

The Bel-Red Incubator

Real Estate Strategy and Analysis for a Mixed Use Redevelopment

Kate Wells Driscoll – Architect

William Riley – Real Estate Portfolio Advisor

Heidi Stacy Ehrbar – Commercial Loan Analyst

Genevieve Tremblay – Cultural Entrepreneur, Bellevue Arts Commissioner



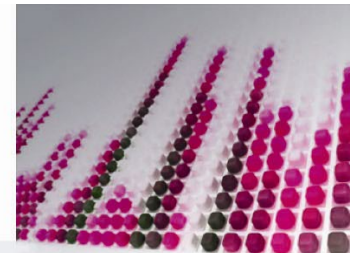
BEL RED INCUBATOR ... live / work / create

BRINC



EastLink Light Rail

- Train will run every 9-15minutes, 20 hours a day (DEIS,2008)
- Projected ridership of 45,000 people a day will pass BRINC site (DEIS,2008)
- BRINC station to be constructed 2015-17
- Noise impact is equivalent to that of a standard home coffee grinder at 3 feet



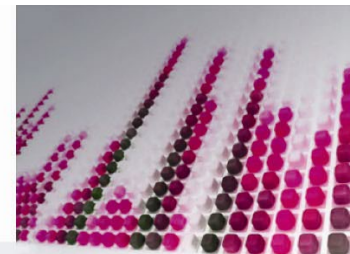
BRINC



Image: City of Bellevue, Bel-Red Subarea Plan

Bel-Red Vision

- To transform 900 square acre tract between downtown Bellevue and Microsoft from light industrial to transit oriented business district and residential center
- Target of long-term City and Regional planning initiative to create higher density and economic growth



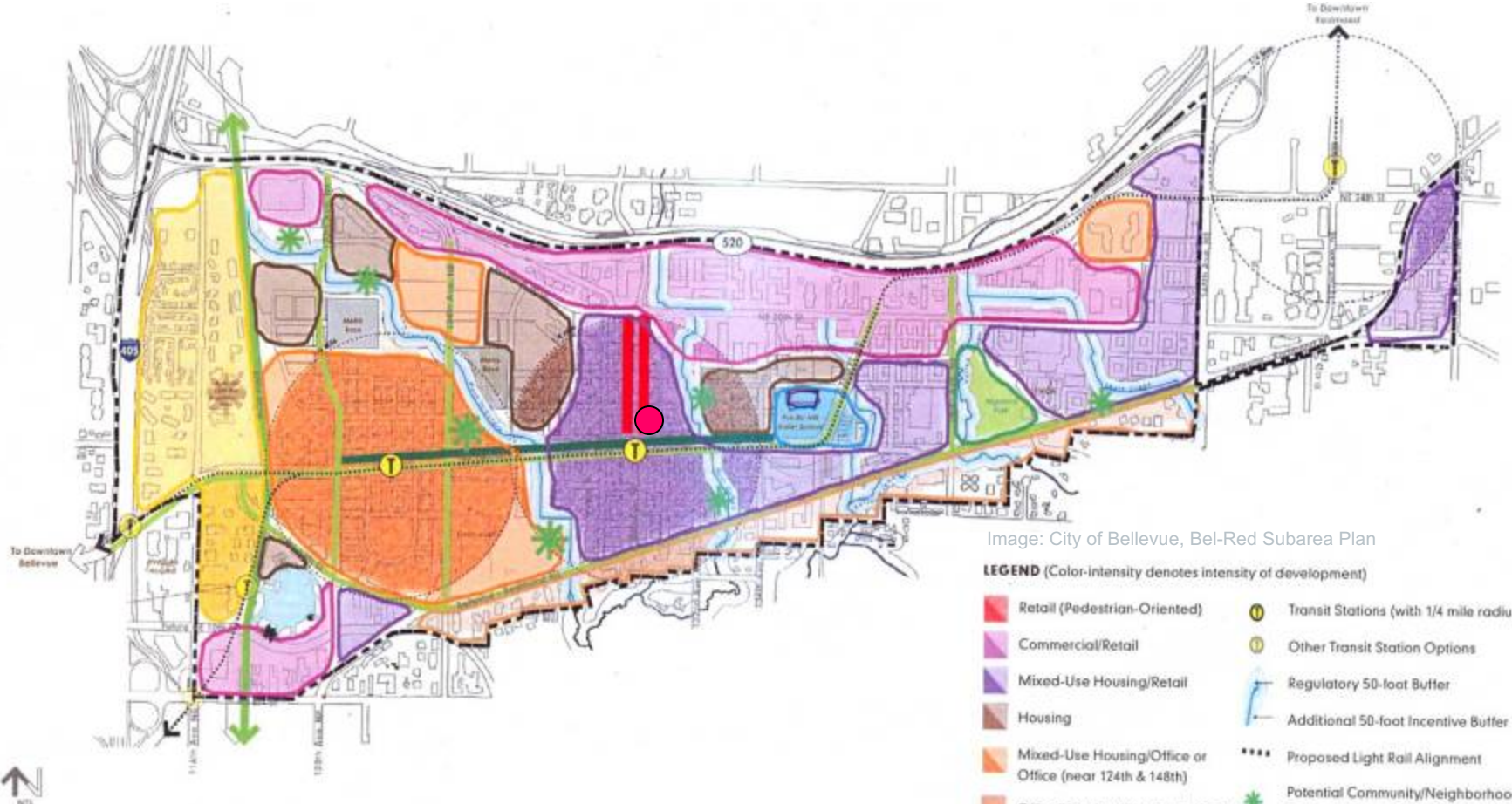
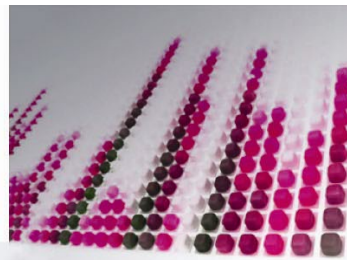


Image: City of Bellevue, Bel-Red Subarea Plan

- LEGEND** (Color-intensity denotes intensity of development)
- Retail (Pedestrian-Oriented)
 - Commercial/Retail
 - Mixed-Use Housing/Retail
 - Housing
 - Mixed-Use Housing/Office or Office (near 124th & 148th)
 - Office/Housing (Transition Area)
 - Office/Medical Office
 - Cultural/Arts District
 - T Transit Stations (with 1/4 mile radius)
 - T Other Transit Station Options
 - Regulatory 50-foot Buffer
 - Additional 50-foot Incentive Buffer
 - Proposed Light Rail Alignment
 - ★ Potential Community/Neighborhood Park and Open Space Opportunities
 - Green Streets
 - Park Blocks

Newly Adopted Zoning:

- Two station nodes along transit line—at Wright Runstad and at BRINC
- BRINC is zoned highest density mixed-use
- BRINC is on corner 130th, proposed pedestrian oriented shopping street







Existing Property

1606-1628 130th Avenue NE, Bellevue, WA

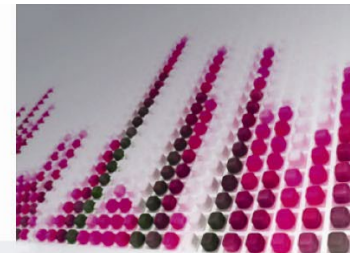
* Light Industrial Building

▪ Building Area – 23,288

▪ Land Area – 51,250

▪ Fully Leased

▪ NOI - \$237,438

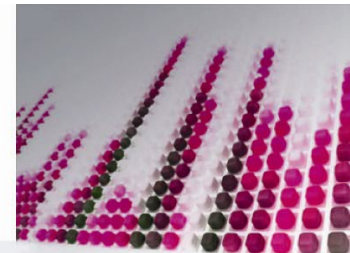




Existing Property + BRINC LINK (EastLink Lightrail)

1606-1628 130th Avenue NE, Bellevue, WA

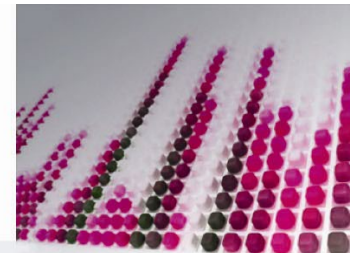
- Train runs every 9-15 minutes, 20 hours a day
- 45,000 Projected Ridership
- BRINC LINK to be constructed in 2015-2017



Bel-Red --- Follow Public Investments\$

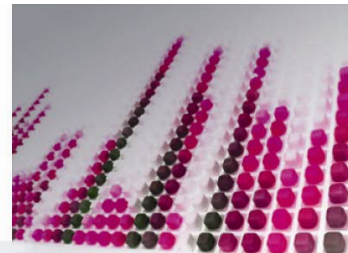
City of Bellevue's Capital Investment Areas in Bel-Red

CAPITAL INVESTMENT AREAS	Estimates in millions in 2008\$				
	2008-2014	2014-2020	2020-2030	Beyond 2030	Total
Transportation -NE 15th/16th Corridor -120th Avenue -124th Avenue -NE 6th Street (local share) -Northrup Way	\$117.5	\$37.5	\$181.1	\$44.5	\$380.6
Parks Land acquisition and development of neighborhood, community, and mini-parks.	\$43.1		\$41.8	\$39.8	\$124.7
Stream Restoration Potential 50 to 100-foot enhancement with land acquisition as needed.	\$48.7		\$3.7	\$24.2	\$76.6
BROTS	Projects ideas and general cost estimates being developed.				
TOTALS	\$246.8		\$226.6	\$108.5	\$581.9



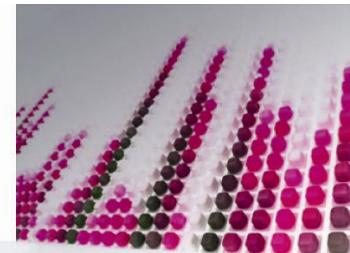
Demand for BRINC

- Eastside has over supply of corporate campuses and downtown high rise offices
- High Tech Companies Need Different Kinds of Space
- Target Market interest in Locating Close to Employment
- Smaller, “Charactered” Live, Work and Live/Work Spaces
- Mobile and Social Technology impacting work environment --- more flexibility needed.
- Collaborative Work Environments



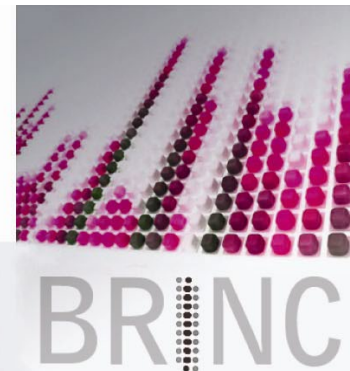
Economic Impact: Interactive Media Development

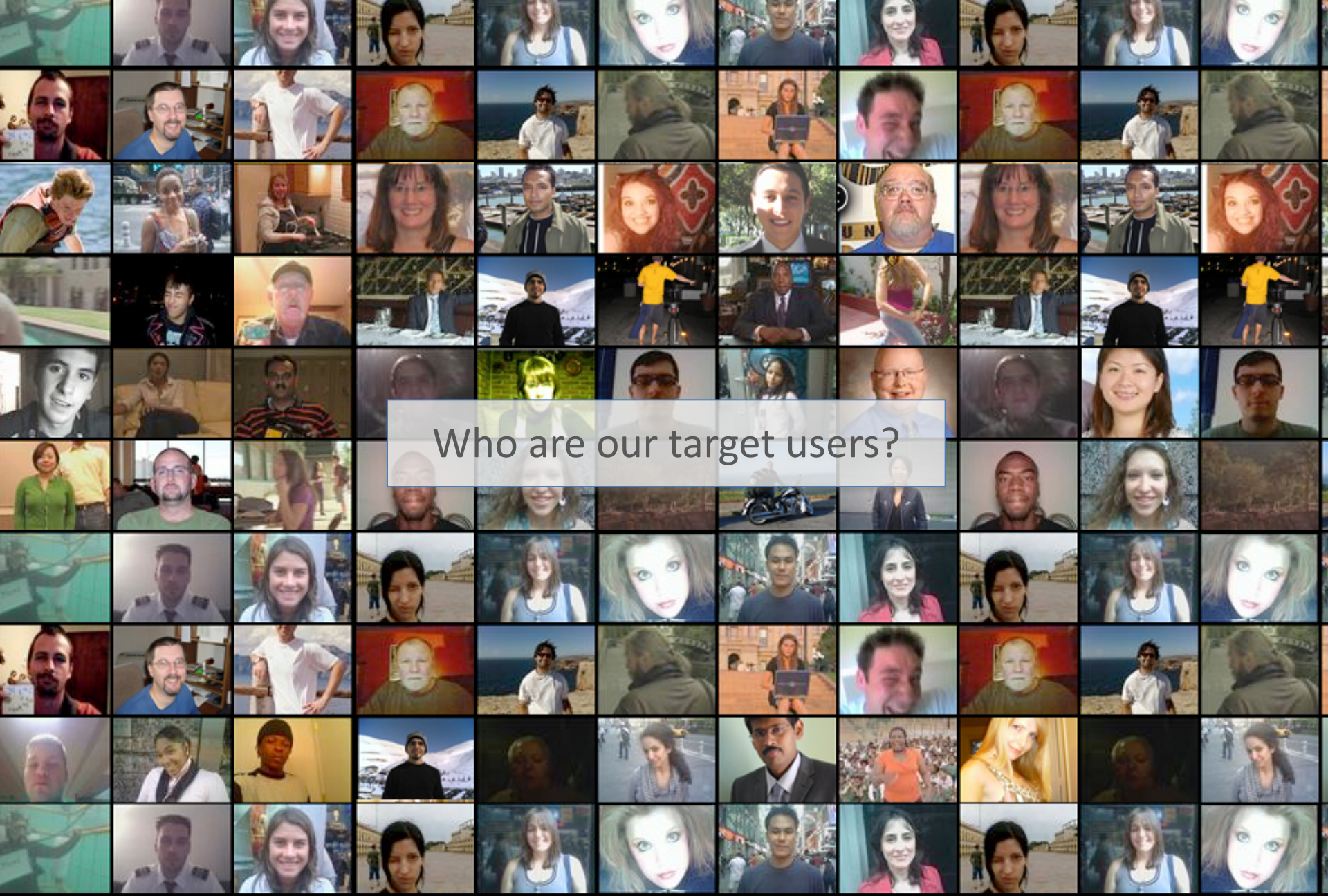
- More 15,000 jobs at companies are devoted to video gaming
4.2 billion in annual revenues associated with 15,000 information jobs.
- Msoft's Entertainment Divisions report annual revenues of 3.4 billion (2006)
- \$460 million in annual revenues of 100 smaller game companies
- 15,000 information jobs support 50,000-68,000 jobs in Washington State and
6.1-8.3 billion in statewide revenues.



Interactive Media Development Companies

Headquartered in Bellevue (from 2007 Interactive Media Study done by Enterprise Seattle)





Who are our target users?

rm for highend parking garages in the central business district of major cities. I create U
e ----- I use technology to share **critique and sell art media**---I use software, mainly Ado
op to create illustrations -----New technologies for expression allow for the sharing of ne
outer world.- ----- **stage performances using edible paper** and ink with a printer allowi
ves. -----use graphic design and web design in my job. **rapid-prototyping technolo**
to create snap-together sculpture ---Sound art installations, computer vision, data minir
ics, speech synthesis, databases, sensor networks, electronics, CNC fabrication, custo
trapeze artist, I use technology in my costumes. Many times, my costumes are embedd
dd to the visual effects of my motion on the trapeze----- **I use LEDs and/or EL wire** c
plays. ----- I create UI, demo, movies website, etc... on projects to better web and o
es you just get an idea for some cool little widget or tool... and I use technology to make thos
ters to create visual and audio art. I **do motion graphics**, 3D art and electronic music usi
thesizers and whatever I can get my hands on and works for the task----- **I use technolo**
development of original content. ----- My artists use all manner and forms of new mec
artwork which I then display, install and sell through a commercial art gallery.--- **Used for log**
mediums which don't have a non-technical equivalent.--- I use maya, after effects and oth
create work that explores hyper-reality-----I am a **toolmaker for artists**
structure for digital expression, creating custom graphics engines for ar
s for environmental experiments. I also work with journalists on experime
end to use technology to **incorporate various lighting techniques and con**

What do they do?



Affinity Group Survey:

Digital Creatives, Knowledge Workers & Technology Entrepreneurs

90 surveys completed

Education Level

20% Some college

68% College grads

24% Masters Degrees

Annual Household Income

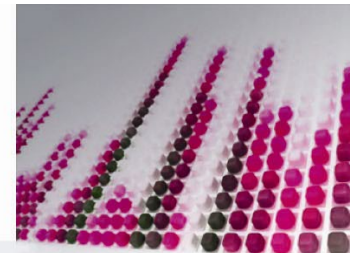
30% --- \$100,000 - \$200,000

20% ---\$75,000 - \$100,000

What they pay (on average) for housing

25% --- \$1200 - \$1599

24% --- \$2000 +



Affinity Group Survey:

Digital Creatives, Knowledge Workers & Technology Entrepreneurs

73% male
27% Female

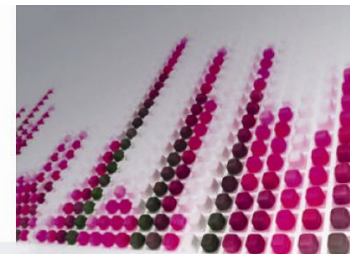
Open Ended Questions Described need for access to:

Ideal Work Space

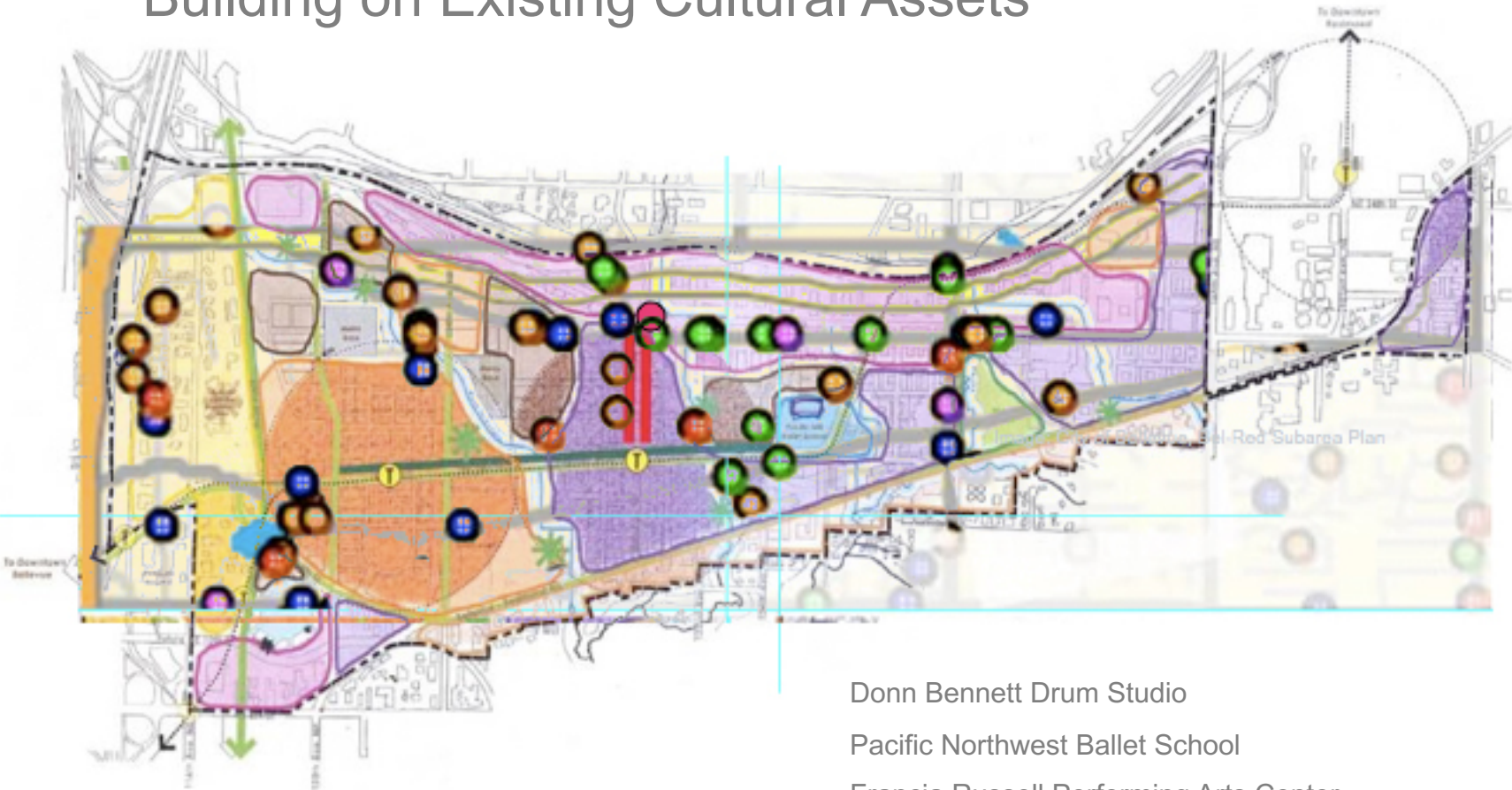
52% did not have work space at home
61% described idea work situation with shared studio/lab space

High interest Collaborative Environment

specialized Tools
Space
Collaborators
Dialogue
Knowledge
Mentors
Exhibits, community networking, etc...

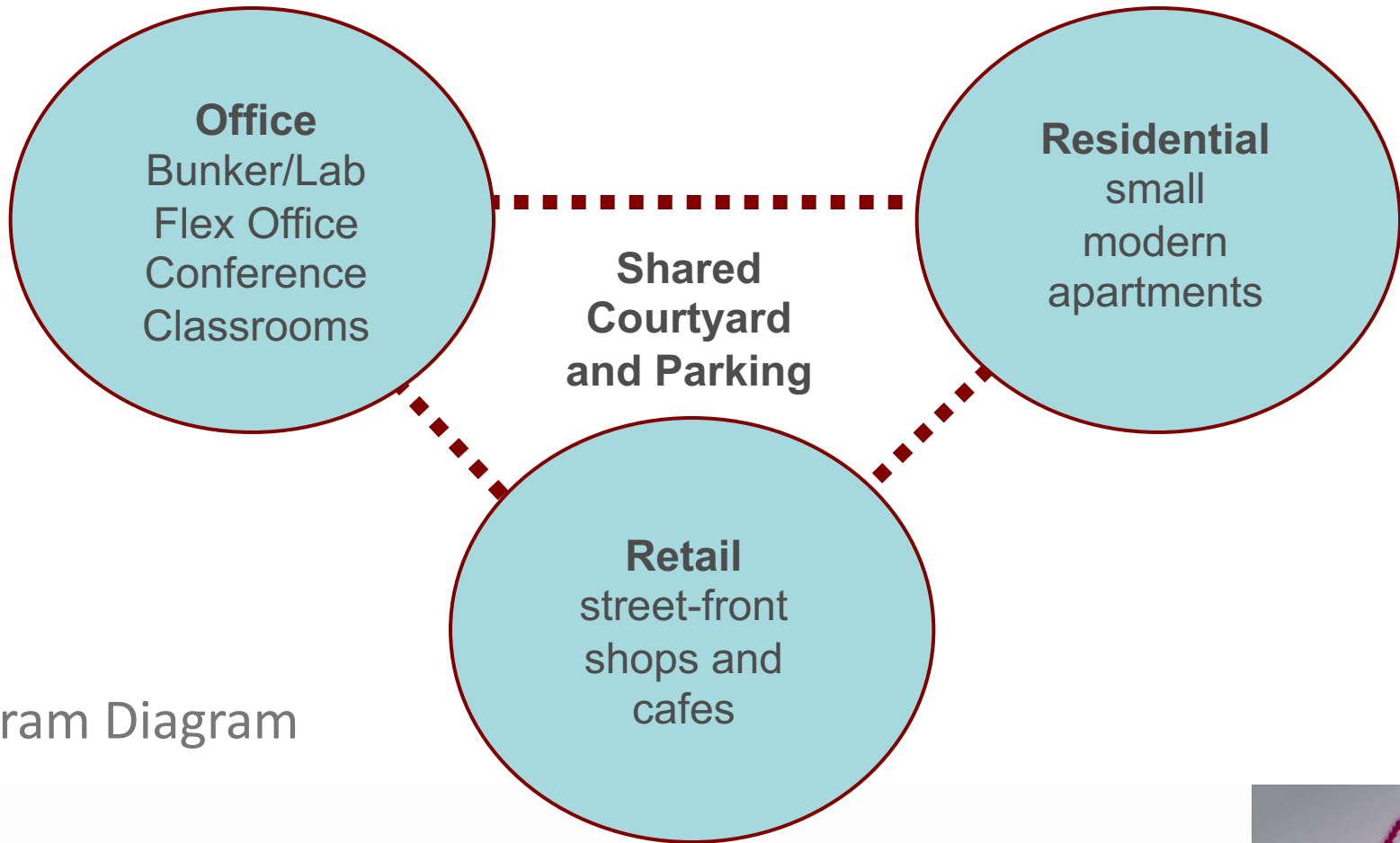


Building on Existing Cultural Assets

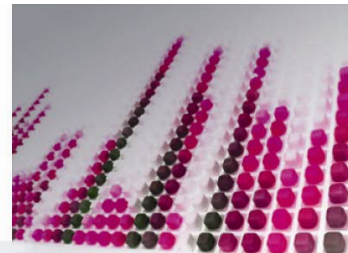


~48 arts or arts related businesses in Bel-Red Corridor counted in 2007 using Dunn and Bradstreet numbers.

- Donn Bennett Drum Studio
- Pacific Northwest Ballet School
- Francia Russell Performing Arts Center
- Mike Lull Guitar Works
- Evolution Studios
- Northwest Guitars
- American Music
- Mill Music



Program Diagram





Design Stats:

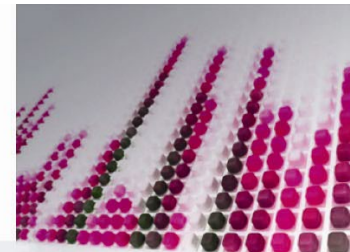
- 75 apartments, 7 live/works
- 45,000sf office, 7000sf studio/lab
- 15,000sf streetfront retail

Hold Financial Model

Hold Pro forma		Per SF
REVENUES:		
Revenue:	\$261,499	\$11.23
Overall Vacancy	\$13,075	5.00%
Gross Income	\$248,424	
EXPENSES:		
Reserves	\$3,493	\$0.15
Management	\$7,453	3.00%
Expenses	\$10,946	\$0.47
NOI	\$237,478	\$10.20
Effective Cap	6.6%	
Purchase Price	\$3,600,000	\$154.59
Financing		
Loan	\$2,479,000	
Debt Service	(\$197,898)	
Interest Rate	7.00%	
Am	30	
DCR	1.2	
LTV	69%	
Funds Needed	\$1,121,000	

	Size	Monthly	Annual	Monthly	Annual
Tenant	S.F.	Rent/sf	Rent/sf	Rental	Rental
Aiphone Corp	6,000 sf	\$0.81	\$9.75	\$4,876	\$58,506
Comtech, Inc.	6,380 sf	\$0.77	\$9.25	\$4,917	\$59,007
Grand Event Rentals	10,908 sf	\$1.10	\$13.20	\$11,999	\$143,986
Subtotal:	23,288 sf		\$11.23	\$21,792	\$261,499

- \$3.6 Million Purchase Price
- \$1,121,000 Required at Closing
 - 1.20 DCR, 7% Rate
 - 5% Vacancy
- \$40,000 Cash Flow After Debt Service



Zoning Analysis

Lot Size:

205' by 250' (51,250SF), of which the southerly 70' will be sold to the City for Right of Way and East Link light rail line.

A lot of 135' by 250', (33,750sf), is assumed for development and FAR calculation

Key Zoning Considerations:

Zone: BR-RC-1

Base Allowable Height: 45'

Incentive Allowable Height: 150'

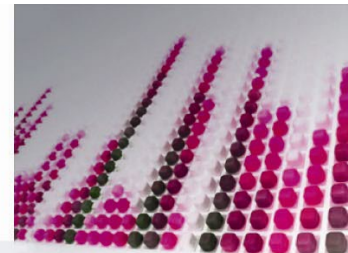
Maximum lot coverage/impervious surface area: 75%

Required setbacks: 0'-0" front, side and rear.

Required Step-back: 15' from property line at a height no greater than 40' on all sidewalk-oriented facades

Parking requirements:

Retail in Mixed-Use;	2 stalls/1000sf
Restaurant:	5 stalls/1000sf
Office	2 stalls/1000sf
Residential	0.75 stalls/unit



Zoning Analysis

Base FAR: 1 (33,750sf), Maximum incentive FAR: 4.0 (135,000sf)

FAR exemptions:

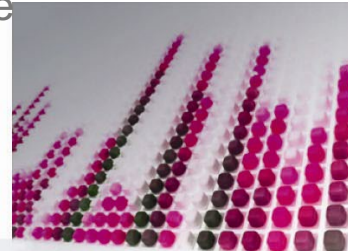
- Affordable housing, public restrooms, childcare and non-profits.
- Ground floor retail.
- Cultural Assets are under consideration for FAR bonuses under the draft Land Use Code.

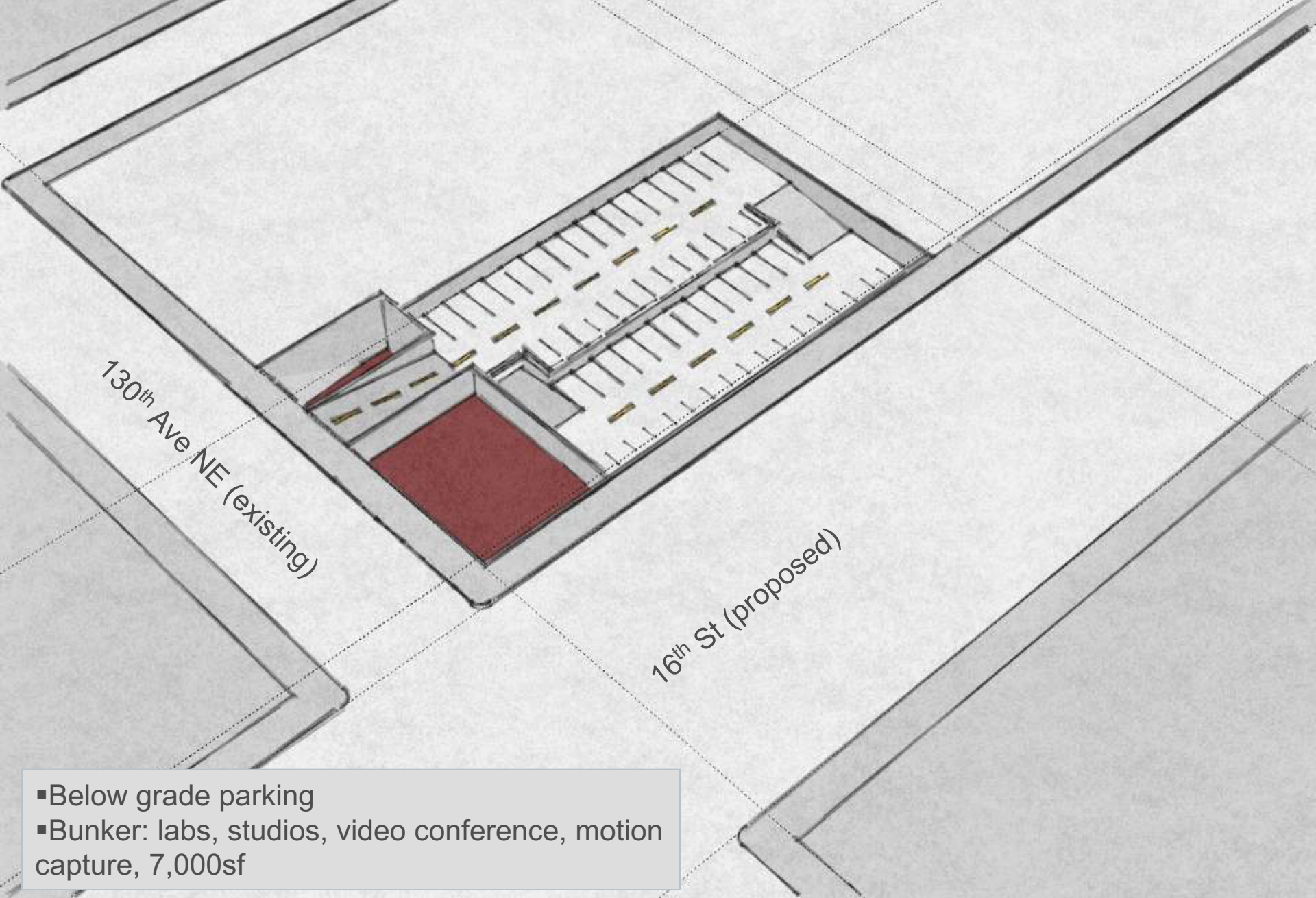
FAR bonus and incentive system:

Base FAR of 1.0 is allowed outright, and up to 4.0 is possible through the tiered incentive system. Bonus area can be gained through provision of affordable housing, rehabilitation of streams and creation of parks. Bonus area can also be gained through payment in lieu on a fee per square foot basis.

BRINC FAR Calculation:

Before applying incentive system, BRINC has an FAR of 3.9, however, using exemptions and dedicating approximately 11 apartments as affordable, we avoid any payment-in lieu. Current rents for our many of our units already meet affordable standards





130th Ave NE (existing)

16th St (proposed)

- Below grade parking
- Bunker: labs, studios, video conference, motion capture, 7,000sf



130th Ave NE (existing)

16th St (proposed)

- Courtyard and Pedestrian Access
- Street Front Retail 15,000sf
- 7 Live/Work units



130th Ave NE (existing)

16th St (proposed)

one bed	35	650sf
two bed	5	1275sf
studio	15	480sf
courtyard one bed	10	600sf
courtyard open 1A	5	510sf
courtyard open 1B	5	570sf



130th Ave NE (existing)

16th St (proposed)

■ Flex Office 44,000sf



■ New Streetscape

BEL RED INCUBATOR ... live / work / create

BRINC

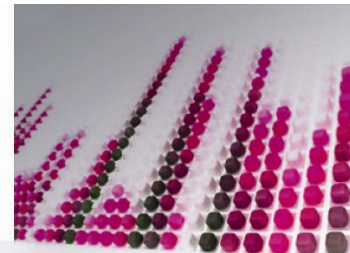
Inspiring Program Models

Motion Capture Lab at UC Irvine
(partnership with Dept. of Dance)

DX Arts, University of Washington

Banff Centre New Media Institute, Canada

Eyebeam in New York



Placemaking: Activate the Heart of Bel-Red

Partner with Development (Local Models: B/IAS)

WPA Inspired Mural Projects, Environmental Art, Site Specific Performances

Anchor Cultural Initiatives (“Initiative India”, etc...)

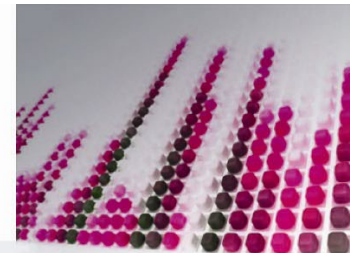


THANK YOU!

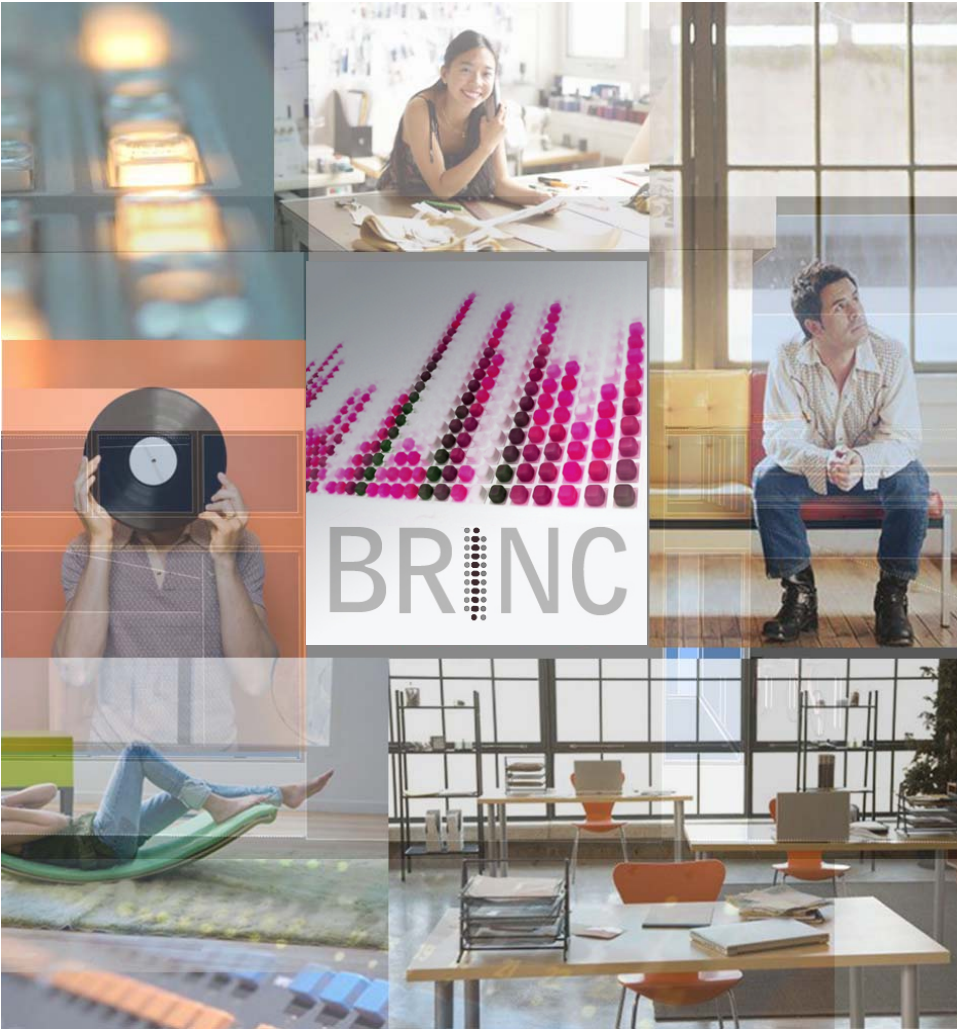
MENTORS

Steve Walker (Development Mentor), Managing Director, Heartland
Charlie Hafenbrack (Project Coach), Managing Partner, GLY Construction
Jim Friesz and Kirsten Murray (Architecture Mentor), Architects, OSKA

Lisa Picard, Managing Partner, Muse Development • **Shelly Farhnam**, Founder, Pathable and Dorkbot Overlord • **Matt Terry**, Director of Planning, City of Bellevue • **Emil King**, Strategic Planning Manager, City of Bellevue • **Robert Derrick**, Director Economic Development, City of Bellevue • **Tom Boydell**, Economic Development Manager, City of Bellevue • **Mary Pat Byrne**, Art Specialist, City of Bellevue • **Paul Inghram**, Planning Manager, City of Bellevue • **Patricia Wilma**, Community Development Manager, City of Bellevue • **Clarence Copeland**, Clerk's Office, City of Bellevue • **Jeff Marcell**, Executive Vice President and COO, Enterprise Seattle • **Scott Kirkpatrick**, Transit Oriented Development Program Manager • **Kent Melton**, Senior Real Estate Representative, Link Light Rail • **John Woolley**, Research Analyst • **Allen Olsen**, Cost Estimating Specialist at GLY • **Cathryn Vandenbrink**, Regional Director, ArtSpace • **Celia Pearce**, Director, Game Lab/Asst. Prof., Georgia Tech U • **Stephanie Barish**, IndieCade • **James Hughes**, DXARTS, University of Washington • **Jeff Brice**, Assoc. Professor, Cornish School of the Arts • **Matthew Kwatinetz**, Heartland • **Lisa Goodman**, Brand Manager, Benaroya • **Donn Bennett**, Donn Bennett Drums Studio • **Paige Weinheimer**, Funding Programs Associate, 4Culture • **Deb Twersky**, Arts, 4Culture • **Tina Hoggatt**, Public Art, 4Culture • **Jim Kelly**, 4Culture • **Charlie Rathbun**, Arts, 4Culture • **Lele Barnett**, Artist Trust • **Michael Brandt**, Downtown Bellevue Blog • **Claekia Charles-Young**, Reis, Inc, NYC • **Mark Ramaley**, Broker Ramaley Properties **Maggie Orth**, International Fashion Machines, Megan OSKA Architects • **Gwen Rousseau**, Associate Planner/Demographer, City of Bellevue • **Nathan Torgelson**, Executive Manager, City of Seattle, **Mary Petersen**, Staffing Lead Mobile Communications. Microsoft, **Radim Blazej**, Partner, Caron Architecture, **Ted Schepper**, P.E., Principal at Terra Associates



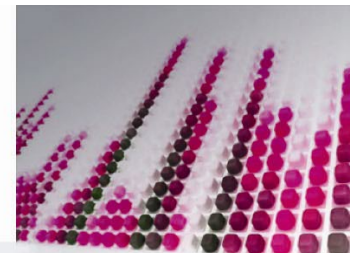
THINK BRINC!



APPENDIX

Sources of Funds- Costs

<u>Item</u>	<u>\$ Amount</u>	<u>\$ per SF</u>	<u>% of Budget</u>
Land	\$2,586,625	\$19.52	6.63%
<u>Hard Costs</u>			
Parking/ Site Work	\$3,127,500	\$90.00	9.37%
Bunker	\$658,800	\$90.00	1.97%
Incubator	\$5,104,000	\$110.00	15.29%
Retail	\$2,215,200	\$120.00	6.63%
Residential	\$7,840,000	\$140.00	23.48%
Live Work	\$651,000	\$150.00	1.95%
TI Retail	\$1,140,000	\$50.00	3.41%
Sales Tax 9%	\$1,866,300	\$14.08	5.59%
<u>Contingency 5%</u>	<u>\$1,166,200</u>	<u>\$8.80</u>	<u>3.49%</u>
Total	\$23,769,000	\$179.36	71.18%
Soft Costs	\$5,556,600	\$41.93	16.64%
Interest Carry	\$1,479,600	\$11.17	4.43%
Total Costs	\$33,391,825	\$251.98	100.00%



Uses of Funds- Equity

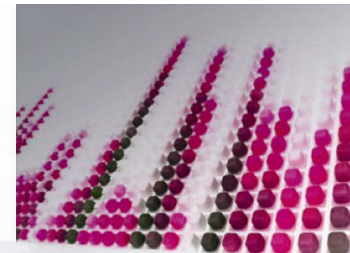
Equity Funded at Acquisition	\$1,121,000
Construction Equity	\$6,255,125
TOTAL EQUITY	\$7,376,125

Construction Loan **\$26,015,700**

Perm Loan \$26,015,700

Total Sources **\$33,391,825**

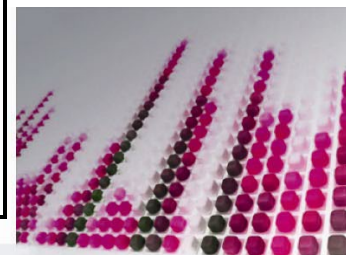
Loan to Cost 78%



Pro Forma at Stabilization

	Pro Forma	per sf
REVENUES:		
Apartment	\$1,362,000	\$2.09
Retail	\$393,375	\$25.00
Office	<u>\$1,237,500</u>	\$24.31
Net Income	\$2,992,875	\$24.76
Apartment RUBS	\$49,200	\$50.00
Office NNN	\$203,600	\$4.00
Retail NNN	\$94,410	\$6.00
Parking	<u>\$73,800</u>	\$75.00
Total Other	\$421,010	
Total Revenue	\$3,413,885	
Overall Vacancy	\$170,694	5.00%
Gross Income	\$3,243,191	
Apartment Expenses	\$426,400	\$5,200
Retail Expenses	\$94,410	\$6.00
Office Expenses	\$203,600	\$4.00
Operating Expenses	\$724,410	
Apartment Reserves	\$16,400	\$200
Structural Reserves	\$9,995	\$0.15
NOI	\$2,492,386	\$20.62

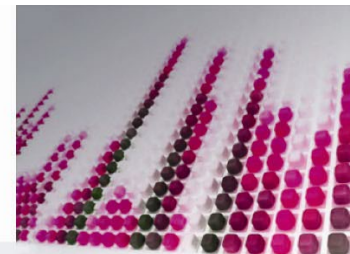
Sensitivity	Value	Cap
NOI	\$2,492,386	\$20.62
Value	\$35,605,500	7.00%
Sensitivity	\$41,539,800	6.00%
	\$31,154,800	8.00%
Breakeven	\$33,391,825	7.46%
Value Creation	\$2,213,675	
Financing		
Loan	\$26,015,700	
Debt Service	(\$2,077,000)	
Interest Rate	7.00%	
Am	30	
DCR	1.2	
Equity Needed	\$7,376,125	
LTV	73%	



5 Year Return of Return / Sensitivity

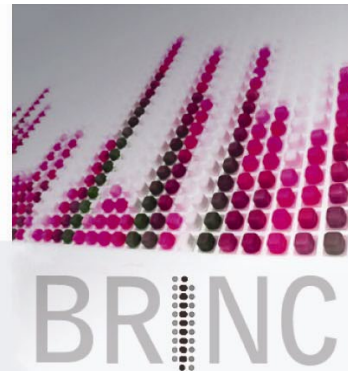
	Current	10% Increase in Hard Costs	10% Decrease in Rent	10% Vacancy	Flat Rents
Value Creation	\$3,310,000	(\$312,442)	(\$667,862)	\$975,193	\$884,556
Return on Cost	9.9%	-0.8%	-2.0%	2.9%	2.6%
ROE	44.9%	-4.2%	-9.1%	13.2%	12.0%
IRR	11.4%	9.7%	0.3%	5.2%	5.8%

	Current	10% Decrease in Hard Costs	10% Increase in Rent	0% Vacancy	5% Annual Rent Increase
Value Creation	\$3,310,000	\$6,273,067	\$7,289,292	\$5,646,185	\$5,035,925
Return on Cost	9.9%	20.6%	21.8%	16.9%	15.1%
ROE	44.9%	85.0%	98.8%	76.5%	68.3%
IRR	11.4%	20.1%	19.7%	16.5%	14.7%



THINK BRINC!

- How a partnership could improve the project
 - Land Bank
 - Sound Transit parking partnership
 - Master Lease and property management



THINK BRINC!

Right TIME to invest!

Location, location, location...Strategic TOD

Good Investment because is City Invested

Appropriate Scale to Fund and Build

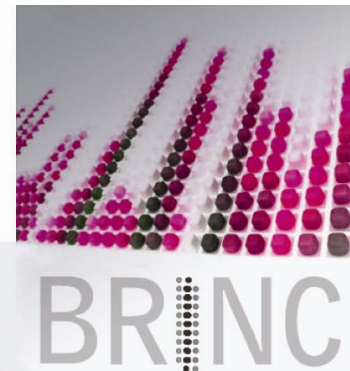
Responsive to Industry and Community Demand

Forward Thinking and Creative Approach

Cultural Vision = Competitive Advantage

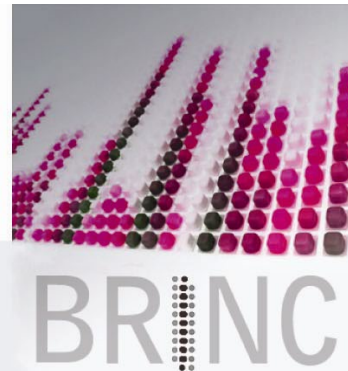
How a partnership could improve the project proforma

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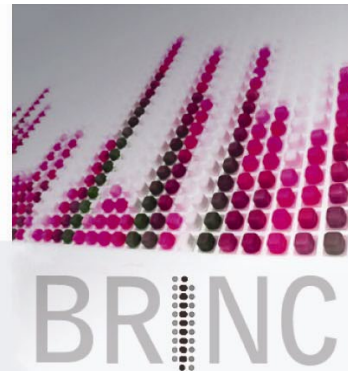
Project Team

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- William Riley – *Real Estate Portfolio Advisor*
- Heidi Stacy Ehrbar – *Commercial Loan Analyst*
- Genevieve Tremblay – *Cultural Entrepreneur, Bellevue Arts Commissioner*



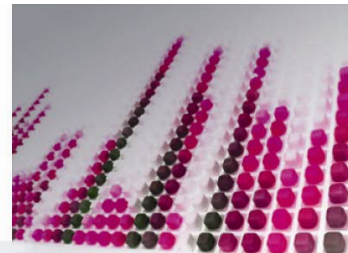
PROJECT TIMELINE

- Hold Period: year 0 to year 5
- Permitting: year 3 to year 5
- Construction: year 5 to year 6
- Lease up: year 6



Why Bel-Red?

- TOD - High Capacity Transit/Light Rail running 20 hrs/day from Seattle to Microsoft Campus, voter-approved with \$17.9 billion budget
- Public Investment in Amenities--parks, stream corridors, walkable street grid, infrastructure
- Higher Density Zoning—up to 4.0 FAR to encourage mixed use development
- Unique Market Niche and Character—neither downtown Bellevue or Suburban Redmond
- Underdeveloped Area with proximity to major economic hubs and growing innovative industries
- Timing—this area is poised to dramatically redevelop and now is the time to stake a claim



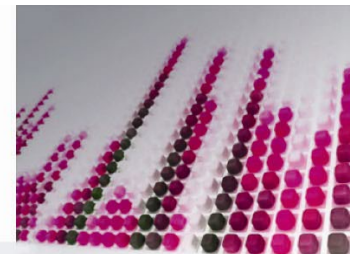
- 132,000sf Mixed Use Project in the Bel-Red Corridor area of Bellevue
- Timed to coincide with adjacent EastLink light rail
- Poised to benefit from public investment in area amenities
- Strategic opportunity to take advantage of the upcoming growth in the corridor
- Targeted toward people and businesses working in the growing fields of creative technology on the Eastside
- Aligned with vision of Bel-Red as a livable, innovation-focused district



Image: City of Bellevue, Bel-Red Subarea Plan

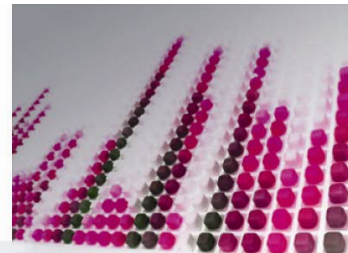
Bel-Red Vision

- To transform 900 square acre tract between downtown Bellevue and Microsoft from light industrial to transit oriented business district and residential center
- Target of long-term City and Regional planning initiative to create higher density and economic growth



Economic Impact: Interactive Media Development

- More 15,000 jobs at companies are devoted to video gaming
4.2 billion in annual revenues associated with 15,000 information jobs.
- Msoft's Entertainment Divisions report annual revenues of 3.4 billion (2006)
- \$460 million in annual revenues of 100 smaller game companies
- 15,000 information jobs support 50,000-68,000 jobs in Washington State and
6.1-8.3 billion in statewide revenues.



Building on Neighboring Cultural Assets

- Donn Bennett Drum Studio
- Pacific Northwest Ballet School
- Francia Russell Performing Arts Center
- Mike Lull Guitar Works
- Evolution Studios
- Northwest Guitars
- American Music
- Mill Music



~48 arts or arts related businesses in Bel-Red Corridor counted in 2007 using Dunn and Bradstreet numbers.

