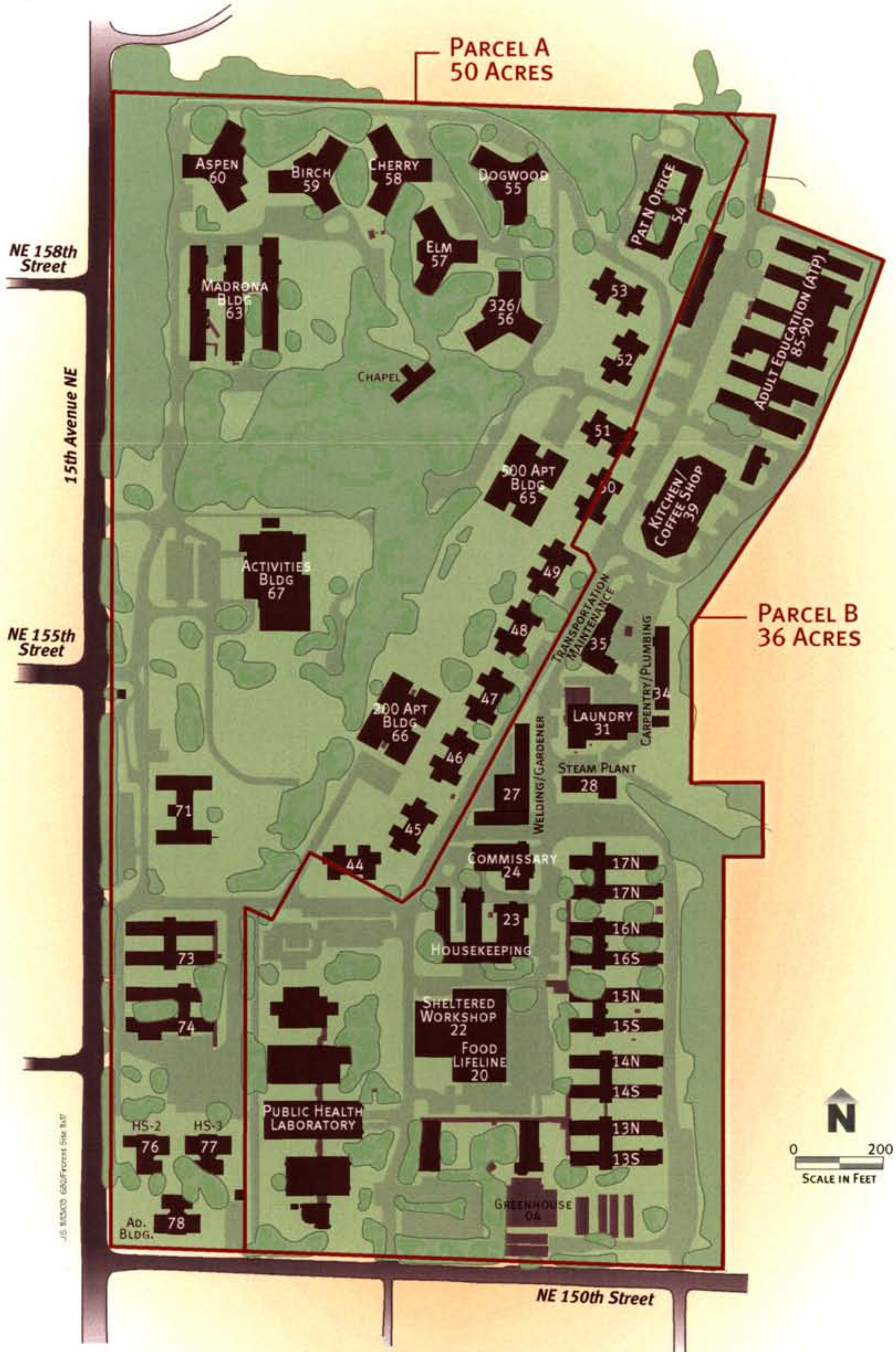
Fircrest School

State of Washington DSHS Campuses
Fircrest Property Locator

HEARTLAND

State of Washington DSHS Campuses
Fircrest Property - Shoreline
Site Map



Key

- Fircrest Property/ Parcel Boundary
- Existing Structures
- Dense Tree Area

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") Fircrest School (the "Property" or the "Site") in Shoreline, Washington. The State engaged Heartland to undertake an analysis of the five Department of Social and Health Service's ("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, market and financial issues that could affect the Site, and potential alternative uses for portions of the Site. This information can be utilized as a foundation to analyze alternative uses in the future if DSHS were to relocate certain uses or dispose of the related Property.

During the course of the engagement, Heartland completed the following:

- We conducted initial meetings with various State agencies and personnel to obtain background information on the Site and to understand the impacts of any plans, commitments, or agreements on potential alternative uses;

- We reviewed all available relevant materials, maps, and graphics referring to the physical condition of the 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 July 2002 *Fircrest Campus Master Plan: Existing Conditions Technical Memoranda* by Arai / Jackson Architects and Planners.

  - 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 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

Ownership/Leasing

The Property contains 86.83 gross acres that, for the purposes of this analysis, have been divided into two parcels and 10 subareas. Parcel A is in the Charitable Educational Penal and Reformatory Institutions ("CEP&RI") Trust, contains 50.5 acres and is occupied by DSHS under the terms of a 55-year lease (ending June 30, 2044) from Washington State Department of Natural Resources ("DNR"). Parcel B contains 36.33 acres and is owned outright by DSHS.

Of the eleven tenants/users that are leasing and/or occupying space at the Fircrest School, only three will have an appreciable impact on the scenarios for redeveloping the Property-Firlands Sheltered Workshop Foundation, Food Lifeline and the Washington State Department of Health, Public Health Lab ("PHL"). Because these three tenants have very long-term leases with utility agreements with DSHS, any redevelopment scenario should accommodate the leasehold interest and potentially future expansion needs of Food Lifeline, Firland Workshop and the Public Health Lab.

Transportation/Access

The Property is accessed from N.E. 150th at the south end of the Site and 15th Avenue N.E. along the western boundary. According to transportation engineering firm TENW, significant redevelopment of the Property will likely require intersection improvements along 15th Avenue N.E. at 150th, 155th, 158th and 165th. Intersection improvements may be minor, costing from $50,000 to $100,000, to major costing between $300,000 and $500,000, depending on the type and intensity of redevelopment on the Property. Turn pockets will likely be required along N.E. 150th and 15th Avenue N.E.

Structural

There are currently 57 buildings on the Property totaling approximately 700,000 square feet. Much of the original Navy hospital campus buildings were erected in 1942. Many of the duplexes and residence halls were added in the 1960s and 1970s. The latest additions to the campus include the Food Lifeline Building (Building 20/22), which was built in 1991 and the Public Health Lab, which was built in 1987.

According to a consultant's analysis, there are three buildings on the Property that are likely candidates for the National Register. City of Shoreline staff indicates that a historic assessment of the Property would be conducted during the SEPA analysis and master planning process prior to approval of any redevelopment of the Site. While preservation of these structures may contribute to the character of the Property and preserve Site's historical heritage, they also reduce the amount of redevelopable area and therefore the value of the Property.

The North Rehabilitation Facility ("NRF") was a Special Detention Facility (operated by the Department of Public Health-Seattle and King County in collaboration with the Department of Adult and Juvenile Detention). NRF owns nine buildings by Quitclaim Deed entered into in 1999. At the expiration of the ground lease (12/31/03), DSHS has the option of requiring that the County demolish and remove the nine buildings owned by the County and located on the leased land. King County Staff confirmed that the NRF was permanently closed in 2002 but were unwilling to clarify the County's plans for the NRF structures. Upon expiration of their lease, DSHS should require that King County demolish the structures and other improvements to the Site.

Utilities

As part of the Fircrest School Master Plan/EIS process, Arai/Jackson hired SvR Design Company to collect available information regarding the capital facilities and infrastructure on and around the Site, and to assess the adequacy of the existing utilities. Most of the systems information included in this report is summarized from SvR's report.

Generally the Property is well served by utilities. Significant redevelopment of the Site will, however, require a comprehensive examination of the impact new development will have on local systems. City staff has indicated a willingness to work with the State or a new landowner to find creative solutions to issues such as storm water detention and quality.

Prior to surplusing the Fircrest School campus, DSHS will need to arrange for Buildings 20, 22 and the PHL to get the necessary mechanical and civil utilities directly from the providers. Options for addressing lease provisions that require DSHS to provide utilities to these lessees include:(i) negotiating a lump sum payment (buy out) sufficient to allow the tenants to replace the utilities or services currently provided by DSHS; (ii) buying out the ground leases entirely and relocating the tenants; or (iii) selling the land to the tenants at a value that accounts for their long-term lease hold and the additional costs associated with utility severance.

Regulatory

The City of Shoreline Comprehensive Plan designates the Property as "Single-Family Institution." The Property is zoned R-6 or Residential 6DU/Acre.

Staff at the City of Shoreline indicate that if the Fircrest School were to be permanently closed and the Property was to be surplused, then the City would encourage and help the State or a new owner to pursue a comprehensive plan and zoning change to support more intensive reuse of the Property. This regulatory change would most likely be achieved through a comprehensive plan amendment, a comprehensive plan overlay zone and a planned action ordinance in one legislative package, based on the findings of a State Environmental Policy Act ("SEPA") planned action and/or an Environmental Impact Statement ("EIS"). The intended outcome of this process would be highly flexible regulations that anticipate and mitigate the impacts of development.

Environmental

As part of the existing conditions analyses led by Arai/Jackson, a series of limited-scope technical assessments were conducted to identify the physical opportunities and constrains of the Property. The *Environmental* Section of this report summarizes the findings from these analyses and provides a preliminary interpretation of the ramifications for redevelopment of the Property.

- ***Geotech:*** Based on the conclusions of Golder Associates, an environmental consulting firm, preliminary analysis, the geotechnical conditions on the Property appear to be generally supportive of redevelopment of the Property for typical residential and commercial structures.

- ***Fisheries, Streams, Wildlife and Wetlands:*** Based on the conclusions of Golder's preliminary analysis, it is unlikely that adjacent streams or wildlife habitat or wetlands would preclude significant redevelopment of the Site. City of Shoreline staff has indicated that, previously, citizen groups have identified Hamlin Creek as a "restoration and enhancement opportunity." It is likely that, during the master planning process, interested parties will negotiate with the State or a new owner, to establish a buffer between new development and Hamlin Creek and restoration of the natural water course (daylighting the culverted potions) and adjacent habitat. This has been factored into the net-to-gross calculation for site capacity calculations.

- ***Trees and Vegetation:*** Any redevelopment of the Site will necessitate the removal of some trees. Due to the value of the trees on the Site, an arborist should be included in the master planning team from the beginning to help preserve significant trees and negotiate a feasible development plan with the City.

Market

The summary market analysis contained in this report is designed to support and inform the financial analysis of the potential redevelopment scenarios for the Property. The property types analyzed are those that real estate market participants would most likely include in a redevelopment of the Site including, small-lot single family, for-sale townhomes, cottage housing, low-rise stacked-flat apartments and neighborhood retail. Key findings from this analysis are summarized below:

- The "new" neighborhood premium: The Property's size, residential setting and proximity to parks and schools make it a rare and attractive location for new housing. Under any significant redevelopment scenario, the Property would have the amenities and critical mass of a suburban master planned community, with the added advantage of being in relatively close proximity to the employment centers of Seattle and south Snohomish County. In our opinion, new housing located in a well designed neighborhood on the Property will achieve sale price and rent premiums over most new (infil) housing in the North Seattle and Shoreline submarkets.

- The table below includes an estimate of sale prices and rents for residential products likely to be considered for the Property. From these prices, we calculate a "finished"[1] lot value per unit that a builder would be able to pay for a site already prepared for vertical construction.

Residential Pricing Summary

	Avg. Unit Size (SF)	Sale Price/ Mo. Rent	Sale Price/Rent Per Square Foot	Est. Land Value/Unit
Apartments	900	$990	$1.10/Mo.	$15,000
Small Lot Detached SF	1,900	$300,000	$158	$100,000
Cottage Housing	1,100	$270,000	$145	$90,000
Townhomes	1,500	$260,000	$173	$85,000

Note: Estimates are in 2003 dollars, sale prices are likely to increase by approximately 5% per year.

- With the exception of the Seattle Housing Authority's three HOPE VI projects located in the Rainier Valley and West Seattle, Fircrest would be the largest single residential development south of Snohomish County on the west side of Lake Washington. The Property's setting and size make it an unprecedented (and unanticipated) opportunity to significantly increase the supply of new housing on the Westside. While most residential product types would be feasible for the Property, townhomes, small lot detached single-family and cottage housing are the most attractive considering today's market dynamics. To a lesser extent, low and mid-rise apartments will be attractive as the rental market rebounds beyond 2004. There is a market for commercial uses that are designed to support the

[1] Finished lots are those that are already served by utilities, roads, sidewalks etc. and are ready for home construction. The master developer sells the finished lots to homebuilders that then build and market the homes to consumers.

new housing and immediately adjacent neighborhoods. The Property is not suited for commercial uses designed to meet the needs of a wider trade area.

ALTERNATIVE STRATEGIES AND FINANCIAL ANALYSIS

This section identifies and analyzes four potential alternatives for capturing different values associated with the Property and the opportunities and constraints of each. A description of the alternative and the financial results is summarized briefly below.

Alternative I: Vacate Premises, Partial Sale, Partial Lease, As-Is

- Alternative I could be considered if DSHS entirely ceased operations at the Fircrest School. It would entail marketing Parcel B (DSHS owned), perhaps to a buyer interested in conducting a similar use on the Property, or a developer willing to master plan approximately 26 acres (net of Subarea B1). Under this scenario Parcel A would remain in the CEP&RI Trust and buildings that are useable would be leased and unusable buildings would be demolished and redeveloped by ground lessees. Revenue from the long-term ground leases would benefit the CEP&RI Trust.

- The financial analysis of Alternative I is designed to allow for a comparison of the appraised "Go Dark" value of $32.7 with other potential disposition options. Within the context of the Subarea divisions discussed above, the appraised "Go Dark" value for Parcel A is leased over an absorption period of four to eight years, which leads to our discounted net present value, while Parcel B is marketed for sale as-is over a period of one to three years. Because additional costs for planning (EIS/Master Plan), off-site impact mitigation and utility upgrades (those that are not attributable to one specific lessee) we consider the combined probable net present value of $12.4 million to be optimistic.

Alternative I: Parcel A & B Combined NPV

	High	Low	Probable
Net Present Value Conclusion	$16.6M	$7.6M	$12.4M

Alternative II: Vacate Premises, Demolish Structures, Master Plan Property, Parcel A Lease, Parcel B Sale

- Alternative II maintains the current CEP&RI Trust status as in Alternative I except in this Alternative the State adds value to the Site by preparing a mixed-use master plan that locates income producing uses (apartments and retail) on Parcel A and for-sale residential products on Parcel B.

- The financial analysis for Alternative II functions much like Alternative I except that rather than discounting the As-Is Value (appraised "Go Dark" value) over time, the "Platted Lot" Value of the Parcel as permitted for the residential product described above is used with varying discount rates and Parcel B is sold rather than leased. In the case of Parcel A, the platted lot value is the basis for the annual land rent paid back into the Trust and the model assumes a six-year absorption period. The model also assumes that Parcel B is absorbed over a 4 year period.

Alternative II: Parcel A & B Combined NPV

	High	Low	Probable
Net Present Value Conclusion	$16.8M	$9.9M	$14.2M

Alternative III: Vacate Premises, Demolish Structures, Master Plan Property, Parcel A Sale, Parcel B Lease

- Alternative III maintains the current CEP&RI Trust status as in Alternative I except in this Alternative the State adds value to the Site by preparing a mixed-use master plan that locates income producing uses (apartments and retail) on Parcel A and apartments on Parcel B.

- The financial analysis for Alternative III functions much like Alternative II except that rather than discounting the As-Is Value (appraised "Go Dark" value) over time, the "Platted Lot" Value of the Parcel as permitted for the residential product described above is used with varying discount rates. The platted lot value is the basis for the annual land rent paid back into the Trust and the model assumes a 12-year absorption period.

Alternative III: Parcel A & B Combined NPV

	High	Low	Probable
Net Present Value Conclusion	$5.5M	$2.1M	$4.0M

Alternative IV: Vacate Premises, Demolish Structures, Master Plan Property, Parcel A Sale, Parcel B Sale

- Alternative IV assumes that Parcel A is taken out of the CEP&RI Trust and replaced with real estate of equal or greater value, making it legally possible to sell Parcel A outright. The entire Property is then subject to a mixed-use master plan that includes a diverse mix of for-sale residential, for-rent residential and commercial land. The objective of such a master plan is to create a vibrant neighborhood with a unique identity that will speed absorption and to that achieves premium rents and sale prices.

- The financial analysis of Alternative IV takes the perspective of a private land developer and begins with a projection of gross land sales over time based on the product mix described above then subtracts out the costs of roads, utilities and soft costs to estimate the net cash flow from land sales. Alternative III provides the highest net cash revenue to the State at $43.33 million.

Alternative IV: Parcel A & B Combined

	High	Low	Probable
Net Cash Flow	$43.3M	$43.3M	$43.3M
Discount Rate	15%	25%	18%
Net Present Value Conclusion	$18.7M	$10.5M	$15.7M

Recommendation

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

If the Fircrest School is permanently closed and the Property is declared surplus, then conducting some amount of predevelopment and marketing the entire Site as a development opportunity maximizes the cash revenue to the State. As the supply of developable land is increasingly constrained, large parcels already served by utilities are extremely rare and the Fircrest Campus would undoubtedly attract attention from builders, land developers and investors from around the region and around the country. We understand that policy makers must consider factors in addition to real estate considerations. In our opinion, as real estate consultants, a ground lease, particularly an unsubordinated ground lease, will diminish the interest in and value of the site.

Property Description

PROPERTY DESCRIPTION

SITE OVERVIEW

The Property contains 86.83 gross acres that, for the purposes of this analysis, have been divided into two parcels and 10 subareas (please see the *Site Plan* located at the end of this section).

OWNERSHIP

- Parcel A is in the CEP&RI Trust, contains 50.5 acres, and is occupied by DSHS under the terms of a 55-year lease (ending June 30, 2044) from Washington State Department of Natural Resources ("DNR"). Based on information provided by Legislative Staff, the CEP&RI property can be sold providing that market value is received and the proceeds benefit the trust. Staff is of the opinion that sale proceeds cannot be expended for operating purposes or transferred to another account (i.e., the State General Fund). Additionally CEP&RI Trust properties can be exchanged with other properties of an equal or greater value.

- Parcel B contains 36.33 acres and is owned outright by DSHS. It is our understanding that DSHS could sell this parcel by following standard State of Washington surplus land procedures.

Campus Users/Tenants

- Of the eleven tenants/users that are leasing and/or occupying space at the Fircrest School, only four will have an appreciable impact on the scenarios for redeveloping the Property. Each of these four tenants and their potential influences are discussed briefly below.

- Firland Sheltered Workshop Foundation: Firland Sheltered Workshop is a machine shop/metal fabrication shop providing employment opportunities to both marginally employable and skilled workers in the production and finishing of machined parts. Firland owns Building 22 (Subarea B1), which is on land ground leased from DSHS through 2015, with an option to renew for another 25 years. According to interview notes prepared for the master planning process in 2001, Firland's existing 10,000 square foot space is expected to be adequate for projected growth.

- Food Lifeline: Food Lifeline is a food bank distribution warehouse that gathers surplus food from a variety of donors, vendors and other sources and distributes it to 253 member agencies such as neighborhood pantries, food banks, shelters and meal programs throughout Western Washington. Food Lifeline owns Building 20 (Subarea B1) which is on land ground leased from DSHS through 2017 with an option to renew for another 25 years. According to interview notes prepared for the master planning process in 2001, Food Lifeline was projecting a 3-5 year need for an additional 50,000 square feet of warehouse space.

- Washington State Department of Health ("DOH)": The DOH's Public Health Lab ("PHL" - Subarea B1) conducts traditional laboratory activities in support of public health entities, private citizens and labs. The PHL, located on the west side of Subarea B1, occupies approximately 6.5 acres or DSHS-owned land. According to interview notes prepared for the master planning process in 2001, DOH has a ten-year Capital Plan that includes modernization and upgrading projects of the 59,055 square feet of space within the PHL. Over the long-term, DOH staff would like to see a doubling of their facilities at the Fircrest School over the next 20 years.

Leases

- As shown on the table that follows, eleven entities are currently leasing or occupying space on the Property. The majority of these leases are short term in nature and have a negligible impact on the likely scenarios for redeveloping the Property.

- The three lessees/occupants that do have a long-term interest in the Property, include Food Lifeline, Firland Workshop and the Public Health Lab. The *Site Plan* at the end of this section includes these tenants in Subarea B1.

- As discussed in the *Utilities* Section of this report, the existing leases and service agreements with these tenants requires DSHS to administer the provision of mechanical utilities (steam condensate, heat etc.), civil utilities (power, water and sewer), and, in some cases, services (security and custodial). The appraisal estimates the provision of utilities to Food Lifeline over the life of the lease to be a $1.8 million liability. While these arrangements were probably cost effective and synergistic when conceived, redevelopment of the Property will require the State to trade the land for termination of the lease agreement. This is discussed further in the *Alternatives and Strategies* section of this report.

CONCLUSION

Any redevelopment scenario of the Property should accommodate the leasehold interest and potentially future expansion needs of Food Lifeline, Firland Workshop and the Public Health Lab.

TENANT	BUILDING OCCUPIED	LEASE EXPIRATION DATE	RENEWAL CLAUSE	TERMINATION CLAUSE
King County North Rehabilitation Facility (NRF) NRF owns the nine buildings by Quitclaim Deed entered into in 1999.	Building 13 South, Building 15 South, Building 15 North, Building 16 South, Building 16 North, Building 17 South, Building 17 North, Building 23 East, Building 23 Center (Building 23 is considered one building, but is listed as East and Center in the lease.)	12/31/2003	"Lessee assures Lessor they are developing plans for a new substance abuse rehabilitation facility to be opened in the near future. In the event such facility is not completed by December 31, 2003, this Lease may, at the sole discretion and with the written consent of Lessor, be re-negotiated for an additional five year term.	Either party may terminate lease with 180 days written notice. At the expiration of termination of lease, Lessor has option of requiring that the County demolish and remove the nine buildings owned by the County and located on the leased land.
Department of Health	Building 2, Building 10 South	6/30/1999	No provision	Either party may terminate lease on 30 days written notice.
Firland Sheltered Workshop Foundation	Building 22	11/30/2015	At option of Lessee, lease may be renewed for an additional 25 years.	Only termination clause relates to termination by Lessee if building could not be constructed.
Food Lifeline	Building 20	Agreement dated 6/22/1992 – 25-year term from date building available for occupancy.	At option of Lessee, lease may be renewed for an additional 25 years.	Only termination clause relates to termination by Lessee if building could not be constructed.
Hopelink	Office/warehouse space in Building 14 South	Lease expired; no current lease	No current lease	No current lease
North King County Little League	Outdoor storage container	12/31/1999	No provision	Either party may terminate lease on 30 days written notice.
Community Psychiatric Clinic (Stepworks)	Building 5, Greenhouse and 29,125 square feet of ground for plantings	5/31/2000	No provision	Either party may terminate lease on 30 days written notice.
King County Youth Services	Portion of Building 14 South	11/30/1999	No provision	Either party may terminate lease on 30 days written notice.
Employee Services Region 4	Portion of Building 63	None	No provision	Either party may terminate lease on 30 days written notice.
Washington Federation of State Employees	Portion of Building 66	11/30/1999	No provision	Either party may terminate lease on 30 days written notice.
Univac	Outdoor storage container	6/30/2000	No provision	

Transportation

As part of the Fircrest School Master Plan / EIS, traffic consultants, Transportation Engineering Northwest ("TENW"), analyzed the existing traffic conditions surrounding the Property. The following represent key findings from this analysis.

- The Property is accessed from N.E. 150^{th} at the south end of the Site and 15^{th} Avenue N.E. along the western boundary.

- Fifteenth Avenue N.E. is a north-south, four-lane roadway, which varies between a collector and principal arterial. Travel lanes are 11 to 12 feet wide. Adjacent to the Site, the west side of 15^{th} Avenue is improved with curbs, gutters and sidewalk, while the east side is improved with curbs, gutters and an informal earthen pathway. The average daily traffic volume on 15^{th} Avenue north of N.E. 145^{th} Street (SR 523) is 19,000 vehicles. The P.M. peak Level of Service ("LOS") on 15^{th} Avenue is E at N.E. 145^{th} Street (signalized), D at N.E. 150^{th} (unsignalized), C at N.E. 155^{th} Street (signalized), and C at N.E. 160^{th} (unsignalized).

- Northeast 150^{th} Street is an east-west, two-lane collector arterial. The roadway consists of 11- to 12-foot wide travel lanes. Adjacent to the Property, curbs, gutters and sidewalks are located on the north side of the street with an 8-foot paved shoulder for parking. A raised hump/curb treatment is located on the south side of the street to separate a non-motorized pathway from travel lanes. The posted speed limit is 30 MPH.

- Northeast 155^{th} Street is a two-lane, east-west, minor arterial providing access between commercial/retail districts and residential neighborhoods in Shoreline. The curb-to-curb width is 42 feet, with 12-foot travel lanes and 9-foot paved shoulders on both sides of the street. Both sides of the street are improved with curbs, gutters, sidewalks and parking. The average daily traffic volume on N.E. 155^{th} Street is 9,300 vehicles.

- Northeast 14^{th} Street (State Route 523), located five blocks south of the Property, is classified by the WSDOT as an east-west, urban principal arterial providing access between commercial/retail districts and residential neighborhoods of Seattle, Shoreline and to the east Lake Forest Park.

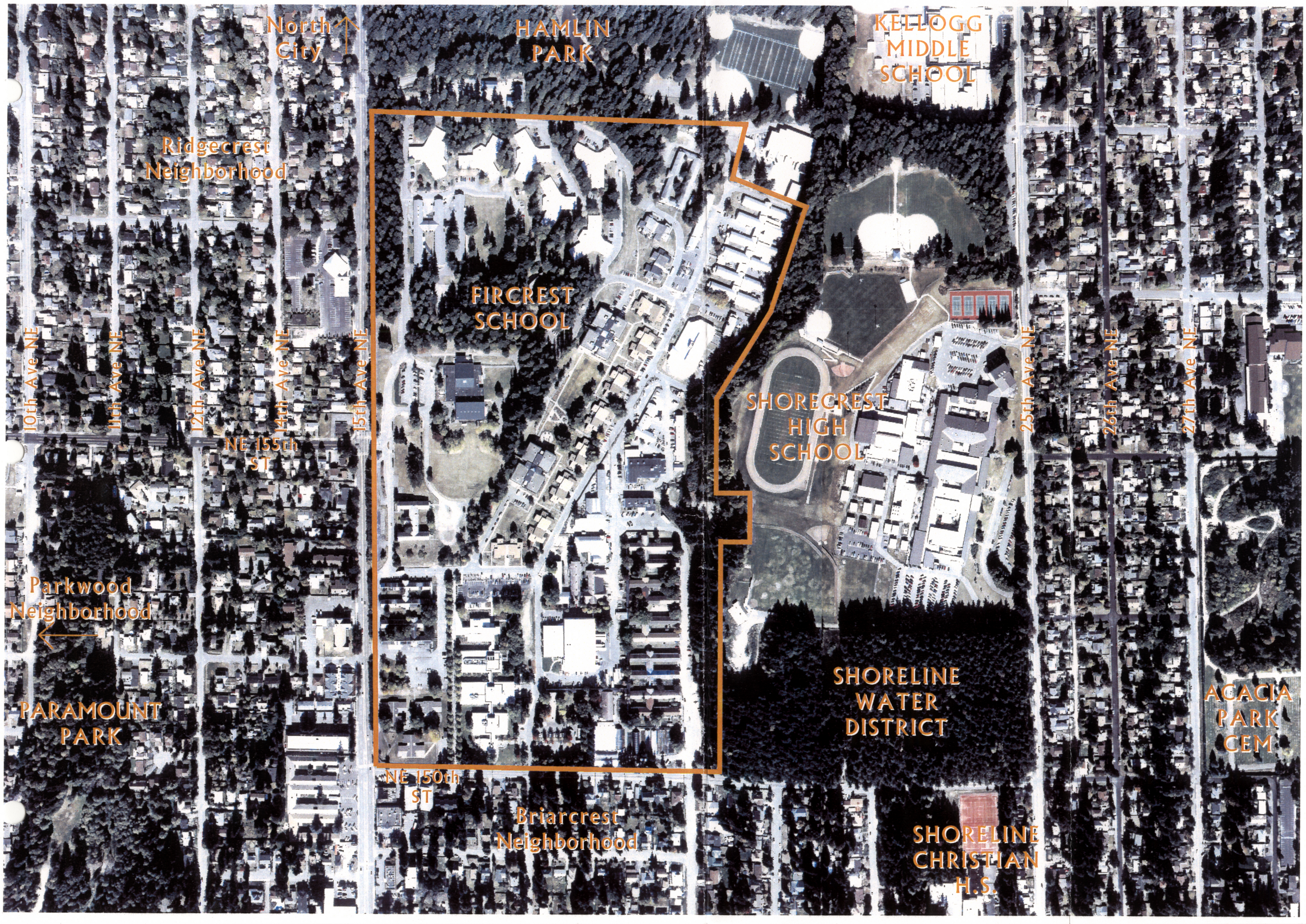
- Interstate 5 is located approximately three-quarters of a mile west of the Property with interchanges at N.E. 175^{th} Street and N.E. 145^{th} Street (SR 523).

Planned Improvements and Potential Impacts

The City of Shoreline is currently planning on modifying the lane configuration on 15^{th} Avenue N.E. north of N.E. 145^{th} Street from a four-lane section to three lanes. These improvements are intended to reduce the use of this street as an alternative to I-5 during congested P.M. peak hours. According to TENW, significant redevelopment of the Property will likely require intersection improvements along 15^{th} Avenue N.E. at 150^{th}, 155^{th}, 158^{th} and 165^{th}. Intersection improvements may be minor, costing from \$50,000 to \$100,000, to major costing between \$300,000 and \$500,000, depending on the type and intensity of redevelopment on the Property. Turn pockets will likely be required along N.E. 150^{th} and 15^{th} Avenue N.E.

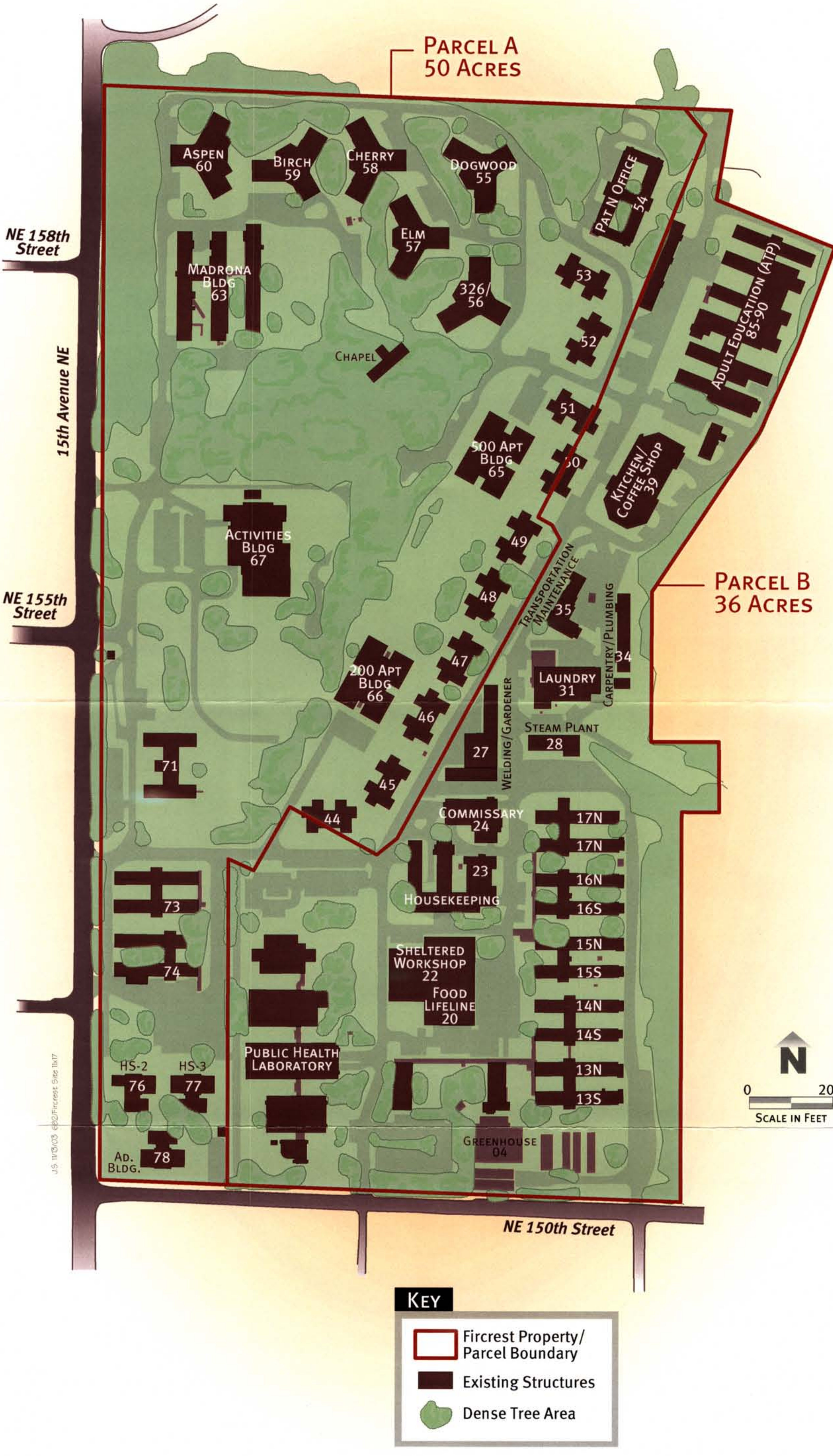
Fircrest
Master Plan
Department of Social and Health Services

June 25, 2003



ARAI/JACKSON
Architects & Planners

State of Washington DSHS Campuses
Fircrest Property - Shoreline
Site Map



HEARTLAND

Structural

STRUCTURAL

Overview

As illustrated in the table below, there are currently 57 buildings on the Property totaling approximately 700,000 square feet. Much of the original Navy hospital campus buildings were erected in 1942. Many of the duplexes and residence halls were added in the 1960s and 1970s. The latest additions to the campus include the Food Lifeline Building (Building 20/22), which was built in 1991 and the Public Health Lab, which was built in 1987.

Historic Assessment

A historical assessment of the Property, prepared for the Fircrest Master Plan effort, concludes that the substantial modifications to the original U.S. Naval Hospital campus have reduced the historical integrity of the Property to a point that would preclude National Registry as a historic district. There are, however, three structures that the assessment cites as viable candidates for the National Register. Each of these buildings is discussed briefly below:

- The Recreation Building (Building 23) is the last of the naval hospital's large-scale communal structures. The hall features a two-story central auditorium with a stage, dressing rooms and a projection booth. The Recreation Building served as the central activity center for naval hospital staff and for patients in rehabilitation therapy. The building retains all of its rustic siding and multi-paned wood sash windows and otherwise has a strong exterior integrity.

- The Waves Barracks (Building 71) was most recently used as the administration building for the Fircrest School but is now vacant and condemned. The 32,000 square foot structure is a two-story, C-shaped building with distinctive rustic siding, intact 6-over-6 light sash windows, decorative porch railings, and a formal two-story entrance with columns and a wide pediment. Originally built in 1942 the Waves Barracks housed the U.S. Navy Waves or women that aided in the rehabilitation of servicemen during and after the war.

- The U.S. Naval Hospital Chapel (Building 64) is the only masonry structure of the WWII era on campus. The Chapel remains in excellent condition through continued use and regular maintenance. The chapel is constructed of veriegated brick laid up in a decorative pattern. The steeply sloped roof and rooftop spire clad with sheet metal and gothic arched window openings give the Chapel something of a medieval character.

Conclusion

The three buildings discussed above are not currently on the National Register. City of Shoreline staff indicates that a historic assessment of the Property would be conducted during the SEPA analysis and master planning process prior to approval of any redevelopment of the Site. While preservation of these structures may contribute to the character of the Property and preserve Site's historical heritage, they also reduce the amount of redevelopable area and therefore the value of the Property. The renovation of historic structures often costs more than building an entirely new building. Some of these costs can be offset through government programs, grants, tax credits and tax abatements. Prior to surplusing the Property, detailed consideration should be given to methods for balancing the Site's potential historical significance with the added costs and reduced redevelopable area.

King County North Rehabilitation Facility ("NRF")

The NRF was a Special Detention Facility (operated by the Department of Public Health-Seattle and King County in collaboration with the Department of Adult and Juvenile Detention). NRF owns the nine buildings by Quitclaim Deed entered into in 1999. The NRF buildings include 13 South, 15 South, 15 North, 16 South, 16 North, 17 South, 17 North, 23 East, 23 Center. At the expiration of the ground lease (12/31/03), DSHS has the option of requiring that the County demolish and remove the nine buildings owned by the County and located on the leased land. King County Staff confirmed that the NRF was permanently closed in 2002 but were unwilling to clarify the County's plans for the NRF structures. Upon expiration of their lease, DSHS should require that King County demolish the structures and other improvements to the Site.

Activities Building

The 27,000 square foot Activities Building (Building 67) contains two pools, locker rooms and activity space for use by Fircrest School residents and the general public. Built in 1973, it may be feasible to integrate the Activities Building into a residential redevelopment of the Property as a neighborhood recreation center. City of Shoreline officials indicate that the municipal pool that currently serves this area is sufficient for the foreseeable future and would probably not be interested in operating the Activities Building for the general public's use. If the Property is surplused, consideration should be given to the potential value of this building to new residents of the Site.

The table below lists the buildings that currently occupy the Property. The "parcel" column distinguishes buildings that are located on DSHS land (Parcel B) from buildings located on the CEP&RI Trust land (Parcel A).

Fircrest School Structure Inventory

Bldg No.	Building Name	Year Built	Square Footage	Parcel	Occupants
1	Kitchen and Dining	1989	21,842	DSHS	
2	Floral Shop and Storage	1942	4,400	DSHS	Sunflower Greenhouse and Garden
4	Greenhouse Cluster	1977	24,706	DSHS	Sunflower Greenhouse and Garden
5	DOH Newborn Screening	1942	4,400	DSHS	Department of Health
13	North and South Building 13	1942	13,666	DSHS	Pro-Med
14	North and South Building 14	1942	13,666	DSHS	Pro-Med
15	NRF Building 15	1942	13,656	DSHS	King Co. NRF
16	NRF Building 16	1942	13,656	DSHS	King Co. NRF
17	NRF Food Oversight	1942	13,656	DSHS	King Co. NRF

23	NRF Housekeeping	1942	21,084	DSHS	King Co. NRF
20/ 22	Food Lifeline/Firlands	1991	27,360	DSHS	Food Lifeline / Firlands Sheltered Workshop
24	Commissary	1942	9,889	DSHS	
34	Carpenter and Plumbing Shop	1942	5,180	DSHS	
35	Maintenance/Motor Pool/Electric	1942	6,995	DSHS	
43	Paint Shop	1942	2,408	DSHS	
54	Storage (PAT)	1942	16,128	CEP&RI	
63	Madrona-Wings 1-2-3	1944	31,757	CEP&RI	
71	Administration Building (old)	1942	32,017	CEP&RI	Vacant
73	Upholstery Shop/Leased Space	1942	12,524	CEP&RI	Neighbors In Need/WA State Patrol
74	North-School and South-School	1942	12,524	CEP&RI	Neighbors In Need
85	Adult Training	1942	47,021	DSHS	
86	Adult Training	1942	--	DSHS	
87	Adult Training	1942	--	DSHS	
88	Adult Training	1942	--	DSHS	
89	Adult Training	1942	--	DSHS	
90	Adult Training	1942	--	DSHS	
91	Warehouse	1942	6,216	CEP&RI	
27	Grounds Shop/Maintenance	1942	9,338	DSHS	
28	Steam Plant	1942	4,754	DSHS	
31	Laundry	1942	13,010	DSHS	
33	Laundry Storage	1942	803	DSHS	
44	Duplex 301-302	1972	6,291	CEP&RI	
45	Duplex 303-304	1972	6,291	CEP&RI	
46	Duplex 305-306	1974	6,291	CEP&RI	
47	Duplex 307-308	1974	6,291	CEP&RI	
48	Duplex 309-310	1974	6,291	CEP&RI	
49	Duplex 311-312	1972	6,291	CEP&RI	
50	Duplex 313-314	1972	6,291	CEP&RI	
52	Duplex 315-316	1971	8,075	CEP&RI	
51	Duplex 317-318	1971	8,075	CEP&RI	
53	Duplex 319-320	1971	7,943	CEP&RI	
55	Dogwood	1963	26,270	CEP&RI	
56	Fir (326 Junkin Way)	1963	13,135	CEP&RI	
57	Elm Hall	1963	13,135	CEP&RI	
58	Cherry Hall	1963	13,135	CEP&RI	
59	Birch Hall	1963	13,135	CEP&RI	
60	Aspen Hall	1963	13,135	CEP&RI	
76	1510 Court. House 3	1970	6,339	CEP&RI	
77	1510 Court. House 2	1970	6,339	CEP&RI	
78	1510 Court. House 1	1970	6,339	CEP&RI	
64	Chapel	1945	3,256	CEP&RI	
65	500 Administration Office	1972	50,823	CEP&RI	
66	200 Apartments	1972	50,823	CEP&RI	
67	Activity Building	1973	27,286	CEP&RI	Community Center(?)
32	Linen Room	1972	1,500	DSHS	
25	Plant Mechanic Shop	1971	3,736	DSHS	
--	WA State Public Health Lab	1987	64,000	DSHS	WA State Pub Health Lab Ground Lease (6.5 Acres)
	Total Building Area (SF)		**700,367**		

Building 71 - The "Waves" Barracks

Utilities

UTILITIES

Overview

As part of the Fircrest School Master Plan/EIS process, Arai/Jackson hired SvR Design Company to collect available information regarding the capital facilities and infrastructure on and around the Site, and to assess the adequacy of the existing utilities. Most of the systems information discussed below is summarized from SvR's report.

Electrical

- A December 2001 analysis by electrical engineers, Huntley Pascoe Inc., assessed the existing power distribution system in anticipation of modifications to various Fircrest School facilities. The following points summarize the applicable portions of this analysis.

- Seattle City Light provides the Property with electrical power.

- The existing primary electrical distribution system consists of five 4.16-kV underground feeders originating from a 5-kV North Utility Unit Substation located on the northwest corner of the Site. The unit substation consists of a 2500/2800-kVA oil filled transformer and five 5-kVA air switches. Seattle City Light serves the unit substation via an underground 26.4-kV feeder from a power pole located on 15th Avenue N.E. There is physical space to add another primary switch at the existing unit substation.

- Seattle City Light records indicate that the maximum demand on the entire Property was approximately 1470kW occurring in August 2001. This equates to approximately 730-kVA below the capacity of the existing service transformer.

Storm Sewer

- The Property's storm drainage system has been expanded and upgraded several times since it was originally constructed in 1941. The Site generally drains from the north to the south. The majority of the Site drains to a 30-inch storm drain along N.E. 150th Street. A small portion of the Site drains to a 12-inch concrete pipe along 15th Avenue N.E. Roof drains and inlets are typically collected in an 8-inch pipe network around each building. These networks connect to one of five storm water conveyance main lines.

- The storm drainage system south of the Property discharges to the City of Seattle system and eventually outfalls into Lake Washington. According to the maintenance personnel, the storm drainage collection system is frequently blocked due to roots.

Sanitary Sewer

- A 12-inch to 15-inch sewer mainline runs through the middle of the Property and connects to a 15-inch concrete sewer pipe under 20th Avenue N.E. The sewer is connected to the City of Seattle system. The Property's sewer mainline was installed during the construction of the campus in 1941. Since then, additional pipes and manholes have been added throughout the campus to service newly constructed buildings. An extension off the sewer mainline was constructed through Hamlin Park to service residential developments north of the park up to N.E. 180th Street.

- In October 2001, Ronald Wastewater acquired ownership of the up-stream and downstream sewer system. In 2002, Ronald acquired the sewer main on the Property. The entire Site, except for three buildings on the southwest corner, are served by the sewer mainline (Buildings 76, 77, and 78) are connected to an 8-inch concrete public sewer along N.E. 150th Street. The sewer mainline discharges to a 15-inch concrete sewer pipe along 20th Avenue N.E.

- City staff have indicated that there may be limitations on the capacity of the sanitary sewer system around the Property. These limitations are due in part to the size and age of the local infrastructure.

Water

- Shoreline Water District provides the Property with domestic water.

- The Property's water system has two supply locations, one at the northwest corner of the Site off of 15th Avenue N.E. and the other at the south end of the Site off of N.E. 150th Street. These supply connections include meters and backflow prevention. The water distribution system is an 8-inch diameter loop system. The water distribution main lines are in good condition and do not appear to have capacity issues.

Natural Gas

- Puget Sound Energy provides the Property with Natural Gas from the southeast corner of the Site buy a 6-inch gas line and a one-inch line that serves the three buildings in the southwest corner of the Site. The Food Lifeline warehouse and the Public Health Lab are supplied by a 2-inch line connected to a 4-inch gas line that supplies the northern portion of the Property. The gas distribution system was upgraded in 1998 and does not appear to have capacity issues.

Telecommunications

- Qwest provides the Property with telecommunications services.

Steam Distribution and Condensate Recovery Steam

- The steam/condensate system within the northern half of the Property was abandoned due to deteriorating condensate lines. Buildings in the northern half of the Property were switched to gas heating systems in 1998. Many lines in the southern half of the Property were replaced with schedule 80 PVC piping. This modified system is now comprised of a 6-inch steam distribution system and a 3-inch condensate recovery system that is in good condition and was upgraded in 1999.

CONCLUSION

Generally the Property is well served by utilities. Significant redevelopment of the Site will, however, require a comprehensive examination of the impact new development will have on local systems. City staff have indicated a willingness to work with the State or a new landowner to find creative solutions to issues such as storm water detention and quality.

Long-Term Obligations

- Article 5 for the Firlands Sheltered Workshop ground lease requires Firlands to reimburse DSHS for the provision of "lights and power, heat, electricity, gas, water, sewer, garbage disposal and janitorial services, fire protection and security." The lease sets a beginning rate for these utilities and services of $0.37 per square foot per month and allows DSHS to adjust this cost annually based on actual costs.

- Article 10 of the Food Lifeline ground lease states that "Lessor shall be liable for, and shall pay throughout the term of this lease, all charges for all utility services furnished to the premises, including, but not limited to, light, heat, electricity, gas, water and sewerage." Food Lifeline is only required to pay for garbage disposal and janitorial services and supplies.

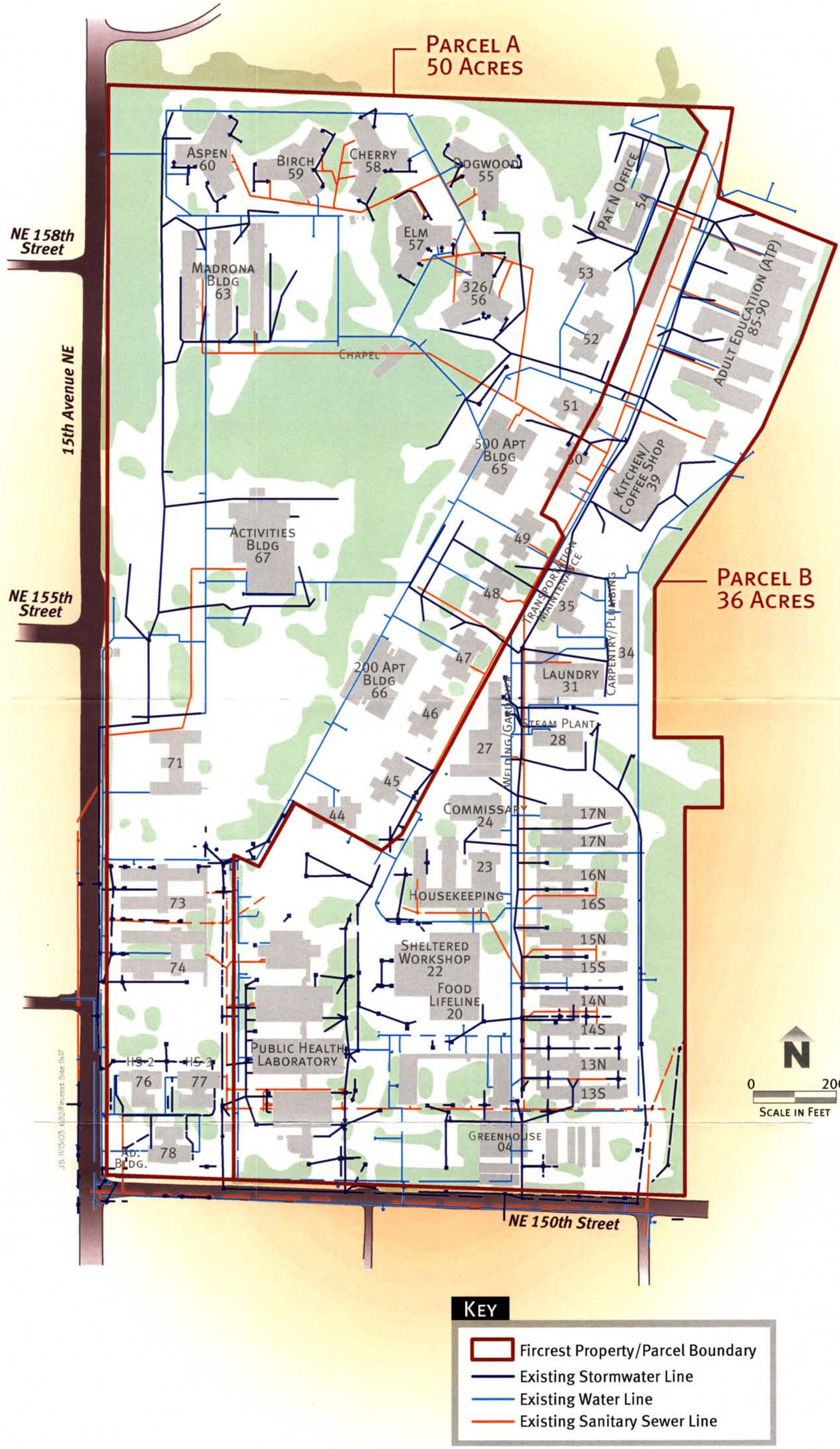
- The Department of Health interagency agreement requires that DSHS furnish, through its existing resources, sufficient utilities for the DOH Lab Building. Utilities shall include electricity, water, sewer, and steam. DSHS is also required to provide garbage collection, security, and parking lot and roadway maintenance. Utilities are billed to DOH based on metered usage while security, road maintenance, laundry, and housekeeping are billed on a per-square-foot rate.

- Prior to surplusing the Fircrest School campus, DSHS will need to arrange for Buildings 20, 22 and the PHL to get the necessary mechanical and civil utilities directly from the providers discussed above. Options for addressing these lease provisions include (a) negotiating a lump sum payment (buy out) sufficient to allow the tenants to replace the utilities or services currently provided by DSHS; (b) buying out the ground leases entirely and relocating the tenants; or (c) selling the land to the tenants at a value that accounts for their long-term lease hold and the additional costs associated with utility severance.

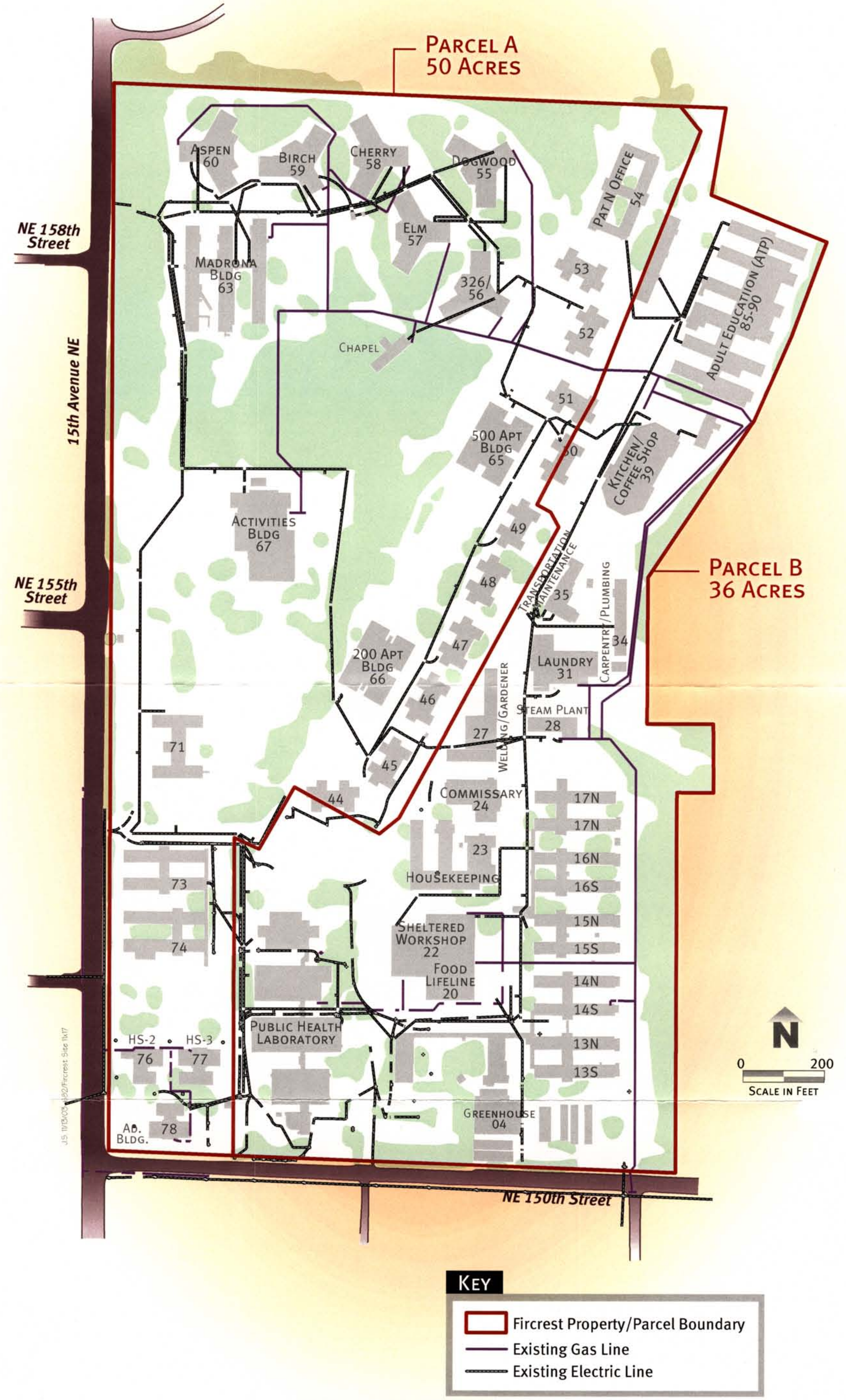
State of Washington DSHS Campuses

Fircrest Property - Shoreline

Stormwater, Water & Sanitary Sewer Utility Lines



State of Washington DSHS Campuses
Fircrest Property - Shoreline
Gas & Electric Utility Lines



HEARTLAND

Regulatory

REGULATORY

EXISTING REGULATIONS

Comprehensive Plan: The City of Shoreline Comprehensive Plan designates the Property as "Single-Family Institution."

- The Comprehensive Plan describes The Single-Family Institution designation as one that should be applied to a number of institutions within the community that serve a regional clientele on a large campus. The underlying zoning controls guides the development of the Site.
- Zoning Code: The Property is zoned R-6 or Residential 6DU/Acre.
- The purpose of low density residential, R-4 and R-6 zones, is to provide for a mix of predominantly single detached dwelling units and other development types, such as accessory dwelling units, cottage housing and community facilities that are compatible with existing development and neighborhood character.

MASTER PLANNING

Staff at the City of Shoreline indicate that if the Fircrest School were to be permanently closed and the Property was to be surplused, then the City would encourage and help the State or a new owner to pursue a comprehensive plan and zoning change to support more intensive reuse of the Property. This regulatory change would most likely be achieved through a comprehensive plan amendment, a comprehensive plan overlay zone and a planned action ordinance in one legislative package, based on the findings of a State Environmental Policy Act ("SEPA") planned action and/or an Environmental Impact Statement ("EIS"). The intended outcome of this process would be highly flexible regulations that anticipate and mitigate the impacts of development.

Environmental

ENVIRONMENTAL

OVERVIEW

As part of the existing conditions analyses led by Arai/Jackson, a series of limited-scope technical assessments were conducted to identify the physical opportunities and constrains of the Property. The *Environmental* Section of this report summarizes the findings from these analyses and provides a preliminary interpretation of the ramifications for redevelopment of the Property.

Contamination/Hazardous Substances

- The age of the buildings on the Property suggests that asbestos and lead-based paint will likely be encountered during demolition or renovation.

- Published analyses characterizing these and other potential environmental contaminates on the subject Property were not available for Heartland's review. The role of environmental assessment in ongoing master planning and disposition is discussed in the *Implementation* Section of this report.

Topography/Geology

In April 2002, Golder Associates conducted a geotechnical assessment to provide a preliminary evaluation of the geologic and geotechnical conditions and possible hazards present on the Site. Please see the *Environmental Constraints Map* at the end of this section. Golder formulated the following conclusions:

- Steep slopes are located within the Site to the west of Buildings 200 and 500, and south of Building 71;

- Steep lopes are located along the eastern boundary of the Site behind Carpenter Shop (Building 34) and the Kitchen (Building 39). The majority of these slopes are along or just east of the Property's eastern boundary;

- All slopes on and immediately to the east of the Site appear to be stable with no signs of significant erosion or sliding;

- The Site appears to be underlain by dense lodgement till. The lodgement till has a low hydraulic conductivity and causes slow drainage in low-lying areas;

- The dense lodgement till is resistant to erosion, has moderate to high strength, and provides moderate to high building foundation bearing capacity;

- Areas of artificial fill, identified in a previous geotechnical study, were found at the southern end of the Site in the area of the Public Health Lab building. Other localized areas of fill may be present;

- Building rubble and construction debris was reported to have been dumped into the basement of a building that once stood to the south of the Activity Building and Pool (Building 67) at the western side of the Site;

- The Property is within the Seismic Zone 3, defined in the Uniform Building Code ("UBC"), 1997 as an area of reoccurring moderate to strong earthquakes; and
- There are no known earthquake faults are located on or near the Property.

CONCLUSION

Based on the conclusions of Golder's preliminary analysis, the geotechnical conditions on the Property appear to be generally supportive of redevelopment of the Property for typical residential and commercial structures.

Fisheries, Streams and Wildlife

In April 2002, Golder Associates conducted and Ecological Assessment of the Property. This study of fisheries, streams and wildlife on and around the Property concluded with the following findings:

- Hamlin Creek: Hamiln Creek, an intermittent stream and tributary of Thornton Creek, runs just outside the Property boundary on the northeast side of the Campus. The creek is directed underground through a three-foot culvert as it enters the Property on the east side and runs underground for approximately 400 feet. The creek reappears on the surface from the culvert behind the Building 34. It continues to flow through a straight ditch for approximately 150 feet before re-entering a culvert through which it flows through the remainder of the Property.
- Based on topography, approximately 75 percent of the Property drains in a southeast direction to Hamlin Creek. Because storm water infrastructure is in place on the Site (catchment basins and conveyance) it is not clear how much of the Property's storm water reaches Hamlin Creek.
- After a 2002 assessment, the City of Shoreline classified Hamiln Creek as a Type III stream, which is defined as a having intermittent or ephemeral flow during years of normal rainfall, and not used by salmonids.
- Littles Creek: While the Property is in the Littles Creek watershed, the creek itself flows south along 10th Avenue N.E., approximately 700 feet west of the Property. Only a minor part of the surface water runoff (less than 25 percent of the Site's surface area) from the Property drains into Littles Creek. As a Type II stream, Littles Creek is considered habitat for salmonids. Littles Creek's location, 700 feet from the Property boundary, puts the Property beyond local state or federal regulations governing direct impacts on streams.
- Wildlife: Because of the urban environment, quantity and quality of habitat for reptiles, amphibians and small mammals is very limited.

CONCLUSION

Based on the conclusions of Golder's preliminary analysis, it is unlikely that adjacent streams or wildlife habitat would preclude significant redevelopment of the Site. City of Shoreline staff has indicated that, previously, citizen groups have identified Hamlin Creek as a "restoration and enhancement opportunity." It is likely that, during the master planning process, interested parties will negotiate with the State or a new owner, to establish a buffer between new development and Hamlin Creek and restoration of the natural water course (daylighting the culverted potions) and adjacent habitat. The *Environmental Constraints Map* located at the end of this section, illustrates a 100-foot buffer around Hamlin Creek. Ultimately, this buffer could range from 25 to 300 feet but will likely be a compromise solution between environmental groups, the City and the owner.

As would be the case with any development project of this size, issues associated with timing of construction work and water quality monitoring will likely be required along with best management practices for erosion control and contaminant spill prevention. During the master planning and entitlement process, indirect impacts such as quantity and timing of storm water runoff, will affect water quality in downstream receiving waters.

Wetlands

The Property was investigated by consulting firm Golder Associates in November 2001 for streams or waterways that might be classified as Waters of the United States and subset wetlands.

- The Golder report found that a short section of Hamlin Creek was identified as Waters of the United States, however, no associated wetlands or other wetlands were identified on the Site.

CONCLUSION

Wetlands are unlikely to pose an obstacle to redevelopment of the Property.

Trees and Vegetation

In January 2002, the arboricultural consulting firm Northwest Arborvitae conducted an assessment of the existing trees and vegetation on the Property. The analysis and conclusions are summarized below.

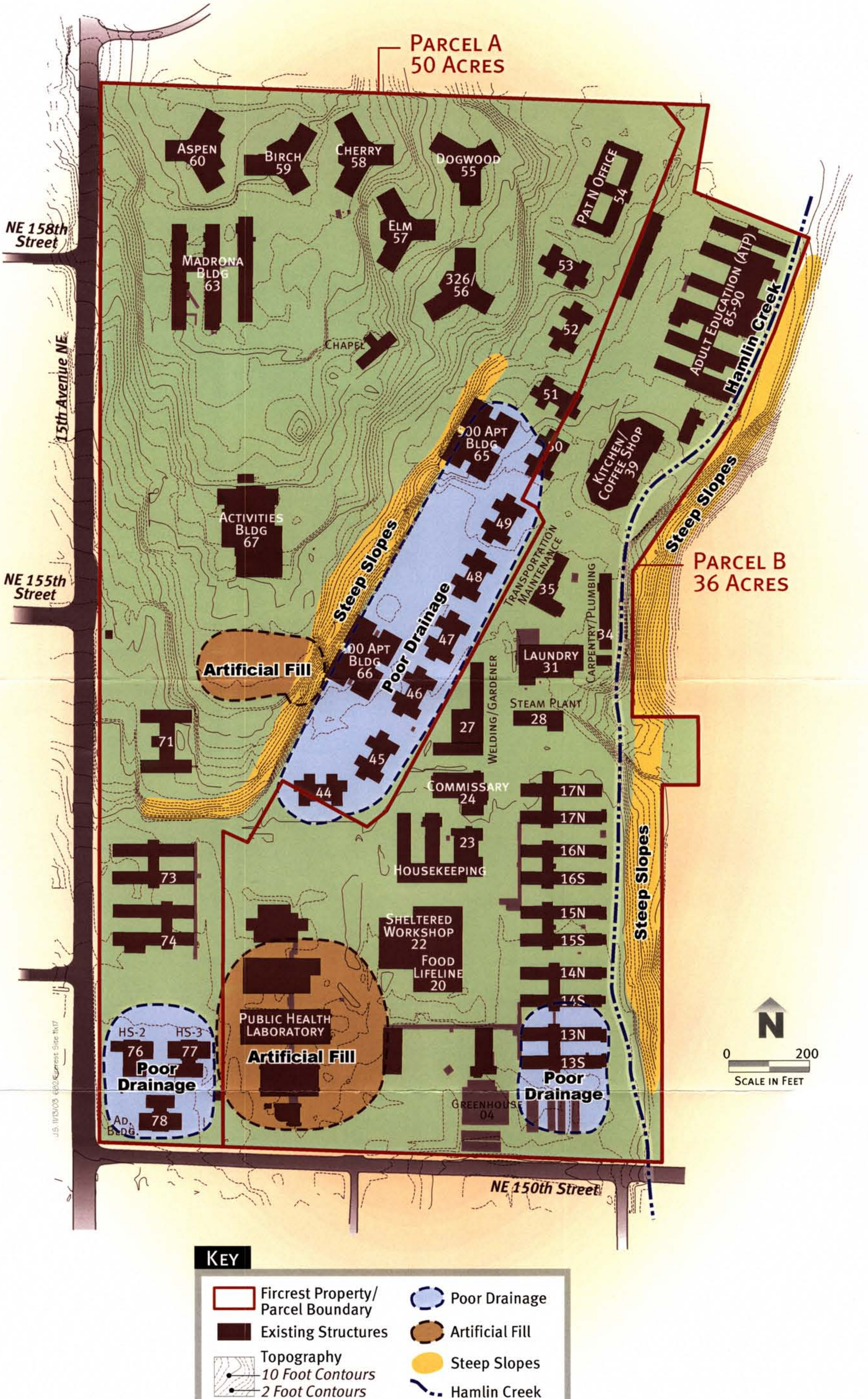
- Generally the Site has two types of vegetation, retained forest and planted ornamental trees. Retained forests are stands of native trees that have been minimally disturbed by development.
- Chapter 5, Section 5 "Tree Conservation, Land Clearing, and Site Grading Standards of the Shoreline Development Code" regulates tree removal. While the code is intended to help the City achieve a goal of "no net loss of tree cover throughout the city over time," there are a number of exceptions and flexibility built into the development standards.

- From a tree and vegetation standpoint, the Property's retained forests at the northern and eastern boundaries are key assets. Many of the larger planted trees located throughout the Site also contribute significantly to the character of the Property.

CONCLUSION

Any redevelopment of the Site will necessitate the removal of some trees. Due to the value of the trees on the Site, an arborist should be included in the master planning team from the beginning to help preserve significant trees and negotiate a feasible development plan with the City.

State of Washington DSHS Campuses
Fircrest Property - Shoreline
Environmental Constraints Map



Source: Golder Associates, April 2002

HEARTLAND

Market

PREVIOUS ESTIMATES OF VALUE

- In July 2002 the Joint Legislative Audit and Review Committee commissioned an appraisal of the Fircrest School[2]. 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. After accounting for leasehold obligations, the appraisers estimated the use value to be $38,000,000.
  - ***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 $32,700,000.
- **Land Value:** The appraiser's estimate of land value, based on the R-6 zoning, is $7.50 per square foot. Applied to a site area of 79.28 acres (minus 20 percent for roads etc.), this estimate would reach a total land value of approximately $25.9 million. At 6 units per acre, (totaling approximately 381 detached single-family homes), this estimate equals approximately $68,000 per unit/lot.

MARKET ANALYSIS

This summary market analysis is designed to support and inform the financial analysis of the redevelopment scenarios for the Property. The property types analyzed are those that real estate market participants would most likely include in a redevelopment of the Site.

Generally, the Property is best suited for a master planned community that includes a variety of for-rent (low and mid-rise, stacked flat apartments) and for-sale (townhomes, small-lot single-family and cottages) residential real estate products and some supporting neighborhood commercial space. The following provides a brief characterization of each of these three product types.

Townhomes or row houses consist of a number of attached units, including inner units and end units. Fireproof common walls join all of the units. The inner units have only two exterior walls while end units have three exterior walls. Townhomes can be sold either as condominiums on separate lots created as a zero lot line subdivision and sold as a fee simple interest. Townhomes may also be developed as apartments.

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[2] Complete Appraisal of Real Property – Fircrest School, Cushman & Wakefield of Washington Inc, Valuation Advisory Services, July 19th 2002.

Stacked Flat Apartments considered in this analysis generally range from 3 to 6 stories in height. Some of the units in the apartment structures may have exterior entrances, but most are accessed through common hallways and lobbies. Most buildings have an elevator.

Small-Lot Detached Single-Family homes are individual fee simple units on lots ranging in size from 2,500 to 4,000 square feet. Home sizes are generally larger than townhomes, ranging from 1,500 to 2,500 square feet.

Cottage Housing by most definitions are small (+/-1,000 square feet) detached single-family units oriented around common open spaces with detached, alley loaded, or shared parking. Cottage housing developments are typically located on infill lots, contain 10 units or less and can be sold fee simple (with access easements) or as condominiums (with everything but the houses in common ownership).

Neighborhood Commercial centers typically include tenants that serve their immediate neighborhood with daily necessities or services. Traditional retail tenants can include a drug store, convenience store, coffee shop, or a restaurant. Non-retail neighborhood service tenants typically include travel agencies, insurance agencies, real estate sales offices, dentist offices or copy centers.

RESIDENTIAL MARKET SUMMARY

From a residential market perspective, Shoreline serves as an extension of the North Seattle submarket. Single-family residential homes and low-rise apartments are the dominant housing types in Shoreline. As illustrated by the tables below, over the last three years, both Shoreline and North Seattle experienced steadily increasing home sale prices at a rate of approximately 5 percent per year. The median home sale prices in Shoreline is $63,000 to $71,000, less than prices in North Seattle, making Shoreline a more affordable alternative for young families trying to find a livable balance between time spent commuting and housing costs.

Residential Home Sales 2001-2003: 2-Mile Radius of Property

	Total Sales	Average Beds/ Baths	Average SF	Average Sale Price/ Median Sale Price	Median No. of Days On Market (DOM)
2001	710	3/1.67	1,791	$240K / $225K	18
2002	803	3/1.75	1,750	$255K / $237K	21
2003 YTD	734	3/1.78	1,680	$270K / $249K	25
2003 Active+ Pending	303	3/1.92	2,032	$345K / $275K	32

Note: Excludes Condominiums; 2003 Active and Pending are Listing Prices.
Source: Northwest Multiple Listing Service – Heartland 10/2003.

Residential Home Sales 2001-2003: North Seattle Submarket

	Total Sales	Average Beds/ Baths	Average SF	Average Sale Price/ Median Sale Price	Median No. of Days On Market ("DOM")
2001	2,855	3/1.73	2,032	$325K / $288K	23
2002	3,312	3/1.77	2,077	$341K / $305K	28
2003 YTD	3,050	3/1.79	2,030	$357K / $320K	32
2003 Active+ Pending	955	3/1.95	2,171	$424K / $349K	38

Note: Excludes Condominiums; 2003 Active and Pending are Listing Prices.
Source: Northwest Multiple Listing Service - Heartland 10/2003.

Detached Housing

In an inner-ring suburb such as Shoreline that has been largely "built-out" for several decades, new housing is rare and therefore more valuable. New housing appeals to homebuyers seeking low maintenance costs and the convenience of modern mechanical systems and floor plans. The table below illustrates the limited supply and higher values achieved by newer single-family homes sold over the past 12 months in the neighborhoods directly adjacent to the Property. With only 36 homes built within the last three years, selling for a median price of approximately $278,000 or roughly $30,000 more than the median sale price for housing of all ages discussed above. The average house contains 3 bedrooms and more than 2 bathrooms, further underscoring the family orientation of new housing in the vicinity.

Detached Housing Sales 10/02-10-03: 2-Mile Radius of Property

Status	Total Sales/ Listings	Average Beds/ Baths	Average SF	Sale Price: High-Low/ Median	Average Price per SF
Sold	36	3.12/2.25	1,666	$393,000-$249,950 $278,475	$190
Active + Pending	5	4.2/3	2,065	$372,000-$279,950 $289,950	$153

Note: Homes built in 2000 or later.
Source: Northwest Multiple Listing Service - Heartland 10/2003.

The table on the following page details the attributes of several detached single-family developments that have been built in Shoreline over the last two years. The projects include two small single-family subdivisions and two cottage housing developments (see the *Comparable New Housing Projects Map* at the end of this section for project locations). The key differences between these two detached product types lie in the target demographics.

The larger unit sizes of projects 1 and 2 (1,950-3,338 square feet), higher purchase prices ($289,000 to $445,000) and lower purchase price per square foot ($132 to $171) reflect the orientation to families with children. The cottage projects (3 and 4) with lower purchase prices ($189,000 to $250,000) significantly smaller sizes (945 to

1,000 square feet) and the resulting higher purchase price per square foot ($187 to $250) cater to the needs of singles, couples and emptynesters that are able to sacrifice space for higher quality finishes, reduced purchase prices and usually reduced maintenance responsibilities.

Comparable Detached Single-Family Developments: Shoreline Submarket

Map ID	Name	Status	No. of Units	Units Sold	Avg. Mo. Sales	Price Range	SF Range	Price/SF Range
1	Paramount Park East	Selling	7	6	.67	$387K $445K	2,333 3,338	$132 $171
2	Hageman Subdivision	Selling	6	5	.45	$289K	1,950	$149
3	Madrona Cottages	Sold Out	12	12	1.71	$250K	1,000	$250
4	Meridian Park Cottage Homes	Sold Out	16	16	1.6	$189K $199K	945 987	$187 $208

Source: New Home Trends, 10/03

Attached Housing

Townhomes currently represent the majority of newer, for-sale residential construction in the North Seattle and Shoreline submarkets. The trend toward townhomes will increase as the number of available single-family sites continues to decline.

Townhomes generally serve households without children, including professional singles, young couples and emptynesters. Young couples with children typically move to a detached single-family house (new or not) while the kids are still young.

As the table below illustrates, newer townhomes within a two-mile radius of the Property average approximately 1,500 square feet in size and range in price from $155,000 to $291,000 with a median price of $230,000, or approximately $157 per square foot. With a median sale price that is approximately $48,000 less than a detached single-family house with a similar age and location, the attractiveness of townhomes to first time homebuyers, singles and young couples becomes apparent.

Attached Housing Sales 10/02-10/03: 2-Mile Radius of Property

Status	Total Sales/ Listings	Avg. Beds/ Baths	Average SF	Sale Price: High-Low/ Median	Average Price per SF
Sold	42	2.95/2	1,571	$290,700-$154,950/ $230,480	$157
Active + Pending	5	2.8/2.1	1,434	$279,950-$204,950 $269,950	$173

Note: Townhomes built in 2000 or later.
Source: Northwest Multiple Listing Service – Heartland 10/2003.

As the table below illustrates, townhome developments (which are typically located on infil lots) range in size but rarely exceed 20 units. The three comparable townhome projects include a range of unit prices from below $200,000 to almost $300,000 although the range of sale price per square foot is narrower from $152 to $179.

Comparable Townhome Developments: Shoreline Submarket

Map ID	Name	Status	No. of Units	Units Sold	Avg. Mo. Sales	Price Range	SF Range	Price/SF Range
A	Hamlin Village	Selling	16	12	1.09	$209K $299K	1,190 1,788	$162 $176
B	Paramount Park	Selling	9	8	2.67	$219K $260K	1,297 1,473	$170 $176
C	N. 145th Court	Sold Out	14	14	4.67	$196K $234K	1,160 1,530	$152 $179

Source: New Home Trends, 10/03.

Apartments

A combination of high unemployment and low interest rates have taken a severe toll on the apartment market over the last two and one-half years. Vacancies are high, rental rates have dropped and landlords are offering significant concessions to attract and retain tenants. The current market slump notwithstanding, a master planned redevelopment of the Property, will likely strive to provide a broad cross-section of housing opportunities from the for-sale products described above to apartment communities described below[3].

The tables below characterize the current apartment market in Shoreline and how rents in Shoreline compare with other north-end submarkets. It is noteworthy that the Dupre + Scott apartment survey (the most comprehensive and widely used report of its kind) does not show any new apartment buildings over 20 units that were built after 1994. The absence of new apartment buildings is more likely due to a lack of larger developable multi-family sites in Shoreline than a reflection of demand for modern apartments within the city. As applied to this particular analysis, the vacancy figures below are an indication that significant new construction will be delayed until the market rebounds.

Shoreline Apartments: Buildings greater than 20 Units

	1 Bed	2 Bed/ 1 Bath	2 Bed/ 2 Bath	3 Bed/ 2 Bath
Estimated Unit Size	716	925	958	1,194
Average Monthly Rent/Per SF	$681/ $0.95	$805/ $0.87	$891/ $0.93	$1,039/ $0.87
Average Vacancy	7.3%	10.5%	12.3%	5.1%

Note: Includes all 1,732 apartments in the survey. All of the units were built between 1965 and 1993.
Source: Dupre + Scott, Apartment Vacancy Report, Fall 2003.

[3] With a site of this size, the developer's desire to provide a wide variety of housing types is driven by the higher returns that result from faster absorption rather than a desire to achieve the a public policy objective of providing housing for a broad spectrum of citizens. In this case it is likely both objectives would be served.

In terms of average rent, vacancy and unit size, Shoreline generally falls in the middle of other north-end submarkets. For comparison purposes, a 2-bedroom/1-bathroom unit in a newer apartment communities (built after 1994) in the north King County submarket rents for an average of $1,123 or $1.34 per square foot. Developers will often use $1.40 per-square-foot rents as a rule of thumb indicator that more dense apartment buildings with 4 or 5 stories over one story of concrete with underground parking are feasible. Rents under $1.00 per square foot support less dense (lower construction cost) 3-story, walk-up, apartment buildings with surface parking.

Shoreline Apartments: Rent Survey of Buildings with Greater than 20 Units

Area	Avg. Unit Size	Avg. Mo. Rent/Rent per SF	Vacancy
Shoreline	892	$785/ $0.88	7.8%
Mountlake Terrace	914	$805/ $0.88	10.5%
Edmonds	918	$753/ $0.82	11.5%
Lynnwood	899	$728/ $0.81	9.4%
Mill Creek	883	$822/ $0.93	5.7%
North Seattle	841	$816/ $0.97	7.0%
North-King Co.	811	$844/ $1.04	10.2%

Note: Average rent is for a 2-bedroom 1-bath unit.
Source: Dupre + Scott, Apartment Vacancy Report, Fall 2003.

RESIDENTIAL MARKET CONCLUSIONS

- The "new" neighborhood premium: The Property's size, residential setting and proximity to parks and schools make it a rare and attractive location for new housing. Under any significant redevelopment scenario, the Property would have the amenities and critical mass of a suburban master planned community, with the added advantage of being in relatively close proximity to the employment centers of Seattle and south Snohomish County. In our opinion, new housing located in a well designed neighborhood on the Property will achieve sale price and rent premiums over most new (infil) housing in the submarket.

- The table below includes an estimate of sale prices and rents for residential products likely to be considered for the Property. From these prices, we calculate a "finished"[4] lot value per unit that a builder would be able to pay for a site already prepared for vertical construction.

[4] Finished lots are those that are already served by utilities, roads, sidewalks etc. and are ready for home construction. The master developer sells the finished lots to homebuilders who then build and market the homes to consumers.

Residential Pricing Summary

	Avg. Unit Size (SF)	Sale Price/ Mo. Rent	Sale Price/Rent Per Square Foot	Est. Land Value/Unit
Apartments	900	$990	$1.10/Mo.	$15,000
Small Lot Detached SF	1,900	$300,000	$158	$100,000
Cottage Housing	1,100	$270,000	$145	$90,000
Townhomes	1,500	$260,000	$173	$85,000

Note: Estimates are in 2003 dollars, sale prices are likely to increase by approximately 5% per year.

CONCLUSION

With the exception of the Seattle Housing Authority's three HOPE VI projects located in the Rainier Valley and West Seattle, Fircrest would be the largest single residential development south of Snohomish County on the west side of Lake Washington. The Property's setting and size make it an unprecedented (and unanticipated) opportunity to significantly increase the supply of new housing on the Westside. While most residential product types would be feasible for the Property, townhomes, small lot detached single-family and cottage housing are the most attractive considering today's market dynamics. To a lesser extent, low and mid-rise apartments will be attractive as the rental market rebounds after 2004. There is a market for commercial uses that are designed to support the new housing and immediately adjacent neighborhoods. The Property is not suited for commercial uses designed to meet the needs of a wider trade area.

State of Washington DSHS Campuses
Fircrest Property Comparable New Housing Projects

HEARTLAND

Strategies and 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 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.

The *Strategy Map* located at the end of this section illustrates the segregation of the Property into subareas. Four of the ten subareas are the same in each of the redevelopment alternatives.

Subarea A5 contains the Waves Barracks (Building 71) which, as discussed in the *Structural* Section of this report, is a likely candidate for the National Register of Historic Places. This building and the 2 acres subarea could be redeveloped into unique commercial or residential space although costs to renovate the structure will likely eliminate or considerably reduce its direct financial contribution to the overall value of the Property.

Subarea A6 contains 6 acres at the corner of 15th Avenue NE and NE 150th Street. In all three alternatives this subarea is identified as a neighborhood commercial center. Although current zoning does not permit retail uses (see the *Regulatory* Section of this report) a master redevelopment plan for the Site will certainly include some supporting retail space and this corner is the most viable location.

Subarea B1 contains the PHL buildings, the Firlands Workshop Building, and the Food Lifeline Building, all of whom hold long-term ground leases in this 10 acre subarea. As discussed in the *Property Description* and *Utilities* sections of this report, these leasehold interests are liability and the State should negotiate a transfer of the Property to the lessees as part of surplusing the Fircrest Campus. Subarea 10 includes approximately 2 acres of land that is not currently leased but is the logical expansion space for one or all three of the lessees. If negotiations reveal that this expansion space is not necessary, it should be added to Subarea B2 to the east.

Subarea A3 contains the Activities Building (Building 67) associated surface parking and a small amount of open space within 5 acres. As discussed in the *Structural* Section of this report it may be feasible to integrate the Activities Building into a residential redevelopment of the Property as a neighborhood recreation center. City of Shoreline officials indicate that the municipal pool that currently serves this area is sufficient for the foreseeable future and that the City would probably not be interested in operating the Activities Building for use by the general public. If further analysis concludes that reuse of this building by new residents is not feasible, the building should be demolished and the land area integrated into subareas A1 or A4.

The remaining six subareas are assigned different types of residential uses depending on the specific constraints of a particular alternative.

Alternative I: Vacate Premises, Partial Sale, Partial Lease, As-Is

Alternative I would be considered if DSHS entirely ceased operations at the Fircrest School. It would entail marketing Parcel B (DSHS-owned), perhaps to a buyer interested in performing a similar use on the Property, or a developer willing to master plan approximately 26 acres (net of Subarea B1). Under this scenario Parcel A would remain in the CEP&RI Trust and buildings that are useable would be leased and unusable buildings would be demolished and redeveloped by ground lessees. Revenue from the long-term ground leases would benefit the CEP&RI Trust.

Pros:

- This alternative may allow the State to capture some near-term revenue from portions of Parcel B; and
- Long-term ground leases on Parcel A would continue to contribute to the CEP&RI Trust.

Cons:

- Very few potential buyers for Parcel B would be able to make economic use of the existing structures, reducing the sale revenue to the State;
- As a redevelopment site, Parcel B alone is less valuable than a site that includes all of Parcel A. The smaller size and linear, dead-end configuration would likely create inefficiencies for building layout and circulation. Moreover, potentially interested residential developers would be wary of future, non-residential uses being developed on Parcel A and negatively impacting Parcel B;
- Most potential ground lessees would require the existing structures on Parcel A to be extensively renovated or demolished completely (avoiding the potential for environmental liabilities), lowering the overall value that could be captured by the State;
- Developers are less interested in or able to build on leased land that cannot be subordinated to a construction loan. In addition to reducing the number of interested parties, and extending the marketing period, ground leases significantly alter the type of investment that a developer would be willing to make in the Property;
- The State (likely DNR) would incur significantly more administrative costs than other DNR properties from duties including marketing (buildings for sale and lease, development sites for sale and lease) lease administration, and regulatory changes to accommodate new uses (master plan); and
- In addition to considerable planning costs, the State will likely be forced to invest in both on-site infrastructure improvements and off-site development impact mitigation.

IMPLEMENTATION STEPS

- *Begin working with the City of Shoreline to address issues regarding reuse of existing structures, and potential new uses that could be allowed on the Site.* The City of Shoreline has expressed interest in seeing the Property redeveloped so it can contribute to Shoreline's tax base. From a regulatory standpoint this alternative is very similar to the Fircrest Master Plan that was being prepared by DSHS over the last 4 years. While the inclusion of some commercial and residential uses will likely generate slightly more vehicle trips, the analyses that were conducted during the Master Plan/EIS process would serve as the basis for a new master plan that outlines future uses, traffic mitigation, stream restoration and internal circulation.

- *Conduct a detailed environmental and structural assessment of existing structures.* An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should be completed. Prior to taking any development or lease opportunities to the market, details about the environmental and structural integrity of each structure should be available to potential buyers/lessees.

- *Prepare a marketing package and interview and select an appropriate marketing company.* Given the unique nature of the Property, particular care should be placed on selecting an appropriate marketing group to work with the State to obtain the optimal value in the shortest period of time.

- *Design and Implement a Marketing Plan in conjunction with selected broker to broadly and widely expose the Property to potential buyers/lessees.*

FINANCIAL ANALYSIS

The financial analysis of Alternative I is designed to allow for a comparison of the appraised "Go Dark" value of $32.7 with other potential disposition options. Within the context of the Subarea divisions discussed above, the appraised "Go Dark" value for Parcel A is leased over an absorption period of four to eight years, which leads to our discounted net present value, while Parcel B is marketed for sale as-is over a period of one to three years. Because additional costs for planning (EIS/Master Plan), off-site impact mitigation and utility upgrades (those that are not attributable to one specific lessee) we consider the combined probable net present value of $12.4 million to be optimistic.

Parcel A: As-Is Lease

	High	Low	Probable
Absorption Period (Years)	4	8	6
As-Is Value	$24.4M	$24.4M	$24.4M
Stabilized Annual Lease Payment	$1.9M	$1.9M	$1.9M
Discount Rate	15%	25%	18%
Net Present Value Conclusion	$10.5M	$4.0M	$7.4M

Notes: Assumes 8% Lease Rate

Parcel B: As-Is Sale

	High	Low	Probable
Marketing Time (Years)	1	3	2
Value	$7.1M	$7.1M	$7.1M
Discount Rate	15%	25%	18%
Net Present Value Conclusion	$6.1M	$3.6M	$5.0M

Alternative I: Parcel A & B Combined NPV

	High	Low	Probable
Net Present Value Conclusion	$16.6M	$7.6M	$12.4M

Alternative II: Vacate Premises, Demolish Structures, Master Plan Property, Parcel A Lease, Parcel B Sale

Alternative II maintains the current CEP&RI Trust status as in Alternative I except in this Alternative the State adds value to the Site by preparing a mixed-use master plan that locates income producing uses (apartments and retail) on Parcel A and for-sale residential products on Parcel B. The table below defines the mix of product by Parcel.

Alternative II Master Plan Product Mix

Uses	Parcel A	Parcel B
Low-Rise Apartments	864 Units	0
Small Lot Single-Family & Cottage	0	64 Units
Townhomes	0	315 Units
Retail	73,000 SF	0

Actual construction of Alternatives II and III will require sizeable investment in utilities, roads and site-work to prepare "finished lots" for builders to purchase. For Alternative II these costs total approximately $12.5 million. The financial models for Alternatives II and III assume that the State sells or leases platted (entitled), vacant property and leaves the construction of infrastructure to the purchaser or lessee.

Pros:

- Much like Alternative I, this alternative may allow the State to capture some near-term revenue from portions of Parcel B;
- A coordinated master plan of both parcels would ensure the development of compatible uses and increase the certainty for investors;
- Master Planning both parcels together improves efficiency of circulation and access to development on both parcels; and
- Long-term ground leases on Parcel A would continue to contribute to the CEP&RI Trust.

Cons:

- Limiting the uses that can be built on Parcel A to income producing property types will significantly increase the absorption period and reduce the net present value of the Parcel;
- Notwithstanding the long-term perspective of both the CEP&RI Trust and the State of Washington, the market for apartments in Puget Sound is not good and an alternative that includes 864 rental units in a traditionally single-family neighborhood will not optimize the value of the Parcel A to the Trust compared to other viable investments;

- Developers are far less interested in or able to build on leased land that cannot be subordinated to a construction loan. In addition to reducing the number of interested parties, and extending the marketing period, ground leases significantly alter the type of investment that a developer would be willing to make in the Property;

- The State (likely DNR) would incur significantly more administrative costs than other DNR properties from duties including marketing (development sites for sale and lease) lease administration, and regulatory changes to accommodate new uses (master plan); and

- In addition to considerable planning costs, the State as the long-term owner/manager of more than half the Property, will likely be required to invest in off-site development impact mitigation.

IMPLEMENTATION STEPS

- *Determine schedule for phasing out Fircrest School operations.* Many of the implementation steps outlined here are sequenced and the critical path begins with the shutdown of Fircrest School operations.

- *Notify lessees of shutdown schedule.* As previously discussed in this report, there are nine lessees/occupants of the Property, four of whom have significant leasehold interests. If/when the decision to surplus all or portions of the Property is made, DNR and DSHS should notify lessees so that they can begin the relocation process and make other operational decisions.

- *Resolve long-term obligations (utilities to PHL, Buildings 20 and 22).* As previously discussed in this report, the State will need to arrange for Buildings 20, 22 and the PHL to get the necessary mechanical and civil utilities directly from outside providers. Options for addressing these lease provisions include (a) negotiating a lump sum payment (buy out) sufficient to allow the tenants to replace the utilities or services currently provided by DSHS; (b) buying out the ground leases entirely and relocating the tenants; or (c) selling the land to the tenants at a value that accounts for their long-term lease hold and the additional costs associated with utility severance.

- *Begin working with the City of Shoreline to address issues regarding reuse of existing structures, and potential new uses that could be allowed on the Site.* The City of Shoreline has expressed interest in seeing the Property redeveloped so it can contribute to Shoreline's tax base. Commercial and residential uses conceived in this Alternative will generate significantly more vehicle trips, the analyses that were conducted during the Master Plan/EIS process would serve as the basis for a new master plan that outlines future uses, traffic mitigation, stream restoration and internal circulation.

- *Conduct a detailed environmental assessment of existing structures.* An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should be completed. Because this alternative assumes that most of the buildings on the Site will be demolished, the environmental assessment should be made with solicitation of demolition bids in mind;

- *Prepare a marketing package and interview and select an appropriate marketing company.* The State of Washington is not well equipped to prepare or implement a market-based master plan for a Property of this size. Under this alternative, the State would be marketing a public-private development opportunity, not individual buildings or lots for sale or lease. The State agency charged with disposition of this Property should retain representation and complete a base level of due diligence (picking up where the Arai/Jackson Master Plan left off) prior to seeking private development partners;

FINANCIAL ANALYSIS

The financial analysis for Alternative II functions much like Alternative I except that rather than discounting the As-Is Value (appraised "Go Dark" value) over time, the "Platted Lot" Value of the Parcel as permitted for the residential product described above is used with varying discount rates and Parcel B is sold rather than leased. In the case of Parcel A, the platted lot value is the basis for the annual land rent paid back into the Trust and the model assumes a six-year absorption period. The model also assumes that Parcel B is absorbed over a four-year period.

Parcel A: Master Plan Lease

	High	Low	Probable
Platted Land Value	$10.9	$10.9	$10.9
Stabilized Annual Lease Payment	$872,000	$872,000	$872,000
Discount Rate	15%	25%	18%
Net Present Value Conclusion	$3.8M	$1.6M	$2.8M
Notes: Assumes 8% Lease Rate			

Parcel B: Master Plan Sale

	High	Low	Probable
Net Cash Flow	$23.5M	$23.5M	$23.5M
Discount Rate	15%	25%	18%
Net Present Value Conclusion	$11.3M	$6.9M	$9.8M

Alternative II: Parcel A & B Combined NPV

	High	Low	Probable
Net Present Value Conclusion	$15.1M	$8.4M	$12.5M

WSIB- Fircrest
Ground Lease Analysis

Year		1	2	3	4	5	6	7	8	9	10
Annual Ground Rent	$872,302	$0	$0	$145,384	$290,767	$436,151	$581,534	$726,918	$872,302	$894,109	$916,462
Sales Value		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cap Rate	10.00%										
Year of Sale	18										
Total Cash Flow		$0	$0	$145,384	$290,767	$436,151	$581,534	$726,918	$872,302	$894,109	$916,462
Net Presnt Value	$2,831,659										
Discount Rate	18.00%										
Net Presnt Value	$3,789,227										
Discount Rate	15.00%										
Net Presnt Value	$1,563,904										
Discount Rate	25.00%										
Escalator	2.50%	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.025	1.051

Platted Land Value	$10,903,769
Lease Rate	8.00%
Absorption (yrs)	6.00
Absorbed Ground Rent /Year	$145,384
Start Absorption (Year)	3.00

WSIB- Fircrest
Ground Lease Analysis

Year	11	12	13	14	15	16	17	18	19	20
Annual Ground Rent	$939,373	$962,858	$986,929	$1,011,602	$1,036,892	$1,062,815	$1,089,385	$1,116,620	$0	$0
Sales Value	$0	$0	$0	$0	$0	$0	$0	$11,166,197	$0	$0
Cap Rate										
Year of Sale										
Total Cash Flow	$939,373	$962,858	$986,929	$1,011,602	$1,036,892	$1,062,815	$1,089,385	$12,282,817	$0	$0
Net Presnt Value										
Discount Rate										
Net Presnt Value										
Discount Rate										
Net Presnt Value										
Discount Rate										
Escalator	1.077	1.104	1.131	1.160	1.189	1.218	1.249	1.280	1.312	1.345

Platted Land Value
Lease Rate
Absorption (yrs)
Absorbed Ground Rent /Year
Start Absorption (Year)

Project Cash Flow
Alternative 2 — Lease of Parcel A
Probable

		Static	Inflated	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LAND SALES:																			
Sales Revenue- Absorbed by Land Use:																			
Lofts		117,612	136,248	0	0	0	0	0	0	0	0	15,148	15,338	15,529	15,724	15,920	16,119	16,321	16,525
Retail		3,293,136	3,892,963	0	0	0	0	0	0	0	0	308,719	312,578	316,485	320,441	324,447	328,503	332,609	336,766
Townhomes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Apartments- Garden		14,698,886	18,881,168	0	0	0	0	0	0	0	0	657,975	666,199	674,527	682,958	691,495	700,139	708,891	717,752
Single Family/Cottages		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	$11.85	$18,109,634	$22,910,379	$0	$0	$0	$0	$0	$0	$0	$0	$981,842	$994,115	$1,006,542	$1,019,123	$1,031,862	$1,044,761	$1,057,820	$1,071,043
Selling Costs	5.00%	(905,482)	(1,145,519)	0	0	0	0	0	0	0	0	(49,092)	(49,706)	(50,327)	(50,956)	(51,593)	(52,238)	(52,891)	(53,552)
Net Sales Proceeds		$17,204,153	$21,764,860	$0	$0	$0	$0	$0	$0	$0	$0	$932,750	$944,409	$956,215	$968,167	$980,269	$992,523	$1,004,929	$1,017,491
Net Proceeds From Land Sales		$17,204,153	$21,764,860	$0	$0	$0	$0	$0	$0	$0	$0	$932,750	$944,409	$956,215	$968,167	$980,269	$992,523	$1,004,929	$1,017,491
LAND DEVELOPMENT COSTS:																			
Cost Allocations:																			
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$400,000	$400,000	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																			
SEPA		1,000,000	1,000,000	250,000	250,000	250,000	250,000	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$1,000,000	$1,000,000	$250,000	$250,000	$250,000	$250,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$1,440,000	$1,499,522	$0	$0	$0	$0	$0	$0	$747,425	$752,097	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$6,476,865	$6,939,090	$0	$0	$0	$0	$0	$0	$1,680,894	$1,691,399	$0	$0	$0	$0	$0	$0	$0	$1,777,843
Contingency	20.00%	647,687	674,459	0	0	0	0	0	0	336,179	338,280	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	334,206	348,021	0	0	0	0	0	0	173,468	174,552	0	0	0	0	0	0	0	0
Total Development Costs		$10,298,758	$10,861,091	$650,000	$250,000	$250,000	$250,000	$0	$0	$2,937,966	$2,956,328	$0	$0	$0	$0	$0	$0	$0	$1,777,843
Net Cash Flow	$5.64	$6,905,394	$10,903,769	($650,000)	($250,000)	($250,000)	($250,000)	$0	$0	($2,937,966)	($2,956,328)	$932,750	$944,409	$956,215	$968,167	$980,269	$992,523	$1,004,929	($760,352)

			Today	At Entitlement	Finished Lot
Discount Rate	18.00% Probable	**NPV=**	**$2,124,062**	**$3,032,742**	**$3,572,969**
		NPV/SF=	**$1.10**	**$1.57**	**$1.85**
Discount Rate	15.00% High	**NPV=**	**$2,970,105**	**$3,924,000**	**$4,441,207**
		NPV/SF=	**$1.54**	**$2.03**	**$2.30**
Discount Rate	25.00% Low	**NPV=**	**$685,505**	**$1,367,141**	**$1,907,488**
		NPV/SF=	**$0.35**	**$0.71**	**$0.99**

WSIB- Fircrest

Project Cash Flow

Alternative 2 **Lease of Par**

Probable

		17	18	19	20	21	22	23	24
LAND SALES:									
Sales Revenue- Absorbed by Land Use:									
Lofts		9,625	0	0	0	0	0	0	0
Retail		340,976	345,238	349,554	276,646	0	0	0	0
Townhomes		0	0	0	0	0	0	0	0
Apartments- Garden		726,724	735,808	745,005	754,318	763,747	773,294	782,960	792,747
Single Family/Cottages		0	0	0	0	0	0	0	0
Total	$11.85	$1,077,325	$1,081,046	$1,094,559	$1,030,964	$763,747	$773,294	$782,960	$792,747
Selling Costs	5.00%	(53,866)	(54,052)	(54,728)	(51,548)	(38,187)	(38,665)	(39,148)	(39,637)
Net Sales Proceeds		$1,023,458	$1,026,994	$1,039,831	$979,415	$725,560	$734,629	$743,812	$753,110
Net Proceeds From Land Sales		$1,023,458	$1,026,994	$1,039,831	$979,415	$725,560	$734,629	$743,812	$753,110
LAND DEVELOPMENT COSTS:									
Cost Allocations:									
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:									
SEPA		0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$1,788,954	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0
Total Development Costs		$1,788,954	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$5.64	($765,496)	$1,026,994	$1,039,831	$979,415	$725,560	$734,629	$743,812	$753,110

		25	26	27	28	29	30	31	32
LAND SALES:									
Sales Revenue- Absorbed by Land Use:									
Lofts		0	0	0	0	0	0	0	0
Retail		0	0	0	0	0	0	0	0
Townhomes		0	0	0	0	0	0	0	0
Apartments- Garden		802,656	812,690	822,848	833,134	843,548	854,092	864,768	875,578
Single Family/Cottages		0	0	0	0	0	0	0	0
Total	$11.85	$802,656	$812,690	$822,848	$833,134	$843,548	$854,092	$864,768	$875,578
Selling Costs	5.00%	(40,133)	(40,634)	(41,142)	(41,657)	(42,177)	(42,705)	(43,238)	(43,779)
Net Sales Proceeds		$762,524	$772,055	$781,706	$791,477	$801,371	$811,388	$821,530	$831,799
Net Proceeds From Land Sales		$762,524	$772,055	$781,706	$791,477	$801,371	$811,388	$821,530	$831,799
LAND DEVELOPMENT COSTS:									
Cost Allocations:									
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:									
SEPA		0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$0	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0
Total Development Costs		$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$5.64	$762,524	$772,055	$781,706	$791,477	$801,371	$811,388	$821,530	$831,799

Discount Rate 18.00% Probable

Discount Rate 15.00% High

Discount Rate 25.00% Low

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Project Cash Flow **Alternative 2** **Probable**	**Lease of Parc**	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48
LAND SALES:																	
Sales Revenue- Absorbed by Land Use:																	
Lofts		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Townhomes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Apartments- Garden		597,315	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Single Family/Cottages		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	$11.85	$597,315	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Selling Costs	5.00%	(29,866)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Sales Proceeds		$567,450	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Proceeds From Land Sales		$567,450	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
LAND DEVELOPMENT COSTS:																	
Cost Allocations:																	
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																	
SEPA		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Development Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$5.64	$567,450	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Discount Rate 18.00% Probable																	
Discount Rate 15.00% High																	
Discount Rate 25.00% Low																	

Summary of Assumptions:
Alternative 2
Lease of Parcel A

Escalators/Discount Rate:

Value Inflation Rate:	5.00%
Cost Inflation Rate:	2.50%
Revenue Inflation Rate:	5.00%
Expense Inflation Rate	2.50%
Discount Rate- Land Sales	18.00%

Land Area:

		Acres	Total % of Gross	Sq. Footage
Gross		50	100%	2,178,000
Site Loss	(incl bldgs)	7	15%	324,522
Open Space		4	8%	169,884
Road Network		2	4%	80,586
Net Developable		37	74%	1,603,008

Miscellaneous:

Selling Costs	5.00%
Contingency (maximum)	20.00%
Sales Tax	8.60%

Price, Absorption & Density Assumptions

	Loft	Retail	Townhomes	Garden	Single Fam
Platted Land Price	$0.00	$14.00	$45.00	$11.40	$15.00

Summary of Land Use by Type (in square feet)

	Quantity	# of Units
Loft	42,876	
Retail- Shops	73,635	
Townhome	0	0
Apt- Garden	863,582	864
Single Family	0	0
Total	980,094	

Land Development Costs by Phase
Alternative 2 **Lease of Parcel A**

	Public Cost		Up Front	Phases 1	2	3	4	5	6	Total
Cost Allocations:										
Acquisition/Basis	$6.00		$0	$0	$0	$0	$0	$0	$0	$0
Original Entitlements Costs			0	0	0	0	0	0	0	0
Original Site Costs			0	0	0	0	0	0	0	0
Other			0	0	0	0	0	0	0	0
Total Cost Allocations			$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs	n		$400,000	$0	$0	$0	$0	$0	$0	$400,000
Entitlement Costs:										
Agreements	n		$0	$0	$0	$0	$0	$0	$0	$0
Land Division	n		0	0	0	0	0	0	0	0
SEPA	n		1,000,000	0	0	0	0	0	0	1,000,000
Permits	n		0	0	0	0	0	0	0	0
Phased (0-=no, 1=yes)		1								
Total Entitlement Costs			$1,000,000	$0	$0	$0	$0	$0	$0	$1,000,000
Demolition Costs	n	$4.00		$1,440,000	$0	$0	$0	$0	$0	$1,440,000
		360,000								
Lot Development Costs	n			$3,238,433	$3,238,433	$0	$0	$0	$0	$6,476,865
Cut/Fill	n	$4.00 cy		0	0	0	0	0	0	0
Other	n			0	0	0	0	0	0	0
Total Other				$3,238,433	$3,238,433	$0	$0	$0	$0	$6,476,865
Contingency		20.00%		647,687	$0	$0	$0	$0	$0	647,687
Sales Taxes		8.60%		334,206	$0	$0	$0	$0	$0	334,206
Total Costs			$1,400,000	$5,660,326	$3,238,433	$0	$0	$0	$0	$10,298,758

Project Cash Flow
Alternative 2 **Sale of Parcel B**
Probable

		Static	Inflated	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LAND SALES:																			
Sales Revenue- Absorbed by Land Use:																			
Lofts		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Townhomes		26,658,720	32,461,356	0	0	0	0	0	0	0	0	1,794,071	1,816,497	1,839,203	1,862,193	1,885,470	1,909,039	1,932,902	1,957,063
Apartments- Garden		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Single Family/Cottages		4,704,480	5,378,804	0	0	0	0	0	0	0	0	801,458	811,477	821,620	831,890	842,289	852,818	417,251	0
Total	$33.41	$31,363,200	$37,840,160	$0	$0	$0	$0	$0	$0	$0	$0	$2,595,529	$2,627,973	$2,660,823	$2,694,083	$2,727,759	$2,761,856	$2,350,153	$1,957,063
Selling Costs	5.00%	(1,568,160)	(1,892,008)	0	0	0	0	0	0	0	0	(129,776)	(131,399)	(133,041)	(134,704)	(136,388)	(138,093)	(117,508)	(97,853)
Net Sales Proceeds		$29,795,040	$35,948,152	$0	$0	$0	$0	$0	$0	$0	$0	$2,465,753	$2,496,575	$2,527,782	$2,559,379	$2,591,371	$2,623,764	$2,232,645	$1,859,210
Net Proceeds From Land Sales		$29,795,040	$35,948,152	$0	$0	$0	$0	$0	$0	$0	$0	$2,465,753	$2,496,575	$2,527,782	$2,559,379	$2,591,371	$2,623,764	$2,232,645	$1,859,210
LAND DEVELOPMENT COSTS:																			
Cost Allocations:																			
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$400,000	$400,000	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																			
SEPA		1,000,000	1,000,000	250,000	250,000	250,000	250,000	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$1,000,000	$1,000,000	$250,000	$250,000	$250,000	$250,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$1,060,000	$1,103,815	$0	$0	$0	$0	$0	$0	$550,188	$553,627	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$8,099,444	$8,677,464	$0	$0	$0	$0	$0	$0	$2,101,990	$2,115,127	$0	$0	$0	$0	$0	$0	$0	$2,223,226
Contingency	20.00%	809,944	843,423	0	0	0	0	0	0	420,398	423,025	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	417,931	435,206	0	0	0	0	0	0	216,925	218,281	0	0	0	0	0	0	0	0
Total Development Costs		$11,787,320	$12,459,909	$650,000	$250,000	$250,000	$250,000	$0	$0	$3,289,501	$3,310,061	$0	$0	$0	$0	$0	$0	$0	$2,223,226
Net Cash Flow	$20.74	$18,007,720	$23,488,242	($650,000)	($250,000)	($250,000)	($250,000)	$0	$0	($3,289,501)	($3,310,061)	$2,465,753	$2,496,575	$2,527,782	$2,559,379	$2,591,371	$2,623,764	$2,232,645	($364,016)

		Today	At Entitlement	Finished Lot
Discount Rate 18.00% Probable	**NPV=**	**$9,784,844**	**$13,009,498**	**$14,483,822**
	NPV/SF=	**$8.64**	**$11.49**	**$12.79**
Discount Rate 15.00% High	**NPV=**	**$11,330,736**	**$14,352,048**	**$15,679,734**
	NPV/SF=	**$10.00**	**$12.67**	**$13.84**
Discount Rate 25.00% Low	**NPV=**	**$6,915,793**	**$10,330,811**	**$12,048,652**
	NPV/SF=	**$6.11**	**$9.12**	**$10.64**

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Project Cash Flow
Alternative 2 **Sale of Parce**
Probable

		17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
LAND SALES:																	
Sales Revenue- Absorbed by Land Use:																	
Lofts		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Townhomes		1,981,526	2,006,295	2,031,374	2,056,766	2,082,476	2,108,507	2,134,863	2,161,549	901,562	0	0	0	0	0	0	0
Apartments- Garden		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Single Family/Cottages		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	$33.41	$1,981,526	$2,006,295	$2,031,374	$2,056,766	$2,082,476	$2,108,507	$2,134,863	$2,161,549	$901,562	$0	$0	$0	$0	$0	$0	$0
Selling Costs	5.00%	(99,076)	(100,315)	(101,569)	(102,838)	(104,124)	(105,425)	(106,743)	(108,077)	(45,078)	0	0	0	0	0	0	0
Net Sales Proceeds		$1,882,450	$1,905,981	$1,929,805	$1,953,928	$1,978,352	$2,003,081	$2,028,120	$2,053,471	$856,484	$0	$0	$0	$0	$0	$0	$0
Net Proceeds From Land Sales		$1,882,450	$1,905,981	$1,929,805	$1,953,928	$1,978,352	$2,003,081	$2,028,120	$2,053,471	$856,484	$0	$0	$0	$0	$0	$0	$0
LAND DEVELOPMENT COSTS:																	
Cost Allocations:																	
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																	
SEPA		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$2,237,121	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Development Costs		$2,237,121	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$20.74	($354,671)	$1,905,981	$1,929,805	$1,953,928	$1,978,352	$2,003,081	$2,028,120	$2,053,471	$856,484	$0	$0	$0	$0	$0	$0	$0
Discount Rate	18.00% Probable																
Discount Rate	15.00% High																
Discount Rate	25.00% Low																

Summary of Assumptions:
Alternative 2
Sale of Parcel B

Escalators/Discount Rate:

Value Inflation Rate:	5.00%
Cost Inflation Rate:	2.50%
Revenue Inflation Rate:	5.00%
Expense Inflation Rate	2.50%
Discount Rate- Land Sales	18.00%

Land Area:

		Acres	Total % of Gross	Sq. Footage
Gross		36	100%	1,568,160
Site Loss	(incl bldgs)	11	31%	492,228
Open Space		2	5%	74,052
Road Network		1	2%	37,026
Net Developable		21	58%	906,048

Miscellaneous:

Selling Costs	5.00%
Contingency (maximum)	20.00%
Sales Tax	8.60%

Price, Absorption & Density Assumptions

	Loft	Retail	Townhomes	Garden	Single Fam
Platted Land Price	$0.00	$14.00	$45.00	$11.40	$15.00

Summary of Land Use by Type (in square feet)

	Quantity	# of Units
Loft	0	
Retail- Shops	0	
Townhome	547,065	308
Apt- Garden	0	0
Single Family	116,698	65
Total	663,763	

Land Development Costs by Phase
Alternative 2 — Sale of Parcel B

	Public Cost			Up Front	Phases 1	2	3	4	5	6	Total
Cost Allocations:											
Acquisition/Basis	$6.00			$0	$0	$0	$0	$0	$0	$0	$0
Original Entitlements Costs				0	0	0	0	0	0	0	0
Original Site Costs				0	0	0	0	0	0	0	0
Other				0	0	0	0	0	0	0	0
Total Cost Allocations				$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs	n			$400,000	$0	$0	$0	$0	$0	$0	$400,000
Entitlement Costs:											
Agreements	n			$0	$0	$0	$0	$0	$0	$0	$0
Land Division	n			0	0	0	0	0	0	0	0
SEPA	n			1,000,000	0	0	0	0	0	0	1,000,000
Permits	n			0	0	0	0	0	0	0	0
Phased (0-=no, 1=yes)		1									
Total Entitlement Costs				$1,000,000	$0	$0	$0	$0	$0	$0	$1,000,000
Demolition Costs	n	$4.00			$1,060,000	$0	$0	$0	$0	$0	$1,060,000
		265,000									
Lot Development Costs	n				$4,049,722	$4,049,722	$0	$0	$0	$0	$8,099,444
Cut/Fill	n	$4.00	cy		0	0	0	0	0	0	0
Other	n				0	0	0	0	0	0	0
Total Other					$4,049,722	$4,049,722	$0	$0	$0	$0	$8,099,444
Contingency		20.00%			809,944	$0	$0	$0	$0	$0	809,944
Sales Taxes		8.60%			417,931	$0	$0	$0	$0	$0	417,931
Total Costs				$1,400,000	$6,337,598	$4,049,722	$0	$0	$0	$0	$11,787,320

Alternative III: Vacate Premises, Demolish Structures, Master Plan Property, Parcel A Lease, Parcel B Lease

Alternative III maintains the current CEP&RI Trust status as in Alternative I except in this Alternative the State adds value to the Site by preparing a mixed-use master plan that locates income producing uses (apartments and retail) on Parcel A and apartments on Parcel B. The table below defines the mix of product by Parcel.

Alternative III Master Plan Product Mix

Uses	
Low-Rise Apartments	1,470 Units
Small Lot Single-Family & Cottage	0
Townhomes	0
Retail	73,000 SF

Actual construction of Alternatives II and III will require sizeable investment in utilities, roads and site-work to prepare developable parcels for builders to lease. For Alternative II these costs total approximately $17.6 million. The financial models for Alternatives II and III assume that the State sells or leases platted (entitled), vacant property and leaves the construction of infrastructure to the purchaser or lessee.

Pros:

- A coordinated master plan of both parcels would ensure the development of compatible uses and increase the certainty for investors;

- Master Planning both parcels together improves efficiency of circulation and access to development on both parcels; and

- Long-term ground leases would continue to contribute to the CEP&RI Trust.

Cons:

- Limiting the uses that can be built on the Property to income producing property types will significantly increase the absorption period and reduce the net present value of the Parcel;

- Notwithstanding the long-term perspective of both the CEP&RI Trust and the State of Washington, the market for apartments in Puget Sound is not good and an alternative that includes 1,400 rental units in a traditionally single-family neighborhood will not optimize the value of the Property to the Trust compared to other viable investments;

- Developers are far less interested in or able to build on leased land that cannot be subordinated to a construction loan. In addition to reducing the number of interested parties, and extending the marketing period, ground leases significantly alter the type of investment that a developer would be willing to make in the Property;
- The State (likely DNR) would incur significantly more administrative costs than other DNR properties from duties including marketing (development sites for sale and lease) lease administration, and regulatory changes to accommodate new uses (master plan); and
- In addition to considerable planning costs, the State as the long-term owner/manager of more than half the Property, will be required to invest in off-site development impact mitigation.

IMPLEMENTATION STEPS

- *Determine schedule for phasing out Fircrest School operations.* Many of the implementation steps outlined here are sequenced and the critical path begins with the shutdown of Fircrest School operations;
- *Begin working with the City of Shoreline to address issues regarding reuse of existing structures, and potential new uses that could be allowed on the Site.* The City of Shoreline has expressed interest in seeing the Property redeveloped so it can contribute to Shoreline's tax base. Commercial and residential uses conceived in this Alternative will generate significantly more vehicle trips, the analyses that were conducted during the Master Plan/EIS process would serve as the basis for a new master plan that outlines future uses, traffic mitigation, stream restoration and internal circulation;
- *Conduct a detailed environmental assessment of existing structures.* An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should be completed. Because this alternative assumes that most of the buildings on the Site will be demolished, the environmental assessment should be made with solicitation of demolition bids in mind; and
- *Prepare a marketing package and interview and select an appropriate marketing company.* The State of Washington is not well equipped to prepare or implement a market-based master plan for a Property of this size. The State agency charged with disposition of this Property should retain representation and complete a base level of due diligence (picking up where the Arai/Jackson Master Plan left off) prior to seeking private development partners.

FINANCIAL ANALYSIS

The financial analysis for Alternative III functions much like Alternative I except that, rather than discounting the As-Is Value (appraised "Go Dark" value) over time, the "Platted Lot" Value of the Parcel as permitted for the residential product described above is the basis for the annual land rent paid back into the Trust and the model assumes a 12-year absorption period.

Parcel A: Master Plan Lease

	High	Low	Probable
Platted Land Value	$20.5M	$20.5M	$20.5M
Stabilized Annual Lease Payment	$1.65M	$1.65M	$1.65M
Discount Rate	15%	25%	18%
Net Present Value Conclusion	$5.47M	$2.05M	$3.96M

Notes: Assumes 8% Lease Rate

WSIB- Fircrest
Ground Lease Analysis

Year		1	2	3	4	5	6	7	8	9	10
Annual Ground Rent	$1,642,677	$0	$0	$164,268	$328,535	$492,803	$657,071	$821,339	$985,606	$1,149,874	$1,314,142
Sales Value		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cap Rate	10.00%										
Year of Sale	20										
Total Cash Flow		$0	$0	$164,268	$328,535	$492,803	$657,071	$821,339	$985,606	$1,149,874	$1,314,142
Net Present Value	$3,961,484										
Discount Rate	18.00%										
Net Present Value	$5,470,153										
Discount Rate	15.00%										
Net Present Value	$2,065,203										
Discount Rate	25.00%										
Escalator	2.50%	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Platted Land Value	$20,533,468										
Lease Rate	8.00%										
Absorption (yrs)	10.00										
Absorbed Ground Rent /Year	$164,268										
Start Absorption (Year)	3.00										

WSIB- Fircrest
Ground Lease Analysis

Year	11	12	13	14	15	16	17	18	19	20
Annual Ground Rent	$1,478,410	$1,642,677	$1,683,744	$1,725,838	$1,768,984	$1,813,209	$1,858,539	$1,905,002	$1,952,627	$2,001,443
Sales Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$20,014,430
Cap Rate										
Year of Sale										
Total Cash Flow	$1,478,410	$1,642,677	$1,683,744	$1,725,838	$1,768,984	$1,813,209	$1,858,539	$1,905,002	$1,952,627	$22,015,873
Net Present Value										
Discount Rate										
Net Present Value										
Discount Rate										
Net Present Value										
Discount Rate										
Escalator	1.000	1.000	1.025	1.051	1.077	1.104	1.131	1.160	1.189	1.218
Platted Land Value										
Lease Rate										
Absorption (yrs)										
Absorbed Ground Rent /Year										
Start Absorption (Year)										

WSIB- Fircrest
Ground Lease Analysis

Year	21	22	23	24	25	26	27	28	29	30
Annual Ground Rent	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Sales Value	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cap Rate										
Year of Sale										
Total Cash Flow	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Present Value										
Discount Rate										
Net Present Value										
Discount Rate										
Net Present Value										
Discount Rate										
Escalator	1.249	1.280	1.312	1.345	1.379	1.413	1.448	1.485	1.522	1.560

Platted Land Value
Lease Rate
Absorption (yrs)
Absorbed Ground Rent /Year
Start Absorption (Year)

Project Cash Flow **Alternative 3**				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LAND SALES:																			
Sales Revenue- Absorbed by Land Use:		Static	Inflated																
Lofts		117,612	136,248	0	0	0	0	0	0	0	0	15,148	15,338	15,529	15,724	15,920	16,119	16,321	16,525
Retail		3,293,136	3,892,963	0	0	0	0	0	0	0	0	308,719	312,578	316,485	320,441	324,447	328,503	332,609	336,766
Townhomes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Apartments- Garden		25,027,834	36,068,673	0	0	0	0	0	0	0	0	657,975	666,199	674,527	682,958	691,495	700,139	708,891	717,752
Single Family/Cottages		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	$13.08	$28,438,582	$40,097,884	$0	$0	$0	$0	$0	$0	$0	$0	$981,842	$994,115	$1,006,542	$1,019,123	$1,031,862	$1,044,761	$1,057,820	$1,071,043
Selling Costs	5.00%	(1,421,929)	(2,004,894)	0	0	0	0	0	0	0	0	(49,092)	(49,706)	(50,327)	(50,956)	(51,593)	(52,238)	(52,891)	(53,552)
Net Sales Proceeds		$27,016,653	$38,092,990	$0	$0	$0	$0	$0	$0	$0	$0	$932,750	$944,409	$956,215	$968,167	$980,269	$992,523	$1,004,929	$1,017,491
Net Proceeds From Land Sales		$27,016,653	$38,092,990	$0	$0	$0	$0	$0	$0	$0	$0	$932,750	$944,409	$956,215	$968,167	$980,269	$992,523	$1,004,929	$1,017,491
LAND DEVELOPMENT COSTS:																			
Cost Allocations:																			
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$400,000	$400,000	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																			
SEPA		1,000,000	1,000,000	250,000	250,000	250,000	250,000	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$1,000,000	$1,000,000	$250,000	$250,000	$250,000	$250,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$2,603,337	$0	$0	$0	$0	$0	$0	$1,297,614	$1,305,724	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$11,028,176	$11,815,206	$0	$0	$0	$0	$0	$0	$2,862,062	$2,879,950	$0	$0	$0	$0	$0	$0	$0	$3,027,137
Contingency	20.00%	1,102,818	1,148,402	0	0	0	0	0	0	572,412	575,990	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	569,054	592,576	0	0	0	0	0	0	295,365	297,211	0	0	0	0	0	0	0	0
Total Development Costs		$14,100,048	$17,559,522	$650,000	$250,000	$250,000	$250,000	$0	$0	$5,027,453	$5,058,875	$0	$0	$0	$0	$0	$0	$0	$3,027,137
Net Cash Flow	$6.70	$12,916,605	$20,533,468	($650,000)	($250,000)	($250,000)	($250,000)	$0	$0	($5,027,453)	($5,058,875)	$932,750	$944,409	$956,215	$968,167	$980,269	$992,523	$1,004,929	($2,009,646)
			Today						At Entitlement		Finished Lot								
Discount Rate	18.00% Probable	**NPV=**	**$514,307**						**$936,599**		**$1,377,922**								
		NPV/SF=	**$0.17**						**$0.31**		**$0.45**								
Discount Rate	15.00% High	**NPV=**	**$1,942,769**						**$2,643,079**		**$3,140,665**								
		NPV/SF=	**$0.63**						**$0.86**		**$1.02**								
Discount Rate	25.00% Low	**NPV=**	**($1,570,138)**						**($1,878,043)**		**($1,625,437)**								
		NPV/SF=	**($0.51)**						**($0.61)**		**($0.53)**								

Project Cash Flow
Alternative 3

		17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
LAND SALES:																	
Sales Revenue- Absorbed by Land Use:																	
Lofts		9,625	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail		340,976	345,238	349,554	276,646	0	0	0	0	0	0	0	0	0	0	0	0
Townhomes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Apartments- Garden		726,724	735,808	745,005	754,318	763,747	773,294	782,960	792,747	802,656	812,690	822,848	833,134	843,548	854,092	864,768	875,578
Single Family/Cottages		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	$13.08	$1,077,325	$1,081,046	$1,094,559	$1,030,964	$763,747	$773,294	$782,960	$792,747	$802,656	$812,690	$822,848	$833,134	$843,548	$854,092	$864,768	$875,578
Selling Costs	5.00%	(53,866)	(54,052)	(54,728)	(51,548)	(38,187)	(38,665)	(39,148)	(39,637)	(40,133)	(40,634)	(41,142)	(41,657)	(42,177)	(42,705)	(43,238)	(43,779)
Net Sales Proceeds		$1,023,458	$1,026,994	$1,039,831	$979,415	$725,560	$734,629	$743,812	$753,110	$762,524	$772,055	$781,706	$791,477	$801,371	$811,388	$821,530	$831,799
Net Proceeds From Land Sales		$1,023,458	$1,026,994	$1,039,831	$979,415	$725,560	$734,629	$743,812	$753,110	$762,524	$772,055	$781,706	$791,477	$801,371	$811,388	$821,530	$831,799
LAND DEVELOPMENT COSTS:																	
Cost Allocations:																	
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																	
SEPA		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$3,046,057	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Development Costs		$3,046,057	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$6.70	($2,022,599)	$1,026,994	$1,039,831	$979,415	$725,560	$734,629	$743,812	$753,110	$762,524	$772,055	$781,706	$791,477	$801,371	$811,388	$821,530	$831,799
Discount Rate	18.00% Probable																
Discount Rate	15.00% High																
Discount Rate	25.00% Low																

WSIB- Fircrest

Project Cash Flow Alternative 3		33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48
LAND SALES:																	
Sales Revenue- Absorbed by Land Use:																	
Lofts		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Townhomes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Apartments- Garden		886,523	897,604	908,824	920,185	931,687	943,333	955,125	967,064	979,152	991,391	1,003,784	1,016,331	1,029,035	1,041,898	1,054,922	1,068,108
Single Family/Cottages		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	$13.08	$886,523	$897,604	$908,824	$920,185	$931,687	$943,333	$955,125	$967,064	$979,152	$991,391	$1,003,784	$1,016,331	$1,029,035	$1,041,898	$1,054,922	$1,068,108
Selling Costs	5.00%	(44,326)	(44,880)	(45,441)	(46,009)	(46,584)	(47,167)	(47,756)	(48,353)	(48,958)	(49,570)	(50,189)	(50,817)	(51,452)	(52,095)	(52,746)	(53,405)
Net Sales Proceeds		$842,197	$852,724	$863,383	$874,175	$885,103	$896,166	$907,368	$918,711	$930,194	$941,822	$953,595	$965,515	$977,584	$989,803	$1,002,176	$1,014,703
Net Proceeds From Land Sales		$842,197	$852,724	$863,383	$874,175	$885,103	$896,166	$907,368	$918,711	$930,194	$941,822	$953,595	$965,515	$977,584	$989,803	$1,002,176	$1,014,703
LAND DEVELOPMENT COSTS:																	
Cost Allocations:																	
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																	
SEPA		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Development Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$6.70	$842,197	$852,724	$863,383	$874,175	$885,103	$896,166	$907,368	$918,711	$930,194	$941,822	$953,595	$965,515	$977,584	$989,803	$1,002,176	$1,014,703
Discount Rate	18.00% Probable																
Discount Rate	15.00% High																
Discount Rate	25.00% Low																

Project Cash Flow Alternative 3		49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64
LAND SALES:																	
Sales Revenue- Absorbed by Land Use:																	
Lofts		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Townhomes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Apartments- Garden		1,081,460	1,094,978	13,415	0	0	0	0	0	0	0	0	0	0	0	0	0
Single Family/Cottages		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	$13.08	$1,081,460	$1,094,978	$13,415	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Selling Costs	5.00%	(54,073)	(54,749)	(671)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Sales Proceeds		$1,027,387	$1,040,229	$12,745	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Proceeds From Land Sales		$1,027,387	$1,040,229	$12,745	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
LAND DEVELOPMENT COSTS:																	
Cost Allocations:																	
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																	
SEPA		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Development Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$6.70	$1,027,387	$1,040,229	$12,745	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Discount Rate	18.00% Probable																
Discount Rate	15.00% High																
Discount Rate	25.00% Low																

Summary of Assumptions:
Alternative 3

Escalators/Discount Rate:

Value Inflation Rate:	5.00%
Cost Inflation Rate:	2.50%
Revenue Inflation Rate:	5.00%
Expense Inflation Rate	2.50%
Discount Rate- Land Sales	18.00%

Miscellaneous:

Selling Costs	5.00%
Contingency (maximum)	20.00%
Sales Tax	8.60%

Land Area:

		Acres	Total % of Gross	Sq. Footage
Gross		86	100%	3,746,160
Site Loss	(incl bldgs)	19	22%	816,750
Open Space		6	7%	243,936
Road Network		3	3%	117,612
Net Developable		58	67%	2,509,056

Price, Absorption & Density Assumptions

	Loft	Retail	Townhomes	Garden	Single Fam
Platted Land Price	$0.00	$14.00	$45.00	$11.40	$15.00

Summary of Land Use by Type (in square feet)

	Quantity	# of Units
Loft	42,876	
Retail- Shops	73,635	
Townhome	0	0
Apt- Garden	1,470,424	1,470
Single Family	0	0
Total	1,586,935	

Land Development Costs by Phase
Alternative 3

	Public Cost			Up Front	Phases 1	2	3	4	5	6	Total
Cost Allocations:											
Acquisition/Basis	$6.00			$0	$0	$0	$0	$0	$0	$0	$0
Original Entitlements Costs				0	0	0	0	0	0	0	0
Original Site Costs				0	0	0	0	0	0	0	0
Other				0	0	0	0	0	0	0	0
Total Cost Allocations				$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs	n			$400,000	$0	$0	$0	$0	$0	$0	$400,000
Entitlement Costs:											
Agreements	n			$0	$0	$0	$0	$0	$0	$0	$0
Land Division	n			0	0	0	0	0	0	0	0
SEPA	n			1,000,000	0	0	0	0	0	0	1,000,000
Permits	n			0	0	0	0	0	0	0	0
Phased (0-=no, 1=yes)			1								
Total Entitlement Costs				$1,000,000	$0	$0	$0	$0	$0	$0	$1,000,000
Demolition Costs	n	$4.00			$2,500,000	$0	$0	$0	$0	$0	$2,500,000
		625,000									
Lot Development Costs	n				$5,514,088	$5,514,088	$0	$0	$0	$0	$11,028,176
Cut/Fill	n	$4.00	cy		0	0	0	0	0	0	0
Other	n				0	0	0	0	0	0	0
Total Other					$5,514,088	$5,514,088	$0	$0	$0	$0	$11,028,176
Contingency		20.00%			1,102,818	$0	$0	$0	$0	$0	1,102,818
Sales Taxes		8.60%			569,054	$0	$0	$0	$0	$0	569,054
Total Costs				$1,400,000	$9,685,960	$5,514,088	$0	$0	$0	$0	$16,600,048

Alternative IV: Vacate Premises, Demolish Structures, Master Plan Property, Parcel A Sale, Parcel B Sale

Alternative IV assumes that Parcel A is taken out of the CEP&RI Trust and replaced with real estate of equal or greater value, making it legally possible to sell Parcel A outright. The entire Property is then subject to a mixed-use master plan that includes a diverse mix of for-sale residential, for-rent residential and retail land. The objective of such a master plan is to create a vibrant neighborhood with a unique identity that will speed absorption and to that achieves premium rents and sale prices.

Alternative IV Master Plan Product Mix

Uses	Consolidated Site
Low-Rise Apartments	406 Units
Small Lot Single-Family & Cottage	173 Units
Townhomes	398 Units
Retail	73,000 SF

Alternatives II and IV require sizeable investment in utilities, roads and site-work to prepare "finished lots" for builders to purchase. For Alternative IV these costs total approximately $23.8 million. Although the cost estimates used in the analysis of Alternatives II and IV are very rough, Alternative IV costs are approximately $5.1 million less than Alternative II because there are fewer units in the product mix. The financial models for Alternatives II and IV assume that the State sells or leases platted (entitled), vacant property and leaves the construction of infrastructure to the purchaser or lessee.

Pros:

- DNR and DSHS do not have any ongoing administrative expenses associated with the Property;
- Sale of both parcels for redevelopment maximizes the near-term cash revenue to the State; and
- Segregation of the Public Health Lab and adjacent Lessees affords these important service providers the opportunity to continue current operations.

Cons:

- Achieving the maximum net cash flow requires a substantial investment by the State for planning, site analyses, building demolition, off-site development impact mitigation and site construction (utilities and roads).

IMPLEMENTATION STEPS

- *Resolve CEP&RI Trust Issue.* In order to implement Alternative IV, the State must be able to sell Parcel A. One potential solution may include exchanging Parcel A for other State-owned land of equal value that will continue to provide revenue to the Trust. Considering the potential base value of Parcel A, other institutional grade investment properties would likely be obtainable and may offer significantly higher returns than other State-owned alternatives.

- *Notify lessees of shutdown schedule.* As previously discussed in this report, there are nine lessees/occupants of the Property four of whom have significant leasehold interests. If/when the decision to surplus all or portions of the Property is made, DNR and DSHS should notify lessees so that they can begin the relocation process and make other operational decisions.

- *Resolve long-term obligations (utilities to PHL, Buildings 20 and 22).* As previously discussed in this report, the State will need to arrange for Buildings 20, 22 and the PHL to get the necessary mechanical and civil utilities directly from outside providers. Options for addressing these lease provisions include (a) negotiating a lump sum payment (buy out) sufficient to allow the tenants to replace the utilities or services currently provided by DSHS; (b) buying out the ground leases entirely and relocating the tenants; or (c) selling the land to the tenants at a value that accounts for their long-term lease hold and the additional costs associated with utility severance.

- *Begin working with the City of Shoreline to address issues regarding reuse of existing structures, and potential new uses that could be allowed on the Site.* The City of Shoreline has expressed interest in seeing the Property redeveloped so it can contribute to Shoreline's tax base. Commercial and residential uses conceived in this Alternative will generate significantly more vehicle trips, the analyses that were conducted during the Master Plan/EIS process would serve as the basis for a new master plan that outlines future uses, traffic mitigation, stream restoration and internal circulation.

- *Conduct a detailed environmental assessment of existing structures.* An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should be completed. Because this alternative assumes that most of the buildings on the Site will be demolished, the environmental assessment should be made with solicitation of demolition bids in mind;

- *Assemble a predevelopment team to analyze and market the Property.* The State of Washington is not well equipped to prepare or implement a market-based master plan for a property of this size. Under this alternative, the State would be marketing a large development opportunity, not individual buildings or lots for sale or lease. The State agency charged with disposition of this Property should retain representation and complete a base level of due diligence (picking up where the Arai/Jackson Master Plan left off) and then make the decision to either fund and proceed with the Master Plan in order to optimize the cash revenue to the State, or issue a request for development proposals (RFDP) for the Property.

FINANCIAL ANALYSIS

The financial analysis of Alternative IV takes the perspective of a private land developer and begins with a projection of gross land sales over time based on the product mix described above then subtracts out the costs of roads, utilities and soft costs to estimate the net cash flow from land sales. Alternative III provides the highest net cash revenue to the State at $43.33 million.

Alternative IV: Parcel A & B Combined

	High	Low	Probable
Net Cash Flow	$43.3M	$43.3M	$43.3M
Discount Rate	15%	25%	18%
Net Present Value Conclusion	$18.7M	$10.5M	$15.7M

Project Cash Flow
Alternative 4

		Static	Inflated	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
LAND SALES:																			
Sales Revenue- Absorbed by Land Use:																			
Lofts		117,612	136,248	0	0	0	0	0	0	0	0	15,148	15,338	15,529	15,724	15,920	16,119	16,321	16,525
Retail		3,293,136	3,892,963	0	0	0	0	0	0	0	0	308,719	312,578	316,485	320,441	324,447	328,503	332,609	336,766
Townhomes		34,499,520	43,336,195	0	0	0	0	0	0	0	0	1,794,071	1,816,497	1,839,203	1,862,193	1,885,470	1,909,039	1,932,902	1,957,063
Apartments- Garden		6,753,542	7,961,375	0	0	0	0	0	0	0	0	657,975	666,199	674,527	682,958	691,495	700,139	708,891	717,752
Single Family/Cottages		12,545,280	15,361,957	0	0	0	0	0	0	0	0	801,458	811,477	821,620	831,890	842,289	852,818	863,478	874,271
Total	$23.05	$57,209,090	$70,688,739	$0	$0	$0	$0	$0	$0	$0	$0	$3,577,371	$3,622,089	$3,667,365	$3,713,207	$3,759,622	$3,806,617	$3,854,200	$3,902,377
Selling Costs	5.00%	(2,860,455)	(3,534,437)	0	0	0	0	0	0	0	0	(178,869)	(181,104)	(183,368)	(185,660)	(187,981)	(190,331)	(192,710)	(195,119)
Net Sales Proceeds		$54,348,636	$67,154,302	$0	$0	$0	$0	$0	$0	$0	$0	$3,398,503	$3,440,984	$3,483,996	$3,527,546	$3,571,641	$3,616,286	$3,661,490	$3,707,258
Net Proceeds From Land Sales		$54,348,636	$67,154,302	$0	$0	$0	$0	$0	$0	$0	$0	$3,398,503	$3,440,984	$3,483,996	$3,527,546	$3,571,641	$3,616,286	$3,661,490	$3,707,258
LAND DEVELOPMENT COSTS:																			
Cost Allocations:																			
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$400,000	$400,000	$400,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																			
SEPA		1,000,000	1,000,000	250,000	250,000	250,000	250,000	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$1,000,000	$1,000,000	$250,000	$250,000	$250,000	$250,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$2,603,337	$0	$0	$0	$0	$0	$0	$1,297,614	$1,305,724	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$16,127,053	$17,277,966	$0	$0	$0	$0	$0	$0	$4,185,336	$4,211,495	$0	$0	$0	$0	$0	$0	$0	$4,426,734
Contingency	20.00%	1,612,705	1,679,366	0	0	0	0	0	0	837,067	842,299	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	832,156	866,553	0	0	0	0	0	0	431,927	434,626	0	0	0	0	0	0	0	0
Total Development Costs		$19,971,914	$23,827,223	$650,000	$250,000	$250,000	$250,000	$0	$0	$6,751,944	$6,794,144	$0	$0	$0	$0	$0	$0	$0	$4,426,734
Net Cash Flow	$14.13	$34,376,722	$43,327,079	($650,000)	($250,000)	($250,000)	($250,000)	$0	$0	($6,751,944)	($6,794,144)	$3,398,503	$3,440,984	$3,483,996	$3,527,546	$3,571,641	$3,616,286	$3,661,490	($719,475)

		Today	At Entitlement	Finished Lot
Discount Rate 18.00% Probable	NPV=	$15,757,369	$20,787,774	$23,133,851
	NPV/SF=	$5.14	$6.78	$7.54
Discount Rate 15.00% High	NPV=	$18,681,108	$23,520,260	$25,678,740
	NPV/SF=	$6.09	$7.67	$8.37
Discount Rate 25.00% Low	NPV=	$10,504,883	$15,494,578	$18,094,504
	NPV/SF=	$3.43	$5.05	$5.90

WSIB- Fircrest

Project Cash Flow Alternative 4		17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
LAND SALES:																	
Sales Revenue- Absorbed by Land Use:																	
Lofts		9,625	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail		340,976	345,238	349,554	276,646	0	0	0	0	0	0	0	0	0	0	0	0
Townhomes		1,981,526	2,006,295	2,031,374	2,056,766	2,082,476	2,108,507	2,134,863	2,161,549	2,188,568	2,215,925	2,243,624	2,271,670	2,300,066	556,548	0	0
Apartments- Garden		726,724	735,808	745,005	253,902	0	0	0	0	0	0	0	0	0	0	0	0
Single Family/Cottages		885,200	896,265	907,468	918,811	930,297	941,925	953,699	965,621	977,691	285,679	0	0	0	0	0	0
Total	$23.05	$3,944,051	$3,983,606	$4,033,401	$3,506,126	$3,012,772	$3,050,432	$3,088,562	$3,127,169	$3,166,259	$2,501,605	$2,243,624	$2,271,670	$2,300,066	$556,548	$0	$0
Selling Costs	5.00%	(197,203)	(199,180)	(201,670)	(175,306)	(150,639)	(152,522)	(154,428)	(156,358)	(158,313)	(125,080)	(112,181)	(113,583)	(115,003)	(27,827)	0	0
Net Sales Proceeds		$3,746,848	$3,784,426	$3,831,731	$3,330,819	$2,862,134	$2,897,910	$2,934,134	$2,970,811	$3,007,946	$2,376,524	$2,131,443	$2,158,086	$2,185,062	$528,720	$0	$0
Net Proceeds From Land Sales		$3,746,848	$3,784,426	$3,831,731	$3,330,819	$2,862,134	$2,897,910	$2,934,134	$2,970,811	$3,007,946	$2,376,524	$2,131,443	$2,158,086	$2,185,062	$528,720	$0	$0
LAND DEVELOPMENT COSTS:																	
Cost Allocations:																	
Acquisition/Basis		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cost Allocations		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Entitlement Costs:																	
SEPA		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Permits		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Entitlement Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Demolition Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Severance Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Lot Development Costs		$4,454,401	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Contingency	20.00%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Taxes	8.60%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Development Costs		$4,454,401	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	$14.13	($707,553)	$3,784,426	$3,831,731	$3,330,819	$2,862,134	$2,897,910	$2,934,134	$2,970,811	$3,007,946	$2,376,524	$2,131,443	$2,158,086	$2,185,062	$528,720	$0	$0
Discount Rate 18.00% Probable																	
Discount Rate 15.00% High																	
Discount Rate 25.00% Low																	

Summary of Assumptions:
Alternative 4

Escalators/Discount Rate:

Value Inflation Rate:	5.00%
Cost Inflation Rate:	2.50%
Revenue Inflation Rate:	5.00%
Expense Inflation Rate	2.50%
Discount Rate- Land Sales	18.00%

Miscellaneous:

Selling Costs	5.00%
Contingency (maximum)	20.00%
Sales Tax	8.60%

Land Area:

		Acres	Total % of Gross	Sq. Footage
Gross		86	100%	3,746,160
Site Loss	(incl bldgs)	19	22%	816,750
Open Space		6	7%	243,936
Road Network		3	3%	117,612
Net Developable		58	67%	2,509,056

Price, Absorption & Density Assumptions

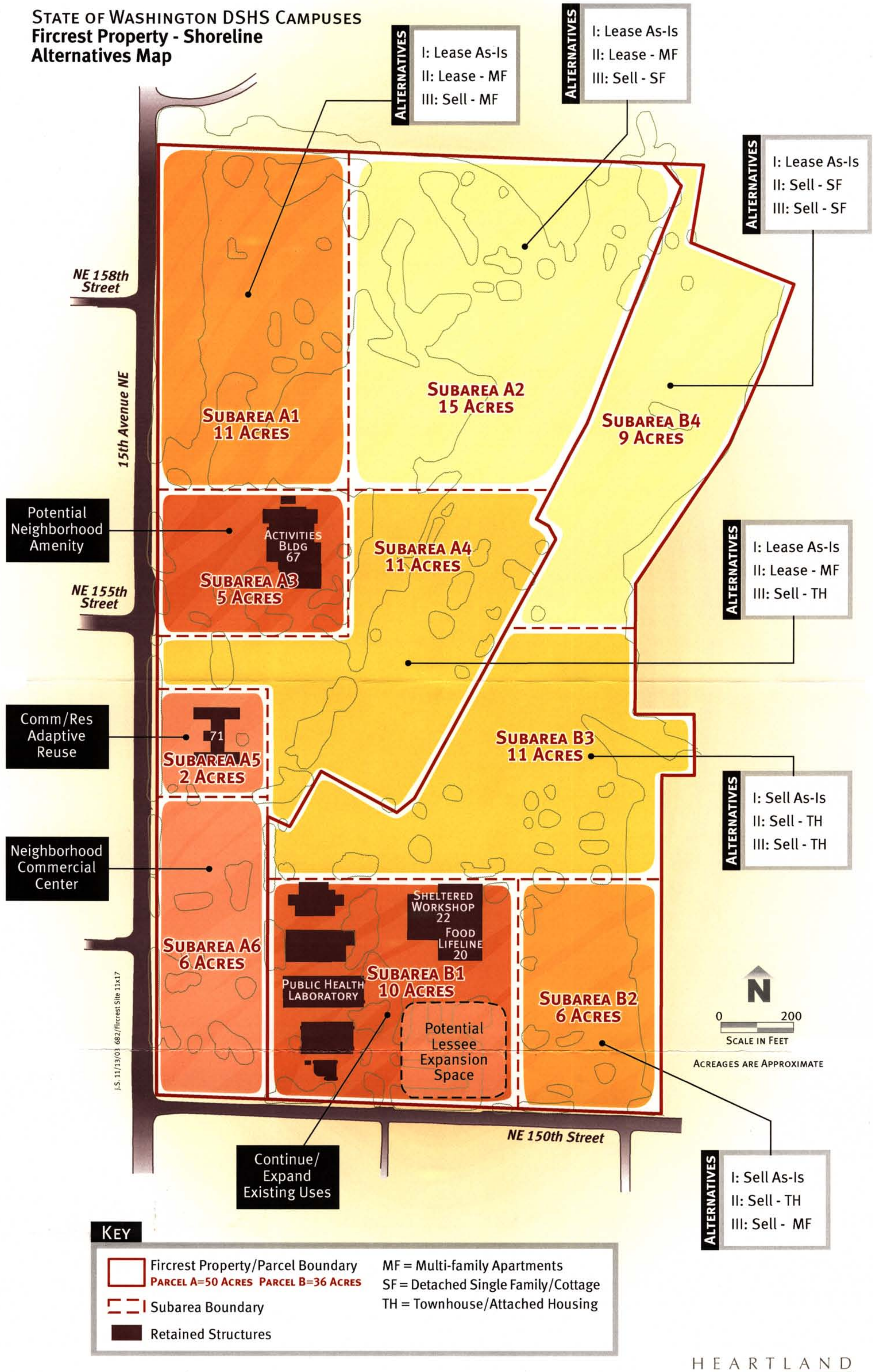
	Loft	Retail	Townhomes	Garden	Single Fam
Platted Land Price	$0.00	$14.00	$45.00	$11.40	$15.00

Summary of Land Use by Type (in square feet)

	Quantity	# of Units
Loft	42,876	
Retail- Shops	73,635	
Townhome	707,966	398
Apt- Garden	396,781	397
Single Family	311,195	173
Total	1,532,453	

Land Development Costs by Phase
Alternative 4

	Public Cost		Up Front	Phases 1	2	3	4	5	6	Total
Cost Allocations:										
Acquisition/Basis	$6.00		$0	$0	$0	$0	$0	$0	$0	$0
Original Entitlements Costs			0	0	0	0	0	0	0	0
Original Site Costs			0	0	0	0	0	0	0	0
Other			0	0	0	0	0	0	0	0
Total Cost Allocations			$0	$0	$0	$0	$0	$0	$0	$0
Land Planning Costs	n		$400,000	$0	$0	$0	$0	$0	$0	$400,000
Entitlement Costs:										
Agreements	n		$0	$0	$0	$0	$0	$0	$0	$0
Land Division	n		0	0	0	0	0	0	0	0
SEPA	n		1,000,000	0	0	0	0	0	0	1,000,000
Permits	n		0	0	0	0	0	0	0	0
Phased (0-=no, 1=yes)		1								
Total Entitlement Costs			$1,000,000	$0	$0	$0	$0	$0	$0	$1,000,000
Demolition Costs	n	$4.00 625,000		$2,500,000	$0	$0	$0	$0	$0	$2,500,000
Lot Development Costs	n			$8,063,526	$8,063,526	$0	$0	$0	$0	$16,127,053
Cut/Fill	n	$4.00 cy		0	0	0	0	0	0	0
Other	n			0	0	0	0	0	0	0
Total Other				$8,063,526	$8,063,526	$0	$0	$0	$0	$16,127,053
Contingency		20.00%		1,612,705	$0	$0	$0	$0	$0	1,612,705
Sales Taxes		8.60%		832,156	$0	$0	$0	$0	$0	832,156
Total Costs			$1,400,000	$13,008,388	$8,063,526	$0	$0	$0	$0	$22,471,914


State of Washington DSHS Campuses
Fircrest Property - Shoreline
Alternatives Map
Alternatives
I: Lease As-Is
II: Lease - MF
III: Sell - MF
Alternatives
I: Lease As-Is
II: Lease - MF
III: Sell - SF
Alternatives
I: Lease As-Is
II: Sell - SF
III: Sell - SF
NE 158th Street
15th Avenue NE
Subarea A1
11 Acres
Subarea A2
15 Acres
Subarea B4
9 Acres
Potential Neighborhood Amenity
Activities Bldg 67
Subarea A3
5 Acres
Subarea A4
11 Acres
NE 155th Street
Alternatives
I: Lease As-Is
II: Lease - MF
III: Sell - TH
Comm/Res Adaptive Reuse
71
Subarea A5
2 Acres
Subarea B3
11 Acres
Alternatives
I: Sell As-Is
II: Sell - TH
III: Sell - TH
Neighborhood Commercial Center
Sheltered Workshop 22
Food Lifeline 20
Subarea A6
6 Acres
Public Health Laboratory
Subarea B1
10 Acres
Potential Lessee Expansion Space
Subarea B2
6 Acres
N
0 200
Scale in Feet
Acreages are Approximate
J.S. 11/13/03 682/Fircrest Site 11x17
NE 150th Street
Continue/ Expand Existing Uses
Alternatives
I: Sell As-Is
II: Sell - TH
III: Sell - MF
Key
Fircrest Property/Parcel Boundary
Parcel A=50 Acres Parcel B=36 Acres
Subarea Boundary
Retained Structures
MF = Multi-family Apartments
SF = Detached Single Family/Cottage
TH = Townhouse/Attached Housing
HEARTLAND

Recommendations

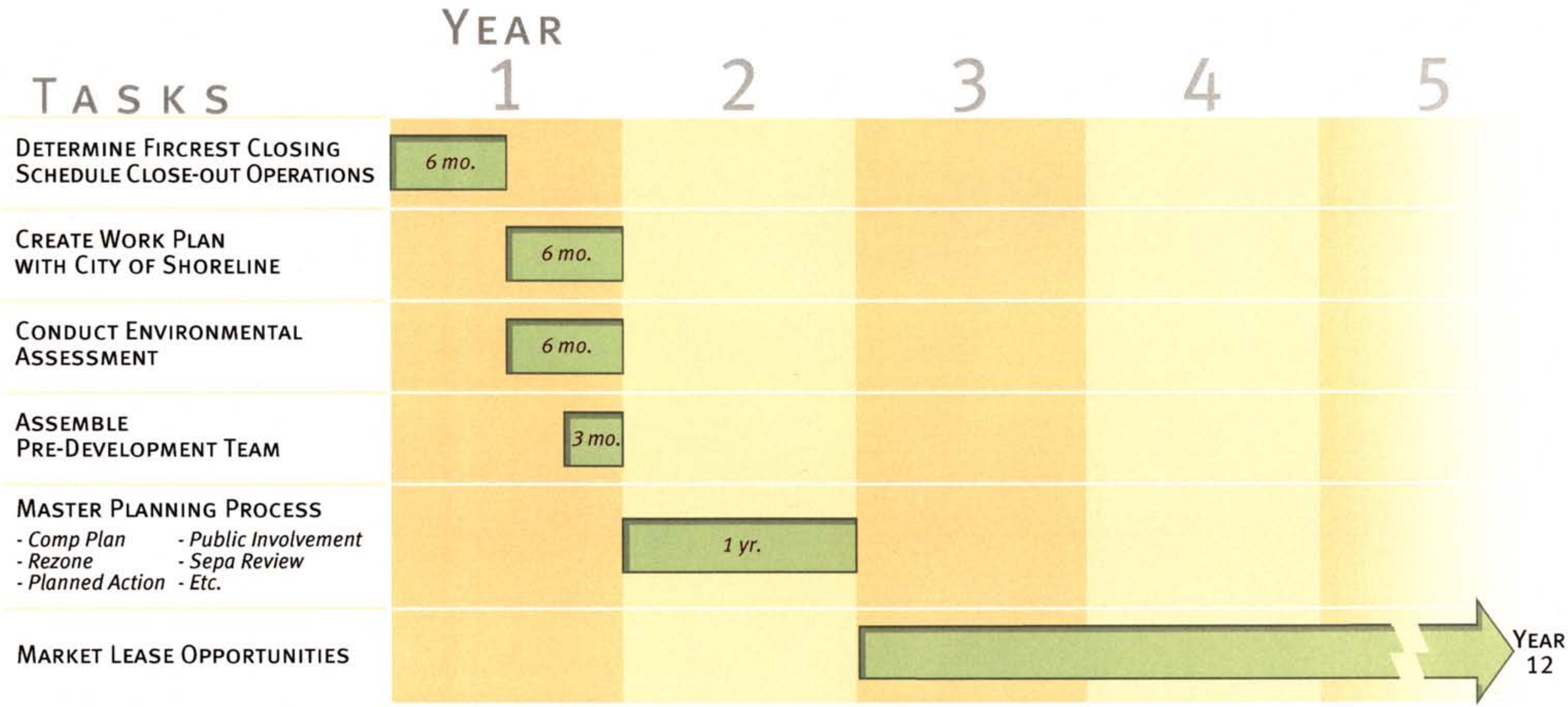
RECOMMENDATIONS

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

If the Fircrest School is permanently closed and the Property is declared surplus, then conducting some amount of predevelopment and marketing the entire Site as a development opportunity maximizes the cash revenue to the State. As discussed in the *Market* Section of this report, this Property would be the largest single residential development south of Snohomish County on the Eastside of Lake Washington. The Property's setting and size make it an unprecedented (and unanticipated) opportunity to significantly increase the supply of new housing on the Westside. As the supply of developable land is increasingly constrained, large parcels already served by utilities are extremely rare and the Fircrest Campus would undoubtedly attract attention from builders, land developers and investors from around the region and around the country. We understand that policy makers must consider factors in addition to real estate considerations. In our opinion, as real estate consultants, a ground lease, particularly an unsubordinated ground lease, will diminish the interest in and value of the site.

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

State of Washington DSHS Campuses
Fircrest Property Timeline



J.S. 12/3/03 682/Fircrest Timeline