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Eastside Affordable Housing Forum

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One of the region's biggest issues is the lack of affordable housing. The affordable housing crisis is perhaps most evident on the eastside, where home prices have soared higher than anywhere else in the region in recent years. The PSBJ partnered with Amazon on an event that featured a panel moderated by Don Baker, president and publisher of the PSBJ. The panel featured Nicole Bachaud, Economist for Zillow; Catherine Buell, Director of the Housing Equity Fund for Amazon; Amy Liu, Director of

Affordable Housing and Human Services for Washington State for Microsoft; Lynne Robinson, Mayor of the City of Bellevue; and Dan Watson, Interim Executive Director at the King County Housing Authority. (This is an edited and condensed transcript of the panel.)



The affordable housing crisis is perhaps most evident on the eastside, where home prices have soared higher than anywhere else in the region.

Don Baker: Nicole, can you give us a brief overview of the real estate market in Puget Sound region, and how that's changed in

the past couple of years, in terms of how that's impacting the affordable housing price?

Nicole Bachaud: So, what we've really been seeing, since the start of the pandemic is the housing market has taken off really quickly. We've seen home prices rising in a lot of the Eastside suburb markets. We've seen upwards of 30% yearly growth, and that has put a challenge on affordability. Particularly when you notice that in this market, we've seen a huge constriction of supply that's really leading to a lot of these affordability challenges. We have a lot of people trying to go buy in this market. You have a lot of millennials trying to buy their first home. You have mortgage rates that are really low. They're allowing a lot of people to have affordable monthly payments. So, we had a flood of people coming in the market at the same time we're catching up with a 15-year gap in building. After the end of the Great Recession, home builders were not keeping pace. So, we had a huge demographic shift of people trying to buy and we didn't have enough home for them to buy. And that started to push prices up really quickly. Coming with the beginning of this year, we saw interest rates and mortgage rates starting to rise rapidly, and that is starting to change people's decisions and ability to be able to afford to buy. When you look at markets like Bellevue and the surrounding cities around here, the median home price is \$1.5 million. That increase in interest rate is adding thousands of dollars a month in interest payments alone, on monthly mortgage costs. That's limiting the number of folks able to go out and buy in this market. ... And so, we're at a time where we have this huge affordability problem. If we're not able to get supply up to where it needs to be, we're not going to be able to have that availability and opportunity of housing. So, focusing on supply is really going to be what a lot of folks are going to be talking about as a way to overcome this challenge overall in the market and particularly when it comes to addressing that affordable, low-income segment of the market.

Don Baker: Dan, give us an overview of the King County Housing Authority's history and how the efforts have transitioned into what you're focusing on today.

Dan Watson: The King County Housing Authority is the largest provider of affordable housing in the state of Washington, and

certainly the largest on the eastside. We're not part of county government though and we have no taxing authority so what we have to do is work on a variety of programs. Our core mission is really serving very low-income people, these are people at 30% of median income and below. And this is like, somebody that earns \$35,000 a year for a three-person household. And those folks require direct subsidy, there's just no way around it. We have 80,000 households in King County alone, that are 30% of medium or below. Most of those people are severely cost burdened, paying well in excess of 50% of their income on rent. But the second part, I think probably the program that set us apart from most housing agencies around the country, is our preservation of workforce housing. And this started back in the early '90s, we have since bought approximately 50 different apartment properties, comprising nearly 8,000 units of housing. All of these acquisitions were made just through primarily financed, initially, through debt. And if you think about it, we're talking about older properties, usually the '70s and '80s vintages, which are medium density, two or three-story walk-up apartments that we bought primarily in high areas of high opportunity, such as the eastside and near transit corridors. ... The real magic here is that we were able to keep the rents affordable. And the only way that rents get increased is to pay for increased operating costs. So over time, these buildings that we bought in early '90s have become increasingly more affordable, as rent increases just to cover operating costs went up way more slowly than both market rents, and household income. So, properties we bought back in the '90s, now rent anywhere from \$500 to \$700 a month cheaper than comparable buildings in the area. But as time moved on, and as the prices continued to escalate in this region, and cap rates went down, we no longer could afford to buy completely with the debt from that issue ... we have these gaps that we had to figure out how to fill. Now initially, we were able to pay that by refinance some of our earlier more seasoned properties and be able to fill that gap. But it became evident as we moved on that that was no longer possible. So, we were able to partner with Microsoft and Amazon to help us with filling those gaps. So, over the last four years, we've bought about 1,700 units on the eastside, 1,200 in Bellevue and 400 in Kirkland. And the essential part of that was while we could issue maybe 60% of the debt, the other 40% came from our corporate partners. So,

they provided a total of \$240 million in financing. And it was absolutely essential to getting this done. So, we've been able to at least preserve 1,700 units and we're looking to do more. And in Bellevue alone, now we have 2,500 units of workforce housing, they have more affordable housing and value than in any other city in King County. But that doesn't begin to address the overall problem. I think there's kind of two policy outcomes out of this to look at. One of which is that, for very low-income people that requires public subsidy, the tax that these folks pay when you pay 50% of your income in rent, and you're only making \$35,000 a year, doesn't leave a lot for other things, transportation, food, educating your kids and doing all the other normal things of life. So that's part of it. But the other part is preserving the affordable housing that we have. It's really important to do that and I think that's going to be asked to be a focus. And it's done with a lot of different partnerships. So, you know that the housing wage now is \$31 an hour. That's what it takes to just pay for the average apartment in King County. So that's what we've kind of learned in our history. If we look forward, we have to do those two things, which is provide more subsidy for those below 30% of medium income, and then to figure out ways to preserve and increase our stock of workforce housing that is disconnected from the private marketplace.

Don Baker: Catherine, can you give us an update on Amazon's efforts?

Catherine Buell: First, I wanted to say what an honor it is to be on this stage with all of these team members. Microsoft was the first to come out with an affordable housing pledge, and really set the stage for a lot of tech companies doing great work. And as Dan mentioned, King County Housing Authority has been doing work for decades, that we've been able to piggyback on and the city of Bellevue has been an amazing partner, for Amazon. And we really focus on those government partnerships. We recognize that we cannot do this work alone. We are here to be a player; we're here to contribute; but it really is the governments taking the lead. At Amazon we have focused on three different issue areas. So, preservation of affordability is issue one and the partnership with the King County Housing Authority. The second area is nontraditional public private partnerships. There are a lot of public

agencies that people don't traditionally think about that are invested in doing more affordable housing. So, we focus on groups like transit agencies. Sound Transit is building out the light rail system in the Puget Sound and they actually have an equitable development plan. They have plans to utilize their excess land for the purpose of affordable housing. And we were able to piggyback on their joint development plan, which allows them to go out, seek private developers, who will build out the transit station, the areas around the transit station. And we're able to finance the affordable housing there. In the Puget Sound we have committed to the Spring District here in Bellevue, as well as Angle Lake with Mercy Housing, which allows us to really invest in TOD oriented housing. We know that if you can't live near public transportation, your commute times are really long. And when you're talking about those families that are earning somewhere between \$30,000 and \$60,000 a year, if you're spending two hours in the car, an hour and a half in the car, which is really the average commute time in a place like Bellevue for those who are lower income, being able to have access to those public amenities and public transportation makes all the difference in the world. We've also partnered with Bellevue Schools Foundation to help them fund a study to look at what they can do to divert and use their excess property and other things that they may have to housing teachers and the staff for the school district. And then the third area we've been focused on is making sure there's equity and partnerships. So, we've focused on working with minority developers. Working with LISC-Puget Sound, we have a fellowship program, we have 10 great fellows who are doing dynamic work, one we've already announced in Gardner Global, to really be able to diversify the partners that we can work with and those who are based in the Puget Sound, who are already doing good work but really need access to capital.

Don Baker: Amy, will you share how Microsoft started its affordable housing efforts and how those have evolved to what they are today?

Amy Liu: Microsoft has a long history of working with partners to support our eastside community; in services, education, transportation, light rail, etc... our leadership ... launched our affordable housing initiative over four years ago. We looked at the tools and resources that we could contribute. Money is important.

We have contributed grants and different forms of investments and loans. But money alone is not going to solve this problem. We need more than just funding to address the affordable housing crisis. So, we have worked with entities like housing authorities and the Washington State Housing Finance Commission. We have partnered significantly with the city of Bellevue and others on policies to really increase the scope and scale of affordable housing. Thank you so much Mayor Robinson, and the City of Bellevue, for their hard work. We have worked in coalition advocating for significantly more affordable homes across the board. And we will continue to keep trying to contribute to solving the significant issue we have.

Don Baker: Mayor, the city of Bellevue has really stepped up in terms of a focus in trying to make a difference in affordable housing. Can you tell us what's being done now that's different from the past and what prompted the city leadership to take a hard look at this problem now?

Mayor Lynne Robinson: Well, we really have a strong commitment to affordable housing that I don't think was there 10 years ago. The full council are very, very supportive of our affordable housing efforts. It takes council support. It takes staff that can do the work for us. And we're in a very good position and we're tackling it from all angles. We're doing incentive programs. We're doing direct fundraising. We're doing zoning changes. We're working with our partners, as you've heard here, and we have partnerships with Amazon, Microsoft, King County Housing Authority, and also Sound Transit. We've worked with the Chamber to come up with the multifamily property tax exemption. That was a great compromise between developers and affordable housing advocates that is so successful, that every single developer that can use it is using it right now. So, things like that. It's not just the one solution, we really have to hit it from all angles. But I firmly believe, and I think council has the full support of this, we need the full spectrum of affordability, from zero to 80% and beyond and how do you get to each of those levels is a different strategy.

Amy Liu: The work around this program, the multifamily housing exemption, is super wonky and... just stay with me... that program had been in place for five or six years in Bellevue and had resulted

in about 30 affordable units. Through the work of the city and many advocates leaning in, the program was tweaked and now there are 500 affordable units in the pipeline, and we hope for thousands more. That is the type of policy change we need to keep continuing to make progress on to get to the scope and scale of the problem.

Don Baker: Partnerships are important in this effort. Who are some of the new players who have come on board and what are some of the innovative approaches that they're bringing to the table?

Catherine Buell: We are seeing more non-traditional agencies weighing in on housing, even Kaiser Permanente actually has a housing fund, which most people don't think about health care and housing. But if you don't have housing your health outcomes typically are not as good. People like transit agencies, school districts, folks who have resources are coming to the table, which is really exciting to see. But we also we can't stop there, we recognize that we have to continue to talk about what resources are available. Those who own land, that's if you want any agencies that own excess land, whether they are housing agencies or not, you can be a contributor to affordable housing. Those that have capital, clearly capital will help and is really important. But we're also seeing more groups weigh in on the affordable housing conversation. And I just love to point out we recently sponsored an upper growth housing production report. And the findings in the housing production report were pretty alarming. Housing production is in a crisis across the United States. And the Puget Sound in particular is rising in terms of upper production of housing stock. And so, it's not going to just take government agencies, it's not going to just take private corporations, but it's going to take all of us being really creative about these housing issues and what we can bring to the table and seeing more players who historically have been on the sidelines of housing.

Don Baker: Nicole, can you talk about the importance of densification?

Nicole Bachaud: When you look at an area like the Puget Sound, where we're really strapped for land, there's not a lot of available land to keep building out like you can do in a lot of Midwest markets around the country. What we see is when we have the

ability to add, even if you just take, for example, a single-family neighborhood and if 10 percent of all single family lots were able to have two units per lots verses one unit per lot, nationally, we would see millions more homes over the course of a couple of decades than would have shown up otherwise. And that could really help to target the affordability and accessibility problems when we look at housing. And we also know from survey data that LGBTQ and BIPOC buyers are much more likely to purchase homes that are higher density home types, so things like townhomes, condos, duplexes, and triplexes. And so, including more of those types of homes in development gives more opportunity for these buyers who are typically on the margin to be able to get in at a more accessible and affordable price point. And so really focusing on densification is a great way to not only create those opportunities, but to create them at a price point that's a little bit more sustainable for a lot of people to afford.

Catherine Buell: And one of the things I would love to add is just to put it in context, we've been looking at some of the numbers. And we found that close to 80% of the land in Seattle and Bellevue is zoned for single family housing. And a third of the land near transit stations is zoned for single family housing, so you can't build the kind of housing that we're talking about. And that's a real bottleneck. And so, when you look at the zoning policies and some of the restrictions on where properties can be developed, and where we have the highest needs. The more we can support state legislation and other bills that really do support densification, particularly near transit. Most employers are locating near transit. I would say almost 100% of employers want to locate near transit. So, it makes perfect sense to put housing near transit so they can not only make sure that people have a way to get to and from their job centers, but you're also increasing the health outcomes for those families.

Don Baker: A lot of focus is on creating new affordable housing, but can you talk about the importance of preserving the existing housing?

Catherine Buell: Yeah, it's actually scary. So as much as we talk about the housing under production; I like to call it the hole in the boat. So, we're swimming as fast as we can. But we have a gaping

hole, where a lot of these multi-family properties and naturally occurring, affordable housing properties, are actually being lost faster than we can build new affordable housing. And there are essentially no tools for our partners to come in and say we're going to preserve the affordability. A lot of those properties are existing. ... But if we don't talk about housing preservation as much as we talk about housing production, we're never going to be able to get out of this jam. Most people are not, and most jurisdictions are not, thinking about preservation as much as they are thinking about production.

Mayor Lynne Robinson: I'll give you a number, 24% of the housing in Bellevue is affordable, but only a third of that affordable housing is currently zoned affordable, that means the rest could disappear if somebody were to redevelop it.

Dan Watson: The McKinsey report that was done about three or four years ago indicated that from 2000 to 2010, we lost 112,000 units of affordable housing and in King County, primarily through rent increases, but also these older apartments, they get what's called Value Add or reposition, and rents go up dramatically. So, they get upgraded.

Don Baker: Can you talk about the importance of equity in affordable housing?

Catherine Buell: Absolutely. We do know that communities of color are disproportionately affected by housing. And it's not just the right thing to do, but it is making sure that as our communities we value diversity that we talk about this. Part of the reason why we're doing the work with the Bellevue School Foundation is because they want to have a more diverse staff and teacher base, and they recognize that this is a numbers problem that if there isn't housing that's available to their staffing, they're not going to be able to attract and retain the kind of diverse teacher population and staff population that they want to have. Not only that but also looking at who is building the housing. When I started with Amazon, I got a list of about 30 unsolicited proposals, and not one was from a person or organization of color. And that was not to reflect on Amazon at all. That was just a reflection of who had relationships with funding firms.

A lot of diverse partners do not have those relationships. We have been really intentional about reaching out to them, diverse partners. I actually think some people are surprised that we're serious about our commitment, and we will go and find them. Being able to have a number of different partners at the table really does make a difference in terms of how we're addressing equity both in the populations that we are serving and in the populations we're supporting, but also the partners that we're able to bring to the table. And most of those partners, as we look at the diverse partners we've been able to invest in the Puget Sound their homegrown, so you end up not only having that diversity, but you're also investing in local businesses that hopefully 5 or 10 years from now grow and do even better work and end up being the leaders in affordable housing.

Don Baker: Amy, talk about the long-term aspect of this. What are the stakes?

Amy Liu: They're big. We all benefit when we're living in thriving communities, with people from diverse experiences. We want our teachers, our first responders, our frontline workers, our artists to be living in our communities, and to be able to have the choice to live near where they work. It's going to take all of us. And I think we need to act boldly. And I hope we can work together, we need to work together, with the scope and the scale and the urgency that the problem needs.

