City of Seattle Office of Housing
January 2013

Community Cornerstones

A new model for development in Southeast Seattle: A study and proposal for an Equitable Transit-Oriented Development Loan Program

Needs | Vision | Opportunities | Challenges





City of Seattle Office of Housing

Office of Sustainable Housing and Communities

COMMUNITY CORNERSTONES

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What is Equitable Development?

Equitable development is an approach to creating healthy, vibrant, communities of opportunity for everyone. Equitable outcomes result when intentional strategies are put in place to ensure that existing low-income communities and communities of color participate in and benefit from decisions that shape their own neighborhoods. By including equitable development in Seattle's transit-oriented development program, the entire region will benefit.

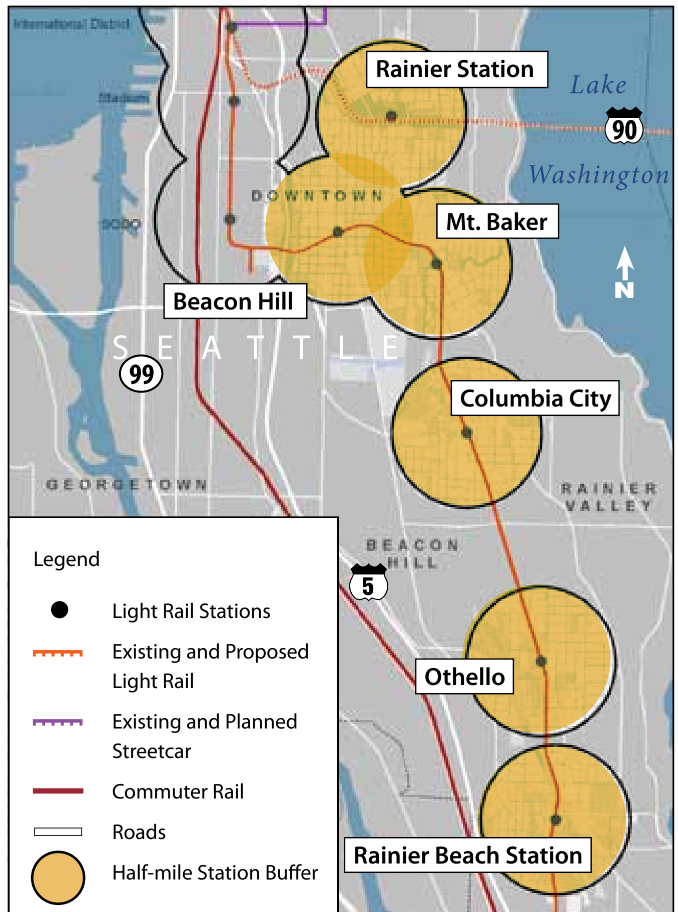
For more information, contact Ryan Curren, ryan.curren@seattle.gov.

Introduction

Community Cornerstones Program

Background and Report Purpose

Othello Neighborhood Planning community workshop



Southeast Seattle Light Rail Station Areas

A $3 million Community Challenge Grant, awarded to the City of Seattle in November 2011 by the U.S. Department of Housing and Urban Development (HUD), provided the opportunity for the City to work on priorities identified in the recently updated Southeast Seattle neighborhood plans, particularly in light rail station areas. These neighborhood plans provide a vision, goals, and community-preferred strategies for each neighborhood area and are the result of a three-year effort by the City of Seattle's Department of Planning and Development.

The HUD grant allows the City to address those community goals that fit within the grant program's parameters, such as:

- Growth in new housing and commercial uses near light rail stations.
- Strong commercial districts that include a mix of small, local and ethnic businesses.
- Housing affordable for a range of incomes and household sizes.
- Multicultural community centers to strengthen diversity.

Community Cornerstones Program

The resulting grant-funded program, Community Cornerstones, brings together multiple City departments, financial institutions, and other partners to implement a new model for equitable development in the Southeast Seattle light rail station areas. The map shows the area within a half-mile from each station.

Integrated Strategies

Community Cornerstones focuses on three integrated community development strategies.

Strategy 1. Equitable Transit-Oriented Development (ETOD) Loan Program. Work with public and private partners to secure key sites for mixed-use transit-oriented development (TOD) projects that include market-rate and affordable residential space, and dedicated small business and community space.

Securing sites in an accelerating real estate market is a key challenge to preserving or building affordable or mixed-income housing and community facilities near transit. Across the country, TOD acquisition funds have emerged as a vehicle for leveraging additional resources focused on equitable transit-oriented development. This report helps determine how an ETOD Loan Program could address gaps or barriers in meeting various neighborhood objectives. Please see the program proposal outline at the end of this report.

Strategy 2. Commercial Stability Strategy. Provide technical support and innovative approaches to stabilize and grow local businesses in the established multicultural business district between Othello and Graham streets on Martin Luther King Way.

This strategy supports economic development around station areas by supporting job creation opportunities and increasing the performance of existing small locally-owned businesses to enhance their economic competitiveness and position them to better access new markets open due to proximity to light rail. Building owners will also receive technical assistance to activate vacant commercial space that is affordable and appropriate for local- and ethnically-owned businesses.

Strategy 3. Capacity Building to Plan for a Shared Multicultural Center. Support the formation of a Southeast Seattle-wide multicultural steering committee that is effective, authentic and durable. With City staff support, capacity building funding, and a broad community outreach strategy, this steering committee will create the organizational infrastructure and direct the preliminary feasibility analysis needed as the foundation of a shared multicultural community center.

This center will support community-building activities of the existing culturally and ethnically diverse communities. Through the neighborhood planning process, communities came to understand that sharing across cultural lines allows them to more easily address shared agendas, increase their political presence, and improve their ability to exercise self-determination.

Management and Partnerships

Seattle's Office of Housing manages the Community Cornerstones Program in partnership with the Office of Economic Development, Department of Planning and Development, and the Department of Neighborhoods. The University of Washington's Evans School of Public Affairs will monitor and evaluate the project. Additional potential partners in the ETOD Loan Program—such as Enterprise Community Partners, Impact Capital, and the Rainier Valley Community Development Fund—bring expertise and potential funding.

Purpose of Document

This report:

- Examines demographic and real estate market trends in Southeast Seattle to identify particular actions necessary to stimulate new development in station areas.
- Defines the characteristics of equitable TOD and identifies opportunities and challenges of such development.
- Identifies the state of gentrification and susceptibility to displacement in each station area.
- Recommends strategies for market-rate and affordable TOD to occur in each station area.
- Identifies critical financing needs and evaluate other opportunities and challenges to deployment of a targeted ETOD Loan Program in Southeast Seattle.
- Recommends goals and objectives for a loan program and provide guidance to inform next steps.

Station at Othello Park Apartments

Transit-Oriented Development: Benefits and Challenges

Research shows TOD has the potential to improve the lives of local residents by providing greater access to jobs, services, educational and health institutions, and social networks. For residents who don't own cars, access to public transit is an even greater necessity. TOD can reduce the cost of living because there is less cost involved when using public transportation. It also contributes to a high quality of living by improving walkability, contributing to neighborhood beautification, and reducing greenhouse gas emissions.

TOD Success Not Guaranteed

The presence of light rail does not guarantee the success of nearby TOD[1]. Households that value light rail access and higher-density housing also tend to strongly prefer attractive, vital, and walkable physical and social environments. Households with expendable income strengthen the existing business districts and encourage new commercial investments that expand the array of goods and services in a neighborhood.

Risk of Involuntary Displacement

Some station areas lack an active and safe public realm. For market-rate TOD to succeed in those station areas,

[1] *Center for Transit Oriented Development. Rails to Real Estate: Development Patterns Along Three New Transit Lines. 2011.*

significant non-housing investments are needed in the built form, and in transportation and pedestrian networks. Despite the positive impacts associated with new TOD, these investments also raise concerns about the potential for displacement of existing residents and local businesses due to accelerating real estate values.

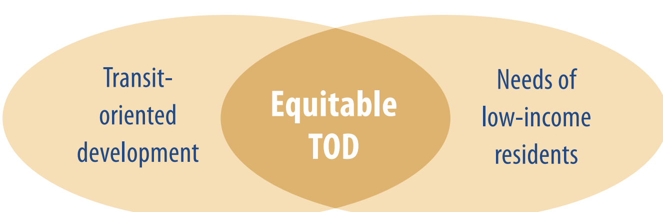
A 2012 Puget Sound Sage white paper on TOD[2] found that without adequate affordable housing, low-income households face involuntary displacement to lower-cost housing, often in the suburbs. This relocation can have harmful consequences for individual households, their communities, and the environment, such as short-term financial challenges from moving costs to long-term financial instability due to increased transportation costs and disruption of social support networks.

Equitable Transit Oriented Development: Benefits and Outcomes

Attracting and supporting successful TOD is critical for new housing and commercial growth close to transit and will have long-term benefits for Southeast Seattle and the city as a whole. However, to make building feasible, the majority of TOD projects will be new construction, which requires higher-end residential and commercial rents. Residential rents necessary for feasibility generally require a household income of approximately 90 percent to 100 percent of area median income (AMI) for studio and one-bedroom units, and 120 percent of AMI for two-bedroom units.

Reducing the Involuntary Displacement Risk

Striving for *equitable* TOD will allow the City and its partners to create the economic development and quality-of-life benefits of TOD while meeting the needs of low-income households. By providing some residential and commercial space development at below market-rate new construction prices, investment in equitable TOD can reduce the potential for involuntary displacement of local households.



Citywide Benefits

Equitable TOD has great potential to benefit the entire city. It is the pattern of growth most likely to strengthen the broader Seattle economy, not just neighborhoods in the Southeast. Equitable TOD in Southeast neighborhoods can provide insights and a path for the future of other neighborhoods. According to PolicyLink, "Equity is the superior economic growth model. Reducing inequality, growing the middle class, and turning today's youth and workers into tomorrow's skilled workers and innovators are critical to restoring America's growth and competitiveness."[3]


Davie and Channa Hay, owners of King Donut in Rainier Beach

Supporting Positive Impacts

Equitable TOD can help ensure existing locally owned businesses, low-income residents, and communities of color can benefit from the full range of positive impacts associated with TOD. These benefits include:

- Increase in household incomes from improved access to education and job opportunities.
- Increase in business revenues from new customers and access to new markets.
- Stability and reduction in household transportation plus housing costs.
- More appropriate and higher quality commercial space for small local businesses.
- Improved health outcomes associated with decreased pollution and crime, and increased walkability.
- Stronger social networks from more community institutions supporting community-building activities.

Achievable Outcomes

These outcomes are especially important in Southeast Seattle where transit ridership is highest among lower-income residents. Many of these households are at risk of losing their primary mode of transportation if forced to relocate to areas with fewer transit choices. Immigrant entrepreneurs and local small businesses catering to niche markets largely occupy the retail spaces near transit in these

[2] *Puget Sound Sage: Transit Oriented Development that's Healthy, Green and Just, 2012*

[3] *PolicyLink, America's Tomorrow: Equity is the Superior Growth Model," Sarah Treuhaft, Angela Glover Blackwell, Manuel Pastor, 2011*

neighborhoods. These retailers can currently afford only low-cost space, creating a risk of losing the unique mix of ethnic businesses that make up these neighborhoods as improvements are made and rents rise over time.

Achieving equitable TOD requires:

- An understanding of equitable TOD and its importance.
- Clear and measurable objectives and outcomes.
- Proactive attention over many years, in particular, the next 5 to 15 years.
- Resources to meet the objectives.
- Attention to affordable and mixed-income housing, with an understanding of the importance of also providing commercial space appropriate for local businesses and community amenities such as health clinics, community centers, and childcare.
- Near-term, mid-term, and long-term strategies based on each station area's susceptibility to displacement and real estate market strength. (See pages 13–16 for recommended strategies for each station area.

Vision Provides the Path to Equitable TOD

This vision for equitable TOD guides the Community Cornerstones Program, and can be applied citywide.

> *All people living near transit, regardless of their race, background, or income should have access to affordable housing, access to good jobs, quality education, healthy food, safe neighborhoods, parks services, and other resources that improve quality of life. Achieving this vision requires inclusion of low-income residents and communities of color as active participants in planning for growth, enabling them to benefit from increased economic and social opportunities.*

Gentrification and Displacement in Southeast Seattle

Defining the Terms

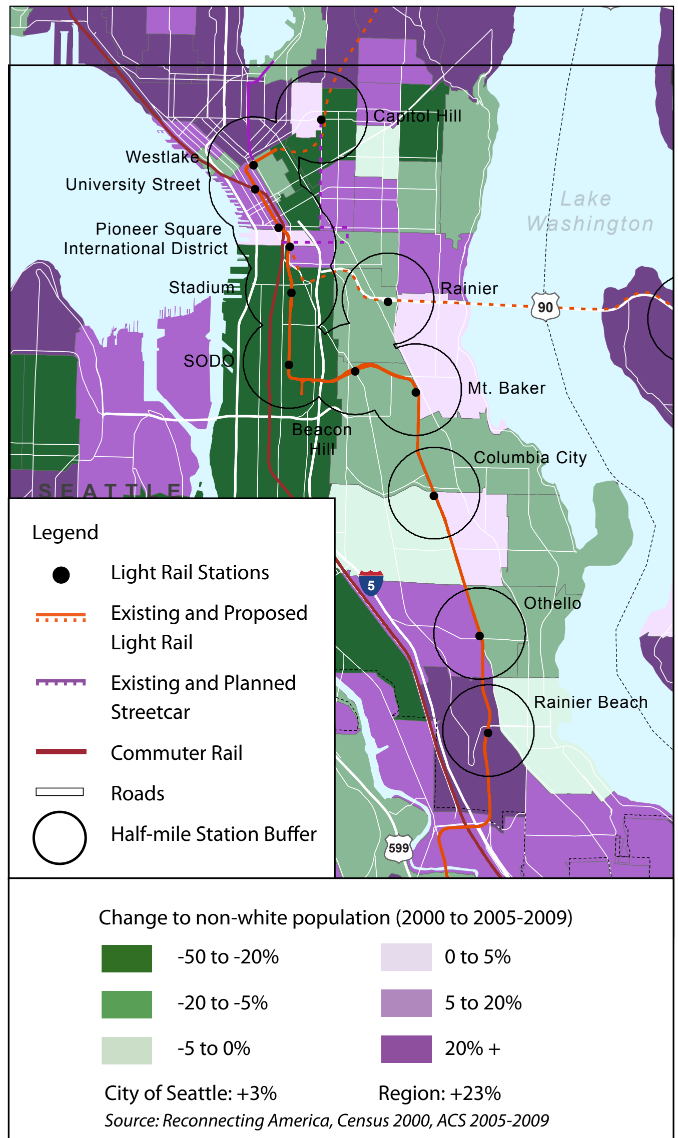
Two terms are frequently used to describe neighborhood change in association with transit investments and TOD: **gentrification** and **displacement**.

Gentrification refers to a broad pattern of neighborhood change that includes improvements in income and educational attainment of the residents above regional trends along with rising home values and/or rents[4]—all of which can be positive assets to a community.

Displacement refers to a pattern in which existing residents are forced to leave a gentrified neighborhood because they can no longer afford the increasingly high cost of housing and/or they can no longer access affordable and culturally relevant goods and services[5]. This pattern is avoidable with investments in equitable development.

Gentrification Indicators

Gentrification is state of neighborhood change that does not necessarily mean displacement will occur. However, national research conducted in communities with



Change in Non-white Population

[4]Pollack, Stephanie, Bluestone, Barry and Billingham, Chase "Maintaining Diversity in America's Transit-rich Neighborhoods." Dukakis Center for Urban and Regional Policy, Northeastern University; 2010.

[5]Ibid

new transit investments shows challenges in ensuring gentrification does not lead to displacement of current residents.

One study found the addition of transit led to higher-cost housing, wealthier residents and greater rates of vehicle ownership.[6] Another identified indicators showing a community is susceptible to gentrification, but the study could not make a direct relationship to displacement.[7] These indicators included:

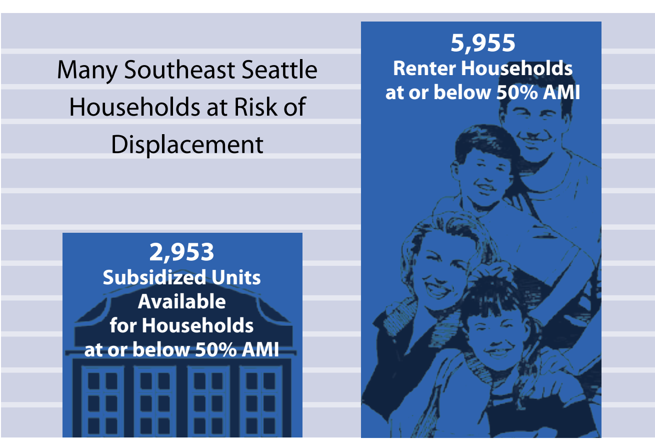
- High concentrations of immigrant and non-white households.
- Availability of amenities such as youth facilities and public space.
- Income diversity and a high share of rental households.
- Presence of dense, multifamily rental housing.
- Access to public transportation and proximity to jobs.

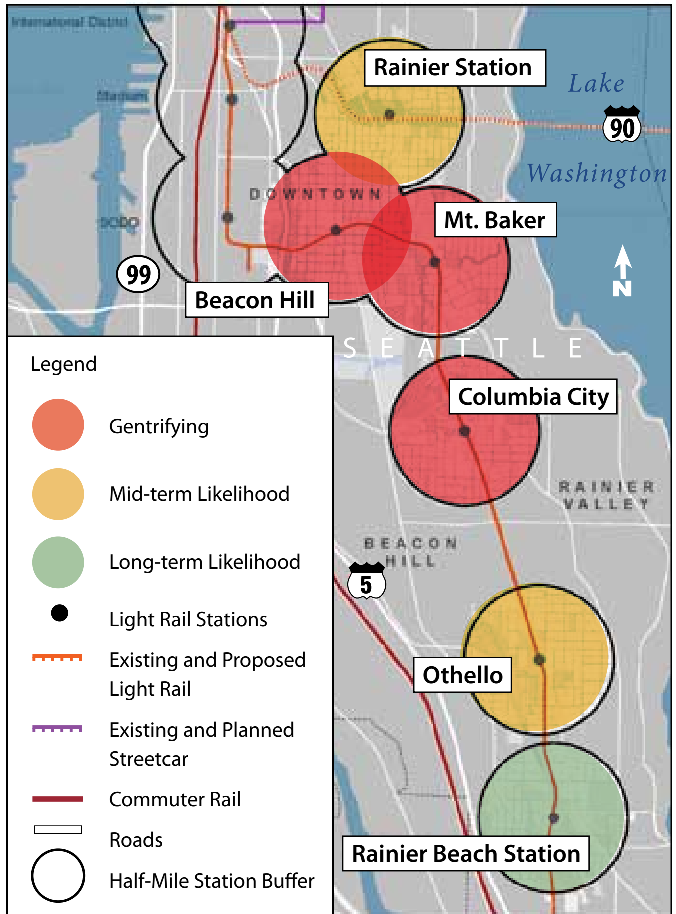
Gentrification Indicators Occurring

Many of the indicators of gentrification appear in Beacon Hill, Mount Baker, and Columbia City station areas. Income and demographic trends usually associated with displacement are already occurring around the northern-most station areas. These include rising resident incomes, reduction in non-white and foreign-born populations, and increasing levels of educational attainment. Additional information on the TOD potential and susceptibility of displacement for each Southeast Seattle station area is provided on pages 13–16.

Displacement Vulnerability in Southeast Seattle

There are 5,955 renter households with incomes at or below 50 percent area median income ($40,000 annual income for a family of three)[8] ; however there are only 2,953 subsidized affordable units[9] for these households. This leaves approximately 3,000 low-income households—those who rent market-rate units—at risk of displacement as rents rise





State of Gentrification

Changes in Non-white Population

Station Area	2000		2005-2009		2000 to 2005-2009	
	#	%	#	%	# Change	% Change
Rainier	3,810	74%	3,567	64%	-243	-6%
Beacon Hill	5,267	78%	3,351	48%	-1,916	-36%
Mount Baker	3,716	68%	2,977	57%	-739	-20%
Columbia City	5,305	84%	3,789	69%	-1,516	-29%
Othello	6,246	91%	6,209	83%	-37	-1%
Rainier Beach	4,593	89%	3,703	82%	-890	-19%
REGION	732,1	24%	936,6	28%	204,4	28%
CITY	181,2	32%	186,4	31%	5,259	3%

[6] *Ibid*

[7] *Chapple, Karen. "Mapping Susceptibly to Gentrification: An Early Warning Toolkit." Center for Community Innovation, University of California, Berkeley; 2009.*

[8] *2013 HUD Area Median Income Family Income. CPD Maps, Consolidated Plan and Continuum of Care Planning Tool, 2005-2009 American Community Survey (ACS) for Census Tracts 94, 95, 100, 101, 103, 104.01, 110.01, 111.01, 117, 118, 119*

[9] *Office of Housing and PSRC 2012 subsidized housing data for Census Tracts 94, 95, 100, 101, 103, 104.01, 110.01, 111.01, 117, 118, 119*

A Story of Displacement and Homecoming

Sebrena Burr moved to Rainier Beach in 1973 as a middle school student.

She remained in the neighborhood as an adult, developing a social support network that included a large extended family and her church of 40 years.

In 1998 Sebrena was struck by debilitating health issues, which forced her out of the job at Nordstrom's that she had held for 19 years and into Section 8 housing where she began to raise her infant daughter Rena Mateja. Fortunately her support network provided free childcare, emotional support, transportation for errands, and dropped off groceries and meals when she was too sick to go out.

That all changed when Sebrena and three other families with vouchers were forced to move because of a dispute between her landlord and the housing authority. Sebrena was not able to find a safe, healthy, and affordable apartment in Southeast, so four days before her voucher expired the housing authority helped her find an apartment in North Seattle where she lived for two years.

Sebrena describes this time, "Not having my family nearby to help me when I couldn't get out of bed in the morning or when I was too ill to take care of Rena Mateja, put my baby's life at-risk. My health deteriorated during that time and the stress led to a near heart attack and hospitalization. During one three-day crisis, I was blind in my home with no support."

All of her community activities ended when she was forced from the Rainier Beach neighborhood, including her services as a pastoral minister to victims of family violent crimes and a volunteer for the Children's Alliance where she had been awarded volunteer of the year. "It wasn't just me who suffered, the (Rainier Beach) community suffered by my loss," Sebrena said.

Through the help of Family Services and Seattle Housing Levy-funded Rent Assistance, she was able to find an apartment near her family and return to the neighborhood that she called home. She received counseling and the support of a case manager to ensure that her family would remain stable in their new home for years to come.

Daughter Rena Mateja now raises money for homelessness and received the Seattle Foundation award for Outstanding Youth Philanthropists. Sebrena is now on the Race and Social Equity Commission for Seattle Public Schools. As she reflects on her struggles she thinks, "If I had such trouble, what is happening to families new to America who are in crisis mode? What is happening to their kids?"

Sebrena Burr and Rena Mateja Walker Burr in the older stock of multifamily buildings whether or not they are rehabilitated. Without affordable options nearby, these households may have to choose between becoming severely burdened by housing costs or being displaced to lower-cost housing options in the suburbs where there are fewer low-cost transportation options and less access to the region's major job centers.


Vacant parcel on MLK Jr. Way owned by Sound Transit

Understanding Southeast Seattle Station Areas

Demographics and Real Estate Markets

The current conditions and trends of community demographics and the real estate markets in Southeast Seattle station areas provide a better understanding of how the station areas are changing and are likely to change in the future.

Community Demographics

Several significant national events influenced demographic changes in the 2000s: the minor economic recession of the early 2000s, the subsequent recovery and exaggerated run-up in the housing and mortgage finance market in the mid-2000s, followed by the major global recession of 2008 to 2009. Locally during this same time period, two significant Seattle Housing Authority public housing redevelopment projects were concluded or initiated, and the Central LINK light rail was completed in 2009. The multitude of exceptional broad and local changes complicates interpretation of demographic trends during this time period, especially as they relate to housing markets.

Median Incomes

Low median incomes in almost all Southeast Seattle station areas suggest a strong need for lower-cost housing to address displacement pressures. With the exception of Mt. Baker, all Southeast Seattle station areas have median incomes well below both the regional and city averages. Othello, Rainier Beach and Rainier station areas have the lowest median incomes. In Othello, the low median income likely reflects the presence of the Seattle Housing Authority subsidized housing at New Holly, which is partially located in the station area. Even the relatively higher income Mt. Baker and Columbia City station areas have sizable pockets of lower income households.

The impact of the recession on household income varied significantly between Southeast Seattle station areas. From 2000 through 2009, household incomes in Rainier, Othello and Rainier Beach dropped between 10 to 25 percent.


Community residents participating in the planning of a Southeast Seattle multi-cultural center, November 2012 workshop at the Filipino Community Center

GreenHouse Apartments, 124 units built by Harbor Urban in 2012, is the first market rate multi-family development in Columbia City in nearly 40 years.

This is a significant decline compared with incomes at the regional and city level, which remained steady. In the same time period, household incomes in the Mt. Baker and Columbia City station areas increased by 16 to 17 percent, and the median household income in the Mt. Baker station area surpassed that of the city by 13 percent.

Residential Market Analysis

The Southeast Seattle housing market, both within the station areas and as a whole, is comprised largely of detached single-family homes, both for sale and for rent. There are limited multifamily housing and attached single-family developments large enough to support use of transit and active retail districts near transit. Much of the multifamily housing was built in the mid-20th century. Almost all multifamily development within the last 15 plus years in Southeast has been income-restricted affordable housing. Very recently, select station areas (Othello and Columbia City) have seen market-rate apartment development activity for the first time in 40 years.

Market-rate rents in Southeast Seattle are generally priced to be affordable for households making 60 percent of area median income (AMI). The average asking rent for a two-bedroom apartment is $1,098 without utilities. In comparison, a two-bedroom apartment should be rented at no more than $1,171 including utilities for a family of four with an income of $52,020 annually (60% of AMI) to be considered affordable.[10] According to 2005–2009 American Community Survey data there were 6,027 households renting units in the six station areas (within a half-mile).[11] Many of the units with unrestricted rents could see their rents increase as investment near station area continues, a trend actively occurring in some station areas already. A dwindling supply of affordable private market units will limit the options that low income households have to stay in Southeast Seattle.

Existing Apartments Generally Affordable, but Limited

Existing apartment rents in Southeast are below rent levels in Seattle as a whole, making them generally affordable to local households. Existing apartment stock is limited and older, and the current market for area apartments is weak. Portions of Columbia City, Beacon Hill and Mt. Baker station areas command somewhat higher rents and support upgrades to older apartment stock, which result in increased rents.

New Market for Higher-Density, Smaller Apartments

In Columbia City, new and proposed quality multifamily and mixed-use development projects are pioneering a new market for higher-density, smaller apartment units. With a 15-year trend of ongoing revitalization in the area and the qualifications of the development companies involved, these projects (totaling 317 housing units and 30,000 square feet of commercial) are broadly anticipated to succeed. Such success could positively impact the value of surrounding real estate in the Columbia City retail district. (See Appendix D for more project details).

Market-rate or Affordable Condominiums Unlikely

Higher-density market-rate or affordable condominium development is unlikely in the foreseeable future. Expansion of the affordable ownership opportunities would be more feasibly accomplished through smaller-scale low-rise townhome projects on assembled single-family lots in the neighborhoods. Zoning for this type of development (LR2 and LR3) is currently limited to the first one to three blocks off of the commercial arterials at most.

Light Rail No Guarantee of Successful Development

The presence of light rail does not guarantee the success of nearby higher-density development. The types of households that value light rail access and higher-density housing also tend to more strongly prefer attractive,

The presence of light rail does not guarantee the success of nearby higher-density development.

[10] Strategic Economics, 2012: Dupre & Scott Survey, courtesy of Puget Sound Regional Council. HUD 2013 Area Median Income. Affordable rent is defined as no more than 30% of household income.

[11] ACS 2005-2009; CTOD Database; Reconnecting America, 2012. Station areas are defined as all block groups within a half mile of a station.

vital, and walkable physical and social environments than other households. In the near-term (three years or less), those station areas such as Columbia City that already include neighborhoods and commercial districts with these qualities are far more likely to support successful market-rate TOD. For market-rate TOD to succeed in station areas that do not currently have an active, safe public realm, significant non-housing investments will be required.

Retail Market Analysis

Aging Retail Space

The retail market in Southeast Seattle consists predominately of smaller one-story strip commercial space along Martin Luther King, Jr., Way South and Rainier Avenue South arterials. These spaces are interspersed with larger format retail that is either stand-alone or within a community shopping center. Most commercial development was built in the 1960s to 1980s and is oriented toward car traffic. This puts surface parking in front of or adjacent to buildings, creating gaps in the street wall and separating uses. Much of the retail development has received little reinvestment in maintaining or improving buildings.

Low Retail Rents

Retail rent levels throughout much of Southeast Seattle are below regional averages. This reflects the relative lack of demand for locations in Southeast, as well as the poor quality of much of the existing stock. Outside of Columbia City, recent market-rate and affordable projects have not been able to fill space at pro-forma rent levels. Even with rent reductions, absorption has been slow.

Growth in Columbia City

Planned mixed-use development for Columbia City is experiencing strong interest from anchor retail (PCC Natural Markets) and small retailers, reflecting this retail district's strong pedestrian environment and on-going revitalization.


Vacant parcel on MLK Jr. Way owned by the Seattle Housing Authority

Example of the older stock of commercial buildings along MLK Jr. Way

Challenges in Other Station Areas

Outside of Columbia City, financing and tenanting of ground floor retail space presents significant challenges to both market-rate and affordable mixed-use TOD. Because market-rate rents in most areas do not support the cost of new construction, the retail component of projects must either be internally subsidized by the residential component should the residential market be strong enough, or, in the case of affordable housing, raise funds through capital campaigns or obtain financing from scarce sources of subsidized commercial debt.

Low-Cost Retail Needed

The market for storefront retail space in Southeast Seattle is made up largely of immigrant entrepreneurs and other local small businesses that cater to niche markets. These businesses can currently afford only low-cost and low-quality space. Expanding the supply of high-quality low-cost space through subsidy of commercial development would help provide more opportunity for such businesses.

Land Market Analysis

Dramatic Land Value Increases

Land speculation by developers during the exaggerated run-up in the housing and mortgage finance market in the mid-2000s and the opening of light rail in 2009 resulted in dramatic increases in land value. A 2011 Puget Sound Regional Council analysis of assessed land values of parcels surround the Othello station found land values had increased 513 percent since the light rail alignment was announced in 1999.

Current Speculation

Investor speculation is occurring in the market for existing older apartment buildings in station areas and the broader Southeast market. Over the last 18 months few properties have sold for new development, but many local investors are now purchasing existing older apartment buildings to rehabilitate. Prices have escalated from approximately $60,000 per unit to between $90,000 to $100,000 per unit in two years. In one Columbia City example, an investor rehabilitated a 1950s building and increased rents for a one-bedroom unit to $1,000 per month.

Normalizing Land Values

Land values have normalized since the major global recession of 2008 and 2009. The capital market constriction following the housing and mortgage crisis significantly limited developer interest in Southeast Seattle. A few recent land transactions indicate land values are returning to the trajectory they were on before the crisis. A large TOD-appropriate property at the Othello station recently sold for approximately $48 a square foot to an owner intent on building a single story church.

Southeast Development Capacity and TOD Potential

Potential for New Development

A development capacity model using the best available information of current conditions and development assumptions based on observed patterns indicates there is potential for new development but this potential varies by station area. Many of the re-developable sites may not be available for development due to current market conditions or landowner preferences.

Mt. Baker has significant large project capacity. Rainier Beach and Columbia City also have some large project capacity, including the vacant, for-sale Seattle Housing Authority property at Othello, as well as Zion Academy and Angeline sites in Columbia City. Significant development opportunity lies in the large inventory of TOD-ready properties owned by Sound Transit in station areas. These properties were used for construction staging but have been predominately vacant and fenced off for many years since construction ended.

Transitional Areas

Southeast Seattle station areas as a whole are classified by the Puget Sound Regional Council as transitional, which reflects improving markets that have longer-term potential, and may require additional investment to stimulate near-to-mid-term growth.[12] Although current market conditions in Southeast Seattle station areas are broadly weak (with the significant exception of Columbia City), the area's proximity to Downtown Seattle, and eventually to Eastside job centers via light rail, makes it likely that it will eventually attract significant market-rate residential development activity.

Vacant parcel on MLK Jr. Way owned by Sound Transit

Potential Varies

The near-term residential TOD potential in Southeast Seattle station areas largely depends on the urban form and connectivity of each station area, which varies greatly. For example, the Columbia City station area includes the location of a historic streetcar station on the Rainier Trolley and inherits key remnants of the fine-grained urban form of that era. This area has a significant near-term development pipeline that may build from Rainier Avenue

Potential for Development

Station Area	Developable Acres
Rainier	80-100
Beacon Hill	30-50
Mt. Baker	70-90
Columbia City	60-80
Othello	55-75
Rainier Beach	105-125
Approximate Total	500

Source: Department of Planning and Development, Reconnecting America, 2012

[12] This classification comes from the Puget Sound Regional Council's Growing Transit Communities program's quantitative residential and commercial TOD market indices created to provide insight into the potential relative future demand for new development around 74 transit nodes throughout the region.

South toward the station on Martin Luther King, Jr. Way South over time. Mt. Baker, on the other hand, has challenges regarding built form, connectivity and traffic impacts that will require transportation network and pedestrian improvements to attract market-rate, higher-density development.

TOD can be a catalyst for revitalization, bringing new retail and residential investment to a community.

Columbia City has a strong commercial district and good pedestrian environment

Interview Findings

To assess current perspectives on market conditions, and key barriers and opportunities to equitable TOD, 32 individuals were interviewed. Interviewees generally agreed that Southeast Seattle station areas are improving, though not uniformly. They see increased activity, amenities, and safety as a positive but having a potential to contribute to displacement, especially as the light rail network expands. Displacement possibility accelerates as lower rents in private market housing go up either through new construction or renovation of currently affordable market-rate apartment buildings. Comments are summarized below.

Nonprofit Developers

Interviewees from nonprofit development organizations suggested strategies and goals to provide current residents the opportunity to stay in the community through increasing options for affordable housing and commercial space near station areas.

- Renovation of multifamily housing built in the 1960s can help preserve unit affordability at lower cost relative to new construction.
- Sound Transit is not perceived as a proactive partner in developing their surplus land as affordable or market-rate TOD. Sound Transit could adopt equitable development policy goals to dispose of their surplus land inventory.
- Equitable TOD need exists along light rail corridor throughout the region, not just in Southeast Seattle station areas. Affordable housing is also needed in stronger market areas to provide diversity of housing sizes and prices.
- Take-out financing is important to consider in designing a land acquisition loan program, or else allow long-term holding periods. Permanent gap financing is a key need.
- Focus on affordable housing for households with incomes up to 60 percent AMI.
- Support for new commercial space is needed; permanent financing, business assistance, and tenant improvement assistance (expertise for design assistance) were identified as specific needs.

For-Profit Developers

Interviewees from for-profit development firms identified obstacles to market-rate TOD and recommended a variety of solutions.

- Columbia City station area is of great interest; other areas are of more limited interest because of:
  - Physical environments
  - Challenging site assembly
  - Difficult lease-up at Othello Partners project demonstrates a weak market
- Columbia City real estate market is emerging; retail can work there but not in other areas.
- Catalytic projects are needed to demonstrate success in station areas to provide strong comparables for future projects to attract more capital. Projects in Columbia City coming online soon may provide these comparables.
- Streamlining of the landmark decision process is needed for Columbia City Landmark District. The existence of a citywide board and local board is a major barrier to TOD.
- Micro-retail is needed and is inexpensive to build out (box with roll-up door, taps for water, electricity).
- Opportunities for TOD at the scale desired by private developers could be provided by an entity with the ability to buy and assemble land. An example given was the Portland Development Commission.

Example of older stock of commercial buildings near Mt. Baker light rail station

Lenders

Interviewees from lending organizations spoke of the risks and benefits of TOD in Southeast Seattle station areas.

- Lenders need to see a high level of developer equity to consider financing a project in Southeast Seattle due to perceived investment risk.
- TOD locations are seen as a positive amenity that make projects more marketable, lowers operating costs and are therefore more desirable to lend to. Benefits are difficult to quantify, however, and do not trump market factors.
- The lack of comparable new developments requires a proposed project to justify rents in other ways (e.g., location, demographic trends).
- Better coordination of funding could improve efficiency and help take "politics" out of the funding process.

Real Estate Agents and Brokers

Interviewees in the real estate field identified obstacles to market-rate commercial development and recommended an array of solutions.

- Most informants described a need for additional retail anchors to provide missing basic retail services, create retail destinations, and drive foot traffic to smaller adjacent local businesses.
- Larger, chain retailers are not currently interested in Southeast Seattle station locations because of the perceived lack of disposable income, lack of new market-rate housing, and issues with crime.
- On-going business networking and technical support is needed for local businesses, given the strong presence of immigrant entrepreneurs who are unaccustomed to American retail culture and business practices and become isolated within their ethnic communities.
- Significant new anchor uses are needed to create destinations within Seattle and increase daytime activity. Suggestions include: a stadium, major retailer and commercial center, attraction of a significant employer or educational institutions. Less ambitious and perhaps more viable suggestions include development of a vocational training or daycare center.
- A glut of older low-cost, low-quality space exists in Southeast Seattle that is affordable to area businesses, but is in such need of updating and remodeling as to be detrimental to tenants' ability to attract customers. Because commercial rents are low, property owners see little upside in further investment and so few improvements are made.

Station Area Findings and Recommendations

Previous chapters described demographics, real estate conditions, and trends in Southeast Seattle station areas that inform the need and opportunity for equitable TOD along the corridor. This chapter looks more closely at each of the station areas. The following information is provided for each station area profile:

1. **TOD potential—**determined by a station area's real estate market strength, proximity to jobs, zoning appropriate for TOD, development capacity, transit service, built environment, and its pedestrian/bike/motor vehicle infrastructure.
2. **Residential displacement susceptibility—**determined by a station area's demographic trends over the last ten years, rental market strength, proportion of renters, and proximity to jobs.
3. **Recommended action items—**actions that the City of Seattle and its partners can take to remove barriers to market-rate TOD and make investments in equitable TOD to ensure that gentrification does not lead to displacement. For purposes of this study, near-term potential refers to the next three years, while mid-term indicates a period of five to ten years, and long-term is more than ten years.

Potential for Growth and Displacement

Station Area	TOD Potential	Displacement Susceptibility
Rainier	Long-term	Medium
Beacon Hill	Near-term	High
Mt. Baker	Long-term	High
Columbia City	Near-term	High
Othello	Mid-term	Medium
Rainier Beach	Long-term	Low

Rainier Station Area

Recommended Action Items

The station will not be in service until 2021, however its strategic location on the transit network, proximity to Downtown and I-90, and development capacity gives it strong longer-term transit-oriented growth potential. Although the area is not currently gentrifying and the average apartment rent level is well below city-wide averages, given its location, growth potential and demographic characteristics, the area has a moderate susceptibility for displacement.

Long-term

- Department of Planning and Development (DPD) 2013 transit access analysis of the area will be important to addressing the pedestrian safety and public realm deficits needed to support higher-density development and increase access to the station.
- SDOT should plan for and invest in enhancement of a two-block portion of a non-arterial street south of I-90 that could serve as a center of community activity and storefront retail.
- Rainier Station's access to the Eastside as well as Downtown makes this area a good location for affordable housing. The area should be prioritized for longer-term land banking-type acquisition loans (i.e. five-year plus terms) that allow nonprofit developers to capitalize on lower cost acquisition opportunity prior to the construction of the East Corridor.

Near-term

- The City should consider creating a Multifamily Tax Exemption (MFTE) Program target area in the Rainier Station area. A new privately developed residential project is trying to get off the ground near Hiawatha Place and South Bush Place but needs the MFTE program to help feasibility.
- The City should encourage additional development nearby the Dearborn/Hiawatha redevelopment to build upon the success of a community-supported node of affordable rental and homeownership housing and small commercial space appropriate for local businesses.
- Interagency cooperation between the City and Sound Transit during the station area planning and implementation process will be critical to reach the long-term vision, including promotion of equitable TOD and improved access to the station.

Beacon Hill Station Area

Recommended Action Items

The area's walkability and quick transit access to Downtown make it highly attractive for transit-oriented development, though development potential is limited by lower-density zoning in the majority of the station area. Given the market and demographic conditions and trends, locational advantages, and very low current numbers of subsidized affordable units, the area is strongly disposed toward displacement.

Architects rendering of El Centro de la Raza's future mixed-use TOD project at the Beacon Hill light rail station

Near-term

- The Office of Economic Development and its partners should continue to support the Beacon Hill Merchants Association efforts to complete and implement a business district revitalization plan for the commercial district surrounding the light rail station.
- El Centro de la Raza's new project planned near the station should be a high priority for investment; El Centro plans affordable housing as well as a multicultural center and storefront retail space for small businesses.
- The City should help El Centro identify a source of permanent financing of commercial space and tenant improvement loans for small businesses.
- Encourage development of equitable development policy goals and a strategic disposition process for Sound Transit's surplus and vacant land directly above the station.

Mt. Baker Station Area

Recommended Action Items

Mt. Baker station area has substantial long-term potential for higher-density, mixed-use TOD. Demographic trends and the locational advantages make the area disposed toward displacement even without any near-term prospects of new private development.


Poor pedestrian access to the Mt. Baker Station hinders TOD

Mid-term

The City should consider options for addressing complex land assembly, re-location of viable uses, and advancement of public/private development that require involvement of multiple public agencies. One option is the creation of a quasi-public TOD agency or authority.

Near-term

- The City should prioritize investment in significant street network and pedestrian realm improvements to support TOD.
- DPD's proposed rezone legislation for this station area should be adopted to establish greater development certainty.
- Sound Transit should encourage development of equitable development policy goals and a strategic disposition process for Sound Transit's inventory of more than 200,000 square feet of surplus land.
- The City should renegotiate with King County Metro to relocate the bus layover station and make that property available for TOD.

Columbia City Station Area

Recommended Action Items

The market for higher-density housing is already strong enough to support new development; the area has immediate TOD potential. Given demographic trends, a population that is approximately one-half renter households, and recent housing market acceleration, the area is strongly disposed toward displacement of existing renter households.


Columbia City has many active storefronts in the commercial district

Near-term

- Columbia City should be prioritized for mixed-income housing investment that includes both market-rate housing and affordable housing aimed at low- and moderate-income households.
- DPD should initiate a station area planning process that considers the station's relationship to the business district and identifies priority public realm improvements.
- Sound Transit should encourage development of equitable development policy goals and a strategic disposition process for Sound Transit's inventory of more than 40,000 square feet of surplus land.

Othello Station Area

Recommended Action Items

Although current market conditions are weak, the Othello Station area has significant vacant and underutilized parcels zoned for mid-rise development. TOD potential is mid-term. Given recent income trends, saturated market conditions and the existing supply of affordable units, the area has more mid-term potential for displacement.


Aerial view of Othello station area

Mid-term

Additional affordable housing investments should be aimed at moderate-income households, or made in support of ground-floor commercial uses.

Near-term

- Affordable or mixed-income investments should complement innovative ground floor commercial concepts that focus on expanding economic and educational opportunities for youth and/or local immigrant entrepreneurs.
- Othello Station area is in need of economic development investments focused on small business assistance and youth-oriented career and vocational support.
- Three large publicly owned parcels adjacent to the station (two owned by Sound Transit and one by the Seattle Housing Authority) have been vacant for several years and could provide opportunities for catalytic mixed-use developments.
- The Office of Economic Development and the Rainier Community Development Fund should continue to support the Community Cornerstones' commercial stability strategy at Othello beyond 2014 when federal grant funds are exhausted.

Rainier Beach Station Area

Recommended Action Items

Weak current market conditions and an extended distance from Downtown suggest mid-term to long-term potential for higher-density mid-rise development targeted by the loan program. The area is unlikely to feel pressures of displacement in the near to mid-term, given demographic trends and conditions, and the weakness of market demand for housing in the area.


Rendering of Rainier Beach Community Center

Long-term

The area should be prioritized for longer-term land banking-type acquisition loans (i.e. five-year plus terms) that allow nonprofit developers to capitalize on lower cost acquisition opportunities.

Near-term

- The area is in need of a catalytic public investment to achieve community goals regarding development and economic stimulation and create a walkable environment that connects neighborhoods to the station.
- Projects that receive public investment should complement ground floor commercial concepts that expand local economic, social or commercial opportunities (e.g. a multicultural center).
- Encourage development of equitable development policy goals and a strategic disposition process for Sound Transit's inventory of surplus land.

Considerations for an Equitable Transit-Oriented Loan Program

Problems Addressed and Program Design Considerations

Equitable TOD is needed to address the need for mixed-income housing as well as facilitate community businesses and other community uses. Aligning existing capital sources and securing new resources to strengthen the focus on equitable TOD is one important strategy to achieving the Community Cornerstones vision of equitable TOD. In designing such a program, an analysis is needed of existing barriers to equitable development that a loan program could address. Below are a list of identified barriers in Seattle and a brief description of how a loan program could address each one.

Barriers and Opportunities

Insufficient focus on equitable outcomes in TOD. Displacement of existing communities and loss of private-market affordable units, especially around transit, is actively occurring. Funders of predevelopment and acquisition currently lack jointly defined goals and objectives that address these challenges. An Equitable TOD (ETOD) Loan Program could bring funding decisions into better and closer alignment around equitable outcomes.

Inadequate collaboration among funders on equitable TOD. Coordinating investment decisions among acquisition financing providers is a significant challenge. Lenders interviewed agree that a better structure for making investment decisions would be more efficient and help in taking "politics" out of the process. Coordinated funding decision protocols could eliminate the "political" factor, which is increasingly important as resources remain constrained. An ETOD Loan Program creates a new foundation and framework for collaboration and aligning funders' goals and objectives for equitable TOD.

Inadequate capital to secure large-scale sites for mixed-income housing. Lenders and developers interviewed all agreed that existing capital sources have difficulty assisting in purchasing sites of the size appropriate for large-scale mixed-income developments. For lenders, the risk of the loan sizes needed to acquire these sites can be too great for any one lender to bear. A program designed to address these challenges could result in catalytic projects.


Drummers in the Rainier Valley Heritage Parade

Traditional financing models that do not encourage mixed-income housing and public-private partnerships. Successful examples of mixed-income projects using traditional public sources (e.g., Issaquah Highlands and Kirkland P&R) and traditional private sources (e.g., Children's Hospital/UW/Security Properties) do exist. These models of mixed-income development draw together private financing and developers to achieve equitable outcomes. However, they are rare. A new ETOD Loan Program could generate more opportunities and focus these efforts on equitable TOD.

> When implemented as an equitable development strategy, TOD can bring multiple benefits to the local community and to the metropolitan area as a whole.

Inadequate known sources of permanent financing for affordable housing. Creating a larger program for acquisition/predevelopment does nothing directly to address the inadequacy of permanent financing for all-affordable or mixed-income housing, and it could put additional pressure on existing resources. However, a more focused approach could encourage developers to seek new and better financing strategies (e.g., more aggressive use of 4 percent Low-Income Housing Tax Credits with reduced or no Office of Housing participation) and create a project pipeline that strengthens the case for new permanent resources (e.g., larger Seattle Housing Levy, King County hotel/motel tax bonding).

Prohibitive cost of land in station areas in some markets contradicts existing funders' policies on lowering development costs. Policies will need to adjust to address this challenge, perhaps by assessing the cost of the properties purchased across the portfolio of the program instead of by parcel. Ideally, sites would be purchased in station areas before land value escalation worsens.

Broader Regional and City Considerations

An ETOD Loan Program in Southeast Seattle station areas could provide a model for how the region can address issues of equitable TOD. A focus on equitable TOD along the entire light rail line requires new partners and additional resources. A successful financing model in Seattle could be taken to a regional scale as PSRC's Growing Transit Communities Partnership is currently making the case to secure a regional source of public financing. Funds revolved from an initial project application in Southeast Seattle could be used to help seed a regional fund provided those funds would be eventually directed back to Seattle-based projects.

North Seattle communities will face challenges of equitable TOD within ten years. The current conception of a loan program focused on Southeast Seattle station areas does not address the opportunities and needs for equitable development in North Seattle. Land value trend analysis of existing station areas shows significant escalation of land values beginning as early as seven years before transit service begins. Service to the University District, Roosevelt, and Northgate begins in ten years. Additional public funds could be used to allow for site acquisition in these stations areas to capture some of the expected land value appreciation and provide greater community benefits when transit service begins.

Proposal for an Equitable Transit-Oriented Loan Program

While the Southeast Seattle station areas have great potential to realize community goals regarding locally beneficial growth, they also face significant challenges. Station areas have both good potential to attract investment and the potential for displacement risks over the next 10 years. A capital program is needed to attract and channel real estate and economic development investment toward community-defined objectives.

Equitable TOD as a Priority

A property acquisition and predevelopment gap-financing program aimed at affordable or mixed-income housing and commercial uses that benefit the local community provides the necessary tools. Development of an ETOD Loan Program (the Program) initially focused on Southeast Seattle light rail station areas is recommended.


Public Outreach Engagement Liaison facilitating discussion about a Southeast Seattle multi-cultural center

The proposed program outlined below strengthens equitable TOD as a priority for the City of Seattle and its funding partners. Some key findings from this report guide the design of this program including:

- The Southeast Seattle real estate market is improving. The strengthening Columbia City real estate market is proving the viability for market-rate projects in Southeast Seattle.
- Affordable housing is needed. Low-income households (50-80 percent AMI) living in market-rate units are vulnerable to displacement as rents escalate.
- Economic development is needed. Commercial development combined with residential uses could expand the local economic opportunities for residents and support local businesses.
- Limitations exist on permanent public funding sources. This suggests exploring new innovative development models needing less funding from the City of Seattle.

Program Objectives

Work with public and private funders to produce equitable development at Southeast Seattle light rail station areas through transit-oriented development projects.

Initially, work during the HUD grant timeframe (ending in 2014) will focus on providing acquisition funding to acquire sites and/or providing pre-development funding to help new projects move into construction. Beyond the HUD grant timeframe, work will focus on securing permanent funding for projects previously assisted under the Program as well as continuing acquisition/pre-development as funding allows. Ultimately for the Program to be successful, projects will need to access permanent funding and be constructed.

Principles of Equitable Development[13]

Those borrowing through the ETOD Loan Program will be required to demonstrate how their proposed project addresses the principles of equitable development, shown below.

- **Advance economic opportunity.** Promote local economic development and entrepreneur opportunities, enhance community-serving establishments, and increase quality living wage jobs for people in all neighborhoods.
- **Prevent displacement.** Develop policies and programs that allow anyone who wants to live in the community to do so and discourage displacement of viable small businesses that serve community needs.
- **Preserve and expand affordable housing options.** Create healthy, safe and affordable housing for all family sizes and incomes in all neighborhoods.
- **Understand and respond to local context.** Respect local community character, cultural diversity, and values. Preserve and strengthen intact neighborhoods, building upon their local assets and resources.
- **Promote broader mobility and connectivity.** Prioritize an effective and affordable public transportation network that supports transit-dependent communities and provides equitable access to core services and amenities, including employment, education, and health and social services.
- **Practice meaningful community engagement.** Require local community participation and leadership in decision-making to reflect a diversity of voices, including targeted strategies to engage historically marginalized communities. Build cultural competence and responsiveness among all stakeholders, and structure planning processes to be clear, accessible and engaging.
- **Develop healthy and safe communities.** Create built environments that enhance community health through public amenities (schools, parks, open spaces, complete streets, health care and other services), access to affordable healthy food, improved air quality, and safe and inviting environments.
- **Promote environmental justice.** Eliminate disproportionate environmental burdens and ensure an equitable share of environmental benefits for existing communities. Secure resources to mitigate and reverse the effects of environmental hazards past and present.
- **Achieve full accessibility.** Ensure any development that results from investments in the built environment is accessible and welcoming to people regardless of age, physical condition, or language.

Projects meeting the Program's overall objectives will be considered an "ETOD Loan Program" project whether or not acquisition or pre-development funding was necessary, as long as public funding or other resources (eg. 4 percent tax credit equity) helped create affordable housing.

In addition to the equitable development already underway, $7 million dollars will be available to for-profit and nonprofit developers to allow the acquisition of up to four sites requiring some amount of affordable housing and some family sized units. Other program priorities are creation of market-rate residential housing and a mix of commercial anchor tenants and dedicated small business and community space to be combined with the affordable housing.

Partners

Current partners in the ETOD Loan Program are:

- City of Seattle Office of Housing
- Enterprise Community Partners
- Impact Capital
- Rainier Valley Community Development Fund

The Washington State Housing Finance Committee and Craft 3 will be consulted when Program projects could utilize their resources.

[13] *Growing Transit Communities Equity Network's Principles of Equitable Development, ratified July 2012*


Multicultural gathering at the Filipino Community Center

Program Characteristics

Resources

The program partners will identify resources to be available over a 3–5 year period.

- Seattle Office of Housing (OH)............... $3 million
- Seattle HUD Challenge Grant................ $1 million
- Partners .... Approximately $3 million

Program Governance

The partners listed above will form a TOD Combined Funders Group (the Funders) to advise and participate in the deployment of the HUD Challenge Grant and matching funds. The resulting loan program will be called the Equitable Transit-Oriented Development Loan Program. The Funders are an affiliated group of lenders that will collaborate to combine technical and financial resources, solicit and underwrite candidate projects, and make loans in support of the Program's goals.

Funding Process

With a focus on common objectives and a simple application and funding process, the Funders will hold periodic meetings to consider applications, offer ideas and suggestions for project development, and consider which party's fund sources best suit the proposal. OH will release a Request for Proposal and jointly review proposals with the Funders starting in 2013.

Loan Products

The top priority fund use will be for property acquisition. A secondary priority will be pre-development activities. Additional funds may be available from program partners for business and commercial loans for mixed-use projects.

Equitable TOD in Southeast neighborhoods can provide insights and a path for the future of other neighborhoods.

Location

To fulfill neighborhood plan goals, investment will be exclusively in Southeast Seattle station areas (less than one-half-mile from stations; within a 10-minute walk of a station), rather than distributed along the Martin Luther King Jr. Way corridor. The I-90 station area will be program eligible.

Deed Restriction

Upon acquisition of sites utilizing OH funding, OH will execute a regulatory agreement restricting rents/incomes for all affordable housing units for a minimum of 50 years.

Loan Terms

Borrowers must identify sources of permanent financing. Initially funds made available for acquisition will come with a restriction of no more than 10 percent of permanent equity for the development to come from the Office of Housing sources. Larger sites acquired for projects, which are catalytic in nature (200 plus housing units and a commercial component), may be exempt from the 10 percent permanent equity restriction.

Project Types and Affordability Goals

The program will target acquisitions for projects providing a minimum of 20 percent of units affordable for households up to 50 percent area median income. Projects may also include market-rate residential housing. Production of some family-sized units will be required to fulfill neighborhood plan goals.

Project Types and Affordability Goals

The program will target acquisitions for projects providing affordable rents for households up to 80 percent AMI. Projects may also include market-rate residential housing. Production of family sized units will be required to fulfill neighborhood plan goals.

Commercial Space Goals

Mixed-use development is desirable but not required unless by zoning. If commercial space is required then it should be designed and marketed to attract a mix of anchor commercial tenants, local small businesses, and community organizations that will support vibrant and active station areas. Developers will be encouraged to submit proposals with an anchor tenant already committed and to partner with business technical assistance organizations to provide support for smaller tenants.

> Achieving equitable TOD requires proactive attention over many years, especially the next 10 years.

Childcare, health clinics, grocery stores, and educational institutions will be emphasized to fulfill neighborhood plan goals.

Next Steps and Timeframe

- January 2013: Create Memorandum of Understanding with objectives and procedures
- February 2013: Issue Request for Proposal

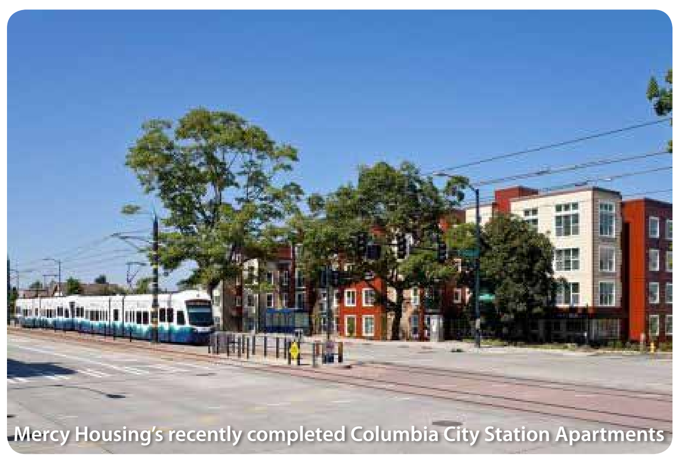
Equitable TOD Projects Underway or Recently Completed

Three equitable development projects are underway in station areas.

Mercy Housing Columbia City Apartments

Status: Fully financed and leased.

- 52 units of affordable workforce housing.
- Less than five-minute walk to light rail station with access to downtown job center.
- Walking distance to healthy foods, open space, and a business district.



Mercy Housing's recently completed Columbia City Station Apartments

El Centro de la Raza

Status: Site secured and pre-development financing secured but no permanent financing of the residential or commercial space committed at this time.

- 114 units of affordable workforce housing and 21,000 square feet of commercial space designed for a multicultural center, childcare facility and locally owned small businesses.

- Adjacent to light rail station with access to downtown job center.
- Walking distance to healthy foods, open space, a business district, and public library.

Artspace Mt. Baker Artist Lofts

Status: Fully financed and soon to be under construction with no pre-leased commercial tenants.

- 57 units of affordable artist housing and 12 commercial spaces designed for locally owned small businesses and no parking.
- Adjacent to light rail station with access to downtown job center.
- Walking distance to healthy foods and open space.


Affordable artist housing breaking ground at Mt. Baker station in 2013

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STRATEGIC ECONOMICS

Appendices

APPENDIX A: LAND USE PLANNING LEADING TO COMMUNITY CORNERSTONES

The Community Cornerstones initiative operates within an existing context of local planning:

Regional: This effort supports the Puget Sound Regional Council's regional sustainability plan, Vision 2040, which guides the development of Seattle's Comprehensive Plan, and is also the foundation for PSRC's Growing Transit Communities (GTC) effort, funded with a $5 million HUD Sustainable Communities Regional Planning Grant. GTC will conduct corridor and station area planning along three light rail corridors in our region. Community Cornerstones complements GTC by establishing a location- specific focus on equitable development and zeroing in on development patterns adjacent to the first operational stations of the ultimate transit network.

Local: Essential inputs to the Community Cornerstones program draw from a 2009-2012 Neighborhood Plan Update process recently completed in station areas in Southeast. The planning work spurred several zoning changes designed to promote sustainable mixed-use, mixed-income development and devised urban design and streetscape standards for each area to improve pedestrian access to light rail. Such zoning changes and future land use actions are a crucial input to Community Cornerstones' consideration of opportunities for equitable development of residential, commercial, and public space throughout the station areas.

The Seattle Department of Planning and Development (DPD) led this effort, and the same staff also participated in the Community Cornerstones effort. The Department of Neighborhoods led the outreach effort, using both innovative and traditional tools, from hands-on workshops to smaller scale interactive meetings with community-based organizations, as well as on-line updates and surveys. The outreach effort engaged over 1,500 residents, which resulted in vision, goals, and community-preferred strategies for each area. The outreach model won the 2010 Governor's Smart Communities Award for its use of 13 Public Outreach Liaisons from communities of color: people with disabilities, youth, and seniors sub-contracted to engage their communities in the neighborhood planning process.

The plans' goals highlighted the need for equitable TOD and heavily influenced the design of Community Cornerstones' three grant-funded initiatives. Relevant goals from each plan are discussed in Appendix E, but are broadly summarized below.

Southeast Seattle Neighborhood Plans' Goals and Strategies Addressed by Community Cornerstones:

- Growth in housing and commercial uses near light rail stations.
- Strong commercial districts including a mix of small, local and ethnic businesses.
- Housing affordable to a range of incomes and household sizes including family-sized housing.
- Multicultural community center to strengthen diversity.

APPENDIX B: EQUITABLE TOD & SOUTHEAST SEATTLE

Cited as one of the most diverse neighborhoods in the country, Southeast Seattle has a longstanding tradition of welcoming new immigrant communities. Since the 19th century people of every ethnicity have settled in Southeast Seattle to raise families, run businesses and participate in neighborhood life.[1] In 2009, the Central LINK light rail was completed, connecting Southeast to Downtown Seattle to the north and Seattle-Tacoma International Airport in the south. The LINK light rail system and planned expansion provides residents with improved access to education and employment opportunities and regional amenities. However, given Southeast Seattle's low-cost housing and the relatively low incomes of residents, the addition of the LINK light rail also raises concerns about the potential for displacement of existing residents via rising property values and rents. In neighborhoods that are continually evolving, the Community Cornerstone initiative seeks to promote equitable development around transit in the next wave of growth.

Other communities experiencing neighborhood change associated with new transit systems provide valuable lessons for Seattle. Developing a common understanding of neighborhood change is important in designing implementation strategies to facilitate equitable growth. This section provides an overview of the research on gentrification and displacement as related to new transit investments, with the goal of informing the evaluation and discussion of the these concepts throughout the report.

Summary of Research on Transit Investment and Neighborhood Change

Urban neighborhoods are continually in flux — over time, new residents are born or move in and businesses are started, expanded or relocated. At the same time, other residents move out or pass on and other businesses move out or close their doors. Southeast Seattle, with its history of diversity and longstanding tradition of welcoming new immigrant communities, exemplifies the way shifts in demographic and population can impact the face of a community over time.

Although neighborhoods are continually changing, they change in different ways. Three terms that are frequently used to describe neighborhood change in association with transit investments and TOD are **revitalization**, **gentrification** and **displacement.** Although these terms are sometimes used interchangeably, recent research highlights the value in distinguishing between patterns of neighborhood change to provide greater insight and clarity into their indicators and impacts.

- **Revitalization** refers to improvement in neighborhood income, due to an influx of new, higher-income residents or increases in income among existing residents.[2]
- **Gentrification** refers to a broader pattern of neighborhood change in lower income neighborhoods that includes improvements in income and educational attainment above regional trends, alongside rising home values and/or rents.[3]
- **Displacement** refers to a pattern of change in which existing residents are forced to leave a gentrified neighborhood because they can no longer afford the high cost of housing.[4]

Both gentrification and revitalization can be good or bad for existing residents, depending on who benefits from their impacts. Although displacement can be associated with revitalization and gentrification, recent research suggests that displacement does not always occur alongside revitalization and gentrification, or may occur in different ways in different places. For example, patterns of displacement may occur through the process of succession and replacement, as existing residents voluntarily leave the community or pass on, and are replaced by wealthier, more highly educated households.[5] Although this does not fit the typical pattern of involuntary displacement, it can have the same demographic impacts on a gentrifying community and implications for the maintenance of equity around transit.

A recent report by the Dukakis Center of Urban and Regional Policy at Northeastern University[6] provides insight into the relationship between transit investments and the potential for gentrification and displacement. Researchers found that **patterns of neighborhood change varied across transit-rich locations**.

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[1] Southeast Seattle History Project, *"The Most Diverse Neighborhood in the Universe?"* City of Seattle Department of Neighborhoods.
[2] Chapple, Karen. "*Mapping Susceptibly to Gentrification: An Early Warning Toolkit* ." Center for Community Innovation, University of California, Berkeley; 2009.
[3] Pollack, Stephanie, Bluestone, Barry and Billingham, Chase "*Maintaining Diversity in America's Transit-rich Neighborhoods.*" Dukakis Center for Urban and Regional Policy, Northeastern University; 2010
[4] Ibid.
[5] Pollack, Bluestone and Billingham. "*Maintaining Diversity"* (see p.2, footnote 3)
[6] Ibid.

- Many locations experienced patterns of change similar to the region, while others experienced demographic and economic changes consistent with gentrification.
- In gentrifying neighborhoods, **the addition of transit led to higher-cost housing, wealthier residents and greater rates of vehicle ownership**.
- Neighborhoods with **a high share of renters are more likely to gentrify**, due to the rising rents and increasing shares of owner- occupied units. Renters who remain will face a higher housing cost burden.
- Despite evidence of gentrification, it was **difficult to determine if new transit investments resulted in displacement of existing residents**. For example, transit investments and gentrification were **not associated with a change in neighborhood racial composition**.

Although the Dukakis Center report found clear evidence of gentrification associated with new transit investments, it was unable to determine if displacement occurred as a result. The report also found that the impact of new transit investments varies by location, with some locations experiencing minimal gentrification.

This finding is consistent with the results of a 2011 report from the Center for Transit-Oriented Development (CTOD), which analyzed development patterns along three new transit lines.[7] The report found that while there had been a significant amount of development along all transit lines, development had occurred unevenly within the corridors. New development was most likely to locate near downtowns and other employment centers. City-led planning processes, infrastructure investments, and other public sector efforts were found to play an important role in influencing the location of development.

The uneven distribution of development along transit corridors provides some insight into the varying impact of new transit on neighborhood change. Both new development and gentrification are driven by increasing demand for housing in a neighborhood that has been made more desirable by transit, however, transit investments do not accelerate growth evenly. The findings of the 2011 CTOD study suggest that neighborhoods that are close to downtowns or other employment centers – such as inner Southeast Seattle — may be particularly likely to gentrify and, potentially, experience displacement of existing residents.

Other indicators of the potential for gentrification come from a 2009 report from the Center for Community Innovation at the University of California, Berkeley.[8] This report included a multivariate regression analysis to identify factors that predispose a neighborhood to gentrification in the Bay Area from 1990 to 2000; it did not address the factors associated with displacement. The factors that were most likely to have a positive relationship with gentrification include:

- **Availability of amenities such as youth facilities and public space, as well as access to public transportation** were the factors most likely to be associated with neighborhood gentrification from 1990 to 2000.
- **Income diversity and a high share of rental households** are also associated with a propensity to gentrification. Rental households are more likely to turn over than ownership households, which may buffer the process of gentrification in some communities.
- Areas with a **high concentration of minority and non-family households** are also more likely to experience gentrification, compared to neighborhoods with a high share of non-Hispanic white and family households.
- The **presence of dense, multi-family housing** is also associated with gentrification, possibly due to the fact that multi-family homes are more likely to be renter-occupied, compared to single-family homes.

The research summarized in this section provides clarity about the patterns of neighborhood change typically experienced around transit and insight into the factors that serve as indicators of recent gentrification. The findings in this section set the stage for the discussion of demographic and economic change in Southeast Seattle in following appendices. They also point to the need for other types of strategic action and investment to ensure that transit improvements benefit the communities they serve.

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[7] Center for Transit Oriented Development. *Rails to Real Estate: Development Patterns Along Three New Transit Lines*. 2011. Strategic Economics is a partner in the Center for TOD & firm staff are the authors of this report.

[8] Chapple, Karen. "*Mapping Susceptibly to Gentrification: An Early Warning Toolkit*." Center for Community Innovation, University of California, Berkeley; 2009.

APPENDIX C: NEIGHBORHOOD CHANGE IN SOUTHEAST SEATTLE IN THE 2000S

This chapter examines demographic change in Southeast Seattle over the past decade, with the goal of providing context for and informing fund goals and objectives related to housing needs. The demographic findings in this chapter are organized to assist in the identification of station areas, which have experienced elements of gentrification over the past decade and are particularly susceptible to residential displacement in the future. The chapter begins by identifying the need for affordable housing in Southeast Seattle through the analysis of existing incomes and change in income over time. The next two sections contain an overview of demographic patterns and trends, with a focus on those most closely associated with gentrification and displacement.

Several significant national events influenced demographic change in the2000s: the minor economic recession of the early 2000s, the subsequent recovery and exaggerated run-up in the housing and mortgage finance market in the mid-2000s, followed by the major global recession of 2008 to 2009 precipitated by this excess. Locally during this same time period, two significant HOPE VI public housing redevelopment projects were concluded or initiated, and the Central LINK light rail, with five stations in Southeast Seattle, was completed in 2009.

The multitude of exceptional broad and local changes complicates interpretation of demographic trends during this time period, especially as they relate to housing markets. Both this and the following chapter analyzing current real estate market conditions in Southeast aim examine what can be understood at this time about how the station areas are changing and are likely to change in the future. This understanding is intended to provide a basis for City, community and non-profit housing and financing partners to assess the need for a fund.

Data sources include the U.S. Census and American Community Survey. All tables include data at the station area, City of Seattle and regional levels, aggregated from the block group level. All maps show the Southeast Station areas in the context of the City of Seattle, illustrated at the Census tract level. For the purpose of this analysis, the region is defined as the Seattle metropolitan district, which includes Snohomish and King counties. Mapping and data tables were provided by Reconnecting America, Strategic Economics' partner in the Center for Transit-Oriented Development.

SUMMARY OF FINDINGS

This section provides a summary of key findings from the Neighborhood Change analysis. A more detailed summary, including tables and figures, follows.

Demographic factors suggest that most Southeast Seattle station areas have a heightened vulnerability to displacement. Southeast Seattle's high shares of low-income residents and rental households suggest that local residents would be at risk of displacement should housing costs rise. Given that Southeast is also home to a larger share of households without cars, many households are at risk of losing their primary mode of transportation if forced to relocate to areas with fewer transit choices.

Elements of gentrification associated with displacement may already be occurring in portions of the Rainier, Beacon Hill, Mount Baker, and Columbia City station areas. Income and demographic change indicators suggest that elements of gentrification — including rising incomes, reduction in non-white and foreign-born populations, and increasing levels of educational attainment — are already occurring around the northernmost station areas. If, over time, gentrification leads to rising housing costs, residents of these station areas will be vulnerable to displacement.

IDENTIFYING NEED

Existing patterns of income distribution and change over time provide insight into the areas, which have the highest number of residents in need of affordable housing. In many area — and particularly those with rising housing costs — this can translate into a greater need for subsidized housing to protect local residents from displacement. This section contains an overview of key findings around existing and changing income patterns in Southeast Seattle, the City and the region.

Low median incomes in almost all Southeast Seattle station areas suggest a strong need for low-cost housing. With the exception of Mt. Baker, all Southeast Seattle Station areas have median incomes well below both the regional and City averages (Figure 1). Othello, Rainier Beach and Rainier station areas have the lowest median incomes. In the case of the Othello, the low median income likely reflects the presence of the New Holly Hope VI project, which is partially located in the station area. As illustrated in Figure 1, even the relatively higher income Beacon Hill, Mt. Baker and Columbia City station areas have sizable pockets of lower income households. In the Rainier and Mt. Baker station areas, Rainier Avenue acts as a dividing line between higher and lower income households.

The impact of the recession on household income varied significantly between Southeast Seattle station areas (Figure 2). Household incomes in Rainier, Othello and Rainier Beach dropped between 10 to 25 percent in the 2000's, a significant decline compared with incomes at the regional and City level, which remained steady. In the same time period, household incomes in the Mt. Baker and Columbia City station areas (particularly in the western portion of Columbia City) increased by 16 to 17 percent and the median household income in the Mt. Baker station area surpassed that of the City by 13 percent.

Figure 1: Median Household Income, 2005–2009

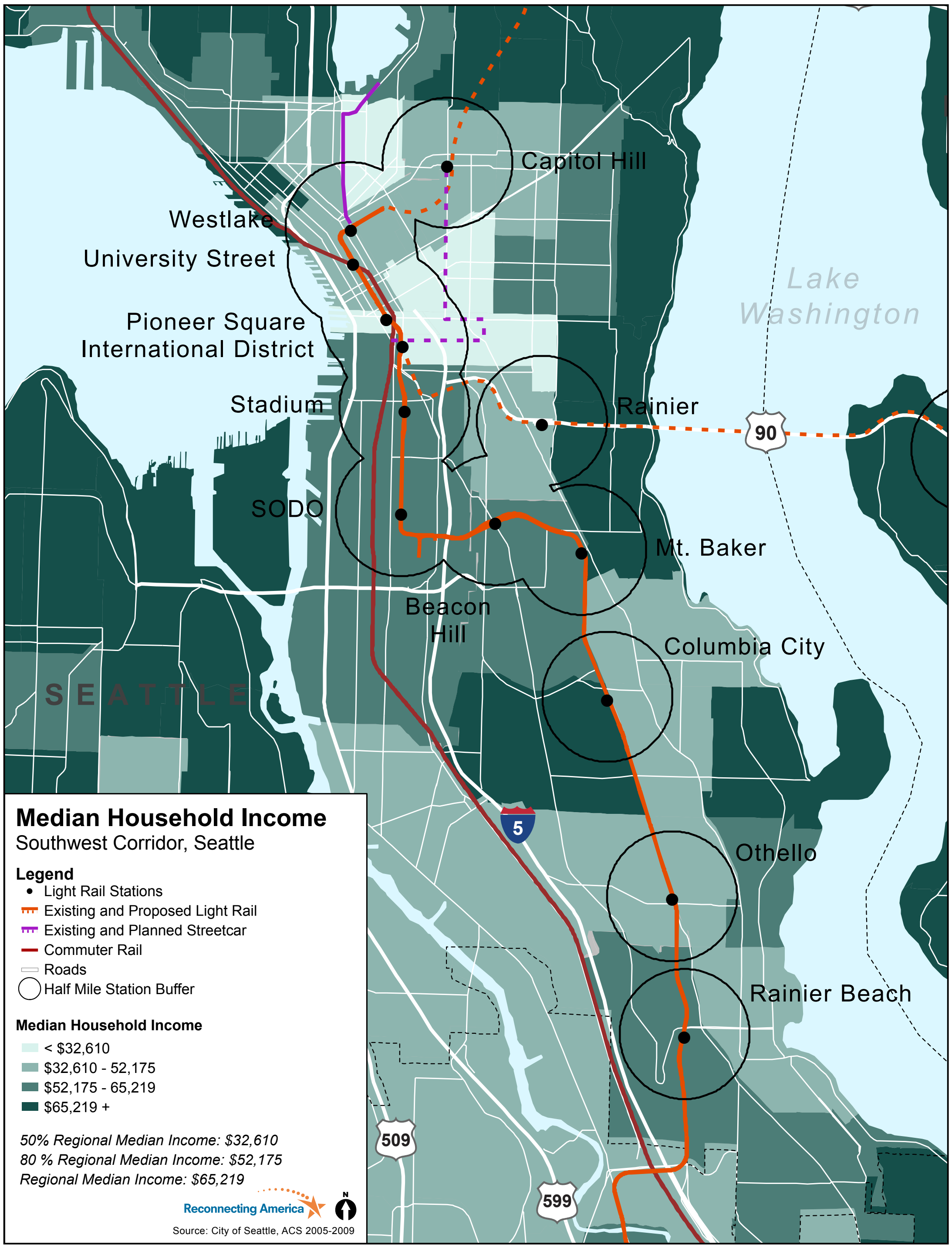
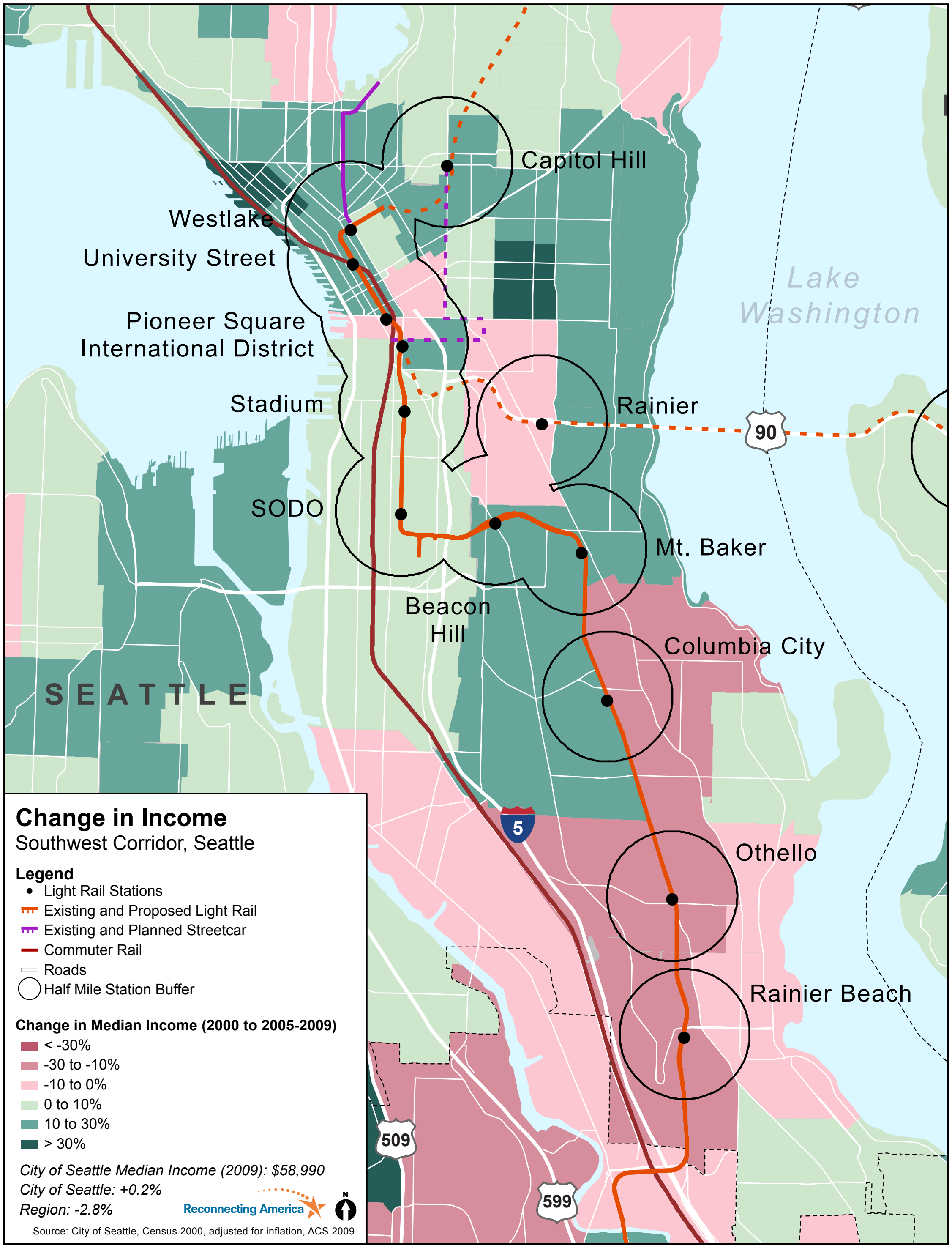


Figure 2: Change in Median Household Income, 2005–2009



DEMOGRAPHIC SHIFTS

Demographic patterns and trends, including race, foreign-born population, household size and educational attainment, shed light on the changes that have occurred in Southeast Seattle over the last decade. This section provides an overview of demographic shifts with the goal of developing a better understanding of the forces that are shaping Southeast Seattle.

Although Southeast Seattle station areas continue to have a larger non- white population compared to the region and City, all station areas lost non-white residents over the last decade. In contrast with the region and City, which experienced an increase in non-white residents between 2000 and 2005-2009, all Southeast Seattle station areas lost non-white residents in that time (**Figures 3, 6 and 7**). Beacon Hill and Columbia City experienced the largest decrease, followed by Mt. Baker and Rainier Beach. The Othello and Rainier stations remained relatively steady. The areas with the strongest gains in non-white populations include the Othello and Rainier Beach stations west of Martin Luther King Boulevard. This portion of the Othello station area includes portions of the New Holly Hope VI project.

The share of foreign-born population in the Beacon Hill, Othello and Mount Baker station areas decreased from 2000 to 2005-2009. The Beacon Hill and Othello station areas experienced the largest decreases in foreign-born residents, followed by a more modest decline in Mount Baker (**Figures 4, 8 and 9)**. Although both the Columbia City and Rainier Beach station areas lost absolute numbers of foreign-born residents, their share of foreign-born residents increased from 2000 to 2005-2009, reflecting an overall decrease in station area population. In both the Mount Baker and the Columbia City station areas, losses appear to be concentrated in the western portion of the station areas, with the remainder of the station areas gaining new foreign-born residents in that time.

Figure 3: Non-White Population by Station Area, 2000 and 2005-2009

Station Area	2000		2005-2009		2000 to 2005-2009	
	#	%	#	%	# Change	% Change
Rainier	1,641	32%	1,955	35%	314	19%
Beacon Hill	2,910	43%	1,683	24%	-1,227	-42%
Mount Baker	1,858	34%	1,598	31%	-260	-14%
Columbia	2,556	40%	2,269	41%	-287	-11%
Othello	3,446	50%	2,514	33%	-932	-27%
Rainier	2,155	42%	2,076	46%	-79	-4%
Region	383,824	13%	540,881	16%	157,057	41%
City	94,952	17%	103,173	17%	8,221	9%

Source: Census 2000; ACS 2005-2009; CTOD Database; Reconnecting America, 2012.

Figure 4: Foreign-born Population by Station Area, 2000 and 2005-2009

Station Area	2000		2005-2009		2000 to 2005-2009	
	#	%	#	%	# Change	% Change
Rainier	3,810	74%	3,567	64%	-243	-6%
Beacon Hill	5,267	78%	3,351	48%	-1,916	-36%
Mount Baker	3,716	68%	2,977	57%	-739	-20%
Columbia City	5,305	84%	3,789	69%	-1,516	-29%
Othello	6,246	91%	6,209	83%	-37	-1%
Rainier Beach	4,593	89%	3,703	82%	-890	-19%
Region	732,198	24%	936,627	28%	204,429	28%
City	181,205	32%	186,464	31%	5,259	3%

Source: Census 2000; ACS 2005-2009; CTOD Database; Reconnecting America, 2012.

Although most Southeast Seattle station area households are larger compared to the City and regional averages, households sizes are on the decline. Household sizes in Southeast Seattle station areas range from 2.45 to 3.26 persons per household[1], with the smaller households located in the northernmost station areas. Although most household sizes are well above the City and regional averages (2.06 and 2.48, respectively[2]), all Southeast station areas with the exception of the western half of Rainier Beach station area saw a decrease in household size from 2000 to 2005-2009. The southeast quadrant of the Columbia City station area saw a decrease of 0.2 to 0.41 persons per household;[3] the remaining shrinking station areas saw a decrease in size of up to .19 persons per household.

All Southeast Seattle station areas have experienced an increase in highly educated residents from 2005 to 2009. Although the Southeast Seattle station areas have a relatively low share of highly educated residents compared to the City, the share has increased since 2000, in keeping with City and regional trends. Beacon Hill, Mount Baker, Rainier, Columbia City and Othello station areas saw gains in excess of broader trends (**Figures 5, 10 and 11)**. The northernmost station areas – Rainier, Beacon Hill and Mount Baker – contain the largest shares of highly educated residents. Between 2000 and 2005-2009 the only areas to lose share of highly educated residents were the western portions of the Rainier Beach and Othello station areas.

[1] Growing Transit Communities Partnership "*Existing Conditions Report*" First Draft Release; May 2012

[2] U.S. Census, 2010.

[3] Strategic Economics, "Puget Sound Region Transit-Oriented Development Market Study"; June 2012

Figure 5: Residents with a Bachelors Degree or Higher, 2000 and 2005–2009

Station Area	2000		2005-2009		2000 to 2005-2009	
	#	%	#	%	# Change	% Change
Rainier	990	27%	1,317	33%	327	33%
Beacon Hill	1,194	26%	1,720	32%	526	44%
Mount Baker	1,268	31%	1,674	42%	405	32%
Columbia City	782	19%	1,079	28%	297	38%
Othello	652	15%	1,019	21%	368	56%
Rainier Beach	511	16%	553	19%	42	8%
Region	661,216	33%	820,950	37%	159,734	24%
City	193,322	47%	237,671	54%	44,349	23%

Source: Census 2000; ACS 2005-2009; CTOD Database; Reconnecting America, 2012.

Figure 6: Non-white Population, 2005-2009

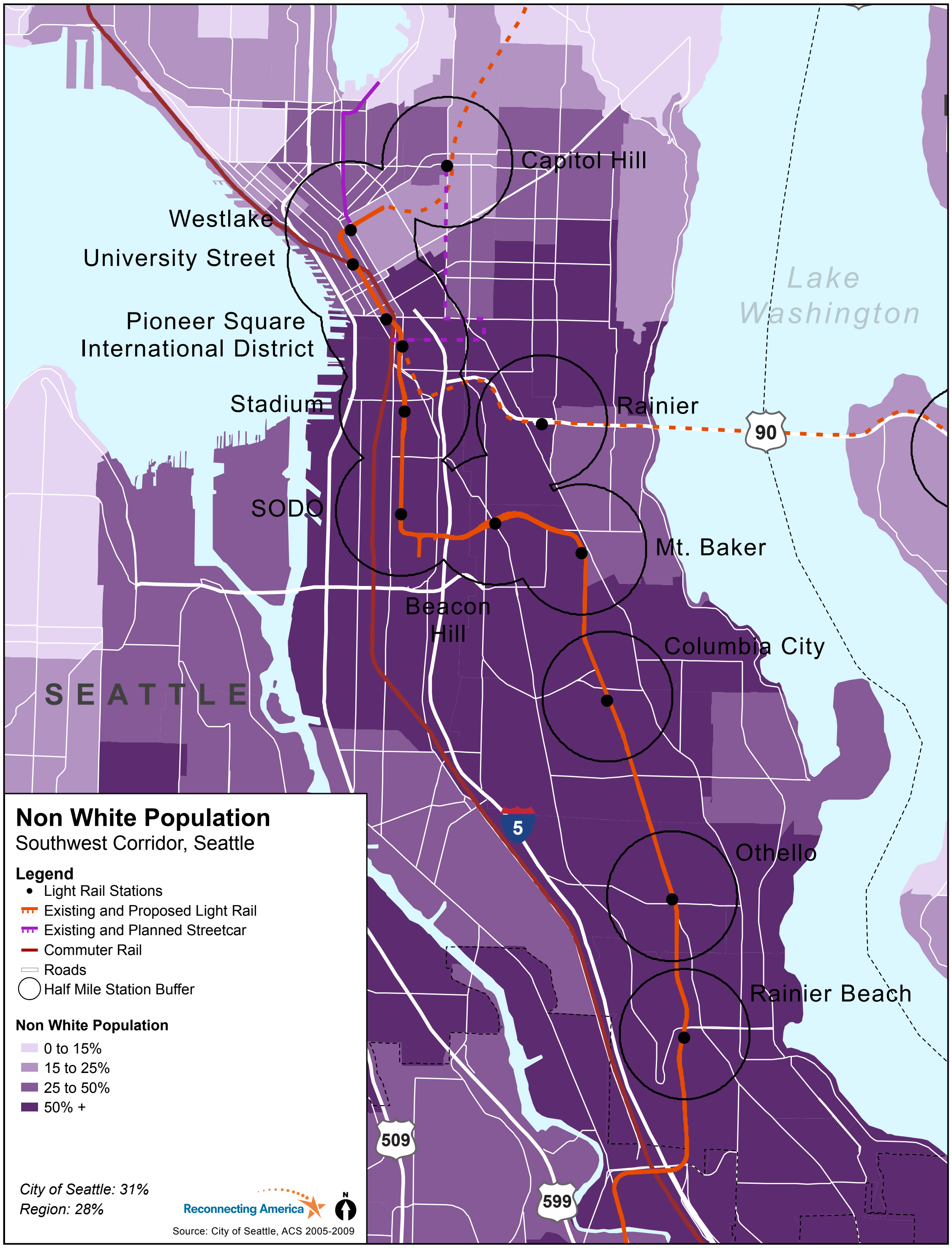


Figure 7: Change in Non-white Population, 2005-2009

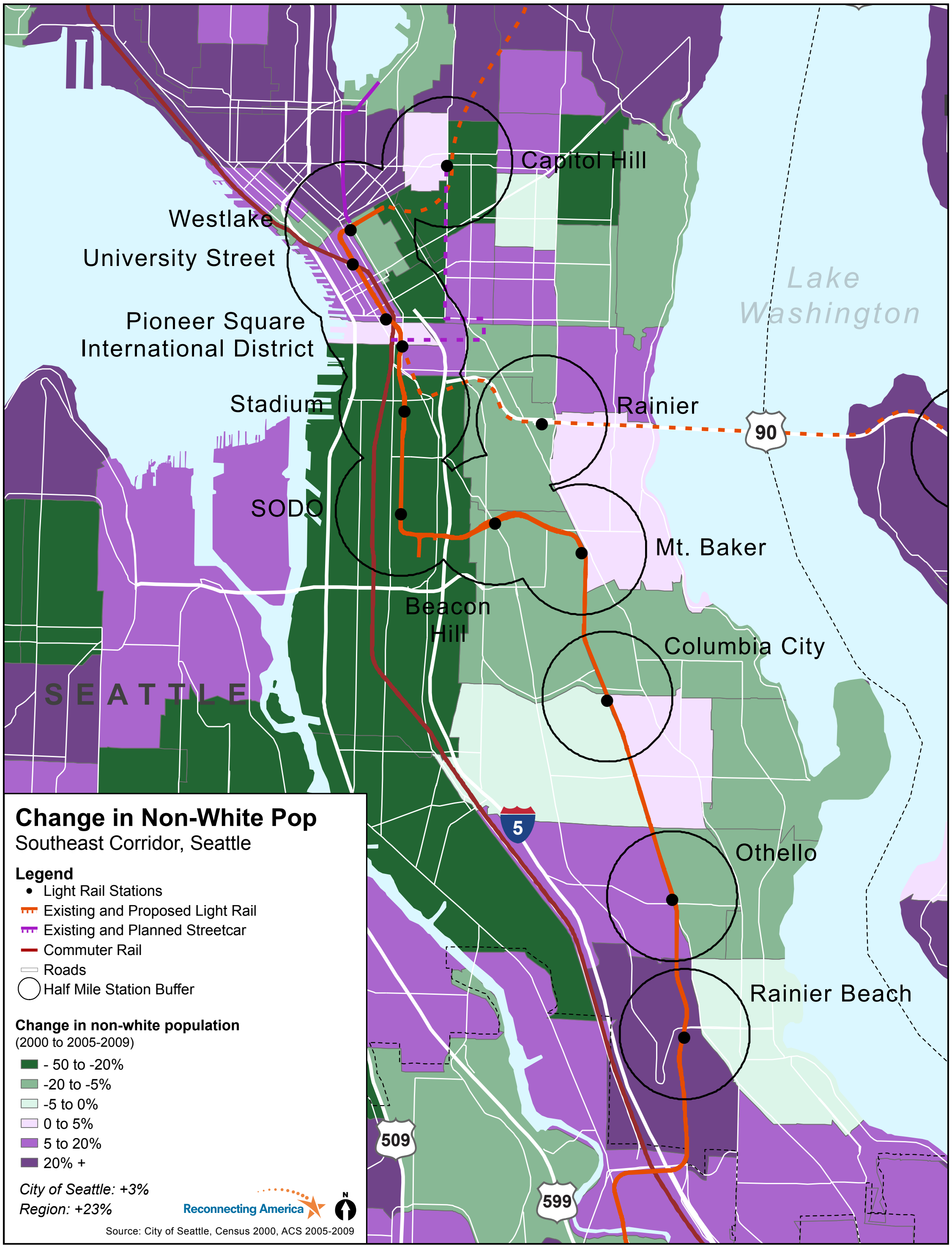


Figure 8: Foreign-born Population, 2000 to 2005-2009

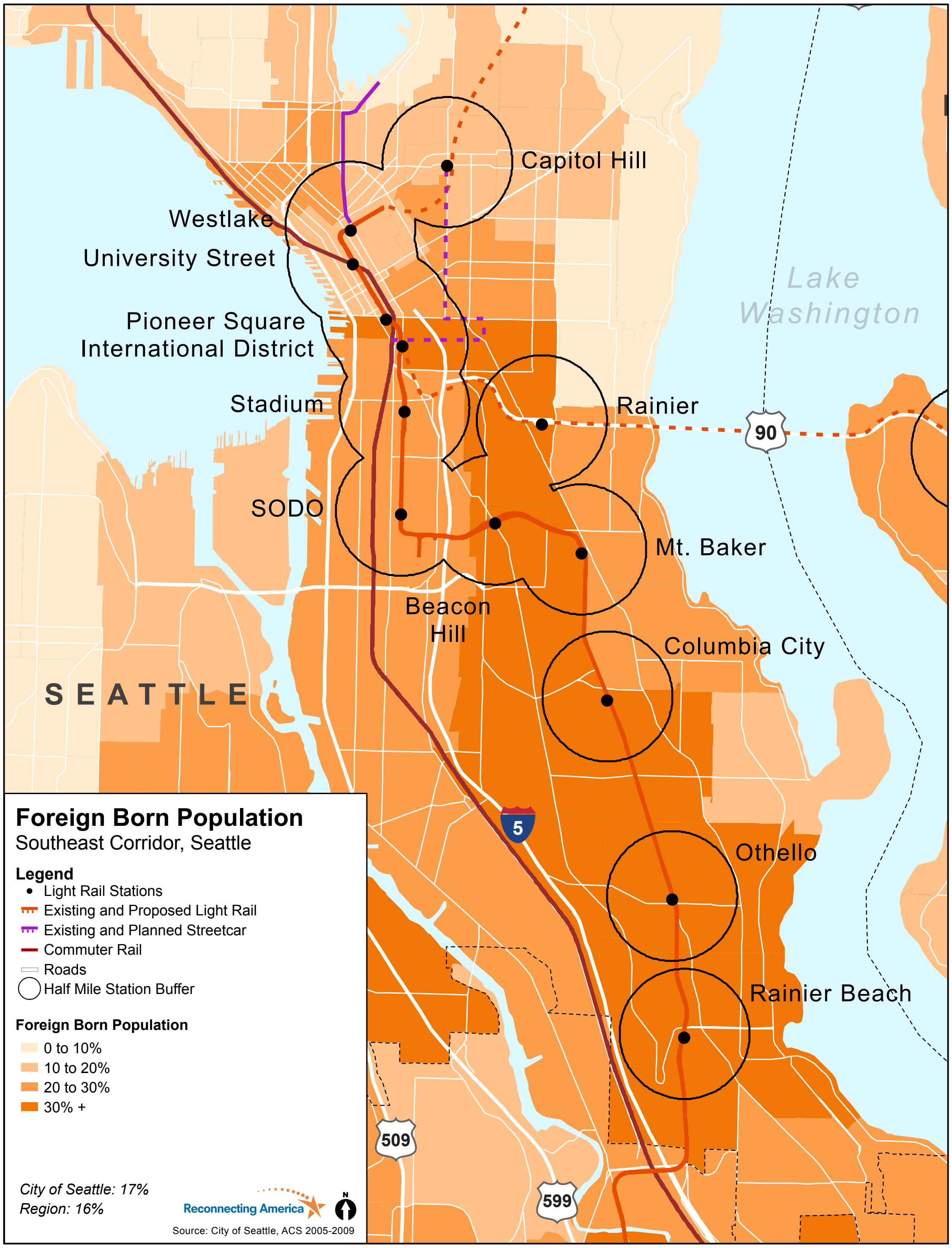


Figure 9: Change in Foreign-born Population, 2000 to 2005-2009

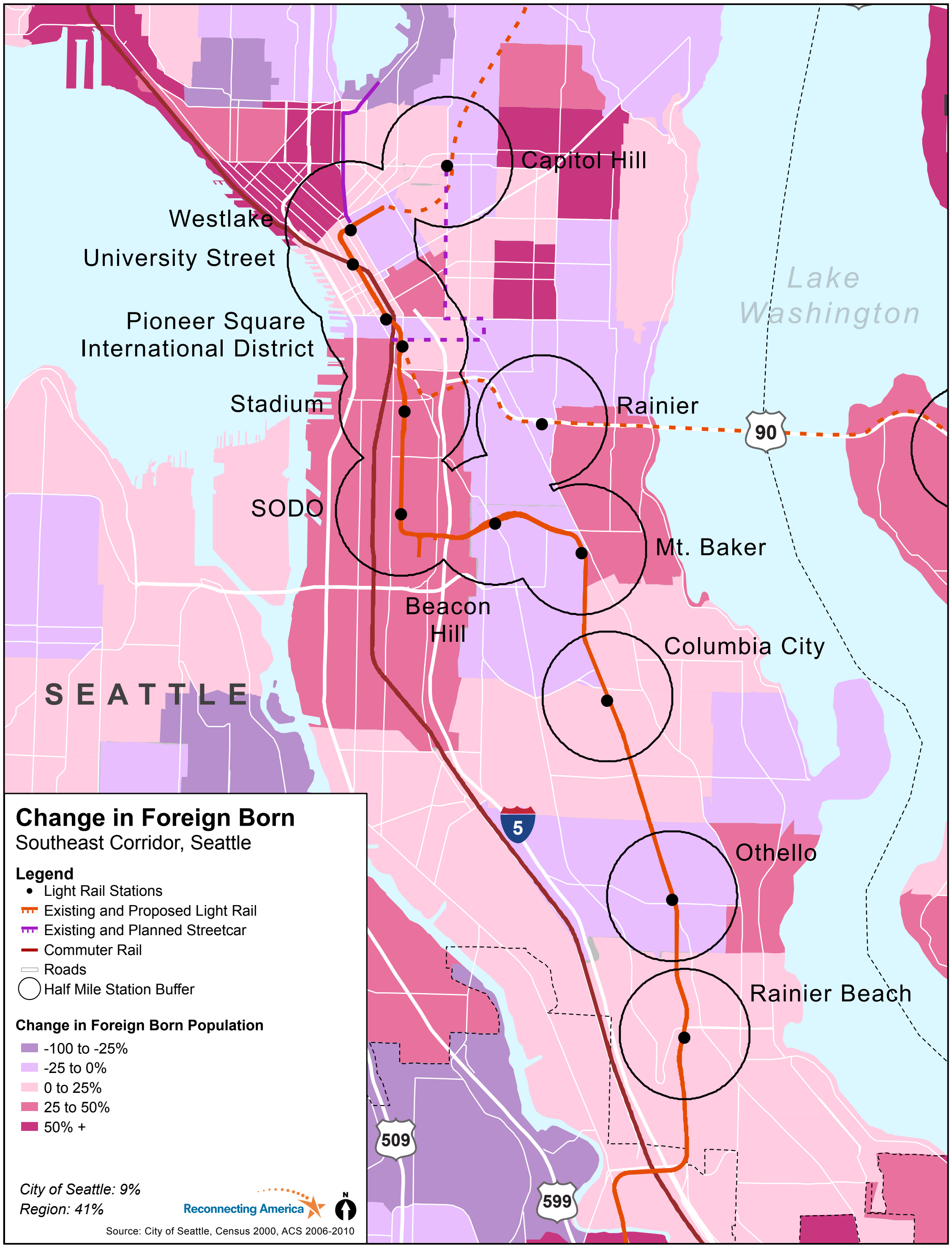


Figure 10: Highly Educated Residents, 2005-2009

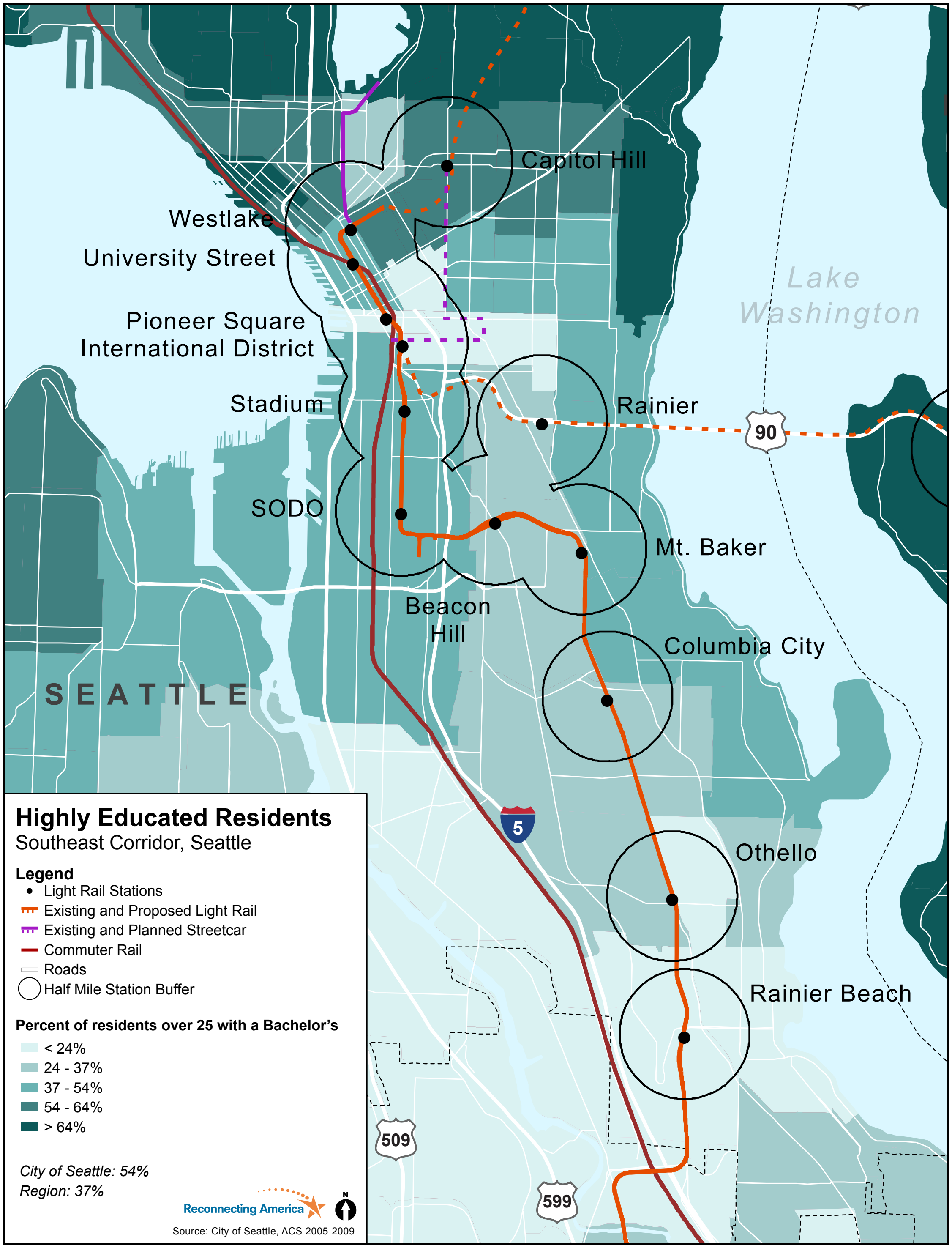
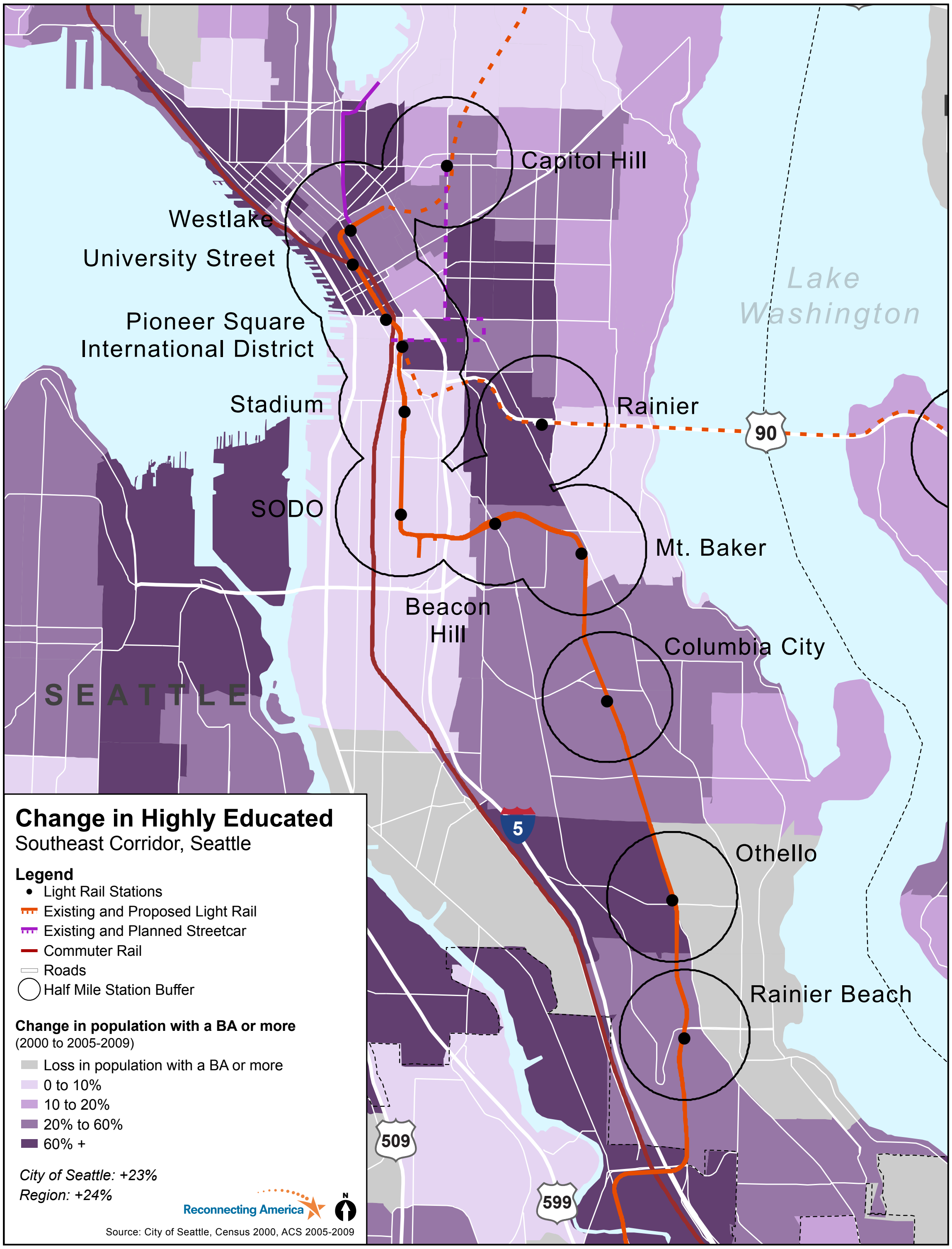


Figure 11: Change in Highly Educated Population, 2005-2009



RESIDENTIAL VULNERABILITY TO DISPLACEMENT

As noted in **Appendix B,** research has shown that share of renter-occupied housing units is a primary indicator of vulnerability to displacement. Residents of renter-occupied housing units are more likely be displaced by rising housing prices or condominium conversions than existing homeowners. For households, which rely on public transit, displacement from transit-rich locations can have a disproportionately negative economic impact. This section examines tenure and auto-ownership patterns in Southeast Seattle, the City and the region as a whole with the goal of providing insight into residential vulnerability in Southeast Seattle.

Like the City of Seattle, most Southeast Seattle station areas have a higher share of renter-occupied households compared to the region. The City of Seattle has a higher share of renter households compared to the broader region (50 percent vs. 37 percent, respectively) (**Figure 12)**. The share of rental households in the Rainier, Beacon Hill, Othello and Columbia City station areas is on par with the City average, while Mount Baker and Rainier Beach have a lower share of renter-occupied households and are more in line with the regional average.

The Columbia City and Rainier Beach station areas experienced a decrease in rental households from 2000 to 2005 – 2009. The decrease in renter households in Columbia City may reflect the period of construction for the Rainier Vista HOPE VI project, during which renter public housing households were temporary located elsewhere. In both Columbia City and Rainier Beach, the decrease also likely includes previously renter-occupied single family homes that were sold and occupied by new owners during the housing market and mortgage finance bubble, mid-decade.

The Beacon Hill, Rainier and Othello station areas experienced an increase in renter households from 2000 to 2005-2009. These station areas all gained rental households over the last decade, bringing them more in line with the City average of 50 percent rental households (**Figures 13 and 14**). The growth of renter-occupied households in Rainier and Othello station areas may reflect new affordable rental units built during that time in the New Holly Hope IV redevelopment, and smaller projects such as the Artspace Hiawatha Lofts.

Most Southeast Seattle station areas – particularly those to the north – contain a relatively high share of households with no cars (Figure 15). No-car households are generally dependent on walking, biking and public transit for transportation to work and other locations. For these households, living near transit can be a crucial factor in improving employment and educational choices, as well as their ability to access regional services and cultural institutions. Displacement from transit-rich locations would likely have a disproportionally negative economic impact on no-car households.

Figure 12: Renters by Station Area, 2000 and 2005-2009

Station Area	2000		2005-2009		2000 to 2005-2009	
	#	%	#	%	# Change	% Change
Rainier	961	49%	1,122	47%	161	17%
Beacon Hill	1,098	44%	1,359	53%	261	24%
Mount Baker	643	33%	688	34%	45	7%
Columbia City	1,171	52%	956	48%	-215	-18%
Othello	1,103	51%	1,270	51%	167	15%
Rainier Beach	700	44%	489	35%	-211	-30%
Region	453,170	38%	489,566	37%	36,396	8%
City	133,334	52%	139,673	50%	6,339	5%

Source: Census 2000; ACS 2005-2009; CTOD Database; Reconnecting America, 2012.

Figure 13: Percent Renters, 2005-2009

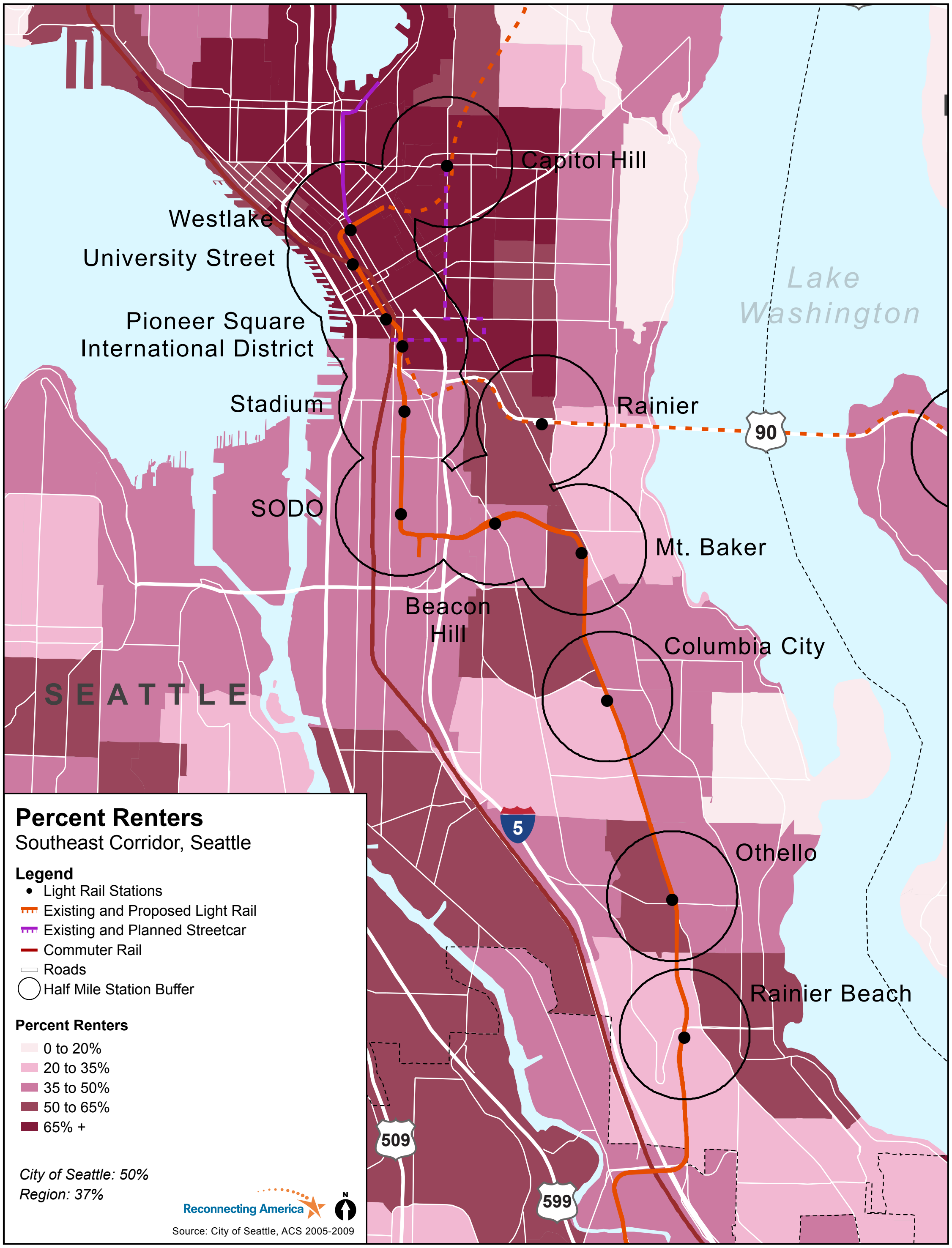


Figure 14: Change in Percent Renters, 2000 to 2005-2009

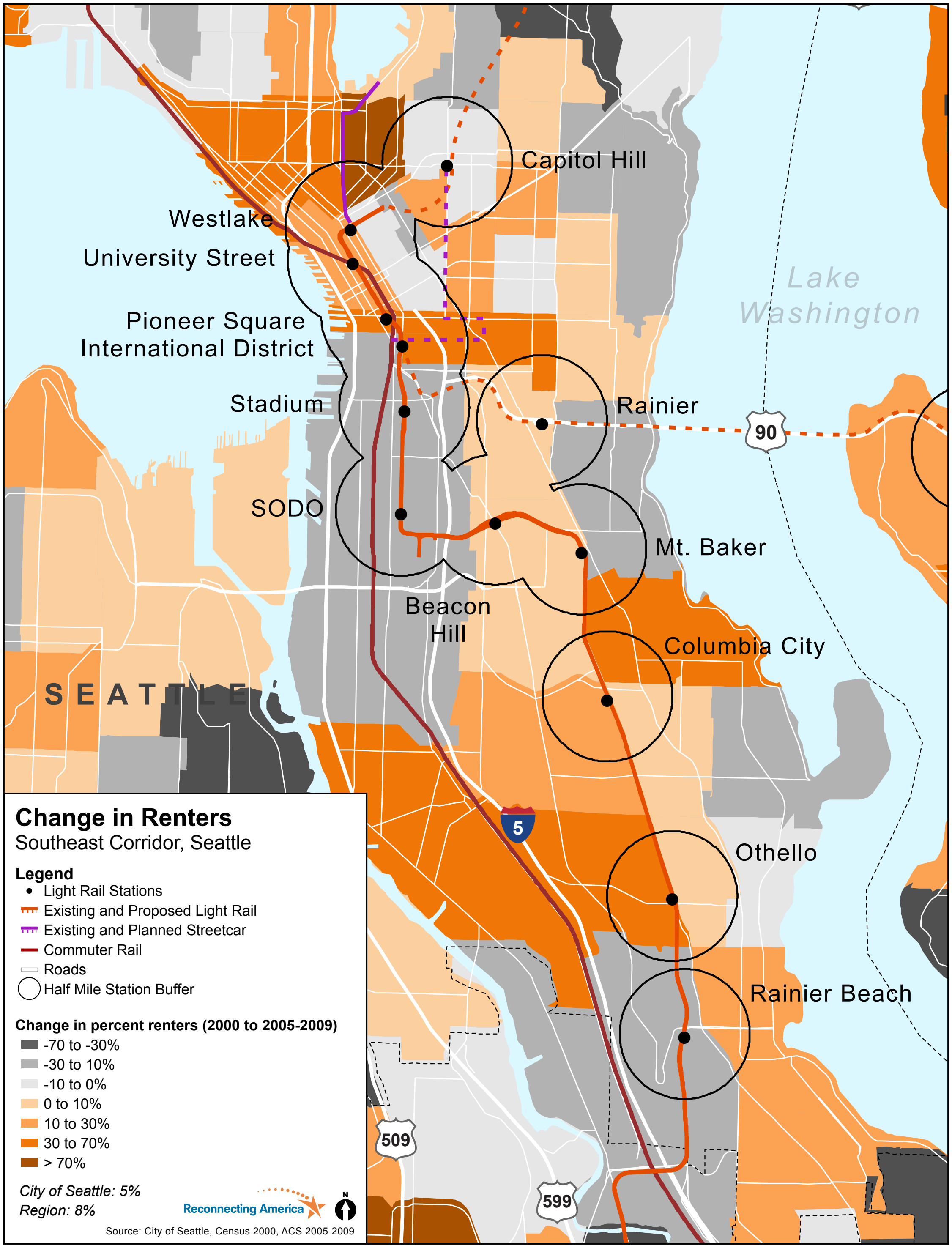
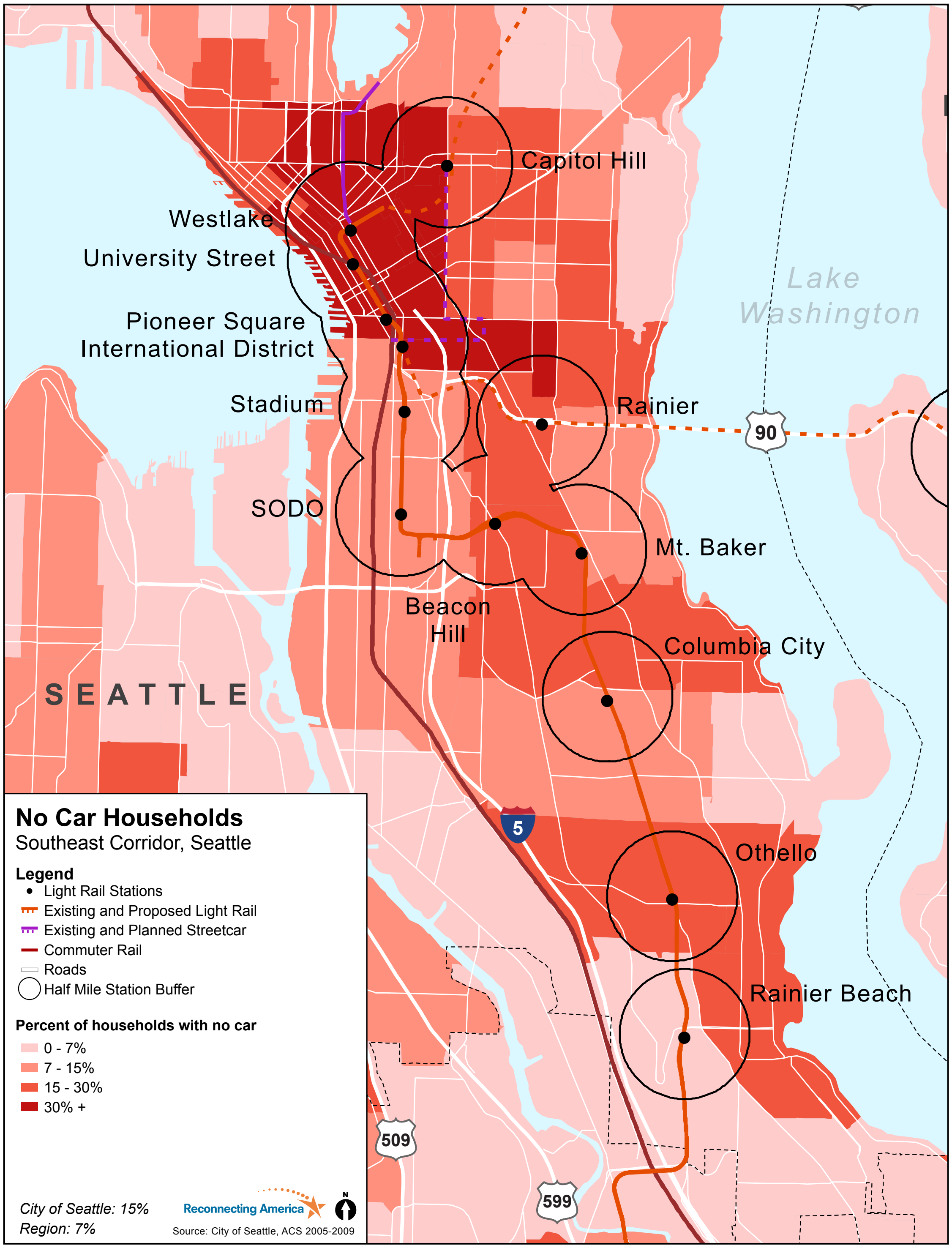


Figure 15: No- car Households, 2005-2009



APPENDIX D: CURRENT REAL ESTATE MARKET CONDITIONS, TRENDS & LONGER-TERM POTENTIAL

The following section analyzes recent multi-family housing and retail market conditions and trends in the Southeast Seattle station areas, as well as the longer-term transit-oriented development potential of the area. Examination of real estate conditions is included in order to better understand both the market opportunities and challenges for equitable transit-oriented development, in particular mixed-income and mixed-use projects. This analysis draws on both quantitative data regarding rent and sales pricing in Southeast station areas in comparison with city-wide benchmarks, as well as in-depth interviews with 27 key Southeast real estate development informants. Informants include affordable housing and market-rate developers with recent projects in or near the station areas, brokers currently leasing and selling commercial and multi-family properties in Southeast Seattle, local property owners, and community, small business and commercial lenders currently lending in Southeast.

MULTI-FAMILY HOUSING MARKET

The Southeast Seattle housing market, both within the station areas and as a whole, is comprised largely of detached single-family homes, both for sale and for rent. Multi-family housing and attached single-family development of sufficient density to support use of transit and activate retail districts near transit is limited. As previously described, almost the entirety of multi- family development built within the last 15 plus years in Southeast was made up of income-restricted affordable housing financed through subsidized investment and debt sources. Very recently, select station areas, i.e. Othello and Columbia City stations, have seen pioneering market-rate apartment development activity.

While Southeast Seattle did experience single-family housing price escalation during the national for-sale housing and mortgage market bubble in the mid-2000s, local market conditions, development capacity and the quality of public realm infrastructure were not strong enough to attract the condominium development built in other previously largely single family neighborhoods at the time, such as Ballard. The collapse of the secondary mortgage market in late 2007 and following expansive economic recession, have returned the King County for-sale housing market as a whole to pre-2000 conditions. Over the past two years, the urban apartment market has benefitted from the contraction of mortgage lending and select Seattle neighborhoods, such as inner West Seattle, Capitol Hill, Roosevelt, Belltown, Lower Queen Anne, and Columbia City are currently experiencing a wave of apartment development construction and pipeline proposals. This trend has not, however, reached beyond amenity and activity-rich areas.

Summary Findings

- **Rent values for existing apartments in the Southeast station areas are below rent levels in Seattle as a whole and are generally at what is affordable to local households.** Existing apartment stock is limited and older; the current market for apartments in the area is weak, in part due to the limitations of supply. Portions of the Columbia City, Beacon Hill and Mt. Baker station areas command somewhat higher rents, and support upgrades to older apartment stock resulting in increased rents.
- **New and proposed high-quality multifamily & mixed-use development projects are pioneering a new market for higher density, smaller apartments units in Columbia City.** These projects are broadly anticipated to succeed given the past 15 years of on-going revitalization in the area, and the qualifications of the development companies involved. Success of these projects could positively impact the value of surrounding real estate in the Columbia City retail district, potentially reaching west toward the light rail station.
- The market for higher-density, transit-supportive housing is only very recently being established in Southeast. **Large projects that bring significant numbers of units (i.e. greater than 200 units) to market in one phase are at risk of slow absorption and rent reductions.** This is particularly true of projects in locations lacking a well-used and attractive public realm.
- **Higher-density market-rate or affordable condominium development is unlikely in the foreseeable future**. Expansion of affordable ownership opportunities would be more feasibly accomplished via smaller-scale low-rise townhome projects on assembled single-family lots in the neighborhoods. Zoning for this type of development (LR2 and LR3) is currently limited to the first one to three blocks off of the commercial arterials at most. For an

affordable ownership strategy to succeed via densification of surrounding neighborhoods, additional areas that are currently zoned for single- family (SF 5000) would need to be converted to low-rise designations. However, the Department of Planning and Development has just completed a round of neighborhood plan updates in Southeast, and residents did not generally support the expansion of attached housing further into the single family neighborhoods.

- The presence of light rail isn't the only, or even primary, factor currently driving the attractiveness of residential locations in Southeast. **Light rail can positively influence the value of housing near stations[12], but the presence of light rail does not guarantee the success of nearby higher density development**. The types of households that value light rail access and higher density housing also tend to more strongly prefer attractive, vital and walkable physical and social environments than other households.[13] In the near-term (i.e. three years or less), those Southeast station areas such as Columbia City that already include neighborhoods and commercial districts with these qualities are far more likely to support successful market-rate TOD. For market-rate TOD to succeed in those station areas or portions of station areas that lack an active and safe public realm in the mid-term (three to eight years), significant non- housing investments are needed. This issue is discussed in more detail regarding each station area in Chapter IV.

Apartments

Figure 16 below provides recent apartment rental data for the currently limited inventories in the Southeast station areas, in comparison with the City and County as a whole. While there is some variation across the station areas, average market-rate asking rent for all unit types is significantly below both Seattle and King County averages, with the exception of two-bedroom units in Mt. Baker. Average station area asking rent for studios is 17 percent below city-wide average, 23 percent below for one-bedrooms, and 24 percent below for two-bedrooms. Amongst the station areas, Beacon Hill and Columbia City have slightly higher asking rents, while Othello and Rainier are slightly lower and Mt. Baker apartment pricing is split amongst unit types and reflects the distinction amongst neighborhoods included in the station area. Anecdotally, affordable and market-rate developers referred to area rent levels roughly in keeping with the survey data with the exception of the Columbia City business district, where rents of approximately $1.60 per square foot per month were cited and projected rents for the new GreenHouse apartment project are over $2.00 per square foot (depending on the size of the unit, an estimated approximately 20 to 25 percent higher than the survey data for the entire Columbia City station area).

Two affordable housing developers suggested that existing market rents in Rainier Valley, outside of Columbia City, are low enough to be affordable to households at approximately 50 to 60 percent of area median income, which would make them competitive with subsidized units restricted to very low and low income households. **Figures 17 to 20** on the following page illustrate this.

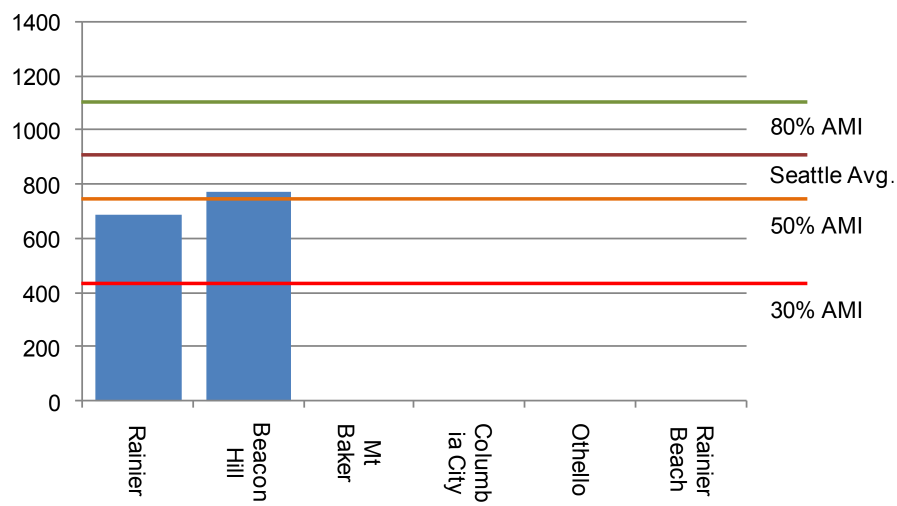
12 Johnson Gardner, *An Assessment of the Marginal Impact of Urban Amenities on Residential Pricing,* Portland Metro, June, 2007
13 Belden Russonello & Stewart, *The 2011 Community Preference Survey* (Washington D.C.: National Association of Realtors, March 2011), http://www.realtor.org/government_affairs/smart_growth/survey.

Figure 16: Residential Rents by Station Area

Station Area	Studio Apartment			1 Bedroom Apartment			2 Bedroom Apartment		
	Unit Sample	Total Units	Average Asking Rent	Unit Sample	Total Units	Average Asking Rent	Unit Sample	Total Units	Average Asking Rent
Rainier	6	27	$684	7	88	$806	13	63	$923
Beacon Hill	42	58	$769	149	290	$883	72	142	$1,092
Mt Baker	0	1	-	32	117	$713	11	32	$1,539
Columbia City	0	5	-	64	136	$819	22	65	$1,038
Othello	0	1	-	12	79	$757	5	31	$924
Rainier Beach	0	2	-	0	85	-	0	16	-
SE Station Areas	48	94	$758	264	795	$839	123	349	$1,098
Seattle	9,523	13,726	$913	23,941	40,343	$1,090	12,265	20,446	$1,449
King County	14,106	18,815	$898	54,753	75,436	$1,028	55,316	69,903	$1,257

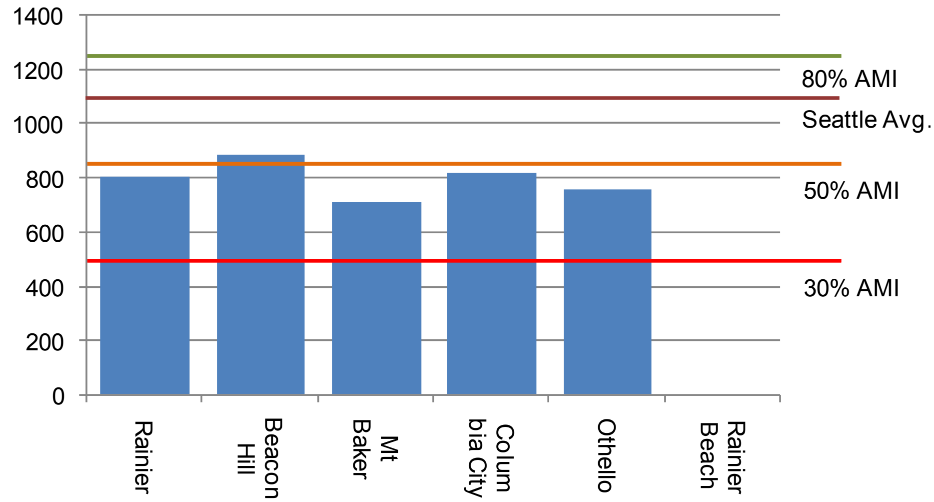
Source: Strategic Economics, 2012; Dupre & Scott, Spring 2011 Survey, courtesy of Puget Sound Regional Council

Figure 17: Studio Rents by Station Area vs. Rent Limits



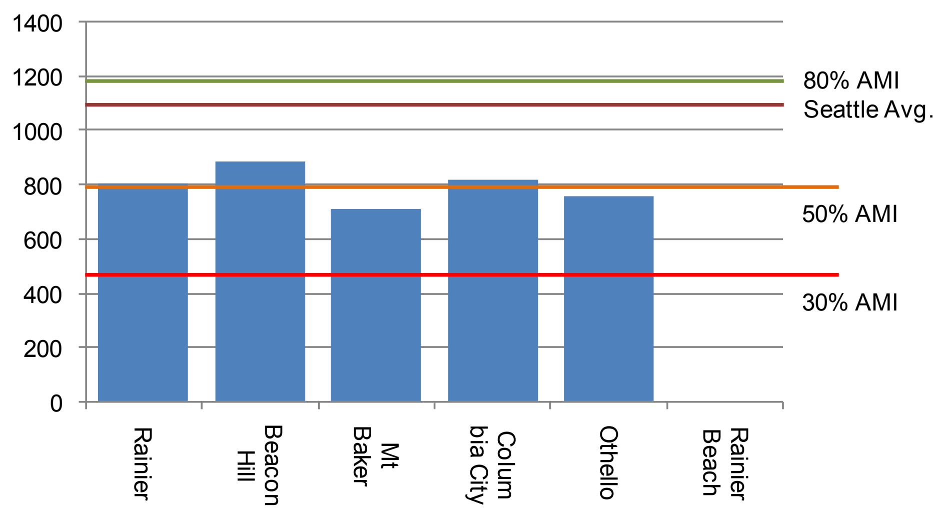
Strategic Economics, 2012; Dupre & Scott, Spring 2011 Survey; Seattle Office of Housing, Income Rent Calculations and Utility Estimate, 2012.

Figure 18: One-bedroom Rents by Station Area vs. Rent Limits (2 person household)



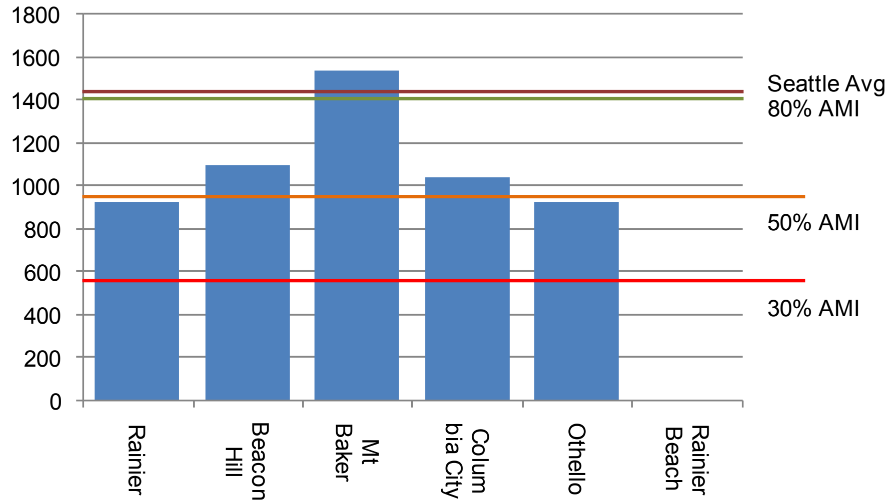
Strategic Economics, 2012; Dupre & Scott, Spring 2011 Survey; Seattle Office of Housing, Income Rent Calculations and Utility Estimate, 2012.

Figure 19: One-bedroom Rents by Station Area vs. Rent Limits (1.5 person household)



Strategic Economics, 2012; Dupre & Scott, Spring 2011 Survey; Seattle Office of Housing, Income Rent Calculations and Utility Estimate, 2012.

Figure 20: Two-bedroom Rents by Station Area vs. Rent Limits



Strategic Economics, 2012; Dupre & Scott, Spring 2011 Survey; Seattle Office of Housing, Income Rent Calculations and Utility Estimate, 2012.

Existing rental pricing is roughly in keeping with the income levels of many households currently living in the station areas (see **Figure 1 on page 7**). As discussed in the prior chapter, approximately one to two thirds of the geographic area of each of the Southeast station areas had 40 to 60 percent of households with incomes of 50 percent AMI or lower in the late 2000s.

Recent Market-rate Apartment Development Activity

The Station at Othello Park (4219 South Othello Street, Othello Station)

In April of 2011, the Station at Othello Park, a mixed-use, six-story apartment project opened directly southeast of Othello station. This large development from Othello Partners, Inc, is the first market-rate apartment project in the station area since 1974. The project includes 351 units predominantly of studios and one-bedrooms, as well as 18,000 square feet of retail and office. Units range in size from 426 to 1,041 square feet, and in price from $1.50 to $2.25 per square foot per month, reflecting reductions in lease rates intended to improve absorption.[14] Two bedrooms have leased more slowly than other units. As of late July 2012, 16 months after opening, apartment units were 94 percent leased.

The developer describes residential tenants as strongly attracted by the immediate convenience of the light rail, as well as the adjacent Othello Park, and presence of a major supermarket cattycorner to the project. Approximately 75 to 80 percent of tenants are estimated to use the light rail on a daily basis for commute travel to Downtown Seattle, SeaTac Airport, and other job and school destinations on the existing Central LINK, such as Starbucks headquarters in SODO. Many of the tenants who do not regularly use the light rail commute to very nearby employers such as the Veteran Affairs Medical Center and Boeing Field.

Market-rate and affordable housing developer interview subjects cited concerns regarding the performance of the Station at Othello Park as a negative precedent that makes it more difficult for other market-rate or mixed- income projects

14 According to the developer, initial residential absorption in the spring through fall of 2011 was approximately 20 units per month, slowing to approximately 10 to 15 units per month in winter. A year after opening, 200 units had been leased at a blended rate of $1.85 per square foot (57 percent). Given the building's large size, increased leasing momentum was needed to ensure the property stabilized in a timely manner. In spring of 2012 prices were reduced and the market responded by leasing 40 to 50 units per month from April to July.

throughout Southeast to obtain financing. The project was financed with an unusual 100 percent equity investment (USAA Real Estate Company) and no commercial debt.

The GreenHouse (3701 South Hudson St, Columbia City Station)

The GreenHouse, a 124-unit five-story apartment project, is currently under construction in the Columbia City commercial district. The Harbor Properties, Inc, (now Harbor / Urban, LLC) project is anticipated to open at the end of September 2012, and will be the first market-rate apartment project in Columbia City in at least 10 years, according to interview subjects, and Harbor's first project in Southeast Seattle. Per square foot pricing ranges from approximately $2 to $2.45 per square foot per month. According to sales staff at the leasing office, which began pre-leasing at the beginning of July, five units were pre-leased during the first week and a half of activity.

Harbor / Urban's foray into Columbia City is viewed as a strong positive indicator of the area's potential for transit-supportive densification; interview subjects describe the future performance of GreenHouse as critical to future projects ability to attract investors.

Pipeline Activity

Other pipeline development activity in Southeast Seattle includes two prospective Columbia City projects: Security Property's Angeline mixed-use redevelopment project, which is currently undergoing entitlements approvals, and further out in time, the redevelopment of the Zion Academy site.

The Angeline redevelopment project, located at 4801 Rainier Avenue South with frontage on both Rainier and Edmunds Street, is proposed to include 193 residential units, and just under 30,000 square feet of ground floor retail space. According to an interview with the developer in late April, the unit mix is planned to be approximately 80 percent smaller units. The market is anticipated to be largely singles and couples between 20 and 35 years of age, who commute to Downtown Seattle or the airport. At the date of interview, rents were projected to start at approximately $1,100 per month the smaller apartment types and go up over $2,000 per month for the larger two-bedroom units. The overall average rent is projected at approximately $2.10 per square foot per month. The project is currently qualifying for participation in the City of Seattle's multifamily tax exemption program, and must be approved be endorsed by the Columbia City Review Committee. Should the project receive this endorsement, the developer anticipates no difficulty attracting equity and debt investment.

An additional mixed-use redevelopment project, on the site of the current Zion Preparatory Academy at 4730 32 Avenue South, is currently under conception. In fall of 2009, the Academy was in financial distress given its debt obligations on the property, and sold the six-plus acre site to Jim Mueller, LLC. The developer is currently pursuing a more transit-supportive, higher density, mixed-use concept with a mixture of building types and both market- rate and workforce housing units. The current concept requires both new investment partners and a change in zoning to move forward. The site is currently being actively marketed for sale. Its location, approximately 200 feet from the light rail station, and its size, makes it one of the few remaining key in-fill opportunity sites near the station, outside of the Rainier Vista HOPE IV multi-phase redevelopment just north of the station.

Condominiums

As described earlier, the national expansion of the condominium market in the mid-2000s had limited impact on Rainier Valley or Beacon Hill. In comparison with other Seattle neighborhoods or other station areas planned for the build out of the LINK system, Southeast Seattle has a limited condominium market, with little inventory. The chart below shows total number of sales and average sales price for the period between 2005 and first quarter of 2012 (**Figure 21)**.

Figure 21: Condo Sales, 2005–Q1 2012

Area	Average Condo Sales Price (2005 – Q1 2012)	Condo Sales Per Station (2005-Q1 2012)
Rainier	-	-
Beacon Hill	$208,483	3
Mt Baker	$402,663	8
Columbia City	$271,078	8
Othello	$273,355	19
Rainier Beach	-	-
All SE Seattle Stations	-	-
System Wide	-	137
King County	$267,000	-

Source: Strategic Economics, 2012; Gardner Economics, 2012; Northwest Multiple Listing Service, 2005-2012.

The Rainier and Rainier Beach station areas had no recorded market-rate condominium sales in this time period; Beacon Hill, Mt. Baker and Columbia City had eight or fewer sales transactions (or one or less per year), and Othello had 18. This is in comparison with an average of 137 sales per station area for all of the current and proposed station areas in the build-out of the LINK light rail system. Average sales prices for Columbia City and Othello were just over the regional average, while Beacon Hill's was considerably under and Mt. Baker's significantly over.

In late 2010, the only recent, higher density condominium project in Southeast opened at 827 Hiawatha Place South, in the future Rainier station area. According to the developer, the Pontedera came to market in the midst of the recession as the lack of mortgage credit greatly reduced the pool of entry-level homebuyers, and new market-rate projects across the city were lowering prices. In the face of competition from these projects and slow absorption unit pricing was reduced by 20 percent, but like other inner city condominium projects that came to market during the recession, is not yet fully sold.

A number of factors such as the current stagnation of the city-wide condominium market; the ongoing absorption of excess inventory produced during the recession; on-going limitations on mortgage lending; lack of lender interest in condominium project financing; and the relative weakness of Southeast's housing market in comparison with other neighborhoods suggests that higher density condominium development in Southeast is unlikely in the foreseeable future. In addition, there are significant challenges to securing financing for affordable ownership projects. Smaller-scale, low-rise townhome projects on assembled residential lots offer a more feasible approach to building affordable ownership housing in Southeast.

The weakness of the existing rental housing market is a challenge to development of mixed-income projects that include market-rate components that will not qualify for subsidized financing. It should be noted that the poor quality and age of the limited existing supply, built largely in the 1960s and 1970s, has a strong negative influence on its pricing.[15] It is possible that if commercial debt and investment could be attracted, new construction could command higher rents and expand the local apartment market by pioneering new development products that are currently unavailable

Key Informant Interviews

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15 One rule-of-thumb used by developers entering into markets without recent comparable projects is that new construction can command approximately 25 percent higher rents than existing older multifamily housing stock. Such a boost would put rents for new Southeast projects at prices very near city-wide averages; however, it is still questionable whether these rates could support the cost of new construction.

When asked about the housing market in Southeast, affordable and market- rate developers, as well as brokers, questioned whether demand is currently strong enough to support development of non-subsidized units outside of Columbia City and, potentially, Mt. Baker and Beacon Hill. The shallowness of the current market (i.e. limited inventory), weakness of existing rents, and poor absorption of the Station at Othello Park project were cited as concerns, as well as the challenges posed to transit-oriented development by the physical environment in the Mt. Baker, Othello and Rainier Beach station areas.

At the same time, the majority of informants, including affordable housing developers, discussed the need for market-rate and, in particular, just below market-rate housing investment (i.e. units that target low income households at 60 to 80 percent of AMI & moderate income households at 80 to 100 percent of AMI. Informants described the need for such investments to balance existing and pipeline very low multifamily development (see Figure 19) and attract middle-income households with greater spending capacity to support local businesses and bring additional resources to local public schools.

RETAIL MARKET

The retail market in Southeast Seattle consists predominantly of smaller one- story strip commercial space along the Martin Luther King, Jr., Way South and Rainier Boulevard arterials, interspersed with larger format retail that is either stand-alone or within a community shopping center. With key exceptions, most commercial development was built in the 1960s to 1980s and is oriented toward drive-by car traffic, with surface parking in front of or adjacent to buildings, creating gaps in the street wall and separating uses. Much of this mid- to late-20th century development has received little re- investment in maintaining or improving buildings.

Exceptions include Columbia City and other portions of Rainier Boulevard, as well as portions of Beacon Avenue, that have a more historic pattern with retail storefronts built to the street. Columbia City has also seen on-going investment in its historic storefronts over the past 15 years. Significant investment in new development, i.e. Rainier Vista HOPE IV and other smaller mixed-use affordable housing projects (i.e., the Claremont), have begun to bring a more urban, higher density character and higher quality retail space to select locations on the commercial arterials. These projects are currently the exception and tend to be limited in their impact.

Summary of Findings

- **Retail rent levels throughout much of Southeast Seattle are below regional averages, and reflect the relative lack of demand for locations in the Valley, as well as the poor quality of much existing stock**. Outside of Columbia City, recent market-rate and affordable projects have not been able to fill space at pro-forma rent levels and even with rent reductions and other lease concessions, have seen slow absorption.
- Planned **mixed-use development for Columbia City is experiencing strong interest from anchor and small retailers**, reflecting the retail district's strong pedestrian environment and on-going revitalization.
- **Outside of Columbia City, financing and tenanting of ground floor retail space presents significant challenges to both market-rate and affordable mixed-use TOD.** Because market rents in most areas do not support the cost of new construction, the retail component of projects must either be internally subsidized by the residential component of projects should the residential market be strong enough, or, in the case of affordable housing, raise funds through capital campaigns or obtain financing from scarce sources of subsidized commercial debt. The Rainier Valley Community Development Fund has played a critical role in meeting this need in the Valley. An acquisition fund can help bridge the financing gap for predevelopment, but there will be an on-going need for a permanent source of subsidized commercial financing for equitable TOD in Southeast Seattle.
- The market for storefront retail space in Southeast is made up largely of immigrant entrepreneurs and other local small businesses that cater to niche markets and can currently afford only low-cost space. Expanding the already supply of low-cost space through subsidy of commercial development will provide more opportunity for such businesses. **Supportive business training, technical assistance and counseling regarding access to capital,** such as the Othello-area business assistance program being developed as part of Community Cornerstones **should accompany leasing of retail space within equitable TOD projects**.
- In addition to local small businesses, priority ground-floor tenants for equitable TOD projects should include **uses that will expand the local district's customer base or activity level, provide goods or services that are currently unavailable and increase foot traffic for surrounding businesses.**

Figure 22 below shows average asking rents for retail or retail/office listings in the Southeast station areas in April of 2012. Listed prices are asking rents only and may not indicate the actual rate of recently leased retail space, nor does it reflect the rates of on-going long-term leases.

Figure 22: Average Asking Commercial Rents by Station Area, April 2012

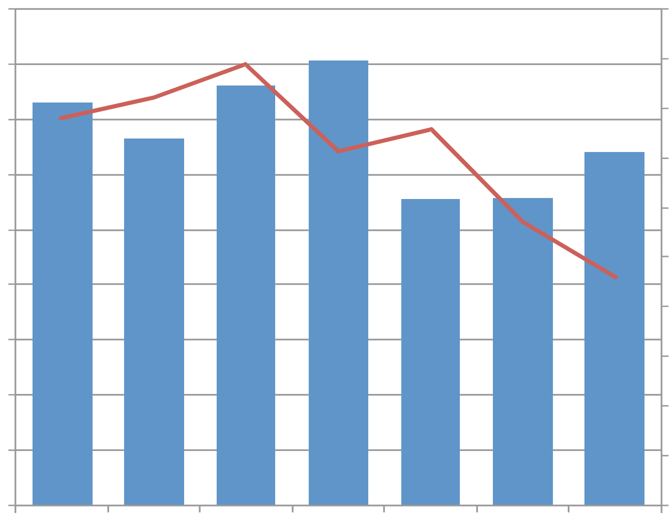
Station Area	Retail/Office Listings	
	Total Listings	**Average Asking Rent Per Square Foot**
Rainier	3	$1.45
Beacon Hill	0	-
Mt Baker	5	$1.60
Columbia City	11	$1.69
Othello	2	$1.79
Rainier Beach	2	$1.23
SE Seattle Station Area Average	21	$1.61
Seattle-Tacoma Metro Average (Retail)	-	$1.78

Source: Strategic Economics, 2012; listings assembled by Jean VelDyke Properties, April, 2012; Metro average, Marcus and Millichap, 1st Quarter, 2012.

There is considerable variation in the average asking rates for retail space in the station areas: from $1.23 per square foot per month at Rainier Beach to $1.79 per square foot per month at Othello. Other than Othello, asking lease rates are below the Seattle-Tacoma metropolitan area average, with the average lease rate for all the stations being 10 percent below the metro average. The Othello listings include both the new space at the Station at Othello Park, as well as the old Citadel property across the street, with a 35 percent difference in price between the two.

Figure 23 shows retail rental and vacancy rate trends for Rainier Valley south of Mt. Baker between 2006 and the first quarter of 2012.[16] The trend data includes the entirety of the southern Valley, not just the station areas, but is helpful in understanding how the local retail market was impacted by the recession.

Fig. 23: Rainier Valley Vacancy and Rental Rates Trends, 2006–Q1 2012



Source: Strategic Economics, 2012; Costar/CB Richard Ellis/Gardner Economics, LLC, courtesy of Puget Sound Regional Council

The retail market in the Valley experienced increases in rental rates between 2007 and 2009, with a significant decrease in 2010 and potentially, an indication of some recovery in first quarter of 2012. This delayed response to the recession, which began in early 2008, may relate to anticipation of the opening of the light rail line in July 2009, as well as the financial support that was provided to many small businesses along the alignment as mitigation during its construction period.

Recent & pipeline activity

As described previously, the Station at Othello Park, which opened in spring of 2011, includes approximately 18,000 square feet of retail space in storefronts ranging from 850 to 2,500 square feet in size. According to the developer, the space was originally priced at approximately $2.50 per square foot per month (NNN), but had difficulty finding tenants at this rate. Prices for some spaces were reduced by approximately 20 percent with escalator clauses, and restaurant tenants now occupy or are in the process of leasing five of 12 spaces. Recent, mixed-use affordable projects including Claremont Apartments, in the southern half of the Mt. Baker station area, and the mixed use portion of New Holly on Othello and Rose Street Apartments have also faced challenges in filling and retaining tenants in ground floor retail space. Developers have used a combination of rent subsidies, sub-division of commercial bays, and active recruitment of tenants to fill spaces. The slow absorption of the space and rent reductions reflect the challenge of pioneering new pedestrian-oriented retail space in arterial locations where surrounding retail is older and oriented toward cars.

In contrast, new mixed-use development planned for Columbia City has attracted significant interest from prospective tenants. The pipeline Angeline mixed-use project is planned to include an approximately 25,000 square foot anchor grocery store, as well as an additional 4,500 square feet of smaller 1,000 to 2,000 square foot retailers and 115 structured and surface retail parking spaces. When interviewed in May, the developer alluded to lease negotiations with a local specialty supermarket chain, and considerable interest from smaller retailers. He estimated the smaller spaces might be leased at approximately $2.00–$2.08 per square foot per month, in keeping with existing local lease rates.

[16] This trend discussion draws on data gathered and analyzed for the Puget Sound Regional Council's Growing Transit Communities program and does not include the Beacon Hill or Rainier station areas, and only the southern portion of the Mt. Baker station area.

Key Informant Interviews

With the exception of developers working on projects in Columbia City, all interview subjects described **challenges in financing and tenanting ground floor commercial space in the Rainier Valley**. Developers and brokers cited prevailing market rents of approximately $1.00 to $1.50 per square foot per month (NNN); several indicated the majority of space outside of Columbia City was more likely between $1.00 and $1.20. While responses varied, most developers said they needed a minimum of $1.60 to $1.90 per square foot for unfinished space, and that the types of immigrant entrepreneur or other locally-based small businesses interested in retail space in Rainier Valley could not afford these rent levels. Because current market rents do not support the cost of new construction, financing the retail component of mixed-use projects is challenging, especially for affordable projects (see Section IV for detailed discussion).

Brokers described **a glut of older low cost, low quality space** that is affordable to area businesses, but that is in such need of updating and remodeling as to be detrimental to tenants' ability to attract customers. Because rents are low, property owners see little upside in further investment and so few improvements are made. The unattractiveness of many portions of both Martin Luther King, Jr, Way South, Rainier Avenue South and South Henderson Street is viewed as a significant challenge to local businesses and new development.

Several informants emphasized **the need for new, larger anchor retailers or other destinations** within the corridor to generate and concentrate activity, as well as expanding the array of goods and services available in the Valley. Brokers felt that the existing small businesses do not meet the general merchandise needs of many local residents and that these smaller businesses are in need of larger businesses nearby to attract customers and increase foot traffic. At this time, however, major chain retailers are not interested in Valley locations, outside of Columbia City.

Brokers and property owners with small business tenants also described challenges faced by immigrant entrepreneur business owners unfamiliar with American retail culture and business practices, or who have no past business experience but find few other employment options given language and other barriers. Several interviewees emphasized **the need for business training and technical assistance to help struggling businesses expand their markets** beyond small ethnic niches that are insufficient in size to support them.[17]

DEVELOPMENT CAPACITY

Development capacity provides insight into supply of land available for new development in each station area and therefore crucial to developing an understanding of TOD potential. Strategic Economics conducted an overview of development capacity in Southeast Seattle based on developer interviews, site review, and a review of the Department of Planning and Development's capacity model, which estimates the amount of new development that could be built on a parcel by parcel basis by comparing existing land uses, housing units and commercial square footage to development potential under current zoning. The results are summarized below.

Development capacity in Southeast Seattle varies by station area. Mt Baker has significant large project capacity; Othello, Rainier Beach and Columbia City also have some large project capacity, including the vacant, for-sale Seattle Housing Authority property at Othello, as well as Zion Academy and Angeline sites in Columbia City. Rainier station has extensive smaller, and some larger, project potential on the south side of I90. Large projects are more efficient and attract greater investment interest; over time, as the market in Southeast grows beyond pioneering projects and, in particular, once the East Corridor is built in the 2020s, smaller projects in the Rainier station area may become feasible. This potential for large and small projects, as well as its smaller, more regular block-size has the potential to foster a new, more fine- grained, higher density neighborhood or mixed housing and employment district.[18]

Beacon Hill has more limited potential; foremost, the El Centro de la Raza site just north of Beacon Hill station.

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[17] Community Cornerstones is deploying over $800,000 throughout the three year grant period to provide technical support to businesses in the Othello and Graham business nodes in hopes of addressing these challenges.

[18] The area also has commercial development potential. Southeast's commercial potential is strongly concentrated on the arterials.

LONGER-TERM TOD MARKET POTENTIAL

Southeast Seattle station areas as whole are classified as *transitional*, which reflects improving markets that have longer-term potential, and may require additional investment to stimulate near-to-mid-term growth. **Although current market conditions in Southeast Seattle are broadly weak with the significant exception of Columbia City, the area's proximity to Downtown Seattle and eventually, Eastside job centers via light rail makes it likely that it will eventually attract significant market rate residential development activity.** In order for this to happen, pioneering projects currently under development must establish successful precedents.

The study notes that the immediacy of the residential TOD potential in Southeast largely depends on the urban form and connectivity of the study area, which varies greatly. [19]For example, the Columbia City station area encompasses the location of an historic streetcar station on the Rainier Trolley and inherits key remnants of the fine-grained urban form of its era. This area has a significant near-term development pipeline that may build from Rainier Avenue toward the station on MLK, Jr. over time. Mt. Baker study area, on the other hand, has challenges regarding built form, connectivity and traffic impacts that will require transportation network and pedestrian realm improvements to attract market-rate, higher density development. Development potential in the Mt. Baker station area is therefore more mid-term to long-term in nature and dependent on public realm improvements.

As previously described, while the Southeast Seattle station areas as a whole experienced broadly gentrifying change during the 2000s, there is considerable variation in the intensity of this trend. The next chapter addresses these distinctions in market activity, urban form and the urgency of potential displacement in each station area and makes recommendations regarding priority locations for affordable and mixed income equitable TOD fund investments.

[19] Strategic Economics, "Puget Sound Region Transit-Oriented Development Market Study," Puget Sound Regional Council

APPENDIX E: NEED, POTENTIAL, GOALS & PRIORITIES BY STATION AREA

This Appendix looks more closely at each of the station areas. It begins with a summary of station area level findings and recommendations, followed by in- depth profiles of each station area. The following information is provided for each station area profile:

- Neighborhood plan goals that could be advanced by a potential fund;
- An aerial map, showing existing land uses and transportation network within a half-mile radius around the station (a typical station area radius used to show the approximate reasonable distance for walking from residences and employment to transit);
- Priority investments for a fund, as well as other actions that are needed for community goals to be advanced;
- Potential for TOD and gentrification.

The profiles draw on the neighborhood plans for each area, key informant interviews, and Strategic Economics' broader experience advancing and evaluating strategies for equitable TOD across the country.

For purposes of this study, near-term refers to the next three years, while mid- term indicates a period of four to eight years, and long-term is nine years plus.

Rainier Station Area

Community Vision

The Rainier Station Area is not located within an area with an existing Neighborhood Plan. The Department of Planning and Development is currently evaluating this area for planning as a higher intensity growth center, providing the opportunity to develop a community vision for future residential and commercial growth.

Potential for TOD

The future Rainier station will be the only Seattle station on the East Corridor LINK line, outside of Downtown, with direct, non-transfer access to stations on the Eastside. With construction of the East Corridor in the 2020s, Sound Transit estimates a 20-minute trip from Seattle to Downtown Bellevue, whereas current I-90 trip time is approximately 45 minutes at afternoon peak. The station's direct access to both the Eastside and Downtown Seattle job centers will make it a desirable location for households with workers commuting to either location, and, over time, may attract office development aimed at firms with clients and employees on both sides of Lake Washington. **The station's strategic location on the transit network, proximity to Downtown and I-90, and development capacity gives it strong longer- term transit-oriented growth potential.**

The station will be located in the I-90 freeway, which bifurcates surrounding neighborhoods. Single family neighborhoods predominate in the northeast, far east and far west portions of the station area, but there is development capacity along the Rainier Avenue corridor, particularly south of I-90. The many low-rise industrial and commercial buildings here have potential to re- develop over time with higher intensity mixed use development. This area also has a more regular and smaller block pattern than other areas of Southeast, creating potential for a more walkable urban fabric over time.

Figure 24: Rainier Station Area

Source: Strategic Economics, 2012

Potential for displacement

The area currently has the second to lowest median household income of the Southeast station areas, as well as large non-white and foreign-born populations (see Chapter II regarding demographic trends). In the 2000s, the station area as a whole saw a significant loss in median income, while the western half of the station area, which has a majority of renter households, saw decreases in non-white and foreign-born populations. **Although the average apartment rent level is well below city-wide averages, given its growth potential and demographic characteristics, the area has potential for displacement of existing residents over time due to increases in land values.**

Fund recommendations

Not initially included in the geographic scope of the fund, **Strategic Economics recommends inclusion and prioritization of this area for fund investments, given its future job access, growth potential and potential future vulnerability to displacement.** Although the north side of I-90 has seen recent affordable rental and ownership projects, the area as a whole lags other Southeast station areas in existing supply of permanent, affordable units (127 units). **The north side of the station area is already supporting higher-density in-fill investment and immediate development opportunities can be pursued. The south side of Rainier Station should be prioritized for longer term land banking-type acquisition loans (i.e. eight year plus terms) that allow non- profit developers to capitalize on lower cost acquisition opportunity prior to the construction of the East Corridor and ensure permanent equitable access to housing in the area as it evolves. Given the relative lack of existing affordable units at all income levels and weakness of the current market, 100 percent affordable projects for extremely low, very low, and/or low income households should be pursued.**

Other strategic actions needed

The area has high traffic volumes, and **pedestrian safety and public realm deficits** must be addressed to support higher density development and access to the station. It is also recommended that the City plan for and invest in enhancement of a two block portion of a non-arterial street south of I-90 that could serve as a **center of community activity and storefront retail**. The Department of Planning and Development is currently evaluating this area for planning as a higher intensity growth center, providing an opportunity to address these issues. Interagency cooperation between the City departments and Sound Transit will also be critical to ensuring easy and safe access to the I-90 station.

Beacon Hill Station Area

Neighborhood Plan priorities relevant to a fund (2010)[20]

- Good public spaces (multicultural center, farmer's market).
- Programs & improvements that increase safety
- Strong neighborhood commercial district including a mix of small, local and ethnic businesses.
- A vibrant mix of housing close to the light rail station.
- Affordable housing near the station.
- Encourage affordable, family-sized homes.

Potential for TOD

The Beacon Hill station in north Beacon Hill is located on a walkable, though attenuated, neighborhood commercial district along Beacon Avenue, surrounded by single-family neighborhoods with high-quality housing stock. Although **the area's walkability and very quick transit access to Downtown make it highly attractive for transit-oriented development**, **in- fill opportunity is limited** by the restriction of neighborhood commercial multifamily zoning to one parcel deep along Beacon Avenue.[21] Many of these parcels are limited to 40 feet in height (NC2-40), posing challenges to development feasibility and successful competition for subsidized financing, given the fewer number of units four-story projects can achieve.[22] Based on informant interviews, further extension of higher density, mid-rise zoning into the neighborhoods has little local, or representative, support.

[20] North Beacon Hill Neighborhood Action Plan, 2010.

[21] There is extensive low-rise, or townhome, in-fill opportunity on Beacon Hill, which can substantially boost density and transit access. Such projects are unlikely to compete well for subsidized financing, however, and are not recommended for fund investment

[22] A pipeline equitable TOD project adjacent to the station, the development of the current El Centro de la Raza parking lot, was not feasible at NC-40, and obtained a re-
zone to NC-65 in order to develop a viable project

Figure 25: Beacon Hill Station Area

Source: Strategic Economics, 2012

Potential for displacement

North Beacon Hill neighborhoods experienced considerable demographic change in the 2000s, with a greater loss in non-white and foreign-born population (-36 and -42 percent, respectively), and greater gain in population with a bachelor's degree or higher (44 percent), on a real numbers basis, than any other Southeast station area. Portions of the station area experienced strong income gains. The area also has the highest proportion of renters (53 percent) of any station area. **Given these conditions and trends, locational advantages, and very low current numbers of subsidized affordable units (14), the area is strongly disposed toward on-going gentrification that increases the potential for displacement.**

Fund recommendations

Based on these demographic trends, lack of current affordable housing, and the neighborhood's support for affordable housing near the station, Beacon Hill is a high priority for fund investment should any viable opportunities present themselves. However, foreseeable opportunity sites are limited to the El Centro de la Raza site, which is already secured, and the small, subdivided parcels around the light rail station, which are unlikely to be assembled. The El Centro de la Raza project (see page 22 for description) may be one of very few opportunities for equitable TOD in Beacon Hill and is attempting to fulfill the neighborhood plan's priorities relevant to the fund, including development of a multi- cultural center and storefront retail space for small businesses. Although the project is being developed on land owned by El Centro de la Raza and does not need assistance with acquisition or pre-development, at the date of interview Beacon Development was struggling with permanent financing of commercial space for small businesses.[23] **It is recommended that the City of Seattle and other fund partners help ensure that this the project moves forward, whether part of the fund investments, or as a distinct effort.**

Mt. Baker Station Area

Potential for TOD

Mt. Baker station area has substantial long-term potential for higher- density, mixed use transit-oriented development, but requires significant street network and pedestrian realm investments to support TOD. Future development capacity is strongly clustered along the commercial corridor where Rainier Avenue S and MLK, Jr. Way S intersect, which is dominated by the width and heaviness of traffic on these arterials and is poorly connected to the single family neighborhoods immediately to the east of the corridor and up the hill to the west. Many large-format or stand-alone commercial and light industrial or distribution uses occupy large parcels near the station (i.e. Lowe's, Pepsi Bottling, University of Washington laundry, QFC/Rite Aid, U- haul, gas stations, etc.), benefit from its current auto-orientation, and exercise site control via ownership or long-term leases (i.e. 15 years plus). Several of these businesses also provide valuable local jobs.

The Mt. Baker Station Lofts affordable live/work project (see page 22), which is recently entitled, will begin to establish a more attractive mixed-use urban form for the area. A potential redevelopment of parcels along 25th Avenue south at McClellan may pioneer market rate higher density development in the area, but faces challenges given the current lack of apartment market in the area. **Uncertainty over City proposals for a bow-tie (one-way couplets) or round-about re-orientation of the street network, the complexity of local development opportunity, and the unattractiveness of the local environment for TOD make additional private sector investment unlikely in the near-term**.

Potential for displacement

Mt Baker is the only Southeast station area with a median income higher than the City median and experienced the strongest real dollar income growth of any Southeast station area (16.5 percent). The area also experienced losses in non-white population (-20 percent) and gains in residents with bachelor's degrees (32 percent), though not as profound as Beacon Hill or Columbia City.

[23] Beacon Hill census tracts no longer qualify for New Market Tax Credit investments, given the recent gentrifying trends described.

Figure 26: Mt. Baker Station Area

Source: Strategic Economics, 2012

The western half of the station area on Beacon Hill has lower incomes than the eastern half and exhibits some characteristics of gentrifying change. However, the area has only 34 percent renter households, in comparison with a city-wide average of 50 percent, as well as a high number of current and and pipeline affordable housing units (677 and 127 units, respectively). **While households may choose to re-locate out of the area, the potential for displacement due to market forces is low in the near to mid-term.**

Neighborhood Plan priorities relevant to the Fund (2010)[24]

- Improving the safety & appearance of MLK, Jr., Way S & Rainier Ave. S.
- Support for youth (social programs & job training).
- Vibrant neighborhood & destination business district retaining commercial anchors.
- Encourage a mix of home prices, uses, & increase area population.
    - Encourage affordable family-sized housing.
    - Support affordable housing near to the light rail station.

Fund recommendations

Mt. Baker station area is currently of moderate priority for immediate fund investments, given the need to focus foremost on resolving and funding street network improvements.

Similar to Rainier, Mt. Baker has strong long-term potential for mixed-use intensification with improvement in the

[24] North Rainier Neighborhood Action Plan, 2010.

pedestrian realm. Unlike Rainier, Mt Baker's light rail station is already in place and local property transactions took place during the housing bubble, encouraging property value expectations that are unrealistic in the current environment. **The creation of a subsidized equitable TOD acquisition fund should not become an opportunity for property owners to obtain land or property prices above what current market-rate development can support.** There may be some opportunity for mid-term redevelopment of publicly owned uses (transit mall, UW Laundry & smaller Sound Transit remnant properties), but these are complex transactions that would need to carefully orchestrate re-location of existing uses, and/or assembly of additional properties.

<u>Other strategic actions needed</u>

- Pedestrian safety and traffic circulation issues need to be addressed by Seattle Department of Transportation and partner agencies and departments before any significant additional public investment is made; interagency collaboration is critical to any mobility/circulation solution. Adoption of the proposed rezone legislation for this station area should also begin to establish greater development certainty.
- Creation of a public, or quasi-public transit-oriented development agency or authority that can address complex land assembly, re-location of viable uses, and advancement of public/private development that require involvement of multiple public agencies.
- Development of equitable development policy goals for Sound Transit's inventory of surplus land.

Columbia City Station Area

<u>Neighborhood Plan priorities relevant to the Fund (1999)[25]</u>

- Strengthen the business district core as a historic community center.
- Improve residential areas & incentivize market-rate housing, while retaining household diversity.
- Optimize light rail station opportunity.

The local landmarks board has supported quality, higher density in-fill development in keeping with the above community goals.

<u>Potential for TOD</u>

The Columbia City station area includes several distinct districts including single family neighborhoods to the southwest, south and northeast, a vibrant historic neighborhood commercial district to the east along Rainier Avenue, and a master-planned HOPE VI redevelopment to the northwest integrating single family, low-rise and higher-density mixed use development. Both affordable and market-rate transit-oriented development are in place or underway in the latter two areas. Additional development capacity is focused along Rainier Ave. S or between the station and the Columbia City retail district; existing in-fill capacity is limited by low-rise or neighborhood commercial zoning restricted to 40 feet in height. Unlike other Southeast station areas, the market for higher-density housing is already strong enough to support new development; **the area has immediate TOD potential.**

[25] Columbia City – Hillman City – Genesee Neighborhood Plan, 1999

Figure 27: Columbia City Station Area

Source: Strategic Economics, 2012

The station area, which includes approximately 25 percent very low-income households, experienced very strong income growth in the 2000s on both a real numbers and percent basis (17.6 percent, in comparison with city-wide income growth of .2 percent). The area also experienced significant losses in non-white population (-29 percent), second only to Beacon Hill amongst station areas and in contrast to citywide growth in non-white population (3 percent). Given these demographic trends, a population that is approximately one-half renter households and recent housing market acceleration, the area is strongly disposed toward on-going gentrification that increases the potential for displacement of existing renter households.

Fund recommendations

It is recommended that Columbia City be prioritized for mixed-income housing investment that includes both market-rate housing and affordable housing aimed at low and moderate income households. The Columbia City station area is the only location in Southeast where market demand is currently stimulating pioneering higher density mid-rise re-development, making mixed-income projects viable. The area experienced significant gentrification in the previous decade, a trend which is likely to accelerate post-recession. The area has the potential to become unaffordable to many current households, as well as new lower and moderate income households seeking housing in the area.

The majority of current and pipeline affordable units in the area are aimed at extremely low and very low income households, while households most likely to be displaced by increasing rent levels are those that can afford current market rents, i.e. households between 50 and 80 percent AMI. Affordable housing included in a mixed income project in the area should be aimed a low and moderate income households.

Other strategic actions needed

- Initiation of a land use and community planning process for areas surrounding the station that considers the station's relationship to the business district and identifies priority public realm improvements. Current low rise and NC2-40 zoning in the Columbia City station area overlay district are generally intended to allow moderate levels of densification (i.e. townhomes) on smaller parcels in single family neighborhoods. However, this area includes larger parcels with significant potential for quality, mid-rise development that steps down toward adjacent single family homes and is in keeping with pipeline development closer to the historic business district. Increasing development potential near the station would encourage pedestrianism between the station and commercial hub, improving use of the light rail and the potential for non-vehicular customer traffic to Columbia City. Unlike other Southeast station areas, the neighborhood plan has not been updated since 1999.

Othello Station Area

Neighborhood Plan priorities relevant to the Fund (2010)[26]

- Vibrant multi-cultural commercial district with support for small, ethnic, local businesses
- Positive activities for youth (education, training/career support)
- Maintenance of housing affordability, focusing public investment near the station, and including family units

Potential for TOD

Similar to the western half of the Columbia City station area, the Othello station area includes a master planned HOPE VI housing redevelopment project made up of single family, townhome and a small amount of higher density mixed use development to the west and southwest (New Holly), as well as extensive single family neighborhoods to the east. The retail heart of the neighborhood is centered on the light rail station and characterized by one and two-story commercial development built in the 1960s to 1980s interspersed with extensive surface parking lots. Unlike the Columbia City retail district, which was a hub on the Rainier Trolley, the commercial center has little architectural character and is split by the light rail alignment at grade on MLK, Jr. Way S., making it challenging for walking and cross-street shopping. Othello Playground provides accessible open space very near the station.

Vacant and underutilized property zoned for mid-rise development to heights of 65 or 85 feet near the station provides capacity for in-fill and redevelopment to higher densities over time. However, although the recent Station at Othello Park project pioneered market-rate higher density development in the area, the project's poor absorption and size are likely to inhibit additional development in the near-term and casts doubt on the depth of current demand for units in the area (see Chapter III).

[26] Othello Neighborhood Action Plan (2010).

Figure 28: Othello Station Area

Source: Strategic Economics, 2012

Market conditions in the area are weak, with average apartment and retail rents, exclusive of the Station at Othello Park, well below city averages. **The area's TOD potential is estimated to be more mid-term.**

Potential for displacement

Othello station area's population experienced considerable income loss in the 2000s: approximately -$11,000 per household, or a 27 percent drop. This loss puts the area's median household income at less than half the regional median and makes a majority of local households very low income. The area also experienced a one percent loss in non-white population, the least among the Southeast station areas, on a percent or real numbers basis, in comparison with a city-wide gain of three percent.

At the same time, the area lost more than a quarter of its foreign-born residents (27 percent), a higher loss than most other station areas, in comparison with a city-wide gain of nine percent.[27] The area saw moderate gains in college-educated population, on par with city-wide shifts in share of this population, but continues to have a low number of college-educated residents (21 percent versus 54 percent city-wide). While the area has a higher proportion of renters, 51 percent, it also has the largest number of affordable housing units of any current or future light rail station outside of Downtown (889 existing and 60 pipeline units). **Given recent income trends, saturated market conditions and the existing supply of affordable units, the area has more mid-term potential for gentrification and displacement of existing households.**

[27] This may be explained more by opportunistic re-location with the expansion of mortgage credit than displacement, given the simultaneous drop in income.

Fund recommendations

Affordable or mixed-income investments should be *driven* by innovative ground floor commercial concepts that focus on expanding economic and educational opportunities for youth and/or local immigrant entrepreneurs. Given the good number of subsidized units in the area and existing low market-rate rents, housing affordability is likely to be maintained in the near-term without additional public investment. Multiple key informants interviewed for this study, including affordable housing developers, expressed concern over the lack of moderate or higher income households in the area and impacts on local businesses and schools. Given the urgency of lower income housing needs in other station areas, additional affordable housing investments at Othello station area should be aimed at moderate income households, or made more in support of ground floor commercial uses, rather than as the impetus for a project.

Other strategic actions needed

- **Economic development investments focused on small business assistance and youth-oriented career and vocational support.** Given community priorities, the number of very low income households in the area, and significant income loss in the past decade, economic development investments aimed at expanding local opportunity should be the City's top priority for Othello station area. As a separate effort of the Southeast Seattle Equitable TOD initiative, the Office of Economic Development is pursuing development of a small business technical assistance, credit access and tenancy stabilization program for the Othello neighborhood. Focused efforts to expand youth opportunity, as well as broader workforce development for adults, are also needed. Programs that develop work skills and business savvy, while expanding local commercial services, are particularly encouraged.

- Seattle Housing Authority and Sound Transit own significant vacant parcels near the Othello station. **Interagency cooperation between the City of Seattle and these agencies should aim to activate these parcels and establish equity goals for their development**. As feasible over time, an exemplary private market-rate project is needed in the area to establish a track record of success and attract additional capital to this station area.

Rainier Beach Station Area

Neighborhood Plan priorities relevant to the Fund (2010)[28]

- Multicultural community center to strengthen and support diverse communities.
- Stimulate development to provide jobs, affordable family housing & community business.
    - Objective: Develop a TOD property acquisition fund to provide affordable residential, commercial and community spaces using federal grant and local economic development funds in addition to the City's affordable housing funds.

Potential for TOD

The Rainier Beach station is immediately surrounded by one-story, stand- alone commercial and light industrial uses along MLK, Jr. Way S, and is adjacent to the City Light transmission line right-of-way. A community shopping center and high school lie at the eastern edge of the station area, with low-rise residential and single-story commercial development interspersed with surface parking and side-yards along S Henderson Street. Single family neighborhoods lie to the north and west. Current development capacity is concentrated on MLK, Jr. Way S to the south where commercial zoning to 65 feet applies and parcels are larger, and to a lesser degree along S. Henderson Street where low-rise residential and neighborhood commercial to40 feet are allowed.

While no apartment listings were available for the area, developer interview subjects believe the area has weak demand for higher density housing, in keeping with its further proximity from Downtown and the impact of the overhead transmission lines. Retail listings were the lowest in Southeast, 30 percent below city-wide average. **The potential for higher-density mid-rise development targeted by the fund is mid- to long-term.**

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[28] Othello Neighborhood Action Plan (2010).

Figure 29: Rainier Beach Station Area

Source: Strategic Economics, 2012

Potential for displacement

Rainier Beach station area has median incomes below regional averages (but above Rainier and Othello station areas), and saw a decrease in median income of -10.6 percent in the 2000s. The area lost non-white and, to a lesser degree, foreign-born population, but remains 82 percent non-white and 46 percent foreign-born (in comparison with 31 and 17 percent, city-wide). The area is also strongly owner-occupied, with only 35 percent renter households. **While the area has a smaller number of affordable units (204) than station areas to the north, it is unlikely to gentrify in the near to mid- term, given these demographic trends and conditions and the weakness of market demand for housing in the area.**

Fund recommendations

To achieve community goals regarding development and economic stimulation and create a walkable environment that connects neighborhoods to the station, Rainier Beach is in need of catalytic rather than stabilizing public investment. Higher-density affordable housing development that pioneers new building types and improves the area's appearance can help set the stage for similar market-rate projects, provided there is eventually sufficient demand to make such projects feasible. Similar to Othello, projects that receive fund investment should be driven by ground floor commercial concepts that expand local economic, social or commercial opportunities (i.e. a multicultural center). **Fund priority of investment in Rainier Beach equitable TOD projects depends on the strength of the ground-floor commercial concept.**

Other strategic actions needed

- Advancement of the multicultural center concept, an additional component of the Cornerstone effort. It is recommended that the center offer not only cultural programming and community space, but also a business opportunity for a local vendor or on-the-job training at a retail non-profit (i.e. concessions).
- Similar to Mt. Baker, Rainier Beach may benefit from creation of a public, or quasi-public transit-oriented development agency or authority that can assemble land, re-locate viable uses, and advance of public/private development that require involvement of multiple public agencies.
- Land use changes allowing greater residential and commercial development near the station are needed to stimulate private investment, or enable affordable housing investment that can attract limited subsidized financing.

APPENDIX F: FINANCING GAPS FOR EQUITABLE TOD IN SOUTHEAST SEATTLE

This appendix identifies the current financing gaps that pose challenges to delivery of mixed use, mixed income and affordable higher density development across Southeast. These findings draw on key informant interviews with affordable and market-rate housing developers, and community, small business and commercial lenders with recent projects and loans in Southeast Seattle.

EQUITABLE TOD FINANCING GAPS & PRIORITIES IN SOUTHEAST

When asked about financing priorities for the fund, many key informants described concerns regarding the general availability of permanent financing for equitable TOD projects, regardless of acquisition or predevelopment financing provided by the fund. This has also been an issue for the Bay Area TOAH Fund and has informed that fund's expansion into permanent financing (see the following chapter). If the fund provides acquisition or predevelopment loans for uses for which there is inadequate permanent financing, projects will face difficulty obtaining construction or take-out loans at the time of development, and the fund risks default on its loans. Therefore, the following sections also identify gaps in permanent financing that would need to be addressed for the fund to succeed in delivering equitable TOD.

Leverage and Focus of Grant Subsidy

Several informants mentioned the small size of the HUD grant investment ($1.27 million) available for the fund, and the need to leverage additional capital if the Cornerstones Fund is to have a significant effect in Southeast. Local match for the federal grant funds is currently $5.57 million in below market debt from Seattle Housing Levy funds, Enterprise Loan Fund, and Impact Capital. **Informants recommended that investment be strongly focused geographically, rather than distributed, so that catalytic change is possible.**

Affordable Housing Financing Gaps & Priorities

- **Permanent financing sources for low to moderate income units.**

As mentioned previously, many key informants prioritized the need for low to moderate income subsidized units (i.e. households between 50 and 80 percent area median income and 80 to 100 percent AMI), given the number of extremely low and very low income subsidized units already located in Southeast. Given the preponderance of households in Southeast that are currently low income, and the likelihood that the housing market in Southeast will eventually accelerate, over time there is potential for strong need among this population.

However, there are few permanent financing sources for development of housing for households over 60 percent AMI. Low Income Housing Tax Credits, which provide credit to approximately 90 percent of affordable housing produced in the United States, are limited to projects that include households at 50 or 60 percent of AMI. While projects may include housing aimed at households at other income levels, the greater the number of units at these levels (or lower), the more likely a project is to win credits in the competitive rounds of allocation that occur at the state level. Seattle Housing Levy funds are also limited to projects with units at 50 percent AMI or lower. The City of Seattle's Multi-Family Tax Exemption program (MFTE), a very successful 12-year property tax exemption program for projects that limit rents on 20 percent of units to households at low to moderate income households (65 to 85 percent AMI), may not provide sufficient subsidy to make projects with greater proportions of low income households feasible with market-rate debt sources.

The limits on permanent financing for low income housing also affect the reach of the acquisition fund itself. As mentioned, Seattle Housing Levy funds, from which a portion of the local match is drawn for the acquisition fund, are limited to lending for projects for households at 50 percent of AMI. Enterprise Loan Fund and Impact Capital's contributions are limited to households at 80 percent AMI or lower, but have higher interest rates (at approximately 5 to 7.5 percent interest) than Levy Fund loans (at 3 percent interest). **It is likely that loans from the fund for projects serving households between 50 and 80 percent AMI would therefore have a higher interest rate than loans for projects serving households below 50 percent AMI.**

- **Greater flexibility of permanent debt for the affordable component of mixed income projects; expansion of the Southeast housing market to support market-rate component.**

Many interview subjects expressed great interest in developing mixed income housing in the Southeast station areas, and felt that this type of project is well suited to meeting the neighborhoods' needs for balance between retaining housing affordability while expanding local buying power to support retail businesses and bring additional resources to area schools (see the following section regarding neighborhood goals). **They noted, however, that outside of Columbia City, market-rate projects have difficulty getting financing given the performance of recent projects; current and pipeline projects in Columbia City must establish a track record of success before investors or lenders consider financing projects in other station areas.** Even as the market improves and market-rate projects become feasible and attract debt and investment, it is unlikely that the market-rate component of projects will be able to provide internal subsidy to lower income units that cannot pay for themselves. It's therefore necessary to use traditional subsidized affordable financing sources for the affordable component of mixed income projects that have greater than 20 percent low income units, or that include units at deeper levels of affordability.

Affordable housing developers and community lenders described challenges in combining distinct forms of commercial and subsidized debt in one project. Low Income Housing Tax Credit investment requires segregation of development costs and legal separation of unit types, making it difficult to combine units in one building. Additionally, in order for the affordable component of a project to compete for subsidized financing sources, it will need to have a significant number of units (i.e. greater than 50 units). **Mixed income projects are therefore likely to be larger, i.e. 200 plus units, and require sites of two or more acres. Depending on its location, it's likely that the current size of the fund (approximately $7 million) would need to expand to accommodate a project of this scale, as well as other 100 percent affordable projects.**

- **Permanent financing for larger family units.**

Beacon Hill, Mt. Baker, Othello, & Rainier Beach neighborhood plans all cite inclusion of affordable, family-sized units in future development as a priority. Given that demand for housing near transit is driven by small one to two - person households[29] and that two bedroom units in recent projects have been especially slow to absorb, it is unlikely that the market will provide units over two bedrooms, and only a small portion of two bedrooms. At the same time, larger subsidized affordable units are more challenging to finance; their larger size means fewer units can be accommodated, thereby affecting project's competitiveness for subsidized financing. Larger units for low income families may also carry market-risk, given the current availability of lower cost market-rate single family homes for rent in the southern portions of the Valley. Affordable developers with recent projects all describe struggling to include and finance larger units, in keeping with community preferences. **The fund could require some limited proportion of larger family units, in keeping with the current composition of the community, but the permanent financing need must be addressed for such projects to succeed**

- **Longer acquisition loan term.**

Because financing affordable housing projects is complex and requires coordination of multiple sources, it can take several years to complete assembly of permanent debt and equity for a project. In addition, the current pipeline of affordable projects in Seattle with bridge or acquisition loans from existing sources is already substantial and is oversubscribed. Finally, as described previously, the rental housing market in Southeast is currently at approximately 50 to 60 percent of area median income and significant housing market acceleration is not expected in the near-term outside of Columbia City. Until this occurs, the market-rate component of any mixed-income project is likely to have difficulty finding permanent financing. **Interviewees requested that the fund offer a term of least five years for acquisition loans, with the potential for extensions.**

Ground-floor Commercial Financing Gaps & Priorities

- **Permanent subsidy for the ground-floor component of mixed-use affordable development; innovative commercial or economic development concepts that can raise such subsidy.**

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29 Center for Transit-Oriented Development, *Hidden in Plain Sight: Capturing the Demand for Housing Near Transit*, September 2004, http://www.reconnectingamerica.org/resource-center/books-and-reports/2004/hidden-in-plain-sight-capturing-the-demand-for-housing-near-transit/.

Outside of Columbia City, all developers described significant challenges financing the ground floor retail component of mixed-use projects in Southeast. As discussed previously, current rents that are affordable to local businesses (i.e. less than $1.50 per square foot per month) do not support the cost of new construction, requiring subsidy. Subsidized financing sources for commercial development, such as New Markets Tax Credits, are limited and highly competitive, and some portions of Southeast (i.e. Beacon Hill) do not qualify. One developer described mounting capital fundraising campaigns to help pay for affordable ground-floor retail space. As described in the following chapter regarding best practices, this technique is more likely to be effective for those non-profit developers whose broader mission is specifically focused on economic development as well as housing, or who partner with an economic or community development corporation that have this focus. It is also more viable for projects where ground floor uses have particular fund- raising cachet.

Informants also questioned whether provision of additional low-cost space is, on its own, likely to create a significant positive economic impact on the Valley, given the amount of low-cost, albeit low-quality space currently available. **Innovative community or commercial anchors that attract residents and visitors and expand local economic opportunity beyond storefront retailing are needed**. **In particular, uses that meet articulated community goals such as youth empowerment and skill-building, or adult workforce development while expanding commercial services, should be prioritized. Such uses are far more likely to attract permanent sources of subsidy for commercial development.**

- **Low cost business loans for leasehold tenant improvements.**

Many informants described the current challenge of financing tenant improvements for existing, older retail space and newly constructed storefronts. Local businesses interested in storefront spaces have many barriers to financing leasehold improvements, as is common practice in functioning markets: lack of credit record or assets to qualify for business loans, insufficient initial revenue to meet debt obligations, and religious restrictions that prohibit payment of interest. At the same time, because current retail rents do not meet even the costs of shell construction, developers struggle to finance ground-floor shell storefronts, let alone finished retail spaces, and owners of retail space in older buildings cannot upgrade existing space. Low-cost debt or fee-based capital for tenant improvements is a strong need throughout Southeast.

Market-rate Financing Gaps & Priorities

- **Successful exemplary projects to provide comparables and attract capital.**

Market-rate and affordable housing developers and commercial and community lenders cited the need for successful market-rate projects that have unit absorption and rent levels that meet pro forma expectations. When lenders and investors evaluate potential projects, they consider foremost the performance of similar, recent development in the vicinity of the project's location. Currently, the two higher density, market-rate projects that serve as existing comparables for financing of proposed new apartment buildings in Southeast are the Station at Othello Park and Legacy at Pratt Park (18^{th} Avenue South & South Jackson Street, 2010), both of which have had issues with absorption and have adjusted rents down since opening. The difficulties faced by these projects have to do with their timing in the aftermath of the recession and housing market crash, as well as local market weakness, and do not accurately represent the market potential of all of Southeast station areas, particularly Columbia City. However, these comparables will continue to represent "the Valley" until newer local projects succeed. Until then, commercial debt and major equity sources will be limited. **The success of the GreenHouse and the pipeline Angeline redevelopment project, are key to beginning to establish Southeast Seattle as a viable area for higher density investment.**

The performance of the Station at Othello Park will continue to influence the perception of areas south of Columbia City as bearing high market risk at least through the near-term (the next three years). **The market viability of mixed- income projects south of Columbia City is uncertain and such projects face permanent financing challenges in the near-term.**

- **Patient and lower cost capital for high-risk pre-development costs (site control, design and entitlement).**

Front-end financing for pre-development costs in pioneering markets with higher entitlement, market and financing risk is scarce and high-cost. One developer described a requisite equity yield of approximately 12 to 15 percent, in a typical 50/50 percent split between investor and developer on predevelopment costs (anecdotally estimated at approximately $1 million per project, but varying widely). The cost of such investment is sufficiently high as to stymie initiation of projects that might otherwise be viable. Additionally, because developers typically purchase options to establish site control, up-front land acquisition is unnecessary. **For market rate development, subordinated predevelopment loans with below-market rate interest for 50 percent of costs would be catalytic. Such loans would also be considerably smaller than acquisition loans for the full cost of property. For the mixed income projects targeted for this fund, this concept is complicated by the longer timeframe needed for assembly of affordable financing. Further exploration of the potential for fund investment in pre-development lending that occupies a typical equity position is recommended.**

Priority non-finance needs relevant to the Fund

In addition to the previous finance-related priorities and needs identified by informants, the following non-finance related needs were mentioned by multiple informants as key to achieving equitable growth in the station areas:

A balance of low and moderate income residents to bring households with more resources into the public schools and expand the market for locally- serving retailers.

- Public realm investments to improve quality of life and attract private investment.
- Major anchors to drive foot traffic and stimulate daytime activity.
- Assistance from architects with retail design expertise for the commercial component of mixed-use buildings.
- High quality technical assistance and working capital for existing small businesses.
- Decreases in crime which negatively impacts safety, quality of life, businesses and market.

APPENDIX G: LESSONS LEARNED FROM OTHER FUNDS

This appendix draws lessons for the Community Cornerstone TOD fund effort gleaned from existing funds dedicated to equitable TOD finance or provision of stabilized commercial space for small businesses in other parts of the country. The following discussion draws on previous case studies of the Denver TOD Fund, Bay Area Transit-Oriented Affordable Housing (TOAH) Fund, and Neighborhood Development Center in Twin Cities, Minnesota, recent follow-up interviews with staff at these initiatives,[30] and derives lessons learned for a Southeast Seattle fund from their experiences.

EQUITABLE TOD FINANCE FUNDS

While there are numerous local and regional property acquisition loan funds dedicated to affordable housing, Strategic Economics knows of only two operational funds that are exclusively dedicated to transit-oriented development: the Denver TOD Fund and the Bay Area TOAH Fund. Fund descriptions are followed by lessons learned from both funds.

Denver TOD Fund (2010)

The Denver TOD Fund is a $15 million revolving property acquisition loan fund that makes below-market rate loans to the Urban Land Conservancy for projects that preserve or create affordable housing along existing and planned light rail transit corridors in the Denver area. The Denver TOD Fund aims to develop and preserve 1,000 affordable housing units near transit over 10 years and currently has 400 units in the pipeline. Although the Fund has broad affordability goals and is focused on housing for households at 60 percent Area Median Income (AMI) or below for rental and 95 percent AMI or below for ownership, it does not mandate specific levels of affordability which would restrict developers' ability to respond to permanent financing requirements. The Fund is intended to be regional in scope, but is currently limited by the local source of its top-loss grant funds to the City of Denver.

<u>Fund management & structure</u>

The Fund is managed by an internal to Enterprise Community Loan Fund (ECLF); it is not a stand-alone entity. Underwriting and decision-making are fully delegated to the community development finance institutions (CDFIs). The total current Fund is $15 million, including $2.5 million in top loss grant funds from the City of Denver, $1 million in second loss funds from Enterprise Community Partners, and $4.5 million in third loss funds from MacArthur Foundation, Rose Community Foundation and the Colorado Housing and Finance Authority. Senior debt of $5.5 million was assembled by ECLF and the Mile High Community Loan Fund. The Urban Land Conservancy, which is the sole borrower of loans, contributes 10 percent equity to every project ($1.5 million total). Investment return rates are blended to produce a loan interest rate of 3.5 percent.

The Urban Land Conservancy, the sole Fund borrower, partners with for- and non-profit developers to identify prospective opportunities and line up likely permanent financing; it then takes out a short-term loan from the fund and purchases sites and properties. It may sell the property to the development partner once permanent financing is available, or pay off the loan and lease the land for rehabilitation or development and hold the property in conservancy.

<u>Loan specifications & current deployment</u>

The Fund currently has a 10 year span, with a five year origination period, and had made six loans, with an additional loan in process at date of interview, accounting for approximately $10 million. Loans terms include a maximum $3 million loan size, three to five year loan term, 3.5 percent interest rate and maximum loan-to-value ratio of 90 percent. Loans also require strong evidence of permanent financing, a remediation plan if necessary, appropriate zoning and a viable development partner. The Fund can also make non- conforming loans. Recently, three loans have re-paid after securing permanent financing and initiating construction. While the Fund has not yet financed land for mixed-income development, this is of interest to investors.

Bay Area Transit-Oriented Affordable Housing Fund (2011)

The Bay Area TOAH Fund is a $50 million, below-market rate revolving loan fund focused on filling gaps in financing

[30] Melinda Pollack, Senior Program Director, Enterprise Community Partners, Brian Prater, Managing Director - Western Region, Low Income Investment Fund and Mike LaFave, Executive Director, Neighborhood Development Center (St. Paul/Minneapolis).

for equitable TOD in regionally- designated priority development areas across the nine-county Bay Area region. The Fund is managed by the Low Income Investment Fund (LIIF)

Seventy-five percent of housing units must be affordable to households at 80 percent of AMI or below. Use and affordability requirements are at the portfolio level to allow maximum flexibility. Eight-five percent of capital is dedicated to residential or vertical mixed-use development; 15 percent may be lent to stand-alone community or commercial facilities that expand local services.

Fund management & structure

The TOAH Fund is a stand-alone fund managed by the Low Income Investment Fund (LIIF), with loans issued by LIIF and five other national and regional CDFIs. A $10 million investment from the Metropolitan Transportation Commission, the Bay Area metropolitan planning organization, occupies the top loss position in the Fund's risk structure. Fifteen million dollars in program-related investments and flexible credit from Ford Foundation, San Francisco Foundation and Living Cities as well the six CDFIs will absorb the majority of second-tier risk. Twenty-five million dollars in senior debt from Morgan Stanley and Citi Community Capital complete the current Fund. The Fund has a special credit committee including representatives of both banks, foundations, and three CDFIs that meets monthly to review loans.

Loan specifications & current deployment

Similar to the Denver TOD Fund, the TOAH Fund has a 10-year lifespan, originating loans for the first five. The Fund offers five distinct loan products, including acquisition, predevelopment, construction bridge, and construction/mini-permanent loans, as well as leveraged loans for community/commercial facilities designed to be used with New Market Tax Credit investments. Loan specifications vary by product, but offer up to 110 percent loan-to-value ratio, seven-year terms and for acquisition loans closed in 2011, an interest rate of 4.8 to 5.75 percent depending on term. The Fund has approved three loans, with two more in the pipeline.[31] All five projects are mixed use, including community or needed commercial services, and three of the projects are mixed-income in concept, but may shift depending on whether market-rate units are feasible. Thus far, all loans are for property acquisition, but demand for other loan types is anticipated as projects advance and existing loans revolve. The Fund will be half deployed with closure of these five loans.

The Metropolitan Transportation Commission is providing an additional $15 million in grant investment in the Fund. LIIF and its partners intend to not simply upsize the current fund, but expand its products to target additional financing or funding gaps and stimulate the maximum number of units. This includes the possibility of permanent loans and innovative investment products not currently available for affordable housing, as well as grants to non-profits for project-supportive community process.

Equitable TOD Finance Funds Lessons Learned

- Ensure that the acquisition fund is aligned with other financing sources, both for the commercial component and in regards to permanent affordable financing pipeline.
- Unless the fund is going to make more than two loans, its current conception as a limited "braided" offering of assembled grant and debt sources is optimal given the administrative costs associated with a stand- alone fund. If the fund is going to expand and revolve, it needs a structure for distributing risk among investors (risk waterfall), as well as a governance structure that designates a fund manager and delegates underwriting decisions to a committee of representatives. Interview subjects felt that objective decision-making regarding loan issuance would be best facilitated by CDFI management, although most investors would require representation on a credit committee.
- Affordability (and other) requirements should be at the portfolio level to allow maximum flexibility. Depending on the scale of the fund, offer a variety of loan products that meet broader gap financing needs, not just acquisition.
- It is difficult to structure one fund to address both real estate and business lending; these involve different skill sets and are best address as distinct efforts, or would require a partnership of multiple CDFIs and/or finance agencies.
- Consider targeting non-retail community uses for the commercial space, including child care and health clinics that

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[31] The Fund, which has been up and running since March of 2011, experienced a delay in disbursement due to the end of redevelopment in early 2012. Redevelopment tax increment revenues were a major source of affordable housing funding in California.

meet neighborhood needs and strengthen struggling business districts.

- Longer-term land-banking[32] of vacant land is challenging given its usual lack of revenue-generating capacity and carrying costs associated with holding property, however below-market the loan interest rate is. Land banking of property with existing or temporary uses that provides some minimal return, or can cover costs, is more feasible.
- For the fund to expand beyond its current size of approximately $6 million, additional grant sources are likely to be needed. The scale of the fund and the cost of its products (i.e. interest rate) are driven by the amount of public grant investment & nominal interest debt from low- return foundation sources or the Housing Levy. The key desired loan traits are some combination of an interest rate at or below prime, higher loan-to-value ratio, longer term, larger loan amount, and softer recourse requirements.

Some of these terms, i.e. a lower interest rate or longer term, do not require investors to take on additional risk, but lower the financial return from the fund to investors. For the Denver and Bay area funds, program-related investments from foundations with return expectation of less than five percent, as well as grant and equity contributions, are key to lowering the cost of financing provided by these funds. For the Cornerstone Fund, Housing Levy debt with a return requirement of three percent or less is critical.

The majority of the softer terms needed for these funds, however, involve a greater risk of default given that the loans are less valuable and less securitized. Additionally, each short-term predevelopment loan bears the risk that the project will not find permanent financing. Because of this, attracting capital that has a high tolerance for risk is the first step in developing an acquisition fund; the HUD challenge grant of $1.27 million occupies the lead equity position for existing scale of the fund. To expand, additional grant contributions are needed.

OTHER DEVELOPMENT FINANCE FUNDS

In addition to the two equitable TOD finance funds, Strategic Economics also profiled a real estate development fund operated by the Neighborhood Development Center in the Twin Cities, which includes integrated technical assistance for small businesses. The program and relevant lessons learned are profiled below.

Real Estate Development Initiative, Neighborhood Development Center, (2002, Minneapolis/St Paul)

The Real Estate Development Initiative (REDI) was a program of the Neighborhood Development Center in Twin Cities, aimed at development of multiple real estate rehabilitation projects with rent-stabilized small business spaces. The Neighborhood Development Center is an economic development corporation focused on "building neighborhood economies from within;" unlike most small business-oriented economic development corporations, the NDC is focused not just on individual businesses, but the neighborhood commercial district as a whole.

In the early 2000s, in order to better support its entrepreneur clients and address large, older, decaying buildings that were detracting from the vitality of their target corridors, NDC initiated the Real Estate Development Initiative.

By going into property rehabilitation, operation and ownership, NDC could provide a more stable environment for their clients, making their support programs more effective & simultaneously helping to change the "tone" of the districts so that small businesses could thrive. Through the Real Estate Development Initiative, NDC purchased and rehabilitated six buildings with various community partners before exhausting its capital. Although the REDI fund was not re-capitalized, NCD continues to do similar projects with other funding as well as the portion of REDI funds that revolved. The following lessons are drawn from NDC's experience re-habilitating, owning and managing rent-stabilized space for small business entrepreneurs, in particular immigrant entrepreneurs.

Lessons Learned

- Easy, coordinated access to training, technical assistance and business credit is critical to the stability of small businesses and their ability to pay rent consistently as tenants. Participation in NDC's entrepreneur training classes is a necessary pre-requisite to obtaining business credit, and a common path to tenancy in their buildings.
- Reaching beyond an immigrant entrepreneur's own community through cross-cultural marketing is a critical step to

[32] Land banking is defined as holding of land for longer than three to five years in anticipation of future market acceleration or future availability of scarce permanent financing resources.

becoming a sustainable business. Many businesses owned by first generation immigrants serve only their own community; as this particular wave of immigrants become more settled and disperse, it can become harder for these businesses to remain profitable.

- Create balance in a building, or district's, tenant mix; mix riskier small businesses with larger, more stable businesses. NDC's most recent Frogtown Square project has five locally-owned, small businesses, a Subway and a chain cell phone store, as well as 50 units of affordable housing. The chain stores are critical to the financial stability of the project, and attract customers to the area. Many of the small businesses pay temporarily reduced rents.
- Employ a retail design consultant or architect to design the commercial space. It's important to have someone who can "advocate for the businesses' needs," in regards to retail lay-out and customer and delivery access.
- Clearly articulate what equitable commercial development is, and involve the community in this definition. For NDC, it's about people living in the community continuing to have opportunities to own and run businesses in their community.