

# The Financial Feasibility of Transit-Oriented Development

## Barriers and Opportunities for Expanding Housing Supply

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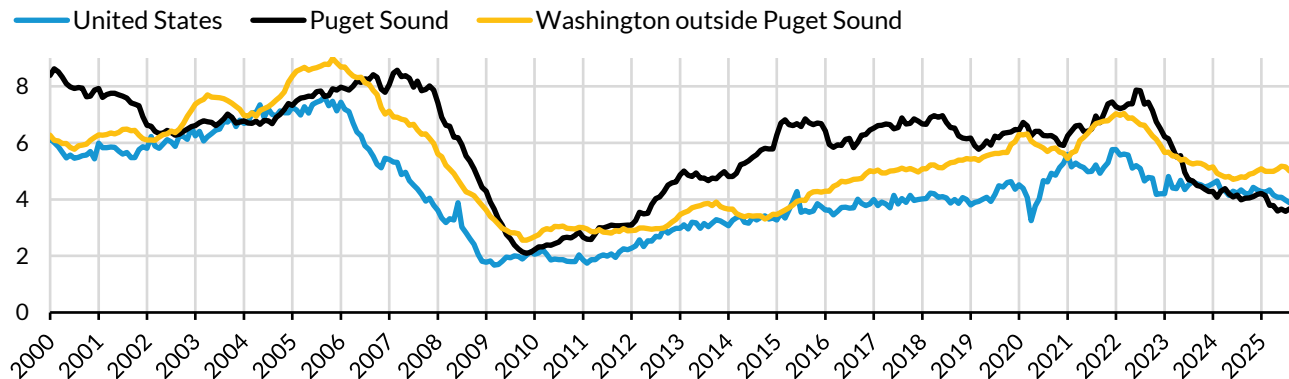
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Transit-oriented development (TOD) is the concentration of construction in neighborhoods adjacent to public transportation. States like Washington have encouraged TOD through legislation, such as 2025's House Bill 1491, which mandates that localities implement density standards, affordable housing requirements, and relief from taxes and fees for projects near transit. This legislation is in the context of a substantial decline in housing permitting in Washington state, and in the United States, since 2022 (figure 1). In this brief, we identify steps states can take to counteract the downward-trending real estate market and help TOD achieve its potential.

FIGURE 1

### Housing Permitting Is Declining in Washington State, Particularly in the Puget Sound

New private housing units per 1,000 residents authorized by building permits, annualized



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**Source:** Authors' analysis of US Census Bureau data and New Private Housing Units Authorized by Building Permits data from the Federal Reserve Bank of St. Louis.

Successful TOD depends on land-use regulations that allow mixed uses and density, plus a real estate market in which projects “pencil out,” meaning they are financially feasible. In this brief, we use a multifamily development model to test how revenue and cost scenarios influence feasibility. Our stylized analysis illuminates challenges facing TOD, including inadequate market rents in some areas and high construction costs, issues that may be aggravated by affordability requirements. We recommend the following mechanisms for states to encourage TOD:

- Fill the gap needed to fund TOD-related infrastructure through grants to municipalities.
- Right-size requirements to respond to market conditions, including by implementing higher-density zoning standards in high-rent areas, reducing affordable housing requirements in low-rent communities, and adjusting rules based on the strength of the overall economy.

- Provide funding for affordable housing investments, such as through assistance for projects with units affordable for very low-income families and land, as well as through grants for land purchasing.
- Create incentives for projects in low-demand areas where TOD could catalyze economic growth.

## Contributors to Variation in Housing Project Costs

The real estate environment influences TOD feasibility. In this section, we highlight key issues relevant to projects: potential rents on the revenue side, and taxes, fees, financing, and construction expenditures on the cost side.

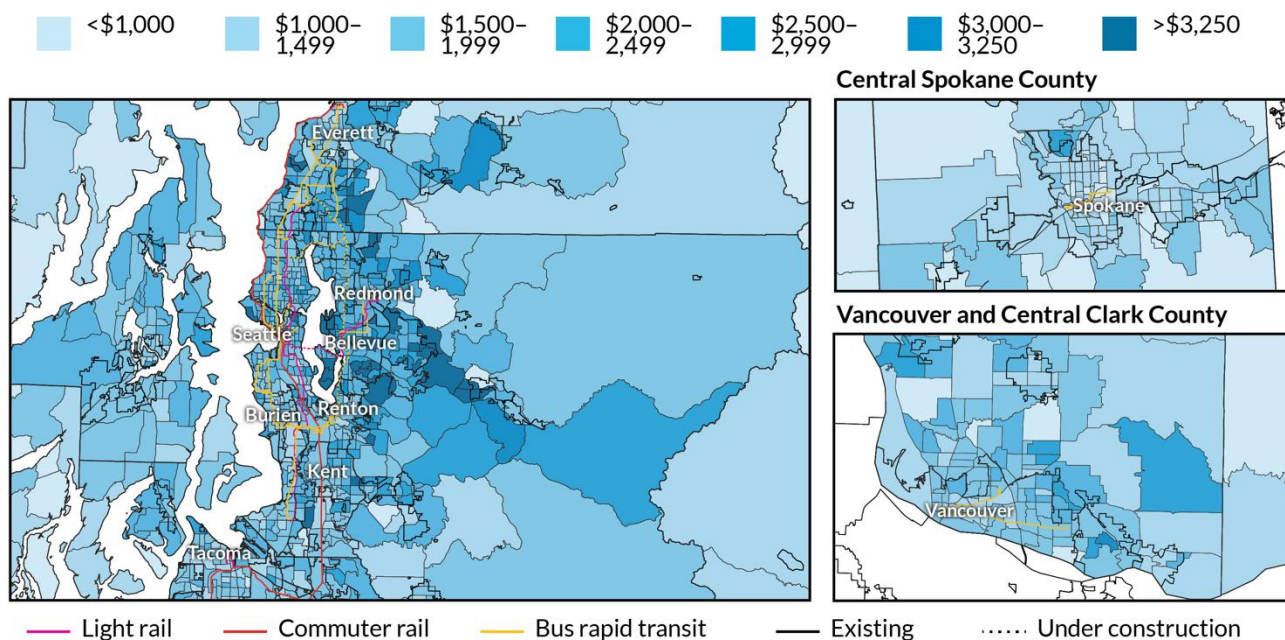
### Market Rents and Affordable Housing Costs

The rents that developers expect to be able to charge for newly completed units (or the sale values of new homes for purchase) affect feasibility because investors need to recoup land costs, pay for construction costs, account for risk, and make a financial return that is competitive with other sorts of real estate investment (e.g., purchasing existing buildings). Rents that are too low make unsubsidized projects impossible to pencil out. In Washington, median rents differ substantially across housing markets, ranging from under \$1,000 in Spokane to greater than \$3,000 in the central Puget Sound (figure 2). This geographic variation influences where developers invest because even though construction costs are relatively stable across markets, returns are generally higher in high-rent locations.

FIGURE 2

### Housing Rents Are Highest in the Central Puget Sound and Are Lowest in Spokane

Median rent, by census tract, 2019–23



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Source: Authors' analysis of 2019–23 five-year American Community Survey data and Transit Explorer.

Notes: Tracts outside of Washington are not colored. The Puget Sound, Spokane, and Vancouver region maps are presented at different scales.

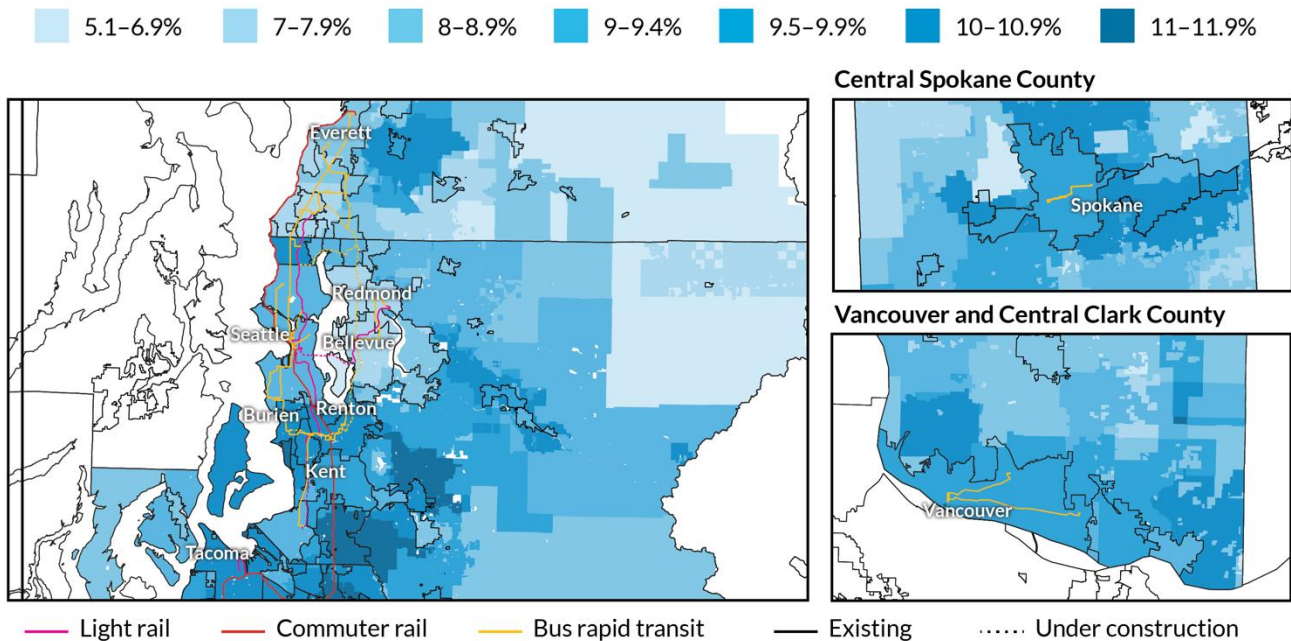
Variation in market rents is also relevant in the context of the required inclusion of on-site affordable housing in market-rate development (i.e., inclusionary zoning), a common feature of TOD laws. The relationship between market rents and government-mandated affordable rent levels influences project feasibility, determining whether developers must sacrifice rental revenue to provide affordable units. In some areas, market rent exceeds affordable

rent limits (typically set as a percentage of the area median income, or AMI). For example, we estimate that a typical new two-bedroom apartment in Seattle’s Capitol Hill neighborhood can command up to \$4,000 in monthly rent, far more than the \$2,100 that a developer could charge for an affordable unit.<sup>1</sup> When this occurs, developers face a revenue gap: the difference between what they could charge at market rate and what the affordable program allows them to charge. For projects to be financially viable, this gap must usually be offset by higher density levels or subsidies, such as property tax exemptions. Market rents in other communities, such as Federal Way or Spokane, are far closer to affordable rent levels, but even purely market-rate projects there are less likely to pencil out. As such, affordability requirements may make project financing more challenging.<sup>2</sup>

### Property Tax Rates and Impact Fees

Property tax rates differ by jurisdiction based on local levy decisions to fund general-purpose governments, schools, fire districts, libraries, and more (revenues are often distributed among multiple entities). New developments in jurisdictions with higher property tax rates face greater tax obligations relative to property values, which reduces net operating income and overall project returns. This variation means that all else equal, an identical development concept may be financially viable in a lower-tax jurisdiction but tenuous in a higher-tax area, independent of market conditions or construction costs. In Washington, property tax rate variation is evident across the Puget Sound region and other metropolitan areas (figure 3). In general, localities with lower property values charge higher rates to cover their service costs. For example, parts of the southern Puget Sound (e.g., Kent, with levies of \$9.52 per \$1,000 in assessed value) have higher rates than areas with high values, such as the cities east of Lake Washington (e.g., Mercer Island at \$6.54 per \$1,000). Even so, Mercer Island collects substantially higher income per capita because of that city’s property values, which are more than two times as high as Kent’s.<sup>3</sup>

**FIGURE 3**  
**Property Tax Rates Are More Than Twice as High in Some Parts of the Puget Sound as Others**  
*Levy rate, by tax code area, per \$1,000 in assessed value, 2025*



**Source:** Authors’ analysis of county assessor data and Transit Explorer.

**Notes:** Tracts outside of study counties are not colored. The Puget Sound, Spokane, and Vancouver region maps are presented at different scales.

While property taxes influence ongoing operating costs, impact fees (i.e., charges levied on development projects to fund infrastructure, such as roads, parks, schools, and utilities) affect up-front capital costs. Seattle, for example, has no such fees (though it does have affordable housing fees in some cases), while Issaquah charges more than \$16,000 per multifamily unit. Some low-income jurisdictions rely on impact fees to fund local services, while some high-income localities use high fees to prevent construction. In either case, higher fees reduce project feasibility (Freemark et al. 2025). Some jurisdictions provide impact fee reductions for TOD and affordable housing.

Development Costs

When analyzing a project’s potential feasibility, development financial analysts typically break down costs into the following categories, many of which include contingencies to cover unforeseen overruns:

- property acquisition costs, including the cost of land
- construction costs, including contractor fees, labor, demolition, excavation, foundations, structure, exteriors, roofing, interiors, mechanical, electrical, plumbing, finishes, furnishings, landscaping, and parking
- soft costs, including professional services such as architectural and engineering, fees, and marketing
- financing costs, covering the costs to obtain and carry debt
- developer fees and profits, incorporating the inherent risks of investment in new real estate
- operating costs and reserves, including utilities, taxes, insurance, marketing, and staff

Costs differ by economic conditions, governmental policy, and project design details. Regulations affect costs. Land costs generally increase when local rules allow higher development density. Financing sources also influence costs. Developers with projects receiving government-sourced financing must often pay prevailing wages, which are typically much higher than market-rate project labor costs. Ultimately, development costs determine the rents or sale values needed for developers to move forward with the capital investment required for new development.

Currently, unfavorable macroeconomic conditions are causing projects that previously penciled out to become infeasible. Overall construction costs have doubled since 2010 and have risen quicker in the Puget Sound than in the rest of the nation (Chapman and Jenkins 2025). Insurance costs have increased, as have median hourly wages of construction laborers.<sup>4</sup> Meanwhile, prices for construction materials have risen in the face of pandemic-induced supply shortages, inflation, and import tariffs.<sup>5</sup> But costs do not rise directly in line with project size, as there are distinct thresholds in building codes that trigger material requirements and engineering specifications. As a rule of thumb, the taller the building, the higher the per-square-foot costs (table 1). Rents and home values must be high to cover the costs of tall construction.

TABLE 1  
Construction Materials and Per-Square-Foot Costs Rise with Building Heights

| General construction type       | Stories | Material system                                                         | Construction costs per square foot |
|---------------------------------|---------|-------------------------------------------------------------------------|------------------------------------|
| “Slab on grade” buildings       | 1–5     | Light wood-frame (“stick built”)                                        | \$200–\$275                        |
| “Podium” buildings              | 6–8     | Wood interior framing with noncombustible exterior over concrete podium | \$225–\$285                        |
| High-rise multifamily buildings | 9+      | Fully noncombustible structural steel or reinforced concrete            | \$300–\$400                        |

**Sources:** Authors’ interviews with developers and Michael Eriksen and Anthony Orland, “Returns to Scale in Residential Construction: The Marginal Impact of Building Height,” *Real Estate Economics* 50, no. 2 (2022): 534–64.  
**Note:** Underground parking is much more expensive than at-grade parking.

These construction cost thresholds influence what projects pencil out given local context. Because land acquisition, permitting, and marketing are typically fixed costs, developers will often build as many units and as much height as possible—but without exceeding building code thresholds. This allows them to avoid, for example, having to build fully concrete and steel structures, which may be prohibitively expensive even if they enable more units.

Beyond rising material and labor costs, developers face interest rate challenges. Higher borrowing costs for short-term and long-term debt to cover up-front land acquisition, permitting, and construction increase the returns developers need to justify investment. Developers must expect substantially higher returns through rent payments or home sales than the cost of debt to justify investment in new construction rather than investment in other, sometimes less risky, real estate investment options, such as buying existing units.<sup>6</sup>

In the face of these economic headwinds, housing permitting has declined. State and local governments can try to offset some of these costs and provide incentives for development by reducing impact fees, offering property tax exemptions, or making free or low-cost land available, but these efforts may have only limited impact in the face of broader macroeconomic forces, building code requirements, and the realities of local demand for new housing.

## **The Financial Feasibility of TOD: Where It Works and Where It May Be Challenging**

Development requires case-by-case assessments of its feasibility. Investors must scout out parcels to build on, conform with land-use policies, design a structure, secure permits to build, and attract financing. Each jurisdiction has a unique real estate market, has its own regulations, and levies its own property taxes and fees for building. There is no one-size-fits-all solution to the challenges involved in housing development.

Nevertheless, we leverage a pro forma model to test the feasibility of housing-focused TOD in Washington. This model, which we refined through feedback from local developers recently involved in large multifamily projects, enables us to explore prototypical projects to compare how changes to model assumptions—such as those related to local policies—affect project financing (contact the authors for detailed information). The model integrates information about development and financing costs, localized rents and property values, and impact fees, among other characteristics. We caution readers that the outputs we present are sketch level, represent data for 2025, and should not be interpreted as definitive. Developers, for example, may be unable to build a project that matches the prototypes we explore because of a lack of land availability or a concern that units would not be quickly filled. But our findings show how different inputs affect generalized outcomes.

## **How Local Differences Affect Project Feasibility**

We use the pro forma model to test project characteristics, with several key local contributors of interest:

- **Market rents and home values:** Communities with higher market rents attract investors, who are more likely to earn their expected return on capital investment if they can charge more for new housing units.
- **Land value:** Low land costs reduce development expenses, enabling projects (the judicious use of publicly owned land can help reduce costs, as well). But lower land costs often signal a weaker market or restrictive local land-use regulations that make higher-density projects more difficult to pencil out. Developers often seek a middle ground, attempting to find communities where they expect high future market rents but have been able to identify low- or reasonably priced land.
- **Property taxes and impact fees:** Communities with higher property taxes and impact fees may impede housing construction by increasing development costs.

These local contributors interact and layer on top of local land-use policies, themselves affected by state regulations. Building a development project requires accommodating zoning and positive market conditions.

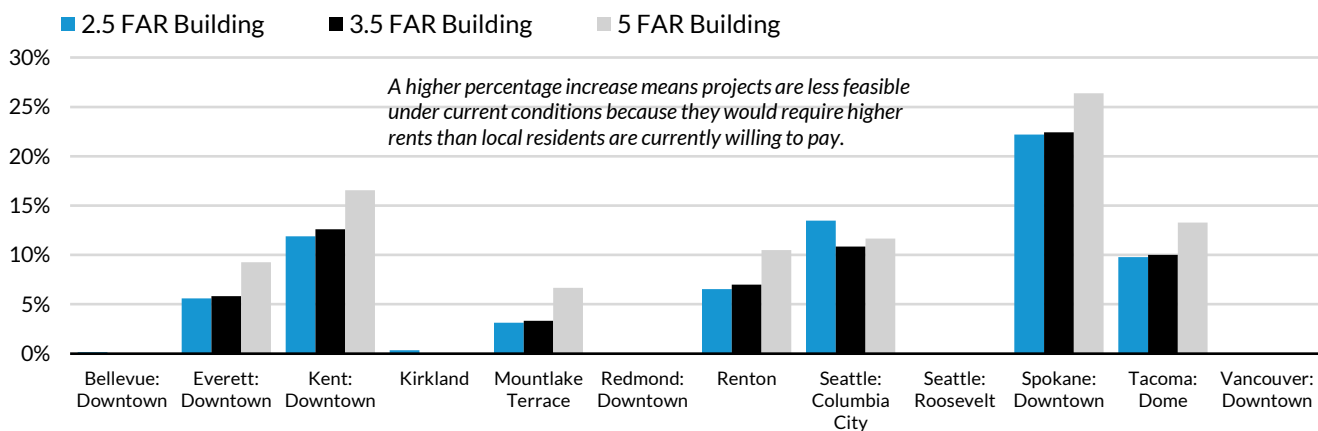
## Density Boosts

We begin by examining how increases in project density affect project finances. Using our pro forma model, we analyze the feasibility of a prototypical 200-unit housing development at different density levels across 12 transit-adjacent neighborhoods in Washington. In each instance, we estimate how much higher rents would have to be (if at all) relative to similar units to make a project feasible, given differences in local conditions (figure 4). In some communities, such as downtown Bellevue, projects are likely feasible today. In others, such as downtown Spokane, rents residents are currently willing to pay are too low to enable projects to pencil out.

FIGURE 4

### Many Projects Are Unlikely to Pencil Out Given Current Conditions—and Higher Density Only Sometimes Improves Feasibility

How much higher per unit monthly rents would need to be to make projects pencil out, compared with area market rents



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**Source:** Authors' analysis using the Urban Institute's pro forma model.

**Notes:** FAR = floor area ratio. Projects we model in Bellevue, Redmond, Seattle, and Vancouver would pencil out based on current rents landlords can charge in the area. Project dimensions, used to calculate project costs, differ: 2.5 FAR projects would have five-story buildings on 80,000-square-foot sites; 3.5 FAR projects would have five-story buildings on 57,000-square-foot sites; and 5 FAR projects would have six-story buildings on 40,000-square-foot sites. The projects with FARs of 3.5 or greater would have underground parking. All projects would have 10 percent of units permanently affordable to residents at 60 percent of area median income and receive 20 years of property tax exemptions, similar to the rules implemented in Washington House Bill 1491. Each area's market rents were calculated by taking the average of rents per square foot for similar recent buildings in the area, listed on Zillow.

The outcomes presented in figure 4 do not represent all possible scenarios but generally reflect TOD potential across the state right now. House Bill 1491 mandated that communities plan for an average zoned floor area ratio (FAR) of 2.5 near bus rapid transit stops and 3.5 near light rail stops, in exchange for projects that include on-site affordable housing and receive both property tax exemptions and transportation impact fee reductions. Higher densities—assuming they are accompanied by higher height limits—enable developers to construct more housing on smaller parcels. The comparison we present in figure 4 shows the following:

- In the current economy, market rents in many areas cannot cover project costs, even accounting for the benefits and regulations related to TOD in House Bill 1491, which helps explain why permitting is declining throughout the state. In cities like Everett, Renton, and Spokane, rents developers can charge are too low to make most development projects financially feasible. The exceptions where projects can theoretically still pencil out include some neighborhoods in Bellevue, Kirkland, Redmond, Seattle, and Vancouver that are at the center of their respective regions and have the highest rents.

- In neighborhoods with high land costs and high rents, such as Kirkland, higher density improves feasibility. Low-density projects that we modeled there were financially infeasible (they would require higher rents than residents are likely willing to pay), while higher-density projects penciled out. In places like Redmond, projects of multiple densities were feasible, but higher densities improve profit margins (not shown) because high land costs can be recouped only if they can be shared among many housing units.
- In communities with low or moderate land costs and rents, higher-density development may be *less feasible*, requiring higher rents than the local market may bear to make a project financeable. This results from the fact that higher construction costs for taller buildings dilute the benefit of increased density if the local market does not command enough rent to recoup the added costs.

These results show that increasing allowed density levels may not *systematically* result in more housing being built. Communities with low market demand may see no effect, while those with high demand may see a major effect.

### **Affordability Requirements and Property Tax Reductions**

Governments have often imposed affordability requirements as part of their TOD policies. House Bill 1491 mandates that municipalities require 10 percent of TOD units to be permanently affordable to households at 60 percent of the AMI or 20 percent of units to be affordable at 80 percent of the AMI. That said, localities may implement their own affordability requirements (or retain their existing rules) if they provide similar or greater affordability as the state requirements, and these rules do not apply in circumstances in which the area already has high zoned densities, which is the case for many affected areas. This affordability requirement is associated with a 50 percent discount on municipal transportation impact fees, plus multifamily property tax exemptions (MFTEs), which eliminate property taxes on residential improvement value (but not land values or commercial improvement value) for 20 years postcompletion.

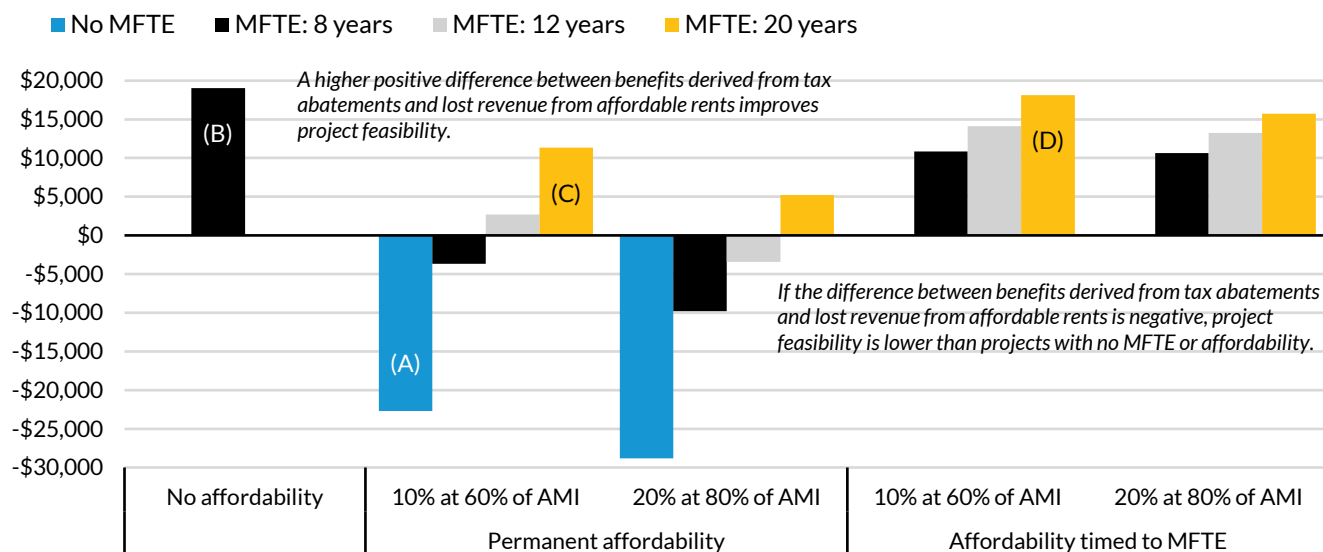
The MFTE was already extensively used in Washington (though without a specific TOD focus), with options for applying it over 8 years, with no affordability requirements, or over 12 or 20 years, in exchange for increasing levels of affordability, with an emphasis on housing affordable to renters or owners earning 80 to 115 percent of the AMI. Cities can set their own, stricter, affordability standards. Seattle, for example, requires affordable units with lower rents relative to the AMI.<sup>7</sup> But the MFTE was at least originally designed as a tool primarily to stimulate new construction and thus economic development, not to guarantee deep housing affordability for the lowest-income households, who have the greatest needs (Phillips, Bourassa, and Virant 2024). Developers noted that they are likely to use the MFTE when it is well calibrated, because it typically offers a financial incentive. Washington's high rate of housing construction compared with the rest of the nation during the 2010s could be at least partially a result of the widespread use of the MFTE, which is not often used elsewhere.

To demonstrate the impact of House Bill 1491's affordability requirements, MFTE benefits, and impact fee reductions, we used our pro forma model to test a prototypical project in downtown Bellevue. In figure 5, we evaluate a key barometer of project feasibility: the difference between the long-term value of MFTE tax abatements received (over 0, 8, 12, or 20 years) and the long-term cost in lost rent of on-site affordable housing units either permanently or timed to the receipt of MFTE benefits. This comparison shows whether projects are more feasible or less feasible than a project with no affordability and no use of the MFTE. This comparison does not account for the potential added project complexity resulting from the inclusion of affordable units, attributable to compliance costs and vacancy while waiting for tenant approval.

FIGURE 5

## Project Feasibility Varies Depending on Affordability Requirements and Tax Exemptions

Difference between net present value of tax abatements and lost revenue attributable to on-site affordability requirements, per unit, for a prototypical project in downtown Bellevue, by years of multifamily property tax exemption



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Source: Authors' analysis using the Urban Institute's pro forma model.

Notes: AMI = area median income, used to calculate affordable rents; FAR = floor area ratio; MFTE = multifamily property tax exemption (prototypical projects with MFTE would also receive impact fee reductions). Project dimensions used to calculate costs are 200 units, 5 FAR, six stories, a 40,000-square-foot lot, and underground parking. Does not include outcomes for scenarios with no affordability and MFTE beyond eight years. Project feasibility in other cities varies based on the combination of local tax rates and rents.

The tests in figure 5 illustrate several factors at play in the interaction between MFTE and affordability requirements:

- Projects with no MFTE are infeasible if they include on-site affordable housing (e.g., column A). More MFTE years result in higher long-term value. Projects with no affordable units benefit more from the MFTE, even if over only 8 years (column B), than projects with permanently affordable units and 20 years of MFTE (e.g., column C). Our model shows that projects with permanent affordability and 20 years of MFTE are somewhat more feasible than those with no affordability and no use of MFTE (at least in downtown Bellevue), but developers we interviewed said this was not their experience.
- Providing permanent affordable units in exchange for 20 years of MFTE (e.g., column C, which is the new standard in House Bill 1491) results in substantially less value to investors than providing such units but only over the MFTE's term (e.g., column D). This value difference is larger for shorter MFTE terms.

Overall, these tests suggest that projects meeting House Bill 1491's MFTE and on-site affordability requirements (e.g., column C) could be less financially feasible than projects with no affordability but still receiving a short-term MFTE boost (column B). This could encourage developers to direct investments to areas farther from transit if they are not subject to affordability requirements. Outcomes differ by market—downtown Bellevue is a uniquely attractive area to invest—but these findings raise concerns that permanent affordability requirements could dissuade TOD. This could particularly be a concern in areas where the affordability requirement is more stringent than the state's, as in Seattle.

## Implications of MFTE and Impact Fee Reductions on Local Revenues

House Bill 1491's MFTE and transportation impact fee reductions are designed to make up for the costs of providing on-site affordable housing and to encourage development near transit, respectively. These cost reductions can be thought of in two ways. On one hand, they may be needed for developers to advance projects. MFTE and impact fee reduction benefits improve project financial feasibility (figure 5). Without these benefits, fewer housing units may be constructed, which can reduce local economic growth, for example, by limiting the number of residents purchasing products in local stores and restaurants. Similarly, less housing development in transit areas may mean more housing development in outlying communities far from public transportation, which would result in increased pollution and congestion—plus increased transportation costs for residents.

On the other hand, some local government staff members worry that the reduction in impact fee collections may limit their ability to fund infrastructure adequate to meet transit area needs (Freemark et al. 2025). From their perspective, impact fees are needed to improve neighborhoods around transit stations to become convenient and comfortable for riders or to fund crucial infrastructure that residents in those neighborhoods will need (e.g., roads, sewers, schools, fire departments, and parks). Many of the new transit stations along light rail lines are currently poorly served by sidewalks or bike lanes. Moreover, surrounding streets are poorly landscaped. These conditions are unattractive for potential investors. To attract developers, municipalities thus need funds to reconstruct major arterials from spaces designed primarily for car commuters into streets that are primarily meant for pedestrians and bikers.

To examine the pros and cons of the state's impact fee and property tax policy, we estimate the relative income loss to local jurisdictions, first, from a 50 percent reduction in transportation impact fees. Using data from 2000 to 2020, we calculate the average annual number of housing units constructed in each of the 33 Washington cities with access to rail or bus rapid transit. This figure ranges from 20 units in Lake Forest Park to 4,900 units in Seattle, with about 16,600 added overall every year. We compare these counts with locally assessed transportation impact fees; these range from \$0 in cities like Tacoma to greater than \$5,000 in Bothell. Assuming that 50 percent of new housing in each city is completed in transit areas and that they maintain construction rates at the 20-year average, we estimate that cities would lose about \$9.5 million in fees annually (this is a high-end estimate of revenue loss).<sup>8</sup> This figure ranges from \$0 in cities without fees to more than \$1 million in cities with fees and high construction levels, such as Kirkland and Renton. At the same time, if cities double their housing production, the total fees collected would, by definition, remain steady. Given that this is unlikely, this analysis suggests that cities with impact fees are likely to lose revenue because of this provision.

We also estimate how property tax revenues may change under House Bill 1491 requirements, again using a sketch-level approximation. Assuming a constant rate of construction, steady property tax rates, and 50 percent of new construction in transit areas, we estimate that in the first year of the MFTE program, cities would exempt the equivalent of \$28 million in property tax revenues across the 33 cities (in general, cities shift this revenue loss onto *other* taxpayers, meaning that to afford the same level of service, they would have to increase their overall property tax rate to make up the gap). This amount would increase to \$215 million (in 2025 dollars) by the program's 20th year. By city, these foregone revenues are equivalent to 0.2 percent of total budget expenditures in Seattle, 0.4 percent in Bellevue, 0.5 percent in Spokane, 1.5 percent in Kent, 2.2 percent in Federal Way, and 5.6 percent in Mountlake Terrace, for instance, meaning they are significant but not overwhelming, especially because many of these cities already use the MFTE program. In general, less wealthy communities may be more affected by this change, though the effect depends on comparisons with current policy. Moreover, if the MFTE policy results in greater economic activity (e.g., through sales tax revenues), it may have a net positive effect on overall local revenues.

## Considerations for Implementation

Advancing TOD requires an accommodating land-use regulatory system and a healthy real estate market. This includes the availability of developable land, zoning that enables the construction of dense projects, and financing that is feasible given local rents, affordable housing requirements, and property taxes. The results we present in this brief should be interpreted as illustrative and directional rather than definitive. Real projects require more study, as outcomes differ by city and financing (e.g., some developers do not rely on debt to finance projects).

Our findings suggest several reasons for both optimism and concern. From a positive perspective, we estimate that higher density in cities with the highest rents generally improve project feasibility, making projects more feasible than they would otherwise be. We also show that the MFTE is an essential tool to cover the costs inherent in providing on-site affordable housing. Without it, projects with such units would not pencil out.

On the other hand, we find that outside of the highest-rent areas, prototypical TOD projects rarely pencil out, which is one explanation for declining permitting levels statewide. Similarly, higher development costs for taller buildings may make such projects infeasible. In much of the state, mid- and high-rise TOD is unlikely to be built even if local governments alter zoning to allow it. Moreover, in many cases, affordability requirements associated with the MFTE may be too stringent in many cities, potentially undermining development potential. Upzoning and the MFTE do not sufficiently offset the cost of lost rent. Finally, some municipalities—especially those with less expensive real estate—may lose substantial revenues from impact fee reductions and find themselves incapable of funding the infrastructure improvements they need to attract TOD.

States and cities must coordinate to ensure that requirements and benefits associated with TOD match (Colburn, Collins, and Wang 2024). We recommend that states advance the following strategies:

- **Fill the gap needed to fund TOD-related infrastructure.** Municipalities hoping to expand development near stations need funds to improve neighborhoods. Reducing impact fees can help make projects possible—but also deprives localities of revenues they need to attract investment in the first place. States can step in through new funding, especially in cities where revenue losses create large funding gaps, which is the case in some of the state’s lower-income cities.
- **Right-size requirements to account for local differences.** States should consider developing TOD-related zoning rules mandating even higher levels of density than in House Bill 1491, but this is needed only in neighborhoods where there is a strong existing real estate market capable of making high-density projects pencil out (these higher density levels would not *hurt* in other communities but would have little effect). At the same time, TOD-related affordable housing requirements should be automatically adjusted over time and place to match local markets and the economy. Affordability mandates may make projects infeasible in low-rent areas or make projects more difficult amid challenging market conditions, such as now. At the same time, if the real estate market improves, those mandates could reasonably be increased.
- **Provide grant funding for affordable housing investments.** The households with the lowest incomes are not adequately supported by requirements designed to meet the needs of households earning 60 to 80 percent of the AMI. To better support those families, states should provide additional targeted grant funding (e.g., through the state housing trust fund) to subsidize TOD projects—including those of private developers that do not build fully income-restricted properties—that include such units. In addition, states can help cities and community organizations fund land banking to reduce project development costs.
- **Create new incentives for development in low-demand areas.** TOD is infeasible in many communities at any density because local rent levels will not bring in enough revenue to cover costs. States seeking to encourage building around transit stations should consider implementing additional state incentives, such as targeting the use of Opportunity Zones or other tax credits, to support projects in those areas.

## Notes

- <sup>1</sup> Assuming a two-bedroom unit at 60 percent of the AMI, which in Washington is defined at the county level. See HFC (2025).
- <sup>2</sup> Washington state's new rent stabilization law, passed in 2025 (House Bill 1217), caps rent increases to 10 percent or 7 percent plus inflation, whichever is lower. This could affect the financing of existing units (especially in neighborhoods where developers expect rapid future rent growth), but the law exempts new construction for the first 12 years after completion, so the impact on new building is likely minimal.
- <sup>3</sup> Depending on the context, a higher property tax rate combined with lower property values could result in a lower tax burden than a lower tax rate with high property values. Our multifamily development model accounts for this variation.
- <sup>4</sup> "Average Hourly Earnings of All Employees: Construction," Federal Reserve Bank of St. Louis, last updated November 20, 2025, <https://fred.stlouisfed.org/series/CES2000000003>.
- <sup>5</sup> "Producer Price Index by Commodity: Special Indexes: Construction Materials," Federal Reserve Bank of St. Louis, last updated November 25, 2025, <https://fred.stlouisfed.org/series/WPUSI012011>; Sebastian Obando, "'There Is a Limit': Rising Material Costs Test Construction's Breaking Point," *Construction Dive*, September 11, 2025, <https://www.constructiondive.com/news/rising-materials-costs-test-construction-producer-price-index/759940/>; and Robert Dietz, "Costs and Tariff Uncertainty Weighs on Markets," National Association of Home Builders blog, March 21, 2025, <https://www.nahb.org/blog/2025/03/eoe-summary-cost-tariff-uncertainty>.
- <sup>6</sup> Paul Emrath, "Credit Conditions for Builders Tighten," *Eye on Housing* (blog), National Association of Home Builders, August 15, 2025, <https://eyeonhousing.org/2025/08/credit-conditions-for-builders-tighten/>.
- <sup>7</sup> "Multifamily Property Tax Exemption (MFTE) Program 7," City of Seattle, accessed December 4, 2025, <https://www.seattle.gov/housing/housing-developers/multifamily-tax-exemption/mfte-program-7>.
- <sup>8</sup> Some cities already provide discounts on impact fees, so this figure may overstate revenue losses.

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