



July 29, 2021

Cary Retlin
Home Fund Manager
City of Olympia
P.O. Box 1967
Olympia, WA 98507-1967

Re: Martin Way Phase 2 – Funding Request

Dear Cary,

Thank you and the City of Olympia so much for awarding the Low Income Housing Institute (LIHI) a 2021 City of Olympia Home Fund award for LIHI's Martin Way Phase 2 project. We are so excited to be completing the construction of Martin Way Phase 1 this year and hopefully starting the construction of Martin Way Phase 2 in 2022. The City's vision and support for the Martin Way partnership with LIHI is transforming an underutilized lot into 129 units of permanent supportive housing, a 60-bed enhanced shelter facility and offices for Interfaith Works, as well as various spaces for supportive services and community events.

Unfortunately, the Martin Way Phase 2 project currently has a funding gap of \$1,741,380 because of a combination of COVID-19 pandemic cost impacts, the application of a new energy code, and inflation, among other factors. Below for reference is a brief outline of the total development cost differences between Phase 2 and Phase 1:

- COVID-19 Pandemic Hard Construction Cost Impacts: Mainly because of recent COVID-19-related materials and labor cost increases, especially the dramatic recent increase in the price of lumber, the hard construction cost for Phase 2 is estimated to be \$53 per SF higher than for Phase 1.
- New Energy Code: Phase 2 will be built per the 2018 Energy Code, which, among other cost impacts, requires costs of \$5,000-\$6,000 per unit for energy recovery ventilators compared to costs of \$1,000-\$2,000 per unit for whole house fans and trickle vents that were used per the 2015 Energy Code at Phase 1.
- Inflation: Inflation has risen dramatically in comparison to recent years, and just a 3% increase in cost between the two phases causes a more than \$750,000 cost increase.
- Building Size: Phase 2 is larger building – Phase 1 has a larger footprint & Level 1 area (12,200 SF vs 10,600 SF), but Phase 2 is larger footprint on the upper floors (10,000 SF vs 8,900 SF).

LIHI has taken a number of actions to limit these cost increases, obtain other funding, and keep Martin Way Phase 2 feasible. First, LIHI, along with its design and construction team, is value engineering the development's design as much as possible without sacrificing building quality. Secondly, LIHI has requested additional funds from both the Federal Home Loan Bank of Des Moines (a \$750,000 funding request is pending) and Thurston County. LIHI has also cut its developer fee to 8% of the total development cost, which is 2% lower than the minimum 10% developer fee standard of the Washington State Housing Finance Commission.

Because of this \$1,741,380 funding gap, LIHI is requesting additional support from the City of Olympia, if any funding is available. Additional City of Olympia and Thurston County support will be critical to the project's competitiveness to leverage additional funds from the State of Washington Housing Trust Fund in September, Washington State Housing Finance Commission in November, and the Federal Home Loan Bank Des Moines.

Overall, Martin Way Phase 2 would leverage the City of Olympia's funding award into more than \$21,117,259 of outside tax credit and other public funding.

Thank you very much for considering our funding request. Please call me at (206) 571-5730 if you have any questions. We really appreciate our ongoing partnership, and we are very excited to continue building affordable housing in the City of Olympia.

Sincerely,

Sharon Lee

Sharon Lee
Executive Director