

URM Policy Development Committee  
Building Owners & Tenant Needs  
Meeting 2  
April 21, 2023

Attendee	Organization
Amanda Hertzfeld	City of Seattle SDCI
Duane Jonlin	City of Seattle SDCI
TJ McDonald	City of Seattle OEM
Erika Lund	City of Seattle OEM
Brad Padden	Housing Diversity
Cynthia Weaver	Beneficial State Bank
Andrew Ellis	Owner, architect, AIA Historic Resources Committee
Becky Asencio	Seattle Public Schools Capital Planning
Bladimir Recinos	Solid Ground
Paul Cathcart	Seattle Public Schools Capital Planning
Chris Larsen	Lee and Associates MF Brokerage Team
Dan Say	SSF Engineers
David Della	Eco-Ready LLC
Ellen Miro	AIA Historic Resources Committee, Architect
Emile Wang	SOCOTEC
Alyssa Escobedo	SDOT Area Ways
Eugenia Woo	Historic Seattle
Evan Reis	US Resilience Council
Tasha Fitterer	Fannie Mae Multi-Family
Dan Foley	Seattle Office of Housing Portfolio Manager
Jamie Lee	SCIDPDA
Jessa Timmer	Alliance for Pioneer Square, Deputy Director
Jim Castanes	Castanes Architect, HOA on Capitol Hill
John Hornibrook	Bellwether Housing, Affordable Housing
Jason Kelly	City of Seattle OPCD
Luba Kim-Reynolds	Freddie Mac MF, ESG Initiatives and green financing
Kenny O'Neill	Reid Middleton
King Chin	GeoEngineers, Liaison for CID
Chris Lopez	Freddie Mac Multi-family
Sandra Mallory	City of Seattle Office of Sustainability
Marnie Mar	Building Owner in Chinatown
Mary Kate Ryan	Historic South Downtown
Christie Parker	City of Seattle Budget Office
Rachel Brombaugh	Pace Equity
Rod Kaufman	BOMA
Todd Scott	King County Historic Preservation Program, Architect
Shelly Parrish	Solid Ground
Sara Sodt	City of Seattle Historic Preservation Program
Karyn Sper	Fannie Mae MF, Green Financing
Carol Thompson	Freddie Mac Corporate Sustainability office
Nicholas Vann	DAHP
Daniel Bannon	WA Rental Housing Association of WA
Catherin Stanford	BOMA
Matthew Berman	Clark Construction
Jared Silliker	NBBJ Architecture, Board member Seattle 2030

The meeting started with attendee introductions and was followed by an update on SDCI's progress with the technical standard.

#### Technical Standard

The draft technical standard has been shared with the Structural Engineering Association of Washington Earthquake Engineering Committee for review. Once reviews and feedback have been addressed, a meeting will be scheduled for the URM Technical Standard Briefing Group. This meeting will provide an overview of the technical standard and allow time for questions and answers. A Director's Rule will be developed by the end of the year establishing the technical standard as a compliance baseline for URM retrofits.

The proposed technical standard will not be a contributing factor for other substantial alteration triggers. The technical standard provides two methods for compliant URM retrofits:

1. Comprehensive Method  
This method aligns with the Seattle Existing Building Code (SEBC) Substantial Alteration Reduced Seismic Forces.
2. Alternate Method  
This method requires the anchoring of walls to floors and roof, tall URM walls are strong-backed to prevent out-of-plane bending failure, and bracing of parapets and other dangerous appendages.

#### Timeline

The soonest the ordinance can be adopted is summer 2025 due to council turnover, complexities associated with federal grant funding and resource development for mitigating physical and economic displacement. The Director's Rule is planned to be completed by the end of 2023, providing building owners with a standard should they choose to voluntarily retrofit. It was noted that even upon ordinance adoption, building owners will still at least seven years before they are required to be in compliance with the technical standard.

Retrofit Projects & Lessons Learned- presented by Brad Padden, Diversity Housing Corporation, ASAP!

(Diversity Housing Corporation is a housing developer focused on building affordable apartments. They have completed several projects in URMs, taking existing larger units and dividing the building into smaller apartments to make them more affordable).

The general process for upgrading a building includes:

1. Define project goals (seismic, modernization, change of use, etc)  
Building owners can choose to build to minimum standards or take advantage of opportunities to go above them. Upgrade goals can be as simple as a life safety seismic retrofit or more robust to include meeting energy goals, change of use and full modernization of the building's systems. Building Owners need to be clear prior to the engineering evaluation what their goals of the upgrade are.

2. Review current conditions and tenancy

Reviewing building tenancy, leases, current conditions of the building, and historic resources are important informers of building upgrade goals. Retail leases can be very difficult to get out of and may inform a building owner's considerations to break the lease and remove tenants prior to construction.

3. Assemble Project Team

- An Architect will help with space planning to meet the building owner's needs. An engineer will provide the structural design of the upgrades.
- A Geotech engineer may be needed to provide bore logs or conduct soil condition tests.
- A Contractor will provide pricing support and value engineering.
- An environmental consultant will test the areas being opened or demolished- looking for things like lead paint and asbestos, to ensure any work completed is compliant with hazardous materials requirements.
- The owner with support of the project team should facilitate a series of town hall meetings or one-on-one meetings with tenants to explain what is being done to the building, what the goals are, what the timing of the effect of the tenants will be. This will give tenants the most time to find alternative housing and determine which tenants qualify for TRA0.

4. Performing an engineering investigation to identify retrofit and upgrade needs;

- This process starts with reviewing historic images and drawing to assist with the understanding of how the building was put together.
- Key areas of the building, such as posts and beam connections, are cut into to understand how the building was constructed and to verify that it was built to plan. If plans don't exist, additional digging will be needed.

5. Developing plans to correct seismic deficiencies and perform any additional upgrades (asbestos abatement, energy upgrades, change of use, etc.);

- The structural engineer will conduct studies on the building to develop drawings and an upgrade plan. An architect can be helpful in development of the drawings.
- The engineering investigation is a good first meeting time with tenants to inform them of future work and potential impacts.

6. Submit plans for permits;

- The permit process can take anywhere from 12 months to two years, depending on what types of building permits are needed. If changing use or conducting a substantial upgrade, a Master Use Permit will be needed. Tenant Relocation Licenses will also be needed.

7. Secure funding for retrofits and upgrades

Funding is needed throughout the different phases of the project. TRA0- The Seattle Tenant Relocation Assistance Ordinance, can provide 50% of tenant relocation costs during a substantial alteration if tenants are below a certain income threshold.

- The engineering investigation costs can range from \$50,000 to \$200,000, maybe more if conducting a complex upgrade.

- Upon construction completion, costs will range from several thousands of dollars to the millions of dollars. A small, single story URM will cost less than a large multi-story building with mixed or changed use.

Other considerations: Prior uses can affect upgrade requirements, good construction vs bad construction, current conditions of building, current condition of soils beneath the building. (Liquefaction).

Residential is challenging- TRAO, take residents through Town Hall Meetings, provide 1:1, translation services, 1:1 meetings, housing support services, recommend owners have conversations with tenants who would need TRAO. Figuring out where tenants are going to go is a challenging and complicated component.

#### Example Residential Retrofit: 423 Terry Ave



This building was of regular shape, had equal size windows, continuous load paths. The number of window openings can determine the type of upgrades that need to be done inside the building. The building is U shaped and has a smaller floor diaphragm, providing opportunity to build additional lateral support which serves to increase seismic resistance.

This building had a simple brick façade that had to be attached to the structural brick behind it. It previously had a cornice, which would have required additional support and bracing if it still existed. It does have a standard parapet that required bracing, but it wasn't decorative, making it fairly straightforward.

This project cost ~\$14 Million, it included all new units and all new plumbing and electric, a full seismic upgrade, all energy systems were upgraded to current code, and it was brought into compliance with ADA. Funding came from a 10-Year Freddie Mac loan and income from the completed stabilized building.

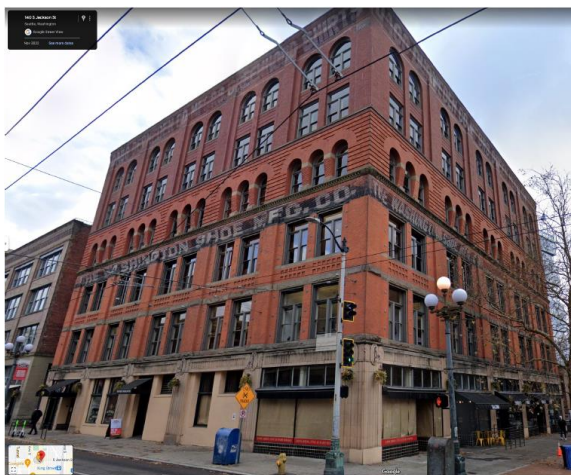
### Example Mixed Use Building: Atlas Hotel in Chinatown



This building has a more complex structure, it has soft-story retail space on the ground floor (which adds additional seismic vulnerability requiring additional retrofits, typically additional bracing using brace frames). The second story has a mezzanine level where the window openings below don't stack with those above. This also creates additional weaknesses the building. You'll see there are rosettes at approximately every other floor joist. The façade is a bit more decorative than the first example, with some terracotta elements and a non-uniform parapet.

Since this building was retrofitted, there have been advancements in our understanding of our local seismic hazard, this building may require additional seismic retrofits. When the engineering investigation is conducted, these past retrofits will be assessed to determine their compliance with the established seismic retrofit standards. Some of the retrofit work may be able to be used and some of the work may have to be upgraded.

### Example Office & Retail Building: WA Shoe Building 159 S Jackson.



This is a fairly uniform building in terms of structure but has a very large floor diaphragm. These large floor plates pose challenges for lateral seismic upgrading. This building also has a decorative façade with a lot of irregular shaped windows which pose challenges when replacing the windows and upgrading for energy. This building also has signage, triggering historic preservation requirements for the context of the building.

Example Public School Building: The Gateway Elementary School in West Seattle.



This building is irregular in terms of its shape and window openings. The brick façade will need to be connected to the structural brick behind it. Because this building is a school, and thus a critical structure, additional requirements may be placed because of its use. Additional considerations that may impact seismic considerations include the soil type for liquefaction hazards and foundation elements.

Cynthia Weaver, Beneficial State Bank:

Beneficial State Bank is Mission Driven in their lending practices, they are participating in the URM working groups to find out if there's some way they need to change or amend their own policies in order to fit something that works well with URM retrofitting. This is a high level presentation of what already exists in the lending world today, from a banking perspective. Every bank is different.

There are three legs to the lending stool, three things most banks are looking for when providing a loan:

1. Leg One: Cash flow to cover the debt service

What is actually paying the loan back? This is typically either business cash flow or rental income.

- Debt Service Coverage Ratios (DSCRs) is a measure of the cash flow available to pay debt obligations. The available cash flow divided by the required Principal and Interest. Divide borrowing amount of private money by the cash flow available and hopefully have a larger than 1:1 ratio. A DSCR calculation less than one indicates potential solvency problems.
- Net Operating Income (NOI) from Rental Income- The business income from the property itself. This is the gross income minus the expenses that are expected.

- Business income: this depends on whether it's a profit business or non-profit that owns the building. Owner occupied buildings may have cash flow coming from the business income of the business operated inside of the building.
  - Personal Income: Some buildings are owned by someone who has an external job or has other businesses that they also own, meaning there are other sources of income that are available as well. Banks consider Global Debt Service Coverage when combining the business income, the owners personal income, and the income the building is generating as a holistic package. Global Debt Service Coverage is all available cash flow and debt payments from the borrower and all guarantors, as well as the business. (net operating income+ personal income) / (business debt service + personal debt service). This can be important when deciding whether or not to loan on a particular building.
  - Liquidity/Net Worth: Net worth is the difference between assets and liabilities. Liquidity is the ability to convert assets into cash, it is a function of the assets you hold. Net worth is a function of how much you have in assets.
  - Expense Reduction (Property Tax Credits, energy efficiency upgrades, in-kind). While there may not be specific credits or tax credits for seismic retrofits, combining earthquake retrofits with things like energy upgrades or maintaining affordable rent levels, may open access to these tax credits thus reducing expenses.
2. Leg two: Collateral
- This is the building itself. The type of building will influence the type of loan.
    - Investor Commercial Real Estate (CRE)
    - Affordable Housing
    - Specialty
    - Multi-family
    - Single-Family Residential
    - Office
    - Retail
3. Leg three: Guarantees
- Who is the owner of the building?
    - Personal owner
    - Business
    - Non-recourse loan (does not allow the lender to pursue anything other than the collateral)
    - Non-Profit (no personal guarantees, making it more difficult to underwrite the loan).

Types of loans: A high level overview of typical ways to borrow funds.

- Refinance: When there's already debt that exists on the building, it is rolled into another loan, often with advantages. Advantages can include:
  - Stretching out the amortization
  - Getting a different rate
  - Getting new valuation
  - Leverage existing equity to apply towards project

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- Payments may stay the same or reasonably the same, because you are stretching out amortization, lowering payments and will offset the additional money that is being borrowed.
  - There are maximum loan to value (LTV) or loan to cost (LTC) requirements that may be associated with a refinance, restricting how much can be borrowed.
- Secondary Loan: Leaves current debt in place and then adds a second loan, behind the first. Not actually rolling in the first that you have on the building.
  - Sometimes banks will offer different service coverage ratios when having a primary and secondary loan. They may test the primary and it would have the most conservative debt service coverage ratio. The secondary loan may receive a more flexible less conservative debt service coverage. That may allow for more options for building owners, allowing more money and Loan to Value (LTV) to be pulled from the building.
- Cash Out Loan of free and clear property: If the property is owned out right and there is no debt on it, a lien can be put on the building. This lien can be a short or long term, permanent or just during the construction timeframe.

Structure of the Loan: A high level overview of typical ways to borrow funds.

- Non-Revolving Line of Credit (LOC) or multi-advance converting to permanent loan upon completion.
  - Money is advanced as project is underway. At each milestone (generally 12-24 months), invoices are submitted and funds would be advanced based on invoices from the construction contract.
  - Multiple formats, for example, supporting pre-development costs and initial design. Also retrofitting, upgrading HVAC, etc to update units. Allows for floating rate construction structure (interest reserves built in) converting to permanent loan upon completion.
    - During non revolving period generally paying interest only, not paying debt when not actually able to receive income from the building because it is under construction.
    - Good for small projects- the entire amount can be advanced and a portion of funding is set aside until reinforcements are completed. Then goes into a permanent loan.
  - Collateralized by the building itself or by commercial real estate of some kind.
- Cash Out Permanent Loan (Refinance or Original)
  - Typically a permanent loan at a fixed rate for a fixed period of time and then it amortizes.
- Bridge Loan
  - Temporary, 2-3 year loan
  - Good for when expecting grants other funding streams that take time to become available.



- Can be paid off with those grant funds.
- Approval is often based on the business itself, based on business cash flow (separate business income stream, etc.)
- Business Loan
  - Good for small projects, generally under \$150,000
  - A loan to the business itself, rather than on the building.
  - May not need collateral.

#### Forms of Collateral:

- Commercial Real Estate (CRE)
  - The building being retrofitted. If too much debt already on that building, could use another commercial real estate property within the portfolio thus cross-collateralizing.
  - Loan to Values based on property type
- Cash Collateral
  - Overcomes different legs of the stool. If there is no cash flow to cover the project but you have money in a CD, the loan could be tied to the CD. The interest rate will be greatly reduced because it comes at a spread over what is being made on the CD. Example, if CD is making 4%, are charged 6% for the loan and thus only pay 2% for the money. Essentially borrowing against the CD.
  - Overcomes cash flow challenges. Very flexible, bank not concerned with use of funds.
  - Common type of loans for non-profits. Opportunity to work with community supporters/donors.
- Investment Portfolio Secured
  - Similar to cash collateral, except instead of actual cash in the CD, you're using a marketable securities portfolio.
  - Where cash collateral would typically be 1:1, investment portfolio is ~50-75% of the loan to value on that portfolio because markets are unpredictable.
  - Requires quarterly monitoring to ensure levels are staying within the loan to values.
  - Reduces interest significantly because the spread used for the loan is much less when it is investment secured.
- Appraisal Valuations:
  - Looked into value adjustments of URM retrofits by appraisers and currently, valuations are a bit low. The current market doesn't consider a retrofitted building a value added. This can complicate lending because there isn't additional equity to pull from. Once retrofits are required, we may see valuations increase due to looming imposing cure. We don't know how much the valuations will increase.
  - There is potential for custom loan programs that look at different loan to values specific to URM projects. Perhaps instead of only lending 70% on multi-family, it would allow 80-85% LTV for URMs.
  - Debt Service Coverage Ratio (DSCR) is also based on income. Perhaps there is some kind of pool the city could come up with that supports lenders in offsetting the risk on URMs to provide flexible and low cost financing.

- Guarantees: Local foundations interested in helping certain buildings could provide a guarantee on the loan if there are some deficiencies in the underwriting of the project itself.
- Capital Stack:
  - A capital stack refers to the layers of capital that go into purchasing and operating commercial real estate investments. It outlines who will receive income and profits generated by the property and in what order. The capital stack also defines who has the first right to foreclose on the asset as a collateral in the event the equity owner defaults on the mortgage.
    - Common equity (lowest priority, lenders paid last)
    - Preferred equity
    - Mezzanine debt
    - Senior debt (strongest priority, lenders first to be paid)

If a property doesn't generate enough of a return to pay all investors or debtors, the property's income is distributed from the bottom up, starting with senior debt and then mezzanine debt. Any money left would then flow up through the preferred equity and equity positions.

  - Banks want to be in the first position, not usually a problem on most retrofitting projects.
  - Sub-debt, next layer, might be a second mortgage with with another private institution or the same institution, grants, or loans (from city, county, federal, private, or community-support based). These would all be second, third, or fourth position being the bank.
    - Covenants can be in first position, meaning there are certain requirements the building may have to meet in order to receive those grant funds.
  - Combined LTVs: First position does look at loan to value, but second loan to value may be acceptable for a combined loan to value. It's rare that a bank is supportive if the loan is fully funded by debt, but some of that debt can be forgivable grants or loans.
  - Right of set off/foreclosure/default language in loan documents. All the loan documents, including the sub-debt, have to allow the bank's rights to foreclose on the property if the debt is defaulted. This may include language on uses of the building once resold.- Other types of loans/equity sources
  - Fannie Mae Loan Products
  - Low Income Housing Credit (LIHTC) or New Market Tax Credit Program (NMTC) Equity Loans or Re-Syndications
 

Where a building is in need of rehab and the LIHTC or NMTC investment is over and needs to be refinanced. There is potential for the retrofit to be worked into this process. This would align with the overall package of equity injection.
  - Hard Money Loans (Asset Based Loans):
 

Lenders typically loan on the building regardless of the cash flow, they are interested in the property itself. These loans may have higher rates, but they tend to be more flexible and easier to underwrite because they aren't as worried about cash flow.

- Community Source Loans:  
[Semble](#): a company that works with non-profit organizations to pool donors together and put their money in as investments as a low-cost loan for projects.
- Forgivable Loans (City/County)
- Impact Capital Community Development Financial Institutions (CDFI)

Question: (Rod Kauffman): In some instances, after upgrades are completed and people were relocated, tenants don't come back. If the loan is based on rental income, how does that impact loan?

Answer (Cynthia Weaver): This would be looked at like any sort of construction to permanent loan. For construction loans, they assume no tenants exists, so during the construction period there are interest reserves built in. Interest is paid by the loan itself and that will continue until stabilized, until 90-95% built, and then convert to a permanent loan where it starts collecting principle and interest. It can get complicated when there are construction delays that use up those interest reserves before tenants are placed. However, the lender looks at the whole scenario when lending, considering lost tenants, tenant relocation, future rental rates, etc. Loans can be used for tenant relocation, providing those costs are included in the initial budget.

Question (Rod Kauffman): Do C-PACER loans impact willingness or influence private lenders?

Answer (Rachel Brombaugh) King County C-PACER equity is a great private commercial funding option for URM's. Seismic resiliency is expressly called out in the King County C-PACER program. It is for private only and can fund up to 20% of the value of the property. A great long-term nonrecourse option.

Comment (Brad Padden): C-PACER financing is providing Housing Diversity with an ability to lower overall construction loan interest rates. The biggest challenge is getting the preferred banking partner to agree to the intercreditor agreements and getting them to work together to figure out priority rents. Currently, using C-PACER, Housing Diversity was able to lower their construction loan from 8.5% to 7.25% blended with property rights. More lenders need to understand C-PACER in order for them to accept that kind of funding.

Comment (Cynthia Weaver): Beneficial State Bank does like participating with other lenders whether that be in first position or a different position because it lowers their risk as well, the full amount isn't coming from them. They are willing to work with intercreditor agreements and participation agreements to make that happen.

Comment (Karyn Sper): Lender consent is a big issue for Fannie Mae. They treat C-PACER like any other unsupported or unsubordinated additional debt, which means they can't lend alongside C-PACE loans. However, Fannie Mae does have a lot more flexibility for credit metrics. For example, they can provide moderate rehab loans for affordable housing.

Question (Evan Reis): Can the valuation of the building be adjusted based on an ordinance that will require a future cost? Additionally, are URM's property valued in the marketplace given the risk associated with them (deaths, injuries, loss of property, loss of business). The real value of a retrofit is in

improving the resilience of the ibuildings and thus that should improve the value. But that only happens if the current valuation of URM is less than the market value of other buildings because of that risk.

Answer (Cynthia Weaver): Not an appraiser, but what I've actually seen some appraisers take into consideration that future risk and discount the values of the property based on the fact that it is URM. Am also not a building owner, but I'm not seeing a big difference in rents that are being collected because there is just so little available, they are still able to charge as much.

Comment (Evan Reis): That to me is a fundamental problem with the current market now, it is focused on short-term debt service ratios and are heavily discounting long-term risks. Does Fannie/Freddie want to speak? They have strict requirements on properties and are loathe to provide backing for buildings with life-safety problems.

Comment (Rod Kauffman): Referenced the Alma Apartment buildings, suggests looking at what industry thinks by looking at insurance for URM as opposed to other buildings. You don't get as much of a value add from the insurance costs or tenant attention as you might think you would, once retrofitted.

Comment (Karyn Sper): It's a common sentiment that people think resilient buildings will have better insurance rates. However, what we are finding in multi-family buildings is that the insurance policies are all very individualized and you can't really make assumptions about what resilience improvements are going to do to the insurance like one would hope. You would hope that the rates come down however, if they do, it's not enough of a change to cover the cost of the improvements. Fannie Mae is doing a lot of thinking on this issue currently. Currently, an unretrofitted building would not be eligible for a Fannie Mae loan due to its seismic risk however, once retrofitted, it could be eligible for financing.

Comment (Brad Padden): Recently completed a full seismic upgrade on 423 Terry Project and made it fully accessible. Refinanced with a Freddie Mac loan which still had a relatively high Probable Maximum Loss (PML) which required them to carry earthquake insurance. This adds \$25-35K per year. The PML is very crude and doesn't take into account incremental improvements that are made to the building. It would be great to get some sort of understanding from organizations like Fannie and Freddie, supportive affordability and resiliency programs, etc. to revisit this in the context of providing a more resilient and equitable structure.

Comment (Evan Reis): Yes, let's talk offline Brad. US Resilience Council can help get a more accurate picture of what those PML values are for buildings that have been retrofitted and or designed to higher standards.

Comment (Chris Larson): We've found that many URM do typically have lower rents than average. When investors come in to the buildings and look at them, they usually do have to write in a discount to account for the future work that will be needed to get the retrofitting done. Incentives will be a lot more beneficial and an easier path to supporting the retrofit of these buildings.

Closing: Future meeting needs:

- Coordination among lenders about CPACER and financing packages
- Financing options available to owners (tax credits, etc)
- Tax Incentives
- Ombudsman role of identifying funding packages for owners.