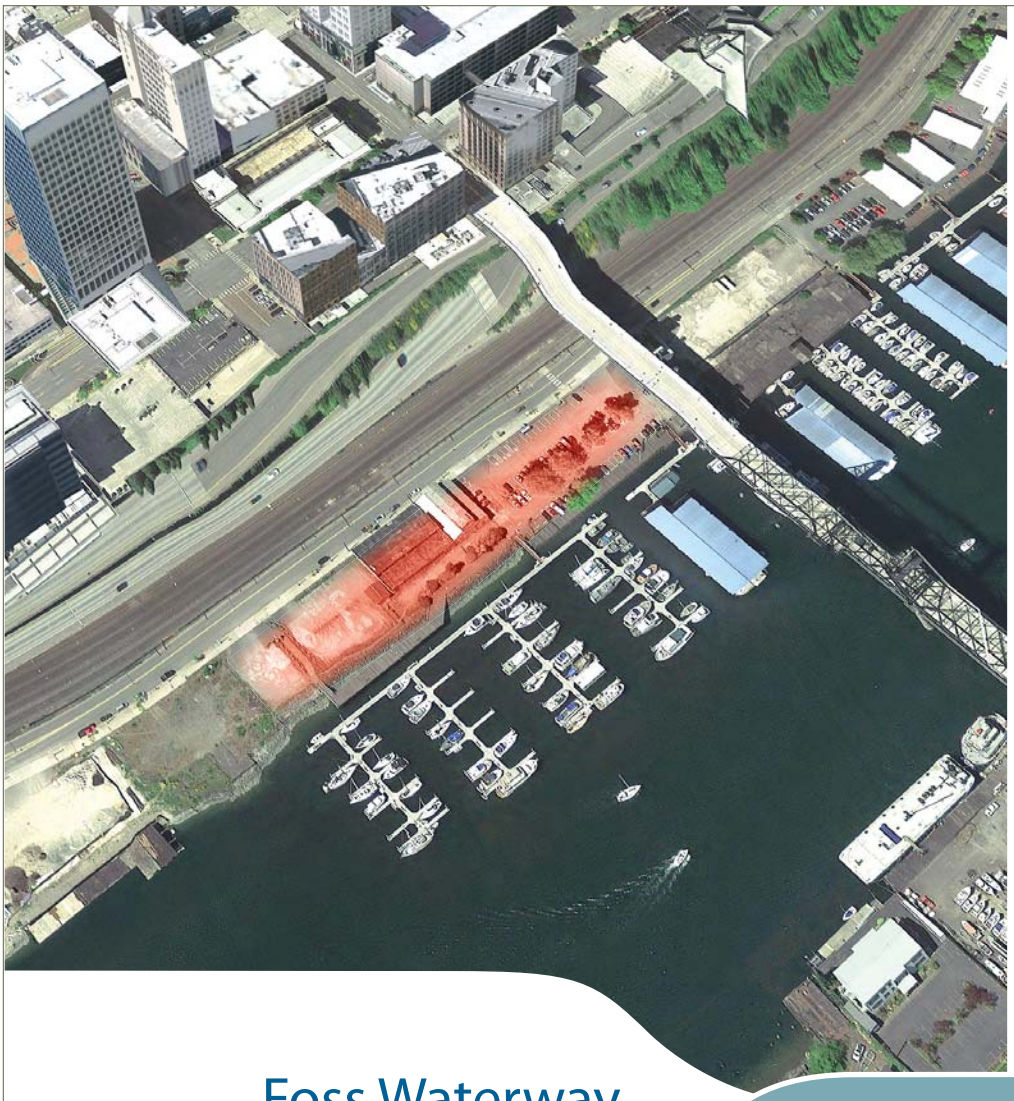

Foss Waterway
Development Authority

Sites 8 & 9
Feasibility Analysis

January 2015

HEARTLAND

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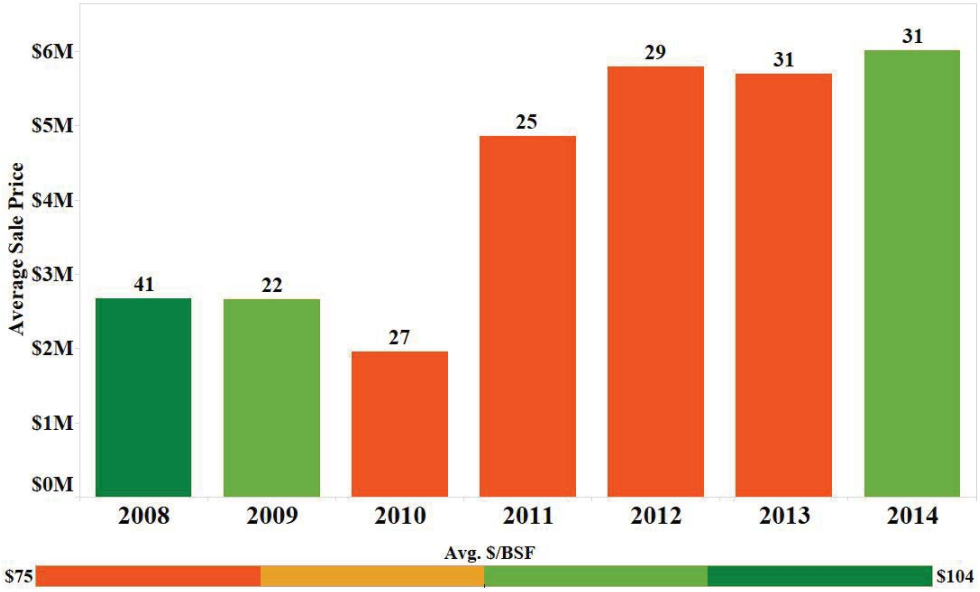
Feasibility Analysis

Heartland was engaged by the Foss Waterway Development Authority (FWDA) to provide development feasibility analysis related to two specific opportunities known as Sites 8 & 9 on the Thea Foss waterfront in Tacoma. This engagement incorporates an economic analysis of the region's commercial and residential markets as well as a review of the regulatory conditions and physical characteristics of the sites. To enhance the analysis the team will include BCRA Design, an architecture firm that brings local zoning and code expertise and has the ability to provide rough massing to potential development scenarios. In addition, Nakamura Consulting of Tacoma, a firm familiar with Foss Waterway development and the regional market as a whole, provides cost estimates for the development feasibility analysis.

Tacoma Market Overview

TACOMA - ALL TRANSACTIONS (2008 - 2014)
Multifamily, Industrial, Office & Hospitality Properties



SUMMARY TABLE

PROPERTY TYPE	# OF SALES	AVG. SALE PRICE	AVG. $/BSF	AVG. $/LSF	AVG. $/UNIT	AVG. CAP RATE	# UNITS/ ROOMS	TOTAL BLDG SF SOLD
Multifamily	104	$4,775,700	$83	$130	$70,700	7.23	7,000	7,182,600
Industrial	68	$4,250,700	$86	$28		8.32	0	3,428,900
Office	29	$2,279,300	$104	$84		6.55	12	821,900
Hospitality	5	$4,279,600	$92	$55		6.30	592	286,400

** The graphic above was created using data compiled from CoStar Analytics based on transactions in the Tacoma market of office, multi-family, industrial, or hospitality buildings of 10,000 SF+ since the year 2008.*

The Tacoma market has experienced a moderate recovery over the past five years with average transaction prices rebounding to levels higher than those previously observed, despite dips in the volume of sales per year. The graphic above shows the sales per year in terms of average annual sales price. The number above each bar depicts the volume of sales, while the color of each bar represents the average sales price per building square foot. For instance, in the

year 2008 prior to the downturn of the market, there were 41 transactions yielding an average sales price of roughly $2,671,000. Even at the worst point of the recession in 2009 there were 25 recorded transactions; however these yielded an average price of only $1.8 million and considerably below average $/SF figures.

Through September, there were 31 transactions in 2014, signaling a steadily improving market with increasing sales activity; these transactions have averaged $5.4 million in sales prices. Cap rates have also recovered somewhat, averaging 7.17% over the past 3 years and 7.08% for sales so far this year, compared to cap rates observed during the years immediately following the recession.

It is expected that, given these trends, the city will also experience a corresponding increase in development activity as time goes on, however at the moment there are only a few developments on the horizon, most of which are multi-family product types. Recent activity has been primarily focused in the downtown business district, the North End, and the Thea Foss Waterway.

MULTIFAMILY

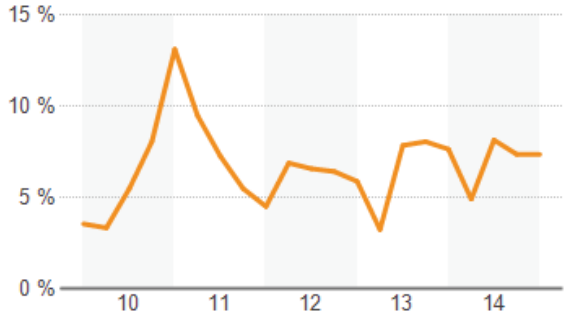
The residential market in Tacoma continues to strengthen alongside overall economic growth around the Puget Sound region including new developments such as The Henry and Metropolitan Apartments entering the market. Multifamily transactions pulled from CoStar also indicate that investments in Tacoma apartment projects are the most actively transacted product type attracting new investment and development opportunities to the market. This is highlighted by the more than 300 units under construction with 11 more buildings (~550 units) proposed for delivery in the next 2 years.

According to CoStar, rents in greater Tacoma average $925 per unit with vacancy below 5%. For newer construction product built after 2000, rents are $1,325 per unit with vacancy rates of 6.7%.

MULTIFAMILY ASKING RENT PER UNIT

SOURCE: CoStar

MULTIFAMILY VACANCY RATE



SOURCE: CoStar

If we narrow the competitive set for multifamily projects to new projects with a closer proximity to the subject Sites 8 & 9, the data shows a slight increase over average rental rate per unit. This increase over broader Tacoma is the result of focusing on newer projects located in downtown or along the waterfront, which typically are more expensive than suburban developments. The following map and table identify eight nearby comparable multifamily developments that indicate a micro-market average rental rate of $1,365 per unit. This group of properties includes Thea's Landing and The Henry, both located on the Foss Waterway.

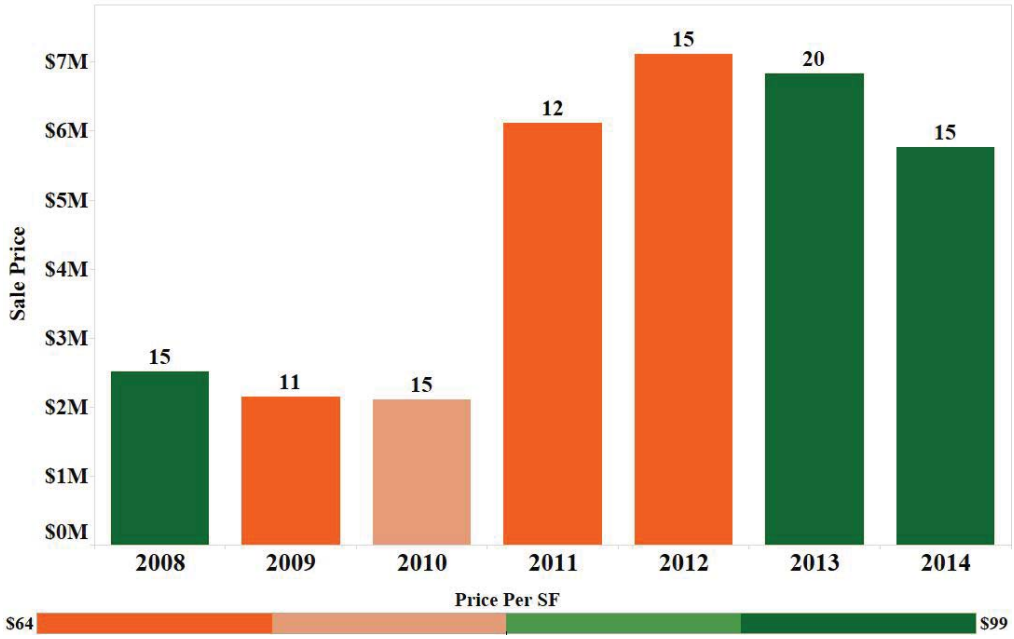
TACOMA - MULTIFAMILY RENTAL COMPS

COMP ID	PROPERTY	# OF PARKING	PARKING RATIO	UNITS	AVG. UNIT SIZE	AVG. RENT/SF	AVG. RENT/UNIT
1	Thea's Landing	483	2.56	189	849	$1.64	$1,391
2	Metropolitan Apartments	250	1.51	166	955	$2.00	$1,909
3	Court 17 Apartments	309	2.41	128	699	$1.63	$1,138
4	Bella on Broadway	16	0.16	97	755	$1.57	$1,190
5	Villagio Apartments II	180	1.44	125	588	$1.64	$962
6	Chelsea Heights	142	1.82	78	996	$1.53	$1,398
7	Vue 25	192	1.18	163	791	$1.33	$1,056
8	The Henry	268	1.66	161	800	$2.19	$1,750
	BLENDED AVERAGES:	**230**	**1.66**	**138**	**805**	**$1.71**	**$1,376.70**

SOURCE: Costar market data and Heartland independent research.

Data provided by CoStar on building transactions since 2008 shows that there have been 104 transactions of multifamily properties. These transactions yielded prices ranging from as low as $500K to $64M with an average sales price of $4.8M, or $70,700 per unit.

MULTIFAMILY PROPERTY TRANSACTIONS
Transactions upwards of $500,000



SOURCE: CoStar

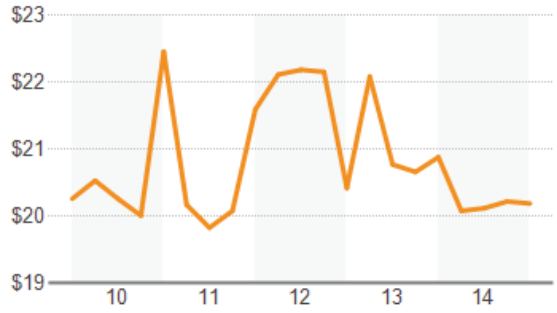
As shown in the graph above, multifamily property sales have experienced a robust recovery since the recession, exceeding previous period in average sales price though not entirely in terms of number of transactions. Through September 2014 there were 15 multifamily property transactions for an average sales price of $5.4 million and yielded an average cap rate of 7.21%.

OFFICE

The Tacoma office market is comprised of 20 million square feet of office properties with no new construction in the immediate pipeline according to 2014 market statistics.[1] A property survey from CBRE reported average Class A office rents of $25.60 per sf and vacancy rates of 14.8%, while NAI reported rental rates for all office properties to be $21.06 per sf/yr with 10.6% vacancy.[2]

Another reliable office data source, CoStar, reported average rents for Class A office in the Tacoma CBD to be $26.77 with a vacancy rate of 6.1%.[3] Overall, CoStar reported an average lease rate of $20.19 with vacancies of 9.4% in the 257 buildings surveyed; both rents and vacancy rates had decreased from the same period the year before previously, $21.53 and 11% respectively.

OFFICE RENTAL RATES



SOURCE: CoStar

OFFICE VACANCY RATE

SOURCE: CoStar

OFFICE PROPERTY TRANSACTIONS

SOURCE: CoStar

Based on data compiled from CoStar, there have been 28 transactions of office properties since 2008. While the office market has shown signs of recovery, recent sales have not reached averages seen prior to the recession in volume or in price. Overall, office building sales from 2008 – 2014 ranged in price from $875K - $10.4M, with an average sales price of $2.3 million. While few of these sales reported cap rates, CoStar estimates a 5-year average cap rate of 8.0%.

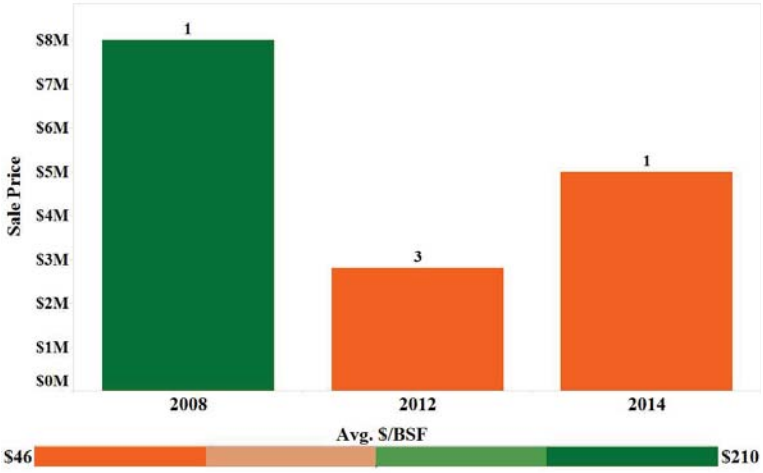
1 http://www.nai-psp.com/wp-content/uploads/2014/05/PSP-Market-Report.pdf
2 http://www.nai-psp.com/wp-content/uploads/2014/05/PSP-Market-Report.pdf
3 http://www.ci.bellevue.wa.us/pdf/PCD/Costar_Office_Market_Report_PugetSound.pdf

HOSPITALITY

The hospitality market has been the least active in recent years in terms of volume with only 21 transactions since the year 2000 with none occurring in 2006 or between 2009-2011. The 5 sales since the year 2008 have yielded a price range of $863K - $8M and an average sales price of $4.3M. Buildings sold ranged in size from 12,000 to 110,000 SF for an average building size of roughly 50,000 SF As shown in the graphic above, more recent sales of hospitality buildings have been on the low end on a per building sf basis.

There are no hospitality projects under construction as of Q3 2014, however a new hotel is anticipated to begin construction sometime in 2015 along the waterfront to the north of Thea's Landing.

HOSPITALITY PROPERTY TRANSACTIONS



SOURCE: CoStar

FOR SALE PRODUCT

The downtown and close-in Tacoma neighborhoods offer a variety of for-sale residential property including single family (SFR), condominium, and townhome units. Per the Northwest Multiple Listing Service (NWMLS), the Tacoma market has provided over 479 transactions of newer construction assets since 2010 with the majority of those occurring in the SFR and condo product types.

Refining this data set to include only assets located in the Northend, Downtown, and along the Waterfront of Tacoma results in a smaller competitive set of 353 sales primarily consisting of condominium transactions. This refined market area is a closer geographic representative for potential uses at the Foss Waterway Development Authority Sites 8 & 9.

TACOMA SALES ACTIVITY GEOGRAPHY

REFINED TACOMA SALES ACTIVITY GEOGRAPHY

Single Family Homes

Since 2010, SFR product type has shown a steady increase in average sale price and average listing with new product in North Tacoma driving current listing prices higher in recent years. In 2014, the average SFR listing price was $539,000 with average sales of $507,000 for homes built after 2008.

This competitive set has a range of sales prices from $150,000 to $800,000. With much of the SFR transaction activity occurring in the western neighborhoods of Tacoma and smaller, more urban dwelling units, making up the downtown, waterfront and close-in area activity only 74 transactions of single family homes have occurred over the past 5 years the refined market area compared to nearly 200 when considering the broader Tacoma market.

***SFR COMPETITIVE SET** Tacoma (Yr Blt 2010+)*

SOURCE: Northwest MLS

Townhomes

Sales of Townhome product in Tacoma has been limited during the previous 5 years with only 49 transactions being recorded in the refined geographic area. This is due to both a slow market for the product type and a limited inventory in the market.

Market area transaction prices of $150,000 to $375,000 are below market average for other asset types, however a positive upward trend is shown in the table above. In 2014 the average sales price of townhomes, $250,000, exceeded the average listing price within this market area, which is a strong indication of increased market demand and the overall expectation that transaction volume and prices will continue to trend upward. This information, provided by NWMLS, is an important data point but not strongly comparable to Sites 8 & 9 as there are currently no available townhome style products along the waterway and the majority of these transactions occurred at inferior locations around Tacoma.

***TOWNHOME COMPETITIVE SET** Tacoma (Yr Blt 2010+)*

SOURCE: Northwest MLS

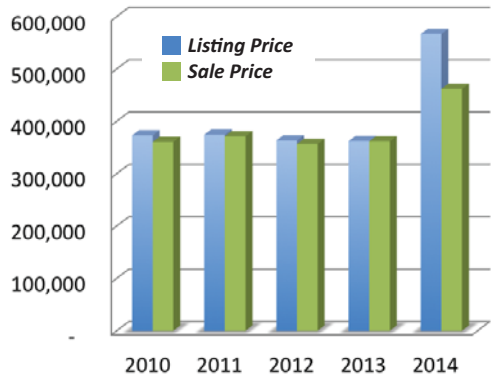
Condominium

Since 2010 condominium transactions have represented a significant portion of the overall transaction volume with a total of 230 transactions over the period. These are primarily located in the refined market area inclusive primarily of the Tacoma's Northend, Downtown and Waterfront.

Condominium transactions in 2014 reported an average sales price of $462,000 with an average listing price of $566,000 in a market that ranges from $150,000 to $1,250,000. The market over this time period has seen transaction average an estimated $290/SF with a range of $150/SF to $865/SF.

This large discrepancy between listing and sales is largely due to the new luxury product released in late 2014 at

***CONDO COMPETITIVE SET** Tacoma (Yr Blt 2010+)*



SOURCE: Northwest MLS

Point Ruston. The anticipated 2015 absorption of this product should continue to drive sales prices upward as more new development is completed. As much of the condominium inventory is located in highly comparable locations in areas such as the North End, Downtown and Waterfront, these transactions are a valuable data point for any for-sale product consideration at the FWDA Sites 8 & 9.

More specifically, a development called The Esplanade came online in 2009 and over the past 5 years has performed well in the market following slow sales initially.

In 2014 the average unit sales price was over $500,000 and a price per foot of over $300, which is a good benchmark for today's waterfront for-sale market.

Another comparable project along the waterfront that provides favorable sales data is the condominium activity at Point Ruston in North Tacoma. This project is under construction and recorded its first 35 sales in 2014. These sales average over $700,000 at approximately $380 per square foot as new construction in a new community with excellent water frontage and views.

Overall, the for-sale market has a wide range of transaction activity across condo units, townhome units, and single family homes with sales prices from below $300,000 to over $1.25 million. Averages within these categories and specifically in a few waterfront communities are shown to the right.

***THE ESPLANADE SALES ACTIVITY** (Units over 1,400 SF)*

	AVG. SALE PRICE	AVG. SALE PRICE	AVG. SF	$/SF
2010	$356,300	$356,300	1,520	$234.41
2011	$426,900	$427,900	1,880	$227.61
2012	$557,400	$535,000	1,730	$309.25
2013	$494,100	$489,900	1,790	$273.69
2014	$533,200	$503,100	1,670	$301.26
MAX	$819,900	$700,000	2,043	$342.63
MIN	$299,900	$299,900	1,423	$210.75

***POINT RUSTON SALES ACTIVITY** (2014)*

	AVG. LIST PRICE	AVG. SALE PRICE	AVG. SF	$/SF
2014	$740,000	$710,000	1,870	$381.00
MAX	$1,738,000	$1,250,000	1,866	$670.02
MIN	$475,000	$554,349	1,866	$297.14

2014 AVERAGE SALES FIGURES

	AVG. LIST PRICE	AVG. SALE PRICE	AVG. SF	$/SF
SFR	$540,000	$510,000	2,790	$182
TH	$220,000	$250,000	1,320	$189
Condo	$570,000	$460,000	1,600	$290
Esplanade	$530,000	$500,000	1,670	$302
Pt Ruston	$740,000	$710,000	1,870	$381

Site Informaiton

SITE 8

This site is located along the west bank of the Thea Foss Waterway in Tacoma, Washington. The parcel is approximately 40,157 SF in area with dimensions of 105' deep by 382' wide. Bordered by Tacoma's Dock Street on the west and the public esplanade and shoreline on the east, Site 8 offers excellent access to the Thea Foss Waterway. To the north is site 9 and to the south is a parcel dedicated to a city park.

SITE 9

The site is located adjacent to Site 8 and approximately 106' deep by 300' wide. It is bordered by Dock Street on the west and the public esplanade parcel and shoreline on the east. To the north is the 11th Street Bridge and public elevator.

	SITE 8	SITE 9	NOTES
Address	1131 Dock Street	1119 Dock Street	Site 9 is located just north of Site 8.
Size (SF)	31,442 SF	31,800 SF	Site 8 is 40,157 SF with 8,175 SF dedicated to city park.
Acres	0.72 Ac	0.73 Ac	Combined sites create a 1.45 Ac site.
Dimensions	105' x 382'	106' x 300'	Combined sites create an elongated site after consideration of view corridors.
Zoning	S-8 Shoreline Thea Foss Waterway		Mixed-use commercial or residential, pedestrian oriented and water oriented development.
Utilities	Water, power, sewer, storm		Multiple utility replacement activities since 2004 as part of site remediation.

Regulatory & Physical Assessment

UNIQUE CODES AND REGULATIONS

Sites 8 & 9 are located in the S-8 Thea Foss Waterway Shoreline District. This set of development standards and zoning regulations are intended to improve the environmental quality of the waterway, provide public access to the waterway, and encourage mixed-use redevelopment opportunities.

BUILDING ENVELOPE

Sites 8 & 9 are located between 11th street bridge and the 15th street corridor as shown below. This section of the Foss Waterway allows for a maximum 130 ft building and must include floor plate set backs as the structure increases in height.

WATER ORIENTED USAGE

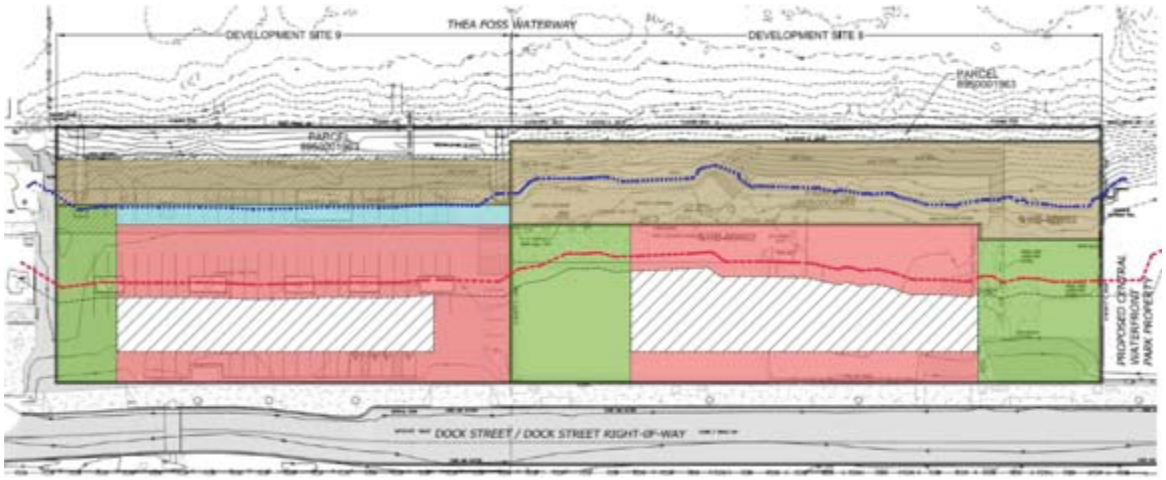
Any building adjacent to Dock Street or the esplanade shall include water-oriented uses, which are directly accessible from the adjacent public spaces. These water-oriented uses include uses which are open to the general public on a casual ("walk-in") basis during regular business hours, including, but not limited to, retail stores and eating and drinking establishments. A minimum of 75 percent of the esplanade frontage and 20 percent of the Dock Street frontage shall be occupied by water-oriented uses, with the following exceptions. Section 9.10 S-8 Thea Foss Waterway Shorline Master Program.

THE FOSS ESPLANADE

The Foss Waterway Esplanade is a 1.5 mile public park and trail along the waterfront beginning at 21st St. in downtown Tacoma. The waterway is part of a larger effort to revitalize Tacoma's waterfront and transition the area from its industrial past to its future as a public amenity surrounded by mixed use developments. The cost of this feature is anticipated to be incurred along with the ongoing redevelopment of sites along the waterfront and if possible allocated in some portion to those redevelopment efforts. In the event of an economically feasible development opportunity for Sites 8 & 9 cost sharing will be explored. The existing Sites 8 & 9 have approximately 680 feet of waterfront with almost all of Site 8 esplanade completed. Assuming an estimated cost of $4,200 per linear foot and approximately 100 feet of Site 8 to go with the remaining 300 feet of site 9, the estimated cost of for the combined site Esplanade improvements is approximately $1.6 million.

VIEW CORRIDORS & SETBACKS

Fourteen, 80-ft, public access/view corridors are located adjacent to the development sites and are defined below. By specifically designating these areas for public use and access, setbacks are not required on the front (Dock Street), side and rear edges of the development sites (except as specifically required below); provided, that the required public access areas, amenities and area-wide design features are provided. Section 9.10.2.a S-8 Thea Foss Waterway Shoreline Master Program. There is one additional buffer to the high watermark on the waterfront side of the property that, depending on the proposed scenario, may require a variation to code.



PARKING

The S-8 Thea Foss Waterway zoning does not include a use-based parking requirement or parking ratio, however, market demand and the desire for 'water-oriented' commercial or retail space naturally indicate the need for substantial parking associated with any new development.

SITE ENVIRONMENTAL CONDITIONS

Given the site's long history of being used for industrial purposes, remedial measures will need to be taken prior to any significant development. The site's Specific Cleanup Action Plan (SCAP), prepared by GeoEngineers, proposed two potential methods for completing this remediation: excavation and soil remediation, or isolation of contaminated soils under soil or pavement caps. When considering the limited ability to excavate on Sites 8 & 9, due to the existing water-tables, proximity to the waterway and overall parking footprint efficiency, the more economically feasible of these two options would be to cap the contaminated soil, providing a new foundation for future vertical development while protecting future residents and the surrounding environment from the affected land.

REMEDIATION

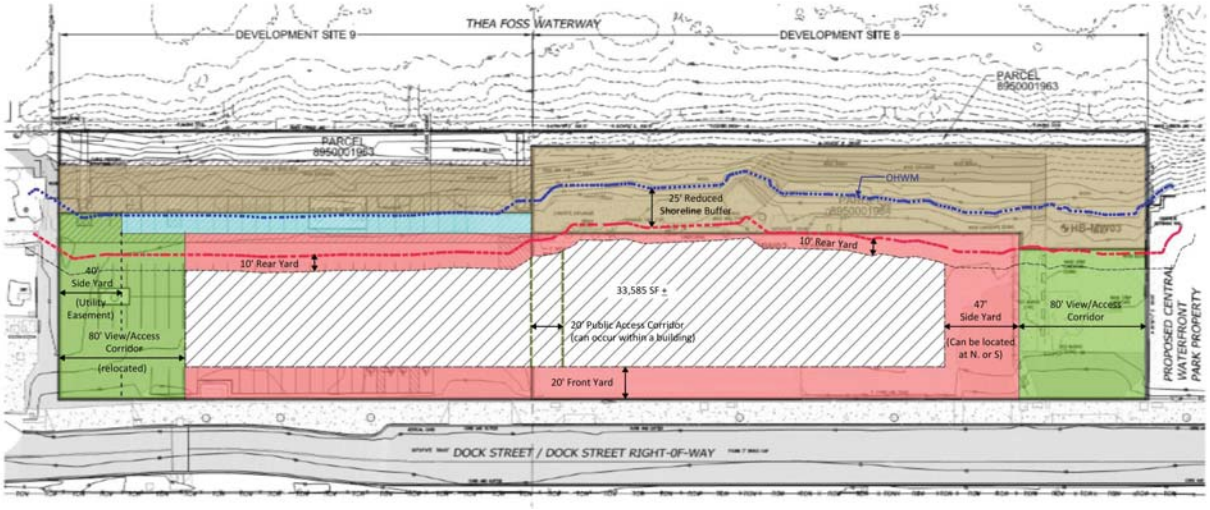
Remediation of Sites 8 & 9 would primarily focus on the removal of contaminated fill and soil on the site. This excavation, disposal, and monitoring are often costly and prohibitive to the economic performance of new construction. The project-level benefits of remediation enable a development to utilize below grade parking and foundation into any design plans which is advantageous for mid-density and high density development. However, because of the physical characteristics of the site and the groundwater level at approximately 7 feet below grade, remediation and excavation efforts do not provide efficient parking or design benefits to potential development scenarios on Sites 8 & 9, therefore redevelopment incorporating soil or pavement caps are the preferred approach to site remediation.

Development Scenarios

SCENARIO CONSIDERATIONS

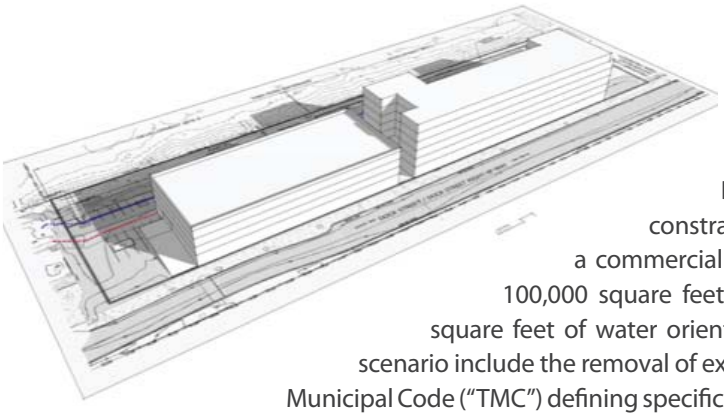
This feasibility analysis will focus on five (5) development scenarios that explore potential development opportunities that fit within the physical and regulatory conditions of the subject sites as well as an overview of the economic feasibility of each scenario. Analysis of each scenario looks at the proforma performance of the project utilizing cost assumptions provided by Nakamura Consulting LLC, space program developed by BCRA and market input researched by Heartland, LLC.

Due to site constraints and the need for significant parking to accommodate increased density Sites 8 & 9 are considered as a combined development site. In some cases specific physical or regulatory conditions are adjusted under the assumption that moderate code flexibility exists to enable a viable development opportunity. Combining the sites and marginally adjusting setbacks, view corridors and other regulatory conditions results in a more feasible developable portion of Sites 8 & 9 allowing for a more complete analysis of development opportunities.



The following scenarios cover a range of development opportunities conceived to address the numerous challenges of Sites 8 & 9, including density targets, parking requirements, view corridors, setbacks, and waterfront usage requirements.

DEVELOPMENT SCENARIO A: *COMMERCIAL/MULTIFAMILY PLUS PARKING STRUCTURE*



Scenario A looks at a combined Site 8 & 9 intended for the development of commercial space on the southern portion of the merged site (approximately Site 8) and a supporting parking structure on the northern portion of the site (approximately Site 9).

Based on the current zoning codes and the physical constraints of the site, it is estimated that the construction of a commercial building with this arrangement could provide roughly 100,000 square feet of office space or 121 residential units above 21,000 square feet of water oriented retail. Key assumptions and considerations of this scenario include the removal of existing front and side yard setbacks per Chapter 9 Tacoma Municipal Code ("TMC") defining specific setback conditions of the west side of the Foss Waterway.

These sites do not support below grade parking due to the proximity to the waterway and near-surface water table levels. To resolve the significant parking needs of increased density, a supporting vertical parking structure is anticipated to provide 5-levels and approximately 254 stalls for the new construction. Scenario A activates the challenging and narrow Sites 8 & 9 while bringing water oriented retail and increased density in the form of office/multifamily space to the waterfront. In addition, this arrangement would utilize the soil/pavement cap approach to address existing site contamination as outlined in the Site specific Clean up Action Plan (SCAP).

Parking	SF/QTY	Target	Stalls
Restaurant	8000	7 per 1000 SF	56
Retail	26800	4 per 1000 SF	107
Residential	121	1 per Unit	121
Total			284
Total Provided			254
Surplus/(Gap)			**(30)**

Financial Feasibility

A critical dilemma with this scenario is that the developable depth of the majority of Sites 8 & 9 is approximately 60 ft, assuming removal of setbacks. This creates an extremely inefficient parking layout, which forces the structure to 5-levels and drives development costs up to unsustainable levels. Using the design of this scenario and other market based assumptions, this opportunity performs without available funds for sufficient developer profit. This makes the scenario unattractive to potential developers unless acquisition cost, development costs or program changes can increase profitability.

Cost Assumptions

The Scenario A Budget Summary table illustrates the estimated costs for the development of Scenario A including a $20/SF land price, hard costs of approximately $21.3 million and soft costs of approximately $5 million. Based on a conservative debt to equity ratio a developer or investor would be required to provide $8 million of equity to the development project.

Scenario A Budget Summary		
	$/Unit	
Units	121	
Land	10,453	1,265,000
Hard Costs	175,788	21,270,000
Soft Costs	43,947	5,318,000
Total Cost		**27,853,000**
Equity	30%	8,355,900
Debt	70%	19,497,100

Operating Assumptions and Performance

The Scenario A Proforma Summary table outlines the assumed unit size, rental rate, and revenue generated by the proposed development of 121 apartment units in Scenario A. An average rental rate of $1,330 per unit would result in approximately $2.75 million in gross income and $1.9 million in net operating income (NOI). Using a market capitalization rate of 7.0% Heartland estimates the value of the Scenario A development to be $28.4 million.

Scenario A Rental Program				
Unit Mix	SF Average	Units	$/Unit Average	$/SF
Studio-3bd	720	121	1,330	1.85

Scenario A Proforma Summary			
	$/Unit	%	
Effective Gross Income			2,785,000
Total Expenses	$ 6,560	28.5%	794,000
Net Operating Income			1,991,000
Cap Rate			7.0%
Value Estimate			**$ 28,446,000**

A static comparison to cost for this scenario indicates the development would break even, however without consideration for moderate developer profit this scenario is a challenge given the underlying risks of construction. A typical margin on cost for feasible projects ranges from 15% - 25% indicating that this project would need a margin on cost, or net revenue, of approximately $5.5 million.

Static Feasibility Summary		
Capitalized Value Estimate	$	28,446,000
Total Cost		(27,853,000)
Static Feasbility (Gap)	**$**	**593,000**

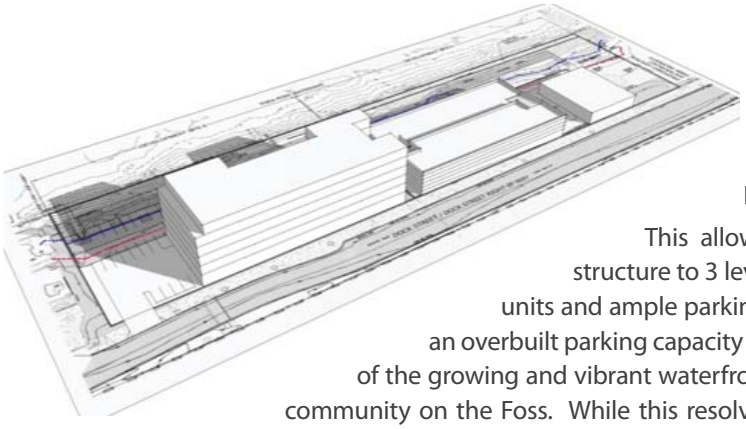
BENEFITS

- ***Activates challenging and narrow sites***
- ***Accomplishes increased density goals***
- ***Avoids substantial environmental remediation***
- ***Generates land sale revenue for FWDA***

CHALLENGES

- ***Market conditions not supportive of estimated development cost***
- ***Static value vs cost estimate indicates not financially feasible***
- ***Code departures for parking structure***
- ***Inefficient parking layout - site dimensions***
- ***Multiple zoning variances required***
- ***Does not include development cost of esplanade***

DEVELOPMENT SCENARIO B1: *COMMERCIAL/MULTIFAMILY PLUS PARKING STRUCTURE*



Scenario B1 explores a variation on Scenario A and also assumes a removal of front and side yard buffers per Chapter 9 TMC for the west side of the waterway. This design takes advantage of the deepest dimensions of the site by moving the parking structure to the center of the combined sites.

This allows for a more efficient parking layout reducing the structure to 3 levels and 241 stalls providing parking for the apartment units and ample parking for the retail uses on the site. This layout represents an overbuilt parking capacity which could be used to support general parking needs of the growing and vibrant waterfront community on the Foss. While this resolves some of the parking efficiency concerns, it also reduces the amount of revenue generating commercial/multifamily product on the site. This scenario provides approximately 75,000 square feet or 84 residential units while also introducing a stand-alone retail pad on the southernmost portion of the site.

Parking	SF/QTY	Target	Stalls
Restaurant	5630	7 per 1000 SF	39
Retail	13150	4 per 1000 SF	53
Residential	84	1 per Unit	84
Total			176
Total Provided			241
Surplus/(Gap)			**65**

Financial Feasibility

Scenario B1 financial feasibility is driven largely by the performance of the multifamily structure on the north end of the site. In this scenario 84 units can be provided, greatly reducing the overall revenue generating power of the site compared to Scenario A.

Cost Assumptions:

The Scenario B1 Budget Summary table illustrates the estimated costs for the development of Scenario A including a $20/SF land price, hard costs of approximately $24.3 million and soft costs of approximately $6 million. Based on a conservative debt to equity ratio a developer or investor would be required to provide $9.5 million of equity to the development project.

Scenario B Budget Summary		
	$/Unit	
Units	84	
Land	15,058	1,265,000
Hard Costs	228,487	19,193,000
Soft Costs	57,122	4,798,000
Total Cost		**25,256,000**
Equity	30%	7,576,800
Debt	70%	17,679,200

Operating Assumptions and Performance:

This scenario looks at the development of 84 multifamily units with an average monthly rental rate of $1,370 per unit across a range of sizes from Studio to 3-bedroom units. This mix, along with other market based assumptions, results in an estimated gross income of $2.1 million and an NOI of $1.6 million. Using a market capitalization rate of 7.0% Heartland estimates the value of the Scenario B1 development to be $23.2 million.

Scenario B Rental Program				
Unit Mix	SF Average	Units	$/Unit Average	$/SF
Studio - 3bd	722	84	1,370	1.90

Scenario B Proforma Summary				
		$/Unit	%	
Effective Gross Income				2,184,000
Total Expenses	$	6,631	25.5%	557,000
Net Operating Income				1,627,000
Cap Rate				7.0%
Value Estimate				**$ 23,249,000**

A static comparison of the estimated value for components of Scenario B1 to the total costs as estimated by Nakamura Consulting show a significant shortfall in value creation to cost of this development. The primary source of this financial infeasibility is the reduction of revenue generating units in the multifamily building.

Static Feasibility Summary	
Capitalized Value Estimate	$23,249,000
Restaurant Pad Sale	1,625,260
Total Cost	(25,256,000)
Static Feasbility (Gap)	**$ (381,740)**

While this configuration provides solutions to some of the parking concerns of Scenario A, it sacrifices to many revenue/value generating multifamily units, creating a substantial feasibility gap before consideration of any potential developer profit. Additional benefits and challenges resulting from Scenario B1 include the following.

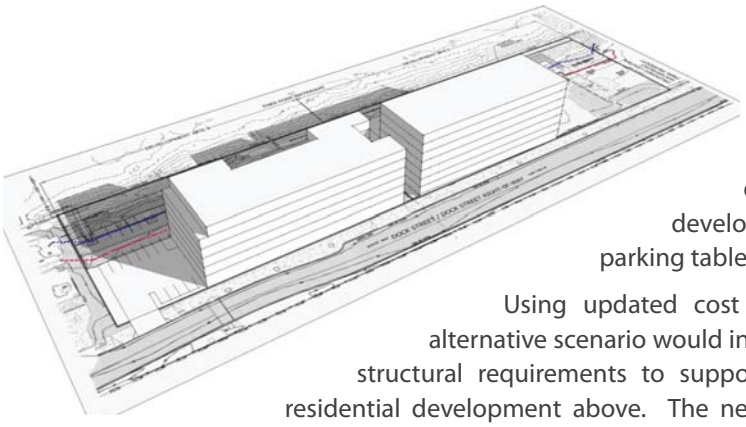
BENEFITS

- ***Activates challenging and narrow sites***
- ***Accomplishes increased density goals***
- ***Avoids substantial environmental remediation***
- ***Increased parking efficiency over Scenario A***
- ***Generates land sale revenue for FWDA***

CHALLENGES

- ***Market conditions not supportive of estimated development cost***
- ***Static value vs cost estimate indicates not financially feasible***
- ***Reduced revenue generating product; only 84 units***
- ***Inefficient parking layout - site dimensions***
- ***Code departures for parking structure***
- ***Does not include development cost of public esplanade***
- ***Multiple zoning variances required***

DEVELOPMENT SCENARIO B2: *EXPANDED COMMERCIAL/MULTIFAMILY PLUS PARKING STRUCTURE*



A variation to the base Scenario B removes the restaurant pad previously considered for the south end of the site and includes additional multifamily units above the 3-level garage to support more revenue generation and increase the value to developers. The parking requirements of this new development program are outlined in the adjacent scenario parking table.

Using updated cost per unit provided by Nakamura Consulting this alternative scenario would increase the cost of the parking structure and add new structural requirements to support residential development above. The new costs are summarized in the Scenario B2 table.

Parking	SF/QTY	Target	Stalls
Retail	13,150	4 per 1000 SF	53
Residential	146	1 per Unit	146
Total			199
Total Provided			215
Surplus/(Gap)			**16**

This new design increases the number of rental units from 84 to 146 and will raise the NOI to $2.45 million for an estimated capitalized value of $35 million.

Scenario B Budget Summary		
	$/Unit	
Units	146	
Land	8,663	1,265,000
Hard Costs	177,236	25,876,000
Soft Costs	44,309	6,469,000
Total Cost		**33,610,000**
Equity	30%	10,083,000
Debt	70%	23,527,000

As summarized in the table, the increased units successfully raise the estimated value of the project and provide some excess value using a static analysis. If developers of new construction target approximately 15% margin on cost, the static margin would need to be roughly $5 million. While this scenario does provide value in excess of costs, the margin at $3 million, is not at a scale considered attractive as a development opportunity to potential developers.

Scenario B Rental Program				
Unit Mix	SF Average	Units	$/Unit Average	$/SF
Studio - 3bd	717	146	1,360	1.90

Static Feasibility Summary	
Capitalized Value Estimate	$35,055,000
Restaurant Pad Sale	1,625,260
Total Cost	(33,610,000)
Static Feasbility (Gap)	**$ 3,070,260**

Scenario B Proforma Summary			
	$/Unit	%	
Effective Gross Income			3,294,000
Total Expenses	$ 5,753	25.5%	840,000
Net Operating Income			2,454,000
Cap Rate			7.0%
Value Estimate			**$ 35,055,000**

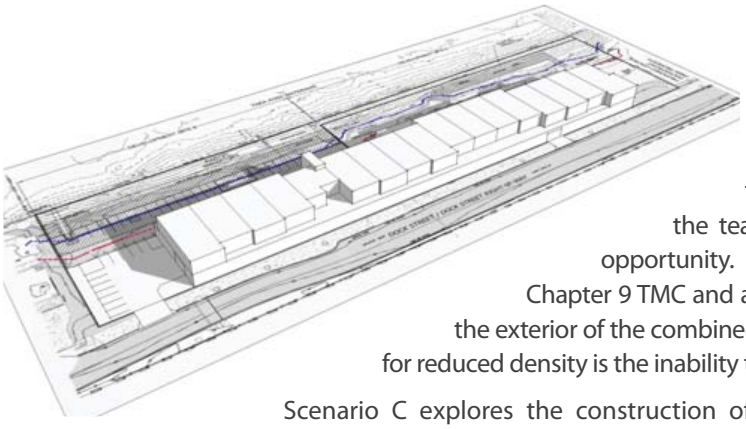
BENEFITS

- ***Activates challenging and narrow sites***
- ***Accomplishes increased density goals***
- ***Avoids substantial environmental remediation***
- ***Increased parking efficiency over Scenario A***
- ***Increased revenue generating units above parking structure; 146 total units***
- ***Generates land sale revenue for FWDA***

CHALLENGES

- ***Market conditions not supportive of estimated development cost***
- ***Static value vs cost estimate indicates not financially feasible***
- ***Multiple zoning variances required***
- ***Inefficient parking layout - site dimensions***
- ***Code departures for parking structure***
- ***Does not include development cost of public esplanade***

DEVELOPMENT SCENARIO C: *FOR-SALE LUXURY CONDOMINIUM FLAT UNITS*



A common constraint that emerged when investigating increased density options for these sites was the inability to efficiently park high density designs, largely because of the physical constraints of the site as well as a challenge to achieve economic feasibility for a potential developer. As an alternative the team looked at the site as a potential reduced density opportunity. Again, this assumes that setbacks were removed per Chapter 9 TMC and an existing secondary view corridor could be moved to the exterior of the combined property. Another key deviation from existing zoning for reduced density is the inability to meet the height minimum of 50 feet for these sites.

Scenario C explores the construction of 16 luxury condominium flats atop a commercial condominium podium with water-oriented retail. These units would average 1,915 SF with rooftop deck amenities, approximately 18,000 SF of ground floor retail and secure parking for residents. This reduced density enables the site to accommodate adequate parking for each condo unit as well as for the retail uses along the waterway.

To determine if this fundamental shift to a lower density project can deliver a more feasible development market based assumptions for projected sales and costs were used to estimate performance.

Madison Lofts, Seattle

Orenco Station, Portland

Cost Assumptions:

The overall structure is less dense that previous multifamily scenarios and does not come with the same cost intensive construction requirements. The design of 16 luxury flats over a commercial condominium is estimated to cost $14.5 million according to Nakamura Consulting LLC.

Scheme C Budget	
Units	16
Land Cost	1,265,000
Hard Cost	10,830,000
Soft Cost	2,424,000
Total Cost	**$ 14,519,000**
Note: Costs include commercial condominium	

Operating Assumptions and Performance:

Revenue from this scenario is generated through the sales of condominium interests in the luxury flats located above the ground floor retail and water-oriented space. Based on the broader Tacoma market and similar waterfront residential products this analysis uses a sales price range of $615,000 to $630,000 or roughly $325/SF for large floor plan luxury units. This sale price is in line with existing projects such as The Esplanade given a few yeas of permitting, construction and market growth. Including the sale of the commercial space, total revenue of approximately $12 million would be generated against a cost of $14.5 million resulting in a net loss of $2.5 million for Scenario C.

Sales Ratios		
Average Unit Sale price	$	622,500
Unit Size	$	1,915
Unit Sale/SF	$	325

Project Sales Revenue				
Unit Type	Units	$/Unit		Total
Flat 1	8	$ 615,000	$	4,920,000
Flat 2	8	$ 630,000	$	5,040,000
Commercial Shell*	1	$ 2,063,628	$	2,064,000
Total Revenue			**$**	**12,024,000**
*Commercial Shell Revenue estimated at 20% over cost.				

Total Revenue	**$ 12,024,000**
Total Cost	**$ 14,519,000**
Net Revenue	**$ (2,495,000)**

This design reduces the parking requirements of the site and provides a unique for-sale product to the market, however the lack of density severely limits the revenue potential of the site. This leaves no room for investment return or developer profit and makes the large floor plate condominium approach infeasible. Assuming a typical margin on cost of 15-25% the project would need to generate a margin of approximately $2.4 million. Additional benefits and challenges resulting from Scenario C include the following.

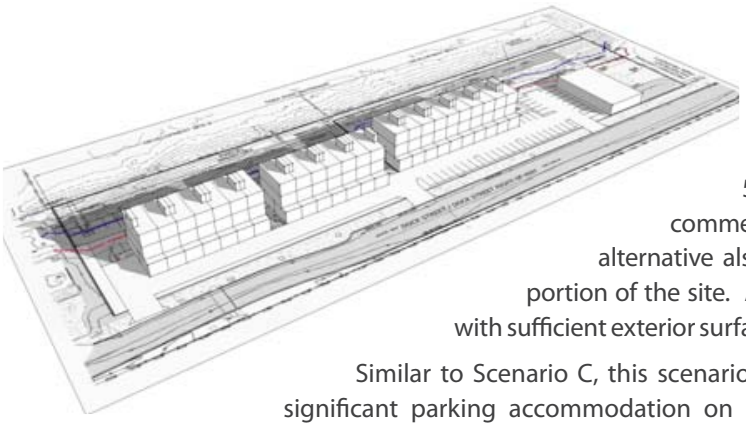
BENEFITS

- ***Activates challenging and narrow sites***
- ***Brings unique product mix to existing condo and apartment heavy waterfront neighborhood***
- ***Avoids substantial environmental remediation***
- ***Generates land sale revenue for FWDA***

CHALLENGES

- ***Market conditions not supportive of estimated development cost***
- ***Static value vs cost estimate indicates not financially feasible***
- ***Code departures for parking structure***
- ***Inefficient parking layout - site dimensions***
- ***Multiple zoning variances required***
- ***Does not include development cost of esplanade***
- ***Added layer of condominium legal structure***
- ***Large ground floor commercial condo difficult product in Tacoma market***

DEVELOPMENT SCENARIO D: *FOR-SALE LUXURY TOWNHOME UNITS*



Similar to Scenario C, this scenario explores a reduced density opportunity for Sites 8 & 9. Scenario D looks at a fee simple, for-sale live/work townhome product along the waterway. The design includes 24 luxury units averaging 1,650 square feet including 500 square feet of ground floor water-oriented retail/commercial space as the 'work' component of each unit. This alternative also provides a stand-alone retail pad on the southern portion of the site. Attached garage space is provided beneath each unit with sufficient exterior surface parking for the anticipated retail/commercial space.

Similar to Scenario C, this scenario reduces the site density and resolves the need for significant parking accommodation on site while bringing a for-sale product type to the waterfront that currently does not exist. The primary difference is the increase in unit count to 24 units by producing townhome style units with a smaller footprint and a third level.

Cost Assumptions:

The lower density and height reduce the overall development cost compared to Scenario A & B bringing the estimated costs to $12.3 million including the shell construction of the restaurant/retail pad.

Operating Assumptions and Performance:

Revenue is generated through the sale of luxury townhome units and the sale of the stand-alone restaurant/retail pad upon completion. A projected sales price range of $560,000 to $580,000 or approximately $345/SF, along with other market based assumptions, is used to model the performance of Scenario D. The sale price is slightly above the averages seen at a neighboring project, The Esplanade, based on some premium for a smaller luxury community and fee simple interest compared to a larger condominium building. Total revenue from these components is estimated to be $14.5 million resulting in project net revenue of $2.17 million, which is roughly 18% margin on cost.

Scheme D Budget	
Units	24
Land Cost	1,265,000
Hard Cost	9,046,000
Soft Cost	2,025,000
Total Cost	**$ 12,336,000**
Note: Costs include retail pad	

Sales Ratios	
Average Unit Sale price	$570,000
Unit Size	1,650
Unit Sale/SF	$ 345

Project Sales Revenue			
Unit Type	Units	$/Unit	Total
Unit 1	12	$560,000	$ 6,720,000
Unit 2	12	$580,000	$ 6,960,000
Commercial Shell*	1	$831,696	$ 832,000
Total Revenue			**$14,512,000**
*Commercial Shell Revenue estimated at 20% over cost.			

Total Revenue	**$14,512,000**
Total Cost	**$12,336,000**
Net Revenue	**$ 2,176,000**

Fremont Lofts, Seattle

Scenario D addresses the constraints of the site by providing a reduced density design and adequate parking solutions for both the water-oriented uses and the residential uses. In addition, this approach provides an attractive developer profit critical to activating the site as part of the larger Foss Waterway community.

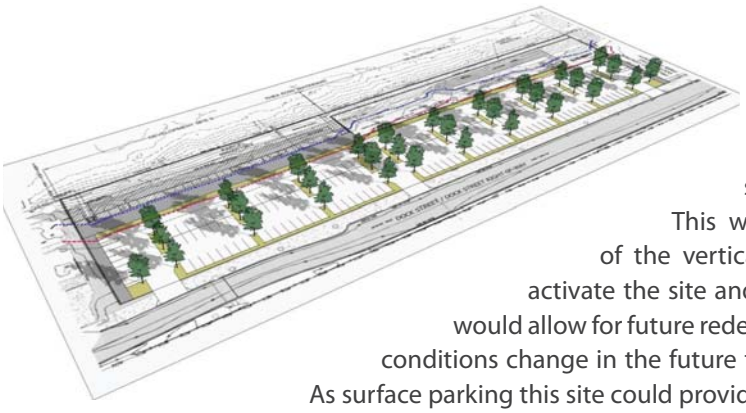
BENEFITS

- *Activates challenging and narrow sites*
- *Brings unique product mix to existing condo and apartment heavy waterfront neighborhood*
- *Avoids substantial environmental remediation*
- *Generates land sale revenue for FWDA*
- *Includes restaurant/retail pad*

CHALLENGES

- *Code departures for parking structure*
- *Multiple zoning variances required including product type, height, and others*
- *Does not include development cost of esplanade*
- *Unique product type with limited track record in Tacoma*

DEVELOPMENT SCENARIO E: *INTERIM SURFACE PARKING*



As an alternative to any significant vertical construction Heartland explored some interim use opportunities for Sites 8 & 9. Scenario E looks at capping the site environmental conditions and utilizing the area for surface parking intended to support access to the waterfront in the short term. This would involve a smaller cost consideration than any of the vertical construction efforts however would not serve to activate the site and waterfront as effectively. In addition, this approach would allow for future redevelopment in the event market rates, costs, and zoning conditions change in the future to make higher density development more attractive. As surface parking this site could provide 192 total stalls for public use based on a preliminary site plan and layout as shown below. Site 9 has already been improved as a surface parking lot and with approximately 75 parking stalls therefore would need minimal improvement alongside the construction of Site 8 as a surface lot.

Cost Assumptions:

Based on estimates provided by Nakamura Consulting the cost to construct surface lots on Sites 8 & 9 would be $4,800 per stall including demolition, environmental conditions, and other considerations. With approximately 115 additional stalls this would be a total cost of roughly $550,000.

Alternatively the site could be partially converted to a surface parking use and some amount of rehabilitation performed on the former Sea Scouts building to allow for minimal retail or entertainment use such as a market, brewpub, bar, or other community events. The condition of the SeaScouts building and magnitude of renovation needed will greatly effect the cost of this approach. For example a renovation cost of $100 per square foot would be approximately $1.5 million on the 15,000 square foot building.

BENEFITS

- *Upgrades existing site and provides parking for broader waterfront*
- *Avoids substantial environmental remediation*
- *Allows for development flexibilty in the future as market conditions improve and potentially allow for more density*
- *Does not require significant capital expenditure comparable to other redevelopment scenarios*

CHALLENGES

- *Does not achieve near term redevelopment density goals*
- *Multiple zoning variances and overall code flexibility required*
- *Does not generate land sale revenue for FWDA*

Feasibility Conclusion

This analysis explored multiple redevelopment scenarios for the FWDA Sites 8 & 9 including variations on multifamily products supported by a vertical parking structure, lower density for-sale products, and interim use as a surface parking lot. Each of these scenarios assumes that the sites are considered as a whole to maximize redevelopment potential of challenging site dimensions. In addition, scenarios assume some level of flexibility in the current zoning codes to accommodate viable development and activation of the waterfront at this location. Key policy and market related considerations discovered through this analysis related to the desire for increased density, completion of the esplanade, and redevelopment form are summarized below.

Density:

The primary goal of redevelopment along the waterfront is to bring density and activate the neighborhood. The physical size and dimensions of the site, proximity to the waterfront, and high water tables prevent below grade parking and limits above grade parking efficiency. This, in turn, limits the efficiency of any significant density, as higher density uses require more parking. In order to accommodate density of any scale this analysis assumed a vertical parking structure to support a single commercial or residential building.

Waterway Esplanade:

Based on multiple redevelopment scenarios it is unlikely that the cost to complete the esplanade along Sites 8 & 9 could be supported by any private redevelopment efforts. This is due to the lack of significant returns generated by any of the scenarios explored.

High Rise:

Redevelopment of Sites 8 & 9 to maximum building height allowable under current zoning is infeasible for multiple reasons. These include the high cost of high-rise construction in relation to the existing market rates for either residential or commercial space in the Tacoma market and the efficiency challenges related to the physical size and dimensions of the site limiting the ability to provide parking for the increased density.

Mid Rise:

Consideration of a mid-rise redevelopment strategy for Sites 8 & 9 presents efficiency challenges related to floor plate and parking needs for increased density. This is addressed in the sample redevelopment scenarios in this analysis by combining the two sites and including a vertical parking component in support of an adjacent residential or commercial structure. This approach to the Site would require moderate departures from the existing zoning code as it relates to parking structures, set backs, and view corridors while proceeding with a redevelopment that does not achieve the maximum allowable zoning density. In addition to the physical inefficiencies, and largely because of them, mid-rise development scenarios offer limited financial return or are entirely financially infeasible based on construction cost estimates and market conditions. To improve the feasibility of this approach the Tacoma market would need to experience moderate growth to market rental rates in excess of anticipated growth of construction costs. This margin would generate additional value to mid-rise development opportunities on Sites 8 & 9 and help overcome critical physical characteristics and inefficiencies of the site moving forward.

Low Density:

A redevelopment strategy that reduces the overall density of the site would resolve much of the physical constraints of the site related to parking efficiency. Decreasing the overall density on Sites 8 & 9 allows for revenue generating redevelopment across the entire property rather than dividing the site into a vertical garage and a commercial building. This strategy is explored in scenarios C and D in the form of larger condominium units and smaller townhome or live/work units. This concept is a departure from the Foss Waterway vision for higher density waterfront redevelopment however it brings a new product mix to the waterfront, accomplishes some level of water-oriented retail and has the most economically viable option under foreseeable market conditions. This scenario also requires departures from building height requirements in addition to flexibility in view corridor alignment, setbacks, and possibly the configuration of the retail components.

Interim Use:

Any interim use explores the strategy of minimal capital improvement and construction to Sites 8 & 9. This includes the consideration of no action, site cap and surface parking lot adaptation, and adaptive reuse of the Sea Scouts building for some short-term retail use. This approach does not bring high-density development to the waterfront, however, the site does remain available for higher density development in the future dependent on market conditions while potentially providing a unique activation or and parking to the growing Foss Waterway community. This strategy could be undertaken by the FWDA or by an entrepreneurial private party through a master lease.