Kitsap Sun
PART OF THE USA TODAY NETWORK

Mason County hit by housing crunch. How to fix it?

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PUBLISHED 3:43 P.M. PT JAN. 8, 2019

UNION — While finding an affordable home in Seattle may be challenging, the housing shortage in rural communities like Mason County has become increasingly dire.

Housing developers, politicians, mortgage lenders and business and community leaders came together last week for the first ever Workforce Housing summit sponsored by Peninsula Credit Union to discuss the factors influencing the rural housing shortage, as well as possible solutions.

"Our intent and laser focus is the economic development of distressed communities," said Jim Morrell, CEO of Peninsula Credit Union, which received a grant from the Northwest Credit Union Foundation to put on the Jan. 3 event at the Alderbrook Resort in Union.

Rent in Mason County has increased by 20 percent over the past five years, while wages have only increased by 7 percent, Morrell said, citing figures from Zillow.

Meanwhile, communities like Allyn, Grapeview, Hoodsport and Union have zero affordable housing rentals.

The conversation around affordable housing tends to center on the most vulnerable — the homeless — and the lowest tier of housing — emergency shelters, and transitional and public housing.

While those sectors are critical to address, Morrell said, housing for Mason County's workforce has long been neglected, as households that earn between 60 percent and 140 percent of the area median income ($31,058 to $72,469) struggle to compete in the rental and homeownership market.

"For many, that's an insurmountable leap," he said. "We have lots of small businesses in Mason County. If we have the affordable workforce housing for their employees to live, then their businesses can grow."

Nearly 9,000 Mason County residents commute outside of the county for jobs, and more than 3,500 people commute into Mason County for work, according to data from the Pacific Mountain Workforce Development Council.

From 2010 to 2016, Washington state produced 7.5 housing units for every 10 new households, a rate of 0.75 units per household on average.

Traffic moves along Highway 3 in Belfair in 2017. Leaders gathered this month at Alderbook Resort in Union to discuss how to overcome the challenge of bringing affordable housing to rural areas like Mason County. (Photo: Meegan M. Reid / Kitsap Sun)

"Housing starts haven't kept pace with household formation," said Mike Kingsella, executive director of Up for Growth National Coalition, a nonprofit formed last year to research and hold a conversation on the nation's housing crisis.

In Kitsap and Mason counties from 2010 to 2016 that housing unit start rate was even lower — 0.6 housing units in Kitsap and 0.54 housing units in Mason County were built for every new household, according to data from the Washington Office of Financial Management.

"In Mason County, interestingly the underproduction is even more pronounced," Kingsella said. "This is actually quite dramatic, relative to the national ratio. Essentially, for every two households formed, we only see one new unit being built."

The housing shortage in rural America has different drivers than the housing shortage in urban America, Kingsella said.

The rising cost of building materials and a shortage of general contractors since the recession (when many contractors went out of business and never came back) contributes to the problem, said Emily Grossman, a lead policy adviser for the Washington state Department of Commerce.

But on top of those factors, rural communities also face lower household incomes, Kingsella said.

"This growing gap is essentially stacking the deck against rural communities for getting their share of market-rate housing to serve the demand," he said.

Nonprofits like Up for Growth, state policymakers, local governments and developers in the private sector are paying close attention to the issue and have proposed varying solutions.

For example, the city of Port Orchard created a mixed-use pilot program and a multi-family housing tax exemption to attract more housing development in the city, said Nick Bond, development director for the city of Port Orchard, in a breakout session at the summit.

The city had weathered the recession thanks to annexation and population growth, but by 2015, city leaders realized that there had been no new development downtown in 10 years.

That same year, the city purchased a building that had burned in a fire — the Los Cabos building at 640 Bay St. — which forced the city to "think like a developer," Bond said.

Now, Port Orchard is focused on creating incentives for affordable housing, diversifying its housing stock and removing barriers that developers face, such as removing a costly onsite parking requirement, Bond said.

"We certainly haven't solved the problem,"

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he said. "But there is a synergy around regulation and reform now in Port Orchard."

Other communities, such as Port Townsend and Lacey, have reworked zoning requirements, created incentives for developers and worked on better messaging to combat misconceptions people have about affordable housing.

"We learned what it is that people don't like," said Steve Zetz, a city planner with the city of Prosser. "They don't like concentrated poverty or poorly designed buildings. It's also about a loss of identity and nostalgia (about how things used to be)."

Instead of working with developers to create blocks of housing with centralized parking lots, Prosser worked to create housing that looked more like townhomes, with assigned parking spaces, Zetz said.

The city also combatted myths by putting real faces on the problem, Zetz said.

"Studies and data don't work to convince anyone," he said. "It became about, 'Hey, this is Mrs. Smith and she needs a place to live.'"

On the state level, the Legislature needs to revisit the multifamily property tax exemption it gave to Mason County in 2014, wherein developers were offered incentives if they built a housing unit in a rural county and at least 20 percent of the units were designated as affordable housing.

The Legislature in 2007 passed a broader multifamily property tax exemption, allowing cities to offer tax breaks to entice developers to build in portions of urban areas where development was more challenging and costly. In Kitsap County, portions of Bremerton and Port Orchard are eligible for the exemption.

Mason County was the only rural county that qualified for the exemption when the Legislature extended it to rural areas in 2014. But, as the Washington Joint Legislative Audit and Review Committee concluded in a performance review report released last month, the endeavor was not successful.

"There were no takers," said Grossman, with the Department of Commerce. "The primary reason they think this didn't work is there was unfamiliarity in the building market and the finance market on how to use it, so there was a lot of risk aversion."

The Mason County exemption is set to expire in 2020. JLARC plans to review the state's broader multi-family property tax exemption later this year.

Grossman works with rural communities to find solutions to the housing crisis. The department offers a two-hour training for local governments that covers finance, planning and zoning, and financial incentives.

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> Mike Kingsella, Exec. Director,
> Up for Growth National Coalition

Rural communities most often face regulatory (zoning and land-use) barriers, lack of incentives for developers and lack of available land within urban growth areas close to infrastructure and services, Grossman said.

There are also financial barriers for both households (high down payments, low wages) and developers (high cost of materials and wages for employees, better profit in urban areas).

The state wants to work on tools for the "missing middle" housing shortage by encouraging local governments to offer affordable housing incentives to builders, offering subsidies and tax credits to developers and spreading the word about assistance for infrastructure projects, Grossman said.

On the national level, Up for Growth wants to work on increasing funding for the USDA's Section 515 rural rental housing loan program, which are mortgages made by USDA to provide affordable rental housing for very low-, low-, and moderate-income families.

The program is on the verge of losing tens of thousands of housing units in the next 25 years, Kingsella said.

"We are interested in engaging in broader land use discussion from a state and federal level," he said. "We're also interested in new models, public-private partnerships with employers, funders, and housing producers working together to deliver housing that's affordable to the workforce."

Oregon created an online portal through which all of these stakeholders can share ideas, and the real estate company Prime Locations created a housing affordability model that outlines how communities can incentivize more affordable housing.

Zach Kosturos, president of Prime Locations, said that developers know that the current course of action, where working families are priced out of the housing market, is not sustainable.

"One challenge in Mason County is messaging," he said. "How do you get developers here? It's about letting developers know what exists here, using a toolkit where they can plug in the incentives ... If we don't start having some transparency, we won't have any progress."

Up for Growth National Coalition is a national non-profit organization that represents a vibrant, diverse and growing coalition of advocates urging and promoting federal and state policies that enable smart and modern residential development for working families with walkable access to public transportation.