



August 21, 2020

Kitsap Housing Supply is in Crisis:

“Housing Affordability” vs. “Affordable Housing”

It's not about “affordable housing,”
It's about housing people can afford to buy.
There's a big difference.
What brought on the French ‘revolution’?

Today in Kitsap County, 1 in 15 families are struggling with poverty due to extreme property regulation.

Kitsap County Commissioners have advised us of our critical housing shortage¹:

- There is a current shortfall of 9500² units to house 4524 families.
- The housing shortage grows to 34,650 units in 16 years.
- 515 housing units are currently being built in Kitsap County.
- 1,480 new housing units per year are needed to satisfy current growth.
- Without correction, the problem grows worse each year into the future.

Discretionary income allows freedom of choice and liberty. Home ownership is the bedrock of personal dignity. High taxes and excessive regulation destroy and undermine both freedom of choice and personal dignity. Housing is typically a family's largest discretionary income cost. As we learned in “Economics 101”, supply and demand determine prices. Reducing the cost of housing allows discretionary income to be spent elsewhere, creating jobs and tax revenue.

¹ City of Bremerton & Kitsap County Affordable Housing Recommendations report, ECONorthwest, Final Report, March, 2020

² Wall Street Journal Jan 5, 2020 Editorial “The Housing Shortage in Profile” extrapolated from the Portland, Oregon example

“The small landholders are the most precious part of a state.” - Thomas Jefferson

Kitsap County's median home price is now \$408,590, 77% above HUD's affordability standard of \$236,710 for a median income family (see p. 3.) We see State and Local regulations now adding well over 50% to home prices.

Home construction has been impeded by [Washington State's Growth Management Act's restrictive regulations](#) over the past twenty five years, resulting in our current housing shortage. For every [100 family units formed, only 42 homes are being constructed](#).³ Considering 1/3 of our residents are renters, 11,000 new rental units must be constructed by 2036. This lack of housing supply is the cause of our home and rental prices being out of sight.

County and State leadership have failed to create solutions. There is no apparent plan to increase the rate of housing construction. There appear to be **no numerical goals and no measure of progress**.

City of Bremerton & Kitsap County Affordable Housing Recommendations report, ECONorthwest, Final Report, March, 2020 (the "ECONorthwest paper") rightly states **adverse impacts** of housing regulation **can be alleviated by eliminating housing options through zoning**. In Kitsap County, zoning has for years **prohibited affordable** ["Missing Middle Housing"](#): **duplexes, triplexes, townhouses, courtyard apartments cottage clusters and accessory dwelling units**.⁴

Kitsap County's rate of housing construction must be increased by at least a factor of five or housing will become even more unaffordable. For construction to accelerate, **the marketplace must be allowed to function**. **Local government must become an incentivized partner in construction of market-rate affordable housing**, not an adversary.

The [Rucklehouse Report](#)⁵ showed the lack of affordable housing is a common complaint in all 39 Washington State counties. Only by rapidly expanding the quantity of buildable lots and unburdening developers from restrictive and expensive regulation will housing prices be reduced to affordable levels.

Washington State home prices are currently 86% above Housing and Urban Development's definition of affordability (see end note 2).

³ City of Bremerton & Kitsap County Affordable Housing Recommendations report, ECONorthwest, Final Report, March, 2020, p. v

⁴ Ibid., pp. 5 & 28

⁵ Rucklehouse Report Executive Summary.

Kitsap Alliance is well aware of the impacts of Washington State’s Growth Management Act (GMA) and environmental activism on housing availability. We are also aware of County and city long-term foot-dragging in creation of new and affordable building sites and zealously imposing zoning impediments and limitations. The usual bureaucratic response is “The State made us do it.”

"Housing Affordability" vs. "Affordable Housing:"

While numerous valid points are expressed, the ECONorthwest report misses the root cause of housing being unaffordable. [ECONorthwest recommends government housing subsidies](#),⁶ while [Kitsap Alliance recommends free market policies that return housing affordability to the median income earner](#).

Dr. Arthur Laffer (author of the "[Laffer Curve](#)") shows convincingly that when money is extracted from wealthy people and provided to poor people, both sectors are less motivated to produce. The net national growth domestic product falls as a result. Grant programs are funded through taxation (take money from earners while giving it to marginal or non-producers). Inflation will add to the affordability problem by Congress aggressively increasing the national debt. Both of these policies punish the overall population.

[HUD’s definition of “Affordable Housing”](#) refers to any type of housing, regulated or not, that costs less than 30% of a household’s pre-tax income, including principle, interest, taxes, insurance and utilities (see end notes (1) and (2) calculations.)

HUD Fair Market rental prices have increased 10% per year each of the past six years and are accelerating. With the landlord paying water, sewer and garbage, fair market rents in Kitsap County in 2020 are now:

Fair Market Rent	“Affordability” would require 40 hour per week full time pay of:
1 Bdrm = \$1040/month	\$19.70/hr = \$41,094/year
2 Bdrm = \$1353 /month	\$25.63/hr = \$52,907/year
3 Bdrm = \$1938/month	\$36.70/hr = \$76,556/year

⁶ City of Bremerton & Kitsap County Affordable Housing Recommendations Report, ECONorthwest, Final Report, March, 2020, pp. 18-35

A minimum wage earner cannot afford to rent even a 1 bedroom apartment.

Worse, commonly heard by Kitsap landlords: “There’s nothing available to rent.” Affordability standards result in HUD’s Section 8 subsidized rent tenants paying on average only \$300/month toward their portion of rent.

High prices are forcing low and extremely low-income people out of housing.

*“Today, the majority of poor renting families in America spend over half of their income on housing, and at least one in four dedicates over 70 percent to paying rent and keeping the lights on. ... In 2013, 1 in 8 poor families nationwide were unable to pay all of their rent, and a similar number thought it was likely they would be evicted soon.”*⁷

Poor people are being pushed out of our inner cities, as prices rise due to lack of investors in building lower income housing. Because of the expense and uncertainties in constructing lower cost housing and rapidly increasing rents due to the housing shortage, there is great investor interest in purchasing existing older Kitsap County properties.

Roughly one third of Kitsap County’s population (271,473 (2019)) are renters. The typical family size is 2.1 persons per household, which equates to 43,091 rental units in Kitsap county.

In (2014-2018) the poverty rate in Kitsap County was 9.7%, while food insecurity (2018) was 9.3%..

Kitsap’s population of 271,473 / 2.1 people per household = 129,273 Kitsap County households. 1/3 are rentals = 43,091 rental units. 9.7% of Kitsap residents in poverty x 129,273 households = **12,539 Kitsap County households live in poverty.**

Bremerton Housing Authority issues only about 990 Section 8 coveted housing choice vouchers and operates 2,667 rent subsidized apartments.

Housing Kitsap issues 304 Section 8 Housing Choice Vouchers and 136 public housing units. In total, Kitsap County has 4,097 subsidized rental units. This leaves 8,472 eligible low income households with little assistance.

People who cannot afford to pay the market rate for rent and do not receive rental assistance are simply swept away, while rent prices are increasing and construction continues to lag behind demand.

⁷ “Evicted, Poverty and Profit in the American City”, by Mathew Desmond, 2016, pp 4, 5

The result is 1 out of every 15 of our neighbors is homeless or extremely housing cost burdened. Some of our neighbors are homeless due to drug and alcohol addiction or mental illness, often brought on by depression. Others are merely poor due to poor choices, lack of ambition or loss of a job. During 2019, when the ECONorthwest paper was researched, Washington State was experiencing a fairly severe labor shortage, so jobs were plentiful.

While everyone can “stretch a dollar,” banking regulations require adherence to the 30% of income Housing and Urban Development (HUD) income affordability ratios when approving home loans.

For housing to become affordable, supply must be adequate to provide appropriate competition between buyer/seller and renter/landlord. Without adequate supply, prices have risen. We are seeing this same housing unaffordability in cities and counties in Oregon and California, with growth management/growth control regulations.

Construction costs are now beyond average workers’ ability to purchase homes. Kitsap County Codes are rife with regulations that make no sense and only serve to increase construction costs.

Stories:

Kitsap County’s construction and environmental codes have become so burdensome, that many small builders have left the marketplace. This reduces price competition.

One local builder agreed to an 8-page specification for a custom home. When presented with a six-inch thick set of Kitsap County compliance regulations, he finished the home and quit building houses.

Another, out of state builder contracted to build a home on a developed lot with all utilities in place. By the time he had finished dealing with County and State regulations, he completed the house and left the State, vowing to never again build in Washington.

In 1968, a Kitsap County high school graduate was able to get a job, afford a car and to get married. A median priced home cost about \$17,000. A \$2.50/hour

wage would buy a home. By 2020, the high cost of housing has destroyed the dream of home ownership for many of our residents.

While housing affordability is not the only problem we face, it is the greatest. Lack of affordable housing is the greatest impediment to economic growth because it dries up discretionary income. The same dollar can't be spent twice.

Washington State's Growth Management Act ([RCW 36.70a](#)):

During the 1980s, four attempts were made to pass a growth management law in the State of Washington. Rural property owners feared massive environmental over-reach and downzoning of their properties. Repeatedly, voters soundly rejected it. During the 1990 legislative session, the Legislature over-ruled the voters and passed the Growth Management Act (GMA). Further rural land subdivision was effectively eliminated when GMA became effective, January 1, 1996. All growth was to be directed into urban areas. With rural land supply choked off, housing prices began to soar.

While [Goal 4 of GMA](#) promoted affordable housing, it was **highjacked by environmental activism**, making housing ever more unaffordable. Environmental activists failed to account for economic damage brought on by the over-reach of well-meaning regulations. Homelessness increased damaging the environment GMA was intended to protect.

To regain a functioning housing marketplace, Washington's Growth Management Act (GMA) must either be repealed or HUD the housing affordability standard mandated as a prerequisite for jurisdictions to qualify for Washington State Department of Commerce grant funding.

The key method of GMA directing growth into urban areas was to mandate large rural tracts, with zoning of 5, 10 and 20-acre parcels.

Therein lies the problem: the **average rural parcel in Kitsap County in 1996 was 2 acres** (Kitsap County Department of Community Development.)

By GMA precluding new rural parcels being platted, the supply of rural lots remains at the level of 25 years ago. During the past quarter century **virtually all economically developable rural parcels have become occupied** (Kitsap County

Department of Community Development.) This is forcing all new (limited) development into cities and [“Urban Growth Areas”](#) (UGA). Government applications for UGA expansions are often rejected through successful appeals.

Thus, the UGA buildable lot supply has failed to keep pace with housing demand.

Large single owner tracts of land available for development adjacent to urban areas and UGAs are virtually non-existent. Thus, expansion of urban areas often involves purchasing an array of individually owned (average) 2 acre lots. This becomes a developer’s very expensive nightmare, further driving up prices.

Large corporate builders often don’t find small tracts are economically justifiable.

Allowing for marketplace elasticity, parcels impractical for construction, and parcels not for sale, 15,000 buildable lots are needed today, just to be able to satisfy the current [9,500-unit backlog](#) at all price points.

Perhaps the greatest driver of our housing shortage is ignored: the reduction of buildable lot supply that has been brought on by GMA. Historically, the only restrictions on lot size were access and availability of potable water and septic or sewer. Prior to GMA, rural land could be short-platted and developed by the land owner on septic systems as the market dictated. The current layers of regulation effectively prohibit an individual property owner from developing his land.

There are no provisions for [“Missing Middle”](#) medium density housing construction (i.e. duplexes, triplexes, townhouses, courtyard style apartments, cottage clusters or accessory dwelling units).⁸

During the GMA years, layer on layer of constraints and building regulations have been added, brought on by:

- “Not in My Back Yard” (NIMBY) objections by neighbors who didn’t own property offered for sale
- Environmental activism (large “protective” buffers)
- Shared driveway accesses
- Building height restrictions and protection of view corridors
- Required sewer hook-ups

8

- Storm water regulations
- Pockets of [5 to 9 houses per acre](#) small developments do not fit the character of surrounding parcels furthering NIMBYism. (Urban low residential zoning.)
- Sidewalks to nowhere proliferate.

Kitsap County’s zoning code is rife with these and similar prohibitions and requirements. The ECONorthwest report was drafted in 2019, with consultation of County and Bremerton planners and other staffs. U.N. Agenda 21 and socialist assumptions are evident, with reliance on unrealistic walkable neighborhoods, dense housing, mass transit and public grants.

The cost of materials is fairly uniform across the United States. Houston, Texas provides an example of the cost of housing with very limited regulation. While Houston has a building code, they have never had zoning regulations. Houston has no law equivalent to our Growth Management Act. [Housing costs in Houston](#) are roughly half those of [Kitsap County](#).

If a project cannot be built to [sell to the median income earner](#), it simply doesn’t get built.⁹

Looking ahead:

Population is gravitating to lower priced and more accessible homes in Kitsap County. More expensive homes in our nearby cities, increased East Puget Sound commute times due to traffic congestion and expanded rapid access to Kitsap County with new passenger only ferries all are reducing Kitsap’s available housing supply. This population shift pressures upward purchase and rental prices.

The cost per dwelling unit in vertical housing projects is significantly higher than one story “stick” construction. The marginal transportation cost savings to an urban dweller is not offset by the increased cost of urban construction. High urban crime rates incentivize urban dwellers to move to rural areas. “Work from home” eliminates commute time.

Kitsap County has **no road plan** for development of parcels between our arterials, which are often two to three miles apart. Access to the small, occupied interior lots

⁹ ibid p. 6

is often on narrow, winding, dirt easements. Rural Kitsap County seems to be stuck in a time warp of 1955. Shortly, 1955 will become a century ago, still with no plan. When one observes the massive size of the new Amazon distribution center being built near Bremerton National Airport, one can only imagine the anticipated population growth.

With the advent of Corona Virus, the population is now more aware of the hazards of population density. People are now avoiding mass transit. With 75% of Kitsap County's population living outside of UGAs, mass transit has never been economically justifiable.

Without documentation and irrelevant, the ECONorthwest report claims Kitsap County has "[numerous second homes and vacation homes](#)", thus reducing available housing. Impediments to housing supply are also attributed to our "rural nature", natural land and mandated infrastructure constraints.¹⁰

Turning full circle to the economic argument, builders must pay full price for building lots, taxes, labor, materials, permits and the cost of loans while awaiting uncertain permit approvals. The only motivation for a developer to construct a building for speculative resale is to make a profit. If a building costs more to construct than can be recouped in its sale, there is little motivation for construction. With Governor Inslee's COVID-19 "no-evictions" edict, we now add the impact of rent deferral to the cost of construction.

Because of the cost of regulation and government controls, the poor are specifically being excluded from moving into home ownership and owning rental property. Ownership of rental property has been the singularly fastest track to economic independence in America, dating back over the past 200+ years.

The costs and regulations brought on by big government bring poverty, destitution and political unrest.

The published growth rate for Kitsap County is 1% per year. The unrecognized elephant in the room is actual historical growth rate of 2.01% experienced over the past 50 years. This has resulted in a quadrupling of our population over each of the past 45 year time periods. With the impending housing pressure of people immigrating from the Seattle/Tacoma markets to Kitsap, our population by the year

¹⁰ Ibid, p. vi

2065 may be 1,080,000. Currently there is no plan that would accommodate that population.

Solutions:

One solution: **provide a very significant incentive bonus (40%) to all county and city DCD urban planner employees as a group in any year new housing construction occupancy permits exceed 2,500 new units.** This cost would be easily funded with increased sales tax receipts of over \$20,000,000 to local taxing districts from new housing construction and economic activity. Precedent exists at both the state and federal level for incentive bonus pay. The pay incentive would encourage DCD personnel in Kitsap County and each of the four cities working together to critically review questionable land use regulations. With increased supply, the cost of housing should slowly return to affordable levels.

Other incentives might work equally well, but **drafters of regulation must have some “skin in the game.”** Personal money is a proven great motivator.

Kitsap County’s Department of Community Development (DCD) is funded by permit fees that go to its “Enterprise Fund.” DCD generates revenue by requiring additional permit studies required by regulations that DCD writes. This adds costs to each home built. There is no guarantee a building permit will be approved, adding financial risk to each project. Abolish the “Enterprise Fund.”

Thoroughly review the County Codes. Eliminate impediments to construction and regulations that serve only to intimidate property owners and encourage unhappy neighbors to complain. Eliminate overly burdensome regulations (eg. weatherization and stormwater rules.)

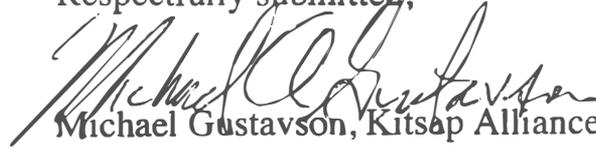
Encourage construction of smaller size, entry level housing, commonly built in the 1960s and 1970s.

In the words of the comic strip Pogo, “We have met the enemy and they is us”. Over-regulation and market pressure from in-migration are expensive and are continuing to price Kitsap workers out of the local housing market.

The Risk of No Action:

We've seen throughout history, when there becomes a critical mass of impoverished, hopeless people, revolution becomes a real threat to civil societies.

Respectfully submitted,



Michael Gustavson, Kitsap Alliance Vice President

PO Box 1

Southworth, WA 98386

(360) 271-8726

michaeltgustavson@mac.com

End Note (1):

The Zillow Kitsap County home value index has risen from roughly \$140,000 in June of 1996 (advent of GMA) to about \$408,590 in June of 2019. Far outstripping the rise in median income.

In Kitsap County (2020):

Median family Income: \$76,945.

Median annual property tax: \$2,516.

Median annual property insurance: \$600*.

Median annual residential electric bill: \$1,026*.

Median annual residential water and sewer bill: \$823*.

The HUD price of an affordable house in Kitsap County for a median income family is:

\$76,945 median family income	To increase the rate of construction, schools must partner in teaching skills used in the building trades.
- \$ 2,516 median property tax	
- \$ 600 median property insurance*	
- \$ 1,026 median residential electric bill*	
- \$ 823 median residential water and sewer bill	
<u>\$57,231</u>	

$\$57,231 / 0.30 = \$190,770$ Kitsap County "Should cost" price an affordable home

*There are more utility districts than counties. While exact utility cost numbers vary, the median cost of utilities is a minor factor in calculating HUD’s housing affordability value.

End Note (2):

The shortfall of market rate affordable housing is a Statewide problem. The Washington State Legislature’s commissioned July 19, 2019 “[Ruckleshouse GMA Report](#)“ concluded all 39 Washington counties complained housing costs are too high.

County	U.S. Census Median Income	(minus) Average County Property Tax	(minus) Wash. Average Utilities Cost	(minus) Wash. Average Homeowners Insurance	(equals) HUD Adjusted Income	divided by 0.3 = HUD Home “Should Cost”	Zillow Median Home Price 6/2020	Unaffordability Ratio equals “Zillow”/ HUD “Should Cost”
Adams	\$48,100	\$1,404	\$2,594	\$ 822	\$43,280	\$144,267	\$196,260	136%
Asotin	\$47,483	\$1,534	\$2,594	\$ 822	\$42,533	\$141,777	\$233,487	166%
Benton	\$63,346	\$1,820	\$2,594	\$ 822	\$58,109	\$193,697	\$324,074	167%
Chelan	\$57,132	\$1,974	\$2,594	\$ 822	\$57,208	\$172,607	\$366,542	212%
Clallum	\$62,477	\$1,853	\$2,594	\$ 822	\$57,208	\$190,693	\$315,095	165%
Clark	\$74,747	\$2,577	\$2,594	\$ 822	\$68,754	\$229,180	\$388,756	170%
Columbia	\$46,250	\$1,257	\$2,594	\$ 822	\$41,577	\$138,590	\$163,075	118%
Cowlitz	\$47,452	\$1,752	\$2,594	\$ 822	\$42,284	\$140,947	\$299,032	212%
Douglas	\$55,805	\$1,751	\$2,594	\$ 822	\$50,638	\$168,793	\$347,224	206%
Ferry	\$38,125	\$ 941	\$2,594	\$ 822	\$33,798	\$122,560	\$204,639	182%
Franklin	\$56,980	\$1,697	\$2,594	\$ 822	\$51,877	\$172,923	\$280,035	162%
Garfield	\$51,399	\$1,135	\$2,594	\$ 822	\$46,848	\$156,160	\$418,538	268%
Grant	\$70,277	\$1,385	\$2,594	\$ 822	\$65,476	\$218,253	\$225,571	103%
Island	\$64,793	\$2,159	\$2,594	\$ 822	\$59,218	\$197,393	\$430,880	218%
Jefferson	\$54,417	\$2,138	\$2,594	\$ 822	\$48,917	\$169,057	\$405,671	240%
King	\$89,695	\$3,572	\$2,594	\$ 822	\$82,707	\$275,690	\$667,264	242%
Kitsap	\$76,945	\$2,516	\$2,594	\$ 822	\$71,013	\$236,710	\$408,590	177%

County	U.S. Census Median Income**	(minus) Average County Property Tax	(minus) Wash. Average Utilities Cost	(minus) Wash. Average Homeowners Insurance	(equals) HUD Adjusted Income	divided by 0.3 = HUD Home "Should Cost"	Zillow Median Home Price 6/2020	Unaffordability Ratio equals "Zillow"/ HUD "Should Cost"
Kittitas	\$53,163	\$1,838	\$2,594	\$ 822	\$47,909	\$159,697	\$348,830	218%
Klickitat	\$51,258	\$1,435	\$2,594	\$ 822	\$46,407	\$134,690	\$308,132	199%
Lewis	\$46,387	\$1,448	\$2,594	\$ 822	\$41,523	\$138,410	\$262,101	189%
Lincoln	\$49,460	\$1,099	\$2,594	\$ 822	\$48,361	\$161,202	\$225,721	140%
Mason	\$53,087	\$1,738	\$2,594	\$ 822	\$47,933	\$199,777	\$304,688	156%
Okanogan	\$42,598	\$1,264	\$2,594	\$ 822	\$37,918	\$126,393	\$231,413	183%
Pacific	\$39,895	\$1,460	\$2,594	\$ 822	\$35,019	\$116,730	\$202,495	173%
Pend Oreille	\$49,184	\$1,177	\$2,594	\$ 822	\$44,591	\$148,639	\$230,490	155%
Pierce	\$75,407	\$2,759	\$2,594	\$ 822	\$69,232	\$230,773	\$393,147	170%
San Juan	\$60,271	\$2,549	\$2,594	\$ 822	\$54,306	\$181,020	\$618,292	342%
Skagit	\$59,263	\$2,406	\$2,594	\$ 822	\$53,441	\$178,137	\$394,161	221%
Skamania	\$53,606	\$1,480	\$2,594	\$ 822	\$48,710	\$162,367	\$304,673	218%
Snohomish	\$87,440	\$3,379	\$2,594	\$ 822	\$80,645	\$268,817	\$508,954	189%
Spokane	\$59,783	\$1,901	\$2,594	\$ 822	\$54,466	\$181,553	\$264,212	146%
Stevens	\$47,300	\$1,237	\$2,594	\$ 822	\$42,647	\$142,157	\$227,558	160%
Thurston	\$72,703	\$2,472	\$2,594	\$ 822	\$66,815	\$222,717	\$356,661	160%
Wahkiakum	\$49,508	\$1,365	\$2,594	\$ 822	\$44,727	\$143,090	\$256,444	179%
Walla Walla	\$47,946	\$1,885	\$2,594	\$ 822	\$42,645	\$142,150	\$278,592	196%
Whatcom	\$56,419	\$2,173	\$2,594	\$ 822	\$50,830	\$169,433	\$432,119	255%
Whitman	\$36,631	\$1,713	\$2,594	\$ 822	\$31,502	\$105,007	\$283,518	270%
Yakima	\$47,470	\$1,493	\$2,594	\$ 822	\$42,561	\$141,870	\$283,518	200%

Note: Housing process are from Zillow, June, 2020. Median family income, average utility costs and median property tax data are from county data located in Google. Both median family income and median home price will vary month to month.