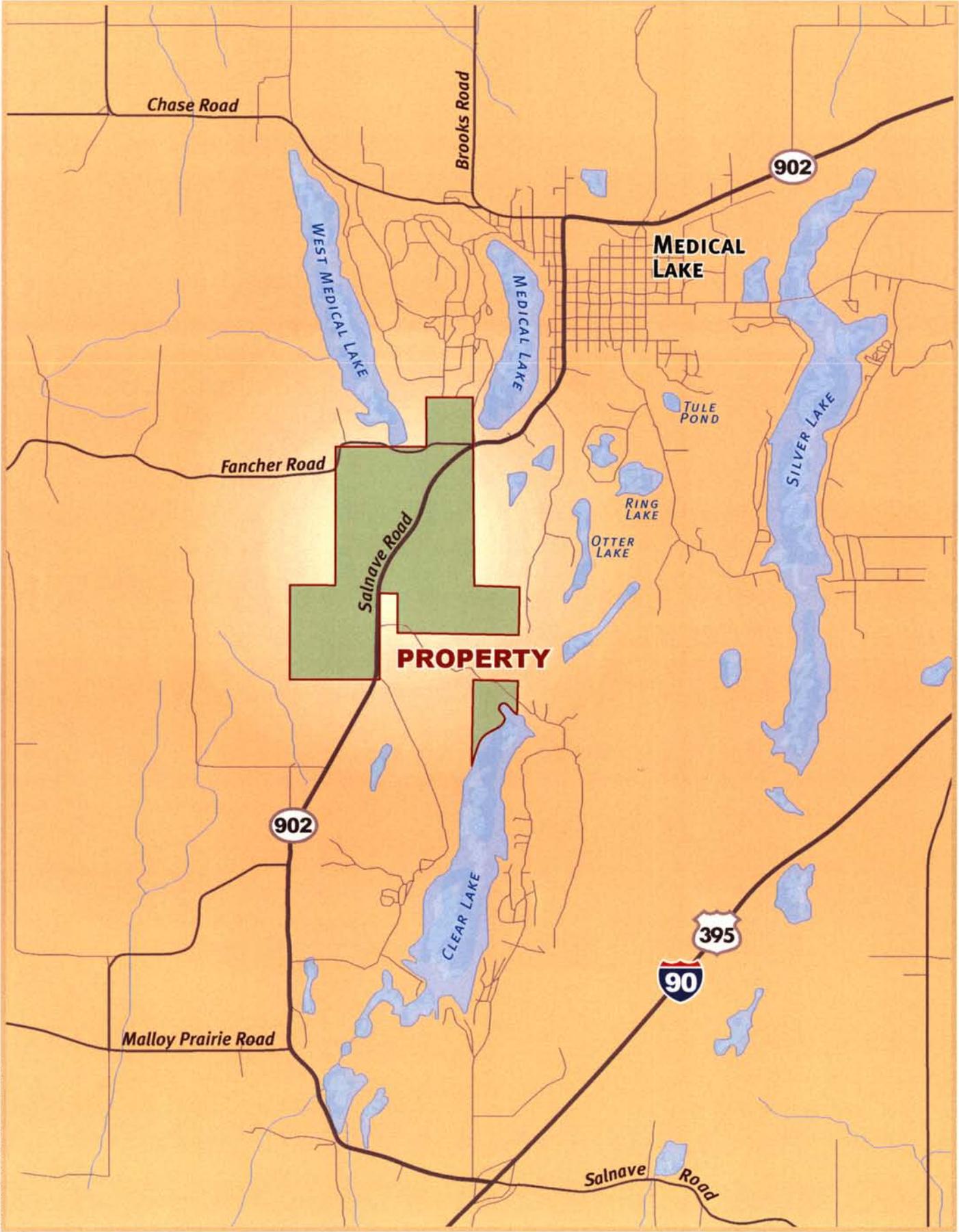


Lakeland Village

STATE OF WASHINGTON DSHS CAMPUSES

Medical Lake Property Locator



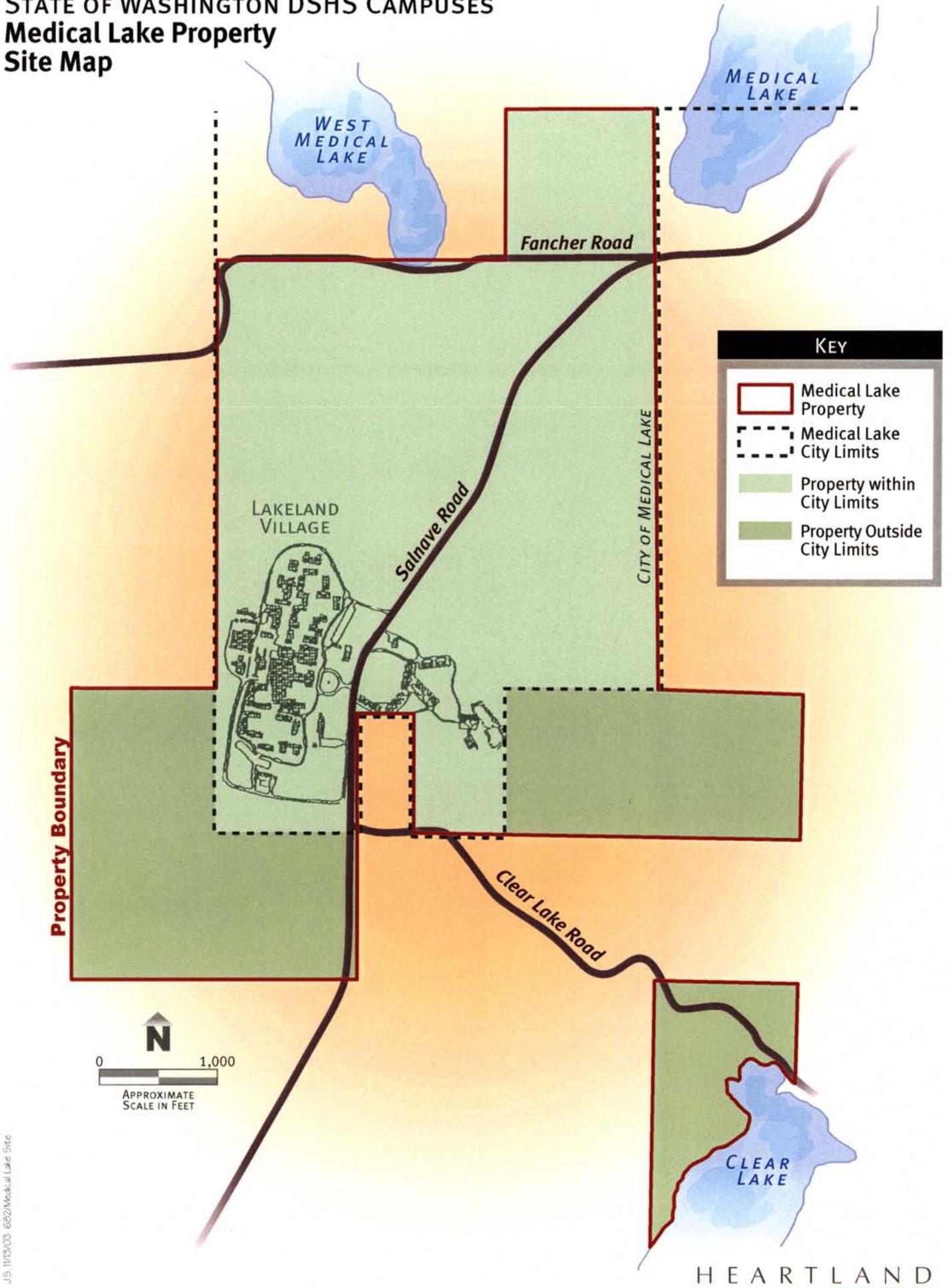
J:\S_11175\03_682\Medical Lake Locator



STATE OF WASHINGTON DSHS CAMPUSES

Medical Lake Property

Site Map



Executive Summary

EXECUTIVE SUMMARY

ENGAGEMENT

Heartland was engaged by the State of Washington (the "State") to complete a site analysis of the State of Washington Department of Social and Health Service's ("DSHS") Lakeland Village Residential Habilitation Center (the "Property" or the "Site") in Medical Lake, Washington. The State engaged Heartland to undertake an analysis of the five DSHS's residential habilitation centers to identify potential surplus real estate parcels at each center, evaluate opportunities and constraints with such parcels from a real estate perspective, and recommend a strategy to optimize and capture value from such real estate. The site analysis provides information regarding the physical characteristics of the facility, regulatory issues that could impact redevelopment, and potential alternative uses for portions of the Site. This information can be utilized as a foundation to analyze alternative uses in the future if DSHS were to relocate certain uses or dispose of the related property. During the course of the engagement, Heartland completed the following:

- We conducted initial meetings with various state agencies and personnel to obtain background information on the Site and to understand the impacts of any plans, commitments, or agreements on potential alternative uses;
- We reviewed all available relevant materials, maps, and graphics referring to the physical condition of the buildings and land at the Site. These materials provided information on ownership, tax parcels and legal lots, building age, land areas, and access.

Our review included three reports, which we used information from following confirmation of the facts, rather than duplicate their efforts. These reports were:

- The May 2002 *Complete Appraisal of Real Property* by Auble, Jolicoeur & Gentry (the "Appraisal");
- The December 2002 *Capital Study of the DDD Residential Habilitation Centers Report 02-12* from the Joint Legislative Audit and Review Committee (the "JLARC Report"); and
- The April 2003 *Report on the Potential Excess Property of the Department of Social and Health Services Division of Developmental Disabilities Residential Habilitation Centers* from the Department of General Administration (the "GA Report").

It is important to note that our assignment was to consider only market-based real estate options and disposition alternatives for the Property. Previous reports from JLARC and General Administration take a wider scope and weigh potential sales of portions of the Property against other options that involve maintaining ownership or operational use of the Property. Therefore, our analysis, recommended alternatives and implementation strategies may contradict some recommendations from those previous reports;

- We reviewed political and regulatory factors that could affect new uses and/or redevelopment of the Site. We evaluated the regulatory constraints and impacts to potential uses. This evaluation included a review of local land use codes and zoning regulations to understand the range of permissible uses, and potential development capacity;
- We researched the physical characteristics of the Site and determined their impact on future development;
- We considered alternative uses for the Site and estimated the development capacity for those alternative uses;
- We reviewed and conducted market research to inform the potential market acceptance for possible alternative uses and the Site; and
- We conducted financial analyses of the various alternative uses and strategies discussed in the report.

PROPERTY DESCRIPTION

Approximately 64 percent (407 acres) of the 636-acre Property is located within Medical Lake. The remaining 36 percent (229 acres) of the Property is located in unincorporated Spokane County. The Eastern State Hospital, West Lake Hospital and several smaller State run institutions are located immediately north of the Property. The immediate vicinity of the Site is characterized by various uses, including rural-residential, agricultural, and recreational uses.

For the purposes of this analysis, the Property has been segregated into three areas:

In-City: The main campus is spread across portions of three different tax lots totaling approximately 100 acres within a 407-acre tract made up of seven tax parcels, all of which are within the municipal boundaries of Medical Lake.

County: Approximately 198 acres are located contiguous with but outside of the city limits and consists of three tax parcels. The majority of this area is contained in one 117-acre parcel on the west side of the campus. The remaining 80 acres are contained in two 40-acre parcels on the east side of the campus north of Clear Lake Road. Most of these properties are leased for agricultural purposes.

Clear Lake Parcel: DSHS owns and maintains a 31-acre parcel on Clear Lake that is not contiguous with the other properties. This parcel is accessed and bisected by Clear Lake Road.

Structural

Lakeland Village contains 58 structures built between 1914 and 1986. Structures range from one to four stories. The Site contains a total of approximately 493,000 square feet of building area.

The primary Lakeland campus appears to be functional and well maintained. The historic administration building dominates the Site and sets an institutional or academic tone for the rest of the Property. Though limited information was available for this analysis, no extraordinary structural deficiencies in the major campus buildings were

identified. Adaptive reuse of these types of structures is always complicated but we have seen nothing to indicate that it would be impossible. Prior to identifying any buildings on the Property as "surplus," the State should commission a thorough building-by-building assessment identifying, in part, seismic issues, deferred maintenance, building code non-compliance, the presence of hazardous materials and functional obsolescence (varies by intended use).

Utilities

The portions of the Site that are within the city limits are served by civil utilities. Portions of the Property that are outside the city limits (except for the Clear Lake parcel) and are not served by utilities. Generally, the utilities serving the Property appear to be sufficient for the current uses on the primary campus. If surplus, the undeveloped land inside Medical Lake will likely be serviced by the City of Medical Lake. Depending on DSHS's long-term plan for the campus (future capacity demands), the undeveloped land in both the city and the county may be able to receive water and sanitary sewer service from existing Lakeland infrastructure.

Regulatory

The *Regulatory* Section of this report analyzes the land use regulations that apply to the Site. The Site is located within Medical Lake and in unincorporated Spokane County. The portions of the Site located within Medical Lake are all zoned Institutional. Approximately 228 acres of the Site are located in Spokane County and zoned RC or Rural Conservation.

Based on discussions with City staff, it is highly likely that City officials would be amenable to a rezone of all or portions of the Property within its jurisdiction. The provision of utilities to portions of the Property will be the key issue for the City. The City's single-family residential zone allows higher density than developers are likely to want (or are able/willing to pay for) in the near future, but the lack of a maximum lot size allows for flexibility to meet the market demand over time.

Environmental

The intent of the *Environmental* Section of this report is to review known environmental conditions on the Site and highlight any issues that may impact potential strategies for the Property.

Based on limited information about the Property, it is difficult to draw any definitive conclusions about the overall environmental condition of the Property. Since the majority of the land area is undeveloped or in agricultural use, it is reasonable to assume that these areas are free of contamination and suitable for either continued agricultural use or residential development. As noted in the report, the campus structures themselves will require a thorough asbestos survey if they are to be part of a disposition.

Market

The summary market analysis contained in this report is designed to support and inform the financial analysis of the potential redevelopment scenarios for the Property. Single family residential development, over the long-term, is the only realistically feasible, non-agricultural, use for the vacant land surrounding the main campus. Proximity to the

lakes may make the northern most in-city land more attractive, but Medical Lake is still a slow growing community with an adequate supply of residentially-zoned land. The alternatives analyzed in the *Alternatives and Strategies* Section of this report include residential product types that are likely to be considered most feasible by a developer/investor.

While investors and developers can be surprisingly creative at times, there are a very limited number of market-based ventures that could make economic use of the Property's existing campus. A rehabilitation facility is one, albeit small, potential user, followed by hospitality at a very distant (and speculative) second place.

ALTERNATIVES AND STRATEGIES

The *Alternatives and Strategies* Section of this report formulates three potential alternatives for the Site and discusses implementation strategies for the preferred alternative: (i) Alternative I assumes the Site would be sold "As- Is," to a single buyer; (ii) Alternative II discusses the potential value of demolishing the buildings and selling the raw land beneath them; and (iii) Strategy III investigates the potential of keeping the existing buildings on the Site, then selling certain portions of the Property.

Alternative I: Vacate Premises and Sell Property As-Is

Alternative I would be considered if DSHS entirely ceased operations at Lakeland Village. It would entail marketing the Site, perhaps to a buyer interested in performing a similar institutional use at the Site, or a developer/investor. Marketing the Property to such buyers could potentially result in a sale, which would allow DSHS to dispose of the Property in a relatively simple manner. However, given the unique nature of the Site, there would likely be a very long marketing period, given the size of the Property and limited number of buyers.

Alternative I: Vacate Premises and Sell Property As-Is

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$2.1M	\$425,000	\$1.2M

Alternative II: Vacate Premises and Demolish Structures, Sell Vacant Land

Alternative II could also be considered if DSHS ceased operations at Lakeland Village. This option would allow the Site to be marketed to a wider pool of buyers, as the improved portion of the campus might be more attractive to land speculators vacant than with the existing buildings. The added value, if any, needs to be measured against the considerable cost of demolishing the existing buildings.

Alternative II: Vacate Premises and Demolish Structures, Sell Vacant Land

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	(\$607,000)	(\$741,000)	(\$697,000)

Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale

Alternative III separates the campus portion of the Site from the rest of the Property and sells the surplus land. If at some point in the future, DSHS no longer operates a facility at the Site, the campus could then be sold as a functioning campus since the estimated demolition costs exceed the estimated land value. The pool of buyers for these distinct pieces of the Property would be slightly larger and, therefore, the marketing time could be decreased. This alternative could allow the State to capture these values sooner than in Alternatives I or II. The smaller pieces would also likely sell for a higher per acre price than the large, single transactions in Alternatives I and II. Without the demolition of existing structures, this option would require little up-front costs for the State.

Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale

Sale of Surplus Land Only

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Discount Rate	15%	25%	20%
Net Present Value Conclusion	\$1.3M	\$912,000	\$1.1M

Combined Sale of Surplus Land and Campus

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Discount Rate	15%	25%	20%
Net Present Value Conclusion	\$2.75M	\$1.9M	\$2.27M

RECOMMENDATIONS

Based on our analysis, we recommend following the strategy presented as Alternative III.

There is ample excess land on this campus that can be optimized through near- to mid-term sales. This alternative preserves the flexibility to capture some additional from sale of the campus, as improved, at sometime in the future. Under this alternative DSHS has the option to continue operations at the Site as long as it wishes.

Due to the negative land value of the campus area when taking into account the demolition costs, until the land value exceeds demolition costs, there is no practical reason to demolish the campus. The only two practical options at this time, if the campus is no longer used by DSHS, are to mothball the Site or to sell the Property as a campus.

A timeline illustrating the implementation steps described above in Alternative III is included in the *Recommendation* Section of this report.

Property Description

PROPERTY DESCRIPTION

SITE OVERVIEW

City of Medical Lake

- Approximately 64 percent (407 acres) of the Property is located within Medical Lake city limits. Medical Lake can be characterized as a low-density community of rural single-family homes. With a 2002 population of approximately 3,900 residents and an area of approximately 4.4 square miles, Medical Lake has traditionally been seen as a retirement community for military personnel and home to many of the employees working at the institutions. Over the past few years, the City has become more of bedroom community for people who work in Spokane but want to live in a small town.
- Approximately 36 percent (229 acres) of the Property is located in unincorporated Spokane County.
- Lakeland Village, established in 1915, was Washington State's first institution developed to house developmentally disabled people. Lakeland Village was designed to be self contained and included small agricultural and dairy operations.
- DSHS files on the Property predominately contained correspondents and legal descriptions regarding easements and utility issues that have been raised over the last three decades. The most comprehensive and relevant analysis of Lakeland Village is the 2002 Appraisal by the Spokane appraisal firm of Auble, Jolicoeur and Gentry.
- Based on the Spokane County Assessor's data, the Property totals approximately 636 acres. For the purposes of this analysis, the Property has been segregated into three areas:

Inside the City Limits

The main Lakeland Village campus is spread across portions of three different tax lots totaling approximately 100 acres within a 407-acre tract made up of seven tax parcels, all of which are within the municipal boundaries of Medical Lake.

County Lands

Another 198 acres are located contiguous with but outside of the city limits and consists of three tax parcels. The majority of this area is contained in one 117-acre parcel on the west side of the campus. The remaining 80 acres are contained in two 40-acre parcels on the east side of the campus north of Clear Lake Road. Most of these properties are leased for agricultural purposes.

Clear Lake Parcel

DSHS owns and maintains a 31-acre parcel on Clear Lake that is not contiguous with the other properties. This parcel is accessed and bisected by Clear Lake Road.

Lakeland Village Parcels

Subarea	Parcel Number	Gross Acres	Current Use
City	42410006	73.83	Vacant
	42420002	36.1	Vacant
	42430001	39.37	Vacant
	42430002	38.8	Village Campus
	42510001	27.36	Village Campus
	42520001	38.18	Village Campus
	42440001	153.78	Vacant
Subarea Subtotals		407.42	
County	42519003	40	Vacant
	143029006	40.28	Vacant
	42529006	117.35	Vacant / West-Side
Subarea Subtotals		197.63	
Clear Lake (County)	143039007	31.23	Recreation / Cabin-Lake Access
Subarea Subtotals		31.23	
GRAND TOTALS		636.28	

Surrounding Uses

The immediate vicinity of the Site is characterized by various uses, including residential, agricultural, and recreational uses.

North - Lakes Memorial Cemetery, West Medical Lake, Eastern State Hospital Campus, Waterfront Park and Medical Lake

West - Agricultural land, scattered small farms and a junkyard

East - Open land with trees and Otter Lake

South - Agricultural land with scattered small farms and open land and Clear Lake

The Site encompasses the southern half of a 1,000-acre State-owned institutional campus. The institutions, which include Lakeland Village, Eastern Washington State Hospital, West Lake State Hospital, Interlake School and the Pine Lodge Correctional facility, pre-date the city of Medical Lake and the city was sited on the opposite side of Medical Lake. The developed portions of the city are separated from the campus by several hundred acres of undeveloped land.

Access

- Salnave Road: Lakeland Village is accessed via Salnave Road (State Route 902) at the southern end of Medical Lake and approximately 3.5 miles north of the Interstate 90 interchange. Salnave Road is a paved two-lane highway with no curbs or sidewalks.
- Morhard Drive: Morhard Drive serves as the primary route for circulation through the main campus on the west side of Salnave Road. Morhard Drive is a paved two-lane road.
- Mason Drive: This paved two-lane road provides direct access from Salnave Road to the Lakeland Administrative building.
- Simpson and Denton Roads: The apartment buildings on the east side of Salnave Road are accessed via Simpson and Denton Roads. These roads also provide access to the water treatment facility.
- Clear Lake Road: Clear Lake Road is a paved two-lane road that runs along the eastern edge of Clear Lake providing access to lake front parcels including DSHS's 31-acre Clear Lake parcel.

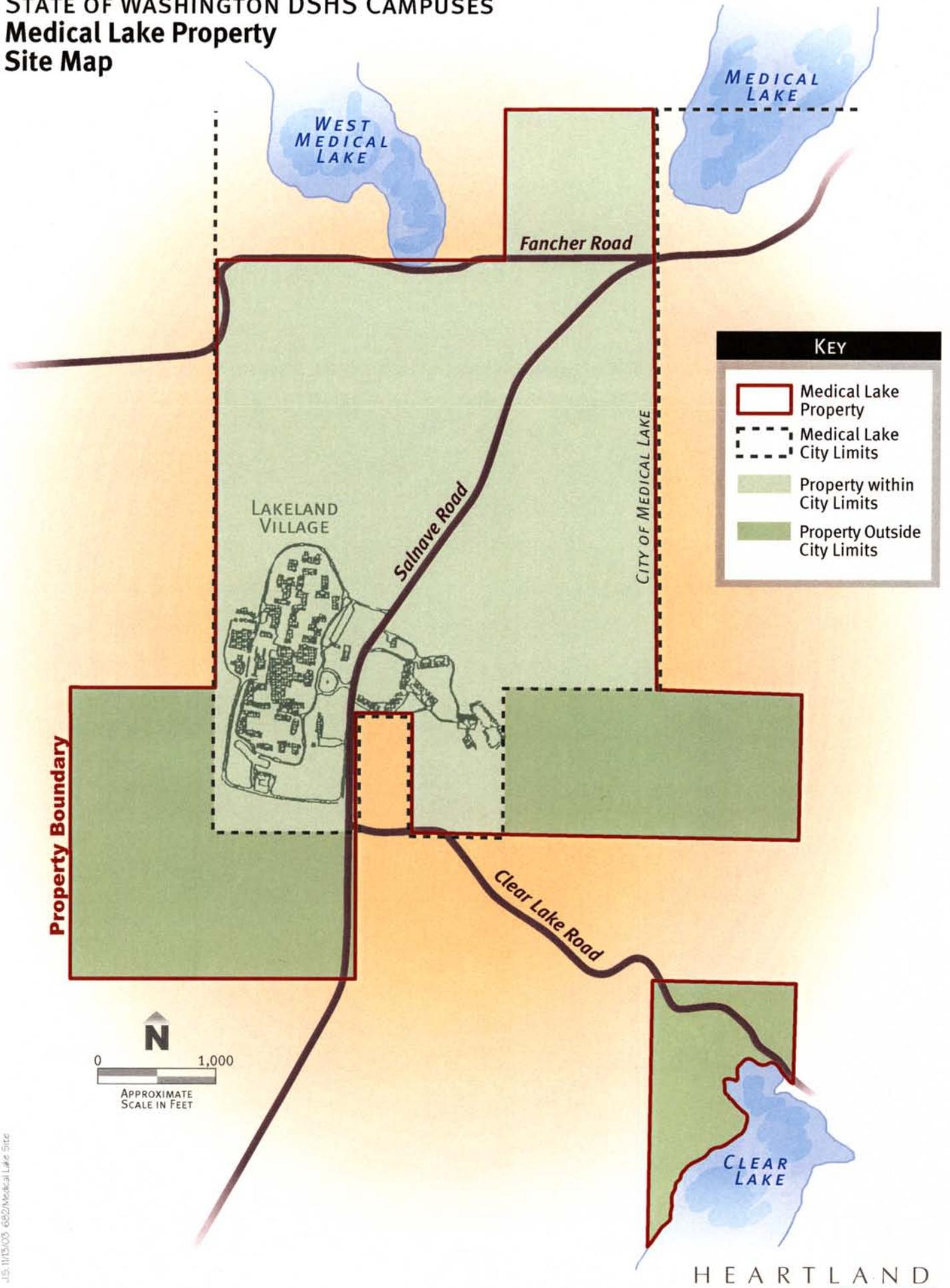
Leases

- Approximately 436 acres of the unimproved portions of the Property are under three leases for agricultural use. While copies of these leases were not made available for Heartland's review, the 2002 Appraisal of the Property outlines the terms. The longest of these leases expires in 2007 and is therefore unlikely to preclude any of the alternative use scenarios analyzed in this report.
- While these leases are considered to be near market rate for the types of crops being raised, agricultural use of the Property is not the highest-and-best use and should only be considered as an interim use until residential development is feasible.

STATE OF WASHINGTON DSHS CAMPUSES

Medical Lake Property

Site Map



Structural

STRUCTURAL

This section summarizes the limited information that is available regarding the condition of buildings at Lakeland Village. Photographs of individual buildings have been added where possible.

OVERVIEW

Lakeland Village contains 58 structures built between 1914 and 1986. Structures range from one to four stories. The Site contains a total of approximately 493,000 square feet of building area.

Main Lakeland Village Campus

- The main campus, located west of Salnave Road, contains the majority of the facility's structures. The Administrative building is listed on the national registry of historic places. Most of the remaining buildings are wood frame with some of the support buildings made of concrete block. A visual inspection of the campus indicated that buildings that are currently in use are well maintained. Some buildings on the campus are no longer in use and have been shuttered.

Apartment/Residences

- The main campus east of Salnave Road contains 31 apartment units in three buildings and two single-family homes. The majority of the apartment buildings were built in 1952 and are in fair condition. The two single-family homes were built in 1948 and are also in fair condition.

Clear Lake Parcel

- The 31-acre parcel on Clear Lake contains a house/cabin that was built in the 1920s. According to the appraisal, this structure is boarded up and slated for demolition.

Lakeland Village Structures Inventory

Building No.	Building Name	Year Built
1	Administration	1914
2	Program Area	1985
3	School/Gym	1937
4	Bath House	1958
5	Habilitation Center	1986
6	5890 Rainbow Way	1983
7	5886 Cascade Way	1983
8	5888 Widrose Way	1983
9	5892 Apple Court	1983
10	5894 Bigfoot Way	1979
11	5896 Bigfoot Way	1983
12	5874 Cascade Way	1988
13	5876 Willow Court	1983
14	5878 Willow Court	1983
15	5880 Sunrise Court	1983
16	5882 Sunrise Court	1979
17	5884 Sunrise Court	1983
18	Miller and Bryan Hall	1917
19	Carpenter and Paint Shop	1958
20	Carpenter's Storage	1940
21	Maintenance Garage & Welding Shop	1979
22	Metal Equipment Storage	1960
23	Flammable Liquid Storage	1960
24	Storage Garage	1955
25	Laundry	1955
26	Support Service Plant Management	1958
27	Food Service	1981
28	Chapel	1959
29	Museum (Senior Citizen Center)	1965
30	Chiller Plant	1914
31	Boiler Plant	1992
32	Pinewood	1983
33	Evergreen	1983
34	Hawthorn	1983
35	Harvest	1983
36	Hillside	1983
37	Laurel	1983
38	Ponderosa	1983
39	Shamrock	1983
40	Tamarack	1983
41	Health Care	1985
42	Mason Memorial Hospital (Infirmary)	1962
43	Douglas Hall	1962
44	Green House	1932
45	Root Cellar	1914
46	Garden Equipment Storage	1962
47	Hudson House	1952
48	Lewis House	1952
49	Whitman House	1952
50	Glover House	1952
51	Stevens House	1952
52	Prentiss House	1952
53	Custer House	1952
54	Cottage #2	1948
55	Cottage #1 & Garage	1948
56	Waste Water Treatment Plant	1952
57	Clear Lake Cottage & Garage	1920
48	Frog Hollow Building	1974

CONCLUSION

The primary campus appears to be functional and well maintained. The historic Administration building dominates the site and sets an institutional or academic tone for the rest of the Property. Though limited information was available for this analysis, no extraordinary structural deficiencies in the significant campus buildings were raised. Adaptive reuse of these types of structures is always complicated, but we have seen nothing to indicate that it would be impossible. Prior to identifying any buildings on the Property as "surplus," a thorough building-by-building assessment needs to be conducted identifying, in part, seismic issues, deferred maintenance, code compliance, the presence of hazardous materials and functional obsolescence (varies by intended use).

STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake



Administration Building



STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake



Westside Campus Support Buildings



STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake



East Campus Single-Family Homes



STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake



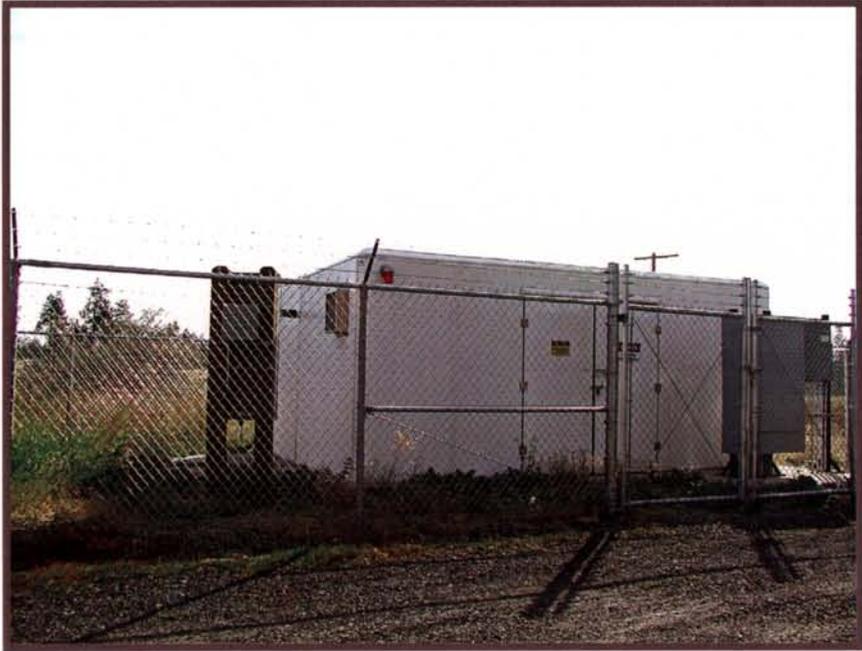
Apartment Buildings



STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake



Waste Water Treatment Infrastructure



STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake



View of Clear Lake Parcel and Clear Lake



STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake



Residential Housing Complex

Utilities

UTILITIES

OVERVIEW

The portions of the Site that are within the city limits are served by civil utilities. Portions of the Site that are outside the city limits (except for the Clear Lake parcel) are not served by utilities.

Electricity

- According to documents provided by DSHS, power for Lakeland Village is purchased wholesale from Avista Utilities and is sufficient for current and anticipated future operations on the campus.
- Multiple emergency generators support the campus electrical system. Diesel storage tanks provide the emergency system with fuel.

Telephone

- Telephone service is provided to the Property by AT&T.

Natural Gas

- According to documents provided by DSHS, natural gas for Lakeland Village is purchased wholesale from IGA and is sufficient for current and anticipated future operations on the campus.

Water

- A well on the campus provides the Site with potable water. As discussed in *Alternatives and Strategies* Section of this report, further analysis may reveal that the City could make use of this well to serve any Lakeland property within Medical Lake that is surplus.

Sewer/Wastewater

- Lakeland Village maintains its own wastewater collection system and treatment facility. Treated effluent is released into West Medical Lake. The City of Medical Lake recently completed a new treatment plant at the north-end of the city.
- Plans to develop surplus portions of the Property should consider the feasibility of using the existing wastewater treatment facility rather than extending sewer lines from the city. Key factors in this analysis would include the condition of the on-site treatment facility and the cost of extending City of Medical Lake-owned collection lines to development sites.

Heating and Cooling

- Most of the buildings on the campus are connected to centralized boiler and chiller.

CONCLUSION

Generally, the utilities serving the Property appear to be sufficient for the current uses on the primary campus. If surplus, the undeveloped land inside the city will likely be serviced by the City of Medical Lake. Depending on DSHS's long-term plan for the campus (future capacity demands), the undeveloped land in both the city and the county may be able to receive water and sanitary sewer service from existing Lakeland infrastructure.

Regulatory

REGULATORY

The *Regulatory* Section of this report analyzes the land use regulations that apply to the Site. The Site is located within Medical Lake city limits and in unincorporated Spokane County. We will examine both jurisdictions' land use regulations.

EXISTING COMPREHENSIVE PLAN AND ZONING DESIGNATIONS

City of Medical Lake

- The portions of the Site located within the Medical Lake city limits are all zoned Institutional. Almost 50 percent of the land within the city limits is zoned Institutional and is owned by the State of Washington. Uses permitted on parcels zoned Institutional include all governmental uses in conformance with applicable law and determined by the operating government agency to be in the public interest.
- In discussions with Heartland, City of Medical Lake officials indicated that any opportunity to rezone a portion of the State ownerships would be welcomed and facilitated as much as possible. While the city would not be considered "land constrained," adding any portion of the Institutional properties to the tax rolls would contribute significantly to the city's tax base and create additional opportunities of economic growth.

Spokane County

- Approximately 228 acres of the Site are located in Spokane County and zoned RC or Rural Conservation. The Rural Conservation designation is intended to provide for rural lifestyles while protecting and retaining open space for agriculture or forestry resource use, and/or environmentally sensitive natural areas.
- The minimum residential density in the RC zone is one dwelling unit per 20 acres, or one dwelling unit per 10 acres under the Rural Cluster Development (RCD) provisions of the code. The RCD standards require that 70 percent of the site area are preserved as open space and encourage grouping of residential lots (no more than eight lots per cluster).

POTENTIAL FUTURE REGULATIONS

City of Medical Lake

- City of Medical Lake planning and public works staff indicate that the City would consider a comprehensive plan amendment and a rezone of the Property. Medical Lake has sufficient developable land within the urban growth area to accommodate anticipated growth, however, adding a portion of the State campus to the tax rolls would be beneficial to the City.
- The City of Medical Lake currently has three residential zones: (i) single-family; (ii) duplex; and (iii) multi-family. As the Site is located on the southern outskirts of the town center, a single-family zoning designation would probably be the most

appropriate from a market and an infrastructure standpoint.

- In the R-1 or Single-Family Residential Zone, the minimum lot size is 6,000 square feet and equals approximately 7.3 dwelling units per acre.

CONCLUSION

Based on discussions with City staff, it is highly likely that City officials would be amenable to a rezone of all or portions of the Property within its jurisdiction. The provision of utilities to portions of the Property will be the key issue for the City. The City's single-family residential zone allows higher density than developers are likely to want (or are able/willing to pay for) in the near future, but the lack of a maximum lot size allows for flexibility to meet the market demand over time.

Environmental

ENVIRONMENTAL

OVERVIEW

The intent of the *Environmental* Section of this report is to review known environmental conditions on the Site and highlight any issues that may impact potential strategies for the Property.

Contamination/Hazardous Substances

- The age of the buildings on the Property suggests that asbestos and lead-based paint would likely be encountered during demolition or renovation.
- Published analyses characterizing these and other potential environmental contaminants on the Property were not available for Heartland's review. The role of environmental assessment in ongoing master planning and disposition is discussed in the *Alternatives and Strategies* Section of this report.

Topography/Hydrology

- According to the City of Medical Lake's Steep Slopes map, the majority of the Site contains slopes of 8 percent or less with isolated areas, with slopes ranging from 8 to 15 percent and 15.1 to 30 percent. Much of these sloped areas are located directly west of the campus buildings.
- The City of Medical Lake's Comprehensive Plan indicates that the city has a high, fluctuating water table. Significant infiltration of groundwater into crawl spaces and basements has been estimated to affect 40 percent of the city's housing units. These problems are most severe during the spring when snowmelt flows are peaking. Heartland received no documents regarding groundwater intrusion on the Property, however, any potential future development of rural land associated with the Property will need to consider the height of the water table.
- The Property is not located within the 100-year flood plain.
- The City of Medical Lake's Comprehensive Plan identifies small seasonal lakes and wetlands scattered around the Property. If declared surplus, a complete wetlands survey of the Property should be commissioned in order to fully inform the rezone and subdivision process.

CONCLUSION

Based on limited information about the Property, it is difficult to draw any definitive conclusions about the overall environmental condition of the Property. Since the majority of the land area is undeveloped or in agricultural use, it is reasonable to assume that these areas are free of contamination and suitable for either continued agricultural use or residential development. As noted above, the campus structures themselves will require a thorough asbestos survey if they are to be part of a disposition.

Market

MARKET

PREVIOUS ESTIMATES OF VALUE

- In May 2002 the Joint Legislative Audit and Review Committee commissioned an appraisal of the Lakeland Village¹. The appraisal rendered two estimates of value which are discussed in detail below.
 - **Use Value:** The "use value" is defined as the value a specific property has for a specific use. The use value is intended to give DSHS an idea of the utility the Property has for continued use, taking into consideration its current functionality and the cost to recreate the facility elsewhere. The use value is a balance between the estimate of value as concluded using the cost approach and the sales comparison approach. The appraisers estimated the use value to be \$17,000,000.
 - **Go Dark Value:** The "go dark value" is defined as the value a property has under the requirement the current user must vacate the property. Essentially the go dark value is a combination of what other users might be able to pay for the salvageable buildings on the Site and the value of the land under buildings that could not be occupied and were demolished. After accounting for demolition costs, the appraisers estimate the go dark value of the Property to be \$3,168,000.
- **Land Value:** The appraiser's estimate of land value, for the 407 acres inside the city limits (assume a rezone to single-family residential) is \$2,200 per acre or \$896,000. The appraiser's estimate of land value for the 197 acres in the county (and not on Clear Lake) is \$1,300 per acre or \$257,000. The appraiser's estimate of land value for the Clear Lake parcel is \$6,083 per acre or \$190,000. The appraiser's total land value estimate for the Property equals approximately \$1,343,000.

MARKET ANALYSIS

As part of its 2002 Appraisal of the Property, Aubnle, Jolicoeur & Gentry analyzed the feasibility of several different potential land uses. Most were deemed not feasible, due in large part to the Site's remote location and lack of demand. We generally concur with the appraiser's assessment of the real estate market, and we have provided additional data and analysis to supplement their findings.

A summary of the land uses considered for the Property follows. Most of the uses are not permitted under current zoning, however, as discussed in the *Regulatory* Section of this report, the City of Medical Lake would likely support a non-institutional use on the Site through a rezone if it was seen as economically viable and would have a positive impact on the city.

¹ Complete Appraisal of Real Property – Lakeland Village, Auble, Jolicoeur & Gentry, May 28th 2002.

Retail - Not Feasible - The Property is entirely surrounded by rural land, has limited access and no exposure.

Industrial - Not Feasible - The Property does not have the type of truck and vehicular access, ready pool of labor and infrastructure to support an industrial use.

Assisted Living Facilities - Not Feasible - Though this use would appear, on the surface, to be similar to the current use of the campus, the remote nature of the Property and the functional obsolescence of the buildings would likely preclude reuse of the buildings in this manner.

Multi-family Residential - Not Feasible - The three apartment buildings on the east side of the campus represent the highest and best use of that part of the Property, however, the limited demand for new housing on the Property would be single-family in nature.

Office - Not Feasible - Successful office developments are located close to other commerce and population centers. The Property's rural location and limited regional demand for large office campuses make this use unfeasible.

Conference Center - Not Feasible - While the campus buildings themselves might be adaptable for this use, the Appraisal correctly concludes that the Property's rural location and lack of access make it very unattractive for this type of use. The greater Spokane area has numerous other locations that would be more competitive.

Hospitality/Resort - Potentially Feasible - There is considerable recreation in the vicinity of the Property, predominately associated with fishing in surrounding lakes. Unlike skiing or golfing, however, fishing is not typically the type of recreational activity that supports a significant amount of overnight accommodations (other than camping, RV parking or small remote lodges).

One example of a government-owned social-service campus being converted to a hospitality destination exists in Troutdale, Oregon, on the eastern edge of the Portland metropolitan area. The Edgefield, built in 1911, served for several decades as the Multnomah County Poor Farm. Residents of the farm operated a self-sufficient environment, raising hogs, poultry, growing a variety of fruits and vegetables, operating a dairy, cannery and meat packing plant as well as working in the laundry, kitchen and hospital. In 1947, it was renamed the Multnomah County Home and Farm and in the late 1950s the farm operation was eliminated. In 1962, the facility was renamed Edgefield Manor and, for the last two decades of operation, functioned as a nursing home and eventually closed in 1982. The property was purchased from Multnomah County in 1990 and the condemned buildings and land were transformed into a unique European-style village, including lodging, a pub with a movie theater, fine dining, a winery, a brewery, distillery, golf course, gardens, and vineyards.

While there are several physical similarities between Lakeland Village and the Edgefield, The Edgefield's access to the populations of Portland and Vancouver and location at the entrance to the Columbia Gorge, create the type of demand necessary to support this type of venture. We consider it very unlikely that an investor/developer would purchase all or part of the Property for this type of use. However, an "As-Is" or "Go Dark" type of scenario could surface.

Governmental - Feasible - Government use of the Property would be the result of program changes and/or the compatibility of the campus buildings themselves, not market forces. Considering the limited market potential of the campus itself, the State should consider all other Federal, State and Local government facility needs when assessing disposition alternatives.

Single-Family Residential - Feasible - Over the long-term, the currently undeveloped portions of the Property that are within Medical Lake city limits will be developed with single-family homes. Market evidence supports the Appraisal's conclusion that the supply of more advantageously located single-family land is adequate to accommodate even the most optimistic population projections.

MARKET OVERVIEW

According to the Washington Center for Real Estate Research ("WCRER") at Washington State University, the 2002 median home sale price in Spokane County was \$109,700. The median sale price during the Second Quarter of 2003 was \$117,200, up 3.4 percent from the same quarter in 2002. This is a somewhat moderate increase as compared to the statewide increase of approximately 5 percent over the same period.

New housing construction at the north end of Medical Lake provides some insights into the price range and product types that might be attainable on the Property's surplus land. New homes (in subdivisions) generally range in price from \$135,000 to \$175,000, or approximately \$72 to \$118 per square foot. The average new home price in Medical Lake is \$150,000. Builders of new housing in Medical Lake are targeting young families and are building primarily 3-bedroom homes with 1.5 or 2 bathrooms in 1,200- to 2,500-square-foot floor plans. The average size of a new home in Medical Lake is 1,800 square feet. Lot sizes range from 5,000 to 10,000 square feet with an average of approximately 8,200 square feet.

There is currently a moderate inventory of larger home sites on the market that can serve as an indication of value for this type of product on the Property. The average size of an available home site over one acre is approximately 6.5 acres and has a listing price of approximately \$40,000 or \$6,100 per acre. Not surprisingly, as lot sizes increase the per-acre value decreases with 8- and 10 -acre sites selling for \$4,500 per acre. There is a limited supply of home sites larger than 20 acres in the Property's immediate vicinity, however, generally throughout the West Plains, lots in this category range from 20 acres to 120 acres and in price from 1,000 to 3,000 per acre. A 25-acre lot ready for home construction would be competitively priced at \$60,000. Waterfront or water view lots command a premium and market evidence supports the Appraisal's estimate of \$80,000 for a 10-acre lot adjacent to Clear Lake.

The table that follows provides a pricing estimate for the range of residential product that would likely be considered for surplus land and Lakeland.

Residential Pricing Summary

	Lot Size Acres	Avg. Unit Size (SF)	Sale Price	Sale Price (per SF)	Est. Land Value
New In-City Detached Single-Family	0.88 / 8,000 SF	1,800	\$150,000 New Home	\$83	\$45,000/Lot
Rural Home Site	6.5	--	\$40,000	--	\$6,153/Acre
Large Lot Home Site	25	--	\$60,000	--	\$2,400/Acre

Note: Estimates are in 2003 dollars, sale prices are likely to increase by approximately 2.5% per year.

Rehabilitation Center - Feasible - The primary campus, as improved, may be able to support this type of use. A drug and alcohol rehabilitation center is one of the few potential uses of the Property that might benefit from a remote location, rural surroundings and existing improvements. As the Appraisal points out, however, the average rehabilitation facility in this area would only occupy 12 percent of the building area at the main campus. Despite its size, a rehabilitation facility is likely the only market-based use that could make economic use of any part of the campus, therefore, the appraisers factor this use into the "Go Dark" valuation.

CONCLUSION

Single-family residential development, over the long-term, is the only realistically feasible, non-agricultural use for the vacant land surrounding the main campus. Proximity to the lakes may make the northern most in-city land more attractive, but Medical Lake is still a slow growing community with an adequate supply of residentially-zoned land. The alternatives analyzed in the next section include residential product types that are likely to be considered most feasible by a developer/investor.

While investors and developers can be surprisingly creative at times, there are a very limited number of market-based ventures that could make economic use of the Property's existing campus. A rehabilitation facility is one, albeit small, potential user, followed by hospitality at a very distant (and speculative) second place.

Strategies & Financial

ALTERNATIVES AND STRATEGIES

OVERVIEW

This section identifies and briefly analyzes three potential alternatives for capturing different values associated with the Property and the opportunities and constraints of each. Alternative III represents a "preferred" option, and an implementation plan is outlined.

Alternative I: Vacate Premises and Sell Property As-Is

Alternative I would be considered if DSHS entirely ceased operations at Lakeland Village. It would entail marketing the Site, perhaps to a buyer interested in performing a similar institutional use at the Site, or a developer/investor. Marketing the Property to such buyers could potentially result in a sale, which would allow DSHS to dispose of the Property in a relatively simple manner. However, given the unique nature of the Site, there would likely be a very long marketing period, given the size of the Property and limited number of buyers.

Pros:

- This would allow the State to capture associated values from the Property in one transaction; and
- If a large-scale development was planned, it could be welcomed by the to promote economic development. This would be particularly important to the community if operations at Lakeland Village ceased.

Cons:

- The number of potential buyers would be small, due to the size of the Property and the number of obstacles to development at the Site (demolition of structures, rezone of land, etc.);
- Potential buyers could include governmental entities, institutional uses, (rehabilitation center), or large-scale master plan developers. This is a small pool of buyers;
- A small pool of buyers would suggest that the marketing period for the Property could be an extended amount of time. It is not unrealistic to expect that marketing time could extend to the six-to-nine-year range;
- An extended marketing period could result in higher maintenance and holdings costs for the State; and
- The appraised "Go Dark" value, or the value of the Property if DSHS were to vacate the Site, was \$3,168,000 for the entire Property. This value compares well to our analysis, as it makes the same assumption that DSHS would discontinue all operations at Lakeland Village and that the Site would be sold "As Is." The resulting value to the State, however, would be significantly less after considering marketing time, sales, and maintenance costs.

IMPLEMENTATION STEPS

- *Begin establishing a direct and cooperative relationship with the City of Medical Lake.* Closure of Lakeland Village would be a blow to the local economy, but it may also represent an opportunity to attract a new business and/or return a significant amount of land to the tax rolls. The State and the City need to jointly consider the potential of reusing the existing water and sewer systems that serve the Property. The City will likely be interested in these systems if they are found to be a more cost effective way to provide civil utilities to undeveloped land and attract additional development. The City is unlikely to be interested in these systems if reuse will require capital expenditures that are unsupportable.
- *Complete a survey of the Property.* In order to accurately portray the Site to potential buyers, a survey needs to be completed. An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should also be completed.
- *Prepare a marketing package and interview and select an appropriate marketing company that has experience in campus/healthcare properties.* Given the unique nature of the Property, particular care should be placed on selecting an appropriate marketing group to work with the State to obtain the optimal value in the shortest period of time.
- *Design and implement a marketing plan in conjunction with selected broker to broadly and widely expose the Property to potential buyers.*

FINANCIAL ANALYSIS

The financial analysis of Alternative I is designed to allow for a comparison of the appraised "Go Dark" value of \$3,168,000 with other potential disposition options. While we agree with the appraiser's estimate of value, we believe the marketing time would be longer for an asset of this type. The table below illustrates this extended marketing period and the resulting net present values.

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Marketing Time (Years)	3	9	6
Value	\$3.2M	\$3.2M	\$3.2M
Discount Rate	15%	25%	20%
Net Present Value Conclusion	\$2.1M	\$0.43M	\$1.2M

Alternative II: Vacate Premises and Demolish Structures, Sell Vacant Land

Alternative II could also be considered if DSHS ceased operations at Lakeland Village. This option would allow the Site to be marketed to a wider pool of buyers, as the improved portion of the campus might be more attractive to land speculators vacant than with the existing buildings. The added value, if any, needs to be measured against the considerable cost of demolishing the existing buildings.

Pros:

- As with Alternative I, this would allow the State to capture associated values from the Property in one transaction;
- Also similar to Alternative I, a potential large-scale development might be welcomed as an economic development opportunity;
- The pool of buyers would likely be slightly larger than Alternative I, as vacant land presents fewer challenges to development and could support a wider range of uses; and
- Holding costs would be much lower without the burden of maintaining the existing buildings through the marketing period.

Cons:

- The costs of demolishing the existing structures on the Property could be prohibitively high, especially if extensive asbestos abatement is required. At a conservative estimate of \$4 per square foot, the demolition costs could reach approximately \$1.97 million, which would likely be deducted from any sale assuming that the buyer, not the State, conducts the demolition;
- The demolition of the buildings would require the full closure of the campus and eliminate any opportunities for the campus to be used again in the future; and
- The Administration building is on the National Register of historic places. While this designation does not preclude demolition in all cases, it does make it more difficult.

IMPLEMENTATION STEPS

- *Begin establishing a direct and cooperative relationship with the City of Medical Lake.* Closure of Lakeland Village would be a negative blow to the local economy, but it may also represent an opportunity to attract a new business and/or return a significant amount of land to the tax rolls. The State and the City need to jointly consider the potential of reusing the existing water and sewer systems that serve the Property. The City will likely be interested in these systems if they are found to be a more cost effective way to provide civil utilities to undeveloped land and attract additional development. The City is unlikely to be interested in these systems if reuse will require capital expenditures that are unsupportable.

- *Complete a survey of the Property.* In order to accurately portray the Site to potential buyers, a survey needs to be completed. An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should also be completed. The State should conduct this survey with the intent of soliciting bids for the demolition of the improvements on the campus.
- *Prepare a marketing package and interview and select an appropriate marketing company that has experience in campus/healthcare properties.* Given the unique nature of the Property, particular care should be placed on selecting an appropriate marketing group to work with the State to obtain the optimal value in the shortest period of time.
- *Design and implement a marketing plan in conjunction with selected broker to broadly and widely expose the Property to potential buyers.*
- *Demolish the existing structures.* Following closure of the campus, the buildings would have to be demolished.
- *Complete a rezone of the portions of the Property that are in Medical Lake.* As discussed above, the City will probably support a rezone of the Property, providing that the provision of utilities can be adequately addressed.

FINANCIAL ANALYSIS

The assumptions we have used for the financial analysis of Alternative II are:

Value

6-acre lot in-city = \$40,00
 25-acre lot in-county = \$60,000
 10-acre lot at Clear Lake = \$80,000

Absorption

6-acre lot in-city - 3 per year
 25-acre lot in-county - 3 per year
 10-acre lot at Clear Lake - 1 per year

Expenses

Selling Costs - 3 percent
 Demolition - \$4 per square foot
 Lot Development Costs - \$10,000 per lot

Escalation Factor

Revenue - 1.5 percent per year
 Expenses - 2.5 percent per year

The table that follows illustrates a range of potential values associated with this Alternative. The negative net present values are a result of the prohibitively high cost of demolishing the existing campus compared to the underlying land value.

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Discount Rate	15%	25%	20%
Net Cash Flow	\$0.4M	\$0.4M	\$0.4M
Net Present Value Conclusion	(\$0.6M)	(\$0.7M)	(\$0.7M)

**WSIB- Medical Lake
Discounted Cash Flow**

Alternative 2- Demolish Buildings and Sell Entire Site as Land

Sales Proceeds:

	\$/SE	\$/Lot	Uninflated	Inflated
In-City Residential	\$0.01	\$40,000	\$1,626,000	\$1,815,342
County Residential	\$0.07	\$60,000	449,160	461,373
Clear Lake	\$1.84	\$80,000	235,600	242,671
Campus	\$0.92	\$40,000	816,000	878,284
Buildings	\$0.00	\$0	0	0
Include Bldgs (0=no, 1=yes)		1	\$3,126,760	\$3,397,670
Total Sales Proceeds			(101,930)	(101,930)

Selling Costs

Net Sales Proceeds	3.00%	\$3,024,830	\$3,295,740
--------------------	-------	-------------	-------------

Costs:

Demolition	\$/SE	Bldg SE	
Lot Development Costs:	\$4.00	493,000	(\$1,972,000)
Phase I	40		(\$400,000)
Phase II	\$0		(452,563)
Cost/Lot	\$10,000		(\$2,772,000)
Total Costs			(\$2,873,863)
Net Cash Flow			\$421,877

Value Today:

Discount Rate	20.00%	15.00%
Net Present Value	(\$697,278)	(\$741,766)

Absorption:

	Start	Acres/Lot	Lots/Year	Lots Sold
In-City Residential	2	6	3	40.65
County Residential	2	25	3	7.49
Clear Lake	2	10	1	2.95
Campus	3	6	3	20.40

Escalators:

Sales Price Escalator	1.50%
Cost Escalator	2.50%

Land Summary:

	# of Lots	Gross Acres	Net Acres
In-City Residential	41	271	244
County Residential	7	197	187
Clear Lake	3	31	29
Campus	20	126	122
Total Acres	71	635	583
Square Feet		27,660,600	25,391,124
Site Loss		5.00%	10.00%

	1	2	3	4	5	6	Z	8
	\$0	\$121,800	\$123,627	\$125,481	\$127,364	\$129,274	\$131,213	\$133,181
	0	182,700	185,441	93,233	0	0	0	0
	0	81,200	82,418	79,053	0	0	0	0
	0	0	123,627	125,481	127,364	129,274	131,213	133,181
	0	0	0	0	0	0	0	0
	\$0	\$385,700	\$515,113	\$423,249	\$254,727	\$258,548	\$262,426	\$266,363
	0	(11,571)	(15,453)	(7,642)	(7,642)	(7,756)	(7,873)	(7,991)
	\$0	\$374,129	\$499,659	\$410,551	\$247,085	\$250,792	\$254,554	\$258,372

	\$0	(\$2,021,300)	\$0	\$0	\$0	\$0	\$0	\$0
	(\$400,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	0	0	0	0	0	(452,563)	0	0
	(\$400,000)	(\$2,021,300)	\$0	\$0	\$0	(\$452,563)	\$0	\$0
	(\$400,000)	(\$1,647,171)	\$499,659	\$410,551	\$247,085	(\$201,772)	\$254,554	\$258,372

**WSIB- Medical Lake
Discounted Cash Flow**

Alternative 2- Demolish Buildings and

	9	10	11	12	13	14	15	16	17	18
Sales Proceeds:										
In-City Residential	\$135,179	\$137,207	\$139,265	\$141,354	\$143,474	\$145,626	\$81,296	\$0	\$0	\$0
County Residential	0	0	0	0	0	0	0	0	0	0
Clear Lake	0	0	0	0	0	0	0	0	0	0
Campus	108,143	0	0	0	0	0	0	0	0	0
Buildings	0	0	0	0	0	0	0	0	0	0
Include Bldgs (0=no, 1=yes)	1	1	1	1	1	1	1	1	1	1
Total Sales Proceeds	\$243,322	\$137,207	\$139,265	\$141,354	\$143,474	\$145,626	\$81,296	\$0	\$0	\$0
Selling Costs	(7,300)	(4,116)	(4,178)	(4,241)	(4,304)	(4,369)	(2,435)	0	0	0
Net Sales Proceeds	\$236,023	\$133,091	\$135,087	\$137,113	\$139,170	\$141,258	\$78,857	\$0	\$0	\$0
3.00%										
Costs:										
Demolition	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lot Development Costs:										
Phase I	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Phase II	0	0	0	0	0	0	0	0	0	0
Cost/Lot	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Total Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash Flow	\$236,023	\$133,091	\$135,087	\$137,113	\$139,170	\$141,258	\$78,857	\$0	\$0	\$0

Value Today:

Discount Rate	20.00%
Net Present Value	(\$697,278)

Absorption:

	Start	Acres/Lot
In-City Residential	2	6
County Residential	2	25
Clear Lake	2	10
Campus	3	6

Escalators:

Sales Price Escalator	1.50%
Cost Escalator	2.50%

Land Summary:

	# of Lots	Gross Acres
In-City Residential	41	271
County Residential	7	197
Clear Lake	3	31
Campus	20	136
Total Acres	71	635
Square Feet		27,660,600
Site Loss		5.00%

Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale

Alternative III separates the campus portion of the Site from the rest of the Property and sells the surplus land. If at some point in the future, DSHS no longer operates a facility at the Site, the campus could then be sold as a functioning campus since the estimated demolition costs exceed the estimated land value. The pool of buyers for these distinct pieces of the Property would be slightly larger and, therefore, the marketing time could be decreased. This alternative could allow the State to capture these values sooner than in Alternatives I or II. The smaller pieces would also likely sell for a higher per acre price than the large, single transactions in Alternatives I and II. Without the demolition of existing structures, this option would require little up-front costs for the State.

Pros:

- The State would be able to capture surplus land values without impacting current operations;
- Without having to consider the costs of demolishing the buildings of the Main Campus, the State would be able to capture the full values associated with the other parts of the Property with a minimum of up-front costs;
- The State could exercise more flexibility in the disposition of excess land, selling the Property in several smaller transaction or fewer large transactions;
- Marketing the Property in smaller, individual pieces would bring forth a larger pool of buyers. The different areas of the Site could also be marketed to different types of buyers simultaneously; and
- A larger pool of buyers could translate into a shorter overall marketing time for sales and allow associated values to be captured more quickly.

Cons:

- Given the limited demand in the area, the absorption timeframe for this strategy will be long, although likely still shorter than other alternatives;
- If several smaller sales were used to dispose of the excess land, the multiple transactions would raise the overall sales and marketing costs. Managing this disposition process would also be more complex; and
- Selling smaller portions of the Property individually would preclude any large-scale or master planned development opportunities.

IMPLEMENTATION STEPS

- *Begin establishing a direct and cooperative relationship with the City of Medical Lake.* Closure of Lakeland Village would be a negative blow to the local economy, but it may also represent an opportunity to attract a new business and/or return a significant amount of land to the tax rolls. The State and the City need to jointly consider the potential of reusing the existing water and sewer systems that serve the Property. The City will likely be interested in these systems if they are found to be a more cost effective way to provide civil utilities to undeveloped land and attract additional development. The City is unlikely to be interested in these systems if reuse will require capital expenditures that are unsupportable.
- *Complete a survey of the Property.* In order to accurately portray the Site to potential buyers, a survey needs to be completed. An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should also be completed. The State should conduct this survey with the intent of soliciting bids for the demolition of the improvements on the Campus.
- *Complete a rezone of the portions of the Property that are in the City of Medical Lake.* As discussed above, the City will probably support a rezone of the Property providing that the provision of utilities can be adequately addressed. Simultaneous with the rezone, in this alternative the State would divide the large contiguous parcels within the City into smaller tracts (20 acres for example) which are large enough to give the buyer the flexibility to do large lots (i.e. four five-acre lots) or maximize the density allowed by the single family zone (7.6 units per acre or 152 lots). The financial model discussed below addresses the wide range of potential densities by selling lots with average size of 6 acres.
- *Prepare a marketing package and interview and select an appropriate marketing company that has experience in campus/healthcare properties.* Given the unique nature of the Property, particular care should be placed on selecting an appropriate marketing group to work with the State to obtain the optimal value in the shortest period of time.
- *Design and Implement a Marketing Plan in conjunction with selected broker to broadly and widely expose the Property to potential buyers.*

FINANCIAL ANALYSIS

The assumptions we have used for the financial analysis of Alternative III are:

Value

6-acre lot in-city = \$40,00
25-acre lot in-county = \$60,000
10-acre lot at Clear Lake = \$80,000

Absorption

6-acre lot in-city - 3 per year
25-acre lot in-county - 3 per year
10-acre lot at Clear Lake - 1 per year

Expenses

Selling Costs - 3 percent
Demolition - \$4 per square foot
Lot Development Costs - \$10,000 per lot

Escalation Factor

Revenue - 1.5 percent per year
Expenses - 2.5 percent per year

The table below illustrates a range of potential values associated with this Alternative.

Sale of Surplus Land Only

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Discount Rate	15%	25%	20%
Net Cash Flow	\$2.4M	\$2.4M	\$2.4M
Net Present Value Conclusion	\$1.3M	\$0.91M	\$1.1M

Combined Sale of Surplus Land and Campus

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Discount Rate	15%	25%	20%
Net Cash Flow	\$5.4M	\$5.4M	\$5.4M
Net Present Value Conclusion	\$2.8M	\$2.0M	\$2.3M

**WSIB- Medical Lake
Discounted Cash Flow**

Alternative 3- Sell Excess Land and Buildings Independently

	1	2	3	4	5	6	7	8
Sales Proceeds:								
In-City Residential	\$0	\$203,000	\$206,045	\$209,136	\$212,273	\$215,457	\$218,689	\$221,969
County Residential	0	182,700	185,441	93,233	0	0	0	0
Clear Lake	0	81,200	82,418	79,053	0	0	0	0
Campus	0	0	0	0	0	0	0	0
Buildings	0	0	0	0	3,077,954	0	0	0
Include Bldgs (0=no, 1=yes)	1							
Total Sales Proceeds	\$0	\$466,900	\$473,904	\$381,422	\$3,290,227	\$215,457	\$218,689	\$221,969
Selling Costs								
Net Sales Proceeds	0	(14,007)	(14,217)	(11,443)	(98,707)	(6,464)	(6,561)	(6,659)
Costs:								
Demolition	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lot Development Costs:								
Phase I	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Phase II	0	0	0	0	0	0	0	0
Cost/Lot	\$10,000							
Total Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash Flow								
	\$0	\$452,893	\$459,686	\$369,979	\$3,191,520	\$208,993	\$212,128	\$215,310

	Uninflated	Inflated
Value Today:		
Discount Rate	20.00%	15.00%
Net Present Value	\$2,267,833	\$2,752,726
		\$1,890,376

	Start	Acres/Lot	Lots/Year	Lots Sold
In-City Residential	2	6	5	40,65
County Residential	2	25	3	7,49
Clear Lake	2	10	1	2,95
Campus	3	6	3	0,00

	Sales Price Escalator	Cost Escalator
Escalators:	1.50%	2.50%

	# of Lots	Gross Acres	Net Acres
In-City Residential	41	271	244
County Residential	7	197	187
Clear Lake	3	31	29
Campus	0	0	0
Total Acres	51	499	461
Square Feet		21,736,440	20,059,380
Site Loss		5.00%	10.00%

**WSIB- Medical Lake
Discounted Cash Flow**

Alternative 3- Sell Excess Land and Bl

	9	10	11	12	13	14	15	16	17	18
Sales Proceeds:										
In-City Residential	\$225,299	\$29,728	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
County Residential	0	0	0	0	0	0	0	0	0	0
Clear Lake	0	0	0	0	0	0	0	0	0	0
Campus	0	0	0	0	0	0	0	0	0	0
Buildings	0	0	0	0	0	0	0	0	0	0
Include Bldgs (0=no, 1=yes)	1									
Total Sales Proceeds	\$225,299	\$29,728	\$0							
Selling Costs	(6,759)	(892)	0	0	0	0	0	0	0	0
Net Sales Proceeds	\$218,540	\$28,836	\$0							
Costs:										
Demolition	0	\$4.00	0	0	0	0	0	0	0	0
Lot Development Costs:										
Phase I	0	493,000	0	0	0	0	0	0	0	0
Phase II	0	0	0	0	0	0	0	0	0	0
Cost/Lot	\$10,000	50.00%	0	0	0	0	0	0	0	0
Total Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash Flow	\$218,540	\$28,836	\$0							

Value Today:

Discount Rate	20.00%
Net Present Value	\$2,267,833

Absorption:

	Start	Acres/Lot
In-City Residential	2	6
County Residential	2	25
Clear Lake	2	10
Campus	3	6

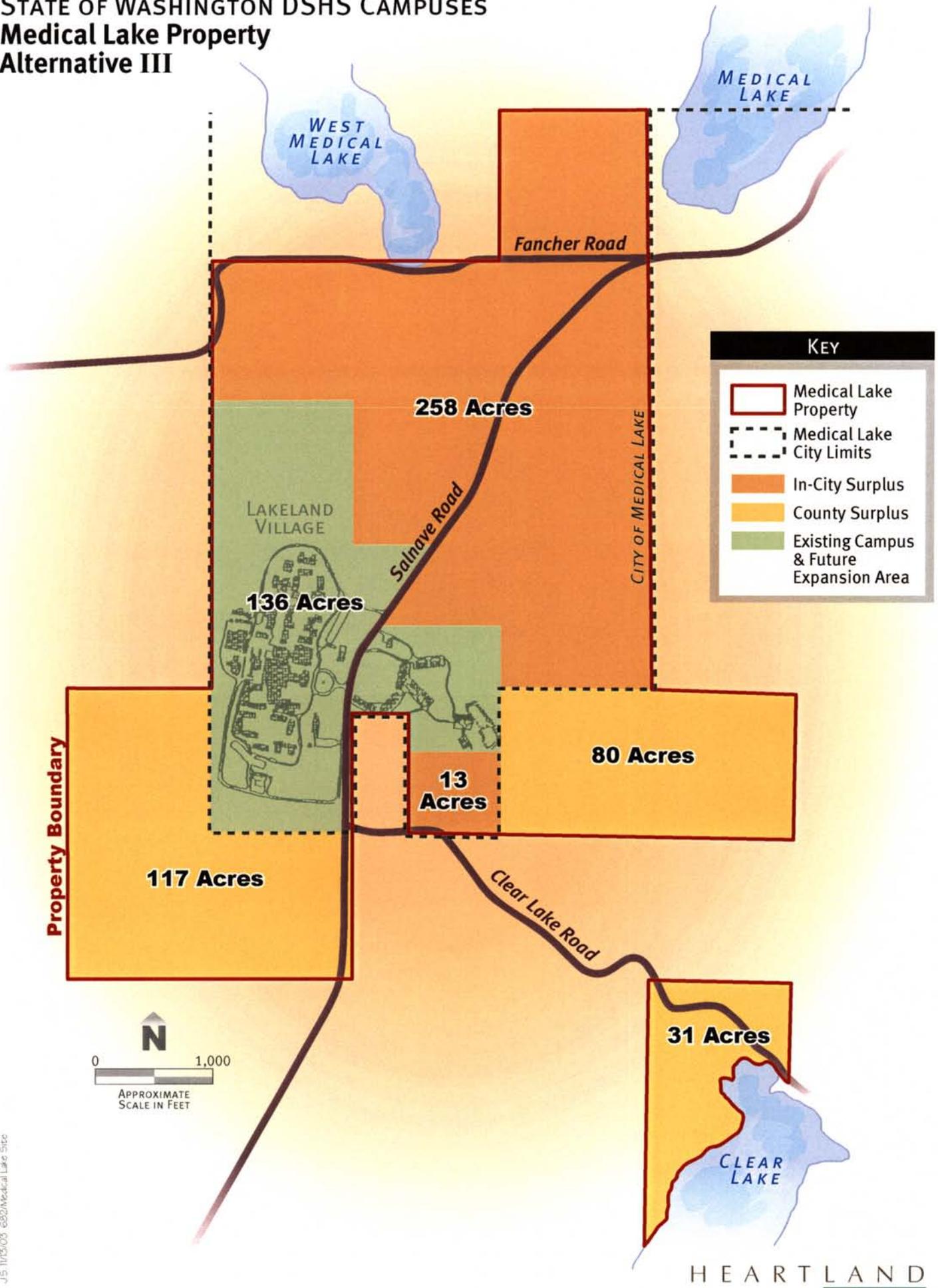
Escalators:

Sales Price Escalator	1.50%	1.143	1.178	1.196	1.214	1.232	1.250	1.268
Cost Escalator	2.50%	1.280	1.312	1.345	1.379	1.413	1.448	1.485

Land Summary:

	# of Lots	Gross Acres
In-City Residential	41	271
County Residential	7	197
Clear Lake	3	31
Campus	0	0
Total Acres	51	499
Square Feet		21,736,440
Site Loss		5.00%

STATE OF WASHINGTON DSHS CAMPUSES
**Medical Lake Property
 Alternative III**



Recommendations

RECOMMENDATIONS

Based on our analysis, we recommend the strategy presented as Alternative III.

There is ample excess land on this campus that can be optimized through near- to mid-term sales. This alternative preserves the flexibility to capture some additional revenue from sale of the campus, as improved, at sometime in the future. Under this alternative DSHS has the option to continue operations at the Site as long as it wishes.

Due to the negative land value of the campus area when taking into account the demolition costs, until the land value exceeds demolition costs, there is no practical reason to demolish the campus. The only two practical options at this time, if the campus is no longer used by DSHS, are to mothball the Site or to sell the Property as a campus.

The timeline on the following page illustrates the implementation steps described above in Alternative III.

**STATE OF WASHINGTON DSHS CAMPUSES
Medical Lake Property Timeline**

