154th Station Area Redevelopment

Executive Session

Discussion of Strategies in Anticipation of Real Property Acquisition

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City of SeaTac

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Exhibit 338
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Presentation Overview

- Background
- New Circumstances
- Potential Actions
- Discussion

Background

- In 2007 Council directed staff to negotiate a development agreement (DA) with K&S Properties.
- Executed DA allows for 620 dwelling units and ancillary Retail Space in two high-rise towers.
- In 2008 City purchased a single family house within the Station Area for future use as open space or ROW.

Background

- K&S began marketing the property in 2007 for **$28M**
- The most recent asking price was more than **$21M**
- The 2009 Assessed Valuation is **$19.5M**

New Circumstances

- In May the City received notice that the K&S Property is in foreclosure.
- City's Broker has estimated that the property could be purchased for **$11M** from the lender, prior to foreclosure with clear title.

Potential Actions

1. Encourage quality developers to buy the property and develop it per the Station Area Plan when market conditions permit.
2. Acquire the property now and directly control the buildout of the Station Area when market conditions permit.

Potential Action #2

Financial Considerations

- Acquisition Price of $11M = $51.41 per sq. ft.
- Estimated Annual Net Operating Income (NOI) / "Profit" from Current Tenants in Retail/Office Building as per Broker Analysis = $764,674
- Annual Return on $11M Cash Investment at $764,674 NOI = 6.95%
  - 3 yr. NOI = $2,294,022
  - 4 yr. NOI = $3,058,696
  - 5 yr. NOI = $3,823,370
- Approximate Return on Current City Investment in Treasury Bills = 3.5%

Potential Action #2

Financing Options

- If 100% Financed w/ G.O. Bonds w/ 30 yr. term and 4.5% Interest Rate;
  - Annual Debt Service = $668,825 (After Debt Service Cash Flow of $95,849)
  - 3 yr. Net Cash = $287,547
  - 4 yr. Net Cash = $383,396
  - 5 yr. Net Cash = $479,245
- If 50 % Financed w/ G.O. Bonds w/ 30yr. term and 4.5% Interest Rate;
  - Annual Debt Service = $334,416 (After Debt Service Cash Flow of $430,258, Cash on Cash Return of 7.8%)
  - 3 yr. Net Cash = $1,290,774
  - 4 yr. Net Cash = $1,721,032
  - 5 yr. Net Cash = $2,151,290

Potential Action #2

Pros

- Meets "Public Purpose" test through: public parking, streets, sidewalks, plaza / open space, International Marketplace which are all components of the adopted 154th Street Station Area Action Plan;
- City could work with the developer of choice through RFP process and control the site
  - Create a development that implements the vision for the area;
  - Guide phasing of the project.
- City could re-coup initial investment through cash flow over time and through sale of properties not used for public purposes and infrastructure.

Potential Action #2

Cons

- City would be in Property Management Role (Through 3rd Party Firm);
- Economic Factors Beyond City Control;
- Potential Loss of Tenants & Lease Revenues; and,
- Use of and Depletion of Some Available Financial Resources

Potential Action #2

Potential Next Steps

- Negotiate Purchase and Sale Agreement through Collier's International (City's Broker)
  - Minimum 90-day feasibility period

Due Diligence

- Appraisal of site;
- Phase I environmental assessment / report;
- Structural engineering assessment / report;
- Legal review of leases and title report.

Funding

Alternatives include:

- $11M from Port of Seattle ILA Fund (105)
- Combination of Fund 105 and Municipal Bonds

Discussion