Date: January 17, 2019
To: Councilmember Teresa Mosqueda
From: Michael
Subject: Quick overview of the Microsoft announcement

On January 16, 2019, Microsoft announced a $500 million commitment to affordable & workforce housing, and homelessness response. In reviewing the details, a brief description of what this is:

1. **$225 Million "Impact Investing" for Affordable Housing Projects**

This portion, as described, would include loans from Microsoft's cash reserves, at below-prime interest rates, for production and preservation of "middle income" housing. This is anticipated to be focused on the Eastside and does not appear to be focused at income restricted units. This investment would be focused on households making between $62 and $124k per year, suggesting a target of 60-120% AMI.

2. **$250 Million in market-rate loans for rent restricted units**

This portion would invest in affordable housing projects that target households up to 60% AMI, targeting South Snohomish and East and Southeast King County. Typically market-rate loans are a part of the lasagna that is funding for affordable housing developments, and these would need to be braided with other funding sources (such as local housing levies, the WA Housing Trust Fund, LIHTC, etc.).

3. **$25 Million in philanthropic grants for homelessness response**

The final portion is a purely philanthropic effort, with $5 million dedicated to the King County Bar Associate's legal clinic for tenants facing eviction, and $5 million to support efforts between King County and City of Seattle to consolidate homelessness response services. The remaining $15 million is not allocated.

4. **Generally…**

One of the HALA recommendations was for the City and region to work to create more Impact Investing opportunities. Bellwether Housing, for instance, has used these types of investments, seeing lower returns (typically closer to a bond return rate) to preserve affordable homes for households around the 60% AMI in Seattle. The concept: businesses, investors, and other funds, can see a profit that, while small on the cash side, has a broader economic benefit through reduced homelessness, improved stability for working families, and improved public health outcomes. To date, this hasn't really taken off.

The other major benefit – this allows public dollars that might otherwise invest in affordable homes and rental support for households up to 80% AMI to be redirected to programs targeting 0-30% AMI households, where there is no profit opportunity, and public investment is key.

There isn't a timeline, but based off the available cash reserves, it appears that there is opportunity to front-load if projects are available in the areas that will be served for housing production. There are also additional details that are unclear – it appears, for instance, that some pots would be reserved for land purchases, with the expectation that the construction funds come from other sources. Because of this, it is difficult to estimate the total units that may be produced or preserved with this fund.

5. Local Efforts in Conjunction with this investment

In addition to the above, Microsoft has worked with suburban mayors, many of whom have signed onto a letter stating that they will consider seven additional measures in their jurisdictions to help stretch these dollars further:

1) Making available at no cost, at deep discount, or for long-term lease, under-utilized publicly-owned properties. *In line with HB 2382 and Seattle's disposition policies, if adopted, particularly for utility properties, this, along with King County and the Port adopting similar policies, would expand the impact on the policies Seattle led on in 2018*.
2) Updating zoning and land use regulations to increase density near current and planned public transit. *Typically a third-rail in any area, this is vital to not only produce affordable homes, but also maximize the benefit of transit investments our region is making*.
3) Reducing or waiving parking requirements in transit corridors to help reduce overall development costs. *Seattle has led on this issue, and, like (2) above, this not only means more homes, but also maximizes the benefit of other public asset investments, while also contributing to reduction in GHG emissions in the region.*
4) Reducing or waiving impact and other development-related fees. *Developer impact fees have, unfortunately, been used as weapon against development, on occasion being set at very high levels to discourage multi-family development, which impacts low- and moderate-income households most. Reforming this approach, particularly around and near transit corridors, can significantly reduce the cost of production of affordable homes*.
5) Streamlining and accelerating the permitting process for low- and middle-income housing projects to improve developer certainty. *This concept was recommended in HALA, and the City of Seattle has begun to do this, seeing significant decreases in MUP turnaround times for low-income housing developments. There is a balance – we need affordable homes at all income levels – and a part of this may include local jurisdictions using some general fund dollars for permitting staffing rather than solely relying on permitting fees, and being subject to the ebbs and flows of development.*

6) Providing tax exemptions and credits to incent low- and middle-income housing development. *This likely applies specifically to MFTE, and encouraging other jurisdictions to adopt MFTE to bring in more 80% AMI homes, and use the program to further incent family-size units*.
7) Updating building codes to promote more housing growth and innovative, low-cost development. *This spans a range of ideas around building types, and was also something that was included in HALA. For mid- to high-rise, allowing mass-timber and CLT development. Also allowing for modular, pre-fab multi-family development, like Blokable. There are separate questions with respect to worker standards for production of these models, but broadly allowing more types, especially with lower-cost materials, can mean more homes can be created.*

6. State Efforts in Conjunction with this investment

In addition to the above, Microsoft has committed to engaging the State Legislature to take immediate actions that will improve access to affordable homes across Washington, including:

a) Doubling the $100 million Housing Trust Fund

This effort is underway to not only increase state investment through the Capital Budget, but to also provide a stable funding source through a graduated REET proposal.

b) Reform the Condo Liability Act

A major hurdle to production of attached single-family homes that go up (ie: condos) has been the Condominium Liability Act, and interpretations of liability issues associated with alleged construction defects. Combined with Washington’s very pro-consumer laws and case law around duty to defend for insurers, Washington has essentially seen developers unable to see condo developments – often containing the most affordable homeownership option – pencil out. So they’re not being built.

c) Allow cities to extend MFTE beyond its existing 12-year limit

Allowing greater flexibility for use of MFTE (and introducing a PTE) creates more opportunities for cities to address specific local needs for workforce housing, and incentives for family-size units.

d) Provide incentives for cities to streamline land use policies and reduce zoning and permitting hurdles to expand affordable housing, particularly around transit hubs

Whether through SEPA or other means, supporting efforts for cities to move forward quickly developing affordable homes, or incentivizing cities to not drag feet, can decrease delay associated with some individuals and communities opposed to affordable housing in their neighborhoods across Washington.

7. In Sum

This is good news. A key component of addressing the regional affordability crisis must include increased engagement from the business community. Microsoft is stepping up in a way that matches local investment, and targets income levels that are not otherwise being served with existing programs and resources for a myriad of reasons.

All of the partners that helped make this happen deserve significant credit, and hopefully this spurs other local businesses to identify what meaningful steps they can take to help address affordability. Not all of our larger corporations have the same cash-flow that Microsoft has, so expecting others that operate without large reserves to contribute in this manner may not be realistic. But advocacy for statewide changes, and local zoning and land use changes, combined with support for the taxes to pay for investments in the Trust Fund, can go a long way. In addition, this fund may open the opportunity to better understand how Impact Investing may be a more useful tool for middle-income housing, and create seed funding for larger scale investment of this model for affordable homes across the region.

###