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TASK FORCE

The Donald C. Hellmann Task Force Program

Building a Better Future: Solving Seattle's Housing Crisis

2022

Executive Summary: Solving Seattle's Housing Crisis

University of Washington Task Force 2022

The City of Seattle, like much of the country, faces a serious housing crisis. Houselessness is ubiquitous and most ordinary citizens, many of whom were deemed essential workers during the pandemic, cannot afford to live in Seattle. Much of the workforce is forced to suffer financially or commute long distances, which weakens communities and accelerates climate change.

One of the main policy responses to this, at least at the municipal level, has been to up-zone neighborhoods. The assumption behind liberalizing the housing market is that more supply will be generated and in the process the cost of housing will be within reach of more citizens. In short, it presumes that a less regulated housing market will increase supply which in turn will result in more affordable housing. Unfortunately, this is unsubstantiated. Researchers in Chicago and Vancouver have found that up-zoning has neither increased the overall supply of housing nor reduced its costs. Sustainably built, quality housing that all residents can afford is not a profitable venture. Thus, one of our main takeaways is that <u>up-zoning based around for-profit housing development will not address the housing crisis</u>. Moreover, many quality neighborhoods will be upended and up-zoning as a policy (which we believe is needed) will have been discredited because it failed to deliver what many of its advocates promised.

In search of solutions, data shows that cities which disentangled housing development from the demands and logics of the market have been the most successful ones. Unconstrained by the need for housing projects to be profitable allowed governments to prioritize other values such as community, aesthetics, sustainable construction, equity and affordable home ownership. This approach led to a reduction in the size of government bureaucracies because its responsibilities were streamlined and simplified. Moreover, tax dollars spent on housing issues were reduced. For example, in Vienna, Austria (a city of two million residents) this approach produces 20,000 units a year with merely a one percent income tax on municipal residents. This is substantially less than what Seattleites currently pay for its less than satisfactory approach to housing development.

Background

At present there is a complicated array of government programs and policies as well as non-profit entities involved in trying to prop up Seattle's failed market approach to housing. The hodgepodge of block grants, rental assistance programs, mean-tested subsidized rental units, tax credit schemes, and non-profit organizations attempting to address this crisis is bewildering. And so, it is understandable that the general public often finds our approach to the housing crisis dumbfounding and frustrating.

In Seattle, one of the more visible policy initiatives that has emerged in recent years has been the Mandatory Housing Affordability (MHA) program. Passed in March 2019, the policy expanded up-zoning in various corridors and urban villages if developers included additional affordable housing units in their development projects or contributed to buy-out fees to the City of Seattle. This program added 684 affordable housing units in the year 2020, through a combination of 104 performance units and 580 units funded by the in-lieu payments via the Seattle Office of Housing Investment Fund. This number is certainly helpful but ultimately insufficient. Moreover, these affordable units were primarily rental properties and were constructed in locations that would not further social equality goals, as the in-lieu or buy-out monies were used to build units in the poorer, historically redlined parts of the city. One government official reported that these buy-outs are preferred because then these monies can be "leveraged" to attract federal and state funds. Thus these policies, which were pitched as a method for tackling social inequalities by integrating neighborhoods, are having the opposite effect – the poor are being concentrated in affordable housing projects in the more economically disadvan parts of the city. In addition, the affordable rental units being produced are majority studio and one-bedroom units that are not spacious enough to accomodate families, despite the city's professed goals of building family-based communities.

Despite these underwhelming results, the primary policy proposed to address the housing crisis is an expansion of market liberalization through further up-zoning. In Olympia, Missing Middle Housing Bill 1784, which was backed by dozens of progressive legislators and Governor Inslee, argued that the primary cause for the shortage of affordable housing is exclusionary zoning, in particular single-family zoned areas. Most urban planners, architects, developers, and real estate agents in Seattle have also been lobbying heavily for expanding up-zoning as a way to address the housing crisis, climate change and racial inequalities.

Up-zoning is an essential ingredient to solving our housing and climate crisis. However, it will not solve our housing crisis within the for-profit development approach. In short, **the crux of the problem is not single-family zoning but rather a for-profit housing development model.** Our prediction, based on what has happened elsewhere in the world, is that up-zoning absent a decoupling of housing development from market demands will effectively mean the replacement of single-family homes (primarily in the most desirable part of the city) with apartment blocks or fourplex that will not be of quality nor built to high environmental standards with community in mind. The cost of land, materials, money, and soft costs will push if not require developers to create as many units as cheaply as possible on these up-zoned parcels and then attempt to sell them at the highest price the market will bear. In the process well-functioning, quality neighborhoods will be damaged if not destroyed and up-zoning will be unfairly blamed for this result.

A Non-Market Approach in Seattle

The common ingredients of proven approaches to delivering quality, affordable housing include first and foremost, <u>a housing market liberated from the need to profit developers and their investors</u>. This allows cities to develop housing which prioritizes quality-design, livability, community, the environment, and social equality. The next ingredient is <u>mandatory mixed income levels in new construction</u>, with roughly a third at market rate. This ensures the true socio-economic integration of buildings and neighborhoods and has the added benefit of making sure that buildings are well managed and maintained – a problem when the poor are concentrated into "affordable housing." A third ingredient involves financing, in particular <u>the</u>

government acting as the financial guarantor for these projects and filling in any capital gaps. The one reason that developers expect significant profit is because they also take large financial risks. With the municipality being the guarantor, this issue is nullified. Moreover, there will often be capital gaps because, as noted above, it is not profitable to prioritize quality, sustainable construction that is affordable to residents. In other cities, these capital gaps have not proven large. Moreover, these upfront costs are easily offset by all the other savings the city and society incur by its citizens housed in healthy, beautiful, diverse neighborhoods.

With these key ingredients in mind, we propose two pilot designs – a condominium building and two fourplex homes. The fourplex model proposed fits on a 5000 sq ft lot with a 2304 sq ft building footprint. Our condo design builds on HALA's NC-75 prototype, with a few modifications. Instead of their proposed 78 units for the 12,000 sf lot, we added just 48 units so that they could be more spacious: 16 units at 650 sf (one bedroom), 900 sf (two bedroom), and 1200 sf (3 bedroom). These models feature courtyard-style communal spaces - indoor at the four-plex level and outdoor for the condominium project – in order to nurture community within these developments while also increasing privacy from the street-facing parts of the building. Both models uphold LEED-Gold standard construction that can house a range of Seattle residents from single adults to five-person families.

In our budget, 40% of the units will be sold at market-rate. The subsidized units are divided into two tiers: 60 to 80% AMI and 80 to 120% AMI. Buyers in the subsidized units will pay no more than 30% of their monthly income towards mortgages and unit-related fees. Using standard construction pricing models, the construction costs were determined to be $32,050,000. The estimated total revenue upon selling 40% of the condominium and 50% of the four-plex units at market-rate is predicted to be $25,042,000 with an additional annual leasing revenue of $550,000 for the retail space in the condominium building, leaving a capital gap of $7,008,000, excluding land acquisition. This means that each subsidized unit would cost the municipal government $185,000 if it had to shoulder these costs alone. If this approach were altered to target individuals at even lower incomes, then the subsidies would increase accordingly.

To ensure that the subsidized units remained affordable in perpetuity, these units would be deed restricted with an appreciation of no more than 3% per annum. To ensure the success of our community stewardship model, a government office, herein known as the Stewardship Director, will oversee and provide support to the community and its' members as well as handle questions and concerns from potential homeowners, allowing them to make an informed decision. To steward the properties, we devised a fairly standard homeowners association structure consisting of members of each AMI level.

With respect to up-scaling this model, there exists a need of approximately 2000 units per year for people in the 60% to 120% of AMI range. Using our above budget of roughly $185,000 per unit, our proposal would cost the city $411,000,000 per year. By using monies from Jump Start Seattle and creating a new non-occupancy tax, these costs could be covered. And this excludes the various federal, state and philanthropic revenue streams that could also be used to help fund this approach to housing development.

Conclusions

There are many details that would have to be refined if this policy were to be implemented and the funding of this approach could be achieved in various ways other than the proposal we devised. The main point of the above was to demonstrate that such a non-profit housing development approach would be fiscally feasible in Seattle. Indeed, from a purely economic calculus, our proposed approach is superior to the current for-profit housing development system in which taxpayers are subsidizing developers and real estate speculators as well as propping up a maze of policies and bureaucracies that are often uncoordinated and sometimes working at cross-purposes.

Having said this, we also realize that the biggest impediment to this approach is not fiscal but rather cultural. Much of the conventional wisdom and common sense in the US is informed by the belief that the market is a superior way to deliver services and needs. In some cases, this is true but in other sectors of our economy this is not. We believe housing development falls in this latter category. Moreover, Americans tend to think of the relationship between markets and government in binary, absolutist terms. Given this, it is important to underscore that we are not calling for a purely statist or non-profit approach to housing development. For instance, for profit developers would still be allowed to build housing. In fact, they would be welcomed to continue to build affordable housing so long as it met the standards we are recommending: 60% below market rates with deed restrictions in buildings that are built to high aesthetic and environmental standards. As noted above, such ventures are rarely profitable and so it is unlikely that their presence would be very substantial in this sector of the housing market. This gap would be filled in by the above mentioned approach in which the government would assume the responsibilities of project coordination and construction oversight – an owner's representative type individual or firm who would likely be subcontracted out by the government. Moreover, there would still be important roles for for-profit contractors, architects, bankers, engineers, surveyors, and so on. None of these occupations would be taken over by the government. The only parts of the equation being removed from market demands in these development projects would be the developers, investors, land, and the subsidized units (which will have deed restrictions that only allow for 3% annual increases).

We are also convinced – based on what we have witnessed elsewhere in the world - that were this model to be actualized at scale, it would reduce the size and cost of government. The current system encourages government bloat and inefficiency because it is effectively trying to hold together or compensate for a system in desperate need of reform. Our approach would result in a much more administratively rationalized and economically efficient approach to housing development through streamlining a complex and often unwieldy affordable housing industry and in the process generate various positive socio-economic outcomes: energy efficient homes, citizens who build equity, vibrant communities, reduced needs for other social services, employers who do not have to subsidize housing costs to attract good workers, more family-friendly homes, and a city in which all citizens can be proud of the aesthetics of its built environment.

For the rest of our report, we have created a click-through website going in depth on what we mentioned above:

https://taskforce2022.wixsite.com/seattlehousing