



**Legislative Department  
Seattle City Council  
Memorandum**

**Date:** March 18, 2013  
**To:** Special Committee on South Lake Union  
**From:** Sara Belz and Ketil Freeman, Council Central Staff  
**Subject:** South Lake Union Rezone – Licata Affordable / Workforce Housing Proposal

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**Background and Introduction**

The Mayor’s proposal would establish an affordable housing incentive program for the South Lake Union Urban Center. Under the program residential or commercial development that exceeds a base height or floor area ratio (FAR) could gain extra floor area by either “performing,” building affordable housing, or making an in-lieu payment.

Performance would require setting aside 14% of 60% of the gross extra residential floor area above a base height. Depending on the zone, this equates to between 3.8% and 6% of the floor area in a building fully utilizing bonus development capacity. Rental units created through performance would be required to be affordable to households earning no more than 80% of Area Median Income (AMI) for 50 years.<sup>1</sup> Condominium units would be required to be affordable to households earning no more than median income also for 50 years.<sup>2</sup>

Under the Mayor’s proposal in-lieu payments would be:

- Extra Residential Floor Area: \$15.15 / gross square foot<sup>3</sup>
- Extra Commercial Floor Area: \$22 / gross square foot<sup>4</sup>

This memorandum sets out a proposal for amendments to the affordable housing incentive program proposed for South Lake Union sponsored by Councilmember Licata.

**Licata Proposal**

The proposal would change the program in South Lake Union by increasing the performance requirement and in-lieu payment amounts and setting a differential performance requirement to induce on-site performance. The Licata proposal borrows some concepts from San Francisco’s

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<sup>1</sup> A two person household earning 80% of AMI earns \$55,520 / per year.

<sup>2</sup> A two person household earning the median income earns \$69,400 / per year.

<sup>3</sup> This reflects a change from current regulations, which set the price at \$18.94 / net square foot with an assumed 80% efficiency factor for non-leasable space. The number change from net to gross results in a functionally equivalent fee.

<sup>4</sup> This price is composed of two separate in-lieu fees: 1) \$18.75 for affordable housing and 2) \$3.25 for child care.

inclusionary zoning program. Changes are summarized in the table below and compared to the Mayor’s proposal and the San Francisco model. Although not reflected in the table below, the proposal would make commensurate changes to the commercial affordable housing in-lieu fee. Since its inception, San Francisco’s differential performance requirements and pay in-lieu options have resulted in 80% of residential projects performing with on-site units, 4% have performing offsite, and 16% making an in-lieu fee payment.<sup>5</sup>

**Table 1 – Licata Proposal Comparison**

	<b>Onsite Performance</b>	<b>Offsite Performance</b>	<b>Affordability Levels</b>	<b>Payment In-lieu</b>
<b>San Francisco</b>	Affordability for 15% of all units in a building	Affordability for 20% of all units in building	Rental Units – 55% of AMI	Equal to the construction cost of units required for offsite performance (between \$364 – \$381/sq. ft. depending on unit size)
<b>Licata Proposal</b>	29% of 60% of bonus residential floor area (equates to approximately 10% of all residential floor area in a 240’ tall building fully utilizing the bonus)	43% of 60% of bonus residential floor area (equates to approximately 15% of all residential floor area in a 240’ tall building fully utilizing the bonus)	Rental Units – <ul style="list-style-type: none"> <li>▪ Half of All Affordable Units at 60% of AMI</li> <li>▪ Half of All Affordable Units at 80% of AMI</li> </ul>	\$120 / n.s.f. for 60% of extra residential floor area above the base height
<b>Mayor Proposal</b>	14% of 60% of bonus residential floor area (equates to approximately 5% of all residential floor area in a 240’ tall building fully utilizing the bonus)	Allowed with No Differential	Rental Units – 80% of AMI	\$15.15 / g.s.f. for 60% of extra residential floor area above the base height

<sup>5</sup> <http://sf-moh.org/index.aspx?page=308>.

## Financial Performance Under the Licata Proposal

Councilmembers Licata’s proposal was run through Spectrum’s model. The results are shown in the figure below. Assuming a 5.3% capitalization rate, if a developer of a 240’ residential tower chose to perform offsite or make an in-lieu payment, the return on equity would still exceed the minimum 6% hurdle rate, indicating that it could attract investment. A 5.3% capitalization rate is still conservative and exceeds 3.75% - 4.25% range for stabilized Class A residential infill projects in the current Seattle market.<sup>6</sup>

**Figure 1 – Financial Performance**

<b>Affordability Sensitivity Summary</b>		
	<b>15% of Units @ 60-80% AMI</b>	
Number of affordable units:		<b>34</b>
Land Value:	\$	10,141,463
Total Estimated Development Cost:	\$	78,293,000
Total Estimated Project Value (5.3% CAP Rate):	\$	97,110,436
Stabilized Return on Equity (ROE):		<b>6.8%</b>
Residual Land Value Increase:	\$	4,891,463
Net Project Value Increase	\$	14,402,000
Total Project Value Increase (\$):	\$	19,293,463
<b>Incentive Zoning Program Analysis</b>		
	<b>Total</b>	<b>Per NSF</b>
Pay in Lieu Fee (\$18.85/NSF Bonus Height):		
Pay in Lieu Fee <b>Equal</b> to Impact of Affordability:	\$ 11,474,090	\$ 80
Pay in Lieu Fee TDR portion (40% at \$18.75)	\$ 792,090	\$ 18.75
Pay in Lieu Fee Affordable Housing ( 60% Bonus)	\$ 10,682,000	\$ 120.76

<sup>6</sup> Spectrum Development Solutions. *South Lake Union Affordable Housing Bonus Program Review*, p.16. March 2013.