

# Seattle Housing Levy

## Rental Production, Part 2

*This paper 1) reviews how rental housing production is linked to community development goals, 2) discusses financing options for expanding production of housing affordable to low and moderate wage workers, 3) provides an overview of the Neighborhood Housing Opportunity Program in the 2002 Housing Levy, and 4) proposes increased emphasis on transit-oriented development in 2009 Levy rental programs.*

### 1. Linking Low/Moderate Wage Worker Housing to Community Development Goals

At the first Levy Technical Advisory Committee, we discussed how the Levy meets high priority housing needs through production and preservation of rental housing. Over the course of 20 years, the City has funded over 11,000 units, with the majority serving very low-income and formerly homeless individuals and families.

The City has also sought to align its housing investments with other community goals for residential growth and development. These include:

- community revitalization in Housing Investment Areas (see map at the end of this paper);
- mixed commercial-residential buildings to create walkable neighborhood business areas;
- higher density housing close to jobs, transit and services;
- green building practices in construction and building operations.

#### Expanding Links to Support Transit and Climate Change Actions

The Housing Levy's focus on environmental sustainability has grown steadily. In 2002, OH developed *SeaGreen*, which guides construction practices, materials choices and other sustainability practices in all City-funding housing projects. Our nonprofit developers have embraced environmental sustainability, many achieving LEED or Built Green certification, including the first LEED certification for low-income multifamily housing in the country. *SeaGreen* became the model for Washington State and Enterprise Foundation green building standards. In addition, OH has worked with building owners and utilities on weatherization improvements and replacing refrigerators, toilets, and light bulbs to save water and energy.

Many Levy-funded rental developments are constructed in downtown Seattle or in neighborhood business districts. By virtue of their location and design, these projects support walkable communities and transit use. Most developments are within walking distance of major bus routes. Three recent projects are located within one-half mile of light rail station areas in Southeast Seattle.

- Genesee Apartments, Housing Resources Group, at Rainier Vista near the Othello station area
- Chubby & Tubby Project, Southeast Effective Development, near the McClellan station area
- Douglas Apartments, Seattle Housing Authority, near the Rainier Beach station area

The need to provide affordable housing near transit station areas is becoming more urgent. Sound Transit light rail is coming on line, and Metro's bus rapid transit will soon be operating. Station area development is often costly, so Housing Levy investment helps ensure that affordable rental housing will be available at these key locations for many years.

## 2. Financing Options for Low/Moderate Wage Worker Housing

Expanding production of housing for low and moderate wage workers can clearly contribute to achieving the City's transportation and environmental goals. This housing, with affordability above 30% and up to 80% of area median income, can be difficult to finance, though not impossible. Forty-six percent of OH's City-funded housing portfolio is in the 30%-80% range. Building rents will support some mortgage debt, but deferred loan or subsidized equity sources are still essential and are limited. OH has held several focus groups and workshops to try to identify additional incentives or financing approaches that would facilitate production of more housing for low-wage workers. A variety of options were identified, but financial modeling demonstrated that they offered limited benefit. Therefore the tools already being used are expected to continue to be the primary financing strategies.

The following financing options are either in place or will be explored for the next Housing Levy.

Bonds/Low Income Housing 4% Tax Credits. The 4% tax credit program is the most common source of equity used for low-wage worker projects. It can fund housing with rents up to 60% of median income. Unlike the 9% tax credit program, it provides only about one-quarter of the typical project's total development cost. Nonprofit and several SHA deals using this structure have needed OH and State Housing Trust Fund subsidies in amounts similar to the very-low income and homeless projects, so the volume of these projects is constrained by these finite capital subsidies. We anticipate that the 4% tax credit will continue to be a key source, to be supplemented by other subsidies.

Credit Enhancement. A credit enhancement provides additional security on a project's first mortgage loan, thereby lowering borrowing costs. Credit enhancement is generally used only with tax-exempt bonds. Seattle has provided credit enhancement to several rental projects in recent years, both to a Public Development Authority (PDA) and to a for-profit developer. The City provided a contingent loan,

making an unconditional pledge to make up debt service shortfall on a first mortgage.

Credit enhancement was recommended for further study by a Housing Financing focus group convened by OH earlier this year. We have since analyzed the potential financial benefit of a Seattle credit enhancement, which depends on its cost, underwriting terms and the relative cost of competing debt products (such as Fannie Mae and Freddie Mac). We project that credit enhancement from the City would provide a 50 to 100 basis points (1/2 to 1%) reduction in interest rate on a real estate loan. Given the complexity and transaction costs involved in tax-exempt bonds, however, this financing is only efficient for larger projects with long-term debt of \$5 million or more. A credit enhancement would then reduce OH's capital subsidy to the project by several hundred thousand dollars on an equivalent loan size, but the underwriting terms in the OH program (1.25 debt coverage and 25 year amortization) resulted in a lower supportable loan. So the credit enhancement doesn't appear to reduce the need for other subsidy unless the City adopts more leveraged underwriting requirements.

Given the current instability of housing and municipal finance markets, OH does not intend to proceed with a credit enhancement proposal at this time. If the tool appears beneficial in the future, it would require City Council approval separate from the Housing Levy.

Other Subsidies: The Office of Economic Development Section 108 program, which provides 20-year term loans with interest rates 1-2% below market have been used by several workforce affordable rental projects. The federal New Markets Tax Credit is another source for generating equity or reduced-cost debt for mixed use projects.

### **3. Current Housing Levy: Neighborhood Housing Opportunity Program (NHOP)**

The current Housing Levy includes a separate rental production program with an explicit link to community development objectives. NHOP is intended to promote housing development and other improvements in communities where private housing investment is lagging or affordable housing is being lost. In 2003, the Council designated certain neighborhood business districts as Housing Investment Areas to be prioritized for NHOP funding. (See attached map)

Unlike the larger Rental Production and Preservation program, 75% of NHOP funds can support housing affordable up to 80% of median income. In practice these units often serve residents below 60% of median income in order to leverage 4% low income tax credits.

With \$1 million available annually, NHOP typically funds one project per year. Projects also receive Rental Production funds as needed to complete the development budget. Preference is given to projects with a mix of affordability levels, and a mix of housing, commercial and community facility uses.

As of June 2008, NHOP funds have been awarded to seven projects with 262 units. Ninety-six percent of funding has been invested in Housing Investment Areas, exceeding the program target of 75% of funding.

Housing Levy NHOP Projects						
Project, Location SPONSOR	Description	City Funding (NHOP)	% Area Median Income			
			<30	<50	<60	<80
<b>Nihonmachi Terrace, International District</b> INTERIM COMMUNITY DEVELOPMENT ASSOCIATION	<i>Family housing, including 10 units for people with physical disabilities, and 5 units for families who are victims of domestic violence</i>	\$1,609,500 (\$1,030,572)	27	22		
<b>Cooper School, Delridge</b> DELRIDGE NEIGHBORHOODS DEVELOPMENT ASSOCIATION	<i>Redevelopment of historic school with artist live/work space, theater, gallery, community space, offices, cultural center and public school</i>	\$1,950,000 (\$1,030,572)	9	27		
<b>Urban League Village, Central Area/North Rainier</b> URBAN LEAGUE OF METROPOLITAN SEATTLE	<i>Rehabilitation of historic Colman School with affordable workforce housing above the Northwest African American Museum</i>	\$2,050,000 (\$772,929)		24	12	
<b>Fremont Solstice Apartments,<sup>1</sup> Fremont</b> CAPITOL HILL HOUSING IMPROVEMENT PROGRAM	<i>Reuse of former City Light site for affordable housing, including six units for formerly homeless families</i>	\$2,132,000 (\$257,643)	6	10	2	
<b>Sea Mar Family Housing, South Park</b> SEA MAR COMMUNITY HEALTH CENTER	<i>New construction of family housing, including units for large families and five units for formerly homeless families</i>	\$1,500,000 (\$1,030,571)	13	11	1	
<b>Douglas Apartments, Rainier Beach</b> SEATTLE HOUSING AUTHORITY	<i>Rehabilitation of workforce housing, with five larger units for families</i>	\$3,650,000 (\$671,188)	10	29	4	
<b>Chubby &amp; Tubby, North Rainier</b> SOUTHEAST EFFECTIVE DEVELOPMENT	<i>New construction of family workforce housing, including units for large families</i>	\$3,953,000 (\$1,389,955)			44	23

<sup>1</sup> Fremont Solstice Apartments received primarily Rental Preservation and Production funds. The project contains 18 total units, but only six are counted as NHOP units.

## 4. Proposed Rental Production Focus on Transit-Oriented Development

The Office of Housing proposes that the new Housing Levy continue to emphasize community development goals. The new emphasis would differ from the current Levy in two ways:

- Levy funding would have the flexibility to support housing affordable up to 80% of median income in mixed-use developments within one-half mile of a transit station area.
- The Levy would not include a separate community development program that must be combined with other Levy funds.

The new Levy would continue to give preference to housing developments within walking distance of transit service for all rental production funding. For TOD projects, we are considering a half-mile radius or designated TOD area, whichever is greater.

The time to focus Levy housing investment on transit-oriented development is now. With transportation accounting for 53% of greenhouse gas emissions in Seattle, helping lower-income people to make greater use of transit helps the entire community address our carbon footprint. The high cost of fuel has pushed transit ridership to all-time highs. And both Sound Transit's light rail and Metro's bus rapid transit are coming on line in the next year. Sites near transit stations have become increasingly desirable for both market-rate and affordable housing.

In Southeast Seattle, for example, the Sound Transit light rail will begin operating along Martin Luther King Way next year, and the City is now revisiting the light rail station area land use plans as part of neighborhood plan updates. Creating and preserving affordable housing in these station areas will provide opportunities for existing residents of the neighborhood as well as low/moderate wage downtown workers seeking a short commute home.


Other neighborhoods will soon see bus rapid transit service or Sound Transit station area development. For many of these communities - Capitol Hill, Ballard, and West Seattle - housing costs have been rising rapidly. Securing affordable housing development sites during the term of the 2009 Levy will create a long-term resource of affordable housing where opportunities might otherwise be lost.


The link to transit will also benefit the housing residents. National research has documented the rising cost of transportation in the household budget, which is exacerbated when families move far from their work to find affordable rental or ownership housing. Families also benefit from the reduced time spent commuting.

# Housing Investment Areas

## Seattle Housing Levy

**Priority Areas for  
Neighborhood Housing  
Opportunity Program (NHOP)  
and  
Homebuyer Assistance Program**

 Homebuyer Assistance Program  
priority areas only

 NHOP & Homebuyer Assistance  
Program priority areas

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