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MEMORANDUM

To: Planning Commission

From: Adam Weinstein, AICP, Planning & Building Director
Allison Zike, AICP, Deputy Planning & Building Director
Scott Guter, AICP, Senior Planner
Lindsay Masters, ARCH Executive Director
Mike Stanger, ARCH Senior Planner

Date: May 24, 2023

Subject: NE 85TH ST STATION AREA PLAN – PHASE 2 – FILE NO. CAM20-00153

RECOMMENDATION

Receive a briefing from City and A Regional Coalition for Housing (ARCH) staff responding to a request from the Planning Commission (PC) for additional information on affordable housing options for the NE 85th St Station Area, and continue the discussion begun at the PC's April 27, 2023 study session to discuss the requirements that staff has recommended. Discuss the below questions (see **Attachment 1** for combined options) in order to identify the final draft affordable housing requirements that will be the subject of the public hearing scheduled for June 8, 2023.

Questions for Planning Commission (included in Attachment 1)

Fixed Affordable Housing Requirements

1. In consideration of the value added to subarea properties by the Station Area zoning code amendments, does the PC want to retain the existing requirements, or increase the affordable housing requirements in the Station Area by adopting staff's recommendation or a different affordable housing set aside?

Flexibility Options

2. Does the PC want to include an option for *flexible requirements* in the form of the sliding scale discussed in this memo?

Pioneer/Catalyst Provisions

3. As a supplement to the fixed, and flexible, requirements, does the PC want to include *pioneer, or catalyst, provisions* discussed in this memo as a strategy to phase-in implementation of increased affordable housing requirements?

BACKGROUND

On February 23, 2023 the PC held a public hearing to collect public testimony, deliberate, and make recommendations on the proposed Phase 2 amendments to the

Kirkland Zoning Code (KZC) and Municipal Code (KMC). At that hearing, the PC opted to delay the public hearing specifically concerning the draft Station Area affordable housing requirements. Per PC direction at the meeting, staff did not present the background information and recommendations on affordable housing, and the PC did not formally collect public testimony on the topic. The PC requested that staff conduct additional vetting of the inclusionary standards with the development community to ensure that redevelopment under the ultimate requirements remains feasible. A full summary of the February 23 public hearing was given to Council on March 7, 2023. The PC recommendations on the remaining Phase 2 code amendments are found in the staff report to Council.

NE 85th St Station Area Plan Housing Policies

The NE 85th Street Station Subarea Plan, adopted in Chapter XV.G of the Comprehensive Plan, envisions a district with plentiful affordable housing, where the community has maximized affordable housing options and created the most opportunity for housing options that serve diverse needs.

The NE 85th Street Station Area Plan focuses high-density mixed use residential redevelopment in existing underutilized low intensity commercial areas to accomplish two aims:

- To avoid significant displacement of existing residents in surrounding residential neighborhoods within the Station Area; and,
- To repurpose large surface parking lots for focused market rate and affordable housing opportunities.

The NE 85th Street Station Area Comprehensive Plan chapter also describes housing needs specific to the Station Area, and within the broader context of housing Citywide:

> *The Station Area Plan Market Analysis showed that more than 30 percent of people who work within the NE 85th Station Area make a salary below what is considered a living wage. Additionally, 16 percent of employees within the area make below the federal poverty thresholds. This Subarea Plan is intended to generate more living-wage jobs, paired with more housing units that are affordable to the workforce.*
>
> *Based on the City's existing inclusionary zoning requirement that at least 10 percent of new multifamily units are affordable, future redevelopment in the Station Area could result in over 600 estimated new affordable units (of the studied capacity for up to 6,243 additional housing units). Incentive zoning and other financial and planning tools seek to build upon these existing regulations to generate more affordable housing.*

Staff has developed the affordable housing recommendations contained in this memo as a directive of the following NE 85th Street Station Subarea Plan housing goals and policy that align with increased inclusionary requirements:

- **Goal SA-11**: Plan for and achieve housing production to achieve regional planning objectives and maximize opportunities for affordable housing provision in the Subarea.

- **Goal SA-13**: Increase affordable housing by developing strategies and incentives to increase the amount of affordable housing within the Station Area at various income levels, especially at lower income levels.

- **Policy SA-16**: Create density bonuses that prioritize affordable housing, particularly units available at deeper levels of affordability.

Housing Needs
For the year 2044, Kirkland's allocation of King County's growth targets is summarized in Table 1 below (source 2021 King County Urban Growth Capacity Report). With new land use designations in the Station Area, the City has total Citywide capacity to meet 2044 growth targets. As of 2023, the City has capacity for 19,595 additional housing units and 36,082 additional jobs (including up to 6,243 additional housing units and 17,943 additional jobs in the Station Area.

Table 1: Growth Targets

HOUSING UNITS			**JOBS**		
Existing (2018)	**K2044 Target (2019-2044)**	Existing Capacity (2023)*	Existing (2018)	**K2044 Target (2019 – 2044)**	Existing Capacity (2023)*
38,656	**13,200 (above 2018 existing)**	19,595	49,280	**26,490 (above 2018 existing)**	36,082

**Estimate pending completion of the City's 2044 capacity analysis. Number reflects approximate remaining capacity from K2035 Plan (units/jobs planned for but not achieved) + additional capacity adopted in NE 85th St Station Area Plan*

The City's ongoing project to update the Comprehensive Plan requires that the City provide capacity for both the total housing allocation assigned by King County, and also housing across different bands of affordability. The King County Housing Needs Dashboardidentifies how much housing each community in the County needs to provide by income level (see Table 2).

Table 2: Kirkland's 2019-2044 Housing Needs Allocation (net new units)

Household Income	**New Units**	**% of Total Allocated**
0-30% AMI Non-PSH*	4,842	37%
0-30% AMI PSH	2,546	19%
31-50% AMI	3,052	23%
51-80% AMI	1,022	8%
81-100% AMI	228	2%
101-120% AMI	259	2%
121+% AMI	1,251	9%
	13,200 Total 2044 Net New Unit Allocation	

Notes: AMI = Area Median Income; PSH = Permanent Supportive Housing

Table 3 shows what this housing need would look like as applied to the housing expected to develop in the Station Area.

Table 3: Station Area Housing Capacity Distribution by Allocated Household Income

Household Income	**New Units**	**% of Total Allocated** (from Table 2)
0-30% AMI Non-PSH*	2,310	37%
0-30% AMI PSH	1,186	19%
31-50% AMI	1,436	23%
51-80% AMI	499	8%
81-100% AMI	125	2%
101-120% AMI	125	2%
121+% AMI	562	9%
	6,243 Total Additional NE 85th St Station Area Housing Capacity	

Notes: AMI = Area Median Income; PSH = Permanent Supportive Housing

As Table 3 shows, the existing affordable housing need by household income within the Station Area far exceeds the approximate 600 affordable units that would be achieved with full build-out under Kirkland's current 10% inclusionary requirement.

Attachment 2 provides an overview of state and regional requirements to meet Kirkland's housing needs.

Station Area Affordable Housing Incentives
In the Station Area the City is already employing many of the Puget Sound Regional Council's (PSRC) recommended tools local governments can use to encourage affordable housing production. These include:

- Significant increases in development capacity
- Lower minimum parking requirements
- Form-based Code to streamline project design
- Planned Action Ordinance eliminating the need for individual development projects to go through a State Environmental Policy Act (SEPA) process
- Development agreements for catalyst projects

The increased inclusionary affordable housing requirement options explored in this memo are paired with these regulatory strategies (together with the City's existing Multi-family Tax Exemption (MFTE) program) to provide the market with a flexible means to build housing and help to meet the City's affordable housing needs.

As the City updates its Comprehensive Plan goals and policies and continues to enact future code amendments and other permitting reform, additional incentives can be studied to address housing production and affordable housing in the City. Some of these strategies, below, have already been discussed with the PC:

- Permit review streamlining/expediting
- Impact fee waivers
- Building Code amendments to allow different/less expensive construction types (e.g., more floors of wood-frame construction over podiums)

STATION AREA AFFORDABLE HOUSING RECOMMENDATION SUMMARY

A detailed background discussion of the analysis performed by ARCH and their consultants, BAE Urban Economics and Street Level Advisors, was included in the April 27, 2023 meeting materials. Additional information was provided during the staff presentation at the April 27 meeting (recording linked).

Summary of Proposed Inclusionary Regulations

The analysis by ARCH and their consultants indicates that the value created for landowners and developers, by increasing development capacity and reducing parking minimums, supports an increase to the affordable housing required in the Station Area, varying slightly according to the maximum height allowed in each Station Area zone.

The affordable housing requirements in the Station Area will pair with the Incentive Zoning program for commercial development adopted with Phase 1 and set forth in KZC 57.30. For parcels in the Neighborhood-Mixed-use (NMU) district where the regulating plan in KZC 57.10.030 indicates a "base" and "bonus" maximum allowed height, while the Incentive Zoning program requires development to "earn" bonus capacity above the base height on a per-square-foot basis, the affordable housing requirements are proposed to apply to the total of all housing units in the development, regardless of units provided within the base or bonus capacity.

The staff-recommended Station Area *base* affordable housing requirements are included in the April 18, 2023 ARCH memo (Attachment 1 of the April 27, 2023 meeting materials), along with a background analysis that supports the draft requirements, and are shown below:

	Renter-occupancy		**Owner-occupancy**	
	Set-aside	**Affordability Level**	**Set-aside**	**Affordability Level**
Draft Requirements for Station Area Urban Flex and Neighborhood Mixed-use zones with maximum heights below 65 feet				
Mandatory (eligible for 8-year MFTE)	10%	50% of median income	10%	80% of median income
Optional (eligible for 12-year MFTE):	10% plus 10%	50% of median income 80% of median income	10% plus 10%	80% of median income 110% of median income
Draft Requirements for Station Area Neighborhood Mixed-Use zones with maximum heights 65 feet or greater				
Mandatory (eligible for 8-year MFTE)	15%	50% of median income	15%	80% of median income
Optional (eligible for 12-year MFTE):	10%	50% of median income	10%	80% of median income 100% of median income

	plus 10%	60% of median income	plus 10%	

These draft requirements are structured to provide developers a choice between complying with the base mandatory requirement eligible for an 8-year MFTE, or the optional requirement eligible for a 12-year MFTE. Some additional responses to comments on the analysis are provided in **Attachment 3**.

Near-term Considerations for Affordable Housing Requirement Implementation *(excerpted from April 27 staff memorandum)*

As noted above, the ARCH and consultant analysis, which incorporates developer feedback, shows that typical rental projects would likely be infeasible (under current market conditions) both in existing zoning and proposed zoning with recommended inclusionary zoning requirements. However, the analysis also concludes that projects would be feasible when market conditions ease, which most regional economists expect to happen within the next few years. As noted in the ARCH memo, the real estate market is highly cyclical, and it is very difficult to establish development regulations that precisely align with the market. Therefore, best practice is to adopt affordable housing set-aside regulations that are appropriate across the market cycle – a little lower of a set-aside than what might be possible at the peak of the market and perhaps a little higher of a set-aside than what is feasible at the low point.

Staff believes that the recommended inclusionary requirements are appropriate in the context of the expected market longer-term cycle. However, if the Planning Commission wishes to address the desire to encourage development in the Station Area soon after the Phase 2 zoning is adopted (when market conditions may not be optimal), one option is that the new zoning *development allowances* (increased height, reduced setbacks, etc.) would go into effect immediately after adoption. At the same time, the new *inclusionary zoning requirements* could be phased-in. Several options for phase-in requirements or increased incentives were discussed in the April 27, 2023 meeting materials. The staff recommendation for phase-in options are included in the following section of this memo.

It is important to note that any phase-in of new, more robust inclusionary zoning requirements comes with opportunities and downsides and is not a guarantee that development will be able to overcome *current* market challenges. It is possible that the incremental impact on feasibility could enable projects to move forward in the short-term (potentially catalyzing development in the Station Area); however, it is also possible that projects will nonetheless be stalled, and the city would lose an opportunity to maximize development of additional units of affordable housing units, and meet our City's affordable housing needs, when conditions improve.

PLANNING COMMISSION DISCUSSION AND REQUEST FOR ADDITIONAL INFORMATION

At the April 27, 2023 meeting, the Commission discussed the proposed affordable housing requirements and background analysis, and had an extensive discussion with City staff, ARCH staff, and the ARCH consultant team. In summary, the Planning

Commission agreed that achieving affordable housing with redevelopment in the Station Area is a priority, but expressed concern that setting a higher inclusionary requirement for affordable housing may render immediate residential development infeasible. While the PC acknowledged that the Station Area Plan is expected to be implemented incrementally through redevelopment over the next 20 years, some Commissioners expressed a strong desire to achieve housing production in the near-term. To continue their study session, the PC identified several items for further discussion, and requested that staff conduct additional research to provide a response. The discussion below includes a topical summary of the PC discussion items, and staff responses. Please note that the majority of discussion, and subsequent staff responses, focus on the requirements in Station Area zones with allowed heights of 85’ or higher (zones allowing heights below 85’ are proposed to match the existing inclusionary requirements in effect in most areas of the City today).

<u>Case Studies of Inclusionary Requirements</u>

In addition to reviewing the feasibility analysis performed by ARCH, BAE, and Street Level Advisors, the PC requested to see specific examples of jurisdictions that have successfully implemented inclusionary zoning requirements above 10% of total units, and specifically comparable to a 50% Area Median Income (AMI) level of affordability. Commissioners expressed a preference for case studies from Washington state.

Staff Response: While inclusionary housing programs date back to the 1970s, Washington State did not have a clear statutory framework for these regulations until 2006 (with administrative clarifications to explicitly allow mandatory programs following in 2010). Because of this, we have relatively fewer programs that have been in place long enough to generate long-term results. Kirkland was one of the earlier communities in the State to adopt a mandatory inclusionary program in 2011 and, as noted at the previous PC meeting, data indicates the program has been successful in promoting both market rate and affordable housing.

Other programs located in Seattle and East King County are described in ***Attachments 4****, and* ***5****. The concentration of programs in this region can be explained in part by the level of demand and appreciation in land values and housing prices.*

- ***Attachment 4*** *summarizes the current land use and tax incentive programs of all ARCH-member cities. Many of these provisions have been revised fairly recently. For example: Bellevue changed their MFTE program in 2021. Bothell has adopted inclusionary zoning incrementally beginning in 2018 and adopted MFTE in 2022. Kenmore converted its Transit-Oriented Overlay incentives from voluntary to mandatory earlier this year. Redmond's program has been in place for even longer than Kirkland’s, and is also widely regarded as a successful model that the city can build on in the future. Staff expects to prepare an additional document to compare results of these programs that will be available ahead of the May 31 PC meeting.*
- ***Attachment 5*** *summarizes Seattle’s (mandatory) inclusionary zoning and current MFTE programs, including recent production data.*
- ***Attachment 6*** *provides an overview of other programs from outside of Washington state that require set-asides above 10%, deeper affordability (30-*

60% AMI), or both. While comparisons are inherently challenging given the number of variables underlying any program (market conditions, level of incentives, general regulatory environment, etc.), these examples indicate that it has been possible for jurisdictions to design inclusionary programs to achieve significant set-asides.

- ***Attachment 7*** *includes excerpts from broader national research on inclusionary programs.*

Additional Options for the Station Area Affordable Housing Requirements

The PC requested additional options for the inclusionary requirement that either require a lower set-aside percentage or shallower affordability (i.e., available to households making more than 50% of AMI), than the proposed requirement recommended by staff. Commissioners discussed the desire to compare the feasibility resulting from different compositions of a higher inclusionary requirement (from existing standards) such as, for example, a base requirement for 10% of units to be provided at 50% AMI and 5% – 10% of units to be provided at a higher AMI. Supplementing that concept was a request for staff to explore requirements at more brackets of affordability between an AMI of 50% and 80%, an option that would provide more choices for developers.

Staff Response: Existing affordable housing standards from KZC 112.20.3.b provide a sliding scale of affordability levels that developers may use in Totem Lake and Rose Hill (under pre-Station Area zoning) as an alternative to the current 10% at 50% AMI requirement, as shown in the table below.

Affordability Level	**% of Project Units Required to Be Affordable**
Renter-Occupied Housing	
60% of median income	13%
70% of median income	17%
Owner-Occupied Housing	
70% of median income	8%
90% of median income	13%
100% of median income	21%

A similar sliding scale with values equivalent to the recommended base requirement for renter-occupancy of 15% at 50% AMI would be:

Affordability Level	**Set-aside**
60% of median income	18%
50% of median income 70% of median income	9% plus 9%

Incentives or Phasing-in of Requirements for Catalyst Projects

Several ideas were discussed by Commissioners to encourage or ensure new residential development may occur sooner, rather than later, including extensive discussion of additional incentives for developers. Options discussed included expedited permitting, phasing-in new affordable housing requirements, pioneer provisions, etc.

Staff Response: Staff has taken the above-referenced discussion as guidance to develop the below options intended to enable catalyst residential development in the Station Area. To support imminent development (i.e., where the developer owns the land and has begun site planning, design) that would benefit the community, Kirkland could adopt one of the following options for "pioneer" incentives similar to that in KZC 112.20.3.c. that allows a smaller set-aside or a set-aside at a higher income level for early projects. In the below options, the number of units for consideration as "pioneer" or "catalyst" residential development represent a percentage of the total residential capacity added with the upzones in the subarea, where 624 units and 312 units are 10% and 5%, respectively, of the total new residential capacity in the Station Area of 6,234 units:

Option A			**Option B**			**Option C**	
Total Units	Pioneer Requirement		Total Units	Pioneer Requirement		Total Units	Pioneer Requirement
Up to 624 units	10% at 50% AMI		First 312 units	10% at 50% AMI		Up to 624 units	10% at 50% AMI, plus a fee in lieu of 5% at 50% AMI
			Second 312 units	15% at 60% AMI			
All subsequent units	15% at 50% AMI		All subsequent units	15% at 50% AMI		All subsequent units	15% at 50% AMI

Option A: This effectively allows roughly 10 percent of the growth estimated for the station area to develop under the existing affordability requirement.

Option B: This splits the first 10% of estimated growth into two parts, (a) the first 5 percent that remains at the existing 10 percent at 50% AMI requirement, and (b) the second 5 percent increases to 15 percent at 60% AMI.

Option C: Similar to Option A, with an additional fee in lieu of 5% of units affordable at 50% AMI. Developers often prefer fees to providing affordable units because it becomes a development cost instead of a long-term "operating cost." The fee would equal the present value of the gap between market and affordable rents over the life of the project (using a capitalization rate), as determined by the Director of Planning and Building. Depending on the project's unit mix and rents at the time of application, this could be somewhere between

$200,000 and $300,000 per affordable unit. The city's existing policy requires payment of in-lieu fees before issuance of a certificate of occupancy.

Staff recommends that other conditions accompany a pioneer incentive, including permit vesting (likely with a complete building permit application for the relevant units) and MFTE application approval no later than 12 months from the effective date of the new zoning ordinance and project completion within three years of MFTE application approval (consistent with MFTE regulations). The intent is to ensure that a developer receives the benefit of the pioneer incentive only if the project is actually built sooner rather than later.

<u>Concept for Affordable Units with Adjusting Levels of Affordability</u>

At the study session, Commissioners discussed the desire to think creatively about the eventual affordable requirements. A Commissioner inquired if affordable units could be initially provided at a shallower affordability (e.g., 80% AMI) to mitigate development costs, and then adjusted to deeper affordability (e.g., below 80% AMI) as those same units age.

Staff Response: Analysis from BAE shows that delaying the requirement to include deeper affordability does, on paper, improve a project's profitability. Specifically, a set-aside of 15 percent at 80% AMI for ten years followed by 50% AMI thereafter would improve a project's yield on cost by ten basis points (e.g., from 5.43 to 5.53) compared to 15 percent at 50% AMI for the life of a project. While the concept is intriguing, staff does not recommend imposing it as a base requirement, given the lack of precedents and understanding of how lenders and investors would underwrite to this regulation. In addition to underwriting questions, staff note that the policy would create additional monitoring burdens, particularly around any required anti-displacement protections.

If there is interest in further exploration, the concept could be considered as an additional option during the "pioneer" phase of the regulations (see above Options for phasing in).

<u>Inclusionary Requirements and Housing Subsidies</u>

The Commission requested that staff provide information about how housing subsidies (e.g., Section 8 vouchers) can be utilized in combination with inclusionary zoning requirements.

Staff Response: Tenant-based Section 8 vouchers provide subsidies to landlords in exchange for renting to households with very low incomes. The program is designed to give voucher-holders choices in where to rent by supplementing the rent they can afford with subsidies that are paid to landlords on their behalf. However, the combination of low vacancies, high market rents and discrimination against Section 8 tenants has been a significant barrier to voucher utilization in areas like East King County.

The King County Housing Authority (KCHA) has in the past expressed interest in a partnership to pair voucher holders with inclusionary units in cities where the required AMIs were higher – Bellevue and Redmond. The concept was to make 80% AMI units affordable for lower income households. Probably for a combination of reasons, KCHA *stopped pursuing the idea. Since then, the State adopted a law prohibiting landlords from denying apartments to voucher holders, theoretically making it easier for voucher holders to find apartments in east King County. Given that Kirkland's inclusionary zoning requires affordability at 50% AMI – below KCHA's payment standard – accepting vouchers for affordable units would mean that landlords would take in more income, and the public would get a lower benefit.*

This concept has been allowed in other communities, for example in Berkeley, CA, which requires a 20 percent affordable housing set-aside (10 percent at 50% AMI and 10 percent at 80% AMI), developers are required to offer the first 50 percent of units to voucher holders. The city allows property owners to charge Fair Market Rent, which is much higher than 50% AMI.

Further discussion with KCHA and analysis of voucher utilization would be necessary to determine if this concept is viable and could meet any policy objectives beyond improving rental income for developers.

DISCUSSION QUESTIONS

At the study session, the PC should discuss and provide staff with direction on the below questions:

Fixed Affordable Housing Requirements

1. In consideration of the value added to subarea properties by the Station Area zoning code amendments, does the PC want to retain the existing requirements, or increase the affordable housing requirements in the Station Area by adopting staff's recommendation or a different affordable housing set aside?

Flexibility Options

2. Does the PC want to include an option for *flexible requirements* in the form of the sliding scale discussed in this memo?

Pioneer/Catalyst Provisions

3. Does the PC want to include *pioneer, or catalyst, provisions* discussed in this memo as a strategy to phase in implementation of increased affordable housing requirements?

NEXT STEPS

Staff will utilize the direction received from the Planning Commission study session and complete a final draft of the affordable housing regulations in order to hold a public hearing to collect public testimony. A Planning Commission public hearing on the proposed regulations is scheduled for the PC's June 8, 2023 meeting.

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ATTACHMENTS

1. Affordable Housing Requirements Summary and Discussion Questions
2. State and Regional Requirements to Meet Kirkland's Housing Needs
3. BAE/ARCH Analysis – Responses to Public Comments
4. ARCH-member Affordable Housing Program Summaries
5. Seattle Affordable Housing Program Data
6. Selected Affordable Housing Programs from the United States
7. Independent Research

Cc: File Number CAM20-00153

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STATION AREA PLAN AFFORDABLE HOUSING REQUIREMENT OPTIONS & QUESTIONS FOR PLANNING COMMISSION

Please note that the following questions and options focus on the requirements in Station Area zones with allowed heights of 85' or higher (zones allowing heights below 85' are proposed to match the existing inclusionary requirements in effect in most areas of the City today).

Fixed Affordable Housing Requirements

1. In consideration of the value added to subarea properties by the Station Area zoning code amendments, does the PC want to retain the existing requirements, or increase the affordable housing requirements in the Station Area by adopting staff's recommendation or a different affordable housing set aside?

EXISTING AFFORDABLE HOUSING REQUIREMENTS				
	Renter-occupancy		**Owner-occupancy**	
	Set-aside	**Affordability Level**	**Set-aside**	**Affordability Level**
Mandatory (eligible for 8-year MFTE)	10%	50% of median income	10%	80% of median income
Optional (eligible for 12-year MFTE)	10% plus 10%	50% of median income 80% of median income	10% plus 10%	80% of median income 110% of median income

STAFF-RECOMMENDED (NEW) FIXED AFFORDABLE HOUSING REQUIREMENTS				
	Renter-occupancy		**Owner-occupancy**	
	Set-aside	**Affordability Level**	**Set-aside**	**Affordability Level**
Mandatory (eligible for 8-year MFTE)	15%	50% of median income	15%	80% of median income
Optional (eligible for 12-year MFTE)	10% plus 10%	50% of median income 60% of median income	10% plus 10%	80% of median income 100% of median income

Flexibility Options

2. Does the PC want to include an option for *flexible requirements* in the form of the sliding scale shown below? If adopted, the below options could be utilized as an alternative way to comply with Station Area fixed affordable housing requirements for rental units (recommended to be 15% at 50% AMI).

<table>
<tr><th colspan="2">ALTERNATIVE COMPLIANCE OPTIONS*</th></tr>
<tr><th>Set-aside</th><th>Affordability Level</th></tr>
<tr><td>18%</td><td>60% of median income</td></tr>
<tr><td>9%
plus 9%</td><td>50% of median income
70% of median income</td></tr>
</table>

**Note – the above provisions could be included in the Zoning Code as an option for alternative compliance, or could be considered by the PC as an alternative fixed requirement.*

Pioneer/Catalyst Provisions

3. Does the PC want to include *pioneer, or catalyst, provisions* shown below as a strategy to phase in implementation of increased affordable housing requirements for rental units? What option does the PC prefer? This option would be in addition to any fixed or flexible requirements.

<table>
<tr><th colspan="6">PIONEER/CATALYST PROVISION OPTIONS</th></tr>
<tr><th colspan="2">Option A</th><th colspan="2">Option B</th><th colspan="2">Option C</th></tr>
<tr><td>Total Units</td><td>Pioneer Requirement</td><td>Total Units</td><td>Pioneer Requirement</td><td>Total Units</td><td>Pioneer Requirement</td></tr>
<tr><td rowspan="2">Up to 624 units</td><td rowspan="2">10% at 50 AMI</td><td>First 312 units</td><td>10% at 50 AMI</td><td rowspan="2">Up to 624 units</td><td rowspan="2">10% at 50 AMI, plus a fee in lieu of 5% at 50 AMI</td></tr>
<tr><td>Second 312 units</td><td>15% at 60 AMI</td></tr>
<tr><td>All subsequent units**</td><td>15% at 50 AMI</td><td>All subsequent units**</td><td>15% at 50 AMI</td><td>All subsequent units**</td><td>15% at 50 AMI</td></tr>
</table>

**Note – the requirement shown in the above table assumes the staff-recommended fixed requirement.

Meeting Kirkland's Current and Future Affordable Housing Needs

In 2021, the Washington Legislature changed the way communities are required to plan for housing. House Bill 1220 (HB 1220) amended the Growth Management Act (GMA) to instruct local governments to "plan and accommodate" for housing affordable to all income levels. Cities must plan for and accommodate housing affordable to all economic segments of the population of Washington state. Cities are to review local comprehensive plan policies and countywide planning policies to be consistent with the updated goal.

Consistency with meeting Kirkland's housing needs by household income is supported by Vision 2050 Multicounty Planning Policies (MPPs) housing policies:

- **MPP-H-1**: Increase housing supply and densities to meet the region's current and projected needs at all income levels consistent with the Regional Growth Strategy.
- **MPP-H-1, H-6, H-Action-4**: Promote jobs-housing balance by providing housing choices that are accessible and attainable to workers. Include jobs-housing balance in housing needs assessments to better support job centers with the needed housing supply.
- **MPP-H-7-8**: Expand housing choices in centers and near transit.
- **MPP-H-10**: Promote flexible standards and innovative techniques to encourage housing productions that keeps pace with growth and need.
- **H-Action-5**: Use inclusionary and incentive zoning to provide more affordable housing when creating additional housing capacity.

The King County Countywide Planning Policies articulate the need for income-restricted units to help address the region's housing needs of low-income households.

> *While significant housing market activity is needed to reach overall King County housing growth targets, the ability of the region's housing market to address the housing needs of low-income households is limited. A large majority of the need will need to be addressed with units restricted to income-eligible households – both rent-restricted units and resale restricted homes ("income-restricted units").*

Supporting King County Countywide Planning Policies (CPPs) for adopting increased inclusionary zoning requirements:

- **CPP-H-11** Adopt policies, incentives, strategies, actions, and regulations that increase the supply of long-term income-restricted housing for extremely low-, very low-, and low-income households and households with special needs.
- **CPP-H-15** Increase housing choices for everyone, particularly those earning lower wages, that is co located with, accessible to, or within a reasonable commute to major employment centers and affordable to all income levels. Ensure there are zoning ordinances and development regulations in place that allow and encourage housing

production at levels that improve jobs-housing balance throughout the county across all income levels.

- **CPP-H-16** Expand the supply and range of housing types, including affordable units, at densities sufficient to maximize the benefits of transit investments throughout the county.
- **CPP-H-17** Support the development and preservation of income-restricted affordable housing that is within walking distance to planned or existing high-capacity and frequent transit.

BAE/ARCH Analysis – Responses to Public Comments

The Planning Commission received several comments from MainStreet (a developer with property in the station area) on the analysis presented by BAE/ARCH. Following are responses to specific comments on assumptions underlying the analysis.

Inclusion of parking reductions as incentive. Parking reductions are one of the explicit development incentives authorized by RCW 36.70A.540 that jurisdictions may offer in exchange for requiring affordable housing. While some past developments in Kirkland have received discretionary parking reductions through submission of a parking study, the permanent reduction in parking requirements does provide value to the development community by codifying these reduced ratios and providing certainty that these ratios will remain in perpetuity. This policy applies to the entire study area for a longer period than just today, so incorporating these reductions as a cost savings to the development community is a valid assumption for capturing community benefits in the entire study area beyond today's conditions. In addition, the BAE/ARCH included a development cost assumption of $50,000 per stall, which is a relatively conservative estimate of the potential value of cost savings. Finally, staff would note that parking reductions may have different value to different developers (one developer may find the reductions highly valuable, while another developer may find them not as valuable).

Market rent assumptions. The BAE/ARCH model does include higher rents than are in the study area today. However, these rents are similar to recently delivered higher-end product elsewhere in the City, including new properties on the border of the Station Area Plan. Based on input from developer stakeholders, to be feasible and attractive to investors, new properties in this study area will likely have to charge rents near the "top of market" rather than similar to rents in existing properties in the study area (which has a limited amount of new construction of the multi-family/mixed-use development types envisioned in the Station Area Plan). In addition, the BAE/ARCH model did include a modest-rent scenario, which closely aligns with existing rents in the study area. In both modest- and high-rent scenarios, the resulting conclusions are the same: both the "baseline" project and the various "alternatives" are unlikely to be feasible, but the alternatives with higher density and higher percentages of affordable housing are more feasible than the baseline project under today's zoning. Further, under the benefit ratio analysis, lowering the market rent assumptions actually reduces the cost of affordability requirements, thereby increasing the relative benefits to the developer.

Overall, the BAE/ARCH model does not contradict MainStreet's current market findings; development feasibility is challenging today. That said, with new incentives and added density, the City is in a position to capture those benefits in the form of higher affordability requirements long-term. To incentivize housing in the near-term, the City could consider additional incentives or a near-term reduction in the affordable housing requirement to stimulate housing development. However, in the long-term, the City should consider approving higher affordability requirements in order to capture the value that is created by upzoning, reducing parking requirements, constructing City-funded improvements, and supporting the future BRT line. If the City does not approve higher affordability requirements and merely sets the policy to make development feasible in today's down market, the benefit of these City actions will flow to existing land owners and will only make it more expensive to build market-rate housing in the future.

ARCH-member Affordable Housing Program Summaries

(Note 1: Except in Bellevue as of 2021, affordable units qualifying for MFTE also satisfy land use requirements.)

(Note 2: affordable-units-created totals do not include fee-in-lieu units or units without resale restrictions.)

Location	**Land Use Program**	**MFTE / MFTE plus Land Use**
BELLEVUE	**139 units**[i]	**84 units**[ii]
Downtown & Eastgate	Rental & Ownership—Voluntary 2.5 units (or sq ft) bonus (max 1.0 FAR): 1 unit (or sq ft) affordable @ 80% AMI for life of the project.	Effective July 2021: Rental only— 12-year tax exemption: 20% units affordable @ 80 AMI for 12 years, at least 15% of project is 2- or more bedroom units. If not, either the studio & 1-BR units @ 70 AMI, or 25% of all units affordable @ 80 AMI for 12 years. Micro apartments affordable @ 45 AMI. *Affordable units used both for MFTE and land use program 15% AMI deeper.*
Bel-Red	Rental—Voluntary 4.6 sq ft bonus (max 0.5 or 1.25 FAR): 1 sq ft affordable @ 80% AMI for life of the project.	
	Ownership—Voluntary 7.2 sq ft bonus (max 0.5 or 1.25 FAR): 1 sq ft affordable @ 100% AMI for life of the project.	
East Main	Rental & Ownership—Voluntary 3.2 units (or sq ft) bonus: 1 unit (or sq ft) affordable @ 80% AMI for life of the project.	
Crossroads Village and Wilburton Commercial	Rental & Ownership—Voluntary 1 unit (or sq ft) bonus: 1 unit (or sq ft) affordable @ 80% AMI for life of the project.	
BOTHELL		
Downtown Transition Overlay[iii]	Rental—Mandatory 10% units affordable @ 60% AMI for life of project.	Rental only— 8-year exemption: 10% micro units affordable at 40 AMI, 15% other units affordable at 60 AMI; both for life of the project. 12-year exemption: 20% micro units affordable at 50 AMI, 20% other units affordable at 60 AMI; both for life of the project.
	Ownership—Mandatory 10% units affordable @ 80% AMI for 50 years.	
General Downtown Corridor (GDC) Overlay[iv]	Rental—Mandatory 10% micro units affordable at 50% AMI, 10% other units affordable @ 60% AMI for life of project.	
	Ownership—Mandatory 10% units affordable @ 70% AMI for 50 years.	
SR 522 Overlay[v]	Rental—Mandatory 5% units affordable @ 60% AMI for life of project.	
	Ownership—Mandatory 5% units affordable @ 80% AMI for 50 years.	
Canyon Park	Rental—Mandatory 10% units affordable @ 70% AMI for life of project.	

Location	Land Use Program	MFTE / MFTE plus Land Use
	Ownership—Mandatory 10% units affordable @ 80% AMI for life of project.	
Other sub-areas	n/a	Rental only— 12-year exemption only: 20% micro units affordable at 50 AMI, 10% other units affordable at 60 AMI plus 10% affordable at 70 AMI; both for life of the project.
ISSAQUAH[vi]	**11 units**	
Central Issaquah, Mixed-Use[vii]	Rental—Mandatory 7.5% units in base density affordable @ 70% AMI (or 5% @ 50% AMI) for life of the project.	n/a
	Ownership—Mandatory 7.5% units in base density affordable @ 80% AMI (or 5% @ 60% AMI) for 50 years.	n/a
Central Issaquah, Vertical Mixed-Use Overlay[viii]	Rental—Mandatory 10% units in base density affordable @ 70% AMI and 5% @ 50% AMI (or 10% @ 50% AMI) for life of the project.	n/a
	Ownership—Mandatory 10% units in base density affordable @ 80% AMI and 5% @ 60% AMI (or 10% @ 60% AMI) for 50 years.	n/a
Central Issaquah, remaining Urban Core[ix]	Rental—Mandatory 12.5% units in base density affordable @ 60% AMI (or 10% @ 50% AMI) for life of the project.	n/a
	Ownership—Mandatory 12.5% units in base density affordable @ 70% AMI (or 10% @ 60% AMI) for 50 years.	n/a
KENMORE	**13 units**	**0 units**[x]
CB zone, Juanita[xi]	Rental—Voluntary 4 bonus units: 1 unit affordable @ 70% AMI for life of the project, with a maximum density of 36 units per acre.	n/a
DC east of 73rd Ave NE	Rental—Mandatory 25% units affordable at 50% AMI for life of the project.	n/a
	Ownership—Mandatory 25% units affordable at 80% AMI for life of the project.	
DC west of 73rd Ave NE; UC east subarea; UR zones	Rental—Mandatory 25% units affordable at 70% AMI for life of the project.	n/a
	Ownership—Mandatory 25% units affordable at 80% AMI for 50 years.	

Location	Land Use Program	MFTE / MFTE plus Land Use
DR properties west of 68th Ave NE, > 4 acres and > 20 total units	Rental—Mandatory 25% units affordable at 70% AMI for life of the project.	n/a
	Ownership—Mandatory 25% units affordable at 80% AMI for 50 years.	
R-4 – R-24, DR properties < 4 acres or < 20 total units or east of 68th Ave NE; UC outside the east subarea; WC; and RB zones.[xii]	Rental—Voluntary 2 bonus units: 1 unit affordable @ 50% AMI, (or 1:1 @ 70% AMI) for life of the project with a maximum density 1.5 times the Base Density of the underlying zone.	n/a
	Ownership—Voluntary 2 bonus units: 1 unit affordable @ 50% AMI (or 1:1 @ 80% AMI) for 30 years with a maximum density 1.5 times the Base Density of the underlying zone.	n/a
NB zones[xiii]	Rental—Voluntary 2 bonus units: 1 unit affordable @ 50% AMI (or 1:1 @ 70% AMI) for life of the project with a maximum density of 24 units per acre.	n/a
	Ownership—Voluntary 2 bonus units: 1 unit affordable @ 50% AMI (or 1:1 @ 80% AMI) for 30 years with a maximum density of 24 units per acre.	n/a
KIRKLAND	**32 units[xiv]**	**183 units**
Height-limited zones (Totem Lake, North Rose Hill, CBD 5)	Rental—Mandatory 10% units affordable @ 50% AMI for life of project.	Rental—Voluntary 8-year tax exemption: 10% units affordable @ 50% AMI for life of the project. 12-year tax exemption: 10% units affordable @ 50% AMI and 10% @ 80% AMI for life of the project.
	Ownership—Mandatory 10% units affordable @ 80% AMI for 50 years.	Ownership—Voluntary 8-year tax exemption: 10% units affordable @ 80% AMI for life of the project. 12-year tax exemption: 10% units affordable @ 80% AMI and 10% @ 110% AMI for life of the project.
Density-limited zones	Rental—Mandatory 2 units bonus: 1 unit affordable @ 50% AMI for life of project, and at least 10% units affordable.	Rental—Voluntary 8-year tax exemption: 10% units affordable @ 50% AMI for life of the project. 12-year tax exemption: 10% units affordable @ 50% AMI and 10% @ 80% AMI for life of the project.

Location	Land Use Program	MFTE / MFTE plus Land Use
	Ownership—Mandatory 2 units bonus: 1 unit affordable @ 100% AMI for 50 years, and at least 10% units affordable.	Ownership—Voluntary 8-year tax exemption: 10% units affordable @ 100% AMI for life of the project. 12-year tax exemption: 10% units affordable @ 100% AMI and 10% @ 130% AMI for life of the project.
Zones where affordable housing isn't required	n/a	Rental & Ownership—Voluntary 8-year tax exemption: 10% units affordable @ 80% AMI for life of the project. 12-year tax exemption: 10% units affordable @ 50% AMI and 10% @ 80% AMI for life of the project.
MERCER ISLAND	**13 units**	**0 units**
Town Center	Rental—Voluntary 3rd floor bonus: 10% of all units affordable @ 70% AMI for life of the project. 4th or 5th floor bonus: 10% of all units affordable @ 60% AMI for life of the project.	n/a
	Ownership—Voluntary Same as above, except affordability @ 90% AMI for all bonus floors for 30 years.	
NEWCASTLE	**52 units**	
Commercial Business Center	Rental—Mandatory 2 sq ft bonus: 1 sq ft affordable @ 70% AMI, and 10% units affordable, for life of the project.	n/a
	Ownership—Mandatory 2 sq ft bonus: 1 sq ft affordable @ 80% AMI, and 10% units affordable, for 50 years.	n/a
REDMOND	**617 units**[xv]	**227 units**
Outside Marymoor & Overlake urban center (incl Downtown)	Rental—Mandatory 1 unit (or sq ft) bonus: 1 unit (or sq ft) affordable @ 80% AMI, and 10% units affordable, for life of the project.	8-year tax exemption: 10% units affordable @ 60% AMI for life of the project. 12-year tax exemption: 10% units affordable @ 65% AMI and 10% @ 85% AMI for life of the project.
	Ownership—Mandatory 1 unit (or sq ft) bonus: 1 unit (or sq ft) affordable @ 80% AMI, and 10% units affordable, for 50 years.	n/a
Overlake urban center	Rental—Mandatory 2 units (or sq ft) bonus: 1 unit (or sq ft) affordable @ 80% AMI, and 10% units affordable, for life of the project.	8-year tax exemption: 10% units affordable @ 60% AMI for life of the project.

Location	Land Use Program	MFTE / MFTE plus Land Use
	Rental-Voluntary 2.5 sq ft bonus (up to one additional story; max total 3.75 FAR): 1.0 sq ft affordable beyond the mandatory @ 80 AMI, for life of the project.	12-year tax exemption: 10% units affordable @ 65% AMI and 10% @ 85% AMI for life of the project.
	Ownership—Mandatory 2 units (or sq ft) bonus: 1 unit (or sq ft) affordable @ 80% AMI, and 10% units affordable, for 50 years.	n/a
	Ownership-Voluntary 2.5 sq ft bonus (up to one additional story; max total 3.75 FAR): 1.0 sq ft affordable beyond the mandatory @ 80 AMI, for 50 years.	n/a
MDD3 zone	Rental—Mandatory 0.09 FAR bonus: 10% units affordable @ 80% AMI for life of the project.	n/a
	Ownership—Mandatory 0.09 FAR bonus: 10% units affordable @ 80% AMI for 50 years.	n/a
Other MDD zones	Rental—Mandatory 10% units affordable @ 50% AMI for life of the project.	8-year tax exemption: 10% units affordable @ 50% AMI for life of the project. 12-year tax exemption: 10% units affordable @ 60% AMI and 10% @ 80% AMI for life of the project.
	Ownership—Mandatory 10% units affordable @ 70% AMI for 50 years.	n/a
SAMMAMISH	**55 units**	
Town Center	Rental & Ownership—Mandatory 10% units in base density affordable @ 80% AMI for 50 years.	n/a
	Rental & Ownership—Voluntary 3 units bonus: 1 unit affordable @ 80% AMI for 50 years.	n/a
WOODINVILLE		
Residential Targeted Areas A, B, and C	n/a	8-year tax exemption: Renovate and preserve facilities listed on the National Register of Historic Places, and/or Owner-occupied: 8% units affordable @ 50% AMI or 20% units affordable @ 80% AMI, for 50 years. Renter-occupied: 12% units affordable @ 50% AMI or 20% units affordable @ 70% AMI, for life of the project.

[i] Excludes about 220 units created under other programs before 2003.
[ii] Eighty-four (84) units created under previous versions of the MFTE program.
[iii] Chapter 12.07 BMC and BMC 12.64.103(B)(3).
[iv] Chapter 12.07 BMC and BMC 12.64.105(B)(4).
[v] Chapter 12.07 BMC and BMC 12.64.104(B)(4).
[vi] In addition to these programs, Issaquah's zoning code requires all development agreements to include affordable housing (creating approximately 400 affordable units to date).
[vii] IMC 18.21.070.C.
[viii] IMC 18.21.070.B.
[ix] IMC 18.21.070.A.
[x] Excludes 56 units created by previous version of the MFTE program.
[xi] Chapters 18.77 and 18.80 KMC, and KMC 18.23.040.
[xii] Chapters 18.77 and 18.80 KMC, and KMC 18.21.050, 18.24.040, 18.25.040, 18.25A.060, 18.25B.040, and 18.26.070.
[xiii] Chapters 18.77 and 18.80 KMC, and KMC 18.22.020.
[xiv] Excludes about 28 units created through other programs before 2010.
[xv] Excludes about 11 units created through other programs before 2005.

Attachment 5: Seattle Affordable Housing Program Data

The following table summarizes recent affordable housing production in the city of Seattle. ARCH staff collected and analyzed the data from Seattle and King County sources. Projects developed for 100% affordable units have been excluded. The City of Seattle has not reviewed the data for accuracy.

"MHA" refers to the city's Mandatory Housing Affordability program, a form of (mandatory) inclusionary zoning implemented beginning in 2017 and across the city by 2019. It requires nearly all new multifamily and commercial development to include affordable homes on site ("performance") or payment to a city fund used for the preservation and production of low-income housing ("payment"). Set-asides vary from 5 percent to 10.6 percent, depending on the zoning district. Affordability levels, regardless of zone, are 40% AMI for apartments smaller than 400 square feet and 60% AMI for larger units. Affordable housing created for MHA ("MHA units") must remain affordable for the life of the project.

Seattle's MFTE program is independent of the MHA program; that is, MHA units do not qualify projects for MFTE. To qualify for MFTE, properties must set-aside additional affordable units ("MFTE units") – 20 percent of the total. Seattle offers the 12-year tax exemption and a 12-year extension, and MFTE units are affordable only for 12 years without the extension (24 years with the extension). The city has revised its MFTE program five times. Affordability levels for "Program 6" vary by unit type, from 40% AMI to 90% AMI.

Because affordable units in Seattle's zoning and MFTE programs are separate, projects using both programs would have higher set-asides compared to Kirkland when projects choose to use both programs ("MHA + MFTE"). Seattle permitted one exception to the above, in which MHA units also qualified the project for MFTE, indicated in the table as "MHA/MFTE."

The table includes MHA projects completed by the end of 2022 and all MFTE–Program 6 projects approved through April 2022.

Program	Projects	Total Units	40% AMI	60% AMI	70% AMI	85% AMI	Pct Affordable
MHA only	4	159	9	4	0	0	8%
MFTE only	16	2,447	27	111	260	75	20%
MHA + MFTE	4	828	4	122	79	19	27%
MHA/ MFTE	1	60	4	0	0	0	7%
Totals	**25**	**3,494**	**44**	**237**	**339**	**94**	**20%**

In 2021 – 2022, the city issued building permits for 578 projects subject to MHA. Twenty-eight (28), or about 5 percent of those chose the performance option, the remainder choosing the payment option.

Attachment 6: Selected programs from the United States

<table>
<tr><th>Program</th><th>Description</th></tr>
<tr><td>Durham, NC: Affordable Housing Bonus</td><td>Citywide density bonus offered in exchange for 15% affordable housing at 60% of AMI.</td></tr>
<tr><td>California State Density Bonus</td><td>Density increases of up to 50% in exchange for affordable housing onsite. Options include:
15% at 50% of AMI
20% at 80% of AMI
There is no comprehensive source for production data yet, but the program is being used widely throughout the state.</td></tr>
<tr><td>Stamford, CT: Below Market Rate Program</td><td>Generally requires 10% of rental units affordable 50% of AMI, but in their transit-oriented development area the requirement is 12% at 50% of AMI.

1,100 affordable units produced as of 2022.</td></tr>
<tr><td>Arlington, VA: Columbia Pike revitalization district</td><td>Comprehensive upzoning around suburban transit node requiring 20% affordable units at 80% of AMI.</td></tr>
<tr><td>Portland, OR: Inclusionary Housing Central city and Gateway Districts</td><td>Citywide Inclusionary ordinance includes higher requirements in transit rich areas. Options:
10% at 60% of AMI
20% at 80% of AMI
Policy has produced 1,313 affordable units in 192 projects in 4 years.</td></tr>
<tr><td>Fairfax County, VA: Tysons Corner TOD</td><td>Suburban transit-oriented development master plan offered significant upzoning in and required affordable units. Options:
10% at 60% of AMI
13% at 80% of AMI
Projected: 1,680 affordable units – hundreds currently under construction.</td></tr>
<tr><td>Los Angeles, CA: Transit-Oriented Communities Policy</td><td>Offers density bonuses in neighborhoods surrounding transit stops. The affordable housing requirements differ by zone. In the middle tier projects can choose between:
10% at 30% of AMI
14% at 50% of AMI
23% at 80% of AMI
Since 2018 the city has approved 29,000 units of housing under the program including 6,380 affordable housing units (22%). Of these, 75% of projects chose the option to provide units below 50% of AMI.</td></tr>
</table>

Source: Street Level Advisors.

ATTACHMENT 7: Independent Research

… Thaden and Wang (2017)

Figure 8: Number of Inclusionary Housing Programs with a Minimum Percentage of Units in a New Development that are Required to Be Affordable by the Percentage (n = 153)

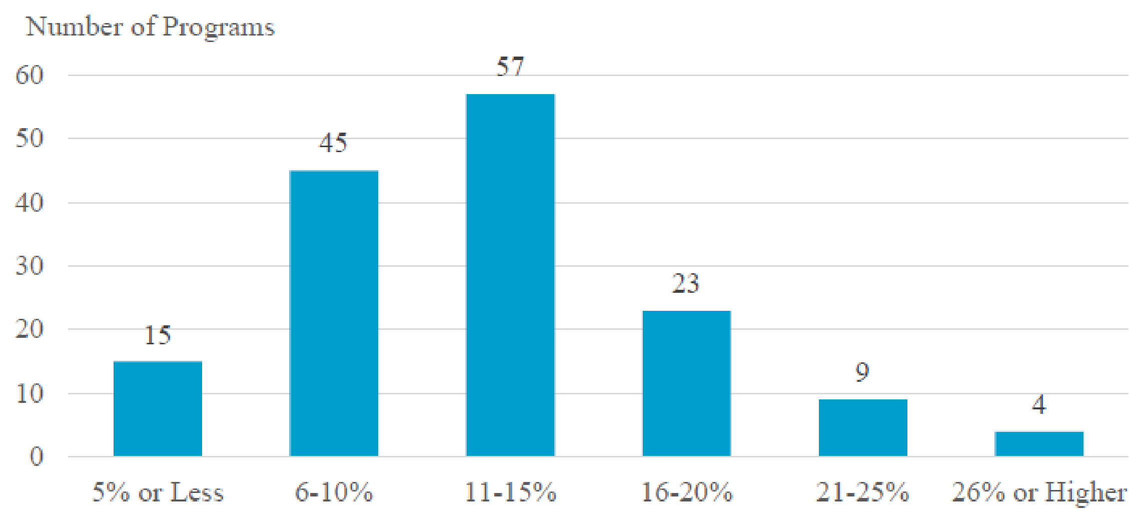
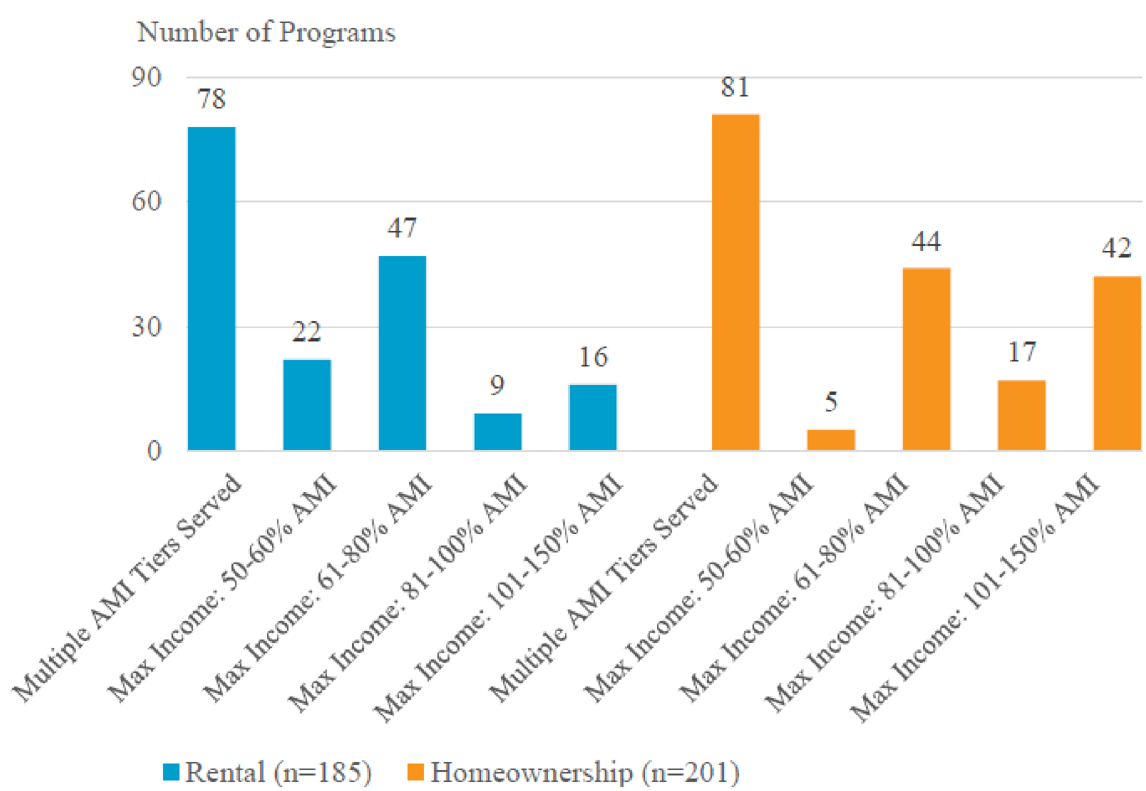


Figure 9: Number of Inclusionary Housing Programs by Income Level Served



Peer-reviewed Academic Literature:

Wang and Fu. 2022. Examining the Effects of Policy Design on Affordable Unit Production under Inclusionary Housing Programs. JAPA.

Websites:

Inclusionary Housing | Grounded Solutions Network

Other Papers and Articles:

Mock, et al. 2023. Can Inclusionary Zoning Be an Effective Housing Policy in Greater Boston? Evidence from Lynn and Revere. Harvard Kennedy School Faculty Research Working Papers.

Wang and Balachandran. 2021. Inclusionary Housing in the United States: Prevalence, Practices, and Production in Local Jurisdictions as of 2019. Grounded Solutions Network.