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LATEST NEWS RELEASE

Northwest MLS brokers say transition to fall creating opportunities for buyers

KIRKLAND, Washington (October 7, 2019) – Northwest Multiple Listing Service brokers reported year-over-year gains in pending sales, closed sales and prices, but its report summarizing September activity also showed an 18% drop in inventory compared to a year ago.

"The transition into the fall housing market creates opportunities for homebuyers," suggested J. Lennox Scott, chairman and CEO of John L. Scott Real Estate. "Although there are fewer listings than what buyers find during peak summer months, there is also less competition" for the available inventory, he added.

While the intensity of sales activity is typically lower for new listings in the fall and winter, Scott noted "It appears we are headed toward a more intense winter market than last year." He said he expects the number of unsold listings will continue to decrease once the winter "clean-up" of inventory begins.

At the end of September, MLS brokers reported 15,982 total active listings, down more than 18% from the same month a year ago when the selection totaled 19,526 listings. Only three of the 23 counties served by Northwest MLS — Clark, San Juan and Whatcom — had year-over-year gains in inventory, while 18 counties had double-digit drops. Thurston County reported the sharpest shrinkage, at nearly 35%.

"September's housing market was a bit of a roller coaster, up in certain areas and down in others," commented OB Jacobi, president of Windermere Real Estate.. Within the four-county Puget Sound region, Pierce County prices rose more than 10% thanks to high demand and low inventory, he noted. "Buyers continue to be drawn to the area thanks to more affordable housing costs, but this influx is also driving up prices," he remarked.

MLS data show the median price for last month's home sales in Pierce County ($379,950) was $213,800 less than the median price in King County ($593,750). A comparison of single family prices (excluding condos) reveals a $275,500 difference between the two counties.

"In King County, prices were down nearly 2.7% while pending sales rose nearly 10%. This tells us there is no shortage of buyers in the Greater Seattle area," stated Jacobi. He also said home prices normally start to taper off this time of year, "so this isn't a major cause for concern." Within King County, prices rose in four of the six sub-markets; only Seattle (down 3.2%) and Vashon (down almost 28%) reported drops.

The median price for single family homes and condos that sold last month in King County was $593,750, down from the year-ago figure of $610,000 and the first time it dipped below $600,000 since January. Three other counties, Okanogan, Pacific, and Clallam, also reported year-over-year price drops. Joining Pierce County with double-digit price increases from a year ago were eight other counties.

System-wide, prices were up 5%, rising from $400,000 a year ago to $420,000. The volume of closed sales increased about 4.4% from a year ago (7,962 versus 7,630).

“Home prices have stabilized, creating good opportunities for purchasers,” said Dean Rebhuhn, the owner of Village Homes and Properties in Woodinville. He expects prices to stay stable through the fall and winter markets.

“Continuing to drive the market are new jobs, lifestyle changes, and very low interest rates,” Rebhuhn remarked, adding, “FHA mortgages with 3.5% down payments are very popular with first-time homebuyers.”

The latest report from Northwest MLS shows pending sales were up about 9.8% from a year ago, with mutually accepted offers rising from 8,913 to 9,785. In the four-county Puget Sound region, Snohomish reported the largest gain at 18.3%, followed by Kitsap at nearly 11.9%, King at 9.8%, and Pierce at 5.4%.

Brokers were unable to replenish inventory to match demand as the volume of pending sales (9,785) outpaced new listings (9,435).

“Things were a bit different in September, but at this point it’s difficult to know if it’s an aberration or an actual trend,” stated Coldwell Banker Bain president and COO Mike Grady, pointing to “far fewer” new listings that were added last month compared to a year ago. Area-wide, Northwest MLS brokers added 9,435 new listings last month, a decline of 1,023 from the year-ago total (down nearly 9.8%).

“It’s still a seller’s market, and for more than a year we’ve seen only 1-to-2 months of inventory, so I’m starting to think we may be looking at a ‘new normal’ in relation to what a balanced market looks like,” commented Grady.. “With the international economy and trade issues continuing to be erratic, and interest rates staying low, these pressures will almost certainly be an influence, yet there’s no clear answer to how all of this will play out,” he added.

MLS figures show 2.01 months of inventory system-wide, with 12 of the counties reporting less than 2.5 months of supply. Real estate experts tend to use 4-to-6 months of inventory as an indicator of a balanced market.

Northwest MLS director Frank Leach, broker/owner of RE/MAX Platinum Services in Silverdale, said Kitsap County continues to have constrained inventory (down almost 25% from a year ago), with values stabilizing or increasing slightly. Homes priced around $350,000 and under sell quickly, while “inventory in upper ranges is taking a little longer to get traction and move to a sale,” according to Leach.

MLS figures show the median price of homes and condos that sold in Kitsap County last month was $384,000, up nearly 8.2% from the year-ago figure of $355,000.

Leach noted condominium inventory in Kitsap County rose more than 27% from a year ago, but the selection of single family homes dropped by the same percentage. He said several multifamily projects in the county have been submitted or approved, and those homes are expected to be absorbed in the market as soon as they’re available.

“Prices along the I-5 corridor between the Puget Sound and Portland once again outperformed as buyers seek value for money and job growth has expanded in the entire region,” observed James Young, director of the Washington Center for Real Estate Research (WCRER) at the University of Washington.

If millennials want to own houses, Young said the logical first step in the housing ladder is increasingly outside of King and Snohomish counties “and further afield along the I-5 corridor.” With interest rates near historic lows and employment levels at historic highs, first-time homebuyers are acting while they can to get on the housing ladder, “even though that may mean long commutes,” Young stated.

The September report from Northwest MLS shows single family activity outperforming condos. Year-over-year pending sales of single family homes jumped 11%, while condo sales were flat. Prices on last month's closed sales of single family homes rose more than 5.5%, but condo prices declined by 1.2%.

Northwest Multiple Listing Service, owned by its member real estate firms, is the largest full-service MLS in the Northwest. Its membership of around 2,400 member offices includes more than 30000 real estate professionals. The organization, based in Kirkland, Wash., currently serves 23 counties in the state.

September 2019 activity

SINGLE FAM. HOMES + CONDOS	LISTINGS		PENDING SALES	CLOSED SALES			MONTHS OF INVENTORY	
	New Listings	Total Active	# Pending Sales	# Closings	Avg. Price	Median Price	This month	Same mo., year ago
King	3,525	5,431	3,151	2,506	$725,112	$593,750	2.17	2.83
Snohomish	1,520	2,156	1,546	1,255	$510,601	$470,000	1.72	2.18
Pierce	1,377	1,928	1,699	1,352	$418,080	$379,950	1.43	2.01
Kitsap	442	598	500	383	$448,877	$384,000	1.56	1.93
Mason	128	257	163	154	$296,678	$278,500	1.67	3.11
Skagit	195	422	238	171	$435,402	$380,000	2.47	2.87
Grays Harbor	153	426	182	135	$236,641	$216,000	3.16	3.57
Lewis	131	253	165	123	$291,780	$275,000	2.06	2.98
Cowlitz	139	209	169	123	$323,544	$295,000	1.70	2.22
Grant	112	264	110	109	$257,543	$235,000	2.42	4.00
Thurston	453	588	511	527	$372,765	$345,000	1.12	1.86
San Juan	23	241	35	24	$626,530	$567,500	10.04	7.65
Island	158	359	181	165	$453,370	$390,000	2.18	2.68
Kittitas	77	224	86	86	$441,407	$342,572	2.60	3.53
Jefferson	60	158	51	48	$433,020	$419,492	3.29	2.92
Okanogan	56	284	49	51	$251,217	$215,000	5.57	5.80
Whatcom	375	805	379	311	$408,253	$382,000	2.59	2.33
Clark	115	217	117	78	$403,072	$367,050	2.78	2.63
Pacific	45	207	67	49	$186,634	$170,000	4.22	4.88
Ferry	7	46	8	5	$135,880	$149,900	9.20	8.67
Clallam	112	288	130	101	$304,801	$275,000	2.85	3.36
Chelan	110	315	120	113	$442,531	$355,000	2.79	3.94
Douglas	69	102	76	47	$397,080	$364,700	2.17	2.71
Others	53	204	52	46	$232,485	$202,450	4.43	3.94
Total	**9,435**	**15,982**	**9,785**	**7,962**	**$513,335**	**$420,000**	**2.01**	**2.56**

Tables continue on next page

4-county Puget Sound Region Pending Sales (SFH + Condo combined)
(totals include King, Snohomish, Pierce & Kitsap counties)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2001	4334	5056	5722	5399	5631	5568	5434	5544	4040	4387	4155	3430
2002	4293	4735	5569	5436	6131	5212	5525	6215	5394	5777	4966	4153
2003	4746	5290	6889	6837	7148	7202	7673	7135	6698	6552	4904	4454
2004	4521	6284	8073	7910	7888	8186	7583	7464	6984	6761	6228	5195
2005	5426	6833	8801	8420	8610	8896	8207	8784	7561	7157	6188	4837
2006	5275	6032	8174	7651	8411	8094	7121	7692	6216	6403	5292	4346
2007	4869	6239	7192	6974	7311	6876	6371	5580	4153	4447	3896	2975
2008	3291	4167	4520	4624	4526	4765	4580	4584	4445	3346	2841	2432
2009	3250	3407	4262	5372	5498	5963	5551	5764	5825	5702	3829	3440
2010	4381	5211	6821	7368	4058	4239	4306	4520	4350	4376	3938	3474
2011	4272	4767	6049	5732	5963	5868	5657	5944	5299	5384	4814	4197
2012	4921	6069	7386	7015	7295	6733	6489	6341	5871	6453	5188	4181
2013	5548	6095	7400	7462	7743	7374	7264	6916	5951	6222	5083	3957
2014	5406	5587	7099	7325	8055	7546	7169	6959	6661	6469	5220	4410
2015	5791	6541	8648	8671	8620	8608	8248	7792	7179	6977	5703	4475
2016	5420	6703	8130	8332	9153	8869	8545	8628	7729	7487	6115	4727
2017	5710	6024	7592	7621	9188	9042	8514	8637	7441	7740	6094	4460
2018	5484	5725	7373	7565	8742	8052	7612	6893	6235	6367	5328	4037
2019	5472	4910	7588	8090	8597	8231	7773	7345	**6896**			

Microsoft commits millions for affordable housing, urges public-private engagements to address key issue

More than 3,000 low- and middle-income people will be able to stay in their communities thanks in part to a generous investment to protect affordable rental housing through King County. The investment has an immediate impact by ensuring rents at 1,029 units will remain affordable long term.

Late last month Microsoft earmarked $60 million in the form of a below-market interest rate loan to the King County Housing Authority (KCHA), an independent municipal corporation. That money will be combined with $140 million in bonds issued by KCHA and $20 million in low-interest debt and other credit enhancements provided by King County. The funds will enable KCHA to acquire five residential apartment complexes in Kirkland, Bellevue and Federal Way and to stabilize rents at below-market rates.

Because of their location, these apartments were at high risk of experiencing rapidly escalating rents or redevelopment as higher-cost housing. Officials estimated that over a 30-year period the cumulative rents charged at the five complexes will save renters over $450 million in housing costs compared with what would have been charged if these properties had remained in for-profit ownership and priced at market rents.

Puget Sound is reportedly the sixth most expensive region in the country. Despite a 21% increase in jobs since 2011, the increase in housing units lagged, rising only 13%.

The Microsoft investment was part of a $500 million commitment announced in January to advance affordable housing solutions in the Puget Sound region. In June 2019, Microsoft made a $5 million donation from its pledge to Plymouth Housing, a nonprofit that operates permanent supportive residences for individuals struggling with homelessness.

In announcing the investment, Microsoft representatives said the partnership with KCHA and King County is an example of how the public and private sectors can work together to help address community issues. “This initiative effectively partners corporate financing with efforts to preserve an adequate supply of affordable housing. The impact of this investment is immediate, with value added in the form of increasing affordability over time,” the Redmond-based company stated in a new release.

“Housing is really the number one issue that is just going to require a lot more community engagement and more business community engagement,” said Microsoft president Brad Smith in an interview with a Puget Sound Business Journal reporter. Replenishing and expanding the region’s housing stock involves some challenging conversations, he added.

Smith also said job growth must spread geographically over the next decade in order to ease pressure on housing and infrastructure in Seattle and the Eastside. “You can’t reduce the lengthy commute times for lower- and middle-income employees unless we can build more places for people to live close by,” Smith said. “We can’t build more places for people to live close by unless we increase density in some places. These are not typically easy conversations.”

“We are committed to maintaining and bolstering strong, vibrant communities here in the greater Puget Sound region,” said Jane Broom, senior director of Microsoft Philanthropies. “Thriving communities include safe, reliable and affordable housing options for people at all income levels. To do this, we all need to come together to not only build more housing options, but also to preserve what already exists.”

Over the next few years, Microsoft will invest $165 million more in below-market rate loans and $250 million in loans at market rate to provide capital for affordable housing projects across King County. The company also expects to donate $15 million on top of the $10 million it already has awarded to address homelessness.

Local studies estimate King County has lost at least 36,000 affordable rental units in the last decade as rents increased by 43%.

“Across the Puget Sound region, people with lower and even middle incomes have been forced to move due to rising housing costs,” said KCHA Executive Director Stephen Norman. “This partnership preserves unsubsidized middle-market housing for moderate- and lower-wage earners. We believe this investment, which requires a good corporate partner to make the numbers work, will ultimately help stabilize rents and safeguard more than 3,000 existing tenants from being priced out of their homes.”

KCHA, a national leader in the preservation of affordable workforce housing, provides rental housing and rental assistance to 19,000 low-income households in 33 cities – not including Seattle and Renton – as well as in unincorporated areas of King County. In addition to administering rental housing assistance, the Authority develops and manages affordable housing, and works closely with community stakeholders to address local priorities such as ending homelessness, improving educational outcomes for the region’s low-income youth, and assuring that disabled and elderly households can live with dignity.

Through partnerships with communities and nonprofits, KCHA’s housing and supportive services combine to reach 55,000 people who earn less than the county median income. Its combination of housing and services put self-sufficiency within most families’ reach, usually within six years.

New urbanism movements, young people fueling surge in transit-oriented developments

Transit oriented developments (TOD) have been called the new model for real estate development. Imagine Housing, a leading non-profit affordable housing developer in East King County, describes TOD as a combination of regional planning, city revitalization, suburban renewal, and walkable neighborhoods, and an “exciting, fast growing trend in creating vibrant, livable, sustainable communities.”

Advocates believe dense, walkable communities can reduce the need for driving – possibly up to 85% -- and help solve problems associated with climate change and global energy security. They say such development can benefit residents, cities, natural environments, economic growth, sustainability, and security.

In a recent newsletter, Imagine Housing noted TOD is relatively new to King County and the Eastside, but it is well established across the globe, citing Copenhagen, Curitiba, Euralille, Hong Kong, Paris, Toronto, Vancouver, and Vienna as examples. Authors of the report called it “one of the ultimate collaborative relationships.”

An emerging trend, which some call “an even smarter investment,” is Equitable Transit-Oriented Development (eTOD). This concept “supports mixed-use developments that incorporate affordable housing in close proximity to high-quality public transit and bolsters ridership goals of transit agencies,” according to Enterprise Community Partners, a national charitable organization with initiatives in eight markets across the county, including the Pacific Northwest.

Enterprise officials say eTOD can expand mobility options, lower commuting expenses, and enhance access to employment, child care, schools, stores, and critical services. The organization works with community partners nationwide to create affordable homes. Its support takes many forms, including lending funds, financing development and managing and building affordable housing.

During the past three decades, Enterprise has created nearly 340,000 homes and invested around $18.6 billion in transit oriented developments.

Locally, five entities have received HUD Section 4 grants from the Enterprise Pacific Northwest office, which focuses most of its grant funding on “innovative, environmentally sustainable projects in smart locations.” The five community development corporations that have shared more than $300,000 in funding include:

- **Bellwether Housing** in Seattle, which plans to build 750 new affordable workforce homes;
- **Capitol Hill Housing**, Seattle, whose new developments include LGBTQ-Affirming Affordable Senior Housing, Liberty Bank Building with 115 units, and Capitol Hill Light Rail Station with 110 homes affordable to working families;
- **HopeWorks Social Enterprises**, based in Everett, whose HopeWorks Station Phase II encompassing 65 affordable apartments is scheduled to open this month;
- **Low Income Housing Institute**, Seattle, which develops, owns and operates housing for the benefit of low-income, homeless and formerly homeless people. A current project is the Sand Point Cottage Community in Magnuson Park, slated to open in spring 2020.
- **Mercy Housing Northwest**, Seattle, which owns and operates 54 properties for families and seniors in Washington and Idaho.

Imagine Housing helped create the vision for Esterra Park in Redmond, an eTOD spearheaded by Capstone Partners. Capstone’s work on this project dates to 2009, with Imagine Housing joining in 2015. Imagine Housing subsequently created a partnership with Inland Group to build, own and manage 262 units of affordable workforce housing. Groundbreaking is slated for late this year, with completion expected in 2021. The project will include a YMCA Early Childhood Development Center for 125 children ages 1 day to 5 years old.

Construction of the Esterra Park community is starting fall 2019. It is expected to open to residents within 24 months. It will encompass 262 permanently affordable workforce apartment homes together with supportive services and a YMCA Early Childhood Development Center.

“TOD is taking off like a rocket, and how fast this is accelerating should be exciting news to the engineering world,” says Andy Kunz, president and CEO of the Transit Oriented Development Institute, in an interview with Engineering Inc., the official publication of the American Council of Engineering Companies.

Kunz said the concept of TOD has been around in various forms since the 1990s, but reflects even earlier development cycles. “This is actually a revival of how we used to build cities prior to the age of car domination.”

The Congress for the New Urbanism (CNU) states TOD was conceived in 1982 in an effort to link transportation and land use by architect and CNU founder Peter Calthorpe.

TOD proponents say the concept’s growth can be attributed to several factors, including the market for sustainable mixed-use urbanized suburbs. Young people’s desire to live in cities and avoid owning cars or sitting in traffic is also spurring growth. Suburban commuters are also becoming weary of traffic congestion and the toll on their quality of life. Other factors, including the desire for greater community and environmental considerations, will also prompt people to choose denser mixed use environments.

NewUrbanism.org, an informational website promoting walkable urbanism, transit oriented development, trains and sustainability, calls TOD the one strategy that promises to simultaneously meet three seemingly disparate goals: the demand for location-efficient mixed-use places, support of regional economic growth strategies, and increased housing affordability.

On its site, New Urbanism reports there are more than 4,000 New Urbanist projects planned or under construction in the United States. It attributes the boom to three trends:

1. Changing housing preferences due to “profound demographic shifts,” noting the market isn’t meeting demand for smaller housing choices that include apartments, townhomes, live-work, and bungalows.
2. A growing preference for “24 hour neighborhoods” among workers and firms, citing a PricewaterhouseCooper publication that calls 24-hour places “the best real estate investment locations.”
3. Booming construction of rail and bus systems, with new systems planned or under way in all but three of the top 30 metropolitan areas.

Although TOD and eTOD are increasingly popular, Imagine Housing acknowledges several challenges associated with the collaborative relationships. In its September 2019 newsletter, the group noted ETOD requires advocates willing and able to fight for inclusive communities. “Developers partner with cities, private consultants, banks and investors, public transit agencies, commercial businesses, non-profits, public funders, and residents to create a mixed-use community at or near high-capacity transit. There are large amounts of risk and money; an endless list of tasks, challenges, and puzzles; and numerous forms of expertise needed. Successful ETOD can take decades to complete, is at the whim of financial markets and economic growth, and takes fantastical foresight and political will to complete.”

Urbanism proponents believe the most important obstacle to overcome “is the restrictive and incorrect zoning codes currently in force in most municipalities.” They contend current codes do not allow New Urbanism to be built, but do allow sprawl. “Adopting a TND (Traditional Neighborhood Development) ordinance and/or a system of ‘smart codes’ allows New Urbanism to be built easily without having to rewrite existing codes.”

In hopes of addressing myriad concerns and spurring a new wave of development, an initiative called the Center for Transit-Oriented Development (CTOD) brings together a consortium of groups from the public, private, and philanthropic sectors. Its goal is to make information on TOD accessible to a broad range of audiences and to serve as a repository of innovative practices, policy reform, research analysis and investment tools to support TOD. Its fiscal sponsor is Reconnecting America (formerly the Great American Station Foundation).

Renters reveal fears, daunting challenges to homeownership, but realty pros can deploy Freddie Mac tools to educate, assist

Home prices are far outpacing growth in household incomes, prompting changing perceptions and habits among both buyers and renters.

With more renters thinking home buying is out of reach, Freddie Mac suggests real estate industry professionals can play a crucial role in raising awareness of the upsides of home ownership and the tools to assist with every step of the process.

A comparison of home prices dating to 1960 shows median prices rose 121% nationwide, while median household income increased only 29%. Renters didn't fare much better, as gross rents jumped 72%, about 2.7 times more than incomes. Such gaps make saving for a future home difficult, concluded researchers who conducted the study.

While the disparity between home prices and income present significant challenges for potential homeowners, a new survey from Freddie Mac underscores some upsides for owners.

For example, 34% of renters spend more than a third of their income for housing, while only 25% of owners dedicate that portion to housing. Homeowners, when compared to renters, also report fewer changes in spending to keep up with payments.

When asked if they've made housing or spending changes to afford monthly housing payments, more than half the respondents (51%) said yes. However, among renters, 62% said they made spending changes, while only 47% of owners admitted doing so.

For renters, the cutbacks over the past two years have taken various forms: 55% said they have reduced spending on non-essential items, such as entertainment and 42% spent less on food, utilities and other essentials; for owners 33% cut expenditures for essentials.

More than a third of renters (35%) who reported affordability challenges said they moved to find a more affordable place to live, up nine points from a year ago.

A significant majority of renters – 82% -- view renting as more affordable than homeownership, a jump of 15 points from February 2018, and an all-time high.

Renters say down payments and closing costs are a persistent obstacle to homeownership. Nearly nine in ten (88%) of low-income renters said having money these upfront costs would be a barrier if they were considering purchasing. Middle-income rents also indicate the same challenge, but by a smaller ratio (72%).

A comparison of renters by generations shows similar concerns: 80% of millennials, 81% of Gen Xers and 71% of baby boomers perceive not having sufficient funds for a down payment or for closing costs.

Student loans and child care costs are also influencing housing choices, particularly among millennials and those who are part of the "essential workforce," such as being employed in positions in healthcare, education and law enforcement.

The expectation that mortgage payments would exceed rents is also rated as a major obstacle of homeownership by 40% of renters, but the survey revealed sharp gender gaps. Female renters were significantly more likely than their male counterparts (48% vs. 28%) to say high mortgage payments would be a major obstacle for them.

In its "Profile of Today's Renter & Homeowner," representatives from Freddie Mac Research suggested mortgage professionals "have a chance to be the bright side of first-time homebuyers' experience."

"Reaching beyond the tough headlines and reminding them that financial security and a real milestone may be closer than the news may indicate," they stated. Along with educating would-be buyers about the tangible upsides to homeownership, lenders and other industry professionals can offer guidance and tools to aid the search and buying process. Specific tools from Freddie Mac include:

- An online financial educational site with "CreditSmart®" tools and information for prospective homebuyers.
- Low down payment options, such as Freddie Mac's Home Possible mortgage for qualified borrowers.
- A consumer-focused resource center featuring tools, resources, and information on renting, purchasing and owning a home.
- Automated assessments for borrowers lacking a credit score.
- Automated home valuations and Freddie Mac's "risk reduction toolbox" to simplify the home buying process and potentially reduce borrower transaction costs.

Freddie Mac commissioned Harris Insights & Analytics to conduct the research for its latest "Profile" report. The firm collected data from more than 4,000 online respondents over the age of 18. Those polled over a four-day period in April included homeowners, renters and a small portion of "others." Data were weighted to reflect the composition of the US adult population.

Builders urge Congress to support voluntary market-driven solutions for energy savings

Representatives from the National Association of Home Builders (NAHB) visited Congress last month to remind lawmakers of their desire to partner with officials at all levels of government to encourage energy efficiency. They also stressed that housing affordability should not be jeopardized in the process.

In testimony before the House Energy and Commerce Subcommittee on Energy, a member of NAHB urged Congress to promote voluntary, market-driven and viable green building initiatives.

"These programs lower total ownership costs through utility savings as well as provide the flexibility builders need to construct homes that are cost-effective, affordable and appropriate to a home's geographic location," stated Arn McIntyre, a green builder from Grand Rapids, Michigan.

McIntyre told subcommittee members it makes no sense to apply even more costly and rigorous energy conservation requirements to new homes. He noted new home construction is much more energy efficient than existing construction because of better insulation, energy-efficient appliances and HVAC equipment, and other improvements stemming from compliance to more modern and stringent building codes.

"Targeting new homes would harm housing affordability and encourage people to remain in older, less energy-efficient homes.

In turn, this would result in higher energy usage, higher greenhouse gas emissions and lower standards of living," McIntyre said. "Improving the energy efficiency of the 130 million homes built before 2010 that are much less energy efficient than today's new homes is a much more effective approach to reduce carbon emissions and achieve energy savings."

Additional points NAHB representatives made in their testimony included:

- Climate change mitigation programs that recognize and promote voluntary-above code compliance for energy efficiency have a proven track record and demonstrate that mandates are not necessary.
- Mandating net zero or near net zero energy emissions or usage is extremely difficult, costly and impractical in most if not all of the nation.
- Any federal intrusion into the building codes adoption process could have a dramatic impact on each states' ability to implement the codes that best fit their jurisdiction.
- Incentives play an important role in providing home owners a cost-effective way to invest in energy efficiency.
- Any federal mandates would have a negative impact on housing affordability and will prevent healthy competition in the marketplace.

Northwest MLS updates SOC, agency agreements

Effective October 1, Northwest Multiple Listing Service updated several rules pertaining to selling office commissions (SOC). The changes are intended to increase transparency and flexibility for consumers and the 30,000-plus real estate brokers the MLS serves.

Northwest MLS also reformatted the Buyer's Agency Agreement (Form 41A) and the Buyer's Representation Agreement (No Agency) (Form 41B) to make the forms more user friendly.

In announcing the SOC rules revisions, Northwest MLS said the changes allow real estate firms to publish the amount of commission the seller is offering to pay a broker representing the buyer (known as the "selling office commission" or "SOC") on the firms' public websites along with the other listing information (e.g. list price, square footage, bedrooms, bathrooms, and other detailed property information). Making this information readily available to consumers allows for complete transparency with regard to buyers' broker's compensation and provides consumers with additional information at the outset of the transaction.

The MLS also noted the changes support cooperation among member firms while providing consumers with more information and options when buying and selling homes.

"Consumers want greater transparency and flexibility in the home buying and selling process," said NWMLS CEO Tom Hurdelbrink. "We believe these changes encourage member real estate firms to continue to innovate and evolve their business models to better serve consumers."

"Transparency in real estate transactions benefits everyone," commented Jason Wall, Lake & Company and NWMLS board member. "Why shouldn't a buyer know, in advance, how much his or her broker will be paid for the broker's services? NWMLS's rules changes are welcome. Flexibility and choices for consumers and brokers are good things."

To help brokers better understand the modernization of SOC rules, Northwest MLS has produced an 8-minute video, and Legal Bulletin (#217) and published a Frequently Asked Questions document, all of which are available on its website.

Representative 2019 Advocacy and Legislative Successes

Advocacy Focused on Increasing Housing Supply

While increased housing supply is at the core of most every issue SKCR addresses, some specific successes are highlighted below.

SEATTLE'S MANDATORY HOUSING AFFORDABILITY PROGRAM

Advocacy Success! Seattle Completed Voting to Approve

Mandatory Housing Affordability Program

The Seattle City Council completed the neighborhood upzones associated with the Mandatory Housing Affordability (MHA) program.

While there was district-by-district and street-by-street tinkering with specific streets and groups of parcels to be upzoned, the program will result in a significant amount of new market-rate housing and income-qualified housing throughout the city.

Seattle King County REALTORS® expressed its support of the work and the need to act swiftly to enable the unzones to be utilized in this market cycle, with the overall goals of getting units to the market as quickly as possible. REALTORS® cautioned the council to avoid constraining the upzones with requirements that unduly add costs and limit development such as excessive energy code requirements, water service connection fees, potential impact fees and green building mandates.

The council also approved a resolution which identifies issues the Council will seek to address that are outside the scope of the MHA program. The resolution recognizes that while the implementation of MHA citywide will result in the production of more affordable housing, it is just one necessary step to achieve all of the city's racial equity goals, and the goals of Seattle's different neighborhoods.

Accessory Dwelling Units

Seattle King County REALTORS® views ADUs as a valuable housing tool for cities throughout the region. ADUs enable greater utilization of existing houses and residential lots, without a significant change in community character. The added units offer important, affordable, housing opportunities for tenants as well as income for the owner --- easing the owner's mortgage. In addition, ADU's offer important housing stability options for "empty nesters" and seniors on a fixed income.

Seattle ADUs and DADUs

The Seattle City Council instituted major changes to regulations governing Accessory Dwelling Units (ADUs). The changes will both ease restrictions on ADUs and promote development of ADUs by limiting the size of new single-family homes.

Summary of ADU ordinance:

- Allow two ADUs on one lot
- Increase maximum household size to 12 unrelated people on lots with two ADUs
- Allow Detached Accessory Dwelling Units (DADUs) on lots of at least 3,200 square feet & allow DADUs of up to 1,000 sq. ft.

- Increase DADU height limits by 1-2 feet, with flexibility for green building strategies
- Increase rear lot coverage to provide flexibility for one-story DADUs, provided the increase rear lot coverage does not result in removal of trees over a certain size
- Remove the off-street parking requirement
- Remove the owner-occupancy requirement
- Use FAR to limit the size of new single-family homes and encourage ADUs

Black Diamond ADUs and DADUs

The REALTORS® were successful in supporting major changes to the Accessory Dwelling Unit (ADU) ordinance in the city of Black Diamond. Space permitting, the changes allow three accessory dwelling units, in addition to the principal residence, in single-family zones:

- One ADU can be included inside the primary residence (for example, in the basement) so long as no change is required to the footprint of the structure
- A second ADU can be included in a converted garage or other attached portion of the structure of the primary residence, and the code changes allow modification of the building footprint as necessary to accommodate an ADU of up to 1,000 square feet.
- Space permitting, a third ADU is allowed as a detached structure (DADU) appurtenant to the primary residence

Detached ADUs must be architecturally and athletically similar in height to the nearest adjacent structure, and limited to 25 feet in height, except that in Business/Industrial Park, and Industrial Zones, heights of 35 feet are allowed.

The city's ordinance includes performance requirements for ADUs, recognition of existing ADU's and regulations for fences and walls.

King County: Affordable Housing Plan

The County estimates that 244,000 additional, affordable homes in King County are needed by 2040 so that no household earning 80 percent of Area Median Income (AMI) and below is cost burdened. This includes 156,000 homes for households currently cost-burdened, and an additional 88,000 homes for growth of low-income households between now and 2040.

Seattle King County REALTORS® was successful in urging that the response plan include promotion of greater housing growth and diversity to achieve a variety of housing types at a range of affordability, and improved jobs/housing connections throughout King County. These measures include:

- Update zoning and land use regulations (including in single-family low-rise zones) to increase and diversify housing choices:
- Provide model ordinances for cities
- Incentivize cities adopting and implementing strategies that will result in the highest impact towards addressing the affordable housing gap, specifically at the lowest income levels
- Review and update zoning, and land use code, to increase density
- Explore opportunities to pilot innovative housing in industrial zones, with a focus on Transit Oriented Development (TOD) and industrial buffer zones
- Update building codes to promote more housing growth and innovative, low-cost development
- Incentivize growth and affordability goals by expanding tools for investments in local infrastructure

SeaTac: Hundreds of New Units of Affordable Housing Near Sound Transit

The city of SeaTac Council has taken the first steps toward creating hundreds of new units of affordable housing along the Sound Transit Light Rail corridor on a 4.5-acre site in the vicinity of S.154th St. and International Boulevard. The site includes the SeaTac Center.

In a 5-1 vote, the Council authorized the City Manager to sign a sale and purchase agreement with CAP Acquisitions, LLC (aka The Inland Group) for the city of SeaTac property located at 15245 International Blvd S. The City says it purchased the property in 2010 with the intent to sell it for redevelopment.

The proposed project will create 665 units of housing along with 30,000 square feet of new commercial space next to the Light Rail Station on Tukwila International Boulevard (Hwy 99). The buildings would include approximately 385 units of workforce housing which is affordable for individuals and families earning less than 60 percent of Area Median Income (AMI).

Condominium Construction Liability Reform

Seattle King County REALTORS® played a pivotal leadership role in the successful multi-year effort to mobilize the real estate industry— including Washington REALTORS® - to pursue Condominium Construction Liability Reform.

In addition to working with Washington REALTORS®, we were able to make the legislation a centerpiece of the 2019 state legislative agendas of both the East King County Chambers of Commerce Legislative Coalition, and the South Sound Chambers of Commerce Legislative Coalition (SSCCLC). SKCR provided the speaker on the issue for the SSCCLC Legislative Preview Breakfast, and also assisted the board of the East King County Coalition. In addition, at the request of city officials, SKCR crafted the first draft of the legislative position on the issue for two of the cities in South King County, who then used that position statement to lobby the legislature.

The multi-year effort to reform the state's condominium laws finally resulted in success earlier this year when the legislature passed Senate Bill 5334 in an effort to restart the condominium construction industry in the wake of years of "greenmail litigation" that had shut down almost all new condominium construction in Washington state.

The new law provides protection for board members of Home Owner Associations who had been threatened with litigation that named the board members themselves as defendants if they failed to sue condominium builders for alleged construction defects.

The law also eliminated the *statutory implied warranties* that made any violation of the building codes an automatic violation of the condominium law. In order to prevail in litigation, plaintiffs will now be required to prove a material defect that affects habitability, and the new standard of care required of builders is that construction of the condominium must be consistent with prevailing industry construction standards in the area where the condominium project is located.

Previously, because of the certainty of litigation, condominium construction projects were required to pay $30,000 - $70,000 per unit in premiums for construction liability insurance. The changes in Senate Bill 5334 are intended to increase the number of insurance companies writing construction defect insurance policies for builders, thereby reducing the cost of insurance premiums for each unit. This, in turn, should result in more builders being willing to take-on new condominium construction projects, which will improve both housing opportunities and affordability. The new law, sponsored by Sen. Pedersen and signed by the governor on April 30th, took effect July 28, 2019.

ADVOCACY FOCUSED ON RURAL KING COUNTY

Enumclaw Single-Family Residential Design Standards

With support from SKCR, city of Enumclaw officials approved a Planning Commission recommendation to amend the City's Single-Family Residential Design Standards to provide more flexibility in connection with the construction of new homes.

The City's prior standards were intended to ensure that new single-family development fits with the character of existing neighborhoods in terms of scale, density and design. Those standards included various provisions for garage door setbacks (which is how length of driveways is regulated), window coverage, etc.

In order to provide variety in home designs, the modifications also include an optional review process for homes that meet the intent of the code but do not comply wholly with the city's standards.

According to the City's Community Development Director, Chris Pasinetti, the changes:

1. Allow flexibility within the regulations for driveways and front yard setbacks.
2. Clarify definitions and how the regulations are implemented, and
3. Provide greater flexibility within the regulations to allow for a more diverse housing stock.

Septic System Owner Bill of Rights

Seattle King County REALTORS® played an important and successful role earlier this year - both on offense, and on defense - in connection with proposals regulating On-site Sewage (Septic) Systems.

Rural King County property owners with homes served by On-Site Sewage Systems (septic tanks) have been under attack for the last four years by the King County Department of Health, and by Public Health Seattle-King County. The bureaucrats want more money for their programs and have attempted to impute environmental harm to septic tanks that simply is not factually accurate.

Previously, REALTORS® worked hard to oppose efforts by these agencies to (1) impose a so-called "turd tax" on existing septic systems, (2) seek retribution for opposition to the "turd tax" by mandating the creation of new "as-built" drawings" for existing septic systems and (3) require annual prophylactic third-party inspections of septic-systems of private property owners, even though the County lacks the legal authority to conduct such inspections itself without violating the constitution.

Last year, the Citizens Alliance for Property Rights (CAPR) - with strong support from Seattle King County REALTORS® and Washington REALTORS® - asked legislators to reign-in the agencies' continuing assault on septic system owners. Legislation to do so was passed by the House of Representatives, but failed in the Senate when the legislature adjourned before the Senate had time to take-up the bill.

This year, our efforts were mostly successful. The legislature passed, and the governor signed, Senate Bill 5503, which:

1. Allows property owners to repair a septic system, rather than requiring the system be replaced, so long as the repairs will restore the system to good working order
2. Requires the Department of Health and local health departments to allow least-cost methods of repair, so long as doing so will restore the septic system to good working order
3. Prohibits the Department of Health or local health departments from imposing standards on private properties that are more onerous than the requirements placed on septic systems that are located on public property, and

4. Prohibits the Department of Health or local health departments from requiring an easement for inspection to be granted as a condition of approval for a new septic system. Unfortunately, the governor vetoed this final provision.

For purposes of framing future battles on this issue, we have begun referring to Senate Bill 5503 (and the existing provisions in RCW 75.05.074) as the "Washington Bill of Rights for On-site Septic System Owners."

In addition to these successes, we also were successful in defending the owners of septic systems by helping COOM-WA oppose/defeat efforts to pass legislation to impose new taxes and fees on the owners of On-site Sewer (Septic) Systems.

Requirements For Homes Served by Septic Systems to Connect to Sewer Systems

One of the costly "sanitary facilities" requirements in rural areas, and in unincorporated urban areas, involves the requirement to connect-to a sewer system, either in the event of a septic system failure, or in connection with new construction.

The prior requirement mandated connecting-to an available sewer system in the event of a septic system failure, or in the event of new construction, if the property was located within 200 feet of a sanitary sewer system.

Earlier this year that requirement was modified so that it only applies in situations where the available sewer system is located within 200 feet of the nearest portion of a structure that is, or would be, served by the sewer. The change is especially important for homeowners on acreage where a portion of the property is within 200 feet of the sewer line, but the home is located much farther away.

Advocacy Focused on K-12 Educational Quality

Schools are important, not only because they help to define and build strong communities, but also because strong schools support higher resale home values. Seattle King County REALTORS® has the strongest and most active program of reviewing, and if justified supporting, local school levy and bond measures of any professional, trade or industry association in King County.

The Association has a formal process (including both a detailed questionnaire and in-person presentations) for considering endorsing school funding measures, and provides not only formal endorsements, but also in-kind editorial support and GOTV (Get Out The Vote) activities to encourage REALTORS® to vote.

Historically, SKCR considered both the "Maintenance and Operations" levies placed on the ballot by local school districts, as well as special levies, typically for transportation and technology. In addition, SKCR also considered capital projects levies that typically involved construction or repair of school facilities.

With passage of the "McCleary Fix" (property tax increase) legislation that is intended to transfer responsibility for funding of K-12 basic education from local school districts to the state, the only local school district funding measures now involve "excess" operational levies, and capital construction levies and bonds.

Unlike the ample state funding for K-12 school operations provided for by McCleary, the Legislature and Office of the Superintendent of Public Instruction (OSPI) provide only limited financial support for K-12 capital projects. As a result, even after McCleary, capital project levies and capital construction bonds will remain important for local school districts.

This year SKCR successfully supported the *Capital Projects Levy* in the Lake Washington School District. The measure, which appeared on the ballot in April, was approved by 56% of the voters. The measure authorized $120 million in new property taxes (spread over six-years) to address rapid enrollment growth and student safety/security, including:

- Classroom additions at Lake Washington High School, including auxiliary gems and Commons
- Classroom additions at Carson elementary, Franklin elementary, Rose Hill elementary and Twain elementary, including expansion of core facilities, and
- Investments in student safety that included exterior security cameras and entry modifications at Eastlake, Redmond and Lake Washington High Schools.

Advocacy Focused on Sign Code Legislation

The United States Supreme Court and the Federal Trade Commission have said that the alternatives to real estate signs are “far from satisfactory.” Real estate signs support the 1988 Federal Fair Housing amendments to the Civil Rights Act of 1964 because they make discrimination “substantially impossible” because anyone who sees the sign can know the home is for sale if they can afford it.

Newcastle Sign Code

After more than a year of work, Seattle King County REALTORS® secured a sign code update in the city of Newcastle that preserved the allowance of Open House A-Boards.

The city sought to define a sign as temporary or permanent based on the material used to the make the sign. Due to the durable material used in an A-Board sign, A-Boards were considered permanent and would have been prohibited from placement in the right-of way, unless the broker obtained a right-of-way use permit. Even then, only one sign would be allowed.

Seattle King County REALTORS® won an exception in the code that allows A-Boards as “permanent portable” signs. In addition, temporary signs may be placed in the right-of-way without a permit but must be pushed or staked into the ground and made of “non-durable material” - like a political yard sign.

Burien Sign Code

At a Burien Planning Commission Public Hearing on April 10th REALTORS® offered the only public testimony concerning proposed amendments to the city sign code, including the provisions regarding real estate signs. In addition, REALTORS® provided the city with written materials that included a White Paper prepared by noted First Amendment attorney Judy Endejan regarding the *Reed* decision, proprietary research on the effectiveness of real estate Open House signs, and written testimony.

Following extended questions and answers, as a result of SKCR’s advocacy efforts the Commission recommended the City Council approve the following sign code modifications for signs related to real estate transactions:

- Allow 6 Open House signs (instead of just 3)
- Allow 1 on-site sign per street frontage (instead of just 1 sign on-site)
- Not require a permit for either Open House signs or on-site signs
- Allow Open House signs to be 6 square feet per sign face (rather than just 4 square feet)
- Allow Open House signs in the planter strips at the side of the roadway
- Allow temporary off-premise signs five days in any one month, for up to six months (180 days), and
- Allow significant signage for new residential construction (which is tied to each house, rather than to a plat or subdivision, which is a good thing because Burien is built-out and most new construction is likely to be in-fill rather than new subdivisions).

Covington Sign Code

REALTORS® were successful in obtaining a number of improvements to the original staff proposal to update the city's sign code in the wake of the United States Supreme Court decision in the case of *Reed v. Town of Gilbert, AZ:*

- The staff proposal to allow just 2 off-premise Open House signs was increased from 2 to 6
- Originally, the one sign in the front yard of the property for sale would have counted as one of the six signs that are allowed, but we were able to get that changed: The sign in the yard no longer counts against the six open house signs that are typically placed off-site. Thus, six off-premise signs are allowed in addition to the sign in the yard.
- At the request of SKCR the city also adopted provisions that allow new construction subdivisions, on a voluntary basis, to obtain approval of a sign plan for marketing the neighborhood until the short plat/subdivision sells-out to the first-round of owner-occupants.

Other aspects of the city's new sign code were more difficult and problematic. Covington adopted a content-neutral sign code, despite objections from REALTORS® and a decision by the Ninth Circuit Court of Appeals which held the *Reed* case—upon which the City relied—does not apply to commercial signs. REALTOR® off-site temporary Open House signs are "commercial signs" because they propose or invite a real estate transaction.

Despite the fact that the experience of other cities has demonstrated sign code permits for temporary off-premise signs tend to produce limited benefit and consume significant city resources, the City Council approved a staff recommendation to require permits. The Planning Commission punted on the issue and did not support or oppose the staff's proposed permit requirement.

The permit requirements will not take effect until the city has the permit program in-place, and ready to go. However, the provisions of the ordinance regulating the number of signs, time of day signs are allowed, size of the signs and prohibited locations for posting took affect almost immediately upon passage by the City Council.

ADVOCACY FOCUSED ON LOCAL LICENSING ISSUES & BUSINESS (RENTAL) INSPECTIONS

Business Licensing in Tukwila, SeaTac, Des Moines, Kirkland & Black Diamond

In response to a new requirement in state law, cities throughout King County began amending their business licensing ordinances in 2019 to exempt non-resident businesses (businesses without a physical location in the city) from the obligation to obtain a city business license, unless the non-resident business grosses at least $2,000 per year from "engaging in business within the city" (as defined in the state's model ordinance). Cities are empowered to set a threshold higher than $2,000 for triggering the requirement for non-resident businesses to obtain a city business license. All businesses with a physical location inside the City must obtain a business license.

The cities of Tukwila, Black Diamond, Des Moines, Kirkland and SeaTac were early adopters of the changes designed to bring their business licensing ordinances into compliance with the revised state law.

Our interest in this matter was two-fold:

1. We advocated successfully to ensure that only the firm (and not individual brokers who are independent contractors) would be subject to the license requirements, and
2. We also advocated successfully, at least thus far, to discourage imposing the requirement on brokerage firms not residing in the city, especially if the city does not have a B&O tax.

Typically, there would also be little, if any, sales tax revenue for the city from the sale of a home, except in connection with resident businesses (such as escrow) located inside the city limits.

Instead, the overwhelming majority of tax revenues received by a city in connection with a real estate transaction is the result of the Real Estate Excise Tax (REET).

Regardless of whether a non-resident business is required to have a business license, a city will receive those REET revenues because the property being sold is located within the city limits.

We argued that:

- Under RCW 18.85, the firm, not the broker, is the regulated business entity
- An individual broker's business license is not held by the broker individually; it must be registered with a real estate firm.
- Even though commission income is eventually shared with licensed brokers (typically pursuant to a contract between the firm and the broker) real estate commission income is payable only to the firm, not directly to individual brokers.
- Real estate listings are the property of the firm, not property of the listing broker. Similarly, it is the firm, not the selling broker, who represents the buyer (even though a specific broker who has assisted the buyer is typically identified on the purchase and sale agreement).
- Real estate firms have management and supervisory requirements over brokers and transactions.
- Additionally, the state and local business and occupation (B&O) tax structure also reflects that the firm, not the individual broker, is the regulated business entity because the B&O tax is paid by the firm – not the individual broker (RCW 82.04.255).
- In 2017, the Department of Revenue collected B&O tax from about 2,700 real estate firms, not from each of the 40,000+ individual brokers who hold a real estate license issued by the DOL. These same 2,700 real estate firms are the same business entities that would pay B&O tax in those cities that collect the tax. By focusing on the real estate firm as the regulated business entity, the state and cities have far fewer payments to collect, businesses to audit, and a higher assurance of collected taxes.

By 2022, all cities and towns are required to administer their business license program through the state's Business Licensing System (BLS) website. Cities and towns already participating in the state's BLS program were required to comply with the new law by October 17, 2018.

Pursuant to RCW 35.90.050, "Cities whose general business licenses are issued through the business licensing system ***retain the authority*** to set license fees, provide exemptions and thresholds for these licenses, approve or deny license applicants, and take appropriate administrative actions against licensees."

Auburn Rental Housing Business License

As part of our efforts to demonstrate empathy regarding the homelessness emergency in King County (without the necessity for the real estate brokerage industry and property owners to continue to be hit by new affordable housing and homeless-related taxes, with very limited return on those investments) we worked successfully with the Code Enforcement Office of the City of Auburn to promote their rental housing business license requirements to our members and the landlords they represent.

Rather than imposing new taxes to pay for city programs, the city's rental housing business license program is simply endeavoring to ensure the available affordable housing stock remains habitable.

The city requested our assistance in connection with these efforts with the objective of attempting to minimize the potential for mass evictions or dislocations that result from property becoming uninhabitable due to deferred maintenance and on-going criminal activity. Additional concerns include unsafe living environments, improperly managed garbage/recycling, managers with criminal convictions or consent decrees which bear a direct relationship to the rental housing business, violations of relevant city regulations and ongoing nuisance activity.

The subject is important to:

- Individuals and business entities that own (or have an indirect ownership interest in) rental housing units
- non-owner property managers (whether on-site or off-site)
- NWMLS brokers and REALTORS® assisting investors who are purchasing residential rental property
- renters, and
- the owners and occupants of other nearby properties whose property values and quality of life may be affected.

Renton: City Council Approves New Regulations for Short-Term Rentals

SKCR was successful in working to ensure Renton adopted a balanced approach to the city's new regulations regarding short-term rentals.

The Renton City Council passed an ordinance that regulates short-term rentals in the city (which are rented for less than 30-days at a time, including Airbnb units). Owners of short-term rentals are required to obtain a business license, provide additional parking for guests, meet fire safety and signage codes and be an owner-occupant if there are multiple rental units in the building. The current annual cost of a city business license for short-term rentals is $125. Online advertising indicates there are at least 728 short-term rentals in Renton.

Under the city's new ordinance, the requirements apply to property owners who advertise their short-term rentals through any publication or on-line marketplace, who hire a property manager and/or have guests over three or more times annually. Short-term rentals in the city are limited to two persons per bedroom.

SKCR is interested in these proposals, and we worked to ensure a balanced approach, because there are multiple interests affected that can be important to our members:

Conversion of properties to short-term rentals has the potential to decrease the total housing supply (relative to actual demand for long-term occupancy) and thereby increase prices and erode affordability.

Allowing short-term rentals is consistent with protecting private property rights, including providing income for the property owner, which may be important for easing the burdens associated with the owner's mortgage.

ADVOCACY FOCUSED ON TAXES

Seattle Income Tax: Winning So Far, But Now "On Appeal" To The State Supreme Court

SKCR is collaborating with the Rental Housing Association of Washington on a Friend of the Court (amicus) brief in opposition to the Seattle Income Tax passed by the City Council, and is keeping in close communication with former Washington State Attorney General Rob McKenna, who is serving as the plaintiff's lead attorney.

The Seattle City Council unanimously approved an income tax by applying a 2.25% tax on total income above $250,000 for individuals, and above $500,000 for married couples filing their federal income taxes jointly. The city income tax applies to Seattle residents.

Of special concern to NWMLS members and REALTORS® is the fact that the tax would include "unearned" income, which means adding equity gains from home sales to total income. That is likely to reduce the amount of "move-up equity" available to sellers for down payment and closing costs when they repurchase. In addition, if it compromises their ability to repurchase and they remain in place instead of moving, it can also constrain the supply of less expensive housing.

Consistent with the REALTORS®' amicus (Friend of the Court) brief, King County Superior Court Judge John Ruhl struck down Seattle's income tax ordinance. The legal issues that Judge Ruhl needed to decide started with the statutory challenge – that the ordinance violated RCW 36.65.030, which prohibits a tax on net income.

Judge Ruhl rejected the claim that the tax is really an "excise tax" on the privilege of living in Seattle, a conclusion bolstered by the fact that the ordinance itself says that it's an income tax. He also affirmed the measure passed by the City Council is indeed a tax on net income.

The Judge also found that—ontrary to the position taken by the city—the law prohibiting a tax on net income was properly passed by the Legislature and is thus valid. Finally, Ruhl concluded that the city needed explicit authority to impose a tax, and that none existed.

Having concluded the state law prohibits a tax on net income, that the city's income tax ordinance is indeed a tax on net income, and that no other authority existed for the city to impose such a tax, the judge granted plaintiffs' motion for summary judgment and struck-down the income tax ordinance.

Once he found the Seattle Income Tax is unlawful, Ruhl decided it was not necessary to consider the larger constitutional question of whether income is a form of property. There is binding state Supreme Court precedent holding that income is a form of property, which both Superior Court Judge Ruhl and the Court of Appeals would likely be required to follow if they took up the issue. However, unlike lower courts, the Supreme Court could overrule its own prior decisions.

The city of Seattle appealed Judge Ruhl's decision to the State Supreme Court, but the Supreme Court chose to send the case down to the state Court of Appeals for further review before the Supreme Court decides whether or not to hear the case. The Court of Appeals, which is required to follow existing law and precedent, responded by also concluding Seattle's tax on net income was not allowed.

But, in an unexpected twist, the Court of Appeals left the door open for the state's Supreme Court to reverse the Supreme Court's earlier decisions and hold the Seattle Income Tax should be allowed. This could happen if the city is able to convince the state Supreme Court that its prior rulings (holding that income is property) were wrongly decided and should be overturned, in which case the Supreme Court could rule that Seattle's income tax doesn't run afoul of the state constitution's requirement that property be taxed uniformly.

We await a Supreme Court decision on whether or not our "win" on this issue at the trial court, and again at the Court of Appeals, will be sustained by the state's Supreme Court.

Kent Property Tax Increases to Hire More Police Officers

SKCR worked with other members of the business community in Kent and South King County to push back against a proposal from Kent Mayor Dana Ralph, who wanted the City Council to ask voters to increase property taxes in order to hire more police officers.

More police officers are needed, but making property owners pay more taxes in order to fund the city's most important and basic priority—Public Safety—while spending available city revenues on less important things is a bad idea, especially now in the city is awash in cash.

Kent Mayor Dana Ralph pulled back, but only temporarily, on her suggestion that the City Council send a ballot measure to voters asking for another property tax increase to pay for additional police officers.

The issue will likely be reconsidered after the election (when incumbent City Council members are not running for re-election). According to news reports, the city's Chief Administrative Officer, Derek Matheson, wrote in an e-mail in mid-July that, "The mayor remains 100% committed to recommending a police ballot measure in the future and we'll continue to work in that direction."

In a special election in April 2018, 57% of voters rejected a measure to increase the city's utility tax from 6% to 8% to pay for more police. SKCR declined to support the measure. At the time, city officials indicated the city faced a "fiscal cliff" and there was no other way to pay for more officers.

Since then, the city has formally acknowledged there is no "fiscal cliff" - and says the city's financial situation has changed dramatically.

The City Council has already passed numerous new tax increases:

- The City Council approved a 28.8% permanent increase in the city property tax without a vote of the people
- The City Council passed two increases in the B&O tax, including a 100% increase in the "square footage" portion of the B&O tax
- The City Council has passed a 3rd and 4th increase in the B&O tax that have not yet gone into effect
- The City is continuing to receive funding from the legislature to off-set lost sales tax revenue resulting from the state participating in the Streamlined Sales Tax program, and
- In concert with the cities of Renton, Auburn (and perhaps Sumner) the city of Kent is preparing to rezone the valley floor (which is currently home to the 4th largest warehousing and distribution center in the nation) to other non-warehousing purposes in order to generate even more B&O tax revenue.

So, the proposal from the Mayor to increase property taxes in an election year was met with enormous skepticism.

Three factors are thought to have contributed to the negative reaction—and which SKCR will continue to press hard with our partners and elected officials once the election is over—include the following:

1. The City of Kent is awash in cash. Lots of cash!

In the wake of robust economic growth, the City's General Fund Tax Revenue Collections were $7.9 million over budget, at $110 million last year.

Sales tax revenues collected by the City came in $3.5 million over budget.

Other tax revenues collections (including B&O tax and permit fees) were $3.1 million over budget.

In addition, Kent has a General Fund Reserve Balance of $21.6 million or 19.8% of the general fund budget (even though the City Council's own Reserve Policy only requires 18%, and despite the fact the Government Finance Officers Association says 4 to 8% reserves are Good; 8 to 15% reserves are Strong; and more than 15% in reserves is Very Strong). Kent's general fund of reserve balance is 32% above the threshold for being "Very Strong."

2. Tax fatigue: Taxpayers are contending with significant property tax increases including:

- A state property tax increases to fund K-12 Education following the legislature's decision to increase state property taxes in response to the McCleary lawsuit
- More than $50 billion in new taxes approved for Sound Transit Phase 3
- Significant increases on B&O taxes passed last session by the legislature
- New property tax increases just approved by Kent voters for the Puget Sound Regional Fire Authority, and
- New long-term care taxes on employees…

…all of which are in addition to recent tax increases passed by the Kent City Council, and efforts that are underway in Kent, Renton and Auburn to rezone the valley floor to increase city B&O tax revenues.

3. The city's #1 priority (police/public safety) would be funded with new taxes, while the city's extra cash is used for other things: The money from another increase in property taxes would be used to add more police officers.

Kent's police department is understaffed, property crimes have been de-policed (officers are not dispatched to property crimes) and high-speed pursuits in the city of Kent have increased dramatically – up approximately 37% - in the last year.

Public safety – and especially police - is the number one priority of local government. Critics (including the REALTORS® and other members of the business community who assisted us in pushing back against the Mayor's proposal) argue that increased funding for police should be paid-for with the first dollars collected by City Hall, instead of funding other less important priorities with available funds and then imposing new taxes to pay for police.

That happened with Medic-One several years ago when King County began funding ambulance services through ballot measures while spending available revenues on other things. Now, Kent's Mayor has expressed a desire to do the same thing for adding officers to Kent's Police Department.

Not using available funding for police—and instead spending available tax dollars on other things—also raised concerns because the city of Kent doesn't have to pay for a fire department. Instead of Kent having its own fire department, the Puget Sound Regional Fire Authority provides all the fire protection services in the city of Kent and collects separate property taxes and fire fees that are not part of the budget at City Hall. So, the city has fewer "public safety" expenses it must pay for out of its budget: police, but not the fire department, and not Medic-One ambulance service.

Local REET and Capital Gains

Seattle King County REALTORS® supported the efforts of Washington REALTORS® to defeat efforts this year to adopt a new state Capital Gains Tax, and to lay the groundwork to frame future consideration of capital gains tax in ways that we hope will eliminate real estate as part of the discussion.

In addition, as part of the discussion of exempting real estate brokers from the new 20% increase in B&O taxes, and the pre-adoption restructuring of "tiered" REET tax proposals to utilize a "marginal tax rate" approach, we worked successfully with WR to keep increases in the "local portion" of REET off the table this session in Olympia.

The subsidized housing industry, together with rental protection advocates, had advocated for a doubling of the local portion of

REET, which would have added ½ of 1% local REET (known commonly as "REET 3") to pay for affordable housing.

Currently, local government receives ½ of 1% REET.

That amount is in addition to the state's portion of the new Tiered REET that varies between 1.28% and 3%.

As a result, the total REET (state and local combined) is currently 1.78% to 3.5% depending upon the sales price of the property. An additional ½ of 1% would have increased the total REET to between 2.28% and 4% of the sales price of the home.

The issues of an increase in the local REET to pay for affordable housing, as well as a proposal for a new Capital Gains Tax (this time proposed by former Speaker of the House Frank Chopp to pay for children's healthcare and affordable housing) will return next session with a vengeance.

When it does, we will work again with Washington REALTORS® and other partners in the business community to protect NWMLS Brokers and our REALTORS® from the destructive effects of such changes upon the businesses of brokers, housing affordability and property rights.

News In Brief

- **Seattle was ranked No. 1 by researchers at WalletHub, who compared 100 cities across 17 key metrics to determine the best city for public transportation.** Data sets included share of commuters who use public transit and average age of the fleet to number of injuries and peak hours spent in congestion, to name two. Among the metrics measured, Seattle finished with Top 10 rankings in shortest average commute time by public transportation (3rd), fewest public transit injuries (8th), share of commuters who use public transit (9th) and 9th in total public transit vehicles operating at full capacity. In overall categories, Seattle ranked 7th in Accessibility and Convenience, 6th in Safety and Reliability and 3rd in Public Transit Resources. But combine all the scores and Seattle was No. 1. Boston, San Francisco, Washington DC and Madison rounded out the Top 5. Portland came in 10th. The worst city on the list? Indianapolis, with St. Petersburg and Tampa, Florida rounding out the bottom 3 by a wide margin.

- **The number of people forced to spend at least 90 minutes each way commuting to work has boomed in the Seattle–Tacoma–Bellevue metro area over the last decade, according to a recently-released study.** A county-by-county breakdown of super commutes by Apartment List has found that 50% more people were grinding out long rides in King County compared to 2009. Pierce County saw an increase of 55% and Snohomish County's super commute number jumped by 44% over that time. Combined, the counties had roughly 55,000 workers spending three hours or more round trip just getting to the office. The numbers - which originate from the U.S. Census Bureau - reflect nearly 5% of the workforce in Pierce County, but only about 2% in King County and 3.7% in Snohomish. Kitsap County had the highest percentage of Washington super commuters in the workforce, with 7. 5% making the long haul by ferry as of 2017. As you may be able to tell from the numbers, the super commuters are not just strung out on roads and freeways, but using all forms of transportation, including ferries.

- **Seattle ranks among the top 20 most "fun" cities in the United States, according to the findings of a new study.** The study, by personal finance website WalletHub, compared the nation's most populous 182 cities and found that Seattle ranks No. 17 when it comes to having fun. The rankings were based on 65 different criteria in areas such as entertainment, recreation, nightlife, parties and costs. And each city's reputation for fun is economically important, because the average American spends nearly $3,000 on entertainment each year, the study found. Seattle ranked well above average in several categories, including festivals per capita (No. 8 in the nation), restaurants per capita (No. 9), fitness centers per capita (No. 8), bar accessibility (No. 10) and number of attractions (No. 9). In fact, Seattle would have ranked higher than 17th in the overall rankings except for one factor - the high cost of having fun here dragged down the city's score. According to the study, Seattle is one of the most expensive cities in the U.S. for fun and recreation. In fact, the average beer price in Seattle is second-highest in the nation, behind only New York City. The top five cities in the nation for having fun, according to the study, are Las Vegas, Nev.; Orlando, Fla.; New York, N.Y.; Miami, Fla.; and Chicago, Ill. The five least fun cities in America? According to the study, they are Pearl City, Hawaii; Oxnard, Calif.; Yonkers, N.Y.; Santa Rosa, Calif.; and Bridgeport, Conn.

- An updated forecast shows Washington state is expected to see a net increase in revenues of nearly $447 million through mid-2021, according to KOMO News. The numbers released at a Wednesday meeting of the Economic and Revenue Forecast Council showed total revenues are now projected at more than $51.4 billion for the current two-year state budget cycle, which started in July. The state is projected to have $3.1 billion in total reserves at the end of the current biennium. The next revenue forecast will be released Nov. 20. In December, Gov. Jay Inslee will release his 2020 supplemental budget proposal ahead of the 60-day legislative session that is set to begin. Jan. 13.

- **People who bought homes in the Puget Sound region at the bottom of the housing market in 2012 have earned billions of dollars in home equity since then, with Tacoma leading the nation in percentage increase and Seattle coming in at No. 2 in the country in total dollar increase.** The eye-popping figures are contained in a new report released by real estate brokerage Redfin, which measured the increase in home equity (the value of the home minus the amount still owed in mortgage payments) in cities across the U.S.

  Nationwide, the increase in home equity since 2012 amounts to a staggering $203 billion, according to the report. The typical U.S. homebuyer started off with $54,000 in home equity in 2012 and has $195,000 today. In Seattle, the study found that the average person who bought a home in 2012 has gained $364,000 in home equity - an increase of 461 percent. The total rise in home equity in the Seattle area since 2012 amounts to $8.01 billion - the second-highest dollar increase in the nation behind Los Angeles.

  But when it comes to the percentage of home equity increase, no city in the nation could top Tacoma. The report found that those who bought a home in Tacoma in 2012 have earned a stunning 1,453 percent increase in home equity.

Calendar of Events Through November 13, 2019

DATES	EVENT	TIME	LOCATION	CONTACT
	Seattle—King County REALTORS® For updates visit http://www.nwrealtor.com/events			
10 / 17-18 / 2019	WR Leadership Summit		Interurban Hotel	425-974-1011
11 / 7-11 / 2019	NAR Convention		San Francisco	425-974-1011
11 / 13 / 2019	Board of Directors	9:30 am - 12:30 pm	SKCR	425-974-1011