



WASHINGTON STATE HOUSING SUPPLY CRISIS

Permitting, Regulatory Cost, & the Case for Reform

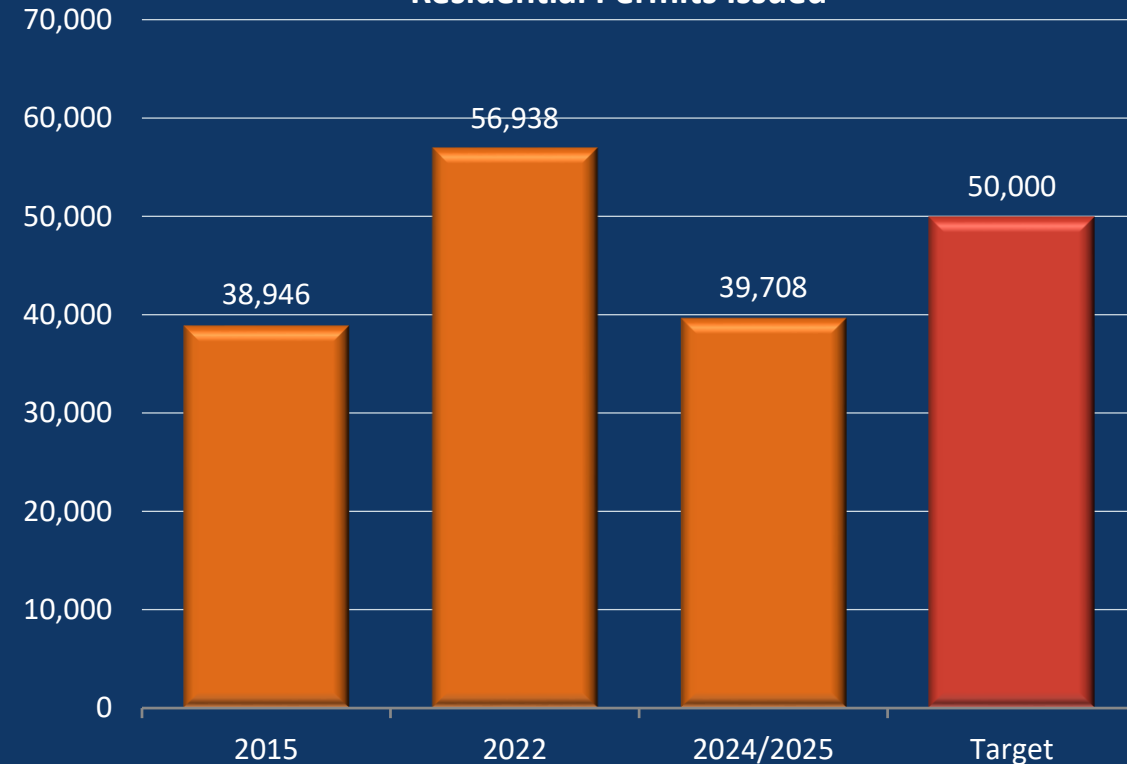
Testimony prepared for the Washington State Senate Housing Committee

Matthew Gardner | Real Estate Economist & Housing Policy Consultant | September 17, 2026



Housing Production Has Fallen Well Below Washington's Target

Residential Permits Issued



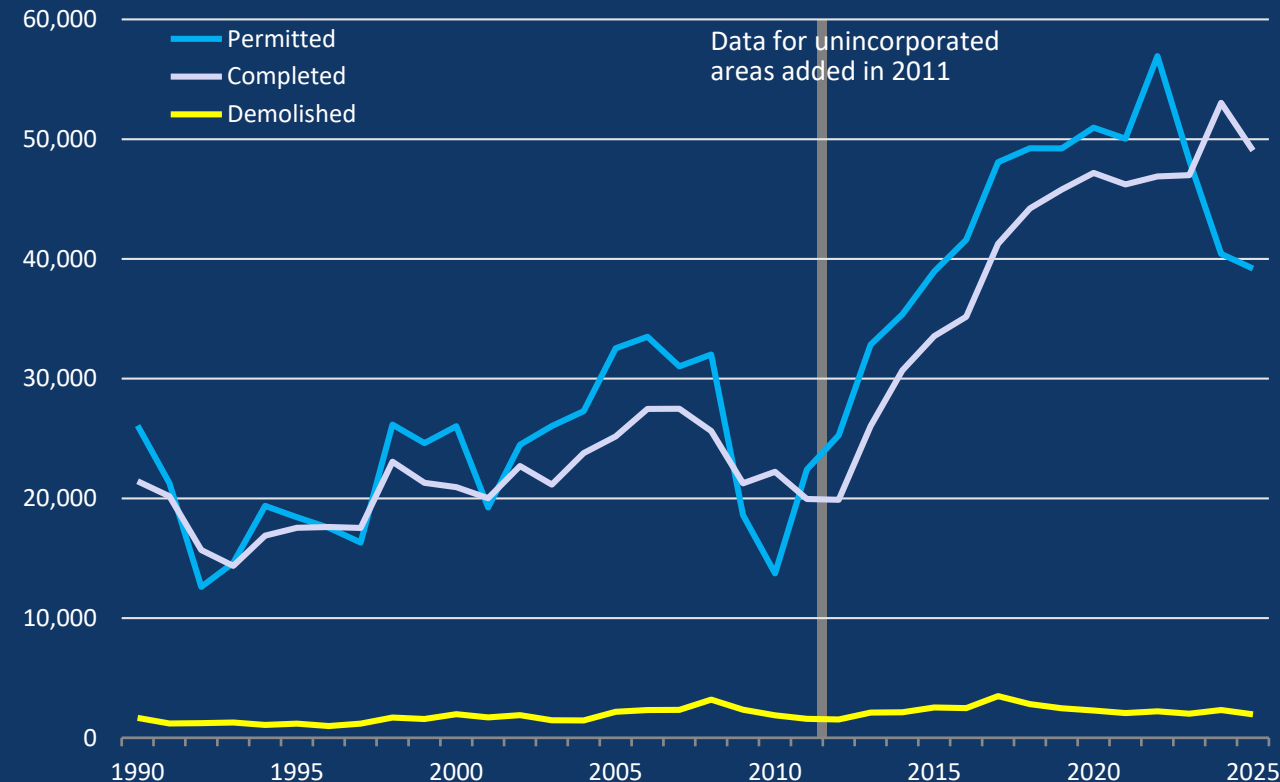
Washington needs roughly 1 to 1.1 million new homes over the next 20 years - about 50,000 units per year - to keep pace with population growth. Total residential permitting peaked near 57,000 units in 2021 and has since fallen to about 39,000.

-17,748

Fewer units permitted in 2025 vs. peak, while the annual need holds near 50,000



The Permit-to-Completion Pipeline: Why Today's Weak Permits Are Tomorrow's Problem



3 straight years

Of permit declines since the 2022 peak – a 31% cumulative drop

93% / 6.7%

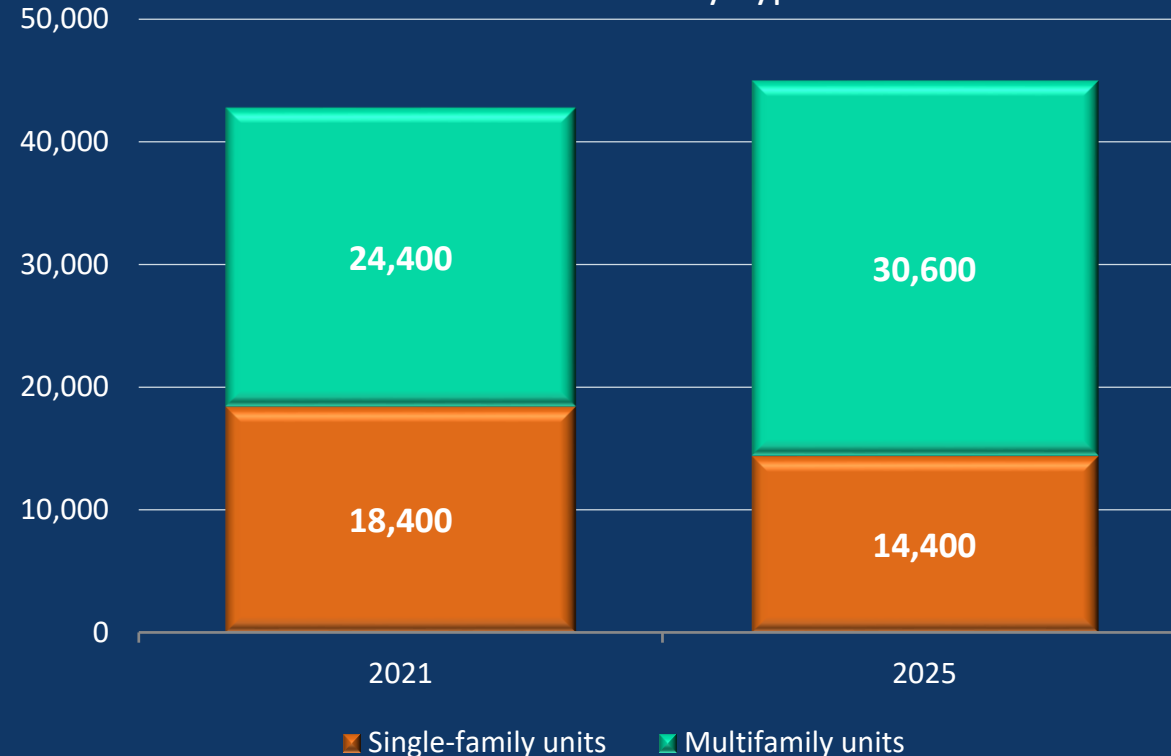
Completions run at 93% of cumulative permits; demolitions equal 6.7% of completions

Multifamily completions typically lag permits by ~19.6 months (NAHB) to 2–3 years (WCRER), so 2024–2025's strong totals reflect 2021–2022 permitting – not today's pipeline.



Single-Family Supply is Shrinking Fastest - & Net Growth Trails Need

New Units by Type



47,900 → 41,000

Net housing units added statewide,
2025 vs. the following 12 months

68%

Share of 2025's new units that were
multifamily, up from 57% in 2021

Net stock growth – already adjusted for demolitions and conversions – is falling further behind the ~50,000-unit annual target, even as multifamily construction absorbs a growing share of a shrinking total.



Abandoned Permits: The Challenges Facing Builders

Permit Expiring if Work Doesn't Start

Under WA code, a permit becomes invalid if construction doesn't start within 180 days of issuance (or if work is suspended for 180 days once started.)

Financing Math Stops Working

If underwriting changes after the application goes in due to interest rate, construction cost, or changes in expected sale/rent prices.

Litigation & Appeals

A SEPA appeal or neighbor challenge filed after permit issuance can freeze a project for months or years.

Pre-sale/pre-lease Thresholds Not Met

Lenders financing condos or apartments commonly requires a minimum percentage of units pre-sold or pre-leased before financing is released

Site Conditions After Permit Issuance

Unexpected issues can easily cause a project to be abandoned.

Washington's Vested Rights Doctrine

Creates an incentive to file early – sometimes speculatively. Some share of "permitted" volume in any given year is this kind of defensive/rights-preserving filing, rather than a project on an active construction timeline.



Regional Equity: Rural & Small-County Housing Challenges

Rural County Realities

Limited permit capacity

Many small counties issue fewer than 100 permits/year. Planning departments are understaffed and overwhelmed.

Infrastructure constraints

Rural areas can lack water/sewer capacity for dense housing. Extension costs are prohibitive for private developers.

Agricultural land pressure

Eastern WA counties face conversion pressure as Puget Sound capital seeks lower-cost land.

Workforce housing crisis

Hotel, agriculture, and healthcare workers in rural WA face acute shortages. Vacancy rates are tight in several counties.

Manufactured housing decline

Rural WA historically relied on manufactured homes. HUD code changes (“4th & 5th Sets” final rule) – in concert with financing barriers – have reduced production 60% since 2000.

Spotlight: High-Stress Rural Counties (2025)

San Juan County

9.0x home price to income ratio – it is the most unaffordable rural county. Only 67 permits issued in 2025. Critical worker housing shortage.

Jefferson County

6.8x home price to income ratio. Popular retirement destination. Limited zoning for MF. Median home \$595K; median household income \$87.6K.

Okanogan County

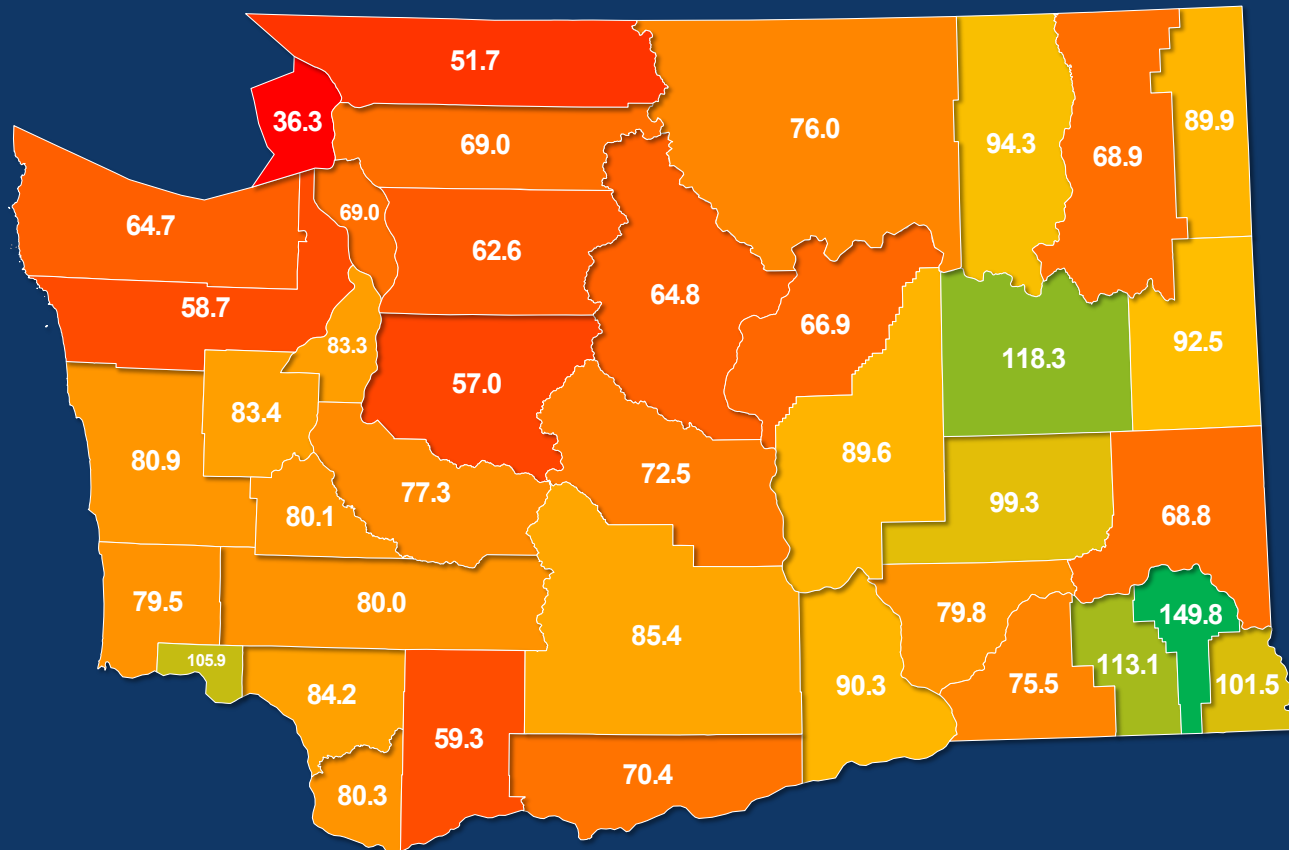
Faces a classic rural mismatch: adequate land & moderate population growth, but insufficient housing production and a low-wage employment base.

Wahkiakum County

Smallest county. Only 28 permits in 2025. Production is insufficient even for minimal replacement and aging-in-place needs, let alone accommodating in-migration.

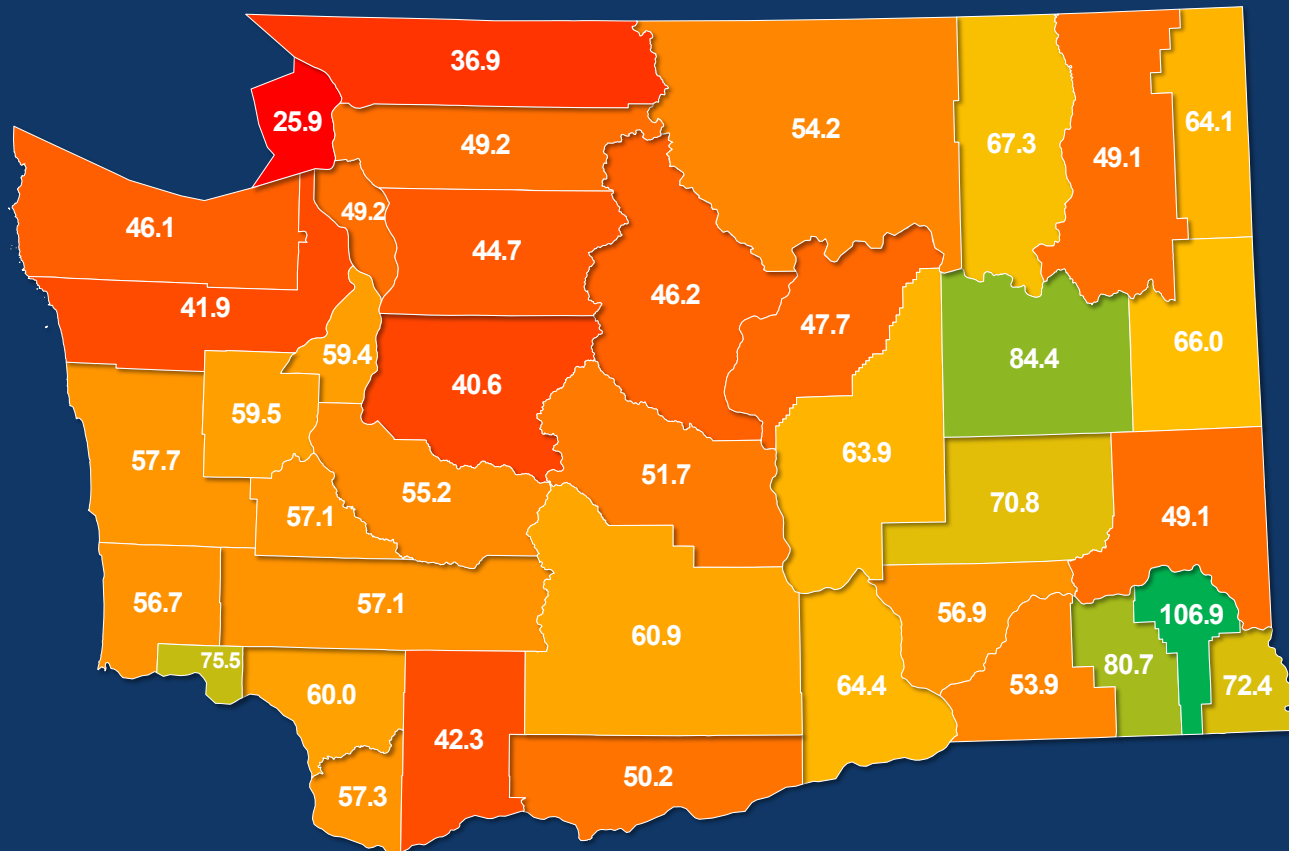
Housing Affordability Index

All Buyer Index – Q2-2026



Housing Affordability Index

First-Time Buyer Index – Q2-2026



Policy Recommendations: Supply-Side Strategies



01

10-Year Building Code Freeze

Constant changes have driven up construction costs by over \$40,000 since 2009 and have priced out more than 80% of Washington families' ability to purchase a home.

02

Land Owned by Cities, Counties, & the State

Releasing underutilized land that is owned by the government could have an immediate impact on housing supply.

03

State Housing Finance Agencies Should Offer Below-Market Debt

Issue housing revenue bonds at lower rates than private construction lenders; pair with gap financing. This reduces borrowing costs far more effectively than chasing tax credit arbitrage.

04

Infrastructure Investment for New Housing

Dedicate \$1B over 5 years to water, sewer, and road capacity upgrades in high-growth rural counties. Condition funding on adoption of DADU/infill zoning.

05

More Access to Buildable Lands

With only 3.7% of land open for housing, expanding growth areas (even to 10%) could dramatically improve affordability.

06

Clear and Objective Standards Mandate

Require all development standards for residential development to be "clear and objective" to prevent sloppy standards from enabling frivolous legal challenges that needlessly delay homebuilding.

Policy Recommendations: Supply-Side Strategies



01

10-Year Building Code Freeze

Constant changes have driven up construction costs by over \$40,000 since 2009 and have priced out more than 80% of Washington families' ability to purchase a home.

A freeze on the energy code specifically is well supported by the data

Allows developers to underwrite a project's entire lifecycle against a fixed target

De-risks longer-horizon capital investment

Removes the incentive to game the timing of permit applications

Policy Recommendations: Supply-Side Strategies



02

Land Owned by Cities, Counties, & the State

Releasing underutilized land that is owned by the government could have an immediate impact on housing supply.

ACKNOWLEDGEMENT:

A Surplus Property Program exists
(RCW 39.33.015)

The honest problem is that the mechanism exists, but production doesn't yet follow

Fund & staff the execution gap to accelerate execution of the existing program

Policy Recommendations: Supply-Side Strategies

ACKNOWLEDGEMENT:
Tax exempt bonds & LIHTC
already exist

03

State Housing Finance Agencies Should Offer Below-Market Debt

Issue housing revenue bonds at lower rates than private construction lenders; pair with gap financing. This reduces borrowing costs far more effectively than chasing tax credit arbitrage.

Use taxable – rather than tax-exempt bonds – to create a construction loan fund

The federal "bond test" for 4% eligibility dropped from 50% to 25% of a project's aggregate basis

Policy Recommendations: Supply-Side Strategies



Infrastructure capacity is a genuine bottleneck - separate from zoning

Conditioning the money on zoning reform is a real, proven lever — a fiscal carrot rather than another unfunded mandate

It's a defensible, normal use of capital budget dollars

Targeting *high-growth* rural counties focuses money where the marginal housing payoff is highest

Infrastructure Investment for New Housing

04

Dedicate \$1B over 5 years to water, sewer, and road capacity upgrades in high-growth rural counties. Condition funding on adoption of DADU/infill zoning.

ACKNOWLEDGEMENT:
HB 2269 expands the wastewater systems in rural limited areas of more intensive development

Policy Recommendations: Supply-Side Strategies



Streamline rather than loosen, the existing process for expanding Urban Growth Areas

Rewrite the methodology associated with the required *Buildable Lands Analysis*.

05

More Access to Buildable Lands

With only 3.7% of land open for housing, expanding growth areas (even to 10%) could dramatically improve affordability.

Policy Recommendations: Supply-Side Strategies



Commerce is already tasked with county-level housing-needs reporting; this just piggybacks off it.

(SB 5587)

Eg: HB 1491 pairs upzoning with mandatory affordability – potentially offsetting some of the supply gain the upzoning was meant to produce.

Monitoring of Enacted Legislation

06

Require Commerce to report specifically on production effects.

ADDENDA

Slides presented at the Association of Washington Businesses Conference in Spokane, Washington - July 2026



GARDNER
ECONOMICS



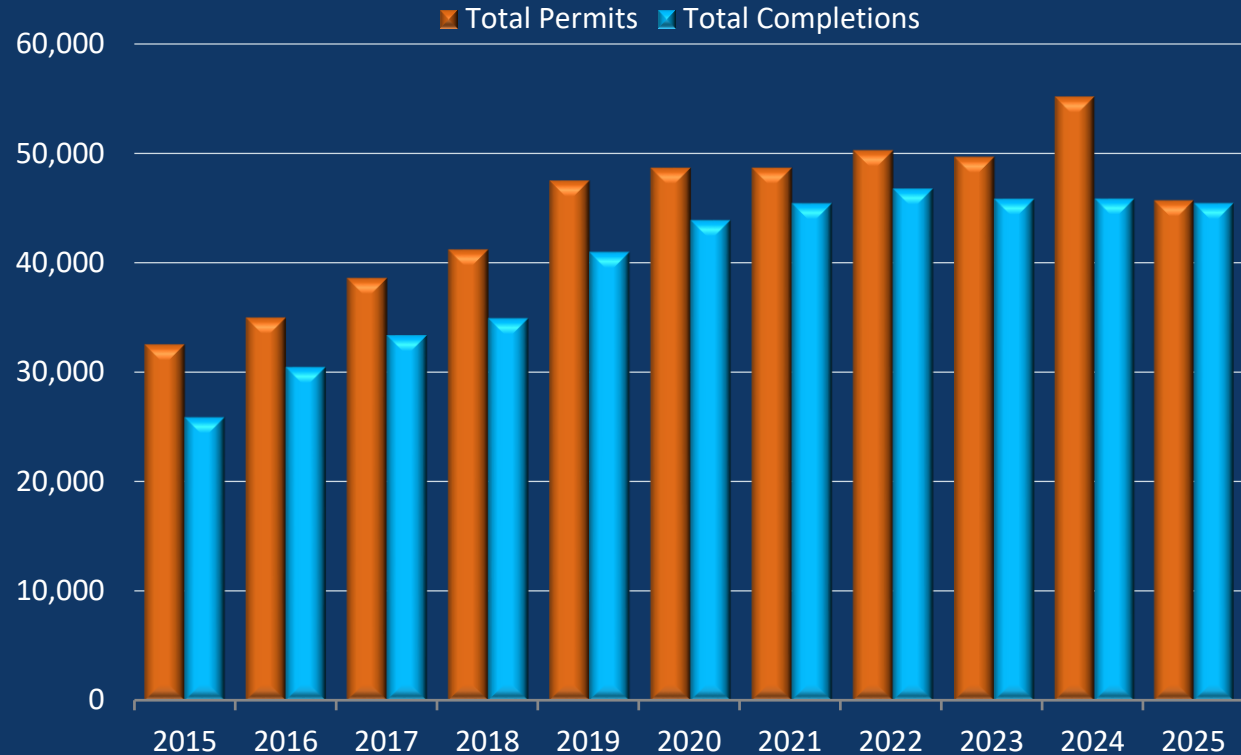
Permits vs. Starts: The Completion Gap

Why the gap?

Factors include financing delays, labor shortages, expired permits, and site-condition challenges.

~5,500
Average annual permits
that don't become starts

~9%
Share of issued permits
abandoned or delayed



Supply-Demand Gap: Statewide Housing Deficit



The persistent gap between housing supply & demand has led to a significant deficit, necessitating urgent policy actions.

175,000+

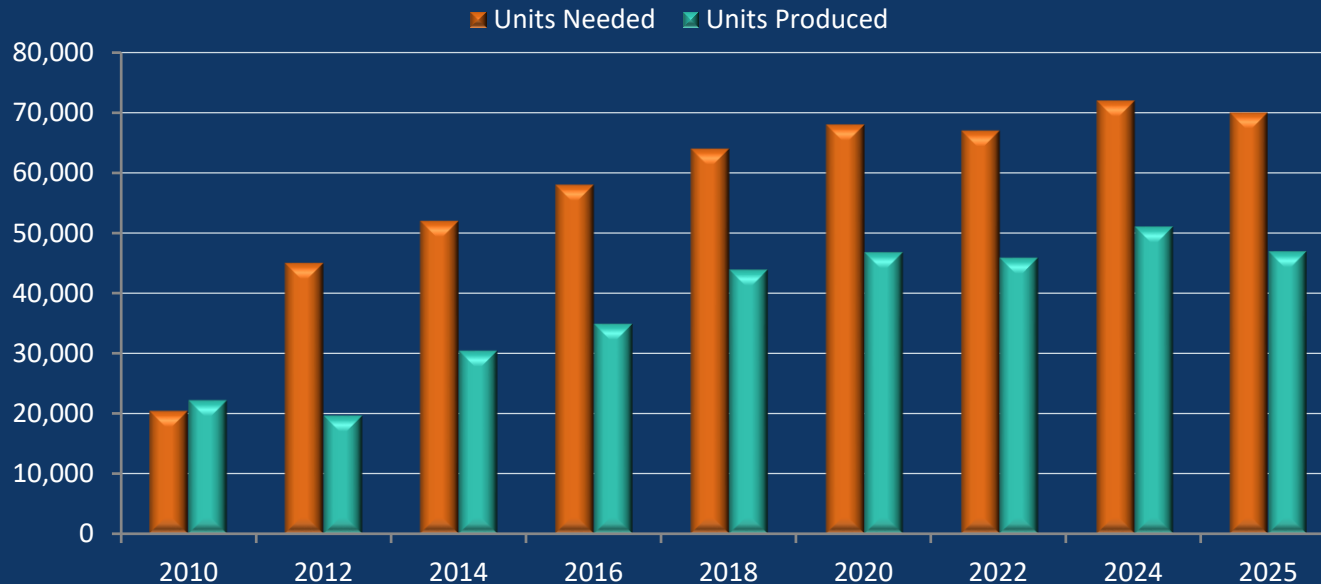
Estimated cumulative
housing unit deficit since
2010

22,000+

Annual average
underproduction
Vs. household formations

300,000+

Projected deficit by 2045
Without policy intervention





Shifting Product Mix: Single-Family vs. Multifamily

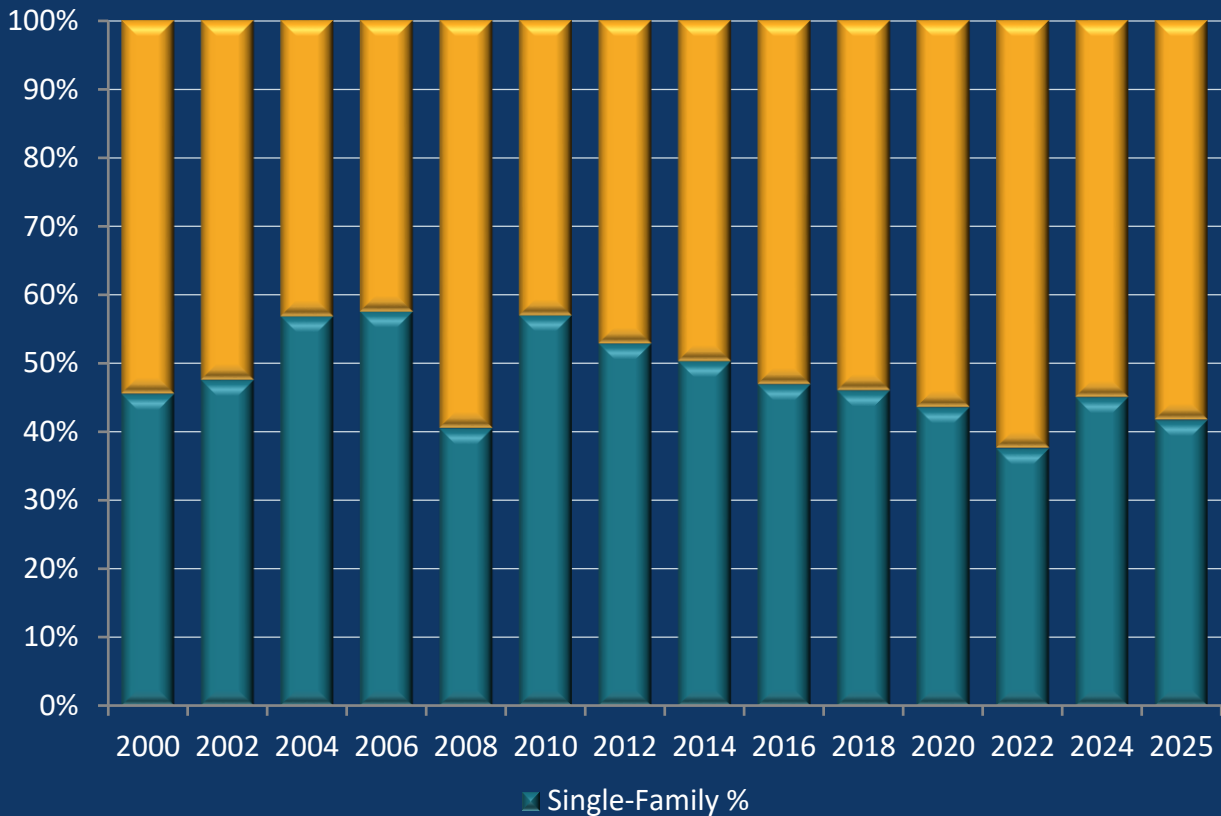
In Washington State, the housing permit landscape dramatically evolved between 2010 and 2025. Single-family homes have seen their share decline significantly as multifamily housing gains ground. This shift is largely driven by factors such as urbanization, rising land costs and ongoing zoning reforms that encourage higher density living.

Key Insights

In 2011, 64% of total permits of a single-family units. By 2025, that share had dropped to 42%. A structural shift driven by urbanization, land costs, and the zoning reform has fundamentally changed housing in Washington State.

2025 Snapshot

SF Permits: ~16.3K (41.7%)
MF Permits: ~22.7K (58.3%)
Total: ~38.9K



Source: WA OFM. Multifamily = 2+ unit structures & ADU's