



WHAT CAN WE DO ABOUT HOUSING COSTS IN KING COUNTY?

As part of today's Deliberation Day, we are interested in learning more about what you—the community—think are the biggest factors that contribute to the high costs of housing in King County, and how you think they should be addressed.

In Washington, lawmakers, leaders, and decision-makers have focused public attention on several different approaches to this issue.

- 1) Create more density in urban areas
- 2) Develop more low and middle income housing units
- 3) Preserve the stock of affordable rental units

What makes housing "affordable"?

The generally accepted definition of affordability is for a household to pay no more than 30 percent of its annual income on housing. Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care. The lack of affordable housing is a significant hardship for low-income households preventing them from meeting their other basic needs, such as nutrition and healthcare, or saving for their future and that of their families.

King County's Housing Market

While King County has yet to face the same enormous housing costs as other highly populated West Coast regions like Orange County and the Bay Area in California, we are moving in that direction. Housing prices are still rising locally while falling nationally, making it even harder for first-time home buyers. The number of rental units available is shrinking while the rate at which new people are moving into the region is increasing, causing rental prices to rise rapidly. Housing prices are increasing faster than average incomes are rising, so many people are moving out of King County to buy homes and commuting back into King County to find jobs with decent salaries. The current housing cost crisis is also making it more difficult to solve the problem of homelessness in King County. There is a sense of urgency to solve these problems, and it is our challenge to develop policies that turn these trends around.

Some questions to consider in your discussions:

- What are our goals and what are the priorities to achieve those goals?
- How do we make policies that are fair, effective, and efficient?
- What are the tradeoffs of these policies?
- Should these policies provide equal housing options for people at **all** income levels?
- What role should the government play in solving these problems?

1 Encourage more density in urban areas

Facts: In 2006, the Seattle area alone added more than 65,000 jobs, but only 10,000 new housing units were built in all of King County. King County relies heavily on adjacent counties such as Pierce, Kitsap, and Snohomish to house many of its workers.

How this affects you: Commute times and levels of traffic congestion have steadily increased over the years. The costs of commuting are also high – for example, it costs \$1,200 in gas every year to commute between Kent and Seattle on a daily basis.

Supporters of density believe that government intervention is necessary to encourage developers to build multi-family housing units in existing single-family residential and industrial urban areas. This intervention takes the form of urban growth boundaries that limit new development in suburban areas and the rezoning of single-family residential areas and industrial areas to allow for:

- More multi-family developments with communal green space instead of personal yards
- Taller apartment/condo buildings in cities
- Mother-in-law backyard apartments
- Smaller, cottage-like homes and town houses

Increasing density will benefit residents of King County by:

- Increasing the supply of housing and therefore lower the price of housing
- Providing more housing options in terms of price and type of housing
- Giving first time home buyers more opportunity to gain equity
- Decreasing our dependence on automobiles

Opponents argue that a free market without government restrictions will provide sufficient affordable housing. The density strategies tend to intensify the very problems they are purported to solve. Most policies that encourage density do so by creating growth boundaries around urban areas that restrict development in rural and suburban areas. By not allowing development outside this boundary, it creates a housing shortage and greatly increased land values within urban areas. This result is people with average incomes can no longer afford to buy houses. Further more, the incentives for developers to build multi-family residences come in the form of government tax breaks and subsidies. Some see this as a form of welfare for the developers and charity for the new residents for which density allows.

Many single-family home owners' associations argue that the decrease in personal living space the density approach creates diminishes people's quality of life. They do not believe they should

have to give up their backyards or their long commutes to accommodate new residents who do not have the means to afford a single-family home.

2 Build more low- and middle-income housing

Fact: While housing prices have soared, income levels have only increased slightly. Currently the median priced home costs 7.7 times the median income. This gap between housing costs and income has grown by 40% between 2000 and 2006.

How this affects you:

Homebuyer: A household making the current median income of \$65,940 can afford to buy a \$250,000 home. However, only 2.4 percent of single-family homes for sale in King County are at or below this price. You must earn \$119,000 a year to afford a \$477,000 median priced home.

Renter: A household making \$38,000 a year can afford a \$584 monthly rent. However, the median rent in King County is \$710. There are only 31,000 rental units for \$710 a month or less in the area and nearly 100,000 people who make just enough to afford them.

Supporters of increasing the housing options for people with low incomes argue that there is a shortage of housing for those people that need it most. These are the people who live with economic uncertainty and are most vulnerable to becoming homeless due to a financial hardship. There are thousands of households supported by annual incomes less than \$35,000 who must spend half or more of this income on housing. This forces them to divert their resources from other necessities such as food and healthcare, and puts them at greater risk of homelessness.

For those that are already homeless, the obstacle of affordable housing is too great to overcome without assistance. The shortage of rental units allows landlords to charge higher rents and be more selective to whom they rent. Many people with a criminal history, bad or no credit, or bankruptcy stand no chance of being considered as tenants.

The argument for more middle-income housing is that many of King County's professionals must buy homes in other counties and commute. This makes it difficult for employers to recruit and retain employees who would rather work closer to home and their families. This lack of workforce housing is a hindrance to our economy. The Washington state constitution states that no local government can provide loans or cash assistance to anyone making 80% of the median income, so people in the middle-income range have few public resources for housing assistance.

There are two types of government interventions that aim to create more low- and middle-income housing:

- Government subsidies and tax breaks to developers that agree to build low- and middle-income units. These would offset the loss of revenue developers would have received from higher priced homes.
- Governments zoning requirements that force developers to build mixed-income developments that provide a certain amount of low- and middle-income housing.

These interventions would:

- Increase the housing options for people with lower and middle incomes.
- Increase the economic diversity in a neighborhood.
- Strengthen the economy by giving people in the workforce more local housing options.
- Provide housing options to citizens who are transitioning from homelessness, and assist those that are on the verge of becoming homeless.

Opponents of government subsidies and tax incentives argue that public funds should not be used to subsidize low-income housing. This is another form of welfare and if left alone, the free market would provide sufficient housing for these individuals. Funds used as incentives for developers may come from increased taxes. There is also the perception that lower-income developments lead to an increase in crime and lower property values of the higher priced houses nearby.

Opponents of subsidies and tax incentives for developers to build more middle-income housing argue that public money should not be used to help people who already have good jobs and good salaries. They should have to save up and manage their money well to afford a new home. They argue it is impossible to justify policies for middle-income housing when we still have a homelessness problem and a shortage of low-income housing.

An economic argument against zoning laws that require mixed-income developments is the higher-priced units may have to be sold or rented at an increased price to cover the loss of revenue from the lower priced units. This can result in a situation where high-income citizens can afford the higher prices, low-income citizens are given assistance for housing, but middle-income citizens are left out.

3 Preserve the current stock of affordable rental homes and apartments by regulating condo conversions

Facts: In 2005, the tri-county King/Pierce/Snohomish area registered a net loss of 1,500 apartment units, largely due to condominium conversions. The vacancy rate for rental units is 3.2 percent, the lowest in 20 years. This has caused the average price of rent to increase. In the City of Seattle, rents have increased by 10 percent in the last year.

How this affects you: Half of all renters cannot afford the average rent for a two-bedroom apartment. A Seattle, Bellevue, and Federal Way resident must make \$21, \$22, or \$15 an hour respectively to afford the average two bedroom apartment in their cities.

Supporters of this approach hope to maintain housing options for people who cannot afford a down payment or mortgage payments on a home. One way to assure a sufficient number of rental units is for governments to put limits on the number of condominium conversions allowed each year, or even abolish the practice all together.

They argue that condo conversions lead to:

- Landlords evicting tenants, forcing them to relocate and making them vulnerable to homelessness. Often these evictees must move out of their neighborhood and farther away from their jobs to find comparably priced housing.
- Renters being forced to make a hasty decision to purchase their apartment and then not being able to afford the mortgages and maintenance costs.
- Converted condos being purchased by people intending to rent them out again at a higher price.

Opponents see the increased rate of condo conversions as more opportunity for people to attain the American dream of home ownership. As long as tenant protections are built into the process, such as mandatory relocation fees, condo conversions shouldn't be restricted. Developers see any government restrictions on condominium conversion as unfair to their business.

Apartments converted to condos increases the supply of homes for sale on the market. This increase in supply has three effects:

- Decreases the price of all condos.
- Provides more options for home buyers with lower and middle incomes who cannot afford larger homes.
- Allows renters who can afford to buy condos the opportunity to accumulate assets.

IN REVIEW: THREE APPROACHES TO THE PROBLEM OF HOUSING COSTS IN KING COUNTY

1. Increase urban population density by encouraging or requiring developers to build additional multi-family units in existing single-family residential areas.
2. Provide developers with financial incentives and/or establish additional zoning laws to build low- and middle-income units in new developments to provide affordable housing for those that need it most.
3. Preserve the current stock of affordable rental units to allow residents who cannot afford a down payment or a mortgage to continue living in King County.



Evans
School
of Public Affairs

UNIVERSITY OF WASHINGTON

