King County

Housing Finance Program

2020 Capital Funding for Affordable Housing Projects

PROJECT REVIEW MEMO

I. OVERVIEW

1A. PROJECT INFO

Sponsor/owner	**Horizon Housing Alliance**
Development consultant	**Inland Construction and Development Co.**
Project name	**Polaris at Eastgate**
Project location	**13620 SE Eastgate Way, Bellevue**
Project type	☒ **Rental** ☒**TOD** ☐ **PSH** ☐**HO** ☐ **DPA**
Project activity	☒ **New Construction** ☐ **Rehabilitation** ☐ **Acquisition**

Brief description

Construct a 354-unts of rental housing affordable for households earning up to 60 percent of the Area Median Income (AMI) including a mix of studio, one, two, and three-bedroom units.

Polaris at Eastgate is one phase of a three-phase Master Development Plan that includes a Homeless Men's Shelter the County funded last year, and a permanent supportive housing project by Horizon Housing Alliance and Plymouth Housing, which also applied in the 2020 funding round.

1B. PROJECT COST

Total development cost (TDC)	**$134,189,530**
Total residential development cost	**$134,189,530**
Cost per residential unit/ per square foot	**$379,066 cost per unit / $297 cost per sq. ft.**
Total non-residential development cost	N/A

1C. KING COUNTY REQUEST

King County Funds requested	**$8,000,000**
% of TDC/ Cost per unit	**6% of TDC / $$22,598 per unit**
KC Loan term/ interest rate	**50 year loan term / 1% interest rate**

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Project applied for funding in prior rounds..... ☐ **YES** ☒ **NO**

Project previously awarded KC funds..... **No**

Does request deviate from HFP guidelines.....☐ **YES** ☒ **NO**

II. PROJECT DESCRIPTION

2A. HOUSING MODEL

of residential units/ managers/ total units..... **351 / 3 / 354**

Project total square feet / # of floors..... **452,258 total square feet / Six floors**

Project residential sf/commercial sf ..... **452,258 / 9,449**

Unit distribution - Income & AMI

Unit/Income	30% AMI	40% AMI	50% AMI	60% AMI	80% AMI	**Total**	Mgr/ CAU
Studio				24		24	
1 Bedroom				**138**		138	**3**
2 Bedroom				**117**		117	
3 Bedroom				**72**		72	
4 Bedroom				**0**		0	
Total				**351**		351	**3**

Average unit sizes ..... Studio 427sf, 1B 529sf, 2B 824sf, 3B 1,110sf

Other type of unit. ..... 20 percent (70) units will be set aside for disabled residents.

Target population

General population, families with children with 70 units for people with disabilities.

2B. CONSTRUCTION TYPE, SITE, & LOCALITY CHARACTERISTICS

Construction type..... ☒ **Wood Frame** ☐ **Steel Construction** ☐ **Combo**

Construction begins/ Construction period..... **10/2021 / 14 months**

Evergreen Sustainable Design Std. (ESDS) Score..... **52**

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Project intends to meet higher energy standards (Net-Zero, Passive House, etc.) or include energy efficient systems (solar panels, water systems, etc.)?..... ☐ **YES** ☒ **NO**

Development Processes

Is zoning compatible?.....☐ **YES** ☒ **NO**

The project is the second in a three-phase development that requires completion of a Master Development Plan (MDP) process. The master developer, Inland Group, will lead the MDP permitting process, including State Environmental Policy Act (SEPA) public notices in late 2020 or early 2021.

Challenges in development of the site?..... ☒ **YES** ☐ **NO**

The City of Bellevue has estimated this Master Development Plan process to take approximately nine months. Additional environmental conditions noted on the next page.

Neighborhood

Describe the neighborhood.....☐ **Single Family** ☐**Multifamily** ☒**Commercial** ☐**Mixed-use**

The area includes commercial and light industrial buildings and offices and a King County transfer station. Additional commercial development and a community college are to the east. The South side of the site abuts SE Eastgate Way, then I-90.

Transit Oriented Development Eligible project?..... ☒ **YES** ☐ **NO**

- ○ ½ mile to high capacity transit?..... ☒ **YES** ☐ **NO**
- ○ Multi-modal?..... ☐ **YES** ☒ **NO**
- ○ Walk/transit score..... **35 Walk Score / 53 Transit Score**
- ○ Close proximity to community resources and/or services? ☒ **YES** ☐ **NO**

The project is located one tenth of one mile from the 212 and 241 bus stops and one quarter mile from the Eastgate Park and Ride and less than one mile from the Factoria Mall.

Nonresidential

Proposed commercial spaces?..... ☒ **YES** ☐ **NO**

A 9,449 square foot early learning facility area will be provided for residents and the surrounding community.

Parking requirements?..... ☒ **YES** ☐ **NO**

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Proposed parking number based on the reduction allowed by City of Bellevue, under which 266 total parking stalls are required. The stalls will be provided underground.

Environmental

Environmental/site concerns

Environmental conditions including documented soil and groundwater contamination, including petroleum hydrocarbons and volatile organic hydrocarbons (VOCs) in addition to the presence of unstructured fill at the Site, reportedly ranging in depths from 25-30 feet and consisting of concrete, asphalt, and other unknown debris must be mitigated for approval of the State Department of Ecology.

The unstructured fill is a landslide hazard that has resulted in groundwater seepage.

Proposed feasible mitigation measures (in budget) to address issues? ..... ☒ **YES** ☐ **NO** ☐ **N/A**

King County owns the parcel. The Facilities and Maintenance Division (FMD) and Inland are currently negotiating the sales price taking into consideration the remediation expense. Any amendment to the purchase and sale agreement will go to King County Council for approval.

Development Incentives & Restrictions

Development incentive programs in project location?..... ☐ **YES** ☒ **NO**

Restrictions in development?..... ☒ **YES** ☐ **NO**

Affordable housing requires a Master Plan Development.

2C. ROLES & RESPONSIBILITIES

Project development consultant? .....☒ **YES** ☐ **NO**

Horizon Housing Alliance and the Inland Group were selected to develop the full site in 2019. Inland Group will be the Master Developer responsible for entitlement of the whole property preparing it for a three-phase development including this Affordable Housing proposal.

General contractor selection process

Horizon Housing Alliance will work with Inland Construction, the General Contractor. At least three bids (but typically as many as 6-10) will be received for each construction discipline and the best bids will be selected.

Who will manage construction?

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The Inland Group is the Master Developer for the site and will to take the lead on the master development / binding site plan. The Inland Group will be conducting site feasibility, environmental remediation analysis, geotechnical analysis, civil engineering design, and preliminary design in preparation for the predevelopment review, pre application conference, SEPA, and critical areas permits for the entire site.

III. FINANCING & MARKET ANALYSIS

3A. SOURCES & USES

Permanent Residential Sources of funding

Source	Proposed Amount	Committed Amount	TOTAL
King County	$ 8,000,000		$ 8,000,000
Permanent Loan	$ 70,000,000		$ 70,000,000
City/ ARCH	$ 575,000		$ 575,000
4% Equity	$ 42,189,767		$ 42,189,767
Deferred Developer Fee		$ 13,424,763	$ 13,424,763
TOTAL	$ 120,764,767	$ 13,424,763	$ 134,189,530

Proposed commercial spaces?..... ☐ **YES** ☒ **NO**

Permanent Residential Uses of funding

Type	Amount	Comments
Acquisition Costs	$17,000,000	
Construction/ Rehab Costs	$82,333,129	
Soft Costs	$18,381,473	
Financing Costs	$9,827,472	
Capitalized Reserves	$1,329,771	
Other Development Costs	5,257,685	
TOTAL	$134,189,530	

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3B. COST EFFECTIVENESS

Appraisal, Acquisition, & Construction

Appraised value/date/tax assessor value..... $21,000,000 (entire MDP site – Polaris share is $17,000,000) – Dated 11/2019

Appraisal value greater than (or equal to) acquisition costs?..... ☒ **YES** ☐ **NO**

Developer fee..... $16M with $13M deferred

Third-Party Construction Consultant Report

Notable departures in construction costs with comparable projects?..... ☐ **YES** ☒ **NO**

Hillmann Consulting found the total proposed budget to be slightly higher than the general range of anticipated costs in the subject locale for a project of this scope specifically - the costs identified for General Conditions, Site Work, Exterior Improvements appear to be higher than the anticipated range, however this can be accounted for in the amount of site work required for the project and the duration.

Suggestions to revisions in project design or project team?..... ☐ **YES** ☒ **NO**

Appropriateness of contingency

Contingency is at 5 percent for new construction, which is appropriate for a project of this size.

Will federal wages be triggered?..... ☐ **YES** ☒ **NO**

N/A

3C. MARKET DEMAND

Market study required .....☒ **YES** ☐ **NO**

Date conducted..... 09/10/2020

Capture rate/ Lease-up rate ..... **Six percent cap rate / 23 units/month lease-up**

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Notable findings

The market study finds the cap rate, absorption rate, as well as the occupancy and wait lists of existing LIHTC developments in the area will result in the project being well-accepted. Overall, the study finds adequate demand for the project as proposed and will not negatively impact the existing LIHTC supply, as these properties have high occupancy rates and extensive wait lists. Market rents are over 30 percent higher than the project rents.

3D. FINANCING

How will construction be financed?..... ☒ **Construction Loan** ☒ **LIHTC** ☒**Bonds** ☐ **Other**

Preliminary letters of interest provided? .....☒ **YES** ☐ **NO**

LIHTC Project

Proposed use of LIHTC?..... ☒ **YES** ☐ **NO**

Anticipated 4% round application...	1/15/2021 4% round
Projected LIHTC pricing	**$.98**
4% LIHTC self-score.....	**89**

Were Letters of Interest provided? How does pricing and self-score compare to comparable projects?

Score of 89 seems on the edge of low. Pricing at $.98 seems high but is based on two recent similar projects (Polaris at Lake City, and Polaris at Together Center), that are closing in December 2020, with similar finalized equity investment terms No LOI for equity was provided.

Is project subject WSHFC TDC limits?..... ☒ **YES** ☐ **NO**

The project costs are not over the TDC limits and will not require a waiver.

Debt & Contributions

Amount of private permanent debt proposed **$70,000,000**

Is debt coverage sufficient?..... ☒ **YES** ☐ **NO** ☐ **N/A**

An initial combined construction (89M) and permanent (70M) commitment letter was provided by Citibank, supporting the proposed private debt. A minimum 1.15 DCR is required.

Could project leverage other financial resources not yet identified? ..... ☐ **YES** ☒ **NO**

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The development team needs to keep the bank DCR above 1.2 to accommodate debt service to subordinate loans. Increasing the bank loan and annual debt service payment would reduce the projects ability to service the KC loan and, more critically, the deferred developer fee. Eliminating the deferred fee would reduce the credits generated for the project requiring additional subsidy to finance the development.

Sponsor contributions? ..... ☐ **YES** ☒ **NO**

Sponsor contribution comments.

Proposed fundraising? ..... ☐ **YES** ☒ **NO**

Fundraising comments.

IV. PROJECT SERVICES & OPERATIONS

4A. OPERATING PRO FORMA

Annual operating expense total/ per unit... **$1,688,002**

Rent & utility allowance schedule within AMI limits? ..... ☒ **YES** ☐ **NO**

All rents are at 60% AMI.

Proposed project-based or tenant-based rent subsidies? ..... ☐ **YES** ☒ **NO**

NA

Expected vacancy rate

Five Percent

Expense comparison

Operating Costs are about $2,000 or 11% lower than the average cost.

Replacement & operating reserve payments

Replacement Reserve at $250 /unit and Operating Reserves at 6 months expenses meet industry standards.

If TOD project, are TOD loan repayment terms included in proforma? ..... ☒ **YES** ☐ **NO** ☐ **N/A**

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4B. PROPERTY MANAGEMENT

Property Management Plan

Horizon will contract with FPI Management for experienced property management and compliance responsibilities. The Project will be staffed with approximately 7 full-time employees, including a Manager, Assistant Manager, two Leasing Agents, Maintenance Supervisor and tow Maintenance Assistants. Up to three of the employees may reside at the Project, providing quick response in the event of an emergency. A Regional Property Manager will provide additional oversight but will not be a direct expense to the property and will not work from an office on-site.

4C. SERVICE MODEL & FUNDING ANALYSIS

Project seeking operating or service subsidies? ..... ☐ **YES** ☒ **NO**

Subsidized Units/ Funding per subsidized unit... **NA**

Service Funding			
Funder	**Fund Type**	**Amount**	**Awarded?**
			Awarded
			Proposed
Total		Total here	

Requests for service funding feasible? ..... ☐ **YES** ☐ **NO**

Project competitive for ORS funding? ..... ☐ **YES** ☐ **NO** ☒ **N/A**

4D. REFERRALS

Permanent supportive housing for homeless? .....☐ **YES** ☒ **NO**

Coordinated Entry for All (CEA) participation for ALL homeless units?.....☐ **YES** ☐ **NO** ☒ **N/A**

NA

Referrals/marketing

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The property will be managed by FPI Management, Inc (FPI), FPI will implement a variety of advertising strategies all of which shall be in accordance with applicable Equal Opportunity Housing Laws. To sustain the highest possible occupancy rates, FPI will anticipate and wherever possible, fill vacancies thirty days prior to the vacancy occurring. Marketing materials will include wording that a purpose of the facility is to provide housing for low-income families. Community outreach efforts will occur to reach target groups who would most benefit from the housing provided.

Community Spaces.....☒ **YES** ☐ **NO**

The project will include many of the standard apartment amenities including a business center, fitness center, resident lounge, theater, and multi-purpose room. Most notable, an early learning center will provide affordable childcare to the residents and the Eastgate Neighborhood.

Resident Services..... ☒ **Referral Services** ☐ **Counseling** ☐**Medical Services** ☐**Financial Assistance**

Monthly recreation and education activities will be offered. These may be cultural, educational for children or adults, health-related, or security/safety related.

V. FUNDING PRIORITIES

5A. FUNDING PRIORITIES

Which source(s) of King County funds is the project compatible with?

☐ **2331 Document Recording Fee** ☐ **RAHP** ☒ **HOME** ☐ **VSHSL** ☐ **MIDD 2** ☒ **TOD**

This project meets the following 2020 King County RFP priorities:

Homeless/Extremely Low-Income/Affordable Housing

☐ A majority of the units (50% or more) are set-aside for homeless individuals and families, and participate in CEA

☒ The proposed project serves special needs population such as (but not limited to) households with a member with mental illness, is disabled and/or developmentally disabled, also experiencing homelessness

☐ The proposed project provides access to case management and behavioral health services

☐ The proposed project leverages other resources for both the construction and operations of the project, including social services expenses

System-connected housing

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☐ The proposed project will be V**eteran housing**, serving Veterans, Military Service members, and their family members.

☐ The proposed project serves a MIDD-eligible population (individuals/households exiting treatment facilities or other institutionalized settings); the sponsor is or is partnering with a State-licensed certified mental health provider

Transit-Oriented Development

☐ Project leverages present and future public investment in transit infrastructure.

☒ Repurpose under-utilized publicly owned property or other community assets

☐ Utilize alternative housing models and cost saving construction methods

☐ Serve lower income households between 30% to 50% AMI.

☒ Project is within ½ mile of a high capacity transit station, and is eligible for the:

☐ All-County South pool (2016 TOD)

☒ All-County North/East pool (2016 TOD)

☒ Geographic Set-aside (N/E/S/Seattle) (2019 TOD)

☐ Projects funded with 2016 TOD Allocation Plan funding will be required to set aside 10% of the TOD Bond-funded units for tenant referrals from King County or a King County-approved agency operating criminal justice system diversion programs.

Homeownership Development

☐ Projects that expand homeownership opportunities for 1) Veterans and their families or

☐ 2) Vulnerable Populations who can become homeowners, be stably housed, and avoid intergenerational poverty.

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5B. Federal HOME funds

HOME funding requested?..... ☐ **YES** ☒ **NO**

Rents and UA within HOME rent/utility allowance limits?..... ..... ☐ **YES** ☐ **NO**

Within HOME maximum per unit subsidy limits?..... ☐ **YES** ☐ **NO**

NA

Is sponsor a Community Housing Development Organization (CHDO)?..... ☐ **YES** ☒ **NO**

VI. SPONSOR CAPACITY

6A. PORTFOLIO & PERFORMANCE

of sponsor projects in King County portfolio... **None with Horizon**

KC - Sponsor Projects	
Project Name	**Brief Description**

How have these KC projects performed?

NA

6B. PIPELINE & DEVELOPMENT CAPACITY

Does the sponsor have other projects under construction and/or under development? ... ☒ **YES** ☐ **NO**

# of projects under construction..... **4**

Projects under construction		
Project Name	**Location**	**Brief description**
Together Center	Redmond	280 rental units anticipated 2023
Polaris at Lake City	Seattle	260 rental units anticipated 2023
Polaris at Rainier Beach	Seattle	306 rental units anticipated 2022
Traditions at Federal Way	Federal Way	200 rental units anticipated 2022

# of projects under development..... **0**

How is the sponsor staffed to handle multiple projects?

6C. SPONSOR FINANCIAL SOUNDNESS

Audit findings, material weaknesses and/or corrective action plan required? ..... ☐ **YES** ☒ **NO**

Sponsor's financial audits consistently clear, steady? ..... ☒ **YES** ☐ **NO**

Operating cash provides appropriate levels of liquidity for operations? ..... ☒ **YES** ☐ **NO**

Portfolio maintains strong debt ratios? ..... ☒ **YES** ☐ **NO**

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Summary of audited info for the past two years (Assets, Liabilities, Net Worth, Liquidity, Debt Ratios)

Horizon provided 990 tax returns and a 2020 budget. The budget includes $892,000 of revenue and $511,000 in expenses for a net income of $371,000. Horizon did not provide an annual statement for 2019. In 2018 total assets were $783,000 and total liabilities were $190,000. Net position was $593,000.

In addition to audit reports, were unaudited financial statements also reviewed? ☒ **YES** ☐ **NO**

If unaudited financial statements were reviewed, did they show the same trends as audits? ☒ **YES** ☐ **NO**

If Audits were not available, were unaudited financial statements reviewed? ☐ **N/A** ☐ **YES** ☐ **NO**

If more than one applicant submitted financial statements for review summarize the second applicant's financial statements below. ☒ **N/A**

VII. EQUITY & SOCIAL JUSTICE

How will this project impact the target population of residents and the surrounding community?

In 2017, about two thirds of Bellevue's residents who worked had relatively high earnings at or above $75K. Another 16 percent had moderate earnings between $50K and $75K, and the remaining 21 percent of residents working full time had relatively low earnings of less than $50K.Offering a housing mix with larger units equates to more inclusion. According to the American Community Survey, in the Seattle- Bellevue MSA 76% of black households occupy two bedrooms or more, versus only 44% of white households. Of black households, 47% occupy three or four-bedroom units, compared to only 16% of white households. Further, these proportions remained similar when Horizon analyzed lower income brackets (60% AMI and 30% AMI). This indicates that black households are more likely to need, units with more bedrooms than white households. Polaris at Eastgate unit mix will include 72 three-bedroom units for households earning up to 60% AMI housing.

Does the applicant have a plan for reviewing structures, policies, and programs with an equity and social justice lens? ☐ **YES** ☒ **NO**

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FPI, the Managing Agent, and the Owners want all customers, residents, prospects, and vendors to feel they have been provided professional and courteous service. The Grievance Procedure provides a means for FPI's customers to raise concerns about the community; such as a decision about the community itself, how management addressed a concern, or how FPI can better meet their customer's needs. The Grievance Procedures may also be used to raise concerns about incidents of all alleged discrimination, harassment, or retaliation.

The Grievance Procedure is designed to ensure that there is a fair and equitable process for addressing customer concerns. Also, to ensure fair treatment of customers if an action or inaction by a management representative adversely affects any customer visiting or residing in the community. It is also designed to provide FPI with an opportunity to try and resolve escalated problems quickly and fairly.

What is the diversity of the board and senior leadership?

Horizon's board of directors, two men and two women, includes professionals with backgrounds in affordable housing, finance, public relations, communications, business ownership, real estate development, and public service.

VIII. SUMMARY AND RECOMMENDATION

Staff Recommends funding Horizon's Polaris project at the requested amount because it is a well-developed proposal that will provide Transit Oriented affordable housing for 351 low income households in Bellevue.

Polaris at Eastgate is one phase of a three-phase Master Development Plan that includes a Homeless Men's Shelter the County funded last year, and a permanent supportive housing project by Horizon Housing Alliance and Plymouth Housing, which also applied in the 2020 funding round, and which is also being recommended for funding.

Polaris is located one tenth of one mile from the 212 and 241 bus stops and one quarter mile from the Eastgate Park and Ride and less than one mile from the Factoria Mall.

The project will be ready to start construction once environmental cleanup and the MDP process are completed.

The development team of Inland and Horizon is strong and capable of successfully completing the project.

The project has strong local support of the city of Bellevue.

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