Eastside Multifamily
POLICY WORKGROUP

July 11, 2023

Redmond Planning Commission
15670 NE 85th Street
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Redmond, WA 98073-9710

Dear Chair Nichols and Planning Commission Members:

We are a consortium of multifamily developers building housing across the Eastside. Collectively, we are responsible for a majority of the new multifamily housing units constructed in the last five years across Eastside cities, including most of the new affordable housing units in Redmond. **We are writing today to continue advocating for housing policies in Redmond and across the Eastside that will help build more housing – not hinder it.**

The policies presented by the City in the Redmond 2050 Housing Element and Overlake changes, which are on the agenda for your Wednesday, July 12th meeting, do not align with this perspective. These policies will slow the pipeline of housing production and amount to a regressive tax on Redmond residents.

We all agree our region needs hundreds of thousands of new housing units at all Area Median Income (AMI) levels to keep up with demand: Market-rate, middle-income, and subsidized low-income. As such, we appreciate the City of Redmond for continuing these conversations on how to create more housing that is affordable for all income levels.

Our feedback is rather focused on the core economic principle that **all new housing increases the housing supply, and thus, affordability**. Our housing crisis is fundamentally an undersupply problem, and we must work together to solve it. Market-rate units built today become workforce housing units 10 years from now, and every unit of subsidized low-income housing built by non-profit developers meets a deep need that will be on the market for the long-term. A robust, properly calibrated Multifamily Tax Exemption Program ensures middle-income housing is incentivized within market-rate buildings, and at some point, a dedicated housing revenue stream may be needed in Redmond and on the Eastside to ensure greater below-market production year-over-year.

In the last decade or so, it has become commonplace for municipalities to turn to new market-rate multifamily buildings as a primary source for everything from transportation or school impact fees, energy and carbon reduction requirements, public open spaces, transportation improvements, and on-site or fee-in-lieu affordable housing requirements.

Over time, these exactions compound and drive up the cost of rent for everyone, resulting in a highly regressive tax that has further contributed to our region's unprecedented housing shortfall. In Redmond, the number of cost-burdened and severely cost-burdened households earning more than 50% AMI is **greater** than the number of cost-burdened households that earn less than that threshold. Poorly calibrated programs drive up rents for families who are already rent-burdened, or worse, shut down development entirely.[1] The premise that added cost will be passed on to industry or only those families who can afford it is demonstrably false.

We have evaluated the proposed options City and ARCH staff have put forward, and are concerned these policies will irreparably harm housing affordability in the City:

1. **Requiring a free parking stall or a parking stipend as part of a tenant's rent for any mandatory or MFTE unit is a disincentive to building new market-rate housing in Redmond, and increases costs on market-rate renters.** Not only is this a very costly requirement (a below-grade parking stall costs roughly $80,000 to build), but the decision to include parking subsidies as part of Redmond's housing affordability requirements moves the city away from its transit-oriented development and carbon-reduction goals. With light rail stations opening in Redmond soon and increased bus service planned, the focus should continue to be on removing policy barriers to building housing near transit.

2. **Redmond's current mandatory inclusionary requirement of 10% of units at 80% area median income (AMI) is well calibrated and has produced 800+ units of income-restricted housing. There is no need to change the existing requirement.** The Housing Element proposal would change this to 2% of units at 30% AMI OR 10% of units at 50% AMI in Overlake. This is a dramatic change that asks market-rate developers to produce the same level of below-market units that non-profit affordable housing developers are given substantial subsidies to develop. All of this is being proposed at a time where financing, supply chain issues, land values, and regulatory costs are already decimating the pipeline of residential projects.

   Setting the AMI so low also means banning thousands of renters who make slightly more than the 30% AMI or 50% AMI thresholds. This effectively prohibits all teachers, nurses, and other providers of essential public services from accessing these units, in the unlikely event that they are constructed in the first place. According to the King County Housing Needs Allocation, Redmond

[1] Ref. City of Redmond 2020 Housing Needs Analysis, Exhibit 48.

needs more housing at 51% and above (5,411 units) through 2044 than it does at 31% - 50% AMI (3,870 units).

At best, the cost of these deeply reduced rents will be shifted to the remaining workforce tenants in each building, making housing less affordable for everyone. At worst, it will stifle the velocity of projects and further exacerbate our housing shortfall.

The City of Redmond is intending for the greatest number of housing units to be placed in Overlake, yet is disincentivizing new housing by imposing the inclusionary program. While we are primarily local developers who know differently, this sends a signal to the market that Redmond is not supportive of new development. Our national capital partners have choices of where to place investment, and are discouraged by this strong signal against housing production.

3. **Requiring a master plan when developing less than 70% of the zoning density is an untested policy that may prove to be too onerous of a requirement for cities to require by law.** Highrise construction only works at scale, typically well over 200 feet or in excess of 20 stories, and we do not think the City is likely to see significant high-rise residential construction in the 9-14 story range. It is likely, though, that groups seeking to develop would choose midrise wood frame construction instead. If this option is not available because of a requirement to go to the City Council, then development will simply not occur.

   We strongly encourage the City and Commission to engage with us on the unintended consequences of this policy, which is trying to force Overlake sites to build high-rise and may be inappropriate for demand. Incentivizing high-rise development by, for example, reducing cost drivers like impact fees, road improvements, and others, would be a productive way to get to this outcome without risking an untested policy that may deeply stall new development. We have significant and strenuous concerns about this policy, and suspect it lacks a legal basis.

4. **Requiring all new residential buildings to have ground-floor retail ignores site-specific conditions and the state of the retail market.** Published retail vacancy rates are not yet fully reflecting leases that have been cancelled or abandoned due to shuttered retail businesses, and even where there are retail leases, these are often loss-leaders and do not add to the bottom line in mixed-use projects. Mandating retail everywhere both ignores the needs of the retail market, and the cost burden that will be passed on to market-rate renters. In addition, the required parking for retail in the current code comes at a substantial cost, which this policy would make as standard for any new residential project.

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Rather than require retail at the base of every building, consider determining the most important streets to mandate retail. This is the approach taken by extremely pedestrian-oriented cities like Seattle, where retail is only required at street level along certain "pedestrian streets." Requiring retail in places that the lack traffic to support retail will lead to empty ground-levels, or projects with failed proformas that never get off the drawing board.

Finally, and this cannot be emphasized enough – **the current economy challenges the delivery of multifamily units on the Eastside and throughout our region.** High interest rates, construction and labor costs, and tightening capital markets are already resulting in fewer projects with no anticipated relief soon. And while real estate is cyclical, the current economy is unpredictable and unprecedented. We implore you to use the Great Recession as a lesson and do everything you can to speed up production of housing in this market so that we do not find ourselves in an even deeper housing crisis in five years.

Decision makers must be skeptical of new policies that add cost or time when building housing. Such policies have already exacerbated our housing crisis and have created a multi-year strain on supply at all income levels.

The materials outlining these Housing Elements were only made available on Friday, and we very much welcome and request greater engagement with City staff, the Planning Commission, and councilmembers on these issues further in advance so that we may develop a more collaborative approach to policy development. It is critical for the City and Commission to hear directly from the multifamily developers who have already built in Redmond and will be called upon to implement these policies in the future.

We thank the City of Redmond for continuing to expand the affordable housing supply across the Eastside and look forward to continued opportunities to share solutions that will achieve this result.

Sincerely,

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