

## Addressing Capacity

Presented to the City Council on January 2, 2024, the Land Capacity Analysis Supplement evaluates whether the City has adequate development capacity to accommodate its housing needs, as determined by the State and King County, at various income levels (AB 6385). The analysis was conducted based on the [Commerce guidance to for evaluating land capacity](#). The Commerce guidance details a process by which cities would assume that higher density development will accommodate lower-income households. In high-cost communities like Mercer Island, the guidance assumes that nearly all of the housing needs below 120 percent of the area median income (AMI) would be accommodated in multifamily and mixed-use zones. Within that framework, the Land Capacity Analysis Supplement finds a 143-unit capacity deficit in multifamily and mixed-use zones (AB 6385, Exhibit 1). HB 1220 and the Commerce Guidance require the City to address this deficit during the Comprehensive Plan Periodic Review by increasing mixed-use and/or multifamily development capacity.

### City Council Direction

On January 16, 2024, the City Council provided direction that the multifamily and mixed-use development capacity deficit should be addressed during the Comprehensive Plan periodic review. The City Council direction was to:

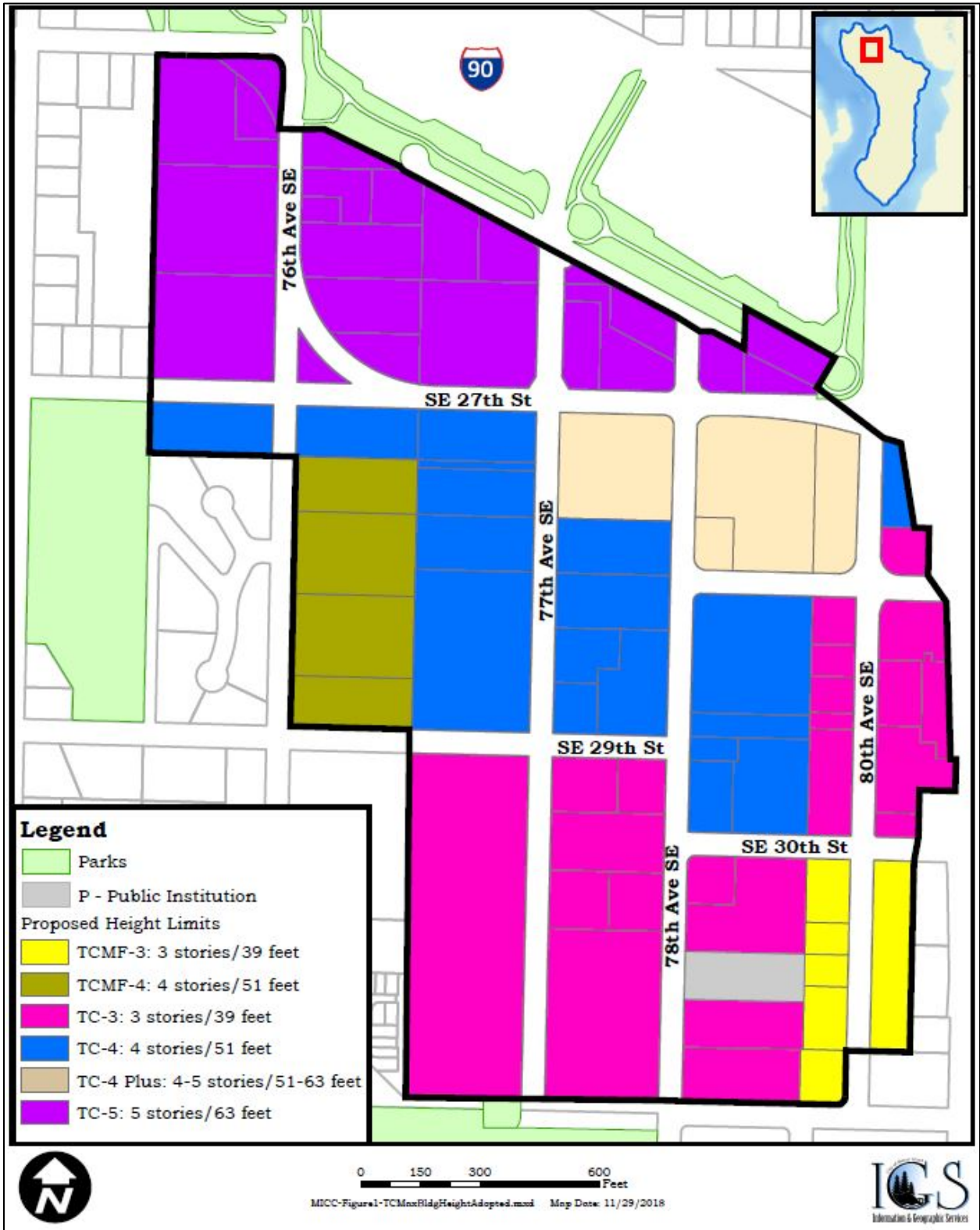
Direct the Housing Work Group to develop a recommended plan for adding required additional capacity in the Town Center but not limited to adding “one floor option” with due consideration of the impact on the Island businesses and a charge to look for options that mitigate the impact to Island businesses. (City Council Minutes, January 16, 2024)

The Housing Work Group considered the City Council direction as it prepared its draft of the Housing Element, which included policy direction for increasing the development capacity in the Town Center. To implement the Housing Element, the fine detail of the preferred approach to increasing the development capacity must be ascertained. Direction on the preferred approach will be incorporated into an ordinance to amend the development code in Title 19 Mercer Island City Code (MICC) and implement the Housing Element. On October 1, the City Council will be asked to provide direction on their preferred approach to add development capacity in the Town Center.

### Town Center Subareas

The Town Center zone is divided into six subareas. Each subarea has development standards that regulate new development to achieve the Town Center subarea plan goals and policies. Generally, the Town Center subarea plan directs taller buildings in the northern portion of the Town Center, with heights stepping down in the southern subareas. The Town Center subareas are shown in Map 1.

Map 1. Town Center Subareas.



Source: [MICC 19.11.015 Town Center Subareas.](#)

## Capacity Options

Staff has analyzed two Options for addressing the 143-unit residential development capacity deficit and achieve the required affordable housing target capacity within the Mercer Island Town Center.

- A. Increase the maximum height to permit one additional residential story in all Town Center subareas, or
- B. Increase the maximum height to permit two additional residential stories in the TC-5 and TC-4 Plus subareas and one additional residential story in TC-4.

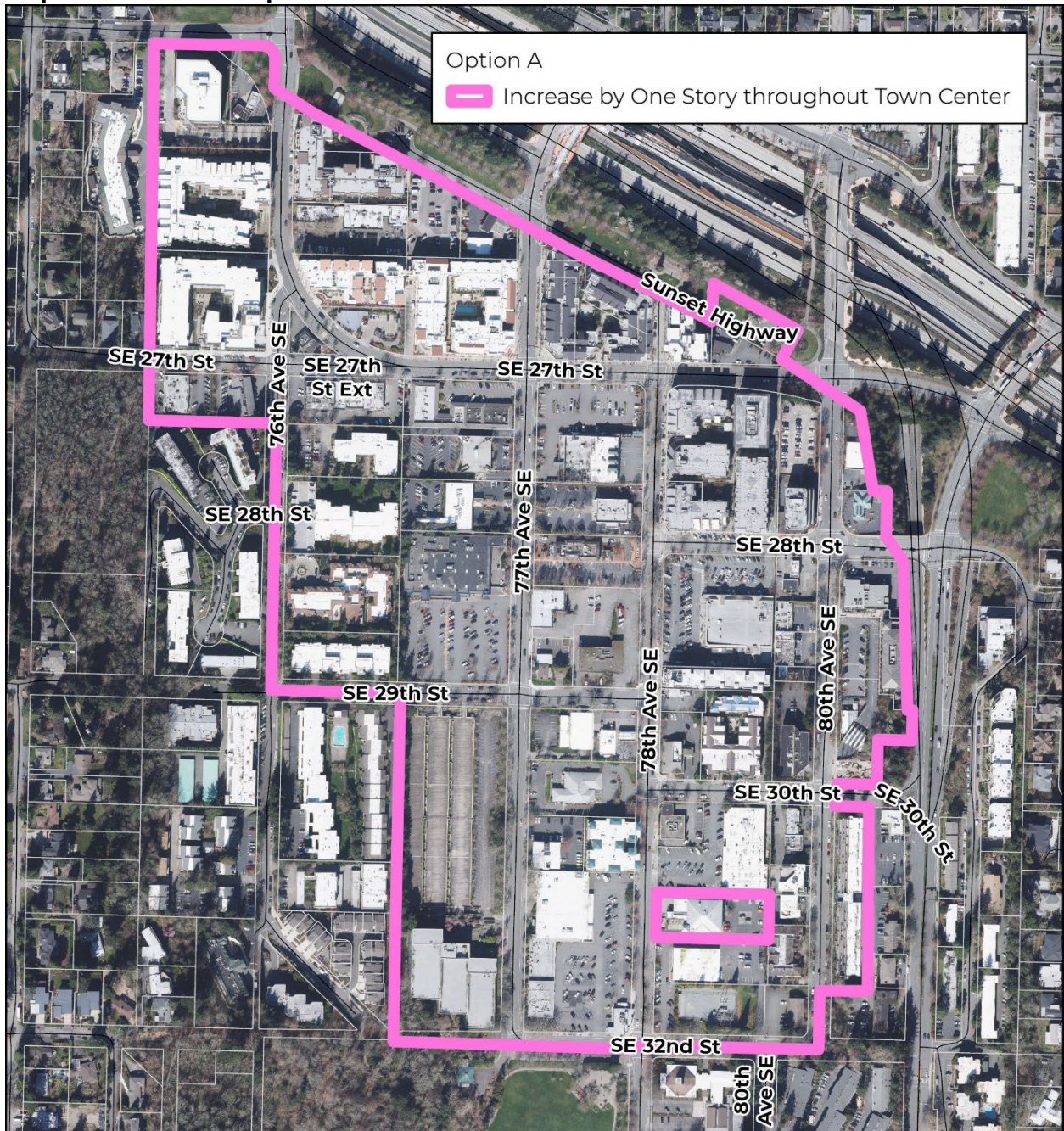
### **Option A – Add One Story Throughout Town Center**

Increase maximum building height in all subareas by one story.

To achieve the required affordable housing target capacity within the Mercer Island Town Center, Mercer Island can amend the development regulations in the Town Center. The Town Center is currently divided into six subareas: TC-5, TC-4 Plus, TC-4, TCMF-4, TC-3, and TCMF-3. Each of the subareas has a different height limit established in [Mercer Island City Code \(MICC\) 19.11.030 – Bulk Regulations](#). The maximum height in the TC-5 and TC-4 Plus subareas is 63 feet (5 stories), in TC-4 and TCMF-4 the maximum height is 51 feet (4 stories), and in TC-3 and TCMF-3 maximum height is 39 feet (3 stories). Increasing the maximum building height by one story in Town Center would increase development capacity by 152 dwelling units, enough to overcome the 143-unit capacity deficit.

Map 2 shows the area of Town Center that would be affected by Option A. This Option would apply throughout the Town Center zone, affecting all subareas. Table 1 shows the capacity analysis for Option A.

**Map 2. Town Center Option A.**



**Table 1. Town Center Option A Detailed Capacity Analysis (1 Additional Story Option).**

A	B	C	D	E	F	G	H	I
Subarea	Total Redevelopable Area (Square Feet)	Proposed Stories Allowed	Assumed Building Coverage	Assumed Unit Size	Market Factor	Existing Dwelling Units on Redevelopable Parcels	Net Dwelling Unit Capacity (Proposed)	Existing Capacity
TCMF-3	41,382.00	4	0.75	925	0.135	94	0	0
TCMF-4	0	5	0.75	925	0.135	0	0	0
TC-3	612,889.20	4	0.75	925	0.135	841	449	383
TC-4	337,590.00	5	0.75	925	0.135	896	52	4
TC-4 Plus	75,794.40	6	0.75	925	0.135	233	33	20
TC-5	141,570.00	6	0.75	925	0.135	350	147	122
<b>Total Net Capacity</b>							<b>681</b>	<b>529</b>
<b>Total Capacity Increase (Net Minus Existing Capacity)</b>							<b>152</b>	

**Formulas:**

- Net Dwelling Unit Capacity =  $(B * (1 - F) * D * (C - 1)) / E - G$
- Total New Capacity = H - I

### Option A Benefits

- Would place additional development capacity near the light rail station and I-90 onramps, providing ample transportation connections. Additional households accommodated in this capacity would be within walking distance to key transportation infrastructure.
- Would locate additional development capacity in an area with existing employment opportunities and services, reducing the need to travel elsewhere. Locating additional residential capacity near the City's largest commercial area could also further economic development goals by increasing the customer base.

### Option A Drawbacks

- Would increase capacity in an area with some displacement risks. The southern area of the Town Center has older residential development and increasing the capacity in that area might spur redevelopment of older, lower-priced units; and
- Increased development activity in the Town Center could displace some small businesses in the areas where redevelopment occurs. In general, redevelopment is more likely to occur after development capacity is increased.

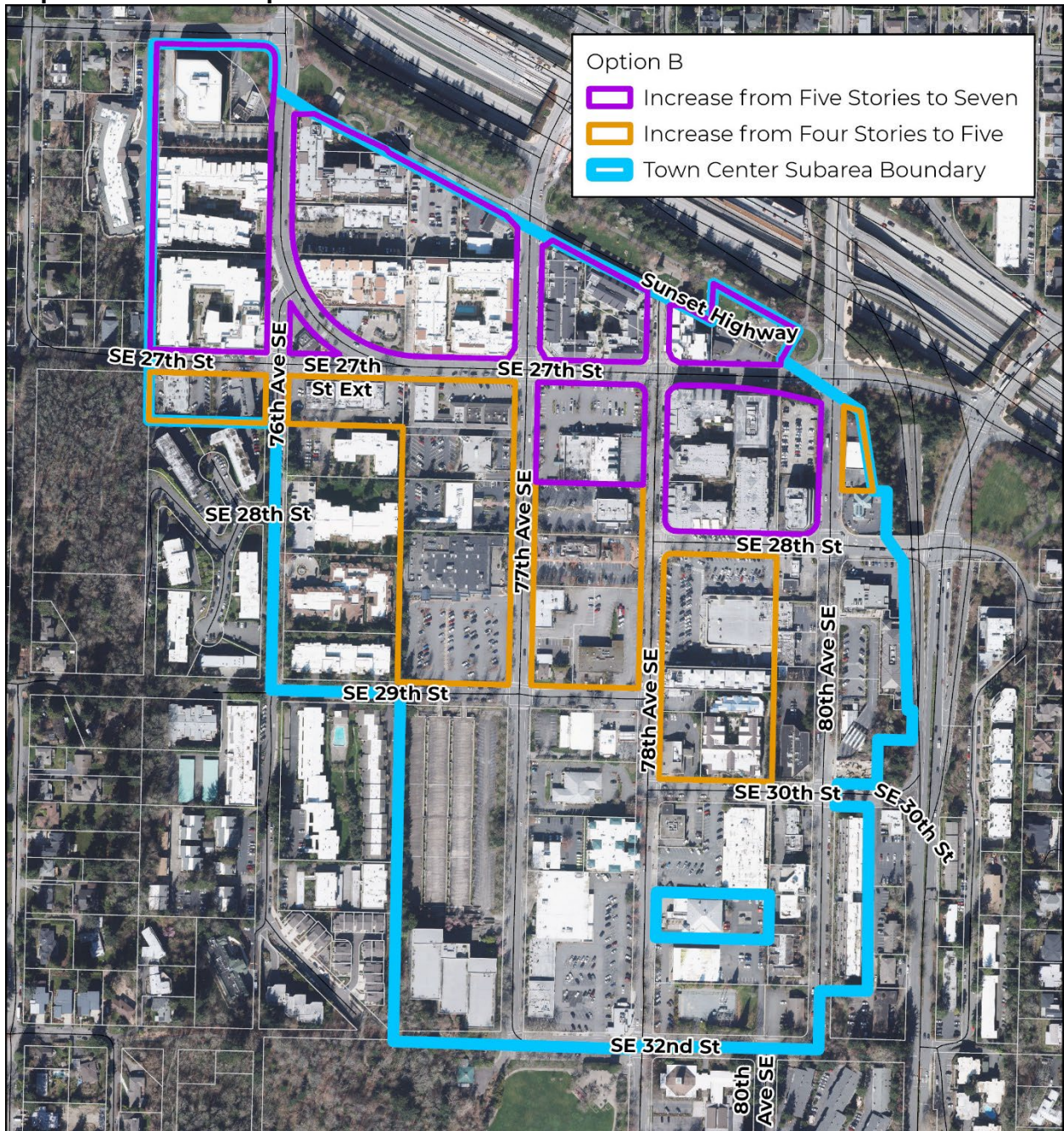
### Option B – Increase Height in TC-5, TC-4 Plus, and TC-4

Increase maximum building height from five stories to seven in TC-5 and TC-4 Plus, and four stories to five in TC-4.

Option B would target the subareas in the north and middle of Town Center with a focused increase of housing capacity. If the TC-5 and TC-4 Plus maximum building height is increased from five stories to seven and TC-4 increase from four stories to five, development capacity would increase by enough to overcome the 143-unit capacity deficit.

Map 3 shows the area of Town Center that would be affected by Option B. This Option would only apply in the TC-4, TC-4 Plus, and TC-5 Town Center subareas. Table 2 shows the capacity analysis for Option B. This Option is projected to increase development capacity in the Town Center by an estimated 237 units.

Map 3. Town Center Option B.



**Table 2. Town Center Option B Detailed Capacity Analysis (Additional Height in North Subareas Option).**

A	B	C	D	E	F	G	H	I
Subarea	Total Redevelopable Area (Square Feet)	Proposed Stories Allowed	Assumed Building Coverage	Assumed Unit Size	Market Factor	Existing Dwelling Units on Redevelopable Parcels	Net Dwelling Unit Capacity (Proposed)	Existing Capacity
TCMF-3	41,382.00	3	0.75	925	0.135	94	0	0
TCMF-4	0	4	0.75	925	0.135	0	0	0
TC-3	612,889.20	3	0.75	925	0.135	841	383	383
TC-4	337,590.00	5	0.75	925	0.135	896	51	4
TC-4 Plus	75,794.40	7	0.75	925	0.135	233	86	20
TC-5	141,570.00	7	0.75	925	0.135	350	246	122
<b>Total Net Capacity</b>							<b>766</b>	<b>529</b>
<b>Total Capacity Increase (Gross Minus Existing Capacity)</b>							<b>237</b>	

**Formulas:**

- Net Dwelling Unit Capacity =  $(B * (1 - F) * D * (C - 1)) / E - G$
- Total New Capacity = H - I



### Option B Benefits

- Affordable housing becomes more feasible in taller structures because the development and land costs are shared by more dwelling units.
- The City will have more options for increasing the required proportion of affordable units. A greater proportion of affordable housing units is expected to be more feasible in a seven-story structure.
- This option focuses the displacement risk that can result from new development in one area of the Town Center rather than throughout the entire area as would be the case under Option A.
- Option B produces a greater increase to development capacity reducing the likelihood that development capacity will be ‘used up’ during the planning period. The more capacity the City zones today, the less it might be required to add during a future planning process such as the 5-year progress report with Commerce and King County.

### Option B Drawbacks

- Increased development activity in Town Center could displace some small businesses in the areas where redevelopment occurs. In general, redevelopment is more likely to occur after development capacity is increased.
- Only increasing development capacity in the north of the Town Center is not expected to affect the south of Town Center where there are many older structures. This is a benefit from a displacement perspective, but, on the other hand, the modernization of many commercial structures in the south end might not occur during the planning period.
- The City may need to revisit development capacity in the south end of Town Center in the future if additional development capacity is needed.

### Optional Additional Capacity Buffer

The GMA requires the City to submit an implementation progress report to Commerce in 2029, five years after the periodic review is completed ([RCW 36.70A.130](#)). The 5-year implementation progress report will also be reviewed by the King County Growth Management Planning Council (GMPC). The purpose of the GMPC review during the 5-year implementation progress report is stated in the Countywide Planning Policy (CPP) H-29:

[ ... ]The Growth Management Planning Council will identify significant shortfalls in planning for and accommodating housing needs, provide findings that describe the nature of the shortfalls, and make recommendations that jurisdictions take action to address

shortfalls. Jurisdictions with significant shortfalls shall identify and implement actions to address the shortfalls, such as amending the comprehensive plan, land use regulations, or other legislative or administrative actions. [ ... ]

The City can consider adding an additional capacity buffer, increasing the development capacity more than the minimum required, to help demonstrate that it is making progress toward accommodating its housing needs at the GMA-required 5-year implementation progress report. An additional capacity buffer is optional and can be added to either of the Options presented in this report.

Either Option A or B considered above would be implemented by an interim ordinance, establishing temporary regulations for maximum building height requiring the City to eventually establish permanent regulations. A portion of the TC-3 subarea could be considered for a potential redesignation to a subarea with a greater maximum building height when the City adopts permanent height regulations for the Town Center. If the City Council would like to pursue the optional additional capacity buffer, it would direct staff to undertake the work on rezoning a portion of TC-3 in the years following the Comprehensive Plan periodic review.

**Optional Additional Capacity Buffer Study Area Summary**

To better understand how much capacity could be added by including an additional capacity buffer, staff evaluated a study area of the TC-3 subarea along 80<sup>th</sup> Ave SE north of SE 30<sup>th</sup> Street as shown in Map 4. The study area was analyzed to provide some general information about the capacity increase that could be expected if this area were rezoned to a subarea with a greater maximum building height.

Map 4 shows the area of optional capacity buffer study area. The study area is roughly 4.1 acres divided into 11 lots. There are eight developable lots totaling 3.28 acres in the study area. The study area is currently designated TC-3, with a maximum building height of three stories. To evaluate capacity in this study area, three lots in the study area were excluded from the analysis because they are fully developed or have environmental constraints, meaning they are less likely to redevelop in the coming twenty years. This does not mean that these lots cannot develop, only that they are less likely to do so in the near future. Lots were considered fully developed if the existing structures were assessed at a value greater than or equal to half of the assessed land value or because of environmental constraints. Table 3 shows the lots excluded from the capacity analysis.

**Table 3. Lots Excluded from the Capacity Analysis.**

Parcel Number	Current Use	Reason
5452300380	Gas Station	Environmental Constraints
5452300470	Office	Ratio of improvement to land value is greater than 0.5
5452300540	Office	Ratio of improvement to land value is greater than 0.5

Source: King County Assessor’s Property Data.

**Map 4. Town Center Optional Additional Capacity Buffer.**



Table 4 shows the capacity analysis for the Optional Additional Capacity Buffer study area. If the study area were rezoned to have a maximum building height of five stories, the estimated development capacity in this area would increase by 201 dwelling units. If this area were rezoned to a maximum building height of seven stories, the estimated development capacity would increase by 401 dwelling units. If this area were rezoned when the City develops its permanent regulations, this additional capacity would help demonstrate the City is making progress toward its Housing Element goals at the 5-year progress report.

**Table 4. Town Center Optional Capacity Buffer Detailed Capacity Analysis (Additional Height in North Subareas and TC-3 Option).**

A	B	C	D	E	F	G	H
Existing or Proposed	Total Redevelopable Area (Square Feet)	Proposed Stories Allowed	Assumed Building Coverage	Assumed Unit Size	Market Factor	Existing Dwelling Units on Redevelopable Parcels	Net Dwelling Unit Capacity
Existing	142,896	3	0.75	925	0.135	0	200
Proposed 5 Story Alt.	142,896	5	0.75	925	0.135	0	401
Proposed 7 Story Alt.	142,896	7	0.75	925	0.135	0	601
<b>Total Capacity Increase at five stories (Proposed Minus Existing Capacity)</b>							<b>201</b>
<b>Total Capacity Increase at Seven Stories</b>							<b>401</b>

**Formulas:** Net Dwelling Unit Capacity =  $(B * (1 - F) * D * (C - 1)) / E - G$

Table 5 shows the City’s multifamily and mixed-use development capacity, the affordable housing target, and how capacity changes as development occurs. This table is included to illustrate the way the optional additional housing capacity buffer, as proposed, would help the City meet its housing goals and demonstrate it has made progress during the 5-year progress report with Commerce and King County.

**Table 5. Mercer Island Multifamily and Mixed-Use Housing Capacity, Affordable Housing Target, and Optional Additional Housing Capacity Buffer.**

<b>Option A</b>			
	<b>Multifamily and Mixed-Use Housing Capacity</b>	<b>Affordable Housing Target<sup>2</sup></b>	<b>Capacity Surplus or Deficit (Capacity Minus Target)</b>
Starting Balance (Current Conditions)	1,073 <sup>1</sup>	1,216 <sup>2</sup>	<b>Deficit</b> -143 Units
Option A (debit)	(+)152 <sup>3</sup>	-	
New Balance	1,225	1,216 <sup>2</sup>	<b>Surplus</b> +9 Units
Xing Hua Development (credit)	146 Units	15 Units <sup>5</sup>	
New Balance	1,079	1,201	<b>Deficit</b> -122 Units
Hypothetical Development A (credit)	15 Units <sup>4</sup>	2 Units <sup>5</sup>	
New Balance	1,064	1,199	<b>Deficit</b> -135 Units
Hypothetical Development B (credit)	173 Units <sup>4</sup>	18 Units <sup>5</sup>	
New Balance (end of Option A)	891	1,181	<b>Deficit</b> -290 Units
Optional Additional Housing Capacity Buffer (debit)	(+)401 <sup>6</sup>	-	
New Balance (Option A plus Capacity Buffer)	1,292	1,181	<b>Surplus</b> +111 Units
<b>Option B</b>			
	<b>Multifamily and Mixed-Use Housing Capacity</b>	<b>Affordable Housing Target<sup>2</sup></b>	<b>Capacity Surplus or Deficit (Capacity Minus Target)</b>
Starting Balance (Current Conditions)	1,073 <sup>1</sup>	1,216 <sup>2</sup>	<b>Deficit</b> -143 Units
Option B (debit)	(+)237 <sup>3</sup>	-	
New Balance	1,310	1,216 <sup>2</sup>	<b>Surplus</b> +94 Units
Xing Hua Development (credit)	146 Units	15 Units <sup>5</sup>	
New Balance	1,164	1,201	<b>Deficit</b>

			-37 Units
Hypothetical Development A (credit)	15 Units <sup>4</sup>	2 Units <sup>5</sup>	
New Balance	1,149	1,199	<b>Deficit</b> -50 Units
Hypothetical Development B (credit)	173 Units <sup>4</sup>	18 Units <sup>5</sup>	
New Balance (end of Option B)	976	1,181	<b>Deficit</b> -205 Units
Optional Additional Housing Capacity Buffer (debit)	(+)401 <sup>6</sup>	-	
New Balance (Option B plus Capacity Buffer)	1,377	1,181	<b>Surplus</b> +196 Units

**Notes:**

1. The City’s existing multifamily and mixed-use housing capacity was analyzed in the Land Capacity Analysis Supplement provided to the City Council in Agenda Bill 6385, Exhibit 1. Based on the guidance provided by Commerce, affordable housing is presumed to be provided primarily in denser housing so multifamily and mixed-use development capacity must at least equal the affordable housing target for the City to accommodate its affordable housing needs.
2. Housing needs were established in the King County Countywide Planning Policies (CPPs) as amended in 2023.
3. Options A and B would increase development capacity, so both are listed as a capacity debit.
4. Hypothetical developments are those that might occur during the planning period, included here as an example. Each development would ‘use up’ the available capacity, so these units would be a credit subtracted from the capacity total.
5. New developments taller than two stories are required to provide affordable housing units at a rate of 10 percent of all units. Those units must be affordable at 70% of the AMI in three-story structures or 60% of the AMI for four-story structures and taller. The provision of affordable housing units counts here as a credit subtracted from the total affordable housing need.
6. Adding the optional additional housing capacity buffer would increase to the total housing capacity, so it is listed as a capacity debit. The capacity debit used in this table assumes the maximum building height in the buffer area would be increased to seven stories.

**Optional Additional Capacity Buffer Benefits**

- Increasing development capacity by another 200 to 400 units during the planning period would reduce the likelihood of the City being required to increase development capacity by the state or King County during the 5-year progress report.

- Adding development capacity in the study area could spur new development, resulting in more housing units, including additional affordable housing units.
- More development capacity can help the City further its housing goals and accommodate its housing needs.

#### Optional Additional Capacity Buffer Drawbacks

- Adding development capacity in the study area shown in Map 4 would increase the likelihood of the area redeveloping, potentially displacing some of the existing businesses in the area.

#### Affordable Housing Percentage

In addition to allowing buildings to be taller (Options A and B), the City can also require more affordable housing units be constructed in those taller buildings. The Mercer Island City Code (MICC) currently requires any building taller than two stories in the Town Center to include at least ten percent of the dwelling units in that project as affordable housing units (MICC 19.11.040). MICC 19.11.040 includes the following additional affordable housing requirements:

- For a three-story building the required affordable housing units must be affordable at the 70 percent of median income level for rental housing or 90 percent of median income level for ownership housing.
- For four- and five-story buildings, the required affordable housing units must be affordable at the 60 percent of median income level for rental housing or 90 percent of median income level for ownership housing.
- The affordable housing units shall generally be intermingled with all other dwelling units in the development and are not required to be located on the top story or bonus story.
- The tenure (owner- or renter-occupied) of the affordable housing units shall be the same as the tenure of the rest of the dwelling units in the development.

#### Increasing Affordable Housing Percentage Benefits

- More affordable housing units will be constructed when new development occurs;
- The City can receive more public benefit (affordable housing units) in exchange for the value added by an increase in building height; balancing a grant of additional development rights with a requirement to provide additional public benefit; and
- This action will help the City demonstrate progress toward its housing goals at the 5-year progress report with King County and Commerce.

### Increasing Affordable Housing Percentage Drawbacks

- Some new developments could be less feasible if more units are required to be affordable. This could lead to fewer housing units being constructed during the planning period.