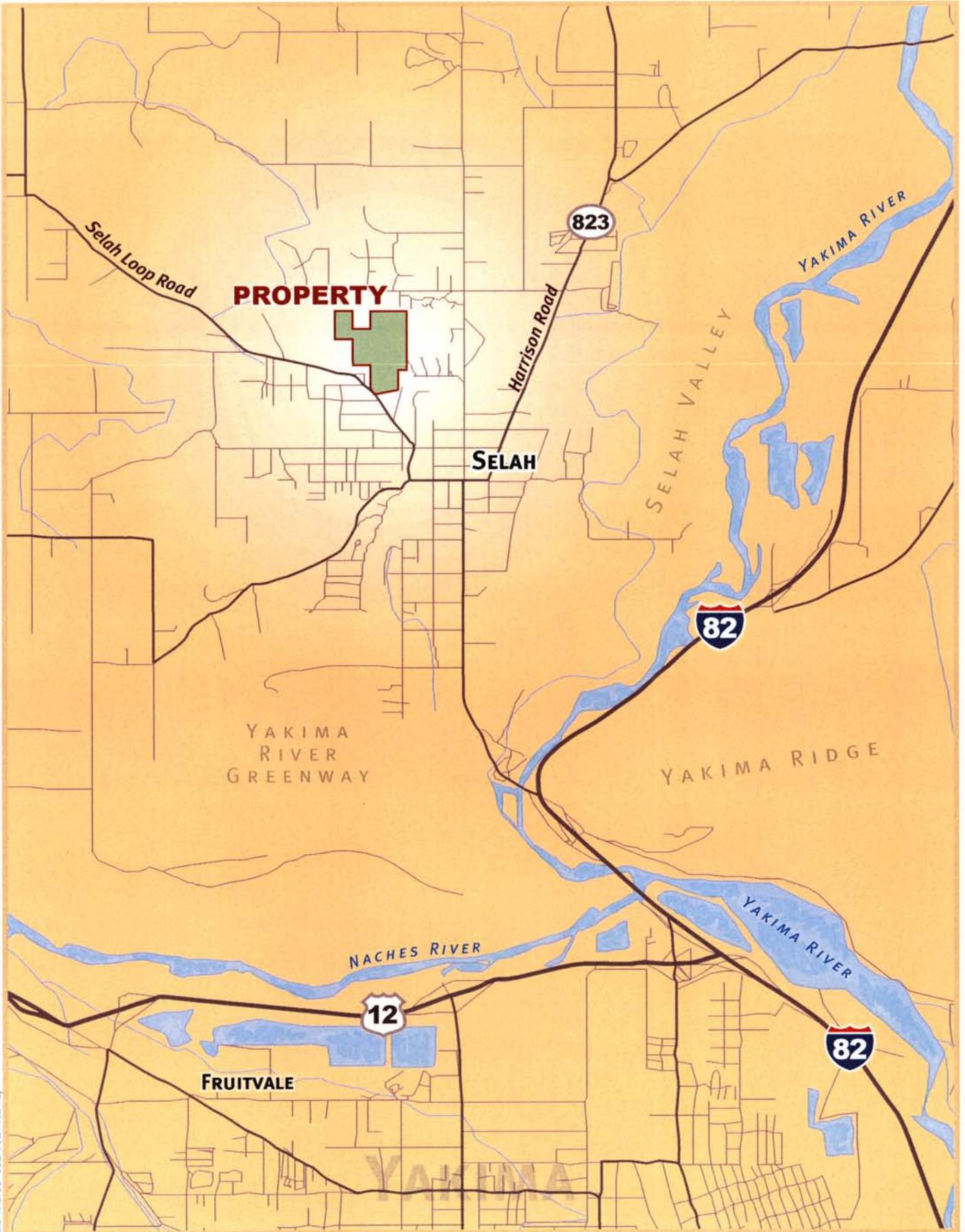


Yakima Valley School

STATE OF WASHINGTON DSHS CAMPUSES  
Yakima Valley School - Selah Property Locator



J5 11/13/03 652/Fsela Area Map



HEARTLAND

# STATE OF WASHINGTON DSHS CAMPUSES Yakima Valley School - Selah 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") Yakima Valley School ("YVS," the "Property," or the "Site") in Selah. The State engaged Heartland to undertake an analysis of the five DSHS 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 and/or dispose of the related Property with the ultimate goal of providing a practical approach to realizing the estimated value of the excess Property at the Site.

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 land, buildings, and other improvements at the Site. These materials provided information on ownership, tax parcels and legal lots, building and improvement ages and square footages, building construction, 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 on the Site; and
- We conducted financial analyses of the various alternative uses and strategies discussed in the report.

## **PROPERTY DESCRIPTION**

### **Area and Neighborhood**

The Site is located within Selah, Washington. Selah is located in Yakima County, in the south central portion of Washington State. Selah can be characterized as a small town (approximately 6,400 residents), which has traditionally been considered a bedroom community to the city of Yakima, about four miles to the south, but has developed its own economic base of several major industrial and service employers.

The immediate neighborhood is quiet, clean and attractive, with varying topography and scenery, providing a pleasant setting. Surrounding residential uses are both new and established with only medium densities and quiet traffic.

### **Site**

The Site is located about one-half mile northwest of the Selah Central Business District ("CBD"). Neighboring land uses include residential properties on all sides. Residential uses to the northwest are separated from the existing buildings by the vacant portion of the Property.

According to Yakima County Assessor's data, the Site totals approximately 29.98 acres on three tax lots (see the *Site Map* at the end of the *Property Description* Section). The Property shape is irregular.

The Site's only access is off of Speyers Road, a two-lane asphalt city street. Most of the traffic on this street is local residential traffic.

The Site is about two and one-half miles west of Interstate 82, the primary Interstate route through south central Washington into Oregon.

The site is hilly and has very steep slopes on the northwestern portions. Our research indicated that the Site contains no known wetlands or streams.

## **Structural**

There are 12 structures at the Site, containing approximately 144,860 gross square feet of space. This includes the original five-story main building, seven smaller residential duplexes, and several smaller classroom and support buildings. The main building was constructed in 1947. The duplexes were constructed in 1982.

Size descriptions, floor plans, seismic analyses, and condition reports for the structures were not available.

## **Utilities**

Water and sewer services are provided by the City of Selah. Electricity is provided by Pacific Power. Gas is provided by Cascade Natural Gas. Utility services to the Site are adequate for the current use.

## **Regulatory**

The current Comprehensive Plan and zoning designations for the Site are for residential uses. Selah is currently revising its zoning code and there are no changes slated for the Site. The Site is currently zoned R1, or One-Family Residential.

As evidenced by the proposed changes to the zoning code language, there is a serious concern on the part of the City regarding the availability of utilities. Water is the largest concern, as it is in many municipalities in the dry regions of Central Washington. Indeed, this concern compelled the City to impose a moratorium on residential development, which was currently lifted. This moratorium halted residential development until the City could provide adequate water service for new residential developments and for increased fire fighting requirements. These services are now available and, according to our discussions with the City, residential development would be allowed on the Site.

## **Environmental**

The Site has historically been utilized for institutional uses and little or no ground contamination of the site would be expected from these uses. It appears that some of the buildings may contain asbestos in their construction, which could affect potential alternatives for the Site, especially those involving potential demolition or significant renovation of the existing buildings. In our review of documentation for the Site, we found no other evidence of contamination or hazardous materials located on the Site.

There also do not appear to be any environmentally sensitive areas on the Property, such as wetlands or streams.

## Market

Several different land uses were analyzed to determine feasibility for potential development at the Site. Single-family and institutional uses similar to the existing use were the only options deemed to be feasible for the Property.

The Appraisal identified four sales of nursing homes in Washington. The sales ranged in price from \$23,864 to \$93,853 per bed, or \$70 to \$295 per square foot. The facilities in these sales ranged from about 319 to 382 beds, or 30,000 to 88,252 square feet. The Appraisal placed the current use value of the Site's nursing/rehabilitation facilities at \$45,000 per bed. However, the analysis also assumed that most buyers for the Property would likely only need about a third of the 107 beds in the existing facilities. A discount of 50 percent was placed on the Use Value, in order to reflect a more realistic value of the property on the open market. This analysis led to a "Go Dark" value conclusion for the structures of \$787,500, and a total value, including land, of approximately \$1,480,000.

In Selah, a moratorium currently exists on single-family development in the city, until a new reservoir is built to provide sufficient fire protection in developing areas. The moratorium was initiated at the end of 2000 and construction is scheduled to begin before the end of 2003. However, it appears that residential development could expand rapidly upon completion of the reservoir.

Our research concurred with the estimates included in the Appraisal, and indicated a potential value for the land at the Site of \$23,000 per acre, or \$690,000 overall.

## 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 assumes the potential value of demolishing the buildings and selling the raw land beneath them; and (iii) Strategy III assumes 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 YVS. It would entail marketing the site, perhaps to a buyer interested in performing a similar institutional use at the Site. A long marketing period would be likely, given the limited functionality and redesign potential of the structures and limited number of potential buyers.

#### Alternative I: Vacate Premises and Sell Property As-Is

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$0.9M	\$0.2M	\$0.5M

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

Alternative II could also be considered if DSHS ceased operations at YVS. This option would allow the site to be marketed to a wider pool of buyers, as the vacant land would have more development and use potential than it has when burdened with the existing buildings. The added value to the Site, if any, in terms of reduced marketing time or value to potential buyers, needs to be measured against the expected high costs of demolishing the existing buildings. A residential developer would be the most likely buyer in this alternative.

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

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$0.2M	\$0.1M	\$0.1M

**Alternative III: Disposition of Excess Property, While Keeping Campus Intact for Continued Use or Sale**

Alternative III could occur if DSHS remained on the Site, but sold an excess three acres of land in the northwest corner of the Site, most likely to an adjacent landowner. Given the lack of access, the pool of buyers for this land would be small. This option would require little up-front costs for the State and preserve the State's options for the current DSHS operations.

Alternative III: Disposition of Excess Property, While Keeping Campus Intact for Continued Use or Reuse of Facilities

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$0.7M	\$0.4M	\$0.5M

**RECOMMENDATIONS**

Based on our analysis, we recommend following the strategy presented as Alternative III: Disposition of Excess Property, While Keeping Campus Intact for Continued Use or Sale. There is a small amount of value in the excess land on this campus, which may be captured in a near-term sale. This allows DSHS the option to continue operations at the site as long as it wishes. Due to the negative impacts of demolition costs on the land value, there is no practical reason to demolish the campus until land values exceed those demolition costs by a wider margin. 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 *Recommendations* Section of this report.

## Property Description

## PROPERTY DESCRIPTION

### AREA AND NEIGHBORHOOD

- The Site is located within Selah, Washington. Selah is located in Yakima County, in the south central portion of Washington State (see the *Locator Map* in this section).
- Selah can be characterized as a small town (approximately 6,400 residents) that has traditionally been considered a bedroom community to the city of Yakima, about four miles to the south. Selah has experienced a proportionately high rate of growth, with its population increasing over 24 percent between 1990 and 2000.
- Selah has developed its own economic base of several major industrial and service employers. Tree Top, the largest apple and pear processor in the world, has its corporate headquarters and two major processing plants in Selah. Locally, Tree Top employs over 600 people and pays over \$20 million in local wages. Other notable agricultural corporations in Selah include Hi-Country Foods, Larson Fruit Company, and Matson Fruit Company. Also, Graham Manufacturing, one of the world's largest plastic bottle manufacturers, is located in Selah.
- For a small town, Selah has a large park system that includes contains six parks, as well as a public pool and a civic center. One of the parks is 16.5 acres and serves as a regional facility. One of the two completed community parks is the site of the 12,380 square-foot civic center that holds community events.
- The City of Selah is currently undertaking an extensive revision of its zoning municipal code, which will include changes to zoning. There are proposed changes to zoning for portions of the Site, though these revisions are minor. This will be discussed in greater detail in the *Regulatory* Section of this report.

### SITE OVERVIEW

- Originally built in 1947 as a hospital, the Site is currently operated as a residential habilitation center for developmentally disabled people by DSHS.
- The Site is located within the Selah city limits, about one-half mile northwest of the Selah CBD. Neighboring land uses include residential properties on all sides. Residential uses to the northwest are separated from the existing buildings by the vacant portion of the Property.
- According to Yakima County Assessor's data, the Site totals approximately 29.98 acres on three tax lots (see the *Site Map* at the end of the *Property Description* Section). The Property shape is irregular.

## **Surrounding Uses**

The immediate vicinity of the Site is characterized mostly by residential uses or vacant residential land:

*North* – Single-family residential development, with vacant residential land to the northwest

*West* - Single-family residential development, with some vacant residential land

*East* – Single-family residential development

*South* - Across Speyers Road, single-family residential development

Overall, the immediate neighborhood is quiet, clean and attractive, with varying topography and scenery, providing a pleasant setting. Surrounding residential uses are both new and established, with only medium densities and quiet traffic.

## **Access**

- The Site's only access is off of Speyers Road, a two-lane asphalt city street. Most of the traffic on this street is local residential traffic.
- The Site is about two and one-half miles west of Interstate 82, the primary Interstate route through south central Washington into Oregon.

## **Topography/Hydrology**

- The overall site is hilly and has very steep slopes on the northwestern portions. Our research indicated that the Site contains no known wetlands or streams.

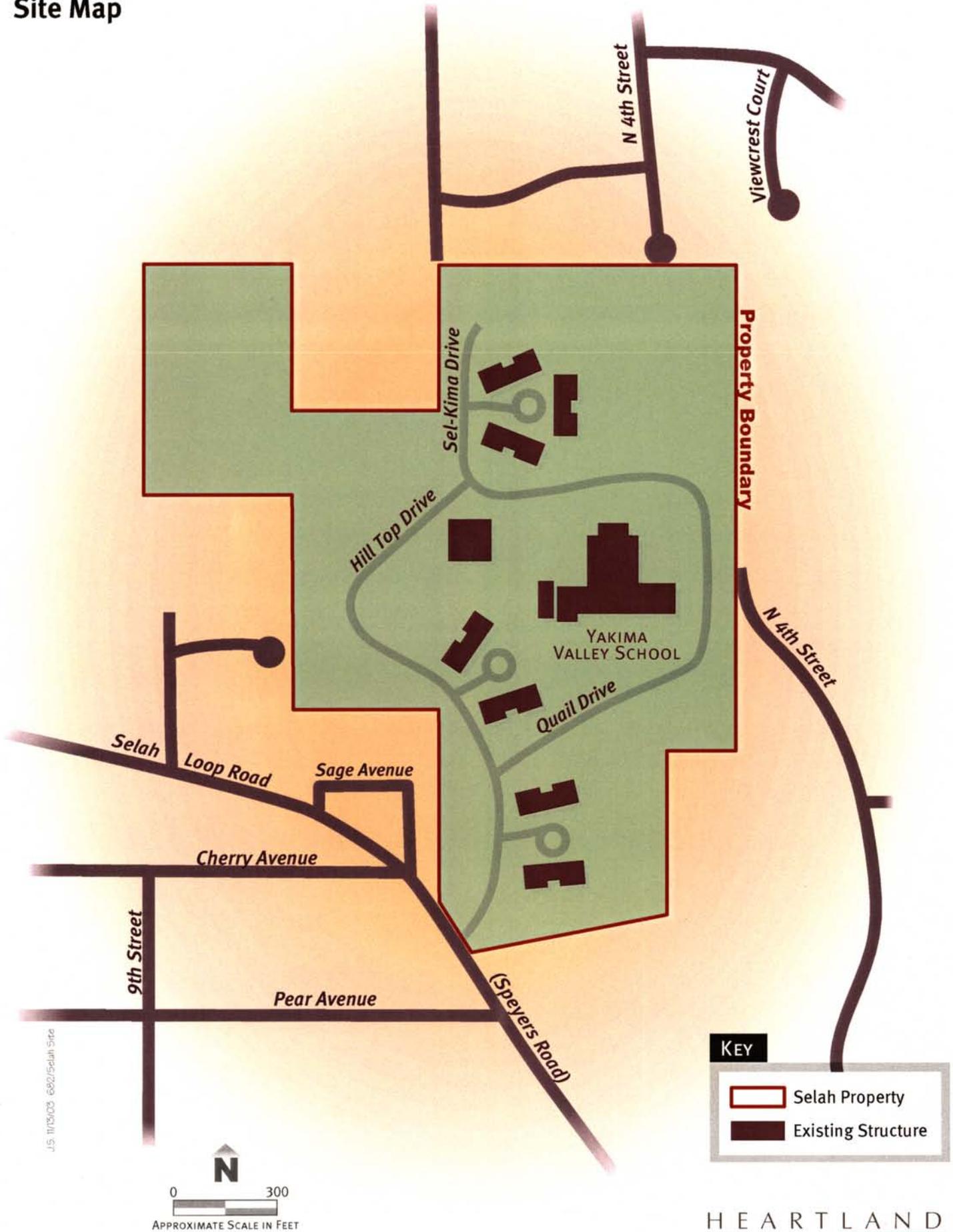
STATE OF WASHINGTON DSHS CAMPUSES  
Yakima Valley School - Selah Property Locator



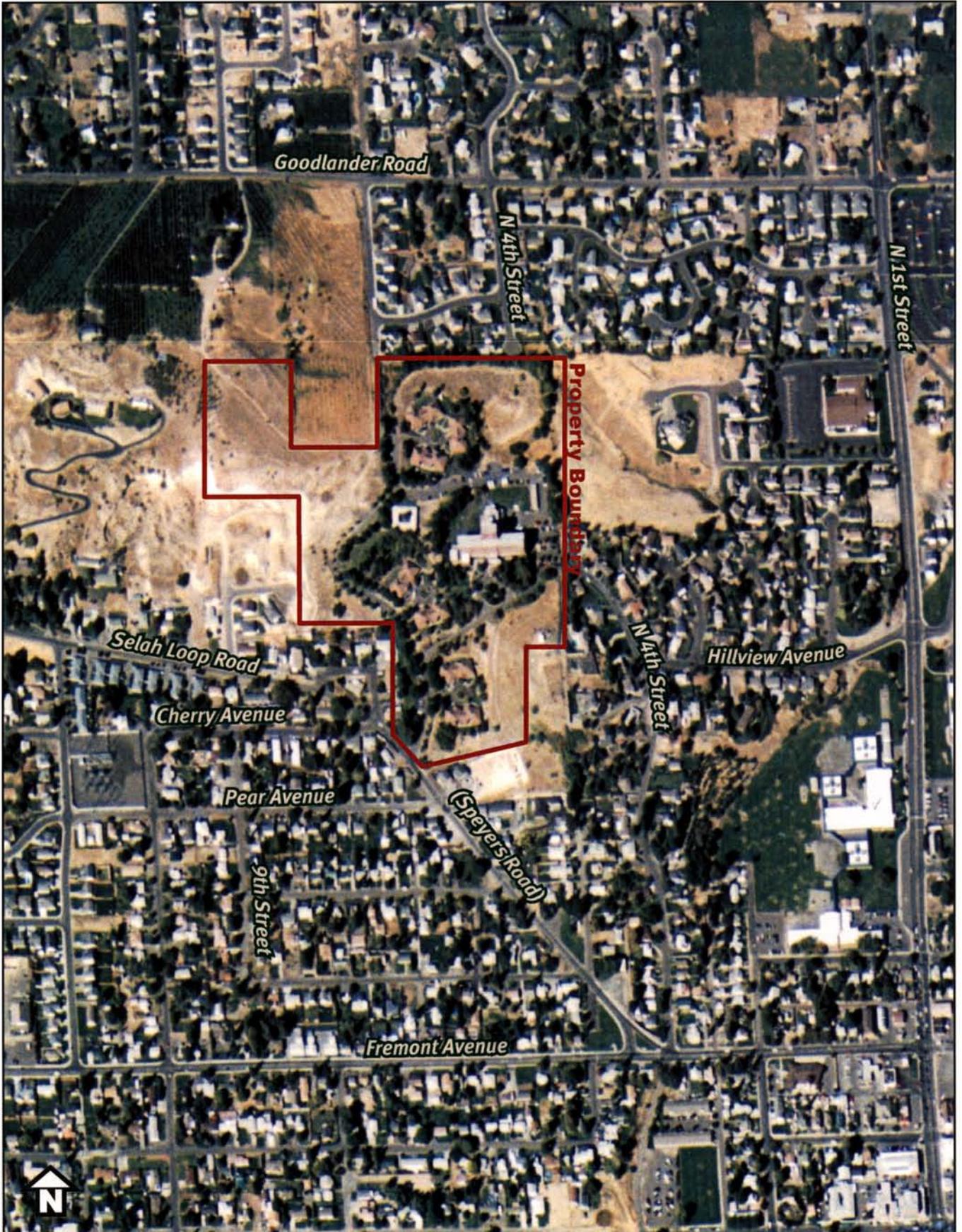
J5. 11/15/03 - 682/Selah Area Map



# STATE OF WASHINGTON DSHS CAMPUSES Yakima Valley School - Selah Property Site Map



STATE OF WASHINGTON DSHS CAMPUSES  
Yakima Valley School - Selah Property  
Aerial



J5\_11/14/03\_682/Selah/Aerial

STATE OF WASHINGTON DSHS CAMPUSES  
Selah Property



Entrance to Yakima Valley School



Campus in front of Main Building

STATE OF WASHINGTON DSHS CAMPUSES  
Selah Property



View of Main Building



View of Residential Complex

STATE OF WASHINGTON DSHS CAMPUSES  
Selah Property



View of vacant land in NW portion of the Site, looking NW



View of vacant land in NW portion of the Site, looking SE

**Structural**

## STRUCTURAL

### OVERVIEW

- There are 12 structures at the Site, containing approximately 144,860 gross square feet of space.
- This includes the original five-story main building, seven smaller residential duplexes, and several smaller classroom and support buildings. The main building was constructed in 1947. The duplexes were constructed in 1982.
- The main building, which looks like a hospital or office building, is a significant structure and out of character with the rest of the Site and the neighborhood. The building is in good condition, however, and appears to have been well maintained.
- Except for some of the temporary structures and modular classrooms, the structures are wood frame structure with brick and wood veneer, and concrete foundation and slabs.
- Size descriptions, floor plans, seismic analyses, and condition reports for the structures were not provided to Heartland.

## Utilities

## UTILITIES

### **OVERVIEW**

Utility services to the Site are adequate for the current use and do not appear to pose any significant obstacles for the types of potential future development that might conceivably occur on the Property.

### **Water**

City of Selah

### **Sewer**

City of Selah

### **Electrical**

Pacific Power

### **Gas**

Cascade Natural Gas

Regulatory

## REGULATORY

### COMPREHENSIVE PLAN AND ZONING

- Selah's Comprehensive Plan is the blueprint for managing growth and development within the city. The Comprehensive Plan determines where various types of development should take place (residential, commercial, industrial, etc.) and provides standards as to how that development will occur.
- Zoning designations are the actual land use regulations in place for a specific property. Usually, zoning designations match comprehensive plan designations, though this is not always the case.
- The current Comprehensive Plan and zoning designations for the Site are for residential uses. Selah is currently revising its zoning code and there are no changes slated for portions of YVS.

According to Dennis Davison, Community Planner for Selah, the Site is currently zoned R1, or One-Family Residential. According to the current Selah Code, this zone is established to provide for single-family residential development and to preserve the current rural character of these areas. However, the new proposed code states a slightly different goal -- " to provide for single-family residential development where urban governmental services are currently available or will be extended by the proponent to facilitate development at no public cost."

- The current DSHS use is a legal non-conforming use and would be difficult to expand, given the zoning restrictions and hearing processes required.
- As evidenced by the proposed changes to the zoning code language, there is a serious concern on the part of the City of Selah regarding the availability of utilities. Water is the largest concern, as it is in many municipalities in the dry regions of Central Washington. This concern prompted a recent moratorium on residential development in Selah.

This moratorium on development, which was recently lifted, prevented the construction of new homes until the City of Selah could provide adequate water volume and pressure for new residential developments and for increased fire fighting requirements. Mr. Davison stated that this moratorium had effectively ended and that residential development would be permitted on the Property.

Given that the proposed zoning code is expected to be implemented in early 2004, we will examine the development regulations under these proposed standards.

### PERMITTED USES

- Residential uses; and
- Agricultural buildings used to house livestock.

## **USES PERMITTED WITH SPECIAL REVIEW**

- Parks;
- Agricultural stands;
- Churches and cemeteries;
- Child/adult day care centers;
- Fire and police stations;
- Group homes;
- Schools;
- Public utilities; and
- Bed and breakfast inns

## **LOT SIZE**

The minimum lot size requirements for new lots are progressive, based on slope and available utilities.

- Below 10 percent slopes, with City water/sewer service - 8,000 square feet
- 11-15 percent slopes, with City water/sewer service - 10,000 square feet
- 16-20 percent slopes, with City water/sewer service - One-half acre (21,780 SF)
- 21-25 percent slopes, with City water/sewer service - One acre (43,560 SF)
- Above 25 percent slopes, or without City water/sewer service - Five acres (217,800 SF)

## **LOT COVERAGE**

- 35 percent

## **BUILDING HEIGHT**

- 35 feet

## **SETBACKS**

- Front yard: 20 feet
- Side yards: 10 percent of lot width
- Rear yard: 20 feet

## **SUBDIVISION/PARTITION PROCESSES**

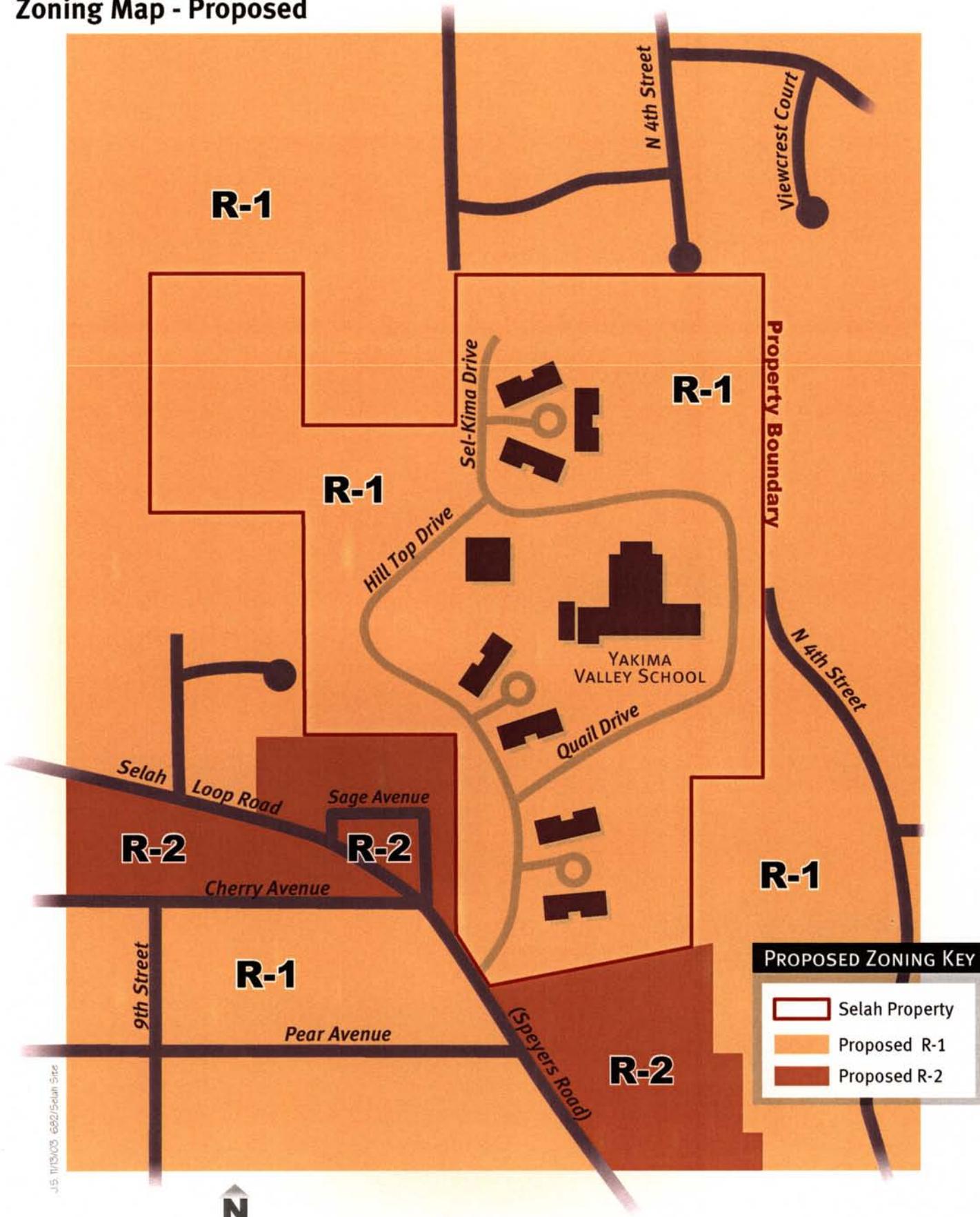
- Land divisions in the City of Selah are divided into two categories: (i) Divisions of property into two to four lots are termed "short subdivisions;" and (ii) Divisions of property into four or more lots are called "subdivisions."
- To divide a lot in Selah, an applicant must follow the regulations outlined in Title 10, Chapter 10.50 of the Selah Municipal Code.
- Short Subdivisions in Selah are approved by the City Supervisor, after review and recommendation by the Planning Department and Planning Commission. This means that the City Supervisor may approve or deny applications with limited public input.
- Subdivisions, on the other hand, are more involved decisions. Once preliminary applications are reviewed and recommended by the Planning Department, the Hearing Examiner holds a public meeting and review. The Hearing Examiner provides a recommendation to the City Council, which votes on the application at another public meeting. After this preliminary approval, final plat approval must be obtained within five years. This requires another Council approval at a public meeting.

## **TITLE**

A 1991 title report was provided for the Site, which states that title is vested in the State of Washington Department of Institutions. We received no information on whether this entity is the same as DSHS. The Yakima County Assessor's office stated their records indicated that DSHS owned the Property. For our analysis, we will assume that DSHS has ownership of the Site.

There were several utility access easements listed on the title report, but these, nor any other easements or encumbrances, are expected to impact the value or use of the Site.

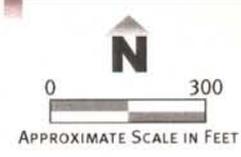
STATE OF WASHINGTON DSHS CAMPUSES  
 Yakima Valley School - Selah Property  
 Zoning Map - Proposed



**PROPOSED ZONING KEY**

	Selah Property
	Proposed R-1
	Proposed R-2

J15: 11/13/03 e682/Selah-Sitz



Environmental

## ENVIRONMENTAL

### **SENSITIVE AREAS**

- There also do not appear to be any environmentally sensitive areas on the Property, such as wetlands or streams.

### **POTENTIAL HAZARDS AND CONTAMINATION**

- The Site has historically been utilized for institutional uses and significant ground contamination of the site would not be expected from these uses.
- It appears that some of the buildings may contain asbestos in their construction, which could affect potential alternatives for the Site, especially those involving potential demolition or significant renovation of the existing buildings.
- In our review of documentation for the Site, we found no other evidence of contamination or hazardous materials located on the Site.
- According to FEMA maps, the Site is outside of the 100-year flood hazard area.

Market

## MARKET ANALYSIS

### PREVIOUS ESTIMATES OF VALUE

- In May 2002 the Joint Legislative Audit and Review Committee commissioned an appraisal of the Yakima Valley School<sup>1</sup>. 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 \$8,000,000.
  - **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 \$1,480,000.
- **Land Value:** The appraiser's total land value estimate for the Property is \$23,000 per acre, or \$690,000.

### MARKET ANALYSIS

As part of its 2002 Appraisal of the Property, Auble, Jolicoeur & Gentry analyzed the feasibility of several different potential land uses. Most were deemed as not feasible, due in large part to the Site's location and distance from non-residential uses. We agreed with the conclusions of the appraiser's highest and best use and market analyses, and we have provided additional market information to supplement their findings. A summary of considered land uses is included below.

**Retail** - Not Feasible - The Site's lack of exposure in its residential location would not appeal to most retail developers and the current zoning does not allow retail uses.

**Office** - Not Feasible - The Site lacks the access and labor pool to succeed as an office development. Zoning would also not support this use.

**Industrial** - Not Feasible - A lack of heavy-duty roads and utility capacity would be major drawbacks to the Site. Also, current zoning would not support such a use.

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<sup>1</sup> Complete Appraisal of Real Property – Yakima Valley School, Auble, Jolicoeur & Gentry, May 21<sup>st</sup> 2002.

**Governmental** - Not Feasible - These uses usually require good access and proximity to the market being served. This Site does not have those qualities. Also, the zoning does not support this use and it is unlikely that the City of Selah would support a change for this purpose, unless the job creation could match any void left behind by a vacation of DSHS operations.

**Conference Center / Hospitality** - Not Feasible - According to Cushman & Wakefield's Hospitality Group, there could possibly be a small market for this use among statewide groups. However, the existing buildings would be difficult to convert for this type of use and zoning would not support it. Also, this use would create impacts to the neighborhood, such as traffic, noise and light, that would not be welcomed.

**Multi-Family Residential** - Not Feasible - The Site's demographics could possibly support such a use. However, zoning would not directly support this use. Also, due to the fact that the existing buildings could not be easily converted into multi-family uses, most of the Site would need to be cleared of buildings before development could take place. This would effectively destroy the feasibility of this scenario financially.

**Assisted Living/Nursing/Rehabilitation Facilities** - Potentially Feasible - Though this use would appear, on the surface, to be similar to the current use of the YVS, the design of the campus would not work well for most of these types of uses. Facilities located within one large building are highly preferred and, though the Site has a large main building, the overall campus design of the property would still be a major drawback. The smaller rooms and shared baths of the current design would also make such a facility less marketable. The significant amounts of redesign to make these uses competitive would be very expensive. Lastly, the local market for such uses is oversupplied and would hamper the success of a new facility.

However, if DSHS was to vacate the Site, the alternative uses for the existing facilities are almost nonexistent, suggesting a very low value for the Property. In this case it is conceivable that a nursing home, assisted living, or rehabilitation center operator might be interested in buying the Property at a highly discounted price.

**Single-Family Residential** - Feasible, if Vacant, or For Currently Vacant Portions of the Site - Given the surrounding residential uses and sufficient market for single-family homes in the area, this type of development could be a potential option for the Property, if the existing buildings were removed. The demolition of existing buildings would need to occur, but would present a large expense that may detract from the overall value of a residential use. On portions of the Property currently vacant, single-family residential development is obviously the most likely use.

In the Appraisal and JLARC reports, three vacant portions of the Site, totaling nine acres, were identified as potential surplus properties with residential resale value. These pieces of Property were located at the northeast, southeast, and northwest corners of the Site.

The GA Report disputed these findings, stating that these previous reports had failed to consider the impacts of selling the northeast and southeast pieces, such as the loss of buffers to DSHS operations. The GA Report also pointed out that the northwest piece was only accessible through the YVS campus, or through an adjacent property owner's land. Providing access to this portion of the Site through the YVS campus would require the costly improvements to the existing private road. Therefore, it is likely that this land

has limited value, except, perhaps, to the adjacent landowner, who could provide access to it.

Coincidentally, the GA Report mentioned that the adjacent landowner had expressed an interest in this portion of the Property and concluded that there could be an opportunity for a sale or exchange. Our analysis concurs with the observations of the GA Report and will be discussed in the *Alternatives and Strategies* Section of this report.

#### **WASHINGTON STATE INSTITUTIONAL/NURSING HOME MARKET**

The Appraisal identified four sales of nursing homes in Washington. The sales ranged in price from \$23,864 to \$93,853 per bed, or \$70 to \$295 per square foot. The facilities in these sales ranged from about 319 to 382 beds, or 30,000 to 88,252 square feet.

As mentioned in the section above, the design of the Site's facilities would be adequate, but less than optimal, for modern use. The Appraisal placed the current use value of the Site's nursing/rehabilitation facilities at \$45,000 per bed for 107 beds, or \$4,815,000, excluding land. This value is intended to reflect the value of the Property to the State for their current use there.

As mentioned above, in the marketplace, it is unlikely that the Property would sell for anywhere near that amount. The analysis also assumed that most buyers would likely only need about a third of the beds in the existing facilities. A discount of 50 percent was placed on the Use Value, in order to reflect a more realistic value of the Property on the open market. This analysis led to a "Go Dark" value conclusion for the structures of \$787,500, and a total value, including land, of approximately \$1,480,000.

#### **YAKIMA COUNTY/SELAH RESIDENTIAL MARKET**

Residential building in Yakima County reached a peak in 1999. In 2000, sales declined countywide, and housing prices in the county actually fell in 2000 and 2001. The market rebounded in 2002, however, with sales prices up 2.6 percent.

In Selah, the number of single-family homes has steadily climbed over the last decade. Single-family home values have also continued upward, as more upscale housing is built, with an average value in 2000 of \$112,262.

Since that time, the City of Selah has placed a moratorium on single-family development in the city, until a new reservoir is built to provide sufficient fire protection in developing areas. The moratorium was initiated at the end of 2000 and construction is scheduled to begin before the end of 2003.

Residential development could expand rapidly upon completion of the reservoir. According to the Appraisal, six residential developments are in various stages of development from being partially built to pending for plat approval upon construction of the new reservoir. Out of a total of 131 lots in the planned developments, 86 lots have been platted, 33 homes have been permitted, and 13 homes have been built.

## **RESIDENTIAL LAND VALUES**

Our research concurred with the estimates included in the Appraisal for the market value of single-family residential land. The Appraisal looked at sales of properties similar in size and zoning to the Site, which were sold for residential development. These sales ranged in size from 1.7 to 38.8 acres, and sold for prices between \$12,005 to \$30,588 per acre. The Site was most similar to two sales of R1 land that both occurred within the Selah city limits. These sales indicated a potential value for the land at the Site of \$23,000 per acre, or \$690,000 overall.

## Strategies & Financial

## ALTERNATIVE STRATEGIES AND FINANCIAL ANALYSIS

### 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. Our analysis culminates in a financial analysis that determines the net present value and net cash flow from each alternative. This report provides the State with an analysis and recommendations that consider not only the highest present value, but also the greatest cash flow. Rather than recreate what was already completed, for the "AS IS" analysis, we relied upon the accuracy of the recent Appraisal, which we have discounted to account for our opinion that marketing timeframes would be longer than the Appraisal indicates. For the other analyses (alternatives assuming changes of uses, value after demolition, etc.), we completed a residual land value model, which calculates the net present value and net cash flow using a discounted cash flow analysis. This model considers the market rate for developed land, the costs to develop and sell the land, and the appropriate discount rate to reflect the risk and return for such a project. Alternative III represents a "preferred" option.

### Alternative I: Vacate Premises and Sell Property As-Is

Alternative I could be considered if DSHS entirely ceased operations at YVS. It would entail marketing the site, perhaps to a buyer interested in performing a similar institutional use at the Site. A long marketing period would be likely, given the limited functionality and redesign potential of the structures and limited number of potential buyers.

#### **Pros:**

- If the State could successfully market the Site to institutional or rehabilitation center buyers, it would be possible to capture a value near the "Go Dark" value from the Appraisal; and
- If a viable economic use occupied the Site, it could be welcomed by the City to compensate for jobs lost from YVS's departure.

#### **Cons:**

- The number of potential buyers would be small, due to the limited functionality of the structures and the number of obstacles to development at the Site;
- Potential buyers could include institutional uses, such as nursing home, assisted living or rehabilitation centers. This pool of buyers is very small;
- A limited of buyers indicates 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 five-to-seven year range; and
- An extended marketing period could result in higher maintenance and holdings costs for the State.

## IMPLEMENTATION STEPS

- *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.
- *Obtain an updated title report for the Property.*
- *Prepare a marketing package and interview and select an appropriate marketing company that has experience in institutional/healthcare properties.* Given the unique nature of this 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. Due to the small pool of buyers, it is important to realize that marketing time may be extended for the Property under this scenario.
- *Design and implement a marketing plan in conjunction with a selected broker to broadly and widely expose the Property to potential buyers.*

## FINANCIAL ANALYSIS

The primary assumption in this financial analysis is that the appraised "Go Dark" value of \$1.48 million is accurate, but we believe the marketing time will exceed what is assumed in the Appraisal and, therefore, have discounted this value as shown.

	<u>High Value</u>	<u>Low Value</u>	<u>Probable Value</u>
Marketing Time (Years)	3	7	5
Value	\$1.5M	\$1.5M	\$1.5M
Discount Rate	15%	25%	20%
Net Present Value Conclusion	\$0.9M	\$0.2M	\$0.5M

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

Alternative II could also be considered if DSHS ceased operations at YVS. This option would allow the site to be marketed to a wider pool of buyers, as the vacant land would have more development and use potential than it has when burdened with the existing buildings. The added value to the Site, if any, in terms of reduced marketing time or value to potential buyers, needs to be measured against the expected high costs of demolishing the existing buildings. A residential developer would be the most likely buyer in this alternative.

### **Pros:**

- This alternative would allow the State to capture the values from the Property in a single transaction;
- The pool of buyers would be larger, as most of the major obstacles to development are removed. This, coupled with a potentially improving market for residential development, would most likely reduce the marketing time of the Property. A reasonable estimate would be two to three years; and
- Holding costs would be lower without the burden of maintaining the existing buildings.

### **Cons:**

- The cost of demolishing the existing structures on the Property could be high, especially if extensive asbestos abatement is required. At a conservative estimate of \$4 per square foot for demolition, these costs would be approximately \$580,000, which would likely be deducted from any sale, assuming the buyer, not the State, completed the demolition; and
- The current residential development moratorium in Selah could negatively impact the value of the Site, if it is not lifted prior to marketing of the Property.

### **IMPLEMENTATION STEPS**

- *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.
- *Obtain an updated title report for the Property.*
- *Demolish the existing structures.* Following closure of the campus, the buildings would have to be demolished, or a deduction would have to be made in a sale to a buyer;
- *Prepare a marketing package and interview and select an appropriate marketing company that has experience in residential development properties.* Given the nature of this 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 a 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 II are:

**Value**

Residential Development Land - \$23,000 per acre

**Absorption**

Three Years

**Expenses**

Selling Costs – 3 percent

Demolition - \$4 per square foot

**Escalation Factor**

Revenue – 1.5 percent per year

Expenses – 2.5 percent per year

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$0.16M	\$0.11M	\$0.13M
Net Cash Flow	\$0.31M	\$0.31M	\$0.31M

**WSIB- Selah  
Discounted Cash Flow**

**Alternative 2- Demolish Buildings and Sell Entire Site as Land**

	Uninflated	Inflated
<b>Sales Proceeds:</b>		
Main Site	\$690,000	\$732,021
Excess Land	0	0
Buildings	0	0
Include Bldgs (0=no, 1=yes)	1	1
<b>Total Sales Proceeds</b>	<b>\$690,000</b>	<b>\$732,021</b>
Selling Costs	(21,961)	(21,961)
<b>Net Sales Proceeds</b>	<b>\$668,039</b>	<b>\$710,060</b>

	Bldg SE
<b>Costs:</b>	
Demolition	97,461
Lot Development Costs:	
Phase 1	\$0
Phase 2	\$0
Cost/Lot	\$0
<b>Total Costs</b>	<b>(\$389,844)</b>
<b>Net Cash Flow</b>	<b>\$310,470</b>

	High	Low
<b>Value Today:</b>		
Discount Rate	15.00%	25.00%
Net Present Value	\$164,729	\$107,813
Probable		

	Start	Acres/Lot	Lots/Year	Lots Sold
<b>Absorption:</b>				
Main Site	3	29.98	1	1.00
Excess Land	1	0.00	1	0.00

	Sales Price Escalator	Cost Escalator
<b>Escalators:</b>		
Sales Price Escalator	3.00%	
Cost Escalator	2.50%	

	# of Lots	Gross Acres	Net Acres
<b>Land Summary:</b>			
Main Site	29.98	29.98	29.98
Excess Land	0	0.00	0.00
<b>Total Acres</b>	<b>29.98</b>	<b>29.98</b>	<b>29.98</b>
Square Feet	1,305,929	1,305,929	1,305,929
Site Loss	0.00%	0.00%	0.00%

	1	2	3	4	5	6	7	8
	\$0	\$0	\$732,021	\$0	\$0	\$0	\$0	\$0
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	\$0	\$0	\$732,021	\$0	\$0	\$0	\$0	\$0
	0	0	(21,961)	0	0	0	0	0
	\$0	\$0	\$710,060	\$0	\$0	\$0	\$0	\$0
	\$0	(\$399,590)	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	(\$399,590)	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	(\$399,590)	\$710,060	\$0	\$0	\$0	\$0	\$0

	1.000	1.030	1.061	1.093	1.126	1.159	1.194	1.230
	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1.000	1.030	1.061	1.093	1.126	1.159	1.194	1.230
	1.000	1.025	1.051	1.077	1.104	1.131	1.160	1.189

### **Alternative III: Disposition of Excess Property, While Keeping Campus in Tact for Continued Use or Sale**

Alternative III could occur if DSHS remained on the Site, but sold a portion of northwest corner of the Property, most likely to an adjacent landowner. As discussed in the *Market* Section above, the northwest piece of the Property is only accessible through the YVS campus, or through an adjacent property owner's land. Providing access to this portion of the Site through the YVS campus would require costly improvements to the existing private road. Therefore, it is likely that this land has limited value, except, perhaps, to the adjacent landowner, who could provide access to it.

There has been some interest expressed by this adjacent landowner in a sale or exchange for this portion of the Property. This alternative assumes that this transaction will occur and the remainder of the Property would be sold in the future.

As mentioned in Alternative I, the pool of buyers for the YVS facility would be small and the marketing time could be lengthy.

This option would require little up-front costs for the State.

#### ***Pros:***

- The State would be able to capture some value without impacting current operations at YVS;
- Disposition of this excess land could be accomplished relatively quickly, in one transaction;
- Marketing time of the excess land would be short, allowing the State to realize some value in a short period of time; and
- This alternative would allow the State to preserve the option of selling the YVS facility at some point in the future.

#### ***Cons:***

- The value of this parcel of excess land is somewhat limited, given that it has no reasonable access, except through an adjacent property. However, given the residential development potential, we will assume that the adjacent landowner would value this land at nearly the same \$23,000 per acre as surrounding residential land. If three acres were sold to this adjacent owner at a slightly discounted price of \$20,000 per acre, this would equate to an approximate sale price of \$60,000.

## IMPLEMENTATION STEPS

- *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.
- *Pursue a sale of the excess Property to the adjacent landowner.* This should occur concurrently with a sale of the main campus, if the Property is vacated by DSHS at a later date.
- *Upon DSHS no longer occupying the Property, design and implement a marketing plan in conjunction with the selected broker to broadly expose the Property to potential buyers.*

## FINANCIAL ANALYSIS

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

### Value

Excess land - \$20,000 per acre, or \$60,000  
Main campus buildings and land - \$1,408,040

### Absorption

Sale of excess land - 1 Year  
Sale of main campus buildings and land - 7 Years

### Expenses

Selling Costs – 3 percent

### Escalation Factor

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

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$0.7M	\$0.4M	\$0.5M
Net Cash Flow	\$1.7M	\$1.7M	\$1.7M

**WSIB- Selah  
Discounted Cash Flow**

**Alternative 3- Sell Excess Land and Buildings Independently**

	1	2	3	4	5	6	Z	8
<b>Sales Proceeds:</b>								
Main Site	\$0	\$0	\$0	\$0	\$0	\$0	\$740,957	\$0
Excess Land	60,000	0	0	0	0	0	0	0
Buildings	0	0	0	0	0	0	940,316	0
Include Bldgs (0=no, 1=yes)								
Total Sales Proceeds	\$60,000	\$0	\$0	\$0	\$0	\$0	\$1,681,273	\$0
<b>Selling Costs</b>	(1,800)	0	0	0	0	0	(50,438)	0
Net Sales Proceeds	\$58,200	\$0	\$0	\$0	\$0	\$0	\$1,630,835	\$0
<b>Costs:</b>								
Demolition	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Phase I	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost/Lot	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash Flow	\$58,200	\$0	\$0	\$0	\$0	\$0	\$1,630,835	\$0

	Uninflated	Inflated
<b>Sales Proceeds:</b>		
Main Site	\$620,540	\$740,957
Excess Land	60,000	60,000
Buildings	787,500	940,316
Include Bldgs (0=no, 1=yes)		
Total Sales Proceeds	\$1,468,040	\$1,741,273
<b>Selling Costs</b>	(52,238)	(52,238)
Net Sales Proceeds	\$1,415,802	\$1,689,035

	Bldg/SE	SE
Demolition	0	\$4.00
Phase I	6	0
Cost/Lot	\$0	\$0
Total Costs	\$0	\$0
Net Cash Flow	\$1,415,802	\$1,689,035

Value Today:	Discount Rate	20.00%	15.00%	25.00%
Net Present Value	\$503,636	\$663,700	\$388,571	
	Probable	High	Low	

Absorption:	Start	Acres/Lot	Lots/Year	Lots Sold
Main Site	7	26.98	1	1.00
Excess Land	1	3.00	1	1.00

Escalators:	Sales Price Escalator	3.00%
Cost Escalator	2.50%	

Land Summary:	# of Lots	Gross Acres	Net Acres
Main Site	29.98	26.98	26.98
Excess Land	1	3.00	3.00
Total Acres	2	29.98	29.98
Square Feet		1,305,929	1,305,929
Site Loss		0.00%	0.00%

## Recommendations

## RECOMMENDATIONS

Based on our analysis, we recommend following the strategy presented as Alternative III: Disposition of Excess Property, While Keeping Campus Intact for Continued Use or Sale. There is a small amount of value in the excess land on the Property which may be captured in a near-term sale. This allows DSHS the option to continue operations at the Site as long as it wishes. Due to the negative impacts of demolition costs on the land value, there is no practical reason to demolish the campus until land values exceed those demolition costs by a wider margin. 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 this section of the report.

STATE OF WASHINGTON DSHS CAMPUSES  
**Yakima Valley School - Selah Property Timeline**

