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Microsoft pledges \$500 million to tackle housing crisis in Seattle, Eastside

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Microsoft President Brad Smith speaks Thursday at a news conference in Bellevue to announce a \$500 million pledge by the company to develop affordable housing and also to address homelessness in the greater... (Ted S. Warren / The Associated Press) More

The pledge is the largest in the company's 44-year history, and comes as Microsoft and other tech giants that have driven the region's economic boom face increasing pressure to help mitigate affordable-housing shortages.



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Blessed with a balance sheet that allows for sweeping gestures, Redmond tech giant Microsoft is responding to the region's widening affordability gap with a \$500 million pledge to address homelessness and develop affordable housing across the Puget Sound region.

Most of the money will be aimed at increasing housing options for low- and middle-income workers — workers who “teach our kids in schools, and put out the fires in our houses and keep us alive in the hospital,” said Microsoft President Brad Smith — at a time when they’re being priced out of Seattle and parts of the Eastside, and when the vast majority of new buildings target wealthier renters.

Microsoft officials say it’s too early to say exactly how much affordable housing will ultimately result from the \$500 million. Smith, also Microsoft’s chief legal officer, said the company hopes to leverage the fund to help create “tens of thousands of units,” although to accomplish that it would likely have a small role in many projects.

The pledge is the largest in the company’s 44-year history, and, according to the company, is one of the heftiest contributions by a private corporation to housing. In comparison, it dwarfs the \$100 million in annual funding for the state’s Housing Trust Fund.

The initiative comes as Microsoft and other tech giants that have driven the region's economic boom face increasing pressure to help mitigate affordable-housing shortages. Microsoft is coupling its contributions with a call for other companies to step up, and for Eastside cities to facilitate more housing.

PROJECT HOMELESS

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At a news conference in Bellevue on Thursday morning, Smith was joined by King County Executive Dow Constantine, Seattle Mayor Jenny Durkan and other regional mayors.

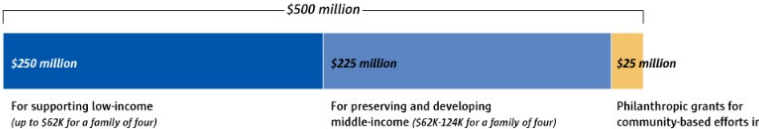
“Our success has been fueled by the support of this region,” Smith said. “We want our success to support the region in return.”

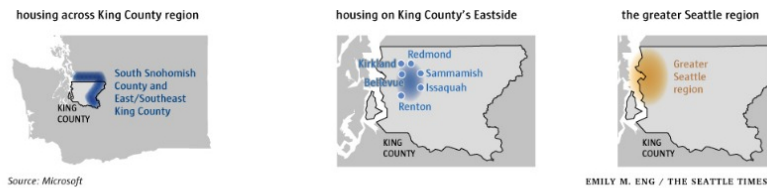
The company will split the funds three ways:

Microsoft will loan \$225 million at below-market interest rates to help developers facing high land and construction costs build and preserve “workforce housing” on the Eastside, where the company has 50,000 workers and is planning for more. The developments will be aimed at households making between \$62,000 and \$124,000 per year.

Microsoft commits \$500 million to address area housing and homelessness

Microsoft will spend \$475 million on loans to spur affordable-housing construction, and the remaining \$25 million on philanthropic services for the homeless.





Another \$250 million will go toward market-rate loans for construction of affordable housing across the Puget Sound region for people making up to 60 percent of the local median income (\$48,150 for a two-person household). Microsoft plans to dole out the \$475 million in capital investment over three years.

The remaining \$25 million will be donated to services for the region's low-income and homeless residents. Out of that amount, the company will give \$5 million to an effort backed by the Seattle Mariners to beef up staffing at a King County Bar Association legal clinic for tenants facing eviction, and another \$5 million to support Seattle and King County's push to consolidate their homelessness services.

Microsoft's push into housing finance follows its announcement of a massive expansion of its Redmond headquarters. The company, which is sitting on \$135 billion in cash reserves and short-term investments, is adding about 2.5 million square feet in new construction and plans to renovate another 6.7 million square feet. When it's done, Microsoft will have room for another 8,000 employees.

The fund also marks Microsoft's first significant foray into the politics of housing affordability, where debate over the role of big tech in addressing the widening affordability gap still simmers.

Smith said he views the fund as an acknowledgment of the economic realities faced by low-salary workers at the company and elsewhere in King County.

"At some level we as a region are going to need to either say there are certain areas where we're comfortable having more people live, or we just want permanently to force the people who are going to teach our kids in schools, and put out the fires in our houses and keep us alive in the hospital, to spend four hours every day getting to and from work," he said. "That is not, in our view, the best outcome for the community."

The plan

Microsoft leaders began work on the fund last summer, following discussions with Challenge Seattle, a business-led group that seeks to address regional issues.

In the wake of Seattle's ultimately failed effort to impose a so-called head tax on big businesses to fund affordable housing and homeless services, the group discussed solutions for addressing the region's affordability gap. Smith says the idea for the fund grew out of those conversations, with Microsoft CEO Satya Nadella giving the green light for the massive commitment.

The specifics of the plan are still being sketched out. Microsoft hasn't identified any specific projects or developers yet and has no firm timeline for doling out the cash. The company expects to turn only a small profit off the loans, which officials say will be reinvested in the fund.

The loans are intended to help developers kick-start development and preservation projects by giving them bridge and longer-term loans they can use to borrow additional funds.

Building the number of units the company envisions won't be easy because housing development remains expensive. Based on the typical costs, if the full half-billion dollars were plowed directly into one project, it would only produce about 1,000 housing units.

Moreover, financial returns on housing investments aimed at middle-income renters are low. Developers, by and large, have no problem securing financing for high-end projects, because the pricey rents lead to healthy profits. By comparison, rents for middle-class workers average \$1,780, reducing returns for capital investors.

As a result, luxury units have made up 85 percent of the 62,000 market-rate units opened in King County since 2010, according to RealPage. Just 9,000 new units aimed at middle-income earners have been built in King County so far this decade.

Microsoft is partially modeling its venture after Housing Trust Silicon Valley, which operates a similar housing-loan program in the Bay Area. Julie Mahowald, acting CEO for the Silicon Valley fund, said financing middle-income projects is the housing community's "hardest nut to crack."

The organization says it has invested \$183 million to help create about 17,000 affordable-housing "opportunities" since 2000, largely by spreading the funds around in small amounts to several projects, such as loaning money to purchase land and then leaving the development costs to builders.

It's hard to know exactly how many new units Microsoft's fund can create, said M.A. Leonard, vice president at Enterprise Community Partners, a national nonprofit affordable-housing developer.

"It depends on so many factors, like land acquisition, who owns the buildings and how they leverage the loans, but it's certain to free some capital up," she said.

Even if Microsoft does influence the construction of tens of thousands of units, it won't be enough. Using housing and labor data from King County's largest cities, Microsoft estimates that the county currently needs about 305,000 affordable-housing units to fill the region's affordable-housing gap.

That's 61,000 more units than a recent estimate from the King County Regional Affordable Housing Task Force, whose December report states that to keep up with population growth, the county will need an additional 244,000 affordable-housing units by 2040. Another analysis in 2018, by

244,000 affordable housing units by 2040. Another analysis in 2010, by consulting group McKinsey & Company, estimated that about 14,000 affordable units are required to address the region's homelessness crisis.

Eastside cities

Smith concedes that Microsoft's funds alone are "nowhere close to what's needed to solve this problem," and that the biggest impact would come about only if the various public policies the company is advocating are passed.

As part of the initiative, the company has urged the mayors of several Eastside cities to address the policy barriers that often impede affordable-housing development.

At the company's urging, Mayor John Marchione of Redmond, Mayor Penny Sweet of Kirkland and several other Eastside mayors signed a letter committing to "do our part" to address outdated land-use regulations, slow permitting processes and several other policy issues that impede housing development.

Marchione said Microsoft's request highlights trends that have become increasingly apparent on the Eastside — that housing prices are outpacing salaries for middle-income residents.

"The fact that Microsoft recognizes that there is an issue for their employees and are willing to be part of the solution is progressive," he said.

Redmond has already taken steps to address six out of the seven challenges highlighted by Microsoft, he said. But Marchione said he's still on the fence about waiving or reducing impact fees to fund affordable-housing development.

Microsoft will also ask state legislators to double the state housing trust fund, taking it from \$100 million for affordable-housing development to \$200 million.

For Microsoft, the fund is also a call to action. The company wants philanthropies and businesses to step up with aid, Smith said.

Smith said he's open to others contributing to Microsoft's fund and has had talks with executives at other companies. But few have the same amount of cash on hand, he said. He noted Boeing has much of its money tied up in aircraft construction. Smith said he's talked with leaders from Amazon, but declined to disclose details.

Convincing the private sector to jump on board might be hard. In Silicon Valley, companies such as Cisco and Microsoft's LinkedIn have donated \$52 million toward a similar housing-loan program, but companies like Google and Facebook have instead chosen to build or advocate for housing near their Silicon Valley headquarters.

A local effort may prove instructive. A year and a half ago, Seattle companies Spectrum Development and Laird Norton Properties teamed up on a \$500 million fund to build middle-income housing, hoping others would follow suit.

Gabriel Grant, one of Spectrum's partners, said while they've found some success finding their own projects — they have one in Pioneer Square and expect to break ground on two or three others in the next year — they haven't seen a single other major developer go after the middle-income projects commonly known as workforce housing.

"I don't see a time anytime in the near future where the large institutional developers shift toward workforce housing," Grant said. "I think you have to be creative to make this work. Every single property that we work on has some unique element that makes it possible," like a civic-minded landowner.

Former Gov. Christine Gregoire, who leads Challenge Seattle, the organization that convened the discussion that kick-started Microsoft's effort, said she hasn't asked leaders from the other businesses represented in the group, such as Boeing, Amazon and Alaska Airlines, directly about contributing, but its members have pledged to continue talking about how to address the region's affordability challenge. Save for Microsoft, none has made a commitment.

"Clearly this is not about Challenge Seattle, this is about amassing the support from the entire business community," she said.

Claudia Balducci, Metropolitan King County Council member and co-chair of its regional affordable-housing task force, said she hopes other business leaders follow Microsoft's example.

"I would hope others have seen the benefit," she said. "They need workers, or they can't be competitive as an employer."

Policies Microsoft is advocating for

At Microsoft's urging, mayors from Auburn, Kirkland, Bellevue, Redmond, Federal Way, Renton, Issaquah, Sammamish and Kent agreed to consider several housing-related policies, including:

- Make under-utilized publicly-owned properties available to housing developers at no charge or at deeply discounted prices
- Update zoning and land use regulations to increase density near public transit
- Reduce or waive parking requirements in transit corridors
- Reduce or waive impact and other development-related fees
- Streamline the permitting process for low- and middle-income housing
- Provide tax exemptions and credits for low and middle-income housing projects
- Update building codes to promote low-cost housing growth

Microsoft is asking Washington state legislature to:

- Double the \$100 million Housing Trust Fund
- Reform state regulations to make it harder for condo owners to sue developers, which could stimulate condo development
- Allow cities to extend the Multifamily Tax Exemption (MFTE) beyond its existing 12-year limit
- Provide incentives for cities to streamline land use polices and reduce zoning and permitting hurdles to expand affordable housing, particularly around transit hubs

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Letter From Mayors 01 11 19

A draft of a letter from regional mayors committing to policies regarding development.

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Contributed by: Scott Greenstone, The Seattle Times

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STATEMENT OF MAYORS

January 2019

We are some of the largest city mayors in King County representing communities outside Seattle and we believe that healthy, vibrant communities are ones that offer affordable housing options for families and individuals all along the income spectrum.

In recent years, the speed of economic and population growth in our region has outpaced the growth in housing supply, creating a shortage of affordable housing—pricing out too many households and threatening the fabric of our community.

We will continue our work to address homelessness and low-income housing and we will also work to address the growing crisis of the lack of affordability of middle-income housing in the area.

Too many of our teachers can no longer afford to live near the schools where they teach. Too many nurses, teachers, police and other first responders are moving out of the communities they serve to find homes they can reasonably afford. Homelessness continues to rise, and our local workforce is commuting from farther and farther away—worsening congestion and eroding our sense of community.

To address this problem, we intend to do our part to break down barriers and provide incentives to

substantially increase the supply of quality housing for all households in our community.

We will consider opportunities to advance housing affordability in the region, including but not limited to:

- 1) Making available at no cost, at deep discount, or for long-term lease, under-utilized publicly-owned properties,
- 2) Updating zoning and land use regulations to increase density near current and planned public transit,
- 3) Reducing or waiving parking requirements in transit corridors to help reduce overall development costs,
- 4) Reducing or waiving impact and other development-related fees,
- 5) Streamlining and accelerating the permitting process for low- and middle-income housing projects to improve developer certainty,
- 6) Providing tax exemptions and credits to incent low- and middle-income housing development, and
- 7) Updating building codes to promote more housing growth and innovative, low-cost development.

We believe that these efforts, combined with the support of the greater community, will make our region more affordable for all households and will advance quality of life throughout the region.

Mayor Nancy Backus, City of Auburn
Mayor John Chelminiak, City of Bellevue
Mayor Jim Ferrell, City of Federal Way
Mayor Mary Lou Pauly, City of Issaquah
Mayor Dana Ralph, City of Kent

Mayor Penny Sweet, City of Kirkland
Mayor John Marchione, City of Redmond
Mayor Denis Law, City of Renton
Mayor Christie Malchow, City of Sammamish

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