



Housing Options in Expensive Markets

Objective

Encourage production and availability of housing affordable to a wider range of incomes in expensive housing markets.

WHAT ARE EXPENSIVE HOUSING MARKETS?

Expensive housing markets are areas in which the standard home or rental unit costs more than what the average buyer or renter can afford (more than 30% of gross monthly income). This can occur when housing prices and rents are out of balance with incomes and wages. In such markets, the cost of housing is prohibitive or unattainable for not only low- to moderate-income individuals and families, but for a significant number of middle-income households as well. Many areas in the central Puget Sound region are considered to be expensive housing markets (see the [VISION 2050 Housing Background paper](#) for more information).

WHY IS IT IMPORTANT TO PLAN FOR AFFORDABLE HOUSING OPPORTUNITIES IN EXPENSIVE HOUSING MARKETS?

Ensuring the availability of housing affordable to persons at all income levels is an important principle of Washington's Growth Management Act (GMA) ([RCW 36.70A](#)). Taking proactive measures to address the existing and future need for affordable and diverse housing options is essential to achieving the GMA's planning goals.

Expensive housing markets can restrict the number of households that can afford to live in neighborhoods, limiting access to the benefits of these neighborhoods, including schools, parks, and other services. Often, more expensive markets are areas that have received public investments in the past, including those in transportation, schools, and health care. Allowing more types of housing in these areas that are affordable to more households will allow more people to access these services, while building additional support for existing businesses and transit infrastructure.

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Every community, even the most affluent, requires workers at a variety of low- to middle-wage levels, including civil servants, educators, public safety professionals, and service industry employees. Without affordable housing options near or within a reasonable commute distance of job centers, workers are faced with long and expensive commutes that contribute to traffic congestion and related problems. Employers may also find it more difficult to recruit and retain workers in this type of market. Ensuring that there are housing choices for all income levels can help local jurisdictions achieve a jobs-housing balance and help to reduce the number of commuters traveling long distances to and from their jobs.

Affordable housing is also important to serve people at different ages and life stages. Affordable rentals and starter homes in expensive markets provide housing opportunities for the next generation of young adults and families and transition for those on a fixed income.

Past policies based on race, such as redlining and exclusionary zoning, shaped who could live in housing markets throughout the region. This segregation and limits on generating long-term equity and wealth through home ownership have created disparities in who is able to live in certain neighborhoods and benefit from services and investments. Providing more housing types and densities at different levels of affordability can allow more people, of all races and ethnicities, to realize the benefits of living in these neighborhoods.

WHICH JURISDICTIONS SHOULD CONSIDER PLANNING FOR EXPENSIVE HOUSING MARKETS?

The region's housing market is becoming increasingly unaffordable. The rising home prices and rental rates mean that many residents are financially burdened by housing costs. All jurisdictions can benefit from planning to have more affordable housing options.

GMA requirements for local comprehensive plans ([RCW 36.70A.070](#)) call for all cities to develop housing elements that include an "inventory and analysis of existing and projected housing needs" and make "adequate provisions for the existing and projected needs of all economic segments of the community." Cities that are found to have one or more of the following characteristics should establish a strategy and implementation plan to address their affordable housing needs:

Significant numbers of cost-burdened residents

According to the U.S. Department of Housing and Urban Development (HUD), "the generally accepted definition of affordability is for a household to pay no more than 30% of its annual income on housing." With over 30% of income devoted to housing costs, households have less money for other necessities like food, clothing, transportation, and medical care. Lower income, cost burdened households are of particular concern, because they are more likely to have to choose between rent or a mortgage payment and other necessities.

Shortage of homes affordable to moderate- and middle-income renters and homebuyers

Various indices measure the availability of homes on the market at prices accessible to the typical family or first-time homebuyer. These indices can be used to identify and track ownership affordability trends.



Relatively low supply of rental units available at fair-market rents

Fair-market rents (FMRs) are gross rent estimates that include the cost of rent and all utilities except telephone, cable/satellite television, and internet services. HUD determines FMRs to establish rent values for Section 8 vouchers. The current definition used by HUD is the 40th-percentile rent, the dollar amount below which 40% of the standard-quality rental housing units are rented in a metropolitan area ([HUD website](#)). If a jurisdiction has few quality rentals priced at or below FMR, low-income households may have a difficult time affording rental units.

Home prices and rents in an established community are increasing rapidly

Redevelopment and renewal in existing communities can increase property values. As property values rise, pressure to redevelop low-income properties also rises. Increasing rents and property taxes and redevelopment pressure can price out or displace lower income households from their homes, neighborhoods, and cities. See the objective on [mitigating residential displacement](#) for more specific information on this issue.

WHAT DO I NEED TO KNOW TO GET STARTED PLANNING FOR EXPENSIVE HOUSING MARKETS?

Cost

The lack of available land and high demand in expensive markets makes land cost a key consideration. Material and labor costs may also be prohibitively expensive, and higher costs for land, labor, and materials requires a higher upfront investment from developers. This results in a greater need for development financing and development that is more susceptible to equity rates. Tools such as [parking reductions](#) and [multifamily tax exemptions](#) can help reduce housing development costs.

Housing needs analysis

Establishing a baseline of current conditions, including the quantity and quality of housing types, zoning districts, possible and actual densities, rents, and sale prices, helps tailor policies to the current market and needs. Seek current and trend data on the rental market, real estate market, development market and community and household demographics. The [Housing Element Guide](#) provides more information on various data sources and how to prepare a housing needs analysis. The Washington State Department of Commerce has also [published a guidebook](#) that provides information on how to prepare a housing needs assessment.

Selecting and designing the right tools

Creating a strategy to increase affordable housing options in expensive housing markets will vary by community, potentially even by neighborhood. The tools you select will vary by your housing goals and by the market for development in your jurisdiction. Tools that work well in expensive markets are those that leverage the value of increasing development opportunity and those that reduce development costs. Density bonuses may be the most effective because the additional density granted to the development project is worth more in an expensive area. Permitting predictability is also important in expensive markets as the upfront investment costs are more substantial.



Development market

Depending on the strength of demand for housing in a community, the tools selected to instigate and preserve affordable and diverse housing development will vary. Jurisdictions with a strong development market can rely more upon tools that encourage affordable housing in tandem with market-rate housing. These communities also need to be more concerned about displacement and the effect of gentrification on affordable housing. Jurisdictions with weaker demand and development can focus their efforts on fostering development through various regulatory or financial incentives and streamlining their development approval process for affordable and diverse housing types. Incentives should strike a balance between encouraging development, while remaining rational about market potential and preserving planning goals. Market lulls are good opportunities to plan, reflect, and strategize about how successful, accessible development should unfold.

Community education and outreach

Public discourse on affordable housing issues and increased densities can be difficult and contentious. [Community engagement](#) is critical to a successful process. Decision makers, developers, and the community may require education on affordable housing issues. Work with housing stakeholders before projects begin or policies are enacted for their input and guidance, and to increase understanding.

Local opposition to affordable housing and increased density can emerge as a concern in many communities. Existing homeowners benefit from rising land values and may see affordable or denser housing as potentially threatening their personal finances. Some residents in the community may not be knowledgeable or aware of the difficulties faced by families and workers struggling with the lack of affordable housing options. Conversations between affordable housing advocates and supporters and concerned residents can help address concerns. See [Build community support for affordable housing](#) for more information on soliciting and incorporating input from residents and how to build community support and address common misconceptions about affordable housing.

Affordable housing assistance programs

Funding sources are available to support affordable housing efforts. It is valuable to identify which resources your program/jurisdiction may be eligible for. Note that funding sources may shift in response to market conditions and broader economic forces. Staying current with new programs or objectives sought by government or private funders before they offer funding can provide an advantage in competitive funding bids. Supporting [interjurisdictional coordination](#), like A Regional Coalition for Housing, has been an important tool for cities to support affordable housing across in an expensive housing market.

