



Arts Space Incentives

Prepared For

City of Seattle Office of Arts & Cultural Affairs

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Purpose of the Assignment

The population of the Puget Sound Basin is expected to increase substantially during the next 20 years and the majority of the growth is anticipated to occur within existing city boundaries. Cities will experience the impact of the change as densities increase and existing uses give way to higher and better uses. Given that the high cost of Central Business District real estate, developers naturally focus on fringe locations to meet the demand for new residential, office and retail space. This is where real estate and art begin an interesting relationship.

Art galleries, arts office space, studios, rehearsal halls, and small performing arts spaces are typically located in neighborhoods where facilities can be acquired most economically. Often they are located at the fringes of central business districts in older neighborhoods. The artists and s become an important part of a neighborhood's character and contribute to making them better places to live and work. As redevelopment occurs, the diversity that art brings to a neighborhood is lost when the cost of real estate increases to the point where artists are forced to seek new space in other neighborhoods.

At a conceptual level and by way of example, this study examines the South Lake Union neighborhood and its potential for redevelopment, capacity to accommodate arts spaces now and in the future, and the nature of incentives that could be used to make certain arts spaces a permanent part of the neighborhood.

South Lake Union Classification

Methodology

A survey was the first step in examining the South Lake Union neighborhood. It consisted of classifying the existing buildings by redevelopment potential and capacity to accommodate arts space. The survey was taken over the course of three days and is based on preliminary groundwork and observation.

Redevelopment Classification

The first step of the process was to determine whether particular blocks were likely to be redeveloped in the next 20 years. This creates a general understanding of the current condition of South Lake Union neighborhood. The designation of each block was determined by applying knowledge of zoning, trends, and recent activity.

As can be seen in the map on page five, the blue areas are unlikely to redevelop while the black areas are likely to redevelop. About fifty-percent of the South Lake Union neighborhood is likely to be redeveloped; this potential offers a great opportunity for creating sustainable arts space in the area.

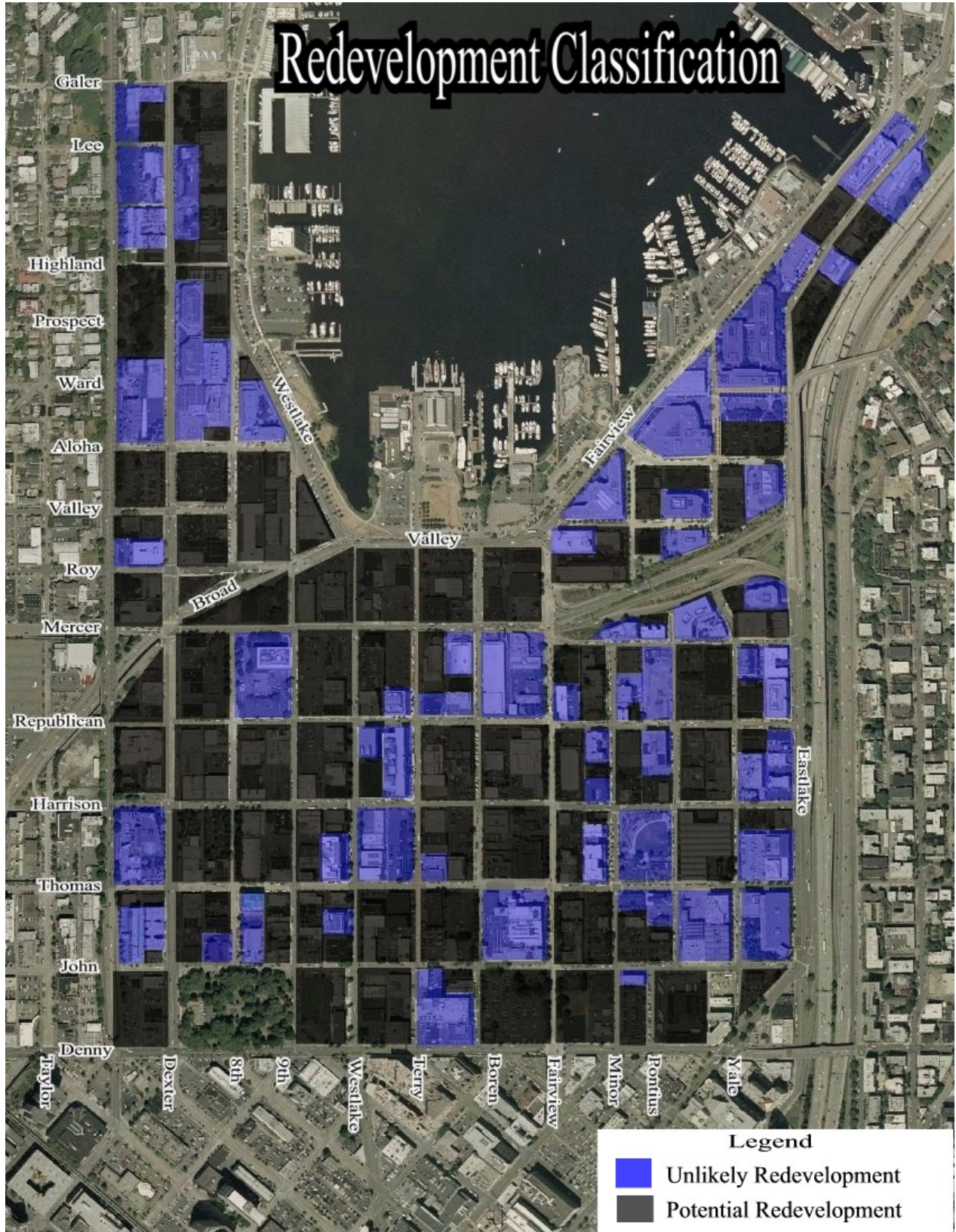
Building Classification

The buildings in the subject area are classified into three prototypes: small, medium, and large. These prototypes for arts space are distinguished by space requirement, street exposure, and ceiling height. The specific details can be seen in the table below.

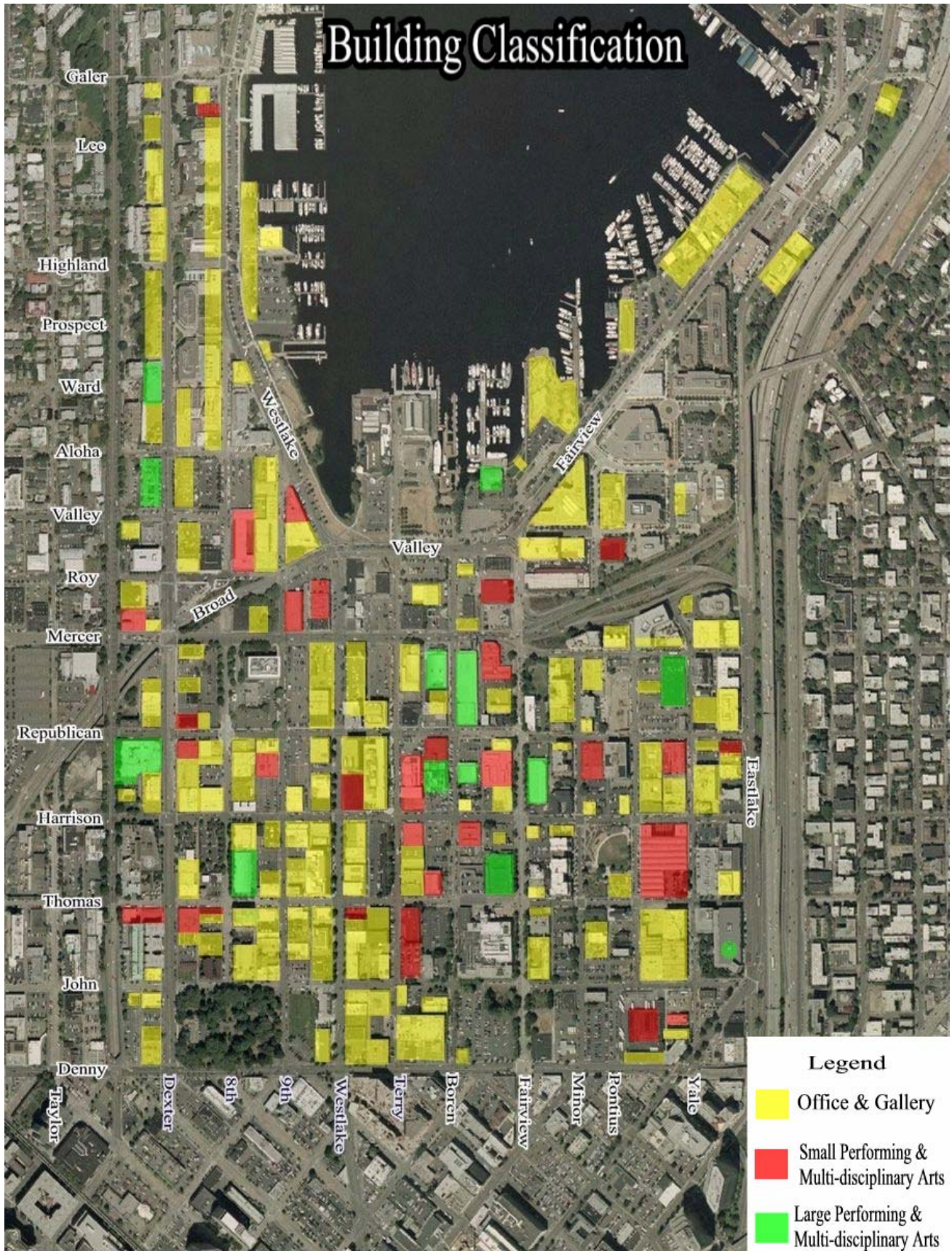
Use Category	Use	Space Requirement	Street Exposure	Ceiling Height	Event Parking	Color Coding
Small	Office & Gallery	1,000 to 4,999	Yes/No	10' - 15'	No	Yellow
Medium	Small Performing and Multi-disciplinary Arts	5,000 to 9,999	Yes	15' - 20'	Yes	Red
Large	Large Performing and Multi-disciplinary Arts	10,000 & Up	Yes	15' - 30'+	Yes	Green

The buildings in the neighborhood are classified by estimated and external observation. To confirm the initial classification and determine if the properties could fill needs of the prototype spaces, a formal property inspection is required by an architect. Accordingly, future work would involve sending an architect to confirm the actual capacity of the buildings to house the designated art uses.

Redevelopment Classification



Building Classification



Legend

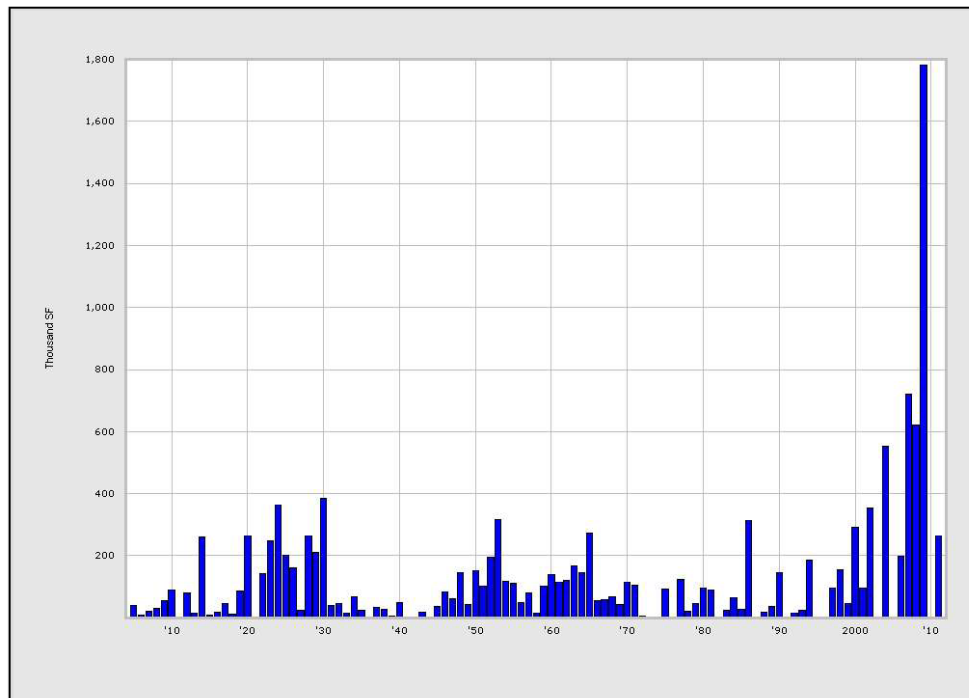
- Office & Gallery
- Small Performing & Multi-disciplinary Arts
- Large Performing & Multi-disciplinary Arts

Current Market Conditions

Development Trends

The graph below shows the delivery of new office and industrial buildings to the Lake Union Market Area (market area defined on the maps below). It indicates the number of square feet of buildings that were completed each year beginning in 1900. It also shows proposed buildings. It is clear to see that there has been a significant amount of new construction in the market since 2000 and that a great deal more is under construction or proposed. It is important to note that many development proposals are made that are never realized. Also the new multi-family properties that have been developed in the market are not reflected in the data.

Historical Deliveries



Land Value

Existing and future market conditions, to a large part, will determine the rate at which the neighborhood will transition to higher value uses. When improvements to a site no longer represent the highest economic use, they are torn down to make way for new development. Land values are a measure of the dynamics at work. When land values exceed the value created by the existing improvements, redevelopment, from an economic perspective, can occur. The table below is a sample of land sales that have occurred since the beginning of 2004 that represent a range of values for land zoned similar to the zoning designations found in the South Lake Union neighborhood. They represent a range of values as low as \$100/sf for a 40 foot height limit zone to as high as \$400/sf for a 125 foot height limited zone. The average of the sales is \$175/sf.

DATE	ADDRESS	ZONING	TYPE	PRICE	SQ FT	LAND	SELLER TO BUYER
Dec-06	2233 First Avenue	DMR/R-85/65'	MF Land	\$2,650,000	6,660	\$397.90	First & Bell LLC to Alex At First & Bell LLC
Dec-06	1531 Broadway Avenue	NC3-65'	Land	\$3,700,000	14,401	\$256.93	Broadway & Pine Apartments LLC to Seg Pine LLC
Sep-06	115 Aurora Avenue N	NC3-85'	Land	\$4,000,000	22,768	\$175.69	M/M Robert C. & Ann Y. Chang to Marselle Partners, LLC
Aug-06	2312 - 3rd Avenue	DMRR-125/65'	Land	\$8,725,000	25,920	\$336.61	3rd & Battery, LLC to 2312, LLC
Jul-06	133 Minor Avenue N	SCM-125'	Land	\$19,050,000	83,640	\$227.76	City Investors XVII, LLC to Mirabella
Jun-06	SW cnr Wall St & 3rd Ave	DMRR-125/65'	Land	\$5,300,000	12,960	\$408.95	Peel Properties, LLC to 3rd & Wall Properties, LLC
Jun-06	2334 Elliott Avenue	DMR/C-85/65'	Land	\$4,700,000	21,601	\$217.58	Cowles Company to 55 Battery LLC
Jun-06	1255 E Harrison St	SM-75'	Land	\$14,875,000	92,160	\$161.40	Pemco Insurance to Vulcan
Jun-06	126 Broadway E.	NC3-40'	Land	\$6,000,000	21,000	\$285.71	C.W. Radford Properties, LLC to WRE 6, LLC
Feb-06	1275 Mercer Street (multiple)	SCMR-55/75'	Land	\$9,979,305	92,160	\$108.28	Byron Ellingson Family LP to Cascade Housing Group LLC
Jan-06	Westlake Ave N, e/o Dexter Ave	SM-65'	Land	\$30,000,000	170,000	\$176.47	Casey Family Program to CarrAmerica Realty Corp.
Nov-05	500 Block of 17th Avenue	MIO-105-1-3	Land	\$5,572,680	29,936	\$186.15	17th & James LLC to Swedish Health Services
Aug-05	Broadway Ave/S of E Pine St	NC3-65'	Land	\$2,049,300	14,400	\$142.31	Walgreen Company to Broadway & Pine Apartments LLC
Jul-05	NW CNR John St. & Pontius Ave N	SM/R-55/75'	Land	\$2,200,000	14,050	\$156.58	City Investors XVII LLC to Seattle Cancer Care Alliance
Jun-05	2716 Western Ave	DMR/C-125/65'	Land	\$10,000,000	28,800	\$347.22	Western Ave Development to Western & Clay LLC
May-05	912 - 12th Ave	NC2-40'	Land	\$2,800,000	23,040	\$121.53	Twelfth & Marion Ventures to PWD LLC
Apr-05	713 Fairview Avenue N	C2-40'	Land	\$900,000	9,254	\$97.26	National Investment Corp to The City of Seattle
Aug-04	1221 Denny Way	DMC-125'	Land	\$1,375,000	11,500	\$119.57	John Dolan to 1221 Denny LLC
Jul-04	159 Denny Way	DMC-65'	Land	\$3,000,000	13,900	\$215.83	Fortune Investments Inc. to Ovation Partners LLC
Jun-04	100 Fairview Avenue N	SCM-125'	Land	\$30,152,000	248,954	\$121.11	Seattle Times to City Investors XVII LLC
Apr-04	1418-1422 Second Avenue	DRC-85/150'	Land	\$5,500,000	19,062	\$288.53	JCLH Investments Inc. to Second & Pike LLC
Jan-04	204-206 Pine & 1610 2nd Av	DRC-85/150'	Land	\$10,326,373	27,443	\$376.29	Pine & Stewart LLC to Pine St. Investors LLC
Jan-04	535 Westlake Ave N	NC3-65'	Land	\$1,200,000	9,583	<u>\$125.22</u>	J & L Holdings Inc. to City Investors XX LLC

\$174.17

Land Value Trends

Downtown Seattle land values have trended upward over the long-run, however, they are subject to short-term fluctuations that are tied to overall market conditions. The real estate markets are cyclical and somewhat predictable. Space market recessions brought on by overbuilding or a general economic recession typically soften the demand for land. In anticipation of the markets recovery, new development sites become attractive and land values are pushed upward. Recently demand has been strong and land values have moved substantially upward. While the sales are not the product of a formal appraisal process, it is reasonable to suggest that the average land value indicated above is higher today.

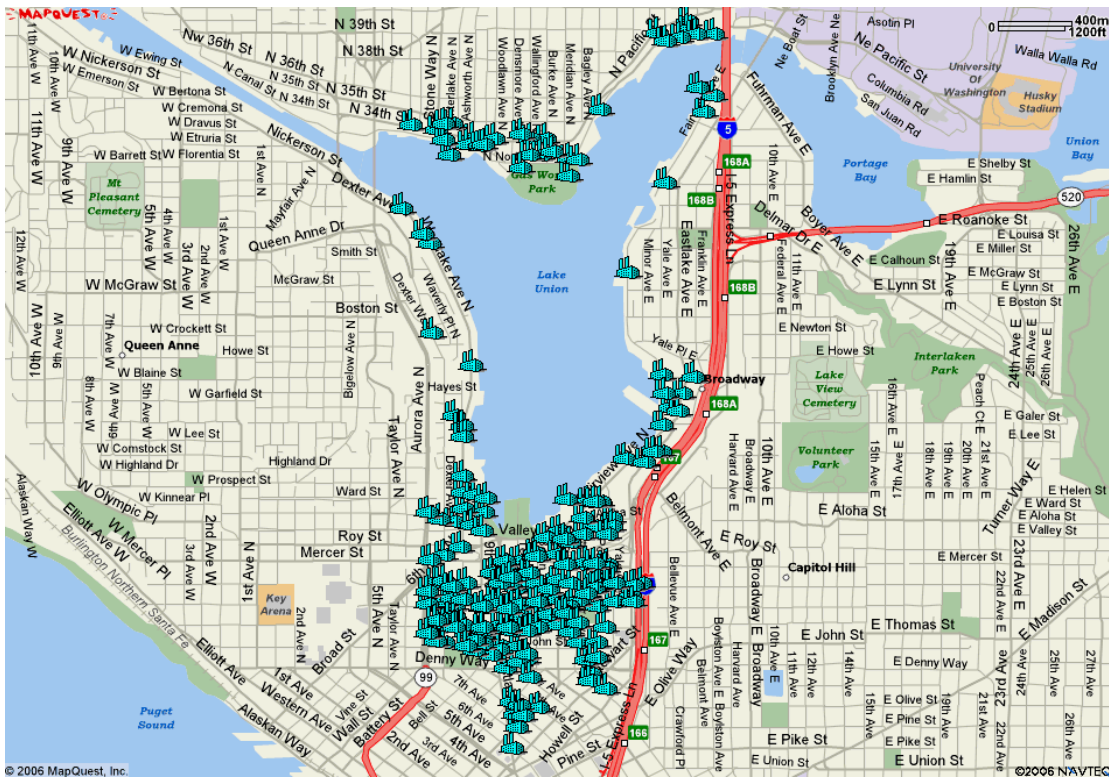
Current Rental Rates

For most investors, the net income a property produces determines its value. Rental rates in the South Lake Union area can be categorized by age and product type. The older, functionally obsolete buildings, are likely to be the best candidates for redevelopment. Warehouse and industrial uses are the lowest value uses and will be the first to be pushed out by new development.

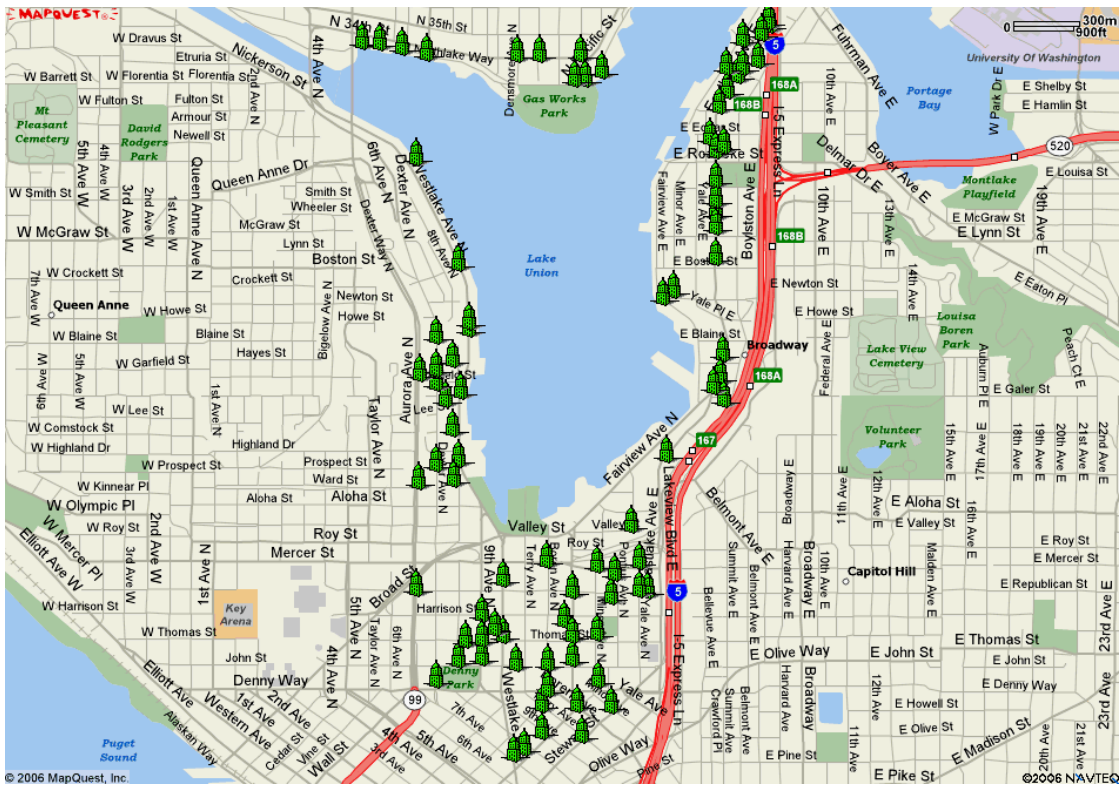
Rental Rate Trends

The South Lake Union Industrial Market consists of 198 buildings and 3.3 million square feet of space as shown on the map below. Vacancy in the market is typically very low. Since 2000 vacancy has fluctuated between 2% and 8%, and currently stands at 5%. During the last seven years, average industrial (warehouse with some office space) rental rates have fluctuated between \$6.60/sf to a high of \$11.20/sf. Rates are slightly higher today than a few years ago when vacancy rates were lower. Rental rates generally

fluctuated with overall real estate market conditions, however, reductions in the available inventory, as a result of redevelopment, also have influenced rental rates.



South Lake Union Class C Office Market is made up of 85 buildings measuring a total of 880,000 square feet located as shown on the map below (Class C buildings are lower profile than older buildings). In 2000 the market vacancy was less than 2%, in 2002 vacancy increased to 12% and since that time has been declining and now stands at about 3%. During the last seven years net rental rates for Class C office space have fluctuated between \$9/sf and \$18/sf, the higher figure representing better spaces. Today, rents for Class C space generally ranges from \$12 to \$14, not including operating expenses. In the near term, as the overall downtown office market strengthens, rental rates will be pushed upward.



Redevelopment Analysis

To demonstrate the dynamics at work in the market a typical vacant site will be contrasted to the same site improved with a single-story older warehouse or industrial building. For simplicity, the example presented in the table below assumes the site is improved with an industrial building that covers the entire site. In actuality, the income-derived figures would be less when adjusted for the fact that the building covers less than the entire site.

The figures, presented in the first column, are representative of the sales comparisons presented previously. The value derived from income figures is the net rental income from the property, capitalized at a market rate. Capitalization is the conversion of income from an investment to value using a rate of return investors require. An example of how the math works can be described by the following formula and example. Rental income, divided by return, equals value (\$10/sf rent divided by a rate of return of 7.5%, equals \$133/sf of value).

It is clear from the data that the value of the older improvements is less than if they were torn down to make way for new development. The decision to redevelop a site is complicated by a number of factors, including market conditions, the owner's risk-tolerance, and real estate expertise. With land values in the neighborhood of \$200/sf and value of improved single-story buildings at less than \$200/sf of land area, it is clear to see why the South Lake Union neighborhood is redeveloping and will continue to do so in the

future. It is important to note that if the rent that is derived from a particular building is greater or the building is a multi-story the economics may not favor redevelopment.

Value Indicated by the Sales Comparisons	Value Derived from Income	
	Rent	Value
\$150/sf	\$6.00	\$80/sf
\$175/sf	\$8.00	\$107/sf
\$200/sf	\$10.00	\$133/sf
\$225/sf	\$12.00	\$160/sf
\$250/sf	\$14.00	\$187/sf
	Cap Rate:	7.50%

Public Benefit Incentives

Government entities have a multitude of programs that are used to stimulate the private sector to create or provide opportunities that benefit the public. They include, but are not limited to, tax abatement, tax credits, grants, employee training, infrastructure, zoning and process incentives. Often the programs are used collectively to achieve the public purpose. When it comes to urban planning and real estate, zoning incentives are commonly used to obtain community benefits. Frequently, the targets of these incentives are the creation of open space or parks, affordable housing, and the protection of rural lands. Most often, increased density is traded for a particular public benefit. The following is a brief description of some of the incentive programs that are used in Seattle and other cities in the United States.

Seattle Incentives

TRANSFER DEVELOPMENT RIGHTS (TDR)

This program allows developers to increase commercial floor area above base density by purchasing TDR rights from other sites (sending sites). The TDR program applies to designated housing, Downtown Mixed Commercial (DMC) housing, landmark housing, landmarks, and open space. The purchasers and sellers can privately construct the sale or the City of Seattle can handle it by holding the TDR in its TDR Bank for later resale.

There are stipulations and constraints to the transfer of development rights. They include maximum increases in density, location of the sending and receiving sites, transferability between zones, the type of incentive program, and a variety of other intricacies. The specifics of Seattle's TDR program are detailed in the City's Municipal code; sections 23.49.014, 23.49.011, and 49.017.

DOWNTOWN COMMERCIAL BONUS PROGRAM

The Commercial Bonus Program is an incentive program for downtown office and hotel developers. It only applies for downtown zones not South Lake Union. The program rewards developers for providing specific types of spaces. The bonus program offers additional floor area in exchange for certain amenities. The amenities include retail services, entertainment, street-level uses, shopping atria, child care, human service, residential use, live-work units, museums, performing arts theaters, and others.

Of particular relevance is the performing arts theaters component. Essentially, this program offers developers the ability to exempt the performing arts theater's space in the building's floor area ratio (FAR) calculation. For example, if the FAR is 17 and the developer includes a performing arts theater on the first floor then the allowable FAR is still 17; the developer can still build to the initial full capacity.

It is conceivable that this program, constrained to downtown zones, could be transferred to other neighborhoods. However, does enough incentive exist to urge developers to include performing arts theaters in their developments? It would be easy to argue that this is not enough incentive. Even if the arts agency can put money up front as well as sustain itself, the developer would not economically be better off.

The Housing/Child Care Incentive within the bonus program offers developers additional floor area in new projects in exchange for providing affordable housing and daycare facilities. The intent of the program is to encourage development that serves low income families and the need for affordable childcare facilities. The childcare program is particularly important because of its components. Some of the major features of the childcare program include space dedicated to child care for twenty years, neighborhood transferability, payments in lieu of providing space, and a valuation methodology.

The code references for the program are contained in the Seattle Municipal Code sections 23.49.012 and 23.49.011.

Other Cities

To provide perspective, a cursory study of the zoning incentives used by other major US cities has been conducted. A brief overview of some of the relevant elements of the zoning codes of the cities of Chicago, New York, Minneapolis, and Boston are discussed below. Floor area bonuses and transferable development rights programs are commonly used by other cities to encourage the private sector to provide public benefits.

CHICAGO

The true beginning of incentive zoning occurred in Chicago during the late 1950s as the city offered increased allowable density to developers in an effort to encourage downtown office development.

Chicago uses floor area bonuses as an economic incentive for developers to provide various amenities and public benefits. As referenced in the City of Chicago's Zoning Ordinance

17-4-1000 Floor Area Ratio (FAR) Bonuses, the bonus menu below includes the list of public benefits and amenities that can be provided in exchange for increased density.

Public Benefit/Amenity	Eligibility Criteria and Bonus Formula	Maximum Bonus	Approval Authority
Affordable Housing	17-4-1004	20% of base FAR in dash 5 25% of base FAR in dash 7 or 10 30% of base FAR in dash 12 or 16	Zoning Administrator
Public Plazas and Pocket Parks	17-4-1005	6 FAR	DPD
Chicago Riverwalk Improvements	<u>17-4-1006</u>	No maximum	DPD
Winter Gardens	<u>17-4-1007</u>	3 FAR	DPD
Indoor Through-Block Connections	17-4-1008	No maximum	Zoning Administrator
Outdoor Through-Block Connections	17-4-1009	No maximum	Zoning Administrator
Sidewalk Widening	<u>17-4-1010</u>	No maximum	Zoning Administrator
Arcades	<u>17-4-1011</u>	2 FAR	Zoning Administrator
Water Features in Public Open Spaces	<u>17-4-1012</u>	1 FAR	DPD
Upper-Level Setbacks	<u>17-4-1013</u>	25% of base FAR	Zoning Administrator
Lower-Level Planting Terraces	<u>17-4-1014</u>	No maximum	Zoning Administrator
Green Roofs	<u>17-4-1015</u>	2 FAR	Zoning Administrator
Underground Parking and Loading	<u>17-4-1016</u>	30% of base FAR	Zoning Administrator
Parking Concealed by Occupiable Space	<u>17-4-1017</u>	25% of base FAR	DPD
Off-Site Park and Open Space Contributions	<u>17-4-1018</u>	20% of base FAR	Planned Development
Streetscape Improvements	<u>17-4-1019</u>	20% of base FAR	Planned Development
Transit Station Improvements	<u>17-4-1020</u>	20% of base FAR	Planned Development
Pedway Improvements	<u>17-4-1021</u>	20% of base FAR	Planned Development
Adopt-A-Landmark	<u>17-4-1022</u>	20% of base FAR	Planned Development
Notes: DPD = Commissioner of the Department of Planning and Development; ZA = Zoning Administrator; PD = Planned Development approval process			

Chicago also uses other economic incentives which can be investigated in the Zoning Ordinance at <http://webapps.cityofchicago.org/zoning/default.jsp>.

NEW YORK CITY

New York City offers a wide array of economic incentives. Included are bonuses for providing good site planning, common space, community facility space, enclosed parking, residential plazas, and urban plazas or arcades in connection with mixed use buildings. For further details on New York City zoning, reference <http://www.ci.nyc.ny.us/html/dcp/html/zone/zonetext.shtml>.

MINNEAPOLIS

Minneapolis uses economic incentive mechanisms; these include: transfer of development rights (TDR) and floor area ratio (FAR) premiums. The FAR premium zoning involves different types of spaces while the TDR zoning concentrates on historic space.

The FAR premium zoning in Minneapolis has been created to give incentives to developers to include amenities that provide public benefit. Below is a table that gives a list of the types of spaces that are eligible for FAR premiums. Further information about the program can be found in the Minneapolis Municipal Code, Chapter 549 Article 2.

Table 549-4 Premium Types in the Downtown Districts

Premium Type
Urban open space, small
Urban open space, large
Interior through-block connection
Skyway connection
Transit facility
Street level retail
Public art
Freight loading terminal
Sidewalk widening
Mixed-use residential
Historic preservation
Energy efficiency @ 35%
Energy efficiency @ 45%

The TDR program in Minneapolis concentrates on preserving and rehabilitating historic resources and structures in the downtown area. The program is set up to allow undeveloped floor area that contains historic resources to be transferred to other zoning lots. Further information about Minneapolis TDR can be found in Minneapolis Municipal

Code, Chapter 549 Article 3. Additional information is available at <http://www.municode.com/resources/gateway.asp?pid=11490&sid=23>.

BOSTON

Boston allows for increased FAR for providing certain types of ground level spaces, neighborhood businesses, on-site day care facilities, community service organizations, community health centers or clinics, substantially rehabilitated theaters, temporary housing shelters, and nonprofit cultural uses. For more information see the Boston Municipal Code at <http://cityofboston.gov/bra/zoning/downloadZone.asp>.

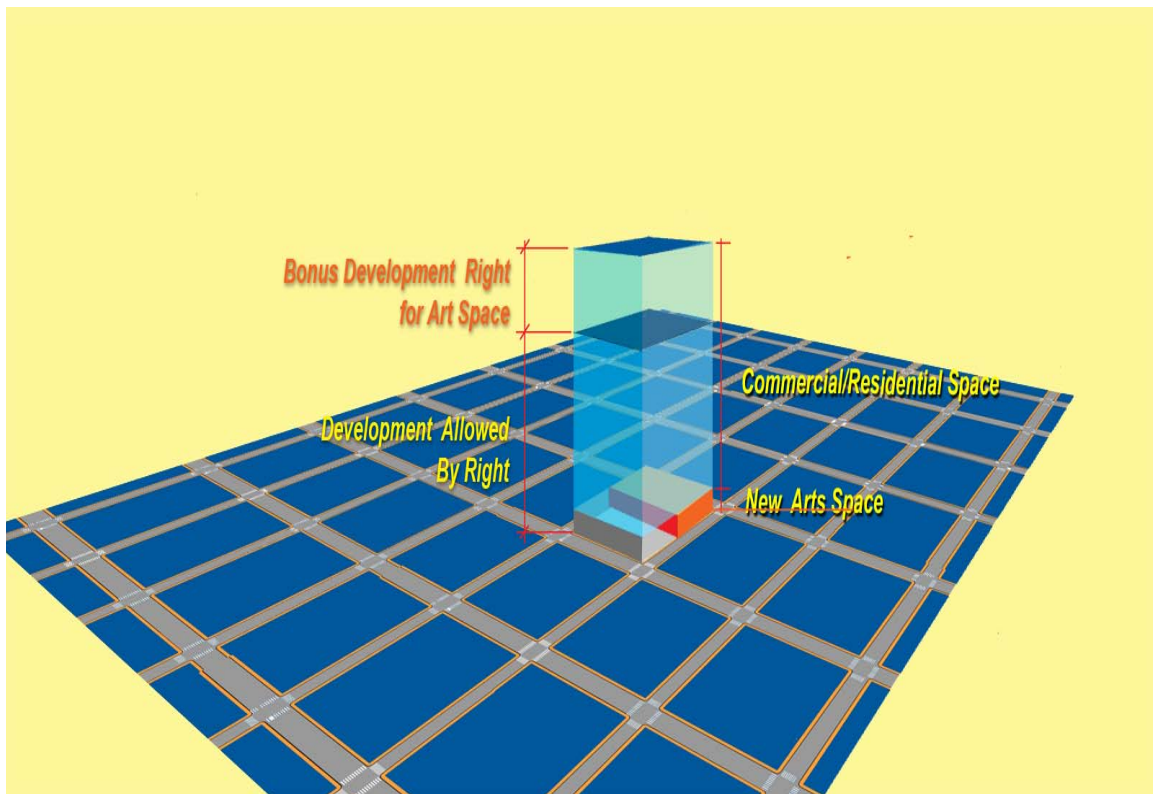
Application

How can incentive programs be created to ensure that arts spaces are part of the redeveloping neighborhoods? This section of the report shows how incentive programs can be applied to encourage the private sector to create space in new developments for arts uses. Bonus density incentives are a low cost solution and accordingly the discussion below will focus primarily on the how they are applied. Process incentives can be used to obtain public benefits and a mention of their applicability is worthy of discussion.

Development “Bonus” For Integrating Arts Space within a Development

When a developer provides arts space within a new development, it consumes some of the allowed developable area. The developable area is reduced by the volume dedicated to the arts space. Without compensation, this inclusion of arts space is a diminishment of the overall value of the project. To compensate the developer, additional development area can be added to the overall project volume, by either reducing bulk and/or setback restrictions or by increasing the project allowable height. The figure below shows the inclusion of arts space on the ground floor in exchange for increased building height beyond what is allowed by the zoning code.

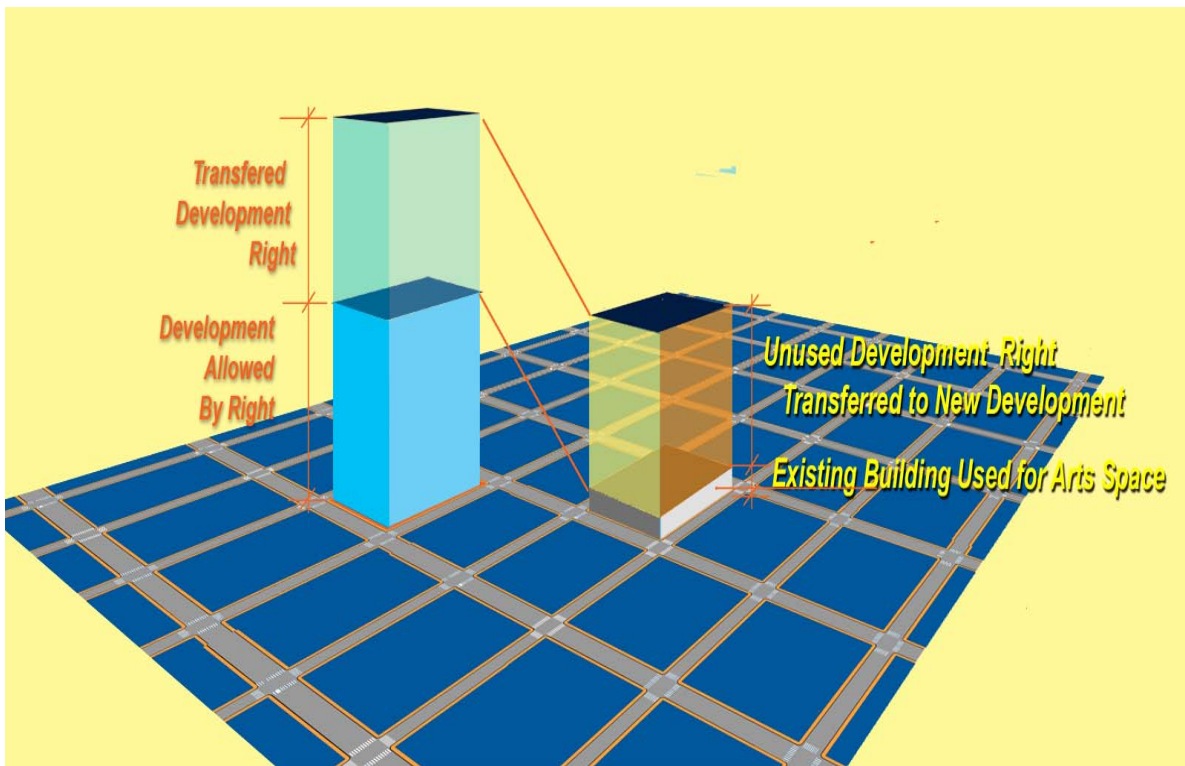
Figure 1 - Development “Bonus” For Integrating Arts Space within a Development



Transfer of Development Rights for Off-Site Arts Space

When a new development does not integrate arts space within the project itself, but provides arts space on a different site within the planning area, the unused development capacity of the arts space project can be transferred. In this way, the development capacities of both sites are fully utilized. The unused development volume of the arts space site (the “sending” site) is transferred to the new development site (the “receiving” site). If the sending arts space project is significantly smaller than the maximum development “envelope” some receiving sites could be significantly taller than the neighboring developments that are built to the permitted height limit. The urban design implications of this difference will change the overall urban design character of the neighborhood and warrants careful consideration. Figure 2 below shows a site where a single-story arts space is created and the unused development rights are transferred to a neighboring development.

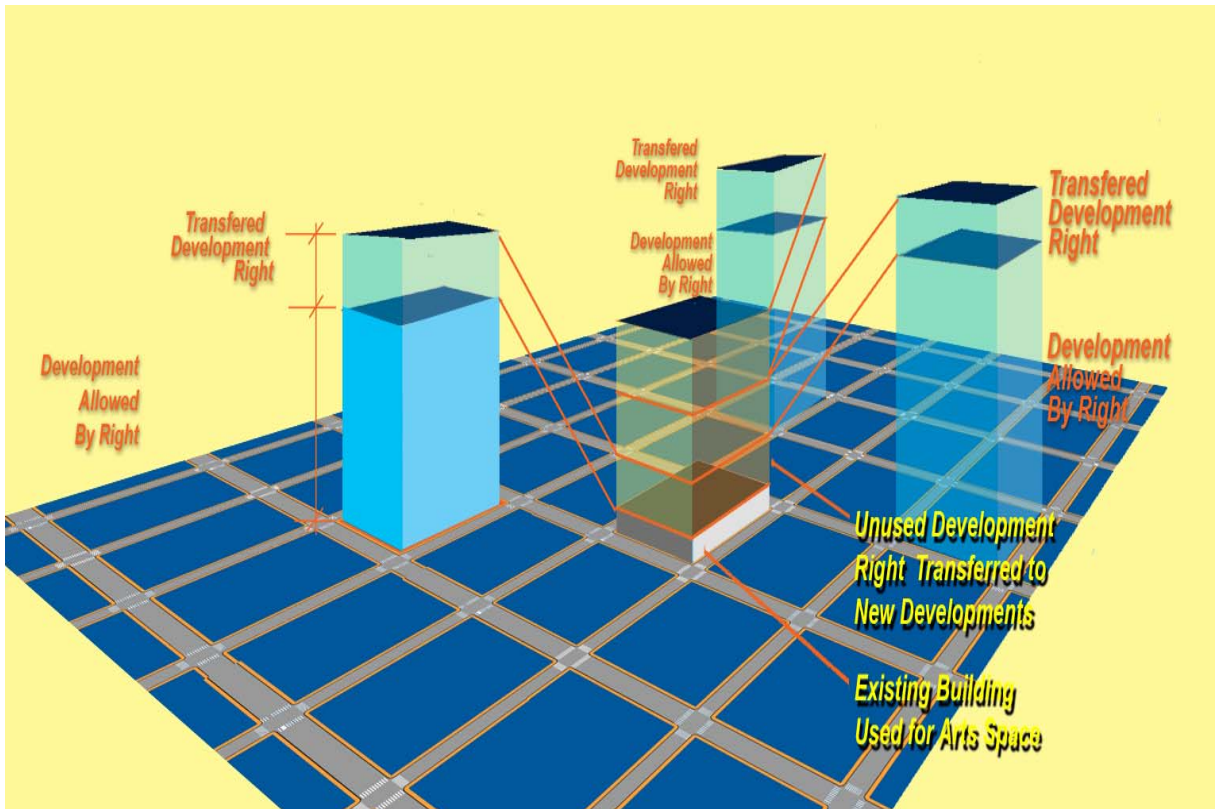
Figure 2 - Transfer of Development Rights for Off-Site Arts Space



Development Rights “Banking”

Similar to the transfer of development rights mechanism, a number of new projects could share the unused development rights of a common arts space facility. In this way, a group of projects could benefit from additional height, reducing the overall height difference between conventional and “bonused” projects. A development rights bank can be created by the City or another entity. The rights are held until purchased for application in a new development. Figure 3 shows how the development rights are created and distributed.

Figure 3 - Development Rights “Banking”



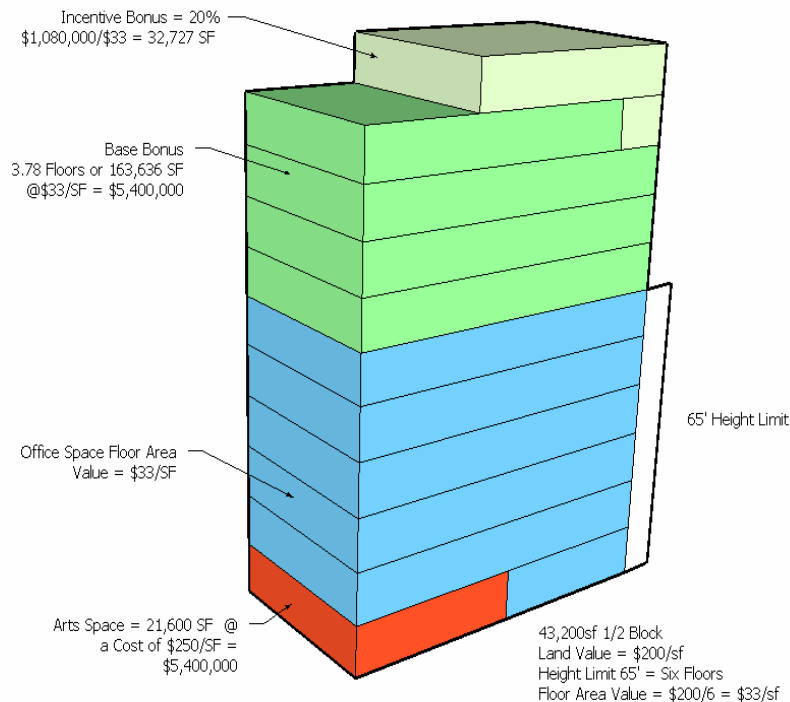
Financial Implications

If the developers of new buildings are asked to provide arts space in their new projects, what are the financial implications? It is reasonable to suggest that if the developer provides arts space free or at a reduced rental rate for arts users, he/she should be compensated financially for providing the public benefit.

What does it cost for the developer to provide the arts space? Given the limited scope of work for the assignment, the following examples are not definitive but rather illustrative.

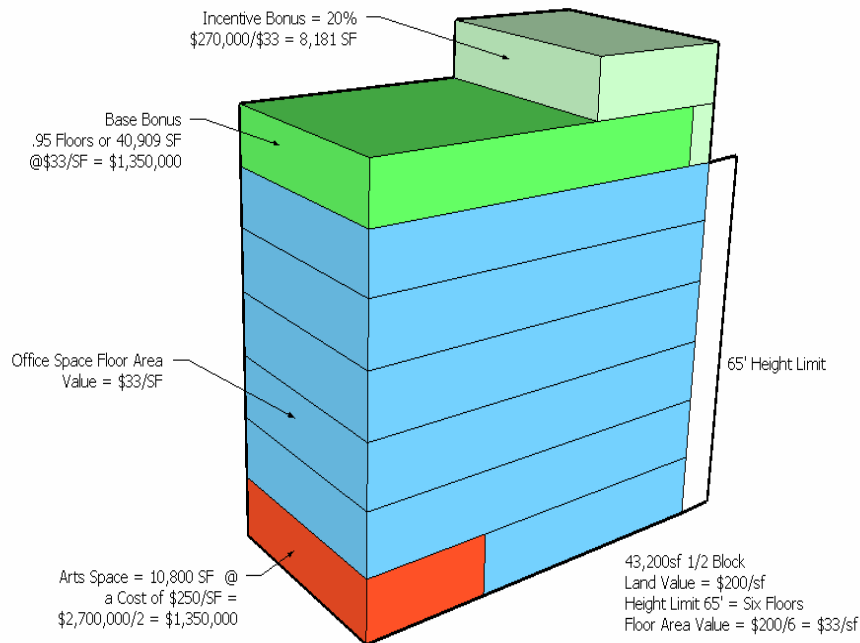
The first example involves a typical 43,200 square foot half-block located in the South Lake Union Neighborhood redeveloped with a new six-story multi-family or office building. The new six-story development measures 259,200sf. The cost of the new development, including land, hard costs, soft costs, and profit, ranges from between \$225 to \$325/sf, depending on the type and nature of project. If for example the developer provides space, free or charge to an arts user, it is not unreasonable to suggest that his/her cost would be \$250/sf. As an incentive for providing the space the developer would need to receive more than equal value in exchange for giving up its rights.

Using a bonus density incentive, as described above, the developer could be provided additional development rights (building mass or height) in exchange for providing arts space. In the market today the additional (bonus) rights can carry a value of \$25 to \$40/sf of space, depending on the zoning designation. For this example, it is assumed that the additional rights are valued at \$33/ square foot. As shown by the image below, to off-set the cost of providing 21,600sf of arts space, costing the developer \$250, the developer would need to have the right to increase the size of the project by more than 163,636 square feet or a ratio of one square foot of arts space to 7.57 square feet of bonus space ($\$250/\$33 = 7.57$). This figure equally off-sets the cost of the arts space and an incentive bonus needs to be put in place to move the developer to action. In the diagram below, a 20% incentive bonus provides and additional 32,727 square feet, increasing the size of the project by a total of 196,363 square feet.



The second example involves a smaller arts space and the arts user contributing to its cost. The same typical 43,200 square foot half-block located in the South Lake Union Neighborhood is redeveloped with a new six-story multi-family or office building. The six-story development, if only built to the permitted density measures 259,200sf. The cost of the new development is the same as the previous example, ranging from between \$225 to \$325/sf, depending on the type and nature of project. The example assumes the arts space is 10,800 square feet, half the size of the space used in the previous example.

Rather than providing the arts space at no charge to the arts user, the space is provided at a rent equal to one-half the current market rate at the time of construction. Using a bonus density incentive, as described above, the developer is provided additional development rights in exchange for providing the arts space. The development rights are valued \$33/sf of space. To off-set the cost of providing 10,800 square feet of arts space, costing the developer \$250, the project must be increase in size by 40,909 square feet. A 20% incentive bonus provides and additional 8,181 square feet, increasing the size of the project by 49,090 square feet.



It is important to recognize the nature of the examples. In practice, the incentive calculations are complex and best performed by an appraiser or analyst who understands the market dynamics at the time the incentives are contemplated. The variability in the figures can be significantly impacted by the height of the building, current market rent, the cost to construct, and/or the supply of transferable air-rights.

Process Incentives

Process incentives can be used to entice developers or owners to provide arts spaces. Process incentives are intended to alleviate permitting burdens for the developers and minimize any extra procedures to create dedicated arts space.

Permitting and approval of development projects can be time consuming and costly. Cities can facilitate approval by reducing the time and complexity to achieve development entitlements for projects that include arts space. As a foundation to these incentives, a clear definition of the arts space, or raw spaces that could accommodate a range of arts space, is needed. If a development project proposes the appropriate spaces, it could be “fast tracked” through the permitting process. This “fast tracking” can be in the form of expedited or streamlined permitting for the entire project, not just the arts space portion. In addition, after the master use permit process is completed, projects that include arts spaces can also benefit from prioritized construction reviews.

The process incentives can include completed, generic environmental review criteria for arts spaces (i.e., a pre-approved checklist for the arts space, including trip generation standards and definition of and metrics for other environmental characteristics).

Where projects need to go through design review, projects can be granted more design deviation flexibility and provided with a commitment for a one design review cycle. In the same way, Design Commission review of any project that includes street/alley vacation or sky bridge approvals, should also be guaranteed a one review approval (or conditioned approval) process.

Implementation

Arts space is part of the social fabric that makes our neighborhoods vital. The financial resources of most arts organizations are limited and accordingly they seek the most economical real estate solutions. They most often occupy older buildings that will, at some time, be torn down and redeveloped. The cost to occupy new buildings is prohibitive and arts users will eventually be forced to move to a new fringe neighborhood locations. It is reasonable to suggest that it is in the public interest to retain art uses in the City's downtown neighborhoods.

The City has adopted policies that support the arts community, having recognized the inherent public benefit. The importance of maintaining affordable real estate for arts uses needs to be articulated as public policy. Once the policy is in place, measures to support the policy can be developed and be codified.

Arts space preservation can be accomplished through a variety of measures. The conventional measures include direct public subsidies, zoning and process incentives.

Direct Public Subsidies would involve the funding of the cost of arts spaces by the City using its taxing authority. The approach is interesting and may be worth further discussion but is less desirable because it competes with other demands on public resources.

Zoning Incentives are commonly used in Seattle and throughout the country to obtain public benefits in exchange for increased profit by the private sector. The general nature of zoning incentives is described above. The work involved to design the incentive program is beyond the scope of this assignment; however, the following outlines key considerations and can be used to guide the design process. The child care provisions of the City's Municipal Code Housing and Child Care Bonus Program provide a framework for creating an incentive program.

The following outlines some, but not all, of the elements and considerations for an art incentive program:

1. Description of the purpose of the program.
 - a. Voluntary nature of the program and agreement with the City.
2. Definition of arts space and permitted use.
 - a. What type of use qualifies? Gallery, arts back offices, performing arts, etc.
3. The mechanics of the bonus calculation.
 - a. Measure value of space provided and bonus floor area by appraisal at the time of the award. Avoid fixed dollar values that will become obsolete over time.
 - b. Define space requirements. Street frontage, clear heights or spans, shared parking, etc.
4. The transferability of the bonuses.
 - a. Provide for neighborhood rather than single block bonus transferability.
 - b. Bonuses related to other zoning bonus incentives.
5. The term of the agreement or use.
 - a. Avoid short terms. They will just prolong the elimination of arts space. Recognize shorter terms have greater value to developers.
6. Fees in lieu of providing space.
7. Establish means for administration.
8. Administration and decision authority.
9. Exceptions.

Other Considerations

To verify the redevelopment potential of South Lake Union Neighborhood, presented in this report, a formal evaluation by an architect is necessary to verify that those properties identified as having the potential to serve arts uses can physically accommodate the uses.

Supervision of the zoning incentive programs is critical to their success. It is important that regulations can be clearly interpreted and are carefully administrated due to the case-by-case nature of the development projects involved.

Artist Clearinghouses exist in major US cities and are a concept that could exist in Seattle. The clearinghouse is a means of matching artists and developers. The artist clearinghouse serves as the keeper of a database of artists seeking space and developers seeking to provide arts benefits. It also provides technical expertise and helps the parties negotiate the transaction. Some cities with artist clearinghouses are Oakland, CA; Salt Lake City, UT; Minneapolis, MN; and San Francisco, CA.

Subsidized Artist Live/Work Space, applied in Seattle on a limited basis, is another possibility that is worthy of further discussion in Seattle. Such a program involves the government assistance for development of units that contain living quarters and work space. These units could be created in existing non-residential structures or in spaces specifically constructed for such use.

Conclusion

Much of the South Lake Union neighborhood can be characterized as underdeveloped and transitioning to higher and better uses. Older, low density industrial and office buildings are giving way to new higher density residential, office, and retail uses. Roughly half of the land in the neighborhood has potential for redevelopment.

Until all of the older buildings are removed to make way for new development, economical options for arts space users will exist. The easiest requirements to fill are for gallery or arts office space uses. Because of the modest size and configuration needs, 1,000 to 5,000 square feet, many options exist today and it is logical to suggest that they will exist for quite some time in the future. Medium sized arts spaces, theater/film/art, can be accommodated today, however the choices less abundant, with possibly only thirty buildings from which to choose. It is opportunities for large, affordable spaces that can accommodate performing and multi-disciplinary art uses that are limited today, possibly as few as fifteen buildings in the neighborhood. It is these spaces that are most threatened by the redevelopment that is taking place in the neighborhood.

The relationship between the value of land and the rent derived from the older buildings can be used to measure properties' potential for redevelopment. Land value is largely a function of the density and uses permitted by the zoning code. In the South Lake Union Neighborhood the permitted density varies from structures that can be 40' tall to upwards of 125'. It is reasonable to suggest that land in the area is selling for between \$150 and \$225/sf and higher. The valuations of many older buildings in the area are equal to or below the value for unimproved land. Owners and developers seeking to capture the greatest value for their land are choosing to sell or redevelop to higher uses.

Because arts uses are what make the South Lake Union Neighborhood a desirable place, it is natural to look for ways to ensure that arts uses are a permanent part of the landscape. Seattle, like other major cities across the country, have at its disposal, legislative tools that can be used to provide incentives for the private sector to provide for uses that bring public benefit, but may not be the highest economic use. These incentives fall into three categories: public subsidies, zoning incentives, and process incentives. Of the three, zoning incentives are the most popular because the others require an out-right expenditure by the municipality.

Zoning incentives allow a developer to increase the size of a project by providing public benefit space. The increased density can be used on-site or transferred to another site. In the context of arts space as a public benefit, a developer would provide a completed space for free or at a reduced rate in exchange for increased density, on-site or off-site. To motivate the private sector to make the trade the value of the increased density needs to exceed the value of the arts space, possibly by 20% or more. The value can be established by formula or by appraisal; the appraisal is the most reliable and useful method because it allows for changing market conditions.

Recognized zoning incentives and measures can be used to attract and sustain an active artist population in downtown Seattle. This report outlines the nature of the changes that are occurring in fringe central business district neighborhoods, the market dynamics at work, and the nature of incentives that can be used to create public benefits. Further, a framework has been created that can be used to guide further discussions that can lead to implementation of measures that will create incentives for the private sector to make arts spaces a permanent part of Seattle's close-in neighborhoods.

Nature of the Assignment

The real estate analysis has been completed as a "Broker's Price Opinion" and is not an appraisal. Chapter 18.140 of the revised Code of Washington defines a "Broker's Price Opinion" as an oral or written report of property value that is prepared by a real estate broker or salesperson licensed under 18.85 RCW. As such, the limited level of investigation and analysis may affect the conclusions presented in this report.