**Task 1. Review of currently available preservation incentives in Seattle**

**Programs**

**Transfer of Development Rights (TDR)**

Jurisdiction: City of Seattle

Responsible Agency: Seattle Department of Planning and Development

Eligible Properties of Interest: Local landmark buildings designated by city ordinance, contributing structures under [SMC 23.66.032](http://clerk.seattle.gov/~scripts/nph-brs.exe?s1=23.66.032&s2=&S3=&Sect4=AND&l=20&Sect3=PLURON&Sect5=CODE1&d=CODE&p=1&u=%2F%7Epublic%2Fcode1.htm&r=1&Sect6=HITOFF&f=G), major open space or arts facilities. TDRs are available in most Downtown zones, parts of South downtown, and parts of South Lake Union. Program benefits vary by zone.

Description: The Transfer of Development Rights (TDR) program is a subset of the Downtown Incentives/Bonus program allowing unused development rights to be sold from one property owner (sending lot) to another (receiving lot). Floor area of the property is used to calculate unused development rights of the eligible landmark property. The receiving lot purchases unused development rights to achieve extra floor area above the base floor area (FAR).

Property owners submit an application to the Department of Planning and Development for TDR certification. The cost of the development rights is negotiated by the sending and receiving lots. This means that cost per square foot of the transaction is influenced by the market demand. The Seattle Department of Planning and Development oversees and certifies the transaction. Certification does not ensure a transaction will occur. Following certification, landmark sites must then record a Covenant for Landmark Transferable Development Rights that requires approval by the Seattle City Council. Following council approval, a deed is recorded and the TDR transaction can occur. The transfer of development rights lasts for the life of the property on the receiving lot.

The City can also purchase unused development rights to be stored in the city’s TDR bank. There are TDR bank transactions recorded from 1992 to 2007. Since 2004, there have been zero TDR bank transactions involving landmark properties.

Since its inception in 1985, the zoning qualifications of the TDR program have been amended and expanded. In 2010, a transfer of development potential (TDP) program was created to provide an incentive for maintaining landmark structures for designated landmark structures on lots zoned for Highrise. This program allows highrise residential structures to gain additional height and floor area by acquiring unused floor area from designated landmark structures. This bonus requires a case-by-case negotiation over the amount of bonusable floor area. An eligible sending lot for landmark TDP must be a lot that includes a designated Seattle Landmark structure. The structure on the sending lot must be rehabilitated and maintained as required by the Landmarks Preservation Board.

TDR Transactions (2004-2014)

|  |  |  |
| --- | --- | --- |
| **Date** | **Price** | **$Cost per SF** |
| 2004 | -- | -- |
| 2005 | -- | -- |
| 2006 | -- | -- |
| 2007 | \*Not Listed | \*Not Listed |
| 2009 | \*Not Listed | \*Not Listed |
| 2012 | $826,620 | $11.50 |
| 2012 | \*Not Listed | \*Not Listed |
| 2013 | 634,872 | 12.00 |
| 2013 | 1,133,831 | 11.25 |
| 2013 | $227,250 | 11.25 |
| 2014 | $674,118 | 17.50 |
| 2014 | 32,095 | 17.50 |
| 2014 | 382,813 | 17.50 |
| 2014 | 711,095 | 14.50 |
| 2014 | 504,000 | 14.00 |
| **Total** | **$5,126,694** |  |
| **Number of Projects** | **12** |  |

\*The price and cost per square foot is not listed because the seller applied personal TDR to their own development project on the receiving site.

**Analysis**

Over the life of the TDR program there have been only a limited number of transactions utilizing this incentive, suggesting under-utilization. The effectiveness of the TDR program is limited geographically due to zoning requirements. There is the potential to extend the TDR program to other areas of the city, such as the University District, where upzoning is under consideration, but at present this program is not available to all designated landmark structures throughout the city. A point of emphasis is that TDR transactions do not require, nor necessarily result in rehabilitation of the landmark structure on the receiving lot. Under the downtown Incentive Bonus zoning, a limitation of the Landmark TDR program is that 75 percent of the development incentive is dedicated to affordable housing, with the remaining 25 percent allowed for other options besides Landmark protection that may compete, such as open space, childcare, green streets, and protection of rural/regional resource lands (Transfer of Development Credits). Still another challenge to executing the financial transaction for TDR program for historic properties is the need to pair an available and willing seller to negotiate a non-fixed sales price with an available and willing purchaser through a timely market driven process. The city’s TDR Bank, by acquiring historic property TDRs and holding them for future development, could bridge the marketability and time sensitivity of the TDR transaction, but has been underfunded and is rarely used. Structures listed under the Federal Register of Historic Places are not eligible to apply for the TDR program.

Sources:

* Department of Planning and Development, 3rd Quarter TDR Report
* <http://www.seattle.gov/housing/incentives/TDRbonus.htm>
* <http://www.seattle.gov/neighborhoods/preservation/documents/brochure_incentives.pdf>
* <http://www.seattle.gov/dPd/cs/groups/pan/@pan/documents/web_informational/s048509.pdf>
* <http://www.seattle.gov/dpd/vault/cs/groups/pan/@pan/documents/web_informational/s048352.pdf>

**Zoning, Building and Energy Codes Relief for Historic Landmarks**

Jurisdiction: City of Seattle

For a locally (*and National Register*?) designated landmark, The Director of the Department of Planning and Development (DPD) has the discretion to permit nonconforming uses in a land use zone, and waive or modify development standards such as setbacks, parking, open space and other requirements. The DPD Director may also waive or modify building and energy code requirements for landmark structures as long as a reasonable degree of safety to occupants and public is maintained. Waivers are considered through the application process, subject to approval by the city Landmarks Board or Director of the Department of Neighborhoods.

**Analysis**

Data is not available for individual landmark structures to determine the value of financial incentives of code departures. As building codes change over time and were non-existent for some very old structures, codes can often run in conflict with preservation standards. Granting of code departures can be a meaningful way to modify stringent requirements and to reconcile the goal of maintaining preservation standards for rehabilitation of historic buildings, while addressing issues of health, safety, and welfare.

Sources:

Seattle Municipal Code Sections 23.44.026, 23.45.124, 23.47.004, 23.47.027, 23.54.020.

**Special Property Tax Valuation for Historic Properties**

Jurisdiction: Washington State

Responsible Agency: Seattle Landmarks Preservation Board (Local Review Board)

Eligible Properties of Interest: Locally designated landmark buildings that have undergone an approved rehabilitation project within the last two years of the date of application. Rehabilitation costs must equal or exceed 25% of the assessed improvement value (RCW 84.26)

Description: The Special Tax Valuation (STV) program provides property tax reductions to eligible rehabilitated buildings of historical significance. The STV program reassesses the value of an eligible rehabilitated landmark property by subtracting for up to 10 years, qualified rehabilitation costs. Property taxes owed during the 10 year special valuation period do not reflect improvements made as a result of rehabilitation.

The STV is a statewide program that requires designation of a local review board to administer the STV program. Chapter 84.26 RCW outlines the qualifications for a historic property and rehabilitation project eligible for STV. Eligible costs for STV are based on the IRS definition of “Qualified Rehabilitation Expenditures.” Qualified Rehabilitation Expenditures are any costs accrued during the rehabilitation process. Not included are any additions to the existing perimeter of the building, or the cost of acquiring the property. Qualified Rehabilitation Expenditures (QREs) include direct construction costs, architectural and engineering fees, construction permits and other code-related expenses, development management fees, construction load interest and fee, utilities, taxes, and insurance for the construction period, and state sales tax (King County Technical Paper No.17).

Applications are submitted to the King County Department of Assessments. October 1st is the last day of the calendar year that STV applications are accepted. Applications must be approved or denied by December 31st. After the application has been submitted, the Department of Assessments will refer the application to the Landmarks Commission. A public meeting is held in addition to a commission meeting to review the application and either grant or deny STV.

**Special Tax Valuation (2004-2014)**

*[Seattle Properties Only]*

|  |  |  |
| --- | --- | --- |
| **Year** | **Number of Projects** | **Amount of Expenditures** |
| 2004 | 12 | $42,225,551 |
| 2005 | 5 | 29,973,177 |
| 2006 | 7 | 25,770,480 |
| 2007 | 7 | 31,641,341 |
| 2008 | 4 | 26,915,456 |
| 2009 | 12 | 56,916,311 |
| 2010 | 4 | 49,154,744 |
| 2011 | 5 | 20,629,958 |
| 2012 | 5 | 34,699,345 |
| 2013 | 6 | 48,181,303 |
| 2014 | 7 | 20,855,368 |
| **Totals** | **74** | **$386,963,034** |

Amount of expenditures refers to QRE’s eligible for tax deduction. The total cost of the project may be greater.

**Analysis**

The high utilization rate and sizable economic benefit (in the form of tax relief) to the owner/taxpayer of an eligible historic structure make this program the strongest economic incentive for preservation and the rehabilitation of historic structures available. [*is this program available on a one time only basis, or can it be re-applied for after expiration if there is new expenditure in the building’s rehabilitation?]*

Sources:

* <http://www.seattle.gov/neighborhoods/preservation/incentives_state.htm>
* <http://www.seattle.gov/neighborhoods/preservation/documents/brochure_incentives.pdf>
* <http://www.dahp.wa.gov/special-valuation>
* <http://www.irs.gov/pub/irs-mssp/rehab.pdf>
* Special Tax Valuation for Rehabilitated Historic Properties Technical Paper No. 17, Seattle King County Historic Preservation Program, Department of Natural Resources and Parks.

**Historic Rehabilitation Tax Credit**

Jurisdiction: Federal

Responsible Agency: Washington State Department of Archaeology and Historic Preservation (DAHP) and the National Parks Service (NPS).

Eligible Properties of Interest: Certified historic structures listed in the National Register of Historic Places or a building located in a registered historic district and certified by NPS as contributing to the historic significance of the district. Eligible properties must be listed on the National Register of Historic Places but can also be a designated local landmark.

Description:Historic Rehabilitation Tax Credit provides a 20% income tax credit for the cost of investment for rehabilitation of a national register listed historic building. To qualify for rehabilitation tax credit, the property must:

* be listed on the National Register of Historic Places
* be income producing
* be substantial, meaning the costs for rehabilitation must equal or exceed the Adjusted Basis value (see definition below) of the property, and
* meet the Secretary of the Interior’s ten Standards for Rehabilitation (source reference)

The certification and review process is administered through the NPS and the Standard for Historic Preservation Officer (SHPO). The SHPO in Washington State is the Department of Archaeology and Historic Preservation (DAHP). DAHP is responsible for reviewing the application and then submitting application to NPS for final approval.

Historic rehabilitation tax credit is granted based on the IRS Code for qualified rehabilitation expenditures. The quantity of tax credits allocated to the property owner is calculated as 20% of the qualified rehabilitation expenditures. Qualified rehabilitation expenditures for a given project can concurrently qualify for the Historic Rehabilitation Tax Credit program for income taxes and the Special Tax Valuation program for property taxes.

\*\*Adjusted Basis value is an IRS term to determine the “value” of a historic property using this basic formula:

A – B – C + D = adjusted basis, whereas:

A = purchase price of the property (building and land)

B = cost of land at time of purchase

C = depreciation taken for an income-producing property

D = cost of any capital improvements made since purchase

Federal Rehabilitation Tax Credit (2004-2014)

*[Seattle Properties Only]*

|  |  |
| --- | --- |
| **Year** | **Qualified Rehab Expenditures (QRE)** |
| 2004 | 12,253,872 |
| 2005 | 14,320,083 |
| 2006 | 19,063,207 |
| 2008 | 92,704,751 |
| 2009 | 39,121,412 |
| 2010 | 43,681,445 |
| 2011 | 19,278,534 |
| 2012 | 48,513,989 |
| 2013 | 21,801,910 |
| **Total** | **310,739,203** |
| **Number of Projects** | **29** |

Eight projects totaling $103,536,782 in QREs have been approved by DAHP for 2015 and 2016 rehabilitation projects in the city of Seattle.

**Analysis**

The federal tax credit program is proven to be highly successful in leveraging business income tax credits for rehabilitation of income producing historic buildings. A disadvantage is that historic buildings not producing business income, cannot apply for the federal tax credit *[can the lost value be sold to a passive investor?].*

Sources:

* <http://www.dahp.wa.gov/tax-credits>
* <http://www.nps.gov/tps/tax-incentives.htm>
* <http://www.nps.gov/tps/tax-incentives/taxdocs/about-tax-incentives-2012.pdf>
* <http://www.americanbar.org/newsletter/publications/law_trends_news_practice_area_e_newsletter_home/preservationtaxcred.html>

**National Register Façade Easements**

Jurisdiction: Federal

Responsible Agency: Washington State Department of Archaeology and Historic Preservation and the National Parks Service.

Eligible Properties of Interest: Buildings listed in the National Register of Historic Places

Description: Buildings listed in the National Register of Historic Places are eligible for the donation of a façade easement. Property owners transfer a portion of property rights to an organization that values historic preservation. In doing so, the easement becomes part of the property’s chain title, and the organization assumes responsibility for maintaining the historic and cultural value of the building. Tax benefits may be provided to the property owner in return for the easement donation.

Since 2004, there has been one easement in the city of Seattle.

**Analysis**

This is an underutilized program, and has not produced a tangible economic incentive to owners for the rehabilitation of historic buildings. Moreover, it is limited façade preservation which may be considered insufficient result for historic preservation. It may however, serve to protect a National Register listed historic structure against demolition.

Sources: <http://www.seattle.gov/neighborhoods/preservation/documents/brochure_incentives.pdf>

**4Culture Landmarks Capital Grant Program**

Jurisdiction: King County

Responsible Agency: 4Culture

Eligible Properties of Interest: Local landmarks

Description: The Landmarks Challenge program began in 2008 to help city and county landmark property owner stewards fund “bricks and mortar” projects in Seattle and Bothell. In 2012, this program merged with the Landmarks Rehabilitation Program to create the 4Culture Landmarks Capital Program. The 4Culture Landmarks Capital program provides funding opportunities for projects aimed at preservation and rehabilitation of local landmarks around King County. Private owners, businesses, local governments, and organizations are eligible to apply for Landmarks Capital awards. A portion of Lodging Tax revenues collected in King County provides all the funding for this program (4Culture webpage). *[Does the program require a match?]*

The data provided in the table below includes Landmarks Challenge program data for 2008-2012, and Landmarks Capital program data for 2013-2014 for City of Seattle designated landmark projects.

**4Culture Landmarks Capital Grant Program (2008-2014)**

|  |  |  |
| --- | --- | --- |
| **Year** | **# of Projects** | **Total Awards** |
| 2014 | 7 | $115,619 |
| 2013 | 7 | 136,912 |
| 2012 | 5 | 106,000 |
| 2011 | 8 | 114,541 |
| 2010 | 5 | 95,559 |
| 2009 | 7 | 107,500 |
| 2008 | 5 | 89,125 |
| **Total** | **44** | **$765,256** |

**Analysis**

This is an important program in that is one of only very few direct cash grant programs available for historic preservation and rehabilitation. Since its inception in 2008, a sizable number of project in Seattle have benefited from the grant awards.

Sources:

<http://www.4culture.org/apply/landmarks/index.htm>