Closing Washington's Housing Gap

A regional strategy to build the homes our workforce and communities need

Introduction

Washington's housing crisis is, at its core, a systemic mismatch between what our communities need and what our current policies enable. We are not building enough homes, and the regulations that govern development have not kept pace with the realities facing people across the state. It shows up in longer commutes, households doubling up in smaller spaces, essential workers unable to live in the communities they serve, and more individuals living unhoused.

This is both a math problem – too much demand and too little supply – and a policy problem because the systems that determine where and how housing gets built have become too slow, too costly, and too difficult to close the gap. When housing production consistently falls short of what a growing region requires, the entire community feels the strain.

The lack of housing supply is a nationwide issue, but in our corner of the country the pressure is particularly acute. In Washington state, we must build 1.1 million new housing units over the next 20 years to keep pace with population and job growth. That's a rate of 55,000 units per year[1]. At the current pace of construction, we will fall far short of this need.

Statewide, new housing permits are expected to total just 33,600 in 2025 – the lowest level since the Great Recession[2]. Across King, Snohomish and Pierce Counties, multifamily housing permits declined 26% in the first eight months of 2025[3]. In Seattle alone, they are down 40%[4].

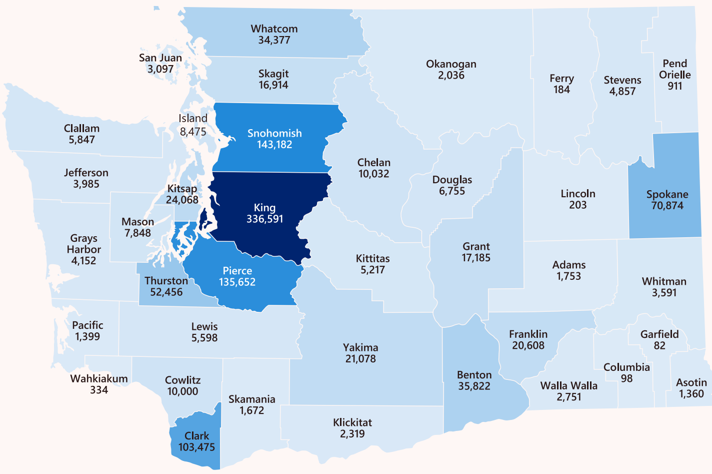
The homes and rental housing we do have in the region are expensive and outpacing household income. The share of homes affordable to low- and middle-income households in Washington has dropped from 40 percent in 2019 to about 25 percent in 2024[5]. This decline in affordability is driven by a simple reality: We are not building enough housing, fast enough, at all income levels.

Yet the economics for most new housing development no longer make financial sense. The combined cost of land, labor, materials, high interest rates, long permitting timelines, and steep regulatory requirements has pushed the system to the brink. Well-intentioned policies such as energy codes, labor standards, and design reviews have layered new costs and complexities onto every project. As one Washington state developer put it, "Housing has become the sector asked to solve every other societal problem. The math no longer works."

These pressures have real consequences: projects stall, capital withdraws and experienced developers exit the state entirely. Washington cannot close its housing deficit if the private sector cannot make projects feasible. And we cannot meaningfully expand subsidized housing if high costs consume the limited capital available.

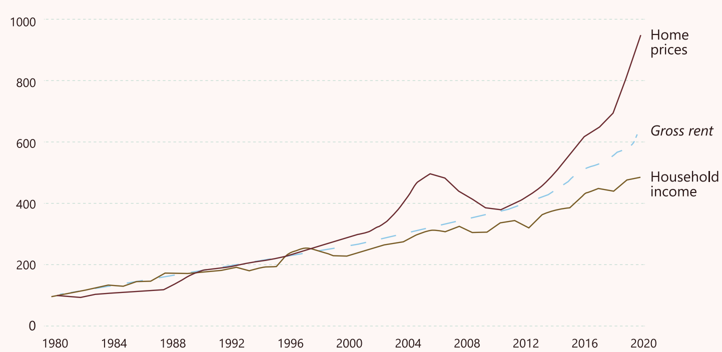
Housing needs

Washington housing need by counties through 2044



Housing affordability

Housing affordability is a long-term challenge with **median home values** and rents outgrowing household income for decades.



What We've Learned:

Microsoft's Affordable Housing Initiative

Housing investments

Microsoft's affordable housing investments – map limited to projects in the Puget Sound region.

In 2019, Microsoft committed $750 million in investment capital and philanthropic grants to help address the region's growing housing-affordability crisis. This was not just a financial commitment. It was a call for business, government, philanthropy and community organizations to work together at the scale the crisis demands.

To date, Microsoft's capital is helping create or preserve more than 16,000 affordable homes across King County and the broader region, with a particular focus on Eastside cities where affordable-housing production historically lagged. These investments have supported land acquisition, new construction, preservation of existing affordable homes, and innovative financing tools that made projects feasible.

The initiative has also helped advance dozens of policy changes at the municipal and state levels: expanding housing near transit, reducing parking requirements, increasing density, deploying tax incentives, strengthening public funding tools, and accelerating support for homelessness prevention. These shifts signal the beginnings of a more pro-housing system, but the work is far from complete.

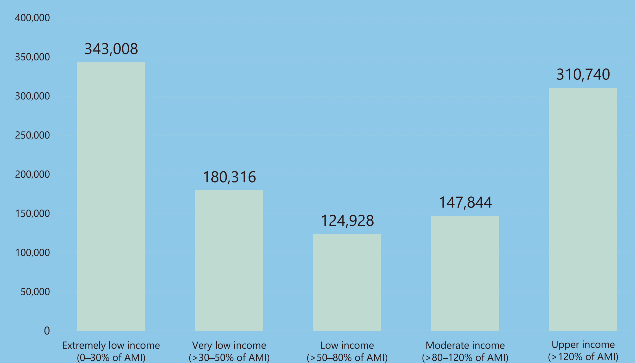
Over the past five years we've learned that no single program, project or sector can solve Washington's housing crisis on its own. Capital matters, but capital alone cannot overcome the structural systems that restrict supply, inflate costs and prolong timelines. Sustainable progress requires policy modernization, cross-sector alignment, and a pro-housing ecosystem that enables both nonprofit and for-profit developers to build the homes our communities need.

Through direct investments, partnerships with cities and counties, and engagement with elected officials and community organizations, several clear lessons have emerged.

Lesson 01

Housing Functions as a Single, Interconnected System

Housing need by AMI level



Our region's housing market does not operate in silos. A shortage at one income level reverberates across all others. When one rung breaks, the entire ladder becomes unstable.

Policymakers use the term area median income (AMI) to determine whether someone qualifies for income-based programs. AMI is the middle income in a geographic area – half of households are above it and half are below it.

Underbuilding deeply subsidized affordable homes – households earning less than 30 percent of AMI – fuels homelessness because those with the lowest incomes are priced out entirely. In Seattle, housing at this level is primarily funded by housing levies, public housing authorities, and some non-profits.

Underbuilding subsidized affordable housing – for households earning 30 percent to 60 percent AMI – overburdens nonprofits and public systems, creating long waitlists and unsustainable pressure on subsidy programs. Housing development at this level is typically funded through government subsidies such as tax credits, bonds, levies and grants. Housing for people below 60 percent AMI typically is provided with wrap-around services for residents.

Underbuilding workforce housing – for households earning 60 percent to 120 percent AMI – forces early-in-career professionals, caregivers, restaurant and service-industry professionals, and others into units below their income bracket, displacing lower-income families and shrinking the stock of relatively affordable homes.

Layering excessive costs and regulatory requirements on market-rate development ultimately increases the cost of rent. This is the only outcome because, similar to homes being mortgaged, projects must meet lender criteria from banks and cannot absorb indefinite cost increases.

Overburdening landlords and affordable-housing operators with regulatory requirements pushes them out of the market, further reducing supply.

The implication is clear: We cannot solve homelessness without solving workforce housing; we cannot solve workforce housing without increasing market-rate supply; and we cannot increase supply without addressing regulatory and cost barriers. Every part of the system must work, or the entire system fails.

Lesson 02

Capital Gaps Exist at Every Income Level — But Targeted "Injections" of Capital Work

Financing for affordable housing is fragmented and often fragile.

The capital stack for a single project typically includes multiple public subsidies, private debt and equity, and philanthropic or concessionary capital. Gaps exist at nearly every affordability level. Our experience is that relatively modest, well-designed interventions – what we call "capital injections" – can unlock projects that otherwise stall.

Grants provide a lifeline to projects that will never generate sufficient net operating income, such as shelters or permanent supportive housing.

Bridge financing stabilizes projects navigating multilayered funding sources with mismatched timelines.

Below-market loans (1–3 percent interest, recyclable) make projects financially feasible without displacing other capital.

Moderate-return loans (3–5 percent interest) allow projects to offer rents slightly below market, supporting workforce housing at scale.

Even the most creative financing cannot succeed when permitting delays, regulatory layers and unpredictable costs overwhelm projects.

Lesson 03

When it comes to housing, time is money.

If we want public and private dollars to go farther, we must reexamine the policies and systems that make housing so expensive and slow to build.

Based on our experience, these are critical areas where change is needed.

01 Large portions of our state remain off-limits to housing development – particularly for multifamily housing – pushing development into too few neighborhoods and inflating land prices.

02 Washington's average permitting delay is 6.5 months statewide, stretching to more than 18 months in many jurisdictions[6]. Every month of delay adds carrying costs, increases risk and undermines project feasibility.

03 For decades, housing has been treated as a sector that can "absorb" escalating fees, taxes and regulation. But every added cost ultimately shows up in rent or undermines feasibility altogether.

These barriers are not theoretical. They directly affect outcomes. Across our investments, the same dollar of public funds produces far fewer units in jurisdictions with slow processes, restrictive land rules and unpredictable costs. By 2023, many for-profit and nonprofit developers began declaring projects "financially impossible to build," leading to an alarming exodus of development capacity from the region.

Lesson 04

Corporate Civic Engagement Can Be Catalytic

Employers can play a meaningful role in strengthening a regional housing system and ensuring their engagement aligns with public interests and community priorities.

From Microsoft's work, several contributions emerged as uniquely powerful:

Regional coordination. Employers can convene cities, counties, developers, labor and nonprofits around shared data, consistent standards and aligned policy goals.

Making innovation less risky. Early employer investment can validate new financing structures – such as revolving credit lines, public-private investment and acquisition tools – that government later scales.

Normalizing a pro-housing narrative. Employers can articulate a clear message: Housing at all income levels benefits everyone and is essential to economic growth, workforce stability, equity and environmental responsibility.

This is a recognition that our long-term economic health depends on strong, inclusive communities, and that employers have both responsibility and opportunity to be constructive partners.

A Strategy to Start Closing the Housing Gap

These lessons reveal a clear path forward. Washington needs more than just housing projects. It needs a coherent, pro-housing system that unlocks land, lowers costs, speeds delivery and sustains public-private partnerships over time. From Microsoft's experience, four imperatives stand out.

01 **Unlock more land – especially underused commercial land – for homes in the places where people already live, work and ride transit.** Adopt a statewide rezoning framework for commercial corridors (strip malls, big-box retail, office parks, large parking lots) to enable mixed-use housing along frequent transit routes. Pair this with model ordinances, technical assistance and a programmatic environmental impact statement to streamline local implementation, reduce costs and reset the default so adding homes in well-located areas is presumed in the public interest – while maintaining community engagement.

02 **Fix the permitting process to create a pro-housing system that is fast, predictable and fair.** Remove unnecessary time, cost and uncertainty from housing production while preserving legitimate environmental, safety and equity protections.

03 **Lower costs to accelerate supply.** Drive down per-unit costs through innovation in materials, construction methods and technology, including AI – while upholding quality, safety and labor standards. Expand financial tools (e.g. tax exemptions, incentives, preservation programs) to make it feasible to build and maintain tens of thousands of affordable homes, including deeply affordable units.

04 **Build long-term public-private partnerships with clear accountability and transparent outcomes.** Leverage private and philanthropic resources to drive statewide housing goals through innovative financing, technical assistance and practical tools such as dashboards. Accelerate progress with pre-approved, open-source plans, models and playbooks.

The good news is that we are not starting from scratch. Many of the tools we need already exist in Washington law or in successful models used in other states. What is required now is a coordinated, disciplined policy package that can move the region from scattered pilots to a durable, pro-housing system.

The following proposals represent concrete, evidence-based actions that state and local leaders can take to close the housing gap, protect residents at risk of displacement, and support an economy where people who work here can afford to live here.

Summary:

A Systems-Level Affordable-Housing Strategy

Washington's housing crisis is solvable, but only if we treat it as a systemic problem and act at systemic scale. If we fail to act, the trajectory is already clear. The housing supply gap will continue to widen, putting homes further out of reach for more families.

Rising costs will push more people away from the communities where they work, and homelessness will increase as pressure builds across the entire housing continuum. Inequality will deepen, and the region's competitiveness will erode as employers, workers and investors look elsewhere for stability and opportunity.

But we also know what is possible when we respond with urgency and focus. We can build a region where the people who teach our children, care for our elders, staff our hospitals, keep our neighborhoods safe, and power our economy can afford to live near the places they serve. We can design a housing system that supports growth, equity and climate responsibility and we can shape a durable public-private partnership in which employers, governments and communities share responsibility for outcomes and hold themselves accountable to measurable progress.

The proposals in this paper are not theoretical. They are grounded in real projects, real capital, and real policy reforms already under way in Washington and in other states. They reflect a simple belief: Everyone who works here should be able to live here. We have both the tools and the responsibility to make that true.

What is needed now is the political will to move from pilots to policy, from exceptions to expectations, and from hoping the market will fix itself to intentionally designing a housing system that works for the people who call Washington state home.

Endnotes

1. The State of the State's Housing Report 2024, College of Built Environments, University of Washington, https://wcrer.be.uw.edu/wp-content/uploads/sites/60/2024/10/State-of-Washingtons-Housing-Report-2024.pdf
2. Washington State Economic and Revenue Forecast Council, https://erfc.wa.gov/sites/default/files/2025-11/rev20251118.pdf
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