

COMPREHENSIVE SOCIAL HOUSING

EXPANDING MISSION, CAPACITY, & IMPACT IN THURSTON COUNTY



The Housing Authority of Thurston County must take the lead to increase the stock of **PERMANENTLY PUBLIC, PERMANENTLY AFFORDABLE HOUSING** by expanding its mission, committing to development, and increasing its capacity.

PREPARED BY
Hannah Stanfield

CONTACT
Olympia DSA
housing@olydsa.org

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Past approaches to affordable housing development have focused on providing incentives for the market sector, yet gaps in available affordable housing remain unaddressed. Thurston County's vacancy rate sits at 3.7% - well below the 5% threshold indicating a tight rental market.¹ About half of all renters in Thurston County are cost-burdened, paying over 30% of their household income to stay in their homes.² Thurston's average rent has increased by 15% in the last year.³ With rapid population growth projected in the coming years, bold action must be taken to alleviate the growing housing affordability crisis in our county. Private developers cannot be solely relied upon to solve this issue, and public agencies must act to alleviate the burden of housing costs on Thurston residents. As the county's Housing Authority, HATC must think and act innovatively to make a greater impact.

The Housing Authority of Thurston County should:

- 1) expand its mission to serve a wider demographic
- 2) commit to developing unsubsidized affordable units
- 3) increase its capacity through partnerships

¹ Washington Center for Real Estate Research. *Washington State Apartment Market Report - Spring 2018*. Runstad Department of Real Estate. University of Washington. 2018, 7.

² Thurston County. *Thurston County Comprehensive Plan, September 2018 Public Draft*. 2018, 4-10.

³ Thurston Regional Planning Council. *Apartment Rate and Vacancy, Average Rent*. 2018.

COMPREHENSIVE SOCIAL HOUSING offers a wide variety of housing options that exist permanently outside of the speculative market, remaining public and affordable to Thurston residents with diverse incomes in need of a financially accessible place to live.

1. EXPAND THE MISSION OF THE HOUSING AUTHORITY

The housing crisis in Thurston County is a broad challenge, affecting renting households at all income levels. While homelessness has rightly been a major focus of public and nonprofit entities, more must be done to address the lack of affordable housing for low- to middle-income renters. The mission of the Housing Authority is “to provide safe, decent, and affordable housing and services to persons with disabilities, low income and at-risk individuals and families.”⁴ While this is a necessary and commendable goal, it does not meet the broad needs of the current reality of burdensome housing costs. Rising prices affect people across income levels - not only the elderly, disabled, and very low income populations traditionally served by the Housing Authority. In order to make a meaningful impact, the Housing Authority of Thurston County must expand its mission to reflect the needs of the residents of Thurston County, and commit to serving all Thurston residents in need of safe, decent, and affordable housing. HATC should aim to provide comprehensive social housing, to include units serving residents with disabilities and low incomes, as well as those not traditionally served by HATC programs. An expanded program of comprehensive social housing can make the significant impact needed in Thurston County.

Not only is an expanded mission necessary to address this crisis, it is also an opportunity for HATC to increase its sustainability. An increased focus on housing development can strengthen the Housing Authority’s operational sustainability while maximizing its mission to provide safe, decent, and affordable housing. HATC relies on the federal government for 75% of its revenue, with only 23% of revenues coming from the rental of Authority-owned properties.⁵ Expanded housing development presents an opportunity to diversify program

⁴ Housing Authority of Thurston County. *About Us*. 2014.

⁵ Housing Authority of Thurston County. *2018 Annual Report*. 2019.

funding and increase self-supporting revenues from owned units. Growing the number of Authority-owned units is a necessary action, and additionally will have long-term financial benefits as an investment that contributes to sustainability.

Furthermore, this approach keeps revenue local and public, promoting future growth within Thurston County. Social housing owned by public entities will bring needed stability to the area's housing market, creating new units outside of the market and protected from speculation and profit motive. In the current environment, Thurston County needs to be able to rely on housing that is permanently public and permanently affordable. The Housing Authority is the organization that can and should fill this role. HATC is uniquely positioned to develop social housing for low- and middle-income households due to broad bonding authority granted under state law. HATC can access tax breaks, attractive financing, and municipally-owned land, and should use these resources boldly given the severity of the shortage.

Fully leveraging its resources, HATC could build significant housing stock and stabilize rental prices for cost-burdened households. Comprehensive social housing provides the opportunity for HATC to advance their mission, strengthen sustainability, and emerge as a key regional partner in overcoming the housing crisis. By expanding its mission to include all Thurston residents in need of safe, decent, and affordable housing, HATC can take a meaningful step toward ensuring access to a stable place to live.

2. COMMIT TO DEVELOPING UNSUBSIDIZED AFFORDABLE HOUSING

Federally-subsidized voucher programs do not go far enough in addressing the gap of affordable homes facing Thurston County residents. By developing unsubsidized affordable housing units marketed at rates accessible to a broad spectrum of residents, the Housing Authority can fill a gaping deficit, produce revenue, and diversify its program portfolio. Rents of these units are not subsidized, although the Housing Authority may choose to enact a sliding rental structure to supplement rents affordable to a wider variety of incomes. The Housing Authority of Thurston County should commit to building unsubsidized affordable housing, dedicating a portion of the new revenue exclusively for reinvestment in future housing developments.

Thurston Thrives has developed a Housing Affordability Model to demonstrate the development costs, expenses, and returns of housing development in Thurston County. Two development examples based on the Thurston Thrives Model are presented below. The first example is a 65 unit development assuming a reduction in property tax costs, allowing the Housing Authority the same returns as a private developer. The second presents a 24 unit development, assuming the same expenses as a private developer, with a reduced return for the Housing Authority. Either model presents an opportunity to provide affordable housing to those earning 60% to 80% of the Area Median Income, while bringing in new revenue to HATC.

65 units affordable at 70% AMI

The Housing Affordability Model assumes a private developer at the helm. With the Housing Authority as the developer in this model certain differences can be assumed, such as property tax exemption, that would provide benefits as compared to a private developer.⁶ No other benefits or programs are introduced into the estimate, although many are available to the Housing Authority.

According to the Housing Affordability Model, a private developer can expect a 5.7% yield on cost return and a \$170,000 cash flow annually from a 65 unit development charging market-rate rents.⁷ See Appendix A for the Thurston Thrives Model.

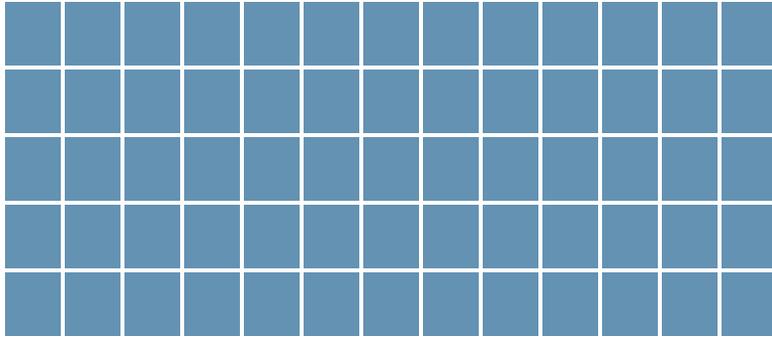
Thurston Thrives indicates that the market-rate rental price is about \$1,300 per month for a new 1 bedroom, 1 bath apartment.⁸ According to the Sightline Institute, about 10% of rental payments can be attributed to property tax costs.⁹ Since the Housing Authority is exempt from property tax, the same development described in the Housing Affordability Model may be rented by HATC for \$1,170 a month, assuming a 10% reduction due to property tax exemption.

⁶ Washington State Legislature. RCW 35.82.210. *Tax exemption and payments in lieu of taxes—Definitions*. 2018.

⁷ Thurston Thrives Housing Action Team. *Incentivized Housing - Regional Housing Summit II*. Aug. 29, 2018.

⁸ Ibid.

⁹ Sightline Institute. *What Makes Portland's New Apartments So Expensive?* 2018.



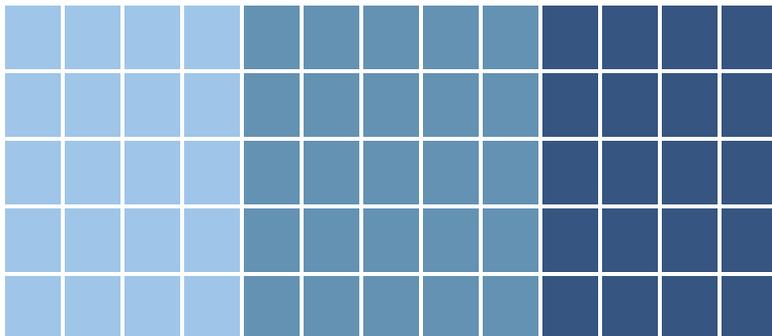
65 units at **\$1,170** a month

Affordable at **70% AMI**

5.7% yield on cost

\$170,000 annual cash flow

Alternatively, the Housing Authority could retain a similar cash flow while serving a wider variety of income levels. A mixed-income development with rent payments ranging from \$1,000 to \$1,340 per month would provide affordable housing for those making between 60% and 80% of the Area Median Income.¹⁰ The Housing Authority can create new rental units affordable to a wider population of Thurston residents, while still bringing in a substantial return.



20 units at **\$1,000** a month

25 units at **\$1,170** a month

20 units at **\$1,340** a month

Affordable at **60% - 80% AMI**

24 units affordable to 70% AMI

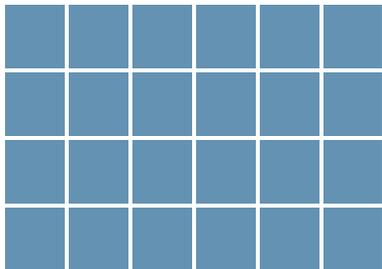
The Housing Authority of Thurston County has built two 24 unit developments, Allen Orchard in 2016, and Olympia Crest Apartments Phase II in 2009.¹¹ By building similarly-sized developments targeted to a wider population than those traditionally served by the Housing Authority, HATC can increase the stock of affordable housing while bringing in revenue to invest in future developments. A program of comprehensive social housing would be of benefit to Thurston residents, as well as the future growth of HATC programs.

¹⁰ Thurston Regional Planning Council. *Median Household Income*. 2017.

¹¹ Office of the Washington State Auditor. *Financial Statements and Federal Single Audit Report: Housing Authority of Thurston County*. 2019.

The following estimate is based on the Thurston Thrives Housing Affordability Model, scaled to a project of a similar size to Allen Orchard and Olympia Crest Apartments Phase II. No tax exemptions or exceptional financing programs were introduced into the cost estimates, although many are available to the Housing Authority. See Appendix A for calculations.

Assuming the same development costs and expenses as a private developer, a 24 unit development with rents of \$1,170 per month could bring in an annual positive cash flow of over \$18,000 for the Housing Authority. This housing would be affordable to those making \$46,800 a year, or about 70% of the Area Median Income.

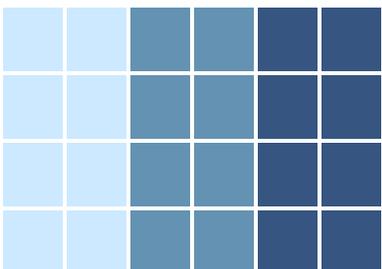


24 units at **\$1,170** a month

Affordable to **70% AMI**

\$18,466 annual cash flow

The Housing Authority could retain the same cash flow while serving a wider variety of income levels. A mixed income development with rent payments ranging from \$1,000 to \$1,340 per month would provide affordable housing for people making between 60% and 80% of the Area Median Income.



8 units at **\$1,000** a month

8 units at **\$1,170** a month

8 units at **\$1,340** a month

\$18,466 annual cash flow

This development would pay for itself while providing a steady source of revenue for the Housing Authority. After the loan has been paid, rental payments would be retained by the Housing Authority providing additional revenue. The Housing Authority should designate a substantial portion of this revenue for investment in future comprehensive social housing

developments, thus creating a program of self-sustaining housing outside of federal funding streams.

By building developments targeted to a wider market than the income levels traditionally served by the Housing Authority, HATC can increase the stock of affordable housing while bringing in revenue. Building affordable housing is possible - especially for a public agency eligible for financing programs and tax exemptions, and driven by their mission rather than increased profit margins. The Housing Authority of Thurston County can demonstrate innovative leadership by developing units affordable to a broad spectrum of Thurston residents, while still bringing in revenue to invest in future projects.

3. INCREASE OPERATIONAL CAPACITY

The Housing Authority is eligible to take advantage of a number of programs to increase its capacity and make a greater impact on housing affordability in the county. HATC has a history of utilizing partnerships and programs, and the current crisis calls for a more aggressive pursuit of additional support from state and local governments. In addition to continuing past activity, HATC must engage in creating new, innovative ways to expand their mission, develop more housing, and increase capacity.

In order to provide housing for the populations traditionally served by the Housing Authority, HATC has partnered with the Department of Commerce and the Washington State Housing Finance Commission (WSHFC) in past years.¹² HATC should increase these efforts today (the most recent utilization of WSHFC programs was in 2011) and take maximum advantage of all available programs. HATC should convene with both the Washington Housing Finance Commission and the Department of Commerce to explore how the Housing Authority can become more competitive, better utilize state programs, and discuss new ways to support affordable housing development for both low- and middle- income residents.

HATC has cultivated partnerships with the Thurston County Office of Housing and Homelessness Prevention, receiving a Community Development Block Grant in 2014¹³ and

¹² Office of the Washington State Auditor. *Financial Statements and Federal Single Audit Report: Housing Authority of Thurston County*. 2019.

¹³ Thurston County Office of Housing and Homeless Prevention. *Community Development Block Grant Program*. 2019.

other Housing awards in 2017.¹⁴ HATC should continue utilizing this partnership, by both increasing its efforts to obtain existing funding, and entering into conversations with Thurston County about new, innovative ways to contribute to HATC’s future housing developments serving a wider demographic. Over a decade ago, HATC partnered with the City of Olympia to obtain land for the development of the Olympia Crest Phase II apartments.¹⁵ As the area is currently experiencing a housing crisis, HATC must pursue similar partnerships now. The Housing Authority should actively engage in bold conversations about the ways in which city and county governments can support new housing development for both low- and middle-income residents, including grants, exemptions, land acquisition, and other innovative joint efforts.

Conversations with municipal governments should be augmented by the Thurston Thrives Incentivize Housing Team. As the developers of the Housing Affordability Model, the Incentive Housing Team may provide insight into how municipalities can support the Housing Authority in developing affordable housing that creates revenue. Using the Housing Affordability Model, HATC can explore the possible costs and revenues of a bold expansion in housing stock. HATC should initiate a meeting with the Thurston Thrives Incentivize Housing Team and city and county leaders to find opportunities for partnerships in building comprehensive social housing.

The Housing Authority of Thurston County has significant opportunity to expand the number of affordable housing units available to the residents of Thurston County. Compared to HATC, the neighboring Vancouver Housing Authority (VHA) provides over three times the amount of housing with the units they own.

PUBLIC HOUSING AUTHORITY	POPULATION SERVED ¹⁶	TOTAL PHA-OWNED HOUSING UNITS	UNITS PER 100,000 RESIDENTS
THURSTON COUNTY	280,588	531 ¹⁷	189
VANCOUVER	474,643	2,906 ¹⁸	612

¹⁴ Thurston County Office of Housing and Homelessness Prevention. *2017 Final Housing & CIP Awards*. 2017.

¹⁵ Office of the Washington State Auditor. *Financial Statements and Federal Single Audit Report: Housing Authority of Thurston County*. 2019.

¹⁶ U.S. Census Bureau. Population Estimates Program (PEP). 2017.

¹⁷ Housing Authority of Thurston County. Annual Meeting. 2019.

¹⁸ Office of the Washington State Auditor. *Contracted CPA Firm’s Audit Report on Financial Statements and Federal Single Audit: Housing Authority of the City of Vancouver*. 2018.

This approach contributes to a healthier diversification of funding, with less than half of VHA revenues coming from the federal government.

PUBLIC HOUSING AUTHORITY	REVENUE FROM FEDERAL SOURCE	REVENUE FROM PHA PROPERTIES
THURSTON COUNTY ¹⁹	75%	23%
VANCOUVER ²⁰	42%	32%

HATC should actively reach out to fellow housing authorities and meet with their peers to learn how they might decrease dependency on federal funds while providing more housing for the population of Thurston County.

HATC must leverage its experience, partnerships, and position as the county's Housing Authority to make a greater impact on the housing affordability crisis by expanding its mission, committing to development, and increasing its capacity. HATC can and should be a leader in the effort to address the housing crisis in Thurston County.

¹⁹ Housing Authority of Thurston County. *2018 Annual Report*. 2018.

²⁰ Office of the Washington State Auditor. *Contracted CPA Firm's Audit Report on Financial Statements and Federal Single Audit: Housing Authority of the City of Vancouver*. 2018.

Appendix A

DEVELOPMENT COST	THURSTON THRIVES MODEL 65 UNITS AT \$1,300	SCALED TO 24 UNITS AT \$1,170
LAND ACQUISITION & DEVELOPMENT	\$1,000,000	\$369,231
HARD CONSTRUCTION COST	\$6,000,000	\$2,215,385
SOFT COSTS, FEES, & TAXES	\$4,000,000	\$1,476,923
DEBT FINANCING & EQUITY COST	\$1,000,000	\$369,231
TOTAL COST	\$12,000,000	\$4,430,769
DOWN PAYMENT	\$3,000,000	\$1,107,692
MORTGAGE PAYMENT	\$45,000/mo	\$16,615/mo

INCOME	THURSTON THRIVES MODEL 65 UNITS AT \$1,300	SCALED TO 24 UNITS AT \$1,170
RENT POTENTIAL (INCLUDING FEES)	\$1,100,000	\$365,538
VACANCY (5%)	(\$55,000)	(\$18,277)
DELINQUENCY (1%)	(\$10,000)	(\$3,323)
OTHER INCOME	\$165,000	\$54,831
TOTAL INCOME	\$1,200,000	\$398,769

EXPENSES	THURSTON THRIVES MODEL 65 UNITS AT \$1,300	SCALED TO 24 UNITS AT \$1,170
PAYROLL, MANAGEMENT, & ADMIN	\$150,000	\$55,385
UTILITIES	\$80,000	\$29,538
R&M & RESERVES	\$100,000	\$36,923
TAXES & INSURANCE	\$160,000	\$59,077
TOTAL EXPENSES	\$490,000	\$180,923

RETURN	THURSTON THRIVES MODEL 65 UNITS AT \$1,300	SCALED TO 24 UNITS AT \$1,170
INCOME	\$1,200,000	\$398,769
EXPENSES	(\$490,000)	(\$180,923)
NET OPERATING INCOME	\$710,000	\$217,846
DEBT SERVICE (MORTGAGE)	(\$540,000)	(\$199,380)
CASH FLOW	\$170,000	\$18,466