Condo conversions in Seattle and commercial demands in Spokane cause major tenant displacements — What needs to be fixed?

Permits allowing 2,300 rental units to be converted to condominiums (condos) were filed in Seattle in 2006, displacing many low-income renters. Stories hit the newspapers about elderly and low-income tenants being forced to find replacement housing on short notice after learning their apartments would become condos they could not afford.

Across the state in Spokane, commercial redevelopment has pushed almost 200 low-income and special needs persons out of the downtown core, away from needed social services and the transportation hub.

This surge of displacements on both sides of the state, and a legislative hearing to find out what needs to be fixed, made it worth a more in-depth look at displacement problems in this issue of My View.

Seattle is not the only place condo conversions have been a problem: In King, Snohomish, and Pierce Counties (central Puget Sound) the number of rental units that have been converted to condos has steadily increased in the past five years—from 189 in 2001, to 6,788 in 2006. This has people and legislators debating the wide-ranging impacts: Will conversions continue at their current level? How many low-income people — people dependent on affordable housing solutions — are impacted by conversions each year? Is there a way to ameliorate the hardships on displaced tenants? What is being done to replace the affordable housing that’s lost to development?

These were some of the questions that were discussed in August at a two-hour public work session on the impacts of condominium conversions convened by Representative Mark Miloscia, Chair of the House Housing Committee. Other Representatives in attendance were Larry Springer, Timm Ormsby, and Jamie Pedersen. The session was attended by a broad spectrum of interested parties, including politicians, tenant activists, developers, public housing administrators, lobbyists, and representatives of cities statewide.
Condo conversions are controversial

Controversy was the theme at the work session in Seattle. As Adrienne Quinn, Director of Housing for the City of Seattle explained in her testimony, the 2,300 condo conversions in Seattle last year caused the city to have legislators introduce Senate Bill 5031, a measure to strengthen the protections for displaced renters caught up in the condo conversion rush. “As a total percentage of our housing stock, that’s not a huge number,” said Adrienne, “but we want to make sure that the tenants are better protected than they currently are. We would like to see changes to the state law—indeed we worked very hard the last legislative session, to try to change it.”

Adrienne would like to see the changes include a notice period extended to at least 120 days, displacement payments of up to three times the monthly rental rate to accommodate moving expenses for tenants, and stipulations that ensure new construction does not begin until the last tenant has moved out. Though SB 5031 did not make it through the legislative session this past spring, “we will be coming back this year,” says Adrienne.

Other panelists stressed the need for greater tenant protections as well. Michelle Thomas of the Tenant’s Union spoke of the hardships placed on tenants whose buildings are converted to condos. Bill Kirlin-Hackett of the Interfaith Task Force on Homelessness called condo conversions an “invisible catastrophe” and argued that builders were getting a disproportionate amount of subsidies compared to tenants.

Adrienne noted that in terms of sheer numbers, condo conversions were impacting lower-priced rentals significantly less than more expensive rentals. Numbers for the previous two years, citywide, demonstrate that less than 15% of the converted units had been affordable to those earning 50% of median income or below. Adrienne cautioned, though, that with many of the nicer buildings picked off, more condo conversions are occurring in buildings with lower rent levels.
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The other side of the coin

Those on the other side of the coin, the Realtors and Developers Panel, stressed the upside of condo conversions, including the homeownership opportunities they provide. Even Adrienne had noted this possible benefit: “We find fairly significant price differences between converted condos as opposed to new condos. Citywide, the differential is almost $50,000. In center city, it’s a $91,000 differential.”

Walter Braun, a developer with Mosaic Homes, made the point that tenants, on average, move about every two years anyway. He stated that those who live in the same rental for five years or more (about 5% of the total) are probably impacted the most by condo conversions.

Developer attorney Joe McCarthy made the argument that the market conditions that spurred an increase in condo conversions in recent years are changing. He expects to see conversions drop as the fundamental economics shift and pointed out that Dupre + Scott predicts only 2,800 units will be converted in 2007 in King, Snohomish, and Pierce Counties, down from 6,700 in 2006 and 4,000 in 2005. He urged the committee members to look for solutions focusing on the people who truly need help — displaced tenants — without unnecessarily fixing what isn’t broken.

And, in perhaps the biggest reflection of the narrow geographic impact of condo conversions, Tammy Fellin, a lobbyist with the Association of Washington Cities (AWC), reported that of the dozen or so cities she had contacted across the state, most viewed condo conversions as a relatively small part of the affordable housing challenges they face. Some cities thought that conversions were a good option for first-time homebuyers, she reported. “Overall,” said Tammy, “condo conversions are one part of a much larger issue dealing with the availability of affordable housing. In some markets, they can actually be a positive addition, and in others, can serve to reduce the amount of available rentals.”
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City representatives have called Spokane “A City on the Move.” The Mayor’s Task Force and other community members are working to ensure that low-income residents don’t get left behind. Solutions to the tenant displacements caused by the redevelopment of the Otis Hotel, pictured at right, are still being hammered out.

Displacement in Spokane driven by downtown redevelopment

For many low-income residents of Washington’s second largest city, we learned in testimony from Marty Dickinson, a painful challenge has been the conversion of low-rent hotels into new manufacturing facilities and other commercial uses, including conversion to higher-end rental units. Marty is chair of the Mayor’s Task Force on Affordable Housing and president of the Downtown Spokane Partnership (DSP), a private nonprofit that has led a far-reaching downtown revitalization program.

Marty testified that cheap rents in these old hotels have been an attraction, as were the social service agencies that moved to Spokane’s downtown core to serve these populations, which include many people who are homeless and/or chronically mentally ill, as well as those with criminal records. “In the past,” said Marty, “downtown Spokane had not taken a building populated by a low-income population and vacated it for the purpose of a redevelopment project.” But that’s exactly what has happened three times this year.

First, in May, some 50 low-income residents of the Commercial Building lost their homes when next-generation DVD producer BlueRay bought it with the goal of creating a manufacturing facility—and more than 100 jobs—
in downtown. Soon after, “up popped the Madison,” Marty said. The Madison had been home to about 60 tenants who were given eviction notices for mid-July. Owner RenCorp plans to convert the Madison into mixed-income apartments. “And now,” continued Marty, “the Otis Hotel, the most problematic of all, is also slated for redevelopment into market-rate and high-end rentals. Half of its 85 tenants have criminal backgrounds, including sex offenses.” All told, the three buildings housed nearly 200 residents.

In a later conversation Marty explained that Spokane’s downtown core is seemingly being transformed overnight. A newly expanded convention center, general new construction, refurbished buildings, neon signs branding new businesses—this is a city that’s in the process of reinventing itself. But this renaissance has had a downside: the vacancy rate for affordable rentals in downtown—indeed, in virtually all of Spokane—is near zero. Both Spokane and Spokane County have no written tenant relocation policies. And for many years downtown Spokane has been home to hundreds of very low income residents who have rented rooms and apartments in a number of ancient, run-down hotels now pressured by development.

**A crisis spurs Spokane into action**

Early on, Marty helped to pull all the regional housing nonprofits and political players together to work on meeting the crisis head on, including regional housing authority Northeast Washington Housing Solutions (NEWHS), Spokane Neighborhood Action Program (SNAP), the Spokane Homeless Coalition, the Spokane Low Income Housing Consortium (SLIHC), VOICES, Spokane County, Spokane Housing Ventures, and Catholic Community Services. “They were phenomenal,” she says.

Steve Cervantes, director of NEWHS, agrees. “I was thrilled with the collaboration of the county, city, and nonprofits on this,” he says. “We had a homeless outreach team which was just amazing. HUD moved faster than I’ve ever seen in my history of working with them for over 30 years.” The solution to the Commercial Hotel displacement included not only Section 8 vouchers for the residents, but counseling and case management, and funding for relocation assistance. Ultimately, Steve persuaded the City of Spokane to kick in $250,000 for moving essentials like credit checks, rental deposits, utility deposits, and moving expenses. “It was a challenge,” Steve recalls. “They’d asked us to do it in 25 days: We did it in just under 60 days.”

All residents eventually moved “to an upgraded situation. It was an important big step for them,” Steve says. With the residents of the Madison, a similar success was reached. Thanks to the efforts of Spokane’s nonprofit housing and social services organizations, every tenant was able to secure a new home.
"But," Marty Dickinson points out, "through all this, as we’re moving these folks, what we were realizing about Spokane’s affordable rental housing inventory was: We’re sucking it dry.”

Silver linings

For Steve, the silver lining to this displacement is that “it got everyone’s attention. There’s always been a need, but it was raised up significantly to the highest level.” For the long term, he says, “the city needs to develop policies and procedures on this whole issue of displacement. The bottom line is that we need more capacity building to support affordable housing development. We need a continuum from emergency to transitional housing to rental assistance—ideally, all the way up to homeownership opportunities.”

In July, Spokane Mayor Dennis Hession formed Spokane’s Affordable Housing Task Force “to make sure we don’t find ourselves in the same scenario in the future,” Marty says. She was appointed by the Mayor as chair. “We’re looking at long-term potential policy making. The Mayor wants a variety of ideas.” Task Force members are also charged with coming up with recommendations for the mid term, like drafting tenant relocation policies, and for the short term, including tackling the challenges the Otis displacement presents. “The Otis is going to be a huge challenge,” Marty says.

Steve estimates that between the Otis and the Helena, another old hotel they’d like to acquire, “we’re going to have about 60 hard-to-place individuals, whether they are ex-
felons, sex offenders, or people with alcohol or drug-related issues that prohibit them from being eligible for Section 8."

Steve’s view is that “we’re different on the eastern side of Washington. There are fewer cities and housing authorities, and fewer resources to do the collaboration. We have a higher crime rate. And the high school dropout rate is over 50%.” For both Steve and Marty, an enormous issue for Spokane is how to safely and decently house all the ex-offenders released from prisons into the community. Marty thinks “it’s the most complicated piece of it all. It’s a really hard topic of discussion that people don’t want to have,” she says. “Where can you house ex-offenders? What are the legal ramifications? People are put into the community’s custody; is the community well equipped to handle this? What can we do to ensure that this population is integrated appropriately?

“I don’t know if we’ve ever had as many entities come together in Spokane,” says Marty, “from the development side to the homeless advocacy side. Many of us have never sat across the table before. Everything gets left at the door. So far, over 130 people have been helped to find new homes in a short period of time. But planning for the creation of an affordable housing inventory takes years.”
Attorney Joe McCarthy testified at the Seattle hearing on the economic causes of the conversion boom. Joe is a partner at Kantor, Taylor, McCarthy where he represents companies that develop both condominiums and apartments.

In a conversation that took place after the hearing, Joe explained why he believes that the spike in condo conversions during 2005-2006 was the result of special factors that have already ceased to drive the market.

Apartment or Condominiums: A question of supply and demand

1. Low interest rates spurred demand.

Following the dotcom implosion, the Federal Reserve aggressively lowered rates to all-time lows. People qualified for ARMs with starting rates as low as 2.5%, spurring demand for home purchases.

2. The culture of ownership.

Government entities at all levels have been pushing the virtues of homeownership, including the Bush administration’s emphasis on an “ownership culture,” and programs that help families buy homes with little money down.

3. In-migration and job growth.

Seattle’s strong economic growth has attracted people from other areas and these newcomers helped fuel the demand for housing.
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At the same time, the market experienced a trio of constraints on supply.

4. An insurance liability crisis.

Beginning in the late 1990s, there was a rash of condominium construction defect lawsuits related to water penetration. As litigation swelled, insurance companies stopped writing coverage for new condos. In fact, no new condos were built in Seattle for the two-year period from 2003-2004.

5. GMA restricts buildable land.

Joe contends that due to the state’s Growth Management Act (GMA), we’ve had a shrinking of legally developable land in the Puget Sound. As Joe observes, “less land means higher prices.”

6. Investors avoiding apartments.

As the economy recovered, many renters were able to buy their own homes and apartment buildings suffered high vacancies and had to lower rents to attract tenants. As a result, new money was allocated to condos, not apartments.

Joe says that most of the key factors have changed since last year and the net result is that condo demand has abated considerably. In fact, real estate investors currently rank Seattle as one of the hottest apartment markets in the country. Dupre + Scott predicts 13,000 new apartment units will be built in 2008 and 2009. And developer Matthew Gardiner expects another 10,000 units will be built in 2010.

Joe does recognize that losing an apartment can have a big impact on a segment of the renter population—usually elderly or disabled people who have stayed in the same apartment for many years. The developers he represents supported the amended bill that failed to come out of the legislature last year. “I think it’s clear that the trend of condo conversions is decreasing now, so it’s a much less significant issue, but the need for relocation assistance and additional time are going to stay significant, given the rising rental environment we have due to construction costs, land constraints, and job growth,” he concludes. “So we do need a bill to help the most vulnerable of our renters.”
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Housing Resource Group’s Gilmore Apartments, located in downtown Seattle at Third and Pine, is a tax credit property serving households earning 50% and 60% of area median income. Construction was financed in part by Seattle’s Commercial Bonus Program—specifically, the Washington Mutual/SAM project, which made a $2,828,456 contribution to the Seattle Office of Housing Bonus Fund in 2004. WaMu’s contribution also helped finance Seattle-Chinatown International District Preservation and Development Authority’s ID Village Square II project (opposite page), which includes 57 units of affordable family housing.

Striking a balance in Seattle

In terms of programs that encourage the production of affordable workforce housing, the City of Seattle has had a head start. Over the past 15-odd years, for example, as economic development downtown has flourished, Seattle has made a major effort to ensure that residents on the lower end of the income spectrum can still make their home there. There are hundreds of Low Income Housing Tax Credit funded rental units all over the downtown area.

But Seattle’s economy has been in overdrive in recent years, and for many retiring baby-boomers and young professionals at higher income levels, urban living has been very attractive. The upshot is that Seattle has been forced to remain creative in putting together the right mix of incentives, ordinances, and subsidies to ensure that gentrification doesn’t drive out affordable housing.

The overriding issue, to Adrienne’s way of thinking, “is the lack of rental housing, period,” she says. “If we had a ton of rental housing, it [condo conversions] wouldn’t be a hardship on people. Rents would be lower, people would be able to find more rental housing more easily. What we need to be focusing on, as a city, is to make sure that we have more rental housing—and more rental housing that is affordable to moderate wage and low wage workers.”
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Broadened incentives for developers

Here’s some of what Adrienne and the Office of Housing are in the process of promoting:

Extending the Seattle Homes Within Reach (SHWR) program. This is a multi-family property tax deferral program re-authorized in 2004 that provides tax exemptions to developers who build affordable homes. The program has been increasingly hampered by escalating costs to developers and the tax reduction no longer covers the costs they incur by reducing rents to below-market rates.

Adrienne has proposed raising the income levels for apartments and condos that are eligible, and expanding the program from 17 to 39 Seattle neighborhoods. “We expect the City Council to debate the issue in their first meeting in October,” she says. “It’s an increase in income levels to enable us to provide housing for teachers, firefighters, grocery store clerks—right now income levels are capped at 70% of area median income, so developers are not taking advantage of the existing program. We have a perfectly good tool on the book that’s not being used.”

Another major push for the City right now is incentive zoning.

An ordinance being considered by the City Council would require the expansion of Seattle’s Commercial and Residential Bonus Programs. Currently in the downtown area, when zoning is increased in terms of gross floor area and height, the developer must either create rental or for-sale housing that’s affordable to moderate- or low-wage households, or pay into a fund that will create such housing. Adrienne would like to see this program expanded into multi-family and commercial zones throughout the city.

Since its adoption, the Commercial Incentive Zoning Program has brought in $9.2 million. The incentive-generated monies spun off from the WaMu office tower construction in downtown, for example, helped fund several affordable housing developments, including Housing Resource Group’s Gilmore Apartments at 3rd and Pine, and the Seattle Chinatown-International District Preservation and Development Authority’s Village Square II mixed-use project. And in just one year, the Residential Incentive Zoning Program has already brought in $570,000 for affordable housing development.

Adrienne is also exploring, with consulting help from Chicago-based Metropolitan Planning Council, the possibilities of encouraging employer-assisted workforce housing legislation in Washington State. “We need to be working on creating more tools,” she says, “to make sure we have housing—both rental housing and ownership opportunities—to people at all income levels. And we don’t want to have moderate-wage workers competing for the same pot of money as low-wage workers or homeless people.”

Workforce housing is a concern for many Washington cities

To get a statewide perspective, I followed up with Tammy Fellin at the Association of Washington Cities (AWC). She noted that other than Seattle and Spokane, displacement “was not a big issue with cities clamoring to tell their story,” she says.

However, Tammy says that the availability of workforce housing is a growing concern for members. “We hear from some of our members that residents can’t afford to live in the community where they work.” To that end, she says, “AWC is putting together an advi-
“Homelessness got worse by 2% last year. And affordable housing for all got worse this year. By those measures we’re falling behind.”

The heart of the matter: affordable housing in decline

AWC’s perspective is shared—and amplified—by Rep. Mark Miloscia, Chair of the House Housing Committee. Those who’ve worked with Mark know him as a passionate advocate for the homeless and for other disenfranchised segments of society. True to character, Mark makes no bones about how he sees condo conversions—as yet more fallout in the ongoing struggle to keep pace as housing prices heavily outpace wages in Washington State. The overriding issue, says Mark, is “gentrification. When high-income needs dominate the needs of the less fortunate — or those at lower income levels — gentrification is crowding out the bottom half of society.

“Seattle is leading the state,” Mark says, “in creating incentives that encourage developers to create affordable housing. With their housing levy, which is unprecedented, with all their incentives, which are also unprecedented, they’re still not succeeding in producing it [affordable housing] for all economic segments, especially for the bottom rung. They’re still losing to gentrification—and to declining or stagnant wages.” Last year, he points out, the City of Seattle “fell 20,000 units behind. Do 2,000 [condo units] make a difference? Next year it’s going to be another 20,000 units behind. And the year after that? The number’s actually increasing.”

For Mark, whatever form condo conversion legislation may take, it’s not going to change the overall direction of the housing market, and the decline in the number of affordable homes relative to wages. Since 1990, he points out, as housing costs went up 187% in Washington State, average incomes rose less than one-third of that, up 60%. “And for the bottom half,” he estimates, “wages didn’t go up 60%, only about 30%; that’s the problem we’re in.”

A failing grade?

In addition to the housing costs/wage disparity, Mark sees our state’s Growth Management Act (GMA) as a big contributor to affordable housing’s ills, what he calls “the complete failure” of the GMA’s affordable housing plans. “If you measure their success—by the given statute, are they meeting the housing needs of all economic segments? By any particular measure, they’re absolutely miserable for the bottom 60% of the people. Workforce housing is now in a state of crisis,” he says.

Here are some of Mark’s suggestions for taking on this crisis:

- Get all parties to agree on a performance measure that can address this question: “Are we meeting the housing needs for every economic segment—yes or no?”
- Find a way to make housing costs rise at a slower rate than wages. “The only way we can do that,” Mark says, is through a combination of “raising wages, raising government subsidies, or, which is extremely difficult in a free market, somehow cutting the cost of housing.”
- Get all stakeholders to agree to fix the GMA, including having an accountability system in place, like education’s WASL, that carries consequences for non-compliance.

“I’ve spent 2 1/2 years trying to get the advocates, the housing experts, to recognize that we have to address these issues,” he says. “Homelessness got worse by 2% last year,” he continues. “And affordable housing for all got worse this year. By those measures we’re falling behind.”

These are strong words, but they ring true. Condo conversions and other tenant displacements wouldn’t provoke such a hardship on people if there was sufficient affordable housing available — if these displacements weren’t a reflection of the larger affordable housing challenges we face in Washington State. Mark Miloscia is throwing out a powerful challenge. We need to get it right.