

MEMORANDUM

TO: Brennon Staley, Seattle Department of Planning and Development
Sara Nelson, Legislative Assistant for Councilmember Richard Conlin

FROM: Chris Fiori, Senior Project Manager, Heartland LLC

DATE: December 17, 2012

RE: South Lake Union Alternative Incentive Zoning Analysis

I. OVERVIEW OF HEARTLAND ENGAGEMENT WITH THE CITY OF SEATTLE:

The City of Seattle (the “City”) retained Heartland to help evaluate the potential land economics impacts that may occur should an “alternative incentive zoning” policy (the “Alternative Policy”) be employed within the South Lake Union Urban Center. The Alternative Policy would require specified portions of new residential construction in applicable zones in South Lake Union to provide affordable housing at percentages of total development specified by Department of Planning and Development (“DPD”) and summarized in Section II of this report. Heartland was tasked with comparing the potential impacts of this Alternative Policy relative to those expected under the City’s proposed use of Incentive Zoning Policy in the South Lake Union. The Alternative Policy and proposed Incentive Zoning Policy, while similar sounding terms, vary in two key ways:

1. **Mandatory participation in the City’s affordable housing program**—the Alternative Policy would require any residential development to participate in the program, regardless of height or density of the development, while the proposed Incentive Zoning policy would require provision of, or contributions towards, affordable housing only when base heights (or bulk, depending on the program in question) are exceeded.
2. **Performance**—The Alternative Policy would require affordable housing to be provided within the residential developments subject to the policy, whereas the current Incentive Zoning policy proposed for South Lake Union allows for either on-site performance or a payment of a fee-in-lieu of on-site performance.

Heartland’s analysis compared the potential land value impacts of the Alternative Policy relative to the baseline condition, which assumes use of the proposed incentive zoning policy. The City asked Heartland to opine on the following questions, in light of our firm’s current and past experience analyzing and underwriting private real estate investments and developments:

- How would the Alternative Policy likely affect the relative attractiveness of residential development in comparison to commercial development?
- How would the Alternative Policy likely affect the relative attractiveness of mid-rise residential development and high-rise residential development?
- What “order of magnitude” impact would the Alternative Policy likely have on real estate development feasibility, in aggregate, during the planning period?

To help answer these questions, Heartland developed a financial model to test potential impacts on development from a residual land value perspective (“RLV”), in addition to looking at recent land sales values as a test of reasonableness for the RLV analysis. Heartland then solicited peer review feedback from local developers. Finally, Heartland mapped the locations of properties that we deemed were likely to redevelop over a 20-year planning horizon to provide physical context for the financial analysis work.

Heartland’s analysis was limited to this comparison, and did not seek to investigate how this Alternative Policy might work in other Seattle neighborhoods, or address the potential precedent set for other neighborhoods through use of the Alternative Policy in South Lake Union.

II. KEY POLICY ASSUMPTIONS:

The City of Seattle DPD provided the regulatory assumptions for the analysis. The Alternative Policy assumptions included those listed below:

- The requirement would apply only to zones receiving a “substantive” upzone through South Lake Union rezone, including the following proposed zones: SM 85/65-160, SM 85/65-240, SM 85-240, SM 160/85-240, SM 240/125-400, and SM 125.
- The requirement would apply to projects that have any residential floor area; for mixed use projects, the percentage requirement would be based on the total amount of residential and commercial in that project unless the commercial portion was gained through incentive zoning.
- The percentage requirement under the Alternative Policy would be structured such that a project maximizing their floor area would be required to provide that same number of units as under the proposed incentive zoning proposal. Based on likely FAR calculations for residential project assuming the minimum podium size and a lot size of 23,000 square foot, percentage requirements were calculated as shown in the following table:

Zone	Estimated Base FAR	Estimated Max FAR	% affordable units
SM 85/65-160	4.5	8.3	3.8%
SM 85/65-240	4.5	13.5	5.6%
SM 85-240	6	13.5	4.7%
SM 160/85-240	6	13.5	4.7%
SM 240/125-400	10	20	4.2%
SM 125	5	8	3.2%

The assumptions for the baseline condition, assuming the proposed Incentive Zoning policy, are given in the proposed South Lake Union rezone. Residential development exceeding the base heights (85 feet) would be required to provide affordable housing equal to 14% of the residential bonus areas obtained through affordable housing, or pay \$15.15 per gross square foot of the total residential bonus floor area obtained through affordable housing as a fee-in-lieu of performance. Of the total residential bonus floor area possible for eligible projects within the rezone, 60% of the residential bonus floor area would need to be achieved via affordable housing and 40% could be achieved via other public benefits, including regional Transferable Development Rights (“TDR”). One challenging part of the analysis is that residential bonus floor area in the proposed Incentive Program is calculated based on building height, with any floor area exceeding 85 feet being subject

to bonus floor area provisions, while the Alternative Policy is solely calculated based on FAR. To develop the inclusionary zoning percentages in the table above, DPD made assumptions regarding base FAR under the proposed legislation, which Heartland has applied in this analysis. A graphical depiction comparing the two policies on a development utilizing the full allowable FAR is found in Appendix 1. The Alternative Policy under consideration would not affect commercial uses, except as highlighted in the second bullet of this section.

III. SUMMARY OF FINDINGS

Heartland's financial analysis tested the potential impact on "typical" residential high-rise and mid-rise projects for each of the zones deemed by the City to be receiving "substantial" upzones, which helped to inform the summary responses to key questions posed by the City. A residual land value (RLV) analysis was used to determine whether development is likely to occur relative to "typical" existing uses, as well as how alternative development uses (e.g., office, residential) would be likely to compete against each other for land. Functionally, the RLV indicates the amount of land value that each type of use can "afford," with the highest bidder on any given property being the likely user, assuming a landowner is seeking to maximize asset value. Heartland's analysis examined the amount of potential impact that the subject Alternative Policy would be likely to have on residual land value for typical high-rise and mid-rise residential development.

Heartland's analysis indicates that the Alternative Policy has two substantial impacts on land economics, relative to the baseline incentive zoning assumption:

- 1. Mid-rise residential development economics likely will be adversely affected by the Alternative Policy's requirement for participation in the affordable housing program, where participation would not be required under the currently proposed incentive zoning.** Heartland's financial analysis indicated that the Alternative Policy in question would result in a reduction of residual land value of between 8% and 15% for a "typical" mid-rise residential development, depending on the affected zoning designation.¹ This reduction in what a mid-rise project developer would be willing to pay for land may or may not be a substantial enough impact on land value to affect decisions on a significant number of properties. Mid-rise projects would be subject to the provision of affordable housing under the Alternative Policy, but would not under the proposed incentive zoning policy. The potential effect of this value reduction is that some amount of land that might otherwise have been developed as mid-rise residential may redevelop as commercial uses due to the existence of the Alternative Policy relative to the baseline condition.
- 2. High-rise residential development economics likely will be adversely affected by removal of the fee-in-lieu of performance payment option contemplated by the Alternative Policy.** As indicated in the assumptions articulated by DPD, the inclusionary percentage requirement would be structured such that a project maximizing their FAR would be required to provide that same number of units as under the current non-inclusionary, incentive zoning, proposal. However, the effective opportunity cost of on-site performance is much greater than the payment-in-lieu which is set at \$15.15, as is assumed in the base condition. This impact may reduce land value for high-rise development by between 6% and

¹ Assuming income, development cost, and capital costs that Heartland deemed typical of the market area, and assuming a 23,000 square foot lot size that DPD requested be assumed as prototypical lot size.

16%, depending on the affected zoning designation.²

3. **Development economics for high-rise projects that “under-build” the maximum FAR likely will be adversely affected by the mandatory performance standards and by removal of the fee-in-lieu of performance payment option contemplated by the Alternative Policy.** The inclusionary percentages are calculated on the basis of the potential maximum FAR. Therefore, high-rise developments that are developed to less than the maximum FAR (e.g., 10.0 FAR out of an allowed 13.5 FAR in the SMC 160/65-240 zone), will feel the effects of both having to provide more units than would be the case under the proposed incentive zoning and having to provide them at a per-square foot cost that exceeds that which would be possible with a fee-in-lieu payment. These two factors combine to reduce what such a project would be able to pay for land under the Alternative Policy.

A summary table of Heartland’s financial analysis outputs for both the SMC 160/65-240 zone and the SMC 85/65-240 zone may be found in Appendix 2.

Heartland’s residual analysis indicates that the Alternative Policy will have a varying degree of adverse impact to residential land value depending on residential product type (high-rise vs. mid-rise) and zoning designation (for the six zoning designations considered in this analysis). Understanding the degree to which these adverse impacts to residual value for residential development would affect the amount of residential and commercial development over a 20-year planning period is exceptionally challenging. That said, Heartland utilized the financial analysis model in combination with prior professional experience to attempt to answer the questions posed by the City.

1. How would the Alternative Policy affect the relative attractiveness of residential development in comparison to commercial development?

In an attempt to best answer this question, Heartland has divided the response into three sub-questions, posed below.

a. Would the Alternative Policy adversely impact residential development economics in comparison to commercial development?

The Alternative Policy is likely to have some amount of adverse impact on development economics for residential projects, but is expected to have no effect on commercial development; therefore the Alternative Policy is likely to make residential development less attractive than commercial development relative to the baseline assumption.

b. Would the impact be of an order of impact large enough to affect real estate decisions (i.e., development as residential vs. commercial)?

The propensity for the anticipated level of adverse land value impact to affect real estate decision-making is highly speculative. It is a function of the degree to which residential land values have been disadvantaged relative to competing (office) land values, as well as a function of the number of place, or amount of land area, that is likely to be affected. The

² See Appendix 5 for discussion of the per-unit cost impacts for affordable housing provision.

two potential residential product types with the greatest potential to be adversely affected are mid-rise development (FAR 6.0 or less) and high-rise development that “under-builds” the allowed FAR by a substantial margin (e.g., 10.0 FAR where 13.5 FAR is allowed).

With respect to mid-rise residential, which is assumed to have a FAR of 6.0 in the SMC 160/65-240 zone,³ the Alternative Policy has the potential to reduce the value that a mid-rise development can afford below that of office uses in some cases. As is seen in the table below, the residual land value for a typical mid-rise development is reduced approximately 11% (from \$330 to \$296) per square foot of land due to the imposition of the Alternative Policy, holding all other factors constant. In comparison, a typical office development in South Lake Union could afford to pay about \$300 per square foot for land. In this example, which we deem to be a fair generalization of current land price dynamics in the zone in question, the Alternative Policy undermined the land value advantage that had been held by residential uses under the proposed incentive zoning.

Potential Effect of Inclusionary Zoning Policy on Mid-Rise Development RLV: SM 85/65-240 Example				
	Typical Mid-Rise Residential Development			Typical Office Development
Future Opportunity	Incentive Policy	Inclusionary Policy		
Zone	(SM 85/65-240)	(SM 85/65-240)		(SM 85/65-240)
Max FAR*	6.0	6.0		7.0
Value	\$47.9 M	\$47.03 M		\$80.5 M
Cost**	\$40.3 M	\$40.3 M		\$73.6 M
RLV	\$7.6M	\$6.8 M	vs.	\$6.9M
Land SF	23,000	23,000		23,000
RLV/SF	\$330	\$296		\$300
Change in Value Relative to Baseline	N/A	-11%		0%
Check: Compare to Land Sales				
\$/FAR	\$55.07	\$49.28		\$39.75
SF Dev	138,000	138,000		161,000
Units	153	153		N/A
RLV/Unit	\$35,870	\$31,304		N/A
Mandated 80% AMI units	0	6		N/A
Developer "Cost" per Unit	N/A	118,000		N/A
Approximate Market-Rate Units AMIs	80%-130%	80%-130%		N/A
*5.0 base FAR and 7.0 FAR with Bonus FAR				
**Including cost to capital (profit)				

With respect to high-rise residential, which is assumed to have a maximum FAR of 13.5 in the SMC 160/65-240 zone,⁴ the Alternative Policy has the potential to make commercial land uses much more economically competitive with residential uses than would be the case under the proposed incentive zoning. The table on the following page displays two typical high-rise development projects under each of the zoning policies. The first set of columns on the left compares RLV for a project built to the full allowed 13.5 FAR and the second

³ FAR is assumed by DPD. The SMC 160/65-240 zone comprises the majority of the study area.

⁴ FAR is assumed by DPD.

compares RLV for a project built to 10.0 FAR. Even after the costs incurred under the Alternative Policy relative to the baseline, the 13.5 FAR project can still afford to pay \$435 per square foot in the example. This is still far above the office land value of \$300 per square foot, which is assumed to be same that that show in the mid-rise example. However, the 10.0 FAR project’s value is reduced by almost 17%, from \$383 to \$317 per square foot. The most of the advantage relative to office uses enjoyed under the incentive zoning proposal is eliminated by the Alternative policy.

Potential Effect of Inclusionary Zoning Policy on High-Rise Development RLV: SM 160/65-240 Example				
	Typical High-Rise Residential Development		Typical High-Rise Residential Development	
	@ 13.5 FAR (max FAR)		@ 10.0 FAR ("Under-Build")	
Future Opportunity	Incentive Policy	Inclusionary Policy	Incentive Policy	Inclusionary Policy
Max FAR	13.5	13.5	10	10.0
Value	\$131.1 M	\$129.6 M	\$97.0 M	\$95.5 M
Cost**	\$119.5 M	\$119.5 M	\$88.1 M	\$88.1 M
RLV	\$11.6M	\$10.0M	\$8.8 M	\$7.3 M
Land SF	23,000	23,000	23,000	23,000
RLV/SF	\$504	\$435	\$383	\$317
Change in Value Relative to Baseline	N/A	-14%	N/A	-17%
Check: Compare to Land Sales				
\$/FAR	\$37.36	\$32.21	\$38.26	\$31.74
SF Dev	310,500	310,500	230,000	230,000
SF/Unit	900	900	900	900
Units	345	345	256	256
RLV/Unit	\$33,623	\$28,986	\$34,435	\$28,565
Mandated 80% AMI units	16	16	0	6
Developer "Cost" per Unit	N/A	194,000	N/A	194,000
Developer Cost/Bonus SF	\$15.15	N/A		
Approximate Market-Rate Units AMIs	150%+	150%+	150%+	150%+

*5.0 base FAR and 7.0 FAR with Bonus FAR
 **Including cost to capital (profit)

It should be noted that the “typical” mid-rise and high-rise residential development projects and “typical” office developments illustrated above are gross generalizations of the dynamics occurring in different circumstances and at certain points in time. Two of the largest factors to note when looking at this type of analysis include:

- First, values for residential or office may vary by geography within each zoning designation. Such is certainly the case with the SM 160/65-240 zone, which spans an area from Amazon’s campus in the center of the planning area to Aurora Avenue on the west, and almost the entire north-south axis extent of the planning area, as displayed in Appendix 2. Residential values are arguably fairly consistent across that zone, but office values may vary substantially, based on proximity to the heart of the existing commercial activity in South Lake Union. Therefore, the comparison between residential and office RLV could vary across the zoning designations.
- Second, demand drivers are typically cyclical, especially for office uses, such that the values for both residential and office uses rarely accelerate and decelerate

simultaneously over time. The analysis will almost certainly look different in 2020, or even 2015, than it does in 2012.

Heartland's professional opinion is that the values for commercial and mid-rise residential uses are generally close enough that a 8-17% reduction in land value for residential development could tip the scale towards commercial development in certain locations within the study area and in certain periods of development cycles that are likely to occur over the next 20 years.

c. If the impact is potentially large enough to effect real estate decision-making, what is the prevalence of places in the planning area where that might occur?

The extent to which mid-rise residential uses are viable in the planning area drives the answer to this question. Heartland's understanding of the proposed zoning for South Lake Union is that, even with the new, predominantly "high-rise" zoning in place in the future, the zones under consideration are likely to produce some amount of mid-rise development, both due to regulatory requirements (e.g., tower limitations of two per block over most of the planning area) and due to market demand for a lower-cost product that is most easily provided via mid-rise "5-over" developments. To get a sense for the number of affected properties, Heartland developed a map of the planning area and divided the area's properties (within the subject zones) into existing development that has been built within the last 15-20 years, near-term (pipeline) properties in the process of development, mid-term properties likely to develop in the planning period and long-term redevelopment opportunities. Within the mid-term properties, we identified location blocks where: 1) per-block tower limits would result in some mid-rise development and 2) places where the Lake Union flight path could put a constraint on height. Heartland's high-level estimate is that there may be up to 1 million square feet of land meeting these criteria, or **about 15 % of the total** land in the area of the planning area affected by the subject Alternative Policy.

Finally, given the how much residential development is advantaged when compared to commercial development in terms of maximum FAR, high-rise development will outcompete offices uses in many cases, depending on demand for high-end units. That situation is not likely to be affected by the subject Alternative Policy.

2. How would the Alternative Policy likely affect the relative attractiveness of mid-rise residential development and high-rise residential development?

The Alternative Policy as assumed, with the removal of the fee-in-lieu provision (required for on-site performance) for participation in the affordable housing program, is likely to have negative impacts on RLV for both mid-rise and residential housing, and thus the affect on the propensity to build one versus the other is uncertain.

However, were the mandatory performance option to be decoupled from the Alternative Policy and a fee-in-lieu payment allowed, at the percentages specified by DPD,⁵ mid-rise development

⁵ The inclusionary percentage would need to be translated into a \$/SF amount for this to work in terms of program mechanics.

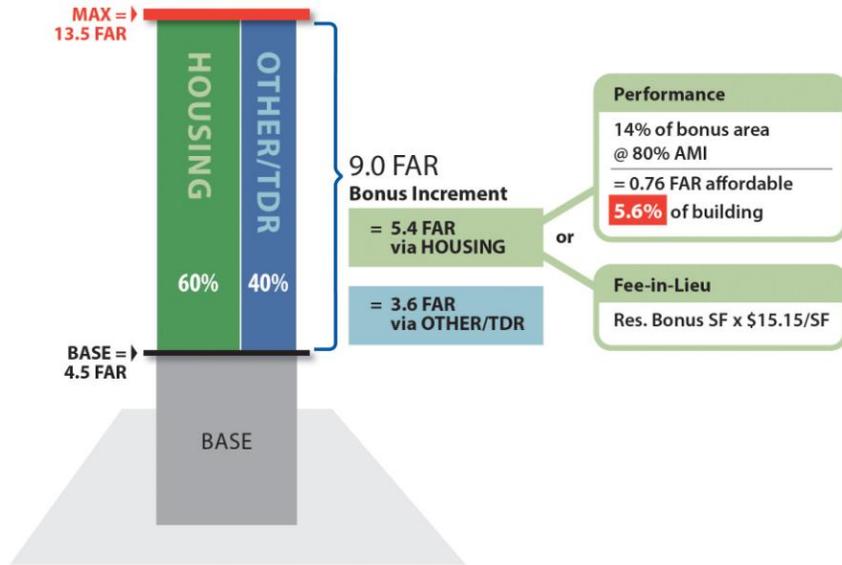
would be relatively less attractive compared to high-rise development under the subject Alternative Policy, than would be the case under the baseline condition. High-rise development generally would be bearing a cost that currently exists in the proposed incentive program and mid-rise programs would be burdened by a cost that does not exist under the currently proposed program.

3. What “order of magnitude” impact would the Alternative Policy likely have on real estate development feasibility, in aggregate, during the planning period?

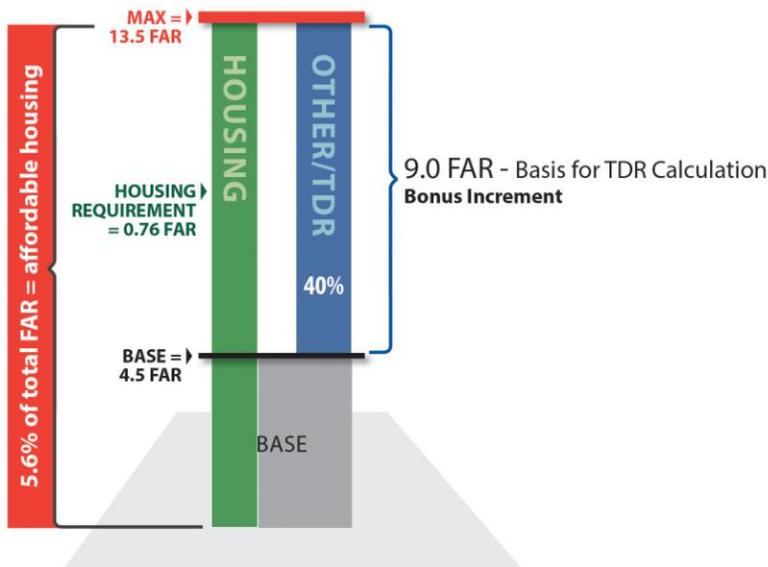
The impact of the Alternative Policy largely involves competition among alternative redevelopment uses rather than overall redevelopment feasibility. The contrasting situation would be where a public benefits policy threatens the viability of redevelopment in its totality; public policy functionally pushes the land value for redevelopment uses below the acquisition price of land in its existing use. This Alternative Policy could modestly delay the redevelopment of certain parcels of land in the study area over the planning period, but the aggregate effect of this Alternative Policy pales in comparison to the impact of other macro-economic factors, along with other local public and private investment decisions.

APPENDIX 1: Depiction of the proposed Incentive Zoning Policy Compared to the Alternative Policy

SM 85/65-240 Zone - Incentive **A** Currently Planned "Incentive" Program



SM 85/65-240 Zone - Full Build Out **B** Inclusionary Policy ("Mandatory Incentive" Policy)



APPENDIX 2: Financial Analysis Tables

The Table below depicts the impact of the Alternative Policy on residential property in the SMC 160/65-240 zone.

- The first two columns on the left compare the residual land values for mid-rise development assuming a 6.0 FAR. The inclusionary zoning shown in the second column, would require the production of 7 units of housing at 80% AMI.
- The two center columns on the compare the residual land values for a high-rise development assuming full use of the 13.5 FAR. The inclusionary zoning shown in the second column, would require the production of the same number of housing units (6) at 80% AMI as the proposed incentive zoning, but the effective “cost” per unit would be almost twice as high.
- The two columns on the right compare the residual land values for a high-rise development assuming build-out to 10.0 FAR, which below the maximum 13.5 FAR. The inclusionary zoning shown in the second column, would require the production of four (4) more housing units at 80% AMI, and the effective “cost” per unit would be almost twice as high.

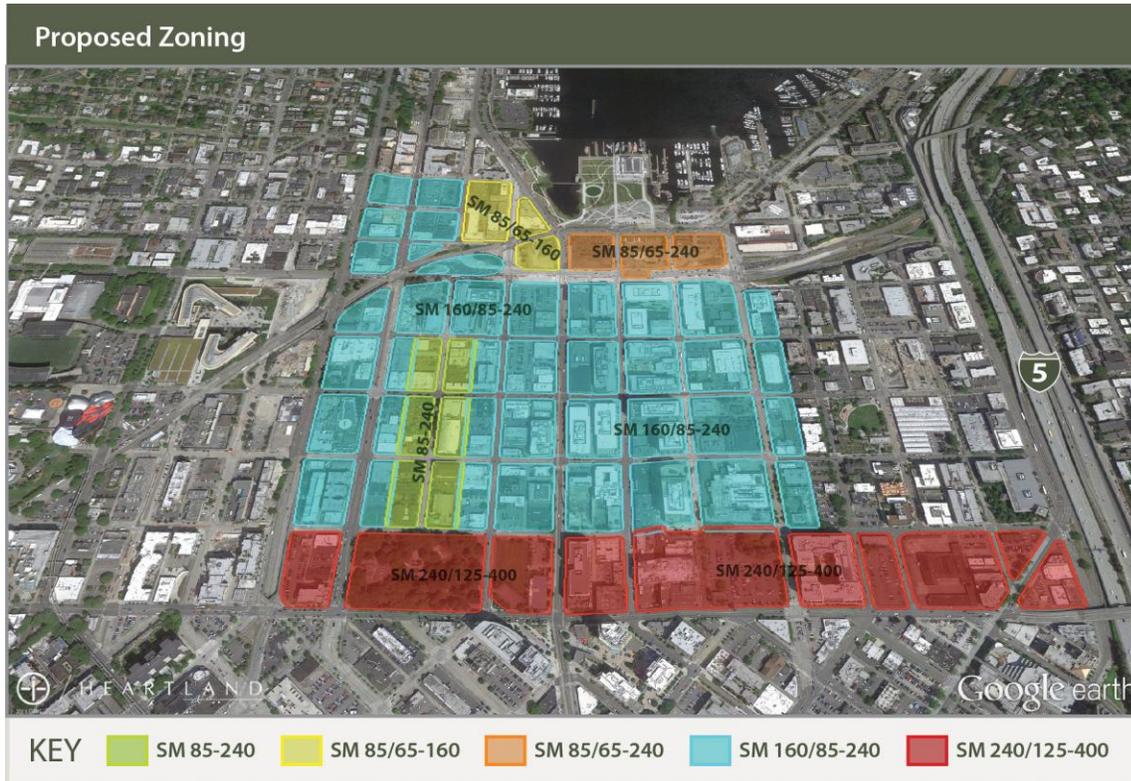
Summary of Impacts - SM 160/65-240 Zone						
Summary of Project-Level Returns						
Zoning	Mid-Rise (6.0 FAR)		High-Rise (13.5 FAR)		High-Rise (10.0 FAR)	
	SM 160/85-240	SM 160/85-240	SM 160/85-240	SM 160/85-240	SM 160/85-240	SM 160/85-240
Buildout	Mid-Rise	Mid-Rise	High-Rise	High-Rise	High-Rise	High-Rise
Public Benefits Program						
Affordable Units Calculation	Incentive	Inclusionary	Incentive	Inclusionary	Incentive	Inclusionary
Performance (Fee-in-lieu v. Performance)	Option	Performance	Option	Performance	Option	Performance
Affordable Units	0	7	16	16	9	12
"Cost" of Affordable Housing Provision	\$0	\$846,768	\$1,568,025	\$3,138,782	\$836,280	\$2,325,024
Cost/Unit	\$0	\$118,000	\$97,393	\$194,400	\$97,393	\$194,400
A. Project Value	\$ 47,928,337	\$ 47,081,569	\$ 131,145,087	\$ 129,574,330	\$ 97,020,793	\$ 95,532,049
B. Supportable Total Project Cost						
Underwriting Hurdle Cost "Entrance Value"	6.20%	6.20%	6.40%	6.40%	6.40%	6.40%
	\$ 42,517,073	\$ 41,670,305	\$ 112,482,306	\$ 110,911,549	\$ 83,259,642	\$ 81,770,898
C. Project Cost (before land and return to capital)	\$ 34,899,320	\$ 34,899,321	\$ 100,830,043	\$ 100,830,043	\$ 74,434,578	\$ 74,434,578
D. Value Remaining for Land (RESIDUAL) (B less C)	\$ 7,617,753	\$ 6,770,984	\$ 11,652,263	\$ 10,081,506	\$ 8,825,064	\$ 7,336,320
PSF Land	\$ 331	\$ 294	\$ 507	\$ 438	\$ 384	\$ 319
Per Unit	\$ 53,899	\$ 47,908	\$ 34,992	\$ 30,275	\$ 36,234	\$ 30,122
Resulting Margin on Cost for Development	13%	13%	17%	17%	17%	17%
Summary of Project-Level Returns (Per Square Foot Basis)						
A. Project Value	\$ 347	\$ 341	\$ 422	\$ 417	\$ 422	\$ 415
B. Underwriting Hurdle Cost "Entrance Value"	\$ 308	\$ 302	\$ 362	\$ 357	\$ 362	\$ 356
C. Supportable Total Project Cost	\$ 253	\$ 253	\$ 325	\$ 325	\$ 324	\$ 324
D. Value Remaining for Land (RESIDUAL) (B less C)	\$ 55	\$ 49	\$ 38	\$ 32	\$ 38	\$ 32
PSF Land	\$ 331	\$ 294	\$ 507	\$ 438	\$ 384	\$ 319
FAR	6.0	6.0	13.5	13.5	10.0	10.0
Land Value Differential		-11%		-13%		-17%

The Table below depicts the impact of the Alternative Policy on residential property in the SMC 85/65-240 zone, which is very similar to those projected in SMC 160/65-240 zone shown on the prior page, with small differences in impact due to assumed base FAR (4.5 for mid-rise) and specified inclusionary percentages.

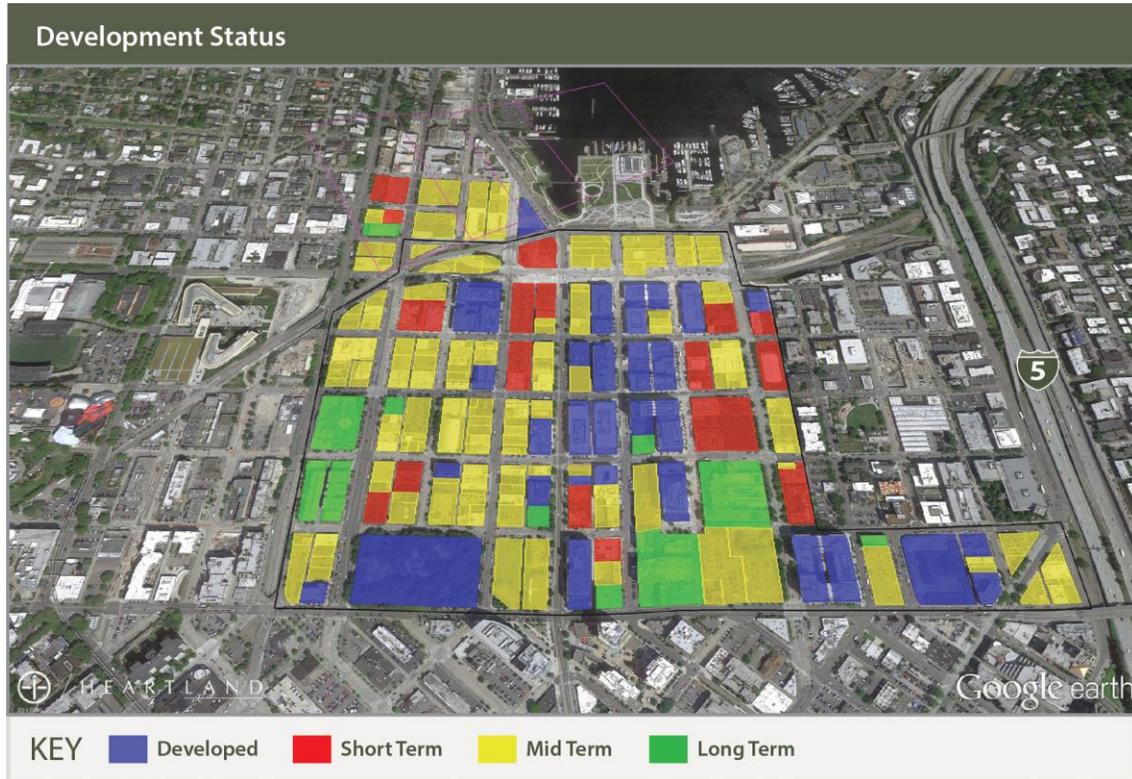
Summary of Impacts - SM 85/65-240 Zone						
Summary of Project-Level Returns						
Zoning	Mid-Rise (4.5 FAR)		High-Rise (13.5 FAR)		High-Rise (10.0 FAR)	
	SM 85/65-240	SM 85/65-240	SM 85/65-240	SM 85/65-240	SM 85/65-240	SM 85/65-240
Buildout	Mid-Rise	Mid-Rise	High-Rise	High-Rise	SM 85/65-240	SM 85/65-240
Public Benefits Program						
Affordable Units Calculation	Incentive	Inclusionary	Incentive	Inclusionary	Incentive	Inclusionary
Performance (Fee-in-lieu v. Performance)	Option	Performance	Option	Performance	Option	Performance
Affordable Units	0	6	19	19	12	14
"Cost" of Affordable Housing Provision	\$0	\$757,206	\$1,881,630	\$3,742,394	\$1,149,885	\$2,772,144
<i>Cost/Unit</i>	\$0	\$118,000	\$97,393	\$194,400	\$97,393	\$194,400
A. Project Value	\$ 36,050,226	\$ 35,293,020	\$ 130,831,482	\$ 128,970,718	\$ 96,707,188	\$ 95,084,929
B. Supportable Total Project Cost						
Underwriting Hurdle Cost "Entrance Value"	6.20%	6.20%	6.40%	6.40%	6.40%	6.40%
	\$ 31,980,039	\$ 31,222,833	\$ 112,168,701	\$ 110,307,937	\$ 82,946,037	\$ 81,323,778
C. Project Cost (before land and return to capital)	\$ 26,427,582	\$ 26,427,584	\$ 100,830,043	\$ 100,830,043	\$ 74,434,578	\$ 74,434,578
D. Value Remaining for Land (RESIDUAL) (B less C)	\$ 5,552,457	\$ 4,795,249	\$ 11,338,658	\$ 9,477,894	\$ 8,511,459	\$ 6,889,200
PSF Land	\$ 241	\$ 208	\$ 493	\$ 412	\$ 370	\$ 300
Per Unit	\$ 53,907	\$ 46,556	\$ 34,050	\$ 28,462	\$ 34,947	\$ 28,286
Resulting Margin on Cost for Development	13%	13%	17%	17%	17%	17%
Summary of Project-Level Returns (Per Square Foot Basis)						
A. Project Value	\$ 348	\$ 341	\$ 421	\$ 415	\$ 420	\$ 413
B. Underwriting Hurdle Cost "Entrance Value"	\$ 309	\$ 302	\$ 361	\$ 355	\$ 361	\$ 354
C. Supportable Total Project Cost	\$ 255	\$ 255	\$ 325	\$ 325	\$ 324	\$ 324
D. Value Remaining for Land (RESIDUAL) (B less C)	\$ 54	\$ 46	\$ 37	\$ 31	\$ 37	\$ 30
PSF Land	\$ 241	\$ 208	\$ 493	\$ 412	\$ 370	\$ 300
FAR	4.5	4.5	13.5	13.5	10.0	10.0
Land Value Differential		-14%		-16%		-19%

APPENDIX 3: Maps of the South Lake Union Planning Area

The map below identifies the zoning designations in South Lake Union that would be subject to the Alternative Policy.

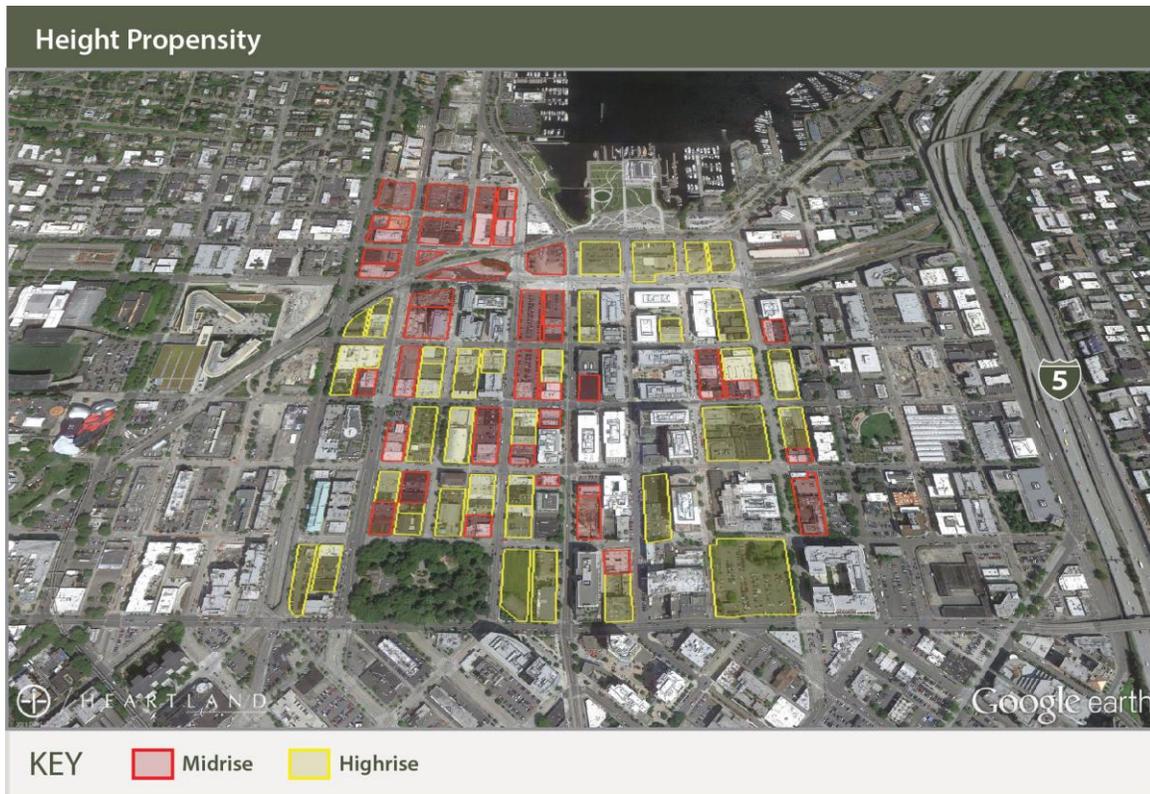


The map below visualizes Heartland’s assessment of the likely redevelopment period for the area in South Lake Union that would be subject to the Alternative Policy. “Mid-Term” properties shaded and yellow would be most likely to redevelop over the next 20 years.



The map below visualizes Heartland’s assessment of general extent of potential mid-rise development, as defined in this analysis, for properties that Heartland deems likely to be redeveloped over the next 20 years, including projects currently in permitting or under development.

NOTE: This map was made as an *illustrative example* of development that may occur, particularly for projects that are not yet in development or in permitting. Given potentially the location of properties we deemed to be redevelopable over the planning period in light of proposed development regulations. This map is not intended to predict development on a parcel-by-parcel basis but instead is useful to gain a general sense for how much land could be used for mid-rise development over the 20-year planning horizon.



APPENDIX 5: Opportunity Cost per Affordable Housing Unit Assumptions

The cost to a development requiring on-site “performance” for the provision of affordable housing varies greatly by real or perceived opportunity cost of the foregone market rate rent (or sales price). The opportunity cost for a project delivering market-rate units at, for example, 100% of Area Median Income (AMI) is much less than a luxury project delivering at 150-200% of AMI, or more. The rent-restricted income is assumed to be 80% of AMI.

- For a typical “5-over” market rate project in Seattle, the performance option, which is provision of 14% of residential bonus area at income level limited to 80% AMI or less, may be more or less as attractive than the fee in lieu payment of \$15.15 per square foot of residential bonus area. For a high-rise project, the performance cost is very likely to be greater than \$15.15 per residential bonus area square foot. This is because rents for a high-rise project are assumed to be higher than for a mid-rise project, thus the average per-unit opportunity cost for each unit provided at 80% AMI is greater than for a mid-rise project. The exact per unit costs depends to a great deal on the size of the units provided, as the AMI limits are set as unit price points, rather than per-square-foot rent costs.
- Heartland’s analysis found the following blended average “cost” per affordable unit, which is functionally the present value of the difference in rent between the average rent restricted unit and the potential market rate, discounting the future value at a market appropriate risk adjusted rate of return:
 - “Typical” Mid-Rise Units (rents at \$2.50 per net rentable square foot)—**\$119,000**.
 - “Typical” High-Rise Unit being underwritten (for apartment uses predominantly) today (approximately \$3.00 per net rentable square foot)—**\$195,000** per 80% AMI affordable unit.
 - “Luxury” High-Rise that is potentially possible in the study area in the near future, assuming current market trends in prices and rents continue (approximately \$4.30 per net rentable square foot, or sales price of \$670 per sellable square foot)—**\$400,000** per unit.
- The resultant “cost” per gross residential bonus floor area varies as well. The developer of a high-end building may find the performance cost per unit (providing affordable housing on-site) to be far more expensive than the fee-in-lieu cost, on a per square foot basis.
 - At a **\$119,000** per unit subsidy over 14% of the units, and assuming 900 gross square feet per unit, the performance option “costs” the developer **\$18.15** per residential bonus square foot.
 - At a **\$195,000** per unit subsidy over 14% of the units, and assuming 900 gross square feet per unit, the performance option “costs” the developer **\$30.33** per residential bonus square foot.
 - At a **\$400,000** per unit subsidy over 14% of the units, and assuming 900 gross square feet per unit, the performance option “costs” the developer **\$62.00** per residential bonus square foot.