

MOTION NO. M2014-89

Mercy Housing Northwest Transit-Oriented Development Purchase and Sale Agreement

MEETING:	DATE:	TYPE OF ACTION:	STAFF CONTACT:
Capital Committee	11/13/2014	Recommendation to the Board	Ric Ilgenfritz, PEPD Executive Director
Board	11/20/2014	Final Action	Sarah Lovell, Transit-Oriented Development Manager

PROPOSED ACTION

Authorizes the chief executive officer to execute a purchase and sale agreement with MHNW 9 Othello East LP for the parcel at 6930 Martin Luther King Jr. Way South, Seattle, WA for a proposed mixed-use affordable housing transit-oriented development project for \$1,900,000.

KEY FEATURES SUMMARY

- Approval of this purchase and sale agreement (PSA) furthers the development of transit-oriented development (TOD) at the Othello Station as envisioned in the City of Seattle's Othello Neighborhood Plan and Sound Transit policies.
- This action allows the buyer to secure acquisition financing in time for a December 31, 2014 deadline, seek permanent financing, and design the project.
- The agreement imposes long-term covenants on the buyer to develop and operate the property as TOD.
- Unique to this project, the parties intend to close on the purchase and sale transaction by the end of 2014 to facilitate an acquisition loan by the City of Seattle Office of Housing.
- In addition to approval of the PSA, there is an accompanying agreement of cooperation with the City and the developer that commits the parties to notify Sound Transit of specific milestones during the design and permitting stages and creates a process for corrective actions if the buyer has not received a building permit by December 1, 2017 or if the buyer defaults under its loan obligations with the City. The agreement of cooperation is described in Motion No. M2014-92 and will be considered by the Capital Committee for approval.

BACKGROUND

Sound Transit TOD Background

The Sound Transit Board established the TOD Program in 1997. The program's mission is to create transit-supported development and communities at Sound Transit facilities, stations and station areas by working with local jurisdictions, property owners and developers. The Board adopted a TOD Policy in 1998 which states, in part, that "Sound Transit should use all its own sites to demonstrate good transit-oriented design and land use mixes that are appropriate to their setting, transit mode, and market conditions." The policy encourages Sound Transit's consideration of providing incentives to assure that desired types of development are built on surplus land.

Resolution No. R99-35, The Real Property Disposition Policy, Procedures and Guidelines, includes a policy goal that Sound Transit should "utilize the disposition of Sound Transit Real Property to encourage TOD, Joint Development and public and private projects at and around Sound Transit facilities to build transit ridership, enhance communities and aid economic development". In 2012

the Sound Transit Board adopted a comprehensive TOD policy through Resolution No. R2012-24. This policy provided a framework to evaluate, facilitate and implement TOD strategies as the agency plans, designs, builds and operates the regional transit system. It also directed the agency to do so through cooperation and partnerships with public and private entities.

Property Background

The property to be sold through this action is surplus from development of the Link Initial Segment project, and is directly adjacent to the Othello Station in Seattle. Sound Transit issued a request for proposals (RFP) for TOD in January 2014 in cooperation with the City of Seattle's Office of Housing. The Office of Housing also released a site specific Equitable TOD notice of funding availability for development of this property. Two proposals were submitted and Mercy Housing Northwest's proposal was deemed superior.

Mercy Housing Northwest Background

Mercy Housing Northwest is the Washington State division of Mercy Housing, Inc., a national non-profit developer that owns and operates over 16,000 affordable apartments nationwide. Mercy Housing Northwest has been based in Seattle for over 20 years and over that time has developed 1,930 units in 46 apartment communities statewide including two similarly sized projects recently completed in the Rainier Valley. Mercy Housing Northwest has been conducting due diligence on this site since June 2014, plans to secure their acquisition funding by the end of 2014, and is pursuing permanent financing beginning in first quarter of 2015. MHNW 9 Othello East LP is a single purpose entity created by Mercy Housing Northwest to own and develop the property.

The proposed PSA results from a December 19, 2013 Board action to surplus two parcels at the Othello Station for TOD purposes. The properties have since been combined into a single parcel. Upon conveying the property, Sound Transit will impose restrictive covenants on the property requiring it to be used for TOD for a period of sixty years.

Mercy Housing Northwest's TOD Proposal

Sound Transit's RFP encouraged developers to respond to the agency's TOD principles and to take into account the desires expressed in the Othello neighborhood plan. Mercy was very responsive to both documents while tempered by market realities. Their proposal offers a second story outdoor courtyard and playground, two community gathering rooms that Mercy plans to program with a variety of community serving programs as well as make available for celebrations, gatherings, and other public purposes. Additionally, 6,500 square feet of commercial space will front along MLK Way South. The commercial space will be flexibly designed to accommodate other tenants of different sizes in the future, but will initially house the offices of Mercy Housing Northwest, bringing 18 new full-time jobs to the station area.

Mercy Housing Northwest's development, named the Myrtle Street Apartments, will be built at this location and provide approximately 108 units of workforce housing ranging from 30% to 60% of area median income. With 60% of all units planned to be 2-bedrooms or larger, Mercy's proposal is particularly responsive to the Othello neighborhood plans call for family-sized units in the station area. The development will provide 10 commercial parking stalls and 40 residential stalls for a residential parking ratio of 0.37.

Environmental review by Sound Transit, the City of Seattle, and U.S. Dept. of Housing and Urban Development address the disposition of this property for TOD purposes. Any further environmental review of the specific project would be the responsibility of the developer.

Purchase and Sale Agreement

Mercy Housing Northwest intends to use a variety of methods to fund this project, including:

- HUD Community Cornerstones ETOD Acquisition Fund money and a loan from the Rainier Valley Community Development Fund to fund property acquisition;
- A combination of City of Seattle Housing Bond Levy Funds;
- Four-percent and nine-percent Low Income Housing Tax Credits (LIHTC);
- And a tax-exempt financing and a permanent loan on the commercial component of the project.

Mercy Housing Northwest applied for City of Seattle Housing Levy Funds in the fall of 2014 and plans to apply for Low Income Housing Tax Credits (LIHTC) in January and February of 2015. The 9% LIHTC is an annual competitive process awarded by the end of January 2015. The 4% LIHTC program is non-competitive and will be sought after the 9% LIHTCs have been awarded. The timing of the award of both the 9% LIHTC and the City of Seattle Housing Bond Levy will affect the timing and feasibility of the project. Mercy has experience with successfully securing low income housing tax credits and anticipates securing its financing by spring 2015 with an approximate construction start in February 2016 with completion estimated in April 2017.

The HUD Community Cornerstones loan covers the cost of land acquisition and is set to expire at the end of 2014. In order to meet this deadline, Sound Transit is prepared to close within 30 days of signing the Purchase and Sale Agreement. This is a departure from Sound Transit's standard business practice for transit-oriented development projects of not closing until a building permit is issued for the project. In exchange for Sound Transit agreeing to transfer the property earlier in the process than is typical, the developer and the City have agreed to enter into an agreement of cooperation with Sound Transit. The agreement describes certain project milestones and allows Sound Transit to require the parties to meet and discuss corrective action if the developer has not received a building permit by December 1, 2017 or defaults under its loan obligations to the City.

Sales Price Justification

Sound Transit recently completed a lot boundary adjustment to combine two parcels and transfer some additional square footage to the adjacent transit power substation (TPSS) for Sound Transit staff to park while servicing the TPSS. Based on a January 2014 appraisal by Sound Transit, the fair market value of the newly combined parcel is \$1,900,000. Sound Transit has commissioned Phase I and Phase II environmental reports on the site and is selling the property "as clean." The appraisal was performed using the comparable sales method. The Federal Transit Administration (FTA) has issued its approval of the appraisal and proposed sale price.

The FTA has been informed of the previous surplus property action, intended change of use, and of this potential transaction. The focus of the FTA review is on the agency's selected method of disposition, which is to retain the sales proceeds for other capital projects, not on the PSA transaction or its purpose.

Mercy Housing has asked Sound Transit to contribute to the cost of the alley improvement. Sound Transit is reviewing the proposal with SDOT and may contribute to the cost of improvements for the portion that directly benefits the adjacent Sound Transit-owned property. Any contribution from Sound Transit would be taken out of the sale proceeds from the sale of this property.

FISCAL INFORMATION

This action approves the sale of agency owned property, the resulting revenue from the proceeds from the sale of real property which is assumed in the agency financial plan. These proceeds will be recorded as revenue and will benefit the North King County subarea. Typically, to ensure the transaction is completed with the intent of the sale Sound Transit would convey the property prior only at the building permit stage. This option is not available in this transaction creating a risk that the project will not reach the permitting stage as planned. The companion piece to this transaction is an agreement of cooperation which is intended to help mitigate that risk. Net proceeds to the agency from the sale may be affected by distribution of closing costs which are undetermined at this time.

SMALL BUSINESS/DBE PARTICIPATION

Not applicable to this action.

PUBLIC INVOLVEMENT

Mercy Housing Northwest is charged with conducting public involvement work regarding this project.

PRIOR BOARD/COMMITTEE ACTIONS

Resolution No. R2013-32: Approved the chief executive officer's declaration of surplus real property acquired for the Initial Segment Project, including the method of disposition for using future proceeds from selling or leasing the property and use the proceeds to reduce the gross project cost of another FTA eligible capital transit project.

Resolution No. R2013-30: Adopted a revised Real Property Excess, Surplus, and Disposition Policy and superseded Resolution No. R99-35.

Resolution No. R2012-24: Established a policy to guide assessment and facilitation of transit-oriented development (TOD) during planning, design, construction and operation of the high-capacity transit system and supersedes Motion No. M99-60 and Motion No. 98-25.

Resolution No. R99-35: Adopted the Surplus Real Property Disposition Policy, Procedures and Guidelines for the disposition of surplus real property.

TIME CONSTRAINTS

A one-month delay would make it unlikely that the parties could close the purchase and sale transaction by the end of the year. The buyer has informed us that they will be unable to purchase the property unless the sale can be completed by the end of the year because a portion of the acquisition funding provided by the Office of Housing will no longer be available.

ENVIRONMENTAL REVIEW

JI 11/6/2014

LEGAL REVIEW

JRV 11/10/14

MOTION NO. M2014-89

A motion of the Board of the Central Puget Sound Regional Transit Authority authorizing the chief executive officer to execute a purchase and sale agreement with MHNW 9 Othello East LP for the parcel at 6930 Martin Luther King Jr. Way South, Seattle, WA for a proposed mixed-use affordable housing transit-oriented development project for \$1,900,000.

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MOTION:

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the chief executive officer is authorized to execute a purchase and sale agreement with MHNW 9 Othello East LP for the parcel at 6930 Martin Luther King Jr. Way South, Seattle, WA for a proposed mixed-use affordable housing transit-oriented development project for \$1,900,000.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on November 20, 2014.



Dow Constantine
Board Chair

ATTEST:



Marcia Walker
Board Administrator