



January 22, 2015

Eric Shields, Director of Planning
Angela Ruggeri, Senior Planner
City of Kirkland
123 5th Avenue
Kirkland, WA 98033

Dear Eric and Angela:

In an effort to provide greater explanation and perspective on our pending Zoning Code Amendments, we outline below a review of our business assessment relative to the major components of the planned development at Kirkland Park Place ("KPP"). It is important to remember that our perspective is necessarily subjective, because of the paucity of objective data. While our perspective is admittedly subjective, it is also rooted in a sound foundation of reason and experience. In fact, our professional judgment is grounded in our over forty years of real estate experience, which guides our evaluation of market input and our understanding of risk tolerances. Talon has put forth a plan that, in our opinion, furthers the goals of the community as stated in the Comprehensive Plan, while still acknowledging our need to achieve a reasonable rate of return.

Increasing the Residential Density:

Relative to our request to increase the allowable multi-family residential density from 10% to 30%, we respectfully suggest this is, at most, a modest increase. As you know, the Comprehensive Plan provides that residential uses are an allowed use, as of right, in this zone. To those in the public who question whether multi-family should be allowed on the site at all, that issue is one that was resolved, in favor of limited residential use, when the Comprehensive Plan was adopted by the City Council. The only remaining question is whether the 10% residential density currently allowed under the Land Use Code should be increased to 30%. Our request for an increase to 30% arises from two key business requirements that we must meet in order for us to proceed with the development:

1: We need to create retail demand from onsite residents. There is a significant density of existing and newly developed multi-family residential in the downtown core, however, we know that on-site residents will have a much higher utilization rate than residents in other projects that have a variety of retail choices in in closer proximity their respective residence. In other words, we cannot count on nearby residents alone to create the residential demand necessary to make our retail component successful.



As confirmation of the above statements, our prospective retailers know the Kirkland downtown residential densities and continue to express a strong preference for on-site residential. While not a perfect science and while there are no quantifiable data predicting the future success of KPP's retail environment, our mutual goals are for an active and vibrant community gathering place. Further, the City code requires us to incorporate retail vs an office only plan. If we must construct retail, then our request will significantly help improve the probability of successful retailers. The relatively modest increase from 10% to 30% provides the retailers we desire with the comfort to move forward and bring their businesses to downtown Kirkland.

2: Talon and Prudential are considering taking the risk of investing hundreds of millions of dollars associated with this planned mixed use development. Per the terms of the existing QFC grocer lease, no development can occur on the site without the reasonable consent of QFC. This consent will only be gained to the extent we build them a new larger store with associated underground parking stalls at no cost/rent to QFC. Our investment into the QFC store and associated parking is a loss-leader for the balance of the proposed development, on which we lose over \$10 million dollars. One of the ways we are seeking to mitigate this cost and associated risk is through the development of on-site multi-family. We know demand is strong for multi-family and we know it will contribute to making the retail center successful. Without the requested multi-family, we will not be in a position to build or finance a new QFC, nor will we be in a position to develop the remaining additional retail space.

Residential over Grocery

We have also been asked to address why we are planning for the multi-family structure to be constructed on top of the QFC, as opposed to an office building. Below are the primary factors driving this decision:

1: In the Kirkland/Bellevue market, 6 – 8 story mid-rise Class A office buildings have direct elevator access between the office space and the garage. Three relevant projects are the Plaza at Yarrow Bay in Kirkland, the 112@12th project at 112th Ave NE and 12th Street as well as the CIVICA project on 108th Ave NE and NE 2nd Street in downtown Bellevue. Office tenants, as a general rule, insist on direct elevator access to their suites when considering low to mid-rise developments. It is one of the essential attributes a low/mid-rise has over a traditional high-rise building.

Unfortunately, QFC will not allow direct elevator access to the floors that will be constructed above the store. This is because of the resulting vertical penetrations associated with an elevator core that would be located within their store. This is a reasonable demand of QFC as a large vertical elevator core to accommodate multiple elevators would be a significant impairment to the center of their store. The remaining alternative would be to put a separate parking elevator core on the outer perimeter of their store wall, which would be disconnected from the vertical elevators servicing the office floors. This would obviously be costly, inefficient and ultimately not acceptable to prospective office tenants.



Residential tenants, on the other hand, do not mind transferring elevators to access their homes. The QFC requirements therefore do not burden a residential development. They do, however, substantially preclude an office development.

2: Residential tenants also quickly acclimate to the externalities associated with living above a grocery store. There are numerous examples of successful residential on-top-of grocery store developments. Locally, two examples include the Safeway in downtown Bellevue with approximately 360 units above it with a shared structured parking. A second example is the QFC in Ballard with approximately 268 units above their 45,000 sf store. Office tenants, however, are unforgiving of these externalities. That is why it is so rare to find an office project located above a grocery store. In fact, in our informal survey, we were unable to identify a single example of office use located above a grocery use.

Building Height/Size:

As you know, we are not seeking any modifications relative to the existing previously approved building heights. As we have mentioned previously, our goal is to build buildings that are aligned with market demand. Corporate office users, and specifically those in technology related fields, have specific preferences. The two biggest preferences relate to floor plate size and total building area.

First, tenants in today's environment prefer larger floor plates. Suburban and semi-urban mixed-use projects being constructed today are building floor plates between 25,000 – 30,000 rsf. We have reviewed the new developments underway in the South Lake Union tech-centric submarket of Seattle, and all of the floor plates are at or greater than 25,000 rsf. This is also true with the new Spring District project in Bellevue. While the new high-rises in downtown Bellevue must have smaller floor plates (20,000-25,000 rsf), they are able to offer much taller buildings. Larger floor plates are a tenant preference and offer a competitive advantage relative to other submarkets Kirkland Park Place will be competing with to attract and retain tenants.

Secondly, tenants are seeking buildings large enough to accommodate both their immediate needs and their anticipated growth. Kirkland has historically been a consistent victim of losing high growth tenants due to its dearth of larger scale office buildings. Conversely, the new developments in both Seattle and Bellevue feature larger buildings (300,000 rsf – 600,000 rsf), which has allowed growth opportunities and increased retention for tenants in those markets. We feel an approximately 200,000 sf building at Kirkland Park Place is the absolute minimum size needed to compete with these markets.

All that being said, if we attempt to build a building accommodating 200,000 sf of office space with a 5-story height restriction and ground floor retail, then our resulting average floor plates would be 50,000 sf. This would leave us with buildings that would be far too large to lease and occupy efficiently. The second major impact of shorter 5-story buildings is the loss of open space. Hypothetically, we could build 5-story buildings with targeted 30,000 sf floor plates, but we would need to construct one to two additional buildings above our



current plan, resulting in the reduction of over 60,000 sf of open space. Our current plan has approximately 120,000 sf of planned open space. This type of reduction to the open space of Kirkland Park Place would materially impact the communities experience with the property, as well as those of tenants, residents and visitors.

Summary:

KPP Ownership is excited to propose a redevelopment that is closely aligned with the goals and interests of the Comprehensive Plan. To date, we have attended over 20 neighborhood and local business association meetings (attended by approximately 400+ citizens), have had numerous one on one meetings with over 20 citizens and conducted both print and TV interviews, all of which demonstrates our commitment to create an environment that the community can be proud of. The responses from these interactions have been overwhelmingly positive, with most citizens expressing strong support for a new vibrant pedestrian-friendly KPP vs the alternative of an ongoing tired retail center with no significant office density.

We look forward to working with the Planning Commission, the City Council, and the Design Review Board as the project is further refined. We appreciate the interest, attentiveness, and helpful questions that have been raised to date by the Planning Commission. Due to the request from the city staff for more evidence relative to the topic of the impacts of residential in a successful mixed use environment, we requested two experts to provide their respective opinions on the topic. Attached are their reports.

Sincerely,
TALON PRIVATE CAPITAL



Bill Pollard
Managing Principal



Jim Neal
Managing Principal

REALRETAIL

January 21, 2015

Bill Pollard
Talon Private Capital LLC
720 Olive Way Ste. 1020
Seattle, WA 98101

RE: Kirkland Parkplace

Dear Jim & Bill,

I am writing you this letter regarding the proposed redevelopment of Kirkland Parkplace. As a commercial real estate professional with 25 years of experience in retail leasing with an emphasis on local urban mixed-use projects, I strongly advocate for the addition of multi-family residential units to the project.

The shopping center retail industry is experiencing rapid change. Margins are getting smaller and the industry is contracting as consumers concede to the convenience of online shopping, online home entertainment and mega value oriented retailers. At the same time, employers are competing for highly sought after employees and there is fierce competition for this talented and highly educated workforce. One of the main recruiting tools for companies is the workplace environment. Having a walkable, synergistic 18 hour district with thriving retail, restaurant and entertainment is one of the top characteristics for choosing workplace locations.

Retailers, restaurateurs and entertainment users see this trend and realize the most effective way to out-position online competition is to also locate in thriving urban districts with texture, character and reasons for consumers to stroll, linger, dine and shop. They are seeking districts that will maximize their sales throughout the day, evening and weekends. Mixed-use projects offering these components are preferred locations. Maximized residential is a significant contributor to the overall the evening and weekend traffic.

The Kirkland retail market is among the strongest and most vibrant retail markets on the Eastside. Dubbed by many as the "anti-Bellevue", its retail has maintained a grittier and more boutique feel. There is a pent-up demand for tenants that don't quite fit into a mall and are seeking vibrant character alternatives on the Eastside and with its amazing demographics; Kirkland is primed to be that place. However, tenants remain cautious and are risk adverse. Since Kirkland Parkplace is a new unproven project that is surrounded by strong, proven retail, tenants will choose to allocate their precious, scarce expansion dollars to more proven locations unless the project is compelling enough in size, scale, design and tenant mix.

I believe the project needs at a minimum 300 residential units to make it compelling enough to adequately compete against dominate eastside districts such as downtown Bellevue. Without this minimum level of on-site residential I feel there is significant risk of waning retail tenant demand and a non-vibrant atmosphere. As such, I strongly advocate for the addition of multi-family residential units to the project.

Sincerely,
Real Retail



Maria Royer

RE:

Dear:

Sincerely,

REAL RETAIL

Maria Royer

Memorandum

Mixed-Use Development + Grocery Store

Summary of Experience, Market Trends, and Comparable Projects

January 21, 2015

Memorandum

To: Bill Pollard, Talon Private Capital
From: Mark Woerman
Date: January 21, 2015
Subject: Mixed-use development with housing over grocery store

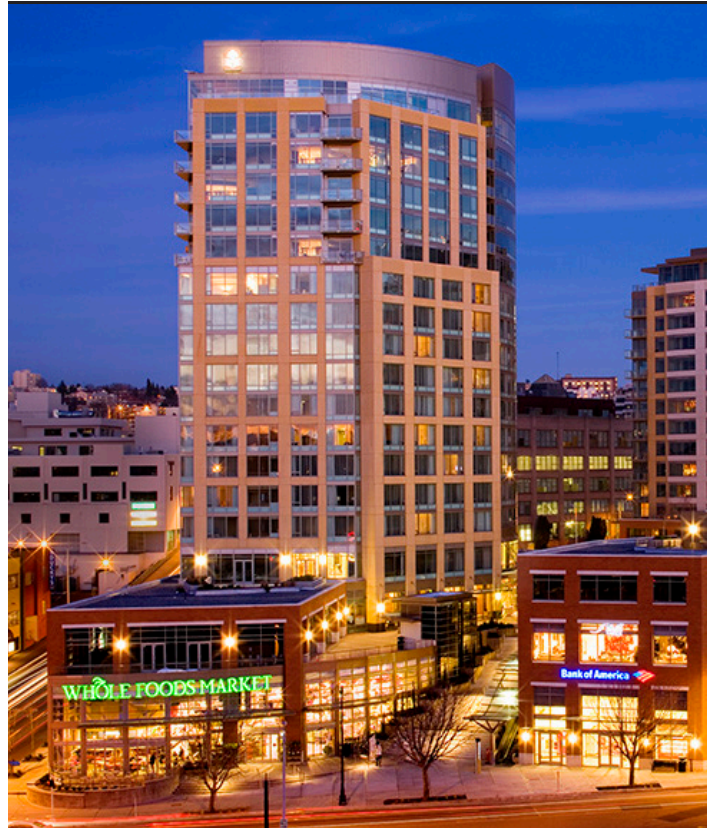
As requested, following is a high level review of the current market trends related to integrating grocery stores into urban mixed-use projects with supporting examples from this region and nationally.

Market Trends Summary

Grocery stores have been playing a more prominent role as retail anchors in mixed-use housing projects in the past decade. Broader trends, such as changing attitudes about where people want to live, work, and shop, are likely helping to drive the attractiveness of grocery stores in mixed-use projects. Grocery stores have become more than just retailers; they have become the community hub of the local neighborhood and a proven model for multi-family housing-over-retail projects. Several recent studies and articles highlight these trends.

From the Urban Land Institute (2011–2014):

- “Downtowns and urban neighborhoods are seeing new grocery store development, with a revolution in store design, location in mixed-use projects, parking solutions, and role within neighborhoods.”
- Retailers known for larger-format stores are proposing reformatted stores with a heavy emphasis on groceries designed for urban residents, often as part of mixed-use developments.



Whole Foods Market at 2200 Westlake, with 47,000 SF of grocery retail under 261 condominium units. This is one of Whole Foods' top-performing locations, often exceeding revenues from New York City stores.

- A recent University of Washington study in the Seattle/King County area found that a sizeable proportion of shoppers in urban areas (25%) left the store on foot rather than in a car. 69% of shoppers left with one or fewer grocery bags. Another study led by the Baylor College of Medicine found that 49% of those surveyed went to the grocery store at least twice a week. These studies suggest that shoppers value convenient, walkable locations that allow for frequent visits.

From a recent in-depth market study for the Seattle-metro area:

Close proximity to grocery stores can have a positive impact on property values and rents that is documentable. As densities in urban areas rise, demand for convenient access to grocery stores and other neighborhood retail will also rise. This will be especially true in areas with higher spending potential and more demand for quality prepared and specialty foods. For instance, Whole Foods has been leading the way nationally with its successful model for their grocery stores with multifamily housing on top. Examples include:

- *38 Dolores – San Francisco, CA:* Opened at the end of 2013, this project includes a 28,000 SF Whole Foods with 81 apartments above. The apartments are a key driver of the project's financial feasibility.
- *City Walk – St. Louis, MO:* Currently under development, a 38,000 SF Whole Foods will sit under 180 apartment units above. Initial feasibility studies have indicated that this housing will be among the most desirable locations in the St. Louis market.
- *1001 Broadway – Seattle (Expected 2018):* 16-story apartment building over 40,000 SF grocery
- *17W – Denver, CO (Spring 2016):* 640 apartments (10 stories) over 56,000 SF grocery
- *20th & L St. – Sacramento, CA (Spring 2016):* 140 apartments over 40,000 SF grocery



The future 17W development in Denver, CO – 10 stories of apartment housing over a 40,000 SF grocery store, to open in 2017



20th and L Street in Sacramento, CA – 140 apartment units over grocery, to open in 2016

- *SOLO District – Burnaby, B.C. (2015):* 1,350 condominium units over 40,000 SF grocery + retail and office
- *Uptown Dallas – Dallas, TX (2015):* 240 apartment units over 40,000 SF grocery

Comparable Projects – Local

A number of notable projects have been completed in the past few years that have met this demand with grocery stores as anchor tenants in mixed-use projects. These projects historically perform better economically, which bolsters their development feasibility. The following pages include local and national examples of mixed-use projects with grocery as the major retail tenant and multi-family housing above.

Project

2200 Westlake

Location

Seattle (South Lake Union)

Configuration:

261 condominiums over over Whole Foods Market + retail and hotel

Year Built

2006



Project

Epicenter Apartments

Location

Seattle (Fremont)

Configuration:

128 units over PCC grocery store + retail

Year Built

2003



Comparable Projects – Local

Project

Uwajimaya Village Apartments

Location

Seattle (International District)

Configuration:

176 apartment units over 70,000 SF Uwajimaya grocery store + retail

Year Built

2001



Project

Avalon Meydenbauer

Location

Bellevue

Configuration:

368 apartment units over Safeway grocery store + retail

Year Built

2007



Project

Lumen

Location

Seattle (Lower Queen Anne)

Configuration:

94 condo units over QFC grocery store

Year Built

2007



Comparable Projects – Local

Project

Green Lake Village

Location

Seattle (Greenlake Neighborhood)

Configuration:

297 apartment units over PCC Grocery Store
+ retail

Year Built

2014



Project

450 Rhode Island St.

Location

San Francisco, CA

Configuration:

165 units over Whole Foods grocery store
and retail

Year Built

2007



Project

City Vista

Location

Washington, D.C.

Configuration:

441 condominiums and 244 apartments over a
59,000 SF "Urban Lifestyle Safeway" + retail

Year Built

2008



Comparable Projects – Local + National

Project

222 Hennepin

Location

Minneapolis, MN

Configuration:

Six-story, 286 unit apartment building over 40,000 SF Whole Foods Market

Year Built

2013



Project

Wentworth House

Location

Bethesda, MD

Configuration:

18-story, 312 unit apartment building over two-story Harris Teeter grocery store and café

Year Built

2013



Project

H Street NW & N. Capitol St.

Location

Washington, D.C.

Configuration:

80,000 SF Walmart store (40% grocery) + 10,000 SF retail with 303 apartment units above

Year Built

2014



Comparable Projects – National

Project

Penfield Project

Location

St. Paul, MN

Configuration:

254 units over 28,000 SF Lund's grocery store (only full-service grocery store in the downtown neighborhood)

Year Built

2014



Project

360° H Street

Location

Washington, D.C.

Configuration:

215-unit apartment building over over 42,000 SF Giant grocery store

Year Built

2013



Project

The Rise

Location

Vancouver, B.C.

Configuration:

92 live/work townhouses over over 200,000 SF retail, including 44,500 SF Save On Foods grocery store

Year Built

2007



Conclusions

Since design began on the the 2200 project in Seattle more than a decade ago, we have evaluated many types of uses over retail and grocery stores in mixed-use developments. Our ongoing research and direct experience have led us to conclude that multifamily residential and hotels are the two most compatible uses to locate over the grocery store in these mixed-use centers.

The primary reasons are:

- Residential and/or hotel uses over grocery stores is overwhelmingly the proven model. Research suggests that more than 90% of new mixed-use developments incorporate this pairing of uses. Grocery stores understand this format, are increasingly comfortable with it, and residents and/or guests view the direct relationship as an amenity.
- Office central core elements – elevators, stairs, shafts, etc. – are in direct conflict with the open floor plan requirements of most grocery stores. The ideal location for mid-rise office cores which connect the garage to the tenant suite would need to run through the middle of the grocery store in between. Multifamily residential and hotel uses have greater flexibility to move these fixed core elements to the perimeter of the grocery store space.

- Project feasibility and financing are evaluated on the comparable performance of similar developments. The proven model of residential and/or hotel over the grocery store is substantial and goes a long way towards satisfying investor concerns.

END MEMO