

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

		High Rise Apartment - 240			
Project Program					
Site (SF):		21,000			
Zoning:		SM 240			
Height Limit:		240			
Allowable FAR:		11			
Gross SF		226,965			
Total Units:		225			
Affordability Sensitivity Summary					
	(Current)	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Pay in Lieu - No Affordability	5% of Units @ 80% AMI	10% of Units @ 80% AMI	15% of Units @ 80% AMI	20% of Units @ 80% AMI
		11	23	34	45
	\$	10,141,463	10,141,463	10,141,463	10,141,463
	\$	80,285,000	78,293,000	78,293,000	78,293,000
	\$	101,716,000	97,205,000	94,950,000	92,695,000
	Stabilized Return on Equity (ROE): (3)	9.1%	8.4%	7.6%	6.8%
	Residual Land Value Increase:				
	Net Project Value Increase	\$ 4,891,463	\$ 4,891,463	\$ 4,891,463	\$ 4,891,463
	Total Project Value Increase (\$):	\$ 21,431,000	\$ 18,912,000	\$ 16,657,000	\$ 14,402,000
	Incentive Zoning Program Analysis	\$ 26,322,463	\$ 23,803,463	\$ 21,548,463	\$ 19,293,463
	Pay in Lieu Fee (\$18.85/NSF Bonus Height):	Per NSF	Per NSF	Per NSF	Per NSF
	Pay in Lieu Fee	19	40	62	83
	Pay in Lieu Fee TDR portion (40% at \$18.75)	\$ 1,990,786	\$ 4,246,786	\$ 8,756,786	\$ 11,011,786
	Pay in Lieu Fee Affordable Housing (60% at	\$ 792,090	\$ 792,090	\$ 792,090	\$ 792,090
		\$ 1,198,696	\$ 3,454,696	\$ 5,709,696	\$ 7,964,696

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

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		11	23	34	45
	\$	10,141,463	10,141,463	10,141,463	10,141,463
	\$	80,285,000	78,293,000	78,293,000	78,293,000
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	Pay in Lieu Fee (\$18.85/NSF Bonus Height):	Per NSF	Per NSF	Per NSF	Per NSF
	Pay in Lieu Fee	19	43	64	85
	Pay in Lieu Fee TDR portion (40% at \$18.75)	\$ 1,990,786	\$ 792,090	\$ 792,090	\$ 792,090
	Pay in Lieu Fee Affordable Housing (60% at	\$ 1,198,696	\$ 3,718,910	\$ 5,973,910	\$ 8,228,910