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A mixed-use building is going up at South Jackson Street and 17th Avenue South, a lot vacant for decades, thanks to the nonprofit Central Area Development Association and a federal tax break. The drawing at right depicts the completed project. (Dan DeLong / P-I)

Tax break spurs developer interest in neglected lot

Federal program revives poor areas

Last updated January 21, 2008 10:19 p.m. PT

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The dismal property at the corner of 17th Avenue South and South Jackson Street has sat vacant since the 1960s. Like so many other federally designated "urban renewal" sites that never got renewed, it is a risky place for a private investor to build with little guarantee of success.

But in September, construction crews broke ground and set upon putting up a \$22.4 million mixed-use building on the spot. It's a small project compared with other commercial developments in Seattle, which can be 10 times larger. But the development, which will include 59 apartments and retail, office and parking space, already is having a large effect on the Central Area neighborhood.

Artist renderings show a spiffy addition to the block that had previously boasted nothing more than potential. A nonprofit developer, with help from investors, has breathed new life into that block and has encouraged a slew of other developers to follow suit with \$90 million more in investments. Big-name developer Legacy Partners, for example, is building an even larger development at the former Wonder Bread Bakery site across the street.

So what encouraged a developer to build on, and Washington Mutual to invest in, a site that has been a nonstarter for decades?

For Washington Mutual's \$4.87 million equity investment in the



zoom

Credit: Enterprise Community Investment

project, giving it a share in the building, it will get a \$6 million federal tax break. WaMu is separately making an \$8.3 million loan.

Congress created the tax break, called a New Markets Tax Credit, in 2000 in an attempt to tackle a national ongoing challenge: the rejuvenation of low-income communities.

If the 17th and Jackson project is any indication, the federal government program works. A 2007 report from the Government Accountability Office concurs; it found that the tax breaks increase investment in low-income communities and that businesses shift investment funds from other types of assets to community development to earn credits.

At least 11 projects in Seattle relied on the credits, including the Cadillac Hotel, Wing Luke Asian Museum and Rainier Vista Boys & Girls Club, according to the city.

"This is a good example of how new markets tax credits were intended to be used," said Nancy Yamamoto, real estate project manager for Seattle's Office of Economic Development. "They are to be used for low-income neighborhoods. It's an example of a project that may not have come to fruition without the assistance."

The city, which had owned the property until selling it to a developer in July, is putting \$2.4 million into the project, she said.

Neighbors don't seem to mind. William Feickert, 51, lives adjacent to the development with his wife, daughter and cat.

"At first I didn't like it because it would block my view, but that's really selfish," Feickert said. "But hey, if it drives up the property values. ..."

The project will provide work-force housing -- which is priced between low-income and market rate. The apartments are intended for people who earn 70 percent to 80 percent of the King County median income. That works out to households earning about \$41,000 per year, said George Staggers, chief executive of the Central Area Development Association, the nonprofit developer.

"The first thing it will do is remove a large, vacant tract of property and hopefully create housing for 59 households as well as office and retail space in an area that hasn't seen any significant development in quite some time," Staggers said. "It's also the catalyst project, the project that has taken the lead for future development."

CADA has hired Pacific Housing NW to manage development. Pacific agreed to prelease office space in the completed project so it meets a preleasing requirement from the bank, according to Tim Abell, principal at Pacific. As an example of how one project begets another, Pacific Housing is considering a market-rate project three blocks away because of its involvement in the 17th and Jackson project.

"I'm aware of a couple of other developers that are looking at properties in the area, too," Abell said. "I think the neighborhood will benefit by more investment. This one kind of jump-started it."

The value of the New Markets Tax Credit is based on a project's potential for attracting more investment, as well as the initial private investment, said John Ducey, a director in the structured finance

group at Columbia, Md.-based Enterprise Community Investment Inc., which sold the credits to Washington Mutual.

Ducey called the New Markets Tax Credit "one of the most important community-development tools that we have to build low-income neighborhoods." The credit is a cousin of sorts to the better known low-income housing tax credit -- the largest community development tool focused on affordable housing and created in 1986.

The Central Area roughly stretches from a few blocks west of Lake Washington to 14th Avenue, just north of the Interstate 90 lid. It's a culturally and economically diverse neighborhood. Though it doesn't look low-income, filled with charming homes with backyards and front porches, many of its residents are on fixed incomes, Stagers said.

"A lot of the people that used to live here were early immigrants," Stagers said.

Stagers knows the vicinity well. He grew up there and can point out houses that belong to family members, when some houses were built and where at least one of his boyhood friends still lives.

"It's very fulfilling to be able to go back to a neighborhood where you grew up and do something positive," said Stagers, who had a 20-year banking career before joining CADA in 1994. "There is no better job for me."

Jack Fujio also cares about the neighborhood. As caretaker for a Japanese church that will be near the new development, he predicts that the new building will discourage transients from leaving a mess in a nearby lot.

"I think it's a good deal," said Fujio, 77.

HOW IT WORKS

The government often gives tax breaks in return for investment in something considered to be good for society. The New Markets Tax Credit gives businesses a lower tax bill, through credits, in return for investment in developments in low-income neighborhoods. The goal is to reduce blight and spur new construction.

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