

## **APPENDIX B**

### **Economic Analysis**

<b>1.</b>	<b>Economic Analysis: Berk &amp; Associates – January, 2004</b>
<b>2.</b>	<b>Memorandum: Sedway Group – May 20, 2002</b>
<b>3.</b>	<b>Memorandum: Sedway Group – August 14, 2002</b>
<b>4.</b>	<b>Memorandum: Sedway Group – October 15, 2002</b>

**DOWNTOWN AND LITTLE BEAR CREEK CORRIDOR  
MASTER PLAN  
ECONOMIC ANALYSIS**

**CITY OF WOODINVILLE**

**January 2004**

Submitted by



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## **INTRODUCTION**

The City of Woodinville Master Plan for Downtown and Little Bear Creek Corridor proposes changes to existing City policies regarding land uses, development regulations and amenities. These City actions will change the development environment in the City with the intent to encourage and foster the growth of mixed-use developments envisioned for the Downtown Core and commercial uses along Little Bear Creek Corridor.

The proposed City actions include incentives in the zoning code to allow additional building height. The City also plans transportation improvements and public amenities (park blocks, trails, street beautification, a pedestrian bridge and others) with the intent to provide public benefits and to make Downtown attractive to private investment.

This report presents a feasibility analysis of developing the types of mixed-use, residential and commercial projects envisioned in the Master Plan, and it assesses the economic value of planned zoning changes. Analysis presented and discussed includes an understanding of the impact on market demand expected to accompany City investments.

The report begins with a summary of the findings and conclusions supported by the analysis, presented in greater detail in the remaining sections. The ensuing sections discuss the current and forecast population and market conditions, providing context for the analysis. A section on development economics follows, including a description of the analytic framework used to address the policy questions. The report concludes with a detailed discussion of the economic analysis. The analysis presents the impact on development value and the development decisions of policy decisions for the Downtown Core and Little Bear Creek Corridor.

## **FINDINGS AND RECOMMENDATIONS**

Development in Downtown Woodinville in recent years has been dominated by the new regional retail center located in the Central Business District (CBD). Much of the new development has been concentrated on the retail center's property, with smaller amounts adjacent to the center. The new City Hall is the only other new development in Downtown in recent years.

Very little housing exists in Downtown, and very little new multifamily housing has been developed in Woodinville for several years. The market demand for housing and commercial space has favored low-rise buildings with surface parking, though the new retail developments provide more activity in the CBD, which other markets (office and residential) will find attractive.

The analysis shows for the high-density, mixed-use residential to succeed (with structured parking), the residential market in Woodinville must sustain rental prices of \$1.50 per square foot (s.f.) or more. The analysis focuses on rental housing as a key determinant for mixed-use residential, though analyses of condominium development would yield the same understanding about proposed policies.

## Height Limits and Building Costs

In regards to height limits, the value of extra floors to a developer depends upon the ability to build up and attract more tenants without off-setting those revenues by the need to acquire more land or build more expensively. Building materials, construction costs and parking structure type, therefore, become the two greatest determinants of development costs.

- When parking requirements accompanying a height increase cause the required parking spaces to exceed the capacity of the parcel, additional land may be required to accommodate surface parking.
- Alternatively, above-ground or below-ground parking garages can be built to accommodate the required parking. Above-ground parking, at \$25 to \$35 per square foot (s.f.), or below-ground parking, at \$65 to \$80 per s.f., is only feasible when additional land costs (to accommodate additional surface parking) are much higher than the cost of providing the structured parking.
- Maximizing the heights of wood-frame construction above a concrete foundation allows the developer to build up without substantially increasing the costs per s.f.. Beyond four or five stories, building methods exchange wood frames for steel frames, and costs rise substantially.

## City Actions

In a market where higher density developments do not appear feasible, market forces need to change or the City can take action to affect the economic variables. In Woodinville, the market is close to providing the value to a developer to take on structured parking and higher density. At the right site, apartment rents of \$1.50 (per s.f., per month) and above appear within reach in coming years. Kirkland, Juanita and other places achieve similar rents, and the recent retail growth in Woodinville suggests the City is not too far behind.

As growth continues to come to the central Puget Sound region, communities throughout the region are aggressively investing and planning for higher amenity, mixed-use urban centers. In order for the City of Woodinville to attract the development envisioned in the Master Plan, the City must continue to invest to be attractive to development. Many developers in the mixed-use market will compare market conditions in Woodinville with other cities to determine which community provides the best opportunity to attract tenants.

City actions can include investing in the types of public amenities found in those places with higher demand. Pedestrian corridors, parks access and retail amenities all fit the description of a vibrant urban village. Multifamily and mixed-use developments locate amidst such attractions.

The City's best strategy is to have a series of complimentary strategies focusing on the regulatory system and public investments targeted to both reducing costs and creating an environment that could support higher real estate values. Continuing to invest in transportation improvements and public amenities will make Downtown and the Little Bear Creek Corridor a more attractive place to live, work, shop and play. Buying parcels of land as they become available and bundling land for developers is another such way to affect directly the feasibility of land for developers. Communities

that have had the greatest success have fostered collaborative relationships with the development community to identify actions mutually beneficial to each other's interests.

## DEMOGRAPHICS AND MARKET CONDITIONS

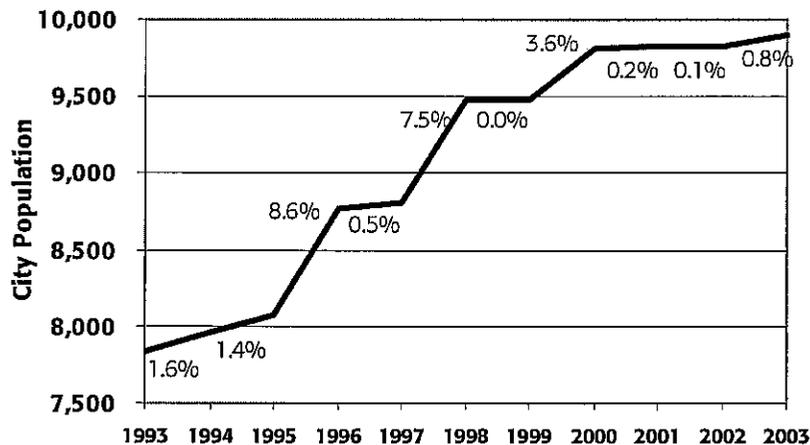
### Population and Housing

#### *Recent Growth and Current Conditions*

Woodinville and surrounding areas serve a mix of housing demand ranging from rental housing serving lower income households to spacious and higher priced single-family homes. The Downtown Master Plan allows for higher density housing to encourage a vision of a compact, urban village.

After incorporating in 1993 with a starting population of 7,833, City population grew in spurts in the late 1990s and has leveled off to little growth since 2000, as shown in Exhibit 1. In the short-run, the desirability of the planned developments and their fit in market niches may drive population growth. In the long-run, regional population growth and Woodinville's share of regional growth provides an indicator of the total housing demanded in the City and Downtown.

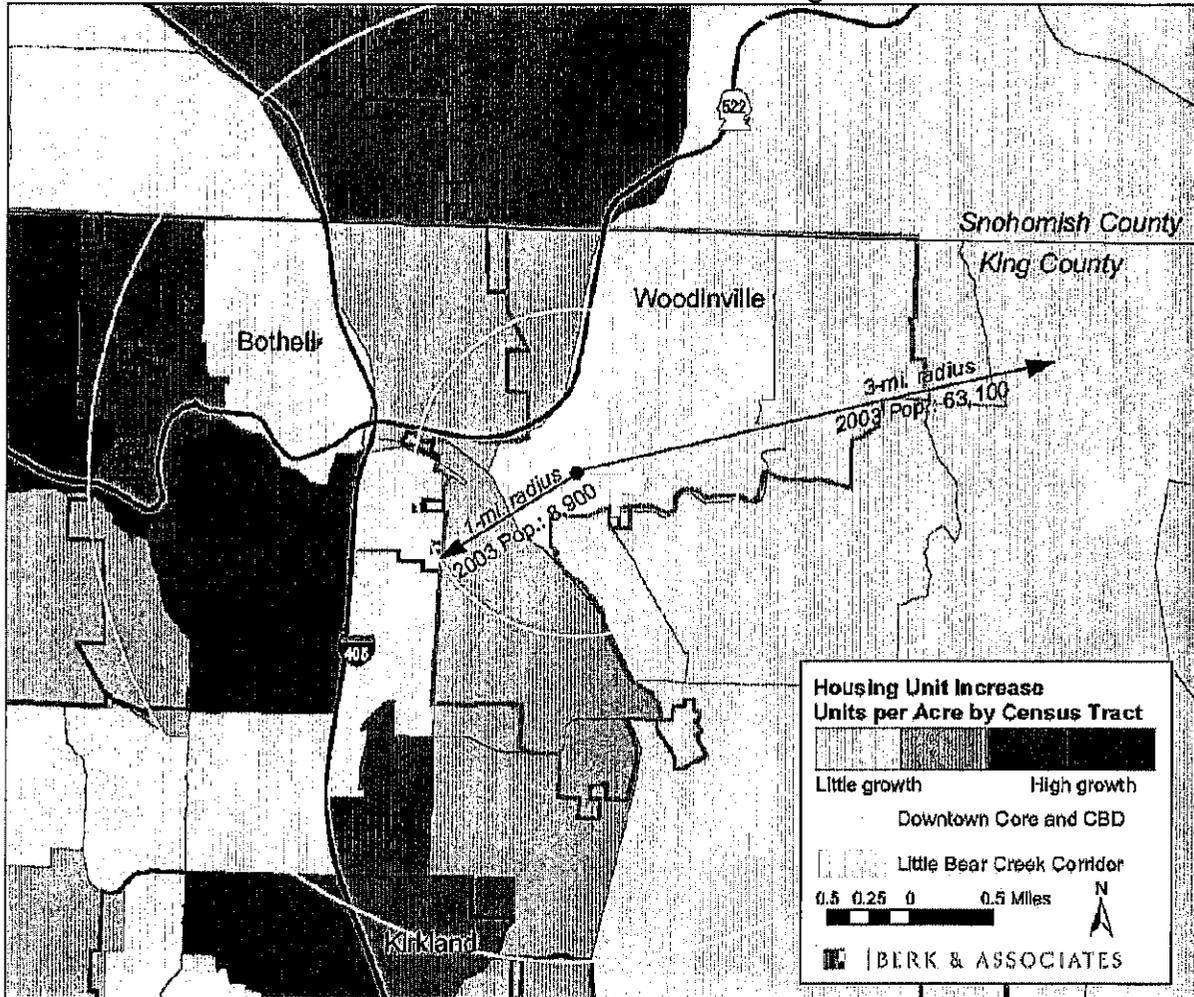
**Exhibit 1:  
City of Woodinville Population, 1990 - 2002**



Source: Washington State Office of Financial Management, U.S. Census.

Woodinville's population growth can be thought of in terms of how many people choose to live in Woodinville over nearby areas. Together these areas and Woodinville define the housing market in which Woodinville competes. This housing market generally includes Woodinville and portions of Bothell, Kirkland and unincorporated areas of Snohomish County. An estimated 8,900 people lived within one mile of the Woodinville CBD in 2003, and 63,100 people lived within three miles, shown in Exhibit 2.

**Exhibit 2:  
Residential Market Area and Increases in Housing Units, 2000 - 2003**



Source: U.S. Census, Puget Sound Regional Council

In recent years, housing growth has been concentrated less within the City limits than nearby in Bothell and in unincorporated Snohomish County, as shown in Exhibit 2. Housing units in the area grew at a rate of 2.1% per year from 2000 to 2003. This growth outpaced both the slower growth of the region during the past few years. During the same period, King County and Snohomish County grew at average rates of only 1.1% and 1.8% per year, respectively.

***Trends and Forecasts***

In the longer term (20 to 30 years), Puget Sound Regional Council population forecasts for the Woodinville area show annual growth rates averaging near 1.0% annually for Woodinville and 3.0% annually for unincorporated Snohomish County immediately to the north of the City.

From a housing market perspective, the PSRC forecasts show strong demand for housing in the area, suggesting the need for roughly 13,000 new housing units within a 3-mile radius of the CBD by 2023, as shown in Exhibit 3.

**Exhibit 3:  
Project Housing Unit Growth  
Within 3-Mile Radius, 2000 – 2003**

	<b>3-Mile Radius</b>
Population 2003	63,100
Projected Growth Rate	2.0%
Population 2023	93,763
Population Growth (2003-2023)	30,663
Household Size	2.5
Household Growth (2003-2023)	12,265
Housing-Unit Vacancy Rate	5%
Housing-Unit Growth (2003-2023)	12,911

Source: Puget Sound Regional Council, U.S. Census

## **Market Conditions**

### ***Multifamily Housing***

There has been relatively little growth in multifamily housing in Woodinville in recent years. Several multifamily developments are located in the City, including several hundred rental units and condominiums to the south and southwest of the CBD. A new senior housing development is nearing completion in the CBD, near the Little Bear Creek Corridor.

### **Rental-Occupied Housing**

Rental prices in and around Woodinville average \$1.00 per s.f., per month, varying by apartment size and age. Two-bedroom/two-bathroom units, for example, rent for an average of \$900 per month, or 97¢ per s.f. for 930-s.f. units. The newest apartments were built more than ten years ago. Newer units nearby in Bothell and Redmond, for comparison, rent for 25% to 30% higher than the older units in those cities. New units in Woodinville could command similar premiums.

Vacancy rates in Woodinville were 7.3% in October of 2003, similar to vacancy rates throughout King County east of Lake Washington. Areas with lower vacancy rates include Kirkland (4.4%) and Bellevue (6.0%). Issaquah and Bothell are slightly higher (7.4% and 8.0%, respectively).

### **Owner-Occupied Housing**

The owner-occupied market varies considerably throughout the Eastside. Development of condominiums had decreased substantially in recent years as law suits over liability of construction flaws made insurance complicated for contractors and developers. Low interest rates in recent years have kept up demand and for owner-occupied units, resulting in continued new construction in spite of the industry legal concerns.

Asking prices for condominium homes comparable to those envisioned for Downtown Woodinville (3- to 5-story buildings, no view or territorial view) range from \$125 to \$250 per s.f. throughout the Eastside, depending on amenities and site characteristics. The amenities and construction quality of condominiums varies broadly, explaining the wide range of prices.

### ***Retail***

Woodinville's retail market is heavily concentrated Downtown, where 450,000 s.f. of retail space currently fit within a 43-acre retail center. Other retail exists Downtown in strip commercial centers and several stand-alone businesses, including restaurants, grocery stores and boutique retail.

Retail rents throughout the Woodinville market area, including nearby areas of Bothell, Kirkland and Woodinville, range from \$18 to \$30 and higher in premium areas, averaging \$20 per year (\$1.67 per month) Citywide. Vacancy rates in Eastside communities range from 6% to 7% and have been stable for two years.

Various real estate research reports for the region present market outlooks for the retail real estate market that conflict and change rapidly. In the latter half of 2003, retail spending throughout the Puget Sound region declined slightly, leading to speculation of a softer retail market ahead. Other reports cite an increase in the sales price of retail buildings, supporting a more positive retail outlook.

In the longer-term the population growth discussed above will continue to drive demand for retail space in Woodinville. The City is well-positioned to attract continued retail uses seeking to cluster around the Downtown retail center.

### ***Commercial and Office***

Woodinville's office space primarily serves local businesses that serve area residents or other local businesses. Woodinville is home to many light-industrial and commercial businesses, concentrated on the western border of town along Woodinville-Redmond Road NE. This commercial corridor is home to more than 100 businesses and is the location of a planned commercial complex focused on wineries and customer experiences centered on winemaking and dining.

Office vacancy rates throughout the Puget Sound region have been relatively high since late 2001. Office vacancy rates currently range from 15% to 18% and lease prices range from \$18 to \$22 per s.f. throughout the Eastside, with free rent, moving expenses and tenant improvements included in most transactions for the past two years. Vacancies have declined slightly in the latter half of 2003 and new construction is expected to pick up in coming months.

For business parks, including light industrial and tech space, the market has stabilized after a few years of increasing vacancies. In Eastside communities, vacancies were 13% in the latter half of 2003. Warehouse manufacturing space ranges between \$0.45 and \$0.60 per s.f. per month and high-tech space rents for between \$0.90 and \$1.10 per s.f. per month.

## **Land Values**

King County Assessor's data shows recent transactions of commercial land in Woodinville varying from \$10 to \$20 per s.f., for most transactions. Assessed land values in 2003 averaged from \$15 to \$20 for all commercial areas, with some much higher and many lower. Market values generally exceed assessed values somewhat.

According to local contacts, the price of land in Downtown Woodinville is estimated to range from \$30 to \$40 per s.f.. For the purposes of this report, it is safe to assume market land values in the range of \$20 to \$40 for commercial land in Downtown and the Little Bear Creek, depending on actual site characteristics.

This range compares similarly to land costs in surrounding areas such as Bothell and the eastern portion of Kirkland's commercial areas. These costs include the land improvements that come with the land, but not the costs of clearing the land for new development.

Business parks and industrial land along the Eastside is estimated in value between \$9 and \$15 per s.f.. The larger parcels along the Little Bear Creek Corridor would likely sell above this range, but lower than Downtown values, probably near \$25 per s.f..

## **ECONOMIC ISSUES AND CONSIDERATIONS**

### **Height limits**

The height limits within the Downtown area in current zoning and in the Master Plan vary to accommodate a range of building heights from three to five stories. The range of heights under consideration in the Master Plan is an important consideration in understanding the economic effects of height limits.

For structural stability purposes, building codes generally allow wood-frame construction of four or five stories above a concrete foundation, which itself can serve as the ground floor, resulting in a building of five or six stories total. When building at heights above this level, wood frames are no longer sturdy enough to support the structural load. For higher buildings, the builder must switch to either steel frame or reinforced concrete, both of which are more expensive to build with than wood.

Building higher creates upward pressure on cost, requiring more scaffolding, aerial lifting of materials, usage of cranes and other potential complexities. In a strong market, when the present value of *revenues* per s.f. are much higher than *costs* per s.f., a developer can maximize net revenue of a project by building the maximum amount of wood construction structurally feasible at the site.

The magnitude of impact of height limits on costs and revenues depends on many market factors, such as the surrounding neighborhood, the type of tenant market (upscale, lower income households, others) and the overall demand for the development space.

## **Parking**

In densely developed, urbanized areas, available land affects development options due to the need to accommodate parking. The size of the building and the desired uses affects the amount of parking required for accommodation, and determining the type of parking to build becomes a key development challenge. The chosen solution depends on the trade-offs between the cost of constructing parking and the amount and cost of land required to accommodate the parking.

Surface parking is the least expensive construction cost option, but for larger amounts of parking surface parking requires more and more land. In areas where land prices are higher, structured parking becomes a desired, more feasible option; the cost of acquiring more land for surface parking begins to cost more than building up on a smaller lot.

Building up is less expensive than building down, in the form of below-grade parking. With height limits, however, building up for parking only displaces space in the building that generates revenue. The varying costs of the parking options present a complex challenge for developers.

Development costs for surface parking are approximately \$6 per s.f., including all fees and soft costs, compared to \$24 to \$30 per s.f. for above-ground structured parking, compared to \$65 to \$80 for below-ground parking. The order of magnitude of cost variation among parking options demonstrates vividly the challenges of structured parking. Only in the higher land-value markets are developers willing to build up or dig down to provide parking in lieu of buying additional land for surface parking. In other words, structured parking only makes sense when building the structure is less costly than buying more land for surface parking.

A market conflict occurs when infill projects drive up the cost of acquiring and clearing land for surface parking, while revenues do not justify the cost of providing structured parking. Suburban downtowns throughout the Puget Sound face this challenge. The desired development might work from the investor's perspective were it not for the need to provide parking. The need for parking, required by the lender as well, combined with the lack of available land for parking can block a project until the project revenues justify structured parking.

## **Mixed-Use Development**

Mixed-use development presents certain challenges not found in single-use development. Fundamentally the challenges can be understood to be similar to building two separate developments with different uses, combined on one site. The market economics must be true for all uses on site: revenues received must justify the costs.

Varying business cycles challenges the market timing of mixed-use development. Strong markets for office, retail and housing (the three most common uses combined in urban village formats) do not often align at the same point in time. The time when multifamily housing prices are higher is not necessarily the same time when retail or office revenues are higher.

Finding a single location to support multiple uses is another challenge of mixed-use development. While some retail uses are attracted to locating on the ground floor of a multifamily development, some are not. This limits the market of potential tenants from a retail management perspective.

These challenges translate into increased risk borne by the developer and the lender supporting a mixed-use project. Often times a lender will not allow the mixed-use developer to include projected revenues from the retail space, requiring the residential revenues to carry the costs of the entire project. When the lender and the developer do not agree on the certainty of the retail-tenant revenue the project can become infeasible.

## **Redevelopment Economics**

A final consideration to highlight in this section is the increased costs associated with redevelopment projects. The costs of clearing a site for new development vary from site to site. Land values reported above provide an important benchmark for development feasibility, but the site clearing costs depend on the current conditions of the parcel for redevelopment. Those costs will affect the buyer's willingness to pay for the land and need to be included in the cost of land.

## **DOWNTOWN AND LITTLE BEAR CREEK CORRIDOR MASTER PLAN**

This section presents an economic analysis designed to demonstrate the complexities and market considerations related to the policies included in the Downtown and Little Bear Creek Corridor Plan. Included in this section is an overview of the analytic framework employed to discuss the Plan. Separate sections follow discussing developments envisioned in both Downtown and the Little Bear Creek Corridor.

### **Analytic Framework**

The analysis that follows presents residual land value analyses for several hypothetical developments. The scenarios have been chosen to represent the potential impact on the development economics in Woodinville resulting from the planned regulations for increasing allowable building height in exchange for certain City-desired design or project elements.

### ***Cap Rates***

Costs and revenues are assumed for the development, along with the investor's risk and revenue expectations. The relationship of risk to revenue expectations can generally be summarized in terms of the capitalization rate, or *cap rate*.

The cap rate captures the relationship between the value of a piece of real estate and the potential net operating income that can be derived by the property (usually an estimate of stabilized income during a full year of building operation). In practice, the cap rate is often used as a measure of the relative attractiveness of a particular market.

A lower cap rate indicates that a buyer is willing to pay a higher price for the same income potential of a particular piece of property. The buyer may choose to do so for several reasons: there may be an

expectation that income will increase in future years as the area evolves; the purchase may benefit other property nearby the buyer already owns; the buyer may believe the development is good for the community and wants to invest in that local market; or, the buyer may simply choose a lower cap rate because of perceived lower risk associated with this opportunity versus others. A property for which the revenues are perceived to be less certain will likely only sell at higher cap rates.

In Woodinville, recent sales of properties have occurred at cap rates that average approximately 7.0%. Throughout the Eastside and in the suburban Puget Sound Region, properties generally have been selling at cap rates between 6.5% and 8.5%, varying by area and by type of property. This range is slightly lower than has been the case in years past. For this study, cap rates have been fixed at 6.5% for garden-style residential apartments, 7.0% for residential mixed-use and 8.0% for commercial properties. Fixing the rates allows the analytics to focus on the height-limit policy options and current market conditions by land use.

### ***Residual Land Value***

The residual land value analysis estimates the value of the land assuming a particular proposed development in place, and is expressed as per s.f. of the land. For undeveloped land, that value is exactly the cost before building the development. For a redevelopment project, the purchase value resulting from the analysis must include site preparation, including any demolition of existing buildings. Construction costs in this report exclude clearing costs, due to the site-specific nature of clearing costs. The analysis determines the maximum value to the buyer, and of course if the developer can obtain the land for a lower price, then he will choose to do so.

The residual land values provide a convenient metric for understanding the feasibility of a project, relative to existing market conditions and relative to other projects. Expressing the value in per s.f. terms allows the price of land to be the commodity of exchange. The value per s.f. of land resulting from analyzing a development opportunity can be compared to existing market values of land in the study area to determine whether a developer could likely obtain land in the study area for a price that the development could support. If the current land market values are higher than the analysis suggests for a development, then it is less likely the buyer will find a seller willing to sell the land at the analysis price and that the proposed development opportunity does not generate enough value to support purchasing land in that market.

### ***Single-Story Retail Example***

As an example and for an understanding of current conditions in Woodinville, the residual land value demonstrates the feasibility of a hypothetical single-story strip commercial center, similar to one of several currently found in Downtown Woodinville and throughout the Puget Sound region. The detailed analysis is presented in Appendix A, Exhibit A-1.

This hypothetical development includes 22,000 s.f. of net leasable retail space. The retail space requires roughly 25,000 s.f. of parking. For the developer to provide surface parking on-site, the required lot size would be 47,000 s.f. Given this configuration, Exhibit 4 shows that if the developer would receive retail rents of \$1.40 per s.f. per month (\$16.80 per year), then he would be willing to pay up to \$20.74 per s.f. for property rights to develop the project (assuming other buyers would

drive prices up that high as well). Higher rents would value the land even higher. With retail rents of \$1.80 per s.f. per month (\$21.60 per year), the development would create value equal to \$44.96 per s.f. of land (though in this case the value to the buyer might exceed the seller's asking price).

**Exhibit 4:  
Residual Land Value of Single-Story Retail**

Monthly Retail Rent Per S.f.	Value Per S.f.
\$1.40	\$20.74
\$1.50	\$26.79
\$1.60	\$32.85
\$1.70	\$38.91
\$1.80	\$44.96

Source: RS Means, Colliers International

This example serves a greater purpose than an explanation of the analytics: it demonstrates why there is such demand to develop single-story commercial centers. As stated above, retail rents average more than \$20.00 per s.f. per year in Woodinville (\$1.67 per month). As shown in Exhibit 4, at this rental rate, the development would support a land value of around \$35.00 per s.f. Existing sales prices of \$20 to \$40 per s.f. would attract a developer that believes he can successfully rent out the space modeled in this example.

The sections that follow present a summary and discussion of residual land value analyses for several development configurations. Each represents development of increasing density, according to the Master Plan respective to the location, either Downtown or in the Little Bear Creek Corridor.

**Downtown Core and Park Blocks Overlay**

The Master Plan envisions more densely developed housing and mixed-use buildings with retail and/or office space in a pedestrian-friendly environment Downtown. Included Downtown is the Park Blocks Overlay zone — a 200-foot area around a pedestrian/park corridor connecting the City's civic uses with Downtown retail.

The height limits proposed in the Downtown Core area include a base height of 39 feet (up from 35 feet allowed at present). The Master Plan includes a stepback requirement for stories above the second story. Additional height is allowed as an incentive to include structured parking and other unspecified attributes. The Park Blocks Overlay includes similar height-limit policy plus a structured parking incentive. With structured parking, the building could be up to five floors in height, not to exceed 57 feet.

***Economic Analysis***

Six hypothetical and prototypical development scenarios in the Downtown Core Park Blocks Overlay were analyzed to illustrate the framework and economic considerations discussed above. The development scenarios were all based on the development examples presented and discussed in the economic analysis (Appendix B) of the Master Plan.

The building footprint is held constant from scenario to scenario, starting with lower-cost apartments, adding in mixed-use, and then layering in additional stories and parking structure types, as shown in the column headings of Exhibit 5.

Exhibit 5 includes a summary of the analytical findings of residual land values. The land values per s.f. presented in columns 3 through 8 show the buyer's willingness to pay for each respective development, under varying market conditions. The land values per s.f. can be compared to existing land values in the study area (\$20 to \$40 per s.f.) for a rough idea of the feasibility of any one scenario. Without a specific parcel in mind for development, the price of land per s.f. provides a measure of feasibility in current market context.

The housing units represented in Exhibit 5 are assumed to be renter-occupied and the rents received vary by row in the table. Lower interest rates in recent years have made condominium development more feasible than rental-occupied housing in many places. While this analysis focuses on renter-occupied housing, the *relative* feasibility among scenarios would change very little, if any, with owner-occupied housing.

The rows in Exhibit 5 differ only in the apartment rents assumed for each scenario (column 2). Given the discussion above about the challenges of mixed-use and the risk of two uses succeeding, the retail rates assumed are somewhat lower than found in the retail center in Woodinville. Retail tenants expected to occupy mixed-use development may not pay high-end prices.

**Exhibit 5:  
Residual Land Value of Apartment and Mixed-Use Building Scenarios**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Land Value (\$/s.f.)								
Rental Revenue (\$/sf/mo.)	Apartments		Mixed-Use with Ground Floor Retail					
Commercial	Housing	Surface Pkg	Apartments Surface Pkg	Surface Parking		Above Ground Parking Structure		Below Ground Parking
		3-Story	4-Story	3-Story	4-Story	4-story	5-story	5-story
\$1.50	\$1.10	\$0.71	\$0.83	(\$11.34)	(\$10.65)	(\$30.45)	(\$37.01)	(\$108.86)
\$1.50	\$1.20	\$10.46	\$11.97	(\$4.44)	(\$1.99)	(\$18.53)	(\$20.87)	(\$85.41)
\$1.50	\$1.30	\$20.21	\$23.11	\$2.46	\$6.68	(\$6.61)	(\$4.74)	(\$61.95)
\$1.50	\$1.40	\$29.97	\$34.26	\$9.36	\$15.35	\$5.31	\$11.39	(\$38.50)
\$1.50	\$1.50	\$39.72	\$45.40	\$16.26	\$24.01	\$17.23	\$27.52	(\$15.05)

Source: RS Means, Colliers International, Dupre + Scott

The focus of this analysis is to demonstrate the development economics and how they change among scenarios. The actual value of land shown in each column in the table in reality could vary widely. Site conditions, building materials, labor costs and productivity all can change the actual values. The values in Exhibit 5 result from holding constant those variables. This approach demonstrate the value of the height incentives relative to additional development requirements.

**3-Story Garden-Style Apartments.** Moving from left to right, the first development analyzed (column 3) represents a low-cost multifamily housing development: garden-style three-story apartment building with surface parking. (The details of this analysis are presented in Appendix A, Exhibit A-2 through A-8.) A developer interested in investing in and building this scenario would only be willing to pay market value of land when rental rates surpass \$1.30 per s.f. (no commercial revenue exists in this scenario).

**4-Story Garden-Style Apartments.** Adding a story increases building development and operating costs, increases the amount of revenue potential of the property and increases the amount of parking required. Staying with surface parking only, increased parking requires more land. The value of this four-story garden-style apartment building (column 4) is an increase over the three-story version, but the increased revenue value is off-set somewhat by requiring more land for parking.

**3-Story Two Floors of Residential Above Ground Floor Retail.** The next development scenario (column 5) shows the impact on feasibility of bringing in retail to the ground floor of the development. This mix of uses represents the type of regulation the City might require for a developer seeking to build four stories in the Downtown Core. The column-5 scenario includes: ground-level retail with some tuck-under parking on ground level; housing on floors two and three; and surface parking to accommodate both retail and housing needs. With the retail space, the development begins to look feasible with rents coming in at \$1.75 per s.f. (not shown in Exhibit 5).

As discussed above, the values used in this example should *not* be taken as a firm statement of market value among uses. A developer could conceivably devise a profitable three-story, mixed-use scenario with the right location, tenants and building costs.

**4-Story Mixed-Use with Three Floors of Residential Above Ground Floor Retail.** Comparing the scenarios in columns 5 and 6 illustrates the economic value of extra heights to a developer. These two scenarios differ only in that the column 6 scenario includes one more story of residential than the column 5 scenario. As shown in Exhibit 5, a developer would generally be willing to pay more for the land to develop the 4-story scenario than the 3-story scenario. At residential rents above \$1.50 per s.f. this scenario becomes feasible.

Comparing columns 6 and 4 shows a developer would not find an incentive to go to four stories from three, if mixed-use were a *requirement* for the taller building, assuming the market revenues shown. An important aspect of this finding is the amount of retail space supportable in a mixed-use development. The developments modeled in Exhibit 5 include only a modest amount of retail (18,000 s.f.). The right location in Downtown might warrant a greater amount of retail space and higher-paying tenants, resulting in a highly profitable development.

**4-Story Mixed-Use with Three Floors of Residential Above Ground Floor Retail with Structured Parking.** Column 7 shows the 4-story mixed-use development with an above-ground parking structure located adjacent to the building. The stacked parking requires a much smaller footprint for the same amount of parking than surface parking. This configuration increases the willingness to pay for land *per s.f.*, by decreasing the necessary square feet of land.

The four-story, structured parking scenario shown in column 7 only becomes feasible with the higher residential rental rates near \$1.60 per s.f. (not shown in Exhibit 5) — higher than the surface parking scenario in column 6 with the same revenue-generating space. The cost of building the parking garage offsets the savings of buying less land.

**5-Story Mixed-Use with Four Floors of Residential Above Ground Floor Retail with Structured Parking.** The column 8 scenario represents the same structured parking configuration as in column 6 with an additional story on the mixed-use building accommodating more residential space. This comparison once again illustrates the impact on feasibility of building higher. At five stories, the structured parking scenario becomes feasible at residential rental rates just above \$1.50 per s.f.. (At \$1.50, not shown in Exhibit 5, the residual land value is \$27.52 per s.f..)

Comparing column 8 to column 6 shows that at the higher rents of \$1.40 per s.f. a developer would find an incentive to provide structured parking in exchange for building to five stories. At lower rents this would not be the case; the costs of the garage would result in decreased net revenues.

Note that the structured parking in columns 7 and 8 is stacked parking near the mixed-use building, but not part of the building itself. In addition, both cases include 16,500 s.f. of tuck-under, at-grade parking. This configuration matches the likely scale of retail space (18,000 s.f.) in a mixed-use development, and would allow parking within the structure to lessen the amount of structured and surface parking required outside the development. In all cases, a small amount of surface parking would exist as well.

**5-Story Mixed-Use with Four Floors of Residential Above Ground Floor Retail with Below-Ground Structured Parking.** The final mixed-use scenario, shown in column 9 of Exhibit 5, shows the significant impact of building below-ground structured parking. As discussed above, the costs of building parking structure escalate rapidly when below-ground parking is necessary. As shown in Exhibit 5, to buy land at the current market clearing price of \$30 to \$40 per s.f., residential rental rates would need to exceed \$1.40 per s.f.. (With residential rates of \$1.70 per s.f. this scenario becomes more feasible, not shown in Exhibit 5.) Offsetting somewhat the increased cost of below-ground parking is the need to buy much less land than in the earlier above-ground structure scenarios.

The focus of this section is to demonstrate the increased feasibility from a developer's perspective of additional building height for structures varying within three to five stories, as allowed in the Master Plan. The comparisons demonstrate that the additional story makes the development more attractive for investment, in the higher rental income ranges.

## **Little Bear Creek Corridor Commercial Building**

The Master Plan calls for the Little Bear Creek Corridor to accommodate most of the uses currently permitted in the General Business (GB) zone and the Office (O) zone, and to maintain the current prohibition on residential uses. The initial vision for the corridor consisted of office park development. This vision appears to have been opened up with greater flexibility, likely in part due to market conditions for office space in the short-term and uncertainty in the long-term.

The corridor has the look and feel of a business park setting, with good traffic access and large parcels. This type of environment, including the creek as an amenity for workers and residents, would potentially attract typical business park tenants, including tech companies, light industrial firms and office tenants seeking a slightly more industrial setting than found in Downtown offices.

Flex-tech and office space provide a useful prototype to demonstrate the feasibility impact of the Master Plan policies. With retail and professional service office space concentrated in the Downtown Core and CBD, the Little Bear Creek Corridor provides a logical destination and lower-cost market for businesses requiring more space. Businesses located along the Corridor would also include businesses not requiring or willing to pay a premium for access to Downtown amenities.

The height requirements in the Master Plan for the Little Bear Creek Corridor include similar elements as for the Downtown Core: 39-foot base height, stepback for buildings over two stories additional incentives to allow 51 feet, and a structured parking incentive to allow five floors (60 feet in this case).

***Economic Analysis***

A comparison of residual land values of prototypical flex-tech and retail space demonstrates a similar impact of additional heights as was shown in the mixed-use examples. Exhibit 6 presents the willingness to pay for land associated with flex-tech and retail buildings of varying heights and parking configurations. Details on each scenarios are presented in Appendix A, Exhibits A-9 through A-13. Similar to the mixed-use scenarios, the flex-tech scenarios represented in Exhibit 6 progress in scale and complexity from left to right in the Exhibit. Retail revenue is held constant (column 1), and the rows vary only in the assumed rental rates achieved from the flex-tech space, as shown in column 2.

**Exhibit 6:  
Residual Land Value of Flex-Tech and Retail Scenarios**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Land Value (\$/s.f.)						
Rental Revenue (\$/sf/mo.)	Surface Parking		Above Ground Parking Structure		Below Ground Parking	
Retail	Flex-tech	3-Story	4-Story	4-story	5-story	5-story
\$1.50	\$1.10	\$0.53	(\$1.02)	(\$30.94)	(\$34.61)	(\$83.15)
\$1.50	\$1.20	\$9.05	\$8.30	(\$13.52)	(\$15.41)	(\$63.11)
\$1.50	\$1.30	\$17.58	\$17.62	\$3.91	\$3.80	(\$43.08)
\$1.50	\$1.40	\$26.10	\$26.94	\$21.33	\$23.01	(\$23.05)
\$1.50	\$1.50	\$34.63	\$36.27	\$38.75	\$42.21	(\$3.02)

Source: RS Means, Colliers International, Daily Journal of Commerce.

The flex-tech rental rates assume a blend of industrial and office tenants, both of which are willing to pay different amounts per space in the flex-tech market. Frequently a single tenant will identify the need for a mix of uses for such space. The higher end of the flex-tech market closely resembles demand for office space currently on the Eastside. The lower end matches closer with warehouse and light industrial uses.

**3-Story Flex-Tech Building with Ground Floor Retail.** Beginning with column 3, the smaller scale prototype analyzed consists of a 3-story flex-tech building with some ground floor retail. The scale is assumed to be roughly a 50,000 s.f. building footprint, including 10,000 square feet of rentable retail space, as shown in greater detail in Appendix B, Exhibit B-1. All parking in this scenario is assumed to be surface parking provided on-site.

At this scale, assuming roughly a \$15 to \$25 per s.f. value necessary to determine feasibility, average rents required for the flex-tech space would be near \$1.25 per s.f. — in the middle ground of today's market between flex-tech and office rents.

**4-Story Flex-Tech Building with Ground Floor Retail.** Column 4 shows the marginally improved feasibility of adding a floor of leasable flex-tech space. With the fourth floor, this development looks more feasible with higher flex-tech rents than the three-floor scenario, but not by a large amount. This similarity is primarily because the additional floor requires the acquisition of more land for surface parking. On a per s.f. basis, as shown in Exhibit 6, the extra land costs off-set increases in revenue.

**4-Story Flex-Tech Building with Ground Floor Retail and Structured Parking.** Column 5 demonstrates the same space and configuration as the column 4 scenario with the addition of above-ground structured parking provided on-site for the flex-tech space tenants. Parking for retail shoppers and some flex-tech space would still be accommodated with surface parking.

At higher rents, column 5 residual land values show that in this case the above ground parking scenario provides value reasonably close to the surface parking scenario for the same building. This closeness is largely because of the less land required to purchase to accommodate the surface parking.

**5-Story Flex-Tech Building with Ground Floor Retail and Structured Parking.** Comparing columns 5 and 6 once again demonstrates the improved feasibility of building an additional story. In this scenario, the amount of land required is decreased by building structured parking instead of surface parking. The extra floor of revenue really begins to make a difference at this scale. In this scenario, average flex-tech rents nearer to \$1.40 per s.f. begin to suggest feasibility.

Comparing column 6 with column 4 shows that the fifth story would provide the proper incentive to build structured parking only when higher rents are achieved. At lower rents, the structured parking would prove prohibitive and a developer would prefer to remain at four stories with surface parking.

**5-Story Flex-Tech Building with Ground Floor Retail and Below-Ground, Structured Parking.** Finally, column 6 shows the substantial challenge of providing parking underground. While the required land is minimized in this scenario, the costs of more than \$70 per s.f. of providing underground parking make this scenario much less appealing. Required rents for flex-tech would be more than \$1.50 per s.f. to make this scenario feasible.

## **COMPARABLE COMMUNITY EXPERIENCES**

The Master Plan includes public investments by the City designed to beautify the City and enhance the desirability of living and working in the City. Civic stakeholders desire an understanding of the expected benefits of the public investments. In regards to the analysis presented in this study, the question is, "How will public investments affect demand for the types of development envisioned in the Master Plan?"

One way to frame the issue is to view Woodinville in competition with other communities for the interests of developers in the region. Many developers' business model is to repeat development types that they know best (residential versus retail versus mixed-use, strip centers versus high-rises, for example). They seek sites that appeal to them for their development specialties. The City is in effect in competition with other cities to attract developers that build the kind of mixed-use and higher density projects the City is seeking.

The following sections provide the framework to understand the value of the public investments. The first section identifies the markets supporting high-density, urban villages, showing the rents achieved in these areas that support more costly development. The next section identifies the public investments that have occurred and in progress to encourage stronger markets. The concluding section discusses how Woodinville fits within the market along with the public investments planned. Attributing the causal relationship between public investments and stronger markets is difficult, but an understanding of those investments will help demonstrate how public investments fit within private investment and new developments.

### **Markets Supporting High-Density Urban Villages**

The analysis above demonstrates the connection between structured parking and higher property values. As discussed in the residual land value section, property values themselves are a reflection of the potential for higher revenues from development. Communities with higher rents, therefore, show markets that support higher-densities, and possibly mixed-use developments. This section focuses on multifamily housing, a key demand indicator for mixed-use residential feasibility.

Higher condo sales prices, generally found in the same communities, also reflect stronger markets for residential developments. The multifamily markets vary among business cycles. The current period of lower-interest rates has made owner-occupied housing more attractive to residents and developers. In many cases, however, the builder may wait until units are near completion to decide whether to lease or sell the units. For the purposes of evaluating public investments and public policy, rental housing demand provides a sufficient indicator of market strength.

### ***High-Demand Areas***

In the Puget Sound region, the market realities show that higher-density developments are found most frequently in Seattle neighborhoods. Market rents for apartments, shown in Exhibit 7, show why those neighborhoods attract higher-cost developments. The analysis above demonstrated the need for rents in the range of \$1.50 per s.f. or more to support structured parking. As shown in Exhibit 7, all of the Seattle neighborhoods shown in Exhibit 7 have rents in this range.

Rents in Woodinville, range from \$0.90 to \$0.99 per s.f. for slightly older units, built from 1985 to 1990. Among the higher rent communities on the Eastside, also shown in Exhibit 7, Kirkland ranks highest. Downtown Kirkland is known for high-density housing, with many condominiums and apartments above structured parking. Juanita and the western portion of Bellevue rank the next highest. Even with that ranking, many apartment complexes in these areas are traditional garden-style apartments, serving the demand for lower-priced housing.

**Exhibit 7:  
Average Rents of Newer Construction,  
Multifamily Rental Housing, 2003**

Community	Average Rent (\$/sf)	
	Low	High
<b>Seattle Neighborhoods</b>		
Belltown	\$1.55	\$2.69
Queen Anne	\$1.56	\$1.92
Central	\$1.30	\$1.78
Greenlake/Wallingford	\$1.45	\$1.67
First Hill	\$1.41	\$1.64
Capitol Hill/Eastlake	\$1.36	\$1.63
University District	\$1.40	\$1.53
<b>Eastside Neighborhoods</b>		
Kirkland	\$1.52	\$1.94
Juanita	\$1.27	\$1.49
Bellevue-West	\$1.42	\$1.46

Source: Dupre + Scott Apartment Advisors, 2003.

Note: Rents for apartments constructed since 1994.

Seattle neighborhoods that command higher rents have a wealth of amenities attractive to apartment and condo dwellers: quick transit access to Downtown and employment opportunities; pedestrian access to restaurants, parks, trails and commercial centers. Many developments, similar to those in Kirkland and other Eastside communities, offer views and waterfront access.

***Exceptions***

Structured parking and mixed-use can occur in places throughout the region without views or amenities. In some places, sloped parcels make structured parking more cost-effective, with ground-level access to tuck-under parking on one side of the building, while the floor above parking opens out at ground level on the other side.

In more moderate market areas, such as Renton, structured parking takes the form of tuck-under parking beneath long blocks of development. The Renton examples, in particular, coincide with a major transit facility. The transit-oriented development succeeded as a result of extensive collaboration between developers, the City and multiple partners to develop a site attractive to the developers.

## **What Other Cities Are Doing**

Communities that want to influence the type and scale of development have two primary mechanisms: (1) zoning that regulates what can and cannot happen; and (2) strategies that might affect either the cost or the potential income of a desired development type. Zoning can prevent undesirable development, but may not be particularly effective in attracting preferred projects. In cases where the current market will not support desirable development, then strategies that focus on changing the development economics will need to be considered to attract new and desirable projects.

Strategies that target the cost of development could include efforts to streamline the permitting process, providing infrastructure improvements or allow flexibility to meet overall design goals, reducing parking requirements or even providing for parking in common publicly-funded multiple-use parking facilities. Strategies designed to target the revenue potential might include raising height limits or increasing Floor-Area-Ratios (FAR) or improving neighborhoods through investments in amenities (such as parks or streetscapes) or public services (such as improved public safety or education).

The City of Kent provides a current example of a significant public investment by a city designed to reduce the cost of development and to foster higher densities and mixed-use development in their town center. The City recently approved selling ten acres of land to a developer for \$5 per s.f., after the City purchased the land at \$15 per s.f.. This demonstrates the City's willingness to bridge the gap between the development economics of the desired development and the current market conditions. One can imagine a residual land value analysis, similar to those in Appendix A, showing a value of \$5 per s.f. for the City's preferred development plans, while a private party seller would see land value at \$15 per s.f. for other uses not in the City's vision.

Other examples of strategies employed by cities throughout the region include:

- The City of Tukwila is contemplating public investments in amenities and infrastructure and changes in zoning to turn the Southcenter Mall area into more of an urban center with pedestrian corridors and mixed-use developments including housing.
- In recent years, the City of Renton, as discussed earlier, worked collaboratively with a particular developer to identify public investments that would help lower the costs of development in a mixed-use residential project in the downtown area.
- The City of Redmond invested in sidewalks, new street designs and the Redmond Town Center to develop a City Center accessible by nearby higher-density housing.

In many cases, the public investments include infrastructure, such as sewers, telecommunication and roads coordinated with specific developments that lower the developers' costs of catering to market demands.

## **Woodinville Assets and Public Investments**

The City of Woodinville offers many assets that fit the amenity-based lifestyles of the neighborhoods discussed above. The City's parks and access to the Sammamish River Trail, with planned non-

motorized connections to Downtown, compare favorably to the open-space amenities offered in Green Lake and Kirkland, for example.

The City's growing retail base, theaters and restaurants will meet the demand for entertainment amenities demonstrated in Kirkland and many Seattle neighborhoods. The City's investments in new streets and sidewalks and pedestrian corridor connecting the Sammamish River Trail compare favorably to the types of investments in other Puget Sound region communities that have coincided with increased development.

## **APPENDIX A: MIXED-USE PRO FORMA FEASIBILITY SKETCHES**

The following exhibits present residual land value analyses corresponding to the findings presented in Exhibits 5 and 6. Gray shaded boxes in the Appendix exhibits indicate values assumed to be typical for each scenario in the Woodinville market.

## Exhibit A-1: Single-Story Retail

Building footprint	22,000	
Surface parking	25,550	
Allowance for setbacks, landscaping and access	1.0%	
Land required		52,305
Development configuration		
Ground floor (15')		
Entry way and support area		
Leasable retail space	22,000	
Total development area	22,000	
Net leasable space	22,000	
Development costs per sf (includes soft costs, fees, contingencies)		
Initial tenant improvements and lease-up costs	\$125.00	
Building costs	\$15.00	\$3,080,000
Surface parking costs per sf (includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs		\$153,300
Total development costs		\$3,233,300
Operating assumptions		
Expected retail space rents (\$/sf/mo, net of expenses)	\$1.50	
Average vacancy rate	10%	
Retail rental revenue		\$356,400
Annual operating costs, net of tenant fees		(\$8,800)
Net revenue from operations		\$347,600
Cap rate		
Required property cost (subsidy)	7.5%	\$1,401,367
Residual value per s.f.		\$26.79

**Exhibit A-2:  
3-Story Garden-Style Apartments**

Building footprint	37,000	
Allowance for setback, open space and access	50%	
Land required for building (with setback, openspace)		55,500
Surface parking	47,700	
Allowance for setback and access	15%	
Land required for parking (with setback, openspace)		54,855
Total land required		<u>110,355</u>
Development configuration		
Ground floor		
Multifamily units	36	
Unit size (sf)	900	
Common space (% of unit space)	15.0%	
Multifamily space (sf)		37,300
Second floor		
Multifamily units	36	
Unit size (sf)	900	
Common space (% of unit space)	15.0%	
Multifamily space (sf)		37,300
Third floor		
Stepback loss (sf)	1,540	
Multifamily space (sf)		35,760
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	915	
Total multifamily units	106	
Total multifamily net rentable square footage	95,896	
Total development space		<u>110,360</u>
Development costs		
Costs for residential space (\$/sf)	\$105	
Hard costs for building		\$11,587,800
Cost of tenant amenities		\$328,600
Costs for surface parking (\$/sf)	\$6.00	
Hard costs for surface parking		\$286,200
Total costs for site		<u>\$12,202,600</u>
Total MF cost per unit		\$115,119
Operating Assumptions		
Average residential vacancy rate	5%	
Expected apartment rents (\$/sf)	\$140	
Annual residential revenue		\$1,530,495
Effective percentage of gross income	36%	
Residential operating costs per year		(\$550,978)
Monthly parking revenue per month per apt. space	\$20	
Monthly parking operating cost per space	\$5	
Net rental revenue		\$28,620
Net operating income		<u>\$1,008,137</u>
Cap rate	6.5%	
Residual land value (subsidy)		\$3,307,193
Residual value per s.f.		\$29.97

**Exhibit A-3:  
4-Story Garden-Style Apartments**

Building footprint	37,000	
Allowance for setback, open space and access	50%	
Land required for building (with setback, openspace)		55,500
Surface parking	63,000	
Allowance for setback and access	15%	
Land required for parking (with setback, openspace)		72,450
Total land required		<u>127,950</u>
Development configuration		
Ground floor		
Multifamily units	36	
Unit size (sf)	900	
Common space (% of unit space)	15.00%	
Multifamily space (sf)		37,300
Second floor		
Multifamily units	36	
Unit size (sf)	900	
Common space (% of unit space)	15.00%	
Multifamily space (sf)		37,300
Third floor		
Stepback loss (sf)	1,540	
Multifamily space (sf)		35,760
Multifamily units	34	
Common space (% of unit space)	15.00%	
Unit size (sf)	915	
Fourth floor		
Stepback loss (sf)	1,540	
Multifamily space (sf)		35,760
Multifamily units	34	
Common space (% of unit space)	15.00%	
Unit size (sf)	915	
Total multifamily units	140	
Total multifamily net rentable square footage	126,991	
Total development space		<u>146,120</u>
Development costs		
Costs for residential space (\$/sf)	\$105	
Hard costs for building		\$15,342,600
Cost of tenant amenities		\$434,000
Costs for surface parking (\$/sf)	\$6.00	
Hard costs for surface parking		\$378,000
Total costs for site		<u>\$16,154,600</u>
Total MF cost per unit		\$115,390
Operating Assumptions		
Average residential vacancy rate	5%	
Expected apartment rents (\$/sf)	\$1.40	
Annual residential revenue		\$2,026,781
Effective percentage of gross income	36%	
Residential operating costs per year		(\$729,641)
Monthly parking revenue per month per apt. space	\$20	
Monthly parking operating cost per space	\$5	
Net rental revenue		\$37,800
Net operating income		<u>\$1,334,940</u>
Cap rate	6.5%	
Residual land value (subsidy)		\$4,382,938
Residual value per s.f.		\$34.26

**Exhibit A-4:**  
**3-Story Two Floors of Residential Above Ground Floor Retail**

Building footprint	37,000	
Allowance for setback, open space and access	50%	
Land required for building (with setback, openspace)		55,500
Surface parking	34,800	
Allowance for setback and access	15%	
Land required for parking (with setback, openspace)		40,020
Total land required		<u>95,520</u>
Development configuration		
Ground floor (15' story)		
Allowance for service area and common space	10%	
Service area and common space		2,500
Leasable commercial space (sf)		18,000
Tuck-under surface parking		16,500
Second floor (12')		
Multifamily units	36	
Unit size	900	
Common space (% of unit space)	15.0%	
Multifamily space		37,300
Third floor (12')		
Stepback loss	1,848	
Multifamily space		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size	907	
Total multifamily units	70	
Total multifamily space (including common space)		<u>72,752</u>
Net leasable residential space		63,228
Retail development costs per sf (includes soft costs, fees, contingencies)		
Tenant improvement costs per sf	\$159.00	
Development costs per sf (includes soft costs, fees, contingencies)	\$15.00	
Tuck-under parking costs per sf	\$105.00	
Building costs	\$60.00	
Residential amenities total cost		\$12,158,460
Total building costs		<u>\$217,000</u>
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs		\$208,800
Total costs for site		<u>\$12,584,260</u>
Operating Assumptions		
Expected commercial space rents (per sf, per year)	\$18.00	
Expected commercial vacancy	10%	
Annual commercial revenue		\$291,600
Expected apartment rents	\$1.40	
Average residential vacancy rate	5%	
Annual residential revenue		\$1,009,116
Effective percentage of gross income	36%	
Residential operating costs per year		(\$363,282)
Monthly parking revenue per month per apt. space	\$20	
Monthly operating cost per space	\$5	
Net garage rental revenue		<u>\$6,060</u>
Net operating income		\$943,494
Cap rate	7.0%	
Residual land value (subsidy)		\$894,230
Residual value per s.f.		\$9.36

**Exhibit A-5:**

**4-Story Mixed-Use with Three Floors of Residential Above Ground Floor Retail**

Building footprint	37,000	
Allowance for setback, open space and access	50%	
Land required for building (with setback, openspace)		55,500
Surface parking	50,100	
Allowance for setback and access	15%	
Land required for parking (with setback, openspace)		57,615
Required land		<u>113,115</u>
Development configuration		
Ground floor (15')		
Allowance for service area and common space	10%	
Service area and common space (sf)		2,500
Leasable commercial space (sf)		8,000
Tuck-under surface parking		16,500
Second floor (12')		
Multifamily units	36	
Unit size (sf)	900	
Common space (% of unit space)	15.0%	
Multifamily space (sf, including common space)		37,300
Stepback loss (sf per floor, floors 3 and up)	1,848	
Third floor (12')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Fourth floor (12')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Total multifamily units	104	
Total multifamily space (including common space)		108,204
Net leasable residential area (sf)		94,056
Retail development costs per sf (includes soft costs, fees, contingencies)		
Tenant improvement costs per sf	\$159.00	
Residential development costs per sf (includes soft costs, fees, contingencies)	\$15.00	
Tuck-under parking costs per sf	\$105.00	
Building costs	\$60.00	
Residential amenities total cost		\$15,880,920
Total building costs		<u>\$322,400</u>
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	\$16,203,320
Surface parking costs		<u>\$300,600</u>
Total costs for site		<u>\$16,503,920</u>
Operating Assumptions		
Expected commercial space rents (per sf, per year)	\$18	
Expected commercial vacancy	10%	
Annual commercial revenue		\$291,600
Expected apartment rents	\$1.40	
Expected residential vacancy rate	5%	
Gross annual revenue from residential		\$1,501,128
Effective percentage of gross income	36%	
Residential operating costs per year		(\$540,406)
Monthly parking revenue per month per apt. space	\$20	
Monthly parking operating cost per space	\$5	
Net parking rental revenue		<u>\$24,480</u>
Net operating income		<u>\$1,276,802</u>
Cap rate	7.0%	
Required property cost (subsidy)		\$1,736,109
Residual value per s.f.		\$15.35

**Exhibit A-6:  
4-Story Mixed-Use with Three Floors of Residential  
Above Ground Floor Retail with Structured Parking**

Building footprint	37,000'	
Allowance for setback, open space and access	50%	
Land required for building (with setback, openspace)		55,500
Parking garage footprint	21,667	
Additional surface parking	1,600	
Allowance for setback and access	15%	
Land required for parking (with setback, openspace)		26,757
Required land		<u>82,257</u>
Development configuration		
Ground floor (15')		
Allowance for service area and common space	10%	
Service area and common space		2,500
Leasable commercial space (sf)		18,000
Tuck-under surface parking		16,500
Second floor (12')		
Multifamily units	36	
Unit size	900	
Common space (% of unit space)	15.0%	
Multifamily space (sf, including common space)		37,300
Stepback loss (sf per floor, floors 3 and up)	1,848	
Third floor (12')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Fourth floor (12')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Total multifamily units	104	
Total multifamily space (including common space)		108,204
Net leasable residential space (sf)		94,056
Retail development costs per sf (includes soft costs, fees, contingencies)	\$159.00	
Tenant improvement costs per sf	\$15.00	
Tuck-under parking costs per sf	\$60.00	
Residential development costs per sf (includes soft costs, fees, contingencies)	\$105.00	
Building costs		\$15,880,920
Residential amenities total cost		<u>\$322,400</u>
Total building costs		\$16,203,320
Parking structure costs (\$/sf, includes soft costs, fees, contingencies)	\$27.00	
Parking structure costs		\$1,755,000
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs		<u>\$9,600</u>
Total costs for site		\$17,967,920
Operating Assumptions		
Expected commercial space rents (per sf, per year)	\$18	
Expected commercial vacancy	10%	
Annual commercial revenue		\$291,600
Average residential vacancy rate	5%	
Expected apartment rents	\$1.40	
Annual residential revenue		\$1,501,128
Effective percentage of gross income	36%	
Residential operating costs per year		(\$540,406)
Monthly garage revenue per month per apt. space	\$40	
Monthly garage operating cost per space	\$15	
Net garage rental revenue		<u>\$36,000</u>
Net operating income		\$1,288,322
Cap rate	7.0%	
Required property cost (subsidy)		\$436,681
Residual value per s.f.		\$5.31

**Exhibit A-7:  
5-Story Mixed-Use with Four Floors of Residential  
Above Ground Floor Retail with Structured Parking**

Building footprint	37,000	
Allowance for setback, open space and access	50%	
Land required for building (with setback, openspace)		55,500
Parking garage footprint	20,000	
Additional surface parking	1,900	
Allowance for setback and access	15%	
Land required for parking (with setback, openspace)		2,518.5
Required land		<u>80,685</u>
Development configuration		
Ground floor (15')		
Allowance for service area and common space	10%	
Service area and common space		2,500
Leasable commercial space (sf)		18,000
Tuck-under surface parking		16,500
Second floor (10')		
Multifamily units	36	
Unit size	900	
Common space (% of unit space)	15.0%	
Multifamily space (sf, including common space)		37,300
Stepback loss (sf per floor, floors 3 and up)	1,848	
Third floor (10')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Fourth floor (10')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Fourth floor (12')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Total multifamily units	138	
Total multifamily space (including common space)		143,656
Net leasable residential space (sf)		124,883
Retail development costs per sf (includes soft costs, fees, contingencies)		
Tenant improvement costs per sf	\$159.00	
Tuck-under parking costs per sf	\$15.00	
Residential development costs per sf (includes soft costs, fees, contingencies)	\$105.00	
Building costs		\$19,603,380
Residential amenities total cost		\$427,800
Total building costs		<u>\$20,031,180</u>
Parking structure costs (\$/sf, includes soft costs, fees, contingencies)	\$27.00	
Parking structure costs		\$2,160,000
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs		\$11,400
Total costs for site		<u>\$22,202,580</u>
Operating Assumptions		
Expected commercial space rents (per sf, per year)	\$18	
Expected commercial vacancy	10%	
Annual commercial revenue		\$291,600
Average residential vacancy rate	5%	
Expected apartment rents	\$140	
Annual residential revenue		\$1,993,140
Effective percentage of gross income	36%	
Residential operating costs per year		(\$717,531)
Monthly garage revenue per month per apt. space	\$40	
Monthly garage operating cost per space	\$15	
Net garage rental revenue		\$51,300
Net operating income		<u>\$1,618,510</u>
Cap rate	7.0%	
Required property cost (subsidy)		\$918,989
Residual value per s.f.		\$11.39

**Exhibit A-8:  
5-Story Mixed-Use with Four Floors of Residential  
Above Ground Floor Retail with Below-Ground Structured Parking**

Building footprint	37,000	
Allowance for setback, open space and access	50%	
Land required for building (with setback, openspace)		55,500
Required land		55,500
Development configuration		
Underground parking (1-story)		
Level 1	66,600	
Total underground parking		66,600
Ground floor (15')		
Leasable commercial space (sf)	18,000	
Residential entry way	2,500	
Tuck-under surface parking		16,500
Second floor (10')		
Multifamily units	36	
Unit size	900	
Common space (% of unit space)	15.0%	
Multifamily space (sf, including common space)		37,300
Stepback loss (sf per floor, floors 3 and up)	1,848	
Third floor (10')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Fourth floor (10')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Fifth floor (12')		
Multifamily space (sf, including common space)		35,452
Multifamily units	34	
Common space (% of unit space)	15.0%	
Unit size (sf)	907	
Total multifamily units	138	
Total multifamily space (including common space)		143,656
Net leasable residential space (sf)		124,883
Retail development costs per sf (includes soft costs, fees, contingencies)		
Tenant improvement costs per sf	\$159.00	
Tuck-under parking costs per sf	\$15.00	
Residential development costs per sf (includes soft costs, fees, contingencies)	\$60.00	
Building costs	\$105.00	
Residential amenities total cost		\$19,603,380
Total building costs		\$427,800
Total development costs		\$20,031,180
Parking structure costs (\$/sf, includes soft costs, fees, contingencies)	\$77.00	
Parking structure costs		\$5,128,200
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs		\$99,000
Total development costs		\$25,258,380
Operating Assumptions		
Expected commercial space rents (per sf, per year)	\$18	
Expected commercial vacancy	10%	
Annual commercial revenue		\$291,600
Average residential vacancy rate	5%	
Expected apartment rents	\$1.40	
Annual residential revenue		\$1,993,140
Operating costs as percentage of gross income	36%	
Residential operating costs per year		(\$717,531)
Monthly garage revenue per month per apt. space	\$40	
Monthly garage operating cost per space	\$15	
Net garage rental revenue		\$51,300
Net operating income		\$1,618,510
Cap rate	7.0%	
Required property cost (subsidy)		(\$2,136,811)
Residual value per s.f.		(\$38.50)

**Exhibit A-9:**  
**3-Story Flex-Tech Building with Ground Floor Retail**

Building footprint (sf)	50,000	
Surface parking (sf)	114,000	
Allowance for setbacks, landscaping and access	10%	
Land required (sf)		180,400
Development configuration		
Allowance for common area	0%	
Ground floor (15' height)		
Common area (sf)		5,000
Leasable retail space (sf)	20,000	
Flex-tech space (sf)	25,000	
Second floor (12' height)		
Common area (sf)		5,000
Flex-tech space (sf)	45,000	
Stepback loss (sf floor area, per floor above two stories)	1,200	
Third floor (12' height)		
Common area (sf)		4,880
Flex-tech space (sf)	43,920	
Total development area (sf)		148,800
Net leasable space (sf)		133,920
Development costs (\$/sf, includes soft costs, fees, contingencies)		
Building costs total	126.00	\$18,748,800
Tenant improvements (\$/sf)	\$10.00	\$1,339,200
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	\$684,000
Total development costs		<u>\$20,772,000</u>
Operating assumptions		
Expected retail space rents (\$/sf/mo, net of expenses)	\$1.50	
Flex-tech rents (\$/sf/mo, net of expenses)	\$1.30	
Average vacancy rate	10%	
Retail, office and industrial rental revenue		\$1,923,437
Annual operating costs, net of tenant fees		<u>(\$8,000)</u>
Net revenue from operations		\$1,915,437
Cap rate		
Required property cost (subsidy)	7.5%	\$4,767,157
Residual value per s.f.		\$26.43

**Exhibit A-10:**  
**4-Story Flex-Tech Building with Ground Floor Retail**

Building footprint (sf)	50,000	
Surface parking (sf)	157,800	
Allowance for setbacks, landscaping and access	10%	
Land required (sf)		228,580
Development configuration		
Allowance for common area	10%	
Ground floor (15' height)		
Common area (sf)		5,000
Leasable retail space (sf)		20,000
Flex-tech space (sf)		25,000
Second floor (12' height)		
Common area (sf)		5,000
Flex-tech space (sf)		45,000
Stepback loss (sf floor area, per floor above two stories)	1,200	
Third floor (12' height)		
Common area (sf)		4,880
Flex-tech space (sf)		43,920
Fourth floor (12')		
Common area (sf)		4,880
Flex-tech space (sf)		43,920
Total development area		197,600
Net leasable space		177,840
Development costs (\$/sf, includes soft costs, fees, contingencies)		
Development costs (\$/sf, includes soft costs, fees, contingencies)	\$126.00	
Building costs total		\$24,897,600
Tenant improvements (\$/sf)	\$10.00	
Tenant improvements total		\$1,778,400
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs total		\$946,800
Total development costs		<u>\$27,622,800</u>
Operating assumptions		
Expected retail space rents (\$/sf/mo, net of expenses)	\$1.50	
Flex-tech rents (\$/sf/mo, net of expenses)	\$1.30	
Average vacancy rate	10%	
Retail, office and industrial rental revenue		\$2,540,074
Annual operating costs, net of tenant fees		<u>(\$8,000)</u>
Net revenue from operations		\$2,532,074
Cap rate	7.5%	
Required property cost (subsidy)		\$6,138,181

## Exhibit A-11:

### 4-Story Flex-Tech Building with Ground Floor Retail and Structured Parking

Building footprint	50,000	
Parking garage footprint	40,000	
Surface parking	21,190	
Allowance for setbacks, landscaping and access	10%	
Land required		122,309
Development configuration		
Allowance for common area	10%	
Ground floor (15' height)		
Common area (sf)		5,000
Leasable retail space (sf)		20,000
Flex-tech space (sf)		25,000
Second floor (12' height)		
Common area (sf)		5,000
Flex-tech space (sf)		45,000
Stepback loss (sf floor area, per floor above two stories)	1,200	
Third floor (12' height)		
Common area (sf)		4,880
Flex-tech space (sf)		43,920
Fourth floor (12')		
Common area (sf)		4,880
Flex-tech space (sf)		43,920
Total development area		197,600
Net leasable space		177,840
Development costs (\$/sf, includes soft costs, fees, contingencies)		
Total shell costs	126.00	\$24,897,600
Tenant improvements (\$/sf)	\$10.00	\$1,778,400
Tenant improvements total		\$1,778,400
Total building costs		\$26,676,000
Parking structure costs (\$/sf, includes soft costs, fees, contingencies)	\$27.00	\$4,320,000
Parking structure costs		\$4,320,000
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	\$127,140
Surface parking costs		\$127,140
Total development costs		\$31,123,140
Operating assumptions		
Expected retail space rents (\$/sf/mo, net of expenses)	\$1.50	
Flex-tech rents (\$/sf/mo, net of expenses)	\$1.30	
Average vacancy rate	10%	
Retail, office and industrial rental revenue		\$2,540,074
Monthly operating costs, net of tenant fees		(\$12,000)
Net revenue from operations		\$2,528,074
Cap rate	7.5%	
Required property cost (subsidy)		\$2,584,508

**Exhibit A-12:**

**5-Story Flex-Tech Building with Ground Floor Retail and Structured Parking**

Building footprint	50,000	
Parking garage footprint	50,000	
Surface parking	25,730	
Allowance for setbacks, landscaping and access	10%	
Land required		138,303
Development configuration		
Allowance for common area	10%	
Ground floor (15' height)		
Common area (sf)		5,000
Leasable retail space (sf)		25,000
Flex-tech space (sf)		20,000
Second floor (12' height)		
Common area (sf)		5,000
Flex-tech space (sf)		45,000
Stepback loss (sf floor area, per floor above two stories)	1,200	
Third floor (12' height)		
Common area (sf)		4,880
Flex-tech space (sf)		43,920
Fourth floor (12')		
Common area (sf)		4,880
Flex-tech space (sf)		43,920
Fifth floor (12')		
Common area (sf)		4,880
Flex-tech space (sf)		43,920
Total development area		246,400
Net leasable space		221,760
Development costs (\$/sf, includes soft costs, fees, contingencies)		
Development costs (\$/sf, includes soft costs, fees, contingencies)	\$126.00	
Total shell costs		\$31,046,400
Tenant improvements (\$/sf)	\$10.00	
Tenant improvements total		\$2,217,600
Total building costs		\$33,264,000
Parking structure costs (\$/sf, includes soft costs, fees, contingencies)	\$27.00	
Parking structure costs		\$5,400,000
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs		\$154,380
Total development costs		\$38,818,380
Operating assumptions		
Expected retail space rents (\$/sf/mo, net of expenses)	\$1.50	
Flex-tech rents (\$/sf/mo, net of expenses)	\$1.30	
Average vacancy rate	10%	
Retail, office and industrial rental revenue		\$3,167,510
Monthly operating costs, net of tenant fees		(\$20,000)
Net revenue from operations		\$3,147,510
Cap rate	7.5%	
Required property cost (subsidy)		\$3,148,425

**Exhibit A-13:  
5-Story Flex-Tech Building with Ground Floor Retail  
and Below-Ground, Structured Parking**

Building footprint	50,000	
Surface parking	70,850	
Allowance for setbacks, landscaping and access	10%	
Land required		132,935
Development configuration		
Allowance for common area	10%	
Ground floor (15' height)		
Parking entry	5,000	
Common area (sf)	4,500	
Leasable retail space (sf)	20,000	
Flex-tech space (sf)	20,500	
Second floor (12' height)		
Common area (sf)	5,000	
Flex-tech space (sf)	45,000	
Stepback loss (sf floor area, per floor above two stories)	1,200	
Third floor (12' height)		
Common area (sf)	4,880	
Flex-tech space (sf)	43,920	
Fourth floor (12')		
Common area (sf)	4,880	
Flex-tech space (sf)	43,920	
Fifth floor (12')		
Common area (sf)	4,880	
Flex-tech space (sf)	43,920	
Total development area		246,400
Net leasable space		217,260
Development costs		
Development costs per sf (includes soft costs, fees, contingencies)	\$126.00	
Building costs		\$31,046,400
Parking structure costs (\$/sf, includes soft costs, fees, contingencies)	\$74.00	
Parking structure costs		\$11,100,000
Surface parking costs (\$/sf, includes soft costs, fees, contingencies)	\$6.00	
Surface parking costs		\$452,100
Total development costs		\$42,598,500
Operating assumptions		
Expected retail space rents (\$/sf/mo, net of expenses)	\$0.95	
Flex-tech rents (\$/sf/mo, net of expenses)	\$1.30	
Average vacancy rate	10%	
Retail, office and industrial rental revenue		\$2,974,730
Monthly operating costs, net of tenant fees		(\$25,000)
Net revenue from operations		\$2,949,730
Cap rate		
Required property cost (subsidy)	7.5%	(\$3,268,761)
Residual value per s.f.		(\$24.59)

## MEMORANDUM

**TO:** Paige Goganian, Crandall Arambula  
**FROM:** Marlo Isaac, Sedway Group  
**DATE:** May 20, 2002  
**SUBJECT:** Woodinville market conclusions for Work Session #3

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In response to your May 15<sup>th</sup> memo, Sedway Group has prepared the following comments to be integrated into the May 23<sup>rd</sup> presentation for the City of Woodinville. It is our understanding that at this time our input should be framed in qualitative terms, and that we will be asked to conduct a more detailed, quantitative analysis as we reach the conclusion of this assignment.

Here are our comments in response to the questions you have posed:

### Retail

- All qualitative signs indicate that downtown Woodinville has a strong retail environment, one which should be able to successfully absorb significant additional retail square footage (perhaps up to 1 million square feet, although the timeframe for such absorption requires further analysis).
- The market for pedestrian-oriented, mixed use retail development emphasizing locally-owned and/or small-scale retail shops is also extremely viable, although there must be several strong draws in the retail mix that inspire people to get out of their cars. Molbaks is currently a strong draw; another strong draw could be a popular locally-owned ice cream shop or some form of retail with an entertainment appeal.
- Key drivers for a successful and vibrant downtown retail district include the following:
  - 1) anchor retailers (could be both national retailers as well as popular locally-owned strong draws);
  - 2) smaller retailers to capitalize on the foot traffic generated by the anchors;
  - 3) well designed streetscape and public elements (i.e., de Young Park) that integrate the new retail;
  - 4) solid programming within the public spaces (i.e., evening concerts) that are organic with the surrounding environment
- Plan concepts and amenities do create an environment that will be attractive to the development community. However, an amenity such as the park block will do more for the residential development than the retail development. Assuming this amenity bolsters residential development, then it will in turn be an attractive inducement for retail development.
- Plan concepts and amenities (the park block and downtown housing in particular) will certainly help to foster an environment that will be attractive to the retail development community, but serves more as "icing on the cake." The overall strength of the retail market and the ease in which developers can work with the City are critical elements that will determine how attractive retail development is to the development community.

### **Residential**

- Downtown Woodinville is a pioneering location for residential development. Regionally, Woodinville is viewed as an attractive location in which to live; this should foster strong market interest in downtown living, and the expectation is that downtown Woodinville residential development will be successful.
- Medium density townhome product would be a good starting point for downtown residential development. It has the ability to offer a product that can be affordable as well as high-end, therefore tapping into a variety of market segments. It can also offer amenities which might appeal to the single-family home buyer that a higher density condominium product cannot.
- Phasing for residential development will be key. As the downtown Woodinville housing market matures, it can graduate to a higher density condominium product that builders and buyers are not ready for quite yet.
- The park block is an outstanding amenity to attract residential development, and is an essential element to creating attractive in-city living. However, it must be well executed in terms of its design, landscaping, hardscape improvements and programming.
- In isolation the park block won't be as attractive of an amenity as when its paired with a vibrant, mixed use retail district.
- Plan concepts and amenities do create an environment that is attractive to the development community. Another key factor to consider is how "user-friendly" the entitlement process is for developers and how easily the development community can work with the various City departments.

### **Office**

- The market for small offices (particularly over retail) should be strong. Downtown Woodinville currently offers a limited inventory of this product type and if more were available we expect that it would have healthy occupancy rates.
- Additional retail and residential development downtown will further support the market for more small office spaces downtown, particularly in a well designed, well executed mixed use retail district.
- The Little Bear Creek corridor has the potential to become a strong location for large floor plate office development, with the right developer and marketing. Issues for further investigation include access to regional transportation networks and high-traffic visibility. Market success for office development at this location would be largely developer driven.

Please call to discuss or for clarification. See you on May 23<sup>rd</sup>.

Memorandum

To: Crandall – Arambula  
From: Ben Pollock/Sedway Group  
Re: Woodinville Revenue Generation Analysis  
Date: August 14, 2002

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Last month, I prepared a simplified analysis of projected tax and fee revenues that the City of Woodinville could receive based on the proposed Crandall-Arambula downtown master plan. I understand that the City now is interested in some brief background information on how these revenue projections were determined. This memo is intended to address that interest.

Under the proposed increased height limit of 55 feet, the amount of permissible new development under the master plan would be as follows:

<u>Land Use</u>	<u>Allowable Development</u>
Office	75,000 square feet
Retail	150,000 square feet
Residential	2,800 units

The revenues this development would generate for the City would include recurring and non-recurring sources. The City would receive property, sales and utility tax revenues on a recurring basis throughout the life cycle of a project. On a one-time basis, the City also would receive real estate excise taxes, traffic mitigation fees, and parks impact fees. As a static and stabilized analysis, the projection assumed a full build-out of the development program identified above. The actual amount of revenues generated would grow incrementally to the stabilized levels as new projects came on line. The revenue sources are discussed briefly below:

Property Taxes

The City's share of property taxes is \$1.52 for every \$1,000 of assessed value. The total increase in assessed value at the build-out of the development program was projected at \$680 million (in current dollars). New residential projects would create most of this increase in assessed value. Assessed values were assumed to be equal to property market values, which were based on estimates for current land, hard and soft costs and developer profit margins. The typical residential unit of 800-1,000 square feet would be valued at about \$225,000, office space at about \$200 per square foot of rentable area, and retail space at about \$175 per square foot. The total annual property tax receipts to the City would be about \$1,000,000.

Sales Taxes

These revenues would be generated by the approximately 150,000 square feet of new retail space identified in the master plan. The City receives 0.85% of retail sales as its share of the sales tax. Average retail sales volumes were assumed to be \$250 per square foot per year, which would generate sales tax receipts to the City of about \$300,000 per year.

Utility Taxes

The City currently receives approximately \$500,000 per year in utility taxes from the existing base of residential, industrial, office, and retail space which is estimated at about 8.2 million

square feet. This equates to a tax rate effectively of about \$0.06 per square foot of space. The master plan identifies about 2.5 million square feet of new space, which would generate about \$150,000 per year at the effective tax rate.

#### Real Estate Excise Taxes

The Capital Project and Special Capital Project funds each receive a tax of  $\frac{1}{4}$  % on the sales proceeds of each real estate transaction. Under the assumption that each newly developed property eventually is sold, the City would receive a total of about \$3.4 million from this revenue source. This estimate probably understates the revenue potential from REET because commercial and residential properties typically change hands on average at least every 7-10 years.

#### Parks Impact Fees

The City receives a one-time fee of \$1,796 per unit for each new residential unit.

#### Traffic Mitigation Fees

These fees currently are collected from developers by the City through the SEPA process. Between 1993 and 2001, these fees averaged around \$50,000 per year. During this time period, there was an average of about 167,000 square feet developed per year. Thus, the average traffic mitigation fee per square foot of built area was about \$.30 per square foot. Based on the total building program under the master plan of about 2.5 million square feet, the City would receive one-time traffic mitigation fees of approximately \$750,000.

How quickly the City receives these tax and fee revenues will depend on how fast the development program is built out. Market demand or the rate of absorption is one factor that would effect how quickly new development proceeded and the build-out was achieved. Absorption can not be projected reliability without a comprehensive analysis of income, employment, population and other demographic and economic data in Woodinville and more broadly on the Eastside and regionally. The City, however, has requested some commentary on demand expectations. So with this caveat, I offer the following insights.

One indication of future absorption is the experience of the recent past. Where a product type is well- established in a market area, historic construction and leasing data should be available to serve as a barometer for the future. Some data is readily available for the office and retail sectors in Woodinville. Between 1993 and 2001, a span of eight years, about 260,000 square feet of retail and office space was built in Woodinville. The vacancy rate in the Woodinville/Bothell market area, as tracked by CB Richard Ellis, was about 4.5% through the first half of 2002, indicating that virtually all the developed space has been absorbed. On an annual basis, therefore, the absorption rate probably has averaged about 30,000 square feet of office and retail space per year. At these absorption rates, the office and retail components of the master plan would require about 7  $\frac{1}{2}$  years to be absorbed.

There has been limited multi-family residential development in Woodinville in recent years. The number of housing units built in the area between 1993 and 2000 totaled about 650 units. (Dupre + Scott Apartment Advisors reports only 268 apartment units developed in the Woodinville/Totem Lake area in this period). This modest development activity, about 90 units per year, may not be a reliable indicator of future demand. Based on the current housing stock in Woodinville of about 3,900 units, annual increases of 90 units equals a 2.3% growth rate. This

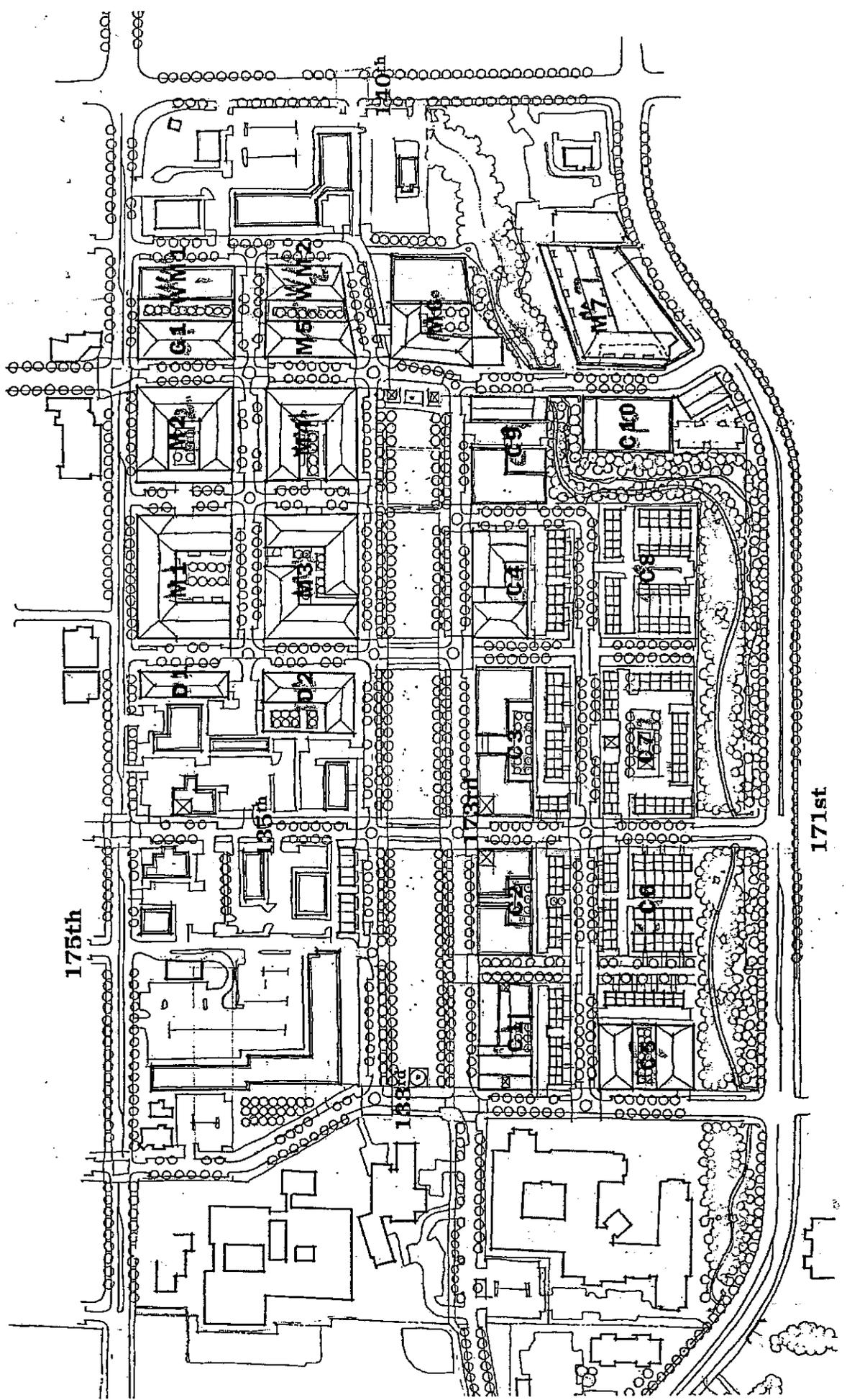
represents a modest rate of growth that is consistent with a more mature market. But if more development opportunities are made available in Woodinville and as the overall size of the multi-family market increases in this community, the number of new housing units that are absorbed annually can be expected to increase there, too.

## Downtown Core Development Estimates

### Woodinville Downtown Master Plan

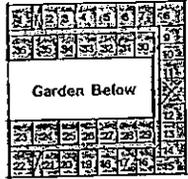
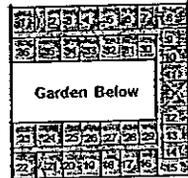
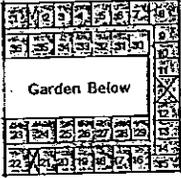
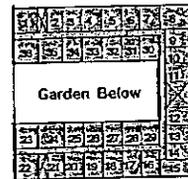
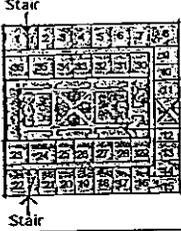
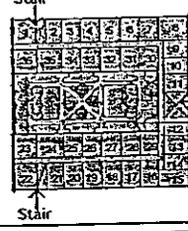
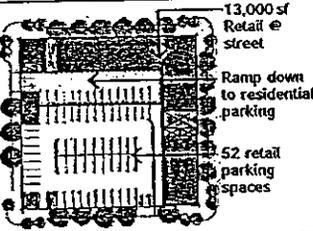
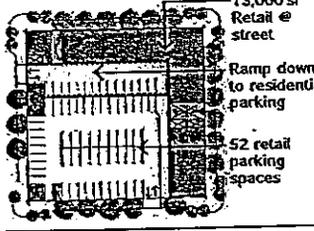
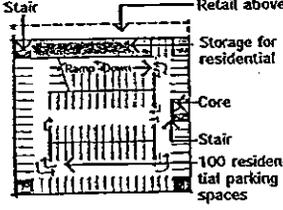
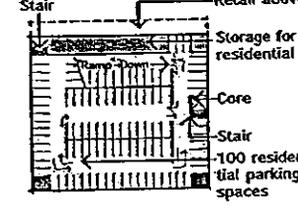
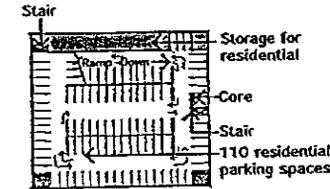
Block	Retail/Commercial sf x 1000	Office sf x 1000	Residential Units # units
D1	-	20	-
D2	-	-	140
M1	40	-	180
M2	10	10	-
M3	-	-	250
M4	7.5	-	160
M5	8.5	-	60
M6	20	-	170
M7	25	-	186
C1	-	-	192
C2	-	-	192
C3	-	-	300
C4	3.5	-	140
C5	-	-	192
C6	-	-	21
C7	-	-	18
C8	-	-	21
C9	7.5	-	150
C10	15	-	320
G1	10	-	72
WM1	-	26	48
WM2	-	20	30
Total	147	76	2,842

**Downtown Core Area**  
(used by consultant for estimating potential dwelling units)



# Woodinville Typical Block Investment Comparison

11/15/02

	Scheme A	Scheme B
<b>R4</b> 5th Floor Housing	—	 36 Units
<b>R3</b> 4th Floor Housing	—	 36 Units
<b>R2</b> 3rd Floor Housing	 36 Units	 36 Units
<b>R1</b> 2nd Floor Housing	 36 Units Core Roof Garden below	 36 Units Core Roof Garden below
<b>Ground Floor</b> Retail	 13,000 sf Retail @ street Ramp down to residential parking 52 retail parking spaces	 13,000 sf Retail @ street Ramp down to residential parking 52 retail parking spaces
<b>P1</b> Parking	 Retail above Storage for residential Core Stair 100 residential parking spaces	 Retail above Storage for residential Core Stair 100 residential parking spaces
<b>P2</b> Parking	—	 Stair Storage for residential Core Stair 110 residential parking spaces

## Memorandum

To: Carl Smith/City of Woodinville  
Cc: Crandall – Arambula  
From: Ben Pollock/Sedway Group  
Re: Residential units to be developed under the current 45' and proposed 55' height limits  
Date: October 15, 2002

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At your request and as discussed with Crandall-Arambula, I reviewed the feasibility of development under the current 45 foot height limit compared to the proposed 55 foot height limit. Crandall-Arambula previously showed that the increased height limit could result in approximately a doubling of the number of dwelling units developed in the core area to 2,800 units from 1,400 units under the existing land use code.

This increase in the projected number of units is a function mainly of structured parking requirements. A typical three-story structure containing 13,000 square feet of retail/commercial space on grade and 72 residential units on the upper two levels would require about 150 parking space, assuming 1.4 spaces per unit and 4 spaces per 1,000 square feet of commercial space. This parking requirement could be accommodated with about 50 on-grade spaces and one level of below-grade parking containing about 100 spaces.

If an additional residential floor was created on a fourth level containing approximately 36 units, then an additional 50 parking spaces would be needed at the 1.4 spaces per dwelling unit ratio. These parking spaces would need to be provided in a second underground level about half the size of the upper parking level. This second underground level of parking would be much more costly than the first level because of excavation and shoring expenses. The second level also would be highly inefficient due to ramping and turning requirements. This would make the cost per parking space on the second level substantially greater than the cost per space on the upper level.

With the increased height limit, the project could add a fifth floor containing an additional 36 units. While these units would require an additional 50 spaces, this parking requirement could still be accommodated in a second underground level. Under this scenario, however, the shoring and excavation costs would be amortized over twice the spaces bringing down the cost per space. With a larger footprint, the lower level also would be much more efficient in terms of the ratio of ramps and drive-aisles to total floor area which would further decrease cost per space.

**With the 45 foot height limit, the total number of residential units projected to be built would not provide sufficient fiscal benefits for the City to be able to finance the proposed public improvements to the downtown core. With the increased height limit, however, the number of units to be developed would provide ample revenues to fund the proposed \$30 million public improvement package.**