

March 14, 2013

Creating More Affordable Workforce Housing in Seattle: A Framework for Public Policy for Today and for the Future

1. Concurrent with adoption of the South Lake Union legislation in March/April 2013, pass separate legislation adjusting the payment-in-lieu amount for both commercial and residential development in downtown Seattle by retroactively applying the Consumer Price Index (CPI) back to 2001 for the commercial development rate and back to 2006 for the residential development rate. Authority to make this adjustment on an annual basis exists in the Seattle Municipal Code.¹

Applying the CPI index in this way results in an in-lieu fee substantially similar to the break-even point for residential developers who set-aside workforce housing equivalent to 5% of the entire building structure. At this break-even point, developers are likely to “write a check” to pay their in-lieu fee, rather than building the workforce units in their structure. However, developers paying rather than performing does not achieve the City’s policy goals for workforce housing in the neighborhood. In order to encourage residential developers to perform by building affordable workforce units within their projects the City will apply an “in-lieu premium” so the payment-in-lieu amount will be approximately 20% higher. This is still well below the total cost to develop the workforce units as allowed by State law.²

Specifically, the commercial development rate would increase to \$29.27 per gross square foot of bonus area from the current \$22.00 (\$18.75/gsf for housing plus \$3.25/gsf for childcare). The residential development rate would increase to \$21.68 per gross square foot of bonus area from the current \$15.15.³ While these totals still fall well below the total costs to develop the workforce housing offsite, they are designed to incentivize performance on site.

2. Apply these updated payment-in-lieu amounts for the downtown to the South Lake Union rezone area.
3. At the same time as the ordinances noted above, adopt a Council resolution spelling out specific policy objectives related to affordable workforce housing and establishing an Expert Advisory Panel appointed by the Council to develop

¹ Residential: SMC 23.49.015.C.1. Commercial: SMC 23.49.012.B.1.a.

² RCW 36.70A.540 (2)(h): “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.”

³ On a *net* square foot basis, the residential rate would increase to \$27.10 from the current \$18.94.

ways and means to accomplish these policy objectives, and reporting their recommendations no later than November 29, 2013 to the Council committee dealing with housing matters.

The expert panel would begin work with consideration of the Spectrum, Heartland, and Community Attributes reports presented to the Council in February and March 2013. The specific policy objectives to be addressed by the expert panel, with a range of recommendations to be implemented by the Council no later than February 28, 2014, would include the following:

- a. For those taking advantage of the bonus development capacity, establish a specific percentage of affordable workforce housing that commercial and residential development projects would need to include in a building or otherwise help to create via a payment in-lieu., (The panel will explore the feasibility of adjusting the set-aside percentage so that it is the equivalent to at least 10% of the gross square footage of the entire structure.) The panel shall recommend an implementation timeline that fully achieves this objective by no later than the end of 2014.
 - b. Determine whether in-lieu fees provide sufficient benefit to the public to remain as an option and, if so, determining a base in-lieu fee that recaptures sufficient benefits for the public and encourages on-site performance in each of the neighborhoods with incentive zoning that have benefited from an upzone and that will benefit from an upzone, including South Lake Union. Determine whether performance *off-site* should remain as an option for developers.
 - c. Establish a specific, data-driven and market sensitive formula or methodology that will automatically adjust (increase or decrease) the payment-in-lieu amount on a regular and consistent basis, including consideration of the Construction Price Index, Consumer Price Index, an analysis of relevant land values, and other factors on a neighborhood or area basis. (Administration of this automatic adjustment would be the duty of the director of the Office of Housing and not require Council consideration.)
4. In completing its work, the Expert Advisory Panel should answer the following questions in a manner that allows the Council to make informed policy decisions to increase the availability of affordable workforce housing in Seattle.
- a. What is the current and anticipated need for affordable workforce housing in Seattle? What are the economic, marketplace and other factors driving this need? How should the Council best quantify this need and how should progress toward meeting it be measured?
 - b. Residential developers are required to include the affordable workforce housing units within their project when they take advantage of the bonus FAR option for structures of 85' or less. For taller structures, what benefits for the public result from allowing a payment-in-lieu fee rather

(Burgess, for discussion)

than requiring a straight mandatory performance requirement in incentive zoning provisions?

- c. Through this resolution, the Council wants the panel to explore the feasibility of a set-aside percentage goal of at least 10% of the gross square footage of the entire structure (today it is approximately 5%). Is this an appropriate “floor” figure or should it be higher? If higher, how could the City ensure that there would not be negative economic consequences?
 - d. Consistent with what is provided for in state law, affordable workforce housing is currently defined in City policy as serving households earning between 60% and 80% of the median income for the Seattle metropolitan area.⁴ Should the Council maintain this range or should it be adjusted? How would any adjustment help meet the need for affordable workforce housing?
 - e. In addition to the incentive bonus program, what other initiatives should the Council consider to increase the availability of affordable workforce housing in the city? For example, should the Council require that all or some payment-in-lieu funds be used exclusively for workforce housing? Should the Council encourage public-private partnerships that use public funds to leverage private investment? Should City-owned property not needed for other purposes be used for workforce housing projects?
5. The Expert Advisory Panel shall receive staff support from the City’s Office of Housing and Council Central Staff and include the following members appointed by the Council:
- a. Commercial real estate developer with a minimum of 10 years experience in the Seattle market.
 - b. Residential real estate developer with a minimum of 10 years experience in the Seattle market.
 - c. Real estate economist with specific experience in measuring and evaluating real estate market conditions and trends.
 - d. Academic researcher with direct experience in evaluating affordable housing programs at the municipal level.
 - e. Nonprofit housing developer active in the Seattle market for at least 10 years.
 - f. Nonprofit affordable housing advocate with direct experience in Seattle and an understanding of affordable housing financing and the role of federal and state funding channels.
 - g. A local labor union leader or other advocate representing workers earning between 60% and 100% of area median income (AMI).
 - h. An employer with significant numbers of employees in the target 60%-80% AMI band and with an understanding of job sector trends.

⁴ RCW 36.70A.540.

| Residential | | | |
|----------------------------------|-------------------|-------------------------|-------------------|
| NET Bonus Sq Ft. | | GROSS Bonus Sq Ft. | |
| Original May 2005 Nexus Study | Adopted Amount | Original Nexus Study | Adopted Amount |
| \$25.17 | \$18.94 | \$20.14 | \$15.15 |
| 2000 | | | |
| 2001 | | | |
| 2002 | | | |
| 2003 | | | |
| 2004 | | | |
| 2005 | | | |
| 2006 | \$26.10 | \$19.64 | \$20.88 |
| 2007 | \$27.12 | \$20.41 | \$21.70 |
| 2008 | \$28.26 | \$21.26 | \$22.61 |
| 2009 | \$28.43 | \$21.39 | \$22.74 |
| 2010 | \$28.51 | \$21.46 | \$22.81 |
| 2011 | \$29.28 | \$22.03 | \$23.43 |
| 2012 | \$30.02 | \$22.59 | \$24.01 |
| 2013 | | | |

| Commercial | | | |
|----------------------------------|-------------------|-------------------------|-------------------|
| NET Bonus Sq Ft. | | GROSS Bonus Sq Ft. | |
| Original May 2000 Nexus Study | Adopted Amount | Original Nexus Study | Adopted Amount |
| | \$23.44 | \$30.09 | \$18.75 |
| | | | \$3.25 |
| | | | \$22.00 |
| not applicable | | \$31.17 | \$22.79 |
| not applicable | | \$31.77 | \$23.23 |
| not applicable | | \$32.27 | \$23.60 |
| not applicable | | \$32.66 | \$23.88 |
| not applicable | | \$33.58 | \$24.55 |
| not applicable | | \$34.82 | \$25.46 |
| not applicable | | \$36.18 | \$26.45 |
| not applicable | | \$37.70 | \$27.56 |
| not applicable | | \$37.92 | \$27.73 |
| not applicable | | \$38.04 | \$27.81 |
| not applicable | | \$39.06 | \$28.56 |
| not applicable | | \$40.04 | \$29.27 |

| Seattle area Consumer Price Index (CPI) | % annual average change |
|---|-------------------------|
| 2000 | 3.70% |
| 2001 | 3.60% |
| 2002 | 1.90% |
| 2003 | 1.60% |
| 2004 | 1.20% |
| 2005 | 2.80% |
| 2006 | 3.70% |
| 2007 | 3.90% |
| 2008 | 4.20% |
| 2009 | 0.60% |
| 2010 | 0.30% |
| 2011 | 2.70% |
| 2012 | 2.50% |
| 2013 | |

Policy Choice for Council:
Premium if not performing
20% \$27.10
NET Sq. Ft.

Policy Choice for Council:
Premium if not performing
20% \$21.68
GROSS Sq. Ft.

housing
childcare
total commercial

Proposed by Mayor: **\$18.94** **\$15.15** **\$22.00**

| Spectrum analysis: | NET | Policy Choice for Council: Premium if not performing | GROSS | Policy Choice for Council: Premium if not performing | If same as Spectrum Residential: |
|--------------------------------------|----------|---|----------|---|----------------------------------|
| equivalent to 5% of total building: | \$23.10 | 20% \$27.72 | \$18.48 | 20% \$22.18 | \$18.48 |
| equivalent to 10% of total building: | \$58.69 | 20% \$70.43 | \$46.95 | 20% \$56.34 | \$46.95 |
| equivalent to 15% of total building: | \$94.27 | 20% \$113.12 | \$75.42 | 20% \$90.50 | \$75.42 |
| equivalent to 20% of total building: | \$129.86 | 20% \$155.83 | \$103.89 | 20% \$124.67 | \$103.89 |

Notes / Sources:

Net vs. Gross Square Footage: Current law uses NET square footage for residential and GROSS square footage for commercial. The new ordinance for SLU would convert the residential to GROSS, so we show both above.

To compare apples to apples, Spectrum uses net -- so that one can compare to actual existing policy (which also uses net for residential).

The end result to the developer paying the fee is the same, because if one switches from net to gross, one lowers the fee proportionally. (Example: \$18.94 for net is equivalent to \$15.15 for gross.)

Conversion from Gross Square Footage to Net Square Footage: 80%

Commercial fee has been 23.75% higher than Residential for just the housing portion. (Residential has been \$18.94 NET sq ft which is equivalent to \$15.15 per GROSS sq f. Commercial is currently \$18.75 per GROSS square foot.)

Source for original nexus studies in 2000 and 2005: Keyser Marston Associates, Inc. (Note: State law RCW no longer requires a "nexus study".)

Source for Seattle area CPI: U.S. Bureau of Labor Statistics <http://www.bls.gov/ro9/news.htm#inflation> "Data Tables" for Seattle-Tacoma-Bremerton. "All Urban Consumers"

Existing Authority for Office of Housing Director for CPI increases in downtown bonus programs: Residential: SMC 23.49.015.C.1. Commercial: SMC 23.49.012.B.1.a.

Source for Mayor's Proposal: Version #17 of DPD bill http://www.seattle.gov/dpd/Planning/South_Lake_Union/Overview/ Residential: page 205 Commercial: page 239

Source for Spectrum Development: revised version as of 3/7/2013

Policy Choice: "In-Lieu Premium" to Encourage Performance: if the City Council wants workforce housing units built in the neighborhood receiving the upzone, it should encourage performance on-site (for residential construction). To do this, it would use figures higher than the figures in the Spectrum report for each scenario. The figures in the Spectrum report are merely the "break-even" point for the developer on whether to perform or pay-in lieu. The amount is technically the difference in value of the project when building zero workforce housing and the lower value of the project when setting aside a percentage of workforce housing in the project itself. Therefore, at the break-even point, the developer is more likely to pay in lieu ("write a check") rather than perform to avoid the administrative burden of screening income levels of tenants. An "in-lieu premium" of 20-25% of the break-even point is recommended to encourage performance.

Even with an "In-Lieu Premium", the fee would be well below what is allowed by state law, RCW 36.70A.540 (h) "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. Any city or county shall use these funds or property to support the development of low-income housing, including support provided through loans or grants to public or private owners or developers of housing."