

**HOLLY HOUSE OPTIONS DISCUSSION PAPER  
TOWN HALL MEETING  
MARCH 19, 2017 at 11:30**

All four options will be discussed and all voices heard, as the decision on the future use of the Holly House Property will be made by you, the congregation:

1. Preserve Holly House
2. Ground Lease with a Not-for-profit
3. Sell with Restrictions,
4. Sell without Restrictions.

Here are the challenges we face and a summary of the information we have gathered so far.

**Overview**

Our straw poll (to which approximately 60 people responded) and our informal conversations with the congregation showed the highest concern for financial considerations and social justice, in that order.

The church faces financial challenges both right now and for the long term, as described in the information provided by our Treasurer, Ryam Hill at the Church Financial Sustainability Town Hall this January. See Attachment 1.

In terms of providing a platform for social justice, the congregation faces decisions about benefits and financial implications. There are currently 6 formerly homeless women who are provided group transitional housing at Holly House, as managed by Sophia Way. Sophia Way currently pays monthly rent of \$1,000, well below market, which is currently estimated to be in the range of \$3,200 per month. The lease with Sophia Way has been renegotiated at \$1,400 per month starting in June, 2017. Sophia Way will require notice of a minimum of 6 months and preferably a year prior to vacating the Property in order to relocate the residents.

In discussions with Habitat for Humanity and the City of Bellevue, we have found out that we can probably put approximately 17 affordable housing units on the Holly House Property.

**Option 1 – Preserve Holly House**

We recognize that there are members who support keeping Holly House as

is. The church recently commissioned a Reserve Data Analysis of all the capital assets East Shore that projects revenue and expenses for Holly House as well as other church facilities. If we include a reserve of \$5,000 per year inflated 3% annually for 'unanticipated expenses' in addition to the Reserve Data Analysis estimates, projected expenses for Holly House are \$104,000 over 5 years and \$660,000 over 30 years. To cover the expenses each year, including the reserve, the current rent of \$1,000 per month has been raised to \$1,400 per month, with increases of 2% every year, cumulative expenses and rent break even in the sixth year and produce a small surplus at 30 years. Based on this we believe that Holly House could be cash-flow neutral in the long run, unless there are extraordinary unanticipated expenses.

### **Option 2 – Ground Lease with a Not-for-Profit**

Because development includes substantial inherent risk, the task force does not recommend the congregation develop this Property on its own. If the congregation decided to pursue this alternative, it should be structured in a manner that would allow the church to retain ownership of the land and use a ground lease with partner(s) familiar with the development process as well as property management following completion of the project.

The task force has investigated the possibility of a long term ground lease as an alternative to outright sale of the Property but as a preliminary conclusion does not believe that this arrangement would generate the level of income that the church requires.

### **Option 3 – Sell With Restrictions.**

The task force has had conversations with a number of different affordable housing providers and other non profit organizations (see Attachment 2 for detailed description). It is possible to sell the Property to a non profit group with permanent covenants that would limit the future use of the Property to the use permitted in the covenants. For example, sale of the Property to an affordable housing provider could require that the Property be permanently used for affordable housing.

Under existing zoning, the maximum level of development permissible on the Property is 17 – 22 townhome type units. The actual density will depend on the availability of utilities, access and a number of other factors that will be included in any buyer's due diligence analysis and the permitting process. There are a couple of different organizations that would be interested in pursuing this type of development, including Habitat for Humanity Seattle – King County.

Current Bellevue zoning authorizes double the number of units for units of less than 600 square feet if the use of the property is designated for senior housing or

other limited types of group housing. Such a waiver would permit approximately 44 units for the existing 3/4 acre and up to 60 units if the parcel size was increased to 1 acre.

The Bellevue City Council has directed staff to create a City-wide inventory of sites that would be candidates for “upzoning” (meaning higher density) in support of affordable housing. The Holly House Property is one of the properties that’s been identified for further analysis, but the process is in a very preliminary phase and the future timing for completion of the analysis and any actual change in zoning is unknown. If the Property were upzoned and the permitted density increased sufficiently, some of the affordable housing providers that build apartment style communities might become interested in purchasing the Property. Any non profit affordable housing provider is likely to wish to purchase the Property at a price discounted from the market price, but as a general rule the higher the number of units that can be built, the higher the price. If the number of units that can be obtained on the Property due to an upzone were to be in the range of 50 units the size of the project would be of interest to Imagine Housing and Bellwether, both sophisticated and well established affordable housing providers.

As is shown in Attachment 2, the task force has had a number of discussions with several organizations, about sale or other types of arrangements, including Habitat for Humanity and Imagine Housing. The meeting with Habitat was particularly encouraging. They are very interested in working with us to work to explore the possibility of developing the Holly House property. They are willing to consider a long term ground lease or purchase

#### **Option 4 – Sell Without Restrictions.**

The task force has had one meeting with a for profit developer, Connor Homes, and the outcome was as expected, which is to say that they would be quite interested in looking at the Property, even under its existing zoning, but that any restrictions on future use such as a requirement that even one unit be affordable would significantly reduce the price. They wouldn’t be interested in purchasing at all if there was a requirement to retain more than one unit as affordable. Without restrictions, sale of the Property to a for profit developer would generate the highest price for the Property.

In April, 2016, Craig Nelsen, long time church member and knowledgeable real estate broker, provided a Comparative Market Analysis to the task force indicating that the Property likely had a market value (sale without restrictions) of \$1,250,000 - \$1,750,000, and that for planning purposes a market value of \$1,500,000 was reasonable.

#### **Future Directions**

Even if the church decides to sell the Property, it's likely Sophia Way could continue its existing use for some time after June 2017, as a buyer would likely ask for time to conduct its due diligence analysis and obtain permits for its intended use. As mentioned previously, Sophia Way has indicated they would like a minimum of 6 months and ideally a year notice prior to being required to vacate Holly House, and it is the recommendation of the task force that the notification requirements be respected. The existing time period for a developer to obtain permits in the City of Bellevue is in the range of 1 ½ to 2 years, but any deal to sell the Property could be negotiated to accommodate the congregation's desired time frame. Typically the purchase price would increase as the time period provided to the buyer prior to closing would increase. If the church decided it wanted a quick sale, likely the price would be lower as the buyer wouldn't have all of its permits in hand and would consider the development risk higher.

It is the hope of the task force that the next Town Hall meeting will be well attended by members interested in each of the options and that members will be prepared for a productive exchange of views. The task force realizes that any decision regarding the future use of the Holly House Property will require a formal congregational vote, but the task force wishes to provide the ongoing opportunity for all members to periodically engage in dialogue and review the Options. Without a commitment from the congregation to sell the Property, it will not be possible to move forward with any potential buyer, as evaluation of the Property for a potential purchase requires a significant amount of time and money. All groups with whom we have had conversations have indicated they would not be interested in making the required investment without a formal arrangement with the church to pursue negotiations solely with the group.

The Board of Trustees intends to have a vote on the future of Holly House at the June Congregational Meeting.