Sound Transit Affordable Housing Revolving Loan Fund

Needs Assessment

April 2020

LISC
LOCAL INITIATIVES SUPPORT CORPORATION

Introduction

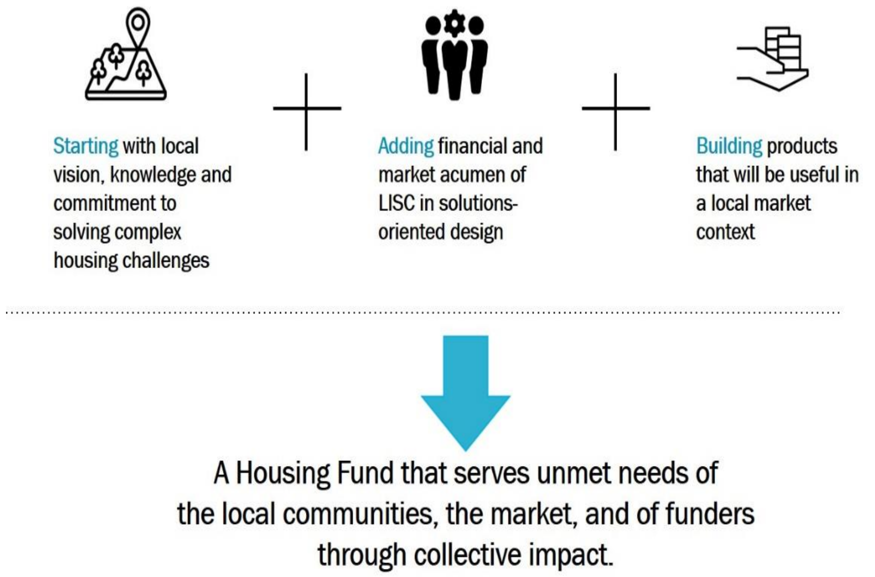
About Revolving Loan Fund (RLF)

In 2015, the Washington state legislature adopted RCW 81.112.350 directing Sound Transit to advance an equitable Transit Oriented Development (TOD) strategy, setting forth specific requirements and giving new tools to Sound Transit to advance equitable development through prioritizing affordable housing. The legislation states Sound Transit must contribute at least four million dollars each year for five consecutive years to a revolving loan fund to support the development of affordable housing opportunities.

In 2019, Sound Transit's Office of Land Use Planning and Development (OLUPD) solicited a competitive bid to bring on a partner that would help in the development of the Revolving Loan Fund Business Plan Framework; that partner is the Local Initiatives Support Corporation (LISC).

Approach to Fund Design

LISC is working collaboratively with and supporting Sound Transit in developing, leveraging, administering and promoting a RLF to support the development of affordable housing opportunities related to equitable transit-oriented development (TOD) within the Sound Transit district.



Sound Transit Revolving Loan Fund Goals

The Sound Transit team has established five goals for the Revolving Loan Fund ("RLF"). The following goals will provide key guidance in the RLF program development process and evaluation of performance outcomes

1. Sound Transit will identify partnership opportunities for the programmatic development and administration of the RLF.
2. The RLF is a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones.
3. Sound Transit will leverage its contribution to the RLF by seeking additional funding from public and private sources.
4. The RLF will facilitate the development of equitable transit-oriented development on Sound Transit properties.
5. The RLF will support strategies that minimize displacement of individuals from properties near Sound Transit investments

Needs Assessment Table of Contents

Executive Summary

LISC is pleased to present the enclosed assessment of the current state of regional affordable housing financing resources in the state of Washington (the "Needs Assessment").

To compile relevant data for this Needs Assessment, LISC performed the following tasks:

- Conducted interviews and focus groups with 37 affordable housing stakeholders in Washington's government, nonprofit, and for-profit sectors;
- Identified available financing resources, existing funds and fund structures;
- Analyzed existing local, regional, and national housing projects to determine which would meet Sound Transit's future goals; and
- Identified best practices employed in successful transit oriented development (TOD) and revolving loan funds around the country.

As a result of LISC's research, LISC has been able to identify the strengths and challenges in Washington's affordable housing financing system, and has formulated a process by which LISC and Sound Transit may work together to design the Revolving Loan Fund (RLF) to meet Sound Transit's goals and facilitate regional equitable transit-oriented development.

LISC analyzed financing gaps at each stage of development from acquisition to occupancy and identified the following three challenges in the market hindering production of affordable housing: high land costs, availability of subsidy and patient capital. Although every city has a unique development market the three challenges listed above were echoed by stakeholders at both state and municipal levels.

Summary of Methods for Needs Assessment and Timeline

LISC used a mixed-methods approach to conduct a needs assessment of the current state of regional affordable housing financing resources with the objective of identifying gaps, challenges, and strengths of the funding system. All Sound Transit's five geographic sub-areas (Snohomish County, North King County, East King County, South King County, and Pierce County) were considered independently for their policies and available resources, as well as part of the larger funding and affordable housing ecosystem. The methods used included stakeholder interviews, focus groups, a review of 15 LIHTC project proformas (projects placed in service between 2015 and 2019), extensive analysis of public policies and resources that affect affordable housing, and an analysis of the funding gaps that exist.

About LISC *Since 1979*

$20 Billion Invested

$60.4 Billion Leveraged

400,500 Homes

Affordable homes built and/or preserved including:

- Multifamily rental
- Supportive housing for special populations such as chronically homeless, LGBTQ, seniors and veterans
- Affordable homeownership

We also emphasize sustainability through green, healthy housing and transit oriented development.

67 Million Square Feet

Square feet of commercial, retail and community space, including:

- Early childhood centers
- Schools
- Fields/recreational spaces
- Healthcare centers
- Grocery stores
- Financial Opportunity Centers

$323 Million

Total Net Assets

- Net worth has increased 48% in the past 5 years
- Closed on more than $1.7 billion of debt transactions with NO defaults
- Raised $98 million in private grant funds in 2018

S&P ‘AA’ Rating

LISC is the first CDFI to tap the general obligation bond market, with a $100 million issuance in 2017

The LISC Lead "Team"

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Focus Groups and Stakeholder Interviews

Stakeholder Interviews

To date, the LISC Team has completed interviews and focus groups with 38 stakeholders, including developers of affordable housing, public housing authorities, city and county representatives, investors, CDFIs, and philanthropic groups. The Team expects to reconvene some of these groups as product design progresses. All of the groups expressed frustrations with the difficulties of building affordable housing in the greater Seattle market. All of the groups also expressed interest and excitement about the RLF as a new resource, though they had many different ideas about how it should be deployed.

Nonprofit Developers

Bridge Housing
Seattle Chinatown International District Preservation and Development Authority (SCIDpda)
Interim Community Development Authority
Delridge Neighborhoods Development Association
El Centro de la Raza
Southeast Effective Development (SEED)
Homesight
Capitol Hill Housing (CHH)
Plymouth Housing
Bellwether Housing
Solid Ground Housing
Low Income Housing Institute
Mt Baker Housing
Beacon Development (Human Good)

Public Entities

Everett Housing Authority
King County Housing Authority
Renton Housing Authority
Seattle Housing Authority
Snohomish Housing Authority
Tacoma Housing Authority
King County DCHS
WA State Housing Finance Commission

Housing Development Consortiums

Seattle/King County
Tacoma/Pierce County
Everett
Snohomish

For-Profit Developers

Gerding Edlen Development
Spectrum Development Solutions
GMD Development
Vulcan, Inc.

Other Interviewees

Seattle Foundation
Enterprise Community Partners
National Development Council
National Equity Fund (NEF)
Communities of Opportunities
One Pierce Community Resiliency Fund
Elevate Health (Tacoma)
Pacifica Law Group
South King Housing and Homelessness Partnership

Interview Insights- *Land Acquisition Strengths + Challenges*

Interviews and focus groups helped shape our understanding of the challenges that developers of affordable housing face in terms of acquiring and holding land. The following is a summary of learnings and lessons specific to land acquisition.

Property and Land Acquisition + Holding Challenges

- *Developers of affordable housing do not have an efficient or affordable way to acquire parcels near transit; these parcels exist but they are widely considered cost prohibitive and often purchased with investor cash.*
- *The financing landscape outside of the City of Seattle is very different: those developers do not have access to the same resources and public subsidy.*
- *For-profit developers have a "leg up" outside of the City of Seattle in terms of acquiring land outside of the City because they do not rely on subsidy to do it.*
- *Many nonprofits do not currently have a strategy for land acquisition; they work with whatever land is cheapest and/or made available to them.*
- *Though there are a variety of funds available for financing projects in transit-rich locations, the tools are not currently aligned to effectively ramp up affordable housing production at future TOD sites.*
- *Achieving affordable housing in areas of opportunity and economic mobility demands more incentives for developers to commit to production of equitable TOD, as well as public resources and ongoing compliance to ensure the affordability outcomes are reached.*
- *Even if acquired, the holding costs for land financed by banks is very expensive. Many developers cited that most projects do not move forward because they will "never recover the cost of the land" in the deal.*
- *Housing Authorities are well-positioned to think creatively about land-banking outside of the City of Seattle, as seen with King County Housing Authority.*
- *There was general consensus among interviewees that the contribution of public land can help with the production of more affordable housing in the market but is not a panacea.*

Interview Insights: *Capital Availability Strengths + Challenges*

Interviews and focus groups helped shape LISC's understanding of the challenges that developers of affordable housing face in terms of capital availability. The following is a summary of learnings and lessons specific to capital availability.

Capital Strengths and Challenges

> *There are a multitude of small (mostly local and regional) funds and resources for affordable housing but these are generally considered by developers to be very competitive.*
> *Due to the competitiveness of subsidy-like resources, developers do not always know what resources they will be able to secure early enough in the process, which drives up project holding costs or makes a project infeasible before property can even be purchased.*
> *Most affordable housing projects in development have more than 5 different sources in their capital stack (combination of debt and subsidy resources), which is a serious challenge for moving deals forward quickly because developers have to align timing and close on many sources in tandem.*
> *Developments outside of the City of Seattle don't have access to the same number of subsidy resources dedicated to affordable housing.*
> *Every group echoed that the cost of land is the number one challenge in financing quality affordable housing.*
> *A specific gap identified by many developers is that of medium-term project financing, such as 7-10 year financing.*
> *Short and medium term capital (up to 10 years) for ground floor retail is risky but needed for ground floor vibrancy on TOD.*
> *Most of the long-term financing of projects is provided by Fannie Mae, Freddie Mac, and/ or FHA resources, because their rates are highly competitive. This drives all project underwriting at early phase toward "fitting" what agency debt will allow for secondary market uptake.*
> *The current market cycle in this area is a 5-year build and flip which makes for-profits more reliant on those sales to drive new production forward, inflating costs.*

Interview Insights: *Development Partnership Strengths + Challenges*

Interviews and focus groups helped shape our understanding of the challenges that developers of affordable housing face in terms of partnerships and joint ventures, and inform LISC's thinking of what types of partnerships the RLF could support. The following is a summary of learnings and lessons specific to partnerships in the market.

Development Partnership Strengths and Challenges

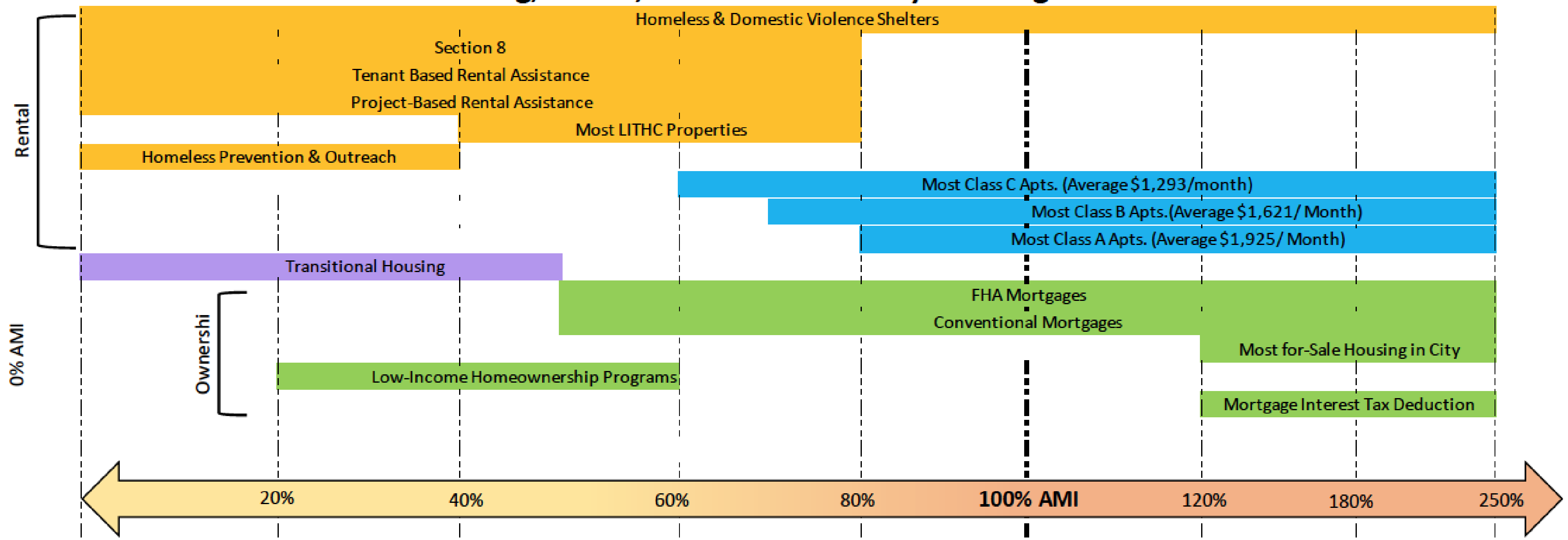
- *The greater Seattle market is home to very strong nonprofit and for-profit affordable housing developers. Of particular strength are the for-profit partners that are able to deliver high quality affordable housing. However, they lack market incentive to do so.*
- *The nonprofit developers are also very adept at delivering quality affordable housing against a very complicated regulatory environment and in an expensive market. Many struggle to produce more than 1 or 2 projects a year on their own without partners.*
- *In the face of limited capital availability, many nonprofit affordable housing developers have turned to for-profit partners to add development capacity and capital to complicated development projects.*
- *In the market, for-profit developer partners are often able to bring a stronger balance sheet and attract resources that nonprofits cannot (equity).*
- *These resources, though attractive from a speed and efficiency standpoint, often demand a higher (>7%) return, and are not actually able to "replace" the subsidy or concessionary capital that the projects would need in order to serve low-income households.*
- *The prevailing Joint Venture ("JV") model that these groups use to build projects includes raising gap capital with grant dollars, a direct equity contribution from a JV partner, low-interest/cash-flow subordinate debt vs. hard debt or preferred equity contribution from the for-profit partner.*

Public Policy and Resource Review

Greater Seattle Market Housing Continuum

The Team reviewed the full range of market-rate and affordable rental and homeownership opportunities in the market. The review includes shelter housing and temporary housing. LISC created the Housing Continuum which is intended to pair the availability of housing options with the Area Median Income (AMI) for a family of four. The chart uses the industry standard—30% of income—as the limit that a household should pay toward rent or a mortgage. Households paying more than 30% of income toward housing costs are considered “burdened.” Households paying more than 50% of income toward housing costs are considered “severely burdened.”
(Data sources: Novogradac, HUD/ FHA Income limits, Co-Star).

Seattle: King, Pierce, Snohomish County Housing Continuum



Family of 4						
Annual Income	$19,827	$39,653	$59,480	$79,307	**$99,133**	$118,960
Max Affordable Rent:	$496	$991	$1,487	$1,983	$2,478	$2,974
Max Affordable Mortgage:	$496	$991	$1,487	$1,983	$2,478	$2,974

Washington State Funds + Resources Reviewed

LISC has reviewed the following local and state housing funds and resources to identify their market relevance to Sound Transit RLF goals. LISC has not identified any funds or resources that, by statute, could not be used in conjunction with a revolving loan fund. However, the goals and purpose of these resources vary significantly. The following charts detail the main goals and constraints of these Funds.

Funds Reviewed
National Housing Trust Fund (NHTF)
Washington State Housing Trust Fund (HTF)
Housing Preservation Program (HPP)
Regional Equitable Development Initiative Fund (REDI)
Microsoft "Fund"
Evergreen Fund
Rainier Valley Community Development Fund
Eastside Housing Trust Fund (EHTF/ARCH)
One Pierce County Resiliency Fund

Program/ Resource Reviewed
State Transit Oriented Development (TOD) Bond Allocations
Regional Affordable Housing Program (RAHP)
Veterans, Seniors and Human Services Levy (VSHSL)
Multifamily Tax Exemption (state and local)
Low Income Housing Tax Credit (LIHTC), 4% with Tax Exempt Bonds + 9% Competitive
Mandatory Housing Affordability (MHA Seattle)
Seattle Housing Levy
Land Acquisition Program (LAP) Washington Housing Finance
Potential 1406 Models
Mental Illness and Drug Dependency Sales Tax (MIDD) King County

Washington State Funds + Resources Reviewed

LISC has reviewed the following housing funds and resources to identify their market relevance to Sound Transit RLF goals. LISC has not identified any funds or resources that, by statute, could not be used in conjunction with a revolving loan fund. However, the goals and purpose of these resources vary significantly. The following charts detail the main goals and constraints of these funds.

Fund / Resource Reviewed	Allocation	New Construction Eligible?	Preservation/ rehab eligible?	Geographic Restrictions?	Income Targeting/ Affordability requirements?	Eligible applicants
National Housing Trust Fund	$4.3M	Yes	Yes	State-wide distribution	30% AMI and below	nonprofits, local govt, housing authority, fed'l Indian tribes
Washington State Housing Trust Fund	$92,050,000 ($37,050,000 applicable)	Yes	Yes	State-wide distribution; 30% of any funding cycle to rural areas	Up to 80% AMI authorized; but most units are below 30% AMI	nonprofits, local govt, housing authority, certain behavioral health org, fed'l Indian tribes
Housing Preservation Program	$10M	No	Yes	Three categories of awards: King County, Other Urban, and Rural. Rural areas may receive priority.	None specified; awards determined based on outlined priorities and applications submitted	nonprofits, housing authorities, govt that controls ownership of property and property is under a current HTF contract

Washington State Funds + Resources Reviewed

LISC has reviewed the following housing funds and resources to identify their market relevance to Sound Transit RLF goals. LISC has not identified any funds or resources that, by statute, could not be used in conjunction with a revolving loan fund. However, the goals and purpose of these resources vary significantly. The following charts detail the main goals and constraints of these funds.

Fund / Resource Reviewed	Allocation	New Construction Eligible?	Preservation/ rehab eligible?	Geographic Restrictions?	Income Targeting/ Affordability requirements?	Eligible applicants
Regional Equitable Development Initiative ("REDI") Fund	$21M	No	No	King, Pierce or Snohomish County	10% of units affordable to HH at or below 80%	nonprofit orgs, housing authorities, for-profit orgs
Microsoft Philanthropies Affordable Housing	$750 MM total commitment	Yes	Yes	Seattle + Bellevue region	40% of units for middle income; 80% of units for low-income	nonprofit orgs, housing authorities, for-profit orgs
Microsoft Line of Credit to WSHFC	$250 MM (of $750 MM)	TBD	TBD	Seattle + Bellevue region	TBD	TBD; purpose is to extend tax exempt bond capacity
Evergreen Impact Housing Fund ("EIHF")	$50 MM (of $750 MM)	Yes	Yes	TBD	TBD	TBD
Seattle Housing Levy	$290 MM	Yes	Yes	Seattle	60% AMI and below	nonprofit orgs and for-profit orgs
Land Acquisition Program ("LAP")- WSHFC	$24M	No	No	State	80% AMI and below	nonprofit orgs, housing authorities, local govt

King County Specific Funds + Resources Reviewed

LISC has reviewed the following housing funds and resources to identify their market relevance to Sound Transit RLF goals. LISC has not identified any funds or resources that, by statute, could not be used in conjunction with a revolving loan fund. However, the goals and purpose of these resources vary significantly. The following charts detail the main goals and constraints of some of the resources that are used in the market. Of note is the limit on the types of eligible applicants.

Fund / Resource Reviewed	Allocation	New Construction Eligible?	Preservation/ rehab eligible?	Geographic Restrictions?	Income Targeting/ Affordability requirements?	Eligible applicants
TOD Bond Allocation	$7M	Yes	Yes	King County	30-80% AMI	nonprofit led partnerships and housing authorities
Regional Affordable Housing Program (RAHP)	$2.5M	Yes	Yes	King County	50% AMI and below	nonprofit orgs, housing authorities, local govt
Veterans, Seniors and Human Services Levy (VSHSL)	$15M	Yes	Yes	King County	80% AMI and below	nonprofit orgs, housing authorities, local govt
Eastside Housing Trust Fund (EHTF/ARCH)	$6 M	Yes	Yes	King County	50% AMI and below	nonprofit orgs, housing authorities, local govt, for-profit orgs

Snohomish County Specific Funds + Resources Reviewed

Fund / Resource Reviewed	Allocation	New Construction Eligible?	Preservation/ rehab eligible?	Geographic Restrictions?	Income Targeting/ Affordability requirements?	Eligible applicants
CDBG Housing Projects	$1,380,120	No	Yes	Snohomish County	Low-moderate income	nonprofit orgs & cities & towns except Marysville, Everett, King County portion of Bothell.
CDBG Public Facilities & Infrastructure	$1,035,480	Yes	Yes	Snohomish County	80% AMI and below	nonprofit orgs, housing authorities, local govt, cities & towns except Marysville, Everett, King County portion of Bothell.
Homeless Housing & Services RFP	Supported by multiple funding	Yes	Yes	Snohomish County	Homelessness	nonprofit orgs, housing authorities, local govt
Emergency Solutions Grant (ESG)	$210,528	Yes	Yes	Snohomish County	Homelessness	private & nonprofit orgs
HOME Tenant-Based Rental Assistance Program	$100,000	No	No	Snohomish County	30% - 50% AMI and below	nonprofit orgs, housing authorities, local govt

LISC

Alignment of Funds Reviewed with RLF Goals

The Team reviewed the existing funds and programs for their relevance to Sound Transit RLF goals. Each has its own set of goals for policy and production of affordable housing. An analysis of alignment of these existing funds and programs with Sound Transit's RLF goals is shown below.

Fund	Sound Transit RLF Goals						
	Goal 1: Partnerships	Goal 2: Self-replenishing	Goal 3: Leverage	Goal 4: Equitable TOD	Goal 5: Minimize Displacement	TOD Focus	Specific Limitations of Combining With RLF
National Housing Trust Fund	✓	✓	✓	X	X	X	1) No control of geographic reach projects across ST sub-areas 2) NHTF mostly paired with LIHTC which implies long wait times and additional competitive subsidy needed highly competitive (~$4.3 MM a year across several projects) 3) Requires state-wide distribution
Washington State Housing Trust Fund	✓	✓	✓	X	X	X	1) No control of geographic reach of projects across ST sub-areas 2) Trust Fund mostly paired with LIHTC which implies long wait times and additional competitive subsidy needed 3) Requires state-wide distribution
Regional Equitable Development Initiative ("REDI") Fund	✓	✓	✓	X	X	✓	1) No control of geographic reach of projects across ST sub-areas 2) Mostly paired with LIHTC which implies long wait times and additional competitive subsidy needed
Microsoft Philanthropies Affordable Housing Fund	✓	✓	✓	X	X	TBD	1) No control of geographic reach of projects across ST sub-areas
Evergreen Impact Housing Fund ("EIHF")	✓	TBD	X	X	X	X	1) Evergreen Fund does not want to take public funds, to ensure maximum flexibility 2) No control of geographic reach across ST sub-areas
WSHFC Land Acquisition Program ("LAP")	✓	✓	✓	X	X	X	1) Limited in project type use; not meant to cover hard costs of construction 2) No control of geographic reach of projects across ST sub areas (statewide distribution required)

Affordable Housing Need + Rent Burden King County

HUD 2019 Household Income Limits				
	1 Person	2 People	3 People	4 People
30% AMI				
Household income	$22,800	$26,070	$29,310	$32,580
Monthly Rent	$570	$651	$732	$814
50% AMI				
Household income	$38,000	$43,450	$48,850	$54,300
Monthly Rent	$950	$1,086	$1,221	$1,357
80% AMI				
Household income	$60,800	$69,520	$78,160	$86,880
Monthly Rent	$1,520	$1,738	$1,954	$2,172
100% AMI				
Household income	$76,000	$86,900	$97,700	$108,600
Monthly Rent	$1,900	$2,172	$2,442	$2,715

Affordable Housing Summary of Need: King County

The population in King County and surrounding counties have been experiencing consistent growth for the past few years. The growth in population can be attributed to the burgeoning economy of the Seattle metro area that is headquarters to many nationally recognized companies: Amazon, Microsoft, and Starbucks to name a few. In 2018, the county was home to nearly 2.2 million residents growing 13% from 2010. In addition to new residents, the county's household income has also increased form 17% from $85,600 for a family for four in 2010 to $103,400 in 2018.

King County is comprised of 790,000 households of those, 59% are homeowners, while 41% are renters. Household types through the county have also been affected with the influx of new resident to the county 41% of the population reside in nonfamily households and 58% of households are related. This is in contrast with only 30% of the population living alone meaning 10% of the population are living in roommate situations which could be a result of no affordable housing stock. White residents holding 74% of homeownership in the county, while all other minorities, with Asian residents as the only exception, are the majority renters versus homeowners predominantly hold home ownership in the county.

In 2018, the AMI for the county for a family of four was $103,400; the median income of the county has been on a steady increase by 17% since 2010. The average rent for a three-bedroom unit in the county is $2,254, cost burdening households earning less than 80% of AMI, who can reasonably afford $2,172 in rent. The chart to the left demonstrates what low income households can contribute to housing cost.

A comparison of affordable rents and average rental rates in the market highlights those households below 80% AMI cannot reasonably afford housing units in the county without additional subsidy. In King County the hourly wage necessary to afford, a three-bedroom unit at market rate in 2019 was $ $52.56 per hour and an annual income of $109,320. For minimum wage household to afford a three bedroom in this market they would need to work 175 hours per week (Source: Out of Reach, NLIHC) . Rising rental costs seen across the county is putting mounting pressure on low-income residents and making it increasingly more difficult to stay in their communities. The cost of an average unit has seen an increase of 28% since 2010. Vacancy in the market was 4.7% for the year 2019. There are currently 35,059 LIHTC units in the Sound Transit King County sub areas.

Affordable Housing Need + Rent Burden- *Pierce County*

Pierce County 2018 Household income limits				
	1 Person	2 People	3 People	4 People
30% AMI				
Household income	$15,660	$17,910	$20,130	$22,380
Monthly Rent	$391	$447	$503	$559
50% AMI				
Household income	$26,100	$29,850	$33,550	$37,300
Monthly Rent	$652	$746	$838	$932
80% AMI				
Household income	$41,760	$47,760	$53,680	$59,680
Monthly Rent	$1,044	$1,194	$1,342	$1,492
100% AMI				
Household income	$52,200	$59,700	$67,100	$74,600
Monthly Rent	$1,305	$1,492	$1,677	$1,865

Affordable Housing Summary of Need: Pierce County

Pierce County, Washington was home to 891,299 residents in 2018. The population in the county has seen an increase on 11% since 2011. This growth in population can be attributed to the growth in economic opportunity in neighboring King County, Washington. As rent prices rise in Central Puget Sound renters are being pushed further away and relocating to more affordable areas in Pierce County.

Although population has been on a steady increase, median income in the areas has only increased by 7%, from $69,600 for a family of four in 2010 to $74,600 in 2018. The average rent for a 3-bedroom apartment in Pierce County is $1,675 per month, putting a cost burden on families making below 80% AMI. Thirty eight percent of households in Pierce County regardless of household size are below 80% AMI. The income limits and reasonable rent as express by HUD (30% of income for housing costs) is shown below.

Households in the area that pay over 50 % of their income for housing costs are extremely rent burdened. For the Sound Transit sub region of Pierce County 21.6% of renters are extremely rents burdened. A household must earn $35.17 per hour in order to afford a market rate three bedroom unit in Pierce County. A renting household must work 117 hours per week to afford this unit, in a double income household that amounts to 58.5 hours each. (low income housing coalition). As rental prices increase, approximate 19% since 2010, many middle-income households can still find market rate housing that is affordable, it may be located much further from transit services or employment lowering quality of life.

The vacancy rate for in the market is considerably low at 4.4% compared to the state rate of 5.2%. In 2017 there were 312,839 households in Pierce County of those 61% of households are homeowners. Homeownership is predominately held by white residents making up 48% of all homeowners. There is significantly larger portion of the white population that are owner as opposed to renting. While other minorities in the county are split with a higher percentage of their population renting or split equally between homeowners and renters.

Affordable Housing Need + Rent Burden- *Snohomish County*

Snohomish County 2018 Household income limits				
	1 Person	2 People	3 People	4 People
30% AMI				
Household income	$21,720	$24,810	$27,930	$31,020
Monthly Rent	$543	$620	$698	$775
50% AMI				
Household income	$36,200	$41,350	$46,550	$51,700
Monthly Rent	$905	$1,033	$1,163	$1,292
80% AMI				
Household income	$57,920	$66,160	$74,480	$82,720
Monthly Rent	$1,448	$1,654	$1,862	$2,068
100% AMI				
Household income	$72,400	$82,700	$93,100	$103,400
Monthly Rent	$1,810	$2,067	$2,327	$2,585

Affordable Housing Summary of Need: Snohomish County
Snohomish County population has increased by 12% since 2010, as of 2018 the county is home to 814,901 residents. These residents make up about 284,477 households in the county, the majority of households are made up of two people (34%), followed by four or more persons (25%). Households in Snohomish are 68% related family households one-third of which are renters and two-thirds homeowners. Over half of homeowners in the county are white.

HUD considers households earning 80% or less of AMI as low-income household. We use this standard to define a low-income household. Based on the average market rates in the county those households earning less than 50% of AMI could face difficulty finding and affordable homes in the private market. The need for affordable housing is growing rapidly in Snohomish County. The median income for this area is $103,400 and 54% of households in the county are living below AMI for a family of four and 30% where below 50% AMI. In 2017 21% of these households were severely cost-burdened.
The county saw a 28.4% increase in rent from 2013–2016 but income during that time frame only increased by 1%. Drastically rising rent and stagnant wages by indicate a shortage of affordable rental housing.

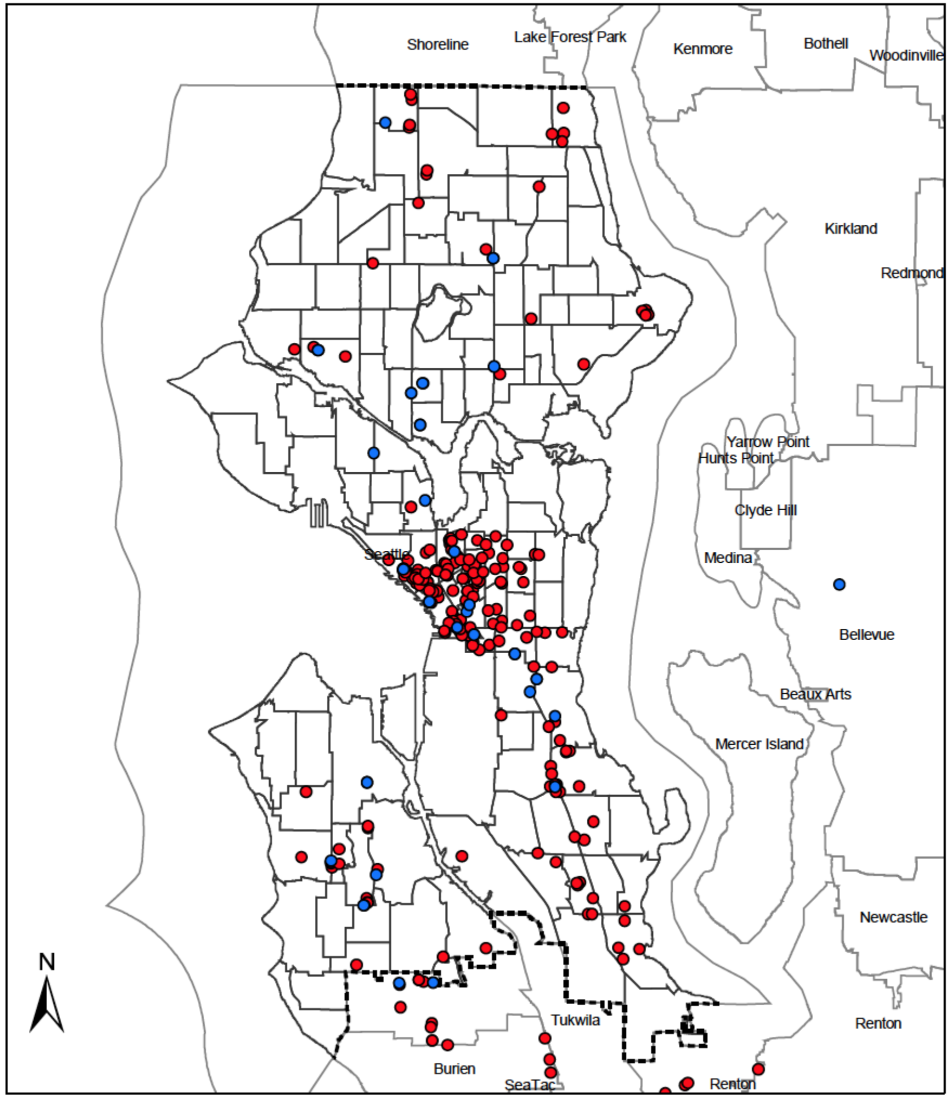
Table 1: Snohomish County Affordable Housing Inventory, 2017

CATEGORY	0–30% AMI	31–50% AMI	51–80% AMI	ALL
TOTAL	7,049	4,864	8,780	20,693
Rental	2,259	4,358	7,881	14,497
Vouchers	4,764	457	101	5,323
Homeowner	0	5	541	546
Tulalip	26	14	192	232
Manufactured	0	30	65	95
Shelter Beds	447	0	0	447

(Source: Housing Snohomish County Project Report).

Project Finance Review

Affordable Housing Projects Reviewed



Low Income Housing Tax Credit (LIHTC) is a significant component of the affordable housing stock on the 5 sub-areas. The Team reviewed publicly available data for 227 LIHTC projects in the three counties. LISC's affiliate The National Equity Fund is the syndicator of over 40 of these projects, including both 4% and 9% LIHTC allocations since the 1990s. LISC reviewed proprietary project data for those 40 projects including, financing structures and performance. Our findings suggest that these projects are very difficult and expensive to execute in areas of high opportunity, due to land costs, though there are some examples and that there is significant pressure to convert to market rate development at the time of expiration of affordability restrictions. LIHTC should also be thought of as an important, but very limited, resource (cap of allocations) that does not fit all affordable housing projects because it is highly competitive and often privileges "larger" (100+ unit) projects and cannot be used in smaller projects as easily and because LIHTC alone does not work for households earning less than 50% AMI or households needing significant on-site supportive services (such as disabled, elderly).

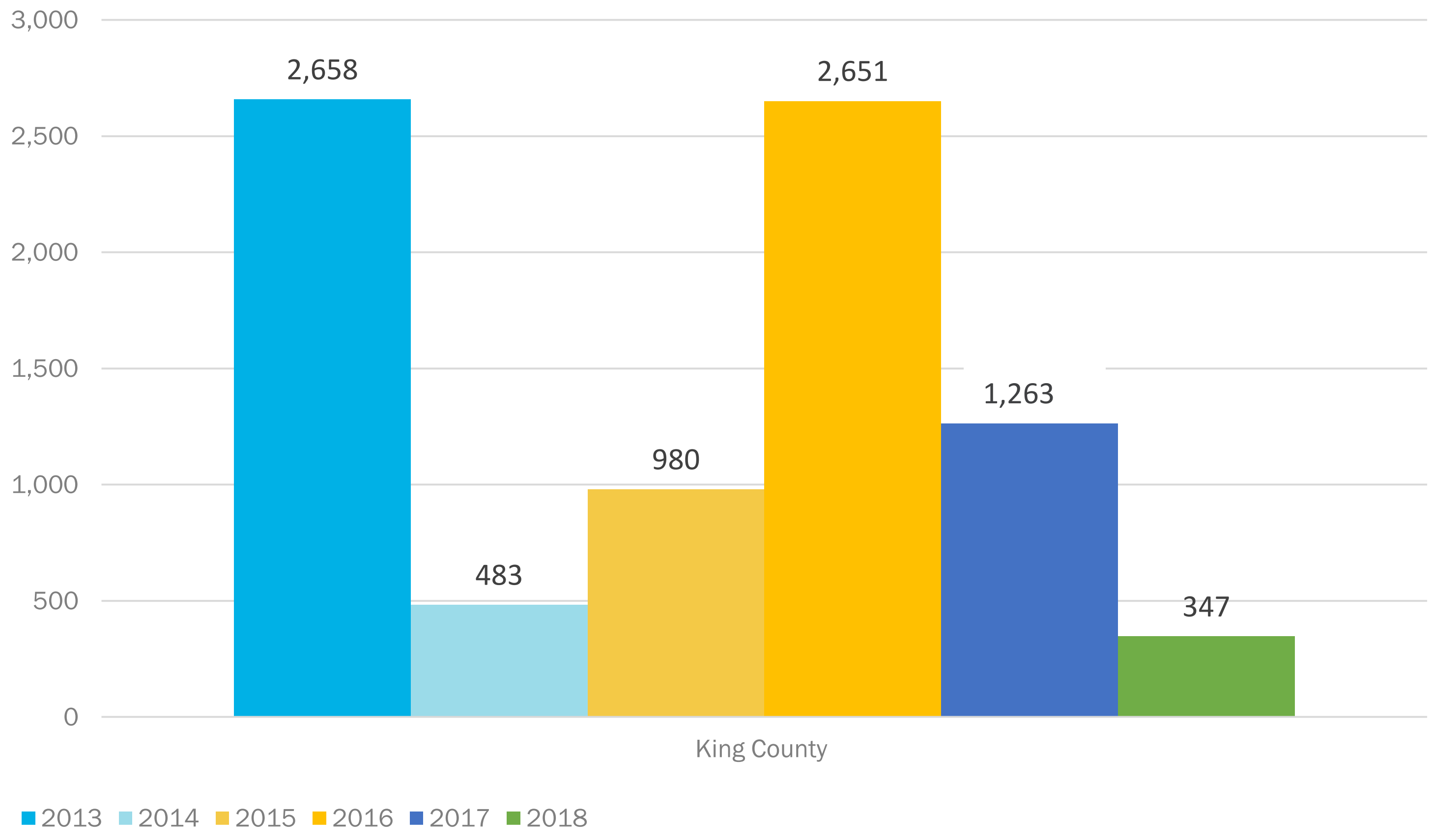
- NEF
- LIHTC
- Seattle City Limits
- Municipal Boundaries
- Census Tracts 2010

Data Sources:
-HUD Multifamily Assistance & Section 8 Contracts Database
-HUD-LIHTC
-Census TIGER Line Files
Creator: Gabrielle Sallows

Allocation of LIHTC in King County 2013-2018

Since 2013, 8,382 of affordable units have been added in King County through low-income housing tax credits.

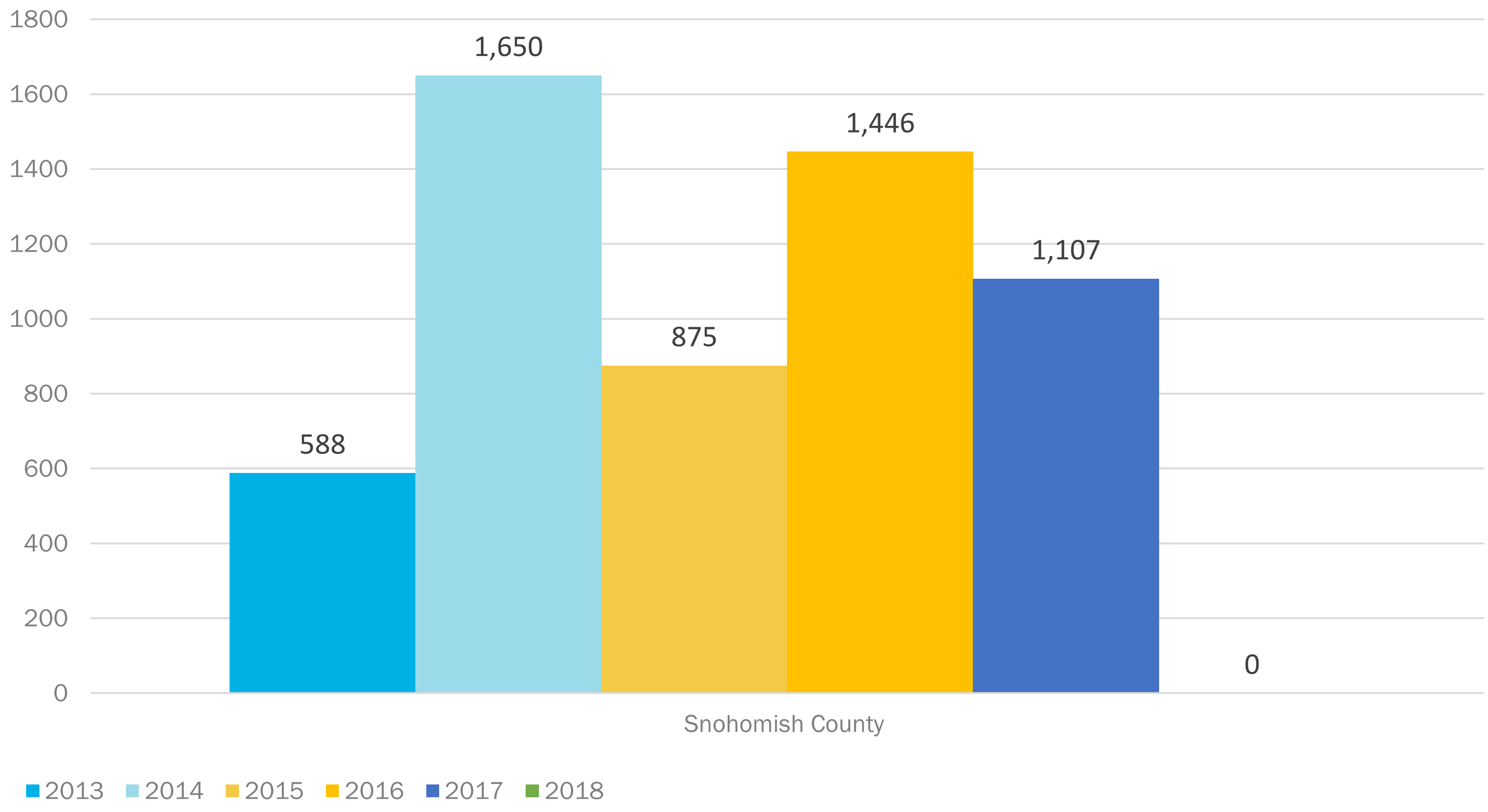
Overall production of housing units in King County has increased during the past 10 years, but the portion of those affordable to households below 80% of AMI has steadily decreased. Since 2011, there has been a 44% decrease in units available at 50% AMI or below.



Allocation of LIHTC in Snohomish County

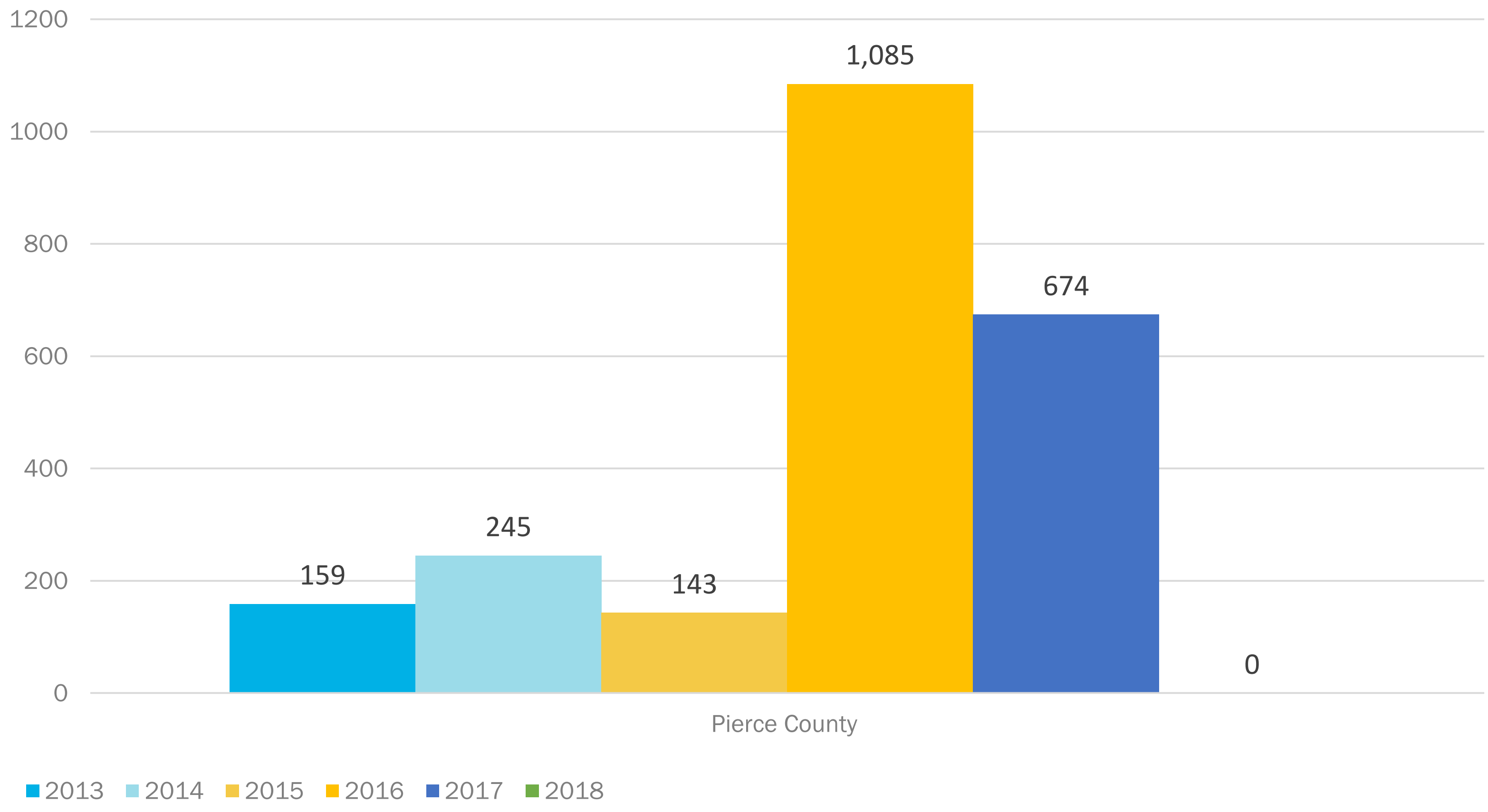
There is a combined total of 20,700 income-restricted units in Snohomish County.

Of those rent burdened residents 80% earn a yearly income less than 50% AMI.

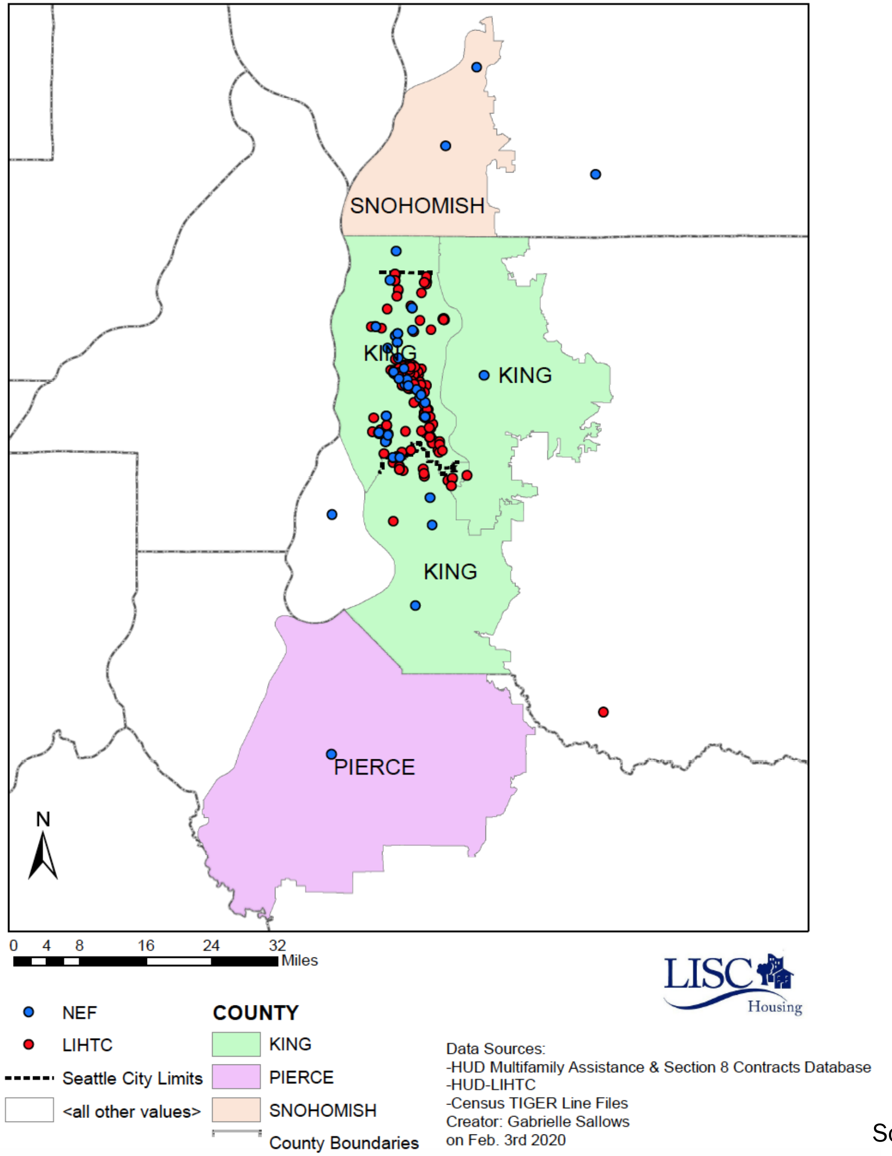


Allocation of LIHTC in Pierce County

In 2016, Pierce County reported managing 6,000 units of affordable housing and nonprofit organizations managed 15,000 units. Despite the existence of these units along with LIHTC units coming onto the market in subsequent years, there is still a gap of roughly **36,000** affordable units needed to meet current demands for affordable units.



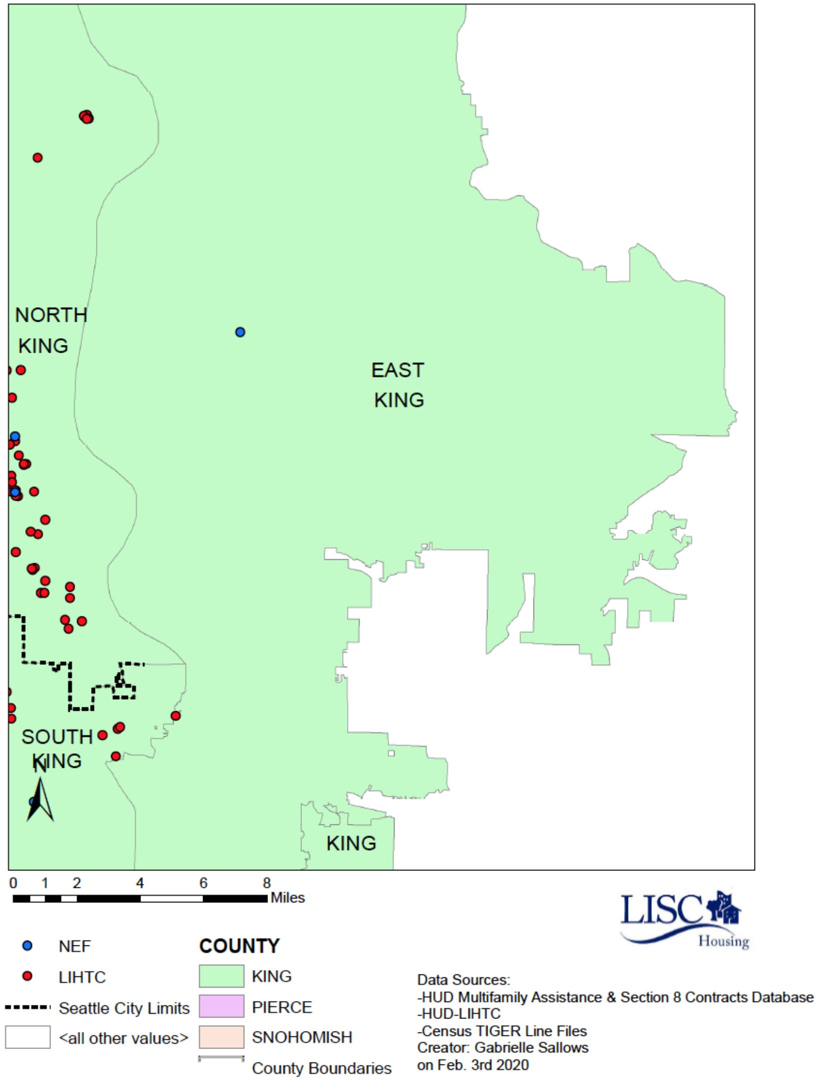
Affordable Housing Projects Reviewed-*Summary of Findings*



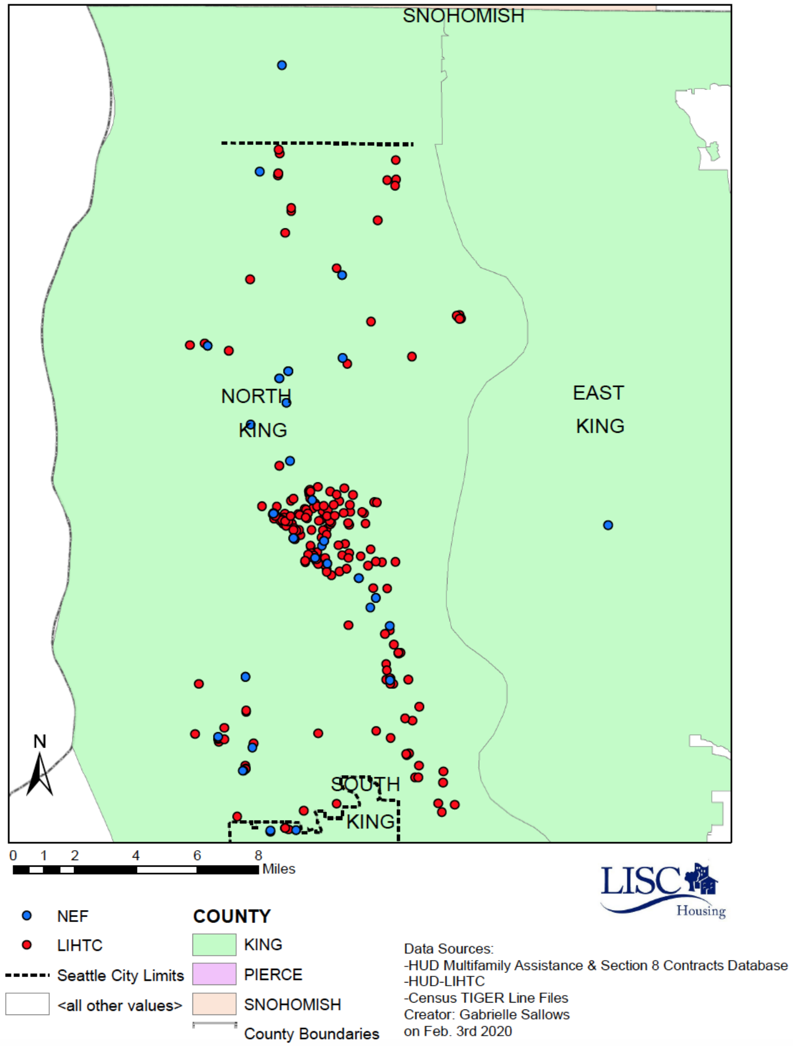
LISC reviewed proprietary data for 15 projects that have been placed in service since 2007, a sample size that represents all five sub-areas. The following is a summary of learnings from those projects and their proformas.

- The average LIHTC project in the sample is receiving 40-60% of its Total Development Cost in contingent financing, from City, County and State sources. This represents a significant amount of LIHTC subsidy dollars flowing into LIHTC projects, commensurate with the amount that is seen in similar deals in many other markets across the United States.
- The LIHTC projects examined have received soft loans from the City of Seattle in amounts from $3MM to $10MM, more often in the $7MM-$9MM range. This is considered a very high amount of per-project subsidy, and suggests that the subsidy providers could be doing more to stretch those dollars across more projects.
- Of the projects examined, 4% tax-exempt bond projects that target 100% affordability and 9% supportive housing projects require the largest amounts of subsidy dollars in the deals.
- The median project size is 73 units with an average Total Development Cost of $28.2MM. requiring a median subsidy of $10.2MM to be put into the project (not including LIHTC equity).

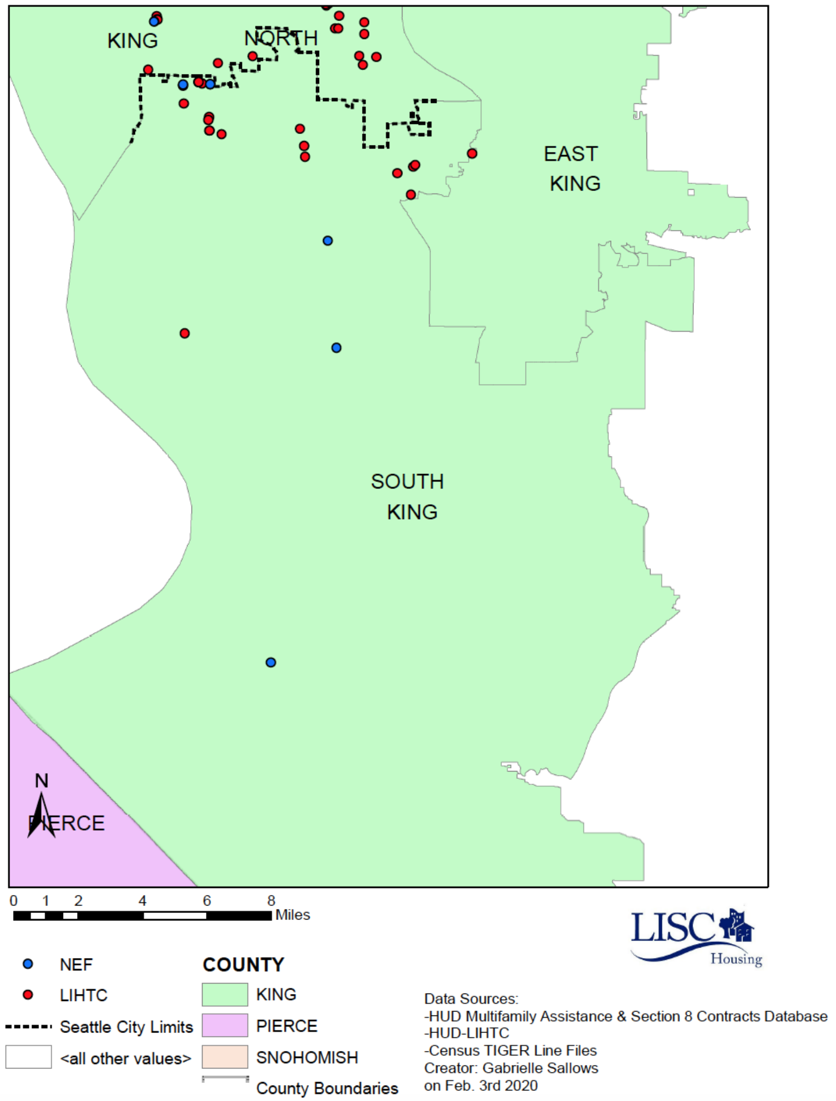
Affordable Housing Projects Reviewed-*East King County*



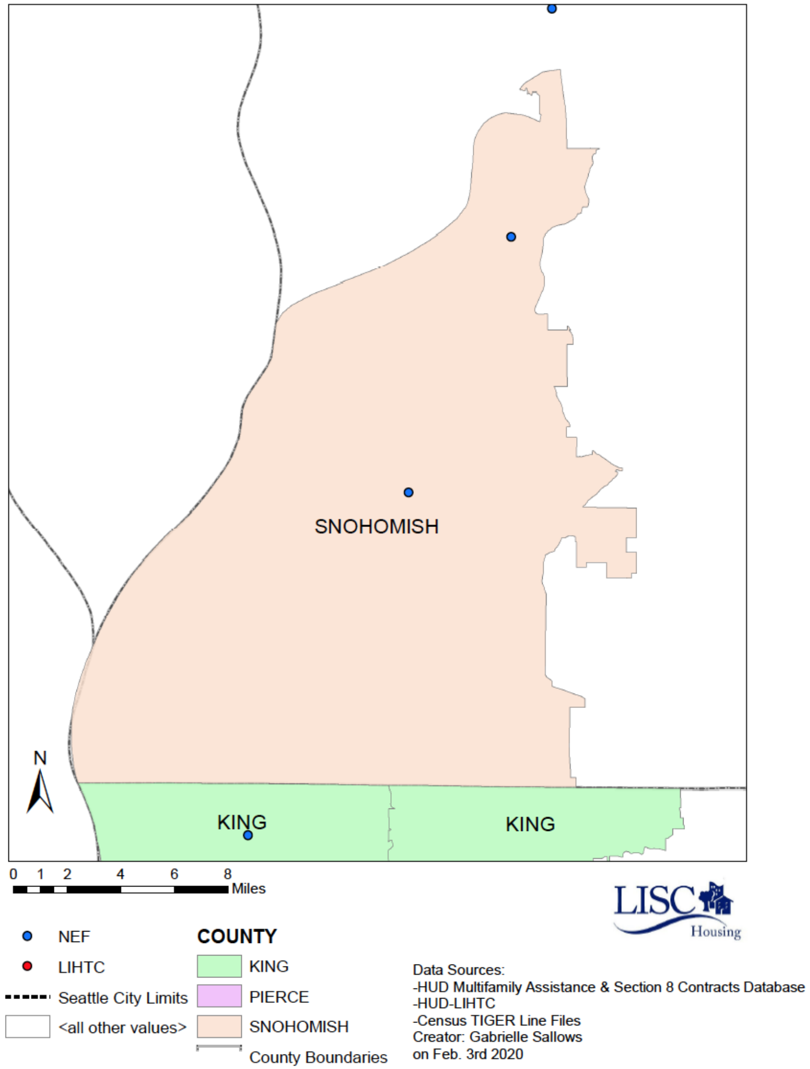
Affordable Housing Projects Reviewed- *North King County*



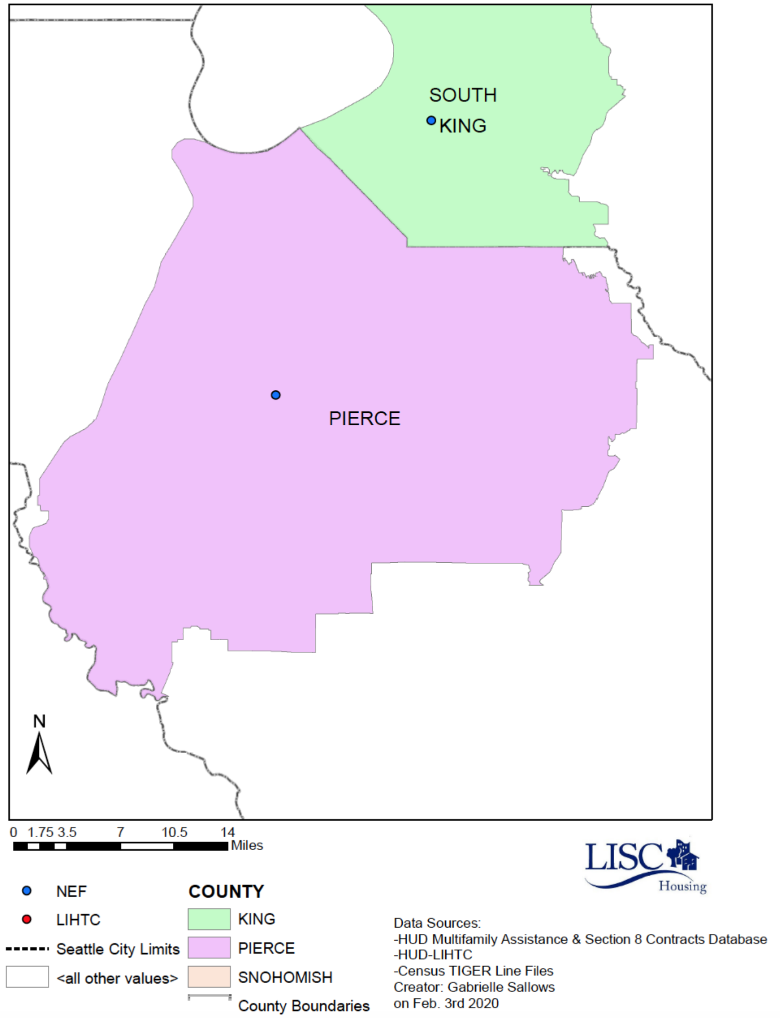
Affordable Housing Projects Reviewed- *South King County*



Affordable Housing Projects Reviewed-*Snohomish County*



Affordable Housing Projects Reviewed- *Pierce County*



Gap Analysis + Modeling

Distinguishing market-rate and affordable housing capital stacks in the greater Seattle market

Market-rate rental development in the region has enjoyed access to preferred equity and common equity and competitive debt products. These projects typically use some blend of debt and equity, and when combined with market rate rents, is enough to build and operate a project with significant profit.

Market Rate Project Income Sources:

Amenities charges, resident fees, parking, utilities, other fees or commercial income

Rental Income from Market-rate Residents (3-10% annual escalator)

Enables developers to access:

Typical Market Rate Development Sources

Equity
(~7-15% return)

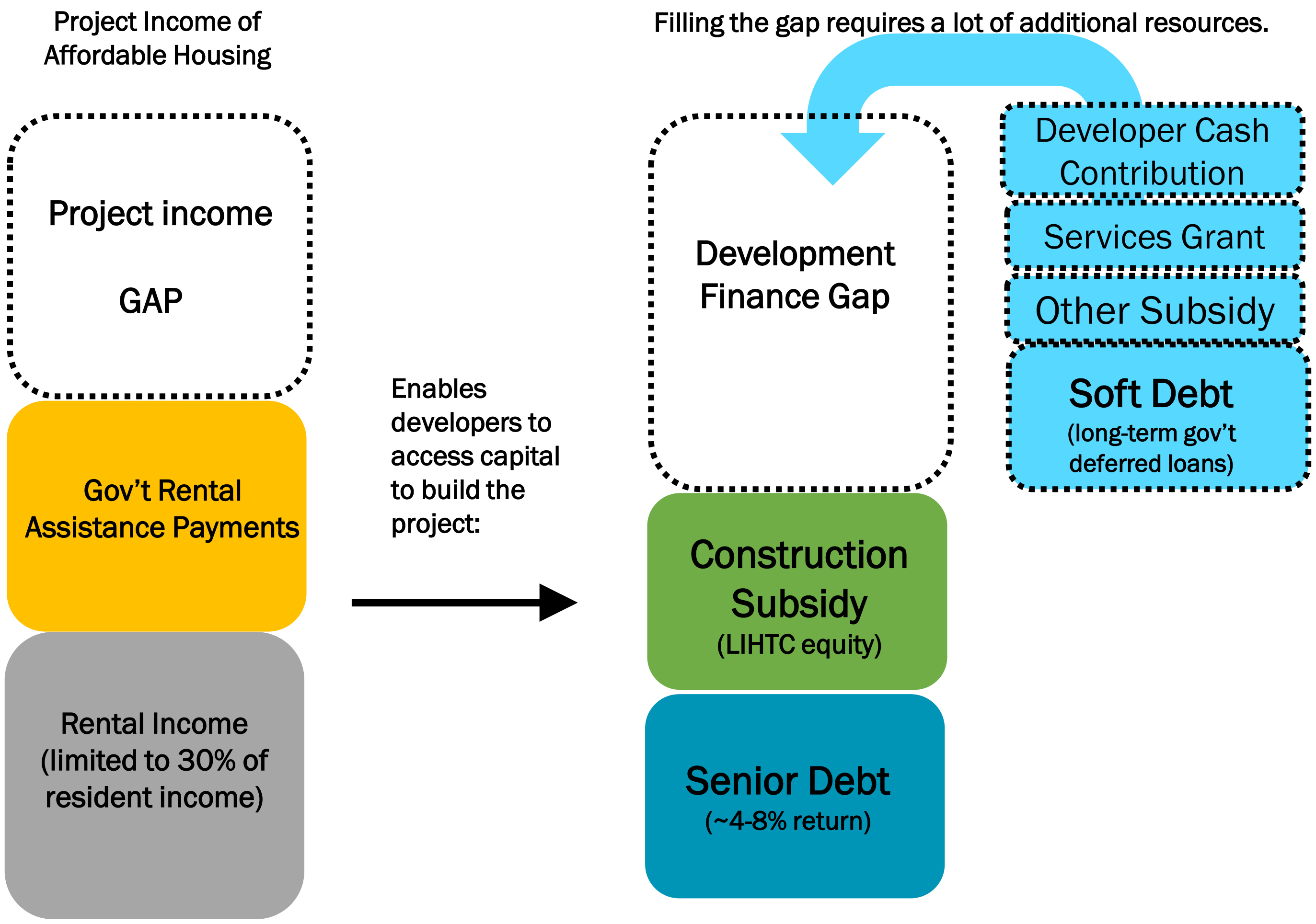
Senior Debt
(~3-8% return)

Though readily available in the Seattle market, this type of equity is not compatible with returns on affordable housing.

There are several equity funds in the market for the acquisition of naturally occurring affordable housing ("NOAHs") and workforce housing (serving 80-120% AMI households). These are often REITs and/or pension funds. The returns on these funds cannot support housing that serves households below 80% AMI.

Distinguishing market-rate and affordable housing capital stacks in the greater Seattle market

The Team reviewed the capital stacks of 15 recent LIHTC projects (placed in service between 2015 and 2019). The capital stack of the typical affordable housing project that utilizes LIHTC in the Seattle market is very complex, with several types of sources that must be aligned and deployed, particularly for the 4% projects because the LIHTC equity is significantly less than the 9% credit. The lack of available preferred and common equity that meets the impact targets for affordable housing is significant. Equity in the greater Seattle market wants significantly higher returns than affordable housing can support. The projects have less income potential due to the affordability of rents and can therefore carry less debt. To fill the "gap," developers rely heavily on public subsidy, including Housing Trust Fund and City funding.



Project Finance Review: *Capital Availability Challenges*

Risk Profile

Risk / Return: (low) → (high)

Priority: (high) → (low)

Type of Capital | **What this capital can "unlock" in the Seattle market**

Credit Enhancement
Investor equity and credit reserves
Enables deeper impact by absorbing risk

First Loss Capital
Flexible, very low interest
Attracts investment by others due to mitigation of risk, allowing for scalability of overall fund

Patient Capital
Moderate terms, some flexibility on maturity, lower interest rates
Frees up public dollars, fills gaps, or drives greater affordability or more investments.

Senior Loans
Shorter terms, hard maturities, lower interest rates, market sensitive
Most useful in financing affordable units if the return (given risk level) is below market. There is not a lack of this capital in the greater Seattle market, but additional below-market senior debt is a need.

=Greatest capital need for affordable housing in the Seattle market;
High risk and lower priority of return than conventional bank capital.

Finance gaps exist at each stage of development.

Who is typically providing the resource?

Phase	Most Acute Gap/Pressures	Market-Rate Development	Affordable Development
Land Acquisition	> *High land prices* > *Carrying costs, expiring options/site control* > *Hold time waiting for LIHTC or other subsidy (2-4 years)*	Equity Partners/ Joint Ventures Commercial Banks	Public Entities
Predevelopment	> *Interest carry burden for nonprofit s waiting on LIHTC equity* > *Uncovered environmental/Geotech issues that balloon costs* > *Securing construction financing and subsidies (rate lock not always available)* > *Securing perm debt/bond financing*	Commercial Banks Developer Equity	*CDFIs*
Construction	> *Construction costs at all time high with shortages in labor* > *Timing concerns (tax credit delivery)* > *Completion difficulties + value engineering during construction* > *Conversion to permanent financing*	*Conventional Bank Debt*	*CDFIs* *Risk Adjusted Bank Debt*
Mini-Perm	> *Lack of patient financing to help AH developers lease up and stabilize at an affordable rate that allows for secondary market update.*	Developer Equity	*CDFIs*
Permanent Financing	> *Affordable, rate-lock permanent financing options needed* > *Realizing deferred fees for continued operations* > *Equity cycle very short, 5 years, pressures on sales of property* > *Refinance events* > *Expiring subsidies, federal program complications*	*Freddie Mac/ Fannie Mae* *Conventional Local/ Regional Banks*	*FHA*
Ongoing Services/Operations	> *Lack of supportive services grants* > *Lack of public resources to develop and operating housing to serve highest needs populations*	*Government* *Philanthropy*	*Corporates / Large Institutions*

LISC identified the following three challenges as the most acute market and financing conditions that are hindering more affordable housing production.

1

LAND COSTS

- Very limited capital in the market for acquisition of developable land
- Highly competitive land acquisitions and “cash on cash” purchasers
- Affordable housing developers particularly limited in access to acquisition capital
- Limited amounts of public land
- Limited amounts of donated or free land available
- High environmental remediation costs

2

SUBSIDY AVAILABILITY

- 9% LIHTC limited and oversubscribed
- 4% LIHTC as of right with tax-exempt bond issuance, but limited by volume cap
- Subordinated debt, “soft” debt and other state/municipal sources of debt limited and competitive
- Ability of 100% affordable projects to support hard debt without subsidy remains negligible

3

“PATIENT” CAPITAL

- Acquisition and predevelopment funds are short-term in nature and often have shorter maturities than needed for projects awaiting the subsidies needed to make a project feasible
- Average acquisition and predevelopment loan is 18/24 months in length
- Carrying costs, including interest on loans, renewal of options/contracts, architectural and geotechnical fees can be hard for nonprofit s to afford

Summary of financing challenges at each phase of development

Phase: **Acquisition** → **Predevelopment** → Construction → Stabilization/ Lease Up → Ongoing Operations + Maintenance → Recapitalization

Capital Needed

DEMONSTRATED NEED: Developers of affordable housing need acquisition and predevelopment loans that repay lender in full upon closing of construction finance or enterprise-level capital that supports their ongoing development operations.

Capital Available

What the market currently supports:

- This debt capital is the highest risk and very short-term and carries significant uncertainties of repayment to lender.
- Some developers of affordable housing are being supported by enterprise-level capital that gives them flexibility to purchase and predevelop parcels, but this capital is expensive and only available to developers with very strong balance sheets.
- Debt capital available to developers of affordable housing for these early phases tends to be “mission” or Community Investment Act ("CRA") motivated capital.
- Due to risk profile at this stage of development, the capital is very expensive to obtain, even from mission-motivated entities, such as Community Development Financial Institutions ("CDFIs").

These early capital constraints have direct impact on project design and resident outcomes including:

- Affordable housing projects are easier to execute in areas of demonstrated low economic mobility (in some cases, re-concentrating poverty).
- Projects can support fewer affordable units on-site or fewer units all-together (trade-offs between maximizing density and creating units that benefit low-income households).
- 3) Higher income targeting of units and focus on 60-80% of AMI (creates significant challenges in providing units for 30-50% AMI households).
- 4) Fewer amenities or social services on-site for families that might have significant barriers to access: mobility, fresh food, or other Social Determinants of Health ("SDoH").

Summary of financing challenges at each phase of development

Phase

Acquisition → Predevelopment → **Construction** → **Stabilization/ Lease Up** → Ongoing Operations + Maintenance → Recapitalization

Capital Needed

DEMONSTRATED NEED: Developers of affordable housing need large construction loans and/or construction equity.

Capital Available

What the market currently supports:

- This debt capital has a high degree of construction risk but is easily obtainable in the private market if the subsidy and take-out (permanent/mini perm) are committed.
- Construction costs are directly related to a project's ability to serve low-income people, either by driving a higher subsidy component or requiring a higher rent roll (less affordable rents) in order to cash flow.
- LIHTCs are the equity component utilized in 100% affordable transactions. This equity does not need to be repaid and can sometimes be bridged in order to increase LIHTC pricing and yield.
- Debt capital available to developers of affordable housing for these early phases tends to be "mission" or Community Investment Act (CRA) motivated capital.

These capital constraints have direct impact on project design and resident outcomes, including:

- 1) Production is limited by subsidy availability and competition for those resources.
- 2) Operating capital for supportive housing projects generally is not covered by these sources.
- 3) Timing and unit delivery is the most important risk in delivering the LIHTCs.

Summary of financing challenges at each phase of development

Phase

Acquisition | Predevelopment | Construction | Stabilization/ Lease Up | Ongoing Operations + Maintenance | Recapitalization

Capital Needed

DEMONSTRATED NEED: Developers of affordable housing need large permanent loans and an ability to refinance easily.

Capital Available

What the market currently supports:

- Most permanent capital comes from the proceeds of the sale of tax-exempt bonds, FHA and GSE loan products, and relationship-based permanent loans for the strongest bank partners.
- A project's ability to support permanent debt is reliant on subsidy or inclusion of market-rate units.
- Highly flexible mini-perm capital (5-7 year maturities) line up best with the Seattle market secondary market sale / refinance cycle but this type of capital is less readily available.
- Loan capital for renovations and improvements to existing subsidized/ affordable housing stock after the first 15 years of operations ("preservation funds") is difficult to find, and hard to use whilst keeping existing units affordable.
- Mission-motivated entities, such as Community Development Financial Institutions (CDFIs), are small players in this market due to the long-term nature of the capital that needs to be assembled.

These early capital constraints have direct impact on project design and resident outcomes, including:

- 1) Supportive Housing operating capital is very competitive and not available in proportion to the need or expense of providing services
- 2) Resources to serve the very lowest of the income bands is lacking. These generally cannot be repaid and are granted to a project or issued as fee for service.
- 3) Affordable, rate-lock permanent financing options needed with ability to refinance out with limited prepayment penalty.
- 4) Ability to earn deferred developer fee through operations (via good project performance and cash flow) is paramount for LIHTC purposes.

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Summary of financing problems contributing to low production levels of affordable housing in the greater Seattle market

1. Producing affordable housing that serves households below 50% AMI is particularly difficult due to need for additional subsidy and, in many cases, associated on-site social services costs. Though affordable housing serving households at 60-80% of AMI requires fewer public subsidies because it is able to support debt service, cannot serve populations with the greatest need (30-50% of AMI). It takes developers two or three times as long to assemble a Permanent Supportive Housing (PSH) project.
2. LIHTC is a limited resource, and increasingly insufficient to meet demand. The 9% LIHTC provides significant resources in the market, but the Sound Transit geographic sub-areas only average about 2 projects per year (Pierce County averages one project per year).
3. It is estimated that 9 of the 23 currently qualified 4% LIHTC TEB projects will not get funding this year, due to the Bond cap being exceeded. This might be an annual problem going forward, depending on if the Bond cap can be changed.
4. Stagnant renter incomes and rising rents in all of the five geographic sub-areas drive project-level income potential of AH properties down, making the projects unable to take on sufficient debt to finance projects.
5. Severely cost-burdened renters (50% or more of income toward housing costs) on the rise in all of the geographic sub-areas (Snohomish 20%, NKC 21%, SKC 24.1%, EKC 17.8%, Pierce 21%).
6. Significant construction labor shortages, high construction and land costs, regulatory and environmental/safety/geotechnical barriers have a more pronounced effect on nonprofits and developers of affordable housing. This is in part because their capital stacks are much more complicated and unlike many for-profit developers of market rate housing, AH developers cannot just pay out of pocket for cost overruns.

Next Steps

Preview of strategic choices for Sound Transit to consider as we move into business planning.

Key Components		And/Or Choices
Goals and Aspirations	> *What are the leveraging goals and what terms and conditions should apply to the initial $20M investment?* > *What should be the size and scope of the Fund?*	$20 MM; >$20 MM
Role	> *What role should Sound Transit play in the market and in a Fund?* > *What should or could be done through partners?*	General Partner; Fund Administration; Policy Leader
Sector Focus	> *What income-levels should the RLF target?* > *What is the tradeoff in serving lower-income households? See definitions below.*	Low Income; Workforce; ELI; Mixed Income; Affordable (below 80% AMI)
Asset Class Focus	> *What asset class (if any) and products should be available through RLF?*	Debt; Sound Transit Owned Land; Equity; Preservation / NOAH
Investor Focus	> *Who is the target investor if Sound Transit selects the leverage approach?* > *What risk and rate of return will be attractive to investors?* > *Are those returns compatible with Sound Transit RLF goals?*	Institutional Investors; HNWI / Family Offices; Corporates / Large Institutions; Government; Philanthropic Investors; Bank/ Retail
Geographic Focus	> *Based on this approach, what geographic strategy is appropriate? What limitations/restrictions should Sound Transit consider with regard to geography targets?*	Which Sub Areas and with what phasing?

HWNI= High Net Worth Individuals ; CDFI= Community Development Financial Institution; NOAH= Naturally Occurring Affordable Housing; ELI= Extremely Low Income (<30%AMI), Low Income= 30%-80% AMI, Workforce=80%-120% AMI, Mixed Income= 30-120% AMI

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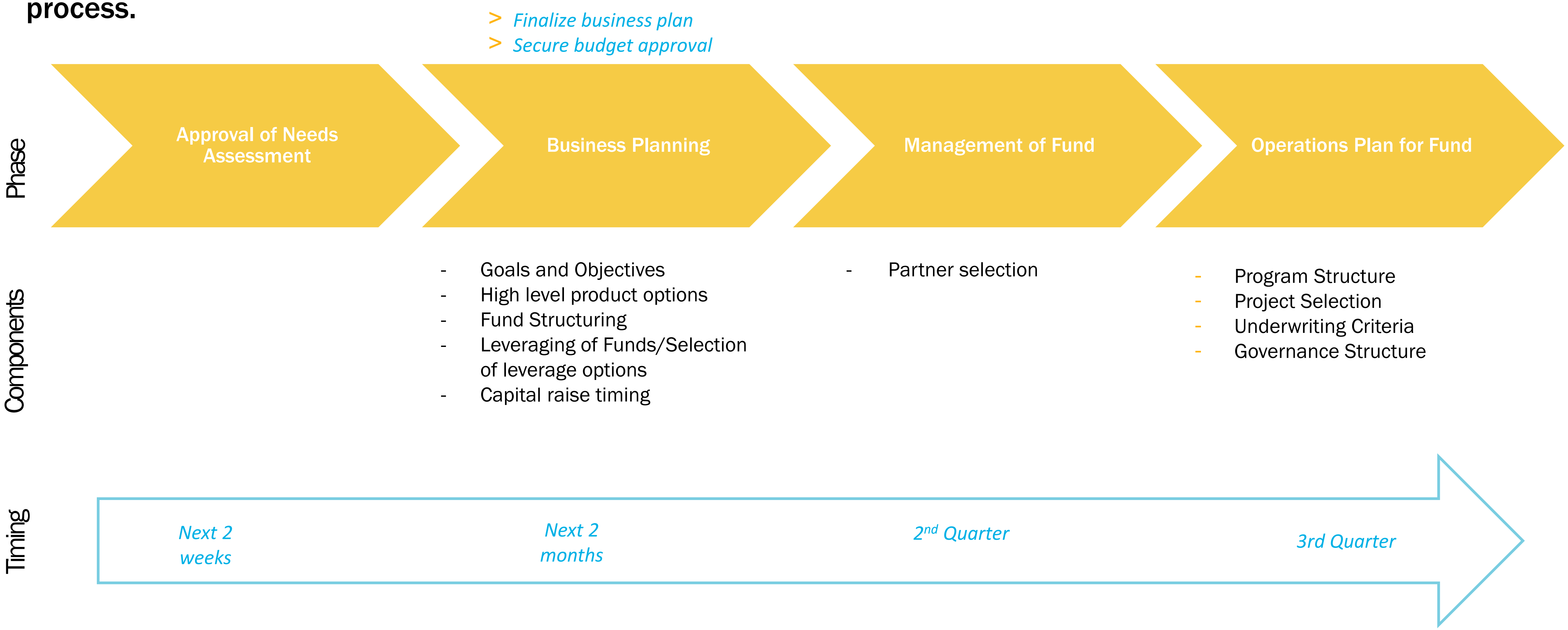
Key decision points to consider

The Sound Transit team will have several key decision points and processes to implement in 2020 through launch and operationalization of the Revolving Loan Fund. The following is a high-level snapshot of next steps in the process.



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