



SPOKANE HOUSING MARKET Crisis or Opportunity

CRE Consulting Corps Exit Briefing
October 1, 2021



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- Affiliate of National Association of REALTORS®
- Founded in 1953
- 1,000 thought leaders
- Membership extended by invitation
- High-level expertise across many specialties
- 50+ Real Estate Disciplines
- Objective real estate advice and counsel
- CRE® credential = Real Estate Problem Solvers

The Counselors' Public Service Initiative

- Members of The Counselors volunteer to assist nonprofit or government entities
- 50+ Assignments since Consulting Corps formation in 1997

Real estate strategy and action plans

- Feasible, achievable recommendations
- Cost-Effective: good value
- Objective: nonpartisan, unbiased, no conflict of interest
- Time-Efficient: recommendations provided on site
- Advisory only: Consulting Corps does not implement the recommendations

CRE

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Current Housing Market Overview

- **MEDIAN HOME PRICES:**

- \$179,000 in 2016
- \$300,000 in 2020
- +68% increase, or an average of about +17% per yr over prior 4-yr period

- **HOME SALE PRICES:**

- Increased around 30% in past year in Spokane area!

- **INVENTORY:**

- Limited available home listings for sale; only 2 week supply
- Apartment vacancy at only 0.5%
- Rents increasing significantly

- **NEED FOR HOUSING ACROSS ALL SEGMENTS, SECTORS/NEIGHBORHOODS, AND TYPES**

Population Estimates

Current Population Estimates, 2021

(WA State Office of Financial Management):

- City (Spokane) – 225,300
- County – 527,600
- 1% average annual growth over past decade

2022-2031 OFM Population Projection, Medium Growth Scenario, Spokane County

49,904 Population growth

24,828 Household growth assuming 2.01 persons per household

28,552 Housing units needed assuming 1.15 market factor

2,855 Housing units per year

Housing

1-Year Housing Price Changes

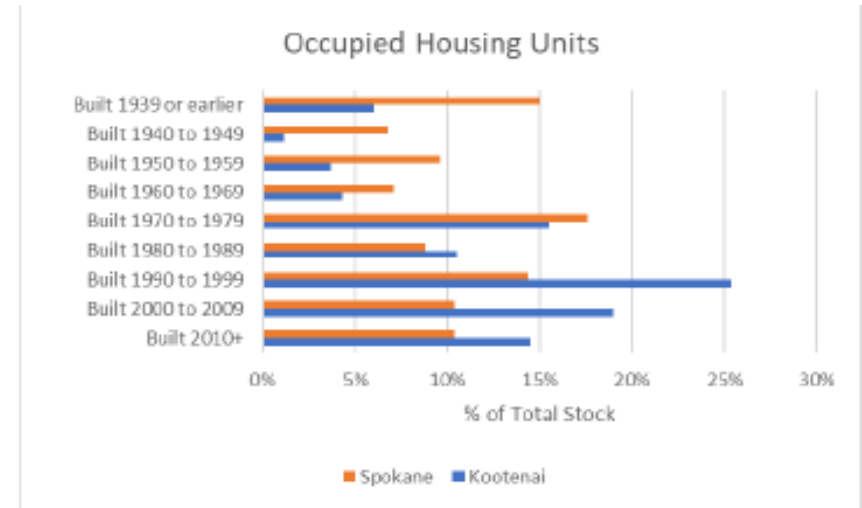
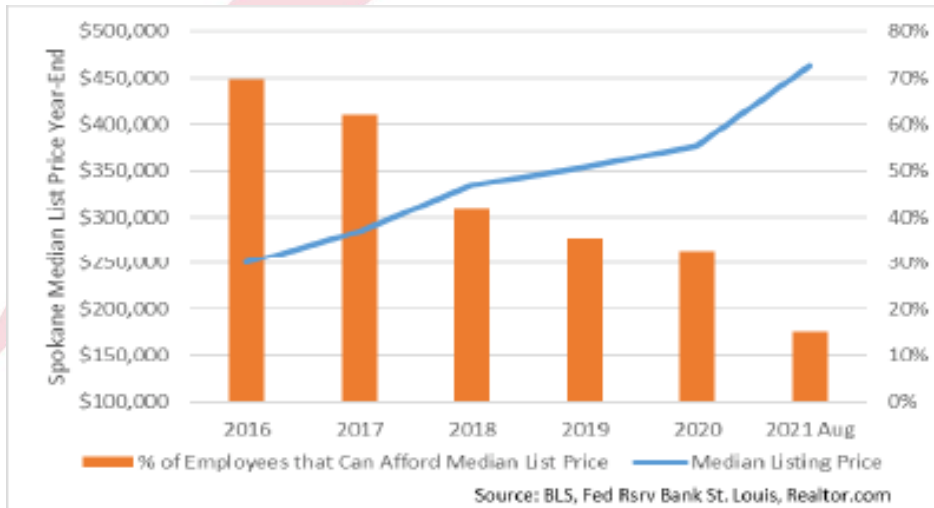
Freddie Mac Home Price Index

Annual Change (Jul-over-Jul)

1	Boise City, ID	
2	Coeur d'Alene, ID	46%
3	Idaho Falls, ID	40%
4	Austin-Round Rock, TX	39%
5	Pocatello, ID	38%
6	St. George, UT	37%
7	Bend-Redmond, OR	36%
8	Missoula, MT	35%
9	Sebring, FL	34%
10	Logan, UT-ID	33%
11	Cape Coral-Fort Myers, FL	33%
12	Lake Havasu City-Kingman, AZ	33%
13	Ogden-Clearfield, UT	32%
14	Punta Gorda, FL	32%
15	Provo-Orem, UT	32%
16	Port St. Lucie, FL	31%
17	Salt Lake City, UT	31%
18	Pueblo, CO	30%
19	Lewiston-Auburn, ME	30%
20	Spokane-Spokane Valley, WA	30%
21	Phoenix-Mesa-Scottsdale, AZ	30%
22	Lakeland-Winter Haven, FL	29%
23	Sierra Vista-Douglas, AZ	29%
24	Homosassa Springs, FL	29%
25	Stockton-Lodi, CA	29%

Housing

IMPACTS RESULTING FROM HOUSING SHORTAGE:
Diminishing % of workers that can afford housing



Vibrant Downtown

Creating Vibrant Downtown Communities

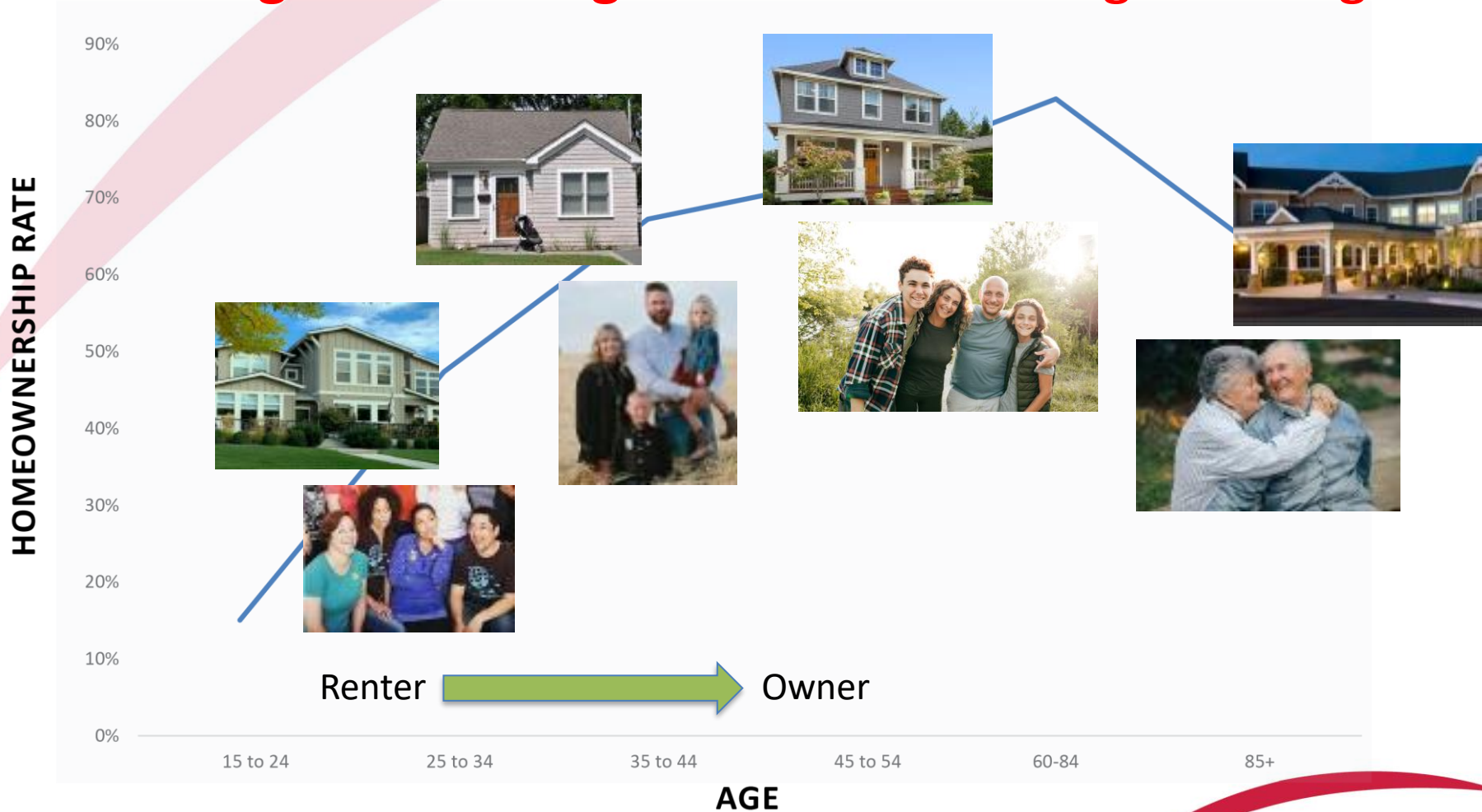


Vibrant Downtown Communities:

- Safety
- Live / Work / Play Environments
- Cultural & Art Centers
- Support Local Businesses

Vibrant Neighborhoods

Creating Vibrant Neighborhoods: Housing for all Ages

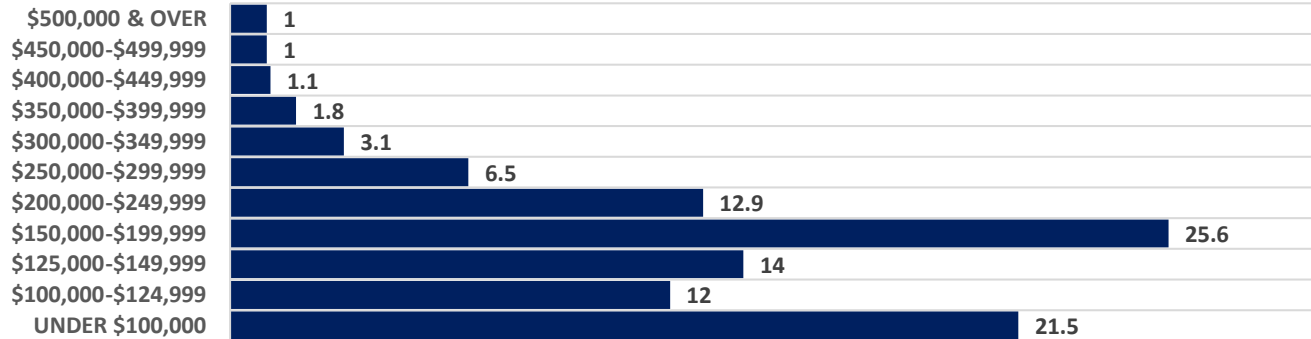


Spokane County, 2019 ACS data

Spokane Housing

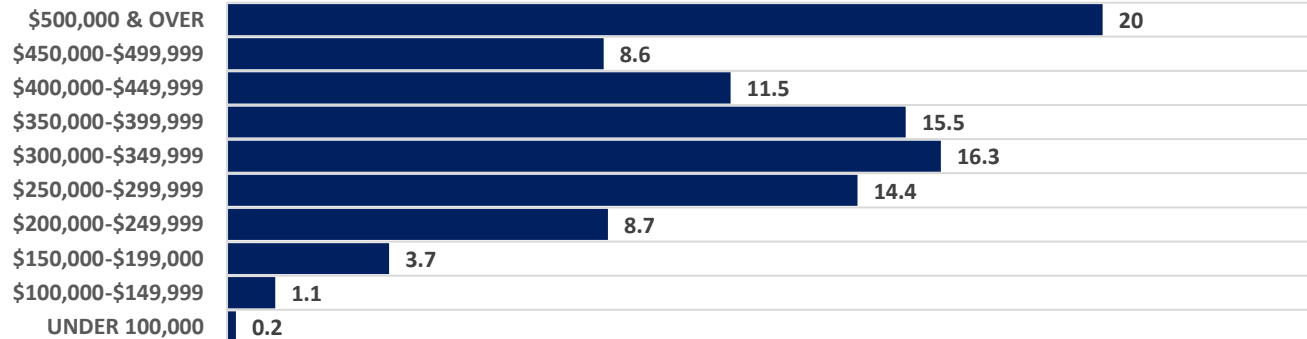
2011

PERCENTAGE OF ALL RESIDENTIAL PROPERTIES BY PRICE RANGE



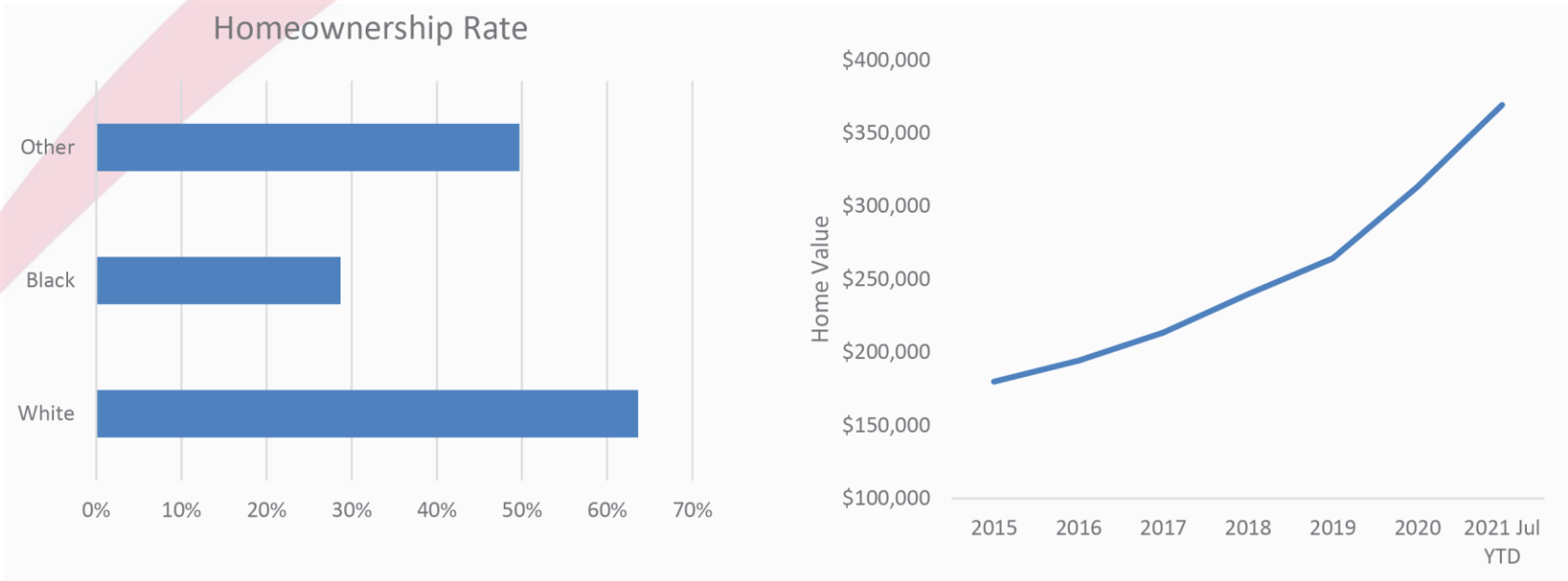
January 1 - August 31, 2021

PERCENTAGE OF ALL RESIDENTIAL PROPERTIES BY PRICE RANGE



Housing Build Wealth

Racial Inequities – Housing Contributes to Long Term Net Worth



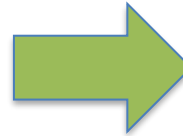
Purchase home in 2015 for \$179,900 with \$44,975 in equity 2021 value: \$369,263
Increase in equity from 2015 to 2021: \$189,363.

Total equity = \$234,338

Home equity is the major divide in building wealth

Neighborhoods

Supporting Underserved Neighborhoods



- Housing Security
- Transit
- Health & Safety
- Services
- Schools
- Local Businesses
- Arts and Culture

Housing

Creating Housing by Job Centers

Traffic: Rising commute times and traffic on I-90

Environmental: 4.6 metric tons of carbon dioxide per commuter from Idaho

Infrastructure Costs: Highway improvements cost billions.

Growing Job Base, e.g.:

1,200 new employees at

Fairchild AFB

4,000 new employees at Amazon





Connecting the Dots

Land Supply

- We see lots of land, others think there's none.
- Perception, entitlements, affordability are all part of the issue.
- All land can be developed or redeveloped
- But will it meet the market –
 - a use people need,
 - where they need it,
 - at a price they can afford.



Land Supply



Every parcel has constraints due to its specific

- configuration,
- location,
- zoning,
- current use

A housing developer determines if the price or rent that people in the market will pay for housing on this site will cover the cost of creating the housing:

WILL DEVELOPING THIS SITE PRODUCE AN ACCEPTABLE ROI?

(return on investment)

Constraints

All constraints can be mitigated/controlled:

- Bedrock for soil simply means slightly higher construction costs.
- Existing unwanted structures can be removed for a cost, and the loss of their use has a cost.
- Sloping sites can be built on – for a cost

Again, the question is:

WILL DEVELOPING THIS SITE PRODUCE AN ACCEPTABLE ROI?

Returns

Costs of a development project

Raw land
Infrastructure, site prep (eg sewer, road)
Design & other professionals
Hold
Financing
Construction
Contingency
Required/desired profits

Revenues from a development

Sale less cost of sales -or-
Rent less operating costs
The revenues must be more than the cost, and the market value created must be greater than the costs required to create the value, over each development's particular timeline.

Costs must be offset by revenue to produce profit

Density Impacts Returns

On a single ¼ acre lot, one could build

SPOKANE HOUSING

ROI AND DENSITY

	SINGLE FAMILY	(4) ROWHOMES	(16) STACKED APTS
TOTAL BUILT AREA (SF)	2,250	7,000	11,200
AREA PER UNIT (SF)	2,250	1,750	700
LAND COST	100,000	100,000	100,000
PROJECT COSTS	731,250	2,275,000	3,640,000
TOTAL COSTS	831,250	2,375,000	3,740,000
SALES REVENUE/UNIT	850,000	656,250	262,500
TOTAL SALES REVENUE	850,000	2,625,000	4,200,000
PROFIT	18,750	250,000	460,000

The cost of the lot may not change, the cost of construction per sf won't change much, but the revenue from sale will change a lot.



Challenges of Small Infill Development

Infill faces challenges due to its small scale, and impingement from neighbors.

- Low market transparency (little data)
- Lender underwriting more difficult due to low market transparency
- May require added utility connections
- Neighborhood context must be honored
- Irregular site configurations are difficult
- Demolition or remediation work potential
- Achieving ROI in small projects is difficult; less volume to cover overhead



Policy impact on ROI & Development

- Spokane is united in its desire for more housing.
- Public/Government attitudes toward development are complex and changeable, based on voter sentiments.
- Private Development operates within certain predictable parameters - it must produce ROI
- In particular, time and risk impact ROI goals

TIME & MONEY

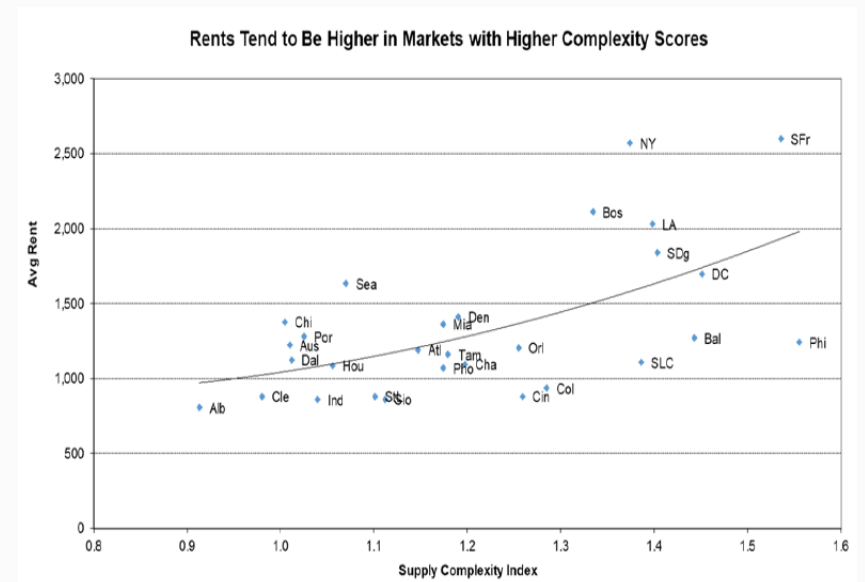
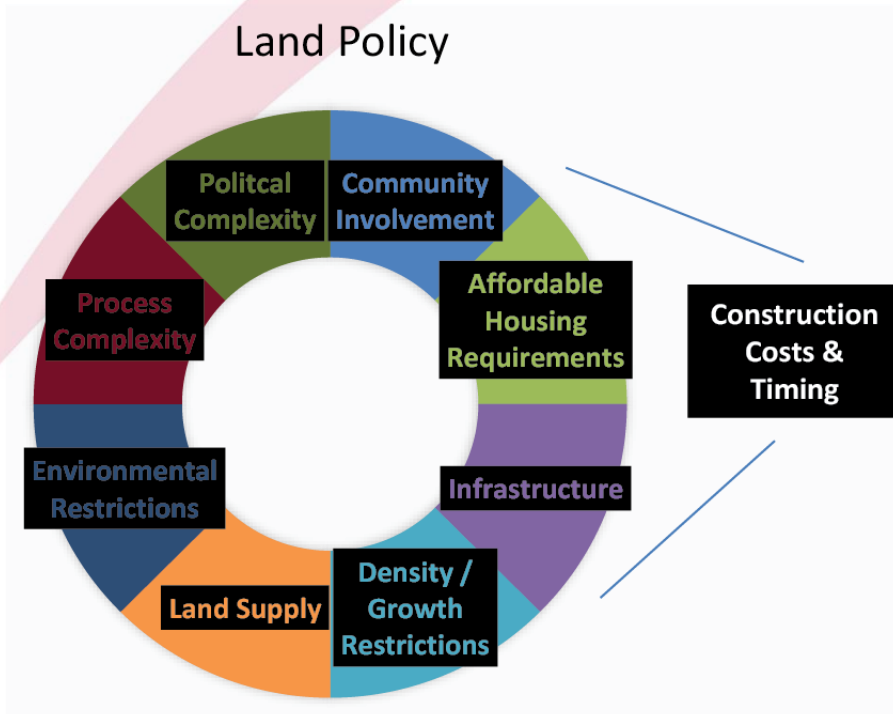
PROJECT TIME:	6 YRS	4 YRS	2 YRS
HYPOTHETICAL COSTS PER UNIT	WASHINGTON		IDAHO
Land Cost/lot, Improved	(100,000)	(100,000)	(100,000)
Carry-Opp cost of funds, tax, ins, maint	(4,000)	(2,000)	0
Professional, other Soft	(39,375)	(39,375)	(39,375)
Impact Fees, Requirements	(5,500)	0	0
Code Required Enviornmental Efficiency	(30,000)	(30,000)	0
Construction	(393,750)	(393,750)	(381,938)
Subtotal Construction/Prof	(468,625)	(463,125)	(421,313)
Finance	(32,882)	(32,882)	(32,882)
Costs of Sale	(42,875)	(42,875)	(42,875)
Sale Value	612,500	612,500	612,500
Total (Loss)/Profit	(35,882)	(28,382)	15,432
* IRR	-4.55%	-3.65%	11.07%

- Acquisition of stabilized asset: 5-10% IRR
- Development in established area: 10-15% IRR
- Development in unproven area: 20-25% IRR

*"Required Returns" to attract market rate debt and equity.

Impact

High Cost Markets Tend to Have Complex and Uncertain Land Policy



Pulling In The Same Direction



Action Items

Potential Action Items for Housing Development – Based on Input From Interviewees

• Zoning/Growth Management Act/Comprehensive Plan:

1. Increase density allowances / Decrease average lot sizes / Modify lot size transition rule
2. Allow all different housing types/models / smaller house sizes / ADUs, including townhouses, cottages, tiny home developments, and allow for and encourage senior housing development
3. Allow cluster development, PUDs
4. Reduce parking requirements
5. Allow “by right” development, and more mixed-use development
6. Ensure city code comports with Comprehensive Plan; update/modernize Growth Management Act
7. Encourage conversion of non-residential use properties to residential uses, especially those now underutilized
8. Increase building height allowances for multi-family development
9. Create more multi-family zones/areas,
10. Ensure higher-density housing projects are close to key transportation corridors and not isolated from key services (and/or encourage co-development with key services – “social determinants of health”), including daycares, bus lines, grocery stores (e.g., eliminate “food deserts”), etc.
11. Encourage and focus new development in closer proximity to jobs (e.g., West Plains)

Action Items (cont.)

- **Development Incentives:**

1. Multi-family housing tax credits in all jurisdictions
2. Lower development and all associated housing property development fees
3. Release LIHTC funds now available

- **Governmental/Structural:**

1. Add to city planning staff, even if temporary; fill vacant positions; actively focus on updating housing portion of the land use code; hire experienced and well-qualified Planning Director – fill position
2. Revise and shorten review and approval process – accountable maximum time deadlines for each approval; prioritize and expedite proposed housing projects, including mixed-use projects with housing components;
3. Ensure all city departments and staff work together toward same goal
4. Grant writer – focus on seeking grants for subsidized housing, public – private partnerships, etc.

Summary

Preliminary Findings

- Population growth has averaged about +1% per year over at least the past decade in the city and county, but housing development does not appear to have kept pace with this growth.
- Home prices have escalated dramatically in the past few years, and around +30% in just the past year, while rents have also increased significantly and vacancy is at a low of only about 0.5%.
- If population continues to grow at the same pace, then 28,000 new housing units will be needed in the next ten years in Spokane County (per OFM population estimates).
- Current median housing prices in Spokane require dual income households for much of the population.
- Housing should be considered in the context of vibrant communities which:
 - Support local businesses
 - Provide safety, health and housing security
 - Create centers of retail and entertainment
 - House intergenerational neighborhoods, including households of varying incomes and composition
 - Support underserved neighborhoods
- Creation of housing near job centers reduces commute times, pollution and expensive infrastructure needs, and adds housing opportunities for future employees.
- Spokane home sales indicate an increasing lack of work force housing and supply for first-time buyers.
- A lack of housing diversity perpetuates poverty for renters who 1) can not afford market rents or 2) have no options to buy at entry prices.
- A lack of affordable housing (owned and rented), potentially compounded this year by the expiration of eviction moratoriums, may increase homeless populations.

Preliminary Findings

- Density can provide more vibrant long-term community growth, reduce stress on infrastructure costs such as roads, police and fire, reduce pollution and support healthy environments.
- Land supply could be more abundant under a policy structure that allowed appropriate density.
- Projects such as Kendall Yards provide a road map for new in-fill projects that are valued by the local community, although significant zoning and/or other regulatory changes will be needed to allow similar projects.
- Construction is difficult in policy environments that create long entitlement and construction times and high costs. These factors are amplified for small infill developments as compared to greenfield housing. Thus, policy revisions are critical if the community does not want to undergo significant expenses and experience long-term downsides such as pollution and traffic that are associated with suburban sprawl.

ACTION ITEMS

Align the zoning code with the comprehensive plan and streamline permitting processes.

Provide development incentives.

Revise local governance to address changes needed to increase housing supply.

ACTION ITEMS

Public Sector

- Update zoning code and map to match comprehensive plan
- Update PUD requirements
- Decrease min lot size many/most neighborhoods
- Focus on vibrant multi-use community development

Appendix

Recent Housing Studies Provide Broad Input for Policy Changes

2021 Housing Action Plan	
City of Spokane 2020-2024 Consolidated Plan	Identifies housing and community development priorities that align and focus funding from federal formula block grant programs, including the Community Development Block Grant (CDBG) Program, the HOME Investment Partnerships (HOME) Program, and the Emergency Solutions Grants (ESG) Program to fund construction of affordable housing units, renovation of existing units, and other measures which increase or maintain residential opportunities for low- and moderate income households.
2020 - Northwest Fair Housing Alliance	Analysis of Impediments to Fair Housing Choice - identified 10 impediments and recommended actions to help affirmatively further fair housing choice and support affordable housing options.
2018 -19 code amendments	passed to increase infill residential development options in Spokane's lower-density residential areas
2017 Housing Quality Task Force	19 recommendations related to housing quality, abandoned homes and affordability
2017 - The Mayor's Joint Administration-Council 6-Year Strategic Plan	Includes near-term and longer-term strategic initiatives focused in four key areas: Safe and Healthy; Urban Experiences which includes strategies to focus investment in key centers and to increase housing quality and diversity
2016 - City Council Infill Housing Task Force	A subcommittee of the Plan Commission engaged developers, design contractors, community representatives, and leaders, to ask what changes were needed to encourage high-quality housing and commercial development in appropriate designated areas of Spokane. A series of 24 recommended actions provides a guide to address residential and commercial development on vacant lots in now built-up areas.

A number of previous studies have thoughtfully gathered input on the Spokane housing market from a wide variety of public and private organizations. Sample projects are listed in the table below.



Thank You