

Housing report podcast transcript

"You could roll out the red carpet and authorize every sort of missing middle and accessory dwelling unit you'd like in certain places and still nobody will come to build there."

Emma Shepard: Welcome to the AWC CityVoice Podcast where we explore the issues that impact Washington cities. I'm Emma Shepard. At the start of the year, we released the findings of a new publication titled State of the Cities: Housing report, which found that Washington cities of every size are grappling with the lack of available, affordable housing. At the same time, cities struggle with limited resources to increase available housing so that current and future residents can live and thrive there for years to come.

But cities can't solve it alone. It's going to take a working partnership with private and nonprofit sectors, along with key state, local, and federal agencies. We need to get a grasp on the problem and tackle each piece with an innovative approach. I've got Carl Schroeder here, our AWC Government Relations Advocate and we're going to go over some of the key findings of report. Welcome Carl.

Carl Schroeder: Hi, Thanks Emma.

Emma: Yeah, so I want to go over some of the notable report findings. One of the things that we found when we released this report was we surveyed our cities and 82% of them said that the lack of affordable housing is a problem in their community. Can you talk a little bit about what you hear from cities when they're talking about this issue?

Carl: Yeah, I have been working on housing issues for AWC for almost 10 years and the prominence of this as an issue has really increased over the last, I would say four or five years, where coming in affordability challenges and the related challenges around homelessness. We would primarily hear from the largest cities and it was sort of seen as an urban issue in a lot of ways. And that's really changed, and we hear almost more now from the smaller and mid-sized cities about their challenges both attracting private market development, which I think is a real critical challenge in a lot of communities and something that the state sort of struggles to provide assistance on compared to some of the more traditional subsidized housing programs, so as far as challenges with addressing finding market rate development.

And then, the reality is in most places of the state of not everywhere to provide housing for community

members who are making lower than the median income. 80% or below is sort of generally considered to be low income as it relates to state programs, those types of facilities really need to have some sort of public or nonprofit investment in them because the private sector cannot cost effectively build and then recover their costs at those sorts of rent levels. And there's never enough of that resource to go around, the state has a pretty robust housing trust fund. We're real high performers using federal housing tax credits. But even that there's been a general and concerted push to generate more options and revenue possibilities at the local level and to increase the level of investment from the state in recognition of that because we've just got a real gap and need around particularly low-income housing.

Emma: Another big finding and the report was that the statewide median home price has doubled in the last 8 years. So that's a huge figure and that seems to be moving pretty quick. Do you think that has to do with population growth and driving those populations in the cities, or what's going on there?

Carl: Yeah, there's a number of things going on. But yeah, the cost number is pretty almost... it's hard to imagine doubling in eight years and you've seen a similar sort of trend on rent levels as well. So the housing affordability challenges in the state, both for homeowners and renters have been really getting even more dire over the recent years and it does seem to be accelerating. I don't have that documented, necessarily, but I think there's a number of things that contribute to that.

So, on the homeownership side. We are running out of easily developable greenspace land in a lot of cities. And that's been the traditional kind of approach that the building industry has looked to build single-family homes. It's simpler and more cost effective for them to have sort of unadulterated land as opposed to trying to redevelop already-built urban environments. That's a challenge with growth management, right, because that remaining greenspace land isn't as usually as connected to services and it's not in the parts of the community that have good access to transit and transportation options.

So from a societal perspective and from a local government perspective, trying to provide

infrastructure and other supports for those houses, it's not necessarily in the best interest to continue to push out and seek more greenfield land. But that does make the land that is available more expensive and in some cases, the type of housing development that you can do is more expensive because of that as well. So you have to look at it from a longer time horizon to see those benefits, but from a consumer's point of view, they're seeing these house prices going up and up.

On the rental side we have had really, really low vacancy rates in the state for several years running now. I think the number that we used in the report was that were the fourth-lowest rental vacancy rate in the whole country. And that it's not just an urban issue. Actually, the highest vacancy rate was in King County at 5.3% but some of our more rural counties: Cowlitz, Kittitas, Skagit, Whatcom, they have less than 1% vacancy rates and there's kind of this rule of thumb that once your vacancy rates get below 5 to 7%, which is sort of considered a natural vacancy rate, you start to see upward pressure on prices. So that's contributing directly the rental cost increases.

And both of those are further challenged by the fact that there's a variety of reasons, but the state is not producing enough housing units to keep up with population growth. Some of the things that we've been facing at the legislative level are folks who sort of believe that city decision-making as a primary contributor to that gap in housing and we'll talk more about what we hear from cities in terms of that. But we're like 225,000 units behind in some cases, on some estimates.

And if you think about what the level of investment that's going to be needed to build those units, that's billions of dollars of private investment that's going to be necessary. 80% of that gap that 225,000 is needed for people who make less than 80% of the area median income. And at that point, you're getting into those types of homes and I talked about where you need to have nonprofit or public subsidy to really make them work.

And as much investment as we've made on affordable housing and subsidized housing in the state, we are nowhere near putting enough money into the system to get over that hump. So that's a real challenge.

Emma: Another notable finding from the report is that 80% of cities say they need state funding to support affordable housing programs and local

planning efforts. Talk about what you're hearing from cities and what kind of state support they're looking for.

Carl: Yeah, part of it is the point I was just making about the need to have public investment dollars to really reach down into the type of housing that's affordable at the lowest income levels. And cities by and large, have never had direct revenue appropriations for this housing and homelessness have been a county-level service, more so than a city-level service, although over time that's shifting a little bit.

So we've supported new revenue options for cities. There was one a couple years ago, **House Bill 1406**, which was a really landmark revenue sharing program over 20 years was \$500 million of state sales tax, that was going to be rebated back to cities to make investments in affordable housing. Absent that kind of partnership with the state, lots of cities are not in a position to spend money on affordable housing.

Now we do have a growing number who are levying optional revenue sources like property tax levies or sales taxes that are dedicated to housing purposes. But it's not a historical thing that cities have had as a book of business. So that's a kind of an emerging theme.

And in terms of local planning, so much of what we've been hearing, especially recently from advocates in the Legislature to create more housing supply is that it's a local zoning and land use codes that are contributing to some of those underbuilding projections that I shared earlier. And there's some truth to that in some communities. I think it's also really overblown in terms of the lack of interest in cities to make changes that are smart on that front to help open up housing supply and we've got dozens of examples of cities who are doing really innovative work on that front.

But planning is hard to get funded at the local level, just as it is hard to get funded at the state level. It's a general fund expense, it's in competition with police and fire and other core governmental services. It's kind of seen as the first to get cut and the last to get brought back when we have recessions. And the COVID-related revenue impacts this year may play out the same way, but we have planning departments in mid-sized cities who tell me that they're still down staff from the 2008 recessions, or those that came after the housing bubble in that timeframe. So, there's just

not as much capacity at the local level to do as much of that work, as some people would like so.

One of our efforts is to try to build up a better direct funding source from the state if they want cities to tackle new problems or take another look at old problems. There's a means to support them doing that.

Emma: Let's go over some common misconceptions about affordable housing. The report included several key findings that bust these common myths. So I'm going to state the myth, and then I'm going to tell you what the report found and we can kind of go over some of that so:

One of the myths is that housing shortages only affect bigger cities and cities in central Puget Sound. You sort of talked about this a little bit, but the report found that actually, cities all throughout the state in all different population sizes are seeing exceptional growth in the last 10 years.

The report includes a chart of the top 20 fastest growing cities and there's some surprises. There's a few of the well-known high-growth King County cities like Kirkland and Sammamish, but also cities on the east side like Connell, Airway Heights, and Liberty Lake plus some smaller cities on the west side like Yelm, Ridgefield, and Duvall.

So anytime you see a steep increase in the population, the city could face some housing supply concerns for that growth. So how is this growth impacting and what are you hearing?

Carl: Yeah. Well, absolutely, we're hearing from all shapes and sizes of cities about their challenges with accommodating growth. And it's really critical for policymakers and others who are interested in this to understand that really there are very different pressures on these types of communities.

Right, so Ridgefield is a good example. They were participants with us in a University of Washington Growth Management Act review process over the summer of 2020 and the city manager there was talking about their efforts to encourage multifamily development in a certain area of town. And that they were unsuccessful with that for many years until a grocery store moved in and was built in that area and then the market changed for the housing developers and it became more feasible for them to build because they could sell it as having amenities and closeness to things that were important to the people who might live there, like grocery stores.

Another example on the other side of the issue is, is a city like Yelm, which was the fastest growing city in Thurston County. But because they've run into the end of their legal water right, they're not able to permit new subdivisions now. And so in an area where there was a desire to build and to continue to provide housing, another problem was the impediment.

Granite Falls in Snohomish County is another example where it was one of the most remaining affordable places in Snohomish County that was driving distance of Everett and Seattle and was under a lot of growth pressure there, but they were beginning to run into the end of their capacity of their municipal sewer plant.

So what we have been faced with at the legislative level is a lot of concentration on the really hot real estate markets where the various vagaries of individual city codes could have impact on development potential or the development cost of buildings and a feeling like those codes were the reason why growth wasn't going as fast as it should.

On the other hand, we have scores of cities who are not facing that hot real estate market. They may have where the codes, you can make an argument, slowing growth that otherwise would occur. In those cases, they really need some other sort of investment or spur or change in local situation to see the development and they could...I usually kind of talk about it like this that you could roll out the red carpet and authorize every sort of missing middle and accessory dwelling unit you'd like in certain places and still nobody will come to build there. So, if we're going to really tackle this problem holistically and have solutions that are appropriate across the state, we need to have a variety of approaches and we can't just get sucked into the shiny object of one particular solution or another because they're only going to be relevant to certain cities.

Emma: Another myth that the report busted was that cities aren't doing much to address local housing shortages. So actually that's not true. The report found that cities are actively engaged in addressing local housing policies.

In fact, cities have taken a variety of policy actions between 2019 and 2020 alone, including reviewing development regulations and housing construction fees, and creating Housing Action Plans or

authorizing new housing types in single-family zones. What are you hearing on this one?

Carl: Yeah, it's a good question. You know I think really that idea that cities are not doing much to address local housing needs is really misstated. I think there has been an incredible interest as we've worked on these issues, particularly over the last several years, to both demonstrate what's already been done, show receptivity to new sorts of approaches, and we've really been pushing an incentive-based approach, where the state could identify policies that they think are critical or worth pursuing. And then help provide support for cities to adopt those.

Financial support for planning, as we discussed, planning departments in a lot of cities are really crunched and don't have the capacity to even do the minimum right now. So getting them some support to move forward with these co-changes is really critical and we've seen success on that.

House Bill 1923 came out in 2019 and offered grants to cities to do code changes and we had 7 cities get support for authorizing duplexes on all their corner lots and 7 cities got support to generate form-based codes which are a little easier to get through the permitting process for a particular development. I don't want to give you numbers on all these but, planned actions around transit centers, and expanding authorities around accessory dwelling units, and a variety of other things.

Also, a really critical and popular component of that was authorizing cities to get support to generate local Housing Action Plans that could be done at a local single-city level or with regional groups of cities. And so, for example, Walla Walla, College Place, Waitsburg, and Dayton, not large cities by any stretch, but an important region in the state to work together to try to identify what their needs are there, which are going to be different than Lacey, Olympia, and Tumwater, who also did the same thing.

So, I think just in general, we've already shown that there's a lot of interest in taking the next step on housing policies. And then if you look back prior to those incentive-based approaches we've been tracking and trying to get our hands around the different actions that cities have been taking on housing. And we have identified, 10 to 15 different policies that we hear about from advocates at the state level and trying to understand which of those have already been adopted. And there are cities

like Wenatchee that have adopted 11 of those policies already. Others like Stevenson, a little tiny city in Southwest Washington that's adopted 8 of them. Shoreline, right in the heart of urban King County with 13 so there's a lot of engagement and investment on this.

I think the challenge is, and the reason this myth seems to be persistent, is that it comes from folks who are trying to approach the problem with a very specific solution in mind and the nature of the beast with cities is that there's different problems, there's variations in opportunities, different tax bases, and all this other stuff that results in slightly different approaches being taken by different communities to address the same issues. And that's a feature, not a bug, of the way that Washington growth management works and city development works. But if you're only looking at it from a narrow lens of: I want this one particular housing policy to be taken up at a greater degree, sometimes you're running into that... running upstream, I guess with that kind of approach.

Emma: Our next myth is that cities don't allow new construction because of loud local opposition. The report found that city's largest barriers to new housing actually include: lack of developable land, infrastructure challenges, barriers in expanding urban growth areas, and the high cost of land and construction. And so, what are some of these challenges that cities find to constructing new housing?

Carl: Yeah, that's been a big theme this idea that city councils are captured, so to speak, by the existing residents who are (in a lot of places) homeowners who have already achieved some success in life. And are particularly capable of expressing their opinions to their local elected officials and that there's not enough courage, so to speak, among local electeds to overcome that. And there's obviously going to be a certain amount of truth in something like that. There are always squeaky wheels and the process at all levels of government is responsive to people who raise concerns.

On the other hand, there's some really shining examples. If you look at Shoreline, for instance, we were talking about earlier. They were provided with a light rail station and Sound Transit that was scheduled to go into an already developed single-family neighborhood. And in recognition of the value of that investment and the fact that to maximize transit, the city needed to upzone that

area and allow a denser level of development. And when you try to upzone to that degree in a single-family neighborhood you generate a lot of concern and opposition from homeowners who think about what that change might mean for their situation.

In that case that ended up being like one of the central fights of the next council election. It was the thing that people ran on and against each other on and the council that voted to upzone did so with the understanding that they may lose their elected position over that. But they felt like it was the right thing to do. And ultimately, the folks who did that and made that tough choice won their election and some of them are still in the city.

So it's, it's not the case that it's impossible for cities to overcome a lot of community concern. Olympia is another one that's an example where they were really proactive on missing middle housing types like duplexes and triplexes. And they generated a ton of community interest in that. And it's interesting. I mean, it raises a bit of a philosophical question. There are certainly good points to be made that providing a greater variety of housing types helps to address equity issues that have arisen over time with sole single-family zoning and the types of racial segregation that were perpetuated in the past through zoning policies. Those are the sorts of things that today's councils can start to make improvements on by opening up different development opportunities in those traditional single-family neighborhoods.

On the other hand, it's a feature of democracy that people get an opportunity to address their elected officials and express their concerns and their position and on the way their community grows around them. And so I've been challenged, personally, as we discuss it at the legislative level. There are arguments that say the state should just make this decision for cities to take some of these actions, but that really erodes that democracy that I talked about, because in the current situation, folks have elected officials who are representatives of them as city residents and a much smaller number, they're easily accessible, you see them in the grocery store or at the park, back when we could go to grocery stores and parks. And if the state were to make that decision, you can have senators from across the state who you have no access to, no reason for them to listen to, because you're not a constituent making these decisions and so I think it's more complicated than maybe it's presented at the topline in the media.

It's a challenge. And we're certainly open and working towards: How do we create and continue the progress that cities are making around creating new housing opportunities and finding ways to continue to improve. Our hope is that we can do that in a way where the state sort of establishes: These are the things you need to think about, these are the things you need to plan for, but don't say how you have to solve them. Don't say that this is the one solution that will work for both Connell and Seattle, because we know there really won't be one.

And we've seen some success with that, obviously, as we were mentioning the programs that have already been created in the number of cities who have opted into those. But we're also seeing a great number of incentive-based approaches introduced in the 2021 Legislature, where there's interest in saying, okay, well, what would it take to help cities get over the decision-making hump on some of these things? And rather than mandating it, let's talk about what kind of incentives would look like. So, we're excited about that change for sure.

And this is an important issue and we really do need to struggle through it. So, it's good to see that there's so many different ideas on how to make improvements coming forward in Olympia, and I know that our cities are going to have an opportunity to shape those and share their concerns and which of them, they think are most effective or not.

Emma: So, this one is our final myth. Not really a myth. More of a clarification, but the myth is affordable housing and low-income housing are the same thing, which is not true, the report found that affordable housing is commonly mistaken for low-income housing.

But actually, housing affordability is just any housing that's considered affordable for its family or occupant when the rent or mortgage payment is not more than 30% of the household income.

On the other hand, low-income housing is often supported by public and nonprofit subsidies and is deemed affordable based on income levels that are lower than the area's median income.

Can you talk a little bit about this distinction and how much do you have to clarify that for people?

Carl: Yeah, it comes up a decent amount, really, some of the places where these two similar, but

different definitions come up is there's always an interest in affordable housing, making sure that there's housing affordable to people so that they don't have to pay more than 30% of their income.

And where it kind of becomes most challenging is we're kind of on that line between where the market, because of the type of community and the rents that are available there and the cost of development and the cost of land and all of that, it is possible to see naturally created affordable housing with that definition, created by the private market. In other places, it's just not and so I've taken to trying to use the idea of subsidized housing when I'm talking about the elements of the housing need that need to be supported by public and private subsidies to actually be able to be rented at the level that's affordable to people that make that less than 60% of the area median income or 80%. And there are lots of places in the state that are trying to focus our efforts on 30% or below of the area median income, which is extremely low income. In some cases, people that are unable to pay any sort of rent. And they need housing too and if we can't figure out how to produce that and have it available across the state that really contributes to the homelessness problems that we have. Because those folks are just not able to go rent a studio and so they may be crowding into homes with multiple roommates or couch surfing or literally living on the streets.

So we look to promote both we want to see more housing this market driven, if at all possible, try to encourage that to be done in a rental level that's affordable in this in the community without public subsidy. But then we also know that we need to have an enhanced level support for the more deeper affordability units.

Emma: Alright, thanks for that Carl, I have one final question for you. And that is what do cities need from the state and other partners? And what can they do to address housing affordability in their communities?

Carl: Yeah, that's great. Well, as someone who works in the Legislature I'll kind of answer it from that direction. But, we need the state to continue to invest in the core programs like the Housing Trust Fund to help build more subsidized housing across the state. There's been some challenges and making sure that that's equitably distributed in the rural areas get housing developed too, which we certainly need to see and support. We'd like to see

the continuation of progress in providing local revenue tools and options.

And then outside of the revenue side what we asked for is recognition of the differences between communities and the different challenges that they face. Everywhere is not Seattle, the real estate market is very different everywhere, the cost of land, whether or not the building industry workforce is available in the community in question. We hear frequently from places outside of the Puget Sound. For instance, that they believe that their builders just make more money building homes in the Puget Sound region. So they travel to work. And so, cities will go decades without multifamily development or only have a handful of building permits in a given year.

And it's important that the state realize that cities are not directly building housing. So we're not in control of whether or not that all those different market forces align and allow someone to make a profit building. We have a lot of influence on the means by which they do that, and we have decisions that we can make them that will make that more or less cost effective for them. But at the end of the day, the private market has to voluntarily come in and build.

So these punitive approaches where there's this desire to have accountability on cities to meet specific housing targets are really, really difficult in that scenario. So we need a deeper understanding of these challenges by policymakers and to think through how you would address them. And on the partner side, we have great relationships with the counties and low-income housing developers, and providers, and landlords. And all of those groups come at it with their own point of view and their own preferred solutions.

And we continually ask folks to keep an open mind and to find some flexibility an example being, for instance, there's a big push to limit local state investment in housing to the lowest incomes, because those are most difficult to build, there's a lot of rationale for that. But there are other communities that have more naturally occurring low-income housing. But really face a challenge with workforce housing. Or there are other communities that have both challenges. But really addressing the sort of teachers and firefighters level of the income spectrum is a real hard thing to deal with and their projections out of King County, for instance, that you'll see very few pockets of zip codes that are affordable to even that income level

moving forward in the next 10 or 15 years. So, we do also ask for flexibility for tools that can address different levels of that need.

And we're not always met with warm regards on that point from others who are interested in housing. So that flexibility and the recognition that there's really a lot of different challenges here. And then there's not going to be any one solution is really critical from all of our partners.

Emma: Thank you so much, Carl. I really appreciate your expert perspective on this. I think you have a great way of boiling down some technical issues so that it's easy to listen to and understand. So, I really appreciate that.

That's it for our *CityVoice Podcast*. You can access the State of the Cities: Housing report on our website at WAcities.org. Just go to our *Data & Resources* tab to find the report and feel free to share it with your legislators, friends, colleagues, residents, whoever you want! Pass it out freely and let us know what you think. You can drop us a line at the *Contact us* on the website as well.