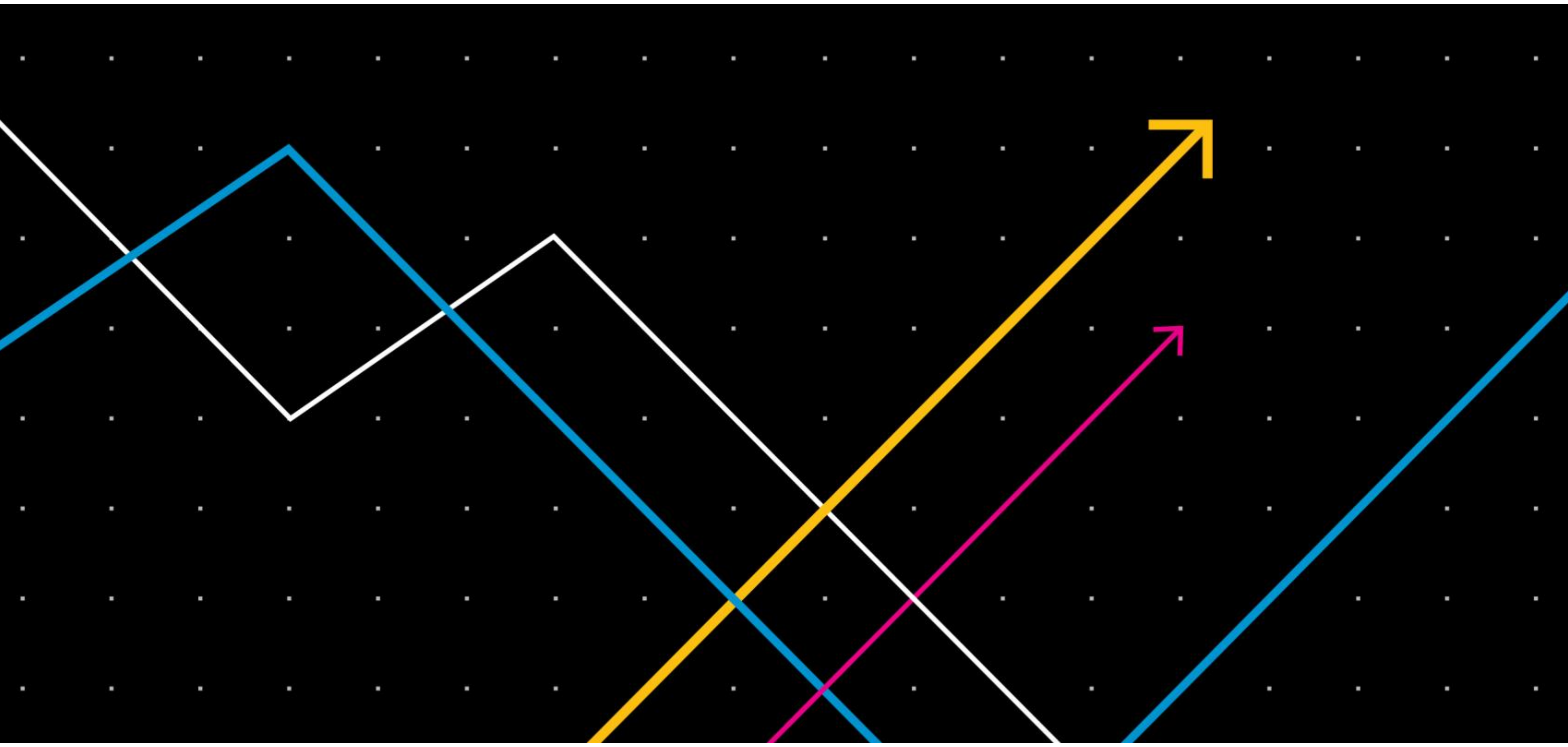

RESEARCH REPORT

# Unifying Upzoning with Affordable Housing Production Strategies

## Advancing Access to Housing in Washington State

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

*December 2023*

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# Acknowledgments

This report 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.

We appreciate feedback from Arthur Acolin, Paul Inghram, Courtney Jones, and Christina Stacy as we revised this manuscript. We thank Lauren Lastowka for her detailed edits.

# Executive Summary

**The state of Washington estimates that the Puget Sound's four counties need about 640,000 new homes by 2044 to meet population growth.[1] Of these new homes, about half must be affordable to households earning very low incomes, meaning 50 percent or less of the metropolitan area's median income (AMI). How can Washington state encourage more housing in the Seattle region in a way that ensures adequate access for people who are unable to afford the costs of living in market-rate units? Given the high interest rates now faced by homeowners and investors and declining building nationwide, addressing this question is essential to ensuring the region can be affordable to as many future residents as possible.**

In this report, we evaluate what historical data show about the region's likelihood of achieving the housing growth that the state estimates is needed. We project that the Puget Sound will face a gap of about 140,000 units over the next 20 years. We show that a 2023 Washington state reform that enables the construction of "missing middle," small-scale apartment buildings throughout the state is unlikely to generate the number of units needed; moreover, the buildings authorized are unlikely to be cost-effective for most subsidized housing. High-density upzoning could better align with demand, but alone, such upzoning will not fully address affordability needs.

## Recommendations

Washington state could take a two-pronged approach to address its housing needs. The first approach is to enact large-scale upzoning. Large-scale upzoning is more likely than allowances for missing-middle housing to meet demand from both developers and residents because it can enable the construction of larger apartment buildings that already account for the majority of new housing-unit construction in the Puget Sound. These buildings can provide dwellings for a larger share of the housing market, ensure space for new subsidized units even in currently exclusionary communities, and contribute to providing the new construction supply that can reduce overall housing costs. Even with significant housing construction, however, the Puget Sound is likely to require additional measures to address regional housing needs at the low end of the market. As such, a second, connected approach is to considerably expand public investment in housing that is affordable for families with low and moderate incomes. These two approaches can be implemented simultaneously.

A successful state land-use policy could include the following:

- **Require localities to implement large-scale upzoning around transit and in regional centers.** This type of zoning change would mean encouraging the construction of apartment buildings with 50 or more units and five or more stories.
- **Allow developers of subsidized housing to circumvent local zoning regulations.** Developers building projects subsidized by the Low Income Housing Tax Credit typically can only make projects work if they are able to build large apartment complexes.

Even a high-density upzoning is unlikely to produce enough new housing in the short to medium term to ensure affordability for families with low incomes. Additional funding from the federal government is needed to help address this problem, but the state can play an important role as well. State legislators could consider integrating upzoning efforts with efforts to fund increased housing affordability. Such efforts could include the following:

- **Substantially expanding contributions to the state Housing Trust Fund, such as through the passage of a regional or statewide affordable housing tax levy.** We estimate that a $1 billion annual investment could generate an additional roughly 67,000 housing units affordable to households with low incomes by 2044.
- **Promoting subsidized housing construction in small-scale apartment buildings.** Subsidized, prefabricated housing units could enable a fairer distribution of affordable housing, even in single-family housing neighborhoods.
- **Increasing the availability of publicly owned land for affordable housing.** Such land can reduce development costs and enable collaborative decisionmaking with neighborhood residents.

# Unifying Upzoning with Affordable Housing Production Strategies

**The Puget Sound—the metropolitan area encompassing Seattle and its suburbs—hosts a vibrant economy, has a beautiful climate, and has attracted hundreds of thousands of new residents in recent years.[2] But housing construction has not kept up with demand, increasing competition for an inadequate number of homes and reducing affordability (Freemark et al. 2023). One limitation is strict local zoning that inhibits building anything other than single-family homes. In response, the Washington state legislature passed House Bill 1110 (HB 1110) in spring 2023, requiring many cities to allow new small-scale apartment buildings on most residential land. This is a step forward. But it is not enough to address regional housing needs. First, it fails to account for the fact that developers likely will continue to prioritize investment in large structures, so a strategy focused only on small-scale buildings will not be sufficient. Second, it does not provide the subsidies necessary for developers to fill the gap between the cost of building and maintaining housing and the rents families with low and moderate incomes can afford.**

The state of Washington estimates that the Puget Sound's four counties need about 640,000 new homes by 2044 to meet population growth.[3] Of these new homes, about half must be affordable to households earning very low incomes, meaning 50 percent or less of the metropolitan area's median income (AMI). How can Washington state encourage more housing in the Seattle region in a way that ensures adequate access for people who are unable to afford the costs of living in market-rate units? Given the high interest rates now faced by homeowners and investors and declining building nationwide, addressing this question is essential to ensuring the region can be affordable to as many future residents as possible.

We evaluate what historical data show about the region's likelihood of achieving the housing growth that the state estimates is needed. We review recent state legislation, particularly HB 1110 and its requirement that localities allow small-scale apartment buildings ("missing middle" housing). We examine data on the impact of similar reforms implemented elsewhere and explore scholarship related to other types of zoning reform—particularly high-density upzoning—but note its limitations in generating affordable housing. We conclude by pointing to a variety of approaches that could spur housing construction. Our key contributions include the following:

- Based on recent construction trends, we project that the Puget Sound will face a gap of about 140,000 units over the next 20 years. Because of rising housing prices and limited funding for subsidies, the gap in housing affordable to families with low incomes will be even larger.
- Though HB 1110 is a step forward in combatting exclusionary zoning, we show that it is unlikely to generate the number of units needed, based on the experience of other localities implementing similar changes that have produced few new housing units. Moreover, the small-scale buildings the law authorizes are unlikely to be cost-effective for most subsidized housing.
- Evidence suggests that high-density upzoning could better align with demand and thus is likely more effective in encouraging building. But, alone, such upzoning will not fully address affordability needs. First, developers cannot profit from new housing affordable to families with low incomes, such as those who make less than half the median regional income. Developers cannot build affordable units unless public subsidies enable deals to "pencil out." Second, new market-rate apartments are unlikely to become available quickly enough or at large enough volumes to allow "filtering" that massively reduces competition for supply and thus lowers the price of older housing units to levels affordable to families with low incomes.
- We show that $1 billion in annual state housing subsidies—equivalent to about 1.5 percent of the state budget—could generate 67,000 cumulative affordable units by 2044, adding to those funded by existing sources. While federal action is needed to fully close the gap, an investment at this scale by the state would roughly double subsidized housing growth and contribute to relieving the region's affordable housing needs. The effectiveness of these subsidies is dependent on zoning that enables large-scale buildings.

Washington state legislators have two interconnected opportunities to address the dual challenges of housing supply and affordability, particularly in the Puget Sound. To enable substantial new construction, legislators could consider large-scale upzoning, which would be more likely to meet demand from both developers and residents because it can enable the construction of larger apartment buildings that already account for the majority of new housing that is constructed in the Puget Sound. They could also allow subsidized housing developers to supersede local zoning requirements. To ensure adequate access to housing affordable to families with low incomes, legislators could pair zoning reforms with increasing direct funding allocations for subsidized housing.

# Faced with Continued Population Growth and Housing Affordability Challenges, Washington Needs More Units

Seattle is one of the few high-cost municipalities that has rapidly added housing over the past several decades (Freemark 2022a). Nevertheless, overall housing growth in the Puget Sound region has been inadequate. In the 2010s, the four-county metropolitan area added almost 600,000 residents—but only about 200,000 housing units. That is the fewest number of new homes completed in the region per decade at least since the 1970s—despite the Puget Sound having grown substantially in the years since (Freemark et al. 2023). One result of the limited number of housing units available is that a growing share of people living in the region are cost burdened—meaning they spend more than 30 percent of their incomes on rent. In King County alone, more than 150,000 households are cost burdened; these households are disproportionately people of color.[4] Moreover, less than half of households in the broader metropolitan area can afford to purchase a median-priced home.[5] Finding the means to add more housing units is essential to help address these challenges.

## The Value of New Housing Construction

Housing construction can meet demand from people who need a new place to live (such as young adults) and people from other metropolitan areas who want to move in. New units—particularly those in high-cost metropolitan areas—are typically only affordable for people who have upper-middle or high incomes.[6] Nevertheless, new units can also play an important role for people with low and moderate incomes because they reduce competition for housing across the market overall and they allow older units to "filter down" to those families (Mast 2023). This makes building new homes essential for the health of the housing market.

The United States has been underbuilding; housing growth has been declining since the 1970s.[7] The rate of housing construction is the product of a confluence of factors: labor and material costs, land costs, and market demand are three major explanations (Gyourko 2009). Higher costs make financing new units difficult. Without demand from potential residents to buy or rent new homes, private developers are unlikely to invest. But housing supply is not just the product of *construction*; if the number of units declines due to existing apartments being combined into fewer units, a jurisdiction could experience reduced supply. (This does not appear to be occurring at a high rate in Seattle; see box 1.) In housing markets suffering from limited demand, units can also be lost because of disinvestment.

Local land-use regulations like zoning also influence construction rates. Areas with stricter land-use regulations are likely to have less housing construction than localities where rules make it easier to build (Mayer and Somerville 2000)—though there is substantial neighborhood-level variation (Jackson 2016). Stricter regulation, such as limitations on building anything other than single-family homes on larger lots, is associated with greater housing costs (Kok, Monkkonen, and Quigley 2014) and demographic segregation. Areas with stricter building laws tend to concentrate white people and people with higher incomes, to the exclusion of others (Freemark, Lo, and Bronin 2023). Segregation of people by race and income results in poorer quality of life both for those who are excluded *and* those who live in exclusionary communities, thereby reducing regional prosperity (Acs et al. 2017).

Not all housing investment is undertaken purely by the private sector. A substantial share of new units—particularly multifamily buildings—is supported by federal programs like the Low Income Housing Tax Credit (LIHTC). LIHTC makes it possible to construct and renovate units affordable for people with low or moderate incomes, thus filling part of the gap created by the limits of private sector investment alone. This is particularly true for multifamily buildings; the LIHTC subsidized about a quarter of such units nationwide from 2000 to 2019.[8] The US Department of Housing and Urban Development (HUD) also subsidizes some units through Housing Choice Vouchers, public housing support, and Section 8 project-based programs, plus provides grants through the HOME program, typically to make new LIHTC units affordable to lower-income families.[9] The number of new federally subsidized units added in the region declined in the 2010s compared to the 2000s despite a growing population (Freemark 2022b). In King County, there were only 39 subsidized housing units for every 100 extremely low-income renter households in 2017.[10] In the Puget Sound, there are also affordable housing programs supported by the city of Seattle and the state of Washington, among other public entities, which are also typically combined with LIHTC financing to cover the full costs of affordable housing projects.[11] And, of late, companies like Amazon (the funder of this report) and Microsoft have provided funding to support affordable housing to supplement public sources in the Puget Sound.[12]

BOX 1

**To What Degree Are Conversions Resulting in Reduced Housing Availability?**

One potential concern for housing availability is that owners are converting existing multifamily units into single-family homes, reducing the number of units. A recent review of over 70 years of New York City's records finds that mergers of multiple apartments into bigger units and conversions of multifamily housing stock into single-family homes have eliminated 104,000 units of housing in that city (Brodheim 2023).[13] This research reveals that housing mergers and conversions can have a lasting impact on net supply reduction, thus contributing to housing affordability challenges.

We approximated this analysis in Seattle, finding less reason for concern. We estimate that between 1990 and 2022, Seattle lost 179 units from multifamily-to-single-family conversions and multifamily demolitions.[14] We identified multifamily demolitions and conversions and determined the number of units developed on these parcels, thus finding the net unit loss. This does not factor in single-family consolidation (when multiple owner-occupied homes are demolished in favor of one larger owner-occupied home), and includes neither multifamily demolition/consolidation outside Seattle nor permitting data from before 1990. Although this may undercount the total impact of multifamily conversions and consolidations, within the scope of housing development over 30 years, the impact has likely been small. Nonetheless, legislation preventing or regulating these types of conversions could expand Seattle's housing stock in the long run without using limited public funds.

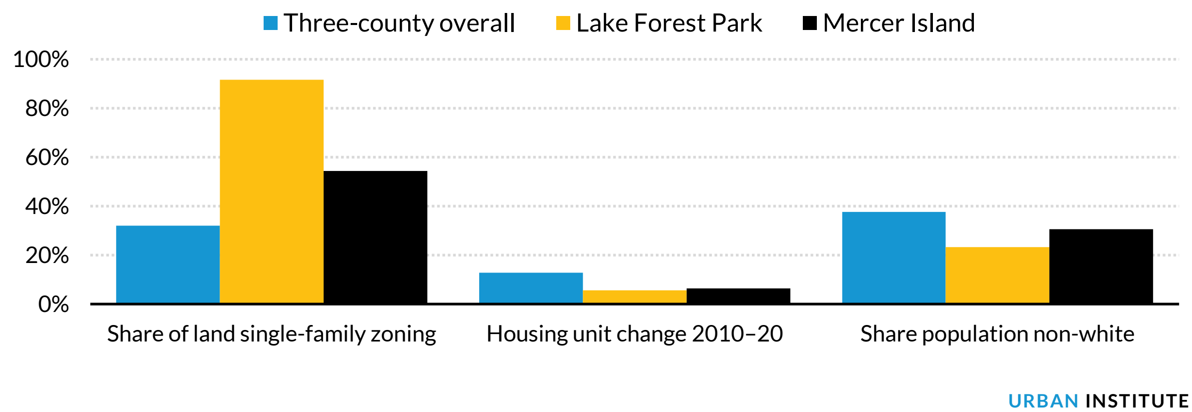
## Some Puget Sound Communities Used Exclusionary Zoning to Stop Construction

Some localities have leveraged zoning policy to prevent construction, particularly of apartment buildings. This has excluded people with low and moderate incomes, since they are less able to afford the costs of renting or owning a single-family home. Moreover, this exclusion has a racial and ethnic dimension. In 2022, for example, the median household income of white householders in the Seattle metropolitan area was almost 60 percent higher than that of Black householders—and white households were more than twice as likely to own homes.[15] In this way, land-use policies have become a mechanism to prevent people with lower incomes and people of color from living in certain areas.

The links between local land-use policy, housing, and race play out locally. Consider two municipalities that we identified as having leveraged single-family zoning to prevent apartment construction: Lake Forest Park and Mercer Island (Freemark et al. 2023). Each municipality has far higher median housing values than the metropolitan area overall (Mercer Island's are almost three times as high), and each has devoted most land to exclusively single-family home construction (figure 1)—at least prior to the passage of HB 1110 (which will take several years implement; see below).

FIGURE 1

**Certain Puget Sound Municipalities Have Leveraged Exclusionary Zoning to Prevent Construction**




**Source:** Freemark et al. 2023.

**Notes:** Data for share of land single-family zoning is within a half mile of existing or planned bus rapid transit or rail stations. The three counties are King, Pierce, and Snohomish Counties.

The zoning policies each city implemented had consequences: each increased its housing stock by less than 6.5 percent between 2010 and 2020, despite the Puget Sound's demand for housing. This was far below the regional increase of 13 percent. These jurisdictions have strong market demand for housing and have real-estate markets where new development could "pencil out"—but zoning rules have limited building. Moreover, while the region averages 29 subsidized housing units per 1,000 total units, Lake Forest Park and Mercer Island total 0 and 3, respectively, likely in part because it is difficult to find land zoned for multifamily apartment units in those communities. Each city has a population that has a considerably higher share of white residents than the region overall (figure 1).

Other Puget Sound towns and cities have deployed similar strategies to segregate and exclude. But it is worth noting that even before HB 1110, several communities already had zoning that enabled the construction of small-scale apartment buildings in previously single-family-only neighborhoods. Suburban cities like Bothell, Fife, Kent, Kirkland, and Puyallup, for example, enabled two- to four-unit buildings throughout much of their land area (Freemark et al. 2023).

## Zoning Limits Are Difficult to Overcome for Subsidized Housing

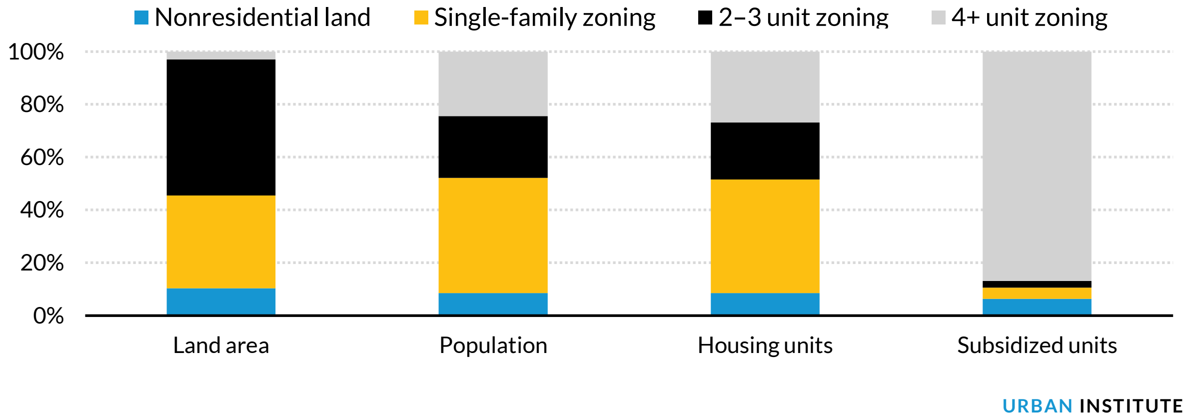
Zoning is a particular concern for investments in project-based affordable housing units, like those subsidized by LIHTC. LIHTC units are usually developed by private or nonprofit entities that must abide by local zoning laws—this encourages developers to identify sites for projects where they can build large multifamily buildings. As of 2013, only about 2 percent of LIHTC projects nationwide had fewer than 11 units, because of the cost efficiencies at play in building larger structures.[16]

In a recent study leveraging data from the National Housing Preservation Database, we offer concrete evidence for the limitations imposed by zoning on subsidized housing construction.[17] We show that more than 90 percent of federally subsidized affordable housing near transit in the Puget Sound region is located on land currently zoned for buildings with four or more units; those are the only areas where the large buildings that constitute most LIHTC projects can be built (figure 2). But zoning on only about 5 percent of the region's land currently allows such buildings to be constructed. This means that the subsidized affordable housing units are concentrated in an extremely small area.

FIGURE 2

**Almost All Project-Based Subsidized Housing Is Located in Areas Zoned for Large Buildings**

*Share by zoning type, pre-zoning reform, in Puget Sound jurisdictions near transit stations*




**Source:** Author analysis of data from the US Census Bureau 2015–19 American Community Survey; the National Housing Preservation Database, https://nhpd.preservationdatabase.org/; and local Puget Sound zoning codes.
**Notes:** Parcels within a half mile of existing or planned fixed-guideway transit. Does not account for accessory dwelling units.

Locating new affordable housing units only in areas with multifamily zoning reinforces segregation of people by race and class. In associated research, we show that single-family zoning is associated with fewer renters and a higher concentration both of white people and people with higher incomes.[18] Some states, such as Massachusetts, have attempted to address this problem by enabling subsidized housing developers to supersede local zoning requirements in cities where there are few affordable units.[19]

## Affordable Housing Funding Is Tight in Washington State

Even if localities implement zoning that adequately accommodates subsidized housing projects, more subsidies would be needed in the state to support additional units. Existing programs, both from the state and particularly from the federal government, have failed to grow adequately to meet demand or population growth. Additional federal and state subsidies for development could help fill the gap.

During discussions related to the 2021 federal infrastructure law and the 2022 Inflation Reduction Act, advocates argued that the federal government should expand investment in affordable housing.[20] The idea was that federal support was necessary after years of inadequate growth in housing funding, since an estimated 6.8 million affordable housing units are needed in the United States for extremely low-income renters.[21] The number of units financed through LIHTC remains below mid-2000s levels.[22] Funding for the other major public subsidy program that supports new affordable housing—HOME—

has flatlined in recent decades (Jones 2021). Yet, Congress chose not to increase funding for affordable housing. This threatens the ability of developers to expand investment in affordable housing.

Washington has a Housing Trust Fund that is used to support affordable housing. In 2023, the state legislature raised the program's two-year funding to $400 million, a 40 percent increase.[23] Since the fund's creation in 1986, it has supported about 60,000 housing units with $1.5 billion (not inflation adjusted; many units were also financed with other sources, such as LIHTC). One challenge is that existing units need repair; circa 2015, the program's 387 supported properties had an estimated $192 million in capital needs costs (Zillah et al. 2015). Another is the increasing cost of housing unit construction: new affordable units in the Puget Sound have cost up to $480,000 per unit to build.[24]

Local programs provide some support for affordable housing. The city of Seattle funds affordable housing through a housing tax levy. The levy successfully produced affordable units, preserving rental housing, financing operating costs, preventing homelessness, and encouraging homeownership. The levy, which was renewed in 2023, will provide $970 million by 2030, of which $707 million will fund the production or preservation of 3,516 units of affordable housing.[25] In part funded by the levy, the mayor's proposed 2024 City of Seattle budget, if passed, would include a $335 million investment in affordable housing (compared to $253 million in 2023).[26] In February 2023, Seattle residents voted to create the Seattle Social Housing Developer, a public development authority that will develop and maintain publicly owned, mixed-income housing, though its exact approach has yet to be determined. King County, finally, created an Affordable Housing Committee to coordinate affordable housing development efforts.[27]

Despite these investments from state and local governments, more funding is necessary to fully fill the gap in public support for housing affordable to families with low incomes.[28] A typical new housing unit affordable to renters at 60 percent of AMI, equivalent to $82,200 for a four-person household in Seattle in 2023, could require at least $350,000 in public subsidy, including about $200,000 in LIHTC financing.[29] This would include substantial contribution from the household through rent, equivalent to about $2,000 a month in this case. A project that funds renters at higher levels of affordability—addressing the needs of households with lower incomes—would require substantially more subsidy.

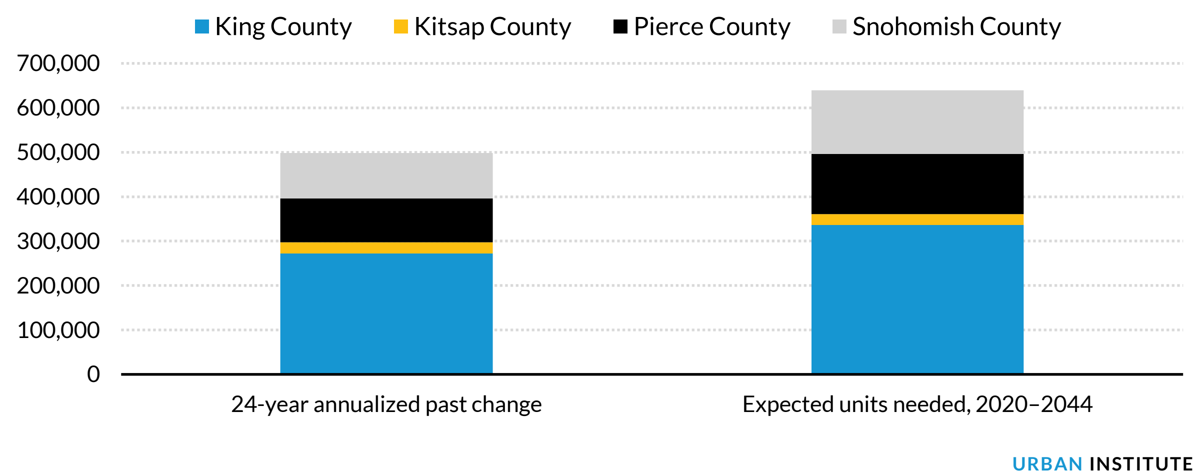
## Substantial New Housing Construction Is Needed to Meet Demand

To meet growing demand to live in Washington state, housing construction will likely need to accelerate to provide adequate housing. Using data on the number of housing units completed in the Puget Sound's four counties over the past two decades, we estimate that, if construction continues at the previous rate, the region will add about 500,000 units by 2044, with most new units in King County (figure 3). This may be an optimistic estimate, since, as noted, the number of housing units completed regionally in the 2010s was lower than in the preceding decades. But, according to recent estimates from the Washington State Department of Commerce, the Puget Sound will need about 640,000 new housing units by 2044.[30] If demand remains at current levels, that could leave a gap of 140,000 housing units. If left unfilled, that could mean rising prices, more crowded housing, and residents having to move.

FIGURE 3

**Puget Sound Counties Need About 140,000 More Housing Units than Were Built Over Past Decades**

*Recent housing construction compared to net new housing units estimated needed by 2044*




**Source:** Author analysis of data from 2000 and 2020 US Decennial Census and Washington Department of Commerce, "Updating GMA Housing Elements," 2023, https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/updating-gma-housing-elements/.

**Notes:** Based on "medium" population growth estimate of the state of Washington. The 24-year annualized past change is an estimate based on the change in number of housing units between 2000 and 2020.

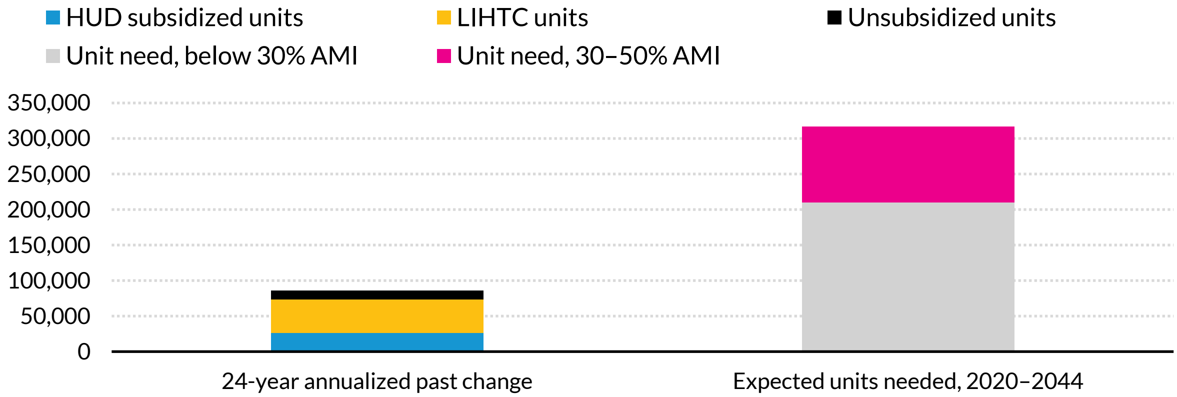
Next, we evaluate the degree to which the Seattle region is likely to meet its *affordable* housing needs. We collect data from a variety of sources on the number of federally subsidized units completed in the region in recent decades. In figure 4, we estimate from that trend that roughly 47,000 LIHTC units and 27,000 HUD-subsidized units will be added to the region by 2044. (Note that many of the LIHTC units are *also* subsidized by HUD programs through Housing Choice Vouchers, meaning that we are likely double counting here; in addition, because many LIHTC unit contracts last only 30 years, many existing LIHTC units will need to use new funds to have their contracts renewed.) Without additional subsidy, LIHTC units are generally affordable at 60 percent of AMI.[31] HUD subsidies typically ensure affordability for what the agency refers to as "extremely low income" households, which are households with incomes at 30 percent of AMI or lower, or $41,100 for a four-person household in Seattle. In addition, we estimate that about 12,000 additional "naturally occurring" units affordable to households at 30 percent of AMI but unsubsidized by federal sources will become available by 2044.[32] In total, this produces an optimistic estimate of about 86,000 new affordable units added across a variety of income ranges in the region by 2044. (Some units are likely to benefit from additional support from state and local subsidies, but as noted, these units will likely also receive LIHTC financing.)

Unfortunately, this estimate is much lower than what the state of Washington projects is necessary by 2044. The state expects that the Puget Sound needs about 210,000 units affordable at 30 percent of AMI and an additional 106,000 units affordable at 50 percent of AMI, which HUD refers to as "extremely low income" and "very low income," respectively (figure 4). Because most new subsidized units are completed using LIHTC financing, they will not necessarily meet much of this need, since the additional housing demand is focused at the low end of the income spectrum. Overall, this comparison points to a large gap of at least 230,000 affordable units required across the metropolitan area in the coming decades. This gap is larger than the gap in housing units needed overall (figure 3). First, there is *already* a massive but unfilled demand for housing units affordable to families with low incomes. Second, the state estimates that existing housing will increase in cost more quickly than incomes will rise. The question for the Puget Sound is how it can overcome this major obstacle to housing affordability.

FIGURE 4

**Based on Recent Trends, the Puget Sound Faces a Huge Gap in Affordable Housing Provision**

*Recent affordable housing construction, compared to new affordable housing units estimated needed by 2044*




**Source:** Author analysis of data from US Department of Housing and Urban Development, "Assisted Housing: National and Local," 2023, https://www.huduser.gov/portal/datasets/assthsg.html#year2009-2022; National Housing Preservation Database, 2023, https://nhpd.preservationdatabase.org; Erika Poethig, Liza Getsinger, Josh Leopold, Graham MacDonald, Lily Posey, Pamela Blumenthal, Reed Jordan, and Katza Abazajian, 2017, "Mapping America's Rental Housing Crisis," Washington, DC: Urban Institute, https://apps.urban.org/features/rental-housing-crisis-map/; Washington Department of Commerce, "Updating GMA Housing Elements," 2023, https://www.commerce.wa.gov/serving-communities/growth-management/growth-management-topics/planning-for-housing/updating-gma-housing-elements/.

**Notes:** Based on "medium" population growth estimate of the state of Washington. 24-year annualized past change is an annualized estimate based on change in availability of LIHTC and HUD-subsidized units between 2004 and 2002, as well as an annualized estimate based on change in availability of units affordable to households with incomes below 30 percent of area median income from 2000 to 2010–2014. HUD-subsidized units include units subsidized through public housing, Housing Choice Voucher, Moderate Rehab, Project-Based Section 8, and several other project-based programs. Some LIHTC units are also subsidized by HUD supports. HUD = US Department of Housing and Urban Development. LIHTC = Low Income Housing Tax Credit.

# Washington State Advanced Housing Reforms in 2023

Faced with housing shortages, states nationwide have accelerated passage of legislation to encourage or require localities to take action to rezone (Manji et al. 2023). These laws have been most prominently deployed in California, Massachusetts, and Oregon. In theory, they should override exclusionary land-use policies that some localities have implemented, increase overall housing construction, and make it feasible for more people to be able to live in the communities they desire by reducing housing costs.

In 2023, the Washington state legislature passed HB 1110, designed to allow small-scale apartment buildings in many areas previously zoned for only single-family housing.[33] This law requires the following:

- cities with fewer than 25,000 residents that are within a county's Urban Growth Area and in a county with a city of at least 275,000 residents allow at least two units per residential lot
- cities with at least 25,000 residents allow at least two units per residential lot or four units per lot if at least one unit is affordable (this is similar to an inclusionary zoning bonus; see Stacy et al. 2021) or if the lot is within a quarter mile of transit[34]
- cities with more than 75,000 residents allow at least four units per residential lot or six units per lot if at least two units are affordable or if a lot is within a quarter mile of transit

The law requires that cities subject to its provisions allow a variety of "middle" housing types, though it does not specify how broad these allowances must be.[35] It removes parking requirements—which add to housing development costs—for projects located near transit (Shoup 2005). Additionally, cities must enact ordinances that ensure the development of "middle" housing is subject to similar permit and approval processes as those of single-family detached residences. The state Department of Commerce will draft model ordinances and regulations by January 2024 that apply to cities that do not take action to apply the new requirements. The state Department of Commerce will use $4.5 million to create grants meant to support in the implementation of HB 1110.[36]

HB 1110 enables cities to adopt alternative density plans that only apply the new density requirements to 75 percent of their primarily residential lots. These new density requirements must go into effect in the applicable cities within six months after a city's next comprehensive plan update (the state requires updates every 10 years). The next round of updates will happen between 2024 and 2027; counties in the Puget Sound must all update their plans by December 31, 2024.[37]

HB 1110 builds on HB 1220, which the legislature passed in 2021. HB 1220 requires jurisdictions throughout the state to plan for housing available to households of all economic levels, based on state need estimates, which are then translated to the county and municipal level (these are the estimates used for figures 3 and 4).[38] Localities statewide are already adjusting their plans to leave more room for more apartments, in some cases near transit and in others in regional centers designated by the Puget Sound Regional Council and especially apt to absorb more density.[39]

In 2023, Washington state legislators considered several other bills that would have required local-level land-use reforms, but most were not enacted (box 2).

BOX 2

**Other Bills Considered During Washington State's 2023 Session**

Senate Bill 5466 was the most ambitious of the bills the legislature considered but did not enact in 2023.[40] It promoted development around transit in two ways. First, as passed by the state senate, it would have required that localities raise floor area ratio (FAR) allowances. FAR is a measure of density, with higher numbers reflecting the potential for more housing construction; an FAR of 0.25 to 0.5 is common for a single-family neighborhood. But SB 5466 would have increased the required FAR to 3.0 for projects located within a half-mile walking distance of rail stations or 2.5 within a quarter-mile walk of bus rapid transit routes (these figures changed over the course of the bill's deliberation in the senate); 20 percent of units would have to be reserved for affordable housing. Developers would have been able to request this to be increased to a FAR of 4.5 if all units were affordable housing. SB 5466 would have increased housing densities more dramatically than HB 1110, since those FAR levels are much higher than the small-scale apartments allowed by the latter law—though SB 5466 would have affected a smaller amount of land. The bill would have combined those changes with the elimination of most minimum parking requirements. SB 5466 would have also initiated a grant program, to be managed by the state Department of Commerce and designed to help finance affordable housing near transit. However, the bill did not provide any funds to support the grant program.

State legislators considered several other bills. One bill, for example, would have simply reduced parking minimum requirements, an approach many jurisdictions are now taking.[41] House Bill 1351/Senate Bill 5456 would have exempted residential or commercial developments from parking minimums if they are located within a half-mile walking distance from a transit stop that receives service every 15 minutes. Developments would also be exempt if fewer than 20 housing units or if one-fifth of the units was set aside for low-income, disabled, or elderly households.[42]

# Middle Housing Reforms Are Inadequate to Fully Address Housing Needs for People with Low Incomes

The passage of HB 1110 advanced zoning policy in Washington state. For the first time, it mandated that communities would have to accommodate small-scale apartment buildings. Research shows that apartments in smaller structures cost an average of 13 percent less than equivalent-sized units in single-family homes, with only half of the difference attributable to variation in the neighborhoods where the two housing types are built; this is true even for new units in cities like Minneapolis and Seattle (An et al. 2021; An et al. 2022). If Washington state could encourage high levels of construction of these types of projects, it might not only add to the housing supply—but also do so in a way that is more affordable than other types of new housing construction.

Recent optimistic estimates from the Puget Sound Regional Council indicate that HB 1110 could make room for 50,000 to 150,000 units regionwide over several decades, which could be an important contributor to overall housing growth.[43] Yet, given recent experience elsewhere, these estimates are very optimistic and HB 1110 alone is likely to be inadequate in generating the large number of new housing units that the Puget Sound needs in response to its continued growth. Based on our review of trends in other metropolitan areas, development of small-scale buildings could be limited because of narrow interest from developers for whom such structures are financially riskier and less cost-effective to build, and from households for whom replacing a single-family home with a small multifamily structure is unappealing. Other strategies, including upzoning for larger buildings and providing funds for affordable housing, may be necessary to complement the reform to encourage significant new construction and ensure that units are affordable to families with low and moderate incomes.

## Take-up for Small-Scale Apartment Buildings Is Likely to be Small Compared to Zoning Allowances: Developers Want to Build Bigger

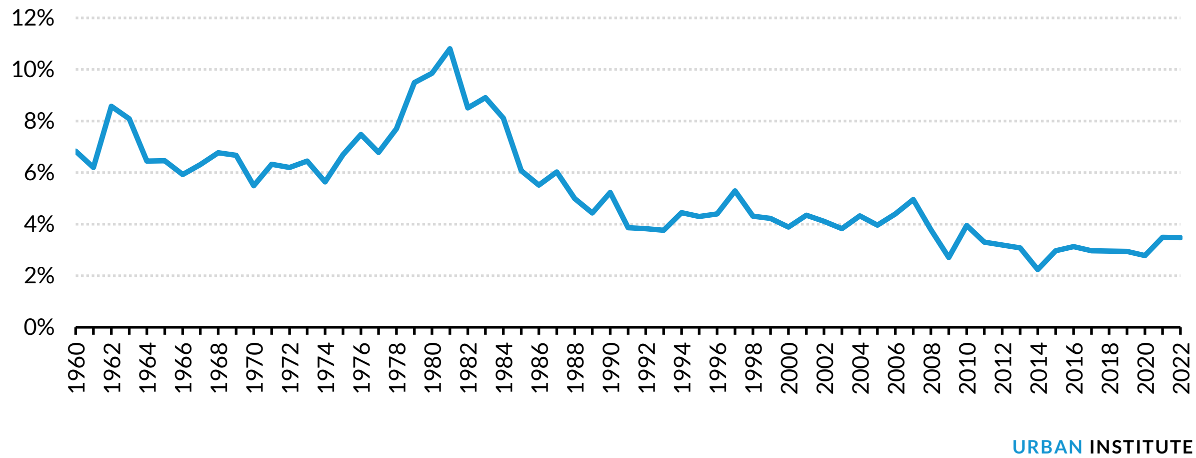
The movement to allow developers to construct small-scale apartment buildings has accelerated during a time when there is a dramatic decline in their construction. The explanations for this decline are multifarious. To some degree, the decline reflects land-use laws: Certainly, as cities and counties have banned the new construction of duplexes and triplexes in certain neighborhoods, developers have been unable to build them. But part of the explanation for limited small-scale apartment construction is likely also limited demand. If families have less interest in living in duplexes or triplexes than in either single-family homes or larger apartment buildings, they will pay less per square foot to do so—and developers will respond by building fewer of those types of buildings.

The recent history of small-scale apartment construction in the United States is thus important context for projecting the potential impact of HB 1110 and similar statewide reforms. Consider the share of US housing units permitted in buildings with two to four units in recent decades (figure 5). These types of buildings routinely accounted for more than 6 percent of national housing units in the 1960s, 1970s, and early 1980s. Yet this figure declined in the 1990s to about 4 percent; since the Great Recession, permitting rates for these buildings have declined further. The result is that in 2022, only 49,000 units in such buildings were completed, compared to 90,000 in 2004 and 145,000 in 1983—when the nation's population had 100 million fewer people.

FIGURE 5

**Middle-Scale Housing Has Accounted for a Shrinking Share of the National Housing Stock**

*Share of all housing units permitted in buildings with two to four units, nationwide*




**Source:** The authors, based on US Census Building Permit Survey.

The decline illustrated in figure 5 could reflect changing zoning policy, but it may also reflect lack of interest from developers and homeowners. What seems clear is that the trend of declining investment in small-scale buildings has consequences for the development system. It likely reduces developer comfort with this type of building; they have become less familiar with their architectural and financing requirements. The question is whether Washington's 2023 zoning reforms have changed these circumstances. Will allowances for more small-scale apartment buildings reverse the trend?

Recent evidence from Minneapolis; Portland, Oregon; and the state of California offers reasons to be skeptical—at least over the short term. In 2019, the Minneapolis City Council eliminated single-family zoning by allowing duplexes or triplexes citywide. This has hardly produced a barrage of applications to build such units; in 2022, just 33 such buildings were permitted. Only four were in zones previously reserved for single-family home construction. The city permitted more than 3,500 units in multifamily buildings in 2022.[44]

Portland passed the Residential Infill Project zoning reform in 2020. This enabled construction of up to four units in single buildings (six units if affordable) on lots previously zoned for single-family housing; it applied to a majority of the city's land (Cascadia Partners 2023).[45] The zoning reform limits the maximum FAR for new single-unit dwellings, but incentivizes developers to build multiple small-scale units through a FAR sliding scale: for every unit added on a lot, the allowed FAR increases. This, in essence, allows larger buildings—as long as they have multiple housing units contained within them. In the law's first year, 271 housing units were permitted in small-scale apartment buildings in these zones.

While this is much more than the number of single-family units permitted in the same land area (102), it is a tiny share of the thousands of units permitted overall in the city in 2022, most of which were in large, multifamily apartment buildings.[46]

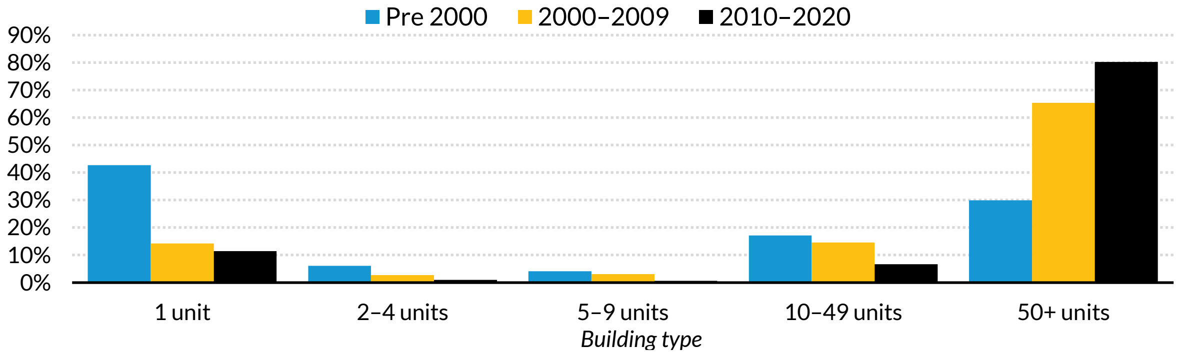
In California, the passage of Senate Bill 9 increased the zoning envelope in the state by about 700,000 now-buildable units, according to some estimates. The law allowed landowners statewide to split parcels and build up to two units per lot (meaning a parcel with a single-family home could essentially make room for four units, in some ways enabling changes similar to HB 1110). Yet, at least as of January 2023, the law had failed to produce many homes.[47] Los Angeles, the state's largest city, received only 211 applications under the law in 2022; the same year, it permitted more than 15,000 units in buildings with five or more units (it also permitted more than 6,000 accessory dwelling units, or ADUs). No other California jurisdiction reported more than 25 applications to use this new type of allowance in the same year.

Recent trends in the Puget Sound, moreover, do not suggest that construction of small-scale apartment buildings will expand to accommodate a large share of the housing market. In the period between 2010 and 2020, less than two percent of new units constructed near transit were located in buildings with two to four units (figure 6). Even fewer were located in buildings with five to nine units. This is despite the fact that, as noted, many suburban cities in the Puget Sound allowed small-scale apartment buildings with two or more units on much of their land area before the passage of HB 1110 (Freemark et al. 2023). These conditions suggest that even with state allowances for the construction of small-scale apartment buildings, there will not necessarily be a rush of investment in those types of structures.

FIGURE 6

**Near Transit, Developers Want to Build Large-Scale Apartment Buildings**

*Share of all housing units permitted near transit, Seattle metropolitan area*




**Source:** Author analysis of data provided by First American Financial Corporation, 2022.
**Notes:** Data for parcels within a half mile of existing and planned fixed-guideway transit stations in the Puget Sound.

In spite of these trends, there is growing evidence that it is possible to leverage small-scale zoning changes and associated investments to densify neighborhoods that were previously occupied only by single-family homes. A 2019 reform in the city of Seattle enabled the addition of two ADUs on most lots—essentially increasing maximum lot occupancy from one dwelling unit to three—and reduced the difficulty of building them. This reform has been associated with a steady increase in construction. The city averaged 121 permitted detached ADUs annually between 2016 and 2019; this figure increased to 551 in 2022 (Welch et al. 2023). This is part of a regionwide trend of increased ADU construction.[48] This figure, however, pales in comparison to the almost 9,000 "regular" housing units the city permitted that year (of which more than 80 percent were in buildings with at least five units). And it is unclear whether small-scale buildings in the form of duplexes or quadplexes will attract interest similar to that of detached ADUs, which have the advantage of offering their occupants private outdoor space.

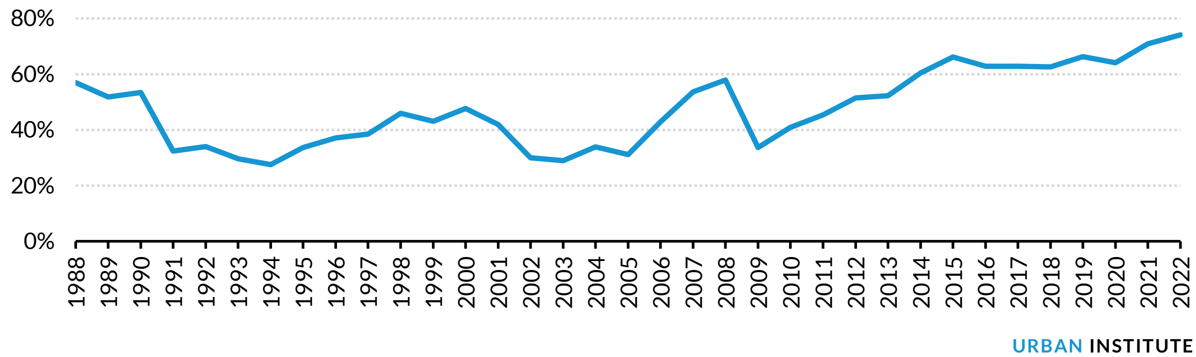
Despite the limitations that housing affordability programs like LIHTC impose on constructing small-scale buildings, some cities are piloting new approaches to subsidized structures. In Minneapolis, for example, the local public housing authority recently funded 84 subsidized units in 16 four- to six-unit buildings.[49] These units were built off-site and have been installed mostly in neighborhoods that were formerly zoned single-family only. This example of how subsidized housing can fit into small apartment complexes could be nationally relevant, though the number of units that could be supported in this fashion is likely to remain limited.

Generally, developers and the public seem to be interested in investing in, and living in, multifamily buildings. In the Seattle metropolitan area, the share of all housing permitted in multifamily buildings has increased since the Great Recession, reaching 74 percent of permits in 2022 (figure 7). The vast majority of these units—especially in areas near transit—are in large multifamily apartment buildings with 50 or more apartments (figure 6). Though other US regions are experiencing a similar trend, Seattle stands out. For example, in 2022, 57 percent of building permits in the Dallas metropolitan area and 58 percent in the Phoenix metropolitan area were for units in multifamily buildings.

FIGURE 7

**The Majority of New Housing Units in the Puget Sound Are in Multiunit Buildings**

*Share of all housing units permitted in buildings with more than 1 unit, Seattle metropolitan area*




**Source:** The authors, based on FRED Economic Data, "New Private Housing Units Authorized by Building Permits for Seattle-Tacoma-Bellview, WA," St. Louis, MO: St. Louis Fed, accessed September 20, 2023, https://fred.stlouisfed.org/series/SEAT653BPPRIVSA; FRED Economic Data, "New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Seattle-Tacoma-Bellview, WA," St. Louis, MO: St. Louis Fed, accessed September 20, 2023, https://fred.stlouisfed.org/series/SEAT653BP1FHSA.

**Notes:** Data for Seattle-Tacoma-Bellevue metropolitan area.

Allowances for small-scale apartment buildings likely will not be effective in producing some additional housing. Certain large cities at the center of the Puget Sound, like Bellevue and Seattle, reserve a large share of land for single-family homes (and ADUs), including near transit lines (Freemark et al. 2023). This will have to change in the context of HB 1110. These neighborhoods are likely to see more housing built following the implementation of the law, even if the number of units is small.

## Explanations for Limited Small-Building Apartment Development

Localities have altered their zoning to encourage construction of small-scale apartment buildings, but, as we have seen, those projects remain relatively rare. Why is this the case? Using a series of in-depth interviews with stakeholders like developers and an examination of financial data, Parolek (2020) points to some explanations. Beyond single-family zoning, he identifies land-use regulations like minimum setback requirements, maximum allowed densities (often expressed in terms of dwellings per acre), minimum lot size rules, and parking requirements as all contributing to the difficulty of constructing small-scale buildings. Requirements for multifamily buildings to include multiple staircases and elevators may also stand in the way of easy construction.[50]

In other words, it may be that the reforms we profiled above are insufficiently broad to encompass all the land-use requirements limiting construction. For example, in Minneapolis, while the city allowed triplexes on all single-family lots, it required those new structures to fit into the same building "envelope" as single-family homes.[51] Indeed, Alameldin and Garcia note that the slow uptake for California's Senate Bill 9 may be the product of other locally imposed limitations, like height limits.[52] Additional statewide reforms in California and Minneapolis, however, could help address these issues.

Parolek's (2020) findings are also interesting in terms of their conclusions related to developer preferences. Some, he argues, avoid investing in such projects out of the fear that community members will oppose them. Developers may be less willing to invest time and resources in getting development plans approved by local organizations because of the probability of them getting blocked. Instead, developers gravitate toward large-scale projects because they have the capital to wait and tolerate the risk of neighborhood resistance. Alternatively, some choose smaller-scale projects, like ADUs, because they face less local opposition.[53] To make up the gap, some states like Michigan and Vermont have recently established dedicated "missing middle" housing funds to incentivize developers to build small-scale units.[54] These programs are relatively new and were initially funded by federal American Rescue Plan Funds; they have yet to be studied.

The financing of small-scale apartment buildings may pose a barrier to developers. In general, developers may see a greater return on investment by building large, single-family houses that maximize allowed FARs and that can be sold to homeowners. Research by An and colleagues (2021; 2022) finds that small-scale rental buildings are more financially risky than larger apartment buildings because of the higher loss that would result from vacancy; this could help explain why units in small-scale buildings are generally less valuable. Moreover, An and colleagues (2021) note that small-scale buildings lack the economies of scale in management and maintenance made possible by large apartment buildings, making them less appealing to potential landlords.

It is also possible that a lack of resident demand for small-scale apartment buildings makes constructing them more difficult, though more evidence is necessary to substantiate that claim. People who own single-family homes, for example, not be interested in adding additional units to their properties. A single-family home—because of the privacy and access to green space it affords—may be worth more than two or three apartment units on the same land, especially if that single-family home can add an ADU, itself relatively private and with green space access. These conditions could impact developers' willingness to invest, but these possibilities remain little understood.

## High-Density Upzoning Is More Effective in Generating Units, but Is Unlikely to Add Affordable Housing Quickly

If zoning reforms encouraging small-scale apartment buildings have not yet resulted in much new housing construction, the legalization of medium- and high-density housing may be more promising. Indeed, these types of projects—such as apartment buildings with 50 or more units spread across five or more stories—better meet the demand from developers because of the projects' cost effectiveness and because developers have years of experience constructing them. The additional units these sorts of high-density upzonings could produce, in theory, could allow older existing units to "filter down" to people with lesser means, which would increase housing affordability overall. But our examination of the scholarship on such reforms shows that speed at which these reforms are able to produce more housing and lower prices to levels affordable to families with low and moderate incomes remains in question.

Freemark (2023a) reviews the evidence thus far, looking at reforms promoting both small-scale and larger buildings. To summarize, upzonings likely have some effect in increasing construction and reducing increases in housing costs, but they do not always substantially increase affordability. Consider Stacy and colleagues' (2023) examination of the impacts of upzonings across many municipalities. They find that, following upzoning, there is on average a 0.8 percent, statistically significant increase in the number of housing units in a jurisdiction over the course of the three to nine years following a change (compared to jurisdictions without such changes). They also find a reduction in housing costs, though this finding is not statistically significant. They do not find statistically significant evidence that the reforms resulted in more units affordable to people with low incomes. These results are averaged across many jurisdictions, meaning that different reforms had different effects, but they suggest a positive, though not dramatic, increase in housing availability over time.

This evidence is somewhat disappointing in terms of its limited scale, but data from Auckland, São Paulo, and Zurich suggest that large-scale zoning reforms implemented in neighborhoods across large cities *can* have major effects on building (Anagol, Ferreira, and Rexer 2023; Büchler and Lutz 2021; Greenaway-McGrevy and Phillips 2022). In each city, a major upzoning was followed by large bouts of construction, accomplishing the aim of upzoning proponents. In all three cities, upzoning in specific neighborhoods does not appear to have resulted in fewer units built elsewhere, meaning that the overall housing markets increased in size. Do these types of reforms outside the United States actually reduce rents and sales values, the ultimate goal? There is initial evidence that the Auckland reforms reduced rents for middle-income renters after housing construction (Greenaway-McGrevy 2023), suggesting that more housing following a large-scale reform likely does affect housing costs. What the Aukland rezoning did *not* do, however, was lead to a substantially higher number of available housing units affordable to families with low incomes.

In sum, upzonings likely have a positive effect on housing availability and affordability—but so far they have not been able to make housing more affordable at the low end of the market. This suggests two possibilities that are not mutually exclusive. First, it is possible that the upzonings implemented so far in the United States have been inadequately scaled and that a much larger upzoning similar to SB 5466 would have large effects on the housing market. Second, it seems likely that additional support or subsidies are needed to provide truly affordable units, whether or not they are publicly subsidized.

That said, to build most subsidized housing, zoning must allow large building construction; there may be some exceptions to this rule, such as in Minneapolis, but small-building subsidized projects remain rare. We noted that most subsidized affordable units in the Puget Sound are in zoning districts where buildings with four or more residential units can be constructed by right.[55] This isolates projects to a small portion of the region. (Such zoning limits do not appear to reduce overall subsidized construction; funds flow to neighborhoods where projects are allowed.) Subsidized housing units are more likely to be in some areas than others, and this perpetuates segregated housing patterns and inequitable access to the well-funded public services often available in the jurisdictions with the fewest affordable housing units.

HB 1110 will, to a small degree, reform the zoning policies that limit multifamily construction. Due to economies of scale in subsidized housing development, however, this remains unlikely to result in a fairer distribution of such units. This means that if state legislators intend to ensure a more equitable distribution of subsidized housing in the future, they likely need to ensure that more jurisdictions have enabled the construction of such large-scale complexes—or provide developers of subsidized housing the ability to ignore local zoning.

# Linking High-Density Upzoning with Public Investment to Support More Home Across Household Income Ranges

We have demonstrated the limitations of existing policy related to housing availability and affordability in Washington state. HB 1110 will expand opportunities to create small-scale apartment buildings in areas previously zoned for single-family dwellings. While this is an important step, based on experience elsewhere, developers are unlikely to respond with massive new investment in such units. Making matters more complicated, current funds for subsidized housing are inadequate to meet the overall demand for such units in the Puget Sound and in other parts of the state. This suggests that, without new approaches, there is likely to be a continued housing accessibility and affordability deficit.

## Recent Initiatives to Link Upzoning with Affordable Housing

In recent years, several advocacy and research groups have begun campaigns to expand the stock of affordable housing in the Puget Sound. Sound Communities—a nonprofit housing research group launched in 2018—released a detailed proposal supporting the creation of Housing Benefit Districts (HBDs) modeled after existing Washington State Transportation Benefit Districts. HBDs have not yet been passed by the state legislature (Sound Communities 2022). The concept for HBDs is relatively straightforward: Local governments would seek voter approval to use tax and bond revenue to buy land around transit stations from private owners and "land bank" it. Jurisdictions would then work with local residents to develop a long-term plan for the area, generally designed around increasing density to allow for more housing. These HBDs would then assist with the financing and development of mixed-income subsidized housing on this land (Sound Communities 2022).

Sound Communities' land banking strategy revolves around a two-tiered approach: after an HBD acquires and develops on some of the land, it would then sell that land at a discount to develop affordable housing in other parts of the community. Sound Communities modeled three HBD plans, each outlining a specific site for prospective development and potential budgets of $38 to $50 million to subsidize projects.[56] The model estimates that these investments could generate up to several thousand housing units for each site, a potentially large boost for local housing availability.

Sound Transit, the entity responsible for managing the region's rail system, is providing reduced-cost loans for affordable housing built around stations and dedicating land near stops for projects (Freemark 2023b). This approach can bolster transit ridership, while expanding the housing stock. This work builds on a 2015 Washington state law that mandates that the agency plan for mixed-income communities near transit, in part through a minimum level of affordability near stations.[57]

Work outside of Washington state may also be useful context. In 2022, California passed the Affordable Housing and High Road Jobs Act, or Assembly Bill 2011. The law will allow multifamily developments on previously commercially zoned sites, and will allow these projects to receive exemptions from California's Environmental Quality Act, thus speeding development. To go ahead, developers must ensure projects meet minimum wage and working condition requirements; at least 15 percent of development housing units must be affordable below the market rate.[58] This is a form of voluntary inclusionary zoning combined with increased allowed densities in areas where housing had previously been banned from being built.

Other approaches have not yet been enacted but point to the potential of combining upzoning policies with investments in affordable housing. In 2020, California legislators introduced Senate Bill 50,[59] which would have upzoned land within a half mile of high-quality public transit services by waiving density restrictions, eliminating parking requirements, and increasing allowed height limits.[60] The bill also would have integrated a voluntary inclusionary zoning element into the upzoning, requiring that the new developments it would have authorized dedicate 15 to 25 percent of their units to housing with guaranteed affordability over a long period.[61] The bill also stipulated that residents of currently affordable housing would be able to remain in place by delaying legal implementation in communities at risk of gentrification by prohibiting the demolition of buildings currently occupied by renters.

## Recommendations for Combining Upzoning with Investments in Affordable Housing

Washington state could take a two-pronged approach to address its housing needs. The first approach is to enact large-scale upzoning. Large-scale upzoning is more likely than allowances for missing-middle housing alone to meet demand from both developers and residents because it can enable the construction of larger apartment buildings that already account for the majority of new housing-unit construction in the Puget Sound. These buildings can provide dwellings for a larger share of the housing market, ensure space for new subsidized units even in currently exclusionary communities, and contribute to providing the new construction supply that can reduce overall housing costs. Even with significant housing construction, however, the Puget Sound is likely to require additional measures to address regional housing needs at the low end of the market. As such, a second, connected approach is to considerably expand public investment in housing that is affordable for families with low and moderate incomes. These two approaches can be implemented simultaneously.

A successful state land-use policy could include the following:

- **Require localities to implement large-scale upzoning around transit and in regional centers.** Our research (Freemark et al. 2023) projects that regional high-density zoning near transit in the Puget Sound could make way for 50,000 additional units over ten years compared to the baseline—far more than a reform allowing small-scale apartment buildings. SB 5466, which did not pass in 2023, could be a model for this type of reform as it would have substantially increased the number of housing units that could be built under zoning rules in neighborhoods that are close to transit but that currently have relatively restrictive zoning, such as parts of Seattle's Rainier Valley. This type of zoning change would mean encouraging the construction of apartment buildings with 50 or more units and five or more stories.
- **Allow developers of subsidized housing to circumvent local zoning regulations.** Developers building projects subsidized by LIHTC and other public programs typically can only make projects work if they are able to build large apartment complexes. This is why these projects concentrate in high-density zones, as we have shown. The state could allow developers that are advancing projects with guarantees of long-term affordability for households with low and moderate incomes to ignore local zoning and place their projects on the sites that best meet local housing needs, whatever the underlying land-use rules. This is the approach taken by states like Massachusetts.

Even a high-density upzoning, however, is unlikely to produce enough new housing in the short to medium term to ensure affordability for families with low incomes. Additional funding from the federal government is needed to help address this problem, but the state can play an important role as well. As such, state legislators could consider integrating upzoning efforts with efforts to fund increased housing affordability. One promising approach is to substantially expand state contributions to the state Housing Trust Fund,[62] such as through the passage of a regional or statewide affordable housing tax levy. Other options to expand the Housing Trust Fund include developing tax-increment financing districts near transit or in regional centers whose revenues would be distributed to affordable housing projects.

We estimate that a $1 billion annual investment into the state Housing Trust Fund could fill a large gap in the need for affordable housing in the Puget Sound. This amount is equivalent to about 1.5 percent of the state's annual budget.[63] Such an investment, adjusted for inflation over the long term, could generate an additional roughly 67,000 housing units affordable to people at 60 percent of AMI over 24 years, based on current construction costs and without additional subsidy.[64] This would effectively double the number of new affordable housing units being added in the Seattle region annually, and build on the increasing funding the state committed to in the 2023 session.

Our estimates suggest that, over the long term with a greater number of subsidized units, this approach of increasing contributions to the Housing Trust Fund for the purposes of funding new affordable housing construction would be less expensive than one that relies on vouchers for tenants to use in private-market buildings. Moreover, relying on vouchers without adding new affordable units may not be feasible given the tight housing market and limited number of private market units available, even with upzoning. A large share of voucher recipients is unable to use them because they face discrimination from private landlords (even though this is illegal in Washington state) or there are not enough units available to rent.[65]

Several additional approaches could be effective in contributing to the affordable housing supply:

- **Promoting subsidized housing construction in small-scale apartment buildings**. Local housing authorities across Washington state could learn from Minneapolis's example by building subsidized, prefabricated housing units in small buildings. These projects could enable a fairer distribution of affordable housing, even in single-family housing neighborhoods.
- **Implementing the HBD concept**, described above. HBDs would increase the availability of publicly owned land and reduce development costs substantially for affordable housing. Doing so would enable neighborhood residents to collaborate to set a course for how they would like to see their communities change over time while maximizing density near transit and encouraging affordable housing development.
- **Working to support Seattle's new social housing program**. The Montgomery County, Maryland, Housing Opportunities Commission (HOC) provides an example of mixed-income, publicly developed housing succeeding in a US county. The HOC operates as both a public developer and a housing finance agency, with current bonding capacity for housing production of $100 million. Its focus is on creating mixed-income projects through a low-interest revolving loan fund and it has several projects now underway.[66] The Seattle social housing developer's prospects are unclear given that the organization is only now coming into being. But Washington state could support it and similar entities elsewhere in the state through direct funding for its affordable housing projects to supplement or replace other sources of subsidy, such as LIHTC.
- **Supporting investments through limited equity cooperatives**. Limited equity cooperatives are homeownership models in which residents purchase a share in a development and commit to reselling their share at a price determined by formula—an arrangement that maintains affordability at purchase and over the long term.[67] Much of the attention for limited equity cooperatives comes from the city level, with few efforts from the state level thus far.[68] The state of Washington can help cultivate these cooperatives by offering property tax breaks and

setting aside grant funding to help cover the cost of renovations or rehabilitations of older buildings.[69]

These strategies offer many options for state legislators as they consider how to best advance the goal of increased housing availability and affordability in Washington. Combined with upzoning, approaches to support housing affordability could ensure that benefits meet the needs of Washington residents across the income spectrum.

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# About the Authors

**Yonah Freemark** is lead of the practice area on Fair Housing, Land Use, and Transportation at the Urban Institute.

**Rodrigo Garcia** is a research assistant at the Urban Institute.

**Samuel Lieberman** is a research assistant at the Urban Institute.

**Annie Rosenow** is a research assistant at the Urban Institute.

## Statement of Independence

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org