

The Decline of Seattle Townhomes Under MHA

December 2021

In 2019, Seattle's Mandatory Housing Affordability program went into effect. Its goal was to create thousands of new affordable housing units through fees on development, while also boosting housing production overall.

Unfortunately, MHA fees are severely limiting new townhomes—a lower-cost, family-sized homeownership option. Post-MHA, townhome permit intake has dropped by nearly 70%.

3,210 people each year must now look elsewhere for a home, amplifying the housing affordability and climate crises.

Over the next 30 years, the City could lose \$1.74 billion in revenue from thousands of townhomes not built.

Cities like San Francisco, Portland, Redmond, and Federal Way exempt missing middle housing from inclusionary zoning; they recognize it can make small projects infeasible.

A few simple reforms, such as increasing the unit threshold for MHA, would allow townhome production to return to normal. Allowing MHA fees to be paid in installments could also bring more immediate relief.



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"Shake Shacks" Seattle townhomes, credit Hybrid Architecture & Alex Herbig

Under the City of Seattle’s Mandatory Housing Affordability (MHA) program, homebuilders have two choices when building townhomes:

- Designate a certain number of units within their project as income-restricted housing (also called onsite performance); or
- Pay a fee that goes into a City of Seattle affordable housing fund.

Building income-restricted affordable housing onsite in a townhome project is practically impossible. Most infill townhome projects in Seattle are only three to four units.¹ Since builders can’t designate a fraction of a unit as income restricted, builders must round up to one—or in certain cases two—whole townhomes out of the three or four that are built. This is effectively a 25–66% affordability requirement, rather than the 2.1–11%² called for in the MHA ordinance. Such high requirements are not feasible, so builders pay the MHA fee instead.

Based on a 2021 survey of MBACKS members, 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.

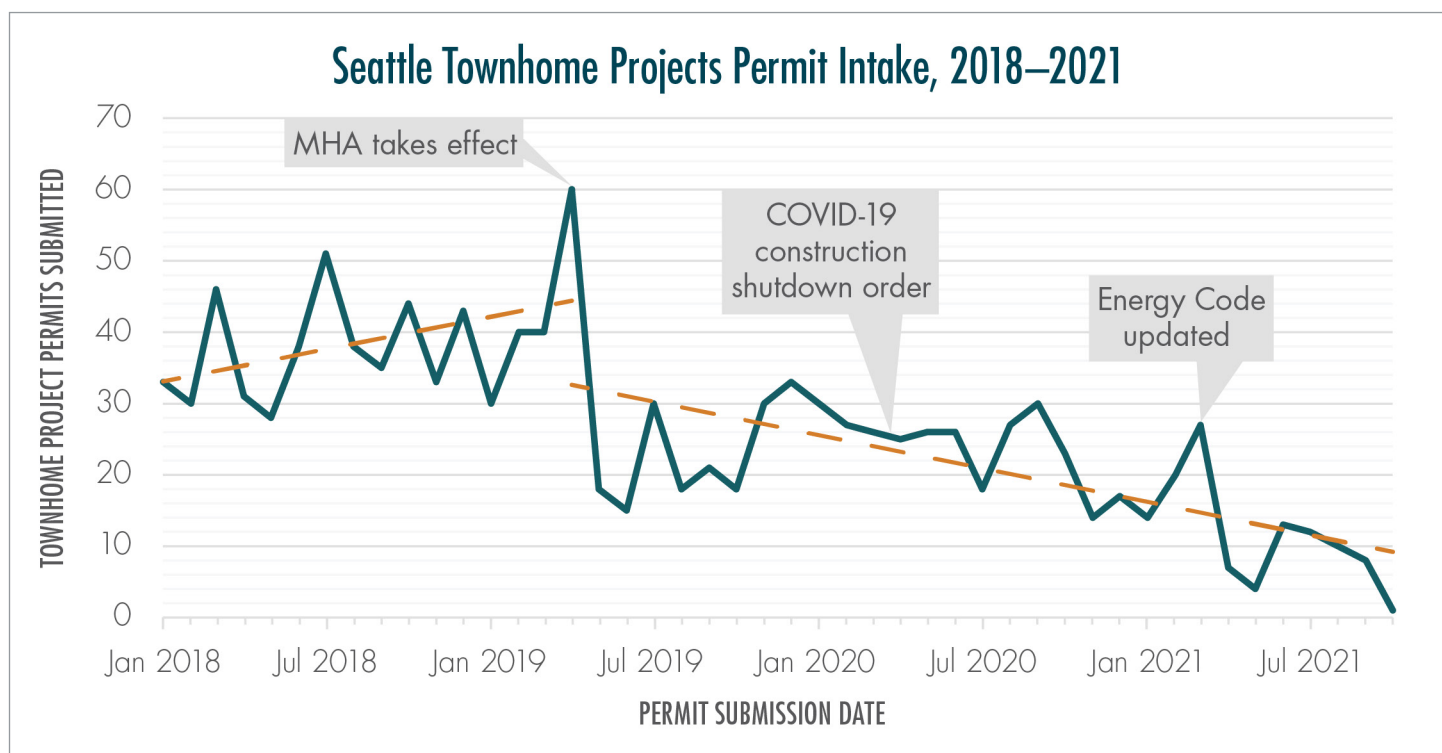
MHA fees are also due very early in the development process—before the permit is issued and too early to be folded into a construction loan—rather than in installments. Though larger developers have less difficulty coping with steep, out-of-pocket fees, the current MHA fee structure is particularly challenging for small, local townhome builders.

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By making many projects infeasible, MHA fees also inevitably drive up the cost of housing for current and future Seattle residents.

THE DATA

It may seem like Seattle is bustling with townhome construction activity, but an MHA-driven decline in townhome project permit applications is already visible in City data.³ Townhome projects went from



representing 35% of Seattle residential construction permit intake in 2018, the last full year before MHA went into effect, to a mere 21% in 2020, the first full year after MHA.⁴

- In 2018, the City accepted 450 townhome construction permit applications, equivalent to about 1,800 units.
- In 2020, the City accepted only 289 project applications, or approximately 1,156 units, a 36% drop.
- The City is projected to accept 139 project applications by the end of this year, or 556 units, a 69% decrease from 2018.
- In comparison, permits for detached single-family homes, which are largely exempt from MHA fees,⁵ were relatively stable, with 510 applications in 2018 and 494 in 2020.

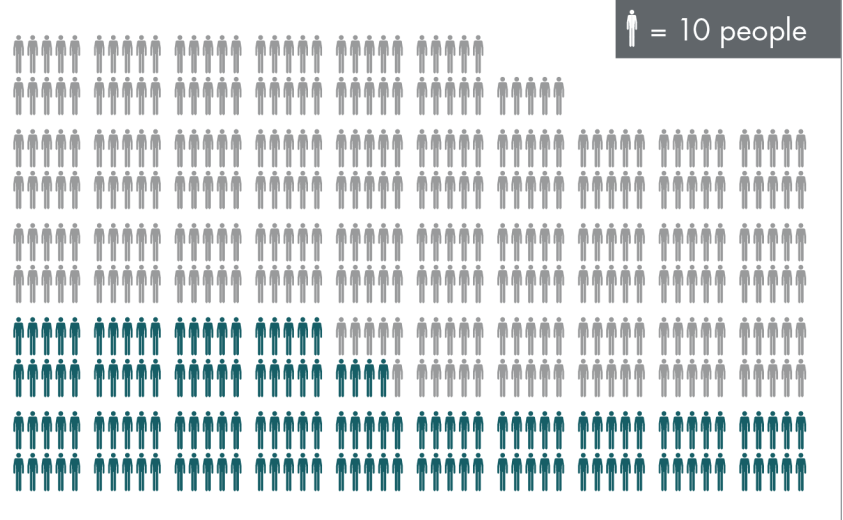
In April 2019, 60 townhome projects representing approximately 240 units rushed to beat the MHA deadline—the highest number of permits in a single month in recent years. The following month, townhome permit applications dropped to 18 (72 units). Since then, there have been at most 33 permits per month, or 132 units. In October 2021, *only a single townhome project applied for a permit.*

Despite these alarming trends, the then-director of the Seattle Office of Housing (SOH) was quoted earlier this year in *The Seattle Times*:⁶

“The MHA program is on track. ... We don’t know what will happen with the real estate cycle over the coming years, but our early production has been consistent with the overall vision.”

Anecdotal observations and optimistic predictions from SOH and other MHA advocates fail to take into account construction timelines. New construction takes years—feasibility studies,

Townhome projects seeking permits in 2021 are projected to house **3,210 fewer people** than projects in 2018.



Central Area townhomes, photo courtesy Sightline Institute Modest Middle Homes Library, CC by 4.0

design, financing, and permitting must all be addressed before shovel meets soil. Seattle builders are reaching the end of their pre-MHA project pipeline; the units being produced today

were permitted prior to MHA. Many area builders haven't purchased land for townhome projects in over a year.

Soon, there will be few new townhomes available to buy. The inventory simply will not exist.

The impact of MHA on housing production overall and townhome production specifically will not be obvious to the public until significant harm has already been done.

HOUSING A GROWING SEATTLE

Seattle has grown by an estimated 8,400 people in the last year alone and an estimated 157,400 people in the last decade.⁷

Townhome projects seeking permits in 2018 were likely to accommodate 4,647 residents,⁸ or 28% of Seattle's population growth that year. 2021's projected townhome projects are only likely to accommodate 1,437 residents, or 17% of the year's growth.

Demand for homes is high, housing supply is tight, and the Seattle housing market has remained

unattainable for most. Even with the fall housing market "cooldown," the best that can be said is that Seattle is now only the fifth hottest housing market in the country, rather than the third. Home prices may be plateauing after months of record-breaking growth, but they are still up about 24% over last year according to The Seattle Times.⁹

HURTING HOUSING TWICE

The City and the affordable housing fund also suffer from this drop in townhome production. The City raised \$68 million in MHA fees across both residential and commercial projects in 2020. That figure could have been 31% higher—\$89 million—and helped fund approximately 264 more affordable housing units if the City had implemented MHA in a way that did not suppress townhome construction. The very policy intended to build more homes is directly causing both the decline of townhomes and a decline in potential revenue for the affordable housing fund.

Comparing 2018 data to 2020, we would have expected to see at least an additional 644 townhome units permitted last year. Based on the median new townhome sale price,¹⁰ the City would

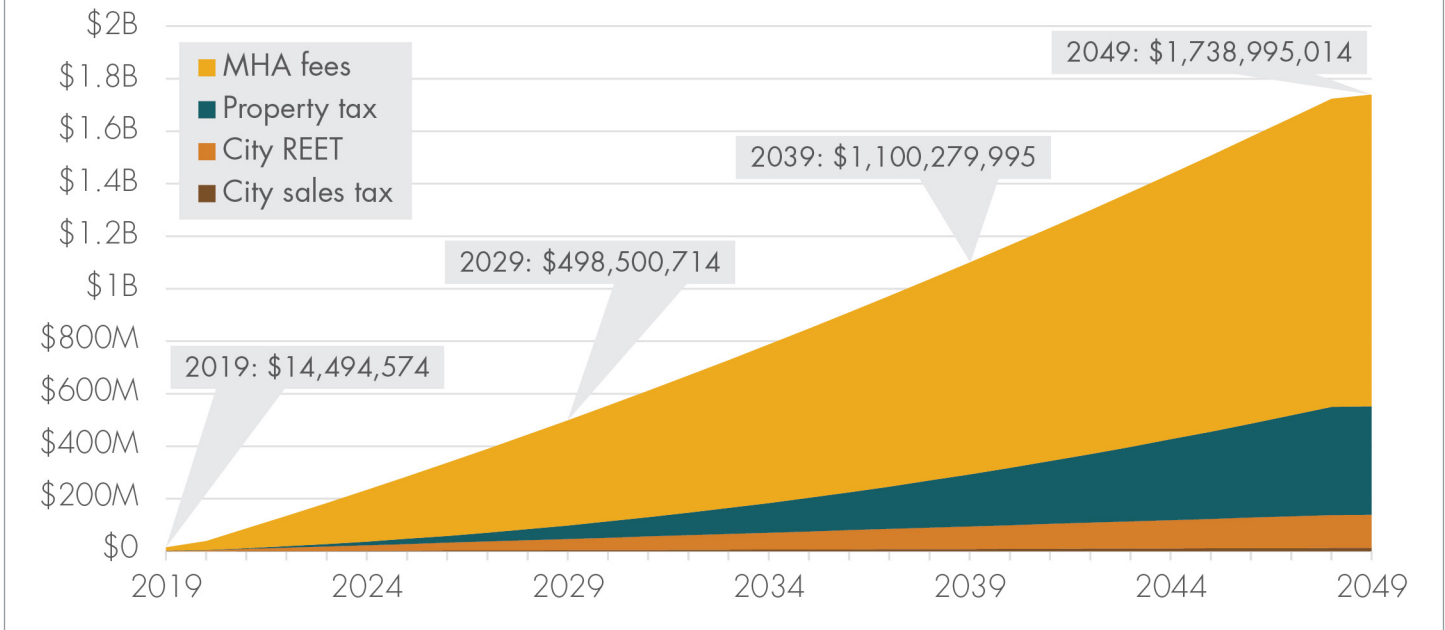


"Big Mouth House" Seattle townhome roof deck, credit Ed Sozinho Photography

Over the course of 30 years, the City could lose \$1.74 billion from thousands of townhomes not built.

Seattle Revenue Lost Due to Reduced Townhome Production

(30-year cumulative projection, beginning with April 2019 MHA implementation)



have brought in (approximately) the following from those additional townhomes:¹¹

- \$21 million in MHA fees;
- \$2 million in local real estate excise taxes (REET);
- \$221 thousand in sales taxes from construction; and
- \$497 thousand in annual property taxes.¹²

Without MHA reform, this revenue loss to the City of Seattle will only grow. Over the course of 30 years, the City could lose \$1.74 billion from thousands of townhomes not built:

- \$1.19 billion in MHA fees;
- \$127 million in REET;
- \$12 million in sales taxes; and
- \$413 million in property taxes.

This is without even accounting for any further drop in townhome production; annual consumer price index adjustments to MHA fees;¹³ property tax increases; lower housing costs leading to additional disposable income and spending in the local economy;¹⁴ more employment in the local real estate industry; the state's portion of REET; and state and county sales taxes.

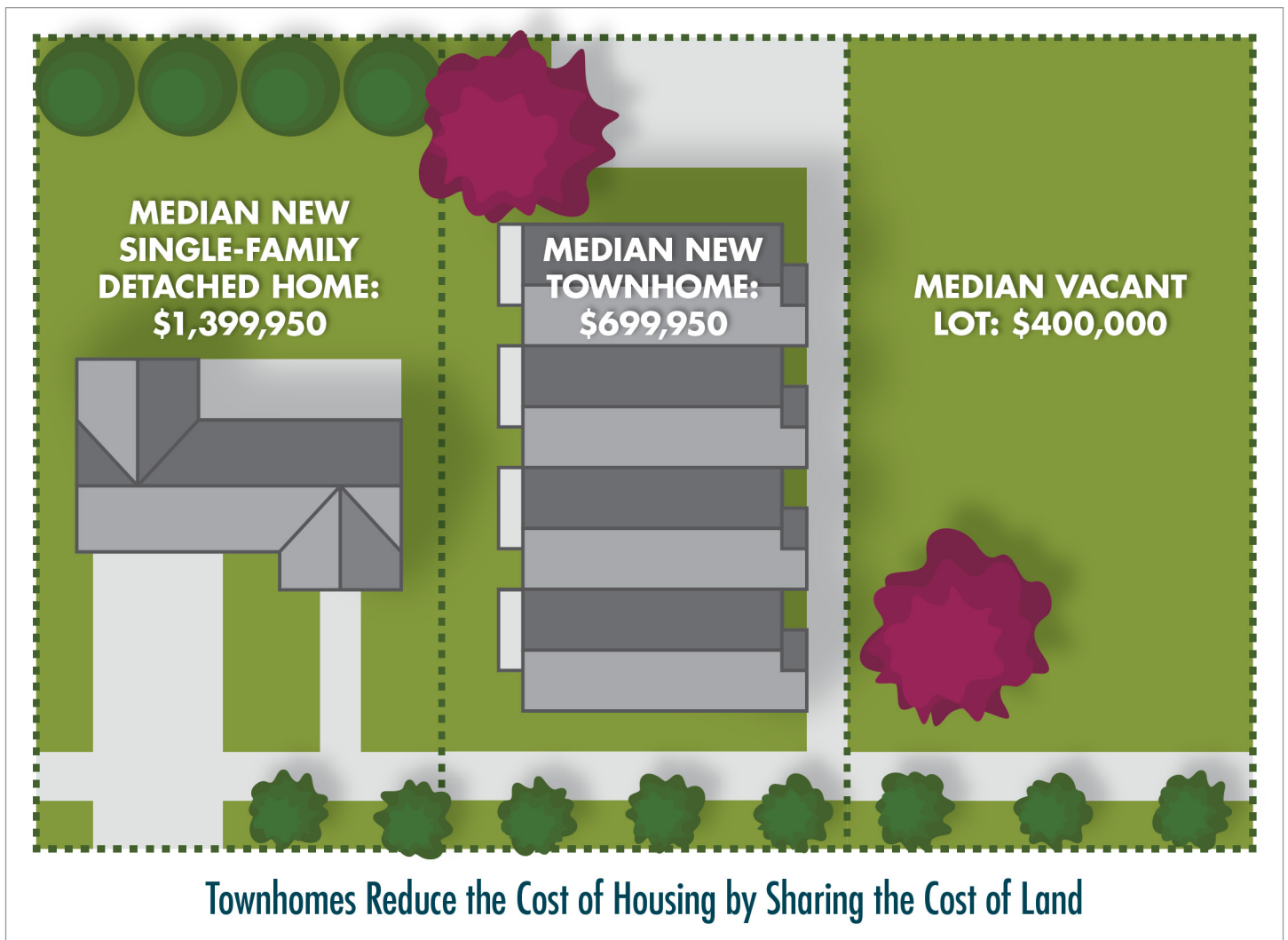
AFFORDABILITY & EQUITY

The dropoff in townhome permits is also concerning because townhomes are part of the “missing middle” housing spectrum, offering a more affordable option for individuals and families than detached single-family homes.

Townhomes can often be built and sold for less because land accounts for a significant portion of a home's sale price. A parcel where a typical detached single-family home would sit can accommodate four or more townhomes or small apartments, sharing land costs across multiple households.

Homebuyers who could afford a market-rate townhome would be hard pressed to find a comparable single-family home within the same neighborhood and budget. The median price of a new townhome sold in Seattle between August and October 2021 was \$699,950. Although we

Missing middle housing is a range of small-scale buildings such as accessory dwelling units (ADUs), duplexes, triplexes, fourplexes, townhomes, and bungalow courts.³²



wish that price were lower, it is still attainable to a dual-earner household,¹⁵ each earning an average salary for Seattle.¹⁶

The median price of a new single-family detached home sold during the same period was \$1,399,950, double the price of a new townhome and well out of reach for the average family. According to the National Association of Home Builders (NAHB), for every \$1,000 increase in the price of a home in the Seattle/Bellevue/Tacoma market, 1,557 households are priced out.¹⁷ The constant increase in City-imposed fees and regulations is pushing people out of Seattle. The City should aim to drive the price of housing down whenever possible.

Reducing the availability of townhomes in Seattle and forcing people into older homes or longer commutes also increases carbon footprints. Most new townhomes constructed in Seattle are Built

Green certified—in fact, townhomes made up 79% of all Built Green project certifications and 35% of all certified housing units in 2018.

As such, the decline of Seattle townhome permits is also leading to a decline in Built Green enrollment for the region as a whole:

- Between Jan.–Oct. 2018, 1,672 townhome projects and 2,080 projects across all residential types were enrolled.
- Between Jan.–Oct. 2021, only 671 townhome projects and 1,309 projects across all residential types were enrolled.

This represents a 60% drop in Built Green townhome projects and a 37% slump in enrollments overall.¹⁸ Besides collapsing Seattle townhome production, unreasonable MHA fees are harming the City’s climate goals.

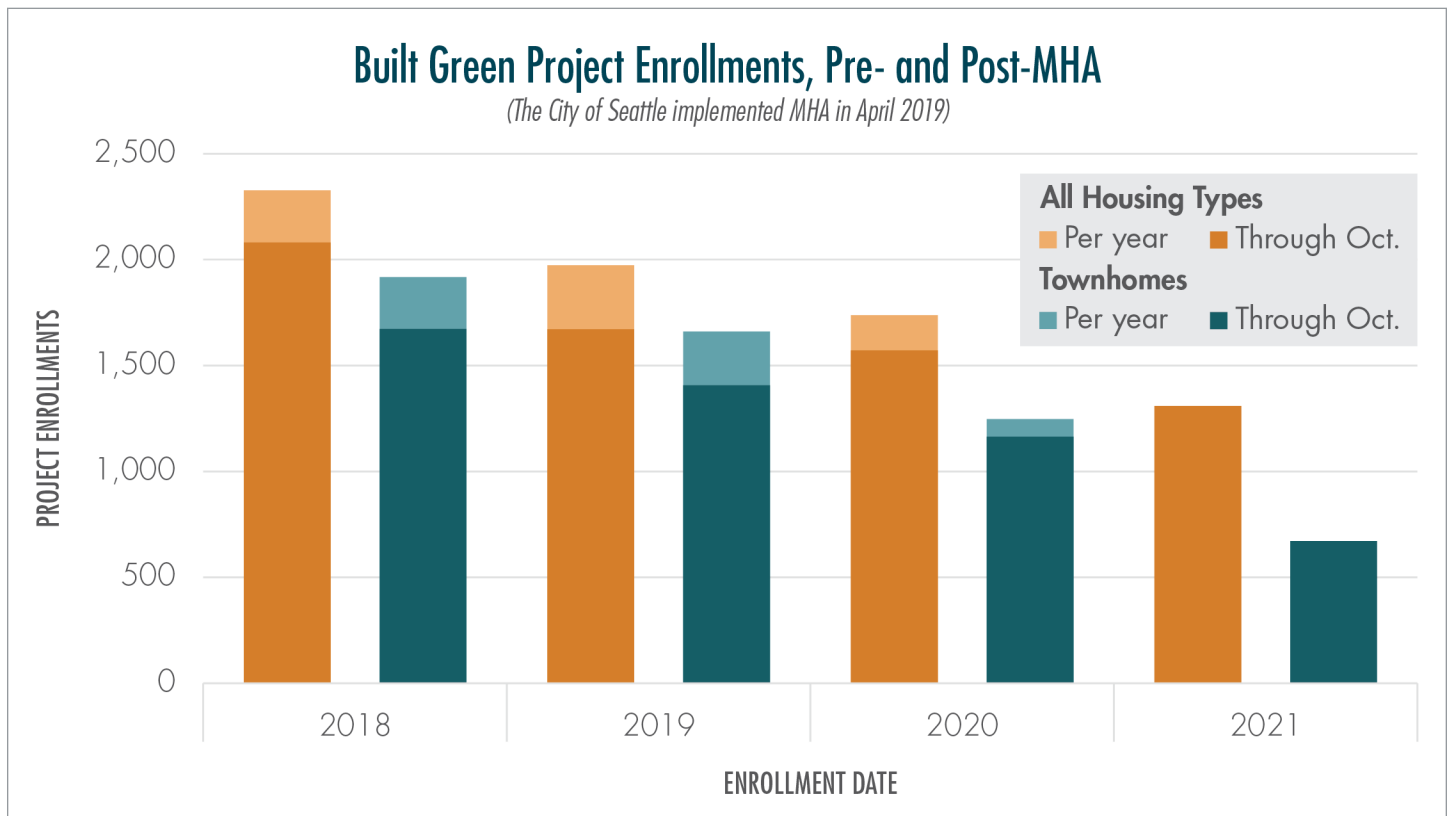
The average Built Green 4-Star home in Seattle emits 973 pounds less operational carbon (oCO₂) per year compared to an average code-built Washington home.¹⁹ People unable to buy a Seattle townhome are unlikely to be able to purchase a detached home in Seattle that meets similar efficiency and emissions standards.

If a person unable to purchase a Seattle townhome instead bought one in Shoreline, they would generate approximately 4,875 pounds of additional oCO₂ per year,²⁰ just from commuting in an average gas-powered car to Seattle for work. The additional carbon emitted from this single annual commute wipes out the combined annual oCO₂ emissions savings of five Built Green 4-Star homes.

Townhomes provide an environmentally friendly, family-sized homeownership option close to jobs, transit, schools, and other desired community amenities. These benefits must not be limited to Seattle's wealthiest residents.



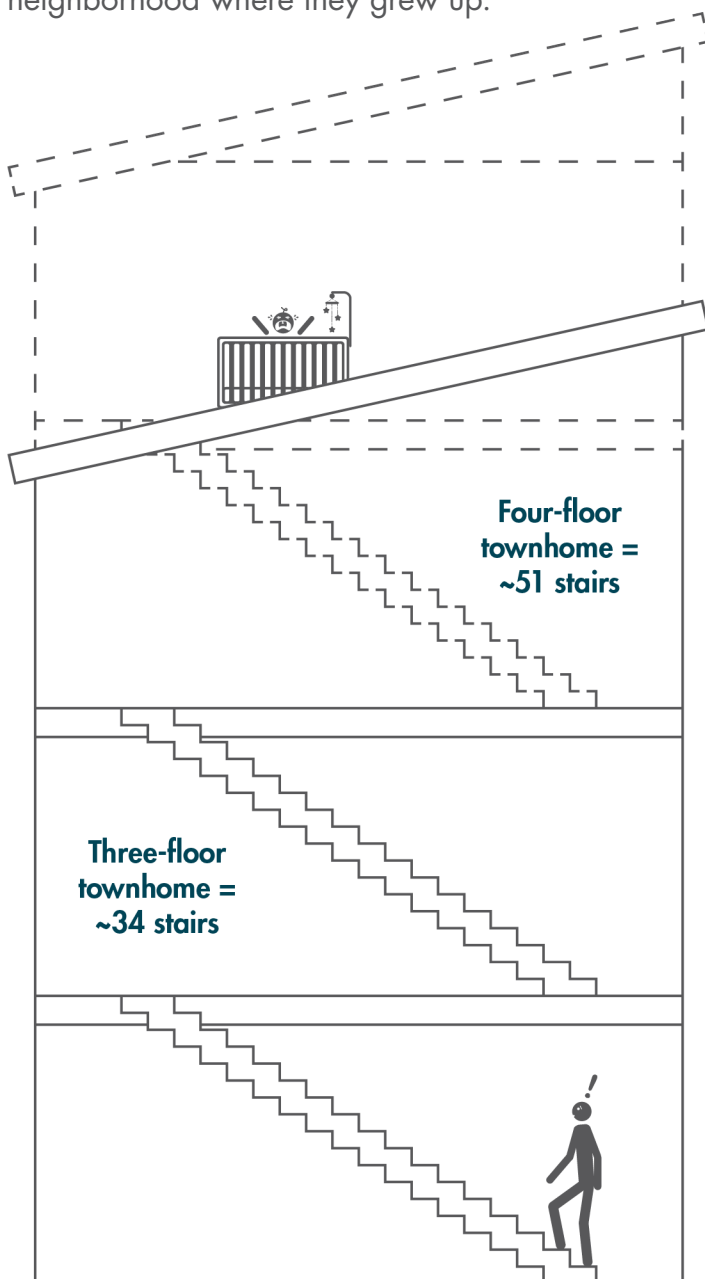
"The Lookout," credit Hybrid Architecture & Rafael Solís



According to a Redfin report, upzones—and townhomes specifically—are a key reason why Seattle has become the most economically integrated large city in the country:²¹

“In Mount Baker, one homeowner is currently asking \$12.4 million for their waterfront mansion that boasts stunning views of Mount Rainier and Lake Washington. It’s a five-minute drive from this relatively modest townhouse that sold for \$480,000 in December.”

The same report also links children’s future health status, incarceration rates, and earnings potential to the economic integration level of the neighborhood where they grew up.



Townhomes represented 68% of all new family-sized homes sold in Seattle in the last three months.

Thanks to townhomes, more than half of Seattle homes are now located in neighborhoods with nearly the same amount of affordable and high-end homes—and more Seattle children have access to the opportunities these areas provide. In fact, townhomes represented 68% of all new family-sized homes sold in Seattle in the last three months.²²

So why are townhome projects declining when there is a critical need for new homes—especially lower-priced, family-sized homes?

FORESEEN CONSEQUENCES

According to the City, MHA was intended to boost housing production overall, in addition to increasing rent- and income-restricted housing specifically:²³

“By increasing development capacity in areas where current zoning constrains supply of new housing, this proposal will increase total housing production. ... Increased production is expected to have a positive impact on affordability. ... We estimate the proposed legislation could increase overall housing production in the study area over 20 years by approximately 38 percent.”

Washington state law also requires that MHA and similar affordable housing programs be accompanied by development incentives²⁴ such as increased floor area ratio (FAR), an extra story, or modified density limits.

Townhomes are already a very vertical housing type; homebuyers are not looking for a townhome with four floors.

For townhomes in Seattle, MHA fees are supposed to be offset by allowing the construction of an extra floor. This incentive is unrealizable due to a variety of design, market, and land constraints.

Townhomes are already a very vertical housing type; homebuyers are not looking for a townhome with four floors. Only 12 townhome projects in 2019 applied for a fourth floor (3% of Seattle townhome projects overall), and two of those were before MHA went into effect. 2020 saw similar apathy, with 18 townhome projects applying for fourth floors. So far in 2021, just seven townhome projects have applied for a fourth floor.

Besides livability concerns, there is little demand for four-floor townhomes because they are less affordable for homebuyers. Adding a fourth floor increases the price of townhomes in three ways:

- An extra floor increases the overall square footage of the townhome. Larger homes simply cost more to build and to buy in the short term and to heat, cool, and maintain in the long term.
- MHA fees are charged based on the gross floor area of a development; adding a floor increases gross floor area. Even though that extra floor is supposed to be a developer incentive, builders must still pay a higher MHA fee for a larger four-floor townhome than an otherwise comparable three-floor townhome.
- Four-floor townhomes are required to adhere to stricter building codes, curtailing townhome construction and making them more expensive to build.

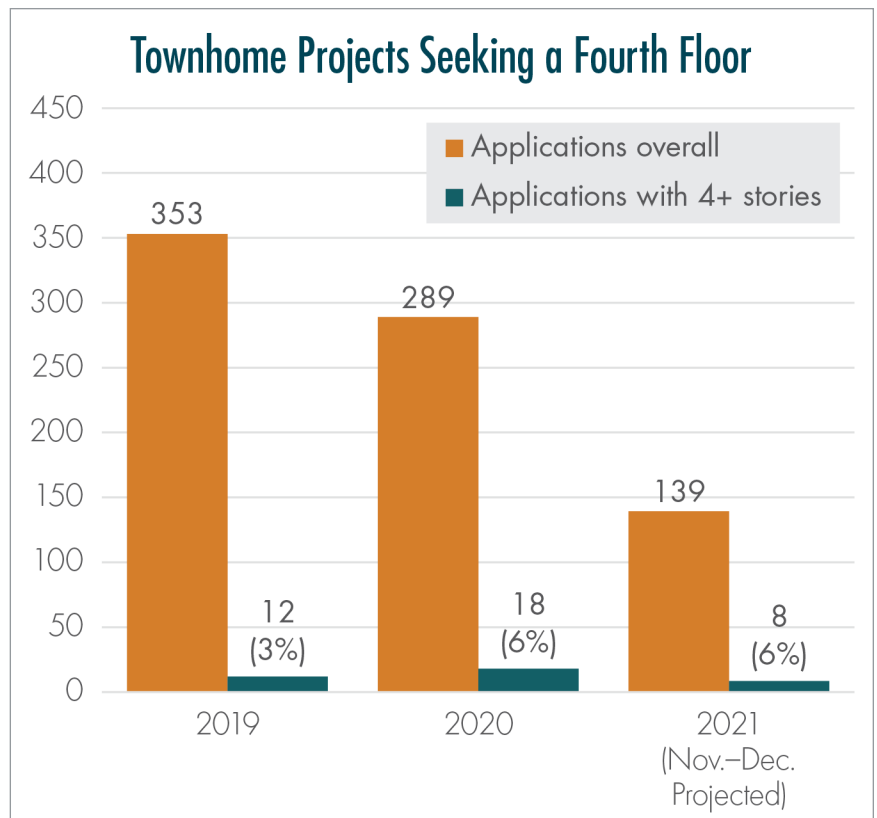
Floor Area Ratio (FAR) is the ratio of a building's total square footage to the size of the land on which it is constructed.

These higher construction costs and fees are either passed along to buyers or make a project infeasible. Neither of those outcomes help make housing more affordable.

MHA's negative impact on new townhomes and housing affordability overall was not unforeseen. Sightline Institute covered this specific issue in 2017:²⁵

"MHA as proposed for townhouses and rowhouses is not balanced. ... The cost of the MHA mandates exceeds the value of the increased building capacity, so MHA would impede homebuilding, exacerbate Seattle's already acute housing shortage, and undermine the program's own goals."

Cities like Redmond,²⁶ San Francisco,²⁷ Portland,²⁸ and Federal Way²⁹ recognize that small residential building projects are not a good fit for mandatory inclusionary zoning. These cities have programs similar to MHA, but they exempt projects with fewer than 10 to 25 units. Instead, builders may opt in to inclusionary zoning and accompanying incentives.



PROPOSED SOLUTIONS

In Seattle, unfortunately, there is a major disconnect between policy intentions versus on-the-ground feasibility. The drop in townhome permits confirms this. Without reform, MHA will continue to worsen our regional housing crisis.

Although increasing townhome production will not solve Seattle's affordability crisis alone, addressing this specific issue will help.

The City must also look at the big picture by prioritizing initiatives that dismantle exclusionary zoning, allow and encourage more missing middle housing city-wide, and account for the real-world impact of policies on housing of all kinds.

Increasing the unit threshold for triggering MHA would allow townhome production to return to normal levels. The following, more immediate steps, could also help bring some relief:

- Allow MHA fees to be paid in installments, like the King County sewer treatment capacity charge, which is paid out over 15 years.³⁰ This helps avoid a large, upfront increase in home cost and is more compatible with townhome construction lending practices.
- Allow builders of small residential infill projects to pay MHA fees only on floor area that exceeds pre-MHA FAR limits.³¹ Rather than paying MHA fees on a project's entire gross floor area, a voluntary housing affordability program would charge builders only when they receive the benefit of additional floor area.

With reform, MHA can further the City's affordable housing goals without disincentivizing home production and reducing much-needed housing choices for current and future Seattle residents.

In a housing crisis, Seattle can't afford to continue losing townhomes. 📈



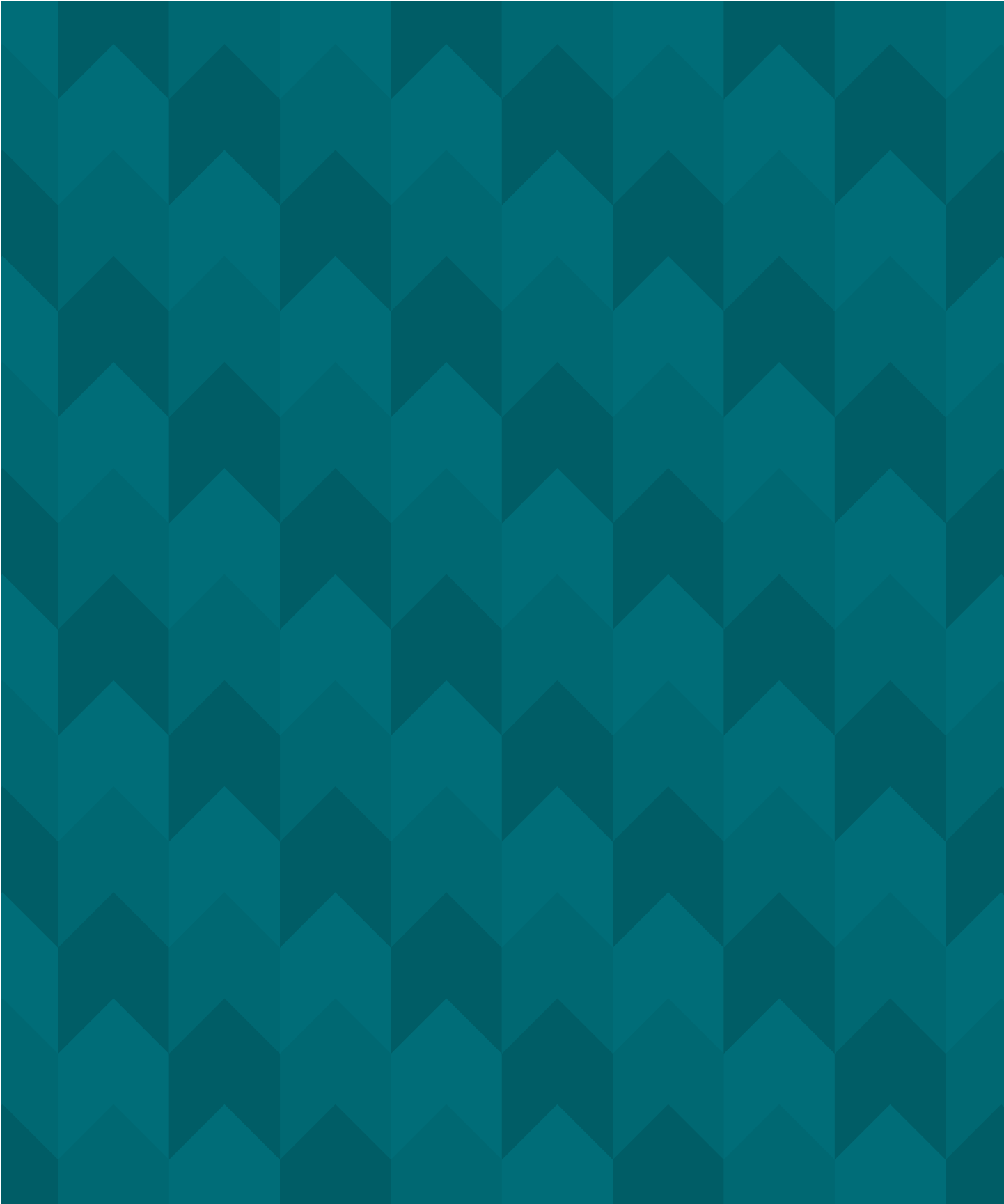
With reform, MHA can further the City's affordable housing goals without disincentivizing home production.



Fremont and Central Area townhouses, photos courtesy Sightline Institute Modest Middle Homes Library, CC by 4.0

ENDNOTES

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335 116th Ave. SE, Bellevue, WA 98004 | 425.451.7920 | mbaks.com

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