

Motion No. M2021-65

Key business terms of a transaction for transit-oriented development with a master development team led by BRIDGE Housing at the Operations and Maintenance Facility East in Bellevue, WA

Meeting:	Date:	Type of action:	Staff contact:
Executive Committee	11/04/2021	Recommend to Board	Don Billen, PEPD Executive Director
Board	11/18/2021	Final action	Thatcher Imboden, PEPD Director, OLUPD Dustin Akers, Senior Project Manager, TOD

Proposed action

(1) Approves the key business terms of a transaction for transit-oriented development with a master development team led by BRIDGE Housing at the Operations and Maintenance Facility East in Bellevue, Washington, and (2) delegates to the chief executive officer the authority to execute and subsequently amend as necessary multiple agreements, including a Master Development Agreement, ground leases, purchase and sale agreement and related covenants, conditions, and easements for a master planned transit oriented development, all subject to the Board-approved key business terms.

Key features summary

- This action advances the development of equitable transit-oriented development (TOD) on approximately 6.88 acres of land (TOD Property) adjacent to the Operations and Maintenance Facility East (OMF East) and Spring District/120th Station in Bellevue, WA.
- Following a competitive process, Sound Transit selected a master development team led by BRIDGE Housing (BRIDGE). Bridge will construct the affordable housing component, Touchstone will construct the commercial office component, and Essex Property Trust, Inc. (Essex) will construct the market rate housing component.
- The TOD project will consist of six development sites built around shared infrastructure, including new roads and greenspaces. Sites 1 and 2 will be developed as office buildings, sites 3 and 6 will be developed as affordable housing, and sites 4 and 5 will be developed as market rate housing (which is planned to include 20 percent of units set aside as affordable through participation in the City of Bellevue's Multi-Family Tax Exemption program).
- Sound Transit will sell sites 3 and 6 to BRIDGE at no cost for long-term affordable housing. For the other sites, Sound Transit will enter into 99-year ground leases. The ground leases will include annual ground lease payments based on fair market value to Sound Transit and require each of Essex and Touchstone to pay non-refundable option fees to Sound Transit during the pre-development phase prior to ground lease commencement.
- The TOD Project is consistent with commitments made between Sound Transit and the City of Bellevue in the Board-approved 2016 Amended and Restated Memorandum of Understanding for the East Link Project and the Board-approved 2019 Property Exchange Agreement.

- The Property is federally funded and Sound Transit intends to apply to the Federal Transit Administration (FTA) for joint development approval. Joint development approval will allow Sound Transit to retain the lease revenue as program income that may be used to fund either capital or operating expenses.

Background

Property and TOD

The TOD Property was purchased to construct the OMF East in Bellevue's Bel-Red Corridor. A Memorandum of Understanding and Implementation Agreement (Motion No. M2015-33 and Motion No. M2016-73) between Sound Transit and the City of Bellevue directed the agency to integrate and advance planning for TOD as part of the design-build process for the OMF East. As a result, the TOD Property was identified as future excess property and planning efforts advanced approval of a Master Development Plan permit (MDP) that included the TOD Property. The MDP entitled the TOD Property for over 1.1 million square feet of mixed-use, mixed-income development comprised of office, housing and retail with supporting infrastructure and public open space.

A single parcel within the TOD Property is owned by the City of Bellevue. In 2019, the Board approved key business terms of a property exchange agreement (Resolution No. R2019-21) to facilitate Sound Transit taking ownership of the City owned parcel, therefore creating a consolidated TOD Property to offer to development partners.

Offering Process and Development Partner Selection

In 2019, Sound Transit released a competitive request for proposals (RFP) that resulted in the selection of a master development team led by BRIDGE Housing, a nonprofit affordable housing developer and qualified entity as defined in RCW 81.112.350. BRIDGE partnered with Touchstone, an office developer, and Essex, a multifamily housing developer (together, the Development Team) to develop the TOD Property. The Development Team proposed a multi-phased, master-planned, mixed-use development consisting of a mix of office, market-rate and affordable housing, retail, common areas and shared infrastructure.

Transaction Agreements

Master Development Agreement

The Development Team will form a limited liability company (the Master Developer) to lead the master development plan activities, including designing, permitting, and constructing the shared infrastructure and common areas within the TOD project (the Shared Infrastructure). The Master Developer will also seek a new Master Development Permit (MDP) from the City of Bellevue. The Master Developer will fund the design and construction of the Shared Infrastructure, subject only to Sound Transit's limited obligation to repay the Office developer's portion under a latecomer agreement discussed below. In order to help finance affordable housing at this location, Essex and Touchstone intend to subsidize a portion of BRIDGE's share of the costs for the Shared Infrastructure. The Shared Infrastructure will be completed in phases, with earlier phases occurring before any of the individual development sites are constructed.

Following completion of the first phase of Shared Infrastructure, the Master Developer and Sound Transit will form a Commercial Owner's Association (COA) and Sound Transit will deed the Shared Infrastructure to the COA. The COA will be governed in accordance with Covenants, Conditions, and Restrictions (CC&Rs) recorded against the Property. The costs for maintenance of the Shared Infrastructure will be apportioned among the six development sites. Sound Transit will be a member of the COA but will not have obligations to pay the shared maintenance costs during the term of the ground leases.

Affordable Housing Purchase and Sale Agreement

Sound Transit will convey Sites 3 and 6 for affordable housing in a transaction intended to comply with RCW 81.112.350. As described in the Property Exchange Agreement (Resolution No. R2019-21), the City of Bellevue is contributing one of the two parcels for the affordable housing development. The key business terms of the affordable housing transaction are proposed as the following:

Affordable Housing Transaction – Sites 3 and 6	
Type of Agreement	Purchase and Sale Agreement
Buyer/Developer	BRIDGE Housing, a California nonprofit corporation, or a special purpose entity created for the purpose of building and operating the Project with a limited liability company general partner, of which BRIDGE will be the sole managing member and one or more limited partners (including for-profit tax credit investors).
Purchase Price	\$0. BRIDGE will pay all closing costs.
Affordable Housing Covenant	A restrictive covenant will be recorded on title at closing, restricting the property to use for affordable housing for a term of 99 years (Minimum of 50 years for City of Bellevue parcel).
Number of housing units	A minimum of 200 long-term affordable housing units, with a goal of 230 units.
Percentage of units that are affordable	100% of the units must serve those earning no more than 80% AMI (excluding any property manager’s unit).
Deeper affordability	<ul style="list-style-type: none"> At least 80 units shall serve households earning no more than 60% AMI. At least 30% of total units shall serve households earning no more than 50% AMI.
Family sized units	At least 15% of all units will have 2 bedrooms, and an additional 10% will have 3 bedrooms or more.
Sustainability	Designed to meet or exceed: <ul style="list-style-type: none"> Washington State Evergreen Sustainable Development Standard v3.0.1; or LEED Mid Rise v4, or LEED Residential v4.2 Silver and meet ESDS requirement 5.1A Building Performance – New Construction.

Market Rate Housing Ground Lease

Sound Transit will ground lease Sites 4 and 5 to Essex for market rate housing. A shared underground parking garage will serve both buildings. The key business terms of the market rate housing transaction are proposed as the following:

Market-Rate Multifamily Housing Transaction – Sites 4 and 5	
Type of Agreement	99-year Ground Lease
Developer/Ground Lessee	Essex Property Trust
Number of housing units	A minimum of 260 market-rate housing units, with a goal of 266 units.
Commercial retail space	A minimum of 563 rentable square feet, with a goal of 750 rentable square feet.
Ground lease rent (Total for both Sites)	<ul style="list-style-type: none"> • Land value: \$9,000,000 • Ground lease rent return: 5% • Initial ground lease rent: \$450,000 annually, paid in equal monthly installments • Annual CPI adjustments starting in lease year five by the lesser of: (a) the increase in the CPI over the preceding one year period or (b) 2.25% per lease year in the aggregate • Land value evaluation adjustment in year 51, with a maximum adjustment of 35% from the then-current ground lease rent, payable in phases over five years • 1% gross sales proceeds profit participation upon first sale of building • Ramp-up ground rent until the earlier of: (a) twelve months following the issuance of the final certificate of occupancy for the second building, or (b) lease year five: <ul style="list-style-type: none"> ○ Payment upon ground lease commencement: \$125,000 ○ Lease years one and two: \$100,000 ○ Lease years three and four: \$200,000
Pre-development option fees paid to Sound Transit	<ul style="list-style-type: none"> • Initial 36-months: \$450,000 • Optional three one-year extensions: \$100,000 for first extension; \$200,000 for second extension; \$300,000 for third extension
Sustainability	<p>Designed to meet or exceed:</p> <ul style="list-style-type: none"> • LEED Mid-rise v4, or LEED Residential v4.1 Silver and meet ESDS requirement: 5.1A Building Performance Standard – New Construction.

Commercial Office Ground Leases

Sound Transit will ground lease Sites 1 and 2 to Touchstone for office buildings. The key business terms of the market rate housing transaction are proposed as the following:

Commercial Office Transaction – Sites 1 and 2	
Type of Agreement	Two 99-year ground leases
Developer/Ground Lessee	Touchstone
Office buildings square feet	<ul style="list-style-type: none"> For Buildings 1 and 2 combined minimum of 375,000 gross square feet of commercial office, with a combined goal of 435,000 gross square feet. The first building to be constructed between Buildings 1 and 2 will be required to contain no fewer than 190,000 gross square feet.
Commercial retail	<ul style="list-style-type: none"> Building 1: A minimum of 4,763 rentable square feet, with a goal of 6,350 rentable square feet. Building 2: A minimum of 8,363 rentable square feet, with a goal of 11,150 rentable square feet.
Ground lease rent: Building 1	<ul style="list-style-type: none"> Land value: \$7,700,000 Ground lease rent return: 5.5% Initial ground lease rent: \$423,500 annually, paid in equal monthly installments. Annual CPI adjustments starting in lease year seven by the lesser of: (a) the increase in the CPI over the preceding one year period or (b) 2.75% per lease year in the aggregate Land contribution value evaluation adjustment in years 30 and 60, with a maximum adjustment of 25% from the then-current ground lease rent, payable in phases over five years 1% gross sales proceeds profit participation upon first sale of building Ramp-up ground rent until the earlier of: (a) initial occupancy of the building reaches 85% stabilization or (b) lease year six: <ul style="list-style-type: none"> Lease year one to three: \$87,500 Lease year four: \$175,000 Lease year five: \$262,500
Pre-development fees paid to Sound Transit: Building 1	<ul style="list-style-type: none"> Initial 36-months: \$300,000 Optional seven one-year extensions: \$50,000 each

Ground lease Rent: Building 2	<ul style="list-style-type: none"> • Land value: \$8,800,000 • Ground lease rent return: 5.5% • Initial ground lease rent: \$484,000 annually, paid in equal monthly installments • Annual CPI adjustments starting in lease year seven by the lesser of: (a) the increase in the CPI over the preceding one year period or (b) 2.75% per lease year in the aggregate • Land contribution value evaluation adjustment in years 30 and 60, with a maximum adjustment of 25% from the then-current ground lease rent, payable in phases over five years • 1% gross sales proceeds profit participation upon first sale of building • Ramp-up ground rent until the earlier of: (a) initial occupancy of the building reaches 85% stabilization or (b) lease year six: <ul style="list-style-type: none"> ○ Lease years one to three: \$100,000 ○ Lease year four: \$200,000 ○ Lease year five: \$300,000
Pre-development fees paid to Sound Transit: Building 2	<ul style="list-style-type: none"> • Initial 36-months: \$300,000 • Optional seven one-year extensions: \$50,000 each
Sustainability	<p>Designed to meet or exceed:</p> <p>LEED for New Construction or Core & Shell (as applicable) v4 or v4.1 Silver.</p>
Latecomer Agreement	<p>If the Pre-Development Period expires or is terminated without executing one or both Office Ground Leases, Sound Transit and Touchstone will enter into a Latecomer Agreement recorded against the property requiring a future developer to repay Touchstone for Touchstone's actual reasonable costs for funding the Shared Infrastructure. If Sound Transit is unable to find a replacement developer within three (3) years of the expiration or termination of the Pre-Development Period, then Sound Transit will pay the Latecomer Amount until a replacement developer is found.</p>

Timeline and Schedule

Construction of the Shared Infrastructure is expected to begin in 2023. Construction of the individual development sites is expected to begin in 2024 or 2025. The development team will prioritize delivery of the affordable housing component first among the development sites. Project milestone dates will be included as part of the transaction agreements.

Future Board involvement

No further Board action is anticipated for this development. Any material changes proposed to the key business terms will be brought to the Board for consideration.

Fiscal information

Sound Transit worked with a commercial real estate services firm to ensure the financial terms of the ground leases are in line with market and reflect the underlying value of the land over the 99 year term.

The TOD project is projected to bring in \$325,000 in 2022 and \$31.1 million (YOES) of lease revenue to the agency from 2022 to 2046. This lease revenue is included in the proposed 2022 Financial Plan and Proposed Budget, which will be reviewed by the Board in October and November 2021, and is scheduled for adoption in December 2021. Because this revenue is already assumed in the most current long-range financial plan, this motion will not produce an additional fiscal impact.

Disadvantaged and small business participation

Participation by small businesses and disadvantaged business enterprises (DBEs)

Sound Transit promotes and encourages small business participation, which also includes disadvantaged business enterprises (DBEs). Small business and DBE goals are based upon an examination of subcontracting opportunities contained in the work of this contract and the number of small businesses/DBEs available to perform such subcontracting work.

Sound Transit determined that there were few small business and DBE subcontracting opportunities based upon the work described in this contract, so small business/DBE goals were not established.

Workforce utilization

The construction labor performance standards for these transactions include workforce utilization goals (21% of labor hours for People of Color and 12% for Women), apprenticeship opportunities (20% of all labor hours), and paying prevailing wage.

Public involvement

The vision for OMF East TOD was informed through planning processes that included public involvement, such as the City of Bellevue Bel-Red Subarea Plan, the City of Bellevue Affordable Housing Strategy, and the MOU. The OMF East planning and design process included public outreach activities including stakeholder meetings and the environmental outreach process. The stakeholder engagement process for the OMF East included input into the TOD opportunity. Sound Transit engaged the development community through the Housing Development Consortium of King County TOD Committee as well as held a developer forum in June 2019 to receive feedback on the potential development strategy.

Time constraints

The developers will begin the design and permitting process following approval of the key business terms and execution of subsequent agreements. Delay in considering this action will likely equate to a similar delay in the start date of the project and the delivery of affordable housing and revenue generation from the market-rate components of the project.

Prior Board/Committee actions

Resolution R2019-21: (1) Approved the key business terms of a Property Exchange Agreement between the City of Bellevue and Sound Transit; (2) approved the chief executive officer's declaration that certain property adjacent to the Operations and Maintenance Facility East is surplus and available for disposition or redevelopment upon completion of construction, (3) declared the TOD Property as suitable for development as housing; (4) authorized staff to offer the TOD Property first to qualified entities to create a mixed-use, mixed-income project outcome, and (5) authorized staff to offer property within the TOD Site at a discounted price to facilitate affordable housing outcomes.

Resolution R2018-10: Adopted an Equitable Transit Oriented Development Policy, superseding Resolution No. R2012-24.

Motion M2016-73: Authorized the chief executive officer to execute an Implementation Agreement with the City of Bellevue regarding the Link Operations and Maintenance Satellite Facility.

Motion M2015-33: Authorized the chief executive officer to (1) execute amendments to the Umbrella Memorandum of Understanding and Transit Way Agreement with the City of Bellevue to address permitting, project coordination, a potential Bellevue OMSF, financial terms, and maintenance of the East Link project; and (2) execute a new Three Party Agreement with the City of Bellevue and King County to collaboratively plan and determine the feasibility of a potential city project to re-align 120th Avenue NE.

Environmental review – KH 10/28/21

Legal review – JV 11/1/21



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Purchase Price	\$0. BRIDGE will pay all closing costs.
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Family sized units	At least 15% of all units will have 2 bedrooms, and an additional 10% will have 3 bedrooms or more.
Sustainability	Designed to meet or exceed: <ul style="list-style-type: none"> Washington State Evergreen Sustainable Development Standard v3.0.1; or

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Pre-development option fees paid to Sound Transit	<ul style="list-style-type: none"> • Initial 36-months: \$450,000

	<ul style="list-style-type: none"> Optional three one-year extensions: \$100,000 for first extension; \$200,000 for second extension; \$300,000 for third extension
Sustainability	<p>Designed to meet or exceed:</p> <ul style="list-style-type: none"> LEED Mid-rise v4, or LEED Residential v4.1 Silver and meet ESDS requirement: 5.1A Building Performance Standard – New Construction.

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	<ul style="list-style-type: none"> • Ramp-up ground rent until the earlier of: (a) initial occupancy of the building reaches 85% stabilization or (b) lease year six: <ul style="list-style-type: none"> ○ Lease year one to three: \$87,500 ○ Lease year four: \$175,000 ○ Lease year five: \$262,500
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Pre-development fees paid to Sound Transit: Building 2	<ul style="list-style-type: none"> • Initial 36-months: \$300,000 • Optional seven one-year extensions: \$50,000 each
Sustainability	Designed to meet or exceed: LEED for New Construction or Core & Shell (as applicable) v4 or v4.1 Silver.
Latecomer Agreement	If the Pre-Development Period expires or is terminated without executing one or both Office Ground Leases, Sound Transit and Touchstone will enter into a Latecomer Agreement recorded against the property requiring a future developer to repay Touchstone for Touchstone's actual reasonable costs for funding the Shared Infrastructure. If

	<p>Sound Transit is unable to find a replacement developer within three (3) years of the expiration or termination of the Pre-Development Period, then Sound Transit will pay the Latecomer Amount until a replacement developer is found.</p>
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Timeline and Schedule

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Future Board involvement

No further Board action is anticipated for this development. Any material changes proposed to the key business terms will be brought to the Board for consideration.

This action advances the development of equitable TOD on approximately 6.88 acres of land (TOD Property) adjacent to the OMF East and Spring District/120th Station in Bellevue, WA.

Following a competitive process, Sound Transit selected a master development team led by BRIDGE Housing (BRIDGE). Bridge will construct the affordable housing component, Touchstone will construct the commercial office component, and Essex Property Trust, Inc. (Essex) will construct the market rate housing component.

The TOD project will consist of six development sites built around shared infrastructure, including new roads and greenspaces. Sites 1 and 2 will be developed as office buildings, sites 3 and 6 will be developed as affordable housing, and sites 4 and 5 will be developed as market rate housing (which is planned to include 20 percent of units set aside as affordable through participation in the City of Bellevue’s Multi-Family Tax Exemption program).

Sound Transit will sell sites 3 and 6 to BRIDGE at no cost for long-term affordable housing. For the other sites, Sound Transit will enter into 99-year ground leases. The ground leases will include annual ground lease payments based on fair market value to Sound Transit and require each of Essex and Touchstone to pay non-refundable option fees to Sound Transit during the pre-development phase prior to ground lease commencement.

The TOD Project is consistent with commitments made between Sound Transit and the City of Bellevue in the Board-approved 2016 Amended and Restated Memorandum of Understanding for the East Link Project and the Board-approved 2019 Property Exchange Agreement.

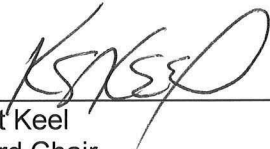
The Property is federally funded and Sound Transit intends to apply to the Federal Transit Administration (FTA) for joint development approval. Joint development approval will allow Sound Transit to retain the lease revenue as program income that may be used to fund either capital or operating expenses.

Motion

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority (1) Approves the key business terms of a transaction for transit-oriented development with a master development team led by BRIDGE Housing at the Operations and Maintenance Facility East in Bellevue, Washington, and (2) delegates the chief executive officer the authority to execute and subsequently amend as necessary multiple agreements, including a Master Development Agreement, ground leases, purchase and sale

agreement and related covenants, conditions, and easements for a master planned transit oriented development, all subject to the Board-approved key business terms.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on November 18, 2021.



Kent Keel
Board Chair

Attest:



Kathryn Flores
Board Administrator