

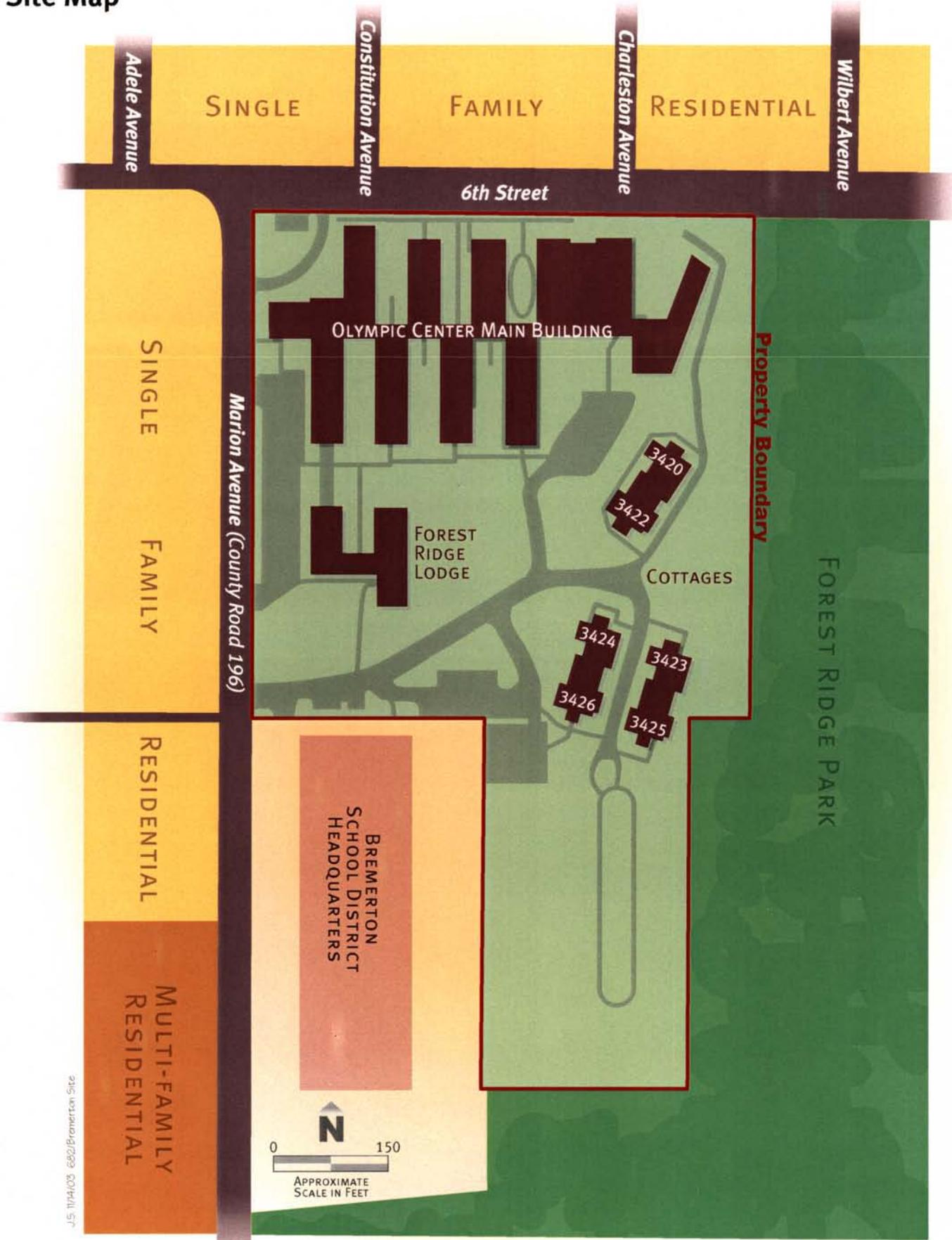
Frances Haddon Morgan Center



U.S. 11/12/03 682/Buckley Area Map



# STATE OF WASHINGTON DSHS CAMPUSES FHMC - Bremerton Property Site Map



11/14/03 6802/Bremerton Site

## 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") Frances Haddon Morgan Residential Habilitation Center ("FHMC," the "Property," or "Site") in Bremerton. The State engaged Heartland to undertake an analysis of the five Department of Social and Health Service'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 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 and square footage, building construction, land areas, and access;

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

- The July 2002 *Complete Appraisal of Real Property* by Cushman & Wakefield (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 December 2002 *Capital Study of the DDD Residential Habilitation Centers Report 02-12* from the Joint Legislative Audit and Review Committee (the "JLARC 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.

## **NEIGHBORHOOD**

The Site is located in the western portion of Bremerton, about two miles west of the Bremerton Ferry Terminal. Bremerton is west of downtown Seattle, about one hour via ferry across Puget Sound.

The Site is about one mile east of State Route 3, which is the main north/south corridor in Kitsap County. Kitsap Way, one of the main east/west corridors through Bremerton, is about one-half mile north of the Site.

The immediate neighborhood is characterized as a suburban community of single-family homes and limited medium-density multi-family homes. In addition to the Site, there are a limited number of other public and educational uses nearby, including the Bremerton School District headquarters directly to the south and Forest Ridge Park immediately east of the Site. As it is currently used, the Site is located within Bremerton city limits and is conveniently located to the city center and a variety of services and amenities.

## **PROPERTY DESCRIPTION**

According to Kitsap County Assessor's data, the Site totals approximately 12.81 acres on two tax lots (see the *Site Map* at the end of the *Property Description* Section). One parcel is a square 10 acres, while the other rectangular parcel contains the remaining approximate 2.85 acres. (This is slightly higher than the 12.15 acres listed in a 2002 Appraisal of the Site. The Appraisal made estimations of the property size from survey boundaries.)

The Site is mostly level or rolling and contains a small sports field and track facility in the southeast corner.

Sixth Street and Marion Avenue run along the north and west sides of the property, respectively. Both streets are two-lane asphalt roadways with sidewalks. A three-way stop-sign intersection of these two streets is located at the northeast corner of the Site. The Site has multiple access points and parking directly off of both streets.

Site improvements include parking interspersed throughout the Site, with landscaping and lighting, creating a campus-like setting.

## **STRUCTURAL**

There are five main structures at the Site, containing approximately 97,461 gross square feet of space. This includes a main office building, three smaller cottages, and a small lodge. Over two-thirds, or 70,087 square feet, of the Site's floor area is located in the main building at the north end of the Site. Small cottages comprise approximately 17,173 square feet of space, while a lodge in the western portion of the Site contains about 9,911 square feet of space.

The Site is used currently as a school for the developmentally disabled. Most of the main building was constructed during or shortly after World War II as a military hospital. Three of the cottages were built during the early 1980s.

## **UTILITIES**

Due to major arterials and development surround the Site and neighborhood, the Site is well-served and utility service could support many types of development.

The City of Bremerton provides sewer and water services. Electricity is provided by Puget Sound Energy, and natural gas is provided by Cascade Natural Gas. Telephone service is provided by Qwest.

## **REGULATORY**

The Site is located within Bremerton and is zoned PS, Parks and Schools. This zoning designation, along with the corresponding designation in the Bremerton Comprehensive Plan, generally supports the types of activities that DSHS currently engages in at the Site. The designation is highly restrictive, however, on other uses.

The Bremerton Comprehensive Plan is currently undergoing changes, though, and a new plan is due to be completed in early to mid-2004. According to the City Planning Department, there is a chance that the PS designation may be eliminated and that properties currently planned PS could be re-designated to low-density or single-family residential uses.

Our discussions with the City indicate that a rezone of the Site could occur in as little as 18 months.

## **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. Rehabilitation centers, single-family residential, and office and governmental uses were deemed to be feasible uses for the Property.

The Appraisal identified five sales of rehabilitation centers in Washington. The sales ranged in price from \$33.87 to \$95.86 per square foot overall, with a range of improvement values of \$13.04 to \$56.74 per square foot. The Appraisal valued the Site's rehabilitation center component at about \$18 per square foot, excluding land.

The Appraisal also identified five sales of office buildings in Bremerton. The sales ranged in price from \$30.97 to \$49.96 per square foot overall, with a range of improvements value of \$15.34 to \$38.43 per square foot. The Appraisal valued the Site's office component at \$25 per square foot, excluding land.

Overall, the residential market in the Bremerton and Eastern Kitsap County areas is growing at a rate faster than the Puget Sound region overall. As growth continues outward from the Seattle area, more buyers are lured by cheaper home prices in the area, only a ferry ride away from Seattle.

Sales shown by Northwest Multiple Listing Service ("NWMLS") for the West Bremerton area surrounding the Property indicate a wide range of values for lots in the 5,000- to 10,000-square-foot range, from \$20,000 to almost \$60,000. For our analysis of the land value of the Site, if used for residential development, we will assume lots on the Property would value toward the top of this range, as market conditions for this type of use are steadily improving.

## 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 FHMC. It would entail marketing the Site, perhaps to a buyer interested in performing a similar institutional use at the Site, or in using the office component of the Property. The Site would possibly need to be sold to two buyers: (i) one for the office portion of the Property; and (ii) the other for the residential facility portion. 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	\$1.9M	\$0.5M	\$1.1M

## Alternative II:

Alternative II could also be considered if DSHS ceased operations at FHMC. 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. Additionally, as mentioned in the *Regulatory* Section of this report, a potential rezone of the Property, allowing residential uses, could broaden the marketability of the Site. 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	\$0.02M	\$0.2M

## 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 the excess 2.85 acres of land to the south of the cottages, most likely to the City or School District. The pool of buyers for this land would be small, given the lack of access and exposure. This option would require little up-front costs for the State.

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

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$1.5M	\$1.0M	\$1.2M

## 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- to mid-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

### SITE OVERVIEW

- The Site is located within Bremerton, Washington. Bremerton is in the western portion of the Puget Sound Region, approximately 15 miles from downtown Seattle via ferry across Puget Sound (see the *Locator Map* at the end of this section).
- Bremerton can be characterized as a small city (approximately 36,000 residents) with a wide range of residential, industrial, office and retail land uses.
- Bremerton's Puget Sound Naval Shipyard continues to service U.S. Navy ships and its yard employs 8,000 civilians and as many active duty military work aboard ships or for the yard's attendant commands. This military influence has fostered a highly technical work force. An effort by the business community to diversify the economy is balancing employment in other sectors such as service, retail, medical, wholesale, manufacturing and public utilities.
- Many distinct neighborhoods comprise the city, such as Manette, with its Bohemian appeal in East Bremerton; Charleston, a quaint section of the city filled with bungalows; and Rocky Point with its rows of waterfront homes hugging the shoreline.
- Bremerton's downtown core is undergoing a comprehensive revitalization. The Bremerton Ferry Terminal and Bremerton Transportation Center, at the foot of downtown, will lead visitors into a growing arts community of galleries, theaters, shops, restaurants, and museums. There are also plans for a mixed-use waterfront development and a new government center adjacent to the ferry terminal.
- The Site is located within a neighborhood called West Bremerton. This mature neighborhood contains mostly residential and retail land uses. The housing in areas immediately surrounding the Site is generally older and in below average condition. A new development of smaller affordable homes has been built recently just to the south of the Site, across 5<sup>th</sup> Street.
- The City of Bremerton is currently undertaking a comprehensive community planning effort, which will establish neighborhood centers as the focal points for various areas in the city. The DSHS Site is located near two of these neighborhood centers -- Haddon Park and Charleston District.
- Originally built as a military hospital during World War II, the Site is currently operated as a residential habilitation center for developmentally disabled people by DSHS. The main building also houses administrative offices and other support activities, such as a cafeteria.
- Neighboring land uses include residential properties to the north and west, Forest Ridge Park to the east, and Bremerton School District Headquarters to the south.

- According to Kitsap County Assessor's data, the Site totals approximately 12.81 acres on two tax lots (see the *Site Map* at the end of the *Property Description* Section). One parcel is a square 10 acres, while the other rectangular parcel contains the remaining approximate 2.85 acres. This is slightly higher than the 12.15 acres listed in a 2002 Appraisal of the Site. The Appraisal made estimations of the property size from survey boundaries.

### **Surrounding Uses**

The immediate vicinity of the Site is characterized mostly by various uses, including residential, parks, and public institutional uses.

*North* - Across 6<sup>th</sup> Street, single-family residential

*West* - Across Marion Avenue, single-family residential

*East* - Forest Ridge Park, owned by the City of Bremerton

*South* - The City of Bremerton School District Headquarters

### **Access**

- Sixth Street and Marion Avenue run along the north and west sides of the property, respectively. Both streets are two-lane asphalt roadways, with sidewalks. A three-way stop-sign intersection of these two streets is located at the northeast corner of the Site. The Site has multiple access points and parking directly off of both streets.
- The Site is about one mile east of State Route 3, which is the main north/south corridor in Kitsap County. Kitsap Way, one of the main east/west corridors through Bremerton, is about one-half mile north of the Site.
- A Washington State Ferry route runs between Bremerton and Seattle, about 15 miles across Puget Sound.

### **Topography/Hydrology**

- The Site is mostly level or rolling and contains no known wetlands or streams.

### **CONCLUSION**

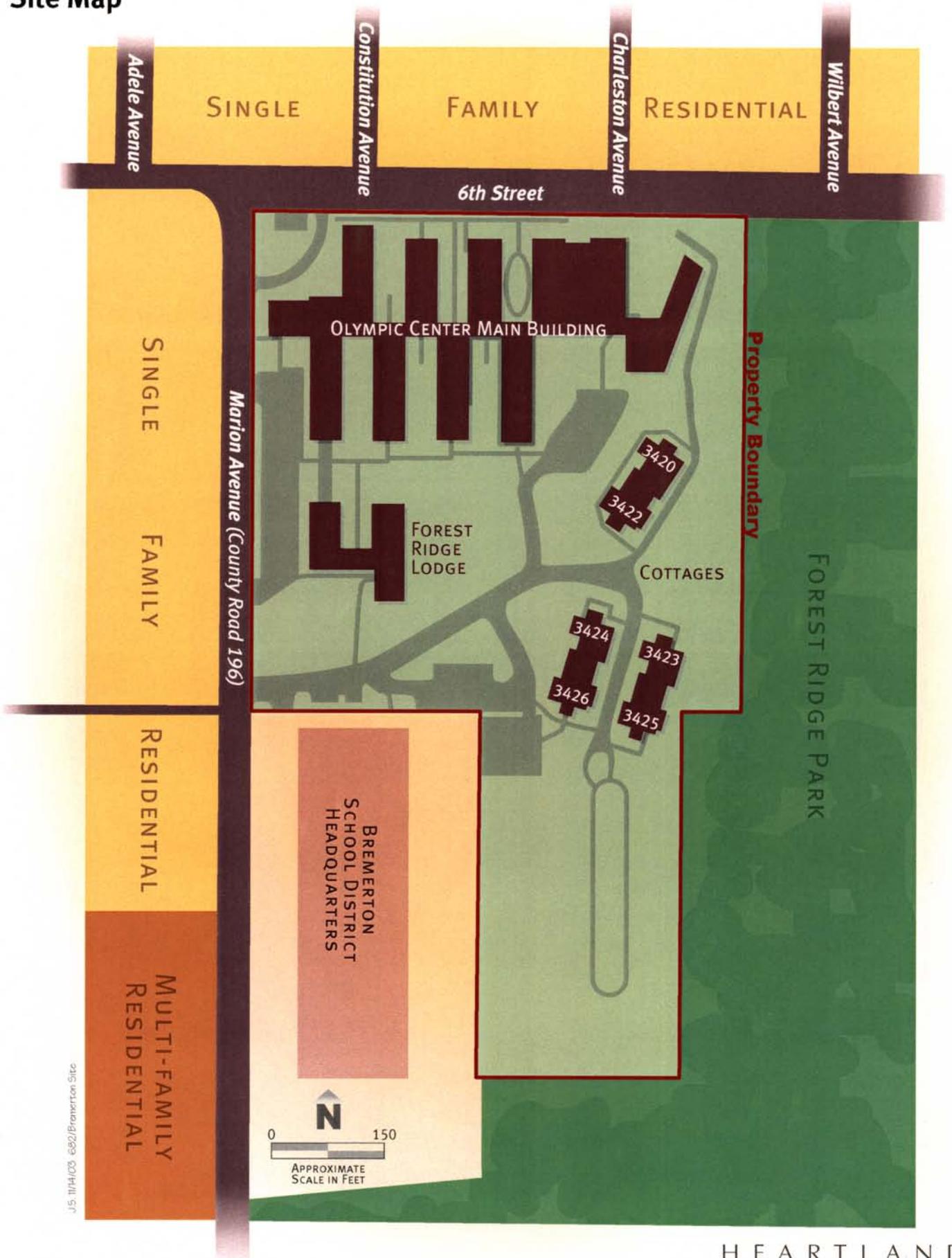
As it is currently used, the Site is well located within Bremerton, convenient to the city center and a variety of services and amenities. The surrounding residential uses are well established, but are of a lower quality and condition than some other parts of the city. FHMC is part of a cluster of public uses in the immediate area.



J5. 11/12/03 662/Puckey Area Map



# STATE OF WASHINGTON DSHS CAMPUSES FHMC - Bremerton Property Site Map



J15.11/14/03 682/Bremerton Site

**Structural**

## STRUCTURAL

### OVERVIEW

- There are five main structures at the Site, containing approximately 97,461 gross square feet of space.
- The five main structures at the Site include a main office building, three smaller cottages, and a small lodge. More than two-thirds, or 70,087 square feet, of the Site's floor area is located in the main office building at the north end of the Site. Small cottages comprise approximately 17,173 square feet of space, while a lodge in the western portion of the Site contains about 9,911 square feet of space.
- The main campus buildings were constructed during or shortly after World War II as a military hospital. Three of the cottages were built during the early 1980s.
- Except for the maintenance facility at the east end of the main building, all the structures are wood frame structure with brick and wood veneer, shingle roof, and concrete foundation and slabs.
- Floor plans, seismic analyses, and condition reports for the structures were not available.

Building	Area	Year Built	Gross SF	Use
<b>Main Building - Olympic Center</b>	100 Wing	1944	5,805	Office
	200 Wing	1944	5,418	Office
	300 Wing	1944	5,220	Office
	400 Wing	1944	6,214	Office
	500 Wing	1944	5,176	Office
	600 Wing	1944	6,106	Office
	Kitchen and Dining	1944	5,171	Office
	800 Wing	1944	6,106	Office
	900 Wing	1944	8,416	Office
	Maintenance Facility	1944	7,495	Maintenance Shop/Storage
	A/B Wing (West Lobby) Bike Storage Areas	1944 1976/1989	8,960 290	Office Storage
		<b>Total SF</b>	<b>70,377</b>	
<b>Forest Ridge Lodge</b>	3428 Burwell	1944	9,911	Residences
		<b>Total SF</b>	<b>9,911</b>	
<b>Cottages</b>	3420-22 Burwell	1981	5,605	Residences
	3424-26 Burwell	1985	5,784	Residences
	3423-25 Burwell	1985	5,784	Residences
		<b>Total SF</b>	<b>17,173</b>	
		<b>TOTALS</b>	<b>97,461</b>	

## **Main Building**

- The main building, Olympic Center, was constructed in 1944 as a hospital. Currently, this building is used as office space for FHMC. The building is actually a series of rectangular wings in an offset parallel arrangement, with a lobby at the west end, and a kitchen and maintenance facility at the east end. The maintenance facility is constructed from tile and brick. The total gross square footage of this building is approximately 70,377.
- This building is located along the northern edge of the property and fronts 6<sup>th</sup> Street.

## **Forest Ridge Lodge**

- This 9,911-square-foot building was also constructed in 1944 as part of the original hospital. It now serves as one of the low security residences.
- This building is set back into a wooded area of the property and is connected to the Olympic Center building by a breezeway.

## **Residential Cottages**

- There are three residential cottages, two of which were built in 1985 and one in 1981. Together, they comprise 17,173 square feet of residential space for FHMC.
- These buildings are located on the eastern edge of the property bordering Forest Ridge Park, in a wooded setting.

STATE OF WASHINGTON DSHS CAMPUSES  
Bremerton Property



Residential Cottage (3428/3430 Burwell)



Main Building - Olympic Center

## Utilities

## UTILITIES

### OVERVIEW

- Water - City of Bremerton
- Sewer - City of Bremerton
- Electricity - Puget Sound Energy
- Gas - Cascade Natural Gas
- Telephone - Qwest

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.

Regulatory

## REGULATORY

### COMPREHENSIVE PLAN AND ZONING

- Bremerton's Comprehensive Plan is the blueprint for managing growth and development within Bremerton. 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 PS, or Parks and Schools. The purpose of this designation is to protect and preserve lands that are currently developed, used, suited for, or planned for public and/or private park, recreation, or open space uses, as well as lands needed for recreational and educational facilities of long-term value and benefit to the community and region.
- This designation generally supports the types of activities that DSHS currently engages in at the Site. The designation is highly restrictive, however, on other uses.
- The Bremerton Comprehensive Plan is currently undergoing changes and a new plan is due to be completed in early to mid-2004. Matthew Keough, Growth Planner with the City of Bremerton, stated that no sweeping changes are slated to occur and that the new plan will not directly alter land uses in most areas.

However, there is discussion of eliminating the current Parks and Schools designation altogether. In this case, these uses would be allowed conditionally in certain residential areas. Properties currently planned PS would likely be re-designated to low-density or single-family residential uses.

- Mr. Keough stated that changes in the Comprehensive Plan would likely result in rezoning of individual properties within one year of re-designation, indicating that a rezone of the Site could occur in as little as 18 months.

Given that the Site is currently zoned PS, but could possibly be rezoned to a residential use, we will outline the development regulations for both scenarios. If the Property were rezoned for residential use, the likely zoning designations would be SF-3 or DR. Both allow lower urban densities of three to eight units per acre.

## **PERMITTED USES**

### **PS Zones**

- Passive parks, including but not limited to, open landscaped or natural areas, recreational trails systems, picnicking areas, gardens, arboretum, viewpoints, and related structures;
- Active parks, including but not limited to, hard and soft surface play areas, playground equipment, sports courts, lighted fields, community buildings, and swimming pools;
- Public and private schools, including trades, arts, pre-schools and colleges;
- Library, museum, and similar facilities;
- Recreation-related, non-profit group activities;
- Concessions, if approved by City Council; and
- Access and uses customarily associated with parks and schools.

### **SF-3 and DR Zones**

- Single-family residences;
- Duplexes (in DR only); and
- Manufactured homes on individual lots.

### **USES REQUIRING A SPECIAL USE PERMIT:**

#### **PS Zones**

- Golf courses;
- Boat launching and related facilities;
- Rifle and pistol ranges;
- Maintenance and service yards;
- Bus and other vehicle and equipment maintenance and storage facilities;
- Administrative offices related to the facilities; and
- Buildings and structures for nonprofit groups on public lands.

### **SF-3 and DR Zones**

- Day care facilities;
- Group residential facilities;
- Community centers;
- Golf courses (SF-3 only);
- Parks and schools;
- Religious facilities; and
- Public facilities (police and fire stations, utilities, and radio towers).

### **LOT COVERAGE**

#### **PS Zones**

- 25 percent

#### **SF-3 and DR Zones**

- 40 percent

### **BUILDING HEIGHT**

#### **PS Zones**

- 40 feet

#### **SF-3 and DR Zones**

- 30 feet

### **SETBACKS**

#### **PS Zones**

- Front yard: 30 feet
- Side yards: 30 feet
- Rear yard: 30 feet

#### **SF-3 and DR Zones**

- Front yard: 15 feet
- Side yards: 5 feet
- Rear yard: 15 feet

## **SUBDIVISION/PARTITION PROCESSES**

- Land divisions in Bremerton 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 Bremerton, an applicant must follow the regulations outlined in Title 21 of the Bremerton Municipal Code.
- According to Bremerton's Development Code, there is not a minimum lot size in the PS zone. Within the SF-3 and DR residential zones, three to eight units per acre are allowed, with minimum lot sizes of 5,000 square feet (SF-3) and 4,000 square feet (DR).
- Short subdivisions in Bremerton are considered Type II Administrative decisions. This means that the Director of Community Development may approve or deny applications with limited public input.
- Subdivisions, on the other hand, are Type IV decisions. This indicates that preliminary subdivisions not considered short subdivisions must be approved by the City Council after open public hearings conducted by the Hearing Examiner. Final plat approval is a Type III decision, which requires only Hearing Examiner approval after an open public hearing.

## **NEIGHBORHOOD CENTER PLANS**

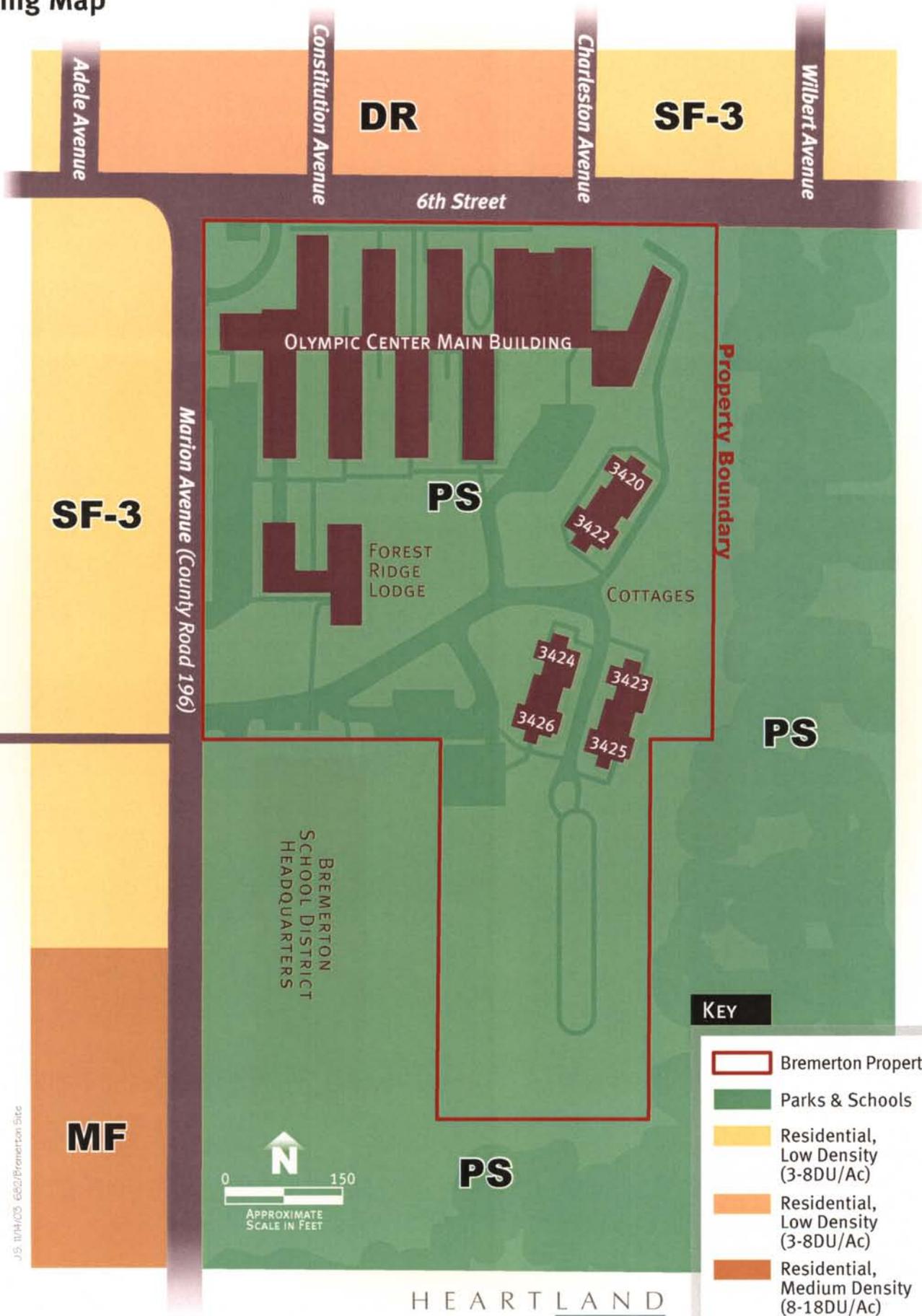
The current changes being instituted in the Bremerton Comprehensive Plan will establish a series of "Neighborhood Centers," which will serve as focal points for locating services and amenities in each community within Bremerton. The Site is located in close proximity to two of these Neighborhood Centers -- the Haddon Park Center to the north near Kitsap Way, and the Charleston District Center to the east along Callow Avenue. Though the Site is not directly affected by these plans, if the City's visions are realized over time, proximity to these Neighborhood Centers could positively influence values of the Site and nearby properties.

## **TITLE**

Several title reports were provided for the Site. These reports confirm Kitsap County Assessor's data, which lists DSHS as the owner of both tax lots.

There appears to be an easement granted to the Bremerton School District on the southern portion of the Property for recreational and athletic sports use. This easement reverts to DSHS when the School District ceases to use the land for this purpose. This easement does not appear to be in use currently, and it does not affect the strategies or value conclusions for the Property. From the documents we received, there do not appear to be any other significant easements, encroachments or reservations that impact the Site.

STATE OF WASHINGTON DSHS CAMPUSES  
 FHMC - Bremerton Property  
 Zoning Map



**KEY**

- Bremerton Property
- Parks & Schools
- Residential, Low Density (3-8DU/Ac)
- Residential, Low Density (3-8DU/Ac)
- Residential, Medium Density (8-18DU/Ac)

Environmental

## ENVIRONMENTAL

- 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 the FEMA maps, the Site is outside of the 100-year flood hazard area.
- There also do not appear to be any environmentally sensitive areas on the Property, such as wetlands or streams.

Market

## MARKET

### PREVIOUS ESTIMATES OF VALUE

- In May 2002, the Joint Legislative Audit and Review Committee commissioned an appraisal of FHMC<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 \$5.5 million
  - **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 \$2.9 million.
- **Land Value:** The appraiser's total land value estimate for the Property is \$1.25 per square foot or \$650,000.

### MARKET ANALYSIS

As part of its 2002 Appraisal of the Property, Cushman & Wakefield 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. Based on our own analysis of the Site, neighborhood, and market, we agree 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 retail developers and the current zoning does not allow retail uses.

**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.

**Conference Center/Hospitality** - Not Feasible - 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. Lastly, the Site does not have any attributes that would make it attractive for this use.

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<sup>1</sup> Complete Appraisal of Real Property – FHMC, Cushman & Wakefield, July 19, 2002

**Assisted Living Facilities** - Not Feasible - Though this use would appear, on the surface, to be similar to the current use of the FHMC, the design of the campus would not work well for an elderly population. Facilities located within one large building are highly preferred, as opposed to FHMC's campus design. Also, the main building would require a significant amount of redesign to accommodate this use. The local market for such uses is saturated and would hamper the success of a new facility.

**Multi-Family Residential** - Potentially Feasible - The Site's surrounding urban residential uses would suggest that multi-family development would be a good fit. Proximity to jobs and services are also a very positive aspect. Current zoning and potential future zoning would not directly support this use, however. Also, as with single-family residential development, most of the Site would need to be cleared of buildings before development could take place.

**Office** - Feasible - The Site's proximity to Bremerton's business center and labor market would be a good asset for an office use. Office uses exist at the Site currently and there appears to be, some, although limited, demand in the area. According to the Appraisal, DSHS could fill the facility with office uses with its own Kitsap County administrative operations.

**Single-Family Residential** - Feasible, if Vacant - 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. As mentioned in the *Regulatory* Section, there is a possibility that the Site will be rezoned for single-family residential uses following the completion of the new Comprehensive Plan in Bremerton. The demolition of existing buildings would need to occur, but would present a large expense, which may detract from the overall value of a residential use.

**Governmental** - Feasible - The Site currently houses governmental functions, as does the adjacent property, used by the Bremerton School District as its headquarters. Typically, governmental uses need a critical mass of workers and other similar uses, which the Site has both. Current zoning would likely support this use.

**Rehabilitation Center** - Feasible - The cottages would serve adequately as residential facilities, though the shared baths would make the design of the facilities less than optimal. It is not clear if there is enough demand in the area to support renovating the main building for this use. Also, though current zoning does not technically support this use, it is possible that if DSHS removed its operations here, the City would potentially be interested in a rezone for this use, as it would compensate for jobs being lost at FHMC.

#### **REHABILITATION CENTER MARKET**

The Appraisal identified five sales of rehabilitation centers in Washington. The sales ranged in price from \$33.87 to \$95.86 per square foot overall, with a range of improvements value of \$13.04 to \$56.74 per square foot. The facilities in these sales ranged from about 7,800 square feet to approximately 41,000 square feet.

As mentioned in the section above, the design of the Site's cottages would be adequate, but less than optimal, for rehabilitation center use. This would likely correlate to a value near the bottom of the comparable range. The Appraisal valued the Site's rehabilitation center component at about \$18 per square foot, excluding land.

## **OFFICE MARKET**

The Appraisal identified five sales of office buildings in Bremerton. The sales ranged in price from \$30.97 to \$49.96 per square foot overall, with a range of improvements value of \$15.34 to \$38.43 per square foot. The facilities in these sales ranged from about 5,700 square feet to approximately 28,000 square feet.

Though the Site's office space was converted from an original hospital use, it appears to be in good condition and to function well. The space would be considered a lower-quality low-rise space category, which the Appraisal uses for its comparables. Among the comparables, FHMC office space would be larger, suggesting a slightly lower overall value per square foot. The Appraisal valued the Site's office component at \$25 per square foot, excluding land.

## **KITSAP COUNTY/BREMERTON RESIDENTIAL MARKET**

Overall, the residential market in the Bremerton and Eastern Kitsap County areas is growing at a faster rate than Puget Sound overall. As growth continues outward from the Seattle area, more buyers are lured by cheaper home prices in this area, only a ferry ride away from Seattle itself. While the Seattle market has seen modest gains in the last year, the Bremerton housing market has risen over 15 percent and waterfront prices have risen over 30 percent. Compared to Seattle, prices in Bremerton and Kitsap County are roughly half for comparable housing, and greater disparities exist for commercial and residential ground. As housing prices in Bremerton have been increasing at a faster rate than for the region overall, the number of available homes has declined, suggesting a possible undersupply. This scenario would support the development of new homesites in the area.

Additional factors are contributing to Bremerton's growth. For instance, the City is undertaking a downtown revitalization effort. Proposed projects include a hotel and convention center, a museum and park, a new government center, a marina, and waterfront condominiums and apartments units. Transportation improvements are also aiding Bremerton's desirability. A proposed new passenger-only ferry system, operated by Kitsap Transit, is slated to begin operating in November 2004. This ferry will run every fifteen minutes during peak hours and will only take 25 minutes to downtown Seattle, less than half the time of the current ferry system. Also the construction of the second Tacoma Narrows Bridge will relieve the existing bottleneck at the south end of the county and bring an additional 120,000 cars per day into the county after completion in 2006.

Areas immediately adjacent to the Site are comprised of well-established residential uses of lower urban densities of three to eight units per acre. The West Bremerton area is largely built out and vacant residential lots are less numerous than in area of the county farther away from the Bremerton. However, data from NWMLS shows that 38 vacant lots from 5,000 square feet to 15,000 square feet have been sold in the West Bremerton area in the last two years.

## **RESIDENTIAL LAND VALUES**

Sales shown in the NWMLS for the West Bremerton area surrounding the Property indicate a wide range of values for lots in the 5,000- to 15,000-square-foot range, with most sales prices falling between \$20,000 and \$60,000. Most of the lots in this upper range are either larger lots, have some type of amenity, such as a water view, or are located within more upscale communities with houses above \$250,000. By comparison, the DSHS Property has no views and, given the character of the surrounding neighborhood, an upscale residential community would not likely be built at the Site. Houses on the Site would probably sell in the \$150,000 to \$200,000 range.

Therefore, our analysis of the land value of the Site, if used for residential development, will assume that lots would value near the middle of the comparable range, between \$40,000 to \$45,000. This assumption considers the improving market conditions in Bremerton, while balancing the Site's more modest locational factors.

## 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. 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 on the accuracy of the recent Appraisals, 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 based on a discounted cash flow. This model considers the market rate for developed land, the costs to develop the land, the time to entitle, 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 FHMC. It would entail marketing the Site, perhaps to a buyer interested in performing a similar institutional use at the Site, or in using the office component of the Property. The Site would possibly need to be sold to two buyers -- one for the office portion of the Property, and the other for the residential facility portion. 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 office or rehabilitation center buyers, it would be possible to capture a value near the "Go Dark" value from the Appraisal; and
- If an office or institutional use occupied the Site, it could be welcomed by the City to compensate for jobs lost from FHMC'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 rehabilitation centers, recreational/camp groups, and lower end office uses. This pool of buyers is relatively small.

Given the proximity to other public uses and the Site's current public use, the City would be a natural buyer in stronger economic times. Previous reports have mentioned the City of Bremerton as a potential buyer for the Property. Our discussions with the City have indicated that the previous interest has diminished,

due mostly to municipal budgetary concerns. This should not rule out the City as a potential buyer of the Site at some point in the future;

- A limited number 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 three-to-five year range; and
- An extended marketing period could result in higher maintenance and holdings costs for the State.

**IMPLEMENTATION STEPS**

- *Begin establishing a more direct and cooperative relationship with the City of Bremerton. Monitor the Comprehensive Plan revision process and, if necessary, work with the City to affect a change to the underlying zoning of the Property.* As mentioned previously in this report, the City of Bremerton's Comprehensive Plan is undergoing change. These changes have the potential to impact the value of the Site. Also, though their interest in the Property has waned recently, the City could still be a potential buyer of the Property at some point in the future. Given the City's significant role in the potential value of the Property, a relationship in which the parties feel familiar with and open to each other will likely result in more positive outcomes for both.
- *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.
- *If the City does not materialize as a buyer, prepare a marketing package and interview and select an appropriate marketing company that has experience in campus/healthcare/office 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 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 \$2.9 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	\$2.9M	\$2.9M	\$2.9M
Discount Rate	15%	25%	20%
Net Present Value Conclusion	\$1.9M	\$0.5M	\$1.1M

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

Alternative II could also be considered if DSHS ceased operations at FHMC. 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. Additionally, as mentioned in the *Regulatory* Section of this report, a potential rezone of the Property allowing residential uses could broaden the marketability of the Site. 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 the most of the major obstacles to development are removed. This, coupled with a short supply of developable vacant land in the neighborhood, would most likely reduce the marketing time of the property. A reasonable estimate would be one to two years; and
- Holding costs would be lower without the burden of maintaining the existing buildings.

### **Cons:**

- The costs 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, the demolish costs would be approximately \$390,000, which would likely be deducted from any sale, assuming the buyer, not the State, completed the demolition.

### **IMPLEMENTATION STEPS**

- *Begin establishing a more direct and cooperative relationship with the City of Bremerton. Monitor the Comprehensive Plan revision process and, if necessary, work with the City to affect a change to the underlying zoning of the Property. As mentioned previously in this report, the City of Bremerton's Comprehensive Plan is undergoing change. These changes have the potential to impact the value of the Site. Particularly, if the Site were vacant of buildings, it would be attractive for a residential development and a zoning change allowing residential uses would increase its value. Given the City's significant role in the potential value of the Property, a relationship in which the parties feel familiar with and open to each other will likely result in more positive outcomes for both.*
- *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.*

- *Demolish the existing structures.* Following closure of the campus, the buildings would have to be demolished.
- *Prepare a marketing package and interview and select an appropriate marketing company that has experience in residential development 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.
- *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**

7,000 SF Lot - \$45,000

**Absorption**

7,000 SF Lot - 12 per year

**Expenses**

Lot Development Costs - \$25,000 per Lot

Selling Costs - 3 percent

Demolition - \$4 per square foot

**Escalation Factor**

Revenue - 3.0 percent per year

Expenses - 2.5 percent per year

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$0.2M	\$0.02M	\$0.2M
Net Cash Flow	\$0.8M	\$0.8M	\$0.8M

**WSIB- Bremerton  
Discounted Cash Flow**

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

	1	2	3	4	5	6	Z
<b>Sales Proceeds:</b>							
Lot Sales	\$0	\$556,200	\$647,374	\$590,073	\$607,775	\$311,439	\$0
Buildings	0	0	0	0	0	0	0
Include Bldgs (0=no, 1=yes)	1						
Total Sales Proceeds	\$0	\$556,200	\$647,374	\$590,073	\$607,775	\$311,439	\$0
Selling Costs	0	(16,686)	(19,421)	(17,702)	(18,233)	(9,343)	0
Net Sales Proceeds	\$0	\$539,514	\$627,952	\$572,370	\$589,542	\$302,096	\$0
<b>Costs:</b>							
Demolition	(\$389,844)	\$0	\$0	\$0	\$0	\$0	\$0
Lot Development Costs:							
Phase I	(\$674,625)	\$0	\$0	\$0	\$0	\$0	\$0
Phase II	0	0	0	(726,497)	0	0	0
Cost/Lot	(\$1,064,469)	\$0	\$0	(\$726,497)	\$0	\$0	\$0
Total Costs	(\$1,064,469)	\$0	\$0	(\$726,497)	\$0	\$0	\$0
Net Cash Flow	(\$1,064,469)	\$539,514	\$627,952	(\$154,127)	\$589,542	\$302,096	\$0

**Value Today:**

Discount Rate	20.00%	15.00%	25.00%
Net Present Value	\$114,770	\$230,802	\$24,469
	Probable	High	Low

**Absorption:**

Site	2	Lot Size	7,260	Lots/Year	12	Lots Sold	53.97
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**Escalators:**

Sales Price Escalator	3.00%
Cost Escalator	2.50%

**Land Summary:**

Site	# of Lots	Gross Acres	Net Acres
	53.97	12.85	9.00
Total Acres		12.85	9.00
Square Feet		559,746	391,822
Density Per Net Acre		6	lots/acre
Site Loss		30.00%	

### **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 the excess 2.85 acres of land to the south of the cottages, most likely to the City or School District. The pool of buyers for this land would be small, given the lack of access and exposure. 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 FHMC;
- Disposition of this excess land could be accomplished relatively quickly, in one transaction; and
- This alternative would allow the State to preserve the option of selling the FHMC facility at some point in the future.

#### **Cons:**

- The value of this parcel of excess land is very limited, given that it has no direct access or exposure. If the overall Site has a value of \$1.25 per square foot, the value of this piece individually is likely around \$0.50 to \$0.75 per square foot. This would equate to an approximate sale price of only \$60,000 to \$90,000;
- The City has indicated that their acquisitions strategies have been affected by the economic downturn. If the City or School Board is the most likely buyer, it could be some time before their ability or interest in buying the land returns; and
- Selling this piece could possibly hamper a future sale of the remaining Property by limiting design possibilities for potential future redevelopments.

#### **IMPLEMENTATION STEPS**

- *Begin establishing a more direct and cooperative relationship with the City of Bremerton and open discussions about sale of the Property.* Given the City's significant role as a primary potential buyer of the Property, a relationship in which the parties feel familiar with and open to each other will likely result in more positive outcomes for both.
- *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 City, Bremerton School District, or other potential buyers.* 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 a 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 - \$0.60 per square foot, or \$74,488  
 Main campus buildings and land - \$2,686,000

**Absorption**

Sale of excess land - 3 Years  
 Sale of main campus buildings and land - 5 Years

**Expenses**

Selling costs - 3 percent

**Escalation Factor**

Revenue - 3.0 percent per year  
 Expenses - 2.5 percent per year

	<u>High</u>	<u>Low</u>	<u>Probable</u>
Net Present Value Conclusion	\$1.51M	\$1.0M	\$1.2M
Net Cash Flow	\$3.0M	\$3.0M	\$3.0M

**WSIB- Bremerton  
Discounted Cash Flow**

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

	1	2	3	4	5	6	Z
<b>Sales Proceeds:</b>							
Lot Sales	\$0	\$0	\$74,488	\$0	\$0	\$0	\$0
Buildings	0	0	0	0	3,023,117	0	0
Include Bldgs (0=no, 1=yes)	1						
Total Sales Proceeds	\$0	\$0	\$74,488	\$0	\$3,023,117	\$0	\$0
<b>Selling Costs</b>							
Net Sales Proceeds	0	0	(2,235)	0	(90,693)	0	0
	\$0	\$0	\$72,253	\$0	\$2,932,423	\$0	\$0
<b>Costs:</b>							
Demolition	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lot Development Costs:							
Phase I	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Phase II	0	0	0	0	0	0	0
Cost/Lot	\$25,000						
Total Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Cash Flow	\$0	\$0	\$72,253	\$0	\$2,932,423	\$0	\$0

	Uninflated	Inflated
Lot Sales	\$0	\$74,488
Buildings	0	3,023,117
Total Sales Proceeds	\$0	\$3,097,604
Selling Costs	(92,928)	(92,928)
Net Sales Proceeds	(\$92,928)	\$3,004,676

	\$/SE	Bldg SE
Demolition	0	97,461
Lot Development Costs:		
Phase I	0	0
Phase II	0	0
Cost/Lot	\$25,000	
Total Costs	\$0	\$0
Net Cash Flow	(\$92,928)	\$3,004,676

Value Today:			
Discount Rate	20.00%	15.00%	25.00%
Net Present Value	\$1,220,286	\$1,505,440	\$997,890
	Probable	High	Low

Absorption:	Start	Lot Size	Lots/Year	Lots Sold
Site	2	7,260	12	0.00

Escalators:	Sales Price Escalator	3.00%
Cost Escalator	2.50%	

Land Summary:			
Site	# of Lots	Gross Acres	Net Acres
	0.00	10.00	0.00
Total Acres	10.00		
Square Feet	435,600		
Density Per Net Acre	6 lots/acre		
Site Loss	30.00%		

## 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 this campus which may be captured in a near- to mid-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  
FHMC - Bremerton Property Timeline**

