

**FEATURE STORY**  
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Wenatchee Mayor Frank Kuntz at a new single-family-unit affordable housing construction site

Washington communities delve deep into the data and take time to hear people's stories as they strive to provide the optimal accommodations for growth.

# Housing Smarts

By TED KATAUSKAS / Photographs by MIKE KANE



**THE CITY OF WENATCHEE ALWAYS KNEW IT** had a housing problem, but in 2016 that problem evolved into a full-blown crisis when the local hospital began diverting patients to Seattle for

treatment. The reason: employees were quitting—and potential replacements looked elsewhere—due to a shortage of housing in and around the city.

“Confluence Health, a major health care provider in town, many times they’re on diversion not because they don’t have hospital beds, but because they don’t have nurses. And they don’t have nurses because they can’t find any place to live,” says Wenatchee Mayor Frank Kuntz. “Young schoolteachers come here, and they like it, but they can’t find a place to live, so they don’t stay. It affects the health of your community when folks can’t find an appropriate place to live.”

With apartment vacancy rates that hover near zero and a market in which the few available homes cost 30 percent more than comparable properties in Spokane, the Tri-Cities, or Yakima, Wenatchee faced glaring gaps in both availability and affordability. Now north-central Washington’s second-largest municipality—having doubled in population, to nearly 34,000, since 1980—the city knew it would have to marshal resources to tackle the problem.

“When the mayor was hearing these outcomes and these stories, he was like, ‘Well, this is a crisis level. If our businesses can’t even get employees, it’s not just an affordable housing problem; it’s an issue across the board,’” says Steve King, who helped with an orchestrated response as Wenatchee’s economic

development director. “That’s a really troublesome thing from an economic development standpoint.”

Partnering with Chelan County, the City of East Wenatchee, the Housing Authority of Chelan County, the Port of Chelan County, and local nonprofits from the housing and building industry, the city commissioned Seattle-based BERK Consulting to assess the housing situation in the Wenatchee Valley and issue a detailed report. The 45-page document, released in September 2016, confirmed what many had suspected—and yielded a few surprising results.

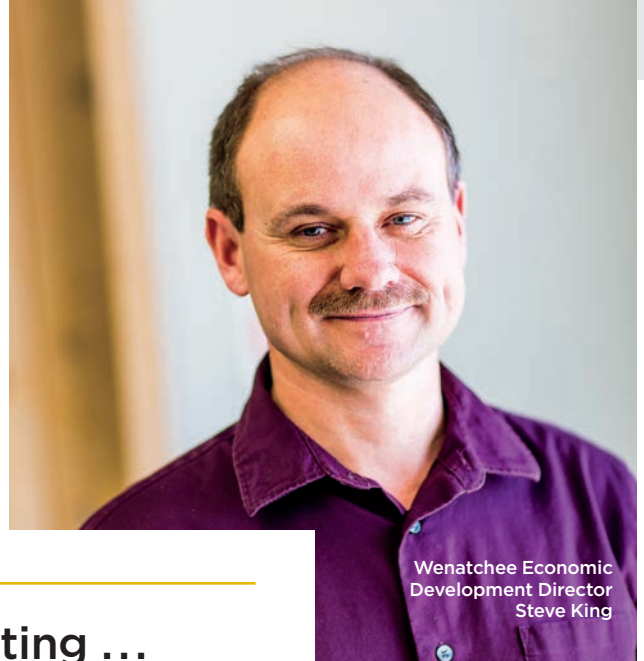
Constricted geographically by the Columbia River to the east and by the foothills of the Cascade Mountains to the west, north, and south, Wenatchee had seen its supply of homes and apartments remain static even as population soared and demand increased. With a vacancy rate hovering at 1 percent, a market analysis predicted that the median monthly apartment rental (\$1,300 in 2016, affordable to residents earning 90 percent of the area’s median income) would rise by 15 percent each year. But more critically, the vacancy rate for market-rate units was just 0.5 percent. BERK determined that the city actually had a sufficient supply of affordable apartments, but due to a phenomenon known as “down-renting,” middle-class residents who could have afforded to live in higher-priced units had instead settled in no-frills apartments that should have been occupied by lower-income residents. To free up its supply of affordable rental units, what the city really needed to do, BERK determined, was build more market-rate apartments—a lot more, as many as 1,600 units.

The situation for single-family homes was just as dire. BERK determined that the median sales price of a single-family home—then \$264,550—was deemed unaffordable to 42 percent of area residents. As with apartments, a limited supply of homes yielded a vacancy rate of 1.4 percent, driving up prices; to increase the vacancy rate to a healthy 5 percent, Wenatchee would have to add 675 homes to its inventory. BERK also determined that a preponderance of Wenatchee’s houses had three or more bedrooms when nearly 60 percent of Wenatchee households now consisted of only one or two members. The report thus urged Wenatchee to diversify its housing stock, adding duplexes, triplexes, cottages, townhouses, and accessory dwelling units to attract middle-income residents—retirees, young professionals, and couples—who could afford market-rate prices, the so-called “missing middle” of the real estate mix.

More broadly, the consultants recommended publicizing the city’s Multifamily Tax Exemption Program (which offers an eight-year property tax exemption to developers of new multifamily housing projects), adjusting city zoning regulations to permit housing in commercial districts through adaptive reuse of existing structures, awarding density bonuses and waiving height restrictions to incentivize investment in multifamily infill projects, and taking other measures to encourage developers to build more housing in the area. While not exactly good news, the report was precisely what the city needed to begin engineering a solution.

“We wanted data that would move us beyond hearsay and get to the real numbers,” King says. “One outcome of the analysis was astonishing but is common sense when you think about it: we have a surplus of housing units that would be affordable to what you might call the workforce, but we have a deficiency of units that would be affordable to those who can purchase at current market rates. This causes down-renting, which consumes the older housing stock, driving the cost up on all units. With that information at our fingertips, we went out into the community.”

**FORTUNATELY, THE COMMUNITY ALREADY** was rallying around the cause. As BERK was crunching numbers, Our Valley Our Future (OVOF)—a Wenatchee Valley grassroots coalition was conducting public surveys, open houses, and community workshops, polling more than 5,000 area residents for their input about how best to tackle the valley’s housing crisis. In November 2016, two months after the city published its assessment, OVOF released a 60-page action plan that articulated 149 actions and seven “game changer” strategies. Central to the grassroots plan was the formation of a Housing Solutions



Wenatchee Economic Development Director Steve King

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Group, a task force of city and regional government, real estate professionals and builders, mortgage brokers and lenders, key employers, residents, educators, and housing nonprofits from Chelan and Douglas counties (modeled after a think tank in Bend, Oregon, a community grappling with a similar housing crisis) that would seek to address the valley’s housing crisis collectively as a region.

“Rather than going to elected leaders first, Our Valley Our Future went to residents and asked them what issues they wanted their community to work on,” explains OVOF coordinator Steve Maher. “When you ask people to register their opinions first, you get immediate buy-in from the community, because they feel



like they're being listened to."

In June 2017, a month after OVOF's Housing Solutions Group first convened, Wenatchee's council adopted an update to its comprehensive plan that made building out and diversifying the city's housing stock central to achieving 20-year growth targets. By 2037, the comp plan noted, the city's population was expected to increase by 17 percent, which would require the construction of nearly 2,500 new units of housing. To put that statistic into perspective, the plan noted that between 2000 and 2010 (when Wenatchee's population had expanded at a similar rate) the city had added 1,689 new units of housing; but between 2010 and 2015, the city's housing stock had expanded by only 633 new units. Just when the city needed to accelerate the pace of new housing construction, the trend was moving in the opposite direction.

"We need to find a major housing developer like you see in Seattle, Tacoma, and Everett and crank out 300, 400, 500 homes in a three-year period," stresses Mayor Kuntz. "Problem is, the developers are all doing just fine where they are at. Building houses in Seattle, they can make 15 to 20 percent margins, so why would they go to Wenatchee, where we're tucked into a little valley and it's not easy to develop?"

Maher echoes that sentiment.

"We need more than 2,000 new apartments, but when you look at the data for the past five years, it's just not happening," he says. "There are these big construction companies based in Texas and Florida, the Wal-Marts of the construction industry, but when the City of Wenatchee reached out to them, one company after another said, 'Yeah, Wenatchee is totally primed for more apartments,' but it's not big enough to attract them. . . . Yet Wenatchee is very desirable for recreation and retirement, and with our close proximity to Seattle we have a lot of people moving here and grabbing whatever is available and pushing up the prices. It's a very tough issue right now."

Just how tough was revealed in a survey of 1,700 Chelan and Douglas County residents that OVOF conducted in July and August 2017. Although financial experts advise against spending more than 30 percent of income on housing,

Wenatchee  
Riverfront Park



## TRY, TRY AGAIN Q&A WITH BECKY McCRAY

*Becky McCray, a business owner and speaker who specializes in rural and small-town business development, explains how entrepreneurial thinking can resuscitate even the most moribund local economy.*



### **You're no stranger to small cities.**

I'm from Hopeton, Oklahoma, a little unincorporated community of about 30 people. Eight miles away, there's the big town of Alva, with 5,000 people, where my husband and I have a retail liquor store; in the other direction we have a family cattle ranch, and that doesn't mean the Ponderosa, either.

### **You once worked as the administrator of Waynoka, Oklahoma, a city of about 1,000.**

I loved doing that. I got to learn about every aspect of city government. I learned to appreciate the different pressures on city government, how many city services need to be maintained, and the balance between all the competing demands on those limited resources. It's hard for people stuck in that day-to-day balancing act to think long-term, to be able to look toward the future.

### **After you left city government and opened your own business, you started a blog.**

I wanted to find ways to be involved in larger projects than just my own business, so I started writing online about small-town issues and small-business issues. That led to saveyour.town, which I do with my colleague Deb Brown. We share practical steps people can take right away to look toward the future and move things forward.

### **Such as?**

Take an empty lot, cover it with card tables and coffee trucks, and be an anchor opportunity, building a pipeline of future business owners.

### **What's the most common roadblock preventing small cities from thriving?**

The limiting factor tends to be worrying about whether an idea will work before you ever try it. We're still operating on the model that we need to have a committee; we need to gather evidence and have proof before we do anything. That holds us back from trying new things.

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46 percent of those surveyed indicated that they were spending more than that amount, with 139 (nearly 9 percent) spending more than half of their income on housing. More worrisome, 45 percent of the valley's residents indicated that they were having such a difficult time finding housing in the area that they had considered moving to a city where finding affordable housing wasn't such a struggle.

Perhaps indicating how strongly residents felt about the issue, more than 600 shared their personal housing stories, some in moving detail. One resident wrote that "with such low vacancy rates in the area, landlords are not willing to rent to somebody that struggles over someone with better income." A single mother wrote about being homeless with three children for two years due to a wait list for low-income housing, noting that the "thought of giving my kids up so they had a home crossed my mind. No loving mother should ever have to feel this."

"When you read those stories, you realize how serious this is and how it impacts every income level in the city," Maher says. "It was valuable in so many different ways."

As a follow-up to the survey, OVOF's Housing Solutions Group is working on a white paper, to be released later this spring, that identifies factors that inhibit construction—from labor costs to permitting fees and infrastructure improvements like sewer and water connections needed to stimulate development—to articulate recommendations for innovative actions the region might take.

"We wanted to weigh the data against a perceptions-based survey, a real smattering of across-the-board perceptions with the root issue being a lack of supply of units," explains King, who represents the city as a member of the Housing Solutions Group. "It kind of confirmed the data. We are now in the process of developing a strategy for how we make a change."

**LIKE WENATCHEE, THE CITY OF COVINGTON** faces growth-related challenges, but of a different sort. As one of Washington's youngest cities—incorporated in 1997—Covington within two decades had exceeded its growth targets as a small city, with a population that grew by 43 percent (from 12,900 in 1998 to 18,520 in 2015) as young families and professionals priced out of Seattle's real estate market sought an affordable place to live.

"I remember when my parents and I came to Covington in 1980 looking to build our first family store, and as we drove through town the commercial real estate agent said, 'Mark my words, this is going to be a big city,'" recalls Mayor Jeff Wagner, a city councilmember since 2004 who served on the original committee that advocated for incorporation. "Sure enough, Covington has come very far."

By 2015, Covington was faced with the prospect of having to mitigate growth instead of expanding to meet demand. Instead, the city argued that it had the capacity to accommodate future growth and petitioned the Puget Sound Regional Council's Growth Management Board to reclassify Covington's status from a small city to a larger city, earning the designation in November 2016.

"Persistence is key," says City Manager Regan Bolli. "If we



Covington City Manager Regan Bolli, former mayor and current Councilmember Margaret Harto, and Mayor Jeff Wagner in the parking lot of the new Polaris apartment complex

had dropped the issue, we still would be trying to grapple with how to mitigate our growth and development."

Instead, the comprehensive plan Covington's council adopted in 2016 mapped an ambitious 20-year expansion, anticipating a population that would grow by 50 percent, to 27,645 residents, by 2035. Like Wenatchee, Covington recognized that housing all of those new residents posed a daunting challenge. A market study by BERK estimated that Covington would need to add a whopping 3,920 new homes and apartments by 2035. But when it came to fulfilling that goal, Covington faced fewer challenges than Wenatchee. Although 35 percent of Covington's households reported that they were cost-burdened or severely cost-burdened (spending more than 30 percent or 50 percent of income on housing), the threshold for addressing that need with affordable housing was far narrower, requiring the addition of 560 new units of affordable housing. One saving grace was the city's vacancy rate: a healthy 6 percent compared to Wenatchee's 1 percent.

With Covington's local economy dominated by the retail sector, few who worked in Covington could afford to live there, and the vast majority of the city's residents commuted to high-paying jobs in Seattle and other King County cities. And unlike Wenatchee's, Covington's existing housing stock—94 percent of all housing units are single-family homes—largely met the needs of its demographics, from an average of three persons per household to a median household income of \$87,811, both factors 25 percent higher than comparison statistics across the state or region. But change was coming: in 20 years, as parents aged and children moved away, Covington would need to diversify its housing stock with "missing middle" options, diluting the proportion of single-family homes from 94 percent to just 75 percent. Most tellingly, by 2035 Covington's popula-



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**—MARGARET HARTO, FORMER MAYOR AND CURRENT COUNCILMEMBER, CITY OF COVINGTON**

tion of seniors—residents living alone on fixed incomes—was expected to quintuple, to 23 percent.

By 2016, the city already had embraced the challenge of housing diversification. At the end of that year, in a nascent city center redevelopment Covington had planned since its incorporation, Covington cut the ribbon on Polaris, a high-rise apartment with 200 units of affordable housing for families earning 60 percent of the median county income. To entice that development, the city had discounted permit fees and persuaded its school district to discount school impact fees.

“We felt it was important to have that diversity of housing choices in our community; we didn’t have that at all,” says Councilmember Margaret Harto, who served as Covington’s mayor from 2006 to 2016. “If we were to do it all over again, we would be looking at a larger picture than just the housing itself: what these folks need aside from just a roof over their heads.”

One such oversight: over 100 children under the age of 18 call Polaris home, yet there is no playground. But there’s a short-term solution just next door: a public elementary school on 18 acres that soon will be vacated when the Kent School District opens a new facility. The city, which has been socking away budget surpluses for the past three years in a town center revenue fund, plans to purchase the property (for \$2 million) before the end of the year and redevelop the parcel into a new city hall complex. Since that project won’t break ground for several years,

#### **How should city leaders act instead?**

We know the world is changing all around us. Even if we don’t change, we’re going to get change because things are happening all the time. We have to compare the risk of making a change versus the even riskier change that will happen if we don’t do anything.

#### **You call that being Idea Friendly. What do you mean by that?**

We can’t guess what direction things will take over the next 5, 10, or 50 years, so we’re going to be open to ideas—as opposed to slowing things down, which makes us closed to new ideas. We don’t have to spend five years planning it out if we can run a temporary test next weekend. There’s less risk of big long-term failure when you have the ability to try things out quickly and learn a lot more in the short term.

#### **Any advice for struggling rural cities founded on an industry, or an economic asset, that no longer exists?**

If you think about it, almost every town and city has lost its original reason for economic well-being, whether it started as a center of trade, a railroad town, or some other reason. All those factors have changed over the past 100 years. Every city, every town has had to reinvent itself.

#### **What’s one example of a small city that has reinvented itself?**

Webster City, Iowa, a city of 8,000 that lost an

Electrolux factory, putting 850 people out of work. The factory moved to Mexico, and businesses started closing down like dominoes. Two years after the final closure, they hired a new chamber of commerce director who drove into town and started counting the number of vacant buildings downtown. When she got to 12, she thought, “Do I even want to take this job?” When she was asked what she was going to do about all the empty buildings, she said, “We’re going to give a tour and show them off.”

#### **So she took what many locals saw as a liability and pitched it as an asset.**

It was a declaration. She said, “We have opportunities here; they’re not necessarily tied to what opportunities once looked like.” She took people around, spread the word, asked the grouchy old guys in the coffee shop, “Don’t you want to be involved, too?” When they said no, she said, “Didn’t your granddaughter just graduate from college? Don’t you want her to move back to town?” That got people involved.

#### **The moral of that story?**

They started exploring opportunities instead of focusing on how things had been before. They built connections, found businesses in nearby towns that wanted to open a branch there. It doesn’t matter what is thrown in front of you: when you work at being more Idea Friendly, then your town will prosper.

the existing school building will serve as an interim community center—and a playground for the children of Polaris.

Also adjacent to the campus is a recently opened 150-unit affordable housing complex for seniors, along with an upscale apartment complex with 100 units of market-rate housing. And nearby, a \$100 million, 56-bed hospital with a birthing center and three operating rooms will open in April, a project the city developed in partnership with MultiCare Health System to diversify its economic base and workforce and rebrand Covington as a retail and medical hub for southeast King County. To that end, the city also is partnering with Green River Community College to offer health care-focused career training to local high schoolers who one day might be employed at the new hospital.

“This city strongly believes in partnerships,” says Harto. “That’s part of our planning process. We do nothing in isolation. It’s not only who you can partner with, it’s also listening to your community and constantly working to achieve a balance between your economic and residential development, because one affects the other.”

The same month that Covington updated its comp plan, the city also annexed 75 acres on the outskirts of town—formerly a gravel pit—and recently signed an agreement with Bellevue-based Oakpointe Properties to redevelop the parcel as Lakepointe, an urban village with a million square feet of commercial retail space and 1,700 units of market-rate housing that will go a long way to meeting Covington’s 2035 growth targets. Before that project breaks ground, the city will need to prime the development with a \$50 million road and highway interchange. Since state funding will cover only half of that expense, Covington will create a community facilities district—a funding model common in California and other states that the City of Redmond pioneered in Washington with Microsoft—that will levy taxes to issue bonds to fund infrastructure improvements.

One challenge that Covington must grapple with—the Achilles heel of all of this anticipated growth—is the impact that the development will have on the city’s already overwhelmed transportation network. With public transit limited to two bus routes, almost everybody commutes by car, clogging the city’s two primary arterials—SR 18 north/south and SR 516 east/west—and creating an epic traffic jam that locals refer to as the “Covington crawl” every workday morning and evening.

“We have some of the worst traffic in the country,” says Bolli. “It’s a difficult thing to fix. To widen a mile of roadway will cost more than an entire year’s general fund budget.”

So in addition to planning a park-and-ride public transit hub at Lakepointe, the city is working with the county to expand its bus routes. Covington also is relying on its two closest neighbors, Maple Valley and Black Diamond, to lobby the Legislature to leverage more infrastructure funding for road improvements.

“We cover three legislative districts, so when we go down to Olympia we go together, and it is very helpful to be able to support one another,” says Harto. “They’re advocates for us, and we’re advocates for them.”

For Bolli, that is the primary takeaway when it comes to planning for growth.



Our Valley  
Our Future  
coordinator  
Steve Maher

“The biggest thing I’ve learned,” he says, “is that you have to be engaged with everybody around you, not just as a city, but regionally.”



**AS IT WORKS WITH ITS NEIGHBORS TO** collectively address its housing crisis, that strategy already seems to be paying dividends for Wenatchee.

“Because of the mayor’s outreach, we have a number of new developments coming online,” says Economic Development Director Steve King. “People are figuring out that Wenatchee is a place to invest in. It’s not normal to have outside developers coming into the Wenatchee area. We’re changing that dynamic.”

Building on that momentum, the city will soon hire a consultant to rewrite municipal codes to make it easier for developers to diversify Wenatchee’s housing stock, as well as extend water and sewer lines out to unincorporated Sunnyslope to prime development in an area slated for annexation.

“Solving our housing shortage has to be done in a variety of ways,” notes Wenatchee’s community development director, Glen DeVries. “It’s not going to be accomplished by one process or one approach.”

Or one city.

“This is a complex issue, and it’s going to take lots of folks coming at it from a regional standpoint instead of each jurisdiction doing its own thing in its own silo,” concludes Our Valley Our Future’s Steve Maher. “Elevating this conversation to where everybody is talking about it has pushed us closer to success. You’re OK in your house, but you have a different take when all of a sudden you realize if you get injured and need surgery, the hospital may fly you to Seattle because they don’t have enough nurses because nurses can’t find housing. As these stories come out, people are starting to see how this is more of a community issue rather than a personal issue.”

Which itself is an important form of growth. 