



CITY OF KIRKLAND

City Manager's Office

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MEMORANDUM

To: Kurt Triplett, City Manager

From: Beth Goldberg, Deputy City Manager of Operations
Kevin Raymond, City Attorney
Michael Olson, Finance Director

Date: January 18, 2022

Subject: Houghton Village Purchase and Sale Agreement

RECOMMENDATION:

The City Council approves the attached resolution that would authorize the City Manager to execute a purchase and sale agreement (PSA) to acquire the Houghton Village shopping center located at 10702 NE 68th Street for \$15 million plus up to \$100,000 in closing costs and approve a proposed three-year interfund loan to finance the acquisition. The property owner signed the purchase and sale agreement on January 12, 2022.

BACKGROUND DISCUSSION

The City of Kirkland has an opportunity to purchase the Houghton Village, a 29,657 square foot shopping center that sits on a 95,656 square foot property (See Map - Attachment A), for \$15 million plus up to \$100,000 in closing costs. Purchasing this property offers the City a strategic opportunity to accomplish multiple important community benefits in a walkable ten-minute neighborhood with frequent transit service.

The prospect of purchasing the property occurred when the City contacted the property manager in the late fall of 2021 about the potential to lease the soon-to-be vacated PCC Community Market space. PCC is moving to another location downtown. City staff have been evaluating vacant commercial space throughout Kirkland as potential locations for non-profit human services and arts organizations space, as well as for Parks and Community Services programming. The current property owner, a long-time Kirkland resident, indicated an interest in selling the entire property to the City because he is excited about the additional services and programs the City could accomplish.

Encouraged by this unexpected chance to buy the property, City staff have quickly identified several important ways this acquisition could accomplish Council priorities and strategic partnerships. Most of the concepts for how the Houghton Village could be used were identified through the Station Area Plan process and community needs and benefits analysis. Potential benefits of redeveloping the site include, but are not limited to, affordable housing, non-profit program space, arts and cultural space, and City recreational program space. The property is close to Lakeview Elementary School and could also address Lake Washington School District (LWSD) classroom capacity needs.

These benefits would support several Council Goals, including Attainable Housing; Inclusive and Equitable Community; Vibrant Neighborhoods; Supportive Human Services; and Abundant Parks, Open Spaces & Recreational Services. With ownership and site control, the City would have the maximum flexibility to accomplish these priority community outcomes.

City staff are proposing to purchase the property through a 3-year interfund loan described later in the memo. The three-year timeframe will allow staff to identify the feasibility of each of these concepts. Based on the feasibility of the concepts, staff would also seek public and private grants and funding partners such as the LWSD, non-profit developers, and community organizations to help finance the purchase and redevelopment. The goal would be to create an integrated, sustainable development with a mix of retail space, non-profit space, city and school district space and/or affordable housing to support the City's efforts at being a belonging community. Another key goal would be to return the property back to private or non-profit ownership and recover some or all of the City's initial investment when the project is completed. Potential project uses and partners would be identified through extensive public engagement.

If none of these concepts come to fruition, the City could repay the loan with some combination of one-time capital dollars and long-term debt. The City could also sell the property to repay the interfund loan. This ability to resell the property minimizes the risk of the purchase.

At \$15 million, the land of this property is valued at \$156.81 per square foot and the buildings are valued at \$505.78 per square foot.

For comparison sake, similar properties in Kirkland have a land valuation ranging from \$172.00 and \$575.00 per square foot and building valuations ranging between \$478.00 and \$1,104.00 per square foot (Attachment B).

The property is home to a PCC Community Market, which is scheduled to vacate its current space when its lease expires in June 2022, as well as several restaurants, retail stores, and professional offices. Excluding the PCC, these establishments generate approximately \$326,269 in annual lease revenue for the property owner. If the City were to acquire this property, these leases would continue, and revenues would offset property management costs for the property while the City develops long-term plans for the property. Any remaining lease revenue will be set aside for uses related to the property purchase, including property maintenance costs, long-term financing costs, and/or planning costs associated with future uses of the property.

DUE DILIGENCE

If the City Council authorizes the City Manager to sign the PSA for the Houghton Village shopping center, a 90-day due diligence period would commence during which the City would be able to satisfy itself that the property is satisfactory to the City in all respects, including its physical condition, the presence or absence of any hazardous substances, the contracts or leases affecting the property, the potential financial performance of the property, the availability of any necessary permits and approvals, and the overall feasibility of the property for the City's public purposes. During this period, the City will review materials supplied under Section 23 of the PSA and conduct a Phase 1 and Phase 2 environmental review, a survey of the property, a review of environmental remediation requirements, and inspections of the building including mechanical, electric and plumbing systems. Per Section 23 Feasibility Contingency, the City has sole discretion to determine whether it is satisfied with the property at the conclusion of the 90-day due diligence period. As written, the PSA would automatically lapse, and the City's earnest money deposit of \$200,000 would be returned, unless the City affirmatively advises the seller that the feasibility contingency is considered satisfied.

FUNDING

The proposed purchase is funded through a 3-year interfund loan totaling \$15.1 million, including closing costs, from three reserves detailed in the fiscal note (Attachment C):

- Fleet Replacement Reserves;
- Facilities Sinking Funds; and
- Development Services Reserves

Use of the interfund loan provides the City with the ability to secure the property immediately while it develops a long-term financing strategy.

The State provides the minimum acceptable procedures for making and accounting for interfund loans, and the terms below are consistent with that guidance.

Staff has analyzed the cash flow needs of the Fleet Replacement Reserve, Facilities Sinking Fund and Development Services Reserves and finds that there are sufficient funds available to make this loan for the three-year period. The estimated interfund loan terms will be:

- Up to \$15.1 million, including closing costs from the following reserves

Fund (\$ in millions)	Amount
Fleet Replacement Reserves	\$ 7.50
Facilities Sinking Funds	\$ 3.75
Development Services Reserves	\$ 3.85
TOTAL	\$ 15.10

- Loan period up to three-years, but the loan can be repaid anytime during that period
- The interest rate on the loans will be 1.1%, based on the interest that those funds would be expected to earn during the loan term
- Interest will accrue during the period and will be paid to the loaning fund when the loan is repaid.

The proposed resolution, if approved by the City Council, authorizes the interfund loan. It is important to recognize that the interfund loan represents short-term funding only and must be repaid in full, with interest, at that end of the term, once a long-term funding source is secured. As previously highlighted, the City plans to use the three-year loan period to pursue partnerships and grants in order to repay the interfund loans. One-time capital funds, refinancing with long term debt, or selling the property are also options.

NEXT STEPS

If the City Council approves the attached resolution, the City Manager will sign the purchase and sale agreement and the 90-day due diligence period will commence. Assuming the City still wishes to proceed with the purchase following the due diligence period, the City would advise the seller of that the Section 23 Feasibility Contingency is considered satisfied, and the parties would then proceed to a formal closing of the transaction with the assistance of an escrow and title company.

Attachments:

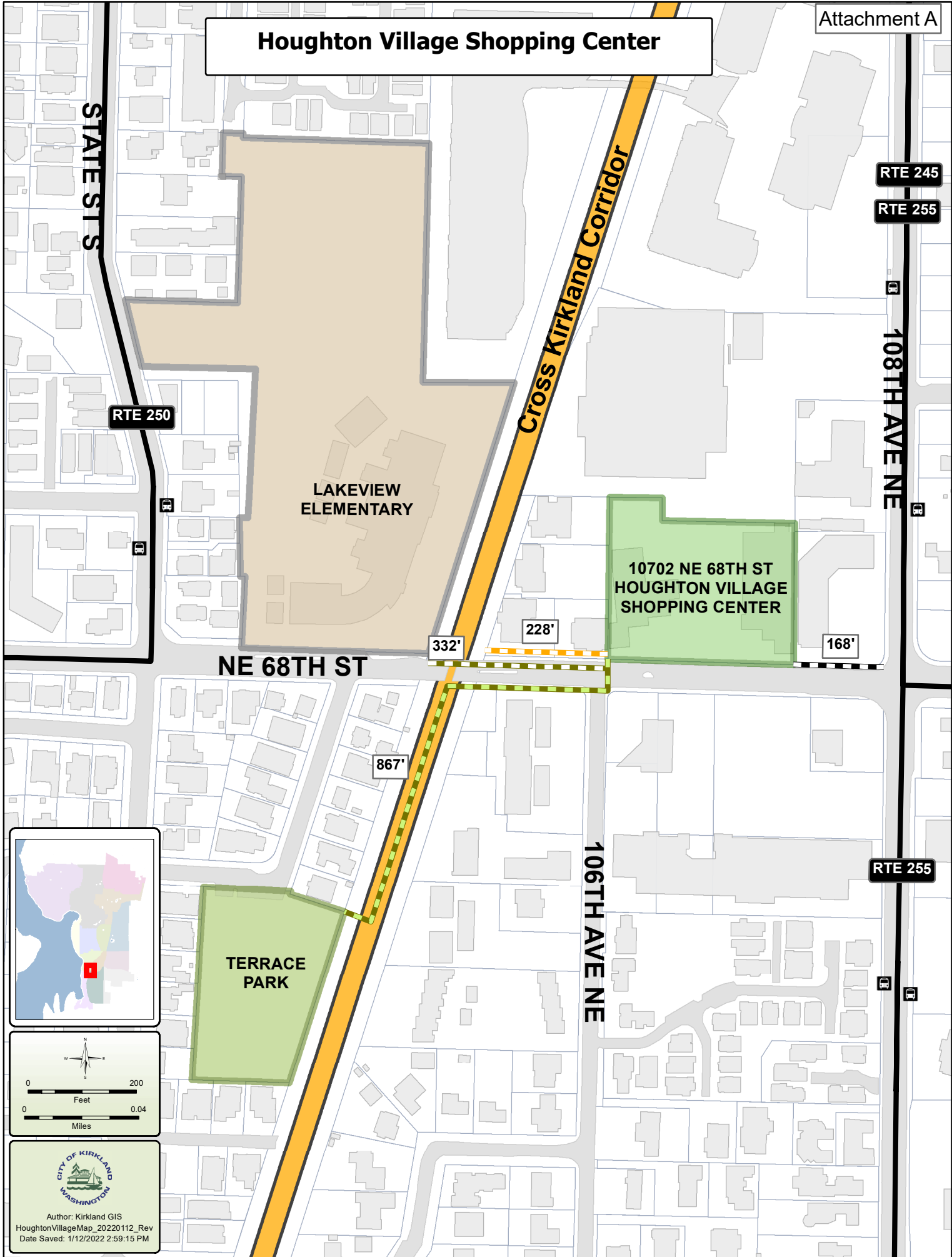
Resolution and Exhibit A - Purchase and Sale Agreement

A: Property Location Map

B: Property Value Comparison Table

C: Fiscal Note

Houghton Village Shopping Center



Attachment B

Houghton Village Comparables

	Name	Value	Land SF	Value/ SF Land	Building SF	Value/ SF Building	Sales Date	Zoning	Comments
1	Houghton Village	\$15,000,000	95,656	\$156.81	29,657	\$505.78	4/1/2022	HENC 1	PCC
2	Kirkland Court 8417 122nd Ave. NE	\$6,760,000	39,204	\$172.43	14,131	\$478.38	8/17/2021	RH 5A	Kirkland Court
3	123 Lake Street (Lake Washington Blvd)	\$9,600,000	20,909	\$459.13	16,517	\$581.22	7/1/2021	CBD 2	Pipeline Platform/Studio 150
4	207 8th Avenue W	\$3,900,000	16,988	\$229.57	2,037	N/A	5/7/2021	MSC 1	Market Street
5	12020 NE 85th - Rose Hill SC	\$40,000,000	154,923	\$258.19	55,724	N/A	7/30/2020	RH 3	Rose Hill Shopping Center
6	422 6th Street S- Office 3-story	\$8,200,000	37,858	\$216.60	N/A	N/A	7/17/2019	LIT	Office 3-story
7	430 Lake Street	\$6,000,000	18,112	\$331.27	N/A	N/A	12/1/2020	PLA 6	1963 21-unit apartment
8	214 Central Way	\$4,000,000	9,240	\$432.90	N/A	N/A	10/1/2020	CBD 8	Portion of assemblage by Seawest
9	207 1st Avenue S. 200 2nd Avenue S. 114 2nd Avenue S. 110 2nd Street S. Total	\$4,725,000	7,885 3,800 3,800 3,800 19,285	\$245.01	N/A	N/A	12/1/2019	CBD 4	16 townhomes assemblage
10	112 Lake Street (Lake Washington Blvd)	\$32,488,500	56,526	\$574.75	N/A	N/A	5/1/2018	CBD 1B	Hector's (2 parcels + bldg/air right)
11	7- Eleven	\$2,650,000	11,330	\$233.89	2,400	\$1,104.17		HENC 3	For Sale
12	901 Kirkland Ave.	\$4,700,000	18,750	\$250.67	9,047	\$519.51		LIT	Under Contract
13	Banner Bank 200 Kirkland - Bicycle 216 Kirkland - Bella Sirena 40 2ND ST - Back Parking Lot Total	\$10,000,000	11,000 4,000 4,414 19,414	\$515.09	13,867 1,800 N/A 15,667	\$638.28		CBD 1	Banner Bank Going to market in 2022

FISCAL NOTE*CITY OF KIRKLAND*

Source of Request							
Beth Goldberg, Deputy City Manager							
Description of Request							
One-time transfer of \$15.1M from Fleet Replacement Reserves, Development Services Reserves, and Facilities Sinking Fund Reserves to the General Capital Fund for property acquisition (GGC0490000). These interfund loans will be repaid within three years, following State and City policy on interfund loans.							
Legality/City Policy Basis							
Fiscal Impact							
<ul style="list-style-type: none"> - One-time transfer of \$7.5M in Fleet Replacement Reserves to GGC0490000 - One-time transfer of \$3.85M in Development Services Reserves to GGC0490000 - One-time transfer of \$3.75M from Facilities Sinking Fund Reserves to GGC0490000 							
Recommended Funding Source(s)							
<i>Reserve</i>	Description	2022 Est End Balance	Prior Auth. 2021-22 Uses	Prior Auth. 2021-22 Additions	Amount Request	Revised 2022 End Balance	2022 Target
	Development Services Reserves	15,813,705	-	-	(3,850,000)	11,963,705	N/A
	Facilities Sinking Fund Reserve	5,864,327	-	-	(3,750,000)	2,114,327	N/A
	Fleet Replacement Reserve	13,984,381	-	-	(7,500,000)	6,484,381	N/A
<i>Revenue/Exp Savings</i>							
<i>Other Source</i>							
Other Information							
<ul style="list-style-type: none"> - Development Services Reserves from 01019150-599016 & 599012 - Facilities Sinking Fund Reserves from 52702600-599018 - Fleet Replacement Reserves from 52120611-599012 							

Prepared By	Robby Perkins-High, Financial Planning Supervisor	Date	January 7, 2022
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