

MEMO

To:

Ketil Freeman - Seattle City Council Central Staff

From:

Spectrum Development Solutions

Date:

March 6, 2013

Project:

South Lake Union Affordable Housing Bonus Program

Re:

Study Update Prior to Final Report

On February 25th, 2012 Spectrum Development Solutions presented the initial summary analysis of the South Lake Union (SLU) Affordable Housing Bonus Program to the Seattle City Council. The intent of the presentation was to both present the initial findings of the study as well as to receive specific feedback and input from individual Councilmembers, SLU stakeholders, and other members of the community. The presentation was not intended to serve as a final report of the analysis but rather as an opportunity for feedback to further inform the final analysis. Councilmember and Land Use Committee Chair Richard Conlin as well as Councilmember Bruce Harrell requested that additional peer review and developer input be garnered for the study.

Since the presentation on February 25th, Spectrum has reached out to a number of additional contractors and developers, all of whom will be identified in the final report, to garner additional cost input for the conceptual model assumptions. The additional construction and total development cost input received since the council presentation has served to further solidify the existing underwriting assumptions and previous due diligence data used to develop the conceptual models prior to the council presentation. Both the construction cost per gross square foot and total development cost per unit numbers are consistent with the current models. Additionally, Chris Fiori of Heartland sent Councilmember Conlin a follow-up e-mail on February 28th correcting the comparison between Heartland's construction cost assumptions per gross square foot, which is now very close to the assumptions presented by Spectrum.

Although no changes will be made to the existing underwriting assumptions for the conceptual development models, per the above, in our further development of the conceptual models we have identified that the calculation used to derive the pay in lieu fee equal to the impact of affordability needs to be adjusted to ensure the pay in lieu fee is appropriately backed out from the calculation to arrive at a correct the net value difference between a baseline 240' development scenario, where no affordable units are included, and one in which the developer includes workforce housing units within their project. The full revised comparison is attached on the second page of this memorandum.

Regards,

Hal Ferris & Jake McKinstry

Spectrum Development Solutions

Council Presentation on February 25th

					Higl	Rise A	High Rise Apartment - 240'	.01				
Project Program												
Site (SF):	9					2	21,000					
Zoning:		me to				S	SM 240					34
Height Limit:	70						240					
Allowable FAR:	VI I						70					I i
Gross SF		bi bi				22	226,965					
Total Units:	90	eve Eb		59.U			225					
Affordability Sensitivity Summary												
		(Current)	PYC 124	Sce	Scenario 1		Scenario 2	2	Scenario 3	03	Scenario 4	4
976	Pay in	Pay in Lieu - No Affordability	ordability	5% of Uni	5% of Units @ 80% AMI	109	10% of Units @ 80% AMI	30% AMI	15% of Units @ 80% AMI	80% AMI	20% of Units @ 80% AMI	80% AMI
Number of affordable units:	<u>a</u>		0					23		34		45
Land Value:	69	10	10,141,463	6	10,141,463	69		10,141,463	69	10,141,463	es.	10,141,463
Total Estimated Development Cost:	69	bo Tr	80,285,000	€	78,293,000	69	91	78,293,000	\$	78,293,000	69	78,293,000
Total Estimated Project Value (5.5% CAP Rate):	69	5 m	101,716,000	69	99,460,000	69	1 5:	97,205,000	69	94,950,000	69	92,695,000
Stabilized Retum on Equity (ROE): (3)	10	9.1%		91	9.2%		8.4%)()(7.6%		%8'9	
					20	· For	T Su	12				
Residual Land Value Increase:	49		4,891,463	€9	4,891,463	↔		4,891,463	\$	4,891,463	€9	4,891,463
Net Project Value Increase	69	(((21,431,000	69	21,167,000	69	(18,912,000	69		69/	14 402,000
Total Project Value increase (\$):	69		26,322,483	9	26,058,463	57	-	23,803,468	8	21,548,468	8	19,293,463
Incentive Zoning Program Analysis	2	Total	Per NSF	Total	Per NSF		Total	Per NSF	Total	Per NSF	Total	Per NSF
Pay in Lieu Fee (\$18.85/NSF Bonus Height):	6	(1,990,786) \$	(18.85)									
Pay in Lieu Fee Equal to Impact of Affordability:	69	1,990,786 \$	19	\$ 4,246,786 \$	3 \$ 40	69	6,501,786 \$	62	\$ 8,756,786 \$	83	\$ 11,011,786 \$	104
Pay in Lieu Fee TDR portion (40% at \$18.75)	69	792,090 \$	18.75	\$ 792,090	18.75	69	792,090 \$	18.75	\$ 792,090 \$	18.75	\$ 792,090 \$	18.75
Pay in Lieu Fee Affordable Housing (60% at	69	1,198,696 \$	18.92	\$ 3,454,696	5 \$ 54.52	₩	\$, 969,602,5	90.10	\$ 7,964,696 \$	125.69	\$ 10,219,696 \$	161.28
				8								

Adjusted Pay in Lieu Fee Numbers (3/6/13)

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Project Program													
Site (SF):					36	21	21,000						
Zoning:		7.1				SN	SM 240						
Height Limit:	11					W	240						
Allowable FAR:	in in	E	Ti P		T.		1120				Ţ		
Gross SF		e la		io e	e ç	226	226,965						
Total Units:		e i		25		N	225				ont		v
Affordability Sensitivity Summary													
		(Current)	01	Scen	Scenario 1		Scenario 2	5.2	Sce	Scenario 3		Scenario 4	10 4
	Pay in Lieu	Pay in Lieu - No Affordability	ability	5% of Units	5% of Units @ 80% AMI	10%	10% of Units @ 80% AMI	3 80% AMI	15% of Ur.	15% of Units @ 80% AMI		20% of Units @ 80% AMI	2 80% AMI
Number of affordable units:	96		0		11			23	br	34			45
Land Value:	€9		10,141,463	\$	10,141,463	€9	1	10,141,463	€	10,141,463	63	31	10,141,463
Total Estimated Development Cost:	€	14	80,285,000	€9	78,293,000	8	ia.	78,293,000	69	78,293,000	\$ 00		78,293,000
Total Estimated Project Value (5.5% CAP Rate):	€9	1	101,716,000	69	99,460,000	69		97,205,000	69	94,950,000	\$ 00		92,695,000
Stabilized Return on Equity (ROE): (3)		9.1%		Ġ.	9.5%	2	8.4%		72	7.6%		%8.9	
Residual Land Value Increase:	69	186	4,891,463	69	4,891,463	69		4,891,463	69	4,891,463	63		4,891,463
Net Project Value Increase	47/4	7	21,431,000	5	21,167,000	ω,	2	18.912.000 23.803.46	49/49	16,657,000	60 80 00 80	7	14,402,000
Incentive Zoning Program Analysis	Total	ο.		Total	Per NSF	ı	Total	Per NSF		Per NSF		Total	Per NSF
Pay in Lieu Fee (\$18.85/NSF Bonus Height):	\$ (1,990	(1,990,786) \$	(18.85)										
Pay in Lieu Fee Equal to Impact of Affordability:	\$ 1,990	1,990,786 \$	19	\$ 2,256,000	\$ 21	မာ	4,511,000 \$	\$ 43	\$ 6,766,000	€	64 \$	9,021,000 \$	85
Pay in Lieu Fee TDR portion (40% at \$18.75)	\$ 792	792,090 \$	18.75	\$ 792,090	\$ 18.75	↔	792,090 \$	\$ 18.75	\$ 792,090	30 \$ 18.75	\$ 92	792,090 \$	18.75
Pay in Lieu Fee Affordable Housing (60% at	\$ 1,198	1,198,696 \$	18.92	\$ 1,463,910	\$ 23.10	€€	3,718,910 \$	\$ 58.69	\$ 5,973,910	10 \$ 94.27	27 \$	8,228,910 \$	129.86
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