



4th Annual NAIOP Pacific Northwest Real Estate Challenge

I: Project Description

The 2007 NAIOP Real Estate Challenge is a competition among Washington State University, the University of Washington, the University of British Columbia in Vancouver, and Portland State University. The Challenge is sponsored by professionals in the real estate and development community and is supported by the respective local chapters of the NAIOP (National Association of Industrial and Office Properties). The competitive teams will have an opportunity to interact with industry professionals as they create a development proposal for a real-world project. The proposals will be judged by a panel that will represent the land owner and potential joint venture capital partners.

The Challenge will culminate in a formal presentation before an audience of NAIOP members, university representatives, a judging panel of industry and public leaders, and friends. It is designed to create a win-win situation that helps bridge the gap between the industry and academic communities and better prepare students for successful real estate careers. The winning team and each of the schools will be awarded an honorarium for their performance and participation.

NAIOP Competition teams are charged with submitting a development proposal to the King County Executive to replace the 35-year old County Administrative Building at Fifth Ave and James St with a new, space-efficient, LEEDcertified, 44-story, mixed use high rise building providing 200,000 square feet of office space for county staff (plus room for growth). The proposal must be cost-neutral to the County through a public-private partnership with a developer.

The objective of the challenge is to select the team that best formulates a development proposal that incorporates the following considerations:

- Demonstrates an understanding of market conditions in Seattle and the trade area.
- Reflects the zoning, land uses, and other neighborhood factors that exist or can be reasonably anticipated for the property. This includes prevailing regulatory constraints, entitlement processes and local community interests along with existing legal agreements/stipulations.
- Achieves market-based returns to key parties and contains sufficient financial information to convince investors of the economic viability of the proposal. Materials should include design, costs, target tenants, marketing strategies, time frames and other information necessary to convince the judges to approve and invest in the proposed project.
- Best addresses the concerns and objectives of the landowner: King County

II. Site Overview

The Subject Property is:

- 59,280 square feet, bounded by 4th Ave on the west, 5th Ave on the east, James St on the north, and Jefferson St on the south. Also, the Site is steeply sloped down from 5th Ave to 4th Ave, and is somewhat less sloped down from James St to Jefferson St.
- As part of the recent revisions to the downtown land use code, the City of Seattle rezoned the Site to DMC (Downtown Mixed Commercial) 340/400. This zoning allows a wide range of commercial, residential and retail uses as part of single and mixed-use projects. The zone allows a maximum Floor Area Ratio (FAR) of 10, with a commercial use height limit of 340 feet and a mixed-use height limit of 400 feet. The Site is bounded on two sides by DOC1 zoning. To accomplish the multiple strategic goals of this project, the County is currently working with the City of Seattle to explore options for maximizing use of the site, including a potential re-zone that would allow a higher density of development. (For example, DOC1 zoning allows a maximum FAR of 20.) All discussions and concepts should include a comparison of development opportunities under current zoning to opportunities under a rezone request.

III. Project Assumptions

To provide a consistent set of parameters for the teams, the following assumptions should be incorporated in the analysis.

1. The Subject Property is free of contamination.
2. Teams have \$20M in working capital
3. Removal of the Skybridge connecting the County jail, known as the King County Correctional Facility (KCCF) to the existing King County Administration Building, and providing alternative inmate transfer routes (preferably via tunnel). Cost of \$8M
4. Provide \$9M to fund courthouse renovations
5. Under current zoning land is valued for lease purposes at \$30M

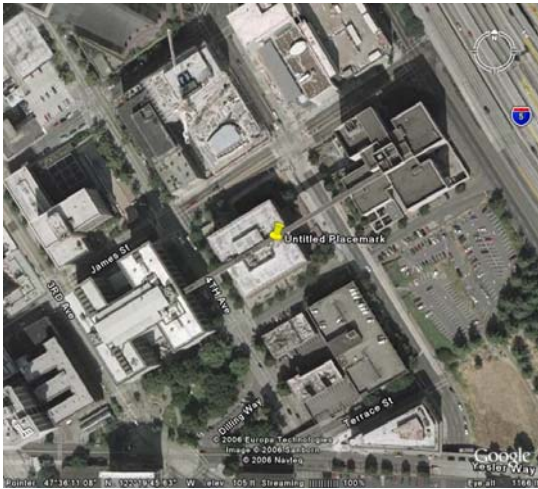
IV. Project Resources

Teams will be provided with local mentor contacts to assist them in understanding the site, neighborhood and market factors that affect their proposed uses. NAIOP and sponsors will provide some initial information on the site, consisting of maps, property information, environmental reports and demographic/economic data. Additionally, the students are encouraged to use their resources and local NAIOP Chapters to acquire additional information as necessary for their unique solutions.

V. Submissions

The submission should be in the form of a project proposal, with appropriate documentation and collateral materials to support the recommendations (e.g., pro-forma, design, costs, tenant profiles, marketing strategy, time frame, risk management). This report should not exceed 50 pages of text and graphics and should be presented as a professional industry submission. It is anticipated that each finalist's report will contain at least the following elements:

- Up to 5 page Executive summary with project overview and key strategies/financial consideration
- Conclusions and recommendations
- Team member names and brief biographies
- Key outside resources



VI. Judging Criteria/Project Evaluation

The Challenge will culminate in the judging of the proposals by a panel of real estate professionals. The judges will be drawn from a variety of real estate disciplines (e.g., architects, planners, developers, contractors, consultants) and will ask questions accordingly.

The judges will vote for the ultimate winner at the conclusion of the presentations based upon their evaluation of the:

- written submissions
- team presentations
- responses to questions.

Each team will be judged based on the thoroughness and logic of their analytical process and the substance of their development plan as well as their ability to properly support their conclusions and recommendations. General evaluation criteria and their weights are:

Criterion	Dimension	Weight
Logic	<ul style="list-style-type: none"> • Logical Thought Process • Efficacy of Thought • Decision-making Process 	20%
Development Feasibility	<ul style="list-style-type: none"> • Design Creativity • Sustainability • Public Benefit • Physical Feasibility 	40%
Economic Feasibility	<ul style="list-style-type: none"> • Marketability • Economic Model • Financial Feasibility • Risk/Return Analysis 	20%
Overall Presentation	<ul style="list-style-type: none"> • Written Materials • Oral Presentation • Answers To Questions 	20%
Total		100%



4th Annual NAIOP Pacific Northwest Real Estate Challenge RFP Project Goals & Additional Assumptions

A. Project Goals

The project should provide an integrated approach to achieve the goals of King County and the City of Seattle, tying the existing government campus areas to the downtown core and South Downtown developments. The County's goals for the project include:

1. Improving governmental service delivery with no added cost to taxpayers. Accommodating regional services in an inviting, multipurpose building.
2. Creating an integrated governmental office neighborhood by re-orienting the Courthouse Entrance to a greater King County campus, within a cohesive government services neighborhood including City of Seattle government buildings.
3. Improve accessibility to government services.
4. Improve the South Downtown Seattle neighborhood by implementing a comprehensive, coordinated set of capital improvements on the King County Campus (skybridges removal, City Hall Park renovation, restoring the Courthouse South Entrance, redevelopment of the King County Administration Building site).
5. By consolidating service locations, reduce traffic, taking advantage of public transportation.
6. Upgrading facilities: Replacing an aging and antiquated public office building with efficient and productive work spaces that boost the level of service that County staff can provide to taxpayers;
7. Maximizing value: Developing the Site to its full potential, thereby maximizing the value of the underlying land and development rights and using that value to mitigate the costs of the building replacement.
8. Facilitate the South Downtown: Promoting the growth and vibrancy of the South Downtown area as well as encouraging quality transportation and other connections between South Downtown neighborhoods and the downtown itself.
9. Sustainability: Creating a building that is environmentally sustainable by building to Leadership in Energy Efficient Design (LEED) standards.
10. Public Art: Implementing public art installations by providing quality locations for the 1 % for Arts Program; and

11. Jobs: Stimulating jobs through the development process.

B. Key Assumptions:

As a part of the County's evaluation of the Site and its goals, several key assumptions have emerged that should be incorporated in to the SOQ/C's:

1. High density: County's goal to build the site to the highest density possible to achieve a project that is cost neutral to the County. Responses should take into consideration current zoning as well as potential re-zone options.
2. County occupancy: The proposal must provide 160,000 square feet of net leasable area to accommodate the County's current needs. After occupancy, the county will require 80,000 square feet every 5 years up to an additional 300,000. The proposal should include a mechanism for King County to purchase these incremental increases in square footage over time at a fixed price.
3. Ownership: County prefers that give a 99 year ground lease rather than sell the land. Not pre-paid. Instead, the value of the land under the current zoning times an appropriate coupon rate in payments.
4. The county will find 150,000 sq. ft. to relocate workers. The current 200,000 is inefficient, only 160,000 is net space. They will lock into a 5 year lease, after which the space will need to be ready. The cost of the leased space is \$45 per sq.ft. all inclusive. There is an offset of \$10 per sq. ft. against this to reflect what the county would be paying for operating costs in its own space.
5. Creating work/office space for professionals who interact with the City and County legal and criminal justice system.
6. Public outreach: This will be a high profile project with many stakeholders including, but not limited to, King County and City of Seattle elected officials and many neighborhood groups. The development team must conceive and present a comprehensive vision for the project, with an optimal balance between commercial development and public amenities.
7. Schedule: Development of this site is a priority project for the County, who would like to occupy the new project as quickly as is reasonably possible;
8. Tax-exempt debt: The County would like to utilize as much tax-exempt debt as possible to minimize the overall cost of the project to the taxpayers;

C. Shared Data (All figures are 2007 dollars)

1. Office construction costs - \$175-215 / sf including TIs -exempt debt: The County would like to utilize as much tax-exempt debt as possible to minimize the overall cost of the pro
2. Retail construction costs 125-140 / sf , exclud TIs
3. County land value \$30M, assuming control is acquired under current zoning
4. County coupon rate (for figuring out land value) - county borrowing costs (4.47%) plus some risk premium
5. Demolition \$2M
6. Court House renovation costs @ \$9M
7. County current operating costs. The county reports that with an 8% discount rate and 3% inflation the NPV of the current building over 50 years is: (\$49.4M). This breaks down as follows: i) Operating expenses: (\$34.7M), ii) Capital costs: (\$18.7M), iii) Residual value (sale at end of year 50) \$4.0M. This implies operating cost alone for the county, ignoring the capital part, of \$11.96/sf. Teams should use the county's PV and compare the PV of their building operation over 50 years to it. Current operating are around \$8 / sf before property tax (which the county does not pay) up to \$10/sf including property tax. Rule of thumb for regular buildings is an annual maintenance set aside (for non-recoverable capital expenses) of 1.5% of gross income (net rent + operating costs).