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City of Tacoma

Home in Tacoma: Housing Action Plan

PREPARED FOR:

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CREATED

2/11/2021

Table of Contents

1. Housing Action Plan Background and Project Goals	
Housing Action Plan Background and Project Goals.....	3
Project Goals	4
Summary of Existing Conditions.....	6
Guiding Principles.....	10
2. Growth Targets and Housing Goals	
Growth Targets	12
Housing Goals	14
The Role of Production in Housing Affordability.....	18
2. Housing Policy Analysis	
Affordability and Economic Feasibility.....	25
Effect Multifamily Property Tax Exemption.....	26
Inclusionary Zoning—and the PTE.....	28
4. Recommendations	
Recommendations to Improve Housing Options in Tacoma: Housing Policy Guidance.....	27
Recommendations to Improve Housing Options in Tacoma: Missing Middle Actions	31
Recommendations to Improve Housing Options in Tacoma: Supportive and Administrative Actions	39
Land Use Scenario Analysis.....	40
Appendices	
A. Home in Tacoma Existing Conditions Report	
B. Community Engagement for the Housing Action Plan (forthcoming)	
C. Land Use Scenario Analysis (summarized; forthcoming)	

SECTION 1.

HOUSING ACTION PLAN BACKGROUND AND PROJECT GOALS

Housing Action Plan Background and Project Goals

This Housing Action Plan (HAP) is a supplement to the **Home in Tacoma** project, a multifaceted effort to expand housing choices in the City of Tacoma. **Home in Tacoma** unifies the city's growth strategy, zoning and land use regulations and affordable housing development incentives into a concerted, effective effort to address increase housing supply, create more affordable housing options, and increase the choice of housing types throughout Tacoma's neighborhoods.

This report begins with a discussion of the HAP project goals and discusses how the plan intersects with the city's Affordable Housing Action Strategy (AHAS). It then presents existing conditions in the city, based on data analysis updated from the 2016 AHAS work.

Building upon the policy guidance and direction provided by the Planning Commission (PC) as this project has developed, the balance of this report presents recommendations, building upon current initiatives. It is important to note that Tacoma has invested in expanding housing choice through many policy and program initiatives. Yet the market has continued to lose affordability—calling on the city to harness the opportunity to do more.

Those recommendations are structured around:

- Land Use/Zoning/Standards Actions;
- Housing Policy Actions; and
- Administrative and Support Actions.

Where possible, the actions incorporate projected outcomes in terms of unit numbers, unit types, affordability, access to opportunity areas, and facilitation of walkable neighborhoods.

Plans and reports that supplement this HAP include:

- The Existing Conditions report;
- Community engagement for the Housing Action Plan; and
- An Anti-displacement and Anti-racism plan.

Project Goals

Based on applicable policy direction, community input, and Planning Commission direction, the Home In Tacoma project will bring forward actions and strategies to promote:

- Housing supply to meet community needs and preferences throughout the City's neighborhoods
- Housing affordability reflecting the financial means of Tacoma residents, and considering secondary household costs

Housing choice reflecting community preferences and household needs, including a diversity of housing types as well as equitable access to opportunity for people of all races, socio-economic groups, ages and abilities.

The Housing Action Plan delivers:

- A package of near-term legislative and administrative actions implementing existing policy direction; and
- A package of medium-term planning, zoning and regulatory actions reflecting changes to the City's housing growth strategy for future City Council consideration.

Development of the Housing Action Plan assessed the potential actions and strategies in terms of the following, which were considered as part of the recommendations. Those considerations are documented in this plan:

- Consistency with Tacoma's housing growth goals;
- Urban design and fit with existing neighborhood patterns;
- Mitigating risk of displacement or other unintended consequences;
- Infrastructure and urban services capacity and costs;
- Market feasibility and cost-effectiveness for homeowners, non-profit and for-profit housing sectors; and
- An ongoing commitment to be responsive to community input.

Intersection with the AHAS. The AHAS includes four categories of strategic objectives, and includes actions intended to serve the full range of household income levels in Tacoma. The City Council has indicated that **Action 1.2: Inclusionary Zoning** and **Action 1.8: Diverse Housing Types** are high implementation priorities—and, therefore, are an integral part of the Housing Action Plan.

AHAS* Strategic Objective 1: Create More Homes for More People

Actions	Timing	Income Levels Served
1.1 Seed the Tacoma Housing Trust Fund with local sources of funding.	Immediate (1-2 years)	120% AMI and below
1.2 Modify inclusionary housing provisions to target unmet need and align with market realities.	Immediate (1-2 years)	50% AMI and below
1.3 Update the Multifamily Tax Exemption Program to increase its impact.	Immediate (1-2 years)	50% AMI and below
1.4 Leverage publicly and partner-owned land for affordable housing.	Immediate (1-2 years)	80% AMI and below
1.5 Create consistent standards for fee waiver eligibility and resources to offset waived fees.	Immediate (1-2 years)	80% AMI and below
1.6 Create a process to coordinate public investments, like capital improvements, with affordable housing activities to reduce the overall cost of development.	Immediate (1-2 years)	80% AMI and below
1.7 Increase participation in first-time homebuyer programs and resources for new homebuyers.	Immediate (1-2 years)	120% AMI and below
1.8 Encourage more diverse types of housing development through relaxed land use standards, technical assistance, and financial incentives.	Immediate (1-2 years) Short-term (3-4 years)	All
1.9 Establish a dedicated source of funding for the Tacoma Housing Trust Fund.	Short-term (3-4 years)	120% AMI and below
1.10 Use value capture to generate and reinvest in neighborhoods experiencing increased private investment (with a focus on areas with planned or existing transit).	Short-term (3-4 years)	80% AMI and below
1.11 Explore innovative, low-cost housing solutions to serve persons experiencing homelessness.	Short-term (3-4 years)	30% AMI and below
1.12 Explore opportunities for increased staff support during the development review process.	Short-term (3-4 years) Medium-term (4-6 years)	All

Summary of Existing Conditions

In the three years since the city's housing needs were identified as part of the Affordable Housing Action Strategy (AHAS), the City of Tacoma has experienced significant changes in its demographic and housing market conditions:¹

- **Households are getting smaller as the population ages.** Households with a householder 65 years and over increased by nearly 2,900 from 2016 to 2019. Seniors aging in Tacoma will create demand for smaller units (one- to two-bedroom) and accessible, visitable housing due to the correlation of age and disability.
- **Incomes have not kept up with housing costs.** From 2016 to 2019, median rent increased by 21 percent while median renter income increased by only 12 percent. Similarly, the median home value of owner occupied housing increased by 44 percent compared to a 22 percent increase in median income for owner households. It is becoming increasingly difficult for renters to afford to rent or buy in Tacoma as wages fail to keep up with rising housing costs.
- **Renters are higher income—and lower income households have declined.** There are now about 2,800 fewer households with incomes of less than \$25,000 in Tacoma than in 2016. This is likely due to a combination of low income households being priced out of the market and renter income increasing. High income renter households (>\$100,000) increased by 2,300 since 2016.
- **Special populations are disproportionately affected by poverty and are especially vulnerable to the changing housing market.** Residents with a disability, seniors, single mothers, and people of color have above average poverty rates and are particularly vulnerable to shifting housing costs. Additionally, populations on a fixed income—mainly residents with a disability and seniors—are especially at risk.
- **The shortage of affordable rental units persists.** In 2019, there was an estimated shortage of 4,897 units for renters with incomes of less than 30 percent of the Area Median Income or AMI—approximately \$20,000 per year for a 2-person household. This shortage declined from 2016 mostly due to a decline in extremely low income renters that was greater than the loss of affordable units. A rental shortage also exists for low income households: Altogether, 7,159 households with incomes of less than 50 percent AMI—with incomes of \$35,000 and less per year—cannot find rental units they can afford. This affordable rental shortage is comparable to the wait list for public housing maintained

¹ Please see Appendix A for the full Existing Conditions report.

by the Tacoma Housing Authority, which approximates 6,500 households. Households typically wait for several years (as many as five years) on the wait lists.²

- **Racial and ethnic diversity has increased while disparate trends in homeownership and poverty remain.** The City of Tacoma is becoming more racially and ethnically diverse. However, Black/African American residents, Asian residents, Latino/Latinx/Hispanic residents, and residents of two or more races all have poverty rates higher than the individual poverty rate. Black/African American (30%) and Latino/Latinx/Hispanic residents (47%) have much lower rates of homeownership compared to White/Caucasian residents (61%).
- **The city’s highest opportunity areas are the most challenging to access for low and moderate income households.** Generally, opportunity is highest in the north areas of the city and lowest in the south and central areas of the city. Areas of high opportunity have higher median home values.

Key Housing Market Change Indicators, City of Tacoma, 2016-2019

	2016	2019	2016-2019	
			Change	% change
Rental Market				
Median rent	\$1,054	\$1,273	\$219	21%
Median renter income	\$40,009	\$44,809	\$4,800	12%
Ownership Market				
Median home value	\$239,100	\$344,500	\$105,400	44%
Median owner income	\$76,544	\$93,765	\$17,221	22%
Rental Gaps				
Rental gap <30% AMI	-6,055	-4,897	1,159	-19%
Renter households <30% AMI	9,077	7,769	-1,308	-14%
Rental units <30% AMI	3,022	2,872	-150	-5%
Cost burden				
Owners	32%	27%	-5%	
Renters	47%	49%	2%	
Homelessness (Pierce County)				
	627	544	-83	-13%

Source: 2016 and 2019 1-year ACS; Pierce County Point-in-Time County 2016 and 2019; Root Policy Research.

² City of Tacoma 5-year Consolidated Plan Draft (2020).

Initiatives to facilitate development of affordable and missing middle housing. The AHAS calls for steps to promote more diverse types of housing development through changes to land use standards, technical assistance and financial incentives. This supports Housing Element policies which call for Missing Middle Housing (infill) approaches as a method to promote housing affordability and choice, as well as other goals. Multiple mid-range infill housing types will be evaluated.

Diverse housing types can function as “naturally occurring” affordable housing (NOAH). While they are not specifically restricted as affordable, NOAH tends to be relatively affordable by virtue of its smaller size and use of already developed land. Allowing diverse housing types can also increase housing choice in existing neighborhoods.

Over recent years, the city has implemented a range of infill strategies, some of which are ongoing at this time, and others which need further vetting prior to implementation. The figure below provides an overview of zoning and policy changes to date aimed at expanding housing choice.

Missing Middle Timeline: Zoning and Policy Changes for Expanding Housing Choice

	< 2012	2015	2016	2017	2018	2019	2020	2021
Policy and Strategy								
Housing Element Update	█							
Affordable Housing Policy Advisory Group infill strategy		█						
Affordable Housing Action Strategy (AHAS)			█					
AHAS incorporation into One Tacoma Plan						█		
Code and Program Updates								
Downtown reduced parking area	█							
Microunit parking reduction	█							
Reduced parking in Tacoma Mall					█			
Affordable Housing Incentives Code (administrative standards)	█							
Lot size flexibility		█						
ADU expansions						█		
Duplex/Cottage/Small Multifamily infill pilots			█			█	█	█
Area-Wide Upzones								
FLUM Proactive Rezones			█			█		
Mall Madison District Upzones					█			
Growth Strategy Upzones								█

Source: City of Tacoma and Root Policy Research.

Guiding Principles

Planning Commission has provided policy direction through a course of meetings dedicated to the Home in Tacoma project.

On the outset of this project, Planning Commission agreed on **Guiding Principles** through which to evaluate policies and outcomes for the Housing Growth Strategy. These were used in the evaluation of the recommendations, and include:

- 1.** Tacoma's growth strategy should accommodate new demand and existing residents with a full range of housing choices to serve the spectrum of needs while minimizing the displacement of residents who are not served by the private market.
- 2.** Dense development should be concentrated in centers and corridors with mid-scale transition zones into lower-scale neighborhoods.
- 3.** A range of Missing Middle infill housing types should be allowed in existing neighborhoods.
- 4.** Missing middle infill should be compatible in design and scale to minimize disruption in existing neighborhoods while providing opportunities for increased density through a form-based approach
- 5.** Tacoma should use a range of tools, including affordability incentives/requirements, to produce housing that is affordable for lower income households not served by the housing market.

SECTION 2.

GROWTH TARGETS AND HOUSING GOALS

Growth Targets

The Puget Sound Regional Council (PSRC) 2040 Land Use Vision model forecasts Tacoma will need to accommodate 44,770 new households from 2020 to 2040. This equates to an annual average of 2,239 households—a 28 percent increase from the city’s recent annual average household growth.

Tacoma’s official growth targets call for the addition of 54,741 new housing units between 2010 and 2040, based on the Pierce County Buildable Lands report from 2014—an average of 1,824 units annually. If that annual goal were accomplished, total new housing units between 2020 and 2040 would be 36,494.

Between 2016 and 2019, the city’s average annual growth was 1,755—a bit below the official target. Base on that average growth, total new housing units between 2020 and 2040 would be 35,100.

Over the past 20 years, average annual household growth has been much lower, averaging just 539 households per year. At that rate, total new housing units between 2020 and 2040 would be 10,800.

Housing goals are based on these unit projections and a range of growth scenarios:

- A **low growth** model is based on housing development in the past 20 years and assumes no more than 20,000 units are built. This is roughly twice the rate of growth of the past 20 years and assumes that demand to live in the city is much stronger now as evidenced by growth in recent years and rising housing prices.
- A **moderate growth** model based on the Buildable Lands Report, which assumes 36,494 new units between now and 2040.
- A **high growth** model based on the PSRC land use vision, which assumes a total of 44,770 new units.

All growth scenarios keep the homeownership rate in the city, currently 54 percent, constant.

Total unit and average annual unit projections for 2040 are shown below.

New Unit Projections, Total and Average Annual, 2020-2040

	Low Growth		Moderate Growth		High Growth	
	Total New Units	Annual Average New Units	Total New Units	Annual Average New Units	Total New Units	Annual Average New Units
Total new units	20,000	1,000	36,494	1,866	44,770	2,239
New rental units	9,200	460	16,787	839	20,594	1,030
New ownership units	10,800	540	19,707	985	24,176	1,208

Source: Root Policy Research.

Housing Goals

Currently, 19 percent of Tacoma’s renters—nearly 8,000 renters—have incomes of less than 30 percent of the AMI for a 2 person-household—approximately equivalent to below poverty level. These renters require deeply subsidized housing provided by nonprofit organizations or tenant-based rental assistance (TBRA) such as Section 8. The private sector typically does not serve renters in this income range.

Another 7,000 renters have incomes in the 31 to 50 percent AMI income range. These renters usually require some type of housing subsidies. In most markets, this consists of public housing, Low Income Housing Tax Credit developments (LIHTC), and TBRA. In 2010, it was more common to find privately-provided, non-subsidized units serving these renters due to a relatively soft rental market. According to the gaps analysis conducted for this study, Tacoma has lost nearly 10 percent of its affordable housing stock for low income renters due to rent increases.

Renters in the 51 to 80 percent income category, totaling nearly 9,000, are typically served through a combination of subsidized rentals (public housing, LIHTC for those at the lower end of the income range) and privately-provided rentals.

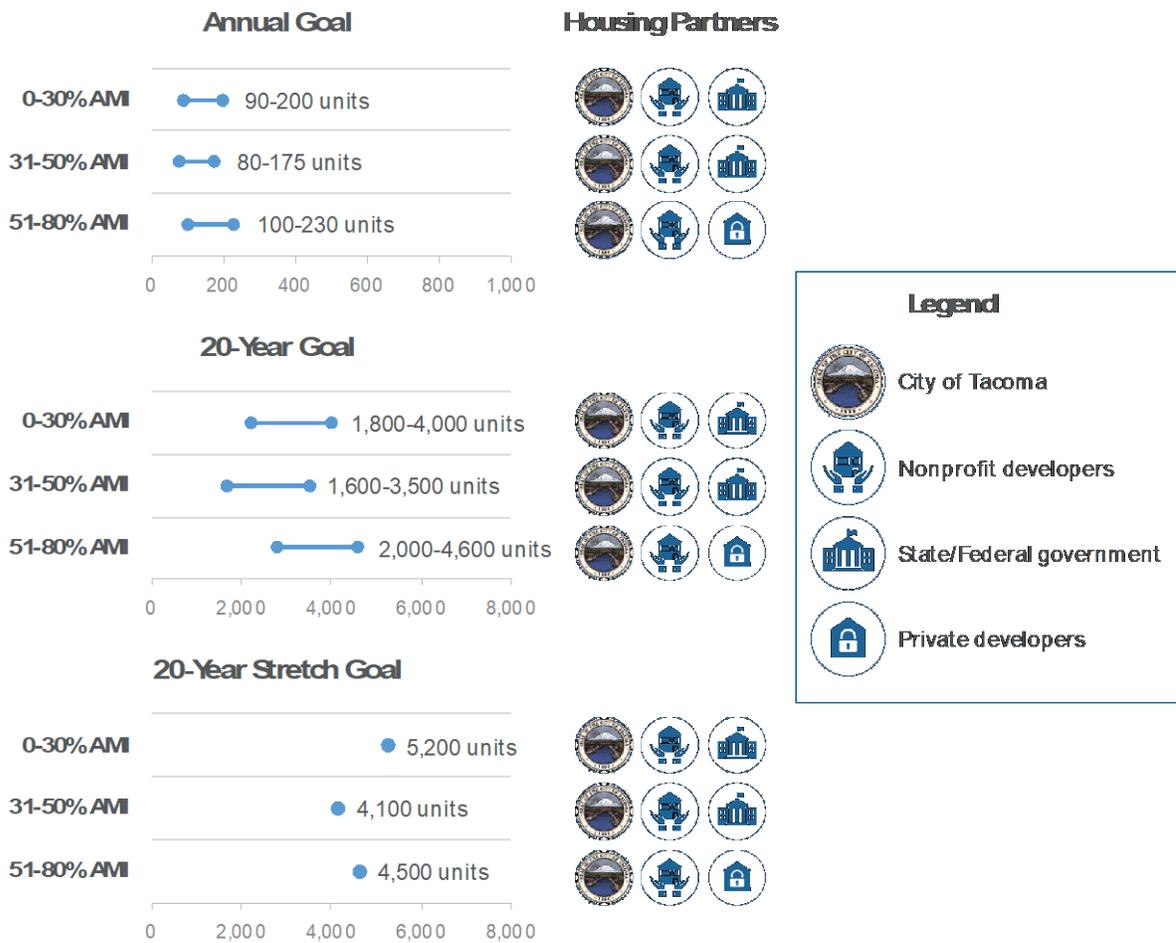
Those in higher income brackets are served by the private market.

If the distribution of renter incomes remains the same during the next 20 years new rental units needed to accommodate growth will range between 500 and 1,000 per year, as shown below.

It is important to note that because these goals hold the current income distribution in Tacoma constant, they assume that displacement of low income renters is mitigated and that funding is available to construct new publicly-assisted housing.

Renter unit projections by AMI

	Current Renters (2-person household)	Annual Units Needed		
		Low Growth Scenario	Moderate Growth Scenario	High Growth Scenario
0-30% AMI	7,769	89	162	199
31-50% AMI	6,924	79	145	178
51-80% AMI	8,878	102	186	228
81-100% AMI	4,129	47	86	106
101-120% AMI	3,163	36	66	81
121% AMI+	9,269	106	194	238
Total	40,132	460	839	1,030



Source: Root Policy Research.

Rental production goals. Based on these scenarios, the range of rental housing targets, by AMI include:³

- Rental units affordable at very low incomes (30% AMI and less) = production of 90 to 200 units annually, or 1,800 to 4,000 over 20 years;
- Rental units affordable at low incomes (31-50% AMI) = 80 to 175 units annually or 1,600 to 3,500 over 20 years; and
- Rental units affordable at moderately low incomes (51-80% AMI) = 100 to 230 units annually or 2,000 to 4,600 over 20 years.

“Stretch” rental goal. It is important to note that the projections and goals above do not address the existing rental unit gap of 7,159 units for renters with incomes of 50 percent of AMI and less. Addressing this gap will require a combination of increased tenant-based rental assistance (TBRA) and construction of new, publicly-assisted units and will be heavily dependent on a significant increase in federal support to address such need. A “stretch” goal that would be attainable with a significant infusion of resources and assuming a moderate growth scenario is shown below. It assumes that the existing need is reduced by 25 percent through construction of new units that help address the need of less than 50 percent AMI renters and free up units in low to moderate income ranges that these cost-burdened renters are currently occupying.

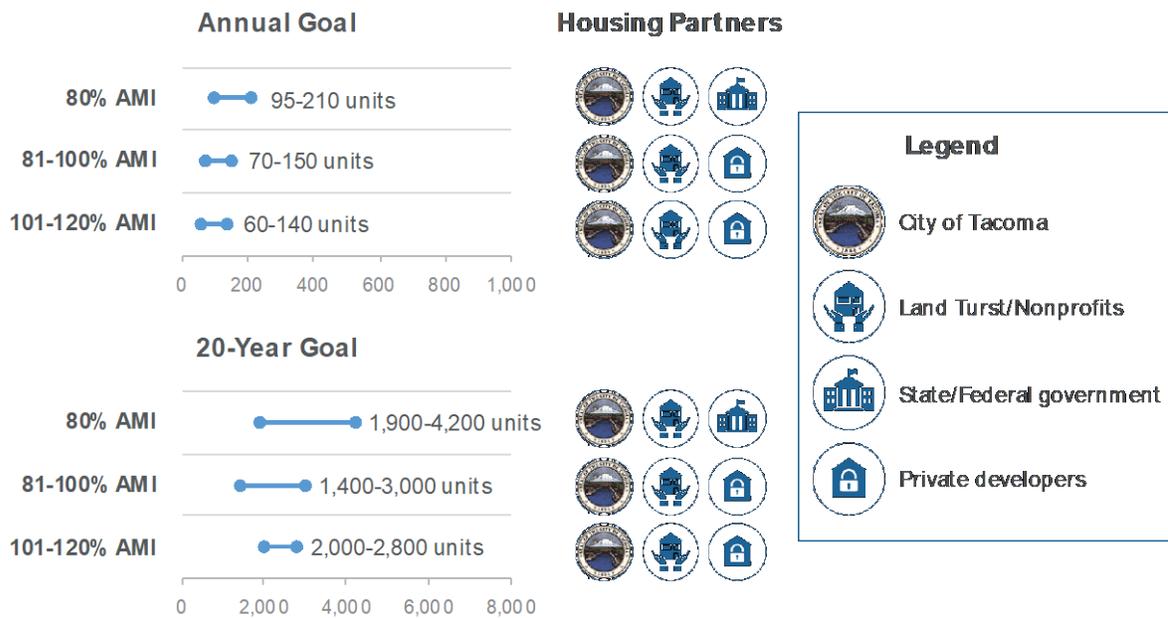
- Additional rental units for very low incomes (30% AMI and less) = 1,200 units over 20 years, and
- Additional rental units for low incomes (31-50% AMI) = 600 units over 20 years.

Ownership production goals. If the ownership rate in Tacoma holds and owners continue to comprise a similar distribution across AMIs, new units needed to accommodate owners will range from:

³ Numbers are rounded for ease of implementation.

Owner unit projections by AMI

	Current Owners (2-person household)	Annual Units Needed		
		Low Growth Scenario	Moderate Growth Scenario	High Growth Scenario
0-80% AMI	10,553	94	171	210
81-100% AMI	4,599	67	122	149
101-120% AMI	4,596	62	113	139
121% AMI+	27,136	317	579	711
Total	46,884	540	985	1,209



Source: Root Policy Research.

About one in four of Tacoma’s owners have incomes of less than 80 percent of AMI and more than half have incomes of 120 percent AMI and more. A comparatively small proportion falls into the 81 to 120 percent range.

Unit projections assume that many of the 0-80 percent AMI owners will consist of older residents who have aged in place, are living on fixed incomes, and have rehabilitation and maintenance needs rather than new housing units. As of 2019, 62 percent of Tacoma’s owners are age 45 and older. The affordability targets assume that these owners will be comprised of existing owners who are aging in place and that ownership for new owners with less than 80 percent AMI will be very limited.

Based on these scenarios, owner housing targets by AMI include:

- Owner units affordable at moderately low incomes (80% AMI) = 95 to 210 units annually or 1,900 to 4,200 over 20 years;

- Owner units affordable at moderate incomes (81-100% AMI) = 70 to 150 units annually or 1,400 to 3,000 over 20 years; and
- Owner units affordable at missing middle incomes (101-120% AMI) = production of 60 to 140 units annually, or 2,000 to 2,800 over 20 years.

“Stretch” ownership goal. A stretch goal for ownership would provide affordable homes for < 80 percent AMI households—homes priced at \$200,000 and less. Units at this price point are generally found in land trust developments or through sweat equity models and should be pursued and prioritized when opportunities arise.

Comprehensive Plan affordability targets. These affordability targets would enable the city to exceed the **Comprehensive Plan Policy H–4.2 goal** to ensure that at least [25 percent of the 2040 housing targets are affordable to households at or below 80 percent of Pierce County AMI](#). These projections also meet the Pierce County forecasted goal for household distribution by AMI.

As noted above, these goals assume that funding is available to construct new publicly-assisted housing to reach new households earning less than 50 percent AMI. If that is the case, then the city could reach:

- [50 percent of rental units targets are affordable to households at or below 80 percent of Pierce County AMI; and](#)
- [25 percent of rental units targets are affordable to households at or below 80 percent of Pierce County AMI.](#)

The Role of Unit Production in Affordability

Housing policies serve a range of needs, and it is important to examine the role of unit production, by unit type, and affordability (or AMI) levels that are possible. The graphic below demonstrates how unit production—and city land use and zoning policies that influence housing types—can influence affordability. The graphic uses a 2-person household, which is closest to the average-sized household in Tacoma: as of 2019, 67 percent of Tacoma households had 2 persons and less.

As the graphic demonstrates:

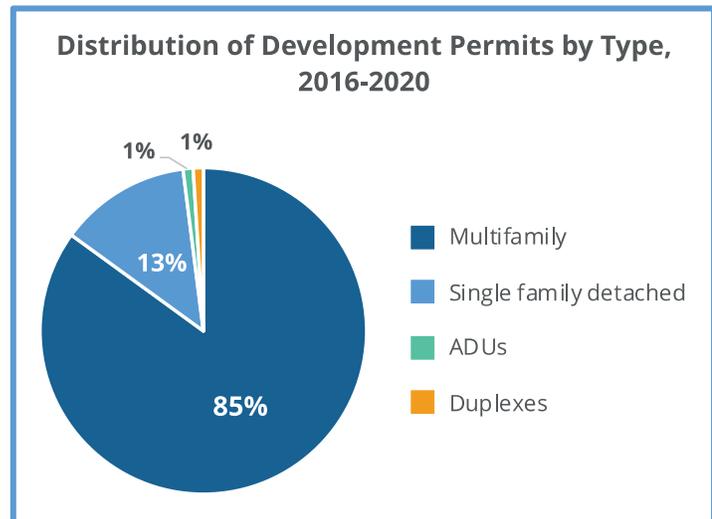
- Publicly-subsidized and nonprofit housing is critical to meet the needs of households earning less than 50 percent of AMI. Most privately-provided, market-rate housing does not meet this AMI level, including missing middle housing products.
- Newly built multifamily housing, as well older multifamily housing, can serve moderate- to low-AMI levels, particularly when incentives are attached.
- Missing middle products are good solutions for moderately-low income renters and owners who need relatively affordable housing and value these product types.

IF YOUR HOUSEHOLD EARNS...						
\$32,580 < 30% AMI	\$35,000 31-50% AMI	\$55,000 51-80% AMI	\$70,000 81-100% AMI	\$85,000 101-120% AMI	\$100,000 121-150% AMI	\$100,000+ 151%+ AMI
THE MAXIMUM RENT YOU CAN AFFORD IS...						
\$520	\$870	\$1,390	\$1,730	\$2,080	\$2,500	\$2,500+
THE MAXIMUM HOME PRICE YOU CAN AFFORD IS...						
\$90,000	\$150,000	\$240,000	\$300,000	\$350,000	\$450,000	\$450,000+
HOUSING TYPES AFFORDABLE TO RENTERS						
Publicly subsidized	ADU/Duplex		All products			
	New multifamily <i>with incentives</i>	New multifamily				
	Older non-subsidized multifamily					
HOUSING TYPES AFFORDABLE TO OWNERS						
	Nonprofit/land trust	Duplex	Townhome	All products		
		ADU	Cottage			
		Multi-plex/ Townhome <i>with incentives</i>	Multi-plex/ Townhome	Newer SFD		
			Older SFD			
CITY POLICY OPTIONS: RENTERS						
		ADU/Infill/Small multifamily				
		Parking reductions				
		Moderate density bonus				
		Expedited review				
		Inclusionary zoning/fee-in-lieu				
		MFTE				
CITY POLICY OPTIONS: OWNERS						
		Infill				
		ADU				
		Expedited review				
		Inclusionary zoning/fee-in-lieu				
		MFTE				

Historical unit production. An analysis of city permit data by unit type between 2016 and 2020 indicate that a shift in development type will be needed to facilitate missing middle housing and provide a wider range of affordable housing options to Tacomans.

Eighty-five percent of the units permitted between 2016 and 2020 were multifamily developments; this is an increase from the 70 percent of growth multifamily comprised since 2010. Data are not available to determine the occupancy of these developments; however, it is likely that the vast majority of multifamily units are rentals based on the strength of the rental market.

The next highest unit type permitted were single family homes at 13 percent. One percent, respectively, were for the construction of duplexes and ADUs.



In sum, without a shift in housing policy priorities, the city’s future growth is likely to be bifurcated into multifamily housing—some of which will be affordable to moderately-low income households—and single family housing—much of which is not available to moderate or low income households. Missing middle products are needed to “bridge” this product type and affordability gap.

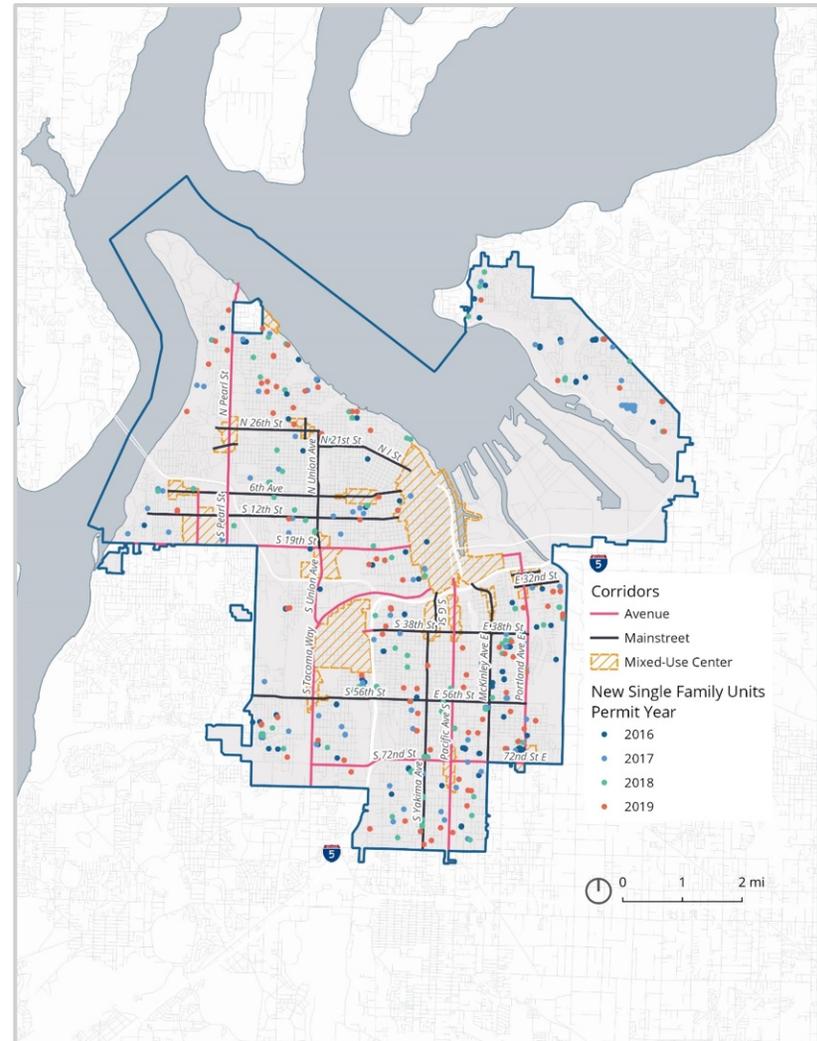
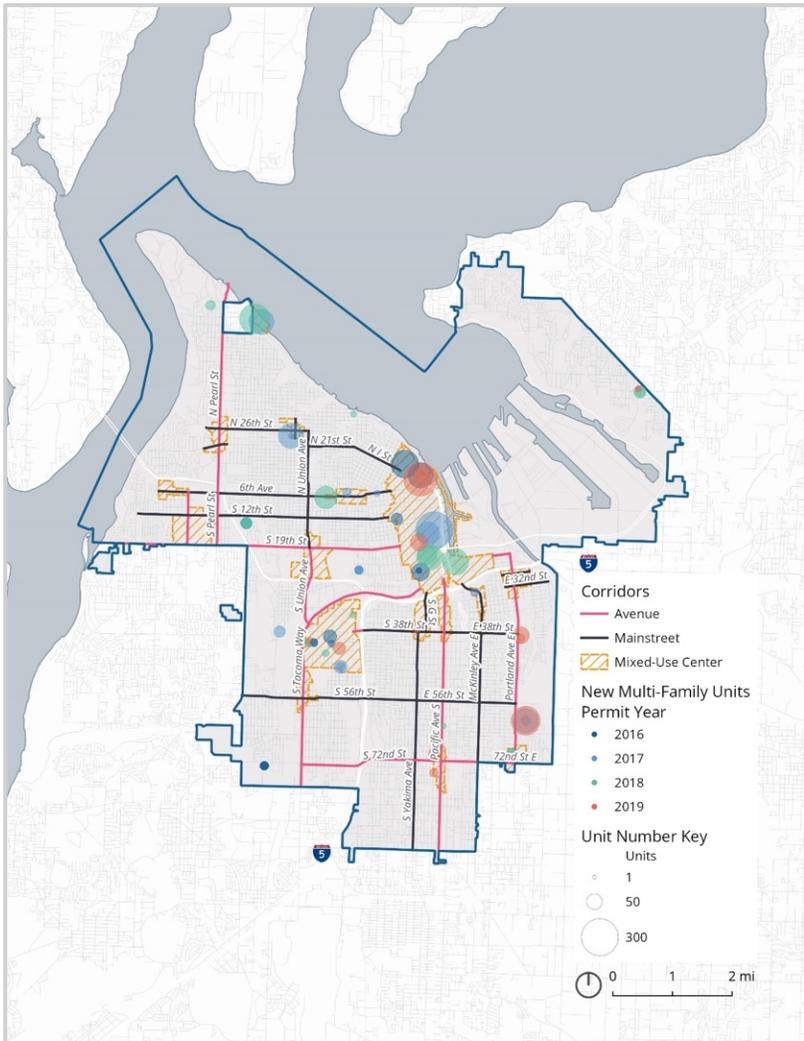
Unit production by location. The City of Tacoma’s growth strategy targets 80 percent of new residential development in centers and corridors and 20 percent in the remaining medium and low density areas of the city. Since 2016, nearly 4,000 new housing units have been constructed in the city. The majority of units—63 percent—were located in mixed use centers or along corridors, and the remaining 37 percent of new units were located in medium and low density areas throughout the city.

The maps on the following pages show new residential permits by housing type between 2016 and 2019, with the exception of the second ADU map, which shows permits between May 2019 and August 2020, to isolate the effect of the recent code change to permit ADUs citywide by right. The ADU comparative maps suggest that these code changes could have a big impact: permits grew significantly after the code change.

Most multifamily development occurred in centers and along corridors. All other residential housing types were more prevalent in low and moderate density areas of the city. These development patterns suggest that expanding the areas where missing middle products are allowed would conform with development patterns already underway and expand choice in a variety of areas in the city.

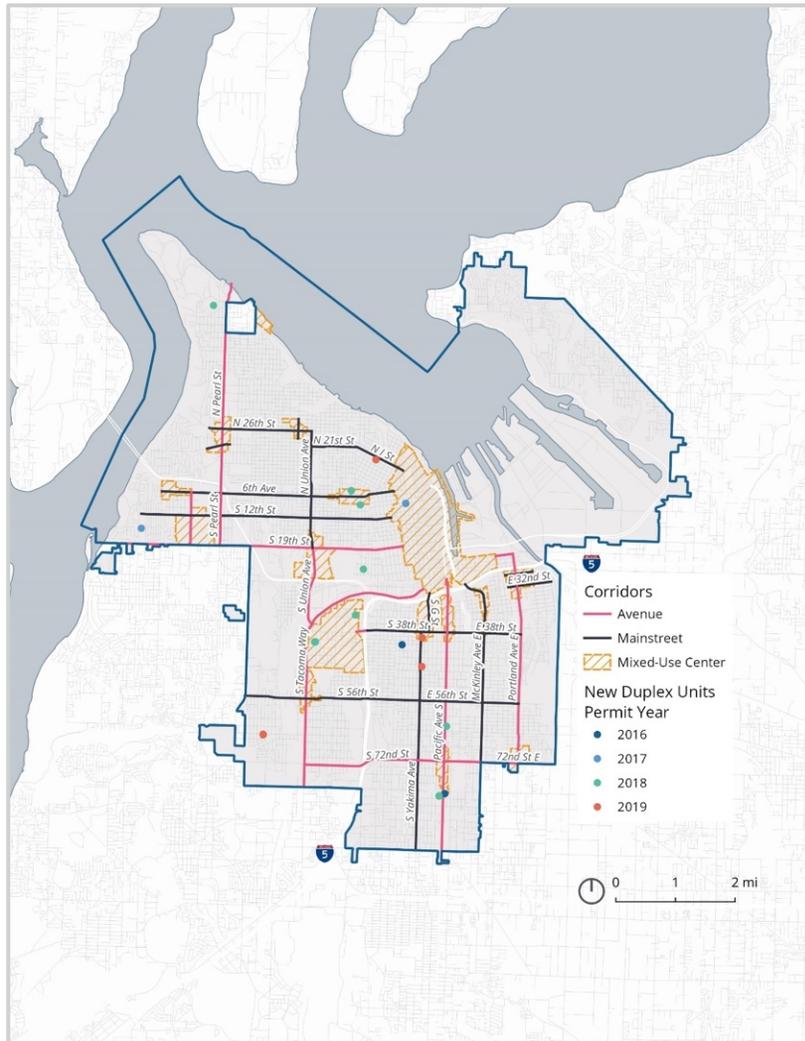
New Multifamily Units by Year Permitted, 2016-2019

New Single Family Units by Year Permitted, 2016-2019



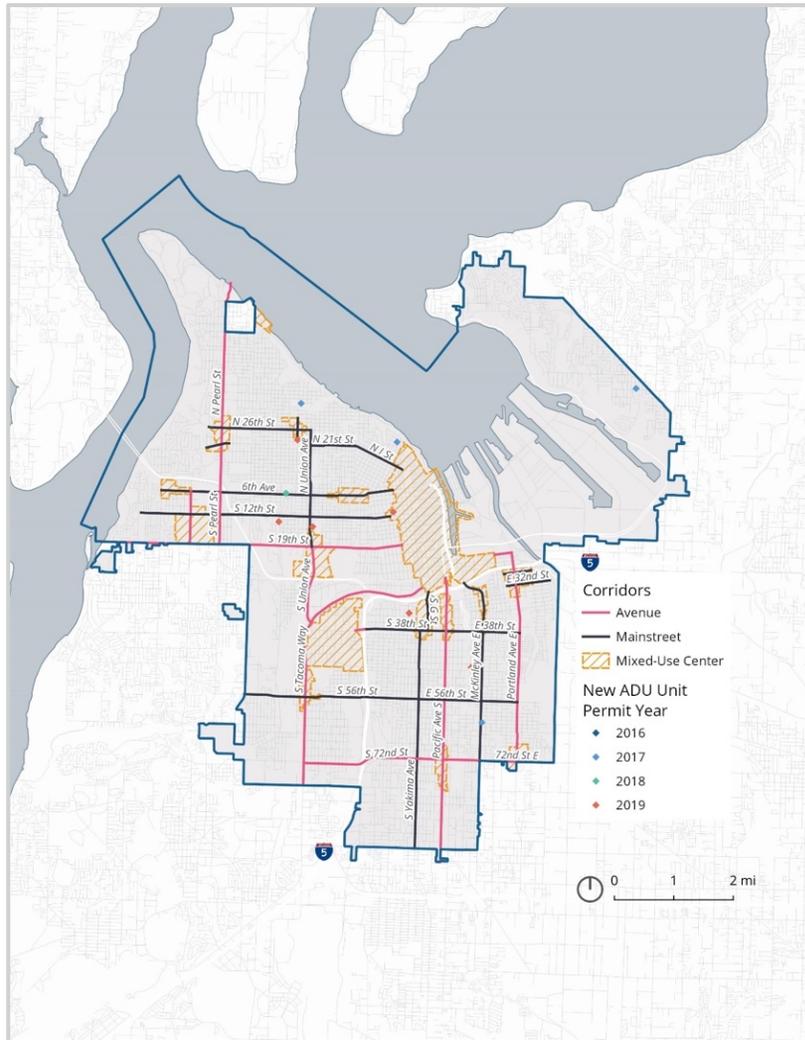
Source: City of Tacoma and Root Policy Research.

New Duplex Units by Year Permitted, 2016-2019

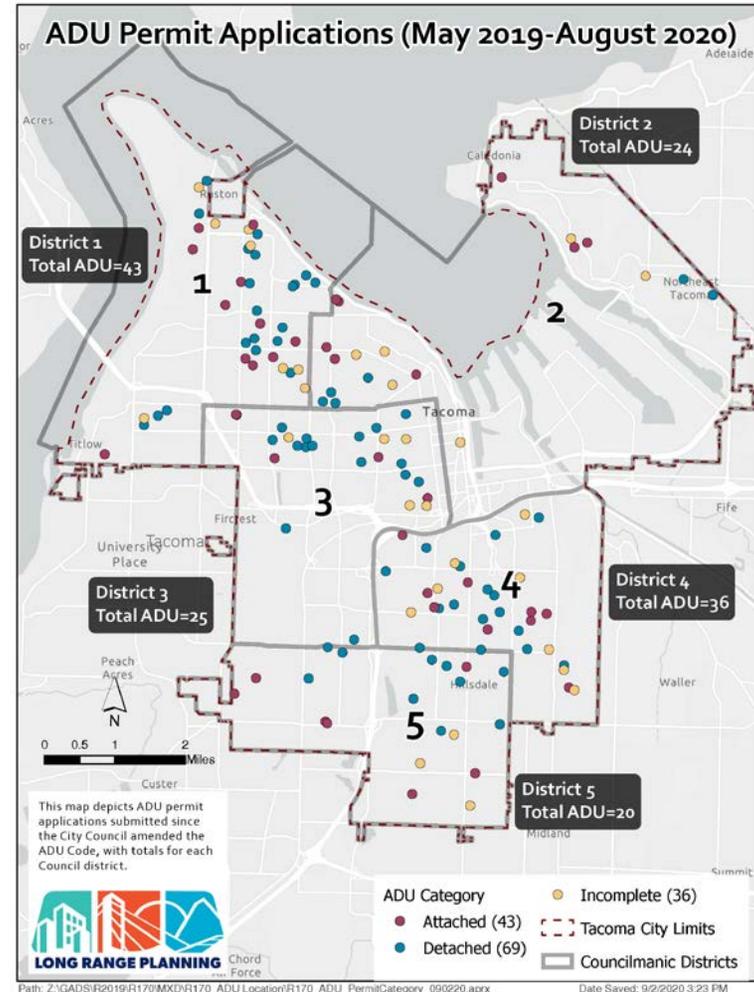


Source: City of Tacoma and Root Policy Research.

New ADUs by Year Permitted, 2016-2019



New ADUs by Year Permitted, May 2019 - August 2020



Source: City of Tacoma and Root Policy Research.

SECTION 3.

HOUSING POLICY ANALYSIS

Affordability Needs and Economic Feasibility

In Tacoma, as in many markets, residential development has been split between single family detached units and multifamily development—largely driven by past land use regulations. As land and development costs have risen, ownership in the form of single family detached housing has become out-of-reach for many.

The average sales price of a home listed or sold in Tacoma in 2020 ranged from \$311,000 to \$633,000, depending on the zip code. Between 2016 and 2019, the median home value in Tacoma rose by \$105,000—a 44 percent increase in three years. At this rate of growth, the median single family detached home in Tacoma could sell for nearly \$900,000 in 15 years.

At the same time, changes in household composition, employment patterns, and lifestyle choices have increased demand for renting, lengthened the period of rentership, and introduced the need for a greater variety of rental products. Flexibility in zoning is important to broaden both ownership and rental options.

The State Guidance for a HAP recommends that jurisdictions “conduct pro forma analyses of sample projects to estimate a developer’s expected return on investment under different scenarios. This can be helpful to calibrate requirements such as the amount of affordable units and affordability levels to maximize the benefits without discouraging use of the incentive by developers.”

The HAP economic feasibility analysis examined the AMI levels at several development prototypes would reach given current development costs and expected returns.

Feasibility analyses were conducted for nine development prototypes:

- Owned duplexes (2 units) and townhomes (10 units);
- Small scale (32 units) and moderate-scale (55 units) 3-story rentals;
- 4-, 5-, and 7-story rentals (70, 105, and 207 units, respectively);
- 12- and 16-story rentals (207, 290, and 320 units, respectively).

The economic feasibility analysis used the current costs of development and land, operating expenses (for rentals), and industry



expectations for return on investment to determine the equivalent AMI levels these developments can reach without any incentives that the city could provide—through, for example, density bonuses, fee waivers, the Multifamily Property Tax Exemption (PTE), and expedited application review and permitting.

AMI levels served without requirements or incentives. As the table below demonstrates, except for studios in moderate-scale multifamily, newly constructed housing is and will be priced in the 90 to 135 percent AMI range in most of Tacoma. In high-rent areas like downtown, AMI levels cluster in the 120 to 140 percent AMI range. This compares to the 120 percent to 175 percent AMI range currently required to afford an existing single family home (with 120% single family affordability homes needing significant improvements).

The table also demonstrates that missing middle ownership models struggle to meet target sales prices. Developments costs are currently too high to allow those missing middle prototypes to be developed profitably under current land use code.

Larger-scale developments—12 to 16 stories—return weak feasibility in low and moderate rent submarkets, largely due to high construction costs relative to rents.

Development Prototypes, Rents and Sales Prices, and AMI Levels

DEVELOPMENT ASSUMPTIONS	MISSING MIDDLE RESIDENTIAL PROTOTYPES					MULTIFAMILY RESIDENTIAL PROTOTYPES			
	Owner Duplex	Owner Townhomes	Small-Scale 3-Story Rental Residential	3-Story Rental Residential	4-Story Rental Residential	5-Story Rental Residential	7-Story Rental Residential	12-Story Rental Residential	16-Story Rental Residential
RENTS									
Low-Moderate Cost Area									
Market rent	1,670	2,338	1,754	1,587	1,629	1,629	996	1,727	1,761
Unit Size	2 bed	2 bed + Den	2 bed	2 bed	2 bed	2 bed	Studio	1 bed	1 bed
Equivalent AMI, rents (2 person hh)	96%	135%	101%	92%	94%	94%	57%	100%	102%
Market sales price	285,000	305,000							
Equivalent AMI, sales (2 person hh)	98%	105%							
Profitability measure	Negative	Negative	Moderate	Strong	Moderate	Moderate	Strong	Weak	Weak
High Cost Area									
Market rent	2,360	3,304	2,478	2,242	2,232	2,232	1,364	2,366	2,413
Unit Size	2 bed	2 bed + Den	2 bed	2 bed	2 bed	2 bed	Studio	1 bed	1 bed
Equivalent AMI, rents (2 person hh)	136%	191%	143%	129%	129%	129%	79%	136%	139%
Market sales price	325,000	365,000							
Equivalent AMI, sales (2 person hh)	111%	125%							
Profitability measure	Negative	Negative	Strong	Strong	Strong	Strong	Strong	Strong	Strong

Source: Root Policy Research.

Effect of Multifamily Property Tax Incentive (PTE)

Under Washington state law, cities may establish a Multifamily Property Tax Exemption (PTE) program to stimulate the construction of new, rehabilitated, or converted multifamily housing within designated areas, including affordable housing. Only the value of eligible housing

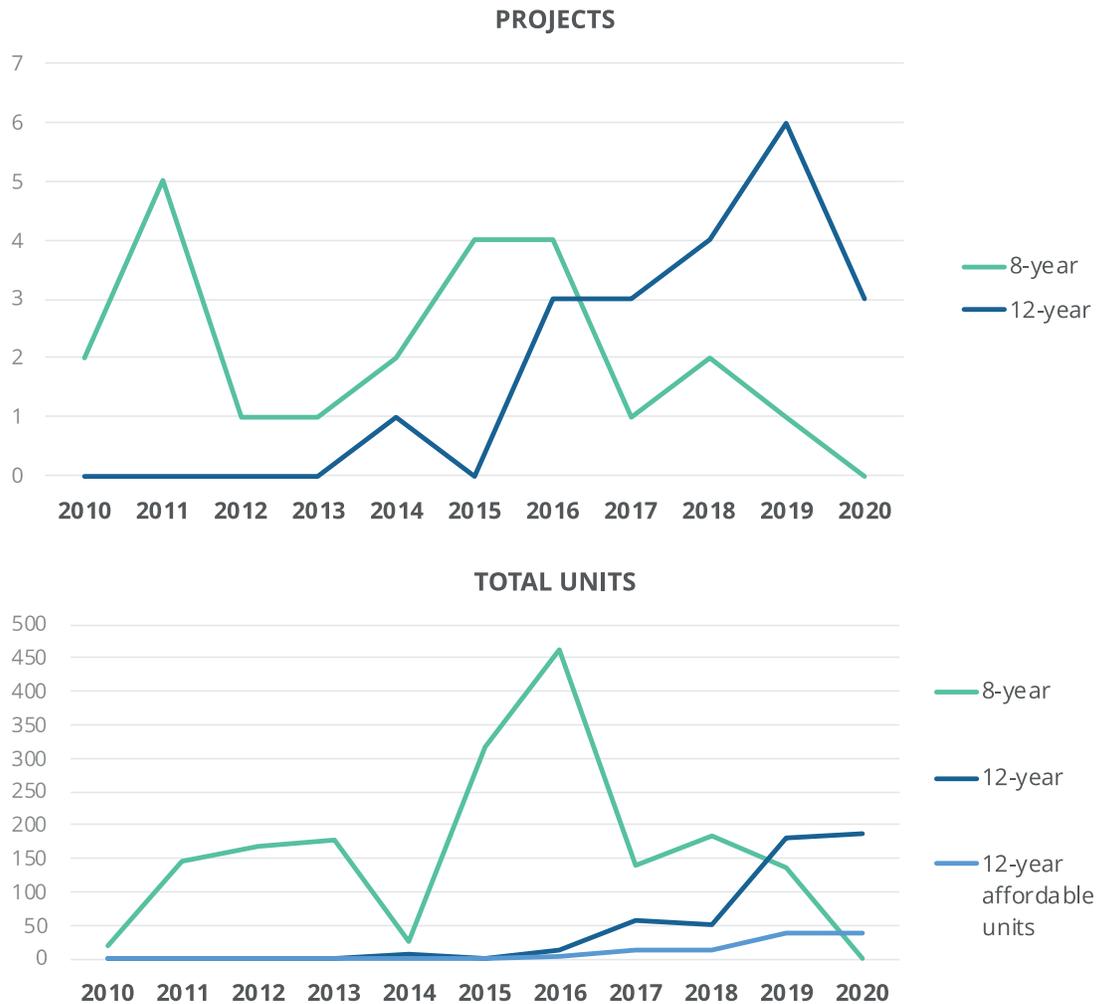
improvements is exempted from property taxes; land, existing improvements, and nonresidential improvements are nonexempt.⁴

Two options for property tax exemption exist: an 8 year option or a 12 year option, and these can only be applied to multifamily developments with 4 or more units. The 12 year option requires that developers rent or sell at least 20 percent of the units to low and moderate income households through the course of the exemption. Tacoma has defined this as 80 percent of AMI for renter households and 115 percent for homebuyer households. If property use changes in a manner inconsistent with program requirements before the 8- or 12-year exemption ends, back taxes are recovered based on the difference between actual taxes paid and those that would have been paid without the tax exemption.

Since 2010, the PTE program has produced 109 affordable units out of 496 total units included in PTE 12-year projects. The 8-year PTE has generated 1,777 market rate units since 2010. Although these units do not carry an affordability commitment, production does help to expand housing supply and choice in the city.

⁴ <https://app.leg.wa.gov/RCW/default.aspx?cite=84.14.020>

8-Year v. 12-Year PTE Projects



Note: Year is determined by when the project received a certificate of occupancy.

Source: City of Tacoma and Root Policy Research.

The value of the PTE to developers varies depending on the value of the property. On a per-unit basis, the exemption lowers rents slightly; collectively, however, the PTE allows developers to offset operating costs significantly. The rising demand for the 12-year PTE in recent years suggest that expanding the incentive to apply to more geographic areas in Tacoma would increase the supply and broaden the geographic location of affordable units.

Inclusionary Zoning—and the PTE

Inclusionary zoning refers to local ordinances that require that a share of newly developed residential units are affordable to low and moderate income households. The objective of inclusionary policies is to utilize the efficiencies of the private sector to create new affordable housing and mixed-income communities. Washington state law (RCW 36.70A.540) encourages the use of incentives for affordable housing, including increases in residential capacity through zoning changes, bonus densities, height and bulk increases, parking reductions or other

regulatory changes or incentives. The policy objective should be to partially or totally offset the costs to developers of including affordable units with the potential increase in returns from additional height and density.

Tacoma currently has a range of inclusionary zoning approaches in place:

Voluntary IZ

- Downtown Regional Center, adopted 1999, modified 2015
- Mixed-Use Centers, adopted 2009, modified 2015 and 2018
- Planned Residential Districts, adopted 2015

Mandatory IZ

- Private Upzones, adopted 2015
- Tacoma Mall Regional Center IZ Pilot, adopted 2018

The AHAS calls for revisions to the city ordinance to better target unmet need and align with market realities. To date, the output in affordable housing has been limited. Only one project has been proposed for the mall area, and the incentives offered in voluntary areas have not been attractive enough to produce affordable units. The PTE has a much better record of incentivizing affordable units. The AHAS recommended that the city consider an inclusionary housing requirement of 10 percent of rental units affordable at 50 percent AMI.

Economic feasibility with inclusionary zoning. Economic feasibility modeling was built to test inclusionary zoning requirements under a variety of scenarios:

- Low and moderate rent submarkets—representing much of Tacoma excluding North Tacoma and downtown;
- High rent submarkets—representing highly-desirable submarkets like North Tacoma and downtown;
- Affordable rental unit set asides of 10 percent of units with rents at 50 percent of the AMI and 80 percent of the AMI;
- Affordable rental unit set asides of 20 percent of units with rents at 50 percent of the AMI and 80 percent of the AMI;
- The affordable rental set asides above paired with the PTE.

These feasibility tests found the following:

- Mandatory inclusionary zoning requirements are not feasible in low to moderate cost areas with the PTE—but are feasible in high rent areas like downtown. High rent areas can absorb this requirement without compromising financial feasibility.
- In low and moderate markets, the value of the PTE allows developments to reach deeper levels of affordability—including the AHAS goal of 10 percent of units at 50 percent AMI.
- Use of the PTE in downtown Tacoma—and other high-rent markets as they develop—provides the ability to take AMI levels lower to 20 percent of units affordable at 50 percent AMI.

These findings are summarized below.

Potential for Inclusionary Requirements

DEVELOPMENT ASSUMPTIONS	MISSING MIDDLE RESIDENTIAL PROTOTYPES				MULTIFAMILY PROTOTYPES		
	Small-Scale 3-Story Rental Residential	3-Story Rental Residential	4-Story Rental Residential	5-Story Rental Residential	7-Story Rental Residential	12-Story Rental Residential	16-Story Rental Residential
RENTS							
Low-Moderate Cost Area							
10% of units @ 50% AMI	Not feasible	Not feasible	Not feasible	Not feasible	Not feasible	Not feasible	Not feasible
10% of units @ 80% AMI	Weak	Weak	Weak	Weak	Weak	Weak	Weak
10% of units @ 50% AMI with PTE	Strong	Strong	Moderate	Strong	Strong	Moderate	Moderate
20% of units @ 50% AMI	Negative	Negative	Negative	Negative	Negative	Negative	Negative
20% of units @ 80% AMI	Negative	Weak	Negative	Weak	Strong	Negative	Negative
20% of units @ 50% AMI with PTE	Not feasible	Not feasible	Not feasible	Not feasible	Not feasible	Not feasible	Not feasible
High Cost Area							
10% of units @ 50% AMI	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
10% of units @ 80% AMI	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
10% of units @ 50% AMI with PTE	Moderate	Strong	Moderate	Moderate	Strong	Weak	Weak
20% of units @ 50% AMI	Strong	Strong	Moderate	Strong	Strong	Strong	Strong
20% of units @ 80% AMI	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
20% of units @ 50% AMI with PTE	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong

Source: Root Policy Research.

SECTION 4.

RECOMMENDATIONS

Recommendations

The remaining section of the HAP outlines recommendations to adjust housing policies to address current and projected housing needs. It is important to note that the HAP focuses on what the city can control—namely, zoning and standards. The city’s ability to utilize housing policy to result in increased housing affordability is dependent on numerous conditions, ranging from development site challenges to federal funding to assist households with very low incomes to investor and developer interest in Tacoma’s market.

These recommendations were measured against the following framework:

- **Affordability impact:** Would the policy change increase housing affordability?
- **Growth impact:** Is the policy change consistent with the city’s growth vision?
- **Community impact:** Does the policy change treat communities equitably?

Recommendations to Improve Housing Options in Tacoma: Housing Policy Guidance

Update Tacoma’s Housing Growth Vision

Tacoma’s new housing growth vision goes beyond base housing unit creation. It builds upon the unit growth goals set by the Puget Sound Regional Council’s *VISION 2040*—the most current growth allocation at the HAP was developed—to prioritize a diversity of housing choices and costs. It leverages housing unit creation to create more inclusive, resilient, and sustainable neighborhoods.

Housing Growth Vision

Increasing housing options that contribute to vibrant, attractive, walkable and resilient neighborhoods and urban transit-oriented housing choice.

Utilize housing growth to create neighborhoods that are inclusive, welcoming to our diverse community, resilient, thriving, distinctive and walkable, and include robust community amenities and a range of housing choices and costs.

Set housing targets by income range.

- **Affordability impact:** Leverage private development to contribute to affordable housing goals.
- **Growth impact:** Capture affordability in growth that is already occurring.
- **Community impact:** Produce mixed-income housing and add affordable housing to high opportunity areas.

The One Tacoma Plan currently has only one housing growth target tied to affordability—that 25 percent of new housing should be affordable to households earning 80 percent of AMI. Although this is a strong goal, it does not reflect different levels of needs among low income households. Goals by income range allow the city to prioritize housing investments and adjust housing policies to better align with housing needs.

The city should strive for the following ranges of housing unit production by AMI; evaluate outcomes in 5-year increments and adjust goals accordingly; and prioritize housing funding to work toward these goals.

20 year rental goals that enable the city to address housing needs across the income spectrum are likely to range from:

- Rental units affordable at very low incomes (30% AMI and less) = production of 90 to 200 units annually, or 1,800 to 4,000 over 20 years;
- Rental units affordable at low incomes (31-50% AMI) = 80 to 175 units annually or 1,600 to 3,500 over 20 years; and
- Rental units affordable at moderately low incomes (51-80% AMI) = 100 to 230 units annually or 2,000 to 4,600 over 20 years.

Ownership goals will also depend on overall household growth, in addition to interest rates. If the city's ownership holds at 54%, 20 year ownership goals are likely to range from:

- Owner units affordable at moderately low incomes (80% AMI) = 95 to 210 units annually or 1,900 to 4,200 over 20 years;
- Owner units affordable at moderate incomes (81-100% AMI) = 70 to 150 units annually or 1,400 to 3,000 over 20 years; and
- Owner units affordable at missing middle incomes (101-120% AMI) = production of 60 to 140 units annually, or 2,000 to 2,800 over 20 years.

Refine policy guidance for affordability incentives and requirements: The feasibility analysis conducted for this HAP indicates that the city could impose a mandatory inclusionary requirement in high-rent submarkets and deepen the affordability requirement of the PTE in low and moderate submarkets. We recommend

implementing a mandatory affordable housing contribution in high cost market areas of 20 percent of units at 50 percent AMI. We also recommend providing low and moderate rent areas an option of 10 percent of units at 50 percent AMI or 20 percent of units at 80 percent AMI when the PTE is used if state law were to allow this option.

- **Affordability impact:** Leverage private development to contribute to affordable housing goals. Under current market conditions and in high-rent areas like downtown, private multifamily development has the ability to contribute a significant share of 50 percent AMI affordable rentals.
- **Growth impact:** Capture affordability in growth that is already occurring.
- **Community impact:** Produce mixed-income housing and add affordable housing to high opportunity areas.

Refine policy guidance for affordability incentives and requirements: Expand the Multifamily Property Tax Exemption (PTE) to mid-scale residential areas and missing middle products with 4+ units developed in low density residential areas.

- **Affordability impact:** Based on recent trends, the affordable units developed through the PTE could account for between 25 and 45 percent of annual housing goals for 50 percent AMI units.
- **Growth impact:** Distribute affordable housing throughout the city.
- **Community impact:** Leverage growth that is already occurring to integrate affordable units.

Refine policy guidance for affordability incentives and requirements: Calibrate supplemental housing policies, including surplus land donations, to reflect the housing goals and define Affordable Housing consistently with the needs identified in the Existing Conditions report.

Enact an anti-displacement policy and supporting programs to minimize the effect of land use changes on low income renters and owners.

- **Affordability impact:** Target affordable housing to those who most need it.
- **Growth impact:** Ensure that housing units meet employment growth in low wage industries and allow workers in Tacoma to reside in Tacoma.
- **Community impact:** Preserve Tacoma's socioeconomic and demographic diversity.

As noted above, the Planning Commissioners agreed that key element of the growth strategy is to minimize the displacement of residents who are not served by the private market.

The Existing Conditions analysis demonstrated that displacement is occurring in Tacoma for very low income households who do not receive housing subsidies: Between 2016 and 2019, rental units priced between \$625 and \$875 per month, serving households with incomes between \$20,000 and \$35,000, declined by 5,300 units.

Building upon this work and a best practices review of actions in peer communities, short-term recommended action items tailored to land use interventions that facilitate missing middle and affordable housing opportunities include:

1. Implement code changes to encourage missing middle product citywide to ensure that no neighborhoods are excluded from expanding missing middle and affordable housing opportunities.
2. Target inclusionary zoning in submarkets where it is economically feasible and strive for the most affordability as possible.
3. Require that developers benefitting from additional density through expanding medium-scale residential neighborhoods, the Multifamily Property Tax Exemption (PTE), fee waivers, expedited processing, and city-funding (through the Housing Division) adopt affirmative marketing practices—e.g., using multicultural models in advertisements, placing ads in culturally-targeted newspapers and radio stations, using a variety of languages, using accessible formats—when advertising available units.
4. Implement a resident preference policy that applies to both households at risk of displacement and residents living in neighborhoods with high-displacement risk. This policy would apply to developers who receive the PTE, fee waivers, expedited processing, and city-funding.⁵
5. Ensure that low income homeowners faced with rising property taxes, and seniors and persons with disabilities, are aware of the property tax exemptions and deferrals available through the Pierce County Assessor's office. Market the programs through trusted community organizations (<https://www.co.pierce.wa.us/682/Property-Tax-Exemptions-Deferrals>)
6. Working with local architects and lenders, create a set of affordable ADU designs and a financing package to facilitate construction of ADUs by lower and moderate income owners to add affordable housing and/or create income-building.⁶

⁵ Seattle's recent implementation of a community preference policy: <https://www.seattle.gov/housing/programs-and-initiatives/community-preference#:~:text=Community%20preference%20allows%20housing%20developments,%2C%5B1%5D%20and%20redlining>

⁶ A model program can be found here: <https://www.mywdrc.org/adu-pilot-program>.

7. Require redevelopment of large sites with city investment (e.g., infrastructure expansion, land donation) to include deeply affordable ownership products such as land trust and sweat equity developed communities, as well as publicly-assisted rentals, and affirmatively market these products to households displaced and at-risk.
8. Coordinate with the Tacoma Housing Division to ensure that residents at risk of displacement have the resources they need to mitigate eviction (e.g., tenant based rental assistance, access to landlord mediation services, relocation assistance, financial literacy programs) and other forms of displacement. Target information campaigns in neighborhoods when private sector development is active.
9. Support anchor institutions and businesses at risk of displacement due to redevelopment by encouraging redeveloped property owners to continue current leases through city subsidies and/or implementing first rights of refusal for newly created and affordable space created through public investments.
10. Empower people of color and others who have historically been under-represented in policymaking to take a stronger role in shaping policy.

Establish policies to achieve antiracism goals in housing.

This recommendation calls for development of a plan through which housing policy implementation will be evaluated to ensure that policies help undo structural barriers to housing choice caused by historical discriminatory actions. An Antiracism plan for housing is being developed in consultation with the Housing Equity Taskforce (HET).

Recommendations to Improve Housing Options in Tacoma: Missing Middle Actions

Change Single-Family Land Use to Low-Density Residential.

- **Affordability impact:** Increase the inventory of affordable homeownership products, tilting the affordability levels closer to 120 percent AMI, from 150 percent+ AMI.
- **Growth impact:** Diversify the supply of unit types for owners and renters.
- **Community impact:** Expand affordable housing options citywide in areas of opportunity, where land is limited to absorb significant amounts of growth.

Low-scale Residential Areas

- Extent: Missing Middle applicability areas (current Single-family and Multifamily Low Residential designations, minus Airport Overlay, shorelines, and other sensitive areas)
- Allow the following housing types:
 - Small lot single family
 - 2-unit and 3-unit dwellings (townhouses, a duplex + an ADU, or a triplex)
 - Cottage housing
 - Shared/cohousing
 - Fourplex/small multifamily (5-12 units)/tiny homes/mobile homes on some lots
- Reduce parking requirements to 1 per unit

Expand mid-scale residential along Corridors and Create mid-scale residential transition zones around Centers

- **Affordability impact:** Increase the supply of a variety of missing middle housing types developments and affordability levels.
- **Growth impact:** Broaden affordable rental products to meet affordability targets; expand land available to repurpose into missing middle products.
- **Community impact:** Expand housing options in walkable areas and near transit, promoting sustainability and community health.

Allow mid-scale multi-family housing, in addition to those allowed in low-scale neighborhoods, with the potential to increase in appropriate areas. Reduce parking requirements to 1 or fewer per unit depending on development type

Modify lot, parking, and access standards to remove barriers to infill.

- **Affordability impact:** Allow moderately-sized rental developments to reach < 60 percent AMIs (parking reductions). Increase the inventory of affordable rentals by up to 40 percent per development (building code changes).
- **Growth impact:** Incentivize the development of multifamily rentals.
- **Community impact:** Facilitate transit-dependent developments.

Constructing structured or underground parking adds a significant cost, generally between \$35,000 to \$50,000 per space, depending on the structure. Surface parking is much less expensive—around \$3,000 per space, yet is an efficient use of increasingly valuable land.

Reducing parking requirements in areas well-served by transit and easing requirements in exchange for affordable units helps rental developments reach 60 to 80 percent AMI rent levels without public subsidies and still achieve returns that remain competitive to investors.

The city should also allow flexibility in building code for wood frame construction, up to 7 stories, for rental developments that are 100 percent affordable in the 60-80 percent AMI range. This is allowed in more recent versions of the International Building Code (IBC). If all new moderately-sized rental developments added two stories using this option, 40 percent more 60-80 percent AMI units could be added to the city's stock, ensuring that the city could reach its 60-80 percent housing goal in less than 20 years.

Recommendations to Improve Housing Options in Tacoma: Supportive and Administrative Actions

Reduce development approval time.

- **Affordability impact:** Reduce the time it takes for housing to be developed and occupied by low and moderate income households; lower development costs; incentivize the development of affordable units by private sector developers.
- **Growth impact:** Incentivize the development of missing middle and affordable housing products.
- **Community impact:** Improve transparency.

Expedited processing and fee waivers, which Tacoma's original inclusionary zoning ordinance contemplated, have not been fully implemented by the city. The city is currently working toward adopting preapproved plans for ADUs and hiring an affordable housing project coordinator, both expected in 2021.

Expedited review is currently being piloted for a fully subsidized affordable project; the impact of expedited review on other development projects will be evaluated and potentially extended to other mixed-income projects.

The city should accelerate a streamlined development process for affordable missing middle and multifamily developments. The AHAS calls for a project coordinator to assist with permitted processing for affordable development and infill development, as well as an expansion of staff with subject matter expertise and on-call labor to assist with development review as needed.

Developer outreach for the HAP also identified a need for consistency in review of missing middle product types. As the city expands the land available for missing middle development it should avoid slowing down the development process and discouraging these housing types by treating each as a new concept.

Land Use Scenario Analysis

A predictive model was used to estimate the effect of the proposed missing middle code change scenarios. This analysis differs from the Buildable Lands report, although it does incorporate buildable land targets in its high growth scenario. This analysis uses a predictive model to determine the likelihood that lots will convert to missing middle development types as more flexible land use options are made available in Tacoma. It applies a more nuanced analysis to inform growth scenario development.

The model examined all parcels in Tacoma for development potential. The development potential considered:

- Vacant parcels—vacant parcels are more likely to redevelop;
- Location within downtown or within a center or corridor—more likely to redevelop;
- Proximity to open space—more likely to redevelop;;
- Land to building value—a higher value indicates a better likelihood of redeveloping; and
- Parcel size—larger parcels are more likely to redevelop.

The model considered the low and high growth scenarios that were used to for the housing growth targets.

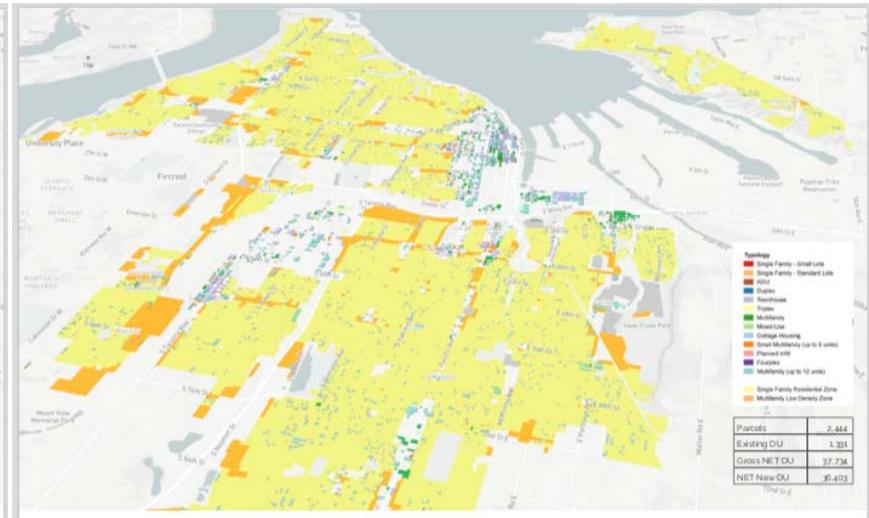
Preliminary modeling has found:

- Tacoma has limited capacity for future development of small and standard single family lots;
- ADU capacity is strong, has the potential to occur throughout the city in low density residential areas;
- Without code changes, duplex/triplex/cottage development will be concentrated near downtown, along corridors, and in the Tacoma Mall redevelopment area;
- New development will be largely multifamily and occur throughout Tacoma with concentrations downtown, along corridors, and in the mall area; and
- Missing middle infill programs increase housing unit capacity significantly throughout the city.

The following maps compare likely growth based on the predictive model without code changes that incentivize missing middle development—and the possibility of development if missing middle products are made more widely available. The first shows growth concentrated in large multifamily and, to a lesser extent, small multifamily products. The second shows an expansion of small multifamily, townhomes, and cottage housing—and how those intersect with single family detached areas.

Growth Form and Potential without Missing Middle Product Opportunities, 2020-2040

Growth Form and Potential *with* Missing Middle Product Opportunities, 2020-2040



Source: Gridics and Root Policy Research.

