



Middle Housing Affordability
Opportunities in East King County:
[Analysis, Policy Recommendations
and Considerations for Local
Implementation of HB 1110](#)

A Regional Coalition for Housing

June 2024

ARCH MEMBERS

Beaux Arts
Bellevue
Bothell
Clyde Hill
Hunts Point
Issaquah
Kenmore
King County
Kirkland
Medina
Mercer Island
Newcastle
Redmond
Sammamish
Woodinville
Yarrow Point

Table of Contents

Executive Summary.....	3
Background	6
Summary of HB 1110 and Affordability Provisions	6
Current Single-family Zoning Context in East King County	9
A Regional Coalition for Housing (ARCH) and Models for Affordable Homeownership.....	11
Middle Housing Community Engagement Efforts	13
Approach and Analysis	14
Key Policy Questions for HB 1110 Implementation	14
Analysis and Methodology	14
Summary of Stakeholder Feedback.....	16
Findings, Policy Recommendations and Considerations	19
Findings	19
Policy Recommendations and Considerations	23
Conclusion	27
Appendices	28
Appendix A: Summary of Single-Family Development Regulations in ARCH Member Cities	29
Appendix B: Technical Assumptions for Middle Housing Financial Tool	32
Appendix C: Example Middle Housing Financial Tool Analyses	34

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Executive Summary

In recent years, policymakers in Washington State have increasingly recognized the connections between zoning and land use regulations, housing affordability and access, and racially disparate and exclusionary impacts of such regulations. In 2021, the State directed local jurisdictions to identify and take steps to undo these impacts, with additional 2023 statewide requirements imposed by HB 1110 to change single-family zoning districts, which have contributed to communities remaining exclusive and unaffordable to a majority of residents.

One-Time Opportunity to Expand Affordable Homeownership Opportunities

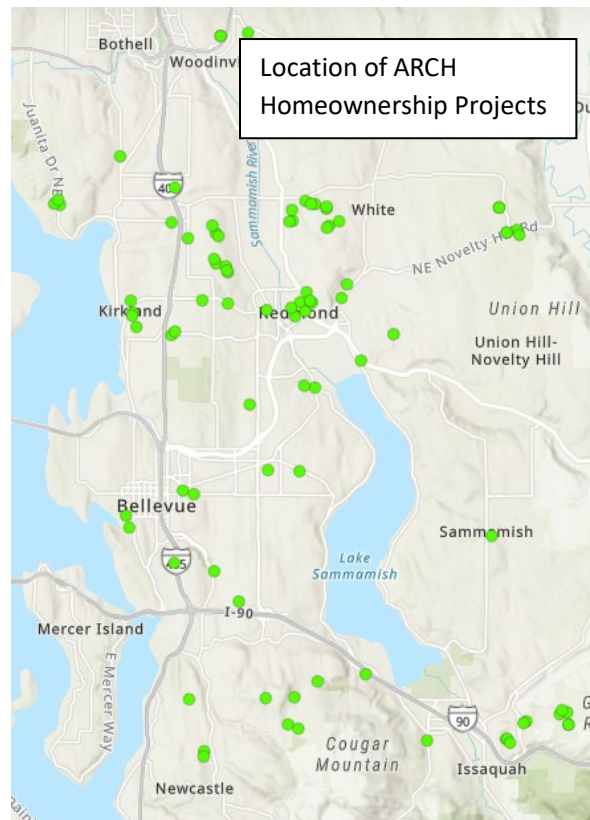
Low density single-family zoning currently encompasses the majority of residential areas in ARCH member jurisdictions, and development regulations in these areas that limit density and incentivize large single-family homes play an important role in the creation of extremely unaffordable housing outcomes. The result has led to the exclusion of most economic segments of the population from access to homeownership opportunities in East King County. Like other statewide mandates, HB 1110 has inherent challenges and does not offer a one-size fits all solution to housing affordability, but if implemented thoughtfully, it **offers a rare opportunity for local jurisdictions to promote greater housing diversity, affordability, and inclusion across their communities.** This is especially timely in light of state and countywide planning policies requiring all ARCH members to plan for and accommodate housing, in unprecedented numbers, affordable to middle- and lower-income households.

Building on a Successful Model

Local governments in Washington have long had authority to require affordable housing when increasing development capacity (i.e., density) for landowners, and HB 1110 extends that opportunity to middle housing. For more than three decades, ARCH has supported member jurisdictions to successfully develop and implement local affordable housing programs and policies through this approach, helping to create thousands of affordable rental units, and roughly 800 affordable ownership homes, all produced without direct public subsidy. These homes are stewarded by ARCH under a shared equity program model that has distributed the benefits of homeownership to thousands of households.

"ARCH helps create more equity and diversity in neighborhoods and truly helps create community by giving 'more affordable home choices' to us in a very inflated Seattle real estate market."

-Bellevue School District teacher and single parent who was struggling to find an affordable place to live near work before purchasing an ARCH home



Under HB 1110, all ARCH member cities will increase the development potential of most of their residential zoned areas. Therefore, **ARCH encourages cities to consider the long-term public benefit to capturing some of the value they create when rezoning for middle housing.**

This report outlines ARCH's analysis of the feasibility and potential to generate affordable homeownership opportunities and revenue for affordable housing with HB 1110 implementation, including specific policy recommendations and considerations to guide jurisdictions seeking to achieve affordability through middle housing implementation.

Key Findings

The following key findings are based on ARCH's analysis using a Middle Housing Feasibility Tool, interviews with a broad spectrum of industry stakeholders, and community input collected by organizations engaging with underrepresented populations:

1. East King County is an attractive market that is very likely to see development of middle housing types, but such housing is unlikely to be affordable to middle- and lower-income families if left entirely to market pricing.
2. Adding density in single-family areas creates significant value that can be captured for affordable housing through inclusionary requirements.
3. Cities can improve both the feasibility of middle housing and potential for affordable housing by structuring development standards to incentivize added density.
4. Middle housing is an important strategy to create affordable homeownership opportunities and meet the needs of diverse populations.

Policy Recommendations and Considerations

The following recommendations and considerations are based on the study analysis, key findings, and ARCH's extensive experience managing local affordable housing policies. If implemented, these recommendations would meaningfully contribute to meeting the housing needs of diverse segments of the community and expand access to housing and homeownership opportunities for low- and moderate-income households across East King County.

- 1. Jurisdictions should establish policies that require affordable housing when allowing additional density in single-family areas.**
 - a) Policies should prioritize on-site production of affordable homes whenever feasible and allow fee-in-lieu payments when the scale of projects is not sufficient to support an on-site unit.
 - b) Affordability requirements should be based on economic analysis of likely development prototypes and the added value of density in each jurisdiction.
 - c) Cities where middle housing is currently less profitable should adopt affordable housing requirements with pioneer incentives.

- d) Affordable housing policies should apply to all new development across impacted areas. Policies should generally not provide exemptions for development of single-family homes or detached accessory dwelling units, so as not to create disincentives to build middle housing.

2. Affordable housing policies should be structured to work with small scale developments, providing flexibility in the design of affordable homes and allowing fee-in-lieu options when necessary.

- a) Jurisdictions should consider flexibility in the typology, square footage and level of finishes of on-site affordable homes, but only with appropriate standards to ensure quality and comparability in the number of bedrooms and amenities like parking.
- b) Affordable housing policies should allow fee-in-lieu options when the required affordable housing would result in a fractional unit below a certain threshold.
- c) Fee-in-lieu rates should be predictable and updated on a consistent basis, with rates calculated on a square foot basis.
- d) Jurisdictions should consider tiering affordable housing requirements and (associated fees) based on whether housing is attached, detached or stacked, and evaluate if geographic variations are needed.

3. Jurisdictions should craft development standards and consider other tools to incentivize middle housing types over large single-family homes.

- a) Cities should tailor relevant development standards (such as lot coverage, impervious surface limits, setbacks, FAR limits, etc.) to create relatively lower development capacity for single-family development compared to middle housing development.
- b) Cities should consider allowing additional density beyond what is currently mandated in HB 1110, for example when population growth is expected to move a city into the next tier of requirements, or in areas where there have been significant public investments in transit and other infrastructure.
- c) Cities should consider specific incentives for affordable homes, such as impact fee waivers, or FAR bonuses for on-site affordable units.

Background

Summary of HB 1110 and Affordability Provisions

In April of 2023, the Washington State legislature adopted HB 1110, a bill intended to increase “middle housing” in areas traditionally dedicated to single-family detached housing.¹ “Middle housing” is a relatively new term used to describe a range of housing types that are compatible in scale, form, and character with single-family houses but offer more housing density than single-family homes. These can include duplexes up to six-plexes, townhouses, cottages, stacked flats, and courtyard apartments. To promote these housing types, HB 1110 established various rules for local jurisdictions, most significantly requiring **minimum residential densities from 2 to 6 units per lot**, with requirements falling into three tiers, as shown below.

HB 1110 Density Requirements

<i>Tiers</i>	<i>ARCH Cities by population size</i>	<i>Required Density - All Residential Lots</i>	<i>Required Density - Lots within 1/4 mile of a major transit stop</i>	<i>Required Bonus Density for Affordable Housing</i>
<i>Tier 1 Population of at least 75,000</i>	Bellevue Kirkland Redmond	4 units per lot	6 units per lot	6 units per lot if 2 units are affordable housing
<i>Tier 2 Population of at least 25,000 but less than 75,000</i>	Sammamish Issaquah Bothell Mercer Island Kenmore	2 units per lot	4 units per lot	4 units per lot if 1 unit is affordable housing
<i>Tier 3 Population of less than 25,000</i>	Newcastle Woodinville Clyde Hill Medina Yarrow Point Hunts Point Beaux Arts Village	2 units per lot	N/A	N/A (cities may adopt their own)

Density limits apply both to current lots and future lots created through subdivision; however, cities are not required to achieve the per unit density on lots after subdivision below 1,000 square feet.

To accommodate these densities, cities with populations above 25,000 must allow at least 6 of the defined middle housing types described in the bill and must allow zero-lot-line short subdivisions. Cities with populations below 25,000 may choose the number of types of middle housing to allow. Some exceptions are allowed, such as for the portion of lots that are designated with critical areas or their buffers, and areas at high risk of displacement. Cities may also request extensions based on inadequate infrastructure.

¹ HB 1110 and ESHB 2321, which amended HB 1110, are codified RCW 36.70A.635 through RCW 36.70A.638.

As an alternative to these requirements, cities may authorize the above densities on 75% of residential lots, subject to certain conditions, including that the excluded 25% includes all environmentally critical areas, and areas that are temporarily exempted due to infrastructure inadequacy.

The bill also includes other measures to ease development of middle housing, including:

- Allowing only administrative design review.
- Requiring the same permit and SEPA review processes as single-family homes.
- Eliminating off-street parking requirements within a half mile of a major transit stop.
- Barring requirements of more than 1 off-street parking space per unit on lots up to 6,000 SF, and 2 off-street parking spaces on lots greater than 6,000 SF
- Establishing a SEPA categorical exemption for removal of any other parking requirements for infill development.

Affordability Provisions

One of the core purposes of HB 1110 was to increase housing options that are more affordable to various income levels. The bill itself requires cities to authorize densities above the new minimums if a certain number of units are affordable, at 60% AMI for rental housing and 80% AMI for ownership housing for at least 50 years. Interviews and analysis conducted for this report have indicated these **voluntary bonus provisions as structured under the state law are not likely to entice most developers**, as the additional density for affordable units compared to the base required density may not offset the cost of the required affordable homes. In transit areas in Tier 1 cities, there are essentially no additional market rate units that must be allowed in exchange for the required affordable units. In Tier 2 cities and other areas of Tier 1 cities, there is 1 additional market rate unit allowed when 1 affordable unit is provided. In Tier 3 cities, there are no provisions to allow additional density in exchange for affordable units. Even in markets that could potentially support 1 out of 4 or 2 out of 6 units as affordable, the state

REDMOND

Redmond has the longest-running inclusionary zoning (mandatory affordability) program in Washington. With a few exceptions, every residential zone in the city requires 10 percent of new homes to be affordable at 80 percent AMI (or substitute one unit affordable at 50 percent AMI for any two required at 80 percent AMI). **In single-family zones, their code allows developers to provide the affordable units in duplex or triplex units.**

In the Willows/Rose Hill neighborhood, Redmond has a special Residential Innovative Neighborhood (RIN) zone that allows greater density for “size-limited” homes that meet certain dimensional qualifications. These have been used in some cases to meet affordability requirements.

Most of Redmond’s single-family zones allow cottage housing developments; the same affordability requirements apply here as in other housing types.

The number of affordable units is determined by rounding fractional numbers up the nearest whole number from 0.5.

Redmond accepts fees in lieu of affordable units but only when they find that the value is equal to or greater than the value of on-site affordability and when an affordable housing project in the city is ready to accept funding. The city has accepted in-lieu fees from only three projects to date.

structure reduces a developer's economic incentive by bringing the base allowed density up to 2, 4, or 6 units per lot.

Importantly, **the bill also allows jurisdictions to implement their own affordable housing requirements**, providing that "if a city has enacted a program under RCW 36.70A.540, the terms of that program govern to the extent they vary from the requirements of this subsection," and a city is not precluded from requiring any development "to provide affordable housing, either on-site or through an in-lieu payment, or limit the city's ability to expand such a program or modify its requirements."

Guidance from the Department of Commerce has also affirmed that separate affordable housing requirements can be established in addition to those called for in HB 1110, and that any community can choose to require affordable housing, including Tier 3 communities. This provides a critical opportunity for local jurisdictions to calibrate affordability policies in ways that are more likely to result in successful development of affordable homes.

Accessory Dwelling Units (ADUs)

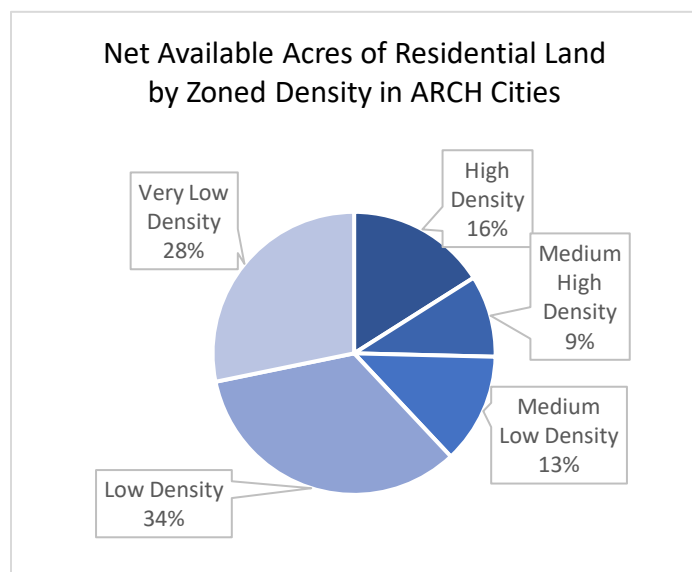
Several stakeholders interviewed for this study pointed to the potential combined impact of both HB 1110 and HB 1377, which established requirements for cities and counties within urban growth areas to allow at least two accessory dwelling units in addition to the principal residential unit. HB 1377 established a range of other requirements, including:

- ADUs may be attached or detached.
- No size limits below 1,000 gross square feet.
- No dimensional standards that are more restrictive than the principal unit.
- Impact fees limited to no more than 50% of the principal unit.
- No requirements for owner occupancy.
- No required street improvements.

Depending on how local jurisdictions accommodate these requirements, ADUs could be another opportunity for greater density in single-family areas, potentially adding homeownership opportunities as builders utilize condominium structures to create separate ownership of ADUs.

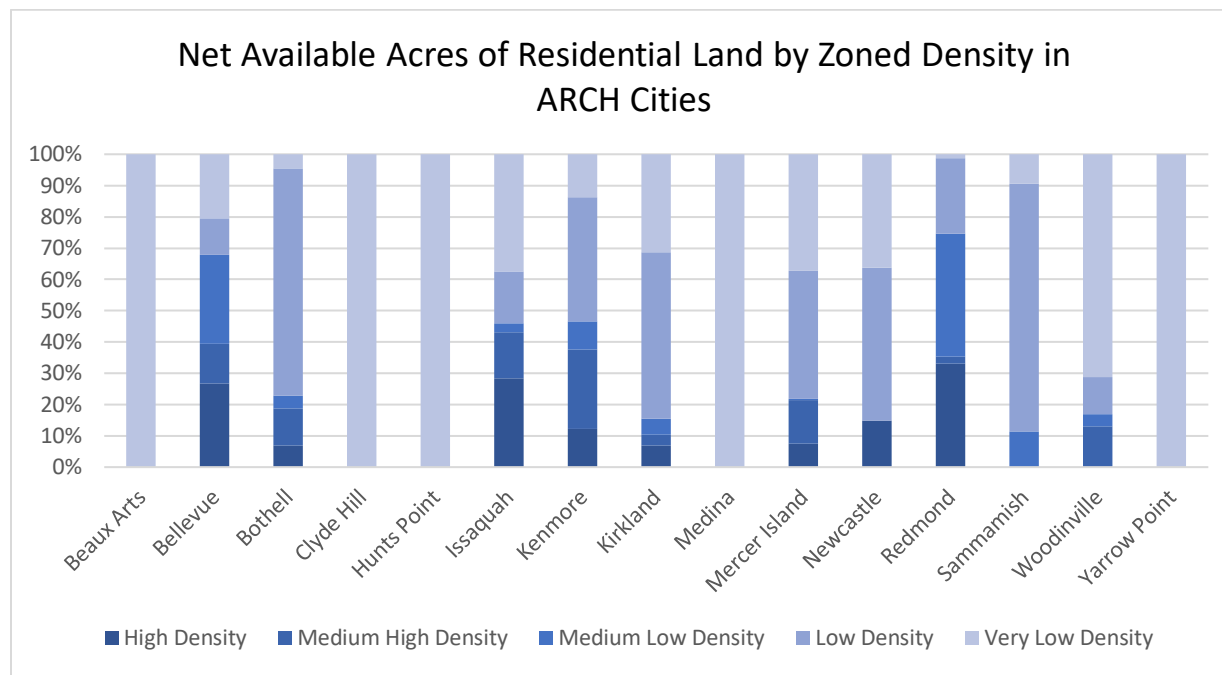
Current Single-family Zoning Context in East King County

Prior to HB 1110, ARCH member cities had established a wide range of requirements for development in single-family zones. Most cities have multiple single-family zoning districts, ranging from three to ten different zones, each with their own set of development standards. According to the most recent King County Urban Growth Capacity Report, **most of the net available acreage zoned for residential uses in ARCH member cities consists of very low- or low-density zoning.** Consequently, these areas present significant potential for “infill” growth.



Zoned Density	Zoned Units per Acre
Very Low	<4
Low	4 - 10
Medium Low	10 - 24
Medium High	24 - 48
High	48 +

Source: 2021 King County Urban Growth Capacity Report



Along with basic density limits, most jurisdictions impose a range of other requirements for residential development in single-family zones. A summary of these regulations in the ARCH cities that participated in this study is provided in [Appendix A](#). Generally, these include minimum lot sizes, maximum lot coverage and maximum impervious surface limits; maximum building height; front, rear, and side setbacks; minimum lot width and minimum parking requirements. A smaller number of jurisdictions also have a maximum floor area ratio (FAR) that limits total building square footage.

Developments are also subject to local impact fees, with nearly all cities imposing traffic/transportation and school impact fees, and most collecting park impact fees. A small number collect other fees for police, fire, general government and bike/pedestrian impacts. Infrastructure requirements vary across jurisdictions, with some driven by utility districts rather than city governments. These are often site-specific depending on the availability and capacity of existing infrastructure in the area.

Collectively, density limits and other requirements in single family zones have played an important role in creating housing that is largely unaffordable to middle- and lower-income families. Although most King County homes are owner-occupied, the median price of home sales closed in King County in May 2024 was \$890,000 according to the Northwest Multiple Listing Service, requiring an income roughly 90 percent higher than the county-wide median income. There have been some exceptions where cities have offered bonus programs that incentivize affordable housing or cottage development. The City of Kirkland is notable in having already adopted middle housing regulations that allow cottages, duplexes and triplexes throughout the city, and modifying restrictions to encourage smaller, more dense housing types. These regulations have already yielded meaningful changes in how single-family properties are being redeveloped.

KIRKLAND

The City Council adopted code amendments in 2020 that appear to have stimulated a significant increase in construction of cottage housing in Kirkland. In addition to expanding the geographic area where these are permitted, major changes include replacing a special review process with a simple building permit application, limiting the floor area of the entire project instead of a maximum 1,000 sq ft per unit, and reducing parking to one space per unit near frequent transit service. Cottage permits rose from 10 in the four years before the amendments to 155 from 2021 – 2023. An existing provision requires affordability in projects of 10 or more cottage units (with the number and affordability varying by the total number of new homes) but this has not resulted in any affordable units.

Kirkland also requires affordability in most “multifamily” zones where developers have built middle housing types. Ten percent of the units must be affordable in all projects creating at least four new homes. **When 10 percent results in a fraction less than 0.66 (for example, 10 percent of four units equals 0.4 affordable units), the builder may pay a fee for the fractional unit instead of providing an affordable home. ARCH calculates the fee for each project as the difference between constructing and selling affordable housing on that site; as a result, the fees are sensitive to land and site development costs of each location.** Kirkland has collected \$5.2 million in lieu of 19.2 fractional units and deposits those fees into the ARCH Trust Fund. The code does not allow payment in lieu of whole affordable units.

A Regional Coalition for Housing (ARCH) and Models for Affordable Homeownership

A Regional Coalition for Housing (ARCH) is a partnership of East King County jurisdictions formed to take cooperative action on housing goals and policies, as well as investment of public resources that leverage private sector efforts and funding. For more than three decades, ARCH has supported member jurisdictions to successfully develop and implement local affordable housing programs and policies (often described as inclusionary or incentive programs). These efforts have collectively generated thousands of affordable and market rate housing units blended into mixed-income rental and for sale developments.

Affordable Homeownership Model

One of ARCH's unique successes has been its early adoption of a shared equity homeownership model that preserves long-term affordability, similar to a community land trust. Shared equity programs use a range of legal structures (in ARCH's case, a resale covenant) to balance the dual goals of wealth-building with preserving long-term affordability of home prices. This is achieved through the use of resale restrictions that limit the growth of future sale prices to ensure equity generated for current homeowners is balanced with affordability and equity gains for future buyers. ARCH has implemented a standard resale covenant and centralized program administration that has brought affordable homes created across several jurisdictions under one unified program.

ARCH's homeownership program has created close to 800 homes, all produced without direct public subsidies. The program has provided an affordable entry point to homeownership for thousands of low- and moderate-income households, as homes are re-sold to eligible buyers. A variety of policies in local jurisdictions have created a diverse pool of homes, with policies targeting incomes ranging from 50% AMI up to 120% AMI, and housing types including condominiums, townhomes, duplexes, triplexes, cottages and traditional single-family homes.

"Serendipitously, I found a lovely, safe, perfectly suited condominium in Issaquah that under any other circumstances I could not have afforded, but thanks to the ARCH program this will be my home for the rest of my life. I am ever so grateful to ARCH."

-Senior who moved out of state and wanted to return to live on the Eastside



"Living in my ARCH home has given me a peace of mind, such a safe neighborhood for my daughter, with wonderful neighbors."

-Single father in Redmond who was looking for a better home to raise his family and more stable housing costs than their previous rental

ARCH has also provided direct funding to subsidized homeownership developments, however this strategy has produced far fewer homes, as land values in East King County create a major barrier for nonprofit developers, and public funding programs for homeownership are extremely limited compared to federal, state and local funding programs for low-income rental housing.

There is a plethora of shared equity programs across the nation, with ARCH's program serving as a valuable model for how multiple jurisdictions can collaborate to achieve greater scale and impact. Individual jurisdictions may also have opportunities to partner with a local community land trust or other nonprofit partner to steward affordable homes.

"After going through the necessary training, and finding a home that fulfilled my needs that improved my budget, I was able to become a home owner once again. I have recommended the ARCH program to families who are struggling to find a way to afford a home in the King County corridor, and it has given them hope to afford to own a home themselves."

- Single parent in Bellevue who lost housing after a separation and was able to stay in the community and keep children in their schools after buying an ARCH home

Homeownership Demand

The demand for more affordable homeownership opportunities is overwhelming in East King County, which is home to some of the most expensive real estate markets in the nation. According to Zillow, in 2024 there were 18 cities in Washington where the typical home value was \$1 million or more, and 16 of those were located in East King County—this includes all of ARCH's member jurisdictions except for Kenmore, which is also approaching similar home prices. By contrast, ARCH home prices currently range from roughly \$200,000 up to \$700,000, with prices targeted to households earning as low as 50% AMI and up to 120% AMI.

Impact of Affordable Homeownership

The benefits of homeownership have been well-documented, from stability and mental health benefits to a host of financial benefits and generational wealth building. These benefits are amplified further when homeownership is a path to accessing neighborhoods near jobs, quality public schools and other critical public services. Affordable homes are also instrumental in preventing displacement and enabling families to remain near community supports.

ARCH data shows lower-income households are overwhelmingly interested in achieving homeownership, with three out of four of the roughly 9,000 households seeking housing options through ARCH desiring homeownership. The program has had a significant impact on thousands of households, helping to create financial stability, equity and other benefits, but **more affordable homes are needed to meet this overwhelming need.**



"We have lived in the Redmond area for many years. After selling our family home, we looked hard to find a new home where we could successfully age-in-place. Thanks to ARCH, we believe we found it... we were able to stay in the Redmond area, close to the people and the services that we need."

-Senior couple looking for a way to age in place near existing community supports

"We were living in the highlands community and it was the most important factor for our family to stay in the community that we have built support system. I believe that is important to many people from my experience as well."

-Low-income family with children who were

Middle Housing Community Engagement Efforts

In 2022, several ARCH member jurisdictions partnered with Eastside for All and many more community-based organizations (CBOs) to assist with engaging underrepresented populations on the topic of adding “middle housing” in neighborhoods that currently allow only single-family or similar residential housing types. The project was made possible through planning grants from the Department of Commerce to support cities in implementing middle housing. Five ARCH member cities took advantage of these grants, including Bellevue, Bothell, Kenmore, Newcastle, and Redmond. The project identified a diverse set of populations whose voices and perspectives have not historically been part of public planning processes in East King County, including:

- Renters
- BIPOC (Black, Indigenous, and other people of color) individuals, families, and communities
- Immigrant and non-English-speaking communities, including cultural communities from the top-spoken languages in East King County
- Low-, very low-, and moderate-income persons, including people who work in East King County but live elsewhere
- Religious minority communities
- People experiencing housing instability and homelessness

To engage these populations, Eastside for All partnered with a broad set of CBOs to co-create the engagement process, translate materials and conduct direct outreach. The process was designed to inform participants about middle housing and collect information on housing experiences, needs and preferences. In total, CBO partners collected responses from over 650 participants, including 44% who completed surveys in languages other than English, 20% who reported having experienced bias or discrimination in housing, and 46% having previously experienced displacement due to high housing costs. The majority of respondents worked in East King County.

“We are [a] hardworking family, and it pains me to say that we still can't afford to buy a house in the place we want to live in because of the outrageously high housing markets.”

-Employed Bothell renter interviewed for Middle Housing engagement report

The engagement process and results are documented in a report titled “Missing Middle Housing: Tell Your City.” Key takeaways include:

- 89% of participants who do not yet own a home aspire to homeownership.
- Participants showed strong overall support for middle housing.
 - Support was even stronger among non-homeowners and participants with incomes below \$200k.
- High housing costs have a broad set of impacts, from displacement pressures to impacts on employers struggling to find employees, etc.
- Many participants were interested in continuing to be engaged on middle housing.

Based on review of the household incomes of participants in the study, **many BIPOC and lower-income families who aspire to homeownership will need affordable opportunities to achieve this milestone and would welcome middle housing opportunities.** Without these affordable entry points, homeownership will remain out of reach for a broad spectrum of populations. A full copy of the report is available on the ARCH [website](#).

Approach and Analysis

Key Policy Questions for HB 1110 Implementation

In early 2024, ARCH convened a work group of member jurisdictions to study key policy questions that would address how HB 1110 implementation could promote housing affordability. City staff from ten different jurisdictions participated in the work group, including Bellevue, Bothell, Issaquah, Kenmore, Kirkland, Medina, Mercer Island, Newcastle, Redmond, Sammamish and Woodinville. Work group members provided data on existing regulatory requirements, the potential scope for implementation of HB 1110 in each jurisdiction, and key policy questions the study should aim to answer. These included:

- **How can cities update zoning codes for middle housing and capture some value for affordability?**
 - What level of affordability would be supported by new development incentives for middle housing?
 - When should a fee be allowed rather than on-site production, and how should the fee be designed and administered?
 - Should exemptions or reduced requirements be considered for some developments, and how would cities avoid unintended consequences?
- **What additional incentives could jurisdictions consider to help improve overall feasibility of middle housing development?**
 - Should dimensional standards (e.g., height limits, lot coverage, etc.) be changed, and how does that affect feasibility?
 - What standards or flexibility could be included with requirements for affordable homes to make them more feasible to produce?
- **How should jurisdictions think about policy options in a changing housing market?**
 - Can jurisdictions adopt affordable housing requirements if current market conditions don't yet support middle housing?
 - Should jurisdictions consider phasing in requirements or offering "pioneer" provisions to encourage near-term production?

Analysis and Methodology

To help answer key policy questions, ARCH and its consultant team created a flexible pro forma financial tool ("Middle Housing Financial Tool") to analyze the financial feasibility of a range of middle housing prototypes and test different policy options. Given that most of the single-family zoned land in east King County has been developed, ARCH staff and its consultant team focused the analysis on lots with existing single-family homes. The tool analyzes key development cost and revenue assumptions for each ARCH jurisdiction, resulting in an overarching assessment of the feasibility of various middle housing prototypes and the potential to support affordable housing policies that capture excess value.

The critical assumptions fall into three distinct categories: (1) site acquisition cost; (2) new construction costs; and (3) future sale price of the newly constructed middle housing prototypes. The following

summarizes the methodology for each critical assumption. A complete table of technical assumptions is provided in [Appendix B](#).

Site Acquisition Cost

To estimate site acquisition cost, the team compiled and analyzed recent sales of older homes that are prime for redevelopment into middle housing typologies in each jurisdiction. These redevelopment sites were identified using three criteria, including lot size under 1.0 acres, built before 1980, and sold in the last 12 months. For most jurisdictions, this search was further refined by setting a maximum sale price of \$1.5 million, recognizing sites above this sale price are unlikely to support redevelopment. Based on this analysis, the typical site acquisition of a single-family lot that may support future middle housing prototypes ranges from \$3.4 million to \$9.2 million per acre (or \$80 to \$210 per site square foot), with an average of roughly \$5.5 million per acre (\$125 per site square foot) in all ARCH jurisdictions.

New Construction Cost

Based on stakeholder interviews and a review of publicly available information, the Middle Housing Financial Tool estimates the cost of building the new middle housing prototypes. This includes the cost to prepare the site for vertical construction, hard costs, parking costs, soft costs, impact fees, financing costs, and developer fees. Based on interviews, the most significant costs associated with these prototypes is the hard cost, which differs by middle housing prototype, including unique costs to deliver detached single-family homes (i.e., cottage style housing), attached single-family homes (i.e., duplex, townhomes, etc.), and stacked flats (i.e., six-plex). In addition, stakeholders noted hard costs are dependent on the strength of the market and targeted market. For example, in markets where home purchasers are expected to pay well over \$1.0 million for a unit, buyers expect a higher quality of finishes and unit production, leading to higher hard costs. Other costs, such as site preparation, soft costs, financing costs, and developer fees are fairly similar across all jurisdictions. Impact fees, however, are unique to each jurisdiction and are input into the model based on the various fee schedules, which range from \$5,000 per unit to \$45,000 per unit.

Future Sale Price

To determine the sale prices of new middle housing prototypes, the consultant team compiled recent sales of comparable developments throughout the various ARCH jurisdictions. Based on an analysis of similar prototypes, the expected future sale prices are broken down into the three residential development typologies, including detached single-family units, attached single-family units, and stacked flat units. In order to incorporate the market analysis findings into the Middle Housing Financial Tool, the team summarized the typical sale prices on a price per square foot basis, allowing the sale price to differentiate based on different unit sizes. According to the analysis, sale prices vary significantly throughout East King County, from approximately \$400 to \$1,200 per building square foot. The lower sale prices are typically associated with higher-density stacked flat units in markets with stronger demand for single-family detached units. Conversely, the higher expected sale prices are associated with core markets with strong demand for all housing types.

In addition to compiling the critical development cost and sales revenue assumptions for each East King County jurisdiction, the Middle Housing Financial Tool determines the baseline financial feasibility of each middle housing prototype. Financial feasibility is determined by whether the project is able to meet a 15

percent investor profit margin, excluding the one-time developer fee. This profit threshold came from developer and stakeholder interviews as the minimum required profit to attract developers and investors to deliver middle housing prototypes.

The Financial Tool then assumes that additional project profit above the 15 percent threshold can be captured in the form of affordable housing policy. The Tool estimates the percentage of units that can be affordable as part of the middle housing prototypes sufficient to capture the projected excess project profit. In many cases, this results in a fractional unit rather than one full unit. For these cases, the Financial Tool results in a maximum “in-lieu fee” amount that can be charged that is associated with the fractional unit requirement.

Summary of Stakeholder Feedback

To better understand current market conditions and inform the financial modeling, ARCH and its consultants interviewed key real estate industry stakeholders. Interviews were conducted with representatives from small and large development firms, architects and realtors with knowledge of East King County.

Middle Housing Demand

The high price of homes and quality of life in Eastside communities is driving very strong demand for less expensive ownership products. While some builders continue to construct multimillion-dollar single-family homes, the market for these homes is relatively limited compared to smaller ownership products at a lower price point, which translate to a larger demand pool and faster selling times. Based on the sustained high demand and limited supply in this region, stakeholders were overall very optimistic that there will continue to be a large pool of buyers for middle housing.



Small infill “middle housing” development is already happening throughout the Eastside. There have been enough of these projects in the area to prove that they can be done profitably and that consumers are interested in buying these denser products in formerly single-family areas. While most stakeholders indicated strong demand for middle housing ownership units, none suggested that middle housing rental projects would be feasible at this time.

Product Types

Developers are currently purchasing older single-family homes and redeveloping the lots into multi-unit configurations. Cottage developments are the most common and possibly the most profitable development type. Developers have been successful in taking advantage of Kirkland's Middle Housing zoning to pursue these projects. In other cases, developers are using ADU legislation to build a home plus one or more detached ADUs. Some projects have involved subdividing larger existing lots to enable up to 6 units where only one would have been possible previously. There have also been a number of projects involving developers consolidating several adjacent single-family lots into larger sites, typically for townhome development.



In cases where subdivision of lots is not permitted, some developers are using condominium structures for land to enable separate sale of detached cottage type homes. There was general agreement that, in the current market, there is stronger demand for detached cottages than townhomes. Several developers indicated that townhomes were more expensive or more complex to build.

There appears to be relatively little current interest in developing stacked flat condominiums. Developers indicated that these units can cost more to build than cottages or townhomes but generally sell for less. These buildings have additional costs related to fire rating and soundproofing and face significant insurance and liability issues. Outside of the more walkable and transit accessible areas, developers felt that stacked units would be rare.

Available Sites

There was agreement that Eastside communities have plenty of appropriate sites for small infill middle housing projects. Redevelopment of single-family lots is very sensitive to the sale price of the existing home, but it is possible to find older homes for sale at prices which are low enough that the home can be demolished and 3-6 new units can be profitably built on the site.

None of the stakeholders indicated that broad community opposition to density was a significant barrier to these projects and some indicated that there was increasing public support for infill development. While a vocal minority can occasionally present challenges, overall stakeholders felt that builders are motivated to build products that fit into existing neighborhoods, and that support will grow as policy-makers experience real examples of middle housing.

The Importance of Infrastructure

Infrastructure costs were identified by nearly all of the developers as a key concern. Every jurisdiction has rules regarding the need to upgrade sewer and water lines, improve stormwater management and rebuild sidewalks and curbs or plant street trees. These rules and their associated costs vary significantly between jurisdictions and this difference can drive what type of redevelopment is feasible. Some jurisdictions require developers to upgrade infrastructure for a whole block or other area when they build on one lot. Some jurisdictions have complex "latecomer fee" systems that allow builders who make these initial

investments to recoup fees from developers of later projects that are able to take advantage of these upgrades. Several developers mentioned that more public investment in this infrastructure could facilitate more infill redevelopment.

Other Barriers

Developers identified a number of barriers that constrain development of these projects including high construction costs, zoning restrictions, the cost of condo liability insurance, and building and fire codes. Some expressed a preference for form-based codes, and advocated for flexibility with site planning, parking and lot splitting. Developers also identified high impact fees and permitting times as barriers to development in some jurisdictions, with some cautioning that new middle housing regulations should not come with additional reviews that increase the overall time to obtain a permit. Private restrictions imposed by HOAs were also noted as barrier, along with high interest rates and overall access to financing.

Affordable Housing Requirements

For the most part, local industry stakeholders were supportive of the need for jurisdictions to require affordable housing. However, for small middle housing projects, there was a widespread sense that requiring onsite affordable units could easily prevent projects from moving forward. Most people agreed that above some number of units, on-site affordable units would not be prohibitively expensive but below that number there was a risk that the cost of compliance could make multi-unit projects infeasible leading developers to build large single-family homes instead.

Every stakeholder interviewed was supportive of the idea of allowing payment of a proportional in-lieu fee for smaller projects. Some developers would prefer a fee option in every case while others felt that it was only small projects that would need this option. Several stakeholders expressed the need for clearer and more transparent methods for setting any fees. Developers need to be able to predict the exact fee level early in the process. Several stakeholders stressed the value of flexibility for certain design or regulatory standards in order to make on-site affordable units more feasible. For example, if a project could include an onsite affordable unit that was somewhat smaller than the other units on the site, it would be easier to include the affordable unit.



Findings, Policy Recommendations and Considerations

Findings

The following findings are based on the collective set of interviews and economic analysis conducted for this study, as well as input from the middle housing engagement report.

1. East King County is an attractive market that is very likely to see development of middle housing types, but such housing is unlikely to be affordable to middle- and lower-income families.

Analysis of middle housing developments already being built in East King County suggests that the expected prices of such homes, while below that of new construction single-family homes, will largely be unattainable for low, moderate and even middle-income households. Estimated per square foot sale prices vary by jurisdiction and type of housing, together with the corresponding household income needed to afford such prices, as shown in the chart below.

Estimated Sale Prices and Household Income Needed to Afford Market Rate Middle Housing by City and Housing Type

		<i>Detached (Cottage/DADU²)</i>	<i>Attached (Townhouse/Rowhouse)</i>	<i>Stacked (Apartments/Flats)</i>
<i>Medina Clyde Hill Hunts Point Beaux Arts Village Yarrow Point</i>	Estimated Price Range	\$1.6 to \$2.0 million \$900 - \$1200 / SF	\$1.4 - \$1.5 million \$800 - \$900 / SF	\$1.2 to \$1.3 million \$1100 - \$1200 / SF
	Household Income	\$500,000 / year 400% AMI	\$400,000 / year 330% AMI	\$350,000 / year 285% AMI
<i>Kirkland Mercer Island Bellevue Redmond</i>	Estimated Price Range	\$700 - \$800 / SF \$1.2M - \$1.5M	\$1.1 - \$1.2 million \$600 - \$750 / SF	\$650k - \$1.0 million \$600 - \$950 / SF
	Household Income	\$375,000 / year 310% AMI	\$325,000 / year 265% AMI	\$235,000 / year 190% AMI
<i>Sammamish Issaquah Woodinville Newcastle Kenmore Bothell</i>	Estimated Price Range	\$475 - \$650 / SF \$850k - \$1.2M	\$450-\$550 / SF \$750k - \$1.0M	\$450 - \$550 / SF \$500k - \$600k
	Household Income	\$295,000 / year 240% AMI	\$250,000 / year 200% AMI	\$160,000 / year 140% AMI

**Note: The household income ranges shown above are based on a typical buyer profile, including a downpayment of 10%, mortgage interest rate of 6.0% (below current rates), and expenditure of 30% of gross household income on housing expenses.*

² Detached accessory dwelling unit.

Unfortunately, the more affordable stacked housing types are also less profitable and therefore less likely to be developed compared to cottages and townhomes. The same dynamics exist across geographies, where more affordable cities may be less likely to see redevelopment compared to cities that command higher prices.

2. Adding density in single-family areas creates significant value that can be captured for affordable housing through inclusionary requirements.

ARCH's Middle Housing Financial Tool estimates that adding density in single-family zones in East King County creates the potential to support significant affordable housing requirements in many jurisdictions, ranging from between roughly 5% to 25%. In several cases, the estimated requirement would be adequate to support on-site production of homes affordable at 80% AMI. These results are shown below in general ranges, understanding that specific percentages are sensitive to key inputs that will be determined by local policy choices. [Appendix C, Example Middle Housing Financial Tool Analyses](#), provides an illustration of how the tool generated these policy potential ranges.

Affordable Housing Policy Potential by Jurisdiction and Housing Type

Tiers	ARCH Cities (by population size)	Detached Single-Family (i.e. Cottage Style)	Attached Single-Family (i.e. Duplex, Townhome, etc.)	Stacked Flats
Tier 1 Population of at least 75,000	Bellevue Kirkland Redmond	Moderate High Moderate	High High Moderate	High High Low
Tier 2 Population of at least 25,000 but less than 75,000	Sammamish Issaquah Bothell Mercer Island Kenmore	High Moderate Low High Low	Moderate Moderate Low High Low	n.a. n.a. n.a. n.a. n.a.
Tier 3 Population of less than 25,000	Newcastle Woodinville Clyde Hill Medina Yarrow Point Hunts Point Beaux Arts	Low Low High High Moderate High High	Low High High High High High High	n.a. n.a. n.a. n.a. n.a. n.a. n.a.

Supportable Affordable Housing Policy Requirement	
Category	Percent of Affordable Units at 80% AMI
Low	0-5%
Moderate	5-15%
High	15% or More

3. Cities can improve both the feasibility of middle housing and the potential for affordable housing by structuring development standards to incentivize added density.

The results of the Financial Tool demonstrate the importance of structuring local development standards to incentivize added density and support affordable housing. As noted above, such standards influence the value of additional density, in some cases making the difference in whether a project can support inclusion of an affordable unit on-site. In the example below, allowing an FAR of up to 1.0 enables a denser 6-unit development that can support inclusion of one home affordable at 80% AMI, while a 4-unit development with a maximum 0.7 FAR means the project could only support payment of a fee in-lieu.

<u>Middle Housing Scenarios –</u>	Single-family	Middle Housing	Middle Housing
<u>Example City</u>	Low Density	Townhouses (4-pack)	Townhouses (6-pack)
Development Program			
Number of Units	1	4	6
Total Site Size (SF)	10,000	10,000	10,000
FAR		0.64	0.96
Total Project SF	4,500	6,400	9,600
<i>Average Unit Size (SF)</i>	<i>4,500</i>	<i>1,600</i>	<i>1,600</i>
<i>Average Number of Bedrooms</i>	<i>4.0</i>	<i>3.0</i>	<i>3.0</i>
Total Parking Spaces	2	5	8
<i>Spaces per Unit</i>	<i>2.00</i>	<i>1.25</i>	<i>1.33</i>
Feasibility Analysis			
Development Cost			
Site Acquisition Cost	\$1,193,756	\$1,193,756	\$1,193,756
Construction Costs	\$1,482,031	\$2,010,650	\$3,148,625
Developer Required Profit Threshold	\$393,166	\$469,533	\$633,931
Total Development Cost	\$3,068,952	\$3,673,938	\$4,976,312
<i>Cost per Unit</i>	<i>\$3,068,952</i>	<i>\$918,485</i>	<i>\$829,385</i>
Net Sales Proceeds	\$3,142,800	\$3,973,120	\$5,959,680
<i>Sale Price per Unit</i>	<i>\$3,142,800</i>	<i>\$993,280</i>	<i>\$993,280</i>
Residual Project Profit	\$73,848	\$299,182	\$983,368
<i>Residual Profit per Unit</i>	<i>\$73,848</i>	<i>\$74,795</i>	<i>\$163,895</i>
Net Economic Benefit of Upzoning	<i>n.a.</i>	\$225,334	\$909,520
Affordable Housing Policy			
Affordable Sales Price			
Market-Rate Unit Price	\$3,142,800	\$993,280	\$993,280
Affordable Unit Sale Price (80% AMI)	n.a.	\$364,922	\$364,922
Difference per Unit	n.a.	\$628,358	\$628,358
On-site Feasible?	n.a.	In-lieu Fee Only	Yes











"The ARCH is a life change program for me... As an immigrant and veteran, owning a home means a lot to my family and me. I hope this program can get more funding to help more people... I wish I could someday help other people own their first home, just as ARCH has helped me."

- Immigrant family with young children who were getting priced out of their home in Issaquah and were living with parents to support themselves.

4. Middle housing is an important strategy to create affordable homeownership opportunities and meet the needs of diverse populations.

ARCH data and broader input collected in recent community engagement efforts demonstrate an overwhelming demand for more affordable homeownership opportunities across diverse segments of the community. The market analysis conducted for this report shows that a household must currently earn at least 150% to 200% AMI to afford a typical townhome in East King County, or between \$200,000 and \$315,000 annually. Leveraging middle housing development to create affordable homes will create opportunities for more diverse types of households earning low and middle incomes, as illustrated in the examples below.

Homeownership Affordability Spectrum Examples (Bellevue-above; Kenmore-below)

				
Market Rate Single Family Home 4bd/2.5ba	Market Rate Cottage (Small Detached) 3bd/2ba	Market Rate Townhouse (Attached) 3bd/2.5ba	Affordable ARCH Condominium 3bd/3.5ba	Affordable ARCH Townhouse 3bd/3.5ba
\$2,935,000 Income needed: \$800k (465% AMI)	\$1,665,000 Income needed: \$450k (300% AMI)	\$1,125,000 Income needed: \$315k (200% AMI)	\$600,000 Income needed: \$170k (110% AMI)	\$440,000 Income needed: \$140k (90% AMI)
				
Market Rate Single Family Home 3bd/2.5ba	Market Rate Townhouse Attached 2bd/2.5ba	Market Rate Condo Multifamily 1bd/1ba	Manufactured Home on Leased Land 2bd/2ba	Affordable ARCH Townhouse 3bd/2ba
\$1,025,000 Income needed: \$300k (195% AMI)	\$720,000 Income needed: \$200k (150% AMI)	\$600,000 Income needed: \$185k (170% AMI)	\$170,000 plus lease Income needed: \$95k (70% AMI)	\$385,000 Income needed: \$110k (70% AMI)

Policy Recommendations and Considerations

The following policy recommendations and considerations are intended to provide ARCH member jurisdictions with guidelines about how to maximize affordability through implementation of HB 1110. The recommendations are based on the findings above, as well as ARCH's extensive experience managing local affordable housing policies. If implemented, these recommendations would increase the availability of affordable homeownership opportunities and resources for affordable housing across East King County.

These recommendations are intended to provide a starting point for further discussion and development of options that can be tailored at the local level. ARCH staff are available to collaborate with local jurisdictions to craft policy and utilize the tool to generate specific policy and fee proposals.

1. Jurisdictions should establish policies that require affordable housing when allowing additional density in single-family areas.

a. Policies should prioritize on-site production of affordable homes whenever feasible and allow fee-in-lieu payments when the scale of projects is not sufficient to support an on-site unit.

Requiring on-site affordable homes remains the best and sometimes only strategy for a jurisdiction to create affordable homeownership opportunities. When both options are feasible, including affordable homes on-site is preferred over collection of fees. This approach produces housing faster and increases housing choice by opening up access to neighborhoods that would otherwise exclude low-, moderate-, and middle-income households. However, in cases where an on-site unit is not feasible, fee-in-lieu payments can help support other affordable housing options, such as rental housing that serves very low-income households. ARCH has a long and successful track record of assisting its members to invest local funding into a variety of affordable housing types, providing a ready vehicle to deploy fee in-lieu dollars.

b. Affordability requirements should be based on economic analysis of likely development prototypes and the added value of density in each jurisdiction.

Based on a preliminary analysis, ARCH cities have the potential to adopt policies that require between 5% and 25% affordability at 80% AMI. These percentages would differ if the target income was reduced or increased. The level of requirements that can be supported with added density is sensitive to policy choices at the local level that influence the scale and profitability of middle housing. Therefore, specific recommendations should be calibrated as jurisdictions begin to define local standards for middle housing. [Appendix C](#) provides example analyses for Tier 1, 2 and 3 cities.

c. Cities where middle housing is currently less profitable should adopt affordable housing requirements with pioneer incentives.

Under Washington state law, jurisdictions do not have the option of adopting affordable housing requirements after land use bonuses are already granted, meaning there is "one bite at the apple." ARCH encourages cities to carefully consider the long-term policy implications of these decisions. Some cities adopting mandatory affordability for the first time have included "pioneer incentives," designed to reward the first one or two projects that agree to build with less affordability. Some pioneer provisions have exempted an initial number of projects, while others reduced the affordable housing requirement for a limited period of time. When properly structured, this can

be an effective strategy to establish a long-term policy in areas where development potential is not yet proven. Given trends in real estate values in East King County and Washington state more broadly, it is reasonable to be optimistic that the added value of development potential will continue to grow, and the profitability of redeveloping single-family homes will increase over time. Having such policies in place will ensure that affordable housing requirements are factored into land valuations, a feature that can also mitigate displacement impacts of new zoning by dampening the rapid growth in real estate values.

- d. **Affordable housing policies should apply to all new development across impacted areas. Policies should generally not provide exemptions for development of single-family homes or detached accessory dwelling units, so as not to create disincentives to build middle housing.**

Exempting developments below a certain number of units from affordable housing requirements is undesirable because it continues to incentivize less density, further tipping the scale toward construction of larger, more expensive single-family homes. Exemptions may also create unintentional loopholes that developers can use to avoid requirements, such as the segmenting of larger projects into multiple permits, or the classification of cottages as ADUs. If jurisdictions do consider exemptions, these should be limited to improvements where ownership can't be divided from the principal home and sold to another buyer. This could be implemented through a restriction that is recorded on title, for example.

- 2. **Affordable housing policies should be crafted for small scale developments, providing flexibility in the design of affordable homes and allowing fee-in-lieu options when necessary.**

- a. **Jurisdictions should consider flexibility in the typology, square footage and level of finishes of on-site affordable homes, but only with appropriate standards to ensure quality and comparability in the number of bedrooms and amenities like parking.**

Allowing affordable homes to differ in typology (e.g., duplex vs cottage), square footage and finishes compared to market rate homes provides additional cost savings for developers seeking to reduce the cost

AFFORDABLE UNIT SIZES AND TYPES

State law authorizes cities to create affordable housing incentive programs (including mandatory affordability) with certain provisions. Among those is that the affordable units must have “a range of sizes comparable to those units that are available to other residents.” Most ARCH members’ codes provide ways to implement this while allowing some flexibility to the benefit of developers.

Kirkland’s zoning, for example, stipulates that **affordable units can be smaller than market rate units in the project having the same number of bedrooms, if approved by the planning director, provided that “in no case shall the affordable housing units be more than 10 percent smaller than the comparable dwelling units in the development, based on number of bedrooms, or less than 500 square feet for a one (1) bedroom unit, 700 square feet for a two (2) bedroom unit, or 900 square feet for a three (3) bedroom unit, whichever is less.”** Bothell’s and Issaquah’s codes read nearly the same, with slightly different minimums. Newcastle, Redmond, and Sammamish codes have similar guidelines without the 10 percent limit.

of providing affordable homes. This type of flexibility has been offered in the past in ARCH jurisdictions but should be balanced with minimum standards of quality and comparability. Cities should carefully consider limits to place on how much smaller an affordable home may be compared to a market rate home to ensure an equitable outcome, with affordable homes successfully integrated within an overall community.

b. Affordable housing policies should allow fee-in-lieu options when the required affordable housing would result in a fractional unit below a certain threshold.

Fee-in-lieu options are important for smaller scale projects where the policy requirement results in a fractional affordable housing unit. Rules for rounding a fraction up to a whole unit may be appropriate, particularly if the jurisdiction chooses to allow the affordable unit to be smaller in square footage than market rate units.

c. Fee-in-lieu rates should be predictable and updated on a consistent basis, with rates calculated on a square foot basis.

Stakeholder interviews affirmed the importance of a predictable method for builders to estimate the cost of an affordable housing fee in lieu. ARCH has historically calculated fees on a per unit basis, but this has required project-specific analysis that can be time-consuming to administer. Per square foot fees are likely to be more efficient to administer and less likely to incentivize larger units compared to per unit fees.

Example Projects – Affordability Policy with Per Square Foot Fee in Lieu

<i>Example Affordability Policy</i>	10% at 80% AMI. Fee in lieu allowed for fractions below 0.66.			
	3	6	8	12
<i>Total PROJECT Units</i>	3	6	8	12
<i>Average Unit Size (SF)</i>	1,750	1,750	1,750	1,750
<i>Total Project Size (SF)</i>	5,250	10,500	14,000	21,000
<i>Affordable Units</i>	0.3	0.6	0.8	1.2
<i>On-Site Units</i>	0	0	1.0	1.0
<i>Remaining Fractional Units</i>	0.3	0.60	0	0.2
<i>Square Footage Basis for Fee</i>	5,250	10,500	0	21,000 x (0.2 / 1.2) = 4,200
<i>Fee per square foot</i>	\$39.00	\$39.00	\$39.00	\$39.00
<i>Fee in lieu</i>	\$204,750	\$409,500	0	\$163,800

Example Fee in Lieu Calculation Method – for Illustrative Purposes Only (method and actual fee per square foot will vary depending on the affordability policy)

1. Apply required percentage to total number of units. If the result is less than 0.66, project pays a fee in lieu based on the total square footage of the project.
2. If the result contains a fractional unit of 0.66 or greater, the fraction is rounded up to 1.0.
3. If the result includes a whole number of on-site units plus a fraction below 0.66, the fractional unit is converted to a fee-in-lieu based on the amount of the requirement met by the on-site units (i.e., total square footage times fractional unit divided by the total affordable units).

- d. **Jurisdictions should consider tiering affordable housing requirements and (associated fees) based on whether housing is attached, detached or stacked, and evaluate if geographic variations are needed.**

ARCH recommends exploring different levels of affordable housing requirements and fee rates based on the whether housing is detached, attached or stacked, given differences in expected profitability and a presumed goal of achieving more dense housing. Offering a reduced requirement for stacked housing, which is currently less profitable, would reduce barriers for developers striving to build greater density.

Cities may also want to evaluate geographic variations based on differences in land costs and development profitability. If a builder is able to pay not to have affordable housing at the site of the project, where land is more expensive than in another part of the city, it makes sense that the builder's fee should be higher, particularly if the city wants to use the payment to fund housing in the vicinity of the builder's project.

3. Jurisdictions should craft development standards and consider tools to incentivize middle housing types over large single-family homes.

Local development standards play a critical role in whether middle housing developments will be profitable enough to 1) be financially feasible; 2) be more profitable than building a large single-family home; and 3) support a contribution toward affordable housing in the form of an on-site unit or a fee in-lieu. In certain cases, these policy choices will determine whether an on-site affordable unit is feasible or not.

- a. **Cities should tailor relevant development standards (such as lot coverage, impervious surface limits, setbacks, FAR limits, etc.) to create relatively lower development capacity for single-family development compared to middle housing development.**

Appropriate development standards may differ by jurisdiction based on the current community

BELLEVUE

Bellevue's fee-in-lieu option is unique among ARCH cities. It is available only to projects in Bel-Red zones as part of the Bel-Red FAR Amenity Incentive System, which awards bonus floor area to residential projects that agree to provide affordable housing (and additional bonus area for open space beyond what is required). To exceed the "base" 1.0 FAR, housing projects need to set aside 1.0 sq ft of affordable housing for every 4.6 sq ft of bonus floor area, if renter-occupied, or 7.2 sq ft of bonus area if owner-occupied; this applies to the first 1.25 bonus FAR in certain zones and the first 0.5 bonus FAR in other zones. Townhouse projects have been developed below 1.0 FAR, but multifamily projects have needed the Amenity System to gain bonus floor area. **In lieu of on-site affordable units, a developer may choose to pay a fee, now \$28.07 per sq ft of bonus area. The fee was initially based on economic analysis and is adjusted each year according to the Consumer Price Index.**

Projects that choose to provide affordable units on-site must select enough units of each type (studios, one-bedrooms, etc.) as in proportion to the overall unit mix in the project that meets or exceeds the required affordable housing floor area. There is no provision to pay a fee in lieu of "fractional" affordable units, as in Kirkland. Out of 16 projects participating in the amenity system, 12 have opted to pay a fee in lieu, generating a total of \$10,069,226 since 2009.

context and future housing needs, however each city has the opportunity to structure such standards to incentivize development of greater density and diversity of housing types rather than large single-family homes. The City of Redmond, for example, is considering adopting specific square footage limits that increase based on the number of units. The Department of Commerce has also published a model ordinance with example FAR limits, as shown to the right. The model ordinance also suggests scaling up allowed lot coverage based on number of units per lot.

<i>Unit density on the lot</i>	<i>Maximum floor area ratio (FAR)</i>
1	0.6
2	0.8
3	1.0
4	1.2
5	1.4
6	1.6

- b. Cities should consider allowing additional density beyond what is currently mandated in HB 1110, for example when population growth is expected to move a city into the next tier of requirements, or in areas where there have been significant public investments in transit and other infrastructure.**

It may be appropriate to consider additional density allowances beyond state requirements, potentially in limited areas of a city near transit or other areas where infrastructure investment can support more dense development. In addition, this may be worth considering in jurisdictions that are anticipating population growth in the next ten years that would move them into the next tier of density requirements.

- c. Cities should consider specific incentives for affordable homes, such as impact fee waivers, or FAR bonuses for on-site affordable units.**

Incentives for affordable homes are advantageous for private builders with a local requirement to set aside a certain percentage of homes as affordable, as well as nonprofit builders developing all-affordable projects that utilize public funding. In the latter case, such incentives can extend the impact of public investments to create more affordable homes on a given site.

In addition to the recommendations above, ARCH recommends reviewing the “Middle Housing Implementation Plan” by the Master Builders Association of King and Snohomish Counties. This report contains a host of specific regulatory and process proposals to facilitate middle housing, touching on parking requirements, site plan and driveway layouts, building code requirements, specific floor area ratios, and more. Many of these would make a meaningful difference in the number of middle housing projects that could move forward.

Conclusion

The expansive reach of HB 1110’s mandate combined with the flexibility to define local development standards and affordable housing provisions creates a rare opportunity to unlock more diverse and affordable housing options in single-family neighborhoods. If successful, local jurisdictions will be able to provide valuable affordable homeownership opportunities and begin to undo the impacts of past policies that have excluded large segments of the population from accessing the benefits of homeownership in East King County. These efforts could also provide valuable models for other communities around Washington State where homeownership has become out of reach for many.

Appendices

Appendix A: Summary of Single-Family Development Regulations in ARCH Member Cities

City	Current Development Standards Single Family / Low Density Residential Zones											Future HB 1110 Requirements	
	Zoning Designations	Current SF Zone densities	Minimum Lot size	Max Lot Coverage	Imperv. Limit	Max Height	Max Floor Area / FAR	Front Setback	Rear Setback	Side Setback	Min Lot Width	Min Density	Min Density Near Transit
Tier 1 Cities													
Bellevue	R-1 R-1.8 R-2.5 R-3.5 R-4 R-5 R-7.5	1 to 7.5 du/acre	7,200 SF to 35,000 SF	35-40%	45%	35 ft	N/A	20 to 25 ft	20 to 25 ft	5 ft	50 to 100 ft	4 per lot	6 per lot
Kirkland	RS/RSX 12.5 RS/RSX 35 RS/RSX 5.0 RS/RSX 6.3 RS/RSX 7.2 RS/RSX 8.5 RSA 1 RSA 4 RSA 6 RSA 8	1 du/lot for detached SF 2 du/lot for middle hsg	3,800 to 35,000; no minimum for middle types in subdivisions	50%	50%	25 to 30 ft	0.2 to 0.5	20 ft	10 ft	5 ft		4 per lot	6 per lot
Redmond	NR R-4 R-5 R-6 R-8 RIN	1 to 8 du/acre	4,000 to 35,00 SF	12-50%	20-70%	35		10 to 30 ft	10 to 30 ft	5 to 20 ft		4 per lot	6 per lot

	Current Development Standards Single Family / Low Density Residential Zones											Future HB 1110 Requirements	
City	Zoning Designations	Current SF Zone densities	Minimum Lot size	Max Lot Coverage	Imperv. Limit	Max Height	Max Floor Area / FAR	Front Setback	Rear Setback	Side Setback	Min Lot Width	Min Density	Min Density Near Transit
Tier 2 Cities													
Sammamish	R-1 R-4 R-6 R-8	1 to 8 du/acre		40% to 50%	30-70%	35	0.5	10 to 25 ft	15 to 30 ft	10 to 25 ft	30 to 35 ft	2 per lot	4 per lot
Bothell	R 2,800 R 4,000 R 40,000 R 5,400a R 5,400d R 7,200 R 8,400 R 9,600 SVV	2 to 4 du/lot* *recently amended to comply with HB 1110 densities	2,800 to 9,600 SF	35% to 50%	45-75%	30 to 35 ft						2 per lot	4 per lot
Issaquah	SF-D SF-E SF-S SF-SL	1.24 to 14.52 du/acre	3,000 to 35,000 SF		30-50%	25 to 30 ft		10 to 30 ft	10 to 30 ft	6 to 15 ft	50 to 135 ft	2 per lot	4 per lot
Mercer Island	R-12 R-15 R-8.4 R-9.6	1 unit per lot	8,400 to 15,000 SF	20% to 40%		30 ft	Lesser of 0.4 or 5k to 12k SF	20 ft	25 ft	7.5 to 10 ft	60 to 90 ft	2 per lot	4 per lot
Kenmore	R-1 R-4 R-6	1 to 6 du/acre	5,400 to 7,200		30-70%	35-45 ft		15 to 20 ft	5 to 20 ft	5 to 15 ft	30 to 35 ft	2 per lot	4 per lot

	Current Development Standards Single Family / Low Density Residential Zones											Future HB 1110 Requirements	
City	Zoning Designations	Current SF Zone densities	Minimum Lot size	Max Lot Coverage	Imperv. Limit	Max Height	Max Floor Area / FAR	Front Setback	Rear Setback	Side Setback	Min Lot Width	Min Density	Min Density Near Transit
Tier 3 Cities													
Newcastle	LOS-12 R-1 R-4 R-6	0.2 to 6 du/acre	6,000 to 40,000 SF	2% to 35%	6-40%	30 ft		10 to 30 ft	20 to 35 ft	5 to 35 ft	50 to 135 ft	2 per lot	n/a
Woodinville	R-1 R-4 R-6 R-8	1 to 8 du/acre	5,000 to 35,000 SF	15-55%		35		10 ft	5 to 10 ft			2 per lot	n/a
Medina	Public R-16 R-20 R-30 SR-30	1 unit per lot	16,000 to 30,000 SF	21-30%	50-55%	25 to 28 ft		25 to 30 ft	25 to 30 ft	10 to 20 ft	70 to 90 ft	2 per lot	n/a

Appendix B: Technical Assumptions for Middle Housing Financial Tool

Site Acquisition Costs

Site acquisition costs are based on an analysis of recent transactions in each ARCH jurisdiction. As seen below, the estimated cost to acquire a typical single-family site for development or redevelopment ranges from \$3.4 million to \$9.2 million per acre:

<u>Jurisdiction</u>	<u>Site Acquisition Cost (per acre)</u>	<u>Jurisdiction</u>	<u>Site Acquisition Cost (per acre)</u>
Beaux Arts Village	\$7,300,000	Medina	\$8,800,000
Bellevue	\$5,800,000	Mercer Island	\$5,100,000
Bothell	\$3,700,000	Newcastle	\$3,700,000
Clyde Hill	\$7,800,000	Redmond	\$5,200,000
Hunts Point	\$9,200,000	Sammamish	\$3,600,000
Issaquah	\$4,100,000	Woodinville	\$3,400,000
Kenmore	\$3,500,000	Yarrow Point	\$8,200,000
Kirkland	\$5,500,000		

Development Costs

Based on developer interviews and a review of studies conducted throughout ARCH jurisdictions, certain development costs depend on the market and target buyer for the future units, while others are less market dependent. Critical development cost assumptions included in the Middle Housing Financial Tool are below:

Site Preparation: The cost to prepare the site for construction, including any demolition, site grading, and utility connections range from \$10 to \$20 per site square foot, depending on the scale of the future residential development. For example, the stacked flat prototypes assume \$20 per square foot in development costs, driven in part by the increased cost to upgrade utility infrastructure. Conversely, single-family homes and cottage-style units typically require less site preparation, leading to an assumed site preparation cost of \$10 per site square foot.

Hard Costs: Hard costs, or the costs associated with the vertical construction including materials and labor, vary by location and prototype. Based on stakeholder outreach, hard costs for single-family and cottage-style units range from \$230 to \$250 per square foot, while townhouses range from \$205 to \$215 per square foot. Lastly, stacked flat units have a higher hard cost due to the increase in required construction materials and complexity of horizontal stacking of units, ranging from \$300 to \$315 per square foot.

Parking Costs: While a majority of these prototypes include parking within the unit, prototypes that provide additional on-site parking require an additional \$5,000 in costs associated with grading and paving the at-grade surface parking spaces.

Soft Costs: Similar to certain costs above, soft costs also range by residential prototype. For less complex projects, like duplexes and cottage-style units, soft costs are assumed at 12.5 percent of hard costs. Due to the increased complexity of higher-density projects, the soft costs are estimated at 15 percent of the project hard costs.

Developer Fee: Many residential developers require an upfront fee to cover the development team overhead, different from project profit discussed below. This fee is estimated as four percent of hard and soft costs.

Impact Fees: ARCH Staff compiled the impact fee schedule for ARCH jurisdictions, ranging from bike and pedestrian impact fees to school impact fees. In total, fees range significantly between jurisdictions, from roughly \$4,000 per unit to nearly \$45,000 per unit depending on location and unit type.

Financing Costs: The model assumes a construction loan, sized at 60 percent of the cost to build the project. The costs associated with the construction loan include a 1.5 percent upfront loan fee, and a 6.5 interest over the estimated 18-month loan period.

Sale Prices


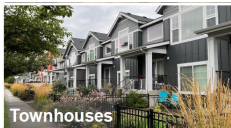

Based on an analysis of recent sales of new middle housing types, the table below summarizes the assumed sale price per square foot based on three residential development types, including townhouses, stacked flats, and detached single-family units. As seen below, sale prices range dramatically throughout East King County, from \$450 per square foot to above \$1,000 per square foot depending on the location and residential type.

<u>Jurisdiction</u>	Sale Price/SF		
	<u>Townhouse</u>	<u>Stacked Flats</u>	<u>Detached Single-Family</u>
Beaux Arts Village	\$890	\$1,140	\$910
Bellevue	\$710	\$910	\$770
Bothell	\$480	\$450	\$490
Clyde Hill	\$890	\$1,140	\$1,120
Hunts Point	\$890	\$1,140	\$1,060
Issaquah	\$570	\$470	\$630
Kenmore	\$470	\$410	\$560
Kirkland	\$740	\$930	\$850
Medina	\$890	\$1,140	\$1,160
Mercer Island	\$730	\$800	\$840
Newcastle	\$570	\$480	\$570
Redmond	\$640	\$620	\$720
Sammamish	\$550	\$520	\$650
Woodinville	\$600	\$480	\$580
Yarrow Point	\$890	\$1,140	\$910

Profit Threshold

To determine project feasibility, the Middle Housing Financial Tool assumes developers and investors must reach a 15 percent profit on cost threshold, in addition to the four percent developer fee discussed above.




Appendix C: Example Middle Housing Financial Tool Analyses

Tier 1			
	Middle Housing Scenario 1 Cottage Housing	Middle Housing Scenario 2 Townhouses	Middle Housing Scenario 3 Sixplex Stacked
			
Development Program			
Number of Units	3	4	6
Total Site Size (SF)	10,000	10,000	10,000
Total Project SF	5,250	6,400	6,600
Average Unit Size (SF)	1,750	1,600	1,100
Average Number of Bedrooms	4.0	3.0	2.0
Total Parking Spaces	5	5	6
Spaces per Unit	1.67	1.25	1.00
Feasibility Analysis			
Development Cost			
Site Acquisition Cost	\$1,193,756	\$1,193,756	\$1,193,756
Construction Costs	\$1,816,811	\$2,010,650	\$3,206,598
Developer Required Profit			
Threshold	\$441,530	\$469,533	\$642,306
Total Development Cost	\$3,452,097	\$3,673,938	\$5,042,659
Cost per Unit	\$1,150,699	\$918,485	\$840,443
Net Sales Proceeds	\$3,666,600	\$3,973,120	\$3,969,240
Sale Price per Unit	\$1,222,200	\$993,280	\$661,540
Residual Project Profit	\$214,503	\$299,182	(\$1,073,419)
Residual Profit per Unit	\$71,501	\$74,795	(\$178,903)
Comparison Baseline Scenario	Low Density	Low Density	Moderate Density
Net Economic Benefit of Upzoning	\$676,460	\$761,139	N/A
Affordable Housing Policy			
Affordability Level of Units (% AMI)	80%	80%	80%
Affordability Requirement Range	Moderate (5%-15%)	Moderate (5%-15%)	Low (0%-5%)

Supportable Affordable Housing Requirement

Category	Percent of Units (a)
Low	0-5%
Moderate	5-15%
Significant	15% or More




(a) Assumes units are affordable to households at 80% of AMI.

Tier 2			
	Middle Housing Scenario 1 Cottage Housing	Middle Housing Scenario 2 Cottage Housing	Middle Housing Scenario 3 Townhouses
			
Development Program			
Number of Units	2	3	4
Total Site Size (SF)	7,000	10,000	10,000
Total Project SF	3,500	5,250	6,400
Average Unit Size (SF)	1,750	1,750	1,600
Average Number of Bedrooms	4.0	4.0	3.0
Total Parking Spaces	3	5	5
Spaces per Unit	1.50	1.67	1.25
Feasibility Analysis			
Development Cost			
Site Acquisition Cost	\$578,512	\$826,446	\$826,446
Construction Costs	\$1,147,611	\$1,718,367	\$1,953,808
Developer Required Profit			
Threshold	\$252,567	\$372,212	\$406,225
Total Development Cost	\$1,978,690	\$2,917,025	\$3,186,479
Cost per Unit	\$989,345	\$972,342	\$796,620
Net Sales Proceeds			
Sale Price per Unit	\$2,206,750	\$3,310,125	\$3,414,400
	\$1,103,375	\$1,103,375	\$853,600
Residual Project Profit			
Residual Profit per Unit	\$228,060	\$393,100	\$227,921
	\$114,030	\$131,033	\$56,980
Comparison Baseline Scenario	Low Density	Low Density	Low Density
Net Economic Benefit of Upzoning	\$400,722	\$565,762	\$400,583
Affordable Housing Policy			
Affordability Level of Units (% AMI)	80%	80%	80%
Affordability Requirement Range	Significant (15% or More)	Significant (15% or More)	Moderate (5%-15%)

Supportable Affordable Housing Requirement

Category	Percent of Units (a)
Low	0-5%
Moderate	5-15%
Significant	15% or More

(a) Assumes units are affordable to households at 80% of AMI.

Tier 3			
	Middle Housing Scenario 1 Duplex	Middle Housing Scenario Cottage Housing*	Middle Housing Scenario 3 Townhouses*
			
Development Program			
Number of Units	2	3	4
Total Site Size (SF)	10,000	10,000	10,000
Total Project SF	4,400	5,250	6,400
Average Unit Size (SF)	2,200	1,750	1,600
Average Number of Bedrooms	4.0	4.0	3.0
Total Parking Spaces	4	5	5
Spaces per Unit	2.00	1.67	1.25
Feasibility Analysis			
Development Cost			
Site Acquisition Cost	\$780,533	\$780,533	\$780,533
Construction Costs	\$1,359,964	\$1,690,609	\$1,916,936
Developer Required Profit Threshold	\$313,548	\$361,314	\$394,011
Total Development Cost	\$2,454,045	\$2,832,456	\$3,091,479
Cost per Unit	\$1,227,022	\$944,152	\$772,870
Net Sales Proceeds			
Sale Price per Unit	\$2,560,800	\$2,953,650	\$3,724,800
	\$1,280,400	\$984,550	\$931,200
Residual Project Profit			
Residual Profit per Unit	\$106,755	\$121,194	\$633,321
	\$53,378	\$40,398	\$158,330
Comparison Baseline Scenario	Low Density	Low Density	Low Density
Net Economic Benefit of Upzoning	\$419,727	\$434,166	\$946,292
Affordable Housing Policy			
Affordability Level of Units (% AMI)	80%	80%	80%
Affordability Requirement Range	Moderate (5%-15%)	Moderate (5%-15%)	Significant (15% or More)
* Exceeds baseline DU per lot requirement. Add'l density could be achieved with ADU allowances or multiple lot aggregation.			

Supportable Affordable Housing Requirement	
Category	Percent of Units (a)
Low	0-5%
Moderate	5-15%
Significant	15% or More
(a) Assumes units are affordable to households at 80% of AMI.	