EVERGREEN POINT GROUP

February 22, 2021

Mayor Will Hall
Mayor of Shoreline
17500 Midvale Ave N
Shoreline, WA 98133

Dear Mayor Hall and City Councilmembers:

Thank you for the opportunity to provide public, written testimony this evening. Evergreen Point Group is a small and local multifamily developer operating in the King County area. We are approaching the completion of Träd, our first project within the City's jurisdiction - a 124-unit, 5-story apartment building expecting TCO in April of this year. Our positive experience working with the city and its staff has encouraged us to pursue another project in Shoreline. We are now considering a 7-story, 200+ unit multifamily project with retail along NE 145th street in the MUR-70 zone, just steps away from I-5 and the future lightrail station, but we have encountered several barriers that are beyond the scope of the powers vested in City staff, and thus the reason for elevating this matter to Council. After speaking with other developers and conducting our own market research, we are cognizant of the fact that development has failed to move forward in MUR-70. We provide testimony today to share with you our perspective as to why that is.

We have closely followed the Council's actions around the MUR-70 zone, particularly the November 30, 2020 council meeting and discussion of the 185th street station rezone. At that meeting, the question was asked by councilmembers of why more developers haven't pursued projects in MUR-70. Two primary causes were posited: 1) market conditions – namely that lower rents relative to Seattle, coupled with high construction costs, were to blame; and 2) time – namely that the few years having passed since the upzone to MUR-70 have provided inadequate time to draw any serious conclusions. To be clear, the foregoing causes have merit, but other causes are also worthy of your consideration to complete a comprehensive picture. We offer our perspective as developers below, and submit to you actionable steps the Council should immediately consider in the weeks ahead to attract developers and redevelopment in the years ahead.

First, the City's planned widening of NE 145th street will result in the forced dedication of 24.5 feet of frontage for all developments abutting this street.

This taking by the City is understandable, but not insignificant by any measure, and is without compensation (more on this in item 3, below). What's more, it shrinks the overall footprint of any future development, impacting any project's efficiency and overall bottom line.

Second, the City's rezone of the MUR-70 zone, from single-family to multi-family, does so without acknowledging that an upzone of this scale requires upsizing of utilities (and pulling them from their sources of origin) that are overly burdensome to developers without cost-offsets. This applies to several utilities including storm, power, and water. Anecdotally, Evergreen recently received the following formal guidance from Seattle Public Utilities:

System Improvement Requirements: Design and install approximately 385 feet of 8-inch ductile iron pipe water main in NE 147th St, extending from 1st Ave NE to the east parcel boundary, including appurtenance(s).

The practical effect of this would lead to an upsize of the current line from 4-inches to 8-inches, including 385 feet (over a football field's length) of off-property trenching and asphalt overlay – a *significant* cost to Evergreen that is unmitigated by any financial support from the City, or late-comer mandate for future developments that stand to benefit from this new line.

Third, impact fees levied by the city are disproportionately higher than surrounding cities, including Seattle. Anecdotally, transportation impact fees alone on this proposed project would amount to approximately one million dollars. Evergreen understands the intent and purpose of these fees and how they support City efforts. But oftentimes, impact fees are offset, to a certain degree, by improvements generated by developers and by their respective redevelopments – especially with regard to ROW improvements. Unfortunately, in addition to the uncompensated 24.5' dedication, Evergreen has been informed that its improvement to the ROW on 145th (which is possible *because of* its 24.5' dedication) is not eligible for impact fee reduction in this area. Even worse, Evergreen has been informed that it will be required to pay the City for the ROW improvements – a double-whammy (or double-dip) of sorts.

Fourth, the MUR-70 zone mandates affordability for 99-years despite providing only 12-years of property tax exemption through the Multi-Family Tax Exemption (MFTE) program. After the expiration of the 12-year period, full property tax realization coupled with the loss of revenue-generating market-rate units will create a net operating income that is unenticing and overly burdensome to developers.

Fifth, MUR-70 mandates Tier 4 participation in the Deep Green Incentive Program (DGIP), but does not afford developers access to any of the incentives associated with the program. Whether participation is voluntary or mandated, as is the case with development in the MUR-70 zone, one cannot deny the significant cost increases associated with achieving green certification. And while these incentives can be unlocked with moving into a higher tier – for instance, moving up from Tier 4 to Tier 3 – the costs associated with achieving a higher certification outweigh any cost offsets associated with doing so. As a result, no developer would voluntarily choose to do so for this purpose.

Finally, a pedestrian midblock has recently been mandated. The City's recent code revision requiring a pedestrian midblock will force Evergreen, if it decides to move forward with the project, to build such midblock, which will result in higher project construction costs to comply with ADA and other requirements specific to non-vehicular access.

To be clear, Evergreen is in no way suggesting the requirements outlined above are not in the best interest of the City to pursue, despite the barriers we face. We were drawn to Shoreline because of the City's commitment to reducing development pressure on single-family residential neighborhoods, increasing housing supply to meet population demands, improving the overall affordability to residents, and encouraging development densities of transit use and the environment. **But, the cumulative impact of these requirements are overly onerous - without accompanying offsets, they prevent developers from pursuing projects in MUR-70.** The chart below captures the following point: that while there are numerous cost-<u>increasing</u> disincentives specific to MUR-70, there are practically no cost-<u>decreasing</u> incentives specific to this zone.

Additional costs unique to MUR-70 145th	Additional incentives for MUR-70 145th
1. 24.5' ROW Taking without compensation + payment for ROW improvements	
2. Pedestrian midblock connector	
3. Mandatory Tier 4 participation in DGIP	
4. Mandatory 99-year affordability requirement at 20% (at 70% AMI) or 10% (at 60% AMI)	Property tax exemption for the first 12-years[1]
5. Upsizing of utilities from single- to multi-family	
6. Ability to access 140' building height[2]	Up to 25% reduction in parking[3]

[1] To be clear, this is not a special incentive for MUR-70, as the MFTE program is offered to developers throughout Shoreline and other cities.

[2] Typically, this would fall under "incentive." MUR-70 allows developers to achieve an additional 70 feet of building height. But in order to qualify, the City requires greater affordability designation and higher tier participation in the DGIP, in addition to other requirements. The costs associated with moving from a 70-foot mid-rise to a 140-foot high-rise, which moves the project into a different building-type category, is cost prohibitive without any incentives to offset the increase in construction costs. If the City hopes for developers to take advantage of the greater height limits afforded by MUR-70, more cost-reducing incentives, such as requiring one DGIP tier lower and less overall affordability percentage (rather than mandating additional requirements to qualify), should be explored by Council.

[3] To be clear, this is also not a special incentive for MUR-70, as parking reductions are afforded for developments located near transit service throughout Shoreline, and in other cities.

We respectfully ask the Council to consider providing additional incentives in the MUR-70 zone to help offset the cumulative impact of these costs so that developers like Evergreen can make projects pencil and move forward. **Action by <u>this summer</u> will likely lead Evergreen to submit for permit in FY 2021.**

Specifically, we are requesting the Council take immediate action in the following area:

1. **Unlock DGIP incentives, even when participation is mandated by MUR-70.** This action by Council would unlock the greatest number of incentives to developers with a singular change to policy. The immediate benefits are threefold:
    i. Modest reduction in impact fees (25%)
    ii. Modest reduction in permit fees
    iii. Expedited permit review time[4]

    Similar to how the MFTE program acts as a cost-offset for providing affordable housing, unlocking DGIP incentives should act as a cost-offset for building green – whether participation in the program is mandated or not. It's worth noting that despite there being a 99-year affordability mandate in MUR-70, MFTE program participation is still accessible. The same should apply to DGIP. Doing so will help offset some of the costs that disincentivize development in MUR-70, and will create a harmonious incentive scheme across both affordability and green certification policy mandates.

Long-term, we are requesting the City to act in the following area:

1. **Permit developers who upsize utilities that ostensibly benefit future developments to be compensated, in part, for doing so through the utilization of City-mandated late-comer agreements.**[5]
2. **Explore policy, and support state-wide efforts, to extend the 12-year MFTE program to help offset the loss of revenue caused by the loss of market-rate units to affordable housing, OR, amend the 99-year affordability requirement to mirror the length of Washington State's MFTE program.**

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[4] Evergreen was recently informed that an unextraordinary permit review, though <u>expedited</u>, resulted in an eight-month review time. Evergreen is concerned that a <u>standard</u> permit review time will accordingly take longer. Because the City's permit review times are already very delayed (based on the guidance for permit review timelines provided by the City), it would act as an incentive to developers for the City to provide, at no additional cost, expedited permit reviews in the MUR-70 zone (as already offered in the DGIP program), and would further evidence that the City is prioritizing development in this zone. **Note:** the other incentives unlocked by the DGIP program (greater density, greater height limits, etc.) would not apply to the MUR-70 zone, as this zone already provides maximum density. Greater height limits would likely be unenticing to developers due to the switch in building type which is associated with high construction costs. 70-feet is optimum as-is.

[5] Late-comers agreements are already permitted by the City; however, there are problematic costs associated with creating and implementing these agreements that are charged to the original developer. Evergreen would support the City in creating and implementing these late-comer agreements for developers, but should not be mandated to pay for the tool created to help offset the cost associated with the benefit the developer is providing to others.

We appreciate your careful consideration, and are happy to make ourselves available to Councilmembers if questions or discussion relevant to this topic are required. We look forward to our continued work together. Thank you.

Sincerely,

Adel Sefrioui
Vice-President
Evergreen Point Group