



State of the Cities

Housing report



Executive summary

Washington cities of every size are grappling with the lack of available affordable housing for their residents. Cities are struggling with limited resources while they seek to increase available housing for their current and future residents to live and thrive.

Cities are on the front lines facing the reverberating impacts of limited housing availability, but cities can't solve the problem alone. Increasing affordable housing requires a sustained, innovative approach and a working partnership with the private sector, nonprofit organizations, and county, state, and federal agencies.

This housing report examines the challenges cities are facing, details what policy and financial tools cities are using to address the issue, and highlights additional approaches that could help increase affordable housing stock statewide.



Case studies

This report includes case studies—city snapshots that show variations between cities across the state. They highlight the unique challenges and approaches that cities are taking to address housing affordability in their communities.

Sources for all case studies: Apartments.com; Zillow; U.S. Census

Introduction

Many city leaders agree that the availability and cost of housing in Washington's cities are an increasingly prominent community concern. This multifaceted problem strains a city's ability to drive change, stretches the limits of its resources, and sparks difficult community conversations. The challenge is daunting. Many agree the ongoing problem stems from the 2008 housing bubble, which led to years of persistent shortfall in housing supply that continues to drive rental prices out of reach in many communities. Most recently, the COVID-19 pandemic has brought the world to a standstill and left hundreds of thousands of Washingtonians unable to pay their housing bills. The state's housing crisis can seem insurmountable.

Critics contend that cities have a negative impact on market-rate housing supply due to restrictive development regulations and zoning decisions that drive up the cost to build. However, cities and housing advocates regularly work together revisiting these policies to remove barriers and create new approaches that incentivize housing. Ultimately, market conditions dictate whether a city will see a return on its efforts to encourage housing. With the right policies in place, a city can roll out the red carpet for development yet see no improvement in housing supply if other market forces limit the return on investment for builders.

The challenges Washington's cities face are not uniform across the state, but neither are the opportunities. While the state's fastest growing cities are dispersed throughout the state, many cities still struggle to attract residential development at all—let alone housing that meets affordability targets. Conversely, cities with a robust real estate market face other challenges, like how to shape growth while harmonizing the needs and desires of future residents with the existing community.

Cities play different roles in promoting affordable housing, from land acquisition to zoning decisions. Cities use various available funding and policy tools to address local issues, but barriers remain that impede progress toward the goal of increasing housing that will support city populations for years to come.

This report details many of these challenges and highlights the tools that cities are using to tackle them. However, despite keen interest from city leaders in addressing housing affordability in their communities, many of the policy tools available are dependent on market forces outside their control. More cities than ever are utilizing state revenue tools to support construction of subsidized housing, but the scope of need still overwhelms available resources.

80% 
of cities need state funding to support affordable housing programs and local planning efforts

Top 3
Housing ranked as one of the top 3 major problems facing cities

Key findings from 2020 City Conditions Survey

34% 
of cities are offering housing assistance during COVID-19

82% 
of cities rate lack of affordable housing as a problem in their community

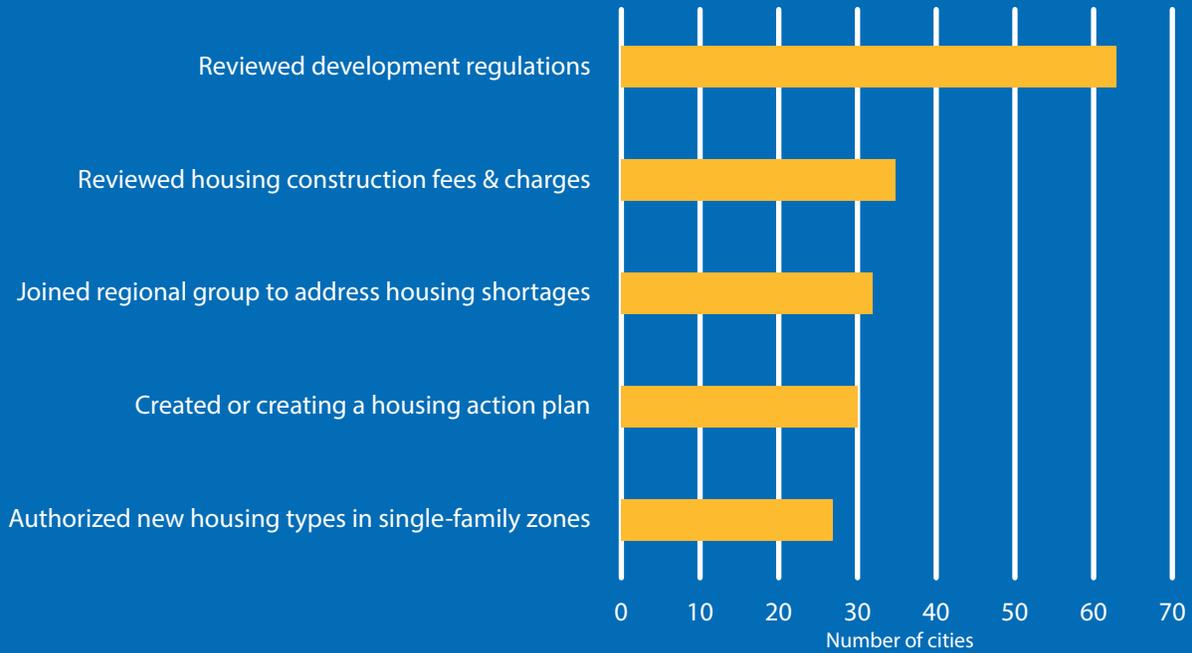
72% 
of cities lack low-income housing

Source: AWC 2020 City Conditions Survey

Contrary to the rhetoric around housing, lack of developable land and infrastructure challenges outweighed community opposition when cities identified their top barriers. Cities also report significant challenges in expanding Urban Growth Areas and the high cost of land and construction.

Cities are actively engaged in addressing their local housing policies. 114 Washington cities responded to a survey in October 2020 indicating that they took a variety of actions between February 2019 and October 2020 to increase affordable housing opportunities, as shown below.

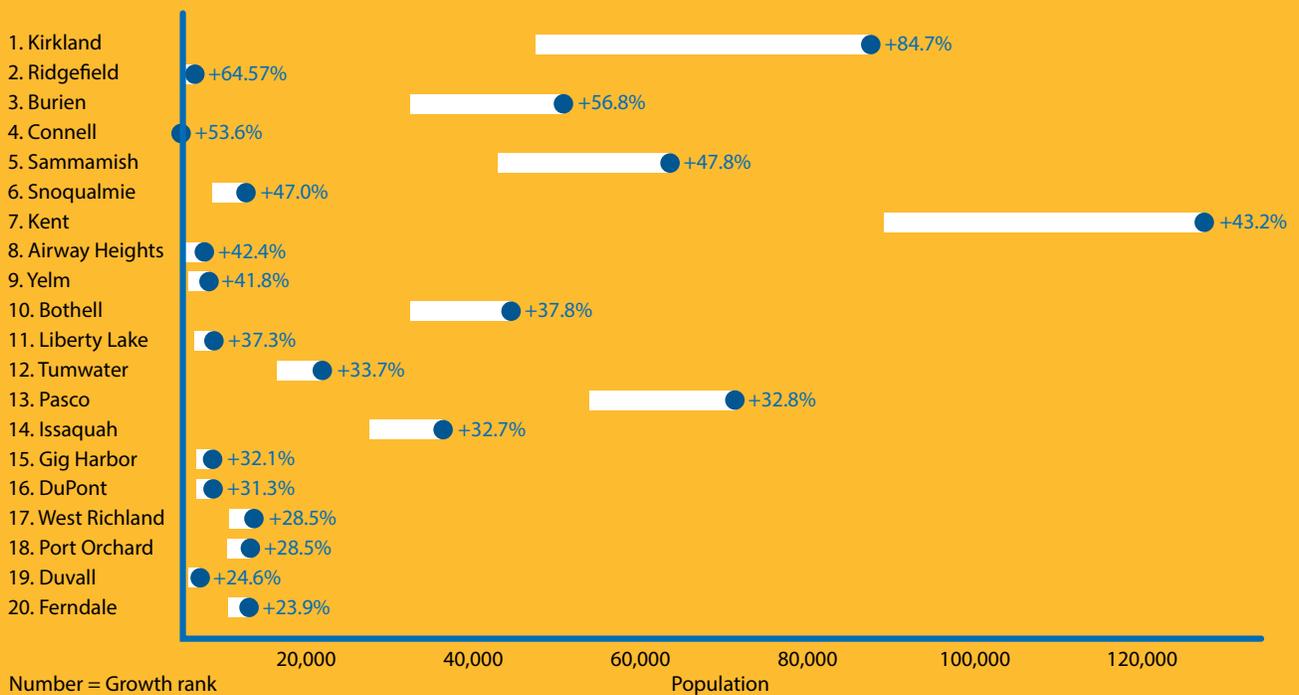
Surveyed cities that took housing policy action from 2019-2020



Source: AWC 2020 City Conditions Survey

The fastest-growing cities in Washington are spread throughout the state and vary in population size. But even with such variety between cities, they all face housing supply concerns.

Fastest-growing cities in Washington 2010-2020



Source: homesnacks.com



Vacancy rates in Washington

- Washington is tied for the fourth-lowest rental vacancy rate in the country
- Every county outside the Puget Sound region has an extremely tight rental market with vacancy rates below 3%
- Cowlitz, Kittitas, Skagit, Whatcom, and Yakima counties have lower than 1% vacancy rates
- The highest vacancy rate in 2019 was in King County at only 5.3%

Sources: GeoFRED; Washington State Apartment Market Report, Spring 2020, UW Center for Real Estate Research



Housing underproduction

- From 2000 to 2015 there was an underproduction of 225,600 housing units
- 80% of that underproduction is much-needed housing for low-income renters
- Since 2005, the state's population has increased by 23% but housing has only increased by 19%

Sources: Housing Underproduction Report, Up For Growth 2020; WA Department of Commerce; American Community Survey



Average rents by region

- In 2019, statewide average rent was \$1,973, compared to \$1,400 in 2013
- In early 2020, average rents ranged from a low of \$780 in Yakima County to a high of \$1,806 in King County

Sources: Zillow; Washington State Apartment Market Report, Spring 2020, UW Center for Real Estate Research



Number of needed housing units by income

- Only 26% of Washington families in need of public housing are served
- Families wait 3.5 years on average to be accepted into public housing

Source: Association of Washington Housing Authorities, 2020

What is "affordable housing"?

Affordable housing is commonly mistaken for low-income housing. Instead, housing is considered affordable when its cost (including utilities) is not more than 30% of the household income. As the cost of rent or mortgage payments goes up, those who make less money struggle even more as the percentage of their income spent solely on housing increases.

In contrast, low-income housing deems rents as affordable based on defined income levels that are lower than the area's average income (e.g., someone who makes 60% of the area median income could qualify to rent a unit). This type of low-income housing is supported by public or nonprofit subsidies in almost all cases. When affordable housing options dwindle, the most vulnerable get squeezed out of the market, which can result in homelessness.

Local housing situations are different in every city, but it is particularly difficult to find housing that is affordable at lower income levels throughout the state.

Affordable and available homes per 100 renter households in Washington



AMI: Area median income

Source: Gap Report: Washington State National Low Income Housing Coalition, 2020.

Home sales market

Available homes for sale declined by **45% in 2019** and demand now exceeds supply



The statewide median home **price has doubled** in the last eight years

Source: UW Center for Real Estate Research, Housing Market Highlights, Q2 2020

Planning & zoning responsibilities

Cities can influence whether and how housing is built by exercising a core local government power—local land use authority. The land use decisions a city makes can have a big impact on development patterns. But the community's vision can remain unfulfilled for a variety of reasons.

Washington's history of local governance is too broad to explore in this short report, but it is important to situate today's challenges within historical context. As Washington evolved from a territory to a state, it held onto a strong tradition of (and insistence on) local governance and decision-making. Although the state's early rapid growth and corresponding urban sprawl and traffic congestion eventually led to an overarching state planning framework (the landmark 1990 Growth Management Act), land use in Washington is still very much locally controlled, where voters elect local officials to make key decisions on their behalf.

While the state provides cities direction on *what* to plan for and consider in their growth plans, it's the local community that makes final decisions on *how* to plan for growth. Using input from community members, elected representatives weigh and determine land use issues with the help of professional staff and local advisory bodies, such as planning commissions.

Our system provides a large degree of self-determination regarding housing and development policies. These choices include:

- Where to place housing throughout the community;
- What type and form of housing to allow;
- What additional requirements must accompany that housing, such as parking spaces and sidewalks; and
- Very specific design standards on the housing appearance, in some instances.

The state growth framework obligates cities to plan for certain levels of population growth, but specifically how to accommodate newcomers in a community is up to its current residents.

Cities face challenges when creating growth plans that are required to include housing needs for all economic segments of the community. With good fortune (and the right real estate market), private development may address the housing need for people with moderate to high incomes. But building affordable units for people with lower incomes almost always requires public investment. Private developers cannot recover costs at the rent levels needed to serve these community members. The mismatch between available public funding and needed units must be corrected. Otherwise, we will continue to see housing and rental costs rise, while the gap between affordable housing and market-rate housing construction widens.

Cities work to balance policies that support and encourage development with those that regulate and shape local growth. Local decision-making attracts the attention of state legislators because well-planned development can also increase construction costs and impact new housing production. Although some policies add cost to housing production, they provide social benefits. Sidewalks allow children to safely walk to school. Tree retention ordinances can complicate development and reduce buildable land; but mature neighborhood trees provide shade, historical significance, visual appeal, habitat, and environmental benefits. These are aspects of development that may not add profit, but that make cities livable and desirable.

A growing number of advocates believe that Washington has failed to address housing challenges because of the tradition of local authority. They contend that insurmountable political dynamics at the local level prevent needed changes. But cities defend the bottom-up approach to land use planning by citing the following advantages:

- Locally decided policies reflect unique circumstances;
- Cities embrace the complex role they play in supporting and shaping development; and
- Cities understand the interaction between the private market and local conditions.

A fundamental principle of democracy is having a voice in decisions that impact your community. This is eroded when decisions are made further away from affected voters. Local elected leaders are critiqued for policy choices and fidelity to community concerns over regional needs. But city officials are held directly accountable to their communities and face different political pressures than state officials.

However, there is an appropriate balance of state direction coupled with local decision-making. State lawmakers are tasked with deciding fiscal and regulatory priorities and reforms with a statewide perspective. Local leaders are better positioned to understand the unique facets of affordable housing challenges in their communities and enact approaches tailored to those needs.



Policy tools

What policy options are cities using to support affordable housing?

In addition to planning and zoning authority, Washington cities have several policy tools designed to address housing. Some tools originate from state-provided authority and others are locally derived.

State policy tools



Mandatory affordability

Cities are authorized to require mandatory affordability in multifamily construction projects. This policy requires a developer to offer a percentage of units in a new multifamily construction project that are affordable by those in certain income brackets.

Inclusionary zoning

Cities may also incentivize affordable units through inclusionary zoning and offering development “bonuses,” such as greater allowed heights or densities in exchange for dedication of affordable units.

Surplus public properties

State law permits local governments to dispose of surplus public properties at below-market rates for affordable housing purposes.

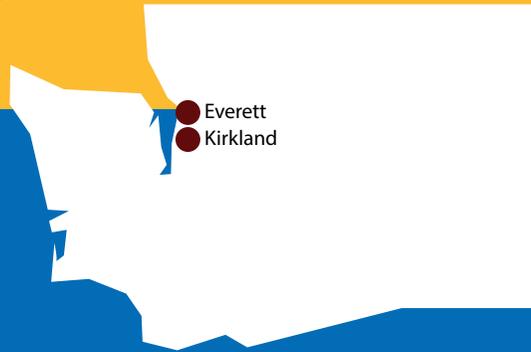
Land use policies

The state has recently begun incentivizing cities to adopt progressive land use policies by providing planning resources and legal protections for cities that adopt policies promoted by the state in **HB 1923** and **HB 2343**, passed in 2019 and 2020, respectively.

Amenities investment

While state investment in local amenities is not often thought of as a tool to promote housing, investing in transit, parks, and other infrastructure or private development like grocery stores can dramatically impact a local real estate market and incentivize new housing construction.

Case study



Everett

Population: 112,700

Growth rank: Not in top 50

Notable city characteristics: Central Puget Sound; Aerospace manufacturing; Naval base; Downtown arts district

Median household income: \$57,205

Average rent: \$1,495 (2 bedroom apartment)

Typical home value: \$466,382

Advantages: Commercial airport; Deep water port; Multimodal transportation; Two college campuses; Diverse entertainment and recreation, including professional sports teams

Challenges: Homelessness and housing instability; Income and wealth inequities; Scarce resources to address growing complexity and volume of construction permitting

2019 permits: 140 single-family/duplex units & 733 multifamily units

Fiscal & policy tools: Adopted 13 policies, including 2020 launch of Housing Action Plan; Improving procedures and permitting for housing developers; Partnering with developers in two Opportunity Zones; and Adopting a simplified process for commercial properties

Kirkland

Population: 90,660

Growth rank: #1 fastest growing city in WA

Notable city characteristics: Central Puget Sound; Easy commute to Seattle and large tech employers; Major regional healthcare system

Median household income: \$109,715

Average rent: \$2,225 (2 bedroom apartment)

Typical home value: \$832,765

Advantages: On Lake Washington; Outdoor recreation; Bike/transit access to downtown; Multiple mixed-use business districts, including two designated urban centers

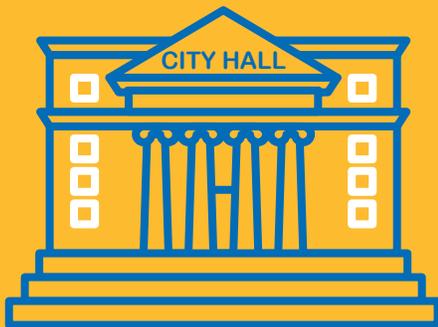
Challenges: Extremely high land and construction costs; Single-family housing commands a market premium

2019 permits: 268 single-family units & 547 multifamily units

Fiscal & policy tools: Adopted 11 policies, including 2020 adoption of missing middle housing; and ADU policies that allow independent sale as condominiums, reduce parking requirements, and allow increased density for duplexes, triplexes, and cottages in almost all single-family zones



Local policy tools



Missing middle housing

Many cities are currently exploring how to promote and authorize more missing middle housing types—or housing that is between a single-family home and a large apartment building. The hope is that these duplexes and triplexes can be integrated into existing single-family neighborhoods to provide more housing options.

Accessory dwelling units

Similarly, accessory dwelling units (ADUs) or “mother-in-law apartments” are another housing type that many cities are promoting. In addition to authorizing their construction, some cities offer discounts on sewer hookup fees, free architectural plans, and permitting assistance.

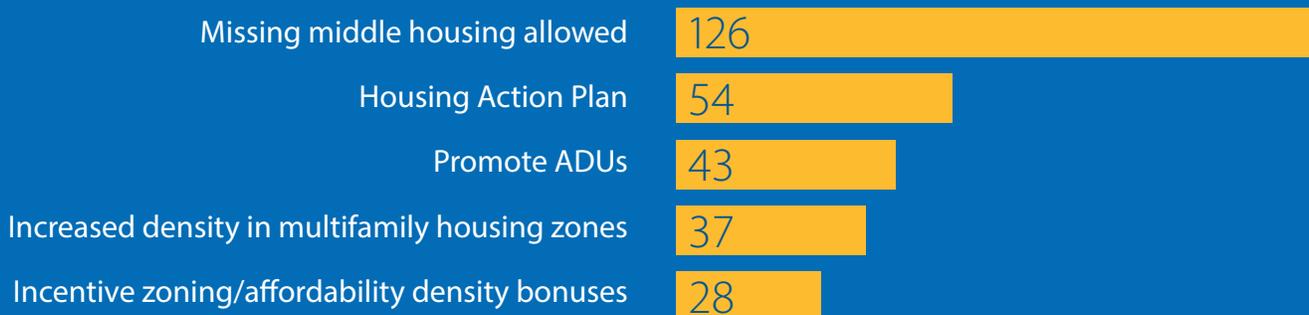
Parking & setback requirements

One of the most controversial local policies are development standards, such as parking requirements or lot line setbacks. In denser communities with high land costs, these requirements can significantly increase development costs. On the other hand, existing residents are frequently very sensitive and vocal about impacts of new development—and there is no guarantee that reduced costs will translate to more affordable housing.

Community redevelopment

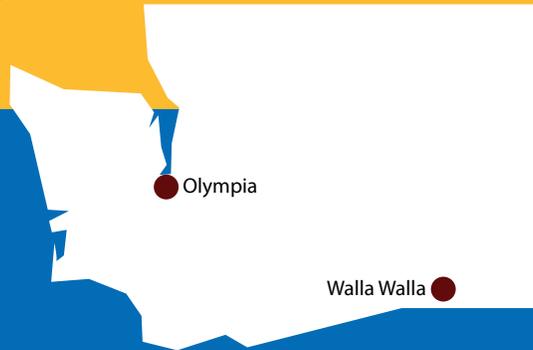
Community redevelopment efforts frequently change the regional real estate market for the better as new amenities increase desirability. Redevelopment of downtown Bothell or the Ruston Way waterfront between Ruston and Tacoma are good examples.

How many cities use each policy tool?



Source: AWC 2020 City Conditions Survey & informal surveys with cities (does not include all 281 cities)

Case study



Olympia

Population: 54,150

Notable city characteristics: College town; State capital; State agency employer

Median household income: \$58,606

Average rent: \$1,393 (2 bedroom apartment)

Typical home value: \$394,966

Advantages: Waterfront downtown; Southern terminus of Puget Sound; Outdoor recreation

Challenges: Housing stock and population characteristics misaligned; Quickly rising housing prices; Unsheltered homelessness; Critical lack of permanent housing solutions

2019 permits: 41 single-family units (includes townhomes), 10 ADUs, & 270 multifamily units

Fiscal & policy tools: Adopted 15 policies, including Home Fund (1/10 of 1% sales tax); Affordable Housing Impact Fee Abatement Program; Expanding housing options in single-family zones; Promoting ADUs with more flexible standards and preapproved plans; and Providing SEPA categorical exemptions

Walla Walla

Population: 34,400

Notable city characteristics: College town; Wine country; Agriculture; Tourism

Median household income: \$48,678

Average rent: \$1,008 (2 bedroom apartment)

Typical home value: \$291,555

Advantages & successes: Award winning Main Street; Wineries; Outdoor lifestyle; Homeless sleep center

Challenges: Housing stock and population characteristics misaligned; Remote location creates narrow market for goods and services

2019 permits: 55 single-family units & 120 multifamily units

Fiscal & policy tools: Adopted 5 policies, including the tax credit provided by **HB 1406**; the Multifamily Tax Exemption (MFTE); a Housing Action Plan; Allowing missing middle housing in single-family zones; and Flexible development standards regarding lot size



Financing tools

What financing tools are cities using to address housing?

In general, cities are not direct owners or operators of housing. But many cities play an important role in financing the construction or acquisition of affordable housing.

Cities use the following funding tools to support affordable housing creation:

Multifamily Tax Exemption (MFTE) Program

This program was created to help densify cities by increasing multifamily apartment buildings and condominiums. The program allows cities to offer a property tax exemption for qualified buildings to promote their development. The program was later expanded to provide for longer tax exemptions in exchange for dedicating a percentage of new units as affordable at certain incomes.

HB 1406

This 2019 bill created a 20-year program where the state shares a portion of its sales tax receipts with cities and counties to support investments in affordable housing. All cities may use these funds to support the construction and acquisition of affordable housing. Cities with 100,000 residents or less can use the funds for rental assistance programs.

Property tax levies

Cities can ask their voters to support property tax levies of up to 50 cents per \$1,000 assessed value to fund housing construction and foreclosure prevention programs for low-income households, affordable homeownership, and owner-occupied home repairs.

Local sales tax increase

Cities can councilmanically adopt a one-tenth of one percent sales tax for housing and related services.

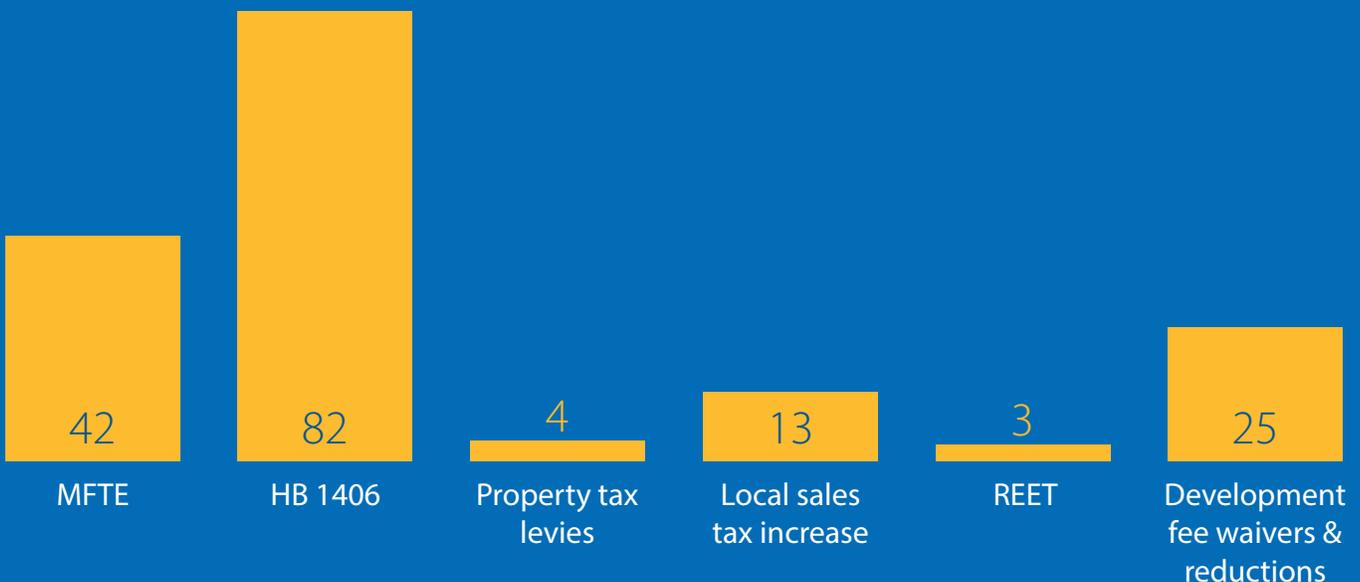
Real Estate Excise Tax (REET)

Cities can use REET receipts to fund affordable housing in certain circumstances.

Development fee waivers & reductions

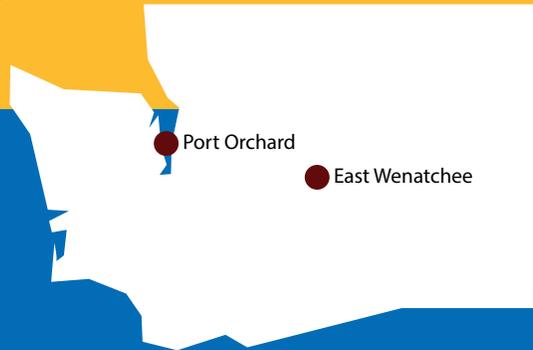
Some cities offer fee reductions or waivers for development-related costs like impact fees or sewer hookups.

How many cities use each fiscal tool?



Source: AWC 2020 City Conditions Survey & informal surveys with cities (does not include all 281 cities)

Case study



Port Orchard

Population: 14,770

Growth rank: #18 fastest growing city in WA

Notable city characteristics: Central Puget Sound; Near large military base; Multiple marinas; Olympic Mountain views; Manufacturing and technology sectors

Median household income: \$70,598

Average rent: \$1,279 (2 bedroom apartment)

Typical home value: \$398,130

Advantages: On Puget Sound but more affordable than higher-cost cities nearby; Access to Seattle and Bremerton via ferries

Challenges: Transportation, water, and sewer infrastructure needs

2020 permits: 111 single-family units & 179 multifamily units

Fiscal & policy tools: Adopted 9 policies, including a form-based zoning code; Allowing missing middle housing (duplexes, triplexes, fourplexes, and townhomes) in 75% of single-family zoned land; Allowing ADUs in all single-family housing zones; and Providing incentives for multifamily housing developers in two Opportunity Zones

East Wenatchee

Population: 13,740

Growth rank: Not in top 50

Notable city characteristics: Columbia River; Agriculture; Regional airport with commercial service to SEA-TAC; Vibrant commercial areas

Median household income: \$52,691

Average rent: \$1,461 (2 bedroom apartment)

Typical home value: \$386,899

Advantages: Outdoor recreation; Access to low-cost power; Historic downtown with new gateway park

Challenges: Availability of sanitary sewer; Adequate water for fire flow

2019 permits: 1 single-family unit & 9 multifamily units

Fiscal & policy tools: Adopted the tax credit provided by **HB 1406**; and Awarded a **HB 1923** grant to amend the zoning code to allow missing middle housing in single-family zones, reduce parking requirements for multifamily developments, and increase density for short plats



Overcoming barriers

Cities across the state face differing local challenges, so the tools available to address housing do not have uniform application in all cities. An extremely successful tool in one city could be almost useless in another. Notwithstanding this diversity, the following common barriers may impact cities to varying degrees:

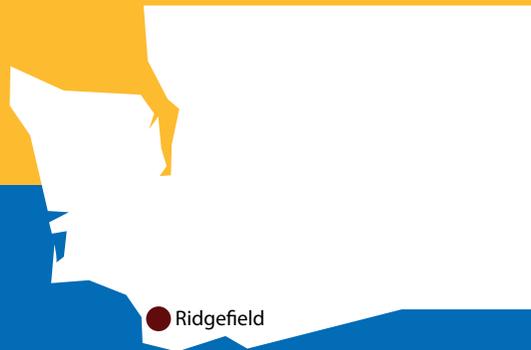
Financial situation of the community

This barrier can take several forms. Smaller cities that lack a large sales tax base do not benefit from optional sales tax revenues. Fee waivers as development incentives may not be financially feasible in cities with tight budgets. And finally, the willingness of the community to tax itself to provide for housing will determine the viability of voter-approved revenue measures.

Infrastructure & community amenities

Financing opportunities for market-rate housing are even more limited for many communities. The Multifamily Tax Exemption Program is the only tool that directly authorizes support for market-rate housing. Conditions within a city can significantly affect market-rate housing costs. For instance, if the transportation infrastructure around a development needs private investment to handle increased capacity, it can have a major impact on overall project costs and raise the rent level needed to recoup that investment. Similarly, a city can work for years on zoning and planning changes to attract multifamily housing without seeing any development until a critical amenity—a grocery store, for example—arrives and changes the demand.

Case study



Ridgefield

Population: 9,770

Growth rank: #2 fastest growing city in WA

Notable city characteristics: Connection to Portland/Vancouver metro region; National wildlife refuge; Wineries; Historic downtown

Median household income: \$95,859

Average rent: \$1,555 (2 bedroom apartment)

Typical home value: \$524,034

Successes: Ordinances to preserve and enhance the environment including 25% of parks and open space in every new subdivision and a “dark skies ordinance” to protect migratory bird populations from light pollution; Partnerships created regional park and

recreation amenities and connected downtown to the river and wildlife refuge for the first time in 100 years; Award-winning sewer infrastructure to provide cost-effective capacity for growth

Challenges: Limitations on infrastructure financing tools; Rapid growth challenges existing strengths, including connection to the environment and small-town charm; Community engagement about how city is addressing growth

2020 permits: 458 single-family units (includes townhomes) & 340 multifamily units

Fiscal & policy tools: Adopted 3 policies, including the tax credit provided by **HB 1406**; Allowing missing middle housing in single-family zones; and Upzoned multifamily zones

Case study



Leavenworth

Population: 2,080

Notable city characteristics: Vacation destination; Bavarian village; Breweries; Wineries

Median household income: \$51,875

Average rent: \$1,712 (2 bedroom apartment)

Typical home value: \$494,805

Advantages: Year-round outdoor recreation in a mountain and river town

Challenges: Balancing vacation lodging with workforce and resident housing needs

2019 permits: 20 single-family units, 14 ADUs, & 200 multifamily units (largest project ever)

Fiscal & policy tools: Adopted 9 policies, including the tax credit provided by **HB 1406**; Incentives for multifamily developers; REET investment; Development fee waivers/reductions; a Housing Action Plan; and Currently reviewing missing middle housing ordinances to allow in single-family zones

Real estate market realities

By a large margin, most of the housing in Washington is built by private parties to sell for a profit. The ultimate sale or rental price of those units is determined by the cost of development and the market price for housing. Rental prices are out of reach for too many Washingtonians, yet future rents are still not high enough to entice new development in many cities. Incentive programs that rely on private development setting aside units for below-market rents must still provide a return on investment for developers. Otherwise, there is no incentive and the affordable housing is not built.

With such high demand to build as much affordable housing as possible, there is understandable interest to push these policies and provide support with tax exemptions or regulatory relief. However, with so many nuances to our regional housing markets it is important to leave flexibility to local officials who can fine-tune these policies, or they could be rendered useless in many communities.



Community concerns

A home purchase is the largest investment most people will make. With so much at stake, many community members want (and expect) their city to remain at least as desirable as it was when they moved in. The impacts of new development can sometimes appear negative—with outspoken concerns of more traffic, less parking, or further-stretched community services. Fear of the unknown can challenge the acceptance of a broader range of housing types in traditional single-family neighborhoods. Although most frequently associated with homeowners, these concerns and impacts are often shared by renters in the community as well.

The positive benefits of growth are less often articulated, such as increased population that supports existing and new small businesses and a broader tax base to support and improve community amenities. Younger generations are increasingly priced out of many communities. Authorization of alternative housing types can help provide opportunities for those who wish to stay but can't find or afford housing as they enter adulthood and start their own families. Another difficulty is that many of these forward-looking policies are designed to benefit people who have not yet moved to the community and, as such, have no voice in the process.

Below-market subsidized housing faces these challenges and more. A stigma against low-income tenants exists in many communities and can be an unstated underpinning of other concerns that are expressed to local decision-makers.



Conclusion

Cities are stepping up to the challenge of addressing the lack of affordable housing. But overly simplistic arguments that the state's housing challenge can be solved by one type of policy (such as mandated density) fail to address the complexities inherent in the housing crisis. A statewide solution focused solely on city planning is inadequate to address this challenge, given the number of variables found across jurisdictions.

However, there are real opportunities to support cities in understanding their local needs and encouraging action in response to their unique housing challenges. When given new tools, such as **HB 1923** and **HB 1406**, passed in 2019, cities have shown their interest in addressing their local housing situations. But planning policies alone will not build housing. More revenue is clearly needed to address the lack of below-market housing, since the private and nonprofit markets largely cannot deliver those homes without public subsidy.



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