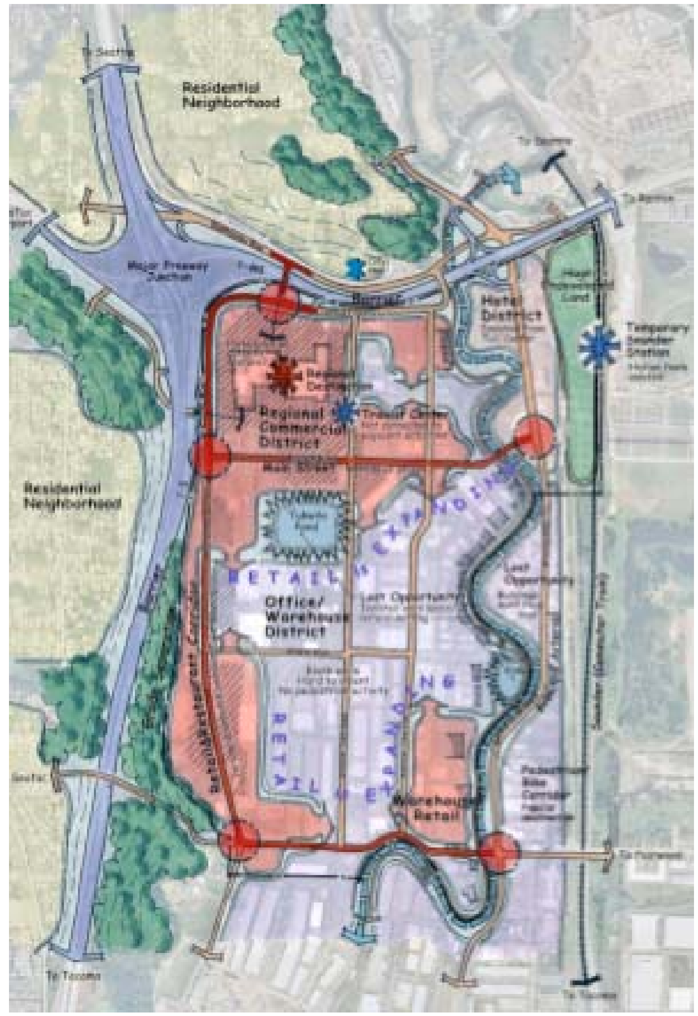
Tukwila Urban Center

Implementation Analysis

Abe Farkas-ECONorthwest

December 2009

Introduction



Purpose of the project

- Review Tukwila Urban Center (TUC) public review draft (Feb 2009)
- Explore concerns of stakeholders
- Evaluate economic feasibility of design types and densities in the TUC plan
- Recommend strategies to support the implementation of the TUC plan

Methods

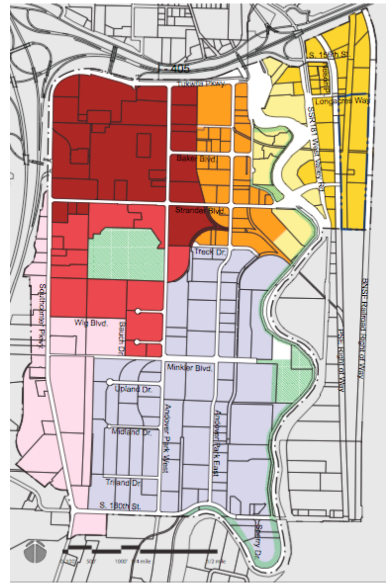
- Review the TUC plan and code
- Analyze long-run economic, demographic, and development trends
- Prepare Four Prototype and Pro Forma analyses
- Conduct Focus Groups

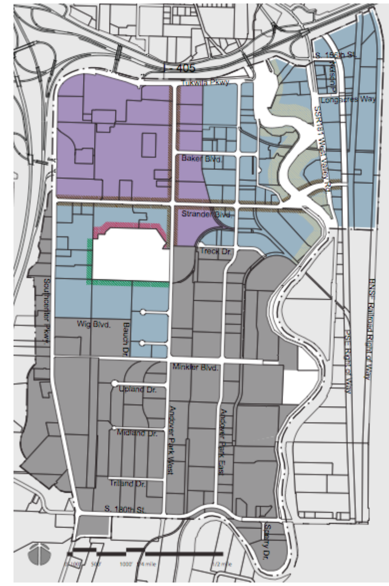
The TUC Plan

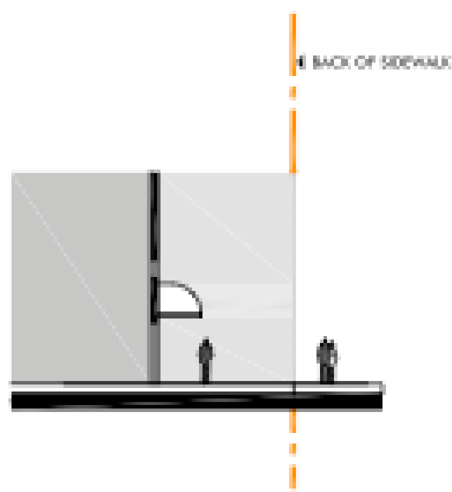
- The Plan:
  - Recognizes Southcenter as a regional retail and employment Center
  - Builds on King County's "Urban Centers" designation
  - Reflects the community's vision for growth and change
  - Envisions future development that is more:
    - Urban
    - Mixed-use
    - Pedestrian-oriented
    - Transit oriented

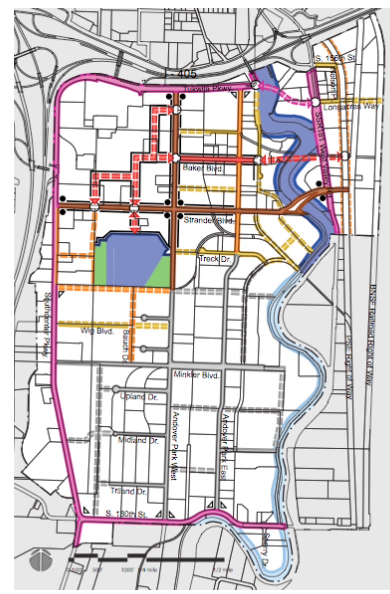
Plan components

- Use zones
- Scale zones
- Corridors
- Form-based development standards
- Design guidelines










Development economics



Long-run factors that affect development in the TUC

Advantages

- Location/Destination
- Access
- Large marketshed
- Regional employment center
- Waterfront amenities
- Large parcels

Disadvantages

- Lower-income market
- Auto-oriented retail center
- Lack of publicly-owned land
- Declining strength of retail market
- Large parcels

Short-run factors that affect development

- Lower rents
- Lack of development incentives
- Lack of paid parking on and off street
- Economic downturn
  - Lack of demand (Regional oversupply of asset classes)
  - Costly and tight financing for developers
  - Curtailed consumer spending

Prototypes and proformas

Financial Pro Forma
Prototype: Mixed-use mid-rise building

Assumptions / Building value bottome line

About the development

use	gross sq feet
Apartments	60,000
Ground floor retail	20,000
Structured and surface parking	44,135
TOTAL (w/o parking)	80,000

Development costs

item	% assumption	dollars
Site acquisition		$1,020,000
New construction		$14,889,450
Developer fee (as % of construction)	5%	$744,473
Soft costs (as % of construction)	30%	$4,466,835
Contingency (as % of soft & hard costs)	5%	$967,814
Off-site costs	0%	$0
TOTAL		$22,088,572

Revenues and expenses

source of income/expense	$/SF assumption	annual income
Residential rent (per month)	1.7	$1,040,400
Retail rent (per year)	20	$340,000
total revenue		$1,380,400
Management fee (as % of revenue)	5%	$69,020
STABILIZED NOI		$1,223,034

Other assumptions

Rent increase per year	3%
Operating cost increase	3%
Vacancy, Yr 1	30%
Vacancy, Yr 2	10%
Vacancy, Yr 3 and stabilization	5%
Cap rate	8.5%

Bottom line

Fair Market Value	$14,388,640
Created value (FMV-costs)	($7,699,932)

Scenario 1 (35/65)

Equity

	assumption	dollars
Equity required	35%	$7,731,000
Equity terms		
term (yrs)	7	
interest rate	20%	
Total equity repayment (balloon payment at end of term)		$15,013,351

Bank loan

	assumption	dollars
Bank loan required	65%	$14,357,572
Bank loan terms:		
term (yrs)	30	
interest rate	8.0%	
Annual payment		$1,275,346

Bottom line

Loan to value ratio	1.00
Debt coverage ratio	0.96
Financing gap	$0
Equity repayment gap (or surplus)	-$15,030,073
IRR on equity	-38%

This sheet allows the user to manipulate four development and financing scenarios by changing the variables that are highlighted in BLUE. All scenarios reference the same development program. All scenarios reference the same revenue and cost assumptions, but these assumptions can be changed on this page. The key difference in the scenarios is the structure of the financing.

Scenario 2 (20/80)

Equity

	assumption	dollars
Equity required	20%	$4,417,714
Equity terms		
term (yrs)	7	
interest rate	20%	
Total equity repayment (balloon payment at end of term)		$8,579,058

Bank loan

	assumption	dollars
Bank loan required	80%	$17,670,857
Bank loan terms:		
term (yrs)	30	
interest rate	6.0%	
Annual payment		$1,283,769

Bottom line

Loan to value ratio	1.23
Debt coverage ratio	0.95
Financing gap	$0
Equity repayment gap (or surplus)	-$8,654,736
IRR on equity	-33%

Scenario 3 (35/65 with public)

Equity

	assumption	dollars
Equity required	10%	$2,208,857
Equity terms		
term (yrs)	10	
interest rate	20%	
Total equity repayment (balloon payment at end of term)		$5,266,627

Bank loan

	assumption	dollars
Bank loan required	65%	$14,357,572
Bank loan terms:		
term (yrs)	30	
interest rate	8%	
Annual payment		$1,275,346

Second loan

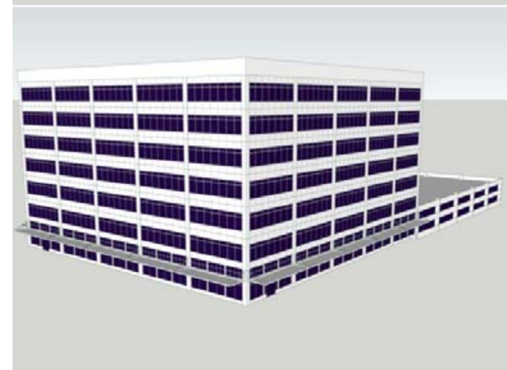
	assumption	dollars
Required loan amount	25%	$5,522,143
Second loan terms		
term (yrs)	30	
interest	1%	
Annual payment (interest only payments for 10 yrs)		$213,973

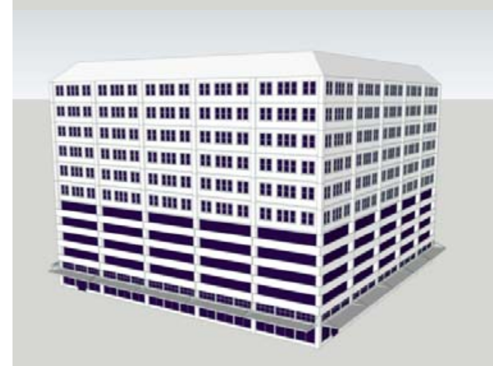
Bottom line

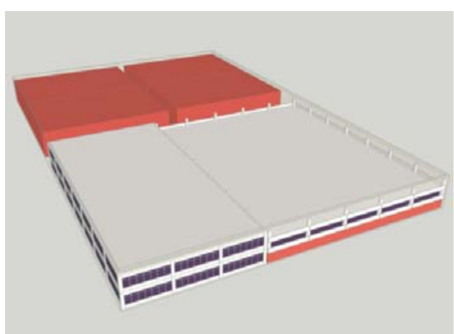
Loan to value ratio	1.00
Debt coverage ratio	0.96
Financing gap	$0
Equity repayment gap (or surplus)	-$5,040,575
IRR on equity	-13%

Prototypes

- Mixed-use mid rise building
- Office tower
- Residential tower
- Adaptive re-use of big box







Assumptions

- Land division probably necessary
- No off-site $$
- No initial parking revenue
- Residential units = rental
- Construction costs, unit sizes, rents, etc. based on interviews with industry professionals

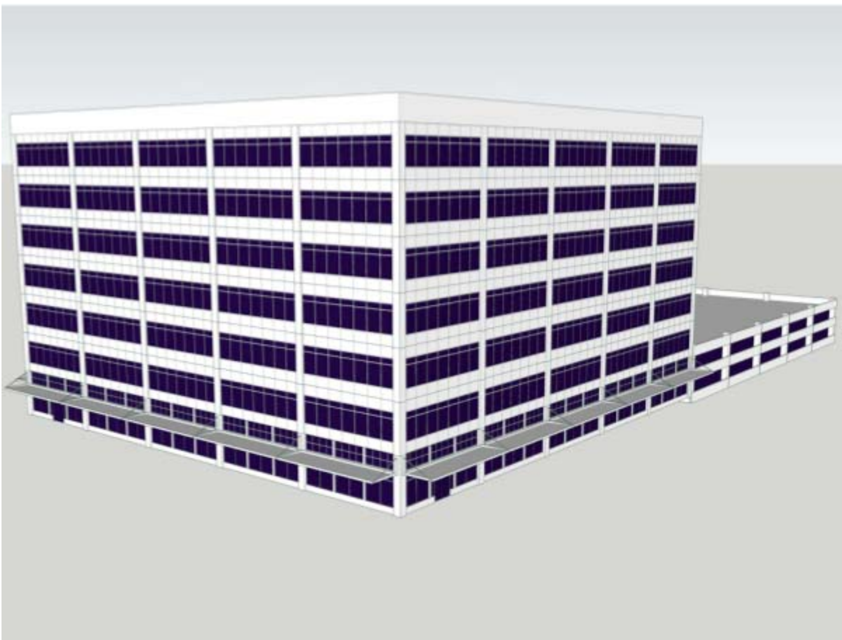
Financing scenarios

- 1. All Private: 65% bank loan at 8% interest with equity at 13%
- 2. All Private: 80% bank loan at 6% interest with equity at 13%
- 3. Public/Private:
  - Bank loan at 8%
  - Reduced equity + second loan from public agency at 1%
- 4. Public/Private:
  - Bank loan at 6%
  - Reduced equity + second loan from public agency at 1%

Mixed-use mid-rise

- Stories: 6 (2 parking, 1 retail, 3 residential)
- Gross Bldg SF: 80,000
- Usable SF: 68,000
- Parking SF: 44,135
- Footprint SF: 20,000

Office Tower

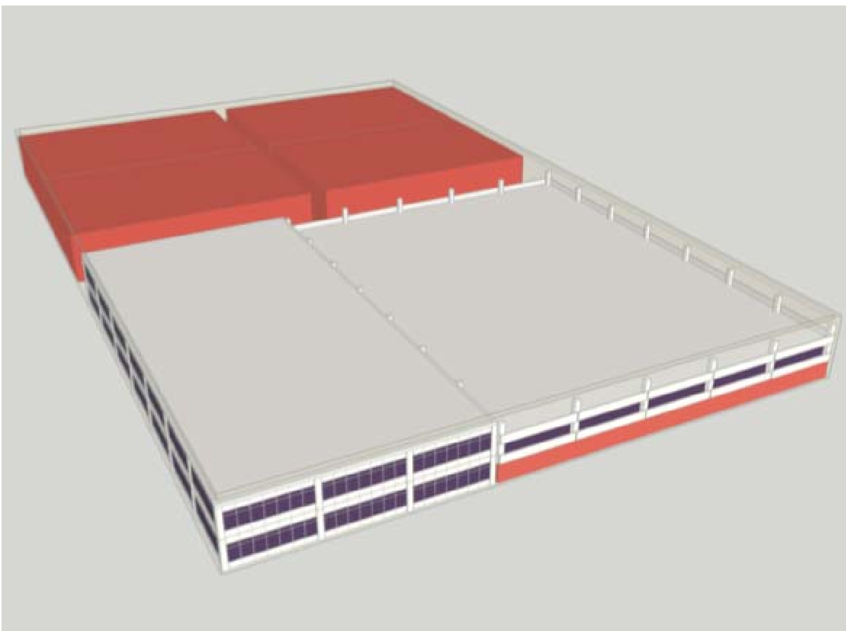


- Stories: 9 (2 parking, 1 retail, 6 office)
- Gross Bldg SF: 157,000
- Useable SF: 133,450
- Parking SF: 142,086
- Footprint SF: 22,000

Residential tower

- Stories: 11 (4 parking, 1 retail, 6 residential)
- Gross Bldg SF: 161,000
- Useable SF: 136,850
- Parking SF: 80,680
- Footprint SF: 23,000

Adaptive re-use (big box)



- Stories: 2 (1 retail, 1 office)
- Gross Bldg SF: 90,000
- Useable SF: 76,500
- Parking SF: 57,120
- Parking SF (in surface lots): 27,120
- Footprint SF: 100,000 (original)

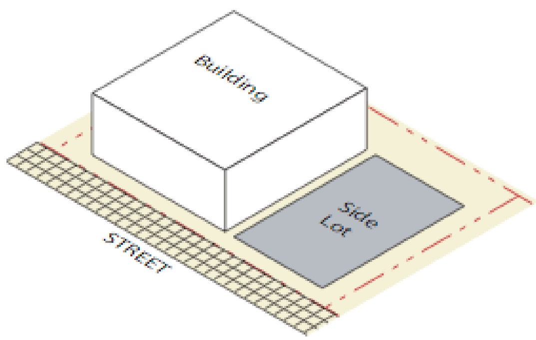
Summary

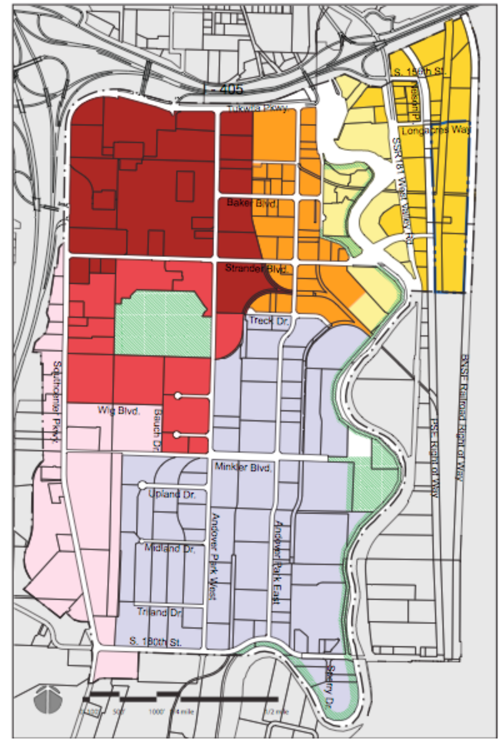
	Prototype			
	Mixed-use Mid-rise	Office Tower	Residential tower	Adaptive Re-Use
Total floors	6	6	11	2
Gross SF (excluding parking)	80,000	157,000	161,000	90,000
Useable SF	68,000	133,450	136,850	76,500
Uses	Residential	Office	Residential	Office
	Ground floor retail	Ground floor retail	Ground floor retail	Ground floor retail
	Parking	Parking	Parking	Restaurant
				Parking
Development Cost	$22,088,572	$37,614,700	$52,777,129	$11,196,188
Fair Market Value	$14,388,640	$27,017,463	$30,831,914	$15,532,688
Created Value (Cost-Value)	($7,699,932)	($10,597,237)	($21,945,215)	$4,336,500

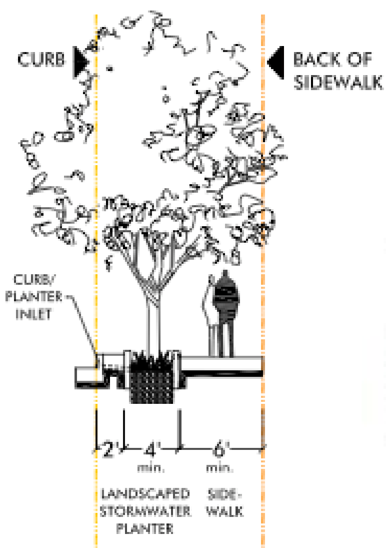
Why Adaptive re-use works (and others do not)

- Lower cost of construction
- Doesn’t need new structured parking
- Can be supported by lower rents

Recommendations

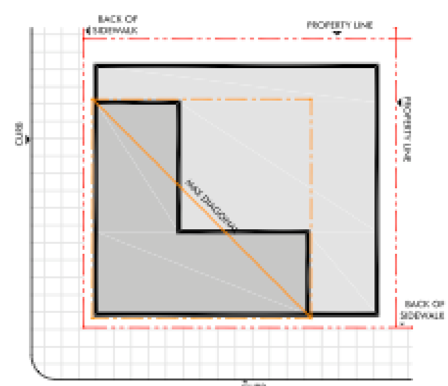






Comments on TUC standards

- Organization/complexity
- Thresholds that trigger compliance
- Open Space
- Fire Code
- Parking requirements



Action Plan to catalyze development

Short-Term

GET THE FACTS

- Additional information about:
  - Land and building values
  - Rents for all asset classes
  - Construction costs
  - Land ownership status
  - Water, soils, environment
  - Project needs and targets for various uses (attention on workforce and affordable housing)

ESTABLISH A REDEVELOPMENT ENTITY

- Redevelopment entity on the public side
- Coordinate implementation of TUC redevelopment strategy
- Existing department or new entity

CONSIDER REBRANDING TUKWILA

- Two images:
  - Strong regional shopping center
  - public safety and socio-economic issues
- Rebrand:
  - Focus on attractive mixed-use development for customers, tenants, and developers
  - Take advantage of potential waterfront amenities, the central location and access, and affordability

LIGHT RAIL, BUS TRANSIT, COMMUTER RAIL LINKS

- Integrated system can help the area become more viable for office and residential uses
- Foster 20 minute neighborhood

PUBLIC SECTOR TOOL KIT

- Public resources/tools that can be used to partner on implementing the strategy:
  - Low interest loans to leverage private development
  - Purchase or option land
  - Revenue bonds
  - Fund pedestrian improvements
  - Acquire and develop open space
  - Parking garage (construct or participate in financing)
  - Focus impact fees to benefit TUC area

Action Plan to catalyze development

Intermediate- and Long-Term

PREPARE A COLLABORATIVE REDEVELOPMENT STRATEGY

- Collaborate to capitalize on TUC vision (property owners, businesses, community members):
  - Secure agreement on location of critical new streets
  - Identify potential locations for open space
  - Prioritize public improvements (open space, structured parking, ped amenities)
  - Identify where redevelopment should start –i.e. catalytic development opportunities

CHOOSE APPROACHES TO INITIATE DEVELOPMENT

- Purchase/secure options on sites
- Solicit developers through an RFQ process
- Partner with private sector owners who control strategic sites
- Offer public assistance and tool kit programs on first-come, first-serve basis

IMPLEMENT REDEVELOPMENT STRATEGY

- Work with stakeholders
- Have development tool authorized
- Assemble key parcels and collaborate with developers through RFQ process
- Enter into pre-development agreements
- Start with smaller scale, but important momentum building projects

Questions?

Sample pro-forma: mixed-use, mid-rise

Assumptions / Building value bottome line		
About the development		
use	*gross sq feet*	
Apartments	60,000	
Ground floor retail	20,000	
Structured and surface parking	44,135	
TOTAL (w/o parking)	*80,000*	
Development costs		
item	*% assumption*	*dollars*
Site acquisition		$1,020,000
New construction		$14,889,450
Developer fee (as % of construction)	5%	$744,473
Soft costs (as % of construction)	30%	$4,466,835
Contingency (as % of soft & hard costs)	5%	$967,814
Off-site costs	0%	$0
TOTAL		*$22,088,572*

Revenues and expenses		
source of income/expense	*$/SF assumption*	*annual income*
Residential rent (per month)	1.7	$1,040,400
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total revenue		*$1,380,400*
Management fee (as % of revenue)	5%	$69,020
STABILIZED NOI		*$1,223,034*
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Vacancy, Yr 2	10%	
Vacancy, Yr 3 and stabilization	5%	
Cap rate	8.5%	
Bottom line		
Fair Market Value	$14,388,640	
Created value (FMV - costs)	($7,699,932)	

Sample pro-forma: adaptive re-use

Assumptions / Building value bottome line		
About the development		
use	*gross sq feet*	
Retail	40,000	
Restaurant	10,000	
Surface parking	30,000	
TOTAL (w/o parking)	*50,000*	
Development costs		
item	*% assumption*	*dollars*
Site acquisition		$3,910,000
New construction		$7,912,500
Developer fee (as % of construction)	5%	$395,625
Soft costs (as % of construction)	30%	$2,373,750
Contingency (as % of soft & hard costs)	5%	$514,313
Off-sites (as % of construction)	0%	$0
TOTAL		*$11,196,188*

Revenues and expenses		
source of income/expense	*$/SF assumption*	*annual income*
Brew pub rent (per year)	17	$144,500
Retail rent (per year)	20	$680,000
Office rent (per year)	18	$612,000
total revenue		*$1,436,500*
Management fee (as % of revenue)	5%	$71,825
STABILIZED NOI		*$1,272,739*
Other assumptions		
Rent increase per year	3%	
Operating cost increase	3%	
Vacancy, Yr 1	30%	
Vacancy, Yr 2	10%	
Vacancy, Yr 3 and stabilization	5%	
Cap rate	8.0%	
Bottom line		
Fair Market Value	$15,909,238	
Created value (FMV - costs)	$4,713,050	