CITY OF BELLEVUE

AFFORDABLE HOUSING

TECHNICAL ADVISORY GROUP

MEETING MINUTES

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| November 10, 2016 | Bellevue City Hall  |
| 9:00 a.m.  | Room 1E-113  |

MEMBERS PRESENT: Kim Loveall Price, Hal Ferris, Tim Walter, David Hoffman, James McEachran, Dwight Schrag, Rich Wagner, Katherine Jordan, Sean Martin

MEMBERS ABSENT: Chris Jowell, Michael Orbino, Jan Laskey, George Petrie, Eric Campbell, Andrea Sato, Sharon Cunnington

STAFF PRESENT: Mike Kattermann, Janet Lewine, Department of Planning and Community Development; Morgan Shook, ECONorthwest; Chuck DePew, Melissa Lafayette, National Development Council; Arthur Sullivan, ARCH

RECORDING SECRETARY: Gerry Lindsay

1. MEETING PURPOSE

Senior Planner Mike Kattermann briefly outlined the purpose of the meeting and the expected outcomes. He allowed that the TAG schedule had slipped and that the group was running behind the initial schedule, explaining that it had taken a while to figure out how to approach some of the analysis work and research. Progress is being made and the work still has momentum. The downside is that the deadline has not changed and the Council is still expecting to see something by December 12. The plan is to provide them with all documentation according to the schedule even though there will still be some analysis to do, some work to be done by the TAG, and some additional public engagement.

Mr. Kattermann said staff will need to know what the TAG members need in order to get to the point of feeling comfortable with the vetting being done. He reminded the members that the TAG will not be making a recommendation but rather will be providing expertise.

2. PROJECT UPDATE

Calling attention to the matrix that was shared with and approved by the Council in September, Mr. Kattermann said the document is what staff and the consultant have been working from. He noted that some of the items had been grouped together given their similarities. He also pointed out that Category 4, legislative items, and Category 5, items the Council had directed removing from consideration in the near term, were not on the list for evaluation currently.

Mr. Ferris commented that the list of items presented to the Council with regard to what to move forward with and what not to move forward with were not discussed by the TAG prior to going to the Council. This list was sent to the members, but after it had already been posted on the city’s website. He said clearly how the presentation was made, what was included and what was not included, influences how the Council perceives the issues. The presentation to the Council, however, was made as if the TAG had reviewed the list and approved it. He said he took exception to how staff represented the involvement of the TAG. Going forward there should be clear ground rules about the TAG having the opportunity to review and comment on relative to what is presented to the Council. Mr. Kattermann said he did not present the list to the Council as a recommendation from the TAG, rather the list was presented as something the TAG had reviewed and identified through its initial work as being the items that have the most potential. Mr. Ferris allowed that that might have been the intent of staff, but that was not the perception several Councilmembers came away with. Mr. Kattermann agreed to be clearer in making future presentations.

Mr. Kattermann informed the TAG that the online survey received more than 900 responses. He stressed that the survey cannot be considered to be statistically valid. The survey was intended only to test some of the ideas that have been talked about. He noted that the highest levels of support were received for developing housing options and services for seniors to remain in Bellevue, 79 percent; investing in city infrastructure that reduces costs for affordable housing, 63 percent; and requiring developers to include affordable units in certain multifamily development, 59 percent. On the other side of the coin, the items that received the highest level of opposition were flexible requirements for private development in exchange for affordable units, 44 percent; additional development rights in exchange for affordable units in certain multifamily development, 38 percent; and use of surplus public land for affordable housing, 35 percent.

A question was raised about why the survey results were being put out there if they are not statistically valid. Senior housing could have garnered the high level of support it did simply because seniors have the time to respond to the survey. As such, the result could in fact be invalid. As graphically portrayed, the survey could take on a life of its own. Mr. Kattermann allowed that the survey asked far more questions than are reflected in the results, including age and other demographics. The summary provided to the Council included all of the responses, not just a representative sampling, along with the associated demographics. The survey results are posted online but the summary graphic provided to the TAG was for their information and did not need to be posted.

The need to have a starting point to respond to was highlighted by Mr. Schrag. It was said that people can respond much more specifically when they have specifics in front of them. Mr. Kattermann agreed and said the specifics will be the focus of Phase 2.

Mr. Ferris asked if the survey is consistent with how Bellevue has typically gathered information for setting goals around things like the Comprehensive Plan and budget allocations. Mr. Kattermann said the city conducts an annual statistically valid survey of residents and the information is used in drafting the budget. A survey was also conducted as part of the work to update the Comprehensive Plan, but it was not statistically valid. He added that the survey done to generate information for the TAG was surprisingly balanced in terms of demographics relative to income and age.

Mr. McEachran allowed that community surveys can be sketchy given the fact that they are most often informal. The result is often informal perceptions are formed that can easily reach a critical mass, and the problem is the perceptions may not be predicated on solid definitions. The topics of affordable housing and emergency shelter could thus very easily become intertwined in the minds of many. Thus answers given to questions asked can be tainted by false perceptions.

With regard to the schedule, Mr. Kattermann said the next two TAG meetings have been put on the calendar for Thursday, November 17 and Tuesday, November 29. He said it is unlikely that a meeting of the TAG will be slated for December, but the group will probably meet again in January. The schedule is heavily driven by the analysis work because there is no reason to set a meeting date until there is something substantive to discuss.

Mr. Kattermann noted that the first TAG subgroup was formed a couple of weeks ago to look at development feasibility and the numbers and assumptions the consultants need to run their models. The subgroup members are Mr. Ferris, Mr. Campbell, Ms. Loveall Price, Mr. Wagner, Ms. Laskey, Mr. Petrie, and Mr. Walter. They have been involved at different levels. Additional subgroups will likely be formed as the process moves ahead.

Mr. Schrag commented that it is almost better to propose bureaucratic systems for real things where the rubber hits the road. Where the rubber hits the road as a package is presented to the Council that outlines specific projects held up as top priorities. The Council then has something tangible to grasp. It is always difficult for politicians to deal with things unless they are concrete. Real projects should be selected, even if they will not come to fruition, for the Council to consider. Mr. Kattermann agreed and said that is in fact the goal. The Council has been clear about wanting specific actions that once taken will make a real difference. Part of what the TAG is being asked to do is help get to that point.

Mr. Ferris said his concern starting at the very first TAG meeting has been in regard to identifying the gap the TAG will be asked to solve for based on the established goals. Given the available tools, there needs to be an understanding of what each will produce for each income level. With knowledge of that kind in hand, it will be easier to quantify the recommendations and to determine whether or not the goals are realistic. Nothing of that sort has yet been quantified. There are tools on the list that have produced only two units over ten years. Either those tools are broken and need to be fixed, or they simply do not work and should be tossed out. Mr. Kattermann said the focus has turned to getting a handle on the numbers.

Ms. Loveall Price stated that there is currently no clear path for practitioners to building affordable housing with the resources that are available. The funding gap can be as large as $12 million, but ARCH may only have $1 million. Mr. Schrag said that is where his comment about identifying real projects was anchored. If what is needed is 50 projects, but no one can get even a single project out of the ground, then there is a problem and something will need to change.

3. CITY REGULATIONS AND INCENTIVES

Mr. Kattermann said the actions to be evaluated had been broken down into the three categories of preservation, direct and indirect public support, and city regulations and incentives.

Consultant Morgan Shook said his role was to view the issues broadly and to dive deep into a series of specific actions that either explicitly or implicitly build in affordability measures for new construction. Under the first, there are tools such as incentives offered to developers in exchange for providing some level of affordability, while under the latter there are tools that simply facilitate the construction of housing that could be tied to affordable housing by making units less costly to produce. Unit affordability can come about through enhancing project revenues, reducing project costs, targeting things that directly impact the construction of a project, and impacting the operation of the project.

Mr. Shook said the process will entail finding the right pieces to move forward by tapping into a TAG subgroup; vetting development assumptions; running a “pencil-out” model to get best case numbers for actions; and using a sophisticated multiforma tool to calibrate actions given zoning and building code dynamics.

The questions to be asked include whether or not a project is feasible under the current conditions; whether or not there is value in using incentives; what impacts could result from using specific affordability tools; and whether or not the tools can be tailored to fit conditions.

Mr. Shook called attention to a metric used to put all the various elements on equal footing and to help determine what the marginal impact is of one action versus another. The residual land value metric takes into account capital costs, construction costs, operation costs and revenue assumptions and informs how much can be paid for land. What it comes down to is projects that have some housing density given the allowed zoning and building form.

Mr. Shook explained that a mixed use podium structure includes four or five floors of wood-frame construction over a one- or two-floor concrete base. A midrise residential tower has a more traditional steel framework in a denser development. The TAG subgroup reviewed the two approaches and concluded that the podium product makes the most sense. Under current conditions it is challenging to produce any kind of product, much less exact much value added for land. Currently, tower projects are renting at $2.96 per square foot, at which point the residual land value is a negative. No one will be developing towers under those circumstances. Podium product are renting for $2.78 per square foot, a point at which the residual land value is about $40 per square foot.

Mr. Shook said he has based the policy discussion on a variant of what is happening in places in Bel-Red. For podium projects, the base FAR is 1.0. If a bonus of an additional 3.0 FAR were allowed, the maximum FAR would be 4.0. The base FAR for a midrise tower is 2.0. Adding the same bonus FAR would yield a maximum FAR of 5.0.

Mr. Ferris took a moment to clarify that in most of Bellevue, except for the downtown and Bel-Red, density is defined by units per acre rather than FAR. The units per acre approach is a suburban model that has resulted in large units constructed in zones that allow only ten units per acre. The larger units tend to be non-affordable. Podium-style developments typically equate to densities of 60 to 80 units per acre, and the units are generally smaller and are more affordable. However, one caveat is that if more parking is required to serve the higher number of units, costs rise accordingly. One of the recommendations of the subgroup was to calculate the density in more areas of the city using FAR rather than units per acre, particularly in areas served by the transit system. Mr. Kattermann said that is in fact the approach being taken in areas around the transit stations, including Eastgate, East Main and Wilburton.

Mr. Shook said the code is not the only thing that truly regulates what gets built. There are a variety of nonlinear relationships in regard to unit size, FAR, density and parking requirements that lead to interesting conclusions. Even where a developer may see a market to build to a higher density, the financial performance may dictate something much smaller and with less parking, particularly structured parking. The implication for affordable housing policies is that the smaller the unit size, the more affordability is maximized.

Mr. Shook explained that in Bel-Red, the baseline incentive zoning policy operates on the ratio of one square foot of affordable product yields 4.6 square feet of market-rate product based on the requirement to dedicate 22 percent of the density bonus square footage at 80 percent of the area median income. State law requires dedicated affordability to last 50 years. The current area median income is $90,000. HUD provides a variety of calculations based on persons per household. Where a one-bedroom apartment has a market rate rent of $2000 per month, at 80 percent of area median income the rent would be $1300 per month. The question is whether or not the additional density makes up for and covers the reduced affordable rents.

Mr. Ferris said there are some housing projects that have been developed in the Spring District in the Bel-Red corridor. The developer was required to pay a fee in lieu or produce affordable units within the corridor. The fee is set based on the overall Bel-Red corridor, but because the Spring District was the pioneer development, the fee was lowered as part of the development agreement. The fee is low enough that the developers have chosen to write the check, thus no affordable units are being developed there. The funds will flow to the city and will likely be used to produce low-income housing affordable to 50 percent of area median income and below. For the projects being constructed outside of the Spring District, it was deemed more advantageous to produce the units because the check they would have had to write out would have been bigger. The value of what they will give up in rent over 50 years is less than what the fee in lieu would have been. That is exactly how an incentive should work if the desire is to actually have affordable units produced and located in the neighborhoods across the city. If the available tools are not having the desired effect, there is something wrong with the tools.

Mr. Shook allowed that many cities across the nation and regionally require affordable units to be produced or the payment of a fee in lieu. For many jurisdictions there are policy discussions under way with regard to whether they would prefer to have the money or the units. Seattle has an incentive zoning program that has generated more funds than affordable units.

Mr. Wagner pointed out that in Bellevue the density bonus does not count toward the maximum FAR; the additional density is allowed over and above the maximum FAR. The regulations in Bel-Red use affordable units as an incentive to go to an FAR higher than 1.0. The increased density does count, however, against the parking requirements.

Mr. Kattermann commented that on the one hand, any incentives need to be something the market will use. On the policy side, nothing should be put in place that will discourage market development. The focus needs to be on finding the right balance.

Ms. Loveall Price asked how much was collected in the form of fees in lieu in Bel-Red. Mr. Ferris said the Security property in the Spring District built 300 units and paid $516,000 as a fee in lieu of producing affordable units. Had they not been a catalyst project, the fee would have been double that. Associate Planner Janet Lewine added that the funds will be leveraged and used to produce affordable housing in Bel-Red. Mr. Ferris said both the Council and the TAG have talked about making sure the tools that get adopted will produce housing across the spectrum of affordability.

Mr. Depew said cities across the country are looking at the same policy choices to determine what affordable housing can be achieved through zoning and what they will have to pay for themselves. Most jurisdictions have looked at increasing their incentive fees because they are a political negotiation. Almost no city collects enough in fees to really replace the units. The incentives can typically create units at 80 percent of area median income, but once fees in lieu flow into the public system, public policy tends to drive their use to achieving housing at 60 percent of area median income or below. Workforce housing might be a policy objective, but cities tend to not use their funds to subsidize that category; they in fact end up subsidizing more expensive units, requiring more leverage sources, some of which Bellevue has and some of which Bellevue does not have. Zoning incentives can only go so far, and even with fees in lieu it will take other resources to help replace the units.

Ms. MacFarlane noted that the current fee in lieu for Bel-Red is $18 per square foot of affordable.

Mr. Schrag pointed out the need for developers to know they can move from one project to another without the codes changing, without the design requirements changing, and without permitting delays. Mobilization is very costly, and setting up to build more than one project can greatly reduce costs overall, and can increase the speed of implementation.

Mr. McEachran suggested that as citizens hear about the city’s affordable housing strategy, language will be imperative. Citizen density is mostly mental rather than spatial. Subsidized means “dole.” A clear pathway to “merited” is needed in taking the message out to the community to avoid creating a backlash of secret language. Mr. Shook agreed. He said he came to affordable housing over the last decade and has concluded at times that “affordable housing” is really just a term of confusion. Technocrats like to talk policy, but the public likes to talk ideas. The TAG should keep that in mind.

Mr. Shook said the city’s current multifamily tax exemption policy, which was adopted a year ago, exempts the property tax on the residential improvements of projects for 12 years in exchange for 20 percent of units being set aside as affordable. Mr. Ferris said the city gets to maintain the current tax on the land value; it is only the residential improvements that are exempted. He said he has worked with the program in other cities for as long as it has been in effect and had reached the conclusion that the 50 percent and 70 percent income levels are too low. What the developer is asked to give up in revenue is not offset by the reduction in property taxes. Currently no developer in Bellevue has taken advantage of the program. For a market-rate project that has no other restrictions on its income, the program as adopted will have no effect because it will not be used. For affordable projects where incomes are limited to 60 percent of area median income, the program will be used because the project is by itself not exempt from paying property taxes. Market-produced workforce housing that is not in some other way subsidized will not be built using the program. In Seattle, affordability is measured at 65 percent of area median income for studios, 75 percent of area median income for one-bedroom units, and 85 percent of area median income for two-bedroom units, and the program produces a lot of units tied to affordability for 12 years.

Ms. Lewine pointed out that the 50 percent and 70 percent numbers were used in Bel-Red because the program can be layered with the FAR incentives. Developers holding seven percent of their units affordable at 80 percent of area median income in order to gain the additional FAR only had to put in 13 percent more units to meet the 20 percent requirement for the multifamily tax exemption. She agreed, however, that the math is saying developers are not taking advantage of the program.

Mr. Ferris said state law sets the parameters for the multifamily tax exemption, but it is up to the local jurisdictions to determine what level of affordability should be targeted. Seattle has chosen to revisit the issue every three years. He said he personally would prefer to see the city err on the side of unit production, and over time if it is determined the program is oversubscribed, the bar can be lowered somewhat.

Mr. Wagner suggested that if Bellevue is going to have any credibility at all, it should seek to take on state laws that need to be changed. Mr. Shook said his team will look at all of the TAG’s suggestions and put numbers to them.

Mr. Hoffman noted that currently there is a lot of movement at the state level to do something about housing affordability. A number of organizations and jurisdictions are part of the discussion and something is going to happen. A series of bills that are already drafted will be offered; some have been put forward before and some are new.

Mr. Kattermann said he would make available to the TAG the math used relative to the multifamily tax exemption program. Mr. Ferris said that information is needed so all can understand where the tipping point is. It needs to be based on current market rents, not average rents in East King County, and it needs to be for new development in areas being targeted. The difference in value should then be divided by the capitalization rate, and if the property tax exemption is not greater than what is given up in revenue, the program will not be utilized. He added that the area median income has increased only one or two percent a year, except during the recession when it went down, while rental rates have been increasing by six percent per year.

Mr. Martin asked if Bellevue participated in the conversation last year regarding existing housing. Ms. Lewine said Bellevue joined in through ARCH. Mr. Kattermann said one of the actions under review is the four units and under category and whether a program similar to the multifamily tax exemption could be used to help preserve them. Mr. Martin said the rental industry supports the approach.

Mr. Ferris proposed combining the multifamily tax exemption with the code-required FAR tool. For the development in Bel-Red that is required to provide affordable units for 50 years in exchange for additional density, one way to soften the hit would be to also allow the multifamily tax exemption for 12 years for the same units. The development at the South Kirkland park and ride has 171 market-rate units and 58 affordable units. The affordable units were developed by Imagine Housing, but the city allowed the developer Polygon to count them towards their property tax exemption. The benefit was that Polygon essentially underwrote the cost to Imagine Housing to produce the affordable units. Imagine Housing combined that with nine percent tax credits and money from the veterans levy to produce 58 units of low-income housing. Imagine Housing basically paid Polygon for the air rights from the podium up, including the structured parking underneath. That significantly reduced their costs, which resulted in less of a need for public subsidy from other sources to produce the low-income units. The approach is not allowed in Bellevue; affordable units must be dispersed throughout the entire project.

Mr. Wagner pointed out that where units are allowed to be situated all in one area, the associated services needed by the residents can also be concentrated. He said he would like to see Bellevue allow for the transfer of development rights to an adjacent affordable project along with a fee in lieu.

Mr. McEachran said the integrity of the neighborhoods is built on the Comprehensive Plan. What the residents need to understand is that bold, collaborative impact equals affordable housing, which also provides developers with the incentives they need to look really good in the public eye by taking away the impression that they are simply using land to make money. The Velocity project is genius because the affordable housing has views of the Olympics and the bridge while the market-rate units look out at buses going around in a circle. Mr. Shook said the programmatic approach is aimed at creating value that can be funneled innovatively into projects.

Ms. Loveall Price said it would also be good to have approaches that are predictable and what funds can be counted on. She said had she known there was $516,000 earmarked for Bel-Red, it would certainly have been easier to do some modeling and to talk about partnering.

Mr. Wagner commented that the level of quality built into affordable projects exceeds the level of quality his staff can afford. There are projects in Seattle that require each unit to have a porch, and in some cases even the type of door used is specified. Those are driving costs. That issue should be discussed.

Mr. Ferris pointed out that Bellevue requires the finish of the affordable units to be the same as all the other units in the development. For towers in the downtown that want to include granite countertops and subzero refrigerators in the market-rate units, the requirement is to do the same for the affordable units. Quality is important, but the finish should be proportionate to the level of affordability.

Mr. Wagner pointed out that micro units are being built for the market, but they cannot be built for those who are living in their cars because funding to subsidize such projects is not there. Additionally, design review, which can impact cost, is something the city can control. Modulation also drives cost, as does process time. He said he would not argue in favor of affordable housing projects being allowed to skip to the front of the line, but the city could possibly bring in a land use processor just for affordable housing to make sure it happens more quickly. The state definition of five stories versus four stories, which triggers union wages, should also be discussed.

Mr. Shook said in looking at the documentation for previous TAG meetings he found allusions made to all of those issues. Things done on both the cost and efficiency sides will fit in the bucket. Improved definitions and clarity are needed. Mr. Schrag added that clarity and certainty equals risk reduction to a developer.

Mr. Depew said one of the challenges will be to fit the issues into the actions already identified, some of which the city does not control, including the affordable housing standards and investor-driven requirements. Mr. Kattermann said there are some code-related issues, including process and standards, that will be discussed going forward. A wholesale code rewrite is not in the offing, but small edits that can easily be made will be reviewed and plugged back into the model.

Mr. Wagner suggested that if the TAG believes parking ratios within a quarter mile of a transit station ought to be reduced, the committee should say so ahead of the Bel-Red lookback. Mr. Shook allowed that the subgroup has parking on its radar.

Mr. Ferris said there is an existing tool in Bellevue which allows the parking requirement for affordable studio units to be reduced to 0.25 stalls per unit, provided the unit is affordable at 60 percent of area median income for the life of the project. The market rate for the unit might be $1700 per month, whereas the 60 percent rent would be closer to $1000 per month. What would be given up in value would be some $186,000 for the affordable unit, whereas it would cost only about $40,000 to build a parking stall. No one will use that tool unless the financing requires affordability for the unit over the life of the project.

Mr. Kattermann said the consultants and staff as part of the analysis work are looking at the practices of other jurisdictions regionally and around the nation that have proven to be successful. He urged the TAG members to share information about any tools they believe should be investigated.

Mr. Ferris said he serves on the Terwilliger Center for Housing advisory board. He said the organization is focused on workforce housing and gives out awards annually to municipalities that have policies in place that have resulted in the production of affordable housing. He said their database would be a good resource. The Boston, Massachusetts, area has consistently been held up as having programs at the top of the list. Boulder, Colorado, has also developed some very good tools. Cities across the nation are struggling with the issue and no one jurisdiction has found the magic key. Things vary state to state. Most states allow tax-increment financing, which has been shown to be a successful approach. Mr. Depew said in Washington the state’s property tax cannot be used as a source of increment.

Mr. Shook called attention to the potential action (B.5) of investing in infrastructure that supports affordable housing development and asked the TAG members what specifically was intended.

Mr. Depew said typically cities require developers to pay for offsite improvements such as utilities and roads. In some cases, cities have not required affordable projects to pay those costs, thus reducing project costs and increasing affordability. It has been difficult to finding programmatic approaches to make up for not billing out those costs; some cities have used federal block grant funds in low-income neighborhoods, but more for the benefit of the entire neighborhood rather than specific affordable projects.

Mr. Ferris said cities can elect to waive mitigation fees for affordable projects. In states where tax increment financing is used, future property taxes are used to pay for infrastructure improvements, thus reducing the immediate costs of development. That tool is not available in Washington State.

Mr. Hoffman asked if general facility charges (GFC) and hookup charges can be waived for affordable projects. Mr. Shook said the team would look into what is exempt and what could possibly be exempt. Mr. Hoffman said one approach would be for the city to pay the GFC for affordable projects. Reducing or waiving fees is a way to generally make housing more affordable.

Arthur Sullivan with ARCH said cities can decide how private development should help pay for infrastructure and the like. State legislation is very clear about what the parameters are for exempting impact fees, and there is an exemption for affordability where every unit meets the test.

Mr. Depew said he was not aware of any city that exempts hookup fees, which most of the time are separate utility functions or enterprise funds within governmental bodies. There are different kinds of laws that clarify what those funds can be used for. To the degree such fees are waived, there generally is an underlying government program using its general fund to offset the expense. The real question is whether or not waiving the fees will have a fundamental impact on affordability.

Mr. Hoffman commented that Redmond recently constructed a massive regional detention facility in Overlake. The act of building it will reduce the cost of every unit that gets built, but it will not reduce the rents because the market determines that. It will, however, make it far easier for developers to meet the affordability requirements.

Mr. Shook said it was his understanding that the city allows SROs and micro-units in certain zones. Ms. Lewine said they are permitted in zones calculated by FAR where there is no minimum unit size. Mr. Shook asked what would need to happen to allow the approach in other areas.

Mr. Depew pointed out that in zones that regulate units per acre, micro-units do not meet the unit requirements.

Mr. Schrag commented that micro-units are more affordable for those living in them. They are well-suited to single persons. Mr. Depew noted that micro-units do not typically have their own kitchens. Micro-housing is really student housing for adults.

Mr. Sullivan said most micro-units on the Eastside do include a very small cooking area. The communal kitchens that are provided down the hall only rarely get used. Ms. Lewine added that micro-units built in the downtown or Bel-Red could meet the reduced parking requirements of 0.25 spaces per unit, but if built in other parts of the city, they would have to meet the full parking requirements. The parking reduction is only allowed, however, if the units meet the affordability requirements.

Mr. Hoffman said he would support extrapolating what is allowed in the downtown to other areas. Where smaller units are allowed, more units get created in the same footprint, and even at 0.75 stalls per unit, more parking is required.

Mr. Martin said the practice that has been occurring in residential areas in and around Bellevue College where rooms in single family homes have been rented out as individual units essentially involves micro-units. There is clearly a need for the product.

Mr. Ferris said micro-units generally are little more than bedrooms with a bathroom. They often have a place for a microwave but not always a place for a cooktop. The developments include a kitchen shared commonly by the various residents. The practice of chopping up single family homes in single family zones and renting out individual rooms to non-related persons may qualify as a micro-unit, but they are not in keeping with the underlying single family zoning. He agreed there is a market for the product, but the product should be located in places close to transit where higher density and less parking is allowed.

Mr. Shook noted that the potential action list also included (A.5) additional flexibility for accessory dwelling units, cottages and duplexes in single family zones. Currently, attached accessory dwelling units are allowed in all single family zones, and some 114 of them have been created since 1993. The product offers the potential to add low-density low-cost housing within the city’s most constrained housing zones. The averaged detached units that exist are about 600 square feet and rent for about $1400 per month, which roughly equates to about 80 percent of area median income. The question is whether policy changes should be effected in Bellevue to allow detached housing units.

Mr. Hoffman said accessory dwelling units certainly are not a silver bullet, but they should be considered as part of the overall suite of solutions.

Mr. Wagner asked if the city’s current code requires a separate access parking for accessory dwelling units. Ms. Lewine said on-site parking is required for the units in addition to the parking for the main house. Mr. Sullivan said the requirement is for one more parking space than is required by code. That rarely translates into building an additional parking spot because where there is a two-car garage with an apron big enough for two cars, the parking requirement has been met. Separate entries are required, and the units must have cooking, bathing and sleeping spaces in order to be legal.

Mr. Martin voiced support for allowing detached accessory dwelling units. People should look at the approach as more than just creating an affordable unit because they provide a revenue stream for the homeowner, thus allowing them to stay in their homes.

Mr. Sullivan pointed out that almost every Eastside jurisdiction allows detached accessory dwelling units. In the cities where the units are allowed, however, the units created are primarily attached. That is because the units are mostly created by reconfiguring existing homes or adding on space. Detached units cost more for a variety of reasons, including the associated connection charges.

Mr. Depew said what is needed is more flexibility with regard to where the units can be located, whether they are detached or not. Additionally, development costs could be reduced if the units were allowed to be more along the lines of micro-units. Mr. Sullivan said the codes that allow accessory dwelling units have no minimum square footage requirements. The units must, however, have kitchens, baths and sleeping facilities.

Mr. Walter suggested that accessory dwelling units are more focused on preservation than on providing more affordable units. Most homeowners who have added accessory dwelling units have done so to generate a little additional income, and if money was no issue they likely would not shoulder the time and hassle of having someone they do not know move in. Mr. Shook said Seattle conducted a survey of accessory dwelling unit owners in 2015. The vast majority said they had the units created to allow for more flexibility to accommodate family. One in four said they would put the units on the short- or long-term rental market.

Mr. Ferris commented that accessory dwelling units generally fall into the 60 to 80 percent category and as such they contribute toward the production of affordable housing. The units will not address the lower end of the affordability spectrum, and there is no history that shows the tool will contribute large numbers of units. The units often come with a huge political pushback from the neighborhoods.

Mr. Wagner suggested the accessory dwelling unit topic is a nonstarter. He added that even if subsidies were to be provided to address the lower affordability categories, it would be a nightmare to enforce in someone’s backyard. Mr. Kattermann said the item was added to the list as a tool. It will likely not add many units but it does provide for the opportunity. While there are some neighborhoods that are dead-set against allowing them, there are other neighborhoods that are interested in having more flexibility. If the tool is in place, the city can then work with the neighborhoods individually to determine which ones are willing to allow the units and which ones are not.

Mr. Sullivan said Mercer Island took on the issue of accessory dwelling units as a way to meet their moderate-income goals. The number of accessory dwelling units brought online in that jurisdiction has been much higher than other jurisdictions, and they have managed to meet their goals. Some cities charge hookup fees for accessory dwelling units, a move which makes the tool far less attractive. Even in Bellevue where only attached accessory dwelling units are allowed, the tool could be useful. East King County could bring 600 to 800 accessory dwelling units online if they were to be constructed at the same rate Mercer Island has constructed them.

BREAK

DIRECT AND INDIRECT PUBLIC SUPPORT

Mr. Kattermann asked the TAG members to comment on the flexible reuse of large sites and the surplus of underutilized public land, items A.6 and B.4 on the potential actions list.

Mr. Walter said one of the relevant questions relative to the productivity potential is how long the affordability period would be. Also important to ask is whether or not the units will get more affordable over time through not having to raise rents. Mr. Kattermann said he would add that analysis.

Mr. Kattermann said the analysis done looked at larger sites, primarily those in public ownership but also faith-based sites. With regard to the latter, there are faith-based institutions that have provided housing on their sites. Some of the institutions are going away and their sites are becoming available, and many of the site are in residential zones.

Ms. Loveall Price suggested adding to the list existing affordable housing sites. Mr. Kattermann said that issue is on the list and is being researched. Ms. Loveall Price said there is a currently owned affordable housing site that has 84 units on a little over three acres in an R-20 zone. Under a different zoning, the site could have up to 225 units. The site is currently in a compliance period for the tax credit investors, but the site will be eligible for redevelopment in 2022. The site at NE 8th Street and 12th Avenue NE is served both by light rail and bus rapid ride.

Mr. Ferris said most faith-based sites would require a rezoning action. Mr. Kattermann agreed, though he noted that there are some in R-10 and R-20 zones. All of the sites are being reviewed. Mr. Sullivan added that the city has not always considered church properties when looking to rezone areas because of the underlying church use. He suggested it might be worth looking at church properties given how long it takes to effect a rezone.

Mr. Kattermann said the analysis began by broadly looking at over 1100 publicly owned properties and faith-based properties. The list was winnowed down to 32 properties, not including the Sound Transit properties in Bel-Red and other surplus properties they might have once the light rail project is wrapped up. Additionally, not all of the public properties identified have been confirmed to be possible surplus properties; it has been confirmed that there is no other apparent use for the sites. The Bellevue School District and the Issaquah School District have properties they are not currently using, but they are not calling them surplus as yet so they have not been included in the mix. The idea of co-location is, however, being investigated, though the school districts are not yet ready to discuss that option.

Referring to the matrix showing the 32 properties, Mr. Kattermann noted that about two-thirds of them are in single family zones, which means they would not yield a large number of units.

Mr. Wagner said the matrix of properties was very useful because it provides for some targets. He added that churches located in single family zones primarily operate under a conditional use permit. If those regulations could be loosened, it would be beneficial to bringing new units online. He agreed that existing affordable housing groups should be added to the list.

Mr. McEachran said he could not speak for everyone, but said he would be happy to see affordable housing considered for sites where a church use is discontinued. If the various church oversight boards knew of the initiative, it is possible that new sites could be opened to the use. Ms. Loveall Price said she worked with faith-based groups in Seattle to effect housing and suggested that if there were a consolidated method for making contact it would be very beneficial.

Mr. Ferris agreed that church sites should be on the list of possible sites. While most are in single family zones, many of them are adjacent to higher-density developments.

Mr. Kattermann said the matrix does not assume any sites will be rezoned, and the unit estimates are very rough. He asked the TAG members to keep in mind that 431 of the 966 possible units are on a single site, making that one site critical to the overall potential. Currently, there is no commitment that the site would be available for housing.

Mr. Ferris suggested it would be helpful to look at the sites in light of their future rezone potential. Mr. Kattermann agreed and said that would be done in the next step. Adding in the existing housing stock that are in non-profit or other public ownership could yield a significant number of new affordable units. In the case of the public properties, making a donation or significant reduction in the cost of the land to the project could start to get at some of the funding gap.

Mr. Ferris suggested that the opportunity for horizontal mixed use projects is in the rear view mirror. Land costs make looking at vertical projects the only strong option. Housing can be put on top of community centers, fire stations and libraries.

Mr. Schrag said there is a 19-story senior housing center in downtown Bellevue next to Ashwood Park. A brand new 19-story building next door has been permitted. Part of the older building will need to be renovated. For sites where the capacity is being doubled, part of the new units should be set aside as affordable senior housing. With tax incentives and the like, it might be impossible for the developer to turn down. The infrastructure is there, the parking is there and the permits are in hand. Mr. Kattermann said that is something that would fall under a mandatory approach. Mr. Ferris said it is also something that could be incentivized.

Mr. Kattermann said no additional analysis is needed relative to the Sound Transit OMSF site in Bel-Red for which there is already an agreement in hand. He agreed, however, to add the site to the matrix.

BREAK

PRESERVATION

Mr. Kattermann said one of the actions identified early on relative to preservation was to look at opportunities to acquire existing market-rate housing- (C.6). The issue was on the list before Highland Village came up. The existing market-rate privately owned affordable property was not being tracked. A development interest stepped up and got the property under contract. The residents of the site received notice that they would have to move out and the issue became very public and political.

Mr. Walter said one of the things the King County Housing Authority tries to target in terms of long-term preservation of affordable housing is recognizing that existing privately owned housing can and will often over time become less affordable. The Authority has typically identified the acquisition of workforce housing properties. Highland Village is a good example given that the rents were quite a bit less than similar apartments in Bellevue. The 76-unit development is on a site that is already zoned for almost 90 units, and the developer Intercorp saw the opportunity to increase the density on the site by almost 20 percent. Their pricing model showed where housing prices were and indicated that a 2200 square-foot townhouse product could sell for between $750,000 and $900,000 per unit. With an average of $850,000, the property was worth about $22 million. As an apartment building, the property was worth closer to $16 million.

Continuing, Mr. Walter said the Authority worked with a consultant to identify other similar properties that could be likely candidates for preservation. The database that has been created is a work in progress but is fully searchable. The tool can be used to identify which properties might be at risk for redevelopment so they can be picked up for rehabilitation and repositioning in the market. The fact that Highland Village had excess development capacity was very important to Intercorp because no big process was needed in order to get the zoning needed to increase the number of units. The same opportunity is important to the Authority.

Mr. Ferris said the city should avoid simply upzoning areas without tying affordability to it. Unless that is done, the city will be working against itself.

Mr. Walter said there are some four to eight properties around which it might make sense to try and put something together. While they may not all work out, it is worth going for on the hope that even two or three will succeed.

Mr. Ferris said the issue came up in Seattle as well and they focused on having a fund or some other capacity to tie up identified properties independent of the Seattle Housing Authority. He asked if the King County Housing Authority always has the resources to act to acquire properties as they come up in Bellevue, or if the city would need to create some tools that would allow non-profits or the city to step in ahead of the game to secure them. Mr. Walter said when an existing multifamily property is acquired, it is valued based on what is called the cap rate. Generally speaking, leveraging the net rents that are thrown off after paying the operating costs can account for between 60 and 70 percent of the cost of the property. Investors wanting to acquire the property will either need to roll over equity from a prior deal or come in with some cash in order to break even. The question is how to cover the other 30 or 40 percent and whether or not there are sufficient public resources to fill the gap. King County Housing Authority enjoys the fortunate position of having relationships with lenders that allows access to capital to acquire properties. Once properties are tied it, it can take three or four years to assemble all of the financing needed, but during the interim the excess net operating income is used to pay down the principal. Over time the acquired properties become seasoned and begin to pay down their debt, which makes pooled refinancing possible.

With regard to what role the city can play, Mr. Walter said for every thousand dollars of monthly debt service, it may be possible to leverage $40,000 of equity. For $12,000 per year, that could yield up to $60,000 of debt. While the city may not be able to come up with $4 million to fill a gap, it could possibly come up with $60,000 a year for the debt service. That could lock in the price, reduce the amount of capital needed, and leverage third party debt or bank financing.

Mr. Ferris asked what specifics would need to be included if an action item aimed at leveraging and encouraging the capacity of the King County Housing Authority to develop and preserve affordable housing in Bellevue were to be added. Mr. Walter said one option would be to use city resources to leverage private capital. That could mean having the city commit to a certain amount of debt service each year. The city may also have hundreds of millions of dollars at any one time that is not being spent, even though they may be committed. As a public agency, the Authority can issue a bond issue for the city to purchase with those funds and receive back 90 basis points.

Mr. Depew said the area of preservation programs is one in which there has been a lot of movement. When existing naturally occurring affordable housing converts to market rents, the stories make the headlines. There are a lot of such projects out there and there has been effort put into figuring out how to lock them in as affordable units. Most housing programs do not treat preservation like they do other fund sources. San Francisco has used its financing capacity to finance small projects with only a few units, and the small ball strategy does not have to compete with investors. There are efforts going on with tax credit syndication funds in which a prior owner who held a property for ten years can receive some tax credits on the acquisition value where the focus is on preservation.

Mr. Walter said the Authority just closed a bond issue in October. The relatively small $7 million will cost about $280,000 per year. If the funding could be committed by the city, and if the $7 million was 30 percent, the Authority could go out and borrow another 70 percent, allowing for the acquisition of a $25 million to $30 million property. At $250,000 per unit, that is 100 to 120 units preserved for $280,000 per year.

Mr. Wagner said the base question is whether or not the city would use its bonding capacity as a way of saying the preservation of affordable housing is important. Of course that is a political issue. Most Councilmembers in Bellevue are proud of the fact that the city has not even leveraged the city’s existing capacity.

Mr. Ferris said to address the affordable housing gap, the city can either put forward a housing levy that would require increased taxes for all Bellevue residents, or it could mitigate the gap by leveraging the bonding capacity. He said that should be an easy one for the Council to answer.

Mr. Kattermann noted that one of the potential actions on the list is a housing levy. There are questions about how much it would generate, but of course the funds would be used to leverage other monies. It may in fact be more politically palatable to invest in bonds as opposed to going out asking for money from the public.

Mr. Depew stated that it is almost always less expensive to buy existing housing and keep it affordable than to build new. The challenge from a policy standpoint is whether or not preservation efforts should be part of the 2500 unit goal. Mr. Kattermann said generally speaking units that are not currently preserved as affordable are counted as affordable once they are acquired and preserved for long-term affordability. Part of the reason preservation is part of the strategy is to avoid losing what already exists. Preservation alone, however, will not achieve the goal.

Mr. Walter said there is hardly any land banking done. The reality is existing properties with something already on it have value, and it is difficult to pay the improved value and then build only an incremental number of units; there is just not enough money to do that. The beauty of leveraging debt is that 70 percent can be leveraged from a third party, and of the 30 percent, having another way to borrow it would only require five percent of the 30 percent to meet the debt service. Putting those numbers together, a million dollars per year could leverage close to $100 million worth of housing. The key is locking in the acquisition price as soon as possible.

Mr. Sullivan said a county near Washington, D.C. is doing the same thing San Francisco is doing to target small properties. There are groups in Bellevue who are currently trying to unload their small properties because they are too inefficient to own and operate. He suggested the TAG should recognize the approach and to identify the players that would get involved in the smaller scale projects. Mr. Depew said the Council has expressed concern about how some of the ongoing development is displacing current owners of small apartments, those where the owner lives in one of the units and the rest bring in or supplement their retirement income. The city could set up an acquisition program focused on developments with eight or fewer units, even allowing the older residents to stay in their units. Such a program could keep such developments from going to the market.

Mr. Walter said the Authority cannot economically own and operate the smaller properties that have only a few units. The Authority does better borrowing money in ways that allow for leveraging up, reducing the cost-per-unit operating basis. Mr. Kattermann commented that the threshold the Authority looks for is 60 units and above. The tool the Authority uses, however, could be used to identify other candidate properties that have fewer than 60 units.

Mr. Ferris said his organization does not look at developments with fewer than 70 units. Mr. Martin said his organization is made up of some 5100 people who by and large own less than ten units and who do all the work, including maintenance, themselves and who are looking to sell their properties down the road to supplement their retirement.

Mr. Wagner said there is an economy of scale involved. A single person could possibly do everything for 20 units or less, but beyond that threshold help in the form of office work and maintenance is generally needed. At some point the owner needs a property manager to handle the load.

Mr. Ferris said the institutional threshold appears to be at or around 200 units. At that capacity, the values are high and there is stiff competition. By focusing on sites with 70 or fewer units, the economic pressures of having to compete are greatly reduced. The best option would be to acquire properties that have more capacity given the zoning because they have the operating efficiency that comes with the higher capacities.

Mr. Schrag said it would be reasonable to assume that a few of the private property owners who are waiting to sell their properties somewhere down the road to support their retirement would be willing to partner with the city, especially if the city were to acquire 20 percent of the land, expand it by two and a half times, and then manage it. The owner could see their value go way up.

Mr. Wagner said he has looked at a couple of projects that are basically garden-style apartments. In the old garden-style apartments built in the 50s, 60s and 70s there are community spaces, pools and tennis courts, none of which are being used at all anymore. Over the years, those sites have been rezoned for more density. The garden-style has been left in place and a four-story building has been built in the middle, with the community center on the top floor. He suggested there might be ways to link that kind of redevelopment to the affordability issue.

Mr. Depew said he did not know at what level it would even be viable to think about some of the smaller projects, but if there were a public capital source to tap into, and if the current owner were to stay on and manage the facility, that could be a solution. It would seem inefficient to go to a smaller unit size if it is necessary to subsidize the property management operations, but that would be at least one financial solution. Mr. Martin said he was sure there likely would be some interest on the part of some of his members. There are always folks looking for different opportunities.

Mr. Walter said the private owners/managers of developments with only a few units do not typically need to apply the same screening procedures necessary for larger properties.

Mr. Depew said he would like to see some numbers around what it would really mean for the city to make its capital available. Some examples would further the conversation.

Mr. Walter said the reality is existing properties can be acquired for less than what it will cost to go out and build new. That approach will not, however, achieve the goal. One of the challenges is that there are very few public funders willing to finance acquisition gaps; where they do finance, they call for rents under 50 percent of area median income. The problem is rental income between 50 percent and 80 percent is needed to leverage the debt.

Mr. Kattermann noted that he did not have time to go over the weatherization and home repair program materials. He asked the TAG members to review the information in Attachment 3C.

NEXT STEPS

Mr. Kattermann said the TAG would meet again on November 17 to continue the discussion.

ADJOURN

The meeting was adjourned at 12:59 p.m.