LAKEPOINTE FEASIBILITY & BENEFITS STUDY

JULY 2018

HR&A Analyze. Advise. Act.

Executive Summary | Project Scope and Objectives

The City of Kenmore engaged HR&A Advisors to analyze project feasibility and economic and fiscal impacts of the proposed Lakepointe project.

Project Objectives:

1. Test the feasibility of the currently-permitted and developer-proposed development programs for Lakepointe, and explore program alternatives that may narrow any resulting project feasibility gap.
2. For each development program tested, estimate the annual economic and fiscal impacts to the City of Kenmore and relevant taxing entities.
3. Based on the calculated project feasibility gap, economic and fiscal benefits, and fiscal costs, identify options for a public-private partnership to advance the project.

HR&A Scope:

Executive Summary | Project Overview

HR&A tested the feasibility of potential development at the Lakepointe site to inform the future development program and partnership structure between the City and Weidner.

HR&A tested the feasibility of three development programs at Lakepointe, ranging in density and share of program uses:

- **CSDP**: The development as permitted by the Commercial Site Development Plan (CSDP), produced in the late 1990s. This program envisioned an entertainment and retail-driven hub at Lakepointe, with low overall density (relative to the Weidner program), a larger retail component, and higher parking ratios.
- **Developer-proposed program**: The development plan proposed by Weidner. The Weidner team envisions a high-end, fitness and health-centered residential program and hotel, followed by a substantial office component. The program is intended to lead a market shift in Kenmore, capitalizing on the strength, and pace, of recent development in the region.
- **HR&A alternative:** The "HR&A Alternative" program modifies the developer-proposed program based on HR&A's market findings and recommendations.

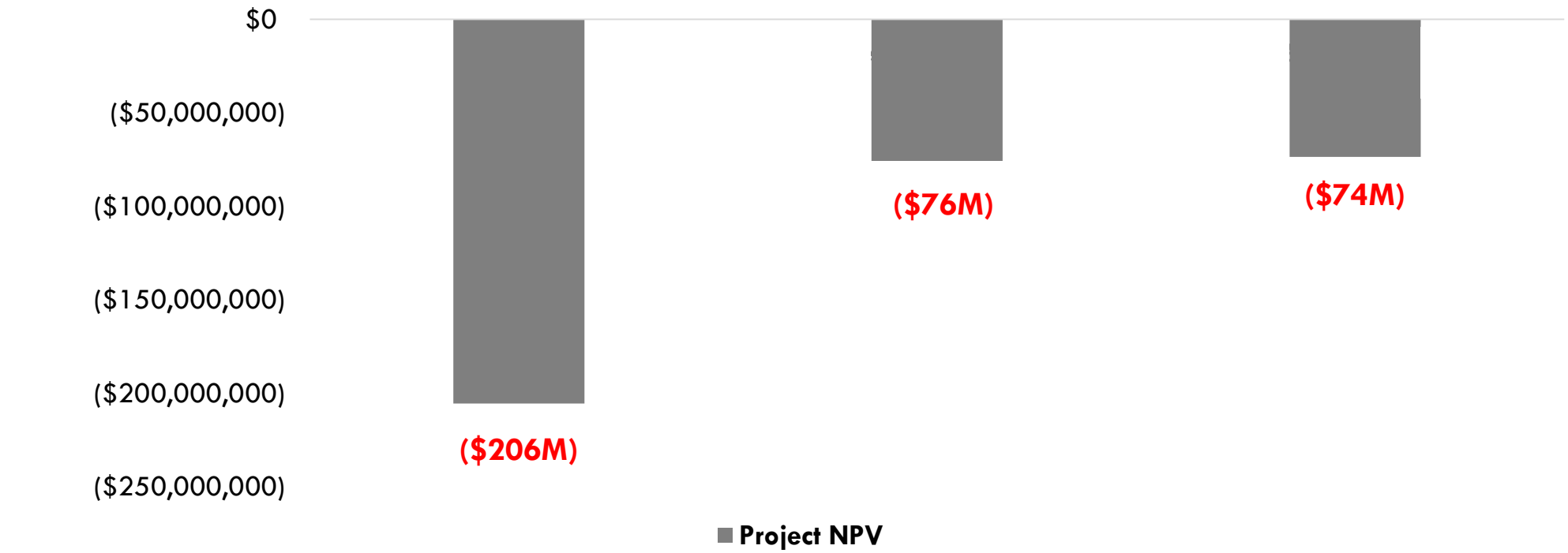
PROGRAM	RESIDENTIAL	OFFICE	RETAIL	HOTEL	PARKING
CSDP	1,200 units	175,000 NSF	277,000 GSF	150 Keys	3,532 spaces
Developer-proposed	2,000 units	600,000 NSF	126,000 GSF	150 Keys	5,003 spaces
HR&A Alternative	1,650 units	357,000 NSF	126,000 GSF	0 Keys	3,284 spaces

Executive Summary | Financial Feasibility

For all scenarios tested, a significant project gap remains after accounting for the full horizontal improvement costs, given the required market return.

HR&A compared development net revenues and costs in an overall cash flow to assess project-wide value and feasibility. In all scenarios there is a significant project gap, driven largely by the cost of horizontal improvements (including remediation) required to support vertical development on the site, and exacerbated by certain elements of the vertical program (such as lower-revenue affordable housing and higher-cost high-rise development).

	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
Feasibility Gap, NPV (16%-20% IRR)	*Unable to calculate*	$123M - $155M	$125 - $151M



Executive Summary | Economic & Fiscal Impacts Key Findings

Construction of any of the programs, especially the developer-proposed program, will create substantial one-time fiscal and economic benefit for Kenmore.

HR&A also assessed the economic impacts and fiscal revenues generated by each program.

- **The CSDP program's** scale of infrastructure requirements (and subsequently, investment) generates significant economic activity. The high infrastructure costs also generate sales tax revenue, which results in large one-time fiscal revenues, though the program generates the lowest ongoing economic impact and fiscal revenues.
- **The developer-proposed program** generates the highest one-time and ongoing economic activity and fiscal revenues out of the three programs, due to the scale of the program's combined horizontal investments and proposed vertical improvements.
- **The HR&A alternative program** generates lower one-time economic activity and fiscal revenues than the other proposed programs. This is due to the reduced scale of required horizontal improvements, which generates less in sales tax revenues, and generates less construction and labor spending. The program generates moderate ongoing impacts relative to the others.

ONE-TIME ECONOMIC ACTIVITY	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
Economic Impact (NPV)	**$1,490,000,000**	**$1,911,000,000**	**$1,249,000,000**
Job-Years Supported (FTE)	**9,635**	**12,655**	**8,370**
Labor Income (NPV)	**$664,000,000**	**$852,000,000**	**$557,000,000**
Net Fiscal Revenues (2018$)	**$11,439,532**	**$16,483,162**	**$10,560,812**
ONGOING ECONOMIC ACTIVITY	**CSDP**	**DEVELOPER-PROPOSED**	**HR&A ALTERNATIVE**
Economic Impact (Stabilized Year)	**$507,000,000**	**$1,462,000,000**	**$888,000,000**
Job-Years Supported (FTE)	**1,855**	**4,360**	**2,720**
Labor Income (Stabilized Year)	**$110,000,000**	**$266,000,000**	**$166,000,000**
New Residents	**2,275**	**3,750**	**3,170**
Annual Fiscal Impact, City of Kenmore	**$3,090,889**	**$3,680,542**	**$2,818,970**

Executive Summary | Next Steps

The City and the developer should enter into a partnership structure that takes into account future fiscal end economic benefits, site constraints, and limited public resources.

Defining City goals and identifying aligned funding and financing tools will support negotiations and progress toward implementation. Next steps to advance implementation include:

1. Clearly **define City objectives** and priorities to ensure that the City and developer clearly understand their respective expectations as the project advances towards implementation..

2. Explore all **opportunities to reduce the gap** including: i) making of a direct public-sector commitment to items of high community priority, consistent with local resources, ii) phasing and program planning that maximize value and minimize upfront costs, which may include developing a revised site plan, and iii) deployment of funding and financing tools that can be applied to the remaining gap.

3. Working with project partners, **negotiate a development agreement** that maintains project flexibility, which can be achieved by establishing development minima or guidelines that allow for future program adjustments based on market trends.

To reduce the feasibility gap, the City and developer can consider pulling the following levers:

Size the plausible direct **municipal support** based on potential to achieve public priorities and current funding resources which could reduce the feasibility gap by

$3-5M*

Revisit the site plan to maximize potential for transformative revenue growth, and minimize upfront infrastructure investment, which could reduce the feasibility gap by

TBD

Use **existing local policies and programs** to reduce the feasibility gap by

$5-60M

**Initial estimate of public support is equivalent to the projected investment in a public park within the currently-proposed site plan, assuming $2.4 million per acre for 1.5 acres of open space.*

Project Overview

Market Overview

Feasibility & Impact Analysis

Implementation Recommendations

Appendix

Project Overview

The subject property is an approximately 50-acre site located on the northern edge of Lake Washington, known as Lakepointe.

- **Weidner Apartment Homes (Weidner) has proposed a significant, long-term redevelopment plan** for the site that would result in a transformative, mixed-use development known as Lakepointe.
- Prior to Weidner's securing an option, the site was entitled under a **Commercial Site Development Plan** (CSDP), proposed and designed by CallisonRTKL. Development; the project as permitted was abandoned in the late 1990s.
- Any development on-site will require a significant investment in infrastructure to address environmental conditions, stabilize the site for construction, connect the site to the existing road network, bring utilities to new buildings, and deliver important site elements for public use (such as waterfront access and open space).
- The City of Kenmore (the City) and Weidner are coordinating efforts to determine whether there is a viable public-private partnership to enable development of the site.

Project Overview

The City of Kenmore engaged HR&A Advisors to analyze project feasibility and impacts.

Project Objectives:

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HR&A Scope:

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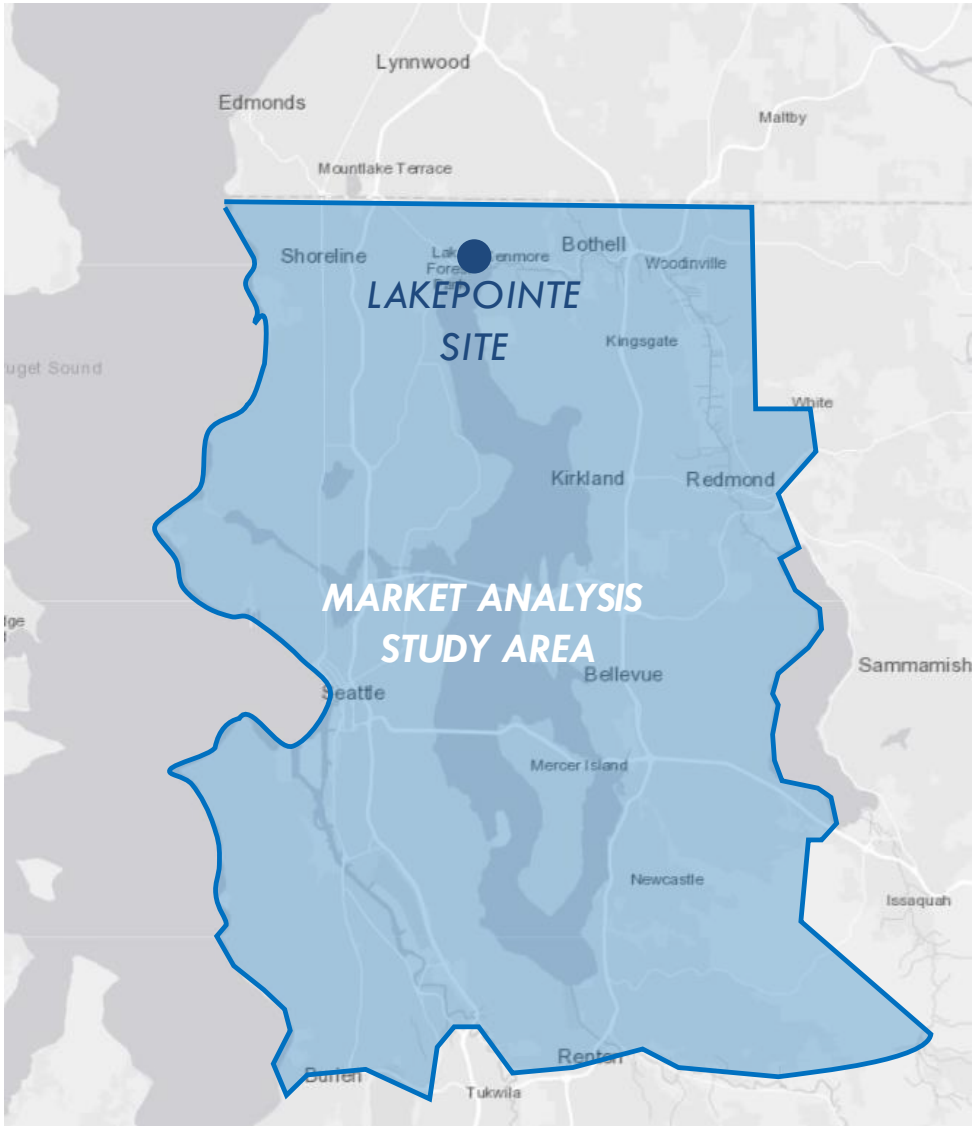
Market Overview

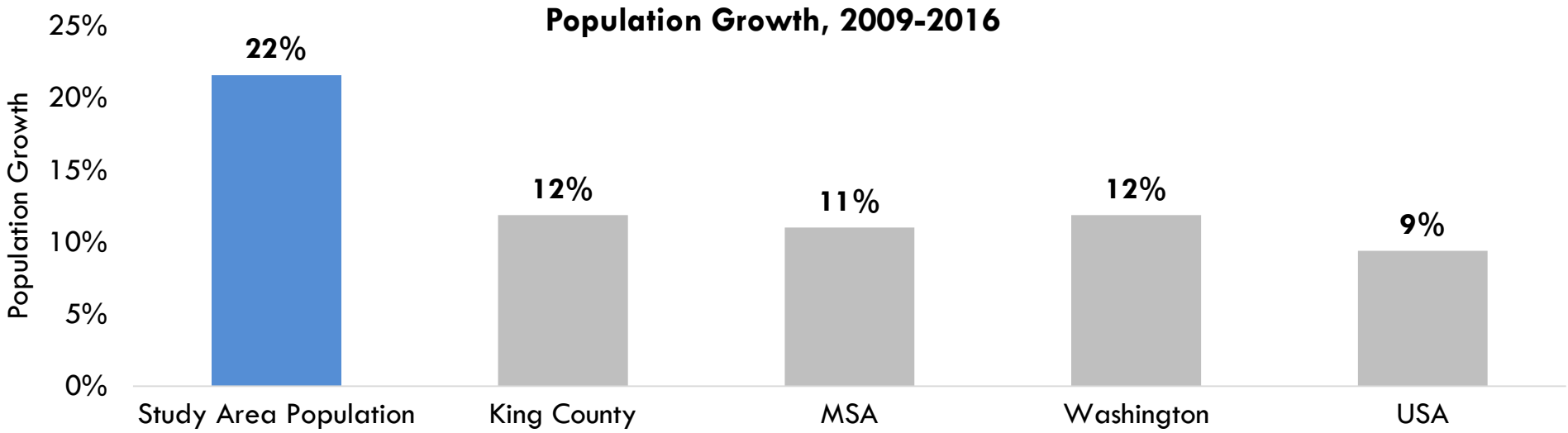
HR&A's market analysis provided inputs for the feasibility analysis and informed analysis of program alternatives.



- The **proposed Lakepointe development** is approximately 15 miles from both Seattle and Bellevue, the region's two major markets, making it **well-positioned to capture existing and future demand.**
- **HR&A defined a market analysis study area around Lake Washington** to understand regional trends. The study area encompasses both Seattle and Bellevue, in addition to other rapidly changing markets, including Redmond, Kirkland, and Renton.
- Results from the market analysis, described below, informed assumptions used in the feasibility analysis and supported the creation of **assumptions for an HR&A-proposed alternative development program.**

Market Overview | Residential

The study area has seen significant population growth in recent years, outpacing regional growth.



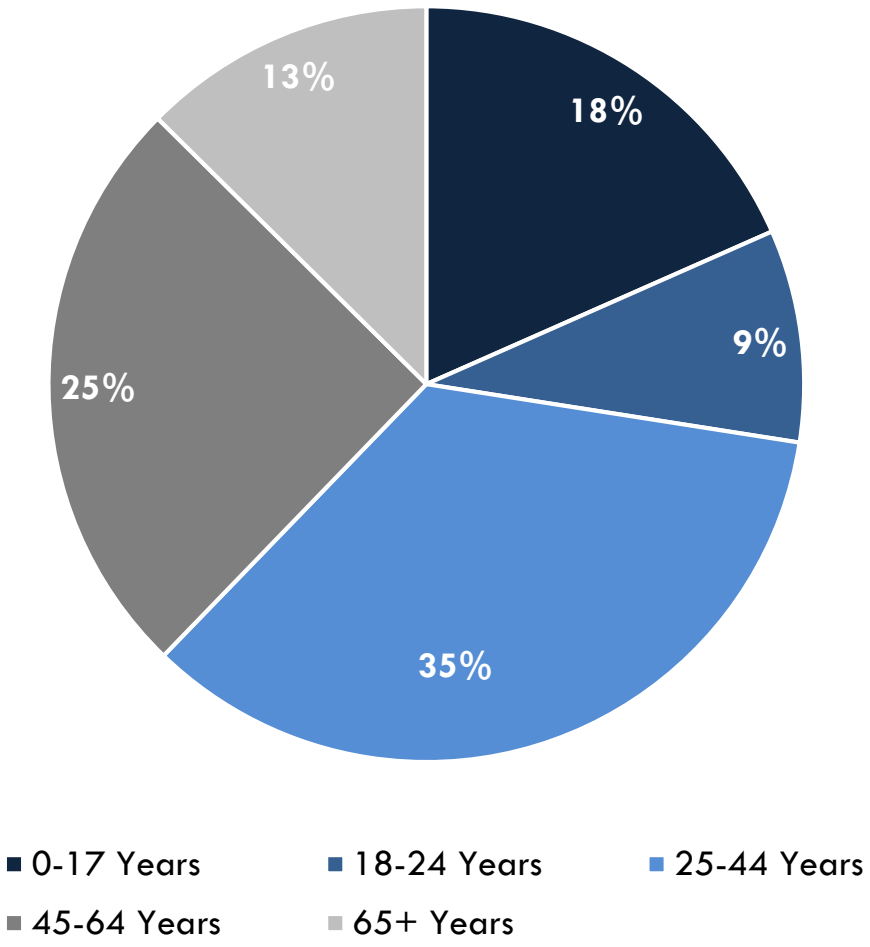
- The **study area population increased by 225,000 between 2009 and 2016,** bringing the total area population to 1.3 million and accounting for the majority of growth within King County during this period.
- Surrounding geographies are also growing, but not as fast as the study area. In fact, the study area's growth accounts for over 35% of the State's population growth during the period between 2009 and 2016.

Source: ACS 5-Year

Market Overview | Residential

Demographics in the study area are also shifting, with higher-income renters and more families in the area as of 2016.

Study Area Population by Age, 2016

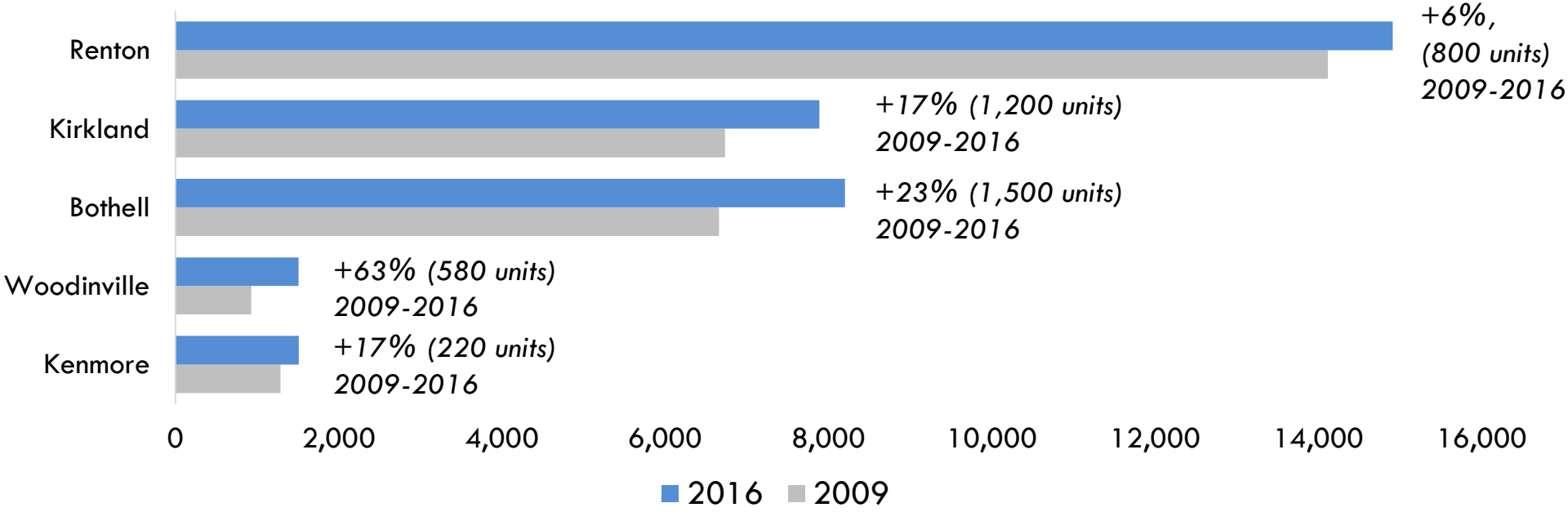


- The study area's population is predominantly young adults and adults, with **more than 60% of the population aged 44 or younger.**
- Strong population growth in the study area has contributed to shifting study area demographics, with a **37% increase in renter-occupied households** from 2009-2016.
- In the same period, **median household incomes have increased by 7%.**
- In addition to a higher share of renters and rising incomes throughout the study area, **35% of the study area's population growth is driven by 25-44 year-olds,** with family households increasing by 8% between 2009-2016.
- This population growth, coupled with changing demographics, is driving demand for multifamily development throughout the study area. Between 2009 and 2016, **the share of housing units with two or more units increased from 43% to 46%,** signaling growing interest in multifamily housing options.

Market Overview | Residential

In recent years, the suburban real estate market on the North and East sides of Lake Washington has seen substantial residential development momentum.

Multifamily Rental Housing Supply by Units, 2009-2016



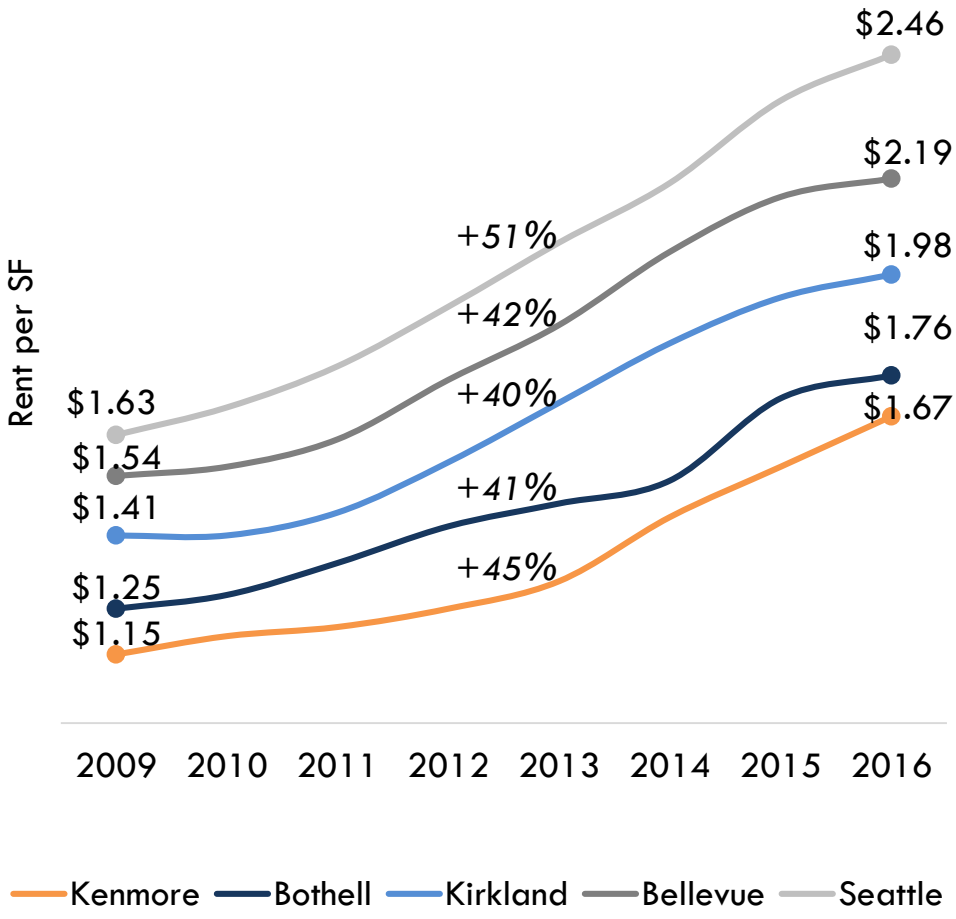
- Within the study area, **80% of new multifamily rental product has been delivered in Seattle** since 2009.
- Though not at the same volume as within Seattle, in key submarkets such as Kirkland and Bothell, **multifamily rental supply has increased by approximately 20% from 2009 to 2016.**
- Across a range of markets, **highly-amenitized rental product has proven successful,** as evidenced by projects such as Kirkland Urban in Kirkland and Newcastle Commons in Bellevue.

Source: CoStar

Market Overview | Residential

Substantial demand has driven an overall increase in rents. Rents in the northeast suburbs, however, remain reasonable relative to Seattle or Bellevue.

Average Residential Rents PSF, 2009-2016



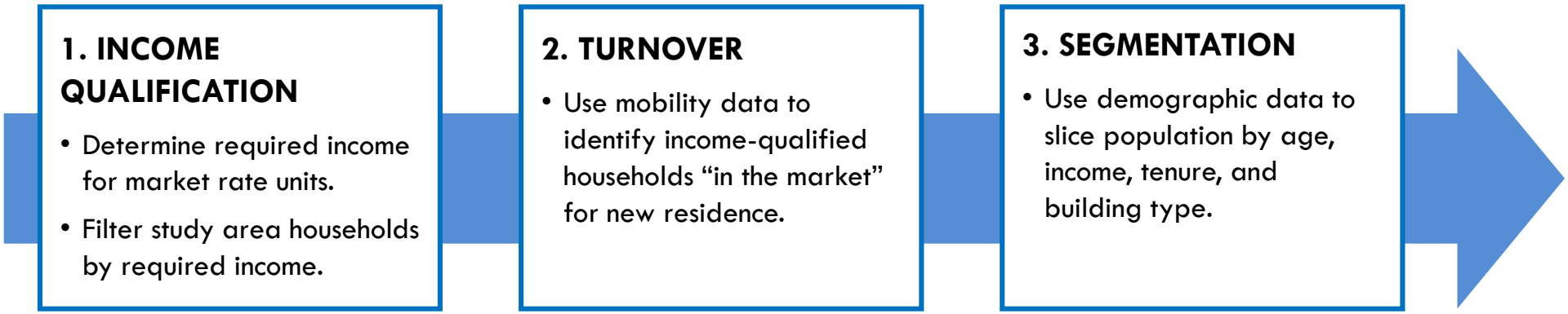
Source: CoStar

- Average residential **rents in the study area rose by 52%** between 2009 to 2016, from $1.51 PSF to $2.29 PSF.
- **Kenmore rents increased by 45% during the same period, to an average of $1.67 PSF.** Relative to average rents in the study area, Kenmore is less expensive and more closely aligned with Bothell, at $1.76 PSF, than the study area overall.
- In the Seattle-Tacoma-Bellevue MSA, **condo prices (not shown) have increased by 42% since 2013,** due in large part to constricted supply.

Market Overview | Residential

HR&A assessed market demand for residential product at Lakepointe to test the proposed program and generate inputs for the HR&A alternative program.

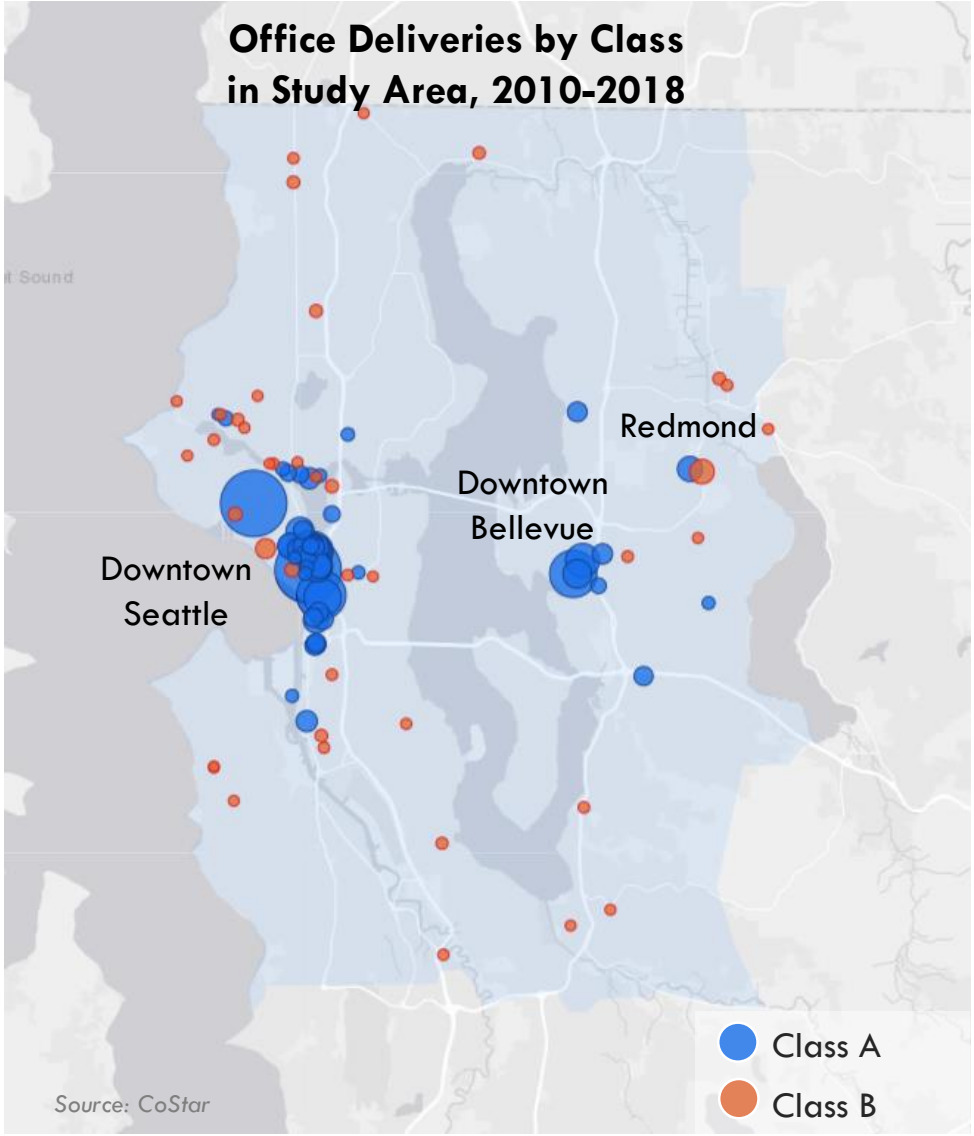
HR&A Methodology:



- Using the above methodology, HR&A determined that there are a significant number of households "in the market" for new multifamily product in the study area. **Demand for rental product exceeds demand for condo product in the study area, with 10,900 households "in the market" for new rental and 1,800 households "in the market" for new for-sale product.**
- Excluding downtown Bellevue, **there are no high-rise towers on the Eastside that are comparable** to the developer-proposed program at Lakepointe, positioning Lakepointe to be an early mover for this product type and to capture a sizeable share of the region's demand.
- HR&A's demand analysis concluded that **Weidner's program aligns with market demand.** Given the strength of the multifamily market, HR&A's alternative program tested the impacts of replacing other uses (including the hotel program) with multifamily product.

Market Overview | Office

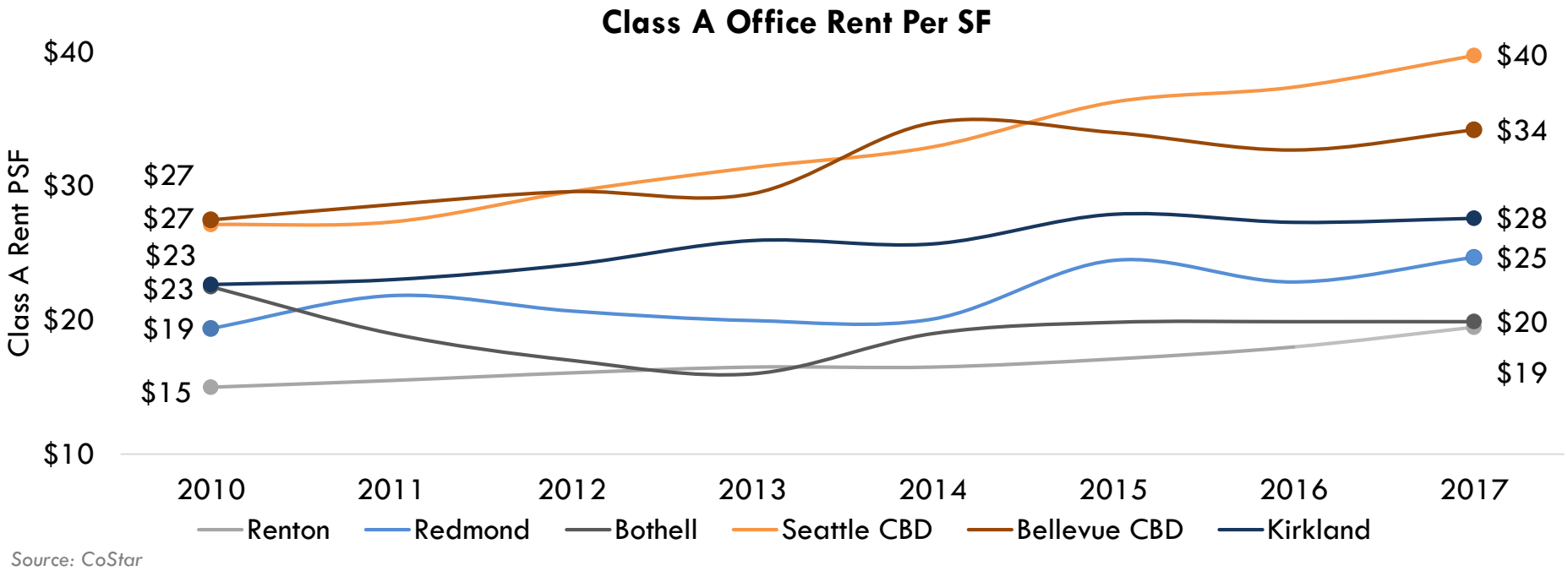
The study area's office market has seen continued growth since 2010, concentrated in the expansion of space for the tech and life sciences sectors.



- **More than 17.1 million square feet of office space has been delivered** in the study area since 2010, with over 3 million delivered around South Lake Union, primarily for Amazon. There is an equal amount of pipeline product.
- **New deliveries of Class A office product are primarily clustered within downtown Seattle and Bellevue**, with a share of new product in Redmond. There have been few new deliveries in the study area's smaller submarkets, such as Kirkland, Renton, or Bothell.
- **Tech and life sciences are the dominant office tenants in the study area**, with both Amazon and Microsoft owning or leasing more than 8 million square feet each. In addition to tech, there is a growing life sciences cluster adjacent to the University of Washington Bothell.

Market Overview | Office

While the market has seen office rent increases, growth has been much slower in areas outside of Seattle and Bellevue CBDs.



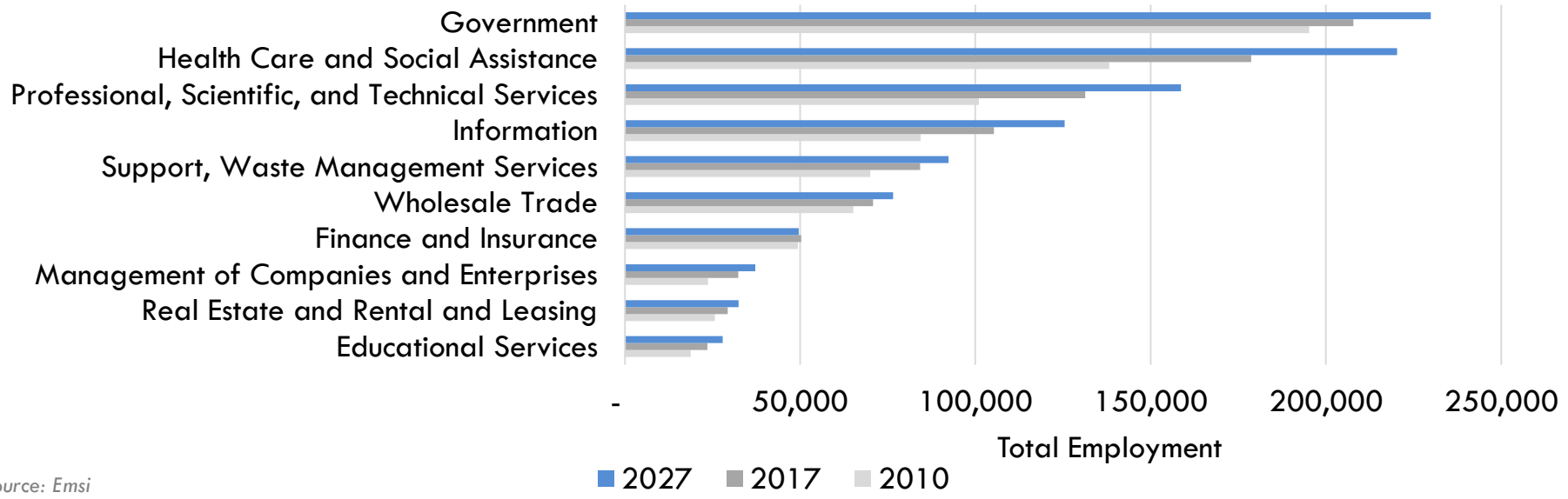
Source: CoStar

- **Office rents in the study area have steadily increased since 2010,** with rents in the Seattle and Bellevue CBDs leading the market by nearly $10 PSF compared to smaller submarkets, such as Redmond and Bothell.
- **Increasing rents in the Seattle and Bellevue CBDs are pushing some industries to expand to suburban markets.** In particular, life science office users have established a submarket in Bothell and Canyon Park. Suburban markets offer more affordable rents than South Lake Union, the industry's premier office sub-market.
- **For the life sciences industry, the vacancy rate of rentable lab stock in South Lake Union is very low, at 2.6%, and rents are twice as expensive in South Lake Union than in Bothell,** positioning the Bothell, Woodinville, and Kenmore markets well to capture tenants seeking more affordable lab space.

Market Overview | Office

Office-using industries are growing in the study area, and are projected to continue to grow, generating demand for new space over the next 10 years.

Historical and Projected Growth, Office Using Industries in King & Snohomish Counties



Source: Emsi

- Based on projected job growth between 2018 to 2026, HR&A estimated that office-using industries are anticipated to require approximately 25 million square feet of office space.
- After accounting for churn in office space and absorption of the currently-known pipeline product, **demand will exceed projected supply by approximately 13 million square feet.**
- **HR&A projects that approximately 4 million square feet of this excess demand could be delivered outside of the Seattle and Bellevue CBDs, a share of which could be captured at Lakepointe.** Given that Kenmore is not currently perceived as a strong office market, an anchor tenant will be critical to the success of the office program at Lakepointe.

Market Overview | Retail

There is existing demand for new retail offerings in the study area, which would increase with an influx of new residents and workers at Lakepointe.

10-Minute Drive Time Trade Area Retail Gap

Convenience Goods	Spending Potential	Current Sales	Unmet Spending Potential	Sales per SF	Supportable SF
Specialty Food Stores	$34M	$10M	$24M	*$822*	**29,000**
Beer, Wine & Liquor Stores	$14M	$7M	$7M	*$396*	**16,000**
Food Services & Drinking Places	$240M	$134M	$106M	*$535*	**196,000**
Sporting Goods, Hobby, Book & Music Stores	$80M	$48M	$32M	*$297*	**102,000**
Restaurants/Other Eating Places	$228M	$126M	$102M	*$534*	**191,000**
Special Food Services	$4M	$1M	$3M	*$534*	**6,000**
Total	**$600M**	**$326M**	**$274M**	***$536***	**812,000**

- Existing retail corridors in the study area often include a similar mix of locally-oriented retail, **typically including a café, mid-scale dining option, grocer, and a liquor store**. These strip-style centers are **supplemented by regional shopping centers,** which provide consumers with access to major brands.
- **Residents living within 10 minutes of the Lakepointe site are currently underserved by retail** offerings in the immediate area, as illustrated by HR&A's retail gap analysis (see table above).
- With an influx of new residents and workers associated with development at Lakepointe, on-site retail at Lakepointe is an important amenity for the project and will bring new spending power to the area, with the Weidner-proposed residential program estimated to **generate approximately $34 million in new resident spending potential.**[1]

[1] *Household spending power derived from existing spending potential in a 10-minute drive-time from Lakepointe per household ($17,000); Esri.*

Market Overview | Hotel

Tourism and annual visitation to the Seattle-Tacoma-Bellevue region is booming, and the market has responded to growing demand with a large hotel pipeline.

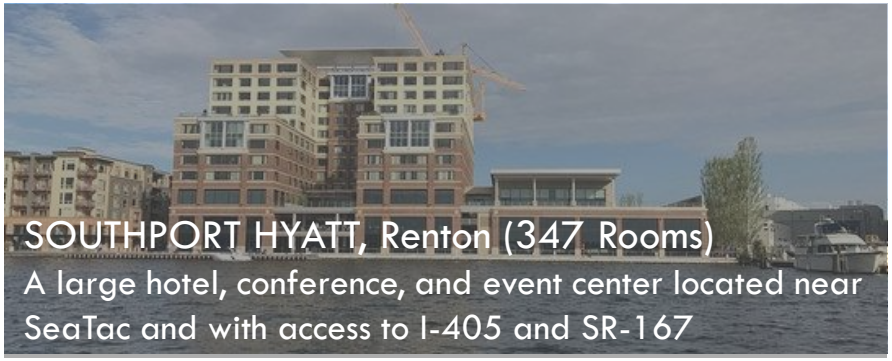
- **New deliveries amid a strong tourism and visitation market have led to substantial hotel revenue growth** over the last five years, increasing by 29% since 2012. As the market has already begun to respond to growing demand with a large pipeline, **occupancy, and ADR throughout the region are anticipated to decline.**

- **Hotels with targeted positions in the regional market have been successful,** especially when tied to office clusters or to unique visitor experiences. Some examples of such successful hotel products are shown to the right.

- **A hotel at Lakepointe is likely not supported by current market demand,** given the current pipeline and existing tourism trends. However, **a hotel tied to strong performance of the office component or with a unique identity and brand may be successful** as the site gains identity and recognition (likely in a later phase of the project's development).

ANDERSON SCHOOL, Bothell (72 Rooms)
A boutique hotel that creates a destination for locals and visitors through signature beer and food and numerous events

HEATHMAN HOTEL, Kirkland (91 Rooms)
A waterfront-adjacent luxury independent hotel in a former hospital, offering farm-to-table dining options



SOUTHPORT HYATT, Renton (347 Rooms)
A large hotel, conference, and event center located near SeaTac and with access to I-405 and SR-167

Source: HVS, Kidder Matthews

Market Overview | Conclusions

Findings from the market analysis informed HR&A's recommendations for an alternative program for testing.

Program Use	Conclusions	Recommendation
Residential	Demand for rental product in the study area is particularly high, which Lakepointe can capture a share of.	HR&A recommends testing a program that **maximizes multifamily rental density** on the site consistent with underlying market dynamics.
Office	The project's transformational impact over time, and the success of the residential and retail phases, will create a sense of place that makes office more feasible in the long term, which will be benefitted by attracting an anchor tenant.	The Weidner-proposed office program assumes an aggressive capture of the study area's supportable space, of 16%; **HR&A recommends testing a slightly reduced office program,** capturing 10% of the study area's supportable space.
Retail	Retail at Lakepointe will serve two key purposes: • Amenitize the residential and office programs, and • Establish Lakepointe as a destination for retail activity.	HR&A recommends **maintaining the currently-proposed amount of retail** for the site.
Hotel	A hotel at Lakepointe is likely not supported by current market demand, given the current pipeline and existing tourism trends.	HR&A recommends **testing a scenario with no hotel program** and a larger residential program.

Project Overview

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Feasibility & Impact Analysis

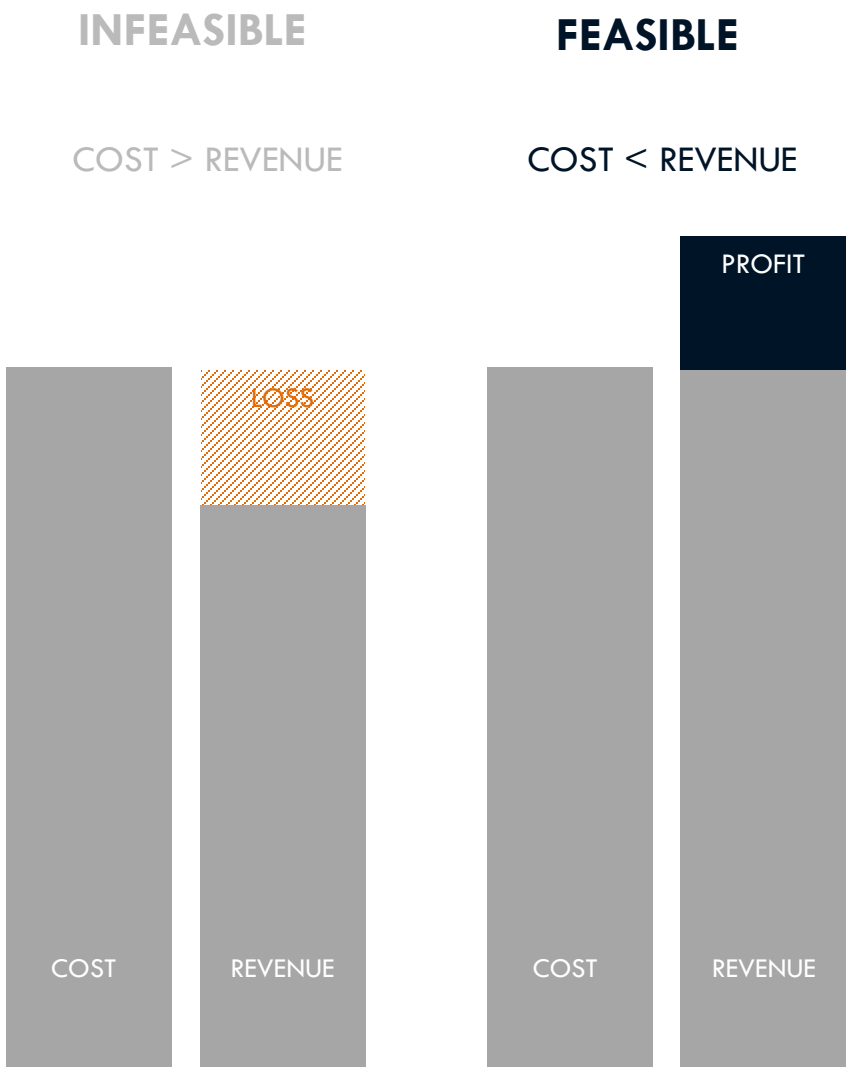
Implementation Recommendations

Appendix

Methodology | Financial Feasibility

HR&A assessed the financial feasibility of development alternatives from the standpoint of a future master developer using a discounted cash flow model.

- HR&A tested the **feasibility of potential development at the Lakepointe site** to inform the future **development program** and potential **partnership structure between the City and Weidner.**
- **HR&A used a discounted cash flow model that calculates the feasibility gap** of the proposed project assuming a 16-20% internal rate of return threshold for development.[2]
- The model tests **key elements of the development program** to gauge their impact on project feasibility and value, including:
  - The anticipated **vertical development** program;
  - Changes to **horizontal improvements** required for development and associated costs; and
  - Changes to key policies, including **parking ratios, affordable housing** requirements, City-required **impact fees; property taxes; State sales tax.**
- HR&A gathered **key revenue and cost inputs** from the market analysis described above and in the technical appendix, supplemented by inputs from the City and Weidner teams where necessary.



[2] *This range of expected return thresholds is based on interviews with local and national developers active in the Seattle area, and other fast-growing markets, as described in HR&A's 3.16.2018 memo.*

Methodology | Economic and Fiscal Impacts

For each program analyzed, HR&A assessed the economic and fiscal impacts of new development at Lakepointe.

- HR&A examined both **one-time impacts (construction)** and **ongoing impacts (operations and activity driven by development)**, which will occur each year, to estimate total economic and fiscal impacts.
- HR&A's economic impact analysis takes into account **direct spending and employment as well as the indirect and induced** impacts of business and household spending.
- HR&A considered a range of the most commonly assessed local and State taxes to evaluate one-time and ongoing fiscal impacts associated with construction and operation.

ONE-TIME IMPACTS

- Hard and soft construction costs, which generate the following economic activity and fiscal revenues:
  - **Economic Impacts** (NPV) of hard and soft construction costs
  - **Job-Years Supported** (FTEs) from project construction
  - **Wages** (NPV) from construction employment
  - **Fiscal Revenues** (2018$), generated from sales tax on construction materials

ONGOING IMPACTS

- Activity driven by ongoing operation of the development, which generates the following economic activity and fiscal costs and revenues:
  - **Economic Impacts** (stabilized year) of the project, including all program components, in operation
  - **Job-Years Supported** (FTEs) from operating program uses
  - **Wages** (stabilized year) from operating program uses
  - **Fiscal Costs and Revenues** (2018$), generated from sales tax levied on goods sold on-site, property taxes on assessed land value, and other municipal revenues, less costs to the City of Kenmore and Northshore School District for new residents and children

Key Inputs | Vertical Program

HR&A tested the feasibility of three development programs at Lakepointe.

PROGRAM	RESIDENTIAL	OFFICE	RETAIL	HOTEL	PARKING
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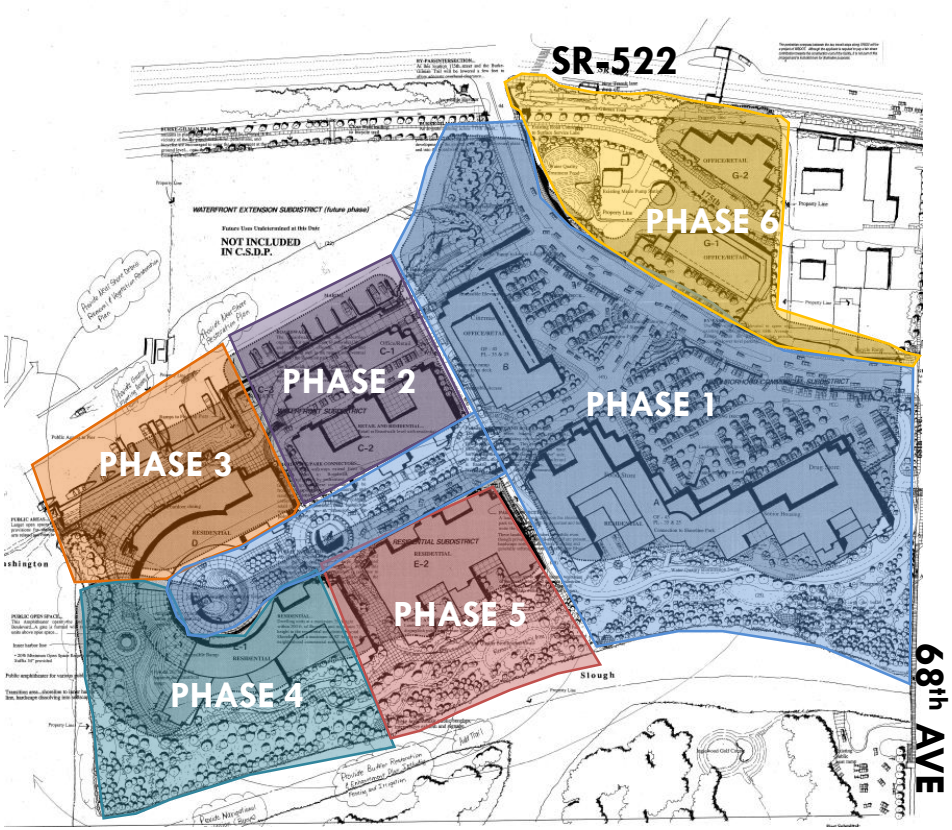
- **HR&A alternative:** The "HR&A Alternative" program modifies the developer-proposed program based on HR&A's market findings, as described in the section above.

Key Inputs | Vertical Program

The CSDP allows for a blend of residential and commercial uses, with residential and retail development concentrated in a large first phase.

CSDP – PHASING & SITE PLAN



Source: Commercial Site Development Permit, City of Kenmore, Exhibit A.2.1

The CSDP program foresaw a **front-loaded program**, with the bulk of infrastructure and development delivered within the first phase of the project.

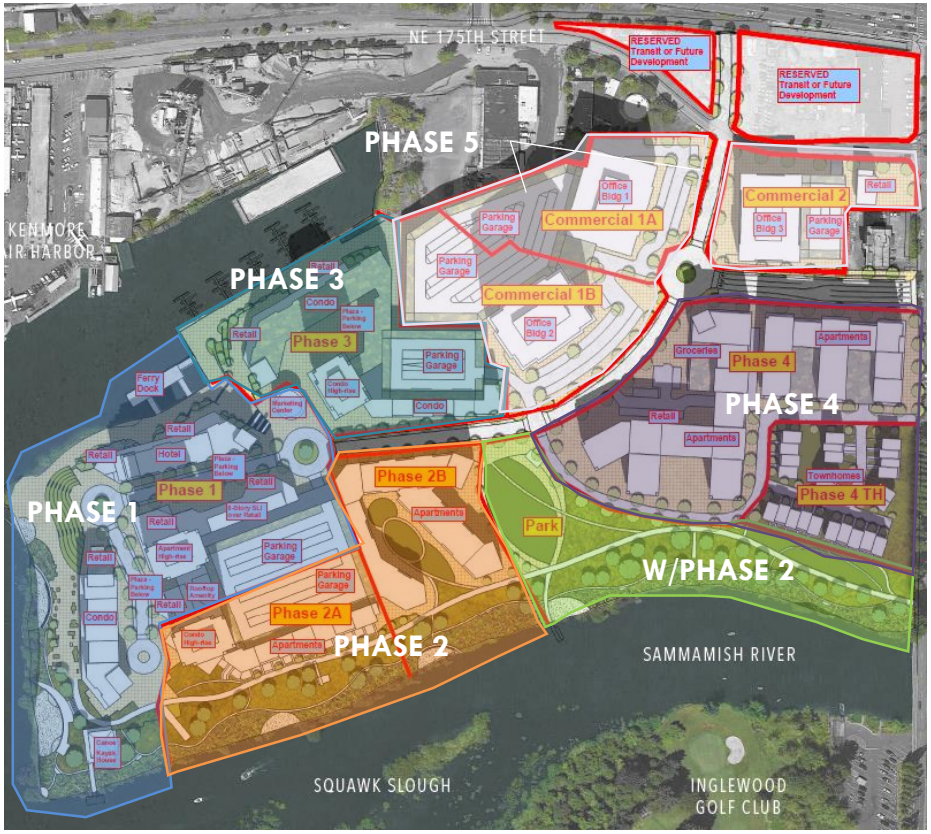
	RESIDENTIAL	OFFICE	RETAIL	HOTEL
Phase 1	640 Units	51,000 NSF	187,000 GSF	
Phase 2	240 Units	34,000 NSF	54,000 GSF	
Phase 3			36,000 GSF	150 Keys
Phase 4	100 Units			
Phase 5	220 Units			
Phase 6		90,000 NSF		
TOTAL	1,200 Units	175,000 NSF	277,000 GSF	**150 Keys**

Figures above are rounded for clarity

Key Inputs | Vertical Program

The developer-proposed program anticipates a mixed-use first phase, including varied residential product and a waterfront hotel, to lead the development.

DEVELOPER PROPOSED – PHASING & SITE PLAN



Source: Weidner Apartment Homes, Masterplan Design Proposal; August 2017

Weidner's program features **a phased development** that leads with residential and hotel uses on the western edge of the peninsula. Office uses are proposed in the last phase.

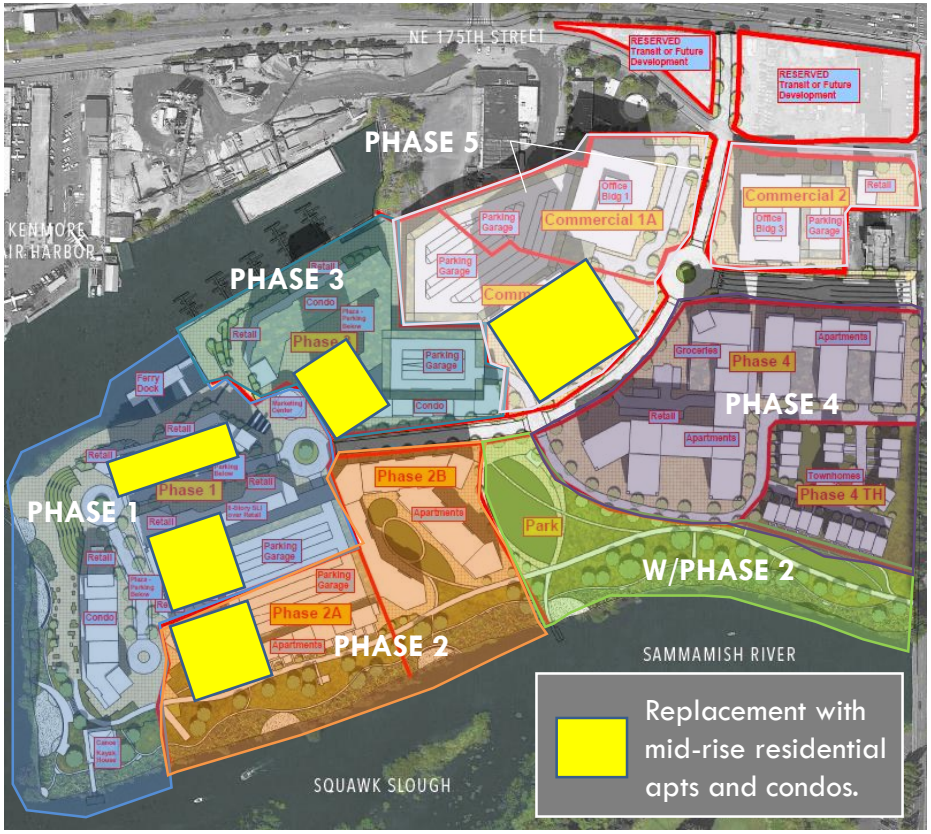
	RESIDENTIAL	OFFICE	RETAIL	HOTEL
Phase 1	398 Units		50,000 GSF	150 Keys
Phase 2	547 Units		12,000 GSF	
Phase 3	440 Units		32,000 GSF	
Phase 4	615 Units		27,000 GSF	
Phase 5		600,000 NSF	5,000 GSF	
TOTAL	**2,000 Units**	**600,000 NSF**	**126,000 GSF**	**150 Keys**

Figures above are rounded for clarity

Key Inputs | Vertical Program

The HR&A alternative largely follows the developer-proposed phasing, accounting for a modified vertical program on a few parcels.

HR&A ALTERNATIVE – PHASING & SITE PLAN



Note: Site plan is for illustrative purposes only. The HR&A alternative has not been designed as a revised site plan or vetted by an engineering team. There may be site plan implications associated with this program that are not illustrated here.

The HR&A alternative eliminates the Weidner-proposed hotel program, reduces the office program, and replaces high-rise development with market-feasible mid-rise product.

	RESIDENTIAL	OFFICE	RETAIL	HOTEL
Phase 1	304 Units		50,000 GSF	
Phase 2	363 Units		12,000 GSF	
Phase 3	256 Units		32,000 GSF	
Phase 4	615 Units		27,000 GSF	
Phase 5	107 Units	357,000 NSF	5,000 GSF	
TOTAL	**1,645 Units**	**357,000 NSF**	**126,000 GSF**	**0 Keys**

Figures above are rounded for clarity

Key Inputs | Horizontal Program

HR&A accounted for the varying levels of horizontal improvements envisioned in the development alternatives, as well as their relative phasing.

PROGRAM	HORIZONTAL IMPROVEMENTS[3]
CSDP	Over $312M of investment (hard costs), including extensive roadway improvements[3]
Developer-proposed	Approximately $170M of investment (hard costs), primarily to account for significant site stabilization costs[3]
HR&A Alternative	Same as developer-proposed, plus ~$5M of new horizontal costs (hard costs) to account for shifts in program uses

- The **CSDP** requires that a significant portion of the **horizontal improvements be completed prior to any vertical development,** which has major ramifications in terms of overall feasibility.

- The **HR&A Alternative** program assumes that the vertical development program can be altered, as described in the preceding slides, with only minimal impacts to horizontal and vertical costs, and that these changes **do not trigger a significant need to redesign or revisit the full site layout.**

  Where a change in construction costs was indicated as necessary by Weidner, HR&A shows that increased cost within the horizontal infrastructure costs on-site. HR&A also increased the cost assumptions associated with delivery of recreational open space on the site, to align with national precedents for high-quality open space.

  However, **careful consideration would need to be given to any changes to program** that are reflected in a future site permit or program, which may result in the need for additional planning. Indeed, the HR&A team believes that **revisiting the developer-proposed phasing, particularly of horizontal costs, in collaboration with an urban design firm with experience in transformative development, has the potential to significantly improve project feasibility.**

[3] *Cost estimates for all three programs represent the hard costs only, based on inputs from the Weidner team.*

Key Inputs | Financial Feasibility

HR&A analyzed the relative net present value of the programs by assessing the value of each use, parcel, and phase and discounting the overall value by the required IRR.

PROGRAM	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
Net Revenues (NPV)			
Land Sales	$30,488,254	$54,450,799	$40,584,863
Assets Under Management	$29,215,231	$2,373,286	$22,608,664
TOTAL NET REVENUES	**$59,703,485**	**$56,824,085**	**$63,193,526**

- HR&A **calculated the value** for each use within the intended Lakepointe vertical development program, and then applied these values to the anticipated size of the program for each use. Figures above assume a 20% internal rate of return and discount rate.
- High parking ratios and the lack of transformative product produce low anticipated values for the CSDP program, which shows **significant obstacles to its feasibility**, even without accounting for substantial horizontal costs associated with the program.
- The inclusion of **high-rise rental development product in the developer-proposed** program has significant negative impacts on the overall value of the vertical development program. Such a use is not currently feasible given anticipated market conditions in the short and medium term.[4]
- The HR&A alternative reflects **the replacement of uses for which there is not currently strong market demand** with valuable mid-rise residential product that produces substantially higher anticipated revenues in the HR&A alternative, and assumes a reduced parking ratio, appropriate for denser, more urban development.

[4] *Further information on vertical development assumptions and relative value of each use can be found in the appendix.*

Key Inputs | Financial Feasibility

Net revenues are compared to the project's required costs, as described below.

PROGRAM	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
Net Revenues (NPV)	**$59,703,485**	**$56,824,085**	**$63,193,526**
Costs (NPV)			
Entitlements, Land, and Infrastructure (incl. financing)	($265,207,998)	($132,529,055)	($136,748,151)
TOTAL COSTS	**($265,207,998)**	**($132,529,055)**	**($136,748,151)**

- All three development alternatives are **weighed down substantially by significant infrastructure investments** required on-site (figures above assume a 20% internal rate of return and discount rate).
- High horizontal infrastructure costs are driven by the need for substantial site stabilization measures, including capping and piling, as well as the need for construction of new roads that will connect the site to the surrounding road network.
- In particular, the CSDP envisions over $312M (nominal hard costs) of horizontal improvements on-site, much of which is concentrated in the early phases of the project.

Key Outputs | Financial Feasibility

Development net revenues and initial costs are compared in an overall cash flow to assess project-wide value.

PROGRAM	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
Net Revenues (NPV)	**$59,703,485**	**$56,824,085**	**$63,193,526**
Costs (NPV)	**($265,207,998)**	**($132,529,055)**	**($136,748,151)**
Total Project Value (NPV)	**($205,504,513)**	**($75,704,970)**	**($73,554,624)**
Master Developer IRR	Unable to calculate	**-8.7%**	**-8.4%**
FEASIBILITY GAP (NPV) 16%-20% IRR	Unable to calculate	$123M - $155M	$125M - $151M

- In all scenarios, there remains a **significant project gap** after accounting for the full horizontal improvement costs. The internal rate of return for each program is well below the 16-20% threshold for a market return. Note that for the CSDP program, the program is weighed down by front-loaded infrastructure costs, representing such a large expenditure that future revenues are never able to "catch up" with the costs of debt service. As such, the model cannot calculate the resulting IRR.
- The project feasibility gap represents the subsidy that would be required to reduce the project gap to zero, assuming a 16-20% internal rate of return. For the developer-proposed program, the gap is about $123-$155 million in net present value terms, assuming a City discount rate of 6%.

Key Outputs | Economic & Fiscal Impacts

Construction at Lakepointe will generate a range of economic activities, in addition to fiscal revenues.

ONE-TIME ECONOMIC ACTIVITY	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
Economic Impact (NPV)	**$1,490,000,000**	**$1,911,000,000**	**$1,249,000,000**
Job-Years Supported (FTE)	**9,635**	**12,655**	**8,370**
Labor Income (NPV)	**$664,000,000**	**$852,000,000**	**$557,000,000**
Net Fiscal Revenues (2018$)	**$11,439,532**	**$16,483,162**	**$10,560,812**

- **The CSDP program's** scale of infrastructure requirements generates significant economic activity. The high infrastructure costs also generate sales tax revenue, which results in large one-time fiscal revenues for the program.
- **The developer-proposed program** generates the highest one-time economic activity and fiscal revenues out of the three programs, due to the scale of the program's proposed horizontal and vertical improvements.
- **The HR&A alternative program** generates lower one-time economic activity and fiscal revenues than the other proposed programs. This is due to the reduced scale of the program as well as a smaller office footprint, which generates less in sales tax revenues and less construction spending and labor.
- However, it is unlikely that the level of benefit to the City described here (through any of the development scenarios tested) would be realized without significant public support for the project.

Key Outputs | Economic & Fiscal Impacts

Once the Lakepointe project is developed, it will continue to generate a range of ongoing economic activities.

ONGOING ECONOMIC ACTIVITY	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
Economic Impact (Stabilized Year)	**$507,000,000**	**$1,462,000,000**	**$888,000,000**
Job-Years Supported (FTE)	**1,855**	**4,360**	**2,720**
Labor Income (Stabilized Year)	**$110,000,000**	**$266,000,000**	**$166,000,000**
New Residents	**2,275**	**3,750**	**3,170**

- **The CSDP program's** smaller scale results in lower ongoing economic activity relative to the other programs. With smaller office and residential programs compared to both the developer-proposed and HR&A alternative programs, this program supports a lower number of both workers and residents, which results in lower ongoing labor income, at $110 million, and lower ongoing economic impacts, at $507 million.
- **The developer-proposed program** generates the highest ongoing annual economic activity, due to the scale of the program's uses. With the largest residential program, which drives up the number of residents, and the largest office program, which generates the highest worker ratios, this program's ongoing annual economic activity is valued at more than $1.4 billion, with more than $260 million in labor income generated each year.
- **The HR&A alternative program** generates fewer workers and residents than the developer-proposed program, due to the reduced office and residential programs. This reduction results in lower ongoing annual economic activity, though the activity generated by this program is higher than that generated by the CSDP program.

Key Outputs | Economic & Fiscal Impacts

Lakepointe will generate a range of ongoing fiscal costs and benefits, in addition to economic activity.

ONGOING FISCAL COSTS & REVENUES	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
City of Kenmore			
Cost	**($1,087,993)**	**($1,167,254)**	**($1,129,648)**
Revenue	**$3,090,889**	**$3,680,542**	**$2,818,970**
Net Fiscal Revenue	**$2,002,896**	**$2,513,288**	**$1,689,322**
Northshore School District			
Cost	**($1,556,857)**	**($2,542,867)**	**($2,231,495)**
Revenue	**$2,907,625**	**$5,120,055**	**$3,526,947**
Net Fiscal Revenue	**$1,350,768**	**$2,577,188**	**$1,295,452**

- **The CSDP program's** ongoing fiscal costs to the City of Kenmore and the Northshore School District are lower than other programs due its reduced residential program (and program overall). The program does not deliver a transformative program and therefore results in lower property tax revenues to both taxing entities, a major driver of fiscal revenues.
- **The developer-proposed program** generates substantial fiscal revenues for the City of Kenmore and the Northshore School District, driven by the program's higher density, raising property values and therefore a higher property tax benefit to both taxing entities.
- **The HR&A alternative program** generates substantial fiscal revenues for the City of Kenmore and the Northshore School District. School district costs are substantively similar to that of the developer-proposed program, due largely to the replacement of high-rise towers with mid-rise apartments and condos, which generate a higher ratio of school children per unit.

Key Outputs | Overall Scenario Evaluation

HR&A evaluated the three program scenarios to inform its recommendations regarding the overall final development agreement.

SCENARIO EVALUATION SUMMARY	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE
NPV	**($205,504,513)**	**($75,704,970)**	**($73,554,624)**
Required Subsidy	**Unable to calculate**	**$123M - $155M**	**$125M - $150M**
One-time Economic Impact	**$1,490,000,000**	**$1,911,000,000**	**$1,249,000,000**
Ongoing Economic Impact	**$507,000,000**	**$1,462,000,000**	**$888,000,000**
Fiscal Benefit (City of Kenmore)	**$2,002,896**	**$2,513,288**	**$1,689,322**

- The **developer-proposed and HR&A alternative programs return more favorable results than the CSDP.** The developer-proposed scenario results in the greatest one-time and ongoing economic impacts, driven by the scale of resident- and worker-generating uses (specifically, residential and office). This program also generates the highest net fiscal revenues to the City of Kenmore, driven by the program's density and high property values.
- **All scenarios are burdened by high horizontal infrastructure costs and result in a feasibility gap and need for public support.** The HR&A alternative narrows this gap at the high end of the return range by reducing the risk associated with the development program (associated with high-rise development), but additional strategies may be required for a developer to move forward with the project. Assuming that both the City and Weidner are motivated to see the project move forward, public-private partnership and coordination will be required to narrow the feasibility gap for any development scenario chosen.
- **A successful agreement for future development of the site must balance public- and private-sector risks and responsibilities.** To achieve this balance, the development agreement can include a range of measures, including limits on public-sector financial support, the establishment of development minima, or ensuring future program flexibility. These measures are discussed in greater detail in the following section.

Project Overview

Market Overview

Feasibility & Impact Analysis

Implementation Recommendations

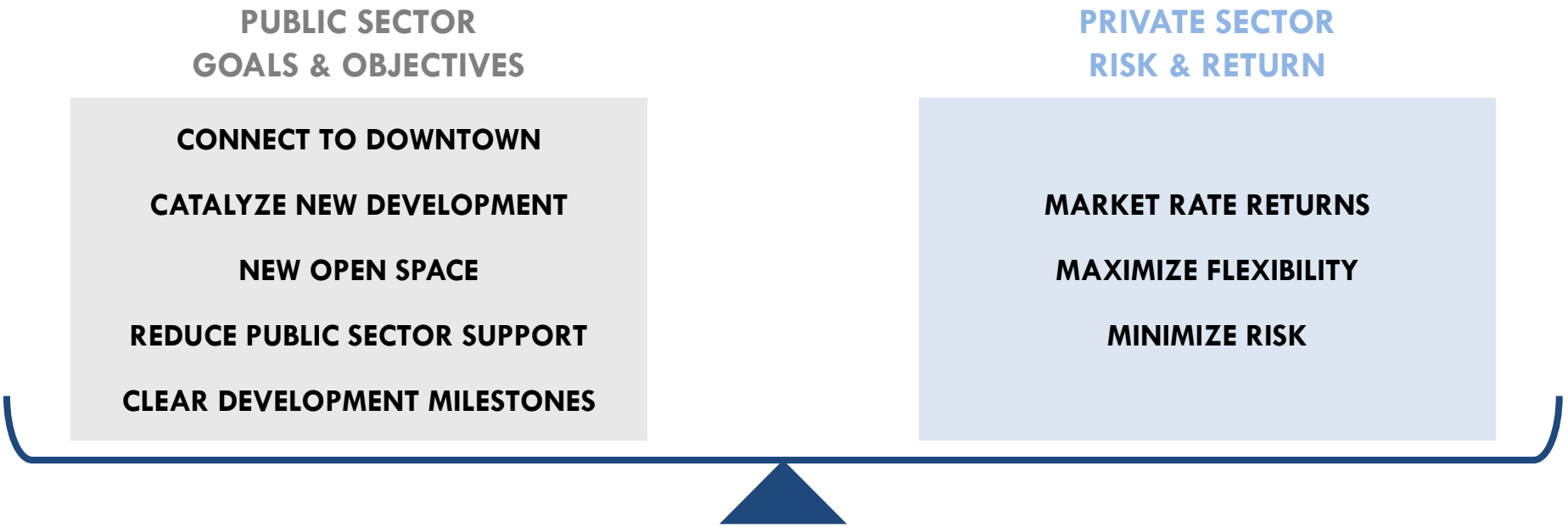
Appendix

Findings | Public-Private Partnership Structure

Public-private coordination will be required to implement the project.

To balance risks and responsibilities of the public and private sectors, the City and Weidner can consider:

- **Limiting public-sector financial support to the program that maximizes value under currently-projected market conditions**, minimizes impacts, and accomplishes the City's goals;
- **Requiring completion of a minimum program on a set schedule**, that ensures that development proceeds as planned; and,
- **Allowing flexibility for development to adapt to changing market conditions.**



Findings | Public-Private Partnership Structure

The current feasibility gap creates significant challenges, and the partnership structure should take into account site strengths and weaknesses and limited public resources.

The projected feasibility gap before public-private partnership is high, and unlikely to be filled by direct City of Kenmore support. However, given the substantial economic, fiscal, and community benefits that the City stands to gain from the project, the City and Weidner should work closely to establish a public-private partnership that can **reduce the gap** and increase the likelihood of implementation.

$123M - $155M
Current feasibility gap

Next steps:

1. **Size plausible direct municipal support based on potential to achieve public priorities and current funding resources.** The City has limited resources to directly support large-scale development, with an $11m annual budget and a debt capacity of ~$59m. Further, direct support is most often linked to a direct public benefit, such as delivery of transportation infrastructure or a public park, so is likely not an appropriate source to address the full gap.

   $3-5M
   Potential City contribution*

2. **Rethink site plan to maximize feasibility of a standalone first phase, while creating the potential for transformative revenue growth.** Revisit the site planning and phasing to determine the optimal location of the first phase and subsequent phases given current market and feasibility constraints. The current site plan places the first phase at the tip of the peninsula, creating significant horizontal cost burdens. In this scenario, the developer also uses up its most valuable parcel up-front with premium hotel and residential product, including high-rise, that may be constrained by current market forces in the short term.

   TBD
   Potential reduction in feasibility gap

3. **Use existing local policies and programs**, such as altering affordable housing requirements, parking requirements, impact fees, and property tax abatements or creating a Local Improvement District for Downtown that would support Lakepointe and other development.

   $5-60M
   Potential reduction in feasibility gap

**Initial estimate of public support is equivalent to the projected investment in a public park within the currently-proposed site plan, assuming $2.4 million per acre for 1.5 acres of open space (rounded to the nearest million).*

Findings | Public-Private Partnership

The City of Kenmore can consider a number of local policies and programs to help minimize the financial gap for the program.

The local policies and programs that public-sector support could potentially undertake to reduce the feasibility gap for development at Lakepointe include:

- **Supporting the construction of enabling infrastructure or public amenities.** The site's substantial horizontal improvement needs drive the project's feasibility gap, and are concentrated in site piling and stabilization work required to support building on-site (for any vertical program). Direct public-sector participation in this infrastructure cost would reduce the burden on a developer.

- **Altering affordable housing requirements.** The CSDP calls for 10% of all residential uses to be targeted to households making 50% AMI or below. Reducing this requirement (for example, by changing the income thresholds to 80% AMI, or exempting Lakepointe from such a requirement) would help mitigate impacts to project feasibility. This lever is subject to City Council approval, however, and must align with broader policy goals.

- **Reducing parking requirements.** Parking requirements make up a substantial cost for dense development at Lakepointe. As regional transit investments are introduced in Kenmore, notably BRT along SR-522, and user behaviors shift, there is strong potential to reduce parking requirements, especially for the residential portion of the development. For example, a reduction in parking requirements for residential program components to 1 space per unit (currently reflected in the HR&A alternative program) would substantially reduce the feasibility gap and be consistent with transformative development elsewhere in the country.

Impact on Feasibility Gap[5]:

48-61%
Currently supportable vertical costs

~$15M
Potential reduction in feasibility gap

$17-18M
Potential reduction in feasibility gap

Continued on next page.

[5] All figures shown are for the developer-proposed program. Given the financial model's calculations, these may not be additive. Ranges are presented based on a 16-20% IRR.

Findings | Public-Private Partnership

The City of Kenmore can consider a number of levers to narrow the feasibility gap.

- **Reducing or exempting impact fees.** Exempting Lakepointe from transportation or park impact fees, or allowing for Lakepointe to account for these impact fees through in-kind contributions (such as the transportation and park improvements assumed in the horizontal improvements), subject to City regulations, would reduce the feasibility gap.
- **Abating property taxes.** It is common practice across the Puget Sound area to abate property taxes to incentivize multifamily construction containing affordable. Abating property taxes may reduce the feasibility gap but limit the City's fiscal revenues in the near-term.

If the above local policy levers and exploration of the appropriate site plan and phasing are exhausted, the City could potentially explore more radical alternative development strategies, including potential for a land swap.

Impact on Feasibility Gap[5]:

~$5M
Potential reduction in feasibility gap[5]

$18-$19M
Potential reduction in feasibility gap[5,6]

TBD
Potential impact to be determined, if of interest

[5] All figures shown are for the developer-proposed program. Given the financial model's calculations, these may not be additive. Ranges are presented based on a 16-20% IRR.

[6] Total net present value of 8-year residential property tax abatement for the developer-proposed program is $59.4M. Only a portion of this value is captured by the financial feasibility model, which runs through project stabilization only.

Findings | Public-Private Partnership Structure

Defining City goals and identifying aligned funding and financing tools will support negotiations and progress toward implementation.

Defining City goals and identifying aligned funding and financing tools will support negotiations and progress toward implementation. Next steps to advance implementation include:

1. Clearly **define City objectives** and priorities to ensure that the City and developer clearly understand their respective expectations as the project advances towards implementation.

2. Explore all **opportunities to reduce the gap, while still delivering important benefits for the City and community** including: i) making a direct public-sector commitment to items of high community priority, consistent with local resources, ii) phasing and program planning that maximize value and minimize upfront costs, which may include developing a revised site plan, and iii) deployment of funding and financing tools that can be applied to the remaining gap.

3. Working with project partners, **negotiate a development agreement** that maintains project flexibility, which can be achieved by establishing development minima or guidelines that allow for future program adjustments based on market trends.

Appendix: Financial Feasibility

Financial Feasibility

Development Cost Assumptions

DEVELOPMENT COST ASSUMPTIONS

	Multifamily Midrise	Multifamily Highrise	Condo Midrise	Office Midrise	Office Highrise	Hotel	Retail (Ground Floor)	Retail (Stand-Alone)	Townhomes	Condo Highrise
Hard Costs (per GSF)[6]	$197	$352	$207	$131	$188	$405	$175	$175	$215	$370
Soft Costs (Excl. Fin. & Loan Fees (%)) [6]	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Hard & Soft Costs (per GSF)	$238.42	$426.37	$250.34	$158.81	$226.88	$490.05	$211.75	$211.75	$260.15	$447.69
Washington State Sales Tax	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Cost of Structured Parking (per space) [7]	$30,830	$30,830	$30,830	$30,830	$30,830	$30,830	$30,830	$30,830	$0	$30,830

[6] *Weidner Apartment Homes, Local Cost Estimator, Local Hotel and Townhome Developer*

[7] *Weidner Apartment Homes*

Financial Feasibility

Financing Assumptions

FINANCING ASSUMPTIONS	
Construction Loan	
Loan-to-Cost Ratio (%, incl. fees and interest)	75%
Lender's Points (%)	1.00%
Loan Closing Costs (%)	1.00%
Interest Rate (%)	4.00%
Permanent Loan	
Loan-to-Value Ratio (%)	80%
Lender's Points (%)	1.00%
Loan Closing Costs (%)	1.00%
Interest Rate (%)	4.25%
Amortization Period (Yr.)	30 Yr.
Debt Service Coverage Ratio	1.20

GROWTH / DISCOUNT RATE ASSUMPTIONS	
General	
Inflation	3.0%
Inflation - Infrastructure	3.0%
Discount Rate / Target IRR	20.0%
Infrastructure Construction Loan	
Horizontal Loan - Interest	6%
Horizontal Loan - Equity Share	30%
City of Kenmore	
Discount Rate	6.00%

Financial Feasibility

Revenue Assumptions

RENT REVENUE ASSUMPTIONS[9]

	Multifamily Midrise[8]	Multifamily Highrise[8]	Office Midrise	Office Highrise	Retail (Ground Floor)	Retail (Stand-Alone)
Base Rent (per NSF per Yr.)[9]	$32.40	$36.00	$33.00	$38.50	$35.00	$35.00
Rent (per NSF per Mo.)	$2.70	$3.00	$2.75	$3.21	$2.92	$2.92
Property Taxes (per NSF per Mo.) [10]	$0.43	$0.48				
Total OpEx (as % of Revenue, incl. RE Taxes)	33%	33%				
CapEx Reserves (per NSF per Yo.) [11]	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10
Leasing Commissions as % of Lease [11]			6.00%	6.00%	8.00%	8.00%
Tenant Improvements per NSF [11]			$80.00	$80.00	$20.00	$20.00
Average Cap Rate [13]	4.40%	4.40%	5.25%	5.25%	6.00%	6.00%

HOTEL REVENUE ASSUMPTIONS[13]

	Hotel
ADR (per key)[13]	$175.00
Occupancy Rate	75%
Revenue Per Available Room (Rev PAR)	$131.25
Non-room Revenue as % of Room Revenue	20%
Total OpEx (as % of Revenue, incl. RE Taxes)	55.00%
Average Cap Rate	5.00%

CONDO REVENUE ASSUMPTIONS[9]

	Townhomes	Condo Midrise[8]	Condo Highrise[8]
Sale Period	12 Mo.	12 Mo.	12 Mo.
Construction + Sale Period	36 Mo.	36 Mo.	36 Mo.
Presold	50%	50%	50%
Marketing Costs Per Unit	$4,000	$4,000	$4,000
Transaction Costs	7%	7%	7%
Market Sale Price PSF	$515.00	$680.00	$850.00

[8] Benefits from Transformative Growth over lifespan of the project
[9] Market comparables on the Eastside, O'Connor Consulting Group
[10] Based on current property taxes on comparable buildings in Kenmore
[11] HR&A Assumption
[12] Weidner Apartment Homes
[13] Market reports, including CBRE, JLL, STR; when calculating the feasibility gap with the property tax abatement, adjusted cap rate to 5.2% to reflect the value of the abatement.

Financial Feasibility

Parking Assumptions

PARKING RATIOS	CSDP	DEVELOPER- PROPOSED	HR&A ALTERNATIVE
Residential	1.50 per unit	1.35 per unit	1.00 per unit
Hotel	0.80 per key	0.80 per key	0.80 per key
Office	3.333 per 1000 NSF	3.0 per 1000 NSF	3.0 per 1000 NSF
Retail	3.333 per 1000 GSF	3.0 per 1000 GSF	3.0 per 1000 GSF

The approved CSDP provides the current parking standards on the site. For a developer to construct less parking – as is the case in both the Weidner plan and HR&A alternative – the City would need to approve lower requirements in a future development agreement.

Financial Feasibility

Horizontal Infrastructure Costs

INFRASTRUCTURE IMPROVEMENTS	CSDP	DEVELOPER-PROPOSED	HR&A ALTERNATIVE[14]
Transportation Improvements	$194,360,379	$50,271,300	$50,271,300
Off-site and Utility Extension Improvements	$7,256,700	$10,829,630	$10,829,630
Site Stabilization	$105,085,231	$82,475,648	$86,659,060
Shoreline Improvements	$2,720,483	$22,117,500	$22,117,500
Public Recreation Space Improvements	$2,720,483	$5,099,773	$5,200,000
TOTAL HARD COSTS	**$312,143,275**	**$170,793,851**	**$175,077,490**
Soft Costs	$62,428,655	$34,158,770	$35,015,498
Contingency	$62,428,655	$34,158,770	$35,015,498
Total Costs	***$437,000,585***	***$239,111,392***	***$245,108,486***

LAND ACQUISITION COSTS	AMOUNT
All parcels	**$49,350,000**

ENTITLEMENTS	AMOUNT
Entitlements	**$6,045,930**

HR&A assumed that the all horizontal improvements would be paid for with a 50/50 equity and debt split. Costs above do not include WSST, at 10.00%. Soft costs and contingency are estimated at 20.00% of hard costs each. All figures above are in 2018$.

[14] *Given the timeline and resources available for this study, HR&A did not undertake a wholesale redesign of the project site plan, and rather reassigned product within existing development pads to the modified program. Where increased building costs were to ensue (as determined by Weidner), HR&A assigned the increased costs to an increase in horizontal infrastructure costs on-site*

Financial Feasibility

Residual Land Values by Use

TYPOLOGY	RESIDUAL LAND VALUE PER NSF[15]	RESIDUAL LAND VALUE PER UNIT[15]
Multifamily Mid-Rise[16]	$21 - $30	$17,800-$25,400
Multifamily High-Rise[16]	($110) - ($119)	
Condo Mid-Rise[16]	$138 - $169	$117,000-$143,300
Condo High-Rise[16]	$52 - $69	$44,700 $58,700
Office Mid-Rise	$92	
Office High-Rise	$92	
Hotel	$338	$83,716
Retail	$49	
Townhomes	$115	$160,749

[15] Residual land values do not include horizontal improvements and land basis. Residential uses include 10% affordable housing at 50% AMI.

[16] Value includes the anticipated benefit of transformative growth over the lifetime of the project. Range represents the range of potential for the first and last phase, respectively. It is expected that the last phase will be more valuable than earlier phases given the transformative growth envisioned at the site.

Appendix: Economic & Fiscal Impact

Economic & Fiscal Impact Analysis

Economic Impact Methodology

Economic impact analysis is predicated on the concept of the "multiplier effect," where direct new economic activity in an area's economy, such as new spending or new jobs, creates further spending and job creation because businesses in a regional economy are interdependent and purchase goods and services from each other. For instance, construction spending from the Lakepointe project would stimulate additional spending by construction contractors who must purchase materials to meet new demand, which stimulates additional spending by the contractor's suppliers, and so forth. Economic impact analysis measures the ripple effect of initial economic changes owing to a new investment or policy change.

Economic impacts are measured in terms of employment, labor income, and economic output (spending) generated.

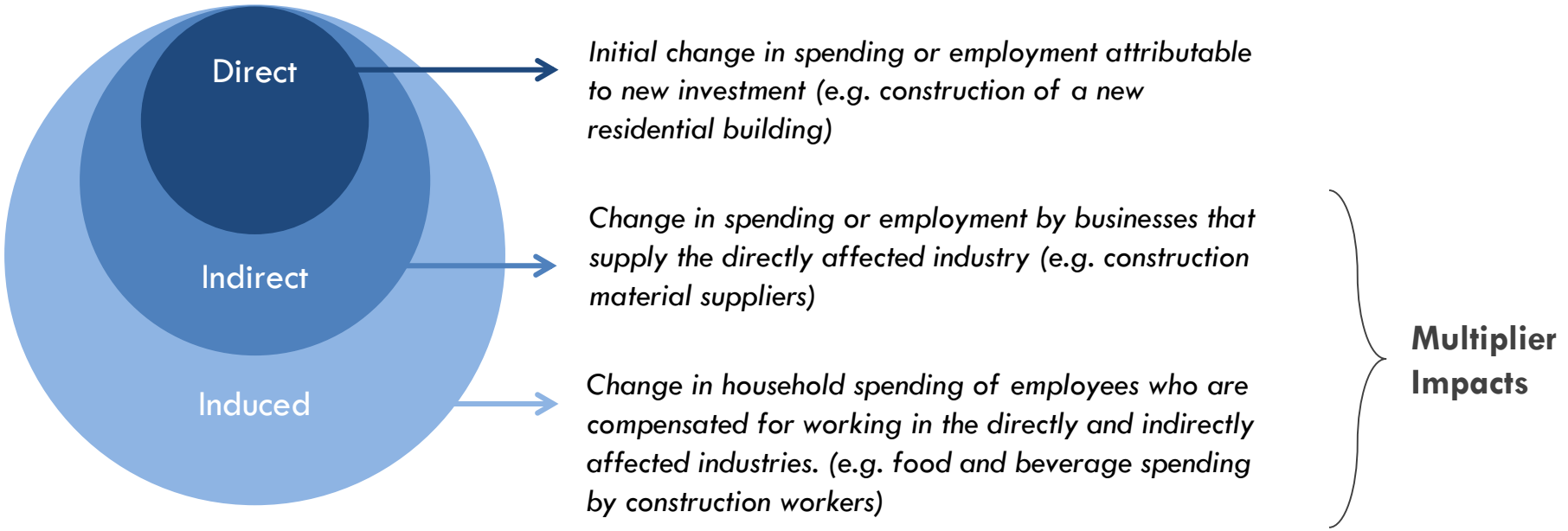
- **Economic impact (output)** is the total value of production across all industries. It is equivalent to the aggregate spending in the study area.
- **Jobs,** which are defined differently for one-time construction and ongoing activities. One-time construction jobs are calculated as job-years and represent the amount of work completed by one person in one year. Ongoing jobs represent full-time equivalent employees on an annual basis.
- **Labor income** includes wages and benefits received by employees and income received by independent proprietors in the study area.

Economic & Fiscal Impact Analysis

Economic Impact Methodology

HR&A's economic impact analysis considers the one-time impact of Project construction and the ongoing impact from Project operations each year. Economic inputs are disaggregated into direct, indirect, and induced effects.

- The **Direct effect** is the initial change in spending or employment attributable to new investment (e.g. construction of a new residential building)
- The **Indirect effect** is the change in spending or employment by businesses that supply the directly affected industry (e.g. construction material suppliers)
- The **Induced effect** is the change in household spending of employees who are compensated for working in the directly and indirectly affected industries. (e.g. food and beverage spending by construction workers)



Economic & Fiscal Impact Analysis

Economic Impact Methodology

HR&A used IMPLAN to estimate the economic impacts of the development and operation of the proposed project on the local economy. IMPLAN, created by IMPLAN Group, LLC (formerly MIG, Inc. and the Minnesota IMPLAN Group, Inc.), is an industry standard input-output model used to conduct economic impact analyses by leading public and private sector organizations across the United States. It also has been used to monitor job creation for a range of Federal government initiatives, including the economic impacts of the American Recovery and Reinvestment Act of 2009 on state economies.

HR&A conducted its analysis using the IMPLAN input-output model for the King County, WA economy. For economic spending, IMPLAN traces the pattern of commodity purchases and sales between industries that are associated with each dollar's worth of a product or service sold to a customer, analyzing interactions among 536 industrial sectors, with assumptions about spending that takes place outside of the study area. The model generates estimates of direct economic impacts as well as indirect and induced impacts based on a series of inputs. Estimates are derived from the Bureau of Economic Analysis' Annual Industry Accounts and Annual Survey of Manufacturers and the Census Bureau's Annual Census of Retail Trade.

In addition to overall economic spending, the IMPLAN input-output model also produces estimates of the number of jobs supported and labor income. Labor income generated by the IMPLAN input-output model is based on a nationally recognized econometric model, customized for conditions in Davidson County and Tennessee. It includes wage and salary income plus benefits and employer paid taxes, in addition to income earned by independent proprietors. The estimates of jobs and labor income are based on the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), data from the Census Bureau's County Business Patterns data, and data from the Bureau of Economic Analysis' Regional Economic Accounts. A full description of IMPLAN and its data methods and sources can be found here.

Economic & Fiscal Impact Analysis

Economic Impact Methodology

Glossary of terms:

- **Direct Impact**
  - The initial change in spending or employment in the study area attributable to new investment (e.g. construction of a new residential building).
- **Economic Impact (Output)**
  - The total value of production across all industries. It is equivalent to the aggregate spending in the City or State.
- **Employment**
  - Number of full-time equivalent (FTE) employees supported by the Project. An FTE employee is assumed to work 2,080 hours in one year based on a 40-hour work week and 52 weeks per year.
- **Indirect Impact**
  - The change in spending or employment in the study area by businesses that supply the directly affected industry (e.g. construction material suppliers).
- **Induced Impact**
  - The change in household spending of employees who are compensated for working in the directly and indirectly affected industries (e.g. food and beverage spending by construction workers).
- **Job-Year**
  - Amount of work completed by one full-time equivalent (FTE) employee in one year. An FTE employee is assumed to work 2,080 hours in one year based on a 40-hour work week and 52 weeks per year.
- **Labor Income**
  - Total income received by labor, includes wages received by employees (excluding benefits) and income received by independent proprietors.
- **Multiplier Impact**
  - Combination of indirect and induced impacts.

Economic & Fiscal Impact Analysis

Economic Impact Assumptions

HR&A categorized one-time and permanent spending assumptions, generated by the financial feasibility analysis, into the following IMPLAN codes:

IMPLAN CODE	INDUSTRY NAME
57	Construction
63	Maintenance and Repair of Residential Structures
405	Retail – General Merchandise Stores
499	Hotels and Motels, Including Casino Hotels
537	HR&A Blended Office[17]

[17] *Weighted average of IMPLAN codes 440, Real Estate, and 460, Marketing research and all other miscellaneous professional, scientific, and technical services, based on the mix of employees in a precedent office area in Bothell.*

Economic & Fiscal Impact Analysis

Fiscal Impact Assumptions

HR&A used the following assumptions to determine net new property tax revenues to both the City of Kenmore and the Northshore School District, applying both taxing authorities' mill rates to the development's terminal value by use.

PROPERTY TAX ASSUMPTIONS		SOURCE
City of Kenmore Mill Rate	$1.54 per $1,000	*King County Assessor*
Northshore School District Mill Rate	$4.01 per $1,000	*King County Assessor*
UTGO Bond Fund 2016	$0.34 per $1,000	*City of Kenmore Biennial Budget*
Inflation	3%	*HR&A Assumption*
Equalization Rate	100%	*King County Assessor*
Assessor's Capitalization Rates		
Residential	4.12%-4.50%	*King County Assessor*
Office, Retail	7.50%	*King County Assessor*
Hotel	7.40%	*King County Assessor*

Economic & Fiscal Impact Analysis

Fiscal Impact Assumptions

HR&A used the following assumptions to determine net new sales tax and other revenues to the City of Kenmore from development at Lakepointe, applying the City's tax rates to both construction and ongoing spending.

SALES TAX & OTHER REVENUE ASSUMPTIONS		SOURCE
City of Kenmore share of WA State & King County Sales Tax (per dollar)	0.84%	*King County Assessor*
Local Criminal Justice Sales Tax	$52.58 per capita	*City of Kenmore Biennial Budget*
Intergovernment (collected by the State on gas and liquor related receipts)	$21.46 per capita	*City of Kenmore Biennial Budget*
Utility (telephone, gas and electric)	$60.93 per capita	*City of Kenmore Biennial Budget*

Economic & Fiscal Impact Analysis

Fiscal Impact Assumptions

HR&A used the following assumptions to assess additional costs to the city, driven by new residents and workers as a result of development at Lakepointe.[18]

LOCAL SERVICES SPENDING	SPENDING TYPE	COST PER FTE	COST PER CAPITA
Finance and Administration Cost Center	1 FTE	$92,300	
Legal	Per Capita		$8.88
Police Service Contract	4 FTEs	$150,000	
Prosecution & Defense	Per Capita		$9.45
Jail	Per Capita		$24.96
Court	Per Capita		$6.04
Development Services	0.5 FTE	$47,210	
Public Works Parks & Facilities Maintenance	1 FTE	$97,500	
Street Fund Expenses	1 FTE	$200,000	
Surface Water Program	1 FTE	$90,558	
Human Services Contracts	Per Capita		$7.46

[18] *Biennial budget, confirmed in discussion with City representatives; City of Kenmore*

Economic & Fiscal Impact Analysis

Key Economic & Fiscal Outputs

Using the above assumptions, HR&A found the following economic and fiscal impacts for each program scenario:

CSDP SCENARIO		INFRASTRUCTURE	VERTICAL	TOTAL
Construction period spending ($2018)		$437,000,585	$693,865,508	$1,130,866,093
	DIRECT	INDIRECT	INDUCED	TOTAL
Economic Impacts				
Construction period jobs	7,159	713	1,764	9,636
Construction period labor income	$543,386,588	$60,969,708	$106,100,173	$710,456,468
Construction period economic output	$1,130,866,093	$164,144,854	$297,438,409	$1,592,449,356
One-time fiscal impacts				$11,439,532
Ongoing jobs	1,431	160	267	1,858
Ongoing labor income	$81,414,843	$12,664,488	$16,771,214	$110,850,546
Ongoing economic output	$210,992,633	$131,720,827	$164,393,939	$507,107,399
Fiscal Impacts				
Ongoing local sales tax				$1,354,342
Ongoing other taxes (intergovernment, utility, local criminal justice)				$307,349
Ongoing local property tax (City and School District)				$5,998,514
Ongoing cost of local services (City and School District)				($2,644,850)

Economic & Fiscal Impact Analysis

Key Economic & Fiscal Outputs

Using the above assumptions, HR&A found the following economic and fiscal impacts for each program scenario:

DEVELOPER-PROPOSED SCENARIO		INFRASTRUCTURE	HORIZONTAL	TOTAL
Construction period spending ($2018)		$239,111,392	$1,246,096,001	$1,485,207,393
	Direct	Indirect	Induced	Total
Economic Impacts				
Construction period jobs	9,402	936	2,317	12,655
Construction period labor income	$713,649,284	$80,073,725	$139,345,200	$933,068,208
Construction period economic output	$1,485,207,393	$215,577,380	$390,636,634	$2,091,421,408
One-time fiscal impacts				$16,483,162
Ongoing jobs	3,320	379	661	4,359
Ongoing labor income	$196,782,186	$28,841,442	$40,535,912	$266,159,540
Ongoing economic output	$532,000,412	$413,591,968	$516,665,681	$1,462,258,062
Fiscal Impacts				
Ongoing local sales tax				$657,572
Ongoing other taxes (intergovernment, utility, local criminal justice)				$506,286
Ongoing local property tax (City and School District)				$8,800,597
Ongoing cost of local services (City and School District)				($3,710,121)

Economic & Fiscal Impact Analysis

Key Economic & Fiscal Outputs

Using the above assumptions, HR&A found the following economic and fiscal impacts for each program scenario:

HR&A ALTERNATIVE SCENARIO		INFRASTRUCTURE	HORIZONTAL	TOTAL
Construction period spending ($2018)		$245,108,486	$737,149,586	$982,258,072
	Direct	Indirect	Induced	Total
Economic Impacts				
Construction period jobs	6,218	619	1,532	8,369
Construction period labor income	$471,979,720	$52,957,629	$92,157,464	$617,094,814
Construction period economic output	$982,258,072	$142,574,447	$258,351,789	$1,383,184,308
One-time fiscal impacts				$10,560,812
Ongoing jobs	2,070	238	411	2,719
Ongoing labor income	$122,592,946	$18,174,839	$25,261,074	$166,028,859
Ongoing economic output	$328,653,382	$248,418,930	$310,308,587	$887,380,899
Fiscal Impacts				
Ongoing local sales tax				$657,572
Ongoing other taxes (intergovernment, utility, local criminal justice)				$427,781
Ongoing local property tax (City and School District)				$6,345,918
Ongoing cost of local services (City and School District)				($3,361,143)

LAKEPOINTE FEASIBILITY & BENEFITS STUDY

JULY 2018

HR&A Analyze. Advise. Act.