



AEI Housing Center

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Light Touch Density and Filtering Down: City of Seattle Case Study

Expanding Housing Supply with Light-Touch Density and
Walkable-Oriented Development

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The principle of highest and best *legal* use: *Either McMansions or lots more supply*

Vienna, VA examples:

- Due to high land values and absent the opportunity to increase density due to zoning, homes are being converted into McMansions. This removes a relatively affordable unit from the market.
- If moderately higher density were allowed, the lot could easily sustain 4 units (each with 3 bedrooms/2 baths, ~1,500 sq. ft. of living area, and valued at ~\$900k). This would add net 3 relatively affordable units, while the city's property tax revenue for this lot and builder profits would be much higher.
- High home prices are largely a self-inflicted wound inflicted by excessive zoning and land use restrictions.
- Expanding supply requires pushing back against the 3 “isms”: shortage denialism, supply skepticism, and Nimbyism.



The principle of highest and best *legal* use: *Either McMansions or lots more supply (cont.)*

Charlotte, NC example:

- Due to high land values and with the opportunity to increase density due to zoning, Light-touch density units are actually being built.
- On a 12,000 sq. ft. lot, 4 units each with 3 bedrooms/2 to 3 baths and between 1,250 and 1,550 sq. ft. of living area were built in 2000. Each unit is valued between \$380k to \$480k.
- The surrounding homes, including many larger single-family detached ones, are valued at around \$750k to 800k, and those with roughly the same living area are valued at around the same range as the quadraplex.

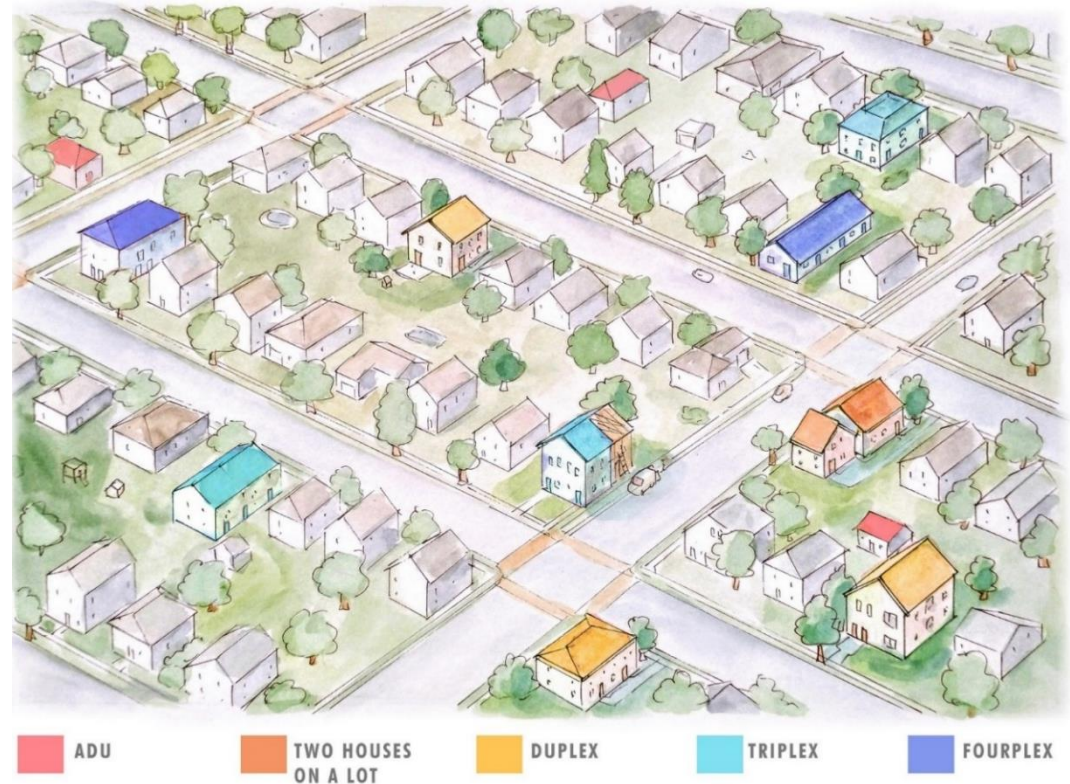
The quadraplex on 1718 Amherst Pl, Charlotte, NC 28204 as seen from the street: direct (left) and at a slight angle (right).



An ideal tool to increase the supply of naturally affordable & inclusionary housing

Light-Touch Density (LTD) represents the low-hanging fruit in zoning reform as it is useful in modestly increasing density in multiple ways:

1. In-fill: Adding additional units such as an accessory dwelling unit (ADU) or adding a second unit to an existing single-family detached lot.
2. In-fill: Tearing down an existing unit and replacing with duplexes, triplexes, quadraplexes, or townhouses.
3. In-fill: A lot split to allow increased density.
4. Greenfield: Increasing as-built density.
5. Greenfield and Infill: Increasing density by adding additional floor(s) or reducing the size of the units in a planned new apartment or condo building.



Need to also develop **Light Touch Processing** and **Light Touch Permitting**.

All of these LTD options would moderately increase the as-built density of the land, thereby enabling owners/builders to construct smaller, less expensive units that are more naturally affordable & inclusionary without requiring subsidies.

Based on multiple case studies, we estimate that around 2% of the single-family detached housing stock will be converted to a higher and better use through LTD per year.* Nationwide, LTD can add over 6.3 million over 10 years.

* Case studies are from Seattle, Charlotte, Houston, Palisades Park, and Tokyo. For a further discussion of Light Touch Density case studies, see pg. 7-10 of the [AEI Housing Center booklet](#) on increasing housing supply.

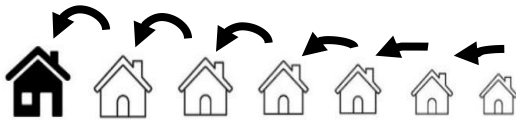
Source: AEI Housing Center, www.AEI.org/housing.

LTD has many benefits, including the promotion of filtering down

- The sweet spot for new construction is around or below the middle of the price range, as this triggers moves from lower price points, thereby freeing up such housing for filtering down.
- Thought experiment: Imagine car manufacturers could only legally build Ferraris. Filtering down would be limited as few new cars would be sold, existing car prices would sky-rocket, and few could afford new or used cars.

Adding supply at the high end yields few new homes and little move-ups from less expensive housing.

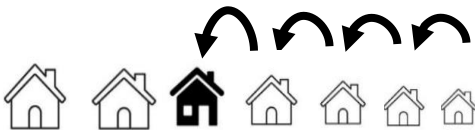
- **High end housing, subsidies, inclusionary zoning, and high density transit zones create housing affordable to a few or require substantial subsidies.**



- *Increased housing cost burdens*
- *Increased homelessness*
- *Growing numbers of obsolete units*

Adding lots of supply in the middle yields a greatly increased number of move-ups from less expensive housing—freeing up those units.

- **This market-oriented approach unleashes a swarm of private sector activity yielding a large increase of naturally affordable and inclusionary housing.**
- *Adds a wider variety of structure types, more owner and renter opportunities across a broader range of price points.*
- *More supply results in obsolete units being upgraded or demolished*
- *Reduced housing cost burdens on low-income renters and buyers*
- *Offers many more ownership opportunities, helps close the socio-economic status wealth gap, and reduces homelessness*



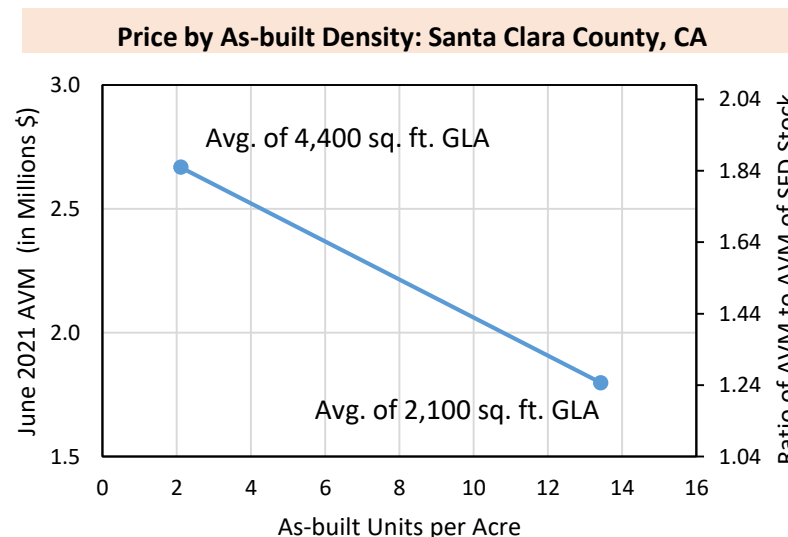
Light-Touch Density yields:

- Property rights
- Gradual change
- Greater economic vitality
- Shorter commutes
- Energy savings
- Healthier lifestyle
- Minimal infrastructure spending
- Stronger commercial zones
- Lower tax rates, but higher property tax collections
- More naturally affordable and inclusionary housing.

- In in-fill neighborhoods, LTD requires minimal infrastructure improvements, as infrastructure can be adjusted over time to serve more people.

How to Expand Naturally Affordable Housing With Light Touch Density (LTD)

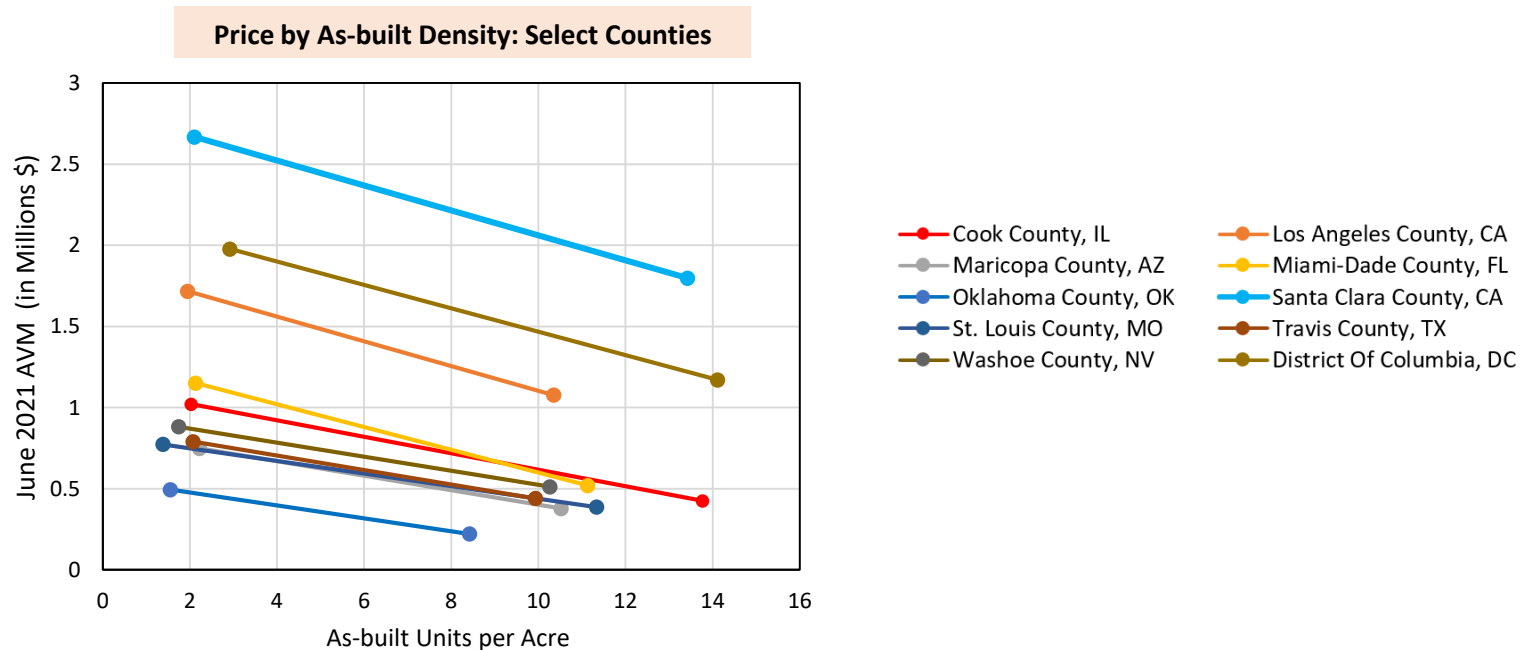
- LTD also applies to single family (SF) greenfield new construction.
 - We discovered a near linear inverse relationship between as-built density/lot size, gross living area (GLA), and price.
 - In short: Higher as-built density that utilizes smaller lots leads to smaller homes, which are less expensive. The increased density generates more supply and more property taxes.
 - Had all the SF homes built since 2000 been built at 20% higher density, there would be about 3.8 million more homes today.
 - This additional supply would have gone a long way towards alleviating the nation's supply shortfall and would have helped tamp down unsustainable home price growth.
- By-right LTD, if broadly applied in greenfield and in-fill areas, has the potential to unleash a steady stream of smaller and lower priced (naturally affordable) homes for decades to come.



Note: An Automated Valuation Model (AVM) estimates a property's sale price at a given point in time. Limited to single family detached homes that were built from 2000 to June 2022. Lot sizes are limited to those between 3,000 sq. ft. (14.5 units/acre) and 45,000 sq. ft. (0.97 units/acre). Gross Living Areas are limited to those between 1,000 sq. ft. to 10,000 sq. ft. SFD homes are binned into 10 equally sized bins based on their lot size. We display the first and tenth decile. Regression analysis controls for year built and the census tract of the property and uses about 24,000 SFD homes built since 2000. Source: AEI Housing Center, www.AEI.org/housing.

How to Expand Naturally Affordable Housing With Light Touch Density (Cont.)

- **Most counties have a near linear inverse relationship between as-built density/lot size, gross living area, and price.**
 - We examined the largest 200 metros and found that while the levels of gross living area and home prices vary, the relationship remains the same.
 - Thus, this relationship can serve as a guidepost for localities as they want to increase their single-family detached housing supply.



Note: An Automated Valuation Model (AVM) estimates a property's sale price at a given point in time. Limited to single family detached homes that were built from 2000 to June 2022. Lot sizes are limited to those between 3,000 sq. ft. (14.5 units/acre) and 45,000 sq. ft. (0.97 units/acre). Gross Living Areas are limited to those between 1,000 sq. ft. to 10,000 sq. ft. SFD homes are binned into 10 equally sized bins based on their lot size. We display the first and tenth decile. Regression analysis controls for year built and the census tract of the property.

Source: AEI Housing Center, www.AEI.org/housing.

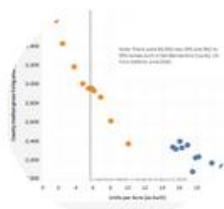
AEI's Housing and Economic Development Toolkit (HEAT)

On one site, explore your Metro/County/City/Neighborhood with 13 free tools on supply, prices, and migration: [HEAT link](#).

The Housing and Economic Analysis Toolkit
Choose a tool or presentation from the icons below or the buttons above

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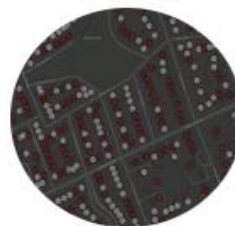
Supply



New Home Construction and As-Built Density Relationships



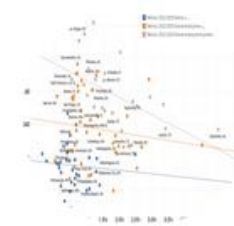
Walkable Oriented Development



Light Touch Density Map



Light Touch Density Supply Estimates



Metro Supply & Demand Estimates

Price



Home Price Appreciation and Months Supply



Tech Worker Index



Carpenter Index

Migration



Job and New Construction Growth



Job Growth



Arbitrage



County Migration Map



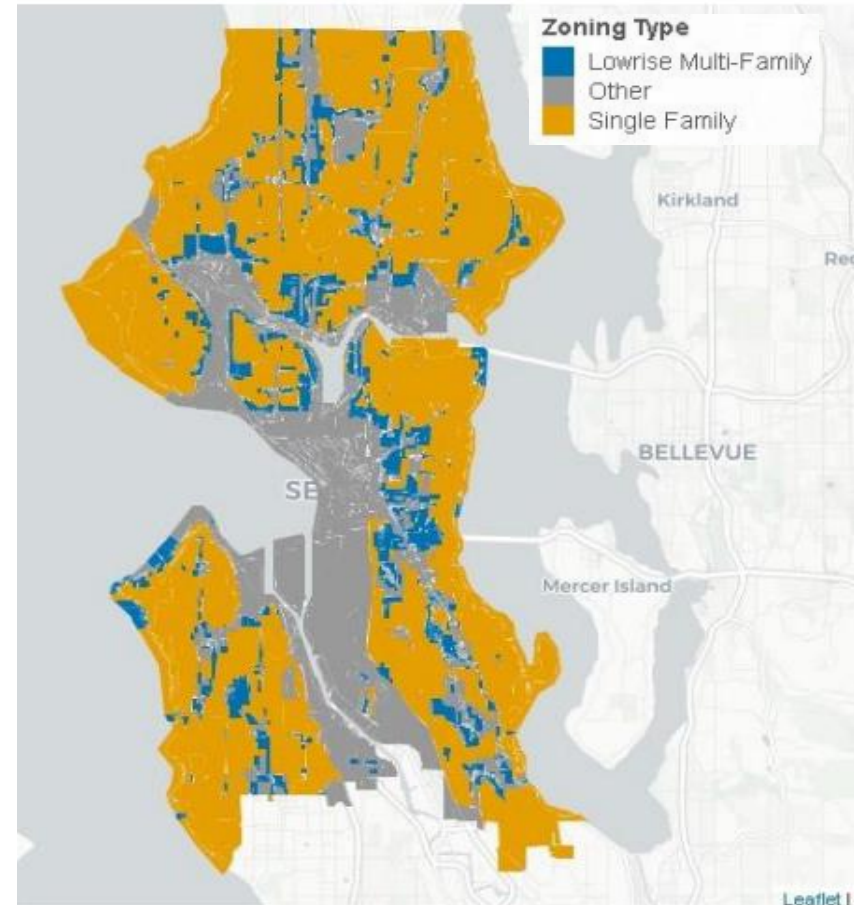
State Migration Summary

City of Seattle Case Study

Key takeaways

- In the City of Seattle, about 12 times as much land is zoned for Single Family (SF) than for Low-Rise Multifamily (LRM).
- In the mid-1990s, the creation of the LRM zone allowed property owners to use their land more efficiently. As a consequence, many single-family detached homes have been converted to mostly townhomes. This is light-touch density at its best.
- Since 2000, 18,000 new townhomes units have been built in the LRM zone. As a result, its housing stock increased by about 75% - or about 3% per year. The supply addition in the SF zone from new single-family homes is minimal.
- The new townhomes are generally starter homes, which has enabled homeownership for lower-income, younger, and more diverse households.
- Home values in the LRM zone have appreciated at the same rate as home values in the SF zone.
- Unfortunately, this success is now being derailed by Seattle's Mandatory Housing Affordability (MFA) program.
- This program will produce a small amount of heavily-subsidized "housing Ferraris" that will be sold to low-income households and destroy the progress LRM zoning has made in expanding broad-based housing affordability.

Map: Simplified City of Seattle Zoning Map



History of Zoning in Seattle, WA.

Pre-1920s:

Few zoning restrictions; multifamily and single-family detached housing exist side-by-side as determined largely by economics. Today we call this Light Touch Density.

Beginning in the 1920s:

Zoning ordinances restricted large swaths of the city to single-family detached housing with the goal of excluding Blacks and low-income ethnic groups by making these neighborhoods unaffordable.*

During the 1990s:

Due to spiraling home prices, city establishes “Urban Villages” as a political compromise to add new housing, while leaving large swaths of the city for single-family zoning.

The goal was to “creating attractive urban living environments replete with parks, shops, and restaurants, and a convenient mass-transit system” of varying levels of density.**

At the time, the plan faced pushback that people would not want to live in denser communities. Demand is clearly present as this policy change has led to the conversion of thousands of single-family detached homes to many more thousands of townhomes in the LRM zone.

* This was a national effort undertaken with the guidance and encouragement of the federal government. As a result exclusionary zoning ordinances were enacted across most of the nation in the 1920s and 1930s. Zoning districts and land use restrictions were used to separate higher-cost neighborhoods, consisting of single-family detached dwellings, from lower-cost neighborhoods with lots of rental units. The legacy of slavery and discrimination meant that African Americans had much lower incomes and wealth than white Americans. Exclusionary or economic zoning was used to further entrench racial segregation.

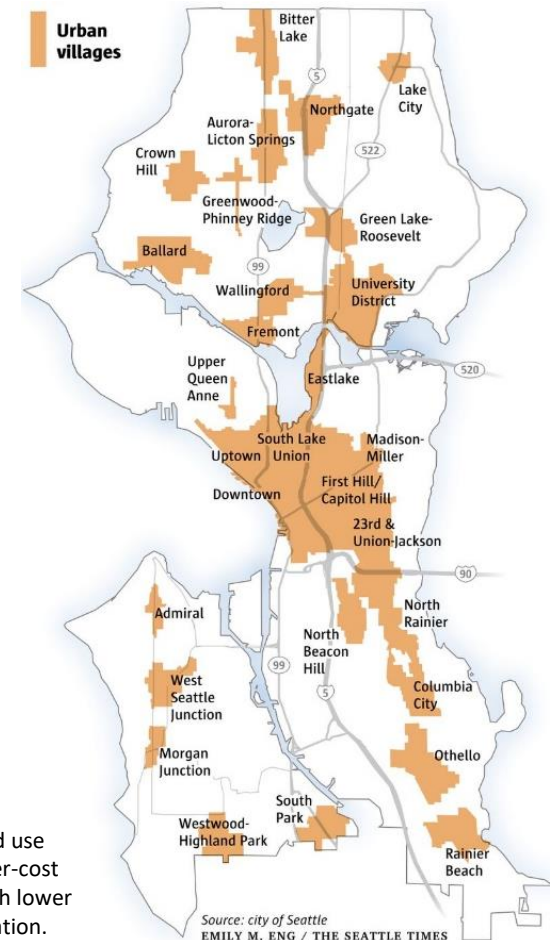
For more, see <https://www.aei.org/light-touch-density/>. For a similar history specific to Seattle see:

<https://www.sightline.org/2018/05/23/this-is-how-you-slow-walk-into-a-housing-shortage/>

** “The plan defines three categories of urban villages: Five areas would be dense, commercially oriented ‘urban centers’ where 45 percent of the city’s 60,000 anticipated new housing units would be built over the next 20 years. Seven less-dense ‘hub urban villages’ and 17 ‘residential urban villages’ would account for another one-third of expected growth. Today, there is not a perfect overlap between the LRM and all the urban villages.

Source: [Cristian Science Monitor](#), [Seattle Times](#), [Sightline Institute](#), [City of Seattle](#), AEI Housing Center, www.AEI.org/housing.

Map: Seattle Urban Villages



Light-touch Density townhome conversion

The home on the left, which was built in 1906 on a 3,200 sq. ft. lot, was replaced in 2016 with the two homes on the right.

Each new unit was sold individually to a buyer.

Property as seen in 2014.

5bd, 2ba, 1240 sq. ft.

Potential value today: ~\$1m.

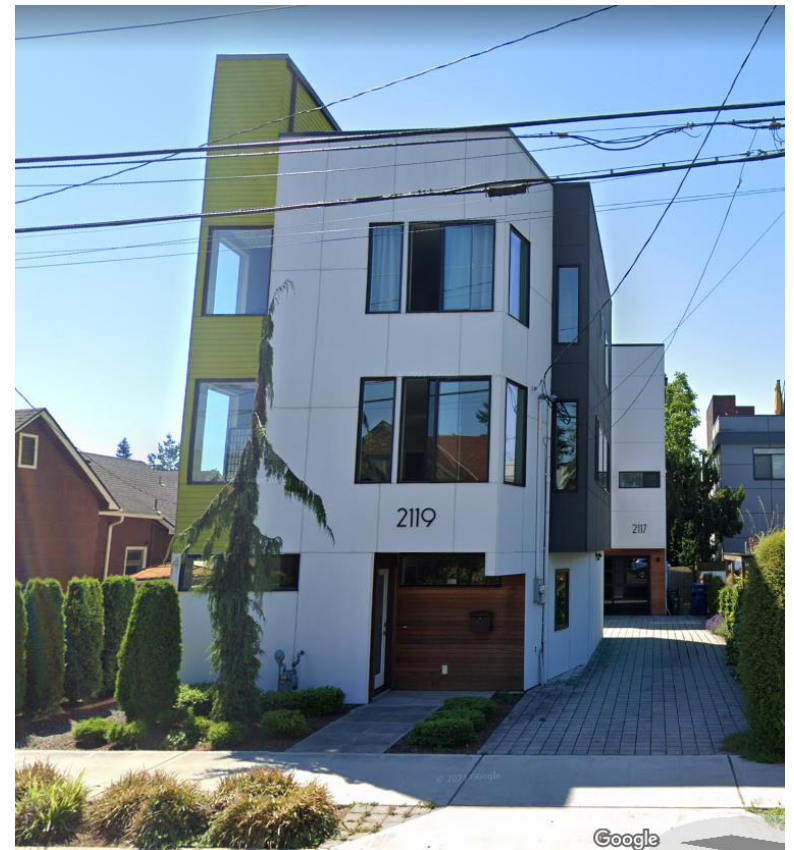


Properties as seen today.

Front: 3bd, 2.5ba, 1680 sq. ft.

Back: 3bd, 2.5ba, 1650 sq. ft.

Actual value for each property today: \$980k.



Seattle's LRM zone townhome building boom

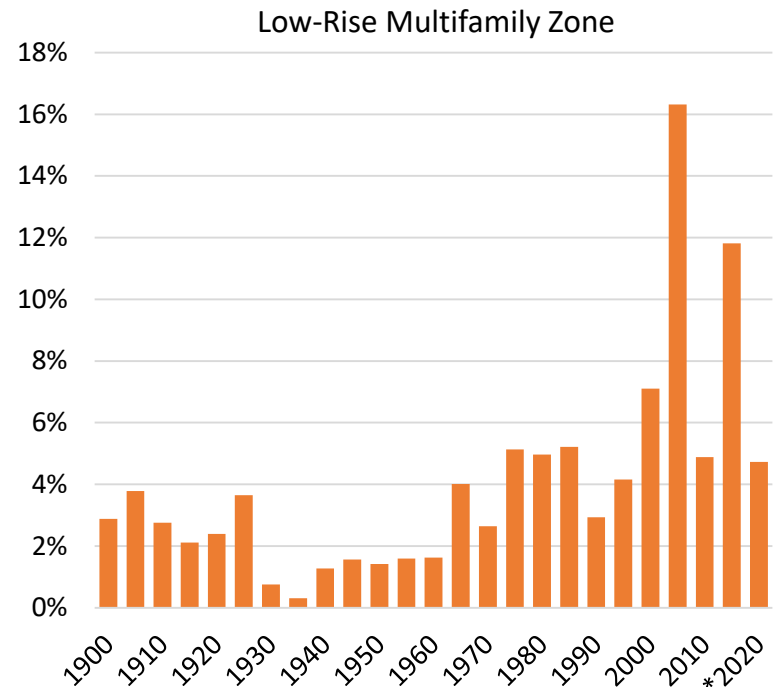
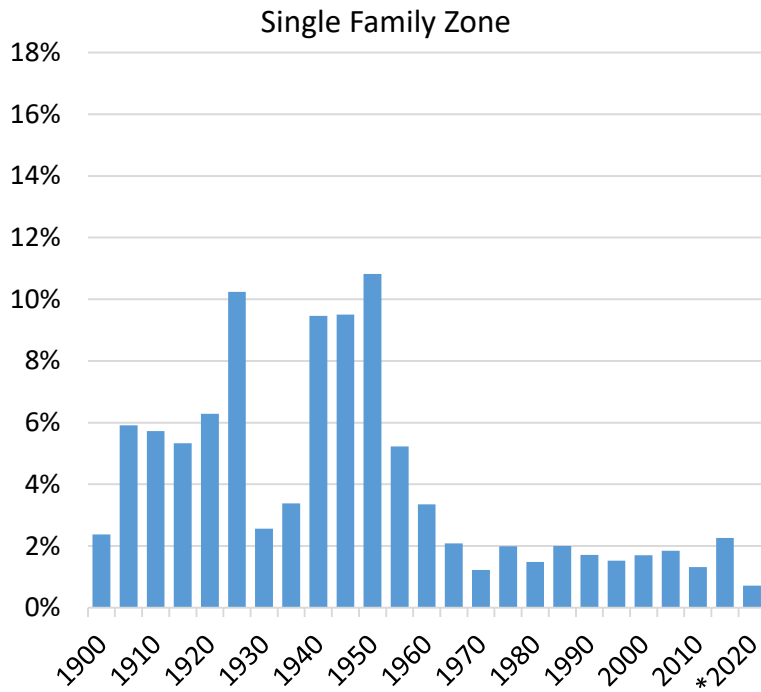
There has been a building boom in the LRM zone starting in the mid-1990s.

LRM has unleashed a [swarm of small-scale builders](#), owners, developers, and other involved parties.

Despite the disruptions of the Great Financial Crisis, building has continued to be robust.

The SF zone has not seen such a building boom. Its housing stock is mostly older.

Share of Existing Housing Stock Built: by 5-Year Periods



* Partial Data

Note: Listed years record data for that year and the following four years. Data only for single-family detached homes and townhomes.

Source: AEI Housing Center, www.AEI.org/housing.

Townhome example

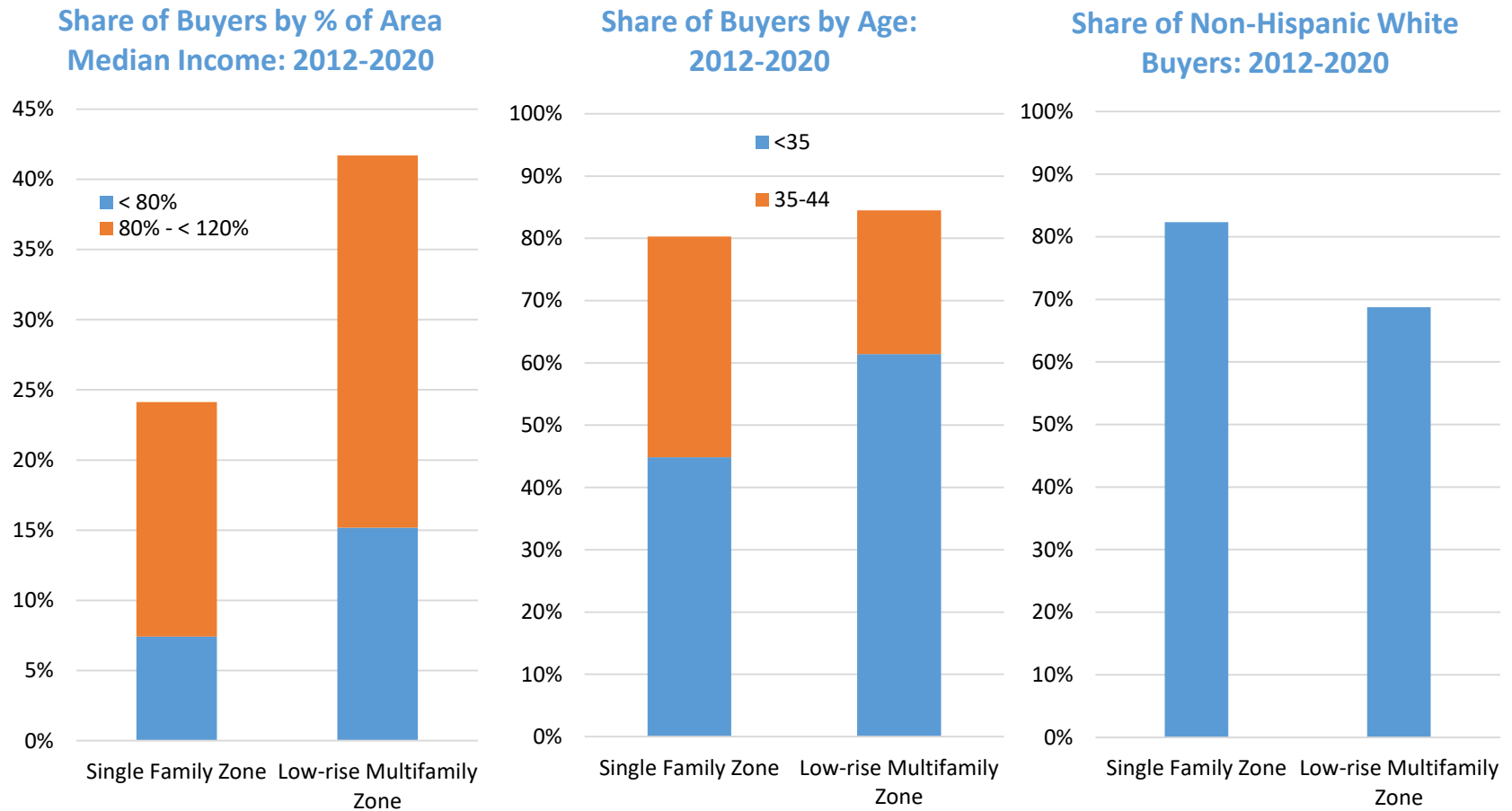
Townhomes with 1,750 sq. ft. on 1,250 sq. ft. lots in Seattle. The density for these lots is about 32 units per acre with a floor to area ratio of 140%.



Source: Redfin, Zillow, and Google.

How LTD enables homeownership for a wider group of households

The lower prices in the LRM zone have enabled homeownership for a wider range of households across income levels, age ranges, and racial/ethnic backgrounds.



Note: Data only for single-family detached homes and townhomes.

Source: AEI Housing Center, www.AEI.org/housing.

How the Low-Rise Multifamily (LRM) zone promotes filtering down

Filtering down does not work well when relatively expensive goods are produced in limited quantities (e.g. think if car manufacturers were only to build Ferraris).

Filtering down works best when lots of new goods are produced at roughly the middle of the price spectrum. In housing that means that lower-income households have greater access to housing, more choice (own vs rent), and access to the housing they truly need (smaller vs larger or older vs newer).

The LRM zone allows more and smaller homes to be built on less land, adding greater supply at middle price points. This even applies to newly built homes. Since 2012, 36% of buyers of homes built since 2000 in the LRM zone had incomes of less than 120% of area median income (vs. 24% in the entire SF zone).

The average duration between sales of the same home is 1.8 years faster in the LRM zone than in the SF zone. This quicker turnover by existing owners as they outgrow their home and move into a move-up home promotes additional filtering.

Share of Buyers with Income < 120% of Area Median Income: 2012-2020

Year Built	Single Family Zone	Low-Rise Multifamily Zone
1900-1919	21%	28%
1920-1939	22%	35%
1940-1959	33%	47%
1960-1979	26%	60%
1980-1999	23%	57%
2000+	10%	36%
All	24%	42%

Note: Data only for single-family detached homes and townhomes.

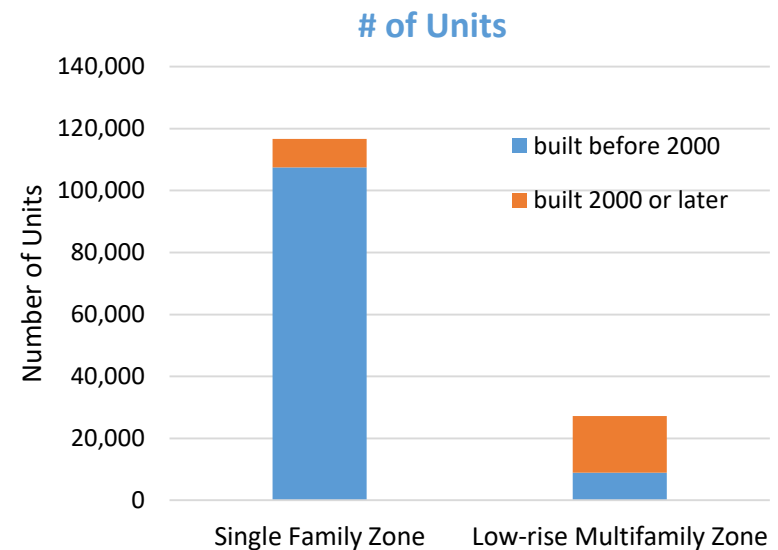
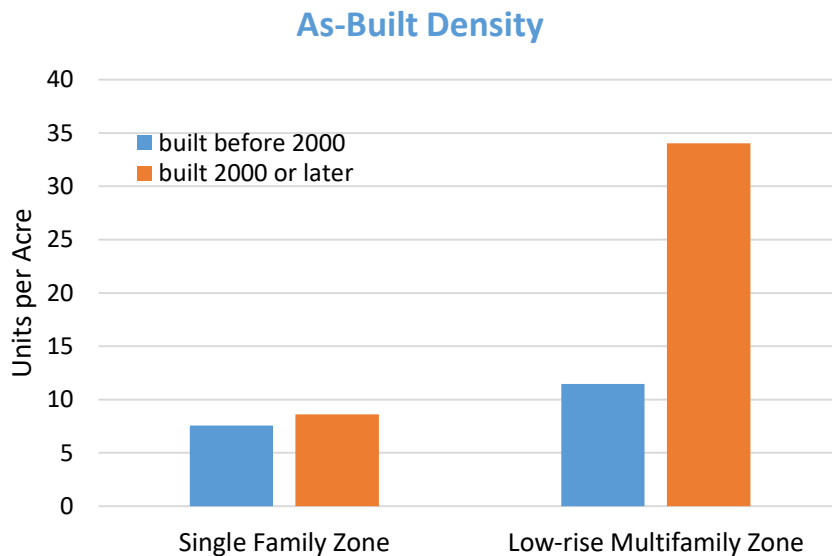
Source: AEI Housing Center, www.AEI.org/housing.

It's about land and density

The main difference between both zones is that the LRM zone allows for higher density, allowing for a more efficient use of the existing land.

- As demonstrated on the prior slide, the higher density allowance of the LRM zone has made it economical to tear down existing units and replace them with new ones.
- Almost 90% of the homes built since 2000 in the LRM zone have been townhomes.
- Since 2000, 18,000 new units have been built in the LRM zone. As a consequence, its housing stock has increased about 75% – or about 3% per year.*

In the geographically much larger SF zone, where land is exclusively zoned for single-family detached structures, only 9,000 new units have been built since 2000. But since most new units are single-family detached ones that simply replace an existing structure, the effect on supply has been minimal.



* Based on lot sizes, we assume that 6,000 existing units were replaced with townhomes.

Note: Data only for single-family detached homes and townhomes.

Source: AEI Housing Center, www.AEI.org/housing.

Building at moderately higher density has a prophylactic effect on affordability

At greater density, a home uses less land and the home's gross living area drops commensurately (left panel). (In other words, builders build smaller homes on smaller lots – and vice versa.)

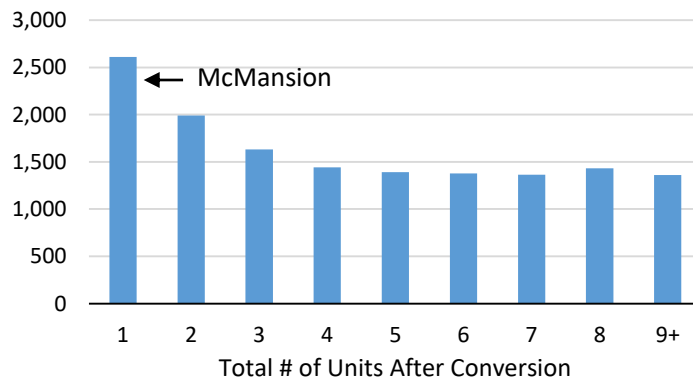
This has massive implications for affordability as data from actual housing conversions* in Seattle show (right panel).

If the original single-family detached home is converted to:

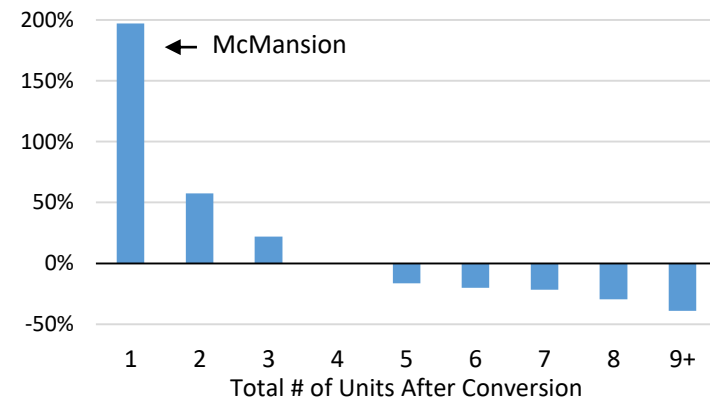
- a 1 unit, the new home replaces 1 unit and will cost around 197% of the unit it replaced. This is a McMansion.
- a 4 unit, each of the 4 new units will sell about on par with the unit they replaced. And the conversion adds 3 units.
- a 5 to 8 unit, each of the new units will sell about 25% below the existing unit they replaced. And the conversion adds many additional units.

Displacement pressures rise as each McMansion replaces a much more moderately priced home, while converting to higher densities enables families of similar or even somewhat lower incomes to buy into the neighborhood, thereby promoting inclusion and filtering.

Conversion* Properties: Median Gross Living Area (sq. ft) of the New Units Built: by Total # of Units After Conversion



Conversion* Properties: Median Price Change between the Unit Replaced and the Median of the New Units Built: by Total # of Units After



*A conversion is defined as the act of tearing down an existing single-family detached structure and replacing it with a new structure of varying unit totals. Data pertain to over 3,000 conversions identified in Seattle, which resulted in about 12,000 new units from the mid-1990s onward.

Source: AEI Housing Center, www.AEI.org/housing.

Building at moderately higher density increases a parcel's total property value, while reducing the price per unit

Assuming a property is currently valued at \$1 million, tearing it down and converting it adds new value.

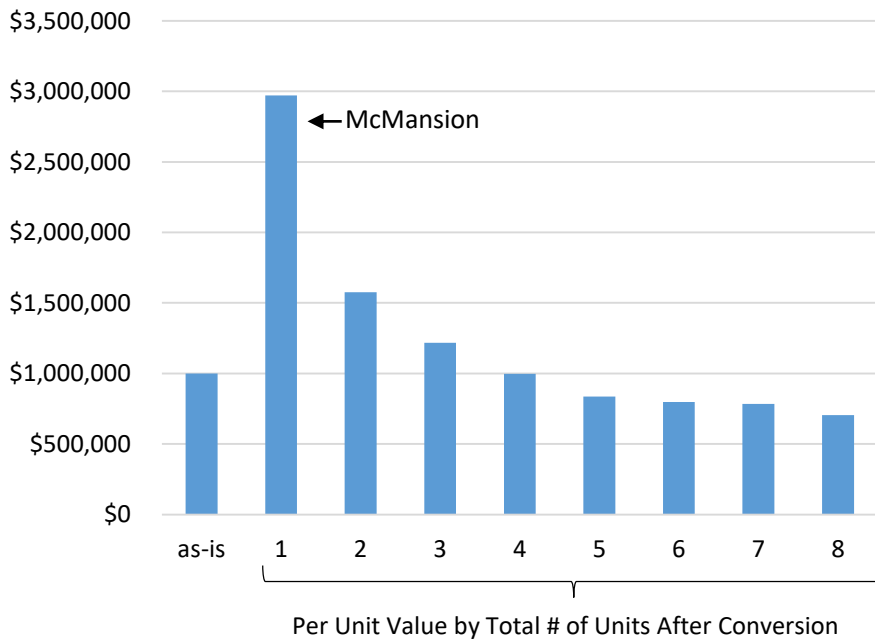
The new units have different price points depending on structure count (left panel). At 4 units, each sells for the same price as the as-is, and 40% of the McMansion. At 8 units, each unit sells for 70% of as in and 28% of the McMansion.

However, the parcel's total value is greatly enhanced, which increases the City's tax base (right panel).

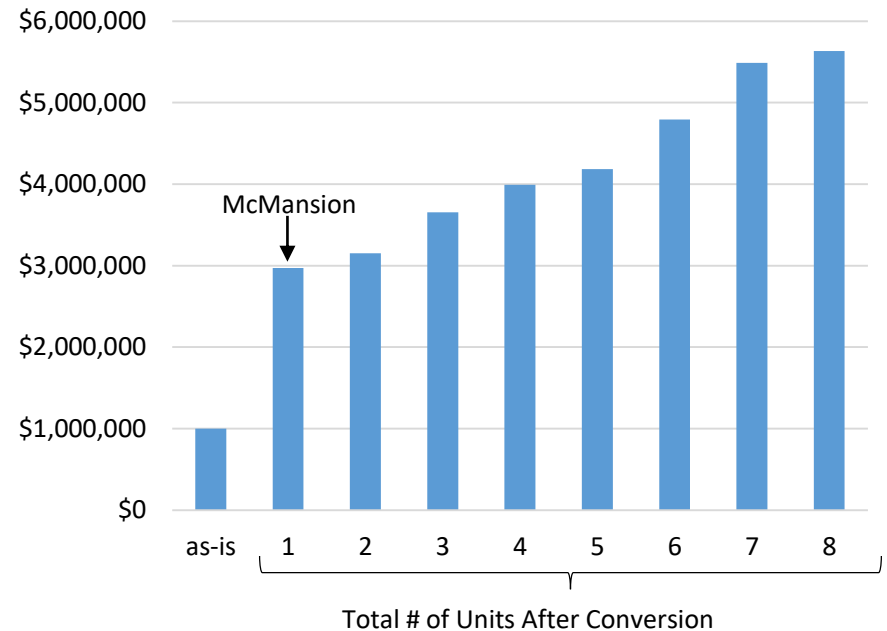
It also demonstrates why builders prefer to build at higher densities, if given the option to do so.

In Seattle's LRM zone, townhomes, and not McMansions, proliferate, leading to lower per unit housing costs.

Seattle, WA - Conversion* Properties: Unit Property Value: As-is and Per Unit After Conversion



Seattle, WA - Conversion* Properties: Total Property Value: As-is and by Total # of Units After Conversion



*A conversion is defined as the act of tearing down a an existing single-family detached structure and replacing it with a new structure of varying unit totals. Data pertain to over 3,000 conversions identified in Seattle, which resulted in about 12,000 new units from the mid-1990s onward.

Source: AEI Housing Center, www.AEI.org/housing.

Building at moderately higher density allows for smaller and less expensive homes

The relationship between as-built density and gross living area (GLA) demonstrate that Light-touch Density is favorable to naturally affordable and inclusionary housing.

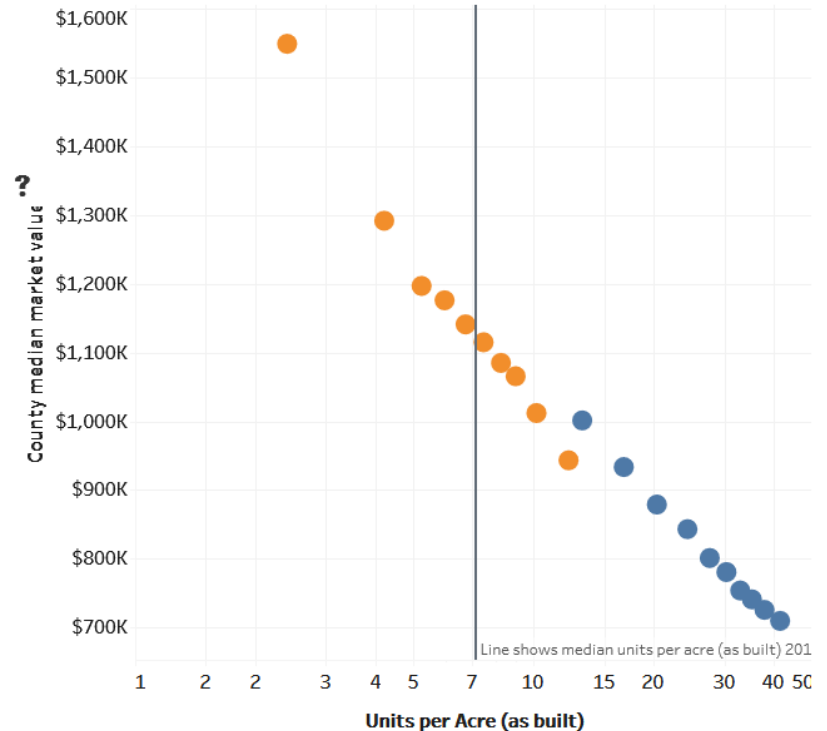
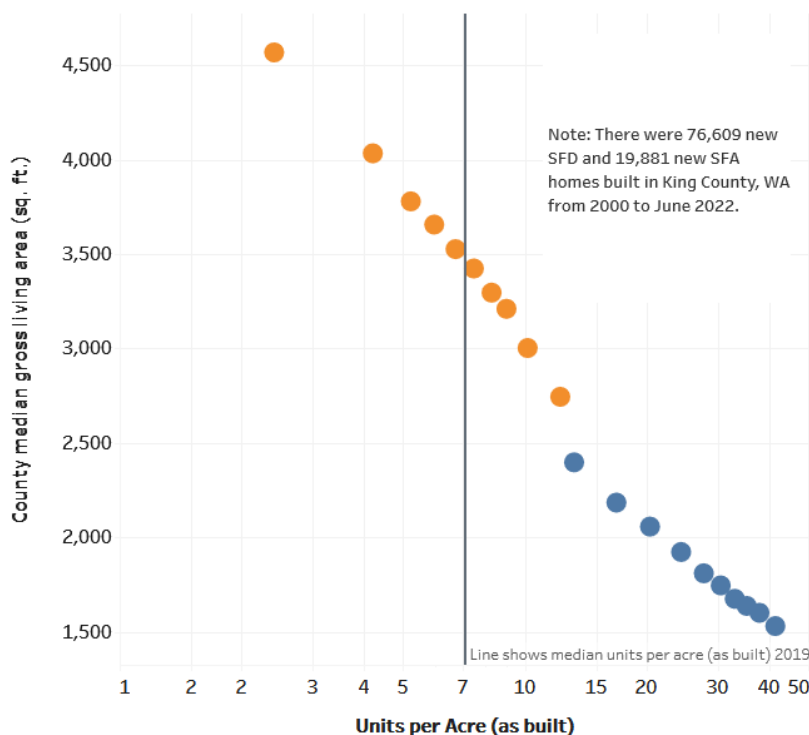
- The greater the as-built density (units per acre), the lower the GLA and the home price. This holds for newly built single-family detached (SFD) and attached (SFA) homes.
- This relationship can serve as a guidepost for localities that want to increase their SFD and SFA housing supply.

Lot Size, Gross Living Area (GLA), Market Value, & Indexed Property Tax Revenue for *Single Family Detached (SFD) and Attached (SFA) using a Logarithmic Scale*

State: County: hometype: Single family attached (SFA) Single family detached (SFD)

National existing SFD median gross living area (sq. ft.) : 1,747
 Each dot represents a decile of county median gross living area.

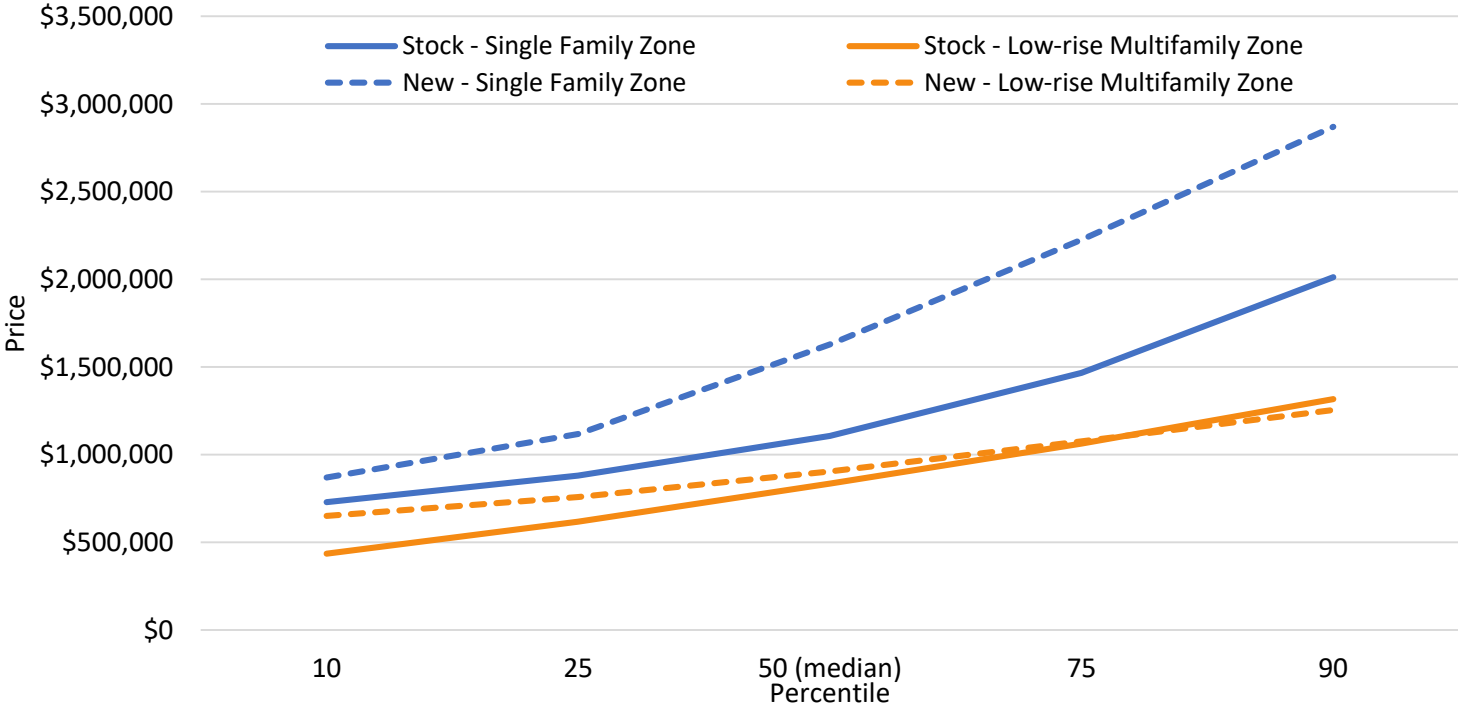
National existing SFD median market value: \$306K
 Each dot represents a decile of county median market value.



Home prices by zone

The newly built homes in the LRM zone are less expensive than the existing stock in the SF zone. The median price for a new LRM zone home is nearly the same as the 10th percentile new SF zone home. This is because builders generally aim for a structure value of 3 to 4 times the cost of land. Due to the higher density allowance in the LRM zone, each new home utilizes less land and is generally smaller than a new SF zone home, which directly translates into a lower overall price.

Housing Stock and Homes Built since 2000: by Price Percentile



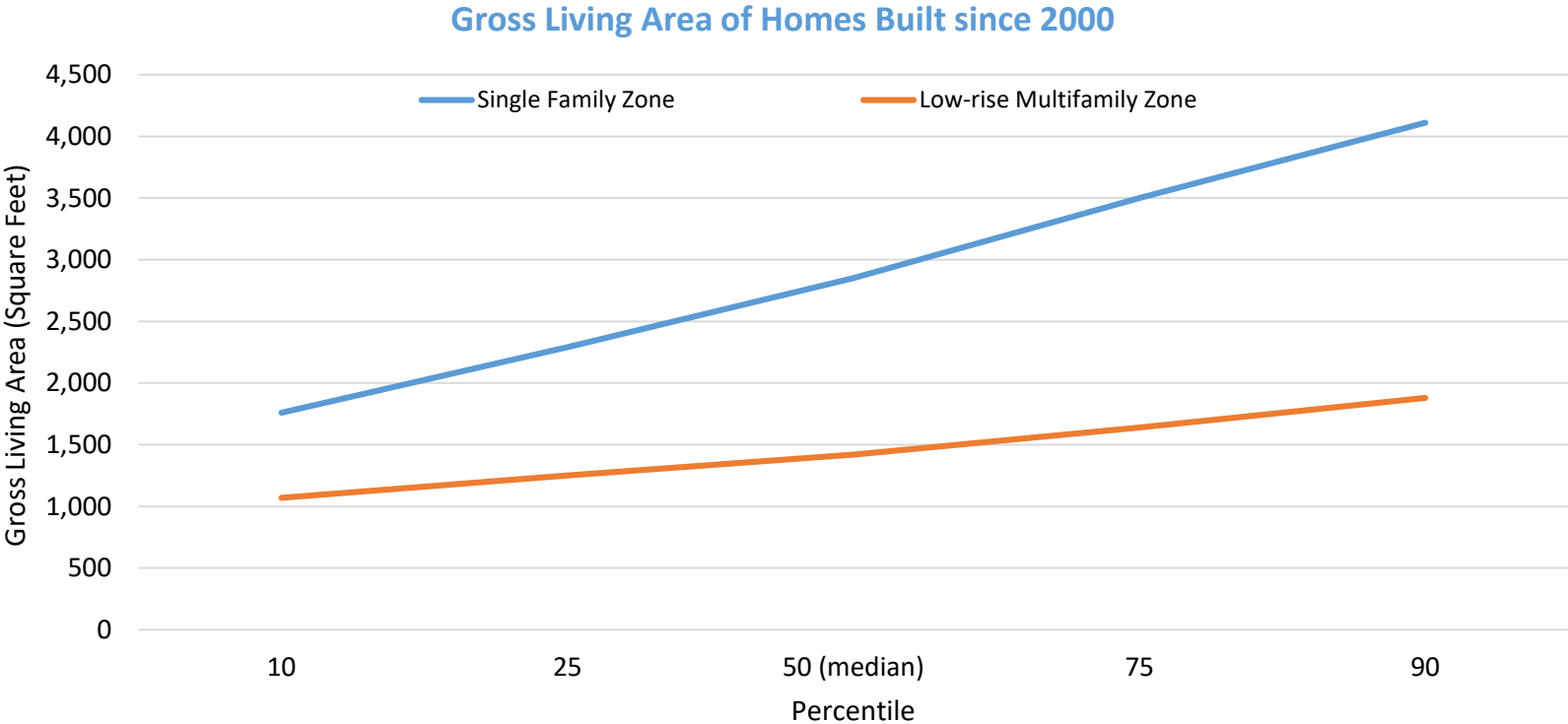
Note: Data only for single-family detached homes and townhomes. Price is estimated by an Automated Valuation Model for Oct. 2022. Source: AEI Housing Center, www.AEI.org/housing.

Starter home construction is again feasible thanks to the LRM zone

Homes built in the LRM zone since 2000 are generally smaller. These homes are important additions to the stock of starter homes in the city, which are severely lacking.

The 90th percentile gross living area (GLA) for a new LRM zone home is nearly the same as the 10th percentile GLA for a new SF zone home.

Because density cannot be increased in the SF zone, builders have to build larger structures with higher price points.



Note: Data only for single-family detached homes and townhomes.

Source: AEI Housing Center, www.AEI.org/housing.

How to address common concerns among current homeowners

My property value?

- Home price appreciation in the LRM zone has been on par with the SF zone over the last decade.
- One added benefit for property owners in the LRM zone is the optional value of being able to convert your home to a higher and better use.

Infrastructure cost?

- After 50 years or so, most infrastructure needs to be replaced anyway.
- The large majority of the housing stock in the SF zone was built before 1970.
- Higher density increases the city's tax base, which helps offset the cost and fund infrastructure improvements.

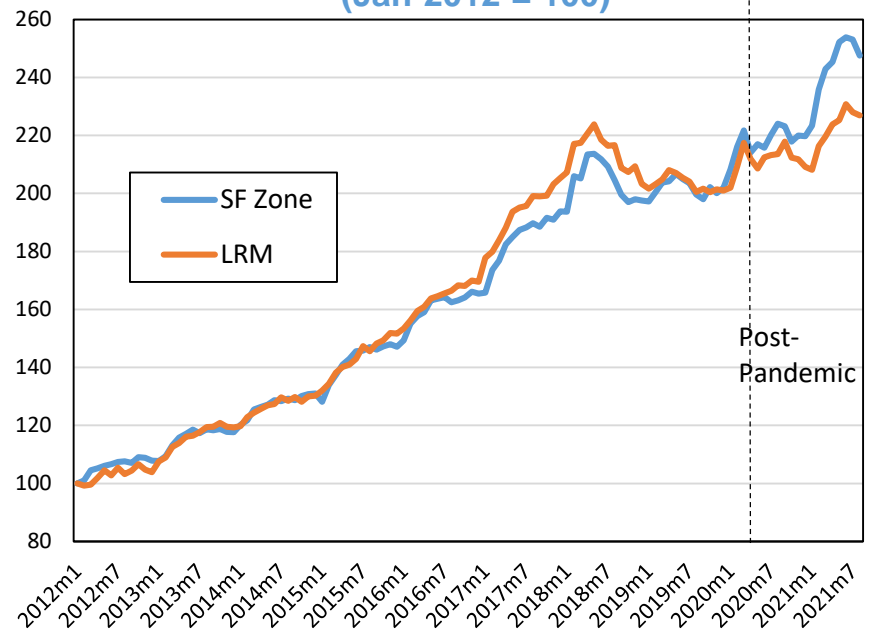
Overcrowding?

- Family sizes have shrunk over time.

Change of the neighborhood and trees?

- The conversion of single-family detached homes to townhomes is gradual, with 2% of homes being converted a year.
- Replacing small homes with McMansions often eliminates the tree canopy, alters the neighborhood character, and affects the composition of who can afford to live in the neighborhood.

City of Seattle: Home Price Appreciation
(Jan-2012 = 100)



The chart shows that the constant-quality home price appreciation (HPA) was about identical between the Low-Rise multifamily (LRM) and the Single-Family (SF) zones until the start of the pandemic. Since then HPA trends have slightly diverged due to a desire for more living space and larger lots. Time will tell whether this HPA differential remains.

Source: AEI Housing Center, www.AEI.org/housing.

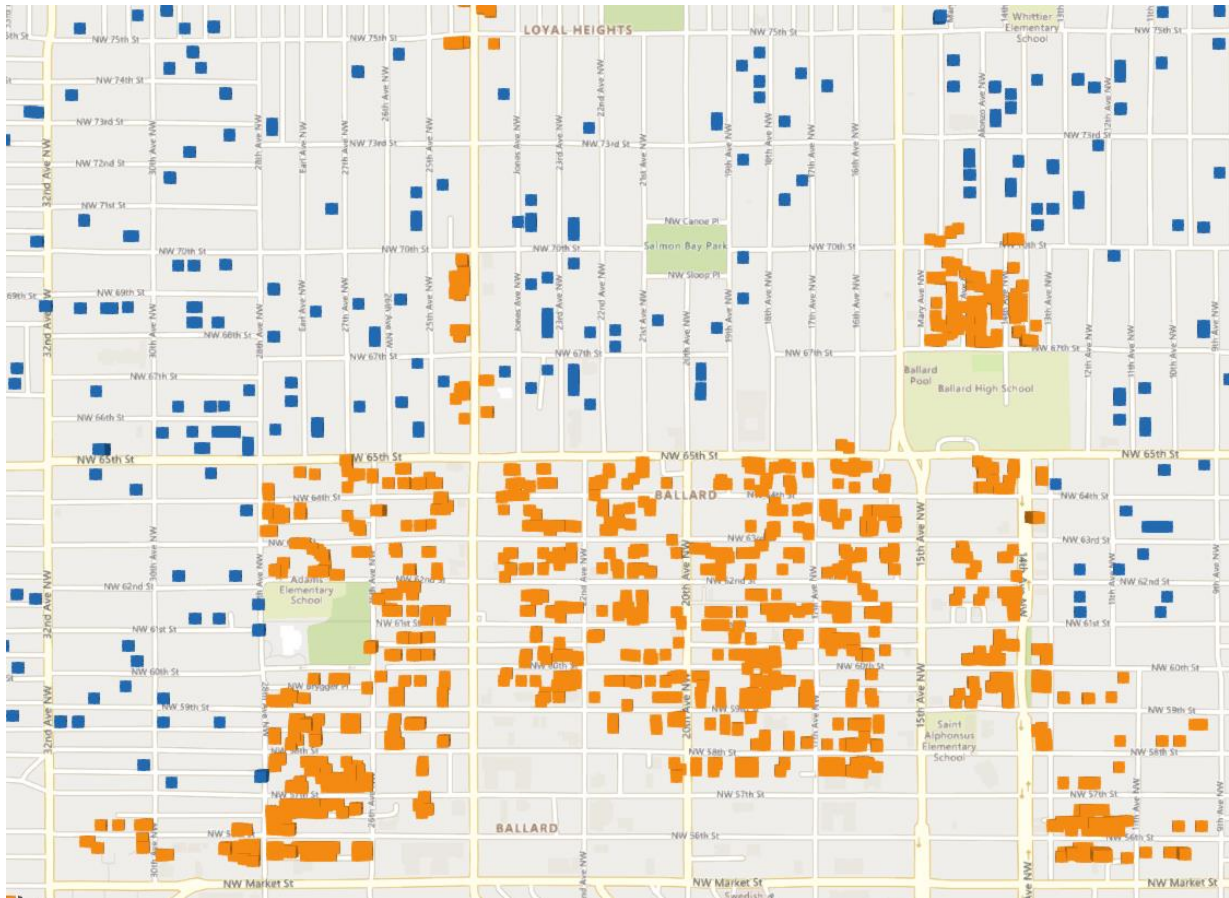
LRM zone neighborhoods are changing in physical form

Neighborhoods change on their own. Older homes are constantly replaced with newer homes.

Homes in Seattle's LRM zone have changed at a quicker pace than homes in the SF zone.

If more neighborhoods were opened up for development, then the change could be spread among a much larger area, mitigating the rapid change.

Homes built since 2000 (each square is a home)



Orange squares are homes built since 2000 that is in the LRM and blue squares are homes built since 2000 in the SF Zone.

What is the hidden potential of modest Light-Touch Density zoning changes?

The LRM zone is not fully built out, with about 8,500 single-family detached (SFD) homes remaining. At a conversion rate of 3 units to 1 and at the current pace of conversion of about 300 per year, **an estimated net 17,000 new units might be added over the next 20-30 years** – or an additional 12% to the total stock in the SF and LRM zones combined.

Given strong economic growth, **this likely won't be enough** to allow housing to be broadly affordable in Seattle.

The goal of the 1990s reform was to create “attractive urban living environments replete with parks, shops, and restaurants, and a convenient mass-transit system.”

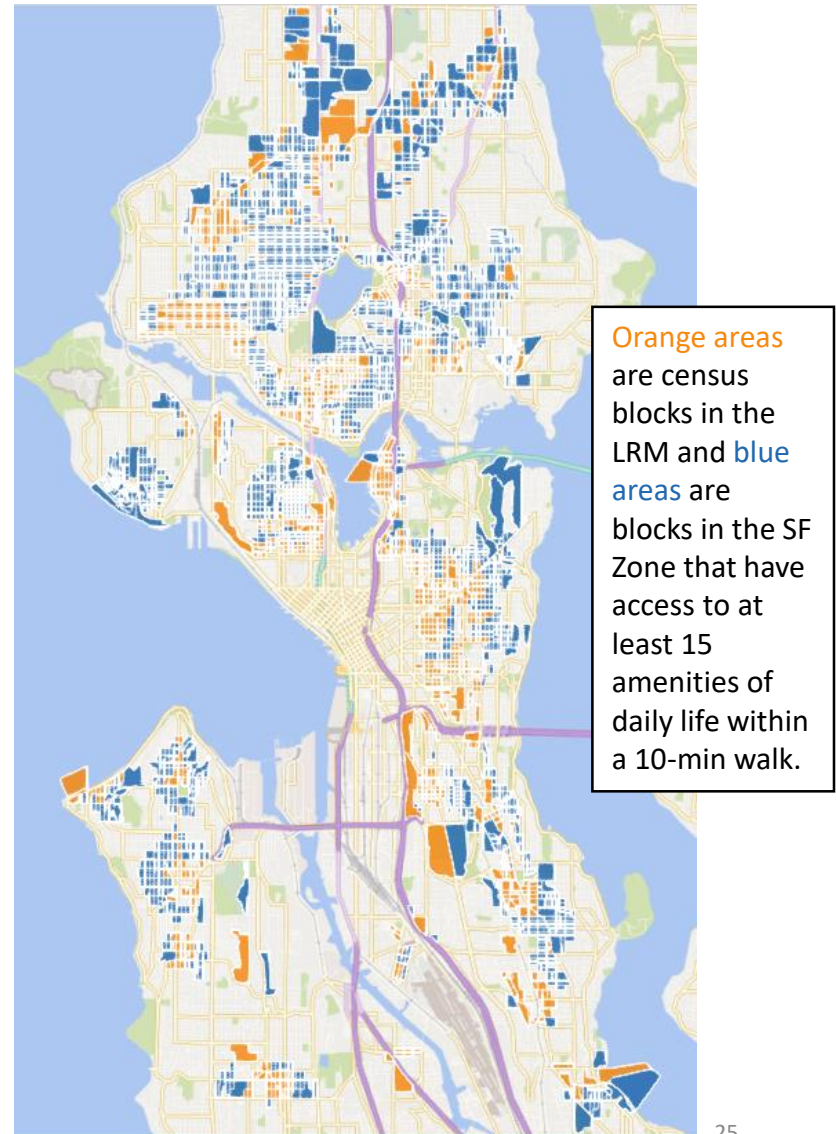
Many SF zone neighborhoods fit that bill today.

Currently, there are about 45,000 SFD units in various parts of the SF zone that are highly walkable (defined as being within a 10-minute walk of at least 15 amenities of daily life such as coffee shops, hardware stores, pharmacy or drug stores, restaurants or bars, or supermarkets). Zoning them for LRM would increase the stock of convertible SFD units six-fold, which **may perhaps add a net of 90,000 new units over the next 20-30 years**.

This demonstrates that Light-Touch Density done more broadly – and not just in the LRM zone – would be effective in meeting Seattle's housing needs.

Note: Light-touch density infill estimates at the county level for most of the country are available at <https://heat.aeihousingcenter.org/toolkit>.
Source: AEI Housing Center, www.AEI.org/housing.

Census blocks that would be suitable for light-touch density conversion due to their amenities



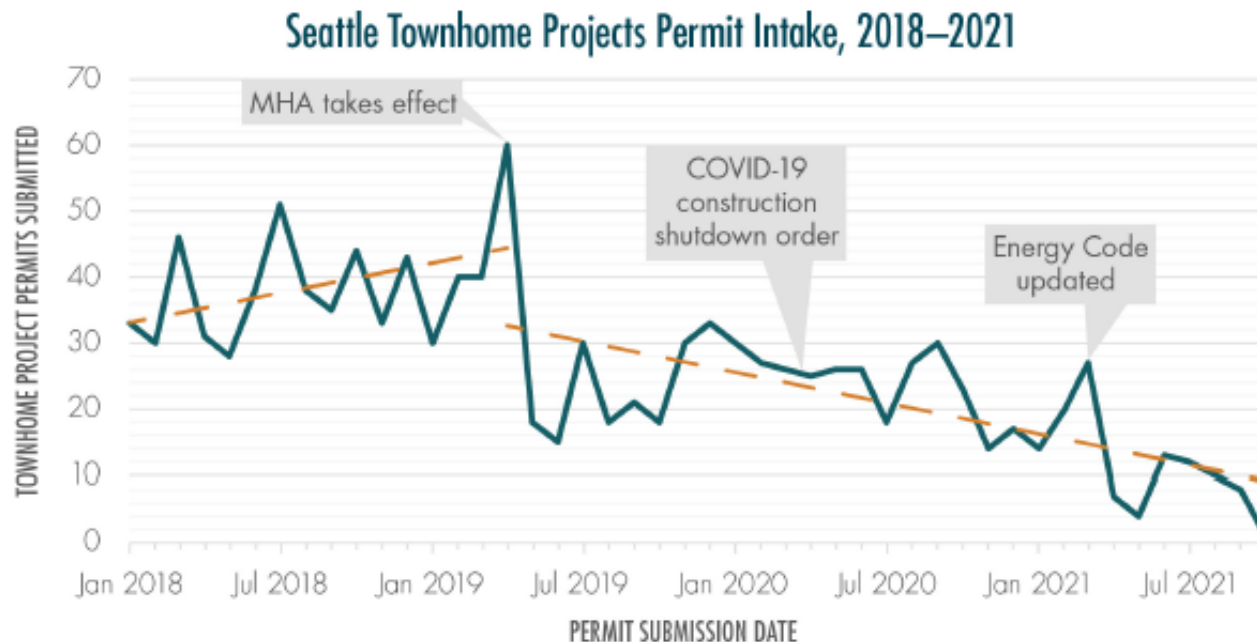
The Mandatory Housing Affordability program is on track to destroy Seattle’s progress

In 2019, Seattle passed the Mandatory Housing Affordability (MHA) program with the goal of creating thousands of new subsidized housing units made affordable through fees on development, while also boosting housing production overall.

Builders have a choice between designating a certain number of units as income–restricted or paying a hefty fee.

“Based on a 2021 survey of [builder trade group members in the area], the average MHA fee per townhome unit is \$32,743, or \$130,972 for an average four-unit project. This fee roughly doubles townhome predevelopment costs.”

As a consequence, new permits for townhomes have dropped precipitously. Many of the far ranging consequences are summarized in an excellent report “[The Decline of Seattle Townhomes Under MHA.](#)”



Source: “The Decline of Seattle Townhomes Under MHA”, Master Builder Association of King and Snohomish Counties (Dec. 2021) and AEI Housing Center, www.AEI.org/housing.

The choice is clear: Lots of townhome conversions in the LRM zone

Older homes are getting replaced with newer ones.

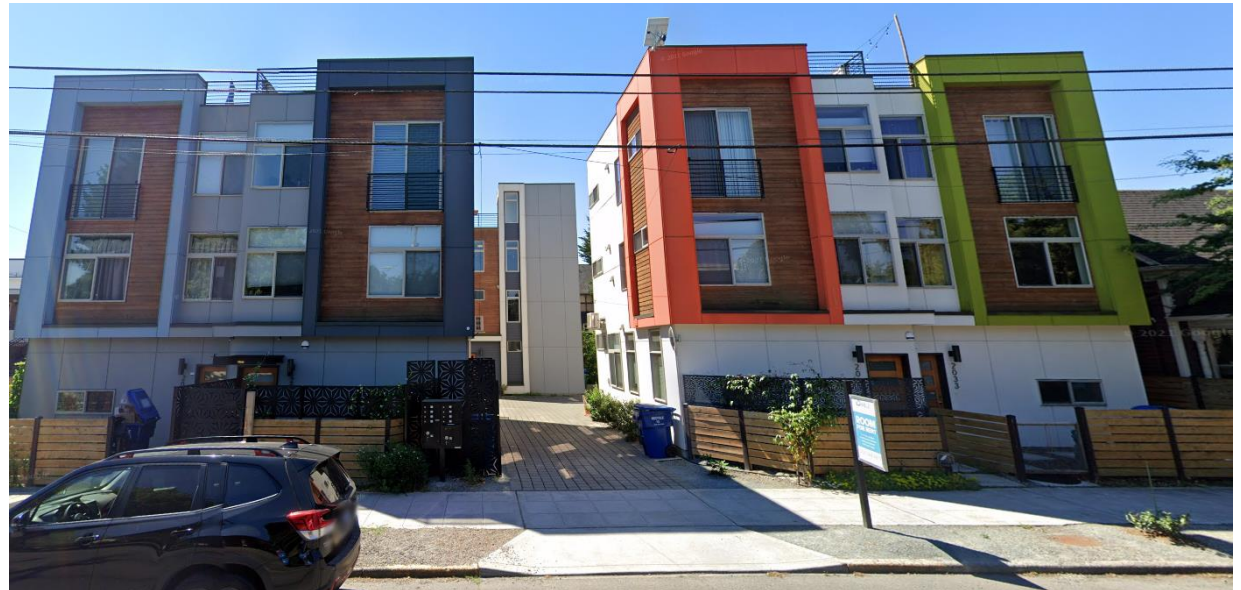
Top picture: as seen in 2007

Bottom picture: as seen today

The 2 original single-family detached units on separate lots were converted into 7 total units.

The same land area now hosts 2 duplexes upfront and 3 additional units in the back.

Each new home is valued at around \$875,000 today, while each previous home may be valued at around \$1 million today.



The choice is clear: A small number of McMansion conversions in the SF zone

In the SF zone, older homes are also getting replaced with newer and larger ones – albeit at a much slower pace and a much higher individual cost.

Top picture: as seen in 2008

Bottom picture: as seen in 2019

In the SF zone the highest and best legal use is a McMansion conversion. It is the only economically viable choice. For a lot worth about \$750,000, the construction cost of a conversion needs to be about \$1.5 million.

This yields a new home with almost 4,700 sq. ft. in GLA. It sells for about \$2.25 million, while the original home may have been valued today at around \$1 million.

If higher density were allowed, this parcel could have been converted to three townhomes with a per-unit price of around \$1 million.



How LRM outcomes compare to Seattle's larger efforts on affordability?

Moderately higher, by-right density in high priced areas allows the market to provide naturally affordable and inclusionary entry-level housing. As shown by the outcomes in Seattle's LRM zone, this approach works and is cost-effective.

- The LRM zone added about 12,000 net new units to its existing housing stock since 2000.*
 - That is about 600 net new units per year, none of which required subsidies.
 - While many of the new units were affordable to low-income households, many more even lower-income households were able to move into lower cost units freed up by households moving into the thousands of newly built homes.
- The SF zone added about 3,000 high priced units to its existing housing stock since 2000 or about 150 units per year.
- The Seattle Housing Authority owns and operates 8,400 apartments and single-family homes.
- Seattle's Total Rental Housing Program funded an additional 1,550 units in 2021.
 - Seattle put \$153 million towards these units in 2021 at a cost per unit of almost \$90,000.
 - This amount comprises just a portion of the total required federal, state, and local subsidies per affordable unit.

Even many progressive groups around the country are calling now for supply-oriented solutions:

“The battle cry of the low income housing advocates is “you can’t build your way to affordability.” [Sightline Institute](#) has tackled that notion directly. Not only can you build your way to affordable housing, in fact, building more supply may be the only effective way to reduce the pressure that is driving up rents and producing displacement. There’s ample evidence for this position, but there’s still the strong sense that addressing our housing problem by building more high end housing is a cynical and ineffective kind of “trickle down” economics. ... When there isn’t enough supply, demand from higher income households floods down to older housing stock, driving up rents and reducing housing options for those with lesser means.” ([City Observatory](#))

* Based on lot sizes, we assume that 6,000 existing units were replaced with townhomes.

** We assume that of the 9,000 units built in the SF zone, 6,000 replaced an existing single-family detached unit.

Source: Seattle Housing Authority, Annual Report 2021: Seattle Housing Investments and AEI Housing Center, www.AEI.org/housing.

MHA program is counter-productive and ignores the benefits of filtering down

The “affordable” housing unit prices as advertised under MHA are entirely unrealistic. These prices largely only cover the cost of the land – without any structure costs.

Seattle’s MHA approach is akin to selling a few heavily-subsidized Ferraris to low-income households.

The far better solution is to produce lots more cars at the middle of the price range and, as these middle-income households upgrade to newer cars, lower-income households buy their still serviceable used cars.

This case study demonstrates that with Light Touch Density the private sector is capable of producing large amounts of housing at the middle of the price range.

Seattle’s MHA program will produce a small amount of “housing Ferraris.” Thus, it will not enhance broad-based housing affordability.



Maximum Initial Sales Prices Mandatory Housing Affordability Program - Performance Option

Updated 10/13/22

The Mandatory Housing Affordability (MHA) ordinance states that homeownership units must be priced to be affordable to households at 65% of AMI as adjusted for household size, and that housing costs as defined above cannot exceed 35% of household income.

Per the assumptions and methodology set forth in Housing Director’s Rule 2021-01 the Maximum Initial Sales Prices are as follows as of October 2022 (rounded up to the nearest \$1K):

	Condo Unit	Townhome	Single-Family Detached Home
Studio	\$173,000	\$196,000	\$214,000
1 bedroom	\$189,000	\$212,000	\$230,000
2 bedroom	\$238,000	\$259,000	\$278,000
3 bedroom	\$283,000	\$304,000	\$323,000
4 bedroom	\$322,000	\$342,000	\$361,000
5 bedroom	\$360,000	\$380,000	\$399,000

The prices above represent an affordable price to a range of income-eligible homebuyers using the following assumptions:

- Mortgage principal and interest (8%)
 - Prime +1.25% per ordinance (WSJ prime = 6.25% as of 10/11/22)
- Property taxes and other fees (1.3% of affordable price)
- Homeowner’s insurance (.17% for condos and .3% for single family and townhomes)
- Homeowner’s association dues, for townhomes (\$150/month)
- Condominium association dues (\$350/month)
- The annual fee required by the ordinance (\$75/month)
- No private mortgage insurance payments

Contrasting outcomes of LTD and TOD

If the goal is to bring in new homeowners so that they can build intergenerational wealth, then adding LTD to residential areas, particularly in Walkable Oriented Development (WOD) areas, is a superior solution than adding units around transit stops [or transit oriented development (TOD)].

The results from Seattle city, which has attempted both, show why:

- Seattle has built 49,000 housing units in buildings with 50+ units since 2000. These units are generally located near transit-rich, dense areas with high land prices. Newly built TOD units are small (generally 0-1 bedrooms) and are almost entirely rental (91%) to the exclusion of owner-occupied units (9%). Thus they do not allow people to build equity.
- Seattle has built 18,000 LTD units (mostly townhomes) since 2000. These units are located in WODs, where land is less expensive. Newly built LTD units have 1-3 bedrooms and are inclusionary with a mix of owner-occupied (65%) and rental units (35%). While their rents are similar to those of TOD units (\$2,000 & \$1,800 respectively), LTD units rent for about 1/3 less on a bedroom adjusted basis.

A preference for TOD policies for another two decades will materially depress the city's homeownership rate.

	Structure Type					Total
	SF-Det	SF-Att & 2-4	5-19	20-49	50+	
Total Housing Stock	136,000	38,000	43,000	40,000	73,000	330,000
built 2000 - 2022	15,900	18,100	5,800	13,600	49,000	102,300
% of Housing Stock	41%	12%	13%	12%	22%	100%
built 2000 - 2022	5%	5%	2%	4%	15%	31%
Homeownership Rate	84%	45%	18%	16%	11%	47%
built 2000 - 2022	85%	65%	25%	11%	9%	32%
Built 2000 – 2022						
Median Rent	\$ 2,100	\$ 2,000	\$ 1,600	\$ 1,600	\$ 1,800	
Avg. # of Bedrooms	2.9	2.1	1.5	0.9	0.8	
Avg. # of Subway Stops	8.2	5.4	8.3	9.7	12.7	

The power of LTD to expand homeownership opportunities

As of 2021, Seattle city has a homeownership (HO) rate of 47% and a total housing stock of 330,000 units.

- Scenario 1: Continue with the current residential construction of the last 20 years for the next 20 years
 - Of the newly built units, an estimated 19,000 would be owner-occupied and 67,000 would be rentals.
 - The HO rate would fall to 42%, and the housing stock would increase by 100,000 to 430,000 units.
 - The number of owner-occupied households would increase from 154,000 to 174,000 (13% increase).*
- Scenario 2: Expand the LRM to WODs (for simplicity assumes no new buildings with 50+ units)
 - As previously mentioned, there are about 45,000 SFD units in various parts of the SF zone that are highly walkable. Zoning them for LRM may add an estimated 90,000 net new units over the next 20-30 years – almost 2x what Seattle added with 50+ unit structures over the last 20 years.
 - Of the newly built units, an estimated 60,000 would be owner-occupied & 30,000 would be rentals.
 - The HO rate would stay at 47%, and the housing stock would increase by 87,000 to 417,000 units.
 - The number of owner-occupied households would increase from 154,000 to 197,000 (28% increase).
- Scenario 3: Expand LRM to all SF areas (for simplicity assumes no new buildings with 50+ units)
 - There are about 136,000 SFD units with a 85% HO rate. If those were replaced at a rate of 40%, an estimated 180,000 net new units may be added over the next 20-30 years – about 4x what Seattle added with 50+ unit structures over the last 20 years.
 - Of the newly built units, an estimated 120,000 would be owner-occupied and 60,000 units would rental.
 - The HO rate would increase to 50%, and the housing stock would increase by 165,000 to 495,000 units.
 - The number of owner-occupied households would increase from 154,000 to 254,000 (65% increase).

To help more residents afford homeownership and build wealth, the City of Seattle should allow LTD in more parts of the city, or better yet, throughout the whole city. TOD alone has been insufficient in reducing price pressures and relying on it only will lower the homeownership rate over time.

* Over 60% of the increase in homeowners is coming from LTD.

Note: All scenarios assume the same HO rates by structure type as for those built between 2000 and 2020. Scenarios 1-3 assumes that construction for 5-49 unit structures continues on the same pace as from 2000-2020 and that any SFD development only replaces a current unit.

Source: ACS 2021 Microdata, and AEI Housing Center, www.AEI.org/housing.



AEI Housing Center

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