

Seattle City Council Incentive Zoning Analysis July 31, 2008

Introduction

The analysis addresses the impact of alternative requirements for affordable housing set-aside or fees-in-lieu, on financial performance of different development scenarios. Material presented in previous committee meetings considered differences in:

- high-rise and mid-rise residential development, and
- varying set-aside requirements at 80% of area median income (AMI).

The current analysis expands the previous work to consider:

- different geographic areas: summarized in two categories, higher rent areas and lower rent areas, and
- different combinations of affordable housing set-aside percentages and income levels as % of AMI.

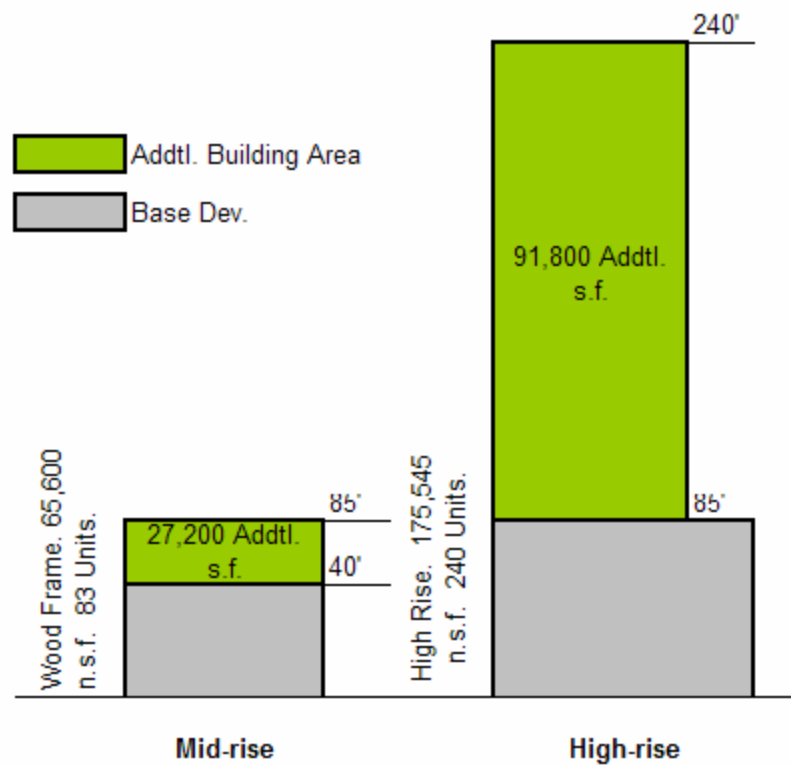
The performance measure projected for each scenario is “yield on cost”, the ratio of annual income at a stabilized year (after construction and lease up) and the total cost of development.

Development Models

The analysis is based on two hypothetical development models: a mid-rise case and a high-rise case. The mid-rise case conceptually models the financial performance of a less expensive to build wood construction type that one might see in some Neighborhood Commercial (NC), Seattle Mixed (SM), or Midrise (MR) zones in a scenario in which additional development capacity would be allowed above a base height of forty feet. The high-rise case conceptually models the financial performance of a more expensive to build concrete or steel construction type that one might see in Downtown Mixed Commercial (DMC) or Highrise (HR) zones in a scenario in which additional development capacity up to two hundred and forty feet would be allowed above a base height of eighty-five feet.

Project assumptions, like site size, parking quantity, and average unit size; capital cost assumptions; and income assumption for these models were provided by developers and other stakeholders. These models, including the assumptions were discussed in greater detail at the Planning Land Use and Neighborhoods Committee on June 11. The hypothetical concepts are shown below in Figure 1.

Figure 1



Geographic Areas

Market conditions vary among geographic areas of the city. Figure 2 summarizes average monthly rents for one-bedroom units as reported by Dupre and Scott, Apartment Vacancy Report, Spring 2008.

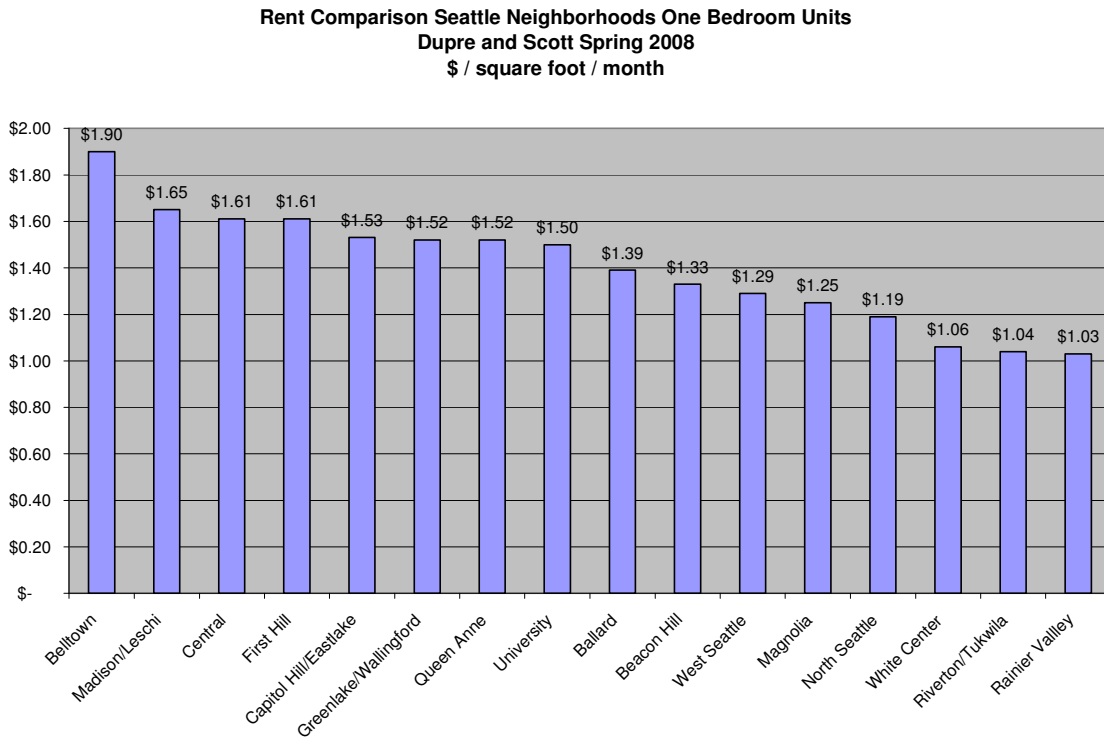
Of 16 designated neighborhoods (including the Riverton/Tukwila and White Center neighborhoods that extend beyond city limits), eight neighborhoods report average rents that exceed \$1.40 per square foot per month. The average monthly rent for the eight lower rent neighborhoods is 75% of the average for the higher rent neighborhoods.

For purposes of the financial analysis, the key assumptions for lower and higher rent areas are:

- Rents in lower rent areas for the development scenarios considered are 80% of rents in higher rent areas for comparable scenarios. The average spread between the two categories is assumed to be less than the current average, because the characteristics of the new residential products in the two categories will be more similar than at present.

- Construction costs are similar in lower and higher rent areas, but developers are likely to use less expensive finishes and features in the low rent areas. Cost of residential construction in lower rent areas is assumed to be 10% lower on average than in higher rent areas.

Figure 2.



Financial Comparison

Figures 3 and 4 summarize the estimated financial performance of development scenarios with alternative affordable housing set-aside requirements. Assumed set-aside requirements include a range of:

- 10%, 15%, and 20% of additional units required to be affordable at 80% AMI.
- 65%, 70%, 75% and 80% AMI income levels for 15% set-aside requirement.

Figures 5 and 6 summarize the estimated financial performance of scenarios with alternative in-lieu payment rates.

Figure 3

**Yield on Cost Performance for Higher Rent Areas
by Affordable Housing Set-aside Requirement**

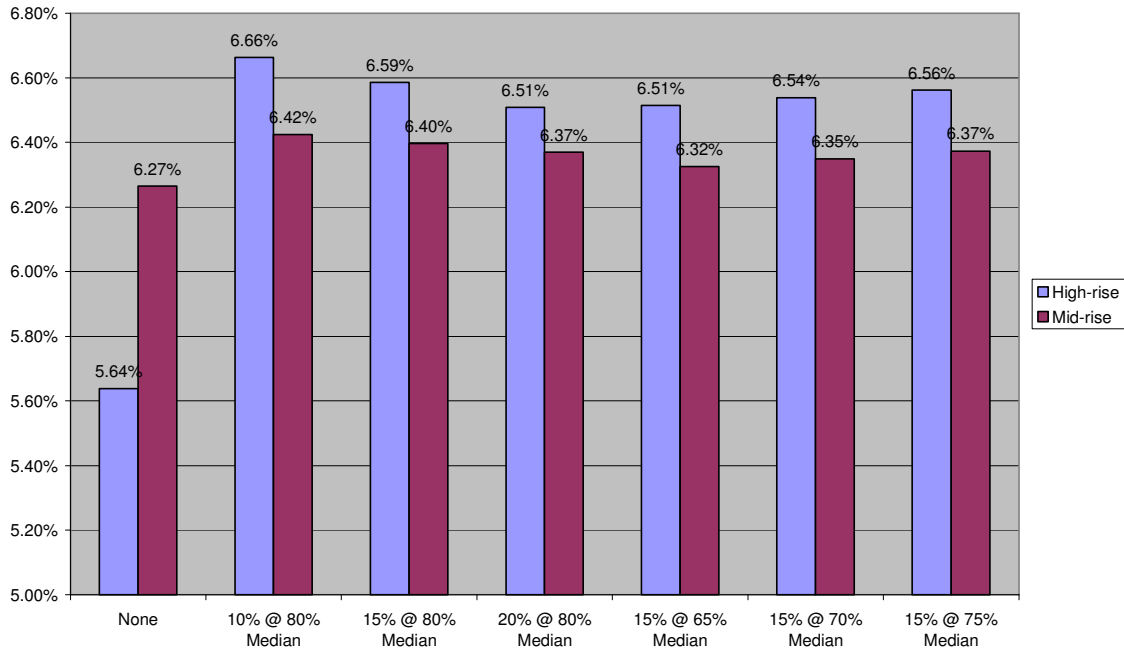


Figure 4

**Yield on Cost Performance for Lower Rent Areas
by Affordable Housing Set-aside Requirement**

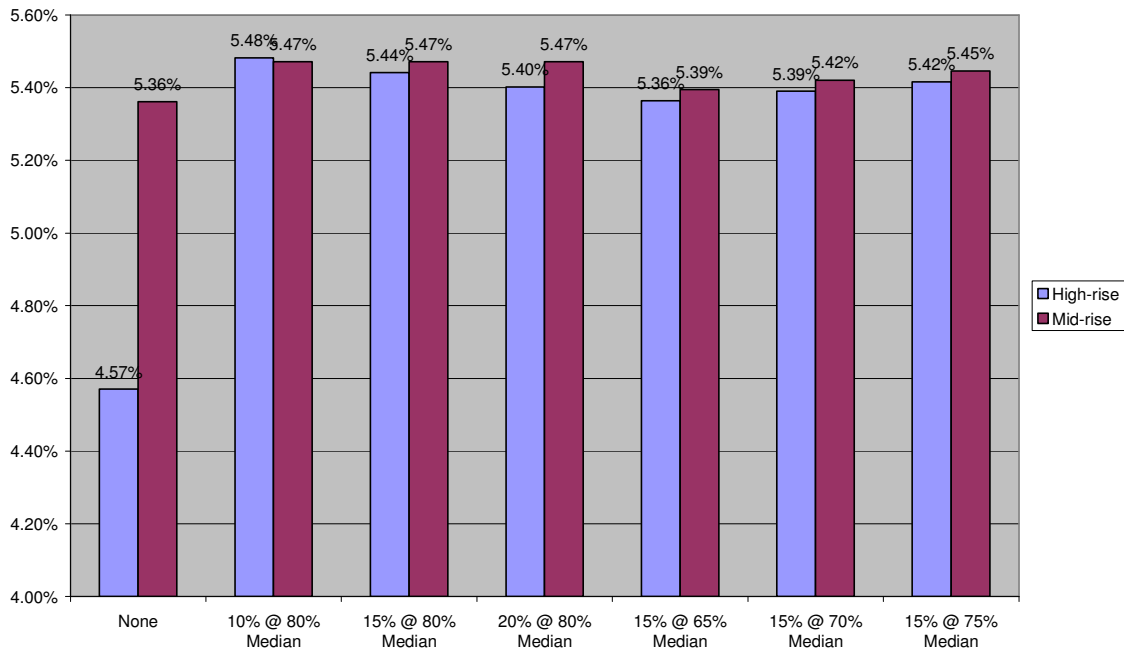


Figure 5

**Yield on Cost Performance for Higher Rent Areas
by Fee In-lieu Requirement**

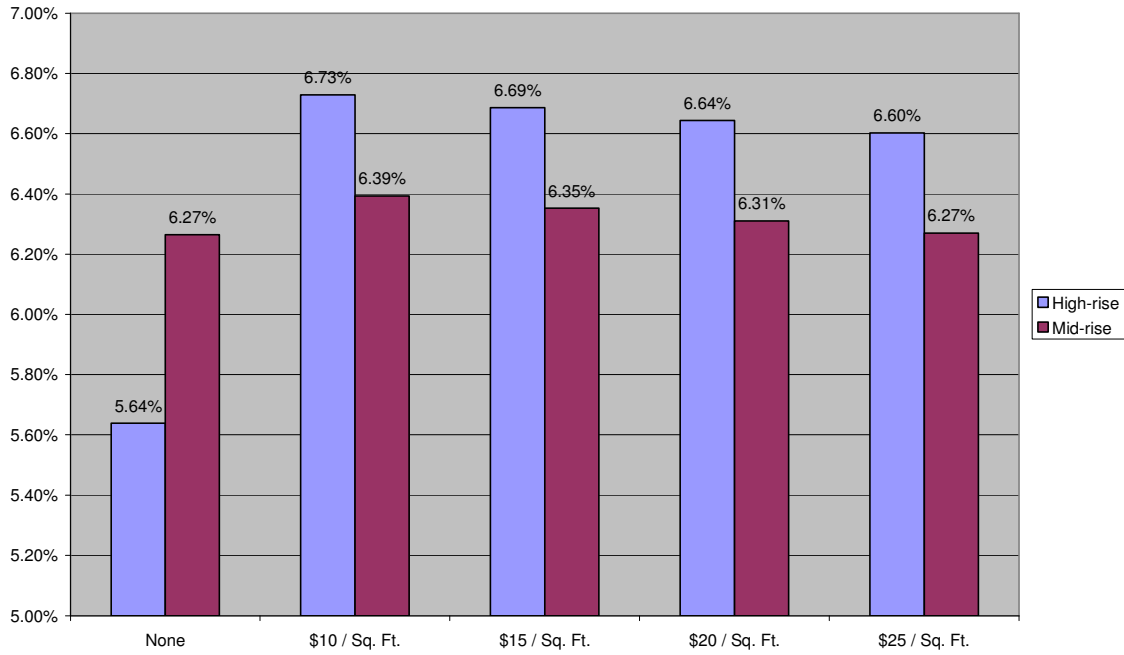
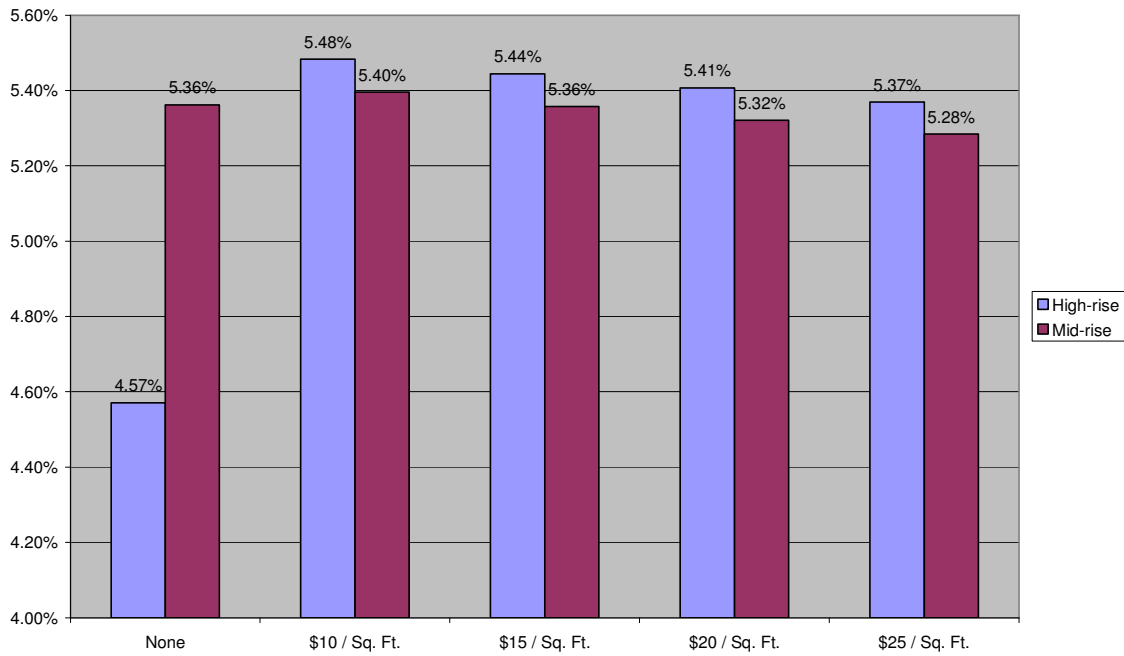


Figure 6

**Yield on Cost Performance for Lower Rent Areas
by Fee In-Lieu Requirement**



Conclusions

1. The impact of various requirements differs for lower and higher rent areas. In many cases the financial performance for lower rent areas are too low to sustain development under both existing conditions and with additional development area provided as an incentive. However, in these lower rent areas the relative impact of set-aside requirements is less as the difference between market rents and affordable rents is less.
2. In all cases, projected financial performance for development with additional development area is greater than for lower density base cases, even with requirements at the affordability levels and set-aside scenarios considered.
3. In all cases, differences in projected financial performance over the range of affordability levels and set aside scenarios are relatively small.
4. There is a relationship between set-aside levels and affordability definitions.
 - For higher rent areas, the financial performance of the scenario with 20% set-aside at 80% of median income for the **high-rise** case is comparable to a 15% requirement at 65% median income. The financial performance of the scenario with 20% set-aside at 80% of median income for the **mid-rise** case is comparable to a 15% requirement at 75% median income.
 - For lower rent areas, the financial performance of the scenario with 20% set-aside at 80% of median income for the **high-rise** case is comparable to a 15% requirement at 70% median income. The financial performance of the scenario with 20% set-aside at 80% of median income for the **mid-rise** case is comparable to a 15% requirement at 75% median income.