

# Pierce County Affordable Housing Incentives

## Evaluation and Recommendations to Increase Effectiveness

**Presentation to Pierce County City Council, Performance Audit Committee**  
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# Presentation Outline

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- What is affordable housing?
- Current incentives and their impact
- What value do incentives provides to developers?
- Recommended actions
  - Strengthening existing incentives
  - Attracting more affordable housing production
  - Augmenting and coordinating funding opportunities
- Review and summary

# What is affordable housing?

## ■ Housing affordability, defined

- Housing is considered affordable if the occupants spend no more than 30% of their household income on housing costs.
- Market-rate can be either affordable or unaffordable, depending on the cost and occupant's income.
- In Pierce County, over half of renter households and nearly a third of owner households live in unaffordable housing.

## ■ Income-restricted affordable housing

- Pierce County has incentives to encourage the production of income-restricted affordable housing.
  - Must be rented/sold at a cost that is affordable to a household with income of 80% of AMI or less.
  - Is deed restricted to remain affordable for 50 years.

### Pierce County Median Family Income (AMI)

**\$80,200** (in 2019)

HH Size	80% of AMI
1	\$44,960
2	\$51,360
3	\$57,760
4	\$64,160
5	\$69,360
6	\$74,480

# Current incentives and their impact

# Pierce County's Affordable Housing Incentives

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In 2010 Pierce County adopted a package of incentives to promote affordable housing development:

- Expedited Permitting Process
- Fee waivers
- Bonus units
- Alternate development standards

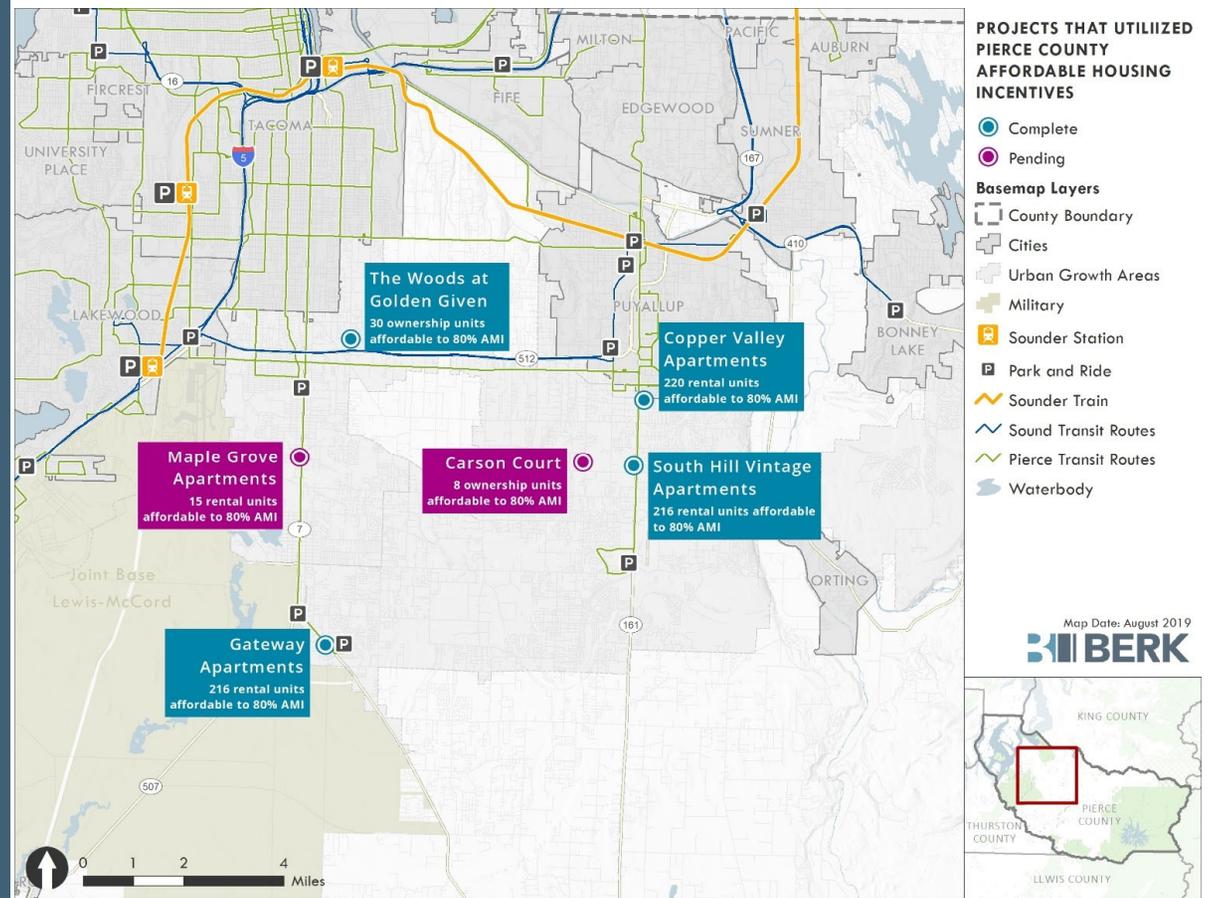
**Qualifying criteria vary by incentive.** All incentives require a minimum percentage of units remain affordable to households with incomes 80% of AMI or less for a period of 50 years\*

\*may be reduced to 30 years with appropriate compensation

# What types of projects have used these incentives?

Since 2010, 682 units of affordable housing have been built in four developments. Two additional projects are pending.

Incentive projects accounted for 4.5% of total units produced from 2010 to 2019 in unincorporated Pierce County.



# What types of projects have used these incentives?

**Total Affordable Units: 682**

## The Woods at Golden Given

- ❑ 100% Affordable, 80% AMI
- ❑ 30 units, ownership

## Copper Valley Apartments

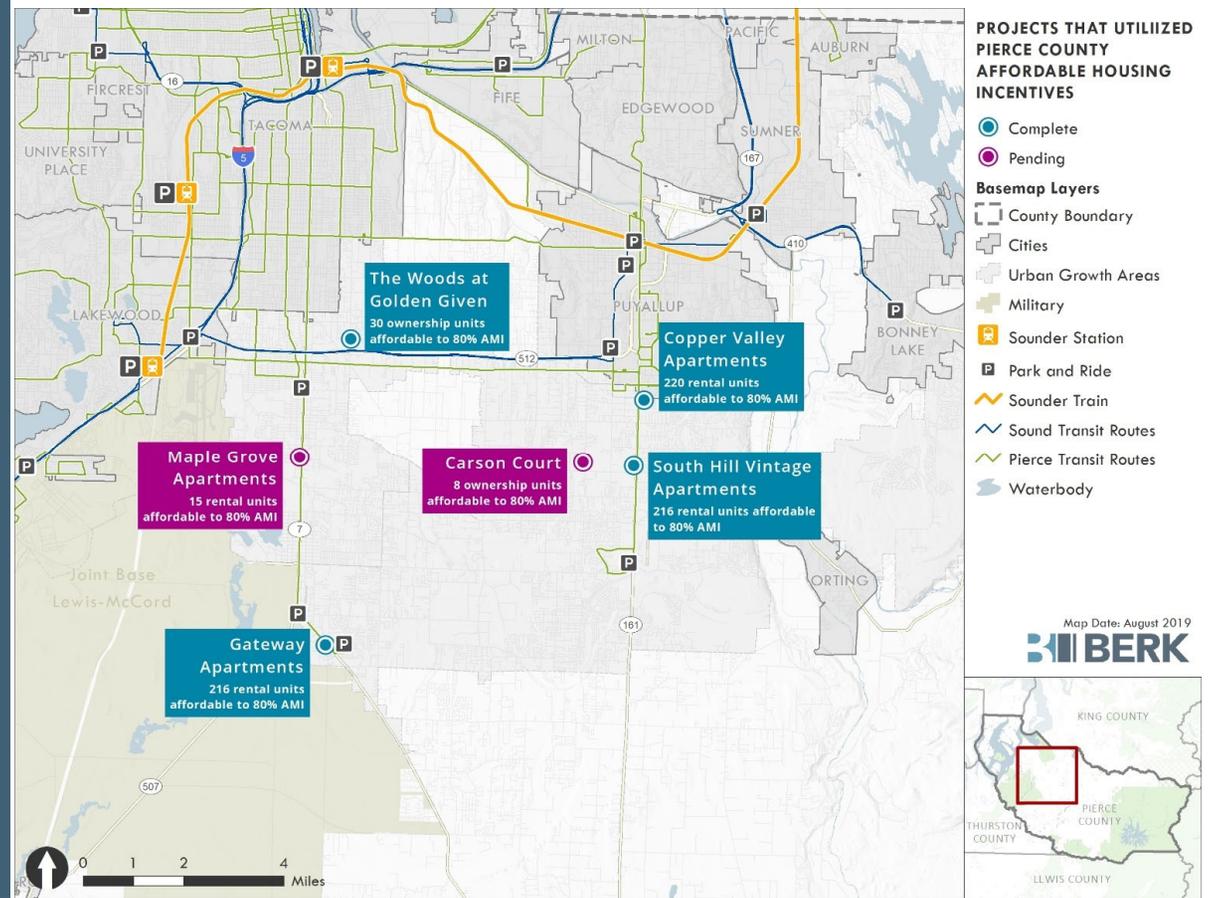
- ❑ 100% Affordable, 80% AMI
- ❑ 220 units, rental

## South Hill Vintage Apartments

- ❑ 100% Affordable, 80% AMI
- ❑ 216 units, rental

## Gateway Apartments

- ❑ 100% Affordable, 80% AMI
- ❑ 216 units, rental



# Expedited Permitting

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Expedited permitting is available for projects that include:

1. Building Permit Application
2. Subdivision Application
3. Road/Sewer Design Review

*Use of this incentive:*

- Used in all four completed projects
- Staff estimate these reduce project review timeline by 15-20%
- Demonstrates commitment to affordable housing creation, but unlikely to influence a project decision on its own

# Fee Waivers

## Potential Value of Fee Waivers - Estimates Per Residential Unit

Fee Waiver	Single-Family	Multifamily
Traffic Impact Fees (TIF)	\$4,492	\$2,054
Building Permit Fees	\$1,665	\$1,138
School Impact Fees*	\$3,700	\$2,000
Park Impact Fees*	\$2,552	\$2,552
Sanitary Sewer System*	\$7,300	\$7,300
<b>Total value to a developer</b>	<b>\$19,709</b>	<b>\$15,044</b>
* Total waived fees that must be replaced with County funding per affordable unit	\$13,552	\$11,852

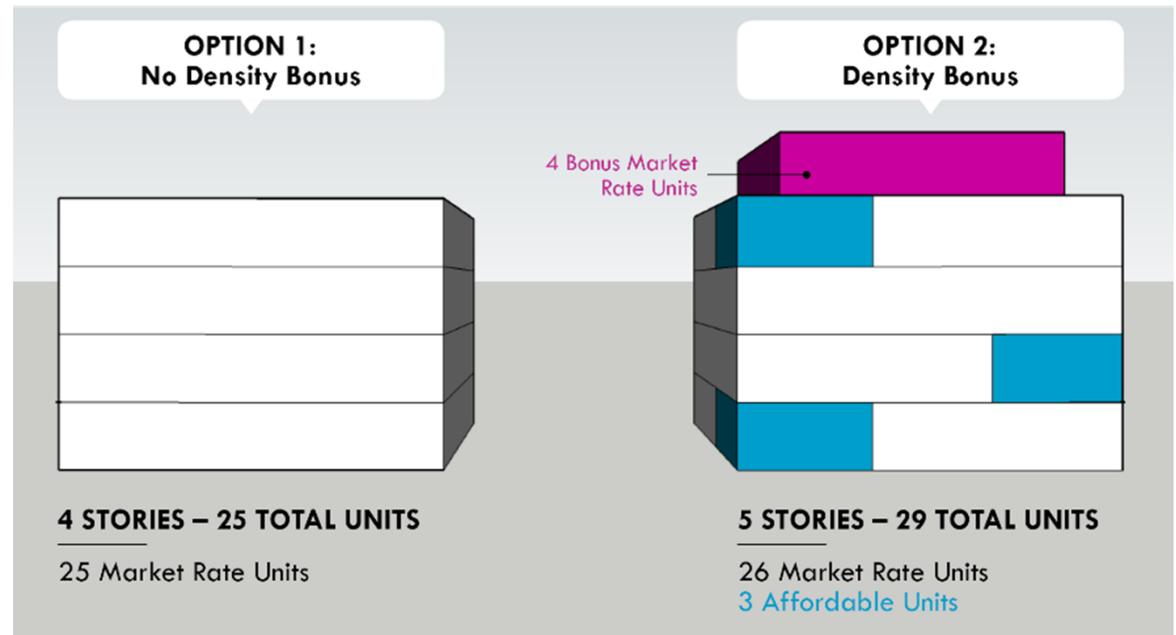
### Use of this incentive:

- TIF waivers used by all four completed projects
- Most other fee waivers are depended on replacement funding from County

# Density Bonus

- Allows projects to exceed standard zoning limits up to a density threshold:
  - MF: 1.2x Max
  - SF: 1.33x Max
- Number of bonus units allowed for each affordable unit provided:
  - Rental projects: 1.5 bonus market rate units
  - Ownership projects: 1 bonus market rate unit

## EXAMPLE MULTIFAMILY PROJECT WITH MUD ZONING ON A 1-ACRE LOT



# Additional Affordable Units Created Through Density Bonus

## Findings

- Density bonus has only been used by mission-based developers with 100% of units as affordable.
- **Bonus units represent 17% of total affordable units created**
- Estimates assume that developers used the maximum possible density bonus.

## Estimated Density Bonus Units Built, 2010 - 2019

Affordable Housing Project	Total Units in Project	Estimated Density Bonus Units
The Woods at Golden Given	30	7
Copper Valley Apartments	220	37
South Hill Vintage Apartments	216	36
Gateway Apartments	216	36
<b>Total</b>	<b>682</b>	<b>116</b>

# Alternate Development Standards

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Allows for reductions to typical development standards in order to reduce project costs:

1. Parking Requirements
2. Parks and Open Space Requirements
3. Lot Area/Width Requirements
4. Infill Compatibility
5. Road Standards

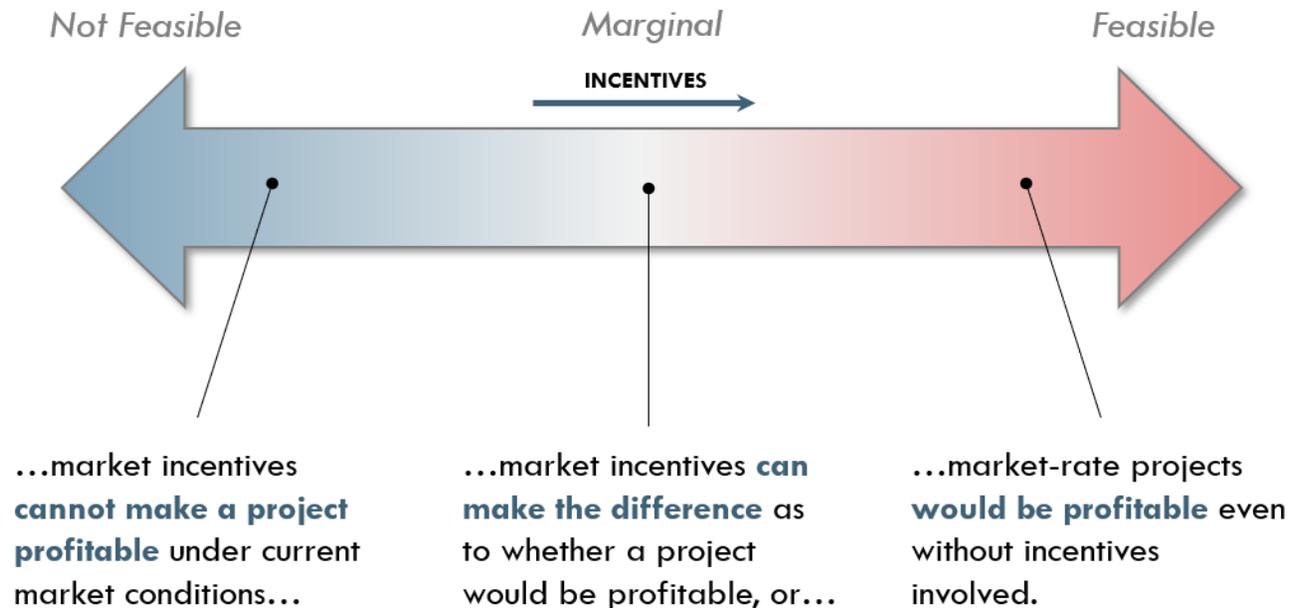
*Use of this incentive:*

- Parking reductions used by all four completed projects

# What value do incentives provide a developer?

- Effective incentives provide enough value to make marginal projects feasible.
- Affordable housing incentives should provide enough value to outweigh the loss in income potential due to including affordable units.

Given **project characteristics** (types, # of units, etc.) and **local market conditions** (rents, land prices, construction costs, etc.)...



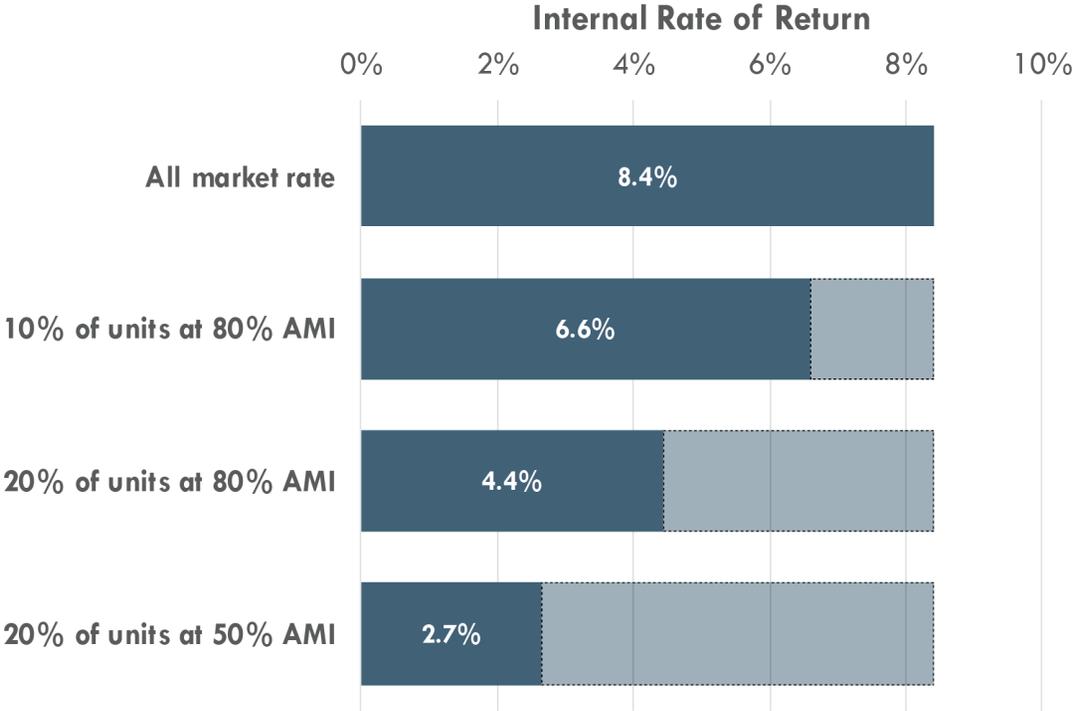
# How much value do incentives provide in Pierce County?

## Step 1: Analysis of project feasibility without incentives

BERK modeled the financial feasibility of a generic 4-story apartment building in the Midland area near Tacoma, based on current market conditions.

When affordable units are included in the project proforma, the expected internal rate of return declines. This is due to the lower rent for the affordable units.

### Internal Rate of Return, Example Multifamily Development Project Without Incentives



# How much value do incentives provide in Pierce County?

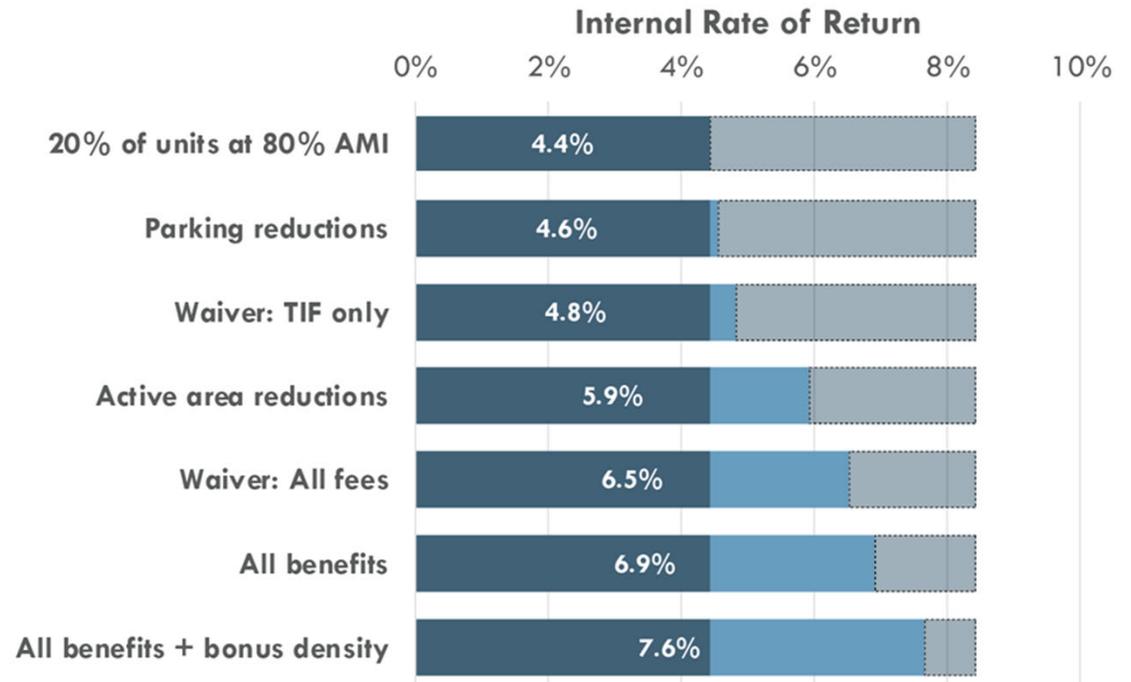
## Step 2: Model the impact of each incentive

How do the current incentive offerings impact financial returns for market rate developers?

When all incentives are included, developers can expect a **7.6%** IRR, compared to **8.4%** if the project proceeded as market-rate with no incentives.

This indicates most market-rate developers would not choose to use incentives and include affordable units.

## Internal Rate of Return (IRR), Example Multifamily Development Project With Incentives



# What is working well

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- Incentives are being used by some affordable housing developers
- 682 units of affordable housing have been created since inception of program
- Density bonus allowed for the creation of 116 affordable units beyond zoned capacity
- Cost savings help stretch limited available funding for affordable housing projects

# Room for improvement

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- Rate of affordable housing production is too slow to meet needs
- No market-rate developers used the incentives
  - Incentives provide limited value to market-rate developers
  - As a result: no mixed-income projects
- Lack of funding for fee waivers
  - Without replacement funding, most waivers could not be used by developers
- Complicated code language
  - Inconsistent qualifying thresholds and complicated requirements make incentives difficult to understand and use for many developers

# Recommended Actions

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## **I. Strengthen existing incentives**

- Simplify complicated requirements to enhance impact of incentives
- Increase and dedicate funding for fee waivers

## **II. Attract more affordable housing production**

- Support affordable housing projects through land donation
- Provide flexibility in development standards for affordable housing
- Provide clear information and marketing materials

## **III. Augment and coordinate funding opportunities**

- Explore partnership opportunities with cities to coordinate on affordable housing funding

# I. Strengthen existing incentives

## Challenge: Complex requirements make incentives less usable

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### Examples:

- Inconsistent qualifying thresholds and requirements (variation by incentive)
  - Minimum unit to qualify
  - Percentage of units that must be affordable
  - Timing of application for fee waiver
  - Minimum distance to transit to qualify for alternative development standards
- Confusing and inconsistent reimbursement language for fee waivers
- Limits on distribution of fee waivers by community planning area
- Complicated homeownership shared equity requirements
  - Unfamiliar to affordable developers and administratively burdensome

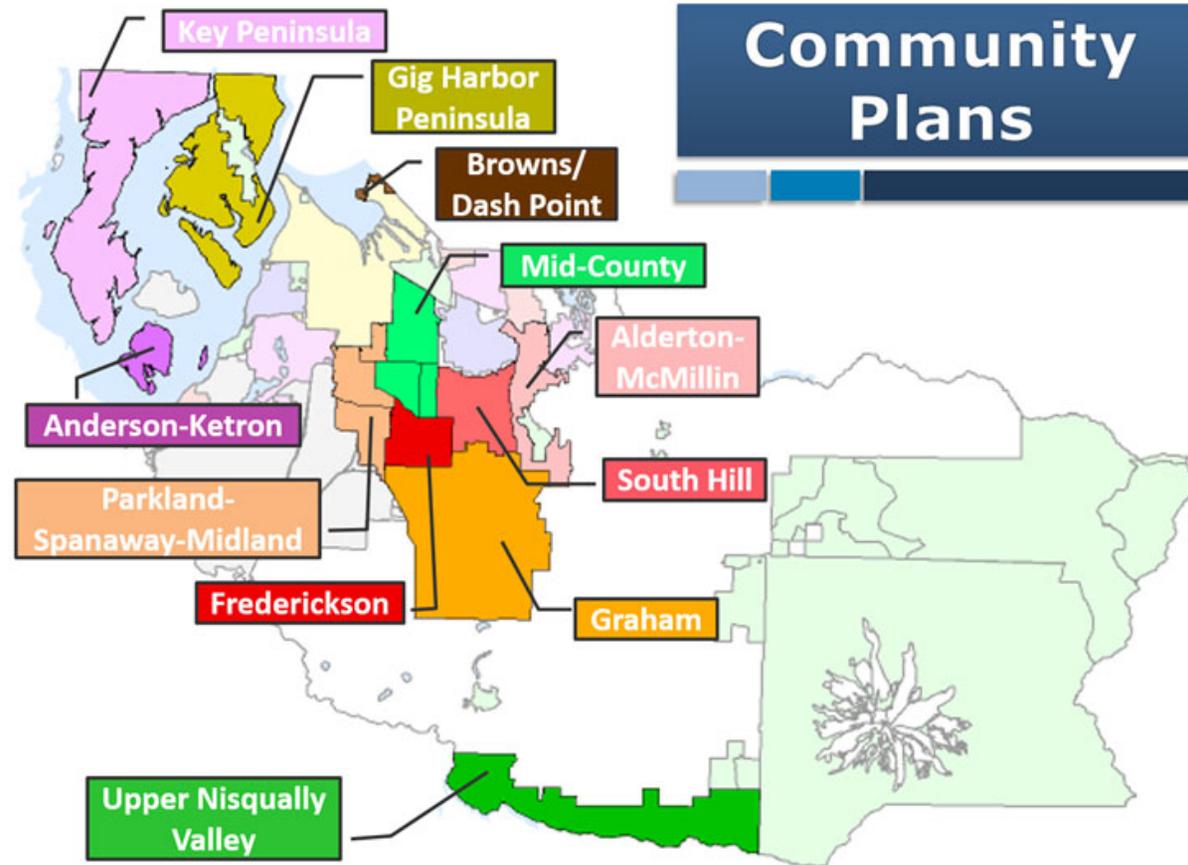
# Action: Code audit to simplify requirements

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- Conduct a code audit
  - Identify opportunities for streamlining incentives through simplification and removal or standardization of requirements that limit applicability
- Specific changes to consider:
  - Remove or standardize minimum unit requirements for project size (18A.65.040)
  - Standardize language for reimbursements across fee waivers and remove unnecessary timing restrictions for applications
  - Remove the complicated shared equity requirements and replace with a model that is familiar to non-profit developers and county staff (18A.65.030 G)

# Challenge: Fee waiver funding is limited

- In 2019, Council budgeted **\$350,000** for fee waivers
- BERK estimates this can fund waivers for:
  - ❑ **20-25** single family units
  - ❑ **23-30** multifamily units
- **11%** annual limit on funding by community plan area will significantly limit this potential impact.
  - ❑ Pierce county does not receive enough different applications
  - ❑ Not all areas are equally suitable for affordable housing projects



## Action: Increase and dedicate fee waiver funding

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- Identify a target number of affordable units to fund annually
- Identify a dedicated source of revenue sufficient to fund these targets
- Remove limits on annual funding for fee waivers in each community plan area (18A.65.040.B.2)
- Develop a plan to market incentives to the development community
- Create system to track waiver applications and awards

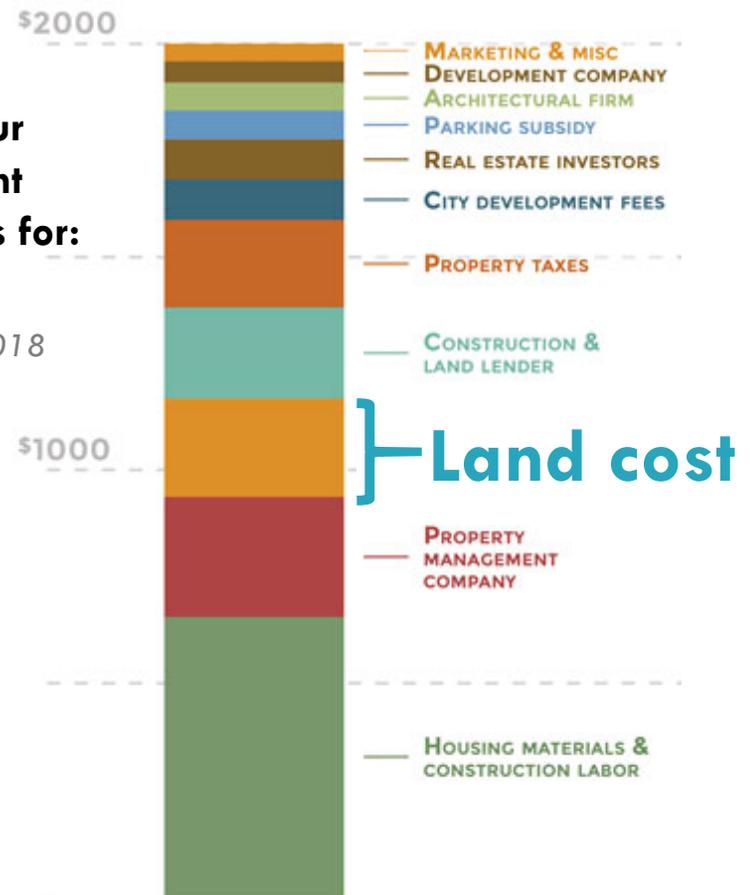
## II. Attract more affordable housing production

# Challenge: Land is expensive, and getting more so

- Acquiring land for development can be a significant cost for affordable housing developers.
- Land that is donated or sold/leased at a discount can help bring down the cost and make affordable housing projects more feasible.

What your apartment rent pays for:

Source:  
Sightline, 2018



## Action: Support affordable housing through land donation

- Establish a comprehensive land disposition policy that outlines goals for use of publicly owned land.
- Identify public and partner-owned land that is suitable for affordable housing development.
- Create an interactive website to share available land with the development community
- Publish the inventory to raise awareness for opportunities
- Develop a consistent process for developers to access publicly owned land.

### Example:

The **City of Bellevue** supports affordable housing projects by donating or leasing public lands to affordable housing developers. Four projects have been assisted in this way: Hopelink Place, Habitat Eastmont, Brandenwood Apartments, and Park Highlands at Wilburton Apartments.

## Challenge: Development standards can raise housing costs

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- Development standards can impact project costs and reduce housing yield.
- Planned Development Districts (PDDs), allow for flexibility, but don't recognize affordable housing as a public amenity
- In other jurisdictions PDDs can include affordable housing as public benefits.

## Action: Provide flexibility in development standards

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- Review design requirements for small residential lots in Section 18J.17 of County Code to streamline list and improve flexibility of provisions
- Amend Section 18A.75.050 J of the County Code to specifically include affordable housing as a rationale for exceptions to zoning requirements in Planned Development Districts (PDD)
  - Focus on site-specific situations where affordable housing may be included with other amenities
- Provide greater benefits as a part of the development incentives for affordable housing included in PCC 18A.65.050B.
  - Reduced lot/area dimension requirements could apply to all lots in a subdivision
  - Affordability requirement could be decreased to 10% versus 20%

## Challenge: Low awareness of incentives in developer community

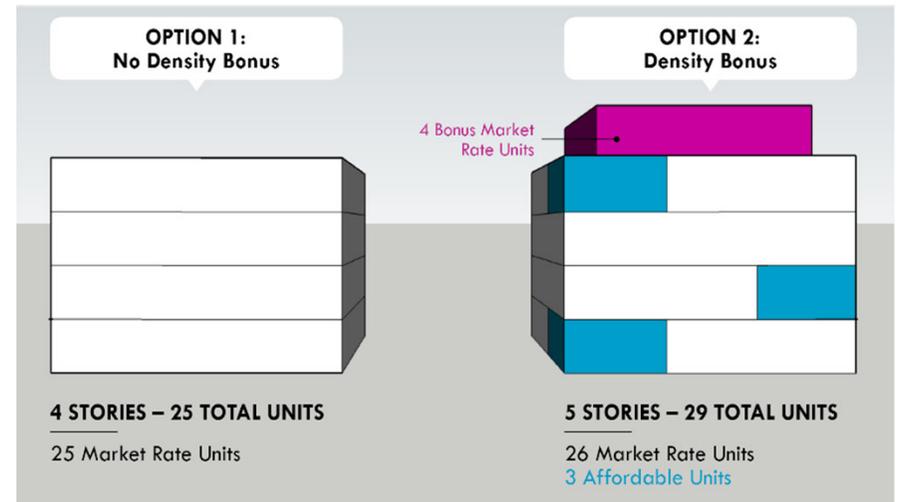
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- Interviews revealed low awareness of the incentives, particularly among market-rate developers.
- Many market-rate developers lack experience managing projects with an affordable housing component.
- The County has not allocated resources to:
  - Communicating or marketing the affordable housing incentives
  - Connecting developers with technical assistance on affordable housing topics like managing income-restricted units

# Action: Provide clear informational and marketing materials

- Application process
  - Develop a clear process for accessing the incentives
  - Communicate this process (example: a simple checklist)
  - Maintain a single point of contact
- Informational materials
  - Create concise documents to explain the incentives and their benefits to developers
- Web portal
  - Develop a central portal for this information, accessed through the existing County website

Example figure explaining concept of density bonus



See report for links to examples used in other communities.

### III. Augment and coordinate funding opportunities

# Current County Funding for Affordable Housing

Funding Source	Used for	Projected 2019 Revenue
Affordable Housing for All surcharge (SHB 2060)	Eligible housing activities serving very low-income households, 50% AMI or lower	\$1.32 million
Local Homeless Housing and Assistance surcharge (SHB 2163)	Administer and implement homeless housing plan	\$6.7 million
Federal HUD Community Development Block Grants	Support public facilities, economic development, affordable housing preservation, home repair loans, and basic services to vulnerable populations	\$3 million
HOME Investment Partnership Grant	Affordable housing development and preservation, homebuyer loan programs, and basic services	\$1.2 million
Emergency Solutions Grant	Homeless services	\$250,000

## Challenge: Affordable housing needs defy boundaries

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- Housing affordability is a regional challenge that cannot be solved by Pierce County alone.
- Accessing many state and federal funding or financing resources requires active coordination between affordable housing providers and local jurisdictions as well as local funding support.
- Smaller jurisdictions often lack resources and expertise to effectively support affordable housing production.
- Availability of sales tax redirect funding (SHB 1406) provides a new opportunity for regional coordination.
- Pooling resources and coordinating with cities can increase the short-term impact of these funds on affordable housing production.

# Action: Explore partnership opportunities

- Reach out to other cities and organizations in Pierce County seeking to address affordable housing challenges.
- Look to other regional partnerships for best practices and lessons learned.
- Identify existing coordination processes that can be leveraged.

## Examples:

[ARCH](#): Partnership between King County and several cities in eastern King County. Pools and coordinates use of HUD funds. Provides technical assistance to cities.

[Alliance for Housing Affordability](#): Similar Partnership between Snohomish County and 13 cities.

[South King Housing and Homelessness Partners](#)

Questions?