

MOTION NO. M2017-144
Authorization to Enter into Negotiations for the Development of a Mixed-Use Affordable Housing Project for the First Hill Transit-Oriented Development Site

MEETING:	DATE:	TYPE OF ACTION:	STAFF CONTACT:
Board	11/16/2017	Final Action	Don Billen, Acting Executive Director PEPD Brooke Belman, Land Use and Development Director Sarah Lovell, Transit Oriented Development Manager

PROPOSED ACTION

(1) Authorizes the CEO to direct staff to enter into negotiations with Bellwether Housing, Inc. and Plymouth Housing Group, Inc. (a joint venture) for land transaction agreements that will result in the development of a mixed-use, high-rise affordable housing project compliant with described in RCW 81.112.350, and (2) directs staff to negotiate to transfer the property at no cost in support of the selected project proposal.

KEY FEATURES SUMMARY

- This action allows the selected development team to begin the design, financing, and due diligence process for the proposed TOD project.
- The top-ranked development proposal takes advantage of the site’s allowable height, delivers on all of the programmatic goals set for the property in the request for proposals and supported by the First Hill neighborhood, exceeds the number of units contemplated in Sound Transit’s 2016 predevelopment analysis, and offers much deeper affordability than is required by RCW 81.112.350.
- The proposal is a joint venture between two non-profit developers, Bellwether Housing, Inc. (“Bellwether”) and Plymouth Housing Group, Inc. (“Plymouth”) who jointly propose to develop two vertically integrated projects in order to take advantage of the site’s zoning.
- In total, the proposed project delivers 308 units of housing that serve households making between 30 and 60 percent of the AMI and includes a ground floor program that accommodates two retail spaces and community rooms serving both tenant populations and the public. The proposal is made up of approximately:
 - 111 units serving households making 30 percent of area median income (AMI) or less and targeting seniors transitioning out of homelessness as part of Plymouth’s proposal; and
 - 197 units serving households making between 30 and 60 percent of AMI including 30 units sized for families, as part of Bellweather’s proposal.
- The building will be built to meet the Evergreen standard.
- The building will not develop any residential parking, but Bellwether proposes to look for parking in their nearby properties to make available to family-sized units.
- To facilitate the project as proposed, Sound Transit is asked to transfer the property at no cost.
- The proposed project relies on significant public subsidies from the Seattle Housing Trust Fund, the State Housing Trust Fund, and King County.
- If completed, the proposal would be the first high-rise affordable housing project built in Seattle in over 50 years.
- Following negotiations, staff will return to the Board with a real property disposition agreement that will result in an affordable housing project for Board consideration, anticipated in 2018.

BACKGROUND

Sound Transit adopted a Transit-Oriented Development (TOD) Program Strategic Plan in 2010, introducing the policy framework for the TOD work program within the context of Sound Transit's mission to implement regional high-capacity transit. Sound Transit adopted its TOD Policy in December 2012 through Resolution No. R2012-24. This provides the policy foundation for how the agency approaches integrating transit infrastructure and local and regional land use development. Sound Transit updated its TOD strategic plan in 2014 to reflect the 2012 TOD Policy.

The First Hill TOD Site was identified in the 2010 and 2014 strategic plans as a TOD opportunity.

In 2015, the state legislature amended the agency's enabling legislation, directing the agency to advance TOD goals, setting forth specific financial and procedural requirements, and giving new tools to the agency to advance equitable development through prioritizing affordable housing in surplus property disposition. Those statute changes took effect upon the November 2016 voter-approved Sound Transit 3 Regional Transit System Plan.

The 2017 TOD Work Program identified the First Hill TOD Site as a property that could implement the new requirements regarding affordable housing and equitable TOD. In June, the Board took an action to determine that the property was suitable for housing and that it should first be offered to qualified entities pursuant to RCW 81.112.350.

In July 2017, Sound Transit solicited development proposals to qualified entities for a mixed-use project that maximized affordable housing production and affordability and took advantage of the site's zoning that allows for high-rise construction up to 160 feet. The offering asked proposers to identify a land value that facilitated accomplishing the project goals set forth in the request for proposals (RFP). The proposal requests to pay \$0 for the land value siting the expense associated with building high-rise construction and the difficulty of financing a development project of that scale.

Property

The First Hill TOD site consists of approximately 21,600 square feet fronting Boylston Street and Madison Street near the intersection of Broadway Avenue E in Seattle, WA. The property is comprised of two unique parcels located at 1014 Boylston Avenue (FH004) and 1400 Madison Street (FH005). The unrestricted value for this property based on a 2017 appraisal is \$8.64 million.

The property is currently occupied by two structures, one is a vacant medical office and the other is a commercial building currently occupied by a tenant. The property was purchased in 2001 for use as a First Hill Light Rail Station but was eliminated from the final station list in the Central Link Light Rail project through action Resolution No. R2000-04. The properties were purchased without assistance from the Federal Transit Administration (FTA); therefore FTA approval is not required to dispose of the property.

TOD Assessment

The agency completed a TOD assessment of the First Hill TOD site in August 2016. It evaluated the property's development feasibility as (1) a high-rise market-rate residential development, (2) a high-rise affordable development, (3) a mid-rise affordable development, or (4) as two buildings, one high-rise market rate and another mid-rise affordable. The analysis concluded that the site did not accommodate efficient layouts for more than one building and that there were strong markets for market rate residential, hotel, and office space, but that a substantial funding gap exists to build

a high-rise affordable project. Both mid-rise and high-rise affordable housing projects are challenged by the subject property's high land value. Because high-rise construction is an additional expense above and beyond the land, and a difficult proposition for affordable housing developers, staff recommended a solicitation approach that stated a desire for both affordability and density and asked qualified entities how best to maximize both goals.

Suitability for Housing

Under RCW 81.112.350 and as approved by voters within the ST3 system expansion plan, Sound Transit must evaluate surplus properties to determine whether the property is suitable for development as housing. Staff completed an evaluation and recommend that the property is suitable for housing. In June 2017, the Board passed R2017-23 to declare the property suitable for housing.

Community Engagement Goals for TOD on the Property

Through the public process and in coordination with the First Hill Improvement Association, Sound Transit established programmatic project goals that informed the property offering, they included:

- Maximizing the site's allowable density
- Maximizing both the number of units and depth of affordability offered
- Including family-sized units
- Active ground floor uses that engaged the larger community including opportunities to accommodate community gatherings
- Minimize auto-orientation and parking
- Maximize the site's orientation to pedestrians
- Build sustainably

Funding Expectations and Outstanding Funding Gaps

This project, if developed, represents the first high-rise affordable housing project constructed in Seattle in over 50 years. This distinction is primarily due to the premium associated with high rise construction. To facilitate this ambitious project, the proposer asks that Sound Transit transfer the property at no cost.

This project is innovative in its approach to attracting capital. By creating two separate condominium interests, the developers plan to separately seek funding from Seattle's Office of Housing and apply for multiple low income housing tax credit (LIHTC) allocations.

This project is ambitious. Despite the risk associated with this project, the evaluation committee felt it has tremendous merit and is supportive of moving it forward.

This project has a development budget of nearly \$92 million that does not include the \$8.6 million dollar land contribution the proposers are requesting. In addition to transferring the land at no cost, the developers are seeking \$39 million in public subsidies, \$30 million from Seattle's Office of housing, \$1 million from King County, \$3 million from the state Housing Trust Fund, \$3 million from a Plymouth lead capital campaign and an allocation from Bellwether's Impact Capital Fund. In addition, the project requires LIHTC investors for both the Plymouth and Bellwether components of the project.

Building over 300 units pushes the boundaries for funding formulas. The high level of public subsidy needed for the project may cause the project to seek funding in multiple rounds, which would result in a longer project delivery schedule. If any one of these funding partners is unable to award funds to the project, it will likely result in programmatic changes to the proposed project.

Property Pricing

The Board of Directors has flexibility in how it prices property in its offering, as recently authorized in RCW 81.112.350. Due to the ambitious project proposed by Plymouth and Bellwether, and the funding needs to accomplish the project, agreeing to transfer the land at no cost will allow better leverage of all fund sources. If the Board chooses to price the property above zero, the feasibility of the project as proposed decreases.

Future Board Involvement

Staff will return to the Board following successful transaction negotiations to request authority to execute transaction documents. Successful transaction negotiations will result in a project that achieves the project vision, as presented in the proposal, and maintains fundamental project elements including:

- Achieving a high density of affordable housing (a minimum of 80 percent of housing units) within a high rise structure that provides housing opportunities for a resident population of the same approximate size as in the proposal
- Providing a range of unit sizes, including family-sized units
- Providing units affordable at a range of income levels up to 60 percent AMI, and including units set aside for households with extremely low incomes
- Providing an active ground floor program that is accessible to the larger First Hill community (e.g., retail and community space)

In order for the Board to consider transferring the property at no cost, the final proposed transaction documents will need to incorporate all the above project elements.

FISCAL INFORMATION

The agency's financial plan assumes \$93.8 million of sales revenue from selected surplus real estate parcels, of which approximately \$32.1 million has been realized to date from the sale or lease of properties. The forecasted sales proceeds from the First Hill property is \$8.6 million (2020\$). The current fair market value (FMV) of the property is \$8.64 million (2017\$). However, restricting the land use to affordable housing significantly reduces the income potential and therefore the value of the property.

Resolution No. R2017-23 directed the agency to solicit development proposals to optimize both density and affordability on the site. Following proposal review, agency staff have deemed it necessary to establish a land price below fair market value in order to achieve program goals. Consistent with R2017-23, agency staff recommend that the Board authorize the transfer of the property at no cost.

Due to the reduced land price for the First Hill property, the agency will need to earn approximately \$61.7 million in future surplus real estate sales to achieve the forecast in the financial plan.

PROCUREMENT INFORMATION

A request for proposals (RFP) was issued on July 31, 2017. The RFP required that proposers be a "qualified entity" as defined by RCW 81.112.350. The following evaluation criteria were published in the RFP document: Experience, Qualifications, and Abilities of the Firm(s) and Key Individuals; Project Concept; and Project Financing; and Transaction Structure. The RFP requested that proposers respond with development concepts that balanced the site's allowable zoning, maximized affordability and addressed the TOD goals stated in the RFP and met the requirements of RCW 81.112.350, delivering 80 percent of the units at 80 percent of AMI. An evaluation team

reviewed and ranked the proposals, and determined that the proposal submitted by the joint venture of Bellwether Housing and Plymouth Housing Group meets the expressed TOD goals and statutory requirements of the RFP.

SMALL BUSINESS/DBE PARTICIPATION AND APPRENTICESHIP UTILIZATION

Not applicable to this action.

PUBLIC INVOLVEMENT

Sound Transit partnered with the First Hill Improvement Association (FHIA) on a community meeting to discuss Sound Transit's First Hill TOD opportunity. The meeting built on work completed by the First Hill Improvement Association's Land Use and Public Space committee who previously had developed a short list of development priorities for the site. The public meeting, held on June 5, 2017, was well attended and provided an opportunity to discuss Sound Transit's TOD program, educate the community about our process, and collect feedback from a larger stakeholder group than FHIA's land use and open space committee about the identified priorities for the site. The stated FHIA development goals for the site included:

- 100 percent affordable housing
- Affordability set at 60 percent of area median income or below
- Family-sized units
- Inclusion of retail and community space

The outcome of the event is summarized in the First Hill Transit Oriented Development Summary of Community Engagement report.

TIME CONSTRAINTS

If the Board chooses to pursue affordable housing at this location, both Bellwether and Plymouth will pursue funds from the City of Seattle's Housing Levy, and King County, whose funding rounds have deadlines in September of next year. Delaying this action will jeopardize staff's ability to complete a negotiation with the selected developer in time for their inclusion in next year's funding round. The result would be a delay in the project development of this site by as much as one year.

PRIOR BOARD/COMMITTEE ACTIONS

Resolution No. R2017-23: (1) Declared that the First Hill Transit-Oriented Development Site property is suitable for development as housing, (2) directed staff to offer the property first to qualified entities as described in RCW 81.112.350; and (3) directed staff to offer the property through a process that seeks to maximize affordability and density and reflects the goals of the agency, local municipality, and community.

Resolution No. R2016-06: Approved the Chief Executive Officer's declaration of surplus real property originally acquired for the Central Link Light Rail Project (now part of the University Link Extension) is surplus and is no longer needed for a transit purpose.

Resolution No. R2012-24: Established a policy to guide evaluation, facilitation and implementation of transit-oriented development during planning, designing, building and operating the high-capacity regional transit system, and superseding Motion No. M99-60 and Motion No. 98-25.

Resolution No. R2000-04: Authorized the Executive Director to acquire, dispose, or lease certain real property interests by negotiated purchase, by condemnation, by settling condemnation litigation or entering administrative settlements, and to pay eligible relocation and re-establishment

benefits to affected parties as necessary for the central Link light rail project (Design-Build Contract Segment, from NE 45th St. to Convention Place Station).

ENVIRONMENTAL REVIEW

KH 11/8/17

LEGAL REVIEW

JB 11/13/2017

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A motion of the Board of the Central Puget Sound Regional Transit Authority authorizing the chief executive officer to (1) direct staff to enter into negotiations with Bellwether Housing, Inc. and Plymouth Housing Group, Inc. (a joint venture) for land transaction agreements that will result in the development of a mixed-use, high-rise affordable housing project compliant with the requirements described in RCW 81.112.350, and (2) directs staff to negotiate to transfer the property at no cost in support of the selected project proposal.

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MOTION:

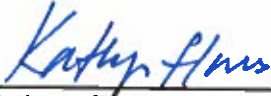
It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the chief executive officer is authorized (1) to direct staff to enter into negotiations with Bellwether Housing, Inc. and Plymouth Housing Group, Inc. (a joint venture) for land transaction agreements that will result in the development of a mixed-use, high-rise affordable housing project compliant with described in RCW 81.112.350, and (2) directs staff to negotiate to transfer the property at no cost in support of the selected project proposal.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on November 16, 2017.



Dave Somers
Board Chair

ATTEST:



Kathryn Flores
Board Administrator