
DRAFT

**Overlake and Marymoor Subareas
Real Estate Value Capture Analysis**

H E A R T L A N D

August 1st, 2016

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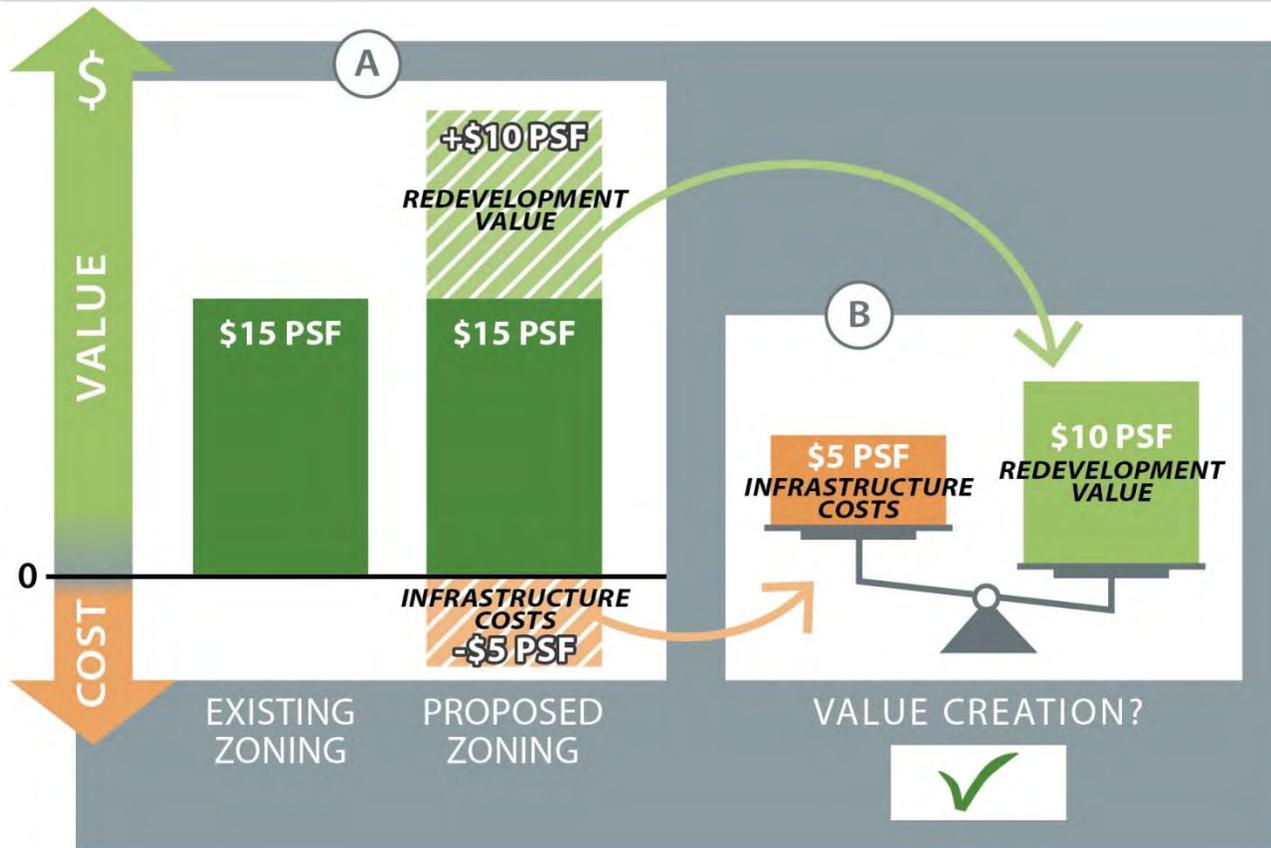
- **Project Goals**
- **Methodology**
- **Marymoor Summary**
- **Overlake Summary**
- **Key Insights**
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Objectives and Goals of Assessment

- Heartland was hired by the City of Redmond to provide a real estate market perspective on the private sector's capacity to contribute to infrastructure investment using real estate value capture in the Marymoor and Overlake Subareas.
- For real estate value capture to work the following needs to occur:
 - A. redevelopment needs to be viable (i.e. outperform existing uses)
 - B. cost of infrastructure investment captured cannot exceed the incremental increase in real estate value from the existing uses on site
- Based on this directive Heartland sought to answer the following key question:

How can the City of Redmond fund and phase infrastructure improvements using real estate value capture in Marymoor and Overlake Subareas?

Real Estate Value Capture (Hypothetical Example)



- A) By modifying zoning, the land value increases from \$15 psf to \$25 psf given the increased capacity and/or uses that can be built on the land, but will need \$5 psf of infrastructure to support this additional capacity.
- B) If the incremental value of redevelopment is greater than the new infrastructure costs, then value would be created with redevelopment.

Key Findings

1) Currently, redevelopment is challenging for the majority of parcels within Marymoor and Overlake subareas without loading infrastructure costs

- Current Code/Existing Zoning Regulations (MF not allowed under existing Marymoor Subarea zoning)
- Land Use Context (lack of neighborhood identity/defining character for both Marymoor and Overlake subareas)
- Most properties have high value-in-use

2) Incentives are valuable under future conditions but do not provide sufficient value capture in the current real estate market to offset infrastructure costs

- Infrastructure to support increased TOD density is costly
- Building higher than 6 stories is cost prohibitive even if allowed by zoning

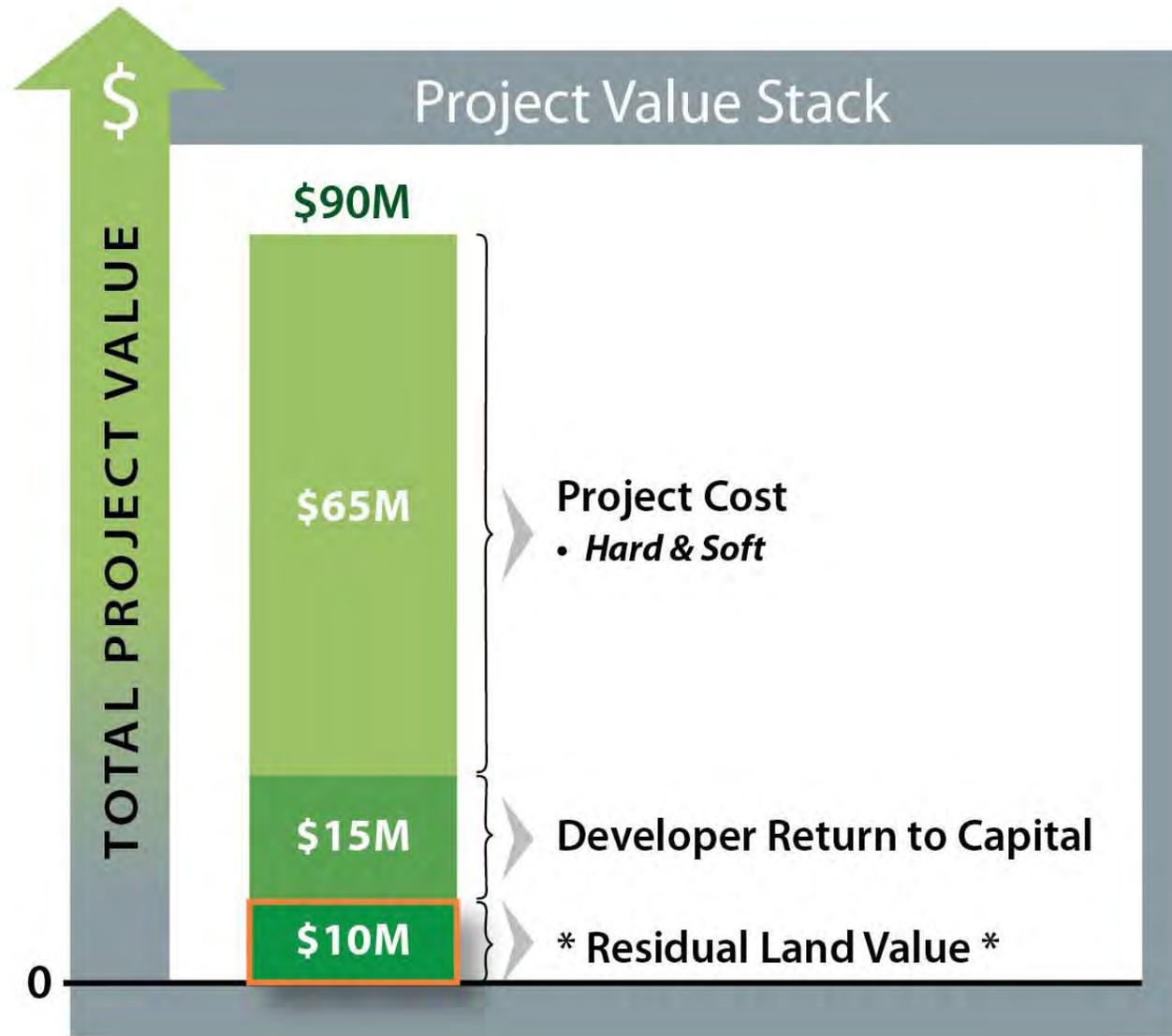
3) Incentives may provide sufficient value capture in the future

- Value Capture Incentives are highly sensitive to model assumptions
- All else being equal, a 10% increase in rents would change analysis results from negative to positive.

4) Infrastructure investment should be phased incrementally to maximize real estate value capture potential

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Model Development from the Developer's Perspective



- Developer analyzes project-specific return for “go/no-go” decision
- Residual Land Value: Amount developer can afford to pay for “land”
- Assuming developer maximizes site, total value is set
- Any additional costs push down on residual land value

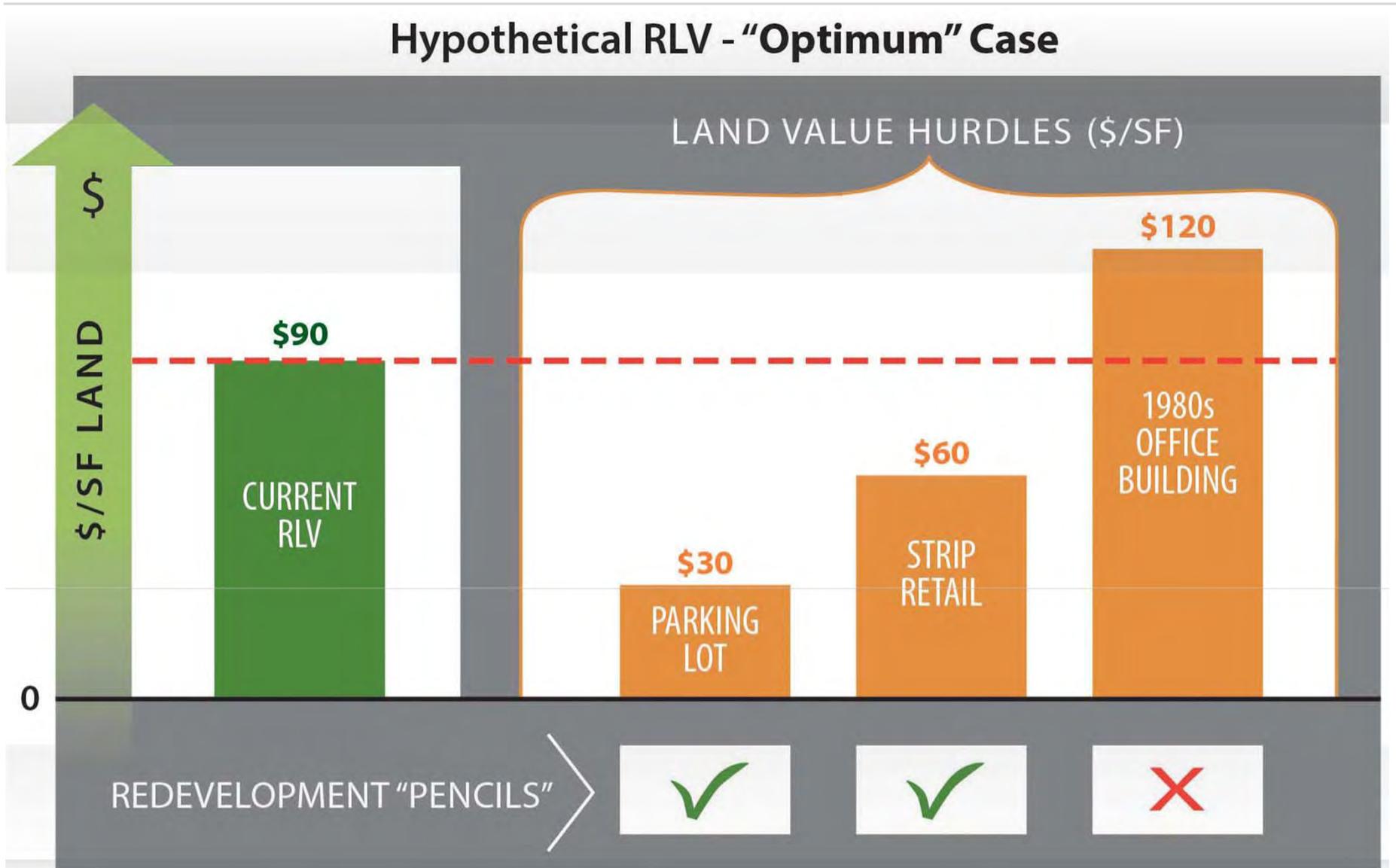
When Does Redevelopment Occur?

1. Redevelopment occurs when the Residual Land Value (RLV) for future development exceeds the existing value in use of income property, and owner decides to capture that value.
2. The RLV is the amount leftover (the residual) after accounting for all other factors of real estate development, and thus represents what a developer could afford to pay a landowner for property and still earn a reasonable entrepreneurial return.

“The RLV can be found by estimating the value of the proposed use (land and improvements) and subtracting the cost of labor, capital, and entrepreneurial coordination expended to create the improvements.” –

(The Appraisal of Real Estate, 12th Edition, Appraisal Institute, p. 315)

When Does Redevelopment Occur?



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Overlake Village Subarea Zoning Plan



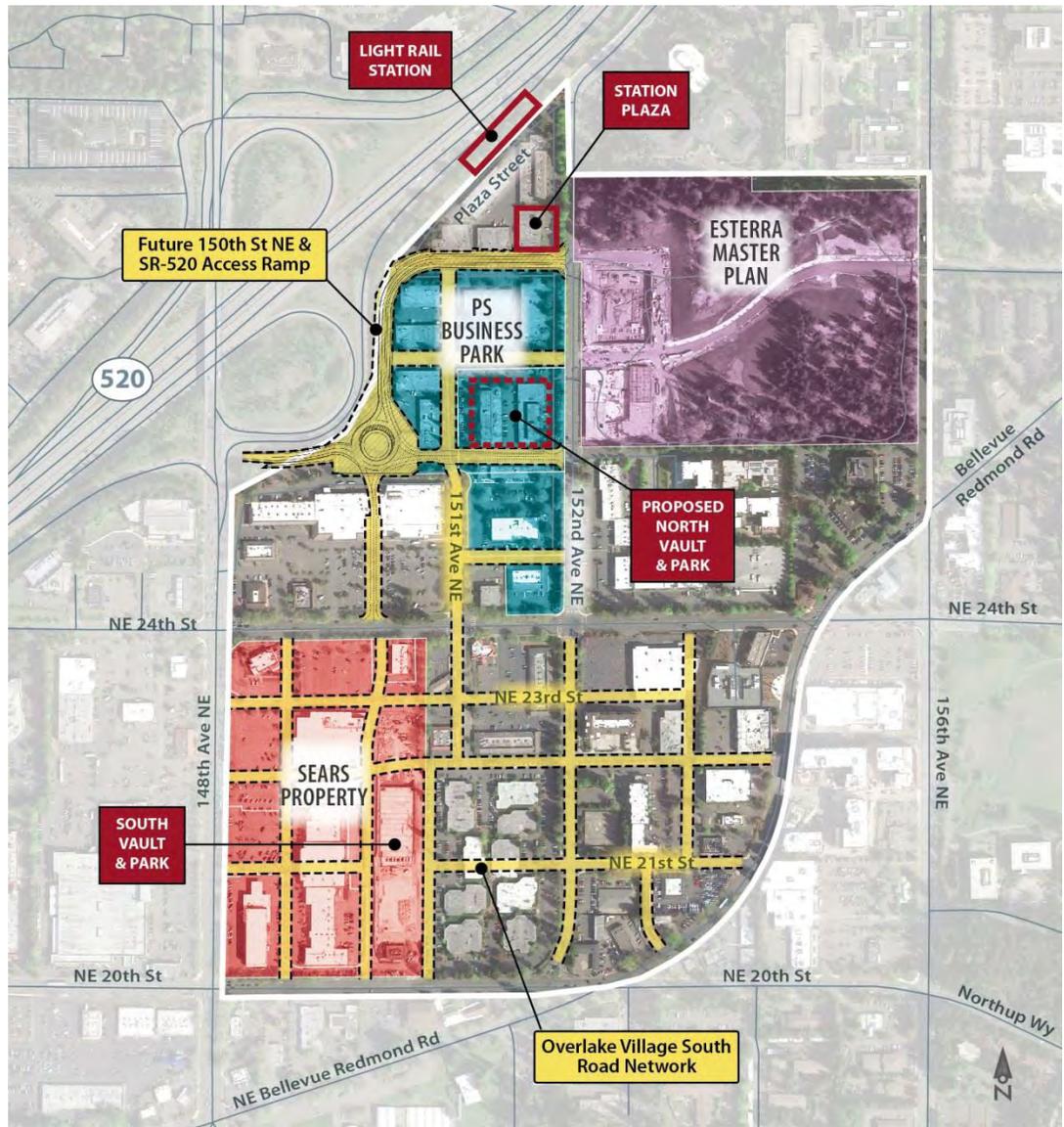
CRANDALL ARAMBULA
Revitalizing America's Cities

Visualization- Final Phase
May 27, 2011

Overlake Village Subarea Zoning Plan



Overlake Proposed Infrastructure



- PS Business Park
- Esterra Master Plan
- Sears Property
- Proposed Infrastructure Improvements

Overlake Total Infrastructure Costs

Line Item	Southern Half	Northern Half	TOTAL	Percentage
Right of Way Acquisition	\$129M	\$83M	\$212M	63%
Construction	\$65M	\$23M	\$88M	26%
Project Development	\$21M	\$6M	\$27M	8%
Construction Mgmt.	\$8M	\$2M	\$10M	3%
TOTAL COST*	\$224M	\$115M	\$339M	100%

* Source HDR: Includes 30% Contingency for ROW and 35% Contingency for all others (\$2016)

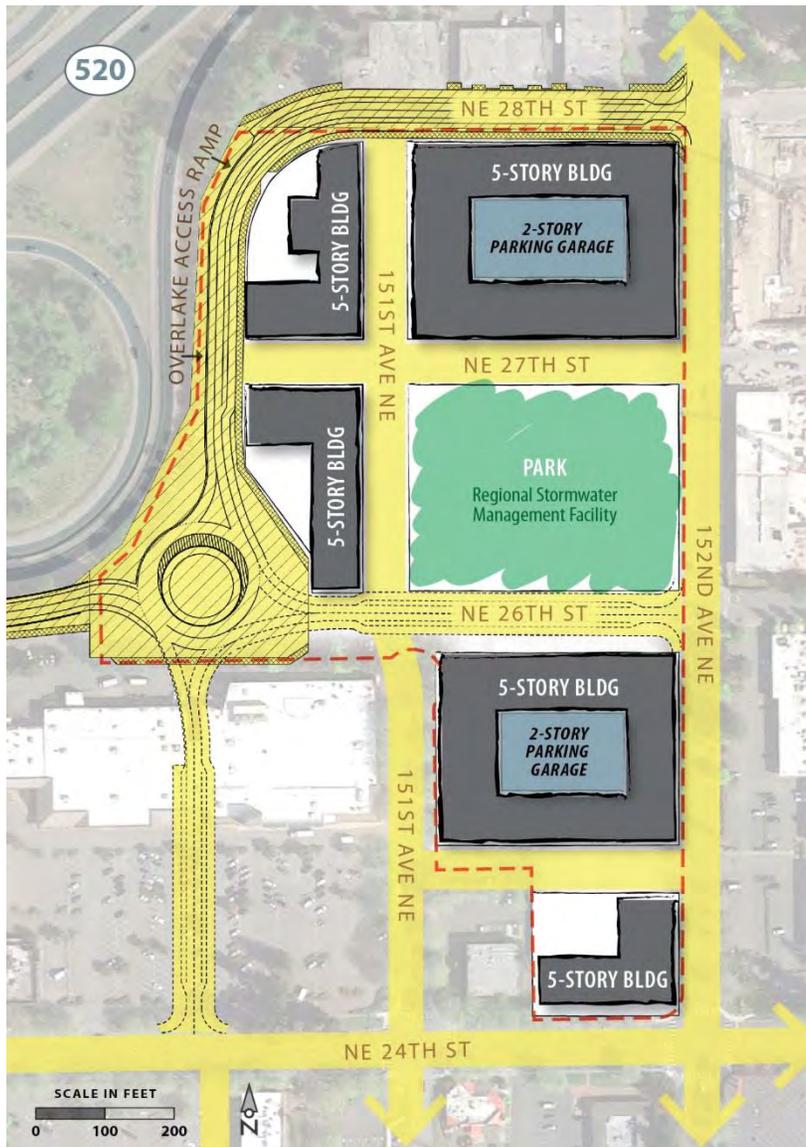
Overlake Case Study #1:



	Amount
Current Value in Use	\$54 (psf)
Infrastructure Costs*	\$12 (psf)
Redevelopment Hurdle Rate	\$66 (psf)

- Assumes City will pay developer market rate (\$54/psf) for land dedicated for Regional Stormwater
- 16.45 Acres
- Current uses: Retail, Storage, Warehouse
- Buildings are old but still achieve strong rents
- Base FAR: 2.5

Overlake Case Study #1: Highest and Best Use (Residential with TOD Incentive)



- 5 stories
- 935,128 sf GFA
- 1.31 FAR
- 1.95 net FAR
- 34% permeable area
- 807 units
- 821 parking spaces
 - 293 Underground
 - 449 Podium
 - 80 surface spaces

Residual Land Value: Overlake Case Study #1: Redevelopment Does Not Pencil

Residual Land Value	
Project Value	\$317 million
Project Costs (before land & return)	\$233 million
Return to Capital	\$45 million
Resulting Residual Land Value	
Total	\$ 39 million
Per Square Foot	\$54 psf
Per Square Foot GFA	\$42 psf

	Amount
Redevelopment Land Value	\$54 (psf)
- Redevelopment Hurdle	- \$66 (psf)
Redevelopment Value	-\$12 psf



Given current assumptions redevelopment would not happen in today's market conditions

Overlake Case Study #2: Sears Property



	Amount
Current Value in Use	\$64 (psf)
Infrastructure Costs	\$34 (psf)
Redevelopment Hurdle Rate	\$98 (psf)

- 21.35 Acres
- Current uses: Mall and Pad Retail
- Buildings have significant value

Overlake Case Study #2: Highest and Best Use (6 story Podium Apartments)



- 6 stories
- 1.8M sf GFA
- 1.96 Market Driven FAR
- 2.44 net FAR
- 43% permeable area
- 1,363 Apartments
- 1,463 parking spaces
 - 28% underground
 - 61% podium
 - 9% street

Residual Land Value: Overlake Case Study #2

Redevelopment Does Not Pencil

Residual Land Value		
Total Rentable Area	1,104,180	square feet
Project Value	\$618	million
Project Costs (before land & return)	\$456	million
Return to Capital	\$88	million
Resulting Residual Land Value		
Total	\$ 73	million
Per Square Foot	\$79	psf
Per Square Foot GFA	\$40	psf

	Amount
Redevelopment Land Value	\$79 (psf)
- Redevelopment Hurdle	- \$98 (psf)
Redevelopment Value	(\$19) psf



Given current assumptions redevelopment would not happen in today's market conditions

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Base Residential Assumptions

MF Unit Mix and Rents				
Type	Avg SF	Unit Mix	\$ per unit	\$ per NSF
Studio	600	13%	\$1,650	\$2.75
1b 1b	740	53%	\$1,900	\$2.57
2b 2b	1,000	30%	\$2,275	\$2.28
Live/Work	1000	4%	\$2,400	\$2.40
AVERAGE	810		\$2,000	\$2.50

Source: Dupree & Scott (Redmond Units built after 2010)

Multifamily Residential Assumptions	
Vacancy	4.20%
Load Factor	80%
Residential Expense Reimbursement	\$1,200
Expenses Per Unit Per Year (PUPY)	(\$7,650)
Parking Ratio (space/unit)	1.00
Cap Rate	4.50%

Source: Dupree & Scott (Redmond Units built after 2010)

Cap Rate: CBRE 2015 Multifamily (4.75%. Recent sales in Redmond 4.5% and 4.63%)

Parking Ratio: Redmond Zoning

Townhouse Assumptions	
Avg. GFA	2,200
Sale Price (psf)	\$300
Parking Ratio (space/unit)	2.00

Source: NWMLS Townhomes East Bellevue/Redmond)

Parking Ratio: Redmond Zoning

Base Cost Assumptions

Construction Costs	
MF Residential Hard Costs (psf) (under 6 stories)	\$140
MF Residential Hard Costs (psf) (above 6 stories)	\$180
Townhome Hard Costs (psf)	\$140
Surface Parking Hard Costs (per stall)	\$6,000
Podium Parking Hard Costs (per stall)	\$23,000
Underground Parking Hard Costs (per stall)	\$28,000
Soft Costs (% of total costs)	14%-15%
Return on Capital	75 bps above exit cap

Source: Heartland, Hard Cost don't include taxes, return on capital, sitework

Base Commercial Uses Assumptions

Industrial Assumptions	
Industrial Rent (NNN)	\$8.00
Warehouse Rent (NNN)	\$15.00
Vacancy	4.20%
Industrial Opex (psf)	\$0.30
Parking Ratio (per 1,000 sf GFA)	2.00
Max FAR	0.5
Cap Rate	7.00%

Source: Vacancy: CoStar Rolling 5 yr Avg. Redmond, Cap Rate: CBRE 2015 Parking Ratio and FAR: City of Redmond MP Zoning

Retail Assumptions	
Rent (NNN)	\$26.00
Vacancy	4.90%
Parking Ratio (per 1,000 sf GFA)	2.00

Source: CoStar, Parking Ratio: City of Redmond MP Zoning

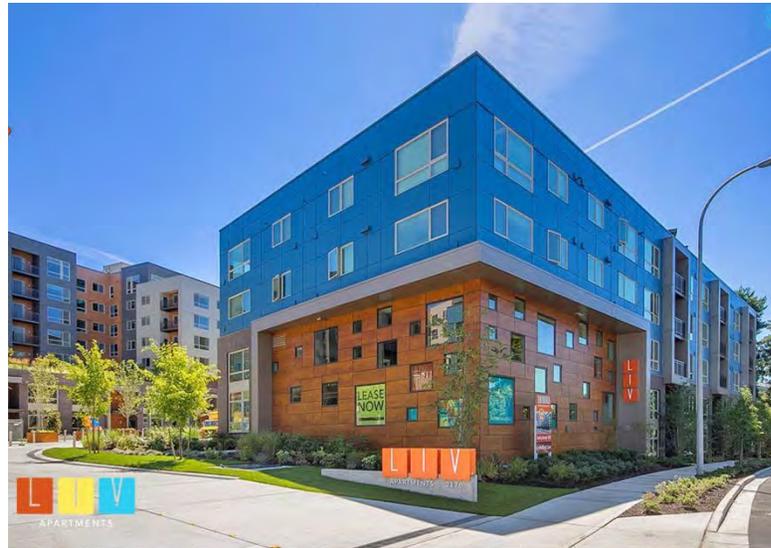
Office Assumptions	
Rent (NNN)	\$25.00
Vacancy	6.50%
Office Opex (psf)	\$0.30
Parking Ratio (per 1,000 sf GFA)	2.00

Source: CoStar, Parking Ratio: City of Redmond MP Zoning

Leasing Comps

LIV Apartments - 2170 NE Bel-Red Rd

Zoning	BRRC3
Vacancy	17%
Stories	6
Lot Area	147,880
GFA	391,975
GLA	300,200
FAR	2.7
Efficiency	77%
Structured Parking SF	153,195
Structured Parking	705
Parking Ratio	1.563192905
Retail	NA
Retail Lease	NA



Unit Type	Count	Mix	SF	Rent	\$/SF
Studio	17	4%	442	\$1,618	\$ 3.66
1BR	331	73%	780	\$1,970	\$ 2.53
2BR	103	23%	1118	\$2,957	\$ 2.64
Total/Average	451	100%	845	\$2,182	\$ 2.58

Leasing Comps

Avalon Bay (Under Construction)						
Zoning	OV4					
Vacancy	Under Construction					
Stories	8					
Lot Area	132,482					
GFA	496,565					
GLA	298,826					
FAR	3.7					
Efficiency	64%					
Parking Spaces Covere	229					
Surface Parking Spaces	116					
Parking	0.69					
Retail	16776					
Retail Lease	\$28 NNN					
Unit Type	Count	Mix	SF	Rent	\$/SF	
Studio	440	88%	549	\$1,709	\$3.12	
1 bed	35	7%	766	\$1,885	\$2.59	
2 bed	21	4.20%	1152	\$2,590	\$2.36	
3 bed	4	0.80%	1566	\$3,200	\$2.04	
Total/Average	500	100%	598	\$1,770	\$2.96	



Leasing Comps

Elan - 16325 Cleveland St

Zoning	OT
Vacancy	8%
Stories	6
Lot Area	39336
GFA	152556
GLA	117817
FAR	3.9
Efficiency	77%
Underground Parking SF	60000
Parking Spaces	182
Parking	1.5
Retail	7924
Retail Lease	\$26-\$30NNN



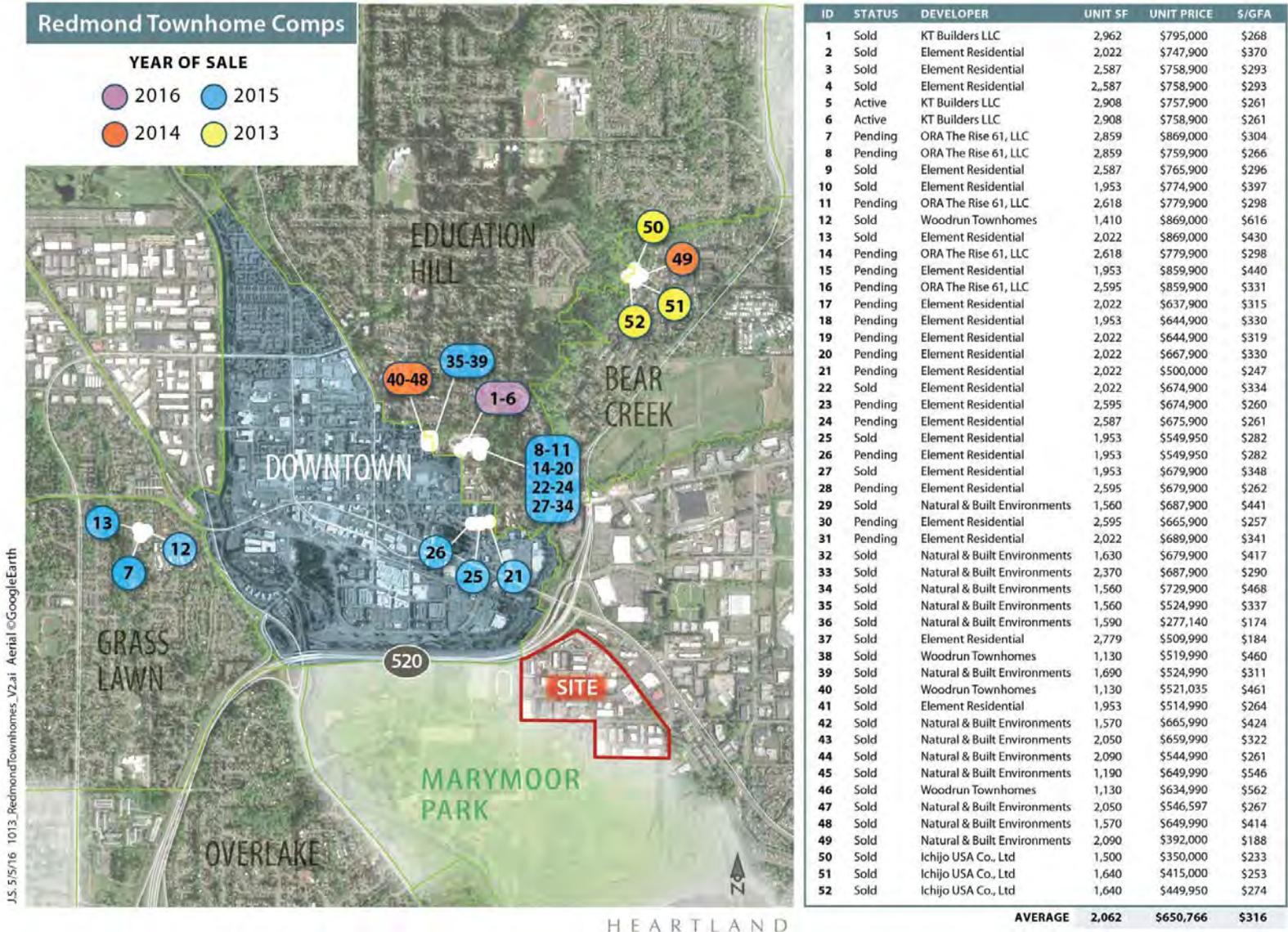
Unit Type	Count	Mix	SF	Rent	\$/SF
Studio	5	4%	525	\$1,607	\$ 3.06
1 Bed	86	64%	786	\$1,783	\$ 2.27
2 Bed	43	32%	1295	\$2,841	\$ 2.19
Total/Average	134	100%	940	\$2,116	\$ 2.25

Overlake Residual Land Value Summary

Overlake Residual Land Value	As-Is Parcel 1 Value in Use (VIU)	Case Study 1 5 story w/TOD Incentives	Case Study 1A 6 story w/ TOD and Parking Incentives
	16.45 Acres	16.45 Acres	16.45 Acres
Zoning	OVV 2/3	OVV 2/3	OVV 2/3
Max FAR	0.35	2.50	3.25
Market-Drive FAR	NA	1.31	2.52
Net FAR	0.35	1.95	3.76
Total GFA	253,892	935,128	1,805,764
# of Apartments		807	1,454
Parking Spaces		821	1,470
Total Residual Land Value	\$ 39.3M	\$ 38.9M	\$ 27.7M
Cap Rate	6.8%	4.50%	4.50%
Per GFA	\$154.61	\$42	\$15
Per Unit Cost	-	\$48,152	\$19,069
Residual Land Value \$/PSF	\$54	\$54	\$39
Infrastructure Cost \$/psf		\$12	\$12
Difference (RLV-Infr-VIU) \$/psf		-\$12	-\$28
Does it Pencil?		NO	NO

As-Is Parcel 2 Value in Use (VIU)	Case Study 2 6 story Residential w/ Incentives	Case Study 2A 6-10 story Residential w/Incentives
21.35 Acres	21.35 Acres	21.35 Acres
OVV3	OVV3	
0.42	2.50	3.3
NA	1.96	2.8
0.42	2.44	3.5
388,085	1,822,537	2,603,625
	1,363	1,907
	1,462	2,008
\$ 60.4M	\$ 73.4M	\$ 51.3M
6.0%	4.5%	4.50%
\$155.65	\$40.29	\$19.69
-	\$53,885	\$26,890
\$64	\$79	\$55
	\$34	\$34
	-\$19	-\$43
	NO	NO

Townhouse Comps



Overlake Case Study #1: Value-In-Use Calculation

20% Flex/Office 75% Warehouse 5% Retail Market-Rate Leases

Warehouse/Office Revenue (1)	\$16.00 psf (NNN)
Warehouse Revenue (1)	\$12.00 psf (NNN)
Retail	\$25.00 psf (NNN)
FAR	0.35
Property Area	716,573 sf
Efficiency	100%
GFA	253,892
GLA	253,892 sf
Expenses net NNN (3)	\$0.3 (net)
Capex Reserve	2% EGR
Cap Rate (2)	6.75%

(1) Avg. Area Market Rate Leases (Jan 2016)

(2) Based on Avg. Area Cap-Rate Sales and CBRE 2015 Cap Rate Study

(3) Based on leasing comps in Marymoor

Revenues	
20% Flex	\$812,454
75% Warehouse	\$2,285,028
5% Strip/Pad	\$317,365
Gross Revenue	\$3,097,482
12% Vacancy	(\$371,698)
Effective Gross Revenue	\$2,725,785
Expenses net NNN	(\$76,168)
NOI	\$2,649,617
Capitalized Value	\$39,253,584
5% Concessions	(\$136,289)
Leasing Commission	(\$136,289)
Capex Reserve	(\$54,516)
Net Value	\$38,926,490
Sales Price (psf)	\$54.32

Overlake Case Study #2: Value-In-Use Calculation

100% Retail	Market-Rate Leases
Mall Retail	\$20.00 psf (NNN)
Sears Retail	\$12.00 psf (NNN)
Pad/Strip Retail	\$25.00 psf (NNN)
FAR	0.42
Property Area	929,866 sf
Efficiency	80%
GFA	388,085
GLA	308,794 sf
Expenses net NNN	\$0.2 (net)
Capex Reserve	2% EGR
Cap Rate (2)	6.0%

(1) From Previous Report

(2) Based on Avg. Area Cap-Rate Sales and CBRE 2015 Cap Rate Study

Revenues	
9% Mall	\$532,800
87% Sears	\$3,222,468
4% Strip/Pad	\$340,375
Gross Revenue	\$4,095,643
10% Vacancy	(\$409,564)
Effective Gross Revenue	\$3,686,079
Expenses net NNN	(\$61,759)
NOI	\$3,624,320
Capitalized Value	\$60,405,332
5% Concessions	(\$184,304)
Leasing Commission	(\$184,304)
Capex Reserve	(\$73,722)
Net Value	\$59,963,002
Sales Price (psf)	\$64.49

Residual Land Value: Overlake Case Study #1 (5 Story with TOD Incentives)

Land Assumptions	
Land Area	716,573
In-Tract Streets	236,668
Net- Dev SF	479,905
Zoning FAR	2.5 FAR
Market-Driven FAR	1.31 FAR
FAR on Net Development	1.95 FAR
Max # of Stories	5 Stories

Development Assumptions	
Contributed ROW	In-Tract Only
Total Rentable Area	653,751 sq.ft
Total GFA	935,128 sq.ft
# of Residential Units	807 units
Retail GFA	30,000 sq.ft
Residential GFA	788,020 sq.ft
Hotel Rooms	0 sq.ft
Parking Spaces	821 spaces

Residual Land Value	
Project Value	\$317 million
Project Costs (before land & return)	\$233 million
Return to Capital	\$45 million
Resulting Residual Land Value	
Total	\$ 39 million
Per Square Foot	\$54 psf
Per Square Foot GFA	\$42 psf

Residual Land Value: Overlake Case Study #1A (6 story with TOD and Parking Incentives)

Land Assumptions	
Land Area	716,573
In-Tract Streets	236,668
Net- Dev SF	479,905
Zoning FAR	3.25 FAR
Market-Driven FAR	2.52 FAR
FAR on Net Development	3.76 FAR
Max # of Stories	6 Stories

Development Assumptions	
Contributed ROW	In-Tract Only
Total Rentable Area	- sq.ft
Total GFA	1,805,764 sq.ft
# of Residential Units	1454 units
Retail GFA	30,000 sq.ft
Residential GFA	1,442,928 sq.ft
Hotel Rooms	0 sq.ft
Parking Spaces	1,470 spaces

Residual Land Value	
Total Rentable Area	1,178,063 square feet
Project Value	\$559 million
Project Costs (before land & return)	\$451 million
Return to Capital	\$80 million
Resulting Residual Land Value	
Total	\$ 28 million
Per Square Foot	\$39 psf
Per Square Foot GFA	\$15 psf

Residual Land Value: Overlake Case Study #1: Sensitivity

- Currently the HBU of the parcel is podium parked apartments which takes advantage of only the TOD zoning incentive
- If rents increase 10% above development and infrastructure costs, the HBU would change to fully underground parking instead of podium parking, which would utilize additional incentives to maximize FAR
- Residual land values of parcel would “pencil”

Revenue Sensitivity	@ \$2.50 psf		10% Increase	
Redevelopment Value (w/TOD incentives)	-\$12 (psf)	→	\$38 (psf)	✓
Redevelopment Value (w/ TOD and parking incentives)	-\$28 (psf)	→	\$62 (psf)	✓
Difference between options	\$16 (psf)		-\$24 (psf)	

Residual Land Value: Overlake Case Study #2 (6 Story with Incentives)

Land Assumptions	
Land Area	929,866
In-Tract Streets	183,000
Net- Dev SF	746,866
Zoning FAR	2.5 FAR
Market-Driven FAR	1.96 FAR
FAR on Net Development	2.44 FAR
Max # of Stories	6 Stories

Development Assumptions	
Contributed ROW	In-Tract Only
Total Rentable Area	1,104,180 sq.ft
Total GFA	1,822,537 sq.ft
# of Residential Units	1363 units
Retail GFA	200,000 sq.ft
Residential GFA	1,337,560 sq.ft
Hotel Rooms	0 sq.ft
Parking Spaces	1,463 spaces

Residual Land Value	
Total Rentable Area	1,104,180 square feet
Project Value	\$618 million
Project Costs (before land & return)	\$456 million
Return to Capital	\$88 million
Resulting Residual Land Value	
Total	\$ 73 million
Per Square Foot	\$79 psf
Per Square Foot GFA	\$40 psf

Residual Land Value: Overlake Case Study #2A (6-10 Story with Incentives)

Land Assumptions	
Land Area	929,866
In-Tract Streets	183,000
Net- Dev SF	746,866
Zoning FAR	3.25 FAR
Market-Driven FAR	2.8 FAR
FAR on Net Development	3.49 FAR
Max # of Stories	10 Stories

Development Assumptions	
Contributed ROW	In-Tract Only
Total Rentable Area	1,544,860 sq.ft
Total GFA	2,603,625 sq.ft
# of Residential Units	1907 units
Retail GFA	200,000 sq.ft
Residential GFA	1,895,404 sq.ft
Hotel Rooms	0 sq.ft
Parking Spaces	2,008 spaces

Residual Land Value	
Total Rentable Area	1,544,860 square feet
Project Value	\$821 million
Project Costs (before land & return)	\$652 million
Return to Capital	\$117 million
Resulting Residual Land Value	
Total	\$ 51M million
Per Square Foot	\$55 psf
Per Square Foot GFA	\$20 psf

Residual Land Value: Overlake Case Study #2: Sensitivity

- Currently the HBU of the parcel is for 6 story development which does not take advantage of any zoning incentives
- If rents increase 10% above development and infrastructure costs, the HBU would change to allow some taller buildings up to 10 stories
- Residual land value of parcel would “pencil”

Revenue Sensitivity	@ \$2.50 psf		10% Increase	
Redevelopment Value (6 story building)	-\$19 (psf)	➔	\$ 46 (psf)	✓
Redevelopment Value (up to 10 story building)	- \$43(psf)	➔	\$48 (psf)	✓
Difference between options	-\$26 (psf)		\$2 (psf)	

Overlake Infrastructure Cost Assumptions

Overlake Infrastructure Costs (2016\$) Parcel #1

Street Segments on parcels	Total Cost (excluding ROW)	% of Cost	Cost to Developer
2700-2799 Da Vinci Ave	\$ 3.05M	100%	\$ 3.0M
2400-2699 Da Vinci Ave	\$ 4.16M	50%	\$ 2.1M
15000-15199 Hopper St	\$ 3.14M	75%	\$ 2.4M
15000-15199 Turing St	\$ 2.03M	100%	\$ 2.0M
Overlake Access Ramp	\$ 3.73M	0%	\$.0M
2400-2599 152nd Ave NE	\$ 2.92M	0%	\$.0M
2600-3099 152nd Ave NE west hal	\$ 8.50M	40%	\$ 3.4M
Land for Stormwater Vault	\$ 4.07M	-100%	-\$ 4.1M
TOTAL COSTS			\$ 8.8M
COSTS PSF			\$12

Overlake Infrastructure Costs (2016\$) Parcel #1

Street Segments on parcels	Total Cost (excluding ROW)	% of Cost	Cost to Developer
149th Ave Woonerf	\$ 4.50M	100%	\$ 4.5M
Da Vinci Ave Nbhd	\$ 7.45M	50%	\$ 3.7M
Lumiere Ave Access	\$ 9.29M	100%	\$ 9.3M
21st West	\$ 2.88M	100%	\$ 2.9M
23rd Woonerf	\$ 5.98M	50%	\$ 3.0M
24th	\$ 17.82M	26%	\$ 4.7M
Alhazen Nbhd	\$ 13.14M	25%	\$ 3.3M
TOTAL COSTS			\$ 31.4M
COSTS PSF			\$34

Source: HDR (with % of Cost to Developer calculated by Heartland) **Costs in 2016\$**