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MEMORANDUM

To: Dean Weidner, President, Weidner Apartment Homes
Rob Karlinsey, City Manager, City of Kenmore

Kyran Hynes, Acquisitions & Land Development Director, Weidner Apartment Homes
Don Bowzer, Development Solutions, Inc.

Cc: Bryan Hampson, Development Services Director, City of Kenmore
Ben Yazici, Muni Manage
Brian O'Connor, O'Connor Consulting Group, LLC

From: HR&A Advisors, Inc.

Date: August 2, 2018

Re: Kenmore Lakepointe Feasibility & Benefits Analysis Findings and Next Steps

HR&A Advisors, Inc. (HR&A) is pleased to transmit our final deliverable for the assignment for which you contracted with us approximately six months ago -- an analysis of the financial feasibility and economic and fiscal impacts associated with the proposed development project known as Lakepointe. Over the course of this engagement, we have worked with the City of Kenmore (the City) and the Weidner Apartment Homes team (Weidner) to test three program alternatives: the development as permitted by the Commercial Site Development Plan (CSDP) in the late 1990s, the current Weidner-proposed program, and an alternative program defined by HR&A based on the findings of our market analysis and ability to alter the program tested without substantially changing the Weidner site plan or phasing. Weidner has envisioned a dense, mixed-use, high-end program on the approximately 50-acre waterfront site, and the City, Weidner, and HR&A believe that such a project has the potential to lead a market shift in Kenmore, capitalizing on the strength and pace of recent development in the region.

However, as summarized in the attached briefing book and detailed in the financial model provided on June 27th, **our findings suggest that all three program alternatives analyzed result in a significant feasibility gap, larger than can reasonably be filled or significant narrowed by direct financial assistance from the City, exercising key policy levers, or making additional minor modifications to the building program.** Moreover, the program as contemplated does not yet take into consideration a final set of the City's priorities for any publicly-supported development, which may include the size and character of open space provided, the level of affordable housing included within the program, and other public benefits frequently associated with public-private development.

Based on these findings, HR&A recommends that the City and Weidner revisit the project's phasing and program more fully, in a final effort to create an achievable plan for development of Lakepointe. Alternatively, and/or in addition, Weidner may choose to revisit some of the standard assumptions underlying our analysis, notably including its tolerance for risk and the projected internal rate of return (IRR) we have assumed is required to undertake development. This memo summarizes our findings, describes the rationale for our recommendation, and requests Weidner's participation in next steps.

I. Summary of HR&A Findings

HR&A tested the feasibility of the three development alternatives described above using a discounted cash flow model, which assumes that feasible development requires a 16% to 20% project-wide IRR, which is consistent with the results of our market research and outreach, considering the size and complexity of this project. HR&A then calculated the amount of subsidy that would be required over the length of the project to allow a master developer to achieve this return. The resulting gap is described in the attached briefing book as both a nominal value and net present value (NPV), assuming an annual discount rate of 6% for the City of Kenmore. In estimating this gap, we considered the impact of the anticipated value of vertical development, the cost of sitewide preparation and horizontal improvements, and changes to key policies, such as parking ratios, affordable housing requirements, and property taxes.

HR&A's analysis concluded that all the three development scenarios described above result in a substantial feasibility gap. For the developer proposed program, the gap ranges from \$123M to \$155M in NPV terms. For the HR&A alternative, the gap is comparable, at \$125M to \$151M in NPV terms. For the CSDP program, the gap reaches an amount that cannot be calculated while requiring the assumed IRR, and therefore assumed to be significantly greater than the other programs tested. At this level of feasibility gap, the policy tools and levers analyzed are not sufficient to narrow the gap such that the remaining gap can be filled by direct City contribution. For instance, were the City and Weidner to agree on a subsidy program that required Weidner to deliver a 1.6-acre, first-class park, while also reducing parking requirements, abating property taxes, and waiving impact fees, the gap is only narrowed to \$67M to \$101M on an NPV basis (for the developer-proposed program).

Three key factors have significant effects on the program's feasibility and the resulting gap:

- **Proposed land acquisition price.** Weidner has acquired an option to purchase the land to complete the project for approximately \$49M, which is substantial for a property requiring this level of enabling infrastructure and remediation. Indeed, our analysis clearly establishes that, under reasonably foreseeable market conditions, given site conditions, and based on the contemplated program and phasing, current land value associated with the proposed development is negative. Certainly, it is reasonable to assume that land value will be positive in the future, but only after significant upfront investment in site preparation and placemaking, the passage of time, and successful partnership with the City.
- **Cost of site preparation.** The physical condition of the site (as fill) and history of contamination requires a significant investment in advance of more usual horizontal expenses. Site stabilization costs alone are estimated to be \$115 M (inclusive of soft costs and contingency). The total cost of capping, stabilization and pilings, transportation and utility improvements, and open space and shoreline restoration improvements of the site are 69-87% of the feasibility gap on an NPV basis. As discussed more fully below, we believe these costs require a review of proposed site parcelization and phasing to determine whether development of the entirety of the site is economically rational and, if so, in what order.
- **Phasing associated with delivery of the program, as envisioned by Weidner.** The current site plan places the first phase of development at the tip of the peninsula, requiring the completion of a significant amount of site preparation and horizontal improvements in advance of any revenue generation. It also makes what is likely the most valuable location on the site the earliest development site, in advance of realizing any upside from placemaking or additional background regional growth. HR&A recommends an analysis to understand the potential benefits associated with revising

the location and timing of phases and different uses and densities. We believe that there is an opportunity to begin with phases that can more easily build on existing infrastructure and development in Downtown Kenmore and build up to the most valuable area and program on the site.

At present, there is a high risk that this important and potentially transformative project will not be delivered. Therefore, HR&A recommends that the City and Weidner teams engage in a refreshed, focused planning effort to revisit the proposed plan for development of Lakepointe, seeking to affect the three variables described above to find the appropriate program and define a public-private development partnership structure that can balance narrowing the project's feasibility gap and achieving the important public benefits associated with this project.

II. Recommended Next Steps

The City and Weidner, with HR&A's assistance if desired, should work with a technical team to quickly and intensively re-examine the site and program with the objective of identifying a program that balances the City's goals and priorities for the project and Weidner's vision and ability and appetite to take on development risk. Given the familiarity of the parties with each other, their objectives, and the site, 30 days should be sufficient to conclude the task. The technical team involved in this study should include:

- An urban planner or designer. HR&A recommends working with a visionary but proven-to-be-practical designer such as Ken Greenberg, potentially alongside a team to execute site planning work (perhaps re-engaging GGLO);
- An experienced local cost estimator and/or engineer to provide updated phasing and estimates for site preparation and horizontal improvements (potentially the City's cost estimator consultant or KPFF, or a combination);
- A traffic engineer to provide insight into transportation mitigations (potentially the City's engineer or Transpo, or a combination).

This task could be undertaken as follows:

- A first session with the City and Weidner teams to discuss goals, priorities, and potential considerations around partnership structure, to shape revised findings and recommendations.
- A second work session with the technical team to work through the planning process and the analysis of key variables, including sitewide phasing, the relationship between development scale and density and the level of required horizontal improvements, the City's priorities and key public benefits to be delivered with the development, and the project's potential to deliver on Weidner's vision for Lakepointe and deliver a transformative development in Kenmore.
- Revision of the financial feasibility and impacts model to reflect the program and phasing generated by this planning exercise.
- Presentation of results to the City and Weidner teams to discuss findings and determine a path forward to a development agreement.

We welcome discussion with your teams about the above recommendation, and hope to collaborate with you in this effort moving forward. Should you have any questions about the above, we are happy to discuss with you at your convenience.