

# Seattle MHA 5-Year Program Evaluation

City Council Presentation – March 28, 2025



STRATEGY ■ ANALYSIS ■ COMMUNICATIONS

H E A R T L A N D

# About this evaluation

- In 2024, BERK and Heartland jointly conducted an independent evaluation of the outcomes of the first five years of Seattle's MHA program.
  - **BERK** is an interdisciplinary consulting firm with expertise in housing and land use policy, financial and economic analysis, and data analytics.
  - **Heartland** is a Seattle-based real estate advisory and investment firm.
  - Both firms are based in Seattle and have been in business over 35 years.

## SEATTLE MANDATORY HOUSING AFFORDABILITY FIVE YEAR EVALUATION

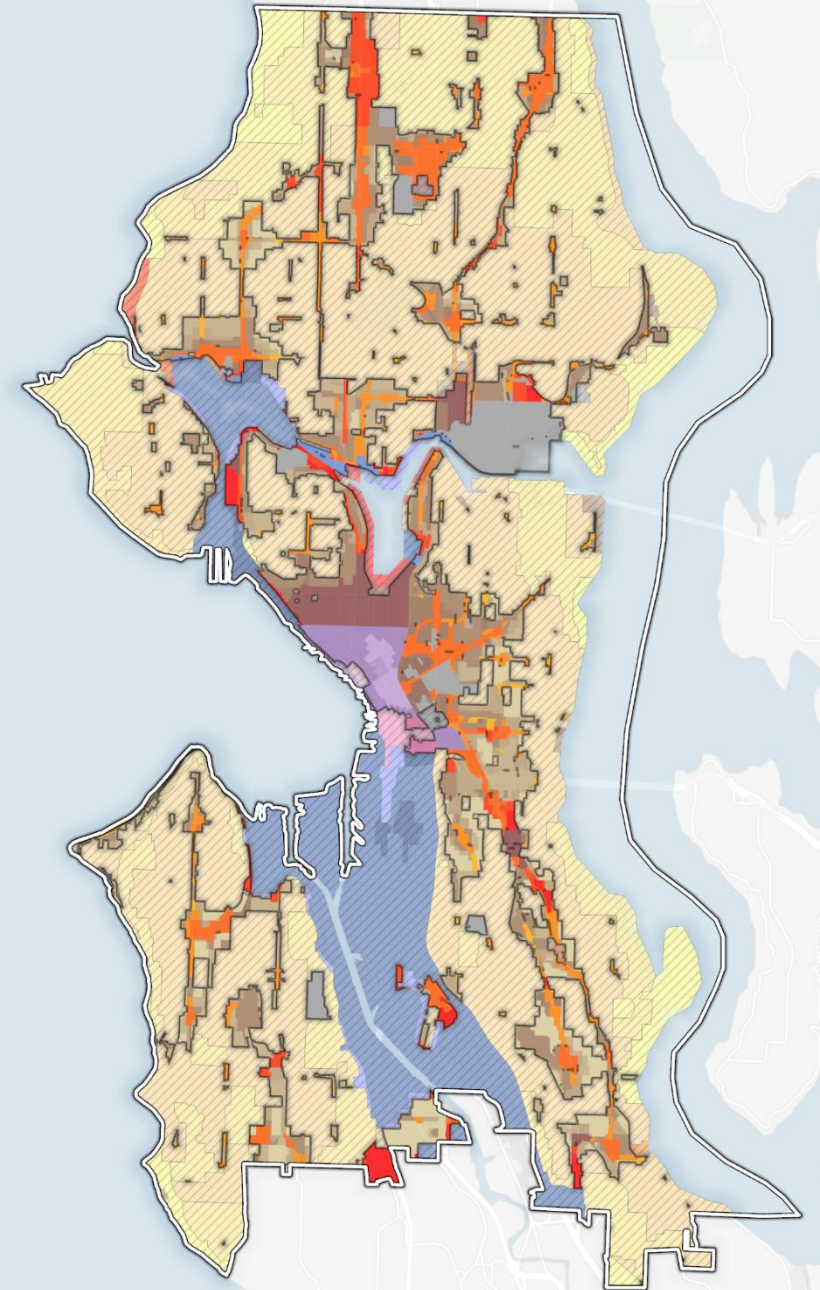
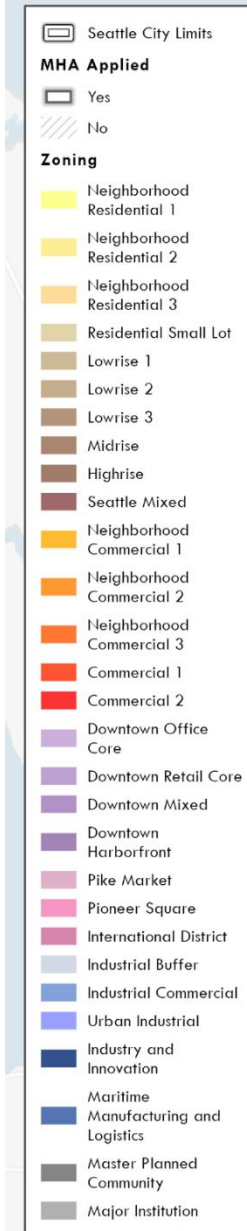


MARCH 2025

 **BERK** HEARTLAND

# Overview of MHA

- Implemented in 2017 and 2019
- **Increased zoned capacity** in most multifamily and commercial zones across the city.
- **Requires** developers to either:
  - **Perform** by providing income-restricted affordable housing onsite, or
  - **Pay** a fee-in-lieu to a city fund for supporting affordable housing production.
- **Goal to have a neutral or positive impact on total housing production** by balancing the incentive of increased capacity with the cost of new requirements.



# Evaluation questions

- 1 What is the current evidence base on inclusionary zoning programs and the impacts of such programs, positive or negative?
- 2 Are there any general takeaways from existing rigorous research studies that can inform Seattle's program, understanding that programs vary widely across jurisdictions?
- 3 How can the City better understand the value of an MHA upzone and the added development capacity provided in different zones versus the added costs associated with the program (either to build on-site/or make a payment in lieu of) to inform whether program modifications are needed?
- 4 What tools exist that may help the City assess incremental policy decisions and their impacts on local housing production?
- 5 What factors drive housing development in Seattle?
- 6 What is the relative impact of factors that drive development in Seattle on project costs?
- 7 What is the cumulative impact of these factors on project costs?
- 8 To what extent can the City determine the degree to which these costs, both within and outside the City's control, influence housing production?
- 9 How does Seattle's housing production overall compare to "peer" cities, both before and after the pandemic?
- 10 What larger macroeconomic trends overlay this trend line?
- 11 How has Seattle's housing production changed since the adoption of MHA?
- 12 What factors influence a developer's decision to participate in on-site performance vs. payment in-lieu?
- 13 What have been the impacts of the MHA program on affordable housing production in Seattle?
- 14 What are the pros and cons associated with on-site performance vs. payment in-lieu?
- 15 What could the City do, should it be inclined, to incentivize more on-site performance?
- 16 How should the City weigh costs and the potential future costs against potential benefits?
- 17 How might the City weigh the broader program benefits (revenue for affordable housing generated) versus the potential costs?

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## Overarching questions

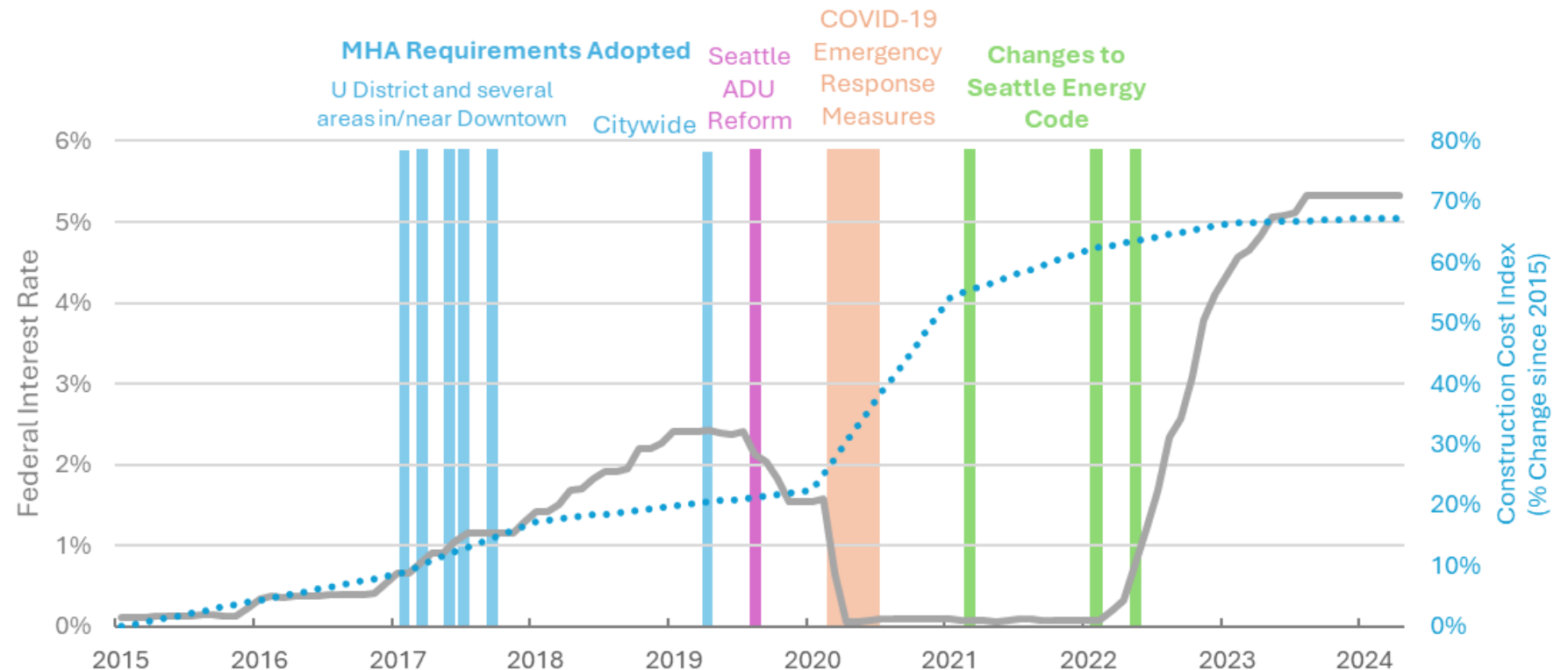
- Does MHA impact the rate of market housing production?
- How should the city weigh the benefits of new affordable housing against negative impacts on market housing production?
- What policies should the city consider to balance these tradeoffs?

# IMPACTS TO MARKET HOUSING PRODUCTION

# MHA is only one of several factors that have negatively impacted market conditions for development since 2019. Other factors have had bigger impacts.

- In 2019, market conditions for development were unusually strong.
- Conditions have since changed significantly:
  - **Construction costs** up by nearly 70% since 2015.
  - **New building codes** for energy efficiency increased costs.
  - **Interest rates** shot up in 2022-2023.
  - **Rent increases** did not keep up with inflation.

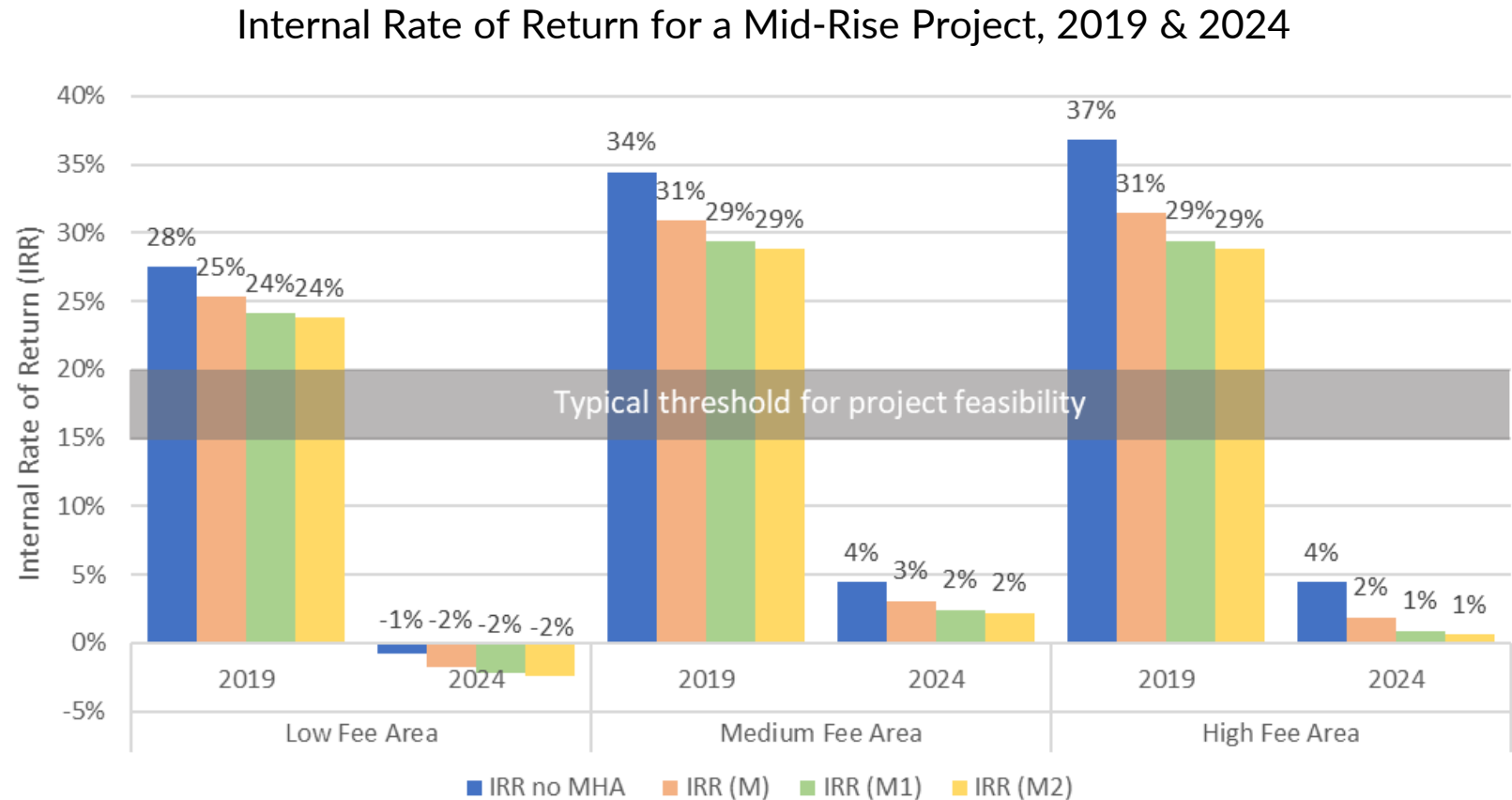
Timeline of Factors that Impact Development In Seattle



Sources: City of Seattle, 2024; Board of Governors of the Federal Reserve System (US), 2024; [Mortenson, 2024](#); BERK, 2024.

# Profitability of new development has declined significantly since MHA was adopted

- Developers will not proceed with a project unless it has a minimal rate of return.
- In 2019, a typical mid-rise project exceeded the feasibility threshold even after accounting for the cost of MHA.
- In 2024, the same typical project is not feasible, even without MHA.

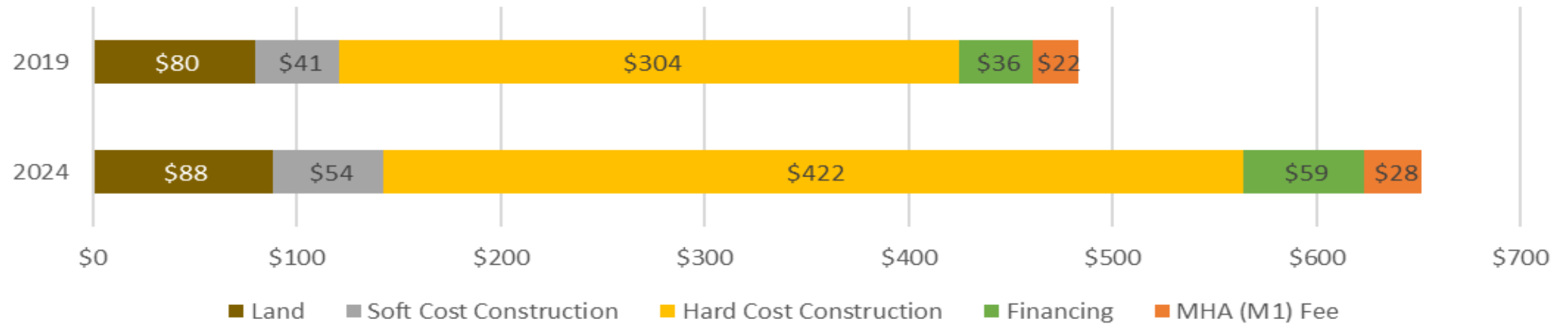


Sources: Heartland, 2024; BERK, 2024.



# MHA fee is a relatively small share of development cost, but it could impact “go/no-go” decisions on more marginal projects

Typical mid-rise project cost per building square foot, Medium MHA fee areas



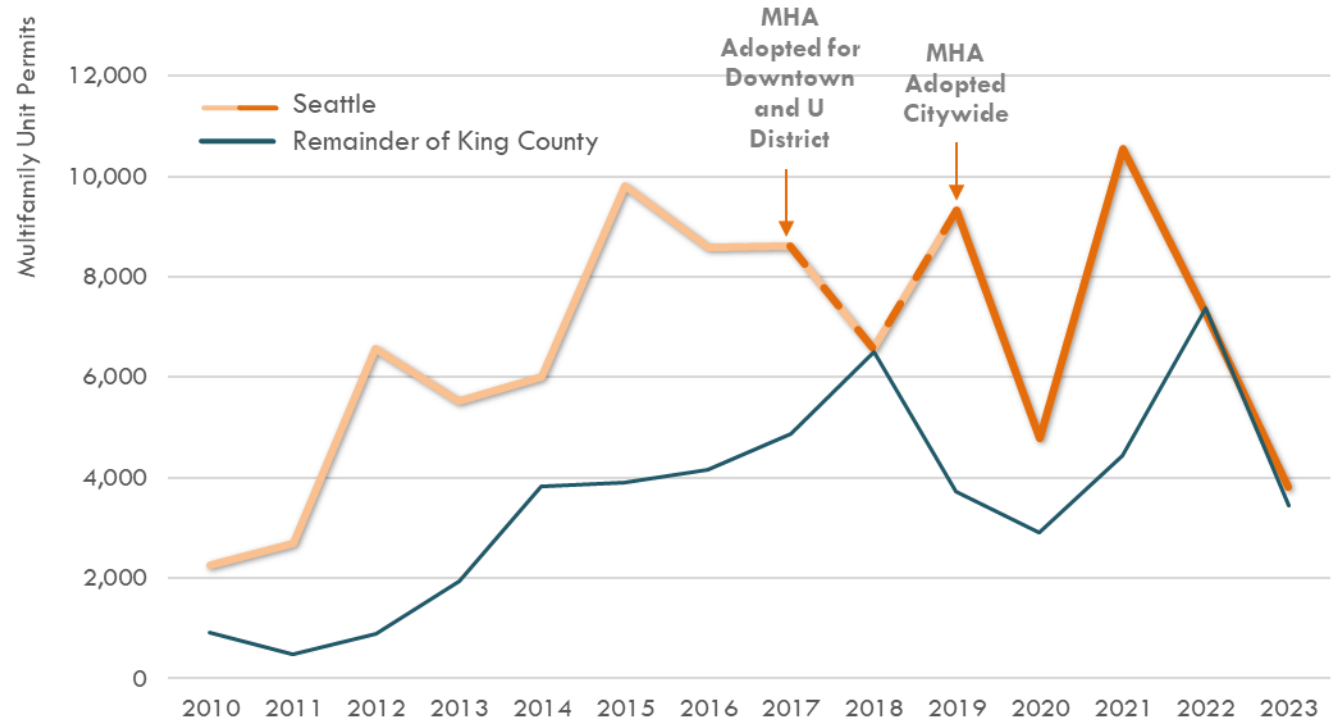
Sources: Heartland, 2024; BERK, 2024.

- 35% increase in total project costs between 2019 and 2024.
- MHA fee was 4.9% of total development costs in 2024.

# Multifamily housing production in Seattle has declined since adoption of MHA, but neighboring and peer jurisdictions also experienced similar declines.

- The rate of multifamily housing production in Seattle was on par with or higher than nearly all 13 peer cities assessed, including cities with and without inclusionary zoning programs.
- Comparison to remainder of King County does not show a clear shift of development outside of Seattle.
- No clear evidence that housing production declined in Seattle following adoption of MHA compared to peer and neighboring cities.

Units in Issued Multifamily Building Permits, Seattle and Remainder of King County

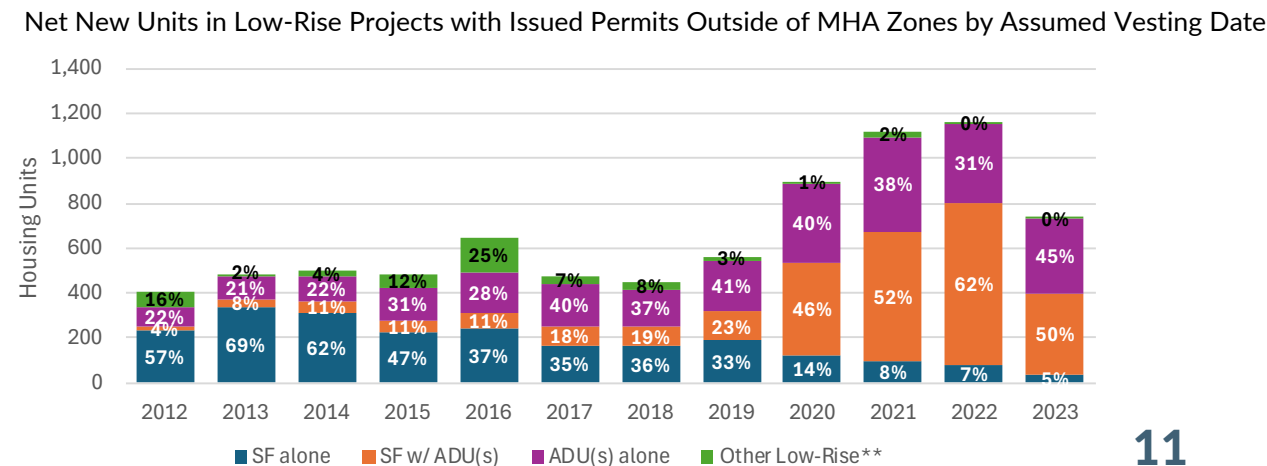
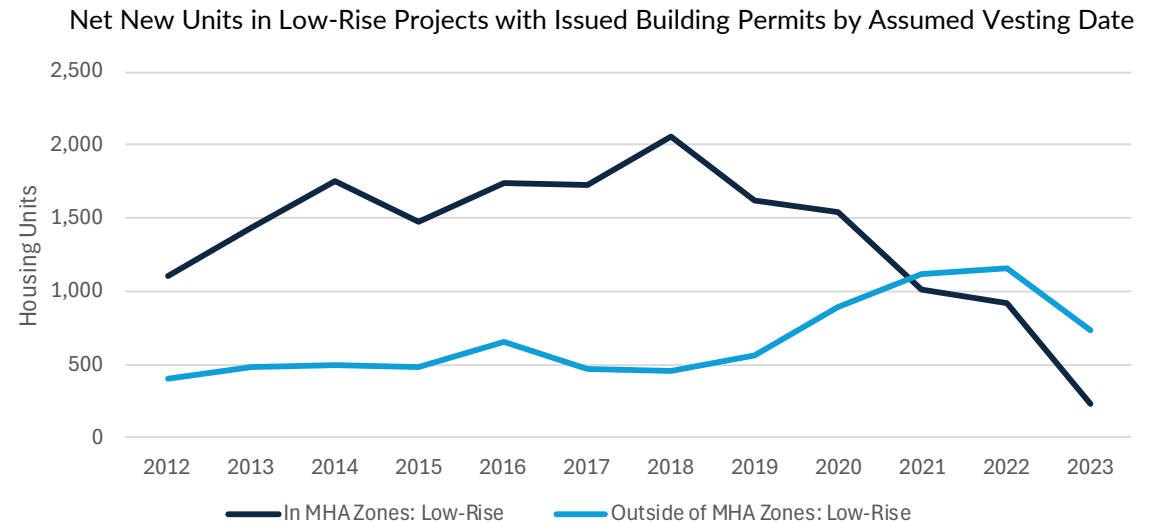


Note: "Multifamily" is defined as permits for housing with 5 or more units in the structure.

Sources: Census Building Permit Survey, 2010-2023; BERK, 2024.

# Low-rise housing production shifted to neighborhood residential zones following adoption of MHA.

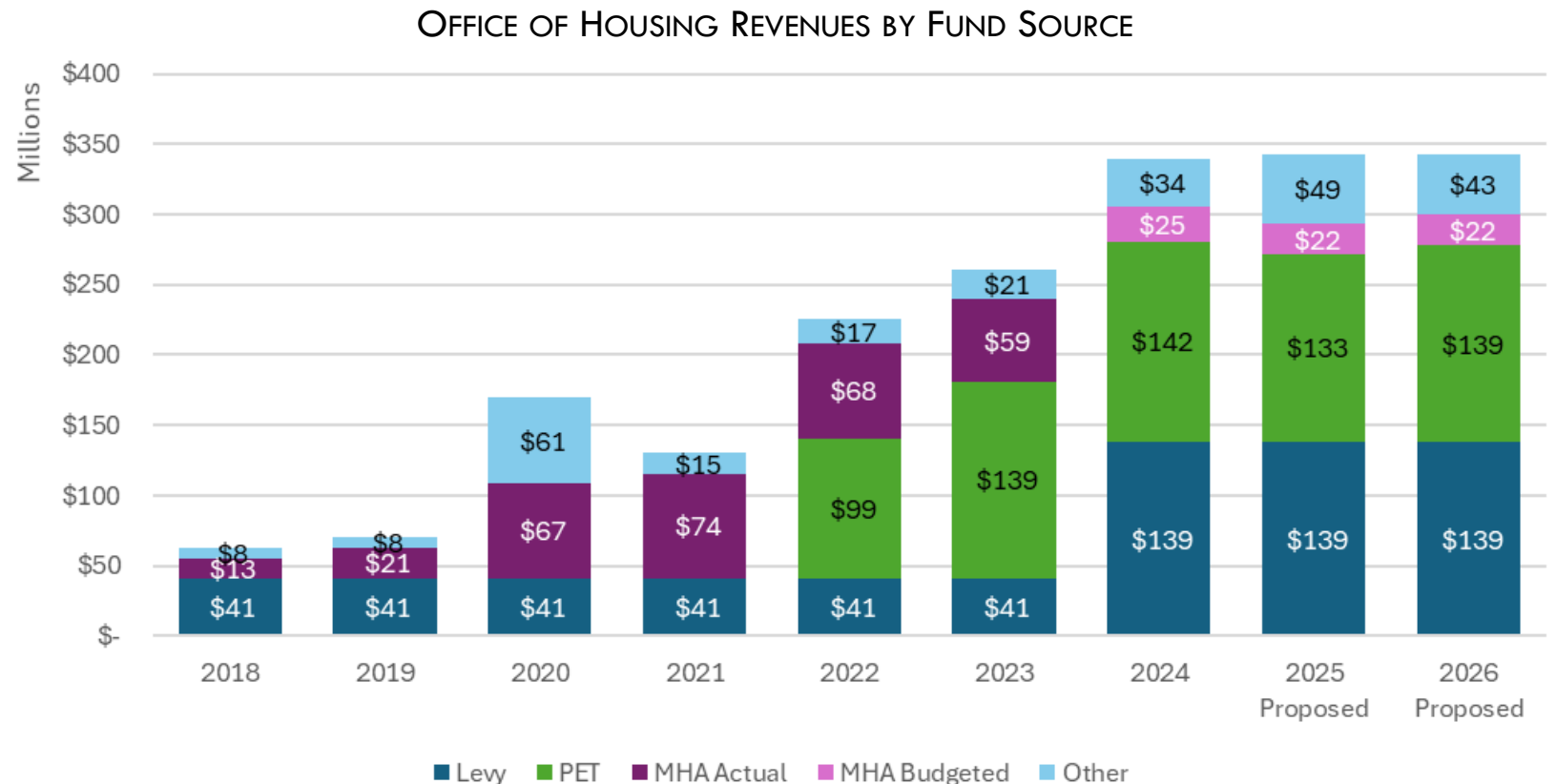
- Townhomes were the predominant form of development in low-rise zones.
- The upzone provided in LR provided limited value for townhome developers. But the MHA requirements increased costs significantly.
- In 2019 Seattle also adopted ADU reforms, which enabled a new low-rise housing product type in NR zones where MHA is not imposed.
- The combined impact of these changes prompted many townhome developers to shift to building in NR zones.
- This problem is particularly acute in the LR1 zone, and will be exacerbated with pending adoption of middle housing requirements in NR zones.



# IMPACTS TO AFFORDABLE HOUSING

# MHA has generated significant revenue for affordable housing, but is expected to be a small share of Seattle's future affordable housing funds as other sources increase

- MHA provided 57% of OH revenues in 2021.
- Then PET provided new revenue in 2022 and Levy increased in 2024.
- The Budget Office projects a decrease in MHA revenues to \$22 Million annually.



Note: All values are budgeted except for "MHA Actual" which represents collected MHA revenues. For other fund sources, City budget staff report that there is little variation between budgeted and actual revenue. Sources: City of Seattle Budget Office, 2024; BERK, 2024.

# MHA payment revenue has contributed to the production of 4,702 income-restricted units

- Between 2017 and 2023, there were 4,702 income-restricted units in buildings supported in part with MHA funding.
- OH leverages MHA payment revenue by contributing to projects that combine it with multiple other funding sources.

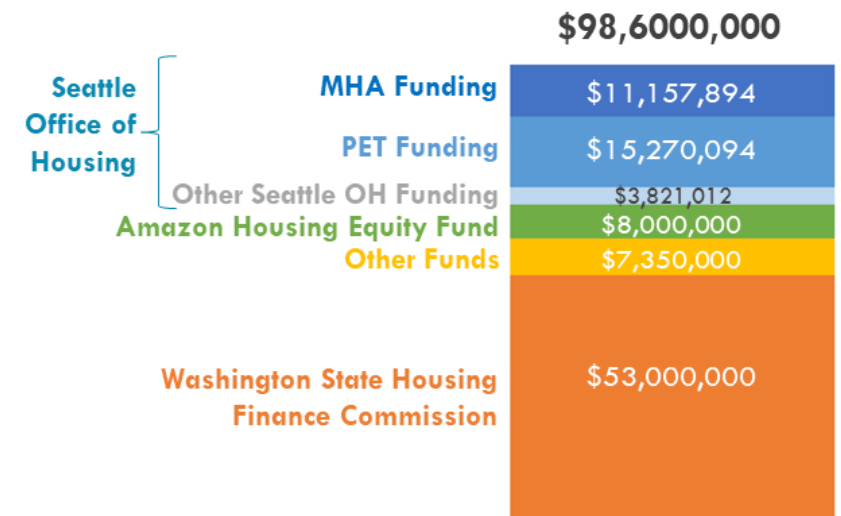
EXAMPLE: ALTAIRE AT JACKSON PARK

207 units



143 units <60% AMI + 63 units <50% AMI + 1 Manager unit

Seattle Reported MHA Units: 206



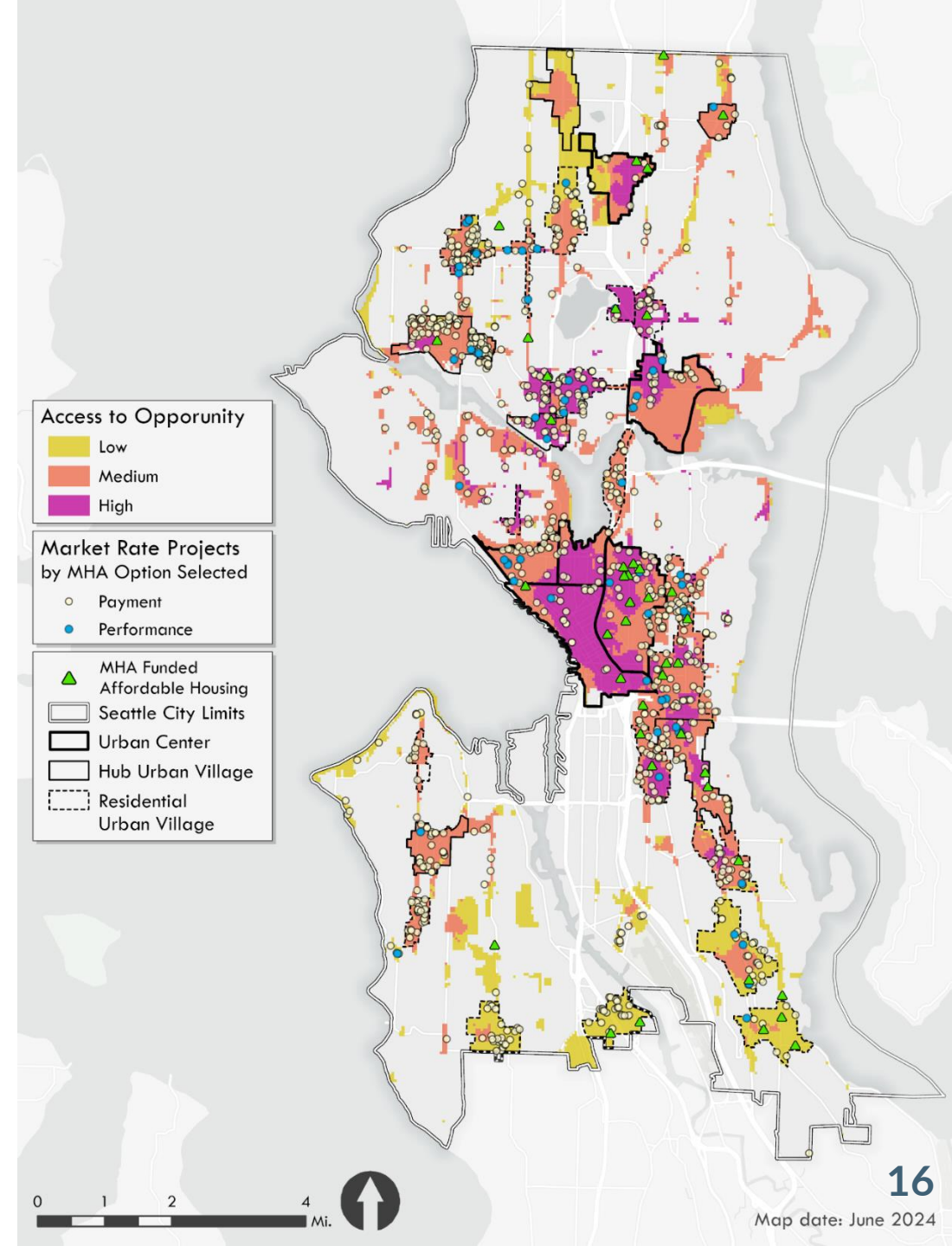
Sources: Seattle Office of Housing, total cost figures [reported by Daily Journal of Commerce](#), 2023; [The Registry](#), 2024; BERK 2024.

# Most developers select the payment option to comply with MHA requirements

- 95% of all projects subject to MHA selected the payment option, rather than build affordable housing onsite.
- Developers report challenges associated with financing, marketing, management, and reporting requirements associated with the performance option.
- Variation in outcomes by project type:
  - Close to a quarter of all mid-rise projects selected the performance option, while nearly all low-rise and high-rise projects selected to pay the fee in-lieu.
- In total, **404** new affordable rental units have been produced by developers that selected the performance option through the end of 2023.

# Affordable units funded by MHA payments and those built onsite are distributed across the city

- BERK classified the location of housing permits by opportunity level, using Seattle's 2016 Opportunity Index.
- Affordable units funded with MHA payments are just as likely to be in High Opportunity areas when compared to market rate units and units in projects that build affordable housing onsite.





# POLICY RECOMMENDATIONS

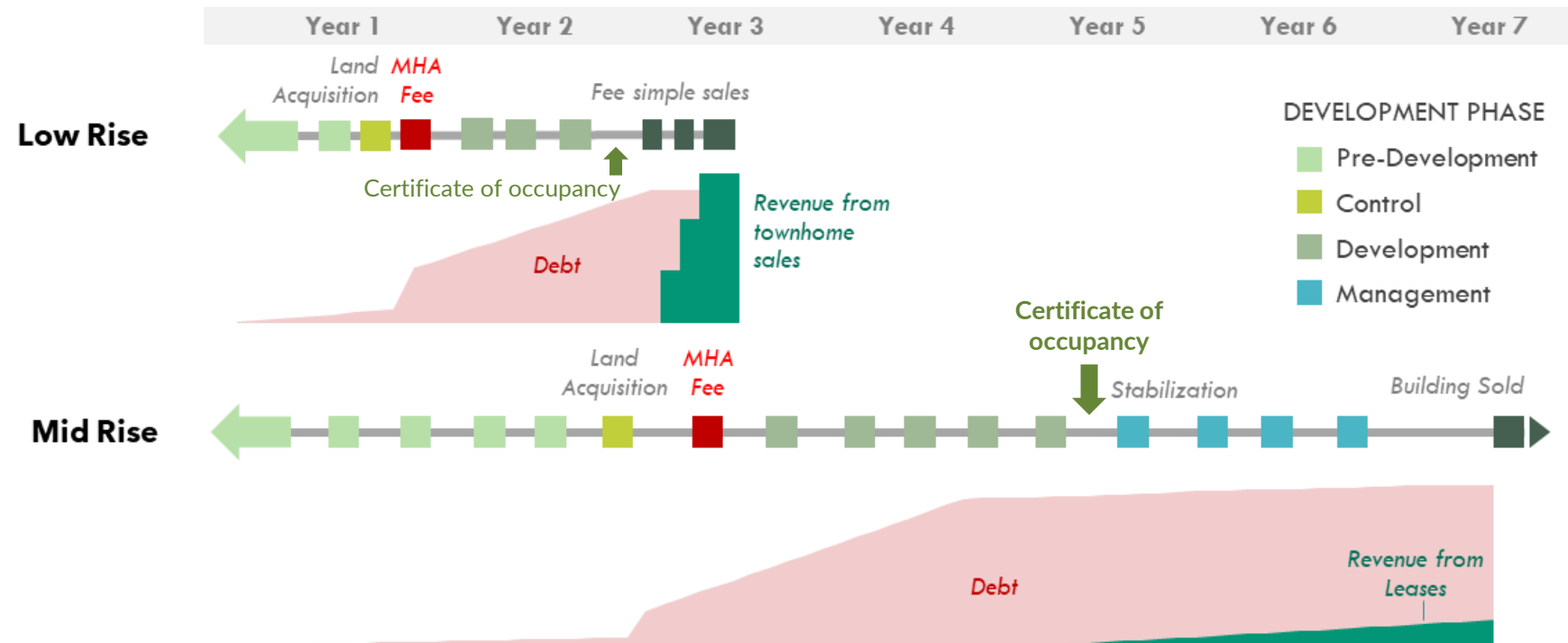
# 1. Regularly calibrate MHA requirements to align with market conditions.

- The City should consider replacing the formulaic annual adjustment of MHA fee levels with regular studies to recalibrate fees to align with market conditions.
- Studies to recalibrate MHA fees and requirements could consider how development feasibility varies for prevailing housing product types in different zones and in different areas of the city.

## 2. Adjust the timeline of MHA compliance requirements to lessen impacts to project feasibility.

- MHA requires fee payment early in the development timeline, before all project financing has been secured and potentially several years before any operating revenue is generated.
- Consider moving the deadline for payment to support development feasibility, such as after building permit issuance or certificate of occupancy.

Typical Development Project Timelines



### 3. Continue to provide options for complying with MHA requirements to support development feasibility.

- Nearly all developers are selecting payment over performance.
- Heartland development feasibility modeling shows performance typically results in a lower IRR.
- Many developers report qualitative factors that discourage selection of performance.
- Potential actions by the City to encourage performance over payment (such as raising fees) would likely have the impact of reducing development overall.

## 4. Evaluate other options for incentivizing multifamily housing production in Seattle.

- Eliminate design review requirements and streamline permitting timelines for all multifamily housing projects subject to MHA.
- Implement future upzones without additional MHA fees or requirements.
- Allow developers to count MHA performance units towards MFTE affordable unit requirements.

# For More Information:



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