City of Seattle
Edward B. Murray, Mayor

TO: Councilmember Mike O'Brien, Chair, Select Committee on Housing Affordability

FROM: Steve Walker, Director, Office of Housing
Diane M. Sugimura, Director, Department of Planning and Development

DATE: October 5, 2015

SUBJECT: Mandatory Affordable Housing – Commercial Program Clarifications

The purpose of this memo is to provide clarifying information and further background for the proposed framework for the Mandatory Affordable Housing – Commercial program, as proposed by Council Bill 118498. We understand additional questions have been raised since introduction of the legislation to City Council on September 8, 2015. This memo addresses three topics:

- Questions about the rent and income limit for rental housing developed under the Mandatory Housing Affordability - Commercial program.
- Derivation of Supportable Performance Requirements from the Affordable Housing Impact and Mitigation Study produced by David Paul Rosen and Associates (DRA).
- Whether in-lieu payments allowed under the program achieve a result equal to or better than providing affordable housing on-site.

Rent and Income Limits for the Mandatory Housing Affordability – Commercial program

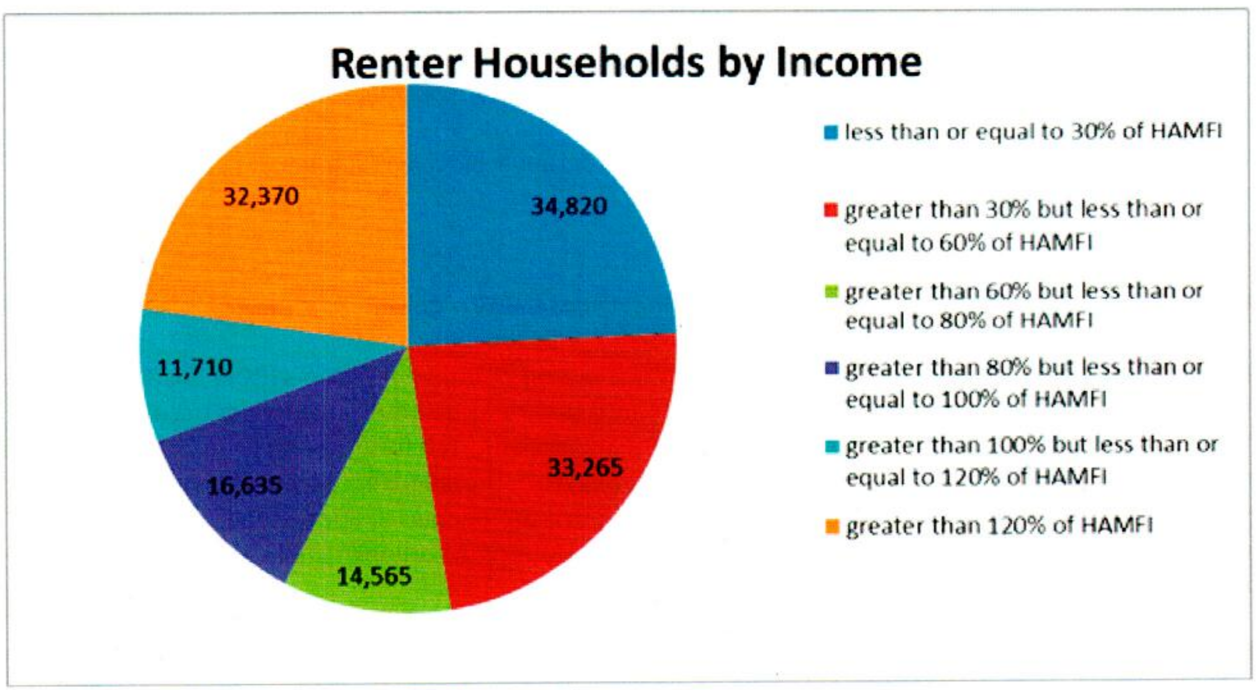
As you know, the state statute authorizing affordable housing incentive programs (RCW 36.70A.540) requires that rental housing units developed under such programs be affordable to and occupied by households with an income of 50% of median income or less, adjusted for household size. The statute allows jurisdictions, after holding a public hearing, to establish higher income levels – not to exceed 80% of AMI – upon finding that higher income levels are needed to address local housing market conditions. The City Council Select Committee on Housing Affordability held a public hearing on Council Bill 118498 on September 30, 2015.

Average rents for apartments in Seattle are not affordable to households with incomes at the 30%, 60%, and (except for studios) 80% of AMI levels, and the gap is even greater for apartments in newer buildings. The following table estimates the affordability of average apartment rents in 20-plus unit buildings located in Seattle, as a percent of area median income.

Unit Size (BR/B)	Average HH Size	Average Rent Citywide	Citywide Affordability	Average Rent New Constr.	New Constr. Affordability
0	1	$1,181	75%	$1,386	88%
1	1.5	$1,443	86%	$1,789	106%
2/1	3	$1,651	82%	$2,129	106%
2/2	3	$2,161	107%	$2,696	134%
3/2	4.5	$2,375	102%	$3,076	132%

Sources: Dupre+Scott Apartment Advisors, *Apartment Vacancy Report*, units within 20+ unit complexes in City of Seattle, Spring 2015; Percent of area median income is based on U.S. Department of Housing & Urban Development (HUD) Program Income Limits, Seattle-Bellevue, WA HMFA, FY2015.

We also know that over 80% of the renter households with incomes 0-80% of AMI are in 0-30% of AMI and 30-60% of AMI categories, which supports addressing affordable housing needs for rental housing up to the 60% of AMI level. Substantial employment-driven affordable housing need similarly occurs not just at the 50% AMI level but also at the 60% AMI level.



Source: CHAS special tabulation of ACS 2006-2010 5-year estimates.
HAMFI means Housing Urban Development Area Median Family Income

Derivation of Supportable Performance Requirements from the Affordable Housing Impact and Mitigation Study produced by David Paul Rosen and Associates (DRA)

To supplement the Director's Report for Council Bill 118498, below is a summary of Supportable Performance Requirements for non-residential development that DPD derived from the Seattle Non-Residential Affordable Housing Impact and Mitigation Study (September 15, 2015) produced by David Paul Rosen and Associates (DRA).

The Impact and Mitigation Study identified the impact that certain nonresidential development prototypes have on the need for affordable housing. DRA quantified the estimated increase in lower income households associated with new non-residential development based on the prototypes.

Assuming an average affordable unit size of 650 net square feet, a supportable performance requirement (SPR), stated as a percentage of development gross square footage, can then be calculated as follows:

$$\text{SPR} = \frac{\text{employee households generated needing affordable housing} \times \text{average unit size}}{\text{gross SF of non-residential development generating impact}}$$

Calculations generated from this approach are shown on the following page.

Calculations for Supportable Performance Requirement

		Number of Lower-Income Employee Households Generated			Performance Requirement - Gross Square Footage of Affordable Housing			Supportable Performance Requirement		
Prototype	Non-res Gross SF	Up to 60% AMI	61%-80% AMI	Total	Up to 60% AMI	61%-80% AMI	Total	Up to 60% AMI	61%-80% AMI	Total
Office	324,000	82.7	65.2	147.9	53,755	42,380	96,135	16.6%	13.1%	29.7%
Hotel	144,000	43.6	12.4	56.0	28,340	8,060	36,400	19.7%	5.6%	25.3%
Grocery Store	50,000	14.9	3.7	18.6	9,685	2,405	12,090	19.4%	4.8%	24.2%
Restaurant	3,000	1.0	0.2	1.2	650	130	780	21.7%	4.3%	26.0%
Entertainment	15,000	3.0	0.7	3.7	1,950	455	2,405	13.0%	3.0%	16.0%
Stand-Alone Retail	25,000	7.9	2.0	9.9	5,135	1,300	6,435	20.5%	5.2%	25.7%
R&D Laboratory	100,000	20.9	15.8	36.7	13,585	10,270	23,855	13.6%	10.3%	23.9%
Medical Office	87,000	18.2	13.7	31.9	11,830	8,905	20,735	13.6%	10.2%	23.8%

Whether in-lieu payments allowed under the program achieve a result equal to or better than providing affordable housing on-site within commercial developments

RCW 36.70A.540 states that "affordable housing incentive programs may allow a payment of money or property in lieu of low-income housing units if the jurisdiction determines that the payment achieves a result equal to or better than providing the affordable housing on-site, as long as the payment does not exceed the approximate cost of developing the same number and quality of housing units that would otherwise be developed."

On-site performance can play an important role in an incentive program, and the considerations involved in weighing the relative effectiveness of on-site performance versus in-lieu fee payment may vary depending on the type of program. Whether the receipt and investment of payments from commercial developments achieves a result that is equal to or better than providing affordable housing on-site can be measured in a number of ways, including:

- **The overall amount of affordable housing produced**: In nearly all zones, the amount of payment received will ultimately yield a number of affordable housing units that exceeds the amount that would be produced on-site, if the payments supported housing at the same income and rent levels (60% AMI). This is largely due to the other public and private financing that these funds can leverage, a significant amount of which remains untapped. The Office of Housing, which administers in-lieu payments, has proven its effectiveness in aligning resources to maximize production, and has been particularly successful in leading statewide efforts to streamline and coordinate the capital funding as well as long term asset management and compliance monitoring of affordable housing.

- **The affordability of the housing produced**: Unlike with housing produced on-site, the investment of payment funds allows the flexibility to create housing affordable at even lower rents than 60% AMI. While this may create tradeoffs with the amount of housing produced, the City has in many cases made the policy choice to support housing for individuals and families with incomes lower than the maximum target income level, due to compelling cases that can be made for addressing the greatest needs.

- **The extent to which the housing supports other community benefits**: Funds invested in affordable housing can result in a range of other community benefits. For instance, public investment can stimulate economic development in areas of the city that lack private investment; preserve historic buildings that would otherwise be lost to deterioration or demolition; and help stabilize rents in areas where residents are at risk of displacement. On the whole, funds can be strategically invested to maximize housing choice throughout the city. Projects funded by the City must comply with the statewide Evergreen Sustainable Development Standard, which furthers energy and water efficiency, improves health and safety, and creates operational savings that benefit low-income residents over the long-term. In addition to leveraging other investment in housing, public funds can also leverage investments in a range of non-residential spaces such as affordable childcare, small business space, and social service facilities. Finally, affordable housing projects often include resident service programs and other connections to social services that help individuals and families to thrive. These types of benefits are generally not achieved through new market rate commercial developments, many of which may have no residential component at all.

Based on these measures and Seattle's record of effective investment in affordable housing, City staff has concluded that the investment of payment funds will result in outcomes that are equal or better than those resulting from provision of affordable housing on-site within commercial developments.