

Why does prosperous King County have a homelessness crisis?

A careful analysis reveals a primary driver of homelessness in Seattle and King County and a costly, multifaceted solution to the problem.

by Benjamin Maritz and Dilip Wagle



Like other prosperous American cities, greater Seattle currently finds itself in the unenviable position of possessing both enormous amounts of wealth *and* staggering levels of homelessness.

Over the past decade, the King County region has enjoyed robust economic growth and is home to two companies that have become among the most valuable in the world, Microsoft and Amazon. Still, despite its great economic engine, the region continues to battle a homelessness problem of devastating proportions. More than 22,500 households experienced homelessness in 2018 in King County, and more than 4,300 Seattle Public School students are homeless.¹ While there was a slight decrease in the number of homeless recorded in the one-night Point-In-Time (PIT) count in January 2019, the upward trend has not stopped (Exhibit 1).²

On the face of it, it would appear that King County has everything it needs to tackle this problem. Both the City of Seattle and King County have made large investments in affordable housing and have a pipeline of more than 5,000 new units under construction.³ Major corporations and philanthropists have committed millions of dollars to the issue. Civic leaders are aware and have developed multiple plans. There is no dearth of energy and enthusiasm from the volunteer community.

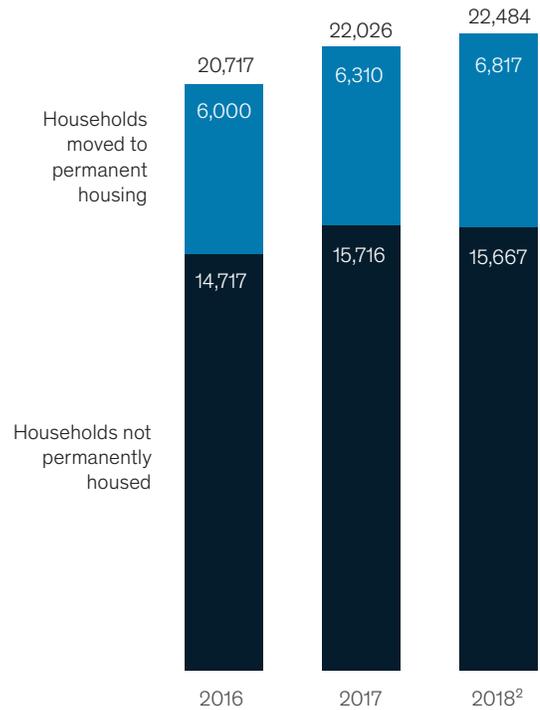
Yet despite years of valiant effort and the best intentions of government officials, business leaders, corporations, and citizens, the number of households needing homelessness services in the region continues to grow.

Why is a prosperous region filled with well-meaning, smart leaders still struggling to make homelessness a rare, brief, and one-time experience for its citizens?⁴ Because billions of dollars in spending and best efforts have been aimed at the symptoms of this problem and not at its root causes.

Exhibit 1

Homelessness continues to increase in King County.

Households¹ experiencing homelessness in King County



¹The Homeless Management Information System (HMIS) is a database of all households who accessed the homelessness response system over a given year in King County.

²Households which experienced homelessness in 2018 and which were not exited to permanent housing situations by the end of the year.

Source: King County HMIS

King County needs a clear, data-driven, and rational approach to understanding homelessness. To make progress, the region can look at the ways in which it is managing growth and allocating resources. In practical terms, that could mean making a commitment to provide enough homes for those who need them at a price they can afford.

¹ Scott Greenstone and Neal Morton, "For 40,000 homeless students, it's back-to-school season in Washington," *Seattle Times*, September 10, 2018, seattletimes.com.

² *Count us in: 2019 Seattle/King County point-in-time count of persons experiencing homelessness*, Applied Survey Research, 2019, allhomekc.org.

³ *Housing choices background report*, Seattle Office of Planning and Community Development, August 2019, seattle.gov.

⁴ "An end to homelessness means that every community will have a comprehensive response in place that ensures homelessness is prevented whenever possible, or if it can't be prevented, it is a rare, brief, and one-time experience." "What does ending homelessness mean?," United States Interagency Council on Homelessness, June 4, 2018, usich.gov.

Two years of research up and down the West Coast and in King County, Washington, has led to these conclusions:

- **The problem of homelessness is getting worse.** In 2018, 22,500 households experienced at least one episode of homelessness in King County, the highest number on record. The region's crisis-management system is near its limit, and there is no reason to believe the pressure will subside anytime soon.⁵
- **Economic growth in the region is a leading cause of homelessness.** While the region is racking up impressive numbers in terms of job creation and economic growth, its housing growth has not kept pace. The gap between housing supply and demand has driven up prices to the point where the poorest simply can no longer afford housing without public support.
- **Additional affordable housing stock must be built.** Particularly stock that is affordable for extremely low-income households (ELI), defined as households earning less than 30 percent of the area median income (AMI)—or about \$23,000 per year for a family of four in 2017. Other options, while temporarily effective, will not address the long-term root causes of this problem.
- **Building this housing will require substantial incremental public spending.** As ELI units can only offer low rents, often below their operating costs, private markets alone cannot supply them. Traditionally, federal programs have supported new ELI housing, but these programs have slowed or reached capacity. Fully addressing the issue will cost an additional \$450 million to \$1.1 billion per year for the next ten years, above and beyond what is currently being spent.

- **Building alone will not fix the problem.** Creating more affordable housing will take time, even if fully funded now. Immediate priorities must include taking action to relieve the stress on society; this could include increasing shelter capacity, mental-health services, and other related programs. The greater Seattle region must start to build a coalition that can drive long-term change and ensure that all homelessness-related programs are efficient and effective. There are clear roles for the public sector, service providers, citizens, and the business community.

To fully understand the homelessness problem in the region, each of these issues can be examined in more detail.

The problem is getting worse

The number of households accessing homelessness services in 2018 increased to 22,500 from 20,700 in 2016. On a per capita basis, Seattle and King County have the dubious distinction of being among the top three regions in the country in homelessness, and rank above the San Francisco Bay Area, for example.⁶ Further, on a year-over-year basis, the number of unsheltered homelessness is growing by 26 percent.

Those experiencing homelessness today are a specific subset of the region's population. Ninety-eight percent of the homeless in King County are considered ELI, meaning that they earn less than 30 percent of the AMI.

Based on the Housing and Urban Development benchmark that suggests that a household should spend no more than 30 percent of its income on rent, the upper end of this segment earns about \$23,000 per year and can afford to spend about \$600 per month on housing.⁷ Even the most casual observer

⁵ "The crisis response: How well is the Homeless Response System meeting the need for services?," All Home King County, April 1, 2019, allhomekc.org.

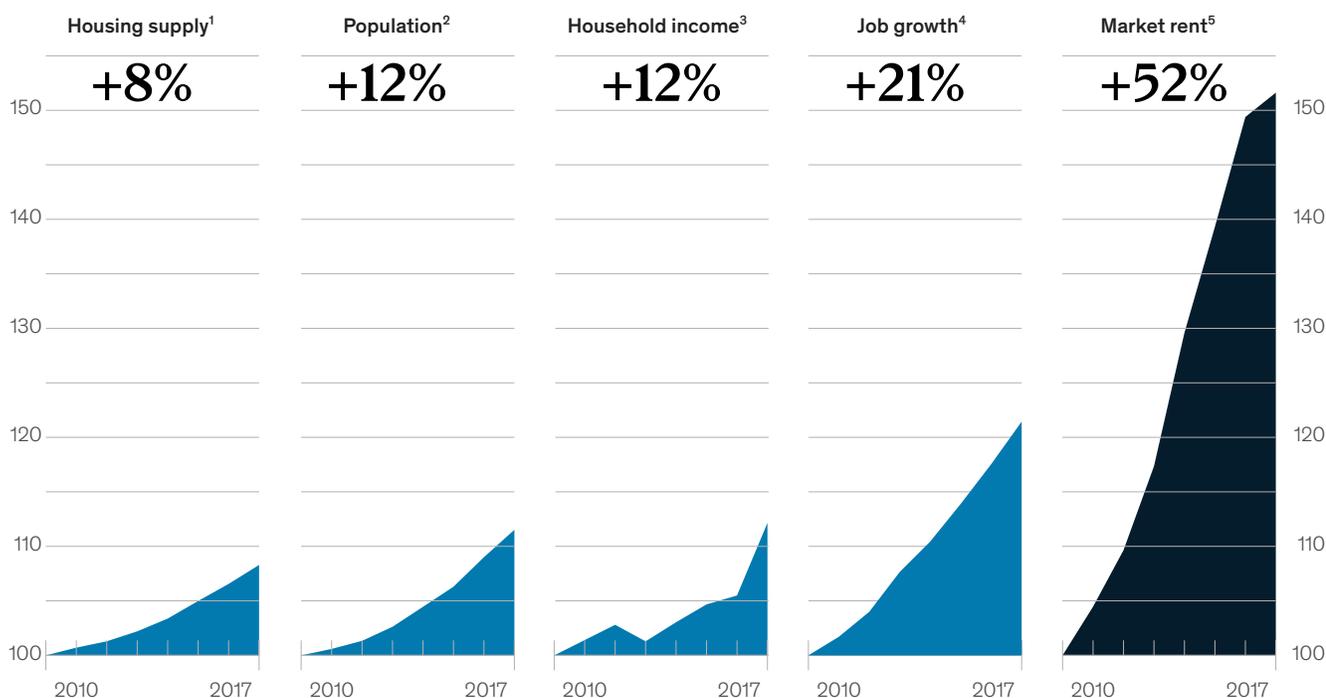
⁶ Kate Anthony, Kunal Modi, Kausik Rajgopal, and Gordon Yu, "Homelessness in the San Francisco Bay Area: The crisis and a path forward," July 2019, McKinsey.com.

⁷ The upper end of the extremely low-income (ELI) band is \$22,800 in 2017 for a family of four. "Affordable housing" is defined as costing no more than 30 percent of income.

Exhibit 2

Housing supply and area household incomes in King County have not kept pace with job growth and rent increases.

Growth in King County, index (100 = 2010)



¹Washington State Office of Financial Management total housing supply estimates for April 1 of each year. ²Washington State Office of Financial Management population estimates for April 1 of each year. ³The Department of Housing and Urban Development Office of Policy Development and Research annual median income data for King County (median). ⁴Puget Sound Regional Council estimates for King County. ⁵September Zillow Rent Index time series data for multifamily, single family, and co-op/condo residences in King County (median).

Source: Puget Sound Regional Council; US Department of Housing and Urban Development's Office of Policy Development and Research; Washington State Office of Financial Management; Zillow Rent Index

of King County real estate understands that it is close to impossible to find a rental at this price.

Despite these difficult market conditions, it is common to lay the blame for homelessness on individual failures and personal weaknesses. More than one civic source has attributed homelessness to addiction. Others cite mental health or a failure of "personal responsibility." People point to alcohol abuse and, in the case of veterans, post-traumatic stress disorder, as possible root causes. In fact, the majority are not addicts, and very few people cite substance abuse as a root cause of homelessness.

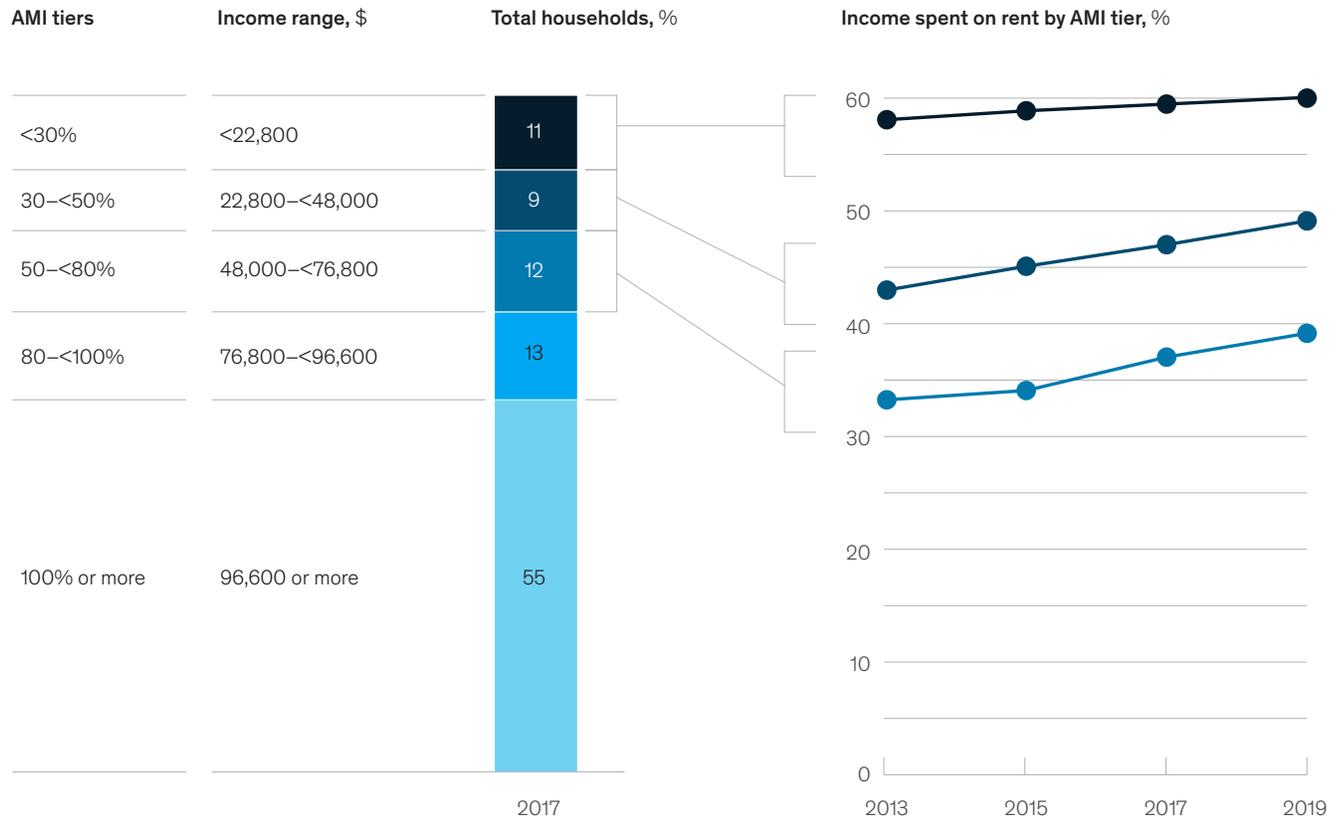
Growth is driving homelessness up

Homelessness in the region is in large part driven by the growth and wealth creation in the region. Since 2010, the number of jobs in King County has increased by 21 percent and population by 12 percent, but the county has increased its housing stock by only 8 percent (Exhibit 2). This gap between population and job growth has led to large increases in rents across the board—as much as 52 percent for some levels of rental affordability. This dynamic, called a "fly up," is common in markets, such as housing, where there is very low elasticity of demand and constrained supply.

Exhibit 3

Rents have grown faster than income in King County, exacerbating pressure on the poorest households.

Rental units in King County by the area median income (AMI) tier¹



¹ Area median income.
Source: American Community Survey, US Department of Housing and Urban Development

Simply put: people pay what they must to find a place to live. Incomes have risen rapidly, but rents are rising much faster. AMI in King County was \$85,600 a decade ago and about \$96,000 for a family in 2017 (and a staggering \$109,000 in 2019), but households that earn less than 80 percent of that AMI must now spend more than 30 percent of their income on average—that is, above the threshold deemed affordable by the federal government.

Averages alone, however, do not tell the whole story. While Seattle’s and King County’s economic growth

has been broad based, there is still significant inequality. Poor people, especially ELI households living in market-rate housing, now have to spend more than 60 percent of their income on rent, a truly unsustainable figure (Exhibit 3).

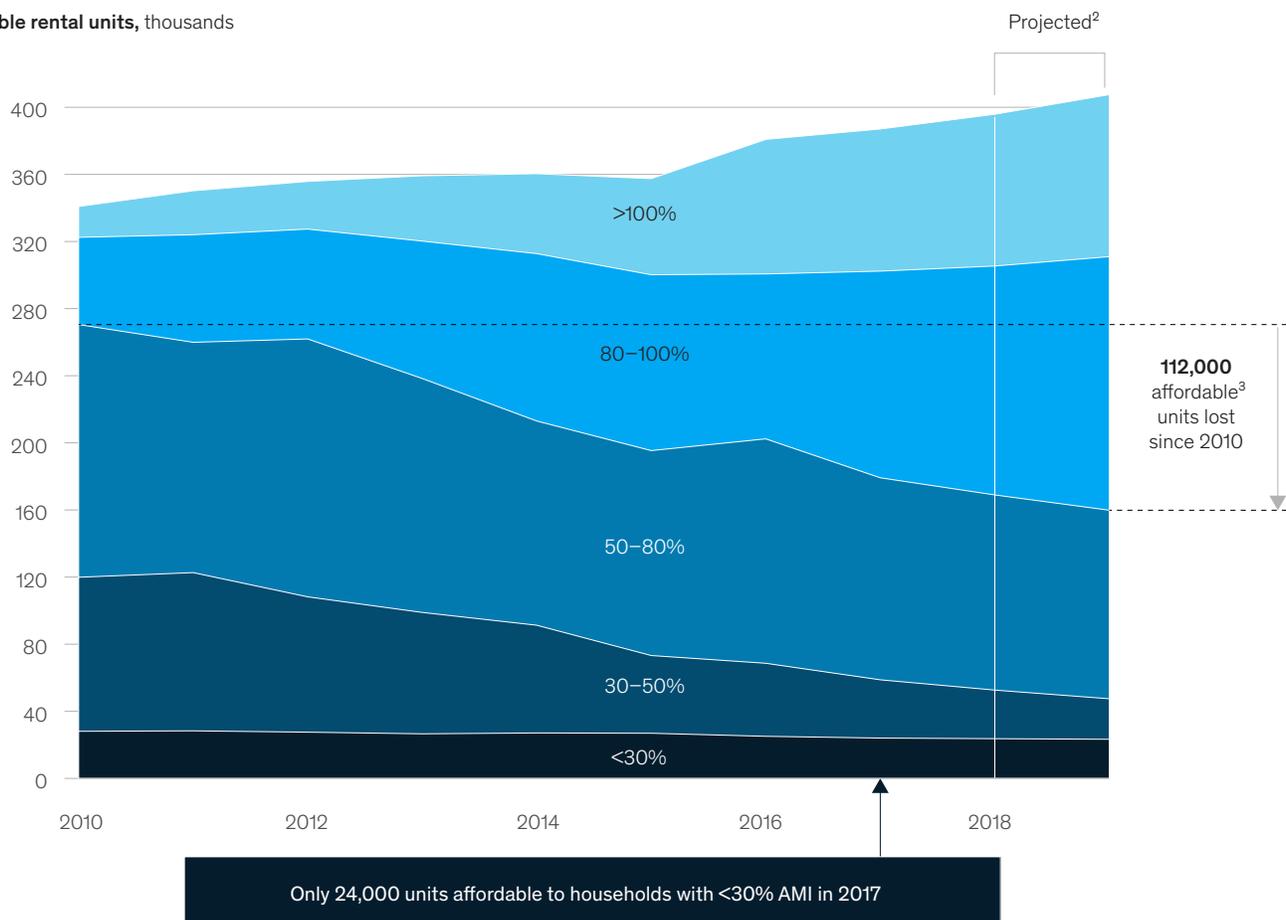
A short analogy may help illustrate this situation. Picture a game of musical chairs, where instead of taking out seats at every round, a person is added to the game. And instead of having a foot race when the music stops, an auction is held. Clearly, the players with the least ability to pay will be left

Exhibit 4

Since 2010, we have lost a total of 112,000 housing units affordable to households earning below 80% of area median income.

Rental units in King County by the area median income (AMI) tier¹ that can afford them

Available rental units, thousands



¹Includes those units affordable at the high end of the range and unaffordable at the low end of the range.

²Projection based on 2013–17 compound annual growth rate, and assuming >100% area median income (AMI) rental stock will grow at same rate as households in that income category.

³Maximum monthly affordable rent calculated using the 2017 Department of Housing and Urban Development Income thresholds for a 4-person household.

Source: American Community Survey, US Department of Housing and Urban Development

without a chair. More chairs are needed. Without more chairs, as more players enter the game, the clearing price—or rent—will continue to rise.

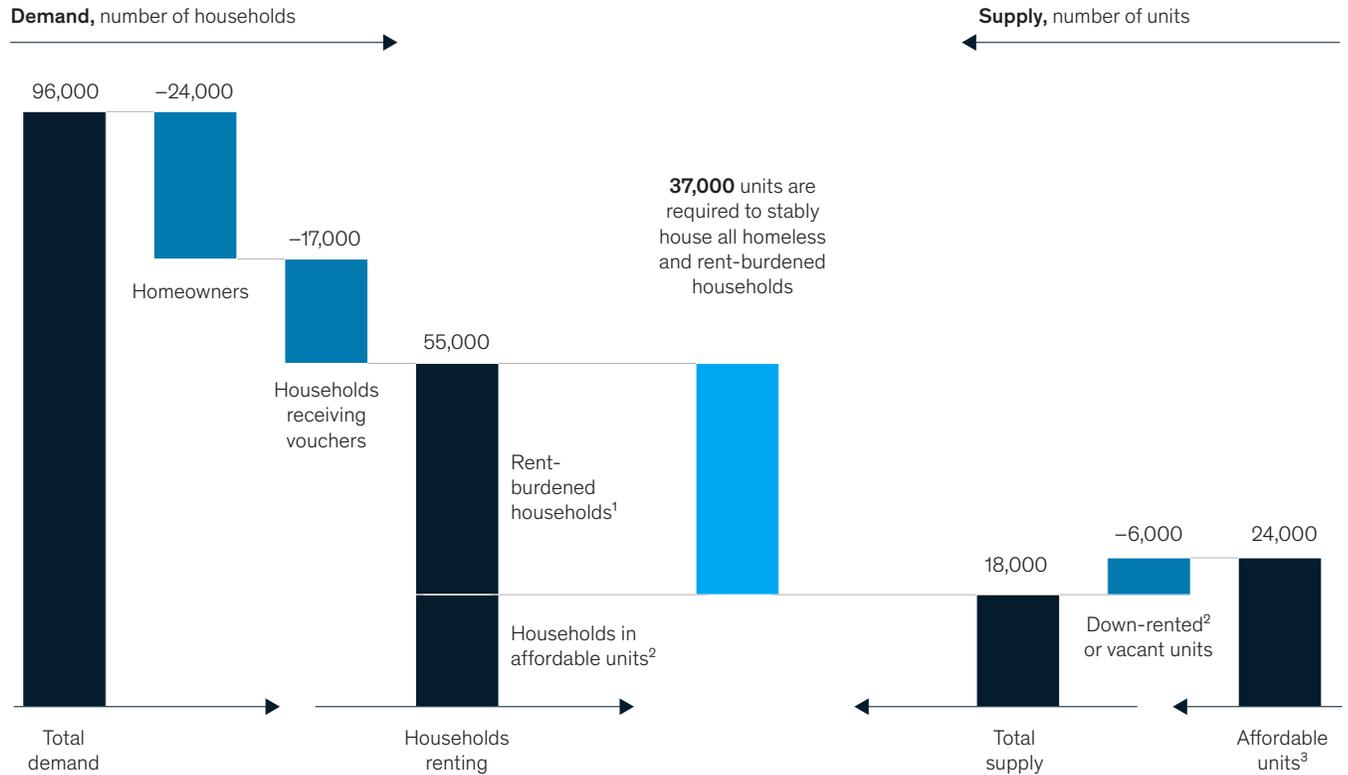
Many in King County already understand this. The region is adding homes at an impressive rate, but not enough homes to keep up with the demand. Over the past ten years, even as King County has added

67,000 units of rental housing, it has lost more than 112,000 units—or over 40 percent—of the housing affordable to those living below 80 percent of AMI (Exhibit 4). This has happened largely because rents on existing units rose faster than incomes, and lower-cost units were demolished to make way for more expensive ones (Exhibit 5).

Exhibit 5

In King County in 2017, supply fell well short of demand for affordable homes.

Demand and supply of affordable rental units for those earning <30% of area median income (AMI)



¹ Households in 0–30% area-median income (AMI) range spending >30% of monthly income on rent.

² Households in 0–30% AMI range spending <30% of monthly income on rent.

³ A unit available at a lower AMI range that is rented by a household in a higher AMI tier (eg, a 0–30% unit rented by a family at 50–80% AMI).

⁴ A unit where monthly rent plus basic utilities does not exceed 30% of household monthly income.

The loss of affordable housing is a direct result of the demand (population growth) outpacing supply (housing growth). This gap has emerged despite good efforts to add housing at all levels, and specific initiatives to add housing that is affordable to low- and middle-income households. The region has fully utilized the two main federal Low-Income Housing Tax Credit (LIHTC) programs generally used for building affordable housing. The City of Seattle has a pipeline of 5,000 units, and the county is building more than 1,000 units. But this is not nearly enough to solve the problem.

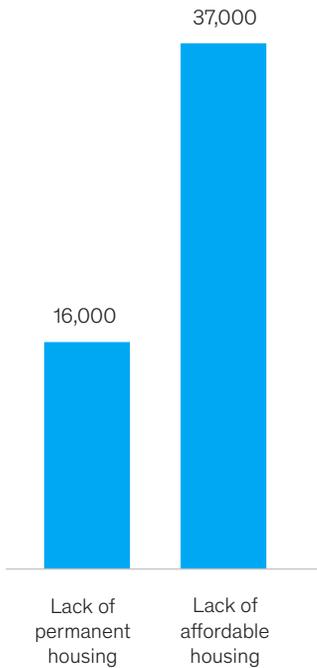
Additional affordable housing stock is required

Today, in King County, nearly half of ELI households rely on market-rate rentals (the remainder either own their homes or are in subsidized or regulated housing). As noted, an ELI family in a market-rate home often spends 60 percent of its income on rent, double what is generally considered to be the threshold for affordability.

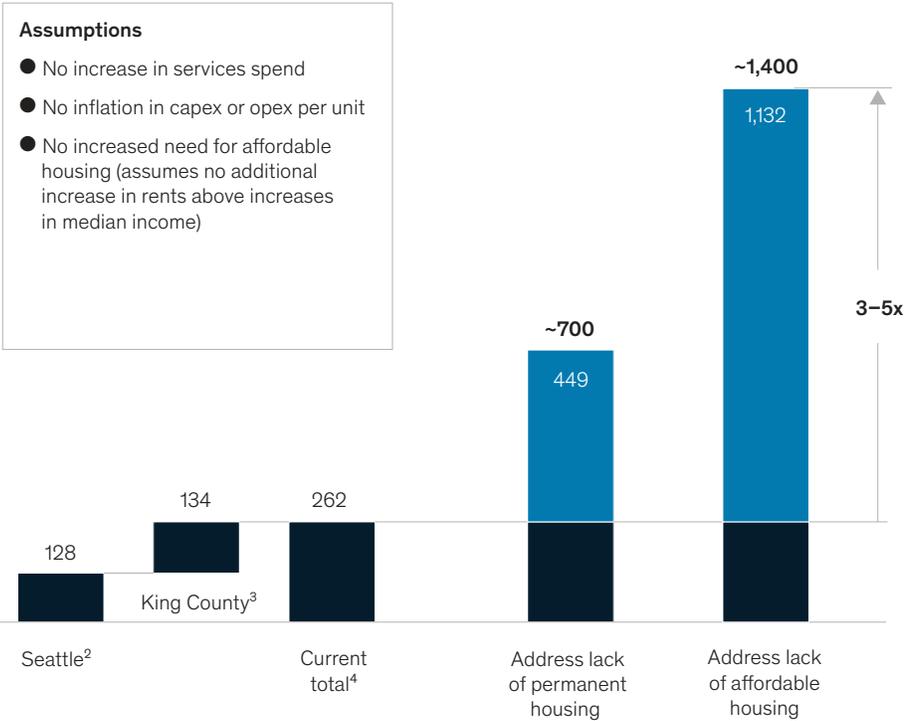
Given how rent-burdened ELI households are, it takes only one or two adverse events—missing a

Building the needed affordable housing would require a sizable amount of new spending.

Estimates of affordable housing units needed for 0–30% AMI¹ households



Spending required over next 10 years, \$ million annually



¹Area median income.

²2020 City of Seattle homelessness budget.

³Estimate of King County spending.

⁴Excludes Federal and Housing Authority spending of ~\$400 million per year, of which ~\$100 million is Low-Income Housing Tax Credit 9% subsidies and ~\$300 million is for vouchers delivered via housing authorities.

couple of days of work to deal with a sick child, or having a car break down—to tip someone in this segment into homelessness. While exact data are hard to compile, it can be safely assumed that at least half of all ELI market-rate renters in King County experienced one or more episodes of homelessness last year—a staggering statistic for a prosperous region.⁸

The clearest way to solve the homeless problem is to add housing capacity that is affordable for the

ELI population. How many homes are required? Approximately 15,700 affordable homes that are affordable to those earning 30 percent of AMI. This will largely need to be done through new construction, given that there is a housing gap at all levels—though there is some modest potential to provide units through the expansion of some programs such as diversion and “rapid rehousing.”

The number 15,700 is enough just to house those that experienced homelessness in 2018 and were

⁸Based on 39,000 ELI-market-rate renters and 22,500 households experiencing homelessness in 2017.

not permanently housed. To fully stabilize the entire ELI community and prevent further growth in homelessness would potentially require up to 37,000 new homes (Exhibit 6).

Even this number, while large, doesn't come close to offering a full count of people who are suffering from the region's housing crisis and could therefore require better housing options. For example, it does not include the large number of people just one step up from ELI, earning between 30 and 50 percent of AMI. This group pays an unsustainable fraction of their income, sometimes over 50 percent, on rent, a number that is likely to continue to rise.

Building this housing will require substantial incremental public spending

A new unit affordable to an ELI household would cost approximately \$325,000 to build, with additional spending for operating and services. Some households can obtain housing through tactics such as diversion and incremental vouchers, and some will require incremental services such as mental and behavioral health on a permanent basis (permanent supportive housing).

Using a conservative set of assumptions, ending the homelessness crisis in King County would therefore cost between \$4.5 billion and \$11.0 billion over ten years, or between \$450.0 million and \$1.1 billion each year for the next ten years. To put it another way, ending homelessness in King County would require spending three to five times the approximately \$260 million currently spent locally on homelessness and ELI housing in the region.

Because most local spending goes to crisis management, and most Housing Authority spending goes toward ongoing subsidies for low-income individuals already in stable housing, very little of current spending is earmarked for new housing construction.⁹

Moreover, ELI housing is only rarely profitable and therefore there is no incentive for the "market" to solve this problem and meet the need for housing for those in this bracket. Based on the current analysis, it will take far too long for high-end housing development to ever "trickle down" to ELI households. It is inconceivable, for example, that enough housing could be built to cause rents to drop below the \$600-a-month level that is affordable to ELI households.

For this reason, the public sector will play a critical part in meeting incremental funding demands.

Historically, King County has recognized this and has made investments in affordable housing, largely through programs administered locally but sponsored and paid for by the federal government:

- Regulated units refer to rental apartments that are funded with at least some degree of public money and are restricted to low-income tenants. Generally, income limits are tied to a percentage of AMI. The most common form of regulated unit is one funded by the federal LIHTC, and most of these are targeted at households earning below 60 percent of AMI. Only 16,500 units are targeted to ELI households in King County.
- Housing-choice vouchers, often referred to as Section 8 vouchers, are also a federal program, administered by local housing authorities. These vouchers allow ELI households to live in a unit of their choosing and are intended to subsidize the difference between what low-income households can afford and "fair market rent." This program provides about 17,000 ELI households with homes in King County.

Both of these programs currently have caps set through the Congressional Appropriations Process. Both are fully utilized, and the number of vouchers has been kept flat in recent years. Because most new regulated units targeting ELI households

⁹ Seattle's 2020 homelessness budget shows that approximately 80 percent of spending goes to crisis management and supportive services and only about 20 percent to housing for extremely low-income households. Based on discussion with the county, estimates suggest that approximately 55 percent of its spending goes to crisis management and supportive services, and 45 percent of its spending is housing related. "Citywide homelessness response: 2020 proposed budget," Seattle Office of the City Clerk, October 2, 2019, seattle.legistar.com.

rely on both LIHTC and a housing-choice voucher converted to a permanent operating subsidy, the total number of ELI affordable homes is effectively capped in the current model.

Since increased spending through these two federal programs is unlikely in the foreseeable future, it is likely that the local community will need to explore other funding options as well. Such an investment would not only have positive social benefits but would also make economic sense.

What is society in aggregate paying for homelessness? Rough calculations suggest that if all the costs of homelessness are considered—including “direct costs” such as rising numbers of emergency-room visits and increased need for policing, and “indirect costs” such as lost tourist revenues—less will be spent in the long run if housing is provided to address homelessness than if it is not. The calculations reveal that the overall annual societal costs of homelessness are just over \$24,000 per household. The building costs referenced above work out to about \$15,000 per year over the lifetime of a building. Thus, it appears that as a society, it is less expensive to build homes and house the homeless than to continue to leave them without permanent housing.

Beyond just building, a multipronged approach to the problem is needed

The amount of money needed to solve the problem is massive, and the reality is that it will take years to both source the funding and mobilize at the scale needed to build so many homes. Meanwhile, however, the situation remains a crisis. Therefore, to solve this problem, a portfolio of actions would need to be undertaken in concert by local government officials, private and business initiatives, and charities. These actions must be taken with a view to both short- and long-term objectives.

The city and county should consider a balanced portfolio of initiatives

To address the crisis of homelessness will require the city and county to move forward on short-,

medium-, and long-term horizons, all in addition to building the needed affordable homes:

- Short-term projects have the most immediate payout and lowest risk. These include raising awareness and offering near-term solutions that ensure that problems don’t escalate. For homelessness, this could entail increasing shelter capacity or providing mental-health services, meals, or other services. Other short-term actions include improving governance in nonprofits serving the homeless and beginning to form public–private coalitions to advocate for commonsense policies. These short-term actions will go a long way to demonstrate a real commitment to addressing the acute needs of all stakeholders, including people experiencing homelessness, those suffering from housing unaffordability, tax payers, and businesses.
- Medium-term projects will require deeper expenditures, such as providing rent vouchers, developing low-rent permanent housing, and using more creative transportation models. As discussed, this could include an expansion of the rapid rehousing and diversion programs that have already been successfully run by the region. These are not, however, permanent solutions, as they do not create more housing. This could also include actions taken to provide affordable housing to families with incomes higher than ELI levels, as this can largely be done faster and with fewer or no subsidies.
- Long-term projects address some of the root causes of the problem. These initiatives, in addition to building more units, would also address economic inequities, as well as racial and gender biases, and seek to improve primary education and after-school care. These are all things that will affect homelessness years or even decades down the road.

A group of social-impact projects requires a combination of short-term, medium-term, and long-term actions. So, while large donations and major charitable initiatives, such as concerts, volunteer

efforts, and visits to shelters, are good and necessary to draw attention to the problem, the city and county must increase its focus on medium- and long-term initiatives and help build consensus to seek more robust long-term solutions. This will likely require more work, more thinking, and steely resolve.

Businesses must own their share of the problem

It is clear that business bears some of the responsibility for the homelessness crisis. With continued success comes renewed responsibility to employees and communities. More companies today are acknowledging that it is to their advantage for employees to have access to affordable housing within reasonable commuting distance from the workplace, and for all citizens to live in a society that provides access to basic human needs such as housing for those in the ELI bracket.

There is not a single, prescriptive position on how best to fund needed ELI housing. However, what will be crucial is dialogue between business and the community to develop fair and effective funding proposals.

Business can do more to invest in initiatives such as continuous education and worker-training programs, transportation subsidies for those with lengthy commutes, and flexible work schedules, among others. Companies with robust balance sheets might, for example, emulate Microsoft's offer of low-interest loans to builders, especially if other funds are available for operating expenses and debt service.

Opportunity exists for collective action on zoning and other 'soft' barriers to housing

The housing gap is not just a problem in the City of Seattle. The difference between population growth and housing growth is largely consistent across all King County communities. Municipalities control most policies related to housing and therefore have the greatest opportunity to close this gap immediately.

Seattle has made significant strides in increasing its zoning in the past five years under its Housing Affordability and Living Agenda. Other King County cities have taken action but still have ground to gain. Seattle also has more work to do, since 65 percent of housing is still zoned for single family, effectively increasing the cost of building a housing unit significantly. Experiments in congregate housing, which can drastically reduce the cost of a new unit, have been curtailed in recent years. The Regional Affordable Housing Task Force's recommendations and the recent Housing Choices initiative from the City of Seattle both have made actionable suggestions in terms of zoning.¹⁰

While changes to zoning and other actions to promote housing development across all levels of affordability are critical, they will not specifically impact the ELI households that are being affected by homelessness. Such actions will, however, take some of the pressure off the system, and, at the margin, will reduce costs for deeply affordable units. They are necessary steps, but they are not sufficient.

Continue to drive efficiencies in the current system

While the current system is certainly operating near capacity, more can be done to squeeze efficiencies from it. The county and city can continue efforts to improve the Crisis Response System, increase shelter capacity, invest in services for the homeless, and fund rapid rehousing programs. The Homeless Management Information System (HMIS), while impressive, could benefit from improvements to increase transparency even further. Additional permanent supportive housing capacity is needed, as are more mental-health and addiction-remediation services.

There is a need for strong public-private partnership

Philanthropy can be a catalyst to strong social action, but philanthropy alone cannot solve the problem. To bend the arc of homelessness

¹⁰ *Final report and recommendations for King County, WA*, Regional Affordable Housing Task Force, March 2019, kingcounty.gov.

downward will require a strong partnering between philanthropists, elected officials, business leaders, and city and county executives to find more sustainable revenue sources. The fragmented system of funding and allocation creates questions of accountability, can generate wasteful spending, and often requires significant time to gain consensus across many groups and committees. Decision makers will need to make hard trade-offs, and public, private, and nonprofit leaders will have to come together as a community to address this issue.

In conclusion, Seattle and King County can set an example for other coastal cities battling homelessness by confronting homelessness in a fact-driven manner melding head and heart. The region's prosperity ought to be an impetus and catalyst for positive change. Reducing homelessness to near-zero levels should be the collective goal.

Benjamin Maritz is a partner and **Dilip Wagle** is a senior partner in McKinsey's Seattle office.

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