AEI Housing Center

Comments on the One Seattle Plan (Comp Plan)

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Summary:

1) Seattle has been underbuilding for the last decade (and likely even longer) and it needs to build more housing than the targets set in the comp plan.
2) Seattle can legalize the building of more housing by embracing the lessons of its past and expanding on them. During the 1990s, Seattle upzoned parts of the city and over the years, it has made other smaller reforms that have resulted in more housing construction. These reforms brought forth substantial new supply when zoning is made by-right and regulations are kept short and simple. On the other hand, when Seattle introduced complexity, homebuilding faltered.
3) In the context of the One Seattle Plan, enabling more townhomes and other small residential structures will help Seattle achieve many of its goals set in the new Comp Plan such as meeting the supply challenge presented by growth, creating homeownership and wealth building opportunities for BIPOC communities, and reducing displacement pressure that helps drive homelessness.
4) Some of the goals and strategies discussed in the Seattle Comp Plan introduce unneeded complexity which will constrain supply growth and not help Seattle achieve housing abundance.

Detailed Findings:

1) **Seattle has been underbuilding for the last decade (and likely even longer) and it needs to build more housing than the targets set in the comp plan.**

Compare home price appreciation from 2012 to 2019 (pre-pandemic) in Seattle, WA and San Antonio, TX. Both metros added workers at about the same rate, but San Antonio added housing units at double the rate as Seattle. As a result, home prices have appreciated about twice as fast in Seattle than in San Antonio.

From 2012 to 2019 (pre-pandemic)	Seattle, WA Metro	San Antonio, TX Metro
Employment growth	20%	20%
Addition to the 1-4 housing stock	14%	30%
Home price appreciation	108%	57%

[1] The views expressed are those of the authors alone and do not necessarily represent those of the American Enterprise Institute.

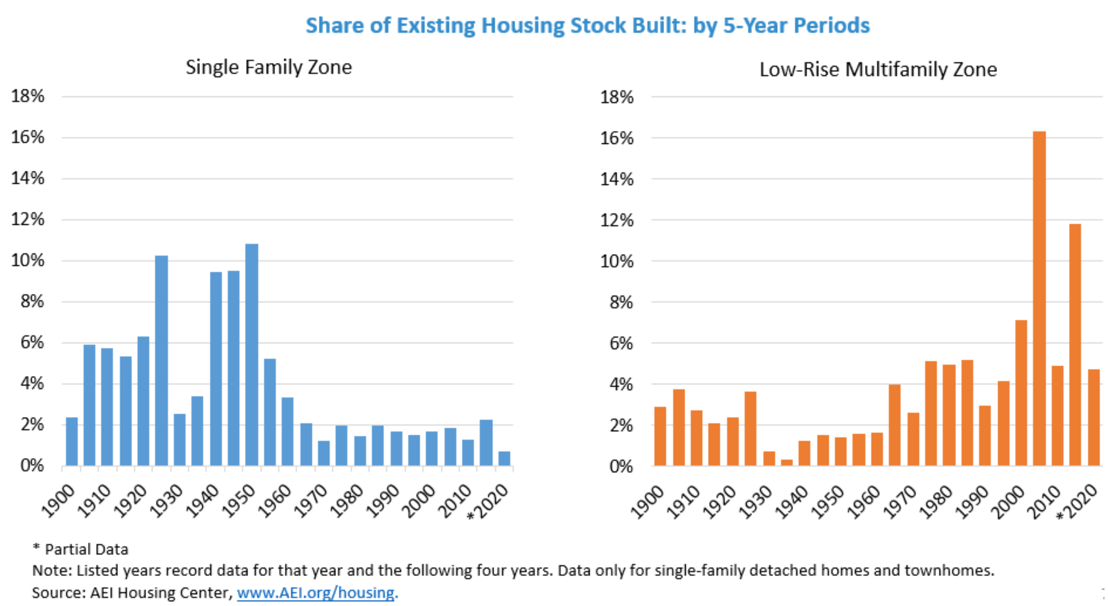
The targets set in the Comp Plan are likely not high enough and will therefore result in even higher home prices and rents. As Sightline's Dan Bertolet has pointed out:

> Seattle's draft plan is based on a target of 100,000 new homes over the next 20 years. First, that's only 20,000 more homes than status quo projections expected, even with no changes to existing zoning. Second, an average rate of 5,000 new homes per year is far lower than the housing growth that has actually occurred in recent years. For example, from 2013 to 2023, Seattle added an average of nearly 8,500 new homes per year.

2) How Seattle can build more housing

Seattle has upzoned residential neighborhoods in the past with great success. It should embrace this success.

Seattle should learn from its own past. In the mid-1990s, the creation of the Low-Rise Multifamily (LRM) zone allowed property owners to use their land more efficiently. As a result, many single-family detached homes were converted to mostly townhomes. Since 2000, Seattle has built 18,000 new townhomes units in the LRM zone. As a result, the housing stock in these zones increased by about 75% - or about 3% per year. The supply addition in the SF zone from new single-family homes was minimal.



In the LRM zone, older homes are getting replaced with newer ones. The top picture shows a lot with two single-family detached homes in 2007 and the bottom picture shows the same lot with 2 duplexes upfront and 3 additional units in the back. Each new home is valued at around $875,000 today, while each previous home may be valued at around $1 million today.

Further, the construction activity was undertaken by a swarm of small developers, builders, and property owners. We analyzed 3,000 (of the 4,500 in total) in-fill property parcels redeveloped over the period 1993-2022 with townhomes. We estimate that around 975 unique builders/developers participated, with no one builder accounting for more than 2.3% of volume. The nation's 19 largest builders did not participate, as this type of construction does not fit the large builder business model.

Given its success with the LRM zone, Seattle should embrace HB 1110, which allows 4 units by right throughout the city.

According to our estimates, Seattle could add up an estimated 5,200 new units each year for the next 20 years by embracing the new state law. This would add about 1.4% to its existing housing stock per year, more than doubling our estimate of the 1-4 unit structures permitted in 2022.

Is there an opportunity to do more? Allow up to 6 units per parcel and add an estimated 6,600 new units per year, or about 1.8% to its existing stock per year. That is about a quarter more. Allowing more units beyond 6 will not results in a much larger uptake, given current economic conditions.

Cumulative net additional housing units per year

State: WA | Select a geography: Municipality | Municipality: Seattle city

Maximum number of units allowed per parcel	WA: Cumulative count	WA: As a % of housing stock	Seattle city: Cumulative count	Seattle city: As a % of housing stock
ADU	12,322	0.4%	392	0.1%
2	22,631	0.8%	2,108	0.6%
3	32,654	1.1%	3,801	1.0%
4	41,505	1.4%	5,167	1.4%
5	48,294	1.6%	6,102	1.7%
6	52,898	1.8%	6,561	1.8%
7	55,407	1.9%	6,741	1.9%
8	56,360	1.9%	6,808	1.9%
Current Housing Stock	2,931,841		362,809	

Note: We assume that infill conversion is by-right and regulations short and simple. Then, we estimate that 2% of single-family detached homes built before 1980 with a land share greater than 60% will be converted each year. This assumption is based on a various case studies. (For more, please see our methodology tab.) These conversions will continue for the next 30-40 years or until the economics change.

Source: AEI Housing Center and 2017-2021 5-year ACS Survey

How to take advantage of this supply opportunity?

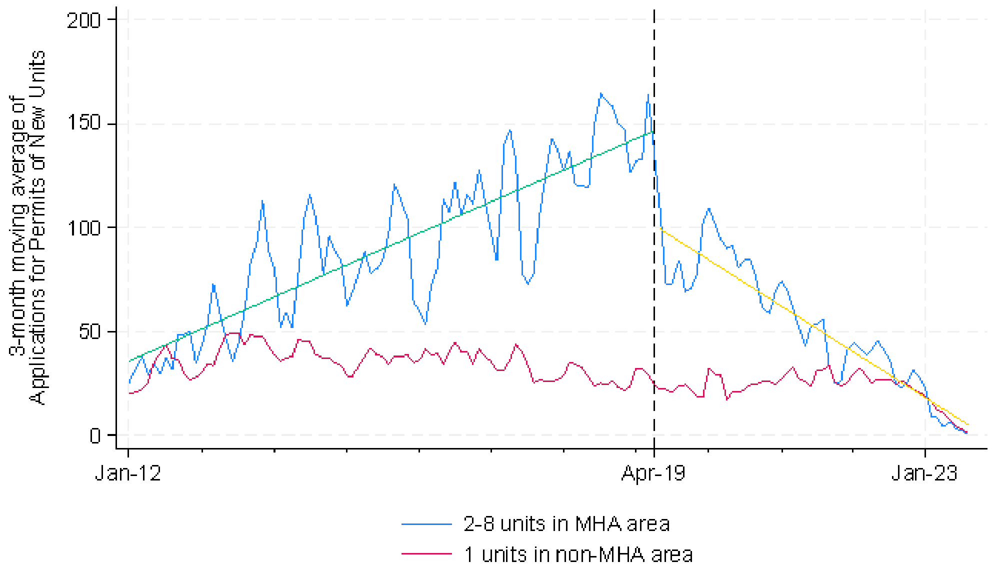
a) *Seattle needs to eliminate the Mandatory Housing Affordability (MHA) program – at least for townhomes and other small residential structures.*

In 2019, Seattle passed the MHA program with the goal of creating thousands of new subsidized housing units made affordable through fees on development, while also boosting housing production overall. It is on track to destroy Seattle's progress.

Builders have a choice between designating a certain number of units as income-restricted or paying a hefty fee. "Based on a 2021 survey of [builder trade group members in the area], the average MHA fee per townhome unit is $32,743, or $130,972 for an average four-unit project. This fee roughly doubles townhome predevelopment costs."

Consequently, new permits for townhomes have dropped precipitously, while they have remained about unchanged for the control group. Many of the far-ranging consequences are summarized in an excellent report "The Decline of Seattle Townhomes Under MHA."

The below chart documents the decline in townhome permits in Seattle that started with the implementation of MHA in April 2019. The decline had little to do with the pandemic as permits for single family homes in the non-MHA area (control group) showed no decline until late 2022, when rates rose sharply.



Source: City of Seattle, HUD, and AEI Housing Center, www.AEI.org/housing.

b) Seattle needs to allow for a greater floor area ratio (FAR) than 90%.

The current comp plan sets the FAR limit at 90%. This is not enough. The roughly 20,000 townhomes in Seattle that were built over the last 20 years have a median FAR of 130%. None of these would be possible with a 90% FAR. Seattle needs to allow at least 140% FAR, but 200% would be even better.

c) Seattle needs to make the building of these homes by-right and keep the regulations short and simple.

As pointed out above, most – if not all – of the townhomes were built by small-scale builders. Once the city introduced complexity, they stopped building.

When cities have implemented by-right zoning with regulations following the KISS (Keep It Short and Simple) principle, the market has built a ton of new housing. The AEI Housing Center has documented many such instances. For a list of them, see here: https://www.aei.org/housing-supply-case-studies/.

Other steps that would be helpful:

- Reduce set-back requirements.
- Expand the residential building code from 2 to 4 or 6 units, which would lower the cost of building such new housing.

Steps that would be hurtful and operate as poison pills:

- Outsized parking or other requirements that increase construction costs or de facto prevent building more housing entirely.
- Income limits, affordable housing fees, & mandates.
- Rental bans or rent control.
- High minimum lot sizes.

- Overly stringent energy standards.
- Anything not required for single-family homes.

Seattle over the years has already experimented with many reforms, that have made homebuilder easier. Reforms have included:

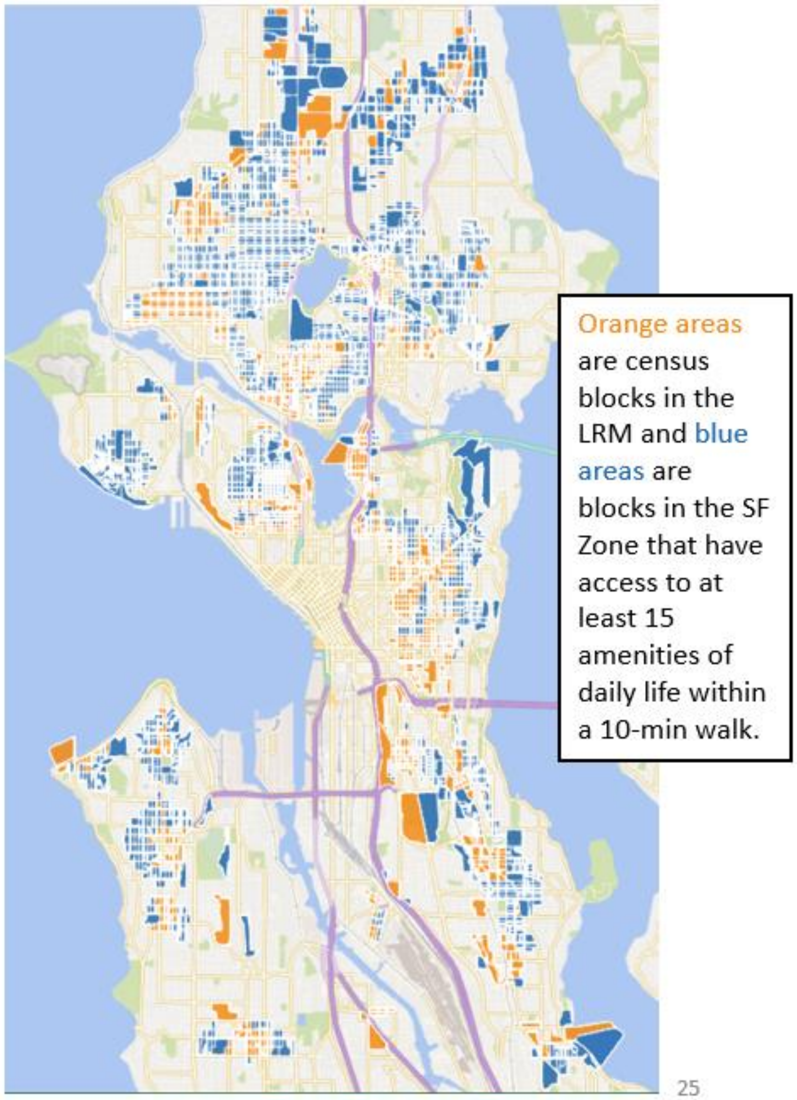
- 2006 and 2012: reduced parking requirements
- 2009: allowed micro-housing
- 2010: reduces zoning categories from 5 to 3, increased FAR, reduced parking req.
- 2010: allowed one detached ADU up to 800 sq. ft.
- 2019: allowed up to 2 ADUs per lot
- 2020: eliminated design reviews for some multifamily buildings for about 1 year

d) Seattle should upzone more areas for higher density.

- **Seattle should designate more Neighborhood Centers and widen their reach from a 3-minute walk to a 10-minute walk (about ½ mile).**

The goal of the 1990s reform was to create “attractive urban living environments replete with parks, shops, and restaurants, and a convenient mass-transit system.” Many single-family (SF) zoned neighborhoods fit that bill today. The below map shows the various parts of the SF zone that are highly walkable (defined as being within a 10-minute walk of at least 15 amenities of daily life such as coffee shops, hardware stores, pharmacy or drug stores, restaurants or bars, or supermarkets). These areas could be designated as additional Neighborhood Centers.

Map: Census blocks that would be suitable for Neighborhood Centers due to their amenities



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- **Seattle should not downzone any areas.**

Compromising townhomes for ADUs is not the path forward. One example from 9715 4th Ave NW, Seattle, WA 98117 illustrates this. The original lot of about 12,000 sq. ft. was subdivided into two halves. On each half, a developer is building a detached home with 2 detached ADUs. While this has created a total of 6 housing units, the lot could have easily supported 8 or more townhomes (see before and after photo of the lot).

Before

After

Source: Google and AEI Housing Center, www.AEI.org/housing.

While the comp plan concludes that “Accessory dwelling unit (ADU) production increased fourfold between 2019 and 2022, demonstrating the demand that exists for smaller, lower-cost homes in high-opportunity neighborhoods, if we allow them to be built,” this is only part of the story. After the MHA was implemented, ADUs – rather than townhomes - became the more attractive option to builders. But this does not prove that the market wants ADUs, it rather proves that shortsighted market interventions have resulted in fewer housing options for the residents of Seattle.

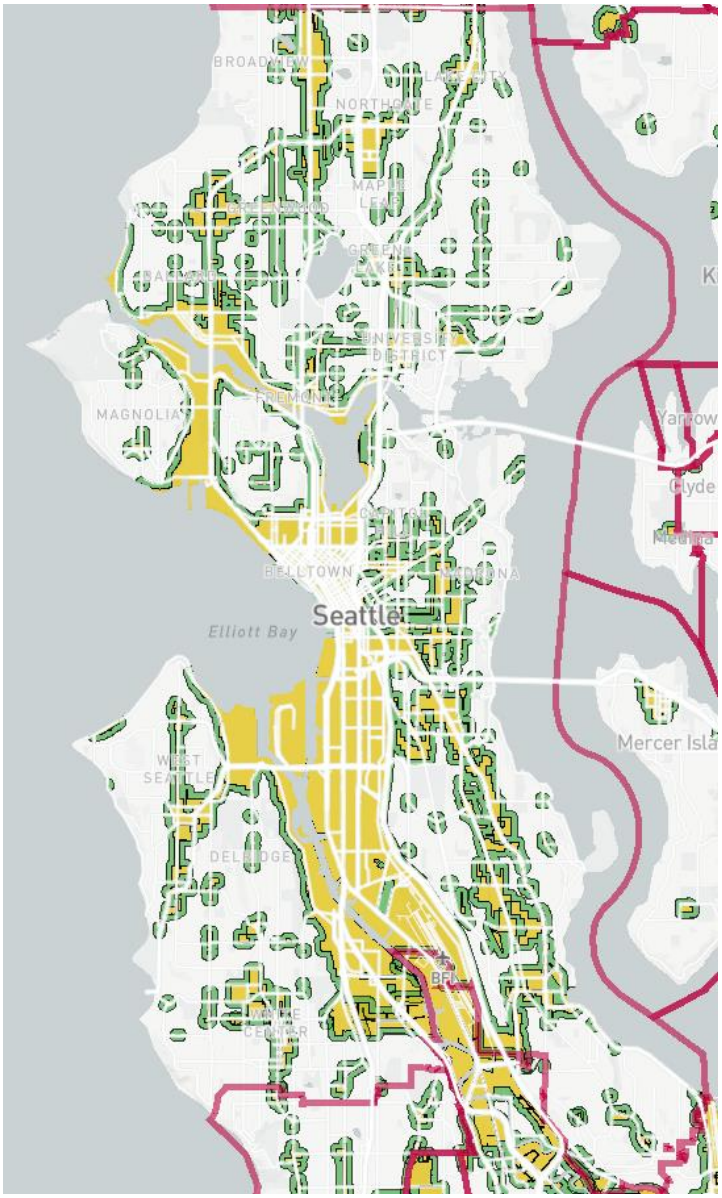
- **Seattle should broadly add residential use to commercial/industrial zones and allow low-rise multifamily (LRM) in a 1/8 mile buffer around these now mixed-use zones.**

Seattle should allow residential use to be ministerially approved in commercial, industrial, & mixed-use core areas (yellow areas). The height limit should be the highest building within a mile.

Seattle should allow LRM to be ministerially approved in adjacent areas within 1/8 mile of core areas (green). This would avoid McMansionization of these areas due to their proximity to the ensuing amenities.

This would create Live Local Urban Villages (LLUVs) that provide the opportunity to live and work in the same neighborhood, thereby reducing commute expenses and greenhouse gas emissions from travel. The new construction would also reduce energy costs and emissions over existing older homes.

Map: Live Local Urban Villages (LLUVs): Core (yellow) and adjacent (green) areas



3) Why enabling more townhomes will help Seattle achieve many of its goals set in the new Comp Plan.

Example #1, the Comp Plan calls for:

- SUPPORT WEALTH BUILDING The Plan promotes a range of strategies to help BIPOC community members develop generational wealth.
- H G6 Seattle offers a full range of housing types that provide opportunity and choice in all neighborhoods for people of various ages, races, ethnicities, cultural backgrounds, and abilities and for all household sizes, types, and incomes
- creating affordable options suited to families with children and larger households;

Townhomes are the ideal strategy to achieve these goals.

Around two-thirds of newly-built townhome units are owner-occupied, compared to less than 10% of newly built multi-family units in large buildings. They also offer attractive living options for families (2.1 bedrooms on average vs 0.8 bedrooms in newer and larger buildings. On a per bedroom basis, their rents are also more attractive to than units in newer and larger buildings.

	Structure Type					**Total**
	SF-Det	**SF-Att & 2-4**	**5-19**	**20-49**	**50+**	
Total Housing Stock	136,000	38,000	43,000	40,000	73,000	330,000
built 2000 - 2022						
# of Units	15,900	18,100	5,800	13,600	49,000	102,300
as % of Housing Stock	5%	5%	2%	4%	15%	31%
Homeownership Rate	85%	65%	25%	11%	9%	32%
Avg. # of Bedrooms	2.9	2.1	1.5	0.9	0.8	
Median Rent	$2,100	$2,000	$1,600	$1,600	$1,800	
per bedroom	$700	$1,000	$1,100	$1,800	$2,300	

Townhomes are also naturally affordable. Since larger parcels are divided into smaller lots, each home uses less land, helping reduce the cost of the house. The resulting structures on these lots are also smaller, further reducing the cost and making them more naturally affordable.

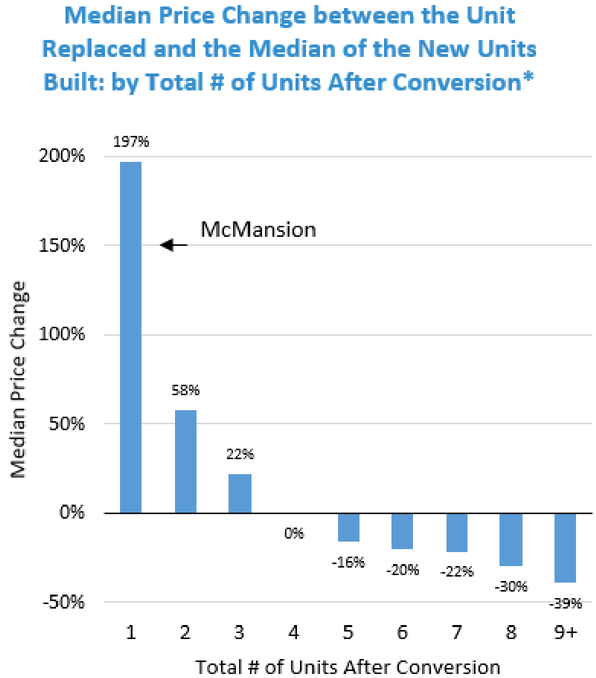
This has massive implications for affordability as data from actual housing conversions in Seattle show.[2]

If an existing single-family detached home is converted to:

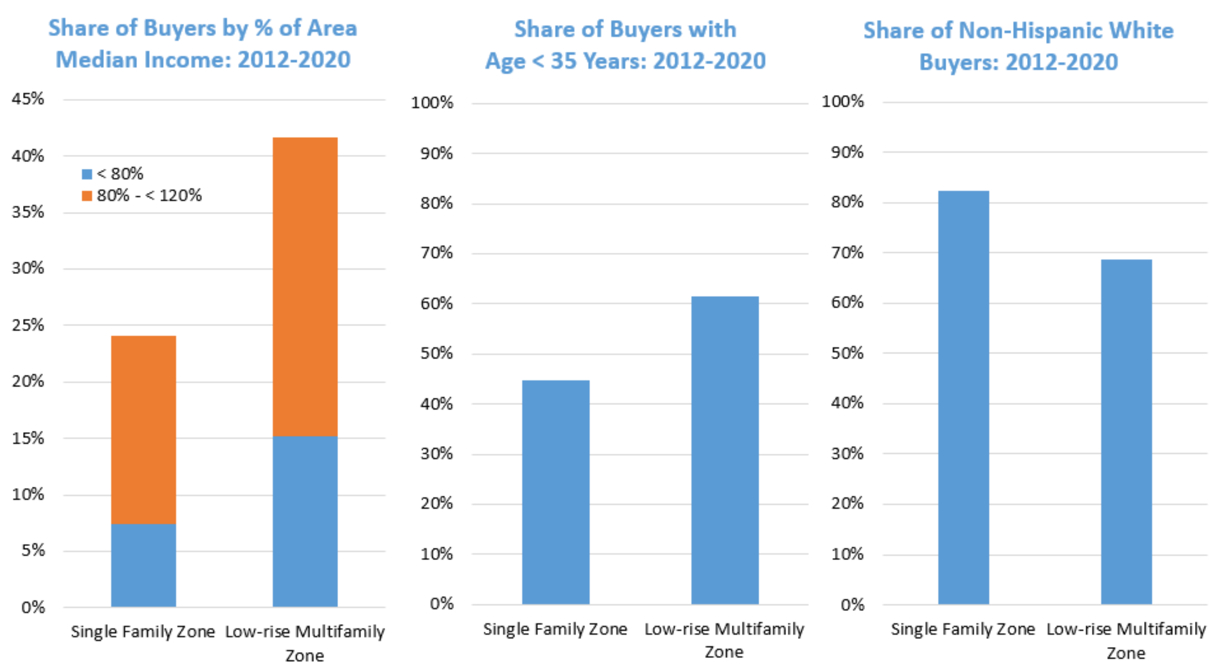
- A 1 unit structure, the new home will cost around 197% of the unit it replaced. This is a McMansion.
- A 4 unit structure, each of the 4 new units will sell at about the same price as unit they replaced. And the conversion adds 3 units.
- A 5 to 8 unit structure, each of the new units will sell about 25% below the value of the previous unit they replaced. And the conversion adds many additional units.

Displacement pressures rise as each McMansion replaces a much more moderately priced home. Converting to higher densities enables families of similar or even somewhat lower incomes to buy into the neighborhood, thereby promoting inclusion and filtering.

[2] For conversion properties in Seattle. A conversion is defined as the act of tearing down a an existing single-family detached structure and replacing it with a new structure of varying unit totals. Data pertain to over 3,000 conversions identified in Seattle, which resulted in about 12,000 new units from the mid-1990s onward.cv



Our work finds that Seattle's townhomes, due to their relatively moderate price points, enabled homeownership for a wider range of households across income levels, age ranges, and racial/ethnic backgrounds as shown by who purchased Seattle's townhomes.



Note: Data only for single-family detached homes and townhomes.
Source: AEI Housing Center, www.AEI.org/housing.

The conclusion is that townhomes have created a large amount of homeownership and wealth building opportunities for the BIPOC community – much more than single-family homes, rentals, or ADUs ever could.

While renter households face particular vulnerabilities due to their exposure to rent increases, homeowners with lower incomes and fewer resources also experience displacement pressure from the burden of property taxes and via predatory behaviors and speculation by investors and developers.

Example #2, the Comp Plan states:

- H 4.5 Remove zoning and building code barriers that prevent the development of comparatively lower-cost forms of housing, particularly in residential neighborhoods with a history of racial exclusion.

This should happen across the city and not just in certain parts of it. This would help spur more housing development, which helps tamp down unsustainable rates of home price and rent appreciation.

4) Why some of the goals discussed in the Seattle Comp Plan will not help Seattle achieve housing abundance.

For example, the Comp Plan states:

- In November 2023, Seattle residents voted to renew the Housing Levy at a record high of $970 million. Even with historic investments in affordable housing, Seattle is falling far short of being able to meet the full need for rental and ownership housing affordable to people with low incomes, especially renter households with incomes at or below 30% of AMI and buyer households with incomes at or below 80% of AMI.
- H 3.3 Create a more diverse and inclusive city by building and preserving income-restricted affordable housing in all Seattle neighborhoods

Seattle should instead embrace the power of filtering– the concept where older used goods are passed down the income ladder as newer and more technologically advanced goods become available – in generating attainable housing for all. After all, the best way for more attainable housing is to build more housing at the middle of the price range, rather than expand the affordable housing programs or to expand income-restricted housing.

The best way to illustrate this is to compare the housing market to a functioning market, like the car market. In this this market, we build:

- A few very expensive cars for upper income people,
- A lot of moderately priced cars for middle-income people, and No cars for lower income people.

In such a functioning market, no one proposes tax credit, subsidies, or restrictions for car manufacturers to build cars for lower income people. It is preposterous because of filtering. As middle-income people buy new cars, they sell their older, still serviceable cars to someone of lesser means, and so forth until everyone, including someone of low-income owns a serviceable, but not a new car.

The difference between the housing and car market is that car manufacturers are still able to build new cars at moderate price points allowing them to meet demand. Therefore, the root cause of housing unaffordability is government regulatory failure that has made land scarce and home building expensive. (For more, see the appendix “Primer on new housing supply and filtering down.”)

Example #3, the Comp Plan states:

- H 5.9 Provide financial, regulatory, and technical support for community-based developers working to help BIPOC homeowners and prospective homebuyers avoid displacement, achieve or retain homeownership, or return to their cultural communities.
- H 5.10 Pursue and support strategies like land banking and housing acquisition to increase affordable housing choices for renter households with incomes 60% AMI or less and buyer households with incomes 80% of AMI or less in areas with a high risk of displacement and in current and future station areas.
- H 5.2 Identify tools and resources to address financial, educational, and regulatory barriers facing homeowners with incomes 120% of AMI or less who seek to retain, redevelop, or add housing on their property, particularly barriers that disproportionately affect homeowners of color and within communities with a documented history of housing discrimination like redlining

Seattle should learn the lessons of its failed experiment with MHA (as described above). Attempts to micromanage the market will fail.

For homeowners, allowing by-right upzoning with the KISS principle changes little, after all, they don’t need to sell. But allowing these reforms gives them another avenue to reap the benefits from what they already own – or from being able to sell it to a developer. For renters, not building new housing will be worse as rents will continue to rise faster than their incomes leading to displacement pressures.

Example #4, the Comp Plan states:

- Analyze and seek to minimize the potential loss of low-cost housing units due to demolition, rehabilitation, or rent increases ahead of zoning and other land use policy changes.
- In addition to meeting the affordability needs of current and future residents, Seattle’s housing must also achieve several other critical goals related to safety, health, energy efficiency, and livability.

The recommendation is not to over-due it. New homes are much more energy efficient and safer than older ones. Infill construction avoids greenhouse gas emissions from sprawl. Adding too many new requirements will destroy home construction just like the MHA did.

Appendix:

1) AEI Housing Center Seattle Case Study – attached to this memo.

2) Primer on new housing supply and filtering down

Zoning and land use restrictions have driven up the cost of land and crippled supply. This inhibits filtering down, which is necessary to create naturally affordable housing.

Filtering works in four ways to keep housing abundant, prices naturally affordable, and displacement pressures low:

- Under normal circumstances, homes move down in quality and value as they age.
- On average, homebuyers have a lower income than sellers, up and down the chain. The gap is wider and the buyer's income relative to the area median income (AMI) is lower when there is more affordable supply.
- Relatively low-priced homes see the most price filtering at point of sale.
- As more supply is allowed to be built, home price appreciation rises at a rate more in line with wage growth, allowing more filtering to occur.

Thought experiment: Imagine car manufacturers could only legally build Ferraris. Filtering down would be limited as few new cars would be sold, existing car prices would skyrocket, and few could afford either new or used cars.

Zoning and land use restrictions drive up the price of land, which largely makes it only economically feasible to build expensive housing. This inhibits filtering down by yielding few new homes and allows for few move-ups from less expensive housing. High-end housing, subsidies, inclusionary zoning, and high-density transit zones add housing that is affordable only to a few or require substantial subsidies.

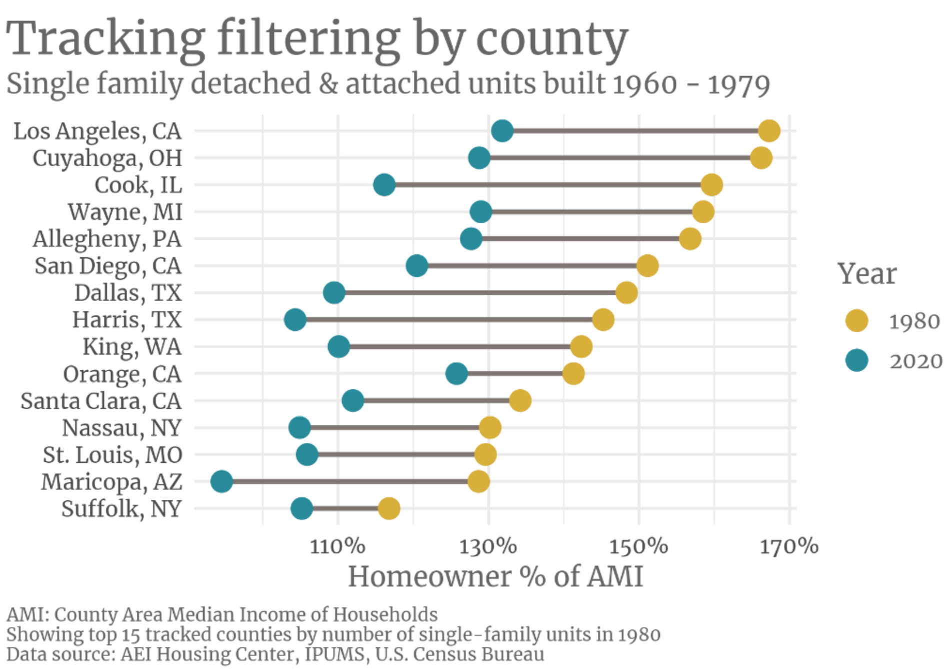
Adding lots of supply in the middle with townhomes or similar housing types reduces supply/demand imbalances and yields a greatly increased number of move-ups from less expensive housing—freeing up those units for filtering down to lower-income households. This market-oriented approach unleashes a swarm of private sector activity, especially by small and medium-sized participants, yielding a large increase of naturally affordable and inclusionary housing.

Benefits of townhomes and similar housing types

- adds a wider variety of structure types, with more owner and renter opportunities across a broader range of price points.
- More supply results in obsolete units being upgraded or demolished
- Reduced housing cost burdens on low-income renters and buyers
- Offers many more ownership opportunities, helps close the socio-economic status wealth gap, and reduces homelessness

Observing filtering down: under normal circumstances, homes move down in quality and value as they age

- For 100 counties, we compare the income of households residing in single-family attached and detached homes built from 1960 through 1979. We calculate the income relative to the county median income both in 1980 and 2020.
- Since most of these homes are still in existence today, this allows us to track filtering down over time.
- The graphic below for the 15 largest counties (by 1980 single-family units), all saw some filtering down (the other 85 counties had similar results).
- Homes that were more affordable in 1980 continued to be more broadly affordable in 2020.
- We believe that the opportunity for filtering down is negatively affected by a shift in new construction activity to higher-priced upscale single-family detached homes in many metros.
- High priced housing is driven by high land costs & land share, driving down filtering as land does not depreciate.



Our best hope for more affordable housing is to build more housing at the middle of the price range, rather than expand the LIHTC program.

Assume a simplified model of the housing market with three groups of people: upper, middle, and lower income people. Building new houses at low price points is impossible without subsidies. Building new houses at moderate price points is difficult because regulations at all levels of government have made building expensive. That only leaves developers the option to build houses at high price points with few buyers that can afford these homes.

As a result, the market builds:

- A few very expensive houses for upper income people,
- Hardly any moderately priced houses for middle income people, and

- A few houses for lower income people. These houses are expensive to build but they are made affordable through LIHTC subsidies and the use of housing vouchers.

Overall, the market builds too few homes and over time, a housing shortage develops.

Before concluding, however, that we need to spend more money on "affordable" housing, let's first consider another version of a simplified, yet functioning market: the car market. Just like new and existing homes, there are new and used cars. Some people own cars or homes, others lease or rent them.

In this market, the impact of regulations on car manufacturing is more limited (although with EV mandates that is certainly changing). Cars, unlike houses, are generally affordable to broad swaths of people.

In this functioning car market, we build:

- A few very expensive cars for upper income people,
- A lot of moderately priced cars for middle-income people, and No cars for lower income people.

In such a functioning market, no one would propose a tax credit for car manufacturers to build cars for lower income people. It is preposterous because of filtering – the concept where older used goods are passed down the income ladder as newer and more technologically advanced goods become available.

With cars, as middle-income people buy new cars, they sell their older, still serviceable cars to someone of lesser means, and so forth until everyone, including someone of low-income owns a serviceable, but not a new car.

The difference between the housing and car market is that car manufacturers are still able to build new cars at moderate price points allowing them to meet demand. Therefore, the root cause of housing unaffordability is government regulatory failure that has made land scarce and home building expensive.