

ACTION: Recalibrated and Expanded Density Bonus Program (A.2)

Proposed Actions:

A.2. Recalibrate and expand voluntary incentive programs to develop affordable housing in exchange for a density bonus.

The proposed action is intended to amend the current incentives for developers to better align the density bonus benefits with the associated costs. For developers to voluntarily participate, the incentives must create enough additional market value to offset the cost of creating the desired affordable housing units. In addition, the proposed action would expand the density bonus program into other mixed-use neighborhoods in Bellevue.

Application:

Currently, the Bel-Red affordable housing density bonus allows developers to opt-in, and provides a first tier incentive of up to 1.25 floor-area-ratio (FAR) in addition to the district's underlying FAR. 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. These units will remain affordable for the life of the project, which under State law is 50 years. 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.

The proposed action is to expand density incentives to other mixed-use and multifamily neighborhoods in Bellevue, particularly those that are undergoing rezones. Voluntary density bonus programs should be focused within zoning districts which currently allow multifamily housing and are likely to see multifamily housing development over the course of the next ten years. Density bonuses are most effective when the housing market is strong and development capacity is constrained (i.e., when developers want to build more density than allowed under current zoning). Other than Downtown (which is being analyzed as part of the Downtown Livability Initiative) and Bel-Red, potential areas for density bonus include Eastgate, Wilburton, and East Main.

Another possible action for consideration is to increase the portion of the density bonus that is linked to affordable housing. In the Bel-Red density bonus system, projects can receive an additional 1.25 FAR by providing affordable housing. Once the first tier affordable incentive has been met, projects can receive an additional 1.75 FAR through the provision of amenities and by using rural Transfer of Development Rights (TDR) credits. Either in Bel-Red or for future zoning changes in other neighborhoods, the City could choose to allocate a larger share of FAR to provision of affordable housing.

Preliminary analysis indicates that the Bel-Red density bonus system is properly calibrated. Preliminary modeling results show that the value of the additional density is equal to or slightly greater than the cost of providing affordable housing. This is borne out by recent development; projects are choosing to participate in the density bonus program. As with any market-based

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incentive program, production of affordable housing units through a density bonus is dependent on the overall housing market.

Analysis of housing unit production trends in Bellevue indicates that an expanded density bonus program could produce 10-25 affordable units per year, or 100-250 units over a 10-year period. 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 density bonuses (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 excluded from this estimate.
- **Most but not all projects will take the density bonus.** This estimate assumes 95% participation.
In participating buildings, about 7% of units are affordable (but that could increase if a larger portion of bonus FAR were allocated to affordability). In Bel-Red projects that have used the density incentive, about 7% of total units are affordable. This assumption results in average production of about 14 units per year. If the City chose to link a larger share of the bonus FAR to provision of affordable housing, then unit production might be as high as 25 units per year. Additional modeling is underway to determine whether the density bonus would still be used if additional bonus FAR were available (the relationship is not linear due to changing cost structures at different densities).

Policy Evaluation:

- **Legal considerations.** Both mandatory and incentive-based inclusionary zoning are 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 five 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.
 - 5. Build upon ongoing and recent tools the City has developed while strengthening partnerships with relevant organizations.** This action will build upon and expand the FAR incentive system currently in place in Bel-Red.

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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**
Inclusionary Zoning programs can be used in tandem with other affordable housing incentives such as the Multifamily Tax Exemption (MFTE). There are no inherent conflicts with ARCH or other existing affordable housing programs.
- **Administrative ease**
Given current staff resources and existing incentive 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.

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. Density incentives should be calibrated on a neighborhood-by-neighborhood basis to ensure public support.
- **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 density bonus should be calibrated to maximize public benefit.

Support from the development community will be contingent on how well the added cost of affordability requirements is balanced against the value of the added density. A voluntary opt-in policy will likely receive more developer support than a policy that requires affordable housing. An incentive that is too small may lead to adverse impacts on the delivery of affordable and market-rate units.

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

Productivity Potential:

Total Capacity – Potential Number of affordable units	10 to 25 units per year. Production of affordable units is dependent on market conditions.
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
Income affordability level and for what length of time	80% of AMI for 50 years
Estimated cost per unit	Construction cost: \$300,000- \$350,000 per unit Incentive: 4.6 SF of additional market rate FAR per 1.0 SF affordable FAR.
Who pays?	Private development. Cost is offset by value of added density.