



City of Seattle DPD  
**U-District  
Urban Design Framework  
Support Analysis Memo**

June 2013

HEARTLAND

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**Table of Contents**

- I. Introduction ..... 1
  - A. Summary of Scope..... 1
  - B. Findings ..... 1
  
- II. High-Rise Development Economics over the Planning Period..... 3
  
- III. Projecting High-Rise Development over the Planning Period ..... 8
  - A. Supply: U-District Development Site Survey ..... 8
  - B. Demand: Historical Trends and Projections ..... 9
  
- IV. Residential Base ..... 11
  - A. Existing Conditions – Housing Stock..... 11
  - B. Existing Conditions – Affordability ..... 11
  
- V. Understanding and Expanding the Residential Base ..... 14
  - A. Existing Conditions ..... 14
  - B. Recommendations for Attracting Families and Diversifying the U-District Population ..... 15

Appendix 1: Developer/Land Owner Survey Summary

Appendix 2: U-District Potential High-Rise Development Site Identification Methodology

Appendix 3: U-District Potential High-Rise Development Site Map

Appendix 4: High-Rise Development Estimate Narrative

Appendix 5: U-District Distribution of Housing Types Map

Appendix 6: U-District Distribution Affordable Housing Locator Map

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## I. Introduction

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### A. Summary of Scope

The Seattle Department of Planning and Development (DPD) engaged Heartland to provide a real estate market perspective to the planning efforts associated with several ongoing planning activities in Seattle's University District (U-District)<sup>1</sup>, particularly with the creation of both a commercial revitalization strategy and an Urban Design Framework. With respect to the Urban Design Framework, DPD sought a better understanding of market dynamics related to zoning height alternatives to inform the creation of draft EIS alternatives. The work centered on the threshold question of whether high-rise development, defined as development greater than seven stories in height, is likely to be financially feasible in the U-District over the planning horizon, which extends through 2035. In addition, DPD asked Heartland to assess the amount of land available for potential high-rise development, examine the demographic characteristics and housing mix in the U-District.

### B. Findings

The U-District is an evolving residential and commercial real estate market that warrants exploration of alternative zoning envelopes given the potential for future growth. With respect to residential development, Heartland's analysis indicates that the development of high-rise projects is not feasible at present, given projected rents and construction costs for this construction type. Even after adjusting for value that would presumably be captured in high-rise rents (e.g. additional view premium), rents are currently still too low to justify high-rise construction. However, it is our opinion that the odds are good that residential high-rise development will be financial feasible by the time the Sound Transit LINK Light Rail (LINK) service arrives in the U-District in 2021<sup>2</sup>. While the research relating to the impact of transit on land values in not definitive by any stretch, it is our professional opinion that the planned speed of travel and headways to downtown allowed by the LINK will translate into higher rents in the U-District once complete. In addition, Heartland performed a sensitivity analysis that illustrates how escalation of rents a moderately higher growth rates than construction costs could close the feasibility gap over the planning horizon, even absent a major change in rents due to LINK. Finally, Heartland's survey of both developers and property owners active in the U-District (see Appendix 1) indicated that the development of high-rise buildings, if allowed by zoning, would be a reasonable proposition within the next five to ten years. One developer even believed high-rise development could be feasible today, if allowed by code.

Other key findings include:

- There is capacity to accommodate high-rise product type based on Heartland's review and update of a Buildable Lands analysis conducted by DPD. However, the following must be acknowledged:
- In terms of heights for residential high-rise development, the differences between the economics of 160' vs. 240' vs. 300' buildings are difficult to assess without any existing comparable projects in the submarket. In general, 160' and 240' are a more optimal range of maximum building heights, given that the financial risk of the project increases with size (which increases with heights, holding an efficient floor plate of about 10,000-12,000 square feet constant). In addition, we understand anecdotally that construction costs increase above 240' due to additional life/safety requirements.
- Heartland researched and summarized demographic information for the U-District's existing housing

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<sup>1</sup> When referenced throughout this document, unless otherwise noted, the U-District boundary is generally defined as the area between 15<sup>th</sup> Ave NE, I-5, Ravenna Ave NE, and Portage Bay.

<sup>2</sup> The U-District LINK Station is scheduled to open for service by 2021. Retrieved May 29, 2013, from <http://www.soundtransit.org/Projects-and-Plans/Northgate-Link-Extension/U-District-Station>.

stock. This research indicated that the U-District's housing stock is significantly influenced by the University of Washington, and is dominated by rental housing units, including a significant share of single-family homes. Over time the area could support housing options that may attract a wider range of residents than exists today in the U-District, including professionals, families and seniors.

- Changing zoning to add high-rise development opportunities is not likely to be an effective near-term strategy to attract a wider demographic range of residents or unit sizes to the U-District. If and when high-rise developments become financially feasible, the unit sizes are likely to be small, barring major changes in construction technology. Due to its higher construction cost, high-rise development is generally less able to support a significant number of larger (family sized) units absent subsidies. However, the price points of these units is likely to require professional salaries and thus would likely need to appeal to some non-student populations, including professionals and seniors looking to downsize.
- A majority of residents in the U District are students and young professionals. The assets of the University District relative to other neighborhoods suggest that there would be a market for older professionals and seniors wishing to downsize. However, the neighborhood would need to see a broader range of housing choices and amenities that would appeal to these demographics.
- The University District is relatively affordable compared to other neighborhoods in the City. The U District provides a similar number of dedicated rent restricted units as urban villages such as Ballard and Pike/Pine.

The U-District is a less proven sub-market for commercial office uses, including general office, research and development office and biotech. There has been little office development of any kind in the U-District over the past decade, not counting that which has occurred on the UW campus. Looking ahead, it is difficult to forecast the potential demand for high-rise office development because there is little demand for any type of commercial office development at present; market rents are generally not high enough to justify construction, before considering the impact of high-rise development economics. Given historic demand for office city-wide, it is not inconceivable that a major office tenant would wish to locate in the U-District over the next 20 years. If so, increased height increased could help meet that demand for space. Thus, we believe it is reasonable to study rezone alternatives for both residential and office uses in the U-District.

## II. High-Rise Development Economics over the Planning Period

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### RLV Methodology

Heartland utilized a residual land value (“RLV”) analysis<sup>3</sup> to help assess the propensity for land to be redeveloped for high-rise residential redevelopment within the study area. In general, RLV analysis can be used to make a threshold determination about whether land will remain in its current use or transition to another, based upon the propensity for uses to compete economically for land. In the context of this study, we compared the economics of currently allowed mid-rise development with those of a set of hypothetical high-rise developments at varying building heights, assuming a land parcel on which redevelopment for some form of multi-family development is currently the highest-and-best use. Section III of this analysis goes on to assess on how many parcels in the U-District have the potential to be redeveloped over the planning horizon.

RLV is defined as the difference between total project value and total project cost, including the cost of capital needed to attract investment in the property. What remains is what is available for land purchase, where a land acquisition is required. While the project could outperform expectations and produce an economic profit, that assumption should not be utilized to prudently underwrite a development project. From this perspective, proforma return on capital is a fixed cost similar to any other input cost of the project.

### Current Economics

Our analysis focuses on residential development due to current market demand for this product type being higher than that for office development. Heartland’s RLV analysis indicated that high-rise development is not likely to be financially feasible in the U-District at present. The current demand for new office development at a scale justifying high rise construction is much more speculative than the demand for large scale residential development in this sub market at present.

For a development to be financially feasible at this time, the projected value must be greater than the projected cost, and the value of the land in residual must be greater than that for potentially competitive land uses or building types.<sup>4</sup> Heartland’s analysis indicated that neither of these conditions is likely to be met for high-rise residential development as the costs of high-rise development are currently greater than the costs of development, meaning that a high-rise development would not be likely to be financially feasible even if the cost of land was zero. This is illustrated on the following page. Holding costs constant, rents would need to increase approximately 20% from current mid-rise rates for new high-rise multifamily units to be feasible today. See page 6 for more detail.

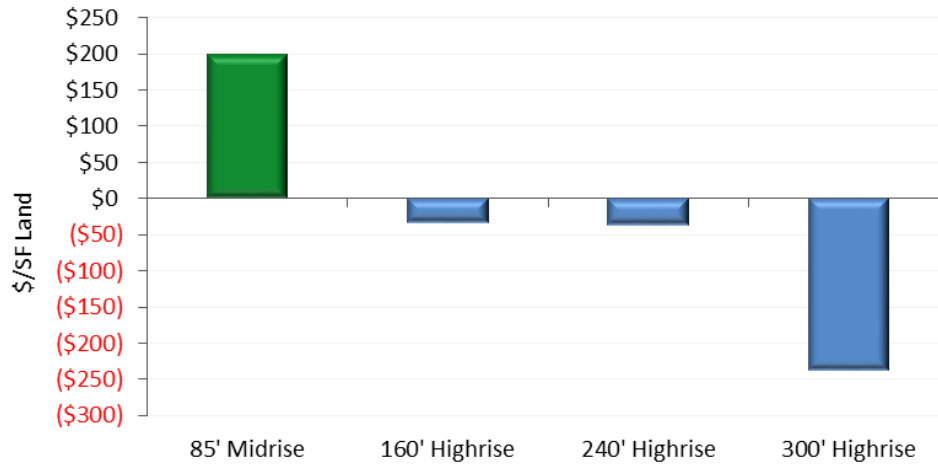
Our analysis indicated that a typical mid-rise market-rate multi-family development could afford to pay approximately \$200 per square foot of land, or approximately \$28,000 per residential unit. This is based on recent land sales in the U-District for this product type.

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<sup>3</sup> RLV is defined as the difference between total project value and total project cost, including the cost of capital needed to attract investment in the property. What remains is what is available for land purchase, where a land acquisition is required. While the project could outperform expectations and produce an economic profit, that assumption should not be utilized to prudently underwrite a development project. From this perspective, proforma return on capital is a fixed cost similar to any other input cost of the project.

<sup>4</sup> A third criterion is that the RLV must be greater than the value of the existing use in place. For example, if an existing building on a property creates a land acquisition basis substantially different than the cost of “raw” land, this can impact development feasibility. This is the core premise of “buildable lands” analysis and is address in Section III.

**Figure 1: Residual Land Value (per Land Square Foot) by Development Building Height Today**



Source: Heartland LLC

Key Assumptions used to derive these comparative residual land values include:

- A. Value**—For an income property, which is assumed in this analysis, value is a function of net operating income (NOI) divided by the capitalization rate. Net income is equal to gross revenues less vacancy and operating expenses. The capitalization rate is the market-based expected annual return on an income property. For the purposes of this analysis, the value is equal to NOI divided by the “exit” capitalization rate, assuming a sale (“exit”) after construction and stabilization (lease up) of the project.
- B. Supportable Project Cost**—Supportable project cost is used to determine what a developer would be willing to pay for building costs and land after considering the cost of capital required to fund the project. Heartland assumed a spread (margin) on the exit capitalization rate to derive the functional “entrance” capitalization rate for the project, such as would be the case in the purchase of an income property. The difference between Value and Supportable Project Costs is the expected return to capital, also known as profit.
- C. Project Cost**—Project cost is the total development cost of the project before land acquisition and return to capital. Project costs include “hard” costs (construction) and “soft” costs, such as design and engineering, permitting, leasing, and expected estimated incentive zoning costs, among others.

These factors influence the amount of value remaining for land in residual of the development types, as illustrated in Table 1 on the following page. **(Line D)**



**Table 1: Residual Land Value by Building Height Today**

	ALTERNATIVE: 1 85' Midrise	2 160' Highrise "Adjusted Rents"	3 240' Highrise "Adjusted Rents"	4 300' Highrise "Adjusted Rents"
<b>Summary of Project-Level Returns</b>				
<b>Program Assumptions</b>				
Height	85	160	240	300
FAR	5.8	11.3	16.6	20.5
Lot SF	16,000	16,000	16,000	16,000
Tower Floorplate Max	N/A	10,500	10,500	10,500
GSF	99,280	187,300	270,800	333,800
Res. Units	114	167	244	302
Com. SF	5,000	5,000	5,000	5,000
<b>Rent Assumptions</b>				
Rent Assumptions (\$/NSF/Mo.)	\$2.40	\$2.70	\$2.70	\$2.70
Rent Assumptions (\$/NSF/Unit)	\$1,326	\$1,492	\$1,492	\$1,492
Change in Rents from Base		12.5%	12.5%	12.5%
<b>A. Project Value (MM)</b>	<b>\$31.1</b>	<b>\$69.4</b>	<b>\$100.6</b>	<b>\$124.2</b>
Cap	5.40%	5.40%	5.40%	5.40%
<b>B. Supportable Total Project Cost (MM)</b>	<b>\$27.1</b>	<b>\$59.5</b>	<b>\$86.3</b>	<b>\$106.4</b>
Basis pt. Spread (profit)	80	90	90	90
Underwriting "Entrance Cap"	6.20%	6.30%	6.30%	6.30%
<b>C. Project Cost (Before Profit and Land) (MM)*</b>	<b>\$23.9</b>	<b>\$60.1</b>	<b>\$86.8</b>	<b>\$110.2</b>
<b>D. Value Remaining for Land (MM)</b> (B Less C)	<b>\$3.2</b>	<b>(\$0.5)</b>	<b>(\$0.6)</b>	<b>(\$3.8)</b>
\$/SF Land	\$199	(\$34)	(\$36)	(\$237)
\$/Res. Unit	\$27,943	(\$3,276)	(\$2,368)	(\$12,526)

\*Assuming \$15.15 per bonus Square foot for Incentive Zoning

Source: Heartland LLC

Key Variables driving the differences between high-rise and mid-rise development include:

- **Residential Rents**—Rents are assumed to be higher for high-rise than for midrise on a per square foot basis. This difference can be attributed to view premiums that typically accrue to high-rise units, along with differences in construction, noted below, that tend to provide a premium value to high-rise construction units, such as better acoustical performance and larger windows.
  - Heartland's analysis assumed mid-rise rents at \$2.40 per square foot per month, based on underwriting for several projects that are currently in the development and planning pipeline, which is an increase of over 9% when compared to average market observed asking rents of \$2.20 per square foot for area-wide<sup>5</sup> average asking rents for existing mid-rise product built between 2008 and 2010.
  - There are have been no recent high-rise projects in the University District or in adjacent neighborhoods. Heartland extrapolated what a high-rise development in the U-District would likely rent for utilizing data from recently completed high-rise developments located in other sub-markets in the City that inform the value differential, expressed as the difference in rental rates, between high-rise and mid-rise development. While we readily acknowledge that this is an

<sup>5</sup> This area includes the central neighborhoods of Seattle from Downtown and the Central District north to Ballard, Wallingford, and the U-District as defined by Dupre & Scott.

imperfect methodology, it is a reasonable analytic approach given available data. Heartland arrived at an average building-wide per unit value differential rent premium of 12.5%<sup>6</sup>, and then applied the same high-rise premium to the U-District. Using this approach we arrived at an “adjusted” rent assumption of \$2.70 per square foot per month for high-rise units.

However, in order for high-rise development to be financially feasible the per-square foot rent would need to be closer to \$2.85 per square foot per month. This conclusion is supported by our conversations with and the opinion of developers who are active in Seattle and, in several cases, active in the U-District. This per square foot rent is 6% higher than the “adjusted rent” and almost 20% higher than the current mid-rise rents that are being underwritten at present for new buildings.

- **Residential operating expenses**—Heartland assumed \$6,800 per unit per month for mid-rise units and \$7,300 per unit per year for high-rise units<sup>7</sup>, based on analysis conducted by Dupre & Scott Apartment Advisors. This differential is largely due to a combination of higher property taxes (for generally higher-value buildings), higher maintenance costs and management overhead. This differential in operating costs has a major impact on the amount of rent that owners need to charge in order to meet their return on investment requirement
- **Construction Costs**—Our analysis assumed a construction cost of \$130 per square foot for mid-rise, \$180 per square foot for high-rise up to 240’ and \$190 per square foot for high-rise above 240’ in height, which only applied to the hypothetical 300’ site. These costs do not include state sales tax, owner’s contingency or parking (either above or below grade). While the costs of parking and ground-level commercial uses were considered, they do not vary significantly between the different building modules.
- **Return on Capital (Profit)**—Heartland’s analysis assumed that high-rise projects will have greater construction and lease-up risk than mid-rise development, requiring higher returns to capital (approximately 12% higher)<sup>8</sup> than for a mid-rise.

### Future Economics Over the Planning Period

In response to the threshold question of whether the EIS should anticipate scenarios for high-rise development given that our analysis indicates that high-rise development would not be financially feasible today, we believe that the answer is that such development can be feasible over the planning horizon and therefore should be studied in the EIS.

There are two main ways that high-rise development could become feasible over the planning period if allowed by code, assuming it is not already. First, rents could increase faster than the growth in construction costs. The size of the difference between the growth rates would determine how soon new high-rise residential construction may be possible in the U-District. For example, if we assume that “adjusted rents” are currently 6% below that need for to justify construction, and assume construction costs grow on average 2.5% per year (approximately equal to the long-run historic rate of inflation), the 6% rental price gap could be closed in 6 years if the rate of growth of new construction rents increased by 3.5% over that period. Second, in place of, or in addition to, some steady growth in new construction rents, we can also assume that there will be some amount of increase in rents attributable to the future arrival of LINK by 2021. While the amount of rent premium is speculative, growth on the order of 5 to 10% is possible according to the following sensitivity analyses of differing rental growth premiums attributable to the

<sup>6</sup> This premium is based on survey data from Dupre & Scott for buildings in Central Seattle and based on Heartland’s analysis of sales data for condo sales for units within the same “stack” in the same buildings that sold within a two year period from 2010-2012.

<sup>7</sup> Dupre and Scott 2012 Expense Analyzer for 6 high-rise projects in Seattle built between 2006 and 2010 and ranging from 8 and 27 stories and 17 mid-rise projects in Seattle built between 2000 and 2009 ranging from 5 to 7 stories.

<sup>8</sup> The return to capital is calculated as margin on cap rate. The mid-rise is assumed to require a 0.80% (80 basis points) spread, while the high-rise is assumed to have a 90 basis point spread.

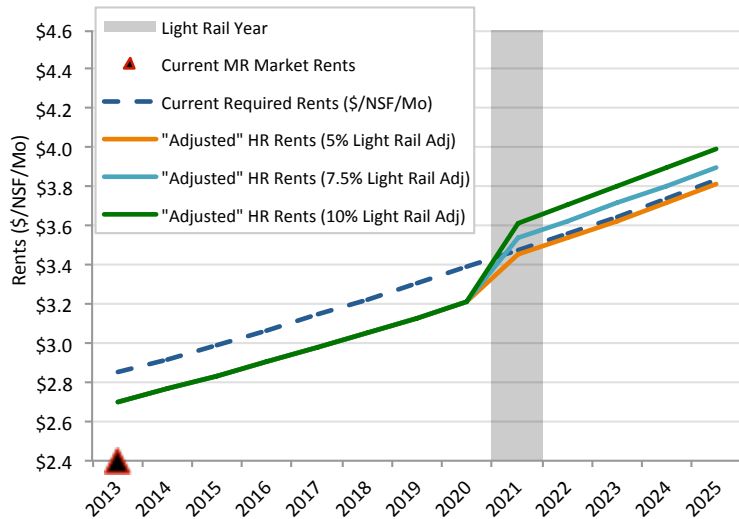
arrival of light rail in 2021:

- The first chart assumes that rents between now and 2021 remain constant but then experience an increase of varying size due to light rail.
- The second chart shows what could happen if rents grow marginally faster than construction prices between now and 2021 (3.0% annually compared to 2.5% construction costs) *and* then experience an increase of varying size due to light rail.

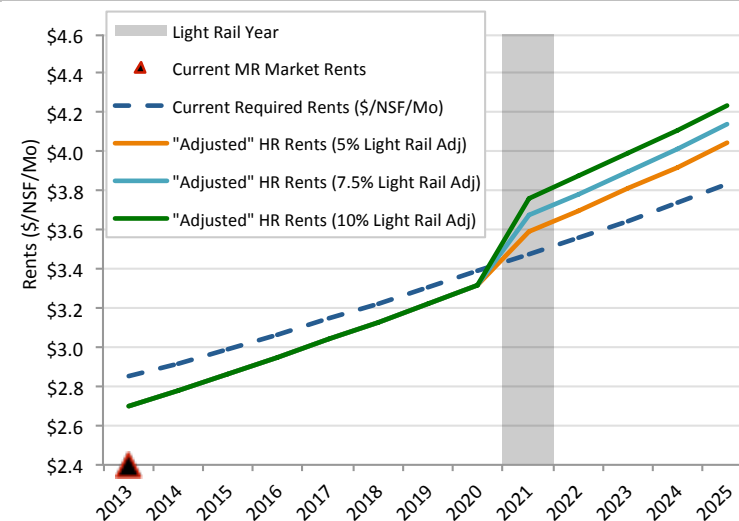
The analysis indicates that in no case do “adjusted rents” rise above the rents required to justify new high-rise residential construction prior to 2021. In 5 of the 6 rent trajectories illustrated in Figure 2 (3 in the first chart and 2 in the second), the rents required to justify new high-rise residential construction are exceeded only after light rail arrives in the U-District. While these are very simplified depictions of a very complex economic equation they help to illustrate why we believe that high-rise rents have a very strong probability of being financially feasible in the U-District over the planning period.

**Figure 2: Comparison of Projected Market Rents for High-Rise Before and After U-Link Light Rail**

**2.5% Compounded New Construction Rent Growth**



**3.0% Compounded New Construction Rent Growth**



SOURCE: HEARTLAND LLC

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### III. Projecting High-Rise Development over the Planning Period

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Section II illustrated why residential high-rise development may be financially feasible in the U-District over the next 5 to 10 years, based upon analysis of a set of project-level development modules that we believe reflect the financial assumptions used in “typical” mid-rise and high-rise projects. In this section, Heartland provides an analysis of how many of high-rise developments may be reasonable to assume will develop in the U-District over the planning period. While we cannot predict future events with complete accuracy, we can use available data to provide context for an educated guess. The two key factors driving the delivery of high-rise projects in the U-District over the next 20 years include:

- A. Supply of sites available for high-rise development, given existing and planned uses of land in the U-District.
- B. Demand for high-rise development in the U-District, which requires recognizing that the demand for high-rise development is limited given the rents needed to finance such construction, as well as competition from other Urban Centers in Seattle where high-rise development is already allowed by code.

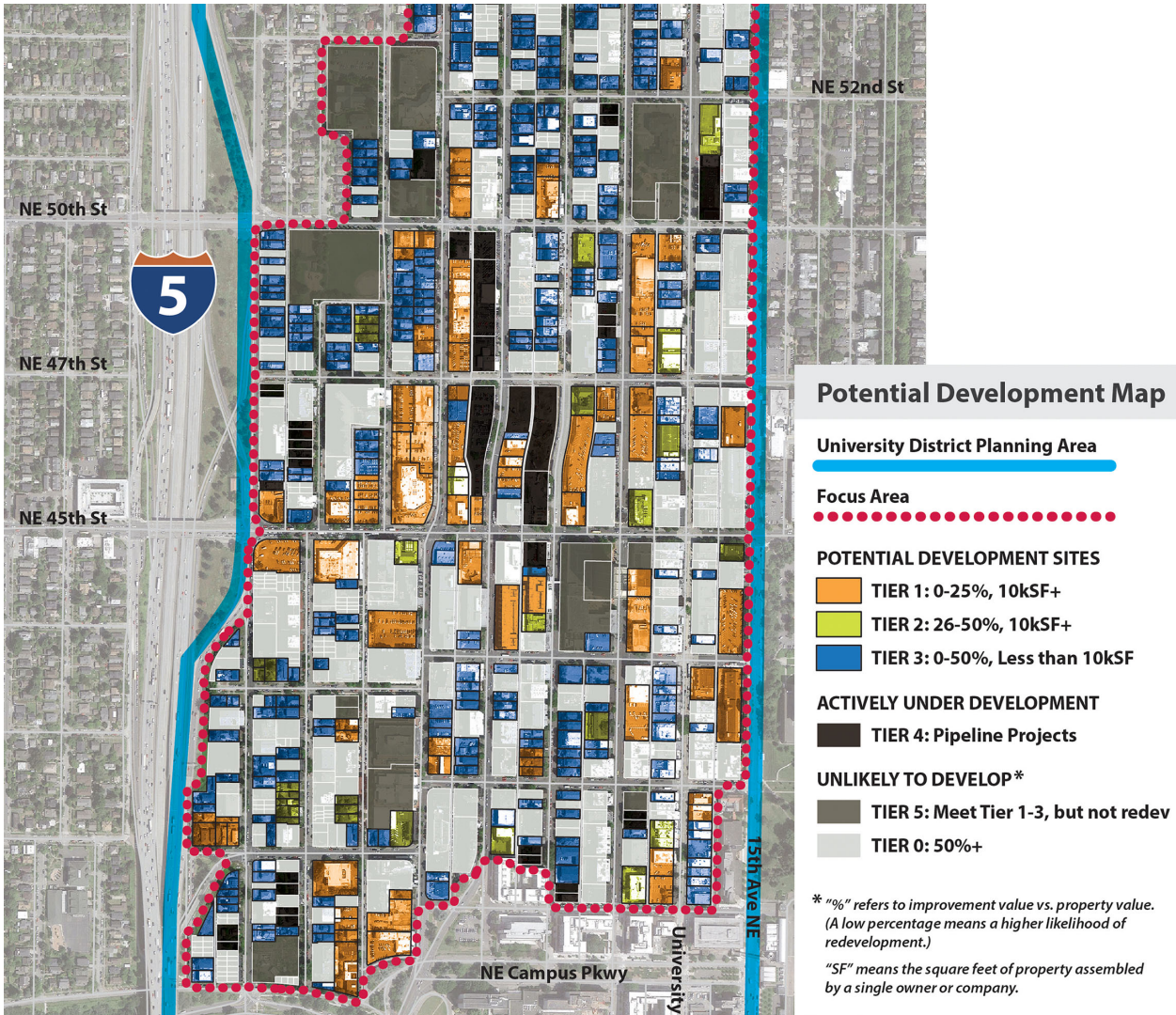
#### A. Supply: U-District Development Site Survey

Heartland reviewed the land use and ownership patterns in the U-District to understand the area’s potential supply of high-rise development sites. The objective of this analysis was twofold:

- First to understand where existing uses and planned developments in the U-District would likely preclude high-rise development during the planning period and
- To confirm the presence and location of sites that could support high-rise development during the planning period.

To conduct this analysis, Heartland undertook a seven step process, explained further in Appendix 2, to identify where in the U-District high-rise development could be sited during the planning period. High-rise development that has occurred in Seattle in the past has typically been on sites totaling at least 10,000 square feet. The results of this analysis found there to be 48 sites totaling at least 10,000 square feet that are either vacant or underutilized. As Figure 3 below shows, 43 of the 48 are south of NE 50<sup>th</sup> St, 25 of which are at least 16,000 square feet. *Based on this analysis there is a sufficient supply of sites that could support high-rise development.*

Figure 3: Potential High-Rise Development Sites

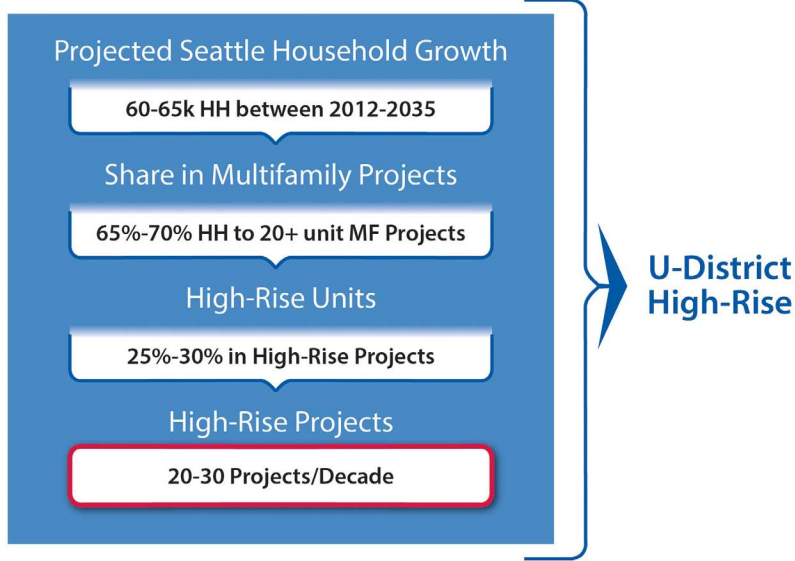


NOTE: The full version of this image that encompasses all of the U-District is found in Appendix 3

**B. Demand: Historical Trends and Projections**

The intent of this section is to evaluate potential future demand for high-rise in the U-District based on historical city-wide high-rise development trends and their relationship to household growth. Forecasting future demand for high-rise product and its development over a planning horizon that extends over a 20+year period in an area that represents less than 1% of Seattle’s total land area is challenging. That said, we have employed a combination of our past experience evaluating high-rise development in other city neighborhoods, a projection of future household growth, as well as the propensity for those households to reside in high-rise towers, to estimate the number of towers that may be developed city-wide during the planning horizon. With that estimate we then estimated the number of those towers that the U-District could capture given a modified zoning code that allowed for greater height. *Figure 4 and Table 2 illustrate our findings, which indicate that the U-District could support between 1 and 7 residential towers over the planning horizon.*

**Figure 4: Approach and Outputs to Estimating Future High-Rise Development**



**Table 2: Potential U-District Capture of Estimated City-Wide High-Rise Development**

	Conservative	<<<<<<<<	>>>>>>>>	Aggressive
U-District Share of City:	2.5%	5.0%	7.5%	10.0%
Lower Bound	1	2	3	5
Upper Bound	2	3	5	7

Source: King County Assessor, Heartland LLC

At present there is limited demand for high-rise residential units city-wide. Based on our understanding of DPD’s recent work on Buildable Lands we do not believe that zoning capacity city-wide is constrained. Until existing zoned capacity for high-rise development is absorbed, rezoning new areas, such as the U District, that are rezoned to accommodate more high-rise development will not affect demand within the market. Therefore, any new high-rise capacity introduced in the U-District will compete for a limited amount of demand for high-rise development city-wide.

The question is how well the U-District will compete with other sub-markets/neighborhoods based on the relative value and cost that this Urban Center can offer when compared to other competitive areas. *Although a comprehensive assessment is beyond the scope of this analysis, it is our opinion that the U-District can compete relatively well with other sub-markets within the city and should capture some number of new high-rise development over the planning period. Based on this assessment, the feasibility analysis, and developer input, we believe permitting zoning for high-rise development in the U-District warrants further study.*

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**IV. Residential Base**

The range of potential residents in the U-District in need of housing (be it in high-rise towers, mid-rise flats, or townhouses) is broad. Currently the preponderance of residents in this area are either students, University of Washington staff, or young professionals. That said, there is potential for a wider range of population groups that could choose to live here, including, including older professionals, families, and seniors. Whether or not they choose to live in the U-District is a function of housing options, affordability, area amenities, and access to employment. This section quantitatively assesses the demographic composition of housing in the U-District in order to provide an evaluation of how the U-District could expand its residential base during the planning horizon.

**A. Existing Conditions – Housing Stock**

Table 3 shows the distribution of the U-District’s housing stock by product type and the share of owner-occupied units.

**Table 3: U-District Housing Stock Distribution / Own-Rent Split**

Product Type	Units	% of Units	Own	% Own	Rental	% Rent
Apartments	5,210	77%	0	0%	5,210	100%
Du-, Tri-, and Four-Plexes	383	6%	0	0%	383	100%
Condo Units	426	6%	250	59%	176	41%
Townhomes	135	2%	74	55%	61	45%
Single Family	645	9%	322	50%	323	50%
<b>TOTAL</b>	<b>6,799</b>		<b>646</b>	<b>10%</b>	<b>6,153</b>	<b>90%</b>

Source: King County Assessor, Heartland LLC, December 2012

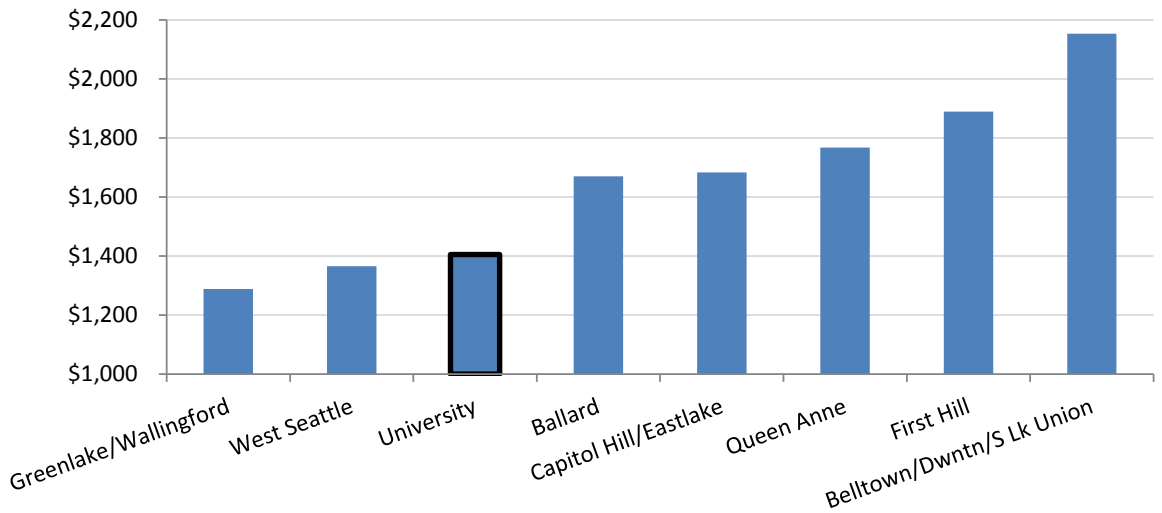
Table 5 illustrates two key points. First, that apartments comprise over 75% of the housing stock in the U-District. The vast majority of apartments are five stories or less and 65% of the apartment units were built before 1990. Second, for non-commercial residential property types (Duplex, triplex, fourplex, condominium units townhomes and single-family homes), the percent of owner-occupied units is less than 50%. Specifically, half of the 645 residences are used as rental properties, while 45% of townhomes and 41% of condo units serve as rental properties. This distribution of product and ownership type help frame the discussion on existing U-District demographics/resident profiles. A map showing this distribution is included in Appendix 3.

**B. Existing Conditions – Affordability**

Overall, the housing options offered in the U-District make the area one of the more affordable of the Urban Centers or Villages in the city. And, as the demand for affordable housing is seemingly endless, it appears that based on this information below that the U-District acts as a neighborhood that offers both a fair number of both subsidized and market rate affordable housing options compared to other Seattle neighborhoods.

The first point of reference for this assertion is the average gross asking rents by neighborhood. Since over 75% of the units in the U-District are apartments we believe that this is a good point of comparison. Figure 5 clearly shows that the average rent in newer projects (2007+) around the U-District is more affordable than other Seattle neighborhoods. Figure 4 on the following page shows that the average monthly rents in projects built after 2006 in the area comprising the Study Area (as well as some projects west of I-5 and in the Ravenna neighborhood) average approximately \$1,400 per month compared. Most other neighborhoods average at least \$1,600 per month.

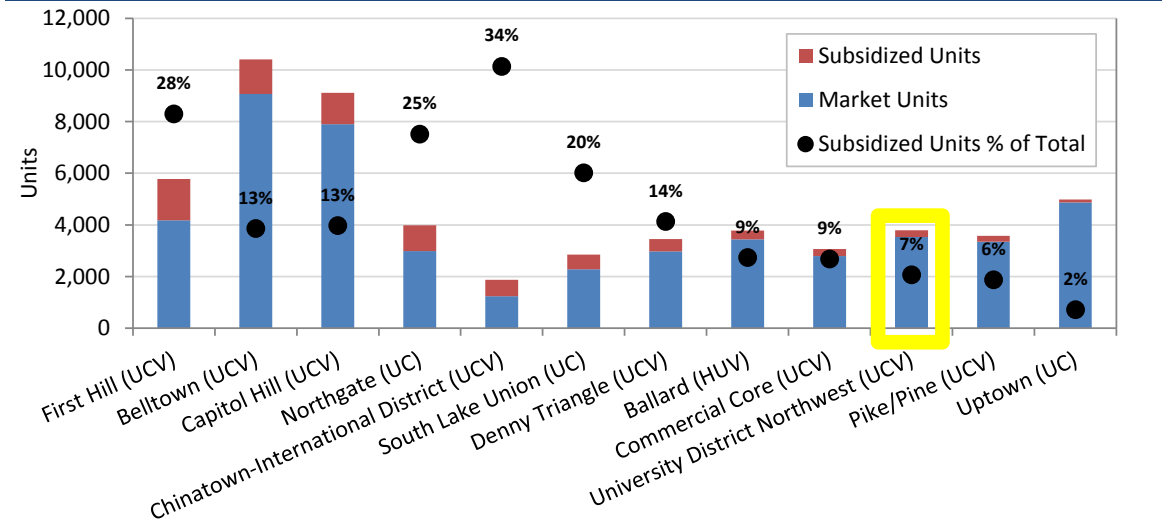
**Figure 5: Monthly Gross Rent Per Unit in Project built after 2006 by Neighborhood**



Source: Dupre & Scott, Fall 2012

Next, comparing subsidized rent restricted housing (as defined in the following paragraph) in the U-District to other urban villages shows that the U-District provides a similar number of dedicated rent restricted units as Urban Villages such as Ballard and Pike/Pine. Overall, the U-District area comprises approximately 3% of the total number of subsidized rent restricted housing units citywide.

**Figure 6: Rent Restricted Housing as a Percentage of Total Building Stock, by Neighborhood**



Source: King County Assessor, Office of Housing, Heartland LLC

Taking a closer look at the composition of rent restricted units, we observe that approximately 7% of the total units, or 418 units out of 6,779, are either restricted under the Multi-Family Property Tax Exemption Exemption (MFTE) Program or subsidized by the Office of Housing (which combined are referred to as “rent restricted”). This percent increases to 8% when the 418 affordable rent restricted units are measured as a subset of compared to the total number of apartment units. Of the 418 affordable rent restricted units, 70% or 294, are available to households earning less than or equal to have rent and income limits of 30% of area median

income (“AMI”). Table 4 summarizes the quantity of affordable rent restricted units in the U-District. A map identifying the location of these projects is included in Appendix 6.

**Table 4: Rent Restricted Housing Units by Funding Source and Affordability Level**

Subsidy Source	TOTAL	Affordability Level (% of Area Median Income)						
		30%	50%	60%	65%	75%	80%	85%
Office of Housing Subsidized Rental Housing	298	294	1	0	0	0	3	0
Multi-Family Tax Exemption Program	120	0	0	0	72	31	0	17
Total Units	418	294	1	0	72	31	3	17

Source: Office of Housing

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## V. Understanding and Expanding the Residential Base

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### A. Existing Conditions

In this section we intend to offer a perspective on the current demographics within the U-District based on information provided by DemographicsNow. The intention here is to highlight the composition of the key potential residential groups, such as students, university staff and faculty, professionals, seniors and families, in order to inform a strategy for achieving a more diverse residential base in the future.

The deepest pool of potential residents are students and faculty who study and work at the University of Washington. As of the autumn 2012 quarter there were 42,570 students enrolled with 3,752 employed as instructional faculty (3,075 of which are full-time). Together this totals over 46,300 people and that does not include administrative staff and other university related employees.

To further illustrate the effect the University has on the U-District residential profile we can look at the current demographics of the area. Here we see as of 2012, estimates approximately 40% of the area population is between the ages of 20 and 24 and 21% is between the ages of 25 and 34. These two cohorts illustrate the impact that the undergraduate and graduate population has in this area. When looking at the average household income in the U-District we found that 69% of the total households earn less than \$50,000. This is an indicator of why the U-District is driven by renters and why the rental rates are below average rates for other close-in city neighborhoods.

Other residential groups that may become attracted to the Study Area in the future include professional households without children, empty-nesters, and families. Professionals are not a group that is currently drawn in large numbers to the U-District based on 2012 estimates. Approximately 14% of the population is in the 35 to 64 age cohort and this share increases to 35% if the 25 to 34 year old cohort is included. While professionals do not currently represent a significant share of the U-District's residential base, two key elements that could help turn the tide include enhanced connections to jobs (e.g. LINK) and an improved commercial environment, primarily along the "Ave."

Another group that could be attracted to high-rise development includes empty-nesters/life-long learners. Currently people in the U-District over 65 years old represent approximately 3% of the total population. While this group would not likely drive unit absorption in a high-rise project or represent a significant share of the residential base, however, an increased number of these individuals will help provide a broader range of ages to the area. In general, trends in other university areas are revealing that this demographic is seeking low-maintenance housing options near higher education institutions. This group seeks the liveliness and energy that comes from being around younger people. Unlike families, this cohort does not require larger units and are moving to multi-family developments to simplify their lives.

Finally, households with children are a minority in the U-District, as 2012 demographics suggest that this group totals less than 5% of the total households.

## B. Recommendations for Attracting Families and Diversifying the U-District Population

On its surface, the U-District appears to have some amenities that could be attractive to families. There are parks, community centers, and schools all nearby. On the other hand, much retail of the U-District is orientated towards students, the housing stock seems to have a preponderance of student occupants, and, whether real or perceived, the U-District presents safety concerns, particularly in proximity to the commercial core of the District.

Given the existing available housing alternatives in and near the U-District, the question is whether families could be attracted to living in U-District. In Heartland's opinion, the best opportunities to add family-size units exists in the areas presently zoned for Single-family and Low-Rise residential uses. First, the existing single-family housing stock could theoretically transition to a higher rate of owner occupancy, depending on how the U-District evolves over time. The challenge to this happening is that, given present market dynamics, multiple renters are effectively outbidding owner-users for a majority of the single-family housing stock. Second, additional development of Low-Rise zones (either replacing existing single-family homes or older, less-intense low-rise development) or limited rezones of single-family zones to Low-Rise zoning could facilitate the creation of more ground-related family-sized units. However, there is no guarantee that multiple renters would not also outbid families for those potential new units. The best hope for greater utilization of family-sized units by families is that new, more attractive substitutes would be developed that could capture a share of the single, predominantly price-sensitive, renters. These could include new dorms, to the extent that they capture renters who would have otherwise rented in the U-District, or micro-apartments, which more directly compete with the shared housing offered by single-family homes.

New development within mid-rise or high-rise zones could attract some number of families over time, but the aggregate impact on the total population of families in the U-District is likely to be marginal, absent substantial public subsidies. Two bedroom units, which can be occupied by families with children, tend to comprise between 5-20% of units delivered in new construction rental buildings in Seattle's urban centers. In addition, there may be design opportunities to incorporate 3-bedroom units with podiums of both 5-over woodframe buildings and high-rise buildings. These units could be available to families. As to whether families occupy these units, that will depend on a complicated sets of tradeoffs between price and value of this housing type in the U-District, relative to the price and value offered by proximate neighborhoods and housing types in those neighborhoods. Some of the factors affecting the value side of the equation include proximity to quality parks, daycare facilities, schools, quality grocery stores, and transit. Finally, public safety – or at least the perception of – is also a very important factor for families feeling welcome to an area.

Given current economic, we are of the opinion that prospect of a large number families living in 3-bedroom units in high-rise units is improbable over the foreseeable future, again assuming no source of major subsidy to build such units are available. To illustrate the cost equation challenge, a townhouse priced at \$400,000 would cost a family roughly \$2.05 per square foot per month including taxes and insurance at current interest rates, compared to \$2.90 per square foot needed to justify high-rise construction. Based on our financial modeling, requiring a significant number of family units that are priced competitively would cause most developers to either build at a lower density (e.g. lower cost) or delay developing a high-rise project until families could/would be willing to pay more. To bridge that financial gap significant incentives for development of family-sized units in high-rise buildings would be necessary. This assessment does not alter our opinion that high-rise development in the U-District should be studied. Consideration of inclusionary zoning requirements for families in these building types should analyze unintended consequences of such inclusionary requirements. *DPD and the community may be better served by evaluating the potential to attract families to areas of the U-District where high-rise development is not the focus.*

Looking ahead over the planning horizon, Heartland speculates that the U-District may very well have a more diverse, less University dominated residential base, but the major of the diversity is likely to be expressed in

terms of income and age, not unit size. We are skeptical that there are any major capital investments that would likely change this paradigm in the near-term. To diversify the U-District residential population, we suggests a strategy that leverages off of the U-District's existing strengths as well as the macro trends driving densification of those places in Seattle that are zoned for intense development.

- **Mix of housing stock affordability:** The mix of housing stock and its generally affordable rent is attractive to creative people who could cultivate an interesting music and nightlife scene that is being priced out of Capitol Hill; as an alternative to Georgetown, U-District is very attractive.
- **Support for Retail:** Attract a broader mix of ground-related businesses, including interesting food, retail, and gathering places to serve young adults and families alike; not exclusively focused on students, as much of this area currently is rather than primarily students.
- **Let the residential market evolve:** A new group of higher end market developments are being developed in the U-District at present. This group will measure the strength of demand in the U-District for higher-end mid-rise product. These units should add substantial demand for new retail services in the District.
- **Public Safety:** An ambassador program such as that run by the MID in downtown Seattle could help mitigate public safety and public nuisance concerns that may be a contributing factor affecting the demand for housing in the U-District among groups such as families and senior citizens.

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**APPENDICES**

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**U-District Rezone Analysis**  
**Developer Questionnaire/Interview Responses**  
**3/1/13**

The following questions are food for thought and will help frame the discussion on high-rise residential buildings in the University District:

- George Petrie, Goodman RE
- John Marasco, Security Properties
- Scott Soules, UDPA
- Scott Matthews, Vulcan
- Max Blume, Blume Company
- Miles Richardson, University VW/Audi

Heartland interviewed six developers and land-owners in the U-District, compiled comments and distilled those responses in the general responses to each question listed below.

**1. If high-rise zoning was in place in the U-District today, do you think that there would be a viable market demand for high-rise product at rents that for market-rate financing for such a product?**

- The majority of respondents believed that high-rise rental product was not possible at this time, were zoning in place that would allow it.
- Given the University District's proximity to University of Washington the market will support upscale student housing in high-rise form (see Zaragon in Ann Arbor for an example of what I am talking about). Given the current financing environment, and the demand for market rate housing in Seattle, I think that the University District could support high-rise residential in the current market, especially for developers who have accumulated land under the historic land prices
  - Zaragon Place, Ann Arbor <http://www.zaragonplace.com/>
- The US might be a better high-rise for-sale market (if and when financing becomes possible) than a rental market, as the U-District may provide an opportunity for lower entry points than Downtown,
- The U-District is a logical location for high-rise zoning, as Capitol Hill and Pioneer Square, for example, are neighborhoods where such development may be less politically acceptable.
- Potential for high-rise office development, as the market improves, in light of the shortage of office space currently available in the U-District.

**2. If the answer to the question above is "no," how much (% of nominal \$/SF/mo) do you think rents would need to rise in the area, given today's cost of construction and capital, to justify development today? (this can be approximate)**

Of those respondents who said "no" to question number one, only three offered a response to this question. The prevailing wisdom is that current rents would need to rise from about \$2.20-\$2.50 per square foot per month (the respondents' general perception of current gross rents in the market area) to around \$3.00 per square foot per month in order for high-rise development to be financially feasible. This would equate to about \$400-\$500 per month for a typical 650-750 square foot unit.

One developer noted that the feasibility for high-rise units will depend in part on the vacancy rate and prices for Downtown and SLU high-rises. If project values can rise substantially above replacement costs, before land, in those areas, the U-District can be a lower-cost high-rise alternative.

**3. If the answer to question #1 is "no," do you expect that some number of high-rise projects may be feasible in 5 years? 10 years? (note: light rail service to the Brooklyn station is expected to begin in 2021)**

All respondents believed that it was reasonable for DPD to be studying high-rise development in the U-District in light of market (and political) dynamics. The consensus seemed to be that the arrival of light rail, the university's growth projections, near-term market-rate catalyst projects, gradual improvement of the U-District as a neighborhood and general trends towards urbanization are all supportive of market evolution in the U-District that should support more vertical development.

Of those respondents who said "no" to question number one and offered a response to this question, the responses ranged from 5-15 years, with a couple of the respondents stating that the duration is uncertain but worth studying.

**4. What amount (% increase in monthly gross rental rates), would you guess would accrue to a MF rental project in the U-District that is location within a 1/4 mile of the Brooklyn station once scheduled light rail service begins, holding other factors constant?**

Of the three respondents who proffered a response to this question, the response varied.

Two noted that value is related to a confluence of all the factors that normally surround a new rail transit investment (ie. increased private investment, increased public investment, city policy directives), rather than one transit investment. These collective improvements can drive rents.

One noted that renters may stay longer in a location with close proximity to good transit which will reduce operating costs and improve project economics.

One developer had experience with analyzing a similar situation in London we found that value were about 15% higher (over average market value) if the market if it was within about 5 to 7 blocks walk.

**5. If the answer to #1 or #3 above is "yes," what are the key targets demographics groups that would likely be tenants/owners (in case of condo)?**

- Students/grad students
- Young professionals
- UW faculty/staff
- Seniors
- Other?

Rents needed to justify construction are going to have to be high enough to justify construction and several of the target groups will not necessarily be able to afford those rents. One developer noted that salaries need to be at least \$80k to afford high-rise units.

The list needs to be expanded to a much wider variety of target demographics. These ran the gamut from:

- Students who can afford upscale housing (presumably paid for by parents or through student loans);
- High wage couples and older professionals;
- Empty nesters "Move downs" (from single-family homes) who don't want to move out of the neighborhood;
- The young "amazoners" and other high wage SLU and downtown workers who do not necessarily want to live downtown, especially with good transit to their campus and an improved U-District; and
- Active seniors.

### Other Comments:

- **Retail environment**

Several respondents stated that the U-District needs an improved retail environment to attract a broader spectrum of residents, particularly the area from 45<sup>th</sup> north to 50<sup>th</sup>. One group note the challenges in working to convince the many absentee and passive owners along “the Ave” to do something new, but, generally speaking, the rents are high, the buildings are in poor shape and there is not a lot of motivation to do much, at least under the present zoning.
- **Office uses**

The residential market would be greatly supported by greater office uses in the U-District. Those uses could include high-tech, research, or medical companies, particularly those with connections to UW. Office high-rise zoning is needed to complement residential high-rise zoning.
- **Notes on planning/Zoning**
  - Most agree that between 42<sup>nd</sup>-50<sup>th</sup> Street and be I-5 and 15<sup>th</sup> is the right place for a rezone.
  - Several noted that, after the Center City, the U-District is the next most logical place in the city for high-rise uses.

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## APPENDIX 2: U-District Potential High-Rise Development Site Identification Methodology

U-DISTRICT URBAN DESIGN FRAMEWORK - SUPPORT ANALYSIS MEMO

The following tables and notes outline Heartland’s methodology for identifying potential high-rise development sites in the U-District.

Potential Development Site Identification Methodology	
Methodology Step	Note
1. Analyze King County parcel level data for each parcel within the U-District. This included collecting information on the parcel land characteristics, building characteristics, 2013 taxpayer information, and sales in the past year that may have resulted in a transfer of ownership.	Parcels Analyzed: 1,473
2. Identify common ownership assemblages where the same owner controls adjoining parcels. These common ownership assemblages are referred to as “sites.”	Unique Sites Identified: 1,292
3. Calculate the improved assessed value to total assessed value ratio for each site as an initial filter to evaluate the near-term, mid-term, and long-term redevelopment likelihood.	0-25% Near Term 25-50% Mid to Near-Term 50%+ Long-Term
4. Calculate the land area for each site to evaluate whether the site square footage is sufficient to support high-rise towers.	Minimum site area to accommodate a tower calibrated at 10,000sf
5. Exclude certain site owners and uses from set of potential high-rise development sites.	Excluded users include: Pipeline projects in for permit, UW, owners in the SF 5000 zone, parks, libraries, landmark buildings, churches, University Heights, King County pump station and P-Patch
6. Visual survey of sites.	
7. Categorize sites into tiers for further analysis and mapping	See Table 2

In step seven, Heartland categorized each site into six tiers. Tiers 1 through 3 are considered to be potential high-rise development sites and sites classified as Tier 4 through 6, or Tier 0 are not likely to be developed into high rises during the planning period. The following table summarizes these tiers:

Potential Development Site Tier Categorization			
Tier	Assessed Value Ratio Range	Site Square Footage	Tier Description
<b>Potential Development Site</b>			
TIER 1	0-25%	>= 10,000	Near-term
TIER 2	26-50%	>= 10,000	During planning horizon
TIER 3	0-50%	< 10,000	Potential assemblage sites
<b>Unlikely to Develop</b>			
TIER 4	N/A	N/A	Development project in for permit
TIER 5	0-50%	N/A	Excluded per Step 5 above
TIER 6	N/A	N/A	Existing improvement precludes redevelopment
TIER 0	50%+	N/A	Single family zone or in UW overlay district

## APPENDIX 2: U-District Potential High-Rise Development Site Identification Methodology

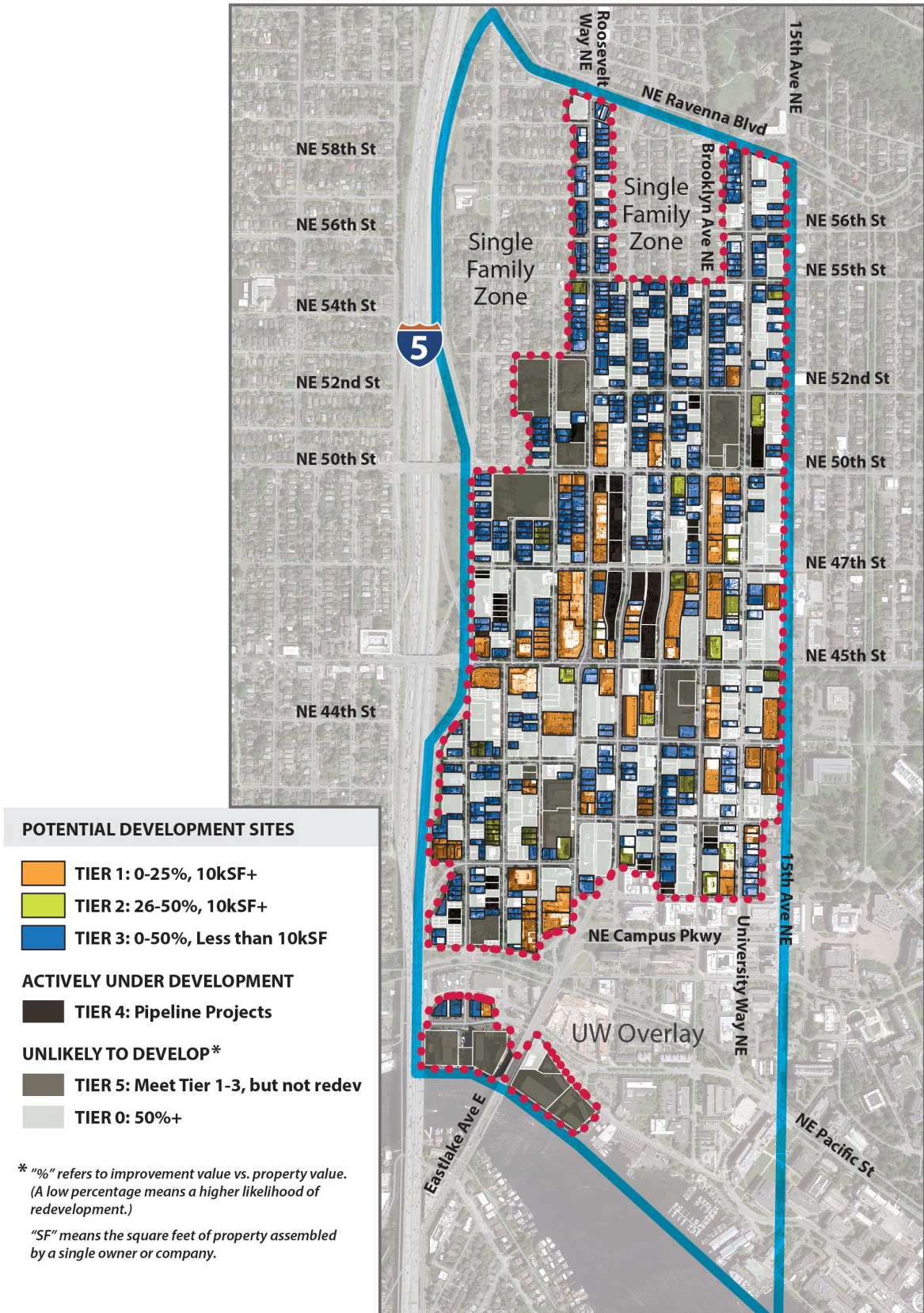
U-DISTRICT URBAN DESIGN FRAMEWORK - SUPPORT ANALYSIS MEMO

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Distribution of Sites by Tier	
Tier	Count
<b>Potential Development Site</b>	
<b>Tier 1</b>	<b>46</b>
10k sf to 14k sf	27
14k sf+	19
<b>Tier 2</b>	<b>18</b>
10k sf to 14k sf	16
14k sf+	2
<b>Tier 3</b>	<b>361</b>
<b>Unlikely to Develop</b>	
Tier 4	19
Tier 5	13
Tier 6	455
Tier 0	380



**APPENDIX 3: U-District Potential High-Rise Development Site Map**  
 U-DISTRICT URBAN DESIGN FRAMEWORK - SUPPORT ANALYSIS MEMO



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Census data shows a clear trend of households moving more and more into stacked flat multi-family development projects within the City of Seattle over the past several decades. Not surprisingly, this corresponds with a declining average household size from 2.25 in 1980 to 2.14 by 2010:

- The 1980's the delivery of multi-family units in projects at least 20 units accounted for approximately 69% of the household growth while
- The 1990's the share of multi-family family units to household growth increased to 73%.
- The 2000's the city experienced a boom, both in terms of household growth and unit delivery.
- During this decade the share of multi-family units delivered to total household growth was 81%.

The following table summarizes the raw data.

<b>Household Growth to Multi-Family Unit Delivery Trends</b>			
<b>Decade:</b>	<b>1980's</b>	<b>1990's</b>	<b>2000's</b>
Household Growth	20,851	19,018	25,376
Multi-Family Unit Delivery	14,374	13,943	20,437
Multi-Family Share of Household Growth	69%	73%	81%

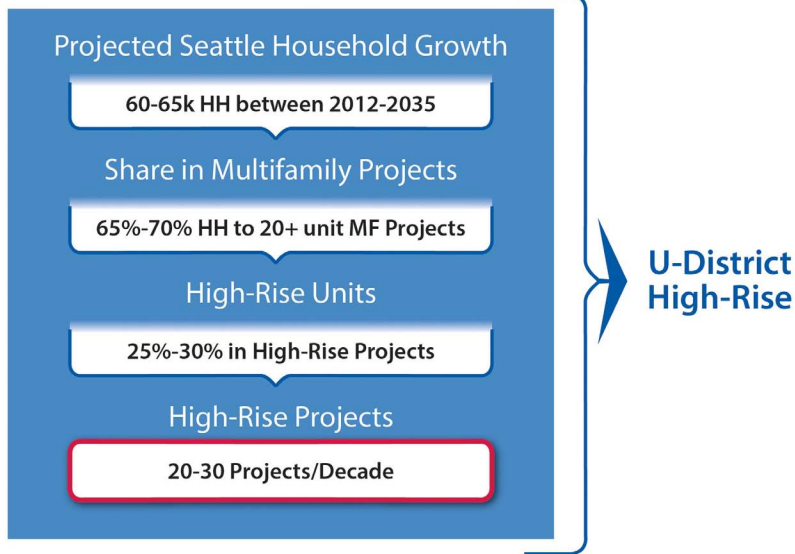
*Source: US Census, King County Assessor, Heartland*

Based on our household growth projections<sup>9</sup>, we estimate that the city may grow by up to 65,000 households between 2013 and 2035 or an average of nearly 3,000 households per year. This average annual household growth rate is nearly 500 more per year than what was experienced between 2000 and 2012; however, we see this as reasonable given the region's increasing reputation nationally and globally as an attractive place to live and work. Assuming household growth estimates ranging between 60,000 and 65,000 and applying a more conservative ratio of 65% to 70% household growth to multi-family unit delivery we could anticipate approximate between 39,000 households and 45,000 household choosing to live in multi-family projects comprised of at least 20 units.

The next question is how many of these units will be in high-rise towers over 13 stories during the planning period? In the 2000's the city saw around 30% of the market rate units delivered to be in high-rise tower developments and looking ahead we have seen roughly 29% in this type of project since 2010 including accounting for pipeline projects. So if we apply a ratio of 25% to 30% of multi-family households moving into high-rise towers to the above range of 39,000 to 45,000 households choosing to live in multi-family units we can estimate a high-rise tower unit delivery count of 9,000 to 12,500 units between 2013 and 2035. Finally, if the average tower ranges from 175 to 225 units it can be estimated that the city could welcome between 40 and 70 new towers during the planning period. On a per decade basis this equates to approximately 18 to 32 projects per 10 years. The figure on the following page summarizes our analysis assessing the city-wide potential for high-rise tower development.

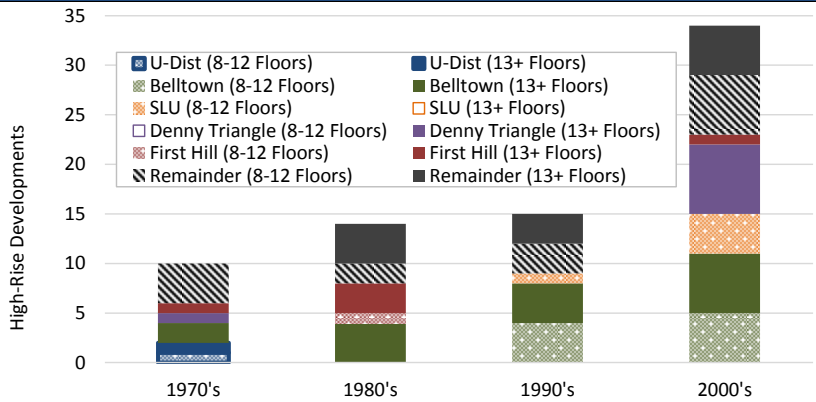
<sup>9</sup> City-wide household growth is estimated based on historical data from the US Census, Washington Office of Financial Management, and the Puget Sound Regional Council. Projections were developed by Heartland based on input from growth estimates from Conway Pederson, DemographicsNow, and PSRC.

**Approach and Outputs to Estimating Future High-Rise Development**



The lower end of this estimated range of future high-rise tower development is in line with trends since 2000 when the city saw 19 market rate high-rise towers of 13-stories or more developed. Looking ahead at the stock of recently completed projects and pipeline projects planned for the next three years indicates there should be at least 20 projects over 13 stories developed city-wide in the 2010's. For context, the following figure illustrates the City's past development trends of high-rise multi-family projects by neighborhood.

**City-Wide High-Rise Development Trends by Decade**



Source: King County Assessor, Heartland

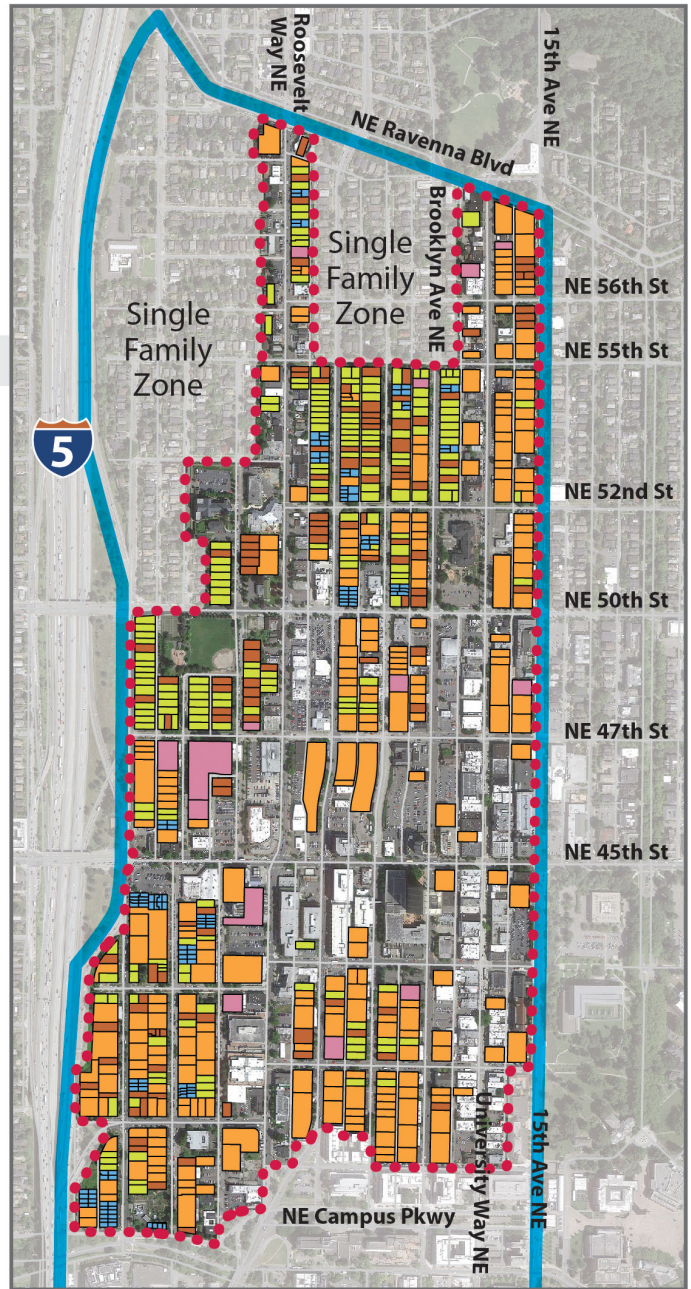
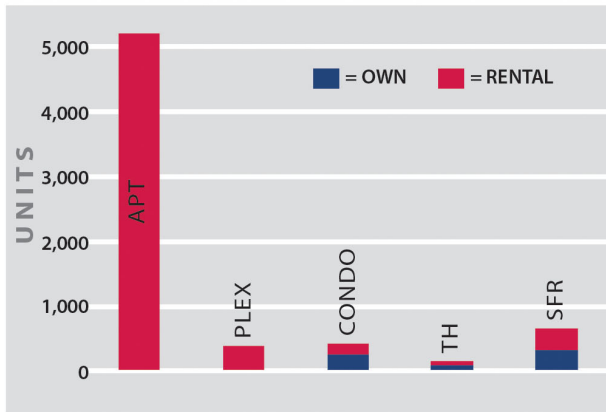
**APPENDIX 5: U-District Distribution of Housing Types Map**  
 U-DISTRICT URBAN DESIGN FRAMEWORK - SUPPORT ANALYSIS MEMO

**U-District Distribution of Housing Types Map**

University District Planning Area

Focus Area

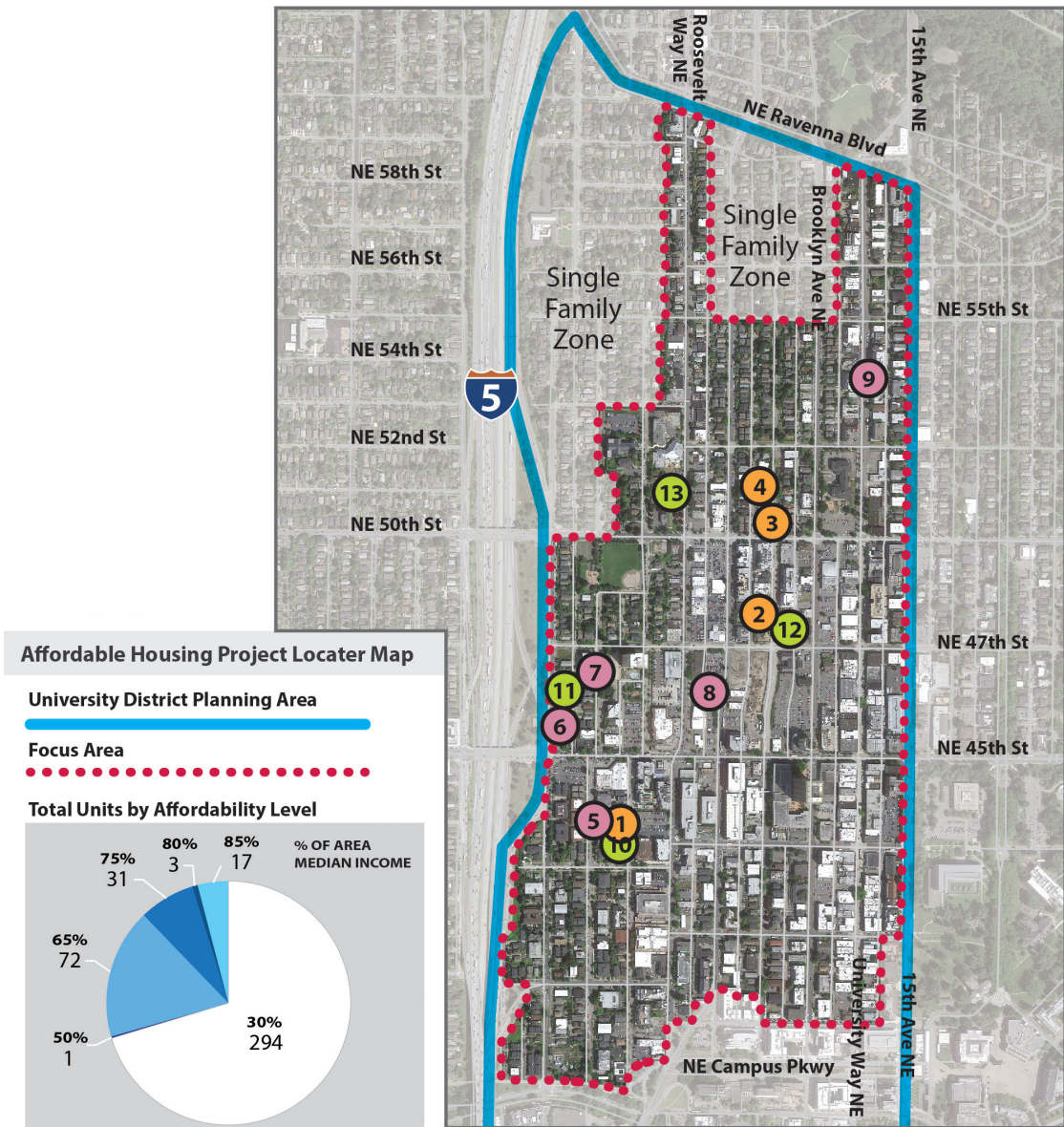
	UNITS	% OF UNITS	OWN	% OWN	RENTAL	% RENTAL
APT	5,210	77%	0	0%	5,210	100%
PLEX	383	6%	0	0%	383	100%
CONDO	426	6%	250	59%	176	41%
TH	135	2%	74	55%	61	45%
SFR	645	9%	322	50%	323	50%
<b>TOTAL</b>	<b>6,799</b>		<b>646</b>	<b>10%</b>	<b>6,153</b>	<b>90%</b>



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# APPENDIX 6: U-District Affordable Housing Locator Map

U-DISTRICT URBAN DESIGN FRAMEWORK - SUPPORT ANALYSIS MEMO



ID	PROJECT NAME	ADDRESS	YR BUILT	UNITS	AFFORDABILITY LEVEL (% OF AREA MEDIAN INCOME)					
					30%	50%	65%	75%	80%	85%
<b>OFFICE OF HOUSING FUNDED</b>										
1	Ninth House*	4319 9th Ave NE	1996	9	8	0	0	0	0	0
2	Gossett Place*	4719 12th Ave NE	2011	63	62	0	0	0	0	0
3	Wright House*	5025 12th Ave NE	1992	5	4	0	0	0	0	0
4	Tolson House*	5029 12th Ave NE	1995	7	6	0	0	0	0	0
<b>MULTI-FAMILY TAX EXEMPTION UNITS</b>										
5	Venetia Apodments (MR)	4324 8th Ave NE	1907	50	0	0	10	0	0	0
6	Strada Apodments (MR)	4516 7th Ave NE	2013	47	0	0	10	0	0	0
7	4545 8th Avenue Apartments (MR)	4543 8th Ave NE	1914	172	0	0	26	13	0	4
8	Curve (MR)	4545 8th Ave NE	2013	185	0	0	13	11	0	13
9	Muriel's Landing (MR)	5240 University Way NE	2012	100	0	0	13	7	0	0
<b>OTHER AFFORDABLE HOUSING OPTIONS</b>										
10	Michelle Apartments	4315 9th Ave NE	1985	18	0	1	0	0	3	0
11	University West (SHA) (1 BD)	4544 7th Ave NE	1971	113	113	0	0	0	0	0
12	University House (SHA) (1 BD)	4700 12th Ave NE	1971	101	101	0	0	0	0	0
13	LIHI University	5019 Roosevelt Way NE	Planned	50	N/A	N/A	N/A	N/A	N/A	N/A

\* Substance abuse assistance \* Homeless; multiple special need (MR) Market-rate & MFTE units (1 BD) All 1 bedroom units

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