



## Sale and Public Benefits of the City-Owned Mercer Properties



# Today's Agenda

1. Housing Seattle Now & Mayor's Vision
2. Overview: History of Property
3. Priorities Guiding Negotiations & the Proceeds Investment Plan
4. Transaction Overview: Public On-Site Benefits & Proceeds
5. Proceeds Investment Plan
6. Next Steps
7. Q&A



# Priorities for Addressing the Housing Crisis

**Access to affordable housing is key to our commitment to affordability and race and social justice in Seattle.**

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**Increase opportunity and access** to family wage jobs and shared prosperity.

**Build more housing** for low- and middle-income earners, and for people experiencing homelessness.

**Address displacement and prevent eviction** so Seattle residents can stay in their current housing and community.

**Secure new tools and resources** for the City to address housing in a new, innovative ways.



# The Mercer Properties Are A Key Component of “Housing Seattle Now” Initiative

Steps taken to help address the crisis of housing affordability in our City:

- Providing **new protections for tenants**
- Using new state resources, Mayor Durkan and Councilmember Mosqueda announced legislation to **invest at least \$50 million in housing for people experiencing homelessness.**
- Legislation to **renew and improve the Multi-Family Tax Exemption program** that currently provides affordable rent to 4,500 low- and middle-income households in private apartment buildings in neighborhoods across Seattle.



# Vision and Priorities for the Mercer Properties

- A **generational opportunity to take an underutilized, City-owned property and make a transformational investment** to create jobs, create more affordable & mixed-income housing in locations throughout the city, and build more safe transportation connections.
- Investments made with these proceeds **must be rooted in advancing racial equity** and leaning in on **addressing displacement in a way the city has not had the resources to do before.**
- Achieve a public benefit greater than an unrestricted sale; **use public land to maximize public value in all communities** in Seattle.





# Overview: The Mercer Street Properties

Three parcels comprising 2.86 acres of land with more than 124,300 square feet of space, situated on three blocks in the heart of South Lake Union:

## **Mercer East**

Address: 800 Mercer Street

Size: 44,067 sf

Acres: 1.01 acres

Parcel #s: APN 224900-0006

Zoning: SM-SLU 175/85-280

## **Mercer West**

Address: 800 Mercer Street

Size: 56,568 sf

Acres: 1.30 acres

Parcel #s: APN 224900-0055

Zoning: SM-SLU 175/85-280

## **Dexter**

Address: 615 Dexter Avenue N

Size: 23,760 sf

Acres: 0.55 acres

Parcel #s: APN 224900-0120

Zoning: SM-SLU 175/85-280



# History: The Mercer Properties

- The City has been in discussions concerning three underutilized properties in South Lake Union since 2014. As a “neighborhood of opportunity,” the City sought to address areas of neighborhood interest to create opportunities for all Seattle residents.
- Due to changes in the SLU transportation network, SDOT no longer needed certain rights-of-way and requested street vacations in areas near/surrounding the properties and right-of-way. These vacations allowed for the consolidation of the three properties to ensure maximum value, and that the full value is realized when sold.
- July 2018: Request For Proposals (RFP) issued for these sites seeking an appropriate balance between the financial offer for Mercer properties and affordable housing and community benefits.
  - RFP based on many factors, including Resolution 31786, adopted by Council on December 11, 2017 and Ordinance 125599 adopted by Council June 11, 2018. Resolution 31786 states that, “...the City’s goal for disposing of 800 Mercer Street and 615 Dexter Avenue N is to increase affordable housing resources either through on-site production or through increasing the amount of funding available for affordable housing projects...”.
- Because a portion of the Mercer Properties was purchased with revenues from the commercial parking tax and gas tax, a portion of the proceeds is restricted for transportation uses only.
- Sale delivers the resources needed to meet \$29.1M in prior funding commitments by City Council with funds to repay Interfund Loans for transportation (\$24.8M) and homeless services (\$4.3M). Previous street vacation ordinance also required \$7 million to \$14 million in improvements, regardless of any potential sale.



# Criteria for RFP Issued in July 2018

## RFPs chosen to advance would include the following requirements:

**Project Labor Agreement:** The selected developer would enter into a project labor agreement for the initial phase of construction.

**Labor Harmony Agreement:** Any hotel operators that are part of the development would be required to enter into a Labor Harmony Agreement.

**Sustainability Standards:** The development must meet or exceed sustainability standards of LEED Gold for commercial/mixed-use.

**Remediate Environmental Contamination:** The developer, not the City, would be responsible for the cost to remediate any environmental contamination.

**Broad Street Vacation Requirements:** The developer would be responsible for implementing all site-specific public benefits required by Ordinance 125599, which authorized street vacations associated with consolidating the site.

**Mandatory Housing Affordability (MHA):** Developers with provisions for affordable housing units that exceed requirements of the MHA program would be prioritized.





# Public Benefits at a Glance:

## Transformational Investments in Housing, Community Spaces, and Safe Routes for Walking and Biking

\$\$\$	Proceeds from Sale, Including \$78 Million for Housing Uses and \$16.7 Million for Transportation Projects
🛏️	Homelessness: One-time Homelessness Contribution
🏢	Housing: 175 Units of Affordable Housing on Site + MFTE Units
👨👩👧👦	Public Spaces: 30,000 Square Foot Community Center on Site
🏗️	Project Labor Agreement
🚴	Transportation & Mobility: Extension of Mercer St. Protected Bike Lane & 8 <sup>th</sup> Avenue Improvements
🌳	Environmental Remediation

**Nearly \$300M**  
**= MILLION**  
**OF PUBLIC BENEFITS**

# On-Site Benefits: Housing, Public Community Spaces, and Safe Routes for Walking and Biking

## Housing and Homelessness

- 175 affordable homes at  $\leq 60\%$  AMI (\$66,400/family of four) on site (with 50-year covenant and without any public subsidy)
- MHA payment in an amount equal to the then applicable code requirements for a residential and commercial projects.
- MFTE units

## Public Spaces

- 30,000 square-foot community center on site (operated by Seattle Parks & Recreation)

## Transportation & Mobility

- 8th Avenue Improvements: Developer will extend 8th Avenue as a pedestrian right of way through site between Mercer and Roy.
- Mercer St. Protected Bike Lane: Developer will extend two-way protected bike lane on north side of Mercer Street between 9th Avenue and Dexter

## Other

- Project Labor Agreement
- Environmental Remediation



# Background: Transaction Details and Purchaser

Cash Proceeds	
Total Sales Proceeds	\$138,500,000 cash at closing
Additional Homelessness Contribution	\$5,000,000 to support strategies addressing homelessness
<b>Total Cash at Closing</b>	<b>\$143,500,000</b>

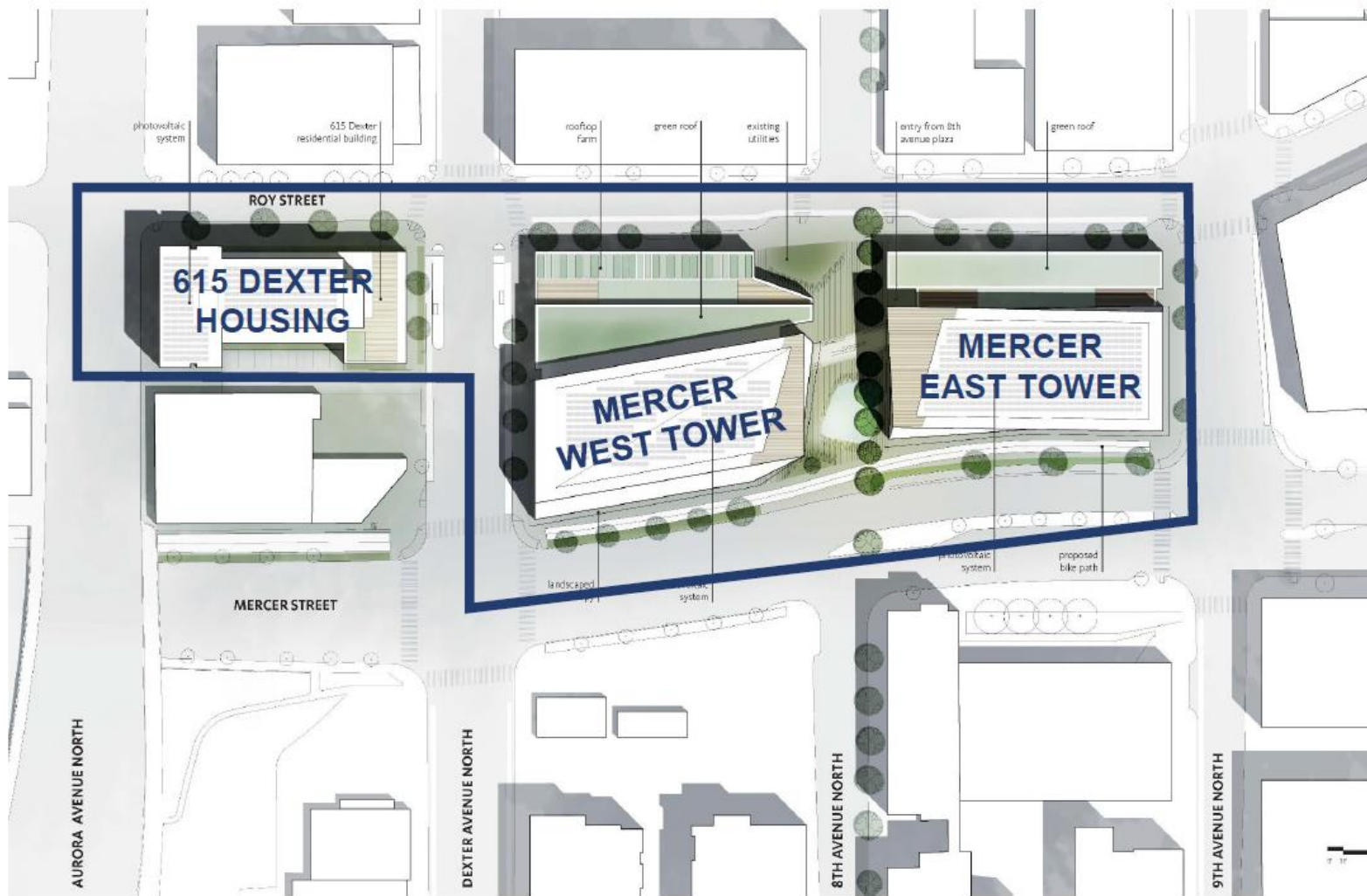
## Purchaser: Alexandria Real Estate Equities Inc (NYSE: ARE)

- Owner, operator, and developer of life sciences campuses.
- Entered the Seattle market in 1996 through a partnership with Fred Hutchinson Cancer Research Center at their original First Hill location.
- Expanded into Eastlake with our 2003 acquisition of 1616 Eastlake Avenue East.
- Alexandria envisions at the Mercer site an iconic, fully integrated mixed-use campus dedicated to accelerating the discovery and development of innovations that will positively impact human health.





# The Future of the Mercer Properties



*Representative image.*





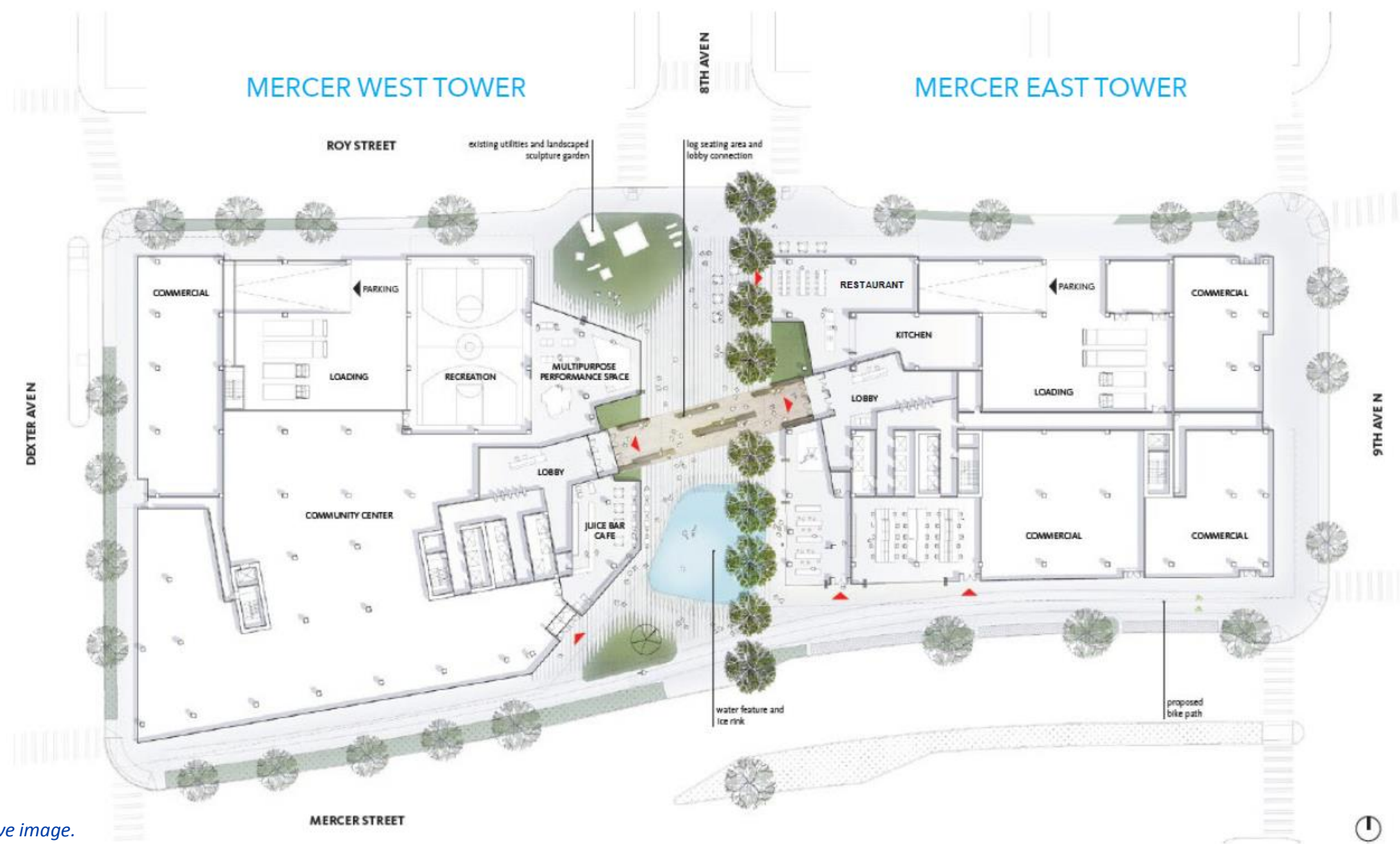
*Representative images. Perspective looking north on Mercer Street.*





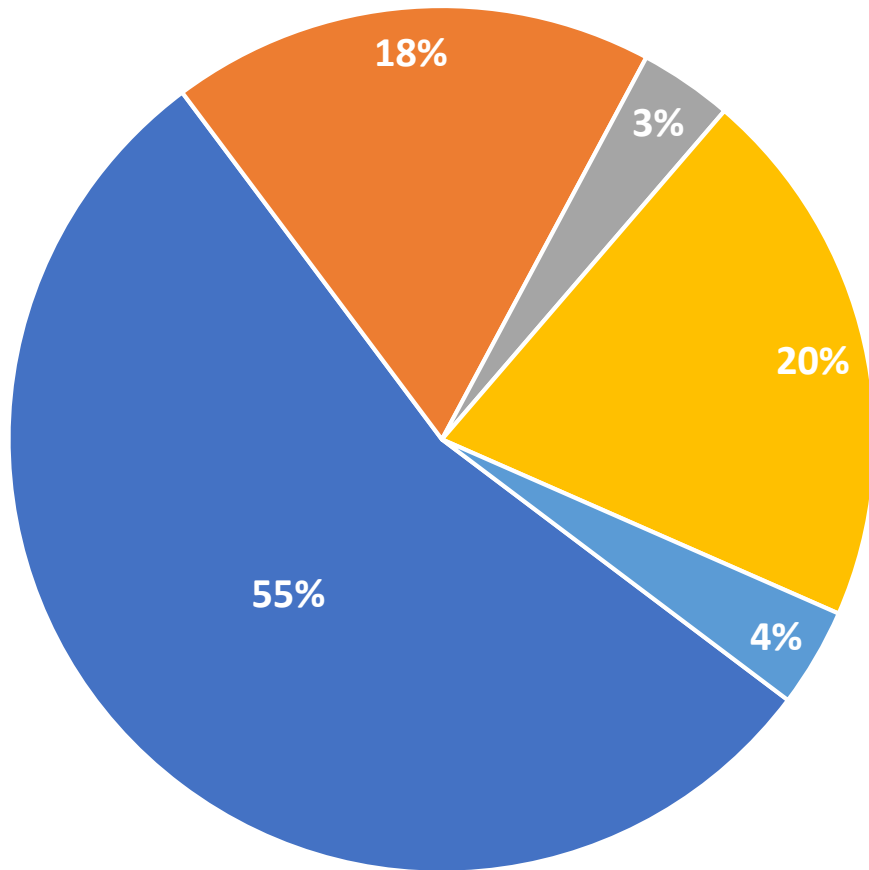
*Representative image of the ground floor of 800 Mercer.*





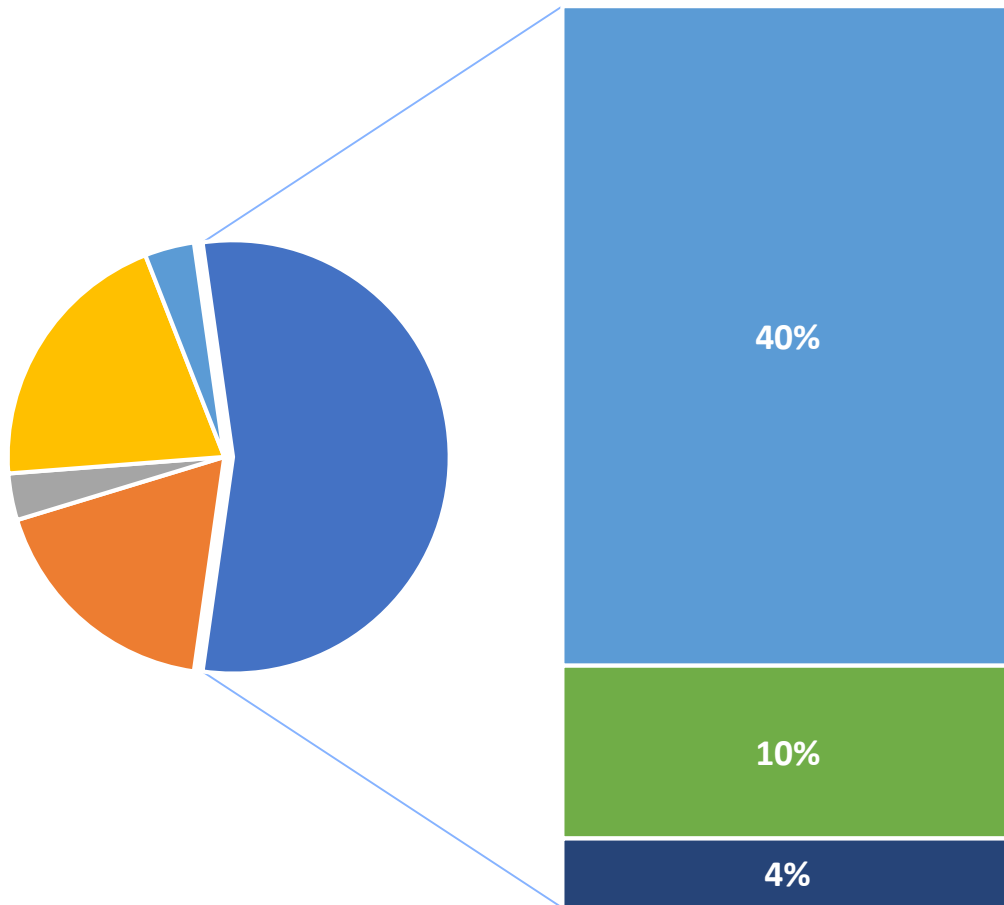
*Representative image.*

# Overview: Use and Investments of Total Cash at Closing



<div></div> Housing Uses (Unrestricted)	\$78,200,000
<div></div> Transportation Uses (Restricted)	\$25,900,000
<div></div> One-Time Homelessness Contribution	\$5,000,000
<div></div> Repayment of Prior Commitments of Mercer Proceeds	\$29,100,000
<div></div> Transaction Costs	\$5,300,000
<b>Total Cash at Closing</b>	<b>\$143,500,000</b>

# Proceeds Investment Plan: \$78,200,000 in Housing Uses



<div></div>	Address Displacement & Create Opportunities for Equitable Transit Oriented Development	\$57,200,000
<div></div>	Increase Investments in Permanently Affordable Homeownership	\$15,000,000
<div></div>	Financing Tool to Create More Affordable ADUs	\$6,000,000
Total for Housing Uses		\$78,200,000



# Investments to Address Displacement and Create Opportunities for Equitable Housing Near Transit: \$57.2M

Fund will be used to acquire properties in the locations most likely to catalyze community-led transformations, understanding that the City and community must learn and work collaboratively toward successful, sustainable execution of these visions.

## **Component 1: Revolving Equitable Development Initiative (EDI) Site Acquisition Loan - \$15M:**

- Escalating land prices have become a barrier to implementing the strategies outline in the EDI Implementation Plan and Equitable Development Financial Strategy.
- The EDI fund is currently under-resourced to help project partners acquire site control in rapidly changing real estate markets.
- This fund will be used to help project partners acquire site control in order to advance the project toward concrete implementation.

## **Component 2: Strategic Property Acquisition Fund to Address Displacement - \$42.2M:**

- Support the strategic acquisition of properties in locations with high risks of displacement and low access to opportunity.
- Focus on sites and projects with the potential to achieve multiple community benefit outcomes through mixed-use and mixed-income development, creating opportunities for affordable commercial and cultural space, public open space, and child care.



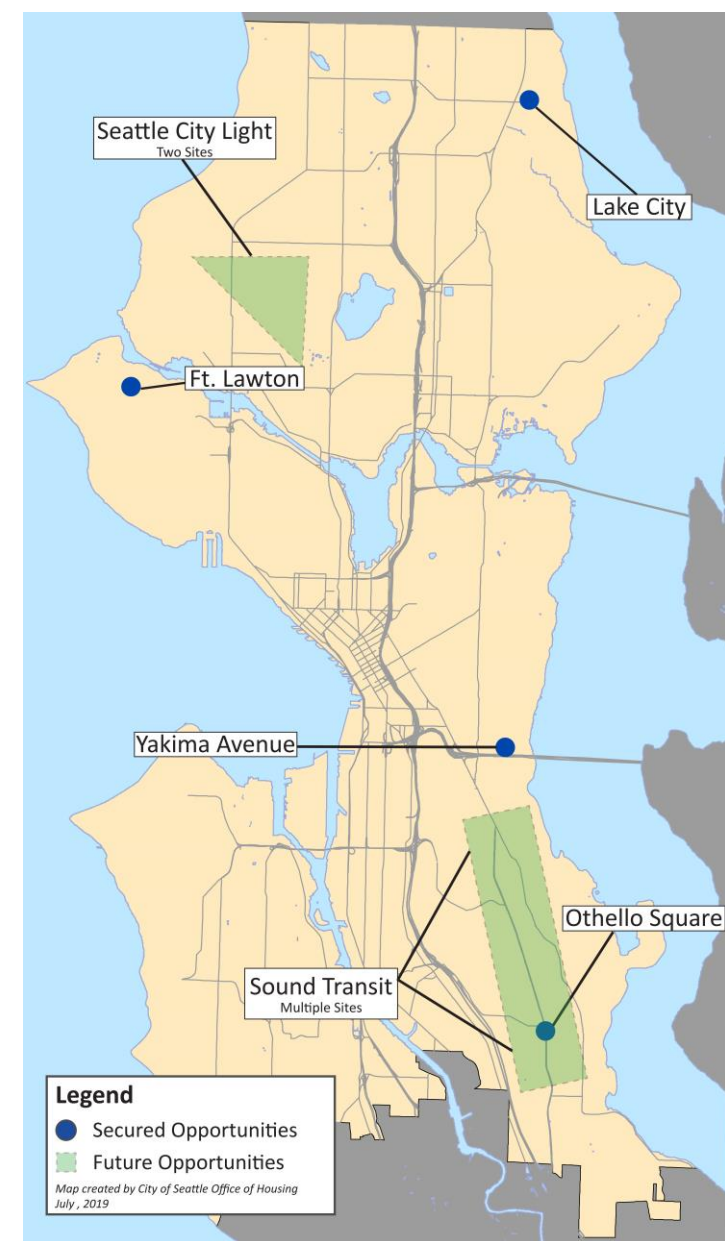
# Increase Investments in Permanently Affordable Homeownership: \$15M

## Component 1: Capital Investment in Permanently Affordable Homeownership

- Initial investment to nearly double the City's portfolio of permanently affordable homeownership units.
- In partnership with Sound Transit, explore creation of homeownership opportunities on multiple small publicly owned properties in the Rainier Valley.
- Work with community to realize homeownership priorities and vision.
- Allows family of four making approximately \$65,000 - \$87,000 (cap is of 80% Area Median Income) to purchase a home in Seattle that will remain affordable permanently

## Component 2: Seed Funding to Catalyze Employer Support for Homeownership Assistance

- Explore partnership with employers to allow middle-income workers to purchase a permanently affordable home in Seattle.
- City funds targeted to homebuyers below 80% Area Median Income.



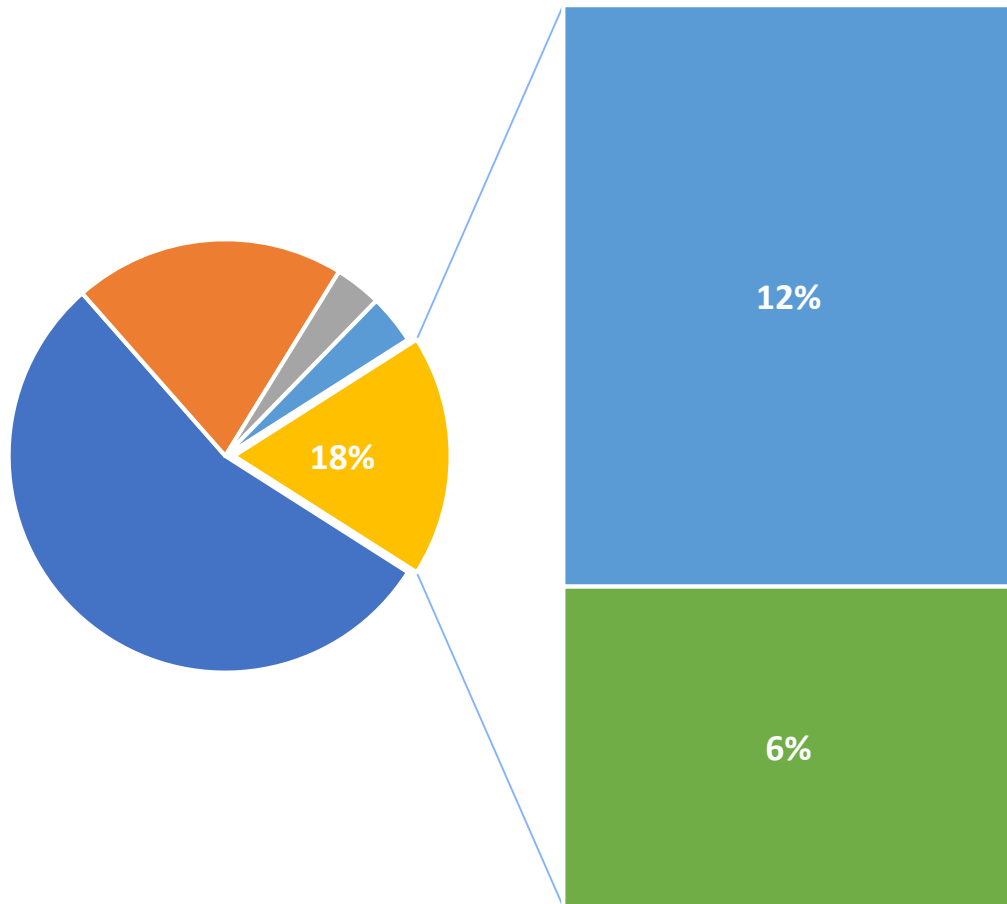
# Create A Financing Tool to Create More Affordable Accessory Dwelling Units: \$6M

**Goals: Stabilize homeowners in their community and address racial disparities in access to capital, using concepts like low-interest rates and deferral of repayment until the time of resale or refinance.**

- **Resounding support in community** for City financing that expands access to ADUs for a wider range of homeowners and incentivizes affordable rents.
- OH and OPCD will partner to develop a **pilot loan program to help low- and moderate-income homeowners build ADUs**. The terms and conditions of these loans will be determined only after stakeholder outreach to ensure access and benefits of this tool but would not go to high-income homeowners.
- The **ADUs created by this pilot will be required to provide below-market rents for a period of 10 years**. It is expected that a \$6M investment will fund up to 75 loans over three years, which would be recycled into new loans with repayment.
- **Rent-restricted ADUs would constitute a marked increase in affordable housing options in single-family zones**, where housing is otherwise unaffordable and inaccessible for most.
- Complements other City strategies to make ADUs accessible to more households: **streamlined permitting, education resources** for prospective ADU owners, and collaboration with partners and community members on **lowering ADU costs**.



# Proceeds Investment Plan: \$25,900,000 in Transportation



Multi-Modal Projects	\$16,700,000
Commercial Parking Tax Revenues Offset	\$9,200,000
<b>Total for Transportation</b>	<b>\$25,900,000</b>

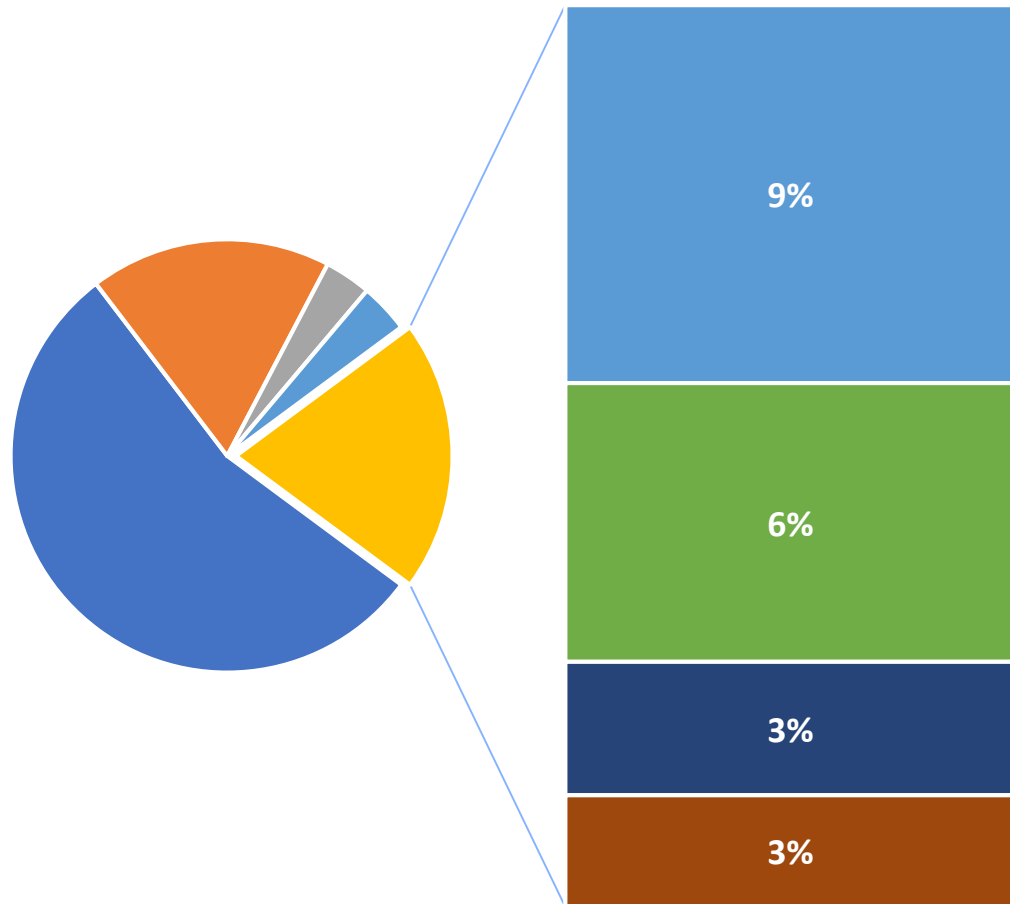


# Proceeds Investment Plan: \$25,900,000 in Transportation

- **Multi-Modal Projects - \$16.7M:** Funds will support new and planned capital projects to improve safety and increase transportation options.
- **Commercial Parking Tax Revenues Offset - \$9.2M:** Recent revenue forecasts project a decline in the amount of Commercial Parking Tax (CPT) the City will collect. Use of property proceeds will offset the expected shortfall in CPT revenues that would otherwise be needed to fund basic SDOT operations and maintenance, including arterial paving, Pedestrian Master Plan implementation, and traffic signal maintenance.



# Repaying Prior Commitments of Mercer Proceeds: \$29,100,000



<div></div> Mercer West Interfund Loan	\$12,200,000
<div></div> SLU Streetcar Operating Loan Repayment	\$3,600,000
<div></div> Center City Connector Streetcar Capital Loan Repayment	\$9,000,000
<div></div> Homeless Services Loan Repayment	\$4,300,000
<b>Total to Repay Prior Commitments</b>	<b>\$29,100,000</b>

# Repaying Prior Commitments of Mercer Proceeds: \$29,100,000

**Mercer West Interfund Loan \$12.2M:** In 2015 and in 2017 City Council authorized an Interfund Loan for construction of the Mercer West project. Now that the project has been completed, it is necessary to repay the loan and eliminate this obligation. Repayment will restore the cash needed to pay for existing transportation capital funding commitments, including those of Move Seattle.

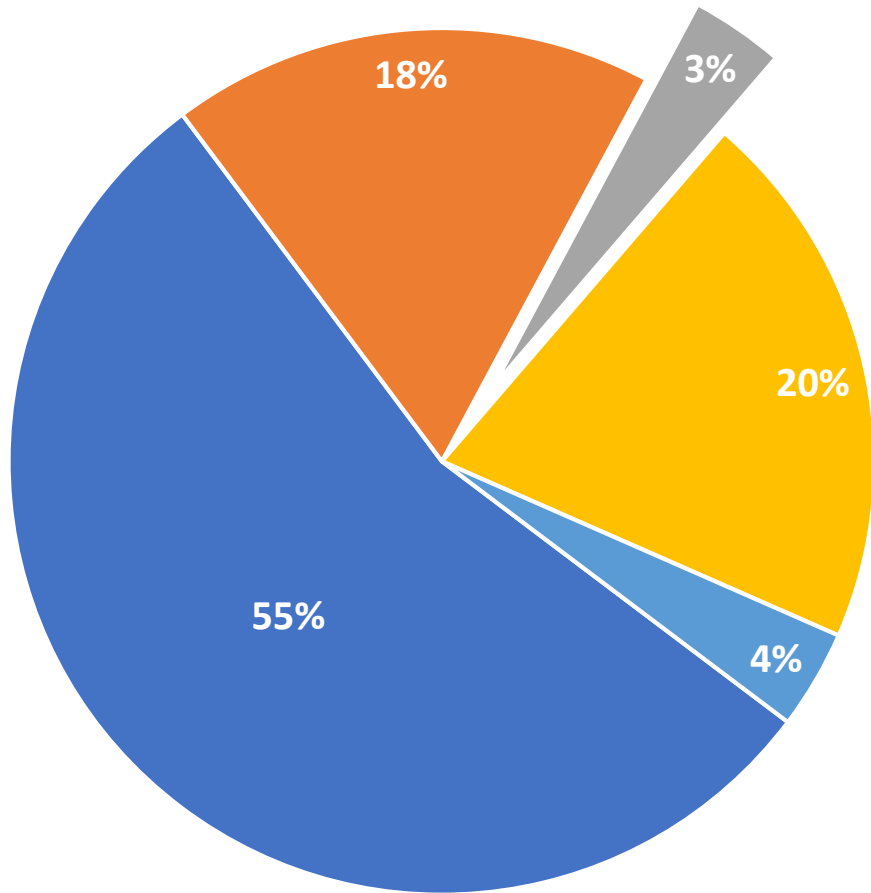
**SLU Streetcar Operating Loan Repayment \$3.6M:** The Council authorized an Interfund Loan for South Lake Union (SLU) Streetcar operations in 2007 and in 2018. It is necessary to repay the loan and eliminate this obligation. It is important moving forward that funding to pay for the ongoing operations of the SLU streetcar be identified.

**Center City Connector Streetcar Capital Loan Repayment \$9M:** Legislation authorizing an Interfund Loan that allows SDOT to advance new planning and engineering design work for CCC Streetcar through 2020 has been submitted to Council. Approval of this interfund loan is critical to moving the project forward.

**Homeless Services Loan Repayment \$4.3M:** City Council authorized an Interfund Loan in the amount of \$4.3M from the Housing Incentive Subfund in the 2018 budget in Green Sheet 337-10-D-1. This money was used as bridge funding to cover the cost of homeless services to the collection of proceeds from the now-repealed Employee Hours Tax. Council Ordinance 125463 ordains that *“the entire principal and interest amount of the loan owed to the Housing Incentive Subfund Fund is intended to be repaid no later than December 31, 2020 from the proceeds for the sale of City-owned property on Mercer anticipated in 2019.”*



# One-Time Homelessness Contribution: \$5,000,000



**One-Time Homelessness Contribution**

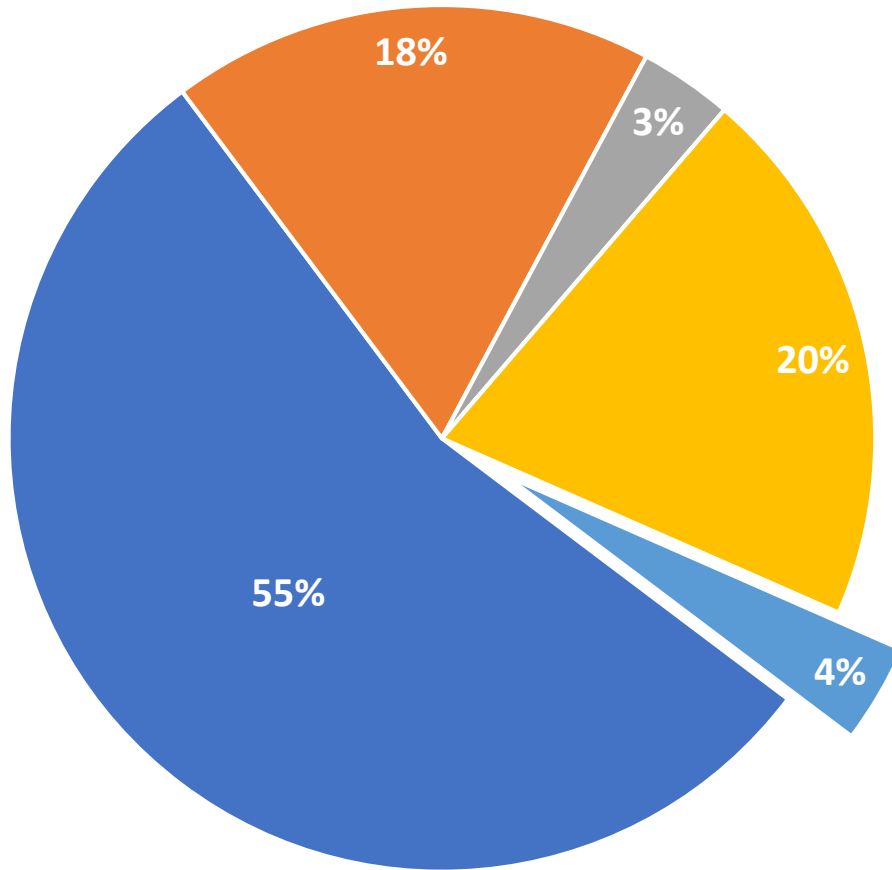
**\$5,000,000**

The Human Services Department will continue its work to identify priority investments in services for those experiencing homelessness.





# Transaction Costs: \$5,300,000



Transaction Costs

\$5,300,000

Recoups typical and customary expenses related to cost of sale:

- Commission to JLL
- Alta Survey
- Escrow expenses
- Title report

Reimburses SDOT for other fees and expenses for the sale: \$1.5M in restricted transportation dollars to cover transportation proportionate share.



# Next Steps

City Council and Development Process (tentative)	
Tuesday, August 6	Transmit legislation
Wednesday, August 7	Public announcement
Friday, August 16	CM O'Brien's Sustainability and Transportation Committee meeting
Friday, September 6	Sustainability and Transportation Committee vote on legislation expected
Monday, September 16	Full Council vote expected
Late September	Mayor signs legislation
September 2019	Mayor includes proposals in 2020 budget
2019	Disposition and Development Agreement prepared
2019/2020	ARE pursues Prospective Purchaser Consent Decree (PPCD) from State of Washington Department of Ecology (DOE)
2020	Transaction closes upon DOE issuing PPCD to ARE
2020-2021	Construction begins following permitting, remediation, and site preparation



# Q&A

