Seattle Affordable Middle-Income Housing Advisory Council

Policy Recommendations to Mayor Jenny A. Durkan

January 2020

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January 16, 2020

Dear Mayor Durkan,

On behalf of the entire Affordable Middle-Income Housing Advisory Council, thank you for creating the opportunity for our diverse group of experts to research and discuss financing and regulatory obstacles to middle-income housing. This work is critically important and demands a quick and thoughtful response. Too many of Seattle's residents are struggling to stay in Seattle as population growth outpaces housing production and rising rents and home prices have left most low- and middle-income people behind.

For many years, the City's response to the broader housing affordability crisis has appropriately prioritized housing for low-income households and support for our neighbors experiencing homelessness. Our work seeks to advance a third objective, which is to support strategies that address the growing housing affordability needs of Seattle's middle-income workforce.

The Advisory Council applied our collective expertise in housing development, finance, and law to elevate strategies to help close the growing gap between housing produced in the private market and what middle-income households can afford. Our work culminates in nearly 40 strategies that together can help create more housing choices that are affordable to middle-income households.

Many of these actions fall squarely within the City's control. The City can change its organizational structures and practices with the goal of creating more affordable, middle-income, and market-rate housing. In addition, the City regulates housing development, including development standards and the permitting processes that often result in added time and cost to new housing development, as well as land use zoning that often limits housing choices. And yet, the City cannot solve this issue alone. Many strategies call on leadership and action from other stakeholders. The State Legislature can do more to support new sources of financing and revenue for housing production. The private sector has a vital role – and stake – in ensuring there is more housing available for our city's workforce.

We ask you to act on these high-impact strategies:

- Cultivate new partnerships with major employers, investors, and philanthropy to invest in homeownership assistance and innovative financing models that will increase the availability of moderately-priced housing;
- Advocate to the State for action to extend the Multifamily Tax Exemption program (MFTE) beyond 12 years of affordability and ensure that the MFTE program continues as the City's most effective tool for the production of middle-income housing; and
- Reform permitting practices to bring new housing online as fast as possible.

The Advisory Council remains committed to help with this effort. While our formal work ends with these recommendations, we will assist the City in its implementation by supporting necessary engagement and legislation for City actions and partnering with businesses and community stakeholders to propel non-governmental actions.

We believe that together we can make critical progress to keep Seattle an affordable and welcoming home to middle-income workforce. We look forward to our continued work together.

Sincerely,

Seattle Affordable Middle-Income Housing Advisory Council Co-Chairs

Ada Healey, Gary Locke, Ezra Teshome, and Larry Brown

Executive Summary

The Challenge. Seattle's recent economic growth has brought tremendous opportunity and prosperity to the region, but also the unwelcomed by-product of a shortage of housing for our low- and middle-income workforce. Too many of Seattle's working families, including those who serve in our schools and hospitals, in our restaurants, as maintenance staff, and thousands who keep our small businesses running, struggle to find a place to live in our city that they can afford.

The City has long acknowledged the need to provide more housing choices for low-income households.[1] Since 2010, as the costs of rental and ownership housing have increased by nearly 60% and 70%, respectively, we have witnessed a growing gap in housing affordable to middle-income households as well. The City must continue to increase its efforts to provide housing to support low-income households and we must also ensure that middle-income households can find affordable housing choices in our city.

Mayor Durkan's Affordable Middle-Income Housing Advisory Council brings expertise in investment and housing development to generate solutions for more rental and ownership housing choices for Seattle's middle-income earners. The Advisory Council will elevate investment strategies and innovative construction models to close the growing gap between housing that City subsidy may support and what the private market is producing so that more of our working families can afford to live in Seattle.

Together, more than half of the families and individuals in Seattle struggle to find rental housing that is within reach and that meets their needs and homeownership is an impossible dream. Almost three-quarters of Seattle's low-income residents and more than a third of Seattle's middle-income residents struggle with one or more housing problems, the most prevalent housing problem being housing affordability.[2] At the same time, workers who are in low- and middle-income occupations make up the vast majority of the Seattle workforce. Without available housing to meet their needs in Seattle, these workers face long commutes, adding to the region's traffic congestion and climate impact.

In 2016, City of Seattle research found that only 3% of Seattle apartments in 20+ unit complexes were affordable to low-income households earning 60% of AMI. Less than a quarter (23%) were affordable to households earning 80% of AMI. Even for households with incomes at 100% of AMI, fewer than half of all rental units (46%) were affordable at that income level.[3]

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[1] Low-income households are those that those whose income is less than 60% of Area Median Income (AMI), which translates to less than $46,500 for a single person household and less than $66,400 for a household of four. Middle-income households are those that earn between 60% AMI and 120% AMI which translates to between $46,500 and $93,000 for a single person household and between $66,400 and $132,850 for a household of four. See Figure 3 on pages 14-15 for more details.

[2] Housing is considered affordable if a household spends less than 30% of their household income on housing costs including utilities.

[3] 2016 Seattle Unsubsidized Housing Report. See Figure 3 on pages 14-15 for details on AMI levels.

Further, changes in for sale home prices represent a dramatic shift from a generation ago; from 1988 to 2017, the average price of a Seattle-area home increased from 2.5 times the average income to 5.7 times the average income.[4] Although today's low interest rates help reduce mortgage payments, homebuyers nevertheless spend much more of their income to purchase the same home. Not only are monthly payments challenging, but a down payment of even 5% on the median detached house requires $40,000 — an enormous sum for most households, particularly those paying off student debt or unable to rely on outside support. *The Atlantic* recently reported that it now takes 27 years for those earning the median income to save for a 20% down payment on a median-priced home in the Seattle region.[5] Overall, these numbers highlight the stark fact that owning a home in Seattle is no longer affordable to the majority of people who live and work here.

Key Solutions. The Advisory Council has identified three key actions that would have the highest impact and should be prioritized for immediate implementation:

> **The City should cultivate new partnerships and recruit new private sector investors and philanthropic dollars for innovative real estate financing.** In a high-demand city with a housing shortage, traditional land acquisition and private financing models are producing housing that is too expensive for most middle-income households. Most households are unable to access homeownership without assistance. We must consider how the Greater Seattle Area can bring new private and philanthropic capital to bear on the problem through creative financial and investment strategies. Locally, Microsoft has led the charge by committing to invest up to $500 million to support the development of middle-income housing. The University of Washington is helping new faculty buy homes. While these commitments are an excellent starting point, we strongly encourage private and public employers to lean in to investing in housing to support not only their own employees, but also the workforce that supports those employees (such as teachers, childcare providers and law enforcement personnel). Many of our city's employers are already committed to solving this problem to ensure the future of their workforce. The City should work with private and philanthropic partners to galvanize the entire community, ensuring everyone is contributing to innovative efforts to address this challenge. (*Recommendations 1.01 and 2.01*)
>
> **The City should advocate to the State for action to extend the Multifamily Tax Exemption program (MFTE) beyond 12 years of affordability and should ensure program continues as the City's most effective tool for the production of middle-income housing.** MFTE has been the City's primary tool to create middle-income housing, with over 5,000 rental homes in market-rate buildings affordable to middle-income residents and another 1,600 anticipated to come online by 2022.[6] However, because state law limits the tax exemption period to 12 years, MFTE units return to market-rate after 12 years, reducing the City's affordable housing stock. Between 2020 and 2025, the affordability restrictions on nearly

[4] Harvard University Joint Center for Housing Studies

[5] Alexis C. Madrigal. 2019. "Why Housing Policy Feels Like Generational Warfare, To Millennials, at least" The Atlantic Magazine. https://www.theatlantic.com/technology/archive/2019/06/why-millennials-cant-afford-buy-house/591532/

[6] As of December 31, 2019.

1,200 units will expire. Extension of the affordability period beyond 12 years is imperative so the City does not lose ground. The City should also support state advocacy for a Preservation Tax Exemption that would preserve affordability in existing multifamily buildings. In addition, the City must ensure that MFTE continues robust production and should actively monitor MFTE participation to ensure changes made in 2019 and in future renewals do not negatively impact the productivity of the program. (*Recommendation 1.08*)

The City should reform permitting practices to bring new housing online as fast as possible. Despite the construction boom of the past decade, Seattle is still experiencing an acute housing shortage in which new job growth has greatly outpaced new housing. The City's lengthy permitting process adds time and expense to the construction of new homes. Different departments within the City continue to make changes to the Seattle Municipal Code (and building code) which adds to the cost of construction. The City should commit to addressing permitting chokepoints, continuous and costly code changes, and reducing conflicting direction to developers from the multiple permitting departments – Seattle Department of Construction and Inspections (SDCI), Seattle Department of Transportation (SDOT), Seattle Fire Department (SFD), Seattle City Light (SCL) and Seattle Public Utilities (SPU). To achieve this, the City should create a department neutral Ombud position, accountable to and empowered by the Mayor's Office, to oversee a continuous process improvement effort and to help facilitate developments that get stuck. (*Recommendation 5*)

Further Opportunities. Inclusive of the key actions identified above, the Affordable Middle-Income Housing Advisory Council identified nearly 40 recommendations that will work together to increase the availability of housing affordable to middle-income families and individuals. Specifically:

- Twenty-three strategies fall entirely within the City's control to implement. These include actions related to the City's organizational structure, permitting processes and practices, goal setting and monitoring, and development codes and regulations.
- Fifteen strategies call on leadership from employers, philanthropy, major landowners, investors, and community stakeholders to create cross-sector partnerships or require action by another governmental entity to implement.

Together, these changes could substantially increase the availability and reduce the cost of housing. Details on how the Advisory Council considered the impacts of their recommendations may be found in Section III and Appendix 2 of this report.

There is more that we all can and must do to make Seattle affordable and welcoming. The Advisory Council recognizes that an adequate response to the housing crisis requires strategies that are high impact, scalable, and applicable across multiple development projects, in a diversity of neighborhoods, and for different types of residents. Most importantly, the actions recommended for our middle-income residents will add to, not compete with, efforts to create affordable housing for our city's low-income residents. The full range of Advisory Council recommendations may be found in Section II of this report.

While this report completes the Advisory Council's work as a formal body, its members commit to ongoing support and collaboration with the City, Mayor Durkan, and the development community at large to further evaluate and implement these recommendations.

Acknowledgements

Mayor of Seattle, Jenny A. Durkan

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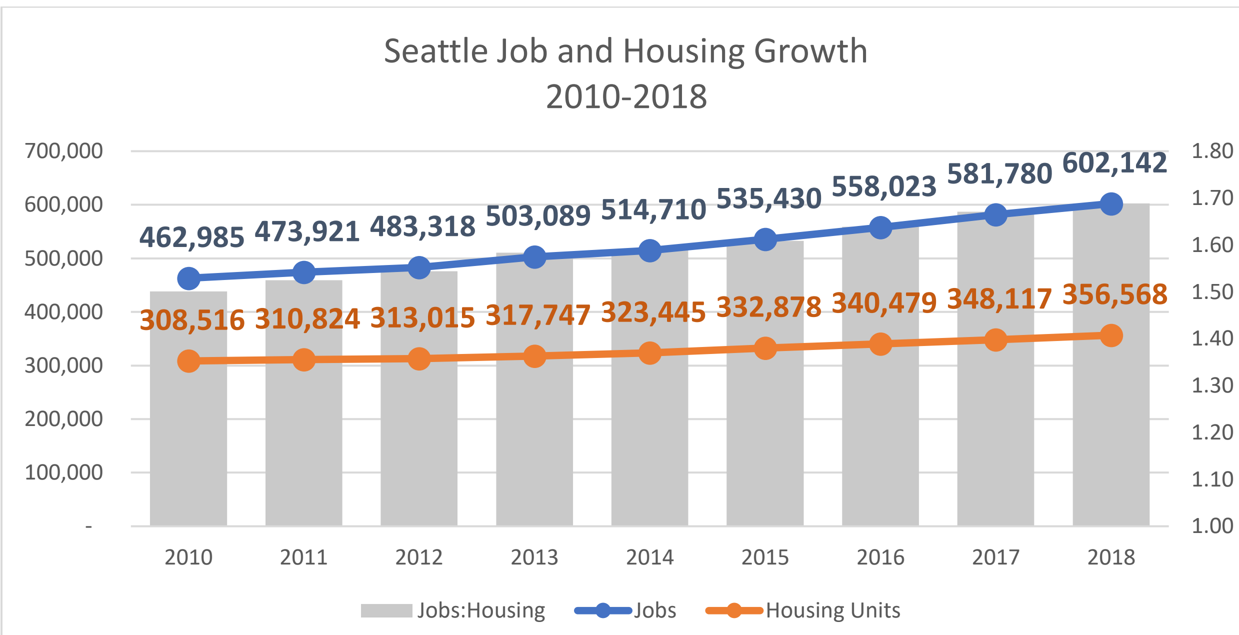
I. Introduction

In the past decade, the Puget Sound region's economy has grown at an astounding rate. This has fueled strong population growth as new residents move to the state for economic and educational opportunities. Since 2010, the four-county region of King, Kitsap, Snohomish, and Pierce Counties has added 384,000 jobs and 444,000 people.[7] Seattle has been at the center of this growth, adding nearly 140,000 jobs and 122,000 people over the same period.[8] While the number of jobs in high-wage occupations have grown the fastest, 85 percent of Seattle's jobs remain in occupations that pay on average less than $100,000 per year.[9]

Seattle has not produced enough new housing to meet this growing demand. As shown in Figure 1, the number of jobs in Seattle increased 30 percent between 2010 and 2018, but the number of housing units increased only 16 percent. New housing must conform to more than 4,000 pages of regulation and go through an unpredictable permitting process that often adds unnecessary time, complexity, and cost to housing development. Put simply, we are falling behind in building new housing, making it harder for low- and middle-income individuals and families to live here.

Figure 1: Seattle Job and Housing Growth 2010-2018 [10]



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[7] Bureau of Labor Statistics. [2018 Quarterly Census of Employment and Wages for the four-county region (King, Kitsap, Snohomish and Pierce Counties)](.).)

[8] PSRC Quarterly Census of Employment and Wages, WS Employment Security Department, 2018; and Washington State Office of Financial Management, 2018

[9] Emsi 2019.4. Note: this includes both covered and uncovered employment; the information in Figure 1 is only available for covered employment.

[10] PSRC Quarterly Census of Employment and Wages, WS Employment Security Department, 2018; and Washington State Office of Financial Management, 2018

The same trend has unfolded in the broader Puget Sound region. The Puget Sound Regional Council (PSRC) estimates that, while employment grew 23 percent, housing units in the four-county area increased only 7 percent over the same period of strong economic growth.[11]

Rising Housing Costs

Without adequate new housing for newcomers and young adults forming new, independent adult households, competition for limited housing has driven prices dramatically upward. Between 2011 and 2018, Seattle rents increased 57 percent, the sales price of a detached house increased 65 percent, and the sales price of a condominium increased 48 percent.[12] Figure 2 shows recent rents and sales prices for different housing sizes and types.

Figure 2: Housing Costs in Seattle

Average Rent[13]	**Studio**	**1 bedroom**	**2 bedrooms**	**3 bedrooms**
2019 average monthly gross rent	$1,570	$2,050	$2,750	$3,000

Median Home Prices[14]	**Condo / Co-op**	**Townhouse**	**Detached House**
2018 median sales price	$520,000	$730,000	$795,000
Down Payment of 10%	$52,000	$73,000	$79,500
Monthly Payment including taxes, insurance, and PMI[15]	$3,310 + HOA dues	$4,640	$5,060

One barometer of our regional housing shortage is the ratio of new homes built to new households created (both from in-migration and as existing residents form new households through coming of age or changes in family circumstances). Historically, the U.S. housing market has produced 110 homes for every 100 new households — enough to accommodate a healthy vacancy rate, demolition, obsolescence, and vacation homes. From 2010 to 2016, the Puget Sound region substantially underproduced housing given the number of new households created. For every 100 new households formed, King County added only 65 new housing units, Snohomish County only 65, Pierce County only

[11] Current Population: Region. Estimates from U.S. Census Bureau and the Washington State Office of Financial Management. Available from: https://www.psrc.org/rdp-population

[12] Inflation adjusted average rent for a 1-bedroom apartment from Zillow. Inflation adjusted average sales prices from Northwest Multiple Listing Service.

[13] Zillow, May 2019

[14] King County Department of Assessments

[15] https://www.zillow.com/mortgage-calculator/; using a 10% down payment, a 4.545% interest rate, 1.3% property tax, and 0.3% insurance rate.

64, and Kitsap County only 43.[16] In other words, our region suffers from a serious housing shortage considering the recent growth.

Increased Commute Times

As scarcity pushes up housing costs in Seattle and regionally, people are increasingly forced to move farther from their jobs to find suitable and affordable housing. Seattle was recently ranked as the second-worst city for commuters.[17] In the Seattle-Tacoma-Bellevue metropolitan area, the share of "mega-commuters" — residents who commute at least 90 minutes each way to their jobs — has increased more than 70 percent since 2010, surpassed nationally only by the Bay Area of California.[18] If current trends hold, we can expect nearly 100,000 mega-commuters in our metro area by 2020 and traffic congestion to continue to worsen, diminishing the overall quality of life for the region's residents and exacerbating our region's climate impact.

Who Can Afford to Live in Seattle?

With Seattle's housing prices escalating over the past decade, very few housing options are available and affordable to low- and middle-income households in the city. Low-income households include individuals with incomes up to $46,500 and families of four with incomes up to $66,400. Middle-income households are individuals whose incomes are between $46,500 and $93,000 and families of four between $66,400 and $132,850.[19]

Expressing a household's income as a percentage of the median income for a metropolitan area — a measure called area median income or AMI — helps us understand how different types of housing serve residents in our community. AMI is an amount that divides the income distribution into two equal groups, half earning above the median income and half below. AMI is adjusted by household size to recognize that supporting a larger household requires more income. Figure 3 shows several typical income bands by AMI, with their respective range of incomes by household size, the number of Seattle households, and example occupations. Each income band also includes the percentage of Seattle households that report one or more "housing problems."[20] Of those Seattle households that report

[16] Housing Underproduction in Washington State, report by Up for Growth and ECONorthwest, www.upforgrowth.org/news/new-report-details-washingtons-225000-home-shortage.

[17] https://www.apartmentguide.com/blog/worst-cities-for-commuters/

[18] https://www.seattletimes.com/seattle-news/data/seattles-mega-commuters-we-are-spending-more-time-than-ever-traveling-to-work/; https://www.seattletimes.com/seattle-news/transportation/seattle-area-traffic-congestion-is-among-the-worst-in-the-country-study-shows/

[19] Low-income is generally considered less than 60 percent of AMI and middle-income between 60 and 120 percent of AMI depending on household size.

[20] HUD defines the four housing problems as (1) the household is cost burdened, (2) lives in a home without complete kitchen facilities, (3) lives in a home that lacks complete plumbing facilities, or (4) is overcrowded.

housing problems, 94 percent experience housing cost burden, meaning they live in housing not considered affordable.[21, 22]

Figure 3: Households and Occupations by AMI [23]

Less than 30% AMI			
Annual household income range	**1 person**	**2 people**	**4 people**
	Up to $23,250	Up to $26,660	Up to $33,200
Seattle households	49,050		
% of households with one or more housing problems	79%		
Example households	• A minimum wage earner with two children • A person receiving Social Security Disability Benefits		
30-60% AMI			
Annual household income range	**1 person**	**2 people**	**4 people**
	$23,251-46,500	$26,661-53,150	$33,201-66,400
Seattle households	50,165		
% of households with one or more housing problems	70%		
Example households	• A minimum wage earner without children • Retail salesperson, single or with children • Housecleaner with one child • Construction laborer and stay at home parent with two children • Receptionist and childcare worker with two children		
61-80% AMI			
Annual household income range	**1 person**	**2 people**	**4 people**
	$46,501-61,800	$53,151-70,600	$66,401-88,250
Seattle households	16,970		

[21] Housing is considered affordable is a household spends no more than 30 percent of their gross household income on housing costs and utilities.

[22] Comprehensive Housing Affordability Strategy (CHAS) special tabulation of American Community Survey 2011-2015 5-year data, US Department of Housing and Urban Development (HUD), and U.S. Census Bureau.

[23] Comprehensive Housing Affordability Strategy (CHAS) special tabulation of American Community Survey 2011-2015 5-year data, US Department of Housing and Urban Development (HUD), and U.S. Census Bureau. AMI numbers are for 2019.

% of households with one or more housing problems	49%		
Example households	• Maintenance worker • Public school teacher with one child • Restaurant cook and security guard with two children • Firefighter, stay-at-home parent, and 2 children		
81-120% AMI			
Annual household income range	**1 person**	**2 people**	**4 people**
	$61,801 to $93,000	$70,601 to $106,250	$88,251 to $132,850
Seattle households	51,200		
% of households with one or more housing problems	33%		
Example households	• Administrative assistant • Bookkeeper and nursing assistant • Registered nurse with one child • Paramedic and customer service representative with two children • Electrical engineer and stay-at-home parent with two children		
More than 120% AMI			
Annual household income range	**1 person**	**2 people**	**4 people**
	More than $93,001	More than $106,251	More than $132,850
Seattle households	129,250		
% of households with one or more housing problems	9%		
Example households	• Human resources manager • Software developer with one child • Two accountants with two children • Physician and stay-at-home parent with two children		

Housing Costs Increasingly Out of Reach for Low- and Middle-Income Employees

Housing costs are increasingly out of reach for low- and middle-income workers. In 2016, City of Seattle research found that only three percent of Seattle apartments in buildings with 20 or more units were affordable to households earning 60 percent of AMI. For households with incomes at 80 percent of AMI, less than a quarter (23%) of apartments were affordable. Even for households with incomes at 100 percent of AMI, fewer than half of all rental units (46%) were affordable.[24] Homeownership is even further out of reach, as very little for-sale housing in Seattle is affordable to low- and middle-income households. In 2018, just six percent of homes sold were affordable to households with incomes at 120 percent of AMI; at 160 percent of AMI this share rose only to 23 percent.[25] Seattle's lowest-income residents suffer disproportionately from the high cost of housing here, as average rent for even the smallest units is unaffordable.

Figure 4: Housing Costs and Affordability [26]

Renting	**Studio**	**1 bedroom**	**2 bedrooms**	**3 bedrooms**
2019 average gross rent	$1,570	$2,050	$2,750	$3,000
Necessary annual income for rent to be affordable	$62,800	$82,000	$110,000	$120,000
Necessary annual income as percentage of area median income[27]	81% of AMI for an individual	93% of AMI for 2-person household	110% of AMI for 3-person household	108% of AMI for 4-person household

Homeownership	**Condo / Co-op**	**Townhouse**	**Detached House**
2018 median sales price	$520,000	$730,000	$795,000
Necessary annual income for housing costs to be affordable	$139,000	$182,000	$198,000
Necessary annual income as % of AMI[26]	157% of AMI for family of 2	183% of AMI for family of 3	199% of AMI for family of 3

An alarming share of Seattle households experience this burden. Low-income households make up 33 percent of Seattle households, and middle-income households 23 percent. Together, this means more than half of the families and individuals in Seattle struggle to find affordable rental housing that meets their needs, and owning their own home is virtually out of reach. Almost three-quarters of low-income households and more than one-third of middle-income households struggle with one or more housing problems, the most common being cost burden. At the same time, employees in low- and middle-

[24] 2016 Seattle Unsubsidized Housing Report

[25] King County Department of Assessments

[26] Zillow, May 2019

[27] AMI based on 2019 figures and adjusted by household size. These numbers are different than those in the Housing Choices Background Report because that report used 2018 AMI figures. AMI went up by 7.1% from 2018 to 2019 which makes housing look more affordable.

income occupations comprise most of Seattle's workforce: more than 560,000 Seattle jobs are in occupations that pay less than $100,000 per year on average.[28]

A Call for New Solutions

Seattle has a strong track record of creating programs and funding that address the housing needs of low-income households and people experiencing homelessness. As their challenges increase, Seattle has remained committed to serving these individuals and families. Seattle voters have approved the Housing Levy for 38 years running; Mandatory Housing Affordability (MHA) requirements were fully implemented in early 2019; and on December 9, 2019, the City announced nearly a $110 million investment to build 1,944 homes for households earning less than 60 percent of AMI. In total, the City of Seattle expects nearly 5,000 new affordable homes to come online between now and 2022.

Seattle has also successfully deployed the Multifamily Tax Exemption (MFTE) program, one of the only tools available for creating affordable housing for middle-income households with incomes greater than 60 percent of AMI. Over the last decade, use of MFTE has soared to provide affordable rents for households between 40 and 90 percent of AMI, becoming one of the City's most productive programs to create income- and rent-restricted housing for low- and middle-income residents.

Looking ahead, Mayor Durkan's recently adopted 2020 budget adds $12 million to the City's investment in affordable homeownership for low- and middle-income households, supporting the goal of nearly doubling the number of permanently affordable for-sale homes for households up to 80 percent of AMI.

Yet new tools are necessary to address the growing share of middle-income employees impacted by rising housing costs. Seattle's 67,170 middle-income households earn between $46,500 and $132,850, depending on household size, and comprise 23 percent of Seattle households.[29] Yet more than half of Seattle jobs pay in this range. While many households include two incomes, the disparity between these figures suggests many middle-income workers live outside Seattle.[30]

If Seattle is to remain equitable, welcoming and just, more housing options are needed so that middle-income individuals and families who work in Seattle can live in Seattle, avoid long commutes, and benefit from all the city has to offer. More local housing — especially near transit — also helps Seattle and the region achieve other important goals for mobility, climate resilience, and economic opportunity.[31] While remaining committed to addressing the housing needs of our low-income families and individuals, Seattle must also create and preserve housing accessible to middle-income working families — teachers, first responders, nurses, and thousands of workers who keep Seattle's small businesses open.

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[28] Emsi 2019.4

[29] 60% to 120% of Area Median Income depending on household size.

[30] Emsi 2019.4 (https://www.economicmodeling.com/).

[31] https://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000428-Housing-Policy-Levers-to-Promote-Economic-Mobility.pdf

Seattle's Affordable Middle-Income Housing Advisory Council

Recognizing the implications of rising housing costs and their effect on middle-income households, regional traffic congestion, climate, and economic mobility, in January 2019 Mayor Jenny Durkan created the Affordable Middle-Income Housing Advisory Council and charged it with finding ways to create more rental and ownership housing choices for Seattle's middle-income earners.

In response, the Advisory Council brought expertise in finance, investment, law, and housing construction and development and developed the recommendations in this report based on policy and practical experience, economic analysis, and input from community engagement throughout our city.

The Advisory Council first convened in January 2019 and met monthly through November 2019 to review research and best practices, discuss and evaluate solutions, and advance recommendations for the Mayor to consider.

The Advisory Council did not conduct their own outreach but benefited from concurrent City engagement efforts on topics related to housing. At various points in their process, the Advisory Council received presentations on the results from these outreach efforts. Many Advisory Council members also participated directly in the outreach. The Advisory Council recognizes that the City will conduct additional community engagement — including racial equity analysis — in its process to consider action on the recommendations of this report. Appendix 3 summarizes the engagement efforts around housing that occurred concurrent with the Advisory Council.

II. Recommendations

1. Create More Multifamily Rental Housing Choices Affordable to Middle-Income Families and Individuals

Seattle's middle-income workers should be able to find affordable rental housing choices in Seattle that meet their household's needs. Unfortunately, a family of three must have a household income of $110,000 — or 110% AMI, the high end of "middle-income" in Seattle — to afford the average rent for a two-bedroom apartment of $2,750. Larger rental homes, such as two- and three-bedroom units, are scarce and expensive. While average rents for studio and one-bedroom apartments remain affordable to many middle-income households, that affordability could diminish in the future as demand continues to increase. From 2011 to 2018, the average inflation-adjusted rent for a one-bedroom apartment in Seattle increased 57%. As a result, more middle-income households, already priced out of homeownership opportunities, struggle to find affordable rental housing choices to live and remain in Seattle.

The City must pursue more strategies to create more new rental housing choices affordable to middle-income households and preserve or replace existing low-cost market-rate housing. These strategies broadly include developing new sources of capital for middle-income housing production and enhancing government tools to support middle-income housing. In some cases, where the City is conveying new value, or using public resources, these strategies include explicit income- and rent-restrictions on housing. In other cases, the strategies may increase housing supply overall to help meet the Seattle's growing housing demand.

Develop New Sources of Capital and Partnerships for Middle-Income Housing Production

1.01 Engage Employers, Labor Unions, and Other Institutional Investors to Invest in Middle-Income Housing Production

Given the vast resources needed to house our community's most vulnerable families, expanding middle-income housing production will require new resources. As middle-income households lose ground in the region's unaffordable housing market, workers must struggle with long commutes from more affordable areas outside Seattle. This, in turn, diminishes quality of life, leads to employee dissatisfaction, and hampers recruitment and retention of a high-quality workforce in both private and public sectors.

To address the growing challenge of middle-income housing affordability, we must consider how the Greater Seattle Area can bring new private and philanthropic capital to bear on the problem through creative financial and investment strategies.

Locally, Microsoft has led the charge by committing to invest up to $500 million to support the development of middle-income housing. In California, Facebook and Apple have together pledged $3.5

billion to address that state's housing crisis. Nationally, New York City Retirement Systems and others have allocated a portion of their pension assets to investments in housing affordable to low- and middle-income households.[32]

While Microsoft's commitment is an excellent starting point, we must make it easier for private and public employers to support not only their own employees, but also the workforce that supports those employees (such as teachers, childcare providers and law enforcement personnel) to find affordable housing options close to their workplaces. Labor unions with pension funds seek similar investment opportunities to build housing their members could afford. Broad and professionally managed Community Investment Funds with additional risk reduction through a Community Guarantee Pool could provide opportunities for employers, labor unions and institutional investors like pension funds to more easily and efficiently invest in junior capital for middle-income housing.

1.01a Reduce Investment Risk to Accommodate Modest Investment Returns from Middle-Income Housing Development

Issue. To build multifamily rental housing without government subsidies, a development must generate enough cashflow from rents to cover the expenses of operating the building plus the repayment of the loan used to finance the construction of the building. For illustrative purposes, assume it costs roughly $438,000 to build a unit of multifamily housing in Seattle.[33] (Smaller studios are slightly less expensive and larger two- and three-bedroom units are slightly more.) In a typical multifamily development affordable to middle-income households, approximately two-thirds of the cost can be financed with senior secured debt from a bank. The remaining one-third ($146,000) of financing typically comes from junior equity investors whose primary return on investment occurs only when the development is sold.

The sales price of a development depends on how much total rents exceed total operating expenses. A development with market-rate rents will typically have a higher sales price than a development with middle-income rents, reducing the return for junior investors in middle-income developments. Historically, junior capital is considered higher risk because it is subordinate to and, in the case of default, repaid after the senior debt. Based on this greater risk, investors in junior real estate securities expect returns above senior secured debt. Given its lower net operating income, middle-income housing tends not to provide those higher risk-adjusted returns and thus struggles to attract sufficient capital to meet the demand for this housing product.

Recommendation. To attract more junior capital, the City should work in partnership with the private and philanthropic sectors to develop a Community Guarantee Pool that backs junior investments in middle-income housing and reduces the risk of those investments. Compared to market-rate housing, middle-income housing is, in fact, inherently a *lower* risk investment since the shortage of homes at middle-income price points means lower vacancy rates throughout economic cycles. A guarantee pool could reduce the risks not fully mitigated by lower vacancy rates, such as uncertainty in the entitlement

[32] https://comptroller.nyc.gov/services/financial-matters/pension/initiatives/economically-targeted-investments/

[33] See EcoNorthwest model in Appendix 4 for details.

and construction phases of development and the take-out point (refinancing or sale) of the development.

Kresge Foundation[34] has created a community guarantee fund as a nationally syndicated pool, providing guarantees nationwide, including in Seattle. Seattle Foundation has made a pilot investment in Kresge Foundation's community guarantee fund. While the focus of Kresge Foundation's community guarantee fund extends beyond middle-income housing, sufficient interest from Seattle-area governments, philanthropies, and corporations could catalyze a similar regional community guarantee fund to attract more junior capital to middle-income housing by reducing investment risk. A significant advantage of the community guarantee pool is that it enables local entities like large philanthropies and corporations to leverage their strong balance sheets to attract other capital.

Impact. To provide a sense of scale, Kresge Foundation has pledged $150 million — half their impact investing pool — in guarantee capacity. The strong balance sheets of our region's numerous corporations and philanthropies could allow a community guarantee pool to scale much larger.

Implementation. This is a cross-sector strategy with the City in a convening role.

1.01b Facilitate Development of Community Investment Vehicles Targeting Middle-Income Housing

Issue. Across the U.S., several financial and investment vehicles have arisen to address the need to finance community needs. To fund war efforts, the U.S. Federal Government has issued war bonds and savings bonds. Seattle has created the Seattle Investment Fund to leverage New Markets Tax Credits. Calvert Impact Capital has created a $750 million community investment note fund targeting affordable housing, climate change, and community development that allows direct investments as small as $20.

Recommendation. In partnership with other private and philanthropic entities, the City should create a technical workgroup to evaluate investment models, review legal and regulatory limitations in Washington on raising and deploying capital for middle-income housing, and develop strategies for creating community investment vehicles. If legal and regulatory hurdles can be overcome, community investment vehicles could bring the strength of the Greater Seattle community to address our shortage of junior capital for middle-income housing.

Impact. $1 billion of community investment funds could provide junior capital for nearly 7,000 new middle-income homes. 100,000 new housing units would require nearly $15 billion of additional junior capital investment.

Implementation. This is a cross-sector strategy with the City in a convening role.

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[34] https://kresge.org/news/mission-money-markets-power-guarantee

1.02 Broaden Pool of Social Impact Investors

Seattle has many residents willing to invest a portion of their net worth for a positive community and social impact on our region's housing crisis. Several local nonprofits have secured social impact capital from their donors to build low-income affordable housing, and some have embarked on raising funds for housing through crowdfunding or an investor portal. But social impact investing has not yet reached the scale necessary to address the scope of the issue.

1.02a Advocate to Reduce Costly Registration Requirements for Social Impact Investments

Issue. Washington State securities laws (RCW 21.20.310(11)) restrict private offerings by nonprofits and philanthropies to a narrow group of wealthy investors already known to the nonprofit or philanthropy. The State limits crowdfunded public offerings by nonprofits and philanthropies to $1 million per year, enough to fund junior housing capital to build housing for only seven families.

Recommendation. Efforts by nonprofits and philanthropies to raise social impact capital could raise substantially more junior housing capital if Washington State's securities laws aligned with Oregon, California, Colorado, and Massachusetts, among others. Securities regulators should exempt certain social impact capital funds from costly registration and oversight when they have strong backing by philanthropic or corporate entities underlying the community investment, well-designed controls and regular audits, and strong decision-making governance.

Impact. Broader participation in social impact investment backed by area nonprofit, philanthropic, and corporate leaders can facilitate community-based solutions to the regional housing challenges we face.

Implementation. This would be a private and philanthropic sector led advocacy strategy with political support from the City for changes in Washington State law.

1.02b Advocate to Create Federal Tax Incentives for Social Impact Investors

Issue. To encourage community participation in financing structures like the Community Investment Fund discussed in 1.01, federal tax incentives for investment in middle-income housing should incentivize and benefit moderate-means investors. Such a tax incentive would complement efforts to broaden social impact investing by reducing State securities registration requirements.

Recommendation. The City should partner with the Washington State Congressional delegation to propose a federal tax incentive that promotes broader community investment in middle-income housing by allowing a charitable deduction for investment in a Community Investment Fund focused on providing middle-income housing. The City can help Washington's Congressional delegation understand the need to incentivize affordable housing investment and advocate for federal income tax changes that incentivize community investment in solving community challenges, particularly middle-income housing.

Impact. A federal tax incentive for people of moderate means to invest in middle-income housing development would offset the modest returns likely from social impact investment and broaden the group of investors to whom it appeals.

Implementation. This strategy requires passage of federal legislation with advocacy by the City and private sector.

1.03 Partner with Churches, Governments, Institutions, and Employers to Leverage Underdeveloped Land for Middle-Income Housing

Issue. Quality infill sites for multifamily development in Seattle are both limited and costly, especially in desirable areas near transit and amenities. Enterprise Community Partners' Home & Hope initiative has created an inventory of sites to help stakeholders investigate development opportunities in King County on land owned by religious associations and all levels of government, including city, county, state, school districts, and higher-education institutions. This inventory does not include land held by private entities.

Recommendation. The City should help facilitate partnerships between developers of middle-income housing and public, private, religious and nonprofit landowners, who may be motivated to participate in affordable housing development by providing their land as an in-kind investment or at a reduced sales price. For example, a church experiencing declining membership could contribute unneeded surface parking to a workforce housing development that not only houses people but also expands community and builds congregation. Through a discounted land lease, the church could maintain ownership of its asset while generating cashflow to meet other needs.

Impact. Analysis from EcoNorthwest shows that a 50% reduction in land cost can reduce the rent in a rental property about 8%.

Implementation. This is a cross-sector strategy with the City in a convening role.

1.04 Seek Opportunity Zone Fund Investment in Middle-Income Housing

Issue. Congress passed tax incentives for taxpayers with capital gains to invest those gains in economically depressed areas ("Opportunity Zones") throughout the United States. While the Seattle region has generally experienced extraordinary economic growth over the past 10 years, it has not been spread evenly across neighborhoods. Seattle's many Opportunity Zones (OZ) could benefit from investment in middle-income housing.

While federal tax incentives do not target middle-income housing, the tax advantages of deferring and reducing capital gains may be enough to attract more social impact investors to provide junior capital for middle-income housing.

Because Opportunity Zone investment must be made with equity investments rather than debt investments, Opportunity Zone funds cannot directly participate in the Community Investment Fund described above. Like institutional investors, Opportunity Zone investors will want to balance the risk and reward of their junior capital investments.

Recommendation. The City should continue to seek Opportunity Zone investors for middle- and mixed-income housing development in Opportunity Zone locations where a nonprofit owner, the City, or another public entity has site control, thereby reducing the development cost. These sites are rare and include affordability covenants; any lower-priced market-rate housing in the development is unlikely to remain priced as lower-cost housing past Opportunity Zone investors' 10-year investment term unless designed into the original contract.

Additionally, to make Opportunity Zone investments compatible with the Community Investment Fund and Guarantee Pool (Recommendation 1.01) and to reduce the risk (and expected return) of an investment in these developments, the City can advocate for Opportunity Zone investors to use a preferred equity structure (similar to the junior debt described above) whereby the preferred equity can access similar return guarantees through the Community Guarantee Pool.

Impact. The tax incentives of Opportunity Zone funds have the potential to bring new sources of capital to fund middle-income housing and to be complementary to the use of a Community Investment Fund.

Implementation. This is primarily a private sector strategy with City advocacy to encourage Opportunity Zone investments that support middle-income housing and minimize displacement and gentrification impacts. Additional outside legal, accounting, and tax expertise are necessary to create investment structures that complement the Community Investment Fund.

Enhance Government Tools to Support Middle-Income Housing

The Seattle region needs more permanently rent- and income-restricted housing affordable to and reserved for working people undergoing displacement due to market economics. Much of the capital available to fund or finance housing development either requires market-rate returns or, in the case of public subsidy, prioritizes households with lower incomes. Given limited public funding, new sources of lower-cost capital are necessary to build private-market housing affordable for middle-income working people. Rather than compete for finite public dollars intended to serve low-income and homeless residents, these strategies would grow the government's ability to serve both low- and middle-income households.

1.05 Clarify Government's Ability to Assist Middle-Income Residents

Issue: The Washington State Constitution generally prohibits gifts of public funds or the lending of government credit to private parties. These restrictions apply when the government provides money, property, or credit to a private recipient, such as a payment of funds or a loan guarantee. An exception for projects serving the "poor or infirm" allows state and local government support of affordable housing for families and individuals up to 80% AMI.

For projects outside the "poor or infirm" exception, Washington courts use a two-pronged analysis to determine whether an expenditure constitutes an unconstitutional gift or loan of public funds. Courts first determine if the funds are being expended to carry out a fundamental governmental purpose, in which case the expenditure is valid, and any benefit private parties receive is considered incidental to accomplishing the fundamental purpose. However, if the expenditures are found not to serve a fundamental governmental purpose, the court then determines whether the governmental entity acted with donative intent (i.e., a conscious desire to make a gift) and whether it received legally adequate consideration.

Recommendation: Seek clarification that assisting middle-income people with housing affordability constitutes a fundamental governmental purpose.

A bond declaratory judgment is a legal test case that could confirm the validity of this position. For instance, a test case could be brought in connection with a bond issued by the Seattle Housing Authority to finance housing entirely for households between 80% and 100% AMI and for which the City would provide a contingent loan agreement (guarantee). The court would be asked to confirm that expending public funds housing affordable to middle-income people is a fundamental governmental purpose. This legal precedent would clarify a confusing area of law and enable local governments to address middle-income housing shortages using public resources.

Impact. This would allow the City and other governmental entities to finance middle-income housing as part of their fundamental governmental purpose.

Implementation. This is a legal strategy initiated by the City or another local government seeking to issue or guarantee bonds to finance middle-income housing.

1.06 Support Seattle Housing Authority's Use of Bonding Authority to Acquire and Finance Mixed-Income Developments with 50% of Units at 80% AMI.

Issue. Under Washington State Law, the Seattle Housing Authority (SHA) has authority to issue bonds to finance not only affordable but also *mixed-income* housing — a rare example of an existing middle-income housing development tool — as long as at least half of the units financed are restricted to households earning less than 80% AMI.

In 2018, the SHA Board of Commissioners adopted an Acquisition and Preservation program, aligned with SHA policy to prioritize using its bonding authority to acquire housing for households under 30% AMI. However, generating enough cashflow to repay the bonds generally requires designating up to half of the units for households with incomes between 60% and 80% AMI. As of October 2019, SHA had acquired 330 units, on pace to meet its 500-unit goal by 2020. Though designed to create and preserve housing at 30% AMI and 60-80% AMI, SHA's program could easily adapt or expand to produce housing above 80% AMI, provided half of the units are at or below 80% AMI.

Recommendation. The City could partner with SHA to leverage its existing Acquisition and Preservation program to include production or preservation of middle-income housing by directly investing City funds into new acquisitions made by SHA. Currently, the Seattle Office of Housing is working to provide SHA with a $15 million five-year bridge loan to help finance the acquisition goal of 500 units. Increasing this investment would let SHA expand its current program beyond 500 units to incorporate the City's middle-income goals, while fulfilling requirements to provide half of the units at or below 80% AMI.

To make this tool more financially viable, the City should consider a contingent loan agreement that guarantees SHA's bonds. This would extend the City's AAA rating so SHA can issue bonds for the acquisition of additional units at a slightly lower interest rate and without a pledge of general revenues, further leveraging SHA's bonding capacity serve households between 60% and 80% AMI. In 2017, a similar credit enhancement agreement let King County guarantee up to $200 million of King County

Housing Authority bonds. If combined with Recommendation 1.05, this strategy could serve middle-income households over 80% AMI.

Impact. This strategy expands the stock of income- and rent-restricted housing reserved for middle-income households.

Implementation. This strategy requires City legislation to implement a City guarantee on SHA bonds.

1.07 Increase the Impact of the Federal 4% Low-Income Housing Tax Credit for Low- and Middle-Income Housing

1.07a Advocate Federally to Increase Allocation of Private Activity Bond Volume Cap to increase 4% Low-Income Housing Tax Credits

Issue. Together, the 4% Low-Income Housing Tax Credit (LIHTC) and tax-exempt bonds are an essential funding resource for building and preserving housing affordable to households with incomes up to 60% AMI. The availability of 4% LIHTC and tax-exempt bonds is governed by the IRS, which allocates funding to states on a per capita basis. Because the availability of funding in Washington (referred to as our state's Private Activity Bond Volume Cap) exceeded demand for many years following the Great Recession, the 4% LIHTC has often been considered an "unlimited" resource and, depending on other subsidies available, has historically funded developments serving various income levels, from extremely low-income households to households up to 60% AMI, which require less public subsidy.

In recent years, however, demand for Bond Volume Cap in Washington State has begun to exceed the State's allocation, making access to the 4% LIHTC and tax-exempt bonds more competitive. When these resources are limited, housing developments serving lower-income individuals and families take priority over those serving households up to 60% AMI.

Recommendation. We must increase resources to decrease competition between deeply subsidized 4% LIHTC projects serving households between 30% and 60% AMI and projects affordable on average to households at 60% AMI. The City should partner with the Washington Congressional Delegation to advocate for increased access to Private Activity Bond Volume Cap, which would increase availability of the 4% Low-Income Housing Tax Credit. Increasing Bond Volume Cap could occur in several ways:

(1) Federal legislation that increases the per capita amount of Bond Volume Cap allowed to each state;
(2) Federal legislation that allows states to return the unused portion of their Bond Volume Cap to the IRS for redistribution among states that have fully used their allocations. This pooling option would mirror the pooling mechanism used for 9% LIHTC and would be a revenue-neutral way to increase volume cap in states that need the additional resource;
(3) Federal legislation that provides states exhausting their Bond Volume Cap an automatic increase in Bonus Volume Cap;
(4) Federal legislation that allows HUD Capital projects (e.g., RAD projects, HUD 202) to access the 4% LIHTC without using Bond Volume Cap; or
(5) Federal legislation that lowers the amount of Bond Volume Cap needed in a project to qualify for 4% LIHTC.

Impact. Increasing the State's allocation of Private Activity Bond Volume Cap would directly increase resources to build housing for families and individuals primarily at 60% AMI and below.

Implementation. This is a federal advocacy strategy as increasing the State's allocation of Private Activity Bond Volume Cap requires federal legislation.

1.07b Encourage Income Averaging in Housing Financed with 4% Low-Income Housing Tax Credits to Expand Production up to 80% AMI

Issue. As discussed throughout this report, government tools to finance middle-income housing are limited. The City Housing Levy and MHA funds fund housing only for households with incomes up to 60% AMI. Changes to the LIHTC program in 2018 created a new opportunity for the development of homes affordable to households with incomes up to 80% AMI if balanced with homes below 60% AMI. Under this "income averaging" approach, the development must provide an average affordability of 60% AMI across all units financed.

Recommendation. The City should fund 4% LIHTC developments that take advantage of this federal allowance to mix homes affordable for households at 80% AMI with homes for low-income households at 30%, 40%, and 50% AMI for an average affordability of 60% AMI. This recommendation aligns with the current Fare Share spending plan resolution passed by City Council, which allows tax revenue from transportation network companies to fund housing at 80% AMI in developments using income averaging.

Impact. This strategy not only creates rental homes for households up to 80% AMI but also leverages them to support more deeply affordable homes for low-income families and individuals.

Implementation. This is a City strategy that does not require legislation as long as the Fare Share funds are available for this purpose.

1.07c Support the Development of the Evergreen Housing Impact Fund to Scale Social Impact Investing for Housing Production

Issue. As described above in Recommendation 1.02, several area housing nonprofits have engaged in social impact capital campaigns, but to date none has achieved a scale that truly bends the curve on housing production. In response, philanthropic, private, and state partners are working to develop the Evergreen Housing Impact Fund, a scalable model envisioned to increase resources available to fund affordable housing.

Recommendation. Support the developing partnership between the Seattle Foundation and the Washington State Housing Finance Commission to raise $150 million over five years for the Evergreen Housing Impact Fund to create at least 3,500 rental homes affordable to households earning 60% AMI and below. While 60% AMI housing is at the lower end of the income range this Advisory Council is charged with addressing, this fund has the potential to maximize development of income-restricted workforce housing and be a testing ground for social impact investing at scale.

In Seattle and other urban areas in the region, the high cost of land and construction often leave urban affordable housing developments with a financing gap that public resources are too limited to fill. This fund aims to fill the financing gap in affordable housing developments funded with tax-exempt bonds issued by the Washington State Housing Finance Commission and equity raised with 4% LIHTC *without tapping other public funding*. Financing available through this fund would provide low-interest (approximately 3% APR), medium-term (16 years) subordinate debt, payable through a split of available cash flow from the project.

Combined with advocacy at the federal level to increase availability of Private Activity Bond Volume Cap (Recommendation 1.07a), the Evergreen Housing Impact Fund can expand the pool of resources needed to address low- and middle-income housing production.

The Affordable Middle-Income Housing Advisory Council encourages the Seattle Foundation and its investment partners to share lessons from the implementation of the initial fund to inform impact investment in middle-income housing development.

Impact. Raise at least $150 million over five years, producing at least 3,500 units affordable at 60% AMI with the first proof of concept pilot project investment in Spring2020; fundraising is underway.

Implementation. The Evergreen Housing Impact Fund is a partnership between the Seattle Foundation and the Washington State Housing Financing Commission.

1.08 Enhance and Expand Seattle's Successful Multifamily Tax Exemption Program

Seattle's Multifamily Tax Exemption (MFTE) is a successful model of a tax exemption program that incentivizes the creation of affordable middle-income housing. MFTE offers a property tax exemption to an apartment owner on the residential improvements portion of the property in exchange for reserving 20-25% of the units at rents affordable to households with incomes between 40% and 90% AMI, depending on unit size. In Seattle, MFTE has generated more than 5,000 affordable rental units in market-rate buildings, with 1,600 more anticipated to come online by 2022.[35] Rents typically hundreds of dollars below market rate make MFTE one of the City's most effective programs for creating affordable rental units for middle-income households. In September 2019, the City renewed the MFTE program for four more years.

Building on the success of the MFTE program, the City should advocate for changes at the state level that would increase the number of units available and extend the tax exemption to existing buildings. Additionally, the City should adopt administrative changes that allow more building types to use MFTE and increase program efficiency. Finally, the City should consider whether other tax exemptions could increase housing production for middle-income households.

1.08a Ensure 2019 MFTE Program Changes Continue Robust Production

Issue: MFTE has successfully produced thousands of units serving low- and middle-income households in Seattle. Renewal in 2019 was a critical step for ensuring that MFTE continues to produce below-market units throughout the city. Renewal brought several positive changes, including the addition of a limit on

[35] As of December 31, 2019.

annual rent increases and increasing the income limit to 50% AMI for buildings composed entirely of small efficiency dwelling units (SEDUs). However, other City Council changes could reduce usage of MFTE, most notably decreasing income limits for studios from 65% to 60% AMI and one-bedrooms from 75% to 70% AMI.

Recommendation: The City should closely monitor participation in MFTE and the corresponding impact on production of affordable units through the program. The City should track the number of income- and rent-restricted units created by and market-rate units participating in MFTE as a proportion of all units developed; the number of developments participating in the program as a share of all developments; and the number of units in participating buildings that are not income- and rent-restricted but rent at levels affordable to middle-income households.

Impact: Monitoring MFTE will allow the City to act in a timely manner to revise the program if affordable housing production decreases.

Implementation. The City should include information on new MFTE applications and MFTE project completions as part of the bi-annual reporting already required by the renewal legislation.

1.08b Facilitate Participation of Highrise Buildings in MFTE Program

Issue. A lot of new market-rate housing is concentrated in highrise developments in the urban core and recently rezoned areas like the University District. MFTE should be incentivized in these core locations as much as possible. Currently, few highrise buildings participate in MFTE. The Office of Housing's project approval process requires MFTE units to be evenly distributed among market-rate units throughout a building. Though workable for midrise construction where market-rate rents are generally homogenous across floors, this requirement is problematic in highrise developments where market rents vary greatly due to view-related rent premiums. The "opportunity cost" of lost view premiums makes MFTE infeasible in highrise developments. As part of the legislation renewing MFTE, the Office of Housing will establish, through a Director's Rule, different distribution requirements for MFTE units in buildings above 95 feet in height as defined by the Land Use Code.

Recommendation. This Director's Rule should allow MFTE units to be mostly concentrated in the lower floors of the building, which would incentivize more developers to participate. Specifically, we suggest the following administrative rules for MFTE in highrise buildings:

- For each unit type, MFTE homes must average within 10% of the average size non-penthouse market-rate homes. This accounts for the fact that the lower and upper portions of a building often contain a different unit mix).
- At most 50% of the homes on a given floor may be designated as MFTE units.
- MFTE homes do not otherwise need to be evenly distributed.

To illustrate, consider a typical 40-story tower with 38 residential floors each containing 12 residential units for 456 homes in total. Participating in MFTE creates 92 affordable homes. Using the administrative rules above, floors 2 through 18 could theoretically contain up to six MFTE units each, though proportional distribution by unit type and size makes it unlikely that exactly 50% of each floor would be MFTE. This would result in some MFTE units above floor 18 to satisfy the proportionality requirement.

Impact. This change should increase the supply of rent- and income-restricted units affordable to households between 40% and 90% AMI (depending on unit type) within the urban core and University District.

Implementation. This can be implemented by the City administratively through an Office of Housing Director's Rule.

1.08c Streamline the MFTE Application Process

Issue. Tenant income qualification is a critical component of the MFTE program that ensures the affordable units created serve income-eligible households as intended. Yet, working with prospective tenants to complete income qualification can be a time-intensive process that slows lease-up.

Recommendation. The City should streamline the income-qualification process, while balancing the need to ensure that units serve income-qualified households. Opportunities include enhanced training for property managers, improved systems for requesting and submitting documentation, and outreach strategies to fill vacant units targeted to households likely to fall into the income categories MFTE serves.

Impact. These changes could help income-qualified tenants access MFTE units faster and reduce costs associated with vacancies.

Implementation. In addition to providing high-quality compliance trainings and technical assistance to property management staff, the City should consider offering webinars, explore the creation of an electronic system for submittal of tenant documents, conduct user testing for tenant applications, and develop collaborative partnerships to market the program.

1.08d Advocate to the State to Extend Tax Exemption and Affordability Period for Existing MFTE Projects

Issue. When the tax exemption on a building participating in MFTE expires after 12 years, its rent-restricted units return to market rate, reducing our affordable housing stock. Between 2020 and 2025, affordability restrictions on over 1,200 units will expire. New MFTE projects must be recruited to replace those expirations just to maintain our existing affordable housing stock. Giving existing MFTE projects the option to renew their tax exemption for another 12 years of affordability would greatly expand the MFTE housing stock.

Recommendation. Washington State should amend the authorizing legislation for MFTE to let a property owner extend the tax exemption from 12 to 24 years. There have been earlier attempts to allow existing MFTE projects to extend exemption term, most recently in 2019 through substitute Senate bill SSB 5363.

Impact. In theory, passing such legislation could double the existing middle-income housing stock created by MFTE over the next 12 years, assuming all MFTE projects renew their exemptions and current MFTE production rates continue.

Implementation. The State Legislature should take up SB 5363 again and pass in both chambers. The City should then determine the local implementation of the extension allowance, including affordability levels, which will likely require City legislation.

1.08e Advocate to the State to Allow Major Rehab Projects to Have Full Exemption in MFTE

Issue. Though available to rehabilitation projects, their MFTE tax exemption is limited to the incremental cost of the rehabilitation, not the entire residential improvements. The owner, however, must provide the same affordability requirement that a new construction MFTE building would. This is an insufficient incentive compared to the level of affordability required, so rehabilitation projects generally do not participate in MFTE.

Recommendation. Washington State should amend authorizing legislation for MFTE to allow a full tax exemption on the entirety of the residential improvements in the case of substantial improvement. The local MFTE ordinance requires an existing building to be vacant for 24 months prior to issuance of the first building permit (unless the rehab project causes no displacement). Buildings using MFTE for rehabilitation can then offer a set-aside of affordable units immediately upon opening, just like a new building. As long as the owner provides the same set-aside, the exemption should apply to the entire residential improvement value, not just the value-add portion.

The State Legislature should amend RCW 84.14.020(3) to say *"(3) In the case of rehabilitation of existing buildings, the exemption <u>includes</u> the value of <u>residential</u> improvements constructed prior to the submission of the application required under this chapter. The incentive provided by this chapter is in addition to any other incentives, tax credits, grants, or other incentives provided by law."*

Impact. This change could broaden the MFTE program to a new segment of the market for which MFTE is currently infeasible.

Implementation. This requires State legislative action.

1.08f Advocate to the State to Preserve Affordability in Existing Multifamily Buildings through a Preservation Tax Exemption

Issue. Lower-cost market-rate housing is a critical part of Seattle's existing stock of housing affordable to middle-income households. In recent years, much of this housing stock has been demolished to create new, more expensive housing or rehabilitated into higher-end units, often resulting in physical or economic displacement of the lower-income households residing there. Currently, no incentive exists to create or maintain affordability in these privately owned, existing multifamily buildings.

Recommendation. A preservation property tax exemption would motivate private landlords to preserve or even increase affordability in existing housing while ensuring it serves households who need it most. The City should pursue State legislation to provide a targeted property tax exemption to existing property owners who agree to income- and rent-restrictions for certain length of time. Local jurisdictions could tailor the tool to target properties at greatest risk of rent increases (e.g., buildings near jobs and transit) or apply it in conjunction with an acquisition/renovation project.

Impact. Further analysis would be needed to estimate the number of rent- and income-restricted units this new program could create.

Implementation. State legislative action is needed to authorize the program. The City led unsuccessful advocacy efforts to pass a preservation property tax exemption legislation in 2015 and 2016.

1.09 Support the Creation of a Transit-Oriented, Land Control Entity to Support Low- and Middle-Income Housing near Transit

Issue. We need to reduce housing costs and facilitate area-wide planning around rapid transit hubs where land is expensive but housing of all types is critical.

Recommendation. Our region's $60 billion investment in light rail and bus rapid transit presents a unique opportunity for equitable placemaking by marrying proactive, coordinated acquisition of public and private lands around future station areas with progressive land use policies, creative financing strategies, and new housing delivery methods.

This proposal calls for the creation of a multi-jurisdictional entity, with an expert board and staff, that will consolidate and align regional housing strategies with expanding transit infrastructure. The entity would acquire and hold land around transit hubs and lease or transfer it for development in exchange for public benefits like affordable and middle-income housing to house our workforce in transit-rich areas.

Through land control and advocacy, this entity would advance land use policies that support complete communities with reduced dependence on cars. It would reduce development costs by providing technical assistance and/or staffing to local jurisdictions or engaging in predevelopment activities. Through private-sector partnerships, the entity would develop creative financing strategies, propel the implementation of new housing delivery technologies, and promote a robust local trades workforce.

Impact. The new government entity would ensure the strategic distribution of all housing types — both rental and ownership — throughout walkable, livable neighborhoods with easy access to robust transit infrastructure.

Implementation. Support the work of Sound Communities, which is currently engaged in evaluating the scope of authority this entity will require and is coordinating with State legislators on developing legislation.

1.10 Pursue Authority for Tax Increment Financing to Support Middle-Income Housing Production

Issue. Tax-Increment Financing (TIF) has been used across the country to finance infrastructure in growing areas that generates an increased tax base. TIF is not a property tax increase but a mechanism to divert future property tax revenues in a defined area toward a public investment in the community, including affordable housing production. Although TIF-like mechanisms exist in most other states, legal and political barriers prevent TIF in Washington State, including constitutional limits on property tax revenues and limited debt capacity for cities. Some cities and counties have developed limited tools to address these legal barriers, such as the Local Infrastructure Financing Tool that provides a state sales tax credit that matches local tax revenues. But these tools fall short of the full revenue potential of a true TIF structure.

Recommendation. Advocate to amend the Washington State Constitution to allow more TIF mechanisms. These amendments could include allowing property tax revenue to be dedicated to economic development purposes including housing, amending the uniformity clause to allow different tax rates for designated districts that have benefitted from public investments, and raising the total limits on property tax levies.

To succeed, TIF authority must include explicit revenue spending parameters to ensure meaningful public benefit. Any TIF mechanism must include a revenue sharing component to support education or other general government costs associated with growth, and new excess revenues must be directed to projects with clear public benefit, including housing for low- and middle-income households in urban areas.

Impact. Other states have used TIF mechanisms to raise hundreds of millions of dollars for infrastructure investments. A 2013 study[36] on TIF by the Puget Sound Regional Council's Growing Transit Communities Partnership found that a traditional TIF tool in Bellevue could have raised nearly $80 million in the future Bel-Red/130th Ave NE light rail station area.

Implementation. This recommendation would require the Washington State Legislature to amend the Washington State Constitution. The proposed amendment would then be subject to a statewide vote.

1.11 Explore Exempting or Rebating the City's Portion of Sales Tax, B&O Tax, or REET as an Incentive to Create Housing at or below 80% AMI

Issue. The success of the Multifamily Tax Exemption demonstrates that incentives, tax exemptions, and rebates are powerful tools to produce below-market affordability in market-rate buildings.

Recommendation. The City should explore additional tax incentive programs to encourage new rent- and income-restricted units for middle-income households beyond current MFTE production. For example, the City could explore exempting the City's portion of sales tax on construction-related costs for development projects providing income- and rent-restricted units at or below 80% AMI. The exemption could be prorated to the portion of units that are income- and rent-restricted. The City should also consider advocating for a similar exemption from the State's portion of construction-related sales tax and explore exemptions or rebates from other taxes, including B&O Tax and Real Estate Excise Taxes.

[36] The Puget Sound Regional Council. 2013. Value Capture Financing in Washington, A White Paper from the Growing Transit Communities Partnership.

Since any forgone tax revenue impacts other spending priorities, the City must carefully craft programs to hold harmless key services and other expenditures and ensure sufficient public benefit from the housing developments using the tax benefit.

Impact. The impact of this recommendation depends on the amount of the tax incentive and affordability requirements. The EcoNorthwest modeling demonstrated that exempting the City portion of sales tax could reduce rents in a one-bedroom unit by $50 per month and the sales prices of a similar one-bedroom condo unit by $13,000.

Implementation. This recommendation would require City legislation.

2. Create More Affordable Homeownership Opportunities for Middle-Income Households

Homeownership provides an opportunity for middle-income residents to build wealth, achieve housing stability, and build roots in a community close to jobs and amenities. Seattle's middle-income workers should be able to afford to purchase a home in Seattle to access these opportunities. Unfortunately, from 2011 to 2018, while average sales price of a detached house increased 67% to $795,000, the median household income grew only 2%. In Seattle, a family of three needs a household income of nearly $200,000 to afford the average detached home.[37] As a result, homeownership opportunities for middle-income households are scarce. Just six percent of homes sold in 2018, including condos and townhouses, were affordable to households with incomes equivalent to 120% AMI. In single-family zones, construction of a new detached house, typically much larger and increasingly more expensive than existing homes, often involves demolishing and replacing a smaller, less expensive house — a lose–lose outcome for affordability and housing supply. This also reduces opportunities for families seeking an entry-level starter home and older adults looking to downsize. As Seattle grows, we must ensure redevelopment instead expands housing choices and supports affordability.

Ownership alternatives more affordable than single-family detached homes are few in Seattle. Though relatively more affordable, townhomes and condominiums remain out of reach for most households with incomes under 120% AMI and together comprise less than 15 percent of the market. For many years, developers, general contractors, and architects have forgone condominium projects due to the Washington State Condo Liability Law risks. Recent changes in state law may spur condominium development, but only time will tell. Cooperatives, another more affordable form of homeownership common in other cities, are very limited in Seattle. Only 43 cooperative buildings exist in the city.

The City has a history of investing in homeownership for low- and middle-income households at or below 80% AMI. Seattle has 300 permanently affordable homes in service or under development, including the City's first limited-equity cooperative at Othello Square. Each home is first sold at a price significantly below market, with a resale price formula that balances the homeowner's opportunity to build equity while maintaining long-term affordability future low- and middle-income buyers. Permanently affordable homeownership creates a stepping-stone between renting and traditional

[37] Housing Choices Background Report, August 2019, page 11.

market-rate homeownership. The Mayor's recently adopted 2020 budget includes additional investment toward a goal of nearly doubling the number of permanently affordable homes.

The City must increase homeownership options for middle-income households by removing regulatory, financing, and cost barriers. Further, the City must continue to support its existing low-income homeowners to ensure that they can remain in their homes and communities. The following strategies would lower the price point for detached and attached homes and condominiums and help existing homeowners stay in their homes.

Increase Access to Homeownership by Expanding Purchasing Assistance

2.01 Engage Employers to Help Middle-Income Workers Buy Homes

Issue. Given the steep growth in home prices in our region, middle-income workers increasingly struggle to afford purchasing even a modestly priced home. Not only is the share of our *overall* population who can afford to buy a home withering, but compared to white households in Seattle, households of color are far less likely to own their homes, exacerbating displacement risk and widening the racial wealth gap. Scarce homeownership opportunities hampers recruiting and retaining workers in both private and public sectors and requires long commutes from more affordable areas outside Seattle that breed employee dissatisfaction.

Recommendation. Engage employers to provide resources to help middle-income workers purchase a home in Seattle. Privately funded affordability subsidies for workers between 80% and 120% AMI to purchase a home on the Seattle market would close the gap between market prices and an affordable, sustainable mortgage, allowing middle-income workers to access homeownership, buy the home of their choice, and build equity. Affordability subsidies could be tied to the property, allowing a single investment to create an affordable homeownership opportunity for multiple generations.

Impact: Many U.S. communities have tried and tested employer-assisted housing programs. Though localized in nature, these efforts have generally (1) created valuable tools for employers to recruit and retain workers, (2) revitalized neighborhoods and communities, (3) expanded affordability in high-cost markets, (4) strengthened communities where people live and work; and (5) produced environmental and health benefits by reducing traffic and shortening commutes. Direct financial assistance to a middle-income household could substantially increase their purchasing power in Seattle's high-cost market and allow access a wider range of housing choices within the city.

Implementation. This is a private-sector strategy with the City playing a convening role.

Create Less Expensive Ownership Opportunities

2.02 Promote Development of More Cooperative Ownership

Issue. Cooperative ownership of multifamily housing, widely used elsewhere in the country, increases the supply of homes at a price point affordable to middle-income families. Coop members own shares in a democratically governed and self-managed corporation that owns the land and building. Members have an exclusive lease for their unit and enjoy benefits similar to real estate ownership, like access to long-term financing and the mortgage interest tax deduction.[38] Other benefits include economic security of ownership at a lower threshold of entry, organically occurring retirement communities, and stability in gentrifying neighborhoods.

Despite these benefits, cooperatives have not achieved widespread use here, with only 43 buildings containing 1,149 units in Seattle. As a result, the understanding of their advantages and the process to create them is limited. In Seattle, coop units range in size from 390 to 1000 square feet, with recent sales between $170,000 and $600,000.

Recommendation. The City should support more cooperative development by:

- Promoting the use of publicly owned land for limited-equity cooperative projects, as a patient landowner would be useful.
- Increasing maximum FAR and height limit to improve building efficiency and allow community space.
- Acknowledging cooperative ownership and stacked flats in the Land Use Code. Under current zoning, Lowrise Multifamily zones refer only to "apartments."
- Support workforce pilot projects such as infill cooperatives in Lowrise zones.
- Undertake a public education effort, using workshops, trainings, and outreach materials to increase awareness and understanding about the formation of cooperative housing opportunities.
- Explore feasibility and tradeoffs of converting apartments to cooperatives.

Impact. Seattle has few cooperative buildings, but they provide many benefits, including:

- Unique characteristics that produce inherent affordability over the long term.
- Opportunities to develop at greater density in Lowrise zones to provide more units.
- Smaller, one-story units that better serve some households.
- An alternative to issues and concerns condominiums raise under the State Condominium Act.
- Adaptability to private-market and limited-equity models.

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[38] With the 2018 increase in the federal standard deduction, mortgage interest on a coop share might not reach the threshold to take advantage of the mortgage interest tax deduction.

Implementation. Certain strategies, such as increased awareness of the cooperative model, require only administrative actions by the City. Others, such as use of public land and flexibility for FAR and/or height limits, would require City legislation, some with SEPA analysis.

2.03 Address Regulatory Barriers to Development of Smaller Townhomes

Issue. Townhouses provide lower-cost ownership options compared to detached homes. New townhomes typically occur in Lowrise 1 (LR1) and Lowrise 2 (LR2) zones. LR1 zones currently have a density limit of one unit per 1,300 square feet of lot area. Given floor area and other restrictions, development standards tend to yield unit sizes of 1,700 to 2,170 square feet, substantially larger and therefore more expensive than most existing townhouses.

Recommendation. Modify the LR1 density limit to encourage more moderately sized units of 1,400 to 1,800 square feet by slightly increasing the number of units allowed per lot area.

Impact. This change would allow for more affordable homeownership opportunities. Instead of three townhouses of 2,165 square feet each, a typical 5,000-square-foot lot could have four units of 1,625 square feet. Given recent sales prices at $420 per square foot, this change could decrease the average price of each townhouse from $910,000 to $680,000.

Implementation. This recommendation would require SEPA analysis and City legislation.

2.04 Create Opportunities to Own Detached Accessory Dwelling Units

Issue. Detached Accessory Dwelling Units (DADUs) offer a valuable housing option for households seeking moderately sized housing with yard space. Some property owners have established condominium agreements to share ownership of principal and accessory dwelling units.

Recommendation. The City should consider encouraging homeowners to create condominium agreements so their DADUs can be sold to a separate household. This action would allow for more lower-cost ownership opportunities. The City should also explore allowing DADUs in single-family zones to be sold separately from the principal dwelling unit by allowing unit lot subdivision of these properties. Unit lot subdivision would allow fee simple ownership of a DADU. Neither a condominium agreement nor a unit lot subdivision would affect the development standards for the overall site, so the size and character of the structures would not be affected.

Impact. The change would allow more lower-cost homeownership opportunities while preserving the existing built form and character of the property. It could also increase the overall number of DADUs produced. This change could also help existing homeowners that are struggling with a mortgage or property taxes to stay in place by providing income from a sale of a portion of their property.

Implementation. This recommendation would require SEPA analysis and City legislation.

2.05 Encourage More Attached Homeownership Choices by Aligning Mandatory Housing Affordability Payment Timing with Delivery of Units

Issue. Many builders of small-scale ownership housing — including detached homes, townhouses, rowhouses, and duplexes/triplexes — have expressed that Mandatory Housing Affordability (MHA) requirements are particularly challenging because the additional development capacity is difficult to use, and the performance option doesn't work well for small projects. Additionally, some banks exclude MHA fees from the value of their loans for small projects, forcing developers to find additional equity to fund their MHA contribution. Additional equity increases project cost and can thwart development of some projects outright.

Recommendation. The City should shift the payment requirement later in the process for single-family, townhouse, rowhouse, duplex, and triplex projects. The City could require payment prior to Certificate of Occupancy or allow incremental payment over time by the purchaser of the home. If payment is delayed to a time after Certificate of Occupancy, the City would need to establish a new process to ensure it is consistently collected.

Impact. This change would reduce the amount of equity needed to finance projects and the interest changed for that equity. Modeling by EcoNorthwest found that shifting MHA payment from building permit to Certificate of Occupancy would reduce the cost of a townhouse by about $1,700 or 1.7% of total project costs. It would also make some projects more feasible by reducing the equity a developer must find.

Implementation. This recommendation would require SEPA analysis and City legislation.

2.06 Monitor Condominium Construction to Ensure Amendments to Condominium Construction Liability Laws Have Intended Impact

Issue. Condominiums offer a more affordable entry to homeownership, especially when built as part of wood-frame midrise buildings outside Downtown. However, in 2018 only 19% of homes for sale in Seattle were condominiums, substantially less than peer cities like Washington, DC (41%), San Francisco (37%), San Diego (33%), Denver (23%), and Los Angeles (22%).[39] Just 2% of homes built 2010 -2018 were condominiums. Historically, condominium construction in Washington has been hampered by the risk and realities of condominium construction liability litigation. In 2019, the Washington State Legislature adopted Senate Bill 5334 to clarify defect warranty requirements with the goal of reducing the risk of condominium development while continuing to protect consumers and increasing the willingness of developers and financiers to invest in this important housing type.

Recommendation. The City should monitor condominium development trends to determine if the 2019 amendments to the Washington Condominium Act (RCW 64.34) are having the intended impact of spurring condominium development. If no meaningful increase in condominium development occurs, the City and development community should consider advocating for further revisions to RCW 64.34,

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[39] https://www.seattletimes.com/business/real-estate/500000-for-a-1-bedroom-condo-shortage-worse-than-ever-in-king-county/

aligning condominium consumer protections with those of single-family detached and townhome projects. Possible changes could include:

- Adding an express warranty (instead of an implied warranty) comparable with single-family detached homes and townhomes.
- Strengthening the "right to repair" provision so that, if mediation fails, a Homeowner Association must accept a developer's offer to repair but can choose a different contractor from a list the developer provides.
- Requiring settlements to be placed in escrow and used for repairs.
- Reducing litigation costs by capping attorney's fees paid to plaintiff's counsel or, conversely, removing the prevailing party attorney fees clause.
- Allowing contracts between the builder and the buyer to provide for binding arbitration to ease court congestion and reduce costly litigation for both parties.
- Allowing pre-sale deposits to be used to help finance the project. Washington allows only 5% of the purchase price to be held as non-refundable earnest money and prohibits it from being used to finance the project. Consider increasing the allowable amount to 10% to 20% and allowing half to be used for project financing.

Impact. As the risk to build condominiums decreases, we should expect to see more condominium projects developed. Condominiums offer a relatively more affordable entry point to ownership, especially when developed in locations where wood-frame construction is appropriate.

Implementation. Monitoring condominium development can be implemented administratively by the City but may require additional staff resources. Additional changes to the Washington Condominium Act would require state legislative action.

2.07 Expand the Nonprofit Affordable Housing Tax Exemption to Permanently Affordable Homes

Issue. Financing permanently affordable homeownership is challenging, as there are limited resources to fill the gap between construction costs and the mortgage amount a middle-income homebuyer can afford. Generally, for permanently affordable homes the City strives to keep the homeowner's total housing costs (principal, interest, taxes, insurance, and homeowner association dues) under 35% of their total household income. Affordable homeownership projects serving households up to 120% AMI can qualify for the Multifamily Tax Exemption (MFTE). Under MFTE, the owner of a permanently affordable home enjoys tax savings of about $3,300 on average. However, because MFTE sunsets after 12 years, it is challenging to use it to support permanent affordability in this way.

Recommendation. Expanding the tax exemption for property providing affordable homeownership opportunities would make them more viable. RCW 84.36.560 provides a tax exemption for real and personal property owned or used by a nonprofit entity providing *rental* housing where at least 75% of the units serve households at or below 50% AMI. Permanently affordable homeownership projects developed by nonprofit entities with a covenant that ensures ongoing affordability upon resale are not eligible under the current RCW, even if serving low-income households. The City should advocate for extending the state's affordable housing tax exemption to permanently affordable homes sold to households at or below 80% AMI. Tax exemption should apply only to homes using a proven mechanism, such as a ground lease held by a community land trust, that ensures future resale maintains ongoing affordability for income-eligible households.

Impact. If exempt from property tax beyond the first 12 years, the buyer of a new permanently affordable home could afford $30,000-50,000 more, narrowing the gap between an affordable mortgage and what it costs to build a new home.

Implementation. This recommendation requires State legislation.

Help Existing Homeowners Stay in their Homes

More than 40,000 low- and middle-income households in Seattle own and live in their own homes[40]. As Seattle becomes an increasingly expensive city, many of these residents face difficult choices between remaining in their homes and neighborhoods or choosing to move where housing is cheaper. Actions to reduce housing costs, such as property taxes and utility bills, can help middle-income homeowners remain in the city.

2.08 Help Homeowners Stay in Their Homes by Reducing Property Tax Burden

Issue. The King County Assessor's existing property tax exemption and deferral programs are important but underutilized tools that help qualifying households stay in their homes by mitigating the impacts of increasing property taxes. Three options are currently available for low-income homeowners:

- A tax exemption program is available to senior (age 60+), disabled, or veteran households with incomes up to 65% AMI (previously at $40,000; $58,423 beginning in 2020).
- A tax deferral is available to senior (age 60+) and disabled households with incomes under $45,000 per year.
- A partial tax deferral is available for low-income homeowners, regardless of age, with a household income up to $57,000.

These programs could benefit a broader range of households if a sliding scale allowed proportional benefits for middle-income households.

Recommendation. In 2019, the State Legislature changed the income limits for the exemption program from a specific statewide amount of $40,000 to 65% AMI. As a result, the income limit for the exemption program in King County increased from $40,000 to more than $58,000. The City should continue these reforms by advocating for state authority to use a sliding scale to extend proportional tax exemption or deferral benefits up to 80% AMI. In addition, the City should partner with the King County Assessor on a public education campaign to boost enrollment in these important programs.

[40] US HUD Comprehensive Housing Affordability Strategy data, 2011-2015

Impact. A property tax exemption could reduce the tax burden for the owner of a median assessed value by up to $5,642, on a sliding scale depending on income.[41]

Implementation. Authority to expand the tax exemption and deferral programs would require State legislation. The City could improve enrollment in existing programs through administrative actions.

2.09 Finance Accessory Dwelling Unit (ADU) Construction to Stabilize Existing Homeowners and Build More Smaller-Scale Homes

Issue. In July 2019, the City passed legislation removing regulatory barriers to the development of accessory dwelling units (ADUs), a critical step toward allowing more of this housing type in single-family neighborhoods. Seattle now has the most progressive ADU policies of any U.S. city, allowing two ADUs on each lot, with size limits conducive to family-size units, and without onerous off-street parking and owner-occupancy requirements that often make adding an ADU difficult or impossible. As small, infill homes, ADUs offer a lower-cost housing option generally affordable to middle-income residents in high-opportunity neighborhoods where homes are otherwise out of reach to most residents and very little new housing is produced.

However, when the City conducted a Racial Equity Toolkit on its ADU policies, a central finding was the need for additional actions to ensure that low- and middle-income households and households of color can benefit from the opportunity to own or rent an ADU. Even with code barriers removed, other limitations, such as difficulty affording and financing the cost to construct an ADU and the complexity of the design and permitting process, make it difficult or impossible for some households to create an ADU. Absent other targeted strategies, ADUs will likely continue to most directly benefit households who are relatively wealthier, have greater resources, and are disproportionately white.

Recommendation. As part of her 2020 budget, Mayor Durkan proposed funding launch an Affordable ADU Financing Pilot that will provide low-cost loans of up to $150,000 to low- and middle-income homeowners for the purpose of adding an ADU to their residence. All ADUs created through the pilot program would be income- and rent-restricted at 80% AMI for 10 years.

The City should continue its efforts to scale the development of ADUs affordable to low- and middle-income residents and partner with nonprofit or private-sector lenders to develop affordable financing products for middle-income households to build more ADUs.

Impact. The City's pilot would help ensure that the benefits of owning or renting an ADU are not available only to households with more wealth and higher incomes. Affordable financing gives low-income homeowners and homeowners facing displacement pressure the opportunity to invest in their property as a tool to generate rental income, build wealth, house family members, and meet other household needs. Banks and credit unions do offer loans for constructing an ADU, but these loans tend to be limited to homeowners who meet traditional loan requirements. Nor does conventional lending yield *rent-restricted* ADUs, which this pilot would produce in neighborhoods where new housing options

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[41] The total tax rate paid by a property owner in the city of Seattle for all taxing jurisdictions for the 2019 tax collection year is $8.2853 per $1,000 assessed value, or $5,642 for a home with the median assessed value of $681,000.

of any kind, let alone affordable homes, are very scarce. The pilot could also catalyze a partnership with nonprofit or private-sector lender that helps scale the loan fund to serve more homeowners.

Implementation. Financing for ADUs could be a City or private-sector strategy depending on the income levels targeted. The City's participation and funding is necessary for this strategy to support low-income homeowners and to produce rent-restricted ADUs affordable to households with incomes up to 80% AMI.

3. Strategies to Encourage More Housing Production

The City should consider changes to increase the overall supply and diversity of housing choices. The Puget Sound Regional Council (PSRC) predicts that region's population will increase 41% by 2050[42]. As the largest job center in the region, Seattle must build substantial new housing to avoid becoming a city only the wealthy can afford, with lower-income people forced to live further and further from jobs. Expanding the overall amount and variety of housing available is critical to ensure people can find homes that work for them in every neighborhood. To meet this goal, the City should encourage a broader range of housing types and address existing barriers to creating them.

As the City promotes additional housing choices through these strategies, policymakers must also support the construction workforce needed to build such housing. Workforce development and training, like pre-apprenticeship and apprenticeship programs, are critical to the growth and sustainability of the construction workforce pipeline. The City should continue to support Priority Hire, which fosters the training and hiring of construction workers from disadvantaged communities. Finally, these construction workers also need affordable places to live and are key stakeholders in any middle-income housing initiatives.

The following recommendations pertain to boosting overall housing supply, both rental and ownership, primarily through changes to the Land Use and Building Codes. Though targeted to meeting demand for market-rate housing, particularly housing affordable to middle-income households, these recommendations would also boost development of housing affordable to lower-incomes.

3.01 Reduce Barriers to Congregate Housing

Issue. Congregate housing has small individual units and common kitchens and lounge areas. Since individual units are smaller, rents in congregate housing are generally lower than other types of housing. Congregate housing is possible only in very limited areas of Seattle for two reasons:

- Building Code accessibility requirements prevent small units on floors with elevator access
- Unless owned by a university or nonprofit, congregate housing is prohibited in Lowrise, NC1, and NC2 zones, where height limits generally mean an elevator is unnecessary.

[42] PSRC 2018 Regional Macroeconomic Forecast

Recommendation. The City should allow market-rate congregate housing in NC2, Lowrise 2 (LR2), and Lowrise 3 (LR3) zones in urban centers and villages. These zones are common in areas with amenities like transit, parks, and shops and have height limits that make congregate housing practical. Additionally, the City could consider changes to administrative rules that currently limit built-in furniture like custom desks or Murphy beds.

Impact. These changes would help to increase the supply of lower-cost units in locations with amenities to support higher-density housing.

Implementation. This recommendation would require SEPA analysis and legislation. Changes to allow Murphy beds and other built-in furniture would require changes to a Director's Rule.

3.02 Increase Zoning Capacity in Select Areas to Encourage More Missing Middle and Transit-oriented Housing Choices

3.02a Consider Additional Rezones around Light Rail and High-frequency Transit to Allow More People Access to These Amenities

Issue. Zoning capacity limits the amount of housing that can be built in Seattle, increasing the cost of housing, and reducing the housing types available. Implementation of Mandatory Housing Affordability (MHA) increased capacity in many areas, but zoning capacity remains limited and many of the sites that were easiest to develop have now been developed.

Recommendation. The City should evaluate zoning capacity and increase capacity for housing development in select locations across Seattle. The City should consider additional rezones around light rail and high-frequency transit to meet expected demand over the long term. Scarcity of development sites where development is feasible substantially increases land costs and the time necessary to locate and acquire sites. The next major update to the Comprehensive Plan — in which the City must plan to accommodate substantial projected growth through 2043 and provide housing affordable to all income levels — is a prime opportunity to undertake this work. The update should include a new Buildable Lands analysis, housing needs analysis, and consideration of land use alternatives, such as new and expanded urban villages around transit, to meet growth and affordability needs.

Impact. These changes could substantially increase the supply and diversity of new housing options, reducing upward pressure on housing costs generally and helping people find housing options that work for them. These changes could also support other goals by creating more inclusive communities; encouraging housing near jobs, transit, and amenities to reduce commuting and climate impacts; and creating more opportunities for people to stay in the communities they love even as their needs change.

Implementation. This recommendation would require SEPA analysis and City legislation, including amendments to the City's Comprehensive Plan.

3.02b Allow More Townhouses, Duplexes, Triplexes, and Cottages to Increase Access to Smaller, Less Expensive Homeownership Options.

Issue. Seattle is increasingly a city of small apartments and detached homes. Housing types such as townhouses, duplexes, triplexes, and cottages can be a key entry point for homeownership but are being built in limited parts of the city and in limited numbers. While Mandatory Housing Affordability implementation recently rezoned some areas to allow these housing types, other areas which previously allowed these housing types were rezoned to allow apartments.

Recommendation. The City should monitor the impact of recent zoning changes to ensure that there continue to be opportunities for construction of townhouses, duplexes, triplexes, and cottages and other housing types that support lower-cost home ownership options. The City should also look for appropriate locations to allow more of these housing types in more neighborhoods to expand access and help people stay in their communities as they transition to ownership. The next Comprehensive Plan major update is a prime opportunity to identify and address unmet needs for such housing types as the City anticipates future growth over the next 20 years.

Impact. This change will allow many middle-income households to find lower-cost ownership options without having to leave Seattle.

Implementation. This recommendation would require SEPA analysis and City legislation, including amendments to the City's Comprehensive Plan.

3.02c Allow Additional Development Capacity for Projects Meeting a Public Purpose to Encourage Affordable Housing, Family-friendly Housing, and Housing for Middle-Income Workers.

Issue. One challenge to building family-friendly housing and housing for middle-income earners is the high cost of land. Allowing additional development capacity for these projects can reduce the cost of land and provide an incentive for private developers to build them.

Recommendation. Allow additional development capacity, such as additional height and floor area, for projects that meet a public purpose but would otherwise be financially infeasible. These could include projects with rent- and income-restricted units and family-friendly buildings with larger units, additional indoor and outdoor spaces, and storage.

Impact. These incentives could encourage the development of more affordable housing and/or new housing types that the market does not otherwise produce.

Implementation. This recommendation would require SEPA analysis and City legislation.

3.02d Allow Additional Flexibility on Large, Unique Lots to Accommodate Limited Multifamily Housing

Issue. Some large lots in single-family zones can accommodate additional housing because their size or topography allows separation from adjacent properties or clustered development that preserves open space.

Recommendation. The City should look for opportunities on large, unique lots in single-family zones – especially those owned by the City or public sector partners – where allowing increased flexibility would accommodate multifamily housing while providing a transition in scale to adjacent properties.

Impact. These changes could allow additional housing that is sensitive to neighborhood context or accommodate new housing types with shared open space.

Implementation. This recommendation would require SEPA analysis and City legislation.

3.03 Identify Sites that Have Experienced Localized Barriers to Development and Consider Code Changes to Address Underlying Issues

Issue. In certain areas of Seattle, application of the Land Use Code makes development on particular sites infeasible. For example, on certain properties around the North Rainier Light Rail Station, small areas of steep slopes that offer low environmental value nonetheless hinder development even in an area with high access to transit and jobs.

Recommendation. The City should identify sites and projects that have experienced localized barriers to development and consider code changes that address the underlying issues.

Impact. This recommendation would help encourage additional housing production in select areas with high access to amenities.

Implementation. This recommendation would require SEPA analysis and City legislation.

3.04 Amend Recent Bike Parking Changes to Address Unintended Consequences

Issue. In April 2018, Council adopted Parking Reforms legislation that quadrupled the amount of bike parking required for new multifamily structures and established new standards for its location and design. In some cases, these changes require projects to include underground parking, elevators, or standalone bike storage facilities that would not otherwise be required, thus increasing the cost of the housing overall. Sometimes, these requirements have unintended consequences like limiting open space in a townhouse development or reducing common space for congregate housing.

Recommendation. City staff should review development applications subject to these new standards to understand their potential unintended consequences. Possible modifications could include allowing ramps or runnels to get bikes out of a basement if the building doesn't have an elevator, modifying dimensional requirements for bike parking, or making bike parking FAR exempt. Staff could also consider modifying the rules to ensure townhouses without garages are not required to have standalone bike parking structures.

Impact. The recommendations could reduce the cost of major infrastructure such as underground parking, elevators, and standalone structures.

Implementation. Depending on the specific recommendations, these changes might be implemented through changes to a Director's Rule still under development or might require SEPA analysis and legislation.

3.05 Consider Adjusting Requirements for Ground-Floor Retail where Retail Viability is Weak

Issue. The City requires ground-floor retail space for new construction in many areas. Where retail is viable, this requirement serves an important purpose by supporting neighborhood retail cores. But these requirements also apply in locations where retail is not viable. In these areas, retail requirements can add significant cost to housing and may result in vacant retail space. Additionally, they reduce the amount of housing and ground floor amenities that can be provided.

Recommendation. While the retail requirement is important for creating vibrant neighborhood centers, the City should consider reducing existing requirements for ground floor retail space where the retail market is very weak and is unlikely to improve significantly with expected development. Options could include:

- Removing restrictions that prevent any residential use on the ground floor in certain areas, such as NC1 zones or commercial zones with a height limit of 85 feet or greater;
- Hiring a consultant to identify areas and/or streets where existing ground floor commercial requirements may not be viable given expected future development. No economic analysis was conducted in previous expansions of the requirement; and/or
- Increasing the percentage of the street-level façade that may contain residential uses in areas where the ground floor retail requirement exists. This would provide more flexibility, particularly for ground floor residential amenity area.

Impact. These changes would reduce the cost of housing by ensuring that the residential units do not need to subsidize retail spaces. Modeling by EcoNorthwest estimated that removing the retail requirement could decrease rents in an average one-bedroom unit by about $24 per month. This is a conservative estimate as it assumes full occupancy at average retail rents. Costs could be significantly more for vacant retail space.

Implementation. This recommendation would require SEPA analysis and City legislation.

4. Establish Comprehensive Housing Production Goals and Monitor Progress to Meet Them

Since 2010, Seattle has added nearly 140,000 jobs and 122,000 people.[43] At the same time, Seattle has not produced enough new housing to meet growing demand. Without adequate new housing for newcomers and young adults forming new, independent adult households, competition for limited

[43] PSRC Quarterly Census of Employment and Wages, WS Employment Security Department, 2018; and Washington State Office of Financial Management, 2018

housing has driven prices dramatically upward. Seattle faces an unprecedented housing affordability crisis that affects people at all income levels, from our neighbors experiencing homelessness through middle-income households. Put simply, we are falling behind in building new housing, making it harder for low- and middle-income individuals and families to live here.

Addressing this crisis requires the City to increase housing choices affordable to the full range of income levels of current and future residents. Further, recognizing the economic displacement of low- and middle-income households from Seattle in recent years, the City must promote additional affordable housing choices at a range of income levels to provide opportunities for people returning to Seattle if they choose. To tackle these challenges, we must assess our housing needs given the availability and affordability of housing choices in our region so the City can establish meaningful housing production goals and track progress towards meeting them. These goals and their measurement should inform the scope and scale of strategies and actions necessary to meet Seattle's housing needs.

4.01 Create Goals for Housing Production to Meet Demands of a Growing City

Issue. The City currently plans for anticipated housing demand through periodic updates to its Comprehensive Plan every eight years. Historically, these updates project housing and job growth based on assigned forecasts and include a housing needs analysis focused on low- and very low-income households. But this approach overlooks the market's failure to fully meet middle-income housing needs and ignores that scarcity at all price points drives higher-income households to outbid low- and middle-income households for lower-cost homes.

Recommendation. Given the growing affordability crisis for middle-income households, the City should expand its eight-year Comprehensive Plan housing needs analyses to examine the needs of very low- through middle-income households and where both income-restricted and market-rate housing are necessary to meet them. The City should conduct this analysis within the broader housing context of the region.

Next year, as it begins early analysis and community engagement for its next major Comprehensive Plan update due in 2023 the City should establish meaningful housing production goals by certain dates to meet housing needs across income levels. This work should include:

- Data on current and projected housing needs across a full range of income levels and household characteristics, including demographic trends and projections, job growth by income level, and indicators of displacement as it affects current, future, and returning residents;
- Data on the availability and affordability of existing housing stock and zoning for housing, including information on market and housing production trends;
- Goals for near-term (5 years) and long-range (10+ years) housing production based on the assessed needs and identified gaps in our housing stock, including a focus on market-rate housing that can serve middle-income households. These goals should supplement the City's ongoing analysis low- and very low-income housing needs. Quarterly check-ins should evaluate progress toward the goals.

Impact. Setting goals and monitoring progress toward them should help the City meet the housing needs of current, former, and future residents; identify housing gaps; and develop a more comprehensive basis for housing policy.

Implementation. This recommendation may be implemented by the City through Executive or administrative action but may require additional resources for the Comprehensive Plan update process.

4.02 Monitor Housing Production, Affordability Levels, Housing Demand, and Housing Cost Drivers

Issue. The City currently uses several mechanisms to measure housing production and affordability, including the Urban Villages Indicators Monitoring Report and annual reports from the Office of Housing. Though informative about certain portions of Seattle's housing market, these reports do not provide the comprehensive monitoring of specific housing goals across income levels for both rental and ownership housing choices necessary to understand and inform policy and investment decisions.

In addition, housing demand, largely driven by employment growth, fluctuates over time and influences housing production, availability, and affordability. Housing cost drivers — including both the costs of City permitting, code requirements, and operating expenses and external factors such as increased costs of labor and construction materials — fluctuate over time and affect housing costs for Seattle residents. Accordingly, the City should monitor key demand characteristics and cost drivers, particularly those over which the City has regulatory authority, to shape future policy decisions.

Recommendation. The City should develop a comprehensive housing monitoring program that measures:

- Housing production by type and affordability level against housing production goals at regular intervals, at least every two years;
- Housing cost drivers regulated by the City, including the time and cost associated with the permitting process, code changes, housing-related fees, and operating expenses like utility fees and real estate taxes; and
- Housing demand indicators, such as employment and wage characteristics and trends.

Impact. In combination with Recommendation 4.01, setting goals and monitoring progress toward them helps the City identify gaps and develop a basis for future housing policy.

Implementation. This recommendation may be implemented by the City through Executive or administrative action but would require additional resources.

5. Align City Organization to Support Housing Production

New housing construction in Seattle must conform to more than 4,000 pages of codes and regulations, adding tremendous complexity to even the smallest development project. Furthermore, the uncertainty and unpredictability of City permitting processes often adds unnecessary time and cost to housing development, increasing housing costs and decreasing housing production. The City should prioritize reducing the time and cost of housing development. In addition, the City should avoid unnecessarily adding new costs or barriers to housing production.

Structural changes to improve current permitting processes and create internal safeguards to evaluate the affordability impacts of future proposed changes, including changes to codes and permitting processes, would help create a more stable and predictable environment to create housing. These changes could have substantial changes on the cost of new housing. ECONorthwest found that cutting permit times in half would reduce the minimum rent necessary to make a project feasible by $150/month for an average one-bedroom unit. Reducing the cost of infrastructure necessary to build a 150-unit project by $1,000,000 would reduce the minimum rent by another $50/month.

The following recommendations include strategies to improve the City's permitting processes within and between City departments. Together, these strategies seek to bring lower-cost housing online more quickly to address Seattle's growing housing demand.

Reform City Permitting Organizational Structures

5.01 Create a Department-Neutral Ombud to Oversee Changes to Bring More Housing Choices Online More Quickly and Cost Effectively

Issue. Many City actions and policies — including permitting processes and development fees — add time and cost to housing development, putting upward pressure on housing costs for Seattle residents.

Recommendation. The City should create a department-neutral ombud position accountable to and empowered by the Mayor's Office to:

1) review ongoing code and permitting changes, including those of Seattle Department of Construction and Inspections (SDCI), Seattle City Light (SCL), Seattle Public Utilities (SPU), Seattle Department of Transportation (SDOT), and Seattle Fire Department (SFD), and evaluate their impact on housing cost;
2) address appeals in which an applicant is receiving different information from different permit reviewers within or across departments; and
3) oversee an interdepartmental continuous process improvement team to track permitting activity, address bottlenecks, and implement process improvements.

The primary goal for this new position should be to facilitate the creation of low- and moderate-cost housing choices for Seattle residents. Specific tasks for this new position could include:

- Require that all new code and permitting change proposals, including those of SDCI, SCL, SPU, SDOT, and SFD, provide a report — similar to a fiscal note — that measures the proposal's impact on housing cost, including impacts on staff review time, and/or affordability and communicates the rationale for the proposal. Collaborate with market practitioners to assess the impacts of proposed changes.
- Improve permitting process predictability, including those of SDCI, SCL, SPU, SDOT, and SFD, by creating more standardized practices and fee schedules and limiting changes by the permit

reviewer throughout permitting processes. Consider consolidating permitting functions into fewer divisions within departments, or fewer departments overall.
- Do not implement fees that burden housing development with the costs of new infrastructure, such as impact fees and system development charges, or impose affordable housing fees, or performance requirements, on housing where no net additional floor area is offered in exchange.

Impact. The impact of these strategies will vary depending on the extent to which they are implemented. For example, the Ombud position will only be impactful if they are truly empowered to effect change in the permitting processes. The impact of foregoing future code changes or fees that would otherwise increase cost of housing development will keep housing costs from getting worse, but not necessarily help decrease them.

Implementation. These strategies could be implemented through Executive and administrative actions, although all bring budget considerations.

5.02 Improve Seattle Department of Construction and Inspections (SDCI) Permit Processes

Issue. The current process for the review and approval of land use and building permits takes too long and is often unpredictable. This delays the production of housing for middle-income and other households.

Recommendation. SDCI staff should work with permit review staff, stakeholders, and applicants to review the current processes and recommend improvements. Changes explored should include the following:

- Increase permit review staff;
- Prioritize faster turnaround times for small corrections or those corrections that weren’t found in earlier correction rounds;
- Prioritize faster turnarounds for reviews of whether an application is complete; and
- Explore additional recommendations that may come to light as part of the effort.

Impact. Permit process improvements should have the following impacts:

- Simpler, quicker processes;
- Greater predictability for outcomes;
- Cost efficiency and better coordination (within SDCI and among other departments);
- Improved customer service;
- Better transparency for permit applicants and neighbors; and
- A foundation for further and ongoing improvement.

Improvements could be scalable in that they would help not only the middle-income housing that is the focus of this Advisory Council, but also other types of housing.

Implementation. These strategies could be implemented through Executive and administrative actions, although all bring budget considerations.

5.03 Improve Transportation and Utility-related Permit Processes

Issue. Utility service and street improvements are an essential element of any development. In some cases, however, given site conditions, specific requirements can be costly, leading to negotiations or disputes whose resolution adds unnecessary time to the permitting process. When unclear or unpredictable, requirements delay the production of housing for middle-income and other households.

Recommendation. City staff should evaluate the costs associated with new and existing utility- and transportation-related requirements for housing development, including electrical, solid waste, water, drainage and wastewater, and associated pavement and sidewalk restoration requirements. Staff should develop recommendations on potential utility connection policy and code changes that consider the costs associated with bringing housing to market, the impact relative to development size, and the effects on rates for customers, both broadly and for low-income customers specifically.

Impact. Like other permitting improvement recommendations contained here, these recommendations should have the following impacts:

- Simpler, quicker processes;
- Greater predictability for outcomes;
- Cost efficiency and better coordination;
- Improved customer service;
- Better transparency for permit applicants and residents; and
- Affordability for low-income and middle-income residents
- More housing, more quickly

Implementation. City staff should work with home builders and affordability advocates to understand the impact of existing and proposed policy and regulations on housing cost and propose updates to these standards. Potential changes could include updates to business practices, codes, and legislation. This work could be facilitated by the Ombud position discussed in Recommendation 5.01.

Reform Permitting Processes

5.04 Monitor Recent Changes to State Environmental Policy Act (SEPA) Thresholds and Consider Additional Changes to Expedite Housing Production

Issue. In October 2019, City Council took an important step toward reducing the impact of SEPA review by passing Ordinance 125964. For projects in urban villages below growth estimates, the legislation increased environmental review thresholds to 200 dwelling units and 30,000 square feet of commercial space.

SEPA review adds time, risk, and cost to the permit process that can amount to several months of delay and tens of thousands of dollars in legal and other fees. Raising thresholds focuses environmental review on projects most likely to result in environmental impacts and relieves the time and cost uncertainties for development below new thresholds. Appeals of SEPA decisions seldom result in substantial mitigation.

City codes have evolved since SEPA was adopted in 1971. Because other City regulations effectively mitigate environmental impacts, reliance on SEPA authority is often unnecessary. Today, SEPA review greatly increases the cost and risk of building small ownership units like townhouses — but rarely results in changes to development proposals. Consequently, this redundant SEPA review in fact causes *negative* environmental outcomes by slowing housing development in areas with access to transit and amenities — the very type of housing growth we must accelerate to meet sustainability and climate resiliency goals.

Recommendation. While the recently adopted changes mark important progress, the City should track the impacts of the changes and consider additional actions to expedite housing production. City staff should explore opportunities to raise SEPA thresholds to better define the size at which development proposals are subject to a SEPA review for projects outside an urban center or village and those in an urban center or village outpacing its growth estimate.

For example, other areas outside urban centers and villages could warrant increases in thresholds from low existing levels of four, six, eight, and 20 multifamily dwelling units and 4,000 to 12,000 square feet for non-residential development. State law allows thresholds to be set at 60 dwelling units for multifamily development and 30,000 square feet for non-residential development.

Impact. Removing a SEPA review requirement would mean more housing development could be entitled with a building permit or a building permit with Design Review—saving time (four to six months) and cost in the permitting process. These changes would result in more predictable outcomes because building permits are not appealable to the City's Hearing Examiner, and Design Review appeals are limited in scope to design issues. Higher thresholds could also lead to more units being included in development proposals, which could lead to greater housing supply.

Implementation. Analyze permit data to assess appropriate new thresholds by zone and area of the city; Confirm existing codes provide intended environmental protections; and make recommendations for legislation to the Mayor.

5.05 Update Plan Review Priority Guidelines

Issue. The City expedites certain permit applications, such as those that include rent- and income-restricted housing units and green building standards. The SDCI administrative policy for permit review priority assignment has not been updated in some time and may not reflect current City priorities, such as addressing missing middle-income affordable housing. Having a good permit process priority policy is important because as the number of expedited permits increases, the amount of expediting that can be achieved on any project is diminished.

Recommendation. The City should consider updating the permit priorities and include projects that provide middle-income or mixed-income housing, and family-friendly housing.

Impact. This change could help lead to greater production of housing projects, including for middle-income and other households.

Implementation. This recommendation could be implemented by the City administratively.

5.06 Create Faster Design Review for Smaller Projects

Issue. Design Review can add significant permit review time and costs that affect the production of housing in smaller projects, including housing serving middle-income and other households.

Recommendation. The City recently updated the Design Review process and raised size thresholds for when Design Review is required; but these changes may not do enough to address the affordability of small housing projects, such as those with fewer than 100 units. The City should explore ways to reduce the permit time and costs associated with Design Review including additional threshold changes, allowing more small projects to access Administrative and Streamlined review processes, and process streamlining (including limits on the number of meetings and terms for Board members). The City should also track the length of design review processes over time and measuring the costs and benefits of recent changes to Design Review.

Impact. Reducing the time needed to complete Design Review should result in quicker permit review and approval within SDCI; and improve predictability for permit applicants with fewer appeals of Design Review decisions to the Hearing Examiner. Combined with a recommendation to raise SEPA thresholds, this effort could provide scalable benefits and aid in the production of smaller housing projects.

Implementation. Review permit data to assess the current outcomes of Design Review for smaller housing projects; Seek input from stakeholders and permit applicants about potential changes to Design Review; and Prepare recommendations for the Mayor, which may include legislation.

6. Support the Future of Housing Development

The City should encourage strategies to reduce the cost of housing in the long-term by promoting use of less expensive innovative construction approaches, while also bolstering a thriving, local construction workforce. While innovative construction models such as modular construction may help address the affordable housing crisis, employment of this housing format should not place local living wage construction jobs at risk. Factory built housing is sometimes built far from Seattle, and in some instances, modular units are built by workers paid minimum wages, some with limited or no benefits and sometimes with compromised work standards. The City should implement measures to analyze the procurement choices involved with choosing modular options, and to work to implement strategies to retain and grow local living wage construction jobs.

Encourage Innovative Construction Approaches

6.01 Modify Zoning Standards in the DMR zones of Belltown to Facilitate Panelized or Modular Construction on Small Lots

Issue. Currently, zoning standards in the DMR zones of Belltown require complex building forms with floor plates that gradually decrease in size at various heights. While construction is already challenging on small lots, these standards make it even more challenging because they result in complicated construction, varying floor layouts, and small upper-story floor plates. Advancements in modular and panelized construction are making small lot development more feasible; however, these types of construction require more consistent floor plates to accommodate the stacking of units.

Recommendation. Implement zoning standards that could accommodate innovative construction while still meeting design goals.

Impact. This change could allow more development in an area of Seattle with access to transit and jobs. It could also encourage innovative construction approaches that could reduce the cost of construction in the long term.

Implementation. This recommendation would require SEPA review and legislation.

6.02 Allow Additional Height to Accommodate the Higher Floor-to-Floor Height of Modular Construction

Issue. Modular construction generally requires higher floor-to-floor heights than traditional construction since the ceiling of one unit and floor of the unit above are separate structures. Some companies are wary of using this technology because they may be unable to accommodate as many floors in a structure. For example, a zone with a 40-foot height limit can accommodate four floors that are 10 feet from floor to floor but can only accommodate three floors if they are 11 feet from floor to floor.

Recommendation. Allow a small increase in height for modular structures to allow the same number of floors in a modular structure that would be allowed in similar non-modular structure in recognition of the higher floor-to-floor heights.

Impact. This change would encourage modular construction, which could help to bring down the cost on construction in the long term.

Implementation. These changes require SEPA analysis and legislation.

6.03 Expand the Existing Priority Green Permit Expediting Program to include Innovative Construction Projects

Issue. SDCI expedites permit applications that meet green building standards. This includes a variety of programs and regulations that require or provide incentives, including new downtown buildings that meet a United States Green Building Council LEED Gold standard, an incentive pilot program for the Living Buildings Challenge, and incentives to develop to the Built Green 4-star standard. These programs and regulations were established at various times, and do not necessarily reflect the most current state of practice in green building.

Recommendation. The City should consider policy and regulatory changes to improve outcomes in the suite of green building requirements and incentives administered by SDCI, including new incentives for the use of cross-laminated timber, and modular and panel construction in new development. As part of this action, the City should consider opportunities to ensure these new approaches support local and/or living wage jobs.

Impact. This change could help encourage innovative housing projects, which could lead the way for future housing development built to high environmental standards and using innovative construction techniques.

Implementation. This recommendation could be implemented administratively.

6.04 Facilitate Innovative Construction Projects through the City Permitting and Design Review Processes

Issue. Many organizations and companies are piloting new approaches to construction, some of which could reduce construction costs. These include off-site construction approaches, such as modular or panelized construction, and new building materials like Cross Laminated Timber (CLT).

Recommendation. The City should identify opportunities to support innovative construction projects by fostering a culture that places a high value on testing new and innovative approaches and building materials. To do so, the City should designate specific reviewers and inspectors for innovative construction projects and consider a separate design review process for these projects. Additionally, SDCI should invest in a continuous learning approach so that its staff have integral knowledge in the techniques and materials put forth by the private and non-governmental sectors active in the construction field. With this knowledge SDCI staff could provide better services to specialized applicants, including permit and Design Review, that would be conducted to promote continued experimentation in building.

Impact. This change could help encourage innovative housing projects, which could lead the way for broader market participation in future housing development using innovative construction techniques

Implementation Providing exposure to and training for SDCI staff in innovative approaches and materials would be accomplished administratively. Updates to the Design Review program, such as creating a Citywide design review board to review these types of project in addition to priority green projects, may necessitate SEPA analysis and legislation. Changes to zoning standards would require SEPA analysis and legislation.

Expand Labor Force and Training Opportunities

6.05 Expand Training Partnerships and Programs to Increase Pathways for Construction Careers

Issue. One factor contributing to the increasing cost of construction is the limited availability of trained workers in many aspects of the construction industry. Labor force development and training could support housing production while also providing good paying jobs to more people.

Recommendation. The City should explore opportunities to expand the labor force and increase training opportunities for existing workers. Options to explore could include:

- Partnering with local colleges to expand programs related to the construction industry;
- Expand existing programs like Pathways to Careers and the Youth Employment Initiatives to link people with careers in construction;
- Develop a new initiative to provide underemployed adults with accelerated training, apprenticeship, and employment opportunities, similar to the TechHire program in the technology sector;
- Encourage more apprenticeship programs as part of City-funded construction; and
- Promote training in innovative construction approaches such as off-site construction or cross laminated timber.

Impact. These recommendations would reduce construction delays and cost escalations while also providing pathways to employment for more people.

Implementation. These recommendations would require new funding and partnerships with local educational institutions and labor unions.

III. Potential Impacts of Recommendations

To understand the potential impact of the Advisory Council's recommendations, ECONorthwest was asked to model how a variety of different regulatory and financing outcomes might impact the affordability of housing.

ECONorthwest worked with the Advisory Council to develop financial "pro forma" models to evaluate the impact of potential changes on minimum rental/sale prices and development feasibility.[44] More detailed assumptions on development costs, revenue, and baseline financial targets are shown in Appendix 2. Three different development types or prototypes were studied:

- **Multifamily rental building**: a 7-story building with 150 rental apartments and underground parking on a 30,000 square foot lot
- **Multifamily condo building**: same building as the multifamily rental, but assumes units are for-sale condominiums
- **Four attached townhomes:** a 3-story building with 4 for-sale townhomes with individual garages on a 5,000 square foot lot

The changes that were modeled were divided into two types:

- Regulatory changes: changes to city and state rules or process that could reduce costs for market-rate and subsidized projects
- Financing changes: Lower-cost financing or other subsidies that would be provided in exchange for a requirement that some or all units would be rent- and income-restricted.

Modeled Regulatory Changes

The Advisory Council advanced several strategies to improve the affordability of housing by changing regulatory structures. The regulatory changes that were modeled are as follows:

- **Reducing permit review time –** It currently takes 24 months for a multifamily development to complete the City's permitting process and 18 months for a townhome development. ECONorthwest modeled the impact of reducing permit review time by 25% and 50%.
- **Removing retail frontage requirement –** Recommendation 3.05 suggested reducing existing requirements for ground floor retail space where the retail market is very weak and is unlikely to improve significantly with expected development. In these areas, retail rents don't pay for construction costs and so they must be subsidized by higher rents in the apartments. ECONorthwest look at removing this requirement entirely in these areas and allowing ground floor residential.
- **Reducing infrastructure costs –** The Advisory Council discuss numerous infrastructure requirements that add cost to housing such as requiring multiple utility connections.

[44] Measured "development feasibility" by the resulting internal rate of return (IRR)

ECONorthwest modeled a reduction in hard cost of $1,000,000 for the multifamily prototypes and $200,000 for the townhome prototype.

- **Shifting Mandatory Housing Affordability (MHA) Payments to certificate of occupancy –** Recommendation 2.05 suggested shifting the timing of MHA payments so that small projects don't have to find additional equity to finance the payment during construction. For townhouse projects only, ECONorthwest modeled the impact of not paying 6% loan interest on this payment for the 12-month construction period.
- **Reducing costs from condo liability –**Currently, many contractors are unwilling to bid on condo projects due to concerns that the state's condo liability laws is resulting in large amounts of unnecessary litigation on condo projects. To model the impact of reducing litigation, residential hard costs per square foot were reduced by 5% to account for the increased competition on bids from more contractors for the multifamily for-sale prototype.

In addition to modeling potential changes to reduce cost, ECONorthwest also modeled potential increases in cost due to the following:

- **Adding Homeowners Association (HOA) fees –** Seattle Public Utilities has been considering requiring homeowners associations for groups of townhouses to avoid billing homeowners individually. ECONorthwest modeled the increased upfront costs for a homeowners association for townhouses.
- **Adding impact fees –** The Seattle City Council has been considering implementing transportation impact fees on new development. ECONorthwest modeled the outcome of a $4,700 per unit impact fee for the podium prototypes and a $6,000 per unit impact fee for the townhouse prototype (per the draft figures for Urban Centers from the Fehr and Peers Impact Fee Study, February 2019).

Modeled Financing Changes

The Advisory Council also advanced a list of suggested changes that work to improve feasibilty by reducing the costs of financing. This reduces overall development costs and translates into lower rents needed to support the project. While the Advisory Council did not suggest specific targets for how much these strategies might reduce the cost of financing, ECONorthwest modeled specific reductions to get a sense of what is possible. The financing changes that were modeled are as follows:

- **Lower cost debt:** For all prototypes, ECONorthwest modeled the impact of reducing the interest rate for debt (i.e. loans from banks) by 50%. This change was applied separately to construction and permanent debt for the rental prototype but applied only to construction debt for the for-sale prototypes.
- **Lower cost equity:** ECONorthwest modeled the impact of reducing the interest rate for equity (i.e. loans from investors) by 25%[45] for rental prototypes and 50% for for-sale prototypes.

[45] On the rental prototype, the equity requirement can only be reduced, via rents, by 25% to maintain a value equal to or greater than the cost to build. If we reduce rents to reduce equity by 50%, the value decreases below the cost to build which would not be financeable in practice.

- **Lower cost land:** ECONorthwest modeled the impact of reducing land costs by 50% for the rental prototype only. This reduction would likely only occur if a government entity provided land at a reduced cost.
- **Reducing sales taxes:** All construction projects, including housing, are required to pay sales tax on all material purchases and labor costs. For all prototypes, ECONorthwest modeled exempting projects from the 3.6% City of Seattle sales tax and the 6.5% Washington State sales tax.

Results

Below is a summary of potential reductions in minimum rent/sales prices that could occur due to the modeled potential changes. This analysis found that the identified regulatory changes could reduce the minimum rents necessary to make projects viable by about 9% and the sales prices by about 12% for both market-rate and affordable development. Additionally, the financial subsidies could reduce average rents by 30% and sales prices by 8-12% if applied to specific projects in return for an agreement to provide rent- and income-restricted units. Together, these changes could significantly reduce the cost of housing generally and increase the supply of subsidized housing.

Regulatory Changes

		Multifamily Rental	Multifamily Sales	Townhouse
Prototype Unit		740 square foot 1-bedroom unit	740 square foot 1-bedroom unit	1,450 square foot 3-bedroom unit
Baseline Rent/Sales Price		$2,570/month	$562,100	$1,000,800
Reduction due to:	Reducing permit time by 50%	$152/month	$36,139	$41,207
	Removing retail requirement	$24/month	$5,316	N/A
	Reducing infrastructure costs	$51/month	$10,739	$75,416
	Shifting MHA Payments	$7/month	N/A	$1,666
	Reducing cost from condo liability	N/A	$17,742	N/A
Total potential reduction		$221/month (8.6%)	$67,888 (12.1%)	$118,018 (11.8%)
Potential reduced rent/sales		$2,349/month	$494,200	$882,800

Below are the results of analysis on regulatory changes that could increase prices:

	Multifamily Rental	Multifamily Sales	Townhouse
Prototype Unit	740 square foot 1-bedroom unit	740 square foot 1-bedroom unit	1,450 square foot 3-bedroom unit

Baseline Rent/Sales Price		$2,570/month	$562,100	$1,000,800
Increase due to:	Requiring Homeowner Association Fees	N/A	N/A	$20,424
	Adding Transportation Impact Fees	$29/month	$6,156	$7,227

Financing Changes

		Multifamily Rental	Multifamily Sales	Townhouse
Prototype Unit		A 740 square foot 1-bedroom unit	A 740 square foot 1-bedroom unit	A 1,450 square foot 3-bedroom unit
Baseline Rent/Sales Price		$2,570/month	$562,100	$1,000,800
Reduction due to:	Reducing cost of construction loan by 50%	$4/month	$6,732	$11,110
	Reducing cost of permanent loan by 50%	$200/month	N/A	N/A
	Reducing cost of equity by 25% for rental and 50% for sales	$287/month	$24,911	$21,932
	Reducing land cost by 50%	$196/month	N/A	N/A
	Removing City sales tax	$53/month	$12,978	$18,950
	Removing State sales tax	$95/month	$23,433	$34,216
Total potential reduction		$756/month (29.4%)	$66,212 (11.8%)	$84,400 (8.4%)
Potential reduced rent/sales		$1,814/month	$495,888	$916,400

IV. Appendices

Appendix 1: Recommendations by Primary Actor

★ Primary Actor

📣 Advocacy/Convener

Recommendations		City	State	Federal	Private Sector
1. Create More Multifamily Rental Housing Choices Affordable to Middle-Income Families and Individuals					
Develop New Sources of Capital and Partnerships for Middle-Income Housing Production					
Recommendation 1.01:	Engage Employers, Labor Unions and other Institutional Investors to invest in Middle-Income Housing Production				
	a) Reduce Investment Risk to Accommodate Modest Investment Returns from Middle-Income Housing Development	📣			★
	b) Facilitate Development of Community Investment Vehicles Targeting Middle-Income Housing	📣			★
Recommendation 1.02:	Broaden Pool of Social Impact Investors				
	a) Advocate to Reduce Costly Registration Requirements for Social Impact Investments	📣	★		📣

	b) Advocate to Create Federal Tax Incentives for Social Impact Investors	📣		★	📣
Recommendation 1.03:	Partner with Churches, Governments, Institutions, or Employers to Leverage Underdeveloped Land for Middle-Income Housing	★ 📣	★		★
Recommendation 1.04:	Seek Opportunity Zone Fund Investment in Middle-Income Housing	📣			★
Enhance Government Tools to Support Middle-Income Housing					
Recommendation 1.05:	Clarify Government's Ability to Assist Middle-Income Residents	★	★	SHA ★	
Recommendation 1.06:	Support Seattle Housing Authority's Use of Bonding Authority to Acquire and Finance Mixed-Income Developments with 50% of Units at 80% AMI	★ 📣		SHA ★	
Recommendation 1.07:	Increase the Impact of the Federal 4% Low-Income Housing Tax Credit for Low- and Middle-Income Housing				
	a) Advocate Federally to Increase Allocation of Private Activity Bond Volume Cap to Increase 4% Low-Income Housing Tax Credits	📣		★	📣
	b) Encourage Income Averaging in Housing Financed with 4% Low-Income Housing Tax Credits to Expand Production up to 80% AMI	★			

	c) Support the Development of the Evergreen Housing Impact Fund to Scale Social Impact Investing for Housing Production	📣	★		★
Recommendation 1.08:	Enhance and Expand Seattle's Successful Multifamily Tax Exemption Program				
	a) Ensure 2019 MFTE Program Changes Continue Robust Production	★			
	b) Facilitate Participation of Highrise Buildings in MFTE Program	★			
	c) Streamline the MFTE Application Process	★			
	d) Advocate to the State to Extend Tax Exemption and Affordability Period for Existing MFTE Projects	📣	★		📣
	e) Advocate to the State to Allow Major Rehab Projects to Have Full Exemption in MFTE	📣	★		📣
	f) Advocate to the State to Preserve Affordability in Existing Multifamily Buildings through a Preservation Tax Exemption	📣	★		📣
Recommendation 1.09:	Support the Creation of a Regional Transit-Oriented, Land Control Entity to Support Low- and Middle-Income Housing near Transit	Multi-City/ County ★			
Recommendation 1.10:	Pursue Authority for Tax Increment Financing to Support Middle-Income Housing Production	📣	★		📣

Recommendation 1.11:	Explore Exempting or Rebating the City's Portion of Sales Tax, B&O Tax or REET as an Incentive to Create Housing at or below 80% AMI	★			
2. Create More Affordable Ownership Opportunities for Middle-Income Households					
Increase Access to Homeownership by Expanding Purchasing Assistance					
Recommendation 2.01:	Engage Employers to help Middle-Income Workers Buy Homes	📣			★
Create Less Expensive Ownership Opportunities					
Recommendation 2.02:	Promote Development of More Cooperative Ownership	📣			★
Recommendation 2.03:	Address Regulatory Barriers to Development of Smaller Townhomes	★			
Recommendation 2.04:	Create Opportunities to Own Detached Accessory Dwelling Units (DADUs)	★			
Recommendation 2.05:	Encourage More Attached Homeownership Choices by Aligning Mandatory Housing Affordability (MHA) Payment Timing with Delivery of Units	★			
Recommendation 2.06:	Monitor Condominium Construction to Ensure Amendments to Condominium Construction Liability Laws are having Intended Impact	★			

Recommendation 2.07:	Expand the Nonprofit Affordable Housing Tax Exemption to Permanently Affordable Homes	📣	★		
Help Existing Homeowners Stay in their Homes					
Recommendation 2.08:	Help Homeowners Stay in their Home by Reducing Property Tax Burden	📣	★		📣
Recommendation 2.09:	Finance Accessory Dwelling Unit (ADU) construction to Stabilize Existing Homeowners and Build More Smaller-Scale Homes	★			★
3. Strategies to Encourage More Housing Production					
Recommendation 3.01:	Reduce Barriers to Congregate Housing	★			
Recommendation 3.02:	Increase Zoning Capacity in Select Areas to Encourage More Missing Middle and Transit-oriented Housing Choices				
	a) Consider Additional Rezones around Light Rail and High-frequency Transit to Allow More People Access to These Amenities	★			
	b) Allow More Townhouses, Duplexes, Triplexes, and Cottages to Increase Access to Smaller, Less Expensive Ownership Options	★			

	c) Allow Additional Development Capacity for Projects Meeting a Public Purpose like Affordable Housing, Family-Friendly Housing, and Housing for Middle-Income Workers	★			
	d) Allow Additional Flexibility on Large, Unique Lots to Accommodate Limited Multifamily Housing	★			
Recommendation 3.03:	Identify Sites that have Experienced Localized Barriers to Development and Consider Code Changes to Address Underlying Issues	★			
Recommendation 3.04:	Amend Recent Bike Parking Changes to Address Unintended Consequences	★			
Recommendation 3.05:	Consider Adjusting Requirements for Ground Floor Retail in Locations where Retail Viability is Weak	★			
4. Establish Comprehensive Housing Production Goals and Monitor Progress to Meet Them					
Recommendation 4.01:	Create goals for housing production to meet demands of a growing city	★			
Recommendation 4.02:	Monitor housing production, affordability levels, housing demand, and housing cost drivers	★			

5. Align City Organization to Support Housing Production					
Reform City Permitting Organizational Structures					
Recommendation 5.01:	Create a Department-Neutral Ombud to Oversee Changes to Bring More Housing Choices Online More Quickly and Cost Effectively	★			
Recommendation 5.02:	Improve Seattle Department of Construction and Inspections (SDCI) Permit Processes	★			
Recommendation 5.03:	Improve Transportation and Utility-Related Permit Processes	★			
Reform Permitting Processes					
Recommendation 5.04:	Monitor Recent Changes to State Environmental Policy Act (SEPA) Thresholds and Consider Additional Changes to Expedite Housing Production	★			
Recommendation 5.05:	Update Plan Review Priority Guidelines	★			
Recommendation 5.06:	Create Faster Design Review for Smaller Projects	★			

6. Support the Future of Housing Development					
Encourage Innovative Construction Approaches					
Recommendation 6.01:	Modify Zoning Standards in the DMR zones of Belltown to Help Facilitate Panelized or Modular Construction on Small Lots	★			
Recommendation 6.02:	Allow Additional Height to Accommodate the Higher Floor-to-Floor Height of Modular Construction	★			
Recommendation 6.03:	Expand the Existing Priority Green Permit Expediting Program to Expedite Innovative Construction Projects	★			
Recommendation 6.04:	Facilitate Innovative Construction Projects through the City Permitting and Design Review Process	★			
Expand Labor Force and Training Opportunities					
Recommendation 6.05:	Expand Training Partnerships and Programs to Increase Pathways for Construction Careers	★			★

Appendix 2: Technical Documentation for Impact Model

Below is a summary of key assumptions used in ECONorthwest's work on impact modeling.

Baseline Development Program Assumptions	Podium - rental	Podium - sale	Townhome
Site/lot size (sf)	30,000	30,000	5,000
Number of stories (total)	7	7	3
Initial total units	150	150	4
Additional retail backfill units	-	-	-
Resulting Total Units	150	150	4
MFTE set-aside	20%	0%	0%
MFTE units	30	-	-
Market-rate units	120	150	4
Unit Mix			
SEDUs	0%	0%	0%
Studio	20%	20%	0%
1-bed	60%	60%	0%
2-bed	20%	20%	0%
3-bed	0%	0%	100%
Total (check)	100%	100%	100%
Blended unit type (# of bedrooms)	1.0	1.0	3.0
Unit Size (leasable)			
SEDUs	275	275	275
Studio	575	575	575
1-bed	700	700	700
2-bed	1025	1025	1025
3-bed	700	700	1450
Blended average unit size (leasable)	740	740	1450
Leasable sf (market rate)	88,800	111,000	5,800
Leasable sf (affordable)	22,200	-	-
Building efficiency	80%	80%	100%
Gross residential sf	138,750	138,750	5,800
Gross unit size	925	925	1,450
Number of floors residential	6	6	3
Floorplate (check)	23,125	23,125	1,933
Gross retail assumption	12,000	12,000	-
Resulting gross retail sf	12,000	12,000	-
Lobby area	3,000	3,000	-
Parking ratio	0.45	1	1
Total parking stalls/spaces	68	150	4
Average stall size	375	375	240
Parking area required (check)	25,500	56,250	960
Percent surface parking	0%	0%	0%
Percent garage parking	100%	100%	100%
Total surface parking	0	0	0
Total garage parking	68	150	4
Gross building sf	176,250	207,000	6,760

Operating Revenue and Cost Assumptions	Podium - rental	Podium - sale	Townhome	
Variable	Assumption			Notes
MFTE Rent				
SEDUs	$760	N/A	N/A	45% of AMI ($760); 40% of AMI (but 50% for 100% SEDU)
Studio	$1,140	N/A	N/A	65% of AMI ($1,235); 60% of AMI ($1,140)
1-bed	$1,520	N/A	N/A	75% of AMI ($1,628); 70% of AMI ($1,520)
2-bed	$2,077	N/A	N/A	85% of AMI ($2,077)
Blended MFTE Rent	$1,555	$0	$0	
MFTE Utility allowance				
SEDUs	$105	N/A	N/A	
Studio	$105	N/A	N/A	
1-bed	$115	N/A	N/A	
2-bed	$170	N/A	N/A	
3-bed	$260	N/A	N/A	
Blended MFTE Utility Allowance	$124	$0	$0	
Revenue				
Residential units (breakeven "market" price)	This value is solved for in model			
Residential units (MFTE rent)	$1,431	$0	$0	
Retail	$25	$25	N/A	
Parking	$50	N/A	N/A	
Sales commission	N/A	6%	4%	
Other sale costs (excise tax, title)	N/A	2%	2%	
HOA	N/A	$200	$200	
Percent of for-sale units sold by end of year 1	N/A	70%	75%	
Annual rent increase				
Residential units (breakeven "market" price)	3%	N/A	N/A	
Residential units (MFTE rent)	1.5%	N/A	N/A	
Retail	2%	N/A	N/A	
Parking	1%	N/A	N/A	
Stabilized Vacancy Rate				
Residential units (breakeven "market" price)	5%	0%	N/A	
Residential units (MFTE rent)	0%	0%	N/A	
Retail	0%	0%	N/A	
Parking	5%	N/A	N/A	
Operating Expenses				
Residential units	$6,300	N/A	N/A	Calculated based on a 24.1% of gross rent for market rate units leasing at 3.25 per month
Retail	$2	$2	N/A	per GSF per year, non-recoverables
Parking	5%	5%	N/A	% of gross revenue
Annual OpEx increase				
Residential units	2%	N/A	N/A	
Retail	2%	2%	N/A	
Commercial Leasing Commission	7%	7%	N/A	amortized over 10 year least period, so to not impact stabilized rent

Financing/Return Variables	Podium - rental	Podium - sale	Townhome
Variable	Assumption		
Construction debt			
LUR/MUP/SEPA permit time period (months)	12	12	6
Construction permit review period (months)	12	12	12
Lever reduction	0	0	0
Total review period	24	24	18
Predev/permitting annual interest rate	12.00%	12.00%	6.50%
Predev/permitting monthly interest rate	1.00%	1.00%	0.54%
Annual construction cost escalation	5.50%	5.50%	5.50%
Monthly const cost escalation	0.46%	0.46%	0.46%
Construction period	18	18	12
Construction loan interest rate	6.00%	6.00%	6.00%
Construction loan interest rate (lever applied)	6.00%	6.00%	6.00%
Construction draw - avg. outstanding balance)	60%	60%	60%
Perm debt			
Loan to Value	60%	60%	60%
Perm debt interest rate	4.5%	N/A	N/A
Perm debt interest rate (lever applied)	4.5%	N/A	N/A
Valuation			
Multifamily exit cap rate	4.5%	4.5%	N/A
Retail exit cap rate	6.8%	6.8%	N/A
Return on Cost (target rate)			
Apartment	5.80%	N/A	N/A
Retail	8.00%	8.00%	N/A
Parking	7.00%	7.00%	N/A
For-sale spread on cost	N/A	15.00%	10.00%
IRR	13%	12%	7%
IRR (lever applied)	13.00%	12%	7%
Return on Equity	N/A	20%	12%
Equity Multiple	N/A	1.20	1.12

Construction Costs				
Variable	Assumption			Notes
Hard Construction Costs				
Land (per sf)	$280	$280	$175	
Public land lease value (as percent of sale price)	50%	50%	50%	
Land lease value of land	$140	$140	$88	
Hard Construction Costs				
Residential	$210	$221	$195	excludes cost for land and parking
Retail	$150	$150	$0	
Surface Parking	$7,000	$7,000	$7,000	
Underground parking	$50,000	$50,000	$145,000	
Hard Construction Costs (after cost escalation)				
Residential	$233	$245	$211	excludes cost for land and parking
Retail	$167	$167	$0	
Surface Parking	$7,770	$7,770	$7,578	
Underground parking	$55,500	$55,500	$156,963	
Retail TI Allowance	$75	$75	$0	
Additional Costs				
Total Infrastructure cost	$0	$0	$0	
MHA-R per gross sf	$14.46	$14.46	$14.46	Medium market area (outside of downtown), M suffix
MHA-C per gross sf	$7.81	$7.81	$7.81	Medium market area (outside of downtown), M suffix (for any retail greater than 4,000 sf)
Condo Liability Insurance (per unit)	N/A	$0	$0	No longer flowing through model
Sales tax on hard cost	10.1%	10.1%	10.1%	10.1% on hard costs (3.6% is city's share)
Impact fee per unit	$0	$0	$0	
Soft Costs (all)	10.0%	10.0%	10.0%	as a percentage of hard costs, includes A/E, permits, financing, lease up, etc.
Contingency	6.3%	6.3%	6.3%	
Developer Fee	4.0%	4.0%	4.0%	

Area Media Income				
Variable				
Area Median Income year: 2018 or 2019		2019		
Area Median Income by HH size				
Number of people	2018 100% AMI Income Limit	2019 100% Income Limit	Number of bedrooms	
1	$70,200	$76,000	Studio = 1 avg. hh size	
1.5	$75,225	$81,450	1 bedroom = 1.5 avg. hh size	
2	$80,250	$86,900	N/A	
3	$90,250	$97,750	2 bedroom = 3 avg. hh size	
4	$100,300	$108,600	N/A	
4.5	$104,300	$112,950	3 bedroom = 4.5 avg. hh size	
5	$108,300	$117,300	N/A	
	2018 100% AMI Rent Limit	2019 100% Rent Limit		
1-bed 100% AMI rent	$1,880	$2,076		

Appendix 3: Coordination with Other Public Engagement Efforts

City staff lead concurrent engagement on discreet bodies of work that complement the Advisory Council discussions. Comments heard through these efforts were presented to the Advisory Council at various points in our process. Below is a summary of initiatives with public engagement components that the Advisory Council also benefited from. The Advisory Council recognizes that the City will conduct additional community engagement in its process to consider action on the recommendations of this report.

Housing Choices

Housing Choices is an initiative to understand the types of housing people who live and work in Seattle would like to see more of and identify opportunities to shape market-rate housing development to serve these needs. From July through November 2019, the City hosted an online survey reaching 2,325 people and held 16 small group conversations. The small group conversations consisted of facilitated discussions of 60-90 minutes with groups of 4-12 people. The City partnered with large employers, like universities and hospitals, and with the City's Community Liaison program to get diverse perspectives.

Both engagement efforts solicited feedback on the following questions:

- What types of housing would you like to see more of throughout Seattle?
- What qualities or amenities should this housing have?
- Where should new housing be located?
- What actions should the City take to ensure we achieve this vision?

Calendar

- Lake City Collaborative Small Group Conversation: October 10 (9 attendees)
- Duwamish Valley Small Group Conversations: October 15 (11 attendees)
- University of Washington Small Group Conversations: October 16 & 17 (30 attendees)
- Community Liaisons Small Group Conversations: October 24 (9 attendees)
- Healthcare Industry Small Group Conversations: October 25 (12 attendees)
- Seattle Colleges Small Group Conversations: November 6 (11 attendees)

Accessory Dwelling Units

In spring 2019, the City held four community roundtable discussions on the City's ADU policies with a diverse group of representatives of neighborhood organizations. The city solicited feedback both on the ADU legislation to remove code barriers that were currently before the City Council and on other potential actions the City could take to make ADUs work for more residents. The City also met individually with several organizations during this same period.

Based in part on that input and on findings from a racial equity toolkit (RET) on ADU policies conducted in 2018, Mayor Durkan issued an Executive Order in July 2019 calling for additional strategies to encourage ADUs, including the creation of pre-approved ADU plans to streamline permitting and an affordable ADU financing pilot to serve lower-income homeowners and renters. Several efforts identified in that Executive Order are now underway, and to inform their design, City staff engaged stakeholders in architecture, homebuilding, and lending; met with ADU owners, homeowners at an ADU Fair, and residents in communities at risk of displacement; and spoke with colleagues undertaking similar efforts in peer cities.

Calendar

- Central Area Roundtable: May 9, 2019 (7 attendees)
- North Seattle Roundtable: May 13 (9 attendees)
- South Seattle Roundtable: May 14 (8 attendees)
- West Seattle Roundtable: May 21 (7 attendees)
- Southeast Seattle ADU Fair: October 19 (200+ attendees)

Multifamily Tax Exemption (MFTE)

As part of the process of renewing the Multifamily Tax Exemption Program, the City engaged with stakeholders to get their feedback on performance of the current program and any recommendations regarding the next iteration of the program. Outreach included:

Calendar

- Public Information Session: June 26 (About 20 attendees representing a range of mostly affordable housing stakeholders)
- Renter's Commission: July 1 (About 15 attendees, representing the tenant perspective on this program)
- Planning Commission, Housing & Neighborhoods Committee: July 10 (About 5 attendees representing a range of perspective related to housing)

Opportunity Zones

The City hosted three community convenings and one Equitable Development Initiative (EDI) Board briefing in spring and summer 2019 in Opportunity Zone-designated communities both to provide information to community members and to solicit input on how the City could facilitate equitable development in Opportunity Zones (OZ).

This engagement has helped inform the City's planned EDI convening in November, hiring of additional permit review staff at SDCI to ensure OZ projects complete the permitting process in the time period to take advantage of tax benefits, and a scan of publicly owned sites available for OZ development.

The Advisory Council's focus on OZs was partially responsible for securing a Seattle national convening by the Urban Institute on OZs and may lead to the participation of community/EDI OZ sites in the Rockefeller funded OZ Academy.

Participating Organizations included Yesler Collaborative, Central Area Collaborative, Wing Luke Museum, Friends of Little Saigon, SCIDpda, Interim, Historic South Downtown, Capitol Hill Housing Association, Judkins Community Council, Jackson Park Community Council, Greater Beacon Hill Neighborhood Association, Beacon Hill Merchants Association, Alliance for Pioneer Square, SODO BIA, EDI Development Advisory Board, First Hill Improvement Association, South Core Board, White Center

CDA, Mt. Baker Housing Authority, Nehemiah Initiative, United Indians, Beacon Development Group, Homesight, and Equinox.

Calendar:

- SODO Business Improvement Association: April 2 (attendees included business and property owners)
- Pioneer Square and CID: May 6 (attendees included community based organizational partners and business owners)
- Southeast Seattle: June 26 (attendees included EDI grantees and community based organizational partners)