City of Kirkland

June 16, 2020

Kirkland 85th Street Station Area Market Analysis Report

Contents

Exhibits

Key Takeaways

[Note: This report was prepared in February- March 2020 using market and economic data that had not captured the ongoing impacts of the Covid-19 coronavirus pandemic facing local and regional economies across the country.]

The Study Area shows potential for increased investment and integration with the walkable center in downtown Kirkland. Market indicators reflect consistent, positive performance across office and retail sectors in the Study Area, as well as strong, increasing values for residential property. However, most commercial property in this area dates to the 1980s. Stronger transit networks and bike/pedestrian connections to downtown Kirkland create opportunities to refresh this market, modernize its character, and connect to a nearby tech hub and mixed-use district.

- There is growing regional demand for office space on the Eastside. Regional demand for office space is strong, and rents on the Eastside have been high with low ongoing vacancy rates. In addition to Bellevue and Kirkland Downtown overall, where rents are already high, smaller Eastside submarkets are likely to see demand.
- The Greater Downtown Kirkland office market is strong. High rents per square foot, low vacancy rates, and recent investments in this area make the Study Area a promising destination for worksites that enjoy access to the amenities and character of Kirkland's downtown.
- The office market of the Study Area offers a lower-cost investment opportunity to build on existing momentum for a growing tech center in Greater Downtown Kirkland.
- The Retail market in the Study Area offers a variety of services and is auto oriented in character. Adjacent to the I-405 exit, the retail market caters to auto traffic with tenants such

COVID-19 IMPACTS

With an ongoing pandemic and anticipated economic recession, there is much uncertainty about changing market conditions in communities across the globe. Cities will continue to respond and adapt as new information and public health guidance is provided.

While long-term impacts cannot be perfectly forecasted, investments in the public realm remain an important priority for promoting long-term growth, economic vitality and community health. Walkability, transit access, diverse housing options, and zoning flexibility will continue to serve those who live, work, and visit in Kirkland.

as service stations and coffee shops. Retail buildings in this zone are 1-3 star[1] and primarily built in the 1980s, mimicking trends in the office sector.

- The Study Area has maintained vacancy rates under 5% for a decade and trends show a consistent lower vacancy rates for retail when compared to a decade earlier.
- Low vacancy rates and slowly rising rents may suggest that demand for new retail spaces may increase in the future, especially as population growth continues. In addition, increased housing can drive retail demand in the Study Area – especially for types of retail that meet the day-to-day resident needs for such as groceries, pharmacies, restaurants and so on. Office space can also create additional retail demand. National research indicates that the typical downtown worker will spend as much as $130 per week in downtown. Top retail categories for office worker spending include grocery stores, discount stores, and warehouse clubs (ex: Costco).[2]
- Integrating retail spaces into new development may be a way of managing these demands through infill to build more complete neighborhoods. Given the changing landscape of brick-and-mortar retail, retail development is now increasingly integrated with housing, and public uses, such as libraries. These new strategies may also be relevant in addressing retail demand in the Study Area.
- Home values (for single family and townhomes) in the Study Area more than doubled in the 2010-2019 period. Values per square foot tend to hover about 20% lower than the Greater Downtown Kirkland market, but demonstrate a similar upward trajectory. In 2016 the average sale price in the Study Area crossed the

COVID-19 IMPACTS ON RETAIL

While it is too early to determine the full impacts of the Covid-19 Corona virus pandemic on future retail, some early trends are beginning to take shape. These include:

- The pace of adoption of online retail, especially groceries, has increased.
- Grocery and food retailers, both online and brick-and-mortar, are seeing an especially high level of demand.
- The increase of demand for food retail, coupled with a shift to online options, will change the nature of physical retail and the composition of the retail workforce.
- Brick-and-mortar retailers, and businesses such as restaurants, will need to reinvent themselves to offer customers a value proposition that's unique and differentiated from online options. This is likely to increase the importance of placemaking and integration with other uses for many retailers in the Study Area.
- Given the service-oriented jobs that were suspended during COVID-19, and the prevalence of smaller service uses in the Study Area, strategies for the future recovery and health of small businesses will be a key economic development question.

[1] Buildings are rated on a 1-5 star scale, with 5-star being the highest score. Newer construction or renovation, high quality finishes, sustainability features, and building amenities are some of the features associated with higher star ratings.
[2] International Council of Shopping Centers, 2012

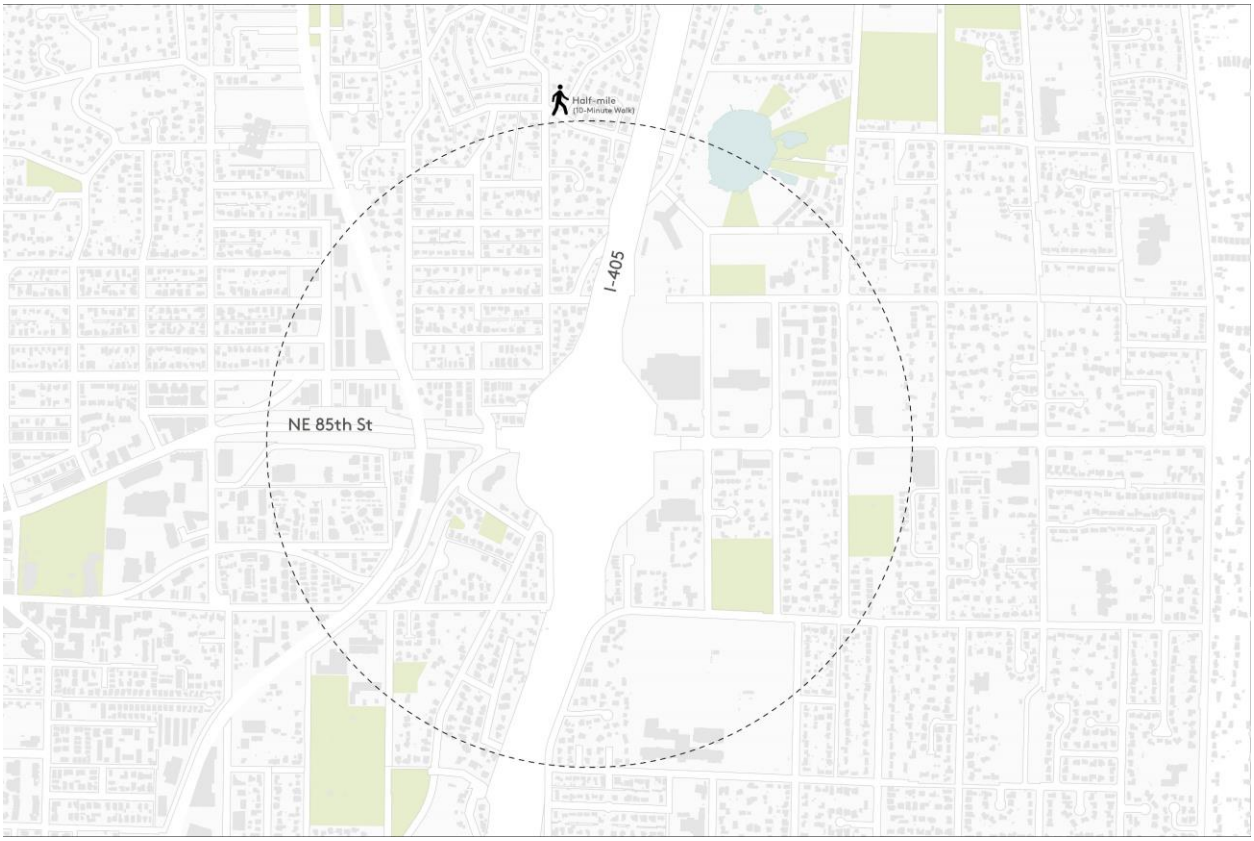
million-dollar threshold and in 2019 the median sales value was $1,475,000. This strong market performance supports the argument for increased residential activity in the Study Area.

- Greater Downtown Kirkland area performs well for multi-family housing with comparatively high rental rates and sales prices. Recent developments are 4-star quality (1-5 star scale), 4-6 stories, and often incorporate ground floor retail and shared amenity spaces.
- While Downtown Kirkland performs well for multi-family development, part of this market strength is likely due to its amenities and walkable character. Downtown Kirkland earns a walk score[3] of 89-90 while walk scores in the Study Area range from 50 to 60.
- Currently, 60% of Study Area land use is attributed to low and medium density residential development (See Exhibit 4). These restrictions limit the residential capacity of the zone and impact the proportion of Kirkland's population within walkable access of Bus Rapid Transit. Increasing residential density with the introduction of new multifamily properties will enhance the station area's capacity to leverage mobility investments.
- Investments in transit, pedestrian, and cyclist infrastructure can influence market perception and conditions and support the development of a more livable multi-family environment.
- Regional case studies and national research offer evidence that Bus Rapid Transit investments lead to increased development activity, particularly when paired with complementary policy initiatives.

[3] Walk scores are assigned to communities on a 1-100 scale, relating to neighborhood walkability for residents. A score 90-100 is described as a "Walker's Paradise" where daily errands do not require a car. Walkscore.com is a private organization assigning ratings to communities across the United States

In this report, the Study Area represents the half-mile buffer surrounding the 85th Street Station, as shown in Exhibit 1. Comparison geographies include Greater Downtown Kirkland (the proposed Urban Growth Center which incorporates much of the Study Area) and defined Urban Growth Centers at Totem Lake, Overlake, and Downtown Bellevue.

Exhibit 1. Study Area.

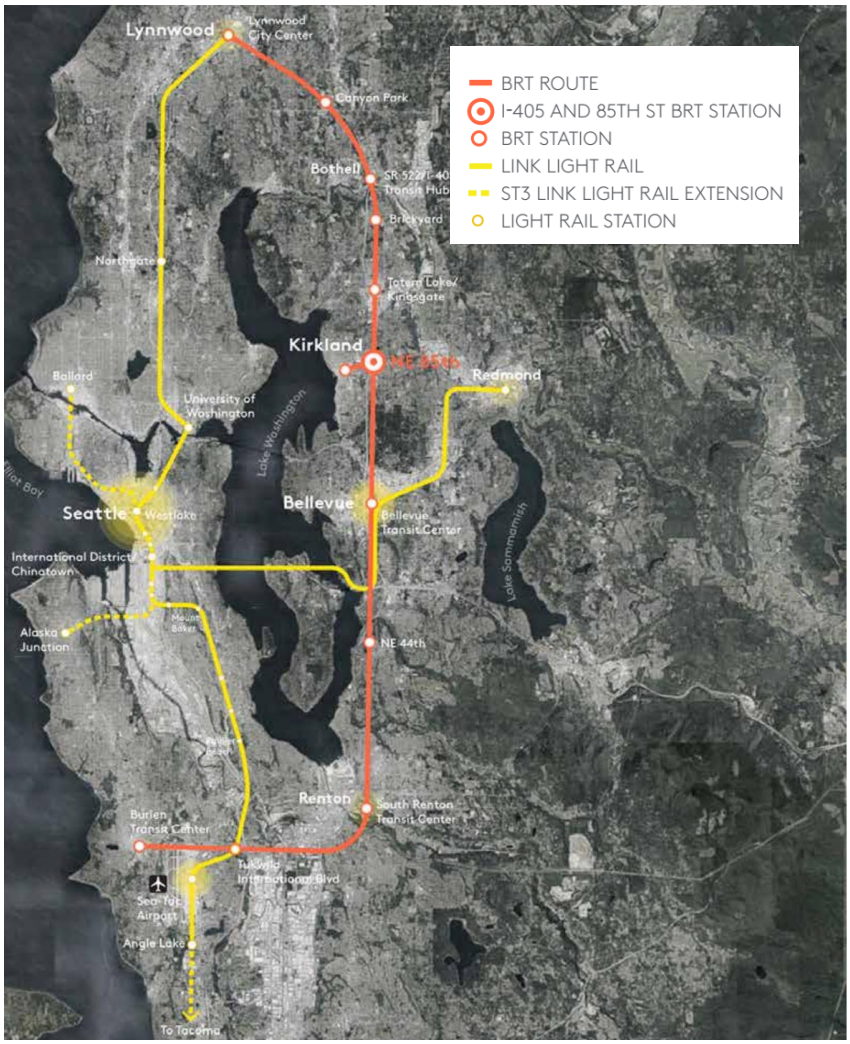


Source: Mithun, 2020.

Introduction

Project Background

ST3 is bringing a once-in-a-generation transit investment to Kirkland with a new interchange at 85th and I-405 by 2024, which includes a new BRT station which should be operational by 2025. The BRT station, developed by Sound Transit, has been designed to connect Kirkland to the Link Light Rail at Bellevue and the Lynnwood Transit Center. The City of Kirkland's Station Area Plan (SAP) considers changes to zoning and other policies and regulations to encourage transit-oriented development near the station and leverage this regional investment to create the most value and quality of life for Kirkland.

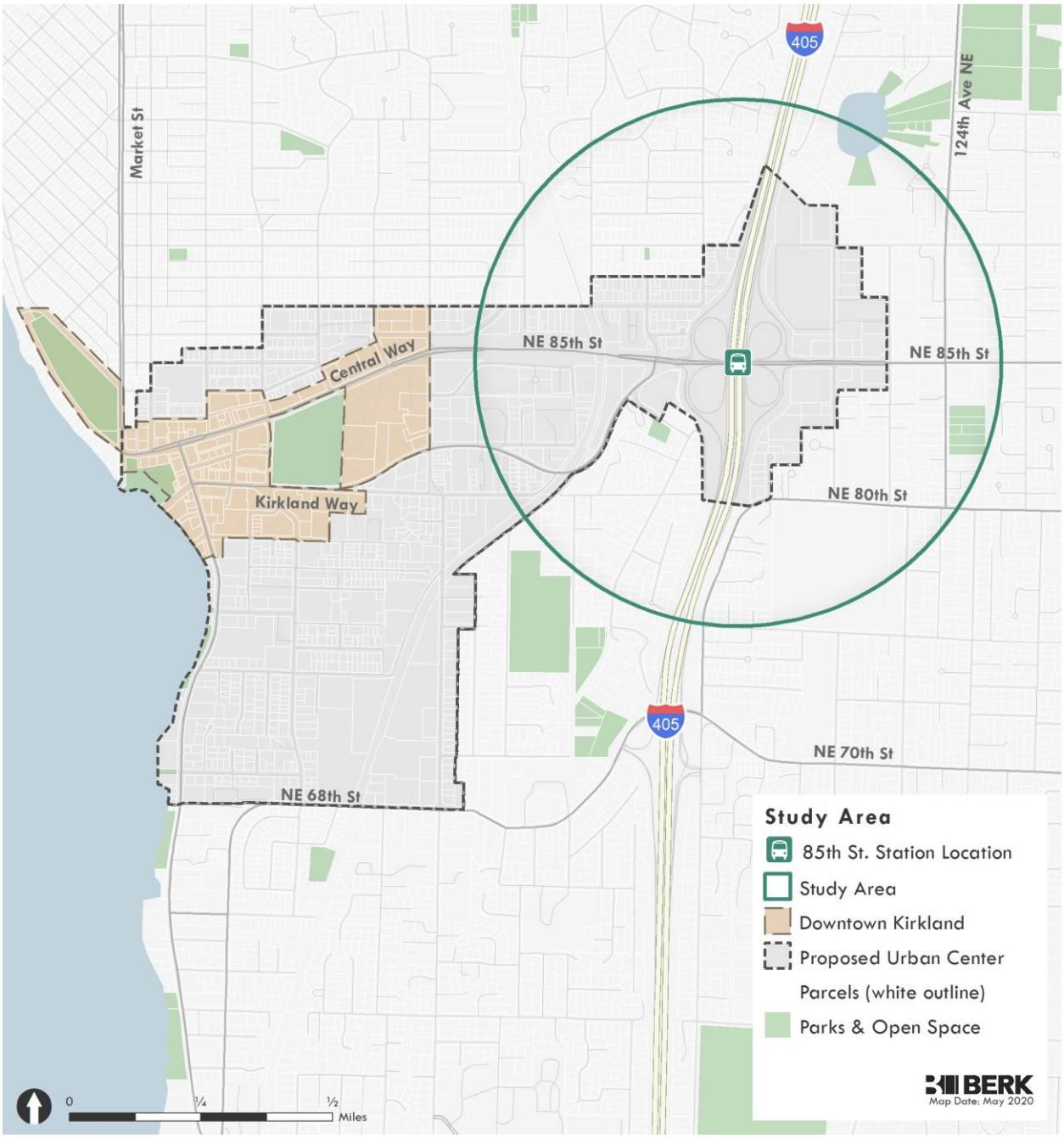


Source: Mithun, 2020.

The SAP should shape an equitable and sustainable Transit Oriented Community as part of the continued growth expected in Downtown Kirkland and the 85th Corridor. The project evaluates the feasibility of various types of development within approximately ½ mile of the station and consider changes to zoning and other regulations. The project studies opportunities to maximize the public benefit from future development, including affordable housing, open space, desired employment and job types. Using the City's Vision and Goals and the 2035 Comprehensive Plan as a foundation, the SAP is an important opportunity to advance concepts in the greater Downtown Kirkland Urban Center and to support citywide sustainability and housing goals. This market analysis report is intended to help inform the opportunities and constraints analysis of the SAP. It evaluates the economic and market context of the area within ½ mile of the station, and existing zoning and development regulations that influence market

activity and perception. It is also useful as background information for the development of alternatives that would be evaluated in the SAP and environmental impact statement (EIS).

Exhibit 2: Study Area in Context of Kirkland Downtown



Report Overview

This report includes the following sections:

- A **Methods and Approach** section, defining the sources of data and interviews conducted.
- **Existing Conditions analyses** with major development considerations, as well as current and potential land entitlements that will impact future development scenarios. This includes a focus on the economic and market context, with a broad description of the Kirkland metro area market, including major economic drivers for the area, key sociodemographic information, descriptions of major growth trends, and the expected impacts on the city and regional economy.
- **Case Studies** outlines categories of development which provide examples of similar opportunities and challenges.

Methods and Approach

For this market study, the following data sources and approaches were used:

- **Population and household data.** Historical counts of population and households were obtained from Puget Sound Regional Council (PSRC) estimates. Citywide population counts were obtained from the Washington State Office of Financial Management (OFM), with city population projections obtained from the PSRC and the City of Kirkland Comprehensive Plan.
- **Employment data.** Information on employment for the Study Area and the City of Kirkland were obtained from the PSRC. Aggregations of sector-based employment counts were conducted where data suppression permitted.
- **Real estate market data.** Real estate market data, including information on rents, vacancies, age, locations, and development trends were obtained from CoStar.
- **Peer geographies.** Information from other growth centers and Kirkland's Greater Downtown will provide context for the Study Area's market and economic data.
- **Property data.** Information on current development, land use, and assessed property values was derived from King County Assessor data, downloaded in March 2020. This information was used in conjunction with CoStar data on multifamily properties to develop housing unit counts for the Study Area.
- **GIS data.** GIS data sets for parcel boundaries, building footprints, and other base data were obtained from King County GIS. Additional data on zoning, land capacity, and other base features were obtained from the City of Kirkland.
- **Additional literature sources.** Several sections include research from sources in the available literature, as well as from current plans and policies, and project and program websites. These sources are referenced with footnotes in the text as applicable.

Existing Conditions

Land Use

Use Patterns

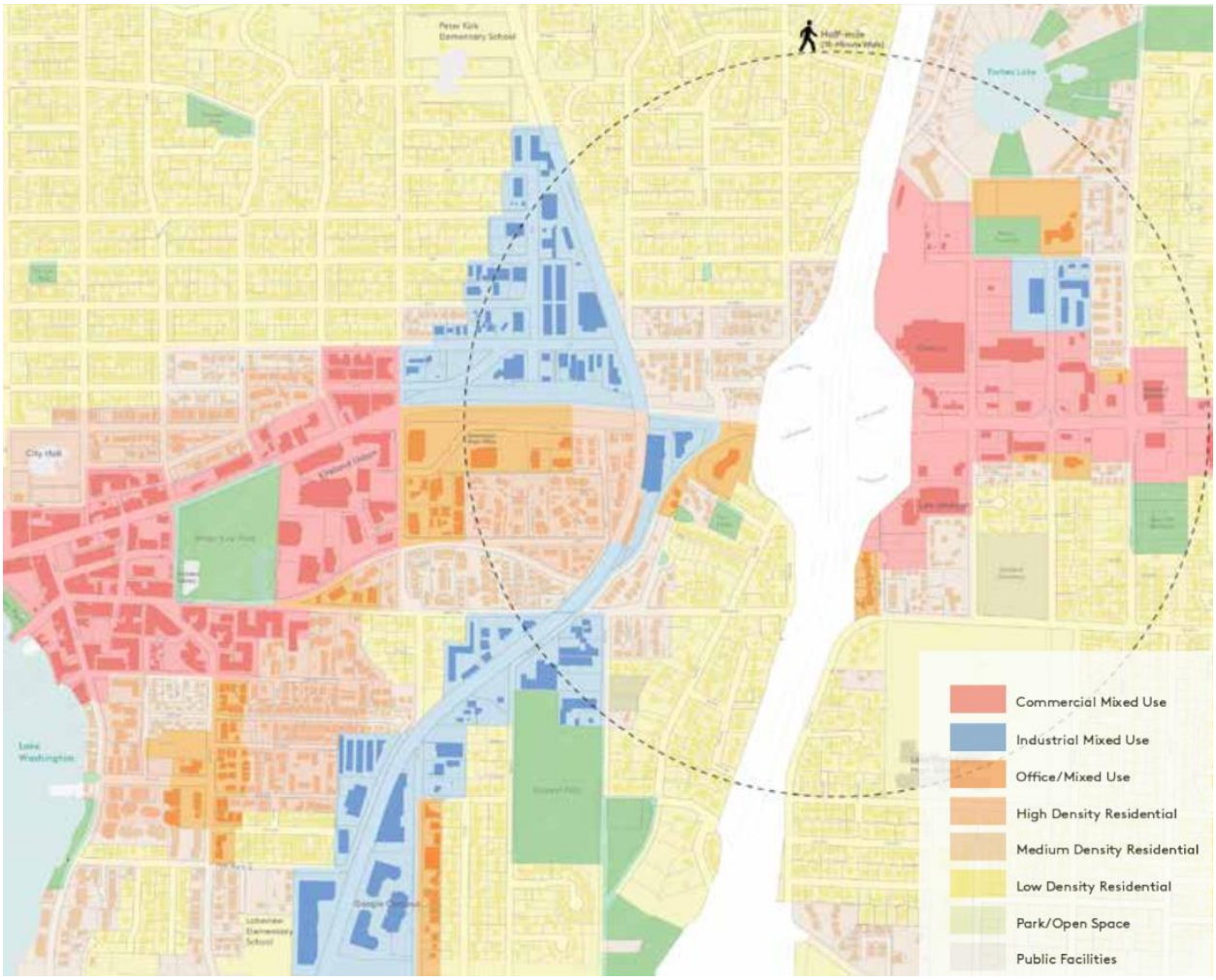
As shown in Exhibit 3 and Exhibit 4, single family residential uses comprise the largest single use of land in the Study Area, occupying 43% of land acreage. Residential uses in the northwestern portion of the Study Area include a mix of townhouses and other medium density residential, and small apartment complexes. The southwestern part of the Study Area includes office buildings, light industrial developments, and multi-family complexes in an auto-oriented pattern, occupying nearly 12% of the overall acreage in the Study Area.

The northeastern and southeastern portions of the Study Area are dominated by large parcels of strip retail occupying close to 15% of land within the Study Area. This development is marked by large surface parking lots, auto-oriented sites with frequent driveways and curb cuts, and weak relationship to street frontages.

With over 13% of the Study Area, the WSDOT right of way and associated road infrastructure plays an influential role in the character in the Study Area. These parts of the Study Area are prone to significant noise, unused open space, and uneven maintenance and vegetation.

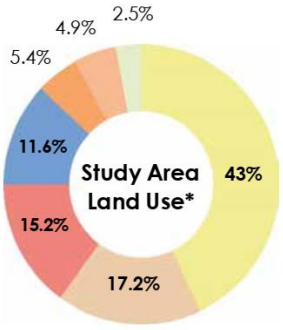
There are a few parks within the Study Area, indicated by green in Exhibit 3, but overall the area has low access to parks relative to the rest of the city. It also has a poor environment for walking and biking with significant physical barriers, and both residents and employees have very limited opportunities for safe physical activity or easy access to amenities.

Exhibit 3. Current Land Use, Study Area.



Source: Mithun, 2020.

Exhibit 4. Land Uses in the Study Area, by Acreage.

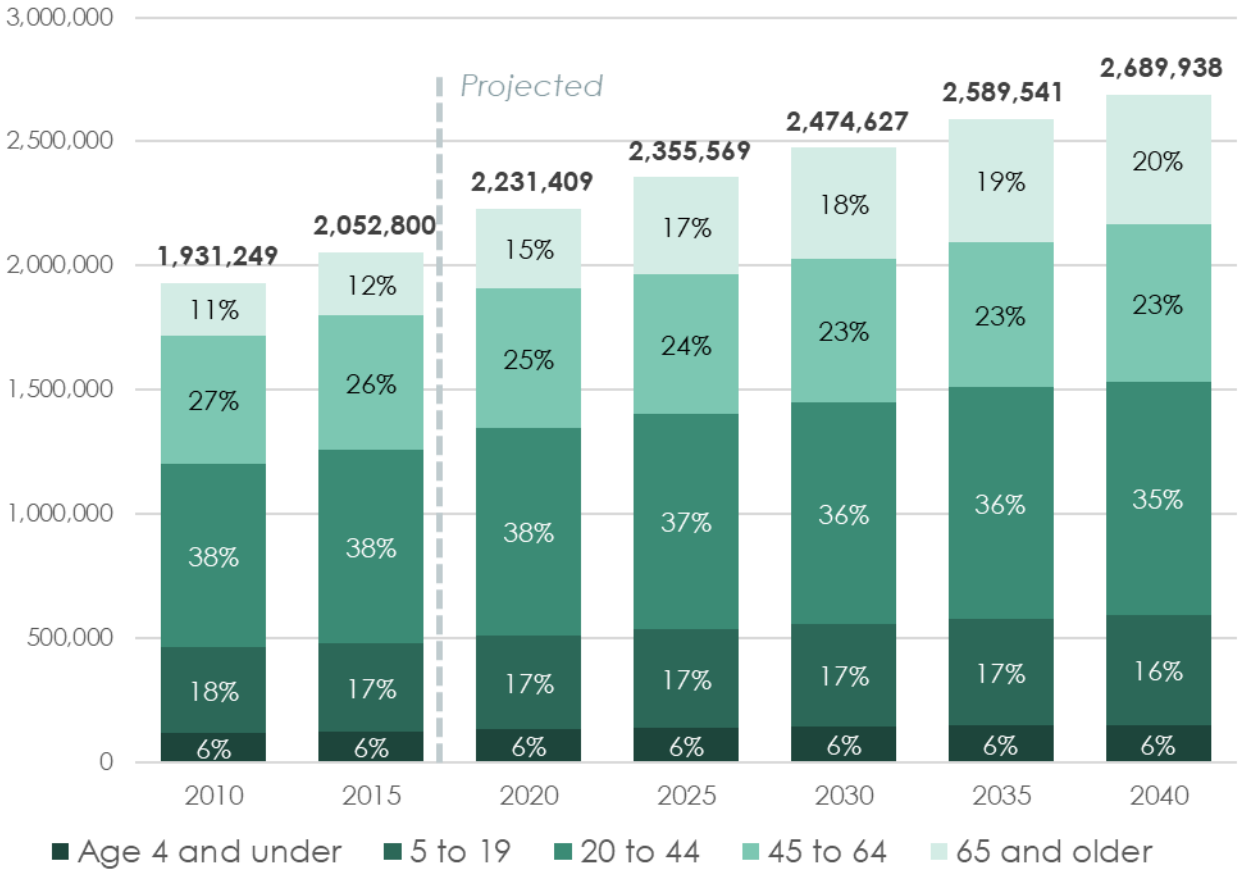


Source: Mithun, 2020.

Population and Employment

King County's population has grown since 2010 and is expected to continue to grow. King County's population grew 1.6% from 2018-19 but growth across the county has not been even. Seattle, Redmond, Bellevue and Kirkland grew faster than the county overall, with Kirkland's population growing by 1.9% from 2018 -19. See Exhibit 5.

Exhibit 5. Population by Age Cohort, King County, 2000–2040 (projected).

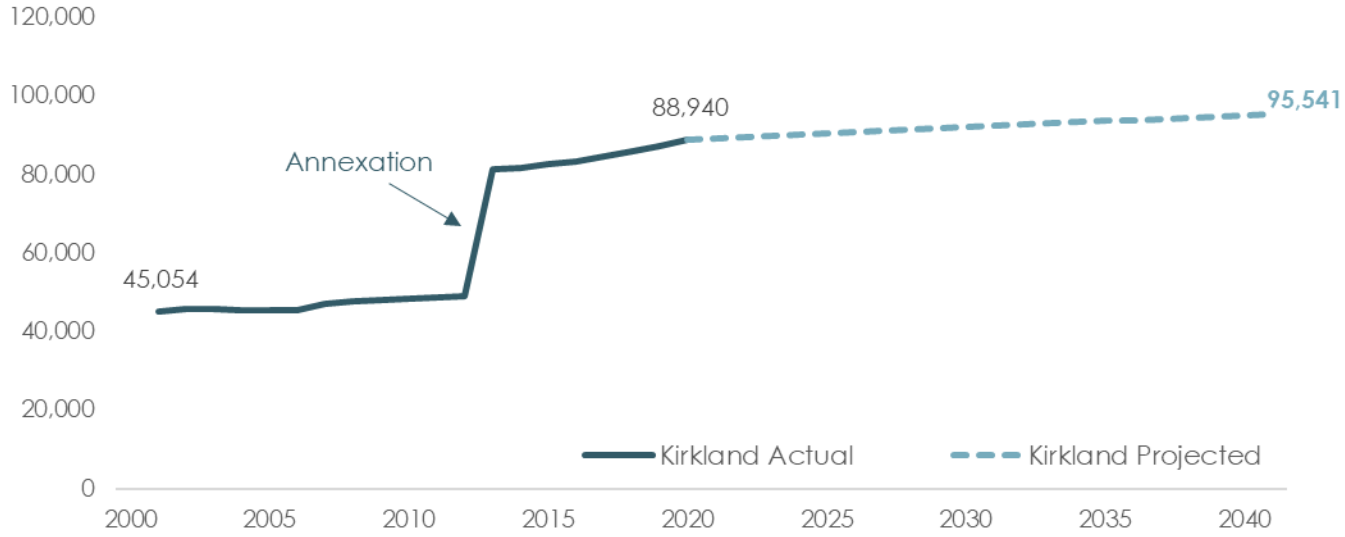


Source: WA OFM, 2020; BERK, 2020.

Kirkland's population has grown steadily, largely due to annexations, and it is now home to 88,940 people. The city is expected to continue to grow, In the next 20 years, Kirkland's

population is forecasted to increase by roughly 6,600 new residents, bringing its total population to 95,540 people. See Exhibit 6.

Exhibit 6. Population, City of Kirkland, 1990–2040 (projected).



Source: WA OFM, 2019; PSRC, 2017; City of Kirkland 2016; BERK, 2020

Local Employment and Economy

According to PSRC's 2018 estimates, there are 48,572 jobs in the City of Kirkland. The services sector is the source for more than half of these jobs, likely reflecting Kirkland's evolution as a technology hub and employment growth at fast-growing technology firms. The proposed Greater Downtown Area, which includes the Study Area, is home to over 6,700 residents and more than 17,000 jobs. Exhibit 7 details employment within the Study Area and City by sector.

Based on PSRC estimates of covered employment in 2018, the Study Area (the half-mile buffer around the proposed station) currently includes an estimated 3,616 jobs[4]. Key characteristics of local employment in the Study Area include the following:

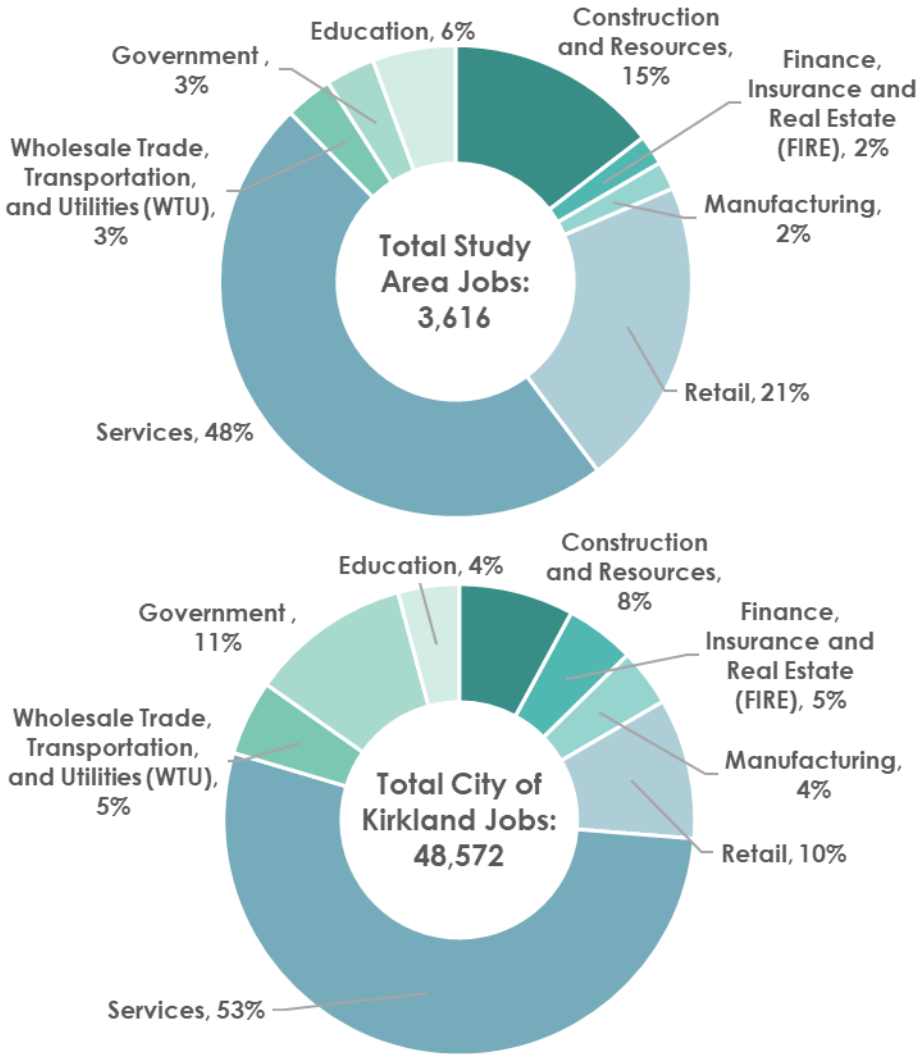
- Reflecting citywide trends, close to half of these jobs are in the services sector, which includes jobs in Professional and Business Services (scientific, technical, corporate offices, and administrative services) as well as Health Services, Food Services, and Information

[4] The Kirkland NE 85th St. Station Area Plan Opportunities and Analysis Report, April 15th, 2020, estimated 3,097 Jobs based on Total Primary Jobs: LEHD, 2017 https://lehd.ces.census.gov/. Thus the PSRC estimtes are for a newer year and a different source.

Services. In addition to maintaining the existing workforce, the availability of amenities and services is important to draw additional knowledge workers. This highly mobile workforce typically prefers to be physically close to other knowledge workers, and services and amenities match their lifestyle preferences. Recognizing these preferences developing supportive amenities and retail services can help to promote economic health the Study Area.

- The retail sector accounts for close to 21% of jobs, compared to 10% for the City overall. Many of these jobs are in businesses such as the Costco store, auto-repair and sales, and smaller salons and goods. An evolution toward higher quality retailing spaces could potentially displace some small-scale businesses, since many rely on the lower rents available in older shopping centers.
- Smaller proportions of jobs are in the Construction/Resources and Education sectors.

Exhibit 7. Covered Employment by Sector, Study Area (top) and City of Kirkland (bottom), 2018.



Source: PSRC, 2019; ESD, 2020; BERK 2020.

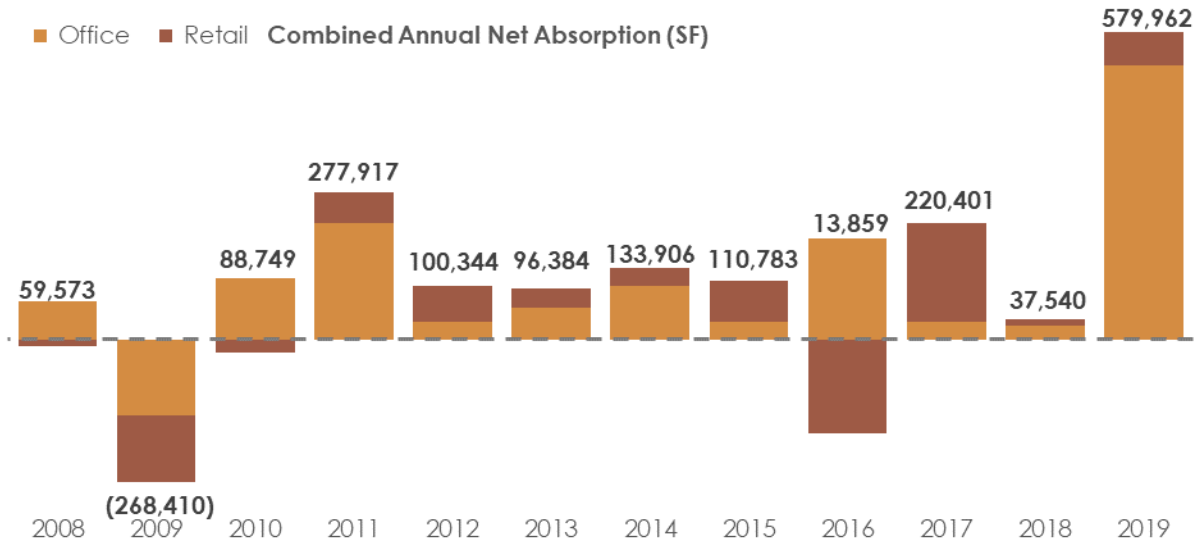
Real Estate Market and Trends

Kirkland's regional real estate market provides insights about the available supply of properties that can accommodate future residential and employment growth. For the Station Area, three distinct types of real estate products have been considered for future development:

- Office commercial.
- Retail commercial.
- Multifamily residential.

Exhibit 8 and Exhibit 9 summarize absorption trends for these uses in Kirkland 2008-2019. Across this timeframe, average annual net absorption is 104,601 SF for office properties, 16,316 SF for retail properties, and 135 units of multifamily residential. Office square footage for 2019 is particularly high, due to the Kirkland Urban development, described in further detail on the next page.

Exhibit 8: Annual Net Absorption (SF), Office and Retail Property in Kirkland, 2008-2019.



Sources: Costar, 2020; BERK, 2020.

Exhibit 9: Total Annual Absorption (Units), Multifamily Residential in Kirkland, 2008-2019.

Sources: Costar, 2020; BERK, 2020.

Mixed-use/flex use developments are another building format which may work well within the Study Area. Market data classifies buildings by their primary use and does not distinguish mixed use as a unique real estate category (ex: a multifamily building incorporating ground level retail is simply classified as multifamily). This makes comparing data for these specific buildings more of a challenge. However, mixed use properties tend to thrive in vibrant communities near transit.[5]

Establishing market feasibility for multiple use types and likelihood of high visitor traffic suggests that combining multiple uses within one development is market supported. Multifamily buildings with ground floor retail and commercial spaces can be observed in Downtown Kirkland with properties such as Voda Apartments, built in 2018 with 127 residential units and ground level tenants including bank branches and restaurants, or Capri Apartments with 73 residential units and ground floor tenants offering services such as medical care and exercise classes.

An exceptional example of a mixed-use development in adjacent Downtown Kirkland is the Parkplace site now called Kirkland Urban. While this is not a typical site, it demonstrates the capacity of Kirkland's market to support large, mixed-use developments across sectors. The City has approved a master plan for the 11.5-acre site. Phase I Construction began in 2016, which included:[6]

- Office: 374,416 SF
- Retail: 151,533 SF
- Residential Units/SF: 185/182,661 SF

[5] https://www.psrc.org/mixed-use-development
[6] https://blue.kingcounty.com/Assessor/eRealProperty/Detail.aspx?ParcelNbr=3900160000

The maximum development levels approved as of January 2019 including Phase I and Phase II are as follows: [7]

- Office: 744,655 SF
- Retail/fitness/entertainment: 218,345 SF
- Residential Units/SF: 367 units / 352,000 SF

Within the Study Area, retail space forms the bulk of the commercial property, with only 39% of space in office use. This ratio contrasts from the levels of employment by sector but reflects the general market trend that retail businesses have higher ratios of square feet per employee than service industries found in office properties.[8] See Exhibit 10.

Exhibit 10: Commercial Property in the Study Area by Type, 2020.

	Total Rentable SF
Office Properties	261,875 (39%)
Retail Properties	414,813 (61%)

Sources: Costar, 2020; BERK, 2020.

In terms of the distribution of commercial use, the bulk of commercial properties are found in the eastern portion of the Study Area, likely reflecting the Rose Hill business district. Retail development here is auto oriented in character with large surface parking lots, on sites with frequent driveways and curb cuts, and weak relationship to street frontages. Smaller pockets of commercial use are found west of the freeway likely reflecting smaller office buildings, and accessory office spaces within light industrial developments. See Exhibit 11.

INSTITUTIONAL USES

An additional real estate category that could be considered in the Study Area is institutional use. This includes schools, colleges and universities, hospital campuses, and civic or public buildings. These uses support a stable workforce, a mix of demographics, and amenities. These unique properties often play a big role in shaping the character of their surrounding neighborhood environment but operate outside typical market forces. They tend to have specific needs for consideration when making site location decisions. Some common factors include:

- Need for large parcel(s)
- Transportation access
- Amenity-rich environments

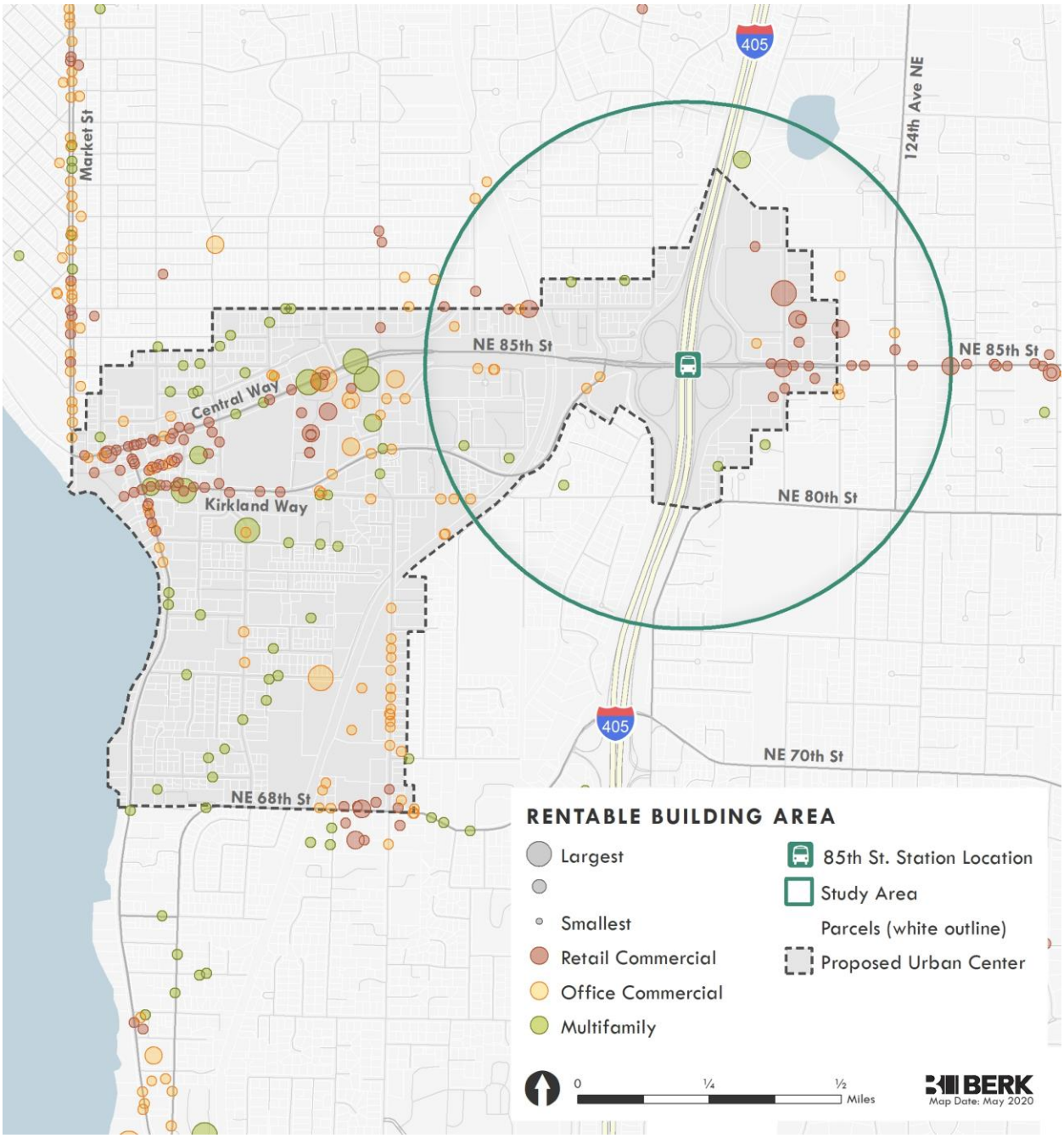
One regional example of institutional location trends can be found in Seattle's technology employment hub, South Lake Union (SLU). SLU now also attracts academic institutions interested in collocating degree programs with employers who hire graduates with associated skillsets.

Attracting public or private institutions could be one development strategy to consider for the Study Area.

-Sources: National Association of Realtors, 2018; Health Facilities Management Magazine, 2017; Puget Sound Business Journal, 2012.

[7] https://www.kirklandwa.gov/depart/planning/Development_Info/projects/Parkplace.htm
[8] https://snohomishcountywa.gov/DocumentCenter/View/7660/Employment-Density-Study?bidId=

Exhibit 11: Distribution of Commercial Properties, Study Area and Greater Downtown Kirkland

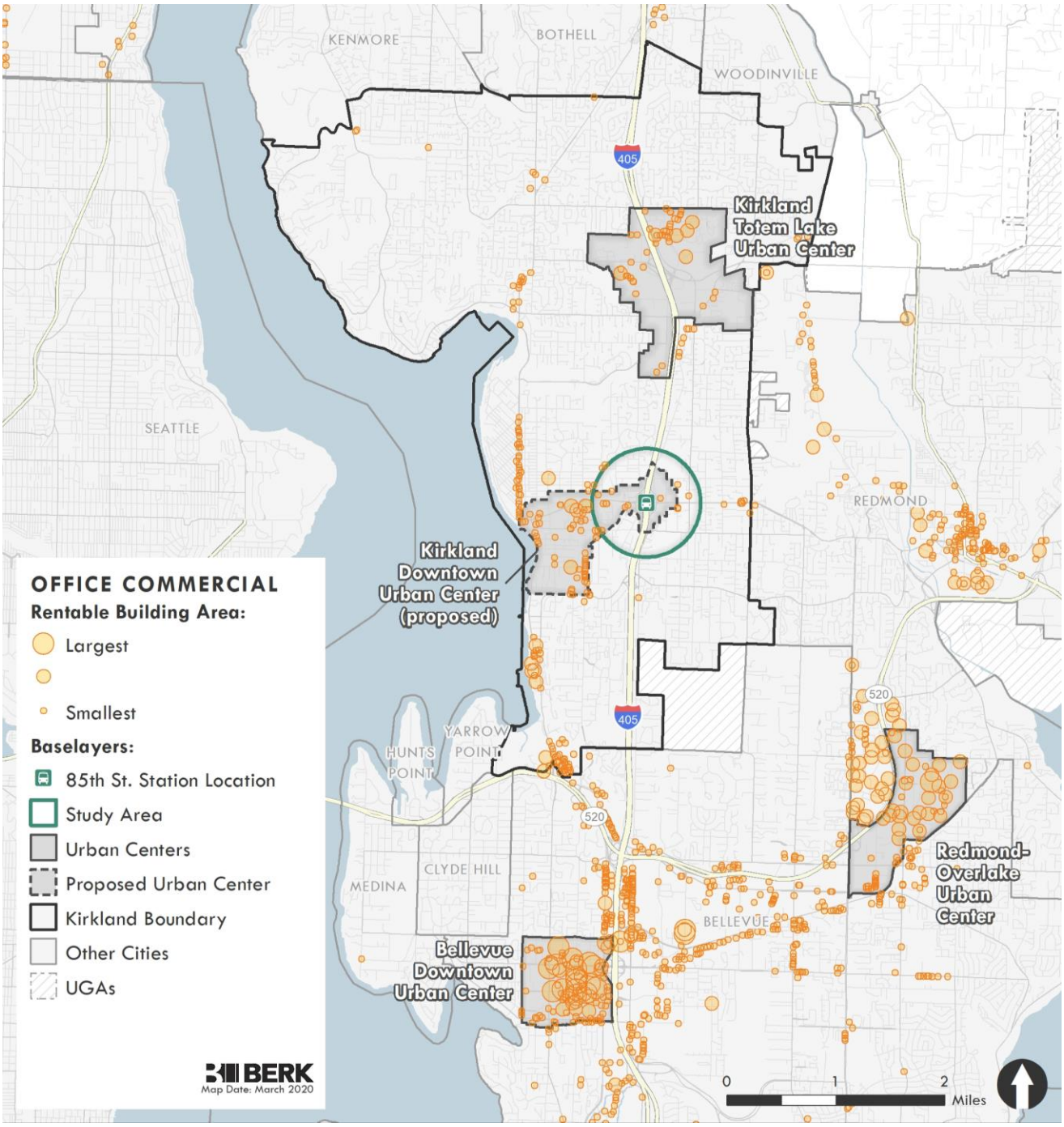


Sources: Costar, 2020; PSRC, 2020; BERK, 2020

Office Commercial

As shown in Exhibit 12 office properties in the region are clustered in existing and proposed urban centers. The Study Area's location within a proposed urban center, existing concentrations of commercial space, and highways, is a key asset with positive implications for future development. See Exhibit 12

Exhibit 12. Distribution of Office Commercial Real Estate, Study Area and Peer Geographies.



Source: CoStar, 2020; PSRC, 2020; BERK, 2020.

Key Findings

Key findings about the office market in in the Study Area include the following:

- **There is growing regional demand for office space on the Eastside.** Regional demand for office space is strong, and rents on the Eastside (includes cities of Bellevue, Kirkland, Redmond, Sammamish, Issaquah, Newcastle, and Mercer Island east of Lake Washington) have been high with low ongoing vacancy rates. According to local real estate databases, more than 1.2 million SF is scheduled to be delivered on the Eastside in 2020, only 313,000 SF of which is available for lease.[9] A significant proportion of this new development will be in Bellevue. Demand from technology companies expanding out of the Seattle market is likely to drive continued demand for 4- and 5-star office space. In addition to Bellevue and Kirkland Downtown overall, where rents are already high, smaller Eastside submarkets are likely to see demand.
- **The Greater Downtown Kirkland office market is strong**. High rents per square foot, low vacancy rates, and recent investments in this area make the Study Area a promising destination for worksites that enjoy access to the amenities and character of Kirkland's downtown. Google expanded its Kirkland presence with the purchase of over 400,000 SF in downtown office space and leasing an additional 180,000 SF at Sixth Street South for a total Kirkland presence over 1 million square feet.[10] As an anchor tenant, Google is likely to spark additional office investment in Greater Downtown Kirkland.
- **The Office market in the Study Area presents an opportunity for reinvestment.** Existing buildings in the Study Area are rated at 1-3 stars out of 5, primarily built in the 1980s. Developers may begin to purchase lower-rent office buildings in the area and make improvements to the properties to respond to high demand and attract different tenant types. The area's strategic location adjacent to major interstates and a bustling downtown, coupled with planned mobility investments, especially for transit, pedestrians and bicycles, makes the Study Area desirable for increased office activity.

OFFICE BUILDING CLASSES

Costar rates office building quality on a 1-5 star scale.

- **5-Star:** State-of-the-art structure that represents the latest trends and quality in design and construction.
- **4-Star:** High quality building with strong initial construction and continual, above average maintenance and desirability.
- **3-Star:** Building with modest features: some amenities, average aesthetics, and minimal ceiling heights.
- **2-Star:** Aging building with minimal or no amenities, functional aesthetics and systems, and potentially low levels of natural light.
- **1-Star:** Uncompetitive with respect to the needs of typical office tenants and may need significant renovation.

[9] Colliers Q4 2019 Puget Sound Office Market Report
[10] Puget Sound Business Journal, Jan 2020

- **There is a potential for redevelopment in future market cycles**. Current vacancy rates are higher than other regional centers and there have been no property sales in the past year. Developers can find lower prices per square foot in this market, making redevelopment a more attractive option. Market anticipation of future transit investment may be a reason for this stalled activity, but increased activity to take advantage of Study Area capacity is anticipated in coming years.[11]
- **The addition of supportive amenities could attract additional office investment.** Workers desire walkable retail amenities that provide convenient access to meals and personal errands. The Study Area may become more attractive for offices with the integration of these businesses.

Conditions and Trends

The Study Area has among the most affordable office rents in the Eastside market, with only Overlake in Redmond with lower rent per square foot. While office space in Totem Lake can be attained at similar rates to the Study Area, even for 4- and 5-star properties, this is likely related to the larger square footage and lower height buildings typical in a more suburban, office-park setting. However, the current suburban office development outlook is not promising, with most new office development taking place in amenity-rich, walkable settings. The Study Area is located directly adjacent to downtown which offers amenities, proximity to major tech employers, and diverse uses in a more walkable environment. This contrast defines a unique commercial base, particularly with mobility investments to better connect pedestrians and cyclists from the Study Area to the downtown core. See Exhibit 13 and Exhibit 14.

ECONOMIC DEVELOPMENT FOR SOCIAL MOBILITY

Community investment in economic development should benefit all residents. Great public spaces, affordable home ownership and rental opportunities, and an economy with opportunities for adults of various backgrounds cultivates livability for a wide range of family types.

Certain industries and jobs provide greater promise for economic opportunity for non-college educated adults. Research by the Brookings Institute identifies "opportunity industries" as those which provide more longevity and professional growth for non-college educated adults.

This research defines good jobs as those which are stable, pay a middle-class wage, and provide benefits. Promising jobs do not provide the same level of pay or benefits but offer pathways toward attaining good jobs within 10 years.

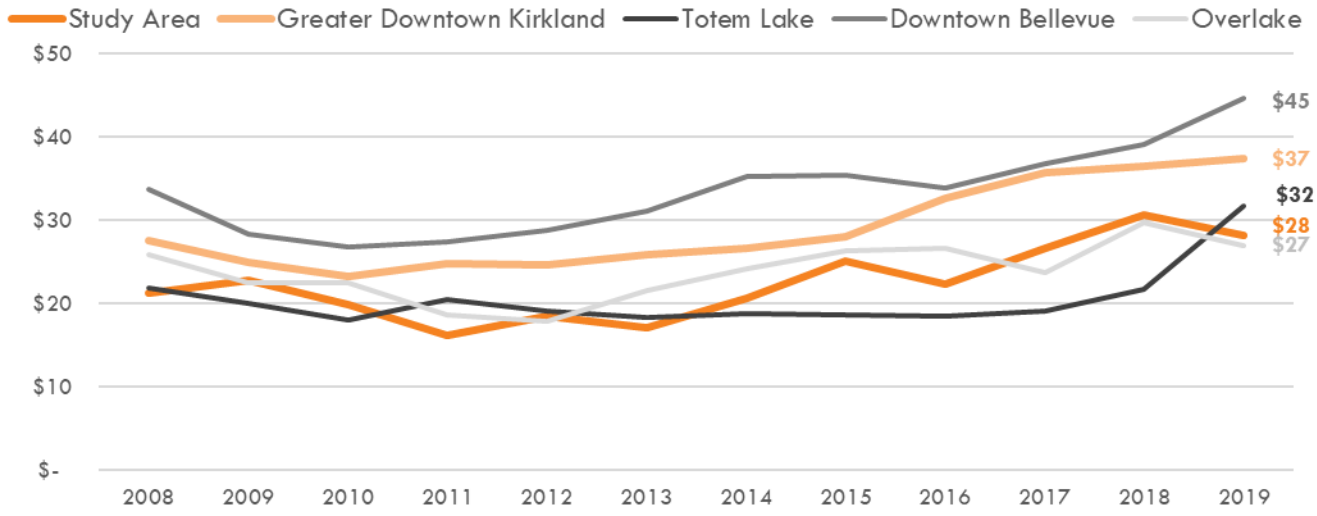
The Brookings' report indicates that the below sectors have higher rates of good and promising jobs:

- Maintenance, Construction, Media Production, and Transportation
- Management, Business, Computer, Engineering, and Health Care

Source: Brookings Institute, 2018

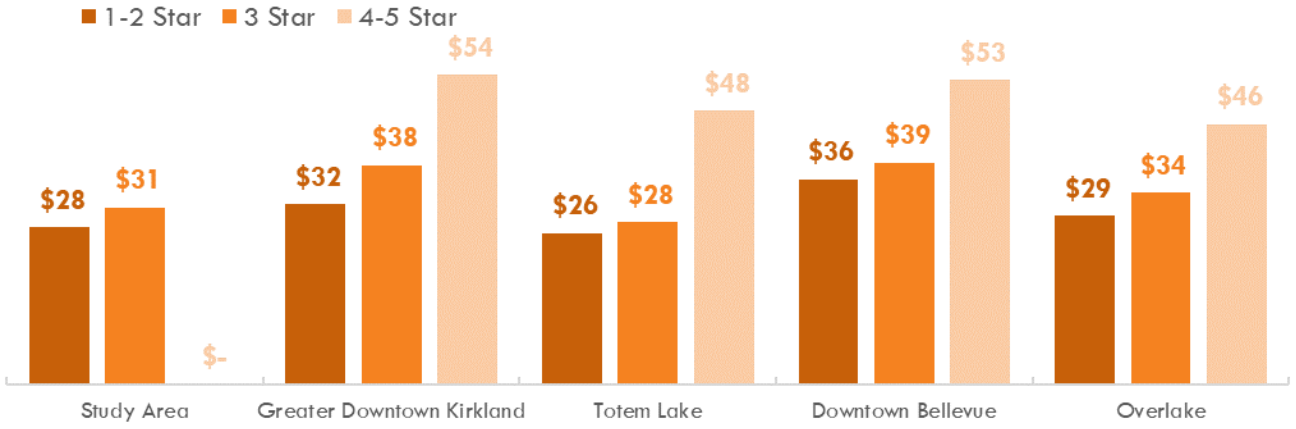
[11] CBRE Economic Study of Downtown Kirkland, Attachment O

Exhibit 13. Base Rent per Square Foot, Office Commercial, Study Area and Peer Geographies 2008–2019.



Source: CoStar, 2020; BERK, 2020.

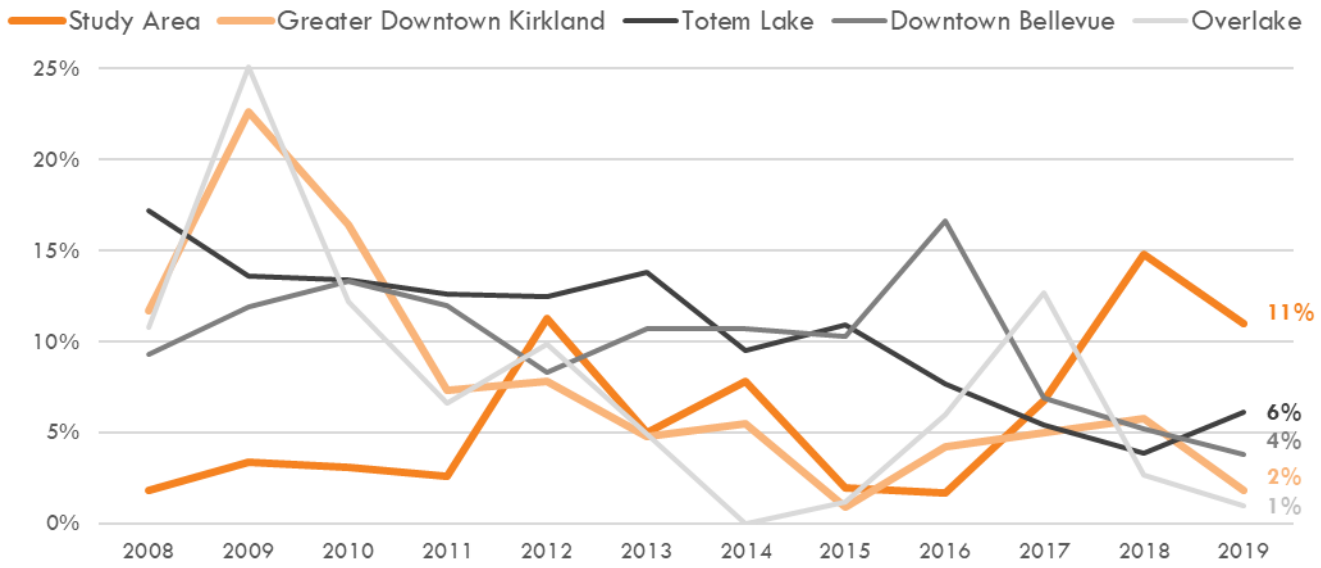
Exhibit 14. Rent per Square Foot by Construction Class, Office Commercial, Study Area and Peer Geographies 2019.



Source: CoStar, 2020; BERK, 2020.

Vacancy rates are a god indicator of tightness in a market. Lower vacancy rates indicate higher demand for space, and potentially higher rental rates as a result. Higher vacancy rates are associated with lower levels of demand and decreased rental rates. Single year spikes in smaller geographies like these concentrated growth centers may reflect a major employer leaving a building or a new, large building coming to market and needing some time to lease up. Retail and office vacancy rates trend higher than vacancy in the housing market, with the national average over the past 10 years hovering between 10-12% for office space.[12] After experiencing higher vacancy in the wake of the 2008 recession, the Greater Downtown Kirkland market has consistently maintained sub-10% vacancy in its office market, signaling a constrained market with high demand (See Exhibit 15). While the Study Area experienced some recent volatility with a peak in vacancy rate in 2018, it has since decreased. Reflecting Downtown Kirkland, the Study Area also has consistently maintained vacancy rates at or below 10% vacancy since 2008. See Exhibit 15.

Exhibit 15. Vacancy, Office Commercial, Study Area and Peer Geographies 2008–2019



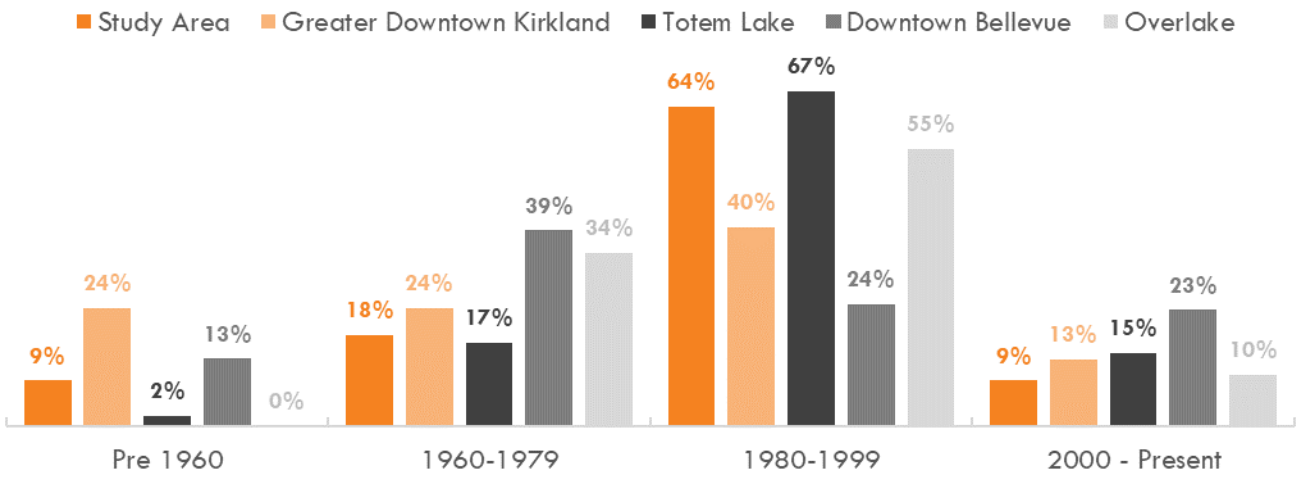
Source: CoStar, 2020; BERK, 2020.

Building age speaks to the character and levels of investment in each focus area. Overall Eastside trends show that significant growth in commercial office development occurred in the 1980s and 1990s (See Exhibit 16). This is particularly true in the Study Area, Totem Lake, and

[12] Transwestern Market Report, Q4 2019

Overlake. Downtown Bellevue has the highest percentage of newer buildings while Downtown Kirkland features a higher percentage of older buildings, contributing to its unique character.

Exhibit 16. Age of Buildings, Office Commercial, Study Area and Peer Geographies.



Source: CoStar, 2020; BERK, 2020.

Recent building sales demonstrate the potential value of property in each focus area. Property valuations are based on a variety of factors, including the estimated future revenue potential of an area. Given similarities in building age and rental rates, it is likely that Overlake and Totem Lake sales prices are more closely aligned with what might be expected in the Study Area. In recent sales, Downtown Kirkland and Bellevue achieve higher values per square foot.

Exhibit 17: Kirkland Urban Office Buildings

Image Source: Geekwire, 2019

As noted previously, the Kirkland Urban development is a 11.5-acre mixed use project in Downtown Kirkland.[13] This includes two large office buildings sold to Google in 2019. This project creates activity and contributes to a walkable business district less than one mile from the proposed 85th Street Station. Mobility investments connecting the station to downtown for pedestrians and bikes will enhance the desirability of the station area for future investment.

[13] Kirkland Reporter, March 2019

Exhibit 18. Sales Comps, Office Commercial, Study Area and Peer Geographies.

	Study Area	Greater Downtown Kirkland	Totem Lake	Downtown Bellevue	Overlake
Location	n/a	469 Central Way	11521 NE 128th St	333 108th Ave NE	2121 152nd Ave
Sale Price per SF	n/a	$787	$627	$922	$426
Star Rating	n/a	4	3	5	3
Stories	n/a	7	2	20	1
Year of Sale	n/a	2019	2019	2020	2019
Year Built	n/a	New	2003	2008	1979

n/a = no sales within the past year
Source: CoStar, 2020; BERK, 2020.

Retail Commercial

Key Findings

- **The Retail market in the Study Area offers a variety of services and is auto oriented in character.** Adjacent to the I-405 exit, the retail market caters to auto traffic with tenants such as service stations and coffee shops. Retail buildings in this zone are 1-3 star and primarily built in the 1980s, mimicking trends in the office sector.
- **The Study Area has maintained vacancy rates under 5% for a decade.** In all centers studied, recent trends show lower vacancy rates for retail when compared to a decade earlier, with the Study Area and Overlake being the least volatile during this time period.
- **There may be a potential for retail as part of new development.** Low vacancy rates and slowly rising rents may suggest that demand for new retail spaces may increase in the future, especially as population growth continues. In addition, increased housing can drive retail demand in the Study Area – especially for types of retail that meet the day-to-day resident needs for such as groceries, pharmacies, restaurants and similar.
- **Office space can also create additional retail demand.** National research indicates that the typical downtown worker will spend as much as $130 per week in downtown. Top retail categories for office worker spending include grocery stores, discount stores, and warehouse clubs (ex: Costco).[14] The Seattle region, in particular, is noted for its high levels of spending on groceries. Using BLS 2018 Consumer Expenditure Surveys, Business Insider reports the Seattle area as the top of 22 US metropolitan areas for spending on groceries, estimating $951/month per household on total food expenses.[15]
- **Integrating retail spaces into new development** may be a way of managing these demands through infill to build more complete neighborhoods. The Google-purchased offices in

RETAIL BUILDING CLASSES

Costar rates retail building quality on a 1-5 star scale.

- **5-Star:** Located in a prime retail district with national or high-end local retailers. New or very well maintained structure.
- **4-Star:** High concentration of retail tenants, including recognized national brands. New or well-maintained structure.
- **3-Star:** Average concentration of retailers, with a mix of national, regional, or local brands. Building may be older.
- **2-Star:** Low concentration of local or regional retailers. Older property.
- **1-Star:** Suitable only for very unique retailers. Building may require significant renovation.

[14] International Council of Shopping Centers, 2012
[15] Business Insider, 2020

Kirkland are a good example of this, integrating retail businesses such as Top Golf into what is primarily an office property.[16]

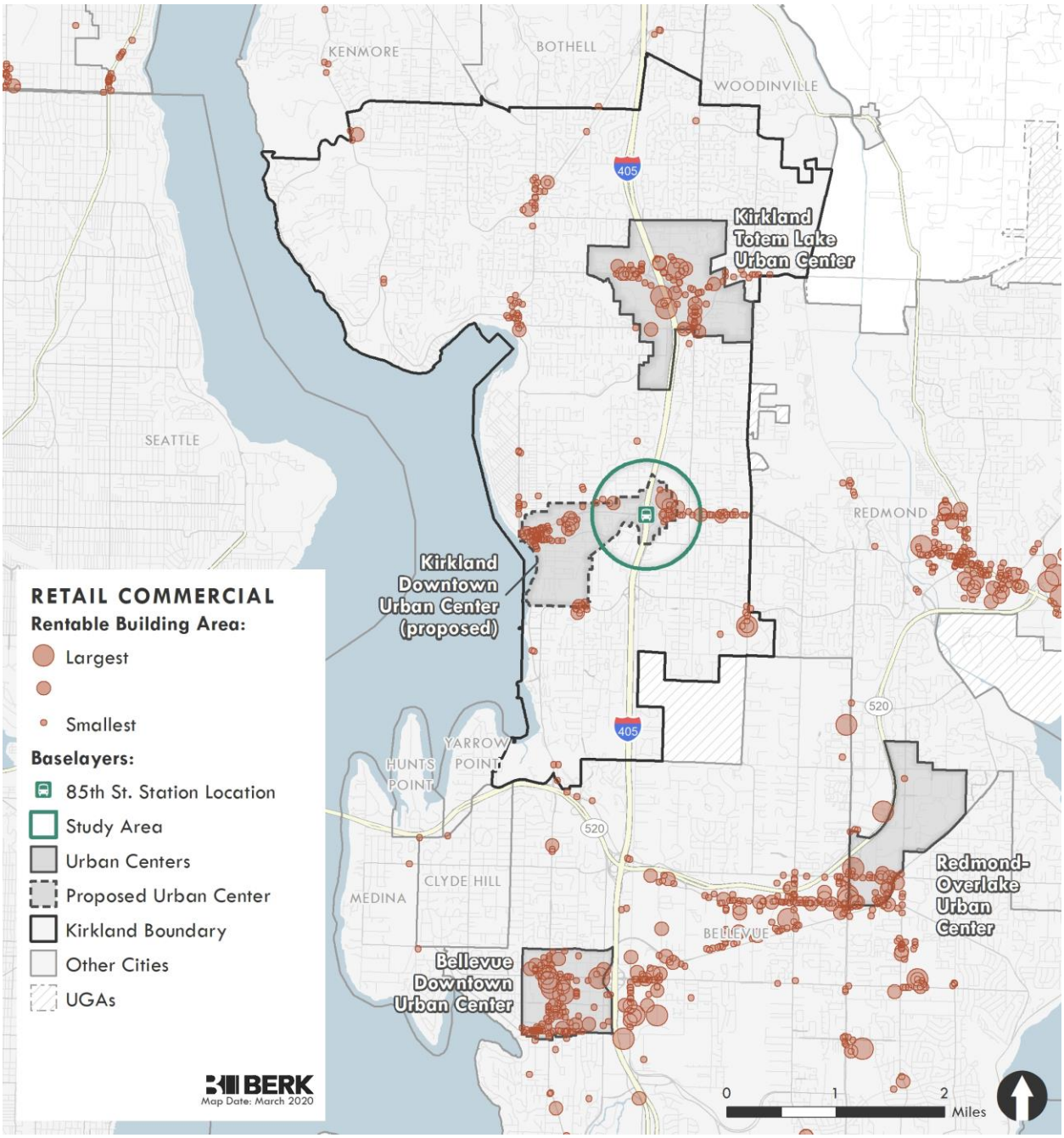
- **Changing nature of retail.** Given the changing landscape of brick-and-mortar retail, retail development is now increasingly integrated with experiences, housing or other complementary uses. These new strategies may also be relevant in addressing retail demand in the Study Area. The Village at Totem Lake development, discussed in greater detail on page 30, is an example of retail's integration with a wider variety of uses to create lifestyle centers that promote livability through walkable amenities.

Conditions and Trends

Retail space on the Eastside clusters in downtowns, along arterials, and around major road intersections. Few stand-alone retail developments have been built within the past 20 years, as newer construction favors integration of retail space within office or multifamily properties over dedicated shopping centers. Research into BRT impacts on the retail sector are still being explored, without conclusive evidence of direct ties to growth in this sector.[17]

[16] https://topgolf.com/lounge/
[17] Nelson and Ganning, 2015 "National Study of BRT Development Outcomes"

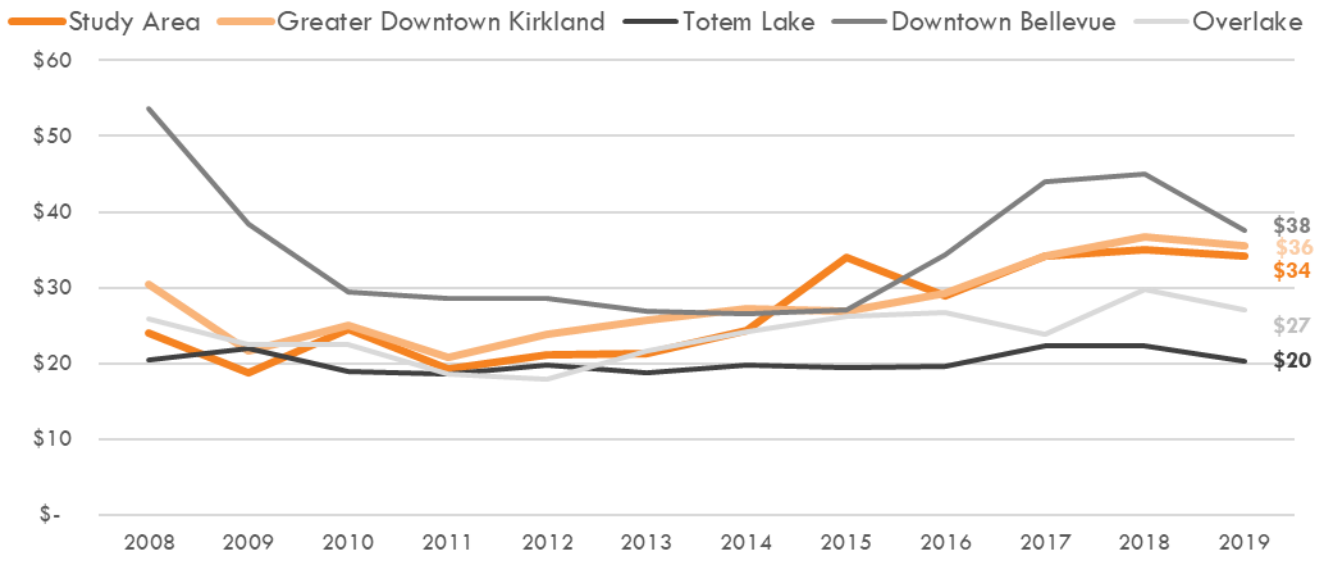
Exhibit 19. Distribution of Retail Commercial Real Estate, Study Area and Peer Geographies



Source: CoStar, 2020; PSRC, 2020; BERK, 2020.

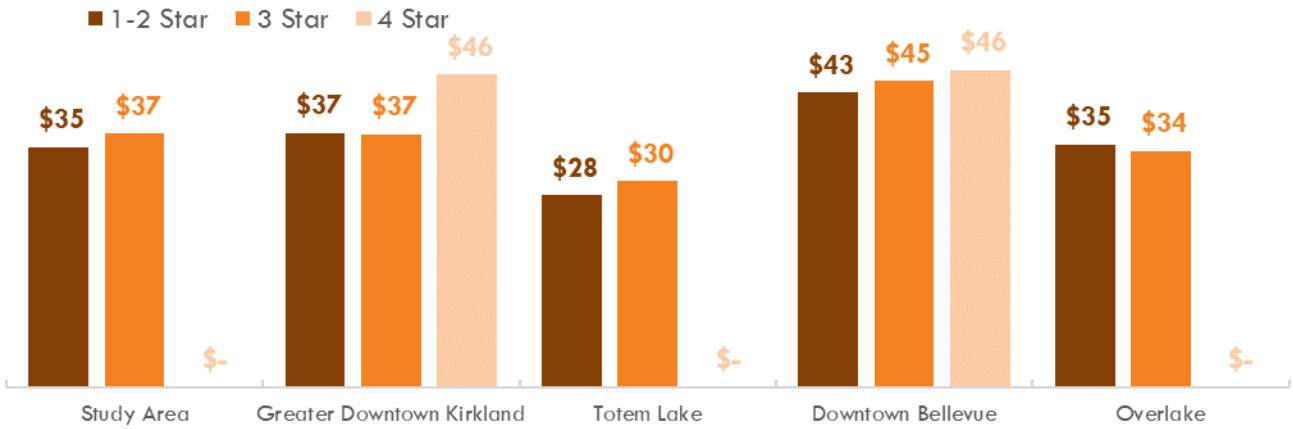
Rental rates for retail space in the focus areas are highest in Downtown Bellevue and Greater Downtown Kirkland. Within these zones, the highest rents per square foot are achieved along main downtown streets such as Bellevue Way and Main Street in Kirkland. Totem Lake and Overlake show lower price points for retail space, with neither area offering 4-star spaces. The Study Area reports strong rents despite its lack of 4-star properties, however only two of 21 properties report rental rates and may not reflect the full picture of the retail market. See Exhibit 20 and Exhibit 21.

Exhibit 20. Rent per Square Foot, Retail Commercial, Study Area and Peer Geographies, 2008–2019.



Source: CoStar, 2020; BERK, 2020.

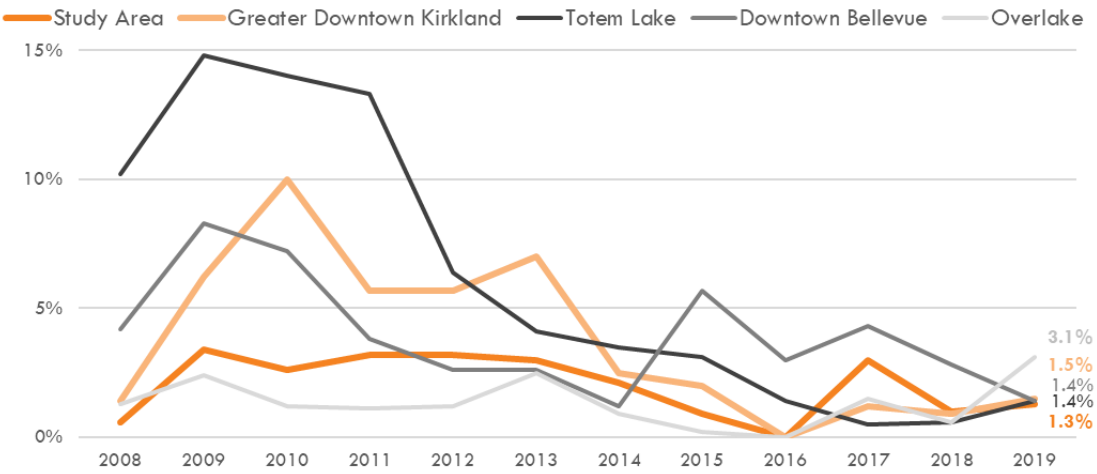
Exhibit 21. Rent per Square Foot by Construction Class, Retail Commercial, Study Area and Peer Geographies 2008–2019.



Source: CoStar, 2020; BERK, 2020.

Despite national trends hovering around 10% for retail vacancy, Eastside markets have maintained rates at 5% or less for the past 5 years.[18] Totem Lake experienced the most volatility during the 2008-2012 recession period but has since recovered to rates on par with the other areas. Exhibit 22.

Exhibit 22. Vacancy, Retail Commercial, Study Area and Peer Geographies, 2008–2019.



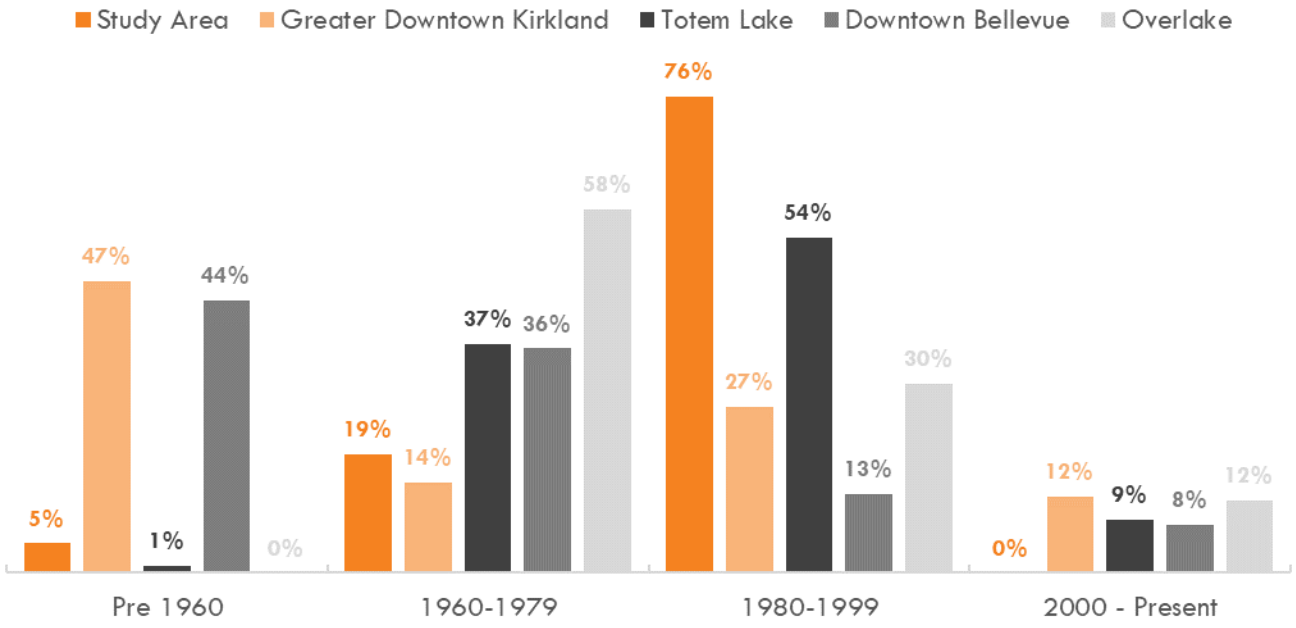
Source: CoStar, 2020; BERK, 2020.

[18] Reis, Real Estate Solutions by Moody Analytics, Q2 2019

Retail properties in the Study Area were overwhelmingly developed in the 1980s, with the newest building developed in 1997. Development from this era includes large areas of surface parking, auto-oriented sites with frequent driveways and curb cuts, and a weak relationship to street frontages.

Retail properties in downtown Kirkland area are older, many dating to the 1920s and 1940s. These construction eras favored more compact development styles, which transition well to a modern, walkable downtown center. This fits well with modern development trends, where ground floor retail space is integrated into multifamily and office buildings. While the bulk of Totem Lake's retail properties were developed between 1960-2000 as free-standing single use retail buildings and an auto-oriented focus, recent redevelopment features a mix of uses. Newer redevelopment includes the 10-building mixed use Village at Totem Lake development. This integrates a public park with retail shopping, a cinema, and residential units. This "lifestyle center" concept reiterates the more recent trend of retail property as incorporated into mixed use developments rather than free-standing buildings. Downtown Bellevue's retail scene features a large, regional mall along with a mix of building types and ages. See Exhibit 23.

Exhibit 23. Building Age, Retail Commercial, Study Area and Peer Geographies.



Source: CoStar, 2020; BERK, 2020.
Note: Buildings in Village at Totem Lake project are shown with older built dates, despite recent re-development.

Retail property sales in the comparison areas show a wide range of achieved value per square foot. Downtown Bellevue is the highest valued, with 3-star properties selling at almost $1,900 per square foot. The Study Area, in contrast, sold a 3-star property of similar age for less than 1/3 the value at $587 per square foot. This demonstrates the room for growth in the Study Area and its potential desirability for an investor looking for sales at a lower price point. See Exhibit 20.

Exhibit 24. Sales Comps, Retail Commercial, Study Area and Peer Geographies.

	Study Area	Greater Downtown Kirkland	Totem Lake	Downtown Bellevue	Overlake
Address	12004-12006 NE 85th St (Strip Mall)	134-140 Central Way (Ground floor of condo building)	11932 124th Ave NE (Auto Dealership)	10350 Bellevue Way (Bank)	2150 148th Ave NE (Fast Food Restaurant)
Sale Price per SF	$587	$536	$1,304	$1,894	$643
Star Rating	3	2	3	3	3
Stories	1	1	1	1	1
Year of Sale	2019	2019	2019	2019	2019
Year Built	1982	1996	1997	1986	1986

Source: CoStar, 2020; BERK, 2020.

Multifamily Residential

Residential use in the Study Area is dominated by single-family housing. Multifamily development is limited, as shown in Exhibit 25.

Exhibit 25: Residential Property in the Study Area by Type, 2020.

	Total SF
Multifamily Units	164,696 (3%)
Single Family Lots	5,834,339 (97%)

Sources: Costar, 2020; BERK, 2020.

Key Findings

- **Multifamily buildings in the Study Area are low-rise and 30 units or less.** One newer senior housing development features 100+ units catering to moderate income levels. In general, single-family and townhome developments are more prevalent for residential property in this market. Higher intensity zones do exist within the Study Area, which allow for denser housing styles and leave room for development potential to increase capacity for capturing benefits of mobility investments.
- **Home values within the Study Area are strong and have grown significantly since 2010.** Average sale price per square foot more than doubled 2010-2019 for residential homes within the Study Area.
- **Currently, 60% of Study Area land is zoned for low and medium density residential development.** These restrictions limit the residential capacity of the zone and impact the proportion of Kirkland's population within walkable access of Bus Rapid Transit.
- **Greater Downtown Kirkland area performs well with comparatively high rental rates and sales prices.** Recent developments are 4-star quality, 4-6 stories, and often incorporate ground floor retail and shared amenity spaces. Beautiful views over the

MULTIFAMILY BUILDING CLASSES

Costar rates multifamily building quality on a 1-5 star scale.

- **5-Star:** Luxury, defined by finishes, amenities, and overall design.
- **4-Star:** Higher end finishes and specifications, desirable amenities, and designed to modern standards.
- **3-Star:** Average aesthetics and finish quality, likely a smaller or older structure with a few amenities.
- **2-Star:** Aging building with average aesthetics, few or no amenities.
- **1-Star:** Uncompetitive for typical investors and may require significant renovation.

downtown lakefront and nearby shopping amenities create an attractive environment for residents.

- **Newer multifamily developments incorporate a mix of uses, such as ground floor retail and commercial space.** This variety adds to neighborhood walkability and often provides amenities that benefit office workers and residents alike.
- **Affordable housing incentives should be considered to foster a mixed-income community.** Transit-rich environments are beneficial to lower income households who rely on public transit to meet their daily needs. Home values and rental rates have dramatically increased in the Study Area over the past decade (See Exhibit 28 and Exhibit 30), and it cannot be assumed that the housing market will respond appropriately (in the number, price or type of housing) to meet the needs of those who stand to benefit most from improved access to opportunity.

Conditions and Trends

Multifamily development on the Eastside clusters in Urban Centers and near shorelines. Unlike office or retail properties, residential development tends to prefer a block or two of distance from major arterial roads or highways to maintain a safer street environment and quieter neighborhood character. Multifamily development in the Study Area is limited. Walk scores in the Study Area range from 50 to 60 and reflect the needed investments in transit, pedestrian, and cyclist infrastructure to strengthen connections with downtown Kirkland. The area's walkability ratings will improve after mobility improvements are complete. See Exhibit 27.

Exhibit 26: WalkScore Range for Focus Areas

Focus Area	WalkScore Range (Approximate)
Study Area	50 – 60
Downtown Kirkland (outside Study Area)	75 – 95
Totem Lake	50 – 70
Downtown Bellevue	85 – 95
Overlake	30 - 60

Walk Scores

Walkscore.com rates neighborhoods across the country for walkability. Scores are based on access to amenities without using a car.

90-100 Walker's Paradise: Daily errands do not require a car

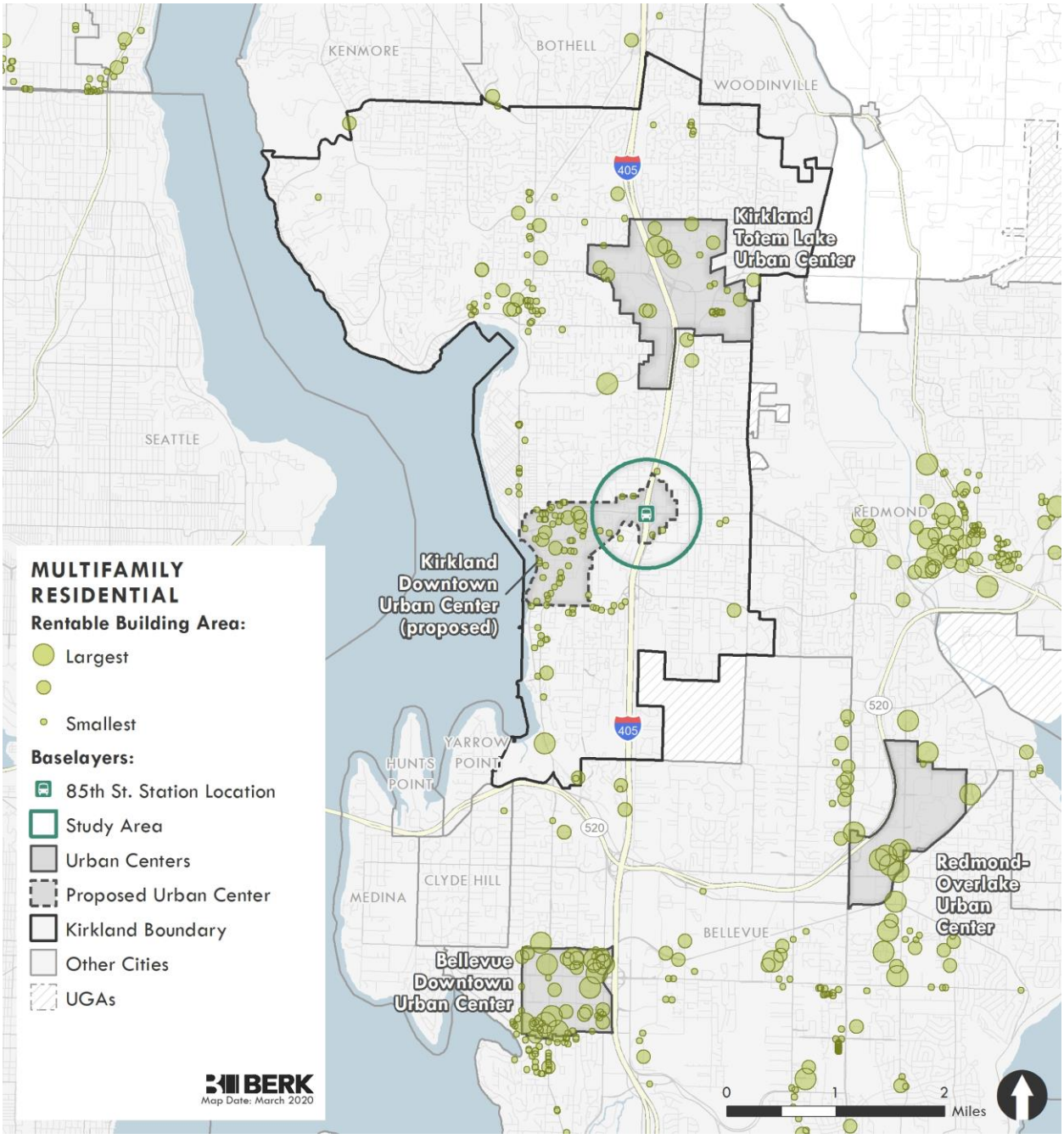
70-89 Very Walkable: Most errands can be accomplished on foot

50-69 Somewhat Walkable: Some errands can be accomplished on foot

25-49 Car-Dependent: Most errands require a car

0-24 Car-Dependent: Almost all errands require a car

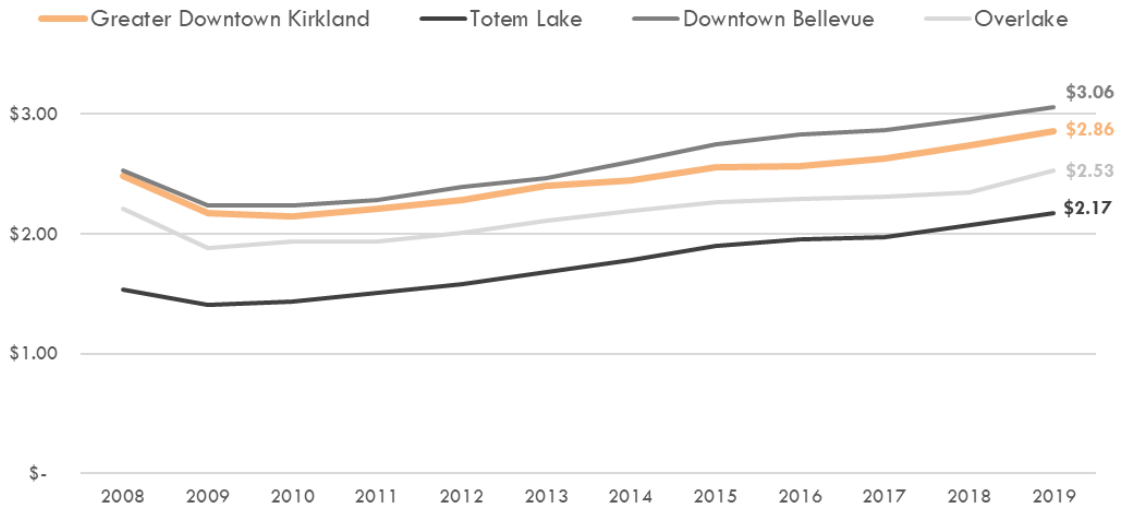
Exhibit 27. Distribution of Multifamily Residential Real Estate, Study Area and Peer Geographies



Source: CoStar, 2020; PSRC, 2020; BERK, 2020.

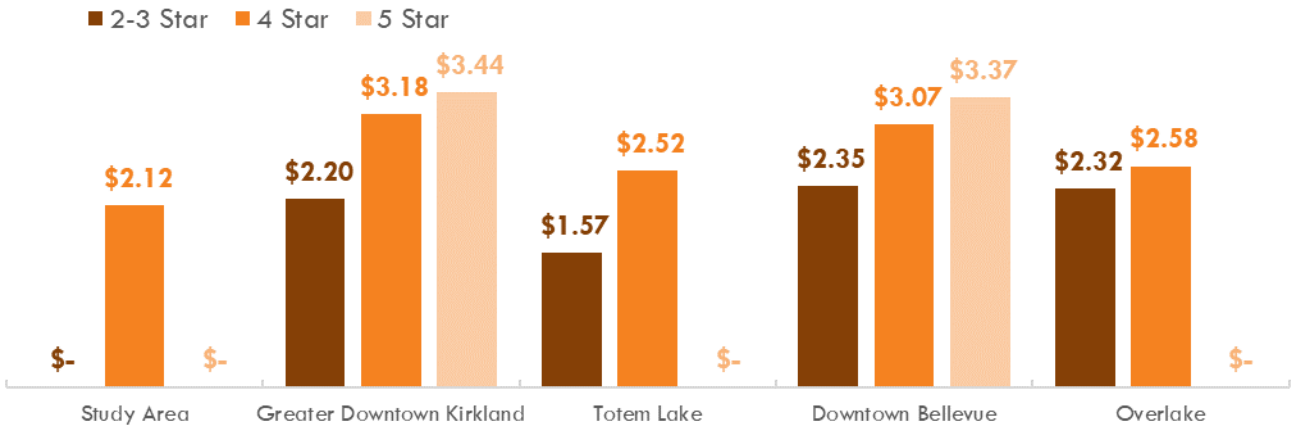
Multifamily residential living is more popular in the downtown areas than in the more suburban-styled development typologies of the Study Area, Totem Lake, or Overlake. This is consistent with the pedestrian-oriented, livable character of these districts, which earn walk scores of 89 in Kirkland and 95 in Bellevue. They are also the only two markets which feature 5-star buildings. Average rental rates in Downtown Bellevue and Greater Downtown Kirkland are 15-40% higher than those found in Overlake or Totem Lake (rental rates not reported for Study Area properties). See Exhibit 28. Totem Lake and Overlake multifamily properties earn walk scores 50 to 70 and 30 to 60, respectively.

Exhibit 28. Rent per Square Foot, Mulitfamily Residential, Peer Geographies, 2008–2019.



Source: CoStar, 2020; BERK, 2020.

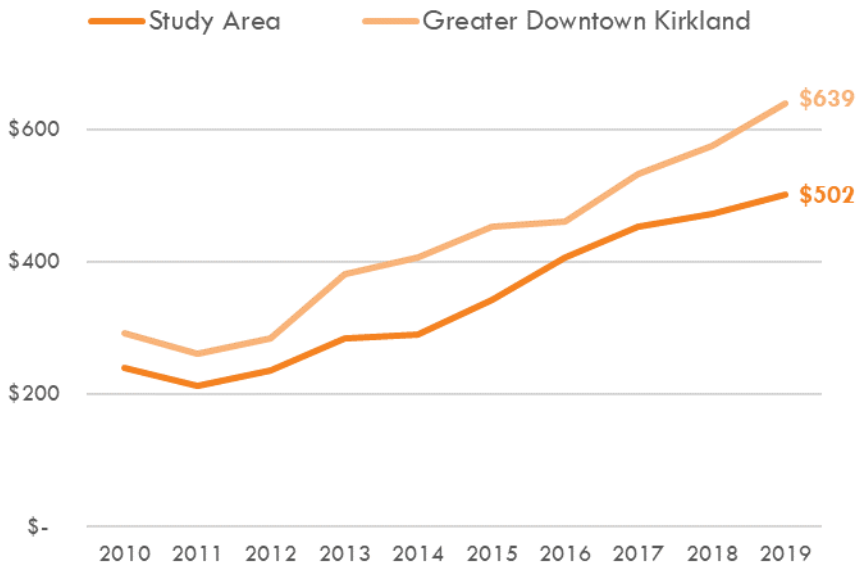
Exhibit 29. Rent per Square Foot by Construction Class, Mulitfamily Residential, Peer Geographies, 2019.



Source: CoStar, 2020; BERK, 2020

The Study Area and Greater Downtown Kirkland are the only two zones with active sales for single family residential properties. Home values in the Study Area more than doubled in the 2010-2019 period. Values per square foot tend to hover about 20% lower than the Greater Downtown Kirkland market, but demonstrate a similar upward trajectory. In 2016 the average sale price in the Study Area crossed the million-dollar threshold and in 2019 the median sales value was $1,475,000. This strong market performance supports the argument for increased residential activity in the Study Area. See Exhibit 30. Increased population through multifamily developed should be coupled with school district analysis to ensure adequate capacity and educational resources from area schools. Nearby public schools include: Lake Washington High School, Kirkland Middle School, Rose Hill Middle School, Rose Hill Elementary School, Mark Twain Elementary School, Lakeview Elementary School, and Peter Kirk Elementary School.

Exhibit 30. Median sales price per SF for Single Family and Townhome Development, Study Area and Greater Downtown Kirkland, 2010–2019.



Source: King County Assessor, 2020; BERK, 2020.

WHO IS ATTRACTED TO TRANSIT-RICH COMMUNITIES?

Reliable transit service is beneficial to many family types and has shown to be particularly attractive to certain households such as:

The transit dependent. This includes those who cannot afford a car, have visual impairments preventing their ability to drive, and older residents who no longer prefer to drive.

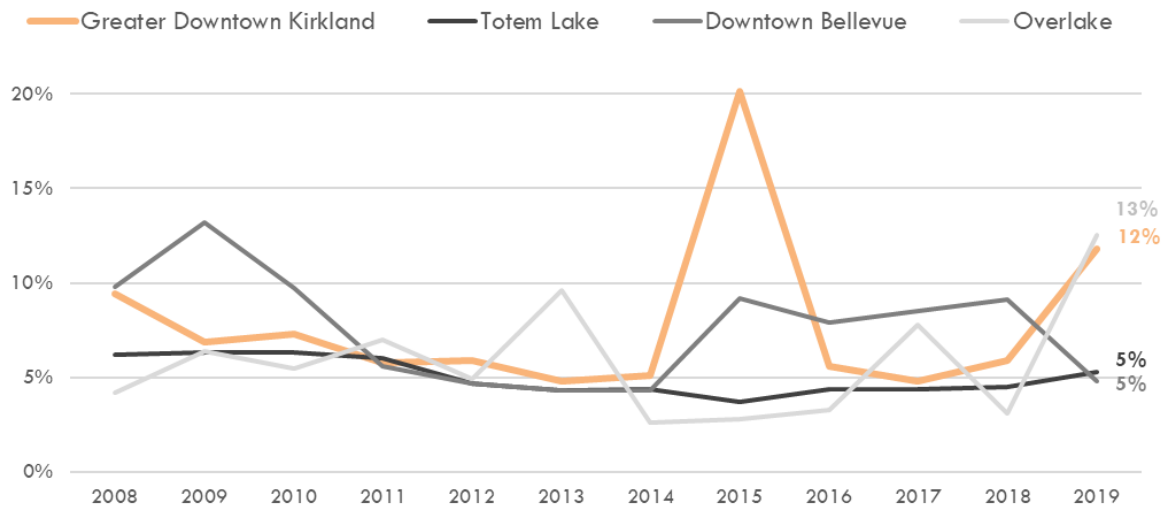
Young urbanites. These residents may be single or married and potentially are parents to young children. They enjoy urban neighborhoods with access to restaurants and value multiple mobility options, such as walking, biking, or riding transit.

As transit access improves, the Study Area should anticipate increased residential interest from these groups. These groups are also likely to demonstrate preference for multifamily housing.

Source: "Families and Transit-Oriented Development", 2014.

Healthy market vacancy rates vary across community types and geographic regions. The Lincoln Institute of Land Policy reviewed nation-wide rental vacancy rates over 50 years and determined rates under 4% to be considered low, 4-7.9% reasonable, and 8-12% as moderately high.[19] Overall the studied geographies have remained within the low and reasonable range across the past 10 years, with a few exceptions. Single year jumps likely represent years where large projects came to market (ex: 2015 in Downtown Kirkland with the 290-unit apartment development, Arete). Downtown Bellevue perhaps experienced an oversupply of units to market 2015-2018, reflected in its higher vacancy rates over that time period. Overall, vacancy rates in the studied multifamily markets are strong. With continued expectations for population growth and good transit access in each location, market expectations remain positive for continued occupancy demand. See Exhibit 31.

Exhibit 31. Vacancy, Multifamily Residential, Peer Geographies, 2008–2019.

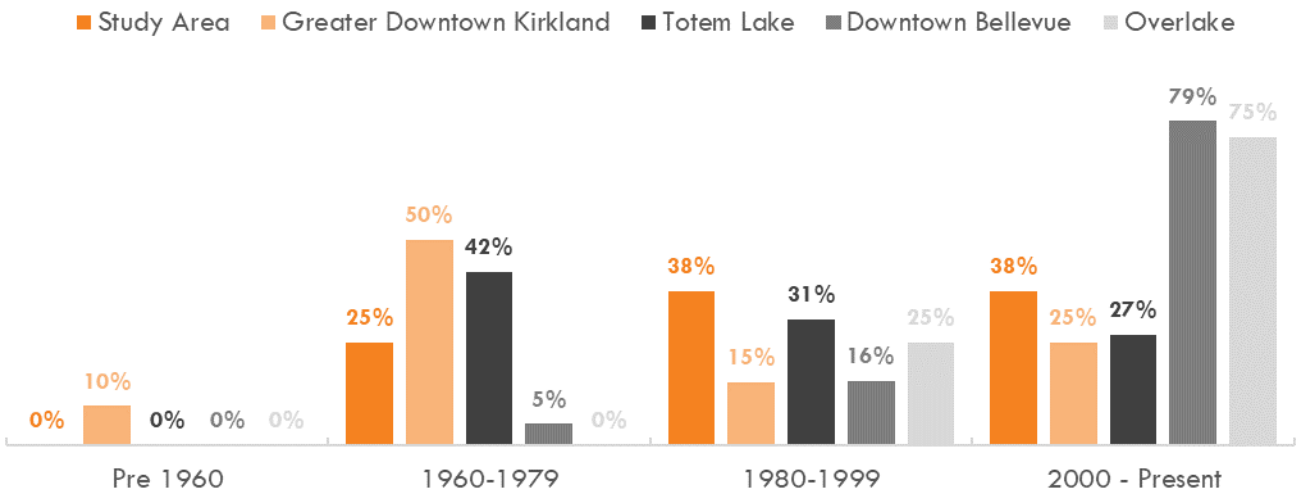


Source: CoStar, 2020; BERK, 2020.

The multifamily commercial market has seen higher levels of investment in the past 20 years. Downtown Bellevue and Overlake's rental markets are 79% and 75% buildings completed since 2000. Downtown Kirkland and Totem Lake multifamily buildings are more evenly aged between decades, although the largest developments by unit count are the most recently developed. The eight properties within the Study Area were built between 1978 – 2015, with about 2 buildings coming to market per decade over this period. See Exhibit 32.

[19] Lincoln Institute of Land Policy, 2018

Exhibit 32. Building Age, Multifamily Residential, Study Area and Peer Geographies.



Source: CoStar, 2020; BERK, 2020.

The Study Area and Overlake's recent multifamily sales reflect a low value per square foot in contrast with comparison areas, although it is notable that the Study Area sale was for an income-restricted senior living center. Downtown Bellevue and Greater Downtown Kirkland show the highest sales value per square foot figures, pointing to their proximity to neighborhood amenities and tech job centers. See Exhibit 33.

Exhibit 33. Sales Comps, Multifamily Residential, Study Area and Peer Geographies.

	Study Area	Greater Downtown Kirkland	Totem Lake	Downtown Bellevue	Overlake
Property Description	Income-restricted senior living	Low-rise apartment building	Low-rise apartment complex	Mid-rise luxury apartment building	Mid-rise modern apartment building
Sale Price per SF	$220	$613	$402	$740	$320
Unit Count	110	6	207	68	240
Star Rating	4	3	3	5	4
Year of Sale	2019	2019	2019	2020	2019
Year Built	2004	1987	1983	2010	2019

Source: CoStar, 2020; BERK, 2020.

Regulatory Environment

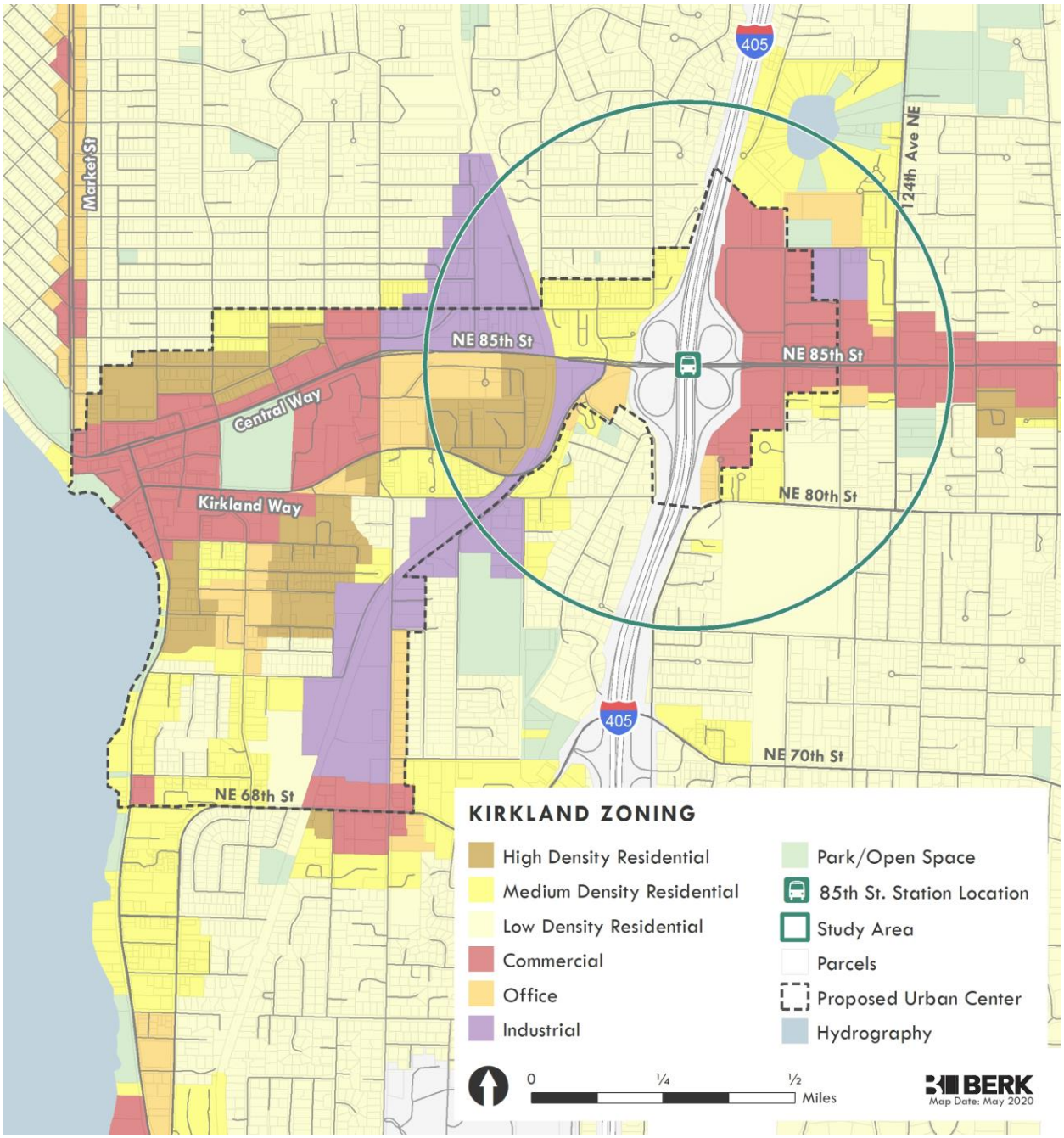
Land Use and Zoning

Study area zoning is shown in Exhibit 35. There is a predominance of Commercial/Mixed Use zoning east of the freeway (Rose Hill Commercial) and Medium and Low Density Residential to the west. There are additional areas of Central Business District and Industrial zoning too. There are numerous zones in the Study Area. See Exhibit 34 and Exhibit 35.

Exhibit 34. Zoning, Study Area.

Zone Category	Individual Zones in Study Area
Commercial	RH 5C
	RH 5B
	RH 3
	RH 1A
	RH 1B
	RH 2A; RH 2B; RH 2C
	CBD 5A
	CBD 5
	CBD 6
Low Density Residential	RS 5.0; RS 7.2; RS 8.5; RS 12.5; RSX 5.0; RSX 7.2;
Medium Density Residential	RM 3.6; RM 5.0; PLA 17
High Density Residential	RM 1.8; RM 2.4; PLA 5A; PLA 5D; PLA 5E
Industrial	LIT
Office	PLA 17A; PR 3.6; PLA 5B; PO; PLA 5C
Office	RH 4
Park/Open Space	P

Exhibit 35. Zoning Map, Study Area.



Source: City of Kirkland, 2020; BERK, 2020.

Allowed land uses are summarized into major categories by zone in Exhibit 36. The allowed uses are noted with required review processes:

- Process I: Review and decision by the Planning Director
- Process IIA: Public hearing and decision by the Hearing Examiner
- Process IIB: Public hearing, Hearing Examiner recommendation, and decision by City Council
- DR = Design Review, Chapter 142 KZC

Exhibit 36. Study Area Use Summary, Current Regulations

		Required Review Process			
Zoning Districts	**Permitted Uses**	**None**	**I**	**IIA, IIB**	**DR**
Rose Hill Business District Zones					
RH 1A	Vehicle fuel and services				**X**
	Restaurant/tavern				**X**
	General retail				**X**
	Office				**X**
	Hotel/motel				**X**
	Entertainment facility				**X**
	Attached housing				**X**
	Assisted living facility				**X**
RH 1B	Vehicle fuel and services				**X**
	Business park				**X**
	General retail				**X**
	Office				**X**
	Assisted living facility				**X**
RH2A, 2B, 2C	Vehicle fuel and services				**X**
	Restaurant/tavern				**X**
	Entertainment facility				**X**
	General retail				**X**
	Office				**X**
	College or university				**X**
	Attached housing				**X**
	Assisted living				**X**
	Hotel/motel				**X**
RH 3	Mixed use retail, service, financial service, restaurant, tavern uses				**X**
	Vehicle fuel and services				**X**
	Restaurant/tavern				**X**
	General retail				**X**
	Hotel/motel				**X**
	Entertainment facility				**X**
	Office				**X**
	Stacked dwelling units				**X**

		Required Review Process			
Zoning Districts	**Permitted Uses**	**None**	**I**	**IIA, IIB**	**DR**
	Assisted living facility				**X**
RH 4	Detached/attached housing	**X**			**X**
	Assisted living facility				**X**
	Office				**X**
	Mixed use attached housing and office uses				**X**
	Funeral home/mortuary				**X**
RH 5B	Vehicle fuel and services				**X**
	Entertainment facility				**X**
	Restaurant/tavern				**X**
	General retail				**X**
	Office				**X**
	Hotel/motel				**X**
	Detached/attached housing				**X**
	Assisted living facility				**X**
RH 5C	Accessory parking for commercial use located in RH 5A fronting on NE 85th Street	**X**			
Central Business District Zones					
CBD 5A	Mixed use development containing office, retail and restaurant uses	**X**			
CBD 5	Restaurant/tavern				**X**
	Entertainment facility				**X**
	Hotel/motel				**X**
	General retail				**X**
	Office				**X**
	Assisted living facility				**X**
CBD 6	Restaurant/tavern				**X**
	General retail				**X**
	Hotel/motel				**X**
	Entertainment facility				**X**
	Office				**X**
	Attached housing				**X**
	Assisted living facility				**X**
Low Density Residential Zones					
RS 5.0, 7.2, 8.5, 12.5	Detached housing	**X**			
RSX 5.0, 7.2	Golf course			**X**	
Medium Density Residential Zones					
RM 3.6 and 5.0	Assisted living facility, nursing home, convalescent center	**X**		**X**	
	Detached, attached housing	**X**			
	limited local retail[20]			**X**	

[20] Grocery store; drug store, laundromat, dry cleaners, barber shop, beauty shop, shoe repair shop

		Required Review Process			
Zoning Districts	**Permitted Uses**	**None**	**I**	**IIA, IIB**	**DR**
PLA 17	Assisted living facility			X	
	Detached, attached housing	X		X	
	Golf course			X	
High Density Residential Zones					
RM 1.8, RM 2.4	Assisted living facility	X		X	
	Detached, attached housing	X			
	Limited local retail[1]			X	
PLA 5A	Assisted living facility	X	X		
	Detached, attached housing	X			
PLA 5D	Assisted living facility	X	X		
	Detached, attached housing	X			
PLA 5E	Assisted living facility	X		X	
	Detached, attached housing				
Office Zones					
PLA 5B	Assisted living facility	X	X		
	community facility		X		
	Attached housing	X			
	Office	X			
	Mixed use housing and office	X			
PLA 5C	Assisted living facility				X
	detached/attached housing;	X			X
	mixed use attached housing and office uses;				X
	office				X
PLA 17A	Convalescent center, nursing home				X
	Attached/stacked housing				X
	Detached housing	X			
	Office				X
PO	Funeral home	X			
	Convalescent center, nursing home		X		
	Hospital			X	
	Office	X			
	Restaurant/tavern	X			
	Limited local retail[1]	X			
	Banking/financial services	X			
PR 3.6	Assisted living facility	X	X		X
	Detached, attached housing	X			X
	Mixed use attached housing and office	X			
	Funeral home		X		
	Office	X			
	Restaurant/tavern		X		
	Retail		X		

		Required Review Process			
Zoning Districts	**Permitted Uses**	**None**	**I**	**IIA, IIB**	**DR**
Industrial Zone					
LIT[21]	Breweries/wineries/distilleries;	**X**			
	Hazardous waste treatment/storage	**X**			
	High technology	**X**			
	Industrial laundry	**X**			
	Office	**X**			
	Packaging	**X**			
	Recycling center	**X**			
	Restaurant	**X**			
	Retail banking/financial services	**X**			
	Rental and storage services	**X**			
	Marijuana sales	**X**			
	Vehicle/boat service, and storage	**X**			
	Wholesale services and trade	**X**			

Source: Kirkland Zoning Code, 2020; BERK, 2020.
Notes:

- Assisted living facilities includes assisted living, convalescent centers and nursing homes, unless otherwise noted.
- Entertainment facility includes entertainment, cultural, recreational facilities and private clubs/lodges
- Several uses are commonly included in most zones and are not listed here. These include church, school, day-care center, public utility, government facility, community facility, public park.
- The Study Area contains a Public Park (P) zone which contains community facility, government facility, public park, and public utility permitted uses. This zone is not included in the table.
- Review processes
    - Process I: Review and decision by the Planning Director
    - Process IIA: Public hearing and decision by the Hearing Examiner
    - Process IIB: Public hearing, Hearing Examiner recommendation, and decision by City Council
    - DR = Design Review, Chapter 142 KZC
- Where more than one review process is shown for a permitted use, the different requirements are usually based on geographic location or specific features of the use.

Exhibit 37 summarizes the development standards for zones within the Study Area. This includes minimum lot sizes, setback requirements, lot coverage maximums, and height restrictions. Some zones also incorporate intensity controls such as floor area ratio (FAR) maximums or minimum lot area per dwelling unit standards.

[21] Development review required for uses in the Rose Hill Business District

Exhibit 37: Study Area Zones, Development Regulations

	Development Standards[22]				
Zoning Districts	**Lot Size (sq ft)**	**Required Yards**	**Lot Coverage**	**Structure Height[23]**	**Other Intensity Controls (FAR, Max Density, etc)**
Rose Hill Business District Zones					
RH 1A	None	Front: 10' Side: 0' Rear: 0'	80%	67'	
RH 1B	None	Front: 10'[24] Side: 0' Rear: 0'	80%	35'	
RH 2A, 2B, 2C	None	Front: 20'[25] Side: 0' Rear: 0'	RH 2C: 70% RH 2A, 2B: 80%	RH 2C: 35' RH 2B: 55' RH 2A: 67'	RH 2C: Min. lot area per dwelling unit is 3,600 SF.
RH 3[26]	6 acres	Established through design review process	100%	45'-75'	Individual retail uses limited to max. gross floor area of 65,000 SF.
RH 4	3,600	Front: 20' Side: 5' Rear: 10'	70%	30'	Min. lot area per dwelling unit is 3,600 SF.
RH 5A, 5B	None	Front: 20'25 Side: 0' Rear: 15'	80%	35'	Individual retail uses limited to max. gross floor area of 65,000 SF.
RH 5C[27]	7,200	Front: 20' Side: 5'-20'	50-70%	30'	

[22] Standards shown are for the majority/primary permitted uses in each district; development standards for a specific use may differ.
[23] Measured as the vertical distance measured from the average building elevation to the highest point of any element of feature of a structure.
[24] 20' adjoining a residential zone
[25] 10' adjacent to NE 85th St.
[26] Development standards listed for highest/best use of mixed-use development with Conceptual Master Plan. Standards for other uses listed in KZC 53.34.
[27] Development standards for accessory parking use (associated with auto sales fronting NE 85th) listed in KZC 53.59.

	Development Standards[22]				
Zoning Districts	**Lot Size (sq ft)**	**Required Yards**	**Lot Coverage**	**Structure Height[23]**	**Other Intensity Controls (FAR, Max Density, etc)**
		Rear: 10'-20'			
Central Business District Zones					
CBD 5A	None	Variable[28]	100%	Variable[29]	
CBD 5	None	Front: 20' Side: 0' Rear: 0'	80%	67'	
CBD 6	None	Front: 20' Side: 10' Rear: 10'	80%	54'	
Low Density Residential Zones					
RS 5.0, 7.2, 8.5, 12.5 RSX 5.0, 7.2	RS/RSX 5.0: 5,000 RS/RSX 7.2: 7,200 RS 8.5: 8,500 RS 12.5: 12,500	Front: 20' Side: 5' Rear: 10'	50%	RS Zones: 25' RSX Zones: 30'	RS and RSX zones have maximum FAR of 50%.
Medium Density Residential Zones					
RM 3.6 and 5.0	3,600 (Residential uses); 7,200 (Commercial Uses)	Front: 20' Side: 5' Rear: 10'	60%-80%	30'	Min. lot area per dwelling unit is 3,600 SF (RM 3.6) or 5,000 SF (RM 5.0).
PLA 17	7,200	Front: 20' Side: 5' Rear: 10'	60%-80%	30'	For multi-family development, min. lot size is 2 acres. Allowed density is minimum 3,600 SF per unit.
High Density Residential Zones					
RM 1.8, RM 2.4	3,600	Front: 20' Side: 5' Rear: 10'	60%-80%	30'	Min. lot area per dwelling unit is 1,800 SF (RM 1.8) or 2,400 SF (RM 2.4).

[28] See Plate 5, KZC 180.
[29] See Plates 6 and 7, KZC 180.

	Development Standards[22]				
Zoning Districts	**Lot Size (sq ft)**	**Required Yards**	**Lot Coverage**	**Structure Height[23]**	**Other Intensity Controls (FAR, Max Density, etc)**
PLA 5A	3,600	Front: 20' Side: 5' Rear: 10'	60%-80%	30'	Min. lot area per dwelling unit is 1,800 SF.
PLA 5D	3,600	Front: 20' Side: 5' Rear: 10'	60%-80%	The lower of 4 stories or 40' above ABE.[30]	Min. lot area per dwelling unit is 1,800 SF.
PLA 5E	3,600	Front: 20' Side: 5' Rear: 10'	60%-80%	30'	Min. lot area per dwelling unit is 1,800 SF.
Office Zones					
PLA 5B	3,600	Front: 20' Side: 5' Rear: 10'	70%	30'	Min. lot area per dwelling unit is 1,800 SF.
PLA 5C	3,600	Front: 20' Side: 5' Rear: 10'	70%	30'	
PLA 17A	5,000	Front: 20' Side: 5' Rear: 10'	70%-80%	30'	Min. lot area per dwelling unit is 5,000 SF.
PO	None	Front: 20' Side: 10' Rear: 20'	70%	30'	
PR 3.6	3,600	Front: 20' Side: 5' Rear: 10'	70%	30'	Min. lot area per dwelling unit is 3,600 SF.
Industrial Zone					

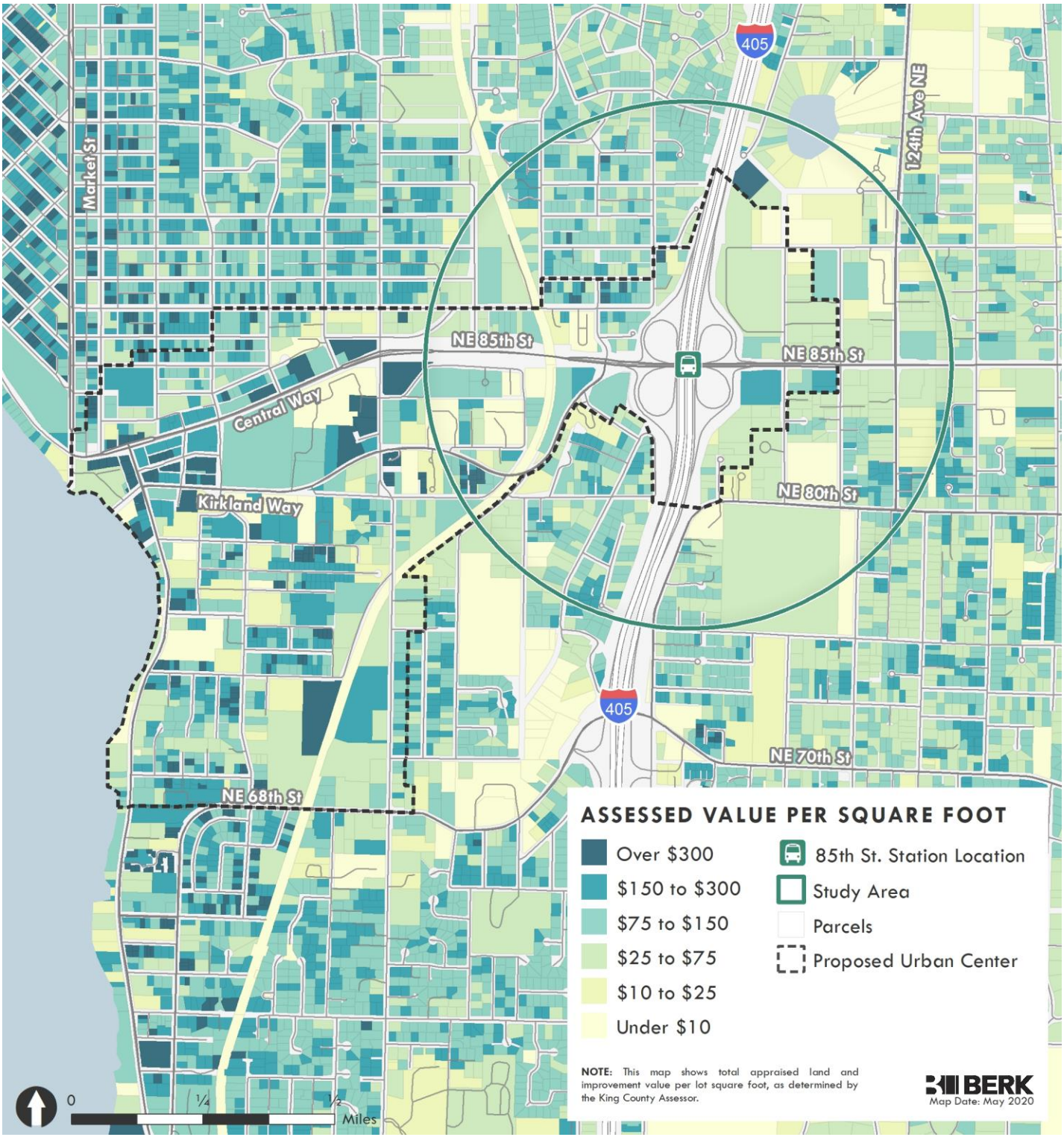
[30] 30' above ABE for structures containing multi-family units only.

	Development Standards[22]				
Zoning Districts	**Lot Size (sq ft)**	**Required Yards**	**Lot Coverage**	**Structure Height[23]**	**Other Intensity Controls (FAR, Max Density, etc)**
LIT	None	Front: 20' Side: 0' Rear: 0'	80%-90%	35'	

Exhibit 38 shows the range of total assessed values per square foot across the Study Area. The range of assessed value per square foot highlights that several sites in the Study Area, especially in the eastern and western edges, have lower assessed values (below $25 per SF and between $25 and $75 per SF). The city's land capacity model evaluates development capacity based on the ratio of the value of land to improvements which shows development capacity on lands with lower ratios. See appendix B for a map reflecting development capacity by parcel data as of about 2015. Changes in land use and development may or may not occur on these properties and other properties not shown may actually change. As well, redevelopment could take the form of adding uses or space with existing uses remaining in place or could mean new uses. However, any changes would be based on property owner desires, market forces, and local regulations.

These sites likely include older and potentially obsolete buildings, and their lower valuation, along with existing development capacity, suggests that they could be potential locations for new, more intensive uses. However, lower valuation alone is not enough for redevelopment to occur. Factors such as property owner preferences, desired return on investments, and competition from other sites, can all affect which sites redevelop to their full development capacity.

Exhibit 38. Total Assessed Value Per Square Foot, Study Area.



Source: King County Assessor, 2020; BERK, 2020.

Parking Requirements

Exhibit 39 summarizes parking requirements by zone and use.

Exhibit 39: Parking Standards by Zone

Zoning Districts	Permitted Uses	Parking Standards[31]
Rose Hill Business District Zones		
RH 1A	Vehicle fuel and services	Case-by-case[32]
	Restaurant/tavern	1 space/100 gsf
	General retail	1 space/300 gsf
	Office	1 space/300 gsf[33]
	Hotel/motel	1 space/room
	Entertainment facility	Case-by-case[34]
	Attached housing	1.2 – 1.8 spaces/unit, depending on # of bedrooms[35]
	Assisted living facility	Assisted living: 1.7/unit Nursing home: 1.0/bed
RH 1B	Vehicle fuel and services	Case-by-case[2]
	Business park	Case-by-case[4]
	General retail	1 space/300 gsf
	Office	1 space/300 gsf[3]
	Assisted living facility	Assisted living: 1.7/unit Nursing home: 1.0/bed
RH 2A, 2B, 2C	Vehicle fuel and services	Case-by-case[2]
	Restaurant/tavern	1 space/100 gsf
	Entertainment facility	Case-by-case[4]
	General retail	1 space/300 gsf
	Office	1 space/300 gsf[3]
	College or university	Case-by-case[4]

[31] Number of spaces per gross square feet of floor area (shown as gsf) unless otherwise noted.
[32] KZC 105.25; auto service center 1 space 250/gross sf. See also KZC 53.06 Special Regulation #1,
[33] 1 space/200 gsf for medical, dental, veterinary office uses.
[34] KZC 105.25.
[35] KZC 105.20 for visitor parking requirements.

Zoning Districts	Permitted Uses	Parking Standards[31]
	Attached housing	1.2 – 1.8 spaces/unit, depending on # of bedrooms[5]
	Assisted living	Assisted living: 1.7/unit Nursing home: 1.0/bed
	Hotel/motel	1 space/room
RH 3	Mixed use containing retail, service, financial service, restaurant, tavern uses	As established in a Conceptual Master Plan.
	Vehicle fuel and services	Case-by-case34
	Restaurant/tavern	1 space/100 gsf
	General retail	1 space/300 gsf
	Hotel/motel	1 space/room[36]
	Entertainment facility	Case-by-case34
	Office	1 space/300 gsf[3]
	Stacked dwelling units	1.2 – 1.8 spaces/unit, depending on # of bedrooms35
	Assisted living facility	Assisted living: 1.7/unit Nursing home: 1.0/bed
RH 4	Detached dwelling unit (Single-family)	2 spaces/unit
	Detached/attached housing (Multi-family)	1.2 – 1.8 spaces/unit, depending on # of bedrooms[5]
	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Office	1 space/300 gsf[3]
	Mixed use attached housing and office uses	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5.] Office: Case-by-case[4]
	Funeral home/mortuary	1 space/300 gsf
RH 5B	Vehicle fuel and services	Case-by-case[4]
	Entertainment facility	Case-by-case[4]
	Restaurant/tavern	1 space/100 gsf
	General retail	1 space/300 gsf
	Office	1 space/300 gsf[3]
	Hotel/motel	1 space/room[6]

[36] Does not include parking for ancillary meeting facilities. Parking for such facilities determined case-by-case.

Zoning Districts	Permitted Uses	Parking Standards[31]
	Detached/attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5] [37].
	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
RH 5C	Accessory parking for commercial use located in RH 5A fronting on NE 85th Street	**Case-by-case[4]**
Central Business District Zones		
CBD 5A	Mixed use development containing office, retail and restaurant uses	KZC Section 50.38.010, Special Regulation 7
CBD 5	Restaurant/tavern	1 space/125 gsf
	Entertainment facility	Case-by-case[4]
	Hotel/motel	1 space/room
	General retail	1 space/350 gsf
	Office	1 space/350 gsf
	Assisted living facility	1.0 – 1.7 spaces/unit
CBD 6	Restaurant/tavern	1 space/125 gsf
	General retail	1 space/350 gsf
	Hotel/motel	1 space/room
	Entertainment facility	Case-by-case[4]
	Office	1 space/350 gsf
	Attached housing	1.2 – 1.8 spaces/unit, depending on # of bedrooms[5]
	Assisted living facility	1.0 – 1.7 spaces/unit
Low Density Residential Zones		
RS 5.0, 7.2, 8.5, 12.5 RSX 5.0, 7.2	Detached housing	2 spaces/unit
	Golf course	Case-by-case[4]
Medium Density Residential Zones		
RM 3.6 and 5.0	Assisted living facility, nursing home, convalescent center	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed

[37] If one detached dwelling unit, 2 spaces required on-site.

Zoning Districts	Permitted Uses	Parking Standards[31]
	Detached, attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 38.]
	limited local retail	1 space/300 gsf
PLA 17	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Detached, attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
	Golf course	Case-by-case[4]
High Density Residential Zones		
RM 1.8, RM 2.4	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Detached, attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
	Limited local retail	1 space/300 gsf
PLA 5A	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Detached, attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
PLA 5D	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Detached, attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
PLA 5E	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Detached, attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
Office Zones		
PLA 5B	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	community facility	Case-by-case[4]

Zoning Districts	Permitted Uses	Parking Standards[31]
	Attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5].
	Office	1 space/300 gsf[3]
	Mixed use housing and office	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5.] Office: Case-by-case[4]
PLA 5C	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Detached/attached housing;	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
	Mixed use attached housing and office uses;	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5.] Office: Case-by-case[4]
	Office	1 space/300 gsf[3]
PLA 17A	Convalescent center, nursing home	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Attached/stacked housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
	Detached housing	2 spaces/unit
	Office	1 space/300 gsf[3]
PO	Funeral home	1 space/300 gsf
	Convalescent center, nursing home	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Hospital	Case-by-case[4]
	Office	1 space/300 gsf[3]
	Restaurant/tavern	1 space/100 gsf
	Limited local retail[1]	1 space/300 gsf
	Banking/financial services	1 space/300 gsf
PR 3.6	Assisted living facility	Assisted living: 1.7/unit (independent); 1/unit (assisted) Nursing home: 1.0/bed
	Detached, attached housing	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5 7.]
	Mixed use attached housing and office	Residential: 1.2 – 1.8 spaces/unit, depending on # of bedrooms[5.]

Zoning Districts	Permitted Uses	Parking Standards[31]
		Office: Case-by-case[4]
	Funeral home	1 space/300 SF floor area
	Office	1 space/300 gsf[3]
	Restaurant/tavern	1 space/100 SF floor area
	Retail	1 space/300 SF floor area
Industrial Zone		
LIT[39]	Breweries/wineries/distilleries;	**1 space/1,000 gsf. Tasting rooms: 1 space/100 gsf**
	Hazardous waste treatment/storage	**1 space/1,000 gsf**
	High technology	**Manufacturing: 1 space/1,000 gsf. Office: 1 space/300 gsf**
	Industrial laundry	**1 space/1,000 gsf**
	Office	**1 space/300 gsf[3]**
	Packaging	**1 space/1,000 gsf**
	Recycling center	**Case-by-case[4]**
	Restaurant	**1 space/100 gsf**
	Retail banking/financial services	**1 space/300 gsf**
	Rental and storage services	**Case-by-case[4]**
	Marijuana sales	**1 space/300 gsf**
	Vehicle/boat service, and storage	**Case-by-case[4]**
	Wholesale services and trade	**1 space/1,000 gsf**

Exhibit 40: Parking Spaces Provided by Building Type for Study Area and Comparison Geographies.

Parking Spaces/Unit (average)	Office (Spaces/1,000 SF)	Retail (Spaces/1,000 SF)	Multifamily (Spaces/Unit)
Study Area	3.8	4.8	2.7
Greater Downtown Kirkland	3.3	3.4	1.5
Totem Lake	4.1	4.2	1.6
Downtown Bellevue	3.1	4.4	1.1
Overlake	4.2	4.6	1.5

Sources: CoStar, 2020; BERK, 2020.

Case Studies

In 2015, the National Institute for Transportation and Communities in Portland, Oregon released a national survey of BRT systems which attempts to quantify their impacts on development. **Key findings from this study indicate an increase in development along BRT corridors, both for multifamily and office construction.** The report emphasizes that results are strongest for corridors connecting to employment centers, where opportunities for redevelopment exist, and when paired with economic development incentives.[40] The following case studies profile transit investments across the region as examples of development change which may be anticipated for the 85th Street Station. In each example, policy initiatives are coupled with increased and improved transit service to achieve overall development outcomes.

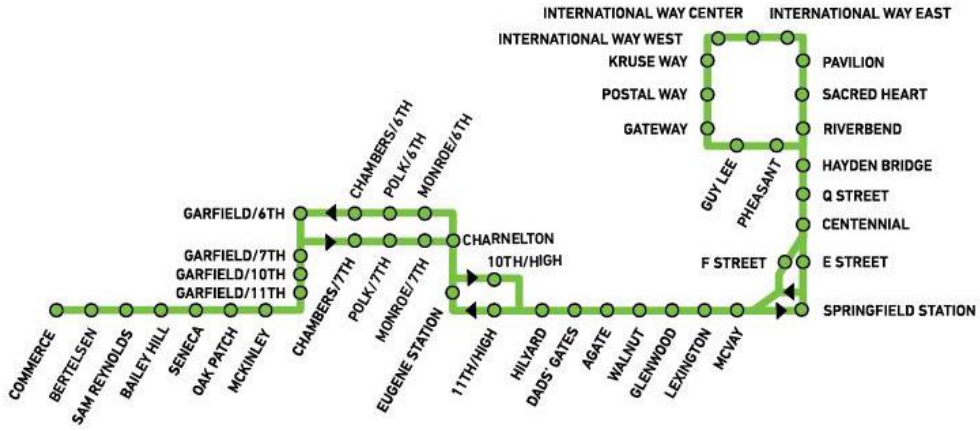
[40] Nelson and Ganning, 2015 "National Study of BRT Development Outcomes"

Case Study One: Springfield, Oregon

Photo credit: https://blogs.uoregon.edu/ ahicks3su16gateway/

Springfield, Oregon lies directly east of Eugene. Eugene introduced Bus Rapid Transit service in 2007 and has since added two extensions to the route in response to its strong performance.[41] Ridership along the corridor dramatically increased and studies show positive impacts to home values near its stations.[42] **An employment study of this BRT corridor finds that despite job loss experienced in the metro area during the 2004 – 2010 timeframe, jobs actually grew by about 10% within a 0.25 mile radius of BRT stations in Eugene and Springfield.[43] This study notes that providing incentives such as expedited permitting and upzones are effective tools for incentivizing development alongside BRT investments.** Authors suspect that developers perceive BRT service as more permanent than standard bus service, and this confidence eases financial concern for investment protection.

Exhibit 41: West Emerald Express (EmX) BRT route.



Source: Oregon Business, 2017.

[41] Institute for Transportation & Development Policy, 2013

[42] Perk et al., 2017 "Impacts of BRT on Surrounding Residential Property Values"

[43] Nelson et al., 2013 "Bus Rapid Transit and Economic Development"

Case Study Two: Vancouver, Washington

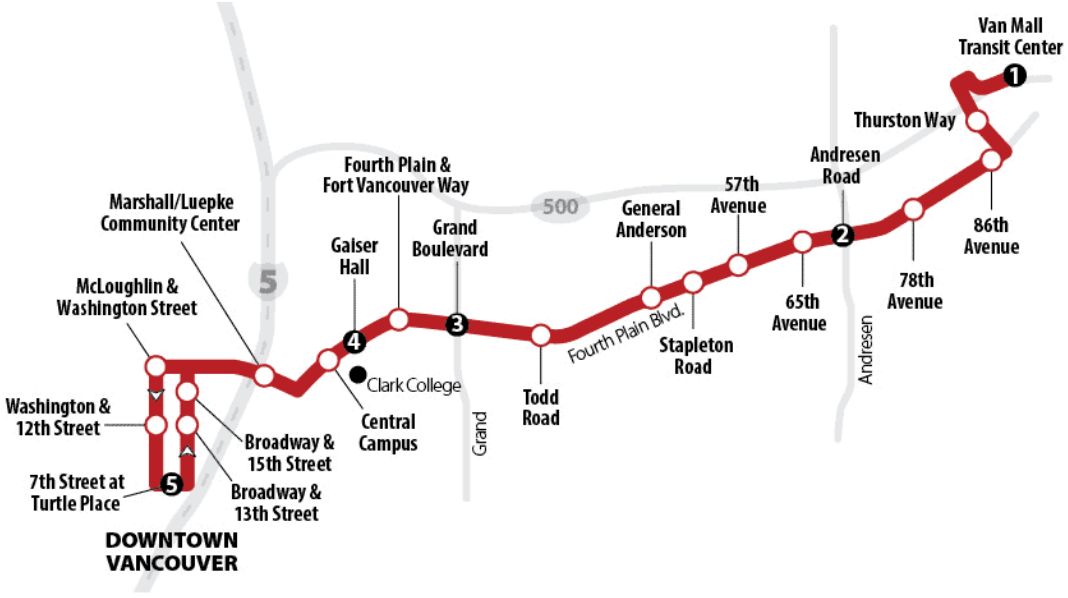
Vancouver, Washington is located adjacent to the metro hub of Portland, Oregon. Similar to Kirkland, Vancouver both feeds into the nearby economy of Portland and maintains a downtown and economic base of its own. BRT service, coined "The Vine", was introduced to the community in 2017. The service runs with 17 stations from the downtown core to the Transit Center at Vancouver Mall. **This introduction was coupled with a Multifamily Tax Exemption (MFTE) buffer zone surrounding the corridor to promote denser housing development near transit amenities. This combination of policy change and mobility investment sparked commercial development throughout the corridor. Over 1,000 multifamily units came to market between 2016-2019 along the six-mile corridor, with locations clustering near bus stations.** The combination of policy change in concert with improved public services was a key component of this successful boost to development.

Exhibit 42: Multifamily Development Along Vancouver Vine Corridor, Existing and Planned.

Project Phase	Multifamily Units
Developed	1,023
Under Construction	254
Land Use Review	559

Source: City of Vancouver, 2019.

Exhibit 43: The Vine Route Map; Vancouver, Washington.



Source: C-Tran, 2020.

Case Study Three: Portland, Oregon

The 60th Avenue light rail station in Portland, Oregon offers an example of station development which sparked new investment in an area with auto-centric development patterns around a highway connecting to major urban centers in the region. **Portland's regional government strengthens the impact of its light rail investments with TOD policies which provide funding for public-private development partnerships. These initiatives yield projects which reflect desired growth patterns incorporating a mix of uses and denser residential styles near transit.**[44] One such example is the Center Commons project, a brownfield site redeveloped in 2000 as a mixed-income community with 4 apartment buildings, 26 townhomes, and on-site daycare.[45] Residents of this project live within a five-minute walk of the light rail station.

Exhibit 44: Development patterns surrounding 60th Street Station in Portland.

Image Source: Google Maps, 2020.

[44] Cervero, Robert, 2004; "Transit-oriented Development in the United States: Experiences, Challenges, and Prospects" p. 363

[45] https://www.oregonmetro.gov/sites/default/files/2016/08/25/centercommons_final.pdf

Appendix A – Real Estate Data

Real estate market data used in this report comes from Costar. Sample sizes vary by area and type of property, summarized in the below tables. Proposed and demolished projects were excluded from this dataset, while existing and under construction projects were included. While most properties report building class, size, and age, a smaller proportion report rental rate. This ratio is included in these tables as well, for reference.

Office Properties

Focus Area	Number of Properties	Properties Reporting Rental Rates
Study Area	14	3
Greater Downtown Kirkland	73	73
Totem Lake	46	10
Downtown Bellevue	87	87
Overlake	59	59

Retail Properties

Focus Area	Number of Properties	Properties Reporting Rental Rates
Study Area	21	21
Greater Downtown Kirkland	87	86
Totem Lake	85	6
Downtown Bellevue	122	122
Overlake	41	41

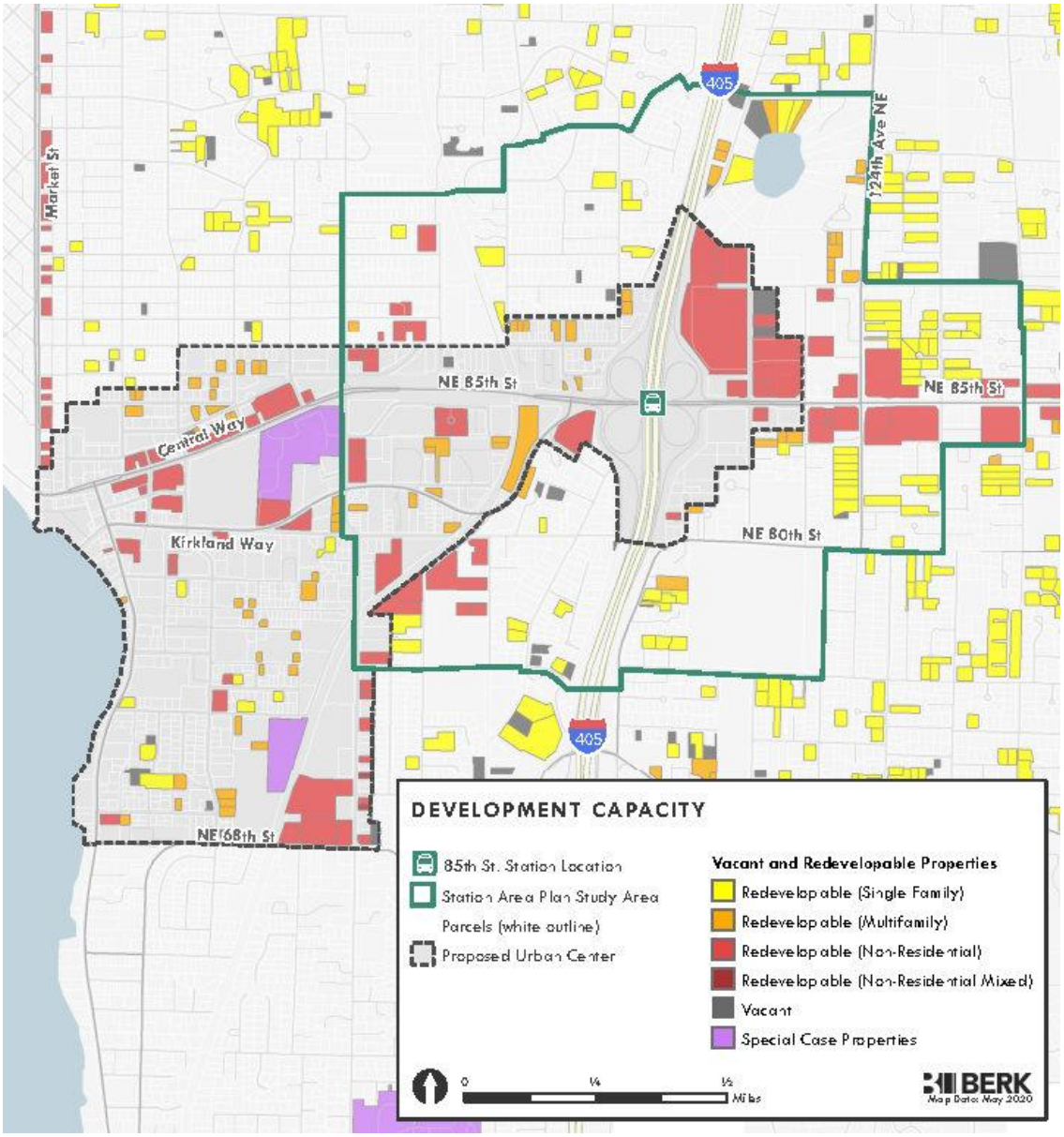
Multifamily Properties

Focus Area	Number of Properties	Properties Reporting Rental Rates
Study Area*	8	1
Greater Downtown Kirkland	53	24
Totem Lake	27	14
Downtown Bellevue	42	39
Overlake	8	7

**Not included in reported statistics for rental rates, due to a lack of data points.*

Appendix B – City Development Capacity Model

Development Capacity, Study Area.



Source: City of Kirkland, 2015; BERK, 2020.

In the city's development capacity model each parcel is classified into one of the following three categories:

- Vacant – parcels that have no existing development and that are anticipated to develop to the maximum allowed by existing zoning.
- Redevelopable - parcels that are partially developed but have the capacity for additional development. Parcels are considered to be redevelopable as follows:
- In single family residential zones: parcels which have the potential to be subdivided into additional lots. Parcels that are large enough to be divided into only two lots, are considered to be redevelopable only when the assessed improvement value is less than 50% of the assessed land value.
- In multi-family zones: parcels that are developed with apartments (not condominiums) and the existing number of dwelling units is less than 60% of the maximum number of dwelling units allowed by the zoning.
- In commercial, office and industrial zones other than the Totem lake Business District zones, parcels with an assessed value of improvements which is < 50% of the assessed land value.
- Developed – parcels that contain development but are not determined to be redevelopable. These parcels are eliminated from the analysis.
- For parcels with existing development, the determination of whether the parcel is classified as Redevelopable or Developed is based on the calculation of additional development potential.