Memorandum

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From: Paul Peninger, MCP, Principal
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Date: September 20, 2024

Re: REVISED Northgate Regional Center Real Estate Development Financial Feasibility Analysis

INTRODUCTION

This memorandum provides an evaluation of the financial feasibility of residential development in the Northgate area of the City of Seattle based on an analysis of four residential and mixed-use development prototypes. These prototypes represent the types of development the City of Seattle is interested in supporting as part of the Urban Centers planning process, including rental apartments, for-sale condominiums, a land trust project, and a 100% affordable housing development. BAE Urban Economics (BAE) defined these development prototypes in consultation with City Staff and Seva Workshop, based on recent comparable projects in the city and region that would be representative of residential development types anticipated through the planning time horizon.

Following this introduction, the memorandum summarizes the feasibility of the four development prototypes under existing economic conditions, to inform the City of the current financial feasibility of typical development types. In addition, this analysis evaluates various sensitivities that influence the feasibility of the prototypes. This includes market factors, such as development costs, rental rates, and sale prices, as well as City policies that influence the development potential and project timeline. The intent of the sensitivity analysis is to inform the City of factors that can improve the feasibility of residential prototypes envisioned in the urban centers planning process.

FINANCIAL FEASIBILITY ANALYSIS

Methodology

BAE selected the four development prototypes in consultation with City Staff and Seva Workshop, based on discussions of recent development in the Northgate area and City of Seattle to understand what has been feasible and would suit the Northgate neighborhood in terms of scale and character. After establishing the prototypes, BAE interviewed developers with local experience to ascertain development costs for recent similar projects in the general Northgate area and to confirm revenue assumptions (i.e., sale prices, asking rents, capitalization rates). Cost assumptions include site acquisition, soft and hard construction costs, fees and permits, and financing costs. This ‘baseline feasibility’ is then adjusted to account for potential market shifts (i.e., increases in rents and sale prices), and developer adjustments (i.e., accepting lower profit margins, constructing more economically than assumed).

Residential Prototypes

As mentioned previously, the four residential prototypes studied in this memo include high-density rental apartments with a ground-floor commercial component, high-density for-sale condominiums, high-density community land trust condominiums, and a 100% affordable housing project. A summary of the prototypes is provided in Exhibit 1 on the following page, followed by descriptions of each prototype.

Exhibit 1: Residential Prototype Summaries

	Prototype 1: High Density Rental		Prototype 2: For-Sale Condo		Prototype 3: Community Land Trust		Prototype 4: 100% Affordable	
Project Characteristics								
Site Size (SF - Acres)	43,560	1.00	43,560	1.00	43,560	1.00	43,560	1.00
Number of Units		180		130		130		152
Building Height		85		85		85		85
Unit Mix (All Units)	Count	SF	Count	SF	Count	SF	Count	SF
Studio	18	500	0	600	0	600	15	450
1-BR	90	700	59	850	59	850	76	600
2-BR	72	950	59	1,000	59	1,000	61	800
3-BR	0	1,200	12	1,450	12	1,450	0	1,200
All Units (Total SF - Units)	**180**	**140,400**	**130**	**126,550**	**130**	**126,550**	**152**	**101,150**
Density (du/acre)	*180*		*130*		*130*		*152*	
Circulation %		20%		20%		20%		20%
Total Residential Square Feet		**168,480**		**151,860**		**151,860**		**121,380**
Commercial Space		11,000		0		0		0
Total Building Square Feet		**179,480**		**151,860**		**151,860**		**121,380**
Density (FAR)		*4.1*		*3.5*		*3.5*		*2.8*
Total Market Rate Units		170		121		0		0
Total Affordable Units		10		9		130		152
Total Affordability (% of units)		6.0%		6.0%		100.0%		100.0%
Avg Affordability (% of AMI)		60.0%		65.0%		115.8%		55.0%
Parking								
Parking Spaces (ratio - spaces)	1.00	180	1.50	195	1.00	130	0.75	114
Parking Type		Podium		Underground		Underground		Podium
Parking Ratio		1.00		1.50		1.00		0.75

Sources: City of Seattle; SEVA Workshop; BAE, 2024.

Prototype #1: High-Density Rental Apartment

The high-density rental apartment prototype is based on a density of 180 DU per acre, which is comparable to recently constructed projects in Northgate, as well as projects currently in the development pipeline. The prototype is estimated at seven stories tall, in order to maximize the building height and number of units that can be delivered while staying in the less costly wood-framed construction materials. This prototype assumes a one-acre site totaling 180 units (18 studios, 90 one-bedroom units, and 72 two-bedroom units). In terms of unit size, these units range from 500 to 950 square feet. Given the elevators and fire exits required for a building of this size, the prototype assumes 20 percent circulation for a total of 179,480 square feet of gross residential development. Wrapped around the ground-floor parking podium is roughly 11,000 square feet of commercial space for local-serving retail, food service or community service uses. Based on comparable projects and discussions with developers, BAE assumes that traditional market-rate developments in this area of Seattle will include one parking space per unit. As such, this prototype assumes the inclusion of 180 parking spaces in the ground-floor parking podium.

To abide by the City's Multifamily Housing Affordability (MHA) ordinance, the prototype includes six percent of the units to be affordable to households making 60 percent of the Area Median Income (AMI), or ten units within the project.

Prototype #2: High-Density For-Sale Condominium
The high-density for-sale condominium prototype assumes a similar site size as the prior prototype, at one acre. However, due to the unit mix that includes units with more bedrooms and larger overall unit sizes to attract buyers, this project includes 130 units. More specifically, the prototype includes 59 one-bedroom units, 59 two-bedroom units, and 12 three-bedroom units with sizes ranging from 850 square feet to 1,450 square feet. The residential units, plus a 20 percent non-rentable assumption to account for common areas and circulation, result in a 151,860 square foot building. To attract ownership buyers, this prototype assumes 1.5 parking spaces per unit, resulting in nearly 200 parking spaces in an underground parking garage. Similar to the above prototype, this prototype also includes affordable units in order to abide by MHA. In total, the prototype includes nine affordable units affordable to households at 65 percent of the AMI.

Prototype #3: High-Density Community Land Trust
The high-density community land trust prototype assumes a comparable development as the for-sale condominium (prototype #2), however the unit sale prices are restricted to households making less than 120 percent of AMI, or between $340,000 and $525,000 depending on unit size. As seen above, this prototype includes 130 total units, with a mix of unit sizes that concentrates on one- and two-bedroom units. Unit sizes are comparable to the units the for-sale condominium prototype, ranging from 850 square feet for a one-bedroom unit to 1,450 square feet for a three-bedroom unit. In terms of affordability, the prototype assumes the project abides by MHA by providing six percent of the units affordable to households at 65 percent of AMI, with the remaining units with sale prices restricted to households at 120 percent of AMI. This prototype assumes fewer underground parking spaces, at just one space per unit, in order to decrease the overall construction cost.

Prototype #4: 100% Affordable Housing Project
The final prototype assumes a 100% affordable housing project, with rents affordable to households between 50 and 60 percent of AMI, comparable to the Northgate Transit Oriented Development project currently under construction near the transit station within the Urban Center. On an assumed one-acre site, the project includes 152 units ranging from studios to two-bedroom units. When compared to the market-rate units in other prototypes, these affordable units are roughly 10 percent smaller in order to deliver the units more cost efficiently. As such, these units range from 450 square feet to 800 square feet. In total, the project amounts to roughly 121,380 square feet of residential space. In addition, the project assumes a parking ratio of 0.75 spaces per unit, or roughly 114 spaces, provided in a ground-floor parking podium.

Baseline Cost and Revenue Assumptions
The following section outlines the development cost and revenue assumptions that inform the baseline feasibility analysis. These cost and revenue assumptions are based on interviews

with local developers with recent experience in Seattle and the broader King County area; an analysis of recent land sales, home sales, and rental rates that BAE conducted as part of this study; and a review of development applications for recently completed projects. These assumptions are reflected in the pro forma financial feasibility models that are included in Appendix A to this memo.

Development Cost Assumptions

Site Acquisition Cost – Given the Northgate area is fairly small and contains a limited number of parcels, this analysis assumes the same site acquisition cost for all prototypes. Based on recent land transactions and appraisals in the area, BAE assumes an average site acquisition cost of $6.0 million per acre. Over time, land costs will likely vary across the prototypes as land prices begin to reflect the potential value of various parcels based on their zoned development capacity and related revenue generating potential.

Residential Hard Costs – Although the prototypes are comparable in height, the residential hard costs differ based on the targeted tenant. For example, the rental apartment prototype has the lowest hard cost per square foot, at $325 per gross square foot, due to the lower level of finishes and more efficient delivery of units. By comparison, the market-rate for-sale condominium prototypes assumes $400 in hard costs per gross square foot, due to the higher level of finishes and use of construction materials to protect against construction defect liability concerns. Assuming a slightly lower level of finishes, the community land trust prototypes assumes a slightly lower hard cost, at $375 per square foot, while the 100% Affordable Housing prototype assumes $385 per square foot in hard costs to account for prevailing wage requirements connected to the use of public funding.

Parking Costs – There are two types of parking assumed in the housing development prototypes: podium parking and subterranean or underground parking. Podium parking is slightly cheaper, estimated at $50,000 per space, relative to subterranean parking due to the reduced challenges posed by excavation. Underground parking is estimated to cost $65,000 per parking space.

City Impact and Permitting Fees – Currently, the City of Seattle has limited City impact and permitting fees. Based on a review of comparable projects, it is evident that projects are required to pay utility connection fees that equate to roughly $6,500 per unit.

Soft Costs – Softs costs, which are typically estimated as a percentage of hard construction costs, include the costs associated with architecture, engineering, legal, and accounting services. Soft costs are lower for the first three prototypes, due to the reduced complexity of the financial structure and funding source requirements, estimated at 18 percent of the hard costs. The greater complexity of the 100 percent affordable housing prototype results in higher soft costs, estimated at 30 percent of the hard costs.

Developer Fee and Profit – In order to attract developers and investors, real estate projects must support a one-time developer fee, while also generating sufficient levels of profit to investors. Based on conversations with local developers, BAE assumes the developer fee and project profit is equal to nearly 20 percent of hard and soft costs for the for-sale prototypes. For the market-rate rental prototype, the developer profit is measured based on the value of the property, but the developer will still include a one-time developer fee to cover staffing overhead. For the 100 percent affordable housing prototype, developers are eligible for an upfront developer fee, roughly equal to 15 percent of the project costs. However, this fee is capped based on the project financial structure, meaning developers contribute the majority of their fee to the project and recoup this fee contribution over time through project cash-flow.

Financing Costs – Assumptions regarding the financing of construction loans are almost the same for all prototypes. Developers are assumed to take out a loan valued at between 70 percent of construction costs and be charged a loan fee of 1.5 percent of the loan amount. The construction period interest is estimated based on an annual interest rate of 6.5 percent and a drawdown factor of 65 percent. The length of the loan is assumed at 24 months to cover the construction period.

Operating Cost and Revenue Assumptions

Residential For-Sale Unit Prices – Based on comparable condominium sales, residential sale prices for the market-rate condominiums are estimated at $700 per square foot. Based on the unit sizes, this amounts to a sale price of $420,000 for a one-bedroom unit to $700,000 for a three bedroom condominium.

For the land trust prototype, BAE assumes the bulk of the units are affordable to households at 120 percent of AMI, at the following sale prices:

- One-Bedroom: $348,000
- Two-Bedroom: $440,000
- Three-Bedroom: $522,500

For-Sale Marketing Costs – The pro-forma analysis assumes that developers of for-sale projects also incur marketing costs of 3.0 percent of gross sales revenue.

Residential Rental Rates – Although rental rates per square foot by bedroom size vary somewhat throughout Northgate and by development type and quality, the following rents are assumed for both multifamily prototypes:

- Studio unit - $2,000 ($4.00 per square foot) per month
- 1-bedroom unit - $2,695 ($3.85 per square foot) per month
- 2-bedroom unit - $3,515 ($3.70 per square foot) per month
- 3-bedroom unit - $4,200 ($3.50 per square foot) per month

Residential Rental Operating Expenses – In order to calculate the Net Operating Income (NOI) of the rental prototypes, this analysis assumes operating costs for the high-density apartment prototypes are equal to 28 percent of the prototype's rental income. This includes property taxes, on-site property management, and on-site amenities. The feasibility analysis also assumes a five percent vacancy rate to account for standard apartment turnover and resultant loss of rental income.

Commercial Rental Rate – Based on comparable ground-floor retail spaces, in addition to conversations with developers, the analysis assumes an average commercial rent of $2.50 per square foot, based on a triple-net (NNN) rental structure.

Commercial Operating Costs – Due to the NNN rental structure, which passes off the majority of ongoing operating costs to the tenant, the feasibility analysis assumes a limited commercial operating cost of five percent of gross revenue. The analysis also assumes a ten percent vacancy rate, due to the ongoing challenges with commercial space driven by the COVID-19 pandemic.

Capitalization Rate and Required Yield– The residential capitalization rate (cap rate) represents the rate of return on a real estate investment property with a net operating income, like a multifamily rental project, and is used to estimate project value. Real estate developers and investors use this cap rate to determine the required project return for new construction projects. More specifically, investors will only invest in new construction projects that have a higher yield than the current cap rate. This "developer spread" is what determines the project feasibility. Under current market conditions, BAE estimates a cap rate of 5.0 percent, and a required project yield of 6.0 percent in order to attract investors to a new construction project in Northgate.

Baseline Financial Feasibility

The following summarizes the financial feasibility of the baseline prototypes. For the complete pro forma feasibility models, please see Appendix A. Appendix A-1 is the pro forma financial feasibility model for the high-density rental apartment prototype, Appendix A-2 is the pro forma financial feasibility model for the for-sale condominium project prototype, Appendix A-3 is the community land trust prototype, and Appendix A-4 is the 100 percent affordable housing prototype.

Prototype #1: High-Density Rental Apartment

The high-density rental apartment prototype has the lowest development cost per-square due to the lower level of finishes and more efficient delivery. In total, the 180-unit project is estimated to cost $96.5 million to develop. This includes $68.4 million in hard costs and podium parking costs, $12.3 million in soft costs, $6.0 million in site acquisition costs, $5.3 million in construction financing costs, $3.3 million in a one-time developer fee, and $1.2

million in city fees. Despite the lower construction costs, the estimated net operating income, of nearly $4.8 million annually, only generates a project yield-on-cost of nearly 5.0 percent. As noted above, developers and investors are seeking a yield-on-cost of at least 6.0 percent in order to consider the project feasible. Due to the difference between the project yield-on-cost and the required investor yield-on-cost, this rental apartment prototype is currently **infeasible**, primarily driven by high development costs and high developer return requirements.

It should be noted that the 11,000 square feet of retail space has a negative impact on project financials, due to the modest rent assumption of $2.50 per square foot per month. In order for the retail space to at least cover their development costs, rents would need to be roughly $3.00 to $3.50 per square foot, which is rental rates for comparable space in mixed-use buildings.

Prototype #2: For-Sale Condominium

Due to the higher hard construction costs associated with the high-level finishes of the for-sale condominium prototype, the estimated project costs are roughly $117.5 million, or nearly $905,000 per unit. As seen in Appendix A-2, the largest share of these costs is associated with hard costs ($73.4 million) followed by the required developer profit ($14.9 million), soft costs ($13.2 million), site acquisition costs ($6.0 million), financing costs ($5.7 million), developer fee ($3.5 million), and local fees and permits ($850,000).

These development costs outweigh the total expected gross sales revenue ($81.8 million) by roughly $35.7 million once accounting for marketing costs, called the feasibility gap. This feasibility gap is roughly $275,000 per unit, suggesting that reducing project costs per unit by this amount or more would allow the project to be feasible. Given this required cost reduction is equal to roughly 30 percent of the construction costs, this project is considered **infeasible** under current market conditions.

Prototype #3: Community Land Trust

This prototype is slightly less expensive to build relative to the for-sale condominium, due to the lower quality of finishes, more efficient delivery, and eliminated developer profit. As seen in Appendix A-3, the estimated cost of the 130-unit land trust prototype is $94.6 million, or $727,000 per unit. This includes roughly $65.4 million in hard construction costs and parking costs, $11.8 million in soft costs, $6.0 million in site acquisition costs, $5.1 million in financing fees, and $845,000 in local utility connection and impact fees. Because the structure of the financing of this transaction will likely differ from a traditional financial structure that generates a profit to an investor or developer, this baseline feasibility analysis assumes a developer partner would charge a one-time fee equal to roughly seven percent of development costs, or roughly $5.5 million to cover staff overhead. While this fee adds to the total cost of the project, it is significantly lower than the fee and profit generated by market-rate developers of similar projects, thus lowering the overall cost of delivering the project.

Despite this lower development cost, the restricted sale prices are insufficient to cover the total project costs. As indicated above, the assumed sale prices range from $348,000 to $522,000 per unit, which is well below the estimated project cost of roughly $727,000 per unit. As such, this project **requires a subsidy of nearly $350,000 per unit** in order to be feasible. This funding could come from public sources, such as the City, County, State, or Federal government, or other sources, such as philanthropy.

Prototype #4: 100% Affordable Housing Project

The 100 percent affordable housing prototype assumes the use of Federal Low-Income Housing Tax Credits (LIHTC) to support the project construction. LIHTC generates "equity" to the project by allocating tax credits to a development which are then sold to investors in return for a funding contribution to the project. In the current market, almost all rental projects targeting households with incomes at or below 80 percent of AMI leverage the LIHTC program to support construction. However, as seen below in Appendix A-4, the project still requires additional funding to support construction.

In total, the 152-unit project is estimated to cost roughly $82.8 million, or roughly $545,000 per unit. Similar to the prior prototypes, the majority of these costs are associated with hard costs ($52.6 million), followed by soft costs ($15.8 million), site acquisition costs ($6.0 million), construction financing costs ($5.0 million), and a one-time developer fee ($2.5 million). In terms of financial feasibility, this project is able to support roughly $34.6 million in LIHTC equity under the four-percent LIHTC program. In addition, based on the net operating income from the project, the prototype can support roughly $16.8 million in permanent debt, resulting in a total funding amount of $51.4 million.

As a result, this project requires roughly **$31.2 million in additional funding, or roughly $205,000 per unit.** This funding gap is often covered by a range of sources, including City, State, and Federal funding, as well as private and philanthropic sources. For example, the Northgate TOD project received roughly $30 million in funding from King County, and one million dollars in funding from the Seattle Housing Authority in order to close their projected funding gap.

Financial Feasibility Sensitivity Adjustments

In addition to the baseline pro forma analyses reflected in the model printouts included in Appendix A, BAE conducted sensitivity testing that assesses the impact on feasibility from potential changes in three key categories: development costs, market shifts, and city policies. For example, some developers may be able to construct the prototypes for lower costs than our research has suggested, such as through reductions in building or material costs. Developers may also choose to accept lower profit margins for less risky projects. In addition, demand for housing in Northgate may change as additional amenities are delivered in the subarea, potentially raising the assumed sale prices and rental rates. Lastly, although the baseline prototype feasibility analyses assume existing City policies regarding entitlement timeline, density, and fees, the City may be able to influence the feasibility of prototypes by adjusting these policies to support development.

The results of each sensitivity tested below assume all other costs and revenues are equal to those in the baseline prototypes and are therefore not representative of cumulative feasibility impacts from multiple sensitivity adjustments.

Development Cost Adjustments

Following is a range of key development cost components that BAE tested for sensitivity.

Reduced Hard Costs

Given that hard construction costs are the most significant component of development costs, any reduction in hard costs will improve development feasibility significantly. While hard costs have increased significantly in the last five years, interviews with local developers indicate that hard costs increases have slowed and even reached stagnation in the past year. Hard cost decreases are uncommon, but are typically a result of innovation in construction process and materials. Holding all else constant, the high-density rental prototype would be feasible with a 22 percent decrease in hard costs, a significant and unlikely decrease in hard costs in the near future. Due to the significant difference between development costs and sale prices, the high-density condominium project requires a more significant cost decrease, at 40 percent, in order to yield a feasible project. Similarly, the community land trust model requires a 60 percent decrease in hard costs to yield a feasible project. Due to the funding for the affordable housing project, a significant decrease in hard costs also results in lower amount of funding, indicating that no reduction in hard costs will result in a feasible project. However, as hard costs decrease, the feasibility gap decreases and would therefore require less public funding.

Reduced Developer Profit

For both of the market-rate developments, the developer profit requirement is a major determinant of project feasibility. For example, if a developer or investor does not require any project profit, the high-density rental prototype would be feasible assuming market-rate rents. However, any investor in residential development requires a profit and therefore is not going to invest in this type of development. However, a small reduction in the required profit margin does improve the feasibility of the project, but still results in a feasibility gap. A reduction in project profit for rental apartments can occur in a number of ways, including market fluctuations that attract more capital to the region, as well as reduced risk associated with a project through streamlined permitting and more certainty around the entitlement process.

For the high-density condominium prototype, the required developer profit, at 15 percent of development costs, accounts for roughly half of the project feasibility gap. As such, even without any developer profit, this project would not be feasible and instead requires other market improvements to result in a feasible project.

Market Shifts

In addition to a reduction in development costs and required profit margin, shifts in market conditions will dramatically influence the feasibility of residential development. Due to recent increases in construction costs and interest rates, combined with stagnant rents and sale prices, development feasibility is challenging. However, should costs stagnate and rents or sale prices increase, the feasibility of development will improve. For example, the high-density rental prototype is feasible with a 15 percent rent increase over the baseline rents included in the model. This may be a factor of why Northgate has a few developments that recently broke ground; those developers may be expecting near-term rent growth that improves development feasibility.

For the market-rate condominium prototype, sale prices in Northgate would have to increase by 45 percent to render a feasible project. This results in sale prices of roughly $1.0 million for a two-bedroom unit, which are well above current sale prices in the area.

City Fees and Policies

Following are cost components relating to City fees and policies that BAE tested for sensitivity.

Entitlement Timeline and Risk

While only a limited component of the project costs, a longer project approval process does lead to increased holding costs and increased project risk, which results in higher profit requirements to attract investment in residential projects. By reducing the entitlement timeline and risk, all of the prototypes become more feasible, though still require rent or sale prices increases or other cost decreases to reach feasibility.

Height and Density

In the Northgate area, the City has already unlocked fairly high densities and height limits, indicating that more height or density will not dramatically improve feasibility until market conditions improve. Based on construction materials and the building code, developers prefer to stay at 8 stories or below in order to use wood-framed construction, or use steel and concrete materials to build high-rise developments. As such, adding additional height beyond 75-85 feet in Northgate does not currently improve the feasibility of any prototype.

Impact Fees

Relative to comparable jurisdictions in King County, Seattle has limited City fees. Developments in Seattle are required to pay utility connection and use fees, though these fees only amount to roughly $6,500 per unit. If the City were to explore reducing or deferring fees to support residential development, any reduction will only reduce the development cost by between one and two percent, having a limited impact on project feasibility.

FINANCIAL FEASIBILITY CONCLUSION

As summarized above, the financial feasibility of new high-density residential development in Northgate is challenging under current market conditions due to recent cost increases and interest rates, in tandem with stagnant rent and sale price increases. While the Northgate area has seen recent residential rental development, and has two projects that recently broke ground, these projects are likely relying on hopeful improved market conditions by project completion. In addition, the projects currently under construction are located on a large privately-owned master planned site, indicating the owner may have other incentives to deliver these projects, including a lower land cost basis and significant ongoing holding costs. As it relates to high-density condominiums, the feasibility of this prototype faces broader challenges connected to construction defect liability that increase costs and risks so much that many developers and contractors are unwilling to pursue this type of project. In the event a developer is interested in a high-density condominium project, the current market-rate sale prices in Northgate are likely insufficient to support new construction.

To support innovative affordable homeownership and rental apartments, projects require significant subsidy and public investment. As summarized above, the land trust prototype, with sale prices ranging from $340,000 to $522,000, is projected to require roughly $350,000 per unit in subsidy, or $45 million in total for the prototype included in this analysis, to fill the feasibility gap associated with restricted sale prices. BAE created a specific model to determine potential incentives to support this specific prototype. To render the project feasible, the project requires free land, possible through the use of public land, and impact fee waivers, and would still need a 20 percent decrease in hard costs and increased sale prices closer to 180 percent of AMI. The affordable rental prototype is a more traditional delivery of affordable housing, with the use of LIHTC and supportable permanent debt. In addition to these funding sources, the prototype still requires another $200,000 in subsidy per unit. These funds typically come from local sources, including City and County grants and loans.

The challenges in development feasibility in Northgate are not unique to this neighborhood, but are indicative of broader economic conditions affecting real estate development of all types with cost increase and revenue stagnation as the market recovers from the COVID-19 pandemic. Recent interviews with stakeholders indicate that development costs are stabilizing, if not decreasing, which will result in improved project economics. Similarly, expected interest rate decreases related to the Federal Reserve's decision to lower the overnight lending rate by 50 basis points will lead to reduced costs and more reasonable investor return requirements. While the above analysis indicates that development feasibility in Northgate would require improvements to the current market conditions, this is not atypical of a real estate market cycle. The City should interpret these results as an indication of why development interest in Northgate is fairly limited at present, but also recognize that the City can improve project feasibility by leveraging publicly-owned land, investing in infrastructure, and updating land use, zoning, development standards and other policies and requirements to prepare the Northgate Regional Center for development when these conditions improve.

APPENDIX A: BASELINE PRO FORMA FEASIBILITY MODELS

Appendix A-1: High-Density Rental Apartment Financial Feasibility Analysis

Development Program Assumptions

Site Size - acres / square feet	1.0	43,560
Total Units		180
Affordable (% - count)	*6%*	*10*
Market Rate (% - count)	*94%*	*170*
Leasable Residential sq. ft.		140,400
Leasable Retail sq. ft.		11,000
Circulation & Communal Space		20%
Total Project sq.ft		**179,480**
Total Parking Spaces		180
Parking spaces per du		*1.00*
Parking Space Type		*Podium*
Building Height (ft)		85

Unit Mix and Affordability Levels

		AMI-Level					
Unit Mix	Sq. Ft.	30%	50%	60%	80%	MR	All
Studio	500	0	0	1	0	17	**18**
1-BR	700	0	0	5	0	85	**90**
2-BR	950	0	0	4	0	68	**72**
3-BR	1,200	0	0	0	0	0	**0**
All Units		**0**	**0**	**10**	**0**	**170**	**180**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	10	6%	170	94%	180
Avg. Affordability (% AMI)	*60%*				n.a.
Leasable Sq. Ft.	7,800		132,600		140,400
Circulation & Communal Space					*20%*
Total Sq. Ft.	9,360		159,120		168,480
Parking Spaces	10		170		180
Parking Space/du	*1.00*		*1.00*		*1.00*

Cost Assumptions

Site Acquisition Cost	$6,000,000
Construction	
Hard Cost per gross res/com sf	$325
Commercial Tenant Improvement per sf	$100
Parking cost per space	$50,000
Soft Costs (% of hard costs)	18.0%
Local Impact Fees (per unit) (a)	$6,500
MHA Payment (per residential sf)	$18.55
Developer Fee (% of hard and soft)	4.0%

Rental Revenue

	Rental Rates by AMI				
Unit Type	30%	50%	60%	80%	MR
Studio	$741	$1,267	$1,531	$1,892	$2,000
1-BR	$783	$1,346	$1,629	$2,016	$2,695
2-BR	$937	$1,615	$1,954	$2,417	$3,515
3-BR	$1,060	$1,844	$2,236	$2,885	$4,200

Other Residential Income (Per Month)	
Parking (per space)	$200
Other Income (Per Unit)	$80
Retail Rent (NNN per sq. ft.)	$2.50
Operating Costs	
Res Operating Cost (as % of gross revenue)	28%
Vacancy Rate, Residential	5.0%
Market Rate Cap Rate	5.0%
Financing	
Construction-Period	
MR Loan-to-Cost	70.0%
Loan Fees	1.5%
Draw down Factor	60.0%
Interest rate	6.5%
Loan Term (months)	24

Development Cost Analysis

	Total Project
Site Acquisition Cost	**$6,000,000**
Hard Cost	$58,331,000
Commercial TIs	$1,100,000
Parking Cost	$9,000,000
Soft Costs	$12,317,580
Local Impact and MHA Fees	$1,170,000
Subtotal	**$81,918,580**
Construction Financing	
Const. Loan Fees	$860,145
Const. Loan Interest	$4,472,754
Developer Fee	**$3,276,743**
Total Development Cost	**$96,528,223**
Per Unit	*$536,268*
Per Net SF	*$688*
Per Gross SF	*$573*

Feasibility Analysis

	Total Project
Project Income	
Gross Scheduled Rents	$7,160,244
Less Vacancy	($358,012)
Less Operating Expenses	($2,004,868)
Net Operating Income	**$4,797,363**
Development Cost/Subsidy	
Total Development Cost	$96,528,223
Impact Fee Waiver	$0
NPV of MFTE	$0
Total Cost, Incl. Subsidies	**$96,528,223**
Project Yield-on-Cost	4.97%
Required Yield-on-Cost	6.00%
Project Feasibility	Infeasible

Note:
(a) Includes utility connection and hook-up fees.

Sources: City of Seattle; SEVA Workshop; BAE, 2024.

Appendix A-2: High-Density For-Sale Condominium Financial Feasibility Analysis

Development Program Assumptions

Site Size - acres / square feet	1.00	43,560
Total Units		130
Affordable (% - count)	*7%*	*9*
Market Rate (% - count)	*93%*	*121*
Leasable Residential sq. ft.		126,550
Circulation & Communal Space		20%
Total Project sq.ft		**151,860**
Total Parking Spaces		195
Parking spaces per du		*1.50*
Parking Space Type		*Underground*

Unit Mix and Affordability Levels

Unit Mix	Sq. Ft.	AMI-Level ###	80%	120%	Market	All
Studio	600	0	0	0	0	**0**
1-BR	850	4	0	0	55	**59**
2-BR	1,000	4	0	0	55	**59**
3-BR	1,450	1	0	0	11	**12**
All Units		**9**	**0**	**0**	**121**	**130**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	9	7%	121	93%	130
Avg. Affordability (% AMI)	*65%*				n.a.
Leasable Sq. Ft.	8,850		117,700		126,550
Circulation & Communal Space					*20%*
Total Sq. Ft.	10,620		141,240		151,860
Parking Spaces	14		182		195
Parking Space/du	*1.5*		*1.5*		*1.5*
Parking Type					*Underground*

Cost Assumptions

Site Acquisition Cost (per Acre)	$6,000,000
Construction	
Hard Cost per gross residential SF	$400
Commercial Tenant Improvements, per SF	$100
Parking cost per space	$65,000
Soft Costs (% of hard costs)	18%
City Impact Fees (per unit) (a)	$6,500
Affordable Housing In-lieu fee per gsf	$0
Developer Fee (% of hard and soft)	4%
Developer Profit (% of total cost)	15%

For Sale Prices

Unit Type	Sale Price by AMI 65%	Market
Studio	$173,000	$420,000
1-BR	$189,000	$595,000
2-BR	$238,000	$700,000
3-BR	$283,000	$1,015,000

Marketing Costs	
Marketing Costs (as % of Gross Sales)	3%
Financing	
Construction-Period	
Loan-to-Cost	70%
Loan Fees	1.5%
Drawdown Factor	60%
Interest rate	6.5%
Loan Term (months)	24

Development Cost Analysis

	Total Project
Site Acquisition	**$6,000,000**
Construction	
Hard Cost	$60,744,000
Parking Cost	$12,675,000
Soft Costs	$13,215,420
City Impact Fees	$845,000
Affordable Housing In-Lieu	$0
Subtotal	**$87,479,420**
Construction Financing	
Const. Loan Fees	$918,534
Const. Loan Interest	$4,776,376
Developer Fee	**$3,499,177**
Developer Profit	**$14,876,150**
Total Development Cost	**$117,549,657**
Per Unit	*$904,228*
Per Net SF	*$929*
Per Gross SF	*$774*

Feasibility Analysis

	Total Project
Sale Revenue	
Gross Sales Revenue	$84,381,000
Less Marketing Costs	($2,531,430)
Sales Proceeds	**$81,849,570**
Development Cost/Subsidy	
Total Development Cost	$117,549,657
SDC Waiver	$0
Total Cost, Incl. Subsidies	**$117,549,657**
Residual Project Profit	**($35,700,087)**
Profit Per Unit	*($274,616)*

Note:
(a) Includes utility connection and hook-up fees.

Sources: City of Seattle; SEVA Workshop; BAE, 2024.

Appendix A-3: High-Density Land Trust Financial Feasibility Analysis

Development Program Assumptions

Site Size - acres / square feet	1.00	43,560
Total Units		130
Affordable (% - count)	*100%*	*130*
Market Rate (% - count)	*0%*	*0*
Leasable Residential sq. ft.		126,550
Circulation & Communal Space		20%
Total Project sq.ft		**151,860**
Total Parking Spaces		130
Parking spaces per du		*1.00*
Parking Space Type		*Underground*

Unit Mix and Affordability Levels

Unit Mix	Sq. Ft.	AMI-Level 65%	120%	Market	All
Studio	600	0	0	0	**0**
1-BR	850	4	55	0	**59**
2-BR	1,000	4	55	0	**59**
3-BR	1,450	1	11	0	**12**
All Units		**9**	**121**	**0**	**130**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	130	100%	0	0%	130
Avg. Affordability (% AMI)	*116%*				n.a.
Leasable Sq. Ft.	126,550		0		126,550
Circulation & Communal Space					*20%*
Total Sq. Ft.	151,860		0		151,860
Parking Spaces	130		0		130
Parking Space/du	*1.0*		*n.a.*		*1.0*
Parking Type					*Underground*

Cost Assumptions

Site Acquisition Cost (per Acre)	$6,000,000
Construction	
Hard Cost per gross residential SF	$375
Commecial Tenant Improvements, per SF	$100
Parking cost per space	$65,000
Soft Costs (% of hard costs)	18%
City Impact Fees (per unit) (a)	$6,500
Affordable Housing In-lieu fee per gsf	$0
Developer Fee (% of hard and soft)	7%
Developer Profit (% of total cost)	0%

For Sale Prices

Unit Type	Sale Price by AMI 65%	120%	Market
Studio	$173,000	$319,385	$420,000
1-BR	$189,000	$348,923	$595,000
2-BR	$238,000	$439,385	$700,000
3-BR	$283,000	$522,462	$1,015,000

Marketing Costs	
Marketing Costs (as % of Gross Sales)	3%
Financing	
Construction-Period	
Loan-to-Cost	70%
Loan Fees	1.5%
Drawdown Factor	60%
Interest rate	6.5%
Loan Term (months)	24

Development Cost Analysis

	Project Costs
Site Acquisition	**$6,000,000**
Construction	
Hard Cost	$56,947,500
Parking Cost	$8,450,000
Soft Costs	$11,771,550
City Impact Fees (per unit) (a)	$845,000
Affordable Housing In-Lieu	$0
Subtotal	**$78,014,050**
Construction Financing	
Const. Loan Fees	$819,148
Const. Loan Interest	$4,259,567
Developer Fee	**$5,460,984**
Developer Profit	**$0**
Total Development Cost	**$94,553,748**
Per Unit	*$727,337*
Per Net SF	*$747*
Per Gross SF	*$623*

Feasibility Analysis

	Total Project
Sale Revenue	
Gross Sales Revenue	$51,095,000
Less Marketing Costs	($1,532,850)
Sales Proceeds	**$49,562,150**
Development Cost/Subsidy	
Total Development Cost	$94,553,748
SDC Waiver	$0
Total Cost, Incl. Subsidies	**$94,553,748**
Residual Project Profit	**($44,991,598)**
Profit Per Unit	*($346,089)*

Note:
(a) Includes utility connection and hook-up fees.

Sources: City of Seattle; SEVA Workshop; BAE, 2024.

Appendix A-4: 100 Percent Affordable Housing Financial Feasibility Analysis

Development Program Assumptions

Site Size - acres / square feet	1.0
Total Units	152
Leasable sq.ft.	101,500
Circulation & Community Room	*20%*
Total Project sq.ft	**121,800**
Total Parking Spaces	114
Parking spaces per du	*0.75*

		AMI-Level				
Unit Mix	Sq. Ft.	30%	50%	60%	80%	All
Studio	450	0	7	7	0	**14**
1-BR	600	0	38	38	0	**76**
2-BR	800	0	31	31	0	**62**
All Units		0	76	76	0	**152**

Summary	Total
Number of Units (# - %)	152
Avg. Affordability (% AMI)	55%
Leasable Sq. Ft.	101,500
Total Sq. Ft.	121,800
Parking Spaces	114
Parking Space/du	*0.75*

Cost Assumptions

Site Acquisition Cost, per Acre	$6,000,000
Construction	
Hard Cost per residential sf, Type 3	$385
Parking cost per space, Podium	$50,000
Soft Costs (% of hard costs)	30%
City Impact Fees (per unit) (a)	$6,500
Aff. Developer Fee (% of hard and soft)	10%
Financing	
Construction-Period	
Loan-to-Cost	70%
Loan Fees	1.5%
Drawdown Factor	60%
Interest rate	6.50%
Loan Term (months)	24
Permanent Loan	
Debt-Service Coverage Ratio	1.15
Loan Fees	1%
Interest rate	6.5%
Loan Term (years)	30
LIHTC Equity	
QCT/DDA Boost Eligible	Yes
QCT/DDA Adjustment	130%
Tax Credit Term (years)	10
Tax Credit Type	4%
Tax Credit Rate	4.00%
Tax Credit Price	$0.95

Rental Revenue

	Monthly Rental Rate by AMI-Level			
Unit Type	30%	50%	60%	80%
Studio	$741	$1,267	$1,531	$1,892
1-BR	$783	$1,346	$1,629	$2,016
2-BR	$937	$1,615	$1,954	$2,417

Operating Costs

Annual op. cost - per Affordable du	$8,500
Vacancy Rate, Residential	5.0%

Development Cost Analysis

Site Acquisition Cost	**$6,000,000**
Residential	
Hard Cost	$46,893,000
Parking Cost	$5,700,000
Soft Costs	$15,777,900
Impact Fees	$988,000
Subtotal	**$69,358,900**
Construction Financing	
Const. Loan Fees	$771,558
Const. Loan Interest	$4,012,100
Developer Fee (b)	**$2,500,000**
TOTAL DEVELOPMENT COST	**$82,642,557**
Cost per Unit	*$543,701*
Cost per Bedroom	*$386,180*
Cost per Net Square Foot	*$814*
Eligible Basis (c)	*$91,094,913*

Feasibility Analysis

Project Income	
Gross Scheduled Rents	$2,919,300
Less Vacancy	($145,965)
Less Operating Expenses	($1,292,000)
Less Ground Lease	$0
Net Operating Income	**$1,481,335**
Development Cost	
Total Development Costs	**$82,642,557**
Per sq.ft.	$679
Per Unit	$543,701
Affordable Funding Sources	
LIHTC Equity	$34,616,067
Supportable Private Debt	$16,821,108
Total Funding Sources	**$51,437,174**
Feasibility Surplus/(Gap)	**($31,205,383)**
Gap per unit	*($205,299)*

Note:
(a) Includes utility connection and hook-up fees.
(b) Affordable housing developer fees are capped at $2.2 million for 9% project and $2.5 million for 4% projects.
(c) Estimates eligible basis as 90 percent of total development cost, including land costs. This model assumes a 30% basis boost for being located in a QCT or DDA.

Sources: City of Seattle; SEVA Workshop; BAE, 2024.