

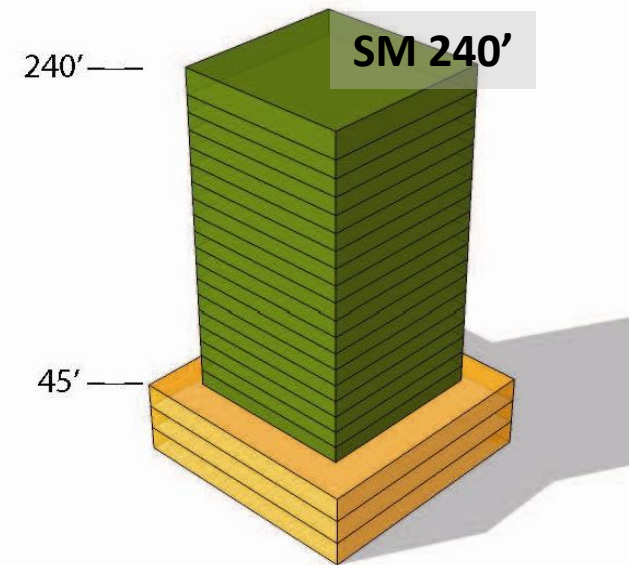
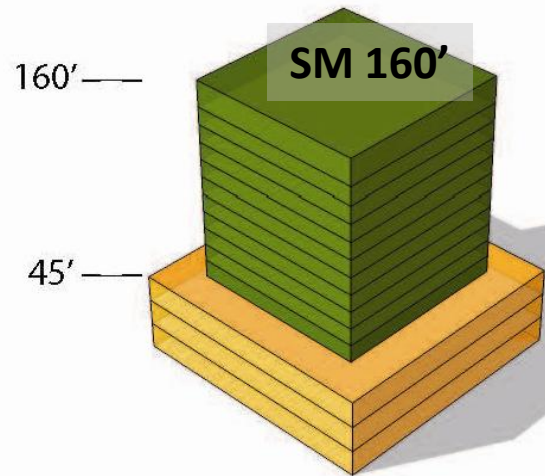
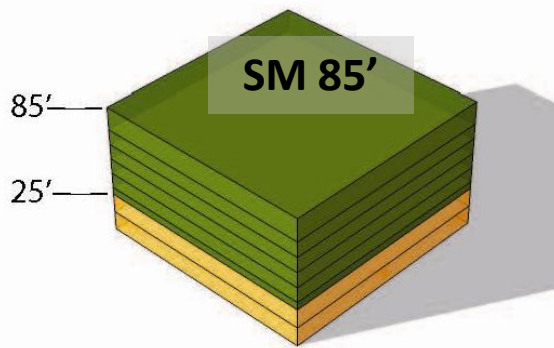
# Overview of Scope

- Development Analysis Process
- Pro Forma Work
- Analysis of Fee in Lieu versus building Affordable/Workforce Housing

*Question: How many housing units can be created that are affordable to moderate income workers while providing real estate developers with a reasonable return on their investment?*

# Comparison of Development Types

	SM 85'	SM 160'	SM 240'
<b>FAR</b>	4.75	7.75	11.0
<b>Gross Allowable SF</b>	99,750	162,750	231,000
<b>Apartments</b>	105	145	225



# Affordability Analysis 240'

	Mid Rise Apartment - 85'	High Rise Apartment - 240'							
<b>Project Program</b>									
Site (SF):	21,000					21,000			
Zoning:	SM 85					SM 240			
Height Limit:	85					240			
Allowable FAR:	4.75					11			
Gross SF	94,950					226,965			
Total Units:	105					225			
<b>Affordability Sensitivity Summary</b>		<b>Scenario 1 (Current)</b>		<b>Scenario 2</b>		<b>Scenario 3</b>		<b>Scenario 4</b>	
		<b>Pay in Lieu - No Affordability</b>		<b>10% of Units @ 80% AMI</b>		<b>15% of Units @ 80% AMI</b>		<b>20% of Units @ 80% AMI</b>	
Number of affordable units:		0		23		34		45	
Land Value:	\$ 5,250,000	\$ 10,141,463		\$ 10,141,463		\$ 10,141,463		\$ 10,141,463	
Total Estimated Development Cost (incl land)	\$ 29,052,000	\$ 80,285,000		\$ 78,293,000		\$ 78,293,000		\$ 78,293,000	
Total Estimated Project Value (5.5% CAP Rate):	\$ 32,905,000	\$ 101,716,000		\$ 97,205,000		\$ 94,950,000		\$ 92,695,000	
Stabilized Return on Equity (ROE): (3)	5.6%	9.1%		8.4%		7.6%		6.8%	
Residual Land Value Increase	\$ 0	\$ 4,891,463		\$ 4,891,463		\$ 4,891,463		\$ 4,891,463	
Net Project Value Increase	\$ 3,853,000	\$ 21,431,000		\$ 18,912,000		\$ 16,657,000		\$ 14,402,000	
Total Project Value Increase (\$):	\$ 3,853,000	\$ 26,322,463		\$ 23,803,463		\$ 21,548,463		\$ 19,293,463	
<b>Incentive Zoning Program Analysis</b>		<b>Total</b>		<b>Per NSF</b>		<b>Total</b>		<b>Per NSF</b>	
Pay in Lieu Fee (\$18.85/NSF Bonus Height):		\$ (1,990,786)		\$ (18.85)					
Pay in Lieu Fee Equal to Impact of Affordability:		\$ 1,990,786		\$ 19		\$ 8,756,786		\$ 83	
Pay in Lieu Fee TDR portion (40% at \$18.75)		\$ 792,090		\$ 18.75		\$ 792,090		\$ 18.75	
Pay in Lieu Fee Affordable Housing ( 60% at		\$ 1,198,696		\$ 18.92		\$ 5,709,696		\$ 90.10	
						\$ 7,964,696		\$ 125.69	
								\$ 10,219,696	
								\$ 161.28	

(1) Payment of the Pay in Lieu Fee as shown will lower the ROE but result in the calculated % value increase.

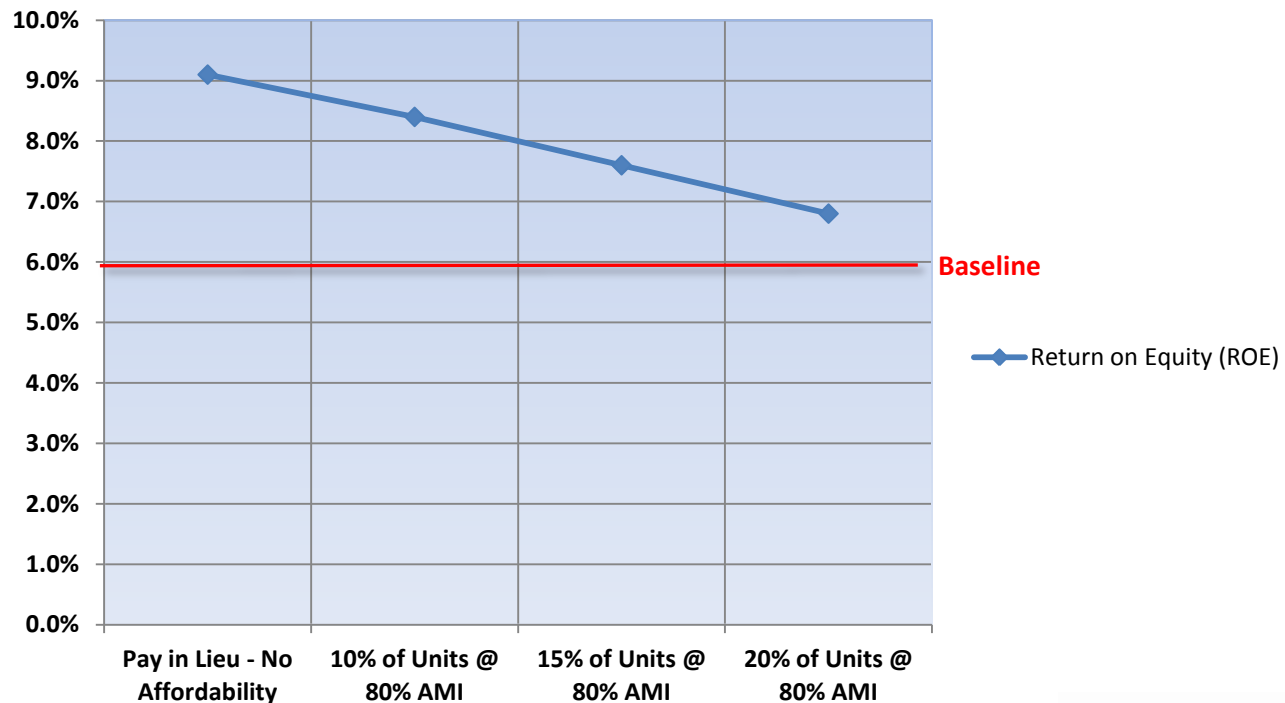
(2) Return on Equity (ROE) indicates cash-on-cash return upon stabilization & occupancy. The typical investor threshold yield for ROE for new mixed-use multifamily projects ranges from 5% - 8% upon stabilization.

(3) Capitalization rates are used to estimate the value of an income-producing property. The range of capitalization rates reflect the current Seattle market as of Q4 2012/Q1 2013 for well located, stabilized, low vacancy apartment projects. According to the Dupre & Scott Apartment Advisor December 2012 report the average capitalization rate for King County is 5.3%. Capitalization rates change fluctuate frequently as they are heavily influenced by overall market demand for a specific product type, investor/lender appetite, and current cost of capital (interest rates).

# Balancing Public and Private Benefit

Developer's return on equity, with a set-aside as high as 20%, would be greater than if building just to base height.

**High Rise - 240': Return on Equity (ROE)**



# Questions and Answers

# Appendix

# Affordability Analysis 160'

Project Program	Mid Rise Apartment - 85'	High Rise Apartment - 160'								
	Site (SF):	21,000							21,000	
Zoning:	SM 85							SM 160		
Height Limit:	85							160		
Allowable FAR:	4.75							7.75		
Gross SF	94,950							162,002		
Total Units:	105							145		
<b>Affordability Sensitivity Summary</b>										
		<b>Scenario 1 (Current)</b>		<b>Scenario 2</b>		<b>Scenario 3</b>		<b>Scenario 4</b>		
		<b>Pay in Lieu - No Affordability</b>		<b>10% of Units @ 80% AMI</b>		<b>15% of Units @ 80% AMI</b>		<b>20% of Units @ 80% AMI</b>		
Number of affordable units:		0		14		22		29		
Land Value:	\$ 5,250,000	\$ 6,510,000		\$ 6,510,000		\$ 6,510,000		\$ 6,510,000		
Total Estimated Development Cost (incl land)	\$ 29,052,000	\$ 53,013,000		\$ 52,001,000		\$ 52,001,000		\$ 52,001,000		
Total Estimated Project Value (5.5% CAP Rate):	\$ 32,905,000	\$ 67,783,000		\$ 65,157,000		\$ 63,844,000		\$ 62,530,000		
Stabilized Return on Equity (ROE): (3)	5.6%	10%		9%		8%		7.3%		
Residual Land Value Increase	\$ 0	\$ 1,260,000		\$ 1,260,000		\$ 1,260,000		\$ 1,260,000		
Net Project Value Increase	\$ 3,853,000	\$ 14,770,000		\$ 13,156,000		\$ 11,843,000		\$ 10,529,000		
Total Project Value Increase (\$):	\$ 3,853,000	\$ 16,030,000		\$ 14,416,000		\$ 13,103,000		\$ 11,789,000		
<b>Incentive Zoning Program Analysis</b>										
		<b>Total</b>	<b>Per NSF</b>	<b>Total</b>	<b>Per NSF</b>	<b>Total</b>	<b>Per NSF</b>	<b>Total</b>	<b>Per NSF</b>	
Pay in Lieu Fee (\$18.85/NSF Bonus Height):		\$ (1,011,144)	\$ (18.85)							
Pay in Lieu Fee Equal to Impact of Affordability:		\$ 1,011,144	\$ 19	\$ 3,637,144	\$ 68	\$ 4,950,144	\$ 92	\$ 6,264,144	\$ 117	
Pay in Lieu Fee TDR portion (40% at \$18.75)		\$ 402,312	\$ 18.75	\$ 402,312	\$ 18.75	\$ 402,312	\$ 18.75	\$ 402,312	\$ 18.75	
Pay in Lieu Fee Affordable Housing (60% at		\$ 608,832	\$ 18.92	\$ 3,234,832	\$ 100.51	\$ 4,547,832	\$ 141.30	\$ 5,861,832	\$ 182.13	

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# Comparison of Values for Each Development Type

Project Program	Mid Rise Apartment - 85'	High Rise Apartment - 160'	High Rise Apartment - 240'
Site (SF):	21,000	21,000	21,000
Zoning:	SM 85	SM 160	SM 240
Height Limit:	85	160	240
Allowable FAR:	4.75	7.75	11
Gross SF	94,950	162,002	226,965
Total Units:	105	145	225
<b>Affordability Sensitivity Summary</b>			
		<b>Scenario 4</b>	<b>Scenario 4</b>
		<b>20% of Units @ 80% AMI</b>	<b>20% of Units @ 80% AMI</b>
Number of affordable units:		29	45
Land Value:	\$ 5,250,000	\$ 6,510,000	\$ 10,141,463
Total Estimated Development Cost (incl land)	\$ 29,052,000	\$ 52,001,000	\$ 78,293,000
Total Estimated Project Value (5.5% CAP Rate):	\$ 32,905,000	\$ 62,530,000	\$ 92,695,000
Stabilized Return on Equity (ROE): (3)	5.6%	7.3%	6.8%
Residual Land Value Increase	\$ 0	\$ 1,260,000	\$ 4,891,463
Net Project Value Increase	\$ 3,853,000	\$ 10,529,000	\$ 14,402,000
Total Project Value Increase (\$):	\$ 3,853,000	\$ 11,789,000	\$ 19,293,463
<b>Incentive Zoning Program Analysis</b>		<b>Total</b>	<b>Per NSF</b>
Pay in Lieu Fee (\$18.85/NSF Bonus Height):			
Pay in Lieu Fee Equal to Impact of Affordability:		\$ 6,264,144	\$ 117
Pay in Lieu Fee TDR portion (40% at \$18.75)		\$ 402,312	\$ 18.75
Pay in Lieu Fee Affordable Housing ( 60% at		\$ 5,861,832	\$ 182.13
		\$ 11,011,786	\$ 104
		\$ 792,090	\$ 18.75
		\$ 10,219,696	\$ 161.28

(1) Payment of the Pay in Lieu Fee as shown will lower the ROE but result in the calculated % value increase.

(2) Return on Equity (ROE) indicates cash-on-cash return upon stabilization & occupancy. The typical investor threshold yield for ROE for new mixed-use multifamily projects ranges from 5% - 8% upon stabilization.

(3) Capitalization rates are used to estimate the value of an income-producing property. The range of capitalization rates reflect the current Seattle market as of Q4 2012/Q1 2013 for well located, stabilized, low vacancy apartment projects. According to the Dupre & Scott Apartment Advisor December 2012 report the average capitalization rate for King County is 5.3%. Capitalization rates change fluctuate frequently as they are heavily influenced by overall market demand for a specific product type, investor/lender appetite, and current cost of capital (interest rates).

# 240' Summary Data 20% @ 80% AMI: Total Development Cost and Net Operating Income

APARTMENT PRO FORMA TEMPLATE					
DEVELOPMENT SUMMARY					
	Rate	Total	GSF	Per Unit	
<b>Acquisition Costs</b>					
Land	13%	\$ 10,141,463	\$ 37	\$ 45,000	
<b>Subtotal</b>	<b>13%</b>	<b>\$ 10,141,463</b>	<b>\$ 37</b>	<b>\$ 45,000</b>	
<b>Hard Costs</b>					
Construction Cost	\$ 175	\$ 48,402,716	\$ 175	\$ 214,774	
Contingency	5.0%	\$ 2,420,136	\$ 9	\$ 10,739	
WSST	9.5%	\$ 4,828,171	\$ 17	\$ 21,424	
<b>Subtotal</b>	<b>71%</b>	<b>\$ 55,651,023</b>	<b>\$ 201</b>	<b>\$ 246,936</b>	
<b>Soft Costs</b>					
Pay in Lieu/TDR Fee	0.0%	\$ -	\$ -	\$ -	
Permits	0.5%	\$ 296,066	\$ 1	\$ 1,314	
Utility Connection Fees	0.6%	\$ 361,859	\$ 1	\$ 1,606	
A/E + Consultants	6.0%	\$ 3,947,549	\$ 14	\$ 17,516	
Developer Fee	5.0%	\$ 3,289,624	\$ 12	\$ 14,597	
Financing/Insurance/Interest	6.0%	\$ 3,947,549	\$ 14	\$ 17,516	
Miscellaneous	1.0%	\$ 657,925	\$ 2	\$ 2,919	
<b>Subtotal</b>	<b>16%</b>	<b>\$ 12,500,572</b>	<b>\$ 45</b>	<b>\$ 55,468</b>	
<b>TOTAL DEVELOPMENT COST</b>	<b>100%</b>	<b>\$ 78,293,059</b>	<b>\$ 283</b>	<b>\$ 347,404</b>	
OPERATING SUMMARY					
	Rate	Total	GSF	Per Unit	
<b>Annual Income (Stabilized)</b>					
Gross Residential - Market		\$ 4,846,267	\$ 18	\$ 21,504	
Gross Residential - Affordable		\$ 691,242	\$ 2	\$ 3,067	
Gross Commercial	\$ 27	\$ 1,105,650	\$ 4	\$ 4,906	
Gross Ancillary	7%	\$ 465,021	\$ 2	\$ 2,063	
Less Residential Vacancy	5%	\$ (242,313)	\$ (1)	\$ (1,075)	
Less Commercial Vacancy	7%	\$ (77,396)	\$ (0)	\$ (343)	
<b>Effective Gross Income</b>		<b>\$ 6,788,472</b>	<b>\$ 25</b>	<b>\$ 30,122</b>	
<b>Annual Operating Expenses</b>					
Operating Expenses	25%	\$ (1,690,244)	\$ (6)	\$ (7,500)	
<b>Subtotal</b>		<b>\$ (1,690,244)</b>	<b>\$ (6)</b>	<b>\$ (7,500)</b>	
<b>NET OPERATING INCOME (NOI)</b>		<b>\$ 5,098,228</b>	<b>\$ 18</b>	<b>\$ 22,622</b>	

## 240' Summary Data 20% @ 80% AMI: Financial Summary

FINANCIAL SUMMARY					
	Rate	Total	GSF	Per Unit	
<b>Sources</b>					
Debt	80%	\$ 62,634,447	\$ 226	\$ 277,923	
Equity	20%	\$ 15,658,612	\$ 57	\$ 69,481	
<b>Total Sources</b>	<b>100%</b>	<b>\$ 78,293,059</b>	<b>\$ 283</b>	<b>\$ 347,404</b>	
<b>Debt Service &amp; Distributions</b>					
Annual Debt Service	5.0%	\$ (4,034,823)	\$ (15)	\$ (17,903)	
Annual Replacement Reserves		\$ -	\$ -	\$ -	
<b>Subtotal</b>		<b>\$ (4,034,823)</b>	<b>\$ (15)</b>	<b>\$ (17,903)</b>	
<b>ANNUALIZED CASHFLOW</b>		<b>\$ 1,063,405</b>	<b>\$ 4</b>	<b>\$ 4,719</b>	

LTV @ 5.5 cap  
68%

DSCR  
1.26

PROJECT RETURNS		
Return on Equity (ROE)*	6.8%	
Sensitivity Valuation Analysis	Cap Rate**	Market Value of Project
	4.0%	\$ 127,455,696
	4.5%	\$ 113,293,952
	5.0%	\$ 101,964,557
	5.5%	\$ 92,695,052
	6.0%	\$ 84,970,464

\* See ROE description on Comparison Summary Tab

\*\* See capitalization rate description on Comparison Summary Tab

# South Lake Union Apartment Rental Rate Comparison

	Rent per month (excluding utilities)		
	Studio	1 bedroom	2 bedroom
<b>Market (New high rise construction)</b>	\$1,650	\$2,080	\$3,150
<b>Families earning 80% of AMI</b>	\$1,114	\$1,288	\$1,422
<b>Families earning 60% of AMI</b>	\$810	\$941	\$1,031