

Harbor Square Existing Conditions



Harbor Square Redevelopment Concept

Historical Perspective

Port acquired Harbor Square property in 1978

- 14.62 acres
- Cost - \$350,000

Port entered in to a ground lease and development agreement with local private developer in 1982

- Port obtained a contract re-zone for mixed use; retail, office and light industrial in 1980
- No residential
- Height limit 35 ft.
- Project completed in 1985

Environmental investigation and cleanup in 2003-2006

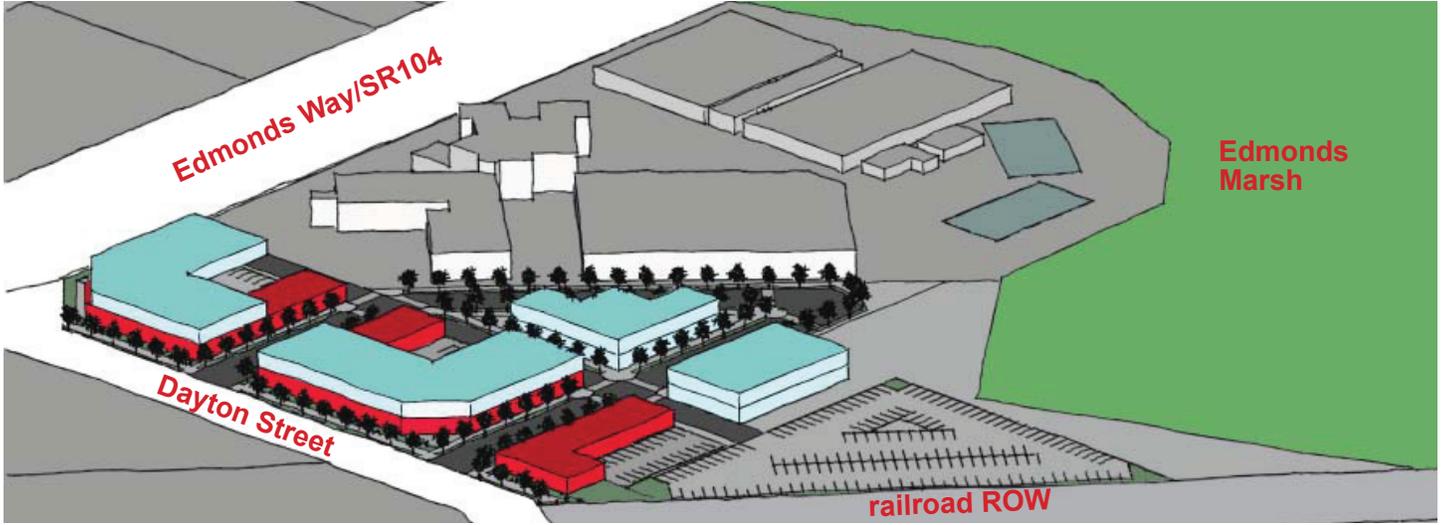
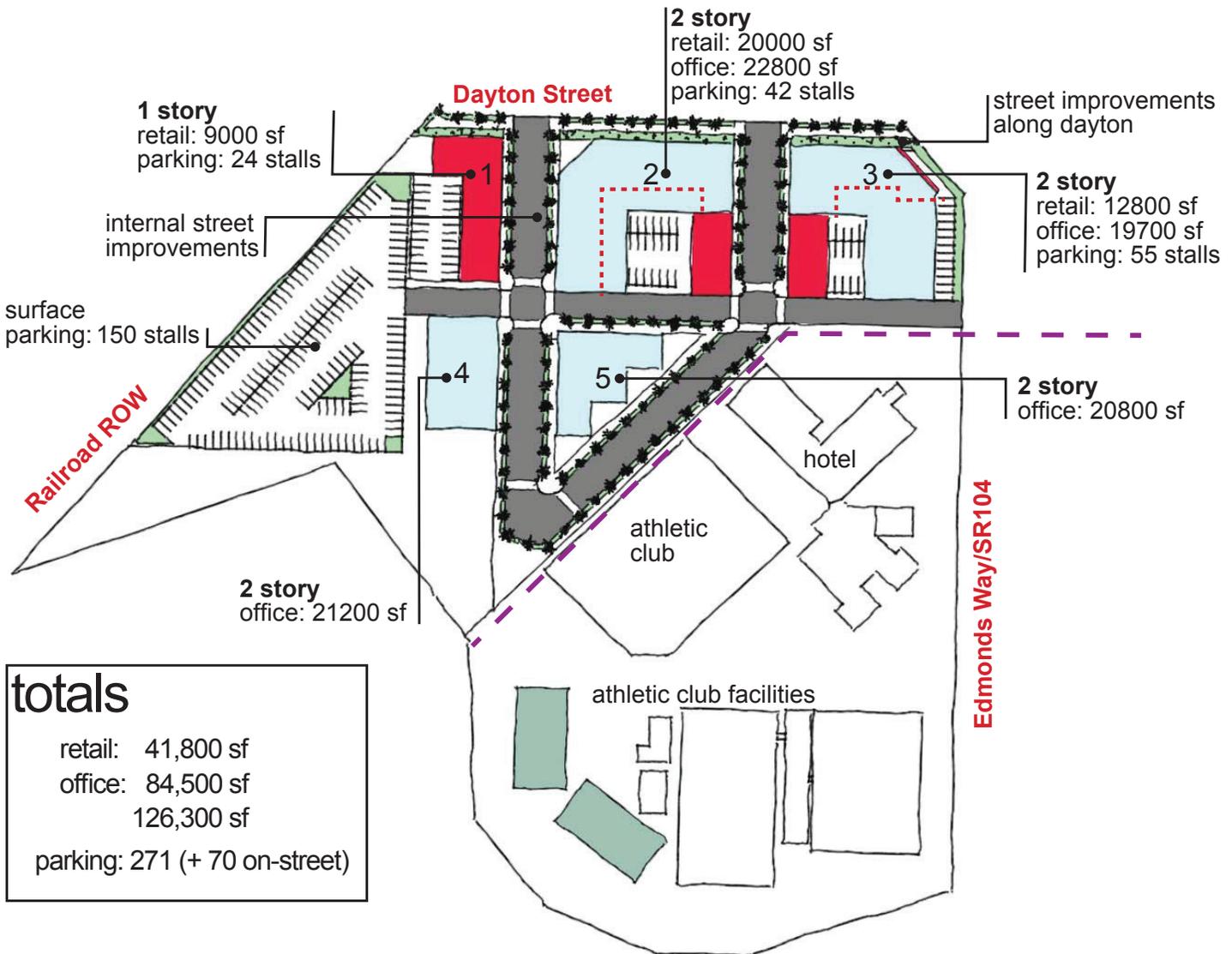
- Cost \$2,088,000
- Litigation and settlement

Port of Edmonds buys six buildings from developer for \$13,500,000

- Hotel is privately owned on a long term ground lease
- HSAC main building owned by Port, tennis facility owned by HSAC with long term ground lease
- Annual debt service is \$886,000; 7.38 % interest
- Balloon payment \$6,336,000 in 2016

Estimated value: \$7.5 million using 7.5% CAP rate and Net Operating Income \$563,863

Harbor Square Office Retail Based Scenario



Harbor Square Redevelopment Concept

Baseline Redevelopment

No change to existing contract re-zone

Permitted uses remain the same

35 ft. maximum height restriction remains unchanged

Increases rentable office and retail space by 25,000 sf

Increases estimated economic value of HS to \$19.2 million, CAP 7.5%, NOI \$1.4 million

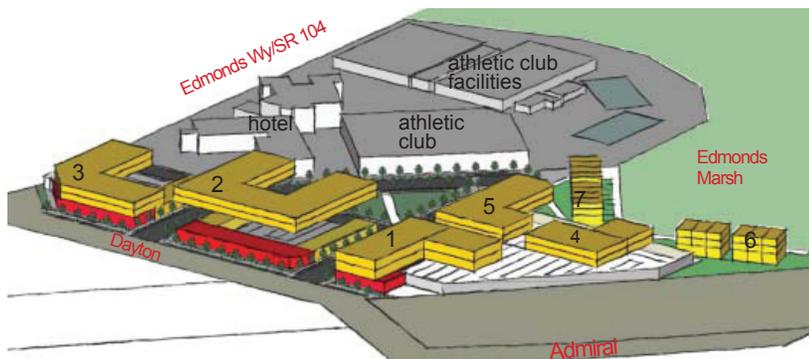
- Construction cost: \$25.1 million
- Favorable market conditions

A best case baseline scenario when market conditions improve; additional square footage, higher rents, and improved occupancy the estimated value ranges from \$18M - \$20.6M. However, construction cost is estimated \$26.2M. Thus, the final value created is lower than construction cost by \$5.6M - \$8.2M. Under this scenario it is unlikely any developer would consider Harbor Square as a serious investment opportunity for an office-retail mixed use development

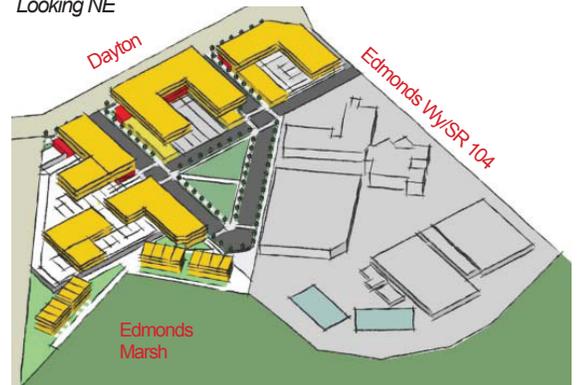
Harbor Square 35ft Mixed Use



Looking SE



Looking NE



Harbor Square Redevelopment Concept

Redevelopment with New Contract Re-zone; LMN Alternative - 1

It does not make sense to sell HS property for redevelopment under existing 35 ft. height limit because the value of current operations (\$7 million - \$8.1 million) are worth about the same as the expected residual land value. The Port still owes \$8,270,202 on the underlying loan

Condominium and retail mixed use within existing 35 ft. maximum height restriction

Variables include: construction cost, interest rates, market conditions (sales price and sales pace)

Project cost: \$62.3 million

Internal Rate of Return:

- Low sale and slow pace; 6.7% (pessimistic)
- **Baseline; 18.9% (midpoint)**
- Best case, high price and fast sales pace; 34.4% (optimistic)

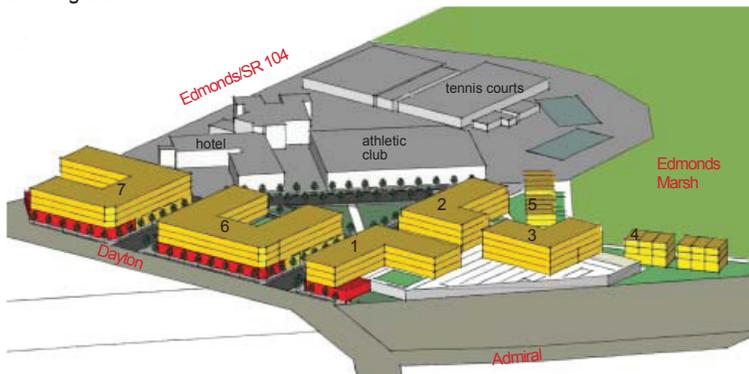
Net Present Value of Residual; the price a private developer would pay for the property to obtain economic benefit of Harbor Square redevelopment

- Residual Land Value: \$7.9 million
- 15% discount rate represents developer's profit

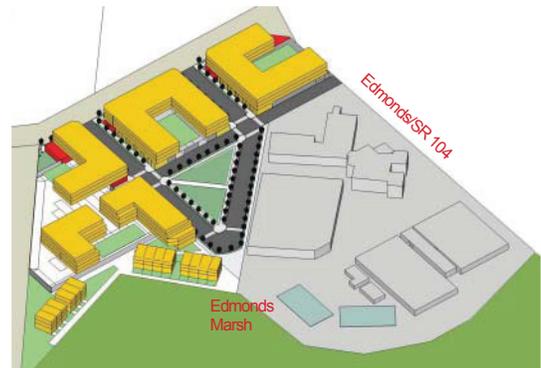
Harbor Square 3-5 Story Mixed Use



Looking SE



Looking NE



Harbor Square Redevelopment Concept

3-5 Story Redevelopment; LMN Alternative - 2

Since the residual land value exceeds the value of current operations (\$7 - \$8.1 million), this redevelopment concept illustrates a potential transaction between the Port and private developer that would: Allow the Port to pay off the underlying loan \$8,270,202; and provide sufficient investment potential for a private sector developer to purchase Harbor Square and assume the risk

Condominium and mixed use assuming increase height to allow up to 5-stories

Variables include: construction cost, interest rates, market conditions (sales price and sales pace)

Project cost: \$91.7 million

Internal Rate of Return:

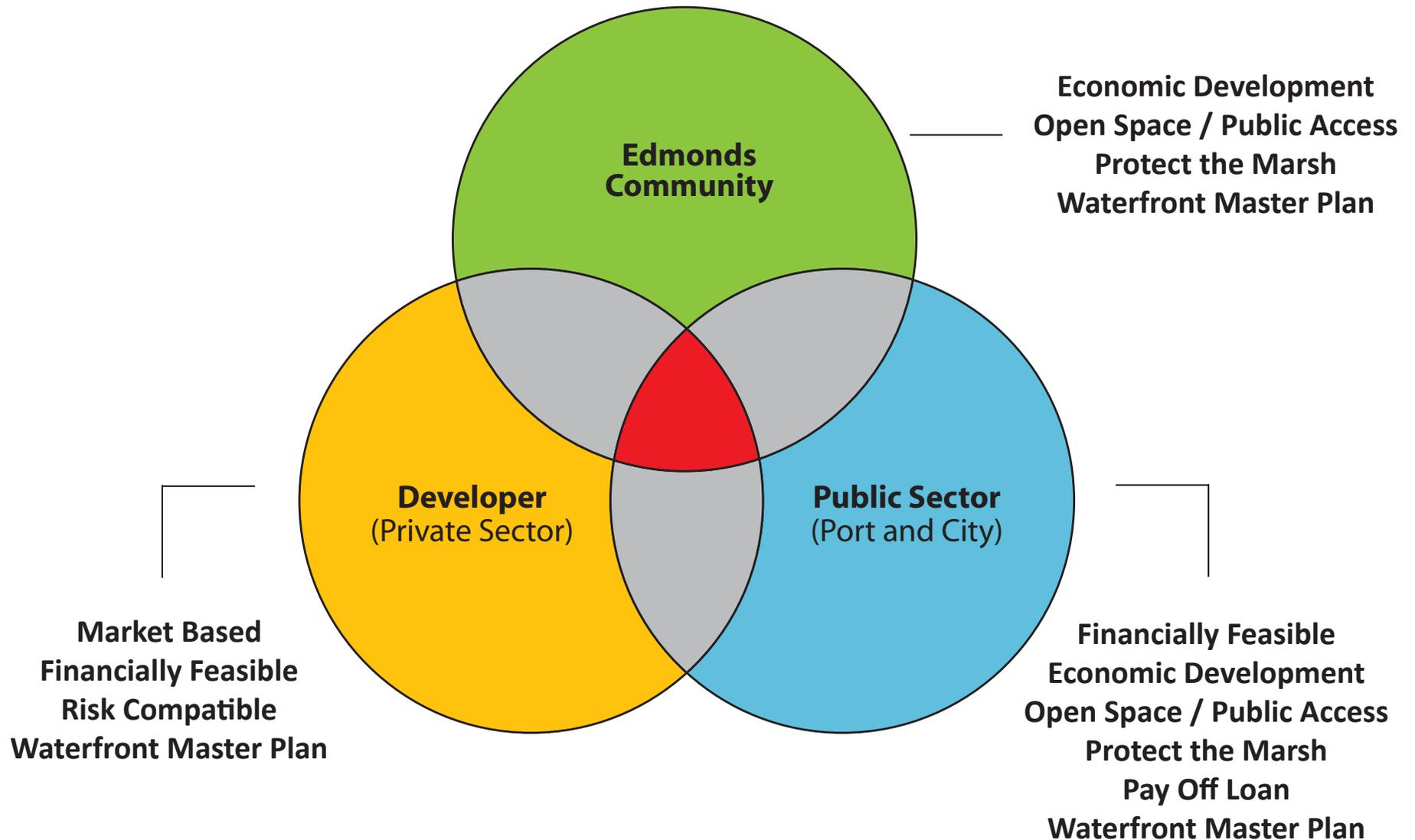
- Low price and slow sales pace; 9.2% (pessimistic)
- **Baseline; 20.5% (midpoint)**
- Best case, high price and fast sales pace; 34.9% (optimistic)

NPV Residual; the price a private developer would pay for the property to obtain economic benefit of Harbor Square redevelopment

- Residual land value: \$10.9 million
- 15% discount rate represents developer's profit

Harbor Square Redevelopment Concept

Partnership of Interests



Marsh - Joel Patience Watercolor



Marsh - Joel Patience Watercolor



Harbor Square Redevelopment Concept

Edmonds Marsh

Regulations pertaining to development in/or adjacent to wetlands contained in the Edmonds Community Development Code (ECDC), Chapter 23.50

- Marsh is within the City's shoreline jurisdiction; the extent of jurisdiction does not extend beyond the existing boundary of the marsh
- Marsh is Category-1 wetland

23.40.220 Allowed Activities: "Permitted Alteration to Structures Existing Within Critical Areas and/or Buffers"

- Permitted alteration to a legally constructed structure existing within a critical area or buffer that does not increase the footprint of development or increase the impact to the critical area or buffer and there is no increased risk to life or property as a result of the proposed modification or replacement (additions to legally constructed structures existing within a critical area or buffer that do increase the existing footprint of development shall be subject to and permitted in accordance with the development standards of the associated critical area type; ECDC 23.50.040)
- Proposed Harbor Square Redevelopment will not increase existing footprint, and it will not encroach into the Edmonds Marsh
- Existing buffer area to remain
- Mitigation opportunities to enhance the existing buffer, promote native vegetation and support for daylighting Willows Creek