

ALTERNATIVE DEVELOPMENT OPTIONS  
FOR  
A SITE IN DOWNTOWN SEATTLE

by

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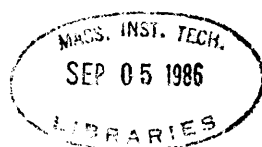
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Submitted to the Department of Architecture  
on August 15, 1986  
in partial fulfillment of the requirements of the degree  
Master of Science in Real Estate Development

ABSTRACT

This thesis assesses the feasibility and relative advantages of five alternate development options for a half-block site in the downtown retail core of Seattle, Washington. It was conducted with the assistance of the actual site owner and developer, Prescott, as a potential continuation of its previous development of the block.

The site is in a key location in the retail core. It is covered by three older buildings leased to retail and office tenants, which, while still economically productive, appear to be far below the highest and best use. Therefore, several options for new retail, both with and without office development, are studied. The analysis covers several complex issues including different ownership of various parcels, an existing ground lease, a planned transit tunnel under the site and station on the site, an unusual opportunity to include a major new downtown department store, and the transfer of development rights both to and from the site.

BIOGRAPHICAL NOTE

I received a Bachelor of Architecture degree from the University of Arizona in 1972, and am a licensed architect in Indiana and Washington state. I have practiced in the northwest for ten years, and previously for several years in the midwest. Much of my work has been for real estate developers. It has included a range of commercial, institutional, and residential projects, including high-rise office, condominium, and mixed-use buildings, and the United States embassy and consulate in Lisbon, Portugal (published Architecture + Urbanism, February, 1985).

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## I. INTRODUCTION AND CONCLUSIONS

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This paper is an analysis of several alternative development options for an actual site and developer.

A major hurdle in this analysis was the need to structure an iterative and subjective process into a seemingly linear and definitive form. The reality of the project reinforces this problem because the volume of data tends to obscure the subjectivity of the process. An analysis of a hypothetical project could afford to assume away many of the messy problems encountered in an actual project, problems of which this particular project has more than its share. In addition, performing the analysis with the cooperation of a professional developer eliminates the luxury of expedient streamlining.

For these reasons, the analysis deals more with defining and valuing the complex, interrelated factors which make up this real urban project scenario, and less with exhaustive economic modeling. Obviously both are important in reality, but with limited time and experience some narrowing was required. To have reversed the emphasis would have been less informative, and would have put the cart before the horse.

The division and sequence of the paper were imposed to establish order within the analysis, not to indicate the relative importance of the various factors. It is organized from general to specific in three indistinct and overlapping

sections. Tables and figures are usually located at the ends of sections.

The introduction outlines the proposed options, then reaches conclusions about the relative advantages of each option.

The body of the paper describes or analyzes background issues such as the developer, and regional, local, and site physical, political, and market characteristics. It then develops specific data such as zoning requirements and allowable areas, proposed design alternatives, project timing, equity and financing, and land, construction, and financing costs.

The final section synthesizes the previous data in an economic analysis which leads to the conclusions.

#### PROJECT DESCRIPTION

This paper is the analysis of several potential development options for a half-block site in downtown Seattle, Washington. The project is called Century Square, Phase II. The research was conducted with the assistance of the property owner and developer, Prescott, Inc., in its offices in Seattle.

The property is the remaining half of the block occupied by Prescott's new Century Square office and retail project, Century Square, Phase I. The site, approximately one acre, is covered by three older buildings and a vacated alley. The existing buildings have been partially renovated

in the last six or seven years, and are more than 95 percent occupied with tenants which cover a range of types and classes.

The analysis will compare the costs, returns, and risks associated with five options. The first four are entirely new construction based on demolition of the existing buildings.

1. A major retail (department) store;
2. Option 1 with an office structure above;
- 2B. Option 2 where the major retail store pays for its own shell;
3. A multi-tenant retail project;
4. Option 3 with an office structure above;
5. Maximization of the existing buildings.

#### CONCLUSIONS

The thesis of this paper is that the existing older buildings no longer make economic sense on such a valuable site. It was originally assumed that the alternatives would rank in approximately the order shown above. In fact, nearly the reverse is true. Their order is 4, 5, 3, 2B, 2, 1, and only the first two meet the developer's required rates of return under the assumptions of this study (see Summary of Results, Page 80).

The reasoning which lead to the expectation that the major retail store was the best alternative seemed sound for several reasons. The location is possibly the best

department store site in downtown, Saks Fifth Avenue has been looking for a potential location for several years, and the City has passed new zoning regulations designed to encourage new "major retail" stores. Development of a department store qualifies for FAR increases and is the only avenue by which the city allows the transfer of development rights to another block. Because the size of development on this site is severely limited by shadow impacts on a new city park, almost half of the development rights achieved with special bonuses for a department store would be lost. In other words, there is a double zoning bonus for a department store: additional, saleable development rights, plus the ability to transfer rights to another block--"double or nothing" in the case of this site. The obvious problem is securing the tenant, especially under acceptable terms.

However, it was soon discovered that the terms proposed by Saks were so limiting that the additional development rights were possibly not enough to make a major retail project feasible (Option 1). A mid-rise office structure was then added above the department store (Option 2), and this helped, but not enough. Finally, it was proposed that Saks pay for construction of its own building under the office structure, but pay no rent (Option 2B). This helped still more, but not enough.

A similar process created two multi-tenant retail options. The first, a two-story development (Option 3)

generated better returns than the major-retail options, but was so small-scale that its income was virtually the same as a renovation, with higher costs, lower rates of return, and considerably more risk.

The second multi-tenant retail plan combines the Option 3 retail with the previous office structure (Option 4). At this point the returns become acceptable, even though no saleable development rights are created. This option also produces the largest before-tax cash flows.

Maintaining the existing buildings (Option 5) is the least risky option in terms of costs and unknowns, and produces the highest rates of return on equity and total cost. But this option is also less rewarding in terms of the size of the returns than is Option 4. The buildings could be upgraded to the best possible condition at relatively low cost because they have all been recently at least partially renovated. However, the incremental increase in value would be similarly modest, and would leave them well below the "highest and best" use of one of the best-located sites in downtown Seattle.



## II. DEVELOPER

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Prescott has existed for approximately ten years. It began as a small firm, the Seaboard Group, which was composed of several individuals forming partnerships for the renovation of older commercial properties in downtown Seattle. Over the years the members of the firm changed, and eventually the president became Richard Clotfelter, and the vice president, Gary Carpenter. The name was changed to the Pacific and Seattle Group, and the firm's projects grew in size, although remaining in the commercial renovation field.

In the last several years the firm has made a high-profile (for Seattle) move into the development of new, class "A" office space, still in the downtown Seattle market. It is now one of the only major downtown development firms which is not linked to a large, established northwest corporation or institution. It has developed ties with several Japanese investment groups which are providing both debt and equity financing on two major projects. Clotfelter has become a leading spokesman for the downtown business community and president of the Downtown Seattle Association, which is now implementing the first privately-organized downtown support program in the country. Meanwhile, the name of the firm was changed again, to simply Prescott. The company is concentrating entirely on class "A" downtown Seattle office and retail development, and

there are no indications of future changes in type or location.

Prescott is now moving tenants into its just-completed Century Square, Phase I, a 29-story mixed-use project. Concurrently, construction is beginning on the First and Stewart Building, a speculative 12-story office and retail project next to the Pike Place Market. In addition, Prescott recently bought a very large project in the development stage from an established development firm which "went south." This project, 1420 Fifth Avenue (formerly the Stimson Center), will contain 825,000 square feet of office and 150,000 square feet of retail space. Preleasing is underway.

Prescott is also studying several potential projects, including the subject of this paper. It controls another block adjacent to the Century Square block, as well as various other downtown properties. All of this other property is occupied by older, leased, multi-tenant office and retail space, except for the 1420 Fifth Ave. block which had the tenants removed by the unfortunate, or badly-managed, previous developer.

At this time, all of these activities are managed by an office staff of twelve. In addition to the president and vice president, Prescott is composed of a project manager and assistant project manager who coordinate design and construction, a retail leasing representative, a property manager, a controller, two accounting staff, an office

manager, and two office staff. Outside the office there is a chief engineer, a building engineer, and two general purpose workers. Leasing of major office projects is performed by outside agents, and construction is managed by general contractors under the supervision of the project managers.

In summary, Prescott is a young and essentially lean organization. The growth in scale and complexity of its projects has required some enlargement and adjustment of the firm's management. This may continue, especially if there is future emphasis on risk avoidance through diversification of project types or locations, as is found in many older firms.

### III. LOCATION

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#### SEATTLE

Seattle is located in western Washington State on the eastern shore of Puget Sound, a natural waterway connected to the Pacific Ocean. Founded only in the mid 19th century, Seattle has grown to half a million residents in the center of a metropolitan area of almost two million. This area extends up the east side of the Sound, including Everett and Bellevue. While not the state capital, Seattle is certainly the commercial and cultural nucleus of the northwest region.

Seattle's central city is forced into an hour-glass shape by Elliot Bay, on the Puget Sound to the west, and Lake Washington, three miles to the east. Downtown is further constrained in the same direction by steep hills and Interstate 5 to the east. These factors cause the CBD to be very compact. Further, downtown is also built on hills which slope down to the harbor, creating steep San Francisco-like streets and beautiful vistas of the Sound and Olympic Mountains to the west. From buildings of any height there are also views of Mount Rainier to the south, Mount Baker to the north, and the Cascade Mountains to the east.

Within downtown Seattle there are the traditional zones found in many cities: retail, government, and several classes of office or financial (see following maps). In addition, there are special areas: the Pike Place Market and Pioneer Square historic districts, the International

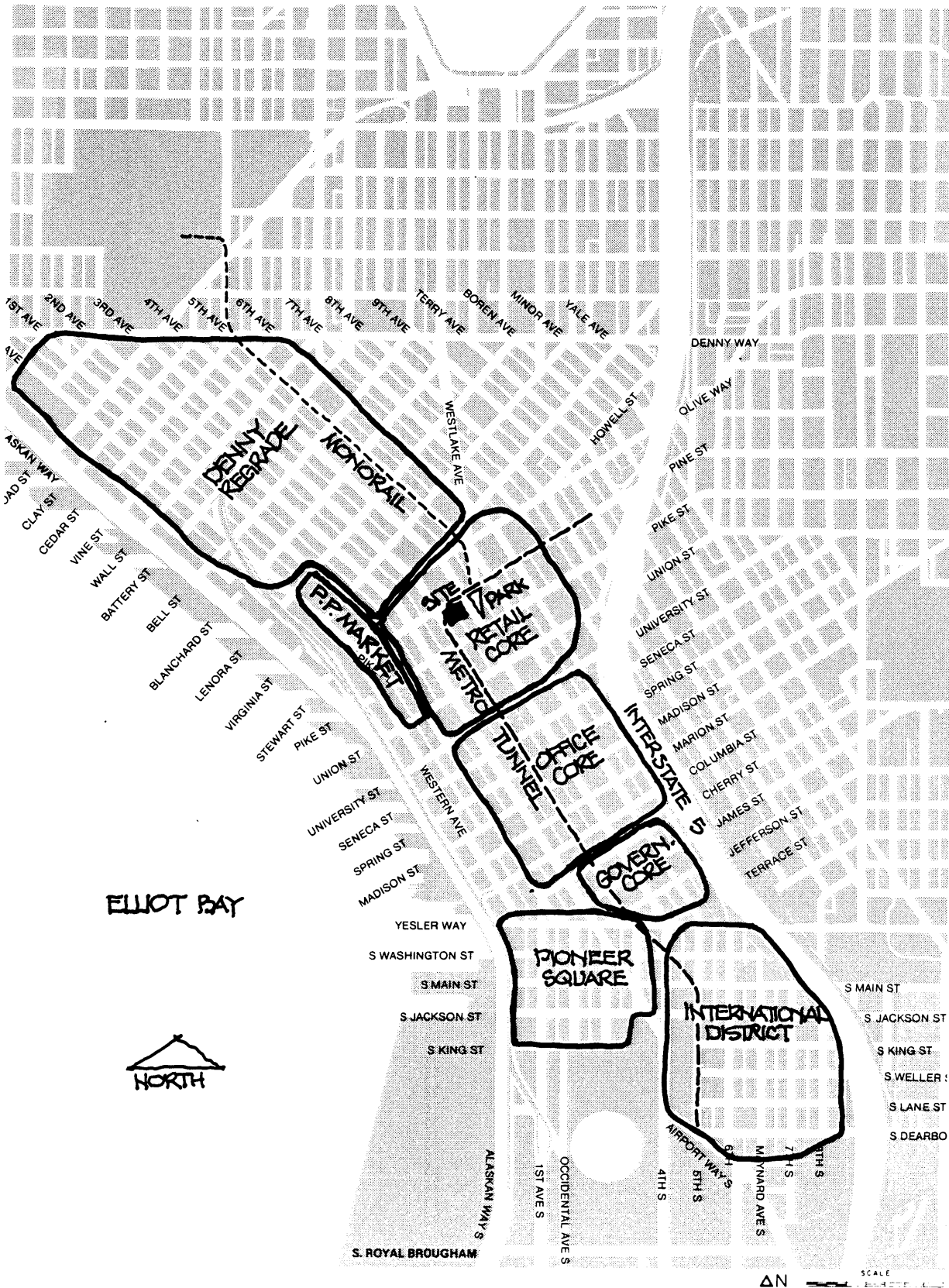
District (formerly Chinatown), and the waterfront. The downtown retail core (DRC) is at the north end, the downtown office core (DOC) in the center, and the governmental core south of the DRC.

The retail core is centered at Fourth and Pine, the intersection of the monorail, the proposed Metro bus tunnel, and Westlake park. It is adjacent to the boundary between downtown and the Denny Regrade. (In Seattle's most significant example of urban renewal, an area of about fifteen blocks had not only the buildings demolished, but a major hill as well: hence, "the Regrade.") The area is generally composed of older, somewhat ornate stone and terra cotta buildings of three to eight stories.

The office core has had much new development over the last twenty years, and has much more planned for the next five years. The typical new project is thirty to sixty office floors over a multi-level retail base which is often terraced to fit a sloping site.

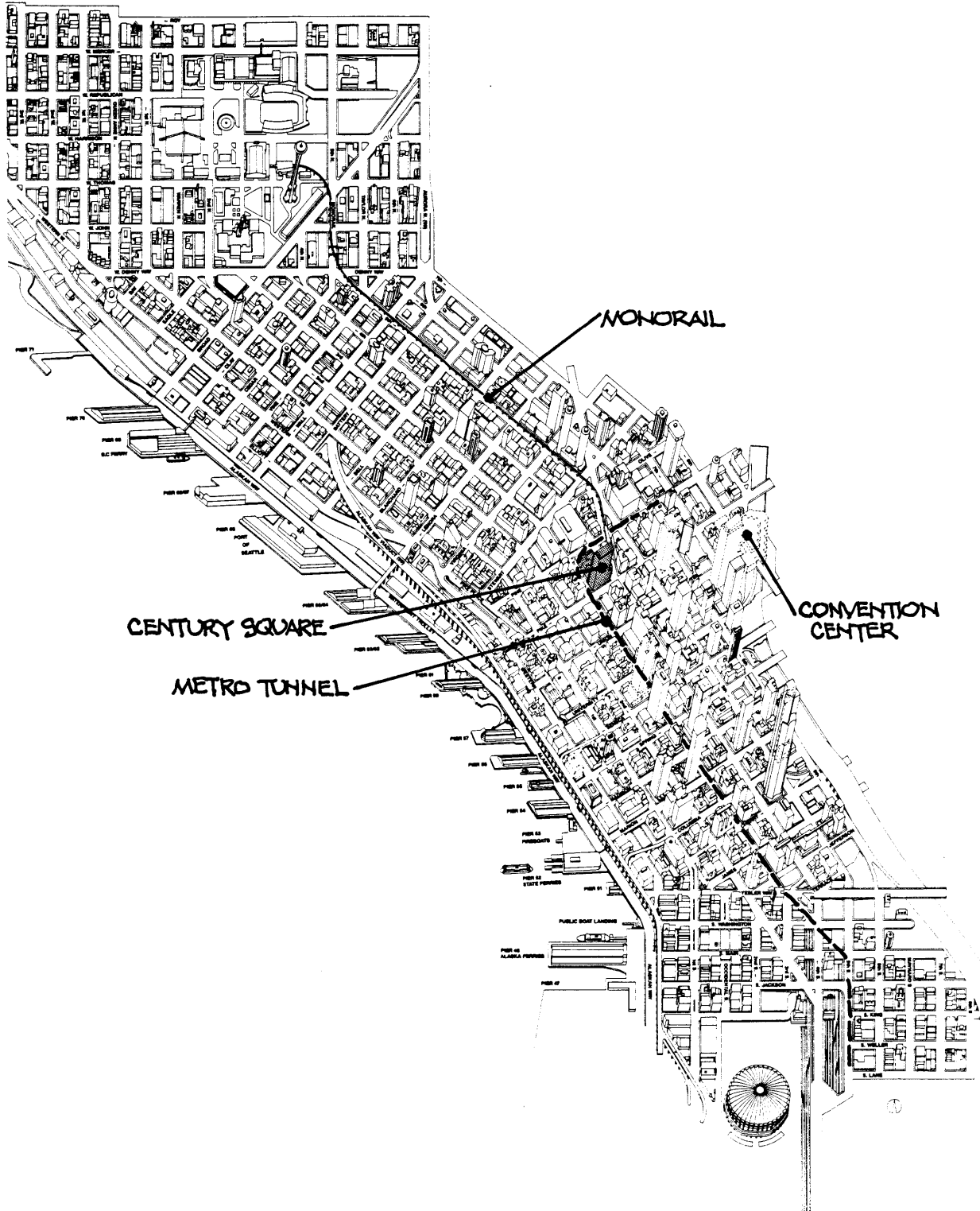
The site for this proposal is in the retail core, but relatively close to the perimeter of the office core. In fact, the office zone has begun to overlap the retail zone, with new projects such as Century Square and Westlake Center moving into the retail center and becoming hybrids with more retail area and smaller office towers. The city has responded to this trend with a new zoning code to insure that the special nature of the retail core is not sacrificed in the name of greater FAR.

**DOWNTOWN AREA MAP**  
 Base Map: Seattle Department of Construction and Land Use.



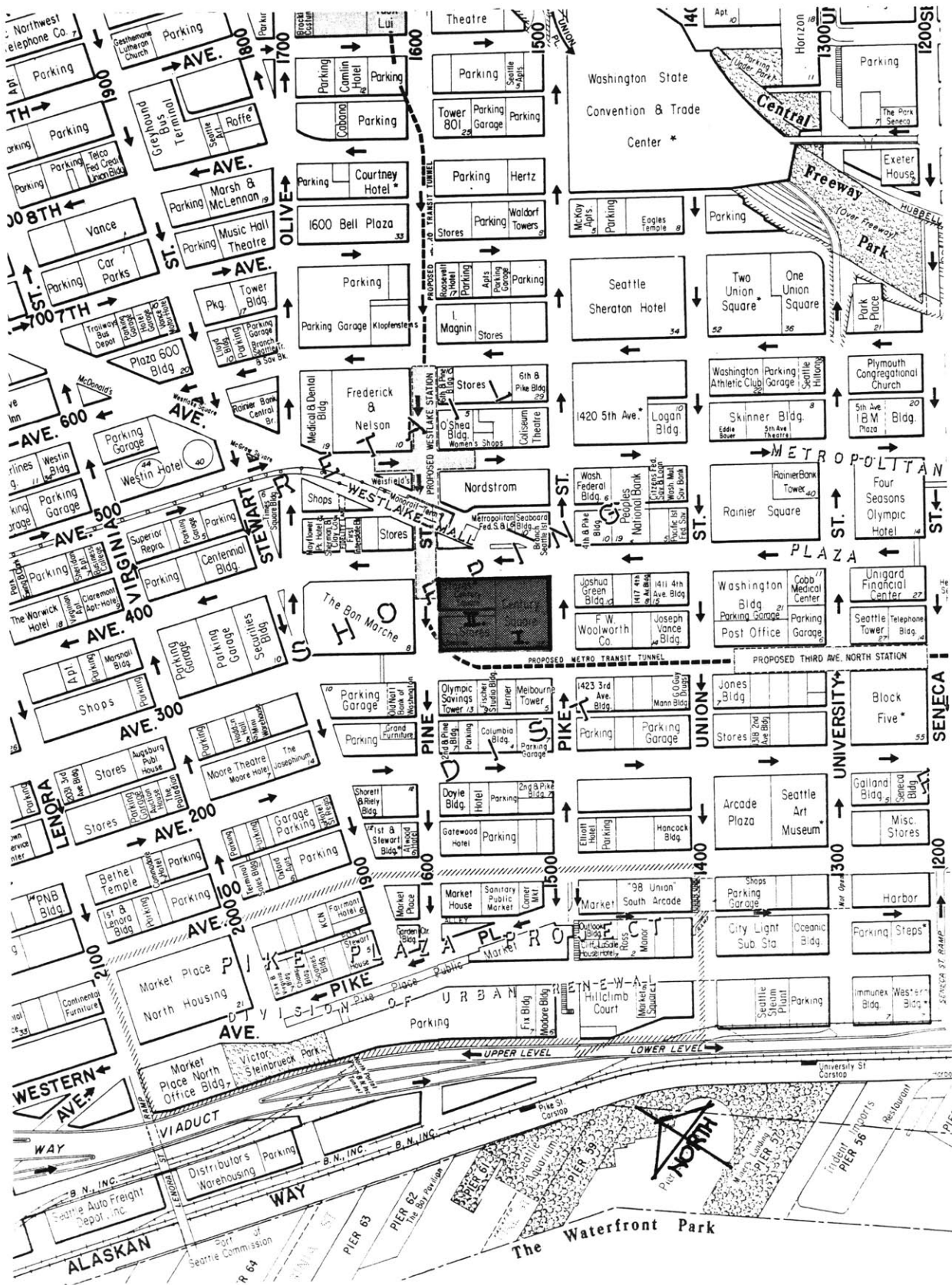
**AERIAL DRAWING OF DOWNTOWN**

Map courtesy of POCKET CONCIERGE, INC., Seattle, WA.  
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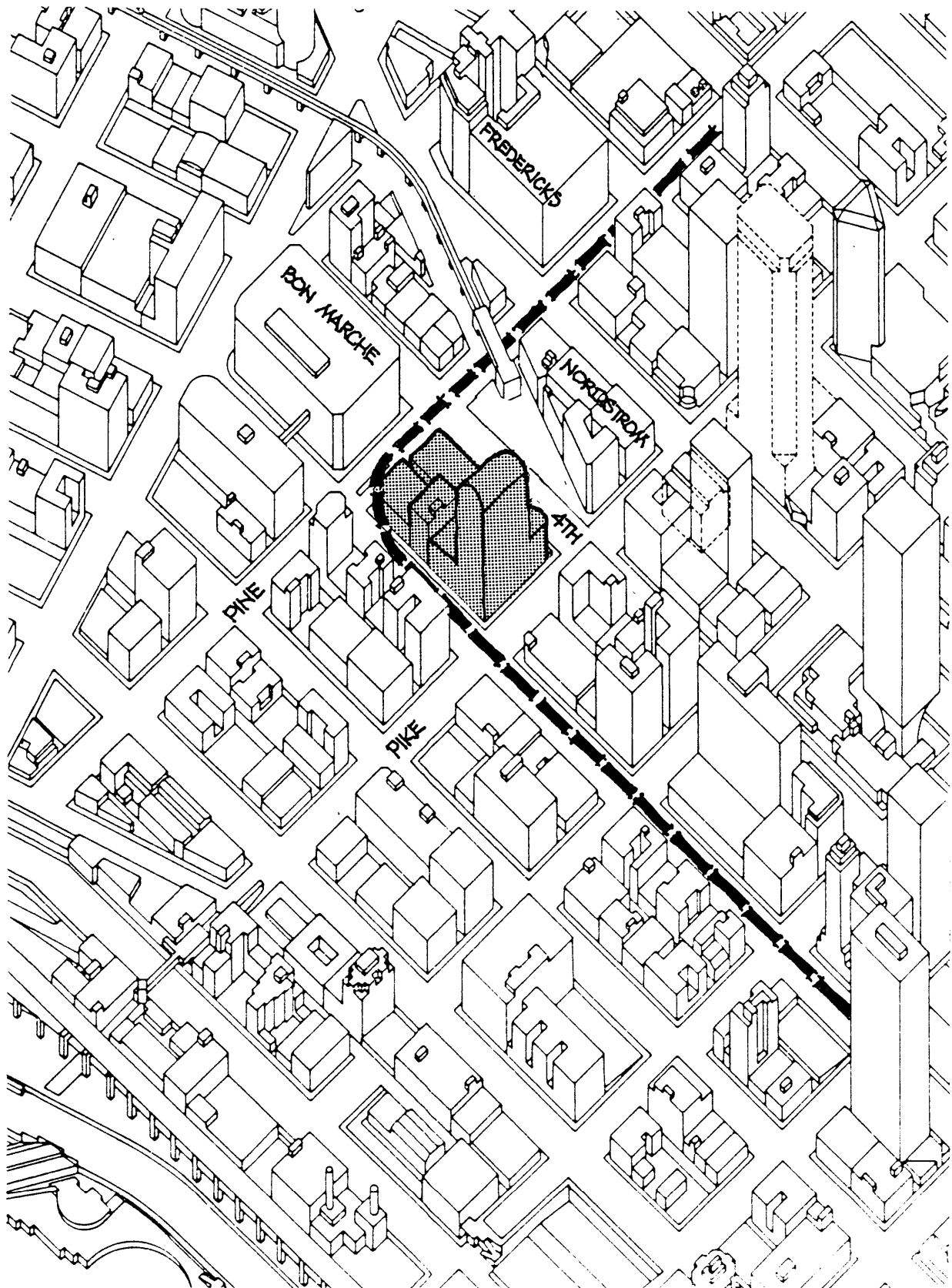
# DETAILED DOWNTOWN MAP

Base Map copyrighted by Kroll Map Co., Inc., Seattle, WA.





DETAILED AERIAL VIEW



## NEIGHBORHOOD

As previously indicated, the site neighborhood actually spans two major downtown zones, retail and office. In the retail core, the city's four major department stores, the Bon Marche, Nordstrom, Frederick and Nelson, and I. Magnin are all within a block to the north and east of the site, as are the Rouse Westlake Center retail and office project, the city's proposed Westlake Park, and the monorail terminal. Linking all of these, in a corridor along Pine Street between Third and Sixth Avenues, will be the major station for the new transit tunnel. The Phase II site occupies one of the few front row seats on this urban stage, probably the most intense activity center in the northwest.

Two blocks to the west, toward the bay, is the well-known Pike Place Market. The market draws locals and tourists year around, and there is much pedestrian traffic between it and other parts of downtown. Unfortunately, this local-tourist mix includes a high concentration of homeless and derelict people who seem to gravitate naturally to the same places as everyone else. Between the site and the Market are two blocks of under-utilized older low-rise buildings. Some, directly across First Avenue from the market, are partially vacant and leased to porno shops, thanks to an eccentric and infamous absentee landlord. The blocks along Second and Third Avenues are being, or have been, assembled in anticipation of continued downtown growth. Prescott has been active in this area, both in

property assembly and in the development of the First and Stewart Building.

To the south of the site is, of course, Century Square, Phase I, which is technically part of the same site. Farther south is the mature office core with a number of significant new projects. Two blocks south is the site for Seattle's new Robert Venturi-designed Art Museum and another new Metro transit station. Outward from a radius of three blocks to the south and southeast are a number of proposed major office projects.

#### WESTLAKE

The "Westlake Mall" project is actually two projects originally conceived as one public project. Now, one is a private mixed-use office and major multi-tenant retail development, and the other an adjacent public park. Over the last 20 years it has been the focus of many proposals by many developers, and many political and legal battles over issues such as the use of eminent domain or public funding for a project which would include private development (the latter not allowed by the state constitution).

The private project, Westlake Center, is being developed by the Rouse Company with a local partner. The project is located diagonally across the Fourth and Pine intersection from the site. It includes a new 135,000 sf. retail structure, which, while not one of Rouse's typical "festival markets," is a very elaborate glass atrium

structure with a mid-rise 270,000 sf. office building above. Inside the atrium will be the new station for the existing monorail, a popular relic of the 1962 Seattle World's Fair.

The Westlake Park is directly across Fourth Avenue to the east from the site. Its small size belies the public and political concern associated with any project which might affect it. After so many years of struggle, there are many watchdogs. The major source of concern is the possibility of shadowing, especially during mid-day hours in the "warm" (this is Seattle, remember) months. Century Square, Phase I, is located southwest of the park, and Prescott not only had to reduce the height of the building, but had to make payments for park improvements to compensate for some remaining shadow impacts (see environmental analysis).

#### METRO TRANSIT TUNNEL

Seattle has only one transit system, the Metro bus system. It is considered to be one of the best in the country, but its success has nearly created rush-hour bus gridlock in downtown, the system's hub. The transit project, another public project which has been in the works for years, will put much of this transit traffic underground in a double, mile-long tunnel. Construction is scheduled to begin in late 1986 and finish in April, 1990.

The bus tunnel affects Prescott's project in three ways. First, the major station is at Westlake, and one of

its entrances is on the site. Prescott lobbied hard to have the station extended west so that it would be on the Phase II site. The benefits of having this generator of pedestrian traffic on the site are clear, and Metro does not pay for the easement for this reason.

The second affect is the tunnel itself. It makes one 90-degree turn in its entire length, and this is under the northwest part of the site, between Pine and Third. This turn is very broad to allow for a future rail system, so the arc extends into the site some 80 ft. Thus the tunnel undermines the site precisely where the highest parts of a development must be located to avoid shadowing Westlake Park. To determine the increased cost of building a future project over the tunnel, Prescott had a foundation plan and cost study (May, 1985; Skilling Ward Rogers Barkshire, Consulting Engineers) prepared for the construction of a lowrise retail and midrise office building with underground parking for 400 cars. Heavy transfer grade beams, specially-drilled caissons, and major shoring around the tunnels were estimated to cost a premium of approximately \$4.76 million. This amount was so much more than Metro had budgeted that a special deal was negotiated. In essence, Lots 4 and 5 were actually sold to Metro, with ownership reversion rights to Prescott, for the \$4.76 million. This somehow mitigated the shock to Metro's budget. In addition, the tunnel undermines the corners of lots 2 and 5, so Metro purchased easements for \$181,000 and \$238,000 respectively.

The third affect, tunnel construction and the required easements, influences the Pine Street and Third Avenue sides of the site. It has heavy negative impacts on tenants, especially street-facing retail. This will be of some advantage in negotiating lease buy-outs with tenants who would otherwise have no desire to leave. Metro is to make a single monthly rental payment of \$13,000 for the easement around all three properties.

See the individual properties in the site analysis section for details on the financial terms of the easements.

#### CENTURY SQUARE, PHASE I

Century Square, Phase I, is a 29-story mixed-use project including a 524,200 square foot office structure over a 55,200 square foot retail base. Tenants have recently started moving in, and it is approximately 50 percent leased. Many local developers and designers feel that the building marks a significant improvement in both the style and quality of design over previous local projects. It is Seattle's first completed high-rise departure from the undecorated, modern-style box, returning to the traditional ("post modern") concept of differentiating the base, middle, and top. As such, it is a transitional building; the next generation of office buildings will be even more complex and individualized.

The base levels achieve a spatial quality associated with buildings of the 1920's and 1930's. The two-level,

through-block arcade (see plan in Option 1 section) is over 25 ft. high, and overlaps the third (office lobby) level, which is 22 ft. high. This creates, behind a large rose window above the entrance, a nearly 50 ft. high vaulted entrance space. From this space the office escalator leads to the third level elevator lobby, as the vault continues overhead to the other side of the building. The storefronts are solid teak, and the exterior skin is Spanish granite in several textures, as is the paving in public areas. As an aside, the granite was quarried in Spain, cut and finished in Italy, and panelized in a Seattle suburb. The only significant breakage occurred in the last ten miles.

The polished granite office tower is offset in plan, creating eight corners and thus improving the "FAR" of law partners to corner windows. It also has several setbacks which, along with the top of the building, are crowned with vaulted skylights. These vaults enclose two-story spaces used variously as a law library, an employee lounge, and Prescott's new office. To say this is some of the most desirable space in Seattle is an understatement.

The retail levels were planned to allow the arcade to be connected to the Phase II development through the north party wall. Similarly, the basement parking and service areas allow for all Phase II vehicular access, as there would have been little opportunity for parking or service access directly into Phase II from the street.

#### IV. MARKET ANALYSIS

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##### SEATTLE AND THE REGION

The areas of concern in this study are downtown office and retail markets, particularly new first-class space which is proposed for Options 1-4. Local market statistics were taken from the 1986 Coldwell Banker Seattle Supplement to the United States Real Estate Forecast (CB) report, the 1985 Seattle Department of Community Development Annual Downtown Data System (DDS), and from employment growth data developed by Torto, Wheaton & Associates (TW), and supplied by Professor William Wheaton in the 1986 Market Analysis course at the M.I.T. Center for Real Estate Development.

The Seattle statistical area has become increasingly diversified and has shown strong non-manufacturing employment growth since the mid 1970's. This sector is composed largely of service businesses which occupy leased office space, and to a lesser extent, the retail industry. The following table is based on the TW data.

##### PERCENT CHANGE IN SEATTLE EMPLOYMENT

Five-year Periods	....Past....		..Projected.	
	1974- 1979	1979- 1984	1984- 1989	1989- 1994
Manufacturing	5.5	-2.0	1.2	1.9
Non-manufacturing	6.6	1.8	2.8	1.6

The data indicates that the rate of non-manufacturing growth is actually expected to increase more than 50% from the 1979-84 period to the 1984-89 period. After 1989 the



rate drops to about the level of 1979-84, which is still strong relative to the forecast rates for many cities. Curiously, it also shows a 1989-94 manufacturing rate which rebounds and surpasses non-manufacturing. If true, this can only be good.

Downtown Seattle has taken the major share of the office development opportunities generated by this growth. Unlike many inland cities, especially in the midwest, south, and southwest, powerful geographic characteristics including very hilly terrain, Puget Sound, and several major lakes help concentrate development and reinforce the original business center. Critical factors such as geography simply do not change with time, and this generates consistent locational traditions.

Although there is now some competition for first-class office tenants from Bellevue, a mushrooming city across Lake Washington to the east, that growth tends to be in branch offices or small firms serving that particular market.

#### RETAIL MARKET

Generally there is much less data available for retail space than office space. There are no useful published absorption rates, but vacancy is apparently about 10.5%, much lower than office vacancy (first-quarter Downtown Survey, DKB Corp., Seattle Daily Journal of Commerce, May 9, 1986). Major retail space is included in total space figures, but not in absorption and vacancy rates unless one

of the very few major retail spaces was leased or vacated during a particular period.

The suburbs do represent real competition in the retail market, and some stores such as Penneys have pulled out of downtown. However, according to DDS the space occupied by the four major downtown retail stores is greater than the largest suburban retail shopping center, "and during recent years, downtown stores have had substantial increases in retail sales." Accepted wisdom is that retail demand is, and will continue to be, strong. Reinforcing this is the new downtown support program, which will attempt to capture the advantages of suburban malls by providing privately-financed street security and maintenance, and common operating hours.

In the major retail market, only a single tenant needs to be found. Saks Fifth Avenue has been looking for space in this area for several years, and some of its alternative locations have recently been eliminated. Saks is owned by Batus, which also owns Frederick and Nelson. There has also been speculation that the Fredericks store might close. Thus, there were a number of possibilities, including Saks replacing Fredericks in its building, Saks trading Fredericks' building with Nordstrom and locating there, or Saks building a new store on the block east of, and owned by, Fredericks. However, Fredericks is now being sold to owners who claim that the store will continue to operate in its present location. This leaves only the third option, a

site in a very mediocre location. Therefore, Prescott's site, in which Saks has expressed interest for several years, is the front runner.

The CB retail rents generally range between \$20 and \$50 per square foot. Century Square, Phase I, is achieving rents of \$19 to \$60 per square foot, with an average of \$36, according to Prescott's leasing representative. Saks' rent is unrelated to the downtown market because of its unique position. It views rent in terms of suburban malls while Prescott is thinking in terms of zoning bonuses.

The Metro tunnel construction will play a major role in the market, especially on Third Avenue, until 1990. The construction will make it harder to lease space and will drive rents down, especially retail rent. The new project should be oriented to Fourth Avenue as much as possible, especially multi-tenant retail and office entrances.

#### OFFICE MARKET

The CB downtown vacancy rate is 14.88% (14.0% for class "A" space), almost three points lower than the TW rate of 17.50%. This is a reminder that CB, as a leasing and brokerage firm, is not exactly an impartial observer. It attempts to some degree to make the market look as rosy as possible in the interest of maintaining a healthy business climate. TW may perform somewhat more rigorous studies, accounting not only for basic unleased "vacant" space, but also for space which is leased but not occupied. CB expects

vacancy to drop slightly in 1986, "provided office absorption again reaches or exceeds the five-year average."

#### ABSORPTION (CB)

1981	1,558,000
1982	464,000
1983	910,000
1984	736,000
1985	1,460,000
	-----
Five-year Average	1,025,000
Previous 5-year Ave.	859,000
1986, First quarter	228,000
1986, Projected 1st quarter	912,000

There are several points to note. 1985 appears to be an anomaly, being 70 percent greater than the 1981 to 1985 average. Also, the first-quarter 1986 figures point to an annual absorption of 912,000, much closer to the five-year average. The CB report, which includes more than just class "A" space, states that 1.5 million sf. of new space will come on to the market in 1986, and if the absorption is 1.0 million sf., more than the projection, then 500,000 sf. will be added to the existing vacant stock of 2.65 million (14.88% of the total 17,812,000). Thus, there will be a total of 3,150,000 sf. vacant, or 16.3% of the new total of 19,312,000 sf.

According to the CB report, the downtown Seattle market contains 17,812,000 sf. of office space of all classes, with another 1,303,000 sf. under construction in five projects, 1.5 million sf. of which will come on the market in 1986 alone (an obvious discrepancy).

Estimating market supply is even more difficult than estimating demand. An increase in demand not only theoretically benefits all proposed development, but can even be self-perpetuating. With supply, in a downtown market, a certain number of very large, long-term projects are proposed, but the eventual inevitability of some will cause the delay or abandonment of others. Thus, the process is not unlike poker (or chicken), where developers not only try to improve the cards they hold, but posture to make their opponents underestimate the value of their own hands and drop out of the game. Supply is controllable on several levels, but inherently more risky.

To estimate future office vacancy, the analysis was narrowed to class "A" space. The following table utilizes vacancy and absorption data from the CB study, and supply projections based on the 1986 Downtown Seattle Association Annual Report. The major downtown projects proposed between now and 1990 are itemized, and the projects marked with an asterisk are included. The choices were based on the type and location of the project, the track record and perceived risk character of the developer, and whether financing or a major tenant have been secured. All four of the major 1988 office projects are included as a worst case scenario, even though one or two probably will not be built. The 1985 absorption is set at 912,000, and increased at 2.8 percent per year, the predicted rate of employment growth. The 1985 vacancy rate is set at 17 percent, a conservative figure

closer to the TW than the CB projection. The result is a vacancy rate dropping until 1988, then jumping to well over 20 percent with the completion of most large projects in the same year. Vacancy then drops through 1989-90.

The CB market rent for class "A" office space ranges from \$18 to \$28 per square foot. Century Square, Phase I, is renting in this range.

**PROJECTED VACANCY AND ABSORPTION**  
(from Annual Report 1986,  
Downtown Seattle Association)

PROJECTED VACANCY AND ABSORPTION			OFFICE MARKET (END OF YEAR)						
YEAR	PROJECT	DEVELOPER	OFFICE	RETAIL	EXISTING SPACE	VACANT SPACE	VACANCY RATE	ABSORPTION (See Note)	NET SF CHANGE
1985	*	-----	-----	-----	17,812,000	3,028,040	17.0%	912,000	-----
1986	* Century Square I	Prescott	524,000	55,000					
	* Seattle Trust	Selig	425,000	15,000					
	* 3131 Elliot	Selig	180,000	--					
1986	ANNUAL TOTALS		1,129,000	70,000	18,941,000	3,219,504	17.0%	937,536	191,464
1987	* First & Stewart	Prescott	85,000	3,000					
	Marketview Place	Sea.Prop.	47,000	13,000					
1987	ANNUAL TOTALS		85,000	3,000	19,026,000	2,340,717	12.3%	963,787	(878,787)
1988	* 1420 Fifth Ave.	Prescott	825,000	150,000					
	* Block Five	Runstad	1,015,000	20,000					
	* Two Union Square	Unico	1,000,000	50,000					
	* Westlake Center	Rouse	270,000	135,000					
	* Gateway Center	Sarkowski	900,000	20,000					
	* Metro.Park II	Selig	350,000	--					
	* Westlake Park	City	--	--					
	* Convention Center	City/State	--	--					
	Courney Group Hotel	Courtney	--	--					
1988	ANNUAL TOTALS		4,360,000	375,000	23,386,000	5,709,944	24.4%	990,773	3,369,227
1989	* Century Square II	Prescott	135,000	100,000					
	New World Center	TravisHam.	284,000	9,000					
	* Seattle Art Museum	Museum	--	--					
1989	ANNUAL TOTALS		135,000	100,000	23,521,000	4,826,429	20.5%	1,010,515	(883,515)
1990	* Transit Tunnel	City	--	--					
	United Meth. Church	1stCityEq.	580,000	20,000					
	* Crown Center Ph.I	Marathon	605,000	13,500					
1990	ANNUAL TOTALS		605,000	13,500	24,126,000	4,384,396	18.2%	1,047,033	(442,033)

NOTES: Annual absorption growth rate= 2.8%

\* Asterisk indicates projects expected to be completed and included in projections.

## V. PROPERTY ANALYSIS

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The site, the north half of Block 22, is composed of six lots, 1 through 6, three existing buildings, and an alley which has been vacated, or returned to private ownership by the city. (See photos and plans at the end of this section.) The ownership of each of the three parcels is technically different, although all are controlled by Prescott. All of the parcels include easements for the transit tunnel and its construction.

### LOTS 2, 3, 6 (OLD CENTURY SQUARE BUILDING)

The lots east of the alley, 2,3 and 6, are covered by one building, now called the old Century Square. It is also referred to by the name of the controlling partnership, the Fourth Avenue (Associates) building.

This is a two-story retail building with approximately 39,000 sf. of leasable area. It was renovated by the Pacific and Seattle Group about six years ago. Several stores face the street, and there is an entrance on Fourth Avenue which leads to an escalator serving second floor retail, a restaurant, and the Century Tower across the alley.

Prescott owns the old Century Square building, but not the three lots on which it sits. There is a ground lease which expires in 2029, or 43 years. The ground rent is \$160,000 per year, increasing with the C.P.I. at five-year intervals beginning in July, 1984. The lessor, which is now

a bank acting as trustee, as well as the original trustees, must approve major leases (over 10,000 sf.), and other agreements such as those with Metro. Negotiations with such a complex lessor group are difficult, as are other issues such as financing. Prescott hopes to buy fee simple ownership as part of Phase II for approximately \$2 million, or roughly the 1988 capped ground rent.

The Metro tunnel easement payment was \$181,000, and Prescott had hoped to receive it. However, the ground lessor negotiated to receive half of the easement settlement from Metro, the other half going to the mortgagee. There is no payment for the station, but there is a 25,000 sf. zoning bonus, partially owed to lot 1. The tunnel has no permanent serious construction impacts on the property. Prescott will collect a single construction easement monthly rent of \$13,000 for all of the properties, with a maximum of \$156,000, or one year's payments.

There is an existing \$2-million Connecticut General mortgage from the renovation, at ten percent with a 15-year term and 30-year amortization. The remaining principal balance is \$1.9 million. Prepayment will require payment of a 7 percent, \$131,000 penalty, as well as payoff of a linked mortgage on lot 5.



LOTS 1 AND 4 (DOCE BUILDING)

Lots 1 and 4 are occupied by the Doce Building, sometimes also confusingly called the Crawford-Conover, Sherman-Clay, or Third and Pine (Associates) Building.

Located on the corner of Third and Pine, it is primarily known for McDonald's. There is retail area at the ground, second, and basement levels only; the upper floors have no windows. It contains about 23,000 sf. of leasable area.

As discussed earlier, the location of the transit tunnel directly under the building affected the ownership of the property. It is now owned by Metro, but the Purchase and Sale Agreement of Dec. 13, 1985, gives Prescott the right to retake title to the property (except the transit easements) through a "reversion notice." This was due to the estimate of the \$4.76 million construction cost premium (called the "cost to cure") necessitated by the tunnel easement. The amount was so much in excess of what Metro had budgeted that it was found easier to "buy" the property, probably moving the cost to another area of Metro's budget. Thus Prescott maintains the property and collects the rent (even though the leases were assigned to Metro), but carries no ownership costs, the mortgage having been paid off with the purchase. As long as the transit project goes ahead, Prescott may regain fee simple ownership by giving a reversion notice. At that time it must make a "purchase price adjustment payment", which increases annually on a

schedule contained in the P. and S. agreement. The payment, designed to offset for the time value of Metro's early purchase relative to Prescott's actually incurring the construction costs, will be \$1.125 million in 1988. If the transit project is terminated because of lack of federal funding, then Prescott may repurchase the property for the original amount. If Prescott does not begin construction by the end of 1990, it must make the maximum price adjustment payment of \$1.7 million, but there is no adjustment for not building a project as large or costly as was used in the original study which determined the cost to cure.

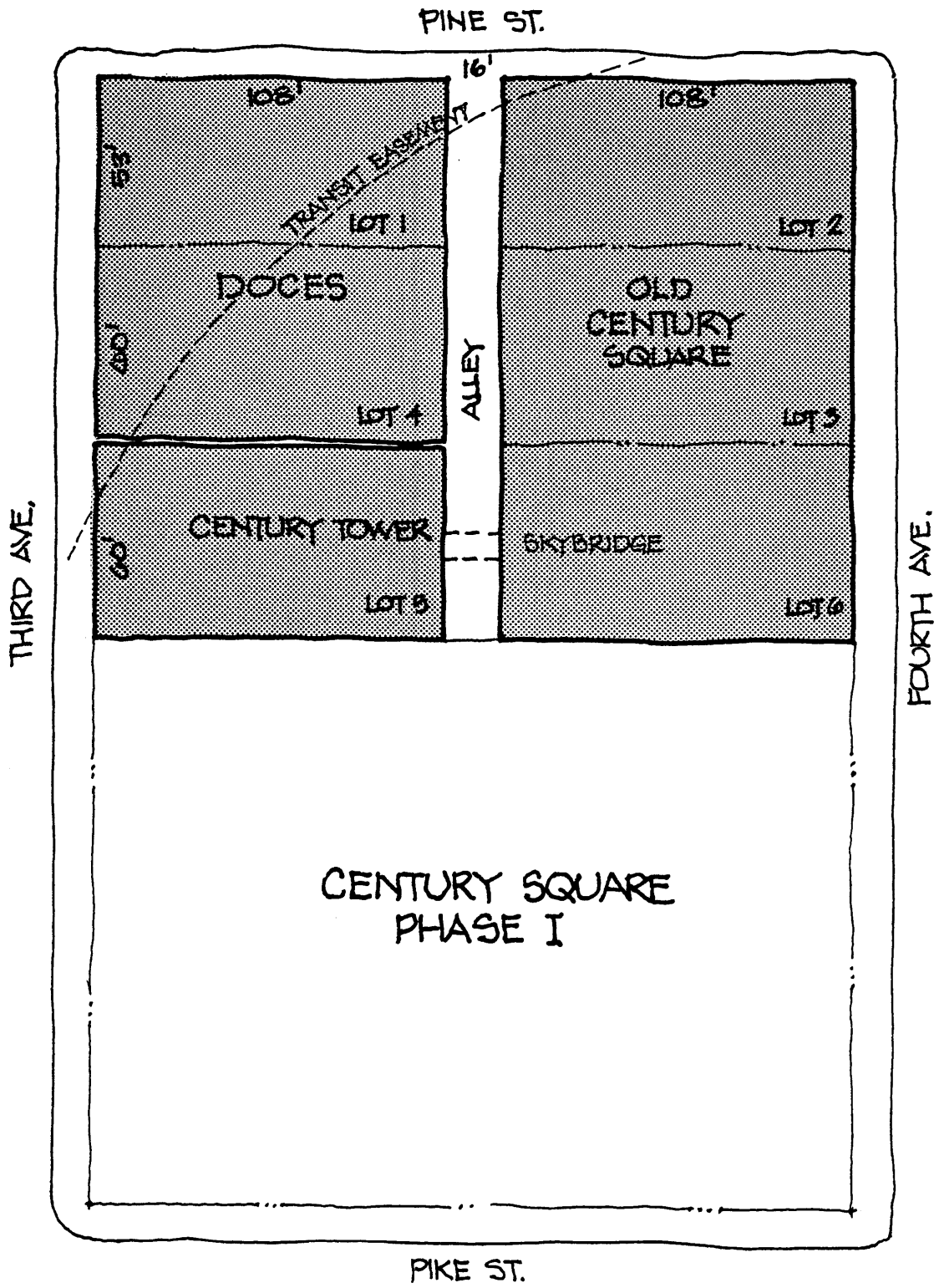
#### LOT 5 (CENTURY TOWER)

Century Tower (Third Avenue Associates) is the grandfather of the whole Century Square phased family. It is a small, eight-story structure, located in the center of the block, with retail on the ground floor and offices above. It contains about 7,000 sf. of retail and 32,000 sf. of leasable office space.

Unlike the other properties, Prescott has simple fee ownership. There is a \$1.75 million, 15-year term, 23-year amortization Connecticut General mortgage, linked to the Old Century Square mortgage, with a \$1.6 million balance and a 7-percent prepayment penalty, or \$106,000.

There was a Metro tunnel easement payment of \$238,000.

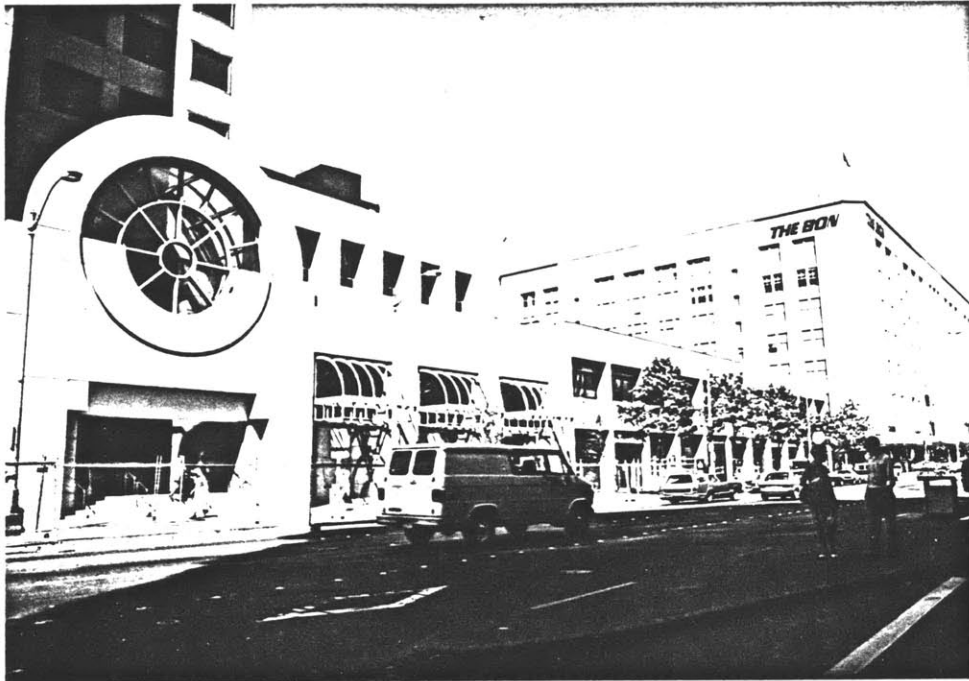
BLOCK SURVEY



SITE PHOTOGRAPHS

Upper Photo: East side, northwest across Fourth Avenue.  
Phase I in foreground, Old Century Square beyond.

Lower Photo: East and North sides across Fourth and Pine.  
Old Century Square in foreground.



SITE PHOTOGRAPHS

Both Photos: North and West sides across Third and Pine.  
Doces Building (McDonald's) in foreground.  
Century Tower and Century Square Phase I beyond.



## VI. DESIGN OPTIONS

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### GENERAL ISSUES

The five options, again, are:

1. A major retail (department) store;
2. Option 1 with an office structure above;  
2B. Option 2 with major retail pad only;
3. A multi-tenant retail project;
4. Option 3 with an office structure above;
5. Maximization of the existing buildings.

The common design issue affecting all five options is quality. The location, and the relationship to Century Square, Phase I, demand first-class buildings. And the first four options are all aimed at class A tenants. Phase II might also be physically connected to Phase I, meaning similar or identical architectural treatment if they are to be perceived as a single development. Even Option 5, the renovation, which will largely still not be in the class "A" market because of inherent limitations, must nevertheless be carried out with an eye toward maximizing quality.

Further, the four options for all-new construction have many common planning characteristics. If possible, all uses should be primarily oriented to Fourth Avenue rather than, or in addition to, Third Avenue and Pine Street. Fourth Avenue has traditionally been a much more prestigious location, and will probably remain so. This is reinforced by the proximity to the center of the retail core at

Westlake, and will be more so with completion of Westlake Park. Prescott, realizing this, managed to have the Metro station located on Pine where it displaces less-valuable space than on Fourth. In fact, when renovating the existing buildings, Prescott created a major entrance on Fourth with an escalator and alley skybridge to the second floor of the old Century Tower, thereby moving its office address from Third to Fourth Avenue.

Providing a Fourth Avenue entrance is simple enough for the retail use, whether a department store or a multi-tenant development. And an interior atrium or shopping corridor could provide access to an office core in the west, Third Avenue, half of the block.

PROPOSED FLOOR AREAS

PROPOSED FLOOR AREAS	VA	OPTION 1	OPTION 2	OPTION 2B	OPTION 3	OPTION 4	OPTION 5
		MAJOR RETAIL STORE (W/ OFFICE)	M-R PAD (W/ OFFICE)		MULTI-TENANT RETAIL (W/ OFFICE)	RENOVATION	
BELOW-GRADE							
LOADING & SERVICE		10,500	10,500	10,500	10,500	10,500	
PARKING, STORAGE, MECH.		80,640	110,016	110,016	50,640	82,448	
TOTAL BELOW-GRADE		91,140	120,516	120,516	61,140	92,948	SEE TOTALS
RETAIL LEVELS (18FT./FLR.)							
1 TRANSIT STATION		2,700	2,700	2,700	2,700	2,700	
OFFICE LOBBY & CORE		0	3,300	3,300	0	3,300	
SHOPPING ATRIUM		0	0	0	0	0	
SHOPPING CORRIDOR		5,000	5,000	5,000	5,000	5,000	
MISCELLANEOUS		2,136	2,136	2,136	2,136	2,136	
MULTI-TENANT RETAIL		6,450	6,450	6,450	30,300	27,000	
MAJOR RETAIL		23,850	20,550	0	0	0	
TOTAL LEVEL 1		40,136	40,136	19,586	40,136	40,136	SEE TOTALS
2 OFFICE LOBBY & CORE		0	2,300	2,300	0	2,300	
SHOPPING ATRIUM		0	700	700	0	0	
SHOPPING CORRIDOR		5,000	0	0	5,000	5,000	
MISCELLANEOUS		2,136	2,136	2,136	2,136	2,136	
MULTI-TENANT RETAIL		5,000	0	0	33,000	30,700	
MAJOR RETAIL		28,000	35,000	0	0	0	
TOTAL LEVEL 2		40,136	40,136	5,136	40,136	40,136	SEE TOTALS
3 OFFICE LOBBY & CORE		0	2,300	2,300	0	0	
SHOPPING ATRIUM		500	500	500	0	0	
SHOPPING CORRIDOR		0	0	0	0	0	
MISCELLANEOUS		2,136	2,136	2,136	0	0	
MAJOR RETAIL		37,500	35,200	0	0	0	
TOTAL LEVEL 3		40,136	40,136	4,936	0	0	SEE TOTALS
TOTALS BY TYPE							
TRANSIT STATION		2,700	2,700	2,700	2,700	2,700	2,700
OFFICE LOBBY & CORE		0	7,900	7,900	0	5,600	0
SHOPPING ATRIUM		500	1,200	1,200	0	0	0
SHOPPING CORRIDOR		10,000	5,000	5,000	10,000	10,000	0
MISCELLANEOUS		6,408	6,408	6,408	4,272	4,272	0
MULTI-TENANT RETAIL		11,450	6,450	6,450	63,300	57,700	66,270
MAJOR RETAIL		89,350	90,750	0	0	0	0
TOTAL AREA: BASE LEVELS		120,408	120,408	29,658	80,272	80,272	N/A
NET RENTABLE RETAIL		100,800	97,200	6,450	63,300	57,700	66,270
OFFICE LEVELS (12FT./FLR.)							
AREA PER FLOOR		0	18,000	18,000	0	18,000	0
# OF FLOORS		0	8	8	0	9	0
GROSS OFFICE BUILDING		0	144,000	144,000	0	162,000	N/A
NET RENTABLE OFFICE @ 84.0%		0	120,960	120,960	0	136,000	31,628
TOTAL NET RENTABLE AREA		100,800	218,160	127,410	63,300	193,780	97,898
GROSS BUILDING AREA		208,848	382,224	291,474	138,712	332,520	N/A
Transit station not included.							
RETAIL FLR/FLR HEIGHT	18	54	54	54	36	36	
OFFICE FLR/FLR HEIGHT	12	0	96	96	0	108	
OVERALL BUILDING HEIGHT		54	150	150	36	144	EXISTING



## OPTION 1 (MAJOR RETAIL)

The first alternative is a major department store, of three stories, covering the most of the site.

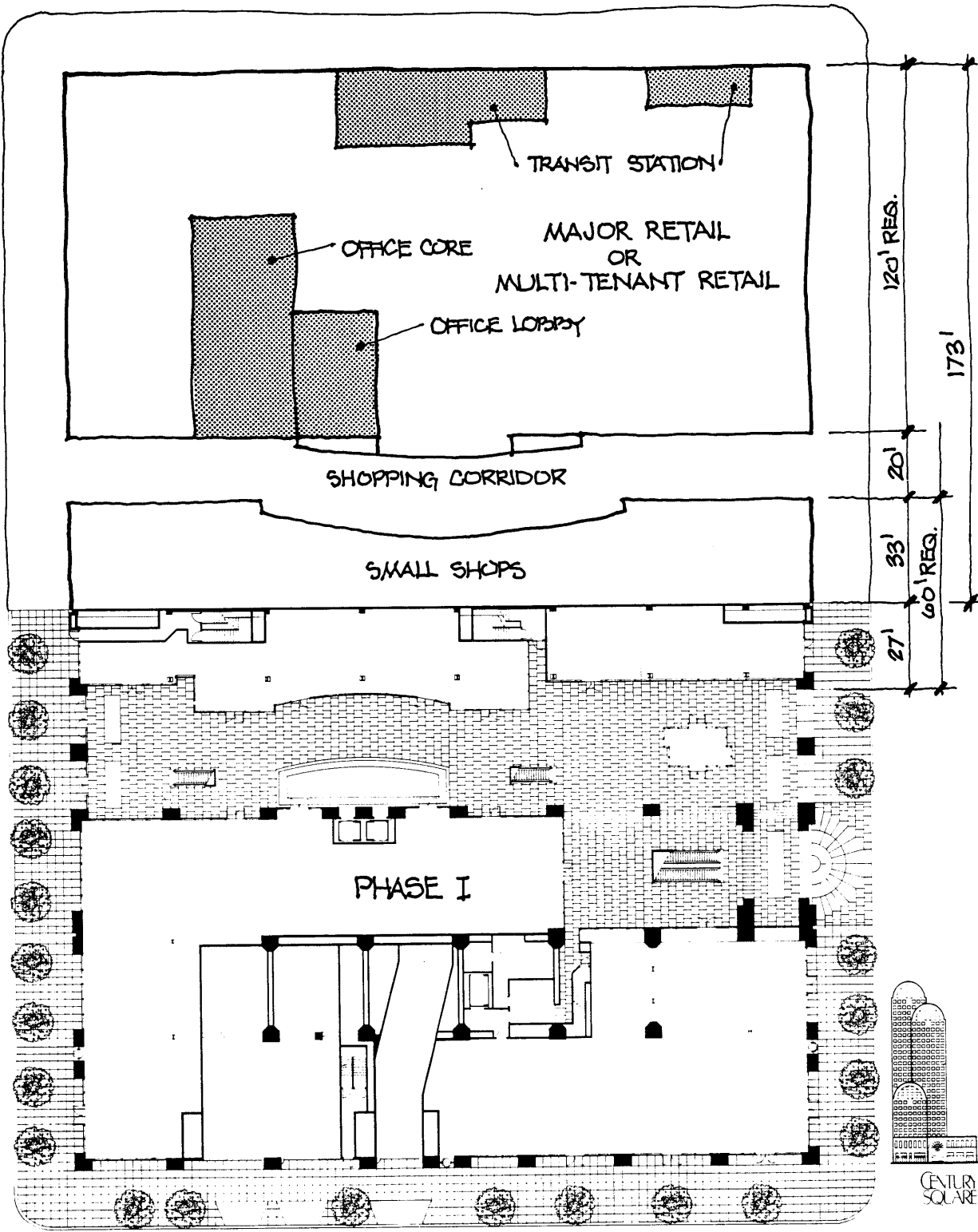
This site occupies a strategic location in the retail core and this use initially seems to be the highest or best use. The city recognized this and heavily encouraged this type of development with specific and generous bonuses in the new zoning code (zoning analysis). These special bonuses include both floor area increases and the ability to "transfer" area to another block. However, major retail tenants are few in number and can therefore demand favorable terms; the bonuses are meant to help this type of development make economic sense where it might not if left solely to the marketplace. Finally, there is such a tenant, Saks Fifth Avenue, which has been looking for a site in this area for several years.

There has been some preliminary negotiation with Saks, which has consistently presented very difficult deals. If paying rent, Saks proposes an effective rate of approximately \$7.50 per sf., or about one quarter of the normal downtown retail rent. Further, this is based on percentage rent only, so the income is not even guaranteed, making financing a problem. Finally, in Option 2B, if Saks paid for its own shell, then it would expect the pad to be free, that is, without ground rent. Saks appears to base its expectations on suburban mall developments, where major anchors are loss leaders for the developer, who makes up the

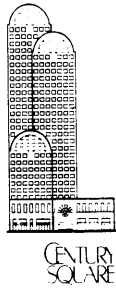
difference on the rents of many small stores. However, that mix does not exist here where the department store occupies roughly 90 percent of the leasable retail area. Therefore, the feasibility of the major retail options hinges on the value of the additional development rights generated by that use.

The area of the department store is approximately 90,000 sf. on three above-grade levels, as required by Saks. This leads to the inclusion of several small shops and an arcade on the first two levels to use the balance of the site. (See the following table of proposed floor areas.)

GROUND FLOOR PLAN:  
CENTURY SQUARE, PHASES I AND II



FLOOR PLAN LEVEL 1



CENTURY SQUARE

## OPTIONS 2 AND 2B (MAJOR RETAIL WITH OFFICE)

The second alternative is the department store from Option 1, with an office structure above. A variation of this is Option 2B, where the developer provides underground parking and services and a pad on which the department store is built at its own expense.

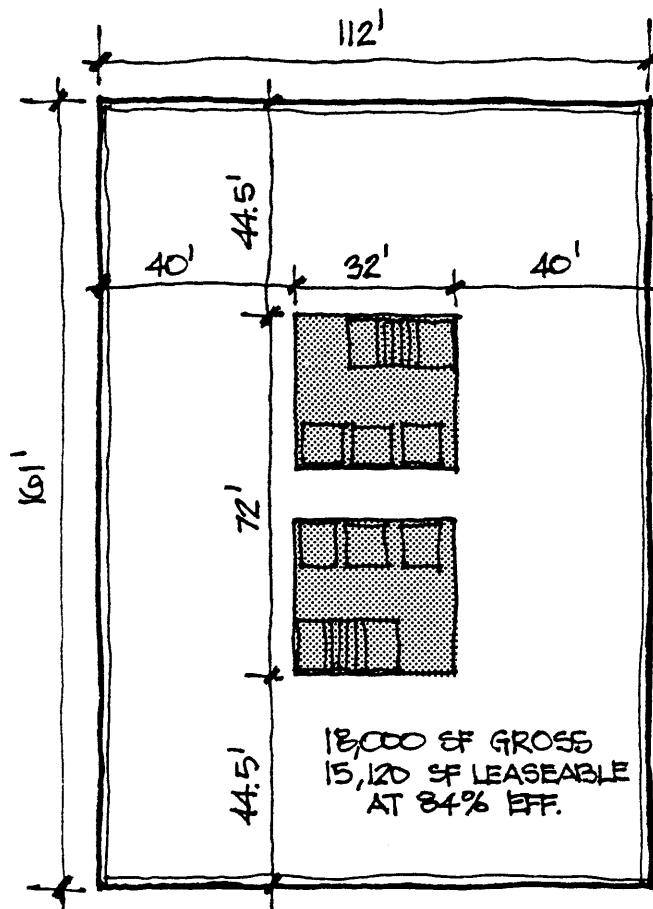
Developing only a major store would not come close to realizing the area allowable with the special bonuses. In addition, Prescott assembled not only this block, but parts of several others in this zone based on economic analysis dependent on the previous code, which allowed much more generous gross floor areas. (The new base FAR has been cut to 5 from 10.) It is assumed that the bonuses will provide the highest return if used to increase development on this site rather than being sold, thus the development of office space.

Access to the office core from Fourth Avenue is a planning problem with Option 2. This connection would probably have to be located at the north side of a small store adjacent to the Century Square, Phase I, north wall.

The height of the building is limited to about 150 ft. because of shadow problems with Westlake Park, so this proposal is for eight office floors (12ft. per floor times 8 = 96ft, plus 3 retail levels at 18ft. per floor = 150ft. total). The office mass was located parallel and adjacent to Third Avenue also to limit shadow impacts. Similarly, the area per floor is a modest 18,000 square feet, based on

a schematic plan and average normal office floor efficiency ratios. This floor area generates an office block 161ft. by 112ft., which fits comfortably onto the west half of the site.

TYPICAL OFFICE FLOOR PLAN  
(No scale. North toward top.)



### OPTION 3 (MULTI-TENANT)

The third alternative assumes that a major retail store tenant cannot be secured, and substitutes a multi-tenant retail development. The height is cut to two floors because of the limited chances of success of stores more than one level above the street. Also, to increase the marketability of the project, as well as to secure zoning bonuses if appropriate, an arcade and atrium are planned. There may be a zoning bonus problem for the arcade. To qualify for bonuses, there must be minimum distances between a street corner and an arcade, and between the Phase I arcade and the proposed arcade. It appears to be a matter of a few feet, so it is assumed that it can be accomplished.

### OPTION 4 (MULTI-TENANT WITH OFFICE)

The fourth alternative is Option 3 with the same office structure above as in Option 2, but with an additional floor in place of the third retail level (2 retail floors at 18ft. per floor plus 9 office floors at 12ft. per floor = 144ft.).

### OPTION 5 (RENOVATION)

The last alternative is the status quo, or fall-back option of leaving the existing buildings, but maximizing their condition and income through full renovation.

## VII. ZONING AND ENVIRONMENTAL ANALYSES

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### BACKGROUND

The Seattle downtown zoning code has been in the process of extensive revision for the past several years, and this is one of the first projects analyzed under the new standards. There are several background issues which affect the zoning analysis.

Century Square, Phase I, designed under the previous code, exceeded the then allowable FAR, and 74,113 sf. of development rights were transferred from Phase II (Lots 1,4, and 5) to cover the excess. This transfer was made binding, as required by the City, by creating an agreement between the partnerships which owned the three properties and by having this agreement recorded with the title to run with the land. However, the transfer was made reversible in the partnerships' agreements in the expectation that the new code would bonus retail space at a higher rate than the former code, thereby bringing Century Square, Phase I, within the new FAR limits. In that case, the developer would attempt to return the borrowed area to Phase II, a step which must be approved again by the City during the Phase II permit process. In the past, the City has previously objected to this approach on the logical grounds that a project cannot be partially reviewed under two codes, thereby skimming off the benefits of each without meeting the correspondingly restrictive limitations. Retroactive

exchange of development rights creates the perfect vehicle for this type of traveling bonus. Nevertheless, it is worth attempting this exchange, and in this study it has been initially assumed that the whole amount was returned.

In addition, during the concurrent development of Phase I and the new zoning code, Prescott realized that Phase II, like Phase I, would face environmental limits on its size because of shadows on Westlake Park, and the limits would probably be even more stringent. At the same time, the new code disallows transfer of development rights between parcels on different blocks within the retail core (see environmental review). Apparently Clotfelter, a member of a citizen's review committee, played a key role in drafting a special exception for major retail development, the Combined Lot Option, allowing the combining of floor areas on sites on different blocks for an averaged or "combined" FAR calculation.

#### ZONING ANALYSIS

The project was reviewed according to the 1985 Seattle Zoning Code, Downtown chapter. Actual review of the project will be conducted by the Department of Construction and Land Use (DCLU) for zoning, environmental, and building permit approvals.

The site, by the zoning code, lies within the Downtown Retail Core area. The maximum height in this area, from the Official Land Use Map is 240 ft.



Permitted uses include all except manufacturing and principal-use long-term parking structures. Accessory parking is allowed up to certain limits.

Conditional uses include major retail stores and performing arts theaters granted a public benefit feature bonus. This requires a somewhat subjective City Council Conditional Use Approval Process ruling on whether the project is materially detrimental to the public welfare, and imposing requirements or limitations deemed necessary. Public benefit bonuses for a major retail store are increases in height and FAR.

There are several standards for a major retail store. The store must be operated by an "established concern" of known reputation, but not already located in the retail core. The store must be at least 80,000 sf., but no more than 200,000 sf. qualifies for bonuses. For each square foot of retail store, 2.5 sf. of additional floor area may be developed. There must be a major pedestrian entrance on each street side, and it must operate during established shopping hours. The bonus is contingent on preserving certain landmark buildings, none of which occur on this site. Building height may be increased to 400 ft., provided there are no negative wind or shadow impacts, particularly on public spaces or Priority 1 streets (Pine St.). A City zoning official, W. Duchek, stated that the basic 240 ft. limit applies regardless of these limits, but heights will be determined by environmental rather than zoning

restrictions. General design requirements include articulation of facades below 65 ft., elimination of large areas of dark or reflective materials, and overhead weather protection at all street frontages.

The final but crucial point under conditional uses is the Combined Lot Option. This allows two lots in the DRC zone to be combined for the purpose of calculating the density of a project incorporating a major retail store. The lots may be on different blocks, and the Council conditional use process applies to both. The effect is similar to the more typical transfer of air or development rights, except that the site area and separate bonus potential of the receiving site must be known in order to determine the overall gain accomplished with the Combined Lot Option. In addition, if the additional rights are to be sold, there are the questions of price per square foot and even basic demand in the limited retail core zone. Prescott possibly intends to use the additional rights for its future Third and Pike project, and so can name its own price. It is proposing \$10 per sf., and it is probably not planning on overcharging itself. If that price does not offset the low rent anticipated from the department store used to create the transferable bonus area, then Prescott thinks it may be able to demonstrate this economic need to the city and have the FAR increased in the code. If this is pursued, then the bonus rate of 2.5 sf. per square foot of major retail must

also increase to generate the area permitted by a greater FAR.

The DRC base floor area ratio is 5, increased to 7 for public benefit features (other than a major retail store), and to 11 for major retail. Exemptions from FAR calculations include all gross floor area below grade or used as short-term parking, the gross floor area (gfa) of public benefit features (except a major retail store) whether bonused or not, the gfa of retail up to an FAR of 1.5, or 3.0 if a major retail store is bonused. An allowance of 3.5 percent for mechanical area is not counted.

Major retail store bonuses may be combined with other public benefit bonuses, but a retail store of 96,326 sf. achieves the maximum FAR on its own (zoning area calculation).

Floor area bonuses are given for the following public benefit features:

Shopping Atrium: Must be 4,000 sf. min., 15,000 sf max. If it is 40 ft. high, the bonus ratio is 8; if it is less, the ratio is 6. There must be an entrance on each street side and a clear connection between streets.

Shopping Corridor: Must be between 20 and 30 ft. wide, at least 12 ft. high, and must connect two Avenues (in this case Third and Fourth). The minimum distance between a street property line (Pine) and a corridor is 120 ft., and between corridors (Phase I) is

60 ft. This appears to be a very tight fit. The bonus ratio is 6, or 8 if skylighted, with a maximum area eligible for a bonus of 7,200 sf.

Transit Station Access Easement: Blanket 25,000 sf bonus, no area requirements.

Overhead Weather Protection: Bonus ratio of 3, or 4.5 if skylighted. Max. eligible area equals ten times the street frontage of the lot.

Human service or daycare uses, cinemas, roof-top gardens, and housing all qualify for bonuses, but are not initially considered because they appear to be unnecessary to achieve the maximum allowable FAR, and because they are more expensive, less effective, or both.

Transfer of development rights is only allowed within the same block in the DRC, except for the Combined Lot Option for conditional uses.

Street level use requirements include a minimum of 75 percent of the street frontage to be retail, services, entertainment, or similar uses. There are detailed regulations for facade height, transparency and percent of blank area, upper level setbacks, and street trees.

**ZONING CALCULATIONS 1:  
FLOOR AREAS**

ZONING CALCULATIONS: ALLOWABLE FLOOR AREAS		\B					
<b>SITE AREA</b>		<b>AREA</b>		<b>DIMENSIONS</b>		All Phase I area considered returned.	
LOTS 1 AND 4		13,108		113*116		Including half of alley	
LOTS 2, 3, AND 6		20,068		173*116		Including half of alley	
LOT 5		6,960		60*116		Including half of alley	
<b>TOTAL SITE AREA</b>		<b>40,136</b>		<b>173*232</b>			
BASE FAR		5 200,680					
FAR W/ PUB.BEN.FEATURE BONUS		7 280,952					
FAR W/ MAJOR RETAIL BONUS		11 441,496					
<b>PUBLIC BENEFIT FEATURE BONUSES</b>		<b>OPTION 1</b>		<b>OPTION 2</b>		<b>OPTION 2B</b>	
		<b>MAJOR RETAIL STORE</b>		<b>M-R PAD</b>		<b>OPTION 3</b>	
<b>BONUS FEATURE</b>		<b>RATIO</b>		<b>(W/ OFFICE)</b>		<b>OPTION 4</b>	
				<b>(W/ OFFICE)</b>		<b>MULTI-TENANT RETAIL</b>	
						<b>(W/ OFFICE)</b>	
MAJ.RETAIL STORE*		2.5 223,375		226,875		226,875	
SHOPPING ATRIUM		8.0 0		0		0	
SHOPPING CORRIDOR		7.5 37,500		37,500		37,500	
TRANSIT EASEMENT		— 25,000		25,000		25,000	
OH.WEATHER PROT.		4.5 REQD		REQD		REQD	
ROOFTOP GARDEN		1.0 0		0		0	
<b>TOTAL BONUS ACHIEVED</b>		<b>285,875</b>		<b>289,375</b>		<b>289,375</b>	
<b>PLUS BASE AREA</b>		<b>11</b>		<b>11</b>		<b>11</b>	
<b>TOTAL AREA W/ BONUSES</b>		<b>285,886</b>		<b>289,386</b>		<b>289,386</b>	
<b>ZONING AREA COUNTED</b>							
SM.RETAIL FAR EXEMPT.RATIO		1.50		1.50		1.50	
SMALL RETAIL EXEMPTION		60,204		60,204		60,204	
PROPOSED SM.RETAIL AREA		11,450		6,450		63,300	
MAJ.RETAIL FAR EXEMPT.RATIO		3.00		3.00		3.00	
MAJOR RETAIL EXEMPTION		120,408		120,408		120,408	
PROPOSED MAJ.RETAIL AREA		89,350		90,750		89,350	
<b>TOTAL RETAIL AREA</b>		<b>0</b>		<b>0</b>		<b>0</b>	
OTHER BASE AREA		6,408		14,308		14,308	
OFFICE AREA		0		144,000		144,000	
<b>TOTAL ZONING AREA COUNTED</b>		<b>6,408</b>		<b>158,308</b>		<b>158,308</b>	
<b>TRANSFER OF DEVELOPMENT RIGHTS: "COMBINED LOT OPTION"</b>							
MAJOR RETAIL STORE							
OPTIONS 1, 2, 2B							
<b>SITE AREA</b>							
CENTURY SQUARE PHASE II				40,136			
THIRD AND UNION				83,800			
<b>COMBINED SITE AREA</b>				<b>123,936</b>			
<b>TOTAL COMBINED ALLOW. AREA</b>		<b>11</b>		<b>1,363,296</b>			
		<b>OPTION 1</b>		<b>OPTION 2</b>		<b>OPTION 2B</b>	
<b>TOTAL COMBINED ALLOW. AREA</b>		<b>1,363,296</b>		<b>1,363,296</b>		<b>1,363,296</b>	
<b>LESS PHASE II AREA COUNTED</b>		<b>6,408</b>		<b>158,308</b>		<b>158,308</b>	
<b>AREA LEFT FOR 3RD &amp; UNION</b>		<b>1,356,888</b>		<b>1,204,988</b>		<b>1,204,988</b>	
3RD & UNION AREA @ FAR 7		586,600		586,600		586,600	
<b>NET AREA "TRANSFERED"</b>		<b>770,288</b>		<b>618,388</b>		<b>618,388</b>	

Required parking includes unrestricted long-term, carpool, and short-term. Amounts may be reduced by substituting additional carpool or van spaces, but the proposals include more parking than is required. In fact, the proposals exceed the maximum allowable of 1 space per 1,000 sf., and will require a special exception. This exception appears to be reasonable because the parking of the two phases will actually function as a single garage. Century Square, Phase I, included 250 spaces, and required another 300 spaces in a garage a block away.

In conclusion, the major retail development offers double advantages over multi-tenant retail: first, the increase of the FAR from 7 to 11 and a bonus ratio of 2.5:1 for the department store to help accomplish it, and, second, the ability to utilize this additional area on a different block. These twin benefits mean the opportunity of eventual development of much more area than with multi-tenant retail, but the increase depends on several factors related to a second site.

**ZONING CALCULATIONS 2:  
PARKING**

ZONING CALCULATIONS: PARKING							\C
		OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5	OPTION 2B
		MAJOR RETAIL STORE		MULTI-TENANT RETAIL		RENOVATION	SAKS PAD
	PARKING RATIO*						
RETAIL AREA		100,800	97,200	63,300	57,700		97,200
LESS EXCLUSION		30,000	30,000	30,000	30,000		30,000
RETAIL AREA COUNTED		70,800	67,200	33,300	27,700	N/A	67,200
UNR. LONG-TERM	0.32	23	22	11	9		22
CARPPOOL	0.08	6	5	3	2		5
SHORT-TERM	0.50	35	34	17	14		34
TOTAL RETAIL PARKING		64	60	30	25	N/A	60
OFFICE AREA		0	144,000	0	162,000		144,000
LESS EXCLUSION		2,500	2,500	2,500	2,500		2,500
OFFICE AREA COUNTED		0	141,500	0	159,500	N/A	141,500
UNR. LONG-TERM	0.54	0	76	0	86		76
CARPPOOL	0.13	0	18	0	21		18
SHORT-TERM	0.10	0	14	0	16		14
TOTAL OFFICE PARKING		0	109	0	123	N/A	109
TOTAL PARKING REQUIRED		64	169	30	148		169
PROPOSED**		202	275	127	206		275
MAXIMUM ALLOWED @ 1/1000		71	209	33	187		209
EXCESS (OVER MAXIMUM)		131	66	93	19	N/A	66

\*HIGH TRANSIT-ACCESS AREA

\*\*PROPOSED PARKING RATIOS: RETAIL = 1/500SF; OFFICE = 1/1500SF.

## ENVIRONMENTAL ANALYSIS

The environmental review is conducted by the Department of Construction and Land Use (DCLU), as mandated by the State Environmental Policy Act (SEPA). The DCLU will see that the draft and final Environmental Impact Statements (EIS) meet required standards of accuracy and completeness, and will orchestrate public hearings. This process can be very unpredictable because of the subjective nature of predicting, measuring, and valuing the degree to which a project affects its surroundings.

However, during the development of Phase I, it became clear that the most serious environmental restriction on the size of the project was the problem of shadowing Westlake Park. The building height was reduced to 29 stories (assuming it was not artificially high to start), and Prescott made contributions to the city for park improvements in atonement for some shadows which were not eliminated. Prescott's Phase I environmental consultant (P. Luersen, CH2M Hill, Consulting Engineers) characterized the process as the requiring of funds for the construction of a park shelter which would have provided shade, were it not located in the shadow of the new building.

The result of Phase I is that Phase II will be monitored that much more closely, both by the DCLU and citizens. About this there is no ambiguity. Therefore it is assumed to be a given that Phase II may not shadow the park at all during the hours of 10 A.M. to 2 P.M., March 21



to September 21, times outlined in the Zoning code and the Draft EIS for Phase I. Based on shadow diagrams, also from that DEIS, this ban will restrict height to 150 ft., rather than the 240 ft. basic limit, even for a building mass located entirely to the west of the existing alley line.

## VIII. PROJECT TIMING

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Phase II is being planned to open in late 1989. The schedule is a function of the timing of the two important civic projects which complement Phase II, the Metro tunnel and Westlake Park, and of competing private projects.

The Metro tunnel is scheduled to be completed in April, 1990. Between now and then Pine Street and Third Avenue will be heavily disrupted, with access to sidewalks and stores limited by construction activities. Opening any of the Phase II options during tunnel construction will limit leasing success, as well as the marketing impact of the opening itself. It would unnecessarily drive initial rents down. However, after heavy, above-ground tunnel work is complete in the second half of 1989, the volume of pedestrian activity on those streets will return to previous levels, and when the system opens there will be a significant increase in downtown activity. In addition, Westlake Park and the Convention Center will be completed by then, reinforcing the rebound of the retail core. Therefore, relative to the public projects, the optimum opening time is the second half of 1989.

The following schedule is proposed for Options 1, 3, and 5, the projects without new office structures:

Pre-planning	0.5 year	6/86-1/87
Design/Permits	1.5 years	1/87-7/88
Construction	1.0 year	7/88-7/89
Completion		7/89

The construction period is one year for the smaller projects, and, if the earliest desirable move-in time is July, 1989, then construction would start in July, 1988. This necessitates paying Metro the 1988 adjustment payment of \$1,124,884.

A longer schedule is allowed for construction of the options with office towers, Options 2, 2B, and 4:

Pre-planning	0.5 year	6/86-1/87
Design/Permits	1.5 years	11/86-4/88
Construction	1.75 years	3/88-12/89
Completion		12/89

The construction time is 1.75-years (preliminarily made two years as a simplifying assumption in the financial analyses). Working back from completion in December, 1989, construction begins in March, 1988. Preliminary construction could begin in December, 1987, to reduce the Metro payment to the 1987 amount, saving \$347,000.

This schedule is relatively compatible with market considerations. The retail and office market forecasts show vacancy rates for both sectors following a similar pattern, increasing to a peak in 1988-89, then declining (market analysis).

Option 1, major retail, is related only to existing department stores, a stable market unless Saks becomes a competitor, in which case Options 1 and 2 would be eliminated anyway. Option 2, major retail with an office tower, is sensitive to other office development.

Option 3, multi-tenant retail, is sensitive to other retail development, and Option 4, multi-tenant retail with

an office structure, is sensitive to both retail and office. Options 3 and 4 are particularly affected by Westlake Center, which is similar in size, market, and location, and scheduled to open in 1988. However, it would be very hard to beat it on to the market, and probably not worth the risk of opening during the height of tunnel construction.

Option 5, the renovation, is sensitive to both retail and office markets, but in class "B" office, and partially retail, space rather than class "A" as in Options 1-4. However, the existing buildings are nearly fully leased, and, with careful management, many tenants may be retained through a limited renovation as is proposed. Therefore, the timing of Option 5 is assumed to be relatively insensitive to the market.

## IX. EQUITY AND FINANCING

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### EXISTING EQUITY

There are several types of equity in the property (see following table).

First is the purchase price and the cost of improvements. The Old Century Square (Lots 2, 3, and 6) and Century Tower (Lot 5) had small purchase prices and relatively larger costs of improvements, whereas Doces (Lots 1 and 4) cost much more but has had little improvement.

Equity invested was reduced by Metro easement payments. Century Tower and Century Square both received these, however Century Square's was divided between the ground lessor and the mortgagee. The Doces property was purchased with reversion rights, so in effect Prescott still owns it but has no (or negative) equity in it; this equity was carried forward as zero rather than the negative amount. The purchase price adjustment payment has been shown as an interim expense.

Equity invested will be increased by the prepayment penalties of the two Connecticut General mortgages, and by buying out the ground lessor if reasonable terms can be reached. The price was estimated by capping the 1988 ground rent at 9.5 percent.

The total equity in all three properties, about \$6.5 million, is \$163 per square foot of site area, or less than

half of Prescott's estimate of \$350 per sf. current land value in the area.

#### NEW OWNERSHIP AND EQUITY STRUCTURE

Outside sources of equity and various potential partnership arrangements have not been the focus of this analysis, especially since the project is several years in the future. From a financing point of view, the required equity was assumed to be the difference between total project cost and a maximum permanent mortgage based on a debt-coverage ratio of 1.15, using the first stabilized year's net operating income. The required equity for the different options varies from \$823,500 to \$15.8 million, and in Options 3 and 5 the existing equity in the land is more than is required. In the discounted analyses maximum leverage was still utilized in all cases, unlike the pro forma.

If Prescott wants to take cash out initially and limit its risk by finding outside equity, it would probably approach the Japanese partners it has worked with on other projects. These include several contracting firms such as the Konoike Construction Co., Ltd. Konoike both invests money and acts as a joint-venture partner with a local general contractor. It receives fees for this work, in addition to its return on equity, and protects its interests by monitoring construction, pay requests, and loan draws. It derives additional benefits at home by being able to run

the project through its books, increasing its apparent annual volume of construction.

So far there have only been minor problems because of the newness of the process. For instance, the Japanese would not allow any deviation from pro forma rents in making deals with tenants until they were finally made to understand the realities of the marketplace. They also had adjustment problems in working with Prescott's woman project manager.

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LAND COSTS AND EQUITY

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	LOTS 2,3,6 CENTURY SQ 4TH AVE ASSO	LOTS 1,4 DOCES (METRO)	LOT 5 CENTURY TOWER 3RD AVE ASSO	
INVESTMENT TO DATE				
PURCHASE	187,440	2,790,230	384,800	
IMPROVEMENTS	2,104,800	23,000	1,848,200	
TOTAL	2,292,240	2,813,230	2,233,000	
LESS METRO PAYMENTS	0	(4,759,317)	(238,000)	Lots 2,3,6: Metro payment to to mortgagee & ground lessor.
C.S. II ALLEY PURCHASE	0	0	0	
TOTAL INVESTMENT TO DATE	2,292,240	(1,946,087)	1,995,000	
BASIS CARRIED FORWARD	2,292,240	0	1,995,000	
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FUTURE LAND COSTS				
MORTGAGE BALANCES	1,876,492	0	1,527,852	
PREPAY. PENALTIES	7.0%	0	7.0%	
PENALTY PAYMENT	131,354	0	106,950	
GROUND LEASE BUYOUT	2,000,000	0	0	188,984 = 1988 Ground rent
TOTAL FUTURE LAND COSTS	2,131,354	0	106,950	1,989,302 Capped at 9.5%
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TOTAL INVEST. PER PROPERTY	4,423,594	0	2,101,950	
TOTAL INVESTMENT	6,525,544			
-----				
SITE AREA	40,136			
INVESTMENT	\$162.59 PER SF, OR		\$6,525,544	
ESTIMATED CURRENT VALUE	\$350.00 PER SF, OR		\$14,047,600	
DIFFERENCE			\$7,522,056	

## PERMANENT FINANCING

Prescott has also developed ongoing ties with a Japanese source of financing: C. Itoh. Its financing rates are perceived to be more stable than traditional sources, so a permanent rate of 11 percent was projected, with 35-year amortization and a debt coverage ratio of 1.15. Points were based on Prescott's experience, and taken as an indirect cost rather than being amortized. With ranking and basic feasibility the issue, no participating nor convertible mortgages were considered.

There is a special problem relating to Saks' proposed terms (Options 1 and 2). Saks wants its rent to be percentage only, without base rent. This is unacceptable to many lenders, and that fact should help convince Saks to reconsider since, unlike a mall, its rent is not incidental to the overall income of this project.

## CONSTRUCTION FINANCING

Prescott's sources of construction financing have been both U.S. banks and Japanese investors. It is difficult to guess what kind of terms will be available in several years, but it was assumed to be 11.5 percent interest (10.5 in the single-year pro forma). The interim interest was calculated using 80 percent of the direct and indirect costs as the principal, times an average outstanding balance of 60 percent over the construction period. The principal was liberally estimated as double the direct costs.



## X. COST PROJECTIONS

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Land costs (equity), and financing costs have been covered; this section covers other costs. In the discounted cash flow analysis, unlike the pro forma, these costs are spread over several years where appropriate.

### DIRECT COSTS

Direct (hard) costs are the construction costs. They are based on rough square foot prices for the basic types of areas in the building: parking and loading, service, retail, and office.

These costs, shown in the following table of Project Costs, were based on the 1985, Mean's Square Foot Costs, and costs for Century Square, Phase I, as described by Prescott's project manager, Doug Hazelrigs. Demolition cost was based on Phase I costs, less the Phase I premiums for larger buildings and use of the implosion technique. Office lobby and core refers to that part of the office tower structure occurring on the retail levels. Miscellaneous is unspecified structural and mechanical space. Multi-tenant retail is more expensive per square foot than major retail because of higher proportions of storefront entrances and demising walls. Tenant improvement costs are included, as they are being borne by the developer in this market. Current cost figures were inflated at 4 percent per year for two years.

## INDIRECT COSTS

Indirect (soft) costs are non-construction development costs. Percentage indirect costs are usually based on direct costs, and where based on time, the construction period is shown.

### LEASE TERMINATION COSTS

As the leasing of property involves transferring to the lessee part of the landlord's bundle of rights, a major problem with the redevelopment of this nearly fully-leased property is the cost of removing the tenants, or regaining those rights.

Since development of this project became more certain, Prescott has attempted to negotiate new leases, or renegotiate existing ones, with demolition or termination clauses. Ideally, these allow the lessor to displace a lessee simply by giving required notice. Also, Metro has had to pay to remove some tenants for the transit tunnel construction. All costs were based on lease termination at the beginning of 1988.

Some leases, however, require payments for moving, new tenant improvements, lost income, the rent difference at a new location, or special expenses (see following schedule of tenant removal costs). Some are also long-term or have several renewal options. The cost varies from \$1200 for a very-small office to over \$230,000 for Winchell's, which has a formula for projecting its income through its last option

in 1998, and discounting it to the present. The chain-operation leases typically contain the most onerous specific conditions.

The worst leases to terminate have no termination provisions at all. Worse still, some tenants are fully aware of the key role they play and, like a hold-out property owner, tend to think in terms of ransom rather than reasonable costs. Examples are McDonald's and the Ferrera group. Values for these were estimated by those at Prescott who know the individuals involved.

The total estimated cost of lease terminations is \$1,813,000, except for Option 5 where it was assumed that a significant portion of the existing tenants would remain, but at some cost to the owner. The impending disruption of the streets and sidewalks by tunnel construction could "undermine" some of the tenants' will to fight or make windfall profits.

#### DESIGN FEES

Total combined architectural and engineering fees would be approximately five percent for a project of this size, possible slightly less. The renovation would cost more, but the difference is negligible at this stage of analysis, and project returns are usually virtually insensitive to design fees anyway.

#### LEASING COMMISSIONS

Leasing of retail space will be handled by Prescott. Office space will be leased by commercial brokers. Major

retail was included because there has actually been a broker involved with Saks negotiations, but parking income is excluded. The real office commission will be five percent of the rent the first year, decreasing annually to one percent the fifth year. However, as a simplifying measure, the discounted analysis allows for a 5 percent commission on the space leased during each of the lease-up years, then assumes that the later parts of the initial commissions, as well as ongoing commissions from lease turns, are covered by operating expenses.

#### SALES TAX

The current rate, increased as a conservative measure to 8.1 percent, times direct costs.

#### REAL ESTATE TAX

The actual amount, increased for inflation.

#### LEGAL FEES

One percent of direct costs, an estimate based on Prescott's experience.

#### PERMIT FEES

Two percent of direct costs, an estimate based on Prescott's experience.

#### CONTINGENCY

Five percent of direct costs.

#### DEVELOPER OVERHEAD

Five percent of direct costs.

#### PROPERTY INSURANCE

One percent of direct costs, an estimate based on Prescott's experience.

#### LEASE-UP RESERVE

Total rent loss to vacancy, less the normal structural vacancy factor, until the first stabilized year.

#### MARKETING

One percent of direct costs, an estimate based on Prescott's experience.

#### SPACE PLANNING

Tenant space design costs Prescott \$.40 per sf. times a factor of 1.25 for repetitive layouts, equaling \$.50 per sf. This applies only to multi-tenant retail and office.

#### CLOSING COSTS

Three percent of direct costs, an estimate based on Prescott's experience.

#### INSURANCE

One percent of direct costs, an estimate based on Prescott's experience.

#### INDIRECT CONTINGENCY

Five percent of indirect costs.

## LEASE TERMINATION COSTS

### LEASE TERMINATION COSTS

BLDG.	TENANT	RELOCATION \$/SF	AMOUNT	TENANT IMPROV \$/SF	AMOUNT	OTHER PAYMENTS	TOTAL PAYMENTS	FLOOR AREA	NOTES
CS	Burt's Shoes	10	24,000	20	48,000	35,115	107,115	2,400	2 mos. lost income.
CS	Ferrera Family					500,000	500,000	3,100	Estimated buy-out.
CS	Flower Nook					50,000	50,000	0	Estimated buy-out.
CS	Gap	10	40,250	20	80,500	422,625	543,375	4,025	Rent differential.
CS	Prudential (Westside)	5	0			0	0	4,360	Options cancelable.
CT	Alexander & Ahlberg	2	1,200				1,200	600	
CT	Flair Camera	2	5,500	20	55,000	25,000	85,500	2,750	Estimated buy-out.
CT	GSA						0	3,100	Unknown
CT	Hyatt Legal Services	2	6,784			12,936	19,720	1,617	Rent differential.
CT	Natureway	2	3,848			25,200	29,048	1,924	Year's Profit
CT	Transamerica Tax	2	8,050				8,050	3,525	
CT	World Wide Import #800					25,000	25,000	5,280	Stipulated max.
DO	McDonald's	15	45,000	50	140,000	25,000	210,000	2,800	Lost income.
DO	Winchell's					233,665	233,665	1,770	Buy out provision.
			458,242		323,500	1,354,541	1,812,673		

CS = Old Century Square  
 CT = Century Tower  
 DO = Doces

Includes only tenants requiring payment to remove.

PROJECT DIRECT AND INDIRECT COSTS

PROJECT COSTS	OPTION 1			OPTION 2			OPTION 2B			OPTION 3			OPTION 4			OPTION 5		
	AREA	COST	MAJOR RETAIL STORE (W/ OFFICE)	AREA	COST	MAJOR RETAIL PHU (W/ OFFICE)	AREA	COST	RETAIL (W/ OFFICE)	AREA	COST	RETAIL (W/ OFFICE)	AREA	COST	RENOVATION	AREA	COST	OPTION 5 COST/SF
DIRECT COSTS																		
SUB-GRADE	10,500	472,500	10,500	472,500	10,500	472,500	10,500	472,500	10,500	472,500	10,500	472,500	10,500	472,500	0	0	0	0.00
LOADING & SERVICE	60,648	2,963,680	110,016	4,070,592	110,016	4,070,592	50,640	1,873,680	50,640	1,873,680	82,448	3,032,576	0	0	0	0	0	0.00
PARKING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00
DEMOLITION	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00
SHELL AND CORE	74.00	0	7,900	584,600	7,900	584,600	0	0	0	0	0	0	0	0	0	0	0	0.00
OFFICE LOBBY & CORE	74.00	0	1,200	86,800	1,200	86,800	0	0	0	0	0	0	0	0	0	0	0	0.00
SHOPPING ATRIUM	53.00	37,000	5,000	345,000	5,000	345,000	0	0	0	0	0	0	0	0	0	0	0.00	
SHOPPING CORRIDOR	53.00	690,000	6,488	192,240	6,488	192,240	10,000	690,000	10,000	690,000	10,000	690,000	0	0	0	0	0.00	
MISCELLANEOUS	53.00	11,450	6,450	380,550	6,450	380,550	4,272	126,168	4,272	126,168	57,768	3,484,300	0	0	0	0	0.00	
MULTI-TENANT RETAIL	53.00	4,735,550	144,000	7,920,000	144,000	7,920,000	0	0	0	0	0	0	0	0	0	0	0	42.00
MAJOR RETAIL	53.00	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00
OFFICE LEVELS	53.00	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	42.00
SHELL & CORE TOTALS		10,061,520	382,224	19,139,832	291,474	14,329,282	138,712	7,174,940	291,474	14,329,282	43,116	1,581,172	114,319	4,801,387	42,000	114,319	4,801,387	
COST PER SF		46.18	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	50.07	
RETAIL TENANT IMPROV.	13.00	148,850	6,450	83,850	6,450	83,850	0	0	0	0	0	0	0	0	0	0	0	13.00
OFFICE TENANT IMPROV.	14.00	0	120,960	1,653,440	120,960	1,653,440	0	0	0	0	0	0	0	0	0	0	0	14.00
DIRECT CONTINGENCY	5.0%	510,519	1,045,816	805,329	16,911,901	58,902	805,329	805,329	16,911,901	58,902	805,329	805,329	16,911,901	58,902	385,284	1,000,000	385,284	
TOTAL DIRECT COSTS		10,720,885	21,962,136	16,911,901	58,902	16,911,901	8,395,787	60,553	8,395,787	60,553	21,000,164	63,115	21,000,164	63,115	6,418,973	56,988	6,418,973	
COST PER SF		51.33	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	57.46	
INDIRECT COSTS																		
A & E FEES	5.0%	536,044	1,098,107	845,595	16,911,901	58,902	845,595	845,595	16,911,901	58,902	845,595	845,595	16,911,901	58,902	320,549	320,549	320,549	
LEASING COMMISSIONS	5.0%	536,044	1,098,107	845,595	16,911,901	58,902	845,595	845,595	16,911,901	58,902	845,595	845,595	16,911,901	58,902	320,549	320,549	320,549	
R.E. TAXES	1.0%	156,000	273,000	273,000	273,000	273,000	273,000	273,000	273,000	273,000	273,000	273,000	273,000	273,000	156,000	156,000	156,000	
INSURANCE	1.0%	107,289	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	107,289	107,289	107,289	
SALES TAX	6.1%	868,352	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	1,736,704	868,352	868,352	868,352	
DEVELOP. OVERHEAD	5.0%	536,044	1,098,107	845,595	16,911,901	58,902	845,595	845,595	16,911,901	58,902	845,595	845,595	16,911,901	58,902	320,549	320,549	320,549	
PERMIT FEES	2.0%	214,418	428,836	428,836	428,836	428,836	428,836	428,836	428,836	428,836	428,836	428,836	428,836	428,836	214,418	214,418	214,418	
LEGAL FEES	1.0%	107,289	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	107,289	107,289	107,289	
INTERIM INTEREST @6%	10.5%	1,089,656	2,179,312	1,691,119	33,822,384	135,287	2,179,312	2,179,312	33,822,384	135,287	2,179,312	2,179,312	33,822,384	135,287	646,226	646,226	646,226	
CONTINGENCY	3.0%	1,637,330	3,274,660	2,461,995	49,239,802	197,119	3,274,660	3,274,660	49,239,802	197,119	3,274,660	3,274,660	49,239,802	197,119	320,549	320,549	320,549	
LEASE-UP RESERVE	1.0%	107,289	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	107,289	107,289	107,289	
MARKETING	1.0%	107,289	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	214,578	107,289	107,289	107,289	
SPACE PLANNING	0.5%	53,644	107,289	107,289	107,289	107,289	107,289	107,289	107,289	107,289	107,289	107,289	107,289	107,289	53,644	53,644	53,644	
CLOSING COSTS	3.0%	321,627	643,254	492,465	9,849,084	397,119	643,254	643,254	9,849,084	397,119	643,254	643,254	9,849,084	397,119	321,627	321,627	321,627	
FINANCING FEE	0.6%	64,325	128,650	98,500	1,970,000	77,600	128,650	128,650	1,970,000	77,600	128,650	128,650	1,970,000	77,600	64,325	64,325	64,325	
LEASE TERMINATION COSTS		1,813,000	3,626,000	2,719,500	54,380,000	215,171	3,626,000	3,626,000	54,380,000	215,171	3,626,000	3,626,000	54,380,000	215,171	1,813,000	1,813,000	1,813,000	
METRO REVERSION PAYMENT		1,124,900	2,249,800	1,717,400	34,348,000	136,700	2,249,800	2,249,800	34,348,000	136,700	2,249,800	2,249,800	34,348,000	136,700	1,124,900	1,124,900	1,124,900	
TOTAL INDIRECT		9,746,662	19,493,324	14,870,819	297,512,112	1,182,639	19,493,324	19,493,324	297,512,112	1,182,639	19,493,324	19,493,324	297,512,112	1,182,639	5,806,831	5,806,831	5,806,831	
TOTAL LAND COST		6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	
LAND COST PER SQUARE FOOT OF SITE		162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	162.58	
TOTAL PROJECT COST		26,993,050	46,315,946	40,104,659	24,704,084	48,358,849	24,704,084	48,358,849	24,704,084	48,358,849	24,704,084	48,358,849	24,704,084	48,358,849	16,743,304	16,743,304	16,743,304	
PARTITIONING OF COSTS																		
DIRECT		39.7%	51.33	57.46	42.24	56.82	34.0%	60.53	43.4%	63.15	43.4%	63.15	34.2%	56.88				
INDIRECT		36.1%	46.67	51.88	41.6%	57.18	39.6%	70.52	43.1%	62.65	43.1%	62.65	31.8%	58.68				
LAND		24.2%	31.25	17.07	16.3%	22.39	26.4%	47.04	13.5%	19.62	13.5%	19.62	34.8%	57.88				
TOTAL COST PER SF		100.0%	129.25	126.41	100.0%	137.59	100.0%	176.10	100.0%	145.43	100.0%	145.43	100.0%	163.96				

## XI. ECONOMIC ANALYSIS AND CONCLUSIONS

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### ASSUMPTIONS

There are numerous assumptions built into both the single-year pro forma and the discounted cash flow analysis, and they are sometimes slightly different. Since the latter was the more refined and important of the two, its assumptions are covered in more detail. Major variable assumptions are listed at the top of both analyses.

### RENTS

Multi-tenant retail, office, and parking rents are based on today's estimated average new, class "A" downtown space, inflated at 4 percent to 1988. Major retail rent is based on the effective rent per square foot mentioned in the most recent Saks' letter, both inflated and "rounded up."

### "GROWTH RATE"

This is the inflation rate which affects growth of both rents and operating expenses.

### LEASE-UP RATE

Because of the obvious potential space glut hitting the market soon before this project, the initial lease-up period was spread over two years, with an average of 70 percent vacancy in the leasing year, and 25 percent in the first operating year. This is reflected in the lease-up reserve.



#### VACANCY RATE

This is the long-term or structural vacancy level achieved in the stabilized year. It covers temporary vacancy between tenant turnovers and more permanent vacancy of miscellaneous small spaces. It is usually estimated at 5 percent, but here it is 7 percent to offset some other more liberal assumptions and to allow for a softer future market in general.

#### AVERAGE OPERATING EXPENSES

To simplify things, this is an average of the different rates for each of the four different types of lease space, included here as a percent of gross possible income. The average was taken from the pro forma analysis where individual rates for each type of area were used. The rates are \$5 per sf. for office, 2 percent of gross income for major retail, 3 percent for multi-tenant retail, and 15 percent for parking. Rates for both types of retail, based on Prescott's usual allowances, are low because the space will be net leased.

#### STABILIZED-YEAR PRO FORMA

The pro forma is nearly self-explanatory. The N.O.I. and debt coverage ratio determine the debt service, which determines the maximum mortgage. An 85 percent loan to value ratio and the total project cost determine the required equity. Where the existing equity in the land exceeds the amount required, the mortgage amount and debt

service were reduced rather than taking cash out. This should help the anemic return on capital.

For Options 1 and 2 there were development rights to be sold, less in Option 2 because of its office structure. This area times \$10 per sf., Prescott's price, created another return which reduced total project costs and required equity to create higher after-T.D.R. returns.

**STABILIZED-YEAR PRO FORMA  
OPTIONS 1-5**

STABILIZED YEAR PRO FORMA		\F					
<b>ASSUMPTIONS</b>		<b>PERMANENT MORTGAGE</b>					
OFFICE RENT (OR)	\$28.00	INTEREST RATE (IR)		11.0%			
MULTI-TENANT RETAIL RENT (RR)	\$40.00	TERM (TERM)		35			
MAJOR RETAIL RENT (MRR)	\$9.00	DEBT COV. RATIO (DCR)		1.15			
RENOVATED OFFICE RENT (ROR)	\$18.00	SF VALUE OF DEVELOP. RIGHTS (TA)		\$10.00			
RENOVATED RETAIL RENT (RRR)	\$35.00	MAJOR RETAIL OPERATING EXP. (OEMR)		2.0%			
PARKING RENT (PARK\$) PER DAY	\$6.00	MULTI-TENANT RETAIL OP. EXP. (OEMT)		3.0%			
VACANCY RATE (VAC)	5.0%	OFFICE OPERATING EXPENSES/SF (OEO)		\$5.00			
COST FACTOR (CF)	100.0%	PARKING OPERATING EXPENSES (OEP)		15.0%			
		RENOVATED OPERATING EXPENSES (OER)		20.0%			
		OPTION 1	OPTION 2	OPTION 2B	OPTION 3	OPTION 4	OPTION 5
		MAJOR RETAIL	STORE	MAJ. RET. PAD	MULTI-TENANT	RETAIL	RENOVATION
		W/ OFFICE	W/ OFFICE		W/ OFFICE		
GROSS POSSIBLE INCOME							
MAJOR RETAIL (INCL. DOCK)		816,650	829,250	412,500	0	0	0
MULTI-TENANT RETAIL		458,000	258,000	258,000	2,532,000	2,308,000	2,319,450
OFFICE		0	3,386,880	3,386,880	0	3,810,240	569,304
PARKING		362,880	495,072	495,072	227,880	371,016	0
TOTAL GROSS POSSIBLE INCOME		1,637,530	4,969,202	4,552,452	2,759,880	6,489,256	2,888,754
LESS VACANCY (M-T RETAIL & OFFICE)		22,900	182,244	182,244	126,600	305,912	144,438
GROSS EFFECTIVE INCOME		1,614,630	4,786,958	4,370,208	2,633,280	6,183,344	2,744,316
LESS OPERATING EXPENSES		84,505	703,386	688,863	110,142	805,292	577,751
NET OPERATING INCOME		1,530,125	4,083,572	3,681,345	2,523,138	5,378,052	2,166,566
OE + VAC / GPI		6.6%	17.8%	19.1%	8.6%	17.1%	25.0%
ANNUAL DEBT SERVICE W/ DCR OF	1.15	1,330,543	3,550,932	3,201,169	2,194,033	4,676,567	1,883,970
MAXIMUM LOAN AMOUNT	K =	11.29%	11,782,282	31,444,357	28,347,122	19,428,689	41,412,119
PROJECT COST	FACTOR	100.0%	26,993,050	48,315,946	40,104,659	24,704,084	48,358,849
REQUIRED EQUITY (COST - LOAN, OR 85% LTV)		15,210,769	16,871,589	11,757,538	5,275,395	6,946,730	2,060,298
LAND INVESTMENT		6,525,500	6,525,500	6,525,500	6,525,500	6,525,500	6,525,500
ADDITIONAL EQUITY REQUIRED		8,685,269	10,346,089	5,232,038	0	421,230	0
CORRECTED LOAN AMOUNT		11,782,282	31,444,357	28,347,122	18,178,584	41,412,119	12,217,804
CORRECTED DEBT SERVICE		1,330,543	3,550,932	3,201,169	2,052,862	4,676,567	1,379,726
<b>CASH FLOW</b>							
NET OPERATING INCOME		1,530,125	4,083,572	3,681,345	2,523,138	5,378,052	2,166,566
LESS DEBT SERVICE		1,330,543	3,550,932	3,201,169	2,052,862	4,676,567	1,379,726
BEFORE TAX CASH FLOW		199,582	532,640	480,175	470,276	701,485	786,840
BREAKEVEN RATIO ((OE+DS)/GPI)		86.4%	85.6%	85.4%	78.4%	84.5%	67.8%
RETURN ON EQUITY (BTCF/EQUITY)		1.3%	3.2%	4.1%	7.2%	10.1%	12.1%
RETURN ON CAPITAL (NOI/TOTAL COST)		5.7%	8.5%	9.2%	10.2%	11.1%	11.6%
TRANSFER DEVELOPMENT RIGHTS							
TRANSFER AREA		770,288	618,388	618,388			
VALUE @ \$10.00		7,702,880	6,183,880	6,183,880			
EQUITY REDUCED BY T.D.R.		7,507,889	10,687,709	5,573,658			
RETURN ON EQUITY WITH T.D.R.		2.7%	5.0%	8.6%			
RETURN ON CAPITAL WITH T.D.R.		7.9%	9.7%	10.9%			

## DISCOUNTED CASH FLOW ANALYSES

These analyses have been kept very simple, but still provide basic return and ranking information as a backup to the single-year pro forma. Thus, they are before-tax analyses and model only simple financing. Further reason for the before-tax approach is self-evident at this time.

Project costs are allocated to the year incurred and split accordingly. Hard costs are taken from the earlier cost estimate, but soft or indirect costs are recalculated here, so the total project cost is slightly different than in the single-year pro forma. Options 1, 3, and 5 have one-year construction periods, and Options 2, 2B, and 4, which have office towers, have two-year periods (rounded up from 1.75).

The model simply develops gross possible income, and deducts vacancy and operating expenses as percentages of G.P.I. to reach the net operating income. The mortgage is determined as in the pro forma, and debt service is deducted to get the cash flow. In this case, though, the mortgage was not reduced if the required equity was less than the land value. The construction loan is again 80 percent of the direct and indirect costs, and is taken out by the permanent loan at the end of the construction year(s).

The project is sold after ten years, the price being the eleventh year N.O.I. capped at 9.5 percent, less a 3 percent sales commission.

The net present value was found, based on a discount rate of 12 percent, or an 8 to 9 percent alternate return plus a 3 to 4 percent risk factor. The internal rate of return was also calculated.

#### ANALYSIS AND CONCLUSIONS

The results of both the pro forma and discounted cash flow analyses establish the same rank order of options. It is roughly opposite what was originally expected, as is indicated by the numbering order of the options. They now rank 4, 5, 3, 2 or 2B, and 1, with some room for interpretation. A summary of results follows.

#### OPTIONS 1, 2, AND 2B

All of the major department store (Saks) options suffer from the same critical problem: Saks' expected rent, at \$9.00 per square foot per year, is only 26 percent of the pro forma multi-tenant rent of \$35.00. In Option 1, the department store occupies almost 90 percent of the total leasable area other than parking, so the problem is overwhelming. In Options 2 and 2B, the office tower pulls up the overall returns considerably, but they still fall well below desired returns, and those of the other options.

Option 2B, where Saks pays for its own building, improves pro forma returns, but not markedly, partially because the major retail is the least-expensive above-grade space (per square foot) in the project. In the pro forma, a

figure of \$400,000 was used as Saks' ground rent, plus rent for some below grade space. Later it was discovered that Saks routinely refuses ground rent deals; they essentially want a free site. Therefore, in the discounted analysis, no rent was included. This accounts for the fact that the pro forma prefers Option 2B while the discounted analysis prefers Option 2. Also, in further analyses, the cost of below-grade parking and service area associated with Saks, approximately \$2.7 million in hard costs alone, should be charged to them. This will make Option 2B clearly superior to Option 2, but will probably not pull it up to the other options.

These poor returns occur despite the fact that the Saks' pro forma rent is actually \$1.50 higher (11 percent) than what Saks has actually proposed, even with two years of inflation included. In the discounted analysis vacancy was not applied to Saks, and there is also the problem of percentage-only rent. In other words, the analyses of these options are optimistic in several respects.

The reasons for the poor performance of Options 1, 2, and 2B seem obvious, but the real driver behind these options was the expected benefit derived from additional development rights and the ability to sell the rights to other projects. The summary pro forma included returns both before and after development rights, and the returns did improve significantly. Return on equity nearly doubled on average, a fact easily overlooked given the initially dismal

pre-T.D.R. returns. Return on total capital, which was two to four times higher than return on equity, increased proportionately less, in the range of 15 to 40 percent.

A major retail project has fewer unknowns regarding rent, vacancy, and expense levels than most development projects. In this case, however, it appears to be a predictably safe way of making below-market returns.

In summary, the very low returns result from major retail rent which is so low that the returns are beyond help, even with the leverage of the extra development rights. However, there is a great desire to make one of these options work. A new department store is attractive from a civic perspective, and this site is the most natural location. In addition, both Prescott and the city have invested considerable time and effort in laying the legal groundwork for this type of project. Prescott feels that the city might change the code if compelling economic need can be shown. A very preliminary study of necessary code FAR's, working backwards from hurdle rates of 8.5 percent R.O.E. and 12 percent R.O.C., indicated an FAR of 18 to 20 would be required. It is questionable whether the city would grant such a drastic increase, up from 11, and it is even more questionable whether there is a market for the development rights within the small retail core.

## SUMMARY OF RESULTS

SUMMARY OF RESULTS	OPTION 1	OPTION 2	OPTION 2B	OPTION 3	OPTION 4	OPTION 5
	MAJOR RETAIL STORE			MULTI-TENANT RETAIL		RENOVATION
		W/ OFFICE	W/ OFFICE PAD ONLY		W/ OFFICE	
<b>PROJECT COST</b>						
TOTAL COST*	25,550,000	46,756,200	39,068,000	24,020,000	47,428,400	20,776,000
REQUIRED EQUITY*	13,456,500	15,849,500	13,653,500	4,752,900	7,591,000	2,705,000
WITH T.D.R.	5,753,500	9,665,500	7,469,500			
<b>DISCOUNTED CASH FLOW ANALYSIS</b>						
INTERNAL RATE OF RETURN	0.9%	8.4%	7.5%	16.4%	18.1%	22.6%
NET PRESENT VALUE	(6,787,600)	(3,332,600)	(3,504,900)	1,855,000	4,460,000	3,268,000
CASH FLOW***	188,900	474,900	390,000	299,000	611,000	278,000
<b>PRO FORMA ANALYSIS</b>						
RETURN ON EQUITY	1.3%	3.2%	4.1%	7.2%	10.1%	12.1%
WITH T.D.R.	2.7%	5.0%	8.6%			
RETURN ON CAPITAL	5.7%	8.5%	9.2%	10.2%	11.1%	11.6%
WITH T.D.R.	7.9%	9.7%	10.9%			
CASH FLOW***	200,000	532,600	480,200	470,300	701,000	787,000 ****
<b>RATIO ANALYSIS</b>						
LOAN TO VALUE RATIO**	47.3%	66.1%	65.1%	80.2%	84.0%	65.2%
BREAKEVEN RATIO***	84.9%	84.5%	83.5%	82.2%	83.5%	67.8%

\* FROM DISCOUNTED ANALYSIS, NOT PRO FORMA.

\*\* L.T.V. RATIO BASED ON MAX. LOAN WITH DEBT COVERAGE RATIO OF 1.15 AND RENTAL INCOME OF FIRST STABILIZED YEAR (EXCEPT OPTION 5).

\*\*\* FIRST STABILIZED YEAR



### OPTION 3

This option, the multi-tenant retail project, continues up the spectrum of increasing returns, and almost reaches Prescott's hurdle rates of 8.5 percent R.O.E., 12 percent R.O.C., and 16.5 percent I.R.R. It is the least expensive of the options for new construction, and requires less equity than any other new project, less in fact than Prescott has in the land. However, it is the most expensive per square foot, probably because of its small area relative to high land costs. It contains only two floors of retail, an FAR of 2, well below the basic code FAR of 5, and far below the higher FAR justified by land values.

Option 3 involves different risks than the earlier options. In a sense, this is an urban mall with de-emphasized interior circulation. It is entirely dependent on a single market, multi-tenant retail, which is less studied than the office market, making the prediction of real rents and vacancy difficult.

This option will be eliminated. The returns are below the hurdle rates, and, because of the small size of the project, the actual income even lower than could be achieved with the existing buildings. In other words, the point of this project is to increase the density of development on the site, and this option does not do this.

## OPTION 5

As expected, renovation of the existing buildings provides the highest pro forma returns and I.R.R., largely because it requires the least investment. Throughout the study, however, it was assumed that the magnitude of this option and its returns was obviously the least promising. That was, in fact, the thesis of the analysis.

In actuality, Option 5 appears to be equal or superior to all but Option 4. The problems of the major retail options have been discussed. Also, the assumption about the differences in scale of the options is misleading. The leasable area of the existing buildings, approximately 98,000 sf., is 55 percent greater than Option 3. Only Option 4 excludes major retail and includes office space.

In the pro forma, the before tax cash flow is the largest of all the options. This occurs because the required equity is less than a third of the existing equity in the land, so the mortgage was reduced, lowering the debt service and raising the cash flow \$500,000. The discounted analysis assumes more realistically that leveraging will be maximized, reducing the cash flow accordingly.

A last note on the renovation. The same sale cap rate, 9.5 percent, and discount rate, 12.0 percent, were used for all options. In fact, these might be more conservative for Option 5 because it would be perceived as less desirable than newer construction. The discounted return measures

would then drop. Option 5 could be a viable alternative if Option 4 is not developed.

#### OPTION 4

This scenario, Option 3 with an office structure above, is the recommended alternative. It has the best rates of return of the all-new options, as well as the highest cash flows. Its R.O.C., at 11.1 percent, is a little low, but its I.R.R. is over 18 percent, with a net present value of \$4.46 million, much higher than even Option 5. Required equity is about half of Options 1, 2, and 2B, or about \$1 million more than land equity. The loan to value ratio, which is actually based on debt coverage, is 84 percent, right where it should be.

A very simple sensitivity analysis was conducted on this option. The following graph shows changes in I.R.R. resulting from percentage changes in the variables office rent (OFFR), multi-tenant retail rent (MTR), vacancy (VAC), operating expenses (OPEXP), permanent loan interest rate (PLI), and direct project costs (CCOST). All factors behaved as they should. Increases in variables were proportional to decreases. Office rent was more influential than retail rent because there is much more office space. Vacancy appears to be less important than it really is because of the parameters of the analysis and the relative changes induced by other variables. A seemingly small

change in vacancy from 5 to 7 percent would be a 40 percent increase and would be off the graph.

In summary, Option 4 yields the best returns and shows no indications of underlying qualities which make the results misleading.

## OPTION 1: DISCOUNTED CASH FLOW ANALYSIS

DISCOUNTED CASH FLOW ANALYSIS OPTION 1: MAJOR RETAIL																
ASSUMPTIONS																
COSTS		FINANCIAL RATES				FINANCING		PERMANENT LOAN		RESULTS						
8	DIRECT	18,721,000	DCOST	GROWTH RATE	GR	4.5%	TERM (MONTH)	PLT	25	NPV	(6,787,687)					
9	INDIRECT	8,383,484	+DCOST	DISCOUNT	DR	12.0%	INTEREST	PLI	11.8%	IRR	8.89%					
10	LAND	6,525,580	LOSET	DISPOS. CAP	CDP	9.5%	POINTS	PLPT	0	REQ. EQUITY	13,456,524					
11	TOTAL PROJECT COST	25,549,984	+DCOST	VACUANCY RATE	VAC	7.0%	TEXT CONV. R.	DCR	1.15							
12				Avg. OPER. EXP	OE	6.0%										
INCOME FACTORS																
16	MAJOR RETAIL (SAKS)	SAKSR	99.00	SAKGR	89,350											
17	MULTI-TENANT RETAIL	MTR	948.00	MTR	11,450											
18	OFFICE	OFFR	123.00	OFFR	0											
19	PARKING (PER CAR)	PARKR	11,080.00	PARSR	282											
PROJECT COSTS																
24		D	E	F	G	H	I	J	K	L	M	N	O	P		
25		1987	1988	1	2	3	4	5	6	7	8	9	10	11		
26		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998	1999		
27	DIRECT		18,721,000													
28	INDIRECT															
29	R & E FEES	268,025	268,025									536,050				
30	SPACE PLANNING FEES		1,431	4,294								5,725				
31	PERMIT FEES			214,420								214,420				
32	LEGAL FEES	53,685	53,685									107,370				
33	INITIAL LEASING COMMISSIONS			18,932	29,676	15,978						64,586				
34	LEASE-UP RESERVE			461,318	95,719							557,037				
35	REAL ESTATE TAXES		156,000									156,000				
36	SALES TAX		868,401									868,401				
37	INSURANCE		187,218									187,218				
38	LEASE TERMINATION COSTS		1,813,000									1,813,000				
39	FINANCING FEE		64,325									64,325				
40	CLOSING COSTS		321,630									321,630				
41	INTERIM INTEREST		1,183,598									1,183,598				
42	MARKETING		53,685	53,685								107,370				
43	DEVELOPER OVERHEAD	268,025	268,025									536,050				
44	INDIRECT CONTINGENCY		536,050									536,050				
45	METAL REVERSION PAYMENT		1,124,980									1,124,980				
46	TOTAL INDIRECT COSTS	589,635	7,834,227	538,149	125,396	15,978	0	0			8,383,484	8,383,484				
47	LAND COSTS		6,525,580													
48	TOTAL PROJECT COSTS	589,635	24,286,727	538,149	125,396	15,978	0	0			25,549,984					
PROJECT PRO FORMA																
57		D	E	F	G	H	I	J	K	L	M	N	O	P		
58		1987	1988	1	2	3	4	5	6	7	8	9	10	11		
59		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998	1999		
60	RENTS															
61	MAJOR RETAIL		99.00	99.41	99.83	110.27	110.73	111.22	111.72	112.25	112.80	113.37	113.98			
62	MULTI-TENANT RETAIL		948.00	941.00	943.58	945.63	947.70	949.85	952.09	954.43	956.88	959.44	962.12			
63	OFFICE		123.00	129.26	138.58	141.95	143.39	144.89	146.46	148.10	149.81	151.61	153.48			
64	PARKING		11,080.00	11,081.00	11,965.65	12,854.18	12,746.53	12,243.13	12,344.87	12,449.55	12,559.78	12,674.97	12,795.34			
65	GROSS POSSIBLE INCOME															
66	MAJOR RETAIL		884,150	848,337	878,152	917,669	958,964	1,002,117	1,047,212	1,094,337	1,143,582	1,195,043	1,248,820			
67	MULTI-TENANT RETAIL		458,000	478,618	500,147	522,654	546,174	570,751	596,435	623,275	651,322	680,632	711,260			
68	OFFICE		187,218	197,218	207,218	217,218	227,218	237,218	247,218	257,218	267,218	277,218	287,218			
69	PARKING		363,680	379,962	397,860	414,928	433,680	453,112	473,582	494,889	517,876	540,344	564,668			
70	TOTAL GROSS POSSIBLE INCOME		1,625,758	1,694,989	1,775,368	1,855,251	1,938,737	2,025,908	2,117,149	2,212,421	2,311,908	2,416,819	2,524,740			
71	LESS VACUANCY AT AVERAGE RATE OF		70%	70%	70%	7%	7%	7%	7%	7%	7%	7%	7%			
72	TOTAL VACUANCY (EXCLUDING MAJ. RETAIL)		575,128	214,643	62,885	65,631	64,584	71,678	74,896	78,266	81,788	85,468	89,314			
73	EFFECTIVE GROSS INCOME		1,050,630	1,480,346	1,712,483	1,789,620	1,874,153	1,954,230	2,042,254	2,134,155	2,230,121	2,338,551	2,435,426			
74	LESS OPERATING EXPENSES		138,068	135,913	142,029	148,428	155,099	162,078	169,372	176,994	184,958	193,282	201,979			
75	LESS SAULING RENT		0	0	0	0	0	0	0	0	0	0	0			
76	NET OPERATING INCOME		912,562	1,344,433	1,570,454	1,641,192	1,719,054	1,792,231	1,872,882	1,957,162	2,045,234	2,137,269	2,233,446	SALES PROCEEDS		
77	SALES PROCEEDS													21,589,863		
78														785,299		
LEVERAGED ANALYSIS																
89		D	E	F	G	H	I	J	K	L	M	N	O	P		
90		1987	1988	1	2	3	4	5	6	7	8	9	10	11		
91		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998	1999	
92	NON-LEVERAGED CASH FLOW		908,578	1,348,353	1,578,525	1,641,192	1,719,054	1,792,231	1,872,882	1,957,162	2,045,234	2,137,269				
93	CONSTRUCTION LOAN PRINCIPAL		15,219,523													
94	PERMANENT MORTGAGE															
95	MAXIMUM DEBT SERVICE	1,365,675	Based on DCR and stabilized year NOI (1992).													
96	MAXIMUM PRINCIPAL	12,893,380	21,717,418	85% LTV ratio of total cost.												
97	ACTUAL PRINCIPAL			12,893,380												
98	ACTUAL DEBT SERVICE			1,365,675	1,365,675	1,365,675	1,365,675	1,365,675	1,365,675	1,365,675	1,365,675	1,365,675	1,365,675			
99	MORTGAGE SCHEDULE															
100	BALANCE		12,893,380	12,857,977	12,818,679	11,975,859	11,926,640	11,872,896	11,813,239	11,747,820	11,673,518	11,591,938	12,893,380			
101	AMORTIZATION		35,943	39,298	43,620	48,119	53,745	59,627	66,219	73,583	81,588	90,563	92,813			
102	INTEREST		1,338,272	1,326,377	1,322,059	1,317,256	1,311,338	1,306,019	1,299,456	1,292,172	1,284,407	1,275,112	1,151,367	11,581,367		
103	BALLOON PAYMENT												11,581,367	BALLOON PRT.		
104	CASH FLOW AFTER DEBT SERVICE			(445,185)	(17,322)	204,851	275,525	349,379	426,556	507,287	591,486	679,559	12,874,891			
105	BREAK-EVEN			32.0%	56.4%	84.9%	81.6%	78.4%	75.4%	72.5%	69.7%	67.1%				
BEFORE-TAX CASH FLOW ANALYSIS																
117		D	E	F	G	H	I	J	K	L	M	N	O	P		
118		1987	1988	1	2	3	4	5	6	7	8	9	10	11		
119		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998	1999	
120	BEFORE-TAX CASH FLOW															
121	PROJECT COSTS		(589,635)	(24,286,727)	(538,149)	(125,396)	(15,978)	(0)	(0)							
122	CONSTRUCTION MORTGAGE			15,219,523												
123	PAYBACK			(15,219,523)												
124	PERMANENT MORTGAGE			12,893,380												
125	OF AFTER DEBT SERVICE		0	0	(445,185)	(17,322)	204,851	275,525	349,379	426,556	507,287	591,486	679,559	12,874,891		
126	NET BEFORE-TAX CASH FLOW		(589,635)	(12,187,346)	(983,254)	(142,718)	188,873	275,525	349,379	426,556	507,287	591,486	679,559	12,874,891		
127	DEVELOPER RETURN															
128	NET PRESENT VALUE		(6,787,687)													
129	INTERNAL RATE OF RETURN		8.9%													
130	REQUIRED EQUITY		13,456,524	TOTAL COST LESS PERMANENT LOAN												

## OPTION 2: DISCOUNTED CASH FLOW ANALYSIS

DISCOUNTED CASH FLOW ANALYSIS OPTION 2: MAJOR RETAIL AND OFFICE															
ASSUMPTIONS															
COSTS															
	FINANCIAL RATES						FINANCING			PERMANENT LOAN			RESULTS		
7	DIRECT	21,362,000	COST	GROWTH RATE	GR	4.5%	TERM (MONTH)	ALT	25	NOV	(3,332,683)				
8	INDIRECT	18,258,730	+COST	DISCOUNT	DR	12.0%	INTEREST	PLT	11.0%	1.0%	8.4%				
9	LAND	6,525,580	COST	DISPOS. CAP	CDP	9.5%	POINTS	PUP	0	RED. EQUITY	15,849,587				
10	TOTAL PROJECT COST	46,756,230	+COST	WACANCY RATE	WAC	7.0%	DEBT COV. R.	DCR	1.15						
11				RE. OPER. EXP	OE	20.0%									
12															
13															
INCOME FACTORS															
14		1989 MARKET RENTS/SF/YR			RENTABLE AREA										
15															
16	MAJOR RETAIL (SWS)	SWSR	93.00	SWSA	98.750										
17	MULTI-TENANT RETAIL	MTR	94.00	MTR	6.450										
18	OFFICE	OFFR	92.00	OFFR	128.360										
19	PARKING (PER CAR)	PRKR	91.000.00	CRGS	275										
20															
PROJECT COSTS															
21		D	E	F	G	H	I	J	K	L	M	N	O	P	Q
22															
23															
24		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
25		DEVELOPMENT	CONSTRUCTION	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE
26															
27															
28	DIRECT		13,177,200	6,784,000											
29	INDIRECT														
30	A & E FEES	549,050	549,050		15,306	47,779								1,098,100	
31	SPACE PLANNING FEES				439,240									439,240	
32	PERMIT FEES													219,620	
33	LEGAL FEES	54,905	109,810	54,905										228,543	
34	INITIAL LEASING COMMISSIONS				66,324	104,584	48,715							3,253,918	
35	LEASE-UP RESERVE				2,558,352	718,366								212,000	
36	REAL ESTATE TAXES		156,000	156,000										1,778,922	
37	SALES TAX		1,867,353	711,369										219,620	
38	INSURANCE		131,772	87,848										1,813,000	
39	LEASE TERMINATION COSTS		1,813,000											131,772	
40	FINANCING FEE		131,772											638,860	
41	CLOSING COSTS		638,860											4,849,210	
42	INTERIM INTEREST			4,849,210										219,620	
43	MARKETING			189,810										1,098,100	
44	DEVELOPER OVERHEAD	366,833	366,833	366,833										1,098,100	
45	INDIRECT CONVEYANCY			549,050										1,098,100	
46	RETAIL REVERSION PAYMENT	778,400												778,400	
47															
48	TOTAL INDIRECT COSTS	1,748,388	5,971,941	6,508,351	2,775,465	823,878	48,715	0	0				18,258,730	18,258,730	
49															
50	LAND COSTS		6,525,580												
51	TOTAL PROJECT COSTS	1,748,388	25,674,641	15,685,151	2,775,465	823,878	48,715	0	0				46,756,230		
52															
PROJECT PRO FORMA															
53		D	E	F	G	H	I	J	K	L	M	N	O	P	Q
54															
55															
56		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
57		DEVELOPMENT	CONSTRUCTION	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE
58															
59															
60															
61	RENTS														
62	MAJOR RETAIL				99.00	99.41	99.83	110.27	110.70	111.22	111.72	112.25	112.80	113.37	113.98
63	MULTI-TENANT RETAIL				94.00	94.00	94.00	94.00	94.00	94.00	94.00	94.00	94.00	94.00	94.00
64	OFFICE				92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00	92.00
65	PARKING				91,000.00	91,000.00	91,965.63	92,894.10	93,786.53	94,644.07	95,466.76	96,254.60	97,008.60	97,728.75	98,415.04
66	GROSS POSSIBLE INCOME				4,956,630	5,179,678	5,412,764	5,656,338	5,910,873	6,176,363	6,454,822	6,745,289	7,048,827	7,366,424	7,697,495
67	MAJOR RETAIL														
68	MULTI-TENANT RETAIL				250,000	263,610	281,742	294,421	307,678	321,515	326,983	321,182	366,382	383,113	400,666
69	OFFICE				3,286,800	3,539,290	3,698,558	3,864,993	4,038,917	4,220,669	4,410,599	4,609,876	4,816,484	5,033,226	5,259,721
70	PARKING				439,000	517,275	548,562	564,877	598,297	616,368	644,619	673,627	703,348	733,617	764,528
71															
72	TOTAL GROSS POSSIBLE INCOME				4,956,630	5,179,678	5,412,764	5,656,338	5,910,873	6,176,363	6,454,822	6,745,289	7,048,827	7,366,424	7,697,495
73															
74	LESS WACANCY AT AVERAGE RATE OF				70%	25%	7%	7%	7%	7%	7%	7%	7%	7%	7%
75	TOTAL WACANCY (EXCLUDING MAJ. RETAIL)				2,897,916	1,881,544	316,460	338,700	345,582	361,133	377,384	394,366	412,113	430,658	450,837
76															
77	EFFECTIVE GROSS INCOME				2,058,714	4,098,133	5,096,304	5,325,638	5,565,292	5,815,730	6,077,438	6,350,923	6,636,714	6,925,766	7,247,457
78															
79	LESS OPERATING EXPENSES				991,326	1,035,936	1,082,353	1,131,268	1,182,175	1,235,373	1,290,964	1,349,058	1,409,763	1,473,285	1,539,499
80															
81	LESS GROUND RENT				0	0	0	0	0	0	0	0	0	0	0
82															
83	NET OPERATING INCOME				1,067,388	3,062,197	4,013,951	4,194,370	4,383,117	4,580,357	4,786,473	5,001,865	5,226,948	5,462,161	5,707,958
84	SALES PROCEEDS														58,881,259
85															1,985,513
86															
LEVERAGED ANALYSIS															
87		D	E	F	G	H	I	J	K	L	M	N	O	P	Q
88															
89															
90		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
91		DEVELOPMENT	CONSTRUCTION	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE
92															
93															
94	NON-LEVERAGED CASH FLOW				1,067,388	3,062,197	4,013,951	4,194,370	4,383,117	4,580,357	4,786,473	5,001,865	5,226,948	5,462,161	
95															
96	CONSTRUCTION LOAN PRINCIPAL				32,184,504										
97															
98															
99	PERMANENT MORTGAGE														
100	MAXIMUM DEBT SERVICE	3,198,219	Based on DCR and stabilized year MOI (1992).												
101	MAXIMUM PRINCIPAL	38,986,723	39,742,790 Second based on 10.85 loan to value.												
102	ACTUAL PRINCIPAL				38,986,723										
103	ACTUAL DEBT SERVICE				3,198,219	3,198,219	3,198,219	3,198,219	3,198,219	3,198,219	3,198,219	3,198,219	3,198,219	3,198,219	3,198,219
104	MORTGAGE SCHEDULE														
105	BALANCE	38,986,723	38,816,244	38,715,812	38,688,333	38,498,591	38,343,237	38,198,774	38,021,541	29,833,692	29,625,179	28,986,723			
106	AMORTIZATION	78,479	100,432	111,479	123,742	137,354	152,463	169,233	187,849	208,513	231,449	1,312,993			
107	INTEREST	3,399,744	3,389,787	3,378,7											



## OPTION 3: DISCOUNTED CASH FLOW ANALYSIS

DISCOUNTED CASH FLOW ANALYSIS OPTION 3: MULTI-TENANT RETAIL														
ASSUMPTIONS														
COSTS					FINANCING			PERMANENT LOAN		RESULTS				
		FINANCIAL RATES												
8	DIRECT	8,397,000	00COST	GR	4.54	TERM (SHORT)	PLT	35	MAPV	1,855,019				
9	INDIRECT	9,897,520	11COST	DISCOUNT	DR	12.0%	INTEREST	PLI	11.0%	MIRR	16.4%			
10	LAND	6,525,500	LOST	DISPOS. CAP	WOC	9.5%	POINTS	PLPT	0	MREGUI	4,752,987			
11	TOTAL PROJECT COST	24,820,020	11COST	VACUITY RATE	DE	7.0%	DEBT COV.R.	DCR	1.15					
12				Avg. OPER. EXP	OE	18.0%								
INCOME FACTORS														
		1989 MARKET RENTS/SF/YR			RENTABLE AREA									
16	MULTI-TENANT RETAIL (SRAKS)	SRAKS	49.00	SRAKS	0									
17	MULTI-TENANT RETAIL	MTA	444,00	MTA	63,300									
18	OFFICE	OFFR	428.00	OFFR	0									
19	PARKING (OPER CAR)	PARKR	91,800.00	CARS	127									
PROJECT COSTS														
		D	E	F	G	H	I	J	K	L	M	N	O	P
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE
22	DIRECT		8,397,000											
23	INDIRECT													
24	A & E FEES		289,925										419,850	
25	SPACE PLANNING FEES				23,738								31,650	
26	PERMIT FEES				167,940								167,940	
27	LEGAL FEES	41,985	41,985										83,970	
28	INITIAL LEASING COMMISSIONS			37,900	59,534	27,132							124,645	
29	LEASE-UP RESERVE			1,739,178	519,269								2,258,447	
30	REAL ESTATE TAXES		156,000										156,000	
31	SALES TAX		588,157										588,157	
32	INSURANCE		83,970										83,970	
33	LEASE TERMINATION COSTS		1,813,000										1,813,000	
34	FINANCING FEE		58,382										58,382	
35	CLOSING COSTS		251,910										251,910	
36	INTERIM INTEREST		327,829										327,829	
37	MARKETING		41,985	41,985									83,970	
38	DEVELOPER OVERHEAD	289,925											419,850	
39	INDIRECT CONTINGENCY		419,850										419,850	
40	NETRAL REVERSION PAYMENT		1,124,900										1,124,900	
41	TOTAL INDIRECT COSTS	461,835	6,106,870	1,842,881	578,883	27,132	0	0	0	0	0	9,897,520	9,897,520	
42	LAND COSTS		6,525,500											
43	TOTAL PROJECT COSTS	461,835	21,109,370	1,842,881	578,883	27,132	0	0	0	0	0	24,820,020		
PROJECT PRO FORMA														
		D	E	F	G	H	I	J	K	L	M	N	O	P
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE
44	RENTS													
45	MULTI-TENANT RETAIL			49.00	49.41	49.83	418.27	418.73	411.22	411.72	412.25	412.80	413.37	413.96
46	OFFICE			448.00	441.00	443.68	445.65	447.78	449.85	452.09	454.43	456.88	459.44	462.12
47	PARKING			428.00	429.26	430.58	431.95	433.37	434.89	436.46	438.10	439.82	441.61	443.48
48	TOTAL RENTS			91,800.00	91,881.00	91,965.65	92,054.10	92,146.53	92,243.13	92,344.87	92,449.55	92,559.78	92,674.97	92,795.34
49	GROSS POSSIBLE INCOME													
50	MULTI-TENANT RETAIL			2,532,000	2,645,940	2,765,007	2,889,433	3,019,457	3,155,333	3,297,323	3,445,782	3,600,759	3,762,793	3,932,119
51	OFFICE			228,687	238,887	249,637	260,871	272,610	284,877	297,697	311,093	325,092	339,721	355,009
52	PARKING			2,768,680	2,884,827	3,014,644	3,158,383	3,292,867	3,440,218	3,595,819	3,756,795	3,925,851	4,102,514	4,287,127
53	TOTAL GROSS POSSIBLE INCOME			5,529,367	5,770,654	5,999,288	6,206,687	6,584,934	7,032,427	7,543,449	8,128,476	8,839,362	9,685,037	10,574,255
54	LESS VACUITY AT AVERAGE RATE OF			70%	25%	7%	7%	7%	7%	7%	7%	7%	7%	7%
55	TOTAL VACUITY			1,332,428	721,287	211,825	228,321	238,445	248,815	251,651	262,976	274,810	287,176	300,099
56	EFFECTIVE GROSS INCOME			4,200,939	5,049,367	5,787,463	5,978,366	6,346,489	6,783,632	7,291,798	7,865,500	8,564,552	9,384,661	10,274,156
57	LESS OPERATING EXPENSES			276,868	288,483	301,464	315,838	329,287	344,821	359,582	375,680	392,585	410,251	428,713
58	LESS GROUND RENT			0	0	0	0	0	0	0	0	0	0	0
59	NET OPERATING INCOME			352,120	1,875,138	2,582,135	2,614,752	2,732,415	2,855,374	2,983,866	3,118,140	3,258,456	3,405,007	3,558,316
60	SALES PROCEEDS													37,455,325
61	TOTAL SALES PROCEEDS													37,455,325
62	SALES PROCEEDS													1,123,679
LEVERAGED ANALYSIS														
		D	E	F	G	H	I	J	K	L	M	N	O	P
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE
63	NON-LEVERAGED CASH FLOW			352,120	1,875,138	2,582,135	2,614,752	2,732,415	2,855,374	2,983,866	3,118,140	3,258,456	3,405,007	3,558,316
64	CONSTRUCTION LOAN PRINCIPAL		13,995,616											
65	PERMANENT MORTGAGE													
66	MAXIMUM DEBT SERVICE		2,175,787	Based on DCR and stabilized year NOI (1992).										
67	MAXIMUM PRINCIPLE	19,267,113	28,417,017	= 85% LTV ratio of total cost.										
68	ACTUAL PRINCIPLE	19,267,113												
69	ACTUAL DEBT SERVICE	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787	2,175,787
70	MORTGAGE SCHEDULE													
71	BALANCE	19,267,113	19,218,789	19,148,100	19,078,684	19,001,464	18,915,838	18,828,794	18,715,294	18,598,190	18,468,284	18,327,494	18,175,824	18,013,374
72	PRINCIPAL PAYMENT	58,444	62,589	67,496	72,148	76,525	80,646	84,514	88,131	91,500	94,625	97,500	100,125	102,500
73	INTEREST	2,119,382	2,113,178	2,106,291	2,098,646	2,090,161	2,080,942	2,070,287	2,058,162	2,044,589	2,029,659	2,013,289	1,995,500	1,976,274
74	BALLOON PAYMENT													18,323,328
75	CASH FLOW AFTER DEBT SERVICE			(1,623,667)	(308,649)	326,368	438,965	556,629	679,587	808,079	942,333	1,082,670	1,237,657	1,407,537
76	BREAKEVEN			88.8%	85.4%	82.2%	79.1%	76.1%	73.2%	70.5%	67.9%	65.4%		
BEFORE-TAX CASH FLOW ANALYSIS														
		D	E	F	G	H	I	J	K	L	M	N	O	P
		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE
77	BEFORE-TAX CASH FLOW													
78	PROJECT COSTS	(461,835)	(21,109,370)	(1,842,881)	(578,883)	(27,132)	(0)	(0)						
79	CONSTRUCTION MORTGAGE		13,995,616											
80	PAYBACK		(13,995,616)											
81	PERMANENT MORTGAGE			19,267,113										
82	CF AFTER DEBT SERVICE	0	0	(1,623,667)	(308,649)	326,368	438,965	556,629	679,587	808,079	942,333	1,082,670	1,237,657	1,407,537
83	NET BEFORE-TAX CASH FLOW	(461,835)	(1,842,257)	(3,466,547)	(879,452)	299,236	438,965	556,629	679,587	808,079	942,333	1,082,670	1,237,657	1,407,537
DEVELOPER RETURNS														
84	NET PRESENT VALUE		1,855,019											
85	INTERNAL RATE OF RETURN		16.4%											
86	REQUIRED EQUITY		4,752,987	TOTAL COST LESS PERMANENT MORTGAGE										



## OPTION 5: DISCOUNTED CASH FLOW ANALYSIS

DISCOUNTED CASH FLOW ANALYSIS OPTION 5: RENOVATION														
ASSUMPTIONS														
COSTS		FINANCIAL RATES				FINANCING			PERMANENT LOAN		RESULTS			
DIRECT	6,411,000	DCOST	GR	4.5%	TERM (MONTH)	PLT	35	NPV	3,268,171					
INDIRECT	7,839,568	+ICOST	DISCOUNT	12.0%	INTEREST	PLI	11.0%	IRR	22.61%					
LAND	6,525,500	LCOST	DISPOS. CAP	9.3%	POINTS	ADPT	0	REQ. EQUITY	2,785,463					
TOTAL PROJECT COST	20,776,068	+TCOST	VACANCY RATE	7.0%	RENT CON. R.	DCR	1.15							
			Avg. OPER. EXP	28.0%										
INCOME FACTORS		1989 MARKET RENTS/SF/YR				RENTABLE AREA								
MAJOR RETAIL (SANS)	SANSR	99.00	SANSR	0										
MULTI-TENANT RETAIL	MTR	835.00	MTR	66,300										
OFFICE	OFFR	418.00	OFFR	31,600										
PARKING (PER CAR)	PARPR	91,000.00	CARS	0										
PROJECT COSTS														
	D	E	F	G	H	I	J	K	L	M	N	O	P	
		1987	1988	1	2	3	4	5	6	7	8	9	10	11
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998
													SALE	1999
DIRECT			6,411,000											
INDIRECT														
A & E FEES		168,275	168,275									326,550		
SPACE PLANNING FEES				36,713								48,950		
PERMIT FEES				12,238								128,220		
LEGAL FEES		32,455	32,455									139,671		
INITIAL LEASING COMMISSIONS				43,340	67,935	28,397						64,110		
LEASE-UP RESERVE				1,422,099	394,878							1,816,977		
REAL ESTATE TAXES			156,000									156,000		
SALES TAX			519,291									519,291		
INSURANCE			64,110									64,110		
LEASE TERMINATION COSTS			1,813,000									1,813,000		
FINANCING FEE			38,466									38,466		
CLOSING COSTS			192,330									192,330		
INTERIM INTEREST			787,774									787,774		
MARKETING			32,053									64,110		
DEVELOPER OVERHEAD		168,275	168,275	32,053								326,550		
INDIRECT CONTINGENCY			326,550									326,550		
NETROL. REVERSION PAYMENT			1,124,900									1,124,900		
TOTAL INDIRECT COSTS		352,685	5,461,539	1,534,206	462,813	28,397	0	0				7,839,568		
LAND COSTS			6,525,500											
TOTAL PROJECT COSTS		352,685	18,396,839	1,534,206	462,813	28,397	0	0				20,776,068		
PROJECT PRO FORMA														
	D	E	F	G	H	I	J	K	L	M	N	O	P	
		1987	1988	1	2	3	4	5	6	7	8	9	10	11
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998
													SALE	1999
RENTS														
MAJOR RETAIL			99.00	99.41	99.43	110.27	110.77	111.22	111.72	112.25	112.80	113.37	113.98	114.63
MULTI-TENANT RETAIL			835.00	836.58	838.22	839.94	841.74	843.61	845.56	847.57	849.71	852.01	854.45	857.05
OFFICE			418.00	419.66	421.38	423.17	425.02	426.94	428.94	431.01	433.15	435.37	437.67	440.05
PARKING			91,000.00	91,881.00	91,965.63	92,054.10	92,146.53	92,243.13	92,344.87	92,449.59	92,559.78	92,674.97	92,795.34	92,921.00
GROSS POSSIBLE INCOME			2,869,300	3,819,319	3,153,108	3,297,171	3,445,544	3,600,593	3,762,620	3,931,338	4,108,875	4,293,775	4,486,995	4,688,995
LESS VACANCY AT AVERAGE RATE OF			78%	25%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
TOTAL VACANCY (EXCLUDING MAJ. RETAIL)			1,624,350	586,231	177,383	183,365	193,787	202,424	211,333	221,052	230,999	241,394	252,257	263,629
NET OPERATING INCOME			1,244,950	2,413,088	2,975,725	3,113,806	3,251,817	3,398,170	3,551,288	3,710,286	3,877,876	4,052,381	4,234,538	4,425,366
LESS OPERATING EXPENSES			577,860	683,864	631,838	679,434	689,109	720,119	752,524	786,388	821,775	858,735	897,399	937,899
LESS GROUND RENT			0	0	0	0	0	0	0	0	0	0	0	0
NET OPERATING INCOME			667,090	1,809,224	2,343,887	2,434,372	2,562,707	2,671,061	2,798,564	2,924,499	3,056,101	3,193,626	3,337,339	3,487,467
SALES PROCEEDS													34,875,988	1,853,897
LEVERAGED ANALYSIS														
	D	E	F	G	H	I	J	K	L	M	N	O	P	
		1987	1988	1	2	3	4	5	6	7	8	9	10	11
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998
													SALE	1999
NON-LEVERAGED CASH FLOW				687,090	1,809,224	2,343,887	2,434,372	2,562,707	2,671,061	2,798,564	2,924,499	3,056,101	3,193,626	3,337,339
CONSTRUCTION LOAN PRINCIPAL			11,400,440											
PERMANENT MORTGAGE														
MAXIMUM DEBT SERVICE			2,848,667	Based on DCR and stabilized year NOI (1992).										
MAXIMUM PRINCIPLE			18,078,997	= 85% LTV ratio of total cost.										
ACTUAL PRINCIPLE			18,078,997											
ACTUAL DEBT SERVICE			2,848,667	2,848,667	2,848,667	2,848,667	2,848,667	2,848,667	2,848,667	2,848,667	2,848,667	2,848,667	2,848,667	2,848,667
MORTGAGE SCHEDULE														
BALANCE			18,078,997	18,817,695	17,958,974	17,893,795	17,821,445	17,741,137	17,651,995	17,553,847	17,448,215	17,327,381	18,878,597	
AMORTIZATION			32,981	58,721	63,190	72,350	84,388	99,142	116,948	138,348	165,032	197,613	236,619	284,619
INTEREST			1,307,766	1,301,946	1,275,487	1,268,317	1,268,359	1,268,359	1,268,359	1,268,359	1,268,359	1,268,359	1,268,359	1,268,359
BALLOON PAYMENT													1,153,977	BALLOON Pmt.
CASH FLOW AFTER DEBT SERVICE				(1,353,577)	(231,443)	386,100	411,785	522,861	637,384	757,896	883,832	1,015,434	1,154,270	1,303,770
BREAK-EVEN				36.6%	87.6%	84.7%	81.9%	79.2%	76.7%	74.2%	71.9%	69.7%		
BEFORE-TAX CASH FLOW ANALYSIS														
	D	E	F	G	H	I	J	K	L	M	N	O	P	
		1987	1988	1	2	3	4	5	6	7	8	9	10	11
		DEVELOPMENT	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	1997	1998
													SALE	1999
BEFORE-TAX CASH FLOW														
PROJECT COSTS		(352,685)	(18,396,839)	(1,534,206)	(462,813)	(28,397)	(0)	(0)						
CONSTRUCTION MORTGAGE			11,400,440											
PAYBACK			(11,400,440)											
PERMANENT MORTGAGE			18,078,997											
CF AFTER DEBT SERVICE			0	(1,353,577)	(231,443)	386,100	411,785	522,861	637,384	757,896	883,832	1,015,434	1,154,270	1,303,770
NET BEFORE-TAX CASH FLOW		(352,685)	(327,442)	(2,887,783)	(694,256)	277,703	411,785	522,861	637,384	757,896	883,832	1,015,434	1,154,270	1,303,770
DEVELOPER RETURNS														
NET PRESENT VALUE			3,268,171											
INTERNAL RATE OF RETURN			22.6%											
REQUIRED EQUITY			2,785,463	TOTAL COST LESS PERMANENT LOAN										

# OPTION 4: DISCOUNTED CASH FLOW ANALYSIS

DISCOUNTED CASH FLOW ANALYSIS OPTION 4: MULTI-TENANT RETAIL AND OFFICE																	
ASSUMPTIONS																	
COSTS																	
	FINANCIAL RATES				FINANCING		PERMANENT LOAN		RESULTS								
7	DIRECT COST	21,000,000	DOIST	GROWTH RATE	50	4.5%	TERM (MONTH)	PLT	25	+NOV	4,468,001						
8	INDIRECT COST	19,982,852	+ICOST	DISCOUNT	00	12.0%	INTEREST	PLI	11.0%	+I00		18.1%					
9	LAND COST	4,525,500	LCOST	DISPOS. CAP	00	9.5%	POINTS	PLPT	0	+REQUITY	7,591,014						
10	TOTAL PROJECT COST	47,428,352	+TCOST	VACUITY RATE	VAC	7.0%	DEBT COV. R.	DCR	1.15								
11				Avg. Oper. Exp	OE	26.0%											
INCOME FACTORS																	
15		1989 MARKET RENTS/SF/YR				RENTABLE AREA											
16	MAJOR RETAIL (SANS)	SANSR	95.00	SANSR	0	SENSITIVITY SF		100.0%									
17	MULTI-TENANT RETAIL	MTR	848.00	MTR	37,700												
18	OFFICE	OFFR	428.00	OFFR	136,100												
19	PARKING (PER CAR)	PARR	81,000.00	PARR	286												
PROJECT COSTS																	
23		D	E	F	G	H	I	J	K	L	M	N	O	P	Q		
24			1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	
25		DEVELOPMENT	CONSTRUCTION	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE		
26	DIRECT		12,600,000	8,400,000													
27	INDIRECT																
28	A & E FEES		525,000	525,000											1,050,000		
29	SPACE PLANNING FEES				24,225	72,675									36,000		
30	PERMIT FEES			420,000											420,000		
31	LEGAL FEES		32,500	185,000	52,500										210,000		
32	INITIAL LEASING COMMISSIONS					91,782	143,858	63,783							299,434		
33	LEASE-UP RESERVE					4,004,504	1,220,734								5,209,238		
34	REAL ESTATE TAXES		156,000	156,000											312,000		
35	SALES TAX		1,800,000	600,000											2,400,000		
36	INSURANCE		126,000	84,000											210,000		
37	LEASE TERMINATION COSTS		1,813,000												1,813,000		
38	FINANCING FEE		126,000												126,000		
39	CLOSING COSTS		630,000												630,000		
40	INTERIM INTEREST			4,636,000											4,636,000		
41	MARKETING		350,000	350,000	105,000										210,000		
42	DEVELOPER OVERHEAD														1,050,000		
43	INDIRECT CONTINGENCY			525,000											1,050,000		
44	METRO. REVERSION PAYMENT		778,400												778,400		
45	TOTAL INDIRECT COSTS		1,785,900	5,736,600	6,613,925	4,358,041	1,364,683	63,783	0	0				19,982,852	19,982,852		
46	LAND COSTS			4,525,500													
47	TOTAL PROJECT COSTS		1,785,900	24,922,100	15,013,925	4,358,041	1,364,683	63,783	0	0				47,428,352			
48	PROJECT PRO FORMA		D	E	F	G	H	I	J	K	L	M	N	O	P	Q	
49				1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
50			DEVELOPMENT	CONSTRUCTION	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE	
51	RENTS																
52	MAJOR RETAIL				95.00	95.41	95.83	96.27	96.73	97.21	97.71	98.22	98.75	99.31	100.00	100.00	
53	MULTI-TENANT RETAIL				848.00	841.00	834.58	828.65	823.23	818.33	813.97	809.25	805.16	801.67	798.78	796.49	
54	OFFICE				428.00	425.26	422.58	420.05	417.76	415.61	413.59	411.69	409.91	408.24	406.68	405.23	
55	PARKING				81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	81,000.00	
56	TOTAL GROSS POSSIBLE INCOME				6,489,816	6,781,858	7,067,041	7,345,958	7,617,226	7,881,991	8,140,229	8,392,943	8,640,122	8,881,775	9,117,873	9,349,417	
57	LESS VACUITY AT AVERAGE RATE OF				78%	78%	78%	78%	78%	78%	78%	78%	78%	78%	78%	78%	
58	TOTAL GROSS INCOME				4,542,871	4,855,464	5,069,933	5,278,117	5,481,746	5,680,124	5,873,249	6,061,000	6,243,575	6,420,898	6,592,946	6,759,617	
59	EFFECTIVE GROSS INCOME				1,946,945	2,086,293	2,239,948	2,398,541	2,561,500	2,728,367	2,898,629	3,072,800	3,251,487	3,434,300	3,621,050	3,811,547	
60	LESS OPERATING EXPENSES				1,297,963	1,326,372	1,417,400	1,481,192	1,547,845	1,617,498	1,690,206	1,766,349	1,845,834	1,928,897	2,015,697	2,106,934	
61	LESS GROUND RENT				0	0	0	0	0	0	0	0	0	0	0	0	
62	NET OPERATING INCOME				648,982	759,921	822,548	917,349	1,013,655	1,120,872	1,238,423	1,366,451	1,505,171	1,654,653	1,815,350	1,988,683	
63	SALES PROCEEDS															7,257,293	SALES PROCEEDS
64																7,257,293	7,257,293
65	LEVERAGED ANALYSIS		D	E	F	G	H	I	J	K	L	M	N	O	P	Q	
66				1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
67			DEVELOPMENT	CONSTRUCTION	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE	
68	NON-LEVERAGED CASH FLOW					648,982	759,921	822,548	917,349	1,013,655	1,120,872	1,238,423	1,366,451	1,505,171	1,654,653	1,815,350	
69	CONSTRUCTION LOAN PRINCIPAL			32,722,282													
70	PERMANENT MORTGAGE																
71	MAXIMUM DEBT SERVICE		4,496,731	Based on DCR and stabilized year MOI (1992).													
72	MAXIMUM PRINCIPLE		39,837,338	48,314,899 Second based on 0.85 loan to value.													
73	ACTUAL PRINCIPAL					39,837,338											
74	ACTUAL DEBT SERVICE					4,496,731	4,496,731	4,496,731	4,496,731	4,496,731	4,496,731	4,496,731	4,496,731	4,496,731	4,496,731	4,496,731	
75	MORTGAGE SCHEDULE																
76	BALANCE				39,837,338	39,720,714	39,591,262	39,447,571	39,288,673	39,111,830	38,914,513	38,696,379	38,456,250	38,194,487	37,911,637	37,607,338	
77	AMORTIZATION				116,523	129,452	143,692	159,498	177,843	198,517	221,613	247,129	274,163	302,727	332,827	364,478	
78	INTEREST				4,382,187	4,363,279	4,333,839	4,293,233	4,241,688	4,189,213	4,125,996	4,052,682	3,969,024	3,874,863	3,770,150	3,654,837	
79	BALLOON PAYMENT															37,887,168	BALLOON PNT.
80	CASH FLOW AFTER DEBT SERVICE				(3,849,749)	(768,799)	674,810	987,619	1,150,985	1,485,138	1,678,812	1,948,442	2,238,564	2,577,433	3,000,000	3,527,293	
81	BREAKEVEN				89.3%	86.3%	83.5%	80.7%	78.1%	75.6%	73.2%	70.9%	68.7%	66.6%	64.6%	62.7%	
BEFORE-TAX CASH FLOW ANALYSIS																	
82		D	E	F	G	H	I	J	K	L	M	N	O	P	Q		
83				1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
84			DEVELOPMENT	CONSTRUCTION	CONSTRUCTION	LEASING	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	OPERATION	SALE	
85	BEFORE-TAX CASH FLOW																
86	PROJECT COSTS		(1,785,900)	(24,922,100)	(15,013,925)	(4,358,041)	(1,364,683)	(63,783)	(0)	(0)							
87	CONSTRUCTION MORTGAGE			24,922,100	7,000,182												
88	PRYBACK				(32,722,282)												
89	PERMANENT MORTGAGE				39,837,338												
90	CF AFTER DEBT SERVICE		0	0	0	(3,849,749)	(768,799)	674,810	987,619	1,150,985	1,485,138	1,678,812	1,948,442	2,238,564	2,577,433		
91	NET BEFORE-TAX CASH FLOW		(1,785,900)	0	(96,607)	(8,207,790)	(2,133,312)	611,826	987,619	1,150,985	1,485,138	1,678,812	1,948,442	2,238,564	2,577,433		
DEVELOPER RETURNS																	
92	NET PRESENT VALUE		4,468,001														
93	INTERNAL RATE OF RETURN		18.1%														
94	REMAINED EQUITY		7,591,014	TOTAL COST LESS PERMANENT MORTGAGE													

## OPTION 4: SENSITIVITY ANALYSIS TABLES AND GRAPH

### SENSITIVITY ANALYSIS

#### INTERNAL RATE OF RETURN

		OPERATING EXPENSES AS PERCENT OF GROSS POSS. INCOME							
		+IRR	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%	30.0%
7.0% VACANCY	VACANCY RATE	5.0%	25.2%	22.0%	19.4%	17.1%	15.1%	13.2%	11.6%
		6.0%	24.3%	21.3%	18.7%	16.5%	14.5%	12.7%	11.1%
20.0% OPERATING EXPENSES		7.0%	23.4%	20.5%	18.1%	15.9%	14.0%	12.3%	10.6%
		8.0%	22.5%	19.8%	17.4%	15.4%	13.5%	11.8%	10.2%
4.5% GROWTH RATE		9.0%	21.7%	19.1%	16.8%	14.8%	13.0%	11.3%	9.8%
		11.0%	20.2%	17.8%	15.7%	13.8%	12.0%	10.4%	8.9%
11.0% P.L. INTEREST RATE		11.0%	20.2%	17.8%	15.7%	13.8%	12.0%	10.4%	8.9%
		12.0%	19.5%	17.2%	15.1%	13.2%	11.5%	10.0%	8.5%
		13.0%	18.8%	16.6%	14.6%	12.7%	11.1%	9.5%	8.1%
		14.0%	18.1%	16.0%	14.0%	12.3%	10.6%	9.1%	7.6%
		15.0%	17.5%	15.4%	13.5%	11.8%	10.2%	8.7%	7.2%

#### INTERNAL RATE OF RETURN

		GROWTH RATE							
		+IRR	2.0%	4.0%	6.0%	8.0%	10.0%	12.0%	14.0%
INTEREST RATE		9.0%	19.9%	33.7%	-363.1%	ERR	ERR	-417.5%	-434.5%
		9.5%	15.5%	25.4%	36.7%	ERR	ERR	ERR	ERR
	10.0%	13.0%	21.1%	29.6%	39.3%	ERR	ERR	ERR	ERR
	10.5%	11.3%	18.4%	25.5%	33.0%	41.7%	ERR	ERR	ERR
	11.0%	10.0%	16.5%	22.7%	29.1%	36.1%	44.0%	ERR	ERR
	11.5%	9.1%	15.1%	20.8%	26.5%	32.4%	38.9%	46.3%	ERR
	12.0%	8.3%	14.0%	19.3%	24.5%	29.8%	35.4%	41.6%	ERR
	12.5%	7.8%	13.1%	18.1%	22.9%	27.8%	32.9%	38.3%	ERR
	13.0%	7.3%	12.3%	17.1%	21.7%	26.3%	31.0%	35.8%	ERR
	13.5%	6.9%	11.7%	16.3%	20.7%	25.0%	29.4%	33.9%	ERR
	14.0%	6.5%	11.2%	15.6%	19.8%	24.0%	28.1%	32.4%	ERR

#### INTERNAL RATE OF RETURN

GRAPH	DCOST	CCOST	VAC	MTR	OFFR	OPEXP	PLI
50.0%	6.5%	15.9%	32.9%	78.6%	10.6%	10.4%	
40.0%	7.9%	16.4%	28.6%	44.4%	11.9%	11.1%	
30.0%	9.7%	16.8%	25.2%	32.7%	13.3%	12.0%	
20.0%	11.8%	17.2%	22.5%	26.2%	14.7%	13.3%	
10.0%	14.5%	17.6%	20.1%	21.6%	16.3%	15.1%	
0.0%	18.1%	18.1%	18.1%	18.1%	18.1%	18.1%	
-10.0%	23.4%	18.5%	16.2%	15.1%	20.0%	24.0%	
-20.0%	33.4%	19.0%	14.5%	12.5%	22.2%		
-30.0%	77.5%	19.5%	12.9%	10.1%	24.7%		
-40.0%		20.0%	11.5%	8.0%	27.7%		
-50.0%		20.5%	10.1%	5.9%	31.4%		

### INTERNAL RATE OF RETURN

