

HEARTLAND

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RE: Kirkland Industrial Areas White Paper

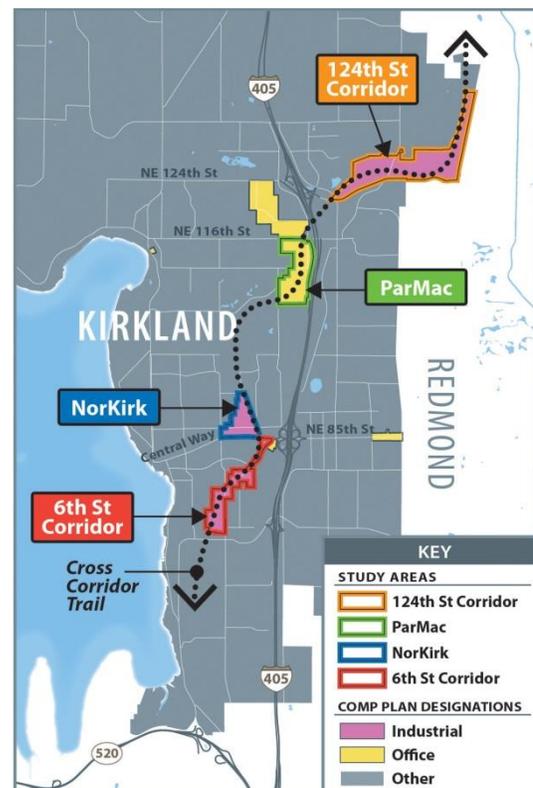
INTRODUCTION

The City of Kirkland (the “City”) is preparing to update its Kirkland 2035 Comprehensive Plan (the “Comp Plan”). As part of this exercise, the City is evaluating its current land use policies and goals for four areas (collectively the “Study Areas”) where the majority of uses are industrial in nature. The four areas in this study are the 124th Street Corridor, ParMac, Norkirk, and the 6th Street Corridor. Figure 1 depicts the location of the Study Areas and illustrates the current Comprehensive Plan land use designations. Three of the four are designated for industrial use with the fourth, ParMac, designated for office.

This memorandum summarizes existing real estate and business conditions in the Study Areas, and presents a strategic framework that can help guide policy making with respect to light industrial lands in Kirkland. The overriding policy question revolves around the prioritization of industrial uses, and what, if any, policy measures would be prudent for the City to consider. Put bluntly, how important are industrial land uses to the Kirkland economy, a subset of the larger Eastside real estate market, particularly relative to competing land uses such as traditional office or high-tech office/light manufacturing? The key strategic policy questions can be placed into two general categories: (1) portfolio considerations and (2) implementation considerations. At the portfolio level, land use goals for the Study Areas are put into context relative to the city-wide land use portfolio. At the implementation level, Kirkland will need to consider how land use code modifications may influence the broader portfolio level policy decisions.

To assist City staff and the Planning Commission with addressing these policy questions Heartland created a decision tree. The decision tree is included in Appendix A of this memorandum, and like the remainder of this memorandum, it is organized in two sections. The Portfolio Assessment section is an evaluation of existing conditions and market trends in the Study Areas relative to the remainder of the City and the broader Eastside¹. At this level, staff and the commission

Figure 1: Study Area Context Map



¹ For purposes of this memorandum, the “Eastside” is defined by the jurisdictional boundaries of the cities of Kirkland, Bellevue, and Redmond.

should be thinking about the alternative land uses that could be developed in the Study Areas based on policy objectives and how they fit into the City's broader objectives. This section offers the following:

- A characterization of industrial lands in the context of the Eastside and the City's overall land portfolio;
- An overview of real estate development and land use patterns in the Study Areas relative to the Eastside and the City; and
- An overview about how locational decisions for office uses around the region are made.

The Implementation Considerations Assessment section is conducted at the Study Area level and is focused on potential land use modifications, should such considerations be warranted at the conclusion of the Portfolio Assessment. This memorandum will offer the following with regards to Implementation Considerations:

- An explanation of the land/value equation that justifies attracting new office uses in the near term;
- A assessment of interim/transitional uses and the potential impact on long term land use goals; and
- Potential approaches to regulations for each of the four Study Areas.

Appendix B is a detailed summary of each Study Area that includes an overview of the current zoning code, existing land use, the current business mix relative to land use, and the business ecology. This appendix supplements the Implementation Considerations Assessment.

SUMMARY OF FINDINGS

Industrial Overview

- Kirkland is 20% of total Eastside industrial market and Study Areas comprise 18% of the total Eastside inventory, representing a significant share of the overall inventory.
- There has been very limited new supply over the past 10 years and no new industrial product proposed in the Eastside.
- This static supply has resulted in vacancy rates below 5% and asking rates that are relatively consistent throughout the Eastside.
- All Study Areas are well utilized with a mix of high-tech users (focused primarily in 124th Street Corridor) and more traditional "workbench" type industrial firms.²

Office Overview

- Kirkland is 10% of total Eastside office market and Study Areas total 2% of the total Eastside inventory.
- The City is a secondary office location relative to other Eastside locations.
- New office delivery has been robust with 19% of the existing office inventory being delivered since 2005, but Kirkland saw less than 1% of that development.
- The pipeline is substantial, but concentrated in Bellevue (Spring District and SRO/Rockwell sites) while Kirkland's share of the pipeline is only 6% buoyed by Google Phase II.

Redevelopment Economics

- Observed transactions indicate that unimproved land has recently transacted for just under \$20 per square foot on the land while sales of with improved, but underutilized buildings ranged from \$30 to \$70 per square foot on the land.

² We generally characterize industrial areas that are of scale similar to the Study Areas and "workbenches" in that the users of these industrial buildings generally provide direct services to larger businesses and surrounding households. Examples are light manufacturers that are suppliers to the aerospace industry down to auto service, plumbing, and other service uses that support local businesses and households.

- When comparing these values to the residual land value of a hypothetical 160,000 square foot, 4-story office development on a 150,000 square foot parcel, the challenges for new development become clear. There is a rental rate gap of approximately \$5 per square foot per year suggesting that in order for new office to be considered feasible in the Study Areas, gross rents would need to exceed \$30 per square foot.
- This supports the thesis that absent a momentum creating catalytic project that may prove the market for future developments, the Study Areas will likely remain with the current uses, or permitted interim uses, in place until overall market rents increase to support new development.

Study Areas

- Overall each Study Area is functioning well with the vacancy rate in three of the areas under 6% while the fourth – ParMac – has a vacancy rate around 10%.
- The employment mix in the Study Areas is broad
 - In the 124th Street Corridor high-tech/aerospace businesses are growing alongside auto dealerships and a number of small “workbench” industrial businesses.
 - The ParMac Study Area is anchored on the southend of the area by MedRad medical equipment manufacturer with over 100 employees. The rest of this area is highlighted by a number of recreation and commercial kitchen businesses that occupying existing light industrial space.
 - The NorKirk and 6th Street Corridor areas are buoyed by small workbench businesses (especially in the NorKirk area); however the 6th Street Corridor is home to a growing Google and the high-tech manufacturing firm Western Pneumatic.
- In the near term, there will likely be limited new speculative development based on our assessment of the market economics.
- Overall, the zoning in the Study Areas provides enough flexibility with both the permitted uses and allowed height and density to accommodate new development should the market support it or an owner/user choose to develop its own building.

PORTFOLIO CONSIDERATION ASSESSMENT

The Portfolio Consideration Assessment section provides an overview of existing conditions and market assessment for the Study Areas relative to City and the Eastside. It is intended to track with the upper portion of the decision tree in Appendix A by contextualizing the two most predominant uses in the Study Areas – industrial and office. For both of these uses we will utilize three data sets, King County Assessor’s data, City business license data, and market fundamental data from CoStar to analyze the City’s position in the broader Eastside market as well as land use and business patterns within the City.

Based on our assessment, the City, relative to the Eastside, is an important contributor to the supply of industrial buildings and the users who choose to locate their businesses here. Focusing on the Study Areas, the businesses that locate in industrial buildings are a mix of industrial firms that provide goods and services to businesses regionally and beyond, as well as a significant number of smaller business that provide goods and services to the local businesses and households. The former group includes aerospace suppliers, medical supply manufacturing, and other high-tech manufacturing while the latter group are auto repair shops, plumbers, business communications, and analytical labs to name a few. Depending on one’s point of view, there is value having these types of businesses located in the City; however, it is not the intent of this memorandum to determine that value. Such an assessment could be measured quantitatively through fiscal impacts or qualitatively through surveys targeted to households and businesses.

Whether or not to preserve or convert land uses in the Study Areas is a key policy question currently being considered. As the land use code in the Study Areas currently reads, other potentially higher and better uses could be developed, such as office. We believe that the conversion of land in the Study Areas to traditional office is not likely to occur in the near future based on current market factors. However, should the City decide to encourage

the preservation of industrial land uses, then a limitation of non-industrial uses might be warranted. This is because specific businesses may be attracted to locating in the Study Area given its locational profile. For example, in the future there may be traditional office users or more high-tech industrial users that are attracted to the Study Area because of the cost of existing space, the cost of land, proximity to its workforce and its executives’ homes, and nearby and onsite amenities.

The information contained in this section will assist with evaluating Comp Plan policy questions involving future land use goals for the Study Areas using the decision tree in Appendix A.

INDUSTRIAL MARKET CONTEXT

Observations

The four Study Areas provide the majority of the City’s industrial space and comprise a prominent share of the industrial space along the I-405 corridor. The Study Areas comprise approximately 18% of the total industrial inventory in the Eastside market. The existing industrial stock in the Study Areas is effectively fully utilized with a vacancy rate under 6%.

With no new land being allocated to industrial uses, and traditionally industrial areas, such as the Bel-Red corridor converting to non-industrial uses, industrial uses seeking proximity to the urban centers have fewer alternatives than they have in the past. In addition, industrial uses tend to seek low cost space, which is not conducive to more high cost, vertical development in urbanizing areas like the urban centers on the Eastside. These conditions are currently keeping the industrial vacancy rate low, as well as creating an environment where no new development is occurring.

The existing industrial space in the Study Areas will continue to be behave as an industrial “workbench” until the market supports higher and better uses (e.g. office and in some areas multifamily) that are permitted under the current land use code.

Inventory Assessment

The Eastside industrial market in Kirkland, Bellevue and Redmond comprises approximately 13.2 million net square feet. The types of industrial buildings range from warehouses to light industrial space. Of this total industrial inventory, the City comprises approximately 2.7 million square feet or 20% of the total Eastside inventory. The Study Areas combine to total approximately 2.3 million square feet or 18% of the Eastside inventory and 87% of the City’s inventory. The majority of the City’s remaining industrial space is located in the TL 10B zone north of the ParMac study area and TL 6A and TL 7 zones located in the Totem Lake neighborhood east of I-405. Industrial buildings outside the Study Areas comprise approximately 344,000 square feet of industrial space or 13% of the City’s total. Figure 2 depicts the distribution Eastside industrial space while Figure 3 illustrates the location of these buildings.

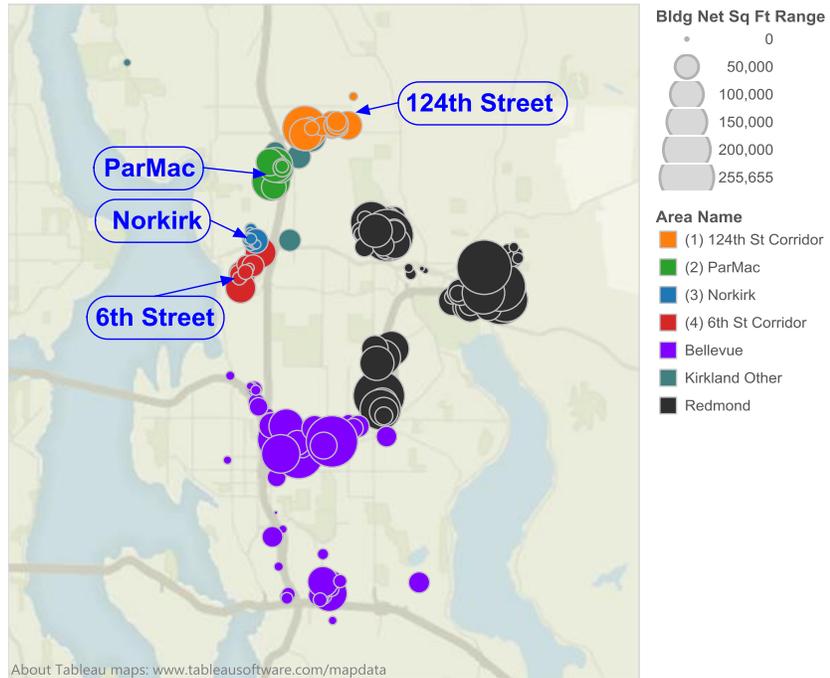
Figure 2: Eastside Industrial Building Net Square Footage Distribution Table

City	Square Feet (rounded)	Share of Total	City of Kirkland Distribution	Square Feet (rounded)	Share of Total
Redmond	6,400,000	48%	Study Areas	124th St Corridor	31%
Bellevue	4,100,000	31%		ParMac	35%
Kirkland	2,700,000	20%		6th St Corridor	6%
Eastside Total	13,200,000			Norkirk	15%
				Kirkland Remainder	13%
			City of Kirkland Total 2,687,000		

Source: King County Assessor, Heartland LLC

Figure 2 and Figure 3 illustrate that the majority of the Eastside inventory (48%) is in Redmond between the Willows industrial corridor, southeast Redmond, and around the Overlake/Microsoft Campus area. The remaining 52% is focused mainly around the Study Areas and Bellevue's Bel-Red Corridor. The Bel-Red Corridor is similar to the Study Areas with good access from I-405; however it is more at risk than any other Eastside industrial area for redevelopment into non-industrial uses due to the modified land-use code adopted by the City of Bellevue for this area. The Bel-Red land use code is ambitious as it attempts to leverage the public investment being made by Sound Transit.

Figure 3: Eastside Industrial Square Footage Distribution Map



The code in this area encourages high density multifamily, retail, and office transit oriented development around the three future Sound Transit East Link station areas. The Study Areas' land use code does provide for non-industrial uses including office, retail, and (in limited areas) multifamily, but at a much lower density based on height and lot coverage. As a result of its current land use code in the Bel-Red corridor, Bellevue's industrial inventory will slowly evolve away from industrial reducing the Eastside's overall stock. On the other hand, the industrial inventory in the Study Areas are not currently at risk for redevelopment to more intense land uses because of the market fundamentals: rents are not high enough to justify new construction costs. Should market conditions change, pressure for conversion to non-industrial uses in the Study Areas would increase in the future.

Market Fundamentals

Shifting over to the current industrial market fundamentals in the Eastside, we observe a fundamentally sound industrial market across the Eastside and in the Study Areas. The overall vacancy rate is approximately 3.9%. This is below the 5-year average vacancy rate of 6.1%. The average gross asking rate for industrial space in the Eastside is \$9.20 per square foot per year. This is higher than the 5-year Eastside average asking rate of \$8.67 per square foot per year. There are currently no industrial development projects in the Eastside pipeline. Given that there is no new development, the vacancy rate is anticipated to remain low and rents will likely remain or increase modestly over the next 5-years. Figure 4 shows a snapshot of the current

Figure 4: Eastside Industrial Market Fundamentals

Area	Buildings Surveyed	Average Year Built	Rentable Bldg Square Feet	Vacancy Rate	Avg Rent/SF/Yr*
Study Areas (1) 124th St Corridor	24	1979	613,099	3.1%	\$9.00
(2) ParMac	27	1976	868,627	4.8%	\$8.60
(3) Norkirk	8	1976	58,336	0.0%	N/A
(4) 6th St Corridor	6	1981	121,408	0.0%	\$11.30
Kirkland Remainder	7	1977	41,518	0.0%	\$0.00
Bellevue	107	1973	3,371,883	3.4%	\$9.60
Redmond	160	1981	4,809,811	4.4%	\$9.20
Total	339	1978	9,884,682	3.9%	\$9.20

Source: CoStar
 Note: Rent represents gross asking rent

Eastside industrial market fundamentals.

Figure 4 also summarizes the market fundamentals for the Study Areas. Combined the Study Areas have a vacancy rate of 3.7%, which is lower than the Eastside collectively. One obvious factor influencing this very low vacancy rate is the combination of an overall tight supply across the Eastside coupled with the Study Areas' location along the I-405 corridor. However, another significant factor is the cost of this space, which, at a weighted average of \$8.73 per square foot per year on average, is lower than the overall Eastside asking rate. Of the four areas, ParMac has the most vacant space at a rate of 4.8%. There are a couple of factors that could be contributing to this higher vacancy rate. First, the existing stock in this area does not meet the typical configuration standards for (e.g. square footage, clear height, clear spans, bay heights, etc.). Second, reuse is hindered when combining the existing stock's market obsolescence and cost to correct it with a land use code written for this area that limits the amount of new investment in a building to 30% of its replacement cost if the use is proposed to be changed. The other three study areas are all at very low vacancy rates.

OFFICE MARKET CONTEXT

Observations

The Study Areas contain approximately 20% of the City's overall office supply and only 2% of the overall Eastside. Further, the City's total office supply represents approximately 10% of the total Eastside. While its share of the Eastside market is not insignificant, the City is not currently a primary target for office developers looking to build in the Eastside based on a review of planned developments. As it stands, the majority of the City's inventory was delivered when the land was in greenfield condition, not under conditions like the current wave of urban infill redevelopments.

Two of the primary reasons for this are as follows: (i) market fundamentals in the City do not support new construction, and (ii) the momentum that has been building in Downtown Bellevue is spreading east as the promise of light rail gets closer to reality.

Based on our review of the existing Eastside inventory, its development pipeline, and the market fundamentals supporting it, we believe that new office development in the Study Areas is not likely to occur in the near future, absent a significant catalytic development in Kirkland. For new development to occur, several factors need to be in place. In general, the demand must be either in balance with employment growth projected or outstrip supply and the project underwriting need to justify the cost of construction while providing a risk adjusted return to the developer.

The market current conditions around the Bellevue CBD are a good current example of fundamentals that are ripe for supporting new development. The Bellevue CBD is currently 7.5% vacant with an average asking gross rental rate of \$34 per square foot per year. Even with this low vacancy rate, underwriting a new development at this gross rental rate could be feasible depending on the size and quality of the building. However, a closer look at office towers in the CBD indicates the market is ready to support additional Class A office space. With a vacancy rate under 5% and gross asking rates at nearly \$40 per square foot, the development economics pencil. Similar fundamentals would need to exist and/or a pioneering project of scale (e.g. Park Place) would need to be completed to "prove" the market and signal to developers that Kirkland is a feasible location for new development. Other factors, such as commuter connectivity to access the workforce³ and neighborhood amenities also play a role and at this point in time Bellevue is at the top of mind for developers.

³ The development of Sound Transit's East Link line and supporting station areas will be a factor in developer locational decisions as land use codes around these nodes offer greater opportunity for density and often have lower parking ratios which both help project level proformas. This is one reason – along with the maturation and continuing evolution of Bellevue's CBD – that Bellevue and Redmond have experienced more development interest.

Inventory Assessment

The Eastside Office market in Kirkland, Bellevue and Redmond comprises approximately 43.0 million square feet. This total includes buildings categorized as high tech/high flex. The space in this building type is not entirely dedicated to office uses, but at least 70% is office with the remainder used for warehouse or production. Of this total office inventory, the City comprises approximately 4.3 million square feet or 10% of the total Eastside inventory. The Study Areas combine to total approximately 880,000 square feet or 2% of the Eastside inventory and 17% of the City’s inventory. The majority of the City’s office space is found in several nodes and corridors between downtown, I-405, and SR-520. These nodes (Carillon Point, the SR-520 exchange, the Google campus, and downtown) and corridors (along Lake Washington Boulevard and Central Way/Northeast 85th Street) comprise approximately 2.5 million square feet, or 57% of the City total. Figure 5 depicts the distribution Eastside office space while Figure 6 illustrates the location of these buildings.

Figure 5: Eastside Office Net Building Square Footage Distribution Table

City	Square Feet (rounded)	Share of Total
Redmond	18,200,000	42%
Bellevue	20,500,000	48%
Kirkland	4,300,000	10%
Eastside Total	43,000,000	

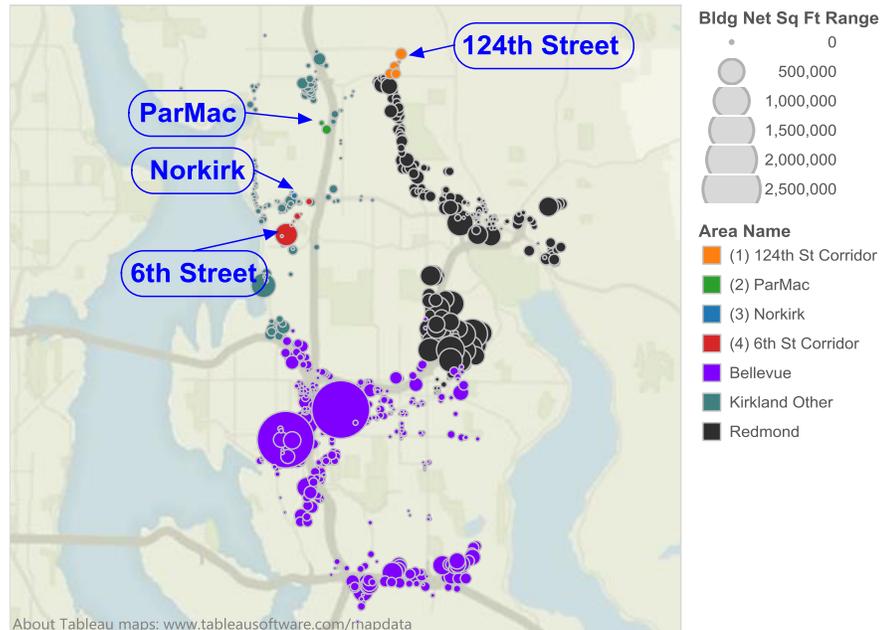
City of Kirkland Distribution	Square Feet (rounded)	Share of Total
124th St Corridor	320,000	7%
ParMac	80,000	2%
6th St Corridor	30,000	1%
Norkirk	450,000	10%
Kirkland Remainder	3,430,000	80%
City of Kirkland Total	4,300,000	

Source: King County Assessor, Heartland LLC

Figure 5 and Figure 6 illustrate that the majority of the Eastside inventory, at 48%, is in Bellevue, but that Redmond is not far behind with approximately 42% of the total office square footage. Bellevue’s CBD is a significant contributor to the existing office inventory totaling 10.8 million square feet or 25% of the total inventory, while the office buildings in the Microsoft Campus total 7.6 million or 18% of the total inventory.

The current pipeline of office inventory totals 8.8 million square feet⁴, which, if built, would add 20% more square footage to the existing inventory. This figure includes only 500,000 of the first 3,000,000 square feet planned at the Spring District in the Bel-Red Corridor and does not include the 2.4 million square foot Rockefeller Towers in Bellevue’s CBD, which are initially planned for office. Excluding these two multi-phased megaprojects, Bellevue accounts for 69% of planned new office developed in the Eastside. While Bellevue is squarely in the path of office development based on the current set of planned projects, Kirkland is a distant second with 1.6 million square feet planned or 18% of the total pipeline. Of that total, 1.2 million is attributed to the Park Place project which is currently undergoing a re-programming process that will likely lower the

Figure 6: Eastside Office Square Footage Distribution Map



About Tableau maps: www.tableausoftware.com/mapdata

Source: King County Assessor, Heartland

⁴ Development projects in Kirkland, Redmond, and Bellevue as listed in CoStar.

amount of planned office square footage for this project. The City’s other major project of note is Google Phase II. This owner/user office building will total 180,000 square feet when completed. There are three other projects being planned in the City that total 212,000 square feet; however, like Park Place, there has been no construction start date reported. No office development projects in the Study Areas have been reported. Despite zoning that permits office development, the Study Areas are not presently in the developers’ crosshairs. Based on our observations of the current market fundamentals (discussed below), conversations with brokers and developers, and the development community’s clear focus in Bellevue we believe that new office development is unlikely in the near future in the Study Areas. The only exception to this conclusion may be an owner/user that finds a portion of the Study Areas uniquely attractive to its business plans; however, the probability of realizing this scenario is low.

Market Fundamentals

The inventory patterns illustrate the City and the Study Areas relevance in the Eastside office market, the market indicators indicate a sound fundamentals that – based on the pipeline of projects - supports new development in certain areas of the Eastside. This information helps to inform the land/value equation discussion found in the following Implementation Considerations Assessment section. The overall vacancy rate is very strong at 8.5%. This is below the 5-year average vacancy rate of 10.0%. The average gross asking rate for office space in the Eastside is \$29.21 per square foot per year. This is slightly over the 5-year Eastside average asking rate of \$28.23 per square foot per year. Figure 7 shows a snapshot of the current Eastside industrial market fundamentals.

Figure 7: Eastside Office Market Fundamentals

Area	Buildings Surveyed	Average Year Built	Rentable Bldg Square Feet	Vacancy Rate	Avg Rent/SF/Yr*
Study Areas (1) 124th St Corridor	21	1984	627,206	8.0%	\$12.20
(2) ParMac	4	1976	147,692	40.5%	\$13.50
(3) Norkirk	4	1981	41,226	4.0%	\$19.80
(4) 6th St Corridor	15	1992	548,869	1.7%	\$19.20
Kirkland Remainder	283	1975	4,933,290	8.3%	\$22.10
Bellevue	687	1980	25,805,786	10.4%	\$22.90
Redmond	400	1985	19,428,846	6.0%	\$17.80
Total	1,414	1980	51,532,915	8.5%	\$21.20

Source: CoStar

Note: Rent represents gross asking rent

Figure 7 also summarizes the market fundamentals for the Study Areas. Combined, the Study Areas have a vacancy rate of 8.9%, which is slightly higher than the overall Eastside vacancy rate. While the average rental rate for space in the Study Areas is well below the Eastside average at \$13.47 per square foot the vacancy rate low is consistent with the

greater Eastside. While the vacancy rate for the Study Areas on average is consistent with (and not lower than) the Eastside vacancy rate it is still a low overall rate indicating strong utilization of existing space.

IMPLEMENTATION CONSIDERATIONS ASSESSMENT

As the City considers its updates to the 2035 Comprehensive Plan related to land use and economic goals for the Study Areas, it needs to understand how these areas currently function and how they may evolve given market trends and current land use regulations. The intent of this assessment is to offer potential regulatory modifications and other initiatives for each Study Area (if necessary) that may help encourage desired land uses based on policy objectives. This section will first provide an explanation of the land/value equation that illustrates why new office development is unlikely in the near term using recent transactions and a residual land value analysis. Then we will provide an assessment of each Study Area and offer considerations for each that may help implement the policy objectives. A more detailed assessment of each Study Area will be presented in Appendix B.

Land/Value Equation & Redevelopment

Understanding current land values and what that potentially means for new office development is an important data point for assessing it as a future land use, assuming that is the policy direction. In this section recent transaction observations will be compared to a simple residual land value analysis for a hypothetical office development. Improved sales in the Study Areas dating back to 2011 properties were generally between roughly \$30 and \$70 per square foot on the land depending on the quality of the building. All of these transactions were closed by owner/users and not by investors. The recent transactions in the 124th Street Corridor Study area include the following:

- In 2013 Cardinal Heating & AC moved into a building sub-area 4b and paid \$59 per square on the land.
- In 2012 there were two transactions in the Willows 124 flex industrial business park.
 - Nabtesco Aerospace bought its building for \$42 per square foot; and
 - Icom America, a radio and navigation manufacturer bought its building for \$48 per square foot on the land.
- Silicon Designs, a materials manufacturer that supplies the aerospace and other industries, bought its building in 2011 for \$34 per square foot on the land.
- Astronics bought its headquarters in 2011 for roughly \$17 per square foot on the land under distressed sale conditions.

In the ParMac area there were two sales involving improved land that transacted for under \$30 per square foot on the land.

- In 2013 Systima Technologies, an advanced technologies firm, bought its 62,000 square foot headquarters for \$28 per square foot on the land.
- In 2011 Wing Lum, President of Boxwave, bought its 10,000 square foot building for manufacturing its product for \$21 per square foot on the land.

Only three sales in the Norkirk/6th Street Corridor occurred between 2011 and 2013 with each closing in 2012.

- Turman Commercial Painters bought its 4,000 square foot building on 12,000 square feet of land for \$72 per square foot. This property is located in the Norkirk Study Area.
- Northwest Storage Properties bought the Kirkland Way Building for \$53 per square foot on the land and converted it into ministorage.
- Nytec, a product design and engineering firm, bought its 18,000 square foot innovate center building near Google Phase II for \$117 per square foot on the land.

There were also two unimproved property sales that transacted for just under \$20 per square foot on the land. These include the O'Brien Automotive land purchase (used for auto storage) at \$16 per square foot, and the Backus purchase of the adjoining property for \$19 per square foot as a long-term investment. Both of these transactions were for land located in the 124th Street Corridor.

When comparing these values to the residual land value of a hypothetical 160,000 square foot, 4-story office development on a 150,000 square foot parcel, the challenges for new development become clear. Using typical development cost inputs, and a rental rate of \$25 per square foot gross as observed for this area with a capitalization rate of 5.5%, we see that the value a developer would pay for the land to develop that project is less than \$0. If rents were to increase to \$30 per square foot the RLV is roughly \$30 per square foot on the land. What this analysis suggests is that in order for new office to be considered feasible in the Study Areas, gross rents would need to exceed \$30 per square foot. This supports the thesis that absent a momentum creating catalytic project that may prove the market for future developments, the Study Areas will likely remain with the current uses, or permitted interim uses, in place until market rents increase to support new development.

Finally, certain public investments may help spur new investment in the Study Areas, such as the development of a district stormwater management system, right of way infrastructure improvements, or enhanced amenities such as parks. Such investments could help create a higher functioning and aesthetic area as well as offset some costs to a developer; however, these will not necessarily translate to higher rental rates. It would be risky to speculatively make such investments without synchronizing them with new planned developments. On the other hand, a firm vision, implementation plan, and secured funding for the Cross Kirkland Corridor (the “CKC”) would be a City-wide benefit for its transportation network depending how exactly it is used (pedestrian/bike with or with rail transit). The development and implementation of the CKC that may connect businesses and households to a regional system would have a stronger direct impact on the Study Areas compared a CKC that is used for pedestrians and bikers like the Burke-Gilman Trail.

Study Area Implementation Considerations

This section is effectively the end point of the process laid out in the decision tree found in Appendix A. Assuming the regulatory conditions in the Study Area are not conducive to supporting the alternative land use (Q4 in the Appendix) then land use code modifications may be considered. Generally, these modifications could either be height, bulk and mass changes or changes to the uses permitted by zoning. It is at this point that the following key policy question needs to be asked to determine whether the land use code helps or hinders the City in achieving its policy and fiscal goals. Questions that may be considered are:

- Is the goal to meet Comp Plan employment growth targets? If so, then will the code support uses that generate the most jobs or the specific type of jobs needed to meet the goal? To accomplish this goal encouraging office development may be desired.
- Is the goal to achieve economic development goals by attracting specific businesses, such as high-tech research and development/manufacturing businesses or technology firms? If so, then is the code in anyway dis-incentivizing businesses from locating in the target area?
- Is the goal to achieve fiscally driven goals then will the businesses that are most likely to be attracted to the area generate sufficient tax revenue to support that goal? If so, are the existing uses supporting this goal or will new uses result in greater revenue?

Exhibit B provides a detailed assessment of each Study Area. This assessment includes a context map identifying the Study Area, an overview of the existing land use code and an evaluation of the business ecology – or the mix of businesses that are located in the Study Area. The information contained in the appendix can be leveraged to better understand the current dynamics in the Study Area relative to the City and broader Eastside. In light of the more detailed assessment in Exhibit B, the following narrative summarizes that analysis and provides some insights into potential land use code modifications for each Study Area.

124TH STREET CORRIDOR

Overall, the 124th Street Corridor is primarily comprised of industrial buildings that in general are well tenanted. The market fundamentals shown in Figure 3 show that the vacancy rate for this area is just under 4%. The business ecology of the Study Area is also diverse in its services, but over 90% of the jobs are tied to either industrial businesses (with an emphasis on aerospace/high-tech) or auto dealerships. There are also a number of professional services provided by the businesses in this area that range from a plumbing wholesaler, to a residential and commercial windows company, to a number of auto services related businesses. Another interesting dynamic in this area is that much of the building inventory is tenanted by the owner. This is a unique dynamic in that owner/users are not as likely to convert their land into non-industrial uses unless business reasons encourage a sale. Overall, this Study Area is generally healthy from a business ecology and utilization perspective with its vacancy rate under 5%.

The land use code is flexible in terms of permitted uses and the height, bulk, and mass regulations will allow for functional commercial buildings to be developed when the market supports such activity. The 45-foot maximum building height is reasonable given the City’s current policy goals. That said, if there is a land capacity deficiency

found by the City based on its current Buildable Land Study for future office product to support its employment goals then this Study Area could be one part of the City that could stand for additional capacity through height. On the other hand, the current types of services and jobs the industrial businesses provide as well as the sales tax revenue each generate may already contribute to the City's long-range objectives. If this is the case - and there is capacity elsewhere in the City to support office related jobs – then no changes to the code may be necessary.

PARMAC

The current zoning in this Study Area provides enough flexibility to accommodate new commercial development should the market support it or an owner/user choose to develop a headquarters building here. Office buildings are permitted to reach 80-feet in the majority of the ParMac area and multifamily is also permitted throughout the Study Area. From a new development perspective the table in ParMac appears to be set to attract new development.

ParMac's building inventory is currently comprised of 90% industrial buildings and its vacancy rate is just under 5%. This is the highest vacancy rate among the Study Areas; however, it is not far over the Eastside's overall vacancy rate. Of the roughly 150,000 square feet of space characterized as office in this Study Area nearly 60,000 is vacancy representing a vacancy rate of 41%. When taken together, the ParMac area's overall vacancy rate is 10%. This higher vacancy rate is primarily a function of two interrelated factors – building condition and land use regulations. In general, the building stock in this area is dated and functionally obsolete for many modern industrial uses. Investment would be required to support new uses and it appears a special regulation that was recently enacted to limit alternations and modifications to existing buildings may have had an impact. The current regulations do not allow investment in a building of more than 30% of the replacement cost and expansion of the floor area may not exceed 20% of the existing floor area. If either of these conditions is not followed and a change of use occurs, then that change of use must be discontinued with a 12-month period. This regulation as it stands does not encourage new uses of the existing buildings. While the market fundamentals are not sufficient to support new office in this part of the Eastside, this Study Area will struggle to maintain occupancy.

In spite of this regulation limiting investment (or the current businesses that preceded this regulation), there is a very interesting business ecology in the Study Area that is detailed in Appendix B. Traditional industrial uses are not the dominant tenant here with many of the existing buildings being occupied by recreational oriented businesses and commercial kitchens as well as more traditional retail trade businesses like contractors and suppliers.

The code also permits multifamily in this Study Area; however, the regulations are somewhat limiting. For example, multifamily use is permitted throughout the western half of the Study Area (west of the CKC) in mixed use developments only, but this mixed product is unlikely to be developed in the near future. In the specified areas along the western edge of the Parmac area that allows stand-alone multifamily it would likely be in the walk-up garden apartment style. This is because of the limitation of building heights to 30-feet for properties next to low density residential. A further requirement that 10% of the units be affordable is also a condition that may make many developers look for opportunity elsewhere. Finally, the multifamily above office or industrial is unlikely in buildings that only reach 65-feet. If multifamily is deemed a priority for this area then revisiting the land use code may be warranted.

NORKIRK

The Norkirk Study Area has the least amount of building square footage and comprises the fewest businesses of the four Study Areas. It is populated by small businesses that are most indicative of the "workbench" category. Norkirk is well tenanted from an occupancy perspective; there is an excellent mix of businesses that provide jobs to its employees and services to businesses and households alike. Overall, the zoning in this Study Area provides enough flexibility to accommodate low-intensity new development should the market support it or an owner/user choose to develop a headquarters building here.

The building envelope allows maximum heights up to 35-feet in height unless the property is adjoining a low-density residential zone where the maximum height is 25-feet. The reason for having lower maximum building heights compared to zones around Totem Lake and I-405 is to keep in scale with residential areas to the west and to a lesser degree to protect views for residents located to the east. Any proposed height modification may be well received by the market, but may not be supported by the neighborhoods. The lot coverage ratio in this zone varies depending on the use. For most uses the ratio is 80%; however, industrial and hazardous waste treatment and storage uses may increase this ratio to 90%. Office uses may build on a 70% lot coverage ratio. A wide range of industrial and office uses are permitted and there are no regulations similar to ParMac that limit investment in existing buildings.

There is a 60,000 square foot proposed office development in this Study Area named Park Place North, which is currently on hold. This project illustrates the existing market challenges for new office development in the Study Areas. This LEED designed project was first introduced 2008 and was marketed to prospective tenants through the early part of this decade. It has since been put on hold until the market rebounds.

6TH STREET CORRIDOR

The other three Study Areas can clearly be most classified as workbenches; however as Google's presence continues to expand in the 6th Street Corridor, some of the industrial stock could turnover to non-industrial uses. There are a total of 70 businesses operating out of this Study Area with 1,320 employees. Unlike the other three Study Areas, half the businesses in this Study Area are F.I.R.E. or professional services office related with the other half comprising industrial jobs – anchored by Western Pneumatic Tube - service related industrial uses such as printing, distribution, construction and repair, and professional services.

Overall, the 6th Street Corridor area is functioning well based on the variety of services it helps provide. The land use code is flexible in terms of permitted uses and the height, bulk, and mass regulations will allow for functional buildings to be developed when the market supports such activity. One consideration for change should office uses be desired for this area would be to increase the lot coverage ratio for office uses from 70% to 80% to be consistent with the rest of the permitted uses. Another would be to increase the maximum building height. We acknowledge this may not be palatable given the broader neighborhood's desire for view protection.

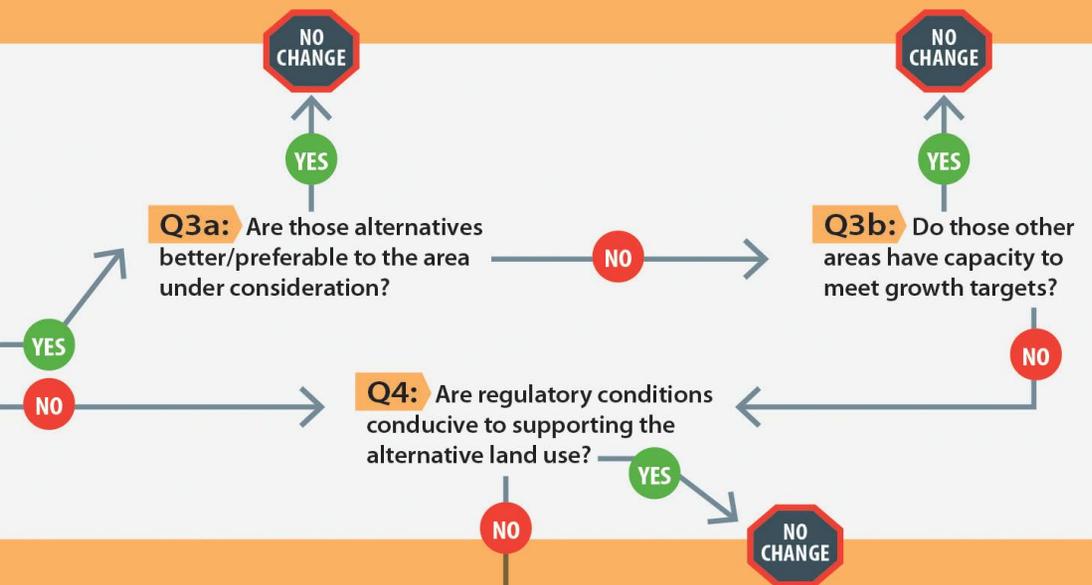
APPENDIX A: DECISION TREE

PORTFOLIO CONSIDERATIONS

FIRST consider your study area.
Each are different in terms of the underlying land use code, building stock, and business ecology.

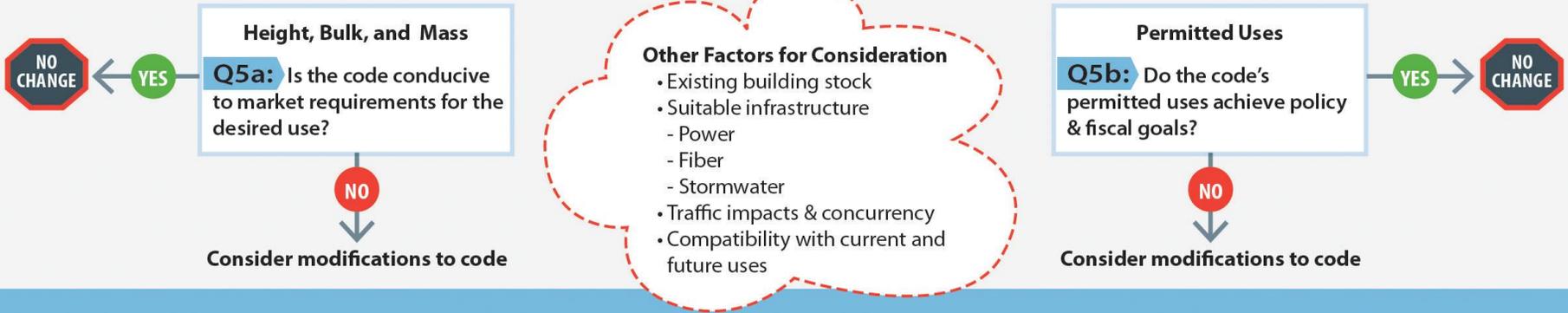
Q1: What are the alternative land uses in the study area to be considered for this decision tree? (Office, Industrial, Multifamily)

Q2: Are there suitable locations for this use elsewhere in the city?

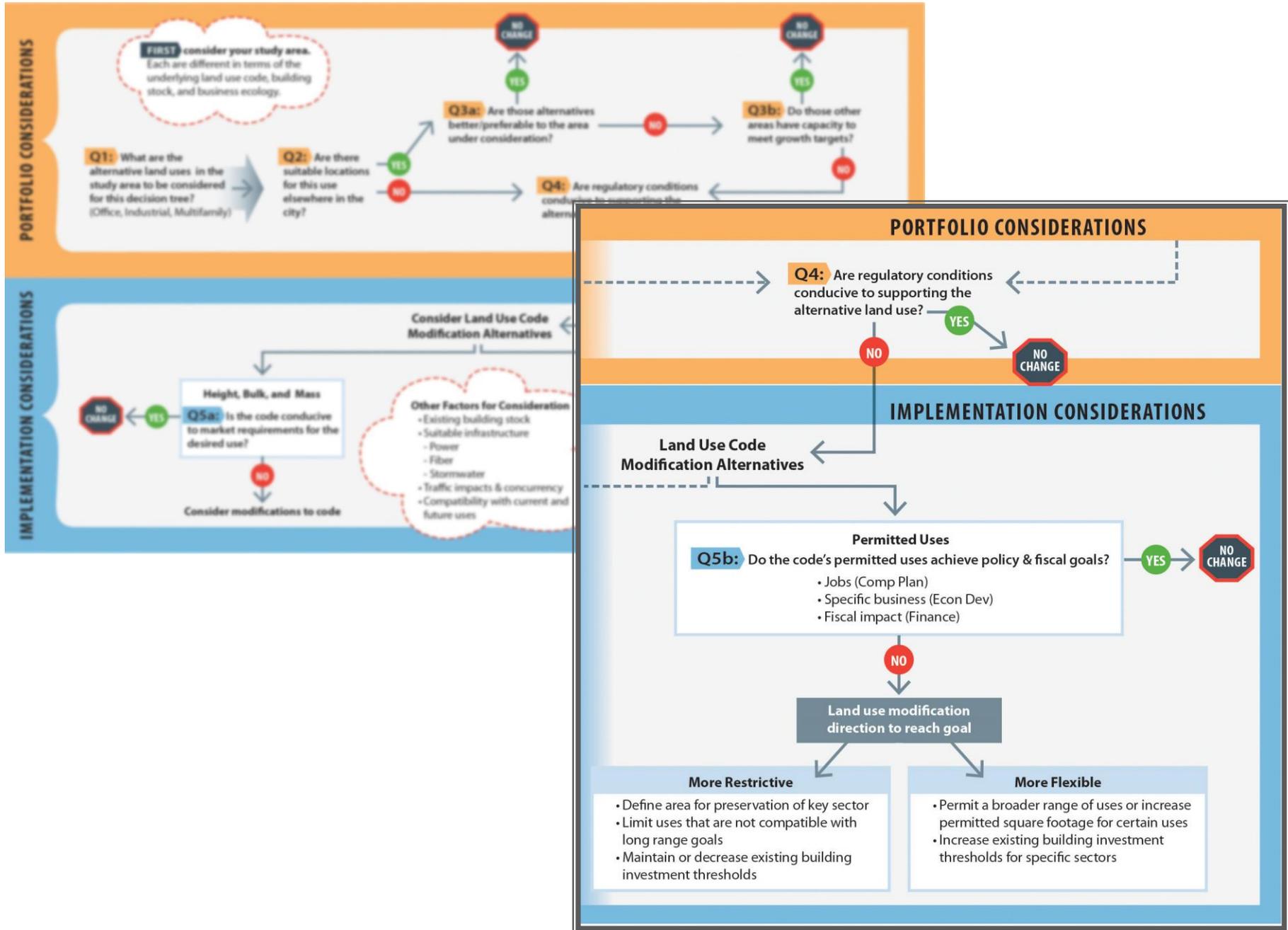


IMPLEMENTATION CONSIDERATIONS

Consider Land Use Code Modification Alternatives



APPENDIX A: DECISION TREE



APPENDIX B: STUDY AREAS SUMMARY

124th Street Corridor Study Area

124th Street Corridor is located east of I-405 and Totem Lake along the north side of Northeast 124th Street. There are three sub-areas that comprise this Study Area; 4a, 4b, and 4c. Sub-area 4a and 4b are zoned TL 7 while sub-area 4c is zoned TL 9A. The Cross Kirkland Corridor Trail travels through this Study Area. The map in Exhibit 1 depicts the location of this Study Area.

Land Use Summary

The TL 7 zone allows for buildings up to 45' in height with a wide range of commercial uses permitted. Some of the more notable permitted uses include:

- Office,
- High-tech,
- Industrial;
- General retail (only on properties between the CKC and NE 124th St west of 135th Ave NE);
- Lodging;
- Entertainment or recreational facilities;
- Vehicle or boat sales and repairs; and
- Service oriented retail such as warehouse storage, construction, plumbing, electrical, etc.

The lot coverage ratio is 80% for almost all uses. The exception is a nod to industrial uses such as manufacturing, warehousing, and storage, which has a less restrictive ratio of 90%.

Finally, retail storage cannot be developed within 150-feet of the CKC and for properties located within 150-feet of the CKC restaurants and taverns are permitted outright and accessory retail sales may be up to 50% of the gross floor area as opposed to 35% for properties not within 150-feet of the CKC.

The land use code in the TL 9A zone is not significantly different than the TL 7 zone. Uses that are not permitted here, but are permitted in the TL 7 zone include lodging, general retail, vehicle or boat sales, and recreation or entertainment facilities. Two other differences are that accessory retail or office uses to an industrial building cannot exceed 20% (unless it is within 150-feet of the CKC) and the lot coverage ratio for office developments is more restrictive at 70%.

Overall, the zoning in this Study Area provides enough flexibility to accommodate new development should the market support it or an owner/user choose to develop a headquarters building here.

Exhibit 1: 124th St. Corridor Context Map



APPENDIX B: STUDY AREAS SUMMARY

Inventory Assessment & Business Ecology

Exhibit 2 summarizes the composition of buildings in this Study Area. The inventory here is primarily comprised of industrial buildings relative to total net building square footage. The building square footage in this Study Area is comprised of 63% industrial space and 24% office and high tech/flex space. In general, high tech space is comprised of at least 70% office space with the remaining square footage used for production or warehousing. Understanding the building inventory is useful; however, to assess the ecology of uses that comprise this Study Area blending this building information with businesses operating in these buildings is more revealing.

Exhibit 2: 124th St. Corridor Building Inventory Summary

	Building Type			
	Industrial	Tech/Flex	Office	Other
Bldg Count	28	3	4	12
Total Net Square Feet	836,980	219,459	100,382	176,020
% of Total Net Square Feet	63%	16%	8%	13%
Average Year Built	1983	1997	1989	1984

Source: King County Assessor, Heartland

Exhibit 3 blends the building information with the types of businesses operating within these structures. The business categories in this Exhibit are grouped by the NASIC code that each business inputs when it applies for its business license. In general, industrial businesses are those listed as construction, manufacturing, wholesale trade, and warehousing. Retail services and good providers are those businesses in the retail trade sector which is a broad category that ranges from auto sales to engineering services to retail stores. F.I.R.E and professional services are typically office space users that provide services to businesses and households. This category includes technology firms such as Google. The other category is comprised of a wide range of businesses that do not fit into the prior three categories. Examples of “other” businesses include lodging, recreation, food services such as catering, and automotive repair.

Exhibit 3: 124th St. Corridor Business Ecology Summary

		Business Categories				Total by Buildg Type
		Industrial	Retail Service & Goods Providers	FIRE & Professional Services	Other	
Building Type	Industrial	Businesses: 45 Employees: 1,062 Avg Emp/Business: 24 Avg Yr Blt: 1985 Avg Bldg Sq Ft: 39,141	Businesses: 22 Employees: 121 Avg Emp/Business: 6 Avg Yr Blt: 1980 Avg Bldg Sq Ft: 56,898	Businesses: 21 Employees: 170 Avg Emp/Business: 8 Avg Yr Blt: 1985 Avg Bldg Sq Ft: 29,186	Businesses: 22 Employees: 80 Avg Emp/Business: 4 Avg Yr Blt: 1982 Avg Bldg Sq Ft: 44,694	Businesses: 110 Employees: 1,433 Avg Emp/Business: 13 Avg Yr Blt: 1983 Avg Bldg Sq Ft: 41,720
	Office	Businesses: 3 Employees: 60 Avg Emp/Business: 20 Avg Yr Blt: 1992 Avg Bldg Sq Ft: 28,140	Businesses: 3 Employees: 7 Avg Emp/Business: 2 Avg Yr Blt: 1985 Avg Bldg Sq Ft: 13,951	Businesses: 6 Employees: 28 Avg Emp/Business: 5 Avg Yr Blt: 1983 Avg Bldg Sq Ft: 18,134	Businesses: 7 Employees: 16 Avg Emp/Business: 2 Avg Yr Blt: 1984 Avg Bldg Sq Ft: 18,754	Businesses: 19 Employees: 111 Avg Emp/Business: 6 Avg Yr Blt: 1985 Avg Bldg Sq Ft: 19,282
	Other	Businesses: 1 Employees: 9 Avg Emp/Business: 9 Avg Yr Blt: 1988 Avg Bldg Sq Ft: 4,280	Businesses: 8 Employees: 282 Avg Emp/Business: 35 Avg Yr Blt: 1984 Avg Bldg Sq Ft: 12,073	Businesses: 2 Employees: 28 Avg Emp/Business: 14 Avg Yr Blt: 1986 Avg Bldg Sq Ft: 8,962	Businesses: 5 Employees: 34 Avg Emp/Business: 7 Avg Yr Blt: 1988 Avg Bldg Sq Ft: 14,766	Businesses: 16 Employees: 353 Avg Emp/Business: 22 Avg Yr Blt: 1986 Avg Bldg Sq Ft: 12,039
	Total by Business Category	Businesses: 49 Employees: 1,131 Avg Emp/Business: 23 Avg Yr Blt: 1986 Avg Bldg Sq Ft: 37,633	Businesses: 33 Employees: 410 Avg Emp/Business: 12 Avg Yr Blt: 1981 Avg Bldg Sq Ft: 41,174	Businesses: 29 Employees: 226 Avg Emp/Business: 8 Avg Yr Blt: 1985 Avg Bldg Sq Ft: 25,504	Businesses: 34 Employees: 130 Avg Emp/Business: 4 Avg Yr Blt: 1983 Avg Bldg Sq Ft: 34,952	Businesses: 145 Employees: 1,897 Avg Emp/Business: 13 Avg Yr Blt: 1984 Avg Bldg Sq Ft: 35,236

Source: King County Assessor, Heartland

APPENDIX B: STUDY AREAS SUMMARY

Exhibit 3 shows that the 124th Street Corridor is a “workbench” for the city and the Eastside in terms of the categories of businesses that operate from here. There are a total of 145 businesses operating out of this Study Area with 1,900 employees. The majority of the businesses are either industrial in nature or they provide goods and services such as auto repair, plumbing, contracting, or windows, to name a few. Only 130 or 7% of the jobs are categorized as typical office jobs and this should come as no surprise since roughly 7% of the building stock is categorized as office.

What this Exhibit does not show is the actual businesses that operate in this Study Area. The top 10 firms total 1,098 jobs or almost 60% of the employment in this area. Exhibit 4 shows the largest employers in this Study Area.

Exhibit 4: 124th St. Corridor Business Ecology Summary

Firm	Sector	Speciality	Employees	% of Study Area Total
Astronics	Aerospace	Lighting and electronics systems	388	20.6%
Toyota of Kirkland	Car sales		142	7.5%
Nintendo	Technology	Distribution	125	6.6%
Rairdon's Chrysler Jeep	Car sales		81	4.3%
Macro Technologies	High tech	Precision components	80	4.2%
DeYoung Manufacturing	Aerospace	Electro-magnetic components	77	4.1%
Mantis Technology Group	Technology	Big data and business intelligence	62	3.3%
LANCS Industries	High tech	Radiation shielding products	57	3.0%
Nabtesco Aerospace	Aerospace	Control systems	47	2.5%
Silicon Designs	Aerospace +	Accelerometers	39	2.1%
			TOP 10 TOTAL: 1,098	58.2%

Source: King County Assessor, City of Kirkland, Heartland

APPENDIX B: STUDY AREAS SUMMARY

ParMac Study Area

The ParMac Study Area is located west of I-405 and south of Northeast 116th Street. There are three zones in this Study Area; TL 10C, TL 10D, and TL 10E. The CKC travels through this Study Area. The map in Exhibit 5 on the following page depicts the location of this Study Area.

Land Use Summary

The permitted uses in the TL 10 zones similar to those in the 124th Street Corridor Study Area⁵ with one difference of note. Stand-alone multifamily is permitted in the TL 10C and TL 10D zones on specific parcels along the western edge of this area; however it is permitted throughout these two zones if it is built above an industrial or office use. The lot coverage ratio is 80% for all permitted uses.

In the TL 10D and TL 10E zones industrial buildings may be as high as 35-feet, multifamily up to 65-feet and office up to 80-feet. In the TL 10C zone industrial is permitted up to 35-feet, but office may be no higher than 45-feet and multifamily may build up to 65-feet. In this zone there are height setbacks for properties fronting Northeast 116th Street if a developer wishes to build above 35-feet within 40-feet of the road. In all three zones, if a multifamily development is adjacent to a low-density residential zone then the maximum building height is only 30-feet.

A special regulation was recently enacted limit alternations and modifications to existing buildings to no more than 30% of the replacement cost and expansion of the floor area may not exceed 20% of the existing floor area. If either of these conditions is not followed and a change of use occurs, then that change of use must be discontinued with a 12-month period.

Finally, retail storage cannot be developed within 150-feet of the CKC and for properties located within 150-feet of the CKC restaurants and taverns are permitted outright and accessory retail sales may be up to 50% of the gross floor area as opposed to 20% for properties not within 150-feet of the CKC.

Given supporting market fundamentals, the land use regulations for Study Area are conducive to accommodate office developments. Should the policy goals for this Study Area shift to encourage multifamily development then land use code modifications should be considered.

Inventory Assessment & Business Ecology

Exhibit 6 summarizes the composition of buildings in this Study Area. The inventory here is primarily comprised of industrial buildings relative to total net building square footage. The building square footage in this Study Area is comprised of 88% industrial. Understanding the building inventory is useful; however, to assess

Exhibit 5: ParMac Context Map

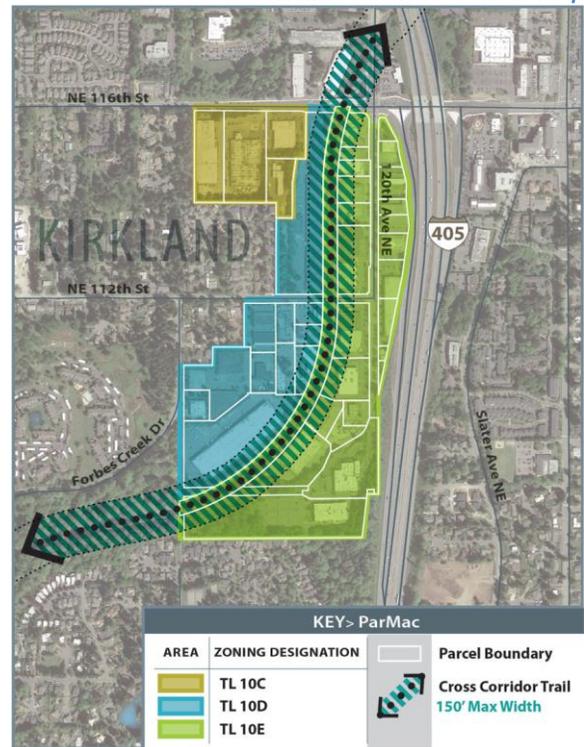


Exhibit 6: ParMac Building Inventory Summary

	Building Type			
	Industrial	High Tech/Flex	Office	Other
Bldg Count	27	1	1	4
Total Net Square Feet	932,029	60,209	18,480	52,132
% of Total Net Square Feet	88%	6%	2%	5%
Average Year Built	1976	1966	1974	1971

Source: King County Assessor, Heartland

⁵ See 124th Street Corridor assessment to view the list of permitted uses for the ParMac Study Area.

APPENDIX B: STUDY AREAS SUMMARY

the ecology of uses that comprise this Study Area blending this building information with businesses operating in these buildings is more revealing.

Similar to Exhibit 3 in the 124th Street Corridor assessment, Exhibit 7 blends the building information with the types of businesses operating within these structures.

Exhibit 7: ParMac Business Ecology Summary

		<u>Business Categories</u>				
		Industrial	Retail Service & Goods Providers	FIRE & Professional Services	Other	Total by Buildg Type
Building Type	Industrial	Businesses: 37 Employees: 458 Avg Emp/Business: 12 Avg Yr Blt: 1977 Avg Bldg Sq Ft: 53,080	Businesses: 16 Employees: 40 Avg Emp/Business: 3 Avg Yr Blt: 1980 Avg Bldg Sq Ft: 38,010	Businesses: 11 Employees: 45 Avg Emp/Business: 4 Avg Yr Blt: 1979 Avg Bldg Sq Ft: 40,243	Businesses: 21 Employees: 146 Avg Emp/Business: 7 Avg Yr Blt: 1977 Avg Bldg Sq Ft: 51,967	Businesses: 85 Employees: 689 Avg Emp/Business: 8 Avg Yr Blt: 1978 Avg Bldg Sq Ft: 48,374
	Office	Businesses: 3 Employees: 34 Avg Emp/Business: 11 Avg Yr Blt: 1974 Avg Bldg Sq Ft: 18,480	Businesses: 2 Employees: 6 Avg Emp/Business: 3 Avg Yr Blt: 1974 Avg Bldg Sq Ft: 18,480			Businesses: 5 Employees: 40 Avg Emp/Business: 8 Avg Yr Blt: 1974 Avg Bldg Sq Ft: 18,480
	Other	Businesses: 2 Employees: 29 Avg Emp/Business: 15 Avg Yr Blt: 1979 Avg Bldg Sq Ft: 4,885	Businesses: 2 Employees: 57 Avg Emp/Business: 29 Avg Yr Blt: 1963 Avg Bldg Sq Ft: 21,181	Businesses: 1 Employees: 7 Avg Emp/Business: 7 Avg Yr Blt: 1963 Avg Bldg Sq Ft: 13,162		Businesses: 5 Employees: 93 Avg Emp/Business: 19 Avg Yr Blt: 1969 Avg Bldg Sq Ft: 13,059
	Total by Business Category	Businesses: 42 Employees: 521 Avg Emp/Business: 12 Avg Yr Blt: 1977 Avg Bldg Sq Ft: 48,197	Businesses: 20 Employees: 103 Avg Emp/Business: 5 Avg Yr Blt: 1977 Avg Bldg Sq Ft: 34,183	Businesses: 12 Employees: 52 Avg Emp/Business: 4 Avg Yr Blt: 1978 Avg Bldg Sq Ft: 37,986	Businesses: 21 Employees: 146 Avg Emp/Business: 7 Avg Yr Blt: 1977 Avg Bldg Sq Ft: 51,967	Businesses: 95 Employees: 822 Avg Emp/Business: 9 Avg Yr Blt: 1977 Avg Bldg Sq Ft: 44,868

Source: King County Assessor, City of Kirkland, Heartland

Exhibit 7 shows that the ParMac area can be classified as a workbench, like the 124th Street Corridor, it is comprised of fewer businesses, fewer employees and fewer high-tech suppliers. There are a total of 95 businesses operating out of this Study Area with 822 employees. The average building age in this Study Area is 1977 supporting the assertion that the inventory in ParMac is dated and for many industrial uses functionally obsolete. The majority of the businesses are either industrial in nature or they provide goods and services such as auto repair, commercial kitchens, contracting, or kitchen remodeling, to name a few.

What this Exhibit does not show is the actual businesses that operate in this Study Area. The top 10 firms total 390 jobs or almost 50% of the employment in this area. The majority of businesses

Exhibit 8: ParMac Significant Businesses

employ fewer than 20 people (88%). The range of businesses is also more diverse with manufacturers, commercial kitchens, a significant concentration of indoor recreation facilities, and construction firms. Auto sales and repair services are also prominent in this Study Area. Exhibit 8 shows the largest employers in the ParMac area.

Firm	Sector	Speciality	Employees	% of Study Area Total
Medrad Inc	Manufacturing	Medical devices	116	14.1%
Eastside Subaru	Car Sales		48	5.8%
GTS Interior Supply	Construction	Building supplies	37	4.5%
Skymaina!	Recreation		33	4.0%
Gai's Northwest Bakery	Food Services	Commercial kitchen	30	3.7%
Charles Loomis Lighting	Manufacturing	Interior lighting	27	3.3%
Edge Concrete Construction	Construction		26	3.2%
United Business Machines	Retail Trade	Office equipment and service	25	3.0%
Hopelink	Food Services	Warehouse and retail	24	2.9%
Maintco	Construction	Residential and commercial repair	24	2.9%
			TOP 10 TOTAL: 390	47.4%

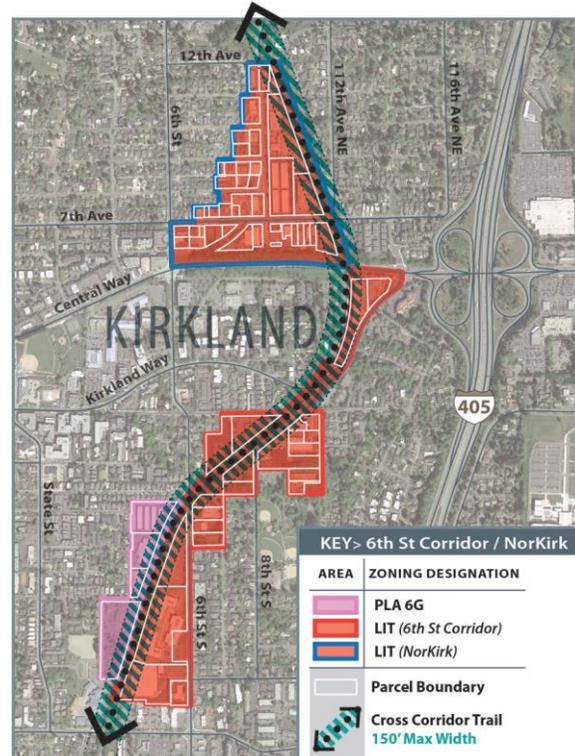
Source: King County Assessor, Heartland

APPENDIX B: STUDY AREAS SUMMARY

Norkirk Study Area

The Norkirk Study Area is located west of I-405 and north of Northeast 85th Street. The only zoning designation in this area is Light Industrial Technology (LIT). The Cross Kirkland Corridor Trail travels through this Study Area. The map in Exhibit 9 depicts the location of this Study Area and well as the 6th Street Corridor Study Area. Norkirk is the northern portion.

Exhibit 9: Norkirk Context Map



Land Use Summary

The LIT zone allows for buildings up to 35-feet in height unless the property is adjoining a low-density residential zone where the maximum height is 25-feet. The reason for lower these maximum building heights is to protect views for residents located to the east.

This zone permits a wide range of commercial uses permitted. Some of the more notable permitted uses include:

- Office,
- High-tech,
- Industrial including hazardous treatment and storage;
- Auto sales;
- Entertainment or recreational facilities;
- Vehicle or boat sales and repairs; and
- Service oriented retail such as rental equipment, banking, and warehouse storage.

The lot coverage ratio in this zone varies depending on the use. For most uses the ratio is 80%; however, industrial and hazardous waste treatment and storage uses may increase this ratio to 90%. Office uses may build on a 70% lot coverage ratio.

Inventory Assessment & Business Ecology

Exhibit 10 summarizes the composition of buildings in this Study Area. The inventory here is primarily comprised of industrial buildings and service related retail buildings. The building square footage in this Study Area is comprised of 42% industrial and 52% service related retail.

Understanding the building inventory is useful; however, to assess the ecology of uses that comprise this Study Area blending this building information with businesses operating in these buildings is more revealing.

Exhibit 10: Norkirk Building Inventory Summary

	Building Type			
	Industrial	High Tech/Flex	Office	Other
Bldg Count	14	0	2	15
Total Net Square Feet	158,999	0	25,456	196,262
% of Total Net Square Feet	42%	0%	7%	52%
Average Year Built	1978	0	1943	1979

Source: King County Assessor, Heartland

APPENDIX B: STUDY AREAS SUMMARY

Exhibit 11 blends the building information with the types of businesses operating within these structures. This shows that of all the Study Areas, Norkirk can be most classified as a “workbench.” There are a total of 68 businesses operating out of this Study Area with 374 employees. The majority of the businesses are either service related industrial uses such as printing, distribution, construction and repair, and professional services. There are

Exhibit 11: Norkirk Business Ecology Summary

		Business Categories				
		Industrial	Retail Service & Goods Providers	FIRE & Professional Services	Other	Total by Buildg Type
Building Type	Industrial	Businesses: 13 Employees: 143 Avg Emp/Business: 11 Avg Yr Blt: 1982 Avg Bldg Sq Ft: 12,257	Businesses: 2 Employees: 15 Avg Emp/Business: 8 Avg Yr Blt: 1978 Avg Bldg Sq Ft: 8,594	Businesses: 6 Employees: 41 Avg Emp/Business: 7 Avg Yr Blt: 1984 Avg Bldg Sq Ft: 8,903	Businesses: 5 Employees: 13 Avg Emp/Business: 3 Avg Yr Blt: 1978 Avg Bldg Sq Ft: 8,046	Businesses: 2 Employees: 21 Avg Emp/Business: 10.5 Avg Yr Blt: 198 Avg Bldg Sq Ft: 10,39
	Office			Businesses: 14 Employees: 57 Avg Emp/Business: 4 Avg Yr Blt: 1972 Avg Bldg Sq Ft: 22,179	Businesses: 7 Employees: 9 Avg Emp/Business: 1 Avg Yr Blt: 1939 Avg Bldg Sq Ft: 11,206	Businesses: 2 Employees: 6 Avg Emp/Business: 3 Avg Yr Blt: 196 Avg Bldg Sq Ft: 18,52
	Other	Businesses: 8 Employees: 25 Avg Emp/Business: 3 Avg Yr Blt: 1983 Avg Bldg Sq Ft: 27,811	Businesses: 1 Employees: 25 Avg Emp/Business: 25 Avg Yr Blt: 1964 Avg Bldg Sq Ft: 8,550	Businesses: 4 Employees: 12 Avg Emp/Business: 3 Avg Yr Blt: 1966 Avg Bldg Sq Ft: 4,655	Businesses: 8 Employees: 34 Avg Emp/Business: 4 Avg Yr Blt: 1982 Avg Bldg Sq Ft: 12,197	Businesses: 2 Employees: 9 Avg Emp/Business: 4.5 Avg Yr Blt: 197 Avg Bldg Sq Ft: 16,53
	Total by Business Category	Businesses: 21 Employees: 168 Avg Emp/Business: 8 Avg Yr Blt: 1983 Avg Bldg Sq Ft: 18,182	Businesses: 3 Employees: 40 Avg Emp/Business: 13 Avg Yr Blt: 1973 Avg Bldg Sq Ft: 8,579	Businesses: 24 Employees: 110 Avg Emp/Business: 5 Avg Yr Blt: 1974 Avg Bldg Sq Ft: 15,939	Businesses: 20 Employees: 56 Avg Emp/Business: 3 Avg Yr Blt: 1966 Avg Bldg Sq Ft: 10,812	Businesses: 6 Employees: 37 Avg Emp/Business: 6.2 Avg Yr Blt: 197 Avg Bldg Sq Ft: 14,79

Source: King County Assessor, City of Kirkland Heartland

no major employers in this area, with the largest company – Paint Sundries Solutions employing 45 people. Like ParMac, most of the businesses in this Study Area have fewer than 10 people with the average business size at 6 people.

What this Exhibit 11 does not show is the actual businesses that operate in this Study Area. The top 10 firms total 210 jobs or 56% of the employment in this area. Exhibit 12 shows the largest employers in this Study Area.

Exhibit 12: Norkirk Significant Businesses

Firm	Sector	Speciality	Employees	% of Study Area Total
Paint Sundries Solutions	Distribution	Paints	45	12.0%
Leatherback Publishing	Information	Printing	32	8.6%
Boxwave Corporation	Manufacturing	Mobile device accessories	25	6.7%
DR Strong Consulting Engineers	Professional Ser	Civil engineering	22	5.9%
Modular Electric	Retail Trade	Electricians	19	5.1%
ORB Optronix	Manufacturing	LED lighting	18	4.8%
McLeod Autobody	Retail Trade	Auto service	15	4.0%
Overlake Oil Inc	Retail Trade	Oil distribution	13	3.5%
Nion Company	Manufacturing	Electron-optical instruments	11	2.9%
Washington Commercial Painters	Retail Trade	Painting	10	2.7%
TOP 10 TOTAL:			210	56.1%

Source: King County Assessor, City of Kirkland, Heartland

Overall the zoning envelope in Norkirk is sufficient to provide the market with the flexibility develop to develop low intensity commercial uses. The office market was recently tested with the proposed 60,000 square foot Park

APPENDIX B: STUDY AREAS SUMMARY

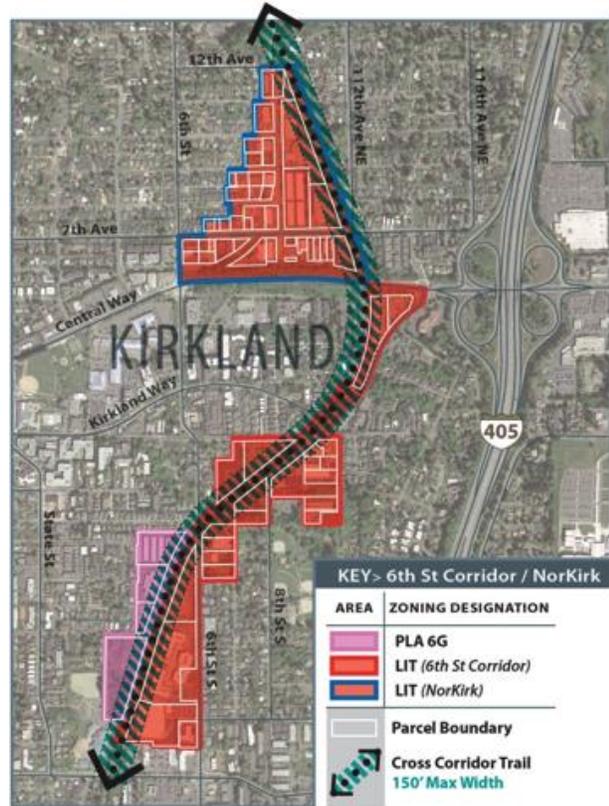
Place North project that as first introduced in 2008. While elegantly designed and well marketed, there was not sufficient interest from prospective tenants at the asking rents to support this projects development. It has since been placed on hold. This indicates that the land use will likely not convert to non-industrial uses in the near term.

APPENDIX B: STUDY AREAS SUMMARY

6th Street Corridor Study Area

The 6th Street Corridor Study Area straddles the CKC and is located west of I-405 and south of Northeast 85th Street. This Study Area comprises two zoning designations; LIT and Planned Area (PLA 6G). The map in Exhibit 13 depicts the location of this Study Area (outlined in red).

Exhibit 13: 6th Street Corridor Context Map



The LIT zone allows for buildings up to 35-feet in height unless the property is adjoining a low-density residential zone where the maximum height is 25-feet. The reason for these maximum building heights is to protect views for residents located to the east of the Study Area.

The permitted uses for the LIT zone are summarized in the Norkirk Study Area section. The permitted uses PLA 6G zone is similar to the LIT zone; but with following key differences:

- Industrial including hazardous treatment and storage is not permitted;
- Entertainment or recreational facilities are not permitted;
- Assisted living is permitted; and
- Residential is permitted, but only south of 7th Avenue South, which is where the second phase of the Google campus is being developed.

The lot coverage ratio in this zone varies depending on the use. For most uses the ratio is 80%; however, industrial and hazardous waste treatment and storage uses may increase this ratio to 90%. Office uses may build on a 70% lot coverage ratio and the lot coverage ratio for assisted living uses is 60%.

Overall, the zoning in this Study Area provides enough flexibility to accommodate low-intensity new development should the market support it or an owner/user choose to develop a headquarters building here.

Exhibit 14 summarizes the composition of buildings in this Study Area. The 6th Street Corridor's inventory is balanced between office and industrial buildings with the introduction of the first phase of Google. The building square footage in this Study Area is comprised currently of 45% industrial, 8% service related retail, and 48% office. When the 180,000 square foot, second phase of the Google campus is completed this Study Area will transition to be 56% office. While understanding the building inventory is useful, to assess the ecology of uses that comprise this Study Area, blending this building information with businesses operating in these buildings is more revealing.

Exhibit 14: 6th Street Corridor Building Inventory Summary

	Building Type			
	Industrial	High Tech/Flex	Office	Other
Bldg Count	15	0	7	3
Total Net Square Feet	415,435	0	445,471	72,252
% of Total Net Square Feet	45%	0%	48%	8%
Average Year Built	1979	0	1984	1977

Source: King County Assessor, Heartland

Exhibit 15 blends the building information with the types of businesses operating within these structures.

APPENDIX B: STUDY AREAS SUMMARY

Exhibit 15: 6th Street Corridor Business Ecology Summary

Business Categories

Building Type	Industrial	Retail Service & Goods Providers	FIRE & Professional Services	Other	Total by Buildg Type
	Industrial	Businesses: 23 Employees: 268 Avg Emp/Business: 12 Avg Yr Blt: 1979 Avg Bldg Sq Ft: 31,691	Businesses: 4 Employees: 14 Avg Emp/Business: 4 Avg Yr Blt: 1977 Avg Bldg Sq Ft: 49,106	Businesses: 10 Employees: 124 Avg Emp/Business: 12 Avg Yr Blt: 1969 Avg Bldg Sq Ft: 51,853	Businesses: 13 Employees: 66 Avg Emp/Business: 5 Avg Yr Blt: 1976 Avg Bldg Sq Ft: 55,409
Office		Businesses: 2 Employees: 35 Avg Emp/Business: 18 Avg Yr Blt: 2004 Avg Bldg Sq Ft: 199,696	Businesses: 12 Employees: 744 Avg Emp/Business: 62 Avg Yr Blt: 2000 Avg Bldg Sq Ft: 57,227	Businesses: 3 Employees: 62 Avg Emp/Business: 21 Avg Yr Blt: 1997 Avg Bldg Sq Ft: 248,838	Businesses: 17 Employees: 841 Avg Emp/Business: 49 Avg Yr Blt: 2000 Avg Bldg Sq Ft: 107,802
Other	Businesses: 1 Employees: 4 Avg Emp/Business: 4 Avg Yr Blt: 2009 Avg Bldg Sq Ft: 15,466	Businesses: 1 Employees: 2 Avg Emp/Business: 2 Avg Yr Blt: 1986 Avg Bldg Sq Ft: 3,168	Businesses: 1 Employees: 1 Avg Emp/Business: 1 Avg Yr Blt: 1991 Avg Bldg Sq Ft: 55,796		Businesses: 3 Employees: 7 Avg Emp/Business: 2 Avg Yr Blt: 1995 Avg Bldg Sq Ft: 24,810
Total by Business Category	Businesses: 24 Employees: 272 Avg Emp/Business: 11 Avg Yr Blt: 1980 Avg Bldg Sq Ft: 31,015	Businesses: 7 Employees: 51 Avg Emp/Business: 7 Avg Yr Blt: 1986 Avg Bldg Sq Ft: 85,569	Businesses: 23 Employees: 869 Avg Emp/Business: 38 Avg Yr Blt: 1986 Avg Bldg Sq Ft: 54,828	Businesses: 16 Employees: 128 Avg Emp/Business: 8 Avg Yr Blt: 1980 Avg Bldg Sq Ft: 91,677	Businesses: 70 Employees: 1,320 Avg Emp/Business: 19 Avg Yr Blt: 1983 Avg Bldg Sq Ft: 58,161

Source: King County Assessor, City of Kirkland, Heartland

The other three Study Areas can clearly be most classified as workbenches; however, as Google's presence continues to expand in the 6th Street Corridor some of the industrial stock could turnover to non-industrial uses. There are a total of 70 businesses operating out of this Study Area with 1,320 employees. Unlike the other three Study Areas, half the businesses in this Study Area are F.I.R.E. or professional services office related with the other half comprising industrial jobs – anchored by Western Pneumatic Tube - service related industrial uses such as printing, distribution, construction and repair, and professional services.

What this Exhibit 15 does not show is the actual businesses that operate in this Study Area. The top 10 firms total 1,038 jobs or 79% of the employment in this area. Exhibit 16 shows the largest employers in this Study Area. Google is the dominant presence in this Study Area; however, there is a diverse collection of businesses located here ranging from true industrial (Western Pneumatic Tube) to F.I.R.E. (Re/Max and Cobalt).

Exhibit 16: 6th Street Corridor Significant Businesses

Firm	Sector	Speciality	Employees	% of Study Area Total
Google	Technology	Internet services	658	49.8%
Western Pneumatic Tube	Manufacturing	Welded tubes, aerospace +	120	9.1%
Re/Max Northwest Realtors	Professional Services	Real estate	61	4.6%
Bon Appetit Management Company	Art, Food & Entertainment	Publishing	45	3.4%
Lake Washington Players	Art, Food & Entertainment	Theater	40	3.0%
Lifeworks Google	Internet	Internet services	29	2.2%
Hirschler Manufacturing	Manufacturing	Aerospace	25	1.9%
Passport Unlimited	Technology	Internet services	22	1.7%
Cobalt Mortgage	Professional Services	Mortgage	20	1.5%
Proctor Products	Manufacturing	Metal fabricaton	18	1.4%

Source: King County Assessor, City of Kirkland, Heartland

APPENDIX B: STUDY AREAS SUMMARY

Overall, the 6th Street Corridor area is functioning well based on the variety of services it helps provide. The land use code is flexible in terms of permitted uses and the height, bulk, and mass regulations will allow for functional buildings to be developed when the market supports such activity. One consideration for change should office uses be desired for this area would be to increase the lot coverage ratio for office uses to be consistent with the rest of the permitted uses. Another would be to increase the maximum building height. We acknowledge this may not be palatable given the broader neighborhood's desire for view protection.