City of Mercer Island

Affordable Housing Nexus Study

DISCUSSION DRAFT

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Prepared For:

Prepared by:

COMMUNITY ATTRIBUTES INC

Community Attributes Inc. tells data-rich stories about communities that are important to decision makers.

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SUMMARY

Background and Purpose

The City of Mercer Island is exploring options for alternatives to current zoning regulations regarding affordable housing to support both the development of affordable housing and feasibility for market rate housing development. The City of Mercer Island commissioned Community Attributes Inc. (CAI) to prepare an affordable housing nexus study to calculate the maximum supportable fee in-lieu requirements and performance requirements in support of these efforts.

The purpose of a nexus study is to demonstrate the extent to which new development generates need for affordable housing and the proportionate impact of different types of new development on that need for affordable housing. This study provides the maximum allowable in-lieu fees and on-site affordable housing performance requirements for the range of development types anticipated within Mercer Island's Town Center zones.

Methodology

Three rental prototypes were defined with feedback from the City of Mercer Island that reflect the current development of multifamily buildings within the Town Center zoning area. Details defining these prototypes are presented in **Exhibit 3**.

Calculation of the maximum supportable in-lieu fee and on-site performance requirements includes the following key steps. Detailed descriptions of the calculations and presentation of data are included in the remainder of the report.

- Estimate the average affordability gap, or the difference between expected rent value and the cost to construct and operate an affordable unit, at each income level.
- Estimate the total household income and total disposable income for each prototype.
- Estimate the number of jobs (full-time equivalents) supported by the spending of disposable income.
- Estimate the number of households at each income level supported by each prototype.
- Multiply the number of estimated new households at each income level by the affordability gap at each income level to estimate the total affordability gap generated by worker households for each prototype.

The maximum supportable in-lieu fee is equal to the affordability gap divided by the total square feet of each prototype. The maximum supportable on-site

performance requirement is equal to the number of worker households or demand for affordable units divided by the total units for each prototype.

Maximum Supportable In-Lieu Fee and On-Site Performance Requirements

Exhibit 1 and **Exhibit 2** present the maximum supportable in-lieu fees and on-site affordable housing performance for all prototypes. The results are shown at each AMI level and combined for below 80% and below 100% AMI levels.

Exhibit 1. Maximum Supportable In-Lieu Fees by Prototype, City of Mercer Island

AMI Level	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
0-30% AMI	$3.63	$4.41	$4.06
30-50% AMI	$18.49	$22.37	$20.56
50%-60% AMI	$5.25	$6.47	$5.94
60%-80% AMI	$2.97	$3.68	$3.38
Below 80% AMI	$30.34	$36.93	$33.94
80%-100% AMI	$0.56	$0.70	$0.64
Below 100% AMI	$30.90	$37.62	$34.58

Sources: City of Mercer Island, 2025; U.S. Census Bureau, 2025; Bankrate, 2025; U.S. Department of Housing and Urban Development; King County Assessor, 2025; Community Attributes Inc., 2025.

Exhibit 2. Maximum Supportable Onsite Affordable Housing Performance Requirements by Prototype, City of Mercer Island

AMI Level	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
0-30% AMI	0.9%	0.9%	1.1%
30-50% AMI	6.3%	6.0%	7.5%
50%-60% AMI	2.2%	2.2%	2.7%
60%-80% AMI	2.5%	2.4%	3.0%
Below 80% AMI	11.9%	11.4%	14.3%
80%-100% AMI	1.7%	1.6%	2.1%
Below 100% AMI	13.6%	13.1%	16.4%

Sources: City of Mercer Island, 2025; U.S. Census Bureau, 2025; Bankrate, 2025; U.S. Department of Housing and Urban Development; King County Assessor, 2025; Community Attributes Inc., 2025.

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Methods and Approach

Data used in this report draws from several sources, including American Community Survey (ACS) and American Housing Survey (AHS) demographic data published by the U.S. Census Bureau, national real estate listing sites such as Zillow and Redfin, statewide and regional housing and population data provided by the Office of Financial Management (OFM), Puget Sound Regional Council, and the U.S. Bureau of Labor Statistics (BLS). Jobs supported by new development, including direct, indirect, and induced jobs by prototype were generated by using IMPLAN (Impact Analysis for Planning), a software provider that calculates projected economic impacts and multipliers by employment industry.

This report uses a similar methodology to the Seattle Affordable Housing Nexus Study and Economic Impact Analysis completed in 2015 for the City of Seattle. Similar studies have been used in other states, including California, Colorado, Massachusetts, Minnesota, and Wyoming.

Organization of Report

The remainder of this report is organized as follows:

- **Prototype Details** describes the three residential prototypes selected by the City of Mercer Island.
- **Affordability Gap Analysis** summarizes the calculation of the affordability gap and documents inputs and assumptions used throughout the analysis.

- **Calculation of Nexus Fees** presents a detailed summary of the calculations for the maximum supportable in-lieu fee and on-site performance requirement.
- **Summary Maximum Supportable In-Lieu Fee and Onsite Performance Requirements** includes a summary of the key findings.
- **Appendix** includes supporting exhibits and findings for nexus calculations.

PROTOTYPE DETAILS

This study presents analysis for three residential rental prototypes that most closely represent the anticipated development types that could be constructed within the Town Center zone. The building types include three distinct multifamily buildings, located across unique sub zones within the Town Center. Each prototype reflects the maximum allowable story height for its respective zone after meeting the necessary bonus height requirements, however, for the purpose of the nexus study the buildings are assumed to be fully market rate units. The prototypes were created based on market data of current and future multifamily developments in the City of Mercer Island or within areas that are served by A Regional Coalition for Housing (ARCH). **Exhibit 3** outlines the key prototype characteristics, including total unit count, number of stories, net floor area, and unit mix by prototype.

The prototypes, as designed, are aligned with the proposed rezoning in Town Center for 8-story and 6-story development. While some development projects may exceed the seven and five stories represented in the prototypes, other development regulations, market factors, and construction cost structures are likely to lead to certain projects building at intensities lower than the maximum allowed by zoning. The prototypes represent balance within this range of outcomes.

Exhibit 3.Prototype Details

Prototype	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Stories	7	5	4
Net Floor Area	332,006	148,293	141,303
Number of Units			
Studio	78	120	24
1-Bedroom	174	46	88
2-Bedroom	93	43	31
3-Bedroom	23	0	3
Total Units	368	209	146
Square Feet per Unit			
Studio	527	564	586
1-Bedroom	839	684	933
2-Bedroom	1,173	1,143	1,305
3-Bedroom	1,556	-	1,564

Sources: City of Mercer Island, 2025; Community Attributes Inc., 2025

The following prototype descriptions are intended to provide a description of the types of buildings that could fit each prototype and are based on the current zoning and design standards outlined in the City code. These prototypes do not reflect actual properties under construction, but provide context on the potential for each subzone.

Prototype 1, located in the **TC-7 subarea**, is seven stories tall and could include a mix of residential units and commercial spaces. The ground floor allows for retail shops and restaurants with large windows facing the street to encourage pedestrian activity. The building is designed with setbacks on the upper stories to reduce its visual impact and allow more light and air at street level. It includes a public plaza and a pedestrian pathway that cuts through the block, connecting different parts of the Town Center. Parking is located underground, and the building meets LEED Gold or Built Green 4-Star standards.

Prototype 2, located in the **TC-5 subarea**, is five stories tall and serves as a transition between the taller buildings in TC-7 and the lower-density areas nearby. The ground floor allows for small retail spaces and services, while the upper four floors are residential. The building is designed with architectural features like balconies, varied materials, and setbacks to comply with daylight plane requirements. It includes a landscaped courtyard for residents and structured parking that is screened from public view. The building also meets Built Green 4-Star standards.

Prototype 3, in the **TC-MF4 subarea** is four stories tall and primarily residential. It may include live/work units or small retail spaces on the ground floor, but the focus is on housing. The building features street-

oriented units with porches or stoops, landscaped setbacks, and a design that fits the residential character of the area. It provides private outdoor space for residents, such as a courtyard or garden. Parking is located behind the building and screened with landscaping. The building meets Built Green 4-Star standards and includes greenery throughout the site.

AFFORDABILITY GAP ANALYSIS

Calculating the per unit affordability gap, or the difference between expected rent or sales value and the cost to construct and operate an affordable unit, is the first step in the nexus analysis. The affordability gap is used with an estimate of affordable unit demand to estimate the maximum supportable affordable housing in-lieu fee. The affordability gap is calculated at each level of area median income (AMI) by unit size based on number of bedrooms, summarized to the average affordability gap by AMI level.

The following data points and inputs are used in the calculation of affordability gap by AMI level:

- Income limits by AMI level and household size, published by ARCH
- Renter utility allowances published by ARCH
- Development assumptions sourced from market analysis and feedback from ARCH
- Operating cost per unit and development cost per net square foot provided by ARCH

Additional assumptions used in the affordability gap calculation include vacancy rates, mortgage interest rates, mortgage amortization, and affordable housing expense as a percentage of income. **Exhibit 4** through **Exhibit 6** outline the key inputs, assumptions, and market data that inform the affordability gap calculation.

Exhibit 4. Affordable Housing Income Limits by AMI and Household Size

Household Size	30% AMI	50% AMI	60% AMI	80% AMI	100% AMI
One Person	$32,991	$54,985	$65,982	$87,976	$109,970
Two Persons	$37,704	$62,840	$75,408	$100,544	$125,680
Three Persons	$42,417	$70,695	$84,834	$113,112	$141,390
Four Persons	$47,130	$78,550	$94,260	$125,680	$157,100
Five Persons	$50,900	$84,834	$101,801	$135,734	$169,668
Six Persons	$54,671	$91,118	$109,342	$145,789	$182,236

Sources: ARCH, 2025; Community Attributes Inc., 2025.

Exhibit 5. Affordability Gap Analysis Assumptions, City of Mercer Island

Assumptions	
Vacancy rate	5%
Operating cost per unit per year	$8,000
Development cost per NSF	$450

Sources: ARCH, 2025; Community Attributes Inc., 2025.
Notes: Net Square Feet is abbreviated as NSF.

Exhibit 6. Household Size Assumptions, Renter Utility Allowance and Development Cost by Size of Unit, City of Mercer Island

Assumption	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Household Size	1	1.5	3	4.5
Renter Utility Allowance - Tenant Pays All Utilities	177	210	258	317
Average Unit Size	500	681	1,035	1,418
Average Development Cost per Unit	$225,000	$306,225	$465,943	$638,100

Sources: ARCH, 2025; U.S. Census Bureau, 2025; Community Attributes Inc, 2025.

Income limits by AMI level are available based on the number of persons per household. They are converted to unit based on an assumed number of people per unit, ranging between one person per studio unit to 4.5 persons per 3-bedroom unit. Renter utility allowances are based on the bedroom count of the unit as published by ARCH. Average development cost per unit is calculated based on the average unit size for affordable housing units based on market data of existing affordable housing properties located in areas served by ARCH multiplied by the development cost per square foot, provided by ARCH (**Exhibit 6**).

The first step in calculating the affordability gap is estimating annual gross rental income. Using the annual income limit by unit size and AMI level, the affordable monthly housing expense is estimated assuming that renters will spend 30% of their gross income on rent. Affordable monthly housing expense is reduced by utility allowance, resulting in estimated affordable monthly rent and annual gross rental income per unit for each AMI level.

Annual gross rental income is reduced by an assumed vacancy rate of 5% and annual operating costs of $8,000 per unit, resulting in net operating income (NOI) per unit. Operating costs were provided by ARCH, based on actual cost of standard affordable properties. NOI is then converted to an estimated supportable mortgage per unit to compare the calculated NOI to development costs.

The affordability gap per unit is calculated by subtracting the supportable mortgage from the estimated development cost for each prototype. For units where NOI and the calculated supportable mortgage are negative, the affordability gap is equal to the development cost.

Exhibit 7 through **Exhibit 11** outline the resulting average affordability gap at 30% through 100% AMI units.

Exhibit 7. Affordability Gap for 30% AMI Units, City of Mercer Island

Affordability Gap for 30% AMI Units	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Annual Income Limit	$32,991	$35,348	$42,417	$49,015
Affordable Monthly Housing Expense	$825	$884	$1,060	$1,225
Less: Monthly Utility Allowance	($177)	($210)	($258)	($317)
Affordable Monthly Rent	$648	$674	$802	$908
Annual Gross Rental Income Per Unit	$7,773	$8,084	$9,629	$10,901
Less: Vacancy	($389)	($404)	($481)	($545)
Less: Annual Operating Costs	($8,000)	($8,000)	($8,000)	($8,000)
Net Operating Income Per Unit	($615)	($320)	$1,148	$2,356
Supportable Mortgage Per Unit	($8,791)	($4,571)	$16,395	$33,650
Per Unit Affordability Gap	$225,000	$306,225	$449,548	$604,450
Average Affordability Gap	**$365,904**			

Sources: ARCH, 2025; U.S. Department of Housing and Urban Development, 2025; Community Attributes Inc, 2025.

Exhibit 8. Affordability Gap for 50% AMI Units, City of Mercer Island

Affordability Gap for 50% AMI Units	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Annual Income Limit	$54,985	$58,913	$70,695	$81,692
Affordable Monthly Housing Expense	$1,375	$1,473	$1,767	$2,042
Less: Monthly Utility Allowance	($177)	($210)	($258)	($317)
Affordable Monthly Rent	$1,198	$1,263	$1,509	$1,725
Annual Gross Rental Income Per Unit	$14,372	$15,154	$18,113	$20,704
Less: Vacancy	($719)	($758)	($906)	($1,035)
Less: Annual Operating Costs	($8,000)	($8,000)	($8,000)	($8,000)
Net Operating Income Per Unit	$5,653	$6,396	$9,207	$11,668
Supportable Mortgage Per Unit	$80,756	$91,372	$131,527	$166,692
Per Unit Affordability Gap	$144,244	$214,853	$334,416	$471,408
Average Affordability Gap	**$264,703**			

Sources: ARCH, 2025; U.S. Department of Housing and Urban Development, 2025; Community Attributes Inc, 2025.

Exhibit 9. Affordability Gap for 60% AMI Units, City of Mercer Island

Affordability Gap for 60% AMI Units	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Annual Income Limit	$65,982	$70,695	$84,834	$98,030
Affordable Monthly Housing Expense	$1,650	$1,767	$2,121	$2,451
Less: Monthly Utility Allowance	($177)	($210)	($258)	($317)
Affordable Monthly Rent	$1,473	$1,557	$1,863	$2,134
Annual Gross Rental Income Per Unit	$17,671	$18,689	$22,354	$25,605
Less: Vacancy	($884)	($934)	($1,118)	($1,280)
Less: Annual Operating Costs	($8,000)	($8,000)	($8,000)	($8,000)
Net Operating Income Per Unit	$8,787	$9,754	$13,236	$16,325
Supportable Mortgage Per Unit	$125,530	$139,344	$189,093	$233,212
Per Unit Affordability Gap	$99,470	$166,881	$276,850	$404,888
Average Affordability Gap	**$212,318**			

Sources: ARCH, 2025; U.S. Department of Housing and Urban Development, 2025; Community Attributes Inc., 2025.

Exhibit 10. Affordability Gap for 80% AMI Units, City of Mercer Island

Affordability Gap for 80% AMI Units	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Annual Income Limit	$87,976	$94,260	$113,112	$130,707
Affordable Monthly Housing Expense	$2,199	$2,357	$2,828	$3,268
Less: Monthly Utility Allowance	($177)	($210)	($258)	($317)
Affordable Monthly Rent	$2,022	$2,147	$2,570	$2,951
Annual Gross Rental Income Per Unit	$24,269	$25,758	$30,838	$35,408
Less: Vacancy	($1,213)	($1,288)	($1,542)	($1,770)
Less: Annual Operating Costs	($8,000)	($8,000)	($8,000)	($8,000)
Net Operating Income Per Unit	$15,055	$16,470	$21,296	$25,638
Supportable Mortgage Per Unit	$215,077	$235,287	$304,225	$366,254
Per Unit Affordability Gap	$9,923	$70,938	$161,718	$271,846
Average Affordability Gap	**$107,548**			

Sources: ARCH, 2025; U.S. Department of Housing and Urban Development, 2025; Community Attributes Inc, 2025.

Exhibit 11. Affordability Gap for 100% AMI Units, City of Mercer Island

Affordability Gap for 100% AMI Units	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Annual Income Limit	$109,970	$117,825	$141,390	$163,384
Affordable Monthly Housing Expense	$2,749	$2,946	$3,535	$4,085
Less: Monthly Utility Allowance	($177)	($210)	($258)	($317)
Affordable Monthly Rent	$2,572	$2,736	$3,277	$3,768
Annual Gross Rental Income Per Unit	$30,867	$32,828	$39,321	$45,211
Less: Vacancy	($1,543)	($1,641)	($1,966)	($2,261)
Less: Annual Operating Costs	($8,000)	($8,000)	($8,000)	($8,000)
Net Operating Income Per Unit	$21,324	$23,186	$29,355	$34,951
Supportable Mortgage Per Unit	$304,624	$331,230	$419,356	$499,295
Per Unit Affordability Gap	$0	$0	$46,586	$138,805
Average Affordability Gap	**$30,186**			

Sources: ARCH, 2025; U.S. Department of Housing and Urban Development, 2025; Community Attributes Inc, 2025.

CALCULATION OF NEXUS FEES

Residential Calculations

Residential nexus fee calculations include the following steps, explained in more detail in subsequent sections.

1. Estimate total household disposable income by prototype
2. Estimate jobs (full-time equivalent) supported by household disposable income
3. Estimate demand for affordable housing supported by jobs

Disposable Income

Estimating the total household disposable income by prototype is the first step in the residential affordable housing nexus calculations. This process starts by collecting market rate rent data for existing units within developments that are comparable with each prototype.

Exhibit 12 outlines the calculation for disposable household income for rental prototypes. The average monthly rent is estimated based on comparable market analysis of current rental listings throughout the study area. Average monthly rent is assumed to be 30% of total household income, the remaining household income is then used as an estimate of disposable household income.

Exhibit 12. Estimate Household Income and Disposal Income Distributions, Rental Prototypes, Mercer Island

Calculation	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Average Rent per Unit	$3,772	$2,848	$3,570
Estimated Average Annual Income	$150,866	$113,904	$142,816
Annual HH Income to Rent	3.33	3.33	3.33
Disposable Income per Unit	$105,606	$79,733	$99,971
Units in Prototype	368	209	146
Total Disposable HH Income	**$38,863,174**	**$16,664,223**	**$14,595,791**

Sources: American Housing Survey, U.S. Census Bureau, 2025; Redfin, 2025; Zillow, 2025; Community Attributes Inc., 2025.

Full Time Equivalents Supported by Disposable Income

Total disposable household income per prototype is inputted into IMPLAN to estimate the total number of full-time equivalents (FTE) supported by new residential market rate housing. **Exhibit 13** shows the disposable income value input into IMPLAN for each prototype, and the average annual income range for each. IMPLAN analysis yields the estimated jobs by industry in King County for each prototype. **Exhibit 23** in the Appendix shows the FTEs supported by the disposable income generated by each prototype summarized by industry, as well as the total FTEs generated by each prototype.

Exhibit 13. IMPLAN Income Band by Prototype, City of Mercer Island

Prototype	Specification	Total Disposable Income
Prototype 1 - TC-7	Households Earning Between $100k-$150k	$38,863,174
Prototype 2 - TC-5	Households Earning Between $70k-$100k	$16,664,223
Prototype 3 - TCMF-4	Households Earning Between $70k-$100k	$14,595,791

Sources: City of Mercer Island, 2025; IMPLAN, 2025; Community Attributes Inc., 2025.

Affordable Housing Demand

FTEs supported by the disposable household income of new residential development are converted to households by AMI level to provide an estimate of demand for affordable housing generated by new market rate residential development. This analysis involves a series of steps.

First, the number of FTEs by industry generated by each prototype is converted to the estimated number of households, assuming 1.65 workers per

worker household. The worker per household estimate is sourced from the 2023 ACS 5-Year Estimates for the City of Mercer Island. The number of worker households is then multiplied by the percentage of households by industry level within each AMI bracket, resulting in the estimated number of new households by AMI level, including those that qualify for affordable housing (**Exhibit 14**).

The percentage of households by industry and AMI level incorporates two data sources: wages by occupation for the Seattle MSA from the Bureau of Labor Statistics and the industry occupation matrix for King County from the Washington State Employment Security Department. Wage data for each occupation is outlined by percentile, shown in **Exhibit 24** in the Appendix. The percentile wage data is applied to the income limits by AMI level to estimate the distribution of jobs by AMI level within each occupation, shown in **Exhibit 25** in the Appendix. This distribution by occupation is then applied to the percentage of each occupation within each industry to estimate the distribution of jobs by AMI level for each industry.

Exhibit 15 through **Exhibit 19** outline the estimated number of households by industry, prototype, and AMI level.

Estimated Maximum Supportable Nexus Fee

The number of new households at each AMI level is multiplied by the affordability gap at each AMI level, resulting in the total affordable housing gap cost. The maximum supportable fee at each AMI level is calculated by dividing the total affordable housing gap cost by either the number of units for each prototype or the total square feet per prototype. The maximum supportable on-site performance requirement is calculated by dividing the number of new households at each AMI level by the total number of units for each prototype.

The maximum supportable fee by AMI level is additive, for example, the maximum supportable fee for affordable housing units below 50% AMI is the sum of the fees at below 30% AMI and between 30%-50% AMI. **Exhibit 20** outlines the calculations for the maximum supportable nexus fee for each prototype.

Exhibit 14. Distribution of Household Earnings by Economic Sector and AMI Level, King County, 2023

Economic Sector	NAICS	Below 30% AMI	30%-50% AMI	50%-60% AMI	60%-80% AMI	80%-100% AMI	Greater than 100%
Agriculture, Forestry, Fishing and Hunting	11	7%	55%	14%	13%	4%	8%
Mining, Quarrying, and Oil and Gas Extraction	21	6%	35%	16%	21%	8%	13%
Utilities	22	3%	21%	14%	19%	13%	30%
Construction	23	3%	15%	14%	25%	16%	27%
Manufacturing	31-33	4%	29%	13%	17%	12%	25%
Wholesale Trade	42	5%	33%	13%	17%	8%	23%
Retail Trade	44-45	7%	43%	12%	15%	8%	15%
Transportation and Warehousing	48-49	6%	39%	17%	19%	5%	14%
Information	51	2%	12%	6%	12%	12%	57%
Finance and Insurance	52	4%	24%	12%	17%	12%	32%
Real Estate Rental and Leasing	53	5%	30%	14%	18%	11%	22%
Professional, Scientific, and Technical Services	54	2%	11%	7%	14%	15%	51%
Management of Companies and Enterprises	55	2%	13%	9%	14%	13%	49%
Administrative and Support Services	56	5%	36%	14%	14%	9%	22%
Educational Services	61	5%	23%	15%	17%	14%	26%
Health Care and Social Assistance	62	4%	31%	13%	14%	12%	26%
Arts, Entertainment and Recreation	71	7%	44%	15%	14%	7%	14%
Accommodation and Food Service	72	8%	66%	11%	5%	4%	5%
Other Services	81	5%	35%	14%	16%	9%	21%
Government	99	4%	22%	12%	18%	14%	30%

Sources: ARCH, 2025; Bureau of Labor Statistics, 2025; Community Attributes Inc., 2025

Exhibit 15. Estimated Number of Households Earning Below 30% AMI by Rental Prototype, City of Mercer Island

Economic Sector	NAICS	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Agriculture, Forestry, Fishing and Hunting	11	0.00	0.00	0.00
Mining, Quarrying, and Oil and Gas Extraction	21	0.00	0.00	0.00
Utilities	22	0.00	0.00	0.00
Construction	23	0.02	0.01	0.01
Manufacturing	31-33	0.02	0.01	0.01
Wholesale Trade	42	0.08	0.04	0.04
Retail Trade	44-45	0.47	0.25	0.22
Transportation and Warehousing	48-49	0.18	0.09	0.08
Information	51	0.02	0.01	0.01
Finance and Insurance	52	0.15	0.07	0.06
Real Estate Rental and Leasing	53	0.12	0.09	0.08
Professional, Scientific, and Technical Services	54	0.04	0.02	0.02
Management of Companies and Enterprises	55	0.02	0.01	0.01
Administrative and Support Services	56	0.12	0.06	0.06
Educational Services	61	0.10	0.06	0.05
Health Care and Social Assistance	62	0.66	0.39	0.34
Arts, Entertainment and Recreation	71	0.16	0.07	0.06
Accommodation and Food Service	72	0.69	0.34	0.30
Other Services	81	0.39	0.21	0.18
Government	99	0.04	0.02	0.02
Total		**3.30**	**1.79**	**1.57**

Sources: Bureau of Labor Statistics, 2025; U.S. Census Bureau, 2025; Community Attributes Inc., 2025.

Exhibit 16. Estimated Number of Households Earning Between 31% and 50% AMI by Rental Prototype, City of Mercer Island

Economic Sector	NAICS	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Agriculture, Forestry, Fishing and Hunting	11	0.03	0.01	0.01
Mining, Quarrying, and Oil and Gas Extraction	21	0.00	0.00	0.00
Utilities	22	0.02	0.01	0.01
Construction	23	0.10	0.05	0.04
Manufacturing	31-33	0.11	0.06	0.05
Wholesale Trade	42	0.51	0.27	0.24
Retail Trade	44-45	2.90	1.57	1.38
Transportation and Warehousing	48-49	1.18	0.63	0.55
Information	51	0.17	0.09	0.08
Finance and Insurance	52	0.97	0.48	0.42
Real Estate Rental and Leasing	53	0.71	0.54	0.47
Professional, Scientific, and Technical Services	54	0.29	0.15	0.13
Management of Companies and Enterprises	55	0.15	0.08	0.07
Administrative and Support Services	56	0.81	0.44	0.38
Educational Services	61	0.51	0.31	0.27
Health Care and Social Assistance	62	5.12	3.03	2.66
Arts, Entertainment and Recreation	71	1.04	0.48	0.42
Accommodation and Food Service	72	5.74	2.84	2.49
Other Services	81	2.61	1.37	1.20
Government	99	0.23	0.11	0.10
Total		**23.19**	**12.53**	**10.98**

Sources: Bureau of Labor Statistics, 2025; U.S. Census Bureau, 2025; Community Attributes Inc., 2025.

Exhibit 17. Estimated Number of Households Earning Between 51% and 60% AMI by Rental Prototype, City of Mercer Island

Economic Sector	NAICS	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Agriculture, Forestry, Fishing and Hunting	11	0.01	0.00	0.00
Mining, Quarrying, and Oil and Gas Extraction	21	0.00	0.00	0.00
Utilities	22	0.01	0.01	0.01
Construction	23	0.09	0.05	0.04
Manufacturing	31-33	0.05	0.03	0.02
Wholesale Trade	42	0.20	0.11	0.10
Retail Trade	44-45	0.81	0.44	0.39
Transportation and Warehousing	48-49	0.51	0.27	0.24
Information	51	0.09	0.05	0.04
Finance and Insurance	52	0.47	0.23	0.21
Real Estate Rental and Leasing	53	0.32	0.24	0.21
Professional, Scientific, and Technical Services	54	0.17	0.09	0.08
Management of Companies and Enterprises	55	0.10	0.05	0.05
Administrative and Support Services	56	0.30	0.17	0.14
Educational Services	61	0.34	0.20	0.18
Health Care and Social Assistance	62	2.23	1.32	1.16
Arts, Entertainment and Recreation	71	0.35	0.16	0.14
Accommodation and Food Service	72	0.96	0.48	0.42
Other Services	81	1.06	0.56	0.49
Government	99	0.13	0.06	0.06
Total		**8.21**	**4.52**	**3.96**

Sources: Bureau of Labor Statistics, 2025; U.S. Census Bureau, 2025; Community Attributes Inc., 2025.

Exhibit 18. Estimated Number of Households Earning Between 61% and 80% AMI by Rental Prototype, City of Mercer Island

Economic Sector	NAICS	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Agriculture, Forestry, Fishing and Hunting	11	0.01	0.00	0.00
Mining, Quarrying, and Oil and Gas Extraction	21	0.00	0.00	0.00
Utilities	22	0.02	0.01	0.01
Construction	23	0.17	0.08	0.07
Manufacturing	31-33	0.06	0.04	0.03
Wholesale Trade	42	0.26	0.14	0.12
Retail Trade	44-45	1.03	0.56	0.49
Transportation and Warehousing	48-49	0.57	0.30	0.26
Information	51	0.17	0.09	0.08
Finance and Insurance	52	0.68	0.34	0.30
Real Estate Rental and Leasing	53	0.43	0.33	0.29
Professional, Scientific, and Technical Services	54	0.35	0.18	0.16
Management of Companies and Enterprises	55	0.16	0.09	0.08
Administrative and Support Services	56	0.32	0.17	0.15
Educational Services	61	0.38	0.23	0.20
Health Care and Social Assistance	62	2.38	1.41	1.24
Arts, Entertainment and Recreation	71	0.33	0.15	0.13
Accommodation and Food Service	72	0.45	0.22	0.20
Other Services	81	1.21	0.64	0.56
Government	99	0.18	0.09	0.08
Total		**9.17**	**5.08**	**4.45**

Sources: Bureau of Labor Statistics, 2025; U.S. Census Bureau, 2025; Community Attributes Inc., 2025.

Exhibit 19. Estimated Number of Households Earning Between 81% and 100% AMI by Rental Prototype, City of Mercer Island

Economic Sector	NAICS	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Agriculture, Forestry, Fishing and Hunting	11	0.00	0.00	0.00
Mining, Quarrying, and Oil and Gas Extraction	21	0.00	0.00	0.00
Utilities	22	0.01	0.01	0.01
Construction	23	0.11	0.05	0.05
Manufacturing	31-33	0.04	0.02	0.02
Wholesale Trade	42	0.13	0.07	0.06
Retail Trade	44-45	0.51	0.27	0.24
Transportation and Warehousing	48-49	0.15	0.08	0.07
Information	51	0.17	0.09	0.08
Finance and Insurance	52	0.47	0.23	0.21
Real Estate Rental and Leasing	53	0.26	0.19	0.17
Professional, Scientific, and Technical Services	54	0.37	0.19	0.17
Management of Companies and Enterprises	55	0.14	0.08	0.07
Administrative and Support Services	56	0.20	0.11	0.10
Educational Services	61	0.30	0.18	0.16
Health Care and Social Assistance	62	1.93	1.15	1.00
Arts, Entertainment and Recreation	71	0.16	0.08	0.07
Accommodation and Food Service	72	0.35	0.17	0.15
Other Services	81	0.69	0.36	0.32
Government	99	0.14	0.07	0.06
Total		**6.15**	**3.42**	**2.99**

Sources: Bureau of Labor Statistics, 2025; U.S. Census Bureau, 2025; Community Attributes Inc., 2025.

Exhibit 20. Maximum Supportable Residential Nexus Fee Calculations, Rental Prototypes, City of Mercer Island

Prototype	Below 30% AMI	30%-50% AMI	50-60% AMI	60%-80% AMI	80%-100% AMI	Below 80% AMI	Below 100% AMI
Prototype 1 - TC-7							
Number of New Households	3.30	23.19	8.21	9.17	6.15	43.86	50.01
Affordable Housing Gap	$365,904	$264,703	$212,318	$107,548	$30,186	$229,644	$205,118
Total Affordable Housing Gap Cost	$1,206,005	$6,137,666	$1,742,570	$986,410	$185,630	$10,072,651	$10,258,281
Number of Units	368	368	368	368	368	368	368
Average Square Feet per Unit	902	902	902	902	902	902	902
Supportable Nexus Fee per Unit (Gap per Unit)	$3,277	$16,678	$4,735	$2,680	$504	$27,371	$27,876
Supportable Nexus Fee per SF (Gap per SF)	$3.63	$18.49	$5.25	$2.97	$0.56	$30.34	$30.90
Supportable Performance Requirement	1%	6%	2%	2%	2%	12%	14%
Prototype 2 - TC-5							
Number of New Households	1.79	12.53	4.52	5.08	3.42	23.91	27.33
Affordable Housing Gap	$365,904	$264,703	$212,318	$107,548	$30,186	$229,019	$204,156
Total Affordable Housing Gap Cost	$654,304	$3,316,980	$959,066	$545,842	$103,154	$5,476,192	$5,579,346
Number of Units	209	209	209	209	209	209	209
Average Square Feet per Unit	710	710	710	710	710	710	710
Supportable Nexus Fee per Unit (Gap per Unit)	$3,131	$15,871	$4,589	$2,612	$494	$26,202	$26,695
Supportable Nexus Fee per SF (Gap per SF)	$4.41	$22.37	$6.47	$3.68	$0.70	$36.93	$37.62
Supportable Performance Requirement	1%	6%	2%	2%	2%	11%	13%
Prototype 3 - TCMF-4							
Number of New Households	1.57	10.98	3.96	4.45	2.99	20.94	23.94
Affordable Housing Gap	$365,904	$264,703	$212,318	$107,548	$30,186	$229,019	$204,156
Total Affordable Housing Gap Cost	$573,090	$2,905,263	$840,023	$478,089	$90,350	$4,796,465	$4,886,815
Number of Units	146	146	146	146	146	146	146
Average Square Feet per Unit	968	968	968	968	968	968	968
Supportable Nexus Fee per Unit (Gap per Unit)	$3,925	$19,899	$5,754	$3,275	$619	$32,852	$33,471
Supportable Nexus Fee per SF (Gap per SF)	$4.06	$20.56	$5.94	$3.38	$0.64	$33.94	$34.58
Supportable Performance Requirement	1%	8%	3%	3%	2%	14%	16%

Sources: City of Mercer Island, 2025; ARCH, 2025; U.S. Census Bureau, 2025; Bureau of Labor Statistics, 2025; Community Attributes Inc., 2025.

Summary Maximum Supportable In-Lieu Fee and Performance Requirements

Exhibit 21 presents the maximum supportable in-lieu fee for all prototypes. **Exhibit 22** presents the maximum supportable on-site affordable housing performance requirement for all prototypes. The results are shown at each AMI level and combined for below 80% AMI and below 100% AMI.

Exhibit 21. Maximum Supportable In-Lieu Fees by Prototype, City of Mercer Island

AMI Level	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
0-30% AMI	$3.63	$4.41	$4.06
30-50% AMI	$18.49	$22.37	$20.56
50%-60% AMI	$5.25	$6.47	$5.94
60%-80% AMI	$2.97	$3.68	$3.38
Below 80% AMI	$30.34	$36.93	$33.94
80%-100% AMI	$0.56	$0.70	$0.64
Below 100% AMI	$30.90	$37.62	$34.58

Sources: City of Mercer Island, ARCH, 2025; U.S. Census Bureau, 2025; Bankrate, 2025; U.S. Department of Housing and Urban Development, 2025; King County Assessor, 2025; Community Attributes Inc., 2025.

Exhibit 22. Maximum Supportable Onsite Affordable Housing Performance Requirements by Prototype, City of Mercer Island

AMI Level	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
0-30% AMI	0.9%	0.9%	1.1%
30-50% AMI	6.3%	6.0%	7.5%
50%-60% AMI	2.2%	2.2%	2.7%
60%-80% AMI	2.5%	2.4%	3.0%
Below 80% AMI	11.9%	11.4%	14.3%
80%-100% AMI	1.7%	1.6%	2.1%
Below 100% AMI	13.6%	13.1%	16.4%

Sources: City of Mercer Island, ARCH, 2025; U.S. Census Bureau, 2025; Bankrate, 2025; U.S. Department of Housing and Urban Development, 2025; King County Assessor, 2025; Community Attributes Inc., 2025.

This nexus study establishes the relationship between new development and the increased demand for affordable housing in Mercer Island's Town Center. The purpose of the study is to quantify this impact and provide a framework for setting maximum allowable fees to mitigate it. These fees are cumulative and reflect the maximum allowable in-lieu fee associated with addressing the affordable housing needs created by new development.

The selected prototypes are matched to the specific zoning context of the Town Center, ensuring that the fee structure aligns with various local planning regulations. The prototypes for the proposed rezoning in Town Center for 8-story and 6-story development reflect the likelihood that some developers will choose to build below the maximum allowable intensities based on other development regulations, market factors, or the structure of development costs as building heights increase.

The City may set in-lieu fees at any level below the cumulative maximum rate. The City may choose to adopt fees based on the combined rates below 100% AMI, or any reduction to the rate to serve a more focused AMI level. Alternatively, the City may choose to apply an overall reduction to the rate. This flexibility supports targeted affordability goals, whether for moderate-income households or deeper affordability. In setting the final rate, the City must weigh the public benefit of cost recovery for the affordable housing demand generated by new development against continuing to preserve economic viability of housing development. The City of Mercer Island can also explore a combination of fee-based and performance-based options, allowing developers to either pay the associated fee in-lieu, provide affordable units directly, or a combination of the two.

Regional Inclusionary Zoning Program Comparisons

Inclusionary zoning programs typically offer two options for compliance, onsite performance and fee in lieu. Across the region, these requirements generally fall between 5% and 15% of units, with affordability targets ranging from 50% to 80% of AMI varying by unit size, tenure, or zoning intensity. For example, Seattle requires approximately 5%-11% depending on location and building characteristics. Alternatively, Kirkland applies 10%-15% with different AMI targets for rental versus ownership units and higher requirements in zones allowing for greater height limits. Both Redmond and Sammamish generally apply a 10% standard tied to 80% AMI (with Sammamish allowing units restricted at deeper affordability levels to count for more of the required on-site units).

In-lieu fee programs provide an alternative compliance pathway, allowing developers to meet requirements through a monetary contribution rather than on-site units. Regional approaches vary: Seattle uses geographically and zone-based rates (approximately $8–$50 per square foot), Sammamish applies a flat per-square-foot fee (approximately $34.45), and Bellevue, Kirkland, and Redmond demonstrate variations including per-unit fees, limited applicability, and pricing tied to the cost of on-site delivery. These examples show that in-lieu fees can function either as a broadly available alternative or as a more limited option intended to reinforce a preference for on-site performance.

Exhibit 23. New Full Time Equivalents (FTEs) Generated by Prototype, City of Mercer Island

Economic Sector	NAICS	Prototype 1 - TC-7	Prototype 2 - TC-5	Prototype 3 - TCMF-4
Agriculture, Forestry, Fishing and Hunting	11	0.08	0.04	0.04
Mining, Quarrying, and Oil and Gas Extraction	21	0.02	0.01	0.01
Utilities	22	0.17	0.10	0.09
Construction	23	1.10	0.55	0.48
Manufacturing	31-33	0.63	0.34	0.30
Wholesale Trade	42	2.54	1.37	1.20
Retail Trade	44-45	11.16	6.05	5.30
Transportation and Warehousing	48-49	5.00	2.64	2.32
Information	51	2.39	1.22	1.07
Finance and Insurance	52	6.67	3.31	2.90
Real Estate Rental and Leasing	53	3.91	2.97	2.60
Professional, Scientific, and Technical Services	54	4.14	2.17	1.90
Management of Companies and Enterprises	55	1.85	1.00	0.88
Administrative and Support Services	56	3.69	2.01	1.76
Educational Services	61	3.61	2.18	1.91
Health Care and Social Assistance	62	27.60	16.35	14.32
Arts, Entertainment and Recreation	71	3.92	1.80	1.58
Accommodation and Food Service	72	14.30	7.08	6.20
Other Services	81	12.44	6.53	5.72
Government	99	1.71	0.85	0.74
Total		**106.93**	**58.59**	**51.31**

Sources: IMPLAN, 2025; Community Attributes Inc., 2025.

Exhibit 24. Wages by Occupational Grouping, Seattle MSA, 2024

SOC	Title	2024 Employment Estimate	Wage Floor (50% 10th Percentile)	10th Percentile Annual Wage	25th Percentile Annual Wage	50th Percentile Annual Wage	75th Percentile Annual Wage	90th Percentile Annual Wage	Wage Ceiling (200% 90th Percentile)
11-0000	Management Occupations	124,460	$45,165	$90,330	$125,320	$166,830	$216,570	$241,440	$482,880
13-0000	Business and Financial Operations Occupations	205,160	$30,770	$61,540	$78,090	$101,570	$132,160	$169,380	$338,760
15-0000	Computer and Mathematical Occupations	161,820	$38,120	$76,240	$103,580	$147,300	$179,350	$224,690	$449,380
17-0000	Architecture and Engineering Occupations	51,640	$36,335	$72,670	$92,830	$115,160	$143,010	$178,410	$356,820
19-0000	Life, Physical, and Social Science Occupations	26,290	$27,055	$54,110	$67,060	$91,660	$120,410	$147,880	$295,760
21-0000	Community and Social Service Occupations	34,150	$23,585	$47,170	$54,840	$67,760	$86,150	$105,430	$210,860
23-0000	Legal Occupations	18,280	$31,050	$62,100	$82,320	$110,930	$166,930	$235,650	$471,300
25-0000	Educational Instruction and Library Occupations	103,040	$20,880	$41,760	$49,950	$67,430	$99,960	$123,950	$247,900
27-0000	Arts, Design, Entertainment, Sports, and Media Occupations	37,010	$20,715	$41,430	$51,240	$76,960	$105,460	$149,990	$299,980
29-0000	Healthcare Practitioners and Technical Occupations	108,020	$28,610	$57,220	$80,490	$110,570	$141,020	$214,060	$428,120
31-0000	Healthcare Support Occupations	97,410	$20,710	$41,420	$45,940	$48,320	$56,560	$69,030	$138,060
33-0000	Protective Service Occupations	41,550	$19,760	$39,520	$46,480	$60,690	$99,230	$124,640	$249,280
35-0000	Food Preparation and Serving Related Occupations	167,660	$17,855	$35,710	$37,720	$44,690	$50,630	$63,820	$127,640
37-0000	Building and Grounds Cleaning and Maintenance Occupations	53,710	$18,540	$37,080	$39,490	$45,940	$53,020	$62,900	$125,800
39-0000	Personal Care and Service Occupations	40,050	$18,450	$36,900	$39,190	$47,850	$60,910	$79,590	$159,180
41-0000	Sales and Related Occupations	179,240	$18,465	$36,930	$39,250	$49,780	$78,270	$124,080	$248,160
43-0000	Office and Administrative Support Occupations	223,390	$20,795	$41,590	$47,360	$57,470	$68,930	$82,660	$165,320
45-0000	Farming, Fishing, and Forestry Occupations	1,820	$19,515	$39,030	$42,530	$45,310	$61,050	$79,250	$158,500
47-0000	Construction and Extraction Occupations	91,300	$24,480	$48,960	$60,320	$77,870	$104,500	$132,920	$265,840
49-0000	Installation, Maintenance, and Repair Occupations	72,630	$23,110	$46,220	$55,480	$71,650	$92,940	$111,400	$222,800
51-0000	Production Occupations	84,750	$19,945	$39,890	$45,900	$55,650	$74,030	$101,530	$203,060
53-0000	Transportation and Material Moving Occupations	159,240	$19,435	$38,870	$43,750	$51,340	$68,860	$88,710	$177,420

Sources: Bureau of Labor Statistics, 2025; Community Attributes Inc., 2025.

Exhibit 25. Percentage of Income Limits Within Each AMI Bracket by Occupational Category, Seattle MSA, 2024

SOC	Title	Below 30% AMI	30%-50% AMI	50%-60% AMI	60%-80% AMI	80%-100% AMI
Income Limit		**$32,991**	**$54,985**	**$65,982**	**$87,976**	**$109,970**
11-0000	Management Occupations	0.0%	2.2%	2.4%	4.9%	6.1%
13-0000	Business and Financial Operations Occupations	0.7%	7.1%	4.8%	19.9%	24.2%
15-0000	Computer and Mathematical Occupations	0.0%	4.4%	2.9%	7.0%	10.1%
17-0000	Architecture and Engineering Occupations	0.0%	5.1%	3.0%	9.4%	25.4%
19-0000	Life, Physical, and Social Science Occupations	2.2%	8.5%	8.5%	26.3%	20.4%
21-0000	Community and Social Service Occupations	4.0%	16.3%	25.5%	30.5%	14.0%
23-0000	Legal Occupations	0.6%	7.1%	4.2%	14.0%	23.1%
25-0000	Educational Instruction and Library Occupations	5.8%	22.8%	18.9%	18.3%	15.5%
27-0000	Arts, Design, Entertainment, Sports, and Media Occupations	5.9%	18.4%	12.8%	22.5%	16.9%
29-0000	Healthcare Practitioners and Technical Occupations	1.5%	7.7%	4.5%	13.7%	21.9%
31-0000	Healthcare Support Occupations	5.9%	64.3%	16.1%	6.4%	3.2%
33-0000	Protective Service Occupations	6.7%	31.3%	15.5%	14.3%	13.6%
35-0000	Food Preparation and Serving Related Occupations	8.5%	71.5%	10.4%	3.4%	3.4%
37-0000	Building and Grounds Cleaning and Maintenance Occupations	7.8%	70.2%	12.5%	3.5%	3.5%
39-0000	Personal Care and Service Occupations	7.9%	55.8%	15.4%	12.0%	2.8%
41-0000	Sales and Related Occupations	7.9%	46.7%	9.6%	14.0%	7.2%
43-0000	Office and Administrative Support Occupations	5.9%	36.8%	25.9%	22.1%	2.7%
45-0000	Farming, Fishing, and Forestry Occupations	6.9%	58.5%	13.7%	12.0%	2.8%
47-0000	Construction and Extraction Occupations	3.5%	11.8%	14.4%	29.8%	18.4%
49-0000	Installation, Maintenance, and Repair Occupations	4.3%	15.2%	20.0%	29.7%	19.7%
51-0000	Production Occupations	6.5%	41.4%	16.1%	18.6%	8.2%
53-0000	Transportation and Material Moving Occupations	7.0%	48.2%	15.7%	18.6%	3.0%

Sources: Bureau of Labor Statistics, 2025; ARCH, 2025; Community Attributes Inc., 2025.