Director's Report and Recommendation

Incentive Zoning Framework

Introduction

The Department of Planning and Development (DPD) proposes legislation to enable application of the City's existing incentive zoning for affordable housing (SMC Chapter 23.58A) in urban villages and similar areas of the city. The legislation creates a standardized system within the Land Use Code to allow incentive zoning provisions to be applied when any rezone of property is undertaken in Lowrise and Commercial zones that would create additional development capacity. The legislation does not alter existing incentive zoning. The proposed amendments would not change current zoning standards relating to height or density. When development regulations for zones or areas are rezoned to allow capacity (floor area), the Incentive Zoning Chapter (23.58A) would apply, if developers choose to take advantage of the additional development capacity.

Background and Summary

In December 2008, the City Council adopted Resolution 31104 related to affordable housing incentive programs, expressing the intent to consider such programs when increasing residential height or commercial density through legislative rezones, and requesting similar legislation related to quasi-judicial rezones. Resolution 31104 followed Resolutions 30939 and 31025 that also expressed support and provided direction for incentive zoning. Resolution 31104 established the intent that the height limit and maximum density under existing zoning should be the "base" above which any additional development capacity is measured and may only be achieved through the provision of or contribution to affordable housing. The resolution included a map identifying urban centers and urban villages, including Downtown, where incentive zoning should be applied.

Also in December 2008, the City Council adopted Ordinance 122882 that created a new Chapter 23.58A, "Incentive Provisions," in the Land Use Code establishing a program and specific mechanism for providing workforce housing through an incentive zoning program. The intent of incentive zoning is to encourage growth where it is most appropriate and reduce development pressure on fragile natural environments or lower density areas; to promote housing affordability; and to encourage other public benefits to serve growth, such as new open space or landmark preservation. Currently, incentive zoning only applies outside of downtown (including South Downtown) and South Lake Union, in Multifamily Midrise and Highrise zones and the Dravus Neighborhood.

Chapter 23.58A contains the provisions of the incentive zoning program, including the provision of bonus residential and commercial floor area for affordable housing: e.g. length of the affordability term for housing, how much housing must be provided, housing affordability levels, etc.

Intent

The intent of this proposal is to enable the existing affordable housing incentive zoning program as provided for in Chapter 23.58A of the Land Use Code to be applied in other zones in urban centers and villages and similar areas. No substantive changes to zoning or to existing incentive zoning provisions are proposed. The legislation provides a 'missing link' in the Land Use Code for activation of Seattle's existing affordable housing incentive zoning under Chapter 23.85A using existing zone designations.

Note: A companion ordinance to this proposal applies the proposed incentive zoning method outlined in Chapter 23.58A subsection IV first to rezones in the Roosevelt Residential Urban Village. See the Director's Report and related analyses for discussion of specific application of the provisions in Roosevelt.

Approach

DPD proposes the following framework for how incentive zoning provisions would be applied at the time a property or area is rezoned.

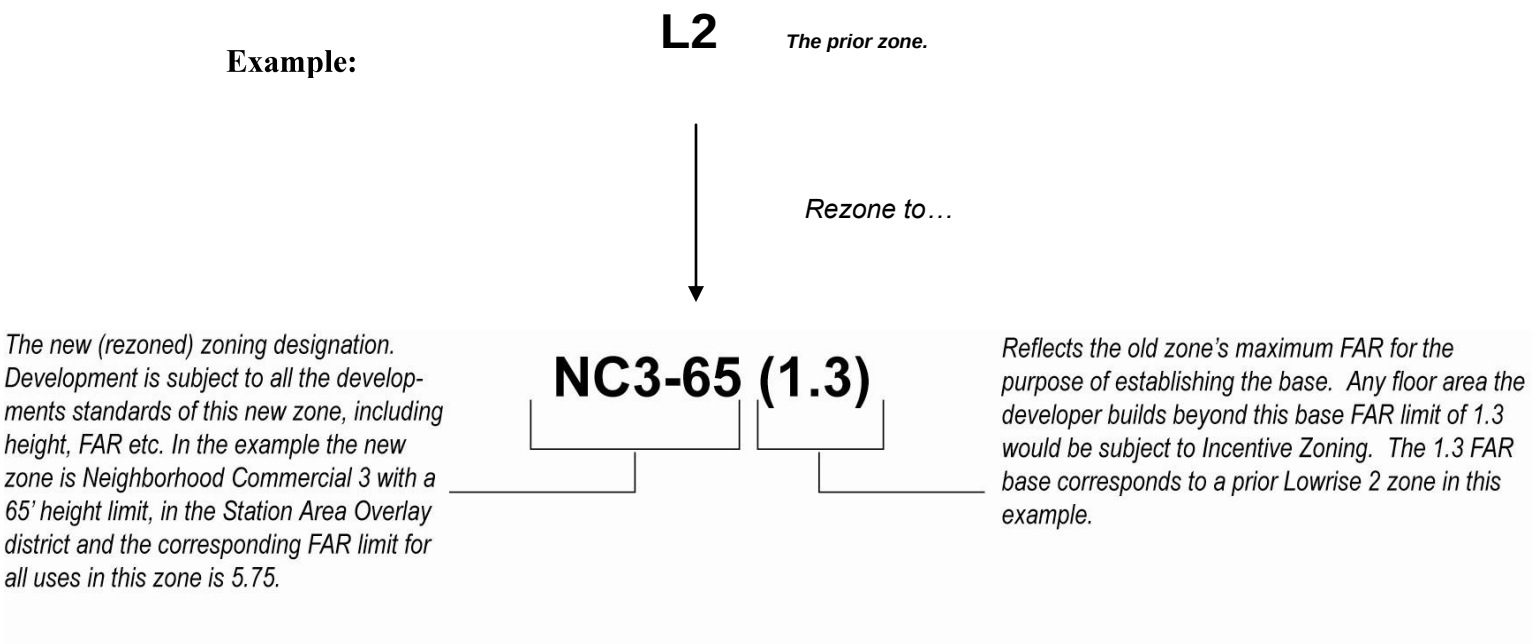
- **Applicability:** Proposed incentive zoning provisions can be applied broadly to accommodate the spectrum of rezones that occur over time. The Land Use Code includes over 30 zone designations; so many combinations of rezones from a lower intensity zone to a higher intensity zone are possible. Instead of quantifying base and maximum development within each zone, DPD recommends the following framework:

  1. Establish a base development amount that can be estimated for <u>any</u> existing zone in the form of allowable floor area ratio (FAR) in that zone.

  2. When a rezone to a higher intensity zone occurs, developers may build to the new development standards of the zone, but any gross floor area developed beyond the amount allowed by the previous zone's FAR is subject to the provision of affordable housing or other public benefits that may be established by Council.

- **Land Use Map Designation:** At the time of a rezone where incentive zoning is applied, the Land Use Map would depict the new zone, plus an FAR maximum noted in parenthesis, equal to the maximum development possible in the prior zone, to establish the base development amount.

Example:



- **FAR-Based System**
  DPD recommends using total allowable floor area for all uses as a singular measure of base and maximum development for the purposes of incentive zoning in urban centers and villages. This is consistent with current Chapter 23.58A provisions, that stipulate if the maximum height limit is 85' or less, all additional floor area shall be earned through affordable housing-related incentives. All zones, except single-family, regulate FAR, so assigning a base floor area for each zone can be easily accomplished.

  DPD proposes to assign a 0.75 FAR proxy for single-family zones solely for the purposes of applying incentive zoning provisions when single family zoned land is upzoned. This FAR is an estimation of the amount of floor area that could be built on a lot in a single family zone. Lot coverage is limited to 35% in single family zones. Assuming a single family home is able to maximize lot coverage and builds slightly more than 2 full stories at that footprint – the floor area would approximate 0.75 FAR.

  For those zones that include a range of FAR limits, depending on housing type, building use or other factors, a table is provided to establish the FAR that will represent the base development potential of that zone. The tables reflect the highest potential base FAR limit for any zone, as a reflection of the maximum development potential in the zone.

- **Limited to Zones with Height Limits 85' and Below**
  DPD recommends applying the proposed framework to rezones with height limits of 85' and below. The majority of development in areas where allowable heights are 85' or less

tends to mostly accommodate residential uses. This includes in the neighborhood commercial zones where street-level retail use is most common with the upper floors of buildings being made up of apartments and condominiums. To the extent single-purpose commercial development occurs, it often takes the form of single-story or other moderate scale development. Therefore, DPD recommends basing the application of incentive zoning on total gross square footage without differentiating between residential and commercial uses. This has the benefit of focusing the incentive program on the majority of the increased capacity in the upper floors of new development, in a manner that is easier for developers, designers and DPD staff to understand and use (relative to other applications of incentive zoning in the city that use height and FAR to apply incentive zoning and apply different programs for residential and nonresidential uses separately).

In zones where allowable heights are above 85', the incentive zoning program may need to differentiate between commercial and residential floor area when establishing base and maximum development levels.

- **Structure of the Incentive Zoning (SMC 23.58A) Chapter**
  The proposed incentive zoning procedure would be organized within a specific subchapter IV of the Seattle Municipal Code section 23.58A. With the proposed revisions, the Incentive Zoning Subchapter would have the following overall structure:

  I: General Provisions
  II: Extra Residential Floor Area
  III: Extra Non-Residential Floor Area
  IV: Extra Floor Area in Zones with an Incentive Zoning Suffix

Effect of the Affordable Housing Incentive Zoning

Chapter 23.58A of the Land Use Code establishes the incentive zoning program and accompanying regulations and process. In summary, incentive zoning allows developers to choose between developing a property to base zoning limits without of the use of incentive zoning. If a developer elects to take advantage of incentive zoning, they would need to provide low-income housing equal to 17.5% of the floor area they are allowed to develop over the allowable base development capacity established for the zone; Chapter 23.58A defines low-income housing as housing affordable to, and occupied by persons with, incomes up to 80% of median income for renters and 100% of median income for owners (currently that is $48,000 and $60,000 for 1 person renter and owner households, respectively, and $55,000 and $68,500 for 2 person renter and owner households, respectively). The term established for the housing to remain affordable is 50 years. Under Chapter 23.58A, a fee-in-lieu option is not available for zones with height limits of 85' or less. In those zones, developers must either provide the affordable housing on-site, or make a contribution to low-income housing in the same neighborhood (unless this requirement is waived by the Director of Housing).

Application in Roosevelt Urban Village
DPD is proposing legislation in a separate ordinance to extend affordable housing incentive provisions to coincide with the Roosevelt legislative rezone. Subsequent rezones, including one being considered for Greenwood, could benefit from this legislation. The Roosevelt legislative rezone is a package of 25 individual rezones in the core of the Roosevelt urban village based in part on a proposal by neighborhood groups. All of the proposed rezones are to Multifamily Lowrise and Neighborhood Commercial zones with maximum height limits at or below 85'. The rezone proposal includes analysis of development capacity impacts of the rezone package and an economic analysis of the application of the affordable housing incentive provisions.

Economic Analysis of Incentive Zoning in Roosevelt
During the first quarter of 2011, DPD contracted an economic analysis of applying affordable housing incentives in the context of the proposed zoning changes. The intent of the analysis is to determine how the incentive zoning would affect the feasibility of development in the area.

In general, the analysis shows that all of the proposed rezones with an application of the incentive zoning for affordable housing result in economic performance at least as strong as existing zoning. However, development in several of the proposed rezone areas is found not to be immediately feasible based on near-term market conditions, rents and construction costs. Several of the rezones are found to include adequate economic incentive - with the incentive zoning provisions - for redevelopment in the near term. It should be stressed that the analysis relies on current and near term economic conditions and projections with a time horizon of approximately 3 years. In the longer term, regional and national economic conditions and demand for housing are expected to improve and result in more favorable development conditions than depicted in the near term analysis. Based on the findings, DPD determines that application of affordable housing incentive zoning in Roosevelt is not expected to adversely impact economic feasibility of property development in the proposed rezone areas, and the Chapter 23.58A affordable housing incentives should be applied to all proposed rezone areas.

Recommendation
DPD's analysis of this action is based on existing city policy related to incentive zoning documented in Resolutions 31104, 31025 and 30939, and Ordinance 122882. The resolutions and ordinance clearly specify that the height limit and maximum density under existing zoning should be the "base" above which additional development capacity must be achieved through participation in zoning incentives at the time of a rezone. Further, the Council's Resolutions and Ordinance clearly specify that incentive zoning should be extended to urban center and urban village areas. Therefore, the proposed action is a necessary step for the City to apply affordable housing incentive zoning more widely. DPD recommends approval of the proposed legislation.