



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance & Administration
Ellen Miller-Wolfe, Economic Development Manager

Date: January 29, 2014

Subject: NEXT STEPS FOR CITY HALL

RECOMMENDATION:

Staff will provide a briefing on the current City Hall space planning process, alternatives to renovation, and seek City Council direction. This memorandum provides options and issues for relocating City Hall for Council consideration to assist in determining the next steps related to City Hall.

BACKGROUND DISCUSSION:

Introduction

Space to accommodate City functions has been an issue for a number of years. In 2001, the 505 Market Street building was purchased as a short-term solution to overcrowding at City Hall. Since at least 2002, Kirkland has been studying how to best meet the City's space needs. The 2002 space needs study projected needs with and without annexation and, at that time, determined that the current City Hall site could not accommodate the long-term needs if annexation occurred and suggested the possibility of a separate Public Safety Building, with subsequent modifications to City Hall to meet the needs of other functions. Actions on facilities were deferred pending the outcome of the annexation study at that time.

In 2007, the City conducted another feasibility study to examine the cost/benefit of remodeling an existing space for a Public Safety Building in the event that annexation occurred. At that time, the City was still in the process of studying the feasibility of annexation and deferred facilities decisions until a decision was made on whether to pursue the annexation. In 2008, the City Council passed a resolution indicating that they would not be placing the annexation before voters in 2009. At that point, the City began working with architectural consultants to develop conceptual plans to expand City Hall to meet the City's needs on this site (with the Municipal Court remaining in its current location).

In 2009, in part due to the State Legislature's approval of the annexation sales tax credit to incentivize large annexations, the City Council continued to study annexation, which included a facilities funding analysis to accommodate the staff and equipment necessary to serve the larger City. In November 2009, the annexation was approved by the voters, with an effective date of June 1, 2011, which brought planning and financing facilities needs to the forefront of the discussion. In 2009, the City renovated the City Hall Annex to accommodate some of the staffing added to serve the potential annexation areas in the short term, with the intent of that facility serving as a community meeting space in the longer term.

In June 2010, the City Council received an update on the City facilities needs to meet annexation demands, which resulted in the purchase of the former Costco Home site for a new Public Safety Building and a preliminary financing plan to construct that facility as well as modifications to City Hall and the Maintenance Center. A more detailed funding plan was presented to the City Council on February 10, 2012 for the Public Safety Building, Maintenance Center renovations, and City Hall renovations, as summarized in the table below.

Source	PSB	MC	City Hall	Total
<i>REET 1</i>	2,200,000			2,200,000
<i>General Fund Cash</i>	631,407			631,407
<i>Building & Property Reserve</i>	1,566,019			1,566,019
<i>Facilities Expansion Reserve</i>	800,000			800,000
<i>Capital Contingency</i>		50,000		50,000
Subtotal Capital Reserves	5,197,426	50,000		5,247,426
CTED Grant	325,496			325,496
NEC Funds	294,837			294,837
Facilities Sinking Fund	975,255	291,558	695,424	1,962,237
Deferred/Closed CIP Projects	402,078		101,314	503,392
Proceeds from Sale of Property			3,500,000	3,500,000
My Home Wholesale Rent	450,000			450,000
Interest Earnings	202,783			202,783
Maintenance Bay to PSB from MC	400,000	(400,000)		0
BAB Debt Proceeds (net of issuance)	33,304,390	1,568,442		34,872,832
Future Debt Issuance			5,713,262	5,713,262
Potential Available towards Facilities	41,552,265	1,510,000	10,010,000	53,072,265

Since that time, the focus has been on construction of the Public Safety Building, which is expected to be completed by July 2014, although short-term investments were made at the Maintenance Center and preliminary planning for City Hall renovations was initiated.

City Hall as an Economic Catalyst

In December of 2012 the Council asked the staff to explore whether the City Hall's approximately 100,000 square feet of Class A office needs could be a catalyst for the Totem Lake Business District. The Council asked if City Hall were sold and the \$10 million that would otherwise be spent on renovation were allocated to a new building, could that investment in a new City Hall spark redevelopment at Totem Lake Malls or elsewhere in the Business District.

At the February 8, 2013 City Council Retreat, a "Preliminary Analysis of Potential Relocation of City Hall to Totem Lake" was presented (Attachment A). The conclusion of the analysis was that the Totem Lake Business District was too large for the City Hall by itself to generate redevelopment. Staff concluded the analysis with the recommendation that the City continue with the City Hall project planning. The Council authorized further project planning but asked the City Manager to also initiate conversations with owners of the Parkplace development to see whether City Hall might help provide a "critical mass" for that project to proceed. Those conversations occurred, but while Touchstone was willing to house City Hall as a tenant, they did not view City Hall as a tipping point. Touchstone subsequently sold its ownership interest to Prudential. City staff have had several conversations with Prudential. Prudential is also interested in leasing for City Hall, but does not view City Hall as the catalyst for a decision.

City staff also completed a conceptual design study to determine the space needs for the functions that would remain at or relocate to City Hall after the Police Department relocates to the Public Safety Building. Staff is seeking direction whether to proceed with design for the

renovation of City Hall or further explore the feasibility of relocating City Hall as a catalyst for economic development.

Funding Update

An update of the financing plan is provided below as a context for this discussion. At this stage, the estimated funding for the projects in total has not changed, with the exception of adding the bid alternatives totaling \$389,584 which was approved by Council in February 2013 using additional REET I (\$259,031) and interest earnings (\$130,553) and the completion of the Firing Range at the Public Safety Building, which was approved in November 2013 using additional General Fund resources, primarily from under-expenditures in the Police Department budget. Some of the allocations of the funding sources have changed due to clarifications of funding restrictions and to recognize cash flow needs:

- Clarified that the Department of Commerce grant that was used in part to purchase the existing Municipal Court facility requires that all proceeds from the sale of that facility be used toward the Public Safety Building.
- The initial issuance of the Build America Bonds assumed that most of the proceeds would be used on the Public Safety Building, but \$1.56 million was allocated to the Maintenance Center. While the Maintenance Center has completed initial space planning, no major projects are underway. In the interest of expending the bond proceeds to avoid arbitrage rebate testing, the total bond proceeds will be spent on the Public Safety Building, with reallocating of resources to the Maintenance Center project.
- There has been some improvement in the real estate market since the 2012 analysis and it now seems likely that the City will at least recoup its purchase price for the Municipal Court Building and that the 505 Market Street building could be sold for at least \$1.5 million. This improvement has resulted in a reduction to the amount that is assumed to be borrowed for City Hall renovation to \$5 million.

The revised funding allocation and the expenditures for all three projects through the end of 2013 are summarized in the table below.

Source	PSB	MC	City Hall	Total
<i>REET 1</i>	388,015	1,568,442	502,574	2,459,031
<i>General Fund Cash</i>			631,407	631,407
<i>Building & Property Reserve</i>			1,566,019	1,566,019
<i>Facilities Expansion Reserve</i>	800,000			800,000
<i>Capital Contingency</i>		50,000		50,000
Subtotal Capital Reserves	1,188,015	1,618,442	2,700,000	5,506,457
CTED Grant	325,496			325,496
NEC Funds	294,837			294,837
Facilities Sinking Fund	975,255	291,558	695,424	1,962,237
Deferred/Closed CIP Projects	402,078		101,314	503,392
Proceeds from Sale of Property	2,700,000		1,500,000	4,200,000
My Home Wholesale Rent	450,000			450,000
Interest Earnings	333,336			333,336
Maintenance Bay to PSB from MC	400,000	(400,000)		0
BAB Debt Proceeds (net of issuance)	34,872,832			34,872,832
Future Debt Issuance			5,013,262	5,013,262
Potential Available towards Facilities	41,941,849	1,510,000	10,010,000	53,461,849
General Fund - Firing Range	1,272,000			1,272,000
Revised Total Available towards Facilities	43,213,849	1,510,000	10,010,000	54,733,849
Actuals as of 12/31/2013	(30,598,572)	(332,761)	(131,448)	(31,062,781)
Funding Remaining as 12/31/2013	12,615,277	1,177,239	9,878,552	23,671,068

For purposes of this discussion, approximately \$9.8 million (including the \$5 million in debt) is assumed to be available toward the renovation of City Hall, recognizing the costs expended to date and pending invoices related to the conceptual design study.

Criteria for Evaluating Alternatives

At this juncture, it makes sense to revisit the strategic issues of whether relocation of City Hall can serve as a catalyst for major economic development activity. To evaluate the pros and cons of the alternatives, there are several criteria to be considered:

Lease versus Ownership – In the past, the City has chosen to own versus lease the majority of its municipal facilities, including City Hall. In some examples of city halls located in redeveloped malls, such as Voorhees Town Center in New Jersey, the city is a tenant of the mall under a lease agreement. If ownership of City facilities is an important consideration, it may limit some options.

Willingness of Potential Partners – The City Manager and Economic Development Manager conduct regular status calls with the two major redevelopment sites in Kirkland, Totem Lake Mall owned by Coventry and Parkplace owned by Prudential. In both cases, the owners have indicated that they do not want to sell a portion of the site to the City and that the potential of City Hall as a tenant does not directly impact their decision to proceed, since City Hall is not large enough to be the primary anchor tenant. However both owners are interested in considering City Hall as a potential tenant, but at market rates. If this continues to be the case, any possible relocation timing would be dependent on the timing of the overall development, which could result in significant delays. As both projects evolve, the opportunity to lease space can continue to be a subject of discussion.

Economic Catalyst Potential – As part of the February 8, 2013 Retreat discussion, Ellen Miller-Wolfe, the City's Economic Development Manager, conducted interviews with local commercial brokers and developers on the question of whether moving City Hall would be an economic catalyst in Totem Lake, with the following result:

"Simply moving city hall from point A to point B is unlikely to spur much more than a temporary increase in construction jobs. The economic benefits are directly proportional to the size and scope of the project within which a new city hall building is placed. The consensus among local real estate brokers and developers is that if revitalizing Totem Lake was not a primary objective, it would be better for Kirkland's economic vitality overall to keep City Hall downtown.A city hall alone is not a panacea for what ails Totem Lake and ... the City is best to confine itself to infrastructure improvements and amenities to attract redevelopment of Totem Lake."

To further explore the question:

Could the relocation of City Hall be a catalyst for economic development in either Downtown or Totem Lake?

Chris Fiori, principal at Heartland, LLC has graciously agreed to attend the Council Retreat to assist the City Council in its deliberation regarding the disposition of City Hall from a real estate perspective – whether to move forward on the remodel, or participate in a development in Totem Lake or downtown with the anticipation that public participation could ignite development in one of these districts.

Heartland, LLC is a multi-disciplinary team of professionals with extensive experience in market and financial analysis, urban planning, law, finance, real estate valuation, development, design,

public policy, transactions and venture structures. They have owned, managed and invested in real estate and provided a range of real estate services on projects across the country and internationally. More information is available at their website: <http://www.heartlandllc.com/>. Chris is familiar with Kirkland, having participated in the Urban Land Institute (ULI) Totem Lake Study, as well as the ongoing Transfer of Development Rights (TDR) and Light Industrial Study (LIT), both of which focus on zoning and incentives for development in Totem Lake and other locations in Kirkland. Further background on Chris is contained in Attachment B.

The main questions that Chris has been tasked to comment on and discuss with the Council are as follows:

- Stand-alone sites versus being part of a larger development. What is the scale of economic development we want to affect?
- City Hall is already downtown. What are the benefits of moving it to another downtown location like Parkplace? What are the challenges?
- Totem Lake is a mixed use district with a variety of uses, office being a relatively small proportion (38% office vs. 62% industrial). However, high tech office is proposed in the zoning of PARMAC (SW quad) and also 160,000 sf building is currently included in the master plan for mall redevelopment, both of which could be locations for a city hall. What are the benefits of moving the city hall to TL? What are the challenges?
- Are there examples that Kirkland can draw from that are successful relocations of city hall affecting a downtown or mixed use district?
- Is it a worthwhile consideration to think on a larger scale than an office building – e.g. a civic center given the obsolescence of other city properties, the need for covered pool, etc. to gauge the economic development impact of relocating city property?
- Can City tenancy or ownership impact private redevelopment? If so, how, and how might these options differ?
- In light of current and forecasted market conditions, can we expect new revenue would allow us to reimburse ourselves for additional costs? (\$ depends on whether we lease or own)
- How does a developer analyze a development opportunity? What are the elements that he or she considers and how would partnership with a city be viewed?

Impact on Local Businesses – City Hall houses several hundred City employees that patronize downtown businesses and brings a large number of potential customers to downtown in the form of citizens accessing services at City Hall. While relocating City Hall to the vicinity of Parkplace would still keep the employees and traffic in downtown, relocation to Totem Lake would move that economic activity. What would positively impact Totem Lake could negatively impact downtown, at least until a new, private development on the City Hall property was completed.

Community Acceptance – The response of the surrounding community to any proposed redevelopment of the City Hall site, or potentially the relocation of City Hall, would need to be taken into consideration when evaluating options.

Impact on City Revenues – Moving City Hall to an existing retail/commercial location would remove that location from the property tax rolls (unless the City was a tenant) and eliminate any sales or business tax generated by the location. While a portion of the property tax loss would be offset by the private redevelopment of City Hall, it is difficult to predict whether increased economic activity would offset those losses.

Cost/Benefit Considerations

Two key considerations factor into the cost/benefit analysis of the options: the value of the City Hall properties and competing demands for capital funding.

Value of City Hall – For purposes of comparing options, the City requested that CBRE, a large commercial real estate services firm with a large presence in the greater Seattle area, to update the opinion of value for the City Hall properties under different land use scenarios. Their report is included as Attachment C. The table below summarizes the estimated value of the City Hall properties, including the annex, under a variety of potential uses:

Estimated Value of City Hall Properties

Land Use	Range of Sale Values
Traditional/Government Office	\$12.0-14.0 million
Single Family	\$12.9 million
Multifamily for Rent (Apartments)	\$7.5-9.4 million
Multifamily for Sale (Condominiums)	
Current Zoning	\$9.4-12.0 million
Up-zoned to 36 units/acre	\$18.6-23.0 million

The highest and best use that would maximize the value of the City Hall properties is to up-zone to 36 units/acre from the current capacity of about 18 units/acre. This action could prove controversial from a community acceptance standpoint. This estimate of \$18.6 million to \$23.0 million would be in addition to the \$9.8 million identified for the City Hall renovation described earlier, resulting in potential available funding of \$28.4 million to \$32.8 million.

The values assume that the City would sell the City Hall annex, the 6,000 sq. ft. 1923 former Session Funeral Home, which the City renovated in 2009 for \$1.8 million. The project integrated historic preservation, public art, green building (LEED Gold certification), and public spaces for the short term purpose of providing office space for City staff post annexation and the long-term goal of providing public meeting and event space. If this square footage is removed from the estimates, the resulting reduction is approximately 7.5%.

Competing Demands for Capital Funding – As part of the Kirkland 2035 comprehensive planning update, the City is in the process of updating master plans for Transportation, Parks, Recreation and Open Space (PROS) including evaluation of an indoor pool/recreation center, Juanita Drive, Totem Lake Park, and the Cross Kirkland Corridor (CKC). All of these plans will identify substantial capital improvement needs that will need to be prioritized to fit within funding constraints or new funding sources (likely voted) will need to be identified. Additional funding for a relocation of City Hall would need to be weighed against the funding requirements of these other plans. [Note that all of the cash flow from the retirement of existing non-voted debt has already been committed to servicing the debt on the Public Safety Building Build America Bonds.]

Evaluation of Options

CBRE was asked to evaluate relocation market alternatives in the vicinity of Totem Lake and Parkplace. The detailed analysis is contained in Attachment D. The estimated development costs for each site are summarized as follows:

Estimated Development Costs of Alternate Sites

Parkplace Vicinity	Estimated Cost	Funding Shortfall
Purchase Site in Parkplace	\$55.6 million	\$22.8 million
Wells Fargo	\$54.9 million	\$22.1 million
Microsoft (Bungee/MRM)	\$62.0 million	\$29.2 million
Totem Lake Vicinity		
Liquid Lime Shopping Center	\$41.7 million	\$8.9 million
Bank of America Site	\$41.9 million	\$9.1 million
Existing Touchstone Bldg.	\$40.0 million	\$7.2 million

The funding gap, assuming the most aggressive valuation for the City Hall properties at \$23 million plus the \$9.8 million budgeted for renovation, is \$22.1 million to \$29.2 million. The gap is smaller, but still significant in Totem Lake, with the gap ranging from \$7.2 million to \$9.1 million.

Comparison to City Hall Remodel

The conceptual design study for the City Hall remodel has been completed. The study addressed a list of objectives that were identified as follows:

Tier 1

- Perform Deferred Maintenance – Over the past several years, the City has deferred several facilities sinking fund projects scheduled for City Hall, awaiting decisions related to annexation and the Public Safety Building and the results of the conceptual design study to determine if the current facility could meet the City’s needs. These projects include replacement and upgrades to the mechanical (HVAC) and electrical systems, re-sealing of the exterior skin, selected window replacements, carpeting, painting, door frames, hot water heaters, etc. The funding set aside in reserve toward these needs is part of the financing of the proposed renovation. In the event that City Hall is relocated, which will likely take several years to plan and execute, some of these projects will need to occur to keep the current facility in sound operating condition.

Tier 2

- Move Human Resources and Parks & Community Services to City Hall – The purchase of the 505 Market Street building in 2001 was intended to be a short-term measure to relieve overcrowding at City Hall. Staff believes there are efficiencies to be gained by bringing the Human Resources and Parks & Community Services Departments back to City Hall from this offsite location. The sale of the 505 Market St. building is one of the sources of financing for the project.
- Move Public Works CIP Engineering to City Hall – With the move of Police to the Public Safety Building, the lower level of the City Hall Annex will be empty. If the CIP Engineering group were relocated back to City Hall, Annex could become community/public meeting space as originally envisioned. Alternatively, the CIP group or some other City Hall function could move to the lower level, leaving the upper level for meeting space.
- Remodel “Main Street” to Enhance the Customer Experience – Several of the recommendations in the “Development Services Organizational Study” address making more of a “one stop shopping” experience for development customers. At the same time, consolidating some counter functions should result in efficiencies, both in space utilization and processing, and improve building security.

- Upgrade the Council Chambers – The current configuration of the City Council Chambers does not provide flexibility to use the space for different types of activities, given the sloped floor and the fixed seating and table in the well. An upgrade to the chambers could include changing the footprint and configuration to add flexibility, as well as upgrade the audio/visual equipment.
- Dedicated Emergency Operations Center (EOC) – The current City EOC is located in the Peter Kirk Room and requires set-up in the event of an emergency, which delays the ability of the City to respond in a coordinated manner. The establishment of a dedicated EOC would ensure that operations can begin quickly and the room could also serve as a training room in non-emergency circumstance since it will contain a significant number of computer work stations.
- Provide Space for Growth in Staffing – The conceptual design study provides for projected growth in City staffing for a five to ten year period. The ability to accommodate growth includes moving to a more efficient furniture system and relocating functions to spaces that can better fit their longer term needs.
- Rewiring and Relocating of the Server Room – The City currently houses several of its network servers at the City of Bellevue due to limitation to space and cooling capacity in the current server room. A new server room could be built to current standards and house the City's servers on-site, which would result in some efficiencies.
- Expand Parking Capacity – City Hall currently relies on street parking and use of the church parking lot to supplement its parking needs. The agreement with the church expires in 2016 and there is the potential for the City to make use of the properties to the South of City Hall to expand parking on site. One benefit of this parking is that it could be made available as free parking for downtown after City business hours, which are the busiest parking hours in the central business district.

To accomplish all of the Tier 1 and Tier 2 items, the study estimated a budget of approximately \$20 million, which is well outside the funding available. As a result, a scenario was estimated of what could be accomplished within the \$10 million budget. This budget would accomplish the preventative maintenance and relocating the 505 Market Street functions within the Police Department vacated area, renovate the City Council Chambers, reconfigure the reception area, re-wire with the server room in the existing location, and reconfigure the existing parking areas. The CIP Engineering group would remain in the City Hall Annex and the downstairs area would provide space for some expansion and there would not be a dedicated EOC, but the Peter Kirk Room could still serve that purpose. We would continue to house some of our servers at the City of Bellevue and continue to use our existing furniture system.

The \$10 million scenario accomplishes many of the objectives of the remodel, but a detailed design would need to be completed to confirm these estimates. If the decision is made to proceed with the remodel, this design phase would begin as soon as possible.

Conclusion and Recommendations

The renovation of City Hall to accommodate annexation resources has been contemplated for several years. If relocation is considered, it will likely take a number of years and may be dependent on the timing of major redevelopment projects. Given that timeline, the deferred maintenance projects would need to be completed and the other operational efficiencies may prove worthwhile. Based on these factors, staff recommends proceeding with the design phase of the City Hall renovation within the \$10.0 million budget. Proceeding with the design phase still allows the City to explore other options without delaying the City Hall renovation. At the conclusion of the design phase, the Council will have a final opportunity to decide the future of City Hall prior to issuing debt and authorizing construction to proceed.

Preliminary Analysis of Potential Relocation of City Hall to Totem Lake

City Council Retreat

February 8, 2013

Objective: Provide a catalyst for redevelopment of Totem Lake business district

Concept: Relocate City Hall to Totem Lake Area, sell existing site and either purchase a suitable building or build to suit

Background

- Current City Hall property
 - 70,258 square foot building
 - 6,000 sf in annex
 - 6 parcels for total of 225,748 sf or 5.18 acres
 - Currently zoned PLA 7 with density of up to 18.2 units/acre
 - Proposed renovation with available funding of \$10,000,000

- City Hall Annex
 - 6,000 square feet
 - Renovated 1923 Session Funeral Home
 - Completed in 2009 for \$1.8 million
 - Integrated historic preservation, public art, green building and public spaces
 - Achieved LEED Gold certification
 - Planned uses
 - Short term – City Hall staff
 - Long term – Public meeting and event space
 - City Hall annex investment and historic preservation suggests maintaining that facility

- Potential value of City Hall Property
 - Highest and best use is multi-family condominium with up-zone suggested to maximize value

Option	Sale Proceeds	Total Available Funding
Sell City Hall and Land Only	13,349,000	23,349,000
Sell all land except annex at current zoning	10,461,000	20,461,000
Upzone to 36 units per acre and sell annex	20,692,000	31,892,000

- Cost to Purchase or Build New Facility

Option	Cost
Purchase and renovate 70,000 sf building	22,709,000
Purchase and renovate available building south of Parmac (114,000 sf)	29,225,000
Purchase and renovate 100,000 sf building (e.g. 405 corporate)	30,852,941
Build to suit with surface parking (purchase 6 acres)	37,175,000
Build to suit with structured parking and demolition of existing structure	43,625,000

- Issues to consider
 - Sale and/or up-zone of City Hall Property will take time and public involvement
 - Major rethinking of City Hall should be given adequate study which precludes realizing any short term improvements in City Hall (co-location and sale of 505 Market; consolidation of development services counter functions; upgrade of server room; re-use of vacated Police space in 2014)
 - If the City relocates City Hall, the City would want to own the building and land (rather than be a tenant)
 - Impact on downtown of moving major employer (City)

- Assessment of viability of objective
 - Interviews with local commercial brokers and developers:

"Simply moving city hall from point A to point B is unlikely to spur much more than a temporary increase in construction jobs. The economic benefits are directly proportional to the size and scope of the project within which a new city hall building is placed. The consensus among local real estate brokers and developers is that if revitalizing Totem Lake was not a primary objective, it would be better for Kirkland's economic vitality overall to keep City Hall downtown.A city hall alone is not a panacea for what ails Totem Lake and ... the City is best to confine itself to infrastructure improvements and amenities to attract redevelopment of Totem Lake."
 - Other examples of incorporating civic buildings in redevelopment have been based on existing viable private project with which to partner
 - There are limited available properties in Totem Lake and no raw land sufficient for a City Hall; property purchase would need to include purchase of existing building with demolition
 - Totem Lake Mall property is still in litigation and future use and ownership are uncertain
 - An alternative to consider is relocating City Hall to Park Place
 - City Hall is intensive land use, especially with surface parking which may not be consistent with high density vision of Totem Lake
 - Berk study on Totem Lake (scheduled to be completed by June) could look at this question more closely

- City Manager Recommendation
 - Continue with City Hall project planning
 - If Council wants to continue study, consider incorporating question into Berk study regarding feasibility of relocating City Hall in Totem Lake
 - Evaluate alternative investments in Totem Lake that may be better suited to achieve the objective

Chris Fiori

Principal & Project Director



SUMMARY OF PROFESSIONAL EXPERIENCE

As a Principal and Project Director at Heartland, LLC, Chris blends financial analytics with public policy and business strategies to advise clients on a wide array of real estate and planning initiatives. He manages multi-disciplinary internal and external teams engaged in predevelopment financial analysis, policy analysis, property acquisitions and dispositions, and development management. Prior to joining Heartland, Chris worked for the Corporate Executive Board in Washington, DC where he was a senior associate within the firm's wealth management consulting practice. .

Chris completed a HUD Community Development Fellowship while working as an acquisitions analyst for National Equity Fund, a low-income housing tax credit syndicator. .

EDUCATION

Master of Urban Planning
Concentration in Real Estate
Finance and Development
University of Washington

Master of Public
Administration
University of Washington

Honors B.A. Political Science
Gonzaga University

CERTIFICATIONS/ AFFILIATIONS

Licensed Real Estate Broker
Washington State

*ULI
Member*

*Runstad Center, Affiliate Fellow
(2013-2014)*

*PRSC
Growing Transit North Corridor
Task Force (2011-2013)*

*Seattle Planning Commission
(2004-2010)*

RELEVANT PROJECT EXPERIENCE

Seattle Housing Authority - Yesler Terrace

- Financial Analysis
- Deal Structure Analysis

City of Seattle - South Lake Union TDR Analysis

- Financial Feasibility
- Public Policy Analysis

Capitol Hill - TOD Station

- Financial Analysis
- Strategy Development

Indigo@66 - Roosevelt Station Area Multi-family Land Investment, Predevelopment

- Underwriting
- Land Acquisition
- Predevelopment Project Management

HEARTLAND



Attachment C

OPINION OF VALUE

KIRKLAND CITY HALL | 123 FIFTH AVENUE

UPDATED JANUARY 2014



Joe Steele

425.462.6948

joe.steele@cbre.com

Bojidar Gabrovski

425.462.6925

bojidar.gabrovski@cbre.com

CBRE

TABLE OF CONTENTS

• Disclaimer	Page 1
• Location	Page 2
• Property Profile	Page 3
○ Zoning	
▪ Use	
▪ Density	
• Traditional Office/Government Valuation	Page 6-7
○ Market	
○ Comparables	
○ Valuation	
○ Conclusion	
• Single Family Valuation	Page 8-9
○ Market	
○ Valuation	
○ Conclusion	
• Multi-Family For Rent Valuation (Apartments)	Page 10-12
○ Market	
○ Comparables	
○ Valuation	
○ Conclusion	
• Multi-Family For Sale Valuation (Condominiums)	Page 13-14
○ Market	
○ Comparables	
○ Valuation	
○ Conclusion	
• Conclusion	Page 15

***This Opinion of Value has been updated from the initial submittal in February 2013. All material modifications have been highlighted in red font.**

DISCLAIMER

The foregoing price opinion has been prepared by a real estate broker/salesperson in the State of Washington, licensed pursuant to Chapter 18.85 of the Revised Code of Washington. The price opinion has not been prepared by a State licensed or certified appraiser, pursuant to Chapter 18.140 of the Revised Code of Washington, and is not intended to be an appraisal of the market value of the property, as defined in that Chapter, nor to comply with the standards set forth therein.

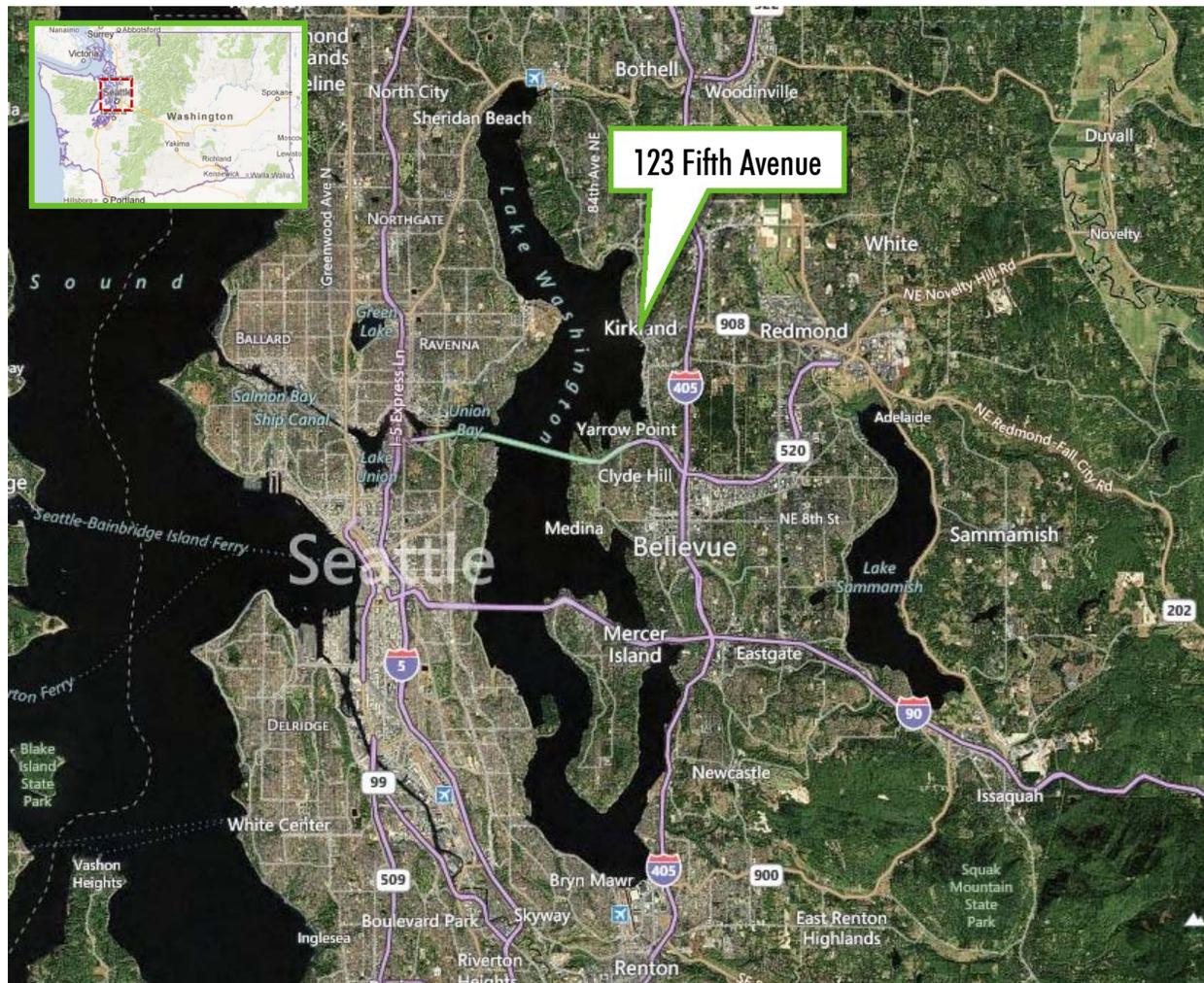
This broker opinion of value or broker's price opinion of Kirkland City Hall (123 5th Ave), Lake & Central, and Marina Park, Kirkland, WA, prepared for the City of Kirkland is based upon information obtained from the City of Kirkland and/or others and is for their use. While we do not doubt its accuracy, we have not verified the information and make no guarantee, warranty or representation about it.

THIS VALUATION ANALYSIS OR BROKER OPINION OF VALUE IS NOT AN APPRAISAL AND HAS NOT BEEN PERFORMED IN ACCORDANCE WITH THE UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE. NEITHER YOU, NOR ANY THIRD PARTIES, MAY RELY ON THIS ANALYSIS FOR ANY TAX PURPOSES, ESTATE WORK, LITIGATION, LENDING OR ANY OTHER MATTER OTHER THAN YOUR DIRECT USE IN CONNECTION WITH A CONTEMPLATED TRANSACTION.

LOCATION

The subject property is located at 123 Fifth Avenue, Kirkland, WA. The property comprises six parcels, the largest of which is being used as the Kirkland City Hall. The additional parcels are being used as a community center, multifamily housing and other uses.

AREA MAP



KIRKLAND DEMOGRAPHIC MAKEUP

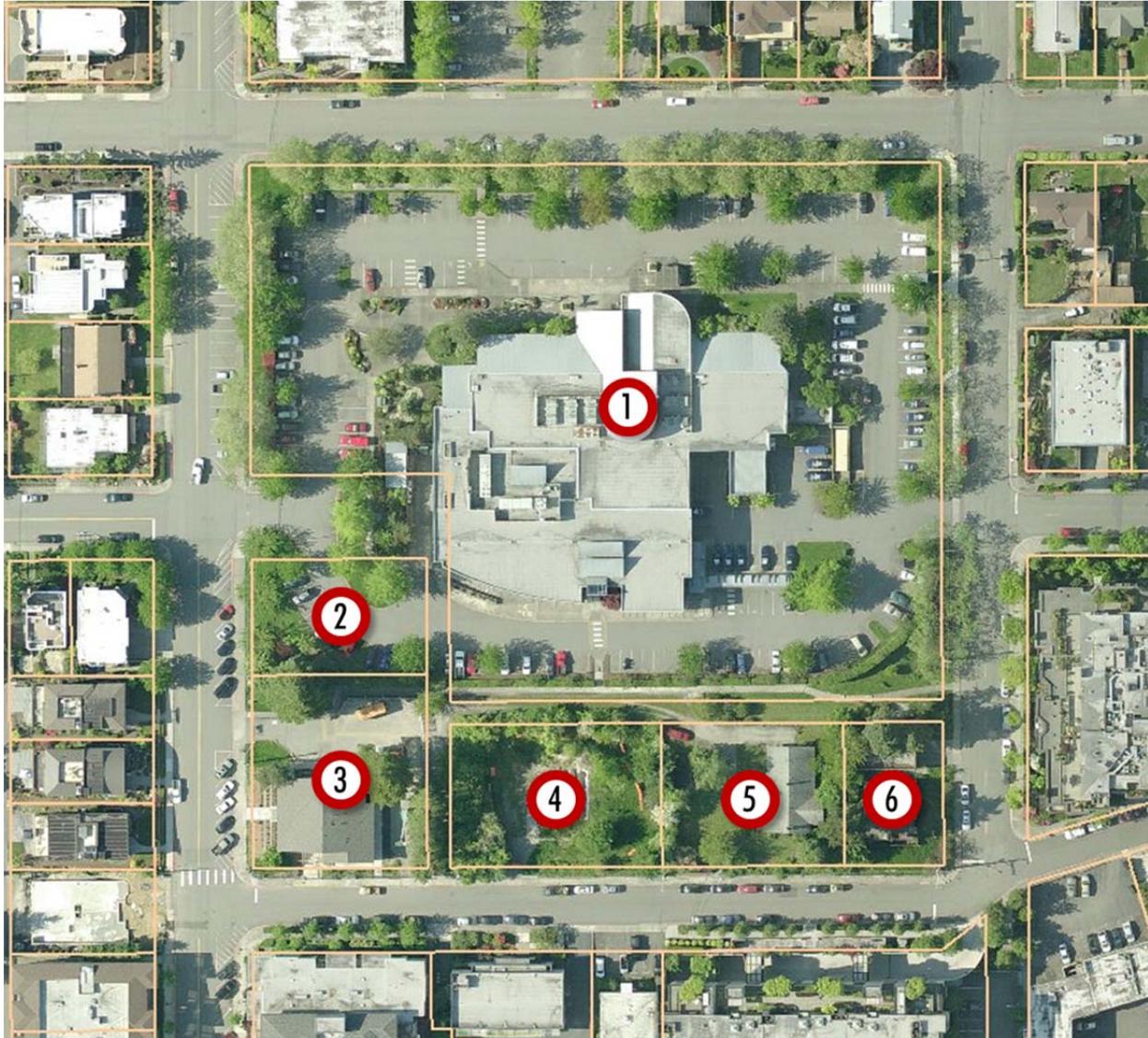
2013 Estimated Population	83,583
2018 Estimated Population	88,485
Growth 2013-2018	+5.86%
2013 Estimated Households	35,821
2018 Projected Households	38,116
Growth 2013-2018	+6.41%

Source: Nielsen

PROPERTY PROFILE

The subject property consists of six separate parcels totaling 5.2 acres, all zoned PLA 7A.

SITE OVERVIEW: SIZE & ZONING



Address	Parcel #	Zoning	Land Acreage	Land Sq. Ft.
1. 123 Fifth Avenue	3885808355	PLA 7A	3.74	162,768
2. N/A	3885808525	PLA 7A	0.23	10,230
3. 310 1 st Street	3885808550	PLA 7A	0.39	17,050
4. N/A	3885808600	PLA 7A	0.35	15,300
5. 136 3 rd Avenue	3885808615	PLA 7A	0.30	13,192
6. 144 3 rd Avenue	3885808616	PLA 7A	0.17	7,208
			5.18	225,748

Source: King County Assessor's Office

USE: UNDER CURRENT ZONING

All six sites are currently zoned PLA 7A, which provides a wide array of possible uses:

- Detached Dwelling Units
- Detached, Attached, or Stacked Dwelling Units
- Mini-School or Mini-Day-Care
- Assisted Living Facility

The following uses are allowed, but only through a required review process:

- Church
- School or Day Care Center
- Convalescent Center or Nursing Home
- Public Utility
- Government Facility or Community Facility

DENSITY: UNDER CURRENT ZONING

MULTIFAMILY FOR SALE (CONDOMINIUMS): Condominium development is allowed under the current zoning. The current code provides for 2,400/SF of land area for each unit. This would allow for approximately 94 units or 18.15 units per acre. The value of this property is significantly determined by the density allowed. Setbacks, parking, landscaping and height restrictions will ultimately determine the allowable density.

MULTIFAMILY FOR RENT (APARTMENTS): Apartment development is allowed under the current zoning. The current code provides for 2,400/SF of land area for each unit. This would allow for approximately 94 units or 18.15 units per acre. The value of this property is significantly determined by the density allowed. Setbacks, parking, landscaping and height restrictions will ultimately determine the allowable density.

ASSISTED LIVING/NURSING HOME: Assisted Living use is allowed in this zoning for purposes of density, the code states that two assisted living units shall constitute one dwelling unit. Therefore, under assisted living use up to 188 units may be achievable on this property. Setbacks, parking, landscaping and height restrictions will ultimately determine the allowable density.

SINGLE FAMILY: Single Family development is allowed under the current zoning. The current code provides for minimum lot sizes of 3,600/SF. This would allow for a maximum of 63 lots or 12.1 lots per acre.

GOVERNMENT: Government Use in this zoning is allowed through a Required Review Process. Additional lot coverage can be achieved up to 70% lot coverage, however parking and landscaping requirements will limit the eventual FAR that can be achieved on the property. Typically suburban office buildings with surface parking will be able to achieve .35 to .5 FAR. This property would not be able to achieve significant increase in square footage under current zoning. Setbacks, parking, landscaping and height restrictions will ultimately determine the allowable density.

OFFICE: Office Use in this zoning is not allowed. If it were allowed, additional lot coverage could be achieved up to 70% lot coverage, however parking and landscaping requirements will limit the eventual FAR that can be achieved on the property. Typically suburban office buildings with surface parking will be able to achieve .35 to .5 FAR. This property would not be able to achieve significant increase in square footage without significant changes to the current zoning codes. Setbacks, parking, landscaping and height restrictions will ultimately determine the allowable density.

TRADITIONAL/GOVERNMENT OFFICE

Kirkland is the Puget Sound Area's most stable office submarket. **Vacancy rates are 8.1%** and Class A office rents will range from \$20.00-\$35.00/SF NNN, with the upper end of this range being associated with waterfront related properties. Although **1.3M SF is planned** in this submarket, developers are reluctant to break ground without significant preleasing.

The Kirkland City Hall property highest and best use would not be office development at this time. With the significant residential neighborhood surroundings, lack of demand by office development and current zoning restrictions as it relates to this use; we would not anticipate this property future as a Class A office project, corporate headquarters or alternative Government property.

MARKET

Q4 2013 Kirkland Office Market Highlights:

Total Inventory	1,465,805 RSF	Class A Gross Asking Rent	\$38.95/RSF
Total Vacant SF	118,682 RSF	Construction Deliveries	0 RSF
Total Vacancy	8.1%	Under Construction	180,000 RSF
Total Absorption	(22,561) RSF	Planned Development	1,282,000 RSF

Proposed Developments:

Kirkland Park Place	Touchstone	425 Placeplace Ctr	1,200,000 RSF
Google Expansion	SRM	500 7 th Ave S	180,000 RSF
Lake Street Place	Stuart McLeod	130 Lake St	120,000 RSF
Park Place North	Gramor	621 5 th Ave	59,690 RSF
Total Proposed SF			1,544,690 RSF

MARKET COMPARABLES

Lease Comparables

Tenant	Lease Start	Size	Term	NNN Rent	Free Rent
Summit Group Solutions @ Plaza at Yarrow Bay	Q4 2012	3,357 RSF	60 Months	\$23.50	3 Months
Directors Mortgage @ Plaza at Yarrow Bay	Q3 2012	2,945 RSF	36 Months	\$24.00	2 Months
RBC Wealth Mgmt. @ Carillon Point	Q4 2012	10,500 RSF	60 Months	\$28.00	0 Months
Go Daddy @ Carillon Point	Q3 2013	9,020 RSF	84 Months	\$28.00	1 Month

Office Sales Comparables:

Kirkland 405	Nov 2012	79,760 SF	\$13,849,900	\$173/SF
Arris Building	June 2012	50,000 SF	\$8,600,000	\$172/SF
Continental Plaza	June 2013	72,954 SF	\$24,500,000	\$336/SF
10510 Northup	June 2013	51,290 SF	\$17,300,000	\$337/SF
Average Price/SF				\$255/SF

VALUATION**Comparable Method**

	Size	Value/SF	Total Value
Office	56,206 RSF	\$200.00/SF	\$11,241,200
Basement	14,052 RSF	\$150.00/SF	\$2,107,800
Value	70,258 RSF	\$190.00/SF	\$13,349,000

Income Capitalization Method

	Size	Rent/RSF	NOI
Office	56,206 RSF	\$20.00	\$1,124,120
Basement	14,052 RSF	\$15.00	\$210,780
Total	70,258 RSF	\$19.00	\$1,334,900
less: Vacancy	@ 5.0%		(\$66,745)
Adjusted NOI			\$1,268,155
Capitalized Value	@ 6.5%		\$19,510,077
less: Stabilization Costs			
Downtime	@ 12 Months		(\$1,334,900)
Office Tenant Improvements	@ \$50/RSF		(\$2,810,300)
Basement Tenant Improvements	@ \$100/RSF		(\$1,405,200)
Fees	@ \$10/RSF		(\$702,580)
Total			(\$6,252,980)
Net Value		\$188.69/SF	\$13,257,097

CONCLUSION

It is anticipated that value for office and government use for the Kirkland City Hall Property would be in the \$12M – \$14M range. Without significant increased density and height through up-zoning, it is not anticipated that this would generate the highest and best use for this property.

SINGLE FAMILY

The Single Family market in Kirkland has quickly stabilized over the past year. The inventory has dropped considerably and demand has been quite steady. The East of Market neighborhood ("Norkirk") continues to be a desirable area and values have increased \$25,000 - \$100,000 per lot over the last year. There are few major project developments in this neighborhood, with the majority of construction coming in the form of tear downs for new home construction. Values will continue to increase with demand. This properties' A+ location, combined with views, would likely result in an optimal location for Single Family home development.

MARKET EVALUATION

Q4 2013 Single Family Market Highlights

	<i>Today</i>	<i>1 Year Ago</i>
Total Inventory	96 3.23%	93 -
Median List Price	\$714,500 9.92%	\$650,000 -

VALUATION

Total Land SF	225,748 SF	225,748 SF	225,748 SF
Total Acres	5.18 Acres	5.18 Acres	5.18 Acres
Lot Size	3,600 SF	5,000 SF	7,200 SF
Lots/Acre	12.1 Lots	8.7 Lots	6.1 Lots
Maximum Lots	62.7 Lots	45.1 Lots	31.4 Lots
Less: Lot Loss Development @ 15%	-9.4 Lots	-6.8 Lots	-4.7 Lots
Buildable Lots	53.3 Lots	38.4 Lots	26.7 Lots
Value per Lot	\$275,000	\$375,000	\$550,000
	\$300,000	\$400,000	\$575,000
	\$325,000	\$425,000	\$600,000
Less: Development Costs/Profit @ 25%	-\$68,750	-\$93,750	-\$137,500
	-\$75,000	-\$100,000	-\$143,750
	-\$81,250	-\$106,250	-\$150,000
Net Value per Lot	\$206,250	\$281,250	\$412,500
	\$225,000	\$300,000	\$431,250
	\$243,750	\$318,750	\$450,000
Value	\$10,993,125	\$10,800,000	\$11,013,750
	\$11,992,500	\$11,520,000	\$11,514,375
	\$12,991,875	\$12,240,000	\$12,015,000

CONCLUSION

Value for the Kirkland City Hall Property from a Single Family perspective will not achieve the same level as either development of Condominiums or Apartments. The maximum achievable value under current market conditions is \$12.9M for 53 lots with an average lot size of 3,600 SF.

MULTIFAMILY FOR RENT (APARTMENTS)

The Apartment market in Kirkland has continued to stabilize over the past few years. Few units have been completed over the past 4-5 years and demand and rents have remained stable. There are three projects that are currently under construction, which will add **319 units to the inventory**. **Two additional projects** are currently in the planning stage of the development process.

MARKET

Dupree & Scott Market Info

Current Vacancy	4.2%	Actual rent	\$1,695/month
2012 Market Vacancy	5.5%	Avg. Unit Side	916 RSF
5-Year Avg. Vacancy	5.7%	Actual Rent per RSF	\$1.84/RSF

Under Construction

Project	Address	Units	Acres	Price/Unit	Purchase Price
South Kirkland Park & Ride Mixed Use	3801 108 th Ave	243	-	-	-
White Swan	324 Central	76	.63	\$59,210	\$4,500,000

Planned Apartment Projects

Project	Address	Sales Date	Acres	Purchase Price	Units	Price/Unit
Crab Cracker	452 Central	Pending	1.11	-	297	-
Portola Village	631 Market	Pending	1.23	-	143	-

Density

Project	Address	Sales Date	Units	Units/Acre
101 Kirkland Ave	101 Kirkland Ave	2007	66	101.7
128th on State	128 State St	2006	123	81.9
Watermark	530 2nd Avenue	1997	60	73.8
Crea Juanita Village	9740 NE 119 th Way	2003	211	73.3
Chelsea at Juanita Village	11720 97 th Ln NE	2001	196	69.2
White Swan	324 Central	Pending	72	114.2
Average Units per Acre				85.7

MARKET COMPARABLES**Land Sale Comparables**

<i>Project</i>	<i>Address</i>	<i>Sales Date</i>	<i>Acres</i>	<i>Purchase Price</i>	<i>Units</i>	<i>Price/Unit</i>
101 Kirkland Ave	101 Kirkland Ave	2007	0.65	\$7,800,000	66	\$118,182
Merrill Gardens	201 Kirkland Ave	2007	0.81	\$10,000,000	115	\$86,957
Average						\$102,570

Under Construction Apartment Projects

<i>Project</i>	<i>Address</i>	<i>Sales Date</i>	<i>Acres</i>	<i>Purchase Price</i>	<i>Units</i>	<i>Price/Unit</i>
Juanita Village Lot 5	10801 97 th Ln NE	2011	2.33	\$9,850,000	196	\$50,225
White Swan	324 Central	2013	.63	\$4,500,000	76	\$59,210
The Waterbrook	11810 98 th Ave NE	2011	1.24	\$3,600,000	96	\$37,500
Average						\$48,978

VALUATION

Units/Acre	18.2 Units
Total Land SF	225,748 SF
Total Acres	5.18 Acres
Land SF/Unit	2,400 SF
Max Buildable Units	94 Units
Price per Unit	
\$60,000	\$5,640,000
\$80,000	\$7,520,000
\$100,000	\$9,400,000

CONCLUSION

Current zoning would allow for 94 units to be developed on the property. 101 Kirkland Avenue was originally planned as a condominium project, but as a result of the downturn, the project was completed as an Apartment. The land cost for this project was \$118,000/Unit. Merrill Gardens was an Assisted Living facility, completed at \$87,000/Unit. The White Swan development achieved \$60,000/Unit for land cost.

Apartment development is normally completed at an overall lower cost than condominiums. The cost of land is a key factor of apartment construction. **Overall vacancy rates have dropped below 5%, rents have increased and the near term supply should fit within a healthy equilibrium. In a forward thinking approach to value (12-36 months),** if apartment development would be considered on the Kirkland City Hall Property, value range would be anticipated between \$80,000 to \$100,000/Unit. Under current zoning, value would be anticipated at \$7.5M – \$9.4M.

Once again, density is a huge factor in the valuation of the Kirkland City Hall Property. If higher density could be achieved through up-zoning (e.g. 36 Units/Acre) values could be achieved between \$14M – \$18.6M.

Up-Zone Valuation Matrix

Units/Acre	24 Units	36 Units	48 Units
Total Land SF	225,748 SF	225,748 SF	225,748 SF
Total Acres	5.18 Acres	5.18 Acres	5.18 Acres
Land SF/Unit	1,819 SF	1,213 SF	909 SF
Max Buildable Units	124 Units	186 Units	248 Units
Price per Unit			
\$60,000	\$7,440,000	\$11,160,000	\$14,880,000
\$80,000	\$9,920,000	\$14,880,000	\$19,840,000
\$100,000	\$12,400,000	\$18,600,000	\$24,800,000

MULTIFAMILY FOR SALE (CONDOMINIUMS)

The Condominium market in Kirkland has begun to stabilize. As you can see below, the inventory of available units on the market has decreased from 49 units in 2012 to 45 today. There has not been a condominium project completed in Kirkland since Leland Place was completed in 2007-2008. Interest rates continue to be at an all-time low and there is limited supply of inventory, however condominium development has been slow to recover due to perceived demand, major project financing challenges, project insurance challenges, and overall risk in comparison to apartment development.

MARKET

Q4 2013 Condo Market Highlights

	<i>Today</i>	<i>1 Year Ago</i>
Total Inventory	45 -8.16%	49 -
Median List Price	\$345,000 14.05%	\$302,500 -

MARKET COMPARABLES

Land Sale Comparables

<i>Project</i>	<i>Address</i>	<i>Sales Date</i>	<i>Acres</i>	<i>Purchase Price</i>	<i>Units</i>	<i>Price/Unit</i>
101 Kirkland Ave	101 Kirkland Ave	2007	0.65	\$7,800,000	66	\$118,182
Merrill Gardens	201 Kirkland Ave	2007	0.81	\$10,000,000	115	\$86,957
Leland Place	631 Market	2007	0.49	\$2,128,000	25	\$85,120
Average						\$96,753

Density

<i>Project</i>	<i>Address</i>	<i>Sales Date</i>	<i>Units</i>	<i>Units/Acre</i>
Kirkland Central	211 Kirkland Ave	2006	110	115.4
Plaza on State	122 State St	1995	81	48.8
Boulevard Condo	375 Kirkland Ave	2007	119	72.0
Brezza	225 4th Ave	1997	75	82.2
Park 34	319 3rd St	1998	12	56.2
Marina Heights	134 Central Way	1996	21	36.3
Waters Edge	905 Lake Street S	2000	13	5.5
Shumway Condo	215 5th Ave S	1997	72	16.3
101 Kirkland Ave	101 Kirkland Ave	2007	66	101.7
Merrill Gardens	201 Kirkland Ave	2007	115	141.4
Leland Place	631 Market	2007	25	51.1

Average Units per Acre 66.1

VALUATION

Units/Acre	18.2 Units
Total Land SF	225,748 SF
Total Acres	5.18 Acres
Land SF/Unit	2,400 SF
Max Buildable Units	94 Units
Price per Unit	
\$100,000	\$9,400,000
\$120,000	\$11,280,000
\$140,000	\$13,160,000

CONCLUSION

Current zoning would allow for 94 units to be developed on the property. The land for Leland Place was at a price of \$85,000/Unit in 2007. 101 Kirkland Avenue was originally planned as a condominium project, but as a result of the downturn, the project was completed as an Apartment. The land cost for this project was \$118,000/Unit.

Density is a huge factor in the eventual value of the Kirkland City Hall property. With anticipated density of 94 units, under current zoning, **in a forward thinking approach to value (12-36 months)**, at \$100,000 to **\$120,000/Unit**, a value is anticipated between \$9.4M – **\$12M**. If higher density could be achieved through up-zoning (e.g. 36 Units/Acre) values could be achieved between \$18.6M – **\$23M**.

Up-Zone Valuation Matrix

Units/Acre	24 Units	36 Units	48 Units
Total Land SF	225,748 SF	225,748 SF	225,748 SF
Total Acres	5.18 Acres	5.18 Acres	5.18 Acres
Land SF/Unit	1,819 SF	1,213 SF	909 SF
Max Buildable Units	124 Units	186 Units	248 Units
Price per Unit			
\$100,000	\$12,400,000	\$18,600,000	\$24,800,000
\$120,000	\$14,880,000	\$22,320,000	\$29,760,000
\$140,000	\$17,360,000	\$26,040,000	\$34,720,000

CONCLUSION

The Highest and Best Use and the maximum value anticipated for the Kirkland City Hall Property would be as a Condominium development or potentially an Assisted Living Facility. Please note that valuation of the property for use as an Assisted Living Facility requires a specific expertise relative to this type of business, so this has not been accounted for in this Opinion of Value. As a Condominium, **in a forward thinking approach to value (12-36 months)**, it is anticipated a value of **\$19,000,000 to \$23,000,000** could be achieved for the Subject Property with a slight up zoning.

Were the property to be considered available for development, it should be marketed un-priced, and exposed to all Institutional Multi-Family and Assisted Living Developers on the West Coast. This property would be one of the premier development opportunities available in the Puget Sound Area and would draw tremendous interest and therefore value.



RELOCATION MARKET ALTERNATIVES

**KIRKLAND CITY HALL
JANUARY 2014**



Joe Steele
425.462.6925
joe.steele@cbre.com

Bojidar Gabrovski
425.462.6948
bojidar.gabrovski@cbre.com



TABLE OF CONTENTS

1.) Map of Alternatives	Page 1-2
1. Park Place Development	
2. Wells Fargo Building	
3. Microsoft	
4. Totem Lake – Liquid Lime	
5. Totem Lake – Bank of America	
6. Touchstone – 12131 113 th Ave	
2.) Summary	Page 3
1. Identifying Properties	
2. Value	
3. Rough Order of Magnitude (ROM) Cost	
3.) Financial Analysis	Page 4-9

- 1 Park Place
- 2 Wells Fargo
- 3 Microsoft



Prepared by: Joe Steele

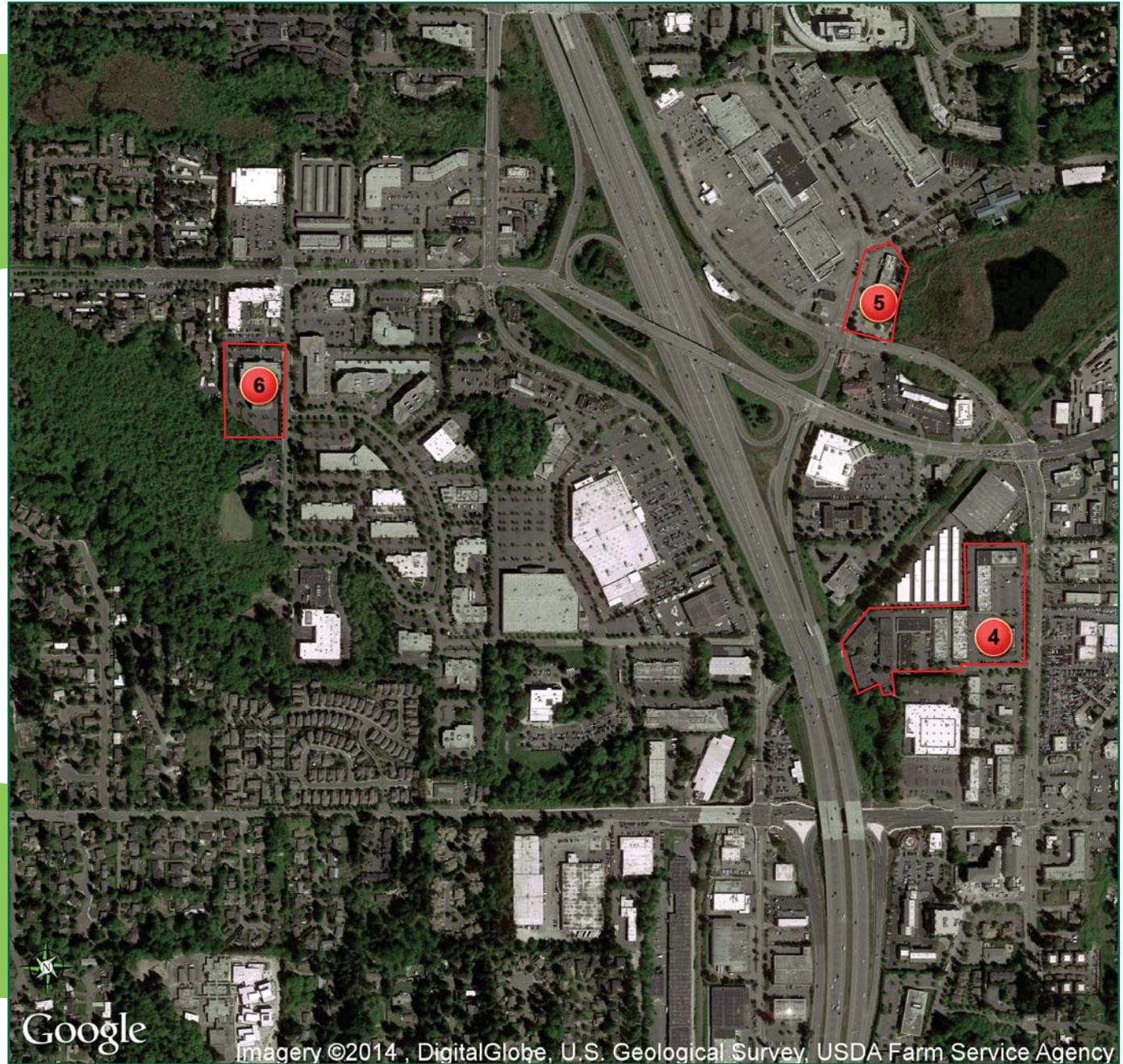
Layout ID:L01 MapId:1710682

© 2013 CBRE Limited. Data © TeleAtlas, Google, AerialExpress, DigitalGlobe, LandisCor, USGS, I-cubed. The information contained herein (the "Information") is intended for informational purposes only and should not be relied upon by recipients hereof. Although the Information is believed to be correct, its accuracy, correctness or completeness cannot be guaranteed and has not been verified by either CBRE Limited or any of its affiliates (CBRE Limited and its affiliates are collectively referred to herein as "CBRE"). CBRE neither guarantees, warrants nor assumes any responsibility or liability of any kind with respect to the accuracy, correctness, completeness, or suitability of, or decisions based upon or in connection with, the Information. The recipient of the Information should take such steps as the recipient may deem appropriate with respect to using the Information. The Information may change and any property described herein may be withdrawn from the market at any time without notice or obligation of any kind on the part of CBRE. The Information is protected by copyright and shall be fully enforced.



Kirkland - Totem Lake

- 4 Totem Lake - Liquid Lime
- 5 Totem Lake - Bank Of America
- 6 Touchstone



Prepared by: Joe Steele

Layout ID:L01 MapId:1710829

© 2013 CBRE Limited. Data © TeleAtlas, Google, AerialExpress, DigitalGlobe, LandisCor, USGS, I-cubed. The information contained herein (the "Information") is intended for informational purposes only and should not be relied upon by recipients hereof. Although the Information is believed to be correct, its accuracy, correctness or completeness cannot be guaranteed and has not been verified by either CBRE Limited or any of its affiliates (CBRE Limited and its affiliates are collectively referred to herein as "CBRE"). CBRE neither guarantees, warrants nor assumes any responsibility or liability of any kind with respect to the accuracy, correctness, completeness, or suitability of, or decisions based upon or in connection with, the Information. The recipient of the Information should take such steps as the recipient may deem appropriate with respect to using the Information. The Information may change and any property described herein may be withdrawn from the market at any time without notice or obligation of any kind on the part of CBRE. The Information is protected by copyright and shall be fully enforced.



City of Kirkland City Hall Analysis

Summary

1.) Identifying Properties:

- Properties identified through the input of City of Kirkland.
- Enhanced list of alternatives through the evaluation of possible future developments in the City of Kirkland.

2.) Value:

- In each case, we evaluated the amount of land needed to accommodate a future City Hall of 100,000 SF.
- Value was established through determining land square footage need and evaluating Floor Area Ratio (FAR) rights of the properties and a market value associated with these rights.
- In addition in certain cases, we determined the value of these properties based on previous or anticipated acquisition value of these properties making assumptions of what level it is estimated that these properties may be acquired for, or adjusting upward assumed values at a percentage over assessed values.

3.) Rough Order of Magnitude (ROM) Cost:

- We made assumptions of Shell Construction Cost, Tenant Improvement (TI) Cost, Parking Cost, and Soft Costs.
- The amount of parking stalls was determined by calculating 4 spaces per 1,000 SF, resulting in 400 parking stalls with the exception of the Touchstone property (#6), which we calculated to be 408 parking stalls based on the building square footage.
- Soft Costs in our analysis was determined by taking 30% of total Building Cost, TI Cost, and Parking Cost for each one of the identified properties; with the exception of the Touchstone property (#6) in which case Soft Costs were calculated to be \$0.
- Tenant Improvement Cost in our analysis was determined by multiplying \$75 per square foot (PSF) by the future City Hall requirement of 100,000 SF. We assumed TI's being a total of \$7,500,000 for each one of the properties selected with the exception of the Touchstone property (#6). We calculated the TI's for this site to be \$100, slightly higher due to reconditioning the existing space for the City Hall requirement; total TI's being \$10,200,000.

Property #	Selected Properties	Building Size SF	Land Size SF	Acquisition Cost	Acquisition Cost PSF
1	Park Place	100,000	40,179	\$55,600,000	\$556
2	Wells Fargo	100,000	50,850	\$54,940,000	\$549
3	Microsoft	100,000	74,200	\$61,956,000	\$620
4	Liquid Lime	100,000	150,000	\$41,661,714	\$417
5	Bank of America	100,000	92,038	\$41,858,360	\$419
6	Touchstone	102,000	149,703	\$39,950,000	\$392

Park Place							Totals	
Building Size	100,000 SF						\$17,500,000	
Building PSF Cost	\$175.00						\$7,500,000	
TI PSF Cost	\$75.00							
Parking Cost								
		Low	High	Type	375 SF/Stall	400 Spaces	Cost	
		\$6,000.00	\$8,000.00	On Grade	0.00%	0	\$0	
		\$15,000.00	\$20,000.00	Above Grade	0.00%	0	\$0	
		\$25,000.00	\$30,000.00	Underground	100.00%	400	\$12,000,000	
		Total Parking Costs					\$12,000,000	\$12,000,000
Soft Costs	30%						\$11,100,000	
<i>*/% of Building Cost, TI Cost, and Parking Cost</i>								
Building Cost Total							\$48,100,000	
Price PSF							\$481	
Land Size	40,179 SF		Land Price	\$7,500,000			\$7,500,000	
Land Price PSF							\$187	
Buildable Price PSF							\$75	
Total Cumulative Cost							\$55,600,000	
Building Price PSF							\$556	

Summary

• Park Place has 1.8 million total SF and 1.2 million SF of office building area allowed per most recent design. The property was acquired in September of 2007 for approximately \$60,000,000. In our approach to value we utilized a \$75 per SF of building area value for the 100,000 SF requirement. Our analysis shows that the total land cost for this Site is \$7,500,000. Additionally in our approach we calculated that the square footage for land is 40,179 SF based on the proportionate amount of Floor Area Ratio (FAR) of the overall project versus our SF need.

Positives:

- Well Located Site in the Kirkland CBD.

Challenges:

- Difficult for developer to separate out buildable area for City of Kirkland, from the overall project.
- This property is currently not on the market for sale and will likely be sold only as a total project.

Wells Fargo							
Building Size	100,000 SF					Totals	
Building PSF Cost	\$175.00					\$17,500,000	
TI PSF Cost	\$75.00					\$7,500,000	
Parking Cost							
		Low	High	Type	375 SF/Stall	400 Spaces	Cost
		\$6,000.00	\$8,000.00	On Grade	0.00%	0	\$0
		\$15,000.00	\$20,000.00	Above Grade	0.00%	0	\$0
		\$25,000.00	\$30,000.00	Underground	100.00%	400	\$12,000,000
		Total Parking Costs					\$12,000,000
Soft Costs	30%						\$11,100,000
<i>*/% of Building Cost, TI Cost, and Parking Cost</i>							
Building Cost Total							\$48,100,000
Price PSF							\$481
Land Size	50,850 SF		Land Price	\$6,840,000			\$6,840,000
Land Price PSF							\$135
Buildable Price PSF							\$68
Total Cumulative Cost							\$54,940,000
Building Price PSF							\$549

Summary

- Our calculation of land value is based on our understanding of the approximate recent acquisition value, increased by 20%.

Positives:

- Well Located Site in the Kirkland CBD.
- FAR for this property lines up well for the City of Kirkland 100,000 SF requirement.

Challenges:

- Large infrastructure costs associated with parking needs.
- This property is currently not on the market for sale and under contract with a Multi Family Developer.

Microsoft							
Building Size	100,000 SF					Totals	
Building PSF Cost	\$175.00					\$17,500,000	
TI PSF Cost	\$75.00					\$7,500,000	
Parking Cost							
		Low	High	Type	375 SF/Stall	400 Spaces	Cost
		\$6,000.00	\$8,000.00	On Grade	10.00%	40	\$320,000
		\$15,000.00	\$20,000.00	Above Grade	0.00%	0	\$0
		\$25,000.00	\$30,000.00	Underground	90.00%	360	\$10,800,000
		Total Parking Costs					\$11,120,000
							\$11,120,000
Soft Costs	30%						\$10,836,000
<i>*% of Building Cost, TI Cost, and Parking Cost</i>							
Building Cost Total							\$46,956,000
Price PSF							\$470
Land Size	74,200 SF		Land Price	\$15,000,000			\$15,000,000
Land Price PSF							\$202
Buildable Price PSF							\$150
Total Cumulative Cost							\$61,956,000
Building Price PSF							\$620

Summary

- Our analysis of land value is based on the input from the existing owner of the property as well as value of the future development of this project.

Positives:

- Well Located Site in the Kirkland CBD.

Challenges:

- FAR availability for this site does not match well with City Of Kirkland Requirement. The developer projects a building of up to a 230,000 - 250,000 SF on this site.
- This property is currently not on the market for sale.

Totem Lake Liquid Lime							
Building Size	100,000 SF					Totals	
Building PSF Cost	\$150.00					\$15,000,000	
TI PSF Cost	\$75.00					\$7,500,000	
Parking Cost							
		Low	High	Type	375 SF/Stall	400 Spaces	Cost
		\$6,000.00	\$8,000.00	On Grade	75.00%	300	\$2,400,000
		\$15,000.00	\$20,000.00	Above Grade	25.00%	100	\$2,000,000
		\$25,000.00	\$30,000.00	Underground	0.00%	0	\$0
		Total Parking Costs				\$4,400,000	\$4,400,000
Soft Costs	30%						\$8,070,000
<i>*/% of Building Cost, TI Cost, and Parking Cost</i>							
Building Cost Total							\$34,970,000
Price PSF							\$350
Land Size	150,000 SF		Land Price	\$6,691,714			\$6,691,714
Land Price PSF							\$45
Buildable Price PSF							\$67
Total Cumulative Cost							\$41,661,714
Building Price PSF							\$417

Summary

• In our approach, we calculated the square footage of land to be 150,000 SF based on the need of a 100,000 SF future building. We anticipate that this project will be a more of a garden office project with lower cost of construction and less parking infrastructure. Using the method of a 20% increase over the assessed value of a portion of the site, we calculated that this land would cost \$6,971,714. Using the same approach to value the total value of the site would be approximately \$18,058,080.

Positives:

- Lower cost alternative due to garden office type development.
- The remaining portion of the site over and above the office need could be used for additional municipal needs.
- Easy access to public transportation in the area.

Challenges:

- This property is currently not on the market for sale.

Totem Lake BOA							Totals	
Building Size	100,000 SF						\$15,000,000	
Building PSF Cost	\$150.00						\$7,500,000	
TI PSF Cost	\$75.00							
Parking Cost		Low	High	Type	375 SF/Stall	400 Spaces	Spaces	
		\$6,000.00	\$8,000.00	On Grade	50.00%	200	\$1,600,000	
		\$15,000.00	\$20,000.00	Above Grade	50.00%	200	\$4,000,000	
		\$25,000.00	\$30,000.00	Underground	0.00%	0	\$0	
		Total Parking Costs					\$5,600,000	\$5,600,000
Soft Costs	30%						\$8,430,000	
<i>*/% of Building Cost, TI Cost, and Parking Cost</i>								
Building Cost Total							\$36,530,000	
Price PSF							\$365	
Land Size	92,038 SF	Land Price	\$5,328,360				\$5,328,360	
Land Price PSF							\$58	
Buildable Price PSF							\$53	
Total Cumulative Cost							\$41,858,360	
Building Price PSF							\$419	

Summary

- Our calculation of land value is based on assessed value, increased by 20%.

Positives:

- Located near future Totem Lake Park.
- Lower cost alternative due to assumed land value.
- Easy access to public transportation in the area.

Challenges:

- Wetland concerns for the overall project.
- Concern that this site may not meet the overall SF requirement due to height restrictions.
- This property is currently not on the market for sale.

Touchstone							
Building Size	102,000 SF					Totals	
Building PSF Cost	\$291.67					\$29,750,000	
TI PSF Cost	\$100.00					\$10,200,000	
Parking Cost							
		Low	High	Type	375 SF/Stall	408 Spaces	Cost
		\$6,000.00	\$8,000.00	On Grade	0.00%	0	\$0
		\$15,000.00	\$20,000.00	Above Grade	0.00%	0	\$0
		\$25,000.00	\$30,000.00	Underground	0.00%	0	\$0
		Total Parking Costs					\$0
Soft Costs	0%						\$0
<i>*/% of Building Cost, TI Cost, and Parking Cost</i>							
Building Cost Total							\$39,950,000
Price PSF							\$392
Land Size	149,703 SF		Land Price	\$0			\$0
Land Price PSF							\$0
Buildable Price PSF							\$0
Total Cumulative Cost							\$39,950,000
Building Price PSF							\$392

Summary

• This property is not available and may have existing leases in place that may cause timing concerns. Value was determined by assuming market rents of \$17.50/ SF and a market cap rate of 6%. Total value based on the 2013 assessed value is \$17,225,100, plus an additional 20% increase would achieve a total value is \$20,670,120.

Positives:

- Low cost alternative.
- Easy access to public transportation in the area.

Challenges:

- Wetland concerns may prevent the construction of additional parking to accommodate City Hall needs.
- Existing Tenant may have leases in place that may be a timing challenge.
- Existing building may not have adequate parking to meet the City requirement.
- This property is currently not on the market for sale.