



Michael Luis & Associates

MEMORANDUM

To: Kirkland Planning Commission
From: Michael Luis
Date: 3-16-07
Re: **Innovative Housing Ordinance – Builder/architect task force**

This memo summarizes views of a group of builders and architects that was convened to provide input on Kirkland's proposed Innovative Housing Ordinance.

The following individuals participated in the process:

Jim Tennyson, Tennyson Homes
Paul Duren, Duren Homes
Steve Holzkecht, Four Sun Inc.
Jim Soules, The Cottage Company
Linda Pruitt, The Cottage Company
John Harkness, Camwest
Greg Kappers, Prescott Development
Bill Kreager, Mithun
Anna Nelson, Buck and Gordon
John Kucher, Threshold Housing
Kevin Grossman, Grossman Services

Eric Shields and Paul Stewart, from the Kirkland Planning Department, also participated. The group met on February 13 for a broad discussion of issues, and again on March 7, to review a draft of these findings.

The charge of the task force was to review the concepts and standards developed for the Innovative Housing Demonstration Program, and to determine how the demonstration ordinance could be modified to become a permanent ordinance that would encourage builders to undertake innovative projects. Since the permanent program, like the demonstration program, would be structured as an option for builders, an important part of the Task Force's work was to provide insight into the decision a builder would make to take either the innovative or the conventional option.

This memo covers four topics: (1) types of housing and development standards; (2) approval process; (3) affordability; (4) the "either/or" question.

ATTACHMENT

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1. Types of housing and development standards

The demonstration ordinance allowed three types of housing to be built: cottages, compact single family, duplex/triplex. Only one of the types, compact single family, was built in the demonstration program. Discussion of housing types yielded the following comments and recommendations:

A. Land cost is high

The limits on unit size and unit count allow for significantly less marketable square footage than would be built under conventional development. For example, for each 7,200 square feet of land, conventional development yields about 3,200 square feet of marketable space (marketable square footage is typically heated, and therefore does not include garages), versus 2,250 square feet of compact single family (or 1,950 square feet if garages are attached) or 2,000 square feet of cottage. Since land is priced based on the maximum built-out, the land cost becomes a higher portion of the overall sales value in the smaller units. Some of the smaller builders felt that this is too big a hurdle to overcome. It was noted, however, that some builders may find it to their advantage to work at lower price points even if the profit margins are lower, especially if the inventory of high-end homes is high.

B. Compact single family is a bit too small

Since attached garages count toward square footage, the compact single family model yields only about 1,300 square feet of heated space. It was felt that this model would work much better at 1,500 square feet, which requires either raising the size limit or not counting the attached garage.

C. Distinction between compact single family and cottage is artificial

The builder group felt that the distinction between the cottage and the compact single family types is artificial and should be eliminated. Projects should be able to combine the two, to offer choices within developments that appeal to different market segments. For example, small cottages rarely attract residents with children, while a larger version of the compact single family home could attract families with children.

D. Mix in carriage houses and duplex/triplex

Many successful compact developments have used carriage units, built over detached parking structures, to make most efficient use of land, but the Kirkland program does not explicitly allow these. In a fee simple project, the carriage units could be built over garages assigned to other units, with a permanent easement granted for use of the garages. Also, allowing some duplex or triplex units to be mixed in a project takes advantage of the value of the single family feel, while using open space more efficiently.

Possible approach proposed by consultant: blended development based on FAR

The demonstration ordinance required the distinction between cottage and compact single family because it relied on unit size and unit count. An alternative approach would be to allow various types of homes in a project, and set a maximum FAR and unit count for the site as a whole. Thus, a project could combine larger and smaller detached homes, duplex or triplex units and carriage units on one site. This approach was developed by the consultant and generally endorsed by the builder/architect group.

Figure 1 shows various development scenarios with combinations of housing types, limiting the unit count to twice the number allowed under existing zoning. The conventional development yields an FAR, not including a two-car garage, of 0.44. The other scenarios all have an FAR, excluding garages, of 0.35.

Figure 1 **Development of a 28,800 square foot parcel**
Maximum FAR in innovative development: .35

Type	Single Family	Compact SF large	Compact SF small	Duplex/triplex	Carriage	Cottage	Living footage	FAR	Total footage w/garage
square feet	3,200	1,500	1,300	1,300	800	1,000			
4 unit conventional	4						12,800	0.44	14,400
7 unit compact SF		5	2				10,100	0.35	11,300
8 unit mixed		3		2		3	10,100	0.35	11,500
7 unit mixed		5		2			10,100	0.35	11,500
8 unit compact/carriage		4	2		2		10,200	0.35	11,600
8 unit duplex/triplex/cottage				7		1	10,100	0.35	11,700

As noted below, this option for developing property would be approved under a relatively simple administrative process. A developer wishing to build a project with these housing types at an FAR above 0.35 could apply for a permit to do so, but would be subject to a more comprehensive review.

2. Process

Under the demonstration program, applicants were required to go through the City’s II-B process. This process, which is relatively complicated and time consuming, requires a public hearing, a recommendation from the Hearing Examiner, and a final decision by the City Council. Discussion of process issues yielded the following comments and recommendations.

A. A new name

In the larger picture of housing development, the types of housing encouraged by this program are not really considered “innovative” any more. A more appropriate name for the program would be the “housing choices program.”

B. Established models should use abbreviated process

The models that were allowed in the demonstration ordinance – compact single family, cottage, duplex/triplex, or blends of these models – have a track record of fitting well into neighborhoods. Projects using some combination of these models with no more than twice the unit count allowed by the underlying zoning and an FAR of no more than 0.35, could be permitted with a simple administrative process. It is critical that the process provide an early indication that the proposed project scope will be allowed on the site, to avoid wasting money on design and engineering of projects that may be denied.

C. Continue a “demonstration” mode for innovative projects beyond current scope

The City should keep entertaining proposals for projects that go beyond the scope of the initial demonstration program and/or exceed an FAR of 0.35. Such projects, which would still be in the spirit of the housing choices program but which would depart from the proven models and/or FAR ceiling, could be proposed and, if accepted, be subject to a process similar to the II-B process.

D. Administrative design review for projects

All projects, whether applied for under the abbreviated or the longer II-B process, should be subject to administrative design review. The City should adopt a set of clear design standards, complete with graphics and illustrations, that are easy to interpret and not burdensome on projects. These guidelines should emphasize overall goals, and focus on the exterior of the building envelope and the use of open space.

E. Maintain some level of staff flexibility

Those undertaking the demonstration projects appreciated the flexibility given to staff to make minor adjustments in development standards as requested by applicants. Since many of the sites remaining in Kirkland have unique features that may require some departures from standards, it would be helpful to maintain a level of flexibility on the part of staff to allow minor changes requested by applicants.

F. Process can be an incentive

As an incentive to undertake housing choices projects, the City could expedite processing of permits for those developments.

3. Affordability

While the demonstration projects were more affordable, on a per-unit basis, than the conventional development that would have taken place on the sites, they were still expensive homes. The task force was asked to look at ways to include an affordability component in projects.

The builders participating in the task force indicated that small, detached infill projects at moderate densities have a very difficult time supporting an affordability component, especially if the affordable units must be priced to a certain income level. Land prices are so high that the per-unit land cost by itself can eat up most of the target sales price of the affordable units, burdening the market rate units with most of the cost of construction of the affordable units.

An affordability component could be included in two ways. First, provide a density or FAR bonus that offsets the cost of subsidizing the affordable unit. Second, allow the builder to price the affordable unit close to market rate, but allow the unit to be small and have a low level of finishes that reduce the price. This second method will, however, result in units that may fit poorly into the rest of the development and yet are still unaffordable at statutory income thresholds such as 80 percent of median income. Carriage units, not specifically authorized in the demonstration ordinance, could be used for an affordability component, if they were added as part of a bonus.

4. The “either/or” question

If faced with the option of either building conventional single family housing, as allowed under existing zoning, or building a project under a housing choices program, builders will take into account several things:

- A. **Total marketable square footage.** This is the standard measure of the development capacity of a parcel: the more square feet that can fit on a site, the higher the sales value and potential profit. As noted in paragraph 1-A above, the demonstration program allowed less square footage to be built on the site compared with conventional development. A builder looking at a 30 to 40 percent reduction in potential marketable square footage may consider this gap too large to make up through a higher per-square-foot price for smaller homes (see next point). It must be noted, however, that the two projects built under these standards were financially successful.
- B. **Small homes cost more per square foot.** When homes get much under about 2,000 square feet, the cost per-square-foot rises. This is because the homes include all the most expensive parts of the house – kitchens, bathrooms – but less of the inexpensive spaces, such as bedrooms and bonus rooms. Thus, the average cost of square footage is high. The market recognizes this and does allow for a somewhat higher per-square-foot sales price for smaller homes. This price premium may not, however, be enough to offset the lower total square footage that can be built on a site (see paragraphs 1-A and 4-A above).
- C. **Site-specific conditions affect development potential.** Conditions specific to a parcel may determine its suitability for an alternative approach. This may be physical features, such as topography or access. It may also be its location and neighborhood features that would tend to attract certain types of buyers.
- D. **Niche markets of the builder.** Builders, especially small ones, tend to operate most comfortably within certain market segments and product types. Thus, two builders may look at the same parcel and see two very different, and equally feasible development scenarios.

Conclusions

- A. Because of the variability in sites and the differences in business niches of builders, it is difficult to arrive at a hard and fast set of numbers for the bonus structure. It is clear that the bonus structure under the demonstration program was a bit thin, and making it more generous will increase the odds that some builders will take advantage of it and take the housing choice option.
- B. Mixing different sizes and styles of houses within a housing choice development allows builders to aim for different markets and a more diverse buyer profile.
- C. The City should authorize models from the demonstration program under a simple administrative process, while leaving the door open to other models and/or higher FAR that would be subject to a more comprehensive review.

- D. Design review is assumed to be an integral part of the housing choice program, but should be administrative. A solid design review requirement will help protect against substandard projects that will endanger public support for the program.
- E. Staff flexibility in applying development standards is necessary to allow builders to take maximum advantage of the program and the characteristics of individual sites.
- F. Any affordability requirement that imposes an internal subsidy in the project – market rate units paying construction costs of affordable units – will act as a major disincentive to undertake the housing choices option. A further density bonus for inclusion of affordable units could eliminate internal subsidies.