



October 2023 / Advancing Access to Housing in Washington State

Unifying Upzoning with Affordable Housing Production Strategies

A Preview of a Forthcoming Brief



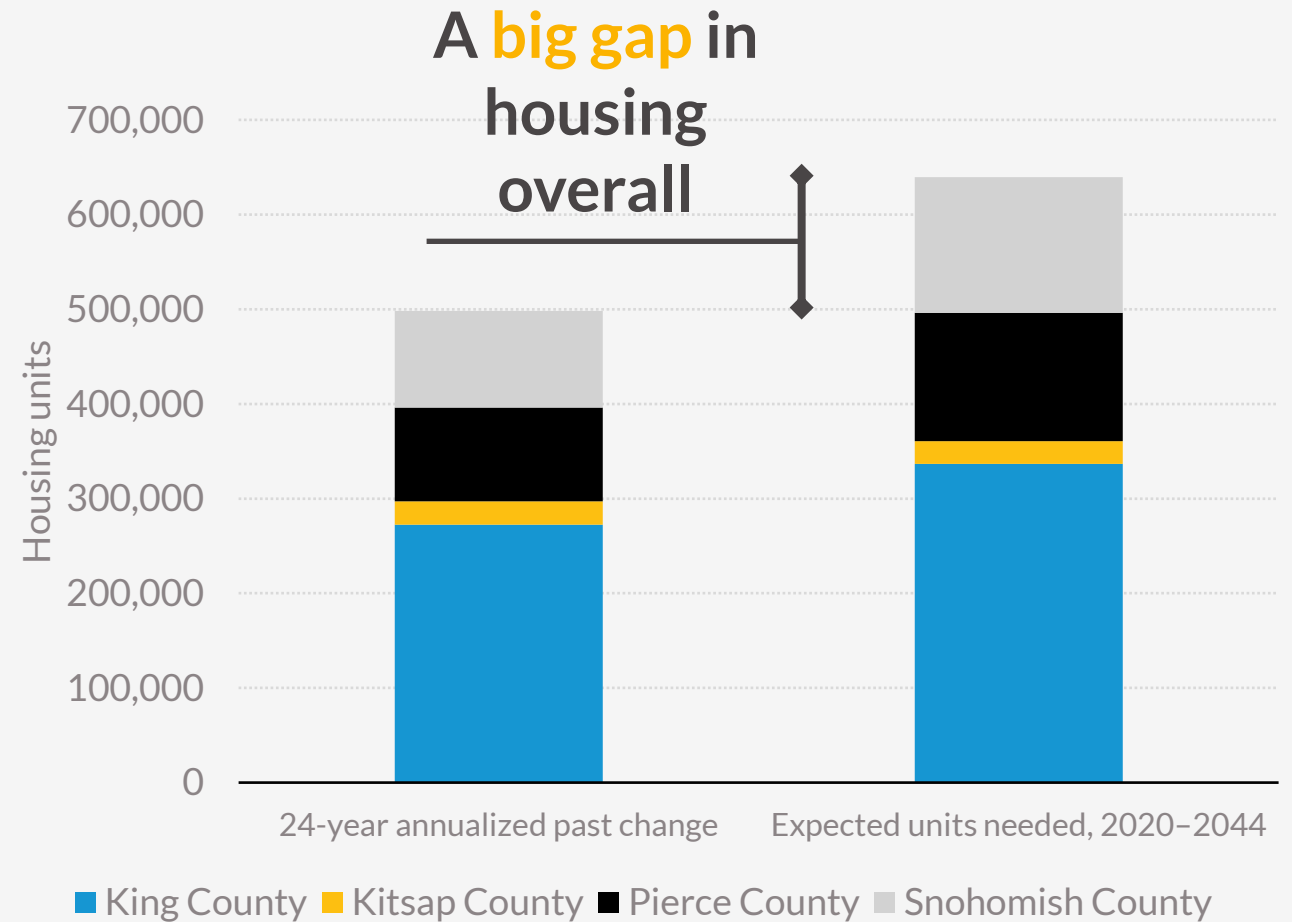
Yonah Freemark, Rodrigo Garcia, Samuel Lieberman, and Annie Rosenow

Image credit: SounderBruce (2015) via Flickr (CC BY-SA 2.0)

The Context

The Puget Sound is growing very quickly, and housing construction hasn't kept up with the need.

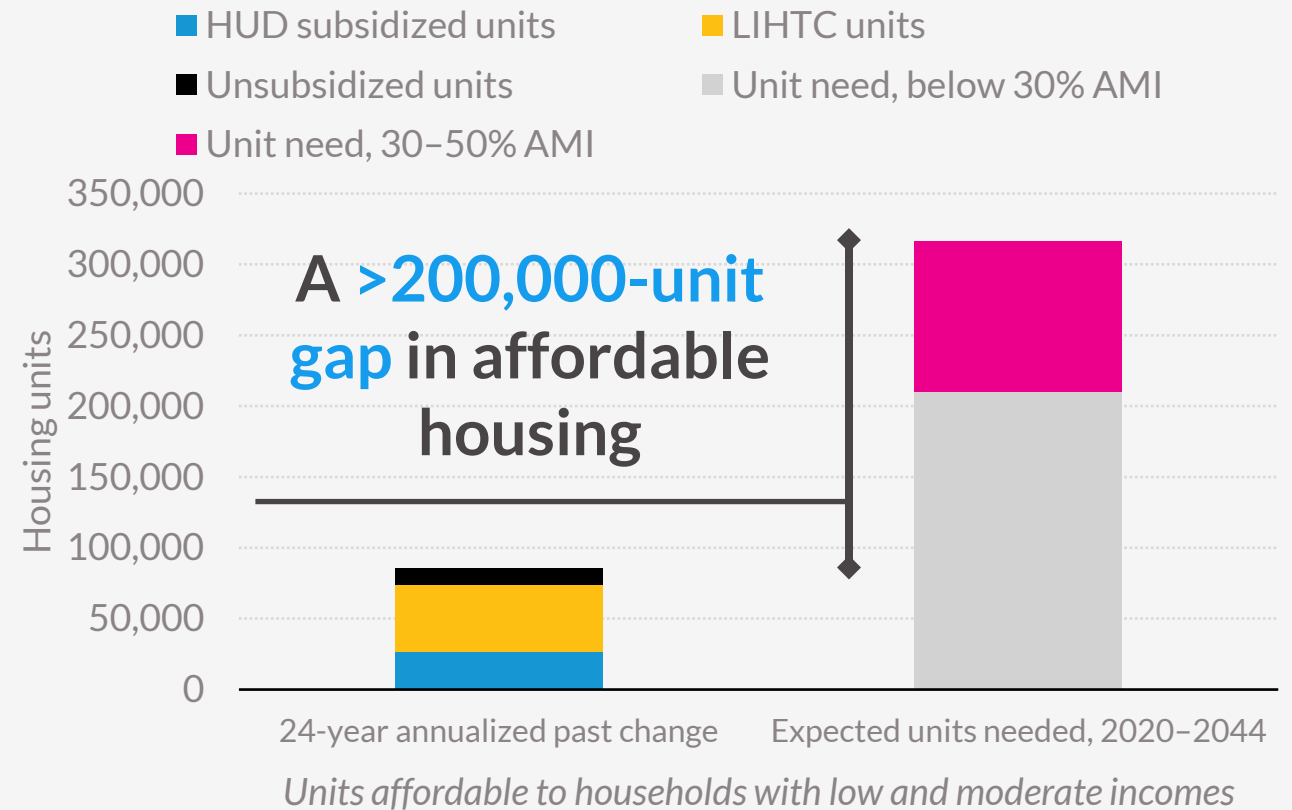
If housing construction trends continue as in recent decades, the Puget Sound is facing a 140,000-unit gap in total housing units compared to projected need.



The Context

Units affordable to families with low and moderate incomes will face the biggest shortfall given recent trends.

Federal housing subsidies in recent decades supported fewer units in the Puget Sound than the Washington Department of Commerce estimates are needed to meet the needs of households with low incomes.



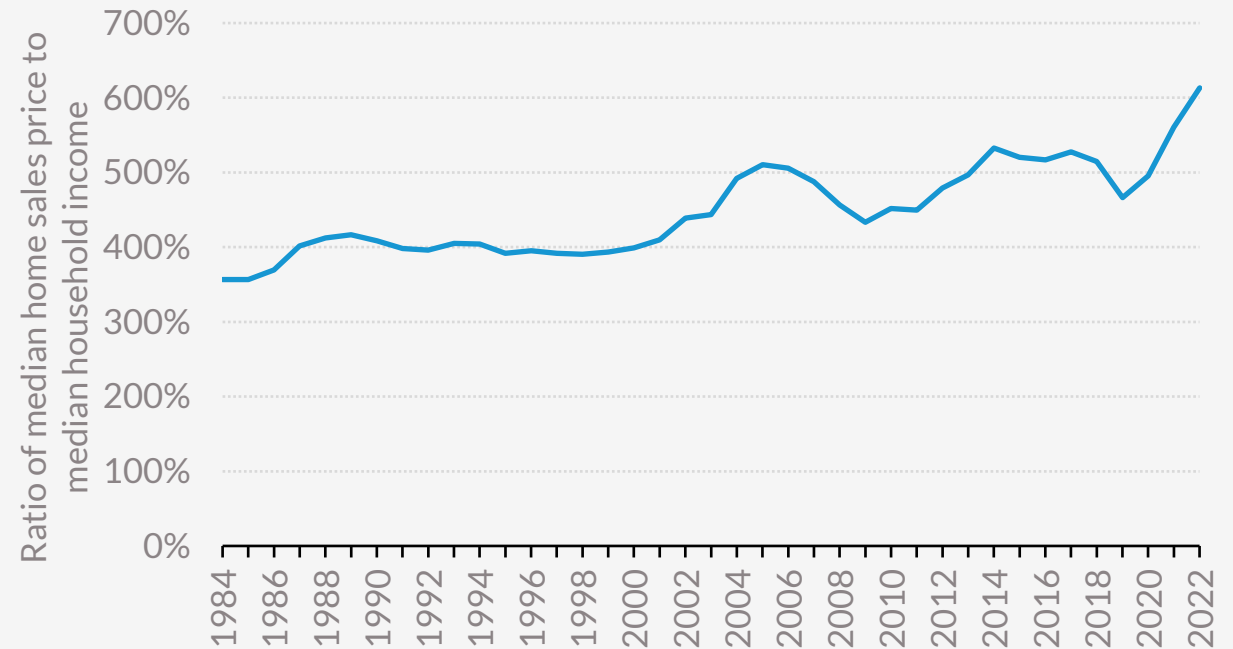
Sources: HUD 2004, 2022; NHPD 2023; Washington Department of Commerce 2023.

Notes: AMI = area median income; HUD = US Department of Housing and Urban Development; LIHTC = Low Income Housing Tax Credit; NHPD = National Housing Preservation Database.

The Context

High mortgage interest rates stand in the way of new housing construction and have reduced affordability.

Homeownership is more expensive for the average American today than anytime since 1985.

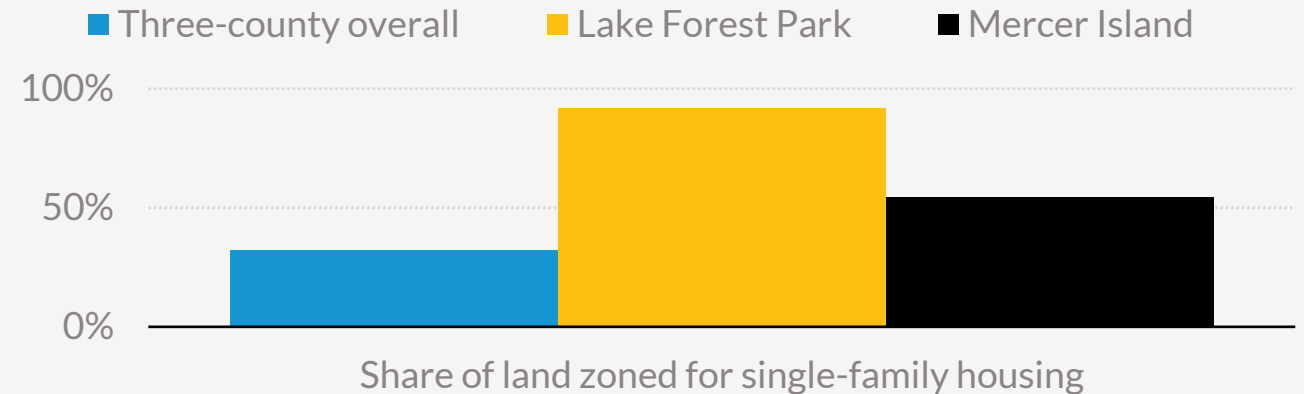


Nationwide, the building permitting rate fell by 30 percent during 2022. As of September 2023, permitting is substantially lower than in the mid-2000s, especially when adjusted for population.

The Context

Strict zoning rules are associated with low housing construction and exclusionary residential environments.

Before HB 1110, suburbs like Lake Forest Park and Mercer Island used strict zoning on a high share of land.



These suburbs share the following characteristics when compared to the region:

- populations with a higher share of white and high-income residents
- 50 to 100 percent higher housing costs
- 50 percent less housing construction

Source: US Census Bureau 2015–19; Freemark et al. 2023.

Notes: Three-county overall constitutes King, Pierce, and Snohomish Counties.

New Momentum

HB 1110 (2023) charts a path ahead.

Cities of >75,000 residents

- must allow 4 units on residential lots, and
- must allow 6 units on lots within ¼ mile of transit or with 2 units of affordable housing.

Cities of 25–75,000 residents

- must allow 2 units on residential lots, and
- must allow 4 units on lots within ¼ mile of transit or with 1 unit of affordable housing.



The screenshot shows the Washington State Legislature website. The header includes a 'Menu' button, the 'WASHINGTON STATE LEGISLATURE' logo, and a search icon. The main navigation bar lists various links: Reports Home, Bill History, Bill Tracking, Docs, Bills By Citation, Bill Sponsors, Bills In/Out of Committee, Roll Calls, Topical Index, Selected Step, and Member Directory. Below this, the 'Bill Information' section is highlighted for 'HB 1110'. A search bar contains the number '1110', and buttons for 'Bill' and 'Initiative' are visible. A dropdown menu shows '2023-2024' and a 'Search' button. The main content area displays the title 'HB 1110 - 2023-24' and a description: 'Increasing middle housing in areas traditionally dedicated to single-family detached housing.' A list of sponsors follows: Bateman, Barkis, Reed, Taylor, Riccelli, Berry, Fitzgibbon, Peterson, Duerr, Lekanoff, Alvarado, Street, Ryu, Ramel, Cortes, Doglio, Macri, Mena, Gregerson, Thai, Bergquist, Farivar, Wylie, Stonier, Pollet, Santos, Fosse, Ormsby.

Source: Bertolet 2023; Washington State Legislature 2023.



The screenshot shows the Sightline Institute website. The header includes the 'Sightline INSTITUTE' logo, a 'SUBSCRIBE TO OUR NEWSLETTERS' button, and a 'DONATE' button. The main navigation bar includes a search icon and a 'Menu' button. The article title is 'HOW THE WASHINGTON LEGISLATURE BURST THE HOUSING ABUNDANCE DAM'. The subtitle is 'Making 2023 the year of reform.' Below the text is a photograph of Governor Jay Inslee signing a bill, surrounded by a large group of people. The caption reads: 'Housing abundance wins for WA: Governor Jay Inslee signs the middle housing bill, HB 1110, into law. Photo by Ryan Packer, used with permission.'

The Challenge

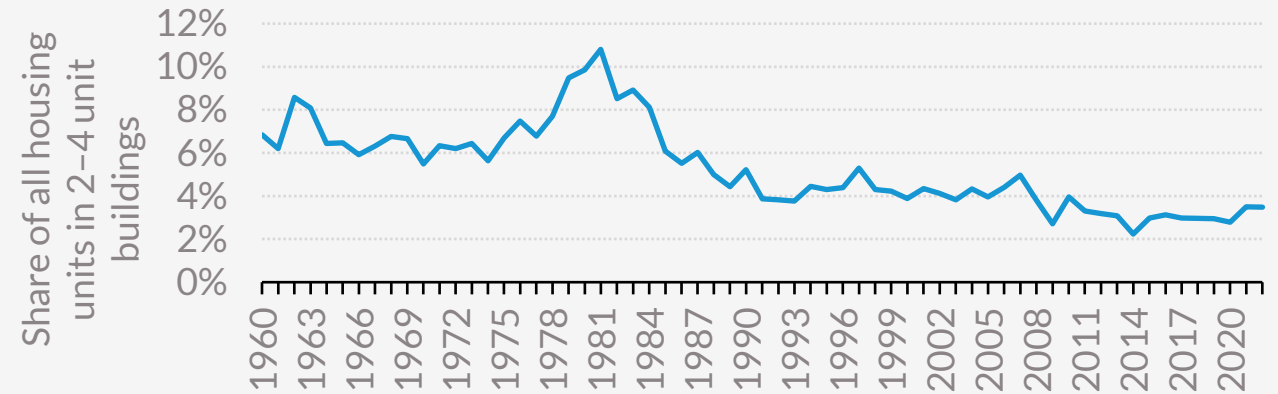
Despite the momentum, “missing middle” strategies likely will be inadequate to fill the gap—especially for affordable units.

- *The zoning challenge:* Developers prioritize cost-effective, large-scale structures—not “missing middle” housing. **Large-scale upzoning is needed to accommodate these larger buildings.**
- *The affordability challenge:* Market-rate developers can’t finance units at rents affordable to households with low incomes. While adding new units lowers costs through filtering, that takes years. **Public subsidies are needed to meet this market failure.**

The Challenge

Evidence from other “missing middle” housing reforms suggests their limited application.

In the US, two- to four-unit apartment buildings are rarely constructed.



Recent zoning changes in some cities have encouraged development of small-scale apartments, but results are discouraging thus far—though time will tell.

Minneapolis, 2022:
33 duplex or triplex buildings permitted

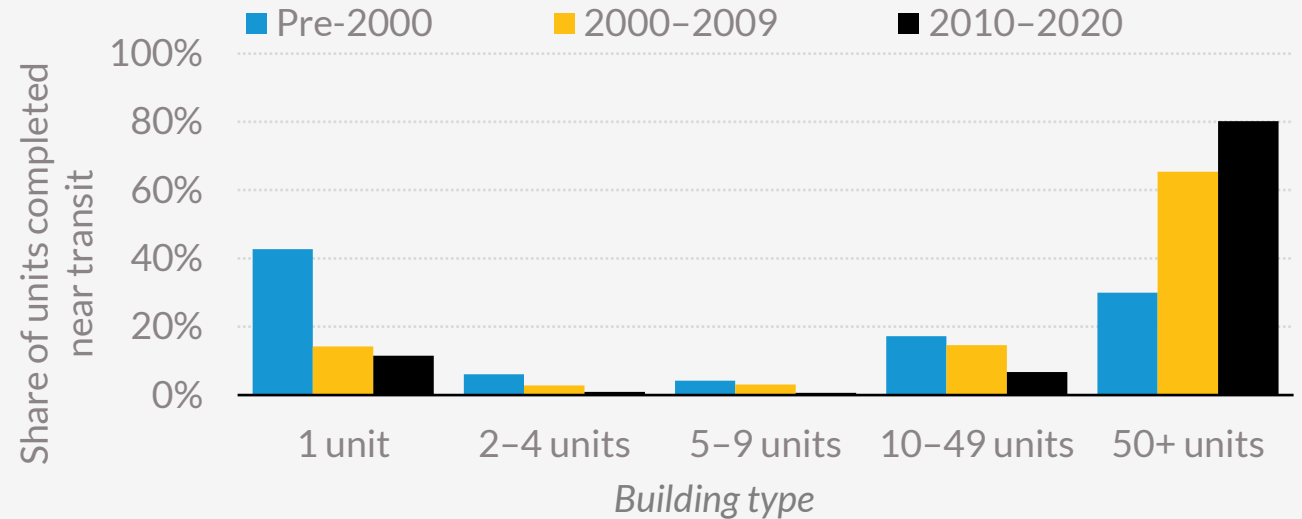
Portland, 2022:
271 units permitted in small-scale buildings

Sources: City of Portland 2023; Federal Reserve Bank of Minneapolis 2023. US Census Bureau 2022.

The Challenge

Rather than focusing on “missing middle” housing, developers focus on large-scale apartments—particularly for affordable units.

Even in the Puget Sound—where two-unit buildings were often allowed before HB 1110—the vast majority of new housing units have been in large buildings.



In the Puget Sound, 87 percent of federally subsidized affordable housing units are located in neighborhoods zoned to allow at least four-unit buildings—largely because Low Income Housing Tax Credit projects require economies of scale to pencil out.

Solution: Upzoning

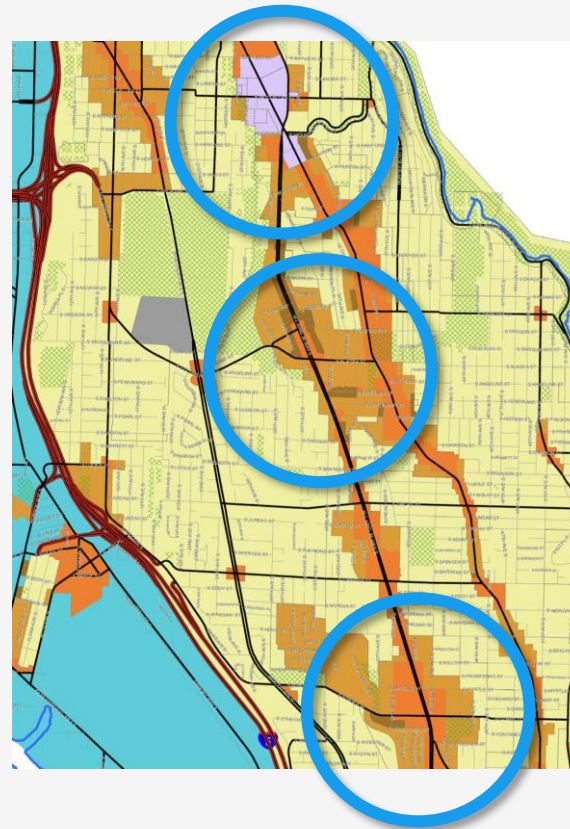
Upzoning for much higher density levels could generate a stronger housing construction market.

- Allowing large apartment buildings near transit enables developers to invest in projects that **meet today's demand**.
- Such zoning also enables the **construction of subsidized housing units** that require higher densities for cost effectiveness.
- Our projections show that regional high-density zoning could result in **50,000 more housing units** than “missing-middle” zoning.

Solution: Upzoning

Although it did not pass, SB 5466 (2023) could be a model for future legislation that allows high-density housing near transit.

Senate Bill 5466 would have increased floor area ratios (FARs) dramatically near rail stations and bus rapid transit stops. It also would have eliminated parking minimum requirements.



Areas along the Link light rail line in Seattle with strict zoning (shown in yellow) would have been upzoned from allowing only small-scale buildings (FAR of 0.5–0.75) to allowing large apartment buildings (FAR of 3, or 4.5 with all affordable units).

Source: City of Seattle 2023.

Note: Map shows half-mile buffers around Link light rail stations.

Upzoning's Limits

Over the short to medium term, upzoning may not substantially expand affordability for families with low incomes.

- High-density upzonings have been **successful in generating substantial housing construction** in Auckland, Sao Paulo, and Zurich.
- New housing can enable **“filtering” of older units**, meaning they become affordable due to less competition.
- But there is little evidence that big upzonings will produce an *adequate* number of housing units affordable to families with low incomes (e.g., less than 60 percent of AMI). **Much of the gap in the affordable housing need will remain.**

Sources: Anagol et al. 2023; Büchler and Lutz 2021; Freemark 2023; Greenaway-McGrevy and Phillips 2022; Stacy et al. 2023.

Note: AMI = area median income.

Solution: Subsidies

The state has an opportunity to supplement federal housing affordability programs.

- Washington State's Housing Trust Fund has supported 60,000 housing units since 1986—far less than the amount of low and moderate units the state projects will be needed by 2044.
- Seattle's housing levy will support only 3,500 affordable housing units by 2030.
- **State support can help fill the gap in affordable housing availability by:**
 - increasing investment in the trust fund,
 - purchasing land—or leveraging existing public land—and using it for affordable housing buildings, and
 - supporting local public housing creation.

Solution: Subsidies

\$1 billion in annual housing subsidies—1.5 percent of the state budget—could fund 2,800 new affordable units annually.

Public subsidies are needed to address the Puget Sound's supply shortage, which is projected to be more than 200,000 affordable units by 2044. Federal action is needed, but the state could make a major dent through added investment.

- New housing affordable at 60 percent of AMI requires about **\$350,000 in subsidies per unit**.
- A **\$1 billion annual commitment** could roughly double affordable housing production, adding **67,000 units over 24 years**.
- A similar distribution of funds to tenant-based vouchers would be less costly over the short term, but more expensive in the long term and is reliant on the availability of market-rate units to rent.

Source: Estimates based on recent affordable housing construction projects in the city of Seattle.

Note: Projection assumes funds would be adjusted for inflation over time and assumes these funds would augment existing support, such as LIHTC, rather than replace it.

Washington State Can Address Its Housing Shortfalls Through Upzoning and Affordable Housing Subsidies

Three strategies the state can consider to promote greater housing affordability and availability for more residents of the Puget Sound and Washington state overall.

Require high-density upzoning policy

- Require municipalities to allow large-scale apartment developments in transit areas.

Invest directly in affordable housing

- The state could develop new funding sources to fill the gap in housing support for families with low and moderate incomes.

Monitor progress at the local level

- The state could ensure that cities are meeting both overall and affordable housing goals—and impose fines if not.

What's Next

A brief describing these findings in more detail will be released by the Urban Institute in December.

Sign up for the Urban Institute's Metropolitan Housing and Communities Policy Center newsletter: urban.org/newsletters

References

- Anago, Santosh, Fernando Ferreira, and Jonah Rexer. 2023. *Estimating the Economic Value of Zoning Reform*. Cambridge, MA: National Bureau of Economic Research. Working Paper 29440.
- Bertolet, Dan. 2023. "How the Washington Legislature Burst the Housing Abundance Dam." *Sightline*. May 8. <https://www.sightline.org/2023/05/08/how-the-washington-legislature-burst-the-housing-abundance-dam/>
- Büchler, Simon, and Elena Lutz. 2021. *The Local Effects of Relaxing Land Use Regulation on Housing Supply and Rents*. Cambridge, MA: MIT Center for Real Estate Research. Paper 21/18.
- City of Portland. 2023. *Residential Infill Project Year-One Report*.
- City of Seattle. 2023. "Zoning Map Books." Accessed October 23, 2023. <https://www.seattle.gov/sdci/resources/zoning-map-books>
- Federal Reserve Bank of Minneapolis. 2023. "Minneapolis Housing Indicators." Accessed September 29, 2023. <https://minneapolisfed.shinyapps.io/Minneapolis-Indicators/>
- Freemark, Yonah. 2023. "Zoning Change: Upzonings, Downzonings, and Their Impacts on Residential Construction, Housing Costs, and Neighborhood Demographics." *Journal of Planning Literature*. Online pre-print. <https://doi.org/10.1177/08854122231166961>
- Freemark, Yonah, Lydia Lo, Olivia Fiol, Gabe Samuels, and Andrew Trueblood. 2023. *Making Room for Housing near Transit: Zoning's Promise and Barriers*. Washington, DC: Urban Institute.
- Greenaway-McGrevy, Ryan, and Peter Phillips. 2022. *The Impact of Upzoning on Housing Construction in Auckland*. Auckland, NZ: Cowles Foundation Discussion Papers. Number 2689.
- HUD (US Department of Housing and Urban Development). 2004, 2022. "Assisted Housing: National and Local." Accessed October 23, 2023. <https://www.huduser.gov/portal/datasets/assthsg.html>
- NHPD (National Housing Preservation Database). 2023. Accessed October 23, 2023. <https://nhpd.preservationdatabase.org/>
- Stacy, Christina, Christopher Davis, Yonah Freemark, Lydia Lo, Graham MacDonald, Vivian Zhen, and Rolf Pendall. 2023. "Land-Use Reforms and Housing Costs: Does Allowing for Increased Density Lead to Greater Affordability?" *Urban Studies* 60(14): 2919-40.
- US Census Bureau. 2000. Decennial Census of Population and Housing. Suitland, MD: US Census Bureau
- US Census Bureau. 2015–2019. American Community Survey 5-Year Estimates. Suitland, MD: US Census Bureau
- US Census Bureau. 2020. Decennial Census of Population and Housing. Suitland, MD: US Census Bureau
- US Census Bureau. 2022. Building Permits Survey. Suitland, MD: US Census Bureau
- US Census Bureau. 2023. American Community Survey 1-Year Estimates. Suitland, MD: US Census Bureau
- Washington Department of Commerce. 2023. "Updating GMA Housing Elements." Accessed October 23, 2023. <https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/updating-gma-housing-elements/>
- Washington State Legislature. 2023. Increasing Middle Housing in Areas Traditionally Dedicated to Single-Family Detached Housing. HB 1110. 2023–24. <https://app.leg.wa.gov/billsummary?BillNumber=1110&Initiative=false&Year=2023>

Acknowledgments

This research was funded by a grant from Amazon. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

Contact Yonah Freemark at yfreemark@urban.org for more information about this project.

ABOUT THE URBAN INSTITUTE

The Urban Institute is a nonprofit research organization that provides data and evidence to help advance upward mobility and equity. We are a trusted source for changemakers who seek to strengthen decisionmaking, create inclusive economic growth, and improve the well-being of families and communities. For more than 50 years, Urban has delivered facts that inspire solutions—and this remains our charge today.

Copyright © October 2023. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.