



July 27, 2016

RE: Proposed amendments to MHA-R framework legislation

Dear Councilmembers:

We are writing to strongly urge members of the Seattle City Council to reject proposed Amendments 1 and 2 to Council Bill 118736 that would establish the Mandatory Housing Affordability – Residential (MHA-R) program. We believe that the Amendments are not only conceptually flawed but would also jeopardize implementation of the MHA-R program, limiting the number of new homes and new affordable homes we can build in Seattle at a time when families and individuals across this city desperately need more of both, and when vulnerable communities are experiencing economic displacement at startling rates.

Amendment 1 “establishes Council’s intent to consider initial higher payment and performance amounts in areas identified as having a higher risk of displacement.” Building on the language in Amendment 1, Amendment 2 adds Council’s intent to “identify, as a factor in establishing payment and performance amounts, replacement of affordable units identified as being at risk of demolition.”

Our three primary concerns are that the amendments:

1. Incorrectly place the blame for displacement on demolition caused by new development, ignoring that new development actually reduces overall displacement;
2. Directly conflict with the originally proposed MHA-R plan to set *lower* payment and performance amounts in areas with weaker real estate markets;
3. Introduce significant complications and controversy that are likely to impede implementation and compromise the effectiveness of the MHA-R program.

**First**, the primary rationale for both amendments is the mistaken belief that new housing development is the primary cause of displacement, when in fact, new housing development actually reduces displacement. Economists with the California Legislative Analyst’s Office recently found that displacement was more than twice as likely in census tracts with little market-rate housing construction than in census tracts with high construction levels ([link](#)). Recent analysis by the City of San Francisco on a proposed development moratorium in the Mission District concluded that “...new market rate housing tends to lower, rather than raise, the value of nearby properties...” ([link](#)).

These two findings are supported by the City of Seattle’s own analysis for the University District rezone EIS, which projected that 40 lower-cost housing units would be demolished if the upzones were enacted, compared to 60 housing units demolished if no zoning changes were made ([link](#)). The Draft EIS states: “The implication of this framework is the need for less land (and the potential demolition of low-cost housing) to meet the target

population.” In other words, upzones that enable more housing development reduce the loss of “naturally occurring” affordable housing.

The public tends to focus on displacement caused when new housing development requires the demolition of existing low-cost housing (“physical displacement”). But in rapidly growing cities such as Seattle, far more people are displaced by rising rents in existing buildings (“economic displacement”), the cause of which is a shortage of housing citywide and a history of exclusionary zoning practices ([link](#)). New housing reduces displacement by simply making room in the city for more households to live. Even if the new housing is relatively expensive, it absorbs demand from households that would otherwise be competing for other existing housing, which reduces displacement of the city’s lowest-income households ([link](#)).

City of Seattle data show that on average, new housing development results in at least 10 times more new units created than demolished ([link](#)). At the higher densities typical of most projects likely to be subject to MHA-R, the historic ratio of new to demolished housing units is 25 to 1. In other words, the expected result of new housing development under MHA-R is that for every one lower-income household that loses a home to demolition, 25 lower-income households are not displaced from the city elsewhere.

**Second**, both amendments contradict principles of real estate development economics that the city has until now been applying to the MHA-R program. HALA has clearly established the importance of producing new market-rate housing to address Seattle’s affordability crisis. The city recognizes that excessively high payment or performance requirements in MHA-R could jeopardize development feasibility and impede housing production and that the problem can be avoided as long as the financial encumbrance of the affordability requirements is offset by the extra rent income from the additional market-rate units enabled by the upzone ([link](#)). Accordingly, city planners have proposed that the MHA-R requirements be adjusted according to local market strength and have established a three-tiered system dependent on the location of a project in the city.

The May 2016 Seattle 2035 Growth and Equity report (p. 18 of [this pdf](#)) identifies areas at high risk of displacement. Some areas of high displacement risk overlap with areas in the MHA-R strong market tier (e.g., some parts of downtown), and some overlap with areas in the MHA-R weak market tier (e.g., Rainier Valley). Raising the payment and performance amounts in weak market areas is in direct contradiction to the city’s original intent to keep the MHA-R mandates lower in these areas so as to not impede private housing development.

**Third**, the schemes proposed in the amendments would introduce significant additional complication to MHA-R and would likely cause a major delay in its implementation. The city’s displacement risk metric is based on a combination of 14 indicators, and the selection and weighting of these indicators are subjective and debatable. Furthermore, the displacement risk metric is a continuous scale, requiring an arbitrary choice of the cutoff points for the geographical boundaries. As noted above, areas at high risk of displacement overlap with areas that the city has already identified as appropriate for lower payment and performance amounts based on weaker market strength. How would this conflict be resolved?

Regarding Amendment 2 specifically, defining “affordable units identified as being at risk of demolition” is technically challenging and likely to rely on subjective judgements that would incite controversy. The Draft EIS for the University District rezone projected that 40 low-cost housing units would be demolished with a rezone (60 units with no rezone). It’s not clear if this metric is an accurate representation of units “at risk of demolition.” The EIS estimate has been challenged by neighborhood activists.

Challenging complications would also be introduced by the need to mathematically translate the number of identified at-risk units to a specific increase in the payment and performance amounts across the entire area. This calculation would necessarily rely on highly speculative projections of future development that are sensitive to unique local conditions and unpredictable changes over time.

In summary, we believe that proposed Amendments 1 and 2 should be flatly rejected by Council. The amendments are based on flawed understanding of displacement and housing markets, and they would be counterproductive to the stated goals of MHA-R and HALA. They would also introduce major complications, debate, and controversy, jeopardizing the timely and successful implementation of MHA-R.

One in seven Seattle households pay over half their income in housing costs, and even as the city grows to welcome new neighbors, poorer and historically marginalized communities are disproportionately shouldering the squeeze of their arrival. That is not just, and it is not sustainable. MHA-R is a tool to build the homes Seattle needs and address the real cause of displacement and soaring housing costs. Proposed amendments 1 and 2 would only cripple that tool and delay the solutions Seattleites need today.

Thank you for your consideration.



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