Incentive Zoning in Seattle:

Enhancing Livability and Housing Affordability



Seattle Planning Commission

White Paper • February 2007

Seattle Planning Commission

"Our vision of the future is one in which our city has thriving neighborhoods where residents and businesses work with the City to plan and produce projects that enhance the quality of life for those who live, work and play in Seattle." — Seattle Planning Commission



The Planning Commission, established by charter in 1946, is an independent voluntary 16 member advisory body appointed by the Mayor, City Council, and the Commission itself. This diverse group is made up of people who bring a wide array of valuable expertise and perspectives to the important planning decision in the City of Seattle. The role of the Commission is to advise the Mayor, City Council, and City departments on broad planning goals, policies, and plans for the physical development of Seattle. It reviews land use, transportation and neighborhood planning efforts using the framework of Seattle's Comprehensive Plan and the longrange vision described in the Plan.

Seattle Planning Commission

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Smart Growth in Seattle – Density & Livability

Seattle's Role in Regional Growth

Our region's growth forecast indicates that the Central Puget Sound area will have to accommodate 1.6 million additional 1 and 1.1 million additional jobs by 2040¹. A significant percentage of that new growth will come to Seattle. The assumption is Seattle will likely need to accommodate close to 200,000 new residents and 200,000 new jobs by 2040. This poses a monumental challenge for our city, with central questions being where we should direct growth and how we can ensure Seattle residents continue to enjoy a high quality of life.

The Planning Commission supports the City's goal of working toward accommodating a significant amount of the region's new jobs and housing growth in Seattle while also actively supporting urban sustainability and livability.

Seattle Housing and Job Growth Targets

Seattle's Comprehensive Plan is the framework for establishing growth targets for the city. Currently the City has the goal to accommodate 47,000 new households by 2024. As Seattle works to achieve this goal, while also recognizing the even greater growth projections for 2040, the City must find new development capacity through increases in density. To do so may require zoning changes in certain areas, a process recently completed in the Downtown Urban Center and currently underway in several other Seattle neighborhoods such as South Downtown, South Lake Union, Northgate and Dravus.

As the density of Seattle increases, a number of voluntary land use tools should be implemented to help offset the

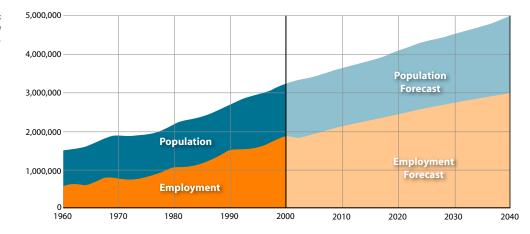
impacts of development, improve livability and respect neighborhood character. Incentive Zoning in the form of incentive programs, density bonus programs and transferable development rights are some of the land use code related tools currently available for achieving these goals.

Washington House Bill 2984: A New Tool to Manage Growth and Promote Housing

In 2006 the state legislature passed HB 2984, a bill aimed at expanding affordable housing incentive programs. The bill also clarifies local jurisdictions' ability to utilize incentive tools and strategies and strengthens the City's legal authority to create or expand incentive programs that offer increased development capacity or flexibility in exchange for housing affordability.

HB 2984 eliminates the need for the City to perform a nexus analysis before it can enact a public benefits program if the program is aimed at increasing housing affordability. A nexus analysis is an often costly and time consuming process that must extensively document the connection between the cost to the community of new development and the offsets any public benefits would provide. By eliminating the need for a nexus analysis if the public benefit is affordable housing, HB 2984 strongly encourages affordable housing as the primary element of any Incentive Zoning program.

1 Puget Sound Regional Council's forecasting for 2040 is outlined in 2020 Update: Draft Environmental Impact Statement available at http://www.psrc.org/projects/vision/ deis/index.htm.



Puget Sound Regional Council (PSRC) Forecast

The Puget Sound Regional Council's projections for population and job growth in the region through the year 2040.

Incentive Zoning: A Tool for Livability

Incentive Zoning: What is it?

Incentive Zoning is a strategy to both encourage the density Seattle is working to achieve while ensuring this growth contributes to livability and sustainability. The goal of Incentive Zoning is to link code flexibility, increased density and development potential with public benefits in the form of affordable housing and other amenities valued by communities. By helping to direct growth to areas targeted in the Comprehensive Plan, Incentive Zoning also works to preserve the character of many of Seattle's neighborhoods.

Incentive Zoning may be used to offer a density bonus on new development in exchange for community amenities. For example, the City would create a baseline height limit or Floor Area Ratio (FAR) limit in a given area — either a neighborhood or a zone. The City would then offer developers additional height or FAR in exchange for providing public benefits. These benefits can include but are not limited to affordable housing (defined as affordable to those making less than 80 to 100 percent of Area Median Income), open space, the arts, and historic preservation. This model is currently being used in Downtown Seattle and First Hill and is under consideration citywide in multifamily and commercial zones.

Incentive Zoning: One of Many Tools for Livability

Developers already address the public impacts of development by providing transportation mitigation as part of the State Environmental Policy Act, either by making transportation improvements around their development or paying to fund specific off-site improvements agreed upon by the City. While still just a proposal, another way to address such impacts would be to grant developers the ability to contribute to a fund used by the City to acquire new open space or improve existing open space in the surrounding neighborhood instead of meeting the on-site open space requirement. In other parts of Washington state, developers are also charged impact fees that help fund schools.

City of Seattle Officials Support Incentive Zoning

Seattle's leaders have shown strong unity on the issue of Incentive Zoning, with both the Mayor and City Council declaring their support for its implementation. In late 2006 the City passed an even stronger policy direction. The following is an update to the Comprehensive Plan's Land Use Element:

Seek opportunities to incorporate incentive programs for development of housing affordable to lower-income households into legislative rezones or changes in development regulations that increase development potential. Consider development regulations that condition higherdensity development on the provision of public benefits when such public benefits will help mitigate impacts of development attributable to increased development potential.

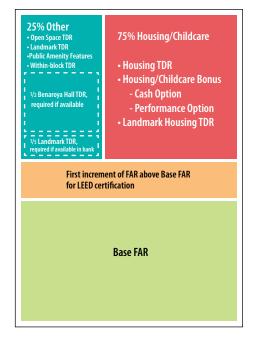


"People who work in the City of Seattle ought to be able to live in the City of Seattle. For the first time in our city's history, market rate housing developers will contribute to affordable housing. Many more people will be able to live near where they work as a result of this." Mayor Greg Nickels, speaking

Mayor Greg Nickels, speaking at the signing of the Downtown Rezone bill, which includes Incentive Zoning "What do we derive from increased height and density? Clearly developers benefit from increased height and density, but what is the commensurate added value to the public?" Councilmember Peter Steinbrueck

Case Study: Incentive Zoning in Downtown Seattle

Some form of Incentive Zoning has been employed in downtown Seattle since the 1960s. Recent downtown rezoning included an update to this program, and its current form presents one example of what Seattle can do. While the final regulations for the area remain extremely complicated, a simplified version exists below. The City developed a program for commercial buildings in the 1980s; residential buildings were added in 2006.

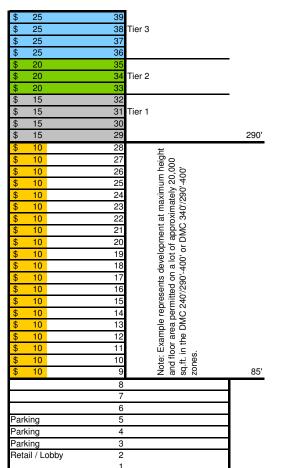


Commercial Buildings

In key Downtown zones, the following rules apply: to receive the first bonus increment of FAR above the base, developers must agree to build a LEED Silver certified structure. After that, developers are able to acquire additional square footage, up to a maximum established by the code, by participating in a combination bonus/TDR options. 75 percent of the additional floor area must be earned through affordable housing/child care options, and the remaining 25 percent through other menu options as shown above.

TERMINOLOGY

FAR (Floor Area Ratio): A method used to regulate the density, bulk and scale of buildings, FAR is the ration of floor area in a building to the area of land on which it is built. LEED (Leadership in Energy and Environmental Design): A nationally recognized green building rating system, LEED defines what constitutes a sustainable and



Residential Buildings

In the Downtown Mixed Commercial Zone, the following rules apply (similar programs exist in other downtown zones); developers may build to 290'. Between 85' and 290', developers are able to acquire additional square footage, to a maximum established by code, by participating in a bonus program. They can also build higher than 290' (up to a maximum height of 400') by participating in a bonus program. To participate in the program, developers must first commit to building a LEED Silver certified structure. Developers can either build affordable housing on site as part of the bonus program or contribute to an affordable housing fund at a certain cost per square foot.

environmentally friendly building. **TDR (Transfer of Development Rights):** A TDR program allows owners of buildings (such as affordable housing or landmark buildings) in zoning districts where more intense development is permitted to sell that development potential to owners of other sites.

Incentive Zoning Programs under Consideration in Seattle

Seattle's current citywide policy for Incentive Zoning involves enacting these programs in places where a rezone would result in new increases in development capacity. The City of Seattle is considering enacting such programs in its Multifamily and Commercial zones, as well as developing specific programs for geographic areas being considered for rezoning such as South Lake Union, South Downtown and Dravus. Public benefits could vary between geographic areas to reflect local objectives.

Some common themes have emerged in the current programs being considered for Incentive Zoning in Seattle:

- Affordable housing should be the primary public benefit, with other benefits to be potentially included based on sub area planning work
- The incentives will likely be additional height and/or other code changes that allow for the development of more units
- The Department of Planning and Development is working with consultants on economic analyses to determine how to best balance the goal of greater density with public benefits to meet community objectives



South Lake Union, one of several areas where Seattle is considering implementing Incentive Zoning.

List of Zones and Areas Currently Being Considered for Incentive Zoning Programs

	Subarea Considerations	Legislation to City Council
Area Plans		
South Lake Union	 Variety of public benefits being considered, including affordable housing, historic preservation, arts, human services and schools 	Likely first quarter 2008
Livable South Downtown Plan	 Wide variety of possible public benefits currently being considered Different public benefits packages could be provided to different neighborhoods within the study area 	Fourth quarter 2007
Area Rezone		
Dravus Area Rezone	 Additional height being considered along with allowing residential uses where currently not permitted Incentive Zoning program being considered 	First quarter 2007
Zoned Areas		
Multifamily Code Rewrite	 Public benefits package emphasizes affordable housing Buildings likely must first achieve a LEED Silver certification to receive bonus height and FAR 	First quarter 2007
Commercial Code	 Public benefits package being considered for addition to recently passed rewrite of Commercial Code 	To be determined

Identifying the Fundamental Questions

Creating a Framework for Predictability and Clarity

Seattle faces some important questions concerning Incentive Zoning. Answering these questions could help build a framework for the program that would provide more predictability and clarity for the development community and neighborhoods. To create such a framework requires addressing the following:

- How does Incentive Zoning work in coordination with impact fees and other regulatory controls required by the city to obtain public benefits? The state enabling legislation allows affordable housing to be required if density bonuses are offered. How should this be factored into the city's public benefits policies? How do we best strike a balance between the desire to encourage density and development with the desire to provide the most benefit to neighborhoods and communities? What is the balancing point at which development will be hindered? What sort of emphasis should Incentive Zoning place on affordable housing? Should the state's enabling legislation provision incentivizing providing affordable housing as a benefit play a role in this decision? Does the 75-25 percent split (as described in Case Study) on page 3) that exists in Downtown make sense for other neighborhoods or zones? How do we avoid diluting the effectiveness of revenue gained by putting it into too many public benefits?
 - Some argue providing affordable housing on-site is likely to result in much more affordable housing. Should on-site affordable housing be encouraged? What are the best strategies for incentivizing on-site over payment in lieu options?

What Are Other Cities Doing?

Below are four case studies of other cities' approaches to Incentive Zoning. As shown below, some cities require developers to fund affordable housing rather than offering voluntary bonus programs. None of these programs directs funding towards public amenities other than affordable housing, nor have any of these cities noticed a slow down in development since they enacted their programs.

Boston, Massachusetts Developers of any projects with over 100,000 square feet of gross floor area occupied by commercial, institutional, or hotel uses must contribute \$7.87 per additional square foot to an affordable housing fund. 10 to 20 percent of the money must be used near the development. Developers may build the affordable housing if the construction cost is equal to or greater than the housing contribution. Residential housing projects of more than 10 units that require a zoning variance must include 13 percent affordable housing on site, 15 percent affordable off site, or require a per unit contribution to an affordable housing fund. The vast majority of developments in Boston require a zoning variance.

Result: The commercial building program has generated \$81.5 million in linkage fees generated and more than 6,000 affordable units built since 1986.² The residential building program has generated 568 on-site affordable units.³

Denver, Colorado Owner-occupied residential developments of over 30 units must provide 10 percent affordable housing. The policy is voluntary for rental units. Developers that provide the affordable units may receive a 10 percent density bonus, a subsidy of \$5,000 to \$10,000 per affordable unit for up to 50 percent of the total affordable units, a reduction in parking requirements, and an expedited permitting process. Affordable units can be built off-site if more units are built than would have been required on-site, or a developer may pay a fee to an affordable housing fund.

Result: In co-ordinance with the rezoning of large-scale redevelopments, 3,395 affordable units built since 2002.⁴

Chicago, Illinois A downtown density bonus program offers residential developers bonus square footage in exchange for providing affordable housing on-site or making a contribution to an affordable housing fund. *Result: 21 developers have participated, and all but one opted to pay fees rather than units. The program has resulted in commitments of \$17.6 million in funding towards affordable housing.*⁵



San Francisco, where inclusionary zoning exists. Developers must provide a certain amount of affordable units or pay an in lieu fee for all residential projects with more than five units.

San Francisco, California Residential projects of five or more units must include 15 percent affordable units on-site or 20 percent off-site, the latter of which must be built within a mile of development. The developer can make payment-in-lieu to nonprofit affordable housing developers. Program experience to date suggests that developers of smaller projects tend to incorporate affordable units on site, while high rise developers tend to contribute fees for off site production of affordable units. *Result: 550 affordable units built, with an additional 2,000 in the pipeline since 1992.*⁶

Washington State Bellevue, Kirkland and Redmond have all enacted Incentive Zoning programs. There are some important differences from each program and Seattle's downtown program, however. Bellevue requires that affordable units remain affordable for the life of a project, and offers a variety of bonuses for providing affordable housing, including increased lot coverage and less parking and open space requirements. Redmond requires that developments in certain areas of the city must include 10 percent affordable units, regardless of whether the developer takes advantage of the city's density bonus or not. Kirkland requires all affordable housing to be built on-site.⁷

- 2 Earning an 'A' for Affordable, Dillon, David, Planning Magazine, December 2006.
- 3 Kevin D. McColl, Senior Policy Advisor, Department of Neighborhood Development, City of Boston.
- 4 Success In Affordable Housing: The Metro Denver Experience, Business and Professional People for the Public Interest, February 2005.
- 5 Chicago Department of Housing Quarterly Report, 2nd quarter.
- 6 *City Poised to Require More Affordable Housing*, San Francisco Chronicle, July 25, 2006.
- 7 Land Use Codes, City of Bellevue, City of Redmond and City of Kirkland.

Seattle Planning Commission Recommendations

The Planning Commission offers these recommendations to City officials as a first step in assisting the City of Seattle in developing Incentive Zoning programs as effective tools to achieve public benefits.

This is not intended to be a technical document but instead represents the Planning Commission's collective opinion which is based on independent research, exploration of background information and most importantly bringing their collective knowledge and expertise to bear in creating these recommendations. The Commission's experience includes background in neighborhood planning, environmental analysis, economic and community development, real estate, land use and transportation planning, affordable housing, architecture, land use law, and historic preservation. The Commission's goal is to provide advice that will be helpful to the City's decisionmakers in contemplating the use of these programs throughout the city.

We recognize that further data analysis, deeper economic study and input from a variety of sources, including public involvement, will be needed to shape the City's policies on incentive zoning. However, we believe our recommendations can serve as a good starting point from which further discussion can occur. We hope our efforts spark debate and greater awareness about the opportunities that incentive zoning programs offer Seattle.

Promote Statewide Growth Management Act Goals to Accommodate Jobs and Housing Targets

- The Planning Commission supports the City's work toward achieving statewide Growth Management Act goals by accommodating a significant amount of the new growth in the central Puget Sound area while also actively supporting urban sustainability and livability.
- In order to make smart growth work and to protect Washington's forest and farmland from sprawl, urban areas such as Seattle need to embrace ambitious housing and job growth targets. The State and other partnership agencies to the City need to ensure that growth and density is served with the needed transportation infrastructure, and other necessary elements that make growth and the resulting increased density compatible with livability.
- There is a delicate balance between the revenue needed to provide amenities and the revenue streams that would allow for "growth to pay for growth" and creating onerous regulations that discourage desired infill redevelopment. These programs need to ensure the requirements are not so onerous so as to discourage development in places best able to accommodate it (e.g., in terms of transportation, access to employment, and mix of land uses). We want to support the benefits of Washington's Growth Management goals for focusing development in larger metropolitan areas and urban centers, which are better served by transportation and infrastructure. Special care should be taken to ensure the costs of Incentive Zoning do not inhibit developers from taking advantage of the height and density bonuses.

2

Incentive Zoning Is a Meaningful Tool that Should Be Linked to Growth and Density

- Accommodating substantial new growth will require proactive planning so that Seattle can maintain a high quality of life and continue fostering great livable communities while retaining neighborhood character.
 Seattle should encourage the concept that new development and increases in density should contribute to all of the things that make good neighborhoods, such as public transit service, parks, open spaces, schools and childcare facilities.
- Seattle is a very attractive place for new commercial and housing development. Rezoning or upzoning can provide significant economic benefit to property owners and developers and the public should share in those benefits. As

sound public policy, an appropriate portion of this benefit should be captured for public reinvestment.

 In order to ensure that the developers take advantage of density bonuses while also ensuring the public receives significant benefits, the City should take great care to create programs that make economic sense for each zone or area being considered. What works in one place might not make sense in another, particularly when construction technology is factored in. Seattle should ensure that the upzones it provides are significant enough to provide real benefit to developers and a substantial difference in its effort to increase density.

Incentive Zoning Should Not Be Viewed as a Panacea for Meeting the City's Affordable Housing Needs or Providing for All Needed Public Amenities

- The City should consider all the tools and strategies at its disposal to ensure that Seattle remains livable and affordable, including Incentive Zoning. There are currently many strategies and revenue sources available to fund necessary infrastructure and amenities and these sources should be taken into account as Incentive Zoning programs are considered in Seattle.
- Areas accommodating higher amounts of additional density may need and deserve greater focus of resources and money for infrastructure and amenities. Incentive Zoning should be seen as one additional source that can help address the needs facing these communities.
- The City should examine the extent to which impact fees may complement Incentive Zoning programs. It is noteworthy to point out that current Growth Management

Act laws allow for the use of Impact Fees for creating parks, open space and schools.

- When complimenting Incentive Zoning programs together with development impact fees and mitigation requirements, the City should take great care to ensure that development does not become prohibitively expensive. While we strongly support the notion of trying to adequately fund the needed amenities that support increased density, we recognize that careful economic analysis will need to be conducted to ensure that Seattle reaps the most benefit.
- Incentive Zoning has the potential to help expand housing choices. However, the amount of affordable housing the program could provide is small compared to the amount the City needs.



Seattle Should Prioritize Funds from Incentive Zoning Programs to Maximize Harder to Gain Public Improvements

- Because the funds gained from Incentive Zoning might be relatively small in some areas or zones with more constrained height limits, these funds should not be spread over a wide variety of uses, but should be focused on achieving a smaller, definable list of goals. In addition, a narrower list of options will increase predictability of the development process and keep the Land Use Code simple.
- A variety of tools already exist for providing other public benefits through development, such as State Environmental Policy Act (SEPA) mitigations that fund transportation

improvements. The City is also considering instituting an impact fee to be used for open space, but the funding available for programs aimed at housing that is affordable to our workforce are much less readily available. Thus, workforce housing could be a focus of Seattle's Incentive Zoning programs.

 Incentive Zoning programs should include performance monitoring elements that document and verify its effects. Adjustments to programs that reflect changing needs and priorities should be allowed.

5

Seattle's Incentive Policies Should Maximize Affordable Workforce Housing

- With significant increases in density and an ever growing shortage in housing that is affordable to our workforce we need to take bold steps and find new and creative ways to finance livability and to provide housing that is available to Seattle's workforce. Different programs should be considered for residential and commercial development. Commercial upzoning means more jobs for the area in which it is built, thus may necessitate a higher level of affordable housing.
- Housing that is affordable to Seattle's workforce should be the primary benefit associated with Incentive Zoning. However, there may be some cases where the rezone is large enough and creates enough funding to provide for

other benefits. The City should develop threshold analysis and criteria to determine when 'enough' funding exists to provide other benefits. In these cases, the City should conduct analysis to determine the right menu of options of public amenities to support with incentive programs. Neighborhood Plans and District Councils could help identify which public amenities are necessary to best serve specific communities.

 Policy should distinguish between for rent and for sale housing products. Rental housing is almost by definition more affordable than for sale housing and we need to understand the relative affect of incentive zoning on each of these. In terms of the specific goals for the housing created through incentive zoning, the Comprehensive Plan and the Seattle Housing Needs Assessment study should serve as guidance for the level of housing affordability to be created. The Housing Element of the Comprehensive Plan should be consulted. The City should work to allocate funds gained through Incentive Zoning based on the City's most pressing affordable housing needs as well as considering where this tool will be most useful in filling a gap in the housing market that might not have adequate funding sources.

6

Seattle Should Explore New State Rules that Allow the City to Require that a Percentage of Affordable Units Be Required in All Developments Where a Density Bonus is Offered

- New State rules exist that allow the City the ability to require a specific percentage of affordable housing units in all developments where a density bonus is offered (whether a developer takes advantage of the bonus or not). This option should be further explored and used in places where this makes economic sense and will positively affect housing affordability. This rule allows the City an additional tool that should be used appropriately.
- The City should consider the maximum number of affordable housing units that can be achieved, either through on-site development or the in-lieu fee. When determining this number, realistic construction costs should be factored into the equation. If off-site housing is built, the City should establish criteria for how to best use the funds and balance the need for the getting the most possible economic benefit, ensure the creation of diverse income balanced neighborhoods, and maximize growth near public transportation.

Additional Solutions Are Needed to Address Seattle Housing Affordability

- Studying the experience of other cities reveals that it is unlikely that Incentive Zoning will provide sufficient resources to fully address Seattle's need for affordable housing. The City should therefore pursue a variety of additional strategies, including increasing density, expanding the Housing Levy, and exploring both inclusionary zoning and Tax Increment Financing.
- The City should move forward quickly in implementing more housing choices strategies, such as detached accessory dwelling units and cottage housing citywide in single family zones.
- Increasing density through zoning remains one of the primary tools for providing more affordable housing. The City should exercise leadership in ensuring Seattle pursues a variety of strategies for providing additional affordable housing.

8

The City Should Consider New Strategies for Increasing Multi-Family Development Including Tools that Encourage Building Closer to Capacity and Increasing Multi-Family Development Opportunities

- The City's Urban Village Strategy is a framework for looking at ways to provide more capacity for development that will be necessary to meet new growth targets. Urban Centers, Urban Villages, Hub Urban Villages, and residential urban villages are clearly the first places accommodate new growth.
- To achieve affordable and workforce housing goals while implementing smart growth strategies, the City must open up more of Seattle's land base to multifamily housing. An inventory of available land for additional multi-family development should be completed and analyzed relative to developing strategies to accommodate increased growth pressures and encouragement to develop to capacity.
- Seattle should conduct a citywide study of all capacity and the development of a related strategy from which to make decisions about zoning. The City should initiate a dialogue about future growth and potential options such as exploring multifamily zoning for single family zoned areas that abut multifamily or commercially zoned land and significantly increasing height and density in Urban Centers.
- Minimum density requirements should be considered to help Seattle achieve housing targets. Significantly underutilizing zoning capacity has implications associated with the supply of housing that is affordable to working families.

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