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EXCERPT

*The*

# GAP FINANCING

*Issue*

## **Affordable Housing Developers Facing Increased Development Challenges**

*Developers face rising construction costs and operating expenses, volatile interest rates and more.*

**Page 4**

## **Fannie Mae, Freddie Mac Make Great Sources of Gap Financing for OZ Projects While Preferred Equity Comes at a Cost**

*Opportunity zones developers find creative gap financing solutions amid rising financing costs.*

**Page 11**

## **Unprecedented Challenge, Extraordinary Response**

*How state housing finance agencies are filling affordable housing construction cost gaps.*

**Page 14**

## **Bridging Grants as a Source of a Leverage Loan in NMTC Transactions**

*Structuring challenges and solutions for NMTC bridging grants.*

**Page 52**



# Stars Align in Seattle for Financing LIHTC-Supported Development The Aries

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

When Seattle-based Bellwether Housing set out to build The Aries at Bitter Lake, a 200-apartment property that opened in late 2023, the nonprofit developer used a capital stack that combined low-income housing tax credits (LIHTCs) with a funding stream that eschewed county and city funding for a loan from a public-private-philanthropic partnership designed to propel affordable housing forward in the Emerald City.

The Evergreen Impact Housing Fund (EIHF) was born of Seattle's 2014 Housing Affordability and Livability Task Force, which encouraged a mixture of social impact investors, philanthropic gestures, credit unions and other financial institutions to tackle the affordable housing

crisis. The Aries marked EIHF's first investment, an \$8.6 million loan.

*Image: Courtesy of William Wright Photography*

The Aries at Bitter Lake, a low-income housing tax credit property, from the corner of N. 143<sup>rd</sup> Street and Linden Avenue N in Seattle.

Kris Hermanns, fund manager for EIHF with Seattle Foundation, said there's not enough innovative financing to address market distortions and incentivize housing for families, especially at scale.

"Given that everything that's been tried has not brought enough progress, this partnership took an innovative approach to get better and different outcomes," said Hermanns.

Mindy Black, senior housing developer with Bellwether Housing, called The Aries a "test case." Black's colleague, Jovan Ludovice, vice president of real estate development with Bellwether Housing, agreed.



*Image: Courtesy of William Wright Photography*  
The second-floor courtyard of The Aries at Bitter Lake, a low-income housing tax credit property in Seattle, from overhead.

"We were trying to figure out a way that we could do projects as the nonprofit affordable housing developer without public financing and public debt," said Ludovice. "It's been great to work with them. ... I just want to re-emphasize how important Evergreen Impact Housing Fund was to the project and making this project come to fruition."

The EIHF and Bellwether plan to work together again, with the 333-apartment Redmond Overlake Village transit-oriented development in the works.

### Alive in the Superunknown

Dan Rothman, senior bond and housing tax credit analyst for the Washington State Housing Finance Commission

(WSHFC), which maintains a partnership with Seattle Foundation for EIHF, said Bellwether made a natural ally for EIHF's investment due to an interest in exploring options for how to obtain gap financing without jumping through the hoops of putting together a financing stack with various public sources.

"Just coming to us, having that one source built to be efficient and work with 4% bonds and tax credits and play right into system, Bellwether saw huge benefit to that," said Rothman. "They were a very clear and obvious pilot choice for us."

Rothman praised Hermanns' ability to communicate the need for affordable housing with potential investors from various sectors.

"LIHTC developments have historically been a very safe investment," said Rothman. "When we speak at events, we emphasize the relationships that we've been able to build among corporations and philanthropy. We try to get across that this kind of partnership and financing can be done in any other state that uses the LIHTC program."

Bringing together the mix of investors from the likes of Microsoft, Boeing Employees Credit Union, Salal Credit Union, Sound Credit Union, Verity Credit Union and Washington State Employees Credit Union had its skeptics.

"There was a lot of doubt from conventional financing partners that this was going to work," said Hermanns. "What we're trying to do is prove new ways of doing the work, to prove what's never been done before is still possible."

### Sheets of Empty Canvas

Bellwether, which owns, operates, manages and consults on affordable housing, has more than 3,500 apartments in Seattle and the county in which it sits, King County. It has an additional 1,000 apartments in its development pipeline in this area.

With The Aries, Bellwether aimed to address a hole in the market. “What we’re seeing in Seattle is not enough family-size units,” said Black. “The market is saturated with studio units.”

Two- and three-bedroom apartments make up more than half of the homes at The Aries, with three bedrooms making up 20% of the available homes. There is also a 20% set aside for tenants with disabilities.

The Aries follows a modified “Texas donut” design, with an 83-stall surface parking garage on the ground level surrounded by apartments. Building the garage required no excavation, minimizing the amount of concrete and, as a result, reducing construction costs and the carbon output to build The Aries.

That didn’t mean there weren’t complications with concrete during construction, however. More than 300 concrete mixer drivers went on strike for nearly five months in 2022, slowing development. Bellwether worked to embrace the challenge of the labor dispute, focusing on other aspects of construction such as utility connections, and stone pier foundations. Black said staging preassembled wall panels on the surface parking helped the framer shave five weeks of framing preparation time to make up for the concrete delay.

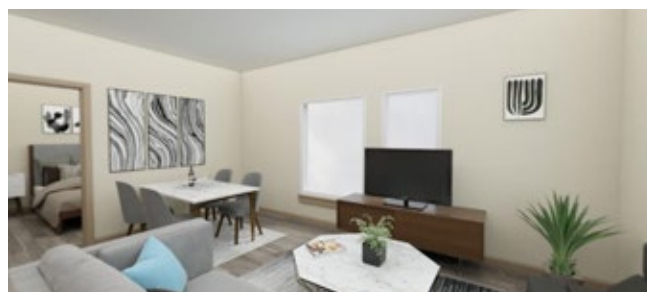
Hermanns said EIHF’s involvement was helpful with delays and complications as it provided catalytic, low-cost, patient capital.

“It’s flexible,” said Hermanns. “These developers are able to close on financing and keep moving forward despite other things—increase in costs in labor, materials and borrowing. All of our projects were still able to close because of the flexibility and responsiveness as well single-source financing.”

Above the parking area, on the second floor, is a play terrace with parkour elements and a covered stage. “Every kid I know loves to perform,” said Black, who

also noted that the covered area provides parents and guardians a place to stay dry in the famously rainy city.

The second-floor play area allowed Bellwether to keep amenities off the roof, which instead accommodates a photovoltaic array. This is incorporated to support the facility’s all-electric design using renewable resources to reduce construction impacts on the environment.



*Image: Courtesy of William Wright Photography*  
The living room of a three-bedroom apartment at The Aries at Bitter Lake in Seattle.

All the amenities add up to enhanced quality of life for the residents. Hermanns said stories about the lives changed upon initially moving in earlier this year were touching.

“We’ve got a long way to go, but this is really important, doing this step for families,” said Hermanns. “The Aries, something that seemed improbable if not impossible, is now a dream that families could only have hoped for. There now in this incredible place they can call home that’s safe, affordable and accessible.”

### A Whole Bucket of Stars

Bellwether acquired the property for The Aries in December 2019. The developer purchased five parcels of land, which was more than it required. Bellwether split the site with the Downtown Emergency Service Center (DESC), a Seattle-based nonprofit that provides services and housing for those experiencing homelessness.

DESC, with Bellwether as its development consultant, constructed a 100-apartment permanent supportive housing property that opened in August 2022 it dubbed The North Star due to it being DESC’s farthest north property in Seattle’s Bitter Lake neighborhood.

Black said when it came time to name The Aries at Bitter Lake, the developer took its cue from The North Star and, poetically, was able to find a tie between the DESC property's name and the Bellwether handle.

“The person who came up with The Aries not only put us in outer space, but The Aries is the sign of the ram and a bellwether is the ram that leads the flock of sheep,” said Black.



*Image: Courtesy of William Wright Photography*  
Planters adorn the entrance to The Aries at Bitter Lake, a low-income housing tax credit property in Seattle.

## Like the Ceiling Can't Hold Us

To build The Aries, Bellwether brought together more than \$121 million in financing sources.

Wells Fargo invested \$32 million in LIHTC equity along with providing a \$49.7 million construction loan. CitiBank provided a pair of loans: A tax-exempt \$37.5 million loan along with a taxable \$19 million loan. Bellwether added a \$3.8 million sponsor note.

EIHF's funding is an \$8.6 million subordinate loan which requires no debt service and will instead be repaid annually through a cash flow available from the development after other preapproved expenses are paid, Rothman said.

“Our underwriting does not require more than what's already being asked by other lenders and investors in the deal,” said Rothman. “We don't record a regulatory

agreement. Instead, we lean on WSHFC staff to ensure projects are complying with WSHFC's regulatory agreement on an annual basis.”

Novogradac provided services on the endeavor, with partner Thomas Stagg and principal Dat Ksor helping with the cost certification for The Aries.

“What Bellwether has managed to do with The Aries is build a capital stack that includes LIHTCs and private finance in a really exciting way,” said Stagg. “It poses exciting possibilities for the future of affordable housing in and around Seattle and throughout the state of Washington. We're honored we could bring Novogradac's expertise to bear on this development.”

Hermanns was excited about what the success of EIHF's first investment portends for the future.

“We've proven that's it's possible,” said Hermanns. “For us, there's such gratitude for the bold leadership across partners that has demonstrated that everyone does have a role. Given the scale of this, we created pathways for everyone to engage in solutions to this incredible threat to the place we love and call home. That's the piece we're excited about. We've proven there's another new way. The reality is that companies, government partners, developers, everyone has a place in making this possible. ... It feels huge. It's an incredible milestone.” ❖

## THE ARIES AT BITTER LAKE

### FINANCING

- ◆ \$49.7 million taxable construction loan from Wells Fargo
- ◆ \$37.5 million tax-exempt loan from CitiBank
- ◆ \$32 million in 4% federal low-income housing tax credit equity from Wells Fargo
- ◆ \$19 million taxable construction loan from CitiBank
- ◆ \$8.6 million loan from Evergreen Impact Housing Fund
- ◆ \$3.8 million sponsor note from Bellwether Housing
- ◆ \$3 million deferred developer fee

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