

# YCC Housing Cohort Recommendations to the Housing Affordability and Livability Advisory Committee

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*February 18, 2015*

## ***The Yesler neighborhood: a rare opportunity to create a truly equitable community***

Seattle Housing Authority's redevelopment of the 75 year old Yesler Terrace public housing community brings an opportunity for Seattle to create a very special district – one that shows how diverse, equitable, sustainable neighborhoods should be made:

- Truly urban densities with a tangible connection to the natural environment and the neighborhood's significant historical legacy and breathtakingly diverse cultures.
- Housing affordable to households along the entire income spectrum where all residents, regardless of income or need, have the support they need to succeed.
- A new neighborhood that is integrated, physically, economically and socially, with surrounding neighborhoods – International District/Little Saigon, Squire Park, Capitol Hill, Beacon Hill and the Central District, each of which retains its unique character and vibrancy.

As real estate values and rents rise in the neighborhoods adjacent to downtown, lower- and middle-income people will be under increasing rent burden and risk of displacement. The window of opportunity to secure land and preserve existing buildings for affordable housing is closing quickly. A comprehensive and deliberate strategy is needed now to slow the gentrification of the surrounding area that the redevelopment of Yesler Terrace is likely to trigger.

The recommendations that follow define such a strategy. While as a community, we need to take action now for an equitable, inclusive future in the greater Yesler area, the area can also become a living, learning laboratory that can influence public policy and neighborhood planning throughout the city.

## ***Summary Recommendations***

1. Adopt place-based strategies to prioritize the preservation and creation of affordable housing in the greater Yesler neighborhood and surrounding communities: Capitol Hill, First Hill, Central District, Squire Park, Chinatown-International District, and Little Saigon, concurrent with the Yesler Terrace/Choice Neighborhood Initiative.
  - **Urban center location:** The greater Yesler neighborhood is expected to accommodate growth in coming years. Deliberate strategies and focus are required to ensure that this area remains affordable to households all along the income spectrum.
  - **Equitable development:** The greater Yesler neighborhood is job-, services- and transit-rich, and will be more so when Yesler Terrace's redevelopment is complete.

We need to support this redevelopment while ensuring that households with lower incomes can afford to live here and enjoy equal access to these opportunities.

- **Diversity and cultural richness:** This area is culturally rich and historically significant. Yesler Terrace was the first racially-integrated public housing community in the United States. The surrounding communities of Capitol Hill, the Central District, Little Saigon and Seattle Chinatown International District, are at risk of losing their community character and cultural heritage as residents and small businesses are displaced due to escalating rents and property values.
- **Experienced affordable housing developers:** the Seattle Housing Authority, two Public Development Authorities (Capitol Hill Housing, Seattle Chinatown International District Preservation and Development Authority), Interim CDA and other affordable housing and service organizations working cooperatively with these YCC partners, will permit testing of pilot approaches.
- **Place matters:** Pilot strategies that work in the greater Yesler neighborhood can be applied in other urban growth centers, including Ballard and Northgate, which are also facing increasing real estate development pressures.

2. Provide flexible financing to nonprofit developers to respond quickly to affordable housing opportunities in the open market in these communities. We offer the following examples to show how this could be done.<sup>1</sup>

- Create an Acquisition Line of Credit (LOC) to secure existing, older or smaller multi-family apartment buildings to preserve as affordable, mixed-income housing now and into the future. The recent sale of the Panorama House on First Hill<sup>2</sup> and Linda Manor Apartments in West Seattle<sup>3</sup> illustrate the vulnerability of “naturally occurring” affordable apartments in a hot real estate market. As these buildings are expected to produce cash-flow, nonprofit developers will only need quick access to short-term capital to complete the transaction, after which the City’s LOC will be taken out by: (i) tax exempt bonds issued by the City on behalf of PDAs; (ii) conduit bond financing issued by SHA; or (iii) closing with a private real estate investment fund or social investment trust. Other options may include City credit enhancement, federal loans or loan guarantees, or pension fund investments.
- Create a social real estate investment trust similar to the Housing Partnership Equity Trust (described below) to buy and hold multifamily apartments, with or without an enhancement vehicle.
- Extend Multifamily Tax Exemption (MFTE) to acquisition/rehab projects and “naturally occurring” affordable housing that maintains affordability agreements.

**Example 1:** Capitol Hill Housing, in partnership with the Jonathan Rose Companies, utilized a unique private investment fund from Rose Investments to

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<sup>1</sup> For existing strategies and approaches, the City or HALA would need to evaluate their effectiveness based on actual experience. Through such evaluation areas for improvement or other approaches might be identified and implemented.

<sup>2</sup> [http://seattletimes.com/html/business/technology/2024645099\\_rentsxml.html](http://seattletimes.com/html/business/technology/2024645099_rentsxml.html)

<sup>3</sup> [http://seattletimes.com/html/business/technology/2025448532\\_rentsrisngxml.html](http://seattletimes.com/html/business/technology/2025448532_rentsrisngxml.html)

purchase and preserve the Squire Park Apartments in the Central District as affordable rental housing. At year 10, the equity fund investor is expected to exit, and Capitol Hill Housing plans to recapitalize the building with 4% LIHTC and private activity bonds, further extending affordability for another 50 years.

**Example 2:** The Housing Partnership Equity Trust (HPET) is the country's first social venture real estate investment trust owned by nonprofits and devoted to preserving affordable rental housing. Established in 2012, HPET is a ground-breaking venture that enables members to act with the same speed and flexibility as for-profit buyers looking to purchase rental properties. By aggregating capital from private markets, foundations and members, HPET participants can quickly bid on properties without needing to first assemble complex financing packages.

An initial capital raise of \$100 million, made up of PRIs from the MacArthur and Ford Foundations, investment capital from Prudential, Citi and Morgan Stanley and member investments, has already resulted in the purchase of six properties, representing over 1,100 units of affordable rental housing. In addition to maintaining the properties as affordable rental housing, HPET members are taking steps to upgrade the properties and improve their environmental performance.

HPET is now embarking on a second capital raise of \$100 million for the acquisition of additional properties in 2015. It is also looking to expand its donor base with investments from a new class of social impact investors. The goal is to raise sufficient funds to purchase an additional 8 properties and 3,000 units of affordable rental housing over the next year.<sup>4</sup>

3. Expand the Office of Housing Acquisition Opportunity Revolving Loan Fund and Equitable TOD/Community Cornerstones Programs to purchase and hold land and/or buildings for future new construction of mixed use, mixed income developments in the Yesler neighborhood and surrounding communities.<sup>5</sup>
  - Encourage and facilitate the participation of the Washington State Housing Finance Commission's land-banking program, and PSRC's Regional Equitable Development Initiative Fund (REDI Fund) to help developers secure sites near existing and future transit centers for development of housing and community facilities.
  - Consider granting priority to purchase of land and buildings in the Yesler neighborhood and surrounding communities.
4. Adopt policies to encourage mixed-income and mixed-use of all publicly-owned properties, including public and charter school sites:

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<sup>4</sup> <http://housingpartnership.net/enterprises/equity-trust/>

<sup>5</sup> See footnote #1 above.

- Evaluate all under-developed or under-utilized City properties for suitability for affordable housing; prioritize all suitable properties for housing and develop an implementation plan, including timing, for getting these properties into use as housing in coming years.<sup>6</sup> For properties which are deemed unsuitable for housing, either because of property size or current use, the city should prioritize disposition of these properties at highest and best use, and donate the proceeds to support affordable housing.
- Require all new and rebuilt community facilities, e.g., libraries, community centers, etc., to evaluate mixed-use approaches incorporating affordable housing to build to zoned development capacity, particularly in urban centers. We recognize that mixed-use, mixed-ownership projects are complex and often beyond the experience of the various agencies who are responsible for developing the public projects. However, there is an abundance of nonprofit and for-profit development capacity to assist city departments and we believe the benefits of this approach more than justify the added development costs. These are one-time opportunities not to be wasted.
- Minimize transaction costs for getting surplus properties into housing, through direct transfers to community-based PDAs or SHA, or selling to nonprofit developers at below market in exchange for the public benefit of affordable rental units, long-term ground lease arrangement or other mechanisms that ensure long-term housing affordability. Investigate and employ best practices from other places.<sup>7</sup>
- Advocate with other levels of government, i.e., School District, County, State and Federal, for reuse of suitable surplus properties for affordable housing. Set up a pre-development/feasibility fund to study zoning, development potential and risk, and highest and best use of surplus public properties with an emphasis on affordable housing/mixed-income use. The difference in land value would be recognized as either the owning jurisdiction's contribution to affordable housing and equitable development, or amortized as annual payments via a long-term ground lease.
- Right of first refusal: the Office of Housing, through community-based PDAs or SHA, should negotiate for the right of first refusal to option or enter into a 99-year ground lease with the County and/or State over publicly-owned properties in Seattle that are considered surplus or being re-purposed and have excess land capacity for affordable and workforce housing development.

5. Provide forgivable pre-development funds for due diligence and evaluation of in-fill brownfield sites and clean up in the Yesler neighborhood and surrounding communities.

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<sup>6</sup> Examples in the neighborhood: City: Fire Station at 23<sup>rd</sup> and Yesler and Charles Street yard; County: Youth Detention facility and Records Storage site.

<sup>7</sup> For example, the Portland transit agency reduced land values for affordable housing properties near transit by a formula that calculated a 30-year net present value based on the value of the estimated transit trips of residents (# units x trips/day x transit capture rate x days units occupied per year x average fare)

- There are family-owned gas stations, car repair shops and dry-cleaners in these communities; potential reuse and redevelopment of these sites may be complicated by the presence of hazardous contaminants. Cleaning up and reinvesting in these properties protects the environment, reduces blight, and takes development pressures off green spaces and other land. The Seattle Housing Authority purchased and successfully reclaimed a brownfield site east of Boren for the first Yesler Terrace replacement housing and market rate apartments. Clean up funds may be available from the federal Environmental Protection Agency.

## 6. Adopt policies to encourage mixed-income housing preservation and development by the private sector.

- Work with DPD, community organizations and national and local intermediaries to set up a URM/RRIO/green retrofit fund to help stabilize and restore hundreds of unreinforced masonry structures in Capitol Hill, First Hill, Pioneer Square and the International District. Where the URM buildings are vacant or under-utilized, incentives can be offered to create mixed-income, artist and workforce housing, including green features (solar ready), as part of the seismic retrofit. Weatherization, green retrofit funds, workforce housing fund and transfer development rights can all be used as part of the financing mix.

## 7. Adopt policies to discourage under-building, particularly in Urban Centers, where land is at a premium and affordable housing makes sense.

- Work with DPD and the neighborhoods around Yesler Terrace to set up a Transfer of Development Rights program (TDR) to encourage developers to maximize development capacity for new construction sites as mixed-use with housing over retail. For example, building permit applications for new construction of commercial, retail or community facilities below the sites' permitted FAR will be asked to donate excess capacity (via air rights) to a nonprofit community development agency or PDA to ensure that development capacity not used on a particular site is transferred to another.

## 8. Regulatory reform:

- Streamline the permitting process for affordable housing projects.
- Continuous improvement of building codes to remove out-moded requirements that limit development, and incorporate new technologies and building practices that: (a) lower construction costs without sacrificing construction quality;<sup>8</sup> and (b) improve environmental performance.<sup>9</sup>

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<sup>8</sup> For example, the building code restricts wood-frame construction to five floors over two of concrete, because that was the limit of older generation fire-fighting equipment. Current

### **Assumptions Underlying these Recommendations**

- For Seattle to remain a healthy, economically-diverse city, the supply of affordable housing has to increase *faster* than the housing stock as a whole. Existing need must be taken into account.
- Preservation and new construction of affordable housing are both necessary.
- The private sector will not, on its own, build new affordable housing. Incentives are necessary as are long-term covenants to maintain affordability commensurate with the value of the incentives to the developer.
- Simply increasing the supply of housing will not guarantee that the supply of affordable housing increases. Older units may be less expensive than newer units and still be out of reach of a significant portion of the population. Without interventions, incentives and subsidies, the supply of affordable housing will *decrease* over time.
- Urban Centers, such as Yesler Terrace and the surrounding communities of Capitol Hill, First Hill, Central District, Little Saigon, International District and Pioneer Square are appropriate places to prioritize for affordable housing because:
  - They will see the greatest growth;
  - They are employment, service and transit centers;
  - They have traditionally been the home of low-income people and should remain so.
- The City (and Washington State) already deploy a wide variety of tools and funding sources for affordable housing. Variety is good – there is no one size fits all approach. In many cases, such tools must be made to work better and faster to get funding to the organizations that create the housing.
- Environmental performance and affordable housing are good together – long-term reduction in operating costs for property owners; healthier living environments for residents.

### **About the Yesler Community Collaborative**

The Yesler Community Collaborative is a nonprofit organization that brings together partners in the education, health care, housing, business, arts, conservation, government and philanthropic sectors to promote the collective voice, vibrancy and sustainability of the Yesler neighborhood and surrounding communities. YCC coordinates and convenes partners to:

- look holistically at the economic, health, social, educational and housing impacts of the Yesler Terrace redevelopment on the Yesler neighborhood and surrounding communities.
- identify synergies so that the Yesler neighborhood and surrounding communities all flourish.

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equipment can reach higher; if codes were changed to reflect this improvement, buildings could be built one story higher.

<sup>9</sup> For example, the Seattle Energy Code could require solar-ready roofs on multi-family buildings over a specified size threshold.

These recommendations were developed by members of the YCC Housing Leadership Cohort, including: Andrea Akita, InterIm Community Development Agency; M.A. Leonard, Enterprise Community Partners; Chris Persons, Capitol Hill Housing; Maiko Winkler-Chin, Seattle Chinatown International District PDA; Stephanie Van Dyke, Seattle Housing Authority; Doris Koo and Ellen Kissman, Yesler Community Collaborative.