

Seattle's most patient developers plan housing for the 'missing middle'

Land in the city is too expensive to build affordable housing. Or is it? They've got a plan – and it could mean 1,000 new apartments for the workers who keep Seattle running.

Jul 27, 2017, 2:34pm PDT

When you've been in business for more than 150 years, you learn how to ride out the boom-bust cycles. You also learn that an investment in the community can pay off in the long run.

Laird Norton Properties' latest venture — a \$150 million plan to alleviate the Puget Sound region's housing crisis while delivering steady returns to investors — is all about the balance between patience and payoff, construction and community.

If it's successful, the system could be used by other developers to prevent Seattle from becoming like San Francisco and pricing out the vast majority of its working-class residents.

Laird Norton Properties — a wholly owned subsidiary of the venerable Laird Norton Co. — and Spectrum Development Solutions plan to develop 1,000 apartments that will be affordable for people who make \$40,000 to \$80,000 a year, or 60 to 120 percent of the area-median income.

These are teachers, health-care workers, lab technicians, police officers and many other professionals who make too much to qualify for housing subsidies, but struggle to afford the high cost of housing in King County.

Rents have jumped 38 percent over the last five years, according to data from Seattle company Dupre + Scott Apartment Advisors. The rising rents have attracted developers, but while thousands of new apartments have come on the market, many are luxury or higher-end.

With insatiable demand for "workforce housing," as it's known in the real estate industry, it is a low-risk proposition. But the challenges are huge. The biggest issue: Developers — and their investors — can't build affordable housing on pricey land, especially as the cost of construction continues to rise. A recent study by British professional services firm Turner & Townsend found Seattle had the third-highest cost of construction labor in the world.



ANTHONY BOLANTE | PSBJ

(From left) Spectrum Development Principals Jake McKinstry and Gabe Grant, Laird Norton CEO Jeff Vincent and Spectrum Development Founding Principal Hal Ferris inside the vacant and gutted building at 123 Third Ave. S. bordering Seattle's International District and Pioneer Square where they plan to develop Canton Lofts.

Yet 162-year-old Laird Norton — in a new joint venture partnership with Seattle-based Spectrum — is finding ways around the issue of rising land values to build workforce housing.

“It’s what we call the ‘missing-middle’ in urban rental housing,” Spectrum Principal Jake McKinstry said.

Laird Norton Co. CEO and President Jeff Vincent says the investment by Laird Norton Properties will help keep the seventh-generation family company going for the eighth generation. The joint venture partners aim to bring other wealthy Seattleites, such as John and Shari Behnke, in on the deals.

Laird Norton Properties also plans to build student housing with some of its investment and will borrow against the projects to create a \$500 million portfolio.

Spectrum has already developed around 1,000 units of workforce housing in Seattle. Wanting to do more, the company made it a priority to find an equity partner to develop projects the way Spectrum likes – patiently.

They found their partner in Laird Norton, and early results show they are onto something.

A long-running challenge

Spectrum and Laird Norton Properties prefer to see Seattle grow to become a city where people of all income levels can afford to live. This makes for a sustainable, healthier community, the executives said.

Their plan is unusual and innovative, said workforce housing expert Stockton Williams, executive director for the Terwilliger Center for Housing of the Urban Land Institute, a nonprofit research organization based in Washington, D.C.

“Workforce housing has seen very little new development,” Williams said. “This has been a long-running challenge.”

Workforce housing development is limited despite huge demand, due in part to institutional investors who want fast, high returns.

They get them with high-end apartments. Working with merchant developers in Seattle – those who develop, fill and sell projects – investors are seeing internal rates of return of 15 to 20 percent. These home-run returns are bringing investors from around the world to Seattle to swing for the fences.

Vincent is hoping for something more modest: Cash-on-cash returns of 6 percent and something a bit higher for student housing projects.

This plan requires relationships with like-minded landowners such as the Behnkes, who with their son Drew are the joint venture’s first partners on a project called Canton Lofts.

John Behnke is the son of the late Sally Skinner Behnke, the daughter of one of Seattle’s wealthiest families. Four years ago the Behnkes paid \$2.75 million for a Pioneer Square property at 123 Third Ave. S. to develop an arts and cultural space.

When that turned out to be financially unfeasible, the family considered selling but feared a developer would build luxury housing on the site, leading to more gentrification and displacement.

“Being a local family, we did not want to contribute to those issues,” Drew Behnke said.

Shari Behnke read about Spectrum's development of workforce housing and reached out to Spectrum Founding Principal Hal Ferris. The Behnkes ended up contributing their property for the 80-unit Canton Lofts.

The Behnkes will remain long-term co-owners of Canton Lofts, which will have retail space for Path with Art, a nonprofit that offers free art classes and cultural programs to low-income people recovering from homelessness and addiction.

Long-term view

The joint venture also seeks to partner with local governments, private institutions and quasi-governmental agencies with property, and will rely on U.S. Housing and Urban Development-backed financing, which takes a year to get and requires cutting through a lot of red tape.

Laird Norton Properties and Spectrum think their 15-year plan will result in fewer than 10 projects averaging from 100 to 250 units, McKinstry and fellow Spectrum Principal Gabe Grant said. They're looking for sites in transit corridors.

"That could be north up to Bellingham and south down to Tacoma and east to Issaquah," McKinstry said.

The partners are fielding calls from professional peers and potential investors.

"They're intrigued by it as something they can maybe earn a reasonable return on but also participate in the community in which they're living," Vincent said. "If you're really taking the long-term view over a 10- to 15-year period, with where Seattle is going and what the needs are going to be, we're going to be fine."

"MISSING MIDDLE"

The new joint venture partnership between Spectrum Development Solutions and Laird Norton Properties seeks to help fill Seattle's "missing middle" — housing for people who make too much to get subsidized apartments but not enough to afford market-rate housing. Here's the plan for making this kind of development financially viable:

Find landowners like Seattle philanthropists John and Shari Behnke, who want to see their properties used to build community, not contribute to displacement: Spectrum and Laird Norton's patient approach appeals to groups that own development sites but lack the capacity to develop them, said Spectrum Principal Gabe Grant.

Don't shy away from using hard-to-get financing: The partners use standard financing, though they seek out loans insured by HUD. It can take a year to obtain but provides long-term fixed rate financing. "It's not for people who are trying to build and flip properties," Grant said.

Ensure the fundamentals of each development are strong: "It's kind of old-fashioned real estate development," said Spectrum Principal Jake McKinstry. It's easy to lose that perspective in this hot market, he said.

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