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ACRONYMS

AMI – Area Median Income
CLT – Community Land Trusts
FAR – Floor Area Ratio
GIS – Geographic Information System
GMA – Growth Management Act
HUD – US Department of Housing and Urban Development
LIHTC – Low-Income Housing Tax Credit
LCMR – Low-cost Market Rentals
MFI – Median Family Income
MFTE – Multi-Family Tax Exemption
PCC – Pierce County Code
RCW – Revised Code of Washington
REIT – Real-Estate Investment Trust
RFP – Request for Proposal
ZHVI – Zillow’s 2019 Home Value Index
1 INTRODUCTION

The Buildable Lands legislation in RCW 36.70A.215 was amended in 2017 to include analyzing and evaluating reasonable measures to increase housing availability and affordability for all economic segments of a community. Accordingly, the Buildable Lands Guidelines were updated by the Department of Commerce in 2018 to include the updates to RCW 36.70A.215. This report identifies the challenges to increasing housing affordability within Pierce County and the potential reasonable measures that the County and associated municipalities could take to alleviate the housing availability and affordability shortage in Pierce County.

1.01 PROBLEM STATEMENT

Encouraging affordable housing is one of the 14 major goals of the Growth Management Act (GMA). Pierce County Comprehensive Plan Housing and Land Use elements provide direction to accommodate housing that is affordable to all economic segments of the community. Even with the emphasis on housing affordability within these major planning documents, Pierce County, and the State of Washington as a whole, lack quality housing options that are affordable to households of all income levels. The purpose of this report is to identify the challenges limiting housing affordability within Pierce County and the reasonable measures the County and associated cities can take to improve affordability within the county.
2 HIGH-LEVEL HOUSING TRENDS

Housing markets operate at a regional scale. The availability and affordability of housing in one area affects the demand in other areas and the availability and affordability of one type of housing affects the demand for other types of housing. Affordable housing is no different. The demand for rent-restricted housing depends on the availability and affordability of the housing surrounding it. This section describes high-level housing trends in Pierce County, while Section 3 describes how these trends impact the supply of affordable housing.

2.01 HOUSING TRENDS

Trends relating to the total number of housing units in Pierce County are mixed. Over the past decade, the total number of rental housing units grew seven percent, while the total number of homeownership units grew approximately three percent countywide. It is unclear whether this was the result of homeownership units converting to rentals or whether it is due to the new development of new rental housing. Of new rental units countywide, the majority of the growth came from multifamily rentals with five or more units (9.7 percent growth) over the 2008-2017 time period, while smaller rentals (buildings with four or fewer units) grew 6.5 percent over the same time period. Despite rental housing growing faster than for-sale housing, the majority of Pierce County’s housing stock is owner-occupied (over 60 percent).

Trends were also mixed across geographies. In Tacoma, the number of homeownership units remained about the same, while the total number of rental units grew almost 10 percent over 10 years. In other cities, ownership and rental units grew at about the same rate: 2.7 percent over 10 years. In unincorporated communities, the number of owner-occupied units grew faster than rental units, but only slightly.

The number of homes owned in Pierce County did not change much from 2008 to 2017. Exhibit 1 shows that the number of
The number of homeownership units has only slightly increased over the past decade, increasing by two to three percent in the cities and unincorporated communities. The annual average growth rate is about the same in cities (0.3 percent) and unincorporated communities (0.26 percent). In Tacoma, however, the number of homes owned decreased by 0.3 percent, with an annual average growth rate of -0.03 percent. The annual average growth rate of home ownership units in Pierce County was 0.32 percent from 2008 to 2017.

**Exhibit 1: Home Ownership in Pierce County, 2008-2017**

By contrast, the number of rental units throughout the past decade is increasing, as shown in Exhibit 2. In Tacoma, an almost 10 percent increase in rental units was observed, with an annual average growth rate of one percent, the highest compared to cities and unincorporated communities. For cities, rental units increased by almost three percent, at an annual average growth rate of 0.3 percent. Rental units in unincorporated communities increased by one percent, at an annual average growth rate of 0.11 percent. Pierce County’s overall number of rental units increased by over 8,000 units at a 0.77 percent growth rate.
Exhibit 2: Rental Units in Pierce County, 2008-2017

Source: ECONorthwest; Data from Table B25032 American Community Survey 2008-2012, 2013-2017.
Note: Unincorporated includes data from 8 communities—Fox Island, Graham, Longbranch, Parkland, South Hill, Spanaway, Summit, Vaughn. Cities include data from 22 cities—Auburn, Bonney Lake, Buckley, Carbonado, DuPont, Eatonville, Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Orting, Pacific, Puyallup, Roy, Ruston, South Prairie, Steilacoom, Sumner, University Place, Wilkeson.

### 2.01.01 AFFORDABLE HOUSING UNITS

Data on the inventory of regulated affordable housing units in Pierce County is harder to come by. The Washington State Department of Commerce’s Affordable Housing Advisory Board released a Housing Needs Analysis in 2015, but it relies on 2013 data.¹ According to this report, Pierce County had 10,203 units of affordable housing (below 100 percent AMI) at 168 locations across the County. This report noted a significant mismatch in need and supply: Pierce County had an 11.1 percent share of all low-income renters in Washington, but only had a 7.1 percent share of the statewide inventory of affordable housing units. The latest Affordable Housing Inventory from the Department of Commerce appears to be from 2010,² but the department is publishing a web-based housing inventory in 2019.

It is likely that the shortage in the supply for affordable rental housing in 2013-2015 worsened due to rising rents and the lack of housing production at all income levels. This shortage is clearly felt by many Pierce County households. According to U.S. Census data, 51.9 percent of all renters in Pierce County paid more than 30 percent of their gross income on housing (considered the threshold for cost-burdening).³ In Fall 2018, the City of Tacoma released an Affordable Housing Action Strategy stating that

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the City lacks approximately 3,000 units for households with incomes below 80 percent of the area median. The report included the following supply conditions:

Exhibit 3: Percent Change in Housing Prices in Pierce County, 2008-2018

Exhibit 4 demonstrates that average home values in Pierce County have increased approximately four percent in the past 10 years, similar to the rate of change for the entire state. Tacoma, and three cities/towns (Roy, Ruston, and Carbonado) show the highest percent change in home values, ranging from 3.81 to 3.98 percent. The cities of DuPont and Pacific, and the unincorporated community of Fox Island, have the smallest percentage increases in home values over the past decade. However, Fox Island has the highest median home value according to Zillow’s 2019 Home Value Index (ZHVI) at around $678,000. This is almost 40 percent higher than the next highest city: Gig Harbor, where the median home value is $495,000. According to the ZHVI, Tacoma’s median home value is estimated at $310,300, and Washington’s statewide median home value is $385,900.

2.02 HOME VALUE TRENDS

Influenced by the Puget Sound Region’s strong economy, home values in Pierce County have risen recently. The report included the following supply conditions:

Exhibit 3: Percent Change in Housing Prices in Pierce County, 2008-2018

Source: 2018 Tacoma Affordable Housing Action Strategy

2.02 HOME VALUE TRENDS

Influenced by the Puget Sound Region’s strong economy, home values in Pierce County have risen recently. Exhibit 4 demonstrates that average home values in Pierce County have increased approximately four percent in the past 10 years, similar to the rate of change for the entire state. Tacoma, and three cities/towns (Roy, Ruston, and Carbonado) show the highest percent change in home values, ranging from 3.81 to 3.98 percent. The cities of DuPont and Pacific, and the unincorporated community of Fox Island, have the smallest percentage increases in home values over the past decade. However, Fox Island has the highest median home value according to Zillow’s 2019 Home Value Index (ZHVI) at around $678,000. This is almost 40 percent higher than the next highest city: Gig Harbor, where the median home value is $495,000. According to the ZHVI, Tacoma’s median home value is estimated at $310,300, and Washington’s statewide median home value is $385,900.

2.03  RENT TRENDS

Along with rising home prices, asking rents in Pierce County have risen with the strong economy and rising populations. Average asking rents in Tacoma have increased almost 50 percent in eight years, from $782 in 2010 to $1,145 in 2018, or about five percent growth each year. In cities in Pierce County, average asking rents increased approximately 45 percent, at an annual average growth rate of 4.7
percent. Unincorporated communities display the lowest growth in asking rents per unit, but still increased about 31 percent from $900 in 2010 to $1,177 in 2018. While Tacoma’s asking rent per unit has increased the most over the past decade, cities have higher asking rents in general as shown in Exhibits 5 and 6.

Exhibit 5: Asking Rents in Pierce County, 2010-2018

Source: ECONorthwest; Data from CoStar 2019.
Note: Unincorporated includes data from 8 communities—Fox Island, Graham, Longbranch, Parkland, South Hill, Spanaway, Summit, Vaughn. Cities include data from 22 cities—Auburn, Bonney Lake, Buckley, Carbonado, DuPont, Eatonville, Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Orting, Pacific, Puyallup, Roy, Ruston, South Prairie, Steilacoom, Sumner, University Place, Wilkeson.
2.04 INCOME TRENDS

Rent-restricted affordable housing properties generally serve populations with incomes ranging from 30 percent to 80 percent of the area median income. In Pierce County, the 2017 HUD median family income (MFI) was $80,200 for a four-person household. This means that a household at 30 percent MFI has about $25,750 annual income, and a four-person household at 80 percent MFI earns approximately $64,150 annually.⁵

Rent and income-restricted properties require households to spend no more than 30 percent of their gross income on housing, which would translate to $643 per month for a 30 percent MFI household and approximately $1,603 per month for a household at 80 percent MFI. The table below, combined with the map above, demonstrate the difficulty that many households face in finding housing that is affordable in Pierce County.

⁵ [https://www.huduser.gov/portal/datasets/il/il2017/select_Geography.odn](https://www.huduser.gov/portal/datasets/il/il2017/select_Geography.odn)
Exhibit 7: Median Incomes for Four-Person Households in 2017 in Tacoma and Pierce County

<table>
<thead>
<tr>
<th>HUD Income Limit</th>
<th>Income</th>
<th>Affordable Monthly Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% AMI</td>
<td>$74,500</td>
<td>$1,860</td>
</tr>
<tr>
<td>80% AMI</td>
<td>$59,600</td>
<td>$1,490</td>
</tr>
<tr>
<td>50% AMI</td>
<td>$37,250</td>
<td>$930</td>
</tr>
<tr>
<td>30% AMI</td>
<td>$24,600</td>
<td>$615</td>
</tr>
</tbody>
</table>


2.05 PERMIT AND FINANCING TRENDS

Exhibit 8 demonstrates the number of new units permitted between 2010 and 2017 in Pierce County. The number of new permitted residential units increased approximately 142 percent from 2010-2017 with an average annual growth rate of approximately 19.4 percent. This growth was relatively steady over 2013-2017 with the exception of 2015, which witnessed a decline of approximately 24 percent in the number of new units permitted year over year. This indicates robust, but fluctuating, residential housing development growth in Pierce County. The decline in 2015 could have been caused by a surge of units permitted in 2014 which did not start construction, from perceived or expected changes in development or zoning policies, from difficulty in securing predevelopment in a growing market (e.g., competition for architecture, design, or financing), or from numerous other factors.

Exhibit 8: Permitted Units in Pierce County, WA 2010-2017

Source: 2010-2018 HUD SOCDS Annual County Permits for Pierce County, collected via the Census Bureau Building Permits Survey.
Note: SOCDS Annual County Permit for Pierce County excludes the cities of Auburn and Pacific, which are partially in both Pierce County and King County. For this chart, permits issued in these cities over the 2010-2017 time period are included in Pierce County annual totals.

Exhibit 9 shows that Tacoma issued the most permits of any city in Pierce County in 2017, accounting for 22 percent of all permits issued county-wide. According to SOCDS data, five cities (Dupont, Roy, South Prairie, and Wilkeson) did not issue any new residential permits in 2017, implying an uneven distribution of residential growth across the County. Including Tacoma, only seven cities issued over 100 new total residential permits in 2017, while 13 cities issued fewer than 12 residential permits. Unincorporated Pierce County issued just over 2,500 permits, demonstrating considerable growth outside of the urban growth area.

**Exhibit 9: Residential Permits Issued in Pierce County, 2017 (Total units)**

<table>
<thead>
<tr>
<th>City</th>
<th>Permits Issued</th>
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<tbody>
<tr>
<td>Pierce County</td>
<td>5,114</td>
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<tr>
<td>Pierce Co. Unincorp.</td>
<td></td>
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<tr>
<td>Tacoma</td>
<td>1,127</td>
</tr>
<tr>
<td>Puyallup</td>
<td>353</td>
</tr>
<tr>
<td>Gig Harbor</td>
<td>247</td>
</tr>
<tr>
<td>Edgewood</td>
<td>169</td>
</tr>
<tr>
<td>Auburn</td>
<td>139</td>
</tr>
<tr>
<td>Orting</td>
<td>139</td>
</tr>
<tr>
<td>University Place</td>
<td>120</td>
</tr>
<tr>
<td>Lakewood</td>
<td>60</td>
</tr>
<tr>
<td>Bonney Lake</td>
<td>54</td>
</tr>
<tr>
<td>Buckley</td>
<td>49</td>
</tr>
<tr>
<td>Sumner</td>
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</tr>
<tr>
<td>Steilacoom</td>
<td>11</td>
</tr>
<tr>
<td>Eatonville</td>
<td>10</td>
</tr>
<tr>
<td>Fife</td>
<td>7</td>
</tr>
<tr>
<td>Pacific</td>
<td>7</td>
</tr>
<tr>
<td>Ruston</td>
<td>7</td>
</tr>
<tr>
<td>Milton</td>
<td>5</td>
</tr>
<tr>
<td>Carbonado</td>
<td>4</td>
</tr>
<tr>
<td>Firecrest</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: SOCDS Annual County Permits
Note: SOCDS Annual County Permit for Pierce County excludes Auburn and Pacific, cities which overlap with King County. For this chart, permits issued in Auburn and Pacific during 2017 were included in the Pierce County total. According to SOCDS data, DuPont, Roy, South Prairie, and Wilkeson did not issue permits in 2017 and were excluded from this chart.
3 AFFORDABLE HOUSING BARRIERS AND CHALLENGES

The development of affordable housing faces numerous challenges that are exacerbated by strong economies and fast-moving housing markets. Rising rents and home prices increase the need for affordable housing, while rising construction costs, increased competition from investment buyers, and limited low-cost funding for affordable developments can make it more costly to deliver these units.

As described on page 15, rent-restricted affordable housing developments face many of the same market constraints as market-rate developments, but are harder to put together due to their lower rents. Because loans are sized based on the net operating income of a property (rent revenues less operating expenses), lower rents translate to lower debt. As a result, rent-restricted affordable housing properties rely on different funding streams, requiring a mix of low-cost loans, equity, and grant financing to be feasible. Some of the many funding sources include:

- The Low-Income Housing Tax Credit (Federal),
- HOME funding (State and Federal),
- The Community Development Block Grant program (Federal),
- The Housing Trust Fund (State and Federal),
- The Multi-Family Property Tax Exemption (State).

With rents restricted to be affordable to households with low incomes, the development process requires careful feasibility, low cost funding to reduce the amount of debt, and careful oversight during operations. Broad housing market changes - from high demand and low vacancy rates, to land use restrictions or construction costs - can greatly affect an area’s supply of rent restricted housing.

3.01 HOUSING DEMAND

The Puget Sound regional economy has grown at an astounding rate in the past decade, influenced by strong population growth as new residents move to the state seeking economic and educational opportunities and the area’s natural beauty. According to Puget Sound Regional Council’s preliminary 2017 estimates, the area’s total employment grew 17 percent since 2010, and total population grew approximately 9.2 percent. 

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6 https://www.psrc.org/rdp-economy Current Total Employment: Region. Estimates are for total employment, including uniformed military personnel.
**Typical Affordable Housing Development Process:**

The development of new, multifamily rent-restricted affordable housing is a long and complex process. It is subject to many of the same development conditions as market-rate development, with added complexity due to lower rents requiring additional, lower-cost funding. The development process begins in predevelopment (design and feasibility, entitlements, and funding applications) then enters construction, before beginning operations.

**Design and feasibility:** Affordable housing developers start with an understanding of the need for lower cost housing in an area. How many units are needed at what rent level? What income levels have the biggest gaps in housing supply? What populations are struggling with housing costs the most? Developers test what they hope to build against the market conditions present. They must estimate what it will cost to build, what affordability level the region needs, and the amount of funding available to build the project. If the project is not feasible for the market and does not meet the neighborhood’s goals, it will struggle to get built. Considerations include: cost of land, development allowed on the land (zoning), costs of construction, rents or prices, and costs of operations (for multifamily).

**Entitlements:** This is the process of getting control of the site (buying land or assembling parcels) and getting the legal authority to develop (zoning and permitting, design review, neighborhood opposition, etc.). This can take months or years depending on the type of project, the required level of public review, the length it takes to obtain permits, the amount of neighborhood opposition, and many other factors. Developers must take out pre-development loans to cover these costs, meaning that delays incur “carrying costs” (the interest that accrues on the loan each month of the process). This loan may be wrapped into or repaid by the construction loan.

**Funding applications:** This is a unique step required of affordable housing development that does not apply to market-rate development. Because rents are purposefully low, an affordable housing property will not have sufficient rent revenue to cover its operating costs and support the loans large enough to pay for development. Thus, the property must apply for a range of low-cost funding, project equity, and grants to get the project to feasibility and begin construction. This step adds cost, time, complexity, and uncertainty to the development process. Because public funding is limited, these application cycles are very competitive and not all projects will receive the funding to move forward. The policy goals attached to each funding amount can influence the type of housing built (e.g., housing for families or seniors) as well as the income levels served. Most often, a project needs to have site control before it can receive funding.

**Construction:** This stage depends on the availability of labor, materials, and equipment, as well as the complexity and size of the development. The project will take out a construction loan to cover these costs, which means that delays in construction incur additional “carrying costs.” The construction loan is repaid by the permanent loan, which is sized based on the net operating income of the project (rent revenues minus operating expenses).

**Operations:** Once the project is built and leased, it operates under affordability restrictions for a specified period of time (e.g., 15-99 years). Rents are determined at the project feasibility stage and are very important in the project’s operating phase. Feasibility and funding applications can occur several years prior to the project operating. The revenues from property rents need to be high enough to cover the cost of operating the property (including maintenance and repairs, landscaping, taxes, and numerous other fees and costs). This net operating income must also service the monthly debt payments on the permanent loan. Banks generally require an income “cushion” to assure that the property has enough operating income to pay its debts. This means that net operating income must be 15 percent to 20 percent higher than the debt payment. Any change in rent revenues (market softening, competition, vacancies, etc.), costs of operations (higher taxes, maintenance costs, capital repairs, etc.) can meaningfully disrupt a property’s operations.
Crippled by the housing market crash and economic recession, however, the regional housing market did not produce enough new housing in response to this growing demand, particularly at prices affordable to the majority of incomes. PSRC estimates that the region’s housing units only grew by 6.7 percent over the same seven-year period of strong economic growth.

Without adequate new supply to accommodate growing demand, the entire region – including Pierce County and Tacoma – has seen rising housing costs, historically low vacancy rates, a fast-moving housing market, and worsening rates of homelessness. Despite increased traffic along I-5, rising rents and home prices in Seattle are affecting nearby markets as people move away from the city core in search of more affordable choices.

These trends have produced difficult consequences for Pierce County. Over the 2010-2016 timeframe, forthcoming research estimates that Pierce County produced only 0.62 housing units for every new household that formed in the County, meaning that nearly four in 10 households struggled to find a suitable unit. This influx of new demand coupled with too few housing units produced at all income levels, creates intense competition for housing and puts upward pressure on rents and prices.

Households at the lowest income levels are hit the hardest as they have fewer choices affordable to them and are pushed to the edges of the metro area to find affordable housing options. These trends greatly impact the demand for affordable housing because it increases the number of households that are cost-burdened and paying too much of their incomes on housing. These trends can also impact the cost of labor and materials for operating an affordable housing property.

### 3.01.01 INVESTMENT BUYERS

Due to its proximity to the Seattle metro area and the natural beauty of Mount Rainier, the housing market in Pierce County has plenty to offer investment buyers interested in buying inexpensive homes, quickly renovating, and selling for a profit. The interest an investment buyer has in a home can vary greatly, from renting to long-term tenants, to turning it into a short-term rental, buying and “flipping” the home quickly for a profit, or investing foreign capital in exchange for citizenship in the EB-5 visa program.

Investment buyers look for homes with the potential to increase in value – calculating the cost of purchasing and renovating the home against the potential future selling price or rental stream. With these financial requirements, investment buyers need to find low-valued homes (or undervalued homes given neighborhood potential) that can be renovated quickly. They benefit from low-cost construction, low interest rates, and a market that supports rents or prices high enough to make a return on their investment. The time horizon and associated amenities vary for different types of investment—such as

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proximity to schools or jobs for longer term rentals, transit and amenities for short-term rentals, or location in up-and-coming neighborhoods for flipping.

Investment buyers can affect demand in a hot housing market, acquiring housing inventory from regular buyers intending to buy for the long-term and live in the home year-round. Investment buyers looking at homes from a strictly financial perspective have several advantages in hot housing markets that can make them more appealing than a conventional buyer, including quick and fast financing (e.g., hundreds of thousands of dollars available in cash) and the ability to close more quickly (e.g., not concerned about inspections or negotiating closing terms with the seller).

Investment buyers often reduce the supply of homes, particularly at the lower end of the price range, thereby reducing overall market affordability. Some investment buyers can play important roles in the housing market. By renovating older homes, home flippers update and increase the value in the housing stock - a difficult, costly, and time consuming process that many households do not want to do. However, this process removes low-value housing from the market and turns it into higher value housing, and can decrease overall market affordability. Investment buyers looking for the income stream of long-term rental housing do not decrease the housing stock, but those looking for short-term rental income and those using the EB-5 program who may not live in the house full time, do reduce overall supply.

These trends - reducing the supply of low-cost homes, or flipping homes and raising overall prices - can negatively impact the supply of affordable housing since investment buyers can move much more quickly than non-profit developers in a hot housing market.

### 3.02 CONSTRUCTION COST CHALLENGES

Construction costs are a major component of the cost to build new affordable housing, which directly influences the construction loan and permanent loan needed to be supported during operations. In the deep housing market crash of 2008-2010, a number of architects, contractors, construction firms, and laborers went out of business, retired, or found new professions, causing a limit on construction availability. The construction sector was hit particularly hard, which saw nationwide employment declines of 19 percent from the 2007 peak to 2015. Although housing construction took some time to recover from the recession, the availability of construction labor has been a drag on the housing market since. Limits on the availability of contractors increases competition, bids up prices of labor, increases time to completion, and limits overall housing production. Each of these factors hurts housing affordability. According to the 2017 fourth quarter Construction Cost index from Mortenson

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Construction, construction costs increased by 23.8 percent from 2010 in the City of Seattle.\textsuperscript{11} The index shows that costs have risen the same amount nationwide, but are higher nominally in the Seattle area.

The impacts of each of these trends differs across housing types. Construction costs may be a lower share of overall costs for single family homes than for multifamily housing or condos. Materials differ across housing types as well, with high-rise residential towers requiring steel framing. Further, recent federal tariffs on lumber and steel have increased the costs and reduced the supply of raw materials from international markets; materials made in the U.S. are often more expensive than imported materials.

Higher construction costs directly lead to rising home prices as builders need to recover costs and meet returns on investment. Where rents or home prices are not high enough to cover the costs of construction, this leads to a limit on new supply of housing, which also leads to higher prices as households compete and outbid one another for limited quantity. This competition is fiercest for lower cost housing.

Higher construction costs can meaningfully derail the feasibility for an affordable housing development. Because affordable housing properties are so carefully calibrated, unexpected increases in costs or delays in construction (resulting in higher carrying costs) can create a gap in financing that needs to be overcome with loans, equity, or other generous types of funding.

**3.03 LAND USE REGULATIONS**

Recent research has started to tie housing affordability and availability to the level of land use regulations in place in a given jurisdiction. Land use controls, zoning and design review, and an unnecessarily slow permitting process can act as a significant barrier to the local housing supply by causing housing development to be more expensive and burdensome.\textsuperscript{12} An increase in development costs and a reduction of housing units will require an increase in rent and housing prices to cover general loan requirements. This necessary increase causes new development to become unaffordable to larger parts of the community. With regards to affordable housing, additional costs and reduction of housing units can make the project completely infeasible. This is evidenced by Pierce County, which has 11.1 percent share of all low income renters in Washington, but only 7.1 percent of the share of affordable housing units statewide.

Local zoning and design reviews are local policy regulations that direct site development and design of buildings. While the main purpose of these regulations is to ensure complementary uses and designs

\textsuperscript{11} Mortenson Construction Cost Index – City of Seattle, 4th Quarter 2017.  
https://www.mortenson.com/~/media/files/pdfs/cost-index-report-seattle-q4-2017.ashx

Accessed April 19, 2019.
that match the community character, they can also act as a barrier for new development. Specifically, land use regulations can restrict land uses like single and multifamily housing, limit density, require a minimum lot size, require a minimum number of off-street parking spaces per residential unit, and require significant landscape buffers. Each of these regulations can have a significant impact on housing development by restricting the buildable area and limiting the number of residential units that can offset the costs. When there are less residential units, the units provided have to make up the costs. Design review focuses on the character of the development through site planning and architecture requirements that can include maximum building height, landscaping requirements, building modulation, roof types, and colors—just to name a few. Design review can require public meetings and site plan revisions which can significantly drive up costs of a development. Land use regulations and design review requirements in Pierce County and its municipalities range from the more lenient to significantly restrictive to the provision of affordable housing.

These land use and design review regulations can act as a barrier to the supply of housing on the whole by making land more costly to develop. Since 1984, there has been an increasing gap between home prices and construction costs that is believed to be the result of increasing difficulty in permitting requirements for new housing. New development costs between 1990 to 2002 rose 52 percent “driven in part by costs associated with restriction on design and building type.” One example of zoning regulations and their impact on housing costs is highlighted in a study in Boston, Massachusetts that found that “each additional acre of minimum lot size requirement is associated with a 50 percent drop in building permits.” Another study found that each regulation could increase housing costs between 2.3 and 5 percent. In areas with high-cost housing, like western Washington, land use controls

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15 Ibid.


contribute to the high cost of housing.\textsuperscript{19} Overall, local regulations can total 30 percent or more of development costs.\textsuperscript{20} These costs develop from initial design, permitting costs, project revisions and associated design revisions, project team coordination and meeting preparation, and meeting with County or municipality staff, land use advisory committees, and the general public.

In addition, unforeseen costs and delays can develop during a project. These delays come in the form of multiple site plan revisions, additional permits, variance requests, and public meetings that can take a significant amount of time for the development team to address. Public opposition to affordable housing can be a meaningful barrier to development of a diverse housing stock in a community. The public stigma associated with affordable housing can increase its chances for public outcry, resulting in costly delays. These delays affect market-rate developments too; each additional cost and layer of uncertainty pushes the cost of development up, which then requires higher prices or rents when the project is completed. Put simply, permitting timelines and uncertainty hurt regional affordability.

Pierce County and some of its associated municipalities have taken steps to minimize the aforementioned impacts of land use regulations by providing incentives. The amount of affordable housing incentives varies between municipalities. The County, specifically, has taken some steps to decrease the zoning regulation impacts to affordable housing development through the use of affordable housing incentives. Pierce County Code Chapter 18A.65 PCC provides density bonuses, expedited reviews, and reductions in permit fees, parking, open space, and minimum lot size requirements when the project provides between 10 percent to 20 percent of the units as affordable. Pierce County does limit the use of some of these incentives to “first come first serve.” Incentives are provided based on available funding, and projects must be within 0.5 miles from a regularly scheduled transit route. The County also requires an affordable housing incentive program agreement be completed. The uncertainty associated with these requirements runs counter to the purpose of creating these incentives. In any given year, it is not clear what incentives are available or how many projects are in the process of using the incentives.

The County also offers a multifamily housing incentive in residential targeted areas designated by the County Council. Since 2012, Pierce County Council has approved only one residential targeted area. As evidenced by the lack of usage of these housing incentives, it appears that additional changes are necessary if the County intends to increase the effectiveness of its incentives.

3.04 PERMITTING AND FINANCING CHALLENGES

Country-wide, the majority of affordable housing units are developed by non-profit developers. These developers face the same permitting constraints as large institutional market rate developers, though they usually have fewer balance sheet assets to carry projects through long delays. Most affordable housing developments must have predevelopment loans to get them through the permitting and entitlement processes. Higher development costs - either from permitting fees, entitlement delays, or high interest rates - negatively impact affordable housing by requiring higher rents to support the debt needed to pay off development costs. Where affordable housing projects cannot raise rents they must find alternative funding that is low cost, patient, and willing to tolerate higher risk.

3.04.01 PERMITTING IMPACTS

In general, the permitting process can take multiple years from the initial land use application to receiving building permits and finally be constructed. Any delays in permit processing can have significant impacts to a development (affordable or market rate). As an example of how delays can impact a housing development project, a 135-unit apartment building in Seattle could rack up to $270,000 of expenses per month. There are inherent differences between the Seattle housing market and that of Pierce County; however, this example illustrates how permitting delays can have an impact on the cost of housing. These delays require market-rate housing to increase prices and rents to make up for the increased costs. Affordable housing projects do not have this luxury and can become infeasible with the slightest delay.

Additionally, lengthy permitting processes may restrict the County’s ability to respond to immediate housing needs. Since market conditions change over time, the length of the permitting process can cause housing projects (market-rate and affordable housing) to become infeasible or require significant project revisions in order to be feasible after receiving permit approvals. This uncertainty in the permitting process impacts the cost of a project and its ability to receive affordable financing that allows for lower rents and lower home prices.

To get a better sense of the permitting process in Tacoma, our project team conducted three interviews - one with a local multifamily developer; one with staff at the permitting desk at the city; and one with a local consultant in the urban development industry. All three had favorable comments regarding ease of permitting in Tacoma. Generally, interviewees suggested that the city understands that its processes can be a barrier to development. As such, it has streamlined these processes and reduced fees associated with permitting and systems development charges. These efforts go a long way towards helping

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developers get their projects built quickly; allowing them to reduce overall development costs which translates to lower rents.

3.04.02 FINANCING IMPACTS

As demonstrated on page 15, properties with rents restricted to serve low-income households cannot support high levels of debt and must find other types of financing for development. This acts as a major constraint on the supply, as the process to apply for these alternative funding sources is long and complicated. Most affordable housing properties are developed by mission-oriented developers who are willing to go through this process for the public benefit of low-income housing.

There is a significant mismatch in the funding available for affordable housing development and its need, with need far outpacing supply. The largest funding program is the Low-Income Housing Tax Credit (LIHTC) program, which allows developers to sell equity in their properties to investors looking for credits to offset their tax burdens for a 15-year period. There are two types of credits; of which the more advantageous credit is limited by each state. Property developers must go through a competitive application process for an annual allocation of tax credits. In Washington, this process is managed by the Washington State Housing Finance Commission.

Aside from programs offering equity or tax abatements, affordable housing properties receive grants and favorable debt from mission-oriented lenders (those wishing to forego financial return in favor of social impact). These grants are not required to be repaid, and as such are the best type of funding for an affordable housing developer. Grants and favorable loans that lower the cost of building and operating the property reduce the debt burden on the property’s rent revenues once it is operating. Loans can differ in length, interest rate, security, risk profile, or other terms to make it easier for a property to repay, and some loans can be conditional on the property having sufficient net operating income. Many mission-oriented and philanthropic sources provide grants and favorable loans to increase the supply of affordable housing as part of their mission.

Instead of reducing the costs associated with development, some programs serve to reduce the operating costs of affordable housing. Tax abatement programs - like the Multi-Family Tax Exemption (MFTE) program in Washington - reduce the taxable income a property faces if it includes rent-restricted affordable units. The program stipulates the number of units that must be restricted and to what income level they must be affordable, and the developer gets to reduce or eliminate the property tax for 8 or 12 years. Reducing the cost of operations allows a property to leverage its net operating income and increase the level of debt its rents can support.

3.05 CHALLENGES TO USING SURPLUS PUBLIC LAND

In addition to the regulatory and financing challenges identified above, utilizing surplus public lands for affordable housing has its own additional challenges:

- Timing of the market cycle and affordable housing funding applications;
- Coordination and communication across public agencies
- Coordination between public agencies and affordable housing developers;
- The need for additional public subsidies to layer on development capital stacks; and
- Technical or administrative data gathering to determine eligible sites.

Citizen perceptions of the efficient use of public resources (in this case surplus land) are also a consideration. While a public policy focused on surplus land can be instrumental in reducing costs associated with affordable housing development due to the elimination of land acquisition costs, it will be limited in its ability to reach deep affordability levels which require further public subsidies.

Although the passage of SB 2382 now allows municipalities to transfer surplus public land to affordable housing developers and non-profits, communication and coordination is needed between those who currently own the land and organizations that will construct the housing. This coordination includes determining eligible sites – including those owned by public utilities, municipalities, Pierce County, and transit authorities – and deciding which ones are ideal for the location of affordable housing from a development perspective. Once this is done, further coordination with potential developers, community land trusts, or non-profit organizations will be necessary as they will gain control of the site and develop new affordable units. Clear policy goals should be established regarding income targets, unit sizes and types, transit access, and other development considerations to ensure the public sector gets the development it wants in exchange for the transfer of surplus land.
4 SURPLUS PUBLIC LAND SURVEY

To understand the amount of immediately developable land that could be surplused for affordable housing, publicly owned and underutilized land was surveyed for its potential to be surplused and used for affordable housing. A summary of the public entities contacted, survey methodology, and a summary of findings are provided below.

4.01 METHODOLOGY SUMMARY

4.01.01 PUBLIC AND NONPROFIT ENTITIES SURVEYED

The following organizations were surveyed about the availability of land that could potentially be surplused and used for affordable housing:

- City of Auburn
- City of Buckley
- City of DuPont
- City of Eatonville
- City of Edgewood
- City of Fife
- City of Fircrest
- City of Gig Harbor
- City of Lakewood
- City of Milton
- City of Orting
- City of Pacific
- City of Puyallup
- City of Roy
- City of Sumner
- City of Steilacoom
- City of Tacoma
- City of University Place
- City of Wilkeson
- City of Yelm
- Pierce County YMCA
- Greater Seattle YMCA
- King County Boys & Girls Club
- South Puget Sound Boys & Girls Club
- Girl Scouts of Western Washington
- Pierce Transit
- Pierce County
- Pierce County Parks & Recreation
- Pierce County Facilities Management
- Pierce County Public Works
- Pierce County Sheriff’s Department
- Pierce County Tax Title
- Parkland Light & Water
- Central Pierce Fire & Rescue
- Pierce County Fire District 18
- Pierce County Fire Protection District 6
- Pierce County Fire Protection District 22
- Port of Tacoma
- Puget Sound Energy
- Spanaway Water Company
- Summit Water Supply Co
- Pierce County Library
- Tacoma Public Library
- WSDOT
- Auburn School District
- Bethel School District
- Carbonado School District
- Clover Park School District
- Dieringer School District
- Eatonville School District
- Fife School District
- Franklin Pierce School District
- Orting School District
4.01.02 DATA COLLECTION

Parcel data was collected from Pierce County Auditor-Treasurer Tax Parcel Geographic Information System (GIS) data, updated as of January 8, 2019. Using GIS, the above listed government agencies and non-profits held land holdings within Pierce County were reviewed and analyzed for the potential to be surplused.

4.01.03 DATA ANALYSIS

The surplus land analysis occurred in two phases. First, an initial analysis focused on flagging publicly owned properties that were not likely suitable to be surplused for affordable housing purposes. The properties flagged for removal were done using the following assumptions:

- Parcels less than 0.1 acres (4,356 sq. ft.) - Properties less than 0.1 acres are not likely to be redeveloped as affordable housing due to minimum lot size requirements and limitations for multiple affordable housing units.
- Parcels with more than $1,000,000 in improvements – Properties with more than $1,000,000 in improvement value are assumed to be associated with buildings or property improvements that would not be considered “surplus” by the associated organizations.
- Parcels located outside county or municipal Urban Growth Areas – Properties located outside of the Pierce County and its municipalities’ Urban Growth Areas are not suitable for being developed with affordable housing due to lack of available utilities (and requirements to extend utilities which would cause a project to become infeasible), density restrictions (maximum density restrictions outside of the Urban Growth Areas limit the number of units that could be provided increasing the proportionate share of development costs and as a consequence, rents), and generally would fail to meet the GMA goal of providing housing concentrated in urban areas.
- Undevelopable land uses – Properties that have certain land uses are unlikely or unable to be redeveloped for affordable housing. A few of these land uses include marinas, floodways, street rights-of-way, etc. Land use categories are established by the Tax Assessor, and may not be an accurate representation of the current use of a property. As such, each property land use that was excluded was visually checked to confirm that the land use provided in the Pierce County
Auditor-Treasurer Tax Parcel database was accurate. The following land uses were assumed to be not suitable for affordable housing:

- Drain fields / Catch Basins
- Elementary Schools
- Fire Stations
- Floodways
- Marinas
- Parks
- Saltwater Tidelands
- Street Right-of-Way
- Transit Right-of-Way
- Recorded Wetlands
- Cemeteries
- Well Sites
- Utilities
- Vacant Land Not A Building Site

The second phase of the analysis involved sending the initial inventory to the corresponding public owners for review and confirmation. Each organization was encouraged to review its property for potential to be surplused and to add or remove properties from the inventory list based on local knowledge of the organization’s land holdings.

4.02 SURPLUS PUBLIC LAND FINDINGS

The following public and nonprofit entities do not have surplus land that is suitable for affordable housing:

- City of Lakewood
- Auburn School District
- Bethel School District
- Boys and Girls Club of South Puget Sound
- City of Fife
- City of Auburn
- Carbonado School District
- City of Bonney Lake
- City of DuPont
- City of Fircrest
- City of Pacific
- City of Roy
- City of University Place
- City of Yelm
- Eatonville
- Franklin Pierce School District
- Pierce County Fire District 22
- Town of Steilacoom
- Peninsula School District
- Port of Tacoma
- Spanaway Water Company
- Steilacoom School District
- Town of Wilkeson
- University of Puget Sound
- University Place School District
- Washington DOT
- White River School District
- City of Orting
- City of Edgewood
However, a number of public entities do have property that could be or is in the process of being surplused. Exhibit 10 identifies the property owner, current zoning, potential best use of the property, and any additional comments regarding the suitability of the property for affordable housing. Some of the properties listed below are currently for sale and are not likely to be developed by an affordable housing developer.

**Exhibit 10: Surplus Public Lands Findings**

<table>
<thead>
<tr>
<th>Public Entity</th>
<th>Property Number</th>
<th>Acres</th>
<th>Jurisdiction</th>
<th>Current Zoning</th>
<th>Best Use</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Buckley</td>
<td>7820000285</td>
<td>0.13</td>
<td>City of Buckley</td>
<td>Public</td>
<td>Senior Citizen Low-Income Housing</td>
<td>The City of Buckley allows Senior Citizen Low-Income Housing in the Public zoning district as a conditional use. The property would need to be rezoned in order to allow non-age-restricted forms of affordable housing.</td>
</tr>
<tr>
<td>City of Gig Harbor</td>
<td>0221081108</td>
<td>0.77</td>
<td>City of Gig Harbor</td>
<td>Medium Density Residential</td>
<td>Fourplex</td>
<td>The City of Gig Harbor allows duplexes outright, and triplex and fourplexes as conditional uses in the Medium Density Residential zoning district. A maximum of 6 dwelling units per acre is allowed.</td>
</tr>
<tr>
<td>City of Gig Harbor</td>
<td>0223313024</td>
<td>4.76</td>
<td>City of Gig Harbor</td>
<td>Single Family Residential with Mixed use Overlay</td>
<td>Mixed-Use if part of a larger development.</td>
<td>The City of Gig Harbor allows multifamily uses within the Mixed-use District Overlay, but it appears that developments need to be 10 acres or larger. Single-family residential uses are allowed at a maximum density of 4 dwelling units per acre.</td>
</tr>
<tr>
<td>City of Puyallup</td>
<td>0419041056</td>
<td>0.392</td>
<td>City of Puyallup</td>
<td>Limited Commercial</td>
<td>Mixed-Use</td>
<td>The City of Puyallup allows multifamily residential uses by right as long as it doesn’t exceed more than 50% of the gross floor area. Commercial space must be provided on the ground floor and a minimum of 75 percent of the ground floor area must be commercial.</td>
</tr>
<tr>
<td>City of Puyallup</td>
<td>0420221096</td>
<td>3.10</td>
<td>City of Edgewood</td>
<td>Public</td>
<td>N/A</td>
<td>Edgewood’s Public zoning district does not allow for housing. The property would need to be rezoned in order to allow for affordable housing.</td>
</tr>
<tr>
<td>City of Puyallup</td>
<td>5745001371</td>
<td>1.11</td>
<td>City of Puyallup</td>
<td>Central Business District Core</td>
<td>Mixed-Use</td>
<td>The City of Puyallup allows multifamily residential uses by right with no density limit.</td>
</tr>
<tr>
<td>Public Entity</td>
<td>Property Number</td>
<td>Acres</td>
<td>Jurisdiction</td>
<td>Current Zoning</td>
<td>Best Use</td>
<td>Comments</td>
</tr>
<tr>
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</tr>
<tr>
<td>City of Puyallup</td>
<td>7060000230</td>
<td>0.17</td>
<td>City of Puyallup</td>
<td>Regional Growth Center Oriented Multi-Family Residential</td>
<td>Multifamily</td>
<td>Commercial space must be provided on the ground floor and a minimum of 50 percent of all gross floor area must be commercial.</td>
</tr>
<tr>
<td>City of Sumner</td>
<td>7985100160</td>
<td>1.015</td>
<td>City of Sumner</td>
<td>Central Business District</td>
<td>Multifamily</td>
<td>The City of Puyallup allows multifamily residential uses by right with no density limit. The project must however comply with downtown design guidelines.</td>
</tr>
<tr>
<td>City of Sumner</td>
<td>7985100170</td>
<td>0.138</td>
<td>City of Sumner</td>
<td>Central Business District</td>
<td>Multifamily</td>
<td>The City of Sumner allows multifamily developments at 30 dwelling units per acre as part of a mixed-use development with commercial uses.</td>
</tr>
<tr>
<td>City of Sumner</td>
<td>7985100190</td>
<td>0.165</td>
<td>City of Sumner</td>
<td>Central Business District</td>
<td>Multifamily</td>
<td>The City of Sumner allows multifamily developments at 30 dwelling units per acre as part of a mixed-use development with commercial uses.</td>
</tr>
<tr>
<td>City of Sumner</td>
<td>7985100210</td>
<td>0.165</td>
<td>City of Sumner</td>
<td>Central Business District</td>
<td>Multifamily</td>
<td>The City of Sumner allows multifamily developments at 30 dwelling units per acre as part of a mixed-use development with commercial uses.</td>
</tr>
<tr>
<td>City of Sumner</td>
<td>7985100221</td>
<td>0.331</td>
<td>City of Sumner</td>
<td>Central Business District</td>
<td>Multifamily</td>
<td>The City of Sumner allows multifamily developments at 30 dwelling units per acre as part of a mixed-use development with commercial uses.</td>
</tr>
<tr>
<td>Pierce County</td>
<td>0319167023</td>
<td>0.5</td>
<td>Pierce County</td>
<td>Commercial Mixed-Use</td>
<td>Multi-family with 1st floor commercial</td>
<td>Pierce County allows multi-family mixed use developments with 1st floor commercial use within the Commercial Mixed-Use zoning district.</td>
</tr>
<tr>
<td>Pierce County</td>
<td>2007110181</td>
<td>0.413</td>
<td>City of Tacoma</td>
<td>Downtown Mixed-Use</td>
<td>Multi-family</td>
<td>The City of Tacoma allows Multi-Family uses in the Downtown Mixed-Use zoning district. City of Tacoma allows a residential of FAR ratio of 3 “As-of-right” with a maximum FAR ration of 7 with Transfer of Development Rights</td>
</tr>
</tbody>
</table>
| Pierce County | 2009110050 | 0.138 | City of Tacoma | Downtown Mixed-Use | Multi-family | The City of Tacoma allows Multi-Family uses in the Downtown Mixed-Use zoning district. City of Tacoma allows a residential of FAR ratio of 3 “As-
<table>
<thead>
<tr>
<th>Public Entity</th>
<th>Property Number</th>
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<th>Jurisdiction</th>
<th>Current Zoning</th>
<th>Best Use</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pierce County Fire District #18</td>
<td>0519322107</td>
<td>1.72</td>
<td>City of Orting</td>
<td>Residential - Multi-family</td>
<td>Multi-family</td>
<td>The City of Orting Residential - Multi-family zoning district allows multifamily housing at 8 dwelling units per acre.</td>
</tr>
<tr>
<td>Pierce County Parks</td>
<td>0319254066</td>
<td>3.01</td>
<td>Pierce County</td>
<td>Park &amp; Recreation</td>
<td>N/A</td>
<td>Pierce County Park &amp; Recreation zoning district does not allow for housing. The property would need to be rezoned in order to allow for affordable housing.</td>
</tr>
<tr>
<td>Pierce County Parks</td>
<td>0419133031</td>
<td>109</td>
<td>Pierce County</td>
<td>Park &amp; Recreation and Residential Resource</td>
<td>Duplex</td>
<td>This property has two zoning districts: Park &amp; Recreation and Residential Resource. Pierce County Park &amp; Recreation zoning district does not allow for housing. Pierce County Residential Resource zoning district allows duplex housing. The property would need to be rezoned in order to allow for affordable housing. In addition, the property appears to have steeps slopes on site and is lacking a direct access to a public road, which will limit development.</td>
</tr>
<tr>
<td>Pierce County Public Works</td>
<td>0318142001</td>
<td>63.1</td>
<td>Pierce County</td>
<td>Mixed-Use District</td>
<td>Multi-Family</td>
<td>Pierce County allows multi-family mixed use developments with 1st floor commercial uses within the Commercial Mixed-Use zoning district. The property has a maximum allowable density of 15 units per acre. The property is currently used as a gravel pit.</td>
</tr>
<tr>
<td>Pierce County Public Works</td>
<td>0319124010</td>
<td>2.065</td>
<td>Pierce County</td>
<td>Community Employment</td>
<td>One detached single-family house</td>
<td>This property looks to be largely encumbered by wetlands. At most, it appears that one single-family residence would be allowed under reasonable use provisions.</td>
</tr>
<tr>
<td>Pierce County Public Works</td>
<td>4015415094</td>
<td>0.402</td>
<td>Pierce County</td>
<td>Community Employment</td>
<td>One detached single-family house</td>
<td>Pierce County does not allow any housing on Community Employment zoning districts except for one detached single family house. The property would need to be rezoned in order to allow other forms of affordable housing or the zoning code updated to allow for affordable housing.</td>
</tr>
<tr>
<td>Public Entity</td>
<td>Property Number</td>
<td>Acres</td>
<td>Jurisdiction</td>
<td>Current Zoning</td>
<td>Best Use</td>
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</tr>
<tr>
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</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>0219091044</td>
<td>0.56</td>
<td>City of Lakewood</td>
<td>Residential 3</td>
<td>Single-family</td>
<td>The City of Lakewood allows single-family uses at 4.8 dwelling units per acre in the Residential 3 Zoning District. It appears that access to the property could be limited.</td>
</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>320325036</td>
<td>0.15</td>
<td>City of Tacoma</td>
<td>R-2</td>
<td>Single-family</td>
<td>The City of Tacoma allows detached single-family uses in the R-2 single-family residential zoning district.</td>
</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>320325037</td>
<td>0.15</td>
<td>City of Tacoma</td>
<td>R-2</td>
<td>Single-family</td>
<td>The City of Tacoma allows detached single-family uses in the R-2 single-family residential zoning district.</td>
</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>320325038</td>
<td>0.15</td>
<td>City of Tacoma</td>
<td>R-2</td>
<td>Single-family</td>
<td>The City of Tacoma allows detached single-family uses in the R-2 single-family residential zoning district.</td>
</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>0416151013</td>
<td>0.92</td>
<td>Town of Eatonville</td>
<td>General Commercial District</td>
<td>Multifamily</td>
<td>The Town of Eatonville allows multi-family development up to three stories. It appears that there are no direct density restrictions outside of building height and site coverage restrictions. There is a stream onsite that will limit the development potential of the site.</td>
</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>0419095007</td>
<td>0.84</td>
<td>City of Puyallup</td>
<td>Regional Growth Center Oriented Multi-Family Residential</td>
<td>Multifamily</td>
<td>This property is largely encumbered by wetlands. At most, it appears that one single-family family residence would be allowed under reasonable use provisions.</td>
</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>0419265004</td>
<td>1.74</td>
<td>Pierce County</td>
<td>Moderate Density Single Family</td>
<td>Single-family</td>
<td>This property looks to be largely encumbered by wetlands. At most, it appears that one single-family residence would be allowed under reasonable use provisions. Additionally, the property is landlocked which will further inhibit the development potential of this property.</td>
</tr>
<tr>
<td>Pierce County Tax Title</td>
<td>0619282066</td>
<td>1.24</td>
<td>Town of Wilkeson</td>
<td>Residential 2</td>
<td>Single-family</td>
<td>This property is located within a shoreline jurisdictional area, adjacent to a stream, and has steep slopes. It appears that this parcel might not be suitable for development due to critical area encumbrances.</td>
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<td>Pierce County Tax Title</td>
<td>8010000010</td>
<td>0.92</td>
<td>Pierce County</td>
<td>Residential Resource</td>
<td>Single-family</td>
<td>This property is largely encumbered by wetlands. At most, it appears that one single-</td>
</tr>
<tr>
<td>Public Entity</td>
<td>Property Number</td>
<td>Acres</td>
<td>Jurisdiction</td>
<td>Current Zoning</td>
<td>Best Use</td>
<td>Comments</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------</td>
<td>-------</td>
<td>----------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Puyallup School District</td>
<td>0420103132</td>
<td>4.96</td>
<td>City of Edgewood</td>
<td>Public</td>
<td>N/A</td>
<td>The City of Edgewood Public Zoning District does not allow for residential uses. The property would need to be rezoned in order to allow for affordable housing.</td>
</tr>
<tr>
<td>Puyallup School District</td>
<td>0420174013</td>
<td>5.41</td>
<td>City of Fife</td>
<td>Public Use / Open Space</td>
<td>N/A</td>
<td>The City of Fife Public Use / Open Space District does not allow for housing. The property would need to be rezoned in order to allow for affordable housing.</td>
</tr>
<tr>
<td>Washington State University</td>
<td>5270001571</td>
<td>0.189</td>
<td>City of Tacoma</td>
<td>Urban Center Mixed Use District</td>
<td>Multi-Family</td>
<td>The City of Tacoma allows multi-family uses in the Urban Center Mixed Use Zoning District with a minimum density of 40 dwelling units per acre</td>
</tr>
<tr>
<td>Washington State University</td>
<td>5270001572</td>
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<td>City of Tacoma</td>
<td>Urban Center Mixed Use District</td>
<td>Multi-Family</td>
<td>The City of Tacoma allows multi-family uses in the Urban Center Mixed Use Zoning District with a minimum density of 40 dwelling units per acre</td>
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<tr>
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<td>City of Tacoma</td>
<td>Urban Center Mixed Use District</td>
<td>Multi-Family</td>
<td>The City of Tacoma allows multi-family uses in the Urban Center Mixed Use Zoning District with a minimum density of 40 dwelling units per acre</td>
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<td>City of Tacoma</td>
<td>Urban Center Mixed Use District</td>
<td>Multi-Family</td>
<td>The City of Tacoma allows multi-family uses in the Urban Center Mixed Use Zoning District with a minimum density of 40 dwelling units per acre</td>
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<tr>
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<td>City of Tacoma</td>
<td>Urban Center Mixed Use District</td>
<td>Multi-Family</td>
<td>The City of Tacoma allows multi-family uses in the Urban Center Mixed Use Zoning District with a minimum density of 40 dwelling units per acre</td>
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<tr>
<td>Washington State University</td>
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<td>0.2</td>
<td>City of Tacoma</td>
<td>Urban Center Mixed Use District</td>
<td>Multi-Family</td>
<td>The City of Tacoma allows multi-family uses in the Urban Center Mixed Use Zoning District with a minimum density of 40 dwelling units per acre</td>
</tr>
</tbody>
</table>
5 RECOMMENDATIONS

Increasing the supply of affordable housing is one part of numerous solutions aimed at improving housing affordability, as demonstrated in the matrix below. This report focuses on the first row - building and land use considerations to preserve existing rent-restricted housing units and to increase the supply of rent-restricted units. Jurisdictions can implement additional programs focused on people - from tenant protections against evictions, to voucher and rent-assistance programs. These programs and interventions can be helpful but are not described in detail in this report.

<table>
<thead>
<tr>
<th>Building Focused: Build and maintain a diverse housing stock</th>
<th>Preserve Existing Supply</th>
<th>Increase Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Tools and strategies that preserve housing units</td>
<td>- Focus on both naturally occurring and rent-regulated units</td>
<td>- Focus on rent-regulated units</td>
</tr>
<tr>
<td>- Focus on regulations and policies governing units</td>
<td>- Target units affordable to moderate income households (80 percent of AMI or higher)</td>
<td>- Focus on regulations and policies governing units</td>
</tr>
<tr>
<td>- Target all areas of the affordability income spectrum (0 percent AMI through 120 percent AMI)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>People Focused: Developers, renters, owners, landlords, etc.</th>
<th>Preserve Existing Supply</th>
<th>Increase Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Tools and strategies that help people stay in their affordable homes</td>
<td>- Includes both homeowners and renters</td>
<td>- Tools and strategies that get people into new affordable homes</td>
</tr>
<tr>
<td>- Focus on services and service providers in the community</td>
<td>- Targeting all areas of the affordability income spectrum (0 percent AMI through 120 percent AMI)</td>
<td></td>
</tr>
<tr>
<td>- Targeting lowest income residents (80 percent of AMI or lower)</td>
<td>- Improve affordability through vouchers or rent assistance programs</td>
<td></td>
</tr>
</tbody>
</table>

This section steps through the four identified areas of intervention that Pierce County and its jurisdictions can consider as they seek ways to improve housing affordability for County residents.
5.01 SURPLUS LAND RECOMMENDATIONS

In 2015, the Washington State Legislature passed RCW 81.112.350. This requires county transit authorities that operate in counties with at least 1.5 million residents to create a voter-approved system plan prioritizing and funding the development of affordable housing related to equitable transit-oriented development within the boundaries of the transit agency’s authority. While Pierce County is not required to adhere to this law due to its current population size, an opportunity exists for the County to act proactively to address affordable housing issues. Pierce County can learn from the example set by Sound Transit as it has worked to create and implement its own strategy addressing affordable housing needs in the region pursuant to the legislation.

The passage of Washington State House Bill 2382 in 2018 permits local governments to sell at below-market rates or transfer their surplus public lands for free – which are usually owned by counties, municipalities, transit authorities, and public utilities – for the purpose of affordable housing development. Surplus public land can also include vacant, underutilized, or undeveloped sites that can be repositioned to either develop new housing or include affordable housing as an addition to the existing use (e.g., adding affordable housing units to an existing school or library site). This tactic was employed in Sound Transit’s strategy in evaluating surplus public land to site new affordable housing in expensive, high-opportunity areas.

Using surplus land to develop affordable housing can significantly reduce the overall costs of development because land acquisition costs are a significant portion of a development project’s budget (often 15-20 percent in multifamily residential development). Removing those costs by transferring land to affordable housing developers helps to close gaps in financing thereby improving project feasibility. However, it does not fully address the need for further public subsidy to build and operate new affordable housing that offers deep levels of affordability (e.g., households with incomes 50 percent or less of the area median income).

Pierce County and its municipalities have the legal ability, granted by the passage of SB 2382 in 2018, to sell surplus lands at below-market rates or transfer them for free to organizations that will (re)develop them as rent-restricted affordable housing. However, they are not mandated to do so. Recognizing the affordability challenges Pierce County and its cities are experiencing, SB 2382 provides an avenue for addressing the needs of community members while putting surplus property to use as economic conditions and goals change. To do so, Pierce County should partner with other public entities that may have surplus public lands in their holdings and assess all available lands for development feasibility. King County and Sound Transit both have set a precedent on how to do this, and Pierce County can use these

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examples as a way to move forward with their strategy. For example, Sound Transit created its 80-80-80 framework, which states:

“Sound Transit will offer a minimum of 80 percent of its surplus property that is suitable for development as housing for either transfer at no cost, sale, or long-term lease first to qualified entities that agree to develop affordable housing on the property, consistent with local land use and zoning laws. If a qualified entity accepts the property through the offer, at least 80 percent of the housing units constructed must be affordable to those earning 80 percent of the area median income for the County in which the property is located.”

By using this as a starting point, Pierce County could create tangible, transparent, and achievable goals that articulate its commitment to producing new affordable housing units that are strategically located and reduce the need for additional public subsidy. It also creates an opportunity for local governments to coordinate and work regionally on housing affordability.

One way in which the County could move forward to compile a database of surplus public lands across public entities is by contacting Enterprise Community Partners, which created a new mapping tool to help identify all of the surplus land that could be used for development of affordable housing in King County. Expanding the geography of this mapping tool to incorporate Pierce County could be instrumental in guiding future development.

Another step that the County could take to move forward with this strategy is to contact City of Seattle Councilmember Teresa Mosqueda, who has worked on King County’s implementation of their surplus public land strategy and is actively trying to engage with other counties and municipalities to help them in their implementation processes. Establishing these key partnerships will be instrumental in the success of this strategy in Pierce County.

Pierce County can develop a coherent strategy to utilize their surplus land to increase the supply of affordable housing by coordinating and working directly with state and local policymakers involved in passing SB 2382, as well as transit authorities, public utility companies, affordable housing developers, service providers, and community-based organizations. Addressing this opportunity as part of the buildable lands monitoring report update is a good place to start since the program requires a detailed look at development trends and land supply.

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5.02 DEVELOPMENT INCENTIVES

Rent-restricted affordable housing fills an important gap in the housing market - offering quality housing options for low-income households. Rent-restricted affordable housing is most often purpose-built by non-profit developers and comes with affordability and income restrictions governing its use. Increasing the supply of affordable housing can be achieved through numerous avenues; these can be grouped as either cost reductions (both upfront development costs and ongoing operating costs), or changing land use and zoning to incentivize affordable housing development.

5.02.01 COST REDUCTIONS

Increasing the supply of new rent-restricted affordable housing through cost reductions focuses on either (a) reducing the upfront development and construction costs or (b) reducing ongoing operating costs. Both require the property to carry less debt thereby allowing it to cash flow on lower rents. The following recommendations can help developers build more rent-restricted affordable housing in Pierce County:

Reduce Upfront Development Costs

1) Create a land bank by donating or selling land at below-market rates, or create a long-term, low-cost lease agreement.

2) Reduce requirements on the property that increase construction costs. This can include parking requirements, recreation space requirements, building sustainability requirements, or other costly amenities.

3) Waive or allow properties to finance fees associated with development - such as system development charges/impact fees, permitting fees, or design review fees.

4) Expedite the entitlement process to shorten the predevelopment period and reduce carrying costs.

5) Offer financing incentives during predevelopment and/or construction. This could include grants, favorable loan terms (such as forgivable loans, low- or zero-interest loans, convertible debt, deferred interest or interest-only loans, loan guarantees, or credit enhancement), or equity in a project.

Improve net operating income (by increasing rent subsidies or reducing operating costs)

1) Offer rent subsidies to boost property rent revenues but keep tenant rents low.

2) Offer or enhance tax abatement programs to reduce or eliminate property taxes (such as the Multi-family Tax Exemption Program)

3) Reduce requirements on the property that increase ongoing operating costs (such as wrap-around services, the complexity of building systems, energy efficiency requirements, water-intensive landscaping, or building designs that are shown to increase maintenance costs).
4) Offer favorable financing to reduce debt servicing requirements. This could include grants, favorable loan terms (such as forgivable loans, low- or zero-interest loans, convertible debt, deferred interest or interest-only loans, loan guarantees, or credit enhancement), or equity in a project.

Lowering the cost of new, market rate developments so that rents or purchase prices for single family homes are more in-line with incomes and budgets of households in the area can help to alleviate pressure on the limited stock of rent-restricted housing. Land, construction, and entitlement costs are the largest cost drivers for market rate housing; thus, interventions aimed directly at these costs, or expediting these processes, can have large effects on the overall affordability profile of housing in the County.

5.02.02 LAND USE REGULATIONS

Increasing the supply of affordable housing can be achieved through land use regulation changes or specific affordable housing incentive programs. By revising land use regulations to minimize zoning restrictions or by offering affordable housing development incentives, the County and its municipalities can offer developers an incentive to include additional affordable housing units and help alleviate the financial burden on developers. The following are programs and changes that Pierce County could utilize to increase the affordable housing supply in the County:

Inclusionary Zoning Programs: Inclusionary zoning programs provide incentives for market-rate developments to provide a certain amount of affordable housing units. These incentives can include density bonuses, parking requirement reductions, fee waivers, etc. Jurisdictions often require 10 to 20 percent of the total number of residential units to be set aside for affordable housing. Additionally, jurisdictions could include a fee in lieu program that developers can pay into in order to receive the housing incentives. The City of Chicago’s fee in lieu program has received more than 86 million dollars since 2007.27 Pierce County currently does not offer a fee in lieu program for affordable housing. Pierce County currently offers an inclusionary zoning program that provides various affordable housing incentives depending on how much affordable housing is included in the market-rate development. One of the challenges to this program for developers is that some of the affordable housing incentives are identified as a “first come first serve,” and it is unclear if there is funding available at this time for all the provided incentives. The following are recommendations for additional inclusionary zoning programs that could incentivize affordable housing in the County:

1) Affordable Housing Fee in Lieu Program - Create an affordable housing fee-in-lieu program that developers can pay into in order to receive the affordable housing incentives provided in PCC 18A.65. The funds can be used for extremely low-income housing.

2) Building Height Bonuses - Add building height bonuses to the affordable housing incentive program similar to how density bonuses are provided in Chapter 18A.65 PCC.

3) Minimum Parking Reductions - Review the potential for removing minimum parking requirements if an affordable housing project is located within a quarter mile of a regularly scheduled transit route.

4) Municipality Coordination - Encourage municipalities within Pierce County to create inclusionary zoning programs that encourage affordable housing development.

5) Affordable Housing Incentive Transit Distance - Review and revise the minimum distance a regularly scheduled transit route is required from a proposed affordable housing project in order to utilize affordable housing incentives. Pierce County could increase the minimum distance from a regular scheduled transit route to a half mile or more. This would increase the number of properties that could utilize the affordable housing incentives.

6) Affordable Housing Fee Waivers Limitations Review - Review and revise the limitation on available fee waivers and provide a resource that identifies available incentive funding in any given year. Creating a resource that provides all up-to-date available funding incentives would greatly reduce the uncertainty of these incentives being available.

7) Affordable Housing Incentive Number of Project Limitations - Some of the housing incentives are limited to a small number of projects. Pierce County should look at removing this limitation completely or create a resource that specifically identifies how many more projects can utilize the financial incentive in any given year.

8) Pierce County Code Cross References - Currently, PCC 18.A.15.020.E does not reference the potential affordable housing density incentives that are available. Consider cross referencing all affordable housing zoning bonuses in other sections of the municipal code in order to increase awareness of the incentive.

**By-Right Zoning:** By-right zoning is when the zoning code streamlines the approval process for projects that comply with zoning standards without having to go through a separate discretionary review process. By-right zoning outlines the desired outcome of a development to guide future developments. This helps provide developers a clear process and direction for the design of development projects and can reduce revision and coordination costs. The City of Tacoma currently provides “as-of-right” process for residential projects within Downtown Tacoma. This program allows certain residential FAR ratios “as-of-right;” developments can then pursue additional residential FAR ratio by utilizing the design review process. Pierce County can look to the City of Tacoma “as-of-right” program and review its appropriateness for Pierce County Community Plans.

**Tax Exemption Zones:** Under RCW 84.14, Washington jurisdictions with more than 15,000 people can establish a property tax exemption program to stimulate the construction of multifamily housing. Typically, this allows housing improvements to be exempted from property taxes for 8 to 12 years. This tax exemption provides a financial incentive for developers by reducing the tax burden on a development. Pierce County currently provides a 12-year tax exemption for developments located in a
County Council approved residential targeted area if the development includes 20 percent of total units as affordable units. Since 2012, Pierce County Council has approved only one residential targeted area. A housing developer would need to go through a lengthy and uncertain process to create additional residential target areas. If Pierce County initiated the process through the County Council, additional residential target areas could be created, freeing up additional funding for affordable housing developers.

5.03 PRESERVATION INCENTIVES

Along with building new, rent-restricted housing, it is critical that Pierce County preserve the existing housing stock that currently serves low-income residents. Since preservation of existing housing is often cheaper, faster, and more environmentally friendly than building new housing, it is perhaps more important for the County than focusing solely on delivering new units.

5.03.01 PRESERVING UNRESTRICTED HOUSING

In Washington State, only about 30 percent of eligible households received federal housing assistance in 2018. However, the number of households needing affordable housing is well above the number who receive housing assistance. Thus, the vast majority of low-income households are living in unrestricted, unregulated housing. Many of these households are cost burdened, paying more than 30 percent of their gross income on housing. Others avoid cost burdening by living in low-cost market rentals (LCMRs or often called “naturally occurring affordable housing”). These rental properties are usually older, modest, or lower-quality. Many of these types of housing were built in the 1960’s, 1970’s or 1980’s, and are affordable because they have filtered through the housing market and rents are out-competed by newer, amenity-rich housing.

In Section 3, investment buyers and strong demand were identified as challenges to affordable housing. Investment buyers, driven by the profits available in a hot housing market, often target unrestricted low-income housing to purchase, renovate, and then rent out at higher prices. This can result in low-income tenants being evicted or seeing their rents increase beyond their budgets.

Recognizing the importance of preserving this part of the housing stock, Pierce County and the local jurisdictions can implement policies or set aside funding for preservation using the following recommendations:

1) Track rental properties – create a license and registration requirement for all rental properties in a city as the first step toward preserving low-cost market rentals. Without knowledge of contact information, addresses, and the property history, the public sector is starting from behind when low-cost properties sell and flip to market rents.

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28 [https://www.cbpp.org/research/housing/federal-rental-assistance-fact-sheets#WA](https://www.cbpp.org/research/housing/federal-rental-assistance-fact-sheets#WA)
2) Create a housing preservation fund - A pool of funds that can be flexibly used to address the needs of (1) regulated affordable housing properties at risk of conversion to market rate units, (2) repairs and upgrades to naturally occurring affordable housing properties to reduce the need for rent increases, or (3) people interested in acquiring a property that would be regulated affordable housing.

3) Offer grants or loans for recapitalization or capital repairs - A pool of money intended to help regulated and unregulated properties recapitalize loans and/or pay for necessary capital repairs so that land owners can avoid selling to the private market for capital. Loans or grants to non-regulated affordable housing owners would be made in exchange for agreements to rent units below market value for a specified period of time.

4) Create a Real-Estate Investment Trust (REIT) - A REIT entity owns, or operates, income-producing real estate and serves as an investment mechanism by which private equity can be invested in real estate, much like private investors invest in mutual funds. This would be a faster-moving entity that is mission oriented and can compete with investment buyers in purchasing smaller multi-family properties to keep them affordable.

5) Develop a community land trust - A community land trust owns land and provides long-term ground leases to low-income households to purchase the homes on the land, and agrees to purchase prices, resale prices, equity capture, and other terms. This model allows low-income households to become homeowners and capture some equity as the home appreciates, but ensures that the home remains affordable for future homebuyers. Community Land Trusts (CLT) may also lease land to affordable housing developers for the development of rental housing or develop and manage rental housing.

5.03.02 PRESERVING EXPIRING AFFORDABILITY RESTRICTIONS

As mentioned in the Section 3.04.02, many programs have limited time periods for which the rents must be restricted. The LIHTC program is usually 15 years, while the MFTE program can be 8 to 12 years. When this affordability period ends, a property owner that is not mission-oriented is no longer required to keep the rents affordable to low-income residents. This means that these residents are at extreme risk of displacement from rent increases when these affordability periods expire. Therefore, it is critical that communities are proactive in monitoring their affordable housing portfolios and act well-in advance to purchase or recapitalize these properties before their units convert to market rate. Often, this coincides with major renovations and upgrades, and a property can reapply for tax credits or other types of funding to pay for rehabilitation and re-restrict the rents.

5.04 PARTNERSHIP RECOMMENDATIONS

Public agencies can take the ownership of maintaining, monitoring, preserving, and growing affordable housing supply in their jurisdictions and become a leader in the region. Public agencies can coordinate
with non-profits for financing, as well as state and city departments, to create an affordable housing inventory, and set policies that empower affordable housing development.

5.04.01 NON-PROFIT FINANCING PARTNERSHIPS

Pierce County and the local cities can partner with existing non-profit developers already building affordable housing in the area. These organizations already know the bottlenecks in the development process - and can help the public sector leverage their funding and policy making powers to increase the quantity of affordable housing in Pierce County.

In addition, Pierce County can partner with local entities already funding affordable housing, such as: The Regional Equitable Development (REDI) Fund or the forthcoming Sound Transit Revolving Loan Fund - both are revolving loan funds focused on providing favorable loans for affordable housing near transit.

Pierce County and the local cities could also partner with a regional chapter of numerous national funders and syndicators, such as Enterprise Community Partners, Mercy Housing, the National Development Council, the National Equity Fund, or many others.

5.04.02 PUBLIC PARTNERSHIPS

As discussed throughout this document, public land that can be surplused and leveraged into affordable housing development can be a significant tool in increasing the affordable housing supply. To be able to leverage surplus land for affordable housing, a public agency would need to lead the efforts by being the point of contact for the various public entities and create and maintain an inventory of all surplausible land. Public entities will continue to purchase and surplus land, and continual coordination is necessary to provide affordable housing developers the best information. Specifically, coordinating with Washington State Departments, Sound Transit, and the City of Tacoma will be crucial to the success of affordable housing in Pierce County. These organizations provide prime partnership opportunities to provide affordable housing across all segments of the economic spectrum within Pierce County.

An example of a public agency becoming a leader in affordable housing is the State of California’s Governor’s Office. In January 2019, the State of California started to inventory all state-owned lands that may be available for potential development of affordable housing. A screening tool was developed to further evaluate these state properties and their viability for affordable housing development. Now, with the tool developed, the California Department of Housing and Community Development is working closely with local government leaders to develop a Request for Proposal (RFP) for developing affordable housing on specific sites. Pierce County has started a similar process by inventorying all current potential publicly owned surplausible land. The next steps would be to create an online inventory, determine the

30 Ibid.
most suitable affordable housing sites, and coordinate with necessary agencies to create an affordable housing development RFP. These steps would create a similar process to what California has created. Pierce County doesn't need to follow the same process but the following are recommendations that would have positive impacts to leverage affordable housing development through a surplus land program.

1) Update the Pierce County Comprehensive Plan Housing goals to include coordinating with state departments to identify surplus property near County and Municipal UGAs that can be used to provide affordable housing in the near future.

2) Update the Pierce County Comprehensive Plan Housing goals to include continual coordination with Sound Transit to identify surplus property.

3) Review the potential to create a land bank that can hold and/or purchase public properties suitable for affordable housing development.

4) Continue to work with the City of Tacoma on identifying potential surplus land that is suitable for housing.

5) Coordinate with all public entities in Pierce County to develop and maintain a surplus inventory map that can be utilized by developers to identify potential housing development sites and the applicable incentives that could be utilized at each location.
APPENDIX A: POTENTIALLY SURPLUS PUBLIC LAND