Affordable Middle-Income Housing Advisory Council
March 11, 2019
Presentation

Commited Leaders.
Shared Vision.
Greater Good.


Weyerhaeuser


KAISER
PERMANENTE®


BOEING


amazon


Zillow
GROUP


COSTCO
WHOLESALE


MADRONA
VENTURE GROUP


Microsoft


BILL & MELINDA
GATES foundation

JPMORGAN CHASE & CO.


expedia group


Alaska
AIRLINES


PATH


Chateau Ste Michelle


PSE
PUGET
SOUND
ENERGY


NORDSTROM

OUR AREAS OF FOCUS

EDUCATION

Establishing a world-class workforce right here at home.

Learn More

TRANSPORTATION

Sparking innovative solutions that keep our region moving.

Learn More

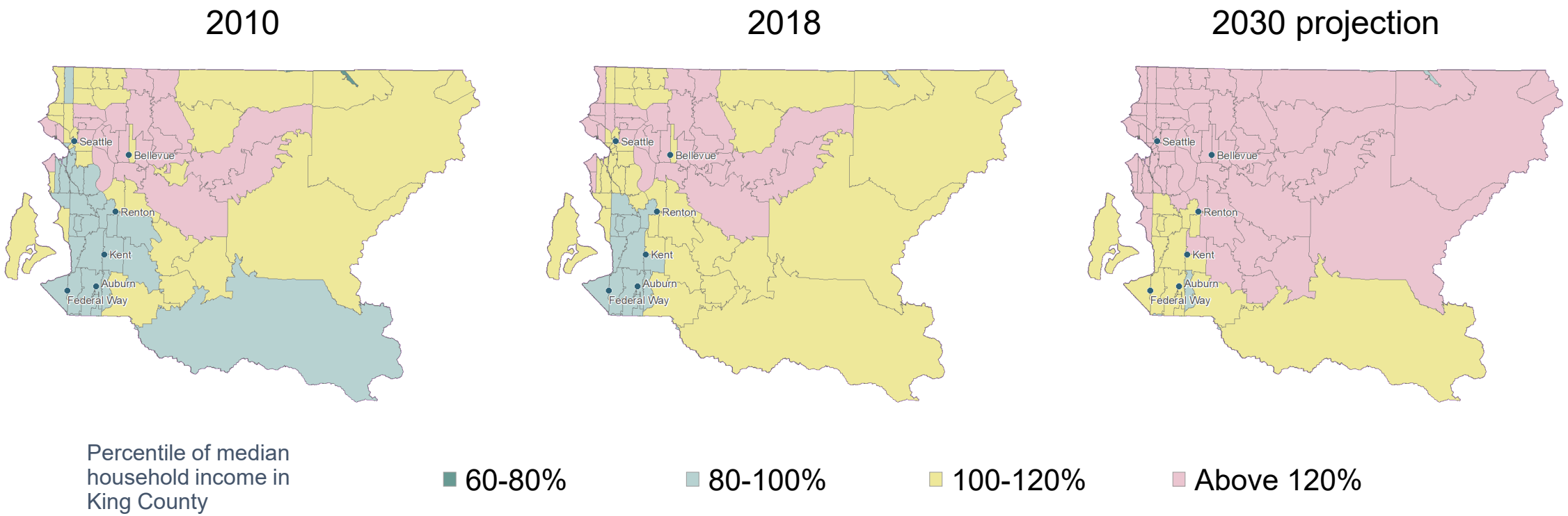
CIVIC INNOVATION

Reimagining civic partnerships to enhance quality of life and opportunity for all.

Learn More

Renting a place to live is quickly moving out of reach for middle-income households…

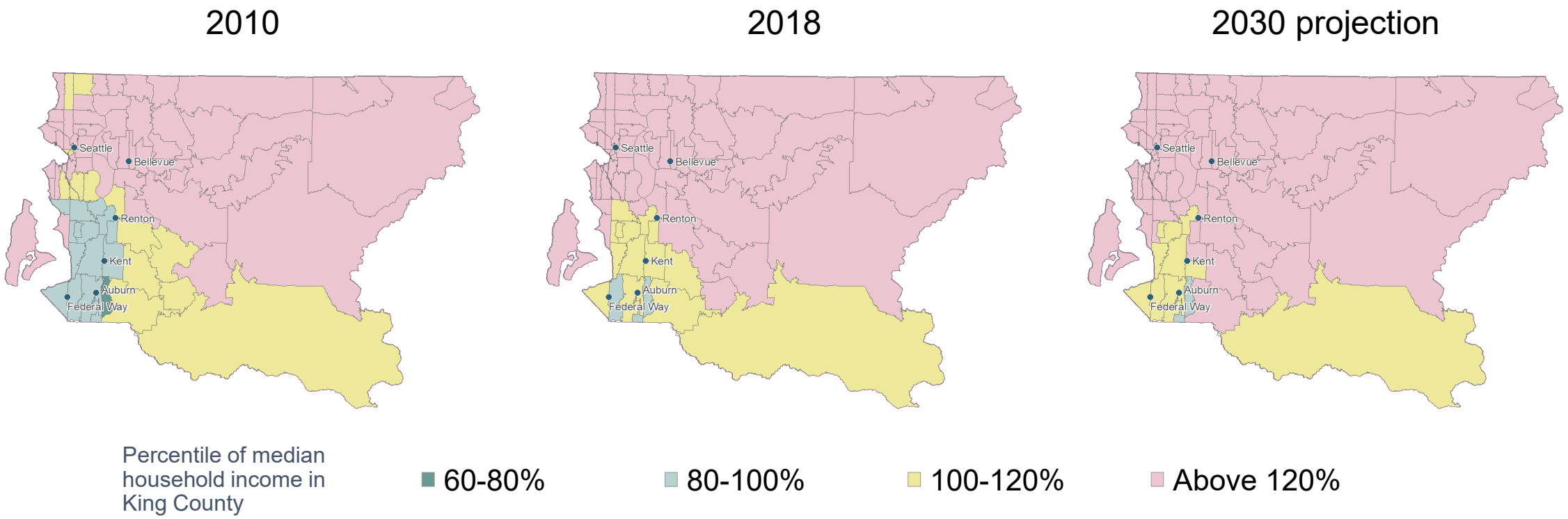
Income level required to afford median rent by zip code



Note: Affordable payment assumes household avoids being housing cost burdened, spending less than 30% of monthly income on housing. Broader region median household income used for analysis, calculated as a population weighted average of King, Pierce, and Snohomish counties
Source: U.S. Census Bureau; American Community Survey; Zillow.com/research/data; BCG analysis

…while those wishing to own are already priced out.

Income level required to afford to buy the median priced home



Note: Broader region median household income used for analysis, calculated as a population weighted average of King, Pierce, and Snohomish counties; Affordable payment assumes 30% of median monthly household income goes toward paying monthly mortgage payments; Mortgage assumptions: 30-year fixed mortgage, 14% down payment, average interest rate in 2010/2018, including PMI, 1.06% property tax and $900 home insurance
Source: U.S. Census Bureau; American Community Survey; Zillow.com/research/data; BCG analysis

Today, middle-income housing receives little attention from private, public, and non-profit sectors

Private sector caters to high-income housing market…

Over 70,000 units currently in pipeline – majority expected to be studio to 1 bedroom, luxury units[1]

Limited development and support for middle-income households

…while public and nonprofit sectors focus on subsidized housing

1. As of February 2018

Source: "Workforce and Affordable Housing Review: Existing Conditions", Seattle City Council (2015); 2015 Washington State Housing Needs Assessment, Seattle Times; US Census, BCG Analysis

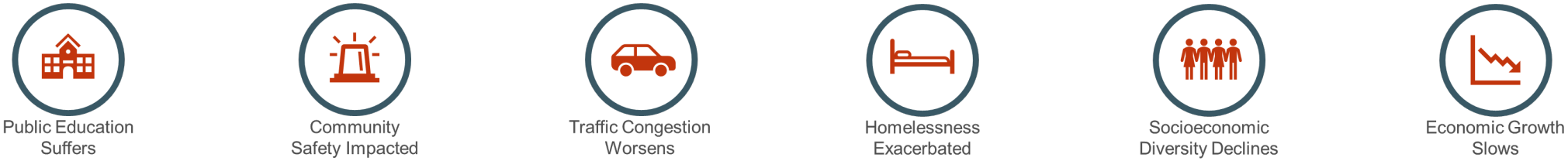
THE INVISIBLE CRISIS:

A Call to Action on Middle-Income Housing Affordability

The Report:

1. Outlines the Problem: *A middle-income household in King County can no longer afford to buy or rent the median-priced home–in almost ANY zip code.*

2. Makes the Case for why we all should care.



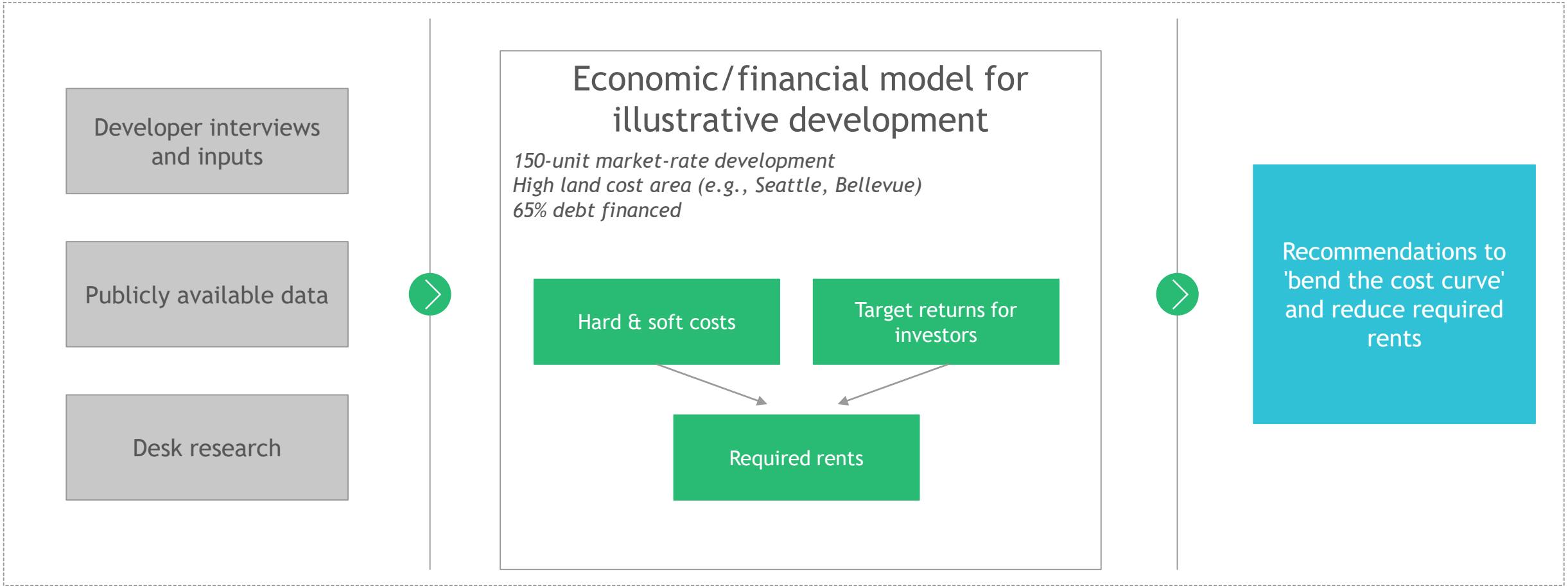
3. Breaks Down the Microeconomics of a multi-family housing project to show how public and private sector actions could help reduce barriers, bend the cost curve, and increase supply.

4. Calls Community to Action: We ALL must work together—public sector, private sector, and community members—if we are going to succeed.

Microeconomic Model

Model developed to inform recommendations

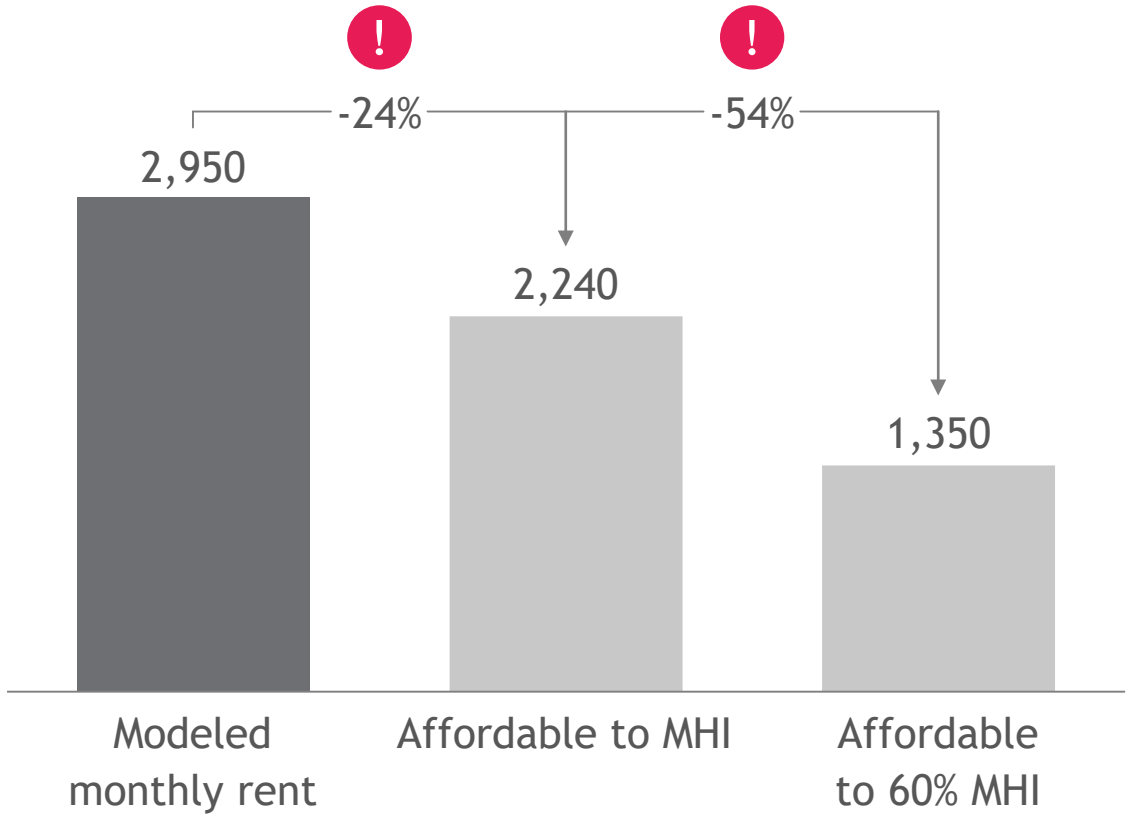
Objectives	1. Ground ourselves in market realities of costs, returns for new development 2. Understand how those costs and return requirements drive rents (or mortgage costs) 3. Identify the magnitude of impact on rent from different levers



Long list of assumptions included in model – details in appendix

of acres
Cost per acre
Feasibility & entitlement cost
# of units
Sqft per unit
Impact fees
Permit costs
Insurance & legal
Contingency
Architecture, design, engineering fees
Construction materials (cost/sqft)
Construction labor (cost/sqft)
Parking stalls/unit
Construction cost/parking stall
Sales tax rate on construction
Lease-up marketing costs
Debt/equity mix
Pre-lease financing interest rate
Developer fee
Pre-construction timeline
Construction to stabilization timeline
Equity preferred return
Construction loan terms (length, rate)
Inflation
Property tax rate
Property insurance
Property mgmt. and admin
Repair/maintenance cost
Payroll
Replacement reserve
Bad debt/vacancy allowance
Yr 7 cap rate
Closing costs on Yr 7 sale

What the model results showed



New development is expensive…

…therefore rents are high…

…and middle-income households will struggle to afford new supply

"Build more units" is not a sufficient solution for increasing middle-income supply unless you can change the underlying economics

We grouped underlying cost (and rent) drivers into 3 categories

We did not assume any opportunities to reduce operating expenses

Land

~15-20% of development costs

Seattle MSA has 13th highest land price in country (out of 200+)

Financing

~5-10% of development costs

Equity IRR of 12-15%+;
5% rate on permanent debt

Construction

Hard costs: ~60-65% of development
Soft costs: ~10% of development

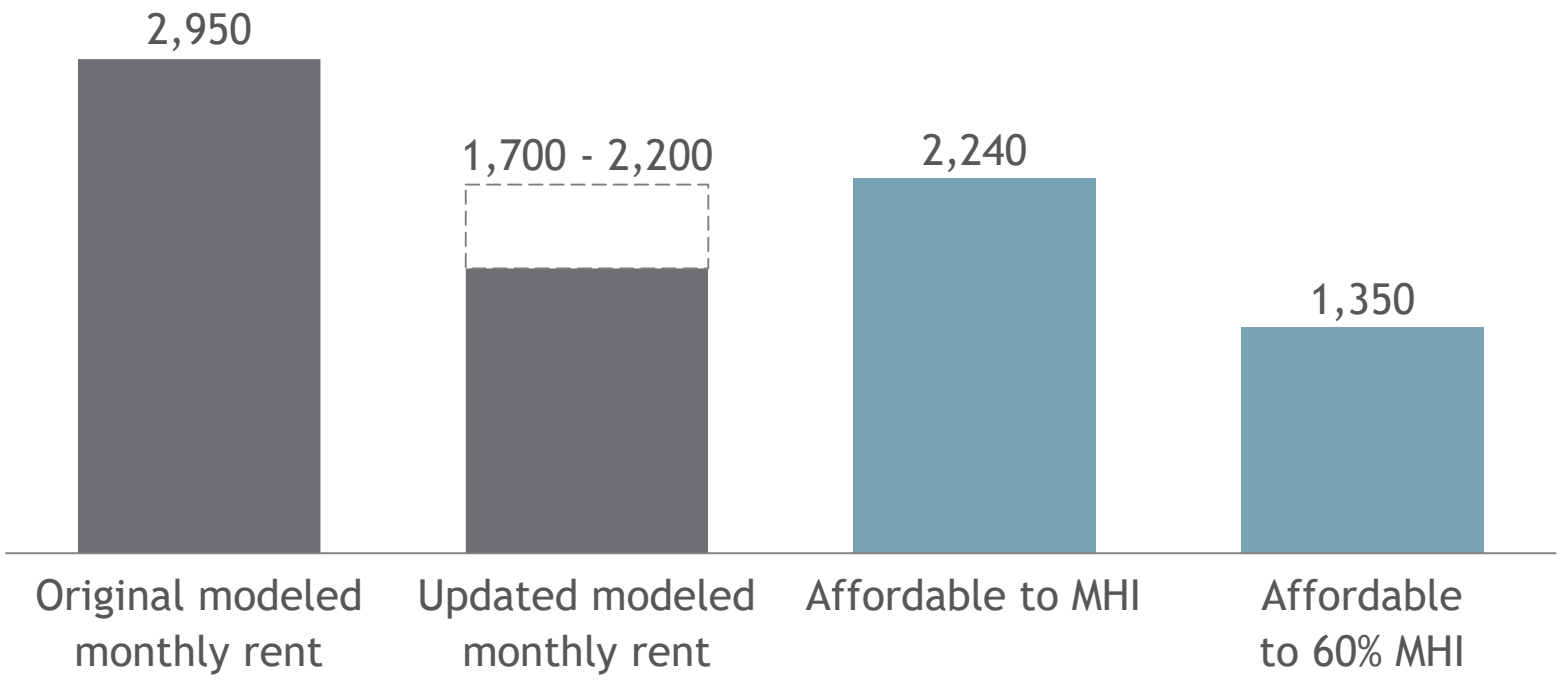
Underground parking and sales tax are non-trivial drivers

Recommendations to "bend the cost curve"

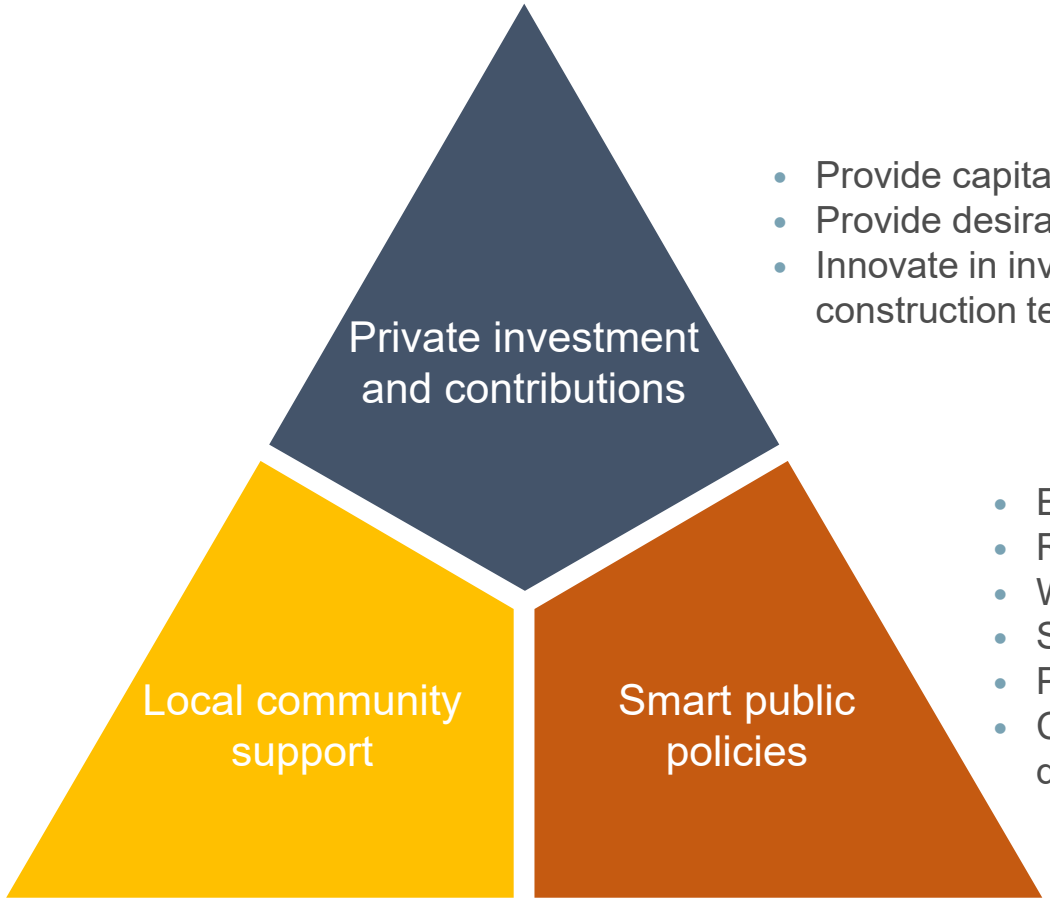
	Action	Illustrative rent reduction per month Original rent + utilities: $2,950
Land	Contribute desirable land, ideally near transit	$100 – 300
	Change zoning to increase density	Primary impact to increase supply
	Encourage transit-oriented development	Long term opportunity
	Support job growth near affordable housing supply and transit corridors	Long term opportunity
Financing	Provide below-market loans	$200 – 300
	Provide patient, below-market equity	$100 – 200
	Extend housing tax incentives to middle-income	$200
	Provide short term, early stage loans	Primary impact to increase supply
	Create community investment opportunities	Long term opportunity
	Encourage private investment through consistent & transparent policy decisions	Primary impact to increase supply
Construction	Reduce requirements for expensive-to-build parking in transit corridors	$100 – 300
	Reduce impact and other development-related fees	$100
	Streamline and accelerate the permitting process	Primary impact to increase supply
	Reform condominium liability laws	Primary impact to increase supply of more affordable units
	Support construction innovation and technology advances	Long term opportunity

Note: Due to dynamic interaction of levers in our model, impact of full implementation is not equal to the sum of the individual levers' impact

What the model results showed – after applying levers



The Solution: Requires Public-Private Partnership and Community Support



- Provide capital
- Provide desirable land
- Innovate in investment vehicles and construction technology

- Extend tax incentives to middle-income
- Reduce expensive parking requirements
- Waive or reduce development fees
- Streamline approvals and permitting
- Provide desirable land
- Change zoning to allow for increased density

“If we all work together, the future we imagine is within our reach.

We invite you to join us.”

Commited Leaders.
Shared Vision.
Greater Good.

Appendix

Detailed assumptions for example new development & ongoing operations

Directional analysis, based on a "realistic example"; model can be ranged

Overall assumptions

Notes on key assumptions in italics

Number of units: 150
Based on developer conversation

Square feet per unit: 667

Timeline:

Pre-construction 24 months

Construction 24 months

Sale timeline: Year 7
Determined by debt & equity capital

Development assumptions

Total cost to build: $58M

Developer fee: $1M

Financing cost: $3M

Construction cost: $24M
$200 / sq. ft construction cost

Parking construction cost: $9M
Stalls per unit: 1.2 (e.g. Redmond)

Construction sales tax: $3M
Construction sales tax of 10%

Soft costs: $6M
Impact fees of $15K per unit

Land: $10M
Estimate for high-cost land area

Initial feasibility: $1M

Capital stack assumptions

Equity portion of capital: 35%

Equity total: $20M

Equity IRR 14%
Pref. annual return of 7.5%

Debt portion of capital: 65%

Construction loan: $37M
Construction loan rate of 4.5%

Permanent loan: $38M
Permanent loan rate of 5%

Note: Minor effects of numbers "rounding" may be visible.