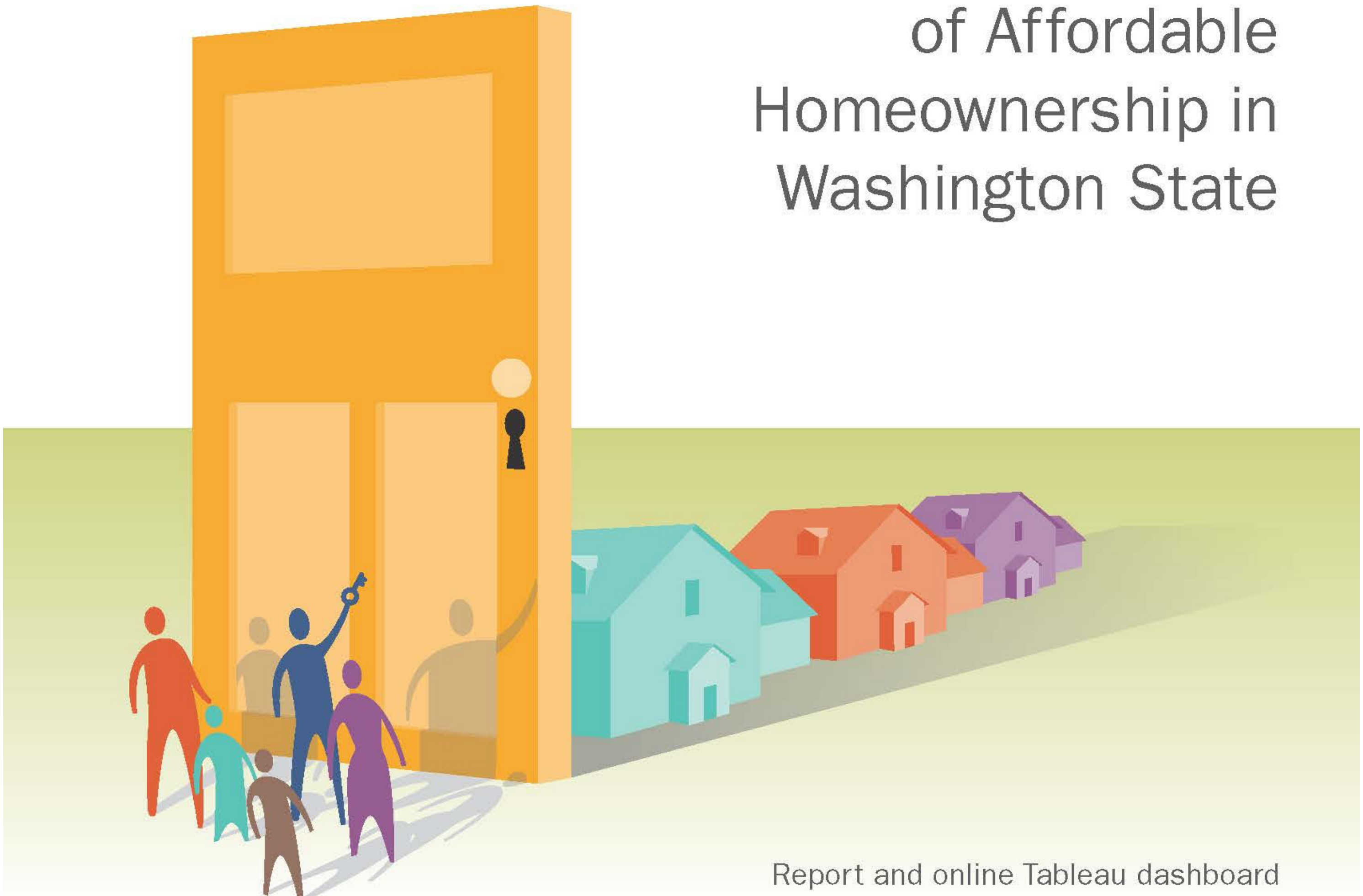
CLOSED DOORS:

The Crisis of Supply of Affordable Homeownership in Washington State



Report and online Tableau dashboard that examine prices, inventory and the crisis' disproportionate impact on homeownership opportunities for Black, Indigenous and People of Color Households

HOMESTEAD
Community Land Trust

2022

Closed Doors:

The Crisis of Supply of Affordable Homeownership in Washington State

This report and the Affordable Homeownership Tableau resource were created by a Task Force of Homestead Community Land Trust staff, board and committee members:

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Executive Summary

The single biggest barrier to increasing homeownership rates for lower- and middle-income community members, especially Black, Indigenous and People of Color (BIPOC) households, in our region is a critical lack of supply of income-appropriate priced homes. Efforts to provide down payment assistance, buyer readiness and other supports fall short of achieving net new homeowners when there are simply no homes that are priced for lower-income households. Although King County, with its influx of high-wage tech employees, grabs the headlines for housing unaffordability and displacement, the issue of affordable home supply is a state-wide problem. Significant mobilization of policy, legislation and investments – public and private – is needed to achieve regional and state-wide goals for increasing homeownership opportunities for lower- income households. Another policy goal that would be fulfilled by increasing home supply through permanently affordable homeownership will be prevention of displacement occurring throughout the state.

The following document describes the crisis of affordable housing supply for homeownership and provides access to an analytical dashboard that demonstrates the crisis in specific areas throughout Washington State. After explaining how publicly funded homeownership organizations determine income qualifications and defining the term “affordable,” this publication will further summarize the need in King County specifically and demonstrate through representative data that this is a statewide issue. We will point out the gap between what is available and affordable for both median income households as well as lower- and middle-income households – a home price difference commonly of $300,000 or more. We will go on to describe how this crisis of limited supply disproportionately impacts BIPOC households and maintains the historic exclusion of these households from homeownership opportunities. We will provide a variety of policy and resource recommendations to increase the supply of affordable for-sale homes.

Throughout the report we used the term low-income to refer to households that make 50 to 80% area median income. King County’s housing finance policies refer to this segment as moderate-income. The term “middle income” is used later in the report to encompass 50 to 120% area median income. The crisis of supply of homes affordable to these incomes is sometimes referred to as “missing middle” housing. Although some of our affordable homeownership colleagues in other areas seek to serve up to 120% area median income, the focus of this report is on households whose income is between 50 and 80% area median income.

Expanding Homeownership Requires Increasing the Supply of Income-Appropriate Homes

Effective methods that allow lower- and middle-income households to build wealth and prevent displacement through homeownership include those that keep existing homeowners in their homes as well as those that increase the number of new first-time homebuyers[1]. While keeping current homeowners in their homes is of critical importance, this report examines the role of housing supply – notably the lack of income-appropriate priced for-sale homes for lower and middle-income households – that limits access for first-time homebuyers and contributes to racial inequities in homeownership.

The brisk pace of home sales in our state[2] during the COVID-19 pandemic hides an inconvenient truth. Median home prices by county are often two times the amount that is affordable to middle-income households. In King County the median income household cannot afford the median price home – in fact the gap is an average of $250,000. Private housing development has not kept pace with population growth. Washington State has one of the lowest number of housing units per household across all income levels of any state. Few of the new homes built since 2011 have been priced within the reach of modest income households[3]. 44% of eligible households in Washington State whose income qualifies for affordable homeownership (at or below 80% of Area Median Income) are currently cost-burdened renters[4]. Many could qualify for a mortgage and purchase a home but are not able to do so for lack of affordable homes available to buy. Typically, homes farther away from job centers were more affordable. Today, this is no longer the case and buyers can no longer "drive 'til they qualify". In many cases, purchase of an affordable home would lower the household's overall housing costs.

Homestead's Homeownership Supply Data Analysis Task Force has created an interactive data Tableau dashboard from the following sources:

- Household Income: American Community Survey (ACS), Missouri Census Data Center (MCDC)
- Low Income Households: ACS, MCDC, FFIEC Census Report
- Affordable Homes: ACS 2019, MCDC, FFIEC Census Report, Redfin Analysis of MLS Listings (March to June 2021)

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[1] Enabling current homeowners to remain in their homes by addressing the financial, health and safety issues that might threaten their ownership is a critically important issue addressed capably by our partners - including the Washington Homeownership Resource Center, Rebuilding Together and Habitat for Humanity affiliates - that provide foreclosure prevention and owner-occupied repair services, as well as numerous city- and county-sponsored programs that provide for home repair and energy efficiency upgrades.

[2] https://www.redfin.com/state/Washington/housing-market

[3] Homestead "Closed Doors" data

[4] Office of Financial Management, Washington State

These data document the crisis of supply in King County, where we work. Snapshots of representative areas outside King County demonstrate the inventory crisis across the state of Washington. It is our hope that this dashboard will be useful to leaders and advocates in localities statewide to determine the extent of need to produce more affordable homeownership in their area, and that they will use this information to advocate for and create policies and resources to increase housing supply.

What is Affordable to Whom?

Housing professionals from different sectors have varying methods for determining what is affordable[5]. This analysis is based on standards common in publicly funded homeownership programs, particularly those Homestead uses in our own program.

Affordable homeownership programs funded by Washington State use the standard indicated by the Washington State Department of Commerce's Housing Trust Fund's handbook, Section: 701.7:

> *"In the context of homeownership, affordability occurs when a household's monthly housing costs are generally no more than 38% of monthly household income and total debt is no more than 45% of monthly household income. Housing costs include mortgage principal, interest, property taxes, homeowner insurance, homeowner association fees, and land lease fees, as applicable. Total debt includes other debt and utilities[6]. "*

The industry measurement tool for maximum eligible household income is a set of limits calculated and published each year by the United States Department of Housing and Urban Development (HUD). These limits use the term Area Median Income (AMI) to determine eligibility for different types of housing programs. The AMI is the midpoint of a region's income distribution – half of families in a region earn more than the median and half earn less than the median. These are broken down at the county level and by metropolitan area. Income limits increase with each additional household member. Extremely low-income households find housing by doubling up with family and friends, accessing housing vouchers or living in supportive rental housing. A small number live in shelters. 30% to 50% AMI households are typically candidates for subsidized rental housing in places where such rentals exist. Households with incomes between 50% to 80% AMI are considered candidates for income-appropriate priced homeownership opportunities.

	Income Level	3 Person Household Income	Affordable Home Prices
Very Low Income	30 to 50% AMI	$31,561 to $50,900	$119,956 $219,052
Low Income	50 to 80% AMI	$51,924 to $81,450	$224,268 $378,020
	80 to 100% AMI	$82,468 to $113,125	$383,236 $482,332
	100 to 120% AMI	$102,830 to $122,175	$487,540 $584,144

Figure 1 Source: HUD Income Limits; Homestead Analysis

As an example, Figure 1 shows the range of incomes based on

[5] For many years the industry standard of 'affordable' was no more than 30% of a household's monthly income used for housing costs. That affordability threshold has increased slowly, for practical reasons, which in effect leaves low- and moderate-income households with less of their monthly paycheck for other necessary expenses like childcare, transportation, food and medical expenses.

[6] Although this part of the handbook was created in concert with homeownership stakeholders across the state, it is not necessarily a best practice.

HUD-defined income categories for 2021 in King

County for a household of three persons and the price of a home that would be affordable[7] under the definition above. [8]

Given that the median home price in King County today is $798,135, the table demonstrates that for-sale homes are out of reach for even those who make above median income. The gap between the median priced home and what is affordable to a household making less than 80% AMI is over $400,000.

Income limits are set by HUD according to statistical areas that can encompass whole counties. Within each statistical area, however, actual incomes vary widely. For example, the 70% AMI limit for King County as a whole, equates to approximately $71,000 for a 3-person household and $79,000 for a four-person household. However, a household of three in White Center that makes 70% of *local* median income would have an income of $42,000. By contrast, a household of three on Mercer Island with 70% local median income would make $104,000. Thus homes that appear to be affordable to a household making 70% of median income may still be too expensive for the historic residents of an area where local incomes are lower than in other parts of the same statistical area.

King County's Affordable Housing Task Force's 2017 presentation "Understanding the Need," reported that households with incomes between 50% and 80% AMI represented 17% of total households in the county (151,900 households). State data for housing cost

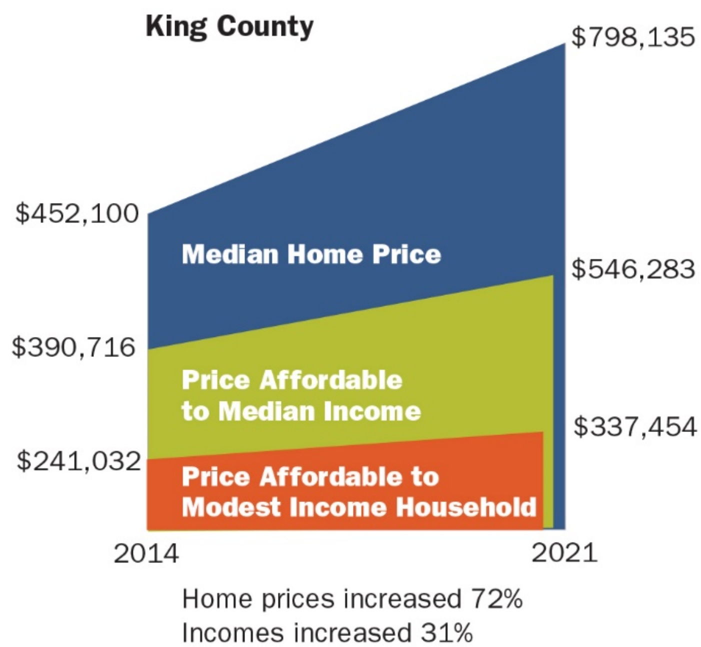


Figure 2 Sources: HUD Income limits; Zillow

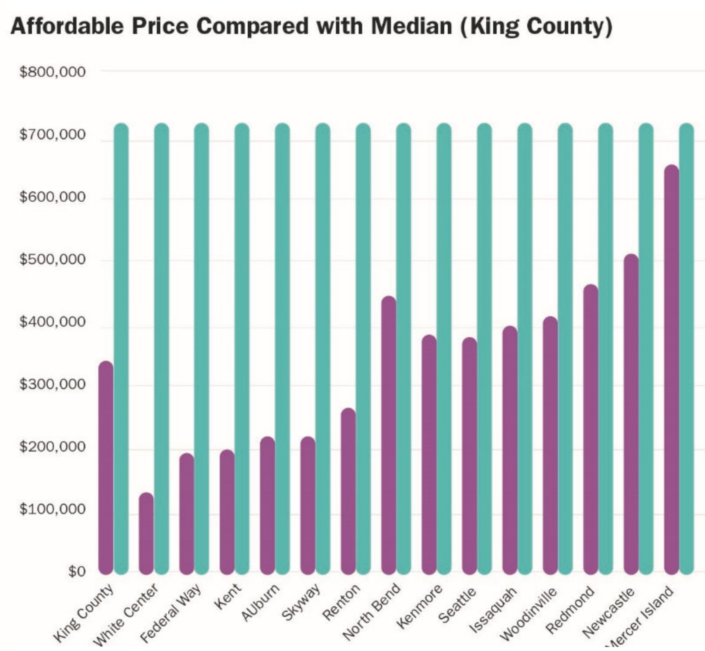


Figure 3 Sources: HUD Income, World Population Overview, Homestead Analysis

[7] Assumes 5% interest rate, 1% down payment. Home prices up to 80% AMI include a reduced property tax rate.
[8] HUD Income Limits have been used to extrapolate 80 to 100%, 100 to 120% and 120%+ income categories.

burden indicated that 44% of these households were cost-burdened or extremely cost-burdened by their housing (67,000 for all cost burdened households).

Since 2017, the number of households in the 50 to 80% AMI category in King County has grown to 156,989, an increase of 3.4%, resulting in a need for 69,078 affordable homes for this income category alone.

Figure 4 compares the median price of a home In King County in 2020 with the price that would be affordable to a 3-person household making 70% AMI (Local median income from World Population Overview[9]).

All across the state, typical home prices are multiple hundreds of thousands of dollars higher than lower-income households can afford. Using the same 2020 data for a 3-person household making 70% AMI, the chart at right represents data from a selection of cities in different parts of the state, suggesting that the mismatch between what is affordable versus what is available is widespread.

Figure 4 Sources: Runstad Center, HUD Income Limits, Homestead Analysis

Median Income and Income by Race

Just as income rates vary by towns and cities across statistical areas with only one official HUD income standard, so do they vary by race and ethnicity. The race or ethnicity of lower income groups varies by geography, but with very few exceptions, BIPOC residents are more highly represented in lower-income categories than white populations. Additional information about income and race by geographic area is available at the Tableau dashboard.

% Population with Income Below $99K

Area	White	Black or Latinx
King County	49%	77% (Black)
Skyway	59%	77% (Black)
Kent	63%	85% (Black)
Longview	85%	94% (Black)
Olympia	71%	95% (Black)
Wenatchee	75%	92% (Latinx)
Richland	58%	79% (Latinx)

Figure 5 Sources: ACS, MCDC, FFIEC Census Report

[9] World Population Overview https://worldpopulationreview.com/about

Figure 5 is drawn from the same data that populates the Tableau dashboard. With new home construction creating homes affordable to higher-income households, residents in many areas are shut out of ownership for lack of income-appropriate homes to purchase. With generally lower-incomes than white residents, BIPOC households are at even greater disadvantage when attempting to purchase a home.

Systemic affects that result in lower incomes for BIPOC households mean even fewer for-sale homes are within their reach compared with their white counterparts. With homeownership, a key driver of wealth creation, lack of access to homeownership is a primary contributor to the racial wealth gap[10].

[10] https://www.demos.org/research/racial-wealth-gap-why-policy-matters

Limited Supply of Income-Appropriate Homes

One way to demonstrate the scarcity of income-appropriate homes is to conduct a simple search using a real estate listings web portal. Search in King County for a three-bedroom home, priced $325,000 with no more than $300 per month for HOA dues or other fees. At the time of this writing, a similar search produced a total of 20 homes for the entire county, of which 13 were a "build on your own land" listings… meaning the land was not included in the price. This leaves seven total homes, for a potential market demand of 34,893 households.

Using information about the number of homes available over a four-month period (March to June 2021) from Redfin, Figure 6 replicates this same type of search for all of King County, cities within King County, and select cities across Washington State. This analysis shows limited supply homes affordable to the 70% AMI household within each geographic area.

	Buyers for Each Affordable Home	Owner Potential	Available Homes
Wenatchee	322	1,287	4
Seattle	623	34,893	56
Olympia	179	2,510	14
Longview	124	1,606	13
King County	113	77,813	688
Tacoma	280	9,228	33
Everett	56	5,109	92
Renton	74	4,561	62
Spokane	60	8,726	145
Auburn	51	2,739	54
Richland	No homes	1,603	0
Mercer Island	No homes	566	0
Redmond	No homes	2,100	0
Yakima	No homes	3,823	0

Figure 6 Sources ACS, MCDC, FFIEC Census Report, Redfin, MLS

To create the chart, we determined owner potential as all renting households between 50% and 80% AMI and divided that number by the number of homes that were listed over the above referenced four-month period in 2021 to get the potential number of buyers for each affordable home. Although we don't question the accuracy of Redfin's data, routine manual searches never yield as many homes at the right price point for lower-income buyers in King County. We consider the number of buyers per home, therefore, to be a conservative estimate. It should also be noted that these statistics per community reflect only the buyer potential already living in each area, and does not account for potential buyers living in adjacent unincorporated areas in order to find "naturally occurring" affordable housing.

Regardless of the assumptions used, there are clearly far more 50 to 80% AMI households with the potential to become owners than there are affordable homes for sale.

Underinvestment in Affordable Homeownership

Numerous studies document the lack of development of homes affordable to middle-income households[11]. In the face of an overwhelming homelessness crisis, advocates and policy makers have prioritized funding for housing and services that address shelter and subsidized rentals for the lowest income households. These are very important investments; ***we – in no way – are arguing to decrease funding to the lowest income households***, but to increase resources to account for the whole spectrum of incomes who are cost-burdened by their housing. While safe, healthy and affordable rental housing is vital, homeownership is unique in providing opportunities for wealth creation and creating long-term stability for households and neighborhoods, especially those at-risk of displacement due to gentrification. King County and the City of Seattle are examples of rare jurisdictions that have a local funding source for homeownership; many cities and counties throughout the state have none. As lawmakers have enacted new revenue sources or tools to address the housing crisis across the state, virtually all have restricted the uses to housing for those who make 60% or less of area median income - limiting the resources within local jurisdictions for this important part of the housing continuum.

Historically, the City of Seattle, King County and the State of Washington have spent less than 5% of housing investments on affordable homeownership and virtually all new housing investments made in recent years are in affordable rental housing. Underinvestment in homeownership contributes to the crisis that middle-income households now face and creates additional pressure on both subsidized and market-rate rental inventory from the demand of households who could otherwise be homeowners.

City of Seattle Annual Funding Plan, 2017-2023

Program	Annual Funding
Rental Production and Preservation	$28,714,285
Operating & Maintenance	$6,000,000
Homelessness Prevention and Housing Stability Services	$1,642,857
Homeownership	$1,357,143
Acquisition and Preservation	NA
Administration	$3,714,286
Total	**$41,428,569**

3.2% Spent on Homeownership

Figure 7 Source: City of Seattle A&F Plan

Instead of investing public funds to increase production of income-appropriate homeownership, policy makers have sought market-based solutions to reduce costs of development through reduced impact fees, increased zoning measures and other incentives. Yet in the last 10 years, most new homes built across the state and in King County have not been affordable to people who make less than 80% AMI. And the overall pace of production of housing is not keeping up with population growth, increasing pressures on price. Reducing costs for developers to produce for-sale housing does not necessarily translate to lower priced homes for lower and middle-income buyers.

[11] Challenge Seattle, Up for Growth, Our Valley, Our Future to name a few.

At the same time, increased labor costs and COVID-related material cost increases, without corresponding increases in public investment, have slowed the pace of nonprofit affordable homeownership developers. The cost of development for a single-family home in King County currently ranges from $475,000 to $550,000, costs which exceed affordable prices by $200,000 or more. City of Seattle funding limits in recent years have increased to take this into account. However, County and State contributions per home -- when they are available -- fail to close the gap. Bank community reinvestment act or private philanthropic investments are not sufficient on a per home or per project basis to allow homeownership to be developed "at scale." Development of homeownership at income appropriate prices requires layering of multiple sources to fill the gap. Lack of funds availability from one or more of key sources delays individual projects until funding returns. Lack of funding in sufficient amounts or consistently over time is a major barrier to scaling the development of new affordable homes.

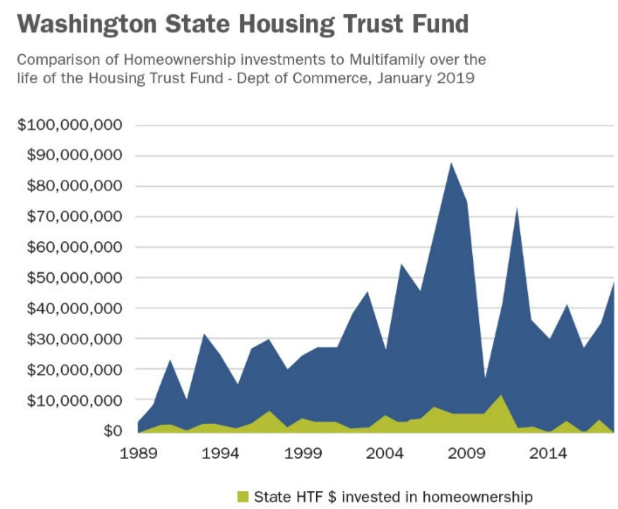


Figure 8 Source: Washington Affordable Homeownership Coalition Analysis

Although stacked-flat condominium development sometimes allows ownership housing to be developed at a lower price point, costs to build still exceed income-appropriate prices in many areas. Many cities discourage such developments entirely; others restrict their construction to limited areas.

Implications for Key Stakeholders

The crisis of supply of affordable-for-sale homes impacts middle-income households but also has implications for employers, affordable housing advocates and municipal leaders:

<u>Implications for Employers:</u> Employers experience difficulty in attracting and retaining employees when middle-income employees like teachers, health care workers and others can't afford to purchase homes.

<u>Implications for Other Forms of Affordable Housing and the low-income residents they serve:</u> Lack of supply of homes affordable to middle-income households' results "down renting," in which a household able to own an affordable for-sale home remains in subsidized or naturally occurring affordable rental housing. This limits access by lower income households to affordable rental housing because, in many locations, the difference between subsidized or affordable rental and market rate homeownership is a chasm too broad to cross.

<u>Implications for Cities:</u> In the absence of a change in approach, homeownership will increasingly be reserved for the wealthier and higher-income segments of our society. Moderate-income, working-class households that aspire to homeownership will be forced to move outside of city centers and, in some communities, outside of suburban cities. People whose livelihoods depend on jobs in those

city centers or suburban cities will be required to endure longer, more expensive commutes - reducing their standard of living and an increasing transportation related environmental impacts.

Displacement and Impacts Outside Population Centers

Since 2017, increased attention has focused on the issue of displacement and the forced relocation of lower-income people, in particular BIPOC households, out of population centers like Seattle into surrounding suburban cities, which lack resources to increase housing proportionately. Displacement can be both ***individual*** -- as when rising property taxes or loss of neighbors, trusted businesses and social connections push people out - and ***economic*** -- such as when all new housing developed in a community or neighborhood is unaffordable to an income class of residents who have previously lived there.

One of the most egregious examples of displacement occurred in Seattle's Central District. Historically, redlining and restrictive covenants concentrated BIPOC households into the Central District, where they created a vibrant village, financial systems, arts and cultural assets. But since the 1970s, a 73% majority Black population has been displaced to other suburban areas such as Skyway, Kent and Auburn. Indeed, these suburban areas have the greatest availability of income-appropriate homes for sale in King County, while Seattle has among the least availability of any area. The Central District's Black population is now 18%[12].

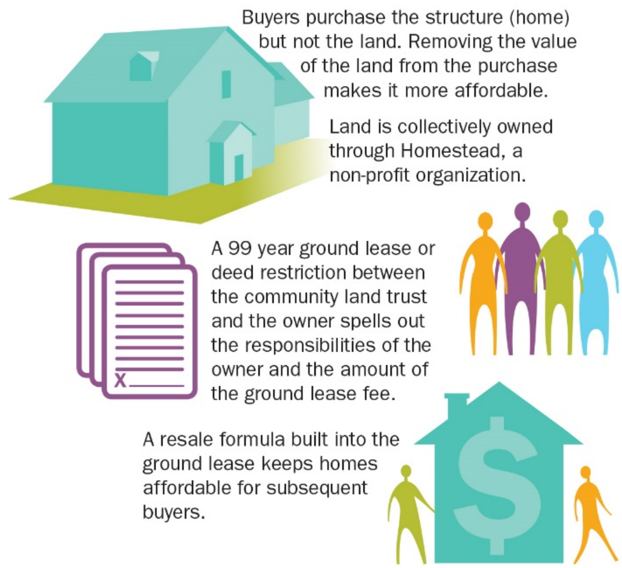
Although "naturally occurring" affordable homeownership gives Black households in some suburban areas higher homeownership rates than Seattle, continued displacement of residents from Seattle combined with limited capital sources and limited access to county and state funds for affordable homeownership means a growing supply crisis in these areas too.

[12] Seattle Times, Census Bureau 2020, https://www.seattletimes.com/seattle-news/central-districts-shrinking-black-community-wonders-whats-next/

What Is Permanently Affordable Homeownership?

Permanently affordable homeownership is an approach that makes the initial price of a home affordable to lower- and middle-income buyers, controls future price increases through agreements with those buyers, and provides long-term stewardship of homes so that they remain affordable over multiple sales.

Community Land Trusts created permanently affordable homeownership, a model now used by other organizations as well. In this model homes are subsidized before entering the trust, which occurs at the time of sale to an income-qualified buyer. The title of the land beneath the home is separated from the improvements on the land (the home), which is purchased by the buyer with a traditional 30-year fixed rate mortgage. The buyer leases the land from the trust for a small monthly fee. The buyer also agrees to resale restrictions so that the price of the home remains affordable to future buyers. These resale restrictions allow the household to accrue equity and build wealth, while allowing owners the opportunity to "pay forward" the first-time home buying opportunity, by selling at an affordable price to the next income-eligible buyer.



Permanently affordable condominium homes do not always involve placing land in trust; the resale restrictions are included in a deed covenant that has the same provisions as the ground lease.

Permanently affordable homeownership was created by the Black Civil Rights Era leaders who founded the first community land trust[13] in 1969. This method of balancing wealth creation and ongoing affordability has since been adopted by many Habitat for Humanity affiliates throughout the country, including several in Washington State. .

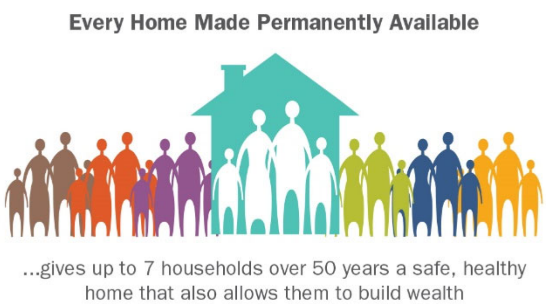
Benefits of permanently affordable homeownership include:

- Opportunities to build household wealth. Even with resale restrictions the average cash gained at closing for those owning their home between 5 to 10 years is $65,000.
- Permanently affordable homes create up to seven first-time home buying opportunities over a 50-year period (based on an average homeownership term of seven years per household).
- Initial investments to subsidize the prices of homes at initial sale increase in value (toward securing the affordability of homes) at a greater rate than funds repaid from down payment assistance.

[13] The first community land trust was created by Civil Rights era leaders Charles and Shirley Sherrod, the late Rep. John Lewis and Slater King, a cousin of Martin Luther King Jr. For more information https://www.newcommunitiesinc.com/.

- Permanently affordable homeownership gives affordability a "permanent address" in communities and as a result is a key strategy against displacement.

The public's investment in permanently affordable homeownership is a more cost-efficient use of capital than funds invested in down payment assistance. In a recent analysis of a representative Homestead home, funds invested to create permanent affordability in 2013 had increased in value more than 500%. Had the Homestead home been purchased with a down payment assistance loan in 2013 for the same $62,000 that Homestead used to create a permanent subsidy, it would cost over $400,000 in down payment assistance to bring that same home back into affordable homeownership if it were sold today.



State of Washington Definition

As defined in the Revised Code of Washington (RCW 84.14.021) permanently affordable homeownership is:

(1) Sponsored by a non- profit organization or government entity;

(2) Subject to a ground lease or deed restriction that includes:

A. A resale restriction designed to provide affordability for future low- and moderate-income homebuyers,

B. A right of first refusal for the sponsor organization to purchase the home at resale, and

C. A requirement that the sponsor must approve any refinancing, including home equity lines of credit.

(3) And the sponsor organization:

A. Executes a new ground lease or deed restriction with a duration of at least 99 years at the initial sale and with each successive sale; and

B. Supports homeowners and enforces the ground lease or deed restriction.

Policy and Resource Recommendations

Housing funding should not be a zero-sum game. Calls to invest in income-appropriate homeownership ***are not challenges to the current funding for shelter and subsidized rental housing***. Rather, they are a call to identify new funding sources that can address a neglected dimension of the affordable housing crisis and provide a continuum of housing opportunities for low- and moderate-income households.

Public investments in affordable housing are made either as loans (repaid with interest) or grants (not repaid). Public investments to create affordable homeownership require grants, whereas loans are used to develop affordable rental housing using the LIHTC (Low Income Housing Tax Credit) model.

Whereas in rental housing, large investors lend money in order to receive low-income housing tax credits (LIHTC), in affordable homeownership, the homeowner is the primary investor. The homeowner's mortgage is patient capital, accruing 3-5% interest, and when its term is up, it usually does not need to be recapitalized. This investment, which represents 40% to 50% of the total cost to build a new affordable for-sale home in King County, is a significant source of leverage for addressing the affordable housing crisis. When combined with public funding that requires permanent affordability, public investments in affordable homeownership become a highly efficient means to house 50 to 80% AMI households while giving them a path out of rental dependence and a way to build assets. At the same time, living in an owned home creates economic mobility for both owners and their children.

We offer the following recommendations for policy and resource generation needed to create more affordable homeownership opportunities for middle-income households:

- Public policy makers and corporate philanthropy should examine the "business case" for increasing income-appropriate for-sale homes as a means to attract and retain teachers, health care workers or technicians, first-responders and other workers essential to quality of life in population centers.
- Public investments should be tied to permanent affordability. Permanently affordable homeownership models, which use resale-restrictions to keep homes affordable over multiple resales, represent a means to get maximum benefit from the public's investment over time. A one-time upfront public investment in building one new permanently affordable home will create first-time home buying opportunities for up to seven households over a period of 50 years. A quality-built, environmentally-sustainable home, will have a life-time of well over a 100 years - meaning even more first-time home buying opportunities.
- Public investments should increase on a per-home and per-project basis if tied to permanent affordability. Total public investment in affordable homeownership should be on a proportional basis to cost of construction, with higher public investments based on household size (bedroom counts) and investments in quality/environmental sustainability, which lead to longer lifecycles.
- Public investments in affordable homeownership should increase on a localized basis, to take into account the cost of development, as well as the lower income levels of BIPOC

buyers who have been historically excluded from ownership due to redlining and other discriminatory practices. Home prices tied to HUD median income determinations may be priced too high to serve BIPOC buyers, who need a population-adjusted income determination to arrive at a truly affordable price.

- Permanently affordable, income-appropriate homeownership should be prioritized as an anti-displacement strategy that stabilizes households and communities, and creates diverse, inclusive communities with housing stock affordable across all incomes.
- Cities should enable the development of homeownership types, such as duplexes, triplexes and condominiums, which increase density, can cost less to develop, and can be offered at more affordable prices – such zoning changes should be tied to affordability requirements.
- Development incentives such as density bonuses and waived impact fees should give preference to permanently affordable homeownership to assure affordable opportunities continue for multiple resales over time.

A Modest Proposal

Addressing the crisis of supply of for-sale homes for 50 to 80% AMI households, while increasing ownership opportunities of BIPOC households previously shut out of ownership, requires a systemic approach combined with significant philanthropic and public investment. Doing so, however, will achieve unparalleled direct benefits to homeowners and the workers that build their homes. If coupled with investments in "green" building standards including the use of solar panels and other new technologies, this investment would also address key climate change and climate resiliency objectives.

What type of investment is needed, and what types of outcomes will be achieved? The following analysis assumes an investment in *permanently affordable homeownership*. It should be noted that there are other models of providing income-appropriate homeownership that serve different market niches. For this modest proposal, we've kept close to the model we know.

In our experience, reflecting the dynamics of King County, each 3- or 4-bedroom home:

- Needs $250,000 of subsidy to create a home price after expenses that is affordable to 50 to 80% AMI households.
- Takes up at least 5,000 sq. ft. of land.
- Requires $255,000 in predevelopment and construction financing.
- Creates a $250,000-$315,000 mortgage lending opportunity
- Generates at least $550,000 in jobs and economic activity.
- Contributes $2,640 in property taxes per year.
- Generate $65,000 in cash at closing after owning between 5 to 10 years.

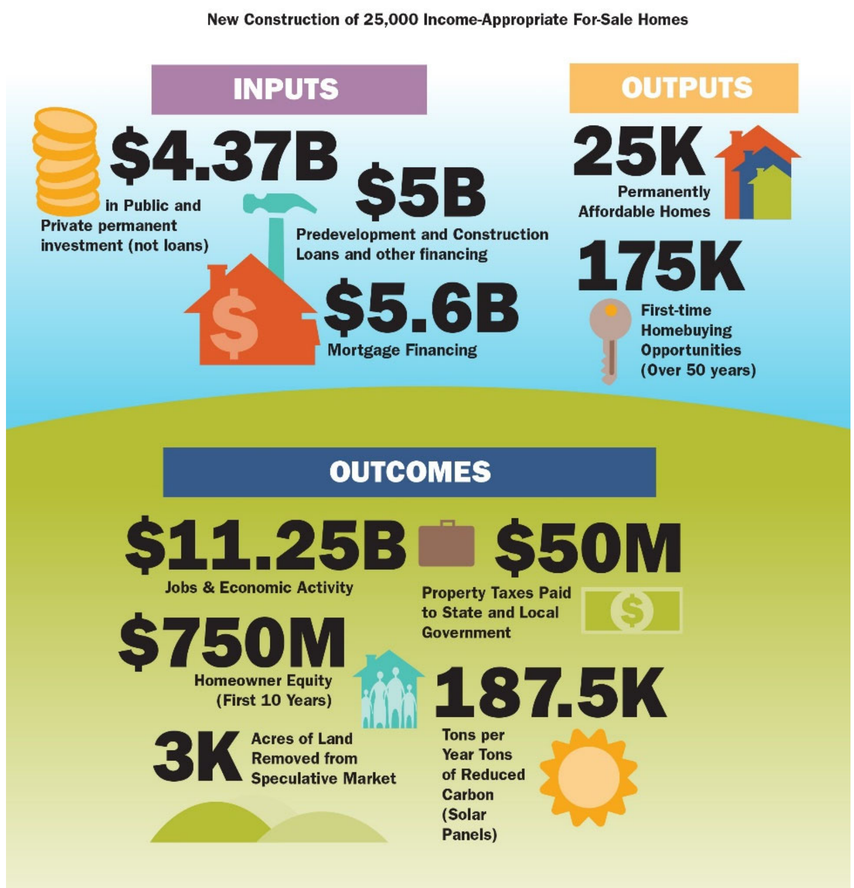
Also, significantly, the public investment made in the permanent affordability of homes 10 years ago has increased in value 400%, meaning it would take 400% more money today to bring a home into permanent affordability than at that time. Generalizing from our own experience, but adjusting these numbers for a statewide analysis, we offer the following modest proposal.

In Washington State, there are 234,745 renting households that are potential candidates for homeownership priced for their income levels. To address 10% of this market need over the next 10 years would require creation of nearly 25,000 homes. If the investment is in permanent affordability, those 25,000 homes could ultimately create up to 175,000 first-time homebuying opportunities over a 50-year period.

To create these homes will require $4.37 billion in public and private *permanent* investment (not loans) – similar to permanent investments in infrastructure such as bridges and roads. In addition to generating stable, affordable housing for up to hundreds of thousands over 50 years, this investment would generate $11.25 billion dollars' worth of jobs and economic activity, $5 billion worth of predevelopment and construction loans, and $5.6 billion in mortgage financing opportunities.

And through investments in energy efficiency including the introduction of renewable energy to power the homes, we have the potential of reducing carbon emissions from these homes by 187,500 tons per year.

Our calculations are built upon assumptions for migration, economic activity, and housing turnover over a long time horizon. We want to challenge to economists, urban and economic development professionals and public policymakers to work with us. We invite them to partner with us and our colleague organizations to refine, amplify and expand this vision for our state.



About the Portal

As a supplemental resource to this paper, explore the Tableau Dashboard to find data for your own city or county. Through these dashboards, you can explore the following tabs:

- 50-80% AMI Households by State, County and City
- Income-Appropriate Housing Supply by State/County and City
- Homeownership Rates by Race/Ethnicity – Searchable by State/County and City
- Household Income by Race --Variances in distributions of household incomes by race/ethnicity for different cities and counties across the state
- "Listings" - Snapshot of listed homes in Washington State from March 2021 to June 2021, with details including square footage, number of bedrooms, the year that the home was built, and list price

This dashboard was built using a 4-month snapshot (March to June, 2021) of MLS listings provided by Redfin, and American Community Survey 5-year estimates from 2015-2019 for household income and homeownership rate data (Tables B19001, S2502, S2503). Affordability calculations use the Median Family Income for each HUD Metropolitan Statistical Areas from 2021. All calculations were made at the census tract level, and the dashboard uses the most recent Census tract to City crosswalk from the 2010 Census to calculate the aggregate values for different cities in Washington State.

Access the Portal Here:

https://closeddoorsreport.com

Additional detail on our methodology is available in the Technical Appendix which begins on page 22.

Additional Information

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Technical Appendix to Closed Doors: The Crisis of Supply of Affordable Homeownership in Washington State

Data Sources

American Community Survey (link): 5-year estimates from 2019 for Tables B19001, S2502, and S2503 were used to determine counts of households and homeownership rates for each Washington State census tract.

- Table B19001 & Subtables A-I (*Household Income in the Past 12 Months*) were used to determine the count of households within 50-80% Area Median Income (AMI) and to analyze household income disaggregated by race/ethnicity.
- Table S2502 (*Demographic Characteristics of Occupied Housing Units)* was used to determine homeownership rates disaggregated by race/ethnicity.
- Table S2503 (*Financial Characteristics*) was used to determine homeownership rates for households within 50-80% AMI.

Federal Financial Institutions Examination Council (link): The 2020 Census Flatfile was used to determine the Area Median Income for each Metropolitan Statistical Area (MSA) in Washington State.

Missouri Census Data Center (link): A Washington State Census Tract to Place Correlation List using 2010 geography data was used to create a crosswalk table between census tracts and cities.

US Census Bureau (link): Washington State Census Tracts Shapefile from 2018 were used to build out map visualizations for the Tableau Dashboard.

Redfin: Redfin provided an analysis of MLS listings in Washington State for a 4 month window between March through June 2021 of all homes 2 bedrooms or larger. This was used to determine the count of all listed homes as well as the count of affordable homes during this window.

Smartasset (link): Washington State Property Tax Rate table was used to determine the average effective property tax rate by county when calculating the affordable home price.

Data Tools

Python and MySQL were used for the loading and transforming of data. Tableau Desktop and Tableau Public were used to build and publish dashboards.

Methodology

Determination of 50-80% AMI households

The Area Median Income (AMI) for a Metropolitan Statistical Area (MSA) was used as the basis for determining 50-80% AMI households. This AMI was used for each census tract that fell within the MSA, and the income range for 50-80% AMI was determined using that value.

The count of households was then determined by finding the count of households by income bracket from ACS Table B19001 that fell within the 50-80% AMI income range. ACS counts of households by income range (Table B19001) are only provided within the specific income brackets below:

Table 1: Income Bands from ACS Table B19001

Income Level Floor	Income Level Ceiling
0	9,999
10,000	14,999
15,000	19,999
20,000	24,999
25,000	29,999
30,000	34,999
35,000	39,999
40,000	44,999
45,000	49,999
50,000	59,999
60,000	74,999
75,000	99,999
100,000	124,999
125,000	149,999
150,000	199,999
200,000	999,999

The 50-80% AMI range does not align with these brackets, so the counts of households were estimated by trying to approximate the count of households in the income brackets that are only partially within the 50-80% AMI range. When calculating this, the assumption was made that the counts of households were evenly distributed across the income bracket. The formulas used to estimate the partial income brackets can be found below:

$$Partial\ Income\ Bracket\ With\ 50\%\ AMI = \frac{IncomeLevelCeiling\ -\ 50\%\ AMI}{IncomeLevelCeiling\ - IncomeLevelFloor} \times Count\ of\ Households$$

$$Partial\ Income\ Bracket\ With\ 80\%\ AMI = \frac{50\%\ AMI\ - IncomeLevelFloor}{IncomeLevelCeiling\ - IncomeLevelFloor} \times Count\ of\ Households$$

After estimating the counts partially within the range, those counts were added to the count of households that are in income brackets that are fully within the 50-80% AMI range to determine the total count of households within 50-80% AMI.

Determination of Affordable Home

Affordable homes were identified by calculating the affordable home price for each census tract, and then identifying all homes that were listed at a price at or below that price. For this analysis, it was assumed that there would be no down payment made, so the affordable home price was calculated using the present value formula for a series of payments:

$$AffordableHomePrice = MaxAffordableMonthlyLoanPayment \times \frac{1 - \frac{1}{(1+r)^n}}{r}$$

The Maximum Affordable Monthly Loan Payment was calculated assuming that the maximum affordable loan payment in addition to property tax, insurance, and other home related costs would not lead to a debt to income ratio that exceeds 0.38.

$$MaxAffordableMonthlyLoanPayment = 0.38 \times HouseholdIncome\ - PropertyTax - Insurance - OtherCosts$$

For this calculation, 70% of AMI was used as the value for Household Income. Monthly property tax payments were calculated for each listed home using the average effective property tax rates from Table 2 based on the county that the home was in. Monthly insurance cost was calculated to be 0.2% of the list price. Other monthly home costs were assumed to be $200.

Table 2: Average Effective Property Tax Rates by County

County	Avg Effective Property Tax Rates	County	Avg Effective Property Tax Rates	County	Avg Effective Property Tax Rates
Adams	1.05%	Island	0.81%	Skagit	1.00%
Asotin	1.02%	Jefferson	0.82%	Skamania	0.78%
Benton	1.00%	King	0.93%	Snohomish	0.97%
Chelan	0.87%	Kitsap	0.98%	Spokane	1.15%
Clallam	0.91%	Kittitas	0.81%	Stevens	0.81%
Clark	1.02%	Klickitat	0.70%	Thurston	1.08%
Columbia	0.98%	Lewis	0.88%	Wahkiakum	0.83%
Cowlitz	1.05%	Lincoln	0.83%	Walla Walla	1.14%
Douglas	0.91%	Mason	0.95%	Whatcom	0.85%
Ferry	0.78%	Okanogan	0.86%	Whitman	1.00%
Franklin	1.13%	Pacific	1.04%	Yakima	1.05%
Garfield	1.02%	Pend Oreille	0.70%		
Grant	1.08%	Pierce	1.19%		
Grays Harbor	1.04%	San Juan	0.61%		

Determination of Homeownership Rate

Homeownership rate were calculated using the ACS S2502 and S2503 tables using the following formula:

$$HomeownershipRate = \frac{CountOwnerOccupiedHousingUnits}{CountOccupiedHousingUnits}$$

Calculation of Potential Buyers per Affordable Home

The number of potential buyers were determined by first identifying the number of non-current homeowner households within 50-80% AMI. It was then assumed that 50% of these households would be potential buyers for an affordable home. The final value for Potential Buyers per Affordable Home was calculated by dividing the total number of potential buyers by the number of affordable homes.

Place Allocation of Census Tract values

There are a number of census tracts that fall within more than 1 city boundaries. In these instances, the census tract data are assigned proportionally to each city using the "Tract To Placefp Allocation Factor" from the MCDC crosswalk file. This was calculated using the formula:

$$CityAllocation = TractToPlaceFPAllocationFactor \times CensusTractValue$$

This allocation of census tract value was not done for standard error. For standard error, the full value for standard error was used for each city. Allocations that did not have a city associated with it were assigned to a "pseudo-place" referred to as unincorporated remainders.

City Level values were then calculated by aggregating all of the City Allocations for each census tract that fell within the city boundary.

Limitations

Due to the need to blend multiple data sources, the data from this analysis comes from different reporting periods. ACS data used 5 year estimates from 2015-2019, shapefiles were based on 2018 geographies, and the Missouri Census Data Center was based on 2010 geographies. All reporting periods used were the most up-to-date version of the file at the time of the analysis.

For the analysis of home listings, only data for 2 bedroom or higher homes listed between March - June 2021 were available for the analysis. It was assumed that households would only be looking for home listings within their current geographic area.

The ACS income related data that was used was limited to specific income brackets that were provided by the Census Bureau. In order to calculate the count of households for more precise income values, an assumption was made that the households were fairly evenly distributed across the income bracket so that the count of households could be approximated using the proportionate amount of the income bracket that fell within the 50-80% AMI income range.