Implementation of Mandatory Housing Affordability Requirements in Downtown and South Lake Union

Director's Report

October 2016

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SUMMARY

This proposed legislation would increase development capacity and implement the Mandatory Housing Affordability (MHA) requirements in Downtown and South Lake Union. This legislation is a key piece of the Housing Affordability and Livability Agenda (HALA), a multi-pronged approach to address the housing affordability crisis in Seattle. It is estimated that the MHA requirements implemented through this proposal will produce 2,100 new affordable housing units over 10 years.

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

The legislation includes provisions for modifying development standards. For residential development, it also includes provisions for modifying payment and performance amounts to address limited instances in which the Land Use Code would prevent a project from being able to use the additional development capacity. It also clarifies existing provisions regarding which development is considered to be first under existing tower separation standards where two towers are proposed to be located in close proximity.

In addition to this proposed legislation, it is anticipated that MHA requirements will be implemented in zones that allow commercial and multi-family development citywide. Separate legislation implementing rezones and MHA requirements for the University District is anticipated to be adopted in January of 2017. Legislation for other areas outside of Downtown and South Lake Union is expected in mid-2017. Implementation of MHA in the Chinatown-International District was originally proposed to be part of this legislation, but is now proposed to be accomplished as part of the legislation implementing MHA outside of Downtown and South Lake Union. More information on these initiatives and HALA generally is available at: www.seattle.gov/HALA.

BACKGROUND

Affordable Housing Need and Related Studies

In recent years, there have been a substantial effort to analyze the need for affordable housing in Seattle and potential strategies to address it. Much of this work was directed by Resolution 31444, adopted by Council in May 2013, which established a work program for reviewing and potentially modifying the City's affordable housing incentive zoning and other affordable housing programs.

The critical need for affordable housing in Seattle has been extensively documented. An overview of this information is provided in the Director's Report for residential MHA framework legislation (May 2016), which is incorporated herein by reference, as well as in the Housing Appendix of the Comprehensive Plan.

As part of its ongoing efforts, the City has commissioned numerous consultants to provide a variety of expert reports addressing the economics of various affordable housing requirements including:

- Seattle Affordable Housing Incentive Program Economic Analysis, October 10, 2014, David Paul Rosen & Associates;

- Economic Impact Analysis for Low- and Mid-Rise Residential, Mixed Use and Non-Residential Prototypes, David Paul Rosen & Associates, May 18, 2015;
- Recommendations for Implementation of an Affordable Housing Linkage Fee, September 12, 2014, memo by Cornerstone Partnership;
- Seattle Non-Residential Affordable Housing Impact and Mitigation Study, September 15, 2015, David Paul Rosen & Associates.

The Housing Affordability and Livability Agenda (HALA)

In September 2014, the City Council adopted Resolution 31546, in which the Mayor and Council proposed convening a Housing Affordability and Livability Agenda Advisory Committee to evaluate potential housing strategies. Early in the process, the Advisory Committee hosted three Community Open Houses and conducted an online survey and received community feedback from 2,709 participants. In July 2015, the 28-member Advisory Committee forwarded a report to Mayor Murray and City Council with 65 recommendations focused on increasing the production of market-rate and affordable housing, strategically preserving housing to minimize displacement, providing protections for tenants and low-income homeowners, streamlining permitting systems to reduce housing costs, and leveraging resources for production and preservation of affordable housing. Together, it was anticipated that these recommendations would allow Seattle to produce 30,000 market-rate and 20,000 affordable units over the next 10 years. Implementing MHA requirements in conjunction with increases in development capacity was a key recommendation of the committee.

The Grand Bargain

The HALA recommendation to implement MHA requirements in conjunction with increases in development capacity was further developed by the Statement of Intent for Basic Framework for Mandatory Inclusionary Housing and Commercial Linkage Fee, July 13, 2015 (commonly referred to as the "Grand Bargain"), signed by Mayor Murray, Councilmember O'Brien, the Co-Chairs of the HALA Advisory Committee, and representatives of the for-profit and non-profit development sectors. The goal was to come to an agreement on a practical and realistic development-driven approach to addressing affordable housing needs. Prior to final agreement, the Grand Bargain was presented to the full HALA Advisory Committee for its approval.

For Downtown and South Lake Union, the Grand Bargain document provided significant guidance in establishing the proposal. Key aspects of the Grand Bargain document include:

- Establishing payment amounts such that a project maximizing its development potential would pay an amount equal to what it would already contribute for affordable housing under incentive zoning plus an additional amount for new development capacity provided through MHA;
- Establishing a methodology for relating performance and payment amounts;
- Providing guidance on the additional development capacity;
- Calling for inclusion of provisions allowing modifications to development standards and payment and performance amounts in very limited cases where development standards prevent the use of some of the additional capacity.

MHA Commercial and Residential Framework Legislation

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

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

MHA-Commercial Refinement Legislation

Separate legislation is also proposed to make various amendments to Chapter 23.58B to ensure consistency between the residential and commercial requirements where appropriate. It is anticipated that this legislation would be passed prior to the legislation addressed in this report.

Building Code

The City is also proposing to update the Building Code in late 2016 as part of the regular three-year update cycle. This code update is likely to include some changes that could make it easier to use the extra capacity that is proposed through this legislation for zones that are currently 65 or 85 feet in height.

Public Engagement

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

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

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

PROPOSAL

The proposed legislation would allow additional development capacity in the form of an increase in the amount of height or floor area allowed by zoning in most zones in the Downtown and South Lake Union Urban Centers, in order to implement MHA requirements in those zones. Where MHA requirements apply, most commercial or residential developments will be required to contribute to affordable housing by including affordable housing within new development or paying into a fund used to support development, or in some cases preservation, of affordable housing.

Additionally, this legislation would establish a process for allowing modifications to development standards or affordable housing payment and performance requirements in limited cases where development cannot use the additional development capacity due to development standards in the Land Use Code. The legislation would also clarify existing provisions regarding which development is considered to be first under existing tower separation standards where two towers are proposed to be located in close proximity.

Affected Zones

This proposal would affect all zones in the Downtown and South Lake Union Urban Centers except for the following: all of the Chinatown-International District; all Pioneer Square Mixed zones; all Pike Market Mixed zones; and DH1, DH2/55, DH2/85, SM-SLU 85/65-160, and C2-40 zones. The Chinatown-International District is proposed to be included in city-wide changes that are anticipated to be implemented in mid-2017. The other zones mentioned represent the Pioneer Square and Pike Place Market national historic districts, as well as a few additional areas that were excluded for other reasons:

- DH1 and C2-40 zones within this area are subject to shoreline master program regulations which limit the ability to provide additional development capacity;
- DH2/55 and DH2/85 zones represent about three blocks along the central waterfront which are located in a SEPA-designated view corridor from Victor Steinbrueck Park that could have been impacted by providing additional height;
- SM-SLU 85/65-160 zones are subject to specific view corridor regulations developed as part of the 2013 South Lake Union rezone.

Additionally, this proposal would affect a limited geographic area zoned Industrial Commercial 85-160 that abuts the southern boundary of the Downtown Urban Center. Though outside of the Downtown and South Lake Union Urban Centers, the IC 85-160 zone was included in this legislation because it is contiguous with the Downtown Urban Center, allows development similar in scale to other parts of South Downtown, and is generally separated from other adjacent neighborhoods by I-5 and the I-90 ramps.

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

Areas being Rezoned MHA Implementation in Downtown and South Lake Union

Rezone Area

No warranties of any sort, including accuracy, fitness, or merchantability accompany this product.

Prepared October 17, 2016 by Seattle IT, SDCI-GIS

Development Capacity

Additional development capacity would be given in each zone that is subject to MHA affordable housing requirements. The chart below details the additional capacity that would be added for each zone where the affordable housing requirements apply. This proposal would increase the development capacity in Downtown and South Lake Union by about 6% overall. Visual depictions of the additional capacity for some zones are available in the MHA Downtown and South Lake Union Urban Design Study.

Table A: Summary of Development Capacity Proposal

Zone		Additional Capacity	
Existing Name	**New Name**	**Residential**	**Commercial**
DH2/65	DH2/75	10 feet height	10 feet height
DMC-65	DMC 75	10 feet height	1 FAR increase, 10 feet height
DMC-85	DMC 95	10 feet height	1 FAR increase, 10 feet height
DMC-125	DMC 145	20 feet height	1 FAR increase, 20 feet height
DMC-160	DMC 170	10 feet height	1 FAR increase, 10 feet height
DMC 240/290-400	DMC 240/290-440	40 feet height	1 FAR increase
DMC 340/290-400	DMC 340/290-440	40 feet height	1 FAR increase
DMR/C 85/65	DMR/C 95/75	10 feet height	0.5 FAR increase, 10 feet height
DMR/C 125/65	DMR/C 145/75	20 feet height[1]	0.5 FAR increase, 10 feet height
DMR/C 240/125	DMR/C 280/125	40 feet height, 10% tower floor plate above 125 feet	0.5 FAR increase
DMR/R 85/65	DMR/R 95/65	10 feet height[1]	0.5 FAR increase
DMR/R 125/65	DMR/R 145/65	20 feet height[1]	0.5 FAR increase
DMR/R 240/65	DMR/R 280/65	40 feet height, 10% tower floor plate	0.5 FAR increase
DOC1 U/450/U	DOC1 U/450-U	1,000 sf tower floor plate	1 FAR increase
DOC2 500/300-500	DOC2 500/300-550	50 feet height	1 FAR increase
DRC 85-150	DRC 85-170	20 feet height[1]	1 FAR increase
IC 85-160	IC 85-175	none	0.5 FAR increase, 15 feet height
SM-85	SM-SLU 100/95	10 feet height, 0.75 FAR	0.75 FAR, 15 feet height
SM-125	SM-SLU 145	20 feet height, 1.5 FAR	0.5 FAR, 20 feet height
SM-SLU 85/65-125	SM-SLU 100/65-145	20 feet height	0.5 FAR increase, 15 feet height
SM-SLU 85-240	SM-SLU 85-280	40 feet height	None
SM-SLU 160/85-240	SM-SLU 175/85-280	40 feet height	1 FAR increase, 15 feet height
SM-SLU 240/125-400	SM-SLU 240/125-440	40 feet height	1 FAR increase
SM-SLU/R 55/85	SM-SLU/R 65/95	10 feet height	10 feet height

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

Increasing development capacity in the zones listed in the chart, which represent the vast majority of the Downtown and South Lake Union Urban Centers, is consistent with the policies of the City's Comprehensive Plan. As recognized in those documents, the need for more housing is clear: over the next twenty years, Seattle will need to accommodate 70,000 additional housing units and 120,000 more residents. Increasing demand for limited housing stock has resulted in significant increases in rents throughout Seattle. Creating a significant amount of new residential development is critical to minimizing increases in the cost of housing.

Numerous policies of the City's Comprehensive Plan support the appropriateness of the Downtown and South Lake Union Urban Centers as locations for accommodating both residential and commercial development. Relevant policies in the Comprehensive Plan are including in Appendix A.

Affordable Housing Requirements

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

Table B: Summary of Payment and Performance Amounts

Zone		Residential (to be adopted in the proposed legislation)		Commercial (as set forth in Chapter 23.58B and amended by this proposal)	
Existing Name	New Name	Payment	Performance	Payment	Performance
DH2/65	DH2/75	$12.75	5.0%	$15.00	9.1%
DMC-65	DMC 75	$12.75	5.0%	$ 8.25	5.0%
DMC-85	DMC 95	$12.75	5.0%	$ 8.00	5.0%
DMC-125	DMC 145	$13.00	5.1%	$10.00	6.1%
DMC-160	DMC 170	$ 5.50	2.1%	$ 8.00	5.0%
DMC 240/290-400	DMC 240/290-440	$ 8.25	3.2%	$10.00	6.1%
DMC 340/290-400	DMC 340/290-440	$ 8.25	3.2%	$12.50	7.6%
DMR/C 85/65	DMR/C 95/75	$12.75	5.0%	$17.50	10.6%
DMR/C 125/65	DMR/C 145/75	$11.75	4.6%	$17.50	10.6%
DMR/C 240/125	DMR/C 280/125	$13.00	5.1%	$14.50	8.6%
DMR/R 85/65	DMR/R 95/65	$12.75	5.0%	$14.00	8.5%
DMR/R 125/65	DMR/R 145/65	$11.75	4.6%	$16.00	9.7%
DMR/R 240/65	DMR/R 280/65	$13.00	5.1%	$16.00	9.7%
DOC1 U/450/U	DOC1 U/450-U	$12.00	4.7%	$14.75	8.9%
DOC2 500/300-500	DOC2 500/300-550	$10.25	4.0%	$14.25	8.6%
DRC 85-150	DRC 85-170	$10.00	3.9%	$13.50	8.1%
IC 85-160	IC 85-175	$ 0	0.0%	$10.00	6.1%
SM-85	SM-SLU 100/95	$ 7.50	2.9%	$ 8.00	5.0%
SM-125	SM-SLU 145	$ 7.75	3.0%	$ 9.25	5.6%
SM-SLU 85/65-125	SM-SLU 100/65-145	$ 7.75	3.0%	$ 8.00	5.0%
SM-SLU 85-240	SM-SLU 85-280	$10.00	3.9%	$ 8.00	5.0%
SM-SLU 160/85-240	SM-SLU 175/85-280	$10.00	3.9%	$11.25	6.8%
SM-SLU 240/125-400	SM-SLU 240/125-440	$10.00	3.9%	$10.00	6.1%
SM-SLU/R 55/85	SM-SLU/R 65/95	$12.75	5.0%	$ 8.25	5.0%

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

The approach to setting payment and performance amounts was guided by the Grand Bargain document. The Grand Bargain document was a negotiated agreement between affordable housing organizations, market-rate developers, and others aimed at balancing many goals and principles that the HALA Advisory Committee discussed, including the critical need for affordable housing generally, the importance of additional housing supply in limiting future increases in housing cost, integration with existing voluntary incentive zoning, Seattle's Comprehensive Plan goals and growth management objectives, and implementation issues. The following circumstances unique to Downtown and South Lake Union were also considered as part of these discussions and factored into the final approach:

1. The additional development capacity in Downtown and South Lake Union is generally more expensive to construct due to construction type, fire suppression, seismic design considerations, elevator requirements, and smaller floor plates, compared to primarily wood-framed construction in areas outside of Downtown and South Lake Union;
2. In addition to affordable housing, projects in some Downtown and South Lake Union zones are required to provide non-housing benefits such as the provision of public open space, or green street improvements, in order to build beyond base development limits. Most areas outside of Downtown and South Lake Union are not required to provide these non-housing benefits; and
3. The additional development capacity granted under MHA in Downtown and South Lake Union is generally smaller as a percentage of total development capacity than in other areas.

Overall, payment and performance amounts for commercial development in Downtown and South Lake Union zones are significantly higher than other areas and payment and performance amounts for residential development in Downtown and South Lake Union are on the low end of the range of requirements for other areas. Together, these amounts are estimated to result in the production of 2,100 units which is about of a third of the city-wide goal.

Below is a summary of the specific calculations that were used to establish payment and performance amounts.

Affordable housing requirements for commercial development:

Payment and performance amounts for commercial development are already contained in SMC Chapter 23.58B. However, this legislation would make minor amendments to the existing tables in zones where the initial proposal has changed. Payment amounts for Downtown and South Lake Union were determined for each zone as follows:

1. Calculate the amount of the affordable housing payment that would be required for a project maximizing its development capacity under the existing voluntary incentive zoning (VIZ) requirements;
2. Calculate an additional amount of payment by multiplying the square feet of additional commercial development capacity that the project could achieve under MHA by a higher per square foot rate;
3. Divide the sum of the payments calculated in steps 1 and 2 by the total chargeable floor area for a project maximizing its development capacity.

For purposes of the calculations, the payment amount a developer would make for affordable housing under Seattle's voluntary incentive zoning was based on the current Downtown/South Lake Union rate of $25.72 per gross square foot of nonresidential floor area earned through VIZ. The additional development capacity provided by this legislation was charged at $41.74 per gross square foot of chargeable floor area devoted to commercial uses in most zones.

Performance requirements were then calculated by multiplying the payment amount for each zone by the ratio of performance to payment amounts currently used under incentive zoning.

Affordable housing requirements for residential development in zones with incentive zoning:

The payment and performance amounts for residential development in Table B are being established in the code for the first time through this proposed legislation. Payment amounts for residential developments in zones that are currently subject to incentive zoning were determined for each zone as follows:

1. Calculate the amount of the affordable housing payment that would be required for a project maximizing its development capacity under VIZ;
2. Calculate an additional amount of payment by multiplying the square feet of additional residential development capacity that the project could achieve under MHA by the same VIZ rate;
3. Divide the sum of the payments calculated in steps 1 and 2 by the total above-grade gross floor area for a project maximizing its development capacity.

This approach is generally similar to the one used to calculate the payment amount for commercial development except that the cost per square foot of additional capacity was lower as the value of the additional development is generally lower for residential development than commercial development in Downtown and South Lake Union. Under Incentive zoning, the payment amount a developer would make for affordable housing is $22.65 per gross square foot of above-grade floor area devoted to residential uses.

In setting required performance and payment amounts for the various zones in Downtown and South Lake Union, the City established a conversion factor for determining the relationship between the payment amount and performance amount.[1] For zones with incentive zoning in Downtown and South Lake Union, the City started with the payment requirement and used the conversion factor to set the performance requirement. The conversion factor reflects the following methodology:

> *Payment amount = Capitalized value of difference between market and affordable rental rate plus 10%*

The capitalized value of the rent differential reflects the revenue that would be lost by an owner due to providing rent-restricted units under the performance option. The 10% adjustment reflects the fact that the City incurs extra administrative costs and delay in applying the payment proceeds to the production of affordable housing.

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

Affordable housing requirements for residential development in zones without incentive zoning:

The performance amounts for residential development in zones without incentive zoning was calculated as follows:

[1] More information about the compliance with statuary requirements of the relationship between payment and performance is contained in Appendix B.

For zones with heights that are currently 85 feet or less, a flat rate of 5% was used. The Grand Bargain document specifies that a performance amount of 7% should be used for low-rise and mid-rise structures in high-cost areas, except that the City should explore separate requirements for properties currently at 65 feet or 85 feet where the additional floor area will require higher-cost construction.

For zones with heights that are greater than 85 feet, a performance amount was calculated as follows:

> *Performance amount = 5% * (% increase in development capacity for zone more than 85 feet in height / % increase in development capacity for zone 85 feet in height)*

Under this proposal, the development capacity in zones with 85 feet heights would increase by about 15% under this proposal. Thus, if the development capacity in a zone with heights greater than 85 feet also increased by 15%, it would get a performance amount of 5%. If the development capacity in the zone increased by 7.5%, it would get a performance amount of 2.5%.

Payment amounts were calculated using the same conversion factor used for residential development in zones with incentive zoning.

Performance Option

All affordable housing provided through the performance option must meet a set of standards outlined in SMC Chapters 23.58B and 23.58C. As noted above, some amendments to Chapter 23.58B are proposed in legislation being considered concurrent with the proposed legislation addressed by this report.

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

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

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

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

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

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

Eligible households:

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

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

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

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

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

Additional requirements for affordable housing for renters:

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

development must provide at least six months' notice of any rent increases to over-income tenant households once the unit substitution has occurred.

Additional requirements for affordable ownership housing:

- Affordable sale price: The initial sale price for affordable ownership housing will be calculated so that ongoing housing costs do not exceed 35% of the income generated by a household making 65% of AMI. Establishing an initial sale price based on a household making 65% of AMI rather than 80% of AMI allows for equity growth for individual homeowners while maintaining affordability for future buyers. The Director of Housing will establish by rule the method for calculating the initial sale price including standard assumptions for determining upfront housing costs, including the down payment, and the ongoing housing costs, which shall include mortgage principal and interest payments, homeowner's insurance payments, homeowner or condominium association dues and assessments, and real estate taxes and other charges in county tax billings. The Director of Housing may establish a maximum down payment amount for eligible households at initial sale of an affordable ownership unit.
- Affordable resale price: The sales price subsequent to the initial sale will be calculated to allow modest growth in homeowner equity while maintaining long-term affordability for future buyers.
- Other restrictions: Owners must occupy the units as their principal residence, and may not lease their unit unless OH approves an exception on a short-term basis. Owners must also comply with MHA requirements to maintain the long-term viability of their unit, including rules to maintain the physical condition of the unit, and to reduce financial risks to owners that could result in a loss of an affordable unit by foreclosure.
- Ongoing stewardship: Either prior or subsequent to the initial sale of an affordable ownership unit, the Director of Housing is authorized to designate an agency or organization with sufficient capacity to perform ongoing stewardship and management functions for such unit, including but not limited to: calculation of maximum sale prices; marketing sales to eligible homebuyers; screening, educating, and selecting eligible households; approving buyer financing; and managing successive resales to eligible households. Stewardship activities will be supported by a $50 monthly charge to homeowners, as well as applicable transaction fees.

Payment Option

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

Relationship to Incentive Zoning

In some zones, a developer may currently achieve extra residential floor area beyond a base height or base floor area ratio (FAR) limit up to the maximum height or FAR limit by using voluntary incentive zoning. Incentive zoning is currently an option in many zones in the Downtown and South Lake Union Urban Centers, Highrise zones, Midrise zones located within urban centers and villages, and in limited other areas that have been upzoned within the last five years. In most Downtown and South Lake Union zones, Land Use Code provisions generally require the provision of affordable housing and non-housing benefits such as on-site open space or transfer of development rights.

Under MHA-R, incentive zoning requirements relating to affordable housing will be satisfied by complying with MHA; however, the applicant will still need to satisfy any applicable non-housing incentive zoning requirements that exist. While the MHA-C requirements are currently different, the proposed MHA-C refinement legislation would align both the programs to use this approach.

Modifications

OPCD comprehensively reviewed applicable development standards in the Downtown and South Lake Union zones in which residential development capacity is proposed to be increased, in order to determine whether any development standards could preclude the additional capacity from being achieved. OPCD identified only a few, very limited situations in which this could occur. The proposal addresses these situations through a two-step process. First, the proposal includes provisions for certain zones under which, if certain identified development standards would prevent a development from achieving certain measures of capacity (for example, a certain height), other development standards would be modified (for example, allowing slightly wider towers). OPCD expects that these provisions would ensure the additional residential development capacity could be achieved in virtually every case. Second, to address a scenario where the additional capacity could still not be achieved, the proposal includes a provision by which payment and performance amounts under the MHA-R program would be modestly reduced if a development could not achieve certain size thresholds. The processes for modifying development standards or, if that was insufficient, payment and performance amounts is described below.

Modifications to Development Standards

Modifications to development standards would be allowed only in the limited circumstances described below:

- In a DMC 240/290-400, DMC 340/290-400, SM-SLU 85-240, or SM-SLU 240/125-400 zone or in a SM-SLU 160/85-240 zone located outside of the South Lake Union Seaport Flight Corridor where development standards, such as limits on the number of towers per block, tower separation requirements, or setbacks, would prohibit a tower or would result in a tower floorplate less than 7,500 square feet in area, the maximum height for structures that would be allowed without meeting tower standards would be increased by 10 feet. This allowance would change the height limit for structures that do not meet tower standards from 160 to 170 feet in DMC 240/290-400 and DMC 340/290-400 zones and from 125 to 135 feet in the SM-SLU 240/125-400 zone and from 85 to 95 feet in SM-SLU 85-240 and SM-SLU 160/85-240 zones and from 65 to 75 feet in SM-SLU 85/65-125 zones.
- For projects in a SM-SLU 160/85-240 zone located in South Lake Union Seaport Flight Corridor that could not achieve their maximum height, the average gross floor area of all stories with residential use above the podium height would be allowed to increase by 10%. If the project could not use the 10% increase due to development standards in Title 23, the maximum height for structures that would be allowed without meeting tower standards would be increased by 10 feet. This allowance would change the height limit for structures that do not meet tower standards from 85 to 95 feet.

Modification of payment and performance amounts

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

Tower Vesting Clarification

Under existing rules in certain zones, new towers must be separated from existing towers by specified distances and, in some cases, may not be located on the same half block as an existing tower. Where two towers are proposed to be located in close proximity, the City relies on the provisions of SMC Section 23.48.245 for Seattle Mixed zones and Section 23.49.058 for Downtown zones to determine which project is first (and is therefore not subject to separation and maximum number rules) and which project is second (and must be set back from the other tower or may not be allowed to have towers at all). Currently, this decision is generally based on which project is issued a master use permit first. This situation poses difficulties when projects have similar timelines since the project applicants do not know until the end of the permit process whether they will be able to build the project they are proposing.

This proposal would change the point in the permit process that would be used for determining which proposal is first for purposes of tower regulations. This proposal would change the requirements such that a development proposal would be considered first once a complete application for early design guidance has been filed, which is substantially earlier in the permit process. This would ensure that the standard would be based on who submitted first (which is in the control of the applicant) rather than which permit got through the permit process faster.

REZONE CRITERIA

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

General Criteria

Criterion	Met?	Analysis
In urban centers and urban villages, the zoned capacity for the center or village taken as a whole shall be no less than one hundred twenty-five percent (125%) of the growth targets adopted in the Comprehensive Plan for that center or village. (SMC 23.34.008.A.1)	Yes	The proposal represents an increase in the development capacity available in the neighborhood. Thus, this criterion is met.
For the area within the urban village boundary of hub urban villages and for residential urban villages taken as a whole the zoned capacity shall not be less than the densities established in the Urban Village Element of the Comprehensive Plan. (SMC 23.34.008.A.2)	N/A	The proposal does not affect any hub urban villages or residential urban villages
The most appropriate zone designation shall be that for which the provisions for designation of the zone type and the locational criteria for the specific zone	Yes	The proposal would not change the zone type for any specific zone.

Criterion	Met?	Analysis
match the characteristics of the area to be rezoned better than any other zone designation. (SMC 23.34.008.B)		
Previous and potential zoning changes both in and around the area proposed for rezone shall be examined. (SMC 23.34.008.C)	Yes	This analysis takes into account the changes to zoning made in the area as part of 2001 Downtown rezone, 2006 Downtown rezone, 2011 South Downtown rezone, and 2013 South Lake Union rezone.
Council adopted neighborhood plans that apply to the area proposed for rezone shall be taken into consideration. (SMC 23.34.008.D.2)	Yes	The following adopted neighborhood plans were taken into consideration: Belltown Neighborhood Plan (1998) Chinatown/ID Strategic Plan (1998) Commercial Core Neighborhood Plan (1999) Denny Triangle Neighborhood Plan (1998) Downtown Urban Center Neighborhood Plan (1999) Pioneer Square Neighborhood Plan (1998) South Lake Union Neighborhood Plans (1998 & 2007)
Where a neighborhood plan establishes policies expressly adopted for the purpose of guiding future rezones, but does not provide for rezones of particular sites or areas, rezones shall be in conformance with the rezone policies of such neighborhood plan. (SMC 23.34.008.D.3)	Yes	The proposed rezones are in conformance with the neighborhood plans mentioned above.
The impact of more intensive zones on less intensive zones or industrial and commercial zones on other zones shall be minimized by the use of transitions or buffers, if possible. A gradual transition between zoning categories, including height limits, is preferred. Physical buffers may provide an effective separation between different uses and intensities of development. (SMC 23.34.008.E.1 and E.2)	Yes	Because the additional development capacity would be given in the majority of zones in Downtown and South Lake Union, this proposal represents only a minor degree of change to the overall gradation of allowed building heights through Downtown and South Lake Union. Similarly, the broad application will help to moderate the degree of differential changes to transitions between zones, except where certain zones are exempted from the proposal. Overall, transitions to less intense zones will not be substantially different than existing transitions between zones within downtown (which commonly include transitions in maximum height of 120 to 160 feet between

Criterion	Met?	Analysis
		blocks or across alleys) or between existing buildings (which often result in low scale buildings next to towers). The presence of physical buffers, particularly I-5, Mercer Street, Aurora Avenue, and I-90 off ramps also helps to ensure reasonable physical transitions in scale between Downtown and South Lake Union and adjacent areas.
Boundaries between commercial and residential areas shall generally be established so that commercial uses face each other across the street on which they are located, and face away from adjacent residential areas. An exception may be made when physical buffers can provide a more effective separation between uses (SMC 23.34.008.E.3).	Yes	The proposed rezone area is composed primarily of zoning allowing a mix of uses. The one major exception is the IC 85-160 zone which is not adjacent to any single-use residential areas. Additionally, the proposal would not modify the boundaries of commercial and residential areas.
In general, height limits greater than forty (40) feet should be limited to urban villages. (SMC 23.34.008.E.4).	Generally, yes	The proposed rezone area is entirely within the Downtown and South Lake Union Urban Centers with the exception of the IC 85-160. Under this proposal, the height in an IC 85-160 zone would be raised to 175 feet. While this area is outside of an urban center or village, it is immediately adjacent to the Downtown Urban Center and is separated from other areas by I-5, I-90 off ramps, South Royal Brougham Way, the stadiums, and railroad tracks.
Negative & positive impacts on the area, including factors such as housing (particularly low-income housing), public services, environmental factors (noise, air & water, flora & fauna, odor, glare & shadows, energy), pedestrian safety, manufacturing activity, employment activity, architectural or historic character, shoreline review, public access and recreation, should be examined. (SMC 23.34.008.E.4.1).	Yes	Impacts on these factors have been examined. This proposal could result in minor adverse impacts commonly associated with additional development capacity such as additional noise, glare, shadows, and emissions. However, these impacts are not expected to be significantly different from potential impacts of projects that are allowed under existing code. The proposal will increase the amount of affordable housing.
Development which can reasonably be anticipated based on the proposed development potential shall not exceed the service capacities which can reasonably be anticipated in the area,	Yes	Analysis conducted as part of the MHA Downtown and South Lake Union Urban Design Study suggests that the proposed increase in development capacity could increase the square footage of development by

Criterion	Met?	Analysis
including street access, street capacity, transit service, parking capacity, utility and sewer capacity. (SMC 23.34.008.E.4.1).		approximately 6% above existing regulations if all future projects utilize the extra increment of development capacity. This increase in development potential is not anticipated to result in exceedance of any service capacities based on the results of the MHA Downtown and South Lake Union Transportation Study and conversations with representatives of utility and public service departments.
Evidence of changed circumstances shall be taken into consideration in reviewing proposed rezones, but is not required to demonstrate the appropriateness of a proposed rezone. Consideration of changed circumstances shall be limited to elements or conditions included in the criteria for the relevant zone and/or overlay designations in this chapter. (SMC 23.34.008.G).	Yes	Seattle faces a housing affordability crisis that suggests a need for new strategies to encourage creation of market-rate and affordable housing units. Downtown and South Lake Union have long been important job and housing centers for the regional. Recently, these areas have become increasingly desirable locations for jobs and housing. Together, these changing circumstances support this proposal.
If the area is located in or adjacent to a critical area, the effect of the rezone on the critical area shall be considered. (SMC 23.34.008.I).	Yes	No impacts to critical areas are expected to result from the rezone proposal. The area is already a developed urban environment with limited critical areas. No revisions to development regulations are proposed that would reduce protections afforded to critical areas.

Criteria for Height Limits

Criterion	Met?	Analysis
Height limits for commercial zones shall be consistent with the type and scale of development intended for each zone classification. The demand for permitted goods and services and the potential for displacement of preferred uses shall be considered. (SMC 23.34.009.A)	Yes	The proposed rezone area is composed primarily of zoning allowing a mix of uses with the exception of the IC 85-160 zones This proposal would not tend to displace preferred uses.
Height limits shall reinforce the natural topography of the area and its surroundings, and the likelihood of view blockage shall be considered. (SMC 23.34.009.B)	Yes	This proposal would tend to reinforce the natural topography of Downtown and South Lake Union by increasing heights primarily in the core, with smaller changes along the Central Waterfront, SLU waterfront and South Downtown. However, it would also reinforce the existing predominance of Downtown and South Lake Union in relationship to surrounding hills such as Capitol Hill, First Hill, Queen Anne Hill, and Beacon Hill. Impacts on public views were studied extensively as part of the State Environmental Policy Act (SEPA) analysis associated with this proposal. This proposal is likely to result in the creation of private views in some new buildings and the reduction of views in some existing buildings.
The height limits established by current zoning in the area shall be given consideration. In general, permitted height limits shall be compatible with the predominant height and scale of existing development, particularly where existing development is a good measure of the area's overall development potential. Height limits for an area shall be compatible with actual and zoned heights in surrounding areas. (SMC 23.34.009.C)	Yes	This proposal could result in incrementally increased heights throughout the study area. Existing buildings through the area include a substantial diversity of heights within blocks as well as across blocks. Given the incremental nature of the height increases and the high-density nature of Downtown, the proposal will not have a significant impact on the compatibility of potential development under this proposal and existing structures.

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

ANALYSIS OF DISPLACEMENT POTENTIAL

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

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

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

Area Description

Downtown and South Lake Union represent the primary economic engine and job center for the region and a major residential district. Together, they contain over 180,000 jobs and a population of over 30,000 people (2014 Urban Center / Village Employment Growth Report, 2010 Census). The residential population is diverse both in terms of income and ethnicity, although it contains fewer families and more young people that most areas of the City. The percentage of people identifying as persons of color is 41% for Downtown and 33% for South Lake Union, compared to an average of 34% Citywide (2010 Census). The median housing income in the Center City Urban Village Demographic Area (which represents a similar area to this proposal) is $51,735 (compared to $67,100 citywide) and the percentage of the population below the Poverty Level is 20.1% (compared to 15% citywide) (Seattle's Neighborhood Portal). The Seattle 2035 Growth and Equity Analysis found that both Downtown and South Lake Union are areas of high access to opportunity, but while Downtown is considered a high displacement risk, South Lake Union is not. The lower level of displacement risk in South Lake Union is due primarily to a small residential population that exists currently.

While commercial uses represent the majority of the existing floor space, there is a significant number of residential buildings through the area although they are particularly concentrated in Belltown, Pioneer Square, Chinatown-International District, Cascade, and a few new residential towers in other areas. Rent levels span a wide range as this area has the some of the highest concentrations of both high-cost housing and rent- and income-restricted affordable housing in the City. Many of the buildings containing lower-cost market-rate housing have protections limiting their modification due to status as a landmark structure or sales of Housing TDR. As part the MHA Downtown South Lake Union Urban Design Study (available at www.seattle.gov/hala/policies), the City conducted significant analysis of the number and location of parcels that could potentially be redeveloped over time. This analysis identified 160 sites that could potentially be redeveloped under existing conditions over an indefinite amount of time. This analysis included the Chinatown-International District which is now proposed to be part of separate legislation in mid-2017. Once divided into parcels that were likely to contain residential development and those that were likely to contain commercial development, these parcels are estimated to be able to accommodate about 30M square feet of residential development and about 14M square feet of development. For comparison, the Seattle 2035 growth targets suggest that the City plan for about 12M square feet of residential development and about 10M square feet of commercial development over the next 20 years. This analysis identified only 7 buildings containing residential units on parcels that were identified as redevelopable with a total of 78 residential units.

Likely Outcomes

The primary purpose of this proposal to increase the supply of market-rate and affordable housing units produced in Downtown and South Lake Union. Both of these actions would help to address the underlying housing affordability issues that lead to displacement.

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

The analysis also looked at existing low-cost retail districts which help to anchor existing cultural communities to the area. Development that is anticipated with or without this proposal could reduce the amount of low-cost retail space in these areas which could indirectly encourage displacement if it reduces the amount of specialized retail serving the community. The proposal is not likely to have significant impact in adjacent areas as it is not likely to increase demolition.

Overall, given the increased number of market-rate and affordable housing units generated, the low number of existing resident units on redevelopment sites, and the limited impact on the rate of demolition, we anticipate that this proposal will reduce displacement within Downtown and South Lake Union.

CONCLUSION

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

Appendix A: Selected Goals and Policies from the Seattle 2035 Comprehensive Plan Relating to Growth Strategy for Downtown and South Lake Union and Affordable Housing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix B: Relationship between Payment and Performance Amounts

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

Relationship of payment to cost of developing

In setting required performance and payment amounts for the various zones in Downtown and South Lake Union, the City established a conversion factor for determining the relationship between the payment amount and the performance amount. The conversion factor reflects the following methodology:

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

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

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

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

Table A: Calculation of Payment Amount Per Affordable Unit Required

	Market Rate	Affordable Rate (60% of AMI)
Rent per net square foot	$2.90	
Average One-bedroom Unit Size (Net SF)	650	
Monthly Gross Rent per Unit	$1,885	$1,008
Annual Gross Rent per Unit	$22,620	$12,096
Less Vacancy	*($1,131)*	*($605)*
Less Monitoring Fee		*($150)*
Annual Net Income per Unit	$21,489	$11,341
Capitalized Value of Net Income per Unit with 5.5% Cap Rate	$390,709	$206,204
Rent Subsidy	$184,505	
Payment Amount per Affordable Unit Required (Rent Subsidy plus 10%)	$202,956	
Payment Amount per Net Square Foot of Affordable Unit Required	$312	

The Payment Amount per Affordable Unit Required figures represent the payment cost for one performance unit in areas with different rent levels. In the case of Downtown and South Lake Union zones that currently have incentive zoning, the City started with the required payment amount for the zone and used the conversion factor to set the required performance amount; for the zones without incentive zoning, the City started with the performance amount and used the conversion factor to set the payment amount.

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

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

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

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

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

Table C: DRA Affordability Gap and Cost of Payment Option

DRA Affordability Gap (per NSF)	$371
Payment Amount per NSF of Affordable Unit Required (from Table A)	$312

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

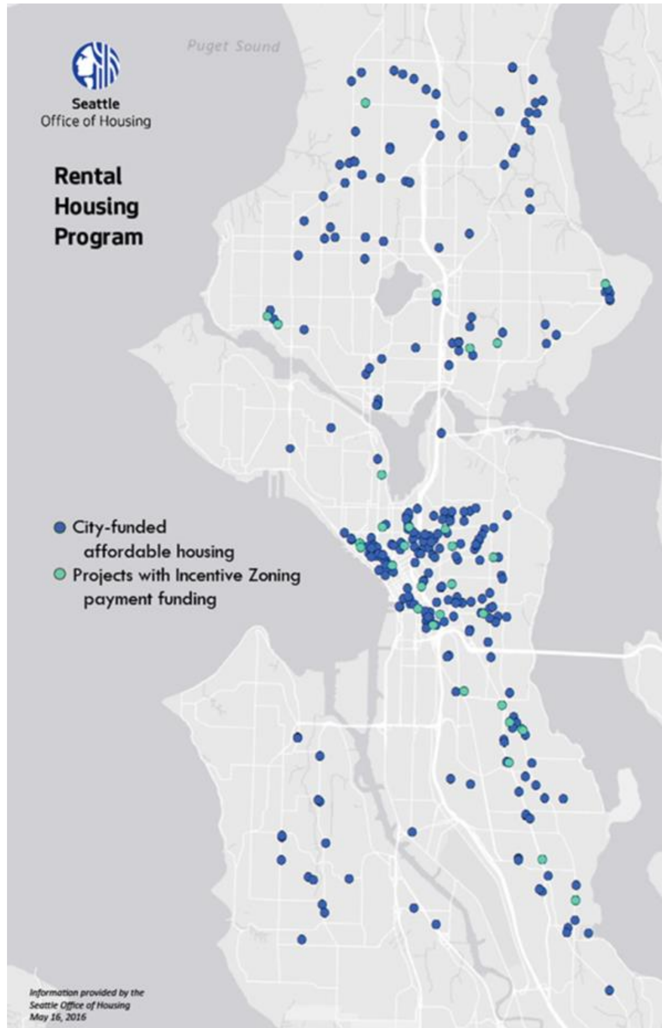
<u>Equal or better result</u>

For purposes of implementing MHA-R in Downtown and South Lake Union, payment achieves a result equal to or better than providing the affordable housing on-site.

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

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

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



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

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

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

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

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

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

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