An Analysis of Historic Preservation and Affordable Housing Incentives in Seattle's Chinatown - International District

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Abstract

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This thesis investigates the financial, social and political impacts of the historic preservation and affordable housing incentives that are available to historically significant buildings in the Chinatown - International District of Seattle. The research aims to provide insight as to the effectiveness of these incentives in achieving the goal of rehabilitating buildings and providing affordable housing, while meeting the objectives of the current owners. Attention is given to the ownership structure of the subject buildings, with a particular focus on Chinese family associations.

This paper includes a detailed account of the neighborhood's complex social and political history, as well as a study of the evolution of its built form, as these continue to influence the neighborhood today. The research

was informed by a review of primary and secondary source material and by a series of confidential interviews with neighborhood property owners, city of Seattle employees, housing developers and a variety of community stakeholders.

One significant finding is that many incentives are undesirable to individual property owners, Chinese family associations and other forms of collective ownership entities. As such, they have a weakened impact on potential historic building rehabilitation. This gap in accessing these incentives is due to a combination of factors, including risk aversion, conflict with ownership goals, inflexible incentive guidelines and the significant policy-driven barrier of entry to access the incentives.

These issues are compounded by market forces that indicate that prevailing neighborhood rents often will not support non-subsidized rehabilitation projects. Meanwhile, appreciating costs and below-market rents are turning some of the under-used buildings into potential liabilities to their owners as costs begin to exceed rents.

This combination of factors should compel policy-makers to reconsider the current incentive structure and other public policies that influence the International District.

Table of Contents

List of Figures

DEDICATION

To Cecilia and Quinlan, whom this is for. And to Bo, without whom, this would not have been possible.

Part 1: Introduction

The historic core of the International District, located south of the central business district of Seattle, holds a special place in the history of North America as one of the few remaining assemblies of early 20th Century commercial and multifamily buildings, and has housed a continuously functioning pan-Asian community. Comparable neighborhoods in age of development, of varying scale, exist in San Francisco, Oakland, Portland, Vancouver and Victoria, BC. However, Seattle's International District uniquely encapsulates the complexities of racial discourse and interaction, past urban renewal efforts, economic development and the issues of urban infill development like no other neighborhood.

Related to the complexities above, the neighborhood features a building inventory that is either older, functionally obsolete, underutilized or leased for rents that are below a sustainable level. Varying levels of public initiatives and market forces have continued to shape the neighborhood to the current day. Once-in-a-lifetime public infrastructure investments have been made in the last several decades, including the Metro Transit Tunnel on the western boundary, two major sports stadiums on the southwest border, and Interstate 5 bisecting the neighborhood along a north-south axis. Projects actively being planned include the Yesler Terrace public housing redevelopment to the northeast and the Jackson-First Hill Street Car traversing the neighborhood on the east-west axis. Given that many of the previous projects, and social issues, have had a negative influence on the neighborhood, the real estate market has been largely depressed and has performed below expectations.

Recent public policy has attempted to address the myriad issues related to affordable housing and historic preservation that have affected the neighborhood, and generally with mixed results. These efforts have included providing low-interest loans to rehabilitation efforts that include affordable housing, creation of a preservation and development authority and public outreach, to name a few. This research is an attempt to analyze, and quantify where possible, the impact of the incentive programs that have the prescribed goal of providing incentives for either preservation of the existing buildings as either historic, and/or affordable housing. Necessary to this research is

THE CURRENT INCENTIVE STRUCTURES DO NOT ALIGN WELL WITH THE OWNERS' SOCIAL AND INVESTMENT OBJECTIVES.

an exploration of the different ownership models in the neighborhood, from the traditional multiparty ownership often represented by Chinese family associations, non-profit affordable housing providers, to private, single entity owners.

At best, the results of the incentives are mixed, and at worst, counter-productive. Despite the mixed outcome, the reader may gain from the reading tools to assist in analyzing the suitability of the various incentives and potential ownership structures that are possible in the neighborhood. It is the goal that this will, in turn, result in an improved built environment in the International District that meets the needs and goals of the plurality of the community.

Methods

The methods used to complete the research were varied and relied upon a combination of sources, depending on the subject matter discussed. The neighborhood history and context was largely based upon a thorough literature review of applicable academic materials, while influenced by the first hand interviews conducted with property owners and community stakeholders. The sections related to legal guidelines and design review relied upon existing publications from the City of Seattle, among other sources, and again, were influenced by first hand interviews.

The material related to the function and intended use of the incentives available was based upon existing literature and publicly available resources. However, confidential interviews were conducted with a select number of property owners and stakeholders to determine the applicability and actual use of these incentives and programs. These interviews were confidential due to the sensitive nature of the financial disclosures, term negotiations and social consequences of the resulting decisions. The interviews covered a range of participants, including members of Chinese family associations, private property owners, non-profit housing developers, private housing developers, community based volunteer organizations, architects, land use attorneys, title insurance representatives, and employees of the City of Seattle's Office of Housing, Department of Neighborhoods and Department of Planning and Development.

In total, 19 people were interviewed for the purposes of this research. This included six property owners, representing management and ownership of ten properties with differing ownership structures. Three City of Seattle employees with key roles in the neighborhood were consulted. Professionals with expertise both in the neighborhood as well as the relevant subject matter included two land use attorney, a title insurance representative, an architect and a non profit housing developer. Three members, representing two community organizations were interviewed as well. Some field research was conducted in Vancouver, Canada with the assistance of a former City of Vancouver planner and a professor from the University of British Columbia. Finally, the author of this research assisted in facilitating a community workshop co-sponsored by 4Culture and the Seattle Chinatown International District Preservation and Development Authority (SCIDPDA), as additional outreach that was attended by property owners in the neighborhood.

These interviews, coupled with the academic research, informed the pro formas that were created to gauge the financial viability of potential rehabilitation projects in the International District. From the pro formas, interviews, and literature review; conclusions were drawn as to the suitability and impact of the current incentive structure, as well as the recommendations for policy improvements.

Part 2: Neighborhood History and Interest Groups

The first Asians to arrive in large numbers in Seattle were male Chinese laborers in the 1870s, working largely as cannery and railroad workers. Immigration remained limited throughout the rest of the 19th Century, with a population of only 1,200 Chinese immigrants by 1890. The first substantially built Chinese settlement was centered in the vicinity of 2nd Avenue and Washington Street in downtown Seattle. The Sanborn Fire Insurance maps in Figure 3 and Figure 4 show the growing influence of the Chinese population in that area. Close examination of the maps show that Chinese-owned businesses, predominantly laundry services, were specifically highlighted on the maps.

One building remains today as evidence of the former location of the Chinese settlement, located at 208-210 S Washington St. It was built by Chin Gee Hee in 1889 as one of the first brick structures following the Great Seattle Fire of 1889. Chin Gee Hee was the owner of the Quong Tuck Company, which was a large labor and material supplier.[1]

The 40 block area that is now the International District did not become recognized as largely Asian until the 1910s.

1 Seattle Neighborhoods: Chinatown International District, *http://historylink.org/index.cfm?DisplayPage=output.cfm&file_id=1058* (Accessed June 4, 2012), archived at *http://www.webcitation.org/68CIMME8H* on June 5, 2012.

Figure 1. 2nd and Washington, 1906
Museum of History and Industry

Figure 2. Canton Building, present day
A historic photo can be found in Figure 16. *Image source: http://commons.wikimedia.org/wiki/User:Jmabel*

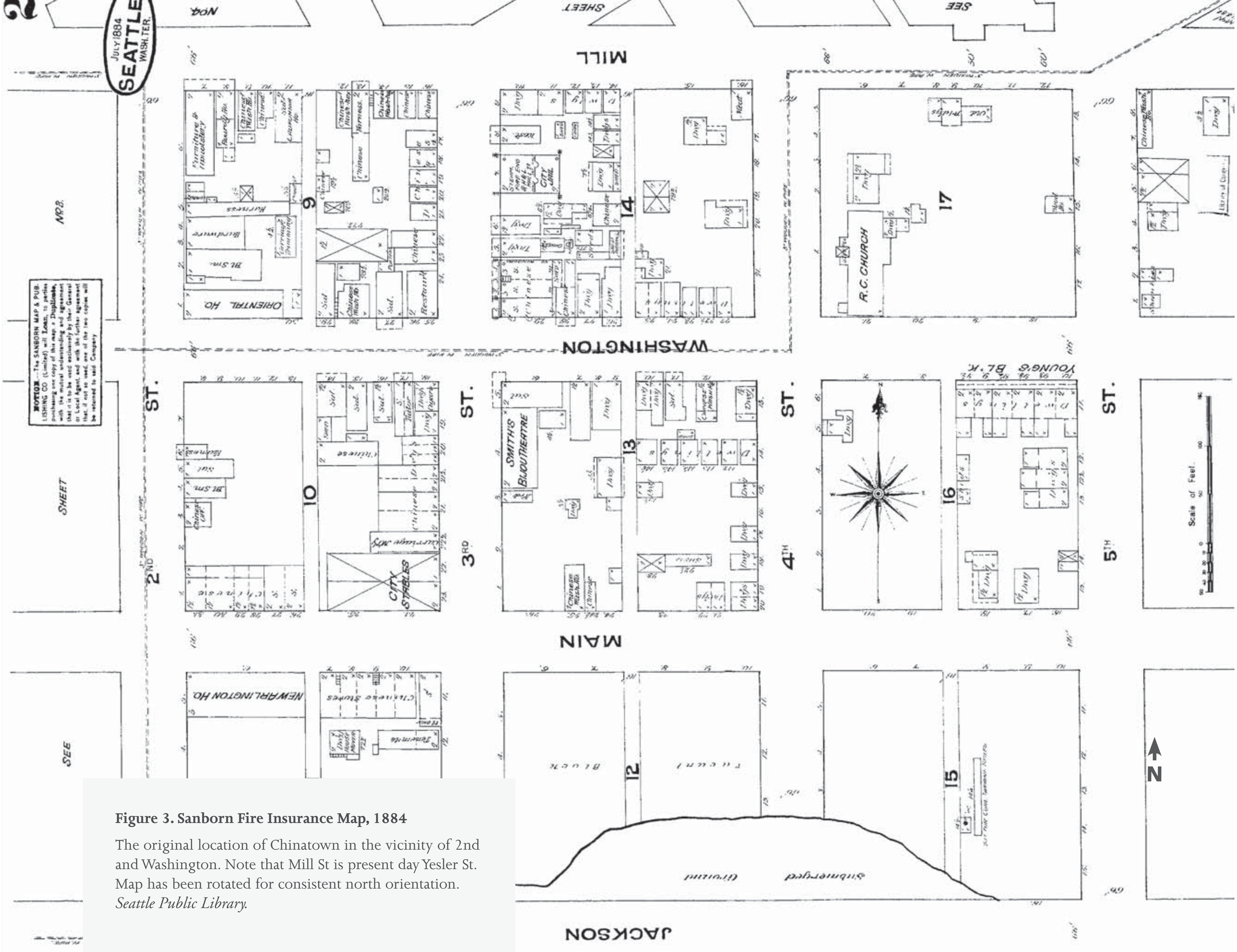


Figure 3. Sanborn Fire Insurance Map, 1884

The original location of Chinatown in the vicinity of 2nd and Washington. Note that Mill St is present day Yesler St. Map has been rotated for consistent north orientation. *Seattle Public Library.*

Figure 4. Sanborn Fire Insurance Map, 1888

Significant growth can be seen within these five years. *Seattle Public Library.*

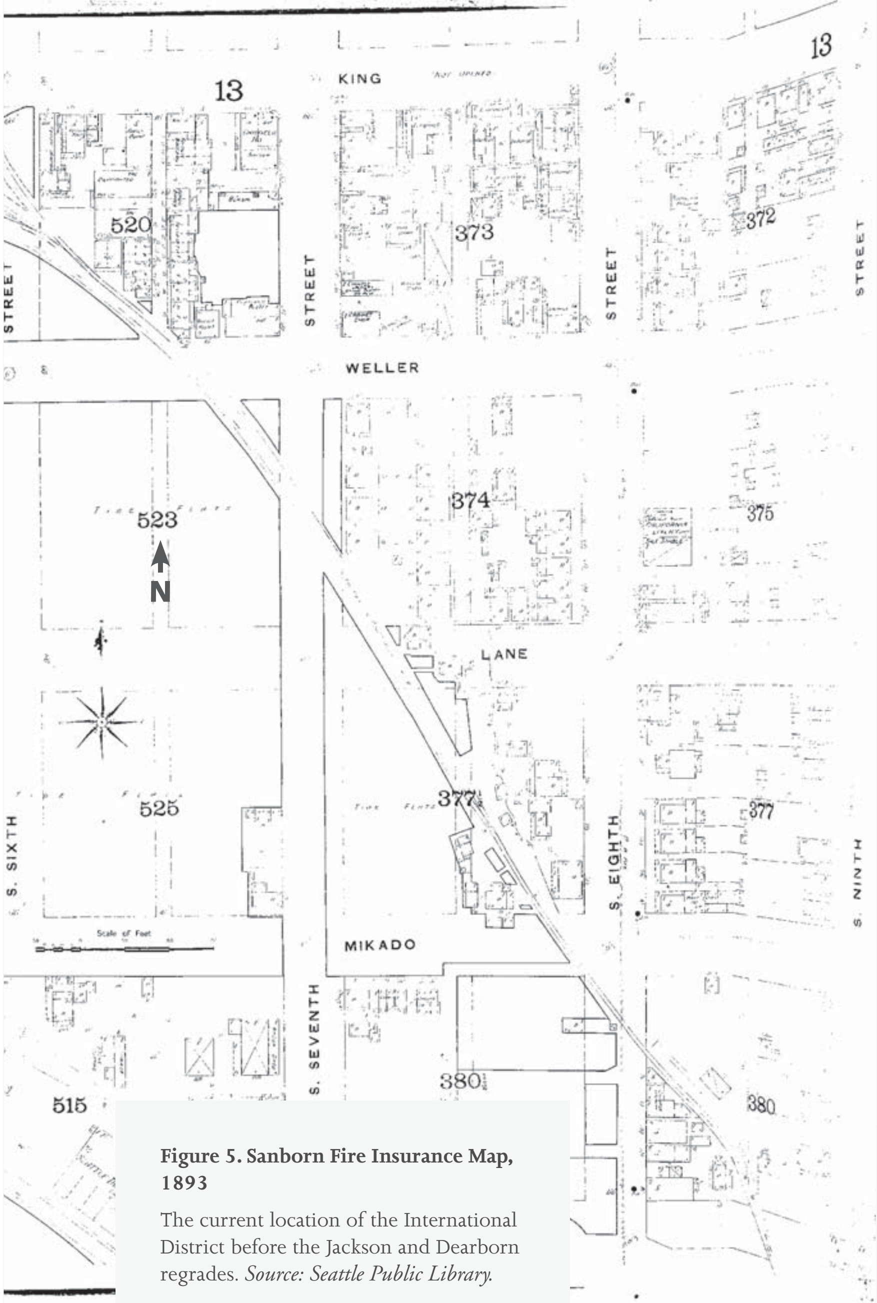


Figure 5. Sanborn Fire Insurance Map, 1893

The current location of the International District before the Jackson and Dearborn regrades. *Source: Seattle Public Library.*

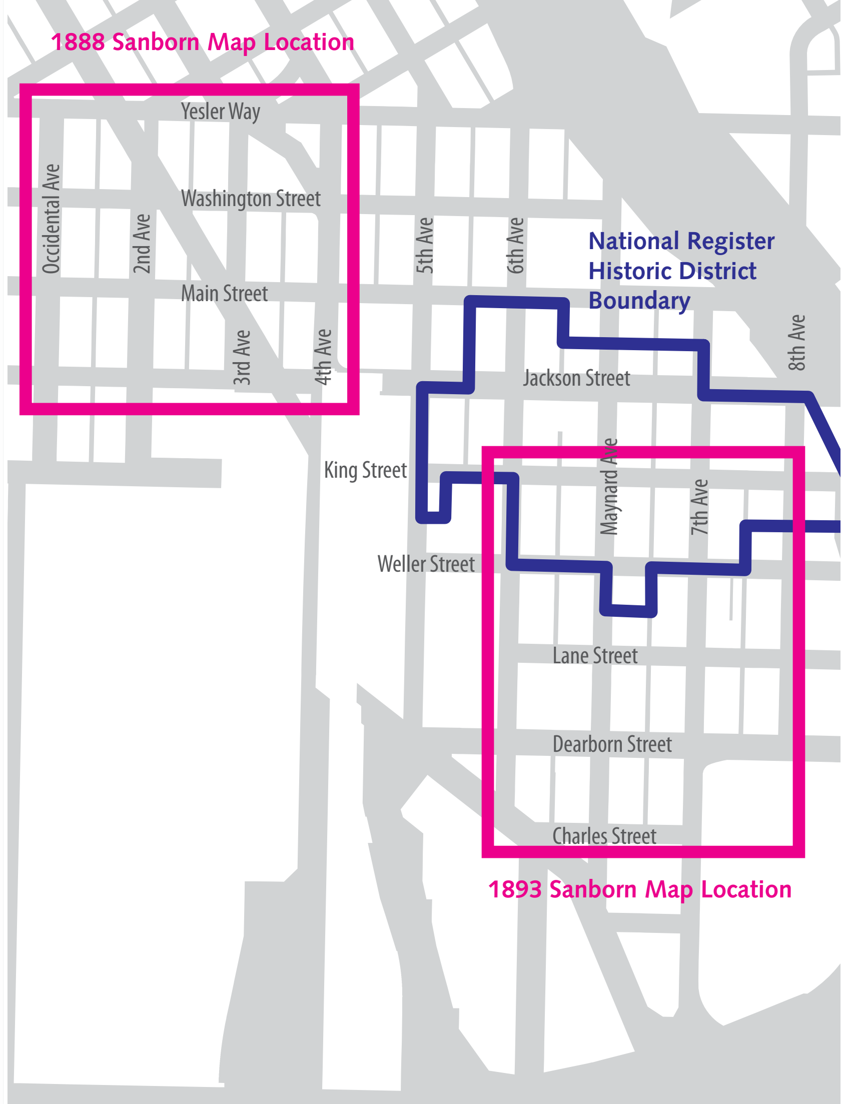


Figure 6. Old Chinatown Location

Shows the location of the 1888 Sanborn map, depicting the old Chinatown, as compared to the location of the 1893 Sanborn map and its depiction of the location of the newer Chinatown.

Figure 7. International District Aerial Photo, 1907

View East on S King St, from 4th Ave S, before the Jackson and Dearborn regrades in 1907–1909. The prominent steepled building is Holy Names Academy at its former location, before it was physically moved for the regrade. The Buty Building, constructed in 1901, with the turret, in the lower left corner is the one of only three remaining buildings, and has been altered. The 2nd remaining building is the Havana Hotel from 1900 at 640 S Jackson St, which is the 2nd building seen on the north side of Jackson St, and is now altered as well. The 3rd remaining building, the South Main School Annex, does not fit in the frame of this picture. *University of Washington Special Collections.*

Figure 8. Jackson and Dearborn regrade, 1908

University of Washington Special Collections.

The relocation of Chinese, Japanese, and other residents from the overcrowded intersection of 2nd Avenue and Washington Street, where Chinese merchants had clustered, coincided with the completion of the re-grade of Jackson and Dearborn Street, begun in 1907, and completed by 1909.[2] This large city engineering project sluiced soil from the steep hill along what is now the approximate location of the elevated section of I-5 between First Hill and Beacon Hill between 8th Ave S and 10th Ave S. The regrade filled in the tide flats south of Downtown, reclaiming what is now the southern industrial

2 Chin, Doug. 2001. Seattle's International District: the making of a Pan-Asian American community. Seattle, Wash: International Examiner Press, 40.

area of the city and reduced the grade of parts of the present-day International District.

The final two decades of the 19th Century saw a sharp decline in Chinese immigration to Seattle. This decline was a result both of legislative action through the Chinese Exclusion Act of 1882, and of mob violence that forced many of the city's Chinese to Portland, Oregon and San Francisco. However, by 1896, the city's attitude towards Asian migration had softened. Civic leaders wished to make Seattle a cosmopolitan city, and saw Asian influence as key to this image, in particular Japanese immigration. This cosmopolitan viewpoint coincided with the end of the Spanish-American War, and as a result, the Asian population in the area soared, led primarily by Japanese and Filipino migrants.[3] However, Chinese immigration stagnated, due to the Chinese Exclusion Act. Although some classes of migrants, such as merchants, were still allowed to immigrate. This created the unusual circumstance of Chinese merchants being at the top of the social strata in North American Chinatowns (Canada had enacted a nearly identical Chinese exclusion law), as opposed to the bottom as they were in China.[4]

3 Lee, Shelley Sang-Hee. 2010. Claiming the Oriental Gateway: Prewar Seattle and Japanese America. Temple University Press, 25.

4 Yip, Christopher L. 1995. "Association, Residence, and Shop: An Appropriation of Commercial Blocks in North American Chinatowns". *Perspectives in Vernacular Architecture.* 5: 111.

Figure 9. Kong Yick Buildings, 1920

The Kong Yick Buildings at 7th and King. *University of Washington Special Collections.*

Between 1910 and 1925, a number of buildings were purchased or developed by Chinese investors and family associations in the vicinity of King Street. The Chinese largely ignored the banks, and the banks ignored the Chinese. Due to this circumstance, capital was pooled within the community, usually along clan lines, to finance the acquisitions and development. Key buildings included the Kong Yick buildings, the first Chinese owned building in the new Chinatown, which housed the original location of

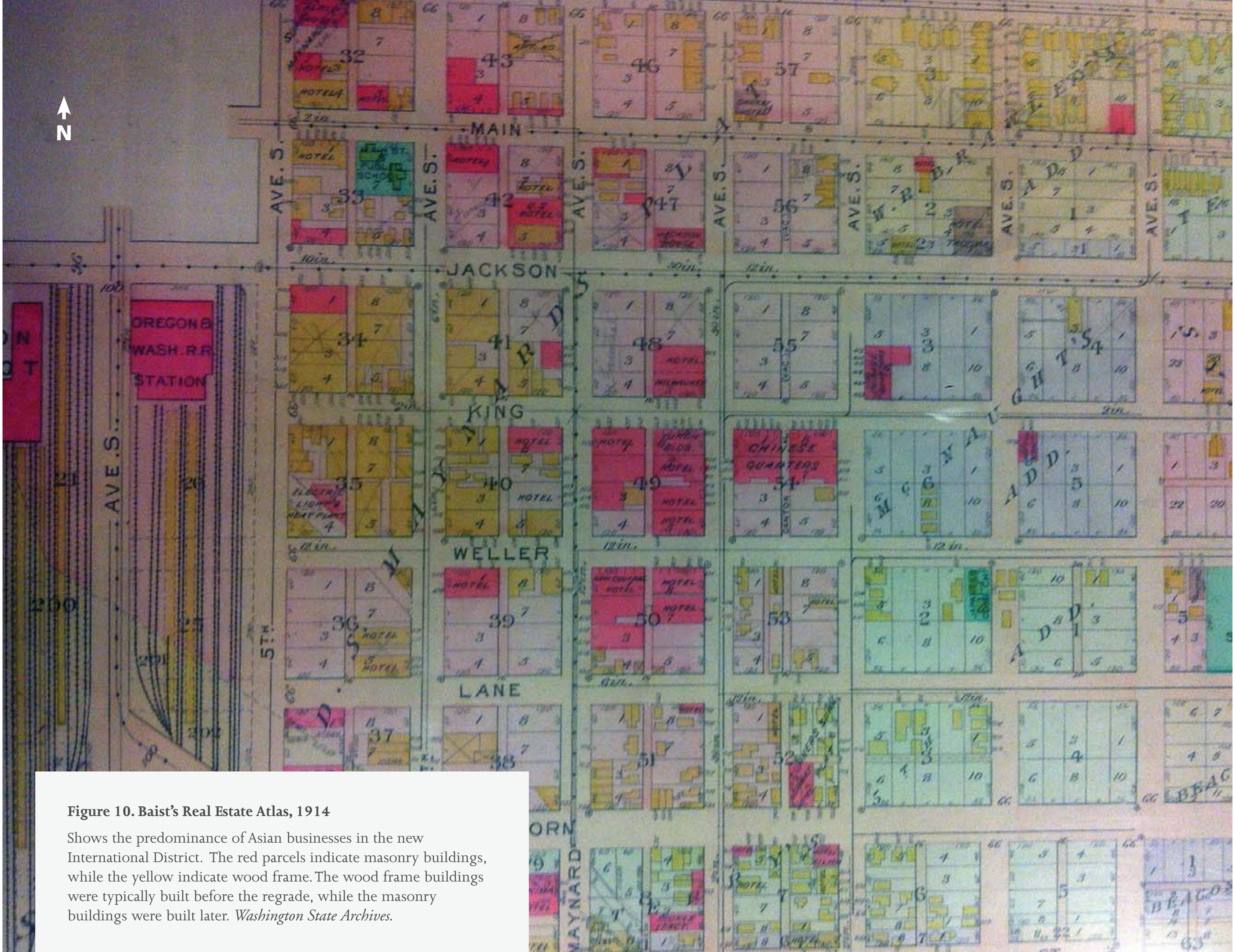


Figure 10. Baist's Real Estate Atlas, 1914

Shows the predominance of Asian businesses in the new International District. The red parcels indicate masonry buildings, while the yellow indicate wood frame. The wood frame buildings were typically built before the regrade, while the masonry buildings were built later. *Washington State Archives.*

the Gee How Oak Tin Family Association, and a number of businesses that became the first Chinese businesses on King Street. The Kong Yick buildings were followed by others in the immediate vicinity, such as the Milwaukee Hotel built by Goon Dip in 1911, the Eastern Hotel in 1911, Bing Kung Tong in 1916 and the Republic Hotel in 1920.[5]

By 1925, the former Chinese settlement at 2nd and Washington, was largely void of Chinese influence. King Street had become the new center of activity for the Chinese community. This area ran adjacent to the Japanese settlement to the north, Nihonmachi, which occupied the area between 2nd Ave S and 12th Ave S, along Jackson, Main, Washington and Yesler[6].

From the 1920s through the beginning of World War Two, the neighborhood grew to be among the most diverse in North America. In this time, Filipinos moved in large numbers. Chinese and Japanese continued to immigrate to the neighborhood, despite exclusionary immigration laws. The neighborhood also became a center of African American culture, with a number of jazz clubs opened along Jackson Street.

5 Chin, Doug. 2001. Seattle's International District: the making of a Pan-Asian American community. Seattle, Wash: International Examiner Press, 43.

6 Ibid., 42.

Figure 11. Interstate 5 construction, 1966

The new freeway under construction, bisecting the International District. *Source: University of Washington Special Collections.*

The neighborhood experienced a precipitous decline during WWII, as a result of the Japanese Incarceration initiated in 1942. Many Japanese never returned from the internment camps in Idaho and Eastern Washington after the end of the war, but rather opted to move to the suburbs or other cities. By this time, the neighborhood was viewed by 2nd and 3rd generation as an important social place, but no longer a place to live. It retained its importance as a source of identity for Asian Americans in the region, and this remains true for many today.[7]

The community was then served another setback at the hands of public policy by the construction of I-5 that cut the neighborhood in two, a physical divide that has not been bridged. Coupled with the freeway construction that resulted in the demolition of a number of single room occupancy (SRO), or workingman, hotels—many of which were owned by Chinese family associations—the Ozark ordinance of 1970 mandated specific life safety improvements to apartment buildings that were deemed too expensive to implement by many owners. The ordinance was the result of the Ozark Hotel (located at 2038 Westlake Ave in the Denny Triangle) arson fire that caused 21 deaths.

Due to the cost associated with either installing sprinkler systems, or adding fire-resistant doors and stairways, many SROs in the International District, and throughout the rest of Downtown, were forced to close. At the time, SROs were considered substandard housing, and thus were not eligible for any subsidy or other form of public assistance to comply with the new fire and building codes of 1970 and 1972.[8]

However, despite the often hostile public policy, the area has succeeded in growing to become the only pan-Asian community in North America. The significant presence of Chinese, Japanese, Vietnamese, Filipino, and other Asian immigrant groups is a truly unique development.

Given the cultural legacy of the neighborhood, the economic base of the community has largely been businesses that cater to the needs of the Asian population. These include groceries, Asian language professional services, predominantly Asian retirement centers, Asian community organizations and other businesses that have made the International District a largely autonomous neighborhood within Seattle. The recent construction of Qwest and Safeco Fields, the Link Light Rail and some encroachment from Downtown businesses—such as the Vulcan buildings at 500 Union Station—have, thus far, had a gradual impact on the general neighborhood by making the neighborhood both a crossroads in the city for transportation and sports entertainment and a new center for employment on its western boundary.

7 Hou, Jeffrey and Amy Tanner. 2002. Constructed Identities and Contested Space in Seattle's Chinatown International District. Groundwork: CELA 2002 Conference Proceedings. Council of Educators in Landscape Architecture Conference. SUNY, Syracuse, New York. September 25-27, 2002.

8 Historic Seattle website. *http://www.historicseattle.org/preservationseattle/publicpolicy/defaultoct.htm*. (accessed March 15, 2012), archived at http://www.webcitation.org/68CNyK53q on June 5, 2012.

Key Neighborhood Stakeholders

Chinese Community and Family Associations

Much of the prior history mentioned above is about the Chinese community specifically, and thus will not be repeated here. Rather, there will be focus given to how the Chinese community is organized. The Chinese remain the largest ethnic group in the International District, in terms of business owners and residents.

The traditional organization of the Chinese community had been based upon family associations, *huiguan*, tongs and guilds. Chinese immigration can be best visualized as "chain" immigration, from a specific point in China (in Seattle, almost entirely from within Guangdong Province), to a North American city. Thus, the Chinese in Seattle were from a limited number of points in China, and many were from the same clans. As a result, the organizing element has been to join an association of common surnames.[9]

The associations are loosely governed by the Chinese Six Companies, also known as The Chinese Consolidated Benevolent Association (CCBA) headquarted in San Francisco.[10] The CCBA grew from both the need for Chinese in North America to collectively organize to represent their own interest, but also out of a unifying Chinese nationalist spirit that was growing at the turn of the last Century.[11] This was part of a larger movement taking place in China at this time to restore order after the fall of the Imperial Manchu dynasty in 1911, and to build a modern Chinese nation-state.[12]

In Seattle, the CCBA is locally called the Chong Wa Benevolent Association. The family association would meet new immigrants on the wharf; provide the mostly male migrants job services, banking and like services, and take on the primary social role. The early sex ratio of immigration was 19 male to 1 female, thus there was great need for the associations to provide the aforementioned social role. The Chinese Exclusion Act of 1882 maintained the highly unbalanced sex ratio. Interestingly, Chinese merchants were excluded from the Act, and thus formed the elite of Chinatown—which is fundamentally different under the traditional Confucian social hierarchy in China at that time.[13]

9 Yip, Christopher L. 1995. "Association, Residence, and Shop: An Appropriation of Commercial Blocks in North American Chinatowns". *Perspectives in Vernacular Architecture.* 5: 111.

10 Lai, H. Mark. 2004. *Becoming Chinese American: a history of communities and institutions*. Walnut Creek, CA: AltaMira Press. 40.

11 Ibid., 65.

12 Wakeman Jr, Frederic.1975. The Fall of Imperial China. New York, NY: The Free Press, 227.

13 Yip, Christopher L. 1995. "Association, Residence, and Shop: An Appropriation of Commercial Blocks in North American Chinatowns". *Perspectives in Vernacular Architecture.* 5: 111.

As mentioned above, the associations are credited as providing a number of social services to new immigrants, but they also have an emphasis on social control. Not only did the associations control the entrance of immigrants—meeting on the wharf and providing shelter, job services and food—they controlled the exit as well.[14] No one could return to China without an exit permit provided by the association as proof that all debts had been paid. This was done with the assistance of the steamship companies. Further, in Hye-Kyung Stella Kang's work, *Cultural Citizenship and Immigrant Community Identity: Constructing a Multi-ethnic Asian American Community,* the author frames the International District through the ethnic enclave theory. In these conditions, the ethnic solidarity affords ethnic entrepreneurs privileged access to immigrant labor willing to work in more paternalistic work arrangements. This theory also credits ethnic networks with the self-sufficiency and resilience of ethnic firms. However, there is criticism that this theory ignores the prospect of exploitation by co-ethnics.[15]

Further to the evolution of the associations, as time passed, loyalty to a specific clan decreased, and a more universal Chinese American identity began to take hold, coupled with the decreased immigration due to the Chinese Exclusion Act enforcement period from 1882 to 1943. To maintain relevance, the associations began to change the services provided to preservation of Chinese culture and began to set up schools.[16]

However today, nearly all associations have struggled to maintain relevance, as many of their traditional roles have been taken over by new social service agencies. Chinese have assimilated ever more into larger American society, and have a more generalized—as opposed to clan— Chinese and Asian American identity.[17] In Seattle, Chong Wa has struggled to maintain its role as the voice of the Chinese community. Other organizations emerged in the neighborhood in the 1960s. Among them the Chinese Community Service Organization, InterIm and the Chinatown Chamber of Commerce. According to Doug Chin, the creation of the CCSO and Chamber suggested that the Chong Wa did not adequately address certain concerns in the neighborhood.[18]

On a national level, in a schism that had its roots in the greater geo-political struggle between Republic of China on Taiwan and the People's Republic of China,

14 Lai, H. Mark. 2004. Becoming Chinese American: a history of communities and institutions. Walnut Creek, CA: AltaMira Press, 46.

15 Kang, Hye-Kyung Stella. 2010. Cultural citizenship and immigrant community identity: constructing a multi-ethnic Asian American community. El Paso [Tex.]: LFB Scholarly Pub, 13-15.

16 Lai, H. Mark. 2004. Becoming Chinese American: a history of communities and institutions. Walnut Creek, CA: AltaMira Press, 59.

17 Ibid.

18 Chin, Doug. 2001. Seattle's International District: the making of a Pan-Asian American community. Seattle, Wash: International Examiner Press, 43

the CCBA lost many family associations as members.[19] As diplomatic relations between the United States and the PRC warmed, culminating with the official recognition of the PRC by the US Government, coupled with the later election of the Democratic Progressive Party of Chen Shui-bian in the late 1990s that opened the possibility of Taiwanese independence, many CCBAs began to change alliance to the PRC, which conflicted with the traditional allegience to the Republican government on Taiwan.[20] In addition, Mark Lai in *Becoming Chinese American,* has made the assertion that some associations are now no longer relevant, with a conservative old guard, where the only services performed are hosting Spring banquets and funeral services.[21]

Japanese Community

The Japanese American community has played a role, disproportionate to its size, in a number of industries in Seattle since its first significant establishment in the 1890s. A survey conducted by a University of Washington graduate student found that by 1930s, Japanese were 2.8% of the population; but owned 70% of the stalls at the Pike Place Market , 26% of the hotels, 23% of the barbershops and 26% of the dry cleaners.[22] In addition, the Japanese community organized in a way similar to the Chinese community in forming associations, openings SROs, and a particular propensity to have a large number of Japanese language newsletters. The growing connection between Seattle and Japan was historically strong, with the beginning a regular steamship service between Seattle and Japan beginning in 1896 and a strong Japanese presence at the Alaska Yukon Exposition in 1909.[23]

However, as is well known in history, the cosmopolitan view held by city elites towards the Japanese community proved to be untenable during WWII.[24] After the Internment ended, many Japanese did not return to the International District, but rather to suburbs around the city. Some cultural institutions, such as the Nippon Kan Hall at Washington and Maynard, languished for 40 years, before being placed on the National Register of Historic Places in 1980 and rehabilitated, by architect Edward Burke.[25] Others, such as the Panama Hotel, which housed the Hashidate-Yu bathhouse remain, but the bathhouse is now closed—and is

19 Lai, H. Mark. 2004. Becoming Chinese American: a history of communities and institutions. Walnut Creek, CA: AltaMira Press, 61.

20 Ibid., 67.

21 Ibid., 60.

22 Lee, Shelley Sang-Hee. 2011. *Claiming the oriental gateway: prewar Seattle and Japanese America*. Philadelphia: Temple University Press. 33.

23 Ibid., 49.

24 Ibid., 180.

25 Dubrow, Gail Lee, Donna Graves, and Karen Cheng. 2002. *Sento at Sixth and Main: preserving landmarks of Japanese American heritage*. Seattle: Seattle Arts Commission. 79.

no longer owned a Japanese American, although, to be sure, stewarded by a woman with a strong sensitivity and affinity to its importance in the Japanese American community.[26]

A large Japanese presence remains in the neighborhood, with key institutions continuing to operate since the early 1900s, among of these is the Nippon Kan Theater. To many, the largest symbol of Japanese influence would be indicated by the role of the Moriguchi family and large Uwajimaya store. Figure 14 reveals the large land ownership associated with the store and family. However, representation of ethnic Japanese residents, at the current time, is very small within the International District.[27]

THE DECLINE IN CHINESE POPULATION IN THE LATE 1880S WAS THE RESULT OF BOTH LEGISLATIVE ACTION AND MOB VIOLENCE.

26 Ibid., 101.

27 Abramson, Daniel, Lynne Manzo, and Jeffrey Hou. 2007. "From ethnic enclave to multi-ethnic translocal community: contested identities and urban design in Seattle's Chinatown-International District". *Journal of Architectural and Planning Research* 23(4): 349.

Vietnamese Community

Most of the Vietnamese community arrived in Seattle during, and immediately after, the Vietnam War in the 1960s and 70s, while the International District was in decline, and had already been divided by Interstate 5. Most of the population settled to the east of I-5, outside of the historical core of the neighborhood, but still within the boundaries of what is recognized by the city as the International District.[28] There are a limited number of historic structures in the Little Saigon portion of the International District, and many of the Vietnamese businesses moved into former warehouses, or occupy 1960s style strip retail centers. As a result, the community has not been as embroiled in the controversies surrounding historic preservation in the International District, but often struggles to be recognized as members of the larger neighborhood.[29]

Non-Profit Agencies

The major non-profit agencies involved in the neighborhood's development are InterIm Community Development Association, Seattle Chinatown International

28 Chin, Doug. 2001. Seattle's International District: the making of a Pan-Asian American community. Seattle, Wash: International Examiner Press, 100.

29 Hou, Jeffrey. 2004. "Preserving for multiple publics: contesting views of urban conservation in Seattle's International District". *City & Time* 1(1). 17.

District Preservation and Development Authority (SCIDPDA) and the International District Housing Alliance (IDHA). They trace their routes to the activism that was engendered as a result of the backlash in the neighborhood to the construction of the Kingdome, as described below.[30] Many of the roles they perform in the neighborhood - largely providing affordable housing among other social and business related outreach - was previously performed by family associations. This usurption of roles has at times been a source of tension between the non-profits and family associations.[31] In general, the non-profits have advocated for affordable housing, historic preservation, and have aligned themselves with calling the neighborhood the International District, rather than Chinatown.

Business Interests

All major ethnic groups in the International District have business interests of some kind, whether through land ownership, or some other form of commercial enterprise, thus considering "business interests" as a seperate stakeholder alongside other communities, is problematic.

30 Kang, Hye-Kyung Stella. 2010. Cultural citizenship and immigrant community identity: constructing a multi-ethnic Asian American community. El Paso [Tex.]: LFB Scholarly Pub., 66.

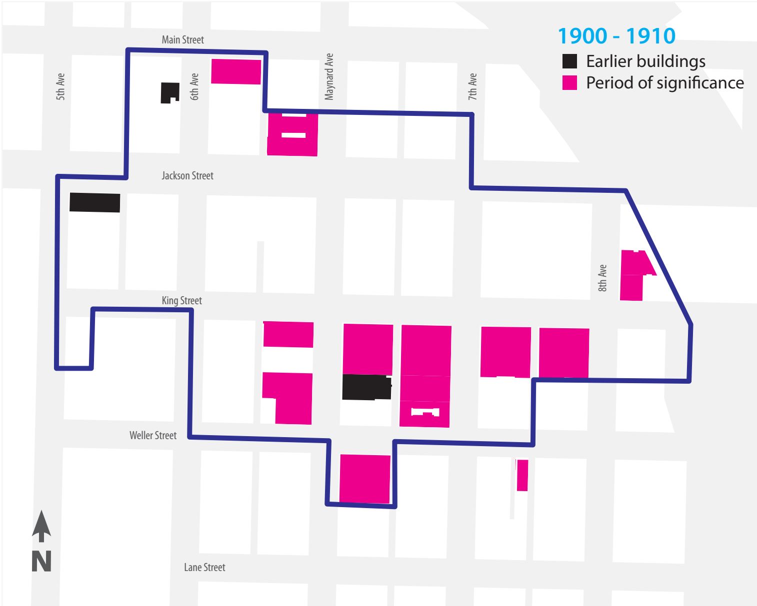
31 Abramson, Daniel, Lynne Manzo, and Jeffrey Hou. 2007. "From ethnic enclave to multi-ethnic translocal community: contested identities and urban design in Seattle's Chinatown-International District". *Journal of Architectural and Planning Research* 23(4): 349.

Figure 12. Kingdome Protest, 1972

Protest against Kingdome construction in the International District. *Source: University of Washington Special Collections.*

However, in certain issues, such as parking accessibility and preservation guidelines, businesses are referred to as their own interest group. Many business owners and merchants do not actually live in the International District, as the goal for many has been to move out of the neighborhood once a certain amount of financial security had been reached. It can be said, generally, that the business groups have opposed the implementation of historic preservation guidelines, have wanted to limit affordable housing development and have sought to increase the availability of parking in order to increase the revenue of their businesses.[32]

32 Hou, Jeffrey. 2004. "Preserving for multiple publics: contesting views of urban conservation in Seattle's International District." *City & Time* 1(1). 33.



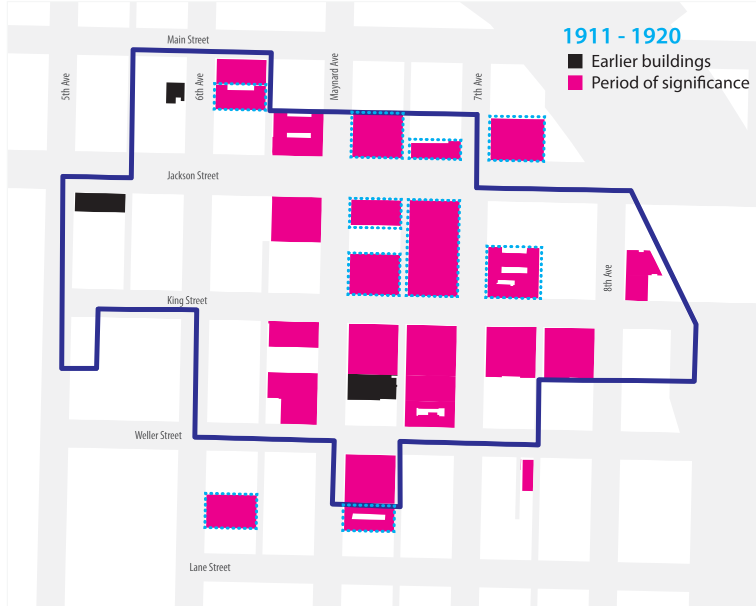
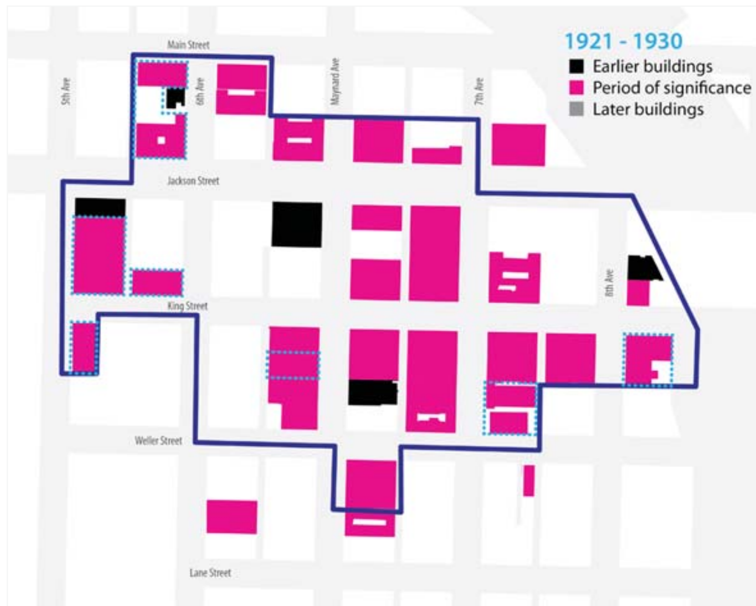
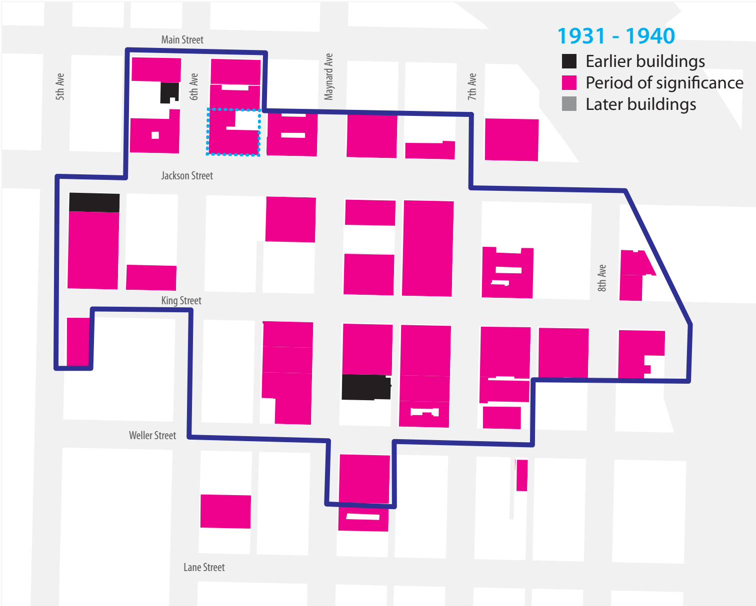
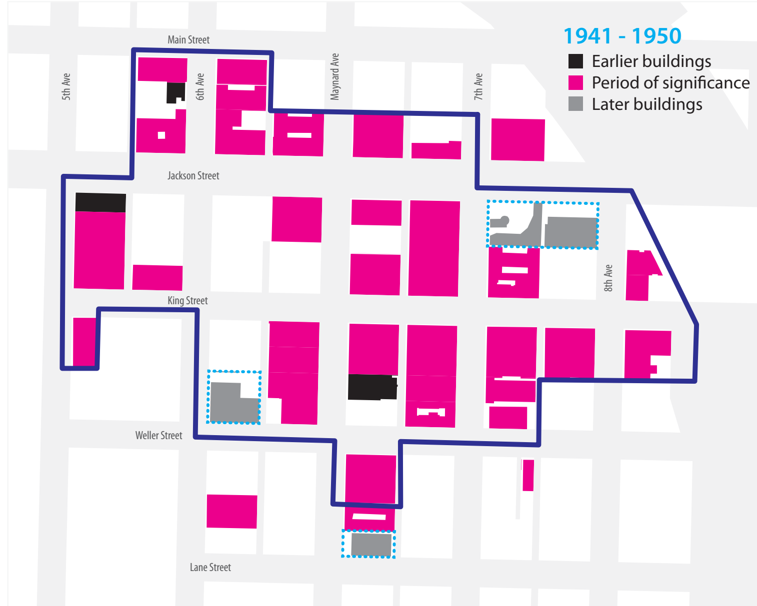


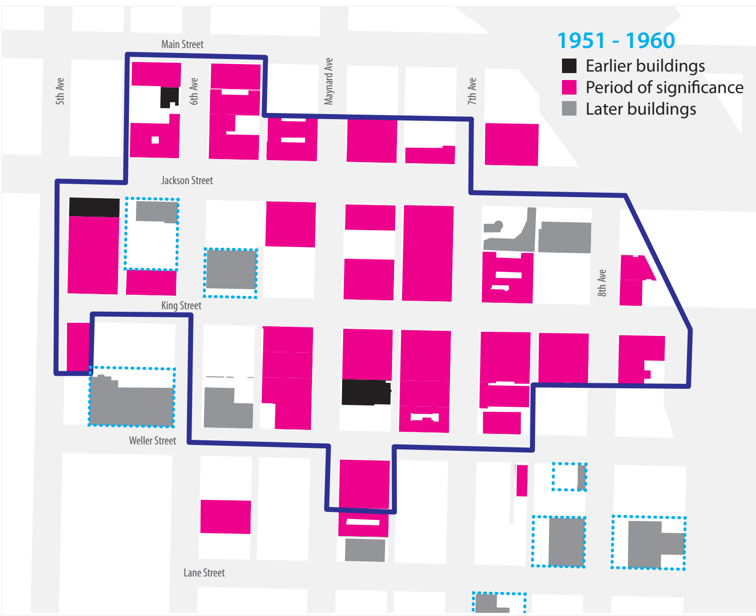
Figure 13. Existing Buildings by Decade Built

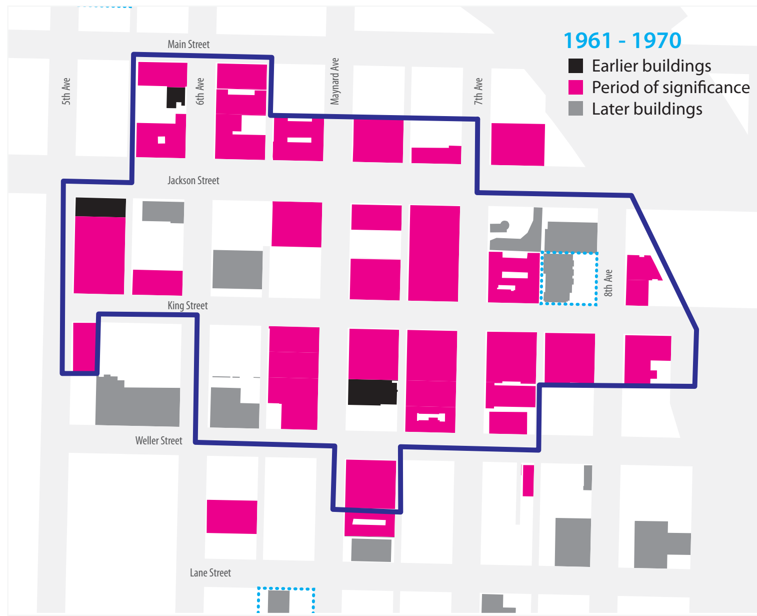
The Period of Significance within the National Register Historic District, outlined in purple, is marked by buildings built between 1907–1937.



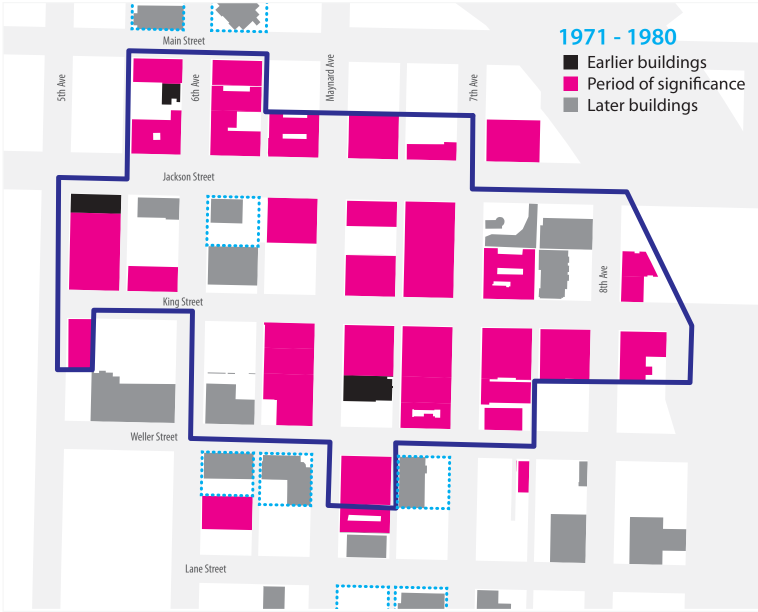


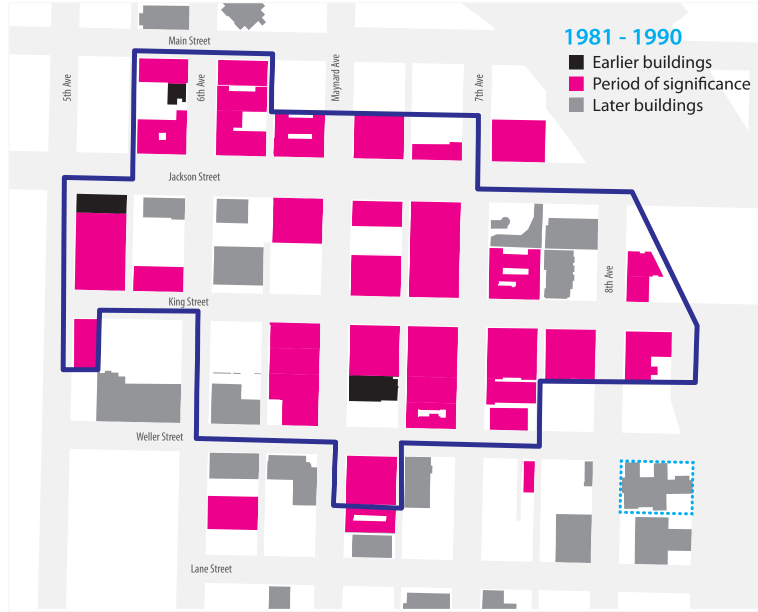


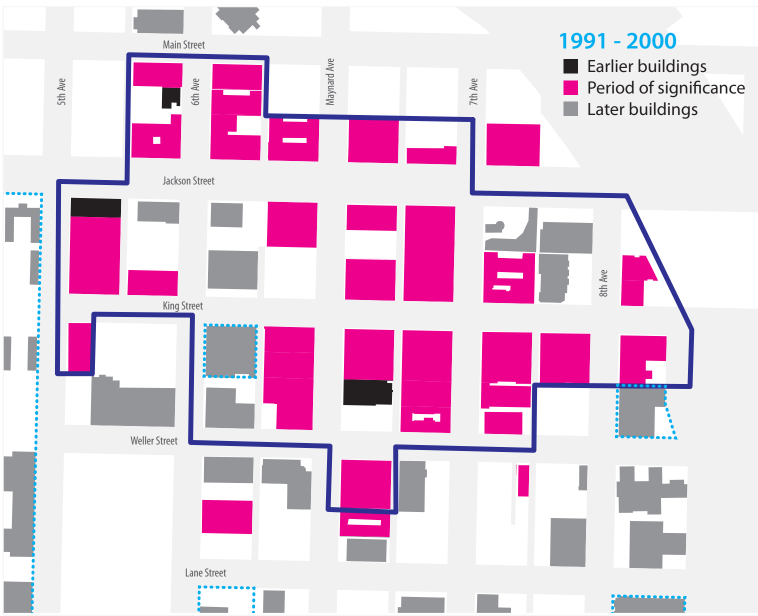


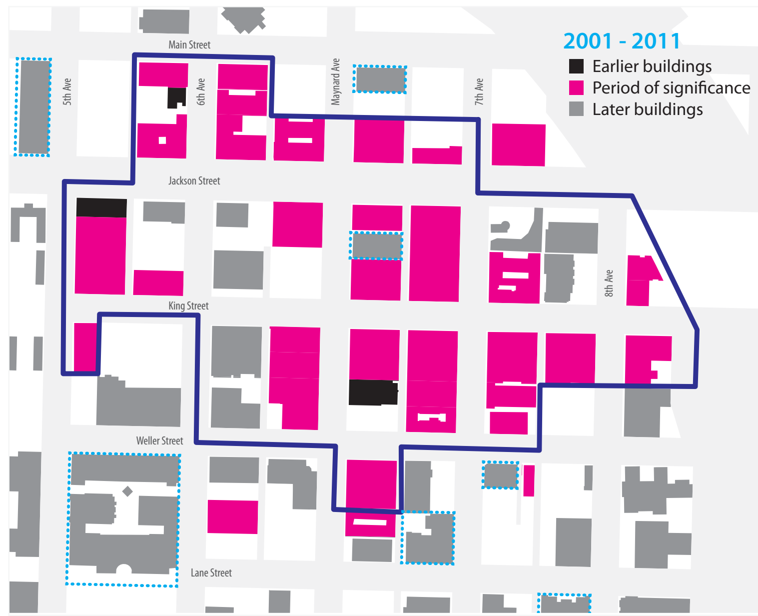


Existing Buildings by Decade Built


1971 - 1980
Earlier buildings
Period of significance
Later buildings
Main Street
Jackson Street
King Street
Weller Street
Lane Street
5th Ave
6th Ave
Maynard Ave
7th Ave
8th Ave


1981 - 1990
Earlier buildings
Period of significance
Later buildings
Main Street
Jackson Street
King Street
Weller Street
Lane Street
5th Ave
6th Ave
Maynard Ave
7th Ave
8th Ave


1991 - 2000
Earlier buildings
Period of significance
Later buildings
Main Street
Jackson Street
King Street
Weller Street
Lane Street
5th Ave
6th Ave
Maynard Ave
7th Ave
8th Ave


2001 - 2011
Earlier buildings
Period of significance
Later buildings
Main Street
Jackson Street
King Street
Weller Street
Lane Street
5th Ave
6th Ave
Maynard Ave
7th Ave
8th Ave

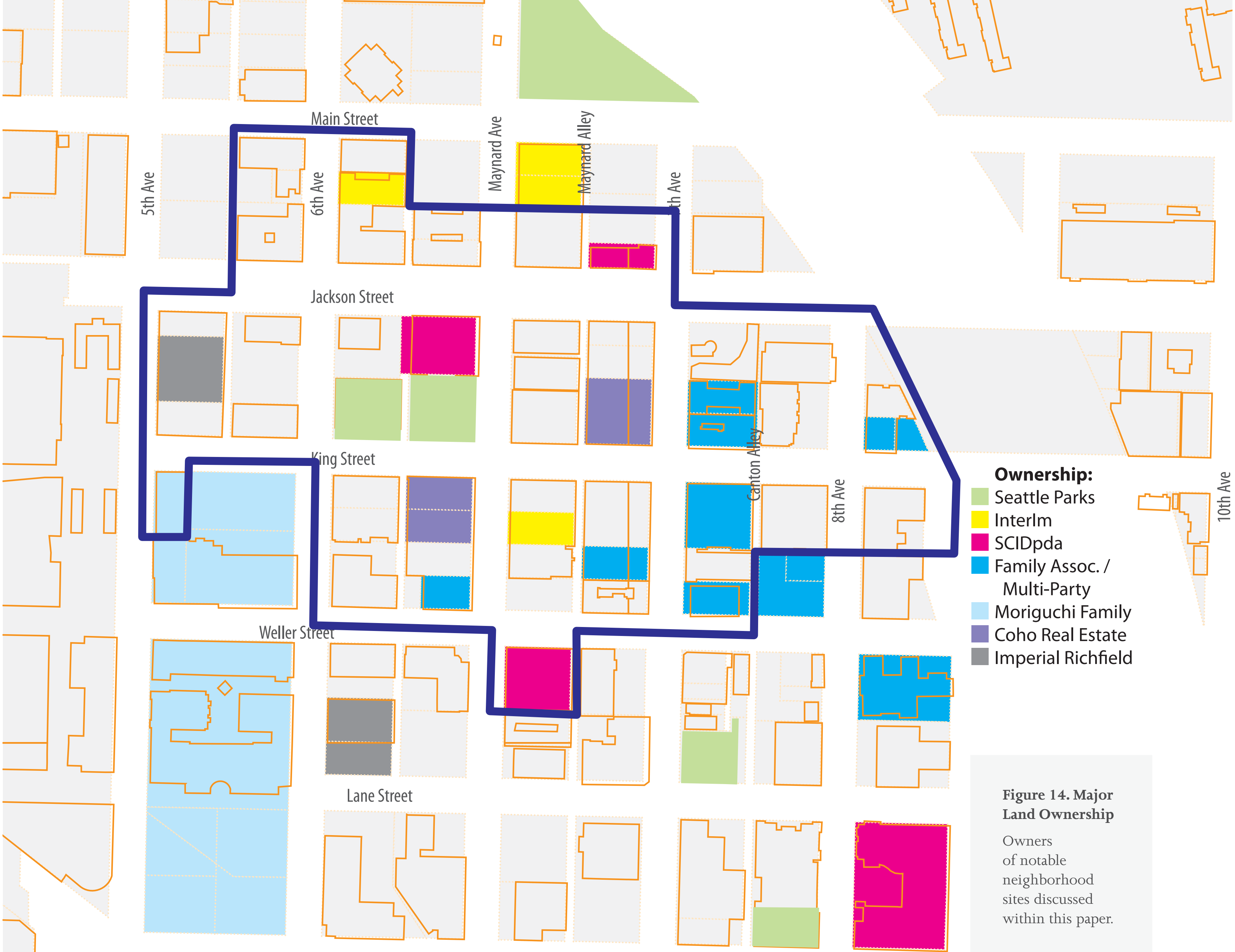


Figure 14. Major Land Ownership

Owners of notable neighborhood sites discussed within this paper.

Part 3: Preservation Movements

The Political Legacy

The tumultuous history of the International District has created a lasting political legacy that's influence is seen today. The following is a brief outline of some of the more significant controversies in the past.

Kingdome Construction and Urban Renewal

In the past, residents of the International District have been portrayed as a passive force in the city, and not directly confronting the other groups that sought to marginalize and exclude the neighborhood and Asian Americans. Stella Hye-Kyung Kang calls the protests that formed around the construction of the Kingdome "that defining moment" in the community, and countered the passive view.[33] Prior to the Kingdome construction, the International District had been served a series of setbacks. As mentioned in the history above, the Japanese that were interned during WWII largely did not return, and the construction of I-5 physically divided the neighborhood. Many accounts of the period before the Kingdome construction portray a depressed neighborhood, vividly displayed fictionally in the novel *No-No Boy*.[34]

That defining moment of the community rallying to oppose the Kingdome, which was built despite neighborhood opposition, laid the political groundwork as it exists today. The Kingdome protest is where many of the activists and non-profits trace their roots, and it was the beginning of city beginning to fund many of the services the neighborhood needed. From that time, the International Special Review District was established, as well as groups such as InterIm. Neighborhood leaders such as Bob Santos and Ruby Chow became influential.[35]

Lane Street Controversy

In a controversy that altered some of the more common ideological alliances, the non-profits found themselves on the side of new development with the construction of the flagship Uwajimaya Store, with market rate apartments, that covers two city blocks. The stated reason for the controversy surrounded the closure of one block of

33 Kang, Hye-Kyung Stella. 2010. Cultural citizenship and immigrant community identity: constructing a multi-ethnic Asian American community. El Paso [Tex.]: LFB Scholarly Pub., 66.

34 Lee, Shelley Sang-Hee. 2011. *Claiming the oriental gateway: prewar Seattle and Japanese America*. Philadelphia: Temple University Press. 28.

35 Chin, Doug. 2001. Seattle's International District: the making of a Pan-Asian American community. Seattle, Wash: International Examiner Press.

Lane Street between 5th and 6th Avenues, which was key to the success of the project. Many in the Chinese community, led by Chong Wa Benevolent Association, opposed the closure of Lane Street, and thus the development, on the grounds that it would inhibit emergency vehicles, hurt small businesses and cause traffic congestion. For many, the controversy was clearly not about Lane Street—as it was unused, and the prior use for the site was excess parking for a GM dealership—but about Japanese and Chinese tensions in the neighborhood.[36]

In the end, the development was approved, and the City approved Uwajimaya's request to vacate Lane St. However, as mentioned above, the typical positions staked out by some of the interest groups did not come into play. Collectively, the non-profit groups supported the project. Chinese groups, such as Chong Wa, that are typically on the side of development, opposed it. However, this controversy, in some views, shows that the over-riding interest is in maintaining a strong Chinese identity in the International District over all other., or at least distinct from others.

36 Hou, Jeffrey. 2004. "Preserving for multiple publics: contesting views of urban conservation in Seattle's International District". City & Time 1(1). 35.

A New Name

The first public instance of referring to the neighborhood as something other than Chinatown, or Japantown, came in 1951 when Seattle Mayor William Devin called the neighborhood "International Center," as part of a rebranding of the neighborhood, following the lifting of war-time curfew hours that kept servicemen out of the area.[37] This also identified the neighborhood as a focus ethnic integration. From this designation, the tensions over the identity of the neighborhood has since been framed. The name bothered many Chinese residents, especially Chong Wa, due to the perceived indifference it reflected of the Chinese contribution and larger presence in the district's historic core.[38] Thus, the name that people or groups choose to use, Chinatown or International District, often reflects their own personal view of the issue, and can be a source of conflict.

The tension behind the debate over the name lurks behind other issues. For example, at the time InterIm was created, Chong Wa withdrew support and created a rival organization, due to the "International" part of the name.

37 Abramson, Daniel, Lynne Manzo, and Jeffrey Hou. 2007. "From ethnic enclave to multi-ethnic translocal community: contested identities and urban design in Seattle's Chinatown-International District". *Journal of Architectural and Planning Research* 23(4): 348.

38 Historic Seattle Website. *http://www.historicseattle.org/preservationseattle/neighborhoods/defaultjuly.htm (accessed February 29, 2012),* archived at *http://www.webcitation.org/68CNzbtB2* June 5, 2012.

Chong Wa objected to the initial design of the Hing Hay Park, because it was viewed as not Chinese enough.[39]

The non-profit groups, and neighborhood activists, object to Chong Wa's stance on the issue. For one, they insist that the International District has to be as inclusive as possible, as its history has trended towards a pan-Asian identity.[40] In addition, they have calculated—consciously, or not—that under the current political climate, that the best way to secure funding and support in the broader city is to have a multicultural approach. Bob Santos, who for some time was referred to as the unofficial mayor of the International District, expressed frustration and annoyance with Chong Wa on the issue, and to paraphrase, said that if the Chinese were to truly find pride in the neighborhood as being Chinese they would fix the dilapidated buildings on King Street, rather fight over a name.[41]

39 Kang, Hye-Kyung Stella. 2010. Cultural citizenship and immigrant community identity: constructing a multi-ethnic Asian American community. El Paso [Tex.]: LFB Scholarly Pub., 130.

40 Abramson, Daniel, Lynne Manzo, and Jeffrey Hou. 2007. "From ethnic enclave to multi-ethnic translocal community: contested identities and urban design in Seattle's Chinatown-International District". *Journal of Architectural and Planning Research* 23(4): 349.

41 Ibid., 126.

History of Selected Association Owned Historic Buildings

Physical Characteristics of Association Owned Buildings

Among the commonalities of Western Canadian and United States' Chinatowns are the physical characteristics of the buildings. In summary, the common features are as follows;

- The maximum building footprint allowable is used.
- The first floor contains commercial uses.
- The 1st floor glazing is street to ceiling, providing maximum visibility.
- The middle floors receive decorative treatment.
- The association name is often in stone on the building, emphasizing the association portion of the building.
- The middle floors are typically residential hotels (SROs).
- The level of ornate decoration is used to indicate the wealth of the association.
- Since it is not possible to build a *yamen*, this was done vertically, with the association offices on the top floors.[42]

The above information, distilled from Christopher Yip's study of North American Chinatowns, is directly applicable to nearly all buildings. However, while the

42 Yip, Christopher L. 1995. "Association, Residence, and Shop: An Appropriation of Commercial Blocks in North American Chinatowns". Perspectives in Vernacular Architecture. 5: 109-17.

Figure 15. The Hip Sing Tong Building

Association room is visible on the West elevation.8th and King. *Author photo, May 2012.*

Figure 16. Chinese Influence in the Former Chinatown

1934 photo in the former Chinatown. Recessed top floor balcony provides visual evidence of former Chinese influence at 2nd and Washington. *University of Washington Special Collections.*

DESPITE A HISTORY OF HISTORY OF HOSTILE PUBLIC POLICY, THE NEIGHBORHOOD HAS GROWN TO BECOME THE ONLY SUCCESSFUL PAN-ASIAN COMMUNITY.

above attributes are nearly universal for North American Chinatowns, the physical form of association buildings in Seattle differ greatly than those in Victoria and Vancouver, BC; meaning that while those attributes appear to be universal, Seattle's International District does not physically resemble others in important ways. While the immigration to British Columbia and Washington State originated from the same locations in Guangdong Province in China, the building forms north of the 49th Parallel differed from those to the south. The buildings in Seattle's International District straddle entire blocks with a typical lot area exceeding 7,200 square feet, occupy prominent corners and are not restrained in the use of street frontage. Whereas the buildings in California and British Columbia are narrow, and according to Kelty McKinnon and Inge Roecker in *Urban Acupuncture* resemble shop houses, which are a common building typology in

Southeast Asia and Southern China.[43] This difference in typology is speculated to be due to the difference in years of construction. Vancouver and Victoria's Chinatowns did not sustain a cataclysmic fire, as Seattle did in 1889. Thus the buildings in Seattle's International District were constructed at a later time, with fire resistant masonry construction. The photo in Figure 17 shows the corner of 6th and King in 1925 with narrower frame buildings punctuated by window bays, a detail that has all but disappeared with the exception of the Louisa Hotel in Figure 18.

Figure 17. Bison Cafe, 6th Ave S and S King St,1925

Currently the parking lot of the former Uwajimaya site. *University of Washington Special Collections.*

Figure 18. Louisa Hotel, 7th Ave S and S King St

Now the only building with wood window bays, at the time of its construction this would not have been uncommon. The upper floors of the Louisa are vacant. *Author photo, May 2012.*

43 Canada Mortgage and Housing Corporation. 2007. Urban acupuncture: a methodology for the sustainable rehabilitation of "society buildings" in Vancouver's Chinatown into contemporary housing. [Ottawa]: CMHC, 48.

Figure 19. Kong Yick Buildings
7th and King. *Author Photo, May 2012.*

Figure 20. Kong Yick Buildings,1920
University of Washington Special Collections.

Building Typology Examples

Kong Yick Buildings

As mentioned above. the Kong Yick buildings were among the first buildings to anchor the new location in 1910. A Chinese group, the Kong Yick Investment Company headed by Goon Dip, financed the construction by selling shares to Chinese throughout the Pacific Northwest—thus bypassing the need for bank involvement.[44] The Kong Yick was the original home of the Gee How Oak Tin family association, and up to six other associations. The historic photo reveals details that have been removed over time that would show its original form more closely resembling the building typology at the time, specifically the 2nd floor balconies. The eastern building is now the Wing Luke Asian Museum, while the western is still owned by the Kong Yick Investment Company.

Hip Sing Tong Building

Built on the northwest corner of 8th and King, at roughly the same time as the Kong Yick buildings in 1910.[45] With 25 SRO rooms, this is much fewer than comparable

44 Chin, Doug. 2001. Seattle's International District: the making of a Pan-Asian American community. Seattle, Wash: International Examiner Press, 39.

45 Ibid., 39.

buildings, which indicates larger commercial and association portions of the building. Ownership has remained with the same association to the current day.

The Milwaukee Hotel

Constructed in 1911 by Goon Dip, who was also the main benefactor behind the Kong Yick buildings.[46] At 150 SROs, it was one of the largest buildings in the developing neighborhood at the time. The Milwaukee fell vacant in the decades preceding the 2000s, most likely due to code violations and Ozark Ordinance era fire codes. It has since been purchased and rehabilitated by a private property owner.

Eastern Hotel

Constructed in 1911, supposedly for the Wa Chong Company, one of the earliest and most successful Chinese businesses with roots in the late 1880s.[47] The hotel has had multiple owners, and multiple names, and a myriad of different nationalities of tenants from Chinese to Filipino, throughout the last century. It was once home to Carlos Bulosan, the Filipino-American author of *America is in the Heart* in the 1930s, and has thus made the building

46 Ibid., 39.
47 Ibid., 40.

Figure 21. Hip Sing Building
8th and King. *Author Photo, May 2012.*

Figure 22. Milwaukee Hotel
Also known as the Goon Dip building, 7th and King. *Author Photo, May 2012.*

Figure 23. Eastern Hotel

On Maynard, between King and Weller. *Author Photo, May 2012.*

Figure 24. Bing Kung Association

7th and King. Note the upper floor Chinese Mason hall on the south elevation. *Author Photo May 2012.*

significant to the Filipino-American community.[48] It is now operated by InterIm, and underwent a $6 million rehabilitation to include 47 units of low income housing.

Bing Kung Association Building/Norway Hotel

Constructed in 1916, and purchased by the Bing Kung Tong.[49] While called a "tong," it is better known and translated as a merchant association. Purpose built as a 91 room SRO, with ground floor retail, the building still primarily serves as low income housing to an immigrant population. The upper floor recessed balcony indicate a meeting space for the Chinese Masons.

Republic Hotel

Built in 1920, and purchased by the Chew Lin Association in 1950, making this one of the most recent Chinese family association building acquisitions. The 2nd floor, which currently has a vacated restaurant, was a site of a jazz club through WWII. This building has been identified as one with underutilized space, with a vacant second floor

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48 Bulosan Memorial Website. *http://www.bulosan.org/html/eastern_hotel.html* (Accessed May 10, 2012), archived at *http://www.webcitation.org/68CO0wjzR* on June 5, 2012.

49 Chin, Doug. 2001. Seattle's International District: the making of a Pan-Asian American community. Seattle, Wash: International Examiner Press, 40.

and mostly unused mezzanine level. One of the ground floor retail spaces is in current use by the family association.

Redevelopment Ethical and Legal Challenges

"Revitalization can also lead to higher land values and gentrification, where local residents are ousted and only buildings are safeguarded. Since knowledge of one's history is important in the creation of identity, accessibility to one's cultural heritage can be considered a human right." – Kelty McKinnon and Inge Roecker in *Urban Acupuncture*.[50]

As evidenced above by the discussion of the different actors, and more well known conflicts, planning at any level in the International District is fraught with difficulty, and requires a more carefully planned and sensitive approach in order to gain enough buy in from the different factions within the community. The last issue, the debate over the name of the neighborhood, seems most illuminating. In short, ethnic identity matters, and the groups may change their stance on a given issue given what may be viewed as the best interest of their own ethnic identity at that given time. This greatly complicates planning. It is further complicated by the issues of historic preservation and infill development.

Figure 25. Republic Hotel

Note the ghost signage, and earthquake damage to the parapets from the 2001 Nisqually earthquake. *Author photo, May 2012.*

The following section of research investigates the incentives that have been created to both preserve the built form of the International District, and to encourage the development and retention of affordability in the neighborhood.

50 Canada Mortgage and Housing Corporation. 2007. Urban acupuncture: a methodology for the sustainable rehabilitation of "society buildings" in Vancouver's Chinatown into contemporary housing. [Ottawa]: CMHC, 32.

Overview of Historic Preservation

Historic preservation has generally been recognized with the general population, and by policy, as a public good that should be supported through legislation, incentives other forms of social support. However, it has not been embraced by many property owners and developers due to the restrictions it places on their freedom to control the land, improvements they own and control, and the inflexibilities of the guidelines in place. In particular, many object to the real and perceived issue of a lack of solid grounding in the financial feasibility of real estate projects affected by preservation initiatives.

Beyond adversely affected property owners, there are other diverse social and political forces that have traditionally not been aligned historic preservation, and these groups can exercise considerable power to influence public opinion and decisions about land use. For example, until recently, preserving older buildings was not given proper consideration by environmentalists. However, at the time of this writing, there is a growing understanding that preservation is environmentally sound. The Seattle based Preservation Green Lab has recently published a landmark study that claims, through a life cycle analysis (LCA), that building reuse almost always yields fewer negative environmental impacts than new construction of a building of similar size.[51] This conclusion is largely a result of the calculation of the embodied energy of an existing building, a concept that is gaining wider currency among architects, environmentalists, developers and other stakeholders.

Somewhat related to the environmental initiatives is that historic preservation is viewed by some as a force for gentrification. The rehabilitation of historic buildings, and the construction of eco-friendly buildings, often epitomizes the larger issue of affordability with infill development. Broadly speaking, the goal of infill development has been supported by the city planning needs. Infill development, which building reuse and historic preservation can be part of, can be used to address four public needs[52];

- Reduced suburban sprawl.
- Increase the tax revenue of the city.
- It can help revitalize certain depressed neighborhoods that suffered deterioration in the past.
- It can provide an opportunity for the city to provide more affordable housing.

Private development often makes the first three goals achievable, but the fourth goal often can be missed.

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51 "The Greenest Building: Quantifying the Environmental Value of Building Reuse." Preservation Green Lab National Trust for Historic Preservation, 13.

52 Steinacker, Annette. 2003. "Infill Development And Affordable Housing: Patterns from 1996 to 2000". *Urban Affairs Review*. 38 (4): 493.

Conversely, a heightened focus on the fourth goal can cause the first three to fail. Upscale projects that meet consumer demand generally need large parcels, and can then create higher income self-sufficient neighborhoods segregated from the surrounding area—and thus often meet only two of the four goals. Alternately, infill sites are often not desirable, and it can be considered "dumping" poor and minority residents only into infill sites that may be formal brownfields, or suffer other environmental issues.[53]

The above general infill development issues, while not directly related to the International District, are a universal. Further, according to the author of "Infill Development and Affordable Housing: Patterns from 1996 to 2000," Annette Steinacker, "Private actors will not become involved until profitability and risk are equal to their other investment opportunities. Problems with infill development can be classified into four categories: economic, environmental, financing and political." The conclusion from these problems can be inferred to be that infill development, and historic rehabilitation, can only be done in booming cities, and the higher transaction cost (financial due to multiple lenders needed for mixed use projects and cost of construction) and higher political costs (high rents lead to charges of promoting gentrification and affordable housing will leading to charges of environmental injustice), will make only high cost per square foot projects feasible.[54]

Thus, it can be considered from this viewpoint that historic preservation is at the root of much of the difficulties in the neighborhood. It reveals a divide within the neighborhood, while being compounded by the market issues articulated above. The people involved with the non-profit agencies are portrayed in the existing literature as viewing the historic preservation guidelines as essential in keeping the character of the International District. Many of these advocates were a product of the activism of the 1960s and 70s, which resulted in the successful creation of the International Special Review District. On the other hand, many in the business community see the historic preservation efforts as a barrier to entry, and limit new development in the neighborhood. In their view, moderate income housing is needed.[55] Those in the latter group are critical that the current residents of the subsidized buildings do not patronize the local businesses, and the need is for greater economic revitalization provided by market rate housing.

53 Ibid., 495.

54 Ibid., 497.

55 Hou, Jeffrey. 2004. "Preserving for multiple publics: contesting views of urban conservation in Seattle's International District". *City & Time* 1(1). 32.

Given the issues surrounding historic preservation, and its potential to either be a force of gentrification, or limiting the availability of housing, a proper incentive structure needs to be created to manipulate the economic conditions of the affected properties. Conceptually, there are three ways to enforce historic preservation guidelines.

- Aesthetic Regulations, such as design review guidelines.
- Administrative techniques, through city codes.
- Economic incentives.

It is axiomatic that incentives only work when preservationists know how incentives affect the financial feasibility of a project. The oft repeated claim is that those concerned with preservation do not understand the financial impact they have on a project. Further, it has been argued that successful preservation projects only occurred because there was a compelling "pull" of the neighborhood, rather than the "push" provided by the incentives. This thesis is, in part, an attempt to gain a better understanding of the financial feasibility of the incentives, and to help understand whether they are a sufficient "push."

Legal Precedent for Historic Preservation

Given the contentious issues surrounding historic preservation, it is helpful to understand how the city can legally enforce its objectives for the neighborhood. First is to understand the difference between individual landmarks, and an entire landmark district such as the historic core of the International district. A key difference between the advantages of individual landmarks versus landmark districts underlays many legal arguments surrounding the issue of historic preservation. Individual properties often benefit from the ambience of the entire district, where the burdens are offset by the advantages. In *Penn Central Transp. Co. v. New York City*, 438 U.S. 104 (1978), Justice Brennan maintained constitutionality of restricting the rights of the developers to expand Penn Central Station, because preservation produced, "an equitable distribution of benefits and burdens."[56] However, preserving one landmark can impose significant cost upon a single landowner.[57] Thus, with historic preservation, more than many other issues of zoning, private property rights can be in dramatic conflict with regulation.

The first legally protected historic sites in the US were the national parks. The Antiquities Act of 1906 provided for the designation as National Monuments of areas in the public domain which contained "historic landmarks, historic and prehistoric structures, and objects of historic and scientific interest."[58]

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56 Mandelker, et al. 2008. *Planning and Control of Land Development: Cases and Materials 7th Edition*. Newark, New Jersey: LexisNexis, 947.

57 Kushner, Selmi. 2004. *Land Use Regulation: Cases and Materials*. New York, New York: Aspen Publishers, 719.

58 Ibid, 49.

Village of Euclid, Ohio v. Ambler Realty Co., 272 U.S. 365 (1926) is the starting point for most discussions in regard to the constitutionality of zoning laws, in particular preservation laws. In short, all property is subject is police power and restricting property to some extent is not a "taking."[59] Historic preservation laws have interwoven into them aesthetics, and courts, along with municipalities have considered aesthetics in many zoning laws to be considered part of the public good.

Moving from the Euclid decision, in 1954, the courts in Berman v. Parker, 348 U.S. 26 (1954) established that the "public use" in the 5th Amendment could be interpreted as "public purpose."[60] While this case was about blight and urban renewal, it was important to historic preservation because it established that the public welfare was, as the court stated, "broad and inclusive…The values it represents are spiritual as well as physical, aesthetic as well as monetary. It is within the power of the legislature to determine that the community should be beautiful as well as healthy, spacious as well as clean…there is nothing in the 5th Amendment that stands in the way."[61]

59 Mandelker, et al. 2008. *Planning and Control of Land Development: Cases and Materials 7th Edition*. Newark, New Jersey: LexisNexis, 945.

60 Allison, Eric, et al. 2011 *Historic Preservation and the Livable City*. Hoboken, New Jersey, John Wiley and Sons. 24.

61 Ibid.

Returning to the Penn Central case, the appellants challenged New York City's Landmarks Preservation Law that prevented landowners from altering and destroying significant buildings, or districts, and mandates the facades to be kept in good repair, unless permission from the commission has been received. The appellants countered the Landmarks Law based upon the 5th and 14th Amendments of the US Constitution, asserting that the restriction imposed upon them amounted to a "takings"—that the government has taken the appellants property for public use. Further, also under the 5th Amendment, the appellants challenged the Transfer Development Rights (TDRs) as just compensation. In summary, the court held that New York's law has not effected a "taking." It is not a "taking" because the land is still economically viable, and the restrictions imposed are related to the general welfare of the people.[62] From this case, precedent has been set for jurisdictions to enforce their own preservation laws.

In the landmark case, Teachers Insurance and Annuity Association of America v. City of New York 623 N.E.2d 526 (N.Y. 1993), the building in question was the Four Seasons restaurant in the Seagram Building on Park Avenue in New York City. Responding to the loss of significant historic structures, the Landmarks Law was expanded in 1973 to

62 Ibid., 114.

include the interiors of buildings as well.[63] TIAA opposed the designation of the interior of the building, specifically the restaurant. Key to this law, and the precedent set, an owner does not need to approve of the designation. In this case, the power of the regulatory body to mandate preservation of the outside, and inside, of a building was upheld—largely affirming the ability of courts to mandate aesthetic qualities.

MANY OBJECT TO THE REAL AND PERCEIVED ISSUE OF A LACK OF SOLID GROUNDING IN FINANCIAL FEASIBILITY OF PRESERVATION INCENTIVES.

The above cases point to the legality of preserving individual landmarks, both the inside and outside. In Maher v. City of New Orleans, 516 F.2d 1051 (5th Cir. 1975), the legality of establishing entire historic districts was affirmed.[64] Plaintiff Maher sought to demolish a building on his property in the Vieux Carre section of New Orleans, was denied permission to do so. The plaintiff sued under the Due Process clause, and argued that such a ruling was a taking without just compensation. He was denied by the court, which argued that historic preservation was a just cause, and that the decision was not arbitrary in nature. This case can be viewed as establishing the legality of historic districts. The court held that Maher had not been left with nothing, which would have been a taking. In its view, if the cost of maintenance exceeded the value left, then it would have been unduly burdensome. However, this was not the case presented by the plaintiff, and that historic preservation was no more burdensome than a height restriction.[65]

63 Kushner, Selmi. 2004. *Land Use Regulation: Cases and Materials*. New York, New York: Aspen Publishers, 723.

64 Ibid., 727.

65 Mandelker, et al. 2008. *Planning and Control of Land Development: Cases and Materials 7th Edition*. Newark, New Jersey: LexisNexis, 949.

Part 4: Legal Framework of the International District

For purposes of zoning and land use, the International District is governed by the International Special Review District (ISRD), and the historic core is protected by the city as be recognized as one of seven landmark districts in the city of Seattle. The following will explore the framework of the legal protections of the neighborhood, followed by how the different preservation incentives function.

What is important to note on the land ownership map in Figure 14 is that nearly all the association-owned buildings are located within the National Register Historic District, which, in turn, makes them eligible for most historic preservation incentives. A qualifying condition for federal, state and local incentives is to either be listed on the National Register of Historic Places, or a contributing building within a National Register Historic District. In short, by being a contributing building in the district, much of the effort required to access the incentives has already been expended. New construction, or modifications to existing buildings—whether historic or not—are subject to the broader ISRD geographic boundary that encompasses the International District in its entirety.

In the nomination for the historic core to be placed on the National Register of Historic Places, it was determined that "Period of Significance" was between 1907 and 1937. The maps in Figure 13 reflects the buildings that remain today that were constructed before, during and after the period of significance. The blue outlines indicate the buildings that were constructed during the last decade. A complete decade by decade sequence is located in the neighborhood history section of the document.

Zoning Guidelines and Recent Changes

In addition to the ISRD guidelines, the neighborhood is subject to recently enacted zoning rules that have changed the allowable height and floor area ratio (FAR) limits for new construction. These changes are highlighted in the zoning table in Figure 28, and reflected in the current zoning map in Figure 27.

Of note, is that in the revised IDR 150 zone in the northern blocks of the district outside of the historic core, non-residential uses are limited to a FAR limit of 1. If more than 50% of a mixed use development is residential, the FAR can be increased to 2. In addition, there is no street use requirement in the new IDR 150 zone. Thus, for all intents and purposes, the Seattle Department of Planning and Development has made this into an exclusively residential area.

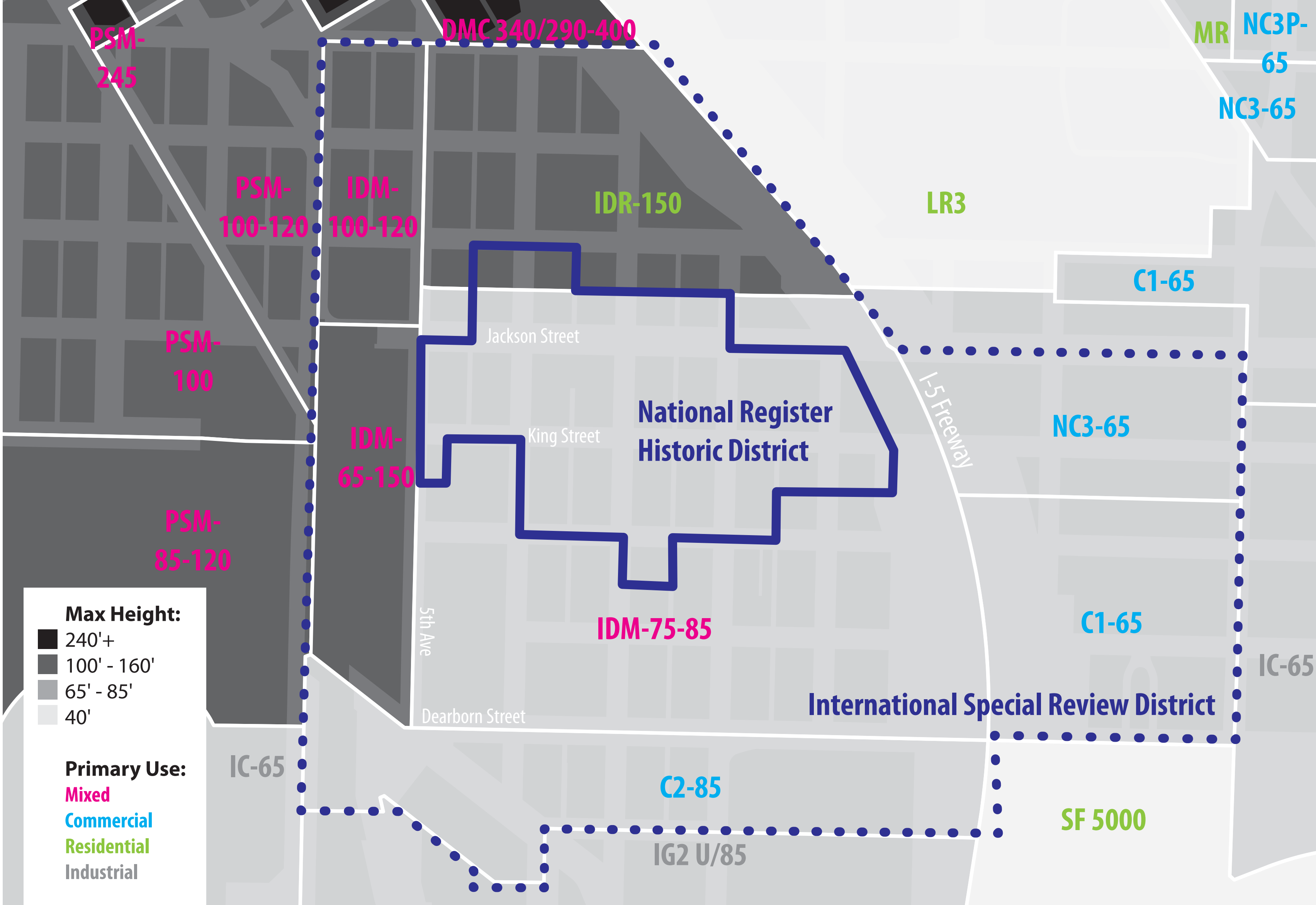

Figure 26. Zoning Map Before June 2011

Prior zoning and boundaries of the International Special Review District and National Register Historic District. *Data source: Department of Planning and Development.*

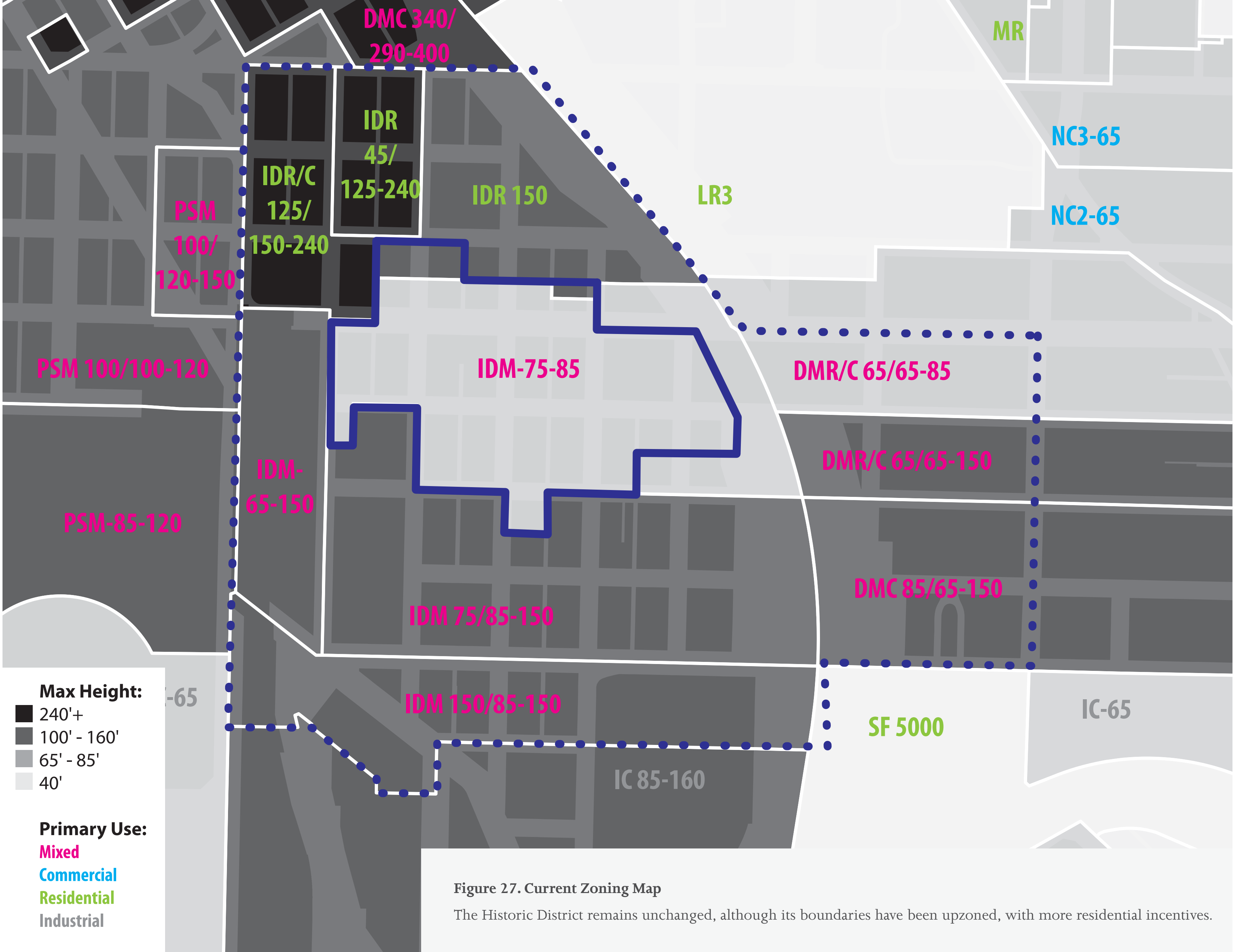

Figure 27. Current Zoning Map

The Historic District remains unchanged, although its boundaries have been upzoned, with more residential incentives.

The IDM 75-85 zoning allows greater flexibility of uses, with the possibility of a FAR of 3 for commercial uses alone, at a height of 75 feet. A height of 85 feet is allowed if more than 50% of the building is residential. In addition, a hotel could be permitted with a FAR of 6. Finally, street uses and residential uses are exempt from the FAR limitations. However, the building heights in the core were unchanged in the latest zoning change. This has the potential negative impact on the owners of contributing buildings by limiting the availability of Transfer Development Rights (TDRs) that could be used to generate equity for rehabilitation projects. Conversely, at the same time, the increase in density in the immediate vicinity reduces the demand for the existing TDR potential.

In sum, the city is creating incentives for residential development in the area. The urban form of the district will result in a "bowl" shape of development, typical of other historic districts around the nation. Taller, newer buildings, are permitted at the fringes of the district, and development within the historic core is made to conform to existing heights.

Base Height and FAR Limits	Maximum Height and FAR Limits
IDM 75-85	
75′ height limit **Commercial:** ▪ Hotel: 6 FAR ▪ Other commercial: 3 FAR **Residential:** Not subject to FAR.	**Commercial:** Same as base limits. **Residential:** ▪ 85′ height limit ▪ Mixed-use building must include at least 50% residential.
IDM 75/85-150	
Same as above	150′ height limit **Commercial:** Buildings that exceed 75′: at least 50% of the floor area must be residential. Building must gain extra floor area through incentive zoning.
IDR 150	
Commercial: 1 FAR **Residential:** 150′ height limit Not subject to FAR.	150′ for all uses. **Commercial:** 2 FAR, if at least 50% of the floor area is residential.

Figure 28. Zoning Table

Base and maximum height limits and floor area ratio (FAR), adopted March 2011. *Source: Seattle Department of Planning and Development, Chinatown-International District Guidelines.*

Design Review

As mentioned above, all buildings within the International Special Review District are subject to the design guidelines governing the area. New construction, changes in use, changes in public right of way or alteration of building appearances must receive a Certificate of Approval from the Director of the Department of Neighborhoods. The approval generally follows the recommendation of the seven member ISRD board. Of these seven members, five are elected by the community, and two are appointed by the Mayor, and confirmed by the City Council. The guidelines were adopted in September 1988, with some modifications since. A brief synopsis of these guidelines can be found in Figure 29.

Further, the city's goals for the neighborhood are also articulated in another document produced by the City of Seattle Department of Planning and Development. The executive summary of the proposed amendments, which were adopted in June 2011, express the values quoted in Figure 30.

The ISRD has been met with a mixed reaction by property owners and stakeholders in the community. Considering that all zoning and regulations restrict land use to varying degrees, it is to be expected that there will be tension at times between the governing authority and property owners. The ISRD board's mission is made

Awnings and Canopies:

- They are to be a solid color, and a color that matches the building façade.
- Asian characters on the awnings are encouraged.
- They shall not be curved, or translucent.
- Overhang the sidewalk a minimum of five feet.

Storefront and Building Design Guidelines:

- Existing storefronts shall be maintained wherever possible.
- Earthen materials shall be encouraged.
- Painting brick should be discouraged.
- Recessed entryways is encouraged.
- Anodized aluminum and other materials shall be reviewed on a case by case basis.

Security Systems:

- Permanent window or security bars are prohibited.
- Scissor gates or roll down panel systems are encouraged as alternate to security bars.
- Security systems should essentially be invisible.

Signage and Advertising:

- Signage on buildings is restricted in a number of ways. Key highlights are that multi-tenanted buildings can only have signs that advertise the building above the sill line and that the signs must conform to the color and style of the building.
- There are multiple rules regarding street displays. Key among these are rules that state vending racks cannot be wider than three feet, portable and directly in front of the building.

Figure 29. Summary of Design Review Guidelines

Source: Seattle Department of Planning and Development, Neighborhood Preservation Guidelines.

The following goals are expressed:

- Thriving businesses, organizations and cultural institutions.
- Diverse and affordable housing.
- Rehabilitation of substandard and vacant buildings.
- Safe and dynamic public open spaces.
- Accessible neighborhood.
- Reduction of auto congestion at key intersections.

Future land use goals:

- Retain existing development capacity with the National Register Historic District, while expanding capacity elsewhere in South Downtown in order to reduce pressure on the historic area.
- South Downtown Transfer Development Rights and Transfer Development Potential programs will encourage preservation and rehabilitation of historic buildings.
- Historic FAR bonus if a new development incorporates an existing historic structure.
- Protect existing affordable housing, and plan for new affordable housing.
- Allow for 150' height limits south and north of the Chinatown core for residential use.
- Encourage development of certain green streets.
- FAR limits will not apply to residential use.
- Commercial uses limited to a FAR of 1 in the new IDR zones and a FAR of 3 in IDM zones.
- Hotel use limited to a FAR of 6.
- Significant up-zone in the transition area south of Dearborn Street, which has traditionally not been considered part of the International District.

Figure 30. Summary of Department of Planning and Development Goals.

Summary of adopted amendments in June 2011 for the International District. *Source: Seattle Department of Planning and Development, Neighborhood Preservation Guidelines.*

more difficult than equivalent boards in the city due to the complex social and political factors to consider in the neighborhood.

The field research in the neighborhood revealed a range of opinions about the effectiveness and value of the ISRD guidelines and the way that they are enforced. Many property owners had anecdotal stories about capricious and, in their view, unreasonable demands made on property and business owners. This would often be countered by architects, city planners and non-profits viewing the work of ISRD as balanced and necessary. It may be too easy to exaggerate this difference of opinion, but there are issues of trust and communication that are beyond the focus of this research. One of the main under-laying issues may be one of scalability. The effort required to gain approval for paint colors and sign alterations is perceived to be as great as making major changes to a façade or use of a building.

Part 5: Affordable Housing and Preservation Incentive Programs

Historic Preservation and Affordable Housing

Due to the ability to combine many affordable housing and historic preservation incentives, it is necessary to consider the additional role that can be played by these programs and incentives in preserving both the historic character of the International District and retain the neighborhood's role as a location for affordable housing.

It is useful to conceptualize the financial impact of all incentives as follows:

- They reduce operating cost through programs such as tax reductions.
- They reduce development cost through lowered permit fees and related items.
- They provide marketable assets through programs such as TDRs.
- They provide a means for raising project equity through syndication opportunities and other means.

In short, incentives manipulate the economic conditions of a property, and thus may influence the decisions made by the developers and owners.

Low Income Housing Tax Credit

The Tax Reform Act of 1986 established an investment tax credit for the acquisition, construction, or rehabilitation of qualifying units of low income housing. While this is not specifically designed for rehabilitation of historic properties, it can be used as such.[66] One of the most effective means is to combine this credit with the Historic Rehabilitation Tax credit (HTC), which is discussed in greater detail below. The Low Income Housing Tax Credit (LIHTC) is administered at the state level, and is allocated through a competitive process among non-profit and for-profit developers and owners.[67]

There are two low income credit percentages, the 70% credit and 30% credit. The percentages mean that for every rehabilitation dollar, the applicable percentage is translated to a tax credit that can be syndicated to raise equity for an affordable housing rehabilitation project. The difference between the two is that 70% can be used toward non-

66 Roybal, Paul I. 1994. *The economics of rehabilitating historic properties: designing incentives that work*. Thesis (M. Arch.)--University of Washington, 1994

67 Delvac, William F., Susan Escherich, and Bridget Hartman. 1994. *Affordable housing through historic preservation: a case study guide to combining the tax credits*. Washington, DC: U.S. Dept. of the Interior, National Park Service, Preservation Assistance, 16.

federally subsidized, substantial rehabilitation efforts. If the project is federally subsidized, the credit level is 30%, and can be applied towards the acquisition cost if the building will be rehabilitated. Further, if a neighborhood is considered extremely low-income, like the International District, the credit can be increased to 91%.

The following rules apply as well;

- The definition of "substantially rehabilitated" is if expenditures exceed 10% of the adjusted basis, from the beginning of the measuring period.
- The minimum expenditure must exceed $3,000 per low income unit.
- Acquisition costs are not allowed as part of the credit if it has been less than 10 years since the building was acquired, and placed in service.
- The basis for the credit is the less of qualified expenditures and any federal grants.
- The credit is applied over 10 years, but the property must remain low income for 15 years, or it is subject to IRS recapture rules.
- Under the 20/50 test, 20% of the units must be made available to tenants that are below 50% of AMI.
- Under the 40/60 test, 40% of the units must be made available to tenants that are below 60% of AMI.[68]

To be sure, this policy would appear to be very effective for raising the necessary equity to rehabilitate a larger project, currently it is very limited in practice. The application process is highly competitive, as the State of Washington has limited resources allocated to it from the Federal government, and is free to increase the above standards. Current allocation is $1.95 per resident, which equates to approximately $13.3 million in 2011. Further, the projects are subject to a 50+ year use agreement with the State of Washington. This means that the property must remain an affordable housing project for 50 years in order to be eligible for consideration. While most nonprofit housing developers will find a 50 year use agreement acceptable, many individual landowners and developers will not agree to such a long term use restriction on a property.

LIHTC allocations are also impacted by the fluidity of the state's housing priorities, as indicated above. These priorities are manifested in a scoring mechanism for the competing projects. With this scoring, the state can prioritize eligible projects by its current goals. Within the city of Seattle, at this time, the scoring is weighted heavily towards projects that provide permanent homeless housing,

68 Delvac, William F., Susan Escherich, and Bridget Hartman. 1994. *Affordable housing through historic preservation: a case study guide to combining the tax credits*. Washington, DC: U.S. Dept. of the Interior, National Park Service, Preservation Assistance, 12-16.

due to the City and King County's "Ten Year Plan to End Homelessness."[69]

Despite the present day difficulty for accessing the benefits of the LIHTC in the International District, since 1986, this tax credit has been used by SCIDPDA and InterIm on three of their historic properties.

- Bush Hotel: 95 units of low-income housing, 73 units reserved for residents earning 40% of the Area Median Income (AMI) and 22 at 50% of AMI.

69 Committee to End Homelessness website. *http://www.cehkc.org/plan10/plan.aspx*. (Accessed May 5, 2012), archived at *http://www.webcitation.org/68CO24z2A* on June 5, 2012.

% AMI	Studio	1 BR	2 BR	3 BR	4 BR	5 BR
60%	$924	$990	$1,188	$1,373	$1,531	$1,690
50%	$770	$825	$990	$1,144	$1,276	$1,408
45%	$693	$742	$891	$1,029	$1,148	$1,267
40%	$616	$660	$792	$915	$1,021	$1,127
35%	$539	$577	$693	$801	$893	$986
30%	$462	$495	$594	$686	$765	$845

Figure 31. Maximum Rent Chart

Maximum rents for projects based on unit size in the Low Income Housing Tax Credit program. 2012 limits. *Source: Washington State Housing Finance Commission.*

% AMI	1 Person	2 People	3 People	4 People	5 People	6 People	7 People	8 People
80%	$49,280	$56,320	$63,360	$70,400	$76,080	$81,680	$87,360	$92,960
60%	$36,960	$42,240	$47,520	$52,800	$57,060	$61,260	$65,520	$69,720
50%	$30,800	$35,200	$39,600	$44,000	$47,550	$51,050	$54,600	$58,100
45%	$27,720	$31,680	$35,640	$39,600	$42,795	$45,945	$49,140	$52,290
40%	$24,640	$28,160	$31,680	$35,200	$38,040	$40,840	$43,680	$46,480
35%	$21,560	$24,640	$27,720	$30,800	$33,285	$35,735	$38,220	$40,670
30%	$18,480	$21,120	$23,760	$26,400	$28,530	$30,630	$32,760	$34,860

Figure 32. Maximum Houshold Income Chart

Maximum household income for all tax credit and bond financed properties. Based upon 2012 median income of $88,000 for a four-person household. *Source: Washington State Housing Finance Commission.*

New Market Tax Credits in the International District

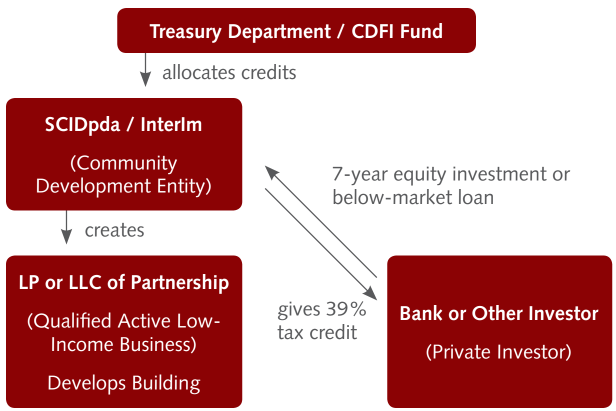

Figure 33. NMTC Flow Chart

Year	Funding Sought	Funding Available	# Allocations
2003	$ 26.0 billion	$ 2.5 billion	66
2004	$ 30.0 billion	$ 3.5 billion	63
2005	$ 23.0 billion	$ 2.0 billion	41
2006	$ 28.3 billion	$ 4.1 billion	63
2007	$ 27.9 billion	$ 3.9 billion	61
2008	$ 21.3 billion	$ 5.0 billion	102
2009	$ 22.5 billion	$ 5.0 billion	99
2010	$ 23.5 billion	$ 3.5 billion	99
Total	**$ 202.5 billion**	**$ 29.5 billion**	**594**

Figure 34. New Market Tax Credit Funding

Application demand and available allocations, 2003–2010.
Source: New Markets Tax Credit Coalition.

- Eastern Hotel: 46 units of low-income housing, with all 46 reserved for residents earning 45% of AMI.
- N-P Hotel: 62 units of low-income housing, with 32 units reserved for 35% of AMI, and 30 at 50% of AMI.

New Markets Tax Credits

The New Markets Tax Credit (NMTC) was created in 2000 to spur economic revitalization and investment into low income neighborhoods, as defined by a census tract where over 20% of the residents are at, or below, poverty level, and where the median family income does not exceed 80% of the area median. 39% of the allowable expenditures can be used toward the credit, over a 7 year time frame—5% in the first 3 years, and 6% in the remaining 4 years.[70] This investment is usually either in the form of equity, in which the investor gains an ownership share, and the tax credit increases their return to account for the lower performance of the project invested in. Or the investment is treated as equity, but is in fact a loan with below terms, with features such as interest rates at 50% or lower than the prevailing rates. Again the tax credit makes this an attractive investment, since the loan terms are not market rate. A private investor, which is typically a bank, receives the credit when they

70 New Markets Tax Credit Coalition website. *http://nmtccoalition.org/new-markets-tax-credit/fact-sheet/* (Accessed April 16, 2012), archived at *http://www.webcitation.org/68CO3hL3R* on June 5, 2012.

provide a Qualified Equity Investment (QIE) (capital) to a Community Development Entity (CDE). The CDE, in turn, uses the capital to make loans or investments in businesses and projects in areas that qualify, which are called Qualified Low Income Community Investments (QLICI). The 2011 NMTC Progress Report credits the program with raising $4.43 billion towards QIEs made to CDEs, which represented a 50% increase over 2009, with an expected $3.8 billion to be made in 2011.[71]

The application process that CDEs complete is highly competitive, as there is far more demand than funds available. The New Markets Tax Credit Coalition has reported that in the 8 years between the 2003 and 2010 there was an application demand of $202.5 billion, with an available allocation $29.5 billion, which was spread among 594 allocations. Due to this demand and the rigorous application requirements, this credit, like the LIHTC, is generally only useful to organizations in the International District such as SCIDPDA, rather than individual property owners and associations.

In addition, the primary focus of the NMTC is for commercial, non-housing real estate development. Thus, to be applicable to the subject buildings in the International District, more than 20% of the building's income must come from commercial tenants. Due to this restriction, only 15% of NMTC monies went toward mixed use and housing projects in 2010.[72] In addition, while 80% of the project may be residential, the credit can be used for the entire development. For depreciation purposes, the property will be treated as a non-residential property.[73]

Use of the NMTC can allow a project to proceed if the rental income is not enough to support a project. This is due to the leveraged structure that can be used by investors in the NMTC, which blends the rates of the different sources of funds and the low-cost NMTC equity. As shown in the example below, the use of low-cost NMTC equity can allow LISC to fill this capital gap by "stretching" these other sources by as much as 33%.

For example, it might cost $11 million to build a super-market anchored commercial center in an underserved low-income community. An appraiser might consider this to be a weak rental market, and thus may appraise the completed project at $8 million. A bank might be willing to make a $6.4 million loan, based on an 80% loan-to-value. The developer might be able to raise $2.2 million of equity based on the projects net operating income.

71 New Markets Tax Credit Coalition. *http://nmtccoalition.org/wp-content/uploads/NMTC-2011-Progress-Report-FINAL-6-1-11.pdf*

72 New Markets Tax Credit Coalition *http://nmtccoalition.org/wp-content/uploads/NMTC-2011-Progress-Report-FINAL-6-1-11.pdf*

73 New Markets Tax Credit Coalition *http://nmtccoalition.org/rules-regulations/nmtc-statute/* (Accessed April 10, 2012), archived at *http://www.webcitation.org/68CO6hUQT* on June 5, 2012.

The investor may be able to fill the gap by issuing a QEI that leverages the different sources of loans and using the proceeds to make a QLICI. After subtracting the various costs related to closing the NMTC transaction, the project has access to $2.4 million in additional financing.[74] It is reported in the neighborhood that the NMTC, along with low interest loans from the City, as the primary source for capital in the most recent projects. This is due to the inaccessibility of LIHTC funds, as discussed above.

Historic Preservation Designation and Incentives

As mentioned above, there exists the legal precedent, and political support, for historic preservation efforts. However, legislative bodies have found that legal enforcement of preservation laws have been insufficient in furthering the goals of historic preservation. Thus, it has become necessary to discover ways in which landowners can be legally encouraged to preserve historic buildings. Said another way, simply restricting use of a historic property has proven insufficient in achieving the objectives of historic preservation.

The following is a discussion of the multiple incentives that are directly applicable to the rehabilitation of the historic buildings in the International District.

Federal Historic Preservation Programs

National Historic Preservation Act of 1966

The National Historic Preservation Act is the critical piece of the federal efforts to protect historic properties. As its main purpose, this act mandates the government to take into account the effect of any federal undertakings, which includes any project that receives any level of federal support, on historic districts, sites and buildings on the National Register. This has become popularly known as the "section 106" process.[75] It established the National Register of Historic Places, the criteria of which is the basis for many state and local registers, and it serves as a means to coordinate the varying public and private preservation efforts. The act also created the office for State Historic Preservation Officers (SHPO), which is governed by the

74 New Markets Tax Credit Coalition *http://www.newmarkets.org/section/lisc_newmarkets/faq#what_nmtc*. (Accessed April 10, 2012), archived at *http://www.webcitation.org/68CO8H0xG* on June 5, 2012.

75 Cullingworth, Barry J. 1992. *Planning Perspectives, Vol 7. 65-79;* "Historic Preservation in the US: From Landmarks to Planning Perspectives." 68.

National Park Service.[76] SHPO will review any project that affects an historic property or district, and will render an assessment of what affect there may be. This memorandum, while not necessarily binding, serves to provide a process to review potential adverse action to historic properties and districts. However, Section 4(f) of the Department of Transportation Act will require historic review, and mitigation, just as it would in an environmental impact assessment for any transportation project that receives any federal funds.[77]

The chart in Figure 35 helps clarify the roles and responsibilities of the different levels of government.

Historic Rehabilitation Tax Credit

The IRS, through a program introduced in 1977, and administered by the National Park Service and SHPO,

76 Mandelker, et al. 2008 *Planning and Control of Land Development: Cases and Materials 7th Edition*. Newark, New Jersey: LexisNexis, 954.

77 Ibid., 955.

Figure 35. Washington State Landmark Designation Programs

Right: Comparison of landmark designation programs in Washington State. *Source: Mimi Sheridan, Sheridan Consulting Group.*

National Register of Historic Places	
Does:	**Does not:**
▪ Provide recognition of historic properties and their importance. ▪ Require consideration of the potential effect of federal and federally assisted projects on historic resources. ▪ Qualify historic districts for highway identification signs.	▪ Prohibit demolition or alteration of listed buildings. ▪ Mandate that a property be restored or maintained. ▪ Require an identifying sign. ▪ Require public access to a property.

Washington Heritage Register	
Does:	**Does not:**
▪ Provide recognition and appreciation of properties significant in the development of Washington State.	▪ Prohibit demolition or alteration of listed buildings. ▪ Mandate that a property be restored or maintained. ▪ Require an identifying sign. ▪ Require public access to a property.

Typical Local Register Program	
Does:	**Does not:**
▪ Qualify a property for local tax incentives such as property tax reductions. ▪ Implement a process to review and approve alterations to a listed property. ▪ Qualify a property owner for local grants, technical assistance and other programs, when available.	▪ Prohibit alteration, but does require review of any changes to assure that building character is maintained. ▪ Prohibit demolition, but does have stringent requirements for demolition approval. ▪ Mandate that a property be restored or maintained. ▪ Require an identifying sign. ▪ Require public access to a property.

Rehabilitation Tax Credit Requirements

Rehabilitation projects must meet the following Standards to qualify as "certified rehabilitations" eligible for the 20% tax credit for historic preservation. The Guide

The Standards are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility.

- A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
- The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
- Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
- Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
- Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.
- Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
- Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
- Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
- New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
- New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

Figure 36. Secretary's Standards for Rehabilitation

Source: United States National Park Service.

provides investment tax credits for certified rehabilitation expenses on historic buildings. The program has undergone some modification since its creation, most notably with the tax reforms of 1986 that limited the value of the credit from 25% to 20%, and also contained a more limited focus on approved buildings.[78]

The incentive functions as a tax credit to the owner/developer of the historic property. The taxpayer is able to claim as a credit 20% of their qualified rehabilitation expenses incurred on a certified income producing historic structure, spread over five years. In Washington State, the taxpayer works with SHPO for approval and guidance on the rehabilitation effort—although the National Park Service has final authority. The following is a summary provided by the National Park Service to provide guidance towards the 10 standards of rehabilitation that the NPS, through SHPO, will govern projects.

Further to the qualified projects that are eligible for the credit. The qualified expenses must exceed the adjusted basis of the improvements within a 24 month measuring period. For example, if a building that is undergoing rehabilitation is valued at $1,000,000, with the land being worth $600,000, and the improvements valued at $400,000—rehabilitation expenditures must exceed $400,000. To be sure, the credit is not limited by the $400,000, as the credit can be applied to the full value qualified expenditures well in excess of the improvement value of a property. When the measuring period begins is at the discretion of the owner/developer, allowing a great deal of flexibility.[79]

Since many public agencies and non-profit organizations do not have a tax liability to apply the credits against, there are still mechanisms for them to take advantage of the tax credit. It is possible to transfer, or syndicate, the tax credits to a corporate investor.[80] The majority of the corporate investors in the HTC and LIHTC markets are community development banks, as the purchase of these credits enhances their standing with Community Reinvestment Act (CRA) compliance. In these situations, the corporate investor may buy the credits, typically around $0.80 to $0.85 on the credit dollar.

To accomplish the syndication and realize the credits, the owner/developer and the investor, must form either a limited partnership or limited liability corporation. The

78 Fisher, Charles E. 1997. “Historic Preservation Tax Incentives program: the first 20 years”. *CRM: [Bulletin].*20 (6): 6.

79 Delvac, William F., Susan Escherich, and Bridget Hartman. 1994. *Affordable housing through historic preservation: a case study guide to combining the tax credits*. Washington, DC: U.S. Dept. of the Interior, National Park Service, Preservation Assistance.

80 National Trust Community Investment Corporation. *http://ntcicfunds.com/tax-credit-basics/federal-tax-credit-basics/utilization/* (accessed March 22, 2012), archived at *http://www.webcitation.org/68CO9OuQg* on June 5, 2012..

investor must remain an owner for five or more years, as well.

However, there are multiple issues to consider with syndication. The first, most clearly, is to be certain that the owner is a tax exempt organization, or does not have sufficient taxable income to take advantage of the credit themselves—or simply does not wish to claim them. However, even if the owner/developer has the potential to use the credits for their own purposes, it is more common to sell the credits as a means to raise equity in a project. The owner must also weigh whether they are will took take on a limited partner, or another LLC member, as it would lessen rental income and tax benefits available to them. In addition, there is an increase in transactions costs inherent in any additional layer of ownership.

Façade Easement

If a building is listed on the National Register of Historic Places, or is a contributing building in an historic district that is listed, it is eligible for the donation of the façade easement. In this incentive program, and landowner can sell, or grant an easement to the exterior façade of a building to a 3rd party. This 3rd party, either a private organization or government agency, is responsible for monitoring any changes to the exterior façade. In some states, this is done for no further value than what the 3rd party may offer.[81] In Washington State, the owner of the property may deduct the value of easement as a charitable expense.[82] A façade is typically valued at 10-15% of the total value of the property.[83] In the research in the International District, no properties were found to have taken advantage of this program.

Tax Deduction for Donations of Interest in Historic Properties

This particular incentive functions in a similar way to a façade easement, in which all, or some, of a historic structure can be treated as a charitable contribution to a preservation organization. These donations are often taken in the form of easements granted to preservation organizations, and function as a deed restriction. The easement can be donated, sold or surrendered to the 3rd party. Once this has been done, with the value negotiated between the two parties, development rights; including the right to demolish, modify, or use the structure in ways that are harmful to its preservation, have been surrendered.[84] Similar to the façade

81 Mandelker, et al. 2008. *Planning and Control of Land Development: Cases and Materials 7th Edition*. Newark, New Jersey: LexisNexis, 953.

82 "Historic Preservation in Seattle: A Guide to Incentives and Procedures." City of Seattle Department of Neighborhoods Publication, 6.

83 Kearns, J. M. 2003. "Demystifying the Federal Historic Preservation Tax Incentive Program". *CPA JOURNAL*.73: 42.

84 Roybal, Paul I. 1994. *The economics of rehabilitating historic properties: designing incentives that work*. Thesis (M. Arch.)--

easement, no examples were located in the International District of this program being utilized.

Federal Subsidies and Direct Appropriations

There are several federal subsidy programs available to historic rehabilitation projects, conditioned upon the project containing an affordable housing component.

- HUD Section 8 assistance provides rental assistance through subsidized rental payments made by the federal government, on the behalf of low income residents. Low income is classified as tenants earning 80%, or less, of the area median income.
- HUD Section 312 loans provides low interest loans to property owners for development, or rehabilitation.
- HUD Section 207 grants assist in the provision of affordable housing by federally insuring loans made by private lenders to developers of affordable housing.
- The Historic Preservation Fund provides grants for rehabilitation of historic properties, acquisition of historic property easements and general historic preservation planning purposes.[85]

University of Washington, 1994, 21.

85 Ibid., 23.

Washington State Incentives

Special Tax Valuation for Historic Properties

For purposes of administering the Special Valuation of Property Act, the Seattle Landmarks Preservation Board acts as the Local Review Board. Eligible properties, as defined by City Council, are designated landmarks subject to the controls imposed by a designating ordinance or contributing buildings located within National Register or local historic districts.

Under this program, the direct costs of rehabilitation are deducted from the assessed property value for 10 years. The allowable expenses were modeled after the Federal Historic Rehabilitation Tax Credit, which allows these two credits to be used in conjunction with each other with greater ease. Prior to this 1985 law, a property owner would be faced with an increased tax bill due to the renovations they have made—as they would with any other property. The special tax valuation is to counter this disincentive for restoring historic properties. The property owner, and subsequent owners, must then conform to the standards set by the Landmarks Preservation Board for the duration of the special valuation period.[86]

86 "Historic Preservation in Seattle: A Guide to Incentives and Procedures." City of Seattle Department of Neighborhoods Publication, 4.

However, this valuation on its own is often not enough to make preservation on its own financially feasible. Notable rehabilitations such as the downtown Seattle flagship Nordstroms and Macy's stores have taken advantage of this credit, as they were already on the register of historic properties. Certain smaller projects, that include buildings that are not already on the register, but eligible, have found that the special tax valuation not to be financially feasible. While the valuation provides a benefit, the controls that may have been put into place, and the costs associated with those controls, outweighed the benefit—especially when the future savings were discounted to the present using a net present value calculation (NPV), and a conservative hurdle rate, or cost of capital.

In addition, only certain expenses qualify. Qualified rehabilitation expenditures are expenses chargeable to the project; including:

- improvements made to the building within its original perimeter,
- development management fees,
- architectural and engineering fees,
- permit and development fees,
- loan interest,
- utilities, taxes and insurance costs during the construction period,
- state sales tax,
- and other expenses incurred during the rehabilitation period.

What is not included are the following:

- Costs associated with the acquisition of the building
- Costs related to enlargement the building.
- Any costs of valuation and permanent financing of the property,
- Overhead costs or other "costs of doing business."

As is the case with most incentives, the property must undergo an approved rehabilitation, and rehabilitation costs must equal, or exceed, 25% of the assessed value of improvements, exclusive of land value, prior to the rehabilitation.[87]

King County Incentives

Current Use Tax for Open Space

Under this tax relief program, eligible property owners can apply for a reduction in the property tax due to the under-utilization of the property. The land portion of the property is taxed at its "current use," rather than the "highest and best use." Thus, the land portion of the property tax bill

87 City of Seattle Department of Neighborhoods website: Incentives. *http://www.seattle.gov/neighborhoods/preservation/* (accessed March 17, 2012), archived at *http://www.webcitation.org/68COANs8A* on June 5, 2012.

could be reduced by up to 50%. This tax can carry with it conditions, such as public access, and the opportunity for development must be present.[88]

However, while this incentive is publicized, in part, as a historic preservation incentive, it is intended for preserving open spaces. Farm lands, and other rural uses, are the targeted properties. In only one instance has this incentive been applied to a property in the city of Seattle. This was a single family home in Queen Anne that was zoned for a more intensive use, and in exchange for receipt of this credit, dedicated part of its yard as open space. In short, this incentive would not be applicable in the International District.

4Culture Grants

In this program offered through King County, business and property owners can apply for matching grants to make a variety of physical improvements to their buildings. The grants are matching, dollar for dollar with the recipient, and typically range in value from $5,000 to $20,000. Applications occur annually, with the expectation that the work be performed within a year of receipt. In recent years, a number of businesses and buildings in the International District have received grants. These grants have assisted in façade improvements, contributed to seismic work and some life and safety improvements. While the dollar amounts are too small to effect a rehabilitation project on the scale that is a focus of this research, the program has made a leveraged impact on the quality of the neighborhood.

88 Ibid.

Technical Assistance Services

While not a direct financial incentive, this is a program to assist eligible property owners in preservation efforts.

City of Seattle Incentives

Individual landmarks within the city of Seattle follow the same basic guidelines as other municipalities. First, the individual building is nominated, by any person or group. The Seattle Landmarks Preservation Board, at a public meeting, will then weigh the merits of the application based upon designation criteria. The criteria, in short, are as follows;

- Is the site associated in a significant way with an important historical event?
- Is it associated in any way with the life of a person of importance to the history of the city, state or nation?

- Is the site associated in a significant way with the cultural, political or social history of the city, state or nation?
- Does the site hold significant architectural significance?
- Is it an outstanding work by a designer or builder?
- Is it a prominent building based upon location, siting or age?[89]

If the site is approved for designation, then the Board will negotiate with the building owner for controls and incentives for the property. This will make it clear what control the owner retains over the building and land. The final step is Seattle City Council approval. Again, contributing buildings in the historic core of the International District can bypass this process, and are already eligible for the incentives.

Zoning Code Relief

In this program, the DPD is able to authorize a land use that would otherwise not be permitted in that zone for a landmarked structure. The DPD Director may also waive or modify standards for open space, setbacks, width and depth limits for screening, and landscaping for designated landmark structures or within a landmark or special review district.[90] In short, being a landmark can be grounds for a variance. Further, certain density standards may be possibly waived, or modified. In addition, there is the opportunity for the DPD Director to deny any development bonuses that may have been applicable if the project involves the demolition of a landmark structure.

In the International District, zoning code relief is not anticipated to make any significant impact. The IDM zone, which encompasses the historic core, is already a mixed use area with most uses permitted. The intent of this relief is better suited to a single family landmark structure in a residential zone, which would allow the building to become a bed and breakfast, for example.

Building Code Relief

Under this program, the Seattle Building Code may be modified to meet the special circumstances of the historic structures.

It is important to note, that fire and safety code compliance is still paramount. For example, specific to the historic core of the International District, it was new fire safety laws implemented in the 1970s that created the vacancy issue that persists today. The older SROs were unable to complete the upgrades due to financial constraints.

89 "Historic Preservation in Seattle: A Guide to Incentives and Procedures." City of Seattle Department of Neighborhoods Publication, 3.

90 City of Seattle Land Use Code 23.47.027. *http://clerk.ci.seattle.wa.us/~scripts/nph-brs.exe?d=CODE&s1=23.47A.027.snum.&Sect5=CODE1&Sect6=HITOFF&l=20&p=1&u=/~public/code1.htm&r=1&f=G* (accessed March 5, 2012), archived at *http://www.webcitation.org/68COBoScx* on June 5, 2012.

Transfer Development Rights

Transfer Development Rights (TDRs) were originally conceived of as a way to remedy the issue that historic preservation laws, like most land use regulation, often diminishes the value of a property. To remedy the legal issue surrounding takings, which is when the diminution leaves the owner with no reasonable use of the property, the TDR acts as the reasonable use.[91]

In Seattle, TDRs are between properties that are generally not adjacent to each other—as is often the case in other municipalities. The concept is simple enough, but the application can be very complex, and rules vary significantly across the city. If a site that is restricted due to landmark status, the property owner is able to sell the unused development potential to other landowners within a prescribed area. The transfer from the sending lot to the receiving lot lasts the life of the property on the receiving lot.[92]

The contributing historic buildings within the IDM zone, which encompasses all but a half block of the Historic Core, have the potential to sell their development rights. These buildings may sell TDRs that are the equivalent of six times the lot area, less the existing improvements. It is

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91 Mandelker, et al. 2008. *Planning and Control of Land Development: Cases and Materials 7th Edition*. Newark, New Jersey: LexisNexis, 965.

92 Ibid., 5.

Transfer of Development Rights Process

1. A land use action is initiated by the owner with Seattle Department of Planning and Development.
2. Eligibility is determined to be a sending site for TDRs. Considerations include whether the housing is safe and habitable, and whether the building is in conformance with ISRD guidelines.
3. Lot area is verified.
4. Lot area is multiplied by a factor of six.
5. The chargeable floor area (floor area above ground) is subtracted from the above number.
6. Any previously sold TDRs are subtracted.
7. The final number cannot exceed a factor of three times the lot area.
8. The ISRD reviews the application, and if appropriate, recommends to the Director of Neighborhoods approval of the TDRs. These will be subject to covenants negotiated between the owner and the ISRD.
9. Certification letter is issued.
10. TDRs can be marketed, typically through a land use attorney or a specialized commercial broker.
11. A privately negotiated transaction is recorded with title.

Figure 37. The Transfer of Development Rights Process

Source: Seattle Land Use Code for South Downtown TDRs.

important to note that buildings on the sending lot must be maintained in compliance with ISRD guidelines. Further, if they are sending housing TDRs, they must have been rehabilitated to the extent that they provide "decent, sanitary and habitable conditions."[93] Figure 37 provides the general process associated with selling TDRs.

In sum, the potential to sell TDRs is attractive, but subject to regulatory conditions that may make it difficult to achieve for some properties. In addition, even though these are privately negotiated transactions, there is little evidence that there is an active market for TDRs from sending sites in the South Downtown neighborhoods. This is in part due to the recent up-zone of surrounding areas that has had the adverse effect of diminishing the value of any existing TDRs, as the capacity for new development has been created without applying TDRs. This is expected to change, as the city is reported to be nearing the point of funding its TDR bank. The city has also recently began certifying the amount of TDRs available on certain structures, at the property owners' request. It is anticipated that the construction of the three proposed Amazon office towers in South Lake Union will require the purchase of TDRs. It has also been reported that TDRs typically sell on the private market in the range of $15-$22 per transferable square foot.

93 City of Seattle Land Use Code 23.49.014. *http://clerk.ci.seattle.wa.us/~scripts/nph-brs.exe?d=CODE&s1=23.49.014.snum.&Sect5=CODE1&Sect6=HITOFF&l=20&p=1&u=/~public/code1.htm&r=1&f=G* (accessed March 26, 2012), archived at *http://www.webcitation.org/68COD9SJ9* on June 5, 2012.

City of Seattle Affordable Housing Programs

Office of Housing Programs for Affordable of Housing and Preservation

There are a variety of programs offered through the Office of Housing to subsidize, through grants and low interest loans, affordable housing projects. While these are not specific to historic preservation efforts, they can be used for rehabilitation of existing buildings. Much of the funding for these programs comes from developer fees, where developers pay into a fund in exchange for greater density, the City of Seattle Housing Levy and community block grants provided by the Federal Government. It is reported by affordable housing developers in the International District that these low interest loans are the single greatest factor in the financial feasibility of rehabilitation projects, outside of NMTC and LIHTC.

For example, the HOME Program has $3.7 million in 2012 to allocate.[94] 60% of the loans made recently have

94 City of Seattle, 2012 Update to the City of Seattle 2009-2012 Consolidated Plan. *http://www.seattle.gov/housing/planning/docs/ConPlan2012update.pdf.* (Accessed February 28, 2012).

been for providing rental housing to residents that earn no more than 30% AMI. The program can typically cover 25% of development costs. The table below[95] shows the rent that can be charged for developments that take advantage of this program at the current prescribed level.

Unit Size	30%	40%	50%	60%	65%	HUD 80%
Studio	$462	$616	$770	$924	$1,001	$1,137
1 BR	$495	$660	$825	$990	$1,072	$1,218
2 BR	$595	$792	$990	$1,188	$1,287	$1,462
3 BR	$686	$915	$1,144	$1,373	$1,487	$1,690
4 BR	$766	$1,021	$1,276	$1,531	$1,659	$1,885
5 BR	$845	$1,127	$1,408	$1,690	$1,831	$2,080

Multifamily Property Tax Exemption

In another property tax incentive, certain rehabilitated properties may be eligible for the multifamily property tax exemption. With this incentive, the residential portion of a building is exempt from property taxes for 12 years. Qualification may prove difficult with existing buildings, however. This is due to the condition that at least four new units must be added, and current residents cannot be displaced. With the current historic buildings in the International District already containing a high number of units, and the addition of more floors problematic, this incentive may not be relevant. In addition, many of the buildings that were formerly SRO hotels need to actually *reduce* the number of units in service, rather than increase, due to the need to increase the size of the units for modern standards. Finally, 20% of residents must earns 80-90% of AMI, which would not be a difficult hurdle for the properties in the International District.

Incentives Not Directly Applicable/Not Modeled

The following incentives were excluded from further research and financial modeling, as they were considered to not be relevant to the International District properties:

- Landmark Performing Arts Bonus,
- High Rise Residential Bonus,
- Downtown Residential Zone Bonus.

95 City of Seattle Office of Housing. *http://www.seattle.gov/housing/development/limits_Multifamily.htm* (Accessed March 1, 2012), archived at *http://www.webcitation.org/68DuZmfPj* June 6, 2012.

Incentives Available by Property Type

Level	Incentive	Historic Contributing Mixed Use	Non-Contributing Mixed Use	Contributing Single Use Multifamily	Non-Contributing Single Use Multifamily	Contributing Non-Residential	Non-Contributing Non-Residential	New Construction
Federal	Historic Rehabilitation Tax Credit	X		X		X		
	New Markets Tax Credit *	X	X			X	X	X
	Low Income Housing Tax Credit *	X	X	X	X			X
	Façade Easement	X		X		X		
	Tax Deduction for Donations of Interest in Historic Properties	X		X		X		
	Subsidies Through HUD *	X	X	X	X			X
	Historic Preservation Fund Grants	X		X		X		
State & Local	Special Tax Valuation for Historic Properties	X		X		X		
	Current Use Tax for Open Space	X		X		X		
	Zoning Code Relief	X		X		X		
	Building Code Relief	X		X		X		
	Transfer Development Rights	X		X		X		
	Office of Housing Funds/Loans *	X	X	X	X			X
	Multifamily Property Tax Exemption *	X	X	X	X			X

* Affordable Housing Required

Figure 38. Matrix of Incentives by Property Attribute

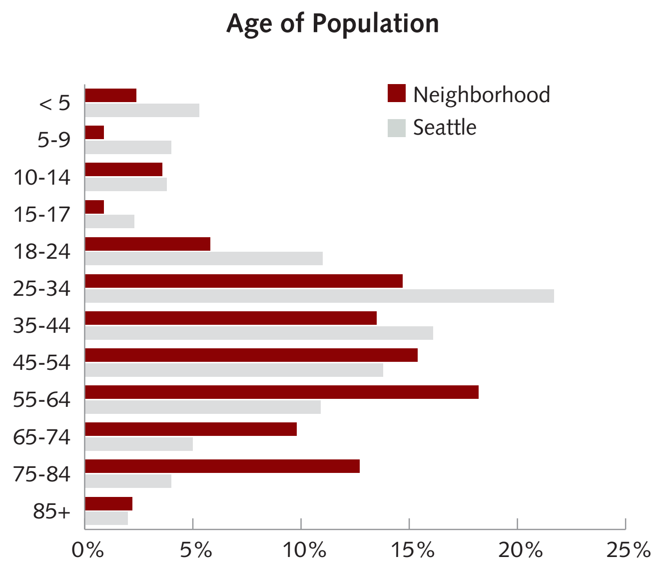
This table summarizes the relevant incentives by building type. Buildings referred to as "contributing" indicate historically significant buildings in the National Register District. "Non-contributing" buildings are those built outside of the Period of Significance of 1907-1937, or have been altered to the point where they are no longer significant. "Mixed use" indicates the building contains residential, as well as another use, such as retail.

Part 6: Real Estate Feasibility

A traditional feasibility analysis takes into account what is legally permissible, politically possible and financially feasible. The rehabilitation projects discussed in the research are legally permissible, as articulated above in the discussion of the legal framework of the International District. The political sensitivity of the issue has been addressed as well with the discussion of the neighborhood context. What remains is the financial feasibility of the rehabilitation projects below. Further to this goal, a more complete understanding of the neighborhood demographics, rent levels and assumptions used to develop the pro formas is required. In addition, the unique risks associated with re-development of the historic buildings, which may be owned by Chinese family associations, is explored as well.

Neighborhood Demographics

As referenced in the neighborhood history, the International District can be considered the only truly pan-Asian neighborhood in North America. Historic, and current, census data consistently show the neighborhoods to the south of Downtown Seattle to be some of the most diverse in the nation. In addition to being diverse, the area is increasing



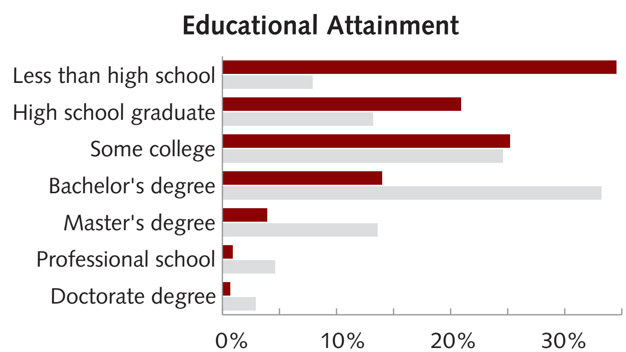


Figure 39. Age and Education

Age and population in Census Tracts 91 and 92. *Data source: American Community Survey 2009 5-Year Estimate.*

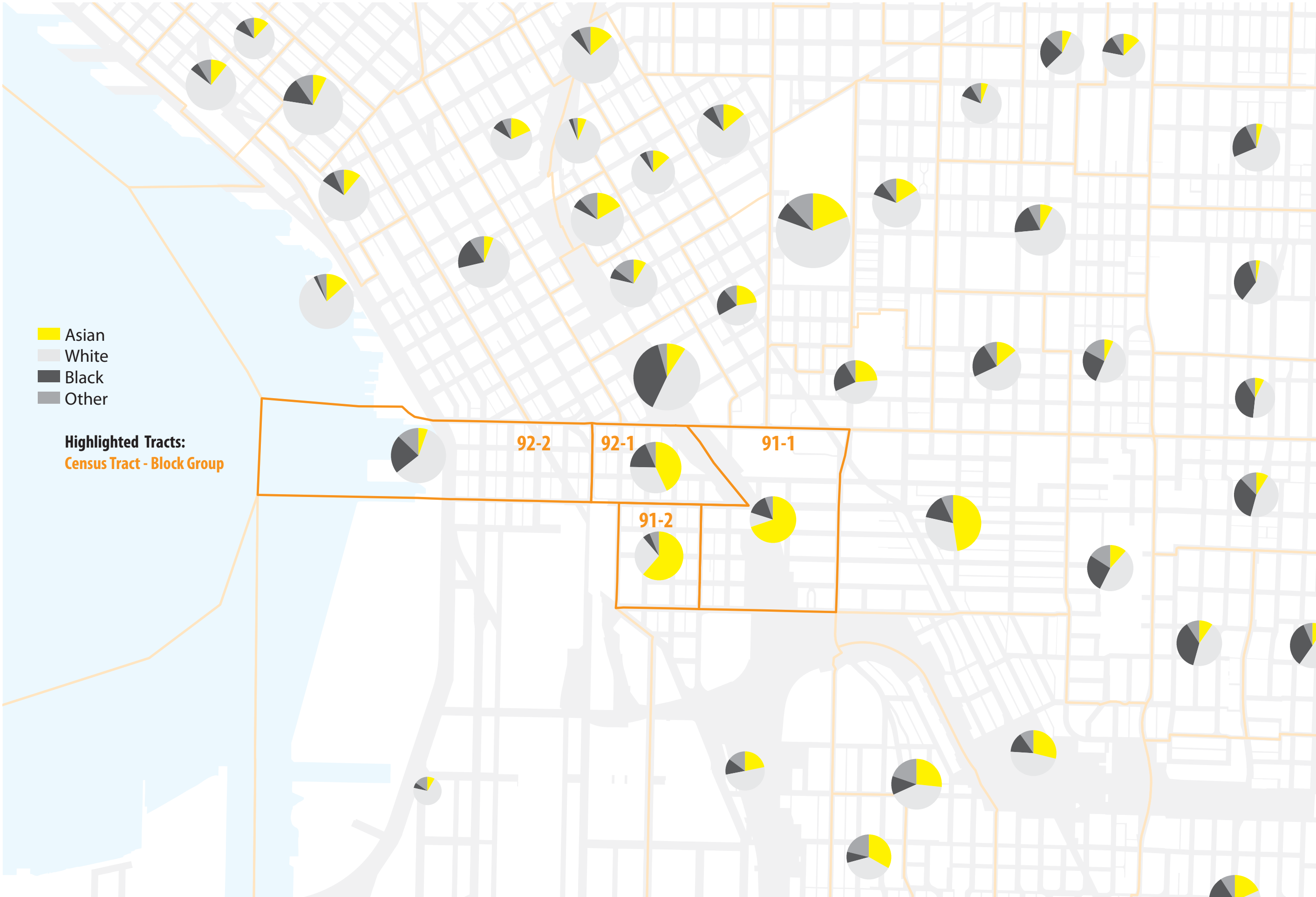


Figure 40. Demographic Composition

Racial composition of the South Downtown neighborhoods, including the International District, and the immediate surrounding area. *Data source: 2010 US Census.*

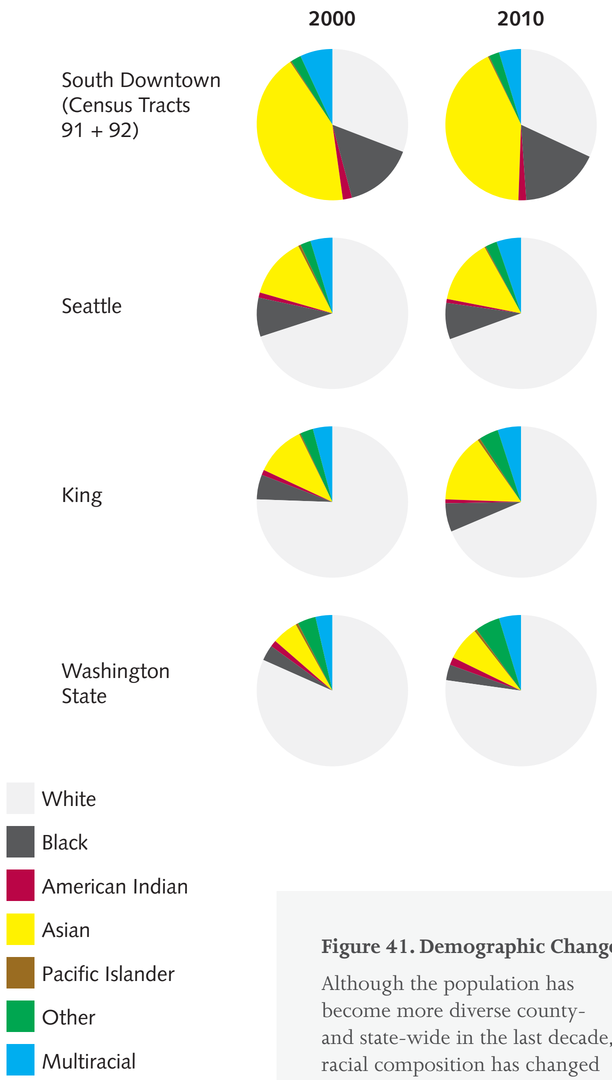


Figure 41. Demographic Change

Although the population has become more diverse county- and state-wide in the last decade, racial composition has changed markedly little locally. *Data source: US Census.*

in population density—a trend that will be encouraged with the recent up-zone of the neighborhood. However, the statistics below reflect a neighborhood in distress. For purposes of demographic information, Census Tracts 91 and 92 were analyzed.

Key Information From the 2010 US Census at the Neighborhood Level

- Consistent 6% vacancy rate.
- 1,118 new housing units, representing a 49.6% increase.
- 38% increase in population density.
- Washington State's household size maintained 2.6, while the household size in the two census tracts decreased almost 9% to 1.68 people per household.

In sum, in the last decade, Washington State has increased in diversity and 14% in population size. However, the average household size and vacancy rates in the state as a whole remained stable. The International District, in contrast, maintained roughly the same diverse racial composition, but grew at a much more rapid rate, and slightly decreased the household size to 1.68—well below the state average.

American Community Survey Socio-Economic Indicators

Review of the 2009 ACS 5 Year Estimates reiterated much of the 2010 Census data above, however many of the indicators also reveal a neighborhood in distress. The second census tract, which includes some of the International District, also includes most of Pioneer Square, which is the location of many of the city's social services for its homeless and disadvantaged population. Thus, ACS and US Census numbers are consistently going to reflect income and educational disparities that reveal significant disadvantages between the neighborhood and the city as a whole.

The numbers also reflect—especially in the area covered by Census Tract 91, which is centered on the historical core of the International District—an older, predominantly Asian population. A few of the newer apartment developments in the area have been purpose built as low income retirement homes. This contributes to the International District's reputation as not a place where affluent, or growing family's stay, but rather a retirement area with a high concentration of social services.

Key indicators from the American Community Survey are below;

- 47% of neighborhood population not in the labor force, compared to 27% in Seattle.
- 12% neighborhood unemployment, compared to 5.9% in Seattle.
- Neighborhood median household income of $15,721, compared to $58,990 in Seattle.
- Neighborhood average household income of $31,537, compared to $83,970 in Seattle.
- 10% of the neighborhood households receive public assistance income, compared to 2.6% of Seattle.
- 19% of the neighborhood households receive Supplemental Security Income (SSI), compared to 3% of Seattle.
- 82% of the neighborhood residents live in buildings with greater than 20 units, compared to 26% of Seattle.

Neighborhood Rental Market

Related to this condition of a high concentration of a low income residents, the International District housing inventory can be classified as almost exclusively affordable.

	0-30% AMI	31-50% AMI	51-80% AMI	>80% AMI	Totals
Pioneer Square	425	201	180	345	1,151
International District	735	764	520	507	2526
Total in study areas	1,160	965	700	852	3,677
Percent of study area	32%	26%	19%	23%	100%

As referenced above, roughly 25% of the housing is occupied by residents earning 80%, or more, of the area median income. The Housing Resources and Impact Analysis of the South Downtown neighborhoods found that only 34%

Figure 42. Neighborhood Use Map

Neighborhood use map indicating the predominant use of each parcel, as well as the location of the vacant and underutilized buildings. *Data source: King County Assessor; author observations.*

of the housing inventory is market rate rentals—with even these rents considered affordable, but are owned by for-profit groups—56% subsidized rentals and only 10% owner-occupied housing. This is in comparison to 38% of the rest of Downtown housing as subsidized. The same report found that Belltown, which has the greatest concentration of housing in Downtown, has rents of $2 per square foot, per month, while the International District is $1.65.[96] The survey conducted, and referenced below, for this report has found that these rents have now increased from the numbers above due to rent appreciation since the time the report was written with Downtown Seattle rents in excess of $2.50 ft/mo for newer projects. Thus, the rent differential has actually increased between Downtown and the International District.

Vacant and Under-Used Buildings

The following buildings, shown in Figure 42 have been identified as vacant, are only partially occupied, or remain as SROs:

- The Eclipse Hotel, 670 S Weller St, 80 units.
- The Republic, 416 7th Ave S, rooming house.
- Hip Sing, 418 8th Ave S, 40 units.
- Kong Yick, 701 S King St, 28 units.
- Louisa, 665 S King St, 149 units.
- Publix Hotel, 504 5th Ave S, 200 units.
- Bing Kung Association, 420 7th Ave S, 34 units.
- Vacant partially below grade structure, 620 Maynard Ave S.

Risk Management

Affordable Housing Management and Market Risk

There are a number of unique additional risks associated with the operation of affordable housing in Seattle, risks that have increased over the last decade. First, the rent burden is restricted, as affordable housing developers are bound to keep rents affordable for low income tenants, and cannot simply raise rents to cover shortfalls. Second, operating expenses are higher as many tenants have special needs, and the lower rents make the expense ratio higher. In addition, the focus on ending homelessness has directed many of the city's housing resources towards even higher risk tenants—while not increasing the operation budgets to take into the account the increased costs associated with this effort. Third, underwriting loan amounts based upon debt coverage ratio amount for lower cash-flowing properties, in turn, means that there is less income available

96 City of Seattle Department of Planning and Development website, "From Housing Resources Evaluation and Impact Analysis," *http://www.seattle.gov/dpd/static/Appendix%20E1%20Housing%20Version%203%20final_LatestReleased_DPDP_022086.pdf (accessed February 15, 2012).*

to cover unexpected expenses, or ability to manage market fluctuations.[97]

In 2008, a major quantitative analysis was conducted of King County's affordable rental housing portfolio. Major finding of this study are as follows;[98]

- The majority of affordable housing developments are undercapitalized.
- 52% of the surveyed projects have a debt coverage ratio of under 1.1.
- The rent collected is only 69% of forecasted rent.
- Expenses of over half the projects are 50-75% of income.

While this survey was not specific to the International District, several of its buildings were included in the survey, including the Gee How Oak Tin, Rex Hotel, N-P Hotel and a few of SCIDPDA's buildings. Due to the rents demanded by the buildings in the International District, and the number of incentives that are typically accessed by non-profit developers, the above findings need to be taken into consideration. Stated another way, it is possible that the current vacant and under-utilized building will be eventually rehabilitated by non-profits such as SCIDPDA and InterIm, and thus the risk of reduced rents and increased operating expenses need to be properly managed.

An additional ownership risk specific to affordable housing development are the capital risks associated with 50 year use agreements. Dupre & Scott reports that the average private owner will own an apartment building for 10 to 12 years. The new owner will typically invest approximately $12,000 per unit in improvements, and access to this money was made available by the increased leverage afforded by the market driven increased rents.[99] Thus, market rate apartments, due to the nature of the ownership cycles, often receive the capital improvements necessary to continue market standard operations, while affordable housing developments often due to not receive these market driven cyclical improvements.

Ownership and Legal Risk

The unique nature of the historic buildings in the International District brings with them their own set of potential risks to a development. The buildings owned by Chinese family association bring with them a unique set of circumstances to consider and risks to mitigate. At their formation, as stated above, the associations financed construction and acquisition of buildings by selling shares to pool capital, as a result of the banks aversion at the early part

97 Housing Preservation Guide: A Guide to Preserving and Restructuring Affordable Housing, City of Seattle Office of Housing. 2011. Pg 14.

98 Gamble, Charlotte L. Asset Management Challenges: A Quantitative Assessment of the Long Term Financial Sustainability of King County's Affordable Rental Housing Portfolio. Master of Public Administration Thesis, 2008.

99 Housing Preservation Guide: A Guide to Preserving and Restructuring Affordable Housing, City of Seattle Office of Housing. 2011. Pg 16.

of the 20th Century to make loans to Chinese Americans. These partial shares of ownership have been since passed down, and divided among heirs to the relevant estates. This has created a condition that has resulted in dozens, if not hundreds, of fractional owners. This has complicated real estate transactions by creating a strong risk aversion, and results in decision making paralysis. Further, present day title insurance companies may not consider the formation of Chinese family associations as a legal way to hold title, and thus would complicate a sale or transfer of ownership, as it is conceivable that there would be no manner in which to insure clear title.

The first step for any association or corporation formed in the beginning of the 20th Century is to fully document actual ownership, and to make sure that any action undertaken by the board conforms with the stated by-laws. This process has been reported to take as long as two years in the successfully executed transactions. Select associations have then found a second step necessary to facilitate a possible transfer of title. This is to create a new legal entity, often a non-profit corporation, to hold legal title for the property. This new entity provides assurance to 3rd parties that they are legally empowered to enter into a transaction to possibly sell the building, enter into a partnership, or enter into a long term lease agreement.

In addition, IRS recapture rules govern use of the tax credit based incentives. These rules limit sales of the applicable buildings during the recapture period. For example, if an investor purchases a building, converts the residential and commercial spaces into two separate condominiums, and sells the commercial space back to the association—this runs the risk of recapture. This requires careful planning and execution of any partnership agreements that include the use of any tax credits.

For all intents and purposes, the two steps articulated above are prerequisites for any transaction involving an association-owned building. This type of time consuming process is a major obstacle to the sale of any building to a private party. In the research, the buildings that have been acquired by private parties were not purchased from associations, but rather from individual owners. It is possible that these individual owners acquired title from associations at some time in the past, but it was not found to be the case in recent transactions. It was found that the only parties that were willing to enter into these lengthy transactions were non-profit housing developers.

Part 7: Base Model

The following pro formas were created from a typical building typology found in the neighborhood, as highlighted earlier in the research. The base model does not actually represent a specific building in the neighborhood, but rather was based on typical features and size that are common. The modeled building is on a 7,200 square foot lot, and the building shape resembles a dumbbell—full street and alley frontage with a narrow middle. It is has a partial basement, which is accessed by, and generally included in, the commercial space—which partially accounts for the depressed commercial rents. The remaining space is allocated for mechanical systems. The first floor is typically retail, with some commercial space allocated in a mezzanine level, which also serves to depress the commercial lease rates, based on square footage. The upper four floors are residential. The average unit was determined to be 460 square feet, which was based the rent survey conducted on 10 buildings.

It was found that in some of the conversions to modern housing standards that this building type created difficulty with the floor plans. The hallways in an SRO are typically long, and double loaded for the entire expanse of a building. In some buildings this creates a "dead-end" corridor, which means that the length of the hallway is longer than 20 feet between the point of ingress to the point of egress. While this is solved with some modification to the original floor plan, which is already necessary to include an elevator and bring the apartment sizes to modern standards, it has created the unforeseen consequence of requiring too much interior modification, and thus disqualifying the building from consideration for some historic preservation credits. This situation is present on a case by case basis, and can only be modeled with changing the building's efficiency in the pro forma. Some buildings were able to keep a floor of SROs to satisfy Secretary of the Interior Guidelines for rehabilitation, or keep the front doors on the corridor side—but walled on the interior. It is assumed that the load factor used in the pro formas has taken into account these design issues.

Pro Forma Assumptions

The following are explanations for the assumptions used to build the model pro formas. No two buildings would be the same, nor is access to the incentives uniform in the neighborhood, however the pro formas for the base model is a close approximation of what could be anticipated.

Comparable Unit Rents	Eastern	NP Hotel	Rex	New Central	Jackson Apartments
	508 Maynard Ave S	306 6th Ave S	657 S King St	657 S Weller St	670 S Jackson St
Net Rentable SF	15,272	18,170	14,850	24,057	9,758
Total Units	**46**	**45**	**30**	**27**	**17**
Studio	46	25	11		
1 Bedroom		15	19		17
2 Bedrooms		5	-	27	
Average Unit Size	**332**	**330**	**495**	**891**	**574**
Studio	332	332	400		
1 Bedroom		443	550		574
2 Bedrooms		645		891	
50% AMI Rent per Unit					
Studio	$770	$770	$770		
1 Bedroom		$825	$825		$825
2 Bedrooms		$990		$990	
40% AMI Rent per Unit					
Studio	$616	$616	$616		
1 Bedroom		$660	$660		$660
2 Bedrooms		$792		$792	
30% AMI Rent per Unit					
Studio	$462	$462	$462		
1 Bedroom		$495	$495		$495
2 Bedrooms		$594		$594	

Average Rent per SF	30% AMI	40% AMI	50% AMI
Studio	$1.35	$1.81	$2.26
1BR	$0.94	$1.25	$1.57
2BR	$0.70	$0.93	$1.16
Overall Average	**$1.00**	**$1.33**	**$1.67**

Figure 43. Comparable Affordable Unit Rents

Probable rents charged based on unit type and selected AMI set aside.

Comparable Unit Rents	Milwaukee	Alps	Hong Kong	Freedman	Uwajimaya
	668 S King St	621 S King St	507 Maynard Ave S	511 Maynard Ave S	521 S Weller St
Net Rentable SF	41,050	28,680	12,250	14,640	108,800
Total Units	**117**	**120**	**20**	**24**	**180**
Studio	80	120			80
1 Bedroom	21		15	24	100
2 Bedrooms	16		5		
Average Unit Size	**351**	**239**	**613**	**610**	**604**
Studio	275	239			575
1 Bedroom	450		550	610	628
2 Bedrooms	600		800		
Average Rent per Unit					
Studio	$500	$440			$1,100
1 Bedroom	$700		$665	$925	$1,200
2 Bedrooms	$1,050		$1,300		

Average Rent per SF	
Studio	$1.87
1BR	$1.75
2BR	$1.71
Overall Average	**$1.81**

Figure 44. Comparable Market-Rate Rents

Probable rents based upon unit type, based on advertised material, and adjusted for market conditions.

Affordable Housing Rent Survey

Development of any pro forma to assess the feasibility of a rehabilitation project will require an expected rental rate. Since roughly 58% of the housing is subsidized in some manner, the rental rates for these projects are fairly straightforward to determine. Rental rates for affordable housing were based upon the allowable rent charged for a project that is targeting 30% to 50% of AMI in Figure 43. Most of the available apartments are one bedroom units. Publicized rents were converted to a price per square foot basis, based upon the number of units, divided by the net rentable square feet, per King County Assessor data.

The affordable housing rents were based upon the rents that may be charged for a unit type, as the prescribed rents do not take into account square footage. The surveys above are attempt to translate the rent by unit type into a rent by square foot amount. Many of the buildings surveyed have a combination of allowed rents, from 30% AMI to 50% AMI, however most are targeted for tenants that earn below 40% AMI.

The as-is rent per square foot for a model building that has continued to rent SROs was based upon the interviews with market participants to be around $150-$180 per room. It is reported that all of the available units are rented, with no vacancy. Commercial rents are depressed, as reported by market participants.

The affordable housing and market rate developments were assumed to have a 5% vacancy and credit loss factor.

Market Rate Rental Survey

In Figure 44 the average rent per square foot was computed by aggregating all rent, by all unit types. This was done to take into account the rent differences among different types of units. For example, rent per square foot of studios tends to be much greater than larger units. By computing the average across all unit types, the pro forma created for a new rehabilitation can take into account the probable unit composition after redevelopment.

The market rate rents were determined by review of publicly available material. Many of the market rate rentals are represented by the buildings owned and managed by Coho Real Estate; the Milwaukee, Hong Kong and Alps Apartments. Publicly advertised rents were converted to a price per square foot basis in the same manner as above. Commercial rents were based upon publicly available information, while informed by the market participants.

Some projects such as the Hong Kong and Uwajimaya, have much larger units. These larger units were not taken into account, and thus the NRSF and unit counts reported above does not reflect the actual unit composition of the buildings. However, this method does insure that the average rent per square foot for the likely unit composition of a new rehabilitation can be reliably predicted. In addition, the Uwajimaya building is an outlier in terms of quality and age of construction, as it is the one newly constructed building. For this reason, rents were adjusted downwards to reflect the difference in quality of amenities.

Construction Cost Assumptions

Building Efficiency/Load Factor:

The calculation of the buildings' efficiency was based upon dividing the gross rentable square feet by the net rentable square feet of 15 selected older buildings in the neighborhood, as indicated by the King County Assessor. Necessary adjustments downward were made to reflect the use of commercial space made available free of charge to the associations in the relevant models.

Rehabilitation Costs:

The cost per square foot of rehabilitation was derived from market participants. Buildings that accessed public loans typically had a higher per square foot expense. The $150 per square foot of construction cost reflects a "studs out" remodel that would include updates and replacement to all major systems, installation of an elevator, seismic retrofit and conformance to all applicable building codes.

Buildings that were developed by private interests reflect a construction costs at a 20% discount. This is due to their ability to contract with general contractors that can pay lower wage rates and do not need to conform to other public mandates.

Development Costs:

General development costs for the pro forma were based upon review of material provided by interviewees, as well as market standards.

Acquisition Cost:

Acquisition costs were based upon the current assessed value, as indicated by the King County Assessor.

Relocation Costs:

Relocation costs are needed to be paid towards current tenants on rehabilitations that use public money, and displace the current tenants. It is assumed that each SRO is occupied by one person, and will need to be relocated to a studio apartment that will charge rent based upon 30% AMI. The difference between current rent, typically $150, and the rent at the new location, is required to be paid by the party responsible for the development for 5 years.

Contingency Cost:

A 10% contingency cost was considered standard for all possible developments. It is possible that this may be lowered based upon the type development, experience of developer and the relationship with the financial institution. However, this is considered unlikely given the complex nature and lack of predictability in costs associated with rehabilitation projects.

Rehabilitation Timeline of Construction:

It was assumed that the time from acquisition to certificate of occupancy would be 24 months. To be sure, there are a great number of variables that may affect this in practice. Lease up times, for example, for commercial and residential tenants will vary greatly. Banks in the current market may require pre-leasing for commercial spaces, thus potentially delaying the start of a rehabilitation. For the purposes of this analysis, it is assumed that necessary conditions for full occupancy will be met within the 24 month timeline. To account for the cost of carrying loans, while the building is vacant, an interest reserve amount was added to the construction costs.

Financing Assumptions

Financing Terms:

Market rate developments have been assumed to have loans based upon a 30 year term, at 6% interest, with full amortization. Underwriting requirements are based upon a 1.2 debt coverage ratio, and a maximum of 70% loan to value. Financing terms have a great impact on the feasibility of a project, however for the purposes of this analysis they were kept as constant—except where indicated—to maintain the focus of gauging the value of the incentives, not complicated financial instruments.

Affordable housing developments, those using public money, matched the terms of the market rate developments, with the exception of the below market interest rates available to them based on the applicable incentives. This was done to be able to show a direct comparison of the relative merits to each development.

Finance and Incentive Costs:

The pro formas reflect the increased transaction costs associated with accessing both commercial bank financing and the differing incentives. The fees associated with the loans and incentives were based upon the literature reviewed. The finance fee was considered to be a market norm for the loan type and value. It is important to note that incentives, such as TDRs, carry with them costs beyond conforming to the development standards required. For example, TDRs require processing fees paid to the DPD for certification, attorney fees for covenants, and title and broker fees for their sale. Since these are considered part of the financial package used to fund the rehabilitation, their potential cost is reflected in the finance cost on the pro forma.

Capitalization (Cap) Rate:

The going-in and exit cap rates were determined to be 6%. Current market transactions for multifamily properties have been reported cap rates as low as 4%. However, a rehabilitation development such as the ones modeled would not be considered core assets, and thus would not be valued at a lower cap rate (which increases the market value). The cap rate is used in this analysis to determine the pro forma value and pro forma profit/loss. This is to reflect the traditional investment objectives and valuation that are commonly used to determine financial feasibility.

Net Present Value (NPV) and Hurdle Rate:

In order to account for the time value of money, a "hurdle" rate is determined. This rate is best understood as what an investor can earn on their money in an alternate investment. This rate determines the NPV of an investment. In these pro formas it is particularly important for determining the value of the Special Tax Valuation, as its benefit is realized over the course of 10 years—not during development. For the purposes of any NPV calculations, an 8% hurdle rate was assigned.

Tax Credits:

It is assumed in the pro forma, unless otherwise indicated, that the HTC, NMTC and LIHTC can be syndicated to raise equity on a credit dollar per equity dollar basis. Real world application will inevitably vary from this formula based on the tax credit investor market.

Operating Assumptions

Operating Expenses:

Annual operating expenses of $5.50 per square foot were considered the norm for all types of property, and is considered a market standard. Due to the need to the need to model the effect of reduced property taxes with the Special Tax Valuation, property taxes are not included in the above number, but rather as a separate item.

Cost and Rent Inflation:

Expense and rent inflation was based upon market information, and was assumed to be constant among all models.

Part 8: Pro Formas

As discussed above, the following incentives were created to test the myriad of incentives on the base model. The pro formas below were selected for their ability to address the fundamental advantages, and disadvantages of the differing deal structures available. The remaining pro formas, as well operating models, are in the appendix.

ALL ZONING LAWS RESTRICT LAND USE; THUS IT IS TO BE EXPECTED THAT THERE WILL BE TENSION BETWEEN PROPERTY OWNERS AND THE GOVERNING AUTHORITY.

Market Rate Rehabilitation/No Incentives

In this scenario, the financial feasibility of the base model is assessed with no form of incentive whatsoever, with market rents and costs. From this starting point, the remaining scenarios tested can be better understood. Since this is an unsubsidized development, with no incentives applied, it best represents a true market rate development, based upon the assumptions made above.

This pro forma represents a project that would not be feasible by almost any measure, thus clearly showing the need for incentives and subsidies. The total project cost, or all-in cost, is over $9.1 million. Yet, based on the NOI $363,790 a bank loan of only $4,213,690 could be available, resulting in a loan to value (LTV) of only 45.8%. Thus requiring an additional $2,868,851 in equity from the owner, after already contributing the assessed value of the building.

In addition, the capitalized value of the project is $6,063,169, representing a $3,119,373 pro forma project loss. The value of the project is highly sensitive to the cap rate and any changes in the NOI. For example, a 1% decrease in the cap rate would have the positive impact of making the project valued at an additional $1,212,633. However, this would have no bearing on the amount of additional equity that would be required of the owner to complete the project. In short, despite whatever the cap rates indicate about the value of the project—the costs exceed what is supported by the market rent.

Operating Pro Forma	
Gross Rent Roll	**$652,286**
Hsg Market	$535,181
Parking	$-
Retail	$117,105
Less Vacancy	**$(32,614)**
Housing	$(26,759)
Retail	$(5,855)
Less Op Exp	**$(255,881)**
Housing	$(135,520)
Retail	$(6,963)
Property Tax	$(88,612)
Mgmt Fee	$(24,787)
Total NOI	**$363,790**
Value	**$6,063,169**

Sources of Funds	
Total	**$9,182,542**
Acquisition Cost	$2,100,000
1. LIHTC	$-
2. HTC	$-
3. NMTC	$-
4. OH	$-
6. TDR	$-
7. Bank Loan	$4,213,690
Cash In	**$2,868,851**

Cost Pro Forma	
Acquisition Cost	**$2,100,000**
Rehab Cost	**$4,243,320**
Housing Cost	$3,360,000
Parking Cost	$-
Retail Cost	$883,320
Other Costs	**$2,414,890**
WA Sales Tax	$424,332
A&E / Consultants	$1,272,996
Developer's Fee	$169,733
Permitting	$42,433
Relocation	$-
Interest Reserve	$442,190
Finance Cost	$63,205
Incentive Cost	$-
Contingency	**$424,332**
Project Cost	**$9,182,542**

Contributions and Returns		
Pro Forma Profit	$(3,119,373)	-33.97%
Total Incentives Used:	$-	
Profit With Incentives	**$(3,119,373)**	**-33.97%**

	2015	2016	2017	2018	<2019–2023 hidden for simplicity>	2024	2025
Total NOI	**$363,790**	**$379,767**	**$396,425**	**$413,793**		**$534,677**	**$557,923**
Less Debt Service	$(252,821)	$(252,821)	$(252,821)	$(252,821)		$(252,821)	$(252,821)
Cash Flow	$110,969	$126,945	$143,603	$160,972		$281,855	$305,101
Changes in Capital	$(4,968,851)	$-	$-	$-		$-	$5,866,598
Net Present Value	**$1,768,819**						
IRR	**12.03%**						
Property Taxes:							
No STV	$(88,612)	$(92,156)	$(95,842)	$(99,676)		$(126,122)	$(131,167)
With STV	$(20,265)	$(20,265)	$(20,265)	$(20,265)		$(20,265)	$(131,167)
NPV of STV	**$560,419**						

Market Rate Rehabilitation With Historic Preservation Incentives

The next step taken to determine the feasibility of a rehabilitation project was to model the historic preservation incentives on a market rate development. The single greatest impact is made by the Federal Historic Rehabilitation Tax Credit (noted as HTC on the pro forma). The HTC alone accounts for $1,230,563 in equity that can be contributed to the project, if syndicated on a dollar per credit dollar basis. This incentive, similar to the LIHTC, NMTC and TDRs can be considered a cost reduction. This will improve the pro forma proft, and overall feasibility as they represent funds that the owner of the project does not need to raise outside of their own equity.

The second of the historic preservation incentives is the Special Tax Valuation. The NPV of this incentive, after the full 10 years, is $573,146. The second, and immediate, financial consequence of the STV is an increased NOI over the course of 10 years—which increases the projects value and access to bank financing. Due to this, the pro forma value is increased by $1,139,108, to $7,202,277. However, it is much more likely that a knowledgeable investor would not base their valuation upon a reduced operating expense that has a finite end date—but would rather consider the value to be the remaining NPV of the STV. However, it is possible that a bank would consider the property's increased NOI as a reason to increase the loan amount. If that were to be the case, the bank loan would increase by $791,641 to $5,005,331, based upon the STV. This increased loan amount may be less than $791,641 depending on the individual bank's underwrting criteria for a larger loan amount based on an increased NOI that ends in 10 years.

The total project cost is increased $162,817 under this scenario as well. This is caused by the increased financing cost associated with the larger loan amount, increased interest reserves due to the larger loan amount and the transaction cost associated with accessing the incentives.

Finally, the owner is able to take advantage of the TDR program. In this scenario, the TDRs available to sell are valued at $226,780.

In sum, the project's performance is improved substantially by the use of the historic preservation incentives, as the owner's additional equity contribution is reduced to $787,685, from $2,868,851. However, due to the cost reduction provided by the applicable incentives, the project goes from a pro forma loss of -23% to -7%.

Operating Pro Forma	
Gross Rent Roll	**$652,286**
Hsg Market	$535,181
Parking	$-
Retail	$117,105
Less Vacancy	**$(32,614)**
Housing	$(26,759)
Retail	$(5,855)
Less Op Exp	**$(187,535)**
Housing	$(135,520)
Retail	$(6,963)
Property Tax	$(20,265)
Mgmt Fee	$(24,787)
Total NOI	**$432,137**
Value	**$7,202,277**

Sources of Funds	
Total	**$9,350,359**
Acquisition Cost	$2,100,000
1. LIHTC	$-
2. HTC	$1,230,563
3. NMTC	$-
4. OH	$-
6. TDR	$226,780
7. Bank Loan	$5,005,331
Cash In	**$787,685**

Cost Pro Forma	
Acquisition Cost	**$2,100,000**
Rehab Cost	**$4,243,320**
Housing Cost	$3,360,000
Parking Cost	$-
Retail Cost	$883,320
Other Costs	**$2,582,707**
WA Sales Tax	$424,332
A&E / Consultants	$1,272,996
Developer's Fee	$169,733
Permitting	$42,433
Relocation	$-
Interest Reserve	$525,266
Finance Cost	$75,080
Incentive Cost	$72,867
Contingency	**$424,332**
Project Cost	**$9,350,359**

Contributions and Returns		
Pro Forma Profit	$(2,148,082)	-22.97%
Total Incentives Used:	$1,457,343	
Profit With Incentives	**$(690,739)**	**-7.39%**

	2015	2016	2017	2018	<2019–2023 hidden for simplicity>	2024	2025
Total NOI	**$432,137**	**$451,658**	**$472,002**	**$493,204**		**$640,533**	**$555,525**
Less Debt Service	$(300,320)	$(300,320)	$(300,320)	$(300,320)		$(300,320)	$(300,320)
Cash Flow	$131,817	$151,338	$171,682	$192,884		$340,213	$255,206
Changes in Capital	$(2,887,685)	$-	$-	$-		$-	$5,181,842
Net Present Value	**$3,328,766**						
IRR	**19.03%**						
Property Taxes:							
No STV	$(90,231)	$(93,840)	$(97,594)	$(101,498)		$(128,427)	$(133,564)
With STV	$(20,265)	$(20,265)	$(20,265)	$(20,265)		$(20,265)	$(133,564)
NPV of STV	**$573,146**						

Affordable Housing With New Market Tax Credits, Office of Housing Loan and Historic Preservation Incentives

This scenario introduces the multitude of affordable housing incentives that are available, and reflects the drastically different financial performance created by the application of these incentives and programs. It should be noted that once affordable housing programs are utilized the metrics for measuring feasibility change greatly. All affordable housing projects modeled reflect a pro forma loss, and negative IRR, before the cost reduction for the incentives is taken into account. For the purposes of this analysis, the incentives are valued by the ability to fund the proposed project, as traditional return measures do not necessarily apply in fully subsidized affordable housing developments. However, bank underwriting will still demand loan values to be based upon NOI and other measures of property performance, and thus the role of incentives is even more crucial in maximizing the available funds.

The first difference that stands out is the sharply increased project cost. This is the result of two factors, both explained in greater detail in the "assumptions" section. One, the construction costs increased to $150 per square foot, which has a cascading effect of increasing the costs of the rest of the project, as many fees and expenses are a factor of the construction costs. The second factor that results in an increase in project costs is the possibility to need to relocate tenants. If the building were occupied, as explained in the "assumptions" section, the tenants would be entitled to be compensated for relocation. This cost, assuming 45 SROs contained a single person in each, could exceed $1,050,300.

The second difference is, predictably, the reduced NOI caused by the reduced rent. As stated in the rent survey, it is expected that the rent per square foot would be $1.35, for 40% AMI.

Due to the heavy subsidy provided by the NMTC equity, and an Office of Housing loan, the bank financing would only be required at $1,710,615, and no additional owner equity would be required to make the project feasible. If the NMTC were to be considered a loan, at a 50% reduction of prevailing rates (3%), the bank financing amount increases to $2,061,483. Considering the incentives as a cost reduction, the profit margin to the owner is 11.24%.

The amount of equity and value provided by the historic preservation incentives remains constant in this model, as it did with the market rate development.

Operating Pro Forma	
Gross Rent Roll	**$516,273**
Hsg Market	$399,168
Parking	$-
Retail	$117,105
Less Vacancy	**$(25,814)**
Housing	$(19,958)
Retail	$(5,855)
Less Op Exp	**$(182,366)**
Housing	$(135,520)
Retail	$(6,963)
Property Tax	$(20,265)
Mgmt Fee	$(19,618)
Total NOI	**$308,093**
Value	**$5,134,883**

Sources of Funds	
Total	**$11,785,658**
Acquisition Cost	$2,100,000
1. LIHTC	$-
2. HTC	$1,748,264
3. NMTC	$5,000,000
4. OH	$1,000,000
6. TDR	$226,780
7. Bank Loan	$1,710,615
Cash In	**$-**

Cost Pro Forma	
Acquisition Cost	**$2,100,000**
Rehab Cost	**$5,304,150**
Housing Cost	$4,200,000
Parking Cost	$-
Retail Cost	$1,104,150
Other Costs	**$3,851,093**
WA Sales Tax	$530,415
A&E / Consultants	$1,591,245
Developer's Fee	$212,166
Permitting	$53,042
Relocation	$1,050,300
Interest Reserve	$179,514
Finance Cost	$25,659
Incentive Cost	$208,752
Contingency	**$530,415**
Project Cost	**$11,785,658**

Contributions and Returns		
Pro Forma Profit	$(6,650,775)	-56.43%
Total Incentives Used:	$7,975,044	
Profit With Incentives	**$1,324,268**	**11.24%**

	2015	2016	2017	2018	<2019–2023 hidden for simplicity>	2024	2025
Total NOI	**$308,093**	**$322,652**	**$337,836**	**$353,672**		**$463,981**	**$352,127**
Less Debt Service	$(119,742)	$(119,742)	$(119,742)	$(119,742)		$(119,742)	$(119,742)
Cash Flow	$188,351	$202,910	$218,094	$233,930		$344,238	$232,385
Changes in Capital	$(1,100,000)	$-	$-	$-		$-	$3,807,829
Net Present Value	**$4,032,492**						
IRR	**37.78%**						
Property Taxes:							
No STV	$(103,596)	$(107,740)	$(112,050)	$(116,532)		$(147,450)	$(153,348)
With STV	$(20,265)	$(20,265)	$(20,265)	$(20,265)		$(20,265)	$(153,348)
NPV of STV	**$678,184**						

Affordable Housing, with NMTC and Office of Housing Loans, but Without Historic Preservation Incentives

This pro forma reflects the sole use of Office of Housing funds and the NMTC as an equity contribution. This is one of the few scenarios that takes into account affordable housing incentives that requires significant amounts of additional cash. The required additional cash is $2,220,164. If no relocation assistance were required, the additional equity required would be reduced to $1,169,864.

Similar to the other pro formas that reflect the use of affordable housing incentives, the sharply reduced NOI results in a lower pro forma value for the project. In this scenario the NOI is $224,961, the lowest of all scenarios due to the lack of a bump in NOI caused by the reduced property taxes from the STV. With the STV the year one NOI would be $308,093. In market rate scenarios with the STV, the NOI is as high as $432,137.

Operating Pro Forma	
Gross Rent Roll	**$516,273**
Hsg Market	$399,168
Parking	$-
Retail	$117,105
Less Vacancy	**$(25,814)**
Housing	$(19,958)
Retail	$(5,855)
Less Op Exp	**$(265,498)**
Housing	$(135,520)
Retail	$(6,963)
Property Tax	$(103,397)
Mgmt Fee	$(19,618)
Total NOI	**$224,961**
Value	**$3,749,358**

Sources of Funds	
Total	**$11,764,965**
Acquisition Cost	$2,100,000
1. LIHTC	$-
2. HTC	$-
3. NMTC	$5,000,000
4. OH	$-
6. TDR	$-
7. Bank Loan	$2,444,801
Cash In	**$2,220,164**

Cost Pro Forma	
Acquisition Cost	**$2,100,000**
Rehab Cost	**$5,304,150**
Housing Cost	$4,200,000
Parking Cost	$-
Retail Cost	$1,104,150
Other Costs	**$3,830,400**
WA Sales Tax	$530,415
A&E / Consultants	$1,591,245
Developer's Fee	$212,166
Permitting	$53,042
Relocation	$1,050,300
Interest Reserve	$256,561
Finance Cost	$36,672
Incentive Cost	$100,000
Contingency	**$530,415**
Project Cost	**$11,764,965**

Contributions and Returns		
Pro Forma Profit	$(8,015,608)	-68.13%
Total Incentives Used:	$5,000,000	
Profit With Incentives	**$(3,015,608)**	**-25.63%**

	2015	2016	2017	2018	<2019–2023 hidden for simplicity>	2024	2025
Total NOI	**$224,961**	**$235,385**	**$246,268**	**$257,630**		**$337,080**	**$352,422**
Less Debt Service	$(160,577)	$(160,577)	$(160,577)	$(160,577)		$(160,577)	$(160,577)
Cash Flow	$64,385	$74,808	$85,691	$97,053		$176,503	$191,845
Changes in Capital	$(4,320,164)	$-	$-	$-		$-	$3,882,379
Net Present Value	**$146,799**						
IRR	**8.43%**						
Property Taxes:							
No STV	$(103,397)	$(107,532)	$(111,834)	$(116,307)		$(147,165)	$(153,052)
With STV	$(20,265)	$(20,265)	$(20,265)	$(20,265)		$(20,265)	$(153,052)
NPV of STV	**$676,615**						

Low Income Housing Tax Credit Scenarios

The LIHTC represents the most powerful of the incentives—and the least likely to be used due to current policy constraints. This pro forma shows LIHTC being used on the base model without use of any of the historic preservation incentives. Even without the benefit of being couple with another form of subsidy and incentive, the required bank loan is only $1,399,466, and no additional equity is required.

Due to the reduced loan amount, the financing costs and interest reserves are reduced, which in turn, lowers the total project cost. In the scenario shown here relocation costs are not factored in, which would increase project costs by over $1,000,000.

The next pro forma shows LIHTC modeled with the available historic preservation incentives. It is important to note that LIHTC cannot be coupled with other forms of affordable housing subsidies, and thus pairing it with historic preservation incentives is one of the few ways to create a structure that does not require any traditional bank financing.

Operating Pro Forma	
Gross Rent Roll	**$516,273**
Hsg Market	$399,168
Parking	$-
Retail	$117,105
Less Vacancy	**$(25,814)**
Housing	$(19,958)
Retail	$(5,855)
Less Op Exp	**$(264,700)**
Housing	$(135,520)
Retail	$(6,963)
Property Tax	$(102,598)
Mgmt Fee	$(19,618)
Total NOI	**$225,760**
Value	**$3,762,663**

Sources of Funds	
Total	**$10,631,936**
Acquisition Cost	$2,100,000
1. LIHTC	$7,132,470
2. HTC	$-
3. NMTC	$-
4. OH	$-
6. TDR	$-
7. Bank Loan	$1,399,466
Cash In	**$-**

Cost Pro Forma	
Acquisition Cost	**$2,100,000**
Rehab Cost	**$5,304,150**
Housing Cost	$4,200,000
Parking Cost	$-
Retail Cost	$1,104,150
Other Costs	**$2,697,371**
WA Sales Tax	$530,415
A&E / Consultants	$1,591,245
Developer's Fee	$212,166
Permitting	$53,042
Relocation	$-
Interest Reserve	$146,862
Finance Cost	$20,992
Incentive Cost	$142,649
Contingency	**$530,415**
Project Cost	**$10,631,936**

Contributions and Returns		
Pro Forma Profit	$(6,869,272)	-64.61%
Total Incentives Used:	$7,132,470	
Profit With Incentives	**$263,198**	**2.48%**

	2015	2016	2017	2018	<2019–2023 hidden for simplicity>	2024	2025
Total NOI	**$225,760**	**$236,215**	**$247,131**	**$258,528**		**$338,216**	**$353,604**
Less Debt Service	$(83,968)	$(83,968)	$(83,968)	$(83,968)		$(83,968)	$(83,968)
Cash Flow	$141,792	$152,247	$163,163	$174,560		$254,248	$269,636
Changes in Capital	$(2,100,000)	$-	$-	$-		$-	$4,753,516
Net Present Value	**$3,503,428**						
IRR	**22.62%**						
Property Taxes:							
No STV	$(102,598)	$(106,702)	$(110,970)	$(115,409)		$(146,029)	$(151,870)
With STV	$(20,265)	$(20,265)	$(20,265)	$(20,265)		$(20,265)	$(151,870)
NPV of STV	**$670,341**						

Low Income Housing Tax Credit and Historic Preservation Incentives

As indicated above, combing the LIHTC with historic preservation incentives creates a scenario that requires no additional funds. It should be noted that the two LIHTC scenarios shown did not model relocation expenses. In the event of relocation expenses being incurred, the two credits are still able to completely cover projected costs.

In this scenario, the use of the STV increased the NOI by $83,000, which also increased the pro forma value. This will also increase the measures that are sensitive to pro forma value, such as proft and IRR. The project cost is slightly decreased, as it is in other scenarios, when the absence of traditional financing reduces the finance cost and interest reserves.

However, for reasons stated earlier in the research, it is not realistic to consider the LIHTC at this time for the proposed project. It potentially provides the greatest advantage, but funding priorities are elsewhere at this time.

Operating Pro Forma	
Gross Rent Roll	**$516,273**
Hsg Market	$399,168
Parking	$-
Retail	$117,105
Less Vacancy	**$(25,814)**
Housing	$(19,958)
Retail	$(5,855)
Less Op Exp	**$(182,366)**
Housing	$(135,520)
Retail	$(6,963)
Property Tax	$(20,265)
Mgmt Fee	$(19,618)
Total NOI	**$308,093**
Value	**$5,134,883**

Sources of Funds	
Total	**$10,533,124**
Acquisition Cost	$2,100,000
1. LIHTC	$6,998,826
2. HTC	$1,434,298
3. NMTC	$-
4. OH	$-
6. TDR	$-
7. Bank Loan	$-
Cash In	**$-**

Cost Pro Forma	
Acquisition Cost	**$2,100,000**
Rehab Cost	**$5,304,150**
Housing Cost	$4,200,000
Parking Cost	$-
Retail Cost	$1,104,150
Other Costs	**$2,598,559**
WA Sales Tax	$530,415
A&E / Consultants	$1,591,245
Developer's Fee	$212,166
Permitting	$53,042
Relocation	$-
Interest Reserve	$-
Finance Cost	$-
Incentive Cost	$211,691
Contingency	**$530,415**
Project Cost	**$10,533,124**

Contributions and Returns		
Pro Forma Profit	$(5,398,241)	-51.25%
Total Incentives Used:	$8,433,124	
Profit With Incentives	**$3,034,883**	**28.81%**

	2015	2016	2017	2018	<2019–2023 hidden for simplicity>	2024	2025
Total NOI	**$308,093**	**$322,652**	**$337,836**	**$353,672**		**$463,981**	**$355,016**
Less Debt Service	$-	$-	$-	$-		$-	$-
Cash Flow	$308,093	$322,652	$337,836	$353,672		$463,981	$355,016
Changes in Capital	$(2,100,000)	$-	$-	$-		$-	$5,916,925
Net Present Value	**$5,771,751**						
IRR	**32.02%**						
Property Taxes:							
No STV	$(101,645)	$(105,710)	$(109,939)	$(114,336)		$(144,672)	$(150,459)
With STV	$(20,265)	$(20,265)	$(20,265)	$(20,265)		$(20,265)	$(150,459)
NPV of STV	**$662,847**						

Part 9: Major Findings Based on the Financial Pro Formas

The above pro formas indicate in a clear way what has already been reported to be known among the property owners and community stakeholders—redevelopment of the historic buildings to modern housing and retail standards is exceptionally difficult from the standpoint of financial feasibility analysis. The variables that effect the performance measures are significant. However testing the variables against the base model provides an illustration of how much each affects feasibility.

The first clear difference between any market rate and affordable housing development is the ability to assess higher rents. It should be noted that the market rate rents, based on unit size, are still considered affordable, relative to 50% or greater AMI. The higher rents increase the available NOI, and thus increase the access to bank financing, and therefore reducing the amount of additional equity required to complete a rehabilitation. However, the pro formas indicate that higher rents only account for some of this difference. Traditional commercial lending will not require conformance to the same standards as public financing. Both types of projects will be subject to the same code requirements; such as, installation of elevators, removal of dead-end corridors, retrofitting, etc, but will not require use of general contractors that use union labor and other similar requirements. It has been reported that some of the rehabilitation projects in the neighborhood that would otherwise qualify for public funding chose not to due to the increased construction costs associated. Further, it is conceivable that these projects employed rehabilitation techniques that were less costly than $120 per square foot. This cost is highly sensitive to the condition of the building at the beginning of the rehabilitation, and the market quality standard that the owner wishes to achieve.

However, as indicated above, any rehabilitation project requires access to one of the incentives that are made available in order to not require large sums of additional equity. In order to facilitate further rehabilitation in the neighborhood it is clear that the means to access the incentives must be clearly stated out and transparent, as their use in imperative to financial feasibility.

The affordable housing incentives, combined with historic preservation incentives, provide the clearest examples of projects that are financially feasible under the base model's assumptions. The LIHTC is the incentive with the greatest impact, but the least likely to be used. It has been reported that the NMTC and access to low interest Office of Housing funds are the greatest means in which to successfully execute rehabilitation projects in the International District. However, these are not without their own issues from a feasibility standpoint. One of the most unique issues is the increased costs associated with relocating existing low income tenants. In the models tested that envisioned the base model as occupied the relocation costs exceeded $1,000,000. From a pro forma value perspective, this does not increase the worth of the project, merely increases the project costs. While this is a public good that must be addressed, as there are almost no other housing options for the current tenants at their current rents in the SROs, it points to the need for an increased amount of subsidy required for this type of rehabilitation in particular.

Further, by its nature, affordable housing development is not an investment vehicle by traditional financial feasibility standards. All scenarios indicate a pro forma loss before incentives are taken into consideration, the difference between the capitalized value and total project cost. All affordable housing models reveal a negative NPV for the owner. In short, these incentives, as applied to the base model, provide a value as a cost write-down to the owner. In contrast, the value to the investor providing NMTC funds, for example, is mostly in the form of the tax benefits from the credits that they receive.

In sum, all projects would require some form of incentive to be feasible, with feasibility defined as not requiring additional equity beyond the site value. To the private developer, the historic preservation incentives are necessary, but not adequate by themselves. The HTC is crucial, and compliance with the HTC in almost all scenarios also means compliance to the STV. The value of the NPV of the STV on a market rate development is $573,146. It should be noted that this assumes the mill rate for property taxes will be assessed on total project costs. In practice, the assessed value is not based on project costs, but for pro forma purposes, it is a safe assumption to make. The incentive that created the least amount of value was the TDR program. The funds provided by TDRs are anticipated to be only 2% of total project costs. While this exceeds the costs of accessing them, they do not affect the feasibility in a meaningful manner.

THE UNIQUE PLACE OF SEATTLE'S INTERNATIONAL DISTRICT IN HISTORY COMMANDS ATTENTION TO ITS CURRENT CONDITION, AND SHOULD BE A PRIORITY AMONG POLICY MAKERS.

Options for Achieving Association Goals

		Use of Historic Preservation Incentives	Affordable Housing Development	Market Rate Development	Hold-No Decision
Financial	Wealth Preservation	■	■	■	■
	Wealth Enhancement	■		■	
	Wealth Transfer			■	■
	Neighborhood Economic Development			■	
	Market Rate Housing Increased	■		■	
	Risk Management	■	■	■	■
Social	Services Provided to New Immigrants	■	■		■
	Free Space for Association to Operate	■			■
	Neighborhood Chinese Character Preserved	■			■
	Association Prestige	■		■	

Figure 45. Matrix of Options for Achieving Association Goals

Goals and objectives of family associations as inferred by the research.

Part 10: Conclusion and Implications for Public Policy

The major implication of the research indicates that most individual property owners or family associations, for all intents and purposes, cannot successfully execute a significant rehabilitation of an historic building without incentives or subsidies. However, access to the most effective subsidies and incentives all but requires some degree of surrender of control of the building. This surrender of control, whether through a 50+ year land lease, condominization of the building to two separate uses (commercial and residential), or an entire transfer of ownership, runs counter of the goals understood to be held by associations and private property owners. The community development authorities in the neighborhood have proven to be flexible in the terms under which they take control of the buildings, to be sure, but the research indicates under the current guidelines significant surrender of control is all but required.

This is due to a number of factors, foremost among them are the funding priorities and requirements that have been created to access limited public subsidies for affordable housing and rehabilitation. In addition, the complexity of the transaction by itself creates a significant barrier of entry for entities other than well-established non-profit agencies and experienced for-profit developers.

Many of the family associations originally purchased or developed the buildings in the International District to fulfill a number of objectives that are not necessarily tied to financial feasibility. Figure 45 is a visualization of how the differing development models affect what is understood by the author to be the objectives and opinions of the associations. This best encapsulates the issues surrounding the decisions that need to be made in regards to the building owned by Chinese family associations, and similar ownership groups.

Market rate developments are perceived to accomplish the financial goals of the owners, while accomplishing a limited number of the social goals. Operation of commercial space by a family association would require result in reduced rent. Under the pro forma that models the most successful form a market rate development—the use of historic preservation incentives, and increasing the commercial vacancy from 5% to 30% (assuming the association would occupy ¼ of the commercial space)—results in the need for an additional $286,491 in equity to complete the rehabilitation. Lack of access to equity is a large part of the reason why the buildings are in the condition that they are in, thus it is not reasonable to expect that additional funds exist to subsidize a space for an association to operate after a market rate rehabilitation.

Understanding how the association goals are expressed goes a great length to explain why several of the neighborhood's historic buildings are considered underutilized by modern housing and retail standards. These underutilized, or vacant, buildings present a unique challenge. Property owners typically look for signs in the market that may indicate whether a change in use, or rehabilitation, is feasible, and accomplishes the goals mentioned above in a conservative, low-risk manner. The role of the conservative approach cannot be overstated. No action, to date, has still accomplished most of the goals for the owners. However, for some the market has either not presented a significant enough opportunity to take advantage of, or the owners have declined to act due to risk aversion and limited decision-making power. The buildings have historically suffered from under-capitalization. Beyond provinding a free space for the association to operate, they have also been a source of income for the association and mulitude of owners who have shown a reluctance to reinvest in the buildings. Historically, this income may have been used as remittances to China. To be sure, not all the underutilized buildings are owned by family associations. However, the research indicates that many of the above conclusions can be applied to single entity owners as well, as the significant development challenges in the International District can be considered universal.

As explained above in the research, throughout the neighborhood, there are diverse examples of different ownership structures and developments that have been utilized to rehabilitate selected historic buildings. The Gee How Oak Tin Building and the Rex Hotel (the former owned by a family association, the latter a private owner), for example, contracted with InterIm to rehabilitate the properties and source the money required, but retained management and ownership of the buildings. Some buildings, such as the N-P Hotel and Bush Hotels, have been completely taken over and managed by either InterIm or SCIDPDA. Others, notably the Milwaukee, Alps and Hong Kong buildings owned by Coho Real Estate, have remained market rate properties, despite the fact that their rents are not significantly higher than the 40% AMI rents typical in the area. Yet, other buildings have elected to follow an incremental approach to their maintenance, piece-meal improvements, and have maintained general autonomy.

The owners of buildings that have been identified as either vacant, or underutilized, face a more recent challenge. It has been reported that prior to the last real estate cycle, the retail rents and limited rents from the SROs was sufficient to provide a modest amount of income and support the buildings. However, due to the fact that property taxes are assessed in part on the highest and best use of the land, the property taxes of the buildings have increased. This has happened while the condition of the properties have deteriorated, and thus increasing the operating expenses. These pricing scissors, eventually, will force the owners to act. However, this presents another barrier to action. When the ownership model has been to collect positive cash flow, even when depressed, it is difficult to then move to a model that requires substantial reinvestment to increase the yield. Said another way, many property owners, regardless of their background, will prefer lower cash flow over a large infusion of capital to create what may be perceived as a modest increase in cash flow.

Further to these universal challenges, many of the historic preservation incentives are not significant enough to influence a decision as to whether to embark on the cost to rehabilitate a building. For example, zoning code relief does not impact a project in a mixed zone as nearly all uses are permitted anyway. Many of the major costs associated for rehabilitation are for life and safety improvements, and thus building code relief would have a negligible impact. Current Use Open Space tax, while nominally for historic preservation, would not be applied to the International District.

In addition, access to some of the incentives may increase costs to point of not being practical depending on the unique circumstances of the building's condition. For example, it has been reported that to access the HTC and STV, otherwise necessary changes to the space program needed to be abandoned in order to access the incentive. To highlight this point with the pro forma for the base model, if the building's efficiency were lowered to 70% to take into an inefficient space program, the NOI could decrease from $432,137 to $360,021, which in turn would require the owner to contribute $1,522,795 in additional equity, from the already significant $787,685. Basically, accessing the credits can be costly in terms of the NOI that could otherwise be achieved. It is reported that this is often the case to some extent.

As indicated in the risk management above, most of the most important incentives are in the form of tax credits, and violations of the terms of the tax credit may subject the investor to IRS recapture rules. In addition, the ability of the incentives to be syndicated to raise equity is entirely subject to the market for the credits, a market that owners in the International District cannot singularly influence.

It is interesting to note that one of the greatest tools available for incentivizing historic preservation, in the end, only accounts for roughly 2% of the project costs associated with the modeled rehabilitation above. TDRs have been advertised as the public policy answer for takings, compensation for the restriction placed on land use created by historic preservation laws. The current TDR program in the International District is not enough to affect the financial feasibility of a rehabilitations. It is recommended, based upon this research, that the program should be revised to provide the property owners and developers a more effective tool to raise equity. It is already required that the use of TDRs be conditioned upon the sending site's habitability and conformance to historic preservation standards, and it is not recommended for those requirements to change. However, the potential equity raised is inadequate, even coupled with other historic preservation incentives.

This research was, in part, informed by the conditions in Vancouver's Chinatown. This was done because the current environment, despite the different legal and administrative framework, is similar to Seattle's International District. Vancouver's TOD program, its equivalent of TDRs, had the ability to raise upwards of $1 million on comparable buildings to the base model. The key difference was how the TOD monetary amount is calculated. Rather than being based entirely upon a factor of lot square footage, less chargeable space, it is calculated upon the difference between the pro forma project costs of the current size of the building, versus the pro forma value of a new building constructed maximizing the building envelop allowed under current zoning. This is just one way to increase the market value of the TDRs, but the point remains the same, if the city of

Seattle wishes to facilitate the rehabilitation of the subject historic buildings, a revision to the TDR program would be the most effective way to accomplish this.

Another means that may be considered to incentivize rehabilitation of historic buildings is a policy of lease guarantees. The cost of rehabilitating buildings, as shown by the pro formas, is comparable to new construction, yet typically lease at a discount. Under this policy proposal, the city of Seattle would guarantee market rents for rehabilitated structures for a predetermined amount of time. This would have the market effect of equalizing the financial performance of rehabilitated buildings with new construction.

The alternatives, which would be viewed as a negative public policy goal, would be to insure through other means that the rental market in the International District appreciates to the point of being comparable to higher priced in-city neighborhoods. The rent appreciation would inevitably lead to accusations of fostering gentrification, and would price out many of the current residents and businesses in the neighborhood—a result that sound public policy should seek to avoid. This is already occurring to some extent. As stated above, it is reported that association buildings that were formerly able to cover operating costs through the depressed rents of the SROs (if occupied) and retail rents, have recently been unable to do so due to the increased property tax amounts.

The efforts of the neighborhood's non-profit agencies have met considerable success. Several contributing buildings, including the Bush Hotel, N-P Hotel, Gee How Oak Tin, Rex Hotel, Eastern Hotel, Jackson Building and New Central Building, have been either re-developed on behalf of the owners, managed, or purchased by InterIm and SCIDPDA. The efforts of the non-profits' continued neighborhood engagement through rental housing assistance, property owner support, assistance with grant writing and other services, fund raising and neighborhood advocacy have served to develop an increased level of trust. This has proven critical, considering the complex and historically contentious social and political history of the neighborhood.

In conclusion, the current conditions in the neighborhood necessitate reconsideration of the subsidy and incentive structures as they are currently applied, as they fall short financially, or do not align themselves with the owners' social and investment objectives. The unique place of Seattle's International District in North American history commands attention to its current condition, and should be a priority among policy makers.

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