



South King County Joint Planners and Developers Meeting

August 23, 2023

Background:

The South King County Housing and Homelessness Partners (SKHHP) was formed in 2019 by an interlocal agreement between jurisdictions to promote and preserve affordable housing. As part of that effort, SKHHP convenes a meeting every other month to facilitate a discussion between planning staff and developers to reduce barriers to affordable housing.

On Wednesday, August 23, 2023, twenty-two people convened to share their experiences and provide feedback on how to preserve affordable housing in South King County. SKHHP provided participants with a list of questions in advance.

Attendees:

Dorsol Plants (TWG) – Facilitator	Carson Hartmann (King County)
Bambi Chavez (HDC)	Hannah Bahnmler (Renton)
Amanda Santo (MSC)	Katie Buchl-Morales (Renton)
Maisha Barnett (Civic Commons/BHI)	Kaelene Nobis (Kent)
Andrew Calkin (KCHA)	Colleen Brandt Schluter (Burien)
Marty Koistra (Civic Commons/BHI)	Neil Tabor (Tukwila)
Ben Taylor (MBAKS)	Dafne Hernandez (Covington)
Carter Nelson (WMFHA)	Angie Mathias (Renton)
Lauren McGowan (LISC)	Melissa Donahue (WSHFC)
Liz Underwood Bultmann (PSRC)	Jackie Moynahan (WSHFC)
Allen Dauterman (TWG)	Susan McLain (Burien)

Key Takeaways:

South King County's affordable housing stock is aging and at-risk of disappearing. Much of the South King County affordable housing portfolio across multiple organizations was acquired decades ago and is showing its age. King County is a hot real estate market, and investors are quick to purchase former HUD properties, Real Estate Owned (REO) properties, and foreclosed homes. Nonprofits receive regular calls from investors interested in purchasing income-restricted property to convert to more expensive housing types.

Funding sources for affordable housing preservation are limited or nonexistent in some areas. The budget for nonprofit developers is tight, and there is a constant push/pull between keeping development costs low and providing high-quality, long-lasting housing. Nonprofit developers need large financial resources often unavailable at the local level. Tacoma and Spokane have used their multi-family tax exemption program to finance the rehabilitation of affordable housing. This tool may be limited to unoccupied buildings.

The need to layer funding sources to fund preservation projects can be a barrier and continues to create administrative challenges with oversight requirements. Mixed-income projects are often prioritized at the local level. However, at the state and federal levels, a push to fund 100% affordable projects impedes mixed-income projects from seeking funding. This is brought on by several factors, including the substantial risk to an investor for a mixed-income project, which will have different reporting requirements for each funding layer. Compared to a 100% LIHTC project, which has well-established and understood levels of risk for any investor.

More advance notice is needed on notice of intent to sell policies. A year or more is necessary to develop partnerships between the owner of naturally occurring affordable housing (NOAH), funders, and nonprofit organizations to acquire and preserve a NOAH site. This can mean that programs like notices of intent to sell can be helpful but not provide the timeline required to respond before a market-rate investor can acquire the project.

New development favors reducing the number of bedrooms to reduce costs. It can be easier to make projects pencil by reducing the number of bedrooms to increase the number of individual units. South King County has many families that need three-bedroom housing or more to truly support keeping them in the community.

The vernacular of affordable housing is not accessible to the general public. Area median income (AMI) is usually discussed as a data-point rather than its relation to real people and professions. When engaging the public on housing, it's important to tie the housing problem into their everyday experience to be relatable. We are using the term affordable, but much of the housing being discussed is for working people like teachers, firefighters, and even city staff.

Summary of Discussion

Questions for Developers:

1. Do you have experience with income-restricted units?

Many of the developers present had previously or were actively involved with income-restricted units. While several funding sources were discussed, 4% LIHTC credit projects were most frequently used when funding affordable housing preservation. A common strategy is for projects to be syndicated with a 4% LIHTC credit and use funds from the investment to rehabilitate the project as needed. The syndication process is highly competitive and underfunded, creating a challenge for smaller projects to compete against projects with a higher number of units. Other funding sources included the State's Housing Trust Fund and the King County Veteran and Human Services levy. The need to layer funding sources, often with different criteria, can create challenges for the developer and future operators. It can also result in delays, increasing future rehabilitation costs as the buildings continue to wear down, waiting for future funding. One transit-oriented development site in South King County has been in pre-development for five years, creating significant financial challenges for the developer.

Affordable homeownership opportunities face many of the same challenges with limited funding and incentives to do preservation. HUD HOME and CDBG can help cover the cost of acquiring and preserving an affordable home. When preserving homes that low-income families currently own, it will be nonprofit developers who carry the heaviest burden.

Nonprofit developers and operators are dedicated to keeping their projects affordable past the affordability terms. Income-restricted units are seen as long-term assets, and for HUD-funded projects, there are funds to maintain the capital side of the project. Primarily, re-syndication or first-time syndication to 4% or 9% LIHTC has been the primary way to fund preservation projects, but competition is high against new development. The market continues to add pressure, with nonprofit developers reporting they will receive calls from investors interested in purchasing the property to convert it into more expensive housing forms.

2. Anti-displacement of current residents is important to South King County cities and so is adding housing density. What are the anti-displacement policies that you like as a developer, and what are the policies you find challenging? (For example, community preference policy; first right to tenancy; fee in lieu.)

Several anti-displacement strategies were discussed, including an example from the Renton Housing Authority (RHA), which significantly revitalized 100 units in the Sunset area. RHA provided tenants relocation assistance and the right of first refusal after completing units. The total project time took ten years, so offers weren't immediate relocations but commitments that they could return to the community. All 100 residents were confirmed to have been successfully served throughout the process. Combined, the two methods effectively provide the tenant with the most significant autonomy when considering options during a revitalization or if affordable housing is lost.

One strategy that is being used by the City of Auburn and Burien is the "notice of intent to sell." This requires the owner of a NOAH site, often a certain size of multi-family housing, to inform the local jurisdiction before the property goes on the market. Many developers are on notification lists but note

that the policies doesn't align with the realities of development and the pre-development process can take years. Nonprofits in South King County tend to be small organizations that do not have free capital to acquire a property in six months or less. Notification of a year or more before going on the market would be necessary to gather capital without the existence of a revolving loan. There was general agreement that the notices provide value. However, preservation projects have been historically successful in South King County when the property is off the market. There is time to develop a relationship between the owners and the nonprofit. One example of success is a property owner in Eastern Washington was entering retirement and wanted to sell his property without impacting the affordability for their tenants. The owner reached out directly to the Washington State Housing Finance Commission and worked with the organization a year before the affordability term expired to transfer ownership to a local nonprofit organization.

3. Are there other ways to balance preserving community members' residency with new development?

Intense market pressure comes into play when attempting to balance preservation and new development of projects. The current housing market makes any after-market product highly desired by the investor community. Affordable housing developers in our region have directly competed at public auction for foreclosed properties. One solution at the state level to help affordable housing developers compete against market rate developers is providing an exemption on the Real Estate Excise Tax (REET) when the State makes land donations to affordable housing providers. Another is the property tax exemption if the project provides housing at set AMI levels.

One unique challenge to preventing displacement when a project is being redeveloped, even by an affordable housing developer, is a change in unit size. The conversation can be challenging as it can come across initially as the preservation of single-family housing. Due to construction costs, reducing the number of bedrooms in each unit can be cheaper, and can increase the number of paying tenants. A single-family home with four bedrooms replaced by four townhomes with two bedrooms would mean that families would be offered the right to refuse housing that does not support them. South King County has many families that require two or more bedrooms, and without incentives to support larger units and homes, any preservation strategy could still lead to displacement.

Two examples of how to prevent displacement after construction were discussed. One was a significant preservation project of 300 units in Kirkland. Due to the site having multiple buildings, tenants were rotated from one building to another as construction was completed, so all residents continued to live on-site while their unit was renovated. Similarly, a project done by another developer in the Westway neighborhood in Federal Way kept one home as a transitional unit, allowing families to reside there while their specific unit was rehabilitated.

4. What incentives would you need to preserve naturally occurring affordable housing or maintain affordability on an expiring term of income-restricted units?

There was a strong consensus that no matter how dedicated the developer is to the mission of affordable housing, economics would always be the limiting factor. An example of this was an affordable housing development project in South King County that would have needed \$2.1 million to cover school impact fees related to the project. The reality of development economics means that projects would only be able to be built at affordable levels with some form of reduction in those fees. With school

impact fees, jurisdictions have begun tying the size of the unit to the level of impact fee collected. A studio or one-bedroom unit is less likely to have school-aged children than a two- or three-bedroom unit.

Another cost driver continues to be delays in the permitting process or elements that need clarification, such as a change in staffing. Each change has the potential to lead to an increase in delays which will increase costs. Projects can receive permits and finish quicker by creating a streamlined process and providing training for staff at all levels.

5. Anything else you'd like to tell us?

A concern was raised about recent legislation in the City of Federal Way related to the siting of permanent supportive housing in relation to distance from other services. It was expressed that the new policy may put significant barriers to affordable housing development in the jurisdiction. With the considerable complexities of these issues, it was suggested that having developers as part of the discussion can help navigate the challenges of siting permanent supportive housing. One example was how setting distance limits between housing sites and schools makes creating housing for families that need access to schools difficult.

There continues to be a need to advocate at the state level for acquiring and preserving affordable housing. There continues to be a push for new development and density without focusing on preservation or funding to support it. The Housing Development Consortium (HDC) has been passing along a letter of support for increasing funding at the national level for affordable housing preservation.

Finally, the LIHTC program has become highly competitive and oversubscribed. There is a huge need to increase and review the funding options available to agencies willing to do affordable housing preservation. Work is being done at the federal level to pass the Affordable Housing Credit Improvement Act, which would increase and expand the LIHTC programs.

Questions for Planners:

6. Where do developers fit into the picture of affordable housing preservation for your city?

Collaboration with developers is essential to help balance the community's dreams with the realities of the market. By centering developer voices early in the process, planning staff can present ideas that help to move the city in a desired direction while receiving direct feedback on the challenges in implementing those desires before they become written policies. Connecting with developers willing to share their expertise can be a challenge. Their time is often in high demand and they are scheduled to move from project to project as quickly as possible. Jurisdictions may need more resources initially to bring developers to the table. It's important that this collaboration is intentional and feels like there is value for the developer alongside the general benefit to the whole community.

7. Are there opportunities for collaboration between planners and developers to address preserving affordable housing? If so, what are those opportunities?

Jurisdictions have several incentive policies with great intentions, but due to realities on the ground, they have yet to lead to the desired outcomes. Planning staff and developers could come together to review and create better policies. Without including developer input, policies can move a project from affordable to completely infeasible.

8. What are some barriers (or anticipated barriers) to working with developers to preserve affordable housing?

New development is factually easier from a development perspective, with the process being more step-by-step than preservation. A preservation project is more about problem-solving and requires skills to respond quickly to unexpected challenges to construction. Additionally, there is a risk management component to preservation projects that can challenge the project associated with how risk tolerant the bank or funder is.

The most significant barrier identified continues to be the public perception of the housing crisis and what is needed to resolve it. Often, the loudest voices can dominate the housing conversation even though they do not represent the community or even a significant percentage of the community. Affordable housing has become a catch-all term, and many people must understand that it can mean various housing styles and types. The language used around the housing conversation can be confusing, with AMI often being considered an external data point and not considering what everyone's AMI in a community may look like. These challenges can often stem from a prejudice or misunderstanding about homelessness and housing among planning staff. One example discussed involved having jurisdiction staff calculate their AMI and consider Housing Cost Burden related to their own lives instead of the lives of unknown community members.

Many South King County cities have historically had naturally occurring affordable units, and there has been a push to create housing at higher income bands to grow the tax base inside cities. Most SKC cities are suffering from budget deficits, and at the same time, they are recognizing a need for new housing. This has led to many South King County elected officials supporting or hoping for an increase in mixed-income housing projects, which can create a more holistic community. That desire contradicts a push at the state and national level to focus on projects that provide 100% affordability. As resources at the state level have become scarce, there is a desire to push for as many affordable units as possible, which means a mixed-income project will score lower than a project with total affordability. Mixed-income projects also brings more risk for the investor than LIHTC projects with clearly defined parameters. While this creates more units on the surface to end the housing crisis, questions exist on whether that is the best method for building a sustainable, long-term community.

Challenges to Consider in the Future:

- How to support nonprofit developers building expediency in their portfolio to secure rapidly disappearing NOAH properties.
- Ways City/County officials and the Washington State Housing Finance Commission can work together to create a collaborative process to reach out and coordinate responses between property owners with expiring affordability and nonprofits interested in acquisition.
- The relationship between capital lenders and affordable housing developers, including any barriers affordable housing developers experience accessing capital for repairs that market-rate developers do not.
- How affordable housing preservation ties into and supports work around converting under-utilized office space into residential space.
- How to resolve the tension between the local desire for mixed-income development and the need to increase the raw number of affordable units as quickly as possible.
- Ways to advocate at the state and federal level for funding sources prioritizing preservation.

- How to increase funding available through the 4% LIHTC or other sources.
- How jurisdictions can incentivize units that can support 6+ member households.
- How to develop mechanisms to help nonprofit developers be as responsive and competitive in securing after-market products as private investors.

Further Reading

Kimura, Donna. Feb 2024. House Passes Tax Package with LIHTC Improvements. Affordable Housing Finance. https://www.housingfinance.com/policy-legislation/house-passes-tax-package-with-lihtc-improvements_o



SKHHP
25 W Main Street
Auburn, WA 98001
Office: (253) 804-5089
info@skhhp.org

South King County Joint Planners and Developers August Meeting
Questions on the Preservation of Affordable Housing in South King County

August 23, 2023

Questions for Developers:

1. Do you have experience with income-restricted units?
 - a. If so, can you describe the programs or incentives that you have experience with?
 - b. What are some of the challenges of having income-restricted units in your projects?
 - c. If there is an expiration date for your affordability term, what is your plan for the affordable units once the term expires?
2. Anti-displacement of current residents is important to South King County cities and so is adding housing density. What are the anti-displacement policies that you like as a developer, and what are the policies you find challenging? (For example, community preference policy; first right to tenancy; fee in lieu.)
3. Are there other ways to balance preserving community members residency with new development?
4. What incentives would you need to preserve naturally occurring affordable housing or maintain affordability on an expiring term of income-restricted units?
5. What are the ways that private-sector developers can use their expertise to support a subregional affordable housing preservation strategy for South King County?
6. Anything else you'd like to tell us?

Questions for Planners:

7. Where do developers fit into the picture of affordable housing preservation for your city?
8. Are there opportunities for collaboration between planners and developers to address preserving affordable housing? If so, what are those opportunities?
9. What are some of the barriers (or anticipated barriers) to working with developers to preserve affordable housing?

Hosted by South King Housing and Homelessness Partners (SKHHP)

SKHHP member jurisdictions include the cities of Auburn, Burien, Covington, Des Moines, Federal Way, Kent, Maple Valley, Normandy Park, Renton, Tukwila, and King County