City of Seattle
Office of Housing

Date: July 10, 2015
To: Council Member John Okamoto, Chair, Housing Affordability, Human Services and Economic Resiliency Committee
From: Steve Walker, Director, Office of Housing
Subject: Briefing Paper on Proposed Sixth and Yesler Legislation

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Dear Councilmember Okamoto:

On Thursday July 16 CHAHSER will be considering a Council Bill to sell a piece of City-owned property located at the intersection of Sixth and Yesler.

Strategic use of surplus or underutilized City property to support housing development is an important theme emerging from the Housing Affordability and Livability Agenda. Indeed, HALA committee members unanimously rallied around this recommendation as a top-tier priority.

The Site

The proposed legislation offers an excellent opportunity to convert underutilized City property into housing. The site in question, a small (7,200 square foot) parking lot at the southwest corner of the intersection at Sixth and Yesler, has been in City possession since 1995 via a land swap with King County.

As a standalone property in an area with base zoning for heights up to 125 feet, this site could, in theory, accommodate housing. However, in reality, multifamily construction on so small a site is rare due both to practical constraints and poor cost-efficiency. Moreover, if the adjacent property, also presently a parking lot, were developed separately, the presence of the neighboring building would further degrade the City site's potential for development.

That adjacent property – a 14,400 square foot "L"-shaped property that wraps around the City-owned site -- has recently been purchased by a private developer. That developer, Stream Real Estate, is poised to develop multifamily housing on its property. When the Office of Housing learned of those plans, staff approached the developer to determine whether he was interested in incorporating the City-owned site into his larger project. As discussions evolved, we determined that inclusion of the City property could increase the number of units from approximately 110 to approximately 150 apartments (predominantly one-bedroom units with a mixture of some two bedrooms and a few studio units). We also learned that consolidation of the sites could create the opportunity for a child care facility on the ground floor.

Terms of Sale

To set the terms of the sale, the Office of Housing, in cooperation with the Department of Finance and Administrative Services, ordered an appraisal of the City property. The appraiser determined a fair market value of $1.44 million. This legislation therefore proposes sale of the site at fair market value, with the sale proceeds directed to the Office of Housing to support additional capital investment in low-income housing.

In addition to obtaining fair market value, Office of Housing staff sought to obtain further public benefits through this transaction, as well. Prior to discussions about this property sale, the developer had indicated his intent to enter into a linkage agreement with a downtown commercial developer in order to satisfy that developer's affordable housing obligation under incentive zoning's off-site performance option. To capitalize on this outcome, the purchase and sale agreement extends Stream Real Estate's commitment to housing affordability to all units constructed on the consolidated site, regardless of whether they are "needed" to satisfy another developer's affordable housing obligation or not.

Consistent with existing City requirements under incentive zoning (codified at SMC 23.49.012), the proposed legislation would ensure that every unit in the building would be income- and rent-restricted to households with incomes no greater than 80% of area median for 50 years. This means that as Seattle grows and the area around Sixth and Yesler evolves over the next 50 years, rents will not increase at a rate beyond the growth in the area's median income.

Consolidation of the properties also creates the opportunity for inclusion of a child care facility on the ground floor. The developer is interested in providing this child care facility to help a commercial developer also choose the performance, rather than payment, path when considering how to satisfy its child care obligation under incentive zoning. If this happens, a portion of the child care will be made available at reduced rates.

An essential element of the purchase and sale agreement is a set of accompanying conditions. Specifically, if the developer fails to identify and execute an incentive zoning linkage agreement with a commercial partner and execute a long-term affordability covenant with the Office of Housing, the purchase and sale agreement becomes void.

Expected Outcomes

The opportunity to facilitate development of affordable child care and expand the number of housing units that are restricted for 50 years at an 80%AMI "workforce" level is exciting. But the opportunity to secure these benefits and simultaneously receive fair market value for an underutilized City-owned site makes this proposed legislation vital. Few opportunities exist to create both workforce and very low income housing in a single transaction, and that is the natural outcome of this purchase and sale agreement.

Later this month, Patrick Place Apartments, a 71-unit permanent supportive housing project for people exiting homelessness, will open. The Office of Housing provided $1.6 million to this project in 2011, leveraging millions more in 9% low-income housing tax credits and other public resources. The $1.44 million in revenue from this property sale could be equally impactful and we urge your thoughtful consideration and approval of this Council Bill.