



Conversion To Housing

Seattle Office of Planning and Community Development (OPCD)
Director's Report and Recommendation
February, 2024

Introduction and Background

The Office of Planning and Community Development (OPCD) proposes to add and edit text provisions in the Land Use Code (Seattle Municipal Code Title 23) to remove barriers to conversion of existing structures from nonresidential to residential uses. The proposed changes aim to remove regulatory barriers by providing broad exemptions from dimensional and design development standards anytime an existing structure is converted to housing from another use. This could potentially make it easier and more straightforward for property owners to convert existing structures into residential use, fostering housing development in the city – especially in and near downtown. The proposed legislation also exempts conversions to housing from the City's Mandatory Housing Affordability (MHA) requirements.

OPCD published a draft Ordinance on January 11, 2024 and issued a SEPA determination of non-significance. OPCD received several comments on the proposal and conducted further reviews by City staff and interested parties. The current proposed legislation incorporates several changes and revisions in response to comments.

Several drivers led to this proposal:

Bill 1042. During 2023 the State legislature passed, and Governor Inslee signed Engrossed Substitute House Bill number 1042 that amends the state's laws to create more housing units by removing some of the restrictions that are currently in place for adding dwelling units within existing structures.

Downtown Activation Plan. In June 2023 Mayor Bruce Harrell released a Downtown Activation Plan that identified numerous strategies and actions to support downtown recovery including actions that increase residential uses in downtown.

OPCD Call for ideas. In May and June 2023, the Office of Planning and Community Development (OPCD) sponsored a competitive call for ideas to convert Seattle downtown commercial office spaces to residential use. OPCD received 13 proposals that provided suggestions for policy and code changes.

Trends in work models. The pandemic has accelerated the adoption of remote work and hybrid work models. This has led to changes in work culture and preferences, which have softened the demand for

commercial office space compared to prior to the pandemic. As a result, the Seattle office vacancy rate climbed to over 20% by some measures during 2023.¹

Need for more housing. Although the rate of new housing production in Seattle has been at near historic levels in the recent past, Seattle has been gaining jobs at an even faster pace. Between 2005 and 2019, Seattle would have needed to produce an additional 9,000 housing units to maintain its baseline ratio of jobs to housing units. This shortage of housing supply increases competition for each available unit, driving up rents and housing prices across the market². One of the City's primary strategies to address high housing costs is to support increased housing production of all kinds.

Proposal

The proposed legislation is designed to broadly exempt conversions to housing from dimensional and design development standards when residential uses are added within an existing building envelope. Although many development proposals for conversion would not be required to comply with such standards under existing regulations, the proposal clarifies the issue and removes the potential for interpretations that a conversion could be required to meet a development standard – such as a floor plate size limit, amenity area requirement, landscaping requirement, or a façade design standard, as examples. The proposal would also reduce the cost of conversion to residential use by removing the requirement that conversions include or make in-lieu payment towards affordable housing through the City's Mandatory Housing Affordability requirements.

Information about the key elements of the proposed legislation is summarized below.

Applicable geographic area. The proposal is intended to apply in all areas of the city where non-residential structures (i.e. office or retail spaces) commonly exist and multifamily residential uses are allowed – the places where conversions to housing are plausible and likely. The proposal applies in the following zones.

- All Downtown zones
- All of the City's Commercial (C) and Neighborhood Commercial (NC) zones
- All Seattle Mixed (SM) zones
- Midrise (MR) and Highrise (HR) zones

Broad exemption from development standards. The proposal is intended to provide broad and comprehensive exemptions. A new section "Conversion to residential use in an existing structure" is added to the exemptions section (SMC 23.40) of the code. The proposal exempts eligible conversions from all the standards and requirements of the zones listed above except for a limited subset of requirements that provide basic protections, provisions that address commercial uses that may continue in the structure, and historic preservation. The only zoning requirements not exempted are:

- Permitted and Prohibited Use Regulations Pertaining to Nonresidential Uses.

¹ [Colliers' Q2 report pegs Seattle office vacancy rate at 24% - Puget Sound Business Journal \(bizjournals.com\)](https://bizjournals.com/puget/special-reports/2023/02/colliers-q2-report-pegs-seattle-office-vacancy-rate-at-24/)

² City of Seattle Market Rate Housing Needs and Supply Analysis, April 2021
[SeattleMarketRateHousingNeedsAndSupplyAnalysis2021.pdf](https://www.seattle.gov/development/land-use/MarketRateHousingNeedsAndSupplyAnalysis2021.pdf)

- Administrative Conditional Uses Regulations.
- Light and Glare Standards.
- Noise Standards.
- Institutions.
- Home Occupations.
- Transitional Encampments Accessory Use.
- Landmark Districts and Designated Landmark Structures.
- Most of the provisions of the Solid Waste and Recyclable Material Storage and Access (Section 23.54.040).

Definition of eligible conversion. The proposal defines the parameters for what type of renovation qualifies as a conversion to residential. Commercial spaces have very different physical characteristics from residential uses, and therefore to accommodate new residences in a building designed for commercial space some major alteration of the building's structural features and configuration can be necessary. This proposal allows for incidental and minor modifications of a structure's envelope while still qualifying as a conversion.

- The conversion cannot expand a structure horizontally beyond the boundaries of the existing exterior walls with the exception of incidental features necessary for residential use. These features may include ramps for ADA access, replacement windows or sheathing, materials for increased insulation, structural enhancements for safety, and circulation features for fire and life safety. The horizontal expansion for such incidental features may not increase the floor area of the structure by more than 5 percent.
- The conversion cannot expand the structure vertically beyond the existing roof, except for a limited extension of up to 15 feet to accommodate the configuration of top-floor residences. Additional structures such as stair and elevator penthouses, mechanical equipment, and rooftop features allowed by the underlying zone may be placed on top of the 15-foot accommodation without disqualifying the development from meeting this criterion.
- A structure must be existing or have received a permit as of March 1, 2024 (roughly the time of this proposed ordinance) to be eligible as a conversion.
- Buildings with an existing unexpired Master Use Permit as of March 1, 2024 would be eligible as a conversion. This allowance is included because the City is aware that some development proposals were in the permitting process while major changes to the economic climate took place. The proposed legislation would allow permitted but not constructed projects to convert space to residential without restarting the permit process completely.
- The conversion must involve changing floor area from nonresidential uses to residential uses, leading to an increase in the number of dwelling units or congregate residence sleeping rooms in the structure.
- The conversion will not result in an increase in the square footage of nonresidential uses within the structure.

Mandatory Housing Affordability (MHA). MHA requires new development in Seattle to either include a small percentage of rent- and income-restricted affordable housing, or to make an in-lieu payment to the City's Office of Housing for affordable housing. Under existing regulations MHA applies whenever a development adds new dwelling units or congregate residence sleeping rooms, even in a conversion of an

existing building. This proposal would exempt eligible conversions within an existing structure from MHA requirements.

There is a sound policy basis for exempting conversions to residential from MHA. First, a basic premise of MHA is that the affordable housing requirements are associated with an increase in development capacity that provides an incentive to developers. In the case of conversions, the development capacity incentive would not be accessible to the developer. Second, one of the bases for MHA is that new development has an impact on the need for affordable housing in the city and the MHA requirements mitigate such impact. In the case of conversion however, the existing structure previously had a use that exerted an impact on housing, and the new residential use would be replacing the old one. For these reasons, an exemption from MHA for conversions to housing is reasonable and does not violate the City's basic principles concerning contribution by new development towards affordable housing.

Under the proposed legislation, development proposals that are permitted but not built and are seeking to take advantage of the exemptions for conversion to residential, would still have to contribute to affordable housing according to the MHA requirements that were in place at the time that the permitted project became vested.

Design Review. The proposed legislation exempts eligible conversions from the City's design review process. Although most conversions would already not be subject to design review, the proposal clarifies the issue and removes potential ambiguity, which can contribute to a faster review and permitting process. The legislation clarifies that for development proposals that are permitted but not built and are seeking to take advantage of the exemptions for conversion to residential, any design review modification to the issued and unexpired Master Use Permit necessary to add residential use shall be reviewed, and may be approved by the Director as a Type I decision.

State Environmental Policy Act (SEPA). Although Engrossed Substitute House bill 1042 calls for exemption of conversions from the SEPA review process, this legislation does not include language about exemption from SEPA. This is because the City has already passed legislation that exempts new residential development from SEPA review, and therefore an additional SEPA exemption passage in the proposed legislation is unnecessary.

Conversion to Housing Call for Ideas

To explore and support conversions to housing OPCD initiated a competitive call for ideas in the spring of 2023 focused on converting commercial office spaces in downtown into residential uses. The call for ideas was driven by a vision of downtown with a more harmonious balance between residential, civic, and office uses compared to its current state. OPCD invited teams of downtown building owners and designers to submit their proposals for conversion to housing. Teams were asked to submit designs, financial feasibility information, and commentary on major constraints or barriers to the conversion. An honorarium was provided for participation and there was a larger award for three winning teams to offset the cost and effort of preparing the proposals.

In June 2023, OPCD received a total of 13 official proposals, each presenting conversion ideas and suggesting policy and code changes. For background and context to the proposed legislation a sample of proposals from the Call for Ideas is below.

THE POLSON & WESTERN BUILDINGS Columbia Street & Western Avenue

The proposal would transform two timber framed historic-aged structures, adding a new shared, central courtyard.

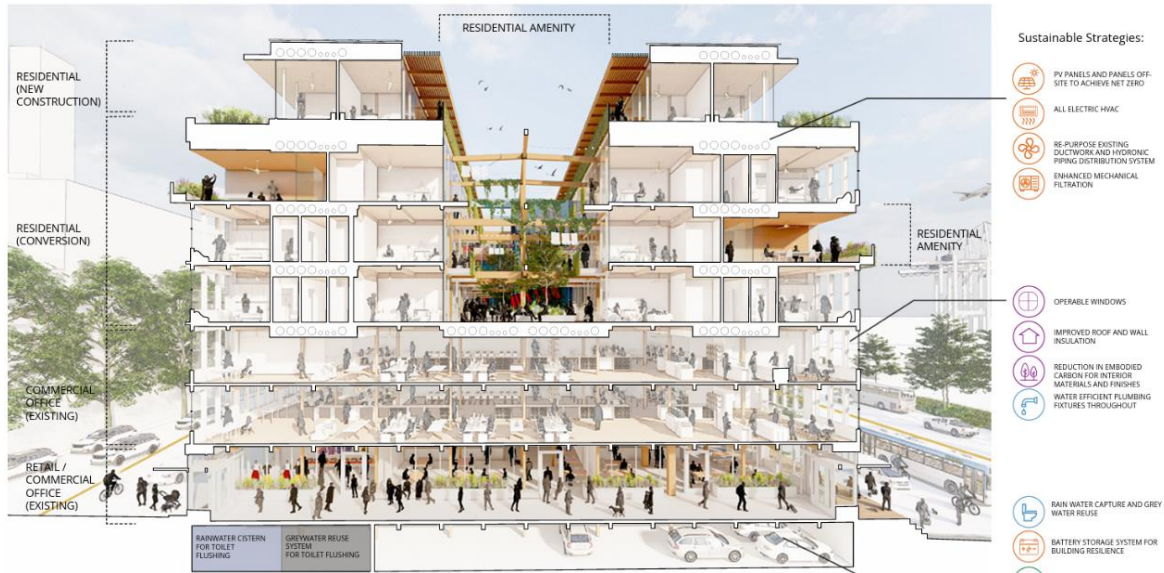


Figure 1 The Polson & Western Building Visualization



Figure 2 Existing and Proposed Plans

MUTUAL LIFE BUILDING 605 1st Ave.

The proposal prioritizes the preservation of existing facades and historic features. Since adding plumbing is a major cost driver, it would create a floor plan where several sleeping rooms share bathrooms. Each level features communal kitchen, living, and laundry facilities. The proposer suggests that rents could be at similar prices to some rent-restricted affordable housing buildings.



ORIGINAL PHOTO (1903)



CURRENT PHOTO

Figure 3 The Historic and Current Building Visualization



Figure 4 Existing and Proposed Plans

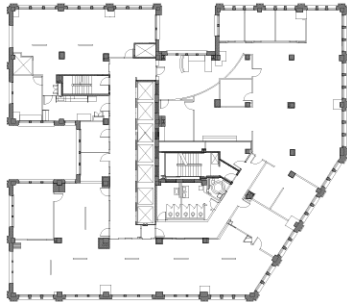
SMITH TOWER 500 2nd Ave.

The proposal aims to transform the floor plans of the iconic Pioneer Square building to accommodate a diverse range of housing types, encompassing studios, one-bedroom, two-bedroom, and three-bedroom apartments.



Figure 5 Smith Tower Conversion Visualization

Typical Existing Floorplate



Lower Tower Typical Proposed Plan



Figure 6 Existing and Proposed Plans

Themes from the Call for Ideas

Some primary themes and recurring suggestions from the Call for Ideas are summarized below, along with notes on whether the proposed legislation addresses the topic. For a complete review of the Call for Ideas content visit OPCD's website [here](#).

Older commercial structures are favorable candidates for conversion. Many of the proposals were for historic structures from the pre-war era. Such structures are strong candidates for conversion because relatively smaller floor plates are more conducive to residential uses and are often out of favor for today's large-scale office tenants. Additionally, the character aspects of historic structures such as masonry and real wood materials can be appealing to residents.

Conversions are complex and costly. All proposals emphasized that conversion is costly. It takes substantial investment to modify structures to add plumbing, walls, circulation and life safety elements. Renovation also has a high degree of uncertainty. Proponents unanimously said their conversion proposals would not be financially viable without additional support. The proposed legislation addresses the suggestions for additional support by potentially reducing some of the cost and uncertainty of conversions.

The City should streamline the permit review process. Numerous proposals called for a straight-to-building permit path and assembling a team to expedite permit review and approval process for conversions. Proposers identified that skipping the design review and SEPA processes would be an effective support.

Financial incentives are needed. Numerous proposals suggested a variety of direct financial supports that could be provided by public sector actors, such as tax credits, affordable housing resources and others. The proposed legislation addresses this suggestion by waiving Mandatory Housing Affordability (MHA) requirements for conversions. MHA in-lieu payments are often in the range of \$10 - \$20 per square foot. The absence of this cost translates to a direct cost reduction for conversions.

The City should provide construction code flexibilities. Energy, mechanical and structural requirements are in construction codes separate from the zoning code. This legislation does not directly address the construction codes. However, under existing authority the City's building official has discretion to provide flexibility from relevant construction codes for conversions on a case-by-case basis if warranted based on analysis and information. City staff from OPCD and SDCI are participating in workshops on an ongoing basis with Call for Ideas proposers to explore and identify specific potential building code flexibilities that may be possible.

Scope and Limitations of Conversions

OPCD emphasizes that the potential scope for the number of conversions is quite limited. Based on data from the Call for Ideas, the basic costs for conversion of existing commercial spaces in Seattle candidate buildings to residential, compared to the cost of "ground up" new construction renders the majority of possible conversions financially unattractive as a real estate investment. Conversions are only likely to happen when a unique set of circumstances and a motivated building owner is present, and/or when outside financial supports are provided.

Based on available information and the status of ongoing workshops with Call for Ideas proposers, OPCD staff believe it is reasonable to estimate that a dozen or less non-residential to residential conversions could be expected in a medium-term time horizon of 7-years. This timeline considers the fact that it takes 1-3 years to conceive of, design, finance and submit permitting documents for conversions. At the time of this writing OPCD is aware of one active proponent for an office to residential conversion that has entered the permitting process. If the average number of units in a residential conversion is approximately 100, a back-of-envelope estimate of the total amount of homes that might result from conversion in a 7-year time horizon would be in the 1,000 – 2,000 unit range.

Nonetheless, conversions can have a substantial positive impact that benefits the public interest even if the overall quantity is modest. Conversions can have a prominent positive presence in a neighborhood if they transform a vacant or partially-vacant structure into a revitalized building with hundreds of new residents. Conversions can have a strong positive effect if they add housing in areas that were previously dominated by commercial or office uses, such as certain portions of Seattle's downtown. It has been a longstanding policy goal of the City to increase the amount of residential development in and around downtown. A conversion to an iconic or strategically located structure in a neighborhood can spur momentum for other residential development in the vicinity.

Other Considerations

There are some risks associated with the potential loss of amenity spaces that are built in existing structures. Since the conversion of existing buildings would be exempt from various development standards, there exists a possibility of losing features that were included in the original development such as existing overhead weather protection or common building amenity areas, at the time of the conversion. In some cases, these features would be required to remain in place if they were permitted as an incentive feature that required recording of a declaration. In those cases the declaration could still be upheld and enforced. However, if a feature was provided solely as an aspect of a development regulation without a recorded declaration it is possible that a developer could alter the feature during the conversion to residential. OPCD and SDCI will actively monitor the first series of conversions to assess and identify any adverse impacts on amenity features. We propose a periodic review of the legislation governing conversions, with the potential to revisit regulations after approximately 5 conversions to ensure ongoing alignment with public benefit considerations.

Findings and Recommendation

The OPCD Director makes the following findings related to this proposed legislation.

- The proposed legislation would help implement the Downtown Activation Plan.
- The proposal is in line with the City's priority to increase housing supply.
- OPCD has evaluated the environmental impacts of the proposal and determined them to be non-significant, primarily because the proposal would not substantially alter the built environment of existing structures. A SEPA DNS was issued on January 11, 2024 and no appeals were received.
- The proposal is consistent with the City's Comprehensive Plan as well as goals and policies in sub-area plans and other relevant planning documents.
- The proposed legislation addresses the requirements and direction provided to Washington cities by Engrossed Substitute House Bill 1042.

In consideration of the factors and information contained in this report OPCD recommends that City Council review the proposed legislation and adopt the associated Land Use Code text amendments.