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Developers Use Innovative Strategies to Deliver Affordable Housing.

As Seattle and the region search for ways to produce and retain affordable housing, these four developments backed by private capital are examples of different strategies that have worked.

James Lacey and Emily Perchlik kept coming up short in their hunt for a modern Seattle apartment they could afford.

Finally, three months before their daughter Willow was born, the couple in May landed one of the 36 below-market apartments at Anthem on 12th, one of three new projects on Yesler Terraceby Seattle-based Spectrum Development Solutions.

The couple pays about $1,545 a month for their 847-square-foot, two-bedroom unit, about $750 less than a similar market-rate unit at Anthem.

"It allows us to save up for a down payment," Lacey said.

While the Seattle area is witnessing a historic boom in the construction of expensive, luxury apartments, four local projects show private developers are using innovative strategies to deliver housing that's affordable to low-income or middle-class households.

Last year, Seattle Mayor Ed Murray set a goal of 20,000 new affordable units over the next decade, with the private sector tasked with producing much of it.

Hal Ferris, who founded Spectrum in 2008 and is a national affordable-housing leader, is realistic about what his eight-person firm can achieve.

"I don't think we alone are going to be able to solve the problem," said Ferris, 59. "What Spectrum can do is show others how to do it."

Other local projects like Imagine Housing's Velocity show how low-income housing can be integrated with market-rate apartments and mass transit. Smaller-scale projects such as Green Canopy's Triplets in the Delridge area and Capitol Hill Urban Cohousing point to ways in which housing for the middle class might be preserved or created in Seattle.

What unites them is the developers' success in scoring cheap capital, whether from competitive tax-credit awards, foreign investors or friends and family, to achieve their vision.

Housing shortage

Like other metros nationwide, Seattle is suffering from a shortage of affordable housing. Not just the poor, but those on higher incomes like teachers, medical assistants and food-service workers are challenged to find housing that's affordable.

According to Harvard University's Joint Center on Housing Studies, nearly two-thirds of Seattle-area renters earning between $30,000 and $45,000 in 2014 spent more than 30 percent of their income on housing, a threshold that's widely considered the point at which housing becomes unaffordable. The same was true for almost one in six earning $45,000 or more.

From early 2014 to the end of last year, the average per-square-foot rent in King and Snohomish counties has climbed nearly 20 percent, according to data from Apartment Insights Washington, a market-research firm. To be sure, that figure is skewed by new properties like downtown Seattle high-rises like Cirrus, which charges about $3,000 a month for a one-bedroom apartment, but even older properties have raised their rents in the face of insatiable demand for urban digs.

All developers of affordable housing face some common hurdles. Among them: high land and construction costs, rigid lenders and a long trek through different bureaucracies, not to mention neighborhoods that may be resistant to denser development and housing associated with the poor.

The conventional wisdom is that because of those high costs, "You can't build a property for a middle-class renter," said Jay Parsons, director of analytics for Texas-based MPF Research. "Any new apartment is a luxury property — it's just a question of how luxurious it's going to be."

But some developers are doing what they can to defy that thinking.

A trifecta on Yesler Terrace

Spectrum opened Anthem, the first of three apartment projects on First Hill within walking distance of each other, last May. The 120-unit Anthem, at 103 12th Avenue, was the first private development in the Seattle Housing Authority's revamp of Yesler Terrace.

Anthem has a bike-share station and is located on the new streetcar line, giving residents a convenient ride into downtown.

"It's great for me to see her in the middle of the day and not have an hour of transit time," said Perchlik, who works at an architecture firm. Lacey, a stay-at-home dad, said the couple wanted to avoid paying for child care.

Spectrum expects to complete the 75-unit Decibel in June and an 85-unit project, Reverb, in September. Renters in the three projects will share amenities, such as Anthem's bike-share stations, Reverb's rooftop clubhouse and Decibel's open-space community hall — a split-site design that means each project can offer more affordable apartments.

Tax breaks for projects

Seventy of the 280 new units are reserved for households earning between 65 percent and 85 percent of area median income (which was $62,800 for a single person and $89,600 for a family of four in Seattle last year).

That's because all three projects will receive a tax break under the city's multifamily tax-exemption program, which the City Council recently approved expanding to all multifamily zones.

Anthem itself is expected to remain affordable for longer than the 12-year tax break: Under its deal with the Housing Authority, Spectrum committed to keeping 25 percent of Anthem's units affordable for 20 years.

But for the capital to build the project, the developer relied on private equity investors — though these can be hard to find for such projects — and not public money. The main investor in Anthem, Decibel and Reverb is Canada's Gracorp Capital in Calgary.

Gabriel Grant, one of Spectrum's three principals, says he gives investors a strong business rationale for building projects that aren't aimed solely at the high-end tenant: Apartments with a wider spectrum of renter incomes tend to have more stable cash flow and will do well when the economy slides into the next recession.

While Spectrum uses the tax-exemption program like other developers, "we're exploring new tools and new ways that allow us to increase the level of affordability in our projects and scale it in a way that's going to be successful in the long term," says Jake McKinstry, another Spectrum principal.

For instance, Spectrum is tapping historic-preservation tax credits to support 125 affordable units opening later this year at the Publix Hotel redevelopment in the International District.

And in the near future, Spectrum plans to use low-income housing tax credits to support a project that can accommodate those making up to 40 percent of median income — and for inspiration, the firm points to Velocity, a Kirkland project.

Kirkland's Velocity

In the summer of 2014, Imagine Housing opened Velocity, a 58-unit apartment building at the South Kirkland Park-and-Ride and a short walk from Lake Washington Boulevard. The units are restricted to households making no more than 60 percent of area median income — currently $37,680 for a single person or $53,760 for a family of four.

The award-winning housing project has an exercise room, wireless Internet access in common areas and a rooftop garden and community room. Imagine has 400 families on the waitlist to move in.

"If I could, I would do this over and over," said Sibyl Glasby, director of housing development at Imagine Housing. "It's a great way to bring private investment into affordable housing."

The project got its start after for-profit developer Polygon Northwest won a competition held by King County and the city of Kirkland to develop next to the park-and-ride lot. As part of its Kirkland Crossing transit-oriented development, Polygon was required to work with a nonprofit partner to build affordable housing units on the site.

The deal produced more affordable housing units than typically required: Out of 243 units in two separate apartment buildings, 61 are income-restricted, or one-quarter of the total units, Glasby said.

The nonprofit was able to combine $11 million in low-income housing tax credits, the chief source of equity for affordable housing nationwide, with $4 million in public funds.

It's hard to build an equal number of income-restricted and market-rate housing units in one development because financing sources for each have different requirements.

Velocity's secret: While it shares the parking-garage podium with Polygon's apartments, it's a separate legal entity as a commercial condominium, Glasby said.

All of the units in Imagine's apartment building are income-restricted and will remain that way for at least 50 years, according to Imagine.

Another aspect of affordability at Velocity: Having frequent bus service next to the apartments means residents don’t need cars, Glasby said. Of the 44 parking spaces at Velocity, only 35 are used.

“Transportation costs are the second highest expense after housing,” she said. “You have more money to spend if you can get rid of your car.”

Renovation project

Rehabilitating old homes can create more affordable housing too.

Green Canopy, a for-profit builder on a mission “to inspire resource efficiency in residential markets,” saved two out of three Southwest Seattle houses built in the 1920s from being torn down. (The foundation on the third was cracked, so a new home was built in its likeness.)

Known as The Triplets, they are three-bedroom, two-bath houses ranging from 1,300 to 1,600 square feet on large lots.

The company bought the houses in 2012, remodeled them and sold each for less than $400,000 in the summer of 2013, when the median price of homes in the city was about $460,000. Green Canopy dubbed the houses Clara, Zelda and Louise after three women who helped define the 1920s flapper era.

The homes, located along 24th Avenue Southwest, have retained their original exterior charm. At the rear of the each home, Green Canopy added a “great room” with 11-foot ceilings that connects living, dining and kitchen space with the backyard.

The homes are expected to use up to 50 percent less energy than before.

“Sustainability and affordable homeownership go hand in hand,” said Aaron Fairchild, Green Canopy’s chief executive. “It’s not just, ‘Can you make the monthly payment?’ ”

To finance the purchase and remodel, Green Canopy received a low-interest rate loan from the Washington State Housing Finance Commission, which administers a sustainable energy trust fund.

Also through the low-interest program, Green Canopy recently built a cluster of six energy-efficient single-family homes also in Seattle’s Delridge neighborhood.

Without the commission’s energy program, Fairchild said, “there’s just no way we could bring homes to market that are as affordable as they are.”

Danish model

Later this month, nine families will move into a new five-story apartment building that promises long-term affordability in one of Seattle’s priciest neighborhoods, Capitol Hill. The concept, patterned after a Danish housing model, is for households to own shares in a community and rent units to themselves.

The group never expected it would take six years to realize its vision for a multigenerational community, said Grace Kim, one of the project’s founders, who happens to chair the Seattle Planning Commission. The group had to overcome legal and financial hurdles to create something new.

“We didn’t set out to be a pioneer in this way, but we are doing something very unconventional,” she said.

Cohousing plan

In 2008, Kim and two others paid $975,000 for a 4,520-square-foot lot at 1720 12th Ave., a block from Cal Anderson Park and short walk from the light-rail station. Kim and her husband, Michael Mariano, began holding open houses to see if anyone else might be interested in pooling funds to launch a cohousing project.

“We’re collectively making the decision to live together in a very collaborative way so our children have the chance to live in a multigenerational community in the heart of the city with a pretty good quality of life, and that’s not something any other multifamily project is striving for,” Kim said.

Members deposited about $30,000 each to a partnership to reserve a unit. If and when they decide to leave the cohousing project, they won’t be able to reap huge equity gains from selling their partnership stake: They will only receive their initial membership deposit plus a small amount of interest.

“The intention is for there to be income and social diversity,” Kim said.

Capitol Hill Urban Cohousing, as it’s called, cost a total of $5.5 million to develop.

“We will start out at market-rate rents,” Kim said, “but we’re hoping over 10, 20, 30 years that will become a pretty moderate living expense.”

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