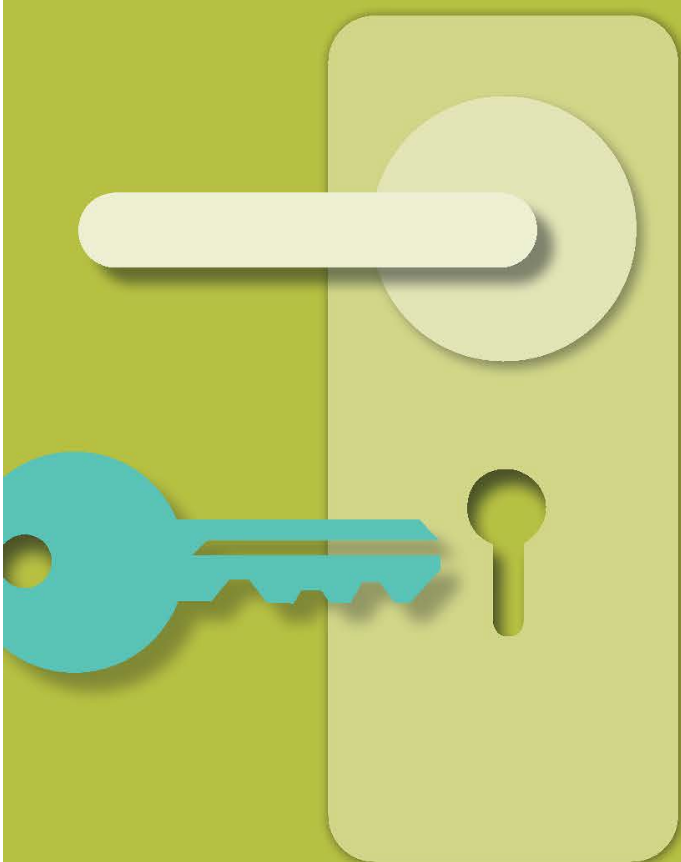
CLOSED DOORS:

2024 Update

Unlocking Affordable Homeownership Supply in Washington State



Report and online Tableau dashboard that examine prices, inventory and solutions to lack of supply of affordable for-sale homes, and increasing homeownership rates for BIPOC buyers.

2024

HOMESTEAD
Community Land Trust

Closed Doors Report: 2024 Edition

Unlocking Affordable Homeownership Supply in Washington State

This report and the Affordable Homeownership Tableau resource were originally created by a Task Force of Homestead Community Land Trust staff, board and committee members:

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Opinions expressed in this report are Homestead's, and do not necessarily reflect the opinions of our advisors.

We are grateful to our partners at Redfin for providing housing inventory data in the aggregate for this analysis.

Published September 2024

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Introduction

The last eight years have seen dramatic policy shifts toward supporting homeownership opportunities for lower-income households, with an emphasis on closing the well-documented racial disparities in ownership rates. As the under-production of homes at all price points restricts supply, the gap between what homes cost to produce and what lower-income buyers can afford becomes a barrier to increasing ownership rates across all but the most affluent income categories. A traditional method of closing this gap—down payment assistance (DPA)—loses efficacy in high-cost markets when the gap between home prices and affordability grows too wide. Moreover, labor and material costs disincentivize homebuilders from constructing new homes in markets where the cost to build is higher than what most people can afford to buy.

Why Did We Produce This Report?

The Closed Doors Report was launched in 2022 to make data about the supply crisis of affordable homes readily accessible to advocates, policymakers, cities and counties across the state. As many prepared their comprehensive plans, the dashboard served as a tool to measure the need for new construction and the disparate impacts of the lack of supply on people of color, whose rates of homeownership are significantly lower than those of their white counterparts.

Since the initial launch, the crisis of supply has deepened.

The following report updates the earlier 2022 findings and is a companion to an updated analytical dashboard that demonstrates the supply crisis in specific areas throughout Washington State. The Closed Doors Report 2024 seeks to serve members of the philanthropic community as well, because the private sector is increasingly exploring its own role in addressing this crisis.

What Do We Cover?

This updated report continues to call for policy changes and investment in new construction of income-appropriate homes to address the need for affordable housing for lower-income households and to close racial disparities in homeownership. We have a bias toward permanently affordable homeownership and believe that a significant public investment in permanently affordable homeownership in all communities across Washington State today will yield a dividend of social and economic well-being for all that will last over 100 years.

We provide detailed “backgrounders” on how the public sector defines income qualifications and the term “affordable,” and two methods of creating homeownership opportunities: down payment assistance (DPA) and subsidized new construction of homes. This comparison demonstrates the different conditions under which the two models function best.

This report compares the uses of DPA and subsidized new construction in King County with other counties in the State to make the point that one approach to increasing homeownership will not necessarily fit all communities. This will include data on the gap between what is available and affordable for both median-income households as well as lower- and middle-income households—a home price difference commonly of $400,000 or more. This report also documents how labor and materials prices make the cost of new construction a challenge all over the state, with a special burden on rural communities with lower incomes.

The first edition of the Closed Doors Report addressed the housing supply affordable to the income category traditionally served by nonprofit affordable homeownership organizations: 50 to 80% AMI. It demonstrated that for every one affordable home in a given geographic area (census tract, city, county, state), there were multiple buyers for each home. In some cases, the ratio was 1:600. In this current edition, the ratios go as high as 1:2000.

The new report allows users to search for supply based on additional income brackets up to 140%. While we see more inventory the higher the income bracket, the crisis of supply exists for many income categories.

We Support All Types of Affordable Housing and Efforts to Help Keep Existing Homeowners in their Homes

It is unhelpful to pit the merits and need for one type of affordable housing against another. ***We resist efforts to divide the affordable housing community into categories of greater or lesser deserving households***. We support our homeless-serving and affordable rental colleagues in their important work. Similarly, retaining current homeowners is absolutely essential for healthy communities. Effective methods that allow lower- and middle-income households to build wealth and prevent displacement through homeownership include strategies to keep existing homeowners in their homes as well as those that increase the number of new first-time homebuyers. We especially endorse efforts to keep legacy Black homeowners in their homes. While retaining current homeowners is of critical importance, the Closed Doors Project focuses on solutions to increase the total number of homeowners and close racial disparities in ownership.

Our Manifesto: What is Needed?

Affordable housing for moderate and middle-income households is critically needed. The Puget Sound Regional Council reported in its 2023 Housing Monitoring report that those in the 50 to 80% AMI category have seen the rate of cost-burden increase from 25% in 2010 to 50% in 2021 (Council, 2023).

From whatever angle one views this crisis – business/economic, public health, educational outcomes, social justice – everyone is paying the price for lack of affordable housing. Businesses experience employee recruiting, retention and productivity issues when affordable housing is not proximate to workplaces. Household health and educational outcomes suffer when people are forced to move too often or are forced to choose between housing and health care or healthy food. Lack of intergenerational wealth from a legacy of ownership makes people financially vulnerable in times of economic hardship, and puts them at risk of homelessness.

Conversely we believe that **a visionary investment in new construction of permanently affordable homeownership will create jobs, improve business outcomes, enhance public health and serve as an upstream solution to prevent homelessness. It will begin to set right historic discrimination against people of color shut out of ownership. It will create an equitable market for homeownership that will benefit generations to come.**

In those places where market rate developers cannot or will not build homes affordable to the median income household, this is a market failure. ***When the market fails, government and philanthropic support must step in.***

We call upon public and private sector advocates and beneficiaries to recognize and act on the following:

1. **Affordable Homeownership is Affordable Housing** – Affordable housing is not just rental housing. Affordable housing serves those with no income up to those who make 80% of area median income. Affordable homeownership has historically served 50 to 80% AMI households[1]. Homeownership is the most cost-effective affordable housing solution for those who qualify for subsidized housing in this income category. In King County this is 44% of those who qualify at or below 80% AMI.
2. **Down Payment Assistance Does Not Work Alone** – Most DPA programs depend on the availability of affordably priced homes. As this report shows, there aren't enough affordably priced homes.
3. **Affordable Homeownership is Funded Differently than Rental Housing** – Tools such as Low Income Housing Tax Credits that drive the development of new affordable rental housing are not an option for homeownership development. These tools are based on long-term investments that generate

[1] Our homeownership colleagues in rural areas must serve up to 100% AMI.

returns and tax advantages for investors. In new construction homeownership, the long-term investor is the homeowner with a 30-year mortgage.

4. **Think about Homeownership as a Component of a System** – The affordable housing system should work to support a progression of upward economic mobility. But when there's a supply gap between rental and market rate homeownership, people remain stuck and unable to move up. Public investment in housing for the lowest-incomes and private investment in high-end homes, without proportional investments in middle-income and lower-middle income housing, are hollowing out the middle class. This has contributed to the supply crisis and created conditions that contribute to homelessness. The entire system of affordable housing needs investment. Proportional investments across the affordable housing spectrum are needed to create a continuum of housing choices and a system where people can move up and out. (Shapiro, 2024)
5. **Affordable Homeownership Requires Capital** – Homebuyers themselves supply up to 50% of the cost of creating a new for-sale home through their mortgage. The rest must come in the form of permanent grants or charitable gifts that subsidize the cost of construction down to what is affordable. Affordable housing is infrastructure, and infrastructure is capital intensive.
6. **Zoning Changes Without Capital Will Not Fully Address Supply** -- While increased density creates the *potential* for more inclusive communities and helps make development more viable, without capital for affordability zoning's impact on increasing supply of *affordable* homes will be limited.
7. **Set and Track Visionary Goals for New Construction** – Affordable homeownership <u>is</u> affordable housing. Goals for affordable homeownership production should be on every city, county and state affordable housing dashboard and resources should be provided to achieve those goals. At present state and local investments in affordable homeownership are less than 1/10 the investment in all other forms of affordable housing.
8. **Invest in Non-Profit Developers** – Nonprofit developers like Homestead will build the homes that market developers can't or won't. But we need public and private support. Philanthropic dollars can help fund our operations and grow our staffs to manage more production. Social impact funds can provide construction financing and loan guarantees. Voters and elected officials can approve housing levies and consistent sources of grants for affordable homeownership. With the right support we could triple or quadruple our production. <u>Ask us what we need.</u>
9. **Streamline Processes to Create Efficiencies** – Voters and elected officials must hold accountable those government agencies that fund, permit or approve affordable housing of all kinds, including homeownership, for ways they impede production by delaying permits, adding elements that increase costs, expanding bureaucratic hurdles to creating or selling homes, or failing to disclose costs or policies that threaten the viability of developments.
10. **Reduce Costs** – Elected officials should remove forms of taxation that add cost to homeownership development or sales to income-qualified buyers.

A variety of local, regional and statewide advocacy measures and philanthropic initiatives follow from this manifesto. We invite you to learn more in the following pages, and to contact us to engage further in the work.

How Do We Define Affordable?

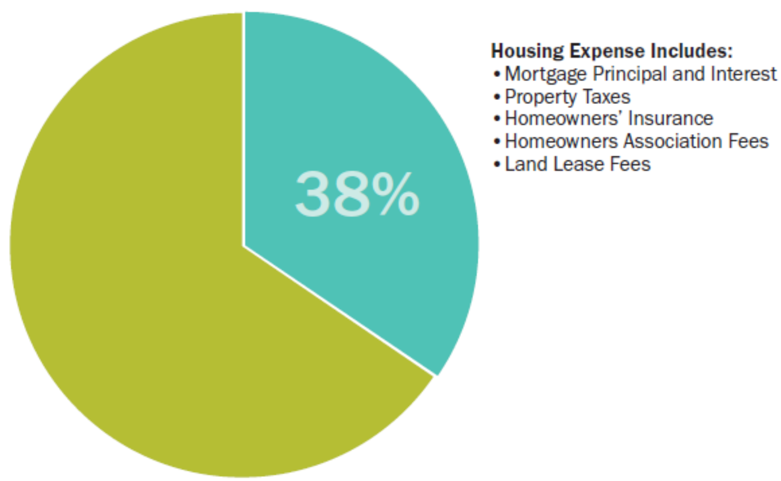
Professionals in the housing sector employ various methods to determine affordability, and this analysis utilizes standards commonly applied in publicly funded homeownership programs, including those employed by Homestead in its programs.

Start with Income, Not Housing Payment

Nonprofit homeownership organizations start from a definition of what is affordable based on income.

The industry standard for determining the maximum income eligible for these programs is based on limits calculated and annually updated by the United States Department of Housing and Urban Development (HUD). These limits are framed around the Area Median Income (AMI), which represents the middle point of income distribution within a region—half of the families earn above this median and half below. These figures are specified at both the county and metropolitan levels, and income limits adjust with each additional member in a household. Households earning 30% to 50% AMI, typically qualify for subsidized rental housing if available, while those with incomes from 50% to 80% AMI may be eligible for homeownership opportunities priced within their income range. Extremely low-income households often resort to living with relatives or friends, using housing vouchers, staying in supportive rental housing, or residing in shelters.

AFFORDABILITY STANDARD FOR HOMEOWNERSHIP



What Amount of Income Should Be Paid?

The general rule of thumb about affordable housing payment is that they should be no more than 30% of a person's income. In homeownership settings, this has been too difficult to achieve.

Practitioners in Washington State adhere to criteria outlined in the Washington State Department of Commerce's Housing Trust Fund's handbook, specifically Section 701.7:

> *"In the context of homeownership, a home is considered affordable when a household's monthly housing expenses do not exceed 38% of its monthly income, and total debt does not surpass 45% of monthly income. Housing costs encompass mortgage principal and interest, property taxes, homeowner's insurance, homeowner association fees, and land lease fees, where applicable. Total debt encompasses additional debts and utilities."*

In order to provide meaningful comparisons across income categories, we have used this definition routinely throughout this report and in the Tableau dashboard.

Creating Affordability: Two Methods

Affordable housing programs utilize two primary methods to make homeownership accessible for income-qualified households: DPA and subsidized price homes.

Down Payment Assistance

DPA typically refers to financial aid for potential homebuyers. The most common forms include grants (which do not require repayment), low-interest loans (often deferred until the home is sold or refinanced), and forgivable loans (which are forgiven after meeting certain conditions). Amounts generally range from $10,000 to $25,000. Lenders specializing in affordable homeownership may combine several forms of assistance for a single purchase.

The amount of DPA usually represents 5% to 20% of the home's total cost. This assistance "fills the gap" between what a buyer can afford and the home's market price, sometimes through a shared appreciation model where loans are deferred until the home is sold or refinanced, allowing the DPA provider to benefit from the home's appreciation in value.

DPA programs often recoup a 3% interest rate upon the home's sale. With home prices in Washington State escalating by 98% from 2013 to 2023, repaid DPA funds have lost value, necessitating additional funds to support first-time homebuyers. This method is especially effective in markets where the difference between market and affordable prices ranges from $75,000 to $150,000.

Subsidized Price Homes: Permanent Affordability

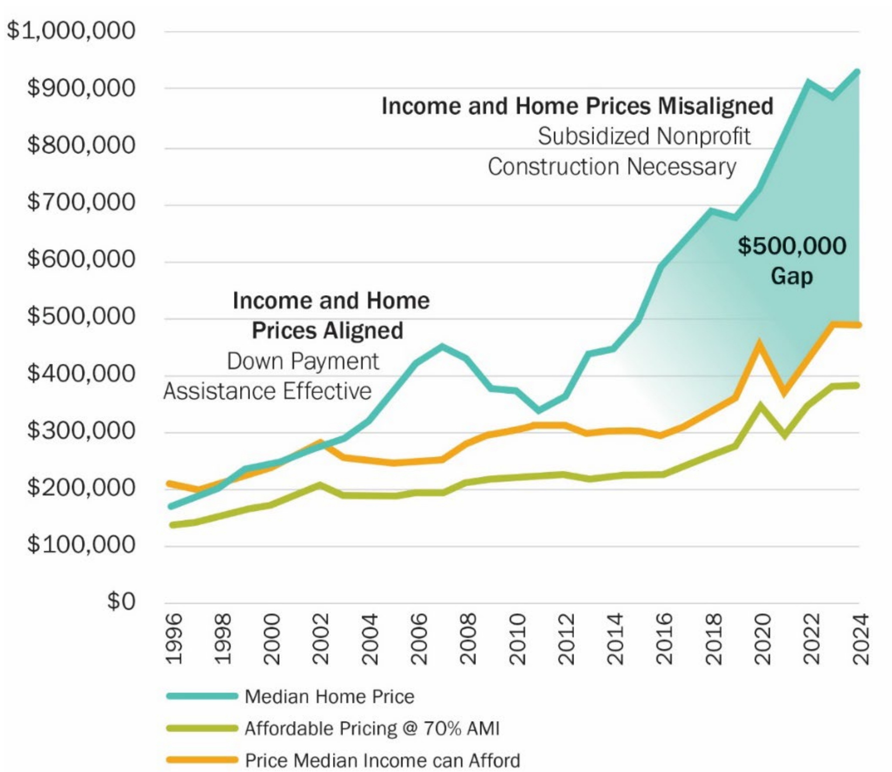
Subsidized price homes reduce the purchase price for the buyer through various programs. Well-known examples include self-help homeownership programs like Habitat for Humanity, where homebuyers contribute volunteer hours to build their own homes, and community land trusts that offer leasehold models. These models keep initial costs low through subsidies and control future price increases with resale restrictions. In King County, where the median home price is $900,000, Homestead offers homes priced between $275,000 and $330,000. These homes are developed at a cost of $500,000 to $600,000 each, with a one-time public investment of $250,000 to $300,000. At resale, the public investment remains with the property, and the home is sold at a formula price, ensuring affordability for subsequent buyers.

This one-time fund investment, retained in the trust, fosters additional first-time home-buying opportunities without the need for significant reinvestment. Subsidized price homes are particularly effective in high-cost, geographically limited markets. Once made affordable, these homes remain so indefinitely, providing over a century of community benefits.

In many markets across Washington State, subsidized construction represents the most cost-effective way to create affordable housing and homeownership opportunities for those earning between 50% and 80% of the area median income (AMI).

King County: Home and Income Trends

1996 to 2024



Sources: Washington State Center for Real Estate Research (WCRER), HUD Income Levels

Lack of Supply: Still Happening

It's not news that households earning between 80% and 100% of the area median income are consistently shut out of income-appropriate home-buying opportunities across the state. Underproduction of homes limits supply and drives up prices, while construction costs that outpace income growth put homeownership out of reach in most counties of Washington State.

"While the U.S. economy is fairly strong, unemployment is low and wages are increasing, housing costs are increasing much faster. Hourly wages are up roughly 5% year over year, while monthly housing costs are up 15%. Surging housing costs have an outsized impact on low earners, who are less likely to have money in the bank for down payments and record-high monthly payments." (Redfin, 2024)

The Closed Doors Report uses a ratio of buyers to affordable homes to highlight the supply crisis affecting many communities. In our first edition of the report, we focused exclusively on the 50 to 80% income category. As we developed Version 2 of the Dashboard and 2024 Report, we have expanded to include higher income categories to illustrate the challenges households face in finding affordable inventory.

For the sake of this report, however, we highlight below tables that show the lack of supply affordable to 50 to 80% AMI buyers in each county of Washington State. We've started with counties that supposedly have lower market rate homes, where DPA of $100,000 to $150,000 would achieve the desired outcome. Generally speaking, however, these counties do not have supply, and new construction is too costly. Too few affordable homes means DPA doesn't help.

Counties with Median List Price of Less than $400,000

	Total Homes Affordable to 50 to 80% AMI	Income-Qualified Potential Buyers Per Home
Adams	8	48
Asotin	5	125
Columbia	0	106
Garfield	4	15
Grant	16	172
Grays Harbor	23	78
Lincoln	6	35
Yakima	12	631

Counties with Median List Prices Higher than $400,000

	Total Homes Affordable to 50 to 80% AMI	Income-Qualified Potential Buyers Per Home
Benton	27	206
Chelan	0	2251
Clallam	4	404
Clark	43	371
Cowlitz	12	261
Douglas	0	1733
Ferry	2	61
Franklin	9	217
Island	2	1099
Jefferson	1	520
King	196	414
Kitsap	29	275
Kittitas	2	704
Klickitat	1	559
Lewis	1	230
Mason	1	1158
Okanagan	21	49
Pacific	1	37
Pierce	28	1061
San Juan	0	433
Skagit	5	688
Skamania	4	46
Snohomish	100	224
Spokane	41	439
Stevens	7	122
Thurston	10	900
Wahkiakum	0	59
Walla Walla	8	233
Whatcom	7	1060
Whitman	19	79

In counties with median list prices higher than $400,000 only four counties had fewer than 100 potential buyers per affordable home. Many counties had 1,000 to 2,000 potential buyers for each affordable home.

Counties with Median List Prices of $700,000 or More

	Total Homes Affordable to 50 to 80% AMI	Income-Qualified Potential Buyers Per Home
King	196	414
San Juan	0	433
Snohomish	100	224

The highest cost counties in Washington State have multiple hundreds of potential buyers per affordable home. But at the time of our study, San Juan had no available inventory and a high cost to construct (see next section).

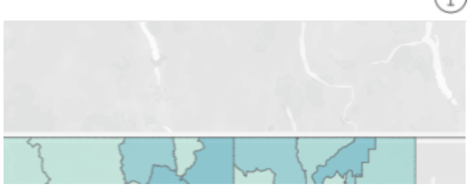
Lower Cost Markets Are No Haven

The chart below highlights several key points related to the relationship between median home prices, list prices, and the challenges faced by lower-income buyers across counties with varying median home prices. In counties with lower median home prices, fewer homes were listed compared to counties with higher prices. The median home price in these lower-cost counties was $269,869, while the median list price was $372,450, creating a significant gap of over $100,000. This means the list price is nearly 40% higher than the median home price, making home affordability more challenging. In contrast, for counties with higher median home prices, the list prices were closer to the median home prices, with only a 2-8% increase, indicating a smaller gap. The chart suggests that Down Payment Assistance (DPA) may be less effective in lower-cost counties because the list prices are notably higher than the median home prices, reducing the benefit of DPA. This dynamic presents an additional challenge for lower-income buyers, as even in counties with generally lower median incomes, the higher list prices increase the barriers to homeownership.

County Median Home Price Range	# of Counties	Count of Listed Homes	County Median Home Price	Median List Price	Gap Between List Median and Actual Median	% Median List is greater than Actual Median
$200-$299k	4	122	269,869	372,450	102,581	38%
$300-$399k	6	1,247	358,326	385,000	26,674	7%
$400-$499k	9	3,498	439,418	450,000	10,582	2%
$500-$599k	10	8,813	555,725	569,900	14,175	3%
$600-$699k	7	1,692	646,067	699,000	52,933	8%
Above $700k	3	9,695	858,697	875,000	16,303	2%

Income Level: 50-80% AMI
County: (All)
City: (All)

Area Median Income (AMI) Households



In **Washington State**, **20%** of its **2,979,272** households have household incomes within **50-80% AMI**. Of those **586,950** households, **348,753** are homeowners. The remaining **238,197** are currently renting, and could benefit from having access to affordable homeownership opportunities.

Between March 1, 2024 and May 16, 2024, there were a total of **25,039** homes listed with two or more bedrooms across **Washington State**. Of those listed homes, **670 (3%)** would be affordable for a 50-80% AMI household. This means that for every 1 affordable home, there could be up to 356 potential 50-80% AMI buyers.

To learn more about your own city or county, use the Tableau dashboard. You can modify the assumptions using a different income level, county or city view, The dashboard will tell you how many households are in that geographic area in the specific income category, how many are currently homeowners, how many are potential homebuyers, and how many homes are available that would be affordable to them.

Most Solutions Depend on Affordable Supply

Studies of different regions of the state reveal the difficulties of creating first-time home-buying opportunities for modest-income households. Using HUD income data for statistical areas corresponding to King County, Spokane, Winthrop, Bellingham and Tacoma, we analyzed two things:

- the amount of DPA that would be required to make a market-rate home affordable at different income levels
- the amount of subsidy needed to build a new home priced to be affordable to different income levels (we assume that the subsidy would require permanent affordability).

In the charts below, we selected a range of incomes from 50% AMI to 120% AMI, and determined the price that would be affordable to them, assuming the Washington State affordability definition. We assumed a 7% interest rate on their mortgage, and $265 additional monthly payments such as property taxes, and insurance. These prices did not include HOA fees. We then calculated the difference between the median market rate of homes in the area with the affordable price to determine the DPA gap. We then determined the cost of new construction of a home for each geographic area, and subtracted the affordable price from the construction cost to determine the subsidy needed to build that new home. Each table also shows the income level in both % of AMI and actual dollars needed to afford the median price home.

KING COUNTY Cost to construct approx $550,000		Affordable Price	Median Market Rate	DPA Gap	Subsidized Construction GAP
Very Low Income	50% AMI	$260,400	$900,000	$639,600	$289,600
Low Income	65% AMI	$349,510	$900,000	$550,490	$200,490
Low Income	70% AMI	$379,222	$900,000	$520,778	$170,778
Low Income	80% AMI	$438,666	$900,000	$461,334	$111,334
	100% AMI	$557,540	$900,000	$342,460	No Subsidy Gap
	120% AMI	$676,415	$900,000	$223,585	No Subsidy Gap
King County Median Home	158% AMI	$870,000	$900,000	$30,000	No Subsidy Gap
Income to Purchase Meidan Home	$191,058				

Source: Median home price Redfin July 2024, construction costs Homestead

How to Read the Chart

The first line of the chart outlines options for serving households with an Area Median Income (AMI) of 50%. An affordable price for these households is $260,400. If the median market rate home costs $900,000 (as shown in the third column), a 50% AMI household would require $649,600 in DPA to purchase this home. Alternatively, creating affordable homeownership opportunities could involve building homes with subsidized prices at the initial sale. The construction cost for such a home by a nonprofit builder is $550,000. To make the home affordable to a 50% AMI household, an investment of $339,600 would be needed. This investment in permanent affordability ensures that the home remains affordable over multiple resales.

Conclusion: For households in the 50% AMI range, constructing permanently affordable homes is takes less subsidy and is therefore more cost-effective than closing the gap with DPA. If homes are permanently affordable, they will create multiple opportunities for first-time homeownership at that same address.

In the rest of the chart, the analysis of DPA versus subsidized construction continues at varying income levels. For households with an AMI above 80% in King County, subsidized construction is not advisable. If building a new home costs $550,000 and a household at 100% AMI can afford $557,540, no subsidy is necessary. At this income level, DPA becomes a viable option, especially for purchasing existing market-rate homes.

Findings

As one compares this table for King County with other geographic areas in Washington State (see pages 14-16) several themes emerge:

- In many markets, the amount of DPA required to create one income-qualified household is frequently more than the subsidy a nonprofit homeownership developer would need to build a new home which will serve multiple households over time.
- In many markets, even those with higher income households need DPA that exceeds normal standards to buy a home at market prices.
- Although rural areas or locations east of the Cascades have lower market rate prices, the costs of new construction range from $500,000 to $600,000. In these areas, it would seem then that DPA would be the best tool to create homeownership, except that in those areas there are frequently no homes available at an affordable price.

SPOKANE Cost to construct approx $600,000		Affordable Price	Median Market Rate	DPA Gap	Subsidized Construction GAP
Very Low Income	50% AMI	$112,771	$381,000	$268,229	$487,229
Low Income	65% AMI	$175,689	$381,000	$205,311	$424,311
Low Income	70% AMI	$196,661	$381,000	$184,339	$403,339
Low Income	80% AMI	$238,607	$381,000	$142,393	$361,393
	100% AMI	$322,497	$381,000	$58,503	$277,503
Spokane Median Home	118% AMI	$397,000	$381,000		$203,000
Income to Purchase Meidan Home	$103,987				

Source: Median home price Redfin July 2024, construction cost Homebuilder Digest

FRIDAY HARBOR
Cost to construct approx $406,000

		Affordable Price	Median Market Rate	DPA Gap	Subsidized Construction GAP
Very Low Income	50% AMI	$180,629	$575,000	$394,371	$225,621
Low Income	65% AMI	$245,867	$575,000	$329,133	$160,383
Low Income	70% AMI	$267,613	$575,000	$307,387	$138,637
Low Income	80% AMI	$311,105	$575,000	$263,895	$95,145
	100% AMI	$398,089	$575,000	$176,911	$8,161
Friday Harbor Median Home	141%	$576,000	$575,000		
Income to Purchase Meidan Home	$128,838				

Source: Median home price Redfin July 2024, construction cost Houzeo

TACOMA
Cost to construct approx $500,000

		Affordable Price	Median Market Rate	DPA Gap	Subsidized Construction GAP
Very Low Income	50% AMI	$211,269	$565,000	353,731	$288,731
Low Income	65% AMI	$285,700	$565,000	$279,300	$214,300
Low Income	70% AMI	$310,510	565,000	$254,490	$189,490
Low Income	80% AMI	$360,130	565,000	$204,870	$139,870
	100% AMI	$459,371	565,000	$105,629	$40,629
Tacoma Median Home	141%	$576,000	565,000		
Income to Purchase Meidan Home	$128,838				

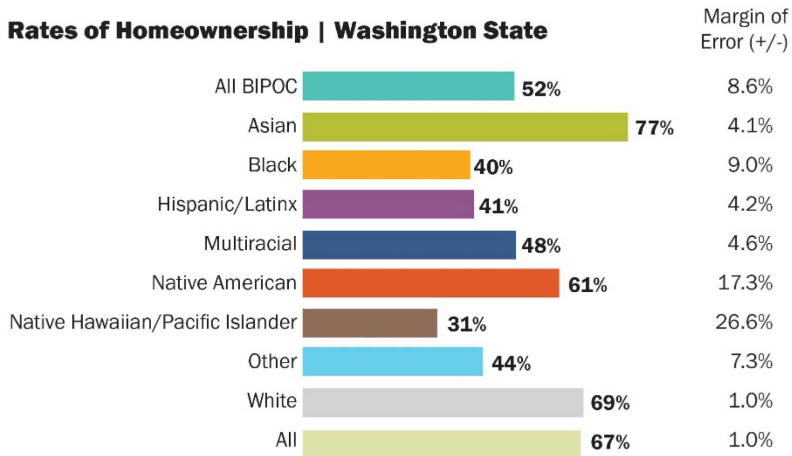
Source: Median home price Redfin July 2024, construction cost Homeblue, Houzeo

WINTHROP WA Cost to construct approx $500,000		Affordable Price	Median Market Rate	DPA Gap	Subsidized Construction GAP
Very Low Income	50% AMI	$155,937	$655,000	$499,063	$344,063
Low Income	65% AMI	$213,768	$655,000	$441,232	$286,232
Low Income	70% AMI	$233,045	$655,000	$421,955	$266,955
Low Income	80% AMI	$271,599	$655,000	$383,401	$228,401
	100% AMI	$391,545	$655,000	$263,455	$108,455
	120% AMI	$477,220	$655,000	$177,780	$22,780
Okanagan County Median Home	177% AMI	$646,000	$655,000		
Income to Purchase Meidan Home	$143,000				

Source: Median home price Redfin July 2024, construction cost Methow Housing Trust

Addressing Equitable Access to Homeownership

Equitable access to affordable homeownership requires that all have the choice to purchase a home regardless of race, ethnicity, income, or other characteristics. Systemic barriers include lack of access to mortgage lending, discriminatory credit scoring, and lack of homebuyer education or purchase support, to name just a few. However, even when potential homeowners overcome these barriers they are left with few homes to purchase. The final hurdle is the lack of supply of affordable homes. In order to create equitable access, more affordable homes are needed.

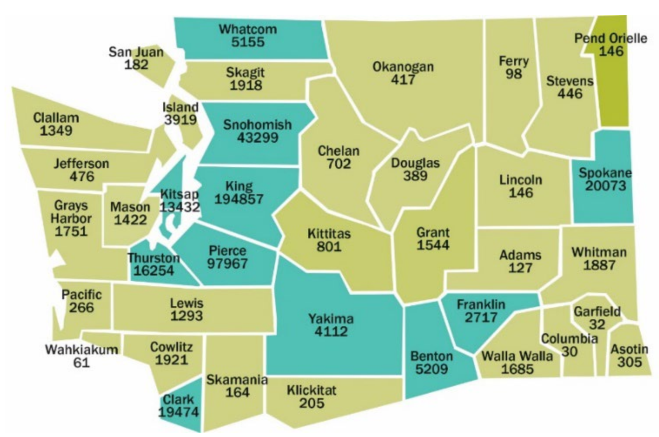


Source: Closed Doors Report, ACS

Since the publication of the first Closed Doors Report, the State of Washington has published a study on racial disparities in homeownership[2] (Commerce, 2023). Responding to recommendations from the Disparities Task Force, the State Legislature awarded historically high amounts of funding specifically for homeownership developments in 2022, 2023 and 2024. But the scale of the need and the call to address historic inequities in homeownership brings both political and logistical challenges. ***State funding for homeownership is still dwarfed by funding for homelessness and rental housing (In 2024 the state funded 3,443 affordable rental homes compared to 470 homeownership homes) (Commerce D. o., 2024).***

Affordable Homes Needed Where BIPOC People Live

Eleven of Washington State's counties represent areas of highest concentration of Black residents, with 84% living in King, Pierce and Snohomish counties. King and Snohomish Counties are two of the highest cost areas in the state with median market rate home prices above $700,000. Pierce County median market rate home prices are $575,000, which is still at least $200,000 higher than what is affordable to a 50 to 80% AMI household.



Black Population by County | Source: Commission on African American Affairs

[2] (Commerce, 2023)

All of the counties with highest concentration Black or African American residents have triple or quadruple digit supply issues, meaning that for every one affordable home that is available, there are hundreds, if not thousands, of potential buyers.

Counties With African American Representation

	Total Homes Affordable to 50 to 80% AMI	Income-Qualified Potential Buyers Per Home
Benton	27	206
Clark	43	371
Franklin	9	217
King	196	414
Kitsap	29	275
Pierce	28	1,061
Snohomish	100	224
Spokane	41	439
Thurston	10	900
Whatcom	7	1,060
Yakima	12	631

Sources: Commission on African American Affairs

Although Latino homeownership rates in recent years have been on the rise, they still lag white households, and the lack of supply affects income-qualified potential Latino buyers as well.

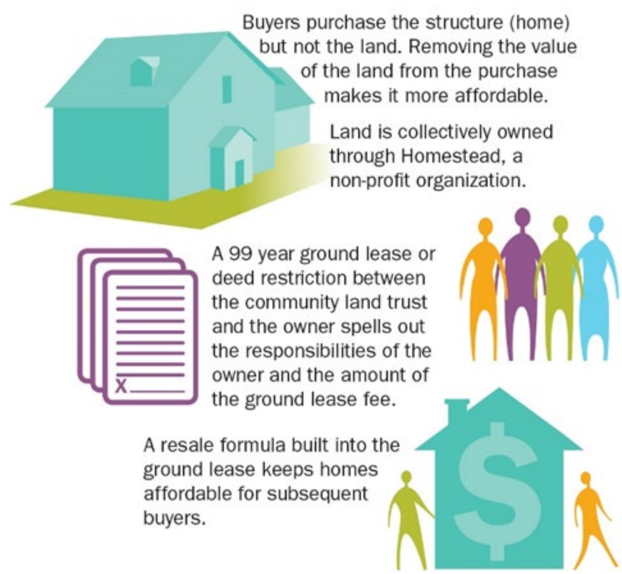
Counties With Latino Representation

	Total Homes Affordable to 50 to 80% AMI	Income-Qualified Potential Buyers Per Home
Adams	8	48
Franklin	9	217
King	196	414
Pierce	28	1.061
Snohomish	100	224
Yakima	12	631

Let’s Hear It For Permanent Affordability!

Permanently affordable homeownership is a strategy designed to make initial home prices accessible to lower- and middle-income buyers, control future price increases via agreements, and ensure long-term affordability through multiple resales. Community Land Trusts have pioneered this model, separating the land title from the home improvements—purchased by the buyer with a standard 30-year fixed-rate mortgage. The buyer leases the land from the trust for a nominal fee and agrees to resale restrictions, ensuring the home remains affordable for future income-qualified buyers. This model allows households to accrue equity and build wealth, perpetuating the opportunity for first-time buyers by keeping prices affordable.

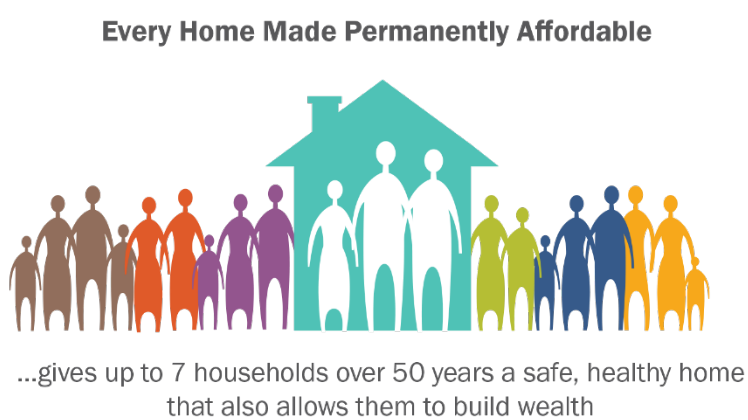
Permanently affordable condominiums sometimes utilize deed covenants instead of land trusts to enforce resale restrictions. This concept was first developed by Black Civil Rights leaders in 1969 and has been widely adopted, including by many Habitat for Humanity affiliates across the country and in Washington State.



Key benefits of permanently affordable homeownership include:

- Building household wealth: Homeowners, even with resale restrictions, can average $65,000 in cash at closing after owning a home for 5 to 10 years.
- Generating multiple homeownership opportunities: One affordable home can facilitate up to seven first-time home purchases over 50 years, assuming an average ownership duration of seven years.
- Enhancing the value of initial investments: The funds used to subsidize initial home prices appreciate more significantly than the repayments from DPA programs which lose purchasing power over time.

This approach not only secures a permanent address for affordability in communities but also offers a robust defense against displacement. Moreover, the public's investment in permanently affordable homeownership has proven to be a more cost-efficient use of capital compared to DPA. For instance, an investment made in 2013 to establish permanent affordability has appreciated over 500% in value in 10 years, whereas DPA loses purchasing power over time in spite of its interest rate and must be replenished.



State of Washington Definition

As defined in the Revised Code of Washington (RCW 84.14.021) permanently affordable homeownership is:

(1) Sponsored by a non- profit organization or government entity;

(2) Subject to a ground lease or deed restriction that includes:

> A. A resale restriction designed to provide affordability for future low- and moderate-income homebuyers,
>
> B. A right of first refusal for the sponsor organization to purchase the home at resale, and
>
> C. A requirement that the sponsor must approve any refinancing, including home equity lines of credit.

(3) And the sponsor organization:

> A. Executes a new ground lease or deed restriction with a duration of at least 99 years at the initial sale and with each successive sale; and
>
> B. Supports homeowners and enforces the ground lease or deed restriction.

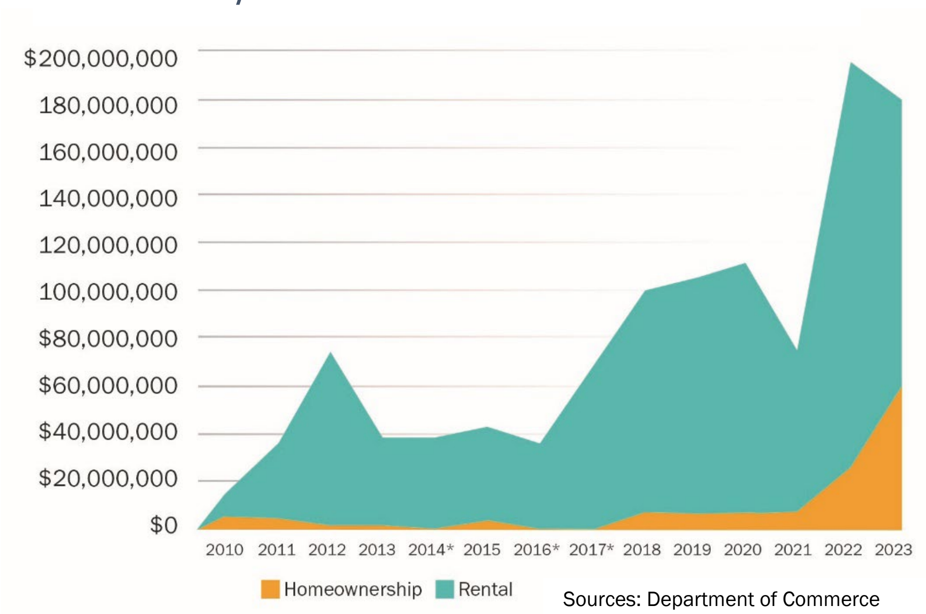
Conclusion: Build, Baby, Build

Our collective commitment must be to build, build, build. We believe that a visionary investment in new construction of permanently affordable homeownership will create jobs, improve business outcomes, enhance public health and serve as an upstream solution to prevent homelessness. It will begin to set right historic discrimination against people of color shut out of ownership.

As the circle of people who support increased homeownership has widened in the last four years, many have assumed that the lack of supply points to a failure of non-profit organizations to be sufficiently innovative and resourceful to meet the challenge. Nothing could be further than the truth.

Homeownership programs across the state have been starved for resources. The chart at right shows funding levels for affordable homeownership from the State since 2010. Years 2014, 2016 and 2017 starred in the chart to the right were years when no funding was allocated to affordable homeownership. Although award amounts have built steadily since 2017, they still represent one tenth of the number of rental homes funded.

Washington State Housing Trust Fund Investments in Homeownership versus Rental 2010 to 2023



Sources: Department of Commerce "Improving Homeownership Rates for Black, Indigenous and People of Color in Washington," report (2022); Commerce awards 2022, 2023

Our collective commitment must be to **build, build, build.** To do this we must maintain state funding levels on an ongoing basis at no less than 1000 homes per year. This means establishing a consistent and progressive funding source for affordable homeownership (or potentially for all affordable housing). It also requires that we:

- Streamline funder contracting and compliance requirements to create flexibility that supports innovation
- Support cities and counties in the creation of additional funding sources to supplement state funds
- Mobilize public and private dollars to leverage bank construction financing through loan guarantees
- Create new forms of construction financing through social impact investments
- Hold local governments and public agencies accountable for inefficient and lengthy delays in permitting and land use approvals
- Require that cities, counties, utilities and public agencies disclose all anticipated costs accurately at the beginning of projects

- Reduce compliance barriers that keep smaller contractors and BIPOC construction trades from competing successfully for homeownership construction opportunities
- Make taxes associated with affordable homeownership sales fair and equitable for lower-income households and nonprofit ownership developers by addressing REET tax policies that inconsistently benefit some but not all.

We call on voters, elected officials, policy makers and influencers, stakeholders and advocates to identify and support specific legislative actions to achieve these outcomes.

About the Portal

This report is a companion to a Tableau Dashboard where you can find data for the whole state or your own city or county. This dashboard is made up of three pages that you can use to explore the following data:

Available Homes by Income

- Count of Households by Income Level
- Count of Income-Appropriate Housing Supply
- Homeownership Rates by Race/Ethnicity

Household Incomes by Race

- Household Income Distributions by Race/Ethnicity

Home Listings

- Distribution of available housing supply by square footage, number of bedrooms, among others.
- Home Affordability Calculator that can be used to determine how many homes would be affordable based on Annual Gross Income

This dashboard was built using a 3 month snapshot (March to May, 2024) of MLS listings provided by Redfin, and American Community Survey 5-year estimates from 2018-2022 for household income and homeownership rate data (Tables B19001, S2502, S2503). Affordability calculations use the Median Family Income for each HUD Metropolitan Statistical Areas from 2023. All calculations were made at the census tract level, and the dashboard uses the most recent Census tract to City crosswalk from the 2020 Census to calculate the aggregate values for different cities and counties in Washington State

Access the Portal Here:

https://closeddoorsreport.com

Additional detail on our methodology is available in the Technical Appendix which begins on page 22.

Contact for Additional Information

For additional information please contact:

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Technical Appendix to Closed Doors 2024: Unlocking Affordable Homeownership Supply in Washington State

Data Sources

American Community Survey (link): 5-year estimates from 2022 for Tables B19001, S2502, and S2503 were used to determine counts of households and homeownership rates for each Washington State census tract.

- Table B19001 & Subtables A-I (*Household Income in the Past 12 Months*) were used to determine the count of households within 50-80%, 80-110%, and 110-140% AMI Area Median Income (AMI) and to analyze household income disaggregated by race/ethnicity.
- Table S2502 (*Demographic Characteristics of Occupied Housing Units)* was used to determine homeownership rates disaggregated by race/ethnicity.
- Table S2503 (*Financial Characteristics*) was used to determine homeownership rates for households within 50-80%, 80-110%, and 110-140% AMI.

Federal Financial Institutions Examination Council (link): The 2023 Census Flat File was used to determine the Area Median Income for each Metropolitan Statistical Area (MSA) in Washington State.

Missouri Census Data Center (link): A Washington State Census Tract to Place Correlation List using 2020 geography data was used to create a crosswalk table between census tracts and cities.

US Census Bureau (link): Washington State Census Tracts, State Legislative Districts, and Congressional Districts (118th Congress) Shapefiles from 2022 were used to build out map visualizations for the Tableau Dashboard.

Redfin: Redfin provided an analysis of MLS listings in Washington State for a 3 month window between March through May 2024 of all homes 2 bedrooms or larger. If a home was listed multiple times during this period, the higher price was used in this analysis. This was used to determine the count of all listed homes as well as the count of affordable homes during this window.

Smartasset (link): Washington State Property Tax Rate table was used to determine the average effective property tax rate by county when calculating the affordable home price.

Data Tools

Python and PostgreSQL were used for the extracting, loading and transforming of data. Tableau Desktop and Tableau Public were used to build and publish dashboards.

Methodology

Determination of 50-80%, 80-110%, and 110-140% AMI households

The Area Median Income (AMI) for a Metropolitan Statistical Area (MSA) was used as the basis for determining 50-80%, 80-110%, and 110-140% AMI households. This AMI was used for each census tract that fell within the MSA, and the income range for 50-80%, 80-110%, and 110-140% AMI was determined using that value.

The count of households was then determined by finding the count of households by income bracket from ACS Table B19001 that fell within the 50-80%, 80-110%, and 110-140% AMI income range. ACS counts of households by income range (Table B19001) are only provided within the specific income brackets below:

Table 1: Income Bands from ACS Table B19001

Income Level Floor	Income Level Ceiling
0	9,999
10,000	14,999
15,000	19,999
20,000	24,999
25,000	29,999
30,000	34,999
35,000	39,999
40,000	44,999
45,000	49,999
50,000	59,999
60,000	74,999
75,000	99,999
100,000	124,999
125,000	149,999
150,000	199,999
200,000	999,999

The 50-80%, 80-110%, and 110-140% AMI ranges does not align with these brackets, so the counts of households were estimated by trying to approximate the count of households in the income brackets that are only partially within the 50-80%, 80-110%, and 110-140% AMI ranges. When calculating this, the assumption was made that the counts of households were evenly distributed across the income bracket. The formulas used to estimate the partial income brackets for the 50-80% AMI income range can be found below:

$$Partial\ Income\ Bracket\ With\ 50\%\ AMI = \frac{IncomeLevelCeiling\ -\ 50\%\ AMI}{IncomeLevelCeiling\ - IncomeLevelFloor} \times Count\ of\ Households$$

$$Partial\ Income\ Bracket\ With\ 80\%\ AMI = \frac{50\%\ AMI\ - IncomeLevelFloor}{IncomeLevelCeiling\ - IncomeLevelFloor} \times Count\ of\ Households$$

After estimating the counts partially within the range, those counts were added to the count of households that are in income brackets that are fully within the 50-80%, 80-110%, and 110-140% AMI ranges to determine the total count of households within each income level.

Determination of Affordable Home

Affordable homes were identified by calculating the affordable home price for each census tract, and then identifying all homes that were listed at a price at or below that price. For this analysis, it was assumed that there would be no down payment made, so the affordable home price was calculated using the present value formula for a series of payments:

$$AffordableHomePrice = MaxAffordableMonthlyLoanPayment \times \frac{1 - \frac{1}{(1+r)^n}}{r}$$

The Maximum Affordable Monthly Loan Payment was calculated assuming that the maximum affordable loan payment in addition to property tax, insurance, and other home related costs would not lead to a debt to income ratio that exceeds 0.38.

$$MaxAffordableMonthlyLoanPayment = 0.38 \times HouseholdIncome\ - PropertyTax - Insurance - OtherCosts$$

For these calculation, 70% of AMI was used as the value for Household Income for the 50-80% AMI range, 100% of AMI was used as the value for Household Income for the 80-110% AMI range, and 130% of AMI was used as the value for Household Income for the 110-140% AMI range. The interest rate was set at 7% compounded monthly. Monthly property tax payments were calculated for each listed home using the average effective property tax rates from Table 2 based on the county that the home was in. Monthly insurance cost was calculated to be 0.2% of the list price. Other monthly home costs were assumed to be $200.

Table 2: Average Effective Property Tax Rates by County

County	Avg Effective Property Tax Rates	County	Avg Effective Property Tax Rates	County	Avg Effective Property Tax Rates
Adams	1.06%	Island	0.91%	Skagit	1.15%

Asotin	0.94%	Jefferson	0.79%	Skamania	0.74%
Benton	1.11%	King	1.05%	Snohomish	1.09%
Chelan	1.00%	Kitsap	1.03%	Spokane	1.20%
Clallam	1.00%	Kittitas	0.79%	Stevens	0.75%
Clark	1.09%	Klickitat	0.65%	Thurston	1.14%
Columbia	1.01%	Lewis	1.01%	Wahkiakum	0.73%
Cowlitz	1.17%	Lincoln	0.83%	Walla Walla	1.07%
Douglas	0.86%	Mason	1.08%	Whatcom	1.01%
Ferry	0.73%	Okanogan	0.87%	Whitman	0.96%
Franklin	1.09%	Pacific	1.04%	Yakima	1.06%
Garfield	0.83%	Pend Oreille	0.71%		
Grant	1.04%	Pierce	1.28%		
Grays Harbor	1.05%	San Juan	0.62%		

Determination of Homeownership Rate

Homeownership rate were calculated using the ACS S2502 and S2503 tables using the following formula:

$$HomeownershipRate = \frac{CountOwnerOccupiedHousingUnits}{CountOccupiedHousingUnits}$$

Calculation of Potential Buyers per Affordable Home

The number of potential buyers were determined by first identifying the number of non-current homeowner households within 50-80%, 80-110%, and 110-140% AMI. It was then assumed that all of these households would be potential buyers for an affordable home. The final value for Potential Buyers per Affordable Home was calculated by dividing the total number of potential buyers by the number of affordable homes.

Place Allocation of Census Tract values

There are a number of census tracts that fall within more than 1 city boundaries. In these instances, the census tract data are assigned proportionally to each city using the "Tract To Placefp Allocation Factor" from the MCDC crosswalk file. This was calculated using the formula:

$$CityAllocation = TractToPlaceFPAllocationFactor \times CensusTractValue$$

This allocation of census tract value was not done for standard error. For standard error, the full value for standard error was used for each city. Allocations that did not have a city associated with it were assigned to a "pseudo-place" referred to as unincorporated remainders.

City Level values were then calculated by aggregating all of the City Allocations for each census tract that fell within the city boundary.

Limitations

Due to the need to blend multiple data sources, the data from this analysis comes from different reporting periods. ACS data used 5-year estimates from 2018-2022, shapefiles were based on 2022 geographies, and the Missouri Census Data Center was based on 2020 geographies. All reporting periods used were the most up-to-date version of the file at the time of the analysis.

For the analysis of home listings, only data for 2 bedroom or higher homes listed between March - May 2024 were available for the analysis. It was assumed that households would only be looking for home listings within their current geographic area.

The ACS income related data that was used was limited to specific income brackets that were provided by the Census Bureau. In order to calculate the count of households for more precise income values, an assumption was made that the households were fairly evenly distributed across the income bracket so that the count of households could be approximated using the proportionate amount of the income bracket that fell within the 50-80%, 80-110%, and 110-140% AMI income range.

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