



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 6107
September 6, 2022
Study Session**

AGENDA BILL INFORMATION

TITLE:	AB 6107: A joint study session with the Planning Commission to receive presentations on the Economic Analysis Report and Housing Needs Assessment in preparation for the 2024 Comprehensive Plan update.	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Receive reports and presentations. No action necessary.	

DEPARTMENT:	Community Planning and Development
STAFF:	Jeff Thomas, Interim CPD Director Alison Van Gorp, Deputy CPD Director Adam Zack, Senior Planner
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Economic Analysis Report 2. Housing Needs Assessment
CITY COUNCIL PRIORITY:	1. Prepare for the impacts of growth and change with a continued consideration on environmental sustainability.

EXECUTIVE SUMMARY

The purpose of this joint study session with the Planning Commission is to receive brief presentations on the Economic Analysis Report and the Housing Needs Assessment.

- The City has commenced the process of the 2024 Comprehensive Plan update as required by the Washington State Growth Management Act, which includes drafting a new Economic Development Element and updating the existing Housing Element
- The Economic Analysis Report provides a data analysis to inform the development of the Economic Development Element.
- The Housing Needs Assessment provides a data analysis to inform the update to the Housing Element.
- Community Attributes Inc., a consultant hired to support this work, prepared both the Economic Analysis Report and the Housing Needs Assessment. Elliot Weiss from Community Attributes Inc. will present both reports during the study session.
- In addition to answering questions after each presentation during the joint study session, staff invites the City Council and Planning Commission to submit follow up written questions regarding the Economic Analysis Report and the Housing Needs Assessment no later than 4:00 PM on September 20. Staff will then compile and provide responses to all questions by early October.

BACKGROUND

The City has commenced the process of the 2024 Comprehensive Plan update as required by the Washington State Growth Management Act. In March of 2022, the City Council approved Resolution No. 1621 setting a scope of work, master schedule and public participation plan for this effort. In May of 2022, the City Council established “economic” and “housing” work groups comprised of three City Council members and two Planning Commission members to assist staff with two of the most significant components of the approved scope of work - drafting a new Economic Development Element and updating the existing Housing Element.

Shortly after the approval of Resolution No. 1621, the City contracted with Community Attributes, Inc. (CAI) to produce an Economic Analysis Report and Housing Needs Assessment. These technical reports are background documents which compile, analyze and present information on relevant conditions intended to help inform the policy making of the work groups during the drafting of each respective element and ultimately the Planning Commission and City Council during the legislative review of the proposed 2024 Comprehensive Plan update.

ISSUE/DISCUSSION

Economic Analysis Report

The 2024 Comprehensive Plan update will include adoption of a new Economic Development Element. This new element will supplement policies addressing land use, housing, transportation, and utilities city wide. Prior to drafting this element, the City requires an analysis of economic data to describe existing economic conditions and expected growth through the year 2044. This report summarizes this data to establish a shared understanding of the economy on Mercer Island for the City to consider as it develops goals and policies for the Economic Development Element.

Housing Needs Assessment

The 2024 Comprehensive Plan update will also include adoption of an updated Housing Element. This updated element will work in conjunction with other elements to formulate housing goals and policies. Prior to updating this element, the City requires an analysis of conditions, trends, and gaps in the city’s housing stock and how projected growth in housing will be accommodated. The Housing Needs Assessment will also include recommended actions for the City to consider as it updates goals and policies for the Housing Element.

NEXT STEPS

Staff invites the City Council and Planning Commission to submit follow up written questions regarding the Economic Analysis Report and the Housing Needs Assessment no later than 4:00 PM on September 20. Please send questions to Senior Planner Adam Zack at adam.zack@mercerisland.gov. Staff will then compile and provide responses to all questions by early October.

Work on the Comprehensive Plan Update will continue through the next biennium, with adoption anticipated in April 2024.

RECOMMENDED ACTION

Receive reports and presentations. No action necessary.

City of Mercer Island Economic Analysis

August 24, 2022

DRAFT

Prepared by:



Prepared for:





*Community Attributes Inc. tells data-rich stories about communities
that are important to decision makers.*

DRAFT

President and CEO:
Chris Mefford

Project Manager:
Elliot Weiss

Analysts:
Cassie Byerly
Madalina Calen
Ethan Schmidt

Community Attributes Inc.
500 Union Street, Suite 200
Seattle, Washington 98101

www.communityattributes.com

CONTENTS

Introduction	3
Background and Purpose	3
Organization of This Report.....	3
Executive Summary	4
Existing Conditions and Trends	6
Population Profile	6
Economic Profile	10
Workforce Profile	15
Housing Analysis	22
Growth Forecast.....	29
Key Findings and Implications.....	33

DRAFT

Blank.

DRAFT

INTRODUCTION

Background and Purpose

The City of Mercer Island is updating its comprehensive plan as part of the periodic review required by the WA Growth Management Act (GMA). The Comprehensive Plan (Plan) update will extend the planning horizon through the year 2044. The Plan update will include adoption of a new Economic Development Element (EDE). Before drafting an EDE, the City requires an analysis of economic data to describe existing economic conditions and expected growth through the year 2044. This report summarizes these data to establish a shared understanding of the economy on Mercer Island for the City to consider as it adopts a vision, goals, and policies in the EDE.

Organization of This Report

The remainder of this report is organized as follows.

- **Existing Conditions and Trends** includes an overview of current demographic, socio-economic, and housing conditions in Mercer Island.
- **Growth Forecast** includes projections of future regional and local job and housing growth and need.
- **Findings and Implications** outlines opportunities for policy and programmatic action for the City of Mercer Island.

EXECUTIVE SUMMARY

The Comprehensive Plan serves as the City of Mercer Island’s long-term planning strategy and an Economic Development Element will supplement policy addressing land use, housing, transportation, and utilities across the island. This economic analysis provides the city with context on the current economic conditions and projected changes to inform the development of goals and strategies in the forthcoming Comprehensive Plan Economic Development Element.

Mercer Island’s land use policy and geographic disposition, codified through its community vision, is to maintain a single-family residential community within a unique physical setting. Since 2006, the city has focused on developing Town Center as the mixed use and dynamic downtown area of the island. As of 2022, Town Center features 1,210 multi-family residential units and more than 317,000 square feet of retail space. It is the primary commercial and multi-family cluster on the island. Estimates project that the city could accommodate an additional 35,000 square feet of commercial and retail space, an estimate that may be conservative based on the incoming Riot Games campus and a potential capacity shortfall for projected job growth through 2044.

Two additional areas in Mercer Island currently support a variety of non-residential land uses and could potentially support future housing and commercial demand. A cluster of government, education, and health care facilities are centered on City Hall in northeast Mercer Island. While this area is zoned as commercial and includes professional service providers and other commercial services, there are no current retail uses in the area. It is also bounded by a multi-family residential zone to the west.

The second area is a commercial cluster around the QFC in the southern half of Mercer Island, immediately adjacent to Pioneer Park. This cluster’s zoning permits non-residential and residential uses, although it does not have any residences. It includes a total of 73,000 square feet of retail and commercial space, unchanged from 2006.

Implications

- **Mercer Island’s economic activity is concentrated in a few areas with decreasing available commercial space.** Town Center accounts for most of the island’s economic activity but has a historically low amount of leasable retail space. Based on a 2021 analysis, the city could support an additional 35,000 square feet of retail capacity, and this estimate does not account for the pending arrival of Riot Games and potentially hundreds of new jobs in the Town Center.

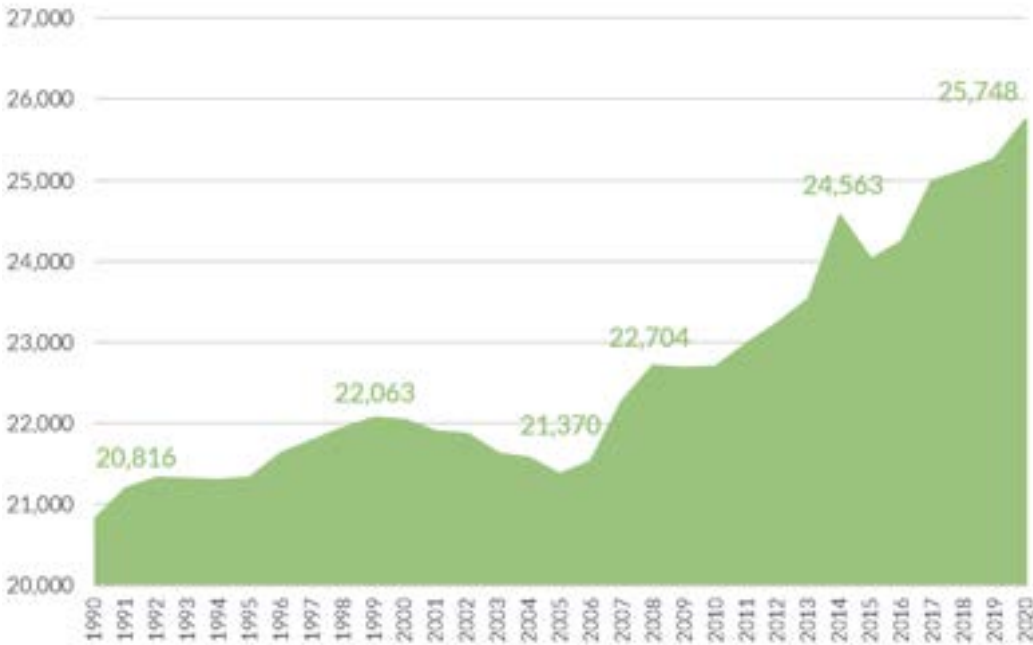
- **Mercer Island’s economy is anchored by professional, technical, and scientific services.** These are some of the highest paid professions. According to the Washington State Employment Security Division, these jobs are typically more resilient in recessions or other times of economic duress, like the COVID-19 pandemic. The Puget Sound Regional Council projects that services will make up more than half of all jobs in the region by 2050.
- **Housing costs are likely unaffordable for many segments of the Mercer Island workforce.** The public sector provides the largest employer base including the City of Mercer Island and the Mercer Island School District, but employees in these industries earn low median wages compared to the city as a whole. Housing costs – for both renters and owners – are on the rise, and nearly half of renters are cost burdened. More moderate- and low- income residents may be increasingly priced out of living on Mercer Island.
- **Very few Mercer Island residents work in the city.** Mercer Island is well-situated between major job hubs like Seattle and Bellevue, and most residents commute outside the city.
- **The city is not on track to accommodate the projected new job growth through 2044, but this does not include the arrival of Riot Games.** Mercer Island is projected to add 1,300 jobs between 2018 and 2044. Its most recent job growth trends indicate that the island does not have the capacity for its projected growth. These projections do not take into account the arrival of Riot Games, which will account for about one-third of the job growth projected through 2044 by the end of 2023.
- **Riot Games’ expansion may have broader economic impacts.** Within one year, Riot Games is projected to become the third largest employer on the island, fulfill nearly one-third of the city’s long-term job growth projection, and bring about 400 high-paying jobs to the island. Riot’s campus may drive additional retail demand in Town Center and housing demand within the vicinity and across the island. These new high-earning workers could place additional pressure on an already tight housing market and existing cost burdened households. Riot employees who opt to live off the island will utilize public parking and transportation systems and increase use rates for public infrastructure in the span of a few weeks.

EXISTING CONDITIONS AND TRENDS

Population Profile

Mercer Island is an incorporated city in King County, Washington, and is coterminous with a 6.2 square mile island in Lake Washington, immediately east of Seattle. As of 2020, the population was 25,748 (Exhibit 1), an increase of nearly 5,000 since 1990.

Exhibit 1. Population Change, Mercer Island, 1990 to 2020



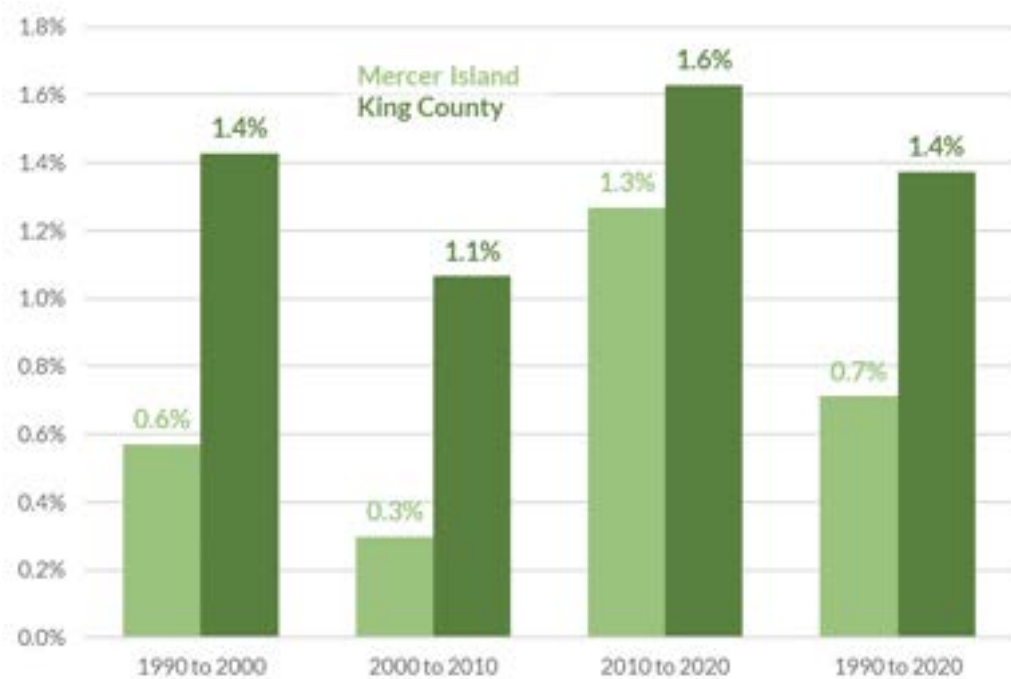
Source: Washington Office of Financial Management, 2020; CAI, 2022.

Mercer Island is a comparatively slow-growing city

The city has grown at a rate of 0.7% annually (CAGR) from 1990 to 2020, as shown in Exhibit 2, a lower growth rate than King County as a whole. 2010 to 2020 was the period of fastest growth for both Mercer Island and the county. The decade of 2000 to 2010 was the slowest growing for both jurisdictions. Most of Mercer Island’s residential growth occurred in the period between 1940 and 1960, following the opening of the floating bridge, which connected Mercer Island to Seattle and the region.¹ Today, the island is nearly fully developed, limiting new growth in comparison to the county.

¹ Mercer Island Chamber of Commerce.

Exhibit 2. Annual Growth Rate, Mercer Island and King County, 1990 to 2020



Source: Washington Office of Financial Management, 2020; CAI, 2022.

Workforce-aged population groups have shrunk since 2010

Population groups aged 35 and under, as well as over 65, are increasing in Mercer Island (**Exhibit 3**). The largest population group, aged 45 to 65, decreased by 5% from 2010 to 2020. Residents aged 35 to 45 decreased in that time period by 8%. The median age of those living in Mercer Island was 46 in 2020, unchanged from a decade ago and higher than King County’s median age of 37.²

² United States Census Bureau American Community Survey, 2020 and 2010 5-Year Estimates.

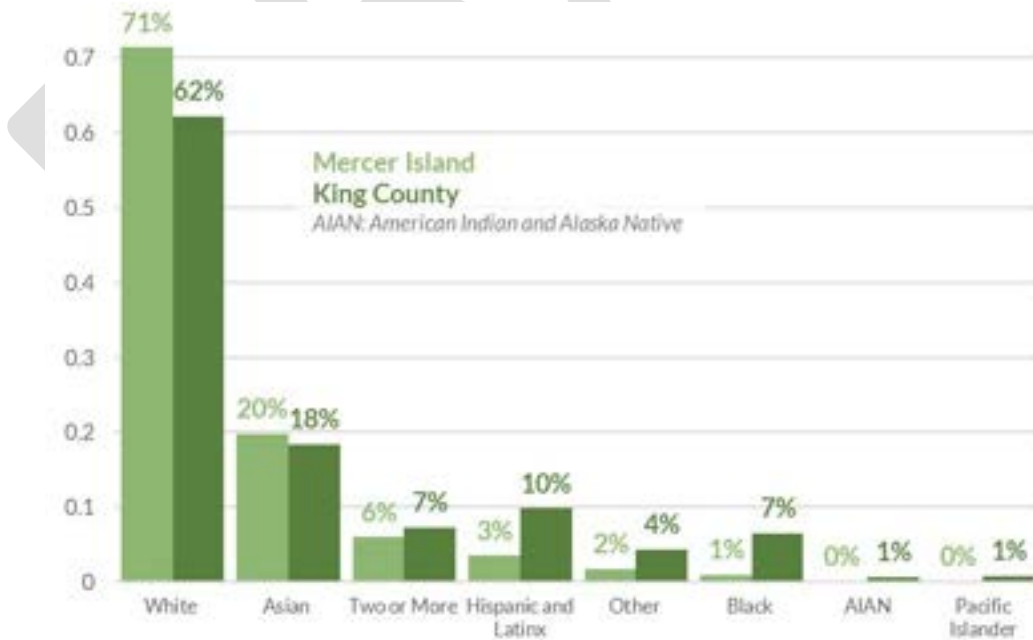
Exhibit 3. Age Change, Mercer Island, 2010 and 2020



Source: American Community Survey, 2010, 2020; CAI, 2022.

The majority of Mercer Island and King County residents identify as white (71% and 62%, respectively). Mercer Island has a higher share of white and Asian residents than King County as a whole (Exhibit 4).

Exhibit 4. Race of Residents, Mercer Island and King County, 2020



Source: American Community Survey, 2020; CAI, 2022.

Residents earn more than King County as a whole and median income is increasing

Mercer Island’s household median income is much higher than King County as a whole (**Exhibit 5**). Median household income in the city has been steadily increasing in recent years after a brief period of stagnation from 2013 to 2015.

Exhibit 5. Median Household Income by Year, Mercer Island, 2010 to 2020

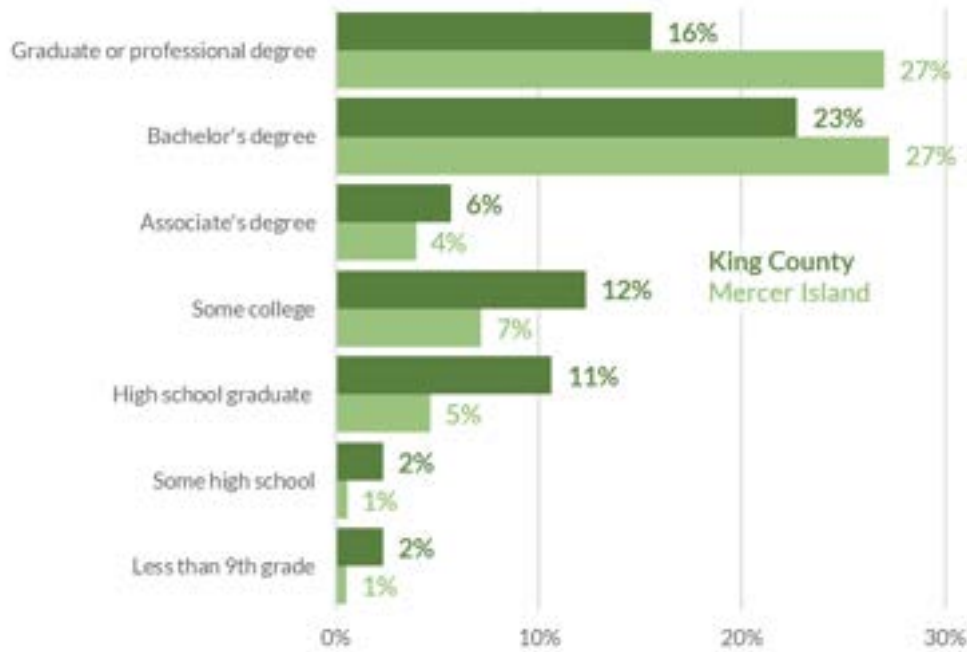


Source: American Community Survey, 2010, 2020; CAI, 2022.

Mercer Island residents are highly educated

More than half of Mercer Island residents hold a college or advanced degree, a higher share than King County (39%), as shown in **Exhibit 6**. Small portions of residents hold an associate’s degree compared to a bachelor’s, advanced degree, or even attending but not graduating from college. An even smaller share of King County and Mercer Island residents did not complete high school.

Exhibit 6. Education Level, Mercer Island and King County, 2020



Source: American Community Survey, 2020; CAI, 2022.

Economic Profile

Mercer Island is predominantly zoned as residential, with the exception of three significant commercial or mixed-use areas. The primary retail and mixed-use cluster in Mercer Island is in Town Center. Town Center has its own zoning code (TC) that does not mandate minimum residential lot sizes. As Mercer Island’s downtown, Town Center features restaurants, cafes, small businesses, and markets in addition to the bulk of the island’s multi-family residential housing. Town Center includes about 20 condominium buildings, nearly all of the island’s apartment developments, and several independent and senior living communities.

The second retail and commercial cluster is anchored by a QFC immediately south of Pioneer Park. This area is zoned as a Planned Business Zone (PBZ) that does not mandate minimum residential lot sizes. However, there are no residential units built within this area and it mainly includes restaurants and other service-based businesses like banks, dry cleaners, a storage facility, and a gas station.

The third commercial cluster is located in northeast Mercer Island, anchored by City Hall and immediately adjacent to the south of I-90. The majority of this area is zoned as Commercial Offices (CO) with a small multi-family residential zone to the west of City Hall (MF-2). MF-2 zoning permits a

maximum density of 38 units per acre, but there is only one multi-family development in the area.³ Surrounding City Hall are schools (including day care and the private French American School), other city buildings and facilities (including the Police Department and Public Works Department), and healthcare and related clinic space. Community organizations such as the Stroum Jewish Community Center and the Herzl Ner-Tamid Synagogue are located adjacent to the commercial office zone, to the southeast.

Town Center

Town Center's available retail space is at an all-time low, as housing units steadily increase

Town Center is the primary hub of retail and other economic activity in Mercer Island. From 2006 to 2022, the multi-family residential units increased by 895 units to a total of 1,210 (**Exhibit 7**). In that same period, the square footage area of retail space initially increased to a peak of about 369,000 square feet in 2013, before decreasing to about 317,000 square feet in the third quarter of 2019. This may be the result of a demolished building at 2431-2441 76th Ave SE. From 2006 to current, the amount retail space has decreased by approximately 2.5% while the number of multi-family residential units have increased by nearly 75%. Although all development in Town Center is interconnected due to the area's mixed use zoning, this data does not mean that the amount of retail space and number of residential units in Town Center are proportional or causal.

³ King County Department of Assessments.

**Exhibit 7. Change in Retail Space and Multi-Family Residential Units,
Town Center, 2006 to 2022**



Source: CoStar, 2022; CAI, 2021.

In the same period, the yearly lease rate (shown in **Exhibit 8** per square foot of retail space) has increased to \$38 per square foot in the first quarter of 2020 and is now holding at \$37 per square foot. While there was a small spike in the lease rate around 2020 (at the onset of the COVID-19 pandemic and development moratorium), this rate has been on a fairly steady increase since a low of \$19 per square foot in 2014. In that period, lease rates nearly doubled. 2015 saw the highest spike in vacancy in Town Center. Around that time, a retail space of about 30,000 square feet was demolished at 2615 76th Ave SE. The closure of the businesses at that location prior to demolition could contribute to the short-term spike in vacancy. In addition, at the onset of the pandemic, Town Center saw a spike to 9% in the retail vacancy rate. That spike was short-lived and has held at about a 1% vacancy rate since then.

**Exhibit 8. Retail Annual Lease Rate and Vacancy Rate,
Town Center, 2006 to 2022**



Source: CoStar, 2022; CAI, 2021.

South End Shopping Center

There is very little retail and commercial growth or capacity outside of Town Center

Mercer Island’s secondary retail cluster is the South End Shopping Center located south of Pioneer Park at the intersection of SE 68th Street and 84th Avenue SE. This retail cluster is anchored by a QFC and includes restaurants and other businesses. It is bounded by city services like the Fire Department to the east and amenities like the Mercer Island Country Club to the south.

This area is zoned as Commercial and does not permit residential units. In 2006 this area increased its retail space by 15,000 square feet and has remained constant at 73,453 square feet of retail space since then.⁴

Over that period, the vacancy rate of retail spaces within the South End retail cluster have varied from a high of 26% in 2009 to a periodic low of 2% in 2016, 2019, and 2022 (**Exhibit 10**). Vacancy did spike in 2020 and 2021, the same period as the COVID-19 pandemic. In May 2022, Rite Aid closed its South End location, which likely contributed to the 2022 vacancy spike to 13%. Lease rates have changed very little since 2013 and remain at \$28 per

⁴ Costar, 2022.

square foot. Prior to 2013, rent prices oscillated between \$21 and \$29 per square foot. Rental rates did not change during the pandemic.

Exhibit 9. Retail Annual Lease Rate and Vacancy Rate, South End Retail Cluster, 2006 to 2022



Source: CoStar, 2022; CAI, 2021.

Mercer Island Retail Capacity

Mercer Island can accommodate an estimated 35,000 square feet of additional retail space

Exhibit 11 estimates supportable retail growth across all of Mercer Island using housing growth projections along with 2020 taxable retail sales and population data. Under these assumptions, estimated population growth is 2,790 through 2044, assuming 1,240 new households and 2.25 persons per household. The taxable retail sales include the retail trade (NAICS 44-45), arts, entertainment, and recreation (NAICS 71), and accommodation and food services industries (NAICS 72). The City of Mercer Island’s 2020 taxable retail sales per capita across these three sectors was \$7,600. Given anticipated population growth and current spending patterns, Mercer Island retailers could capture an estimated \$21.2 million in additional retail spending through 2044 (assuming per capita taxable retail sales does not change). This could support an estimated 34,840 square feet of retail space, after accounting for current retail vacancies on the island, and assuming \$600 per square foot of retail sales.

Exhibit 10. 2044 Population and Supportable Retail Growth, Mercer Island, 2021

Supportable Retail Growth	
Additional Retail Spending Given Population Growth	
Population Growth	
Housing Units Target (2020 - 2044)	1,240
Assumed Population per Household	2.25
Estimated Population Growth	2,790
Taxable Retail Sales	
2020 Estimated Taxable Retail Sales	\$187,238,800
2020 Population - City of Mercer Island (OFM)	24,690
2020 Taxable Retail Sales per Capita	\$7,600
Additional Retail Spending	
Estimated Population Growth	2,790
2020 Taxable Retail Sales per Capita	\$7,600
Estimated Additional Retail Spending	\$21,204,000
Supportable Retail	
Supportable Retail Square Feet*	35,340
Less Vacant Retail Square Feet	500
Estimated Supportable Retail Square Feet	34,840
* Assuming Sales at \$600/sf	

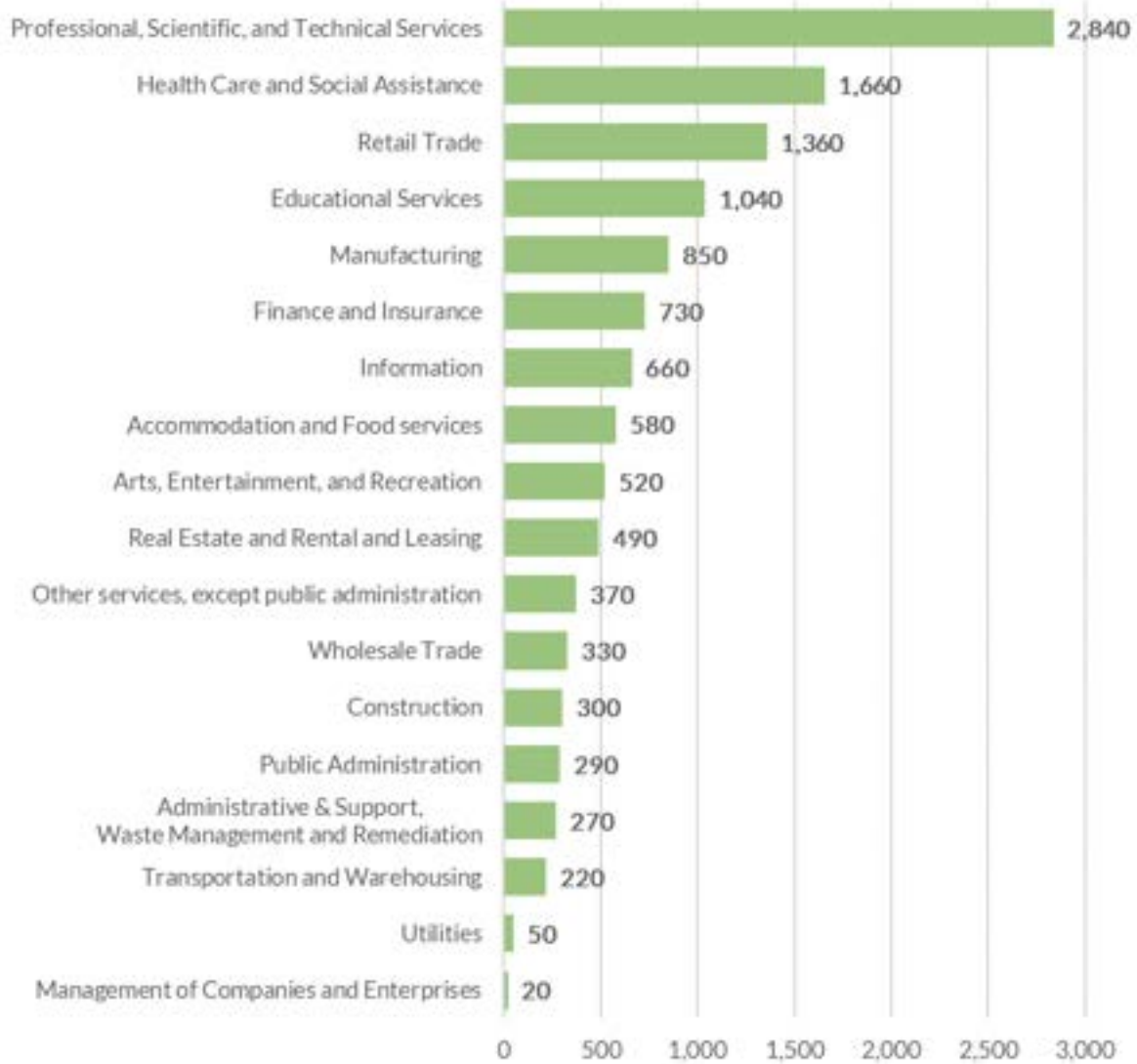
Sources: Washington Office of Financial Management, 2021; Puget Sound Regional Council, 2021; CoStar, 2021; CAI, 2021.

Workforce Profile

Mercer Island’s largest sectors are high-earning and relatively resistant to economic distress

Exhibit 12 shows employment by industry for Mercer Island residents. This includes residents who work on the Island or commute to another community for work. The professional, scientific, and technical services industry employs the most Mercer Island residents (2,840). This is followed by healthcare and social assistance, retail trade, and educational services, which each employed more than 1,000 Mercer Island residence as of 2020.

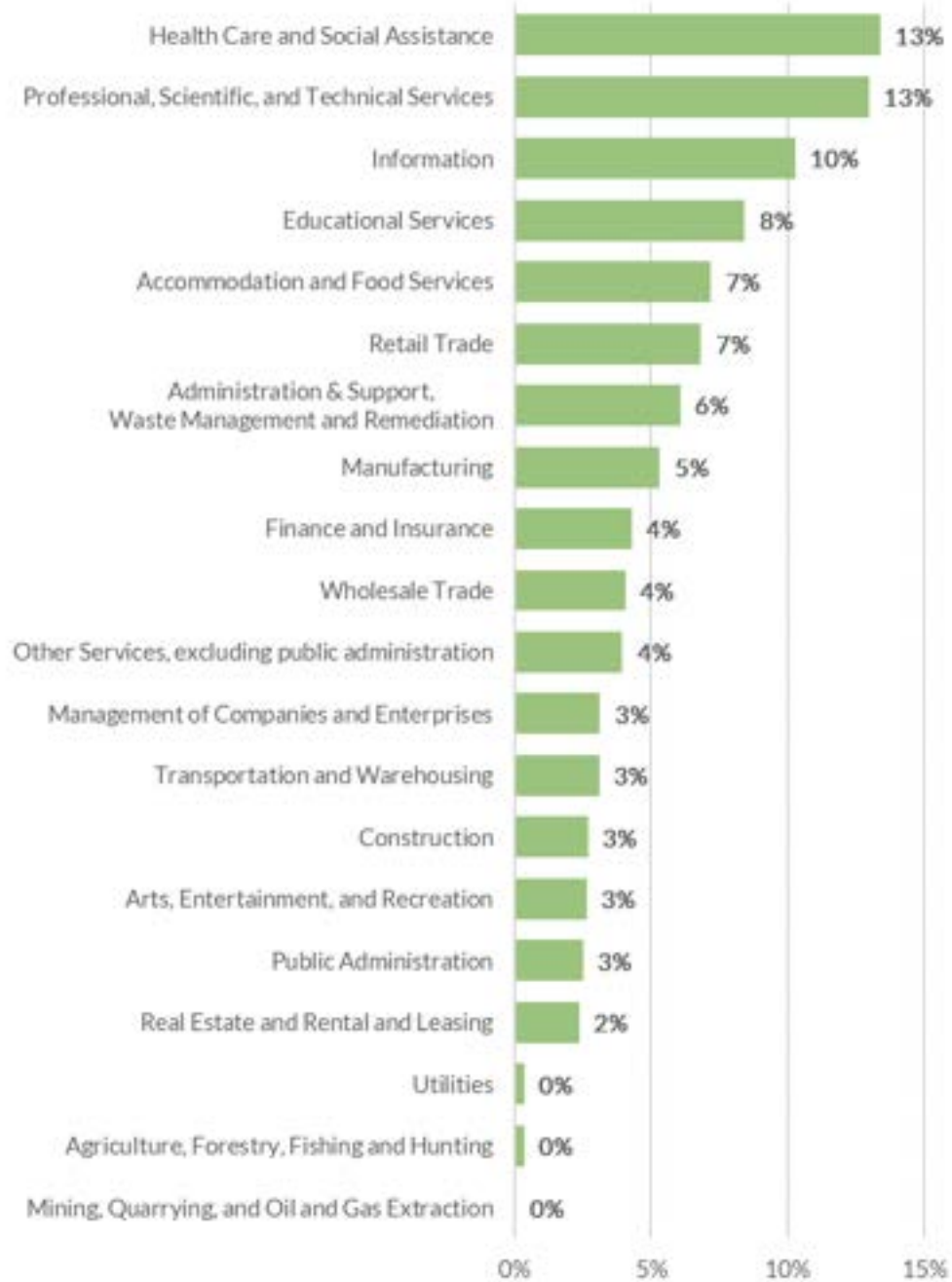
Exhibit 11. Employment by Industry, Mercer Island Residents, 2020



Sources: US Census Bureau ACS 5-year Estimates, 2020; Community Attributes Inc., 2022.

Exhibit 13 presents the share of total Mercer Island employment by industry. This captures all jobs located on Mercer Island, whether they are held by Mercer Island residents or residents from the surrounding region. The two most prominent industries are healthcare and social assistance and professional, scientific, and technical services, which represent 26% of Mercer Island’s total jobs (13% a piece), as of 2019. Other top industries include information, educational services, and accommodation and food services.

Exhibit 12. Employment by Industry, Mercer Island Jobs, 2019



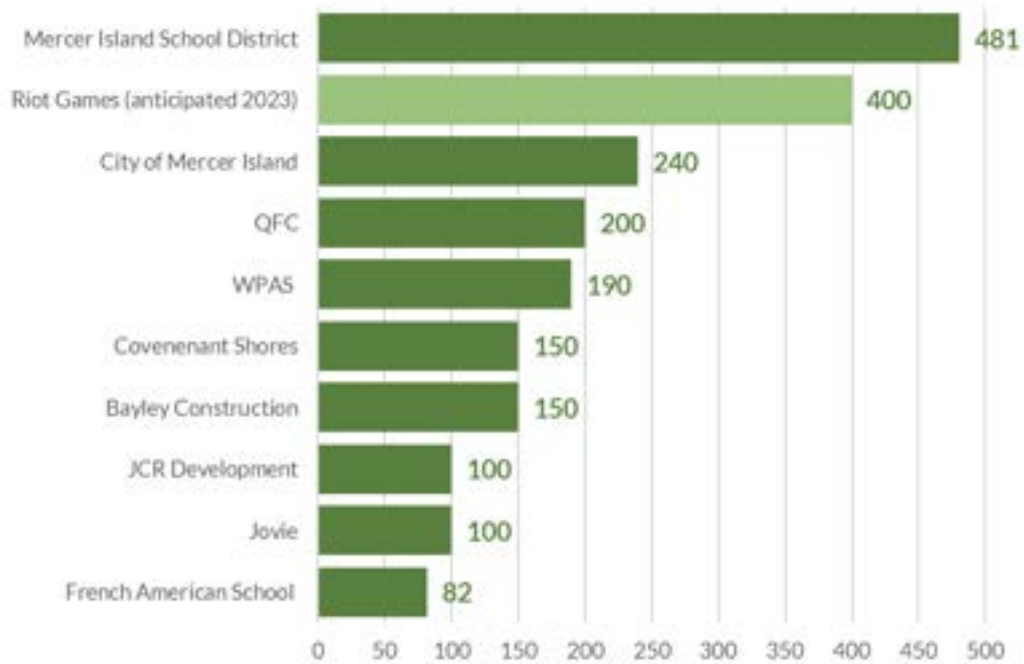
Sources: LEHD, 2019; Community Attributes Inc., 2022.

Riot Games is anticipated to become the second largest employer in Mercer Island

The Mercer Island School District is the largest employer on the island, providing nearly 500 jobs combined (**Exhibit 14**). The video game company, Riot Games, announced earlier this year that it plans to open a campus on

Mercer Island for 400 employees in 2023.⁵ Riot purchased the six-acre former Farmers Insurance headquarters space at 3003 77th Avenue SE.⁶

Exhibit 13. Largest Employers on Mercer Island, 2022



Source: ESRI, 2022; Riot, 2022; CAI, 2022.

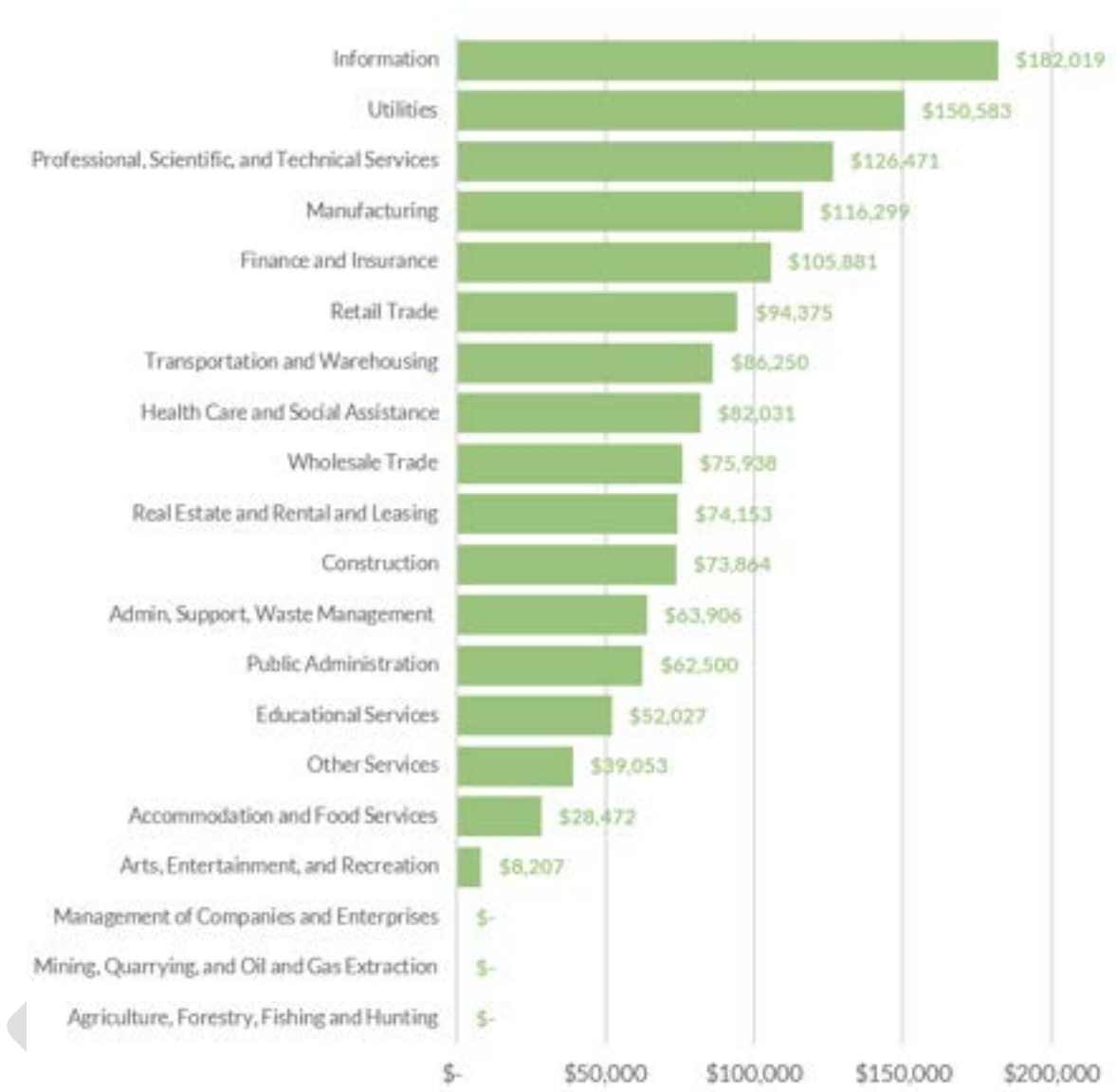
Mercer Island’s largest industries are also some of its highest paying – including information and professional services

There are a few industries that have a high share of jobs in Mercer Island and also offer high median wages. Jobs in information make up 10% of all jobs in Mercer Island, and also have the highest median income of \$182,019 (**Exhibit 15**). Professional, scientific, and technical services make up 13% of all jobs and have a high median wage of \$126,471. Other industries offer high wages but have few jobs on Mercer Island, including utilities. Income data on management and natural resource industries is not available.

⁵ The Farmers Insurance space has capacity for approximately 800 employees, and Riot Games has indicated that it may ultimately employ 500 to 700 full-time employees at this site.

⁶ “Riot Games to open Mercer Island office,” My Mercer Island, January 2022.

Exhibit 14. Median Income by Industry, Mercer Island, 2020

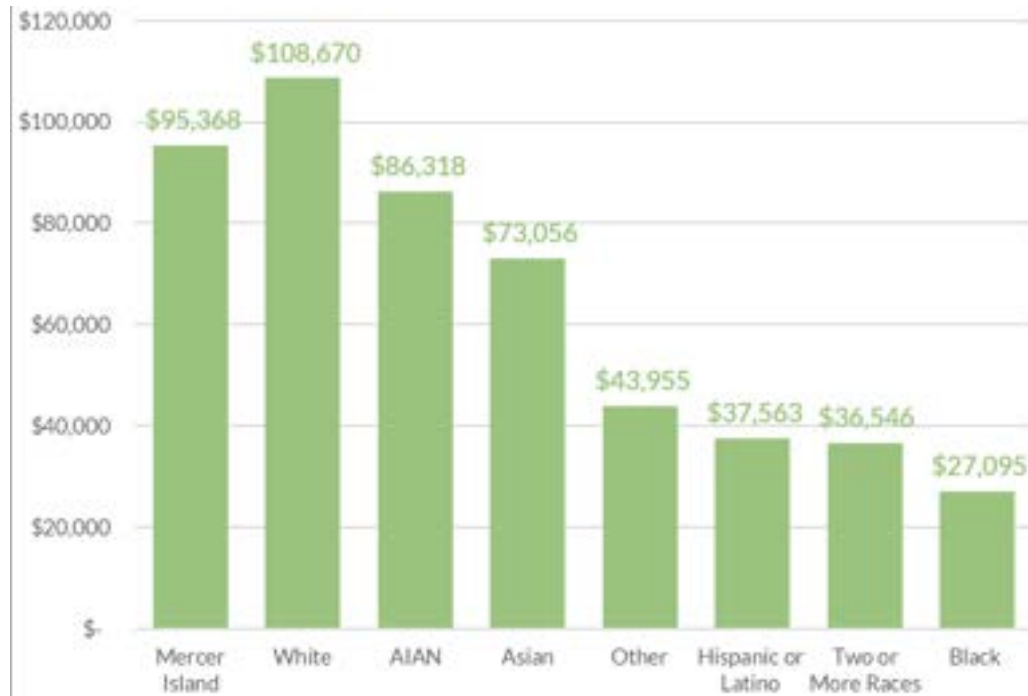


Source: American Community Survey, 2020; CAI, 2022.

BIPOC residents typically earn less than white residents

Approximately 70% of Mercer Island residents identify as white, and this population group are likely to be high earners compared to the rest of the population (**Exhibit 16**). All other race and ethnic groups earn less than the average income for Mercer Island as a whole.

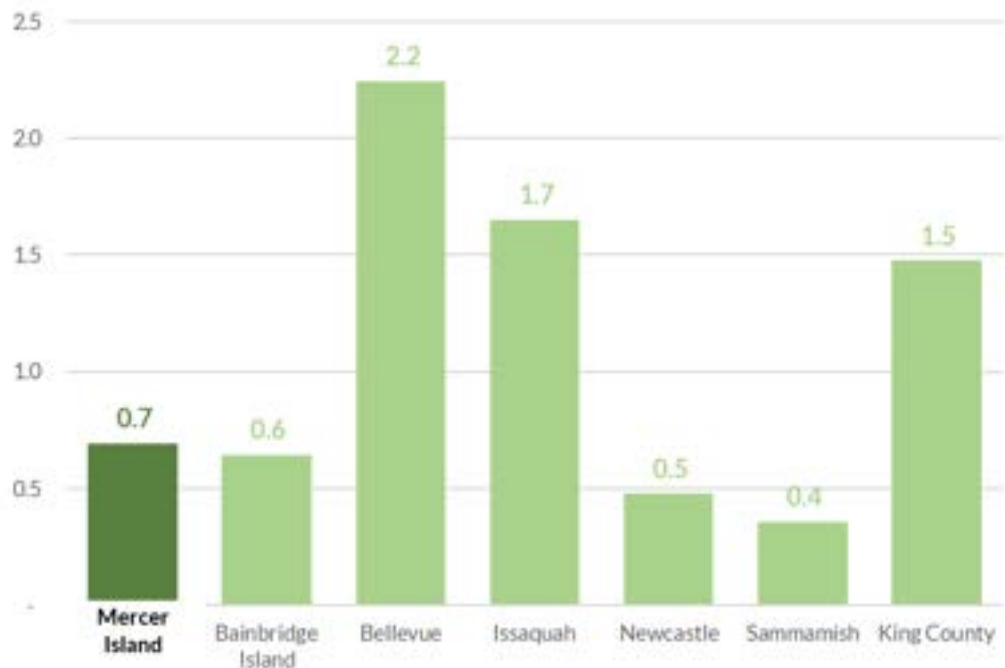
Exhibit 15. Average Income by Race and Ethnicity, Mercer Island, 2020



Source: American Community Survey, 2020; CAI, 2022.

Mercer Island is part of a robust regional economy and has a highly mobile workforce. Within the region, different cities play different economic roles, with some cities that are job centers. The ratio of jobs to housing units measures how many jobs a community has relative to the number of housing units in the community; it is an indicator of the community's economic role in a given region. Job centers have a ratio much higher than one job per housing unit, and cities with ratios much lower than one job per housing unit are residential centers or bedroom communities. Mercer Island has a jobs-to-housing units ratio of 0.7, lower than King County as a whole (1.5) (**Exhibit 17**).

Exhibit 16. Jobs to Housing Units Ratio, Mercer Island and Peer Cities, 2020

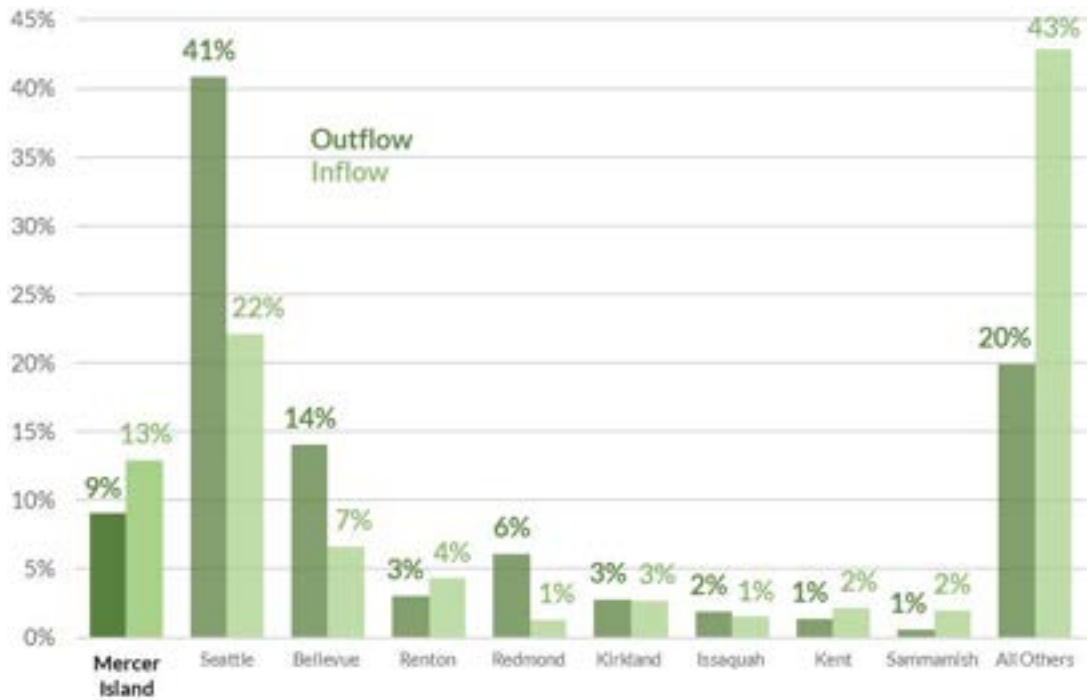


Source: Puget Sound Regional Council, 2020; Washington Office of Financial Management, 2020; CAI, 2022.

Less than 10% of Mercer Island residents also work on the island

The vast majority of Mercer Island residents commute to other cities in the region for work, with about 14% of its population commuting to Bellevue (**Exhibit 18**). Only 9% of resident workers remain in Mercer Island for work, while a significant portion commute to Seattle, Bellevue, and a range of other cities. About 13% of Mercer Island’s workforce is comprised of Mercer Island residents, with the bulk of its workforce commuting in from across the region.

Exhibit 17. Commuter Inflow and Outflow, Mercer Island, 2020



Source: U.S. Census Bureau OnTheMap, 2019; CAI, 2022.

Note: This data includes all public and private sector jobs that are a resident's primary source of income.

Housing Analysis

Most new units since 2010 are multi-family residences

Mercer Island added about 1,200 housing units between 2010 and 2020, with the majority of new housing units in large scale multi-family developments with more than 20 units (**Exhibit 19**). In that time period, the number of duplexes increased from one to 67, a more than 6,000% increase, although this type of unit represents only 1% of the city's housing stock. The majority of the city's population live in single-family detached homes.

Exhibit 18. Change in Housing Units and Type, Mercer Island, 2010 to 2020

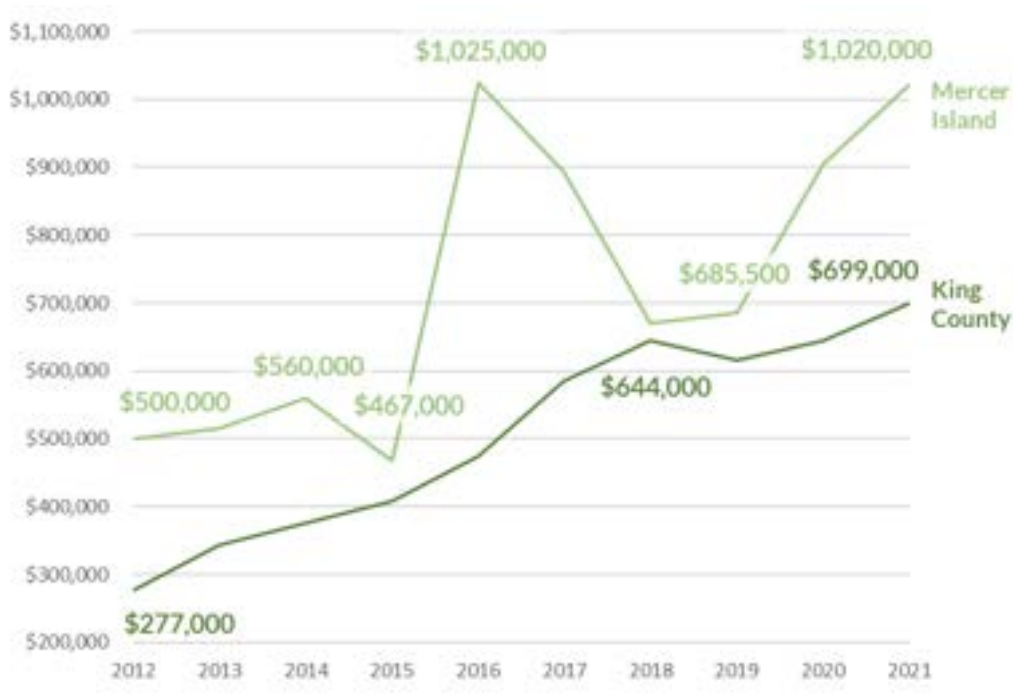
	2010		2020		2010 to 2020 Change	
	<i>Count</i>	<i>Share</i>	<i>Count</i>	<i>Share</i>	<i>Net</i>	<i>Percent</i>
1-unit, detached	7,130	74%	7,306	67%	176	2%
1-unit, attached	197	2%	95	1%	-102	-52%
2 units	1	0%	67	1%	66	6600%
3 or 4 units	65	1%	39	0%	-26	-40%
5 to 9 units	406	4%	502	5%	96	24%
10 to 19 units	376	4%	403	4%	27	7%
20 or more units	1,491	15%	2,463	23%	972	65%
Mobile home	9	0%	11	0%	2	22%
Boat, RV, van, etc.	0	0%	0	0%	0	0%
Total	9,675	100%	10,886	100%	1,211	13%

Source: American Community Survey, 2010, 2020; CAI, 2022.

Renter and owner housing costs, higher than the region, are on the rise in Mercer Island

The cost to live on Mercer Island, while typically higher than King County as a whole, has been on the rise since at least 2012. Median home prices increased to more than \$1 million in 2021 from \$500,000 in 2012 (**Exhibit 20**). In that same period, home prices increased from \$277,000 to \$699,000 in King County. As of 2021, the median home value in Mercer Island is about \$320,000 more than King County as a whole. In Mercer Island’s case, specifically, a relatively small sample size of transactions can lead to large swings in median sale price, which may account for some of the volatility; nonetheless, the median sale price of homes in Mercer Island has been consistently higher than in King County as a whole.

Exhibit 19. Median Home Sale Price, Mercer Island and King County, 2012 to 2021



Source: Redfin, 2022; CAI, 2022.

Median rent in Mercer Island increased from \$1,421 to \$2,166 from 2010 to 2020, about a \$750 increase (**Exhibit 21**). In that time period, King County median rent increased from \$999 to \$1,695, about a \$700 increase. The median rental price in 2020 is about \$500 more per month in the city than across the county.

Exhibit 20. Median Rent, Mercer Island and King County, 2010 to 2020



Source: American Community Survey, 2020; CAI, 2022.

There are few homes currently available for sale in Mercer Island compared to historic for-sale stock

According to the St. Louis Federal Reserve, "the months' supply is the ratio of new houses for sale to new houses sold." This measure relates the size of the new for-sale inventory to the number of new houses currently being sold. This indicates how long the current new for-sale inventory would last given the current sales rate if no additional new houses were built and is an indicator of the competitiveness of a local housing market. Mercer Island's for-sale inventory has been on the decline since 2019 and the month's supply is currently near zero (**Exhibit 22**).

Exhibit 21. Month's Supply of Homes, Mercer Island, 2012 to 2022

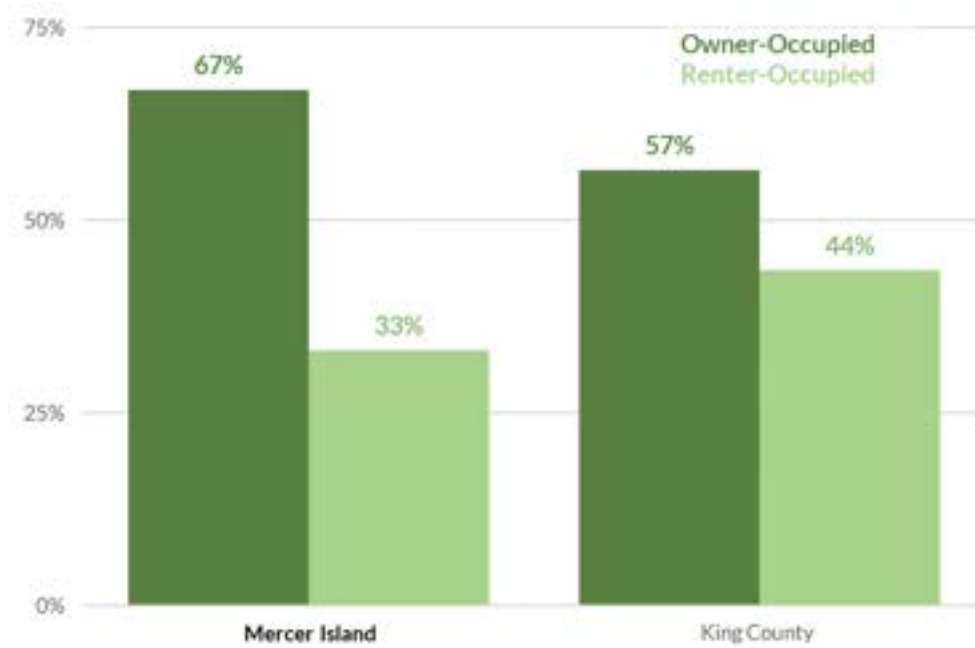


Source: Redfin, 2022; CAI, 2022.

Most Mercer Island households are owner-occupied

About two-thirds of Mercer Island residents own their home, compared to 57% of King County households (**Exhibit 23**). Rental households are increasing in Mercer Island and now make up about one-third of all households.

Exhibit 22. Housing Tenure, Mercer Island and King County, 2020

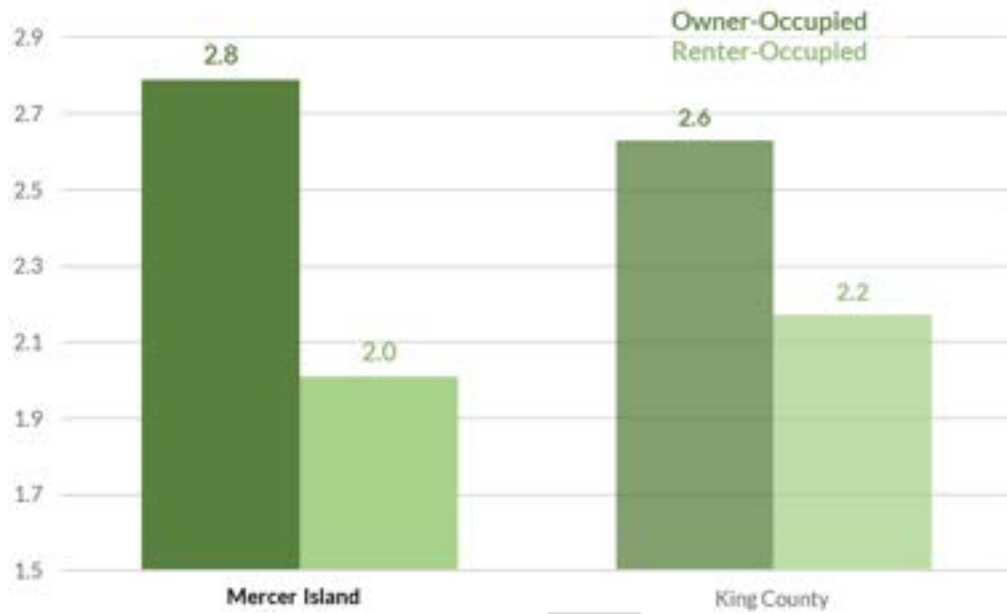


Source: American Community Survey, 2010, 2020; CAI, 2022 .

Owner-occupied households are typically larger than renter-occupied and are larger than those across King County as a whole

Households are getting larger across King County and in Mercer Island, although owner-occupied households are typically larger than renter-occupied (**Exhibit 24**).

Exhibit 23. Household Size, Mercer Island and King County, 2020



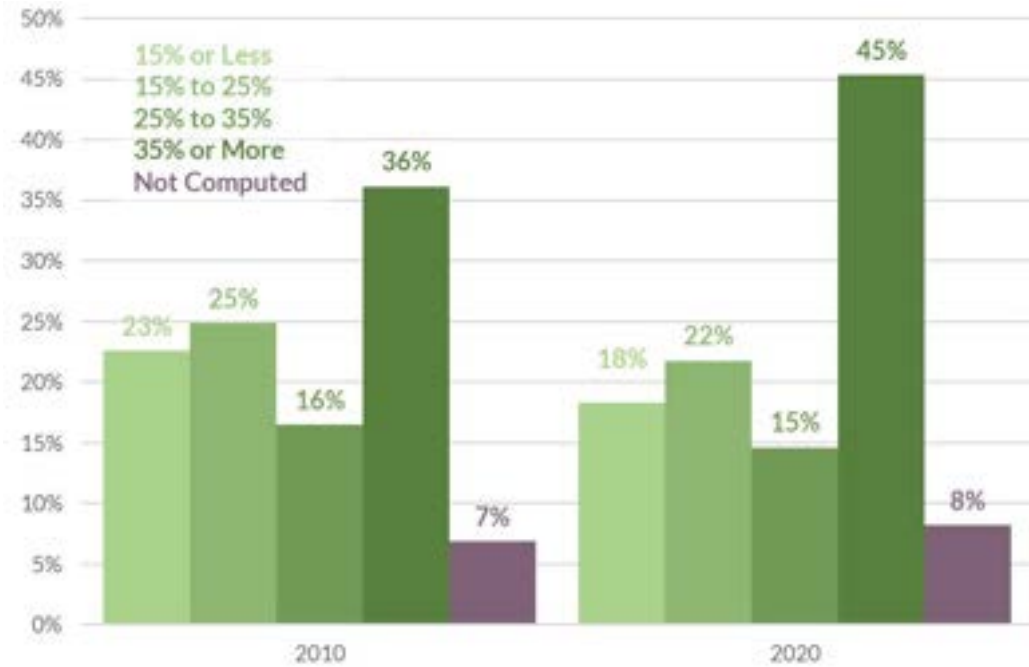
Source: American Community Survey, 2010, 2020; CAI, 2022.

Mercer Island renters are increasingly cost burdened

The Department of Housing and Urban Development defines cost-burdened households as those who pay “more than 30% of their income for housing,” which may lead to difficulty “affording necessities such as food, clothing, transportation, and medical care.”⁷ Renter-occupied households are increasingly cost-burdened, with 45% spending more than 35% of their income on housing costs in 2020, up from 36% in 2010 (**Exhibit 25**).

⁷ Rental Burdens: Rethinking Affordability Measures, U.S. Department of Housing and Urban Development.

Exhibit 24. Percentage of Renter Household Income Spent on Housing, Mercer Island, 2010 to 2020



Source: American Community Survey, 2010, 2020; CAI, 2022.

GROWTH FORECAST

Information, professional, and technical services will comprise more than half of all Puget Sound jobs by 2050

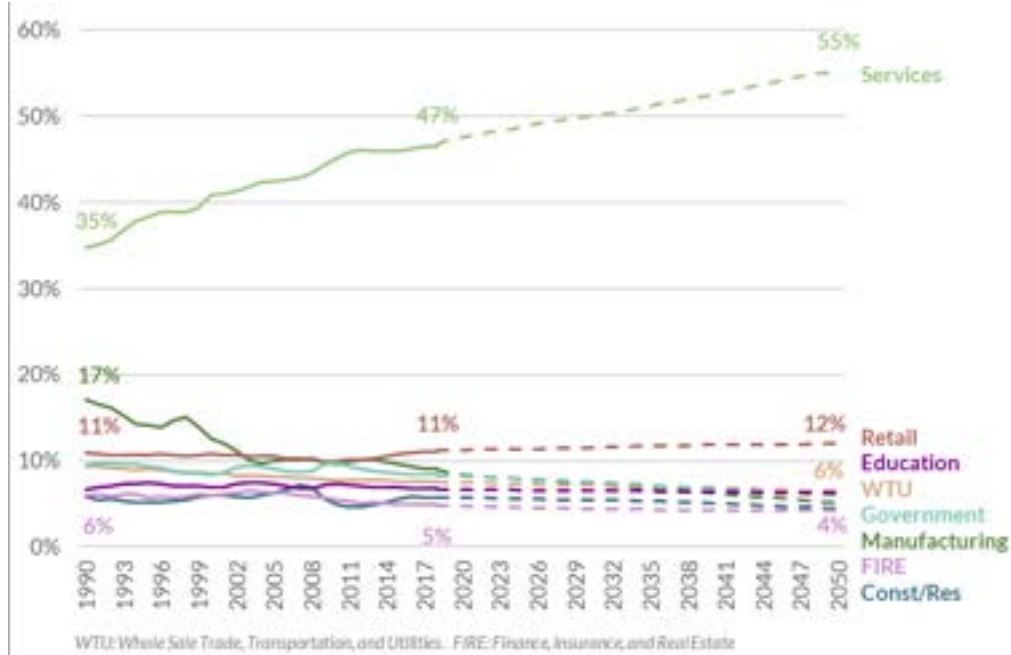
The Puget Sound economy as a whole is anchored by jobs that fall in the Services industry classification, which includes information, professional and technical services, and management (**Exhibit 26**). These industries make up nearly half of all jobs in the region and are projected to increase to about 55% of all jobs by 2050. Retail is projected to grow to 12% of jobs, up from 11% in 2017. All other sectors are projected to decrease slightly.

Mercer Island and the Puget Sound region have a high concentration of industries, like services, that are resilient during economic hardship. According to PSRC data, information and technology, subindustries of the services industry shown in **Exhibit 26**, was the only industry which saw an increase in employment during the pandemic.⁸ Nationwide, this industry has accounted for a fraction of job losses. One analysis of early pandemic industry trends cited that “the tech industry appears well-positioned to weather the economic storm and lead the next growth cycle by capitalizing on new

⁸ “Helping industries recover from the impact of COVID-19,” PSRC, July 2021.

business and consumer preferences with further innovations that facilitate the ‘new normal.’”⁹

Exhibit 25. Historic and Projected Employment by Industry, Puget Sound Region, 1970 to 2050



Source: Puget Sound Regional Council, 2017; CAI, 2022.

Manufacturing jobs are forecasted to decrease by 2050

The increase in share of employment in Services reflects a large increase in the number of the jobs in its subsectors projected through 2050 (**Exhibit 27**). The Puget Sound Regional Council projected an increase of nearly two million jobs in Services between 2017 and 2050. Industries like Government, Education, and Wholesale Trade, Transportation, and Utilities (WTU) have decreasing shares of the economy but will continue to see net job growth. Manufacturing, on the decline since the 1990s, is the only industry that is projected to lose jobs.

⁹ “Tech Among Most Resilient U.S. Employment Sectors,” CBRE, May 2020.

Exhibit 26. Projected Industry Change, Puget Sound Region, 2017 to 2050

	2017 Total	2050 Forecast	Net Change	Percent Change
Const/Res	120,473	142,093	21,620	18%
FIRE	101,328	136,567	35,239	35%
Manufacturing	189,016	163,186	(25,830)	-14%
Retail	229,365	378,918	149,553	65%
Services	968,387	1,750,802	782,415	81%
WTU	156,937	204,945	48,008	31%
Government	175,257	189,876	14,619	8%
Education	141,294	198,056	56,762	40%

*Source: Puget Sound Regional Council, 2017; CAI, 2022.
WTU: Wholesale Trade, Transportation, and Utilities.
FIRE: Finance, Insurance, and Real Estate.*

Mercer Island has a target to add 1,300 jobs between 2018 and 2044 but currently has the capacity for 961 new jobs

King County develops long-term housing unit and job projections for each of its jurisdictions, including Mercer Island. It reports on these in the 2021 Urban Growth Capacity (UGC) Report, an update to the 2014 Buildable Lands Report and the county’s buildable lands analysis as required by the Growth Management Act, RCW 36.70A.215. King County projects an addition of 1,239 housing units from 2019 to 2044 in the UGC Report. Mercer Island has since increased this target to 1,370, as shown in **Exhibit 28**. Mercer Island’s target of 1,370 new housing units through 2044 would result in 11,843 housing units. King County’s estimated housing unit capacity of 1,607 units can accommodate Mercer Island’s increased housing target. The UGC also projects a new target of 1,300 jobs through 2044, which would result in a total of 9,045 jobs on the island. King County estimates Mercer Island’s job capacity to be 961 new jobs through 2044, a shortfall of 339 jobs.

Exhibit 27. King County Countywide Planning Revised Growth Targets, Mercer Island, 2021

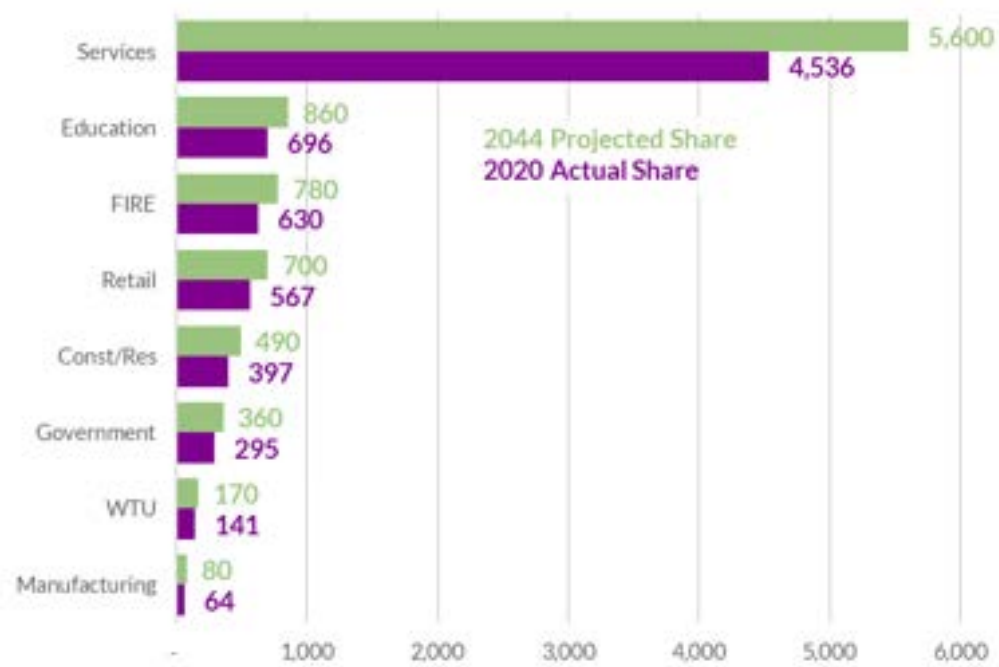


Source: King County Urban Growth Capacity Report, 2021; CAI, 2022.

Services will continue to be Mercer Island’s largest industry

The Puget Sound Regional Council (PSRC) calculates jobs grouped by industry sectors. Applying the share of each industry calculated by PSRC to the 2044 job growth target calculated by King County in its Urban Growth Capacity report provides an estimate of jobs by sector. The majority of current jobs fall within professional and technical services sector, and this sector may grow by upwards of 1,100 jobs by 2044 (**Exhibit 29**).

Exhibit 28. Estimated Increase in Jobs by Sector, Mercer Island, 2020 and 2044



Source: PSRC, 2020; King County Urban Growth Report, 2021; CAI, 2022.

KEY FINDINGS AND IMPLICATIONS

This section is forthcoming, pending discussion with key stakeholders, including City Council and the Planning Commission.

Findings

Population Profile

- Mercer Island is a comparatively slow-growing city.
- Workforce-aged population groups have shrunk since 2010.
- Residents earn more than King County as a whole and median income is increasing.
- Mercer Island residents are highly educated.

Economic Profile

- Town Center’s available retail space is at an all-time low, as housing units steadily increase.
- There is very little retail and commercial growth or capacity outside of Town Center.
- Mercer Island can accommodate an estimated 35,000 square feet of additional retail space.

Workforce Profile

- Mercer Island's largest sectors are high-earning and relatively resistant to economic distress.
- Riot Games is anticipated to become the second largest employer in Mercer Island.
- Mercer Island's largest industries are also some of its highest paying – including information and professional services.
- BIPOC residents typically earn less than white residents.
- Less than 10% of Mercer Island residents also work on the island.

Housing Analysis

- Most new units since 2010 are multi-family residences.
- Renter and owner housing costs, higher than the region, are on the rise in Mercer Island.
- There are few homes currently available for sale in Mercer Island compared to historic for-sale stock.
- Most Mercer Island households are owner-occupied.
- Owner-occupied households are typically larger than renter-occupied and are larger than those across King County as a whole.
- Mercer Island renters are increasingly cost burdened.

Growth Forecast

- Information, professional, and technical services will comprise more than half of all Puget Sound jobs by 2050.
- Manufacturing jobs are forecasted to decrease by 2050.
- Mercer Island has a target to add 1,300 jobs between 2018 and 2044 but currently has the capacity for 961 new jobs.
- Services will continue to be Mercer Island's largest industry.

Implications

- **Mercer Island's economic activity is concentrated in a few areas with decreasing available commercial space.** Town Center accounts for most of the island's economic activity but has a historically low amount of leasable retail space. Based on a 2021 analysis, the city could support an additional 35,000 square feet of retail capacity, and this estimate does not account for the pending arrival of Riot Games and potentially hundreds of new jobs in the Town Center.
- **Mercer Island's economy is anchored by professional, technical, and scientific services.** These are some of the highest paid professions. According to the Washington State Employment Security Division, these jobs are typically more resilient in recessions or other times of economic duress, like the COVID-19 pandemic. The

Puget Sound Regional Council projects that services will make up more than half of all jobs in the region by 2050.

- **Housing costs in Mercer Island are a challenge for segments of the Mercer Island workforce.** The School District and the City are the largest employers, but employees in these sectors earn low median wages compared to the city as a whole. Housing costs – for both renters and owners – are on the rise and nearly half of renters are cost burdened. More moderate- and low- income residents may be increasingly priced out of living on Mercer Island.
- **Mercer Island is uniquely situated between two of the region’s economic hubs and has an opportunity to onshore some of those jobs.** Very few Mercer Island residents work in the city, with the highest share commuting to Seattle and Bellevue. As some of the region’s largest companies, including Microsoft and Amazon, put their return-to-work plans on hold or adopt a full-time remote option, Mercer Island may have an opportunity to attract some remote employees away from commuting into the office. Investment in office or coworking space could draw in residents who are not ready to commute to the office but may want alternatives to working from home.
- **Mercer Island is well-poised to reinvigorate the retail base.** Town Center is the city’s most viable location for new residential units, and the expected light rail expansion in 2024 combine to create a unique opportunity for Town Center. With concentrated population growth and expanded and affordable access to the region, Town Center is well suited to support a range of walkable urban amenities for residents and visitors alike.
- **The relatively older and aging population, as well as a growing contingent of young adults and families, will have implications on future housing, service, and retail needs.** Aging population groups may need housing options to age in place, downsize within the community, or move to assisted living facilities.¹⁰ Young residents, whether individuals, couples, or growing families, will need access to a range of housing types and sizes. Affordable rental units, starter homes, and homes that will accommodate a growing family are noted housing typologies for households under 35.¹¹ Furthermore, a variety of demographic types moving into Mercer Island can support a more diverse offering of retail, food, and commercial offerings on the island.

¹⁰ “Guidance for Developing a Housing Action Plan – Public Review Draft,” Washington State Department of Commerce, June 2020.

¹¹ Ibid.

- The city is not on track to accommodate the projected new job growth through 2044, but this does not consider Riot Games' arrival.** Mercer Island is targeted to add 1,300 jobs between 2018 and 2044. Its most recent job growth trends indicate that the island does not have the capacity for its projected growth. These projections do not take into account Riot Games' expansion into the city, which will account for approximately 31% of Mercer Island's 2044 projected job growth by the end of 2023. Furthermore, these new jobs are replacing those lost when Farmers Insurance left in 2018. This may have the two-fold effect to alleviate capacity pressure to meet the 2044 jobs target while increasing demand for even more new businesses.
- Riot Games' arrival may have broader economic impacts.** With a projected 2024 opening, Riot Games is projected to become the second largest employer on the island, fulfill nearly one-third of the city's long-term job growth projection, and bring at least 400 (and potentially up to 700) mostly high-paying jobs to the island. Riot's campus may drive additional retail and service demand in Town Center and housing demand within the vicinity and across the island. These new high-earning workers could place additional pressure on an already tight housing market and existing cost burdened households. Riot employees who opt to live off the island will utilize public parking and transportation systems and increase use rates for public infrastructure in the span of a few weeks.
- Mercer Island's high quality of life is one of its most competitive advantages, and the City should ensure it remains accessible to all who want it.** Housing demand has never been higher or most expensive. Post-pandemic retail vacancy rates are low. Major employers like Riot Games are expanding, with the potential to lead a reinvigoration of the retail base on the island. All of housing, workforce, and economic indicators in this report all lead to one assumption: more people than ever want to live, work, and play on Mercer Island. The stark reality is that these same conditions may also result in fewer residents and workers having the ability to do so. The City should work to ensure that aging residents, new and growing families, and crucial components of the Mercer Island workforce can also afford to enjoy Mercer Island's quality of life now and into the future.

City of Mercer Island Housing Needs Assessment

August 25, 2022

DRAFT

Prepared by:



Prepared for:





*Community Attributes Inc. tells data-rich stories about communities
that are important to decision makers.*

DRAFT

President and CEO:
Chris Mefford

Project Manager:
Elliot Weiss

Analysts:
Cassie Byerly
Bryan Lobel
Madalina Calen
Ethan Schmidt

Community Attributes Inc.
500 Union Street, Suite 200
Seattle, Washington 98101

www.communityattributes.com

CONTENTS

Introduction	5
Background and Purpose	5
Methods	5
Organization of this Report.....	6
Executive Summary	7
Planning and Policy Context	10
Citywide Context	10
Regional and State Context.....	12
Demographic and Economic Character of Mercer Island.....	18
Population and Demographics.....	18
Household Characteristics	23
Employment and Commuters.....	33
Current Housing Supply.....	36
Housing Stock	36
Housing Market Conditions and Trends	44
Housing Affordability.....	48
Future Housing Needs	54
Housing Needs Assessment Findings and Recommendations.....	61
Findings.....	61
Implications	62
Policy and Action Recommendations.....	64

Blank.

INTRODUCTION

Background and Purpose

Mercer Island is subject to planning requirements of the Washington Growth Management Act, which includes periodic updates to comprehensive plans in cities and counties across the state. Pursuant to this update, Mercer Island is undertaking a Housing Needs Assessment (HNA) that analyzes conditions, trends, and gaps in Mercer Island’s housing stock. The HNA describes the current housing stock in the city and evaluates how the Mercer Island Comprehensive Plan will accommodate the projected growth in housing. This helps to ensure that the Plan will address statewide planning goal 4 established in RCW 36.70A.020(4), which states:

“Housing. Plan for and accommodate housing affordable to all economic segments of the population of this state, promote a variety of residential densities and housing types, and encourage preservation of existing housing stock.”

In addition to analyzing housing needs, the HNA includes a list of recommended actions to address housing during the Comprehensive Plan update. The list of recommended actions includes policy recommendations, possible city programs, and other implementation actions to address identified housing needs.

This Housing Needs Assessment also utilizes draft future housing need methodologies that are currently under consideration by King County and resulting from Department of Commerce guidance in response to House Bill 1220. House Bill 1220 amends the Growth Management Act and changes the way communities are required to plan for housing by requiring local governments to plan and accommodate affordability for all income levels in its housing plans.

Methods

The HNA begins with a review of existing city and regional housing plans and policies to set the context for the housing analysis. The demographic and economic analysis is organized around population level and trends, household characteristics, and employment and commuting trends which affect the demand for and price of housing. The HNA provides an analysis of current housing supply and availability, housing market conditions and trends, defines affordability and how affordability is typically measured, and examines affordability of ownership and rental housing. Lastly, the HNA compares the housing unit inventory, land capacity analysis, and forecasted growth to determine the housing needs the Comprehensive Plan must accommodate.

The analysis in this report relies on secondary data analysis. The analysis leverages data published by federal, state, and local government resources, as well as private real estate data vendors, such as CoStar and Zillow. The analysis addresses the housing market and housing inventory found within the boundaries of the City of Mercer Island and provides comparisons with neighboring and peer cities of Bainbridge Island, Bellevue, Issaquah, Newcastle, Sammamish and with King County.

Organization of this Report

The remainder of this report is organized as follows:

- **City and Policy Context** summarizes Mercer Island’s current local and regional housing planning and policy.
- **Demographic and Economic Character of Mercer Island** provides a current snapshot and historic trends of the social and economic conditions in Mercer Island.
- **Current Housing Supply** summarizes the current housing stock and market conditions in Mercer Island and the region.
- **Future Housing Need** utilizes availability data and population and housing projections to estimate future housing need.
- **Housing Needs Assessment** includes findings and implications from the previous analyses.
- **Recommendations** includes a list of recommended actions informed by findings from the HNA to provide strategic guidance for addressing housing during the Comprehensive Plan update.

EXECUTIVE SUMMARY

The City of Mercer Island is updating its comprehensive plan as part of the periodic review required by the Washington Growth Management Act (GMA). Specific GMA requirements for the Housing Element are established in WAC 365-196-410. The Housing Element must include a housing unit inventory and an analysis of housing needs. The Housing Needs Assessment includes these elements and is an important tool that will inform updates to the city's Housing Element. The HNA also describes the current housing stock in the city and evaluates how the Mercer Island Comprehensive Plan will accommodate the projected growth in housing. Lastly, the HNA includes a list of recommended actions to address housing during the Comprehensive Plan update.

Key Housing Needs in Mercer Island

- **Demographic and economic trends will drive demand for affordable and diverse housing in Mercer Island.** Key demographic and economic trends affect Mercer Island's future housing needs. Increasing home values combined with slow income growth for many resident groups has resulted in increasing affordability challenges for moderate- and low-income households. Demand appears to be growing for access to multifamily housing.
- **Mercer Island's population – and its housing needs – are diversifying.** The city has an older population than King County, and a higher and growing share of families with children. Its BIPOC population is growing, although it remains relatively low compared to King County's as a whole.
- **Moderate- and low-income households are increasingly cost burdened and at risk of being priced out of Mercer Island.** As the cost of housing on Mercer Island increases, the city may increasingly rely on workers commuting into the island to supply much of the workforce. Over time, an increasing portion of Mercer Island workers may not be able to afford to live near their place of work.
- **Mercer Island's housing growth target is 1,370 new housing units between 2020 and 2044.** The composition of these units by housing type and price will vary based on market forces and other factors, but Mercer Island's allocation is likely to include housing units affordable to households making less than 100% of area median income (AMI).
- **New housing growth will be concentrated in a small part of Mercer Island and the capacity for new units is dwindling.** Town Center is 76-acres and accounts for nearly all of the island's

multifamily residences. Likewise, most of Mercer Island’s zoning capacity for new housing is located in the Town Center. While sufficient capacity to accommodate the additional multifamily or mixed-use development needed to achieve the growth target is currently in place, most of this capacity is likely to be utilized by 2044.

Policy and Action Recommendations

1. Comprehensive Plan Updates and Amendments

- 1.1 Update the Comprehensive Plan with newly released King County population, housing unit, and jobs projections.
- 1.2 Incorporate findings from the Housing Needs Assessment into the goals and policies of the Comprehensive Plan’s Housing Element.
- 1.3 Implement the tracking and work plans outlined in Chapter 3.VI of the Comprehensive Plan (Implementation Tracking, Housing Element) to monitor progress made by the city in accomplishing its housing goals, evaluate the changing housing landscape in Mercer Island, and track key indicators of housing supply, accessibility, affordability, and diversity.
- 1.4 Establish a goal within the Housing Element to develop transit-oriented development along I-90 and the future light rail station and develop a vision for connecting multifamily residential areas across the island to job clusters and transit corridors.

2. Unified Land Development Code Amendments

- 2.1 Amend minimum residential lot sizes to allow for smaller units, in line with stated Comprehensive Plan housing goals to allow residents to age in place and young families to attain homeownership and land use goal to encourage green building and sustainable development. Possibly omit R-15 zone due to environmental conditions and high cost of development.
- 2.2 Allow subdividing homes into duplexes or similar small multifamily units to allow residents to age in place, improve access to homeownership for young residents and families, and maintain neighborhood character.
- 2.3 Allow cottage courts or courtyard housing in certain single-family residential zones or on redeveloped parcels to allow for additional housing options for low- and middle-income families while maintaining neighborhood character, bulk, and scale.
- 2.4 Revisit the proposed demonstration project of innovative and smaller housing on vacant or underutilized sites within Mercer Island. Consider cottage courts or courtyard housing on appropriate sites.

- 2.5 Consider revising the Commercial Offices (CO) land use designation to include the potential for dense residential housing in areas that are transit oriented and can support higher density.
- 2.6 Remove the average parcel size language from the Planned Business (PBZ) land use designation and replace with allowed density.
- 2.7 Replace maximum allowed density limits in multifamily zones with a minimum density or no density requirement.

3. City Programs, Policies, and Action

- 3.1 Develop an affordable housing preservation program to protect the existing affordable housing stock and identify potential sites for new units.
- 3.2 Create a program to incentivize or assist infill development that is appropriate to neighborhood character and scale that also provides housing for a range of incomes, demographics, and abilities. Program could include streamlining the development process or modifying regulations for certain types of development on certain sites.
- 3.3 Develop an assistance or education program for young families or residents who wish to become homeowners and aging homeowners who wish to age in place. Pair with a housing demonstration project, new development within the city, or regulatory review that allows single-family homeowners to divide their homes into multiple units.
- 3.4 Consider revising density bonuses, flexible parking and development standards, and reduced development regulations or fees to encourage development and alleviate growing development costs in Town Center.

PLANNING AND POLICY CONTEXT

Mercer Island is a 6.4 square mile island in Lake Washington, east of the City of Seattle. In the late 1800s, Mercer Island was settled as a resort and small island-living community convenient to the nearby then-timber boom town of Seattle. Development slowly overtook the island until 1940, when the floating Lacey V. Murrow Memorial Bridge connected Mercer Island to Seattle and opened the island to the region and a wave of development and population growth.

Upon its incorporation in 1960, the City has undertaken multiple Comprehensive Plan updates as required by the Washington State Growth Management Act. The City is a member of A Regional Coalition for Housing, an intergovernmental agency that works to preserve and increase the supply of housing for low- and moderate-income Eastside households, and subject to King County Countywide Planning Policies. This section provides a summary of each of the City's planning documents and regional or state policy.

Citywide Context

Mercer Island City Code

The Mercer Island's City Code sets forth land use and development requirements across the city. Seven single- and multifamily residential zones and sub-areas in the Town Center zone allow for housing. Exhibit 1 outlines some zoning and development guidelines of each residential zone. The code's unified land development code is the primary mechanism through which the city maintains its residential and community character.

Mercer Island Comprehensive Plan

Mercer Island's 2016 update to its Comprehensive Plan largely affirms the city's character as a single family residential and convenient island living haven in the Puget Sound region. The island's 6.4 square miles are predominantly developed with large-lot, single family residences. Its Town Center and Commercial Office Zone serve the entire island as its commercial zones as well as the sites for nearly all mixed-use and multifamily development. Additional commercial land is located at the southern end of the island in the Planned Business Zone (PBZ).

**Exhibit 1. Zoning and Land Use, Mercer Island
City Code**

Zone	Zone Type		Minimum Lot Size (square feet)	Maximum Density (units/acre)
R-8.4	Single Family		8,400	5
R-9.6	Single Family		9,600	5
R-12	Single Family		12,000	4
R-15	Single Family		15,000	3
MF-2L	Multi-Family, Limited	S	4,800	26
		TH	1,500	
MF-2	Multi-Family	S	4,800	38
		TH	1,000	
MF-3	Multi-Family	S	4,800	26
		TH	1,500	
B	Business		None	
PBZ	Planned Business		None	
C-O	Commercial Offices		None	
P	Public Institution		None	
TC	Town Center		None	

Source: City of Mercer Island, 2022; Community Attributes, 2022.

Town Center

Over the last 30 years, the city has undertaken multiple planning efforts to revitalize the 76-acre downtown area, Town Center. The 2002 effort led to an overhaul of Town Center design and development guidelines, a process which culminated in a wave of development that added 870 housing units and approximately 334,000 square feet of new commercial area between 2001 and 2014.¹ The city continues to review and reconsider its design standards and development guidelines for this area.

In June 2020, City Council unanimously enacted a six-month moratorium on new construction in the Town Center zone so it could assess the adequacy of current retail space requirements.² City Council extended this moratorium three times since then, most recently on May 17, 2022. This moratorium primarily impacts higher density and multifamily developments in one of the few areas on the island in which this type of development may happen.

¹ Mercer Island Comprehensive Plan: Housing Element, September 2021.

² “City Council Adopts Temporary Moratorium on Town Center Development,” City of Mercer Island, June 2020.

Regional and State Context

Mercer Island is undertaking a Housing Needs Assessment which will ultimately inform a Housing Action Plan. This effort is supported by Growth Management Act funds distributed to cities across the state by the Washington State Department of Commerce.

In addition to its own and state-guided planning, Mercer Island is a part of several regional housing and growth planning efforts, each with its own purview, goals, and commitments. These plans share many of the same goals and strategies, and efforts undertaken by the City may meet multiple commitments and targets across them. This Housing Needs Assessment and forthcoming Housing Action Plan, while supported and triggered by the Growth Management Act, will help Mercer Island fulfill commitments and strategies in its regional and local partnerships. Where applicable, this is noted below.

Growth Management Act

As a Washington county that meets the population threshold of the Growth Management Act (GMA), King County and its cities and towns are required to meet GMA planning requirements. The GMA was amended in 2017 and now requires certain counties, including King County, to compare its development to its growth targets and urban densities. Mercer Island accounts for a small portion of King County's housing and job capacity (3% and 6% respectively).³ As of 2018, Mercer Island was on pace to meet its 2035 target of new housing units, an additional 2,320 units.⁴ It had fallen behind on its projected job growth and was on track to meet only 61% of its anticipated 1,160 new jobs.⁵ Mercer Island is classified as a high price but limited growth community due its geographic constraints, but a buildable lands analysis projects that the city has land capacity for more than the anticipated housing unit growth.

VISION 2050

VISION 2050 is the region's shared and collaborative plan for a "sustainable and more equitable future" through planning across several issue areas, including economy, environment, housing, and community.⁶ The plan acknowledges the housing affordability challenges facing the region and the growing economic and social disparities that housing insecurity and unaffordability exacerbate. The Puget Sound Regional Council, which

³ 2021 King County Urban Growth Capacity Report, King County, June 2021.

⁴ Ibid.

⁵ Ibid.

⁶ VISION 2050: A Plan for the Central Puget Sound Region, Puget Sound Regional Council, October 2020.

administers VISION 2050, identifies a growing need for local action and more diverse housing choices for evolving population needs. Its housing strategies include focusing housing near transit options and diversifying housing type, density, style, and size. It also encourages counties and cities to conduct a housing needs analysis, evaluate the effectiveness of existing policies, and consider implementing strategies that will create additional housing capacity in line with its growth strategy. The Housing Needs Assessment and Housing Action Plan directly support this recommendation.

Mercer Island is one of the 34 High Capacity Transit Communities in PSRC's Vision 2050. The Regional Growth Strategy calls for the 34 High Capacity Transit Communities to accommodate 24% of the region's population growth and 13% of its employment growth by the year 2050.

King County Countywide Planning Policies

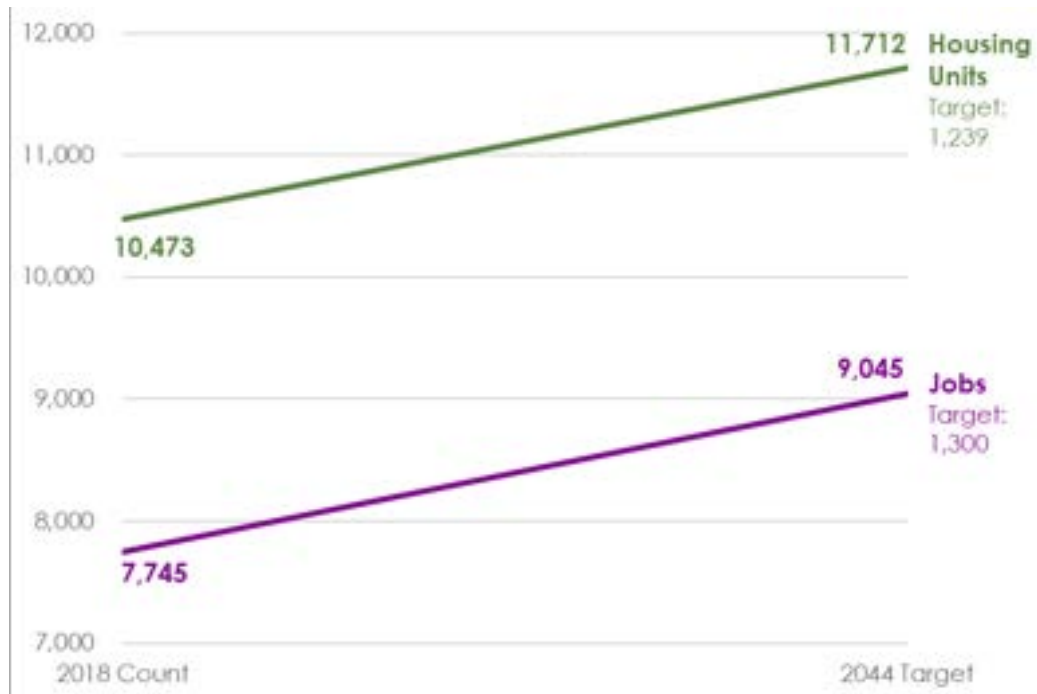
RCW 36.70A.210 requires Washington counties to adopt countywide planning policies in cooperation with the cities within its jurisdiction.⁷ King County and each of its 39 cities recently ratified the 2021 King County Countywide Planning Policies (CPPs) in preparation for statutory updates of city comprehensive plans and in conjunction with the region's growth plan, VISION 2050. This effort includes growth targets of housing units and jobs in each VISION 2050 jurisdiction.

The CPPs overarching development pattern goal is to facilitate growth in "compact, centers-focused pattern that uses land and infrastructure efficiently, connects people to opportunity, and protects Rural and Natural Resource Lands."⁸ Housing and employment growth will be prioritized within urban growth areas and land use will create healthy, vibrant, and equitable urban communities. King County classifies Mercer Island as a high-capacity transit community and forecasts 1,239 new housing units and 1,300 new jobs in Mercer Island by 2044 (Exhibit 2).

⁷ Countywide planning policies, RCW 36.70A.210

⁸ 2021 King County Countywide Planning Policies, King County, April 2022.

Exhibit 2. 2019 to 2044 Growth Target by Type, 2021



Source: King County Countywide Planning Policies, 2021; CAI, 2022.

King County Urban Growth Capacity Report

King County furthers assesses its future housing and employment constraints and needs through the Urban Growth Capacity (UGC) Report. The 2021 Urban Growth Capacity Report provides an interim evaluation of King County jurisdictions’ progress on meeting the goals laid out in their 2035 comprehensive plans and fulfills Growth Management Act Buildable Lands planning requirements. The report also implements and tracks portions of the King County Countywide Planning Policies.

Mercer Island is classified as both a large city and high-capacity transit community. The UGC uses the King County Countywide Planning Policy growth targets of 1,239 new housing units and 1,300 new jobs in Mercer Island by 2044 and expands on these growth projections with estimations of Mercer Island’s progress in accommodating this potential growth. It lists the city’s total housing unit capacity at 1,607. Since King County announced the 2044 targets, Mercer Island has itself committed to an increased housing unit target of 1,370 new units by 2044, still well within the projected capacity (Exhibit 3). Mercer Island’s job capacity is projected at 961, a shortfall of 646 jobs.

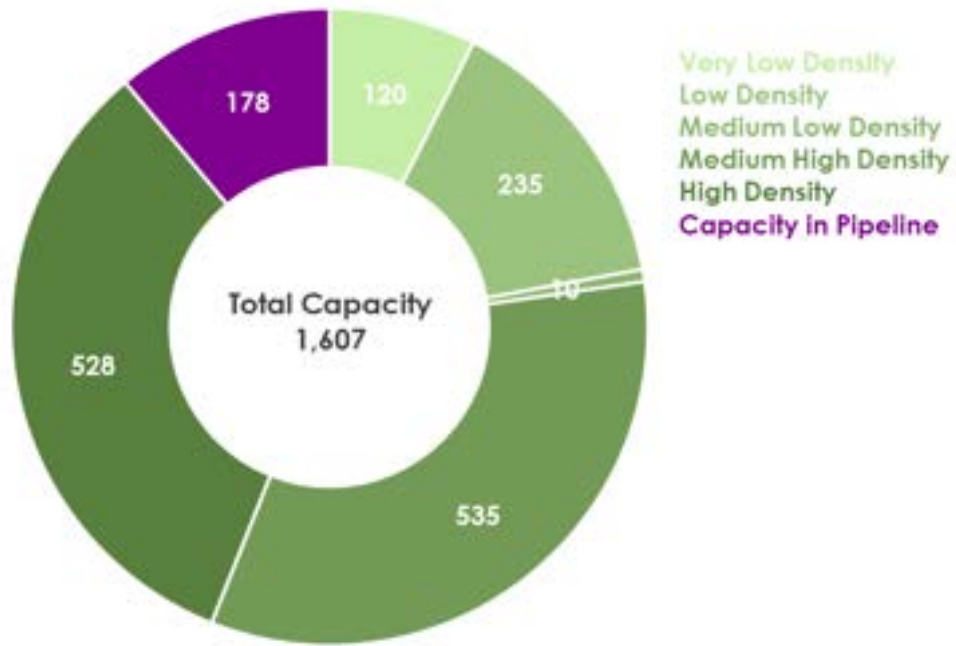
Exhibit 3. Projected Growth Targets and Capacity, 2018



Source: King County Urban Growth Capacity Report, 2021; CAI, 2022.

The majority of the projected 1,607 housing units will be supplied in higher density development, as shown in Exhibit 4. A combined two-thirds of housing units will be accommodated in medium high and high density zones.

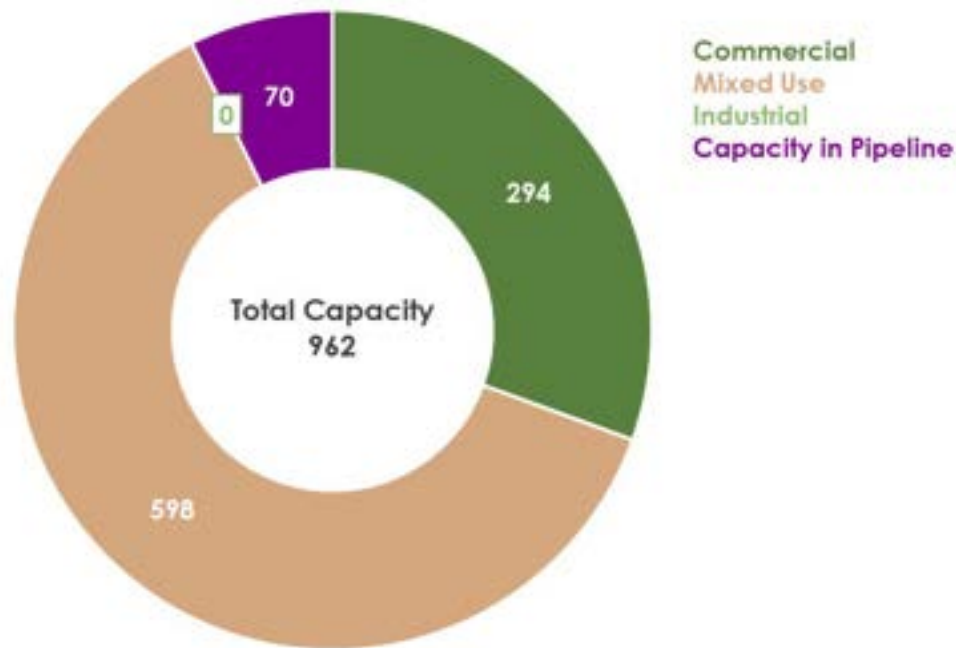
Exhibit 4. Housing Capacity by Density Level, 2018



Source: King County Urban Growth Capacity Report, 2021; CAI, 2022.

Of the current capacity for 962 jobs, 62% will be accommodated in mixed use zones throughout Mercer Island (Exhibit 5). There is no land zoned for industrial uses on the island. An additional 70 jobs were in development as of 2018.

Exhibit 5. Job Capacity by Land Use, 2018



Source: King County Urban Growth Capacity Report, 2021; CAI, 2022.

A Regional Coalition for Housing

A Regional Coalition for Housing (ARCH) is a partnership of King County and its city governments working to preserve and increase the supply of housing for low- and moderate-income households. As a coalition member, Mercer Island adopted the 2021 ARCH Work Program which includes the administration of voluntary density bonuses and its multifamily tax exemption (MFTE) program, evaluating these programs’ effectiveness, and updating its Housing Strategy Plan. The Housing Needs Assessment directly supports this work plan.

Housing Needs Assessment

This Housing Needs Assessment will aid the City of Mercer Island in meeting statewide planning requirements and advance housing priorities from the city level and in collaboration with the region. The King County Countywide Planning Policies and the King County Urban Growth Capacity Report both fulfill Washington State Growth Management Act planning requirements to compare its development to its growth targets and urban densities. The Housing Needs Assessment furthers Mercer Island’s understanding of the geographic, land use, and demographic demands on future housing development. The Housing Needs Assessment’s focus on vulnerable population groups and equitable housing outcomes – through data analysis on housing needs of low- and middle-income households and special housing

needs – advances the goals of regional and collaborative planning and housing efforts outlined in VISION 2050 and the ARCH Work Program. The Housing Needs Assessment will provide important context to the City of Mercer Island’s existing understanding of its housing needs, capacity, and constraints of its residents and the city.

DEMOGRAPHIC AND ECONOMIC CHARACTER OF MERCER ISLAND

The following demographic and economic profile provides a current snapshot of Mercer Island’s population, household characteristics and economy, as well as historic trends to provide useful context about the forces affecting housing demand.

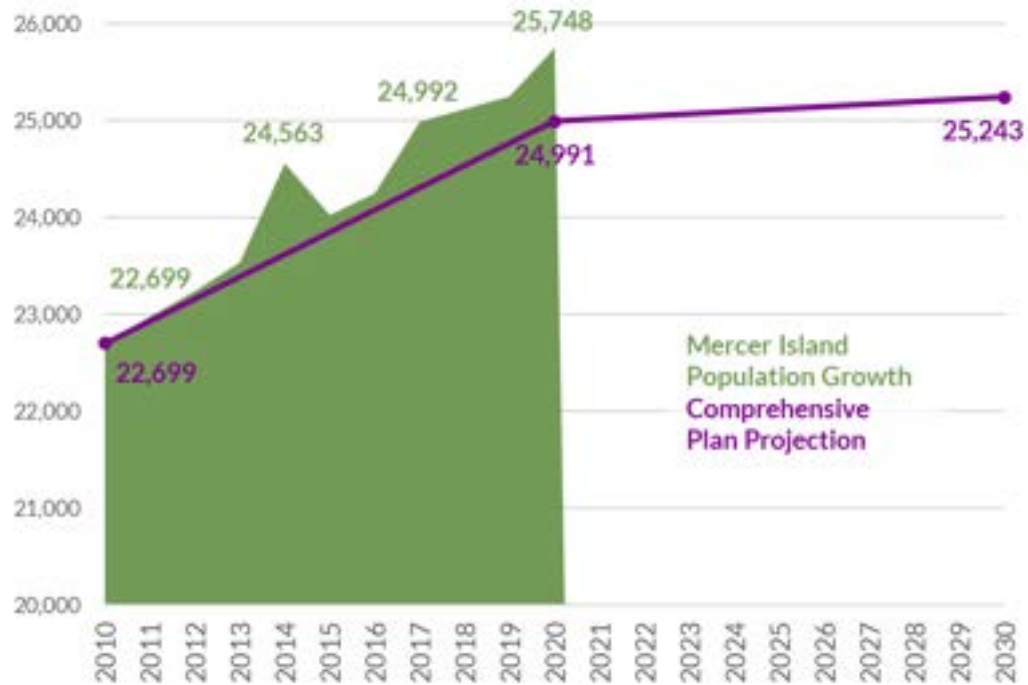
Population and Demographics

Population and demographics are useful to better understand Mercer Island and the people who live here. Characteristics such as population growth, age of residents, ethnicity, and household income provide useful context about Mercer Island residents, the trends, and the forces affecting housing demand. Understanding shifting demographics can help local government determine appropriate housing development to accommodate changing household needs.

Mercer Island’s population grew slower than its neighbors and King County, but outpaced its own projections

As of April 2020, OFM estimates Mercer Island’s population to be 25,748, up from about 23,000 in 2010 (Exhibit 6). Since 2010, Mercer Island’s population grew at an average annual rate of 1.3%, which is below the countywide average annual growth rate of 1.5% during this period. In its 2015 Comprehensive Plan periodic update, the City used the 2010 Washington State Office of Financial Management population estimate to project its population growth through 2030. Exhibit 2 indicates that Mercer Island’s actual population growth quickly outpaced its projected growth. In 2020, it’s estimated population of 25,748 represents 505 more people compared to the 2030 projection.

Exhibit 6. Actual and Projected Population, Mercer Island, 2010 - 2030



Source: Washington State Office of Financial Management, 2020; Mercer Island Comprehensive Plan, 2021; CAI, 2022.

From 2000 to 2020, Mercer Island grew at a slower rate than its neighboring cities and King County as a whole (Exhibit 7). Some of the population growth in these cities is due to expanding municipal boundaries, as in the case of Sammamish’s 2016 annexation of a neighboring community. Mercer Island and Bainbridge Island, bound on every side by bodies of water, have the lowest annual growth rate and are more land-constrained than their neighbors.

Exhibit 7. Population Growth Rate, Mercer Island and Peers, 2000 to 2020

	Population			2000-2020	
	2000	2010	2020	CAGR	Net Change
Mercer Island	22,036	22,699	25,748	0.8%	3,712
Bainbridge Island	20,308	23,025	24,825	1.0%	4,517
Bellevue	109,827	122,363	151,854	1.6%	42,027
Issaquah	11,212	30,434	40,051	6.6%	28,839
Newcastle	7,737	10,380	13,017	2.6%	5,280
Sammamish	34,104	45,780	67,455	3.5%	33,351
King County	1,737,046	1,931,249	2,269,675	1.3%	532,629

Source: Washington Office of Financial Management, 2020; CAI, 2022.

Mercer Island has an older population than King County

The median age of those living in Mercer Island was 46 in 2020, unchanged from a decade ago and higher than King County’s median age of 37.⁹ As shown in **Exhibit 5**, this correlates to a higher share of residents aged 45 and older in Mercer Island than in King County as a whole.

The population of those between the ages of 45 to 64 represents the largest portion of Mercer Island’s population but has been declining since 2010 as a share of the city’s total population. Mercer Island’s population under age 18, the second largest population group, represents a larger share of the population in the city than the county, but its share has remained unchanged from 2010 to 2020. The share of residents aged 65 and over increased by 7%, from 19% of the city’s total population in 2010 to 21% in 2020.

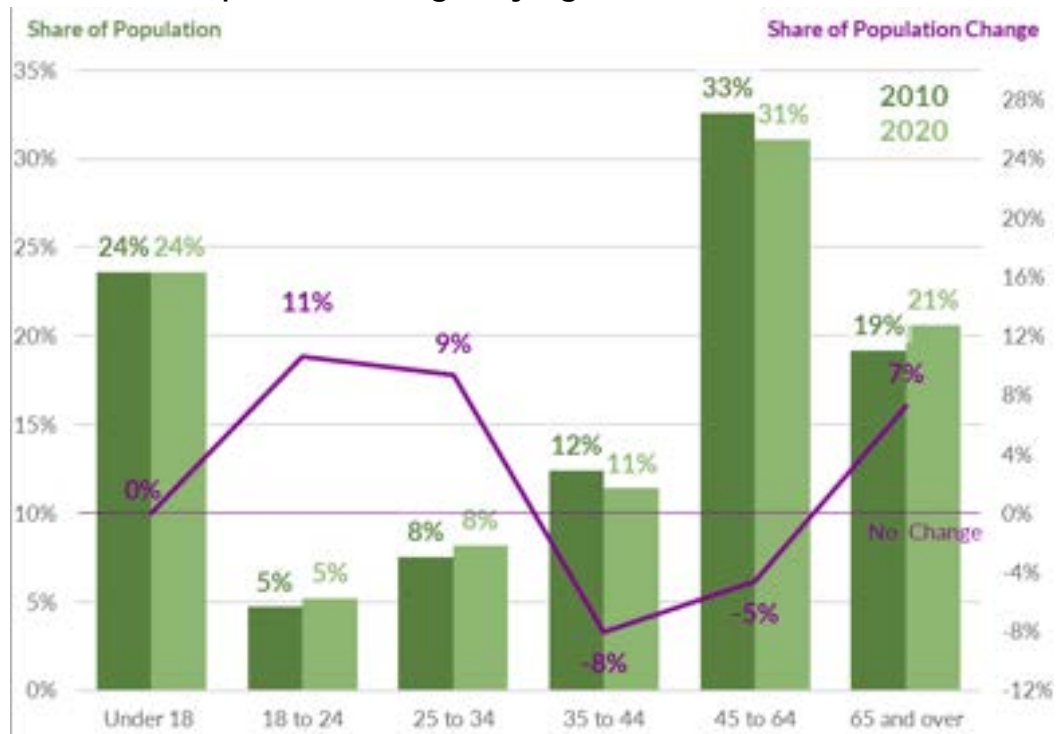
The population groups shown in Exhibit 8 and Exhibit 9 have distinct housing needs that change over time. An increasing senior population indicates a growing need for housing options that allow residents to age in place, downsize within the community, or access assisted living options.¹⁰ Residents aged 45 to 64 remain the largest group in Mercer Island, and may include families and empty nesters. This indicates a continued need for a variety of sizes of homes and the opportunity for empty nesters to downsize within the community. Growth in population aged 18 to 34 indicates a need for rental and affordable first homes of various sizes and types, as this population could include young families, couples, shared housing, or individuals living alone.¹¹

⁹ United States Census Bureau American Community Survey, 2020 and 2010 5-Year Estimates.

¹⁰ “Guidance for Developing a Housing Action Plan – Public Review Draft,” Washington State Department of Commerce, June 2020.

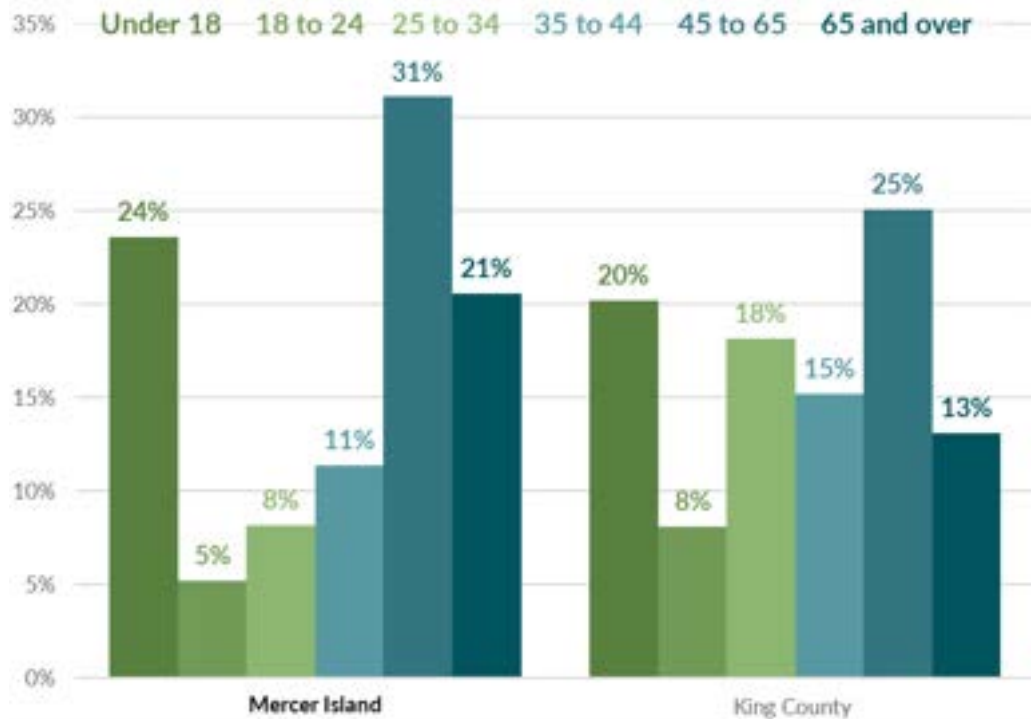
¹¹ Ibid.

Exhibit 8. Population Changes by Age, Mercer Island, 2010 to 2020



Source: American Community Survey, 2010, 2020; CAI, 2022.

Exhibit 9. Population Share by Age, Mercer Island and King County, 2020



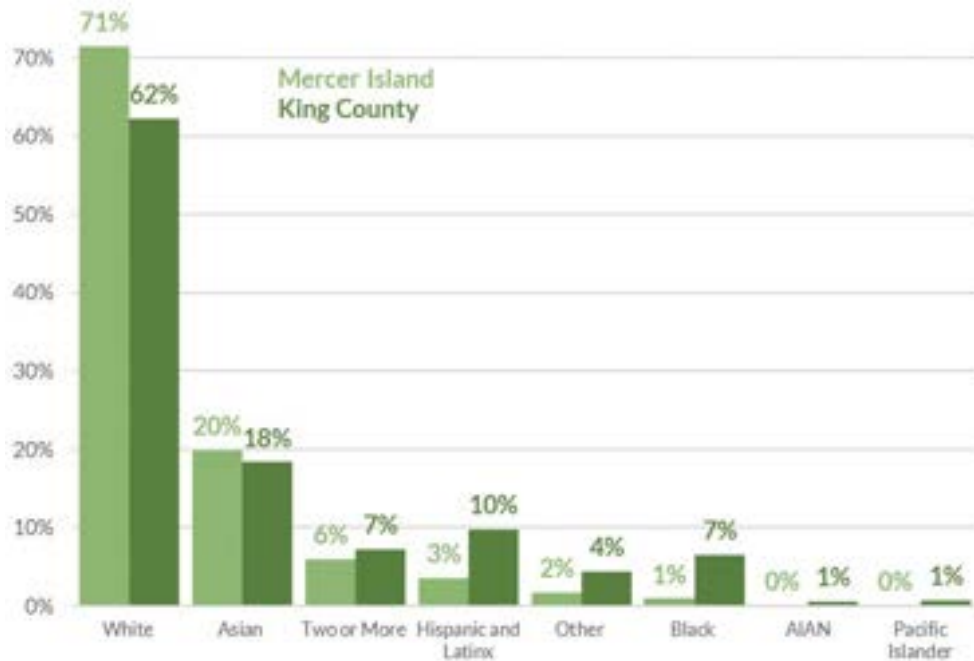
Source: American Community Survey, 2010, 2020; CAI, 2022.

Mercer Island has become more diverse since 2010

The majority of Mercer Island and King County residents identify as white (71% and 62%, respectively). Mercer Island has a higher share of white and Asian residents than King County (Exhibit 10).

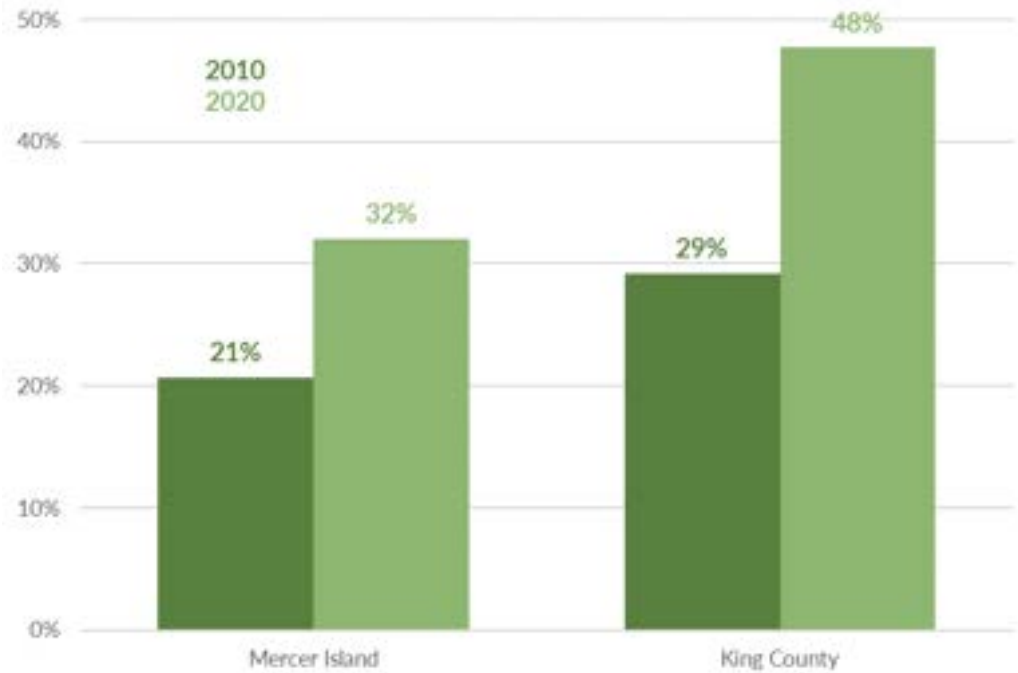
The number of residents who identify as Black, Indigenous, and people of color (BIPOC) has increased in both Mercer Island and King County. In 2010, 21% of Mercer Island residents identified as BIPOC, which increased to 32% – about one-third – in 2020 (Exhibit 11). Nearly half of King County residents identify as BIPOC, as of 2020.

Exhibit 10. Race of Residents, Mercer Island and King County, 2020



Source: American Community Survey, 2020; CAI, 2022.

Exhibit 11. Percent of BIPOC Population, Mercer Island and King County, 2010 and 2020



Source: American Community Survey, 2020; CAI, 2022.

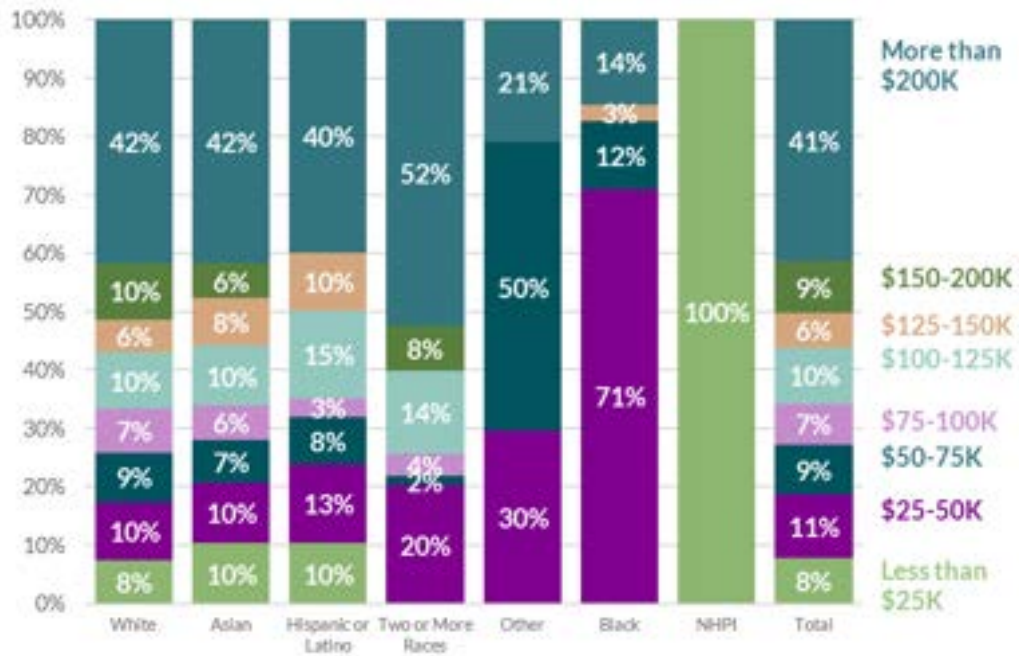
Household Characteristics

The characteristics and demographics of residents may indicate demand for certain types, sizes, and styles of housing.

White and Asian households typically earn more annually than BIPOC and other racial groups

There are significant discrepancies in household income among Mercer Island's racial groups (Exhibit 12). 41% of all Mercer Island households earn more than \$200,000 annually. A higher share of white, Asian, and bi-racial or multi-racial households earn \$200,000 annually, and fewer Hispanic or Latino, Black, Native Hawaiian and Pacific Islander (NHPI) and other households earn that much. Multi-racial, Black and NHPI households earn less than other groups, sometimes by large margins. Of Mercer Island's 69 NHPI households, all earn less than \$25,000 annually. More than three-quarters of Black households earn between \$25,000 and \$75,000 annually.

Exhibit 12. Household Income by Race, Mercer Island, 2020



Source: American Community Survey 5-Year Estimates, 2020; CAI, 2022.

Mercer Island has a high and growing rate of households with children

As of 2020, Mercer Island had 10,128 households, roughly 900 more than in 2010. Mercer Island has a higher share of households with children than King County (Exhibit 13). More than one-third of Mercer Island households have children, compared to 27% of King County households. Mercer Island has a decreasing and lower share of one person households than King County, with 23% and 30% in 2020, respectively. Mercer Island’s population living with a disability is increasing and in 2020 was slightly higher than King County.

Exhibit 13. Select Household Demographics, Mercer Island, 2010 and 2020

	Mercer Island		King County
	2010	2020	2020
Households with Children	31%	35%	27%
One Person Household	26%	23%	30%
Persons Over 65	14%	14%	9%
Persons Living with a Disability	8%	11%	10%

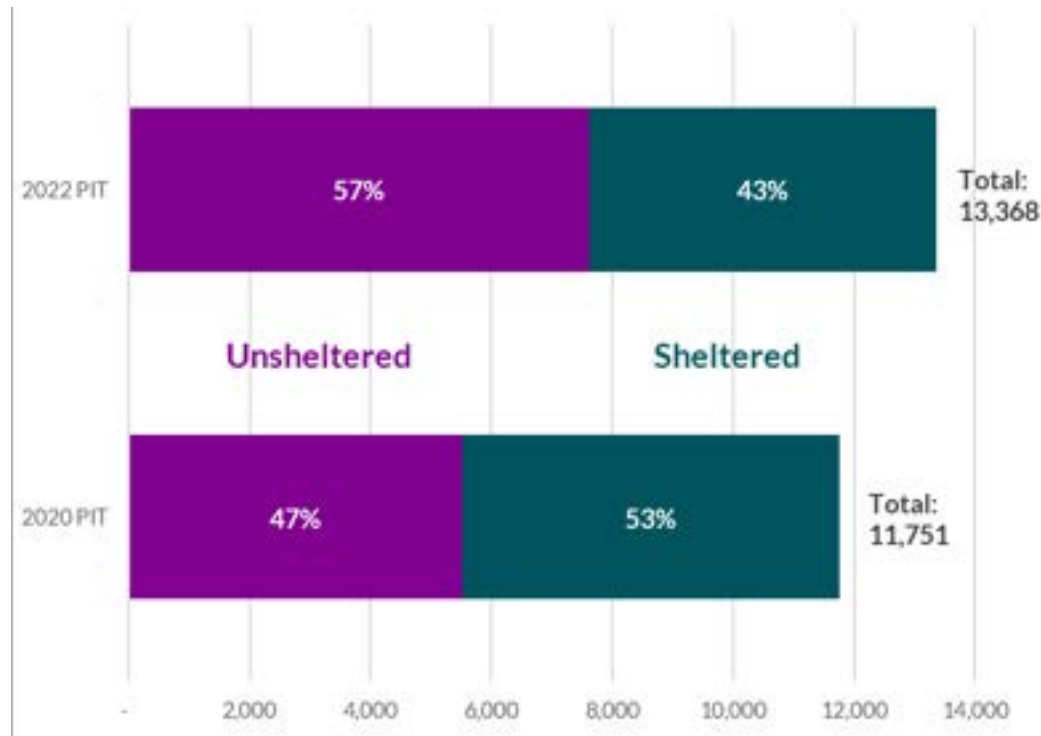
**Data on persons living with a disability is available only as early as 2012. All other data shown is from 2010.*

Source: American Community Survey, 2010, 2012, 2020; CAI, 2022.

King County conducts an annual point-in-time (PIT) count of persons experiencing homelessness. This is widely accepted as a significant undercount of homelessness and does not count individuals on a municipal level. The January 2022 point-in-time count showed that the current homeless population in King County increased from the previous 2020 PIT count by 1,617 individuals (Exhibit 14). The share of unsheltered individuals also increased from 47% of homeless individuals to 57% of individuals during that time period.

The King County Department of Community and Human Services also conducts its own data collection of homelessness in King County. Its 2020 Cross Systems Homelessness Analysis found that at least 40,871 individuals experienced homelessness at some point in 2020.¹² This figure is accepted by county and regional housing and homelessness organizations as the annualized figure to measure progress against.

Exhibit 14. Point-in-Time Count of Persons Experiencing Homelessness, King County, 2020 and 2022



Source: King County Regional Homelessness Authority, 2022; CAI, 2022.

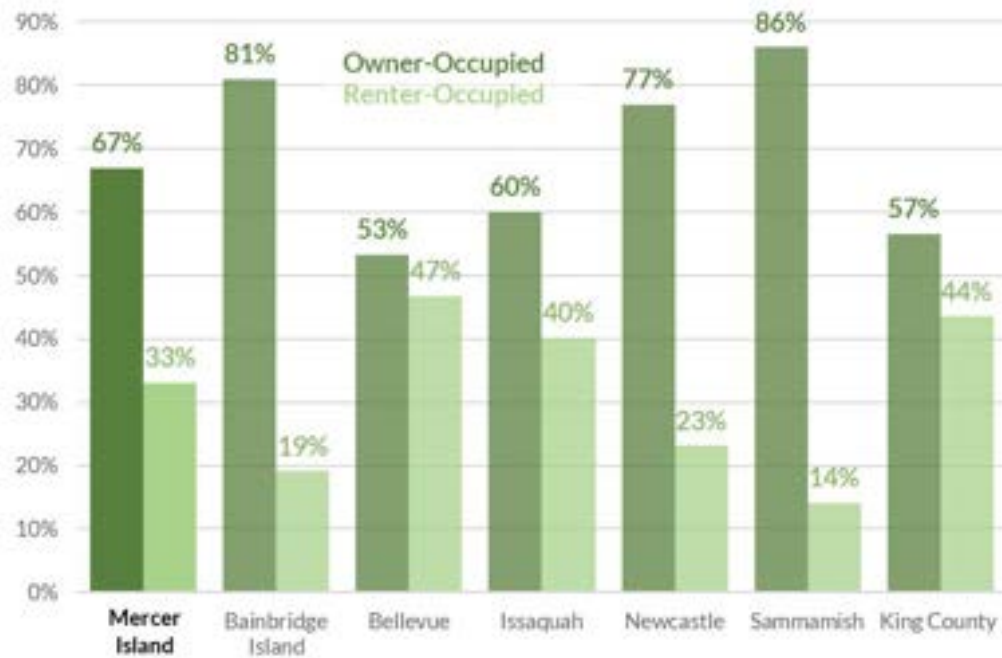
¹² 2022 Point in Time Count, King County Regional Homelessness Authority, June 2022.

Mercer Island residents are more likely to own their home than rent compared to King County

The rate of homeownership has declined in the city from 77% in 2010 to 67% in 2020, with renters growing from 23% to 33% of households during the same period (Exhibit 15). Although this may be reflective of a number of socio-economic and demographic changes and preferences in the city, it may also be due to the realities of development in Mercer Island. Several developments have opened to tenants in Town Center in recent years, while the remaining single-family residential zones have seen fewer additional units.

When observing household tenure in comparison to neighboring cities and the county, Mercer Island has a higher rate of home ownership compared to Bellevue, Issaquah, and King County.

Exhibit 15. Housing Tenure, Mercer Island and Peers, 2020



Source: American Community Survey, 2010, 2020; CAI, 2022.

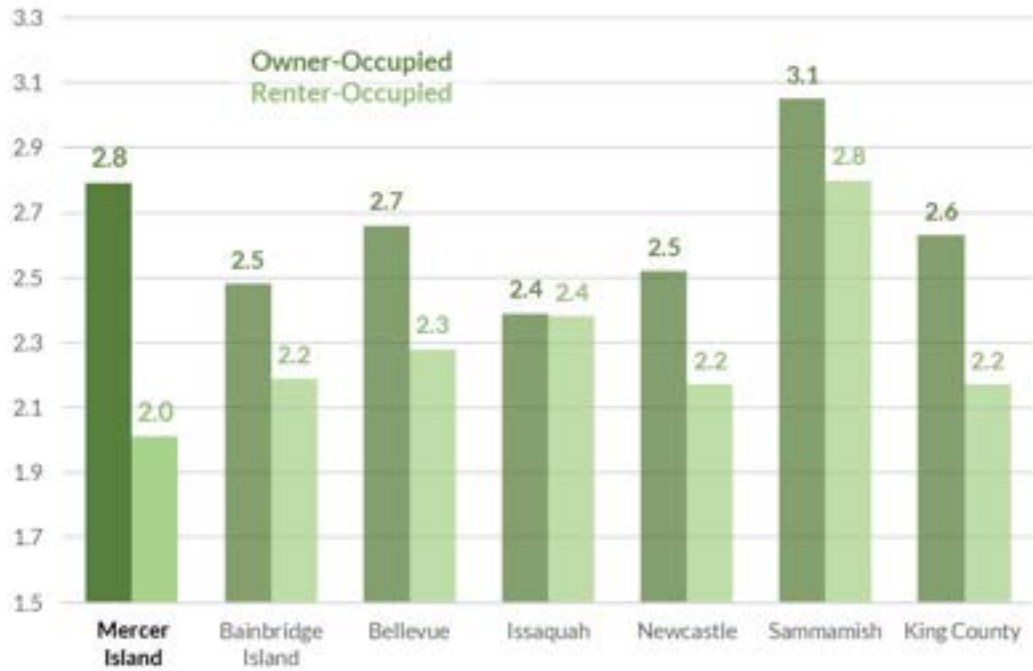
Mercer Island’s household size increased slightly in the past decade

Mercer Island’s average number of people per household is 2.54 (2016-2020) which is slightly higher than the average for King County of 2.43 persons¹³. While increases in household size can decrease the demand for housing, Mercer Island’s average household size only increased slightly in the past decade (from 2.41 in 2010). When observed by tenure, the average household size also did not change much from 2010 to 2020 for both renter- and owner-occupied households in Mercer Island.

Each peer city now has an average household size of more than two persons. Mercer Island has slightly larger owner-occupied households than most neighboring cities and the county, except Sammamish (Exhibit 16).

¹³ United States Census Bureau American Community Survey, 2020 and 2010 5-Year Estimates

Exhibit 16. Average Household Size by Tenure, Mercer Island and Peers, 2020



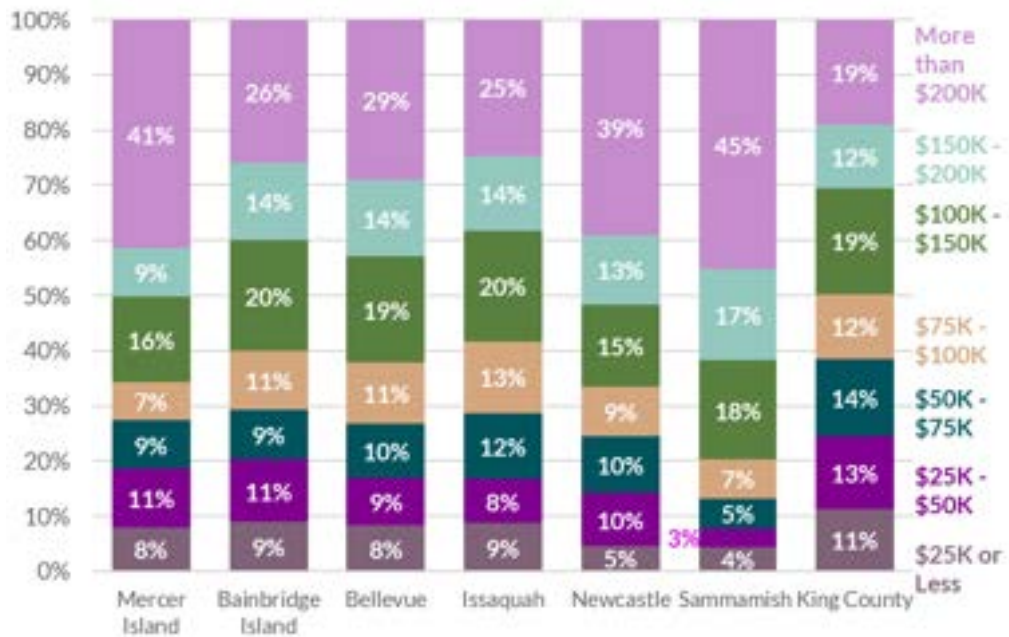
Source: American Community Survey, 2010, 2020; CAI, 2022.

Mercer Island has a higher proportion of high-income households than in King County overall

The City of Mercer Island’s median household income is estimated at \$150,506 (in 2020 dollars) in 2020, with over 40% of households earning more than \$200,000 (Exhibit 17). Exhibit 18 shows a further breakdown of the number of households by income level. Of the city’s 10,128 households, 4,193 of them earn more than \$200,000 annually.

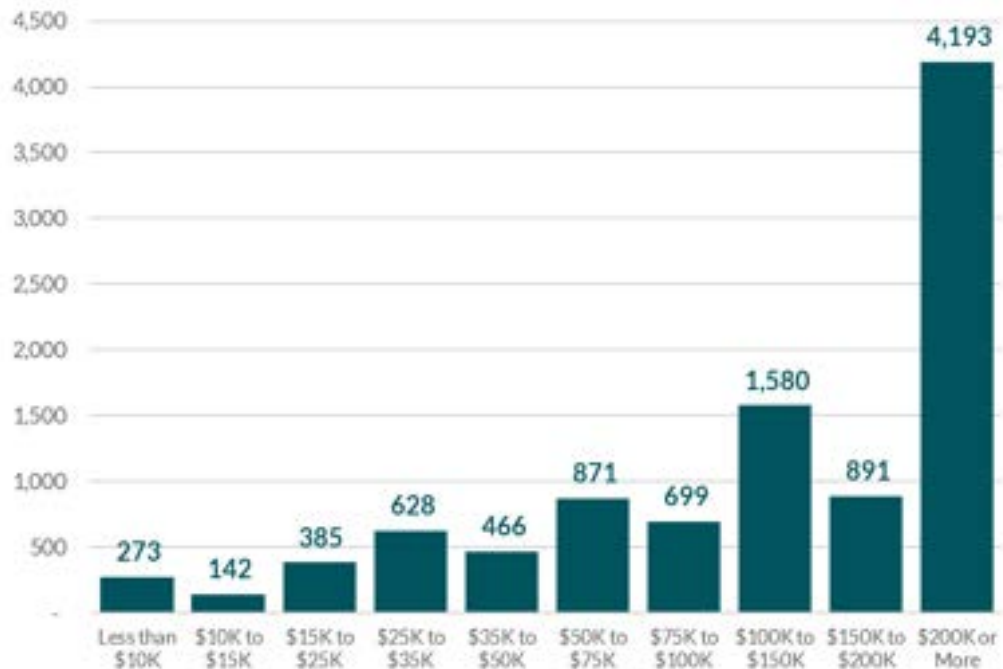
Mercer Island’s median household income has increased by roughly 24% in the past decade, from \$120,994 in 2010. The 2020 median income for Mercer Island is above King County’s median income of \$99,158. Mercer Island is a high-income community relative to the region. In comparison to neighboring cities and King County, Mercer Island has the second highest share of households with incomes over \$150,000 after Sammamish. Mercer Island has a similar share of households with incomes below \$25,000 as Bainbridge Island, Bellevue, and Issaquah, but lower than King County’s share. Mercer Island’s current poverty rate is at 5.3%.

Exhibit 17. Household Income, Mercer Island and Peers, 2020



Source: American Community Survey, 2020; CAI, 2022.

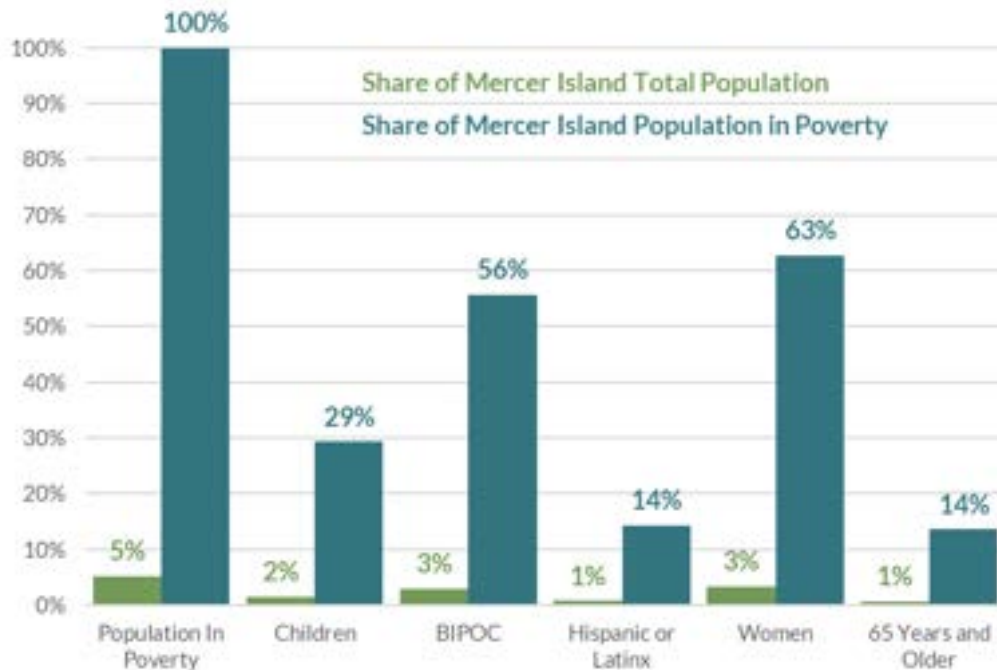
Exhibit 18. Number of Households by Income Level, Mercer Island, 2020



Source: American Community Survey, 2020; CAI, 2022.

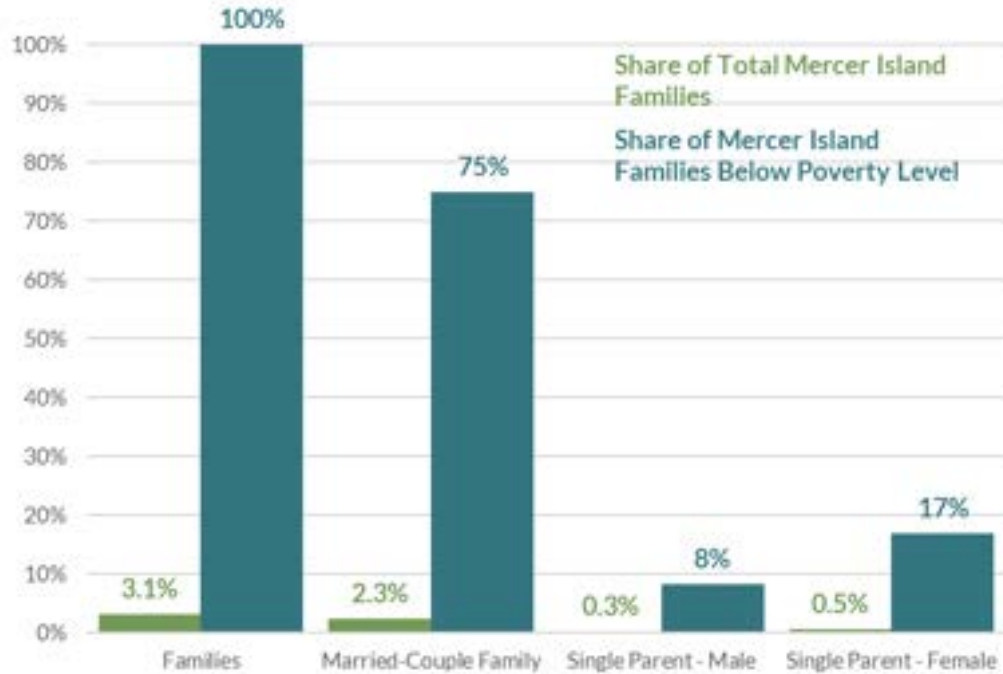
The number and demographics of Mercer Island’s residents living at or below poverty level can be a useful indicator of potential household cost burden, access to jobs, and need for city services. As a whole, Mercer Island has a very small share of its population living in poverty. 5% of all residents live in poverty (Exhibit 19) and 3% of families live in poverty (Exhibit 20). Of those residents living in poverty, nearly two-thirds are women and more than half are Black, Indigenous, People of Color (BIPOC). Nearly 30% are children. 14% identify as Hispanic or Latinx or are seniors. Most families living in poverty are married-couple families. Single mother households are more likely to live in poverty than single father households.

Exhibit 19. Population Living Below Poverty Level in Last 12 Months, Mercer Island, 2020



Source: American Community Survey, 2020; CAI, 2022.

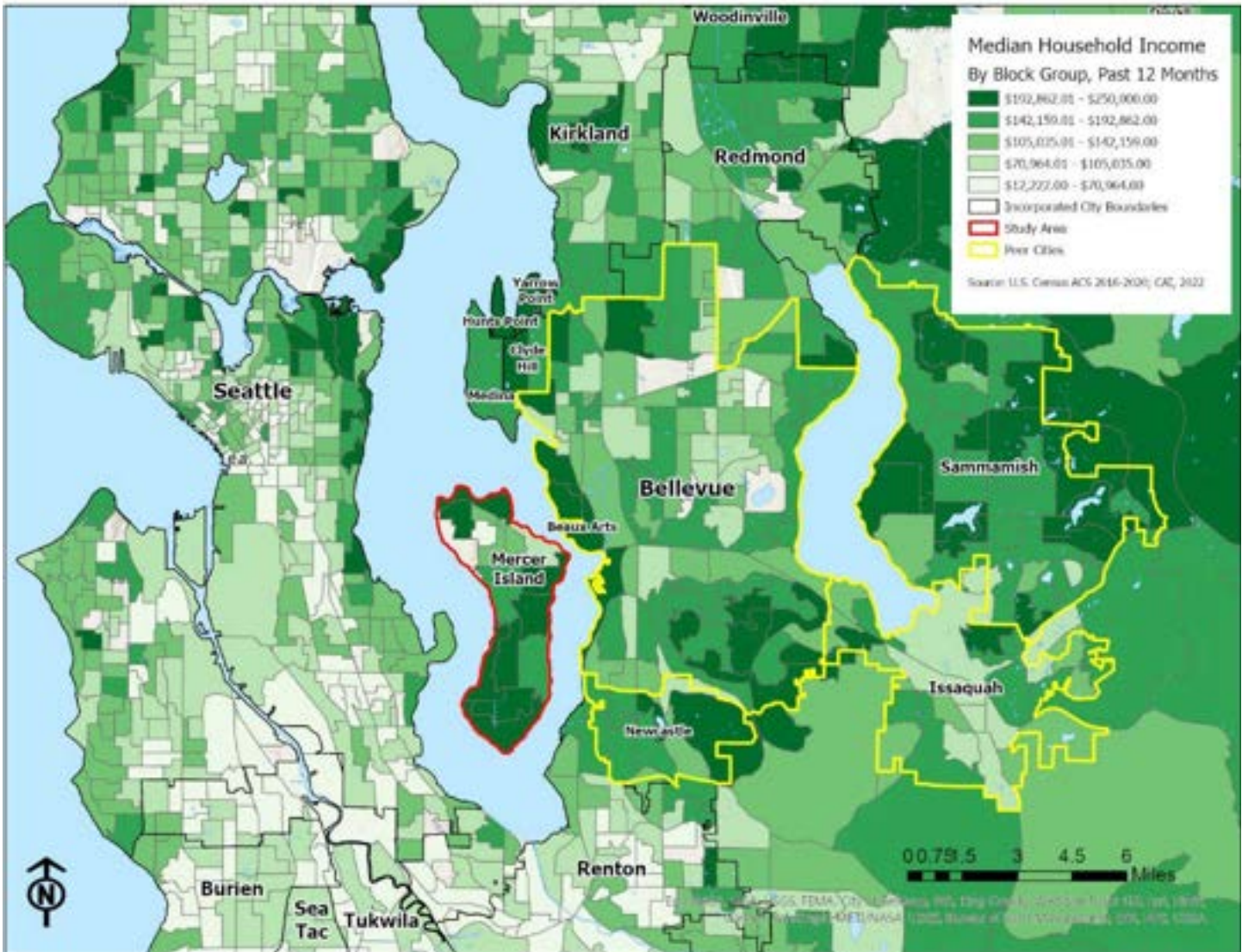
Exhibit 20. Families Living Below Poverty Level in Last 12 Months, Mercer Island, 2020



Source: American Community Survey, 2020; CAI, 2022.

Mercer Island’s South End and North End neighborhoods have the highest household income with most block groups with a median household income above \$190,000 (Exhibit 21).

Exhibit 21. Median Household Income by Block Group, Mercer Island & Region, 2020

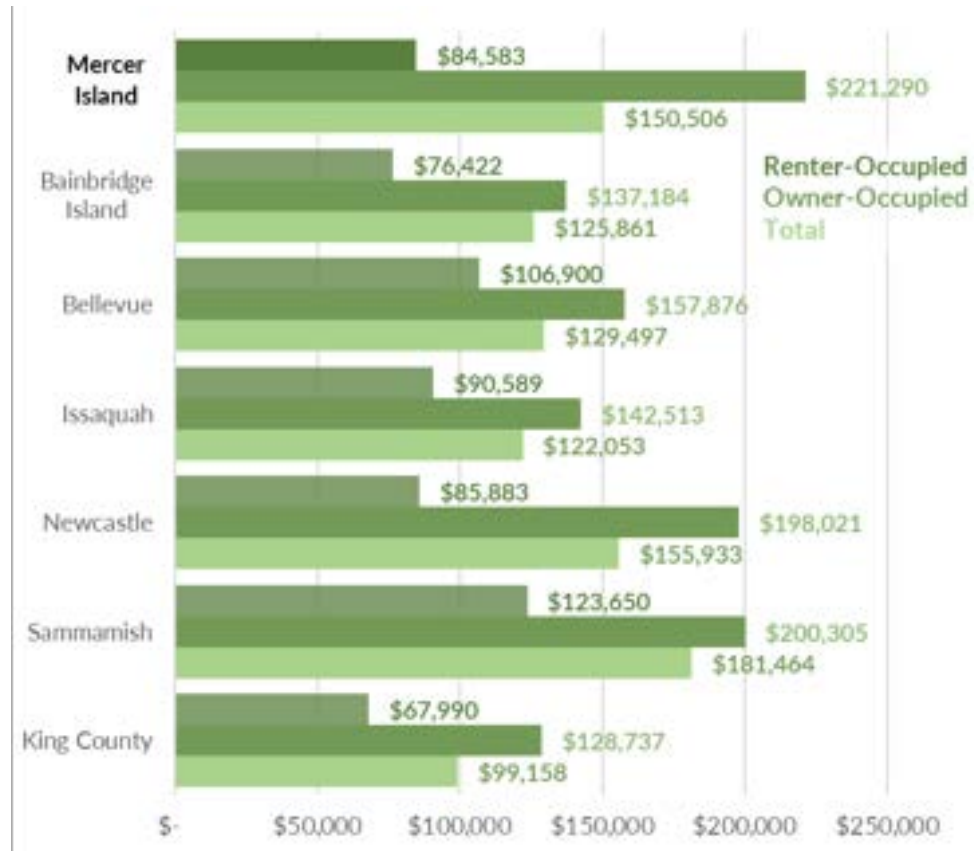


Source: U.S. Census ACS, 2016-2020; Community Attributes, 2022.

Owner-occupied households typically earn a higher annual income than renter-occupied households

In Mercer Island, owner-occupied households earn more than 2.5 times as much annually as renter-occupied households, a larger gap than most of King County (Exhibit 22). The median income of households that rent is about \$85,000 annually, compared to median income of \$221,000 for owner-occupied households. In total, Mercer Island is a community of high-earning households compared to many of its neighbors, particularly among those who own their own home.

Exhibit 22. Median Household Income by Tenure, Mercer Island and Peers, 2020



Source: American Community Survey, 2020; CAI, 2022.

Employment and Commuters

Understanding Mercer Island’s workforce profile and commuting trends will help provide insights on the housing needs of workers today and into the future. Factors such as the jobs to housing ratio and the city’s commuting patterns may have implications for how many people are able to both live and work within the city. If such factors indicate many people are commuting into the city for work, it could be possible that the city does not have enough housing to accommodate its workforce or enough housing matching the needs and affordability levels of those wanting to live in Mercer Island.

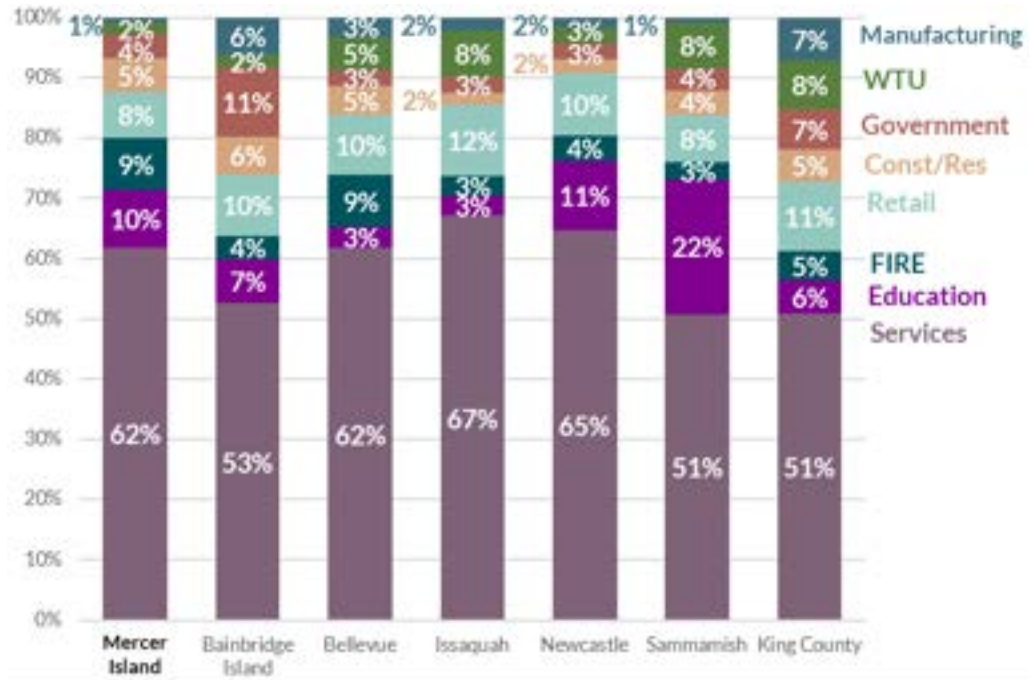
Services account for a large share of all employment in Mercer Island

At approximately 4,500 jobs, 62% of total jobs, the services sector provides the largest number and share of jobs for the City of Mercer Island and has increased by more than 1,300 jobs (43% growth rate) in the last 10 years.¹⁴

¹⁴ Puget Sound Regional Council, City Employment 2010 and 2020.

Services is a classification that includes a broad range of industries, including scientific and technical services, management of companies, health care services, and accommodation and entertainment. Mercer Island also has a large share of education and finance, insurance, and real estate (FIRE) (Exhibit 23). However, the FIRE industry lost more than half of jobs between 2010 and 2020, decreasing from 1,400 jobs in 2010 to 600 in 2020.¹⁵

Exhibit 23. Employment Share by Industry, Mercer Island and Peer Cities, 2020



Source: Puget Sound Regional Council, 2020; CAI, 2022.

*FIRE includes jobs in the industries of finance, insurance, and real estate. WTU includes jobs in wholesale trade, transportation, and utilities.

The jobs-housing balance in Mercer Island is tilted toward housing

The ratio of jobs to housing is indicative of a city’s balance of employment and residences and is often used as a metric for describing the availability of housing for local workers. King County uses the jobs-to-housing assessment to improve the jobs/housing balance within the county, and as a factor in determining the allocation of residential and employment growth for different jurisdictions. The strategy of balancing housing and job growth is intended to reduce the need for long commutes, and to keep living and working communities easily accessible to each other.

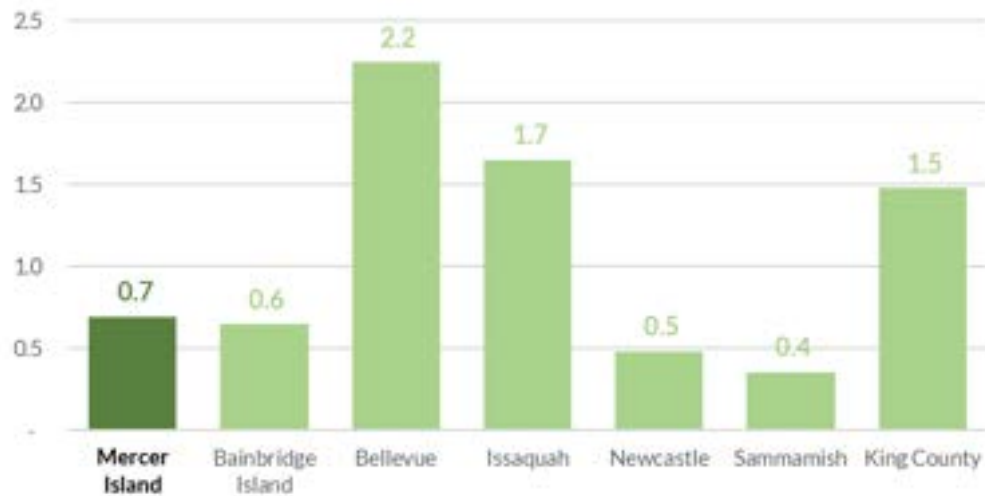
¹⁵ Puget Sound Regional Council, City Employment 2010 and 2020.

A ratio of 1 would signify a perfect alignment between the number of jobs and housing units to support the workforce within a jurisdiction. A ratio lower than 1 indicates a higher representation of housing units. Jurisdictions with lower ratios could be considered bedroom communities whose residents largely work outside the community. Ratios higher than 1 indicate a higher share of jobs compared to housing units and are likely to be job hubs within the region.

This metric has limitations since the method does not account for the number of wage-earners in a household and does not address levels of affordability. Also, this metric simply reports the total number of jobs in an area in comparison to housing units. This quantity of housing units does not necessarily represent true housing demand since workers might not want to live in a city for other reasons and preferences besides the availability of housing.

Exhibit 24 shows the jobs to housing units ratio for Mercer Island, King County, and selected peer cities. Mercer Island, Bainbridge Island, Newcastle, and Sammamish have a lower ratio and a higher concentration of residences; cities like Bellevue serve as job centers for the region. Issaquah has a more balanced ratio of jobs and housing units.

Exhibit 24. Jobs to Housing Units Ratio, Mercer Island and Peers, 2020



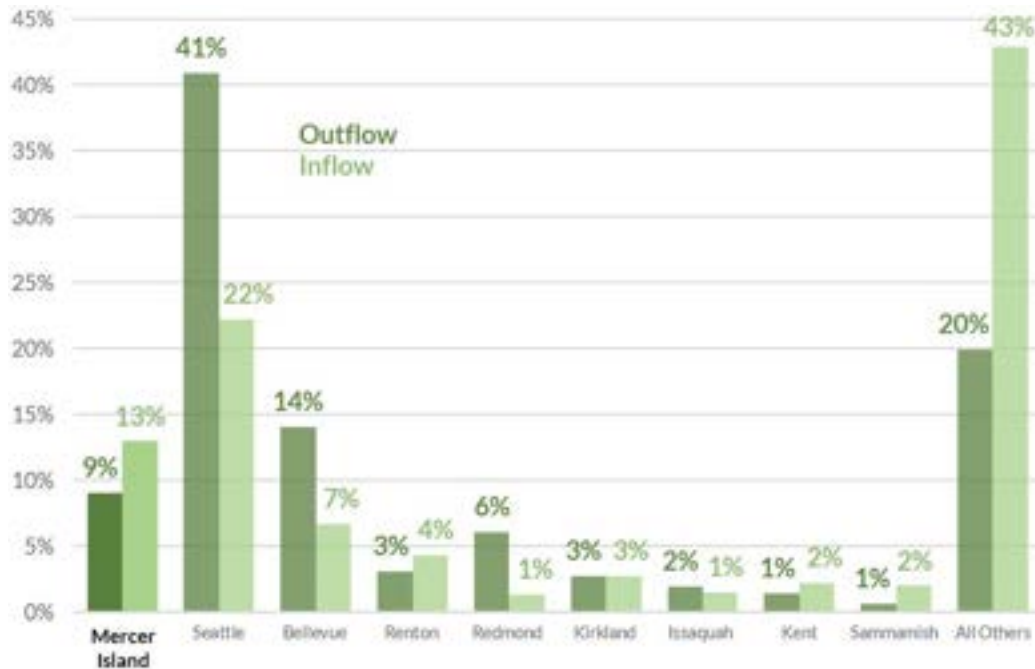
Source: Puget Sound Regional Council, 2020; Washington Office of Financial Management, 2020; CAI, 2022.

Only 9% of residents live and work in Mercer Island

Mercer Island’s low jobs-to-housing ratio may help understand the fact that only 9% of Mercer Island’s residents both lived and worked in the city in 2019, while 91% of Mercer Island’s population work outside the city.

Exhibit 25 includes the cities to which Mercer Island residents commuted for work (resident outflow) and where Mercer Island workers commuted from (commuter inflow) in 2019. Roughly 41% of Mercer Island residents commute to Seattle for work, followed by Bellevue with 14%. The rest of Mercer Island residents' commute destinations are spread throughout the region. Similarly, Mercer Island's workforce comes from many communities across the Puget Sound. Of the 6,400 people working in Mercer Island in 2019, just over 87% live outside the city. Nearly a quarter of Mercer Island's workforce are Seattleites, while roughly 20% live in Eastside cities including Bellevue, Renton, and Kirkland.

Exhibit 25. Commuter Inflow and Resident Outflow, Mercer Island, 2019.



Source: U.S. Census OnTheMap, 2019; CAI, 2022.

CURRENT HOUSING SUPPLY

This section examines the current housing stock, affordability, and market conditions in Mercer Island and how it compares to the region. While Mercer Island's housing policy and programs impact only the land within its boundaries, many of its housing commitments and strategies are regional in nature and partnership.

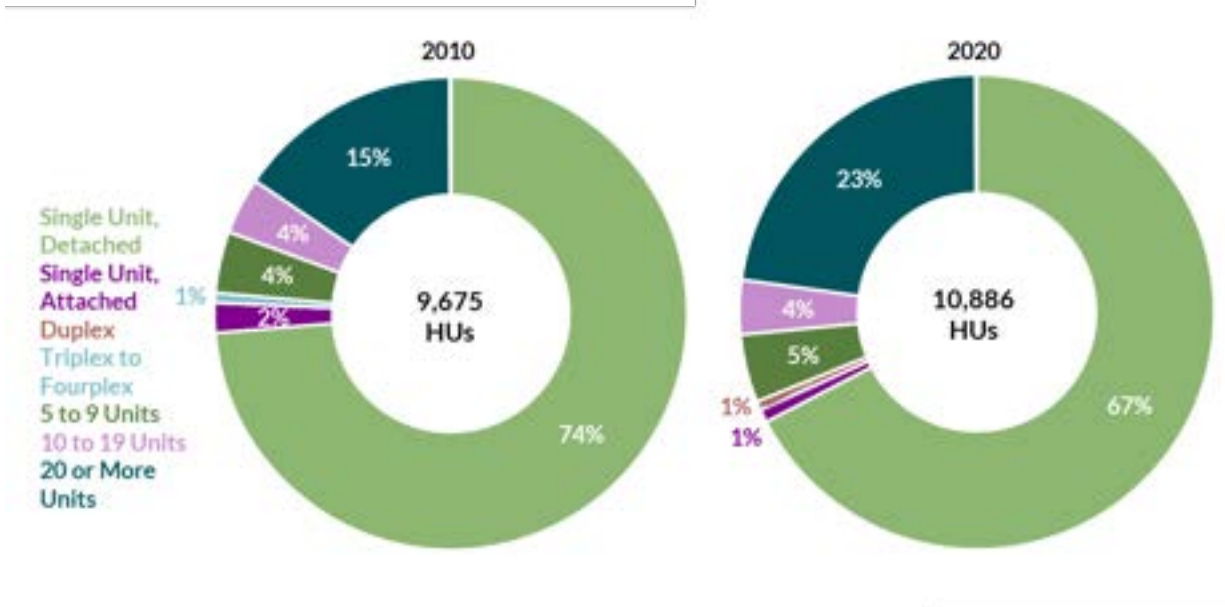
Housing Stock

Almost two-thirds of Mercer Island’s housing stock are detached single family units

Mercer Island added approximately 1,200 housing units from 2010 to 2020, as shown in Exhibit 23. Most of those units (roughly 970 units) came in developments with 20 or more units. Although the shift toward multifamily development has been significant in the past decade, Mercer Island’s share of single-family housing units remains higher than some neighboring communities like Bellevue, Issaquah, Newcastle, and King County in 2020 (Exhibit 26). The current land constraints and efforts to develop Town Center will likely limit the future development of single-family residences. This may put upward pressure on prices of a fixed rate of single-family homes.

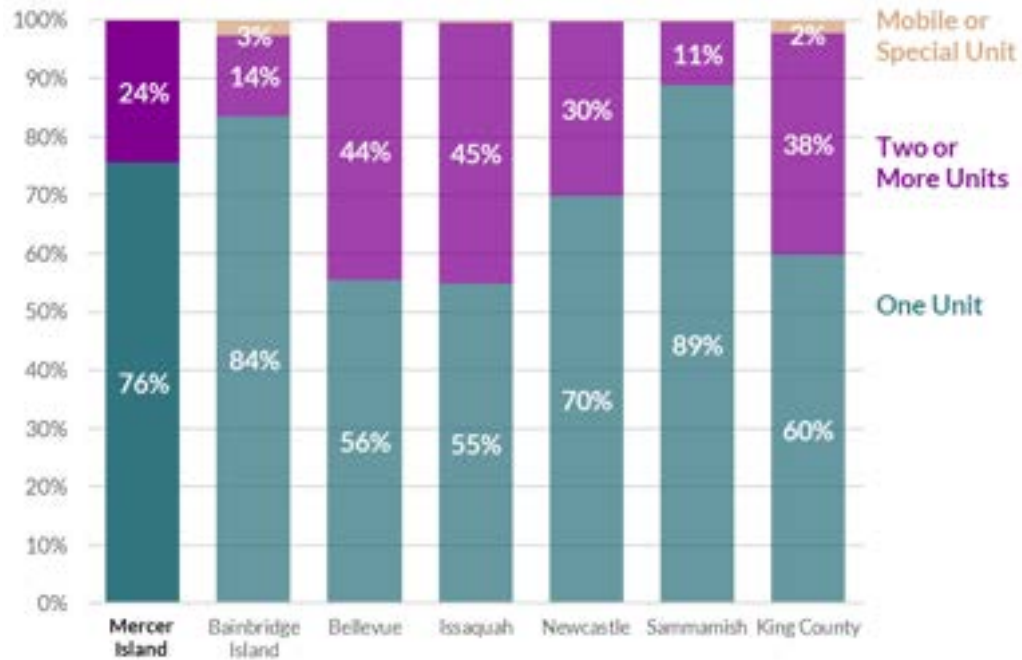
Compared to King County and its neighbors, Mercer Island has a high share of single-family housing units than multifamily units (Exhibit 27). 76% of Mercer Island homes include one unit, compared to 60% of King County. This distribution is comparable to Bainbridge Island and Sammamish, while the cities of Bellevue, Issaquah, and Newcastle are more similar to King County.

Exhibit 26. Housing Units by Number of Units in Structure, Mercer Island, 2010 and 2020



Source: American Community Survey, 2010, 2020; CAI, 2022.

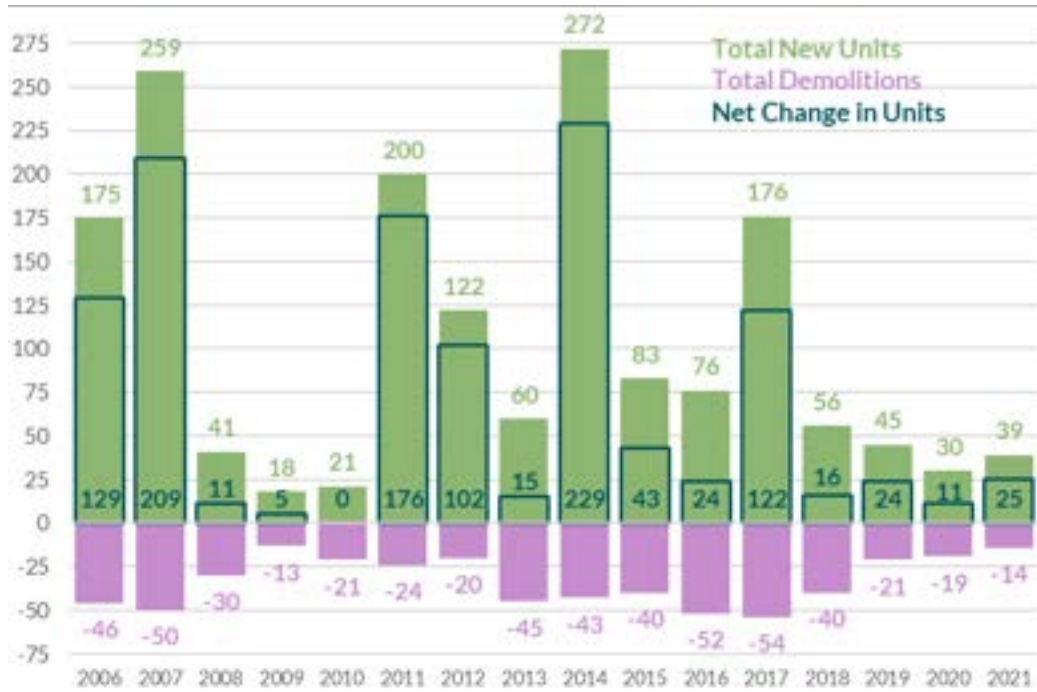
Exhibit 27. Share of Housing Unit Typology, Mercer Island and Peers, 2020



Source: American Community Survey, 2020; CAI, 2022.

Since 2006, the city of Mercer Island has added 1,141 net new housing units, including single-family, multi-family, ADUs, and units in Town Center. Construction of new housing units of all types slowed starting in 2018 (Exhibit 28). Town Center was developed in several waves between 2001 and 2014. The majority of new units in 2006, 2007, 2001, 2012, and 2014 were permitted and built in Town Center. New multi-family units outside of Town Center were built in 2015 (18 new units) and 2017 (89 new units). The remaining total new units and nearly all demolitions were single-family units.

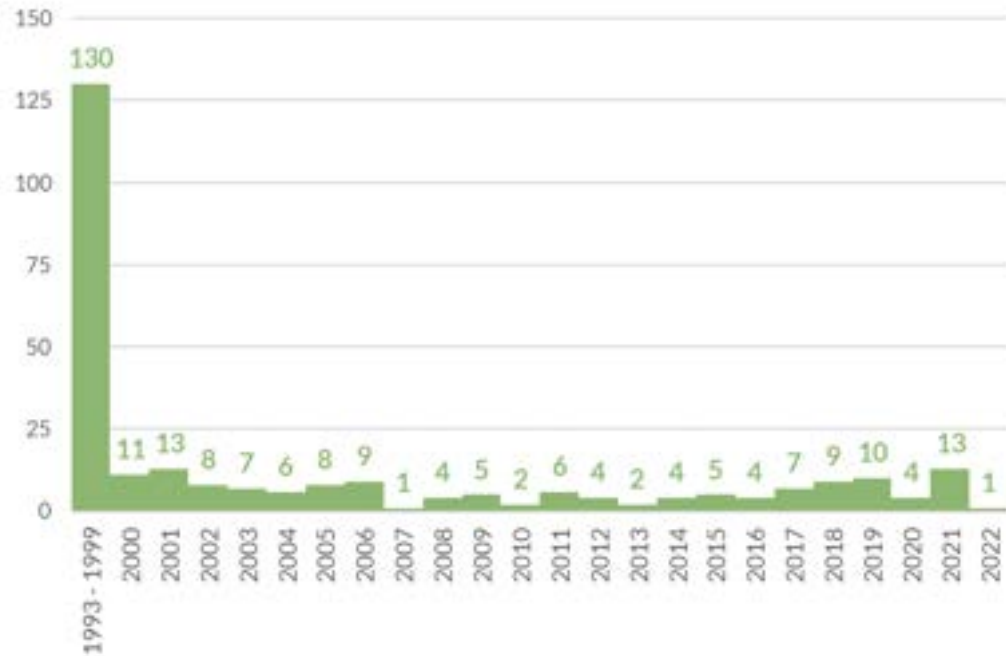
Exhibit 28. Net New Units, Mercer Island, 2006 to 2021



Source: City of Mercer Island, 2022; CAI, 2022.

Mercer Island began issuing permits for accessory dwelling units (ADUs) in 1993. Since then, 273 permits have been issued, nearly half of which occurred in the six years after allowing ADUs (Exhibit 29). In that time period, the city averaged about 22 permits per year. Since 1999, the city issues an average of 6.2 ADU permits annually. In addition, there are currently six permit applications currently under review by the city.

Exhibit 29. ADU Housing Growth, Mercer Island, 1993 to 2022

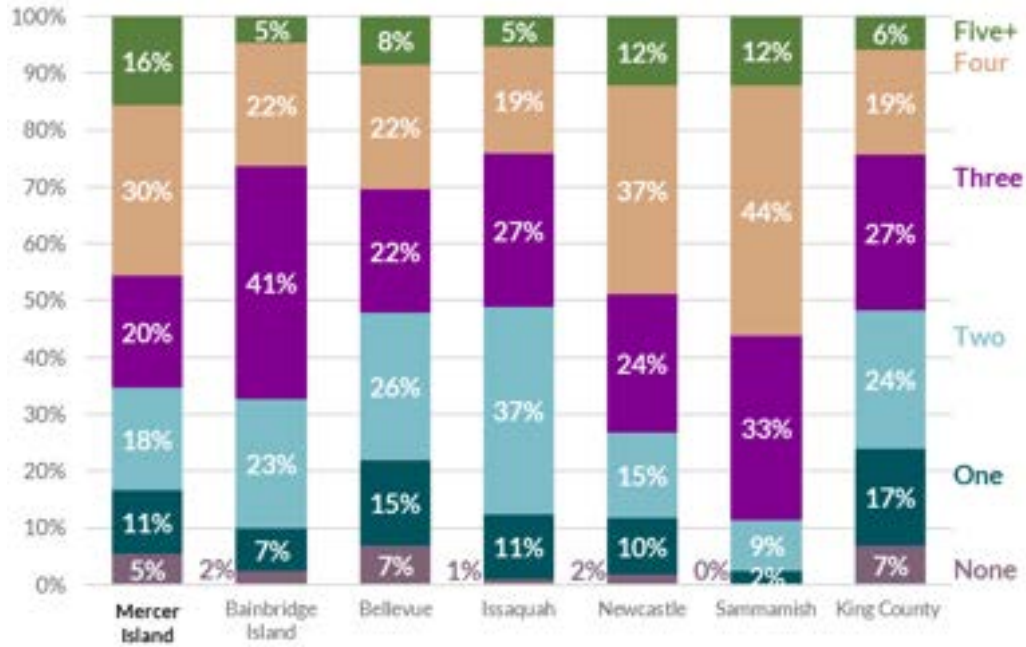


Source: Mercer Island Comprehensive Plan, 2012; My Building Permit, 2022; CAI, 2022.

Nearly half of Mercer Island’s homes have four or more bedrooms

Mercer Island has a high concentration of homes with a large number of bedrooms (Exhibit 30). Nearly half of its homes have more than four bedrooms, a higher share than some of its neighbors and about double that of King County (25%). Sammamish (56%) and Newcastle (49%) have similar rates of large homes to Mercer Island. The median size of an owner-occupied household in Mercer Island is 2.8 and renter-occupied is 2.0, which may suggest that a number of households on the island may be underutilized.

Exhibit 30. Number of Bedrooms in Home, Mercer Island and Peer Cities, 2020



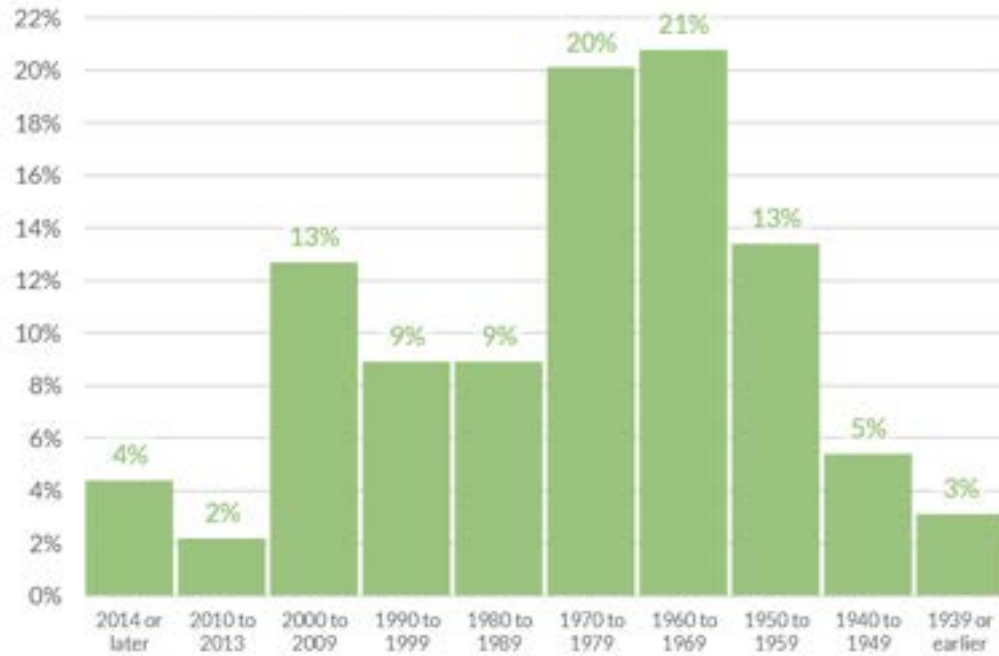
Source: American Community Survey, 2010, 2020; CAI, 2022.

Most of Mercer Island’s homes are 40- to 60-years old

More than half of Mercer Island’s housing stock dates to the postwar period from about 1950 to 1979 (Exhibit 31). This was a period where much of the undeveloped land on Mercer Island was divided into single family, relatively large lot subdivisions.¹⁶ After another moderate push of new predominantly mixed-use Town Center development in the late 2000s and early 2010s, new development has recently tapered off. Aging infrastructure, changing aesthetic, and evolving housing needs may be growing concerns for Mercer Island residents and city staff.

¹⁶ Mercer Island Comprehensive Plan: Housing Element, September 2021.

Exhibit 31. Age of Housing Units, Mercer Island, 2020



Source: American Community Survey, 2020; CAI, 2022.

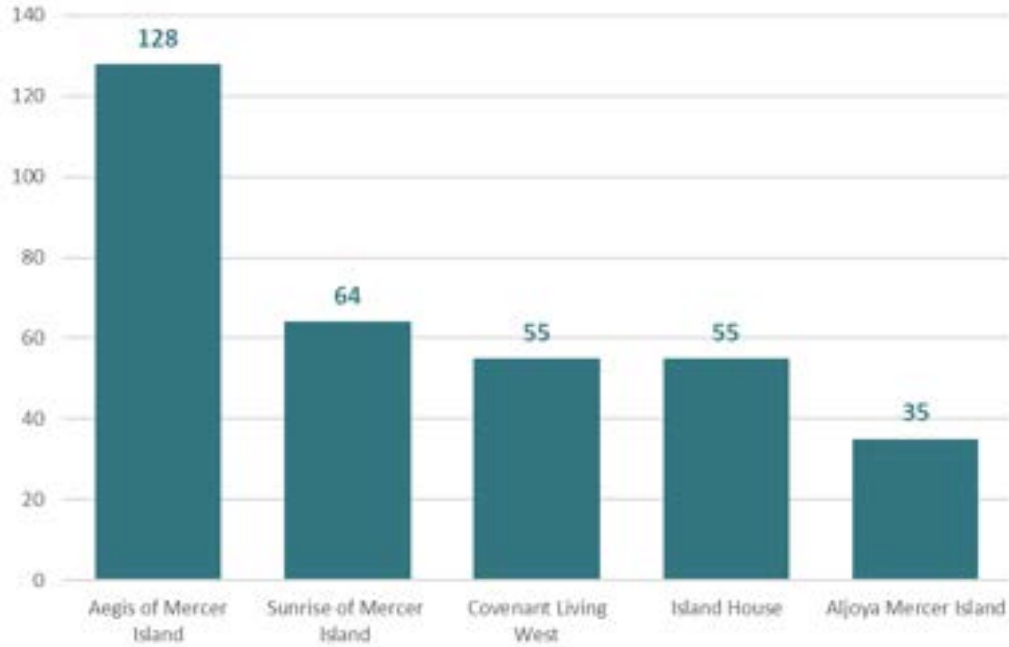
A number of Mercer Island facilities that provide housing to seniors, including retirement, assisted, independent, and medical living models, are registered with the Washington State Department of Social and Health Services. At least 337 beds are available at five facilities, shown in Exhibit 32. Note that this may not include additional beds at facilities that are not registered as assisted living facilities. According to a 2020 Cost of Care Survey, the average monthly cost of assisted living in the state of Washington is \$5,750 and can range from \$3,800 to upwards of \$10,000 monthly.¹⁷ This is about 36% higher than the U.S. average. While financial support options do exist, care costs vary widely depending on level of care, specialized care, and facility amenities. For example, memory care can cost up to \$9,255 per month. One of Mercer Island’s facilities offers made-from-scratch, seasonal, and locally sourced meal plans. One facility lists their floor plan pricing online, which ranges from \$3,800 per month for a studio to \$7,400 for a two-bedroom.

As shown in Exhibit 33, Mercer Island’s population aged 65 and older has increased from 2010 to 2020. The population aged 65 and older increased by 7% in that time period and is estimated at 5,317 individuals. The population aged 85 and older also increased in that time period and as of 2020 is estimated at 1,097 individuals. While not all of these residents will need

¹⁷ “Cost of Assisted Living and Memory Care in WA State, Washington Masonic Charities, July 2021.

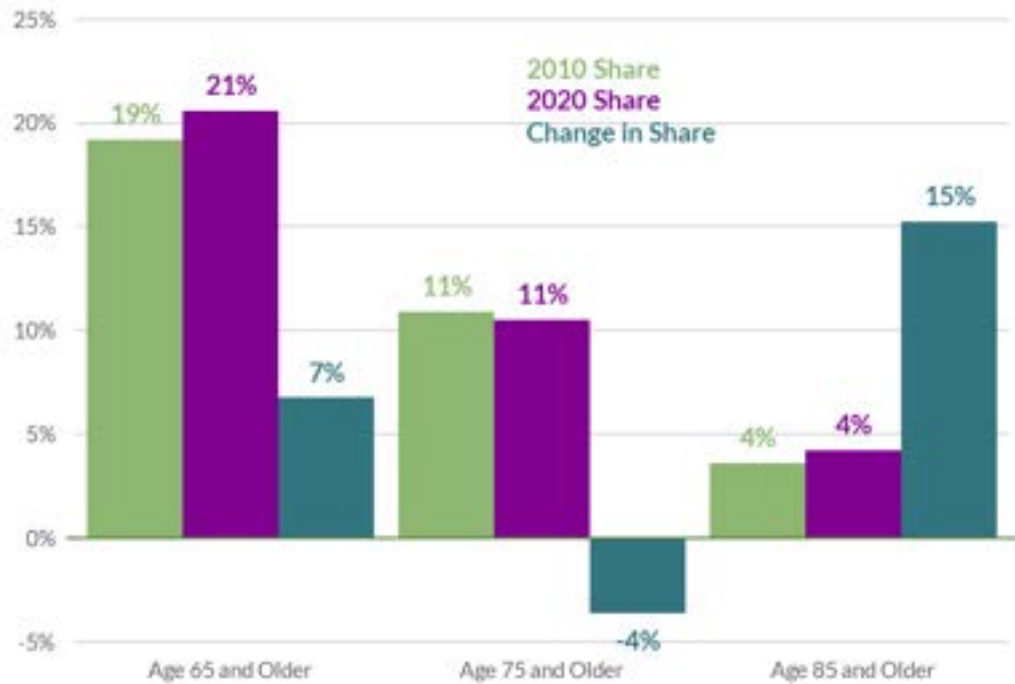
assisted living services, these numbers are much higher than the 337 available beds on Mercer Island.

Exhibit 32. Senior Housing Beds, Mercer Island, 2022



Source: Washington State Department of Social and Health Services, 2022; CAI, 2022.

Exhibit 33. Elderly Share of Population, Mercer Island, 2010 and 2020



Source: American Community Survey, 2010, 2020; CAI, 2022.

Housing Market Conditions and Trends

Mercer Island's home prices are near the highest in the region

Mercer Island's median home price more than doubled from 2012 to 2021 and is currently more than \$1 million, the most expensive of selected peer cities (Exhibit 34). This growth is comparable to other cities in the county. Newcastle's median sale price nearly tripled and Bellevue's more than doubled. Mercer Island's median home price is nearly 1.5 times more expensive than the median of King County as a whole.

The current month's supply of housing indicates the size of the for-sale inventory compared to the number of homes being sold. This can indicate the competitiveness of a housing market and the number of houses available for buyers. Four to five months of supply is average. A lower number means that buyers are dominating the market and there are relatively few sellers; a higher number means there are more sellers than buyers.

Mercer Island's for-sale inventory has been on the decline since 2019 and there is currently about 2.5 months' worth of supply left in the market (Exhibit 35). As the stock of homes-for-sale has decreased, the median sale price has steadily increased, increasing to more than \$1 million in 2021. Mercer Island's historic median sale prices show more volatility than much of the region. One potential reason for this may be the comparatively smaller number of home sales completed annually in Mercer Island. For example, during the month of January 2022 (the month with the lowest completed home sales in the year of June 2021 to June 2022), 11 homes were sold in Mercer Island, the lowest of all peer cities by more than half.¹⁸

Exhibit 34. Median Home Sale Price, Mercer Island and Peer Cities, 2012 to 2021

¹⁸ Redfin Monthly Housing Market Data, June 2021 to June 2022.



Source: Redfin, 2022; CAI, 2022.

Exhibit 35. Months' Supply of Housing Units and Median Sale Price, Mercer Island, 2012 to 2022

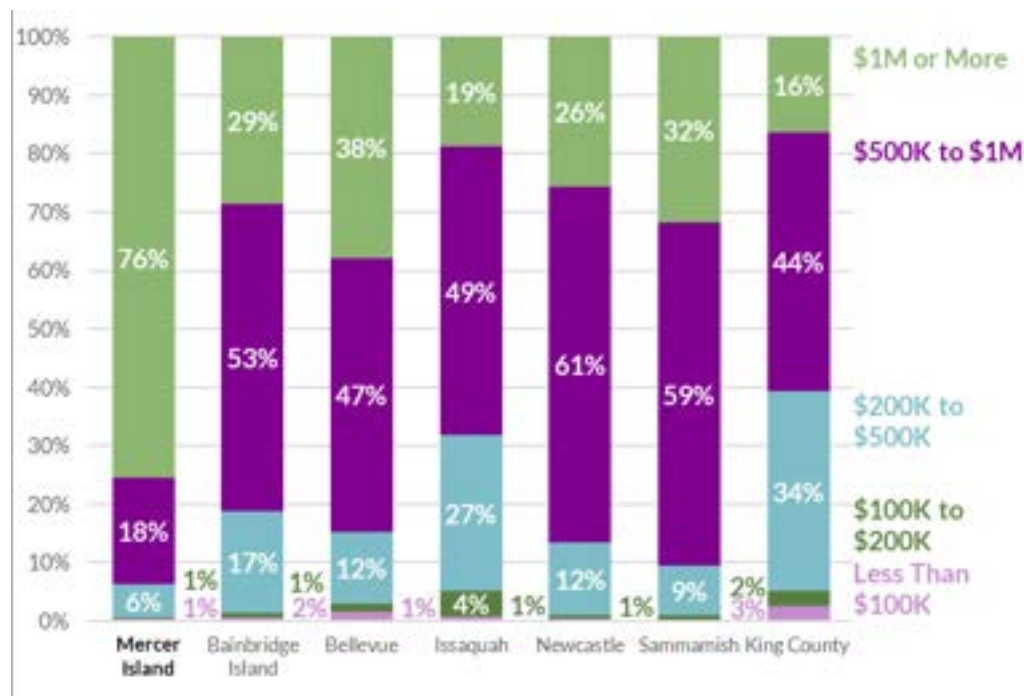


Source: Redfin, 2022; CAI, 2022.

Only 6% of housing units in Mercer Island are valued at less than \$500,000

Mercer Island’s home prices are on the high end for the region (Exhibit 36). Price appreciation since 2010 has mostly been attributable to an increase in value homes in the \$500,000 to \$1 million range to more than \$1 million. About 6% of available homes cost less than \$500,000, compared to 40% of all homes across King County. Mercer Island has no homes valued at \$200,000 or less, and there are few homes at this value across King County and neighboring cities.

Exhibit 36. Value of Owner-Occupied Housing Units, Mercer Island and Peer Cities, 2010 and 2020



Source: American Community Survey, 2010, 2020; CAI, 2022.

Growth in home value outpaced growth in household income

Mercer Island’s home sale prices have nearly doubled from 2012 to 2020 (Exhibit 37), increasing from \$500,000 in 2012 to \$905,000 in 2020 (when 2021 is taken into account, the median home sale price from 2012 more than doubles in a nine-year period). That is a \$405,000 and 81% increase. From 2012 to 2020, median household income increased by about \$30,000 – an increase of 24%. As of 2020, the difference in household income and home prices was more than \$750,000.

Exhibit 37. Annual Median Home Sale Price and Household Income, Mercer Island, 2012 to 2020

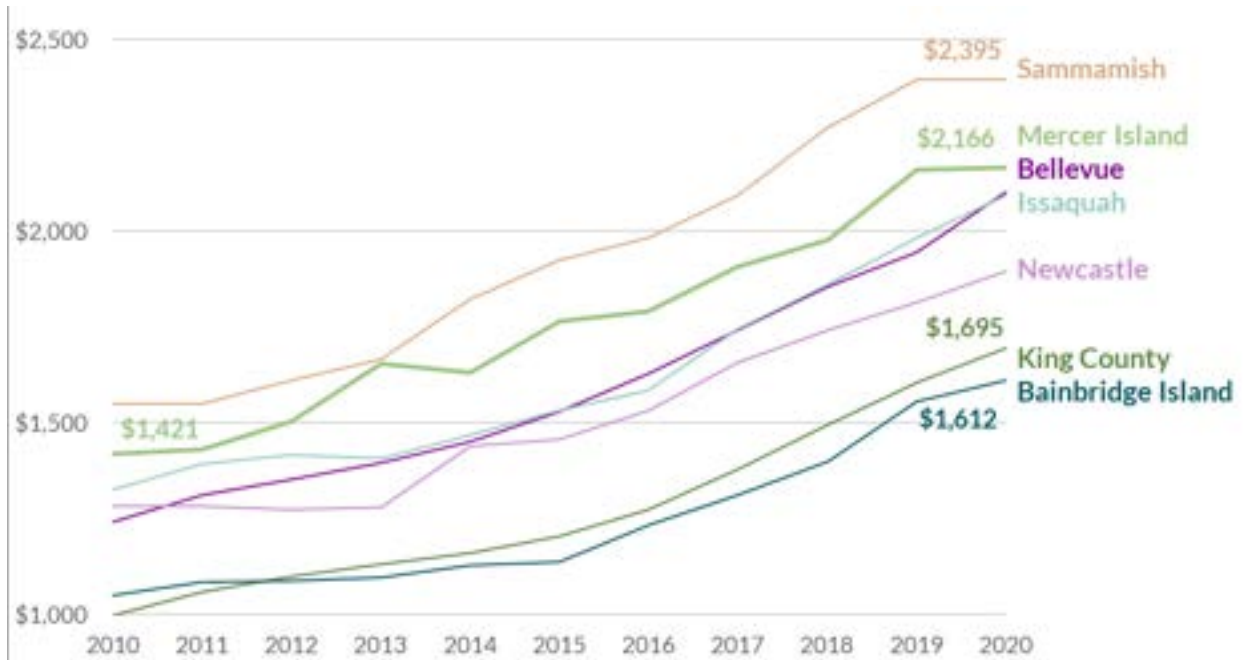


Source: Redfin, 2022; ACS, 2020; CAI, 2022.

Mercer Island’s average rent prices are second highest among peer cities

Median rent has been on the rise for the entire region since 2010 (Exhibit 38). Rent in Mercer Island has increased by about \$800 from 2010 to 2020, a 52% increase. It remains one of the most expensive rental markets within King County. Renters in Mercer Island are increasingly cost-burdened, with 9% more residents paying more than 35% of their income on housing costs in 2020 than in 2010.

Exhibit 38. Change in Median Rent, Mercer Island and Peer Cities, 2010 to 2020



Source: American Community Survey, 2010 to 2020; CAI, 2022.

Housing Affordability

Affordability Metrics

The widespread metric used to determine household income for affordable housing programs is the US Housing and Urban Development (HUD) definitions for area median income (AMI). HUD establishes unique limits for households between one and eight people in size and presents income by extremely low, very low, low, and median incomes. The income levels produced by HUD are only available for certain metropolitan areas. The City of Mercer Island falls within the in the Seattle-Bellevue HUD Metro Fair Market Rent (FMR) Area, which spans King and Snohomish counties (Exhibit 39). HUD defines a household as cost burdened if they pay more than 30 percent of their gross household income for housing, and severely cost burdened if they pay more than 50% of their gross household income on housing.

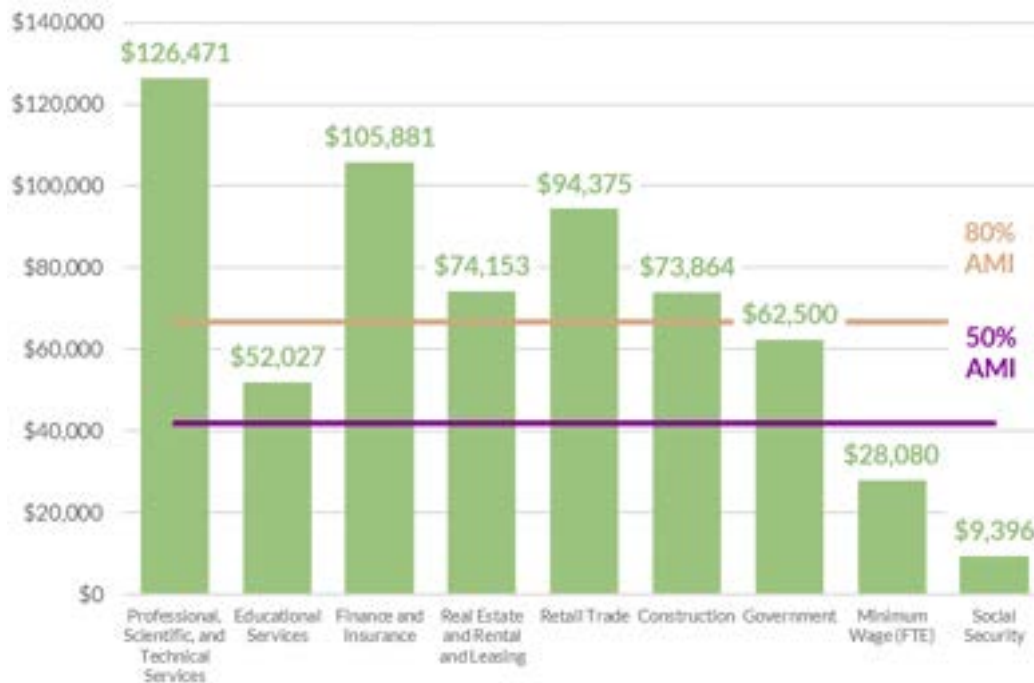
Exhibit 39. HUD Household Income Limits, Seattle-Bellevue HUD Metro FMR Area, 2021

Income Level	Household Size (Persons in Family)							
	1	2	3	4	5	6	7	8
Extremely Low Income (30% AMI)	\$24,300	\$27,800	\$31,250	\$34,700	\$37,500	\$40,300	\$43,050	\$45,850
Very Low Income (50% AMI)	\$40,500	\$46,300	\$52,100	\$57,850	\$62,500	\$67,150	\$71,750	\$76,400
Low Income (80% AMI)	\$63,350	\$72,400	\$81,450	\$90,500	\$97,750	\$105,000	\$112,250	\$119,500
Median Income	\$81,000	\$92,600	\$104,200	\$115,700	\$125,000	\$134,300	\$143,500	\$152,800

Sources: HUD, 2021; Community Attributes Inc., 2022.

Exhibit 40 shows the median income among Mercer Island’s largest industries in terms of employment, alongside the salary associated with Washington’s minimum wage and federal social security payments. HUD limits for 50% and 80% AMI have been included for reference. None of Mercer Island’s top industries earn a median income below the 50% AMI level, however, the median income for educational services and government are below the 80% AMI level. Real estate and rental and leasing and construction median incomes are near the 80% AMI level, but workers within the industry are likely to earn more than the 80% of the area median income.

Exhibit 40. Median Income by Industry HUD Income Limits, 2020



Sources: HUD, 2020; US Census Bureau 5-year Estimates ACS, 2016-2020; Social Security Administration, 2020; Washington State Department of Labor & Industries, 2020; Community Attributes Inc., 2022.

Mercer Island’s renters experience higher rates of housing cost burden than owners

Cost burden is defined by the U.S. Department of Housing and Urban Development at three levels: Cost burdened households are those who spend more than 30% of their household income on housing costs. Severely cost burdened households spend more than 50% of their income on housing. Households that spend less than 30% on their housing costs are considered not to be cost burdened. Generally, Mercer Island’s homeownership households experienced lower rates of housing cost burden from 2014 to 2018 compared to renting households (Exhibit 41). Three-quarters of homeownership households are not cost burdened, compared to 65% of renter-occupied households. Nearly one in four renter households are severely cost burdened.

Exhibit 41. Cost Burden by Housing Tenure, Mercer Island, 2018



Sources: HUD CHAS, 2014 – 2018; Community Attributes Inc., 2022.

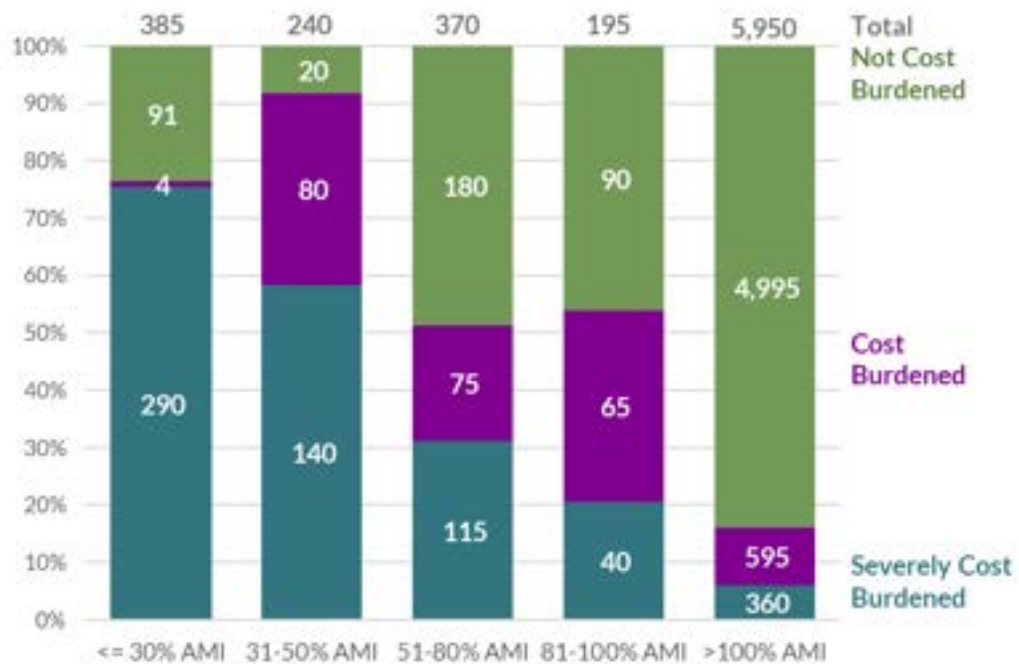
Severe cost burden is borne by both very low- and very high-income homeowners. Most low-income renters are severely cost burdened.

The majority of homeownership and renting households in Mercer Island are high-earning, above 100% AMI (Exhibits 42 and 43). Severe housing cost burden was experienced most frequently by very low- and very high-income Mercer Island homeowners (Exhibit 42), although this amounts to a small share of high-income households (less than 10%). More than 80% of high-income households, those earning more than 100% AMI, are not cost

burdened. About half of all households between 51% to 100% AMI are not cost burdened. A higher share, although small number of total households, at lower AMI levels are cost burdened or severely cost burdened.

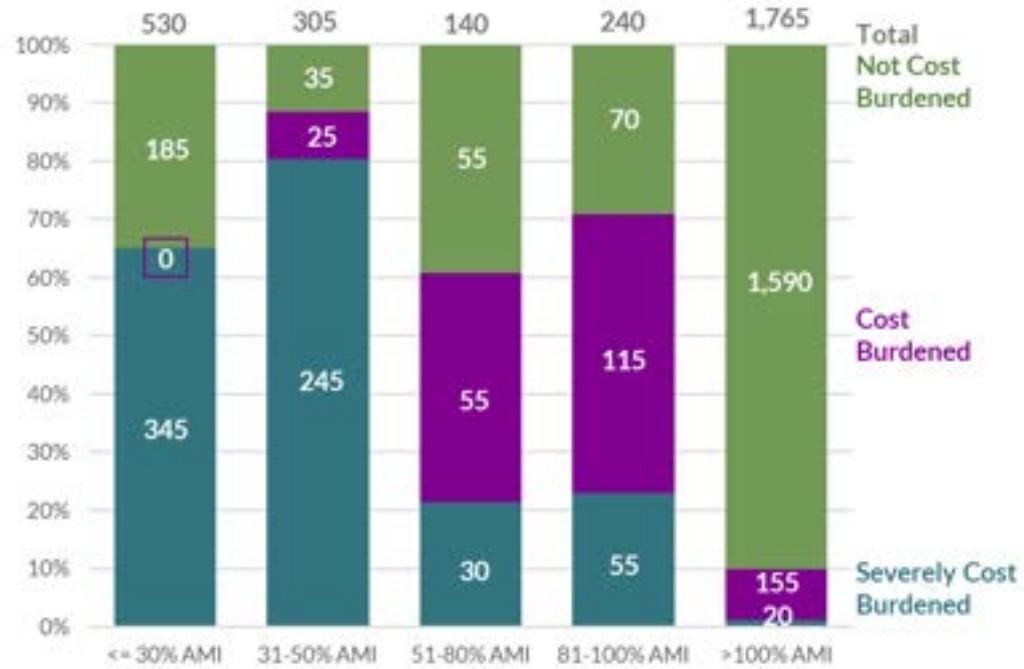
A majority of the City’s low-income renting households are severely cost burdened (Exhibit 43). A small fraction of the city’s high-income renters are cost burdened. Severe cost burden is most prevalent in rental households earning less than or equal to 50% of area median income and tapers off significantly for households earning more than 50% of the area median income.

Exhibit 42. Cost Burden by Income Level, Homeowning Households, Mercer Island, 2018



Sources: HUD CHAS, 2014 – 2018; Community Attributes Inc., 2022.

Exhibit 43. Cost Burden by Income Level, Renting Households, Mercer Island, 2018



Sources: HUD CHAS, 2014 – 2018; Community Attributes Inc., 2022.

Although most renters are high earners and can afford market rate apartments, nearly 5,000 Mercer Island households’ affordable rent is \$625 monthly

Using HUD’s definition of cost burdened households, Exhibit 44 calculates affordable rents for Mercer Island renters based on their income bracket. Affordable is considered to be monthly rent that is 30% or less of a renter’s income. The majority of renters earn more than \$200,000 annually, which equals a \$5,000 monthly affordable rental rate. There are more than 4,800 households for which an affordable monthly rent is \$625.

Exhibit 44. Affordable Rent by Income Level, Mercer Island, 2020



Source: American Community Survey, 2020; HUD CHAS, 2014-2018; CAI, 2022.

Mercer Island has 102 total rent-restricted units available to a variety of demographics

Exhibit 45 includes the number of rental units by price point in Mercer Island. The majority of units rent for between \$1,500 and \$2,499 per month. Approximately 1,000 units are available that are rented for between \$1,500 and \$2,000. An addition 812 rent for between \$2,000 and \$2,499 monthly. Very few units are available for less than \$1,000 and from \$1,000 to \$1,500.

In addition, there are 102 rent-restricted units in three buildings that offer rent-restricted units to certain demographics. They include:

- **Grace Place** (formerly Ellsworth House) offers 59 units to people aged 62 and older earning less than 50% AMI.
- **Hadley Apartments** offers 13 units to those earning less than 70% AMI.
- **Island Crest Apartments** offers 30 units to low income families, seniors, and persons experiencing a disability.¹⁹

Compared together, Exhibit 44 and Exhibit 45 illuminate potential shortages of rental units at each price point. 4,828 Mercer Island residents need rental

¹⁹ City of Mercer Island, 2022.

units affordable at \$625 per month. There are 71 units available for less than \$1,000, a shortfall of at least 4,757 units.

This comparison does not take into account the size of a rental. The median household size of rental units is 2.0 persons per household and therefore some rentals listed in Exhibit 45 may house more than one person. The impact of shared rental units is not shown in this analysis.

Exhibit 45. Rental Units by Monthly Rent, Mercer Island, 2020



Source: American Community Survey, 2020; CAI, 2022.

FUTURE HOUSING NEEDS

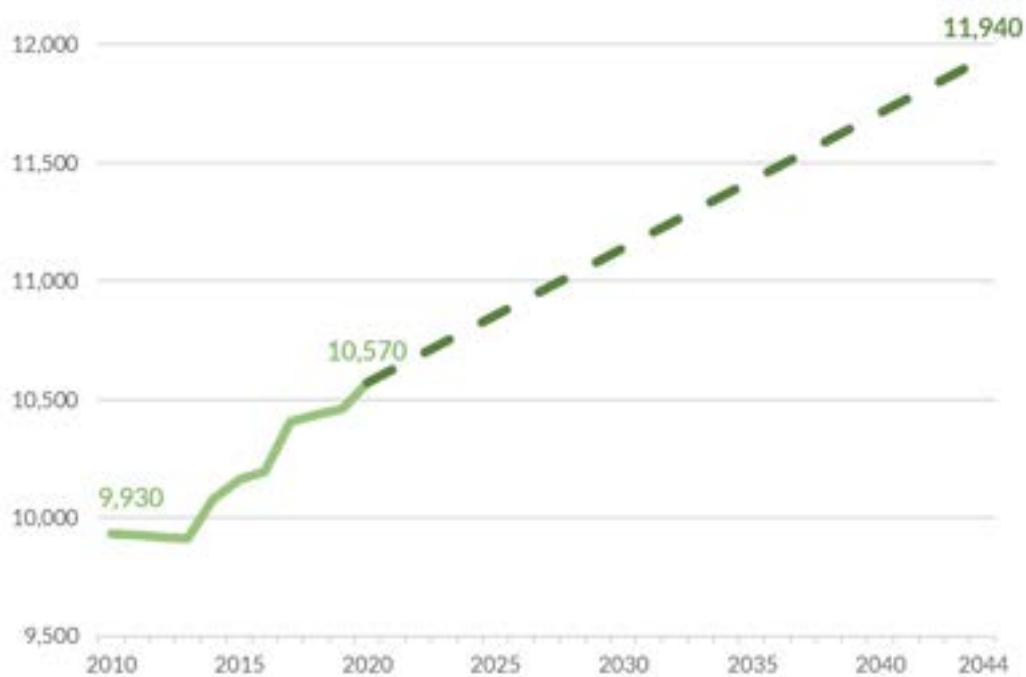
In 2021, the Washington State Legislature passed House Bill 1220 (HB 1220) and amended the Growth Management Act. This amendment, signed into law in May, instructs local governments to “plan and accommodate” for housing affordable to all income levels.²⁰ The requirements of HB 1220 spurred new guidance for counties and cities from the Department of Commerce. This includes methods suggested by Commerce for the allocation of housing units at various levels of affordability, which provide counties a way to allocate housing targets to municipalities through mechanisms like the King County Countywide Policies and the Urban Growth Capacity Report. Using these housing unit targets, King County is currently working to produce housing needs projections. The County, in turn, identified three potential methods to

²⁰ Department of Commerce, 2021.

estimate future housing need, which it will ultimately narrow to one. This has not been finalized at the time of this report’s delivery; as such, all three methods are included as scenarios for estimating Mercer Island’s future housing needs.

The following five scenarios include the County’s draft methodologies for future housing need in addition to two custom-to-Mercer Island scenarios. Exhibit 46 shows housing growth targets developed by King County in its 2021 Urban Growth Report, along with actual housing units developed in Mercer Island since 2010. The report allocates an additional 1,370 units by 2044, and the city must demonstrate the capacity to accommodate this growth. In 2044, Mercer Island must have the infrastructure and land use capacity for a total of 11,940 housing units.

Exhibit 46. Growth Management Housing Unit Projections, Mercer Island, 2020 to 2044



Source: *Urban Growth Report, 2021; Office of Financial Management, 2010 to 2020; CAI, 2022.*

King County uses scenarios to plan for future housing needs. It has three planning scenarios that project potential future housing demand in each of its jurisdictions. They are:²¹

1. **Focus on new growth.** Same percent shares of new housing growth are affordable in every jurisdiction.

²¹ King County Growth Management Planning Council, July 2022.

2. **Focus on 2044.** Same percent shares of total housing stock in 2044 are affordable in every jurisdiction.
3. **Focus on new growth adjusted for local factors.** Same percent shares of new housing growth are affordable in every jurisdiction and adjusts outputs within each income band by:
 - a. Percent share of housing that's currently affordable at 0-80% AMI.
 - b. Percent share of housing that's currently income restricted at 0-80% AMI.
 - c. Subregional ratio of low-wage jobs to low-wage workers.

These scenarios project housing need by Area Median Income (AMI). AMI is a series of income levels determined by the U.S. Department of Housing and Urban Development to determine accessibility to housing and social service programs. AMI develops income levels based on the median family income and fair market rent area definition for set geographic areas. The AMI used in these projections is the median family income of King County.²²

Two additional scenarios were identified to show potential housing need in Mercer Island using a comparative analysis of King County and Mercer Island housing production. These scenarios do not fulfill the HB 1220 requirement to address and accommodate housing affordability through the ongoing guidance developed by the Department of Commerce and deployed by King County. These scenarios are:

4. **Status quo.** Total projected housing units includes the 2044 GMA allocation and historical under- or over-production of units compared to King County, distributed by the current percent share of housing units by price.
5. **Fair share.** Total projected housing units includes the 2044 GMA allocation and historical under- or over-production of units compared to King County, distributed by King County household income.

Under- and over-production of housing units is calculated by comparing the ratio of housing units to households of King County to Mercer Island. King County's ratio is 1.04. Mercer Island's ratio is also 1.04, indicating equal production over time. Therefore, scenarios 4 and 5 are calculated using only the 2044 GMA housing unit allocation.

Scenarios 1 through 3

Scenarios 1, 2, and 3 were produced by the King County Department of Community and Human Services, using a version of the Department of Commerce's Housing Needs Allocation Tool. Exhibit 47 shows the

²² King County Growth Management Planning Council, July 2022.

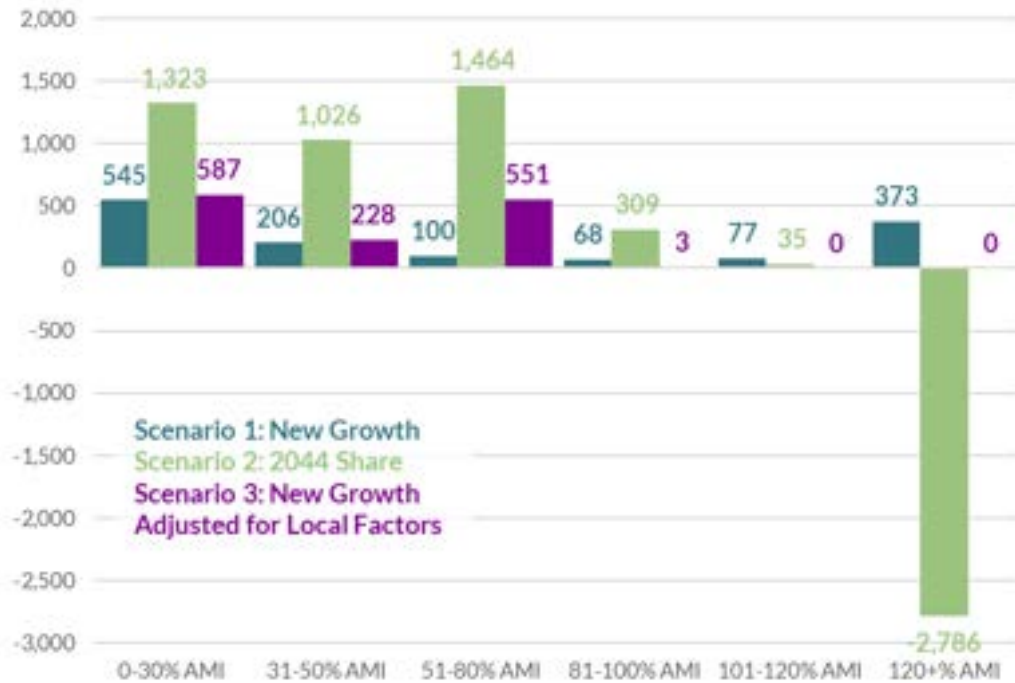
distribution of affordability of housing units based on scenarios 1-3 using the GMA's 2044 new housing unit project of 1,370 units.

Under **Scenario 1: New growth**, 545 of the projected 1,370 new housing units must be affordable to households at or below 30% of Area Median Income (AMI). An additional 373 units will only be affordable to households earning 120% or more of AMI.

Scenario 2: 2044 Share uses the share of affordable housing at the County level to determine the production of units by income level needed by each jurisdiction to match the county share. Under Scenario 2, Mercer Island must over compensate for housing units affordable at moderate- and low-income and decrease the share of units available to high-income households above 120% AMI by 2,786. This calls for the production of a total of 3,813 units available to households below 80% AMI to achieve the same affordability balance of King County.

Scenario 3: New growth adjusted for local factors uses a series of local factors including affordability levels and the ratio of low-wage jobs to workers, a methodology that is still under development and subject to change. Currently, Scenario 3 calls for almost no new housing development that are exclusionary to households below 80% AMI. This means that no new housing units affordable to households earning 81% AMI or more would be built in Mercer Island through 2044. The city would accommodate new housing growth at lower income levels, including 587 units affordable to households below 30% AMI, 228 units affordable at 31 to 50% AMI, and 551 units affordable at 51 to 80% of AMI.

Exhibit 47. Future Housing Need Scenarios 1 through 3, Mercer Island, 2044



Source: King County, 2022; CAI, 2022.

Scenarios 4 and 5

Mercer Island has produced housing units at the same rate as King County. As such, Scenarios 4 and 5 use the same 2044 housing unit projection as Scenarios 1 through 3 and applies a different distribution of housing units to that allocation. These scenarios do not take into account or fulfill the Commerce affordable housing guidance.

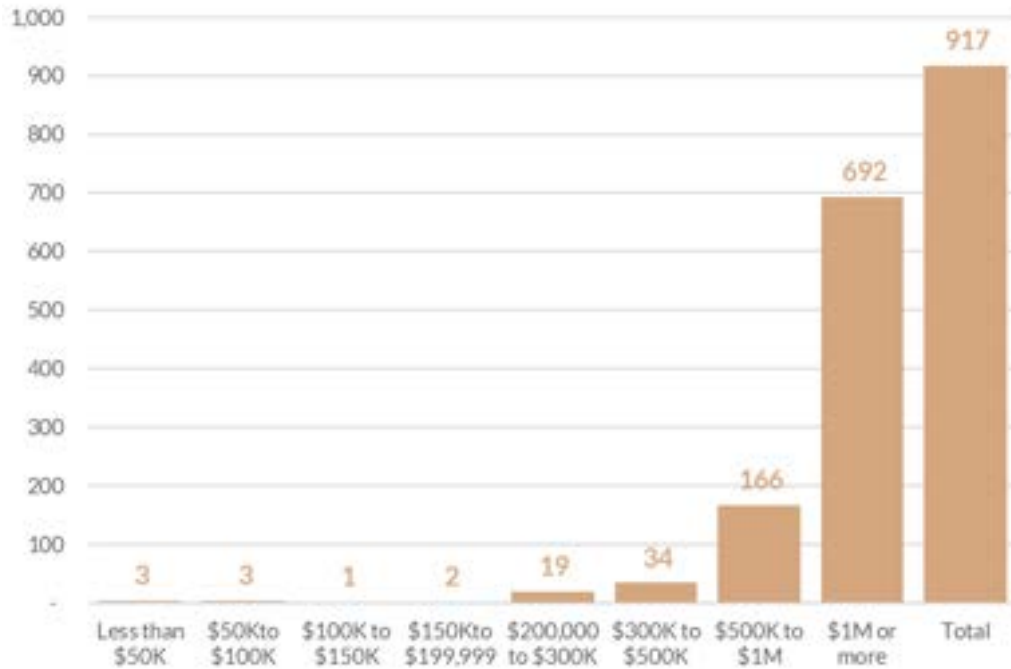
Scenario 4: Status quo distributes new housing units by housing unit price. As there is variability in housing costs and price depending on the tenure of the householder, Exhibit 43 and Exhibit 44 further distinguish housing unit price by owner- and renter-occupied units.

Two-thirds of households in Mercer Island are owner-occupied, which would account for 917 of 1,370 projected housing units (Exhibit 43). If these 917 units follow the 2020 share of households by price, 692, or 76%, of them will be worth \$1 million or more. About 60 units would be available for less than \$500,000.

Exhibit 49 shows the distribution of renter-occupied households based on the current share of rental value. 453 of the 1,370 projected new units will be occupied by renters. Of those 453, nearly 60% will rent for between \$1,500

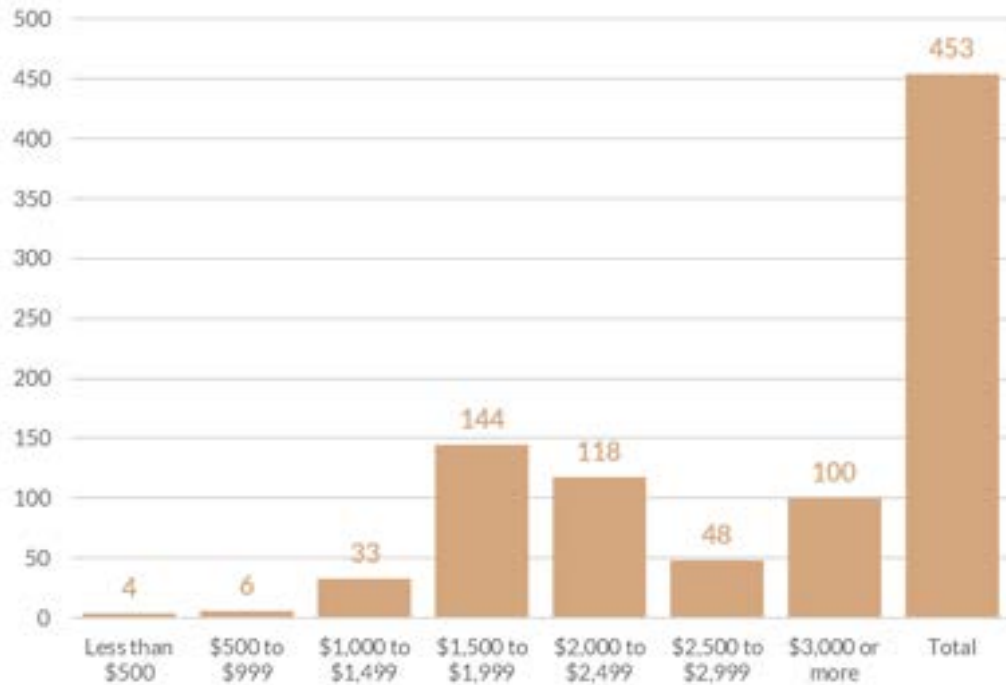
and \$2,500 per months. About 100 units will cost more than \$3,000 per months. Less than 10% will cost less than \$1,500 per month.

Exhibit 48. Future Housing Need Scenario 4 (Owner-Occupied Units), Mercer Island, 2044



Source: King County Growth Management Policy Council, 2022; ACS, 2020; CAI, 2022.

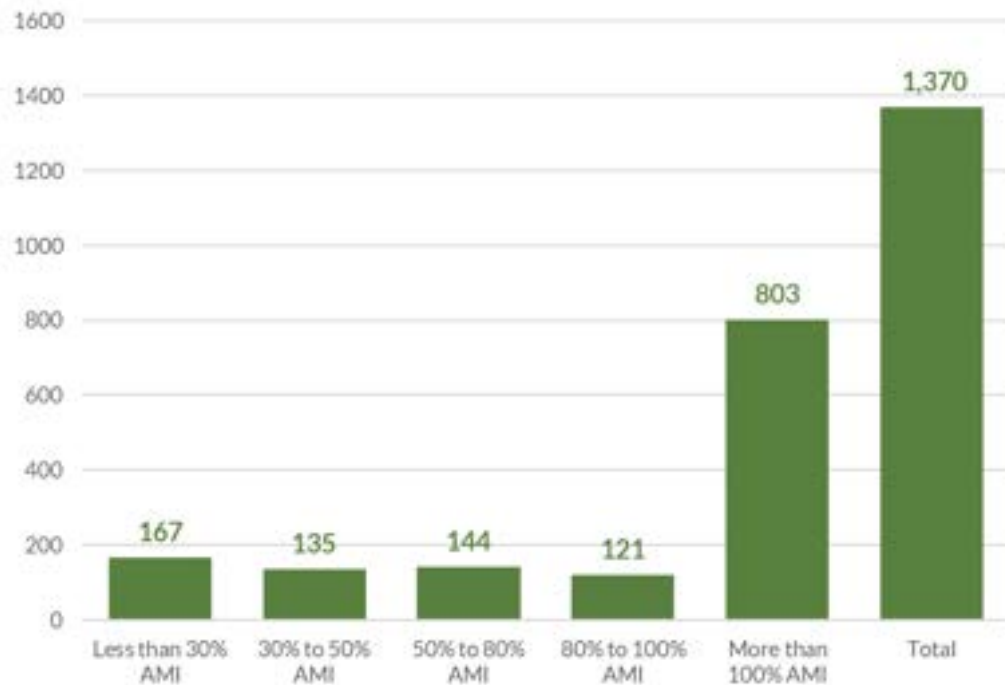
**Exhibit 49. Future Housing Need Scenario 4 (Renter-Occupied Units),
Mercer Island, 2044**



Source: King County Growth Management Policy Council, 2022; CAI, 2022.

Scenario 5: Fair share by King County AMI shows how many units Mercer Island would need to match the same percent share of AMI for King County Exhibit 50). Under this scenario, the bulk of housing development will be out of reach of low- and moderate-income households. Nearly 60% of units, a total of 803, would be affordable only to households earning more than 100% of AMI. Between 121 and 167 units would be developed at prices affordable to other income segments.

Exhibit 50. Future Housing Need Scenario 5, Mercer Island, 2044



Source: King County Growth Management Policy Council, 2022; HUD CHAS, 2014=2018; CAI, 2022.

HOUSING NEEDS ASSESSMENT FINDINGS AND RECOMMENDATIONS

Findings

Demographic and Economic Context

- Mercer Island's population grew slower than its neighbors and King County but outpaced its own projections.
- Mercer Island has an older population than King County.
- Mercer Island has become more diverse since 2010.

Household Characteristics

- White and Asian households typically earn more annually than other racial groups.
- Mercer Island has a high and growing rate of households with children.
- Mercer Island residents are more likely to own their home than rent compared to King County.
- Mercer Island's household size increased slightly in the past decade.
- Mercer Island has a higher proportion of high-income households than in King County overall.

- Owner-occupied households typically earn a higher annual income than renter-occupied households.

Employment and Commuters

- Services account for a large share of all employment in Mercer Island.
- The jobs-housing balance in Mercer Island is tilted toward housing.
- Mercer Island's residents are likely to commute to other cities for work, and workers are likely to commute from outside Mercer Island; only 9% of residents live and work in Mercer Island.

Housing Supply

- Almost two-thirds of Mercer Island's housing stock are detached single family units.
- Nearly half of Mercer Island's homes have four or more bedrooms.
- Most of Mercer Island's homes are 40- to 60-years old.

Housing Market Trends and Conditions

- Mercer Island's home prices are near the highest in the region.
- Only 6% of housing units in Mercer Island are valued at less than \$500,000.
- Growth in home value outpaced growth in household income.
- Mercer Island's average rent prices are second highest among peer cities.

Housing Affordability

- Mercer Island's renters experience higher rates of housing cost burden than owners.
- Severe cost burden is borne by both very low- and very high-income homeowners. Most low-income renters are severely cost burdened.
- Although most renters are high earners and can afford market rate apartments, nearly 5,000 Mercer Island households' affordable rent is \$625 monthly.
- Mercer Island has 102 total rent-restricted units available to a variety of demographics.

Implications

Planning and Policy Context

- Mercer Island has committed to a number of state, regional, and local housing and development strategies. Many of these priorities are complimentary and one action or program (like this Housing Needs Assessment) may meet several the City's planning and development goals and obligations.
- As of 2018, housing development was on track to meet growth projections and Mercer Island commitments. Most new units were

delivered in large multifamily projects in Town Center. This data was last calculated prior to the current development moratorium in that area and does not consider the loss of any housing units from 2020 to present.

- Multifamily and higher-density housing development is focused in Town Center. The majority of the island is zoned for large single-family and low density lots.

Demographic and Economic Context

- Mercer Island added more than 3,700 residents between 2000 and 2020, outpacing its own growth projections. Its population has been growing at a slower rate than most of its neighbors and King County but has outpaced its own projections. The city is moving toward and on track to meet its housing unit target of 1,370 new units by 2044. This exceptional growth is occurring at the same time as household sizes are increasing, long-time residents are aging out of their homes and being replaced by younger families, and Mercer Island’s residents – and their housing needs – are becoming more diverse. Taken together, these trends indicate a growing need for a diverse range of housing options for a diversifying population.
- Mercer Island’s median home price is more than \$1 million. Moderate- and low-income groups, which include many BIPOC households that earn below the island’s median income, may be increasingly cost burdened or priced out of living in Mercer Island.
- As the cost of living on Mercer Island increases, the city will increasingly rely on workers commuting into the island to supply much of the workforce. A quickly growing portion of Mercer Island workers cannot be able to afford to live near their place of work. This will increasingly impact Mercer Island’s quality of life, including transportation and housing costs.

Current Housing Supply

- Demand for housing has outpaced Mercer Island housing supply, which is part of a larger trend in the Puget Sound region. Nearly 80% of Mercer Island homes are valued at more than \$1 million.
- Rent prices have steadily increased in recent years and renters are spending a larger share of their income on housing now than they did 10 years ago. Nearly half of all renters in Mercer Island are now considered to be cost burdened.
- About three-quarters of Mercer Island’s new housing units are in large multifamily buildings. The remainder of new units were mostly single-family residences, although the number of duplexes and tri- and fourplexes increased by 12- and four-fold, respectively.

- Most of Mercer Island’s housing stock are single family homes on large lots. The land area required for this residential type limits the island’s ability to accommodate new units outside of the 76-acre Town Center. Ultimately, this growth pattern will continue to put upward pressure on housing costs for more of the island’s residents.
- Most new housing growth is developed in the form of multifamily housing and land capacity for new single-family homes is constrained. As single-family homes are redeveloped, the net number of homes may not significantly change. As the single-family-zoned areas of Mercer Island nearly full build out, prices for single-family homes will increase.

Housing Market Trends and Conditions

- Mercer Island’s housing market is one of the most expensive in the region and getting more expensive.
- Growth in home prices far outpaced increases to household income. This continued trend will put pressure on moderate- and low-income households.
- As Mercer Island’s population continues to age, there may be growing demand and insufficient capacity to house them in assisted living or age-appropriate homes. There is no current mechanism in place to easily track how many assisted living beds are available on Mercer Island, and the publicly available data on beds indicate that demand exceeds supply.

Policy and Action Considerations

The following considerations build on the findings and implications of this report and provide potential actions through a variety of City of Mercer Island planning and policy mechanisms, including:

- Comprehensive Plan update
- Unified Land Development Code amendments
- City programs, policies, and action

1. Comprehensive Plan Updates and Amendments

- 1.1 Update the Comprehensive Plan with newly released King County population, housing unit, and jobs projections.
- 1.2 Incorporate findings from the Housing Needs Assessment into the goals and policies of the Comprehensive Plan’s Housing Element.
- 1.3 Implement the tracking and work plans outlined in Chapter 3.VI of the Comprehensive Plan (Implementation Tracking, Housing Element) to monitor progress made by the city in accomplishing its

housing goals, evaluate the changing housing landscape in Mercer Island, and track key indicators of housing supply, accessibility, affordability, and diversity.

- 1.4 Establish a goal within the Housing Element to develop transit-oriented development along I-90 and the future light rail station and develop a vision for connecting multifamily residential areas across the island to job clusters and transit corridors.

2. Unified Land Development Code Amendments

- 2.1 Amend minimum residential lot sizes to allow for smaller units, in line with stated Comprehensive Plan housing goals to allow residents to age in place and young families to attain homeownership and land use goal to encourage green building and sustainable development. Possibly omit R-15 zone due to environmental conditions and high cost of development.
- 2.2 Allow subdividing homes into duplexes or similar small multifamily units to allow residents to age in place, improve access to homeownership for young residents and families, and maintain neighborhood character.
- 2.3 Allow cottage courts or courtyard housing in certain single-family residential zones or on redeveloped parcels to allow for additional housing options for low- and middle-income families while maintaining neighborhood character, bulk, and scale.
- 2.4 Revisit the proposed demonstration project of innovative and smaller housing on vacant or underutilized sites within Mercer Island. Consider cottage courts or courtyard housing on appropriate sites.
- 2.5 Consider revising the Commercial Offices (CO) land use designation to include the potential for dense residential housing in areas that are transit oriented and can support higher density.
- 2.6 Remove the average parcel size language from the Planned Business (PBZ) land use designation and replace with allowed density.
- 2.7 Replace maximum allowed density limits in multifamily zones with a minimum density or no density requirement.

3. City Programs, Policies, and Action

- 3.1 Develop an affordable housing preservation program to protect the existing affordable housing stock and identify potential sites for new units.
- 3.2 Create a program to incentivize or assist infill development that is appropriate to neighborhood character and scale that also provides

housing for a range of incomes, demographics, and abilities. Program could include streamlining the development process or modifying regulations for certain types of development on certain sites.

- 3.3 Develop an assistance or education program for young families or residents who wish to become homeowners and aging homeowners who wish to age in place. Pair with a housing demonstration project, new development within the city, or regulatory review that allows single-family homeowners to divide their homes into multiple units.
- 3.4 Consider revising density bonuses, flexible parking and development standards, and reduced development regulations or fees to encourage development and alleviate growing development costs in Town Center.