Topic: Affordable Housing

July 17, 2017 City Council Study Session

The Affordable Housing Strategy adopted by the Council in June of this year includes the expanded use of voluntary inclusionary zoning.

> *Action C4. Inclusionary zoning: Increase density as an incentive to provide affordable units in new development.*
>
> *Initial Council feedback indicated a strong preference for a voluntary program. Under this approach the incentives will be tailored to each of the city's growth areas based on the vision, planned growth, market factors and the economics of development to optimize the effectiveness and productivity of the program. In addition, the multifamily tax exemption (MFTE) program will be updated (Action C-3) to work in conjunction with zoning incentives to produce additional affordability. Other actions and partnerships will be explored (Action E-2) to help deepen affordability.*

As the City's primary growth area, and the fastest growing residential neighborhood, Downtown is expected to be part of this voluntary inclusionary approach. The Planning Commission recommendations reflect this expectation, and include a placeholder provision in Section 20.25A.070.C.2. The recommended approach is to allow for an affordable housing density bonus in the form of a 1.0 floor area ratio (FAR) exemption. This FAR will applied by allowing an appropriate share of market rate units for each affordable unit produced, to account for the impact of reducing rents from market rent levels to affordable rent levels.

<u>What is the appropriate ratio of market rate to affordable units to qualify for the FAR exemption?</u>
Determining the correct ratio relies on an economic analysis to identify the point at which the affordable housing FAR exemption is a likely incentive to development. This analysis was conducted by the same consultant that earlier analyzed the Downtown amenity incentive system, using the same proforma development models. BERK examined each of the downtown land use districts to estimate the potential incremental value per square foot (sf) for the exempt FAR, assuming various ratios of market rate to affordable units. If the incremental value is greater than the $25 amenity incentive exchange rate (after taking a significant discount for a developer margin), then it is likely the exempt FAR is competitive with the amenity system, and will function as a development incentive.

This analysis resulted in a proposed ratio in the range of 2-3 market rate units for each affordable unit. The staff recommendation is to set the ratio at 2.5 market rate units for each affordable unit produced, to earn up to the maximum of 1.0 FAR exemption for each Downtown district.

Staff also recommends that the exempt FAR be used only within the building dimensional envelope in the Planning Commission recommendations, which resulted from much discussion and analysis of the right urban form for Downtown. There will be a few circumstances in which all or a portion of this exempt FAR cannot be used within the allowed building dimensions. It is not expected that every development will use this affordable housing incentive.

How should the 1.0 FAR exemption interface with the multifamily property tax exemption (MFTE)?
At the July 10 Council study session, the question came up as to how the proposed Eastgate affordable housing density bonus would interface with the MFTE available for affordable housing. The same question applies to the Downtown.

The Affordable Housing Strategy includes Strategy C-3: *Update existing tax exemption programs for affordable housing to increase participation by developers of new housing.* Staff is assuming this update will occur in the near term.

Currently the MFTE requirements for Downtown and most MFTE target areas are as follows:

- 10% of all dwelling units in the project are affordable at 60% (or less) of the King County median income, adjusted for household size (AMI); and
- 10% are affordable at 70% (or less) AMI.
- Any unit of 300 sq. ft. or less must be affordable to household incomes 45% (or less) of the median.

The exception is BelRed, where the MFTE was designed to overlap with the incentive zoning system, and thus the MFTE affordability provision is somewhat more stringent. This is to account for a development receiving benefits from both an increase in development capacity as well as the property tax exemption. The BelRed provisions are as follows:

- 10% of all units are affordable at 50% of AMI, as opposed to 60% AMI in other target areas.
- Other provisions are identical.

Staff's current thinking is that when the MFTE program is updated (which is expected in the near term), the approach for Downtown would be similar to BelRed. Where a developer chooses to use both the FAR exemption and the MFTE, the MFTE affordability would be somewhat deeper than for a development that uses the MFTE alone. This would account for a project receiving both the density bonus and property tax benefits.

Summary of Recommendation

In summary, the Planning Commission recommended that a 1.0 FAR exemption be allowed as an incentive for affordable housing, and left a placeholder for development of specifics in the final Code, based in part on the outcome of the Affordable Housing Strategy. Staff recommends the following specifics to flesh out this placeholder provision:

- Allow up to 1.0 exempt FAR for each Downtown land use district. To utilize this FAR, development must provide 1 residential unit affordable at 80% AMI for every 2.5 market rate units.

- The affordable units must be of the same unit mix, general design, and exterior finish as the market rate units, and affordable for the life of the project.

- For Downtown, the new FAR exemption would supplant the 15% city-wide affordable housing density bonus.*

- When the MFTE program is updated per the Affordable Housing Strategy, it should incorporate the potential combined use of the Downtown affordable housing exemption with the MFTE, as described above, similar to the existing approach for BelRed.

- Given the dynamic development environment, the ratio of market-rate to affordable units should be periodically reviewed to ensure the provision is working as intended. This is consistent with the Planning Commission's recommendation on periodic review of the incentive zoning system and is suggested to be done on a 5-7 year cycle that corresponds with the incentive zoning update.

* It is important to note that there has been some limited use over the last couple of years in the Downtown of the existing 15% affordable housing density bonus available city-wide. This recent use of the affordable housing density bonus is its first use in the Downtown since its inception over 20 years ago. Staff does not believe that this represents a broader trend.