



Dear Councilmembers,

Consistent with my administration's commitment to regularly evaluate City programs and increase needed affordable housing, I am releasing an independent evaluation report of the City's Mandatory Housing Affordability (MHA) program conducted by Berk Consulting and Heartland LLC. The City's MHA program requires new development with commercial and multi-family zoning to include on-site affordable housing units or pay a fee-in-lieu of.

C.B. 118736, which I signed into law in my capacity as Council President in 2016, outlined a framework for the City's current MHA program. The City designed the program with the intent that MHA fees would not impact housing production. Indeed, the benefits of MHA are only realized when new housing production occurs.

The MHA evaluation, the most comprehensive assessment of the City's program to date, is nuanced and detailed. Some key findings include the following:

- When MHA was implemented in 2017 and 2019, market conditions in Seattle were exceedingly favorable and it was easier for developers to absorb MHA costs. Since then, market conditions have shifted and it has become a much more challenging development environment (as noted by a precipitous decline in Seattle's housing permit applications).
- It is difficult to attribute a reduction in housing production to MHA alone. Unfortunately, most projects today are infeasible, with or without MHA.
 - Declines in Seattle's housing production mirror other peer cities across the country as well as Puget Sound generally.
 - External factors outside the City's control, i.e. construction costs and interest rates, represent a larger share of increased costs.
 - If market conditions were to improve, however, MHA costs could impact project feasibility and influence whether a project proceeds, especially for projects on the margins of a "go no-go" decision.
- MHA fees were intended to be cost-neutral with the value of the upzone offsetting the fee to avoid impacting housing production. The value of the upzones, however, do not hold up over time. The report further explains why this is the case, but the takeaway is, MHA compliance costs may exceed the value of the accompanying upzone if fees are not adjusted when market conditions change.
- The 2019 upzones in low-rise zones created limited development value for townhome developers, degrading project feasibility. Townhome production shifted from low-rise zones where MHA is applied to Neighborhood Residential areas, where, also in 2019, Accessory Dwelling Units and Detached Accessory Dwelling Units were legalized and MHA did not apply. This indicates the value of the upzone in low-rise zones was insufficient when weighed against MHA costs.
- MHA requires developers to pay in-lieu fees very early in the development process, adding unnecessary costs at a critical time in the development process.
- Many cities with an inclusionary zoning program exempt smaller scale housing production (anywhere from 5- 30 units) from program requirements.

- MHA has proven to be a valuable tool for supporting more affordable housing in Seattle but expected revenues have decreased over time as housing production has fallen. Moreover, it has become a smaller share of revenue as other sources have increased (2023 Housing Levy) or been introduced (Payroll Expense Tax).

Based on the findings of the MHA evaluation, my administration plans to consult a subject-matter expert to advise the City on options for implementing the suggested improvements to the MHA program, including:

- a. Calibrating MHA fees more frequently to address changing market conditions.
- b. Identifying more advantageous times during the development process to collect payments.
- c. Addressing problems identified with applying MHA fees in low-rise zones.
- d. Considering pairing MHA requirements with MFTE under certain circumstances.
- e. Reducing the administrative burden associated with providing units on-site.
- f. Identifying other changes to strengthen program outcomes to increase affordable housing in Seattle.

As part of this process, I will work with the City Council to stand up a technical review committee to help advise us on this matter. I believe the MHA evaluation report serves to confirm that MHA can be a useful tool, but it requires careful design and active management to ensure it does not result in unintended consequences for Seattle's housing market. It is in this spirit that my administration will explore potential changes to the MHA program, which I will continue to champion with you as one of several programs the City has to increase affordable housing in Seattle.

Sincerely,

A handwritten signature in black ink that reads "Bruce Harrell". The signature is written in a cursive, flowing style.

Bruce Harrell
Mayor