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REAL ESTATE DEVELOPMENT

# MBG CO.



## Affordable Housing: A New Paradigm for the Region and the Country

### BACKGROUND

The lack of housing in this region, and nationally, is well known and everybody acknowledges we face a crisis in how we are going to produce tens of thousands of units in the coming years. The *Regional Affordable Housing Task Force Final Report and Recommendations for King County, Washington (Oct 2019/Greater Seattle Metro)* and every other report since then do not address exactly how this is going to be accomplished.

The efforts to date by the nonprofit housing developers in this region have fallen far short of addressing the need. In the last 4 years non-profit developers have produced less than 8000 units when 44,000 of the initial estimate were needed. The recent Amazon initiative (\$2B fund) has produced thousands of new units in the last two years; but despite this tremendous influx of new units, the problem is still acute. It is not from a lack of effort, but a lack of resources, coordination, and the overall delivery process is fragmented. For-profit developers have made little to no impact on this issue, save their participation in the Multifamily Tax Exemption (MFTE) program which really doesn't produce affordable housing for people in the lower income strata. Tax Increment Financing, Low Income Housing Tax Credits, and other such "free money" capital sources are finite and limited. They have not and will not attract the number of developers needed to deliver the amount of supply necessary, which is in the tens of thousands.

### OVERVIEW

The solution to the problem is fundamentally three things: 1) Attracting a significant number of for-profit developers to produce affordable housing, 2) identifying land to build thousands of units in every Municipality in this region, and 3) Creating new sources of long term debt. In order to have enough land to build thousands of units, cities are going to have to rezone a lot of ground. The number of sites that are city owned that can be put into this program are finite thus the need for rezoning. In order to attract for-profit developers, there will need to be a strong profit motive combined with a minimal amount of equity contribution into each project in order for their returns to be equal to the normal returns they are accustomed to achieving.

Our plan is starting with the end in mind, which is to produce 44,000 new dwelling units in the next four years, which comes from the Regional Affordable Housing Task Force for King County. That means 11,000 units per year must be built in the next four years. Assuming the average project size is 200 units, 55 projects would need to be built every year. Also, what is proposed here can be used to build any type of facility that will aid in housing the homeless.

There are three key components to producing affordable housing in sufficient quantity.

- 1) Normal project costs (hard, soft, and land), must be brought down by a minimum of 25% (a typical project cost is broken down as follows: 75% construction cost, 15% land and soft costs 10%)
- 2) Land must be acquired at a below market cost

- 3) All equity and financing must come from private sources, which are not finite and have no strings attached. State and Federal housing funds, tax credits, grants, etc. are insufficient and impractical to produce the necessary supply.

## IMPLEMENTATION

As a first step, in order to eventually build 44,000 new units in the region in the next 4 years, every county and municipality must identify and inventory all publicly owned sites. This will determine the total unit count capacity of all land inventoried as currently zoned. We anticipate the total count will fall far short of the needed 44,000 units. This shortfall will identify for each jurisdiction what they will need to do to increase their unit count by both changing zoning and spot rezoning of specific sites to close the gap.

Publicly owned sites will form nodes around which jurisdictions can increase density. Surrounding properties can be upzoned with an affordable housing overlay on the upzoned sites. MBG Co. can aid planning departments to quantify the new capacity for housing based on zoning, height restrictions, setback and parking requirements. At that point, each municipality has assessed how many units can potentially be developed on each parcel. Once each municipality has identified all the existing land that is currently zoned, each jurisdiction will be informed which parcels with current zoning are commercially viable for development. Those that are not will have to be rezoned. Spot rezoning can also be used to reach the overall target. They will need to execute this process expeditiously. These existing zoned, rezoned or spot-rezoned sites are the low hanging fruit to put this housing initiative into action the quickest.

Once sites have been quantified as to how many units they can hold, they will be presented to the marketplace through a request-for-proposal (RFP) process. At the same time cities and counties should contact all for-profit developers who have built in their jurisdictions. Developers familiar with the process in that jurisdiction have an advantage over those who do not. Prospective developers will then be vetted for building experience and financial stability. However, in this case the equity required will be significantly less than a market rate project. When a developer has been identified for a specific site, the process for obtaining a building permit will be fast tracked. Streamlining all steps possible must be taken to realize cost and time savings.

The RFP will need to be carefully worded in a manner that attracts for-profit developers to make clear that they will not have to use conventional financing sources rather the financing will come from, well below market rate, long term corporate bonds and other private sources instead of their usual grant-making. Then, 5 year IRR's should be in the same range they are in their normal market rate deals. In exchange for getting the land for at a significantly reduced price, below market financing and a reduction in soft costs, there will be a requirement to rent at least 60% of the units at below market rates for workers who make minimum wage (\$20/hr). The other 40% of the apartment units will be rented at market rates. The project will have a 12 yr Tax Abatement.

Market rents on 40% of the units and affordable rents on 60% of the units, combined with a significant reduction of total project cost, will offset the below market reduction of rents and still produce desirable returns for for-profit developers. The primary goal of this initiative is to produce thousands of units for people who currently make \$20/hr.(see attached proforma on 500 unit project with schematics).

## SAVINGS

Since construction is the majority of the cost of a building, then most of the 25% or more savings needed to produce affordable housing, will come from construction methodology. 22 CDC (which stands for 22<sup>nd</sup> Century Design and Construction, see attached White Paper) will be employed, which will reduce construction cost by 20% and time to build by 30%. A typical podium style building, which is 4-5 stories of wood frame construction over 2 levels of concrete "structured" parking, costs most builders between \$290-\$350 per square foot. 22 CDC will bring the price of construction to approximately \$240/sf, a 20%+ reduction from current market pricing.

Interim interest will be significantly reduced, by using corporate bonds (for construction and permanent financing) or national philanthropic affordable housing funds in the place of bank financing. The goal will be to reduce soft costs by at least 30%.

Based on the above, reductions in the hard, soft and land costs will produce a very different proforma than a typical 200-unit building built by a for-profit developer but still produce a similar bottom line result. (see attached proforma on proposed 500 unit building which will be 60% affordable to people at 30% AMI) or minimum wage (\$20/hr).

Other actions that need to be taken to reduce costs:

1. Jurisdictions fast-track building permits for all affordable housing projects
2. All jurisdictions apply the MFTE tax credit (12 years), without their oversight, to all affordable projects
3. Reduce parking requirements

## NEXT STEPS

Actions to be taken:

1. Build a proto-type project such as shown in the attached schematics and proforma
2. Meet with Puget Sound Regional Council Executive Director and the Executive Committee
3. PSRC to arrange a meeting with all cities and municipalities to present this plan
4. Meet with each city and municipality to inventory their land
5. Meet corporate sponsors (Amazon, Boeing, Microsoft, Costco, etc.) and philanthropic organizations (such as Washington Family Housing Fund or MacKenzie Scott's organization, etc. )(all the above are already heavily involved in funding affordable projects).to explain why instead of using their funds as grants, many more projects would be built if they created corporate bonds or long-term low-interest debt.
6. Publicize to for-profit developers

## CONCLUSION

The housing crisis in this region is well known. It's a national problem. What is not well known is the solution. We've presented this plan to solve the problem. The immediate next step is to procure the site proposed for development in this Paper and begin the development process using 22 CDC. The first step would be do complete the proto-type project or a similar one in another location. Then the next steps would be to meet with Puget Sound Regional Council leadership to discuss how we bring together every jurisdiction in the region for a presentation of the plan. The takeaway from that meeting is to get every jurisdiction to identify sites they own. Once every jurisdiction has identified their sites, we can quantify the number of apartments which could be built under current zoning. This total number of units should show how short we are from our goal of 44,000 units. The remedy for the shortfall has been discussed above. Our estimate of the total cost to produce 44,000 units will be over \$8.8B (\$200,000/unit). We hope to exceed our goal of 44,000 units. Concurrently with sites being quantified, the leadership of the Affordable Housing Task Force will need to arrange for MBG Co. to meet with corporate sponsors to explain the use of Corporate Bonds and how to leverage their capital resources to finance this program. A key component for the success of this plan is for it to be well publicized.

An example of a pilot project that could be built anywhere is: 1231 Sheridan Road, Bremerton, WA, to demonstrate the viability of this concept. It is a 6.67 acre site.



^ Concept view from Sheridan Rd looking south to main lobby entrance

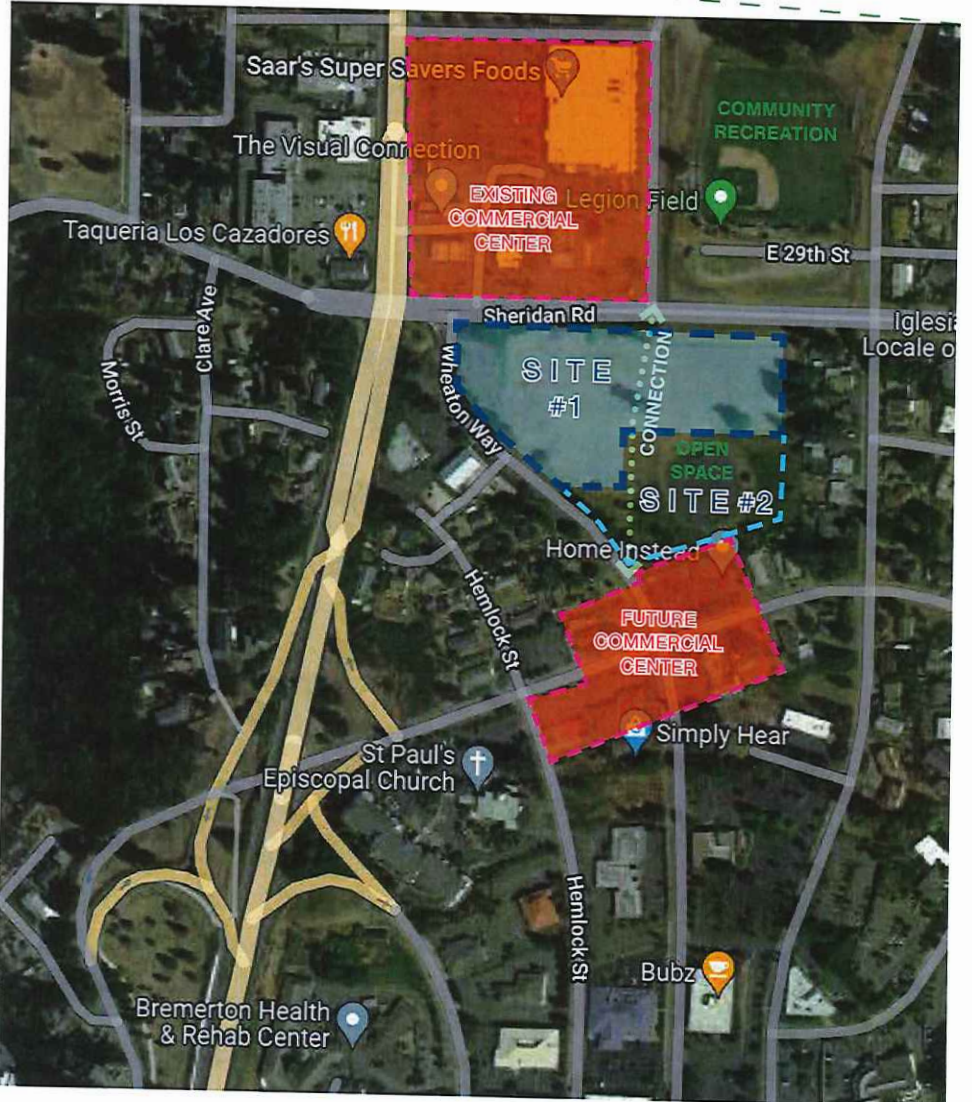
## 1231 SHERIDAN RD, BREMERTON FEASIBILITY

UP TO 500 APARTMENT UNITS  
PREPARED FOR THE MBG. CO.



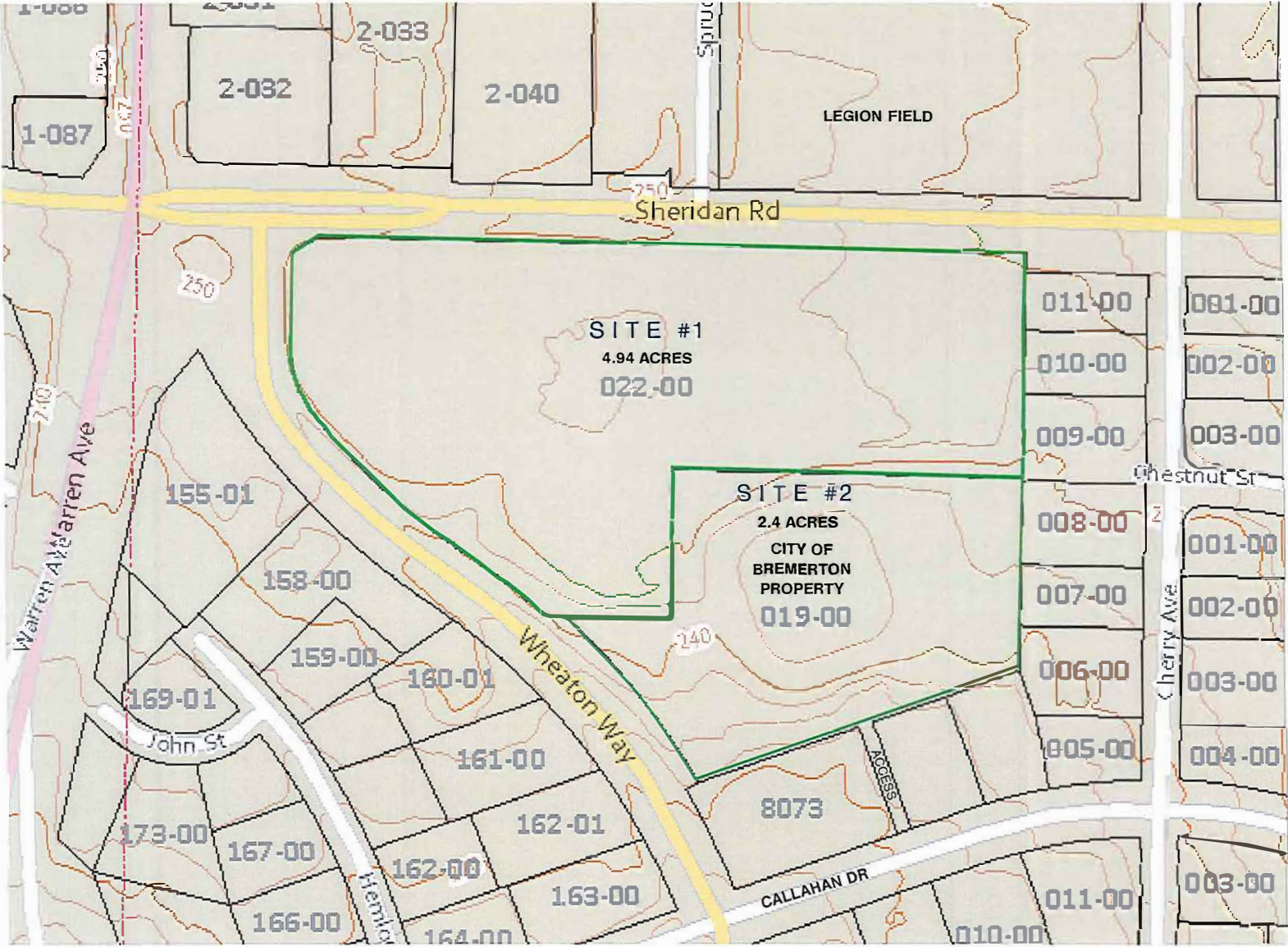
JA Johnston Architects

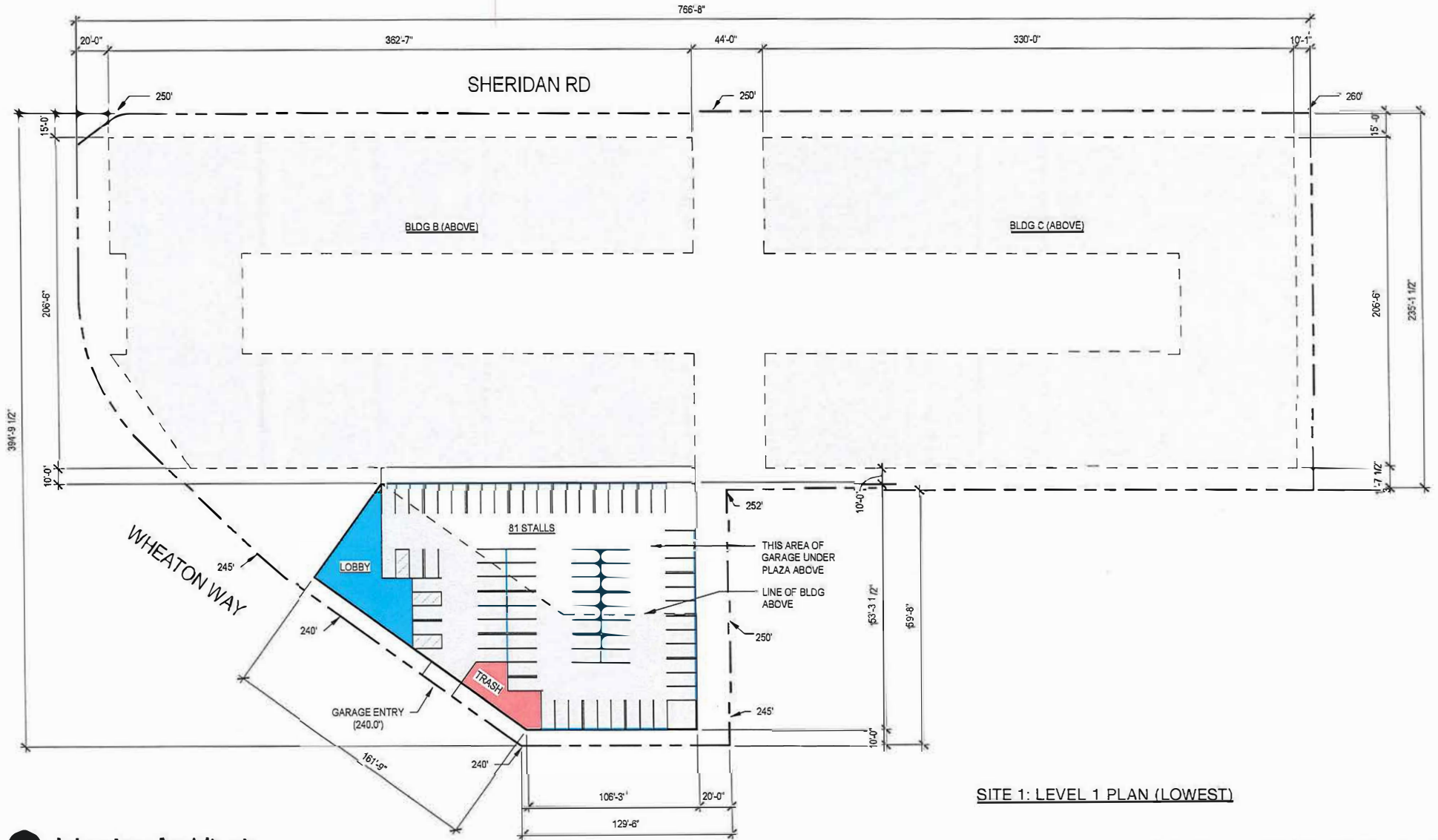
^ Eastside Village Zoning Overview



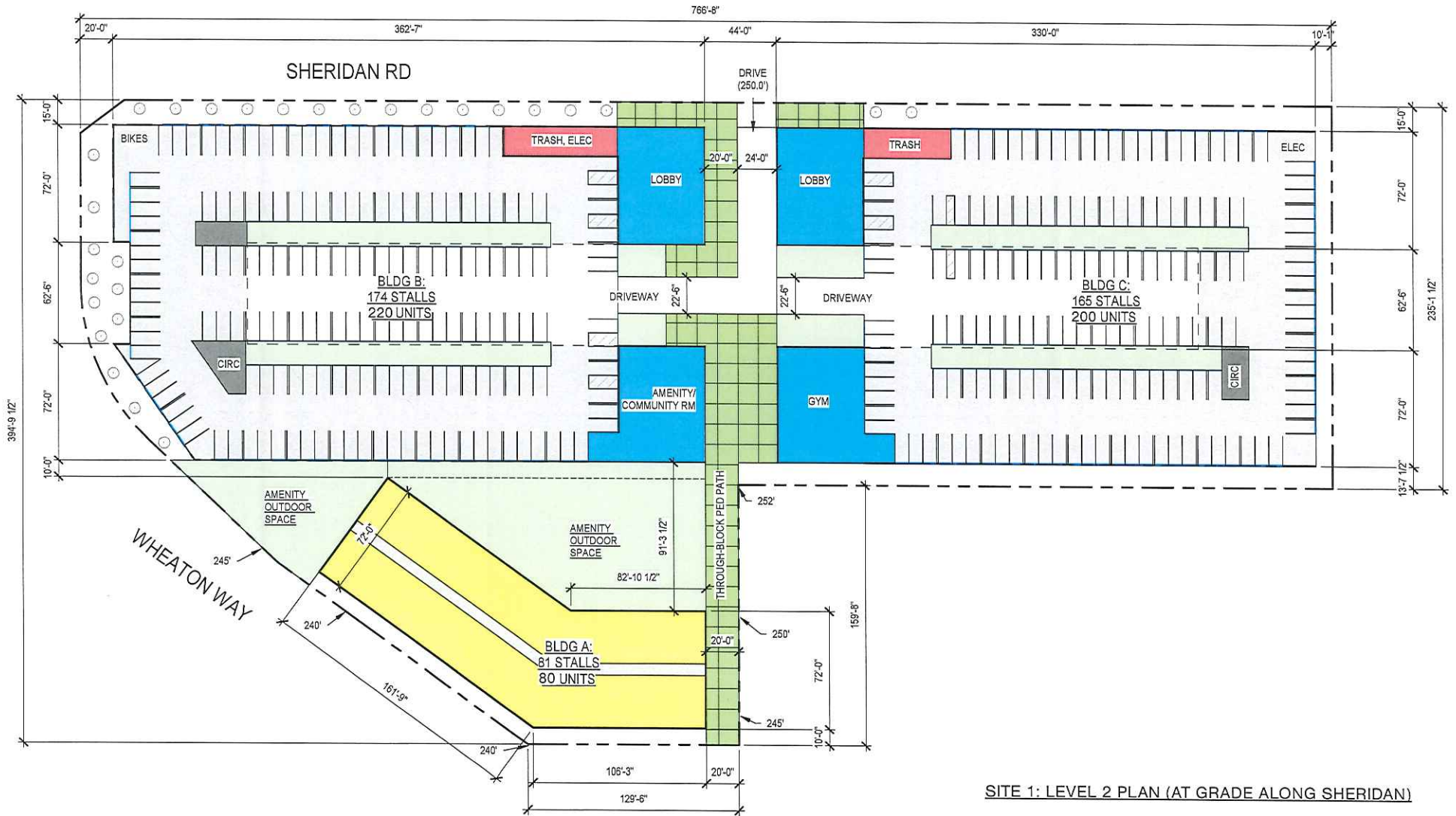
^ Eastside Village NW area enlargement



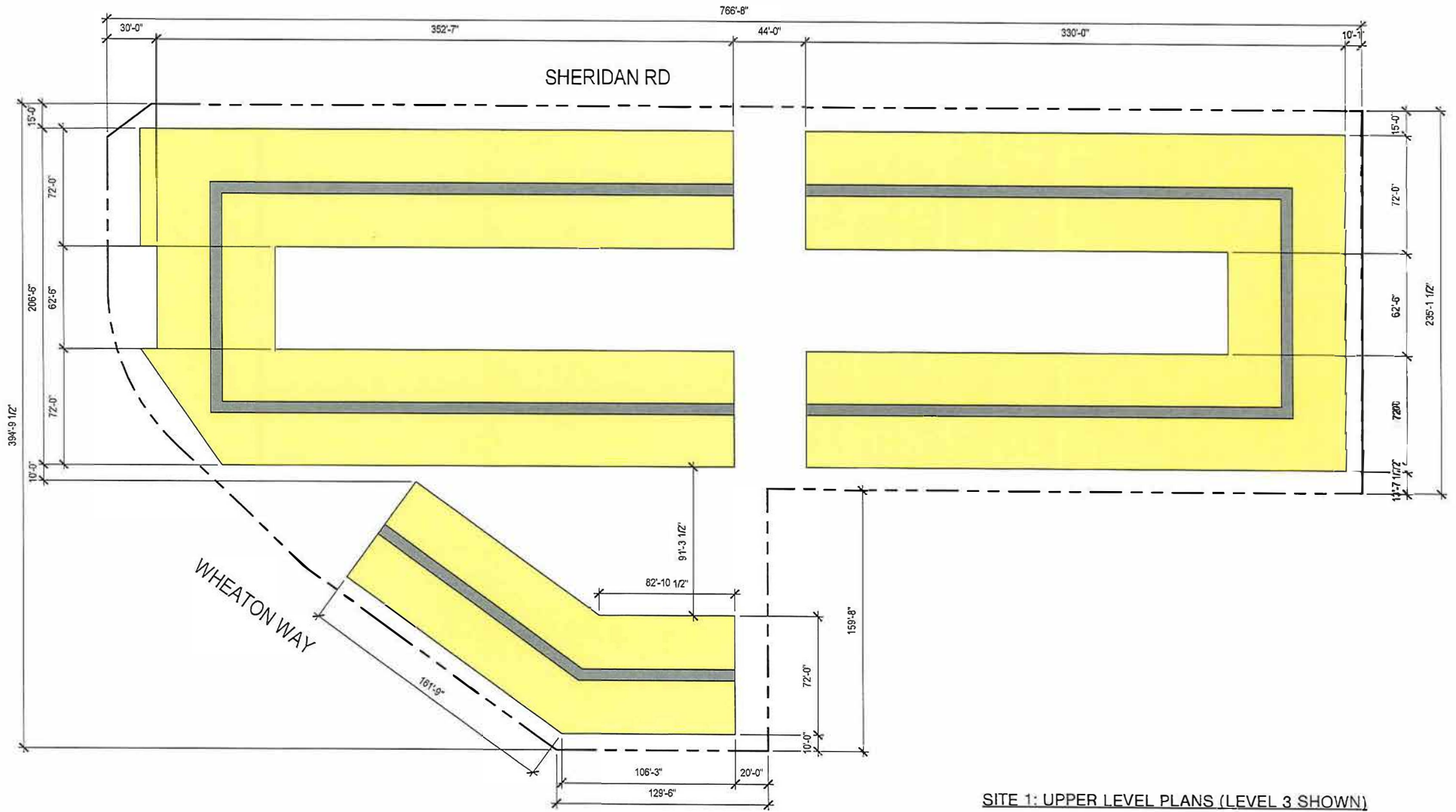




SITE 1: LEVEL 1 PLAN (LOWEST)



SITE 1: LEVEL 2 PLAN (AT GRADE ALONG SHERIDAN)



SITE 1: UPPER LEVEL PLANS (LEVEL 3 SHOWN)

**PROFORMA AREA SUMMARY:**

**SITE 1 - ST. MICHAEL'S**

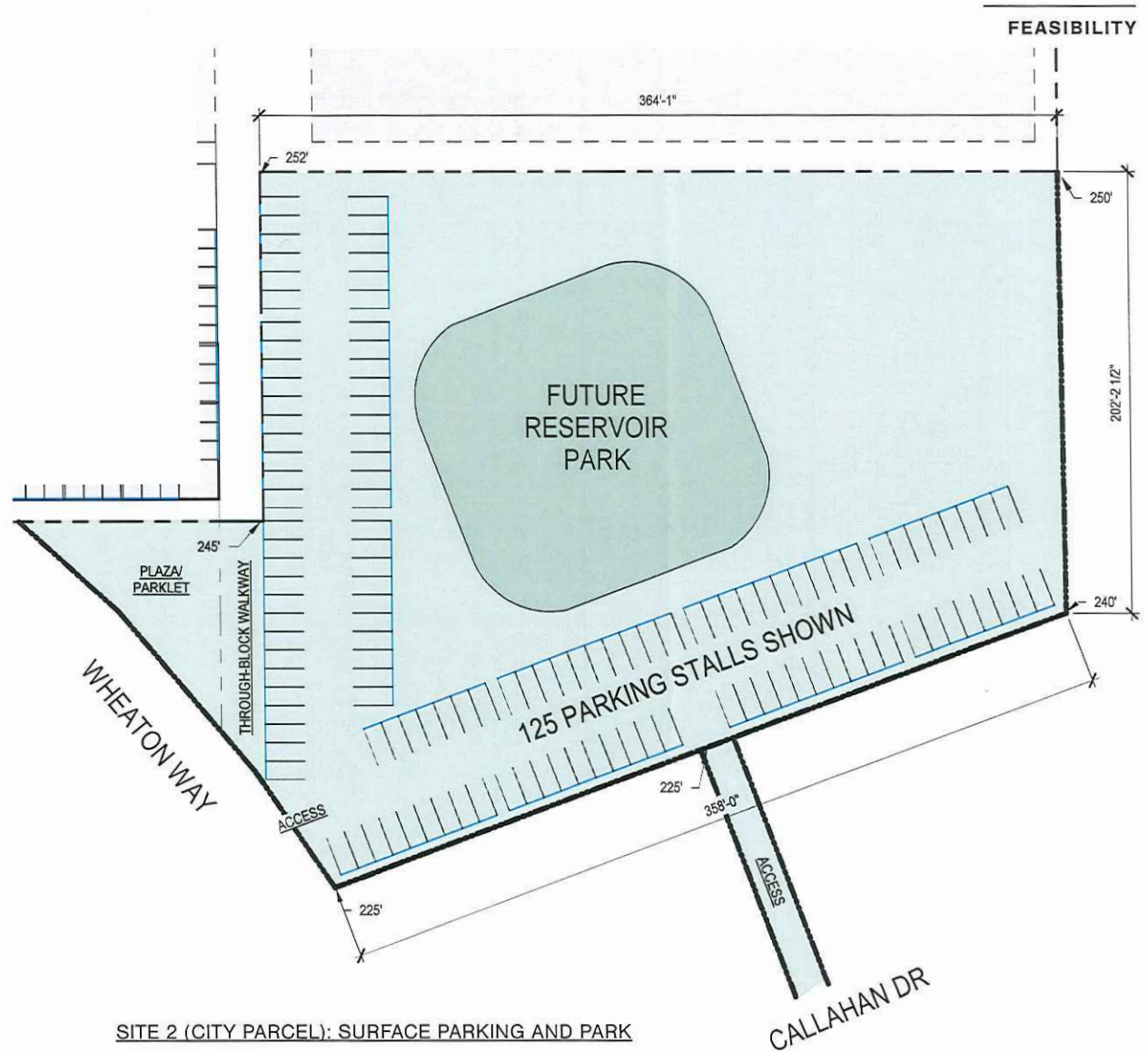
LEVEL	GROSS*	NET RENTABLE	UNIT COUNT	PARKING
1	28,898			81
2	36,870	15,103	20	339
3	122,946	105,394	125	
4	122,946	105,394	125	
5	122,946	105,394	125	
6	105,336	90,291	105	
	<b>539,942</b>	<b>421,576</b>	<b>500</b>	<b>420</b>

efficiency of gross = 78%  
 Avg Unit Size = 843 sf

\* to exterior face of exterior bounding walls. Parking area in the (2) north buildings are outdoor and not included in the gross area

**SITE 2 - CITY OF BREMERTON**

	PARKING
	125
<b>SITE 1+2 COMBINED PARKING</b>	<b>545</b>



**SITE 2 (CITY PARCEL): SURFACE PARKING AND PARK**



^ Concept view from NW corner, at Sheridan Rd and Wheaton Way intersection



< Concept view from Wheaton Way, looking NE into on-site open space

# Project Summary

## **Affordable Housing Concept For-Profit Developers**

### **60% Affordable/ 40% Market Rate Concept**

1231 Sheridan Rd - Bremerton, WA

500 Units

The Project:	Flat view site with views of Puget Sound and Olympic Mts. 500 units, 4 stories over on grade parking for 545 cars, fitness center, roof top amenities.
Market Demand:	Huge documented demand for affordable housing in the 10s of thousands. Also, there is Demand for market rate housing in the thousands.
Projected Cost:	\$96,718,417
Avg Price Per Unit:	\$193,437
Projected NOI:	\$6,782,745 (with Tax Abatement)
Yield / IRR / Cash on Cash:	7.0 / 93.4 / 38.3%
Projected Value (5.0% cap):	\$135,654,900
Average Unit/sf:	740 sf
Average Rent/sf:	\$2.07 /sf
Avg Unit Rent (Affordable):	\$950
Avg Unit Rent (Market Rate):	\$2,400
Total Avg Unit Rent:	\$1,530

Below-Market-Rate (BMR) Units	#	Avg SF	Total	Rent/SF	Avg Rent	Monthly	Annual Rent
Studios, 1 BR / 1 BA, 2 BR / 2 BA, 3 BR / 2 BA	300	740 sf	222,000 sf	\$1.28 /sf	\$950	\$285,000	\$3,420,000

Market Rate Units	#	Avg SF	Total	Rent/SF	Avg Rent	Monthly	Annual Rent
Studios, 1 BR / 1 BA, 2 BR / 2 BA, 3 BR / 2 BA	200	740 sf	148,000 sf	\$3.24 /sf	\$2,400	\$480,000	\$5,760,000

All Units (Blended)	#	SF	Total	Rent/SF	Rent	Monthly	Annual Rent
Studios, 1 BR / 1 BA, 2 BR / 2 BA, 3 BR / 2 BA	500	740 sf	370,000 sf	\$2.07 /sf	\$1,530	\$765,000	\$9,180,000

Projected Construction Start:	July 2027
Finish / Stabilization:	August 2029/ November 2030
Site/Zoning:	6.75 acres, 80' height limit. Tax Abatement with no government program attached.

# Affordable Housing Concept For-Profit Developers Projected Cost

Bremerton, WA

**500 Units**  
**800 sf Avg Unit Size**

## Hard Costs

Gross Residential Area (incl parking)	464,094 sf	
<b>Total Hard Cost</b>	<b>464,094 sf @ \$190 sf</b>	<b>\$88,177,860</b>
(Includes GC Fee, WSST, Taxes & Ins)		

## Soft Costs

A & E (Architect, Structural, Civil, MEP)		\$1,800,000
Other Consultants*		\$200,000
City Fees (Bdg Permits, W/S, Mechanical, Storm)		\$1,000,000
Title Closing		\$27,000
Const Loan Fees (1%)		\$460,000
Interim Interest at 4.0% for 36 mo. on \$92.0M loan (95% of cost)**		\$3,868,000
Marketing		\$150,000
Project and Construction Management (2.0%)		\$1,763,557
Taxes & Ins.		\$60,000
Legal, accounting		\$30,000
F F & E		\$500,000
Misc.		\$50,000
<b>Sub-Total</b>	\$12,081 /unit	\$6,040,557

Interim Interest to Accrue and be added to principal amount of perm loan

<b><u>Land Cost</u></b>	<b>\$5,000 /unit</b>	<b>500 units</b>	<b>\$2,500,000</b>
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<b><u>Total Project Cost</u></b>	<b>\$96,718,417</b>
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\* Other Consultants: Landscape, Interior Design, Surveyor, Geo-Tech, Acoustics, Building Envelope, LEED

\*\*24 mo. build, 12 mo. lease-up

**60/40 Housing Concept (1)**  
**Project Proforma**  
**500 Units**

**Gross Income**

Rents:	370,000 sf NRA @ \$2.07 /sf	9,180,000
Parking:	200 spaces @ \$150/space	360,000
	200 spaces @ \$100/space	240,000
Utility Income:		864,000
Pet Rental:		69,500
Misc.		331,000
Total Gross		11,087,100
Vacancy	5.00%	(554,355)
Effective Gross Income		<b>10,532,745</b>
Expenses (2)		(3,750,000)

**NOI (With Tax Abatement)**

**6,782,745**

Cap Rate/Value: 5.0%	135,654,900
Construction loan 95% of cost	91,882,496
Equity Requirement: 5% of cost	4,835,921
Permanent Loan	92,801,321
Debt Service: 4.00%, 35 yr amort.	4,930,810
Equity in project after Permanent	4,835,921
CFADS (Cash Flow After Debt Service)	1,851,935
Yield to Cost:	7.0%
Cash on Cash after permanent loan	38.3%

**Net Proceeds if Sold at Stabilization (3.5 years)**

Sale Price	<b>\$135,654,900</b>
Closing Costs (3.6%)	\$4,889,197
Project Cost	(\$96,718,417)
Net Proceeds of Sale	<b>\$43,825,680</b>
IRR (42 mo)	93.40%

(1) 60% Affordable/ 40% Market-Rate

(2) \$7,500 /unit/yr.