NATIONAL MULTIFAMILY HOUSING COUNCIL

Case Studies: Seattle

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Seattle, WA

Despite significant levels of new development, historic growth in high-income renters has pushed up rents for new and existing units to persistently high levels.

Seattle's housing affordability has been uniquely strained by the demographic makeup of its new renter households. Low- and middle-income renters represent a decreasing share of the population, and those who remain face a high risk of displacement and rent burden.

$83,500	$57,000	172,000	123,100
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Unprecedented Demand, Especially from High-Income Households

The city's record growth in high-income renters has provided ample demand for new and existing units. This demand has kept pace with a rapid growth in supply, as vacancy rates have stayed low despite 50,000 new units produced between 2000 and 2016.

High and Rising Development Costs

Seattle's land costs rose by about 80% from their trough in 2011, to reach a level over four times the national median by 2016. During this period, construction costs continued to rise from an already high level.

IMPACTS

Rapidly Rising Rents for Existing Rental Housing

As developers and property managers raise rents in response to strong and ongoing demand from high-income renters, Seattle's existing stock of low-rent units is rapidly diminishing. The share of occupied rental units priced under $800 in rent fell by 14.5 percentage points since 2000.

Persistently High Rents for New Rental Housing

New rental housing is necessitating high rents due to rapidly rising land costs and a large pool of high-income renter demand. Real rent growth from 2000 to 2016 appears modest (11%) but only because rents were already quite high in 2000.

Increasingly Unaffordable for Middle-Income Renters

Seattle's rental housing has long been unaffordable for low- and even middle-income households, but the situation has significantly worsened for existing and potential middle-income households, over half of whom are now cost-burdened.

Relevant tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement
- Inclusionary Zoning

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

- Washington, DC
- Boston, MA
- San Francisco, CA
- San Jose, CA

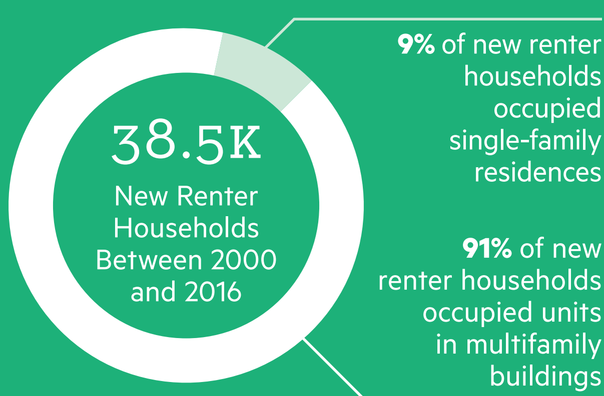
DRIVER

Unprecedented Demand for Rental Housing, Especially from High-Income Renters: Seattle's economic growth has led to an unprecedented level of demand from high-income renter households.

Seattle added 38,500 renter households between 2000 and 2016. The growth in renter households has been driven by both an influx of new renter households and an increase in renting among existing and newly formed households in the city.

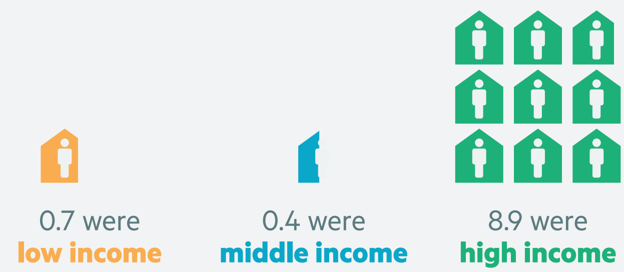
The majority of new renters occupied apartments. This amounted to an increase of 35,000 in the number of occupied multifamily units. This trend indicates both a preference for and growing supply of higher density housing.

NET NEW RENTER HOUSEHOLDS BETWEEN 2000 AND 2016 BY UNITS IN OCCUPIED STRUCTURE



The number of high-income renters grew substantially between 2000 and 2016. More than eight out of ten renters added in Seattle during this period were high-income renters; this amounts to an increase of 33,000 in high-income renter households. Fewer than two in ten new renters were low or middle income. This degree of income growth places considerable upward pressure on rents.

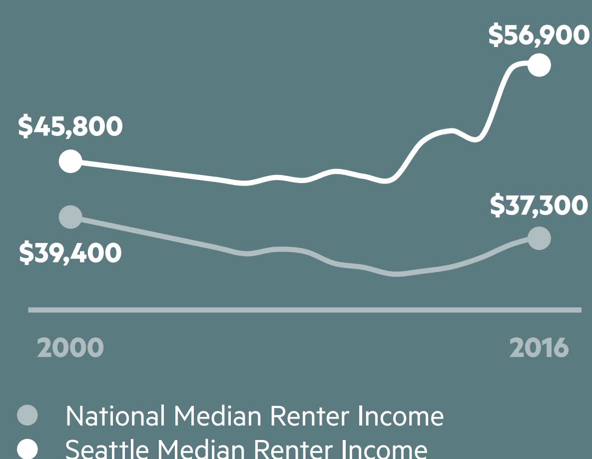
FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016



Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Between 2000 and 2016, the real median income for renter households increased by 24%. In contrast, the real national median declined over the same period. Seattle's rapid increase is attributable to its historic influx of high-income renters.

REAL MEDIAN RENTER HOUSEHOLD INCOME IN SEATTLE AND THE NATION



Source: CoStar, ACS, U.S. Census, HR&A analysis

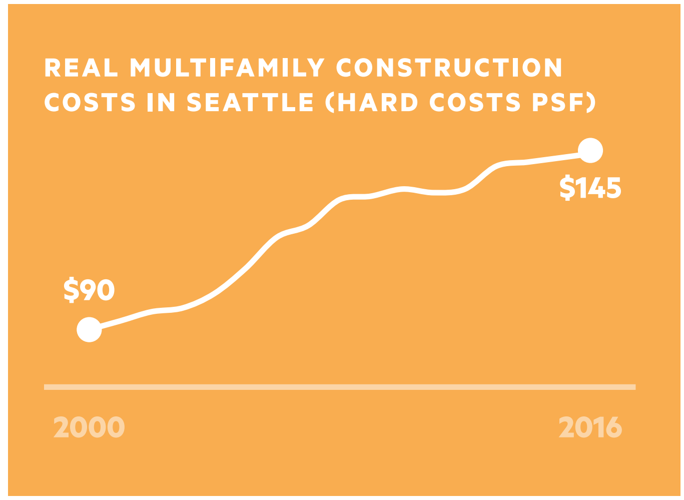
DRIVER

High and Rising Development Costs: Seattle has experienced particularly high growth in land costs, contributing to rent growth across the city.

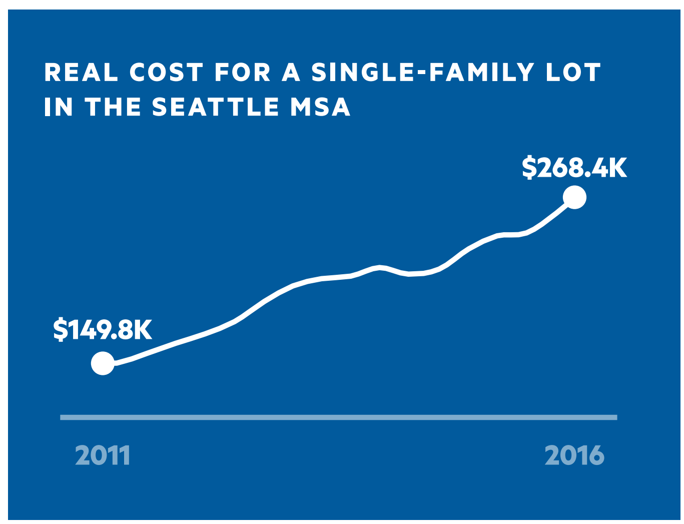
When development costs increase, rents must increase to cover the higher costs. As a result, rental units tend to become less affordable. Development costs are driven by three main components: land, labor and materials, and regulatory soft costs.

Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development cost.

In the Seattle area, hard costs, or the cost of labor and materials, have remained consistently higher than the nation since 2000. Hard costs increased from $90 PSF to $144 PSF for multifamily buildings in real terms, amounting to an increase of 60%.



Already high land costs in Seattle keep rising. Real land costs increased by 79% between 2011 and 2016. This growth is especially significant given Seattle's already high land costs. In 2016, the price for a single-family lot in Seattle was about four times the national median. High land costs contribute to the overall increase in development costs, which in turn increase the need for higher rents to ensure project feasibility.



Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

IMPACT

Rising Rents for Existing Rental Housing: Intense demand from increasingly high-income households has contributed to rising rents for even older and less ideally located housing.

Rents for existing units are increasing at a similar rate as the overall median rent, an indicator of a supply shortage. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 38%. This is nearly three times the national growth rate of 13%. This growth implies there is high demand for almost all rental housing regardless of location, vintage, or quality.

Between 2000 and 2016, the share of occupied units renting below $800 fell by 14.5 percentage points. This trend is especially stark given that Seattle's stock of lower-rent units was already very low – at 28% in 2000. Now, only 14% of all occupied rental units in Seattle are renting below $800 a month, compared to the nationwide average of 37%. This trend indicates intense demand pressure on rental units, driving up rents and decreasing overall affordability.

> 14%
> of occupied rental units were priced under $800 in 2016, **down from 28% in 2000.**

This is despite the city's rapid increase in its rental housing supply. Seattle's multifamily housing stock expanded by 58% between 2000 and 2016, compared to the nationwide rate of 30%. Still, market trends indicate that Seattle is not delivering enough housing to meet skyrocketing demand in the city.

IMPACT

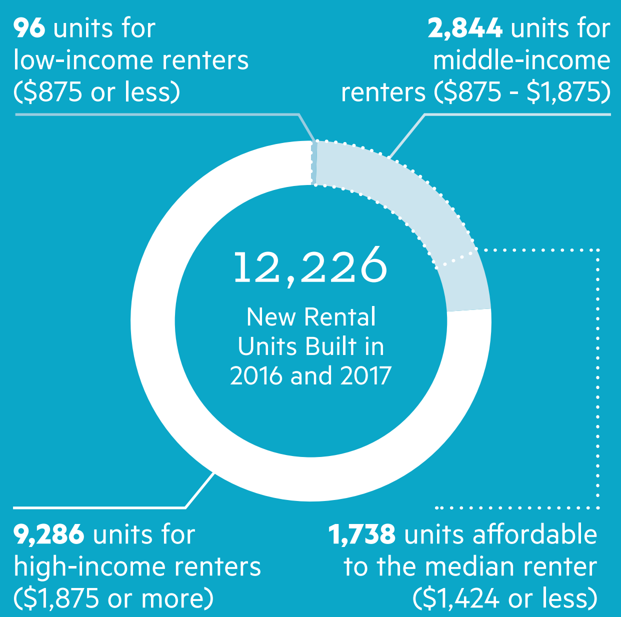
Persistently High Rents for New Rental Housing: Intense demand and high development costs have contributed to Seattle's rising rents.

The real average asking rent for new multifamily apartment units increased by 11%. Rent increased from $1,608 in 2000 to $1,791 in 2016 for new apartments. Seattle has not seen as drastically sharp an increase in rent for new units compared to existing units because the average asking rent for new units was already high in 2000. High and rising development costs, as well as record demand, contribute to high rents for new development.

76% of units delivered in 2016 and 2017 were only affordable to high-income renters. This equates to about 9,300 new units renting for more than $1,875 per month. Only 14% of new units rented for under $1,424 per month and were affordable to the median renter, and 0.7% of units were affordable to low-income renters.

Source: CoStar, ACS, U.S. Census, HR&A analysis

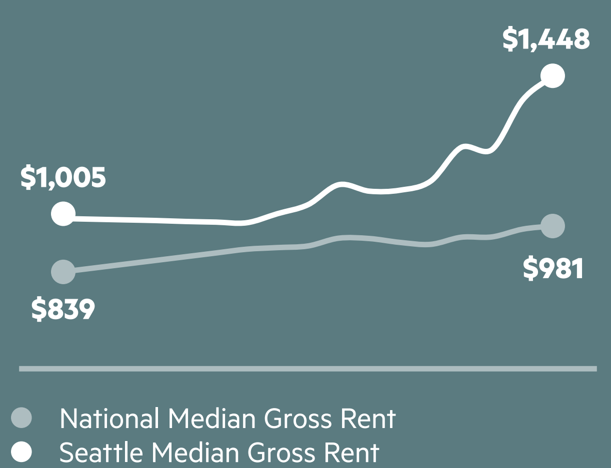
ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017



Note: Subsidized units are not included.

The real gross median rent for all renter housing in Seattle increased by 44%. The median rent increased from $1,005 to $1,448 between 2000 and 2016. This is more than double the nationwide growth rate of 17%. The substantial increase in the median gross rent is due to unmet demand for rental housing, which increases competition and drives up rents.

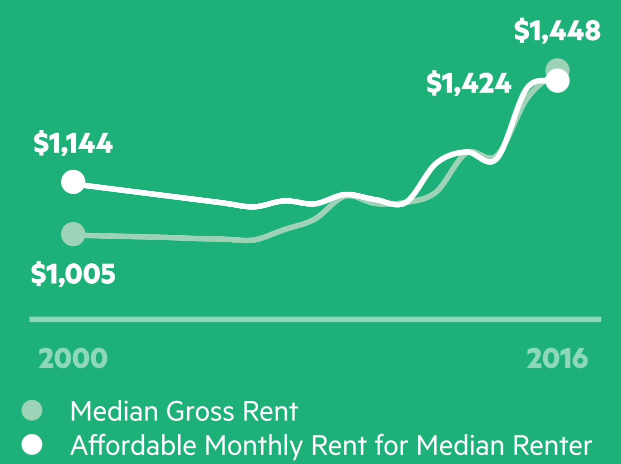
REAL MEDIAN GROSS RENT IN SEATTLE AND THE NATION



Source: CoStar, ACS, U.S. Census, HR&A analysis

Rent growth has been so high that even a rapid increase in median renter income has not kept pace with median rents. In 2000, the median renter could afford the median gross rent with a $140 surplus. In 2016, the median renter could no longer afford the median gross rent.

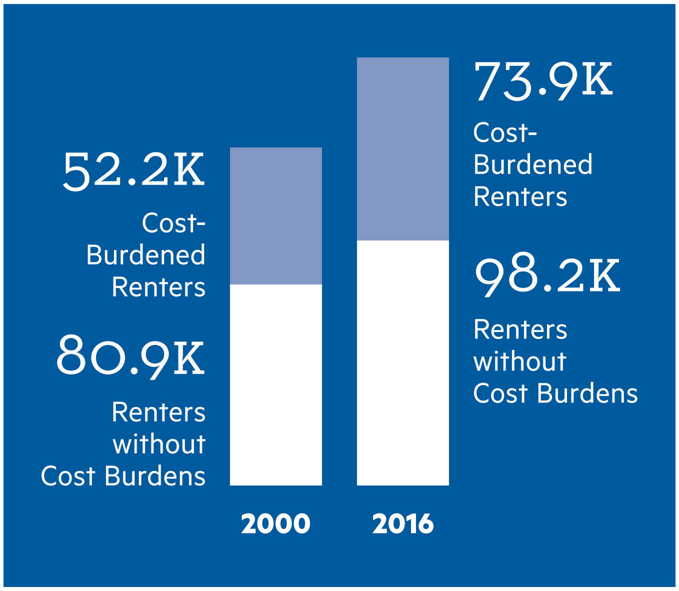
REAL MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN SEATTLE RENTER HOUSEHOLD



IMPACT

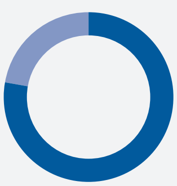
Increasingly Unaffordable for Middle-Income Renters: Middle-income and low-income renters are increasingly unable to afford housing in Seattle.

Though the overall share of rent-burdened households is relatively low due to the large number of renters with high incomes, rent burdens have steadily grown. Between 2000 and 2016, the number of rent-burdened households increased by 42%.

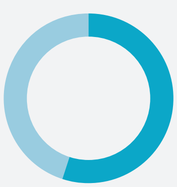


Middle-income households are experiencing growing affordability challenges. The rate of rent-burdened middle-income households grew from 26% in 2000 to 55% in 2016. In addition, more than three quarters of low-income renters were burdened in 2016. Seattle exhibits high rates of cost burden across all of its income groups relative to the nation.

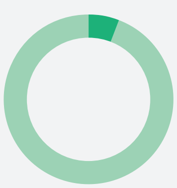
SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



78% of low-income renters were rent burdened, up from 76% in 2000.



55% of middle-income renters were rent burdened, up from 26% in 2000.



6% of high-income renters were rent burdened, up from 3% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Seattle is adding very few middle-income renters in the city. Between 2000 and 2016, the number of middle-income renters grew by only 3% in Seattle and by 20% within the metro. These rates of growth are considerably low when compared to the rates of growth in high-income renters. Middle-income renters are likely choosing to locate outside of Seattle and even outside of the broader metro region, due to rising housing costs.

GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTER HOUSEHOLDS

3%
Seattle

20%
Metro

GROWTH IN THE NUMBER OF HIGH-INCOME RENTER HOUSEHOLDS

106%
Seattle

55%
Metro

Source: CoStar, ACS, U.S. Census, HR&A analysis