Incentive Zoning in Seattle

Key Questions for Refining the Program

Cornerstone Partnership

Rick Jacobus
4 Key Issues

1. Increasing production
2. Targeting benefits
3. Onsite vs. offsite
4. Responding to changing market conditions

Increasing Production
Can the program produce more units overall?
Usage
The usage varies a lot by zone but the majority of projects eligible for the bonus have not used the additional floor area.

Source: Office of Housing Data

Onsite Production

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Studio</th>
<th>1 BR</th>
<th>2 BR</th>
<th>3 BR</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>14</td>
<td>19</td>
<td>10</td>
<td>0</td>
<td>56</td>
</tr>
</tbody>
</table>

Source: Office of Housing Data
Bonuses Payments

<table>
<thead>
<tr>
<th>Payment Option</th>
<th>Amount of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown</td>
<td>$21,106,065</td>
</tr>
<tr>
<td>South Lake Union</td>
<td>$6,098,694</td>
</tr>
<tr>
<td>Residential</td>
<td>$4,434,063</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$31,639,092</strong></td>
</tr>
</tbody>
</table>

Source: Office of Housing Data

Investment of Bonus $:

| Rental         | $27.2 million | 1,361 |
| Homeownership  | $2.2 million  | 43    |

Source: Office of Housing Data
Between 2000 and 2013...

Seattle invested $247 million in 117 developments providing 6,140 units of affordable housing.

Source: Office of Housing Data

Bonus $

11% of the City’s investment came from Bonus funds.

Source: Office of Housing Data
The bonus $ was a small portion of each project’s financing.

But the Bonus $ made 4% tax credit deals possible that would not have been funded otherwise.
The $27.3 million in bonus funds, led to the creation of 616 affordable units that would not otherwise have been built.

Source: Office of Housing Data, Cornerstone Partnership Analysis

Total Production
2001 - 2013

<table>
<thead>
<tr>
<th>Units</th>
<th>Income Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>56</td>
<td>&lt;80% of Median</td>
</tr>
<tr>
<td>616</td>
<td>40-60% of Median</td>
</tr>
<tr>
<td>42</td>
<td>&lt;80% of Median</td>
</tr>
<tr>
<td>714</td>
<td></td>
</tr>
</tbody>
</table>

Source: Office of Housing Data, Cornerstone Partnership Analysis
Increasing Production

Could the fee be higher?
Are there other incentives that could be offered?
Is a (more) mandatory program possible?

Boston & San Francisco

- Boston: $200,000 per unit in lieu fee
  - based on the average city subsidy (not total subsidy) used to build an affordable unit" at the time
- San Francisco: $335,000 per unit fee for a 2br unit in San Francisco
  - Based on the total subsidy required to create an affordable unit without federal subsidy
Current Bonus Contribution  ~$56,000
Local subsidy required per unit (2009-2013)  $57,000
Subsidy per unit (expected)  $95,000
Total cost per unit  $263,000

Source: Office of Housing Data, Cornerstone Partnership Analysis

What the bonus floor area is “worth” to a developer

$100,000 - 200,000
“Cost” to provide one unit onsite

$56,000
Fee In Lieu

~$44,000
City cost per LIHTC Unit

Economic consultant to evaluate
What the bonus floor area is “worth” to a developer

Economic consultant to evaluate

$100,000 - 200,000
“Cost” to provide one unit onsite

~$56,000
Fee In Lieu

~$95,000
Estimate of potential cost/unit with reduced state and other leverage

Increasing Production

Could the fee be higher?
Are there other incentives that could be offered?
Is a (more) mandatory program possible?
Incentives

Source: Nonprofit Housing Association of Northern CA

Increasing Production

Could the fee be higher?
Are there other incentives that could be offered?
Is a (more) mandatory program possible?
Development is not primarily concentrated in the Incentive Zones

Source: Office of Housing
Expanding covered geography

- Much of Seattle’s residential growth is occurring in zones which allow greater density without any rezone.

Mandatory “Incentive”

- Incentive is offered in the form of *allowable* bonus floor area
- Affordable units/fee required whether or not a project takes advantage of the bonus
- Encourages developers to build the bonus density
Mandatory Inclusionary

- 31,000 housing units built 2005-2013
- @ 5.7% = 1,800 affordable units

Who should benefit?

*Can the program be targeted to meet otherwise unmet housing needs?*
Who should benefit?

a. What income group?
b. Family sized units?
c. Ownership or rental?

Housing Need

Percent of renters paying >50% of income for housing

Source: HUD CHAS Table 8

Households below 30% of median are far more likely to be paying too much for housing
Housing Need

Affordable and Available units per 100 renters

- Extremely Low Income: 34%
- Very Low Income: 58%
- Low Income: 92%

...because there are very few lower cost units available.

Source: HUD CHAS Table 14B

Subsidized Rental Units

Affordability of city funded rental units 2001 - 2013

The majority of local housing resources are directed to the highest need households.

Source: Office of Housing Data
Rental Affordability

<table>
<thead>
<tr>
<th></th>
<th>Lowest quartile rent</th>
<th>Income to afford</th>
<th>% of Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$887</td>
<td>$35,480.00</td>
<td>63%</td>
</tr>
<tr>
<td>1</td>
<td>$981</td>
<td>$39,240.00</td>
<td>65%</td>
</tr>
<tr>
<td>2</td>
<td>$1,262</td>
<td>$50,480.00</td>
<td>70%</td>
</tr>
<tr>
<td>3</td>
<td>$1,742</td>
<td>$69,680.00</td>
<td>83%</td>
</tr>
<tr>
<td>4</td>
<td>$2,148</td>
<td>$85,920.00</td>
<td>92%</td>
</tr>
</tbody>
</table>

Source: Dupre + Scott Apartment Advisors 2014 and Cornerstone Partnership analysis

Homeownership

Median Home Price: $415,000

<table>
<thead>
<tr>
<th></th>
<th>Ext Low Income</th>
<th>Very Low Income</th>
<th>Low Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 bed</td>
<td>$67,300</td>
<td>$112,100</td>
<td>$166,700</td>
</tr>
<tr>
<td>1 bed</td>
<td>$72,000</td>
<td>$120,270</td>
<td>$178,704</td>
</tr>
<tr>
<td>2 bed</td>
<td>$86,541</td>
<td>$144,383</td>
<td>$214,504</td>
</tr>
<tr>
<td>3 bed</td>
<td>$100,003</td>
<td>$166,722</td>
<td>$247,789</td>
</tr>
<tr>
<td>4 bed</td>
<td>$111,690</td>
<td>$185,953</td>
<td>$276,341</td>
</tr>
</tbody>
</table>

Source: Cornerstone Partnership Analysis
**Who should benefit?**

a. What income group?

b. **Family sized units?**

c. Ownership or rental?

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**Large Families**

- **Households with 4+ persons**
- **Percent of new apartments 3br+**

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Households with 4+ persons</th>
<th>Percent of new apartments 3br+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low Income</td>
<td>8%</td>
<td>1%</td>
</tr>
<tr>
<td>Low Income</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>Moderate Income</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Above Moderate Income</td>
<td>16%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: Dupre + Scott Apartment Advisors and Seattle Planning Commission
City Funded Units

Unit sizes of city funded rental units 2001 - 2013

Who should benefit?

a. What income group?
b. Family sized units?
c. Ownership or rental?
Unit Sizes

Unit sizes of all city funded units 2001 - 2013

Only 42 ownership units have been funded but these are mostly 3 or 4-br units.

Source: Office of Housing Data

Income Limits

Income Restriction of all city funded units 2001 - 2013

Source: Office of Housing Data
Onsite vs. Offsite

Should the program require or more strongly encourage on site production?

Cash vs. Performance

$56,000
Aprox. Bonus Contribution per unit that would be required onsite

$44,000
2001 - 2013 average local investment per 4% LIHTC Unit

OH has produced more units with cash payments than would have been produced with onsite performance

Source: Office of Housing Data, Cornerstone Partnership Analysis
4% LIHTC Projects

$27.2 million in bonus $ leveraged $95 million in non-local investment

Source: Office of Housing Data
Economic Integration?

- Building
- Block
- Neighborhood
- City

Are Seattle’s affordable developments overly concentrated in certain neighborhoods?

Source: Office of Housing
Changing Markets
How can the program respond to changing market conditions?

Monterey County, CA
IZ ordinance requires a detailed evaluation every 5 years including recommendations for changes to requirements and other ordinance revisions
Santa Monica

- Calculates “Affordable Housing Unit Development Cost” based on real cost to build an affordable unit.
- Indexes the number annually based on the weighted average of the annual change in construction and land costs.

<table>
<thead>
<tr>
<th>Date</th>
<th>Affordable Housing Unit Development Cost</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$265,632</td>
<td>--</td>
</tr>
<tr>
<td>2008</td>
<td>$277,585</td>
<td>+$11,953</td>
</tr>
<tr>
<td>2009</td>
<td>$284,802</td>
<td>+$7,217</td>
</tr>
<tr>
<td>2010</td>
<td>$281,100</td>
<td>-$3,702</td>
</tr>
<tr>
<td>2011</td>
<td>$287,003</td>
<td>+$5,903</td>
</tr>
</tbody>
</table>

Land Value

Land prices tend to be more volatile than construction costs

Source: Lincoln Institute for Land Policy
Afternoon Panel

• Robin Kniech, City Council Member, Denver, CO
• Sandy Council, City of San Mateo, CA
• Brenda Clement, Citizens Housing and Planning Association, MA
• Robert Hickey, Center for Housing Policy/National Housing Conference
• Marc Babsin, Emerald Fund, San Francisco, CA

www.AffordableOwnership.org