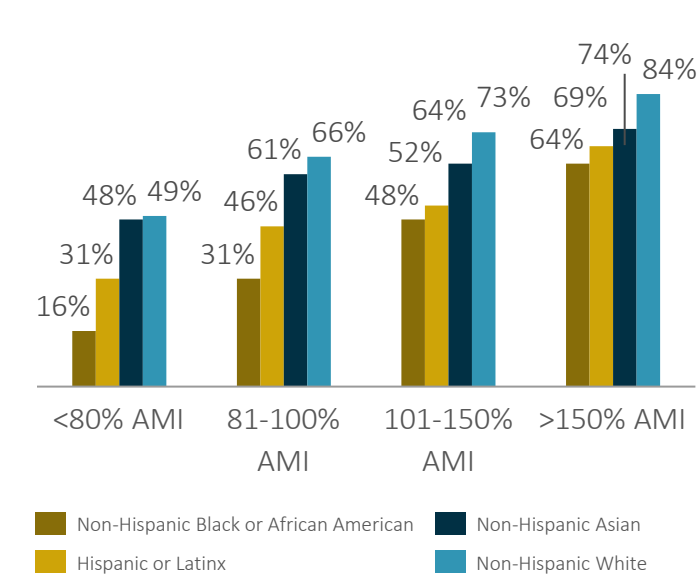
WA homeownership rates much lower for people of color

WA homeownership rates by race



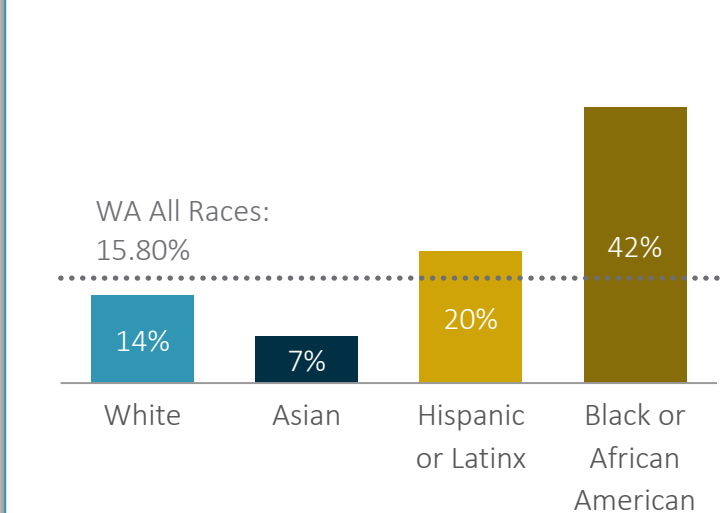
BIPOC¹ homeownership rates lower at every income level

WA homeownership rates by race & income



Disparities in net worth: 42% Black, 20% Hispanic HHs have 0 net worth

% of WA households with zero net worth by race



These disparities create a negative, reinforcing cycle²

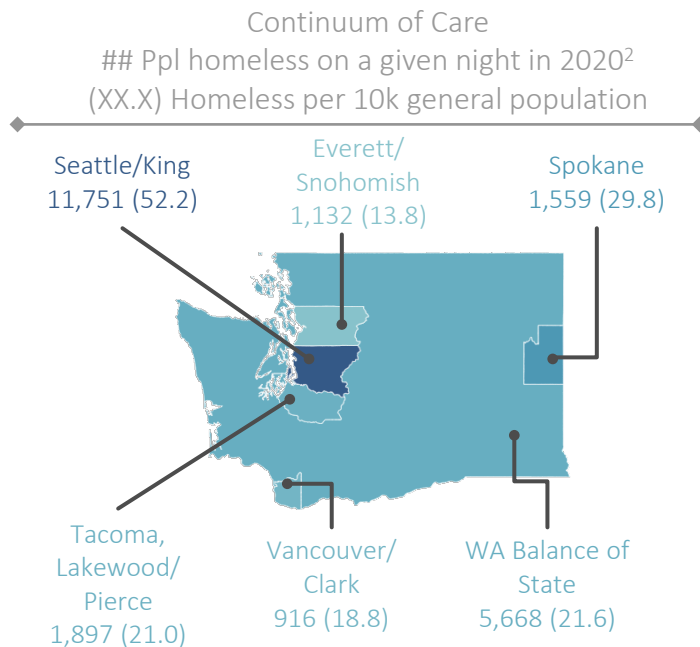
1. Black, Indigenous, and people of color 2. See, for example, "Racial Wealth Divide In Seattle" by Prosperity Now; or "The Racial Wealth Gap Is the Housing Gap" by WA Office of the Lieutenant Governor Denny Heck (2021)

Source: U.S. Census Bureau ACS 1-year, 2019; BCG analysis

Homelessness cannot be eliminated without more housing supply, because absolute rent levels and homelessness rates are closely related

We are facing a homelessness crisis across the state

While homelessness is most acute in King County, the **25,452 people** experiencing homelessness are spread across the state (PIT Jan 2022)¹



Homelessness rates correlated with housing affordability

At least three recent studies have found a correlation between increases in median rent or housing cost burden and homelessness

When median rent exceeds 32% of median income, cities see faster growth in homelessness^{3, 4}

\$100 increase in median rent was associated with a 9% increase in the estimated homelessness rate—even after accounting for a variety of other relevant factors⁵

These observations apply here; parts of Washington are already at an inflection point

Washington fits these criteria, suggesting it is at the inflection point for accelerating homelessness—and decisive action is needed to bring down housing costs



9

WA counties with median rent exceeding 32% of median income, including: Whitman, Whatcom, Thurston, San Juan, Pacific, Lewis, Kittitas, Ferry, Clallam⁶



~2,300

Additional people suffering homelessness (+9% in rate) implied if WA's median rent increases \$100

1. WA DOC 2022 Point-In-Time Summary Report; 2. AHAR report to Congress 2022; 3. Zillow 2018 analysis, [link](#) 4. Chris Glynn, Thomas Byrne, Dennis Culhane, "Inflection Points in Community Level Homelessness Rate," *Annals of Applied Statistics* (2021); 5. GAO 2022 analysis, [link](#); 6. ACS 2020 5-yr estimate, BCG analysis; Additional source: Colburn and Aldern, "Homelessness is a Housing Problem"

Housing affordability has broad societal and economic effects for our state and our communities



PUBLIC EDUCATION

Education is a core pillar of a healthy community and, as the training ground for our future workforce, a vital part of our economic foundation. Around the country, public education suffers in communities with extreme housing affordability challenges. School districts struggle to maintain sufficient funding and to attract and retain high-quality teachers



COMMUNITY SAFETY

In a middle-income housing crunch, many first responders such as police officers and firefighters cannot afford to live in the communities they serve. After-hours emergency utility response times are reportedly higher in some high-cost communities because workers must travel in from more affordable outlying areas. For instance, at one regional utility, only three after-hours emergency first responders live in a particular, central service area



DIVERSITY

A key ingredient to a healthy, vibrant community is socioeconomic diversity. Long term trends show that we are losing economic diversity as the middle-income share of the population shrinks. This foreshadows local economic segregation, which has been linked to lower inter-generational economic mobility. As middle-income households are priced out of an increasing number of zip codes in our state, concentrations of wealth and poverty will deepen



ECONOMIC GROWTH

Our state's economic growth in recent years was fueled in part by our relatively low cost of doing business and high quality of life compared to peers. This edge allowed us to attract businesses to the region and recruit and retain talent. The housing affordability crisis has significantly dulled that edge. Our state now includes one of the most expensive areas to live in the country, and our high housing costs are making it hard to retain—let alone attract—talent



QUALITY OF LIFE

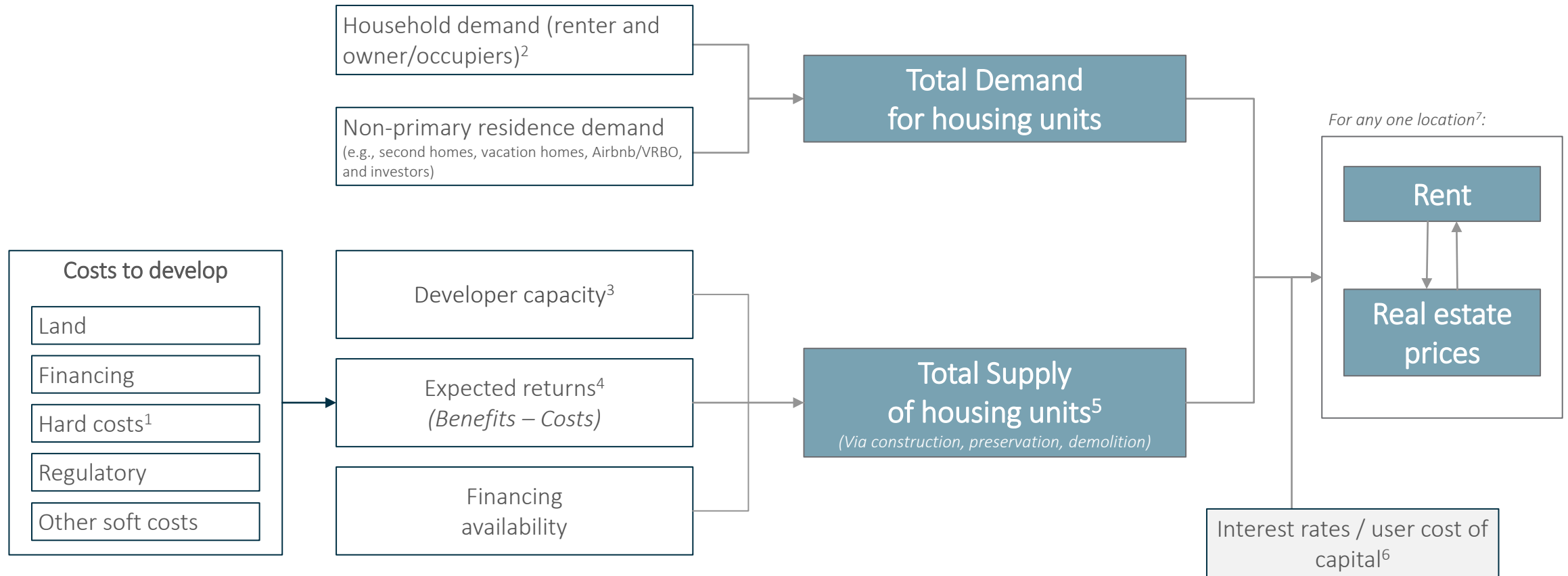
We all call this area home via different paths, but we all choose to stay here in part because of the high quality of life and sense of an inclusive, diverse, and innovative community

Longer commutes, worsening air quality, homogenized neighborhoods, community displacement, and financial insecurity threaten the very essence of what we all love about this region

How we got here: Why this challenge exists, and the scale of the problem

Why does this problem exist?

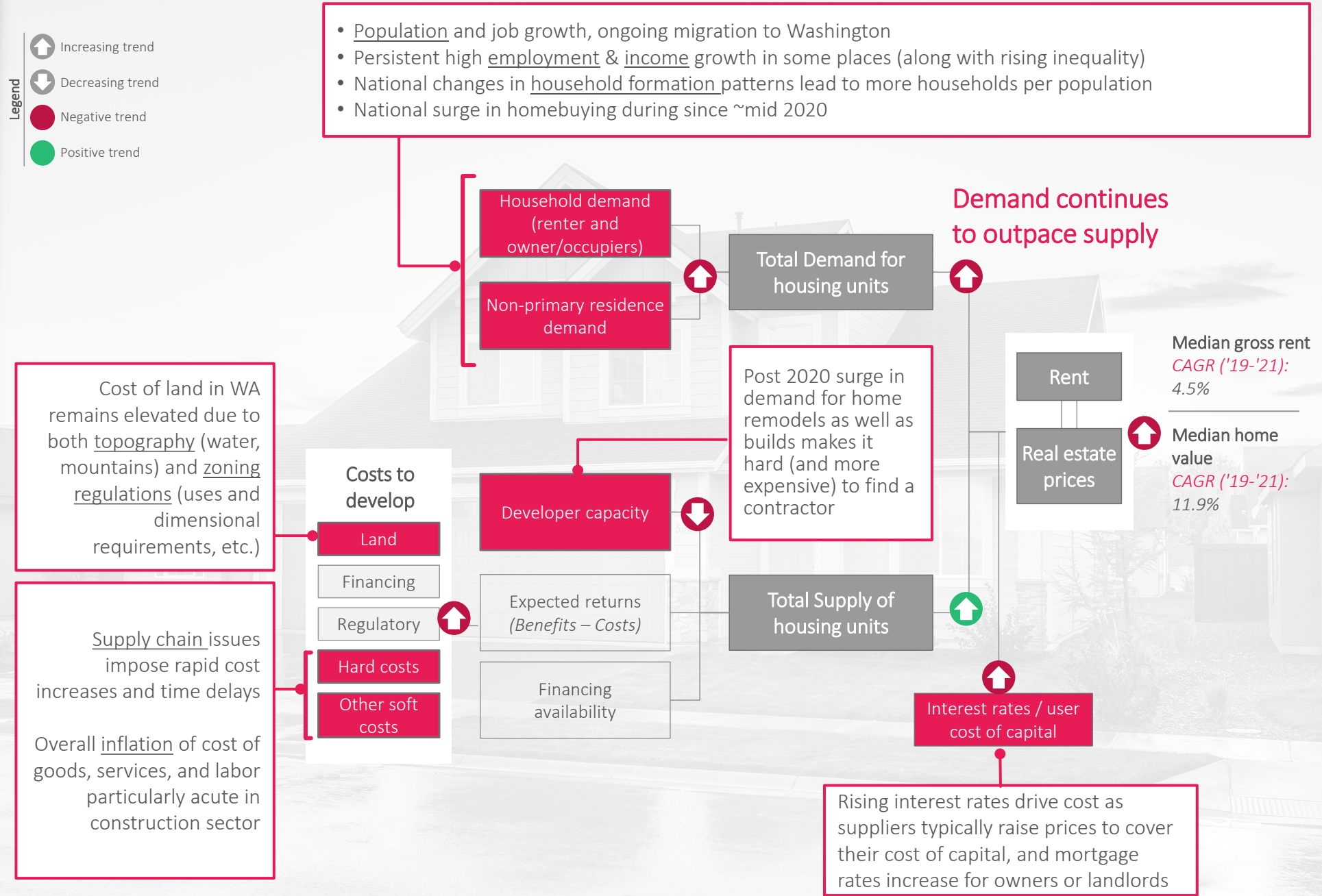
Housing costs are driven by often-complex factors on both supply & demand side – not a simple "Econ 101" problem



1. Construction labor and material costs 2. Consider ability to pay, including income, wealth/savings, other debt and cost of living, and other resources (knowledge) 3. For example, sufficient knowledge/expertise, scale, workforce/resources to execute given existing pipeline, etc. 4. Returns defined differently by different sectors (public, private, nonprofit) 5. Housing units can be segmented multiple ways, including by type; quality (e.g., luxury through low quality), price (e.g., public housing/extremely affordable through luxury), age, size, etc. 6. User cost of capital might include depreciation, property tax, effective mortgage rate, mortgage interest deduction, expected capital gain, and inflation expectations; 7. Real estate is more accurately a series of interconnected, location-specific markets, with highly individual decisions about location encompassing jobs, schools, transportation, and affordability

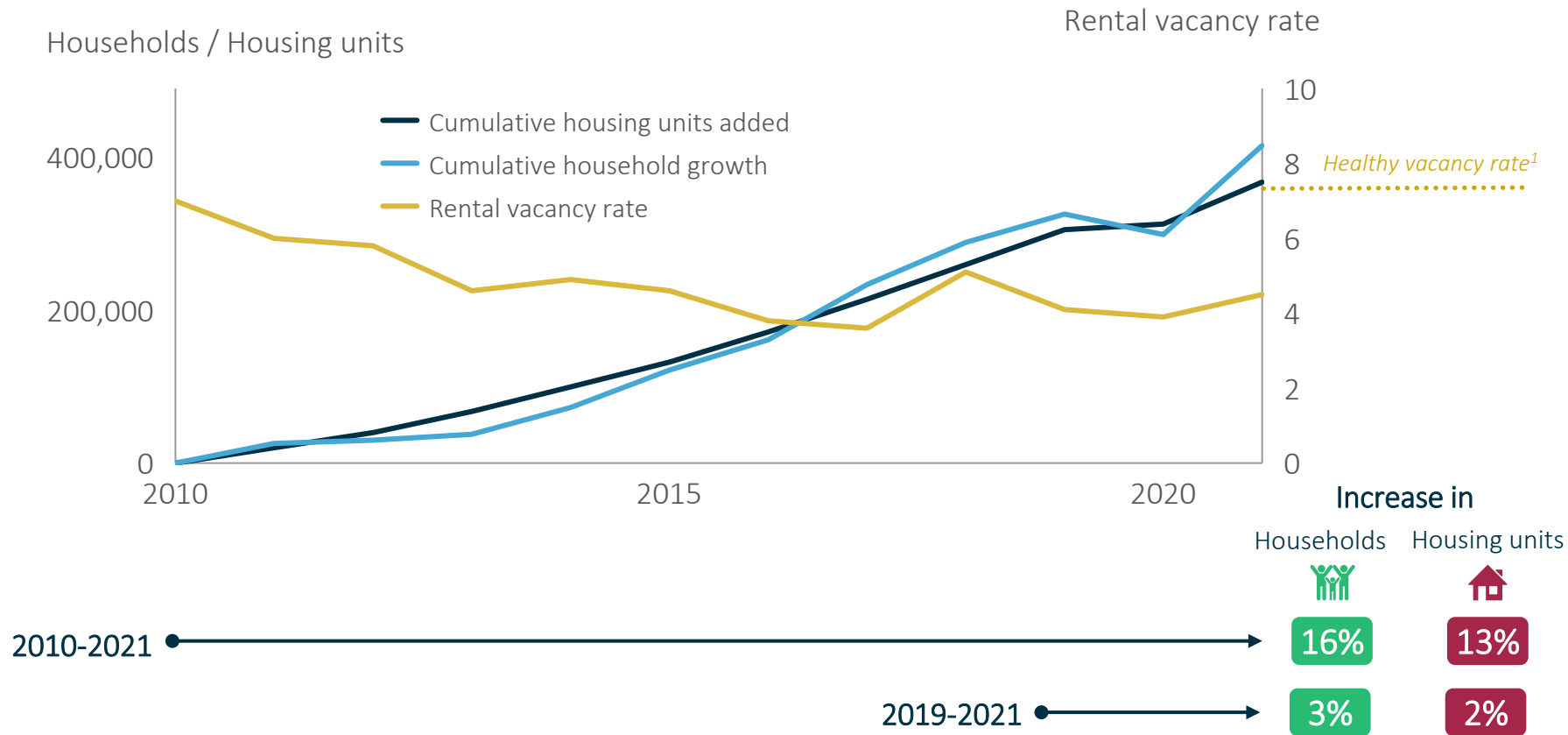
Nearly all factors have contributed to higher housing prices since 2019

See appendix page 106 for related sources



Number of households have been growing faster than housing development, contributing to a large supply gap

WA state housing market, 2010-2021



Large Supply Gap

“Over the last 30 years, Washington’s population has grown by 60 percent; yet we’ve only increased the number of housing units by 33 percent.”²

Greg Lane, Executive VP of Building Industry Association of WA, written in *The Seattle Times*

“Washington State has the fewest number of housing units per household of any state in the country, and the housing crisis is getting worse as the number of units built has not kept pace with household formation over the last decade.”³

Excerpt from the report “Redefining Economic Success in Washington State”

Even bigger than it first appears

“Typically, housing construction exceeds household formation by about 20 percent, because we’re always removing housing that has outlived its useful life. We haven’t been doing that for a long time.”⁴

Professor Chris Herbert of Harvard University, quoted in *The Atlantic*

1. A healthy rental vacancy rate typically hovers around seven to eight percent; a low vacancy rate can push up rent and home prices, exacerbating problems such as homelessness, housing cost burdens, etc. ([link](#)); 2. *Seattle Times*, Greg Lane ([link](#)); 3. State of Washington Office of the Lieutenant Governor (February 2022) ([link](#))

4. Lowry, "The U.S. Needs More Housing Than Almost Anyone Can Imagine" *The Atlantic* (Nov 21, 2022) ([link](#))

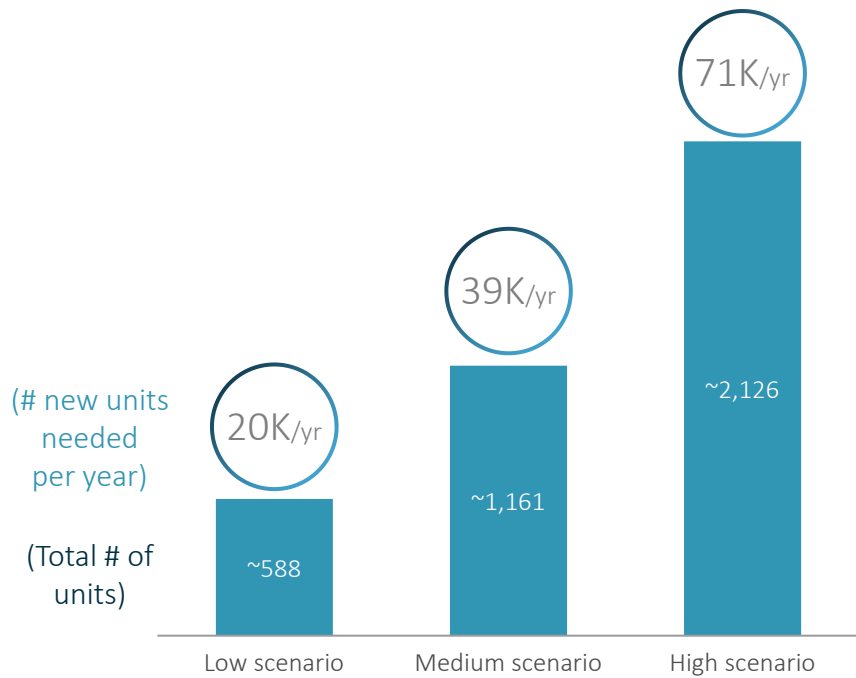
Source: U.S. Census Bureau; BCG analysis

The problem is not going away as Washington is continuing to grow

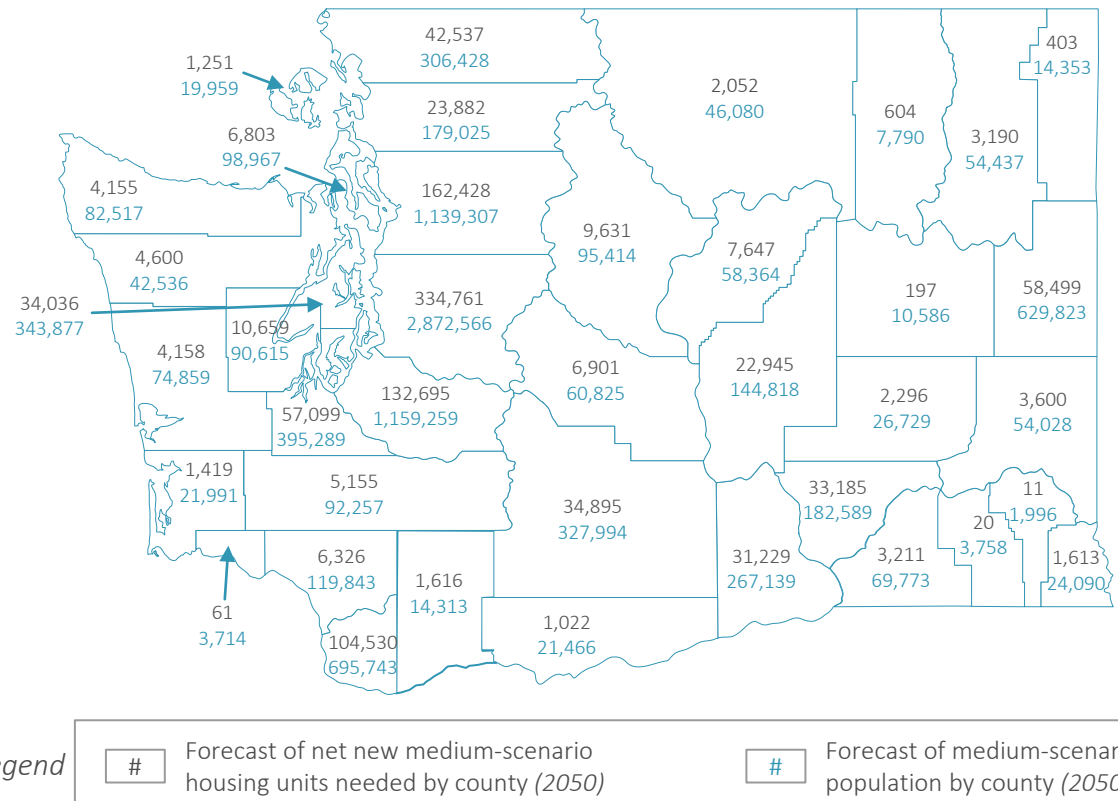
Washington Department of Commerce estimates a need of 20K to 71K more housing units per year over the next ~30 years to keep pace with future population growth

Forecast large housing need by 2050....

WA Department of Commerce **Draft Housing for All Planning Tool (HAPT) forecast** of net new housing units needed in WA based on 2050 population projections (000s)¹



...with demand spread across the state



1. Forecast based on 2020 estimated housing supply and forecast of future housing needed in 2050 based on population growth. HAPT is in draft form and will be updated in mid-Dec 2022

Note: Population estimates may be conservative; community-specific conditions need to be considered

Source: Draft of Housing for All Planning Tool (HAPT 2022) created by Washington State Department of Commerce, Growth Management Services; BCG analysis

In sum, Washington may need up to ~2.5M homes by 2050 to create a healthy housing market

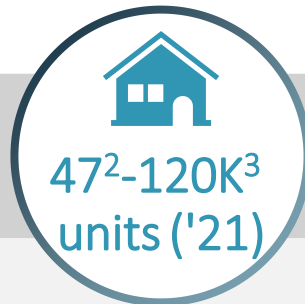
Housing required to keep pace with population growth



By 2050, WA Dept. of Commerce estimates we will need between 20,000 - 71,000 more units per year—just to keep up with future population growth



Historic underbuilding



Estimate of the number of houses needed to fill the current housing demand-supply gap caused by historic underbuilding



Removal of old housing stock



In WA, around 4,600 to 6,900 homes are estimated to be demolished each year



Supply needed

Up to ~2.5M
Total supply needed

~82K/yr
Annual supply needed

1. Forecast based on 2020 estimated housing supply and forecast of future housing needed in 2050 based on population growth ([Draft Housing for All Planning Tool \(HAPT\) forecast](#)) 2. Difference between cumulative # of households and of housing units ('10-'21) 3. Assume target vacancy rate of 6%; According to the Lincoln Land Institute, a reasonable vacancy rate for a local housing market is between 4% and 8%. Healthy housing markets generally need 6% vacancy rate to ensure there is enough supply available to reduce intense competition for available units that can push up rents and housing prices; Assume 2% vacancy rate in WA in '21 (estimates of weighted averaged of home and rental vacancy rate)

We need more housing

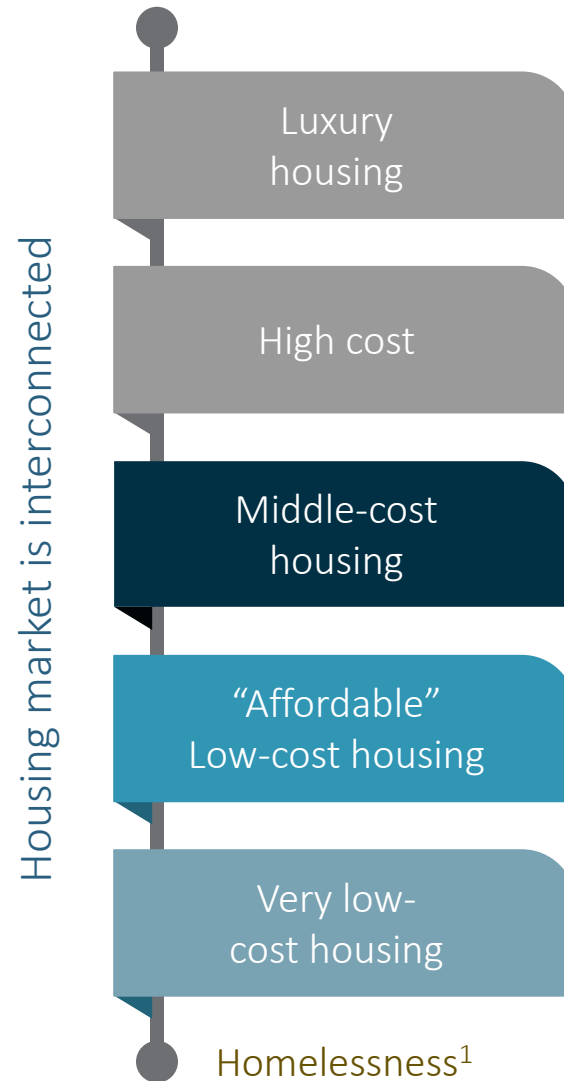
Washington must significantly increase its supply of housing to address today's affordability crisis and meet tomorrow's housing needs

The problem is too big for us to wait – we need to start now



The solution: Supply at the right size,
right price, and in the right place

We need more housing.



Housing supply at all prices is interconnected, but the market is generally able to serve luxury and high-cost segments better than lower cost

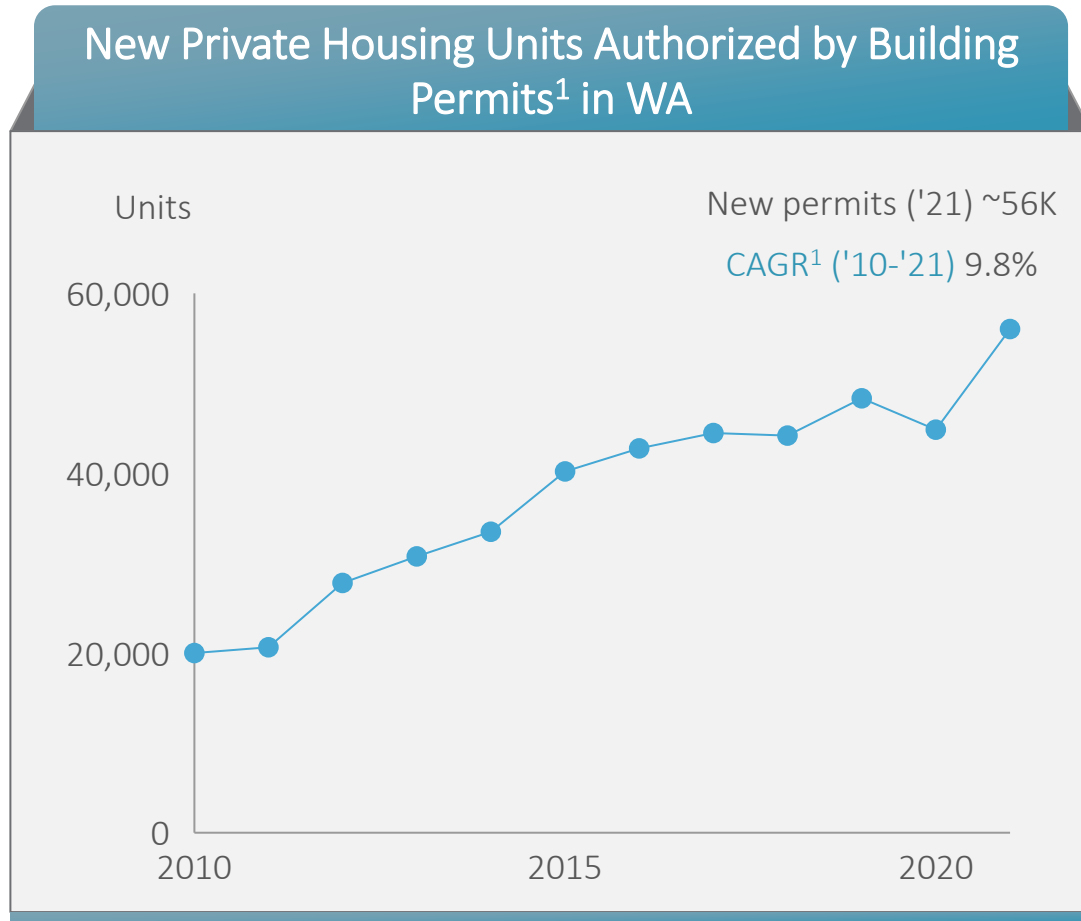
Government action is needed to solve market failure: insufficient production of low-cost and middle-cost housing

More middle- and low-cost housing can help across income levels (and can help faster than luxury housing, by filtering² down the income ladder)

Low- and extremely low-income people's housing needs will likely never be served by the private market and need **additional support**³

1. See page 30; 2. “Filtering” is the idea that housing units move through a quality (and therefore price) hierarchy over time, mostly commonly used to refer to the idea that building high-cost housing will eventually help everyone by freeing up lower-cost units elsewhere in the market (See for example: Jacobus, "Housing Doesn't Filter, Neighborhoods Do" ([link](#)); 3. Instead, will need direct support i.e., subsidies, direct cash transfers, etc.
Sources: Ratcliff (1949); Jacobus, "Why Voters Haven't Been Buying the Case for Building" Shelterforce (2019); Asquith et al., "Supply Shock versus Demand Shock," The Upjohn Institute, Policy Brief (2020); Professor Chris Herbert, Harvard University Lecture (2021); Colburn and Aldern, "Homelessness is a Housing Problem"

While building permits are increasing in number, not building enough units at right size, right price, and in the right place



Number of housing units permitted looks promising:

- 50k permits per year * 30 years implies ~1.5M new housing units by 2050

However, units permitted rarely equals units built, because of:³

- Abandoned projects
- Misclassification of permits
- Design changes affecting the number of units

➤ Total number of units is an imperfect measure

➤ Housing must be built at the right size, price, & place

(see pages 42-45 for analysis)

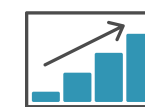
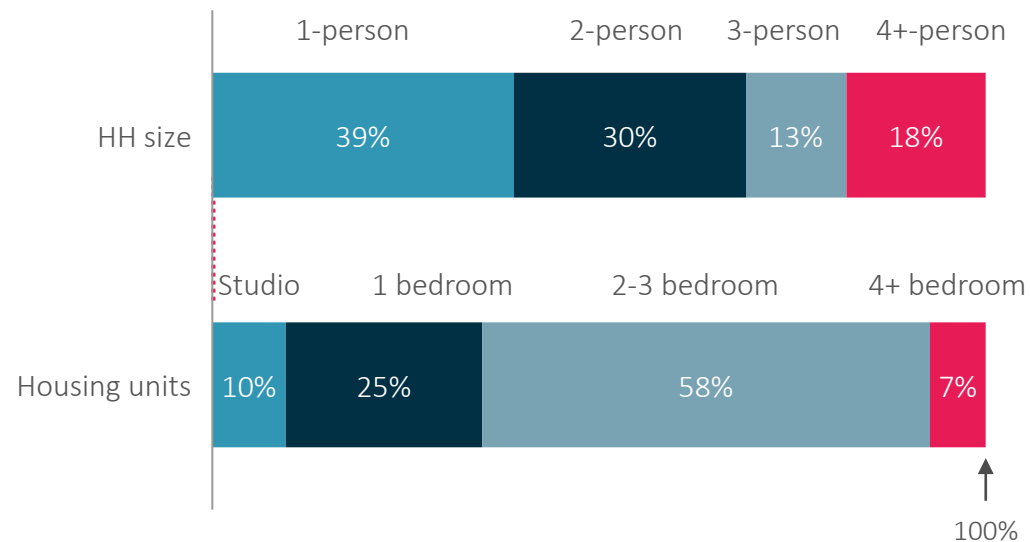
1. This represents the total number of building permits for all structure types. Structure types include 1-unit, 2-unit, 3-unit, 4-unit, and 5-unit or more. Yearly, seasonally adjusted 2. Compound annual growth rate 3. WASHINGTON'S HOUSING ATTAINABILITY CRISIS by WBI (2022)
Source: Federal Reserve Economic Data; BCG analysis

Unit size does not meet renters needs in '21; caused by primarily building 0-1 bedrooms from '10-'21, despite need for family size units



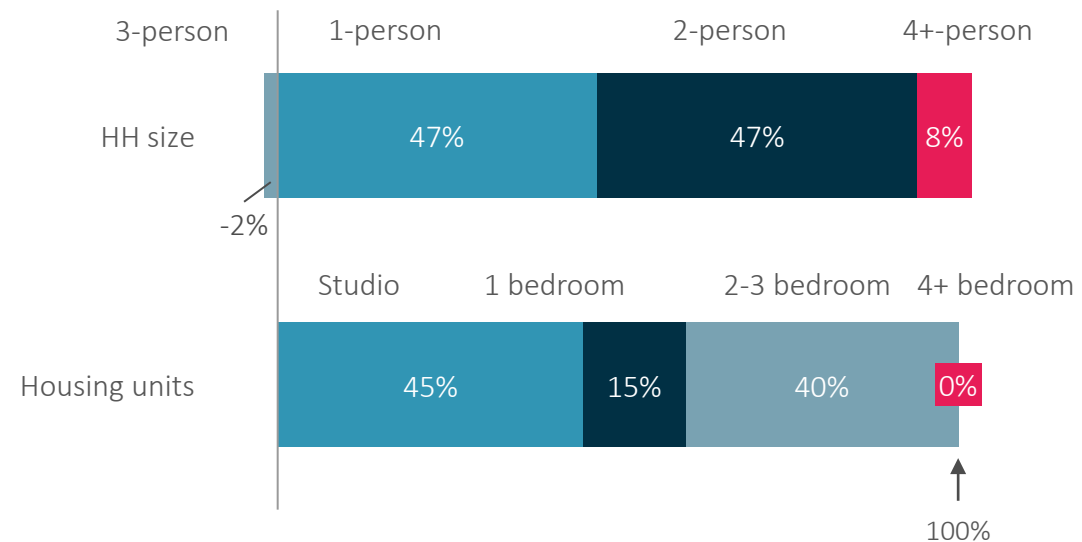
'21 | Though majority of renter HHs and renter units are small, insufficient units exist for larger HHs

% of occupied rental units / renter households



'10 – '21¹ | Virtually no larger rentals built in last 10 years despite growth of 4+ person households

% change in occupied rental units / renter households



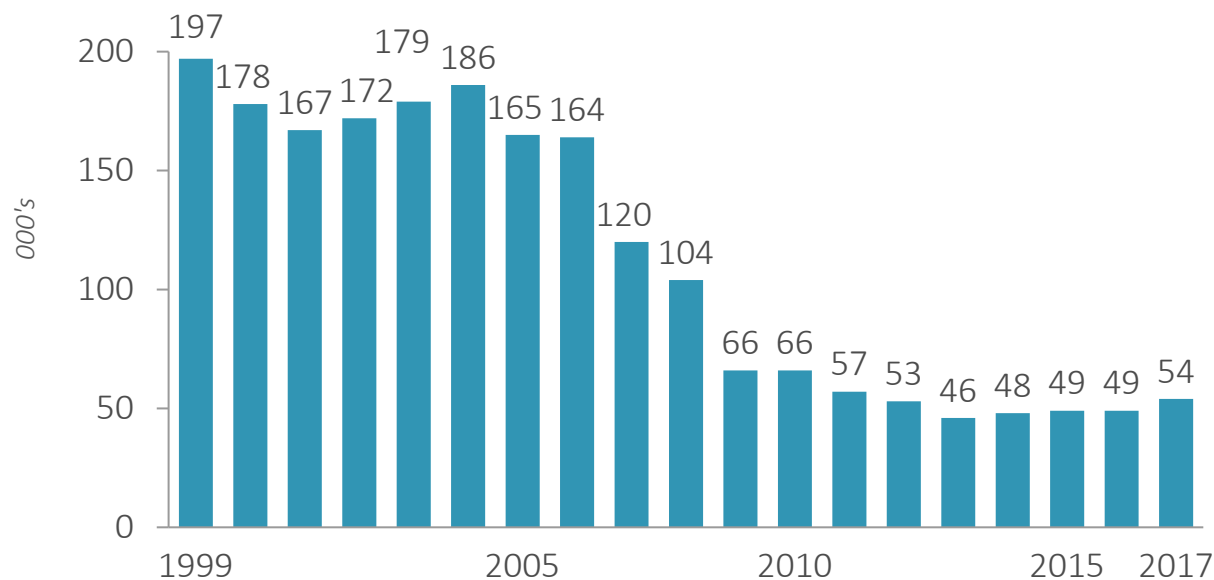
1. Change in # of renter households and renter-occupied housing units from 2010 to 2021
 Note: See analysis for owners in appendix
 Source: U.S. Census Bureau; BCG analysis

In contrast, U.S. homeownership units are growing in size—and in price

Entry level homes (<1400 SF¹) are traditionally the cost-accessible first step to homeownership and associated generational wealth building, but new units of this size have steadily declined

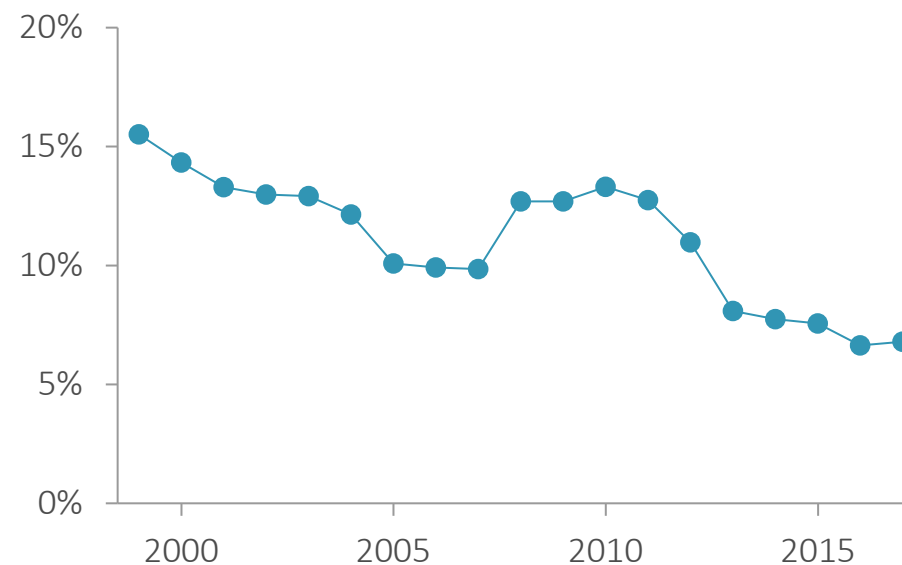
Across the US, new entry level homes declining in absolute terms...

New homes constructed below 1,400 square feet



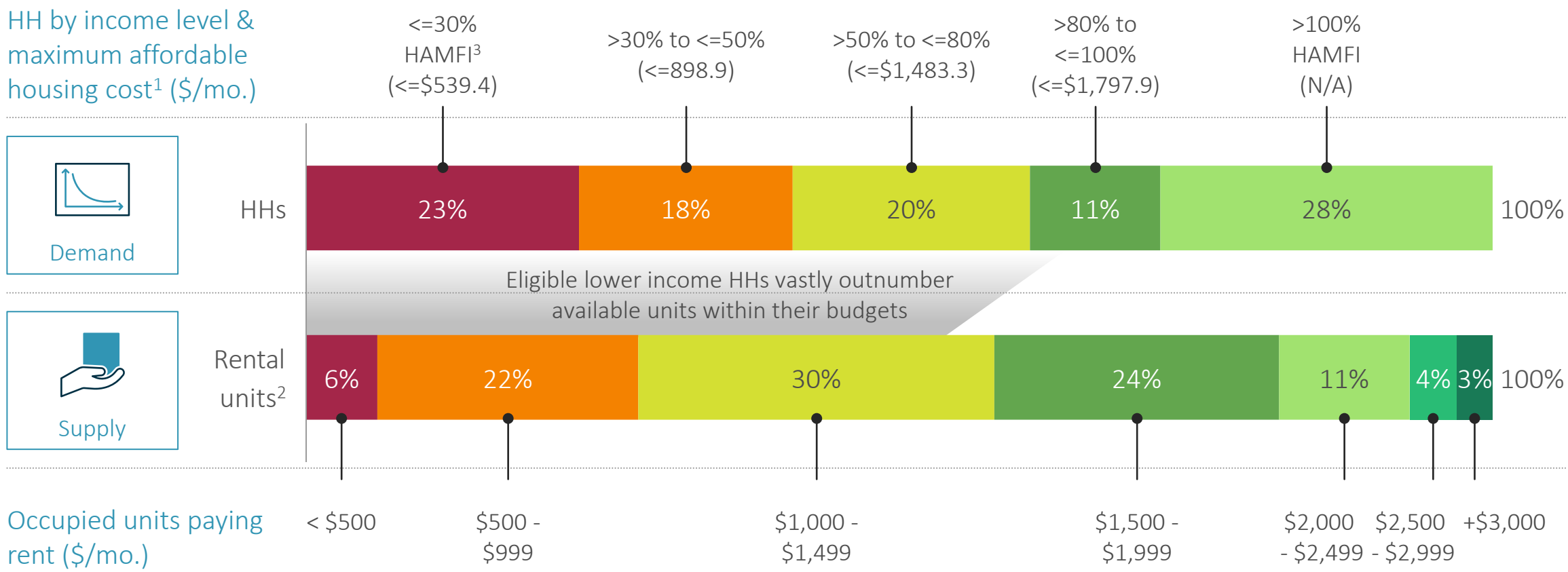
...and as a % of all new ownership housing unit dev't

% of new homes below 1,400 square feet



1. Square feet
Source: 2017 Characteristics of new housing (HUD)

Rental unit prices also do not match needs in WA — severe shortage of affordable rental units for lower income households



1. Critical to the notion of affordability, assume a household does not spend more than 25% (to allow for additional spend on utilities, which is usually included in cost burden calculations) 2. Occupied units by paying rent (2019) 3. HUD Area Median Family Income (\$86,300, 2019) [\(link\)](#)
 Notes: See analysis for owners in appendix
 Source: U.S. Census Bureau; HUD; BCG analysis

Not enough housing near jobs/transit resulting in lengthening commutes



Housing near jobs



Housing near transit



Change in # of commuters by commute time ('10-'19)	WA	USA
> 30 min	+44%	+26%
> 40 min	+63%	+33%

Population	2017	2021	Chg.
% of state population living within a transit agency boundary	84.2%	83.7%	-1%

Commute mode	Public transit	Drove alone	Carpool	WFH	Others ¹
% of state population ('21)	2%	62%	7%	24%	5%

REPORT
The Jobs-Housing Mismatch: What It Means for U.S. Metropolitan Areas
 Eric Kobler
 July 7, 2021
 Urban Policy Housing

The Cities Where Job Growth Outpaces New Homes
 Coastal metros are building more multi-family enough. Meanwhile, in some Sun Belt metros

Workers Need Homes, So Why Isn't Our Zoning Keeping Up With Job Growth?
 By Ryan O'Rourke • December 9, 2020

Seattle's hidden housing crisis: Middle-class workers forced out of the city
 JAN 22, 2020 at 10:22 PM

PUGET SOUND BUS **Report points to why Seattle area lacks enough housing near transit**

The Difficult Push to Build More Housing Near Transit

Why affordable housing near transit is scarce in our region

1. Includes Walk, Bicycle, Taxi, Motorcycle, etc.
 Source: Census, U.S. Dept. of Transportation (Bureau of Transportation Statistics); Washington State 2021 Summary of Public Transportation (Washington State Department of Transportation); BCG analysis

We have not built enough homes of the right sizes, at the right prices, and in the right places to meet the needs of our growing state. This strains residents' and communities' ability to thrive.



Action to-date: A look a recent efforts
in WA to build upon

Public sector has been investing in housing at a state level to address the housing affordability crisis

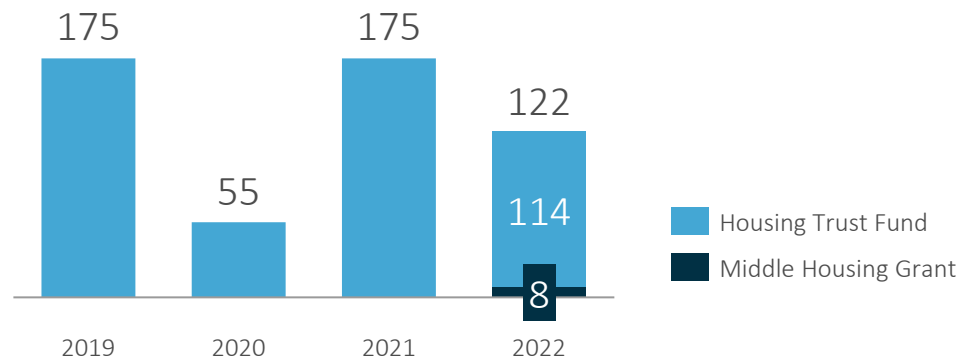
At state level, WA is budgeting for significant investment in housing

Key programs include...

- **Housing Trust Fund** – have seen biennial budget increases
- **Middle Housing Grant** – new program

Other state funding has gone to **homelessness** programs (e.g., Rapid Acquisition Housing – started 2021, Apple Health & Homes – started 2022) and **rental assistance** (e.g., for disabled adults)

Budget by year for select state housing programs (\$M)



Source: Sightline; New Tech Northwest; WLIHA; Housing Consortium

27 state bills passed related to housing and homelessness between 2019-2022

Growing housing capacity – more housing of more types in more places at more price levels

- More places: e.g., Funding and incentives for localities to allow more housing (HB1923, HB 2343/SB 6334)
- More types: reform condo liability laws, legalize tiny homes, etc.

Majority of bills are related to homelessness or tenant rights and protections

- Combatting homelessness through multiple types of shelter and services (e.g., House Bill 1220 prevents cities from banning shelters, transitional housing, or permanent supportive housing)
- Expanding tenant rights and protections

Local governments have also been taking action on housing

Local policies and actions:

In progress of updating Housing Action Plans with housing targets, in line with updated GMA¹

Various approaches to upzoning to allow more types of residential in more areas, with more density and fewer "extra" requirements

- E.g., City of Bellevue reduced parking requirements, incentivizes affordable housing units through a FAR/density bonus
- E.g., City of Seattle upzoned 27 hubs with transit stations & lines
- E.g., Clark County allows ADUs in many single-family and multi-family residential districts

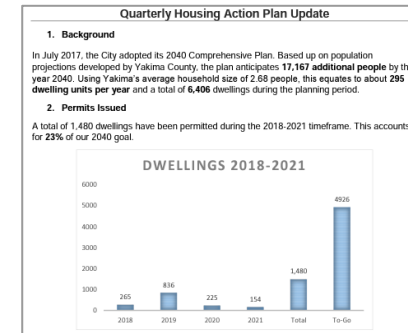
Shorter permit timeline

- E.g., City of Spokane issues permits in only 4-5 weeks for new buildings, though targets as few as 5-7 days
- E.g., City of Renton Permit Ready ADU (PRADU) Program simplifies and speeds up permit application & review process

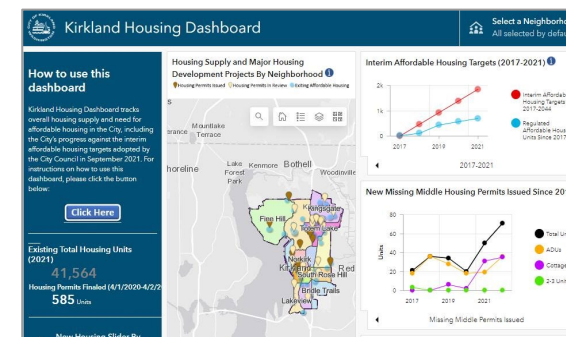
...and more



Reporting for transparency & accountability:




- City of Yakima Planning Division – Quarterly Housing Action Plan Update and monthly permits reports public document permits issued and completed units, and compares to 2040 goals




- City of Kirkland Housing Dashboard shows housing supply and development projects in an interactive, public tool (including "missing middle" housing permits)

Public-private partnerships have been making progress since 2019 as well; continued collaboration between public, social, and private sectors needed

Funding/financing

 **Microsoft** **\$750M commitment** focused on creating new models to attract private capital, extending/expanding public efforts, flexibility, partnerships, and more (e.g., Evergreen Impact Housing Fund, line of credit)

 **amazon** **\$360M commitment**¹ to affordable housing in Puget Sound, with low-rate loans and grants through Amazon Housing Equity Funds

 **BILL & MELINDA GATES foundation** **\$175M invested** since 2000 in building affordable housing and supporting homelessness services

Development expertise



Public-Private Partnership for student housing between the University, Capstone Development Partners and Harrison Street underway on 1,055-bed residence hall at University of Washington Bothell

Any and all housing gets built through collaboration between/with private sector specialists such as: developers, GCs², contractors

Not-for-profit partnership



Microsoft partner Community Roots Housing, develops and manages affordable homes for over 2,000 people across the Seattle area



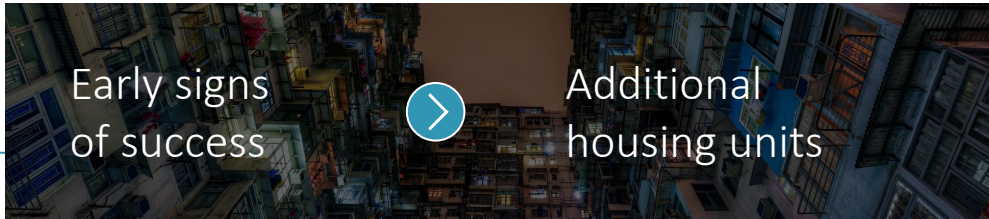
Rise Together, a coalition of six nonprofit organizations in the Puget Sound region, is working to create affordable homes along with community resources



YWCA offers 15 housing programs and owns/operates ~900 units in Puget Sound area—and is developing more

1. \$2B commitment nationwide 2. General contractors
Sources: Desk research/news articles, links included in underlined text

Early steps to add housing are showing promise, but more work is needed



- Housing Trust Fund – Since 1986, has invested >\$1B in capital funding and helped **build or preserve >50,000 affordable housing units** statewide
 - In recent years, funding has increased
 - In 2021, 20 applicants requested nearly \$90 million to create 2,120 units of permanently affordable housing
- PPPs¹ : Microsoft & Amazon funded the **preservation or creation of 9,200 units and 2,870 (WA) units**, respectively
- Other progress related to **homelessness**, e.g., Rapid Capital Housing Acquisition (RCHA) program has funded over 1,600 units of housing since 2021



- Too early to tell the outcomes of more recent efforts
- **Still insufficient funding for the Housing Trust Fund**: will need to turn away ~75% of proposals this year, which translates to **2,400 units that won't get built**
- Unclear outcomes of the small amount of **local upzoning** that has occurred, with even those cities pushing hardest on increasing affordable housing (e.g., Kirkland) seeing few results
- More may be on the way (e.g., Initiative 135 will be on a future Seattle ballot for a Seattle Social Housing Developer)

1. Public-private partnerships

Sources: WA Department of Commerce ([link](#)); WA State Governor's Office ([link](#)); The Stranger "Washington State Drops Major Coin on Affordable Housing" (Mar 2022) ([link](#))

Cross-sector cooperation is critical to reach the housing supply needed—no single sector can make an investment this big

ILLUSTRATIVE

Significant \$ needed to fill gap

785K – 2.5M

New housing units needed in WA by 2050¹



~\$370K

Estimated average cost per housing unit²



\$290B - \$909B

Total spend required statewide by 2050

\$87B – \$273B

Equity (~30% of total³)

\$203 – \$636B

Debt (~70% of total³)

All sectors need to cooperate to make this big investment

ILLUSTRATIVE roles to play

Public

- Advance policies to increase (or lower barriers to) housing development
- Investment (equity, debt/bonds, land, etc.)
- Ensure minimum safety and other requirements (e.g., quality, climate/conservation)
- Provide cross-industry support (e.g., innovative construction techniques)
- Operate (public) housing

Nonprofit

- Develop housing units at low/no profit
- Operate housing
- Ensure meaningful community involvement
- Provide philanthropic funding (e.g., impact investing or grants)
- Engage in local planning/permitting discussions and in legislative sessions

Private

- Develop housing units while making a profit
- Operate housing
- Provide market-rate financing and other support to help build more housing (or in some cases, below-market)
- Advocate for workforce's housing needs, including through engagement in local planning/permitting discussions and legislative sessions

1. Range based on draft of Housing for All Planning Tool (HAPT 2022) created by Washington State Department of Commerce, Growth Management Services and BCG analysis of current supply-demand housing gap and estimated removal of old housing stock 2. Triangulation based on a scan of Seattle and Washington cost per unit over the last 5 years, with construction cost inflation to bring to 2022 costs; the estimate is based on 2022 prices and does not factor in inflation between 2022-2050 3. Equity/Debt assumption based on middle of typical developer range, based on interviews
Note: Excludes land value costs (typically ~20-30%) given complexity of density

The way forward: A comprehensive
portfolio to address the crisis

A two-track strategy, with both near- and long-term solutions, is needed to create more housing affordability in WA

Success could look like the public, nonprofit, and private sectors working together to achieve the following housing goals



Right size

Match the total supply of different sized housing with the size of households that need them



Right price

Create enough affordable- and middle-cost housing to cut in half each county's percentage of housing cost burdened households



Right place

Build in quality, well-connected areas where jobs and populations are forecasted to grow

The path to improve housing affordability must increase long-term supply of housing units while simultaneously addressing near-term needs of housing distressed residents

1

Compiled
broad list of 50+ housing
policies and actions

2

Assessed policies and
actions based on ability
to address housing
needs, feasibility and
climate and equity
impact

3

Prioritized portfolio of
options assessed in
greater depth; including
researching similar real-
world examples from
other geographies

Three-step process to identify additional actions for Washington

Utilized wide range of sources to compile broad inventory of housing policies and actions

Sources used to compile policies and action

- ✓ Interviewed external housing experts
- ✓ Analyzed reports from government housing agencies
- ✓ Reviewed white papers and scholarly articles
- ✓ Interviewed housing policymakers
- ✓ Interviewed BCG internal housing experts

Built inventory of 50+ policies and actions

Description	Examples/Geo region	Public/Private/Non-profit	Estimated or realized impact
LHP 1: Build housing on underutilized govt land or buildings	Philadelphia Detroit London San Diego	Public	56,000-73,000 new units (San Diego)
LHP 2: Govt acquisition of land or buildings for the development or preservation of housing	Boston	Public	Still researching
LHP 3: Reform local regulations to increase housing density; e.g., Oregon legalized duplexes in cities of more than 10,000 and authorized triplices, fourplexes, etc. in cities of more than 25,000 and in LA increase max floor height, floor area ratio and reduce required setbacks	Oregon Los Angeles	Public	16.0% new units per year (LA)
LHP 4: Create "linkage fee" to fund affordable housing	Los Angeles Boston	Public	Collect ~4.5M/year for affordable housing
LHP 5: Provide long-term debt, below market debt or			
LHP 6: Provide short-term, early-stage loans at the p move forward			
LHP 7: Build affordable housing near private compan			
LHP 8: Incentive the use of off-site construction to b			
LHP 9: Continue to reform condo liability regulation opportunity to address HOA concerns regarding aling in the complex must vote to take legal action			
LHP 10: Decrease or waive development fees for aff			
Description	Examples/Geo region	Public/Private/Non-profit	Estimated or realized impact
LLP 1: Adopt a land value tax to encourage development of unused land and spread wealth of increasing land values	Pennsylvania New York	Public	~1,700 decline in vacant structure (Harrisburg, PA)
LLP 2: Incentivize developers to convert commercial and industrial buildings to residential or performing residential rehabilitation, including energy efficiency upgrades, by providing tax exemptions	Philadelphia	Public/Private	2001 to 2011: cost grew by 18% after inflation and number of apartments improved under program increased by 7%
LLP 3: Encourage developers to design buildings for small, irregular lots by pre-approving designs and expediting permitting for housing on unused small and irregular lots (e.g., infill development)	Boston, Philadelphia, New Orleans	Public/Private	250 units (Boston)
LLP 4: Give qualified non-profit the right of first refusal to purchase property or buildings in the city with the intent that the property or building will be developed or preserve affordable housing; funding often needs to be provided to non-profits to allow them to complete the purchases	San Francisco	Public	~40 units
LLP 5: Implement a Mandatory Housing Inclusion (MHI) that have been rezoned for new housing growth/cons			
LLP 6: Development of public housing			
LLP 7: Create opportunities for communities to invest			
LLP 8: Extend the Federal Opportunity Zone program in areas			
LLP 9: Provide grants to colleges to build affordable, 2			
LLP 10: Provide tax abatements to housing developme			
Descriptions	Examples/Geo region	Public/Private/Non-profit	Estimated or realized impact
LS 1: Incentivize transit-oriented development (TOD) by setting aside surplus land near transit for affordable housing or creating zoning requirements that mandate a minimum level of affordable housing with a radius of mass transit	Seattle Sound Transit LA San Diego	Public	47,000-146,000 new units (San Diego)
LS 2: Set housing goals for local jurisdiction in the state and provide mechanisms for the state government to approve developments denied by local governments; e.g., pass state mandate that allows developers to bypass local zoning laws regulations if local municipality not in compliance with state housing development goals (e.g. "builders remedy") and statute that enables local Zoning Boards of Appeals to approve affordable housing developments that are being held up by local officials; Mass Chapter 40B	Various	Public	4,500 new units (Santa Monica) Produced ~31,000 affordable housing units over 40 yrs (Massachusetts)
LS 3: Enable developers to exceed density restrictions in a city if a certain percentage of the development is set aside for affordable housing	San Diego	Public	~6,000 new housing units
LS 4: Expand allowed uses of land to include residential where appropriate	San Diego	Public	11,000-20,000 new units ¹
LS 6: Incentive local counties and cities to increase housing density; e.g., Mass Ch 40B provides direct payments and other incentives to local districts that create and permit housing developments in higher density Smart Growth Zones	Massachusetts	Public	In first 15 years, 15,000+ new housing units estimated to be built under Mass Ch 40 ²
LS 5: Decrease or waive parking requirements for affordable housing construction	Minneapolis LA	Public	6.9% new units per year (LA) ³
LC 1: Enable and incentivize the creation of land trusts for affordable housing; land trust can be renter or owner controlled with specific language that limits the sale price or rent of the housing unit, or sale price proceeds are split between owner and the non-profit	Nashville Boulder Fargo, ND	Non-profit	~670 units (Boulder)
LC 2: Support and utilize innovative construction methods and materials (e.g., mass timber) to construct residential buildings rather than steel and concrete	Vancouver, BC UC: Berkeley study	Private	Shortens construction timeline by 15-20 percent (mass timber) ⁴

Evaluated policies and actions using impact-feasibility framework and assessing fit for Washington¹

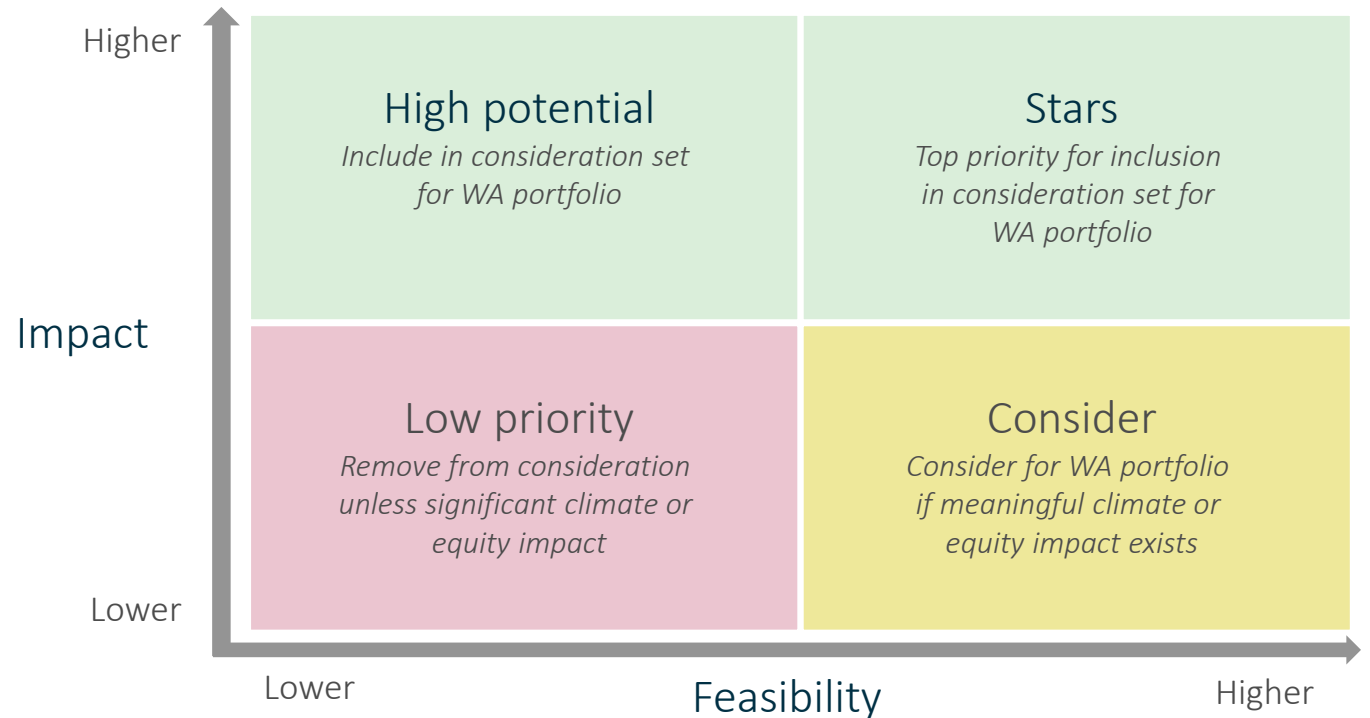
Framework inputs

Impact

- Supply of housing units OR resident's ability to pay

Feasibility

- Capital requirements
- Implementation complexity



Additional inputs to assess fit for Washington

Equity lens and **Climate** lens applied to all policies/actions as additional overlay

1. This criteria was established to review all 50 policies under consideration. It is not intended to be a negative comment on those that did not move forward for in-depth review.

Leveraged best practices from six locations to understand how affordable housing policies and actions are working in practice



Select WA cities

Local



California

Growing and burdened



Charlotte

Growing and still affordable



Massachusetts

Burdened but innovative



Chicago

Vibrant and affordable



Singapore

Public/private partners

See appendix pages 108-113 for the vignettes

Process highlighted that zoning reform is the first step to increasing supply — add complementary policies and actions for accelerated and scaled impact

1

Unlock supply via zoning reform

+

2

Add complementary policies and actions to incentivize the building of more housing

=

3

Create more housing and improve affordability for low- and middle-income HHs

While zoning is a contentious topic, evidence suggests that zoning reform has the potential to deliver positive outcomes for neighborhoods



Academic studies show that property values can remain stable (or even increase) after upzoning and new development¹



Dense neighborhoods can encourage more walking which improves mental health, creates a sense of community, and fosters social cohesion²

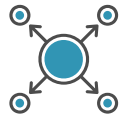


New developments brought on by zoning changes can help current renters stay in their homes by diverting high-income residents to newer, higher-cost buildings³

1. MIT study found that upzoning and building multi-family developments alone did not affect value of adjacent homes 2. Researchers found that housing density was the strongest predictor of walking frequency among Seattle-area residents across both low- and high-income neighborhoods; numerous studies have highlighted the benefits of walking to include, but are not limited to, physical exercise, creating social ties, improved mental health, etc. 3. Studies have found that new developments can decrease rents in nearby units by absorbing high-income households and increasing the housing supply; decrease rents can help residents remain in their homes

Source: Pollakowski, Ritchay and Weinrobe "Effects of Mixed-Income, Multi-Family Housing Developments on Single-Family Housing Values" (2005); Shelterforce (2019); Asquith et al., "Supply Shock versus Demand Shock,"; Mooney et al., "Residential Neighborhood Features Associated with Objectively Measured Walking Near Home" (2020); BCG analysis

Zoning is necessary, but not sufficient – housing affordability is a complex problem that requires a portfolio of policies and actions, with local flexibility, and all sectors working together



Broad portfolio of flexible and complementary policies and actions

There is no silver bullet that can adequately address the housing affordability crisis. Policies and actions must be adaptable to different jurisdictions

Policies and actions can flex to fit local contexts and complement one another to encourage the launch and coordination of multiple policies and actions



Sectors must work together

The capital and other resources required to address housing affordability is beyond the means of any one sector or governing body (e.g., state vs local)

Portfolio of policies and actions designed to incentivize private sector to build affordable housing at greater pace and scale while public and nonprofit sectors collaborate to direct resources to areas of highest impact

See following pages for overview of the portfolio of policies and actions

15 long-term policies and actions that produce structural changes to increase housing supply

Prerequisite: Zoning reform to allow for greater housing density and more residential development

Unlock supply via zoning reform

- 1 Provide state support and/or mandate to local jurisdictions to encourage and accelerate upzoning
- 2 Upzone areas near transit hubs to incentivize transit-oriented development (TOD)
- 3 Re-zone more land for multi-family residential uses
- 4 Offer density bonuses to developers



Additional policies and actions needed to accelerate and scale supply post-zoning reform

Achieve housing goals by approving developments

- 5 Provide mechanism for state to approve and accelerate housing developments denied by local jurisdictions
- 6 Set and track housing goals for local jurisdictions

Decrease development costs and risks

- 10 Decrease or waive parking requirements
- 11 Increase construction labor supply by funding vocational classes, childcare for workers, etc.
- 12 Continue to reform WA condo liability laws and regulations

Use land effectively

- 7 Acquire publicly-owned property for affordable housing
- 8 Enable and incentivize the creation of land trusts
- 9 Build housing on underutilized gov't property

Provide and enable below-market financing

- 13 Engage private companies to help finance and build affordable housing
- 14 Provide low-cost pre-construction loans
- 15 Provide long-term, below-market debt and equity for affordable housing development

Output of policies and actions

Right size

Increase supply of ADUs, condos, townhomes, duplexes, etc.

Right price

Decrease housing costs by increasing supply and decreasing development costs


Right place

Build homes near transit hubs

Increase housing density near job and city centers


Four **near-term** policies and actions support distressed Washington households now

Increase housing supply



Decrease development costs/risks and shorten timelines


16 Accelerate/streamline local permitting processes for housing development



Provide and enable below-market financing

17 Provide long-term, below-market debt or equity for preservation of currently affordable housing

Help residents manage housing costs



Subsidize housing costs

18 Create and fund down payment assistance program for first-generation or first-time home buyers

19 Provide state-level funding to homeowners for home efficiency/climate improvements

Washington can continue and improve on existing housing policies and actions (e.g., fund projects currently in the Housing Trust Fund pipeline); implementing the above policies and actions will accelerate efforts to increase the housing supply and support those in need

Note: Policies/actions listed in priority within each category

Output of policies and actions

Right size

Accelerate approval of proposed ADUs, condos, townhomes, duplexes, etc.

Right price

Aid residents in purchase and preservation of homes

Right place

Accelerate development of affordable housing in high-demand areas

The portfolio can be calibrated to fit local contexts, enabling local jurisdictions to be flexible in implementation

Select example

...calibrated to fit local jurisdictions



Define minimum requirements to qualify for the bonus
(minimum percent of units that are affordable)

Set target income level(s) and/or at-risk populations
(reserve some affordable housing units for very low-income households, residents with disabilities... within national and state fair housing laws)

Target locations where density bonus applies
(specify which high-demand neighborhoods, areas close to transit or jobs)

Select the "size" of the bonus
(maximum extent to which developers can exceed FAR¹, lot coverage, height, or other density restrictions based on amount of affordable housing added)

Detailed evaluations were created for each policy and action in portfolio

Assessed the ability to address housing affordability, feasibility, and climate and equity impacts

Estimated time to implement and capital requirements

Provide state support and/or mandate to local jurisdictions to reform zoning

Lever: Land

Time: Near Long V. Long

Capital: \$ \$\$ \$\$\$

Sectors Involved:

Public Nonprofit

State Private

Local

Assessment:

Impact:
←
→
Low
High
▼

Feasibility:
←
→
Low
High
▼

Equity: High positive outcome

Climate: Negative outcome

1

Description

Many municipalities insufficiently zone for multi-family housing and therefore do not allow enough housing development at density to keep pace with population growth. For example, >90% of Mercer Island's and >70% of Seattle's and Bellevue's residential land is zoned single family.¹ Significant research indicates this not only constrains supply and decreases affordability in that city or town, but also has spillover effects across the county and region. To overcome this, state governments can set this goal and provide incentives to act along with penalties for not acting. Upzoning the use alone (from single-family to multi-family) is rarely enough on its own, as other restrictions (high parking requirements, height limits, max FAR², etc.) may make development practically impossible even if the use is as-of-right.

Example(s)

- California's HOME Act (SB 9 2021) bill **mandates** that cities to allow one additional residential unit on most single-family parcels, but compliance is being **insufficiently monitored**
- In 2004, Massachusetts passed the Smart Growth Zoning and Housing Production Act (**Chapter 40R**) that **incentivizes** municipalities to re-zone. Under this law, the state gives a one-time Zoning Incentive Payment, a \$3,000/unit payment at permitting, & school reimbursement payments (under Ch. 40S)
- Mass Ch. 40R works in tandem with Ch. 40B, passed in 1969, which allows local Zoning Boards to waive existing land use regulations for certain projects; and **allows developers to appeal to state body (reducing local control)** if their qualified project is not approved locally

Critical actions

- Set target (e.g., % of city's housing must be affordable)
- Decide what local flexibility is required vs. what should be state-level criteria or guidelines
- Determine (and create/fund) appropriate "carrots" and "sticks"
- Actively monitor local compliance

Complementary policies

- Transit Oriented Development (TOD)– and most other policies in this document
- Provide mechanism for state to approve housing developments denied locally

1. Doug Trumm, "Seattle Region's Extensive Blanket of Exclusionary Zoning Illustrated in New Study" *The Urbanist*, (2022) [Link](#).
2. Floor area ratio

Assessed each policy and action across four factors

Gathered real-world examples to gain understanding of the potential impact of the policy or action and best practices

53

Identified critical actions to implement the policies or actions and show how the policy can be complemented to accelerate or increase its impact

See pages 66-84 for detailed evaluations

Provide state support and/or mandate to local jurisdictions to reform zoning

Lever: Land

Time	Near	Long	V. Long
------	------	------	---------

Capital	\$	\$\$	\$\$\$
---------	----	------	--------

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- Nonprofit
- Private

Assessment:

Impact
←
→
Low
High
▼

Feasibility
←
→
Low
High
▼

Equity

Climate

High positive outcome

Negative outcome



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 2. Floor area ratio

Upzone around transit hubs to incentivize transit-oriented development (TOD)

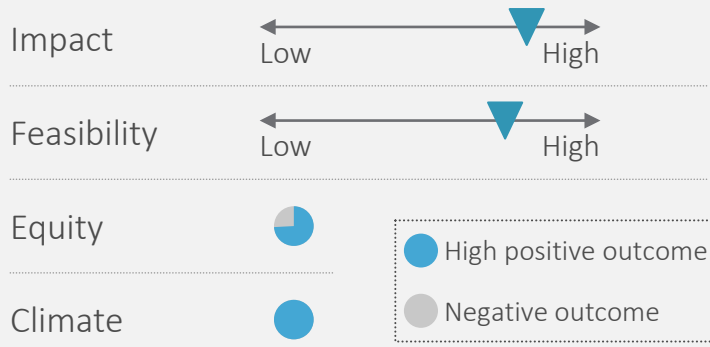
Lever: Land

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- Nonprofit
- Private

Assessment:



Description

Transit-oriented development (TOD) aims to create compact, mixed-use communities clustered around public transit hubs which connect residents to jobs and city centers. This is a broad category more focused on the "where" (near transit) than the "how." However, a critical component is coordinating land use policies (i.e., zoning) and transportation policies. Because location matters, increasing density for more housing accessible to transportation and jobs is critical. Action is also necessary to preserve some equity & affordability, because neighborhoods well-served by transit tend to gentrify more quickly than other areas



Example(s)

- Vancouver, BC's "Transit-Oriented Communities" aim to concentrate growth in centers and corridors well-served by frequent transit—including suburbs like Surrey and Burnaby. It depends on regional & local coordination of land use and transportation policies, including upzoning to very high densities
- Los Angeles's Transit Oriented Communities Incentive Program **allows developers to increase the density of units near transit hubs** provided a certain percentage of the units are affordable; in three years the TOC program incentivized planned development of ~20,000 new housing units
- Washington's Sound Transit partners with non-profits and private developers to build TOD by **converting surplus land into affordable housing** and providing loans to create affordable housing near high-capacity transit stations



Critical actions

- Decide on criteria (i.e., what is "transit-oriented") & applicable locations to focus housing development
- Re-zone those locations to encourage development of high-density residential housing
- Monitor housing prices and housing development in areas targeted



Complementary policies

- Decrease or waive parking requirements near transit
- Below-market financing for housing development near transit
- Although outside the scope of this project, coordination with transportation policy AND investing in public transit and active transportation infrastructure is critical to success

Offer density bonuses to developers

Lever: Land

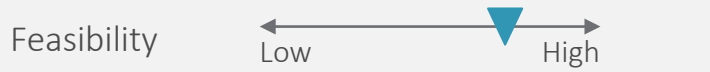
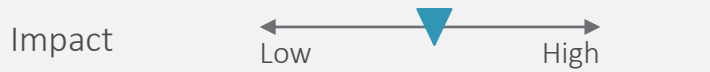
Time	Near	Long	V. Long
------	------	------	---------

Capital	\$	\$\$	\$\$\$
---------	----	------	--------

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- Nonprofit
- Private

Assessment:



Description

An effective way to leverage the market, in order to increase the supply of lower cost housing, is through incentives. Density bonus programs allow developers to increase the size of proposed buildings (i.e., the number of units permitted or the building dimensions) above the existing zoning code in exchange for including a minimum number of affordable units meeting specified eligibility requirements



Example(s)

- In 2018, the San Diego City Council approved changes to their existing density bonus program, including a **20% density bonus** for projects reserving 10% of total units for very-low-income, transition-age foster youth, disabled veterans, or persons experiencing homelessness
- In 2016, San Francisco created a **100% Affordable Housing Bonus Ordinance** which provides several incentives, including increased density and height, for developers who build more permanently affordable units
- Launched in 2017, Boston is conducting a **density bonus pilot program** in 2 different areas
- In Washington, Bellingham (Municipal Code Ch.20.29), Poulsbo (Municipal Code Sec. 18.70.070(B)), and Seattle (Land Use Code Ch.23.58A and Ch.23.49) are three cities that have density bonuses



Critical actions

- Calibrate housing/community needs with (localized & up-to-date) developer economics to encourage development of affordable housing without excessively compensating developers
- Measure results & adjust the program if not observing the desired housing development



Complementary policies

- Target density bonuses near transit hubs as part of incentivizing transit-oriented development (TOD)

Provide mechanism for state to approve housing developments denied locally¹

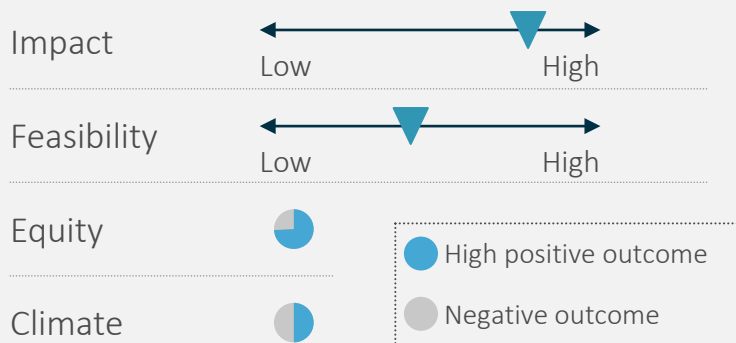
Lever: Land

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- Public
- State
- Local
- Nonprofit
- Private

Assessment:



Description

Empowering the state government to approve developments in local jurisdictions provides a mechanism to approve and fast-track developments slowed or rejected by local governments. This can be used as a compliance or enforcement mechanism, reducing or preempting local control if specific conditions are not met. One such mechanism is commonly called a "builder's remedy" (see examples below). Other mechanisms could be losing eligibility for state or state-allocated funding (like CDBG²); legal action; etc.



Example(s)

- [Massachusetts Chapter 40B](#), passed in 1969, allows local Zoning Boards to waive existing land use regulations for certain projects; and **allows developers to appeal to state body (reducing local control)** if their qualified project is not approved locally. The municipality has at least 10% of housing units affordable, then it is "protected" from appeals
- [California "Builders Remedy"](#) allows **developers to file an application bypassing local zoning laws if a local municipality is not in compliance** with California's housing development goals and if the proposed housing development contains at least 20% low-income housing or 100% middle-income housing. California has also established an **accountability and enforcement process**. However, this mechanism overall has underperformed expectations due to its complexity and legal ambiguities



Critical actions

- Determine how compliance will be monitored and reported; as well as defining enforcement mechanisms and processes



Complementary policies

- Set and track housing goals
- Provide state support and/or mandate to local jurisdictions to reform zoning
- Accelerate and streamline permitting processes

1. Washington's Growth Management Hearing Boards under the GMA could potentially be empowered to approve housing developments in jurisdictions that have not met their housing goals 2. Community Development Block Grant Programs

Set and track housing goals for local jurisdictions¹

Lever: Land

Time Near Long V. Long

Capital \$ \$\$ \$\$\$

Sectors Involved:

- ✓ Public
- ✓ State
- ✓ Local
- Nonprofit
- Private

Assessment:

Impact
←
→
Low
High
▼

Feasibility
←
→
Low
High
▼

Equity

Climate

- High positive outcome
- Negative outcome

Description

Setting housing goals at the state level for cities and other local jurisdictions is important because housing is a "tragedy of the commons" problem. The purpose of this action is to help everyone understand the size of the housing gap and to allocate responsibility equitably amongst municipalities. The goal can then be used to hold municipalities accountable. To facilitate this, housing goals should be tracked on a public dashboard that also includes information on other metrics such as actual versus projected population growth, and KPIs such as permit processing timelines.

Example(s)

- [Kirkland, WA](#) utilizes a housing dashboard to track the city's progress against affordable housing goals set by the city council
- California's [Regional Housing Needs Allocation \(RHNA\)](#) is a program in which housing needs are calculated for each region and then allocated amongst all cities/counties within that region

Critical actions

- Set housing goal at state or regional level and allocate amongst jurisdictions
- Provide resources (technical assistance, grants, increased staff funding) to help local jurisdictions achieve the target
- Monitor and report against the target
- Require municipalities' planning to align with this target

Complementary policies

- Accelerate and streamline permitting processes at the state and local level to fast-track affordable housing developments

1. Under Washington's Growth Management Act (GMA) "fully planning" counties are mandated to plan for future population growth. Under this policy, the GMA could be updated to set explicit housing goals for each city and county based on the Office of Financial Management (OFM) population projections

Acquire publicly-owned property for affordable housing

Lever: Land

Time Near Long V. Long

Capital \$ \$\$ \$\$\$

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- Nonprofit
- Private

Assessment:

Impact ← Low High →

Feasibility ← Low High →

Equity ●

Climate ●

● High positive outcome

● Negative outcome



Description

State government can acquire or can provide grants/loans to municipalities to acquire land or buildings that would then remain publicly owned. This land could be used for affordable housing development, maintaining public ownership and control through a long-term (99-year) ground lease. Once purchased, a Request For Proposals or similar process (depending on local/state regulations and purchasing entity) can be used to "dispose of" development rights on the property. After reviewing proposals, a private or nonprofit developer or joint venture can be selected based on the pre-determined criteria, to build and manage a building including affordable housing units. Alternatively, an existing multi-family building could be purchased to preserve affordability and control; a similar process could be used but for disposition of the existing building under specified constraints



Example(s)

- Singapore [Land Acquisition Act \(1966\)](#) enabled the government to acquire land for the purpose of providing Singapore citizens with access to affordable housing
- [Washington's Land Acquisition Program \(LAP\)](#) helps developers purchase land and preserve it for the development of affordable housing
- [Oregon's Affordable Housing Land Acquisition Revolving Loan Program](#) was created in 2017 to assist eligible organizations in the purchase land for affordable housing development



Critical actions

- Determine criteria for acquisition
- Identify/create funding source and legal authority to use it (rapidity is key on real estate market)
- Establish the lead agency and process for public acquisition of real property
- Identify land or buildings available on the market; build relationships & work with real estate brokers
- Thoughtfully set plan and criteria for disposition



Complementary policies

- Provide long-term, below-market debt or equity to developers for the construction of the affordable housing on the land they purchase or lease from the government

Build housing on underutilized government property

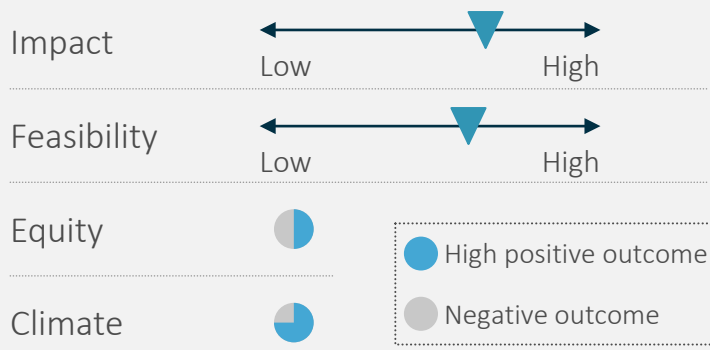
Lever: Land

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- Nonprofit
 - ✓ Private

Assessment:



Description

One of the most expensive parts of development is the cost of land. Federal, state, regional, or local governments could leverage underutilized land they already own to advance high-priority city needs including affordable housing. Land could be sold, long-term ground leased, or donated to private developers or not-for-profit community development organizations at below-market rates for the development of affordable housing. Ground leases offer the best balance of long-term control with shared benefits for the developer.



Example(s)

- In 2015, the [City of Seattle](#) identified 210 under-used city-owned lots, 33 of which are usable for development. After expanding the search to include all government owned land within Seattle, they identified 300 underutilized spaces larger than 200,000 sq ft and located within a quarter mile of transit—and therefore with potential for housing development
- [Boston](#) has begun a Citywide Land Audit to identify all vacant or underutilized property, then will decide how to deploy this land to meet urgent needs including affordable housing



Critical actions

- Conduct inventory of available land, including all vacant or underutilized land owned by government or quasi-governmental organizations
- Prioritize parcels for disposition; especially near public transportation and other high-value locations
- Establish a public-private partnership for development



Complementary policies

- Decrease or waive parking requirements to incentivize construction
- Allow use of density bonus to increase the percentage of units that are affordable

Increase construction labor supply by funding vocational classes, childcare for workers, etc.

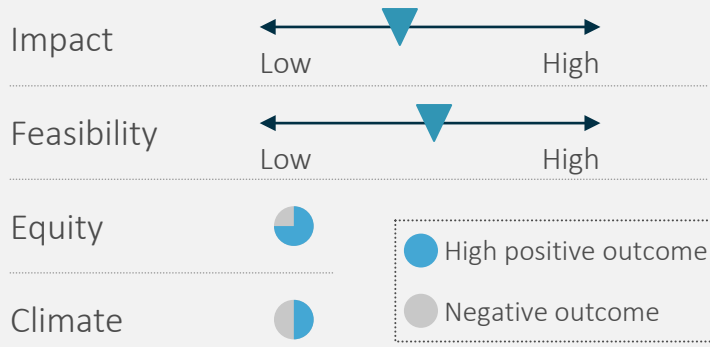
Lever: Financing

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- ✓ Nonprofit
 - ✓ Private

Assessment:



Description

State and local governments, nonprofits, and private developers can increase the labor supply in the construction industry by funding programs that train and support people who wish to work in the construction industry. Training (such as through vocational schools, pre-/apprenticeships, or other workforce development models in addition to ESL) can increase the pool of people working in construction and related industries in the future. Supports (such as childcare or senior care, low-cost transportation, etc.) can remove other barriers to working



Example(s)

- Portland provides public funding for Apprentice-Related Child Care (ARCC) and Pre-Apprenticeship Child Care Initiative (PACCI) which provide childcare support for those in construction apprentice and pre-apprentice programs
- Colorado's Construction Education Foundation creates construction workforce development opportunities through education and training programs



Critical actions

- Identify and remove barriers to entry into the construction industry
- Collaborate with developers to help fund/design/operate training and other support programs for their workforce



Complementary policies

- Support and utilize innovative construction methods and materials
- Though outside the scope of this work, coordination with workforce development and education policies will be critical

Continue to reform WA condo liability laws and regulations

Lever: Regulatory


Time Near Long V. Long

Capital \$ \$\$ \$\$\$


Sectors Involved:


- Public
- State Nonprofit
- Local Private


Assessment:


Impact 

Feasibility 

Equity 

Climate 

 High positive outcome

 Negative outcome

Description

Condos are often a starter home for many first-time homebuyers, so increasing the supply of condos and decreasing the cost to develop and therefore buy condos has potential equity impacts by making homeownership more accessible to more people. Washington State Condominium Act, passed in 1989 and strengthened in 2009, significantly increased insurance costs for builders and slowed condo development. In 2019, SB 5002/HB 5334 began reforming condo liability laws; but it is too early to tell results, and some believe the reform will not sufficiently reduce risks and costs for developers. Additional reforms could include the "duty to cure" which provides construction parties the right to fix defects before any litigation actions are taken

Example(s)

- In 2017, [Colorado](#) passed a law requiring homeowner’s association (HOA) boards to obtain permission from majority of homeowners before launching a construction defect lawsuit

Critical actions

- Evaluate further reforms needed in collaboration with developer/builder and condo owner groups
- Balance priorities of protecting condo homebuyers and supporting development of more condos

Complementary policies

- All zoning-related policies – to allow multi-family developments like condos in more places
- Create and fund down payment assistance program for first-generation or first-time home buyers

Engage private companies to help finance and build affordable housing

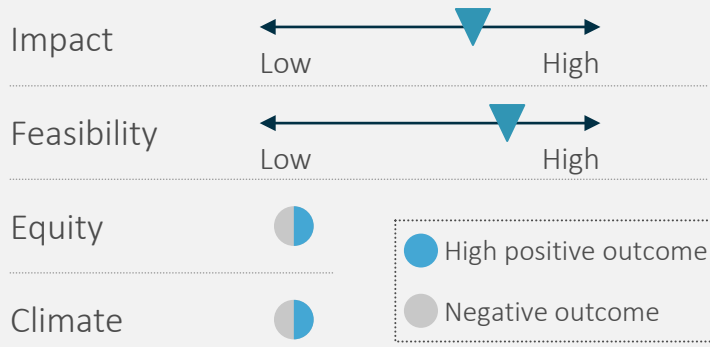
Lever: Financing, Land

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- Nonprofit
 - ✓ Private

Assessment:



Description

Large private companies based in areas with high housing costs have an interest in their workforce's housing availability and costs, and therefore have a strong reason to be part of the solution. Private companies can fund affordable housing by using their land (e.g., donating or selling below-market to a nonprofit developer or community land trust; or developing housing themselves) or their financial resources (e.g., providing below-market financing through impact investing or philanthropic grants)



Example(s)

- In June 2019, [Google announced a \\$1 billion commitment](#) to build more affordable housing in the Bay Area; goal is to provide ~20,000 new housing units across range of income levels in the Bay Area
- [Apple](#) has deployed \$1 billion of its \$2.5 billion commitment to support affordable housing in California. The housing initiatives that will be funded by Apple include first-of-its kind \$1 billion affordable housing investment fund with the state of California, \$1 billion first-time homebuyer mortgage assistance fund, and \$300M in Apple-owned land made available for affordable housing
- See page 50 for details on Microsoft's and Amazon's investments in housing in Washington



Critical actions

- Private company should evaluate their "competitive advantage" – what special resources and skills they bring to the table to have the biggest impact on housing affordability
- Advocate for workforce's housing needs, including through engagement in local planning (i.e., rezoning around company HQ/office or where employees live), permitting (i.e., show up at development meetings and speak in favor of building), and legislature (i.e., housing policy advocacy)
- Create public-private partnerships to de-fragment public and private funding sources & requirements



Complementary policies

- Accelerate/streamline permitting processes for housing development
- Upzone areas near transit hubs to incentivize transit-oriented development (TOD)
- Enable and incentivize the creation of land trusts

Provide low-cost pre-construction loans

Lever: Financing

Time	Near	Long	V. Long
------	------	------	---------

Capital	\$	\$\$	\$\$\$
---------	----	------	--------

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- ✓ Nonprofit
 - ✓ Private

Assessment:



Description

The pre-construction phase of a housing development is one of the riskiest stages of the project because there are many time consuming, non-revenue activities that must take place; thus, it can be difficult and expensive to obtain financing. Through government programs or public-private partnerships, state and local governments can finance early-stage loans/bridge loans for affordable housing development projects to help these projects get off the ground.



Example(s)

- Boston's Community Economic Development Assistance Corporation (CEDAC), in partnership with LISC and the City of Boston, helps community-based non-profit developers build affordable housing by providing early-stage capital financing and technical assistance
- Colorado's Housing Development Loan Fund (HDLF) makes loans for development, redevelopment or rehabilitation of low-or moderate-income housing.



Critical actions

- Calibrate the financing amount and rate of return with the local market
- Prioritize how to fund development projects (e.g., in high quality/in-demand locations or by other criteria; for non-profit developers; or other criteria)



Complementary policies

- Fund government short-term loan programs with a linkage fee or other type of development fee charged to non-affordable housing or commercial developments
- Accelerate and streamline local permitting processes so early-stage loans can be repaid faster and the funds used for other affordable housing developments

Provide long-term below-market debt or equity for affordable housing

Lever: Financing

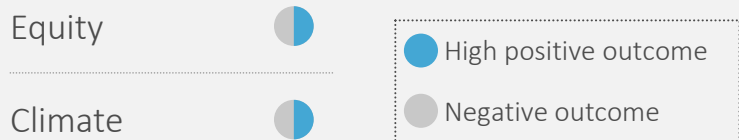
Time	Near	Long	V. Long
------	------	------	---------

Capital	\$	\$\$	\$\$\$
---------	----	------	--------

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- ✓ Nonprofit
 - ✓ Private

Assessment:



Description

Governmental agencies, nonprofits, and private impact investors can issue below-market debt or equity to developers to help finance affordable housing units. This can be done through equity investments with a lower required rate of return (sometimes called "impact investing") or through debt at a lower interest rate. Lowering the financing costs of a development project can have a big impact on the implied rent or sale price for that project. The financier can determine eligibility criteria, such as specific locations, number or percent of affordable units, definition of "affordability," etc.



Example(s)

- Washington's Multifamily Housing 80/20 **Bond Program** offers bonds where the interest earned is tax exempt if the developer sets aside a percentage of units for low-income residents
- California's Qualified Residential Rental Project Program (QRRP) offers **tax-exempt housing bonds**
- Denver's TOD Strategic Plan guides public & private investment around its rail stations; Although they did not upzone, Denver created a **"TOD Fund" to create and preserve affordable homes near transit**, in a broad **partnership**. It has to date invested over \$50M in 22 properties with >2000 affordable units



Critical actions

- Calibrate the financing amount and rate of return with the local market
- Prioritize how to fund development projects (e.g., in high quality/in-demand locations or by other criteria; for non-profit developers; or other criteria)



Complementary policies

- Fund public long-term, below-market debt or equity with a "linkage fee" or other type of development fee charged to non-affordable housing or commercial developments

Accelerate and streamline local permitting processes for housing developments

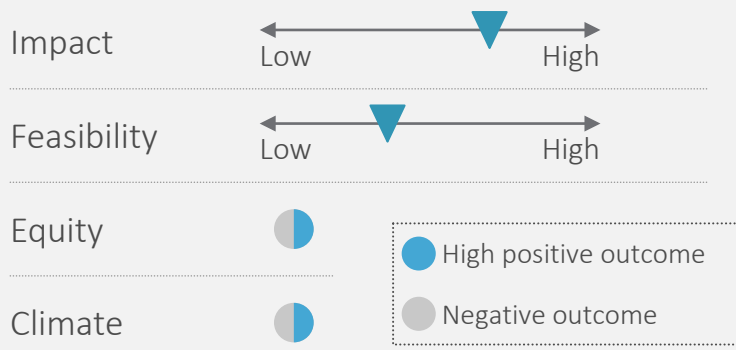
Lever: Regulatory

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- ✓ Public
- ✓ State
- ✓ Local
- Nonprofit
- Private

Assessment:



Description

A 2022 report from the Building Industry Association of Washington (BIAW) estimated that the average permit delay in Washington was ~6.5 months, resulting in ~\$26,000 in extra housing costs. Further, Washington state law requires governments to process permits in 120 days, but there are no consequences for failing to meet this timeline. Streamlining the permitting processes and enforcing timelines will decrease the variability, risk, and cost to build housing



Example(s)

- [California law AB 2234](#) streamlines and brings more transparency to the permitting process by requiring that all jurisdictions move the application process online and create a detailed list of permit requirements to be posted on their website
- [Florida](#) passed a law requiring cities and counties to process permits in 30 days and mandates that localities must refund a portion of the permit application fee to developers if they do not meet the 30-day timeline
- [Massachusetts Chapter 43D](#) expedites local permitting by incentivizing municipalities to finalize local permitting decisions within 180 days by giving municipalities that opt-in priority consideration for state grants and training programs
- [Pierce County \(Code Sec. 18A.65.040\(A\)\)](#) is an example of a Washington county that offers expedited permit processing for low-income, affordable housing developments



Critical actions

- Digitalize and automate the permitting process
- Create a system that allows permitting steps to occur in parallel; e.g., simultaneously processing building, fire, and sanitation permits will reduce the effect of bottlenecks
- Simplify and standardize building codes for a local area or region
- Utilize pre-approved plans, where possible, to expedite the permitting process



Complementary policies

- Provide low-cost pre-construction loans

Provide long-term below-market rate debt or equity for preservation of housing

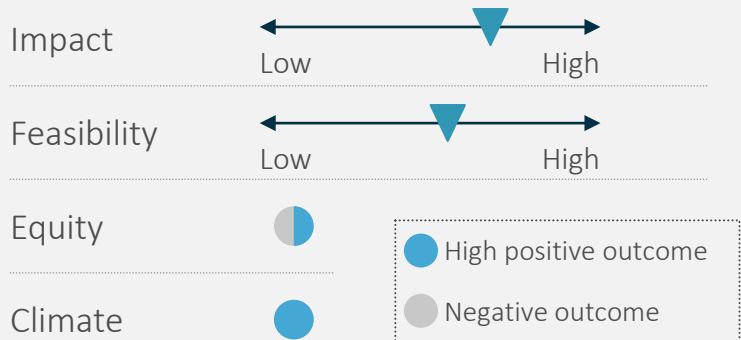
Lever: Financing

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- ✓ Nonprofit
 - ✓ Private

Assessment:



Description

Below-market financing can reduce the costs associated with maintenance and updating of housing properties. By reducing these back-end costs, owners can preserve existing affordable housing



Example(s)

- [New York City's Participation Loan Program](#) provides low-interest loans and/or tax exemptions to multi-family building owners to facilitate the moderate or substantial rehabilitation and maintain affordability of housing to low-to-moderate income households
- [New York City's Acquisition Fund](#), a public-private initiative launched in 2006, has invested ~\$140M in the preservation of affordable housing, resulting in maintaining the affordability of ~2,600 homes



Critical actions

- Collaborate with community leaders and local stakeholders to identify the housing units with the greatest need for preservation
- Communicate program to residents so a high percentage of qualified residents apply for funding



Complementary policies

- Fund government loan programs with a linkage fee or other type of development fee charged to non-affordable housing or commercial developments

Create and fund down payment assistance programs for first-generation or first-time home buyers

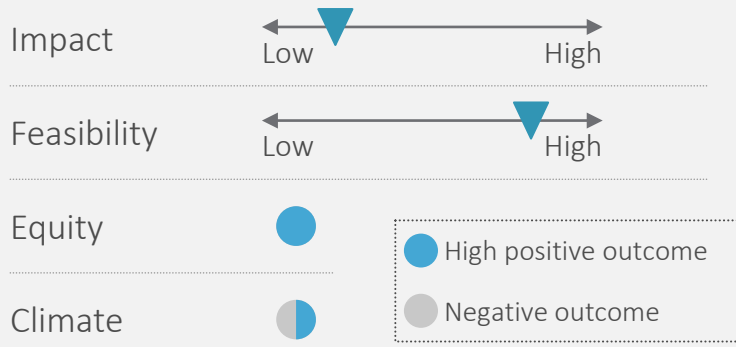
Lever: Financing

Time	Near	Long	V. Long
Capital	\$	\$\$	\$\$\$

Sectors Involved:

- ✓ Public
 - ✓ State
 - ✓ Local
- Nonprofit
- Private

Assessment:



Description

State and local governments can help certain residents become homeowners by providing funds that help with down payments and closing costs. This type of assistance can help residents who do not have sufficient savings to buy a home. Depending on policy design, this could help historically excluded/ disadvantaged groups to gain homeownership access and to build intergenerational wealth; and reduce the racial wealth gap. Today, these programs commonly exist for first-time homebuyers; many programs require borrowers to get their first-time home buyer (FTHB) mortgage as a prerequisite of a down payment assistance loan. Recently, there has been exciting discussion of a better equity-focused "first-generation" assistance program, but it is not yet clear how to appropriately define or test this criteria.

Example(s)

- In New Jersey, the [NJHMFA Down Payment Assistance Program](#) provides **qualified first-time homebuyers** a loan of up to \$15,000 for a down payment and closing costs. The funds in the Down Payment Assistance program are interest free and forgivable after five years
- The [MassDREAMS](#) program in Massachusetts offers down payment assistance between \$35,000 to \$50,000 to **low- and middle-income first-time homebuyers**
- The [Seattle Down Payment Assistance Program](#) is a **second mortgage loan program** that provides up to \$55,000 in down payment assistance to first-time homebuyers. Payments are deferred for 30 years at a 3% simple interest rate. An FTHB mortgage is a prerequisite

Critical actions

- Provide free homebuyer education classes and require attendance for eligibility
- Define eligibility requirements (e.g., income limits based on household size or others) and determine how they will be tested

Complementary policies

- Use funds from linkage fee to provide grants or subsidies to homeowners
- Use gov't acquisition of property and land trusts to provide lower-cost homes that first-time homebuyers can more easily purchase with the down payment assistance loan

Provide state level funding to homeowners for home efficiency/climate improvement

Lever: Financing

Time Near Long V. Long

Capital \$ \$\$ \$\$\$

Sectors Involved:

- Public
 - State
 - Local
- Nonprofit
- Private

Assessment:

Impact
←
→
▼
Low
High

Feasibility
←
→
▼
Low
High

Equity

Climate

- High positive outcome
- Negative outcome



Description

Government programs can fund energy efficiency upgrades for homeowners. The impact of subsidizing energy efficiency upgrades for homeowners is a decrease in housing costs for homeowners and a decrease in GHG emissions; this can help preserve currently affordable housing and help people stay in their homes



Example(s)

- [New York State](#)'s Energy Research and Development Authority offers a range of several residential programs to help NY residents identify and address areas of energy inefficiency in their homes
- The federal government offers a Weatherization Assistance Program ([WAP](#)) to reduce costs for low-income households by increasing the energy efficiency of their homes; has provided assistance for 35,000 homes every year using DOE funds. However, some experts believed it is underutilized because many people don't know it exists



Critical actions

- Sync state and federal grant programs to ensure optimal execution of assistance initiatives
- Educate residential populations on available resources for renewable and climate-friendly improvements



Complementary policies

- Use funds from linkage fee to provide grants or subsidies to homeowners

Potential for impact: How the portfolio
can address affordability, drive equity,
and be climate conscious

This portfolio of housing policies and actions can help get Washington to more equitable outcomes

Select examples

Equity challenges...

Black residents in Seattle area spend more time commuting than white residents¹

Lower-income and people of color rarely have equal voice in urban planning

Past discriminatory housing policies have excluded BIPOC² from certain neighborhoods

Discriminatory policies and practices led to lower BIPOC homeownership rates

...and how they can begin to be addressed

✓ Decrease commute times by enabling more residents to live near transit hubs and job centers

✓ Encourage community land trusts, with residents who are active participants in shaping their neighborhoods

✓ Increase housing supply in all neighborhoods enabling more people to choose where they want to live

✓ Provide pathways to homeownership and generational wealth through tools like subsidies and shared equity models

Policies and actions that can help

Create and fund down payment assistance program for first-generation or first-time home buyers

Upzone areas near transit hubs to incentivize transit-oriented development (TOD)

Enable and incentivize the creation of land trusts

Provide state support and/or mandate to local jurisdictions to encourage and accelerate upzoning

1. Black residents in the Seattle area spend 18 more hours each year commuting than white residents 2. Black, Indigenous, and people of color Source: Jackson "Black Well-Being Report" (2022); Expert interviews; BCG analysis

Various policies in the portfolio enable development while minimizing climate impact

More housing is needed, but construction has high climate impact; critical for Washington to evaluate tradeoffs and balance these two priorities

Select examples

Upzone areas near transit hubs to incentivize transit-oriented development (TOD)

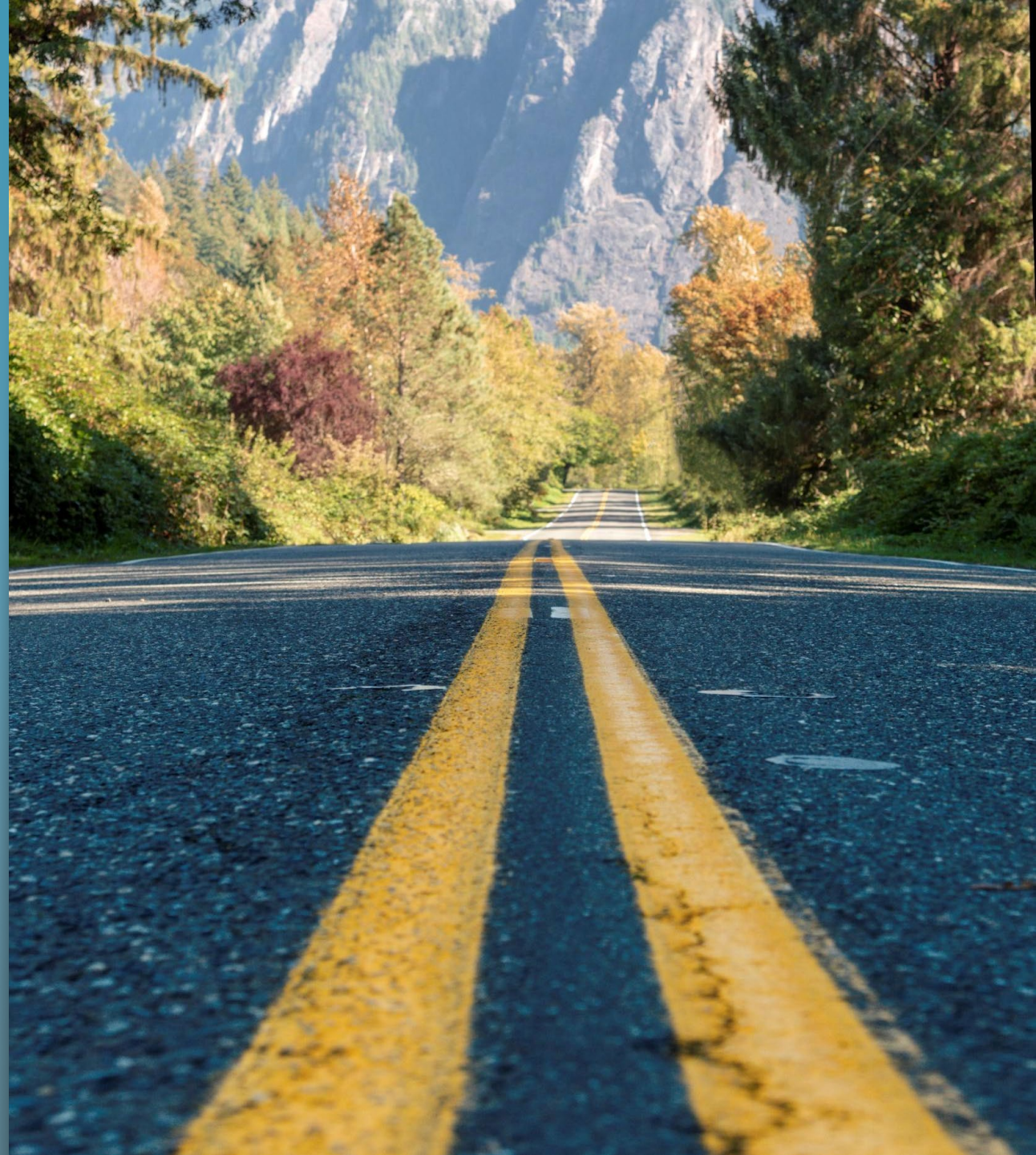
Decrease or waive parking requirements

Offer density bonuses to developers

Provide state-level funding to homeowners for home efficiency/climate improvements

- Increase housing supply and options near transit hubs to reduce GHG emissions from residents traveling via cars
- Enable developers to not build parking spots, reducing materials and resulting in more efficient use of space, as well as encouraging less driving
- Increase housing density near job and city centers to reduce the number of commuters and commute lengths
- Subsidize home improvements to make homes more resilient and energy efficient, and to reduce utility costs

The portfolio in action:
Estimated impact of select
policies and actions on
implied rents in Seattle and
the Tri-Cities



Approach to evaluate cost impact



TYPICAL COSTS

First, need to understand typical development cost and financing structure



HYPOTHETICAL DEVELOPMENT

Second, develop hypothetical model of developer costs, pre-construction financing, permanent financing, and operating model to estimate required rent



POLICY AND ACTION LEVERS

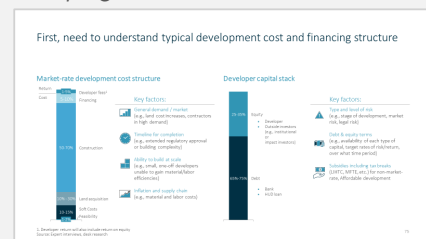
Third, estimate potential impact of policies and actions on hypothetical development model to understand how they might reduce development costs



IMPACT ON RENTS

Combine policies and actions to understand potential reduction to monthly rent costs

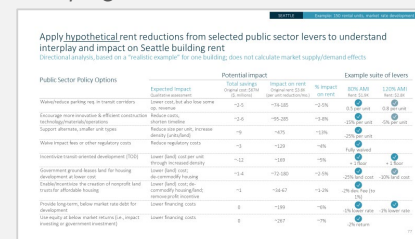
See page 118



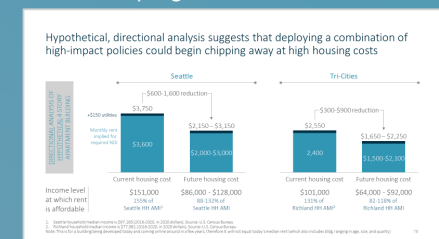
See page 120 & 122



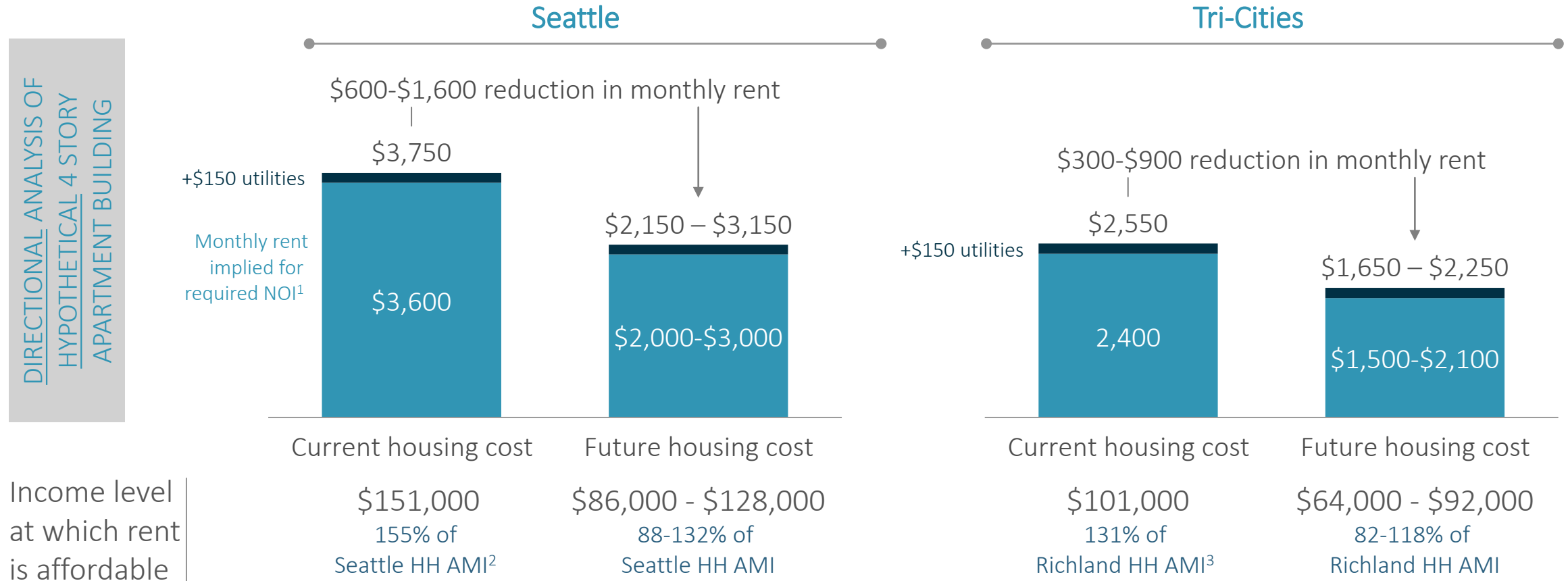
See pages 121 & 123



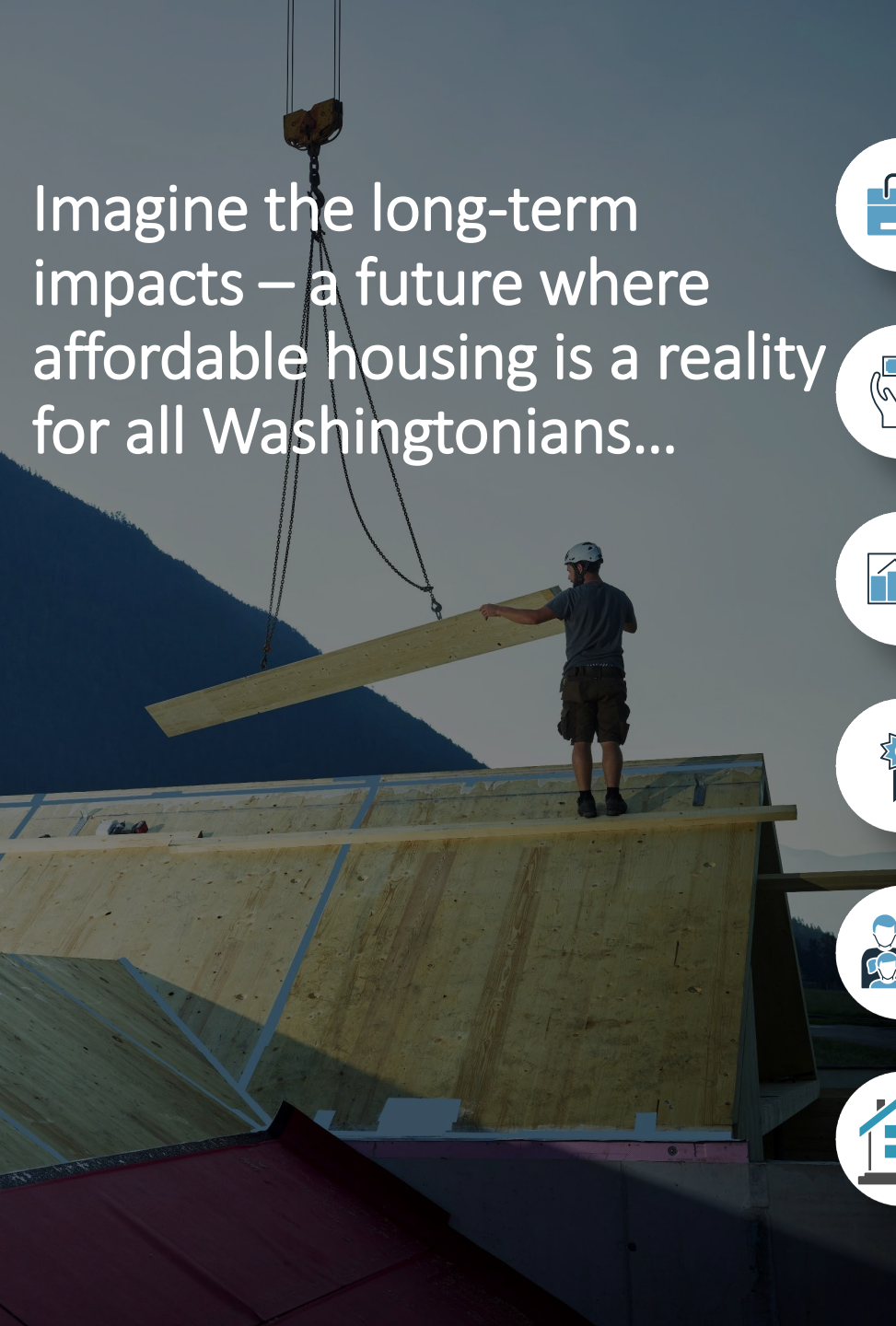
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Hypothetical, directional analysis suggests that deploying a combination of high-impact policies and actions could chip away at high housing costs



1. Net operating income 2. Seattle household median income is \$97,185 (2016-2020, in 2020 dollars) 3. Richland household median income is \$77,981 (2016-2020, in 2020 dollars)
 Note: This is for a building being developed today and coming online around in a few years, therefore It will not equal today's median rent (which also includes bldg. ranging in age, size, and quality)
 Source: U.S. Census Bureau; BCG analysis



Imagine the long-term impacts – a future where affordable housing is a reality for all Washingtonians...



Teachers, police officers, and other middle-income households can afford to **live where they work and serve critical community roles**



Low- and middle-income households can afford to pay housing costs for homes that fit their size needs—without making sacrifices on food or other necessities



Low- and middle-income households can stay in their cities and neighborhoods, benefiting from relationships that develop over time & that can promote upward mobility



First-generation homebuyers can afford to buy a home in a neighborhood of their choosing—and **begin building wealth** for future generations



Diverse and nurturing neighborhoods are led by residents from all backgrounds and income levels



Everyone has a home; no one spends a night unsheltered or is forced into homelessness by high housing costs

A hand holding a silver and black pen is positioned over a document. The document contains a disclaimer in small, mirrored text. The background is dark and out of focus.

Disclaimer

BCG does not guarantee specific results or output, resulting from, or generated through this report, and BCG is not responsible for any decisions or actions taken based on this report

Appendix: Table of Contents

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Appendix: Table of Contents

Additional analysis

Location-based vignettes

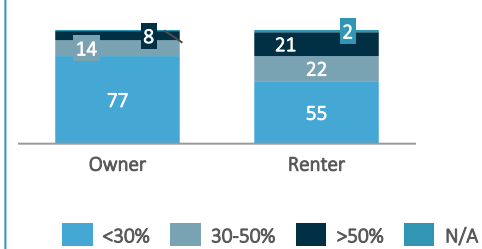
Portfolio of policies and actions back-ups

Impact analysis back-ups

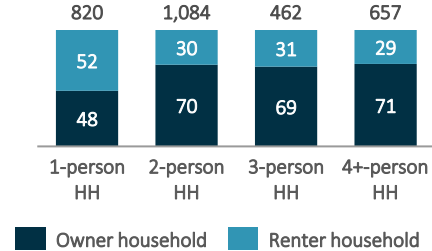
State overview: WA

Housing Affordability

% of households (owned and rented) that are cost burdened (2019)¹



Households by size and tenure in WA ('000s, 2021)



Cumulative # of housing units vs. # of households added since 2010



% of HH making >\$75K (2021)² 56%

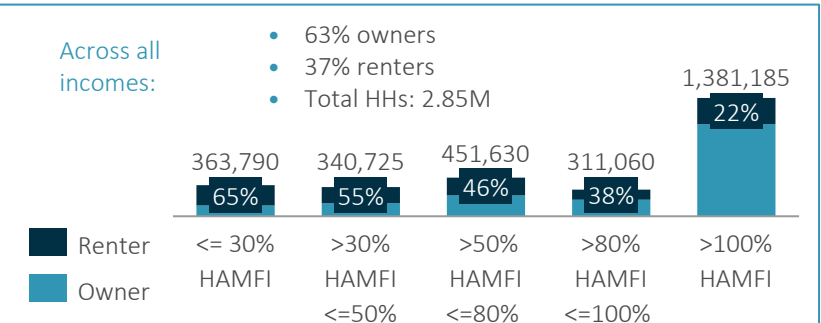
Median rent (\$) /year	2010	2020	CAGR
	11K	17K	4.5%
Median home value (\$)	2010	2020	CAGR
	271K	419K	4.5%
Jobs	2015	2025e	CAGR
	3.54M	4.2M	1.7%

General Fact Base

Population	2021	2025e	CAGR
	7.7M	8M	1.0%
Population location (%)	Urban	Rural	
	82%	18%	
Households (#)	2019	2021	CAGR
	2.9M	3.0M	1.7%
	# of HH that fall into each income bracket ('19) ¹	<=50% HAMFI	>50% to <=80% HAMFI
	25%	16%	59%
Median HH Income (\$)	2019	2021	CAGR
	82K	88K	3.6%

Neighborhood Inclusion

Race/ Ethnicity	African American	5%		
	Asian alone	10%		
	White alone	66%		
	Other/mixed	6%		
	Hispanic or Latinx	14%		
Gini Index (Higher % is higher inequality)	2010	2020	2021	% change
	44.10%	45.74%	47.04%	+2.94%

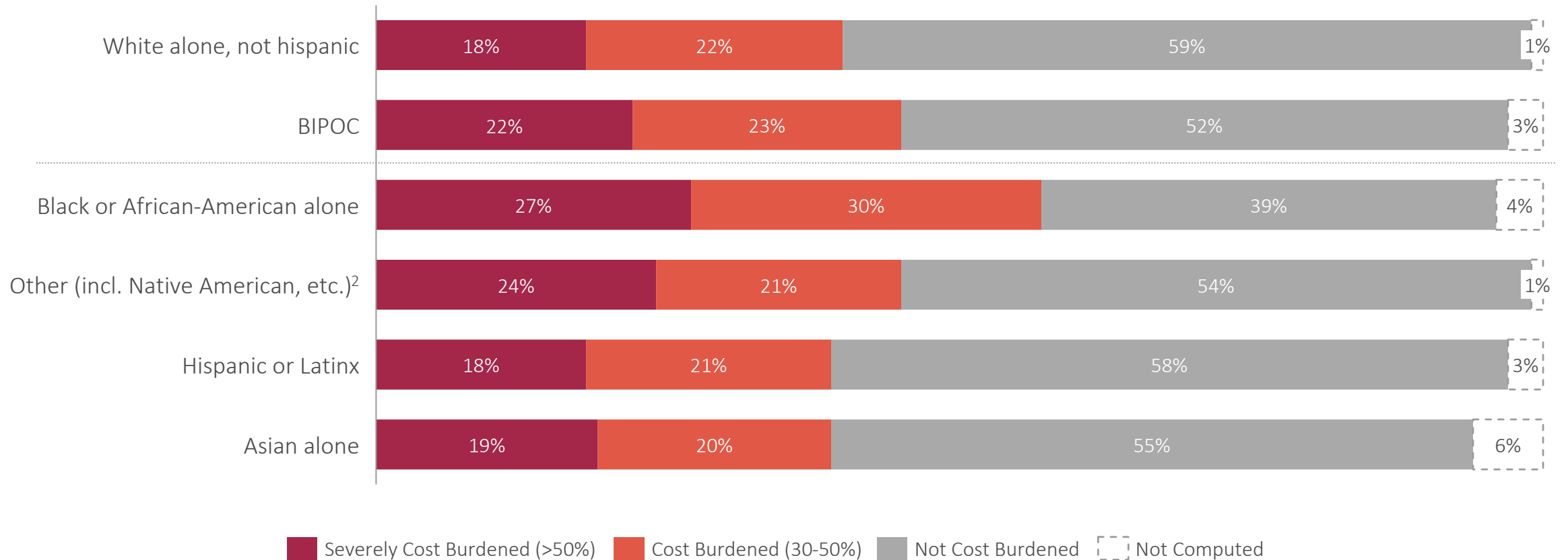


1. 2019 5-year estimate from Census data. Estimates from ACS use trailing five years of data; 2. Census data; Tenure by housing costs as a percentage of household income ('21)
Source: U.S. Census Bureau; American Community Survey, BCG analysis

In 2021, Washington was one of the least affordable states for homeowners, while renters see similar (un)affordability compared to the rest of the US

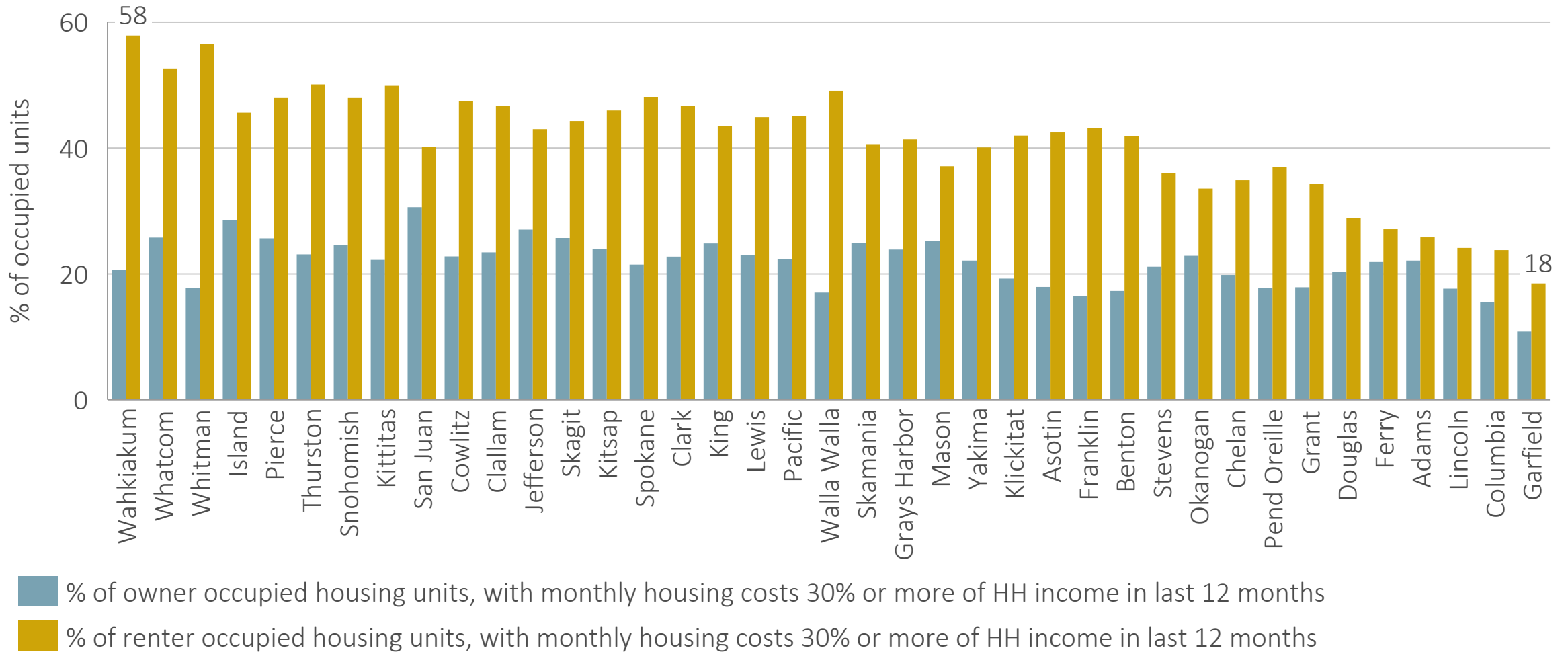
State	Home affordability ranking <i>1 = least affordable</i>	Home price to income ratio <i>(2021)</i>	Homeowner vacancy rates <i>(2021 avg.)</i>	State	Rent affordability ranking <i>1 = least affordable</i>	Rent as percent of median income <i>(2021)</i>	Rental vacancy rates <i>(2021 avg.)</i>
Hawaii	1	8.79	0.75	Louisiana	1	36%	7.7
California	2	7.94	0.75	Florida	2	36%	6.6
Nevada	3	5.80	0.75	Nevada	3	35%	4.6
Massachusetts	4	5.55	0.7	Massachusetts	4	35%	4.2
Washington	5	5.54	0.75	California	5	35%	4.3
Montana	9	4.97	0.85	New York	6	35%	6.0
Florida	10	4.87	1.1	Connecticut	7	34%	5.1
New Jersey	15	4.40	0.8	Hawaii	8	34%	7.4
D.C.	16	4.40	1.475	Mississippi	9	34%	9.2
Georgia	18	4.06	1.0	Washington	20	32%	4.5
US Average	-	3.98	0.9	US Average	-	32%	6.1

Amongst Seattle renters, BIPOC¹ and especially Black households are disproportionately burdened



1. Black, Indigenous, and people of color 2. Includes American Indian, Alaska Native, Native Hawaiian and other Pacific Islander, multiple race, etc.
 Source: U.S. Census Bureau, HUD CHAS (based on ACS 2013-2017 5-year estimates); BERK, 2020

In all WA counties, much higher proportion of renters burdened than owners

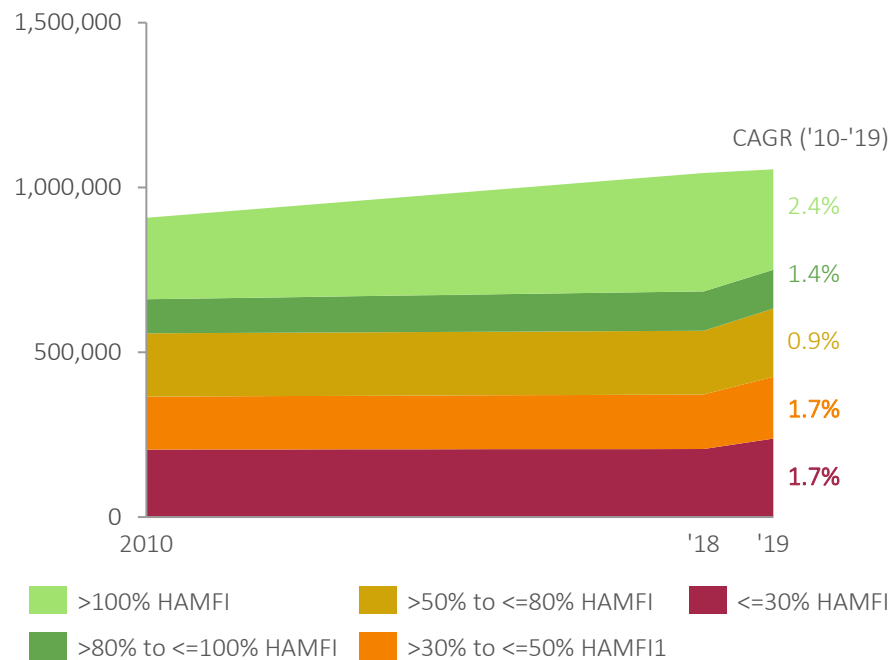


Despite growing number of lower income renter households, number of affordable available units is steeply declining

Demand

Total renter households increasing, but significant increase in low-income households (below 50% HAMFI¹)

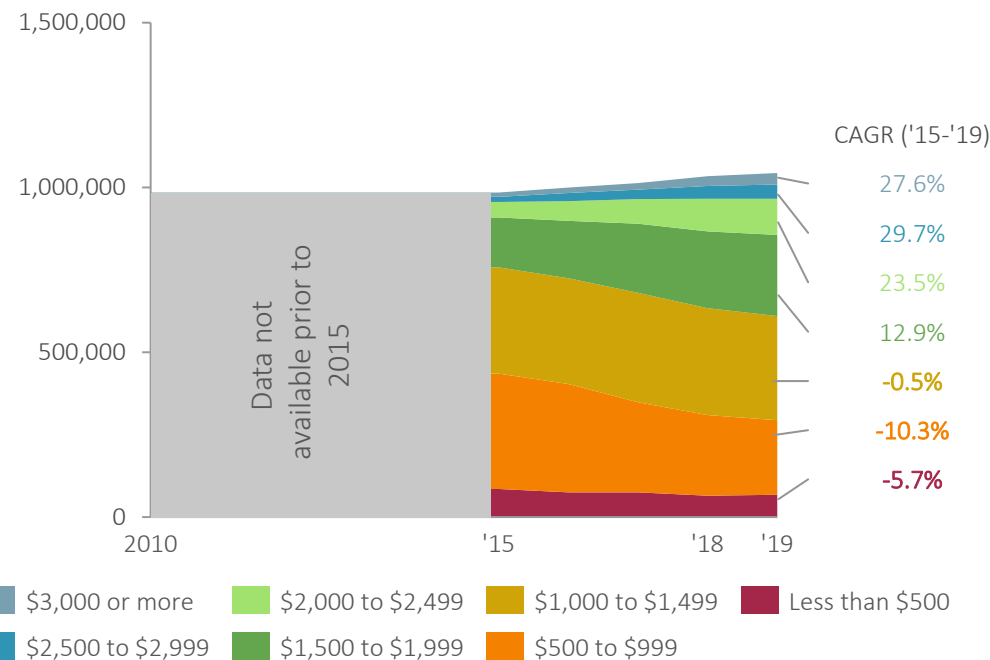
Historic renter households by HAMFI income level



Supply

Overall rental stock increasing, but decrease in units at every price below \$1500/month

Historic occupied rental housing units by monthly rent

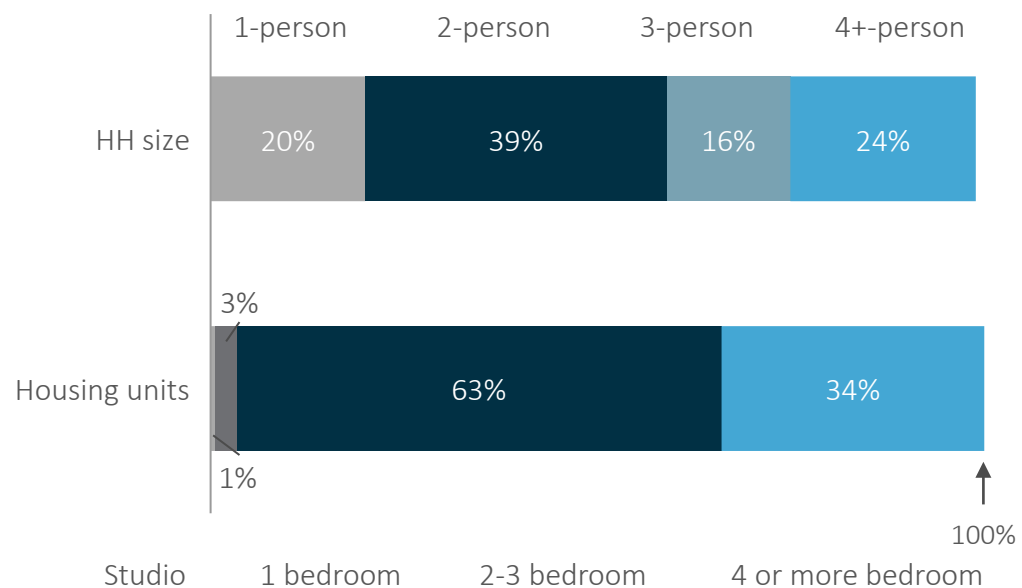


1. HUD Area Median Family Income (\$86,300, 2019)
Source: U.S. Census Bureau; HUD; BCG analysis

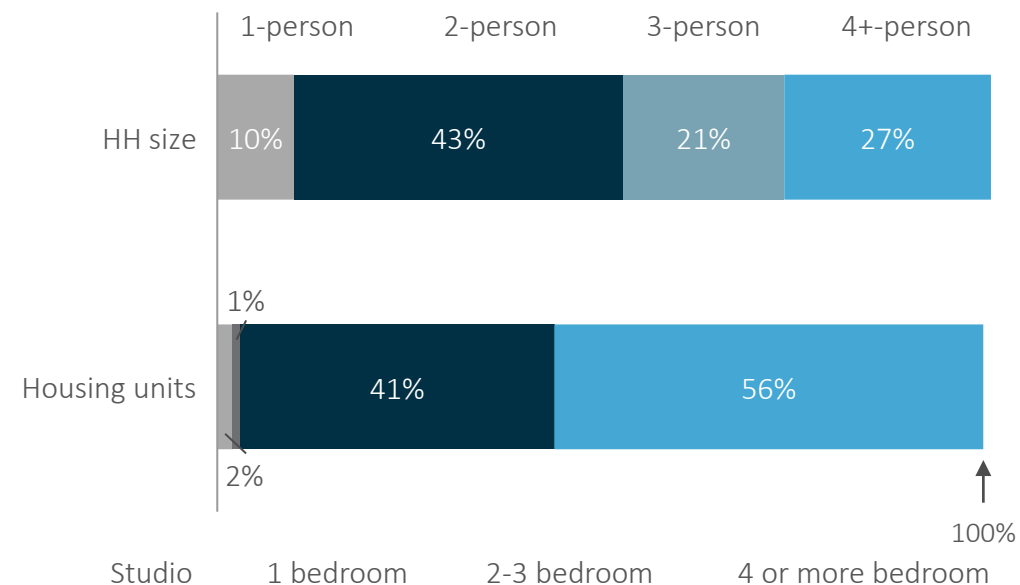
Owner HH | Occupied housing units better match HH size, but notable increase in units with 4+ bedrooms likely increases average home price



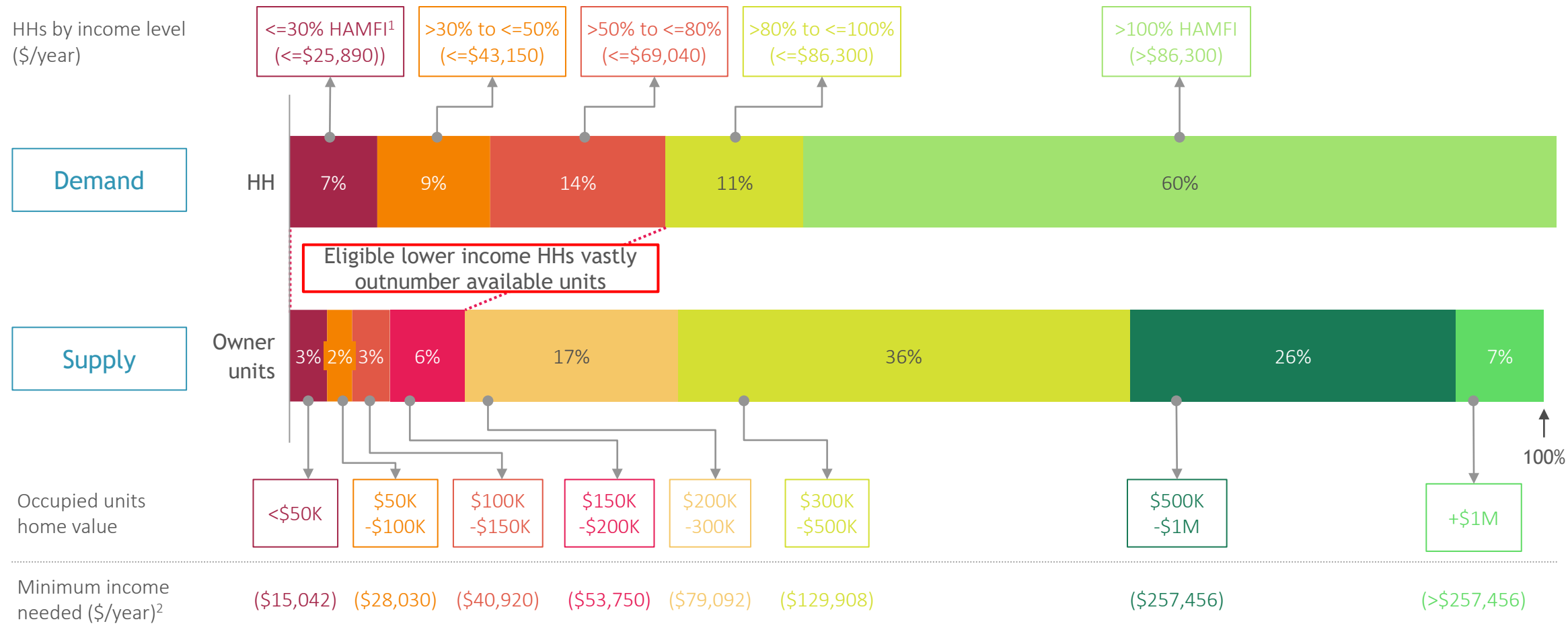
'21 | Ownership houses trend larger than owner households:
 ~80% owner HHs have 2+ people & 96% units have 2+ BRs



'10 - '21 | Increase in housing units of 4+ bedrooms far exceeds the increase in HH of 3+ people



Owner HH | Shortage of owner units that could be affordable and available to lower income households



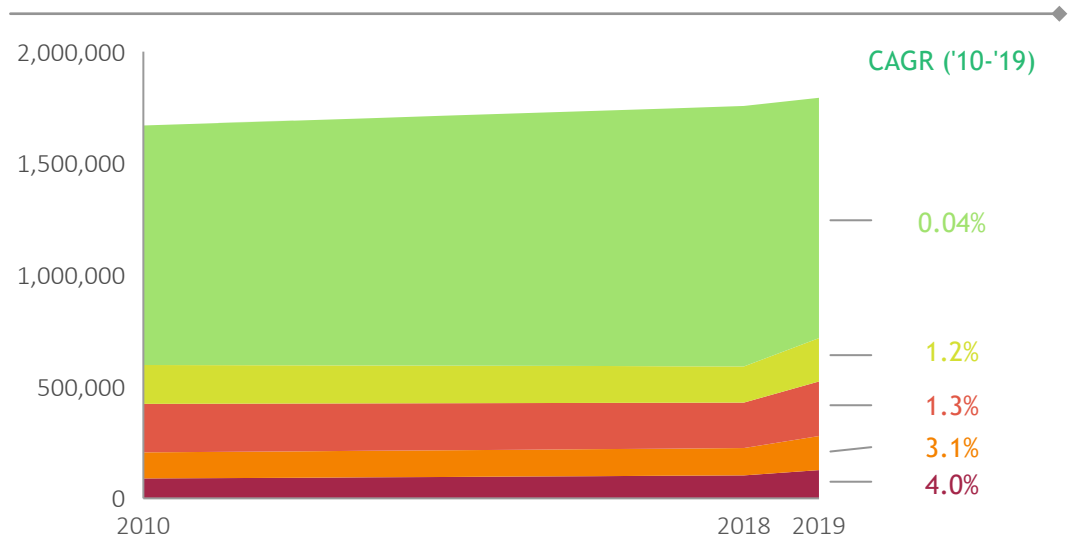
1. HUD Area Median Family Income (\$86,300); 2. Critical to the notion of affordability, assume a household does not spend more than 25% (typically, this is 30%, but we use a slightly lower number to account for utilities)
 Note: numbers may not appear to sum due to rounding
 Source: U.S. Census Bureau; HUD; BCG analysis

Owner HH | Increasing number of lower income owner HHs since 2010 paired with diminishing supply of affordable units for those households

Demand

Total owner households increasing across income levels

Historic owner households by HAMFI¹ income level

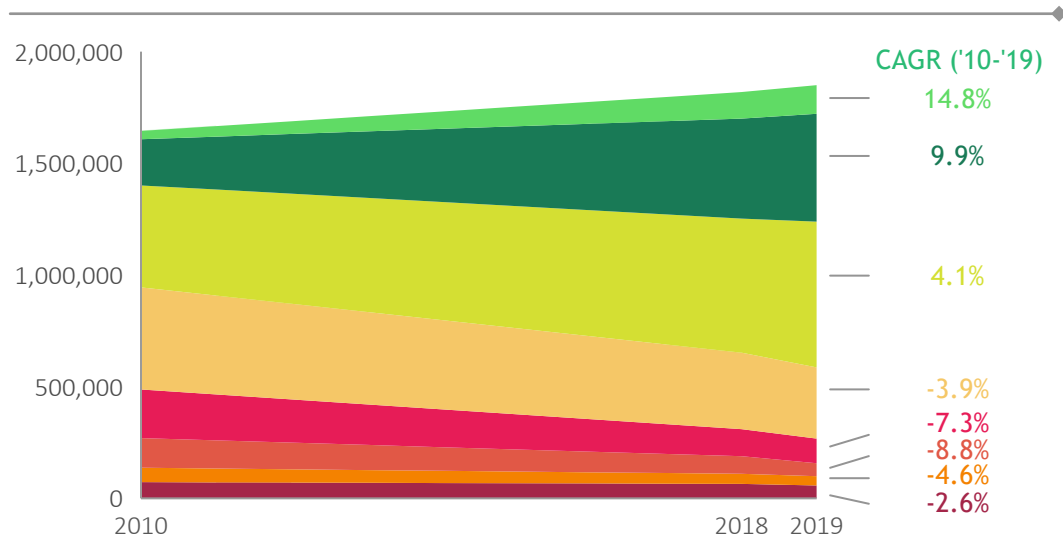


- >100% HAMFI
- >80% to <=100% HAMFI
- >50% to <=80% HAMFI
- >30% to <=50% HAMFI
- <=30% HAMFI

Supply

Overall owner stock increasing, but decrease in affordable ownership units (at every price below \$300,000)

Historic occupied rental housing units by occupied units home value



- \$1,000,000 or more
- \$500,000 to \$999,999
- \$300,000 to \$499,999
- \$200,000 to \$299,999
- \$150,000 to \$199,999
- \$100,000 to \$149,999
- \$50,000 to \$99,999
- Less than \$50,000

1. HUD Area Median Family Income (\$86,300, 2019)
Source: U.S. Census Bureau; HUD; BCG analysis

Owner/Occupier households aren't the only ones buying housing units; add'l demand from vacation homebuyers, investors, short-term rentals

NATIONALLY, "OTHER" BUYERS ARE PUTTING PRESSURE ON HOUSING MARKETS

- **Second-home** demand rose by nearly 90% during the pandemic; however, as of May 2022, it had gone back down to just below (-4%) pre-pandemic levels¹
- Share of existing homes sold for **vacation** use increased from 5.0% in 2019 to 6.7% in the first four months of 2021 (the most recent time for which data is available)²
- **Investors** are purchasing more single-family homes: the share of single-family homes sold in the first quarter of 2022 and purchased by investors reached 28%—much higher than the 16% share averaged between 2017–2019
- **Short-term rentals** a U.S. study indicates that a 1% increase in Airbnb listings leads to a 0.018% increase in rents & a 0.026% increase in house prices³

SOME PLACES IN WASHINGTON ARE EXPERIENCING THAT PRESSURE



Pacific County, WA is the only Washington County on NAR's⁴ top 100 **vacation home** counties list

- 5,698 vacation homes (though County Comp Plan estimates higher number at >6,900 or ~43% of housing stock)
- 10.7% y/y chg. in median home price
- -7 y/y change in days on market



King County is an **investor** hot spot for WA

- Increasing investor purchases: 3% in 2000, to 5% in 2015, to 8.7% in Q2'22⁵
- In 2021, estimates ranged from 6%-29% of Seattle-area homes that were sold to investors⁶
- But, Seattle has fewer investor purchases than the typical metro⁷
- Also, higher short-term rentals: 5,755 Airbnb/VRBO listings in Seattle alone⁸

THIS MAY BE PART OF, BUT NOT THE MAIN DRIVER OF, HOUSING UNAFFORDABILITY

Investors snatch up real estate in King, Pierce and Snohomish leaving first-time homebuyers behind
Jul 26, 2022, 11:58 AM | Updated: 1:03 pm

Who is really buying all the housing in Clark County?

Despite allegations corporations are fueling housing crisis by snapping up rentals, analysis finds that's not issue in Clark County

October 14, 2022 at 6:00 am
Seattle housing costs rise — so do households that can swing them | FYI Guy

'We can't afford to lose our homes': Thurston County residents concerned over proposed airport site

November 17th, 2022 | Heidi Groover
Seattle landlords accused of conspiring to raise apartment rents

Three antitrust suits allege property management companies in Seattle worked together to fix rents using an algorithm — a new frontier in antitrust disputes.

So you can't afford a house in Seattle. Are investors to blame?

Nov 26, 2021 at 7:00 am | Updated Nov 26, 2021 at 3:21 pm

1. Redfin Second Home Demand Index (June 2022) 2. National Association of Realtors (NAR) 2021 Vacation Home Counties Report (link); 3. Forbes, "The Airbnb Effect On Housing And Rent" (Feb 2021) 4. National Association of Realtors 5. Redfin Nov 2021 (link) 6. Seattle Times (link) 7. Washington Post (link) 8. AirDNA (link)
Source: JCHS State of the Nation's Housing 2022

Detail: At state level, Washington is passing policies to grow housing capacity (i.e., more housing, of more shapes & sizes) and other housing-related topics

7 bills passed, including:

- HB 1923 provides funding and incentives for localities to allow more housing, especially transit-oriented dev't, missing-middle housing, affordable housing; allocated \$5.8M to planning
- SB 5002/HB 5334 reforms condo liability laws
- SB 5383 legalizes tiny houses & eases restrictions
- HB 1406 allows local jurisdictions to fund affordable housing by retaining a small portion of the local sales tax revenue that would otherwise go to the State

6 bills passed, including:

- HB 1277/SB 5279 (Document Recording Fee Bill) creates a permanent funding source for a new statewide rental assistance program and efforts to prevent & end homelessness; estimated will provide ~\$300M over 2 years; with equity measures
- HB 1220 prevents cities from banning shelters, transitional housing, or permanent supportive housing; requires jurisdictions planning under the Growth Management Act to identify policies that create racially disparate impacts, displacement, and exclusion – and to identify and implement policies to undo that harm
- SB 5287 expands MFTE to all cities and urban growth areas within any county with a population of at least 2 million, and other adjustments to MFTE

2019

2020

2021

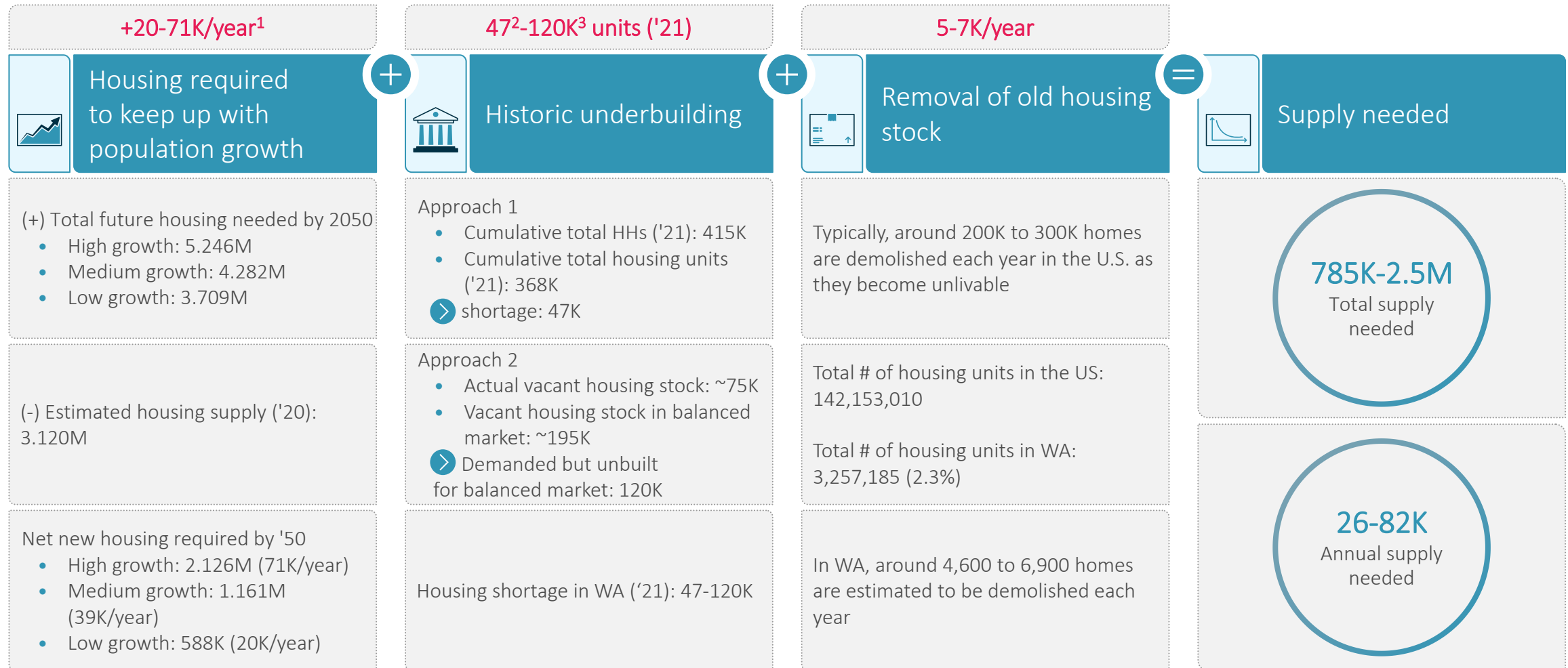
2022

13 bills passed, including:

- HB 2343/SB 6334 expands housing capacity (building on 2019's HB 1923)
- SB 6617 reforms ADU rules
- SB 6231/HB 2630 allows property tax exemption for ADUs
- HB 2673 exempts infill development from SEPA review
- HB 2950 extends the Multi-family Tax Exemption (MFTE)
- SB 6232/HB 2384 raises the cutoff for the property tax exemption on affordable housing
- SB 6212/HB 2489 authorizes use of levy funds to support low-income home ownership
- SHB 1590 provides cities and counties the ability to implement the local sales and use tax for affordable housing councilmanically
- SB 6229 streamlines reporting for recipients of housing-related state funding by removing Washington state quality award program requirements

1 (tenant protection) bill passed

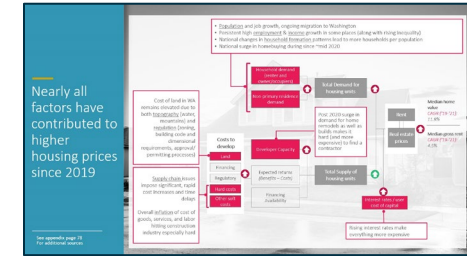
To balance the market, Washington needs to supply ~785K-2.5M new housing units by 2050



1. Forecast based on 2020 estimated housing supply and forecast of future housing needed in 2050 based on population growth (Draft Housing for All Planning Tool (HAPT) forecast) 2. Difference between cumulative # of households and of housing units ('10-'21) 3. Assume target vacancy rate of 6%; According to the Lincoln Land Institute, a reasonable vacancy rate for a local housing market is between 4% and 8%. Healthy housing markets generally need 6% vacancy rate to ensure there is enough supply available to reduce intense competition for available units that can push up rents and housing prices; Assume 2% vacancy rate in WA in '21 (estimates of weighted averaged of home and rental vacancy rate) Note: Note: Minor effects of numbers "rounding" may be visible

Sources of factors driving toward higher housing prices

Sources for page 34:



- US Census Bureau data (e.g., for population, job growth, migration, employment, income, inequality, and other data)
- Income and employment have a well-documented relationship with housing costs; see for example, Gregg Colburn and Clayton Page Aldern, "Homelessness Is a Housing Problem," (Mar 2022)
- Inequality: Byrne, T. H., Henwood, B. F., & Orlando, A. W. (2021), "A Rising Tide Drowns Unstable Boats: How Inequality Creates Homelessness," *The ANNALS of the American Academy of Political and Social Science*, 693(1), pp. 28–45. <https://doi.org/10.1177/0002716220981864>
- Household formation: Joint Center for Housing Studies (JCHS) of Harvard University, "The State of the Nation's Housing," (2022)
- National surge in homebuying: JCHS, "The State of the Nation's Housing," (2022)
- Cost of land has a well-documented relationship with topography and regulation; see for example, Gregg Colburn and Clayton Page Aldern, "Homelessness Is a Housing Problem," (Mar 2022)
- Supply chain: See for example, "Supply chain disruptions have a direct impact on construction costs, making it difficult for contractors to stay within budget. Material cost escalations are likely and have the potential to push projects over budget." Vertex, "Need to know: The Impact of Supply Chain Issues on the Construction Industry," 2022 ([Link](#))
- Inflation: See for example: "The construction Industry faces significant challenges due to inflation as it drives up the cost of building supplies, machinery rental charges, skilled labor, and other construction resources. It may disrupt the supply chain and project completion resulting in lower profit margins." Qasar, "Weathering the Inflation Storm in Construction Industry," April 2022 ([Link](#))
- Interest rates: For example, "Rising interest rates and falling home prices also slow down construction, which limits supply increases in the housing market." Bankrate, "How interest rates and economic factors impact housing," Sept 2022 ([Link](#))

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Additional analysis

Location-based vignettes

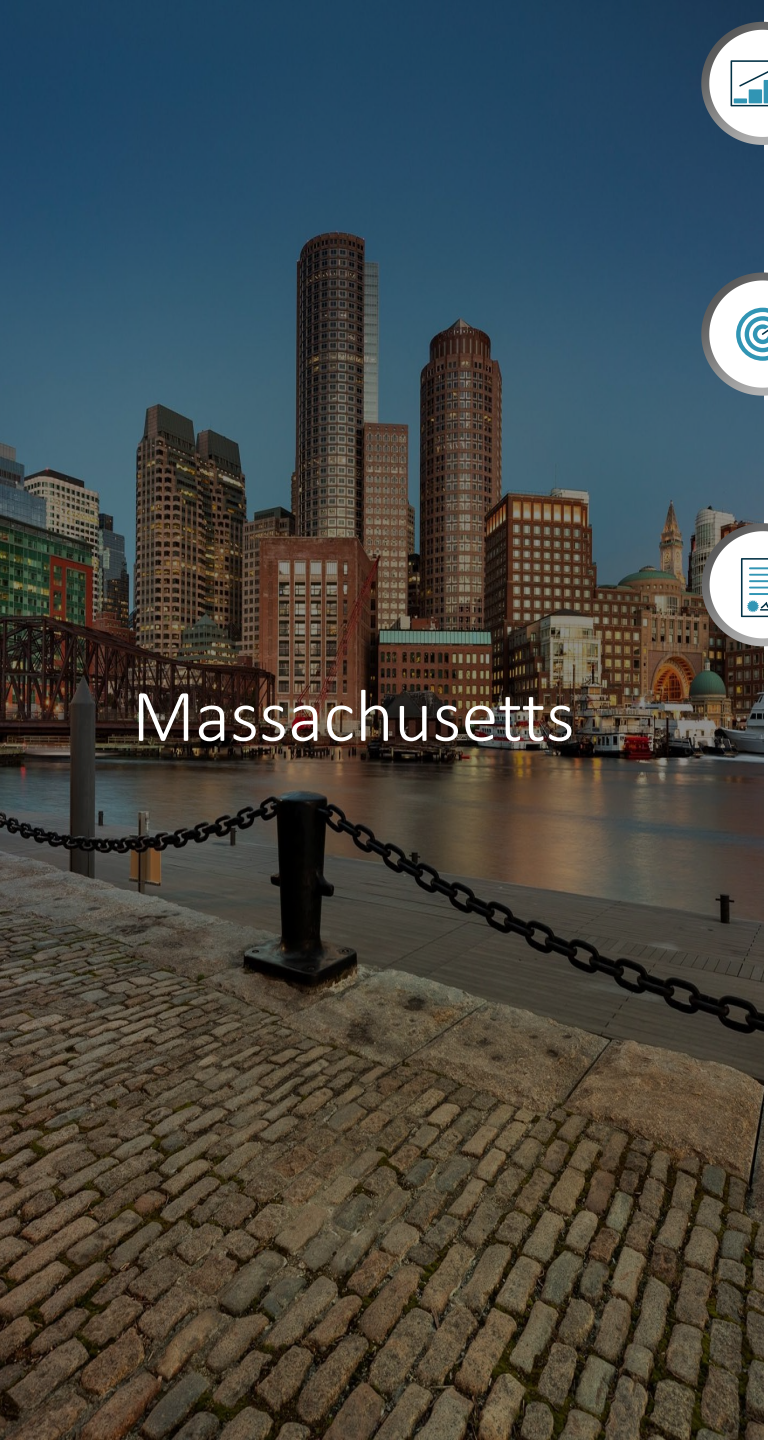
Portfolio of policies and actions back-ups

Impact analysis back-ups

Learnings from Washington cities informed portfolio of policies and actions

	Bellingham	Kirkland	Renton
 Quick stats²	<ul style="list-style-type: none"> Population: 92K Owners/Renters <div style="display: flex; justify-content: space-around; width: 100%;"> <div style="width: 46%; background-color: #0070C0; color: white; text-align: center; padding: 5px;">46%</div> <div style="width: 54%; background-color: #003366; color: white; text-align: center; padding: 5px;">54%</div> </div> <ul style="list-style-type: none"> Housing cost burden¹ 46% 	<ul style="list-style-type: none"> Population: 92K Owners/Renters <div style="display: flex; justify-content: space-around; width: 100%;"> <div style="width: 62%; background-color: #0070C0; color: white; text-align: center; padding: 5px;">62%</div> <div style="width: 38%; background-color: #003366; color: white; text-align: center; padding: 5px;">38%</div> </div> <ul style="list-style-type: none"> Housing cost burden¹ 32% 	<ul style="list-style-type: none"> Population: 105K Owners/Renters <div style="display: flex; justify-content: space-around; width: 100%;"> <div style="width: 53%; background-color: #0070C0; color: white; text-align: center; padding: 5px;">53%</div> <div style="width: 47%; background-color: #003366; color: white; text-align: center; padding: 5px;">47%</div> </div> <ul style="list-style-type: none"> Housing cost burden¹ 41%
 Housing policies	<ul style="list-style-type: none"> Urban villages: Dense, mixed-use developments allow people to live close to jobs, transits, schools, and other amenities Density bonus: Offers up to a 50% density bonus if developers meet specific affordability or amenity improvement goals 	<ul style="list-style-type: none"> Impact fee waivers and exemptions: Reduced fees for road and/or park impacts for developments providing affordable units Inclusionary zoning: All developments with over four units and located in certain zones must provide some affordable units; may make cash payments in lieu of delivering affordable units, under certain circumstances 	<ul style="list-style-type: none"> Decreased parking requirements: Buildings with affordable units are only required to provide 1 parking stall for every four affordable units (0.25 parking ratio) Housing Repair Assistance Program (HRAP): City subsidizes the cost of minor repairs to homes of Renton residents with income of 80% AMI or less
 Impact	<ul style="list-style-type: none"> Urban villages: Since 2006, ~2,800 housing units have been built in urban villages, or ~40% of all housing built during that time Density bonus: Increase in the long-term supply of affordable housing units 	<ul style="list-style-type: none"> Impact fee waivers and exemptions: Decrease cost to develop affordable units, resulting in increased supply of affordable housing Inclusionary zoning: Increase of affordable housing units in high-demand area 	<ul style="list-style-type: none"> Decreased parking requirements: Reduced building cost and more efficient use of land, resulting in increased housing supply HRAP: Preservation of affordable housing supply; improved environmental health and safety of Renton citizens

1. Includes both renters and homeowners (2021); 2. All "quick stats" are for 2021
 Source: US Census; BCG analysis



Massachusetts

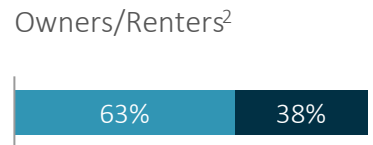


Quick stats

Population¹

- 6.985 M
- -0.6% ('21)

Density: 901/mi²



Housing cost burden
(Greater Boston)³

35%

Vacancy rate⁴

- Rental: 2.1%
- Owner: 0.8%



Relevance to Washington

Similarities

- Extremely limited buildable land
- High pop. growth, high income and high inequality
- High housing cost & burden

Differences

- Much smaller area
- Virtually no county-controlled land & very little undeveloped land



Policy/Action

Comprehensive Permit Act (aka MA Chapter 40B)

Smart Growth Zoning Overlay District Act (aka MA Chapter 40R)

Description

- Intended to streamline & **simplify local approvals** for affordable housing (below 80% AMI)
- Authorizes "qualified developers" to apply for a **Comprehensive Permit** (a streamlined process) from local Zoning Boards of Appeals (ZBAs) if certain affordability provisions met
- Provides developers the **right of appeal** to state Housing Appeals Committee (HAC)
- Refined over time + adopted by other states

- Encourages localities to create **dense residential or mixed-use zoning districts**, including a high % affordable housing units and located near transit
- Allows "**as of right**" residential development at minimum densities, if 20% of units affordable
- **Complemented** w/ Ch40S providing state funding for education to municipalities that densify

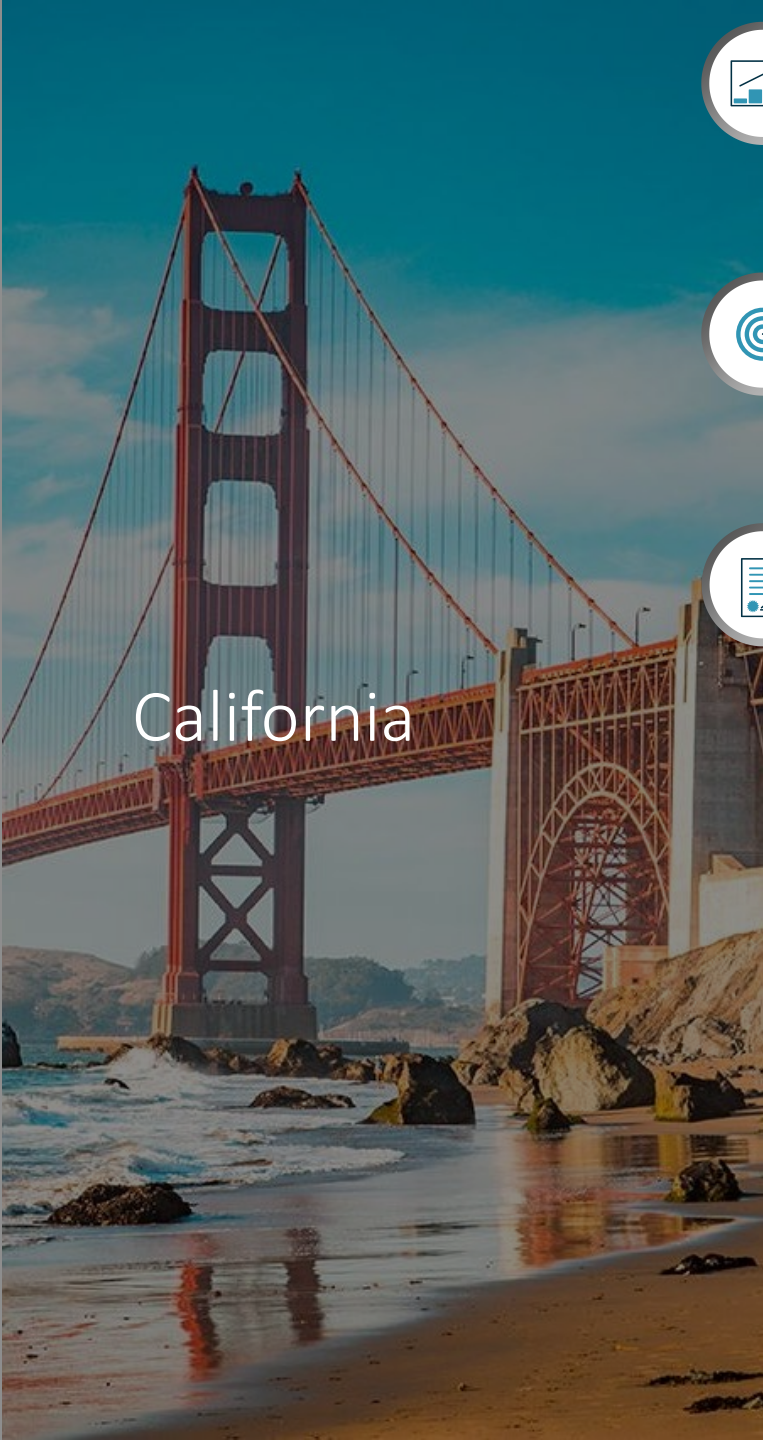
Impact

- Increase the share of municipalities that have any affordable housing units (from almost 200 municipalities with no affordable units in 1972, to under 50 in 2012)
- Boost overall housing production,
- Reduce the costs of development,
- Improve efficiencies in local planning processes

- ~3,300 units built (as of 2016) – mostly small, multi-family rentals, using subsidies
- In first 15 years, it is estimated that 15,000+ new housing units will be developed
- Impact across the state with 38 smart growth districts, promoting infill & mixed-use dev't



1. US Census population estimates July 2021, change Apr 2020-July 2021; 2. Census (2016-2020); 3. Includes both renters and homeowners, US Census (2021); 4. US Census (2021); Additional sources: "Borrowing Innovation, Achieving Affordability: What We Can Learn From Massachusetts Chapter 40B," Terner Center for Housing Innovation (2016); Chapter 40R Development Lexington Case Studies (June 2020)



California



Quick stats

Population¹

- 39.2 M
- -0.8% ('21)

Density: 253.7/mi²

Owners/Renters²



Housing cost burden³

42%

Vacancy rate⁴

- Rental: 4.1%
- Owner: 0.7%



Relevance to Washington

Similarities

- High incomes and similar industries
- High inequality

Differences

- Larger land area
- Higher population density
- Higher taxes (including an income tax)



Policy/Action

Building Homes and Jobs Act SB 2 (2017)

SB 6 (2022)

California H.O.M.E Act, SB 9 (2021)

SB 10 (2021)

Density Bonuses and Other Incentives, Ch. 4.3

Housing policies

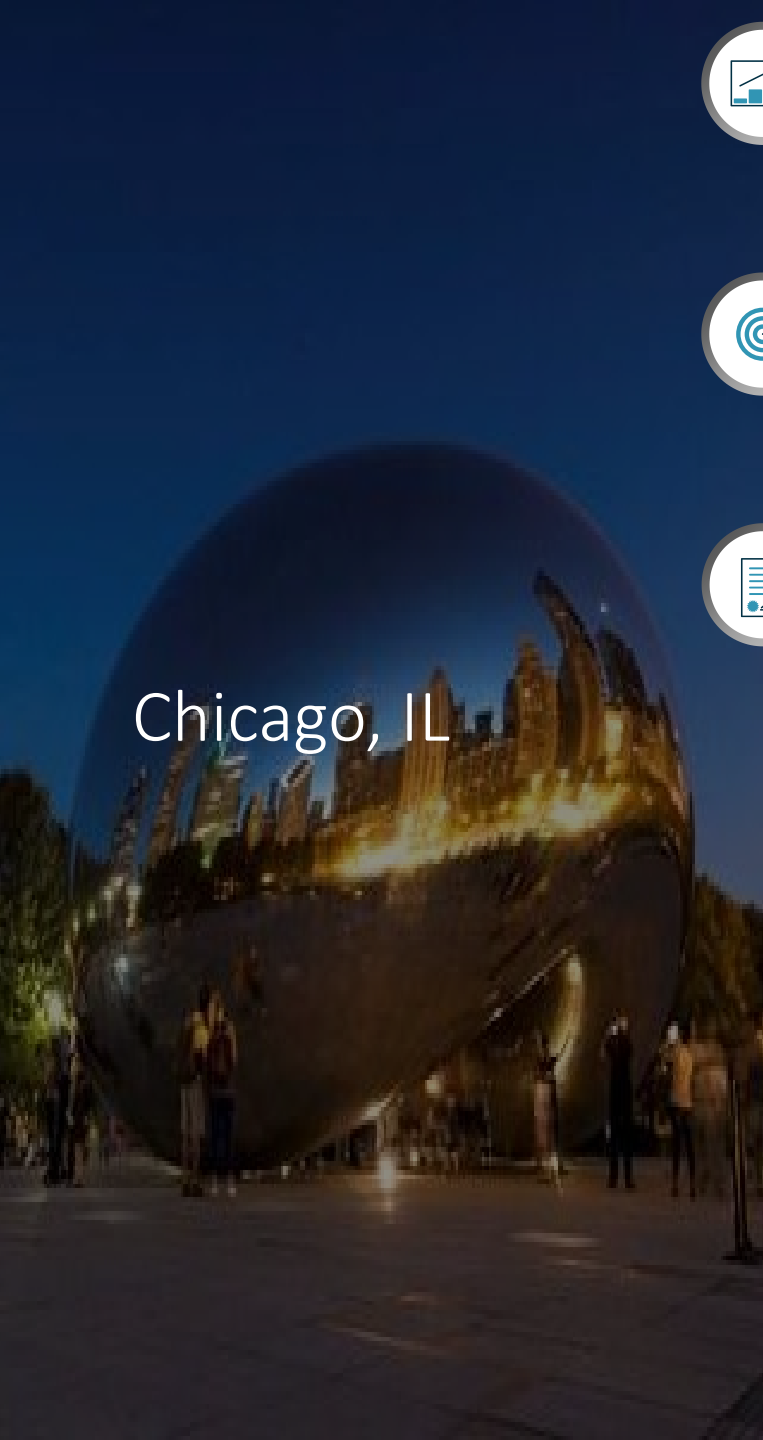
- Provide funding + technical assist. To local gov'ts to streamline and **accelerate approval process** for housing dev't; thru new document recording fee
- Enables **re-zoning of commercial and retail buildings** to allow for more residential construction in commercial corridors
- Requires cities to allow one additional residential unit on most single-family parcels
- Streamlines the process for homeowners to create a **duplex or subdivide** an existing lot
- **Makes it easier for cities to upzone** areas close to job centers, transit and existing urbanized areas
- Developers are entitled to a **density bonus** corresponding to a specified percentage of units set aside for affordable housing

Impact of policies

- Help cities & counties streamline housing approvals and accelerate housing production
- Estimated that could provide up to 2.4M new homes, including 400K affordable homes for low and moderate income HHs
- Allows for higher density in single-family zoned areas and provides access to more rental and ownership options for working families
- Creates pathway for streamlined upzoning in high-demand areas, to get greater supply of housing
- Incentives the development of affordable housing units in expensive and high-demand areas



1. US Census pop estimates July 2021, change Apr 2020-July 2021; 2. Census (2016-2020); 3. Includes both renters and homeowners; Census (2021); 4. Census (2021); Additional sources: CA Department of Housing and Community Development website



Chicago, IL

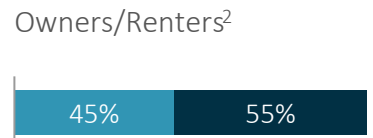
Quick stats



Population¹

- 2.7 M
- -1.8% ('21)

Density: 12,059/mi²



Housing cost burden³

39%

Vacancy rate⁴

- Rental: 6.7%
- Owner: 1.1%

Relevance to Washington



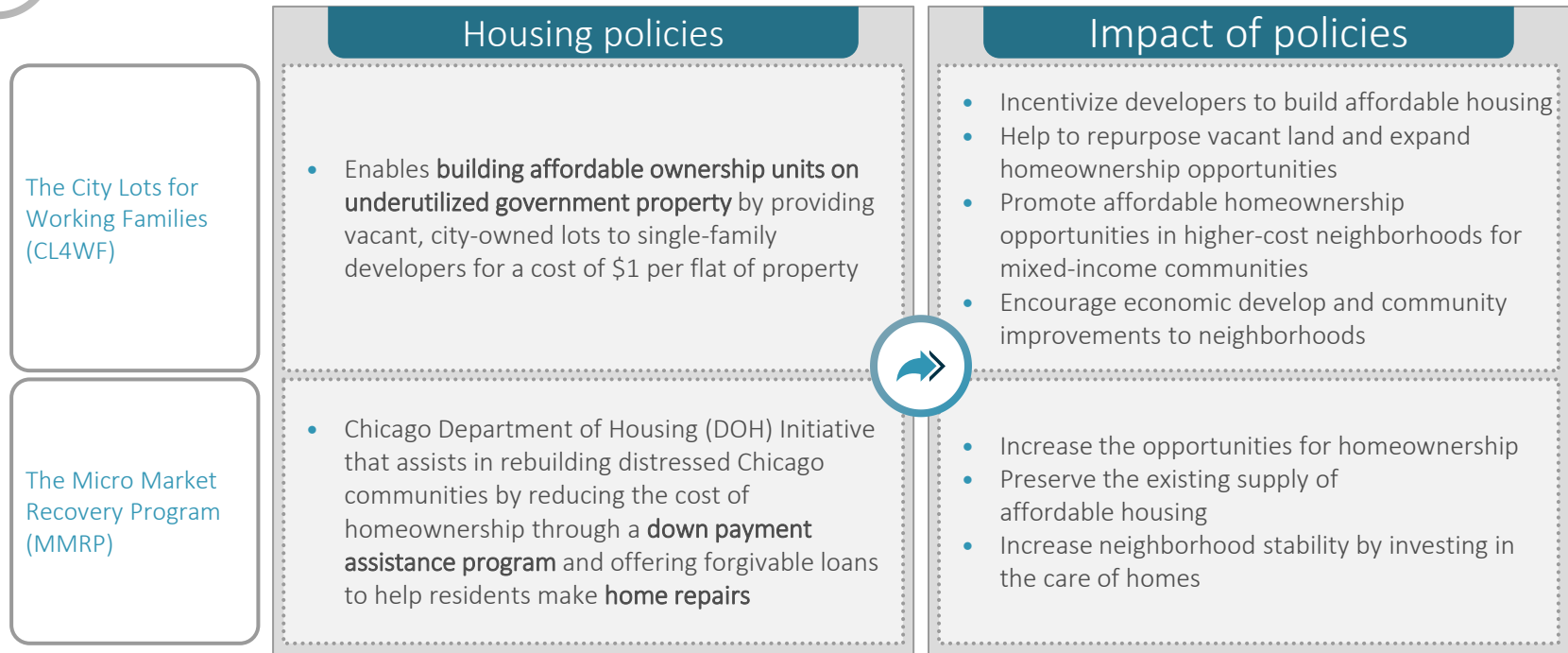
Similarities

- Same low homeownership vacancy rate
- Vibrant economy

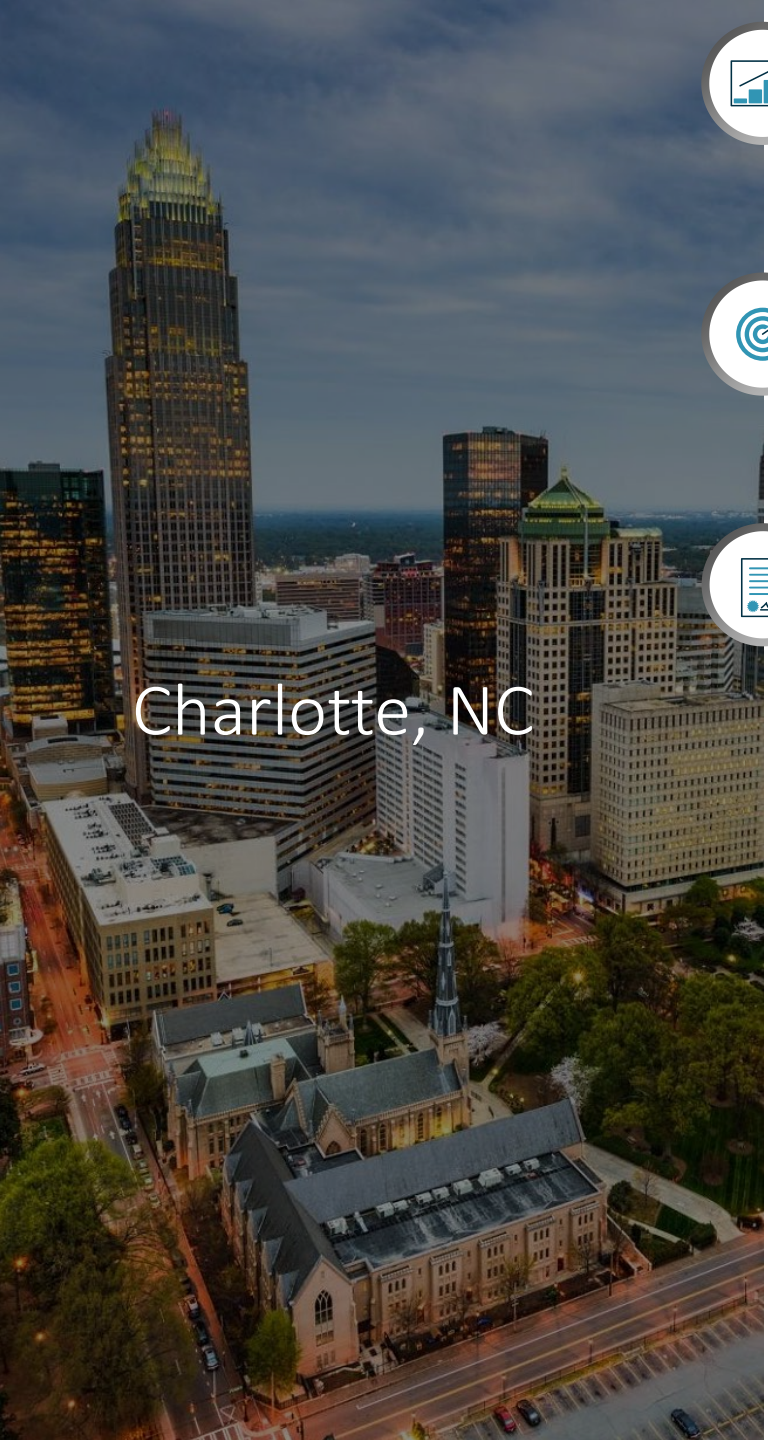
Differences

- Higher population density
- Lower population growth rate
- Lower median income

Policy/Action



1. US Census pop estimates July 2021, change Apr 2020-July 2021; 2. Census (2016-2020); 3. Includes both renters and homeowners; Census (2021); 4. Census (2021)



Charlotte, NC

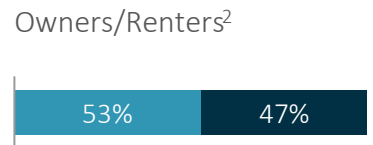


Quick stats

Population¹

- 880K
- +0.6% ('21)

Density: 2,837/mi²



Housing cost burden³

33%

Vacancy rate⁴

- Rental: 6.8%
- Owner: 1.3%



Relevance to Washington

Similarities

- Rapid population growth
- Vibrant economy

Differences

- High population density
- Lower housing cost burden, lower median value of owner-occupied housing units



Policy/Action

Housing Trust Fund (HTF)

Charlotte Housing Opportunity Investment Fund (CHOIF)

Safe Home Housing Rehabilitation Program

HouseCharlotte program

Housing policies

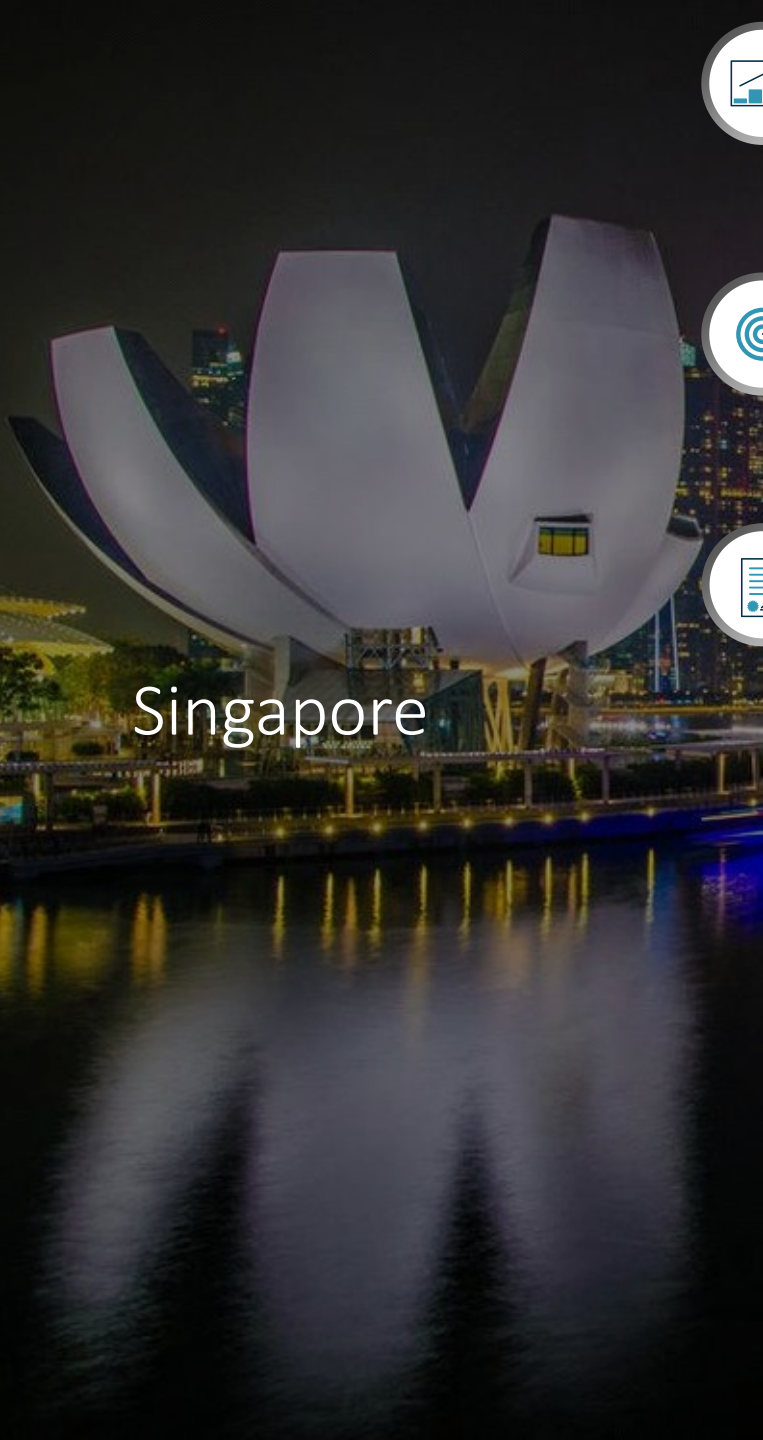
- Charlotte City Council established the HTF in 2001 to provide **below-market financing** to developers for affordable housing through voter-approved **housing bonds**
- Brings in **private dollars to augment public investments**, and directs capital to establish affordable housing in high-opportunity places
- Provides grants to low-income homeowners to address needed **home repairs** and make general property improvements
- **Down payment assistance** program that provides 5, 10 or 15-year deferred forgivable loans to qualified applicants to help subsidize the down payment and closings costs of purchasing a home

Impact of policies

- Since first development in 2002, HFT has created or preserved ~11,000 affordable units
- As of Dec. 2021, the City has allocated \$218.8M from Housing Trust Fund to affordable housing
- ~1,000 units of new or preserved mixed-income affordable housing
- Help preserve the existing supply of affordable housing and subsidize costs of homeownership for low-income homeowners
- Increases the opportunities of homeownership



1. US Census pop estimates July 2021, change Apr 2020-July 2021; 2. Census (2016-2020); 3. Includes both renters and homeowners; Census (2021); 4. Census (2021)

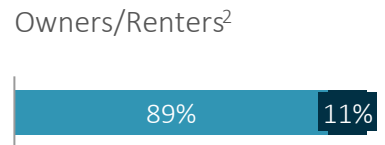


Quick stats

Population¹

- 5.45 M
- -4.2% ('21)

Density: 7,796/km²



Housing cost burden³

- Housing and related expense accounted for **28.9%** of HH income in '17-'18 (Most recent data³)

Vacancy rate⁴

- 5.3%



Relevance to Washington

Similarities

- Extremely limited buildable land
- High income and wealth inequality
- Foreign investment in housing

Differences

- Much smaller; effectively a city-state
- More centralized power and decision-making



Policy/Action

Housing Development Board

"Home Ownership for the People"

Land Acquisition Act

Core Contractor Scheme

Housing policies

- Planned and implemented effective urban planning and housing policies
- Housing as a fundamental citizenship right
- Enabled low-income citizens to buy apartments from government at affordable prices
- Empowers government to acquire land at low cost for public use; gov't maintains ownership of underlying land with 99-year ground lease
- Incentivizes standardization and efficiency in construction by offering a guaranteed annual workload for high-performing construction firms

Impact of policies

- **Overcame housing crisis:** Pre-1960, immigration-driven population growth far exceeded housing construction leading to overcrowding and "squatter towns." Starting in 1960, Singapore's housing policies and actions overcame the housing crisis by housing 16,000 people in 1961 alone and 400,000 people by mid 1960s; now, there are ~1M HDB apartments
- **Got the housing and infrastructure right:** HDB maintained & continually re-invested; create mixed-income & -ethnicity buildings and neighborhoods; create access to green space and public transportation



1. World Bank, population growth rate for one year from 2020-2021; 2. Statistic (2021); 3. Real Estate Asia (A1 2022), Department of Statistics Singapore; Sources: City Design Lab, "Why Singapore Has One of the Highest Home Ownership Rates" (2020) Link; Planetizen, "Singapore Housing Lessons for the Biden Administration (2021) Link; The Conversation, "A century of public housing: lessons from Singapore" (2019) Link;

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Additional analysis

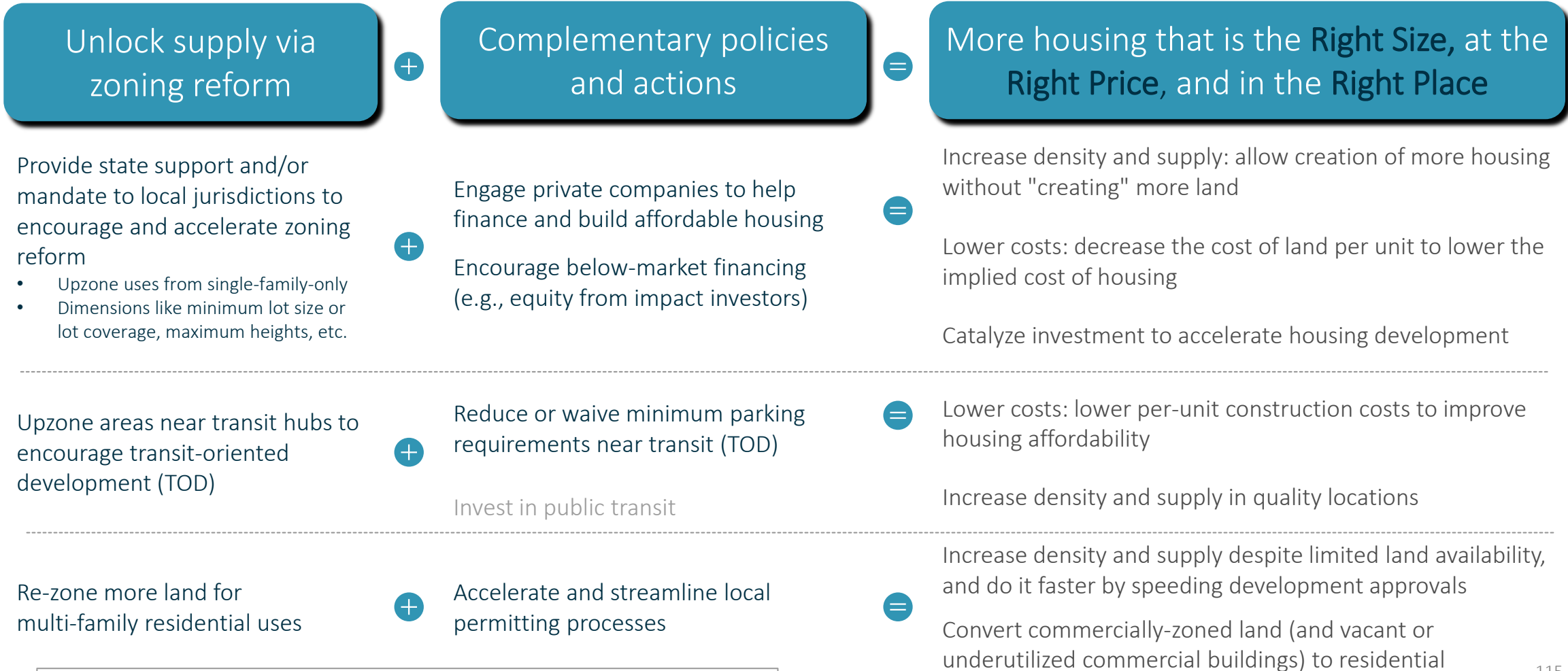
Location-based vignettes

Portfolio of policies and actions back-ups

Impact analysis back-ups

Zoning reform is the prerequisite to all other policies and actions to maximize results

Select examples



Legend Policy with deep dive in this document Other options outside the scope of this doc.

Overview of the involvement of sectors in implementing the portfolio of policies and actions

Policy/action	State gov't	Local gov't	Nonprofit	Private
Provide state support and/or mandate to local jurisdictions to encourage and accelerate upzoning	✓	✓		
Upzone areas near transit hubs to incentivize transit-oriented development (TOD)	✓	✓		
Re-zone more land for multi-family residential uses	✓	✓		
Offer density bonuses to developers	✓	✓		
Provide mechanism for state to approve and accelerate housing developments denied by local jurisdictions	✓			
Set and track housing goals for local jurisdictions	✓	✓		
Acquire publicly-owned property for affordable housing	✓	✓		
Enable and incentivize the creation of land trusts	✓	✓	✓	
Build housing on underutilized gov't property	✓	✓		✓
Decrease or waive parking requirements	✓	✓		
Increase construction labor supply by funding vocational classes, childcare for workers, etc.	✓	✓	✓	✓
Continue to reform WA condo liability laws and regulations	✓			
Engage private companies to help finance and build affordable housing	✓	✓		✓
Provide low-cost pre-construction loans	✓	✓	✓	✓
Provide long-term, below-market debt and equity for affordable housing development	✓	✓	✓	✓
Accelerate/streamline local permitting processes for housing development	✓	✓		
Provide long-term, below-market debt or equity for preservation of currently affordable housing	✓	✓	✓	✓
Create and fund down payment assistance program for first-generation or first-time home buyers	✓	✓		
Provide state-level funding to homeowners for home efficiency/climate improvements	✓			

Legend Long-term policy/action Near-term policy/action

The Conspicuous Crisis: Addressing Housing Affordability in Washington

December 2022

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Additional analysis

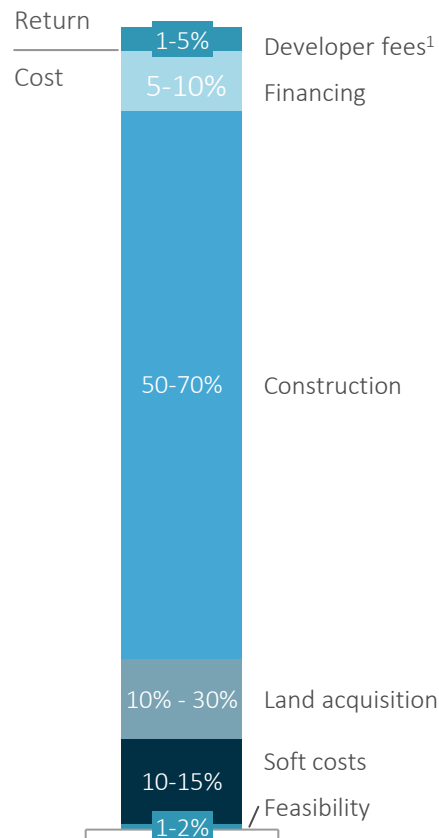
Location-based vignettes

Portfolio of policies and actions back-ups

Impact analysis back-ups

Typical development cost and financing structure

Market-rate development cost structure

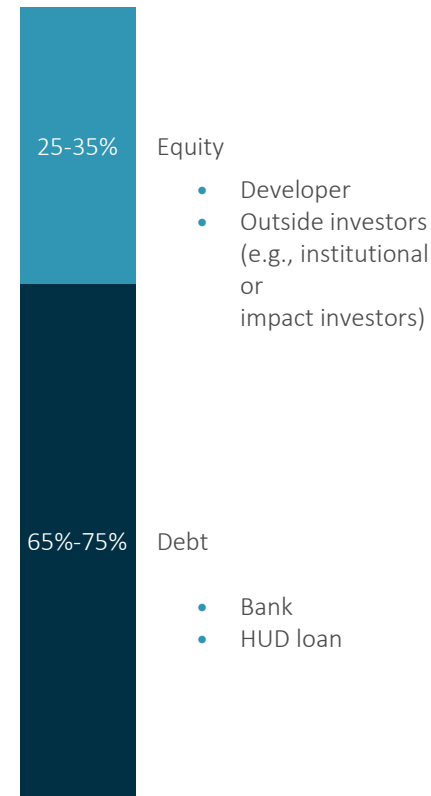


Developer fees¹
 Financing
 Construction
 Land acquisition
 Soft costs
 Feasibility

Key factors




-  **General demand / market**
(e.g., land cost increases, contractors in high demand)
-  **Timeline for completion**
(e.g., extended regulatory approval or building complexity)
-  **Ability to build at scale**
(e.g., small, one-off developers unable to achieve material/labor efficiencies)
-  **Inflation and supply chain**
(e.g., material and labor costs)

Developer capital stack



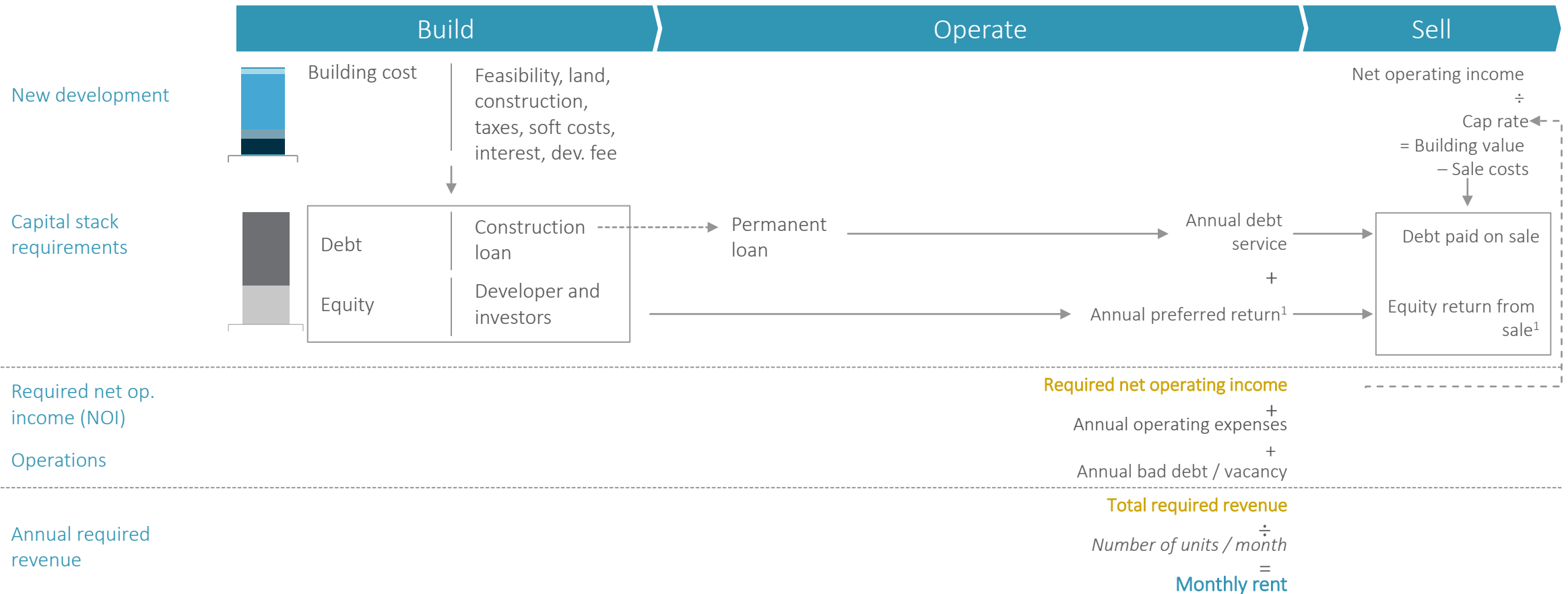
- Equity
- Developer
 - Outside investors (e.g., institutional or impact investors)
- Debt
- Bank
 - HUD loan

Key factors:

-  **Type and level of risk**
(e.g., stage of development, market risk, legal risk)
-  **Debt & equity terms**
(e.g., availability of each type of capital, target rates of risk/return, over what time period)
-  **Subsidies including tax breaks**
(LIHTC², MFTE³, etc.) for non-market-rate, Affordable development

1. Developer return will also include return on equity 2. Low-Income Housing Tax Credit 3. Multifamily Tax Exemption
 Source: Expert interviews; Desk research

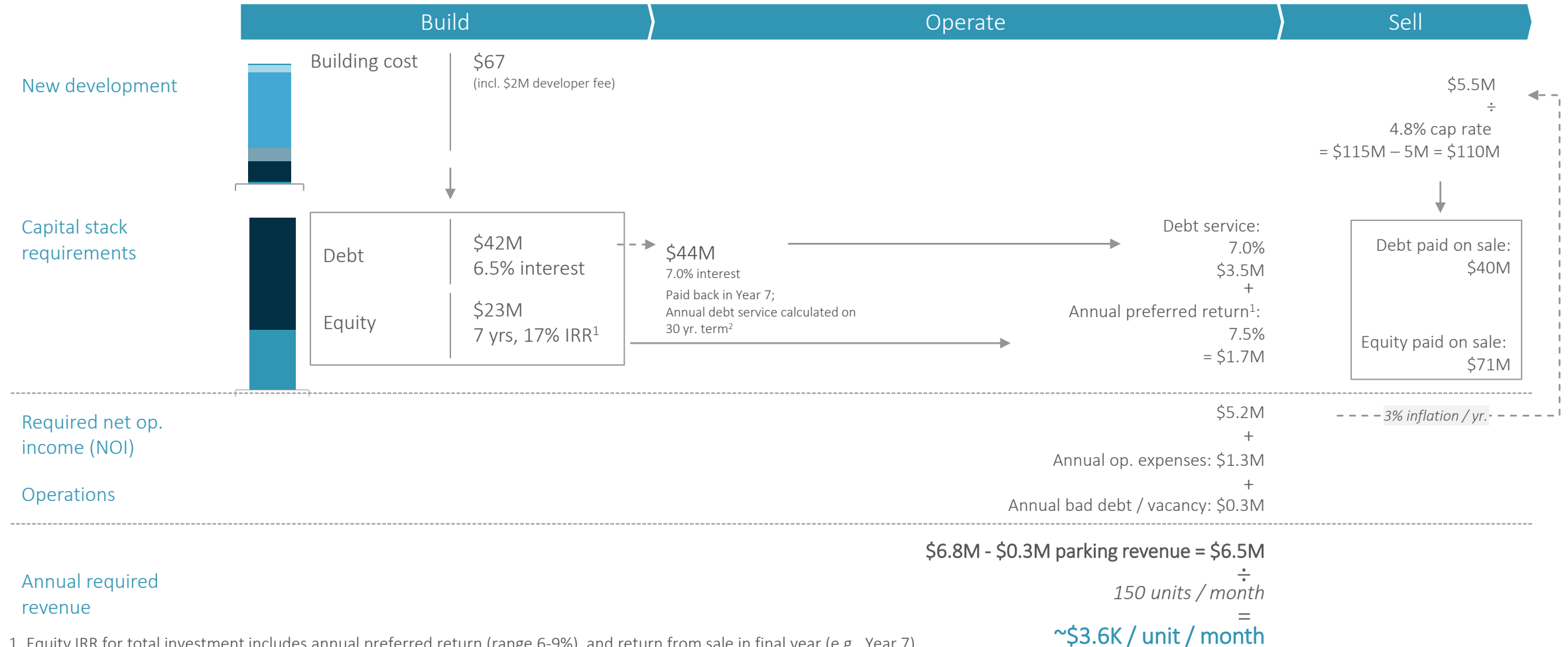
Monthly rent determined by development cost and capital stack requirements over development's lifetime



1. Equity IRR for total investment includes annual preferred return (range 6-9%), and return from sale in final year (e.g., year 7)

For Seattle: one illustrative development that results in \$3.6K rental unit

Directional analysis, based on a "realistic example"; model can be ranged



1. Equity IRR for total investment includes annual preferred return (range 6-9%), and return from sale in final year (e.g., Year 7)
 2. Annual debt service based on an amortization schedule of 30 years, however balloon payment occurs at the end of Year 7

Note: This is for a building being developed today and coming online around in a few years, therefore it will not equal today's median rent (which also includes bldg. ranging in age, size, and quality); Minor effects of numbers "rounding" may be visible

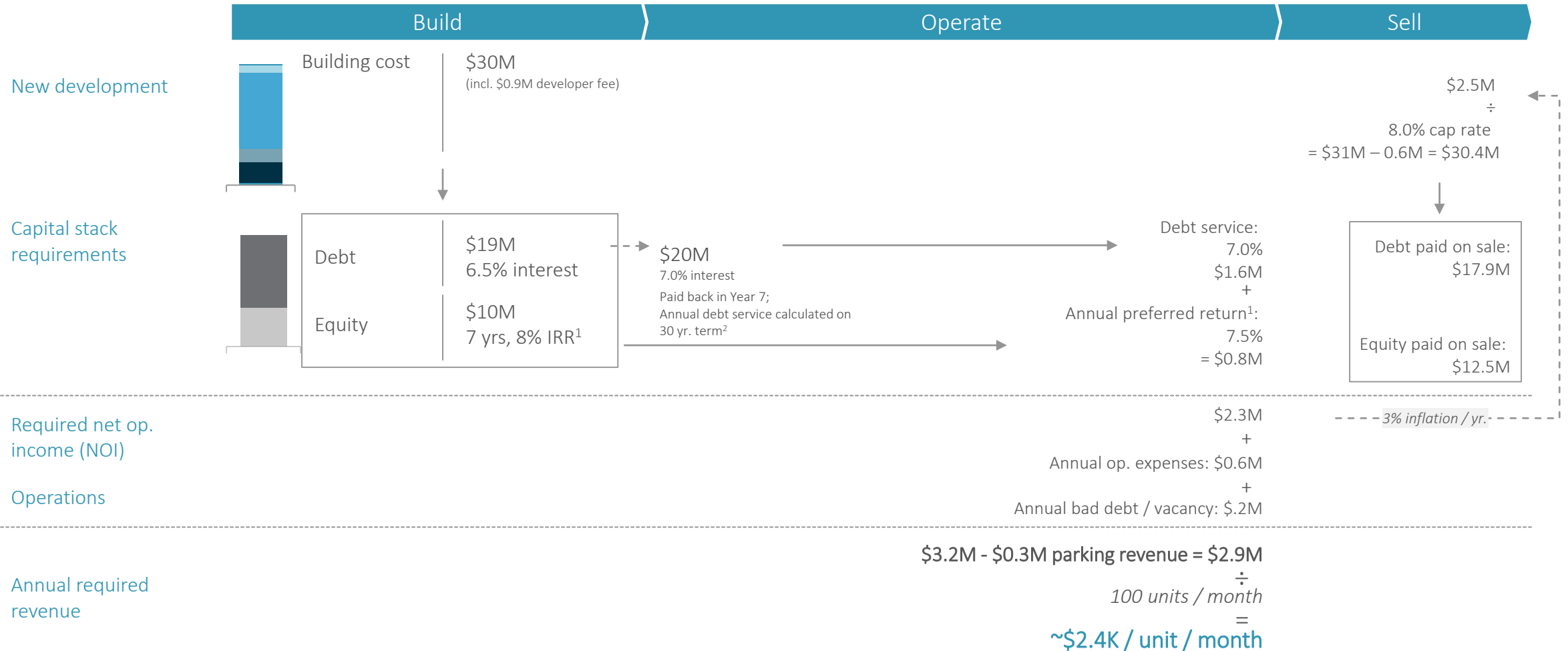
Apply hypothetical rent reductions from selected public sector levers to understand interplay and impact on Seattle building rent

Directional analysis, based on a “realistic example” for one building; does not calculate market supply/demand effects

Public Sector Policy Options	Expected Impact Qualitative assessment	Potential impact			Example suite of levers	
		Total savings Original cost: \$67M (\$, millions)	Impact on rent Original rent: \$3.6K (per unit reduction/mo.)	% impact on rent	80% AMI Rent: \$1.9K	120% AMI Rent: \$2.8K
Waive/reduce parking req. in transit corridors	Lower cost, but also lose some op. revenue	~2-5	~74-185	~2-5%	✓ 0.5 per unit	✓ 0.8 per unit
Encourage more innovative & efficient construction technology/materials/operations	Reduce costs, shorten timeline	~2-6	~95-285	~3-8%	✓ -15% per unit	✓ -5% per unit
Support alternate, smaller unit types	Reduce size per unit, increase density (units/land)	~9	~475	~13%	✓ -25% per unit	
Waive impact fees or other regulatory costs	Reduce regulatory costs	~3	~129	~4%	✓ Fully waived	
Incentivize transit-oriented development (TOD)	Lower (land) cost per unit through increased density	~12	~169	~5%	✓ + 1 floor	✓ + 1 floor
Government ground-leases land for housing development at lower cost	Lower (land) cost; de-commodify housing	~1-4	~72-180	~2-5%	✓ -25% land cost	✓ -10% land cost
Enable/incentivize the creation of nonprofit land trusts for affordable housing	Lower (land) cost; de-commodify housing/land; remove profit incentive	~1	~34-67	~1-2%	✓ -2% dev. Fee (to 1%)	
Provide long-term, below-market rate debt for development	Lower financing costs	0	~199	~6%	✓ -1% lower rate	✓ -1% lower rate
Use equity at below-market returns (i.e., impact investing or government investment)	Lower financing costs	0	~267	~7%	✓ -2% return	

For Tri-Cities: one illustrative development that results in \$2.4K rental unit

Directional analysis, based on a "realistic example"; model can be ranged



1. Equity IRR for total investment includes annual preferred return (range 6-9%), and return from sale in final year (e.g. Year 7)
 2. Annual debt service based on an amortization schedule of 30 years, however balloon payment occurs at the end of Year 7
 Note: Minor effects of numbers "rounding" may be visible.

Apply hypothetical rent reductions from selected public sector levers to understand interplay and impact on Tri-Cities building rent

Directional analysis, based on a “realistic example” for one building; does not calculate market supply/demand effects

Public Sector Policy Options	Expected Impact Qualitative assessment	Potential impact			Example suite of levers	
		Total savings Original cost: \$30M (\$, millions)	Impact on rent Original rent: \$2.4k (per unit reduction/mo.)	% impact on rent	80% AMI Rent: \$1.4K	120% AMI Rent: \$2.2K
Waive/reduce parking req. in transit corridors	Lower cost, but also lose some op. revenue	~1	~10	~0.4%	✓ 1.0 / unit	✓ 1.0 / unit
Encourage more innovative & efficient construction technology/materials/operations	Reduce costs, shorten timeline	~1-3	~91-272	~4-11%	✓ -15% cost	✓ -5% cost
Support alternate, smaller unit types	Reduce size per unit, increase density (units/land)	~2-6	~184-460	~8-19%	✓ -25% Sq Ft	
Waive impact fees (or other regulatory costs)	Reduce regulatory costs	~0.4-1.5	~28-113	~1-5%	✓ -25%	
Incentivize transit-oriented development	Lower (land) cost per unit thru incr. density	~7	~30	~1%	✓ +1 floor	✓ +1 floor
Government ground-leases land for housing development at lower cost	Lower (land) cost; de-commodify housing	~0.1-0.2	~7-17	~0.3-0.7%	✓ -25% land cost	✓ -10% land cost
Enable/incentivize the creation of nonprofit land trusts for affordable housing	Lower (land) cost; de-commodify housing/land; remove profit incentive	~0.3-0.6	~23-46	~1-2%	✓ -2% dev. fee (to 1%)	
Provide long-term, below-market rate debt for development	Lower financing costs	0	~137	~6%	✓ -1% lower rate	✓ -1% lower
Use equity at below-market returns (i.e., impact investing or government investment)	Lower financing costs	0	~90	~4%	✓ -2% return	

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