



# URM Owner & Tenant Needs Work Group | Mtg #2

Photo by John Skelton



**Seattle** Department of  
Construction and Inspections

**Seattle** Office of  
Emergency Management

April 20, 2023



# Today's Meeting

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- Goal:
  - To improve the understanding of the retrofit process for building owners and tenants to inform future resource needs.
- Meeting Agenda:
  - Introductions
  - Quick URM Program Updates
  - Retrofit Project Examples- funding, tenant accommodation, and lessons learned (Brad Padden, Housing Diversity)
  - Lending dynamics for retrofit projects (Cynthia Weaver, Beneficial State Bank)
  - Group Conversation: needs, options for solutions, resources, etc.



# Introductions

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Seattle Department of Construction & Inspections:

Office of Emergency Management

Alliance for Safety, Preservation, and Affordability (ASAP!)

Attendees



# Ongoing Work

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## Parallel Tracks

### 1. Technical Development

- Update of Draft Technical Standards

### 2. Policy Development (Ordinance & Program)

- Policy Development Working Groups
- Interdepartmental Team





# Ongoing Work: Technical Development

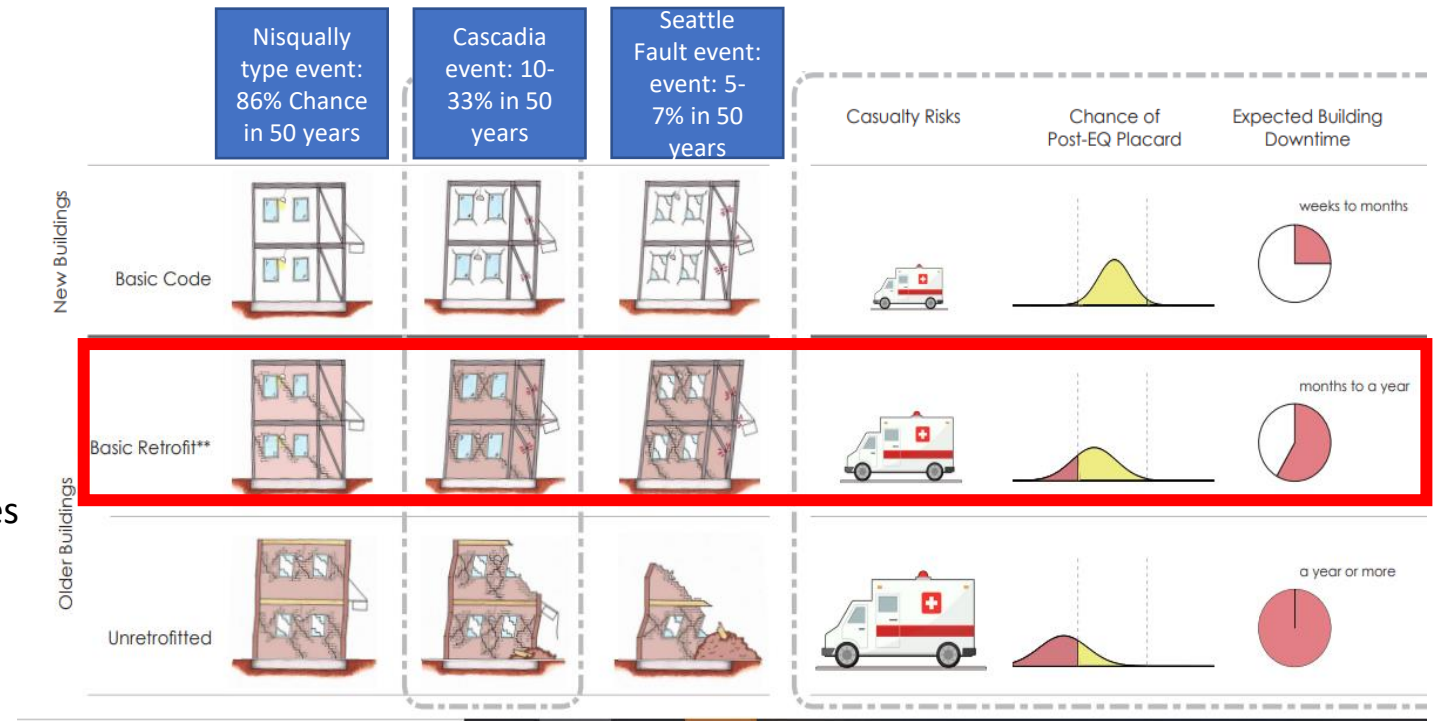
## 1. Comprehensive Method

- Seattle Existing Building Code (SEBC) Substantial Alteration
  - Reduced Seismic Forces

## 2. Alternate Method

- Requires:
  - Anchoring of walls to floors and roof
  - Tall URM walls are strong-backed to prevent out-of-plane bending failure
  - Parapets and other dangerous appendages to be braced

Neither method will be a contributing factor for other Substantial Alteration triggers.



# Ongoing Work: Technical Development

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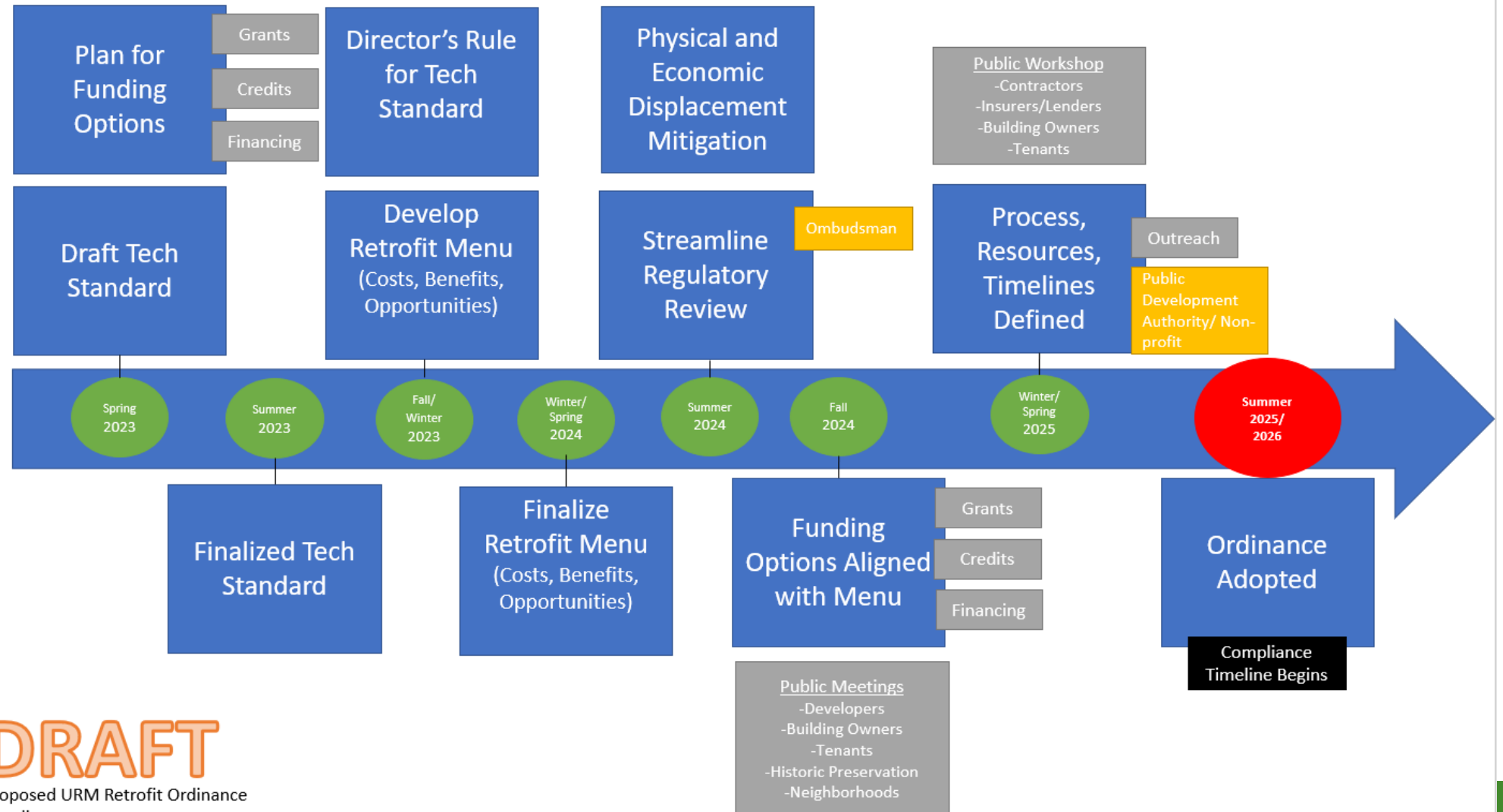
## Director's Rule

- Establish standard for compliance prior to URM ordinance adoption
  - Support voluntary retrofits
    - Structures retrofitted to this Technical Standard will be deemed to comply with any future URM ordinance.
- Timeframe
  - Goal: Complete technical standard by summer 2023
  - Complete Director's Rule by end of 2023

# Ongoing Work: Policy Development

URM Policy Development Working Groups				
Group	Technical Standard Briefing Working Group	Communications Working Group	Funding Working Group	Owners' & Tenants' Needs Working Group
<i>Intent</i>	<i>Provide forum for Q&amp;A on technical standard</i>	<i>Community engagement and acceptance</i>	<i>Explore ways to mitigate cost of retrofits</i>	<i>Address physical and economic displacement</i>
<i>Sub-Group</i>		<i>Case-studies sub-group</i>	<i>Retrofit Credit/TDR sub-group</i>	
<i>Sub-Group</i>			<i>Grant &amp; Finance sub-group</i>	

# Proposed Timeline



**DRAFT**

Proposed URM Retrofit Ordinance  
Timeline  
04/20/2023





# Retrofit Project Examples: Funding, Tenant Accommodation, and Lessons Learned

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Brad Padden

Housing Diversity



# Examples of retrofit projects and lessons learned





## ■ Contents

Intro

Building types & corresponding upgrades

Defining project goals

Review of current conditions & tenancy

The upgrade team

Engineering investigation

Plan development & permitting

Funding and Project Execution



# Building types & corresponding upgrades



## Typical Residential

- Uniform structure – U shaped (L shaped, rectangular)
- Uniform window openings
- Smaller floor diaphragms
- Simple façade
- Brick Veneer
- Cornice detail missing
- Standard parapet



# Building types & corresponding upgrades

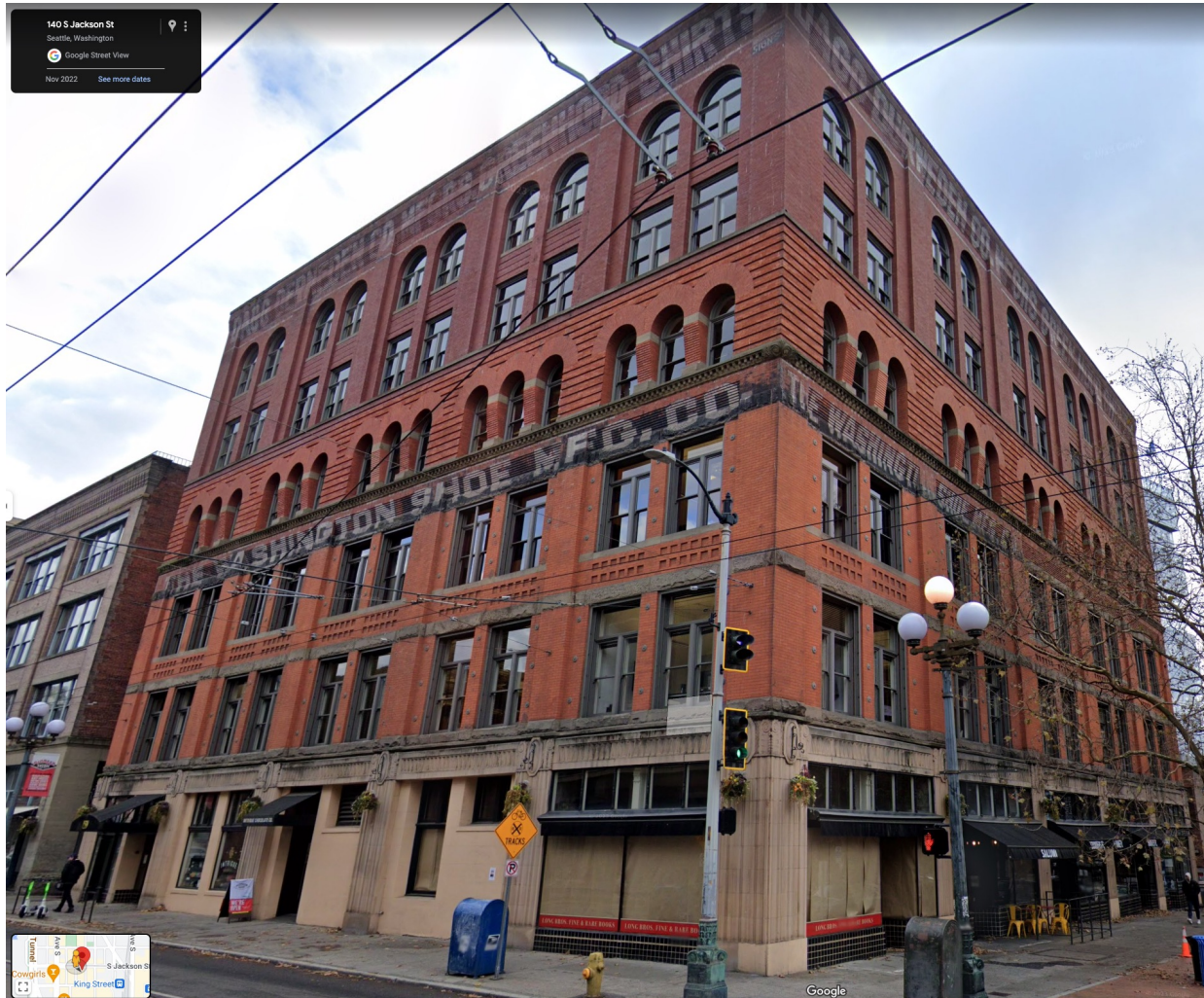


## Mixed Use

- Non uniform shape
- Soft stories
- Mezzanine level
- Large percentage of window area on mezzanine level
- Brick Veneer
- Cornice detail intact
- Decorative parapet



# Building types & corresponding upgrades



## Office and Retail

- Uniform structure
- Large floor diaphragms
- Irregular windows
- Decorative facade
- Brick Veneer
- Historic signage

# Building types & corresponding upgrades



## Public School

- Irregular structure
- Large floor diaphragms
- Irregular windows
- Simple facade
- Brick Veneer



# **Additional notes on building types**

**Prior uses can affect upgrade requirements**

**Good construction vs bad construction**

**Current condition of building**

**Current condition of soils beneath the building**



# Defining project goals

Owners will need to decide if the goal is to perform as simple of an upgrade as possible to provide compliance or go beyond compliance

Regardless, there will be minimum standards that will be driven by the structural engineering team

Terms are:

**Bolts Plus**

**Bolts Plus Plus**

**Bolts Plus + Brace Frames**

**Full Seismic – generally required for change of use, if adding to the useful life by replacing multiple building systems**

# **Review of current conditions and tenancy**

**Historic – is the building currently registered or on the historic resources survey?**

**Meetings with historic organizations to understand and map the the proper interaction (if any)**

**Retail – Review of leases; are there demo clauses? Other considerations for breaking leases or removing retail tenants prior to construction.**

# **Review of current conditions and tenancy**

## **Residential**

**Are there residential tenants?**

**Deciding whether to upgrade with in-place tenants or perform tenant relocation**

**Determining the timing of the project for an orderly relocation process**

**Determining the length of the pre-development period**

# **Review of current conditions and tenancy**

## **Residential communications and support**

### **Town Hall Meetings**

#### **1:1 meetings**

#### **Need for translation services**

#### **Need for housing support services to help figure out where existing residents can go**

#### **Running the Tenant Relocation Assistance Ordinance (TRAO) process**

#### **Income verification and approval as part of the TRA0 process**



# Assembling the initial project team

Once an owner decides what type of project they want to perform the appropriate team needs to be assembled to ensure the desired outcome is met

Architect – space planning to meet the building owner's needs

Structural Engineer – how to perform an upgrade that meets the building owner's goals

Contractor – pricing support and value engineering

Geotechnical Engineer – to ensure adequate support for the foundation on which everything rests

Environmental Consultant – to perform asbestos and lead paint testing and to ensure unexpected hazardous materials are dealt with appropriately

# Performing the engineering investigations

Gathering historic images and drawings to assist with understanding how the building was originally assembled

Verification that it was built to plan by cutting open key locations (i.e. where posts and beams join, verifying footings by pot-holing, performing tests on the brick and mortar joints, etc)

If plans don't exist, opening up enough of the building to ascertain how it was originally constructed so seismic calculations can be performed

Testing certain components to enable engineers to produce accurate seismic models

## Plan development and permitting

After the initial massing studies are performed by the architect and initial engineering studies are complete, a full design plan can be made and the owner can begin the permitting process.

Permitting for upgrades can take between 12 months and 2 years depending on the extent of the upgrades and other project goals.

After building permit (and master use permit as necessary) are issued, construction may commence.

# Funding

There will be funding required for each phase of the process.

Engineering investigation

Developing plans and permitting

Construction execution

Lease-up and permanent financing



**End!**

# URM Retrofitting Bank Lending Options- High Level

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Cynthia Weaver

VP/Relationship Manager

Beneficial State Bank

# URM Retrofitting Bank Lending Options – High Level

Cynthia Weaver

VP/Relationship Manager

Beneficial State Bank

# Agenda

1. Three Legs of the Lending Stool
2. Refinance/Secondary/Cash Out
3. Structure of the Loan
4. Alternate Forms of Collateral
5. Appraisal Valuations
6. Capital Stacks
7. Other Types of Loans/Sources of Equity



# Three Legs of the Lending Stool

- Cash Flow to cover Debt Service
  - Debt Service Coverage Ratios (DSCRs) –available cash flow divided by required Principal & Interest (P&I)
  - Net Operating Income (NOI) from Rental Income
  - Business Income (for profit? Non-profit?)
  - Personal Income – Global DSCR
  - Liquidity/Net Worth
  - Expense reduction (Property Tax Credits, energy efficiency upgrades, in-kind)
- Collateral
  - Investor Commercial Real Estate (CRE)? Affordable Housing? Specialty? Multifamily? SFR? Office? Retail?
- Guarantees
  - Personal owner, business, non-recourse, non-profit





# Refinance/Secondary/Cash out

- Refinance
  - New Loan Structure with current rates/parameters, but stretching out amortization/new valuation and cash out to maximize allowed LTV (loan to value) or LTC (loan to cost)
- Secondary
  - Leave current debt in place, add a second loan and lien behind the first
    - Exception to DSCR for first and second?? Combined?
- Cash out of free and clear property
  - New loan structure can be customized as construction to perm, bridge loan, permanent, etc.



# Structure of the Loan

- Non-revolving LOC (Line of Credit) multi-advance converting to permanent loan upon completion
  - Floating rate construction structure (interest reserves built in) converting to permanent upon completion
    - Typically 12-24 mos for draw period
    - Permanent Loan structure with longer amortization and term
    - Collateralized by CRE
- Cash Out Permanent Loan (Refi or Original)
  - Fixed rate (for period of time), amortizing lump sum cash out may be held by bank and potentially monitored for completion
- Bridge Loan
  - Temporary Non-revolving LOC matching grant or pledge cycle
    - Review of sources of repayment
    - May or may not be collateralized with CRE
- Business Loan
  - SBA Loan
  - Business LOC



# Forms of Collateral

- Commercial Real Estate (CRE)
  - The building being retrofitted
  - Another owned CRE
  - Cross collateralizing
  - Loan to Values based on property type
- Cash Collateral
  - 1:1 typically required
  - reduced interest cost
  - Overcomes cash flow challenges
  - Options for nonprofits to work with community supporters/donors
- Investment Portfolio Secured
  - May be 50-75% LTV
  - Quarterly monitoring
  - Reduced Interest cost



# Appraisal Valuations

- What do Appraisers think about valuation adjustments for URM retrofitting?

*"Its our job as appraisers to mimic the behavior of the market with what buyers and sellers and other market participants are doing with this and any issue that can impact value.*

*We can look at this with how the market values properties with seismic retrofits completed. We have to extract the difference in prices paid for what has been done and has not been done to a property. Sometimes there are credits given in the negotiation process and adjustments will be made based on a cost to cure. This comes down to condition and quality and we make adjustments based on the best information we have. Sometimes the adjustments are made based on the cost of the upgrade and sometimes the adjustments are more qualitative and less precise but we are trying to account for the differences that we see as best we can."*

- Would bank create custom LTV's for URM retrofitting programs?
- Grant Funds or Guarantees to offset higher LTVs?
- Does DSCR work with higher LTV?





# Capital Stacks

- Bank debt in 1<sup>st</sup> Position
- Subdebt
  - Second Mortgages
  - Grants
  - City/County/Federal Loans
  - Private loans
  - Community/Supporter Based Loans (Semble)
- First Position and Combined LTV's
- Right of set off/foreclosure/default



# Other Types of Loans/Equity Sources

- Fannie Mae Loan Products
- LIHTC or NMTC Equity Loans or Re-Syndications
- Hard Money Loans (Asset Based Loans)
- Community Sourced Loans (ie: Semble)
- Forgivable Loans (City/County)

# Meet Beneficial State

- [Impact Report](#)
- [BSB Theory of Change Video](#)

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# About the Bank

Beneficial State Bank, a mission-driven community bank serving California, Oregon, and Washington.

We work to maximize prosperity for our communities and our customers while maintaining strong business performance. This includes promoting community resilience, equity, and inclusion

We are out to prove that banking can be, and must be, a force for good.

Beneficial banking empowers people to build prosperity, support their community, and restore our planet.



We want to talk about...

# Thank You

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# Next Steps

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# Questions? Suggestions for future discussions?

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