

# Feasibility Analysis

Houghton Village Development Plan

Kirkland, WA

DRAFT

September 2024

# Methods

# Pro Forma Method

Compares development feasibility across housing prototypes

Returns an estimate of what a developer would be able to pay for land given **development inputs** (*Residual Land Value*)

For this analysis, results can serve as an indication as to whether public investment and/or policy intervention is required to develop the project

## Building Program Information

- Unit size, parking ratios, building heights

## Development Costs

- Hard costs (labor & materials)
- Soft costs (design, permit fees, interest)
- Contingency

## Revenues

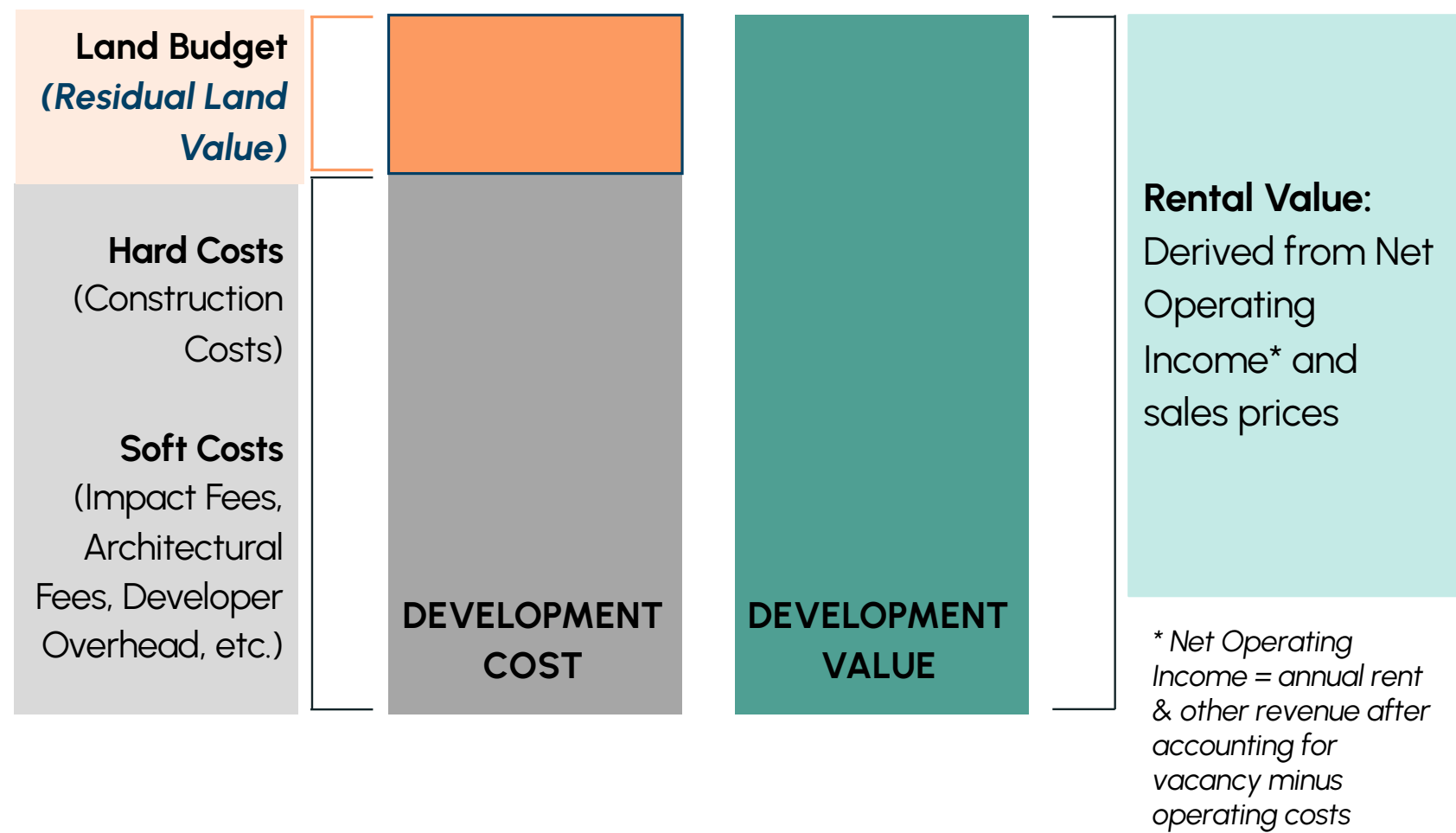
- Sale price, rent, operating costs

## Valuation Metrics

- Capitalization rates, debt service coverage ratios, and yield on cost thresholds

# Pro Forma Method

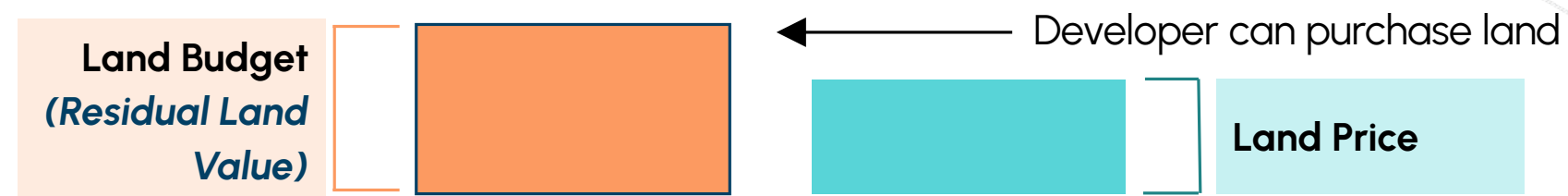
## Feasible Development Example



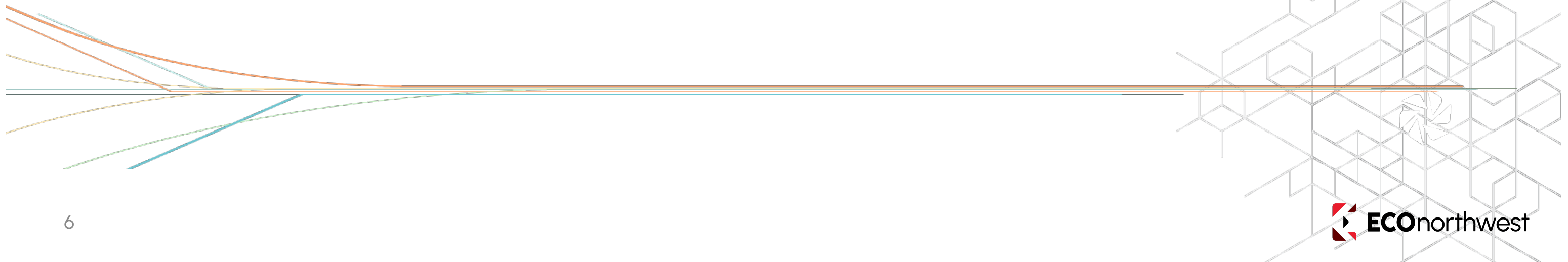
# Pro Forma Method

RLV analyses should be thought of as a strong *indicator* of the **relative likelihood of development**.

Higher RLV relative to existing land prices **indicates better development feasibility**:



# Feasibility Results



# Key Takeaways

The **scale of parking** required in the building program to meet development requirements burdens the project with costs that make market-rate and inclusionary housing programs infeasible without significant City investment or policy intervention.

Affordable housing supported by tax credits is feasible and helped by the City's site control, but the **timing of winning competitive tax credit awards** creates uncertainty for when those units would be built.

Cooperative models can create a **feasible ownership opportunity** at a premium relative to market-rate rents. Partnership with cooperative developers—and potentially moderate City investment—could lead to a building program that creates ownership for lower-income households.



# Site Design – Option B



## OPPORTUNITIES

- Public open space provides connection from NE 68th St to CKC Connection, with some spaces buffered from traffic noise along NE 68th
- Commercial space orientation activates street edge along NE 68th St and extension to 106th Ave NE
- Provides street frontage for Lakeview Center
- Opportunity for year around community space within a mid-block connection. This would have varied levels of sunlight throughout the day due to its orientation, and could include overhead weather protection for rain
- Grade change across site to enhances visual interest as buildings "step down" with grade
- Alternative walking route to Lakeview Elementary via mid-block connection and Cross Kirkland Corridor
- Opportunity for larger community events at connection to Cross Kirkland Corridor
- Consolidates curb cuts on NE 68th St to one signalized intersection in future condition
- Opportunity for one affordable development and one market rate development

## CHALLENGES

- Inefficiencies caused by separated parking garages and building utilities
- Affordable parking garage may be too deep to be feasible
- Requires moving existing access & utility easements
- ADA accessibility in public courtyard spaces may require ramps or elevators
- Park may be difficult to activate if CKC connection is not connected through Lakeview Center

## PHASING

- A fire lane loop is required to serve Houghton Village until the permanent road is built, leaving three temporary curb cuts along NE 68th, two for driveways and one for fire access

## \* NEW STREET ALIGNMENT

Street alignment is conceptual and requires further analysis

## LEGEND

- CITY OWNED PARCEL
- STUDY AREA
- COMMERCIAL
- RESIDENTIAL
- PARKING AND SERVICES
- FUTURE PHASE NOT INCLUDED IN HV PROPERTY



SOURCE: MWH



# Building Programs

Starting program:

- 2 buildings
- 4 stories of residential above ground-floor commercial
- 2 decks of below-grade parking

	Building 1	Building 2	Combined
Residential Area (SF)	61,600	89,340	150,940
<b>Residential Units</b>	<b>60</b>	<b>95</b>	<b>155</b>
Commercial Area (SF)	16,920	13,010	29,930
Parking Area (SF)	51,560	80,470	131,930
<b>Parking Stalls</b>	<b>141</b>	<b>209</b>	<b>350</b>
Total Building Area (SF)	137,680	188,820	326,500

# Comparing options for affordable housing

We began by testing this starting building program for two options for on-site affordable housing

**Baseline** – Market rate in both buildings with a **10 percent set aside** (at 50 percent of AMI), per the City's Inclusionary Housing policy

- Qualifies for an 8-year tax abatement through the City's MFTE program

**Affordable** – Reaching **60 percent affordable housing on the site**, with one market rate building and one fully affordable building at 50 percent of AMI

- Market-rate building does not qualify for MFTE
- Affordable building modeled with Low-Income Housing Tax Credit (LIHTC) equity
- Kirkland is in a Difficult to Develop Area as defined by HUD, which qualifies for increased LIHTC equity
- Affordable housing owned by nonprofits qualify for a permanent property tax abatement

*Across both scenarios, we escalated current market **and** affordable rents to estimate completion and stabilization in 3 years.*

# Commercial Assumptions

- Current asking commercial rents are likely too high for non-profits, community-based organizations, service providers, or small businesses.
- We assumed discounted rents for these organizations, and assumed that half of the commercial space would be programmed for these tenants.

# Feasibility Results

## Residual Land Value by Building, Baseline Scenario



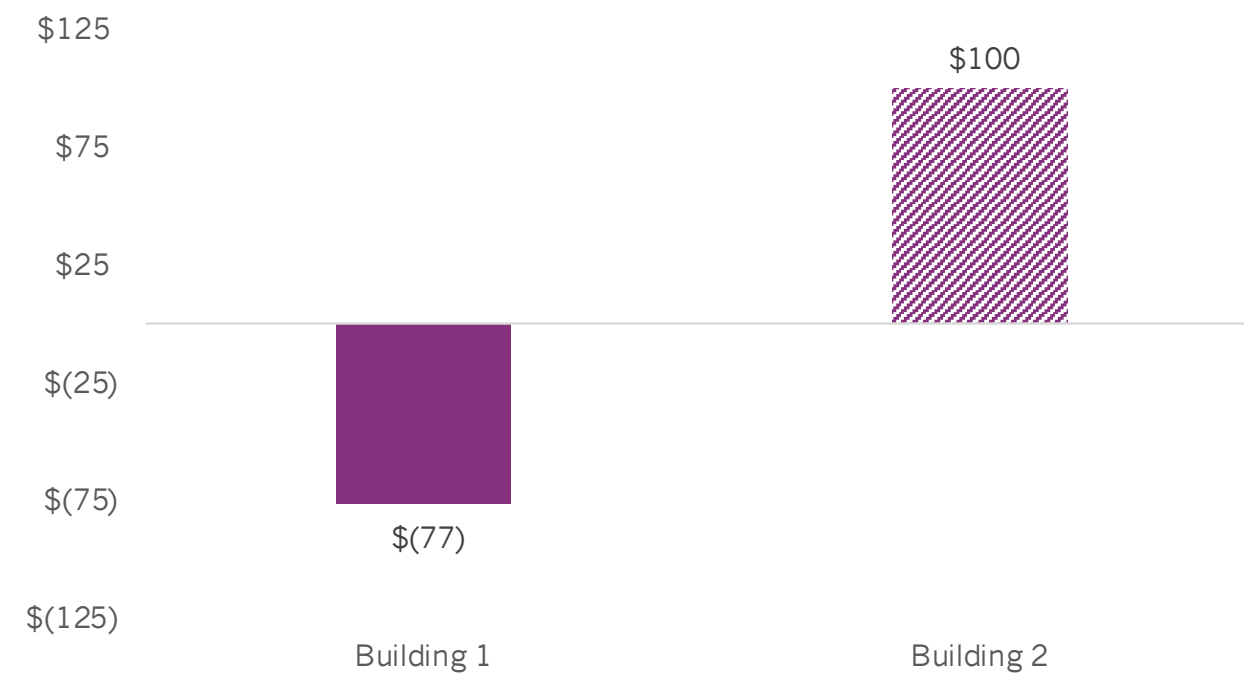
With current construction costs and projected rents, the MFTE incentive is not enough to make the project feasible.

This result is largely driven by the amount of parking.

- Below-grade construction has a cost premium.
- Only residential parking generates revenue.

# Feasibility Results

## Residual Land Value by Building, Affordable Scenario



In the blended scenario, Building 1 is market rate and Building 2 is a fully-affordable building.

Building 1 performs better compared to the Baseline scenario by having fully market-rate rents, but is still not feasible (due primarily to the cost of parking).

The LIHTC equity available to Building 2 makes the project feasible. LIHTC buildings can be feasible, but have some **qualitative barriers**.

- On this site, the City's site control removes one major barrier.
- The competitiveness of tax credits creates uncertainty for timing.



# Modeling reduced parking

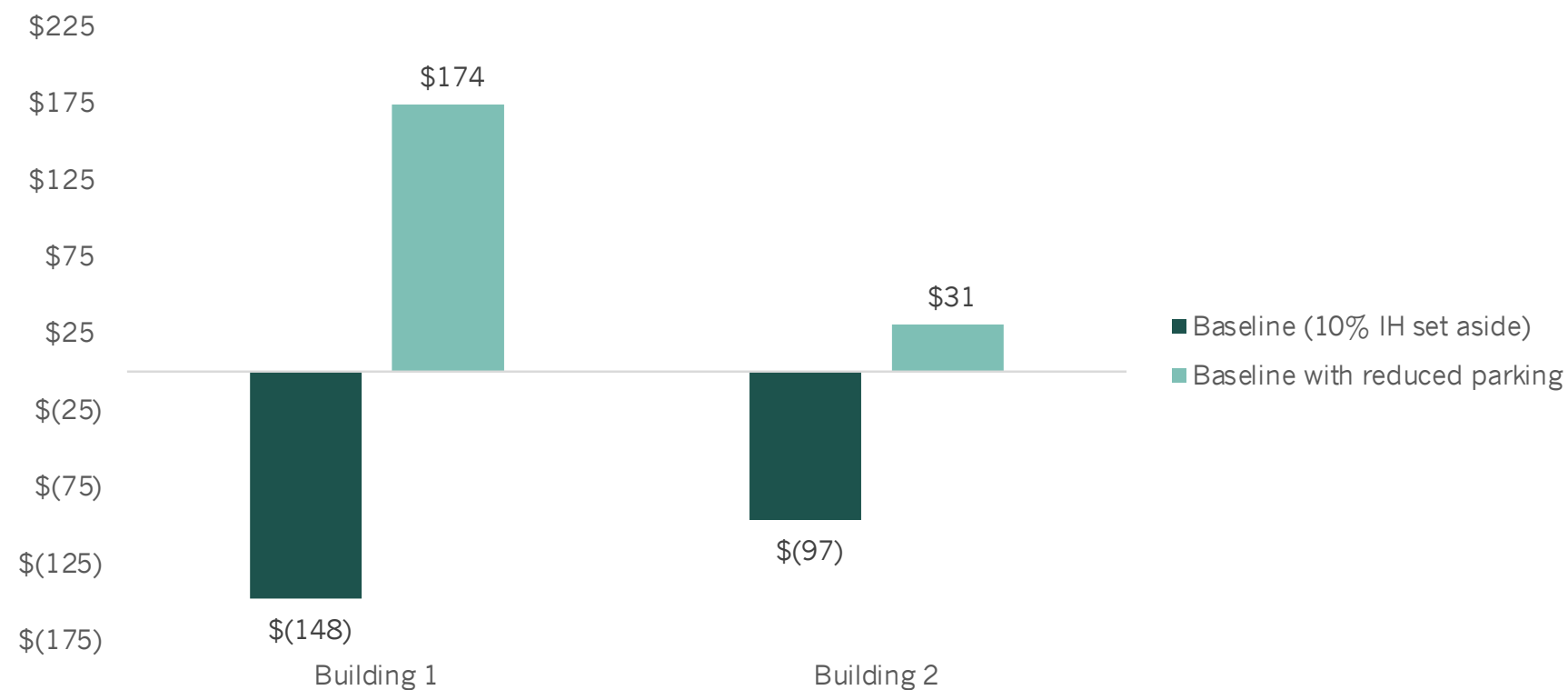
ECO modeled the effect of taking out a second full tray of underground parking from the current design scenario. This reduces the parking ratios below current requirements and below the Station Area Plan standards.

## 5-Stories Above 1 Level of Below-Grade Parking

	Building 1	Building 2	Combined
Site Area (SF)	33,873	40,209	73,992
Residential Area (SF)	61,600	89,340	150,940
<b>Residential Units</b>	<b>60</b>	<b>95</b>	<b>155</b>
Commercial Area (SF)	16,920	13,010	29,930
Parking Area (SF)	17,900	59,770	77,670
<b>Parking Stalls</b>	<b>45</b> <i>96 stalls removed</i>	<b>149</b> <i>59 stalls removed</i>	<b>194</b> <i>155 stalls removed</i>
Total Building Area (SF)	104,120	168,120	272,240

# Feasibility Results – Reduced Parking

Residual Land Value by Building, Baseline Scenario

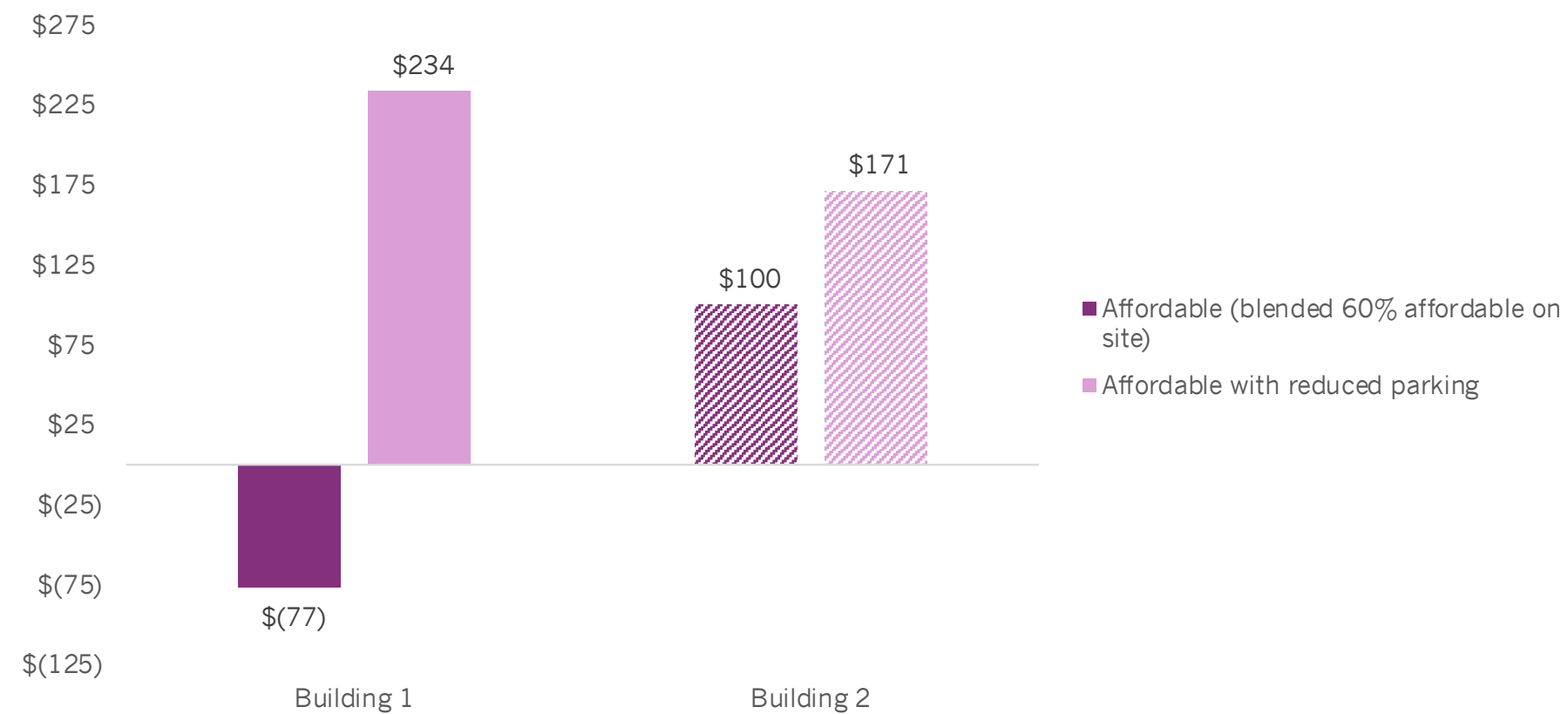


Reducing the construction costs of underground parking makes both Building 1 and Building 2 feasible.

This approach removes the larger underground parking tray from Building 1 and a smaller underground tray from Building 2—which has a larger affect on feasibility for Building 1.

# Feasibility Results – Reduced Parking

Residual Land Value by Building, Affordable Scenario

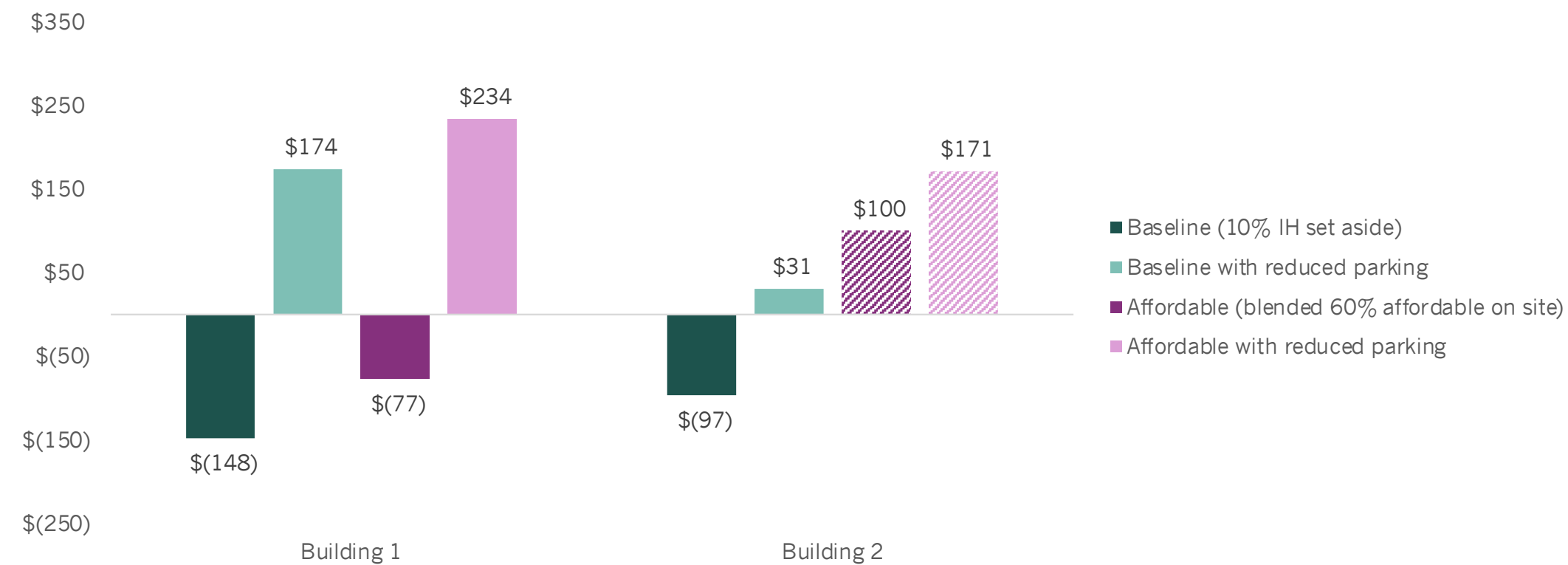


In the blended scenario, Building 1 is market rate and Building 2 is a fully-affordable building.

Reducing the costs of building underground parking increases the feasibility for both the market rate and affordable buildings.

# Feasibility Results

Residual Land Value by Building, All Scenarios



Reducing the scale or costs of parking is the largest driver of feasibility across scenarios.

Beyond parking policy intervention, City investment could increase feasibility for inclusionary units in Building 2.

## Takeaways – Reduced Parking

Finding **a solution to providing on-site parking** for mixed uses is a tool the City can utilize to support feasibility across the full site without additional public investment.

While the City's site control helps remove an important barrier to developing affordable housing, the **competitive nature of LIHTC awards creates uncertainty for the timing** of building an affordable project on the site.



# Housing Cooperative Program



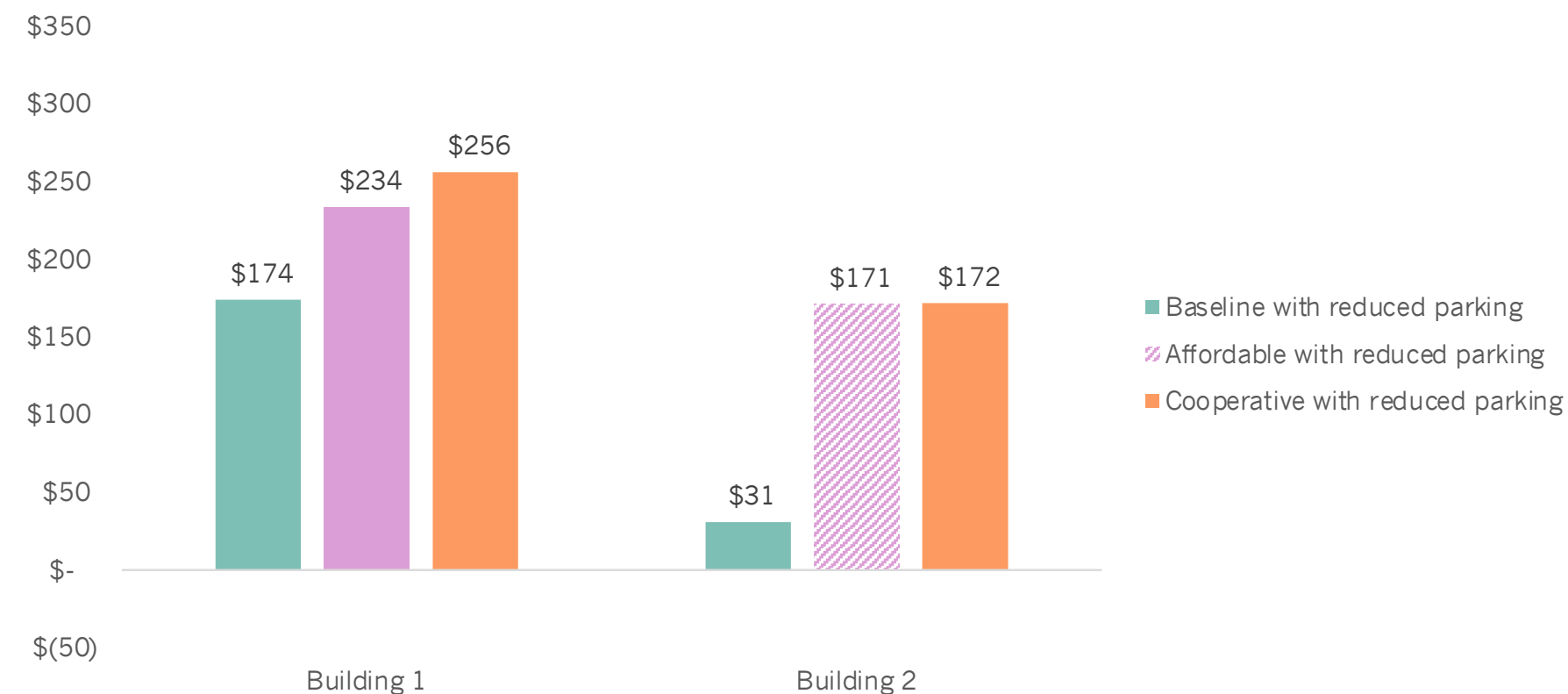
Same building programs, with ECO's **reduced parking** assumptions.

Different financing approach

- Each building would have a blanket mortgage to cover majority of development costs
- Share prices fill the gap between mortgage and total development costs

# Feasibility Results – Cooperative

Residual Land Value by Building



We assume that the retail and parking revenue contributes to net operating income, but not to the blanket mortgage.

This "extra" cash flow contributes to overall feasibility.

The cooperative feasibility results assume a blanket mortgage covering 70 percent of the total development costs.

The remaining development costs could be filled by share prices—the cost for residents to become members of the cooperative—or a combination of share prices and other sources (e.g., social impact investments, forgivable loans, grants).

# Income Requirements – Cooperative

A housing cooperative offers an ownership opportunity but is only affordable to households with above median incomes, as currently designed and without additional development sources.

## Summary Housing Costs, Cooperative Model

	Building 1	Building 2
<b>Residential Units</b>	<b>60</b>	<b>95</b>
Share Price Per Unit	\$204,400	\$188,000
Down Payment	\$20,440	\$18,800
Total Housing Costs	\$5,130	\$4,540
<b>Required Income (AMI)*</b>	<b>160%</b>	<b>130%</b>
<b>Costs relative to market rent</b>	<b>+ 32%</b>	<b>+ 15%</b>

\* AMI represents the estimated escalation of median income in 2027

Total Housing Costs = *Monthly dues (blanket mortgage, maintenance, property taxes)*  
+ *Share price loan (financed balance after down payment)*

# Key Takeaways – Cooperative

Cooperatively-owned buildings are **generally feasible**—assuming reduced parking—with ownership costs that are about 15–30 percent higher than projected market rate rents.

Current model assumes that residents can afford a 10 percent down payment. There is a **potential for subsidy** to achieve more deeply affordable cooperative units by lowering share prices, or providing down payment assistance.

**Partnership with cooperative developers and lenders** is essential to design a program that meets affordable ownership goals.



# Regional Ecosystem for Cooperative Housing

Regional resources for cooperative housing development:

## Developers

- HomeSight Washington *homesightwa.org*
- Frolic *frolic.community*
- Allied8 *allied8.com*

## Lenders

- Verity Credit Union *veritycu.com*
- Rainier Valley Community Development Fund *rvcdf.org*

## Technical Assistance

- Northwest Cooperative Development Center *nwcfdc.coop*



# Discussion & Next Steps

# Determining priorities for maximizing public benefit

Some of the building program options and public benefit goals are possible under current market and regulatory conditions when looking at each building individually. Achieving other desired development outcomes and/or meeting current regulatory requirements would require City investment or policy intervention at varying levels.

## Summary Housing Programs and Results by Scenario

	Baseline	Affordable	Cooperative
Housing Program	Building 1   Building 2	Building 1   Building 2	Building 1   Building 2
Market-Rate Units	54   85	60   0	60   95
Affordable Units	6   10	0   95	0   0
Feasibility			
Current Code	no   no	no   yes	not tested
Reduced Parking	yes   low	yes   yes	yes   yes

The City paid approximately \$147 per square foot for the site, before right-of-way dedications.

yes is positive RLV  
no is negative RLV  
low is positive RLV, but under \$100

# Factors that affect development outcomes

## Market

### Development costs

- Materials and labor
- Insurance
- Interest rates

### Income growth

- Change in median income shapes market-rate rents and affects the maximum rent that can be charged for affordable housing.
- Projected rent growth is required to make market-rate development feasible.

## Regulatory

### Parking requirements

- On-site parking requirements add significant construction costs.

### Ground-floor commercial

- Does the required commercial space meet the needs for the area? Vacant retail spaces are subsidized by residential rents.

# Next steps for City

## **Determine development program**

- Site design
- Building scale
- Balance of uses

## **Disposition process and developer negotiation**

- Request for proposals
- Development criteria

## **Define priorities for the site**

- How best to meet housing goals
- Community needs for commercial and public space
- Policy interventions or investments needed to support priority outcomes