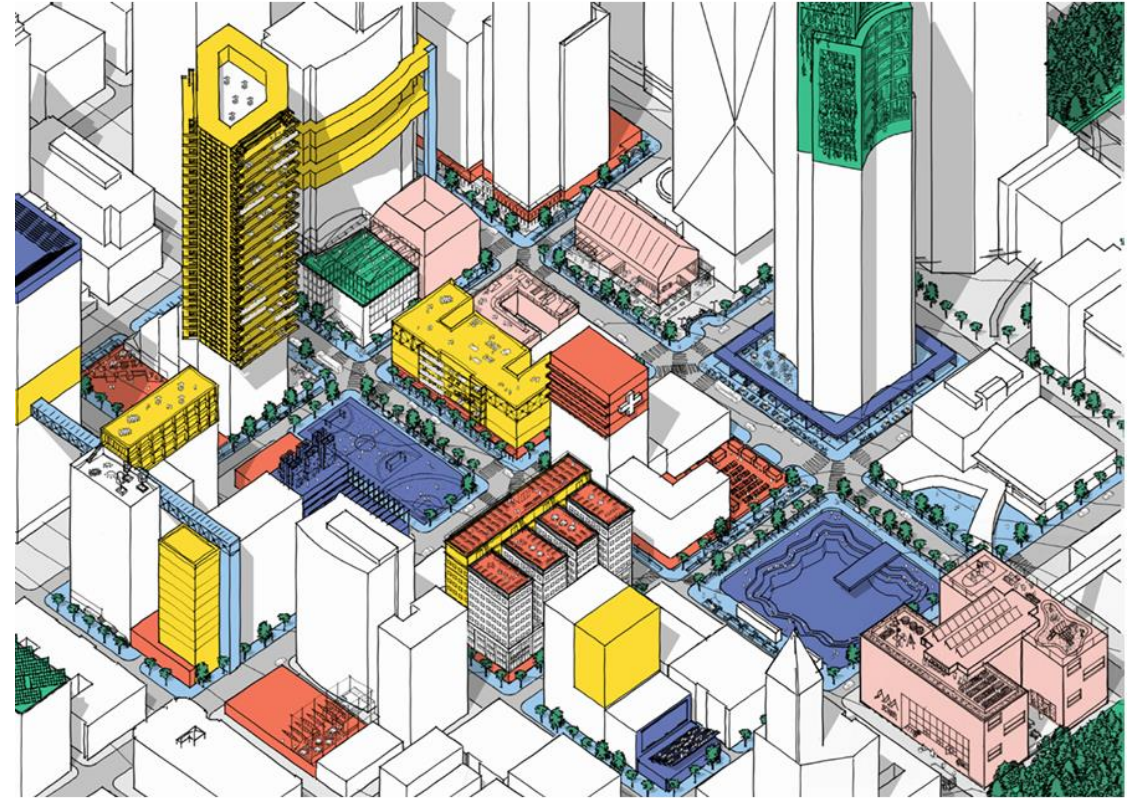


Conversion to Residential Regulatory and Cost Relief Legislation

Office of Planning and Community Development (OPCD)
Land Use Committee Briefing
June 5, 2024

Why focus on conversions to residential?

- As a result of the pandemic, office vacancy rates went from approximately 5% in 2019 to roughly 25% in downtown in early 2024.
- At the same time, Seattle continues to face a shortage of housing as average rents increased by 32% after inflation between 2012 and 2022.
- With an over inventory of commercial/office in downtown and citywide scarcity of residential, Mayor Harrell asked us to look at opportunities to right-size both.

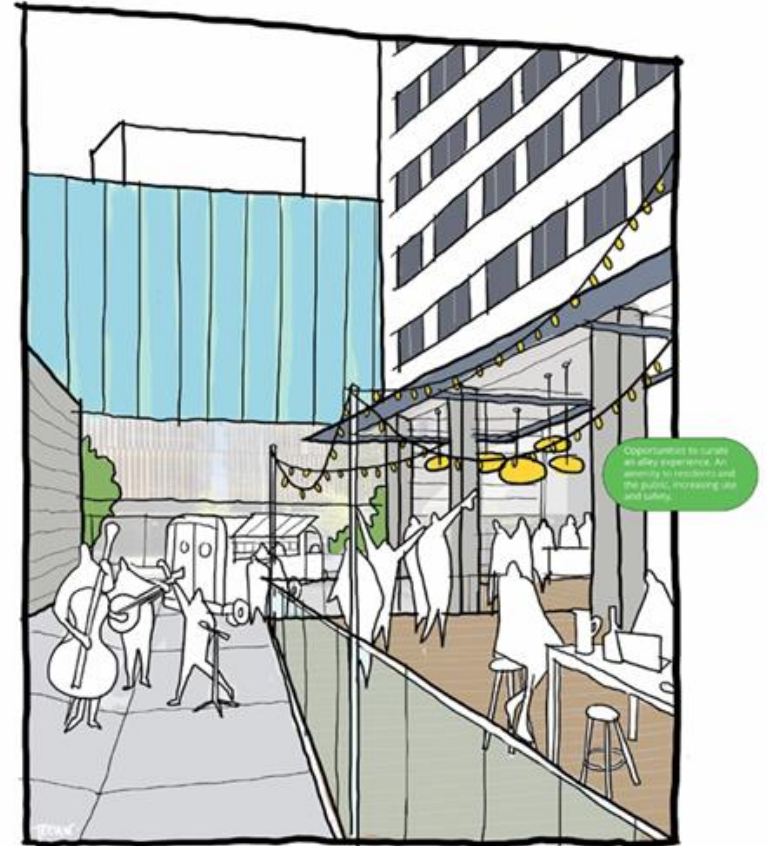


Studies from the OPCD call for ideas envisioned how downtown could be improved with a more varied mix of uses.



Why focus on conversions to residential?

- A more balanced use mix of housing and commercial uses in downtown has long been a policy goal for Seattle
- Avoid long periods of vacancy that can result in negative perceptions
- Potential revitalization of downtowns by the presence of residents every day
- Strong support by the public



Images from the OPCD call for ideas depict how conversions to housing could help activate street level spaces.



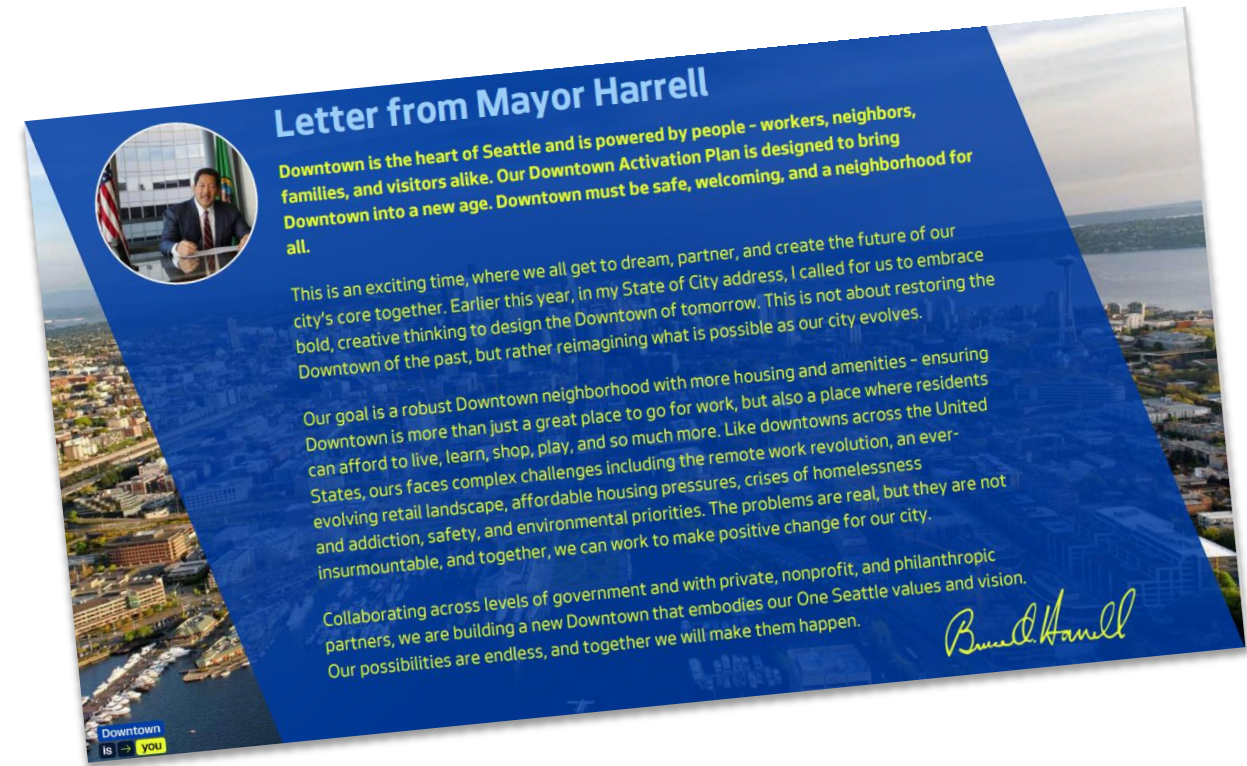
How Seattle and the State are supporting conversions

City of Seattle

- 2023 OPCD “Call for Ideas” competition
- **Regulatory and cost relief legislation**
- **Direct consultation/support to owners**
 - Support for federal funding applications
 - Possible interpretations of construction codes

Washington State

- **State sales tax exemption ESSB 6175**



In summer 2023, Mayor Harrell released his Downtown Activation Plan

2023 OPCD call for ideas competition

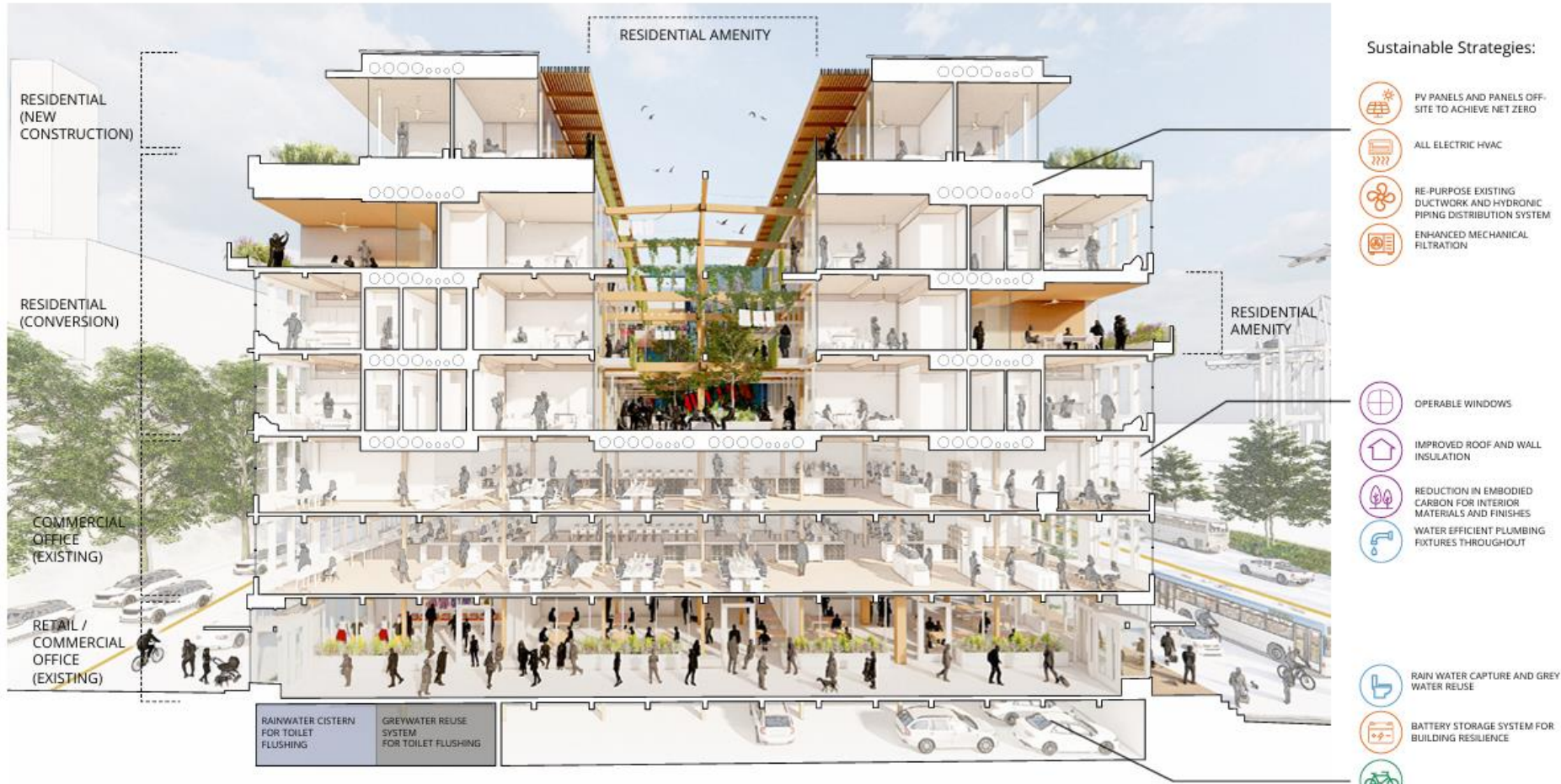
13 quality proposals

- Floor plans / design
- Financial feasibility information
- Housing mix and affordability levels
- Suggestions for policy or code changes



In mid-2023 OPCD conducted the “Call for Ideas” competition inviting building owners and designers to submit their concepts for conversions.

Example - Polson and Western Buildings



Operating as a microcosm of a diverse city, the proposal embraces a mix of uses within a singular structure. The three top levels are converted to accommodate a dense distribution of studio units to help satisfy the demand for workforce housing. In order to offset the lower lease rates of these units,

two levels of office use has been maintained on the lower floors and an additional high-end penthouse structure has been added to accommodate the demand for family units.



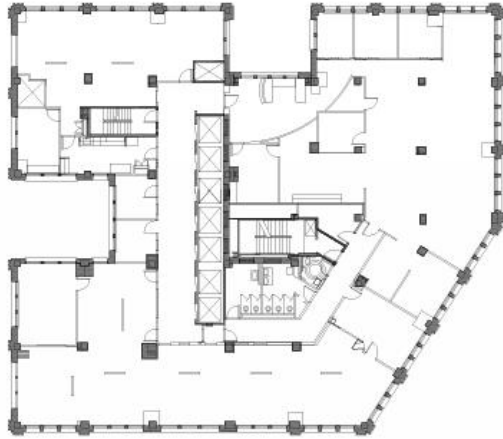
A new front door to a residential lobby opens to Alaskan Way- activating the western building facade to the newly improved public waterfront.



A central courtyard is carved out of the center of the block to provide light and air to residential units. The timber structure is maintained as a spatial remnant of the historic warehouse use.

Example - Smith Tower 2.0

Typical Existing Floorplate



Lower Tower Typical Proposed Plan



Seattle is providing direct consultation / support to owners

- Partnering with owners to support application for federal RRIF and TIFIA financing opportunities made available by the Build America Bureau
- Building officials are available to work with owners on possible early guidance about construction codes:
 - Seismic / structural
 - Energy code



A developer is exploring conversion of the Colman Building with City support for a federal financing program.



City of Seattle

Washington State – sales tax exemption

- **Washington State legislature passed ESSB 6175 during the 2024 session**
 - **Exempts construction sales tax on conversion developments.**
 - **Requires 10% of housing units to be affordable for 10 years at the 80% AMI level.**
 - **Cities must enable the exemption with a local action. (Work is in progress)**

Business | Real Estate

Seattle office building is set for apartment conversion

Jan. 3, 2024 at 3:55 pm | Updated Jan. 3, 2024 at 4:55 pm



This office building at 201 Queen Anne Ave. N. in Seattle is set to be converted into apartments. It could be the first office-to-residential conversion in Seattle since the pandemic. (Karen Ducey / The Seattle Times) Less

The developer of a conversion in Lower Queen Anne is seeking to take advantage of the sales tax exemption.



City of Seattle

Distressed Office Building - Example Scenarios

- Office tenants' lease terms finish and most tenants don't renew
 - Building becomes mostly or entirely vacant
- With drastically reduced rental income the building owner struggles to repay its financing obligations
 - Owner puts the building up for sale at a reduced price



Scenario A: No Conversion to Residential

- Bank forecloses and seizes the building; or
- Private equity firms swoop in to buy and hold
- A “zombie building” sits vacant for 3 – 7 years until macroeconomic conditions change

Scenario B: Conversion to Residential

- A local development company acquires the building, motivated by a continually strong housing market and insight into unique local conditions
- New owner aggressively pursues conversion to market rate residential as soon as possible (1 – 2 years of development)
- A new revitalized residential building is occupied by hundreds of new neighbors



Vacant office structure example

- Structures left in a vacant state for an extended time have an increased likelihood of physical deterioration and foregone maintenance.
- The perception of safety and comfort can be negatively affected in public spaces near vacant structures.



The Grand Central block near Occidental Square Park.

Completed office conversion example

- **Converted structures often have unique character features that can appeal to residents.**

Project Overview

Property Name:	The Astor at Washington Building
Address:	1019 Pacific Ave, Tacoma, WA
Neighborhood:	Downtown Tacoma (CBD)
Year Built:	1925
Square Feet:	123,687
Floors:	18
Construction Start Date:	October 2020
C of O Date:	March 2022
Budget:	\$65 Million
Residential Units:	156



Development cost comparisons

Cost reductions are necessary to make conversion developments competitive with ground up construction.



<=85' (or 75')



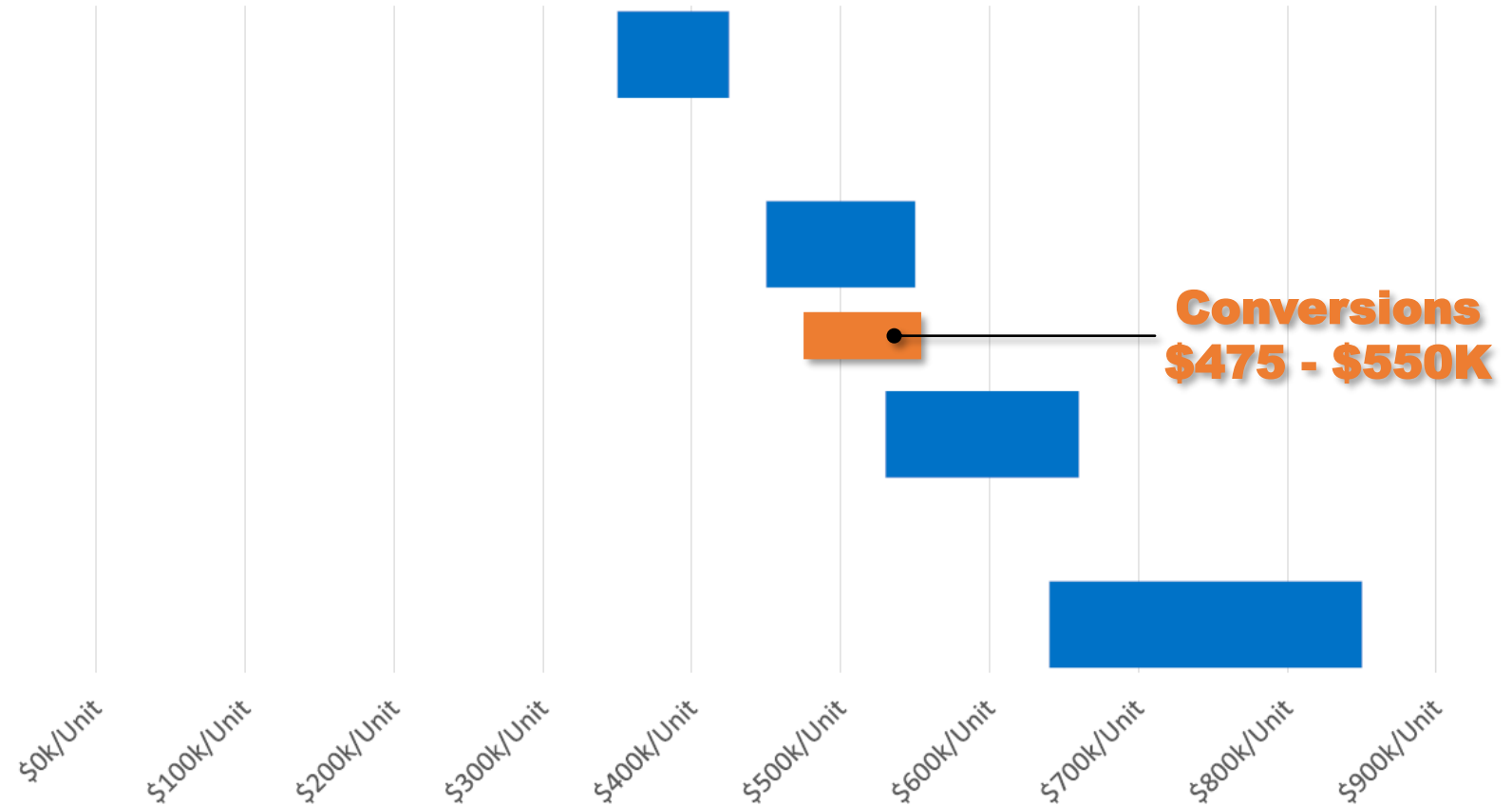
=<160'



240' (ish)



400' +



Conversion development cost drivers

- Seismic / structural upgrades
- Energy code upgrades
- New plumbing / HVAC systems
- Accessibility requirements
- Uncertainty / unknowns



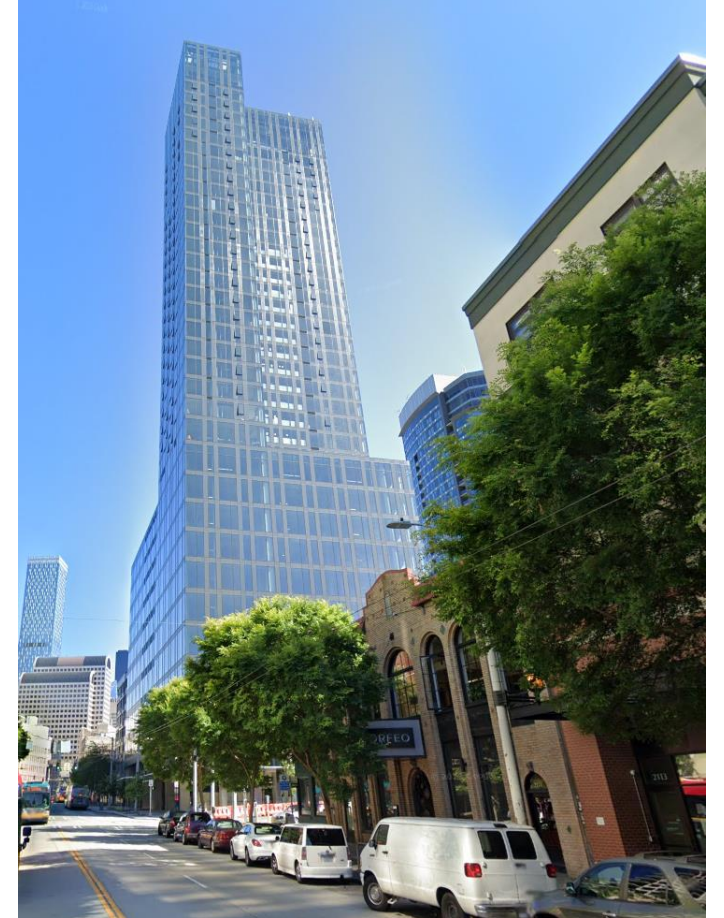
Example of seismic retrofit



Regulatory and Cost Relief Legislation Proposed CB 120761

Proposed regulatory and cost relief legislation

- Exempts conversion proposals from all dimensional and design development standards in downtown, commercial and mixed-use zones
- Applies to new projects, projects in construction, and projects with Master Use Permits (MUPs) that have not started construction yet
- Waives the Mandatory Housing Affordability (MHA) requirements
 - For conversions only
 - Pipeline and already-permitted projects still contribute



An owner intends to convert the office portion of a mixed-use tower.



Exempting conversions from MHA

The proposed exemption does not conflict with MHA's two foundational bases and does not set a precedent for other types of MHA exemptions.

1. MHA's basis as a development incentive.

- Authority is based on the Washington State Growth Management Act 36.70A.540
- MHA requirements are always accompanied by an upzone (added development capacity)
- In the case of conversion – *the builder is not accessing the added development capacity.*

2. MHA basis as impact mitigation.

- City's basic police power and SEPA allows regulation of development to mitigate impacts.
- In the case of conversion an old use is being replaced by a new use with equal or lesser impacts. *The builder is not creating a new adverse impact that needs to be mitigated.*

MHA contribution amounts in downtown are generally 2%-7% of units or \$12 - \$27 / sq. ft. for residential.



Other summary information

- OPCD estimates that with this legislation and ESSB 6175, less than a dozen conversion projects would result in 1,000 – 2,000 new housing units within a medium term 7-year time horizon.
- Without this legislation and ESSB 6175 OPCD believes there will be 0 conversions (10 units or greater) in and around downtown.
- A SEPA Determination of non-significance (DNS) was issued on the proposal in January, 2024 and no appeals were received.
- Mayor Harrell places a high priority on adding housing downtown as part of the Downtown Activation Plan, including via conversions.



Higher historic office floor to floor to heights can support the design of new lofted residential units.

Thank you.

Office of Planning and Community Development (OPCD)
Geoffrey.Wentlandt@Seattle.gov

Interim Street Activation Legislation

June 5, 2024



Purpose and Goals

- Help fill vacant spaces
- Broaden the range of potential new tenants
- Attract more daily activity and eyes on the street – add more vitality
- Promote creativity and entrepreneurship by allowing new types of businesses



Business and Foot Traffic Data

- Downtown business openings and closures:
 - Nov '23 to March '24: 9 openings and 21 closures
 - 2020 to 2021: 102 openings and 161 closures
- Foot traffic is still regaining year-over-year, but pace is slowing:
 - 2022 – 2023: +10 - 15% (comparing same months)
 - 2023 – 2024: +5% (" " ")

Source: DSA, 2024



Proposal

- Interim legislation: in place for 3 years, for Downtown, S. Lake Union, Uptown
- Applies to Class I & II Pedestrian Streets with street-level use requirements (maps to follow)
- Provide more code flexibility and reduce barriers:
 - Allow greater variety of ground-floor and 2nd-floor uses
 - Encourage creative floor plans
 - Maintain exemptions from density limits
- New uses can remain after the interim period, and may revert to prior uses




Comparison of Uses Allowed


Drawn from uses allowed in pedestrian-oriented neighborhood business districts

Existing allowed uses limited to following:	Proposed additional interim uses:
Arts facilities, entertainment uses: recreational, athletic, theaters, lecture halls, libraries, parks	Arts installations, Custom & craft work: glassblowing, printing, motion picture studios, pottery, sculpture, other personal or household items, parks
General sales and services, retail major durables sales (such as furniture)	Sales and services, non-household: such as restaurant supply, business support services
Restaurants: eating and drinking	Food: food and beverage production, commissary kitchens, catering services
Human services, child care, religious facilities, museums, low-income housing (Seattle Mixed)	Medical services: doctors, dentists, vets, chiropractic
	Institutional uses: community centers and support services, community clubs, institutes of advanced study
	Offices and R&D laboratories

Downtown

Downtown Map 1G:

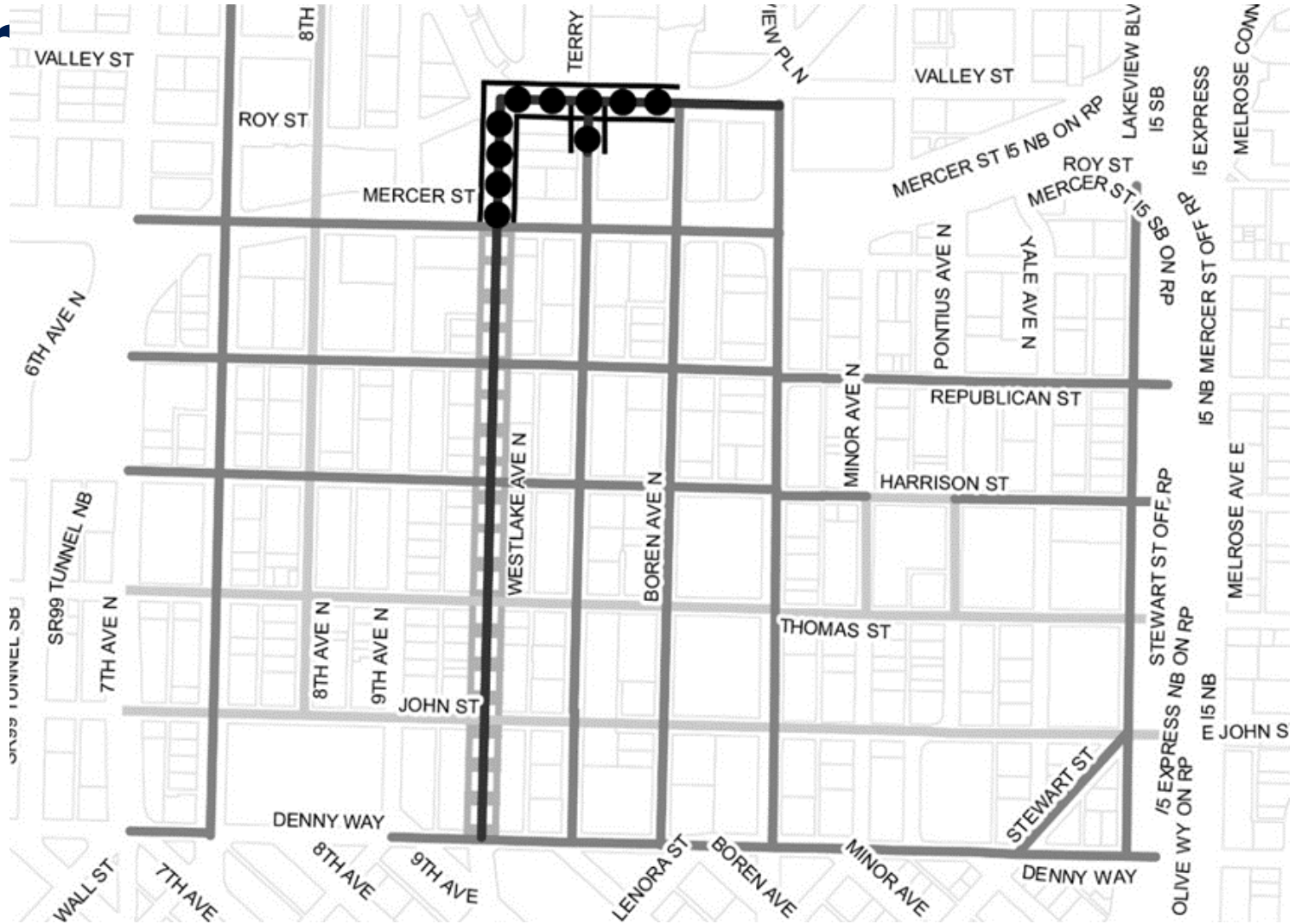
-  Require active street level uses, per 23.42.041
-  Allow interim street activation uses
-  Special Review or Historic Districts

- The proposal applies to the outlined streets.
- Existing street level use requirements proposed to be maintained on the streets mapped as 

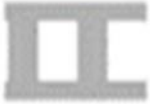
All streets shown are “Class I pedestrian” designated or Green Streets



South Lake Union



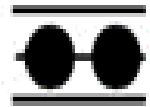
Class I Pedestrian Street; allow interim street activation uses



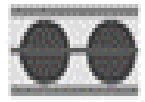
Required street level uses (Class I)
Existing requirements proposed to be maintained



Uptown



Class I Pedestrian Street; allow interim street activation uses



Class II Pedestrian Street; allow interim street activation uses



Required street level uses

Existing requirements proposed to be maintained



Small Spaces are Activators

- People create the daily life that animates the city
- Allow more small businesses by reducing required dimensions at street-level



Flexibility For Multi-level Destination Uses

- Interior design flexibility to encourage creative layouts, such as multi-floor street-level uses

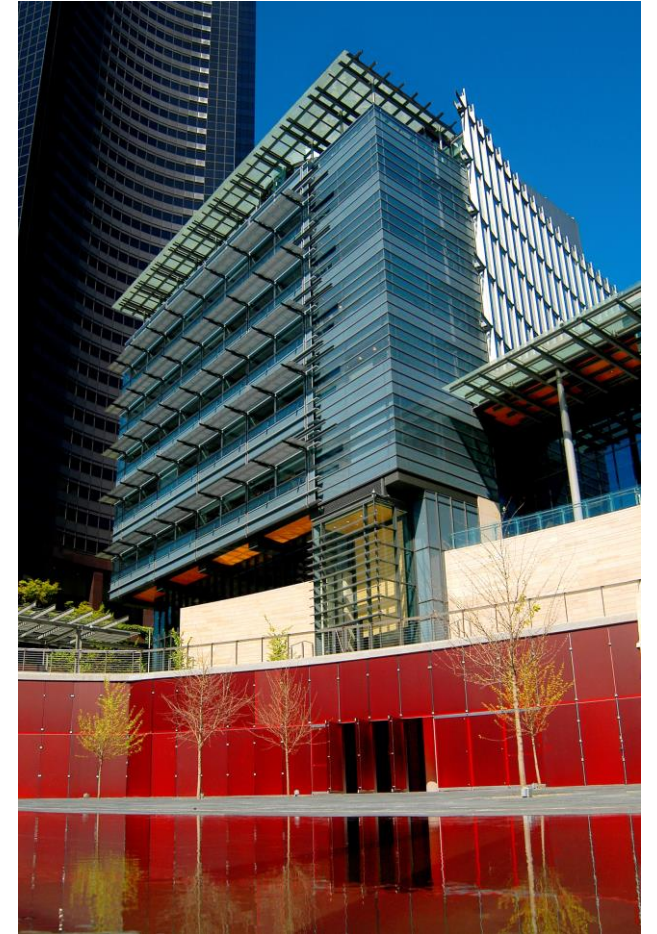


Questions?

Gordon Clowers

gordon.clowers@seattle.gov

206-679-8030



www.seattle.gov/sdci