



A Regional Coalition for Housing

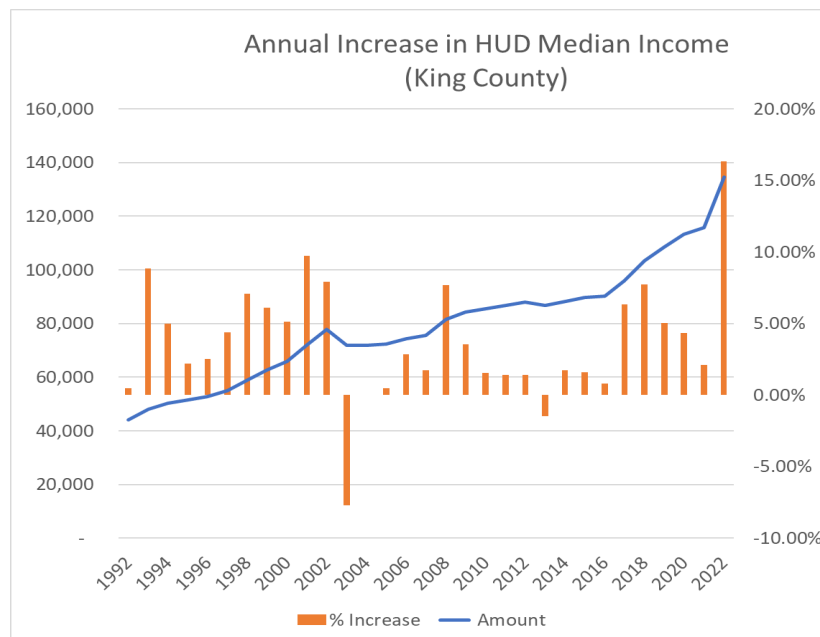
Celebrating 30 years of bringing cities together to house East King County

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Rent Increase Policy Background (Updated February 2023)

ARCH supports many member jurisdictions in East King County with the administration of local affordable housing programs. These include programs that provide land use or tax incentives in exchange for setting aside affordable units in market rate developments, as well as a Trust Fund program that invests funding in affordable developments. These programs have created roughly 2,000 affordable rental units through incentive programs and 3,500 units through local investment, with another 2,500 units in the pipeline.

Under most program regulations, affordable rents are set each year based on the rate of change in the Area Median Income or “AMI”, which is published by the U.S. Department of Housing and Urban Development (HUD). This policy has led to unpredictable and sometimes unsustainable rates of change for tenants and owners, with increases as high as 16.3% in 2022 and decreases as low as -7.7%.



To address these challenges, ARCH initiated a policy development process with input from a variety of stakeholders. The ARCH Executive Board set forth the following objectives for a new policy:

- Reduce the trend toward increasing cost burden among renters of affordable units
- Provide greater predictability for tenants and owners
- Create regulations that support financial feasibility based on common underwriting standards among investors and lenders
- Minimize administrative burden for property managers and ARCH to oversee compliance
- Avoid unintended consequences

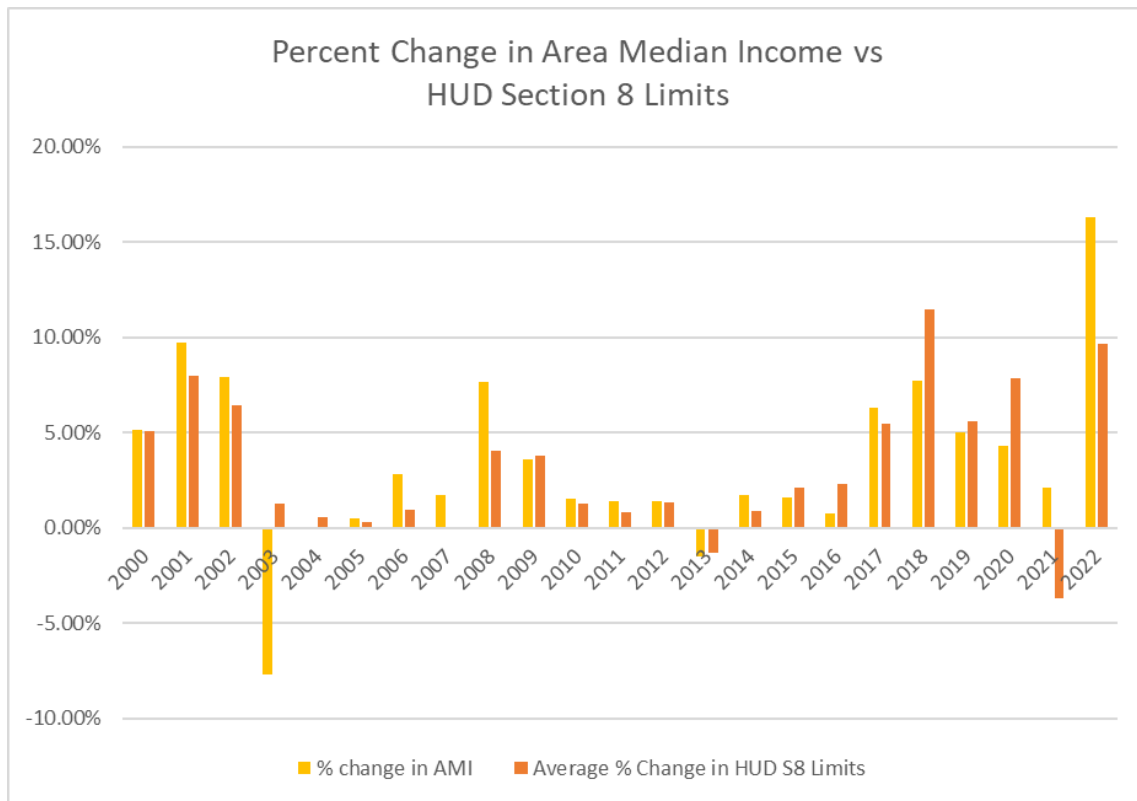
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During the fall of 2022, ARCH conducted a variety of stakeholder sessions and presented detailed feedback on various options to the ARCH Executive Board. The comments collected in the first phase of outreach represented a wide variety of competing viewpoints, even among similar stakeholders. Based on this input, the Board provided direction to staff to focus further discussions on the options below.

Options for Discussion

HUD Section 8 Limits. This option would set rents based on the HUD 30%, 50% and 80% AMI income limits for the Section 8 Program. These limits are also based on Area Median Income, but utilize a more complex formula that has historically resulted in less dramatic increases or decreases from year to year (i.e., decreases of as much as -5% and increases as high as 11.8%). While the annual change may be less dramatic, it is still relatively unpredictable, and in some cases the three published income levels have changed at different rates.



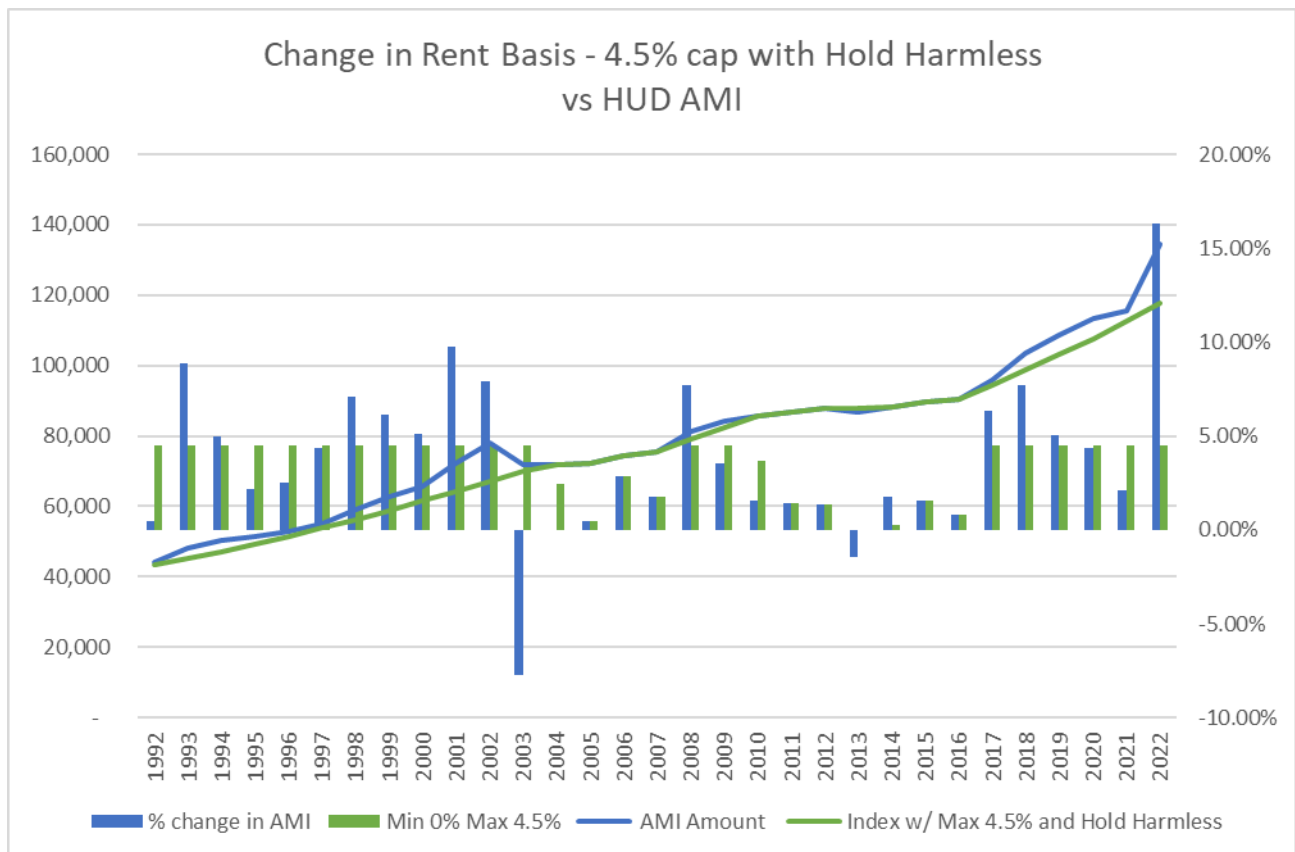
ARCH has also reviewed the HUD Multifamily Tax Subsidy (MTSP) income limits, which are derived from the HUD Very Low-Income (50% AMI) limits, and are used for projects financed with tax exempt housing bonds issued under section 142 of the Internal Revenue Code (IRC) and low-income housing projects funded with tax credits authorized under section 42 of the IRC. These regulations have been subject to more recent change than the Section 8 program, with a separate set of limits now published called the “MTSP HERA Special Income Limits” that apply only to certain projects.

Tenant-based 3.0% Cap (Bellevue MFTE): This option would continue to set initial rent limits based on Area Median Income, but add a policy capping each individual tenant’s annual rent increase at 3.0%. Upon unit turnover, maximum rents may be re-set based on the Area Median Income. The policy also allows for properties to “bank capacity” during years when a tenant’s rent increase is limited to less than the change in AMI. This unused capacity can be realized during years when the AMI increases at less than 3.0%.

This policy was recently developed for Bellevue’s MFTE program, and will require managers to track increases for each individual tenant. The program has seen robust participation from developers, but no projects have yet come online under the policy, so ARCH has little data on what the administrative burden may be.

Program-Based 4.5% Cap (Seattle MFTE): This option would set rents based on an index tied to the Area Median Income, but with increases capped at the lesser of 4.5% or the percent change between the program index and the new HUD AMI. This policy has been in place for Seattle’s MFTE program since 2019, after a variety of stakeholders weighed in on the program regulations.

Based on initial feedback from Seattle, program participation has been consistent since the policy was adopted, and administrative burden has not been a major issue. The policy has the effect of a hold harmless provision that ensures rents do not decrease, because the “program AMI” is the benchmark against which the next year’s HUD AMI is compared. The chart below illustrates how the policy would have influenced the program AMI index over the last three decades, compared to the uncapped change in the HUD AMI.



Other Program-Wide Floor and Cap. Other variations on the 4.5% cap may also be discussed, either by adding a minimum floor or adjusting the cap. Because of state statutes governing affordable housing programs, these would likely need to include a secondary test to ensure the rent basis doesn't exceed the HUD AMI in a given year. The chart below provides an example of how a 2% floor/5% cap would affect the annual rate of change, provided the limit does not exceed HUD AMI.

