

Technical Assistance Panel
Analysis of Seattle Midrise Incentive Zoning Proposal
November 30, 2009

BACKGROUND

The Seattle City Council is considering amendments to its Multifamily Code to enable affected zones to better achieve desired development objectives. In particular, proposed changes to the Midrise Zone include allowing additional development potential above a Base Floor Area Ratio (3.2 FAR Base and 4.0 FAR Maximum) and height (60' Base and 75' Maximum) in return for compliance with affordable housing provisions. The City sought input on this proposal from the Urban Land Institute Seattle District Council through its Technical Assistance Panel program. The Panelists were asked to evaluate whether the zoning changes provide a real incentive for developers to include affordable units within their projects in the Midrise Zone.

What is a Technical Assistance Panel?

The Urban Land Institute Technical Assistance Panel (TAP) is a service offered as part of ULI's international Advisory Services Program. Since 1947, the Advisory Services Program has been assisting communities by bringing together real estate, planning and development experts to provide unbiased, pragmatic advice for addressing complex land use planning and development issues.

How does the TAP program work?

Sponsors (typically a government agency) request TAP services on a specific issue that can be addressed by a panel of experts in one or two days. To meet the City's compressed time frame, the Panelists spent a good bit of time analyzing the issues in advance and met on two separate occasions, with additional analysis between the meetings. The following individuals served as Panelists: Hal Ferris (Panel Chair; Principal, Spectrum Development Solutions), Martha Barkman (Senior Project Manager, Harbor Properties), Ned Clapp (Assistant Project Manager, Security Properties), Paul Inghram (Comprehensive Planning Manager, City of Bellevue), Sarah Lewontin (Executive Director, Housing Resources Group), and John Marasco (Managing Director, Security Properties). No panelist currently owns development property in the Midrise Zone in question.

A. QUESTIONS PRESENTED:

The Panel was requested to address the following questions:

- **Is it an incentive:** Is the additional Floor Area Ratio (FAR) and height proposed to be allowed above the Base sufficient incentive to be attractive to property owners or developers? Will property owners or developers likely want to use the additional development capacity above the Base?

No, the current proposal to move from 3.2 FAR (60 feet) to 4.0 FAR (75 feet) is not sufficient to motivate developers to use the incentive. This is because design review allows enough flexibility without using the incentive; there is not enough difference between what developers can achieve currently

through design review as compared to what they could achieve through the incentive as proposed. Please see adjustments recommended below.

- **Adjustments to maximize use of incentive:** Are there adjustments to the incentive features proposed that should be made to enable the incentives to be of maximum potential usefulness to developers (e.g. FAR or height increase) to encourage their use?

First, it is important to recognize that the market determines what developers build. Right now, in general the market does not support development. The ULI Panel analyzed whether the incremental difference provided by the incentive will be a sufficient motivator for developers to use the incentive once the market improves.

With adjustments, the Panel believes the incentive would motivate developers to develop affordable units within their projects. Neighbors are sensitive to height, but not to FAR. Simply allowing greater height is not only controversial within a neighborhood, but also does not provide a realistic incentive to developers. This is due to a breakpoint that requires a different construction type. Midrise woodframe development can only go up to five wood stories over two levels of concrete; the maximum height for this type of construction is 80 feet. Development above 80 feet requires high-rise (Type I) construction, a much more costly development type. Therefore, instead of focusing on providing more height through the incentive, we recommend granting a higher lot coverage ratio and FAR.

The Panel recommends that the proposal be modified to allow up to a 70% lot coverage ratio up to 4.6 FAR, subject to design review. Providing for a higher FAR (4.6 FAR, as compared to the currently proposed 4.0 FAR) would allow for more modulation and flexibility in design, and would discourage seven stories stacked straight up, which could occur if only the 70% lot coverage ratio applied.

The role of parking in the FAR calculation: **Consistent with zoning in other parts of the City, if parking is screened from the street and falls within the project's lot coverage ratio, it should not count toward FAR.** The theory is that this parking should be considered a basement. All above-ground parking would be contained within the concrete envelope, not in the wooden floors.

Comparing columns on the spreadsheet: To analyze whether the incentive is sufficient, the Panel compared the yield on cost for the base (column 1 on the attached spreadsheet) versus the base modified by design review and the incentive (column 5). Moving from 6.1 to 6.5% yield on cost will motivate developers to use the incentive. When the multifamily property tax exemption is included in the analysis, the spread is even greater—from 6.1% yield on cost to 6.7% yield on cost (compare column 1 to column 6). While the development community will prefer to use column 4 as the base, which is the realistic current base FAR achieved through design review, the City may wish to codify using the parameters of column 1 as the base (i.e., 3.2 FAR, 60 feet).

- **Impact of reporting requirements and fees:** Under the City's incentive zoning framework, developers using additional development potential will have the option of including the affordable units within their project (performance option). Will annual reporting requirements and fees likely be a barrier to use of additional development capacity? The Panel assumed fees of \$65 to \$100 for each affordable unit and annual report requirements similar to Multifamily Property Tax Exemption Program requirements.

Fees and reporting requirements do not add to the operational cost of a property, and therefore do not serve as a barrier to using the incentive. Paying \$100 per affordable unit per year in fees is not a barrier, but developers will want to be able to pay this in a lump sum in advance. The reporting requirements are clear, and are not a hassle factor; this very point was underscored at a recent ULI Seattle workshop on this topic. Note that the Panel has incorporated into its financial model a \$3.00 per square foot cost to achieve LEED Silver or equivalent.

B. METHODS:

- **Financial modeling:** ULI Seattle panelists used appropriate financial modeling to assess whether the incentives would be attractive to developers, and made assumptions considered reasonable to address the questions listed above. We first assessed just the incentives proposed in the Multifamily Code, then added use of the Property Tax Exemption Program to determine the potential impact of both programs.
- **Experience and Judgment:** The Panel addressed the questions using their experience and judgment based on significant years of real estate development experience in the Seattle market.
- **Assumptions:** The Panel used project prototype assumptions provided by the City; in some instances, ULI participants believed that other assumptions would be more appropriate to best address the questions above.

C. WORK PRODUCTS:

- **Analysis:** This report addresses the questions presented by the City.
- **Financial model:** The Panel has provided a financial model as an attachment to fully respond to the questions.

D. MEETINGS:

- **Background Meeting:** On November 12, the Panel Chair and ULI staff met with City staff to review the questions presented.
- **Panel Meeting:** On November 19, the Panel met to develop preliminary findings. In advance of that meeting, panelists reviewed the questions presented and performed initial analysis.
- **City Meeting to Discuss Preliminary Findings:** On November 23, the Panel Chair and ULI staff met with City staff to discuss the Panel's preliminary findings. At no time did City staff influence the findings.
- **Final Panel Meeting:** On November 24, the Panel met to finalize its analysis.
- **Attend PLUNC Meeting on December 3:** On December 3, a Panel representative will attend the City's Planning, Land Use and Neighborhoods Committee meeting to speak about the Panel's findings.

Summary of Analysis

	Base	Base with incentive	Base w/ incentive w/MFPTE	DRB Modified Base	DRB Modified Base w/incentive	DRB Modified Base w/incentive w/MFPTE
Design & Market Assumptions	53 units 3.2 FAR	66 units 4.0 FAR	66 units 4.0 FAR	60 units 3.6 FAR	75 units 4.6 FAR	75 units 4.6 FAR
	60 feet	75 feet	75 feet	60 feet	75 feet	75 feet
Housing						
Number of Total Units	53	66	66	60	75	75
Number of Perm. Affordable Units	0	3	3	0	3	3
Number of 12 yr Affordable Units	0	0	11	0	0	13
Average Unit Size (Sq.Ft.)	702	699	699	703	703	703
Average Rent per Sq. Ft. per Month	\$2.06	\$2.06	\$2.06	\$2.06	\$2.06	\$2.06
Land Cost per Unit	\$40,000	\$32,121	\$32,121	\$35,333	\$28,267	\$28,267
Parking						
Total Number of Spaces	32	40	40	36	45	45
Housing Parking Rent per Month	\$75	\$75	\$75	\$75	\$75	\$75
Tandem Parking Rent per Month	\$55	\$55	\$55	\$55	\$55	\$55
Sources & Uses of Funds						
Project Costs						
Land	2,120,000	2,120,000	2,120,000	2,120,000	2,120,000	2,120,000
Hard Costs	7,715,668	9,591,052	9,591,052	8,733,066	11,095,417	11,095,417
Soft Costs	2,249,494	2,716,083	2,716,083	2,506,898	3,040,264	3,040,264
Total Uses	12,085,162	14,427,134	14,427,134	13,359,964	16,255,681	16,255,681
Sources of Funds						
Construction Loan	7,740,399	9,679,246	9,679,246	8,862,228	10,682,090	10,682,090
Equity	4,344,764	4,747,888	4,747,888	4,497,736	5,573,591	5,573,591
Total Sources	12,085,162	14,427,134	14,427,134	13,359,964	16,255,681	16,255,681
Cash on cash after perm loan	4.8%	5.7%	6.3%	5.4%	6.0%	6.7%
Yeild on cost	6.1%	6.4%	6.6%	6.3%	6.5%	6.7%
Return on Equity (IRR)	9.2%	10.6%	10.5%	10.3%	11.1%	11.0%