City of Seattle Mandatory Housing Affordability (MHA)

a program of the

Housing Affordability and Livability Agenda

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Council Briefing
June 7, 2016

MHA implementation steps

Council Resolution 31612 adopted November 2015

MHA-Commercial Ordinance
(Affordable Housing Impact Mitigation)
Fall 2015

- MHA-C Refinements

MHA-Residential Ordinance
Transmitted May 3, 2016

- **Downtown / South Lake Union** rezone
- **U District** area rezone
- **23rd Avenue** area rezone
- **Zone-wide changes** to other areas

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MHA and The Grand Bargain

- A negotiated agreement aimed at balancing many goals and principles discussed by the HALA Advisory Committee, including:
  – the critical need for affordable housing
  – the importance of additional housing supply in limiting future increases in housing cost
  – integration with existing voluntary incentive zoning
  – Seattle's Comprehensive Plan goals and growth management objectives
  – creation of a stable and predictable program
- A commitment to create a program that produces at least 6,000 housing units housing affordable to households with incomes up to 60% of area median income (AMI).
- Links MHA affordability requirements to additional development capacity in commercial and multifamily zones.
- Establishes approach to setting payment and performance requirements

Best practices for program development

According to the Center for Housing Policy and the National Housing Conference…

The most effective and productive inclusionary housing programs:

- Are located in strong housing markets
- Include mandatory requirements
- Include incentives that offset the cost to developers.
- Are predictable with clear guidelines
- Allow a choice between onsite performance and a cash contribution

MHA-R framework legislation

Enabling legislation to create MHA program

- Does not include payment/performance requirements, added when development capacity is increased

Intent for implementation

- Implement principles from Resolution 31612 and Grand Bargain agreement
- Apply program to all future increases in development capacity
- Adjust requirements during implementation to maintain 6,000-unit goal
- Consider future changes based on recommendations of a Technical Advisory Committee if:
  - program fails to perform
  - significant positive or negative changes in real estate market occur
  - adjusting payment-performance relationship is necessary to achieve balance of outcomes

MHA-R framework legislation

Applies when new residential units are built or created

- Dwelling units, live-work units, or congregate sleeping rooms, not ADU/DADU
- No minimum threshold
- Does not apply to subsidized affordable housing projects

Relationship to Incentive Zoning (IZ)

- Fulfilling MHA satisfies the IZ affordable housing requirement
- Non-housing benefits (e.g., open space, child care, TDR) unchanged

Choice of payment or performance

- Specific payment and performance amounts added when capacity is increased

Modifications to payment/performance amounts

- Rezone legislation to include modification of development standards in limited cases to allow use of MHA development capacity. If MHA capacity is still unusable, applicant may request a reduced payment/performance amount.
- Developer may request modification based on economic impact severe enough that a property owner's constitutional rights at risk

MHA-R performance option

On-site performance for rental and homeownership

	Affordability
Rental	≤ 60% AMI (40% for units under 400 sq. ft.)
Ownership	Initial sale price ≤ 65% AMI Future sales ≤ 80% AMI Allows designation of stewardship entity (like a community land trust)

Calculated as percentage of total units

# of units	How to adjust fractional units
< 2	Round to 2 units or provide 1 three-bedroom Incentivizes family-size units
2 or more	Round up to next whole unit or convert fractional unit to payment

- **No overlap:** cannot double count same units for MFTE and MHA
- **Affordability duration:** 50 years from date of final certificate of occupancy

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MHA-R performance option

Ongoing compliance monitoring for performance units

- Compliance modeled on recent revisions to MFTE program: requirements on fees, income certification
- Annual certification and reporting requirement submitted to OH
- Enforcement through existing authority in Land Use Code
- Compliance fees: $150 per unit, $600 per ownership unit for stewardship

Affirmative marketing

- Owners providing affordable housing must affirmatively market affordable units

Demolition or change of use

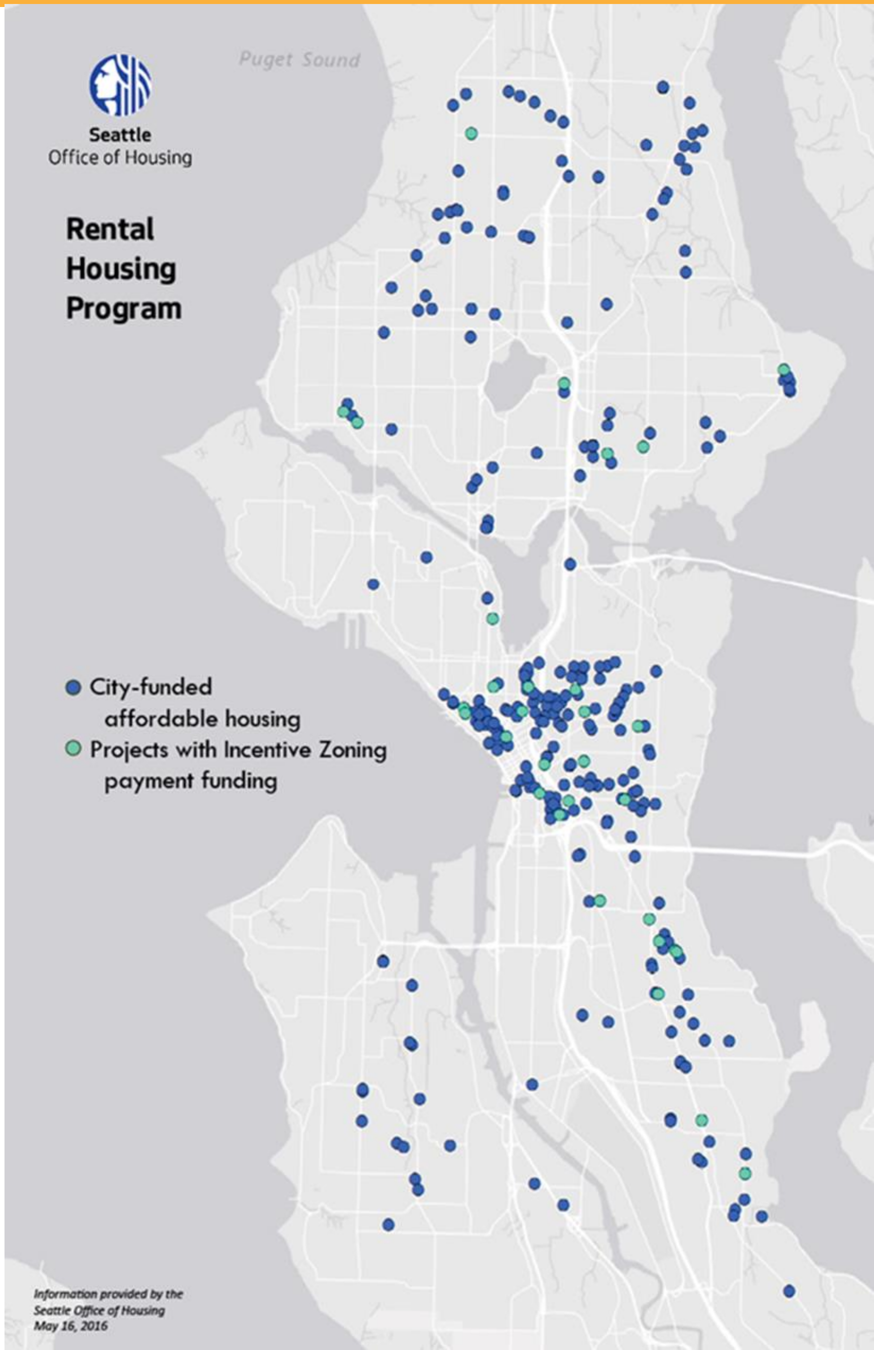
- Owner must pay a fee in lieu of continuing affordability, not to exceed 30 months of affordability
- New building or use subject to new MHA requirements

Condo conversion

- Owner may convert upon payment of a fee in lieu of continuing affordability

City’s record of investments

- Affordable housing located in neighborhoods throughout Seattle
- Promotes fair housing choice & opportunity
- Supports City strategies to promote growth near transit and in urban centers and villages
- Significant investments in areas with high risk of displacement



Production outcomes from investment of IZ payments

Past production from payments under Incentive Zoning

- $70.26 million committed to affordable housing
- **Rental:** $68.05 million invested in 32 projects with 2,316 affordable units
  - This investment created 948 affordable rental units that would otherwise not have been built (estimated based on 4% LIHTC projects)
  - Among 4% LIHTC projects, City funds were leveraged 3:1
- **Ownership:** $2.21 million invested in 41 homes

Future modeling assumptions for MHA

- Total development cost of $265,000 per unit
- City funds leveraged 2.25:1 (4% LIHTC and tax exempt bonds)
- Approximately $80,000 in City funds per 60% AMI unit
- No other City or public funds

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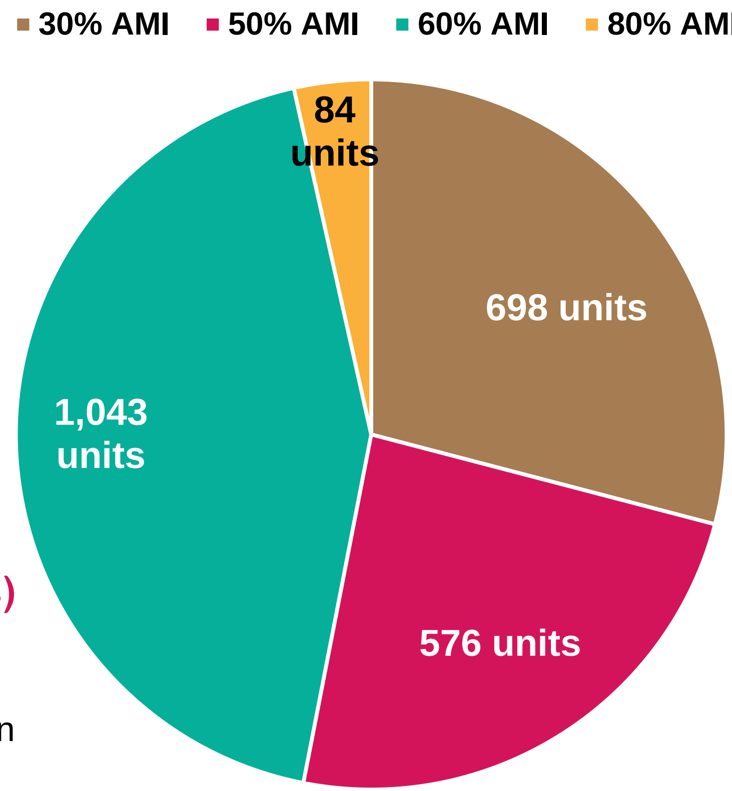
Equity outcomes from City investments

- Mitigate displacement and stimulate economic development
- Create partnerships with community-based organizations
- Preserve at-risk housing
- Provide family housing and resident service programs
- Serve a diversity of incomes

IZ payment-funded housing production by affordability (units)



Holiday Apartments (30 units)

Capitol Hill Housing

- Preservation of low-cost housing
- Next to Capitol Hill light rail station

Compass on Dexter (74 units)

Compass Housing Alliance

- 56% are 2- and 3-bedroom units for families with children
- On-site children's center and play area
- 36 formerly homeless families

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MHA location criteria

Consider whether the housing advances the following factors:

- Affirmatively furthering fair housing choice;
- Locating within an urban center or urban village;
- Locating in proximity to frequent bus service or current or planned light rail or streetcar stops; and
- Furthering City policies to promote economic opportunity and community development and address the needs of communities vulnerable to displacement.

Arbora Court (133 units)

Bellwether Housing

- 40% 2- and 3-bedroom family units
- 40 units for formerly homeless families
- Low-income individuals and families

Plaza Roberto Maestas (112 units)

El Centro de la Raza

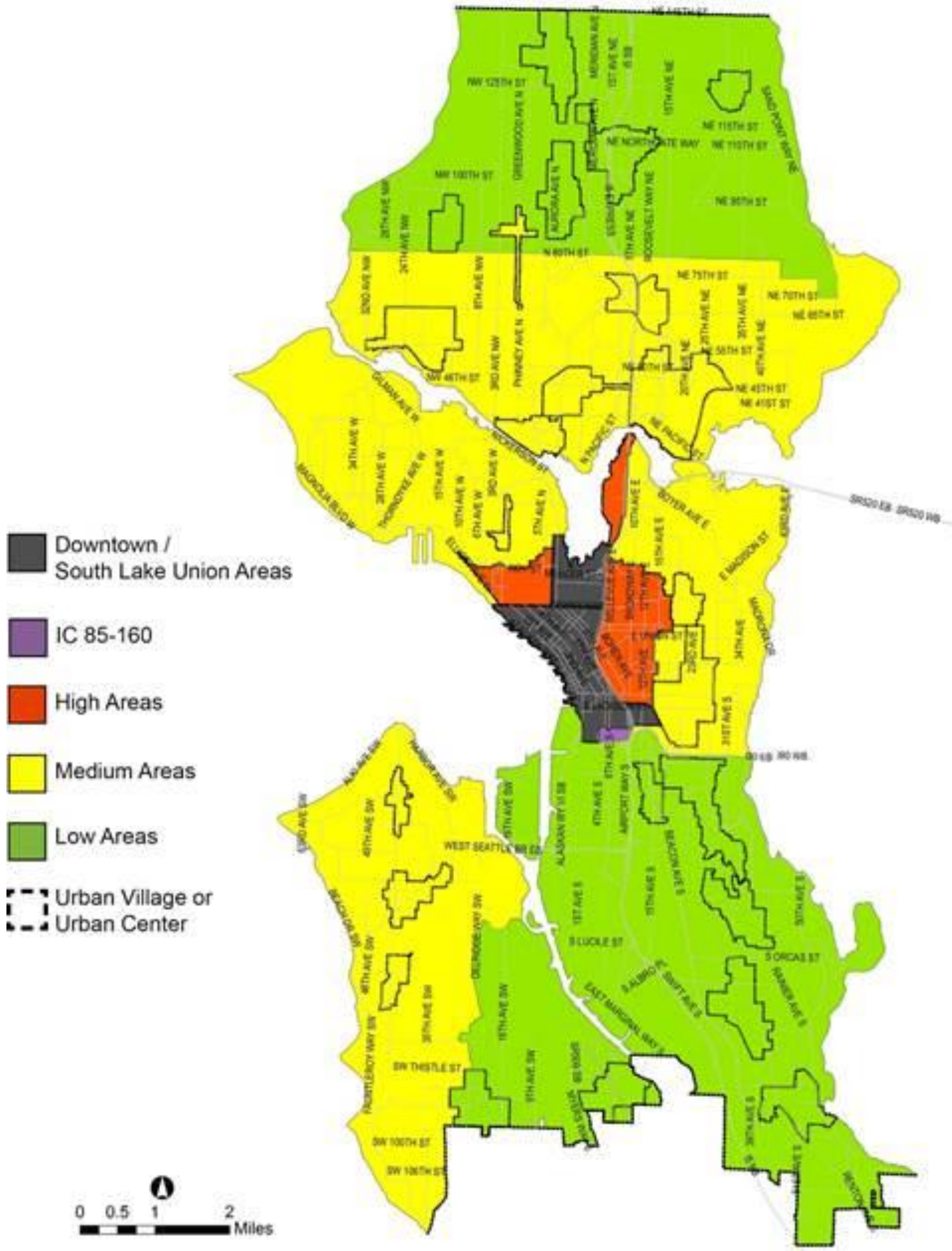
- Public plaza, child development center, and multicultural community center
- 80% are 2- and 3-bedroom family units
- Next to Beacon Hill Station

Mt. Baker Lofts (57 units)

ArtSpace

- Mixed-use projects for artists and families
- Next to Mt. Baker Light Rail Station
- Affordable childcare

MHA areas by cost



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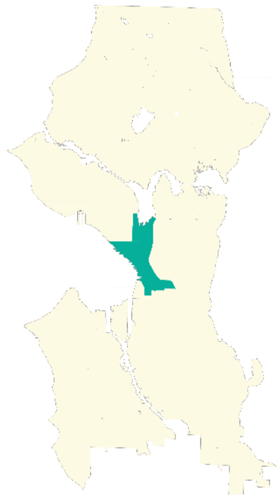
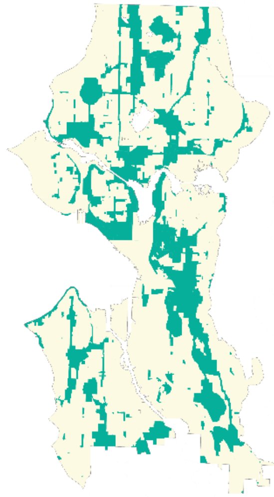
Downtown/South Lake Union



- Many zones currently have IZ requirements and some will continue to provide non-housing benefits for extra floor area
- Additional capacity is generally high-cost construction (steel and concrete, elevators, enhanced seismic requirements)
- Value of additional capacity is generally greater for commercial than residential development
- MHA requirements would vary by zone and are generally based on the following:
  - If development maximizes additional capacity, payment = current IZ payment plus additional amount for new capacity
  - Requirement spread over total development on per-square-foot basis

Outside Downtown/SLU



- Additional capacity is generally lower-cost construction (wood-frame) and a larger percentage of the building
- Value of additional capacity is greater for residential than commercial
- Requirements vary by area:

	Low-cost area	Medium-cost area	High-cost area
Residential *	5.0%	6.0%	7.0%
Commercial	$5	$7	$8
* Lower residential amounts to be considered for some zones if additional capacity triggers higher-cost construction (e.g., 85' height limits)			

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MHA draft requirements

Downtown and South Lake Union

Requirements vary by zone:

	Payment Option	Performance Option	Units
Residential	$7.25 – $12.88*	2.8% – 5.0%*	700
Commercial	$8.00 – $17.50	5.0% – 10.6%	1,600

* except in DMC 160: $5.50 and 2.1%

Other areas

To be finalized in 2017 based on community engagement process.

Requirements vary by area:

	Low-cost area	Medium-cost area	High-cost area	Units
Residential*	$7-8 / 5.0%	$12-15 / 6.0%	$18-22 / 7.0%	3,100
Commercial	$5 / 5.0%	$7 / 5.0%	$8 / 5.0%**	800

* Payment amounts finalized later based on updated market data
** except in IC 85-160: $10.00 or 6.1% per square foot of chargeable floor area

MHA Payment and Performance Examples

Project example	Area	Requirement	Performance outcome	Payment outcome
7-story apartment building • NC-75 zone • 65 total housing units • 50,000 gross residential square feet	High-cost area	7% or $18/sq ft	4.5 units	11.2 units ($900,000)
	Medium-cost area	6% or $12/sq ft	3.9 units	7.5 units ($600,000)
	Low-cost area	5% or $17/sq ft	3.2 units	4.4 units ($350,000)
44-story residential tower • DMC 240/290-440 zone • 630 total housing units • 500,000 gross residential square feet	Downtown	3.2% or $8.25/sq ft	20.3 units	51.5 units ($4.1M)

Note: For illustrative purposes. All units ≤ 60% AMI.

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Displacement analysis

Downtown and South Lake Union

- Analysis conducted as part of SEPA finds that MHA will reduce displacement overall because:
  - Additional capacity allows more development on fewer sites
  - MHA will not significantly change the likelihood that an individual parcel will redevelop
  - MHA will increase the amount of rent- and income-restricted housing available

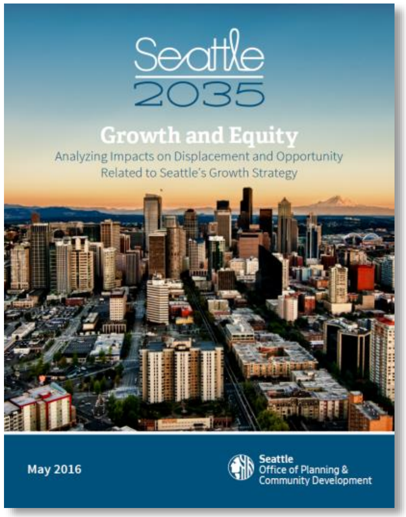
Outside Downtown and South Lake Union

- Analysis will be part of environmental impact statement (EIS) per Council recommendation

Addressing displacement

Some displacement will occur as Seattle continues to grow (<u>with or without</u> MHA)

- **Economic displacement** due to rising housing costs resulting from a shortage of housing and growing demand
- **Direct displacement** due to demolition or rehabilitation



Seattle 2035 *Growth & Equity Analysis*

- Identifies areas and populations at risk of displacement
- Identifies strategies for mitigating potential displacement

Anti-displacement strategies

- Increasing supply of both market-rate and affordable housing
- Equitable Development Initiative
- Pursue Preservation Tax Exemption (PTE) proposal in 2017 legislative session
- Identify at risk properties or sites through analysis
- Consider targeted acquisition of priority buildings using current & future affordable housing resources

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MHA legislative plan

MHA-R Legislation – Spring/Summer 2016

May 3	June 7	June 21	July 8	July 19	July 25
PLUZ briefing	PLUZ briefing	Public hearing	PLUZ discussion	possible PLUZ vote	possible full Council vote

DT/SLU Rezone Legislation – Summer 2016

- SEPA Comment Period - June 2–23
- Transmit to Council early July

MHA-C Refinement – Summer 2016

- Transmit to Council early July in parallel with Downtown / South Lake Union

Other zoning changes

- U District area rezone – 2016
- 23rd Ave area rezone – 2016 or 2017
- Zone-wide changes in other areas – Summer/Fall 2017

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