Implementation of Mandatory Housing Affordability Requirements in the Chinatown/International District

Director’s Report

April 2017

Table of Contents

SUMMARY

This proposed legislation would increase development capacity and implement Mandatory Housing Affordability (MHA) requirements in the Chinatown/International District. This legislation is a piece of the Housing Affordability and Livability Agenda (HALA), a multi-pronged approach to address the housing affordability crisis in Seattle. It is estimated that the MHA requirements implemented through this proposal will produce 150 new affordable housing units over 10 years.

Under MHA, developers would be required to contribute to affordable housing as part of most commercial or residential development. This contribution would be met by including affordable housing units within new development (performance) or paying into a fund that will support development of affordable housing (payment). This legislation also provides for additional development capacity in the form of an increase in the amount of height or floor area in zones where MHA would apply. By enacting these two changes together, the proposed legislation will both increase the supply of new market-rate housing and result in the creation of new rent- and income-restricted housing, both of which support the City's growth management and housing policies and will help address housing affordability.

In addition to this proposed legislation, it is anticipated that MHA requirements will be implemented in zones that allow commercial and multi-family development citywide. More information on these initiatives and HALA generally is available at: www.seattle.gov/HALA.

BACKGROUND

The Housing Affordability and Livability Agenda (HALA)

In September 2014, the City Council adopted Resolution 31546, in which the Mayor and Council proposed convening a Housing Affordability and Livability Agenda Advisory Committee to evaluate potential housing strategies. In July 2015, the 28-member Advisory Committee forwarded a report to Mayor Murray and City Council with 65 recommendations focused on increasing the production of market-rate and affordable housing, strategically preserving housing to minimize displacement, providing protections for tenants and low-income homeowners, streamlining permitting systems to reduce housing costs, and leveraging resources for production and preservation of affordable housing. Together, it was anticipated that these recommendations would allow Seattle to produce 30,000 market-rate and 20,000 affordable units over the next 10 years. Implementing MHA requirements in conjunction with increases in development capacity was a key recommendation of the committee.

MHA Commercial and Residential Framework Legislation

MHA requirements are located in two Chapters of the Seattle Municipal Code (SMC): Chapter 23.58B containing requirements for commercial development and Chapter 23.58C containing requirements for residential development. In November 2015, the City Council passed Ordinance 124895 which created Chapter 23.58B and established the framework for the commercial component of MHA. In August 2016, the City Council passed Ordinance 125108 which created Chapter 23.58C and established the framework for the residential component of MHA. In December 2016, the City Council passed Ordinance 125233 which updated Chapter 23.58B. Together, these pieces of legislation set up the basic parameters and procedural requirements that apply to commercial and residential development where MHA will apply, but did not actually implement the requirements in any area of Seattle.

The proposal addressed in this report would implement MHA requirements codified through the framework legislation in certain areas in connection with increases in development capacity.

Public Engagement

The City released an initial proposal for implementing MHA in Downtown and South Lake Union, including the Chinatown International District in November 2015. Input on this proposal was gathered through an open house February 24, 2016; letters, emails and other correspondence from individuals and groups; and presentations and discussions with the following organizations:

- Alliance for Pioneer Square,
- Belltown Community Council,
- Building Owners and Managers Association (BOMA),
- Chinatown-International District Business Improvement Association,
- Denny Triangle Neighborhood Association,
- Downtown Residents Alliance,
- Downtown Resident's Council,
- Downtown Seattle Association,
- InterIM,
- International District Special Review Board,
- NAIOP,
- Pioneer Square Preservation Board,
- Pioneer Square Residents Council,
- Seattle Chinatown-International District Preservation and Development Authority (SCIDpda),
- Seattle Planning Commission, and
- South Lake Union Community Council.

A summary of comments heard during this process is available online. This document reflects the proposal as updated in response to the feedback that was heard.

PROPOSAL

The proposed legislation would allow additional development capacity in the form of an increase in the amount of height or floor area allowed by zoning in most zones in the Chinatown/International District, with concurrent implementation of MHA requirements in those zones. Where MHA requirements apply, most commercial or residential developments will be required to contribute to affordable housing by including affordable housing within new development or paying into a fund used to support development, or in some cases preservation, of affordable housing.

Affected Zones

This proposal would affect all zones in the Chinatown/International District except for IDM 65-150 and IDM 75-85 zones. The IDM 75-85 zone represents the Chinatown-International District national historic district, which is excluded from this proposal due to the unique historic character of the area. The IDM 65-150 zone is subject to specific planned community development regulations and is already built out.

A map of the affected zones is shown on the next page.

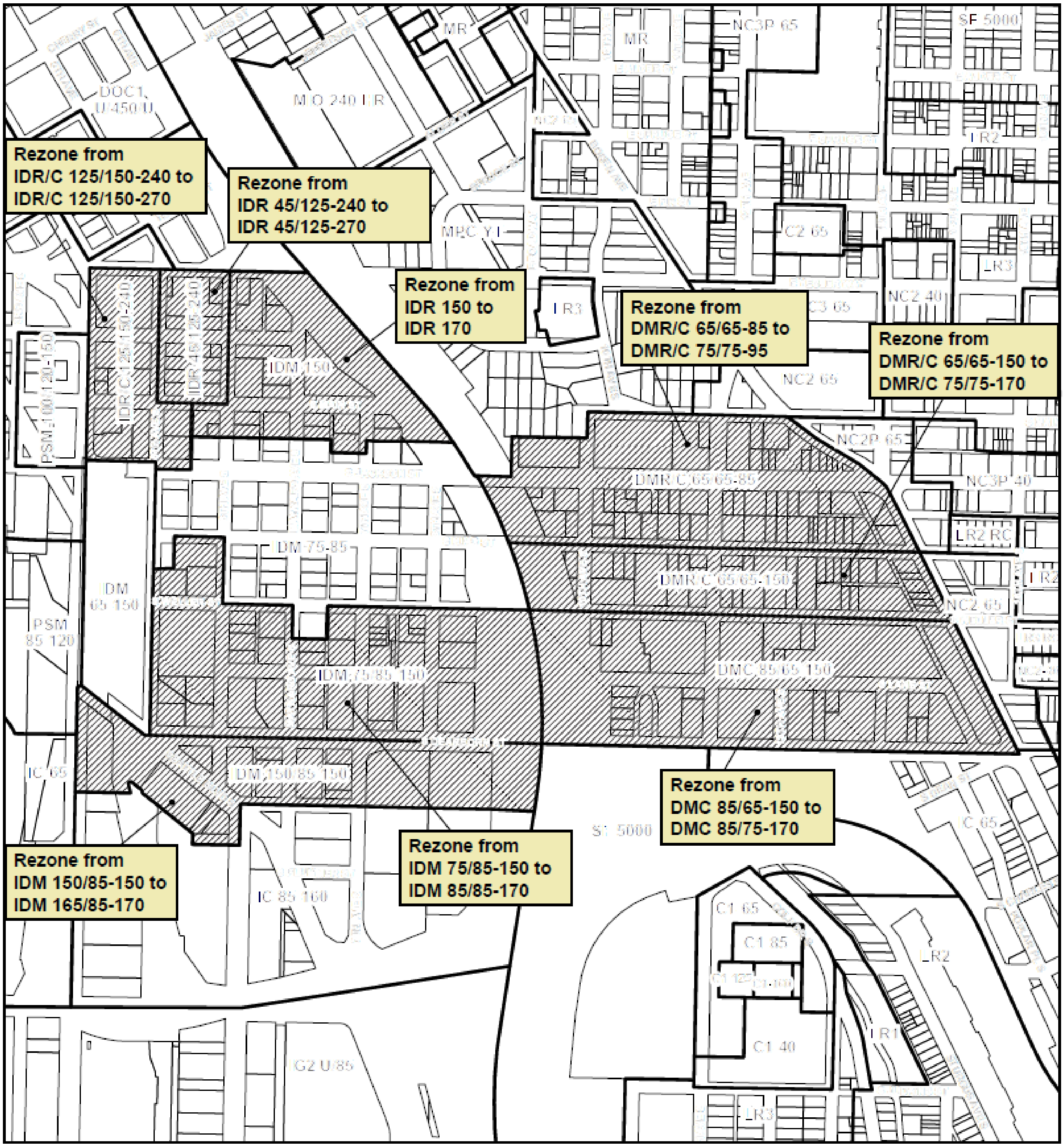


Exhibit A: Chinatown–International District Rezone Map

Rezone Area

0 200 400 800 Feet

Prepared February 8, 2017, by OPCD.

Development Capacity

Additional development capacity would be given in each zone that is subject to MHA affordable housing requirements. The chart below details the additional capacity that would be added for each zone where the affordable housing requirements apply. This proposal would increase the development capacity in the Chinatown/International District by about 11% overall. Visual depictions of the additional capacity for some zones are available in the MHA Downtown and South Lake Union Urban Design Study.

Table A: Summary of Development Capacity Proposal

Zone		Additional Capacity	
Existing Name	**New Name**	**Residential**	**Commercial**
DMC 85/65-150	DMC 85/75-170	20 feet height	1 FAR increase
DMR/C 65/65-85	DMR/C 75/75-95	10 feet height[1]	0.5 FAR increase, 10 feet height
DMR/C 65/65-150	DMR/C 75/75-170	20 feet height, 10% tower floor plate above 125 feet[1]	0.5 FAR increase, 10 feet height
IDM 75/85-150	IDM 85/85-170	20 feet height	1 FAR increase, 10 feet height
IDM 150/85-150	IDM 165/85-170	20 feet height	1 FAR increase, 15 feet height
IDR 45/125-240	IDR 45/125-270	30 feet height, 5% increase in coverage above 85 feet[1]	0.5 FAR increase
IDR 150	IDR 170	20 feet height[1]	0.5 FAR increase
IDR/C 125/150-240	IDR/C 125/150-270	30 feet height, 5% increase in coverage above 85 feet[1]	1 FAR increase

[1] In these zones, height breakpoints for coverage and floor plate limits would also be modified

Increasing development capacity in the zones listed in the chart is consistent with the policies of the City's Comprehensive Plan. The need for more housing is clear: Seattle is experiencing rapid growth in both residents and jobs. Increasing demand for limited housing stock has resulted in significant increases in rents throughout Seattle. Creating a significant amount of new residential development is critical to minimizing increases in the cost of housing.

Numerous policies of the City's Comprehensive Plan support the appropriateness of the Downtown Urban Centers, including the Chinatown International District, as locations for both residential and commercial development. Relevant policies in the Comprehensive Plan are including in Appendix A. Chinatown/ID's location next to the largest intermodal, high-capacity transit center in the City, whose importance will continue to grow with the completion of Sound Transit 2 and 3 light rail to the east, south, and north, also supports more residential and commercial development in this area.

Affordable Housing Requirements

Most development in zones where development capacity is increased will be required to contribute to affordable housing by either constructing units of affordable housing (the performance option) or paying into a fund used to support development of affordable housing (the payment option). Specific standards for using either the payment or performance option are included in SMC Chapter 23.58B for commercial development and Chapter 23.58C for residential development. The performance and payment requirements vary by zone and are shown in Table B.

Table B: Summary of Payment and Performance Amounts

Zone		Residential		Commercial	
Existing Name	New Name	Payment	Performance	Payment	Performance
DMC 85/65-150	DMC 85/75-170	$20.75	7.0%	$ 8.00	5.0%
DMR/C 65/65-85	DMR/C 75/75-95	$20.75	7.0%	$ 8.00	5.0%
DMR/C 65/65-150	DMR/C 75/75-170	$20.75	7.0%	$ 8.00	5.0%
IDM 75/85-150	IDM 85/85-170	$20.75	7.0%	$ 8.00	5.0%
IDM 150/85-150	IDM 165/85-170	$20.75	7.0%	$20.75	7.0%
IDR 45/125-240	IDR 45/125-270	$20.75	7.0%	$ 8.00	5.0%
IDR 150	IDR 170	$20.75	7.0%	$ 8.00	5.0%
IDR/C 125/150-240	IDR/C 125/150-270	$20.75	7.0%	$20.75	7.0%

Performance percentages are calculated for residential development as a percentage of total units and for commercial development as a percentage of gross floor area that would be required to be devoted to affordable housing (measured by the rentable area of units). Payment amounts would be measured in dollars per gross square foot of residential and commercial development, excluding portions of buildings that are underground as well as commercial area exempted from floor area ratio (FAR) calculations such as certain ground floor retail. Payment amounts will adjust automatically on an annual basis in proportion to changes in the Consumer Price Index (CPI).

The payment and performance amounts proposed for the Chinatown International District are consistent with payment and performance amounts proposed for areas outside of Downtown and South Lake Union that are in the mapped High area. Existing rents in the Chinatown International District suggest it is appropriate to be part of the High area.

Consistent with the approach in other areas, commercial payment and performance amounts would be higher in zones that allow commercial development above 95 feet due to higher viability of commercial development in these zones. Commercial development tends to require steel and concrete construction, which is more expensive than wood-frame construction. Residential development tends to require steel and concrete above 95 feet, but utilizes cheaper wood-frame construction below 95 feet. Consequently, commercial development tends to be more viable in zones allowing greater height because it is competing against residential buildings that require steel and concrete as well.

Performance Option

All affordable housing provided through the performance option must meet a set of standards outlined in SMC Chapters 23.58B and 23.58C.

In general, the standards for affordable housing are as follows:

Location: Affordable housing must be located on the same site as the development being permitted for residential development. For commercial development, the affordable housing may be located on the same site or may be produced offsite within the same urban center or village, or within one mile of the development if the development is not in an urban center or urban village.

Duration of affordability: Rental housing provided through the performance option must remain affordable for 75 years, except that in the case of a residential development that is demolished or changed from residential use, or converted to ownership housing, the requirements expire at that time. In the event of such demolition, change of use, or conversion to ownership housing, the owner must make a payment in lieu of continuing affordability.

Distribution: Affordable housing units must be generally distributed throughout each structure within the development containing residential units.

Comparability to other units: Affordable housing units must be comparable to market-rate units in terms of number of bedrooms and bathrooms and size. The units must also have substantially the same functionality as other units and households occupying affordable housing must be allowed the same access to development amenities as other tenants. Tenants of affordable units must also be offered lease terms that are comparable to those of market rate tenants.

Public subsidy: An applicant for a permit may seek public subsidies for its development, but the affordable housing units provided to satisfy MHA requirements must be different than those provided as a condition of such subsidy or incentive. For example, if 20% of the total units in a development must be rent- and income-restricted in order to qualify for a residential property tax exemption using Seattle's Multifamily Property Tax Exemption (MFTE) program, those units must be in addition to any units provided to satisfy affordable housing requirements under MHA.

Eligible households:

- For a rental unit with a net area of 400 square feet or less, the affordable housing may serve only households with incomes no greater than 40% of AMI at initial certification and no greater than 60% of AMI at annual recertification;
- For a rental unit with a net area greater than 400 square feet, the affordable housing may serve only households with incomes no greater than 60% of AMI at initial certification and no greater than 80% of AMI at annual recertification;
- For an ownership unit, the affordable housing may be sold only to households with incomes no greater than 80% of AMI at initial occupancy and that meet a reasonable limit on assets as defined by the Director of Housing

2016 Income Limits			
Household size	40% of AMI	60% of AMI	80% of AMI
1	$25,320	$37,980	$50,640
2	$28,920	$43,380	$57,840
3	N/A	$48,780	$65,040
4	N/A	$54,180	$72,240

Source: Office of Housing, based on Income Limits as published by U.S. Department of Housing & Urban Development Program Limits for the Seattle-Bellevue HUD Metro Fair Market Rent Area (King-Snohomish Counties).

2016 Rent Limits			
Net Unit Size	Unit type	Income limit	Rent limit
area ≤ 400 square feet	All units	40% of AMI*	$633
area > 400 square feet	Studio	60% of AMI	$949
	1 BR	60% of AMI	$1,017
	2 BR	60% of AMI	$1,219
* Rent limit is 40% of AMI if net unit area is 400 square feet or less			

Source: Office of Housing, based on Income Limits as published by U.S. Department of Housing & Urban Development Program Limits for the Seattle-Bellevue HUD Metro Fair Market Rent Area (King-Snohomish Counties).

Rental Rates for affordable housing for renters:

- Rent levels: Monthly rent (including a utility allowance and any recurring fees required as a condition of tenancy) may not exceed 30% of the income limit for an eligible household.
- Annual income certification. Owners must recertify tenant incomes and household sizes annually. Owners must attempt to obtain third party verification whenever possible.
- Over-income households: If a tenant of an affordable housing unit is determined, upon recertification, to no longer be an "eligible household," the owner of the development must provide a comparable substitute unit of affordable housing as soon as one becomes available. In addition, the owner of the development must provide at least six months' notice of any rent increases to over-income tenant households once the unit substitution has occurred.

Sales Price for affordable ownership housing:

- Affordable sale price: The initial sale price for affordable ownership housing will be calculated so that ongoing housing costs do not exceed 35% of the income generated by a household making 65% of AMI. Establishing an initial sale price based on a household making 65% of AMI rather than 80% of AMI allows for equity growth for individual homeowners while maintaining affordability for future buyers. The Director of Housing will establish by rule the method for calculating the initial sale price including standard assumptions for determining upfront housing costs, including the down payment, and the ongoing housing costs, which shall include mortgage principal and interest payments, homeowner's insurance payments, homeowner or condominium association dues and assessments, and real estate taxes and other charges in county tax billings. The Director of Housing may establish a maximum down payment amount for eligible households at initial sale of an affordable ownership unit.
- Affordable resale price: The sales price subsequent to the initial sale will be calculated to allow modest growth in homeowner equity while maintaining long-term affordability for future buyers.

Payment Option

Developers who choose to use the payment option would be required to provide a cash contribution to the City that would be used to develop, or in some cases preserve, affordable housing. The Office of Housing will deposit all cash contributions into a special account established solely for the purpose of supporting housing for renter households with incomes at or below 60% of AMI, or owner households with incomes at or below 80% of AMI. The Office of Housing will invest funds strategically in long-term affordable housing developments across the city.

Relationship to Incentive Zoning

In some zones, a developer may currently achieve extra floor area beyond a base height or base floor area ratio (FAR) limit up to the maximum height or FAR limit by using voluntary incentive zoning. Incentive zoning is currently an option in most Chinatown/International District zones, where Land Use Code provisions generally require the provision of affordable housing and non-housing benefits such as on-site open space or transfer of development rights to achieve extra floor area.

Incentive zoning requirements relating to affordable housing will be satisfied by complying with MHA; however, the applicant will still need to satisfy any applicable non-housing incentive zoning requirements that exist.

Modifications

OPCD comprehensively reviewed applicable development standards in the Chinatown/International District zones in which residential development capacity is proposed to be increased to determine whether any development standards could preclude the additional capacity from being achieved. OPCD did not find any existing development standards that could preclude the additional development capacity from being achieved under existing regulations. However, to address potential unanticipated scenarios where the additional capacity could not be achieved, the proposal includes a provision by which payment and performance amounts under the MHA-R program would be modestly reduced if a development could not achieve certain size thresholds. The processes for modifying payment and performance amounts is described below.

A reduction of the payment and performance amounts would be allowed if development standards in Title 23 would prohibit use of the additional development capacity that was provided as part of this proposal. The maximum reduction would be 10% for zones that currently have incentive zoning and 25% for zones that don’t. The actual percent reduction would be based on the percentage of the additional development capacity that a development is unable to access due to development standards in the Land Use Code.

ANALYSIS OF DISPLACEMENT POTENTIAL

Displacement is the relocation of residents, businesses, or institutions from an area due to the burdens placed on them by the rising cost of housing or commercial space. Displacement can occur gradually over time as residents, business, and institutions make chooses about their location (often called “indirect” displacement) or may be precipitated by events affecting a specific building such as a large, sudden rent increase or physical relocation due to building repairs, rehabilitation, or demolition (often called “direct” displacement). In a city experiencing population and employment growth, new development has both positive and negative effects on the amount of displacement that occurs. Demolition of existing buildings can eliminate some lower-cost housing and force existing tenants out of their homes. However, inadequate growth in the supply of housing leads to housing price increases as a growing number of people compete for a limited number of housing units. Increasing rents not only compound the burden that low-income households face but also incentivize property owners to rehabilitate lower-cost apartments to accommodate moderate- and high-income households, further reducing the supply of lower-cost units. Demolition of low-cost retail locations can also force existing business out of their locations. However, new development also brings new customers for local businesses and tends to result in additional retail space in mixed-use buildings.

Under this proposal, new development subject to MHA will be required to contribute to the creation of new rent- and income-restricted affordable housing units, which will help low-income residents stay in Seattle.

In developing this proposal, the City analyzed whether the proposal posed a risk of increasing the displacement of residents, especially marginalized populations, and the business and institutions that serve them. Below is a summary of existing conditions in the area and likely outcomes of the proposed rezone.

Area Description

The Chinatown/International District represents a regional cultural and commercial hub for the Asian-American community. Most floor area in the area is used for commercial purposes. In particular, the Chinatown/International District contains a diverse variety of retail, food, and other business. As of 2010, the area had a residential population of 3,466 people (about 0.6% of the city as a whole). This population is significantly more diverse, lower-income, and older than the population of Seattle as a whole. 56.9% of residents identified as Asian, compared to 13.8% citywide. 95% of the area population are renters with an average household size of 1.44 people (compared to 2.06 citywide) and a medium age of 52 (compared to 35 citywide). Information for the Community Reporting Area, which also includes part of Pioneer Square, found that 40.6% of residents were living below the federal Poverty Line, compared to 15% citywide (Source: Seattle Neighborhood Portal). The Seattle 2035 Growth and Equity Analysis identified the Chinatown/International District as an area with high displacement risk and high access to opportunity.

Despite a significant at-risk population, the potential for direct displacement of residents is very small in this area. An analysis of parcels that could potentially be redeveloped over time was conducted as part the MHA Downtown South Lake Union Urban Design Study. This study identified only 4 residential units in structures that we considered potentially redevelopable. This outcome is due to the presence of the Chinatown/International District National Historic District which results in protections for many historic structures as well as the significant number of buildings that are owned and operated by local non-profits.

Likely Outcomes

The primary purpose of this proposal is to increase the supply of market-rate and affordable housing units produced in the Chinatown/International District. Both of these actions would help to address the underlying housing affordability issues that lead to displacement.

Development that is anticipated with or without this proposal would likely result in the demolition of existing housing units, a portion of which are likely to contain low-income tenants. However, the proposal is not likely to increase the amount of demolition that is likely to occur as the additional development capacity is more likely to result in larger buildings (e.g., taller structures or larger floorplates) than in entirely new buildings. This result is expected because the value of additional development capacity coupled with the cost of the new affordable housing requirements generally will not cause the viability of a project on any given site to change significantly. By allowing additional development capacity, the proposal will also tend to increase the size of new projects such that each project will help to satisfy additional housing demand.

The analysis also looked at existing low-cost retail districts which help to anchor existing cultural communities to the area. Since this proposal would not impact property in the IDM-75-85, which represents the area of the National Historic District, it is not likely to have a significant impact on this core business district. Outside of this area, development that is anticipated with or without this proposal could reduce the amount of low-cost retail space in these areas which could indirectly encourage displacement if it reduces the amount of specialized retail serving the community. At the same time, additional residential development could also help provide additional customers for local businesses. Overall, the proposal is not likely to have significant impact in commercial displacement as it is not likely to increase demolition.

Overall, given the increased number of market-rate and affordable housing units generated, the low number of existing resident units on redevelopment sites, the exemption for IDM-75-85 zones, and the limited impact on the rate of demolition, we anticipate that this proposal will reduce displacement within Chinatown/International District.

CONCLUSION

This proposal would implement a key recommendation of the HALA Advisory Committee to address the housing affordability crisis in Seattle. By supporting the provision of affordable housing as Seattle grows and providing additional development capacity, MHA will result in the creation of both new market-rate housing and new affordable housing units. By addressing these issues together, MHA represents an important step in realizing the City's goals of being an inclusive city that provides housing opportunities for everyone: all income levels, renters, homeowners, young people, seniors, disadvantaged persons, and future generations.

Appendix A: REZONE CRITERIA

The tables below analyze the proposal for additional capacity against the general rezone criteria and the criterial for height limits contained in the SMC Chapter 23.34. This analysis indicates that the proposal is consistent with existing guidelines for changes to zoning.

General Criteria

Criterion	Met?	Analysis
In urban centers and urban villages, the zoned capacity for the center or village taken as a whole shall be no less than one hundred twenty-five percent (125%) of the growth targets adopted in the Comprehensive Plan for that center or village. (SMC 23.34.008.A.1)	Yes	The proposal represents an increase in the development capacity available in the neighborhood. Thus, this criterion is met.
For the area within the urban village boundary of hub urban villages and for residential urban villages taken as a whole the zoned capacity shall not be less than the densities established in the Urban Village Element of the Comprehensive Plan. (SMC 23.34.008.A.2)	N/A	The proposal does not affect any hub urban villages or residential urban villages
The most appropriate zone designation shall be that for which the provisions for designation of the zone type and the locational criteria for the specific zone match the characteristics of the area to be rezoned better than any other zone designation. (SMC 23.34.008.B)	Yes	The proposal would not change the zone type for any specific zone.
Previous and potential zoning changes both in and around the area proposed for rezone shall be examined. (SMC 23.34.008.C)	Yes	This analysis takes into account the changes to zoning made in the area as part of 2001 Downtown rezone, 2006 Downtown rezone, and 2011 South Downtown rezone.
Council adopted neighborhood plans that apply to the area proposed for rezone shall be taken into consideration. (SMC 23.34.008.D.2)	Yes	The following adopted neighborhood plans were taken into consideration: Chinatown/ID Strategic Plan (1998) Commercial Core Neighborhood Plan (1999) Downtown Urban Center Neighborhood Plan (1999) Pioneer Square Neighborhood Plan (1998)

Criterion	Met?	Analysis
Where a neighborhood plan establishes policies expressly adopted for the purpose of guiding future rezones, but does not provide for rezones of particular sites or areas, rezones shall be in conformance with the rezone policies of such neighborhood plan. (SMC 23.34.008.D.3)	Yes	The proposed rezones are in conformance with the neighborhood plans mentioned above.
The impact of more intensive zones on less intensive zones or industrial and commercial zones on other zones shall be minimized by the use of transitions or buffers, if possible. A gradual transition between zoning categories, including height limits, is preferred. Physical buffers may provide an effective separation between different uses and intensities of development. (SMC 23.34.008.E.1 and E.2)	Generally, yes	Because additional development capacity would be given in most zones in the Chinatown/International District, this proposal represents only a minor degree of change to the overall gradation of allowed building heights. Similarly, the broad application will help to moderate the degree of differential changes to transitions between zones, except where certain zones are exempted from the proposal. Overall, transitions to less intense zones will not be substantially different than existing transitions between zones within downtown (which commonly include transitions in maximum height of 120 to 160 feet between blocks or across alleys) or between existing buildings (which often result in low scale buildings next to towers). The presence of physical buffers, particularly I-5 and I-90 off ramps also helps to ensure reasonable physical transitions in scale between the Chinatown/International District and adjacent areas. This proposal would, however, increase the difference in allowed heights between the IDM-75-85 zone and adjacent areas.
Boundaries between commercial and residential areas shall generally be established so that commercial uses face each other across the street on which they are located, and face away from adjacent residential areas. An exception may be made when physical buffers can provide a more effective separation between uses (SMC 23.34.008.E.3).	Yes	The proposed rezone area is composed entirely of zoning allowing a mix of uses. Additionally, the proposal would not modify the boundaries of commercial and residential areas.

Criterion	Met?	Analysis
In general, height limits greater than forty (40) feet should be limited to urban villages. (SMC 23.34.008.E.4).	Yes	The proposed rezone area is entirely within the Downtown Urban Center.
Negative & positive impacts on the area, including factors such as housing (particularly low-income housing), public services, environmental factors (noise, air & water, flora & fauna, odor, glare & shadows, energy), pedestrian safety, manufacturing activity, employment activity, architectural or historic character, shoreline review, public access and recreation, should be examined. (SMC 23.34.008.E.4.1).	Yes	Impacts on these factors have been examined. This proposal could result in minor adverse impacts commonly associated with additional development capacity such as additional noise, glare, shadows, and emissions. However, these impacts are not expected to be significantly different from potential impacts of projects that are allowed under existing code. The proposal will increase the amount of affordable housing.
Development which can reasonably be anticipated based on the proposed development potential shall not exceed the service capacities which can reasonably be anticipated in the area, including street access, street capacity, transit service, parking capacity, utility and sewer capacity. (SMC 23.34.008.E.4.1).	Yes	Analysis conducted as part of the MHA Downtown and South Lake Union Urban Design Study suggests that the proposed increase in development capacity could increase the square footage of development by approximately 11% above existing regulations if all future projects utilize the extra increment of development capacity. This increase in development potential is not anticipated to result in exceedance of any service capacities based on the results of the MHA Downtown and South Lake Union Transportation Study and conversations with representatives of utility and public service departments.
Evidence of changed circumstances shall be taken into consideration in reviewing proposed rezones, but is not required to demonstrate the appropriateness of a proposed rezone. Consideration of changed circumstances shall be limited to elements or conditions included in the criteria for the relevant zone and/or overlay designations in this chapter. (SMC 23.34.008.G).	Yes	Seattle faces a housing affordability crisis that suggests a need for new strategies to encourage creation of market-rate and affordable housing units. Downtown has long been important job and housing centers for the regional. Recently, these areas have become increasingly desirable locations for jobs and housing. Together, these changing circumstances support this proposal.
If the area is located in or adjacent to a critical area, the effect of the rezone on	Yes	No impacts to critical areas are expected to result from the rezone proposal. The area is

Criterion	Met?	Analysis
the critical area shall be considered. (SMC 23.34.008.I).		already a developed urban environment with limited critical areas. No revisions to development regulations are proposed that would reduce protections afforded to critical areas.

Criteria for Height Limits

Criterion	Met?	Analysis
Height limits for commercial zones shall be consistent with the type and scale of development intended for each zone classification. The demand for permitted goods and services and the potential for displacement of preferred uses shall be considered. (SMC 23.34.009.A)	Yes	The proposed rezone area is composed entirely of zoning allowing a mix of uses. This proposal would not tend to displace preferred uses.
Height limits shall reinforce the natural topography of the area and its surroundings, and the likelihood of view blockage shall be considered. (SMC 23.34.009.B)	Generally, yes	This proposal would tend to reinforce the natural topography of the area by continuing to provide a transition between the higher commercial core to the north and the lower industrial area to the south. However, it would also reinforce the existing predominance of Downtown in relationship to surrounding hills such as Capitol Hill, First Hill, Queen Anne Hill, and Beacon Hill. Impacts on public views were studied extensively as part of the State Environmental Policy Act (SEPA) analysis associated with this proposal. This proposal is likely to result in the creation of private views in some new buildings and the reduction of views in some existing buildings.
The height limits established by current zoning in the area shall be given consideration. In general, permitted height limits shall be compatible with the predominant height and scale of existing development, particularly where existing development is a good measure of the area's overall development potential. Height limits for an area shall be compatible with actual and zoned heights in surrounding areas. (SMC 23.34.009.C)	Yes	This proposal could result in incrementally increased heights throughout the study area. Existing buildings through the area include a substantial diversity of heights within blocks as well as across blocks. Given the incremental nature of the height increases and the high-density nature of Downtown, the proposal will not have a significant impact on the compatibility of potential development under this proposal and existing structures.

Criterion	Met?	Analysis
A gradual transition in height and scale and level of activity between zones shall be provided unless major physical buffers are present. (SMC 23.34.009.D.2.)	Generally, yes	Because the additional development capacity would be given in most zones in the Chinatown/International District, this proposal will only represent a minor degree of change to the overall gradation of allowed building heights in the area. Similarly, the broad application will help to moderate the degree of differential changes to transitions between zones, except where certain zones are exempted from the proposal. Overall, transitions to less intense zones will not be substantially different than existing transitions between zones within downtown (which commonly include transitions in maximum height of 120 to 160 feet between blocks or across alleys) or between existing buildings (which often result in low scale buildings next to towers). The presence of physical buffers, particularly I-5 and I-90 off ramps also helps to ensure reasonable physical transitions in scale between this area and adjacent areas. This proposal would, however, increase the difference in allowed heights between the IDM-75-85 zone and adjacent areas.
Particular attention shall be given to height recommendations in business district plans or neighborhood plans adopted by the City Council subsequent to the adoption of the 1985 Land Use Map. (SMC 23.34.009.E.)	Yes	As discussed above, existing neighborhood plans were considered as part of this proposal. These plans do not generally contain specific height recommendations.

Appendix B: Selected Goals and Policies from the Seattle 2035 Comprehensive Plan Relating to Growth Strategy for Downtown, Chinatown/International District, and Affordable Housing

GSG2 Keep Seattle as a city of unique, vibrant, and livable urban neighborhoods, with concentrations of development where all residents can have access to employment, transit, and retail services that can meet their daily needs.

GS2.5 Encourage infill development in underused sites, particularly in urban centers and villages.

GS2.7 Promote levels of density, mixed-uses, and transit improvements in urban centers and villages that will support walking, biking, and use of public transportation.

GSG3 Accommodate a majority of the city's expected household growth in urban centers and urban villages and a majority of employment growth in urban centers.

LUG1 Achieve a development pattern consistent with the urban village strategy, concentrating most new housing and employment in urban centers and villages, while also allowing some infill development compatible with the established context in areas outside centers and villages.

LUG11 Promote Downtown Seattle as an urban center with the densest mix of residential and commercial development in the region, with a vital and attractive environment that supports employment and residential activities and is inviting to visitors.

ED1.1 Enhance the Downtown core as the economic center of the city and the region, and strengthen its appeal as home to many of Seattle's vital professional service firms, high technology companies, and regional retailers, as well as cultural, historic, entertainment, convention, and tourist facilities.

HG2 Help meet current and projected regional housing needs of all economic and demographic groups by increasing Seattle's housing supply. Strive to add or preserve fifty thousand housing units by 2025, including twenty thousand rent/income-restricted units.

HG3 Achieve a mix of housing types that provide opportunity and choice throughout Seattle for people of various ages, races, ethnicities, and cultural backgrounds and household sizes, types, and incomes.

HG5 Make it possible for households of all income levels to live affordably in Seattle and reduce over time the unmet housing needs of lower income households in Seattle.

H5.1 Pursue public and private funding sources for housing preservation and production to provide housing opportunities for lower-wage workers, people with special needs, and those who are homeless or at risk of becoming homeless.

H5.3 Promote affordable housing for lower income households as a way to help increase access to education, employment, and social opportunities, support creation of a more inclusive city, and reduce displacement from Seattle neighborhoods or from the city as a whole.

H5.6 Increase housing choice and opportunity for extremely low- and very low-income households in part by funding rent/income-restricted housing throughout Seattle, especially in areas where it is less available and that include high frequency transit and other amenities, even if greater subsidies may be needed.

H5.15 Seek to reduce cost burdens among Seattle residents, especially lower income households and households of color.

H5.17 Encourage a shared responsibility between the private and public sectors for addressing affordable housing needs.

H5.18 Consider implementing a broad array of affordable housing strategies in connection with new development, including but not limited to development regulations, inclusionary zoning, incentives, property tax exemptions, and permit fee reductions.

H5.20 Consider implementing programs that require affordable housing with new development, with or without rezones or changes to development standards that increase development capacity.

H5.22 Implement strategies and programs to help ensure a range of housing opportunities affordable for Seattle's workforce.

Appendix C: Relationship between Payment and Performance Amounts

RCW 36.70A.540 provides that "Affordable housing incentive programs may allow a payment of money or property in lieu of low-income housing units if the jurisdiction determines that the payment achieves a result equal to or better than providing the affordable housing on-site, as long as the payment does not exceed the approximate cost of developing the same number and quality of housing units that would otherwise be developed." This document outlines how the proposed MHA-R payment and performance requirements for the Chinatown/International District would meet this standard.

Relationship of payment to cost of developing

In setting required performance and payment amounts for the various zones in the Chinatown/International District, the City established a conversion factor for determining the relationship between the payment amount and the performance amount. The conversion factor reflects the following methodology:

Payment amount = Capitalized value of difference between market and affordable rental rate (e.g., rent subsidy) + 10%

The capitalized value of the rent differential is intended to reflect the value of the revenue that would be lost by an owner due to providing rent-restricted units under the performance option. The 10% adjustment reflects a number of factors associated with provision of affordable housing by the City using payment proceeds, specifically the City's cost to administer payment revenue and the resulting delay between the time payments are collected and the ultimate production of affordable housing. Administering payment revenue entails a wide range of activities, including tracking of funds, soliciting and underwriting affordable housing proposals, preparing and reviewing legal documents, closing and disbursement of loans in coordination with other investors and lenders, monitoring of construction progress, and general oversight of projects to ensure consistency with funding policies and procedures. These activities mean some amount of time to translate payments into the actual production of affordable housing. Additional time can be expected based on the time it takes projects to assemble financing and obtain building permits.

The City created several different scenarios for capturing the relationship between performance and payment using the foregoing methodology, based on high, medium, and low rent levels. The "high" scenario was used for the Chinatown/International District. The scenarios used average rents for buildings 85 feet in height or less. Residential buildings of this scale generally use significant wood-frame construction which is lower cost than the steel and concrete construction used for high-rise structures. High-rise construction is generally associated with higher rents. This means that, while a mix of payment and performance is expected for non-high-rise buildings, for high-rise buildings one would expect the relationship between performance and payment to favor choosing the payment option.

Table A shows the calculations that were used to determine the payment amount per unit of affordable housing required.

Table A: Calculation of Payment Amount Per Affordable Unit Required

	Market Rate In High Area	Affordable Rate (60% of AMI)
Rent per net square foot	$3.04	
Average One-bedroom Unit Size (Net SF)	654	
Monthly Gross Rent per Unit	$1,988	$1,008
Annual Gross Rent per Unit	$23,858	$12,096
Less Vacancy	*($1,193)*	*($605)*
Less Monitoring Fee		*($150)*
Annual Net Income per Unit	$22,665	$11,341
Capitalized Value of Net Income per Unit with 5.25% Cap Rate	$431,715	$216,023
Rent Subsidy (Market Value-Affordable Value)	$215,692	
Payment Amount per Affordable Unit Required (Rent Subsidy plus 10%)	$237,261	
Payment Amount per Net Square Foot of Affordable Unit Required	$363	

The Payment Amount per Affordable Unit Required figures represent the payment cost for one performance unit in areas with different rent levels. The City started with the performance amount and used the conversion factor to set the payment amount.

Table B shows the cost of development of a unit in market-rate development in comparison to the cost of the payment option per affordable unit calculated above in High Areas. The Cost of Development figures come directly from the Seattle Affordable Housing Incentive Program Economic Analysis Report created by David Paul Rosen and Associates (DRA), October 10, 2014.

Table B: Cost of Development and Cost of Payment Option per Net Square Foot of Affordable Unit in High Area

	Area or Zone (DRA Prototype Numbers)	Rental Units	Ownership Units
Cost of Development from DRA Study (per net square foot)	Downtown highrise (1A, 2A)	$523	$620
	South Lake Union highrise (4A, 5A)	$511	$595
	South Lake Union Mid-rise (4B, 5B)	$414	$476
	LR3 (7B, 8B)	$458	$503
	MR (7A, 8A)	$442	$496
	NC40 (9B, 10B)	$448	$500
	NC65 (9A, 10A)	$469	$525
	NC85 (11A, 12A)	$521	$523
Payment Amount per Net SF of Affordable Unit Required (from Table A)		$312	$312

For all prototypes, the development costs in Table B are greater than the amounts used for purposes of establishing the relationship between performance and payment as set forth in Table A and shown by the last row in the chart. This data also indicates that the cost of the payment option would in all cases be less than the cost of development by non-profit developers, who tend to build low- to mid-rise projects (e.g., the type typical in LR3, MR, and NC zones) and have development costs that are generally equal to or slightly higher than market-rate costs.

The cost of the payment option per affordable unit also remains below an affordability gap cost as determined by DRA (e.g., the capital subsidy required to develop housing affordable to families at target income levels). DRA's affordability gap analysis in the Seattle Non-Residential Affordable Housing Impact and Mitigation Study (DRA, September 15, 2015, pp. 11-13) calculated the cost to make housing affordable to households at the target income level by subtracting per unit development costs from the per unit mortgage supportable from affordable rents at 60% of area median income, based on the cost of building new low- or mid-rise multifamily housing. Table C shows how these figures compare to cost of the payment option, based on the 650 net square foot unit size used by DRA.

Table C: DRA Affordability Gap and Cost of Payment Option in a High Area

DRA Affordability Gap (per NSF)	$371
Payment Amount per NSF of Affordable Unit Required (from Table A)	$363

For all the foregoing reasons, the payment amount per required affordable unit used for purposes of the conversion factor does not exceed the cost of developing the same quality of unit that would otherwise be developed under the performance option. Thus, the performance and payment requirements for the various Chinatown/International District zones, whose relationship was determined using that conversion factor, ensure that the payment for a building does not exceed the approximate cost of developing the same number and quality of housing units that would otherwise be developed under the performance option, in compliance with the statutory requirement of RCW 36.70A.540.

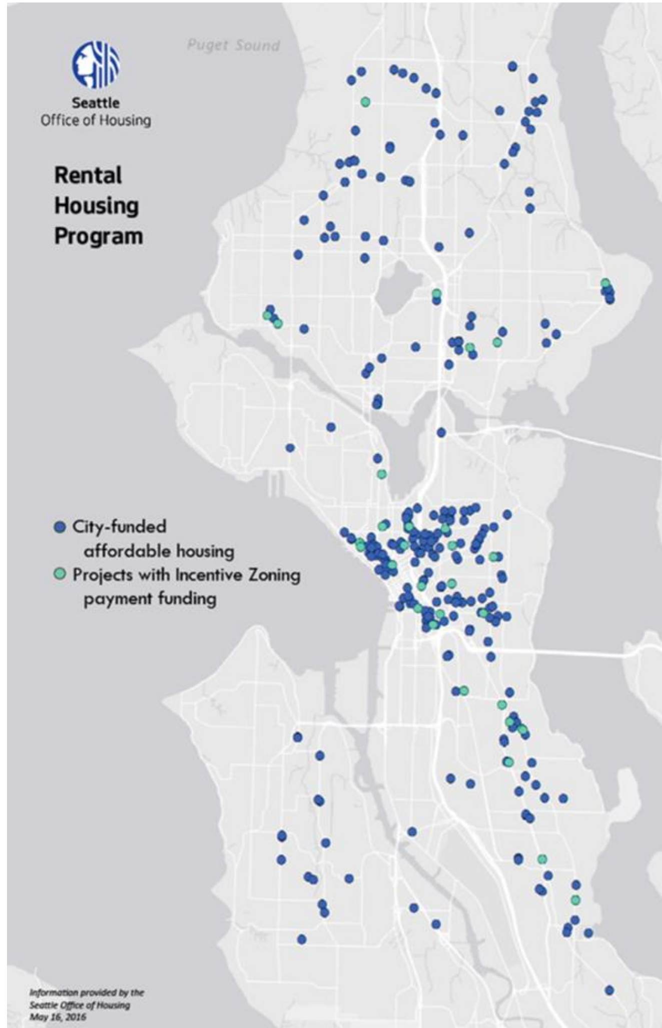
<u>Equal or better result</u>

For purposes of implementing MHA-R in the Chinatown/International District, payment achieves a result equal to or better than providing the affordable housing on-site.

First, when creating housing with the same level of income and rent restrictions, payment results in the production of far more units of affordable housing than would be produced by on-site performance, due to the City's ability to use payment proceeds to leverage additional funds that would otherwise not be available. In the past, the City's Office of Housing has leveraged approximately $3.50 in non-City funding for every $1 of City funding invested. Among projects that utilize 4% Low Income Housing Tax Credits and tax exempt bonds, which are currently non-competitive and leave a large portion available for additional projects to access in Washington State, the City has leveraged approximately $3 in non-City funding for every $1 of City funding invested. Using an even more conservative estimate of $2.25 in leverage for every $1 of City funding going forward, the Office of Housing estimates it will still produce substantially more affordable housing than would be achieved through on-site performance. The Office of Housing, which administers in-lieu payments, has a history of effectiveness in aligning resources to maximize production, and has been particularly successful in leading statewide efforts to streamline and coordinate capital funding as well as long-term asset management and compliance monitoring of affordable housing.

Second, unlike with housing produced on-site, the investment of payment funds allows the flexibility to create housing affordable to households with incomes even lower than 60% AMI. While this may create some tradeoffs with the amount of housing produced, the City has in many cases made the policy choice to support housing for individuals and families with incomes lower than the maximum target income level, due to compelling cases that can be made for prioritizing housing for those with the greatest needs.

Third, the Office of Housing has a history of affirmatively furthering fair housing choice by investing in housing throughout the city, including high cost neighborhoods such as the Chinatown/International District. This record has been confirmed by independent study and is reflected in adopted policies that establish criteria for where funds are invested. The following map illustrates where the City has funded affordable housing, including the locations of projects that have received funding from payments under the City's existing incentive zoning system.



In the proposed MHA program, the City will invest funds in locations that advance the following factors:

a. Affirmatively furthering fair housing choice;
b. Locating within an urban center or urban village;
c. Locating in proximity to frequent bus service or current or planned light rail or streetcar stops;
d. Furthering City policies to promote economic opportunity and community development and addressing the needs of communities vulnerable to displacement.
e. locating near developments that generate cash contributions.

While requiring an affordable unit to be in a market-rate building is one way of trying to ensure that low-income residents are integrated with higher-income residents, the City has not found compelling research-based evidence that this strategy results in more meaningful integration than investing in affordable housing projects in strategic locations throughout the city, particularly where that investment occurs in neighborhoods that provide high levels of opportunity. In addition, the City has received input that some low-income residents place greater value on the opportunity to live in their communities and benefit from existing social networks, as compared to moving to a neighborhood with no existing social supports.

With the new Seattle 2035 Comprehensive Plan, the City has developed a highly nuanced approach to analyzing issues related to displacement and access to opportunity. *See* Seattle 2035 Growth and Equity report, May 2016. The locational factors for investing payment proceeds under MHA support the recommended equitable development strategies identified in the Growth and Equity report. *See* Growth and Equity report, pp. 11-12.

Comparing the geographic analysis of access to opportunity in the Growth and Equity report to the City's practice in investing payment proceeds confirms that the City has been quite successful in targeting affordable housing investments in areas with high access to opportunity, and high risk of displacement. This demonstrates the importance of a strategic approach to investing in affordable housing projects in a variety of locations based on criteria such as those applicable under MHA.

Finally, funds invested in affordable housing can result in a range of other community benefits. For instance, public investment can stimulate economic development in areas of the city that lack private investment; preserve historic buildings that would otherwise be lost to deterioration or demolition; and help stabilize rents in areas where residents are at risk of displacement. On the whole, funds can be strategically invested to maximize housing choice throughout the city. Projects funded by the City must comply with the statewide Evergreen Sustainable Development Standard, which furthers energy and water efficiency, improves health and safety, and creates operational savings that benefit low-income residents over the long-term. In addition to leveraging other investment in housing, other public funds can also leverage investments in a range of non-residential spaces such as affordable childcare, small business space, and social service facilities. Finally, affordable housing projects often include resident service programs and other connections to social services that help individuals and families to thrive. These types of benefits are generally not achieved through new market rate developments.

Based on the foregoing, City staff has concluded that the investment of payment funds will result in outcomes that are equal or better than those resulting from provision of affordable housing on-site.