

Economic Impact – King County Investments in Affordable Housing

Background

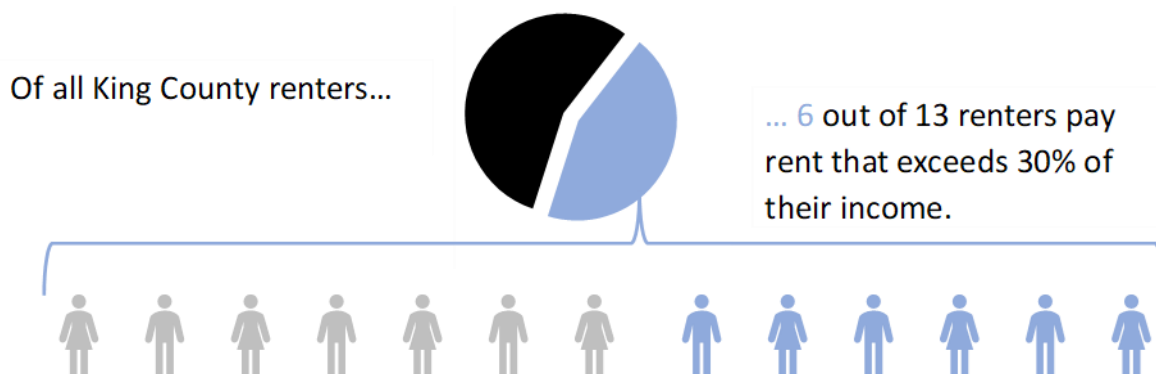
Investing in affordable housing in King County yields not only social benefits but also significant economic advantages. King County supports various affordable housing programs, including those providing housing assistance to renters. The economic benefits of these investments are multifaceted, ranging from stimulating local economies to creating jobs and generating tax revenue.

One primary economic benefit is the increase in discretionary spending by low-income residents when they can secure affordable housing. For many, rent is the largest and most critical monthly expense. When income loss threatens the ability to pay rent, spending on anything other than basic needs decreases, adversely impacting the local economy. Conversely, when residents can afford their rent, they have more money to spend on local purchases, healthier food, better healthcare, and services from nearby businesses.

Affordable housing also encourages community stability by reducing turnover rates. When people find housing that meets their needs and is affordable, they are more likely to remain in the community, which has positive social and economic benefits. Additionally, the construction of affordable housing projects stimulates the local economy. Building and renovating these developments require skilled workers, such as architects, engineers, construction workers, plumbers, and electricians. Furthermore, it creates jobs for day-to-day management staff, including housing administrators, janitors, maintenance staff, social workers, and healthcare professionals.

King County Housing Problem

Housing Costs & Affordability Index for Buyers and Renters



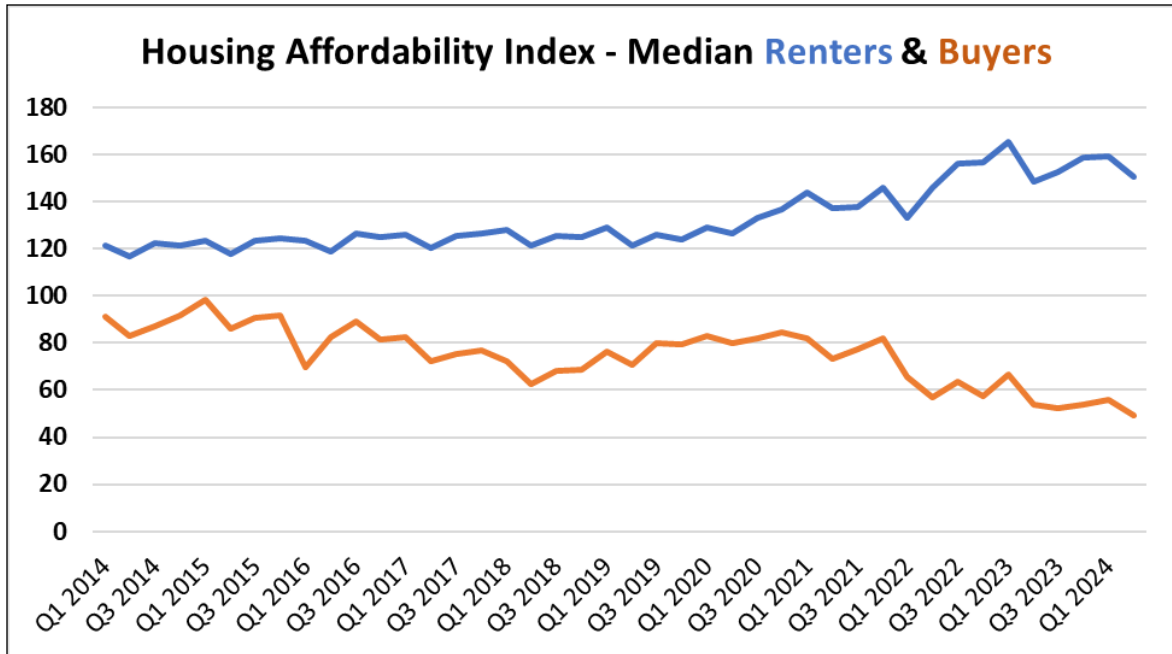
Source: US Census Bureau American Community Survey

King County's housing market has experienced significant growth in home prices and rents, a trend that predates the 2020 and 2021 pandemic. Post-pandemic, home prices and rents have surged even more. According to the 2023 American Community Survey for King County, nearly half of all renters (6 out of 13) spend more than 30% of their household income on rent.

Housing affordability indexes are useful tools for tracking changes in home prices and rents. The Washington Center for Real Estate Research (WCRER) has developed a Housing Affordability Index (HAI) for various consumer types. The HAI measures the affordability of a median-value home for a median-income household with a typical down payment and 30-year mortgage. An HAI value of 100 indicates that a median-income homebuyer has just enough income to afford a median-priced home. Values above 100 suggest that the homebuyer has more than enough income, while values below 100 indicate insufficient income.

Recent HAI results for King County show a decline in homebuyer affordability, with an index low of 49 in the second quarter of 2024, meaning homebuyers have only 49% of the income needed to afford a median-priced home. For renters, the HAI has been more favorable, especially post-pandemic. The renter HAI peaked at 165 in the first quarter of 2023, indicating that renters had more than enough income to afford the median rent. However, this figure dropped to 151 by the second quarter of 2024, reflecting rising rent prices this year.

Figure 1: King County Housing Affordability Indexes – Buyers and Renters



Source: Washington Center for Real Estate Research

King County Forecasted Need & Affordable Housing Supply

Over the past decade, King County has significantly increased its investment in affordable housing, with the current inventory growing at an annual rate of 1.6%. Despite this growth, the costs for both owners and renters have been rising even more rapidly. According to the 2014 American Community Survey (ACS) 1-year estimates, the median housing cost for homeowners with a mortgage has increased at an annual rate of 4.6%, while median annual rent for renters has grown by 6.7%.

The proportion of renters in King County has also been steadily increasing by 0.1% per year, leading to a decline in the proportion of owner-occupied housing units. Over the past five years, the percentage of renters spending 30% or more of their household income on rent has risen from 45.3% to 47.1% in 2023.

Table 1: Key Housing Statistics – Past Decade

Key ACS Statistics	2023	2018	2014	Annual Avg Growth	Annual Avg. % Growth
Total Housing Units	1,021,711	952,597	880,488	14,122	1.6%
Owner Occupied Housing Units (%)	55.6%	56.0%	57.0%	-0.1%	-0.3%
Renter Occupied Housing Units (%)	44.4%	44.0%	43.0%	0.1%	0.3%
Median Housing Owner Costs with mortgage (\$)	\$3,125	\$2,544	\$2,144	\$98.10	4.6%
Median gross rent (\$)	\$2,043	\$1,674	\$1,227	\$81.60	6.7%

Source: US Census Bureau American Community Survey 1-year estimates for King County

Washington cities and counties planning under the Growth Management Act (GMA) must include a housing element in their comprehensive plans. The GMA housing goal directs local governments to plan for affordable housing for all economic segments of the population, promote various residential densities and housing types, and encourage the preservation of existing housing stock. To aid local governments in updating their comprehensive plans and regulations concerning a housing element, the Washington Department of Commerce (DOC) has developed the Housing for All Planning Tool (HAPT). This tool includes countywide housing need projections based on expected county population growth.

Given a medium population forecast of 2,767,755 for King County by 2044, the following table shows the anticipated need for new affordable housing units according to the DOC-HAPT.

Table 2: Anticipated Need for Permanent Housing Units By 2044 Based on Residents Household Income

Housing Statistics	0-30% PSH	30-50%	50-80%	80-100%	100-120%	120%+	Total PSH
Total Future Housing Needed (2044)	49,161	142,476	180,523	198,404	138,867	471,025	1,180,456
Estimated Housing Supply (2020)	6,168	91,505	155,214	181,009	119,133	375,709	928,738
Net New Housing Needed (2020-2044)	42,993	50,971	25,309	17,395	19,734	95,316	251,718

Source: Washington Department of Commerce Housing for All Planning Tool (2024)

Study Methodology

King County Economic Impact – Benefits from Affordable Housing Investments

This economic impact analysis simulates the “ideal” case of economic benefits if King County could address and meet the entire need for affordable housing units by 2044, without considering financial constraints. The study highlights the primary economic benefits from affordable housing, focusing on construction activities and reduced rent for households, which spurs additional spending in King County.

The model used to estimate these economic benefits is the Regional Economic Model Inc. (REMI) model, specifically developed for King County and Washington State. REMI PI (Regional Economic Models Inc.) was selected as the most suitable model to examine the economic impacts of affordable housing investment. REMI PI+ model is a structural macroeconomic simulation model that uses computable general equilibrium techniques to solve macroeconomic accounts simultaneously and employs input-output matrices to represent inter-industry flows and impacts. Additionally, it uses new economic geography techniques to represent trade, migration flows, and other aggregated interactions among regions. The model centralizes on simulating and projecting economic activities, including production, consumption, and trade. It seeks equilibrium between industries’ labor demand, wage levels, and labor supply. The results from the REMI model simulation for King County affordable housing are extensive. This report will highlight the major findings, representing a fraction of the overall model results.

¹ Regional Economic Models Inc was founded in 1980 by Dr. George Treyz. The model is a regional economic modeling program created to inform and improve the quality of policy decision. It has been used by hundreds of clients including governments, agencies, national and international corporations and higher education institutions.

Construction Activities – Affordable Housing Projects

The projected need for King County permanent affordable housing units, based on the 2020 estimated housing supply, was adjusted to account for additional years of completed housing development. The distribution of estimated future housing need by affordability level across King County local areas was based on the 2020 distribution of permanent housing units. Table 3 provides the base assumptions used in this analysis to set up the scenarios, including the need to develop 5,477 affordable housing units annually for the next two decades.

Table 3: Key Housing Statistics

Housing Statistics	0-30% PSH*	30-50%	50-80%	Total
Net New Housing Needed (2024-2044)	41,914	46,449	21,179	109,543
Annual Estimated housing needed (units)	2,096	2,322	1,059	5,477

* Totals exclude non-permanent housing and emergency shelter housing

The total construction costs needed to develop 5,477 affordable housing units annually were estimated based on current and future construction costs per unit, alongside the portion of total development costs covered by King County funding. The construction cost per unit for 2024 was derived from the average reported King County permit information, dividing the total construction cost for multi-family buildings (five or more units) by the number of units in these buildings. In 2024, the average construction cost per unit was estimated to be \$192,333, with an assumed annual growth rate of 3.4% based on the IHS-Global Insight chained price index for multi-family buildings. Consequently, the total construction cost to build the required affordable housing units starts at \$1.05 billion in 2024 and grows to \$2.04 billion by 2044. This cost represents just a portion of the total housing development activity completed annually in the local economy.

Rent Reduction for Low-Income Households

This analysis includes not only the construction activities from affordable housing development but also the reduction in rent for lower-income households. The economic impact of constructing new affordable housing units for low-income residents—those with incomes at or below 80% of the median household income—was modeled as a partial reduction in the market rents these households would face without affordable housing. The starting point for this analysis was the 2022 ACS 5-year median household income and Zillow’s average reported market rents for select cities and unincorporated areas in King County (see the appendix for details).

The projected annual growth in median household income was assumed to be 4.8%, based on the OEFA personal income forecast for 2024:Q2. Future market rents were forecasted using the latest rent data from Zillow for King County cities, including eight months of 2024 data, with an average projected growth rate of 3.2% per year through 2044. One key economic benefit from affordable housing investments is that reduced rent allows residents to spend more on non-rent items within the local economy. The rent reduction for residents in new affordable housing units was estimated by assuming that rent in these units would be capped at 30% of their household income. The market rents in each King County area were compared to this maximum subsidized rent for various income levels up to 80% of the median income. The difference between the market rent and the assumed affordable rent (30% of household income) was considered the rent subsidy for households in new affordable housing units. This was simulated in the King County REMI model as reduced rent for low-income households.

King County Contributions – Affordable Housing Projects

King County has various affordable housing programs that help low-income families secure permanent housing. An examination of past and upcoming projects funded by the Transit Oriented Development (TOD) and Housing Finance Program (HFP) revealed that county funds typically account for 8-11% of the total development costs reported by developers. To be conservative, this analysis assumed that the county's share of total construction costs would be 8% each year. This corresponds to an annual contribution by King County starting at \$84.3 million in 2024 and growing to \$163 million by 2044, as construction costs rise over time. To reflect the fact that local government spending on affordable housing diverts funds from other areas of the economy, a corresponding reduction in government spending was included in the overall economic impact analysis.

Study Results

King County & State Economic Impact Results

King County's economic impact analysis quantified two primary benefits: constructing the affordable housing units and the rental reduction benefit for residents of these units. While there are other significant societal benefits to investing in affordable housing, some are more difficult to quantify and fall outside the scope of this study.

The quantifiable benefits of affordable housing investments, as assessed in the King County REMI model, are summarized in Figure 2, with additional results provided in Appendix Tables A.2 and A.3.

Figure 2: Summary Results Per \$1 Million Investment in Affordable Housing in King County

Economic Impacts of Affordable Housing Investment

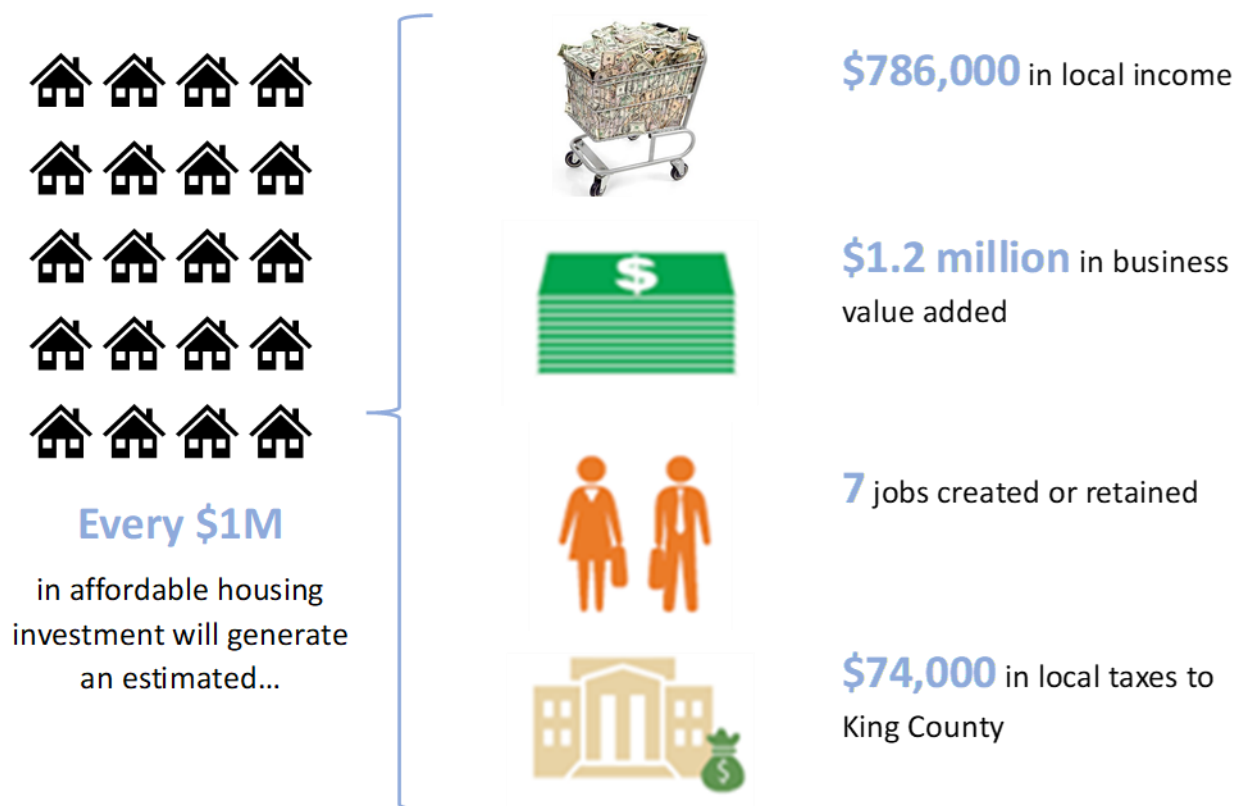


Figure 2 illustrates the average annual impacts from a \$1 million investment in affordable housing units. A \$1 million investment annually generates an additional \$786,000 in local personal income for residents. The reduction in rent for residents stimulates additional local purchases, which, in turn, generates increased spending or value added by local businesses. This leads to the creation or retention of 7 jobs by businesses. Furthermore, the increased spending by residents and businesses results in an additional \$74,000 in local sales taxes for King County per \$1 million of investment.

The tables in Appendix A.2 and A.3 show the short-term and long-term impacts for King County and the state, detailing various components of the impact. Initially, the increase in construction activities for affordable housing generates the most significant positive impact in the short term. However, over time, as more affordable housing units are created, the rent reduction for residents living in these units has a more substantial long-term impact for King County. Over time, the average population growth rate outpaces employment growth resulting from rent reductions for residents. Additionally, the rent reductions over time have a more significant positive impact on reducing rents for low-income King County residents. Initially, in the short term, the housing price index was anticipated to decline by an average of -0.11%. In the long term, the housing price index declined by an average of -0.75%.

Appendix

Table A.1 2022 Median Household Income & 2023 Zillow Market Rents for Larger Select KC Cities/UI KC

	2022 Median Household Income	2023 Market Rents
Unincorporated King County (King County avg)	\$ 116,340	\$ 2,252
Algona city	\$ 81,474	\$ 2,252
Auburn city	\$ 106,723	\$ 1,914
Bellevue city	\$ 184,922	\$ 2,659
Black Diamond city	\$ 134,076	\$ 2,520
Bothell city	\$ 150,920	\$ 2,252
Burien city	\$ 99,734	\$ 1,839
Covington city	\$ 129,946	\$ 2,368
Des Moines city	\$ 94,972	\$ 2,134
Duvall city	\$ 168,663	\$ 3,492
Enumclaw city	\$ 135,588	\$ 1,576
Federal Way city	\$ 93,141	\$ 1,876
Issaquah city	\$ 172,862	\$ 2,797
Kenmore city	\$ 164,879	\$ 2,608
Kent city	\$ 97,310	\$ 1,901
Kirkland city	\$ 169,471	\$ 2,517
Lake Forest Park city	\$ 180,587	\$ 2,018
Maple Valley city	\$ 137,595	\$ 3,192
Mercer Island city	\$ 190,985	\$ 2,479
Milton city	\$ 90,372	\$ 2,252
Newcastle city	\$ 200,962	\$ 2,372
Normandy Park city	\$ 122,467	\$ 2,252
North Bend city	\$ 171,078	\$ 2,917
Pacific city	\$ 98,148	\$ 1,807
Redmond city	\$ 187,665	\$ 2,457
Renton city	\$ 109,054	\$ 2,162
Sammamish city	\$ 223,849	\$ 3,186
SeaTac city	\$ 93,096	\$ 1,825
Seattle city	\$ 169,878	\$ 2,156
Shoreline city	\$ 137,112	\$ 2,069
Skykomish town	\$ 51,875	\$ 2,252
Snoqualmie city	\$ 211,250	\$ 2,871
Tukwila city	\$ 85,457	\$ 1,753
Woodinville city	\$ 180,385	\$ 2,512

Appendix

Table A.2 Economic Impact Results for King County and Washington

Key Statistics	Avg King County Net Impacts	Avg State Net Impacts
Affordable Housing Investment – Construction Activities		
Total Employment (jobs)	7,523	9,539
Population (individuals)	3,766	5,573
Labor Force (individuals)	2,282	3,538
Gross Domestic Product (\$ millions)	\$1,283	\$1,571
Value-Added (\$ millions)	\$1,283	\$1,568
Personal Income (\$ millions)	\$826	\$1,151
Rent Reduction – Increase Spending by Residents		
Total Employment (jobs)	383	390
Population (individuals)	428	302
Labor Force (individuals)	332	199
Gross Domestic Product (\$ millions)	\$85	\$92
Value-Added (\$ millions)	\$85	\$90
Personal Income (\$ millions)	\$58	\$49
Reduction in Government Spending on Other Activities		
Total Employment (jobs)	-291	-402
Population (individuals)	-136	-223
Labor Force (individuals)	-82	-143
Gross Domestic Product (\$ millions)	(\$106)	(\$122)
Value-Added (\$ millions)	(\$106)	(\$122)
Personal Income (\$ millions)	(\$31)	(\$46)
Overall Impacts Combined		
Total Employment (jobs)	7,615	9,527
Population (individuals)	3,961	5,652
Labor Force (individuals)	2,419	3,595
Gross Domestic Product (\$ millions)	\$1,262	\$1,540
Value-Added (\$ millions)	\$1,262	\$1,537
Personal Income (\$ millions)	\$854	\$1,154
Consumer Price Index for Housing (% change)	-0.11%	-0.04%
Increase in Taxes (\$ in millions)	\$80	\$134

Appendix

Table A.3 Economic Impact Results for King County and Washington— Long-term Impacts (2027-2044 Avg)

Key Statistics	Avg King County Net Impacts	Avg State Net Impacts
Affordable Housing Investment – Construction Activities		
Total Employment (jobs)	1,428	1,722
Population (individuals)	2,187	3,188
Labor Force (individuals)	1,306	1,848
Gross Domestic Product (\$ millions)	\$296	\$362
Value-Added (\$ millions)	\$296	\$359
Personal Income (\$ millions)	\$283	\$353
Rent Reduction – Increase Spending by Residents		
Total Employment (jobs)	1,253	1,107
Population (individuals)	2,836	2,185
Labor Force (individuals)	1,705	1,321
Gross Domestic Product (\$ millions)	\$409	\$416
Value-Added (\$ millions)	\$409	\$405
Personal Income (\$ millions)	\$389	\$237
Reduction in Government Spending on Other Activities		
Total Employment (jobs)	-268	-362
Population (individuals)	-267	-449
Labor Force (individuals)	-159	-264
Gross Domestic Product (\$ millions)	(\$139)	(\$159)
Value-Added (\$ millions)	(\$139)	(\$159)
Personal Income (\$ millions)	(\$48)	(\$69)
Overall Impacts Combined		
Total Employment (jobs)	2,414	2,467
Population (individuals)	4,756	4,925
Labor Force (individuals)	2,853	2,905
Gross Domestic Product (\$ millions)	\$566	\$619
Value-Added (\$ millions)	\$566	\$605
Personal Income (\$ millions)	\$624	\$521
Consumer Price Index for Housing (% change)	-0.75%	-0.35%
Increase in Taxes (\$ millions)	\$44	\$67