

From the Puget Sound Business Journal:

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Price of Recovery

## Why severity of housing shortage in Seattle area remains difficult to define

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Natalie Berglund may soon be priced out of her Stadium District neighborhood in Tacoma. Until now, her 750-square-foot, two-bedroom apartment, where she runs a hair salon business and raises two preteen girls, has worked well. It's tight, but she's managed to find a way to fit her salon chair into the corner of her kitchen where she gets the best natural light, while also giving her eighth-grade daughter the space a teenage girl needs.

The 42-year-old hairstylist also works part time in a salon that is just six blocks from her apartment. Her daughters' schools are within walking distance.

"Living here has given my daughters safety and stability," she says. "This is their safe place. I know my neighbors, I like this area, my kids are close to their schools, they have friends here. I really love this neighborhood and want to continue to be part of it."

But market forces are changing Berglund's outlook. Her rent on the once affordable apartment has increased 40% over the last four years.

She originally rented a one-bedroom unit in the building for \$700 a month. The girls took the bedroom and Berglund slept on a pull-out couch in the living room, a space that doubled as her hair salon during the workday. Four years ago, Berglund moved to a two-bedroom unit in the same building for \$1,000 a month.

The building is older and in need of improvements, but Berglund was content to endure the problems associated with living in an aging unit because the rent was affordable.

But in the past four years, the rent has increased \$400. She is now facing the real possibility that she will need to relocate.

Berglund, who is self employed, falls into the 51% to 80% of the area median income (AMI) range, which equates to a salary that is less than \$57,750 for a family of three in Tacoma. Just last year she was hoping to save enough to buy a home. Rising housing costs, however, have dashed those plans and forced Berglund to confront the possibility that she won't be able to pay her rent.

**ABOUT THIS PROJECT** | *This year, the Business Journal has embarked on a reporting project that will explore three critical areas of the Puget Sound region's recovery: affordable housing, workforce development and homelessness. Our goal is to better define the costs associated with these efforts and the likelihood of meeting these challenges. We're calling it "The Price of Recovery."*



ANTHONY BOLANTE | PSBJ

Darios Verdi lives in a 175-square-foot apartment in Seattle's Capitol Hill neighborhood. Space is tight, but his options for living in the city are limited. It's a trade-off many renters face due to a severe shortage of middle-market housing.

"The average rent for a two-bedroom around here is \$2,000 a month," Berglund says. "I love being a hairdresser, I love being part of the fabric of this community and I fear having to move away just as I'm hitting my stride. I'm 'Tacoma Natalie,' I don't want to have to leave."

She is just one of the thousands of Puget Sound-area residents who work full time, earn less than 80% of the AMI and are caught in an ever-widening affordable housing gap.

For all the attention given to the region's affordable housing shortage, it remains difficult to articulate its scope. The four municipalities that shared information with the Business Journal track affordable housing needs in different ways, with city leaders relying on lengthy third-party research reports that attempt to define the problem.

None of the cities queried for this report can say just how much affordable housing exists for those who make 50% to 80% of the AMI and how much is needed.

The patchwork data helps explain the piecemeal approaches that cities have implemented to address the housing shortage.

### 'More housing solutions'

Darios Verdi, 28, works full time as an information technology technician for an automotive repair shop in Shoreline. Prior to finding affordable housing, he was commuting 15 hours a week to his job from an apartment in Renton. He now lives in a 175-square-foot studio apartment in Seattle, which is owned and managed by private developer Great Expectations.

"I don't want to be too far from the city," he says. "I have met a lot of people here. But housing in Seattle is far too expensive right now. For what I am paying right now for a micro-studio apartment, my friend can get a two-bedroom apartment on the East Coast."

Verdi is one of thousands who struggle to find affordable housing in Seattle. According to an April 2021 report by the research company Berk, 46,000 Seattle households were spending more than half of their incomes on housing costs.

Berk's research, which was created for the city of Seattle, shows the city has a shortage of 21,000 rental units that are affordable and available to those at or below 80% of the area median income, which is \$63,500. Part of the gap stems from tenants renting units below what they could afford due to a lack of supply further up in the chain, a phenomenon called down renting.

Between 2005 and 2019, 9,000 additional units would have needed to be added to maintain its baseline ratio of jobs to housing units. The report also found that housing costs soared by 80% between 2010 and 2019, while the median family income only grew by 55%.

“You have to have more housing solutions for those in the middle-income bracket so we can start to see housing prices ease,” says Catherine Buell, director of Amazon’s Housing Equity Fund. “We need to have housing for that moderate-income tier to have vibrant and growing communities.”

Ben Maritz, founder and managing member of Great Expectations, says there are reasons for the dearth of lower-income housing, starting with the high cost of building apartments. He estimates very small units, which are about 275 square feet, cost about \$300,000 each to develop.

City rules can also preclude certain types of housing, such as the development of micro-units like the one Verdi rents. Seattle Mayor Bruce Harrell has said he’s willing to reconsider the city’s ban on the development of new micro-apartments.

“I fundamentally believe homelessness is about not having enough housing,” Maritz says. “If we don’t have enough housing for those in the middle-income group, they take up the housing that should be available for those in the lower-income groups.”

### ‘Rolling out the red carpet’

Tax exemption programs are one of the main incentives cities use to encourage private developers to build affordable units for those in the 50% to 80% of the AMI income group.

The rules around multifamily tax exemption programs, or MFTEs, vary by municipality, but they are designed to encourage the development of multifamily housing in certain parts of cities by eliminating property taxes on improvements. Some plans require that 20% of the units be made available to those who qualify for affordable housing for a certain number of years.

Microsoft’s Jane Broom, director of philanthropy, spoke at a Bellevue City Council meeting in June 2021 to urge the city to expand its MFTE program, saying it was a “step in the right direction” toward creating more low- and middle-income housing.

“The growth of jobs is far outpacing the growth of housing in communities across King County, which is creating upward pressure on the market for low- and middle-income housing,” Broom says. “The result is that our communities are struggling to stay economically diverse, inclusive and accessible.”

Jake McKinstry, co-owner of Spectrum Development Solutions, says municipalities need to use all the tools in their box to increase the housing supply for all income levels.

“Housing affordability is a ladder,” he says. “There is instability for some and when rent goes up they can no longer afford to pay so they go down a wrung. If we don’t have enough supply, then those at the bottom can fall into homelessness.”

McKinstry has several projects in the pipeline in Shoreline and says that city is going above and beyond to develop more housing.

“We are rolling out the red carpet to housing developers,” says Nathan Daum, city of Shoreline Economic Development Program manager. “The MFTE is the primary tool we’ve used over the years to incentivize the building of affordable housing.”

There are currently 308 active units that were developed using the MFTE incentive and there are 1,849 units in the pipeline. That compares to 5,904 active MFTE units in Seattle, which has 1,874 such units in its pipeline.

“And,” Daum says, “we need more housing.”

### ‘I wanted to be here’

Even with more affordable units set to deliver in the next few years, the city will still be short on affordable housing. In Tacoma alone, there are 6,500 lower-income households on a five-year waiting list for affordable housing, according to figures provided by the city.

The problem has only become worse since Shoreline launched its MFTE program in 2002, Daum says. He estimates 7,300 residents fell into the 50%-80% range of the city’s area median income in 2018.

“We have had a population increase of 6,000 people in the last 10 years,” he says. “Can we absorb all the new housing being developed in the region? I think so. I think the risk of overbuilding in the Seattle area is pretty low right now.”

McKinstry says it’s essential that cities have tools like MFTEs to facilitate the delivery of affordable housing. The tax exemptions help offset the loss of income that comes from setting aside 20% of the units for those making between 60% to 80% of the area median income.

Within the last three years, the two largest employers in Washington state have pledged well over \$1 billion to help ease the costs associated with affordable housing.

Microsoft, which has pledged \$750 million to help develop affordable housing in the Puget Sound region, has developed a program that is designed to incentivize the construction and preservation of housing by nonprofit developers and housing authorities.

So far, the company has allocated \$583 million to preserve or create 9,200 units, which works out to about \$63,000 in funding per unit.

“Every year, more nurses, teachers, firefighters and other essential employees are unable to live in the communities where they work,” Broom says. “That’s not a recipe for a healthy community in the future, and that’s what led to Microsoft’s work on affordable housing in the Puget Sound region.”

Last year, Amazon launched its Housing Equity Fund, which will provide another \$124.4 million to build 1,060 affordable homes near public transit hubs in partnership with Washington Metropolitan Area Transit Authority and Sound Transit. Amazon’s contribution works out to about \$117,000 per unit.

“Transportation is a significant amount of a person’s budget,” Buell says. “Being able to find affordable housing near transit allows people to better balance all of their household costs. Sound Transit is doing an amazing job and now is the time to get ahead of the growth.”

Down renting tends to push lower-income earners further from their jobs. The Berk research shows that more than 34,000 low-wage workers making \$40,000 or less per year are commuting more than 25 miles from their homes to work in Seattle.

Amazon is in the very early stages of working with Bellevue Public Schools to help address the need for housing for teachers.

“We need to have that housing so that people who work for the city and county and schools can live in those communities,” Buell says.

All this makes sense to Verdi, who pays more than \$850 a month for his 175-square-foot apartment in Capitol Hill.

“I feel blessed to have found this apartment, which is small but it works,” he says. “I wanted to be here, close to my friends and close enough to my job so I didn’t have to commute so far.”

**Editor’s note:** Microsoft so far has allocated \$583 million to preserve or create affordable housing locally. In an earlier version of the story, the figure was incorrectly reported as \$538 million.

**Shawna De La Rosa**  
Reporter  
Puget Sound Business Journal

