



## BRIEFLY

Housing is a regional and state need, but the supply is ultimately regulated by cities and counties. Local governments need to embrace change in their communities and welcome new additions to their housing stock. There are many examples of new types of housing that meet critical needs and truly enhance neighborhoods. And these models are not just for newcomers, but also for the empty-nesters, retirees and grown up children who want to stay in the community.

## **GIVE'EM SHELTER**

A five-part series examining the availability and affordability of housing in Washington State.

Part 5

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# Ways to Boost Housing Supply: *Local Actions*

The housing supply in Washington State is ultimately determined by local government: cities and counties approve and record every new plat and issue every building permit. Local zoning and development regulations govern density and building envelopes. Local governments also set standards for streets and for water and sewer utilities. So although the state establishes the overall parameters for land use, the number of houses, apartments and condominiums that end up on the ground is a function of cities, counties and special districts.

Local government officials face a fundamental political problem when it comes to actions that will increase the housing supply: their constituents will be indifferent at best, and often hostile. Until recently, cities have been accustomed to thinking of growth as something that happens at their margins. While they were obliged to accommodate new housing consistent with established zoning, they often did not feel a need to promote it. But the Growth Management Act (GMA) has changed all that. Not only are cities supposed to encourage housing growth, they are supposed to accommodate higher densities than they might otherwise allow.

The previous brief in this series emphasized the need for the state to make housing a higher priority (Washington Research Council 2006b). Local governments need to do the same. The responsibility for housing future generations can no longer be confined to county governments that govern vacant land in the unincorporated periphery. Cities need to step up.

This brief describes actions that should be taken at the city and county level to increase the housing supply. As with the previous brief on state actions, supply growth is based on two economic principles. First is the need to make it easier for the housing industry to respond to increases in demand with new supply. Second is the need to lower the cost of building housing so that demand increases do not automatically drive up prices.



### THREE POLICY CONSIDERATIONS

As local governments address the recommendations below, they would be well served to factor in three dynamics of the policy environment: the free-rider problem, economic development and congestion.

#### Regional needs and the free-rider problem

Housing markets operate on a regional and sub-regional basis. Historically, commuters have averaged about a half hour traveling to or from work and look for housing within that radius. By this standard, multiple jurisdictions serve the housing demand generated by an employment center, and as housing prices rise within the half-hour radius, demand will move farther out to a radius of an hour or more.

Nothing in the GMA requires jurisdictions with growing employment bases to provide housing for the new employees. Thus, jurisdictions can practice fiscal zoning — pairing policies to expand commercial activity and tax revenue with policies to discourage new housing and service costs. This is a classic free-rider problem, where there is no mechanism to ensure that everyone benefiting from a common good — a strong economy — also contributes to the maintenance of that good, which in this case is housing supply.

As part of the GMA, the state Office of Financial Management hands out population targets to each county. Counties, in turn, parcel out these targets to cities and unincorporated areas. This process has two problems, however. First, the targets do not have any relation to actual job growth and housing demand. Second, there is no system to enforce the targets. Thus, the GMA target process does not eliminate the free-rider problem.

New mechanisms are needed to balance job growth and housing supply at the sub-regional, or commute-shed level. Not every city will balance jobs and housing perfectly, but all cities and unincorporated areas must share the load of housing the workforce.

#### Relationship with economic development

Every area of the state has an economic development program designed to generate well-paying jobs for current and future residents. Few of these efforts, however, consider housing supply as a factor in their success.

The third brief in this series discussed the relationship of housing supply, population growth, industry structure and labor markets (Washington Research Council 2006a). The upshot is that the supply and price of housing will dictate the form of economic development that can take place. A market environment characterized by tight housing supply and rising prices will favor businesses that pay high wages (e.g. software) and discourage businesses that pay moderate wages (e.g. manufacturing). Employers might not look directly at housing prices, but when they see the wage structure of a region, which has been shaped by high housing costs, they may decide to go elsewhere.

Another feature of this dynamic is that high housing prices do relatively little to discourage in-migration, since the businesses that can thrive in a high-price environment tend to recruit nationally and internationally. On the other hand, businesses that pay moderate wages, and struggle to operate in a high price market, tend to hire locally. Economic development strategies operating in a high housing price environment can lead to a perverse outcome: more jobs for in-migrants and fewer jobs for local residents.



## **A solution to road and school crowding**

Even with recent transportation funding increases, many urbanized areas of the state will remain heavily congested during commute times. Traffic congestion will continue to be exacerbated by housing supply shortages that compel commuters to move farther and farther away from their jobs in search of housing that meets their needs and financial resources.

The most promising and cost-effective way to address congestion is to offer more housing options close to job centers. This strategy has two dimensions. First, provide a variety of options attractive to empty-nesters and retirees near to existing single-family neighborhoods to free up traditional detached homes for families. Second, permit higher density, ground-related housing (such as small lot developments, duplexes and townhouses) that will attract households that are priced out of the large-lot detached market but do not want to live in large multi-family complexes or commute from more affordable areas.

Providing more options for families in close-in neighborhoods has the added advantage of filling up schools. It makes no sense to build schools that are only used by one or two generations of students. But if neighborhoods remain full of empty-nesters and retirees, while young families move further and further away, school districts will find themselves struggling to keep up with growth in peripheral areas while closing down schools closer in.

## **INCREASING THE HOUSING SUPPLY: LAND CAPACITY**

Increasing the housing supply begins with land capacity. This means more than just inventorying vacant or redevelopable land. It also means acknowledging the economic challenges of developing that land.

The previous brief in this series described changes that need to be made in the Buildable Lands process (Washington Research Council 2006b). Beyond this, cities must more clearly link the land-use elements and housing elements of their comprehensive plans. Housing elements should specify the number of households that the city will accommodate, based on its target allocation of population growth and realistic projections of household sizes. The land use element should provide land capacity for the number and types of housing units that these households will demand.

Below are some additional ways that local governments can make the most of the land they have.

### **Problem: inflexible zoning**

Nearly all the land available for residential development falls under rigid zoning classifications. But a zoning designation such as lot size is an arbitrary measure that does not reflect any objective standard. A community will defend its 15,000 square-foot lots as vehemently as another will defend 10,000 square-foot lots and another will defend 5,000 square-foot lots. Experience with higher density development has shown that it does not affect property values – in fact lot size and home values have little to do with each other. Zoning flexibility can allow greater housing production with little additional impact.



### **Solution: performance zoning**

The previous brief suggested the state mandate performance zoning. Although local governments are free to use this technique today, few do. Many local governments do have provisions for Planned Unit Developments and floating zones that approach the concept, but many of those processes do not get very dramatic results.

The idea of performance zoning is to anticipate the actual outcomes of a project instead of just measuring units or lot sizes. For example, a parcel that is zoned for four single family homes, but is in an area that attracts single professionals, could be developed as a cluster of ten cottages. The impact of the cottage residents – primarily singles and couples – will be no more than the impact of the larger homes, which would likely have children.

If builders are given tools to propose uses of property that differ from current zoning, they can maximize the value of land and provide more choices in the marketplace. Performance measures that can be employed to evaluate a proposed alternative use include floor-area-ratios, target markets or trip generation.

### **Problem: inactive urban centers**

Housing development in urban centers constitutes a central part of the growth strategies of many communities. The vision for these centers is as mixed use areas with stacked-flat housing, retail on the ground floor, and office buildings nearby. This kind of development has been happening in a number of areas, notably Downtown Seattle, Downtown Tacoma, Bellevue and Kirkland. But most of the officially designated urban centers have seen little if any housing growth.

Urban center housing turns out to be quite expensive, and appeals to a narrow slice of the market. Successful development of urban center housing requires a combination of high rents in the area and abundant amenities. Most designated urban centers, however, offer housing nearby that is far less expensive than typical stacked-flat housing with structured parking. Builders and investors simply cannot make projects pencil out in most of the areas designated as urban centers. As a result, jurisdictions that have been relying on centers to meet their housing targets are falling short.

### **Solution: reassess the viability of centers**

As seen in several cities, there is clearly a market for urban center housing in the state. It also appears, however, that there is much more potential supply of urban center housing than there is demand. The urban center concept needs to be re-examined, based on 10 or 20 years of experience.

The first part of re-evaluation is to determine just how big a share of the overall housing market can be taken up by urban centers. The demand studies called for in the previous brief should shed some light on the number of stacked-flat units that might be absorbed. This demand projection can be compared to the capacity for such units, to see how big a surplus there is. Since urban centers need critical mass, it would make most sense to “undesignate” some centers so activity and demand can be concentrated in those with the most promise.

Second, cities with centers need to make an honest assessment of the degree to which they can offer the sorts of amenities that urban center housing requires for success. Although still evolving, the market for center housing is maturing to the point where developers have a solid understanding of what drives the preferences of their customers. Every aspiring center needs to figure out what it takes to get a tenant to pay \$200 to \$400 per month beyond what they would pay in a more conventional apartment or condominium. The answer that comes back will almost certainly involve a large measure of public investment, and the city needs to decide if it can commit to that.

**Problem: lack of housing choice**

A result of rigid zoning is a lack of choice in housing types. The housing stock in most areas of the state is dominated by two types: detached single family houses on large lots, and large multi-family complexes. Experience with alternative types of housing shows that there is ample demand for other types of housing, but there is insufficient land zoned for these housing models.

The result is that many households live in buildings that do not work best for them. Seniors and empty-nesters stay in overly-large houses because there are no attractive alternatives in the neighborhood. Singles and couples without children buy large houses because they like detached housing, but find no smaller alternatives. Moderate income families live in apartments because they cannot afford the large homes that dominate the area.

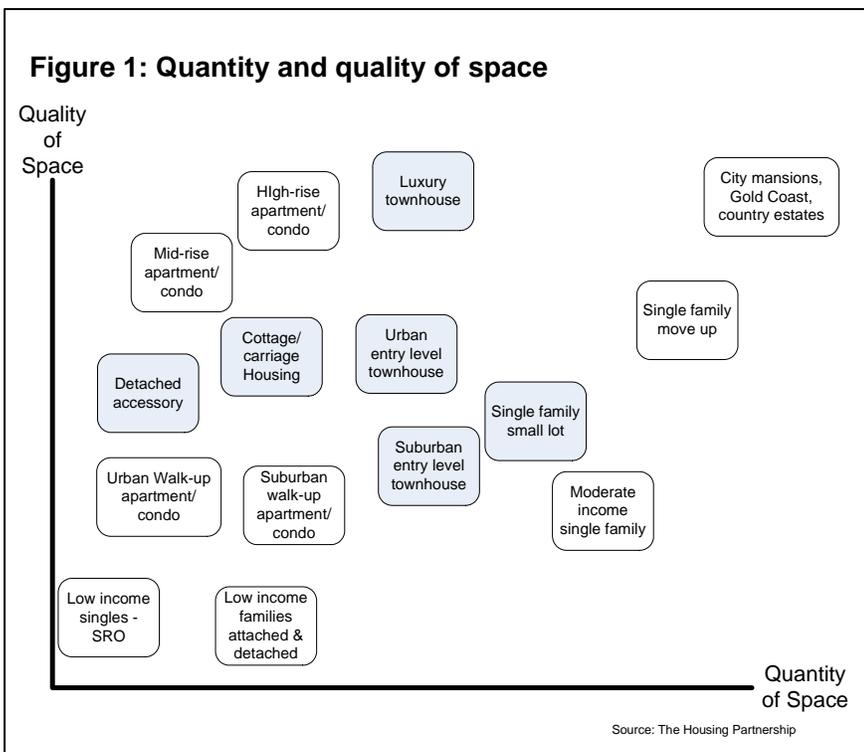
**Solution: encourage housing types with mid-level density**

Conventional single family neighborhoods top out at about six units per acre (7,200 square-foot lots). Garden-style apartments with surface parking usually start at around 25 to 30 units per acre. The density

range between those two common housing types can accommodate a variety of housing models that meet different needs at different prices.

One way to think about alternative housing types is the trade-off between quantity and quality of space. Figure 1 shows how various types of housing fit within that trade-off. The shaded boxes show the types of housing that can provide consumers alternatives while, at the same time, using land more efficiently.

A variety of tools can be used to permit these alternatives. In some cases, jurisdictions simply need to rezone areas to accommodate higher densities. Flexible zoning techniques, as discussed above, could also be used. Cottage housing has been successfully permitted as a conditional use. Some alternatives, such as allowing duplexes on corner lots, are logical enough that they could be allowed outright.





### MASTERPLANNED COMMUNITIES

Masterplanned communities (MPDs), also referred to as fully-contained communities, offer a solution to many of the housing supply problems outlined in this brief and previous briefs in this series. These communities, built on hundreds of contiguous acres of undeveloped land, provide major boosts in the housing supply of a region, while offering better affordability than nearby areas. They can do this by:

**Building at higher densities.** The traffic and other impacts of an MPD are dealt with on the edges of the envelope, but within the community, there is no one to object to higher densities. These densities, in turn, allow the developer to spread infrastructure and development costs among more units, thereby lowering prices. The success of the MPDs in Washington indicate that there is no shortage of demand for these higher density neighborhoods.

**Encouraging innovation.** The builders who construct the homes in an MPD are usually large sophisticated companies. These builders can afford more risk, but also have the capacity to do the market research that will help ensure success with innovative housing models. Higher densities, combined with a greater willingness to push the design envelope, has led to very successful new models of housing in MPDs. In fact, a large part of the innovation in the mid-level densities has taken place in MPDs.

**Operating with scale economies.** Housing is like most production businesses: larger scale operations lead to lower per-unit costs. The massive scale of construction in MPDs allows lower per-unit land development costs, bringing lot prices down. The homebuilding process also benefits from scale economies, as builders can negotiate better prices from suppliers and sub-contractors.

**Built-in amenities.** An important consideration in marketing higher density housing is the availability of amenities in the neighborhood: buyers are trading off private space for public space, so that public space needs to be attractive. By laying out and building very large areas, MPDs can include ample parks, trails, community centers and retail space. These features can be conveniently located and geared to the target market for the housing.

**Offering lower priced products.** MPDs are so large that, even in high-priced areas, they cannot simply offer high-priced housing. Once the project is underway, and the developer has sunk huge amounts of money into development costs and infrastructure, there is a strong incentive to build-out quickly. That means offering homes at lower price points that appeal to a broad segment of the market.

### INCREASING THE HOUSING SUPPLY: INFRASTRUCTURE

While the state provides the spine of the transportation system, local governments are responsible for the rest of the infrastructure that serves housing. Cities and counties build streets and arterials, while cities and utility districts build water and sewer lines. Whether new housing supply is being built on the periphery or as infill, basic infrastructure is an absolute precondition for its development.

Infill housing presents a special infrastructure problem. One of the underlying assumptions of growth management is that infill development can take advantage of existing infrastructure, thereby lowering development costs. This turns out to be only partly true. In many areas that have land suitable for infill development, the infrastructure is undersized, deteriorated, or both. Upgrading water and sewer systems, and bringing streets up to urban standards is very expensive, and there is no truly equitable way to share the cost.

So while questions of state highway funding tend to dominate the discussion of infrastructure adequacy, local streets and utilities present an equally daunting challenge.

#### Problem: infrastructure funding not geared toward growth

The problem discussed in the previous brief at the state level also applies to the local level. Capital improvement programs tend to be biased toward maintenance and upgrades of the existing system, rather than expansion of road and pipe capacity for areas slated for growth. This makes it difficult to increase the housing supply. As construction costs outpace revenues, this problem will worsen, with new capacity projects falling off the list.

#### Solution: provide road funding for growth areas

As suggested for the state in the previous brief, local governments need to adopt the principle that growth pays for itself. Local road agencies should allocate funds for roads that will serve growing areas, including those areas accepting infill and redevelopment. This funding would start with the sales tax that cities and counties collect on commercial,



residential and institutional construction projects and fixtures such as new store equipment. A second source of funds might be the property taxes collected on property that has been permitted, but not yet occupied. The key is to find tax revenues that occur one-time and are tied to commercial and residential construction and redevelopment. Such new money, however, should not displace other revenue currently being dedicated to new capacity projects.

**Problem: expensive to bring low density neighborhoods up to urban standards**

Urbanized areas of the state are full of neighborhoods that developed haphazardly at low densities, and are now ready for infill and redevelopment at higher densities. For example, an area that developed with half- and full-acre lots in what was once a rural setting will have minimal roads, open ditches and septic systems. Such an area might now be surrounded with more conventional subdivisions with sewers, sidewalks and other “urban” features.

The question is how to upgrade the infrastructure of this neighborhood to make it attractive for higher density redevelopment. Since the existing infrastructure is suitable for the present development pattern, current residents have little incentive to pay for upgrades. And since ownership is fragmented, redevelopment will happen one parcel at a time, with no single developer able to install sewers and sidewalks. This kind of neighborhood can remain underdeveloped indefinitely, especially if it is not in a high priced area.

**Solution: facilitate local improvement districts**

Local improvement districts (LIDs) are mechanisms that create a special taxing district to fund infrastructure improvements. The city or county can sell bonds for the project, and collect an additional property tax levy from each home or business that benefits. Under the state LID statute, the value of property included in the LID must increase at least as much as the cost imposed on that property.

While an excellent mechanism to upgrade infrastructure in areas with fragmented ownership, LIDs are very complicated to execute. Cities and counties should establish the capacity to undertake LIDs, and provide active leadership in setting them up. A plan should be established to promote LIDs and infrastructure upgrades in areas targeted for infill growth. Local jurisdictions should also set up mechanisms, such as deferrals and liens, to ease the burden on low income property owners (Washington Research Council 2005).

**Problem: street design standards are outmoded**

The streets in a typical subdivision can seem more like runways. Extra-wide lanes and parking strips on both sides are very efficient for emergency access and guest parking on holidays, but use up too much land. As densities become higher and lot sizes shrink, it makes less and less sense to require these wide streets. Moreover, with smaller lot sizes and less private open space, the street becomes a more important part of the public open space, and should be a pleasant place to walk. And less pavement means less stormwater run-off.



### **Solution: adjust street standards**

Cities, counties and fire districts should be more flexible in setting standards for local streets. Narrow lanes encourage slower driving. One-way streets and queuing streets (two-way streets that only fit one car at a time, requiring other cars to wait) can allow even narrower pavements. Parking on one side is usually enough to accommodate guests. Rather than being paved, right-of-way can be landscaped to provide buffers from cars and absorb stormwater.

Redesigned streets may not save a substantial amount of land, although in some cases they may allow an awkward parcel to absorb more units. But creating more pleasant streetscapes is a necessary part of the larger effort to create attractive higher density neighborhoods.

The key to redesigning streets is to get the cooperation of fire departments or fire districts. Public safety officials' primary concern is to guarantee fire and emergency medical equipment access to all homes and businesses. There are creative ways to ensure emergency access with narrower streets, but fire personnel need to be part of the street design process from the beginning.

### **INCREASING THE HOUSING SUPPLY: REGULATORY AND ADMINISTRATIVE ISSUES**

The previous brief on state-level issues discussed the benefits of bringing new housing supply onto the market soon after the business cycle ramps up. During economic lulls, few subdivision and multi-family permits enter the pipeline, so that when the economy begins to improve, it can take a long time for the industry to respond to increasing demand. The faster the permit-approval time is for complex projects like subdivisions and large apartments, the less likely demand pressures are to distort the market.

It goes without saying that all local governments should be constantly looking for ways to streamline and simplify their permit processes and shorten timelines, and many have made real progress. There are no one-size-fits-all answers, but there are things that local governments should be examining.

### **Problem: permit staff not familiar with innovative designs**

As the market moves more toward innovative types of housing, and as jurisdictions begin to allow more alternatives to conventional zoning, the staff that process permits and conduct inspections are challenged to evaluate things they have never seen before. Existing regulations may not provide much help. For example, should a cottage housing project being sold as condominiums be required to have individual sewer hook-ups, as single family housing would, or can it have a common hook-up, as multi-family housing would? Uncertainty about new housing types and the fact that they do not fit existing regulations can bring permit processing to a halt.

### **Solution: specialized training for innovative projects**

As jurisdictions begin to allow more innovative types of housing, they should identify regulatory issues peculiar to those projects and train staff to address them. Reviews of unusual projects should be assigned only to staff trained to evaluate them. Once the staff has experience



with new housing types they can suggest regulatory changes that will remove ambiguity and inconsistency.

**Problem: special districts do not share city goals**

As noted in the state issues brief, special districts – water, sewer, fire – continue to operate as independent governments within newly-incorporated cities. While these districts can continue to provide adequate service, they may not share the same long-range goals for growth and development with the cities in which they operate.

For example, a sewer district may not feel any urgency to extend service to areas with infill potential, even though those areas have been identified for growth in the city’s comprehensive plan. Or, a fire district may not want to consider new street configurations that a city feels will create better high-density neighborhoods. In the case of utility and fire service, when they are part of city government, a mayor or city manager can help ensure they work closely with planning and building departments.

**Solution: merge special districts with cities**

The brief on state issues suggested that the state require special districts – water, sewer, fire – that exist within cities to merge with city government and become city-owned utilities. Even if it is not mandated by the state, cities should aggressively pursue mergers so that they can coordinate these important services to support their housing supply expansion plans.

**CONCLUSION: CREATING COMMUNITIES FOR THE FUTURE**

Local governments, are, in many respects, programmed to resist change. People move to a community and stay there because they like it the way it is. Residents of dense city neighborhoods love their bustling streets just as much as suburban residents love their leafy cul-de-sacs. But change is coming, driven by both growth management and new market demands.

Local governments need to embrace change in their communities and welcome new additions to their housing stock. There are many examples of new types of housing that meet critical needs and truly enhance neighborhoods. And these models are not just for newcomers, but also for the empty-nesters, retirees and grown up children who want to stay in the community. Housing is a regional and state need, but the supply is ultimately the responsibility of cities and counties. Local governments should not think only about serving the needs of today’s residents, but also about ensuring a place for future residents.



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