



MEMO

TO: Planning Commission
FROM: Touchstone Corp.
RE: 5 and 8 story proposals for Parkplace are well-considered options

1.Public Input

The proposed projects at Kirkland Parkplace are the result of a year and a half of public input including five meetings with the Design Review Board who complimented us on our responsiveness in their final recommendations. We have also worked diligently to be responsive to a broad range of public concerns, within the limits of keeping the project financially viable. Our final designs have been significantly shaped by public input. We have also attempted to be responsive to the informational needs of the Planning Commission with detailed response packages, follow up information on questions and experts available at all public meetings. We hope that you will find this latest package is responsive to public concerns and the latest questions and discussion topics from your group.

2.What program/ financial requirements drive the 5 and 8 story plans?

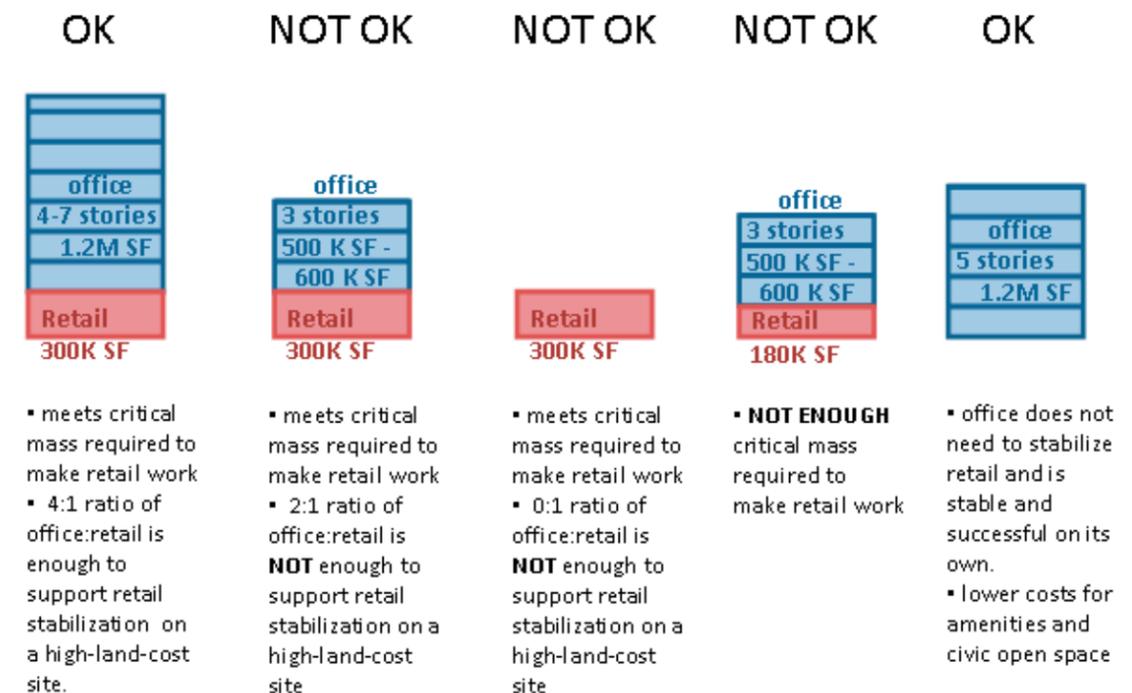
- When Touchstone first looked at the program option of providing retail at Parkplace we hired Bob Gibbs who advised us that 300,000 SF was the minimum amount of retail needed to make the retail work for the project and to create a critical mass with healthy synergies with the existing downtown retail. So we take that as a given.
- Retail Core and Shell is expensive to build. What does this mean? 18 foot floor-to-floor heights, an underground service level, extra mechanical venting for restaurants in a dense urban area, are all elements of the Core and Shell that are more expensive for retail space, and more expensive again in a downtown redevelopment (as opposed to a suburban mall on inexpensive land).
- Retail Tenant Improvements are expensive to build. Typical retail Tenant Improvements (paid for by the landlord as part of the lease) run \$80-\$200 (\$120 average) for great downtown small-shop spaces (as opposed to big-box stores).
- Retail rents are low, and turnover in the first few years is high. Rents run

20\$-35\$ (\$30 is an optimistic average) per SF on retail space, and turnover in the first 3 years (during the stabilization period for a new development) is about 20%. Construction will take 3 years on a project this size. So the math for the number of years to break even (just on the tenant improvement costs) for retail (without including time value of money) is:

$$\text{Years to break even} = 3 + (120 / 30) * 1.2$$

$$\text{Years to break even} = 7.8$$

- This shows that the retail in a downtown mixed used redevelopment takes a long time to break even. Financially, the project needs a strong driver to provide an early return for investors and make it fund-able.
- Office is the strong driver that is leased early and has long-term stable leases. How much is needed? 1.2M SF of office is 4 times the retail space. So each SF of retail TI's is offset by 4 SF of office space, bringing the amortization period for those TI's (not including extra C&S costs) down fourfold to a more reasonable 2 years. If we only had 600,000 SF of office (buildable within the current code) the amortization period for the extra cost of retail TI's is 4 years, still too long to make it feasible for a financial investor in the current climate. It is important to note that while real estate is local, capital is global. This project will not happen if it can't attract capital in a competitive and cautious global financial environment.
- The 300,000 hotel and conference space is a short-term neutral and long term benefit. It provides a program that is flexible to step-backs along central, works well with a sports club and provides some much needed conference and event space in the city.

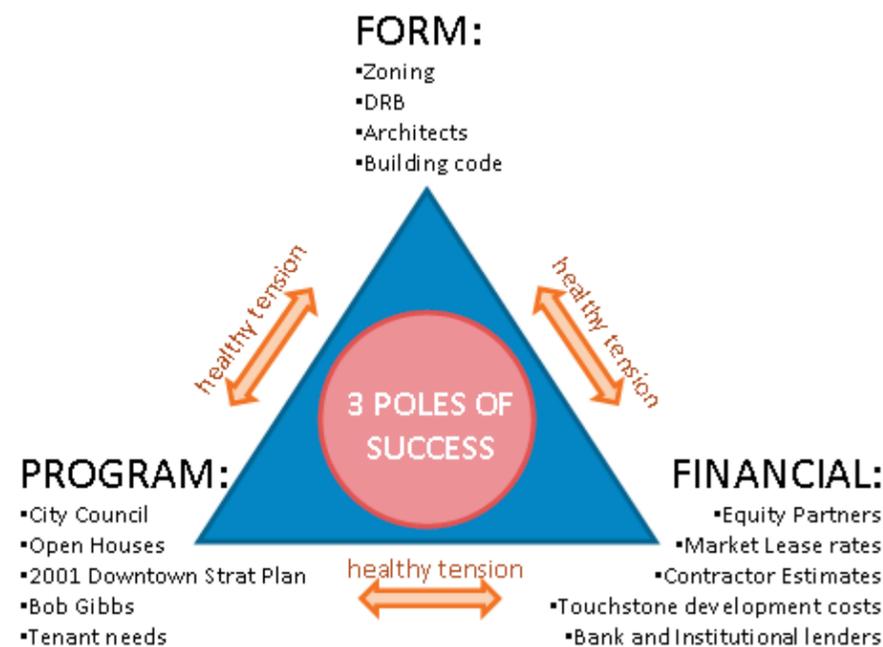


•The upshot? We need a base amount of 300,000 of retail for the retail to succeed long term. In the short term, we need about 4 times that amount of office to carry just the tenant improvements on the retail. (This doesn't even begin to account for the higher land costs downtown, the higher Core and Shell costs, extra amenities, public art and enhanced civic open space program.) The 300,000 hotel and conference space is a short-term neutral and long term benefit. The 8-story plan is the best compromise that fits this total program.

•The other upshot? There is no way to squish (a minimum of 300,000 SF of) retail into a smaller box (and still include enough office to make it financially viable). This helps explain why the 5-story option does not include a stand-alone retail component (beyond what is required to serve the needs of office workers).

3. The Balance of Interests

This diagram represents the healthy tension between the forces that enable a development project to succeed. In a great project, all of them are in balance: the community and user needs define the program, and the form or "container" for that program is shaped by the zoning. These two dimensions are in turn shaped by the financial balance of risk and return.



In the last year, Touchstone, in consultation with the City, the public (program), our architects and the DRB (form) and our financial partners (finance) have crafted two

alternatives that strike a different balance between the three corners of the triangle. One (the 5-story mixed use) is consistent with the current zoning, and one (the 8-story alternative) has extra amenities and retail and is possible within the context of a zoning variance.

Many people who have responded to these alternatives only see one or two of the corners of the triangle and wonder why there are not more alternatives or compromises. For instance, if the financial corner of the triangle didn't exist, we could have a smaller project with retail and office. Unfortunately, in the current national economic climate we need to have a solid financial base to get this project funded. It's not about "greed" or "ultimatums" or "holding the city hostage" as some people have tried to label it. It's about a balance of interests—including financial interests—that can make this project successful.

4. Some remaining threshold issues

The Planning Commission has thoughtfully brought up a few outstanding issues. It is our hope that this package can provide substantive detail on the questions below.

- SUNLIGHT: The Central Plaza ("Living Room") needs excellent sunlight
- CENTRAL AVE: This street needs appropriate pedestrian orientation, and modulation. Hotel needs to meet step-backs as recommended by DRB
- 6TH AND CENTRAL: The intersection should have an iconic "gateway" feel, set-backs from the street, and significant architectural "subtractive" features that open into the project
- PARKING: Need answers on PAB questions about parking adequacy and assumptions
- DESIGN GUIDELINES: Need draft design guidelines that ensure that public benefits are preserved.

The appended package strives to answer these questions and strike a balance between substance and brevity. Should it require additional explanation, we would be pleased to provide additional detail either in writing or through verbal questions upcoming planning commission meetings.

Thank you again for your thoughtful engagement with this project.

Douglas Howe

