Seattle
Office of Planning &
Community Development

Jenny A. Durkan, Mayor | Samuel Assefa, Director

Date: November 7, 2018
To: Councilmember Rob Johnson
From: Samuel Assefa
Author: Geoff Wentlandt, Brennon Staley, Jennifer Pettyjohn
CC: DM Moseley, Anthony Auriemma, Sara Maxana
Subject: Foregone MHA Affordable Housing Estimate, *Updated*

This memo is in response to your request for an estimate of the contributions to affordable housing that new development would have generated in the last year if citywide legislation for Mandatory Housing Affordability (MHA) was in place in areas other than Downtown/South Lake Union and five other neighborhoods where it has been implemented.

It is important to note that there are numerous assumptions and limitations, detailed below, to this estimate. In addition, there would necessarily be a time lag as MHA payment revenue would be distributed and new housing projects were constructed. Therefore, the affordable housing contributions—converted to estimated number of new affordable units—generated from new development had MHA been in place, should be considered as new affordable units that would be in the pipeline, rather than constructed units that would have been available today.

Based on the methodology, with the numerous assumptions and limitations detailed below, we estimate that MHA implemented citywide could have generated contributions to affordable housing in the last year that could have produced at least 653-717 additional income- and rent-restricted units.

Background:

In 2017 Council passed rezone legislation to implement MHA in Downtown/South Lake Union and five other neighborhoods where community planning was underway. An Environmental Impact Statement (EIS) was necessary before MHA could be implemented citywide in other urban villages and existing commercial and multifamily zones. The City issued a Final EIS in November 2017. Shortly thereafter, legislation was transmitted to Council for adoption of MHA in those areas. A coalition of neighborhood-based groups appealed the adequacy of the Final EIS to the City Hearing Examiner. Council may not take action on the legislation before the Final EIS appeal is resolved.

A 19-day hearing was held between July and September 2018. The Hearing Examiner will issue a decision on or before November 21, roughly one year after publication of the Final EIS. Council is interested in estimating the number of rent- and income-restricted housing units that could have been produced from the new development projects that have moved forward without MHA during the approximate one-year delay due to the appeal. While an exact estimate in this case is difficult and has significant limitations, this memo provides OPCD staff's best attempt using permit data and other assumptions (described below) to determine potential number of affordable housing units that could have been created had MHA requirement been in place citywide.

Limitations:

For the following reasons, it is not possible to provide an exact estimate of the number of rent- and income-restricted units that would have been produced:

- **Pending permit information is incomplete:** Permits during the early stages of the entitlement process have incomplete information. Some permits do not include exact quantities of proposed housing units. Frequently, no information is available in early permit documents for the amount of commercial floor area.
- **Development proposals under MHA would be different:** The proposed development permits analyzed comply with existing zoning. If MHA had been implemented, upzones of those areas would have occurred such that development would be subject to different zoning maximums.
- **Completion of development is uncertain:** MHA requirements are effectuated at the time of building permit issuance (payments) or project construction (performance). Some development proposals that begin the development process do not advance to the building permit stage or are never built. Therefore, it is not possible to determine an exact amount of development from early stage permit submittals.

Methodology:

Notwithstanding the above limitations, OPCD staff prepared an estimate of foregone MHA rent- and income-restricted homes for a one-year period between October 1, 2017, and October 25, 2018 as follows:

<u>Production from residential development</u>

Staff compiled all Master Use Permit (MUP) applications during this timeframe and manually reviewed every MUP permit record with a residential component to identify the number of housing units that were proposed to be developed. The housing unit quantities were categorized into the MHA "high", "medium", and "low" market areas. The number of affordable housing units produced through MHA from this development was calculated according to the assumptions used in the original MHA production model finalized in November 2016 except that we applied standard (M) tier MHA amounts—the lowest tier of MHA requirements—to all projects.

Below is a summary of the key assumptions:

- The average size of new units would be 850 gross square feet.
- The MHA payments amounts adjusted on March 2018 were used.
- The number of projects that selected payment versus performance options would also influence the number of affordable housing units produced. If more projects chose the payment option, the number of MHA housing units would increase as payment amounts are leveraged with other funds to yield more affordable housing units than performance. Alternatively, if more projects select the performance option, the total number of MHA units would decrease. The estimate uses the following assumptions for the share of development projects that choose performance by building new MHA units on-site, versus those that select payment option to contribute funds to affordable housing elsewhere.
    - Estimate A: 50%/50% performance/payment split based on the goal established in the MHA framework legislation. Half of the projects would elect performance and the other half would elect payment. The MHA program seeks to meet this goal by setting payment amounts that were equal to the average cost of on-site performance plus a 10% increase to account of the cost of administering this option. The City also intends to periodically revise the payment rates to ensure the desired mix of payment and performance.
    - Estimate B: 28%/72% performance/payment split based on the 14 actual projects that have participated in MHA to-date. It is important to note that these projects have skewed to very low-density and very high-density—two types of projects that may be expected to select payment more over performance—and may not be indicative of trends that would be seen with citywide implementation. In addition, should the actual performance/payment ratio skew toward payment, the City intends to recalibrate the payment rates to ensure a ratio closer to 50%/50%.
- Ten percent of payment revenue would be used for program administration. New affordable housing funded by the Office of Housing (OH) is assumed to require a contribution of $110,000 per unit from OH after the 10% administration is subtracted. The $110,000 per unit assumption is based on a model project leveraging four percent low-income housing tax credits, high land costs, and no other City funding sources.

Production from commercial development

For commercial development, it is not possible to derive a specific amount of commercial gross floor area from MUP permit records, because square footage information is absent in the permit records. Therefore, we used the average annual MHA production that was generated in the original MHA production model for the geography outside of Downtown/South Lake Union. The assumptions used in that model are summarized in the *MHA Affordable Housing Production Model Summary* which is available at: www.seattle.gov/Documents/Departments/HALA/Policy/Summary%20of%20MHA%20Production%20Modeling.pdf.

Additional Factors Affecting Estimate:

Several additional factors suggest that these estimates are a conservative *under*estimate of foregone affordable homes, including:

- The methodology's assumed City subsidy per unit of $110,000 is a conservative estimate that assumes a very high cost of land. Actual City subsidy per unit for affordable housing projects awarded in the 2017 Notice of Funding Availability ranged from $17,431 to $122,430, with an average per unit cost of $73,505.
- The MHA upzones would have increased development capacity, allowing projects to include more homes and/or floor area and greater associated MHA contributions. Because the calculations use data from actual development without the new development capacity, the estimates of foregone MHA units are lower than they may have been.
- MHA upzones would have affected nearly 11,000 parcels that are currently zoned for single-family use. Because the estimates are based solely on actual development in multi-family and commercial zones, they do not estimate how much areas rezoned from single-family would have contributed to MHA.
- Some proposed rezones will be larger in scale—with higher MHA zone suffixes (M1 and M2) that trigger commensurately greater affordable housing contributions. For the purposes of these estimates, all MHA contributions were assumed to be at the minimal (M)-suffix level, which requires the lowest affordability requirements.
- The estimates are based on Master Use Permit (MUP) data; however, many smaller development projects that do not require MUP permits would also be required to contribute to MHA. Because building records are not organized in a manner to efficiently allow for the permit-based tabulation, these projects are not considered in these estimates.

A factor that could yield an *over*estimate of foregone affordable homes is the potential for proposed developments not to move forward to construction. In addition, as noted above, the ratio of payment versus performance would also influence the number of affordable housing units produced. Higher shares of payment yield greater MHA contributions, which allows for more production of affordable units.

Attached: Calculations of Foregone MHA Units