

## **ACTION: Density Increases with Required Affordability (A.1)**

### **Proposed Actions:**

#### **A.1. Require the inclusion of affordable housing with certain types or sizes of multi-family development**

The proposed action would create a mandatory affordable housing program that requires a set aside of affordable housing for certain types or sizes of multi-family developments. A mandatory program could either replace for or be used in combination with the current affordable housing program—which is voluntary and incentive based.

### **Application:**

#### ***Background***

Bellevue had a citywide mandatory inclusionary housing program in place from July 1991 to February 1996. The program required that all new multifamily development with 10 units or more include 10% of units affordable at 80% Area Median Income. The program provided a bonus of one market rate unit for each affordable unit, up to 15% above the maximum allowed zoning density. Over the five-year length of the program, it created 136 affordable rental units and 188 affordable condominium units.

In 1996, the mandatory program was converted into an opt-in density bonus program. The program, which is available citywide, provides one bonus market-rate unit for each affordable unit, up to 15% above the zoning district's maximum density. Between 1996 and 2016, the program was used in two multifamily projects and created 19 affordable units.

In addition to the citywide affordable housing density bonus, Bel-Red has an additional opt-in incentive program. Enacted in 2009, the Bel-Red density incentive for affordable housing provides a first tier incentive of up to 1.25 floor-area-ratio (FAR) in addition to the district's base FAR of 1.0. This is calculated at 4.6 square feet (SF) of market-rate bonus area for every 1.0 square foot of affordable housing. Since 2009, this program has produced 89 affordable units at 80% of AMI within two multi-family developments—about 11 units per year. Developers can also qualify for the density bonus if they pay a fee in-lieu of \$18 per SF, to be used for production of affordable housing in Bel-Red. All multifamily developments built in Bel-Red since 2009 have chosen to participate in the FAR incentive program, either by building affordable units or paying the fee in-lieu.

Under State law (RCW 36.70A.540; WAC 365-196-870), adoption of a mandatory affordable housing requirement must occur at the same time as an upzone.

#### ***Potential Applications:***

##### **Option 1. Replace the existing Bel-Red FAR incentive with an equivalent mandatory program.**

In this scenario, the City would upzone Bel-Red so that the new base FAR includes any density bonuses that were previously incentives for affordable housing. In other words, what was previously a 1.0 base FAR with 1.25 affordable housing incentive-based FAR bonus would be upzoned to a base 2.25 FAR with mandatory affordable housing and no density bonuses.

## **ACTION: Density Increases with Required Affordability (A.1)**

The existing Bel-Red density bonus is calibrated such that all developers choose to participate. The value of the additional density is equal to or slightly greater than the cost of providing affordable housing. Thus, under current market conditions, converting the existing Bel-Red FAR incentive program into a mandatory program would result in similar affordable unit production as the current incentive program: about 15-26 units per year, or 150-260 units over a 10-year period. This is about 1 unit per year more than under the existing FAR incentive program. This estimate is based on the following assumptions:

- **Over the next 10 years, about 700 new multifamily units will be built per year.** Between 2006 and 2015, Bellevue saw an average of 684 (and a median of 709) new multifamily units per year, in projects with 20 or more units.
- **30% of multifamily units will be built in areas with mandatory inclusionary zoning (excluding Downtown).** In 2014 and 2015 respectively, 61% and 75% of Bellevue's new multifamily units were built in Downtown, with the remainder going to other mixed-use and multifamily zones (mainly Bel-Red). Density incentives in downtown Bellevue are being evaluated as part of a separate effort, so they are currently excluded from this estimate; however, the Downtown will ultimately be considered to be part of some inclusionary (voluntary or mandatory) affordable housing program.
- **All multifamily projects will participate.**
- **Between 7-12% of units must be affordable.** In Bel-Red projects that have used the density incentive, about 7% of total units are affordable. If this 7% set-aside is used in the mandatory program, it results in average production of about 15 units per year. If the City chose to require a larger set-aside of 12%, then unit production might be as high as 26 units per year.

**Option 2. In conjunction with upzones, adopt a citywide mandatory affordable housing program similar to the 1991-1996 program.** In this scenario, the City would adopt a citywide policy that would require all multifamily construction to set aside a certain number of units (e.g., 10%) as affordable. At the same time, the City would enact development capacity increases (e.g., upzones) in the affected multifamily and mixed-use zones.

As with any program that relies on new construction, production of affordable housing units is dependent on the overall housing market. If no units of market-rate housing are built, then no affordable units will be built. Any mandatory program should be carefully calibrated so that the value of the upzone is equal to or greater than the cost of providing affordable housing. If the program is not properly calibrated, then the program may be a disincentive for market-rate construction of housing and result in fewer total housing units than otherwise would have been created.

While the 1991 program was in place, it created an average of about 65 affordable units per year (including rental units and condos). If the City implemented a properly-calibrated mandatory affordable housing policy that required 10% set-aside and applied to all multifamily development in the City, it might create up to 70 units per year (based on an assumption of 700 new multifamily units per year over the next 10 years). This is a high-end estimate that assumes that the City can offer development incentives that offset the cost of providing affordable units.

## **ACTION: Density Increases with Required Affordability (A.1)**

Consistent with Bellevue's existing programs, this option could be used in combination with other development incentives such as MFTE.

### **Policy Evaluation:**

- **Legal considerations.**  
Mandatory inclusionary zoning is legal in Washington State. However, new mandatory inclusionary zoning requirements must be tied to an upzone or development capacity increase. Washington State requires that affordable units created through an inclusionary zoning policy must remain affordable for 50 years.
- **Consistency with Council guiding principles for strategy.** There are four primary guiding principles that support this action:
  3. **Focus on Action.** This policy is action-oriented and designed to encourage market production of affordable housing while minimizing unintended consequences.
  6. **Draw upon knowledgeable resources.** This proposed action is informed by research into inclusionary zoning in other cities and consultation with development experts and the TAG.
  7. **Consider a full suite of tools.** In order to make a significant change the city will consider a full range of action strategies and possible partnerships to achieve our affordable housing goals.
  9. **Leverage resources.** This action requires minimal direct public assistance and, when correctly calibrated, will leverage private market-rate development in order to create affordable housing units.
- **Coordination with existing programs (e.g. ARCH) and other proposed actions**  
A mandatory affordable housing program could be used in tandem with other affordable housing incentives such as the Multifamily Tax Exemption (MFTE). Additionally, a mandatory program could be applied to specific multifamily neighborhoods, such as Downtown and Bel-Red, while other neighborhoods could use an incentive-based program. There are no inherent conflicts with ARCH or other existing affordable housing programs.
- **Administrative ease**  
Given current staff resources and existing incentive-based programs, the proposals should not have a significant impact on staff resources and can be carried out through the permitting process.
- **Fiscal considerations.** This action does not require fiscal resources from the City.

## **ACTION: Density Increases with Required Affordability (A.1)**

### **Support/Opposition:**

- **Public support.** In other communities, there has typically been broad public support for actions that tie the delivery of affordable units with market rate development. In the non-scientific online community survey earlier this year, 59% of respondents said they supported requirements that developers include affordable units with certain multi-family developments.

Upzones should be calibrated on a neighborhood-by-neighborhood basis to ensure public support. Messaging should very carefully explain the purpose and need for a mandatory affordable housing requirement.

- **Stakeholder support.** Affordable housing advocates are generally in favor of policies that tie delivery of affordable housing to market-rate housing, both in terms of location and timing. In order to ensure support from advocates, the additional zoning capacity and affordable housing requirements should be calibrated to maximize public benefits. Likely, affordable housing advocates will want to ensure fee-in-lieu payments that are properly calibrated as well to avoid a loss in potential revenue.

This measure may face opposition from the development community due to a preference for a voluntary incentive-based affordable housing program. If the mandatory requirements are not properly calibrated, it may lead to adverse impacts in the form of fewer affordable and market-rate units being developed.

### **Effective Practices Research:**

As of 2014, there were more than 500 inclusionary zoning programs in the U.S., located in 27 states and the District of Columbia. More than 65% of these programs are located in California or New Jersey.

Most inclusionary zoning programs require developers to set aside between 10-15% of units as affordable, but there are places with much higher requirements and sliding requirements. Inclusionary zoning programs tend to serve low- and moderate- income households (those that earn between 60 and 120 percent of the local median income). Setting a lower income target implies greater reductions in developer profits and a larger effective tax. Lower income targets require larger density incentives in order to produce affordable units.

ECONorthwest's recent research for the Urban Land Institute found that there is a limited amount of empirical research that has measured market response to program design in a consistent and replicable way. In part, this is because variability in program design leads to significant methodological challenges in evaluating the impacts of inclusionary programs on unit production and overall market feasibility. Some studies have found that inclusionary zoning policies have an adverse effect on overall housing supply, as the regulatory aspects of the policies have slowed or changed overall development patterns. Other studies conclude that critics of inclusionary policies underestimate the affordable housing productivity of policies while overestimating its adverse effects on housing supply. Regardless, most researchers agree

## **ACTION: Density Increases with Required Affordability (A.1)**

that these policies can play a role in a comprehensive housing strategy, but are not a panacea solution to affordable housing.

Several cities in East King County have mandatory affordable housing programs, including:

City	Enacted	Set-aside	Affordability level	Geographic area	Affordable Units created	Used in conjunction with other incentives?
Redmond	1995	10%	80% of AMI	Downtown, Overlake, and 6 other neighborhoods	496 since 1995	Yes (density bonus, impact fee waivers)
Issaquah	2012	10%	70-80% of AMI	Downtown core	0 units	Yes (density bonus, relaxed requirements for "pioneer projects")
Kirkland	2009?	10%	50% of AMI  (Requirements are flexible; developers can provide units at 60-70% of AMI in exchange for smaller density bonus or larger set-aside)	All Commercial, High density residential, or medium density residential zones (except in Houghton Community Council area)	?	Yes (density bonus; impact fee waivers; relaxed requirements for "pioneer projects" in some areas; can be used in combination with MFTE)
Sammamish	2010	Sliding, based on AMI: 4% set-aside at 50% of AMI 5% set-aside at 60% of AMI 6.5% set-aside at 70% of AMI 10% set-aside at 80% of AMI		Town Center	0 units completed  42 units under construction	Yes (density bonus, impact fee waivers)

### **Productivity Potential:**

Total Capacity – Potential Number of affordable units	15-70 units per year. Production of affordable units is dependent on market conditions and specific implementation.
Timing – When would majority of units be realized within next 10 years (0-5, 5-10, >10)?	0 – 10+ years Dependent on housing market conditions

**ACTION: Density Increases with Required Affordability (A.1)**

Income affordability level and duration of affordability	80% of AMI for 50 years
Estimated cost per unit	Construction cost: \$300,000- \$350,000 per unit
Who pays?	Private development. Cost is offset by value of added density.

DRAFT